

## Strategy update

Focus on capital protection



BK & Associates  
Private Wealth Management  
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## Asset Allocation Model

Long-term sell signal since October when Europe confirmed the US sell signal  
 World markets entered bear market (major correction) and capital protection key

Valuation	Momentum Model: Buy					Momentum Model: Sell					Momentum Model: Neutral				
very high	P	C	C	B	B	C	C	C	C	C/B	C	C	C	C/B	C/B
high	P	P	C/E	B	B	C	C	C	C/B	B	P	C	C/B	C/B	C/B
neutral	E/P	E/P	E/B	E/B	E/B	C	C	C	C/B	B	E/P	C/E	C/B	B	B
low	E	E	E/B	E/B	E/B	P/E	C/E	C/E	C/B	C/B	E/P	C/E	E/B	E/B	E/B
very low	E	E	E	E	E/B	E	E	E/B	E/B	E/B	E	E	E/B	E/B	E/B

very low low neutral high very high very low low neutral high very high very low low neutral high very high

Volatility

Stoxx S&P MSCI Emerging Markets

E = Equity, High Yield Bonds

B = Barrier

P = Protection / Participation / Hedge funds

C = Cash / Quality bonds

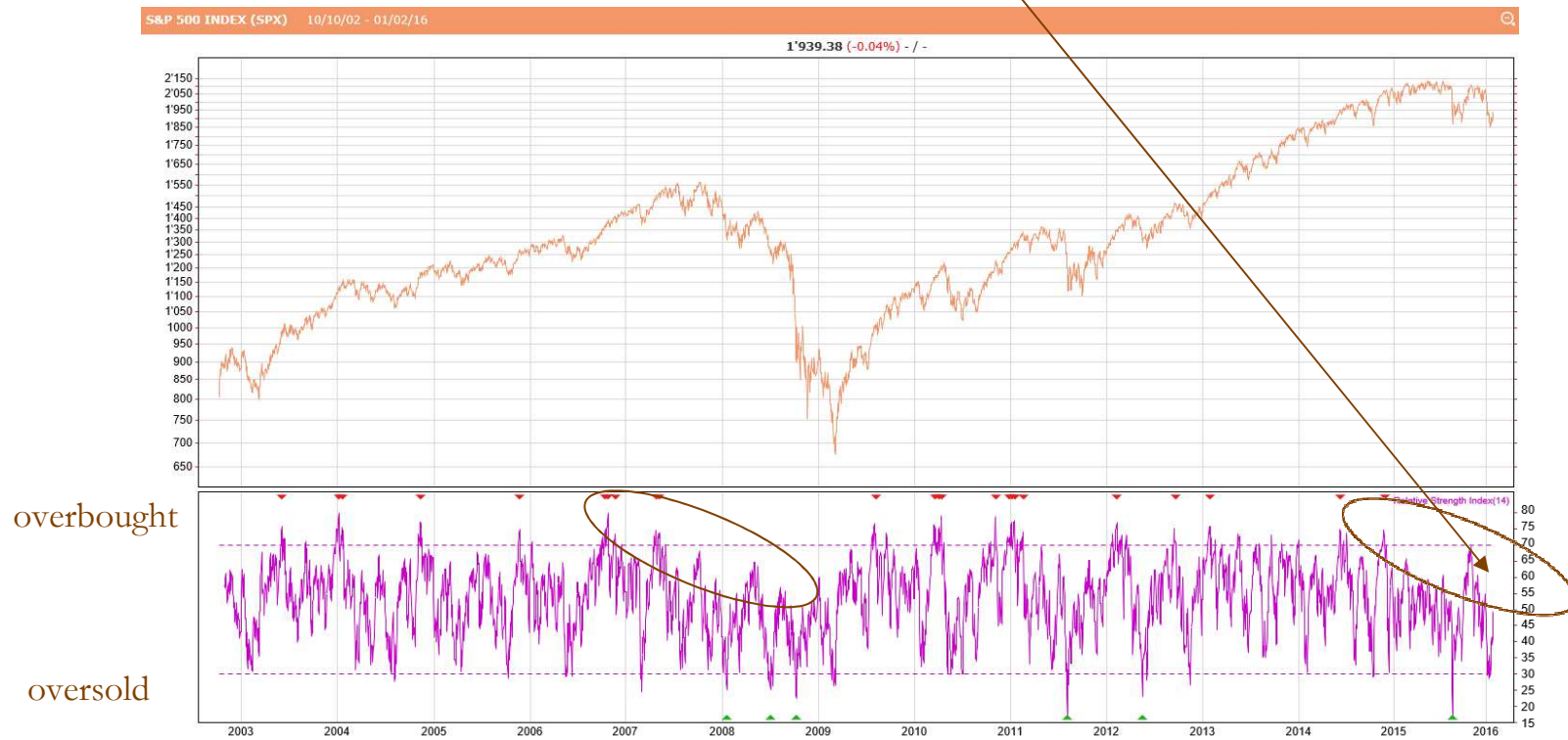


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## How to play the bear market

