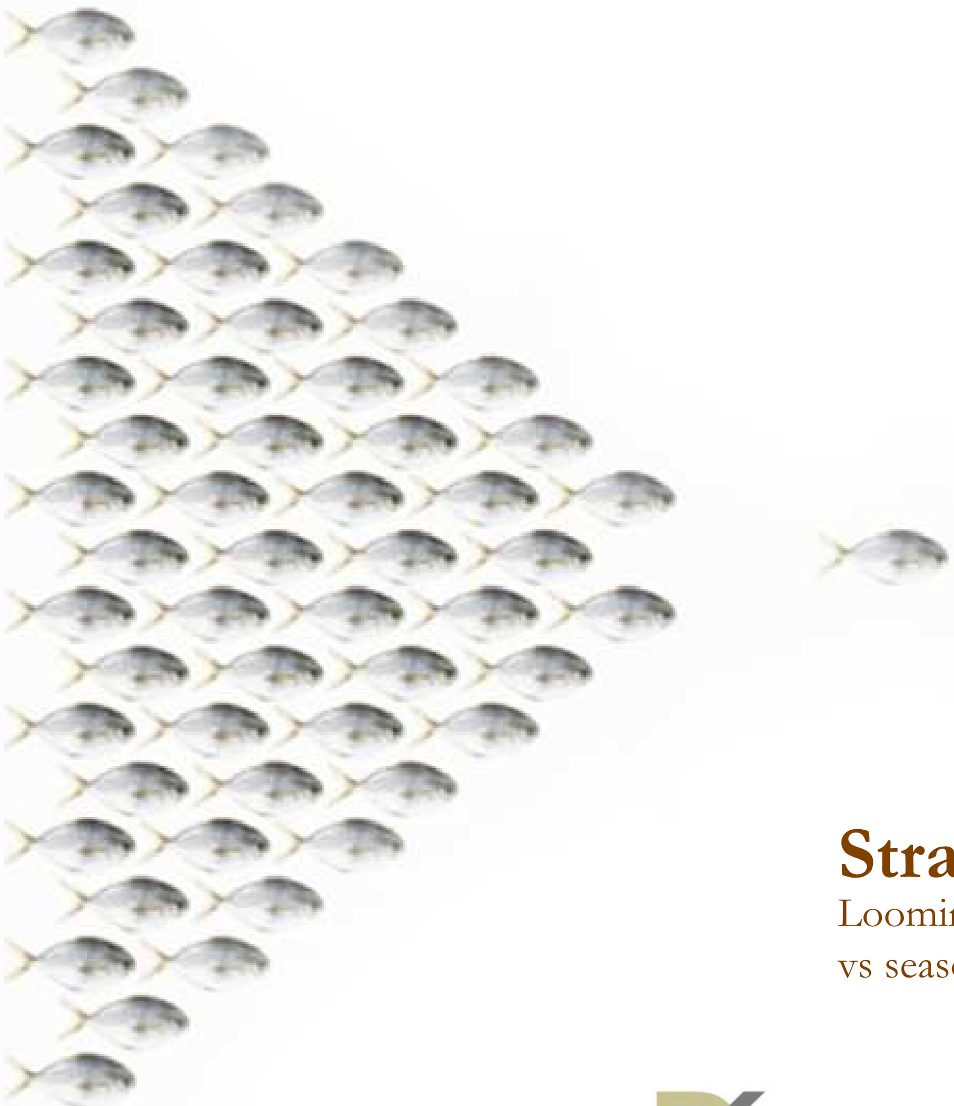


Strategy update

Looming break-out in Stoxx600
vs seasonal headwind for equities

BK & Associates
Private Wealth Management
Zurich, 4th August 2015

Contents

Asset Allocation Model (AAM)

Momentum: Europe slightly positive, US negative
Valuation: Europe neutral, US expensive
Still prefer the relative play, buy European against US equities

