Strategy update

Outlook 2016

BK & Associates
Private Wealth Management
Zurich, 2nd December 2015

Contents

Asset Allocation Model (1)

Momentum: all regions still negative

Valuation: Europe neutral, US expensive, Emerging Markets cheap

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

Stoxx S&P MSCI Emerging Markets

E = Equity, High Yield Bonds

B = Barrier

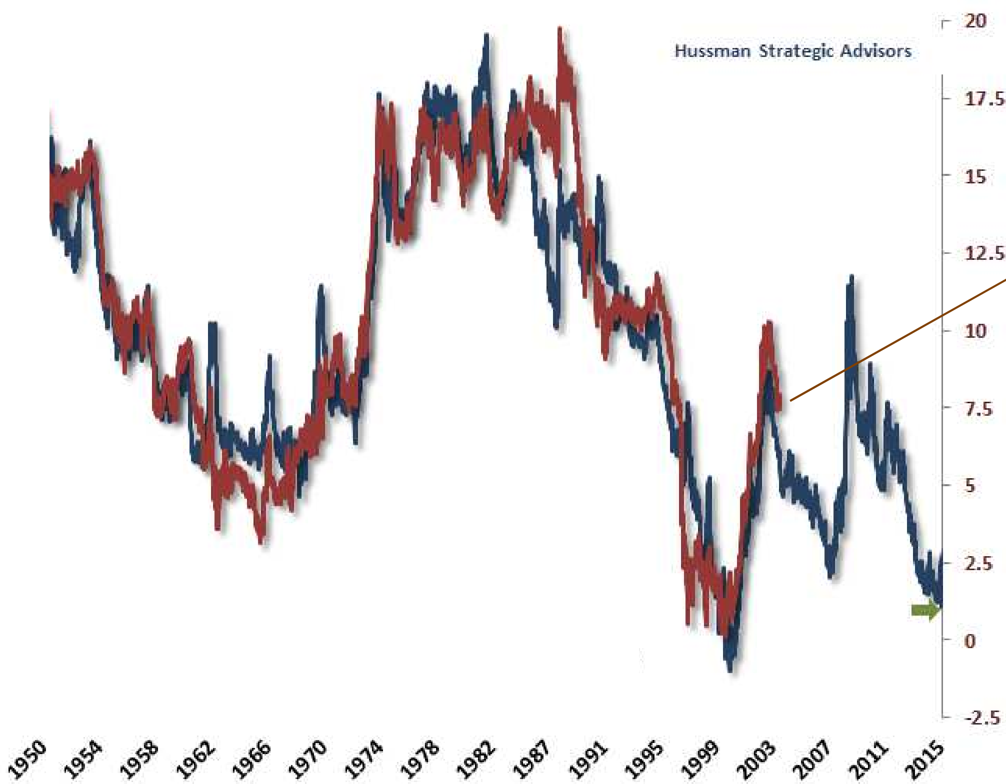
P = Protection / Participation / Hedge funds

C = Cash / Quality bonds

ONE STEP AHEAD THE MARKET

Asset Allocation Model (2): Valuation

If we could only choose one indicator, it would be valuation based on price-to-sales ratio for the market (blue line)
The correlation to subsequent annualized 10-year returns for the S&P index (red line) is very high
Caveat: it is only valid in the long-run, hence we have to add momentum to our Asset Allocation Model