Current rally should be short lived

If this is really a bear market rally, than should not reach overbought territory anymore (see year 2008)



Source: Swissquote

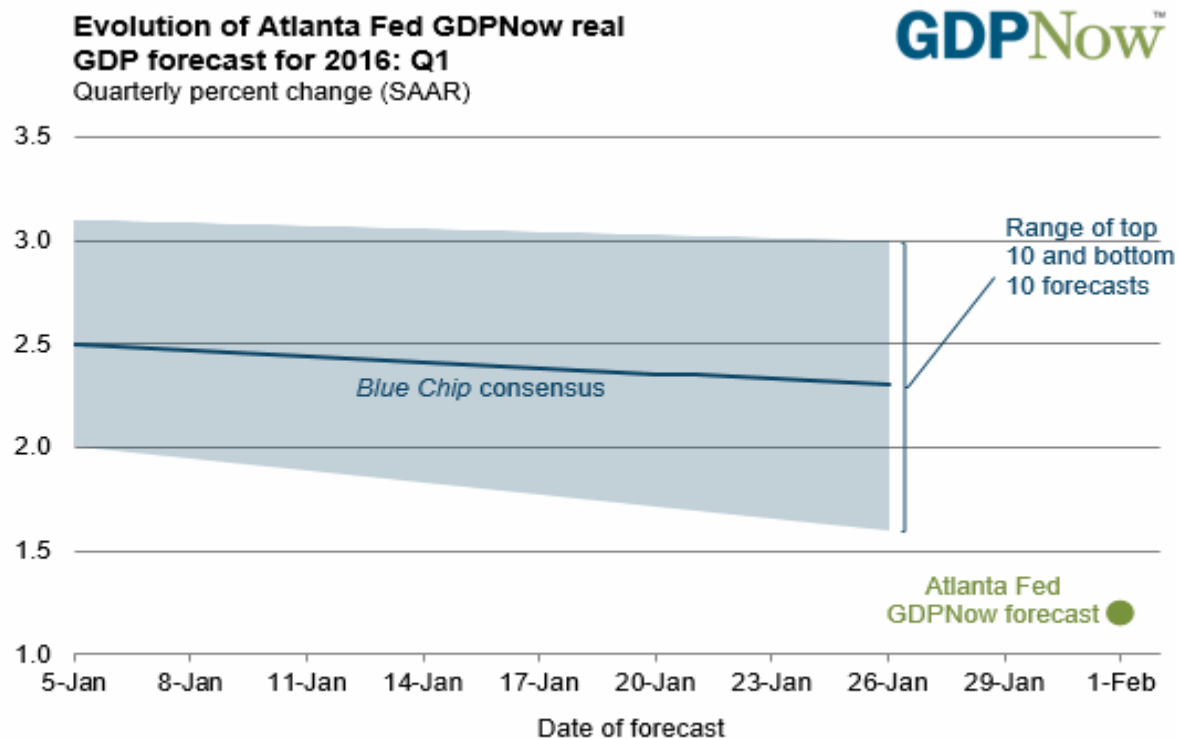


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## Economic slowdown

First rough Atlanta FED estimate for US Q1 2016 growth is 1.2%

Analyst's consensus estimate is 2.3% which lays the ground for further disappointments