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

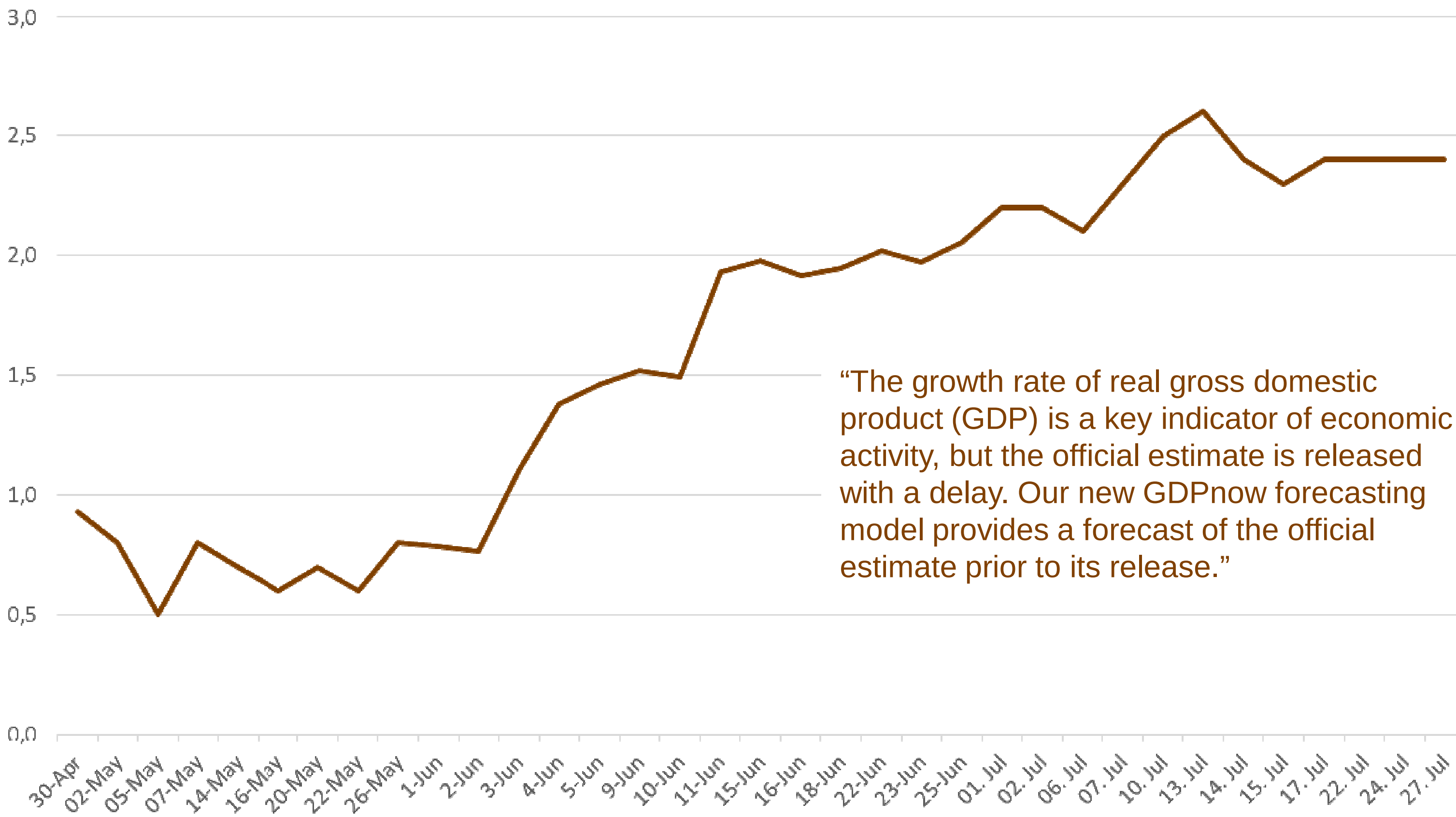
Stoxx | S&P | MSCI Emerging Markets

E = Equity, High Yield Bonds
B = Barrier
P = Protection / Participation / Hedge funds
C = Cash / Quality bonds

US Economics

GDPnow forecast for Q2 2015 (no estimate for Q3 yet)

Very accurate for Q2: last minor change on July, 15: 2.4%, actual on July, 30: 2.3%

