Put into perspective

Ahead of the mainstream

February 2015

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„The only thing that saves us from the bureaucracy is its inefficiency.“
– Eugene McCarthy
Funds of hedge funds gaining assets

Through Q3 2014, funds of hedge funds gained $41.88 billion in assets under management, for a total of $952.4 billion through Q3, according to eVestment’s latest FoHF report released this month. The report utilizes 2,504 unique FoHF strategies contained in the eVestment research database for its analysis, looking at performance, asset flows and portfolio characteristics. Some key points from the report include:

- Through Q3 2014, FoFHs accounted for approximately 31.5% of total hedge fund industry AUM, which was just north of $3 trillion at the end of 2014.
- Performance for the group was roughly in line with the hedge fund industry on a risk adjusted basis over the past 12 months: FoFHs underperformed single manager hedge funds on an absolute basis, 2.47% versus 3.04% YTD through October.
- Volatility for FoHFs has remained subdued at just over 5% annualized measured over the past 12 months.
- Risk adjusted returns, as measured by Sharpe ratios, were slightly lower for FoHFs compared to single manager hedge funds over both the short term and long term; the average FoHF had a Sharpe ratio of 0.87 over the last five years versus 0.90 for hedge funds.

Hedge funds poised to grow in 2015

Hedge funds are positioned for another year of solid growth as institutional investors seek to gain alternative exposures to traditional equity and fixed income markets, according to Marietta, Ga.-based eVestment’s 2015 Hedge Fund Outlook Report.

The report estimates asset flows into hedge funds of at least between $90 billion and $110 billion in 2015, which means hedge fund assets will stay well above the $3 trillion mark they crossed earlier this year ($3.069 trillion). The company predicted continued flows into equity-focused strategies, although those flows will likely be below the 8.6 percent growth rate ($78 billion) year-to-date (YTD) seen in 2014.

Long/short equity outlook improving on correlation and dispersion changes

The beginning of this decade was a challenging time for long/short hedge fund performance, with the overall universe having generated negative Jensen’s alpha (risk-adjusted excess returns)—see Figure 1. However, alpha has been rebounding starting with the second half of 2012—a trend we believe will continue. In our view, much of the underperformance in the earlier period and the subsequent rebound can be attributed to two major challenges experienced by the broader equity markets in this time frame.

Challenge 1: High Inter-Stock Correlations

The period between the global financial crisis of 2008 and the second half of 2012 was characterized by abnormally high correlations between stocks. Stock movements were driven more by macroeconomic developments and overall market sentiment and less by individual company fundamentals. Such an environment creates headwinds for funds that focus primarily on security selection, which is the case for most long/short hedge funds. Figure 1 shows the impact that inter-stock correlations have historically had on hedge fund alpha. It shows the rolling one-year Jensen’s alpha of the HFR Equity Hedge Index over both the Russell 3000 and the MSCI ACWI Indices and compares it to average rolling one-year stock pairwise correlations over time. (Data for the Credit Suisse Index looks quite similar.) The alpha has had an inverse relationship with the pairwise correlations, declining when correlations increased and increasing when correlations declined. As inter-stock correlations have started to trend down since mid-2012, hedge fund alpha has started trending back up.

FIGURE 1: INVERSE RELATIONSHIP BETWEEN INTER-STOCK CORRELATIONS AND LONG/SHORT HEDGE FUND ALPHA

<table>
<thead>
<tr>
<th>Year</th>
<th>1 Year Alpha to U.S. Equities</th>
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Challenge 2: Low Interest Rates

Higher interest rates increase a business’s cost of capital, leading to increased differentiation in the performance of companies with different capital structures. With higher rates come higher interest expenses, and a company with relatively thin operating margins and too much leverage may find its debt burdens providing significant headwinds in such an environment. On the other hand, a company with less debt and higher operating margins will likely fare better in such an environment. Historically, there has been a positive correlation between intermediate-term interest rates (a key component of corporate capital costs) and the amount of valuation dispersion (based on companies’ price-to-earnings multiples) in the market. There has also been a positive correlation between valuation dispersion in the market and hedge fund Jensen’s alpha (see Figure 2).

FIGURE 2: STOCK VALUATION DISPERSION VS. LONG/SHORT HEDGE FUND ALPHA

Once interest rates begin to rise and approach historical norms, we believe that valuation dispersion should also increase, leading to an environment in which fundamental stock pickers with more effective security selection can be better rewarded.

Another challenge of near-zero interest rates has been their impact on the short rebate, the interest a fund receives on cash proceeds from its short sales, less the various transaction costs and borrowing fees associated with the mechanics of shorting. Typically these proceeds are held in an interest-bearing money market account. In the current environment of near-zero interest rates, the short rebate does not amount to much (and may in fact be negative, as transaction costs may outweigh the interest), but in a more normalized (e.g., pre-crisis) interest rate environment, the short rebate has added as much as 150 – 200 basis points of performance for managers with substantial short exposure.

Importance of manager selection

In our view, manager skill is critical in a successful long/short investment program. Alpha can be either positive or negative, and the fewer constraints on investing, the larger is its potential magnitude (on the upside or downside). In fact, dispersion among individual manager returns is substantial in hedge funds.

