



Strategy update

Bear market rally



BK & Associates
Private Wealth Management
Zurich, 3rd March 2016





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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

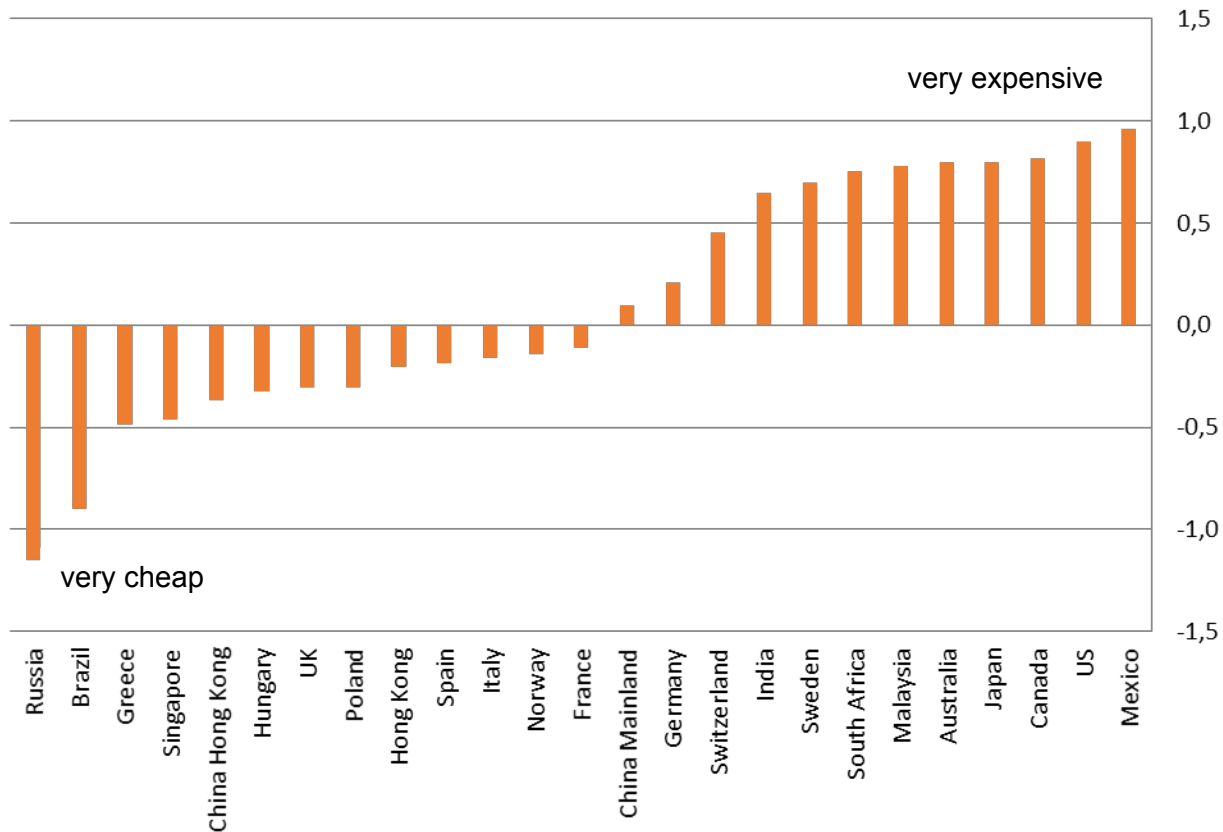
P = Protection / Participation / Hedge funds

C = Cash / Quality bonds



Valuation Monitor in local currencies

Eastern and Southern Europe cheap, North America and Southeast Asia mostly expensive