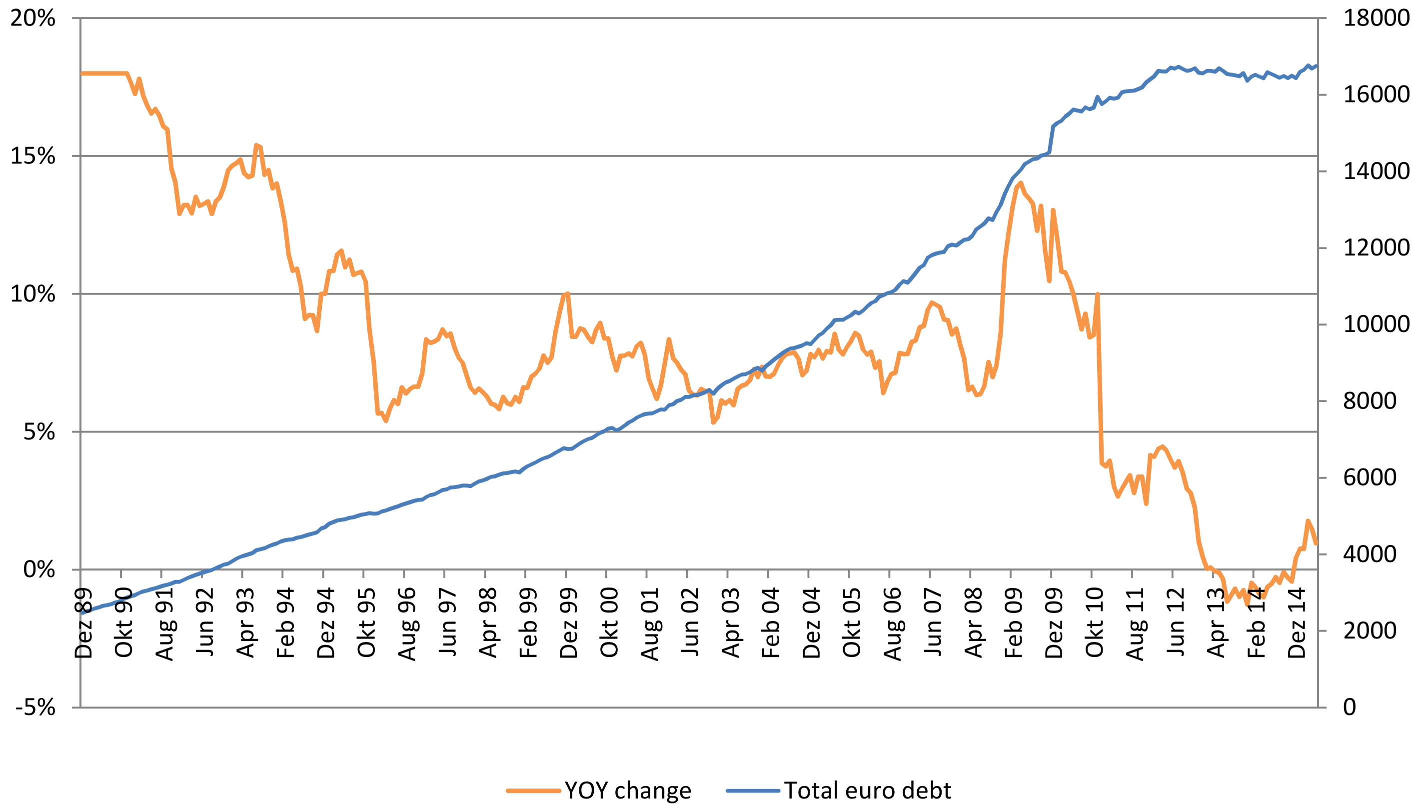


"The growth rate of real gross domestic product (GDP) is a key indicator of economic activity, but the official estimate is released with a delay. Our new GDPnow forecasting model provides a forecast of the official estimate prior to its release."

Source: Federal Reserve of Atlanta

European Economics

Debt creation “improves” further, but losing momentum
Positive debt creation = less growth concerns