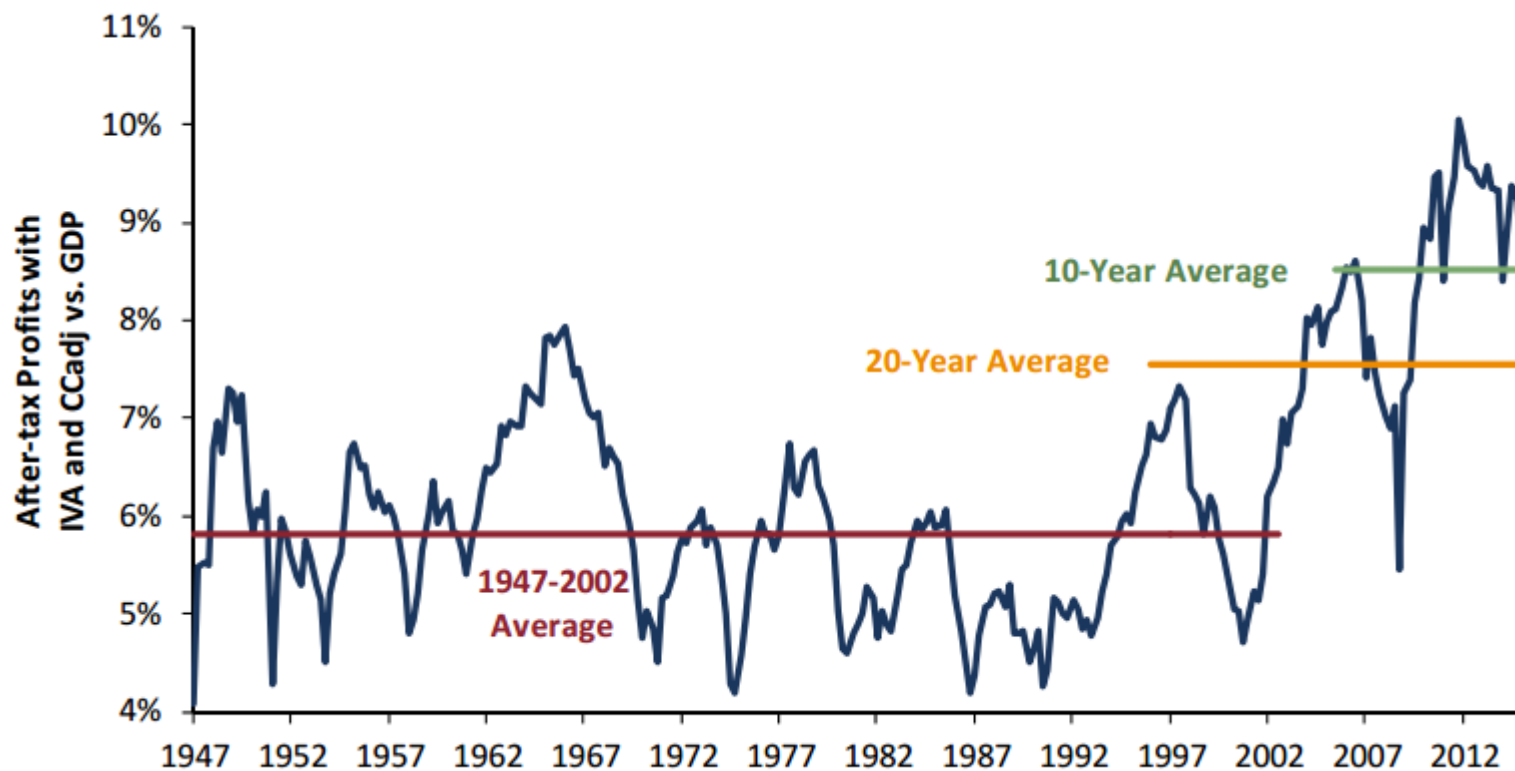
Sources: *Blue Chip Economic Indicators* and *Blue Chip Financial Forecasts*



