INVESTMENT FOR WEALTH

General report

Comments for November 2014

We are not there yet. (**JAPAN**)

✪ Is this the response from Abe Shinzo on the Japanese economy?

Yes, we've got the Nikkei at 18.000 and yes, we are still making new lows on public debt interest rates with the 10 year Japanese Government Bonds yielding at 0.41%.

But no, we haven't reached 2% inflation yet. And no we haven't gotten to sustainable growth yet – QoQ growth for Q3 2014, released on 8 December, came in worse than expected at -1.9% and the sixth Japanese recession since 2000 has been confirmed.

And no, we haven't balanced the state budget yet – the second VAT tax hike will be postponed for at least 18 months. Public debt/GDP will exceed 250%.

But we (Abe and Kuroda) have already acted, giving Abenomics a 30% boost in volume of QE, which we call Abenomics 2.0.

JAPAN - Our commentary: *Abenomics and in fine QE haven't and won't deliver on their promises. The rapid declining yen and the Japanese public debt bubble has just won some – soon to be illusory – delay before Japan will admit the need for a financial reset. We predict that Abenomics 3.0 will not come. The downgrade on Japan by Moody's is just another brick in the wall.*

We are not there yet. (**USA**)

✪ Is it the response from Janet Yellen and the FED on the US economy ?

Yes, we (the Fed) have got the Dow at 18.000, yes we have created more new jobs in 2014 than in any other year of this New Millennium with 321.000 jobs for November. Yes, at a 5.8% jobless rate we declare that the US is flirting with full employment.

And no, we haven't reached our targeted 2% inflation. And no, our wealth inequality has not stopped growing. And no, we couldn't stop our national debt from growing over 18 trillion in November. And no, we couldn't incentivize enterprises to spend more on capital goods with zero rates. They stubbornly used our leniency to buy back shares and M&A activities. We also saw boosting dividends in preference to productive investments. We confirm that we are troubled how we can get to interest rate normalization before the next recession hits the US. The rising dollar with its collateral of lower commodities – especially oil – and lower demand from the rest of the world has embezzled us with impotence on monetary policy.

USA - Our commentary: *The dollar is still the reserve currency of the world. In absence of a credible alternative – neither the euro (certainly not in its actual construction) nor the yuan (just not yet) are – a higher dollar will also bring deflation to the US. We predict a last blow up move in the dollar and the Dow, for only then will the granddaddy of all bubbles – we mean of course the worldwide bubble in public debt – also crash in the US. First we see the periphery touched by the emerging markets. It is already happening from Venezuela to Argentina, from Brazil to Russia, from South Africa to Mexico etc. In 2015 we will see it happening in Europe and Japan. When this loss of credit finally touches the US, it will not end the dollar in the US but it will end the dollar status as the world's reserve currency. The financial reset will become factual. So long term yields in the US will stay low longer than the market validates for tomorrow. We see no chance for QE4.*

Even in the US, the debate about the end of the US dollar reserve status becomes more regular : http://mobile.nytimes.com/2014/08/28/opinion/dethrone-king-dollar.html It has raised a few eyebrows, but as the WSJ http://www.wsj.com/articles/how-the-reserve-dollar-harms-america-1416527644 recently noted, the voices discussing how the burden of being the world's reserve currency harm America and more than just Vladimir Putin is paying attention. But while some argue that "no other global currency is ready to replace the U.S. dollar", we don't adhere to the conclusion that a new gold standard will be introduced in the big financial reset. We claim that gold is anti-government on an individual base, a working asset protecting individual wealth in this coming transition phase. Gold i.e. a gold standard is not a perfect solution on a state level!

We are not there yet. (EUROPE)

✪ Is this the response from Draghi and the ECB on the euro economy?

Yes, we have strengthened the euro bank system. The Asset Quality Review (AQR) only implies – in our (ECB) opinion – achievable capital needs. Yes, we have made the spread between Bunds and other Euro counties much smaller and tolerable for governments.

And no, we haven't yet escaped from disinflation and low growth. And no, after the peoples indignation with austerity we couldn't fix public deficits just for now. We saw Greece in risk of a third default, we saw the Italian debt-bomb rolling on while Standard & Poor's accordingly downgraded Italy. And no, France and six other euro counties are not on a correct track for economic and financial recovery but that is not our mandate. You should talk to the Euro Commission…

But we continue to promise to have the right to do "whatever it takes" even if it means buying i.e. financing government deficits by emission of central bank money. In the fight for survival, rules nor treaties will stop us euro central bankers.

EUROPE - Our commentary: *QE euro style will solve nothing. Lowering rates will not help credit creation by the private sector. It just lets governments create more public debt at a lower cost. How could more and more marginally-unproductive debt solve a crisis of too much debt? Yes in reaction the private sector becomes more attractive and so equities can rise even in a stagnating economy. The liquidity argument is also a fallacy. We see growing capital flows from euro to dollars, illustrating that the lack is not in liquidity, it is a lack in investment opportunities in the Eurozone. The private sector in Europe is in growing disbelief that the Commission and the ECB will be successful in dominating public debt burdens. If the economy survives, increasing taxations and regulations and in the end default will come. So private capital hides more and more in private assets and in the dollar until even that becomes irrational exuberance. We see euro dollar parity before 2016 if the US grows more than 3%.*

We are not there yet. (CHINA)

✪ So says China.

Yes, we still reach our growth objective of +7% growth. Yes, we have made a lot of steps in making the yuan a free tradable currency.

But no, our goals to recalibrate our economy from export driven and manufacturing and real estate focused to a more intern consumer market has not been reached. Every time we try to readjust credit flows we have to reintroduce financial stimulus in order to maintain a minimum level of growth.