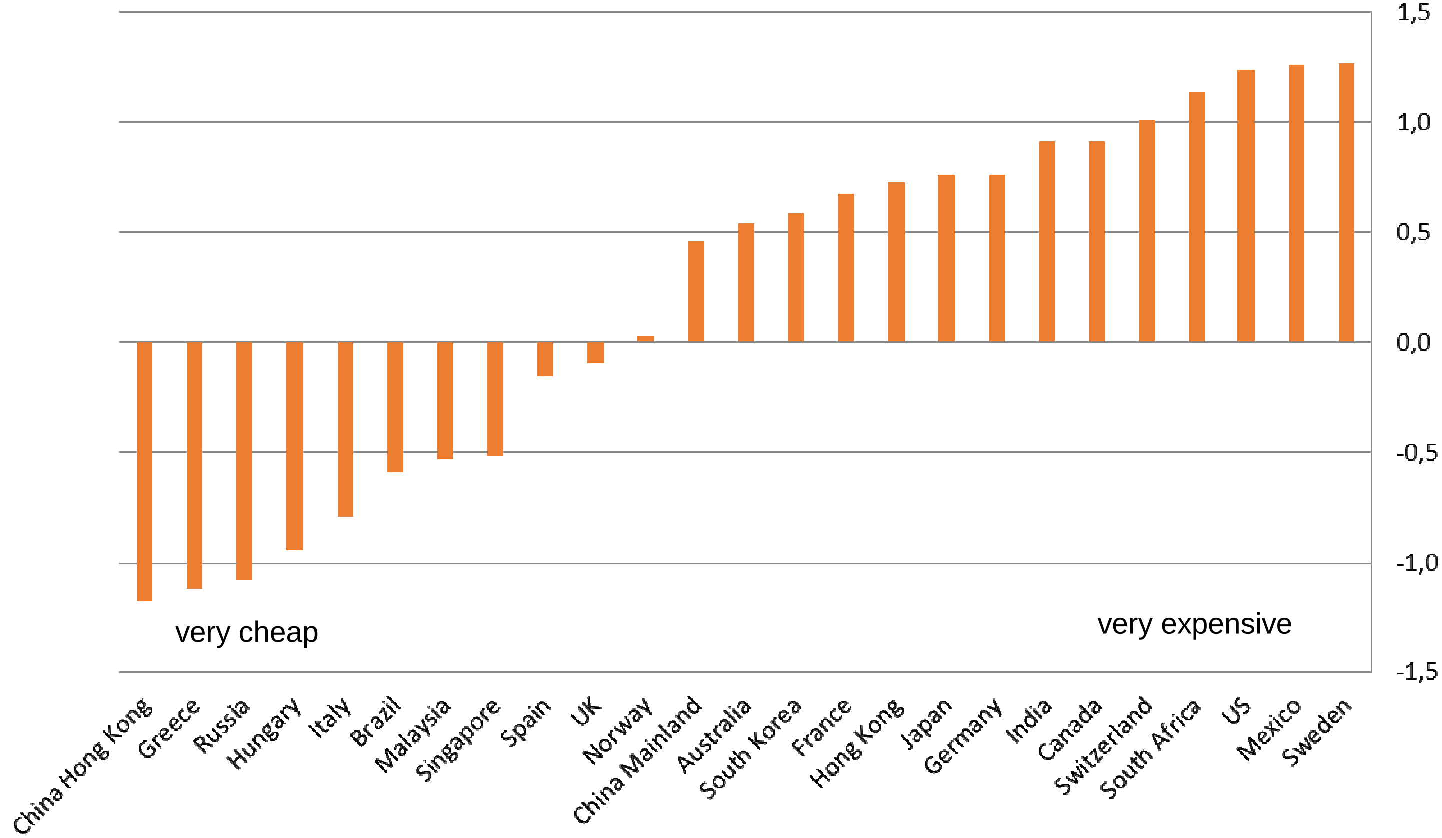
In 2005 valuation pointed to 7.5% annual return until 2015. This was exactly the realized return afterwards

Today the model points to almost zero annual return for US equities until 2025

Source: Hussman

Valuation Monitor in local currencies

China (H-shares) and Southeast Europe very cheap, North America and Switzerland very expensive
Expected 10 year annualized returns range between 15% for China H-shares and 0% for Sweden