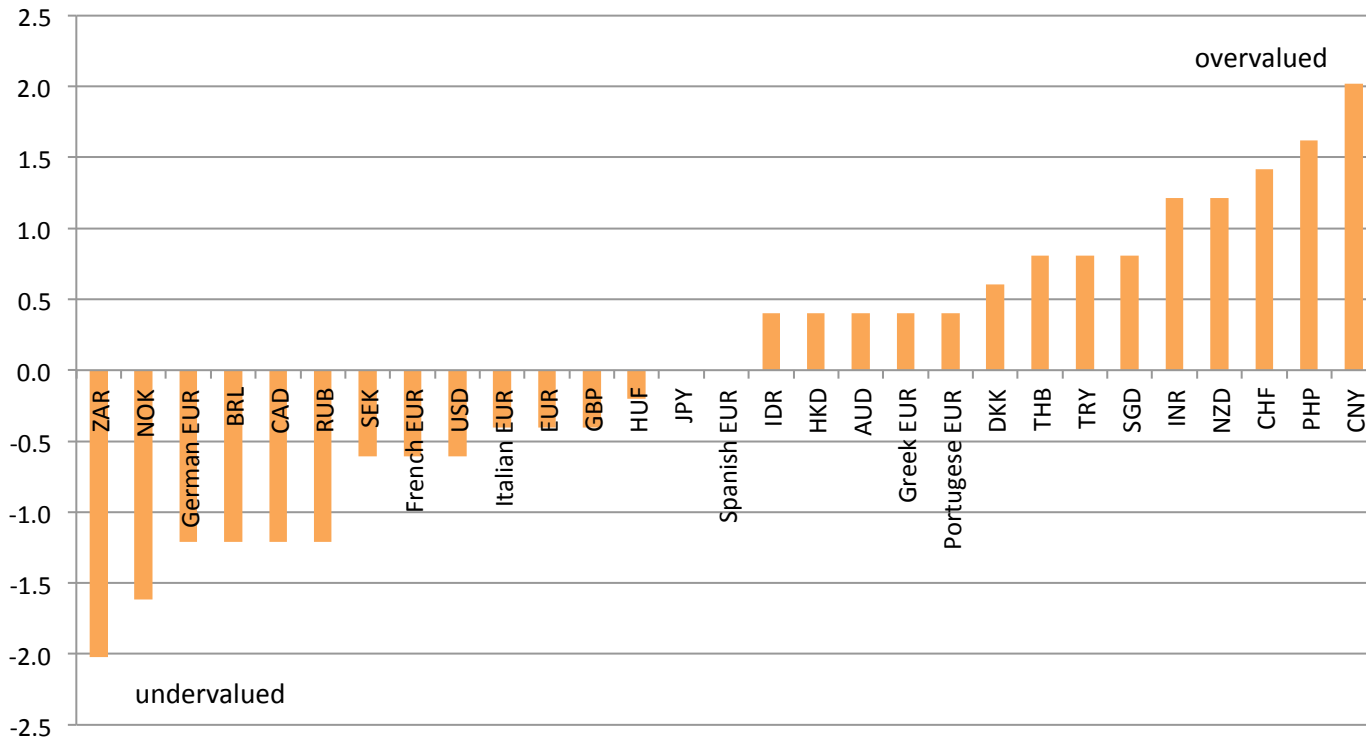


Currency Monitor

Trade weighted real exchange rates

British pound has corrected overvaluation against EUR and USD and is now about fair value

