Put into perspective

Ahead of the mainstream

September 2016

Written by
Bruno J. Schneller, CAIA & Miranda Ademaj

Contents:
- Hedge funds (page 3)
- Markets (page 6)
- Think tank (page 10)
- Time out (page 16)
"The world's most influential economic mentor is neither Keynes nor Hayek, but Charles Ponzi."

– Tim Morgan
Smaller reigns supreme in hedge funds

When it comes to hedge funds, the little guy has the upper hand. Smaller hedge funds — those with less than $100 million in assets under management — have notched the greatest year-to-date gains, standing at 4.1 percent, according to data released by Preqin. By comparison, funds whose assets exceed $1 billion averaged year-to-date gains of just 0.54 percent, the worst class of performers in terms of size.

"After a difficult start at the beginning of the year, 2016 has now proved to be a positive year for hedge fund performance, with July marking the fifth straight month of industry gains," Preqin said in its report. As for the recent success of smaller funds, their size is proving to be an advantage in a challenging environment.

New York Post

The ten excuses for bad performance

At two recent Morgan Stanley investor conferences, the question of poor hedge fund performance surfaced repeatedly. We surveyed a group of long/short fundamental equity hedge fund managers at one of the conferences, asking them for the primary reason for poor performance of their industry.

The answers were: 54% said "crowding", 23% said "factor exposures", 8% blamed "macro headwinds" and 8% said "poor liquidity". The remaining group (also 8%) said "poor stock selection".

In other words, when performance is bad, it is beta, when performance is good, it is alpha. The truth is that 100%, at some level, should have said "poor stock selection", and what these data reveal is that 92% of respondents are blaming something other than their stock selection methodology for the current underperformance. Our portfolio has outperformed for five straight years, and is lagging this year. It is 100% stock selection.

The alpha from the HFRI long-short index was close to 14% per annum in the early 1990s, and has been slightly below zero for the past few years.

Why is this? We don't claim to have some systematic rank ordering of reasons for the decay in performance, but here are ten thoughts.

1. First, there has been massive growth in the total number of hedge funds, with HFR estimating that there are 3,400 equity-focused hedge funds today (about as many as stocks under global coverage by the Morgan Stanley research department).

2. Second, low interest rates have removed the rebate that hedge funds received, a non-trivial driver of historical returns when rates were materially higher.

3. Third, hedge fund CIOs are increasingly cautious. Since 2003, FAS123R has made it illegal for hedge funds (and everyone) to know anything material and non-public in the US, at least, and the high-profile and frequent investigations of hedge funds have curtailed information-seeking at some level.

4. Fourth, the more rapid availability of information has materially shortened the time arbitrage that existed previously. The days when you ran to a pay phone to call a large portfolio manager in Boston when you learned something you thought mattered have been over for years. You have to publish something first that passes the smell test from nine different editors, compliance officers, control groups and stock selection committees.

5. Fifth, there increasingly appears to be a "group think", as going to Omaha to hear what Warren Buffett says has transitioned to systematically tracking billionaire holdings and riding out the last bit of momentum from their ideas. Everyone attends or hears about the pitches made by successful hedge fund owners at industry conferences, dinners, charity events and presentations, making questions about "crowding", well, crowded, to quote a friend.

6. Sixth, the quants have stolen some of the alpha. Everyone knows the quants are onto something, so they are hiring junior quants to analyze their "factor exposures", even though they don't know what to do with the information once they get it. The HFRI equity market neutral index has beaten the HFRI long-short by about 3% per year for the last ten years, so the "quant thing" isn't new. In addition, liquidity quant trading, baskets and ETFs have potentially been "sucking" alpha out of the traditional long-short industry.
7. Seventh, the LPs don't invest in hedge funds for as long as they used to, as their manager selection gets analyzed and evaluated, creating more fear of redemption today vs. yesteryear, and exacerbating short-termism among the hedge funds. We don't remember anyone saying in 1995 that they were bullish on the market because hedge fund performance has been so bad that there may be redemptions and a 'you might as well go for it' melt-up. We hear that regularly now.

8. Eighth, macro explains a higher percentage of total returns today than in the past, and most hedge funds are set up for bottom-up security selection. This may have been prudent in a 1995 world where 80% of the average stock's performance was idiosyncratic, but with macro now explaining well over half of the average stock's returns, many classic hedge funds may be sub-optimally staffed for the current opportunity set. Macro explaining a higher percentage of returns has, in turn, impacted dispersion (which became low) and correlation (which became high), and the dollar, rates and oil exposures, among others, are material on many books.

9. Ninth, while all active management has suffered, long-only firms began to realize they could replicate some of the more successful hedge fund approaches, shifting some of the alpha away from the hedge fund industry over time.

10. Tenth, the capital markets have been less supportive, meaning, the 'free money' associated with IPOs in the 1990s has clearly slowed. Very few high-profile deals have been monster stocks this cycle.

While this surely isn't a comprehensive or rank-ordered list of reasons for weak alpha generation, it hopefully touches on some of the issues. When will excess performance be likely again? Our suspicion is that much wider dispersion is required, and this isn't likely until long-dated rates back up meaningfully or economic volatility grows materially. That said, dispersion is clearly wider than it was a year ago, and active management has yet to enjoy an improvement in performance. Here's hoping that later this year we won't need any excuses, due to good stock selection.

Morgan Stanley

Trump once sued the hedge fund managed by his campaign finance chair because of course he did

We've been borderline obsessed with Donald Trump's Goldman alum, recovering hedge funder, bailout profiteering campaign finance chair for a while now, but never did we think we'd be treated to an embarrassment of riches such as this!

In an infinitely readable profile of Steven Mnuchin, Bloomberg writers Max Abelson and Zachary Mider paint a pretty indelible image of the man who is shocking seemingly everyone he knows by getting Trump all that cheddar.

We've introduced Mnuchin to you guys a few times now, so let's just get to the wondrous highlights of this awesome profile. Like his indelibly post-modern introduction to the Trump campaign...

