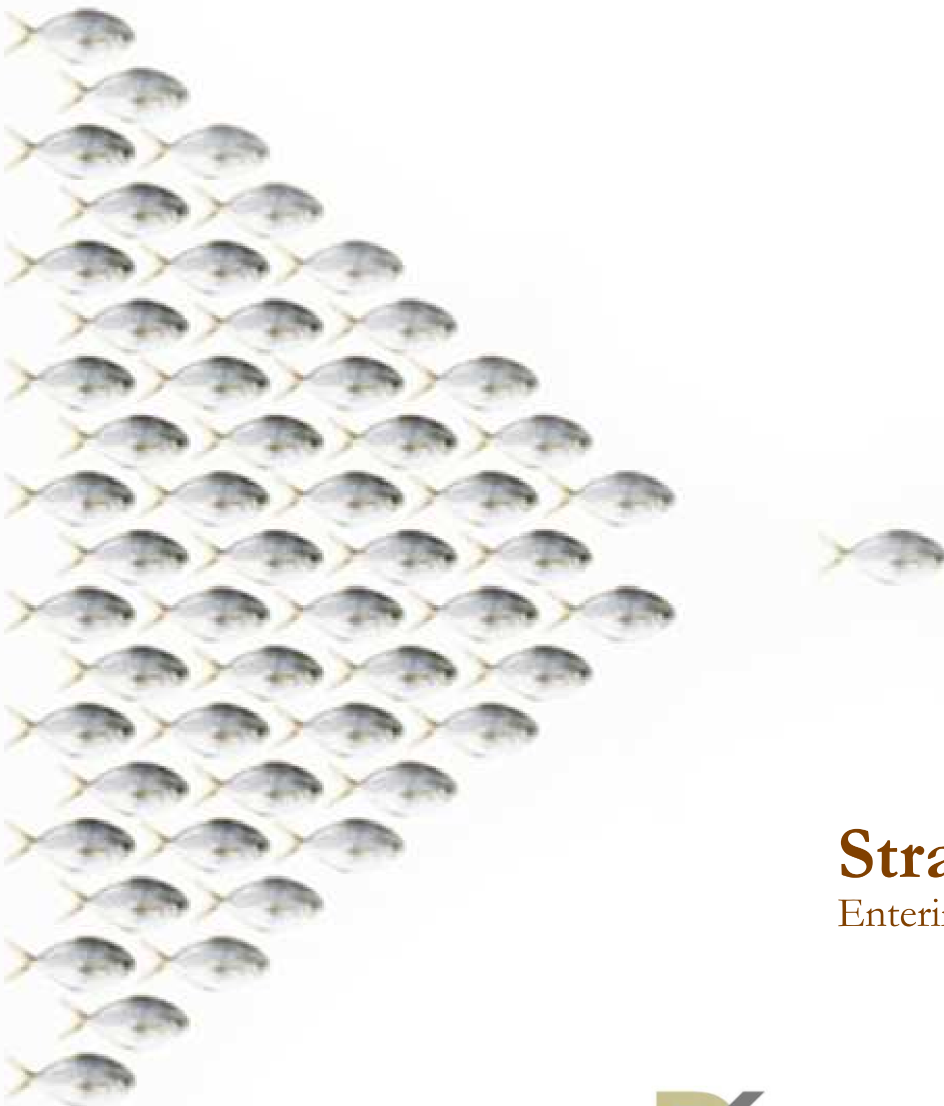


Strategy update

Entering favourable season for equities

BK & Associates
Private Wealth Management
Zurich, 5th November 2015

Contents

Asset Allocation Model (AAM)

Momentum: all regions still negative, this is long term momentum and doesn't exclude a short term year end rally
Valuation: Europe neutral, US expensive, Emerging Markets cheap
Long term model only recommends Emerging Market stocks exposure

