INVESTMENT FOR WEALTH

General report

Comments for May 2014

Real growth against financial speculation.

The ECB has gone where no Central Bank, ever before, has gone, pushing the boundaries of financial stimulus even further. As ZIRP hasn't delivered, let's try NIRP (negative interest rate policy).

The objective is to stimulate growth by stimulating credit demand, hoping at the same time to see the euro depreciate as the Eurozone disinflation has gone too far.

Our opinion? What will be stimulated the most is financial speculation and leverage. Yes, the market is given leeway to financial speculation as the costs are diminished and the risks are put off by the insurance that rates will stay low for a very long time.

We do not believe however that the real demand in the economy will also be stimulated. To the contrary, a lack of income from fixed assets will freeze consumer demand. Savers and pensioners (pension funds) will be driven to the equity markets and tangible assets in full despair. Combine this with rising taxations everywhere and the income starved consumer (from his savings in fixed assets as a consequence of NIRP) can't even count on higher real wage income. If he is not part of the top 1% level, he is told that his wage must not grow in order to reinvigorate his company's competitive strength in the world market. And when NIRP will eventually depreciate his currency, the consumer will be even more squeezed out of his spending capacity.

This lack of end-consumer demand discourages the corporate sector to invest. Financially struggling corporates can only hope to roll-over their credit once more, in detriment of the "Schumpetrian" creative destruction. Stronger corporates are driven to buyback more of their own shares or engage in M&A, i.e. earnings expansion based on cost reduction and tax arbitrage relocations camouflaged as M&A, not expanding revenue.

So the equity markets will be driven into a full blow up phase. At some point capital will concentrate in the dollar and US asset markets. Investors are induced to invest in US fixed assets – still the largest investable pool available – hoping that they will find a bigger fool to sell to afterwards.

That's why we haven't seen the expected rate increases in US treasuries. Capital concentration towards the US – initiated by the taper from the emerging markets – can expect some more boosts. The hope for 3% real growth in the US economy is such a boost. Absurdistan in European yields is yet another. Will Italian or Spanish ten year rates decline to 2.20% (currently at 2.71% and 2.54%), or French to 1.5% (now at 1.72%)? Fact is that the spread between bunds an treasuries is already at a 17 year high! Japan is also an accident in the making if their 10 year JGB yield stays at 0.6%.

Another boost for these capital flows towards the US dollar and US assets is the reaction of emerging central banks engaging in QEE (quantitative external easing). The Indian central bank is certainly putting its actions in concordance with it words, they are actively buying the dollar in order to protect the Indian economy from the taper effects. Remember the verbal spat between Raghuram Rajan and Bernanke.

Apart from some intermediate corrections, the bubbles will continue to grow, until they will all explode together : bubbles in equities (biggest in the US) AND public debt AND corporate debt AND collectibles AND high value real estate. Gold will be a capital protective investment once these movements will have been completed.

Gold is still in a testing phase of its double bottom at $1180. Seasonally, demand in bullion is smallest in June-July. Relaxation on Indian imports is still some weeks away. Soaring equities are still diverting markets' attention from precious metals. At least the fear for rising yields is tempered and this movement can gain force even if tapering continues as explained infra.

We persist to believe that gold is in a transition year. The bottom is coming in the coming weeks and $1400-1500 is our year end prediction for gold. In our opinion, 2015-2016 will be the time to see your alternative investment in our funds begin to perform strongly.

If you fear deflation just like the ECB, remember that

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falling commodity prices causes precious mines' profit margins to expand. Indeed, gold has a quasi-constant marginal utility, going down less than other commodities during deflation, while mining costs are reduced… and when in the end deflation causes multiple defaults, the fear trade can boost gold beyond $3500 in a couple of months.

Stay patient and don't squash your bubble crash hedge to participate in the coming blow-up. In moments like these, your insurance should be most cherished.

Performances and trading

iW Alternativ SIF – Low Risk
The fund has decreased by 3% in May, NAV 8731,60 EUR.
iW Alternativ SIF – Commodities
The fund has decreased by 10,3% in May, NAV 333,80 EUR.
iW Alternativ SIF – Real Value Growth
The fund has decreased by 3,9% in May, NAV 61,86 EUR (I), NAV 60,72 EUR (P)

Best regards,
The fund manager