EURUSD fair value around current levels

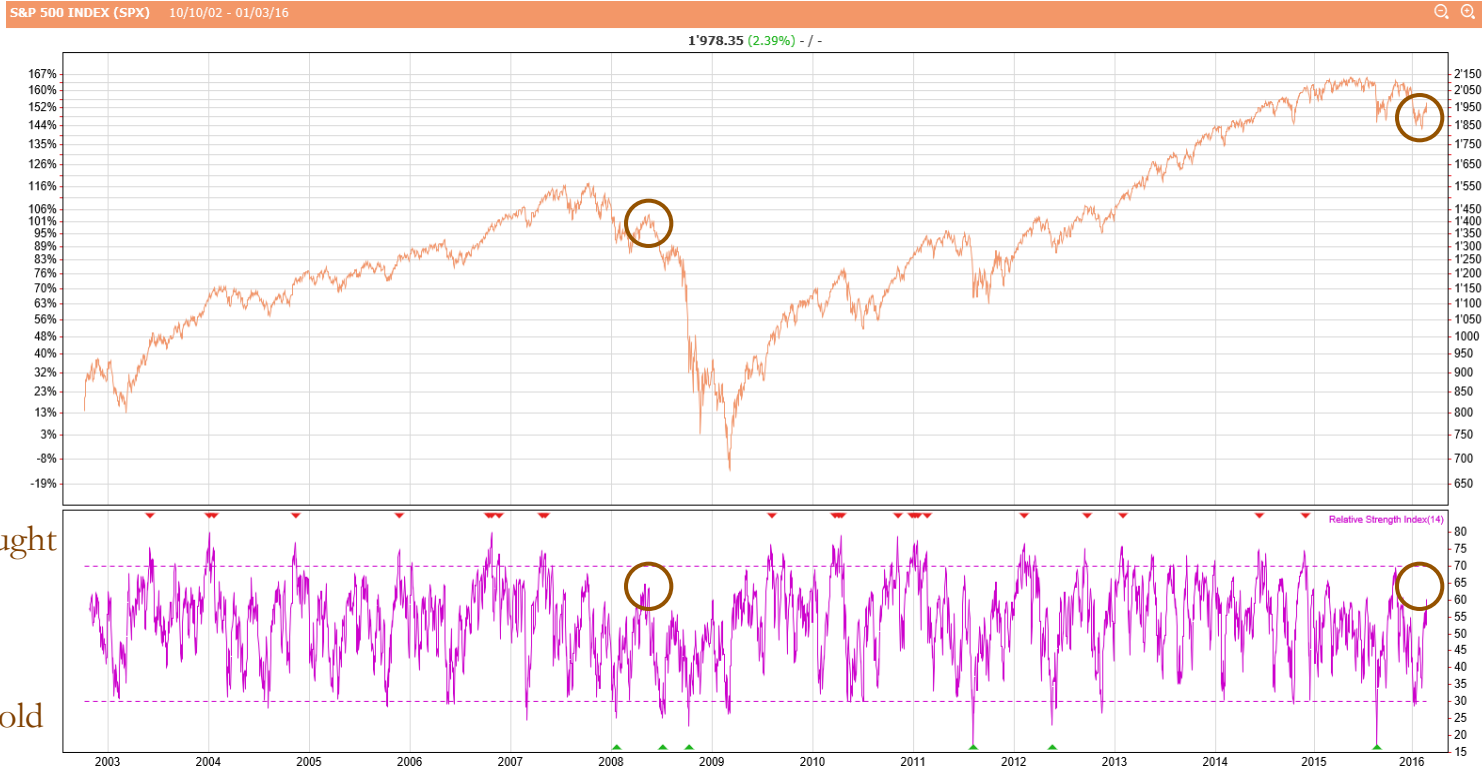




How to play the bear market

Current rally is approaching target zone, if compared to 2008