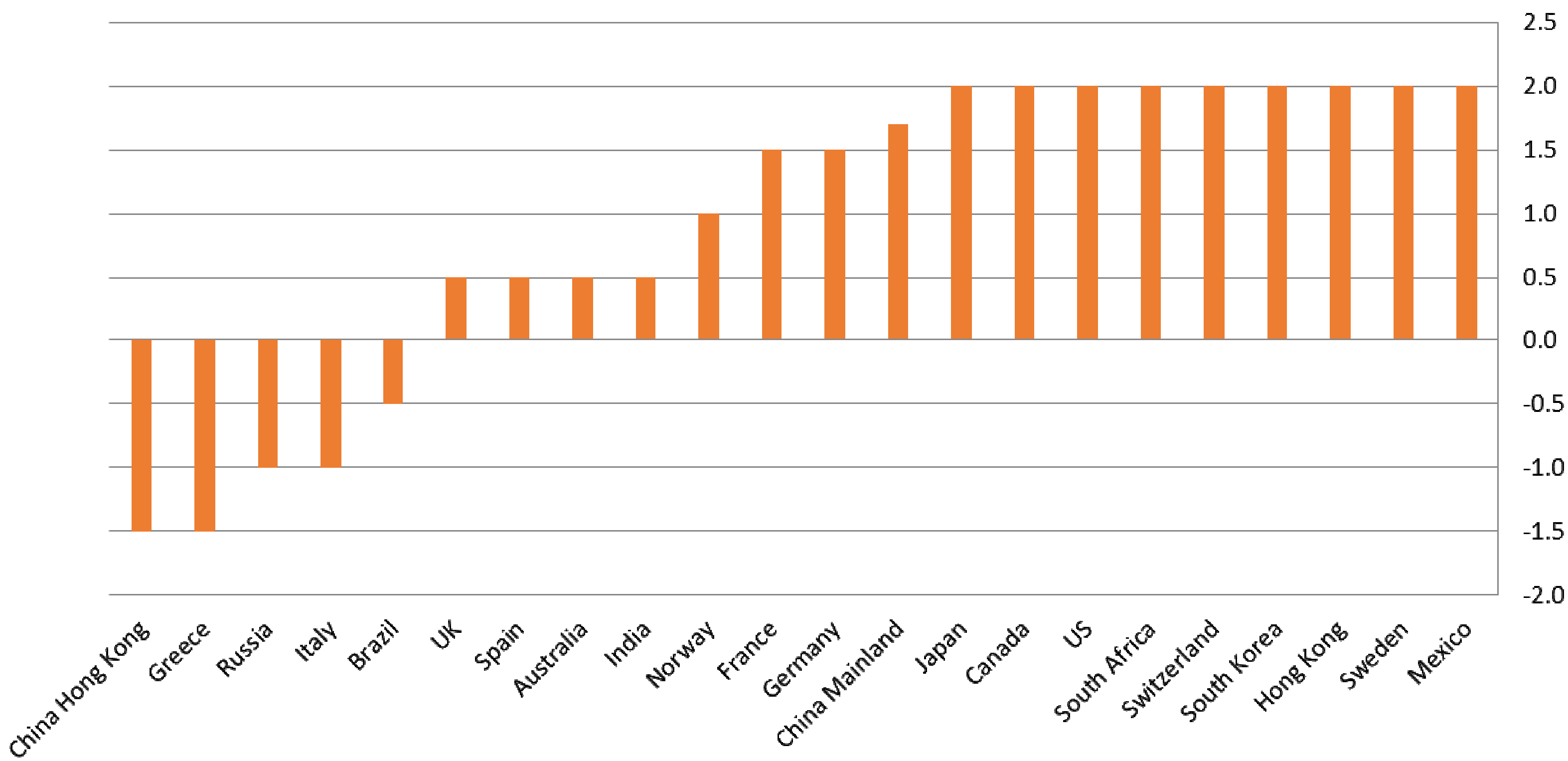
*see Appendix for our model

Source: Federal Reserve, BK&Associates

Valuation Monitor in local currencies

Market capitalization to GDP (-2 = very cheap, 2 = very expensive)

China (H-shares), Russia and Southern Europe cheap; North America, Switzerland and Germany expensive