He was supposed to be at a dinner downtown, but after receiving a last-minute invitation to Donald Trump's victory speech, he stopped by Trump Tower. Mnuchin—53, stiff bearing, stylish black glasses—was milling around, swallowing some Trump-brand wine, when the candidate swanned into view. The two had worked together on building deals years earlier. The billionaire beckoned his friend to follow him onto an escalator, and suddenly they were both onstage, Trump jabbing at the roaring crowd and bragging that the group assembled behind him included some of the world's great businessmen. Mnuchin beamed. From where he stood, Trump's iridescent hairdo was almost close enough to pat. He spotted a monitor, glimpsed his own face, and r

How exciting! That must have been a total rush for such a backwater rube like Stevie...

Mnuchin was born into a level of privilege that makes Trump's deluxe childhood look ordinary. His grandfather, an attorney, co-founded a yacht club in the Hamptons, and his father, Robert, was a top Goldman Sachs trader who later became an art dealer. Mnuchin followed his father to Yale, where he lived in the old Taft Hotel with Eddie Lampert, now a billionaire investor, and Sam Chalabi, whose uncle, Ahmad, later ran the Iraqi National Congress.

Oh...

Mnuchin drove a Porsche in college, two friends say. His classmate Michael Danziger, an heir to a pharmaceutical fortune, says he was also targeted to join Skull and Bones but turned down the secret society. "You're going to live to regret this," he recalls Mnuchin saying. Danziger, who knew his classmate was headed into finance, says he answered: "You put the 'douche' in fiduciary." Mnuchin says the exchange never happened.

And there was no need for name-calling. Mnuchin was clearly just a child of privilege on a search for himself. That journey led him to very interesting places, like the time he experimented with Salomon Brothers...

He got summer jobs at Salomon Brothers before graduating from Yale in 1985. His bosses at the bank asked why they should bring him on. "You're just going to end up going to Goldman Sachs," Mnuchin remembers one telling him. "I said, 'No, I really don't want to go to Goldman Sachs. I'm going to go do something different.'" He went to Goldman Sachs.

And from there he went into the hedge fund game, apprenticing with George Soros before going out on his own... sorta...

In 2004, Mnuchin founded his own hedge fund, Dune Capital Management, named for a spot near his house in the Hamptons, and got hundreds of millions of dollars from Soros.
Running a hedge fund brought him into his first contact with Trump, which ended predictably...

The firm invested in at least two Trump projects, a branded condo in Waikiki and a Chicago skyscraper. Trump sued Dune and other lenders over the Chicago deal before settling.

Amazing.

Abelson and Mider go on in the piece to postulate that Mnuchin’s interest in the Trump campaign is cagily self-serving, offering him an opportunity to become Treasury Secretary. That job would not come his way under literally any other administration. And he clearly puts up with a lot for the mere whiff of possibly seeing his name on money one day.

Here’s Trump giving a speech in Scotland...

"You know, I sit with 20 people, and we talk, and they all hand you checks. Bing! Bing! Bing! Bing!" Trump said. "In fact, Steve Mnuchin is here someplace. Steve? Are we doing well, Steve, huh?" Mnuchin prefers to be called Steven.

But the coup de grâce of Abelson and Mider’s little masterpiece comes right at the end, when Mnuchin runs into another New York hedge funder with a fondness for The Donald and an inability to engage in social niceties...

At an August Trump fundraiser in the Hamptons, he encountered Carl Icahn, the billionaire investor whom Trump floated as a Treasury pick last year. "I hear the rumor is you will be secretary of the Treasury," Icahn told Mnuchin. "And I will support you 100 percent on that! Because there’s no f—ing way I would ever do that."

This is a must-must-read, you guys.

Dealbreaker

Law of averages

Star funds rarely outperform for long

When Citadel, a Chicago-based hedge fund, was bleeding money during the global financial crisis, its boss, Ken Griffin, says CNBC, a broadcaster, parked a van outside its doors to chronicle its demise. Last year CNBC crowned Mr. Griffin “King Ken”; in recent years he has done spectacularly well.

Such abrupt twists of fortune appear dramatic. In fact, they are predictable. Novus, an analytics firm, has crunched numbers from Hedge Fund Research, a data provider, to suggest that hedge-fund performance shares a trait boringly familiar from other forms of investment: funds that do poorly then do better, and outperformers then underperform. In other words, past performance is not a guide to future returns (see chart).

The study filters data for two periods: from June 1st 2008 to February 28th 2009, when equity and credit markets were crashing, and from March 1st 2009 until the end of 2015. The funds are anonymized but show plenty of Citadel-like cases. One fund that lost 91% during the crash returned an annualized 42% afterwards. Conversely, among the 93 funds that finished in the top decile during the crash, only three remained star performers. Perhaps they were dazzlingly smart back then. Perhaps they were just lucky.

The study is not perfect. The database includes 928 firms that are still around; others may have closed their doors. But the dots also reveal that quite a few funds performed poorly during both periods, belying the claim that hedge funds optimize returns during good times and minimize damage when things turn nasty. That may explain why this year is expected to be the first since the crisis when investors pull more money out of hedge funds than they put into them.

Hedge fund money has vastly favored Clinton over Trump

The investment firms with the biggest donations by owners or employees in support of each candidate. Figures include donations to campaigns as well as to outside groups backing the candidate.