As an example, Figure 3 shows the dispersion of 1-, 3-, 5-, and 10-year returns for a peer group universe of US equity-focused long/short managers versus the eVestment peer group universe of US equity-focused long-only managers. The variation is substantial, and meaningfully larger for the long/short peer group than is the case of long-only managers.

FIGURE 3: PERFORMANCE DISPERSION – U.S. LONG/SHORT VS. LONG-ONLY FUNDS

Return and risk profiles also differ by funds’ gross exposure levels and shorting strategies. Holding net exposure constant, a fund with larger gross exposure is running a more active portfolio than a fund with smaller gross exposure. Therefore, the former fund would have more capacity to generate alpha (positive or negative) and can also have higher drawdowns and/or volatility. Similarly, funds that engage in fundamental shorting of individual securities have the potential for extra alpha generation (again, positive or negative) relative to funds that engage only in overall market shorting that acts solely as a beta hedge to its long positions.

Hedge Fund Insight
Eurozone equity prices are up substantially but earnings and dividends have gone nowhere

First-time buyers help Christie’s reach record sales

Christie’s full-year sales, propelled by a surge in first-time art buyers and big ticket lots, hit record levels in 2014 despite an increasingly cut-throat auction house market and the abrupt exit of its chief executive last month. The London-based auctioneer announced on Tuesday that total sales rose 16 per cent last year to reach £5.1bn in the 12 months ended 31 December, up from £4.5bn in 2013. Auction sales hit £4.2bn, £1.7bn of which stemmed from Christie’s postwar and contemporary division, whose $852.9m November auction brought in the highest total for an art auction.

Although the rate of growth had eased slightly when compared with the previous year, Christie’s said it had seen strong headway made across every sector. Some 30 per cent of all sales were made by new buyers to the house, reinforcing the success of ongoing investments in its online infrastructure and new-markets expansion. The Americas remained the primary driver of growth, accounting for 38 per cent of sales and the largest proportion of new buyers. Christie’s — which is privately owned after being bought for $1.2bn in 1998 by Artemis, a holding group belonging to French luxury billionaire François Pinault — releases sales figures twice a year without disclosing its profits.

Fake liquidity prompts European probe into high-speed trading

The EU’s financial watchdog, the European Securities and Markets Authority, will look at whether automated trading adds fake, or ghost, liquidity to markets, said Steven Maijoor, the regulator’s chairman. „There has been a suggestion that the liquidity they are providing is not real liquidity because once you would like to go into the trade and accept an order the offer disappears,” Maijoor said in an interview in Hong Kong on Jan. 20. „We are looking now into the specific issue of what is called ghost liquidity.”

More QE will not help the world, says Mervyn King

In his first public speech in England since his term at the BoE ended in June 2013, Mr. King said he was concerned about a persistent weakness in global economic demand, six years on from the depths of the financial crisis.

„We should worry about that,” Mr. King told an audience at the London School of Economics, where he was once a professor.

„We have had the biggest monetary stimulus that the world must have ever seen, and we still have not solved the problem of weak demand. The idea that monetary stimulus after six years ... is the answer doesn’t seem (right) to me,” he added.

Unlike the US Federal Reserve and the Bank of England, the European Central Bank has until now resisted trying to boost the economy by buying government bonds with newly created money, known as quantitative easing (QE).

„There are quite serious disequilibria both between and within economies that, for good economic reasons, are depressing demand. Simply lowering rates even further or adding more monetary stimulus is unlikely to solve that problem,” he said.
Oil and the economy

Our Finite World

ECB’s Draghi says euro zone must „complete“ monetary union

Euro zone countries must „complete“ their monetary union by integrating economic policies further and working towards a capital markets union, European Central Bank President Mario Draghi said. In an article for Italian daily Il Sole 24 Ore on Wednesday, Draghi said structural reforms were needed to „ensure that each country is better off permanently belonging to the euro area“. He said the lack of reforms „raises the threat of an exit (from the euro) whose consequences would ultimately hit all members“, adding the ECB’s monetary policy, whose goal is price stability, could not react to shocks in individual countries. He said an economic union would make markets more confident about future growth prospects -- essential for reducing high debt levels -- and so less likely to react negatively to setbacks such as a temporary increase in budget deficits.

Reuters

Starved of financing, new businesses are in decline

Gallup

China’s 300 billion dollar errors may mask fund outflows

Growing error items in China’s balance of payments may reflect a pickup in hidden cash transfers from the nation and the central bank will likely favor a stable yuan to prevent outflows quickening, Goldman Sachs said. Net errors and omissions, an accounting fix used to plug the gap when official records of cross-border flows don’t balance, was negative by more than $300 billion since 2010. Goldman Sachs economists MK Tang and Maggie Wei wrote in a note today. That included a record $63 billion in the third quarter of 2014, a year in which yuan sentiment soured and President Xi Jinping’s anti-corruption drive widened. „Since such outflows may be harder to contain with regulations, a continuation of their recent acceleration could start posing tangible financial stability concerns,“ Tang and Wei wrote in the note.
President Xi’s campaign to rein in corruption has ensnared more than 480 officials spanning all of China’s provinces and largest cities. Cash outflows may tighten funding conditions at a time when the government is attempting to lower borrowing costs to boost an economy estimated to have grown at the slowest pace since 1990 last year.