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## Economic slowdown

US profit margins falling from high levels

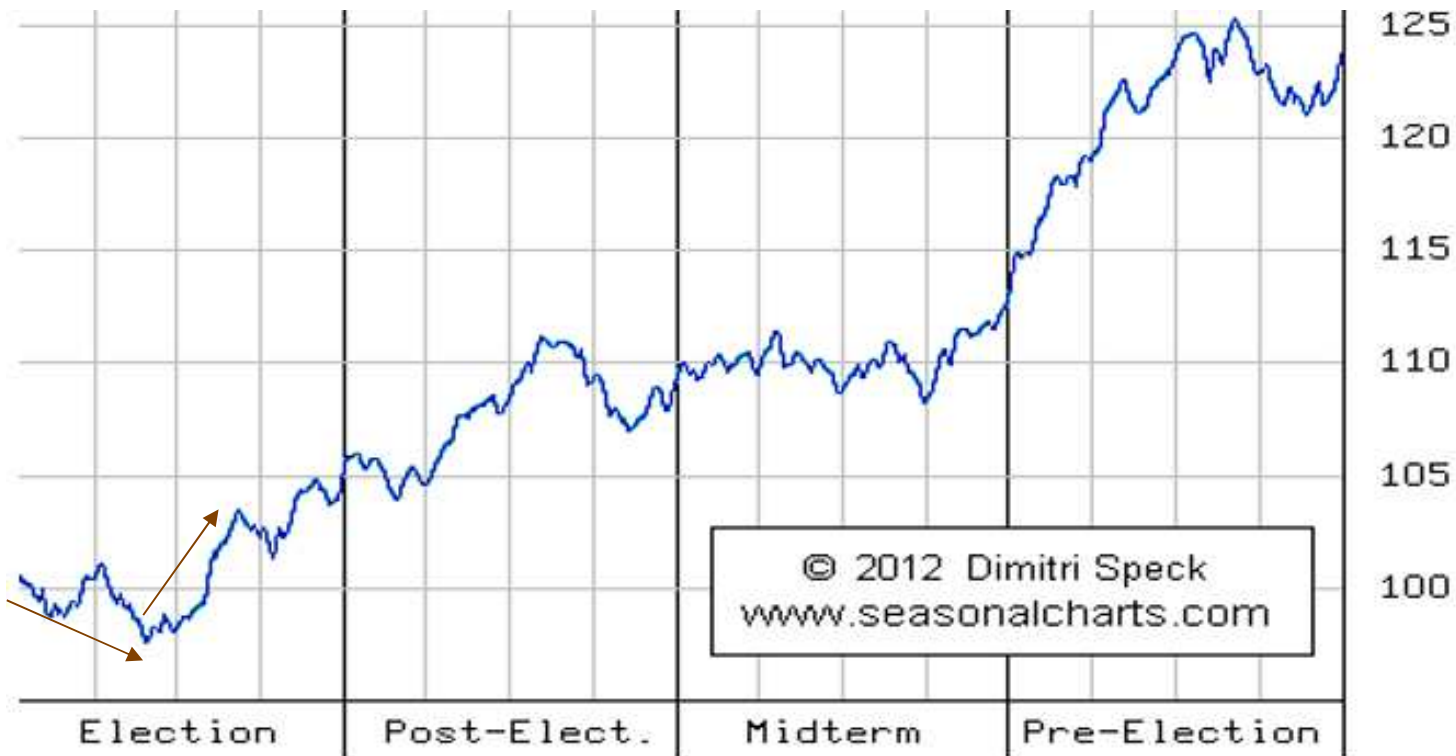


Source: GMO



## If history repeats...

...the correction would last until May



Data: 1897-2011, 28 Presidential cycles



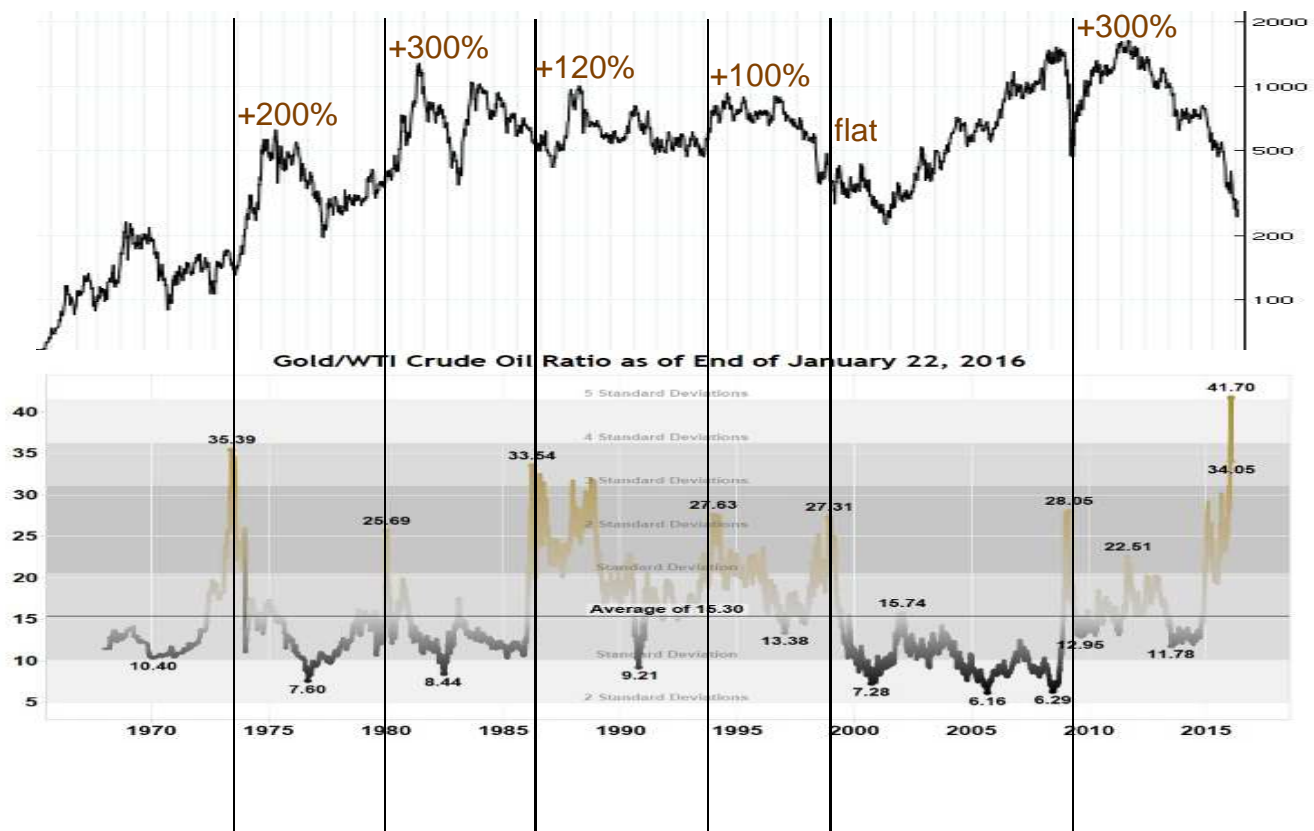
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## Gold mining stocks

Another reason to get bullish on Gold mining stocks:

Usually, when the ratio between Gold and Oil spikes, it is a good time to buy Gold mining stocks

Oil is a major cost factor in the production and Gold/Oil an indication of future profit margins



Source: BK&Associates, NIA, Barrons





## How to print more money if balance sheet is too stretched

Increase purchase price for gold (in the example from 1250 USD to 5000 USD)

This was done in the year 1933 overnight, but before it was confiscated from the people

Hence, it makes sense to not only hold Gold, but also Gold mines

Schematic FED balance sheet

Treasury bonds	2450
Morgage backed securities	1750
Gold valued at 1250 an ounce	300
	4500

2100
2350
50
4500

Base money  
Excess reserves  
Equity

Equity = 1%  
Gold = 5%

Treasury bonds	2450
Morgage backed securities	1750
Gold valued at 5000 an ounce	1200
	5400

2100
2350
950
5400

Base money  
Excess reserves  
Equity

Equity = 18%  
Gold = 22%



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## Summary

- Asset Allocation Model still on sell (page 3)
- Seasonality negative until May (page 7)