Source: NIA, Star Capital, BK&Associates

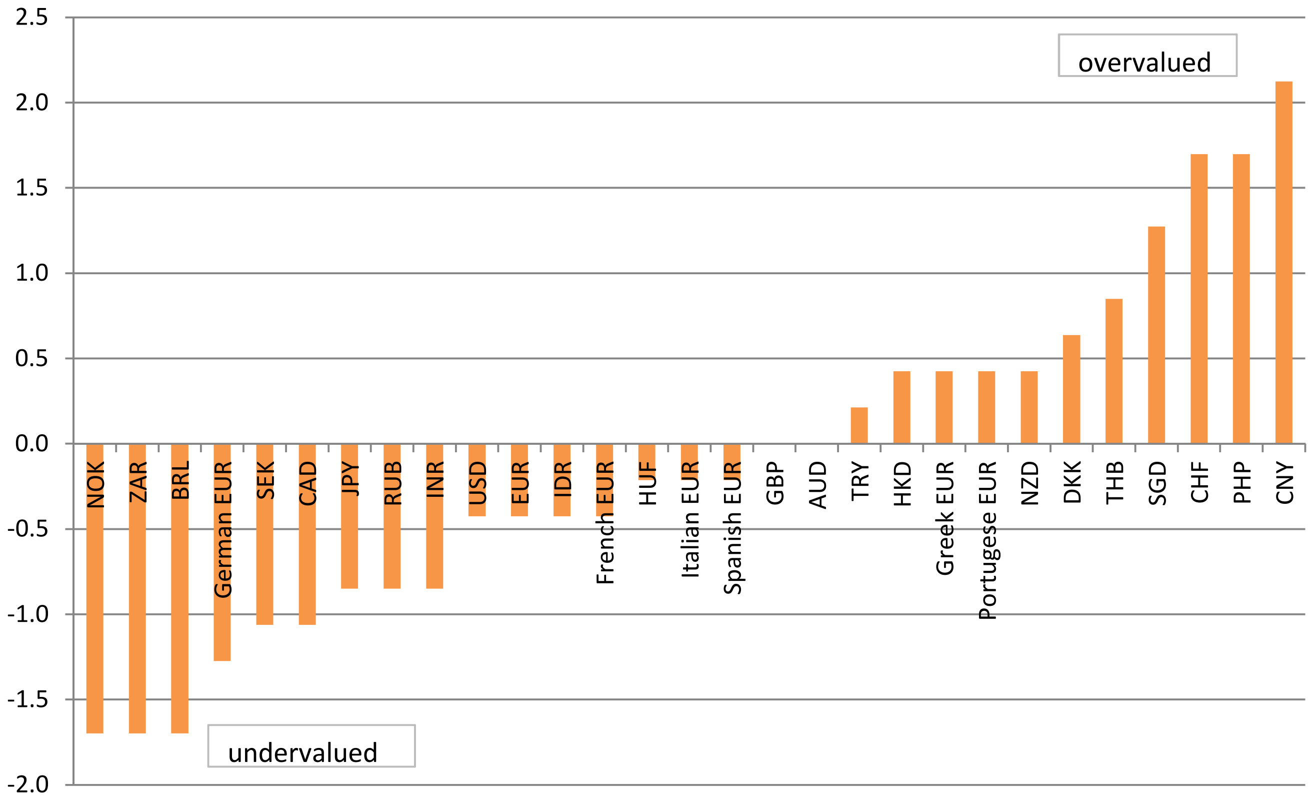
ONE STEP AHEAD THE MARKET

Currency Monitor

Trade weighted real exchange rates

Commodity related currencies cheap, Asian and Swiss currencies expensive

EURUSD fair value around 1.10

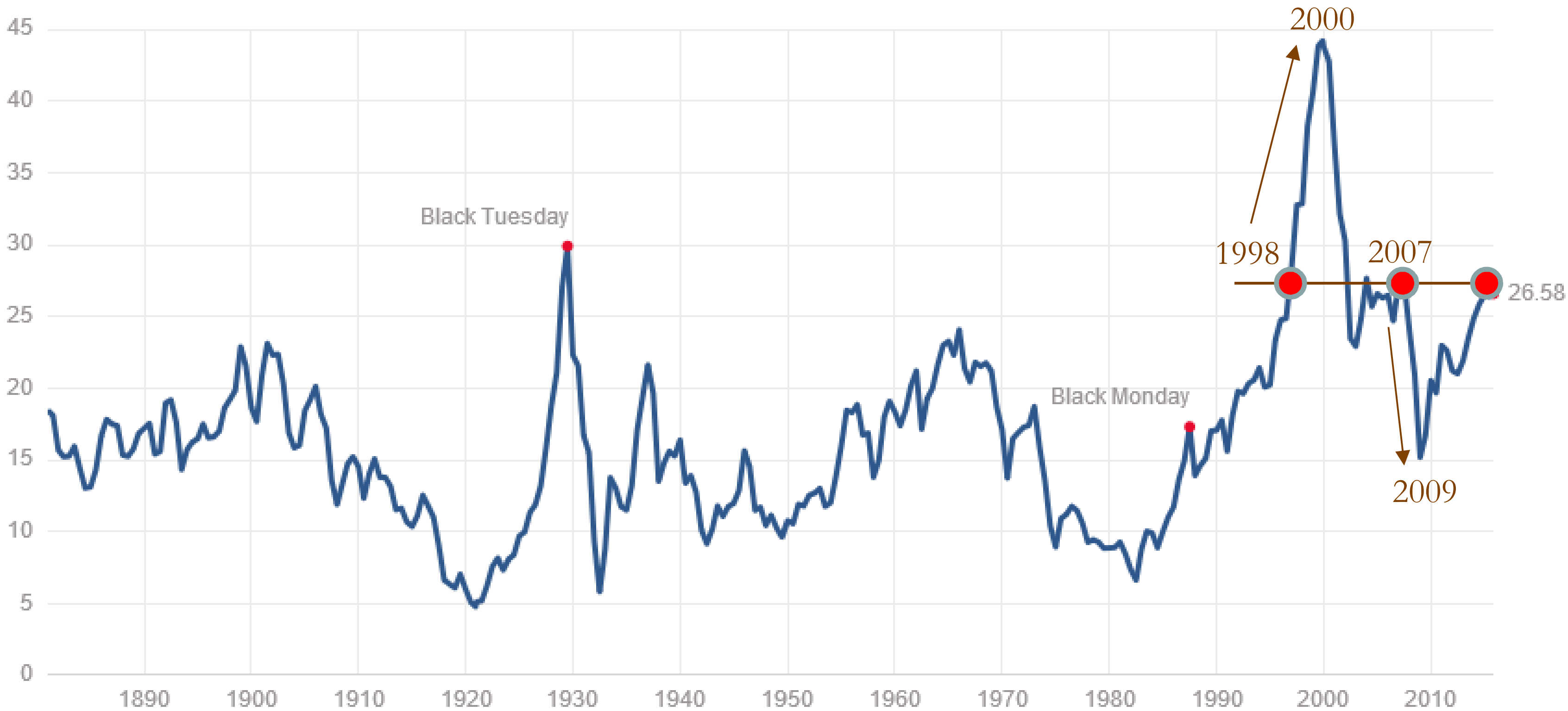


*see Appendix for an explanation

Source: BIS, OECD, BK&Associates

Valuations: US market

From a long term prospective we can be quite sure that returns will be very poor for US equities (slide 4)
Due to money printing, Bubble like in 1998-2000 possible, but unlikely (see next slides)