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

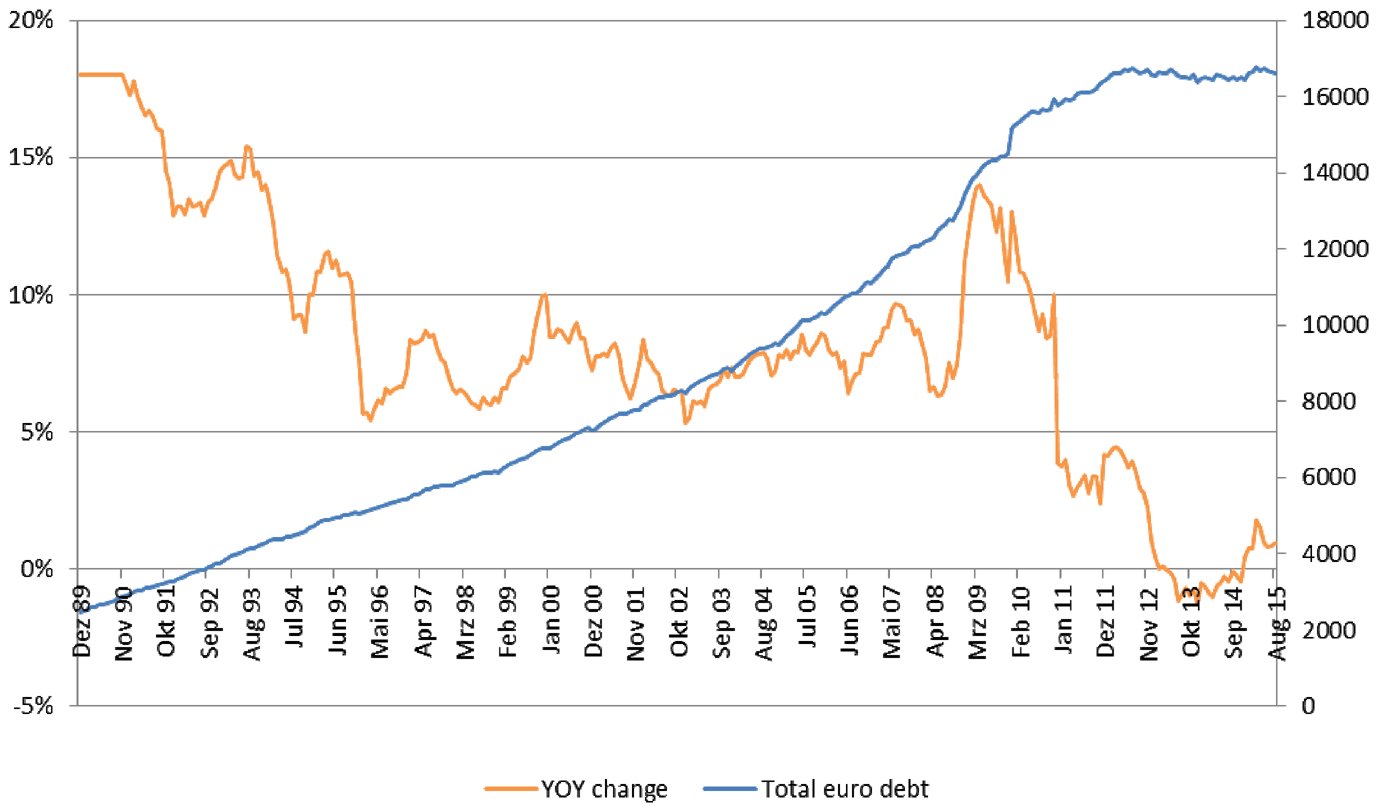
Stoxx S&P MSCI Emerging Markets

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

ONE STEP AHEAD THE MARKET

European Economics

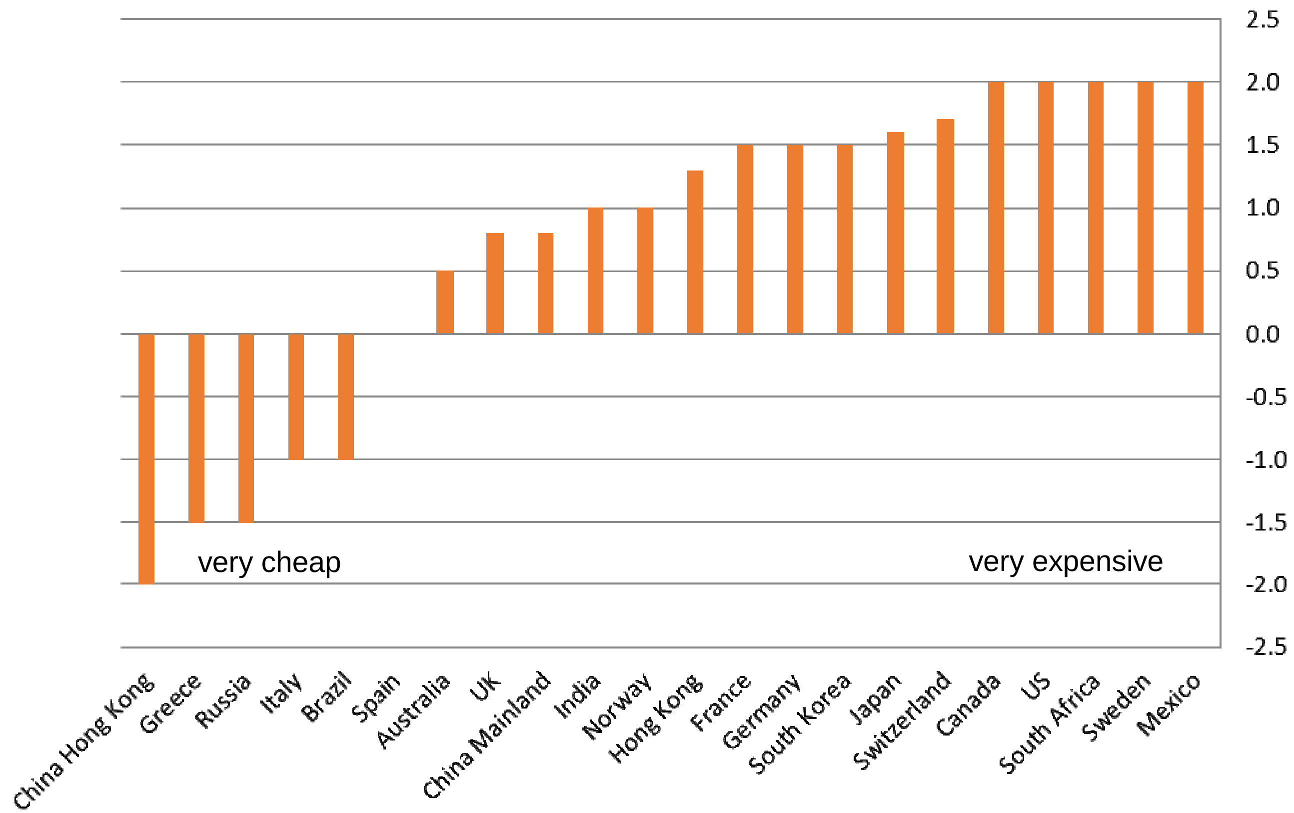
Debt creation stagnates and could lead to growth concerns
We expect more quantitative easing (money printing) in the next months



Source: ECB, BK&Associates

Valuation Monitor in local currencies

China (H-shares), Southern Europe and Russia very cheap, North America very expensive

