

# INVESTMENT FOR WEALTH

## General report

### Comments for January 2013

2014, The year when central bankers will lose their “presumption of innocence” and are exposed as swindlers and where the masses see their foolish belief in “the return of the lost paradise” shell chocked.

We can almost hear our readers think that the title of our commentary is just the ranting of a frustrated bad loser. So let us set things straight before we go on to the main subject. Indeed our focus as alternative investment managers on gold equities has brought us torturing and frustrating feelings all along 2013. Just to recall, in April 2013 we saw the biggest gold correction, in percentage terms, on a monthly basis for more than a century. But there were more mega sigma negative surprises related to gold equity exposure during 2013. (mega means here + 6 sigma events. Even within a context of constantly falling gold prices, gold-HUI-ratios and gold-XAU-ratios have reached lows not seen in the last 125 years. And to rub more salt in the wound, equity markets like the Russell 2000, S&P 500, Dow and Dax continued their relentless up march for a fifth consecutive year. We clearly misjudged the extent of market distortions that would be caused by future worldwide monetary policies. For this we owe our investors a sincere apology. We were too early in completing the switch from physical gold and silver to mining equity. Too soon to invest the cash. Too fast to augment our exposure to more and more juniors. But what was done can't be dissolved by analyzing the past. With the harsh lesson from 2013 in mind we precautiously think that 2014 will be a better year for our alternative investment funds, based on our vision of how we see markets evolving the coming year.

What do we mean with central bankers losing their innocence and why the characterization as swindlers? We believe that during 2014 central bankers will have sufficient evidence that normal economic growth cannot be restored by central bank policies alone and definitely not in a by debt overleveraged system. No monetary tool can make this happen. Be it quantitative easing, ZIRP (zero interest rate policy) or “Abenomics”. The fed seems ripe already to recognize this fact. Post Lehman they never started an exit policy towards

normalizing the financial market conditions. After QE1 came no exit but QE2, Twist and QE3. They convinced the markets that they had to print to keep the debt solvent. The fed balance sheet grew from 7% of GDP in 2007 to 24% at the end of 2013, totalizing 4.03 billion. Gradually the fed acknowledged during 2013 that continuing its QE3 policy was too risky. It didn't create enough growth or inflation to alleviate the pressures of too much debt, in order to grow in accordance with the fed's macro-economic model potential. Indeed, the fed can theoretically create any quantity of money to keep the service of the debt going. The Fed can print a quantity but not a quality of money. If more money only leads to inflate asset valuations - better said asset bubbles - only a corrupted institute could envision to continue such a policy. And bubbles are created again : bubbles on Wall Street, bubbles in public debt, bubbles in new record emissions of junk bonds and low covenant debt at record low yields, bubbles in share buy backs, bubbles in money pools buying residential housing, bubbles in collectibles and so on. No innocent man could continue such money printing policies when the additional money only helps to create more debt - and in the current system debt is considered an asset that can be leveraged up - without creating the production capacity and the productivity gains to create the additional incomes to service that additional debt. In fact the outcome of QE3 was worse. Along the asset bubbles, a tremendous transfer from “the have nots” and the middle class towards the wealthy became evident. Just look at the record high GINI coefficient (surpassing values from the great depression). If jobs were created they were not in enough quantity or quality. Just look how the average worker income is retrograding in real terms, how the youth scores record unemployment numbers, how temporary low paying jobs have replaced full time jobs, how record lows in the labor participation rate are progressively created against record participations in food stamp programs amid record numbers of people in disability. For pension funds, QE just has created more underfinanced liabilities and has forced them to participate in the big rotation from bonds to equity in search for yield and has so viciously forced them to

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participate in creating more bubbles. Continuing these policies will lead to pension fund defaults far above the cases of Detroit or the State of Illinois, when at the end they lose on their bonds AND equity exposure. For emerging markets, QE3 created the illusion for a lasting abundance of dollar financing at sometimes ridiculous low rates. This bubble just popped on the first Tapering discussions, long before QE3 was 'tapered' in the real world. The bubble is too big to fail was just inflated a bit more thanks to QE. Banks have hoarded capital to service their leveraged plays, not to finance the real economy. A pure logical attitude when faced with the Greenspan-Bernanke put and from now on the promise of a Yellen put. We hope that the fed still maintains a smattering of innocence so we predict that QE3 will be completely phased out in 2014.

The fed as a gang of swindlers. Since Greenspan the fed has pretended to have a perfect macro-economic model. They quantify meticulously all the factors that influence the real economy and say that they adjust their monetary policy for maximum growth at a 2% inflation rate. They are just impostors to the wisdom of the 'invisible hand'. Their pretension to direct the real economy on the 'IDEAL TRACK' - in perfect symmetry to what their macro model says the current growth potential of the economy to be - by lowering or heightening yields and by restricting or expanding base money, is definitely not validated by the facts. They never saw a crisis coming. Remember how they misjudged the subprime market, how they misjudged the Lehman default, how they misjudged bank capital adequacy levels and how they never reached their planned exit strategy to name just a few of their recent "miscarriages". Central planners from past and actual communist regimes are sure to be jealous, that the masses and the bankers seem to accept these pretensions as fully creditable on a voluntary basis. But what's in a name? Is it voluntarily or opportunistically? When bankers see the moral hazard opportunities facilitated by the Fed Put - remember the adagio 'never fight the fed'- why shouldn't they take their chance to grow and leverage up? Hence too big to fail just grows further in the real world. And when a Fed induced bubble explodes, bankers know they will not be jailed but bailed out.