... 

As falling confidence in the yuan will exacerbate any hidden outflows, the PBOC may aim to maintain a stable exchange rate, according to the Goldman Sachs economists. The US lender expects the monetary authority to weaken its daily fixing for the yuan only slightly to 6.16 a dollar in three months and to 6.20 in a year, compared with 6.1195 today. It is not in the PBOC’s interest to allow the yuan to decline because that could lead to capital outflows and increase financial risk, Australia & New Zealand Banking Group Ltd. economists Liu Li-Gang and Zhou Hao said in a note today. The currency is unlikely to drop sharply in 2015, they added.

Bloomberg

Euro area government bonds trading at negative interest rates

![Euro area government bonds trading at negative interest rates](Image)

J.P. Morgan

It’s amateur hour in the booming Chinese stock market

The Chinese equivalent of penny stocks, assets that have long held an allure for amateurs, are trouncing the benchmark index. Shares in China’s CSI 300 Index that were quoted below 5 yuan (81 cents) at the end of September have since jumped an average 63 percent. That compares with a 35 percent gain for all index stocks and 11 percent for those priced above 50 yuan. That outsized rally reflects the growing market impact of inexperienced investors in a country where new stock accounts are opening at the fastest pace since 2007 and individuals comprise about 80 percent of equity trading.

While professional investors measure a stock’s worth relative to the company’s assets or earnings prospects, it’s the price appearing on computer screens that matters most to people like 35-year-old housewife He Mei. As she sees it, the math is simple -- low price equals low risk and lots of value. „Expensive stocks are risky,” she said by phone from the southwestern city of Chengdu, the capital of Sichuan province. „Any drops will result in huge losses.” He says she recorded a return of about 60 percent in her 300,000 yuan account since China cut interest rates in late November, versus 37 percent for the CSI 300. She bought her most profitable stocks at prices below 20 yuan and says she won’t touch shares above 50 yuan.

... 

„Sophisticated investors will generally buy companies, not stocks,” Vincent Chan, the Hong Kong-based head of China research at Credit Suisse Group AG, said in an interview. „But for A-share investors, stocks are just stocks so they buy them when they’re still going up.”

„I’m not sure how long this rally will last,” Zhu Lixu, an analyst at Xiangcai Securities Co., said by phone from Shanghai. Some Chinese investors „tend to ignore important fundamentals,” Zhu said. The market impact of individuals who ignore corporate fundamentals is driving away some of the region’s institutional investors, who are concerned speculative price moves will hurt performance, said David Gaud, a Hong Kong-based money manager at Edmond de Rothschild Group, which oversees about $158 billion. „The market would need more institutional and less leveraging on the retail side,” Gaud said. „This is not liquidity which is of good quality at the end of the day.”

China’s state media, which four months ago helped revive public interest in shares with a series of stories advocating equity investment, are now encouraging citizens to analyze company performance and pay more attention to risks. „Investors should not focus solely on the change of stock price, but have to understand the market environment, the companies’ leadership, profitability and growth potential,“ the People’s Daily, which is published by the propaganda department of the ruling Communist Party, said in an editorial this month.

Yuan Shuai, a security guard for Beijing’s subway system, illustrates the challenge for authorities as they try to influence investor psychology. The 26-year-old, who visited a GF Securities Co. outlet in the Chinese capital’s Xicheng district to open a trading account on Dec. 31, said he only buys shares trading below 10 yuan. „I feel cheap stocks are less risky -- big drops won’t result in huge losses for me,” Yuan said. „I don’t know too much about investing, but the stocks my friends recommended have been soaring in the past few weeks.“

Bloomberg
Gundlach: Here’s the bear case for stocks

Since 1871, US Equities Have Never Risen 7 Consecutive Years in a Row...
June 30, 1874 through December 31, 2014

Business Insider

Investor implications of QE by the ECB

It should be clear, though, that the negative deposit rate at the ECB makes comparing today’s balance sheet to that of 2012 akin to comparing apples to oranges.

Let’s keep in mind that anyone selling bonds to the ECB must do something with the cash. QE programs in other countries allowed banks to earn some interest on their excess cash. At the ECB, sellers will have to pay the ECB to order to hold excess cash. As a result, sellers will think twice before selling. Having said that, at the right price, there will be sellers. However, we are now moving from apples and oranges to bananas – pardon the pun: any amount of buying by the ECB will be more potent with negative interest rates on cash deposits at the ECB, casting serious doubts over whether it is appropriate to state that the 2012 size of the balance sheet is the appropriate size.

Merk Investments

Oil-linked ETN wins assets on bets that crude will bounce back

An exchange-traded note that lets buyers wager on a rebound in oil is attracting assets at the fastest pace in almost six years.

„The kind of flows that we’re seeing can only be explained by ‘catch the falling knife’ behavior, where people are trying to call the bottom,“ said Dave Nadig, chief investment officer of ETF.com in San Francisco.