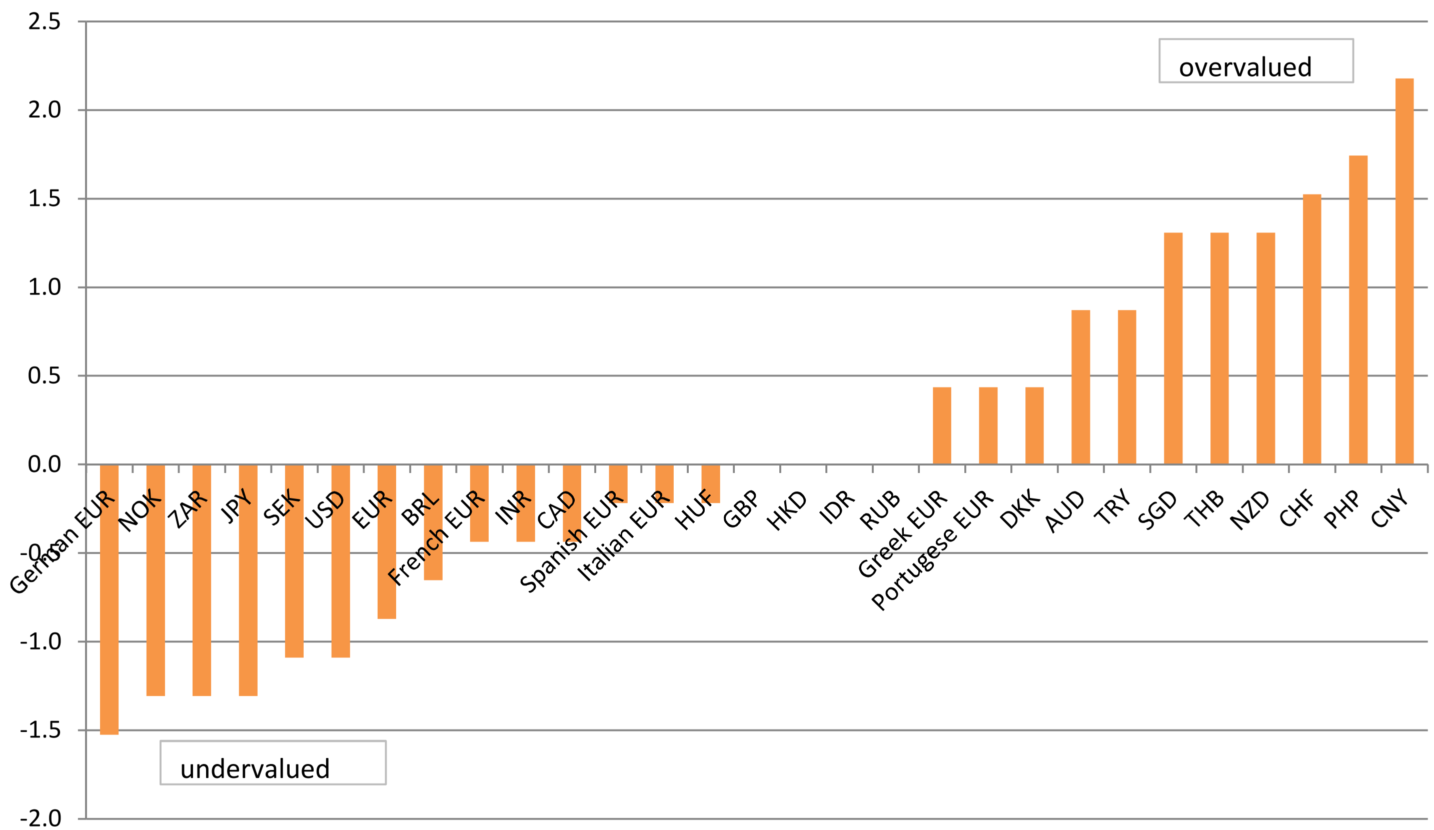


Source: National Inflation Association, Gurufocus, BK&Associates

Currency Monitor

Trade weighted real exchange rates (-2 = very cheap, 2 = very expensive*)

Japanese, Nordic and South African currencies cheap; Asian and Swiss currencies expensive



*see Appendix for an explanation

Source: BIS, OECD, BK&Associates

Equities: European markets

Stoxx600: last month at 373 we recommended to start adding new positions, which paid off nicely

We still wait for a break-out above 400 to buy more aggressively

Source: Swissquote

ONE STEP AHEAD THE MARKET

Equities: European markets

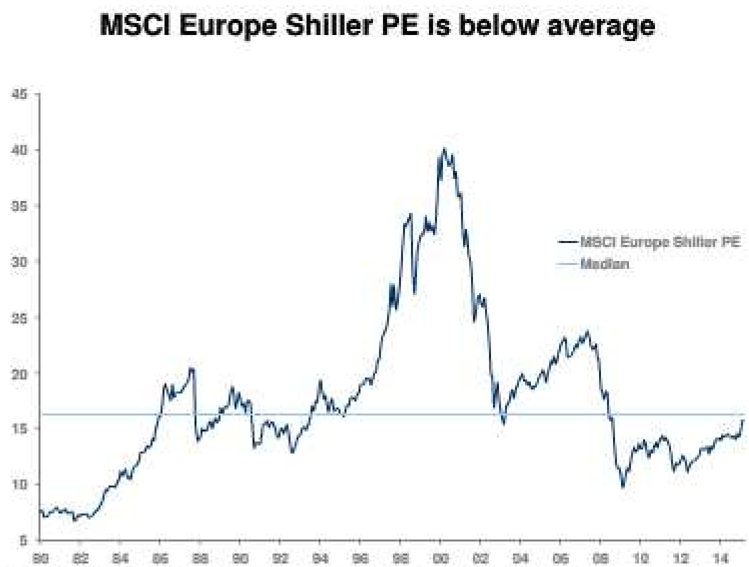
Eurostoxx50 (European large caps) has still a lot to catch up against S&P (US large caps, in black)
We opened the trade in February

Source: Swissquote

Equities: European markets

Valuation:

Large caps are fairly valued (left chart), small and mid caps expensive (right chart)



Sources: MSCI, IBES, Various National Sources, Morgan Stanley Research

Equities: Chinese stocks listed in Hong Kong (H-shares)

Following the crash in Chinese mainland shares, A-shares are not particularly expensive anymore
H-shares have declined as well, offering a buying opportunity with a price to earnings ratio of 8.5