The masses also want to believe the fed's siren song. When their net revenue from labor is suppressed - by lack of work, underpaid work or overtaxed work - and revenue from fixed assets are suppressed by ZIRP fed policies, is it voluntary that the masses succumb to play the bubble game in a very rational - not exuberant - reach for yield? The moar assets rise the moar they want to believe in the fed's capacities. Hopes for sufficient revenues create their willingness for greed. They prefer to speculate in asset bubbles, hoping this will offer an escape from the modern bread line i.e. food stamps. The masses hope the fed will always be there, to procure funding for a greater fool, to sell their acquired assets to with a gain.

The central planners in Japan are already further evolved in this may we say shell game? Thanks to the famous Japanese nationalistic culture and the famous addiction from the Japanese to savings, we see the pretensions of monetary policy in Japan reach absurdity. Abenomics has created some real inflation in Japan. But we could say only bad inflation. Lower yen values have affected stuff like energy bills, transportation and alimentation. Bad luck for Mrs. Watanabee, with a hiccup from 5 to 8 % in VAT on the first of April 2014. But salaries haven't matched capital investment on the Japanese island either. The popularity of Abe Shinzo is already falling. Also their central planning reinvigorates the equity market and a part of the speculative real estate market. Just like in the US this new wealth was distributed unequally through the shrinking Japanese population. Indeed less and less (244.000 out of a total of 126 million habitants in 2013) and older and older Japanese have to support their growing public debt. But their central bank will print all what's necessary to keep the debt serviced. With more than 240% public debt to GDP we see Abenomics failing to solve Japans chronic deflation. The planned budget deficits surpasses 10%. As long as Abe keeps his post, Abenomics will continue. We see it to finally produce a default, hyperinflation in Japan and a cascading fall in the yen. If continued too long even war escalation can't be excluded. In the meanwhile Japanese institutionals are (temporarily) buying the debt from the euro PIIGS based on the Abenomics put, along with hedge funds from all over the world. How this would help Japan remains to be explained.

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In Europe central planners are guilty as well, to pretend that the euro could survive without public debt unification and that eurocrats will create economic growth to miraculously overcome the growing debt problem. There is a no popular vote now for the abdication of sovereignty in Eurozone countries. So shall we install an Eurocentric dictatorship? The IMF does not believe in the euro growth capacities so they are simply alluding to tax 10-15-20% - of course just one time only – of all the capital in Europe, to solve the debt problem. How such hold up on capital, will help Europe to attract productive investment in the short term is a riddle to us. Negative interest rates will certainly not solve the problem either. Capital outflows and hoarding of savings out of the banking system would surely follow. Mister Draghi speaks like a swindler when he promises to save the euro at all costs with OMT actions. It are just empty words because such actions are clearly forbidden by euro treaties. For now the market speculates that the Draghi put has not yet reached its perishable date. We from our side believe that low and negative growth will persist in euroland and the ongoing disinflation will keep giving.

The Communist Party central planners in China also seem to have some heavy lifting on their hands. More than 3.3 trillion of (in \$ valued) debt of dubious quality in the shadow-banking system on the local level will hamper their policies. Overinvestment in production capacity, real estate and some pharaonic infrastructure works will also complicate the desired transition to a more consumption driven economy. We expect a stop go effect on the growth of China, leaving this country still at an 6+ % growth for some ample years more; that is of course if social revolution or war doesn't alter the expected course of events. With 3.8 trillion in foreign reserves China can let the music play some time longer compared to Europe and Japan.

What are the concrete implications for 2014 of this analysis?

We believe growth in the US will gradually be confirmed at 3.25-3.5% in 2014. So the US long term rate will go up. 10y treasuries at 3.3-3.4% are to be expected. Capital will flow to the dollar and Wall Street, even if a due correction of some 15-18% interrupts this movement. If Euro problems resurge - and they will - and the failure of Abenomics is accepted

by the main stream, the dollar could become the big play between rolling currency crises. The risk that the market pushes yields in US dollar towards 4% is real but as the higher dollar would mask slowly growing cost push inflation in the US, we think this risk is manageable. Gold will continue to be supported by physical buying from China and after the May elections also from India. If the expected growth in the US is realized, the cost push inflation risk should also attract US flows to gold somewhere in the second half of 2014. Safe haven flows from Japan and Eurozone at some moment in 2014 will also benefit gold. So we see the speculative action from hedge funds to reverse course in the first half of 2014, also : from “baissier to haussier”. At some moment the inventories of physical gold ETF's will be so exhausted that they will no longer be able to exert downward pressure on gold-prices. On gold equities we think the bottom is already in, although this bottom can still be tested in the first half of 2014. Rising dollar and lower general commodities will help goldmines to expand their gross margins. Mines are already valued as if \$600 per ounce is a sure thing. And remember the optionality of a goldmine based on the revaluation of its reserves in the ground when gold stops falling. For physical bullion we rather think that the low is still not in. We see this low at 1080 or 950 (depending on the brutality of the expected dollar rise). Yearend target is seen at a minimum of 1450 to 1500 per ounce. Mines can easily triple with such a level in gold. Prices of 2000 per ounce and more still seem somewhat further away in the timeline but surprises can come on their own. After the negative surprises of 2013 we expect positive ones if there are any surprises to come by in 2014.

We wish you all the best for 2014 and hope you have accepted our apology and enjoyed the reading.

## Performances and trading

### iW Alternativ SIF – Low Risk

The fund has increased by 8,41% in January, NAV 8870,85 EUR.

### iW Alternativ SIF – Commodities

The fund has increased by 23,00% in January, NAV 364,08 EUR.

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## iW Alternativ SIF – Real Value Growth

The fund has increased by 7,8% in January, NAV 64,08 EUR (I), NAV 63,02 EUR (P)

Best regards,  
The fund manager



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