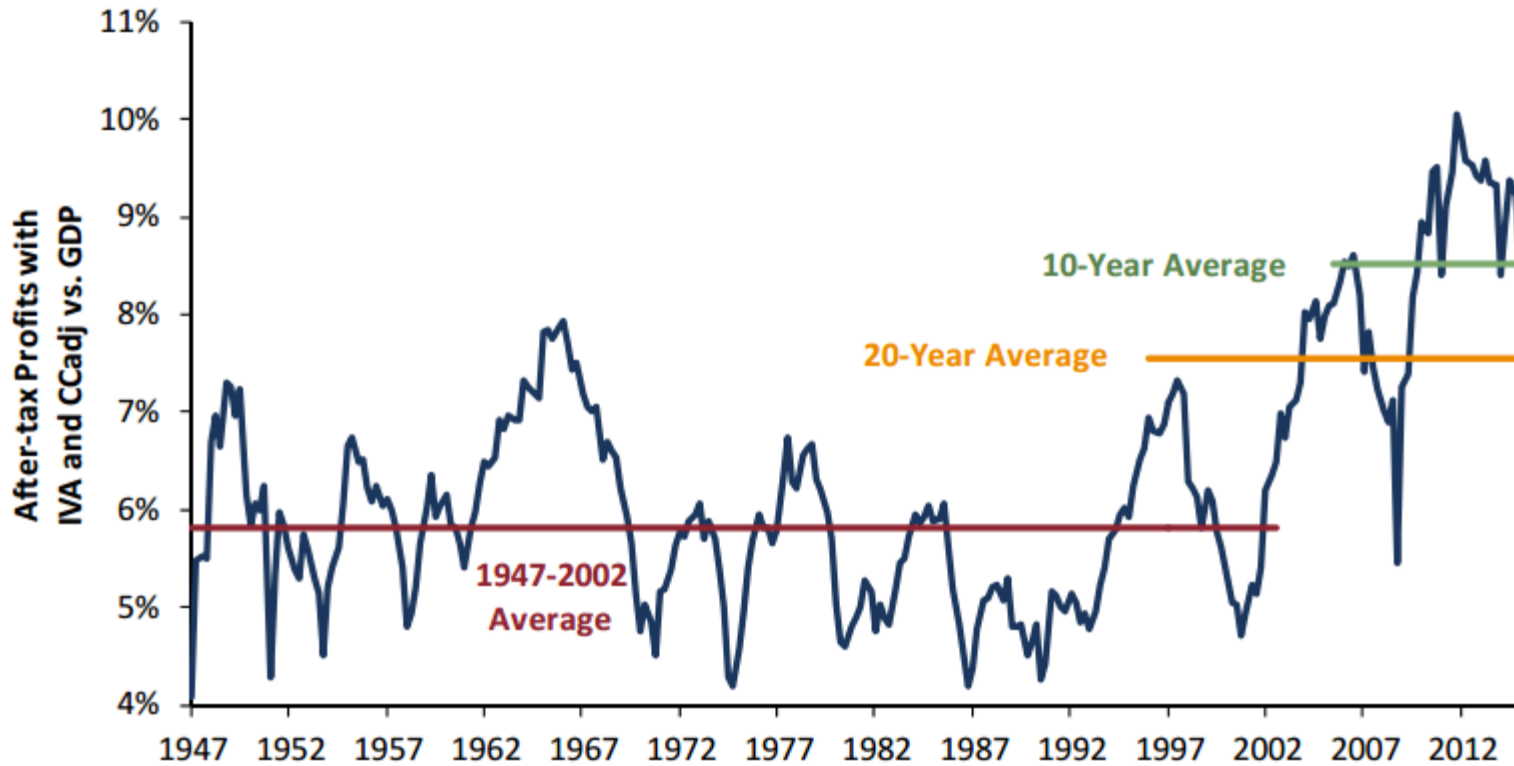
To validate our bear market scenario, it should not reach overbought territory anymore