*See our valuation monitor on page 6

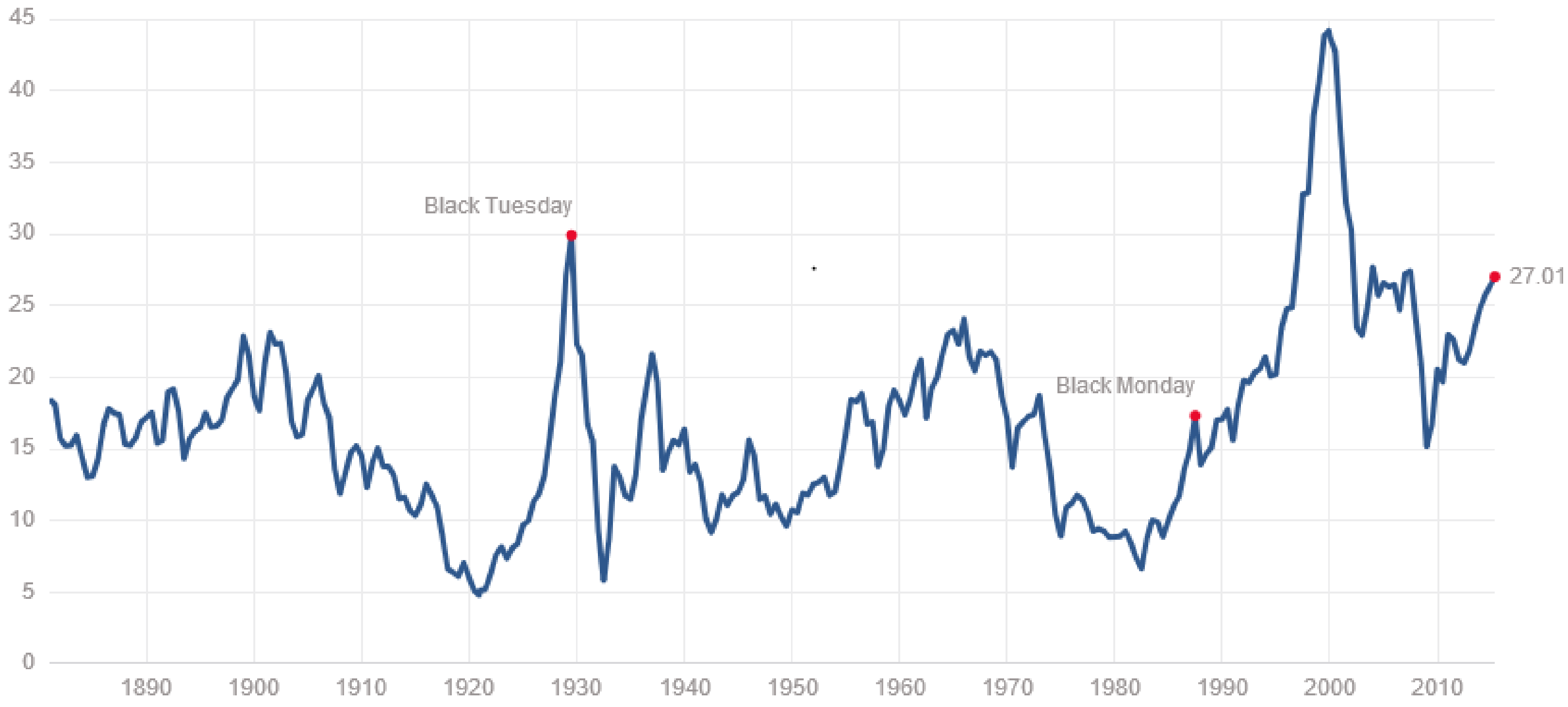
Source: Marketwatch, BK&Associates

Equities: US market

Valuation

Finally, we have also reached the valuation high of 2007/2008!

The market only reached more extreme levels in 1929 and 1999/2000.



