Put into perspective

Ahead of the mainstream

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Investing should be more like watching paint dry or watching grass grow. If you want excitement, take $800 and go to Las Vegas.

– Paul Samuelson
Radical change needed to close hedge fund gender gap

Single-manager hedge funds in Asia-Pacific and North America employ the largest number of women in top roles, while European firms have a much bleaker gender equality record, according to a study by data provider Preqin. The research, which is sourced from Preqin’s online databases, found that women in C-level positions at single-manager hedge funds are 11.2% of the total headcount in Asia. Hong Kong leads the way with 13% of senior roles at hedge funds held by female executives, and 28% at funds of hedge funds (FoHFs).

In North America, women in C-level jobs at hedge funds are 10.9%, but this figure is just 6.6% in Europe. In the rest of the world, excluding Asia-Pacific, Europe and North America, they hold 7.2% of total senior roles.

In the US, women in top jobs are 13.3% at FoHFs and 10.8% at single-manager funds, compared with 5.8% and 5.9% respectively in the UK.

Miranda Ademaj, founder and chief executive at Switzerland-based Skenderbeg Alternative Investments, thinks cultural factors may have played a role in the results. „[In East Asia] girls grow up in this competitive environment and have the mentality that a career is key for getting a higher social status and being respected by others,” Ademaj says. She points out that overall the „male-dominated hedge fund industry makes it difficult for women because there is still the impression that they [women] have only have assisting roles“. Ademaj adds that often she is the only woman at investment meetings she attends.

According to the study, FoHF managers outperform single-manager hedge funds and CTAs in gender diversity, with 11.1% of C-level roles held by women compared with 10.3% and 4.3%, respectively, at single-manager funds and CTAs. This is likely due to the fact that many single-manager hedge funds are set up by men who have graduated from testosterone-driven trading floors, while FoHFs attract employees with a different skill set, more reliant on research and the ability to conduct due diligence. „Most hedge funds have a trader background,” says Ademaj, also noting that FoHFs have moderate working hours compared with single-manager hedge funds.

Perhaps surprisingly, as a fund’s assets under management (AUM) increases, diversity drops. The study found firms with AUM of between $500 million and $999 million employ women in 13% of C-level positions, compared with 7.9% of women employed in those roles by managers with AUM of $5 billion or more.

Jane Abitanta, founder and principal at management consulting firm Perceval Associates in New York, says female under-representation is most probably the product of an unconscious bias that leads people to best relate to others like themselves. Abitanta says investors are increasingly demanding progress in terms of better gender diversity at hedge funds.

Some say radical solutions are needed to achieve gender equality in the industry. Ademaj calls for the widespread adoption of generous Sweden-style parental leave regimes that give men and women a joint amount of time off for childcare. She says it is also important to get more men involved in childcare and to encourage mothers to pursue a career. Ademaj calls for raising general awareness that women can contribute added value to companies. „Social norms are rigid and hard to change, but they are not laws of nature,” she adds.

Others point out that the under-representation of women is a problem in the financial services industry as a whole, rather than an issue specific to hedge funds, and more needs to be done to promote financial services to women as a career route.

Sandra Urie, chairman and chief executive officer at Boston-based investment advising firm Cambridge Associates and a board member of 100 Women in Hedge Funds, a global association of more than 13,000 professional women, says: „To me the issue is one of talent, and talent resides in the total population – in men and women. Anyone who’s trying to run a good and successful firm should be tapping talent wherever it resides.“ To achieve that goal she says it is crucial to help young women understand that finance is a „great profession.”

Hedge Funds Review

Hedge funds offer hope in bubble times

Hedge funds may have stung a lot of investors during the financial crisis but their ability to outperform in times of trouble has put them back on the radar of baby boomers who are worried about bubbles forming in stocks and the property market.

„In markets like 2014, where the index doesn’t generate a significant overall return, long short funds have the ability to display outperformance by having exposure to stocks that both rise and fall“ said Auscap Asset Management principal and portfolio manager Tim Carleton „That ability is probably why long short funds are getting attention at the moment“. A long short equity fund is still exposed to the market, if markets go well you have exposure and if markets correct you have some protection in place to minimize loss of capital,” he said.