... ETN investors aren’t limiting their bets to an oil-price rebound. Both the VelocityShares Daily 3x Long Crude ETN, which gains if prices rise, and the VelocityShares Daily 3x Inverse Crude ETN, which does well if oil falls, had their biggest weekly inflows ever over the past two weeks, Bloomberg data show. Even in those ETNs, which were issued by Credit Suisse Group AG in 2012 and are often used as short-term investments, the prevailing bet has been on a rebound.

„There has been significantly more flows into the up oil product than the down oil product,“ said Nick Cherney, chief investment officer at VelocityShares LLC. The long product had $119.2 million of inflows in the two weeks through Jan. 16, while the short product had $56.5 million, Bloomberg data show.

The Washington Post with Bloomberg

Under pressure: Japan’s central bankers mull diminishing returns from bond buying

Some in the Bank of Japan are growing anxious about continuing its massive purchases of government bonds, confronted with the program’s negative side effects. Pressure from the financial industry is strengthening by the day, according to high-ranking officials at the central bank. The BOJ’s buying of huge amounts of Japanese government bonds has pushed long-term interest rates to unprecedented lows. This has made it impossible for insurance companies to generate sufficient returns on JGB investments to pay benefits to policyholders. Nippon Life Insurance will thus raise premiums on lump-sum whole life policies in February. And Fukoku Mutual Life Insurance is considering halting sales of lump-sum endowment insurance and other products. The longer ultralow interest rates continue, the more likely other insurers are to take similar steps. Household finances would suffer.

Money reserve funds, used for parking individual stock investors’ unused funds, are another financial product hit by ultralow interest rates. MRFs put money into short-term government bonds and other safe investments. Generating positive returns on the bonds is becoming
nearly a lost cause because negative yields have become the norm for not only short-term government debt, but also two-year JGBs. With five-year JGBs at zero for the first time Tuesday, „it could become impossible to offer a positive interest rate any moment now,“ an MRF manager says.

The BOJ has discussed these costs at its policy board. When the board took up additional easing measures in a late-October meeting, some members raised the specter of hurting earnings at financial institutions and giving the impression that the bond-purchasing program is actually a scheme to enable deficit spending. The board decided to step up the program anyway, judging the benefits to outweigh the costs. But the benefits have started to fade. With loan margins already crushed by ultralow interest rates, banks have little room to cut lending rates even if JGB yields sink further. And yields on corporate bonds „have started decoupling from the continued march toward further lows by government bond yields,“ a brokerage analyst says. Even within the central bank, more are now coming to believe that the additional benefits of further easing the interest rate channel are clearly diminishing. „Since nominal interest rates are already at historically low levels, the marginal impact of more easing aimed at putting upward pressure on consumer prices is not strong,“ policy board member Takehiro Sato said in a speech last month, explaining why he opposed additional easing in October.

„We have caused tremendous trouble for the financial industry,“ a BOJ official says. „I hope we will be able to scale back monetary easing soon by achieving the price stability target as projected."

Nikkei Asian Review

**US rig count craters to lowest since August 2010**

Zero Hedge

Q. and A. with Charles Plosser of the Fed: Raise rates sooner rather than later

„It may work out just fine, but there’s a risk to that strategy, and the risk is that we wait until the point where markets force us to raise rates and then we have to react quickly and aggressively. I believe that if we wait too long, then we run the risk of falling very far behind the curve or disrupting the economy by rapid rate increases.

... The history is that monetary policy is not ultimately a very effective tool at solving real economic structural problems. It can try for a while but the problem then is that it’s only temporarily effective.

One of the things I’ve tried to argue is look, if we believe that monetary policy is doing what we say it’s doing and depressing real interest rates and goosing the economy and we’re in some sense distorting what might be the normal market outcomes at some point, we’re going to have to stop doing it. At some point the pressure is going to be too great. The market forces are going to overwhelm us. We’re not going to be able to hold the line anymore. And then you get that rapid snapback in premiums as the market realizes that central banks can’t do this forever. And that’s going to cause volatility and disruption.

...I think the jury is still out on the costs. Because the cost I was worried about was the longer-term cost of unraveling all of this. So maybe I was right, maybe I was wrong. That remains to be seen.

I do worry about the longer-term implications for the institution. Part of my criticism has been that we have pushed the boundaries into fiscal rather than monetary policy. That has brought us praise and opprobrium. Perhaps justifiably on both counts. I do wonder as I look down the road five or 10 years, how will that shape the institution? What happens to our independence? What happens to our ability to do things effectively? Given all that we’ve done — maybe it was all for the best, but even if it was — are there going to be longer-term ramifications that we may end up regretting later?“

The New York Times
Video of the month

This year’s hottest – and coldest – hedge funds

The Wall Street Journal’s Rob Copeland reviews this year’s hedge fund winners and losers.

[Video Link]

CNBC

Joke of the month

„Politicians and diapers have one thing in common. They should both be changed regularly, and for the same reason.“ – Anonymous.

Cartoon of the month
Odey: Equity markets will be „devastated“ as global economy slumps

Hedge fund manager Crispin Odey has warned major economies are entering a recession that will be „remembered in a hundred years“. In a letter to the clients of Odey Asset Management, sent earlier this month, the investor said he expects a recession to hit markets as a number of countries across the globe struggle with the current economic conditions.