Source: BK&Associates, www.multpl.com

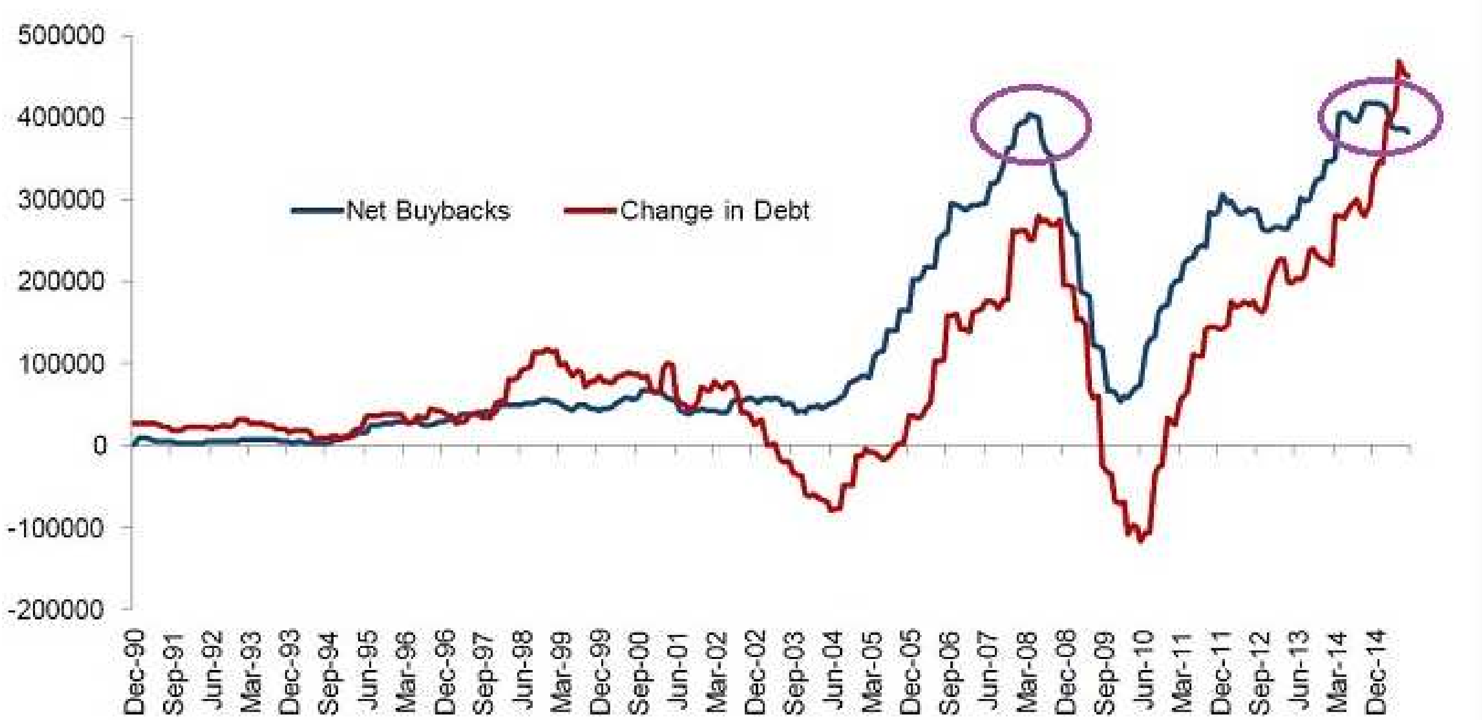
Similarity to 2008 but not 1998

Debt financed buying of stocks was much lower in 1998 and only reached todays levels in 2000

Source: NIA

Similarity to 2008 but not 1998

US buybacks are mainly funded by debt and leverage increases significantly (debt goes up and equity down)