<table>
<thead>
<tr>
<th>Hillary Clinton</th>
<th>Donald Trump</th>
</tr>
</thead>
<tbody>
<tr>
<td>Saban Capital Group:</td>
<td>Argyle Investment:</td>
</tr>
<tr>
<td>$10,036,238</td>
<td>$2,700</td>
</tr>
<tr>
<td>Renaissance Technologies:</td>
<td>$9,518,800</td>
</tr>
<tr>
<td>Pritzker Group:</td>
<td>Teakwood Capital:</td>
</tr>
<tr>
<td>$7,873,257</td>
<td>$1,500</td>
</tr>
<tr>
<td>Soros Fund Management:</td>
<td>$7,873,257</td>
</tr>
<tr>
<td>Paloma Partners:</td>
<td>Tall Ship Capital:</td>
</tr>
<tr>
<td>$8,108,400</td>
<td>$1,000</td>
</tr>
<tr>
<td></td>
<td>Vann Investments:</td>
</tr>
<tr>
<td></td>
<td>$1,000</td>
</tr>
<tr>
<td></td>
<td>James River Capital:</td>
</tr>
<tr>
<td></td>
<td>$1,000</td>
</tr>
</tbody>
</table>

Source: Center for Responsive Politics

The Wall Street Journal
The gap in confidence between younger and older Americans is at an all-time high

Source: Conference Board, Bloomberg

Rolling 10-year compounded annual growth of EPS (nominal)

Source: Goldman Sachs Global Investment Research

Large equity drawdowns of more than 20% are relatively frequent and recently more global in nature

Source: Goldman Sachs Global Investment Research
What are your long-term (5 years+) return expectations for each of the following asset classes?

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Expected Return</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real Estate</td>
<td>10.9%</td>
</tr>
<tr>
<td>Equities</td>
<td>10.0%</td>
</tr>
<tr>
<td>Commodities</td>
<td>8.1%</td>
</tr>
<tr>
<td>Bonds</td>
<td>5.5%</td>
</tr>
</tbody>
</table>

And for your overall portfolio?

Overall Portfolio: 10.9%

State Street Corporation

The mystery of the post-crisis recovery: Consumers are turning more and more cautious

Deutsche Bank Research

Selected single most important problem

National Federation of Independent Business

Net profit margins have been falling and are unlikely to rebound back to a new high

Barclays Research
Commodity demands trends support the rebalancing story

Goldman Sachs Global Investment Research

12-month change in central bank assets ($bn – at fixed FX rates)

Deutsche Bank Research

Actuarial leaders disband task force, object to paper on public plan liabilities

The American Academy of Actuaries and the Society of Actuaries abruptly disbanded its longtime joint Pension Finance Task Force, objecting to a task force paper challenging the standard actuarial practice of valuing public pension plan liabilities. "This paper [is] being censored by the AAA and SOA, said Edward Bartholomew, who was a member of the former task force, in an interview. "They didn't want it to get out." Others who were members of the task force also said in interviews the two actuarial groups are trying to suppress publication of the paper. As reasons for disbanding the task force, the two presidents cited a "nebulous" governance structure of the task force and noted it was always "intended to be a temporary group." The task force was formed in 2002. In addition, the memo noted "it has become clear projects that the PFTF would like to complete… are becoming increasingly difficult to complete under the joint governance model."

"Public plans are under stress," Mr. Bartholomew said. "Even under the (Governmental Accounting Standards Board) method, they show significant unfunded liabilities. Using the method we propose in the task force paper, unfunded liabilities are significantly larger and the cost to the plans significantly larger."

Pensions & Investments

Cumulative USD/JPY return by three time zones – Japan trading hour in focus

BofA Merrill Lynch
Video of the month

There is political interference at the Fed: Former Fed insider Danielle DiMartino Booth

Click to watch

Mauldin Economics

Joke of the month

"Exciting" new ETF launches – EUCL, CRZY, STPD & more...

- FHLH will allow investors to participate in only the first hour and last hour of NYSE trading. This is a truly exciting and innovative product as it allows investors to capture the tension of the opening bell and the dramatic closes. It goes without saying that we will shortly be adding Inverse funds and 2x and 3x leveraged versions.

- EUCL will provide the opportunity to trade US stocks only for the hour surrounding the European close. With heightened volatility around that time it lets investors watch their portfolios only during lunch hour. Again, the 2x and 3x leveraged versions will bring an even greater level of customization for those customers who want to trade the European close without the capital to do it leveraged on their own.

- CRZY is designed to satisfy the need for an arcane complex product that captures the zeitgeist of the moment. Currently CRZY will go long of the spread between Brent Crude and Gold for Shanghai deliver quanto’d into yen on a 2.5 daily leverage. STPD will be the inverse version of the same trade. CRZY and STPD will reset their investment guidelines on a monthly basis to a new vaguely correlated trade that makes some degree of sense based on word cloud searches from the financial headlines.

- Finally, DICE is designed to finally allow investors disgruntled about the stock market. Each morning at approximately 9:20, Bob Barker of Price is Right Fame, will roll a specially made die. Each of buy, sell and hold will have 2 sides of the die and the portfolio will be adjusted on the open based on the dice roll (the leveraged version, waiting final SEC approval will use 3 dice and be based on the combined outcome - the SEC is concerned we are misrepresent it as a leveraged fund when in fact it might not be leveraged on any particular day but we believe we can get overcome this obstacle).

Brean Capital

Cartoon of the month
Who has gained from globalization

The global 1% and the Asian middle class.

Negative rates will kill growth

For years I have argued that ultra-low interest rates act more as an economic sedative than a stimulant. This idea has elicited laughter from the economic establishment. But it is becoming clearer that rates set by central banks that are far below the levels that free markets would have otherwise determined have dragged the world into the economic mud. The simple proof is currently arising in Europe where negative interest rates are now transforming companies from agents of growth, production, and employment into financial sloths that exist solely to borrow money.

In a September 7 front page article, the Wall Street Journal reported that as of September 5, €706 billion worth of investment-grade European corporate debt, or roughly 30% of the market, according to trading platform Tradeweb, was trading at negative yields, an increase from just 5% in January. These negative yields were the result of intense activism on the part of the European Central Bank (ECB). For years the ECB had been trying to stimulate growth by buying trillions of euros’ worth of sovereign debt. But as these programs proved ineffective to wake up the EU economy from its long economic slumber, this year they began moving into the corporate market. Most of this buying has occurred on the secondary market, for bonds that had previously been issued at positive rates. The central bank buying raised prices of these bonds sufficiently to push yields into negative territory. It also has drawn in speculators who have bought low yielding bonds not because they are good investments but because they are convinced that the ECB will one day buy them out at a premium.