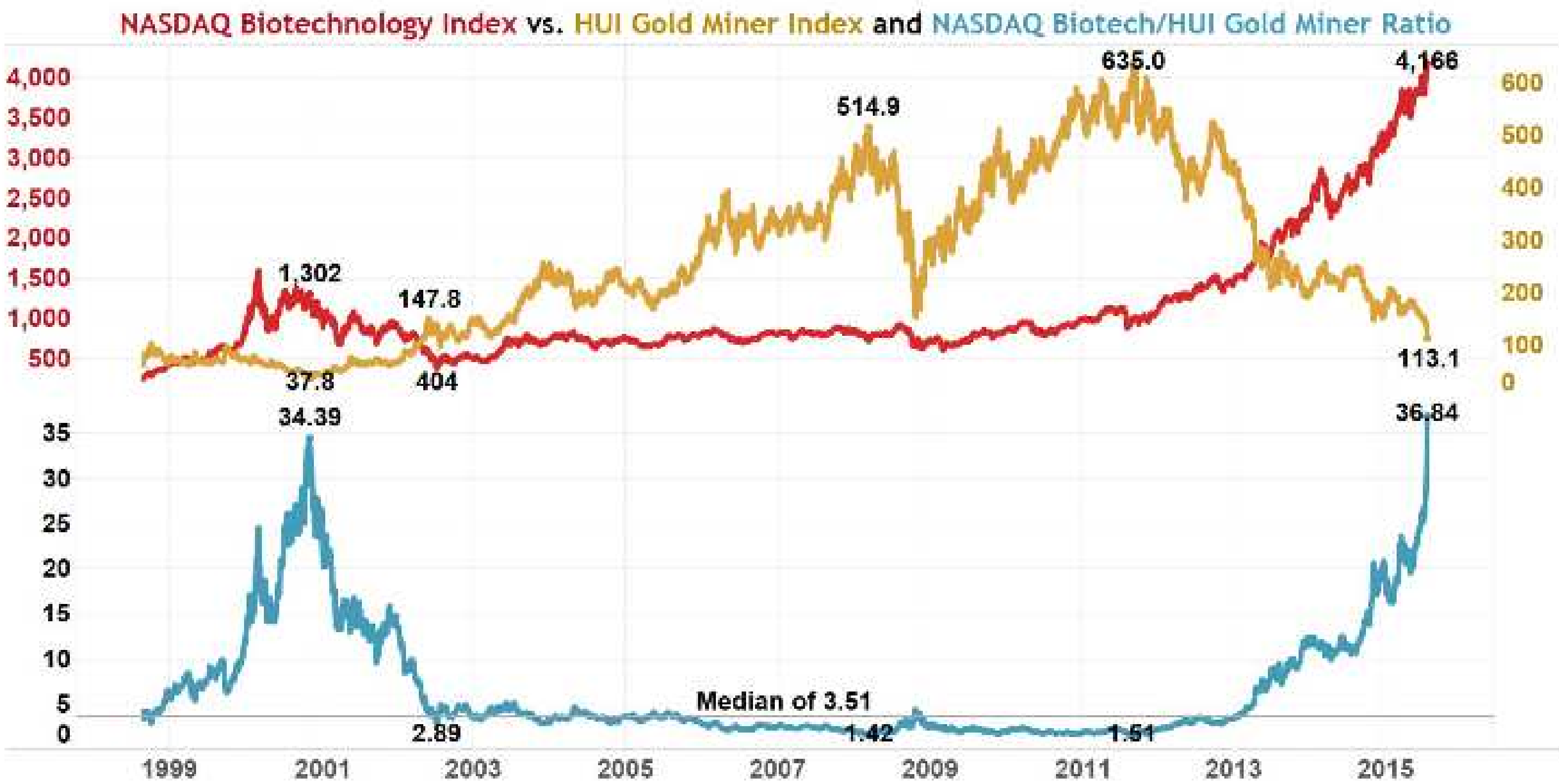
Source: www.multpl.com

Equities US: seasonality

The chart shows the average performance of the S&P over the last 37 years
September and October are the worst months of the year – on average

Commodities: Gold mining stocks

If you are bullish on Biotech and bearish on Gold mining, beware!
Last time we were at these extremes (2000), the bull market started for Gold mining and ended for Biotech



Source: NIA

Commodities: Gold mining stocks

Gold mining stocks have lost 80% from the top and are at the level of 1974, even without inflation adjustment
This bear market is the biggest and longest in the history of the Barron´s gold mining index

Source: Barron´s

Commodities: Gold mining stocks

- Gold mining stocks are at a more extreme than the Gold price itself

- Surviving Gold companies will have profits in the future and potentially pay dividends (compounding effect)

- Therefore, we prefer to buy the stocks at this stage

- The volatility in this sector is so high that we recommend to buy a diversified ETF

- If these companies lost 80% from the top, they can also lose 90% briefly, which would be a drop of another 50% from current levels; but it would be a life-time opportunity

