INVESTMENT FOR WEALTH

General report

Comments for September 2013

Again, no exit

We had the fed's NO TAPER decision and the Yellen nomination (to succeed Bernanke as next fed chairman).

Markets for sure have used this as the perfect excuse to party on. The government shut down and the default risk related to the debt ceiling were brushed away as only very temporary "party-crashers". We differ from this main stream opinion.

Fed (hyper)interventionism only went from active to overdrive on the false belief - in our opinion at least- that monetary policy can conquer the Business Cycle. When Nixon closed the Gold Window in 1971, he removed the "gendarmerie" out of the monetary system. As mankind throughout history was seen as enslaved by the natural limits to grow physical gold production, Bretton Woods had to be buried. US Government and the fed promised a stable currency with no more "Boom Bust Cycles"; let me correct, with no more "Bust" cycles. Indeed as everybody from "we the people" to "the politicians" and "the monetary authorities" have always enjoyed partying during every Boom Cycle, only Bust Cycles had to be managed, "at all costs".

What followed was all too predictable. In less than a decade a first human made accident happened to this new (US dollar reserve based) financial system. When debt and Inflation threatened this world monetary system in 1980 already, chock therapy was imposed by the "Volcker" fed and the dollar reserve based system survived.

Lessons were rapidly forgotten and "hyper" interventionism regained traction rapidly. What else could have been expected? Politicians have to be RE-elected don't they? Every time the "Boom" deflated, political elites counted on the Fed, to postpone any healing pain until after the Next election … and after every election, well you have to prepare the next election.

With the fall of the Berlin wall and the end of the cold war, US military supremacy gave another boost to the all too human inclination to abuse the privilege of having the "unique" power to print the world's reserve currency, the US dollar. Alan Greenspan was named the Supreme Money Printer.

He supported the idea that "Booms" or "Bubbles" can't be recognized in advance. So preventing bubbles could not be done; no anti bubble intervention was ever warranted.

He supported that more debt and more leverage was a good thing. Glass Steagall was revoked with full fed complacency.

He supported also that the fed's printing capacities were not enough to have maximum economic growth. Shadow banking and uncontrolled financial derivatives had to be stimulated. Thanks only to leverage could "base" money be fully empowered.

Furthermore he supported the idea that "Moral Hazard" was just a brake on full economic expansion and reassured leveraged players with "the Greenspan Put".

"Bust" cycles on the other hand, i.e. deflating bubbles, were simple to recognize. The solution was even more simple. You would overcome a deflating bubble by creating a "New Bubble". Just lower the rates, lower the regulatory barriers to leverage the debt, add to the debt by larger deficits, install new government stimuli, declare some new wars, try to devalue as necessary; the list only gets longer and longer and surely the human race is really creative to find new ways to continue "partying forever".

Was it prescience of the American political class to name Mister Bernanke "the great student of the great depression" as a worthy successor of Alan Greenspan? Thanks to Bernanke's Great Depression scholarship, monetary interventionism reached a whole new dimension. The new instruments of monetary policy

got fancy names like ZIRP (zero-interest rate policy) Tarp, Twist, QE1 2 & 3, Forward Guidance, Clear communication (in full contrast to the sometimes incomprehensible mumblings of Greenspan), Targeted inflation, Unconventional, Stress Tests, Wealth effect creation, Reach For Yield etc.
In pure jealousy the ECB and the Japanese Central bank went for their share of creative interventionism. Over here it was called LTRO, OMT, EFSF and Whatever It Takes; to name just a few. In Japan it was "Abenomics".

But rest assured, Miss Yellen, notwithstanding being Obama's second choice, has the required skills to replace Mister Bernanke. The "Yellen Put" will be an amplified Bernanke Put. Abundant liquidity will be provided and "Targeted GDP Growth" will become the cornerstone of the new Fed Policy. Liquidity at zero interest rate until a targeted percentage GDP growth is reached, will replace inflation and employment targets. Once the Republicans will have surrendered and government be reopened and the debt ceiling be resolved, markets will have to party on. It seems Obama and the democrats will willingly let the "false" 17th of October deadline pass on, just to put the blame on the GOP, hoping to gain full control of congress in the 2014 elections. You can count on the fact that afterwards "poverty-distribution" (the correct name for wealth redistribution by government via taxation and social welfare) programs for the 90-99% of the people will be rehabilitated in full collusion with the Yellen fed.

Ultimately the trust in the full credit of the US will be lost and the dollar based monetary system will be replaced. The party will end when the 99% revolt and rest of the world refuses to further accept the US dollar supremacy.