But the real news of that Journal article was that for the first time, major European firms like German manufacturer Henkel AG and French drug maker Sanofi SA had issued corporate bonds at negative rates in the primary market. This means that if they are held to maturity, the bonds are guaranteed money losers...in essence, the companies are being paid to borrow. This is a stunning development that alters the fundamental principles of corporate strategy. As this process of ECB corporate bond buying continues, more and more companies will follow suit and issue bonds at negative yields. Why wouldn’t they? It’s nice work if you can get it. To seek profits, why go through the laborious and uncertain process of developing new products and seeking new customers when all you have to do instead is simply borrow money from lenders and pay them back less? It’s fool proof, requires no messy union labor contracts, no R&D, and is infinitely scalable...as long as the central bank keeps buying. All indications are that they will. With such an easy path to profits, it should come as no surprise that this August was the busiest on record in terms of European corporate debt issuance, according to Dealogic.

But what are the companies doing with the newly raised cash? They aren’t using it to hire more workers. Another story in the same Journal edition detailed how European corporate investment spending stalled at 0% growth in the second quarter (Eurostat data). Rather than investing the money, companies are using the brisk bond issuance to retire older debt, pay dividends, or buyback shares on the open market. While these activities are great for shareholders, they provide very little benefit for workers and consumers. Welcome to the new economy.

Normally, if a company borrows cash at a positive rate of interest, it must put that money to some productive use in order to repay lenders both principal and interest, plus generate a profit for its efforts. But now that hurdle has been eliminated. Companies don’t need to create any value with the money they borrow. They just need to borrow. The loans themselves produce the profit. It’s not too difficult to see how the corporate sector will evolve if the “ECB buying at negative rates” trend continues, or picks up steam. Corporations will focus less on business operations and more on ways to increase debt issuance. Fewer engineers and more accountants is never a good recipe for economic growth.

Japan has been going down this road even longer than the Europeans, and the results are equally poor. Although it hasn’t been buying corporate debt, the Bank of Japan (BoJ) is on pace to buy more than $786 billion worth of Japanese Government bonds this year,
more than double what the government will actually issue. Currently the BoJ owns more than a third of outstanding government bonds and, at the current pace, it could own 60% by the end of 2018. (WSJ, R. Rosenthal & S. Bhattacharya, 9/9/16)

But it doesn’t stop there. The BoJ has also become the principle buyer of the Japanese stock market and now owns more than 60% of Japanese ETFs. Clearly, those stock purchases are not motivated by the same market-focused rationale that would compel private investors. Such “investments” are not spurring the Japanese companies to make bolder investments into organic growth. Instead, they are more likely to sit back and let the money roll in. It’s corporate welfare at its worst, guaranteed to produce nothing but short-term profits.

But despite all of this, the politicians, central bankers, and economists insist that bolder and more creative techniques of money printing and financial stimulus will unlock the economic puzzle and return the global economy to 3% or 4% growth. I think there is little doubt that the Federal Reserve will ultimately follow the ECB and the BoJ into this bizarre world of negative yields and unlimited financial asset purchases. But as we go down this road, no one in power seems to consider the possibility that “stimulus” does more harm than good, if central banks weren’t buying bonds, interest rates would surely rise, and risks for business and governments would return. But the real world can produce real results. It has worked that way for millennia. Without guaranteed government money, companies would need to attract real investors. To do that they would need to create real businesses, a process that takes investment, innovation, and efficiency. These are the essential elements that create productivity growth that is the single biggest factor in raising living standards. It’s no accident that productivity growth has all but disappeared in the current age of central bank activism.

So we have a choice; either we continue down the road of negative rates to Fantasy Land, where central banks own all the stocks and bonds and asset prices always rise, but real wages and average living standards always fall, or we take our chances on a different path that leads to reality, however unpleasant the transition may be. I for one would choose the latter, but it looks like I won’t have much company.

Euro Pacific Capital

A record-high share of the world’s population is displaced from their homes

% of world population that is forcibly displaced

Note: Displaced includes internally displaced persons within their birth country, refugees and asylum seekers living in a different country who have yet to resettle permanently, and Palestinian refugees registered with the United Nations Relief and Works Agency (UNRWA) in Jordan, Lebanon and Syria.


Pew Research Center

Deaths from terrorist attacks in the West

Deaths from terrorism

Western Europe United States

Number of deaths

10 20 100 1000

WORST YEAR OF NORTHERN IRELAND TROUBLES

PEAK OF EU ATTACKS

PARIS

LONDON

OKLAHOMA CITY

1970 71 72 73 74 75 97 97 97 99 2000 01 02 03 04 05 06 07 08 09 10 11 12 13 14 15 16

9/11

Sources: SWRI, University of Maryland; press reports

*To August 31st

The Economist
One chart sums up how insane college costs have become

![Price changes (1996-2016)](image)

How Europe is getting rich by fueling its own terror epidemic

Though Europe does not have the rates of gun violence the United States continues to grapple with, European governments have made over a billion euros by fueling gun violence in the Middle East and North Africa. A report conducted by a team of reporters from the Balkan Investigative Reporting Network (BIRN) and the Organized Crime and Corruption Reporting Project (OCCRP) found a group of European nations has been funneling arms into the Middle East region since 2012, making at least 1.2 billion euros in the process.

According to the report, 68 flights that took place within 13 months transported weapons and ammunition to the Middle East, including to NATO member Turkey, which in turn “funneled arms into brutal civil wars in Syria and Yemen.” The report also notes that these flights make up only a small portion of the 1.2 billion euros in arms deals between Europe and the Middle East since 2012. The report’s conclusions are horrifying, to say the least. The report states:

“Arms export licenses, which are supposed to guarantee the final destination of the goods, have been granted despite ample evidence that weapons are being diverted to Syrian and other armed groups accused of widespread human rights abuses and atrocities.”

Considering Europe is battling a continually rising terrorist threat, they seem to be going about tackling this issue the wrong way. Surely the best way to counter terrorism is to cease funding it in the first place.