- Hence, the strategy is to open the trade step-by-step

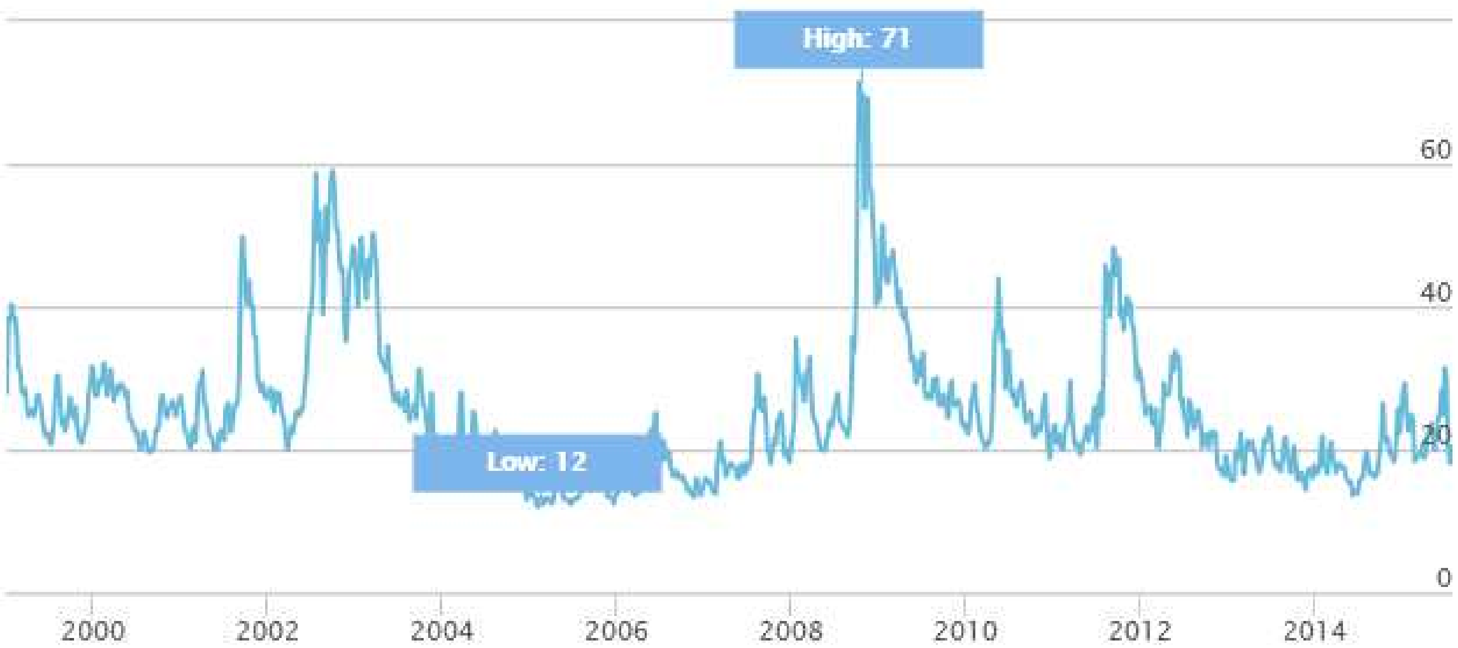
- We target an allocation of maximum 5% to the sector, depending on the level

- Timing:

  - We´ve bought 1%
  - If stocks lose 20% from current levels, we add 1%
  - If stocks lose 40-50% from current levels, we add 2-3%

Volatility

Since last month volatility has decreased from over 30 to 18



Low < 20, high > 30

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)

High yield corporate bonds: Europe

Yields increased a bit, but still far away from cheap

Support from Quantitative Easing and negligible yield on government and investment grade bonds

Source: BofA, FED St. Louis

Summary

Asset Allocation:

- September and October are the weakest months for stock markets, on average
- European Quantitative Easing supports European equity and bond markets
- Negligible yield on government and investment grade bonds
- Although expensive, there is little alternative to European high yield bonds and equities

European equities

- Long-term momentum is slightly bullish
- Stoxx600 hovering around key level of 400

US equities

- Expensive and momentum negative

Emerging market equities

- Brazil/Russia

  Currencies are cheap after latest devaluations

  Oil price in local currencies quite stable over last quarters

  Low valuation
- China Hong Kong shares (H-shares) among the cheapest worldwide and over-sold

- Gold mining stocks
- Lost 80% from the top and are at levels of 1974

Strategy implementation

- We keep a maximum allocation to Alternative Investments.

- European equities:
  Last month we increased the exposure slightly
  Should the Stoxx600 break-out above 400 we would buy more aggressively
  We keep playing the spread between European and US equities, which is market neutral

- Emerging Market equities:
  Currently we have limited exposure, mainly via Russian and China H-shares
  We plan to increase positions in Chinese H-shares and Brazilian stocks into falling markets

- Gold Mining stocks:
  We opened a small position and will increase it step-by-step into falling markets

- High Yield Bonds
  We prefer short duration
  Our European product has a finite maturity 2018 and a yield of 6.5%
  We intend to diversify in an Emerging Market product with finite maturity 2020 and yield of 7%

Appendix: Currency Monitor explanation

- An investment idea has to be split into 1) an analysis of the local market and 2) the currency

- It could be that the local market is cheap, but the currency expensive, in which case costs for currency hedging have to be taken into account if doing an investment

- That's why we now split our analysis in 1) a Valuation Monitor and 2) a Currency Monitor

- The results of the Currency Monitor are a combination of exchange rates, price differentials and GDP per capita

- GDP per capita has to be considered, because rich people do care less about price arbitrage
  For example: most Swiss prices are always higher compared to other countries
  Therefore, without GDP per capita adjustment, the Swiss franc would always look overvalued

- Nominal exchange rates have been abandoned within the European Currency Union
  Nonetheless, we can calculate real exchange rates, for example a German or Greek EUR
  This gives us an indication about the competitiveness of different ECU countries

- The values in the Currency Monitor are standard deviations around the mean

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