„I think equity markets will get devastated,“ the hedge fund manager said. „Equities are priced for perfection, pushed up by...investors looking for higher yields and better covenants than high yield bonds.“ He noted the „bearish opportunity“ to short stocks looks as great as it was in 2007-2009.

The manager has also warned against allocating to commodity-sensitive sectors, as well as international consumer companies or fund management groups, both of which are overexposed to emerging markets. „Volatility is rising. Not every trade will work,“ he continued. „Equity markets will struggle to understand the quarterly translation and transaction effects of currency moves on corporate profits.“

Apart from falling oil prices, currency moves and plummeting bond yields, Odey also predicts the markets will be moved by politics this year. „This time around the problem we have as well is that politics will start to rear its head and we are left to deal with politicians who are increasingly critical of the capitalist system’s ability to allocate capital,“ he said.

The manager is also concerned that investors are still seeing each major market move as an isolated event, whether it is the dramatic fall in the oil prices or the rally in the Swiss franc following the actions of the Swiss National Bank. „My point is that we used all out monetary firepower to avoid the first downturn in 2007, so we are really at a dangerous point. „If economic activity far from picks up, but falters, then there will be a painful round of debt default.“ The recent pickup in market volatility is the first sign this downturn is happening, added Odey. „We are in the first stage of this downturn. It is too early to see what will happen - a change of this magnitude means the darkness and mist is very great,“ he concluded. „This down cycle is likely to be remembered in a hundred years.“

Lessons yet to be learned:

1. Increasing money and credit by the Fed is not the same as increasing wealth. It in fact does the opposite.
2. More government spending is not equivalent to increasing wealth.
3. Liquidation of debt and correction in wages, salaries, and consumer prices is not the monster that many fear.
4. Corrections, allowed to run their course, are beneficial and should not be prolonged by bailouts with massive monetary inflation.
5. The people spending their own money is far superior to the government spending it for them.
6. Propping up stock and bond prices, the current Fed goal, is not a road to economic recovery.
7. Though bailouts help the insiders and the elite 1%, they hinder the economic recovery.
8. Production and savings should be the source of capital needed for economic growth.
9. Monetary expansion can never substitute for savings but guarantees mal-investment.
10. Market rates of interest are required to provide for the economic calculation necessary for growth and reversing an economic downturn.
11. Wars provide no solution to a recession/depression. Wars only make a country poorer while war profiteers benefit.
12. Bits of paper with ink on them or computer entries are not money – gold is.
13. Higher consumer prices per se have nothing to do with a healthy economy.
14. Lower consumer prices should be expected in a healthy economy as we experienced with computers, TVs, and cell phones.

Fear and dread of deflation – The Keynesian big lie at work

By Michael Pento

The fear of deflation has become the cornerstone of Keynesian economic thought. A lack of inflation has been used to explain periods of economic weakness from the Great Depression of the 1930’s, to the Great Recession 2008-2009. And now, that philosophy has been adopted as gospel by those that control the Federal Reserve and virtually every central bank on the planet. In reality deflation is cathartic, and a necessary condition to heal the economy. If deflation were allowed to naturally run its course, as it did in the brief Depression of 1920-21, depressions would be sharp but fairly short in duration. And the economy would find itself on firm footing fairly quickly.
However, Keynesians view deflation as the source of a destructive cycle in which; asset prices plunge, companies cut jobs, spending plummets, and a permanent recession sets in. Therefore, the prevailing current view maintains that deflation is something that needs immediate intervention of massive monetary stimulus–you can say they have become deflation phobic. This is why I find it fascinating that Keynesians, who proliferate in central banks and in the financial media, are relentlessly cheerleading the recent spate of deflationary data. And, just to be clear, deflation has not been limited to the New England Patriots’ footballs–it is everywhere you look.

However, it is the height of hypocrisy that Keynesians use the specter of deflation to frighten us into believing we need to endlessly dilute the value of our currencies and take the rate on our savings to zero percent. But then, at the same time, take every data point that points to falling prices as another reason to be bullish on markets and the economy. Their mantras are: Lower commodity prices–a boost to the consumer, plunging interest rates–an increase in mortgage refinancing, I actually heard a commentator suggest crumbling copper prices were a boon to minting pennies–he obviously didn’t realize pennies have been minted mostly with zinc since 1983. How can Keynesians celebrate deflation, while at the same time use it to scare us into accepting ZIRP forever? The easy answer would be, they are cheerleaders for the stock market…and I believe they are.

But a more compelling reason is these individuals have convinced themselves that a group of 12 academics can arrive at better conclusions than the free market. So enamored are they by the collective wisdom of our men and women who occupy the Federal Reserve, that they can’t bring themselves to imagine there may be some unforeseen negative consequences to their actions. And, because for a moment it appeared as though the Fed would have a graceful exit from QE, their blind faith in micromanagement of markets appeared to be warranted.