One astounding aspect of the report is that the lucrative war-profiteering business involves nations the world would not usually regard as overtly-interested in war. The countries contributing to the rising terror threat, as identified by the report, are Bosnia and Herzegovina, Bulgaria, Croatia, the Czech Republic, and Romania, among others.

This report adds to the already glaring problem of European countries making billions of dollars off the death and destruction of Middle Eastern civilian life. The Stockholm International Peace Research Institute (SIPRI) found the United Kingdom was second only to the United States in arms sales, making up 10.4 percent of the total $401 billion worth of arms sold around the world for the 2014 period. Although these figures refer directly to companies selling arms, the fact remains that European governments do nothing to deter this. In fact, former UK Prime Minister David Cameron insists the UK has “one of the strictest regimes anywhere in the world for sales of defense equipment but we do believe that countries have a right to self-defense.”

Shamefully, the United Kingdom’s billion dollar arms sales have been fueling the conflict in Yemen — the poorest and most disadvantaged country in the Arab region — by arming the aggressive Saudi Arabian regime. Saudi Arabia’s ongoing intervention in Yemen merely benefits al-Qaeda. Arms sales from Britain to human rights abusers are only increasing. The idea that European governments want to prevent terrorist attacks on the European mainland is ludicrous given the fact European governments continue to directly arm terrorist groups and brutal regimes that export jihadist philosophies.

But hey, at least they made a billion dollars, right?

AntiMedia
"West spreads its democracy like coffee in bags, but people need to make own choice" – Gorbachev

Western leaders have long followed the policy of imposing democratic values in countries without the consent of the people of those nations, Mikhail Gorbachev says, noting this was partly to blame for the USSR’s collapse. The former Soviet leader spoke to Interfax ahead of the 25th anniversary of the aborted 1991 coup that brought about the end of the Soviet Union.

"At the time, I told the Americans: you are trying to impose your democracy on the people of different countries, spreading it around like coffee in bags, but we must give the people a chance to make their own choice. But they continued and continue to pursue this foreign policy. Even President Obama, democratically elected and enjoying in this regard a significant authority in the country, could not change this course – the course on imposing one-legged solutions. However, I doubt that he wanted to," Gorbachev said.

Gorbachev, whose strategic aims brought about the end of the Cold War, blamed the West for applauding the USSR’s collapse instead of aiding the country as it didn’t want the union to be a "powerful democratic state."

RT

French should expose government not Islam over neo-gladio provocations

We’ve been writing regularly about the meme of "evil Islam" and our perspective that it is propaganda – a dominant social theme – intended to create military tension, further authoritarianism and even, eventually, wider wars setting the West against Islam. You can see our articles HERE and HERE And HERE too.

The lie is that Islam of itself is a terrible threat to the French – and Western – way of life. The lies are propagated by a tiny group of people who organize fallacious themes that then become Western policy. Global warming, the economics of central bank – and the dangers of Islam – are all examples of these themes. The lies are regularly expanded and deepened. Here is a famous recent quote by the Direction générale de la sécurité intérieure – Patrick Calvar:

“We are on the verge of a civil war.”

Calvar is actually describing a war that he likely wants. The whole idea of the Evil Islam exercise is to polarize Europe in preparation for increased globalist solutions. More from Al Jazeera:

The anger of the French population is understandable. But booing a prime minister at the commemoration ceremony for the loss of innocent lives is not the smartest idea.

If the French were booing the prime minister because they understood the manipulations taking place, that would be a positive development. But no doubt the French in question were booing because they believed the state had not taken a firm enough stance against “radical Islam.” Unfortunately, it is the state that has created the problem, starting with the forcible absorption of Algeria that later gave rise to the Algerian War of Independence, (1954–62). This war was a bitter one and many of the ”Muslims” in France are from Algeria. They still don’t like the French establishment. The antipathy that French Algerian Muslims harbor has been used by the mainstream media as evidence that Muslims cannot be absorbed into France. The "Islam versus the West" meme is filled with lies.

It is no doubt difficult to accept that evil forces are manipulating events in Europe and the US so as to cause tension between Islam and the West. But this is how wars are manufactured. The West did the same sort of thing to Japan. It demonized Japan and then created a war. And twice with Germany. In the past years it is has been revealed conclusively that banks and Western industry funded Hitler. In much of the post-war 20th century period, the CIA and other intel agencies prosecuted Operation Gladio, which manufactured terror incidents purportedly generated by left-wing forces. HERE, from TruthMove:

The main function of the Gladio-style groups, in the absence of Soviet invasion, seems to have been to discredit left-wing groups and politicians through the use of "the strategy of tension," including false-flag terrorism. The strategy of tension is a concept for control and manipulation of public opinion through the use of fear, propaganda, agents provocateurs, terrorism, etc. The aim was to instill fear into the populace while framing communist and left-wing political opponents for terrorist atrocities.

Has a neo-Operation Gladio been started? The CIA doesn’t make announcements. But in the Internet era, it doesn’t have to. Those running these affiliated intel operations may not like it but the pattern is increasingly obvious. This is surely an ongoing strategy not a series of incidents. How cold-blooded. Ironically, the Al Jazeera editorial provides us with some pertinent conclusions on how to face the provocations of a neo-Operation Gladio. Here:

The only option for France today is to stand proud on its secular republican values, multiply the satire that fundamentalists want to shut down, encourage societal inclusion, educate and educate again. A turn to the extreme right would mean a victory for the terrorists. However painful it is, the best way to prevail for the French is to stand strong and resist the populist temptations.

The editorial is written by Remi Piet, an assistant professor of public policy, diplomacy and international political economy at Qatar University. Two issues with it:

The first thing he does not mention is that the acts of terror are the historical result of French government policies. These policies go back a long way. The French bullied Algeria, absorbed Algerian Muslims and then did not give them the opportunity to integrate. The upshot is a generation of Muslim Algerians that live in France and are bitter about their treatment.
The second problem is that the issue is not one of Islamic terrorism from a historical standpoint so much as the French state being complicit in “false flag” terrorist operations. Today’s “Evil Islam” meme is being created by forces that want to foster tensions and then worse between Islam and the West.