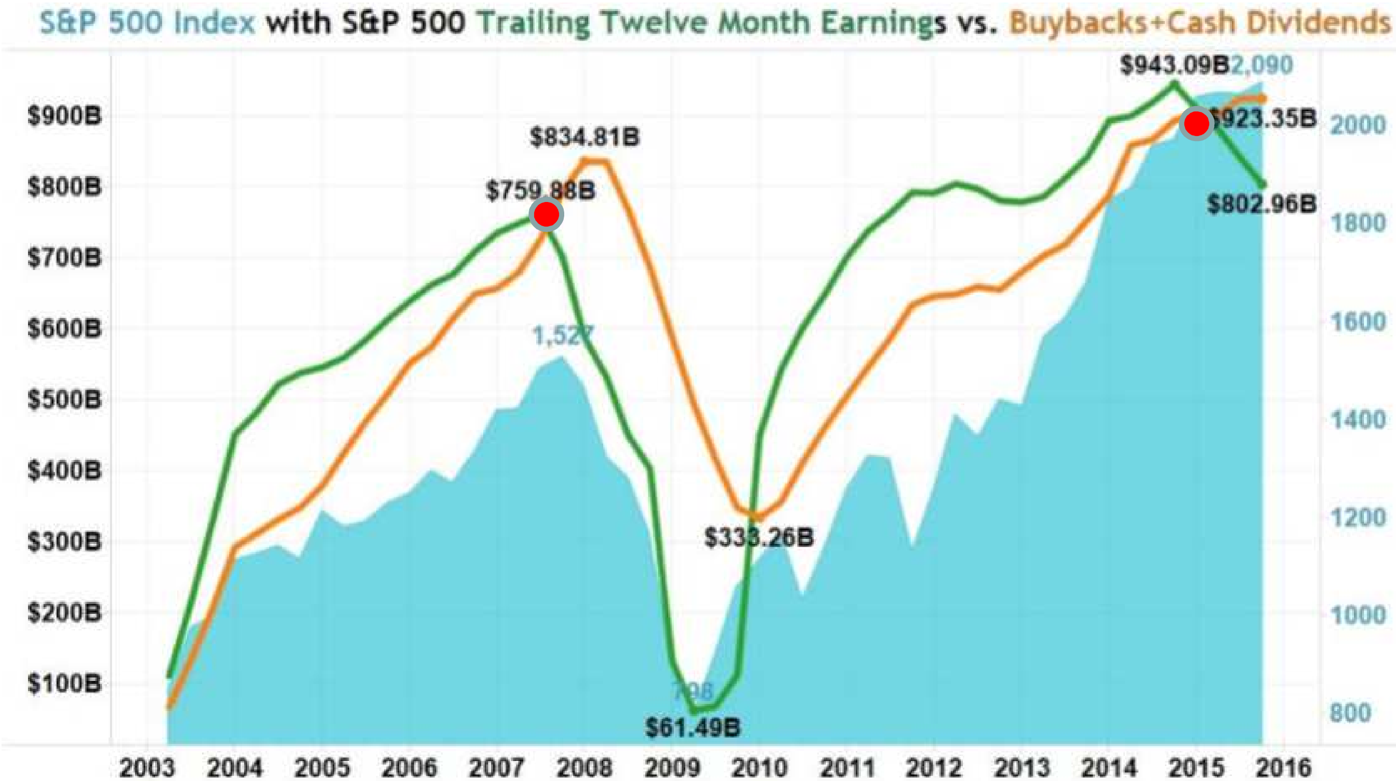


Source: SG Cross Asset Research/Equity Quant, MSCI

Source: NIA

Similarity to 2008

Buybacks and dividends exceed earnings, distributions are partially debt financed



Source: NIA

Similarity to 2008

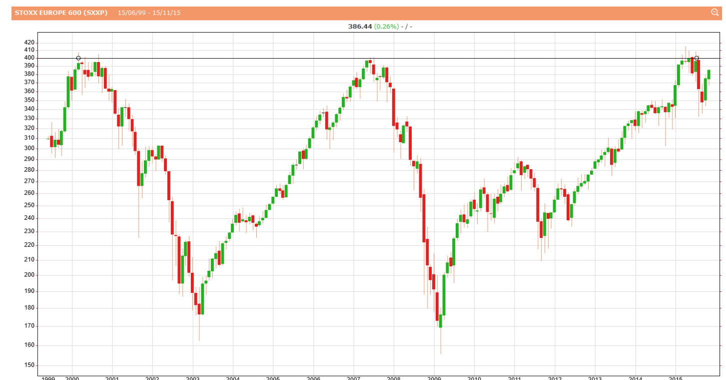
Divergence between high yield bonds and stocks
Main reason is debt financed buyback of stocks (see slides before)

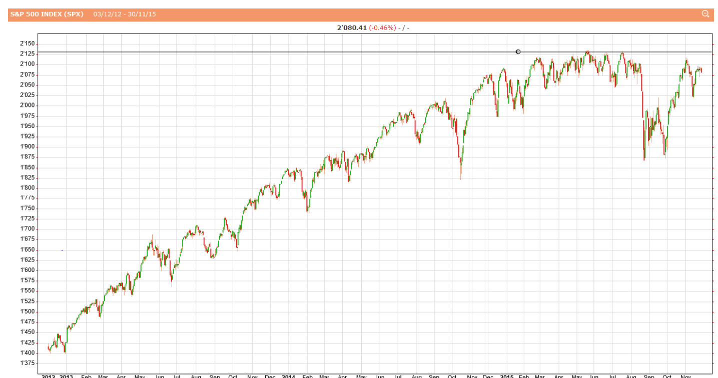
Source: MarketWatch, Factset

Bubble or Trouble?