Warning signs are evident for those who have stayed sober during this long lasting party. The Minsky moment (defined as a sudden collapse in asset values) will come and "the business cycle" or is it "the credit cycle" will reclaim its power. All these unconventional monetary policies already seem to be less and less effective to in the margin create some sustainable real economic growth. Apart from "maintaining and growing" leveraged debt afloat, 5 years after Lehman even the fed was afraid to taper. The fed and its counterparts in Europe and Japan are so afraid of the deflationary impact of a debt bubble implosion that they will continue to liquefy . Money printing went global and now the world GDP is heavily loaded with a record ratio of 360% debt/GDP. Even in China debt rises four times faster than output. Competition between public debt, emerging market debt based on flawed premises of perpetual rapid and equilibrated growth, corporate debt roll-overs linked to M&A and buybacks or junk balance restructuring, blatant emissions of leveraged debt without collateral bought up by undercapitalized pension funds in search for yield; all distract money from real productive investment. This debt load makes a normal economic growth impossible. Cost push inflation, rising taxations, rising yields and rising asset valuations will just be unsustainable at some point. The top in the US business cycle (+/- seven years after the Lehman default), August 2015, is our best guess when this mega bubble over multiple asset classes will pop. King dollar and a lot of partygoers will be found swimming naked. The fed will be out of instruments to withhold investors' confidence, multiple asset bubbles (bonds, equities, collectibles and real estate) will deflate in an economic stagflationary background. Continuing to create further "wealth effects" will be out of reach for monetary authorities. Indeed, continued printing when confidence in the currency is falling can never be sufficient, and if persisted, than leads to hyperinflation. The 1 to 10 % rich after having seen their capital inflate thanks to all those years of unconventional policies, will now be the first to demand restrictive policies. Indeed they know that if global printing explodes into hyperinflation, they would lose all their wealth amid social chaos. The other 90% at that stage wouldn't want to accept more money printing either. They will have learned that their incomes where not participating in the wealth effect caused by the Fed leniency. At that moment, exacerbated by the growing inequality (the gini coefficient is already at a record), they will be in a mood to hang the printers and the bankers.

So the gold bugs that were calling for hyperinflation since 2008 are wrong. Instead of pushing investors to play the gold market with leverage they should have sold the idea of buying gold as an insurance against central bankers losing control at some time in the future. Fortunately the gold market is almost completely cleared nowadays. A short dip to 1000 dollar per ounce would terminate this pause in the gold bull . We are confident that gold will be a correct hedge against the coming dethroning of king dollar. First the dollar and US equities have to blow their bubble some more. The stars seem perfectly aligned for the end of 2015, to see Gold as the last bubble before the financial reset will be implemented. The last bubble will start when gold reaches its old top in constant dollars from 1980-81, this means 2400-2450 dollar per ounce. So we expect gold to rise before the end of 2015 above $2500. Somewhere in 2014 the first move to this level will in retrospect have begun.

So our advice is to stay sober and keep your gold hedge even now after this frustrating 26 month correction since it was quoted at 1900 dollar. “Do not enter the Fool’s Paradise”, Jim Rogers described the current US market situation. And certainly not by selling the low in Gold.

Jim Rogers : Be Careful... You're In A Fool's Paradise

On US Equities:

"We may well have had a big, big rally in the U.S. stock market, but it's not based on reality. I would encourage investors to know you're in a fool's paradise, be careful, and when people start singing praises, say, 'I've been to this party before, and I know know it's time to leave.'"

On A US Recession:

"First of all, throughout American history, **we've always had slowdowns every four to six years. That means that sometime in the next couple of years - three years, maximum - we are going to have problems again**, caused by whatever reason,"

On The Increasing Size Of The Problems:

"For instance, **there was 2001 and 2002, and then 2007 and 2009 was much worse.**

Well, **the next time it's going to be worse still, because the level of debt is so, so, so much higher**. Every country is increasing its debt at the same time."

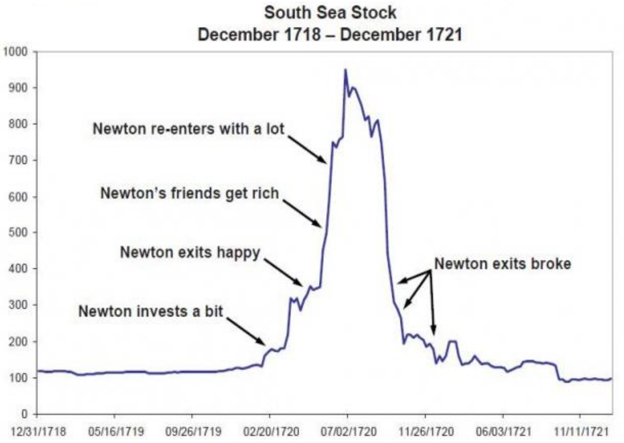
On The Limits Of Central Banks:

"This is the first time in recorded history that we have every major central bank in the world printing money, so the world is floating on an artificial sea of liquidity.

Well, the artificial sea is going to disappear someday, and when it does, the catastrophe will be even worse. Yes, it's coming,"

INVESTMENT FOR WEALTH

Remember the misadventure of Sir Newton in the South Sea Bubble. After selling his investments afraid of a blow off top he reinvested the market with leverage (loans from the family and friends) just to see the South Sea Bubble Pop ruining himself and his family.



Isaac Newton's Nightmare - © Marc Faber

Performances and trading

iW Alternativ SIF – Low Risk
The fund has decreased by 5,6% in September, NAV 9089,72 EUR.

iW Alternativ SIF – Commodities
The fund has decreased by 25,50% in September, NAV 397,06 EUR.

iW Alternativ SIF – Real Value Growth
The fund has decreased by 9,4% in September, NAV 66,31 EUR (I), NAV 65,35 EUR (P)

Best regards,
The fund manager