The French should stand up to their government and demand accountability. But the accountability should involve a confession that “radical Islam” is being advanced by forces affiliated with the government. The REAL problem, therefore, is not how to defend against radical Islam but how to prevent the French government and broader Western facilities and associates from creating bloody false flags designed to increase tensions.

Conclusion: The French should confront their own government and other European populations should do the same. That goes for America, too. People should demand answers and call on the mainstream media to do its job instead of remaining complicit in an unpublicized but evident neo-Gladio program.

The Daily Bell

Want a few "It's different this time" reflections?

Consider these...

- Remember when an IPO in Silicon Valley was seen as a birth right?
- Remember when a "beat" in earnings meant something?
- Remember when "user growth" trumped an earnings beat?
- Remember when "a rising tide lifted all boats" actually did?
- Remember when "it's different this time" was used to explain why profits didn’t matter?
- Remember when being on an "A list" meant more to a CEO’s reputation in Silicon Valley than making a profit?
- Remember when hedge funds made money?
- Remember the term "gated" was only heard during extreme panic?
- Remember when an M&A announcement meant growth or opportunity?
- Remember when the term "a captured market" didn’t insinuate central bank interventionism?
- Remember when tuning into a financial program during a market rise was informative?
- Remember when even insinuating the idea of a central bank purchasing stocks was laughable?
- Remember when a jobs number under 5% meant there were actually jobs?
- Remember when "investors" would openly defend a CEO running two companies simultaneously as a "brilliant" idea?
- Remember when "cash on the sidelines" was an idiotic premise if markets were at record heights?
- Remember when people holding PhDs in economics sounded as if they actually knew what they were talking about?
- Remember when negative interest rate policies were regarded as economic insanity?
- Remember when $25 BILLION in net profits and no user growth trumped 250 million users and a $1 BILLION cash burn?
- Remember when central banks weren’t buying the debt of your competition allowing them to endlessly compete with you?
- Remember when you had to keep an up to date calendar to track all the new tech IPOs?
- Remember when just saying the term "IPO" signaled you were on the "in" crowd at all the Silicon Valley hangouts?
- Remember when VC's didn’t care about profits?
- Remember when VC's had the say when an IPO should take place?
- Remember when "cash burn" wasn't regarded as an extinction event?
- Remember when raising VC money was easy?
- Remember when not caring what the original terms or "the fine print" was when raising cash?
- Remember when "eye balls for ads" was the only business plan needed?
- Remember when trying to name a central banker was difficult?
- Remember when "printing money" was seen as a ludicrous economic policy?
- Remember when looking at failed economic experiments like Japan didn’t invoke thoughts of "What we need here is that – on 11!"
- Remember when people talked up the economy and stock market – not made excuses for it being at record heights?
- Remember when the global economy didn’t hinge on the dictates of one solitary un-elected official?
- Remember when a list such as this would be laughable with a jobs number at statistically full, a record-breaking stock market?

The sad issue this list will get longer, not shorter, because all too many people have forgotten... That’s how it is in a Keynesian economy.

Mark St. Cyr
The indexing end game: The Wilshire 5000 only has 3,607 stocks

**The Wilshire 5000 is now 5000 in name only.** Ben Carlson of the Common Sense blog calls it the "shrinkage effect" and blames it on the lackluster IPO market, which is a shadow of its former self. He notes, "From 1980 to 2000 there was an average of more than 300 companies every year that went public. Since then that number has dropped to an average of around 150 a year." It’s yet further evidence of what I pointed out last year: **The stock market is disappearing in one giant leveraged buyout.** The relentless pace of share buybacks and new highs in the S&P 500 point to nothing less than a slow-motion buyout of the entire market, which will widen the gap between the uber-rich and everyone else.

Index investing was supposed to be the last hope of the small investor. Even Warren Buffett, the Baghdad Bob of capitalism, pitches index funds to the average investor, specifically the S&P 500. The premise is that a diversified portfolio will go up over time, and so far, it has worked for anyone who has stayed fully invested. However, there is one simple problem:

**What happens when we run out of stocks to index?**

Today, it’s the Wilshire 5000 that runs out of stocks. In 10 years, the S&P 500 investment committee will be grasping for shares, urging Larry Page and Mark Zuckerberg to issue D shares and F shares of Google and Facebook just to maintain the facade of diversification in an increasingly undiversified world.

**Your new tech overlords**

The world's top five companies by stock market capitalization are all U.S. tech companies. Here’s a look at the market's top rung at a few moments in recent decades:

<table>
<thead>
<tr>
<th>Rank</th>
<th>Company</th>
<th>March 15, 2000</th>
<th>August 1, 2008</th>
<th>August 1, 2011</th>
<th>August 1, 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Microsoft</td>
<td>$447B</td>
<td>$420B</td>
<td>$484B</td>
<td>$569B</td>
</tr>
<tr>
<td>2</td>
<td>Google</td>
<td>$207B</td>
<td>$210B</td>
<td>$466B</td>
<td>$759B</td>
</tr>
<tr>
<td>3</td>
<td>Apple</td>
<td>$111B</td>
<td>$130B</td>
<td>$230B</td>
<td>$381B</td>
</tr>
<tr>
<td>4</td>
<td>Amazon</td>
<td>$24B</td>
<td>$35B</td>
<td>$48B</td>
<td>$95B</td>
</tr>
<tr>
<td>5</td>
<td>Microsoft (Stud)</td>
<td>$24B</td>
<td>$34B</td>
<td>$48B</td>
<td>$95B</td>
</tr>
</tbody>
</table>

* NASDAQ peak during dot-com bubble.

**Bloomberg**

**Obama has collected $19,966,110,000,000 in taxes; incurred $8,795,689,333,049 in debt**

During the 90 full months President Barack Obama has completed serving in the White House—February 2009 through July 2016—the US Treasury collected approximately $19,966,110,000,000 in tax revenues (in non-inflation-adjusted dollars), according to the Monthly Treasury Statements. During those same 90 months, the federal debt rose from $10,632,005,246,736.97 to $19,427,694,579,786.64—an increase of $8,795,689,333,049.67.