Keynesians are unable to acknowledge that printing and borrowing money has simply been a failure in bringing sustainable and vibrant growth back to economies. Unfortunately, we are just beginning to experience the pain associated from believing central banks can obliterate the free market pricing of stocks, bonds, commodities and currencies for seven years with impunity. Most importantly, there is an inherent danger in basing investment decision on the capriciousness of a handful of individuals, as opposed to economic fundamentals and markets. For example, Mario Draghi is doing his best imitation of the Fed and the Bank of Japan in promising to buy at least 1.1 trillion euros worth of public and private debt over the course of the next year and a half. However, much like in the US and Japan, Europeans will find that monetizing debt will do little in the way of engendering growth; but will be remarkably successful in destroying the purchasing power of the middle class.

The ECB’s bid to monetize massive amounts of Eurozone sovereign debt won’t rescue the economy or do much in the way of creating inflation. This is because sovereign bond yields are already close to zero percent, and even have negative yields in some cases. Once the ECB buys debt from private banks they will likely sit on most of that new central bank credit. Why would private banks buy new government bonds that offer no interest and have tremendous downside risks to the premiums? And why take the risk of making new loans to unqualified borrowers when the interest rate they can charge in nearly zero percent?

In fact, the private banks that already front ran the ECB’s bid could very well just unwind their positions to Mr. Draghi and then sit on that cash. And the hopes of „saving” the European economy from the disastrous fallout of deflation will go down in history as yet another failure of central banks to manipulate markets. Central bankers tend to be duplicitous and incompetent plutocrats. Investors would be far better off placing their faith in markets and real money instead of fiat currencies and empty promises. Of course, this misplaced faith will eventually lead to the biggest shock of all…the soon to arrive collapse of paper currencies and the insolvent sovereign debt backed by central banks.

David Stockman’s Contra Corner

Saudi Arabia’s tyrant king misremembered as man of peace

After nearly 20 years as de facto ruler of the Kingdom of Saudi Arabia, King Abdullah ibn-Abdulaziz al-Saud died last night at the age of 90. Abdullah, who took power after his predecessor King Fahd suffered a stroke in 1995, ruled as absolute monarch of a country which protected American interests but also sowed strife and extremism throughout the Middle East and the world.

In a statement last night Senator John McCain eulogized Abdullah as „a vocal advocate for peace, speaking out against violence in the Middle East”. John Kerry described the late monarch as „a brave partner in fighting violent extremism” and „a proponent of peace”. Not to be outdone, Vice President Joe Biden released a statement mourning Abdullah and announced that he would be personally leading a presidential delegation to offer condolences on his passing.

It’s not often that the unelected leader of a country which publicly flags dissidents and beheads people for sorcery wins such glowing praise from American officials. Even more perplexing, perhaps, have been the fawning obituaries in the mainstream press which have faithfully echoed this characterization of Abdullah as a benign and well-intentioned man of peace.

Above all, he was not a leader who shied away from both calling for and engineering more conflict in the Middle East.

In contrast to Senator McCain’s description of Abdullah as „a vocal advocate of peace”, a State Department diplomatic cable released by WikiLeaks revealed him in fact directly advocating for the United States to start more wars in the region.

The Intercept
Davos is a corporatist racket

Davos Man... derives most of his income, directly or indirectly, from state patronage. If he is in the private sector – and he is more likely to be a lobbyist, politician or bureaucrat than a businessman – he’ll be an instinctive monopolist, keen to persuade ministers and officials to raise barriers against his potential rivals.

... Davos is a place where powerful people pick up consultancies and directorships and international posts. Left-wingers rightly resent this. What they see, in Marxist terms, is a gang of rentiers coming together to devise new means to live off the sweat of the workers.

„The stability of the global economy” is a much prettier phrase than „a juicy public sector post for me”.

... It’s like an Ayn Rand novel, where lobbyists reach cosy arrangements with each other in elliptical language. Remember the way she described members of a company board? „Men whose careers depended on keeping their faces bland, their remarks inconclusive and their clothes immaculate”. That’s Davos.

CapX

Middle Eastern governments are on a shopping spree for former congressmen

Over the past year and a half, regimes throughout the Middle East, from Turkey to the United Arab Emirates, have gone on what appears to be a shopping spree for former members of Congress. Compared to the rest of the world, Middle East governments have accounted for more than fifty percent of the latest revolving door hires for former lawmakers during this time period, according to a review of disclosures by VICE.

VICE

Are we headed into fascism?

Banks in the USA now are required to report any wire of $3,000 or more and any cash withdraw as well. If you want to withdraw $5,000 in cash, you have to now fill out a form. Your money is no longer yours. Big Brother and his entire Family is now here to stay. Little by little, government needs money so desperately to keep funding their pensions at the expense of the people that they have now put in place a stranglehold on the global economy. This is setting the stage for the worst economic decline since the birth of Capitalism during the 14th century. It does not get any worse than this. They are destroying everything that has been built in a fraction of the time it took to create it. This is what happens when lawyers control the state. They know how to write laws, but not run a country.

Our crisis is simply Adam Smith’s Invisible Hand. Government also acts only in its self-interest and therein lies the problem. They are INCAPABLE of even contemplating that what they are doing is killing the world economy. Pure BRAIN-DEAD management.

