



Strategy update

Dollar triggering market pullback?



BK & Associates
Private Wealth Management
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Asset Allocation Model

Markets still on sell

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

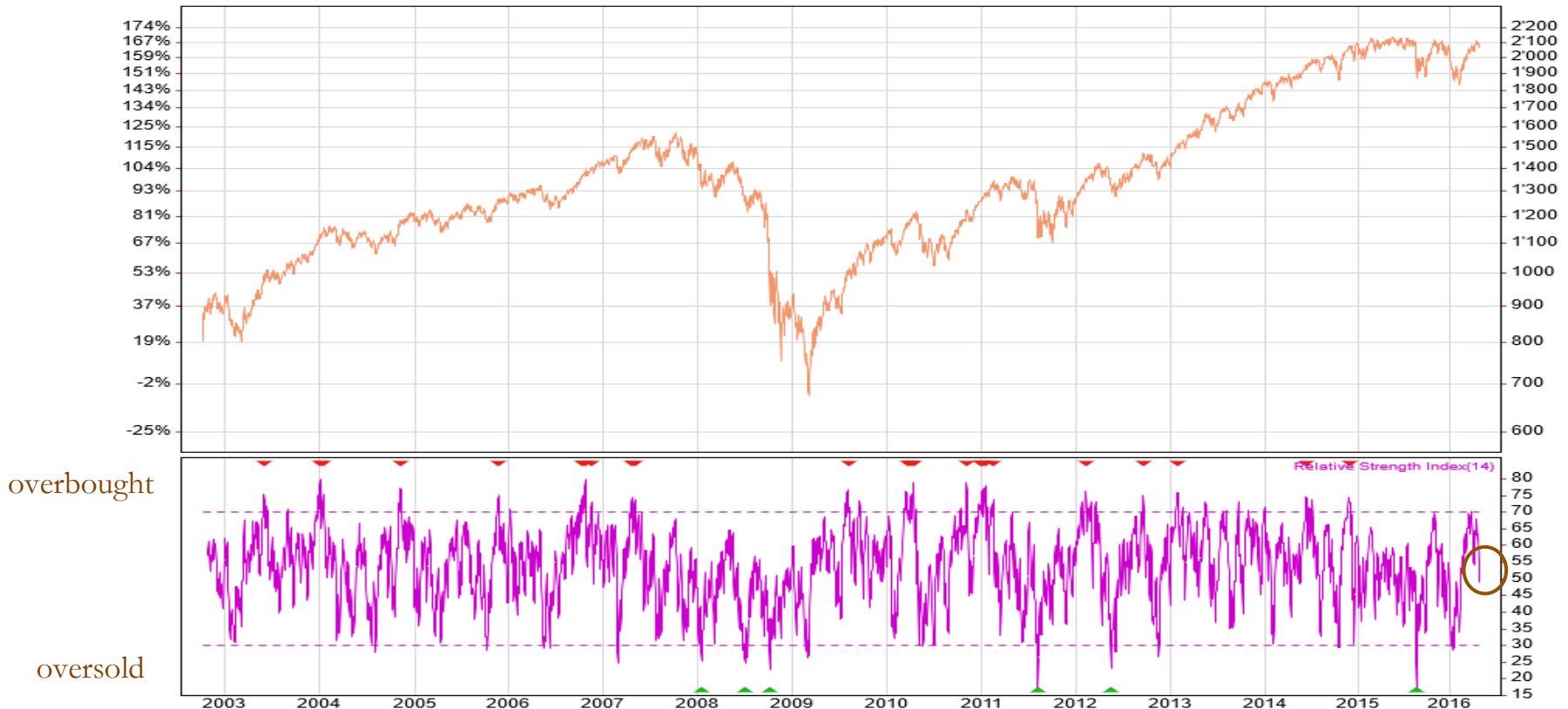
- E = Equity, High Yield Bonds
- B = Barrier
- P = Protection / Participation / Hedge funds
- C = Cash / Quality bonds



Bear market hypothesis alive

S&P 500 index touched the borderline to overbought territory, but turned there

RSI index is back to 50, which is a sign of internal weakness of the market





If history repeats...

Still thinking that the risk of a major market downturn is high



Data: 1897-2011, 28 Presidential cycles



Dollar triggering next pullback?