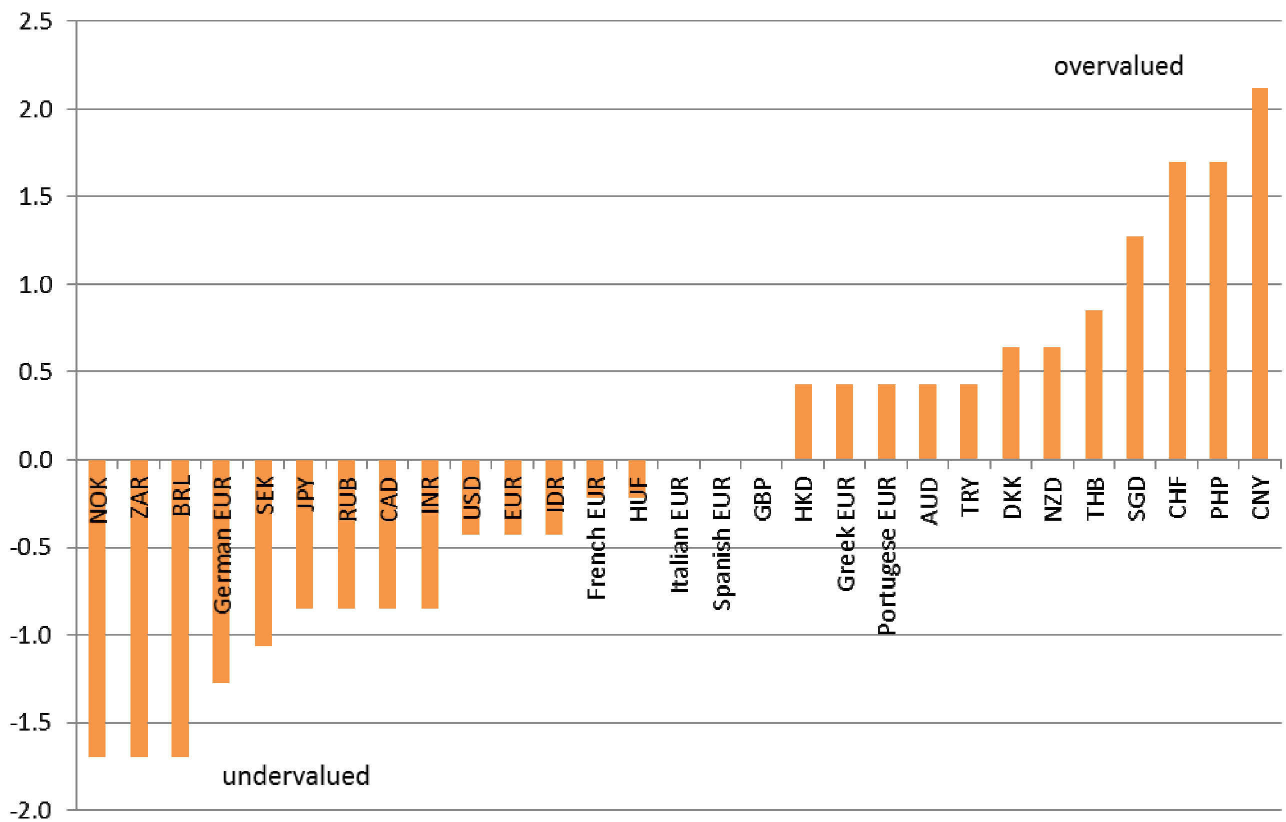


Source: National Inflation Association, Star Capital, BK&Associates

Currency Monitor

Trade weighted real exchange rates

Commodity related currencies cheap, Asian and Swiss currencies expensive

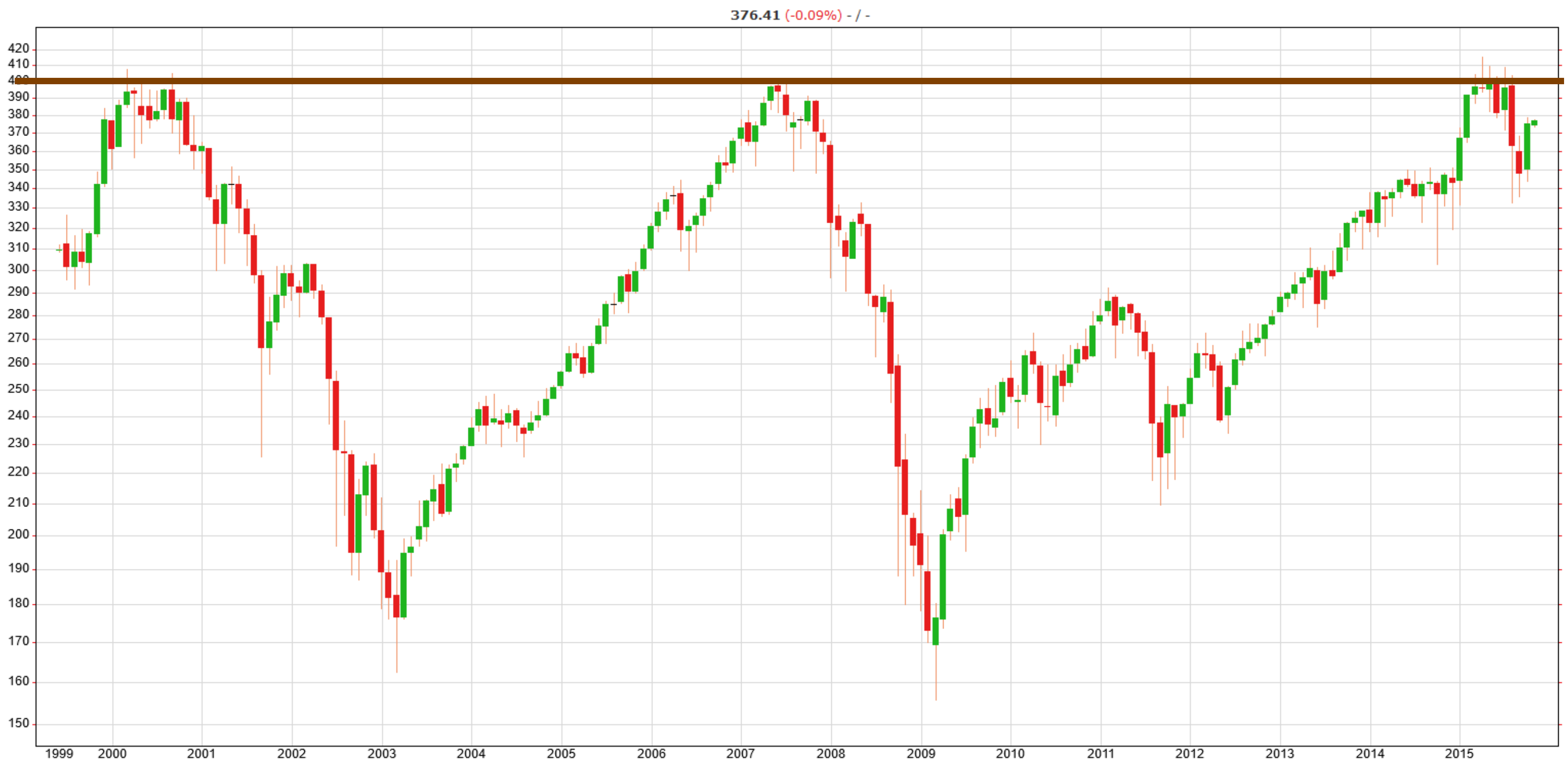


*see Appendix for an explanation

Source: BIS, OECD, BK&Associates

Equities: European markets

Stoxx600: for safety reasons we would only add European stocks if the key level of 400 is broken to the upside
Until then we prefer structured products with partial capital protection



Source: Swissquote

Equities: European markets

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

We believe that the relative trade will pay off nicely over time

Source: Swissquote

ONE STEP AHEAD THE MARKET

Equities: European markets

Valuation:

European equities are fairly valued at these levels

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

The chart shows the average price-to-earnings ratio for Chinese H-shares

Chinese stocks listed in Hong Kong are almost as cheap as in 2008 at the bottom

*See our valuation monitor on page 6

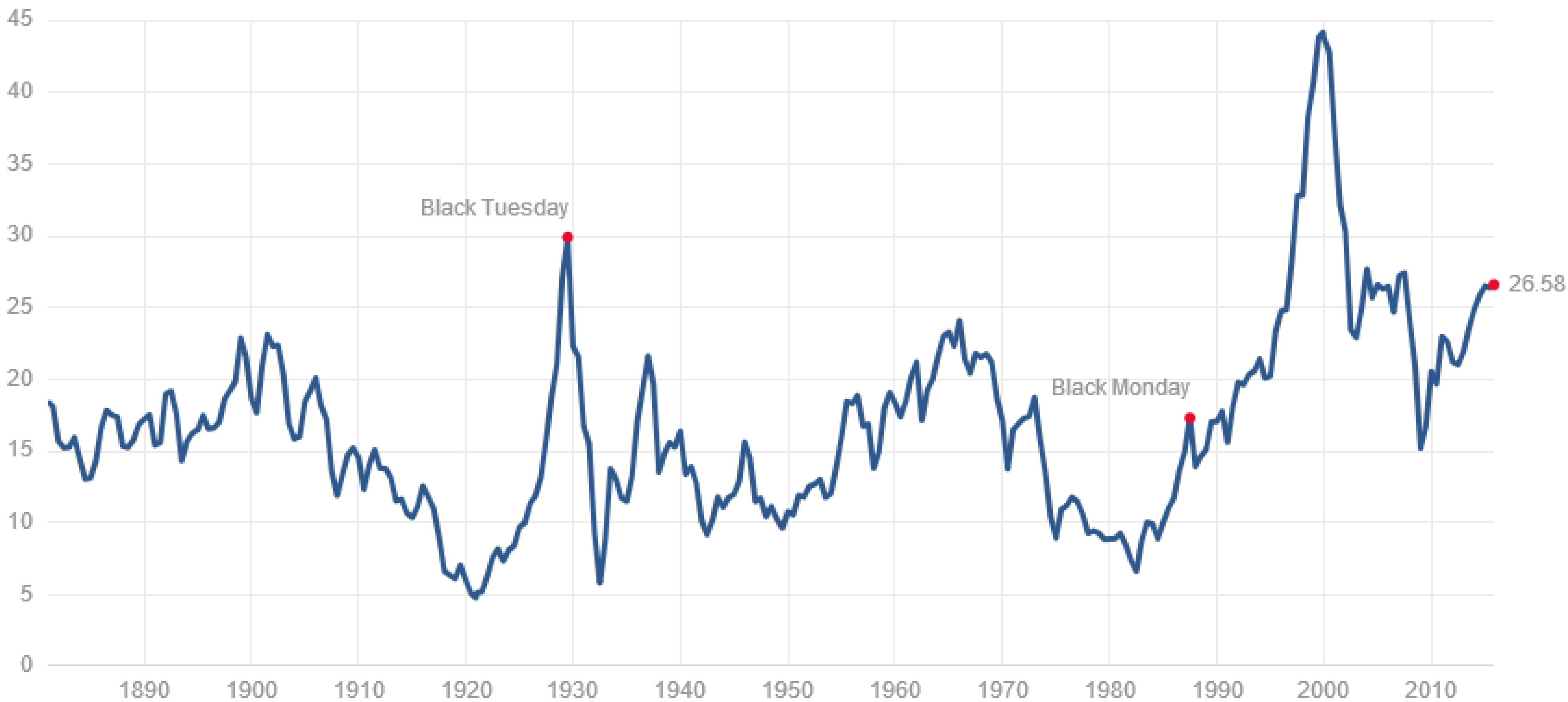
Equities: US market

Last month we set a corridor. The S&P has clearly broken out to the upside, which is positive for the time being
A break-out to new all-time highs could see an acceleration as in 1999-2000

Source: www.multpl.com

Equities: US market

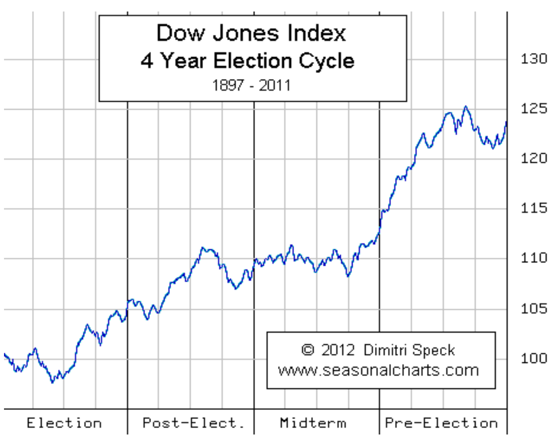
Valuations again as high as at the top of the year 2008