Armstrong Economics
Shockling photos showing how bad pollution in China has become

Boredpanda

Propaganda & fear mongering works

Do the ignorant masses know their actual chances of being killed by a terrorist? To say the chances are astronomically miniscule is an understatement. See for yourself:

- You are 35,079 times more likely to die from heart disease than from a terrorist attack.
- You are 33,842 times more likely to die from cancer than from a terrorist attack.
- You are 23,528 times more likely to die from obesity than from a terrorist attack.
- You are 5,882 times more likely to die from medical error than terrorism.
- You are 4,706 times more likely to drink yourself to death than die from terrorism.
- You are 1,904 times more likely to die from a car accident than from a terrorist attack.
- You are 2,059 times more likely to kill yourself than die at the hand of a terrorist.
- You are 452 times more likely to die from risky sexual behavior than terrorism.
- You are 353 times more likely to fall to your death doing something idiotic than die in a terrorist attack.
- You are 271 times more likely to die from a workplace accident than terrorism.
- You are 110 times more likely to die from contaminated food than terrorism.
- You are more than 9 times more likely to be killed by a law enforcement officer than by a terrorist.

The Burning Platform
One chart that shows Americans’ backward views on evolution

![Chart showing belief in evolution versus national wealth.](chart-image)

Vox

Chinese banks offer goodies for cash

![Deal Sampler graphic showing bank bonuses and goodies.](deal-image)

Bloomberg

The Japanese government is trying to figure out how to get its people to have more sex

In Japan, the worry is about a libido crisis. The birthrate is falling fast. By 2060, the population is expected to go down by a third, and, by 2100, if trends continue, by 61 percent. In 2011, sales of adult diapers in Japan exceeded those of baby diapers. It’s an urgent national problem: there isn’t enough procreation.

To examine Japanese attitudes toward sex, the Japan Family Planning Association interviewed 3,000 subjects, both male and female, about their sex lives. The group found that 49.3 percent of participants (48.3 percent of men, 50.1 percent of women) had not had sex in the past month. 21.3 percent of married men said they were too tired after work (versus 17.8 percent of women). Of men, 15.7 percent answered that they were no longer interested, after having children. 23.8 percent of women said sex was “bothersome.”

There are a number of diagnoses for this aversion to the bedroom. Morinaga Takuro, an economic analyst and TV personality, believes this has something to do with attractiveness. He has suggested a “handsome tax”: “If we impose a handsome tax on men who look good to correct the injustice only slightly, then it will become easier for ugly men to find love, and the number of people getting married will increase.” Takuro writes a lament for the men in love with “2D female characters from anime and manga.” He expressed, in the Asahi Shimbun, “I want to tell them that human women are also great fun!” Technology, of course, gets blame: virtual worlds, not to mention porn.

But many, especially alarmed to see that more than 20 percent of men between 25-29 say they have little interest in sex, see the low interest in sex as part of economic depression. A Japanese columnist named Maki Fukasawa observes an increase in a group of men he’s dubbed “herbivores”: heterosexual guys who, in contrast to “carnivorous” businessmen, live without expression of sexuality. Angelika Koch, a Cambridge University scholar, author of Manga Girl Seeks Herbivore Boy, sees “a subversion of the traditional male role of the Japanese ‘salaryman’: the corporate male in suit and tie who dedicates his life to his company as breadwinner for his family, the sexually assertive man who spends his evenings drinking with colleagues at hostess clubs and bars.” Whatever the case, it’s an urgent government concern.

Bloomberg
Business Insider

Crime and punishment: Islamic State vs Saudi Arabia

Middle East Eye

Drug-laden drone crashes near US-Mexico border

Police in a Mexican border city said Wednesday that a drone overloaded with illicit methamphetamine crashed into a supermarket parking lot. Tijuana police spokesman Jorge Morrua said authorities were alerted after the drone fell Tuesday night near the San Ysidro crossing at Mexico’s border with California.

Six packets of the drug, weighing more than six pounds, were taped to the six-propeller remote-controlled aircraft, authorities said.

Morrua said authorities are investigating where the flight originated and who was controlling it. He said it was not the first time they had seen drones used for smuggling drugs across the border. Other innovative efforts have included catapults, ultralight aircraft and tunnels.
“America’s lifestyle expectations are far too high”

Billionaire Jeff Greene, who amassed a multibillion dollar fortune betting against subprime mortgage securities, says the US faces a jobs crisis that will cause social unrest and radical politics.

“America’s lifestyle expectations are far too high and need to be adjusted so we have less things and a smaller, better existence,” Greene said in an interview at the World Economic Forum in Davos, Switzerland. „We need to reinvent our whole system of life.”

Greene, who flew his wife, children and two nannies on a private jet plane to Davos for the week, said he’s planning a conference in Palm Beach, Florida, at the Tideline Hotel called „Closing the Gap.” The event, which he said is scheduled for December, will feature speakers such as economist Nouriel Roubini.

Bloomberg

Condoleezza Rice testifies on urging The Times to not run article

White House officials favor two primary tactics when they want to kill a news article, Condoleezza Rice, the former national security adviser, testified Thursday: They can essentially confirm the report by arguing that it is too important to national security to be published, or they can say that the reporter has it wrong.