Dollar has depreciated significantly year-to-date which has helped commodities and emerging markets
Stronger USD would probably reverse this trend and drag down markets

US Dollar Index ▲ **93.25** +0.23 (+0.25%)



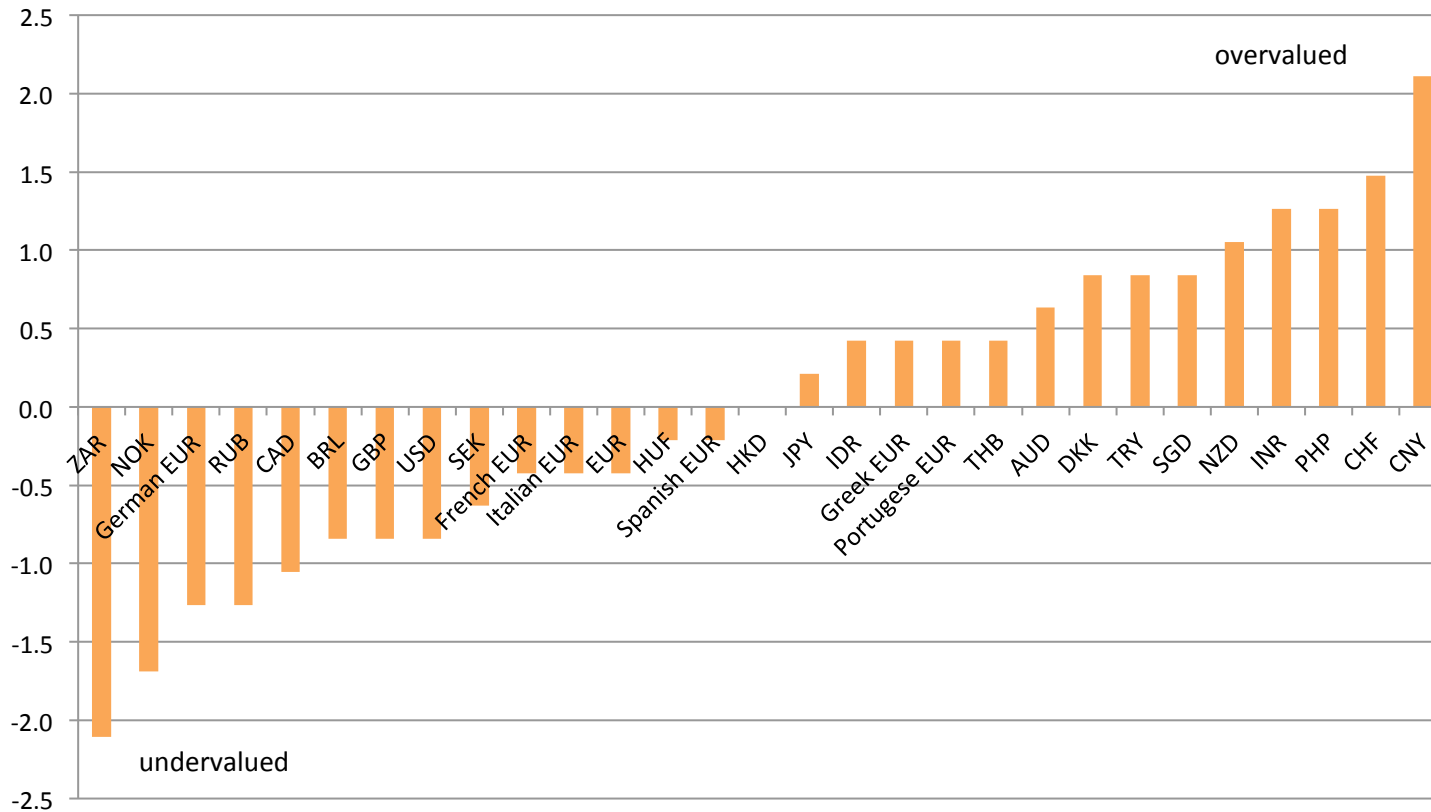


Currency Monitor

Trade weighted real exchange rates

USD now cheap, fair value against EUR around 1.10, Asian currencies expensive

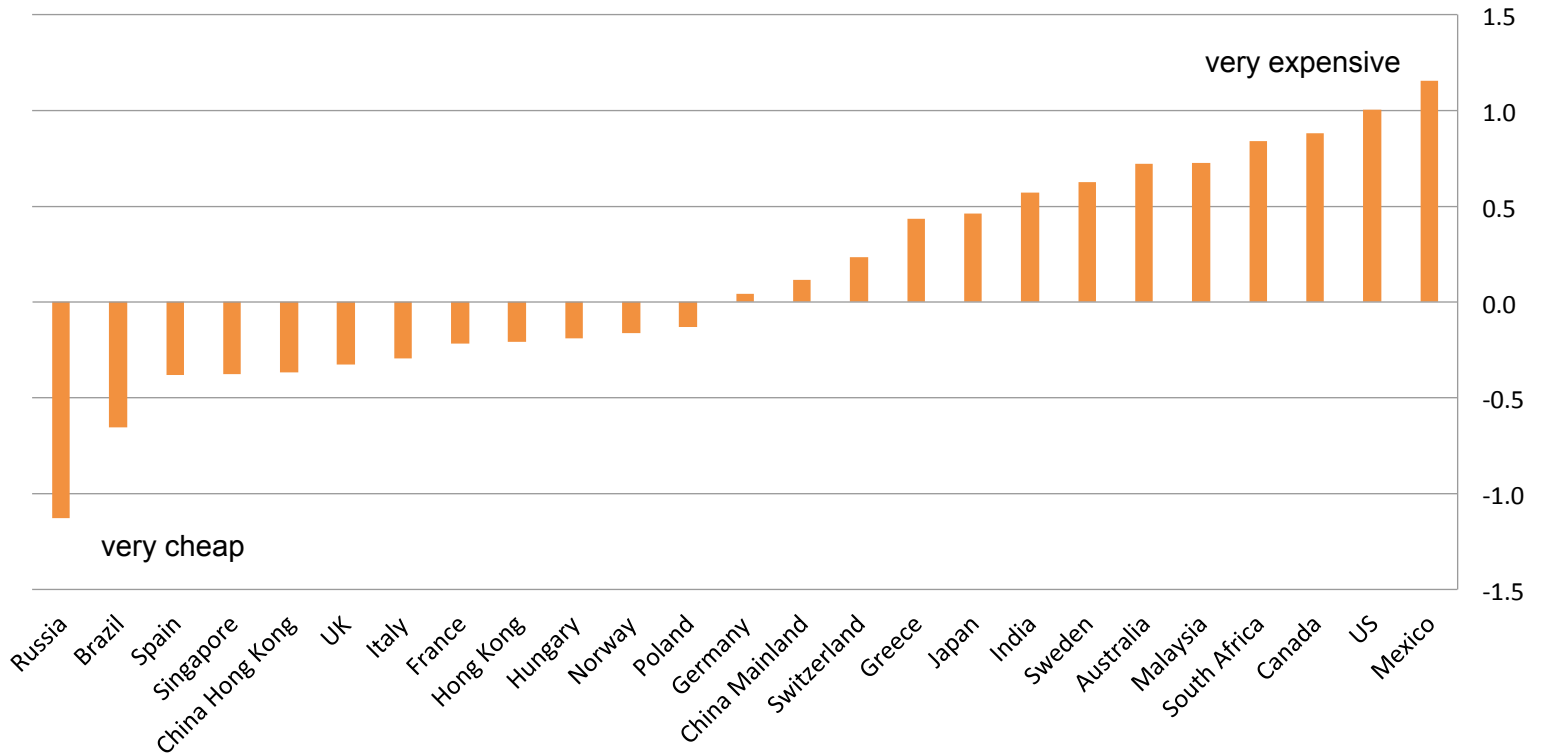
Danish crown has appreciated – if the trend continues the peg to the EUR could be endangered





Valuation Monitor for equity markets (in local currencies)

South- & Eastern Europe and Latin America cheap, North America and Southeast Asia mostly expensive





Summary

- Asset Allocation Model still on sell for equities (page 3)
- Bear market hypothesis still alive (page 4)
- Seasonality still negative (page 5)
- Will stronger dollar trigger next pullback? (page 6)



Strategy implementation

- **Little exposure** to equity markets, wait and see
- Reducing **Alternative Investments** further to increase flexibility and buying power
- Buying some stable **High Yield bonds** with low correlation to market:
 - Zagrebacki 2017 (Croatia, Utilities), yield to maturity of 5%
 - Brasil Foods 2022 (Consumer Staples), yield to maturity 4%
 - OTP, callable in November 2016 and yield-to-call of around 3%
- A bit more correlated to the markets are:
 - Bombardier, Pemex, Petrobras and Volkswagen
- Buy **Structured Products** into spiking volatility
- Buy **Emerging Market equities** into further plunging markets
- **Commodities:**
 - Waiting for a pullback to re-enter precious metals



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ONE STEP AHEAD THE MARKET

Thank You for Your Attention!

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