Deteriorating profit cycle

US profit margins falling from high levels, but still elevated

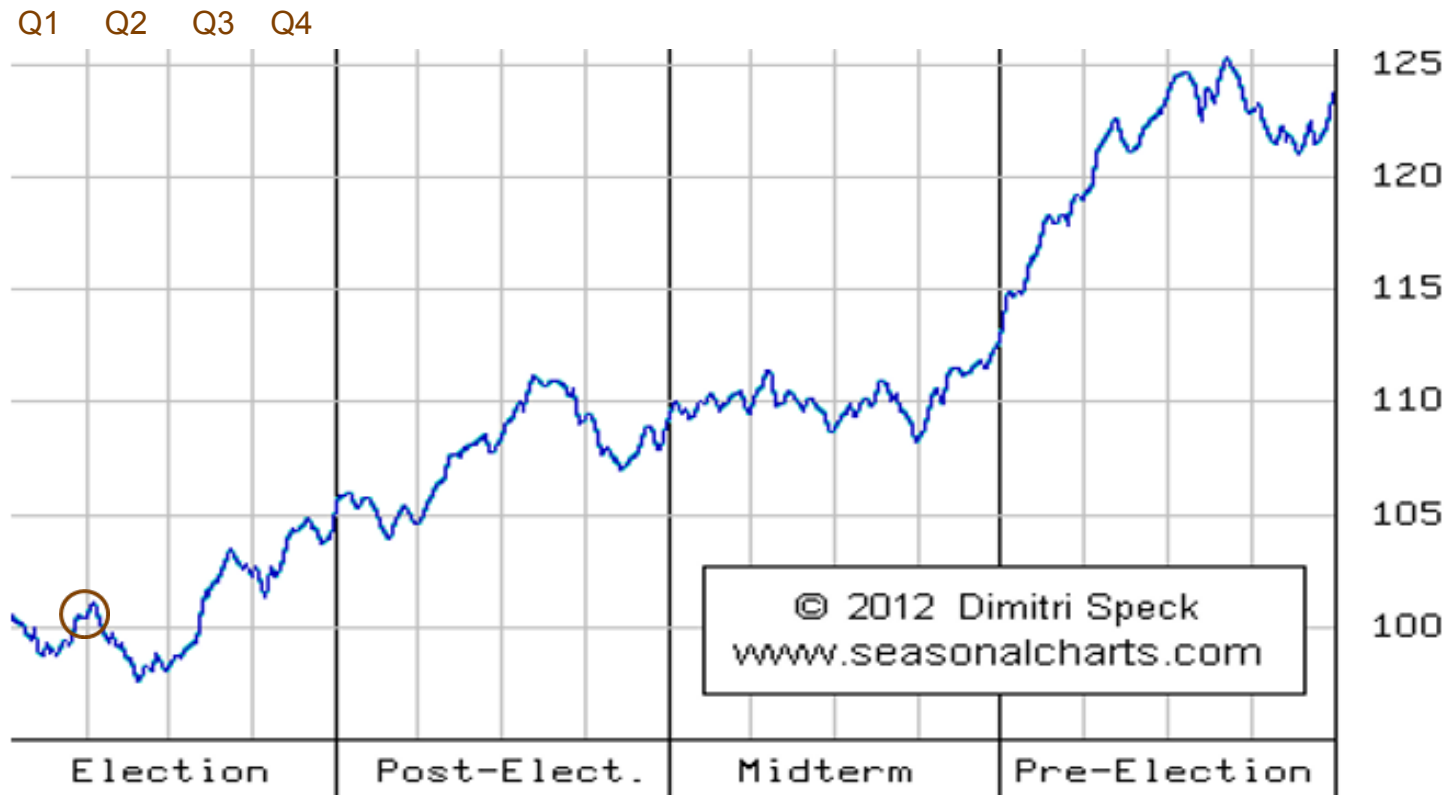


Source: GMO



If history repeats...

...the current rally would end in the next weeks, followed by an ugly second quarter



Data: Dow Jones 1897-2011, 28 Presidential cycles



Gold mining stocks

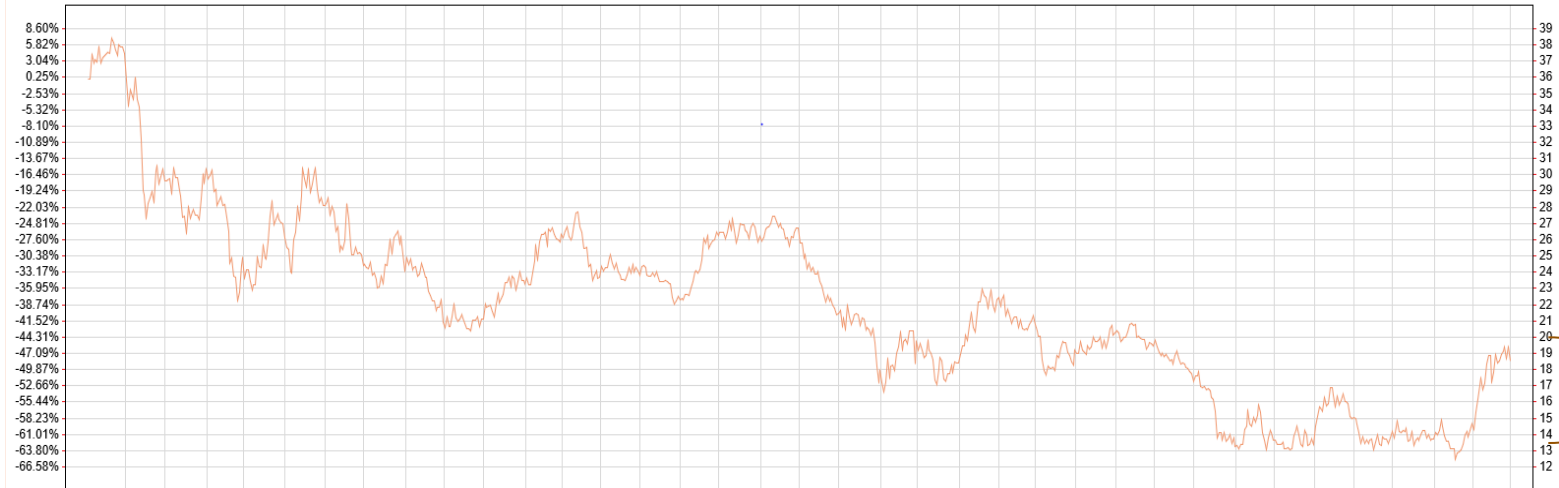
Gold stocks exploded 60% from the low in January

We took profits and are waiting for a re-entry point

To validate our bull market scenario, the pullback should not reach oversold territory anymore (opposite of slide 6)