CHINA - Our commentary: *The path from a centrally planned economy to real capitalism and freedom is not riskless. Even in China with existing debt levels (public and private) at more than 230% of GDP and with an unknown shadow offshore amount to make it worse, the road becomes more bumpy. The IMF has declared China as the largest economy in the world –before the US– for the first time in its recent World Economic Outlook. Is it a sign of times to come when you know that debt in the Great Depression in the US was around 230-260% of GDP and that that didn't derail the US from becoming the world financial center. Every shock in the Chines economy will from now on reverberate with a bigger and bigger impact on the rest of the world. Just take a look at the impact of lowering growth and lower imports by China on the Australian dollar. From $0.94 to $0.82 since September. The market was spooked again by November's China figures. Trade surplus was at record highs ($54.74 billion against expectation of $43.95 billion while Imports plunged -6.7% YoY (expected +3.8%) even as Exports missed at +4.7% (expected +8%). Under no way can China accept currency devaluations from Japan and its neighbors without reaction. The PBOC has said many times that it won't let its dollar international reserves grow any more as it becomes dysfunctional. What if the current trade surplus stays at the current level? Will China revaluate gold somewhere in 2015 as part of a solution? In Europe we could see a contrary move. Italy and France, even Belgium will be intended to monetize official central bank gold to limit debt/GDP growth. In periods of China doubts the US dollar will again benefit.*

We are not there yet. (GOLD)

✪ Our comment on the gold market.

We can go on exposing growing stress from emerging markets, Russia, the Middle East, Brazil etc. amid crashing oil prices end all the other mounting economic and financial instabilities in the world but time to speak about gold market specifics.

We still see Western players exit gold speculation, be it at a lesser level compared to ETF outflows in 2013. The volume is just around 12.5% of 2013 volume this year. So yes the fear trade is not there just yet. First the biggest bubble of all times, the one in public debt has to begin to burst. Can this be long away with JGB's at new record lows of 0.41% and Bunds under 0.70% (9 Dec 2014)? We think 2015 will bring some definitive answers.

The love trade is going well. Chindia imports of gold are growing steady. And contrary to market watchers, India has relaxed the 80/20 rule in December 2014. Even the abolition of the heavy 10% import tax could become a reality in 2015, so says Raghuram Rajan India's central banker. We see India FDI (foreign direct investment) exploding in 2015 once Rajan begins lowering yields. March 2015? See this against a move up from the Fed which we expect before June 2015. India with its abundant young population can become the world's biggest hope for additional growth! Will Diwali 2015 draw India to months of gold imports above 300t/month?

So yes we think 2015 will bring a start of a renewed gold bull run. Why? We see a third force begin to attract gold investment, namely the losing faith from investors in central bankers almighty. Infra we spoke about gold's role as an anti-government voracity hedge. To see that this theme is growing just look at a limited illustration of recent opinions:

Citi: "*The Limits Of Investors' Faith That Central Banks Can Push Up Asset Prices, Are Increasingly On Display*" (7/12/2014)

Jim Grant "*What will futurity make of the [so-called] Ph.D. standard that runs our world?*http://www.cato.org/multimedia/events/32nd-annual-monetary-conference-opening-keynote (November 2014)

Todd Colven "*This Is The Year The Fed Is Going To Lose Credibility*" (Bloomberg 8/12/2014)

And maybe the best one from the BIS (central bank of central bankers.) "*Even The BIS Is Shocked At How Broken Markets Have Become*"

"*it is hard to avoid the sense of a puzzling disconnect between the markets' buoyancy and underlying economic developments globally*",

BIS officials are worried that tightening by the US Federal Reserve will transmit a credit shock through East Asia and the emerging world, both by raising the cost of borrowing and by pushing up the dollar.

This, in turn, can amplify mood swings. And it would be imprudent to ignore that markets did not fully stabilise by themselves. Once again, on the heels of the turbulence, major central banks made soothing statements, suggesting that they might delay normalisation in light of evolving macroeconomic conditions.

the markets 'buoyancy hinges on central banks' every word and deed.

And the best ones

The highly abnormal is becoming uncomfortably normal

There is something vaguely troubling when the unthinkable becomes routine

See art. http://www.zerohedge.com/news/2014-12-07/even-bis-shocked-how-broken-markets-have-become

We give our highest rating to these last 2 quotes on central banking impotence

Conclusion. We are not just there yet.

We admit we still ask you investors for some more patience. Let's quote famed value investor Peter Cundill "*The most important attribute for success in value investing is patience, patience, and more patience. THE MAJORITY OF INVESTORS DO NOT POSSESS THIS CHARACTERISTIC.*"

Let's not run with the herd. Do not trade with your patrimony-hedge before the barn burns down. Give the herd their last final hurrah with the expected blow up of the dollar and the Dow. Our time, i.e. gold's time in the sunshine is coming. Rendezvous September October 2015 is our best guess to see gold gaining real traction for years to come. If before we have to see $1080-1090 gold or even a dip to $950 so be it.

In the mean time we wish you all the best in your life for you and your family. Enjoy Christmas and New Year knowing you did what you could to protect them financially from a very uncertain future.

Performances and trading

iW Alternativ SIF – Low Risk

The fund has increased by 4,9% in November, NAV 9.010,63 EUR.

iW Alternativ SIF – Commodities

The fund has increased by 9,9% in November, NAV 279,15 EUR.

iW Alternativ SIF – Real Value Growth

The fund has increased by 2,7% in November, NAV 56,80 EUR (I), NAV 55,57 EUR (P)

Best regards,
The fund manager

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