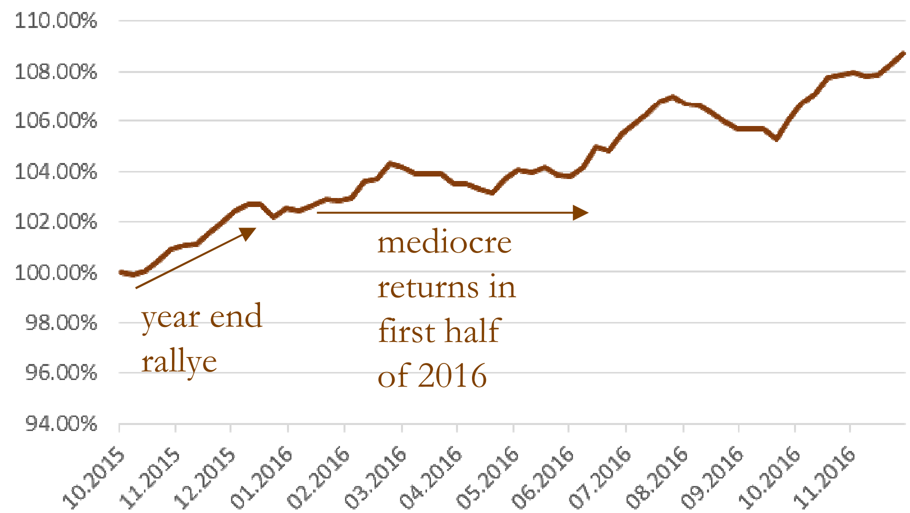


Source: www.multpl.com

Equities US: if history repeats

As an additional indicator, we overlay the two charts on the left side: seasonality and Presidential cycle
The result is a hypothetical performance of US equities for the next quarters





Commodities: Gold mining stocks (also see November One Pager)

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

Volatility

From now on, we will show the long-term volatility index, which is more important for our structured products
Long-term volatility has come down a bit, but still attractive to buy partial downside 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

High yield corporate bonds: Europe

Due to lower yields, the price of high yield bonds has increased last month
Support from Quantitative Easing and negligible yield on government and investment grade bonds

Source: BofA, FED St. Louis

Summary

<u>Asset Allocation:</u>
- Seasonality: we are entering the historically best months of the year (page 13)
- Negligible yield on government and investment grade bonds (page 16)

<u>European equities</u>
- Long-term momentum slightly negative (page 3)
- Stoxx600 key resistance is at 400 (page 7)

<u>US equities</u>
- Expensive and momentum negative (page 3 and 12)
- Key resistance area broken to the upside (page 11)

<u>Emerging market equities</u>
- China Hong Kong shares (H-shares), Brazil and Russia among the cheapest markets worldwide (page 10)
Russian and Brazilian currencies undervalued after latest devaluations (page 6)

- <u>Gold mining stocks</u>
- Lost 80% from the top and are at levels of 1974, the winners can buy the losers at discount prices (page 14)

Strategy implementation

- We are decreasing our positions in Alternative Investments, because we see better opportunities in liquid Emerging Markets products

- European equities:
  Long-term momentum is slightly negative, but seasonality points to a year end rally
  Therefore, used the excellent opportunity to create a structured product on Volkswagen and Porsche (13% guaranteed coupon with 40% conditional downside capital protection)
  Continue playing the spread between European and US equities, which is market neutral

- Emerging Market equities:
  Currently limited exposure, mainly via Russian and China H-shares
  Hence, waiting for opportunities to increase Chinese H-shares and Brazilian stocks

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

- High Yield Corporate bonds:
  Prefer short duration
  Our European product has a finite maturity 2018 and a yield of 6.2%
  To diversify we are buying an Emerging Market product with finite maturity 2020 and yield of 7.5%

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

▪ 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!

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