Steve Miller, head of fixed income at the world’s biggest money manager Blackrock, said if investors are worried about the direction of interest rates and how financial assets have run way ahead of sluggish Australian business cycle, hedge funds are a good option, even though they still ring „alarm bells“ among many investors.
“We would look at purely market neutral hedge funds, where you can dial up or down the level of risk you want to take,” he said. „The way to do that is to invest in hedge funds that can go long or short and which are not beholden to a particular direction to the market.”

A hedge fund has the ability to operate so that it is not correlated to what financial markets are doing. Funds which go long expect to profit from buying a stock as the price increases in value. A fund that shorts stocks seeks to profit as the stock is sold off.

The Sydney Morning Herald

Investors raise hedge fund allocations in March

Investors raised their allocations to hedge funds marginally in March, with inflows and outflows largely unchanged from a month earlier, data showed on Wednesday.

The SS&C GlobeOp Capital Movement Index, which calculates monthly hedge fund subscriptions minus redemptions, rose 0.66 percent in March, compared with a rise of 0.7 percent in February.

“The overall steadiness of the increase in hedge fund investments is noteworthy in light of recent higher volatility in financial markets,” said Bill Stone, chairman and chief executive officer of SS&C Technologies.

Reuters

Hedge fund assets rise again in February

The hedge fund industry’s assets under management rose to $3.08 trillion (€2.91 trillion) in February, according to data firm eVestment.

Following redemptions at the end of 2014 and weak flows in January, hedge fund assets picked up in February, increasing 2% as investors added $13 billion in new assets and performance gains brought in a further $48 billion.

funds europe

Hedge fund managers optimistic about future

When the California Public Employees Retirement System (CalPERS) announced it was terminating its $4 billion hedge fund program in September 2014, many financial pundits questioned the future of the hedge fund industry. But in a new survey of 100 hedge fund managers, respondents were characterized as „eagerly adapting to changing markets, investors, and products.” In fact, a majority of the survey’s respondents said they expect „a significant shift in their primary sources of capital to pension funds over the next five years.”

Conducted by the Alternative Investment Management Association (AIMA), KPMG International and the Managed Funds Association (MFA), the survey’s results are discussed in a new whitepaper titled Growing Up: A New Environment for Hedge Funds. The paper was authored by AIMA CEO Jack Inglis, KPMG partner Robert Mirsky, and MFA CEO Richard Baker. The survey’s 100 participants represent approximately $440 billion of assets under management (AUM), according to a March 12 AIMA press release.

When CalPERS divested its hedge fund program, it looked as though its decision might unleash a domino effect, with more and more public and private pension funds cascading out of their hedge fund investments. This, of course, didn’t happen, and respondents to the AIMA / KPMG / MFA survey certainly don’t think it’s about to: Instead, they said they expect institutional investors, including pension funds, to continue to eclipse high net-worth individuals as primary sources of hedge-fund investment. Longer-term, respondents projected public-sector pension and sovereign wealth funds will account for over 25% of hedge fund capital inflows by 2020.

„The days of hedge funds simply being an investment tool for high-net worth individuals are over,” said Mr. Baker. „Institutional investors like pension plans, university endowments, and charitable organizations now make up nearly 65% of the industry’s assets.”

The uncertain regulatory environment was one concern shared by most respondents. More than three-fourths of survey participants cited regulation as „the biggest threat to the growth of the hedge fund industry,” and European and Asia Pacific respondents were particularly concerned. But according to Tom Brown, Global Head of Investment Management for KPMG, „while compliance obligations have increased operating costs, there are signs that these costs are flattening out, and fund managers can put more of their attention on growth.” This is good news, according to Mr. Brown.
The fuzzy, insane math that’s creating so many billion-dollar tech companies

Snapchat, the photo-messaging app raising cash at a $15 billion valuation, probably isn’t actually worth more than Clorox or Campbell Soup. So where did investors come up with that enormous headline number?

Here’s the secret to how Silicon Valley calculates the value of its hottest companies: The numbers are sort of made-up. For the most mature startups, investors agree to grant higher valuations, which help the companies with recruitment and building credibility, in exchange for guarantees that they’ll get their money back first if the company goes public or sells. They can also negotiate to receive additional free shares if a subsequent round’s valuation is less favorable.