- Economic growth and profit margins are decreasing (page 5-6)
- Junk bonds and stock markets look more and more like year 2008
- Gold and Gold mining stocks also plunged in year 2008, but should be much better hedge today (page 8)
- Gold will play more important part in the monetary system, but probably too early for that (page 9)

Take away:

Falling markets are a painful necessity to correct high valuations

Hedging helps to protect capital and to keep buying power

As correction advances, we will reduce stepwise the hedging (protection) and add new investments



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## Strategy implementation

- Increased hedge from 50% to 70-100% (of equity and structured product exposure)
- Reducing **Alternative Investments** further to increase flexibility and buying power
- Buy **Structured Products** into spiking volatility
- Buy **Emerging Market equities** into further plunging markets
- **Gold Mining stocks:**  
Increasing positions
- **High Yield Corporate bonds:**  
Increase positions into spiking corporate bond yields



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- Name Bardoly-Küzmös (BK) & Associates AG
- Headquarters Seefeldstrasse 283 A  
CH – 8008 Zurich
- Telephone +41-44-515-2041 (central)
- Fax +41-44-400-9203
- Internet [www.bkwealthmanagement.com](http://www.bkwealthmanagement.com)
- Registration/Jurisdiction Kanton Zurich
- SHAB Number CH-020.3.034.164-2



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**Thank You for Your Attention!**

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