Markets at very important resistance levels

Break to the upside would indicate start of 1998-2000 type Bubble





Source: Swissquote

Focusing on relative plays

Eurostoxx50 (European large caps) has still a lot to catch up against S&P (US large caps, in black)

Relative trade should pay off nicely over time

Source: Swissquote

If history repeats…

Sell in May and go away usually not a good strategy in an US election year
Quite the contrary: first months of the year were often bad and May to August very good

Data: 1897-2011, 28 Presidential cycles

Commodities: Gold mining stocks

Gold mining stocks have lost 85% from the top and are at the level of 1974, even without inflation adjustment

Bear market biggest and longest in history of Barron´s gold mining index

Source: Barron´s

Volatility

Long-term volatility has come down a bit, but still attractive
Opportunity to buy products with conditional capital protection

Low < 24, high > 28

Low volatility is good for participation (buy call options) or protection (buy put options)
High volatility is good for barrier reverse convertibles products (sell call and put options)

Source: Marketwatch

Summary

Asset Allocation:

- Seasonality: December usually good, but the start of an election year bad (page 14)
- Due to debt financed buybacks, high yield bonds go down and stocks up (page 11)
- Key resistance levels among major indices (page 12)

European equities

- Long-term momentum slightly negative (page 3)
- Southeast Europe cheap, Northern Europe expensive (page 5)

US equities

- Expensive and momentum negative (page 3 and 7)
- Margin calls a drag (page 8)

Emerging market equities

- China Hong Kong shares (H-shares) and Eastern Europe cheapest markets worldwide (page 5)
- After devaluations most currencies not expensive anymore (page 6)

Gold mining stocks

- Lost 85% from the top and are at level of 1974, winners can buy losers at discount prices (page 15)

Strategy implementation

- Next year either Bubble or Trouble
- As long as key resistance levels not broken, starting very cautious into 2016
- Reducing equity exposure in the next weeks
- Using futures, which could be cancelled easily, should key levels break to the upside
- Last structured products performed very well, reducing equity exposure automatically
- Focusing on relative plays (Europe vs. US equities) and structured products with conditional capital protection
- Cash not an option in the long-run, but near term keeping a higher proportion than usual

- Reducing Alternative Investments further to increase flexibility

- European equities:
  Keeping a small exposure due to fair valuation

- Emerging Market equities:
  Currently limited exposure via Russian and China H-shares, will be mainly paid back in Q1 2016
  Waiting for opportunities to re-open positions in China H-shares, Brazil or Eastern Europe

- Gold Mining stocks:
  Increase position to maximum of 5% into further falling markets

- High Yield Corporate bonds:
  Due to big divergence in performance preferring High Yield Corporate bonds to equities at these levels

▪ 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
▪ Registration/Jurisdiction	Kanton Zurich
▪ SHAB Number	CH-020.3.034.164-2

Thank You for Your Attention!

www.bkwealthmanagement.com

Disclaimer

This presentation with the investment proposal of BK & Associates Ltd contains confidential information and is intended only for the use of the client and addressee. Any copying, distribution or other use of this proposal by any person other than the addressee is prohibited.

This presentation may include and is based on forward-looking information and financial statements which are subject to risks and uncertainties that could cause actual results to differ. Such forward-looking financial information and statements are based on current expectations, estimates and projections about global economic conditions. Due care and attention has been used in the preparation of this presentation by BK & Associates Ltd. However, actual results may vary from forecasts and any variation may be materially positive or negative. Forward-looking information, by their very nature, are subject to uncertainty and contingencies which are outside of the control of BK & Associates Ltd.

The client and addressee of this presentation acknowledges to be fully informed by BK & Associates Ltd about the risks of financial investments and that no specific financial result may be guaranteed out of this presentation by BK & Associates Ltd.