**CNSNews.com**

**Paul Singer fund: Market "breakdown" to be "sudden, intense, and large"**

In a bleak new letter to investors, Paul Singer’s Elliott Management warns that the bond market is "broken" and that when the central bank actions of recent years no longer ward off a market downturn, the subsequent loss of confidence could be severe. The fund’s recent investor letter notes that Elliott’s managers are currently seeing "what is in many ways the most peculiar period we have faced in 39 years."

Too much power has been ceded to central banks, the letter adds, the value of money has been debased, inflation is probably inevitable, and when it happens, it could be swift and impossible to tamp down. Given the persistence of low or negative yields on government and other bonds and the continued stampede to buy them nonetheless, today’s environment marks "the biggest bond bubble in world history," and "the global bond market is broken," the investor letter states.

The letter discusses, at some length, the oddity of an investor mentality that flies to an asset class regarded as a "safe haven" even when there are low or nonexistent returns attached to it and no guarantee that current conditions will persist. In one wry aside, the letter suggests a safety warning be attached to the $12 trillion government bond market now trading at negative yields: "Hold such instruments at your own risk; danger of serious injury or death to your capital!" Trading in this market is particularly difficult, it adds. "Everyone is in the dark," Elliott notes. "Experience doesn’t count for much, and extreme confidence may be fatal." Moreover, "the ultimate breakdown (or series of break-downs) from this environment is likely to be surprising, sudden, intense, and large."

**CNBC**
TIME OUT

Percentage of 16-19 year-olds with low literacy and numeracy (below level 2)

World Economic Forum

Swedish prof: Hot weather, not rapey migrants driving Sweden's place as the rape capital of the world

Providing the perfect reason that absolves the Swedish establishment of all responsibility, Svensson described how we have been a bit unlucky with the weather this year. Hopefully we will have a colder summer next year and sexual crimes will then be an old memory linked to that one hot Swedish summer. If by any chance, there are still rapes during a colder summer, our experts will simply find another scapegoat rather than looking straight at the imported criminals.

Breitbart

Parents who insist on vegan diet for children may risk jail in Italy

If parliamentarian Elvira Savino has her way, Italian parents who insist on a vegan diet for their children will risk up to four years in jail. Savino, from the conservative Forza Italia party, has put forward a law that would hold parents legally responsible for feeding their children on "a diet devoid of elements essential for healthy and balanced growth", according to its text.

"I have nothing against vegans or veganism as long as it is a free choice by adults," she told Reuters in a telephone interview, days after she presented the proposed law in the lower house Chamber of Deputies. "I just find it absurd that some parents are allowed to impose their will on children in an almost fanatical, religious way, often without proper scientific knowledge or medical consultation," she said. "Do-it-yourself on these matters terrorizes me."

Fox News

Why Obama's half-brother says he'll be voting for Donald Trump

"I like Donald Trump because he speaks from the heart," Malik Obama told The Post from his home in the rural village of Kogelo. "Make America Great Again is a great slogan. I would like to meet him."

Obama, 58, a longtime Democrat, said his "deep disappointment" in his brother Barack's administration has led him to recently switch allegiance to "the party of Lincoln."

New York Post
**Mexican newspaper: Build a Trump-style wall with Central America**

One of the largest newspapers along Mexico's border with Texas is calling for a border wall with Central America, similar to the one being promoted by Republican Presidential Candidate Donald J. Trump. The editorial board of El Mañana, one of the largest newspapers in the border state of Tamaulipas, penned a piece called "Yes to the Border Wall ... but in Mexico's South." The piece praises the idea of border wall, not on the border with Mexico, but on the border with Central America.

"Along the Mexican border peace and quiet came to an end, Central Americans played a large influence," El Mañana's piece claimed. The Mexican border newspaper provides a controversial view on the Border Wall; which is one of the main topics in Trump's campaign. "Mexico's southeast has two borders; one with Guatemala and one with Belize, that do not provide any benefit, but on the contrary only problems are brought by these crossing points that are being used for the new invasion. The one use by Central America's looking for a way into the United States." El Mañana's editorial board wrote.

One of the issues mentioned in the editorial piece points not only to the hordes of Guatemalans, Salvadorans and Hondurans that flock to Reynosa in an effort to get to the US, but also to the large number of Central Americans that are left in Mexico after deportation.

**The Amur river: Dividing deserted Russian Siberia from populous Chinese Manchuria**

**In China, when in debt, dig deeper**

*When the going gets tough in China, just get a bank.* With profits headed south, heavily indebted Chinese heavy-machinery giant Sany Heavy Industries said it won approval to set up a bank in the Hunan province city of Changsha. With 3 billion yuan ($450 million) of registered capital, it will be a relatively large institution as Chinese city-based banks go. Sany plans to join forces with a pharmaceutical company and an aluminum company.

In recent months several city commercial banks in China have been taken over by the likes of tobacco and travel companies, recapitalized and renamed. Banking licenses are scarce in China, and rarely are new banks set up from scratch. Sany’s Sanxiang Bank will be up and running in six months. It will go up against crosstown rival Bank of Changsha, which at the end of last year had substantial $90 billion yuan book of off-balance-sheet loans, more than a quarter of them nonperforming. Sany had better ramp up quickly.

**When everyone is waiting for your downfall but you’re the goat**
University yoga class suspended due to "cultural appropriation" dispute

Yoga has become the latest victim of political correctness on university campuses after a free class was cancelled because of complaints that the lessons were an unacceptable "cultural appropriation" of a non-Western practice. Jennifer Scharf, a yoga practitioner who has offered free weekly sessions to students at the University of Ottawa in Canada since 2008, said she was shocked to receive an abrupt message telling her the classes were to be suspended.