Sitting across from a reporter and editor from The New York Times in early 2003, Ms. Rice said, she tried both.

Testifying in the leak trial of Jeffrey Sterling, a former C.I.A. officer, Ms. Rice described how the White House successfully persuaded Times editors not to publish an article about a secret operation to disrupt Iran’s nuclear program. James Risen, a Times reporter, ultimately revealed the program in his 2006 book, „State of War,” and said that the C.I.A. had botched the operation. Prosecutors used Ms. Rice’s testimony to bolster their case that the leak to Mr. Risen had harmed national security.

Ms. Rice’s account also threw a light on how the government pressures journalists to avoid publishing details about United States security affairs. It is a common practice that is seldom discussed.

Under President George W. Bush, the White House urged reporters to withhold accounts about many of the most contentious aspects in the war on terrorism: the existence of a secret prison in Thailand, the Central Intelligence Agency’s interrogation and detention program, warrantless wiretapping and government monitoring of financial transactions.

The Obama administration has persuaded reporters to delay publishing the existence of a drone base in Saudi Arabia, the name of a country in which a drone strike against an American citizen was being considered, the fact that a diplomat arrested in Pakistan was a C.I.A. officer and that an American businessman was working for the agency when he disappeared in Iran.

The New York Times

Oxford University Press bans mention of pork and pigs in books to „avoid offending Muslims or Jews”

The guidance would ban all mention of children’s favorite cartoon pig Peppa Pig

One of the biggest education publishers in the world has warned its authors not to mention pigs or sausages in their books to avoid causing offense. Oxford University Press (OUP) said all books must take into consideration other cultures if they hope to sell copies in countries across the world. As a result, the academic publisher has issued guidance advising writers to avoid mentioning pigs or „anything else which could be perceived as pork” so as not to offend Muslim or Jewish people.

International Business Times

Stocks pop-and-drop after NYPost „Fed emergency meeting“ Twitter hack

The NY Post tweeted that „Federal Reserve head Yellen announces bail-in in emergency meeting, rumored negative rate to be set at 4pm EST today,” and US equity markets briefly started to rise... followed by a tweet that „The Fed would peg the Dollar to the Swiss Franc” and „Chinese anti-ship missile fired at USS George Washington.” Both seemed odd and shortly after, The NY Post had deleted the tweets and explained that it had been hacked...
Gotta love these ‘efficient’ markets.

Zero Hedge

Death and taxes 2015: A visual guide to where your tax dollars go

Click below to expand to the full version of infographic

Visual Capitalist

How the super-rich spend their money

The global luxury goods market in 2014 (in billion U.S. dollars)

<table>
<thead>
<tr>
<th>Category</th>
<th>Expenditure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Luxury cars</td>
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<tr>
<td>Vachts</td>
<td>$1.2b</td>
</tr>
</tbody>
</table>

Total global expenditure on luxury goods in 2014: $1.1 trillion

Statista
Bruno J. Schneller, CAIA

Bruno J. Schneller is the CIO of Skënderbeg Alternative Investments AG. Prior to establishing the company, Bruno J. Schneller worked at investment boutique and fund of hedge funds pioneer BrunnerInvest AG for 6 years, from 2008 to 2013 as hedge fund analyst responsible for fund manager pre-selection, due diligence, risk management, fund research and fund reporting. During his tenure, one of their products won the „World Finance 2012 Hedge Fund Award“ as „Best Long/Short Equity Fund of Hedge Funds, Europe“. The investment committee of BrunnerInvest AG consists of well-known people such as Alexander Ineichen, one of the leading authorities on hedge funds.

Prior to BrunnerInvest AG, Bruno worked at AXA Private Equity in 2007 and at Zurich-based hedge fund Nais-sance Capital Ltd. in 2006.

Bruno holds a M.A. from University of St Gallen (HSG) and earned the CAIA (Chartered Alternative Investment Analyst) designation in 2012. Furthermore, he is a CFA Level II candidate (Chartered Financial Analyst).

LinkedIn profile

Miranda Ademaj

Miranda Ademaj is the CEO of Skënderbeg Alternative Investments AG.

Prior to establishing Skënderbeg Alternative Investments AG, Miranda worked at BrunnerInvest AG and Sallfort Privatbank AG. Before that, she worked at Credit Suisse for several years.

Miranda is a CAIA candidate (Chartered Alternative Investment Analyst) and member of the global association „100 Women in Hedge Funds“.

LinkedIn profile

About us

Skënderbeg Alternative Investments AG, investment adviser of the Skënderbeg Fund, began operations in December 2013 and is based in Zurich. The company consists of a team of specialists and has long-standing and financial crisis proven experience in the hedge fund sector. The team has an excellent network with direct and personal access to the top talents in the industry.

The award-winning Skënderbeg Fund specializes in equity long/short strategies and offers investors access to exceptional hedge fund investments on a global scale. The fund of hedge funds was launched in February 2014 with a concentrated portfolio of 10-15 small to mid-sized managers who are typically overlooked by larger shops.

For more information on Skënderbeg Alternative Investments AG, please visit www.skenderbeg.ch.

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