MARKET VECTORS GOLD MINERS ETF (GDJ) 04/03/13 - 01/03/16

18.56 (-4.23%) - / -



+60%

overbought

oversold



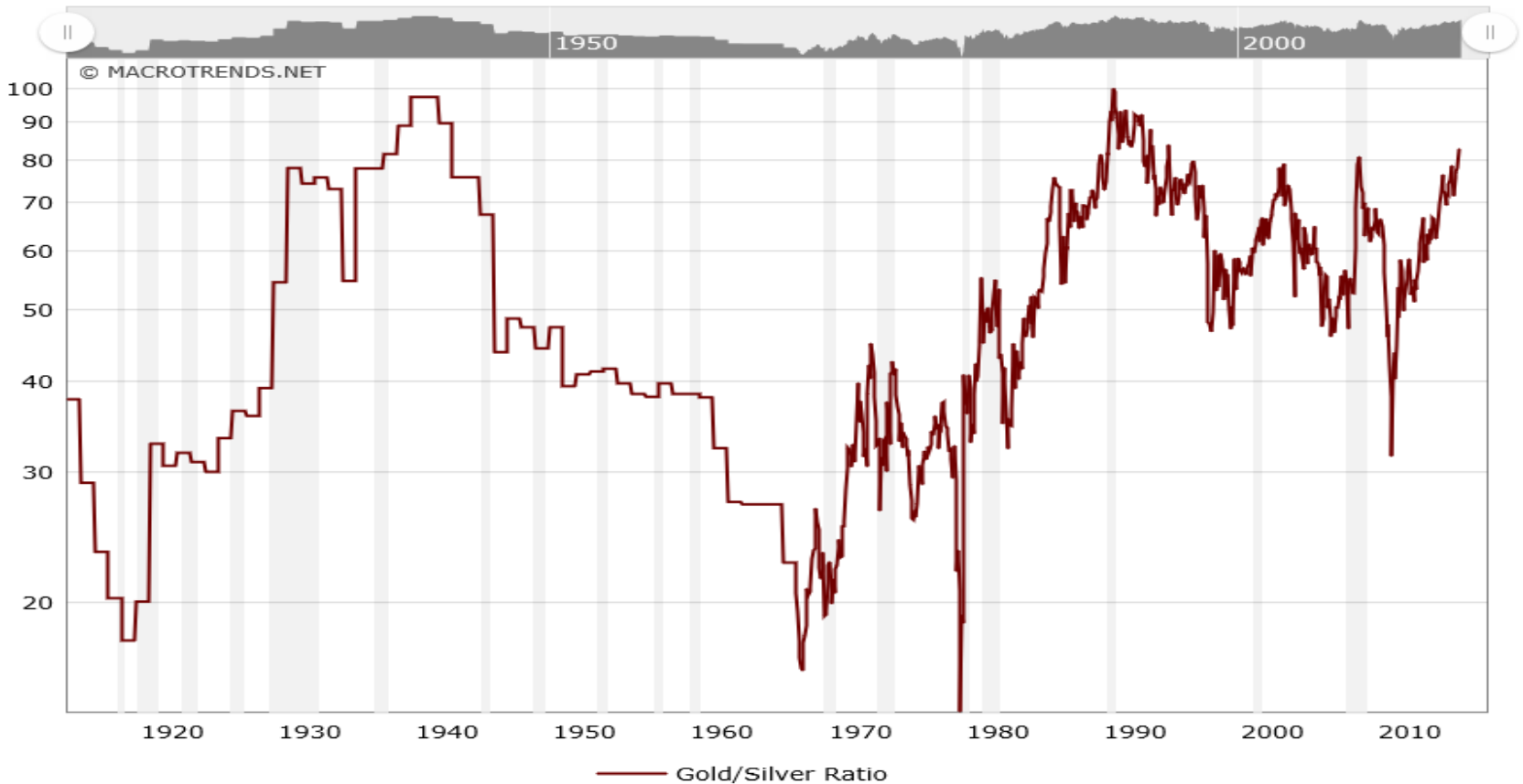


Silver

Should we miss the re-entry into Gold mining stocks, we get another opportunity in Silver

The Gold to Silver ratio is at an extreme of 83 (1225/14.8), which was only surpassed in 1938 and 1990

Silver usually lags Gold at the beginning of a bull market, but catches up as it lasts





Summary

- Asset Allocation Model still on sell for equities and high yield bonds (page 3)
- Seasonality: positive for March, but negative for second quarter (page 8)
- Profit margins are decreasing (page 7)
- Risk of a sharp short-term pullback in Gold mining stocks (page 9)
- Silver very attractive compared to Gold, but too early to play the story (page 10)

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



Strategy implementation

- Little exposure to markets, wait and see
- Performance mainly driven by Alternative Investments
- 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:
Sold positions after 60% rally from the lows, waiting for re-entry
- High Yield Corporate bonds:
Increase positions into spiking corporate bond yields



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