According to the Ottawa Sun, staff from the Centre for Students with Disabilities, where the classes were held for students of all abilities, wrote in an email: "While yoga is a really great idea and accessible and great for students...there are cultural issues of implication involved in the practice. Yoga has been under a lot of controversy lately due to how it is being practiced," and which cultures those practices "are being taken from". The email went on to say that because many of those cultures "have experienced oppression, cultural genocide and diasporas due to colonialism and Western supremacy...we need to be mindful of this and how we express ourselves while practicing yoga."

Ms. Scharf said she suggested a compromise by changing the name of the classes to suggest "mindful stretching", but was rejected. "I think it's easy to worry too much about accommodating everyone," she said. "By saving one person's feelings, we're ruined the experience for so many others."

There's a new café in Switzerland where you can get oral sex with your coffee

You've heard of happy endings at seedy underground massage parlors—now get ready for blowjobs at coffee shops. Yeah, it's a real thing. At the end of this year, a new coffee shop, Fellatio Café, will open up in Geneva, Switzerland, where you can get a hot cup of joe, with a side of blowjob. Seriously.

The firm behind the Swiss café, Facegirl, says customers will be able to order coffee, then select a sex worker of their choice from an iPad to give them a blowjob. You sure as hell can't do that at Starbucks. And just how much will this sexual service set you back? 60 Swiss francs, or about $50. Plus five francs for the coffee, of course. This is a business after all. But still, not bad for a caffeinated afternoon (or morning) delight. Facegirl's Bradley Chavet told Swiss newspaper, Le Matin, that the idea for the café, which is based on similar establishments in Thailand, has been in the works for several months, and that coffee buffs can get their "orders filled" faster than they can say "large iced coffee, please."

The new Mercedes-Maybach is the 6-meter-long car of your dreams

You’ve heard of happy endings at seedy underground massage parlors—now get ready for blowjobs at coffee shops. Yeah, it's a real thing. At the end of this year, a new coffee shop, Fellatio Café, will open up in Geneva, Switzerland, where you can get a hot cup of joe, with a side of blowjob. Seriously.

The firm behind the Swiss café, Facegirl, says customers will be able to order coffee, then select a sex worker of their choice from an iPad to give them a blowjob. You sure as hell can't do that at Starbucks. And just how much will this sexual service set you back? 60 Swiss francs, or about $50. Plus five francs for the coffee, of course. This is a business after all. But still, not bad for a caffeinated afternoon (or morning) delight. Facegirl's Bradley Chavet told Swiss newspaper, Le Matin, that the idea for the café, which is based on similar establishments in Thailand, has been in the works for several months, and that coffee buffs can get their "orders filled" faster than they can say "large iced coffee, please."
Bruno J. Schneller, CAIA

Bruno J. Schneller is the CIO of Skënderbeg Alternative Investments AG. Prior to establishing the company, Bruno worked at investment boutique and fund of hedge funds pioneer BrunnerInvest AG. Prior to BrunnerInvest AG, Bruno worked at AXA Private Equity in 2007 and at Zurich-based hedge fund Naissance Capital Ltd. in 2006. Bruno holds a M.A. from University of St Gallen (HSG) and earned the CAIA designation in 2012. Furthermore, he is a CFA Level II candidate.

LinkedIn profile

Miranda Ademaj

Miranda Ademaj is the CEO and Chairwoman of Skënderbeg Alternative Investments AG. Prior to establishing the company, Miranda worked at BrunnerInvest AG and Salzfort 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 multiple award-winning Skënderbeg Fund specializes in long/short equity 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.

Contact us

Skënderbeg Alternative Investments AG
Seestrasse 17
8702 Zollikon
Switzerland
info@skenderbeg.ch
T: +41 43 535 77 52
Unauthorized disclosure prohibited

The information provided in this publication is private, privileged, and confidential information, licensed for your sole individual use as a subscriber. Skënderbeg Alternative Investments AG reserves all rights to the content of this publication and related materials. Forwarding, copying, disseminating, or distributing this report in whole or in part, including substantial quotation of any portion the publication or any release of specific investment recommendations, is strictly prohibited.

Participation in such activity is grounds for immediate termination of all subscriptions of registered subscribers deemed to be involved at Skënderbeg Alternative Investments AG’s sole discretion, may violate the copyright laws, and may subject the violator to legal prosecution. Skënderbeg Alternative Investments AG reserves the right to monitor the use of this publication without disclosure by any electronic means it deems necessary and may change those means without notice at any time. If you have received this publication and are not the intended subscriber, please contact info@skenderbeg.ch.

Disclaimers

Put in perspective is published by Skënderbeg Alternative Investments AG. Information contained in this publication is obtained from sources believed to be reliable, but its accuracy cannot be guaranteed. The information contained in this publication is not intended to constitute individual investment advice and is not designed to meet your personal financial situation. The opinions expressed in this publication are those of the publisher and are subject to change without notice. The information in this publication may become outdated and there is no obligation to update any such information.

Bruno J. Schneller and Miranda Ademaj, the editors of this publication, are the founders and owners of Skënderbeg Alternative Investments AG. Skënderbeg products may hold or acquire securities covered in this publication, and may purchase or sell such securities at any time, all without prior notice to any of the subscribers to this publication. Such holdings and transactions by these Skënderbeg products may result in potential conflicts of interest, although the editor believes that any such conflict of interest will be mitigated by the nature of such securities and the limited size of the holdings of such securities by the applicable Skënderbeg products.

Skënderbeg Alternative Investments AG, employees, officers, family, and associates may from time to time have positions in the securities or commodities covered in these publications or web site. Corporate policies are in effect that attempt to avoid potential conflicts of interest and resolve conflicts of interest that do arise in a timely fashion.

Skënderbeg Alternative Investments AG reserves the right to cancel any subscription at any time. Cancellation of a subscription may result from any unauthorized use or reproduction or rebroadcast of any Skënderbeg Alternative Investments AG publication or website, any infringement or misappropriation of Skënderbeg Alternative Investments AG’s proprietary rights, or any other reason determined in the sole discretion of Skënderbeg Alternative Investments AG.