Some VCs defend the practice by saying valuations are just a placeholder number, part of an equation fueled by other, more important factors. Those can include market share, growth projections, and a founder’s ego. The number is typically set by the company and negotiated alongside various provisions designed to protect a new backer’s money. That often comes at the expense of employee shareholders and...
earlier investors, whose holdings are diluted to make room for new entrants. If you’ve seen the movie *The Social Network*, you have an idea of how that works.

„These big numbers almost don’t matter,“ says Randy Komisar, a partner at venture firm Kleiner Perkins Caufield & Byers. „Those numbers are just a middling shot at a valuation, and then it’s adjusted later“ through various legal techniques, if an earlier valuation was too high, he says.

A founder often starts off with a number in mind, based on the startup’s last valuation, the valuations of competitors, and, for good measure, the valuation of the company’s neighbor down the street.

A tech startup’s cash flow is less important than you might think. It’s something investors look at for a sense of how quickly a startup is growing its revenue, if the company has any. Financiers also look to find the number of people using the product, regardless of whether they pay for it. Investors salivate over what’s called „hockey-stick“ growth curves, indicating massive uptake. Costs, especially operations costs, are largely ignored for fast-growing companies.

Buried in their corporate filings, startups tuck away all sorts of provisions that reward investors for accepting these mega-valuations. The practice is more regular and egregious in financing rounds for mature companies. Their capital requirements tend to be much larger, so they must turn to more sophisticated investment firms that demand these kinds of terms._Startups that are generous with these guarantees can garner much higher valuations._

Each provision covers different ways to make sure new investors get paid back, even if disaster strikes, if an initial public offering gives the company a market cap far less than its private number, or, more commonly, if the startup has to raise money again at a lower valuation. One stipulation, called senior liquidation preference, ensures that a certain group gets its money back before anyone else, including employees. Another class, called downside protection or ratchets, automatically grants additional shares in the event of a declining valuation, removing a great deal of risk that the stake will ever lose value.

There is, however, a further number that’s grounded in reality. It’s the valuation based on common stock, which is generally what employees receive, and it’s calculated by professional auditors. That figure usually isn’t anywhere close to the headline number.

_Bloomberg_

**Equity put prices have increased sharply, but equity valuations at highs**

*Goldman Sachs Global Investment Research*

**It’s a „truly scary time“**

A hedge fund manager who warned about the last financial crisis is seeing parallels of that run-up in the market today. „**I think it is a truly scary time,**“ Andy Redleaf, CEO of $4.2 billion hedge and mutual fund manager Whitebox Advisors, said in an internal memo obtained by CNBC.com.

Redleaf wrote that the stimulus used to put fresh money in markets could end poorly, just like loose credit standards in housing before 2007 crushed that market. „We do not know exactly where all the credit creation of this cycle has gone. Certainly money sits idly as excess reserves, but just as certainly money that would not exist but for unconventional monetary policy has distorted prices and resource allocation,“ Redleaf wrote. He noted that the oil market—which recently crashed from around $100 a barrel to $43 today—may have been overly inflated by China „buying on easy credit“ and other excess money going to oil producers who in turn increased supply. Redleaf also said that stock markets may similarly be propped up by sovereign wealth funds and the **Swiss central bank** owning large amounts of equities. „There are some parallels with the collapse in home prices which preceded the financial crisis,“ he explained.
Redleaf has some history in predicting crises. „Sometime in the next 12 to 18 months, there is going to be a panic in credit markets,“ Redleaf wrote to investors in December 2006. „The driver in the credit market panic of 2007 or 2008 will be a sudden, profound and pervasive loss of faith in the alchemy of structured finance as currently practiced.”

CNBC

Hedge fund guru Crispin Odey says following China could lead to recession

Mr Odey is best known for his big macroeconomic calls, including foreseeing the 2008 global credit crisis; piling into insurers in the wake of September 2001 attacks; and picking the recent oil price rout. He famously paid himself £28 million in 2008 after shorting credit crisis casualties, including British lender Bradford & Bingley.

„The market’s reaction to all of this is leave it to the professionals, leave it to those great guys, the central bankers, because they saved the day in 2009,” he said. „These guys are kind of relying on central banks pulling a rabbit out of a hat.” The risk is that this time, monetary policy may be ineffective: „We need the crisis to reformulate policy. Central banks are not all singing and all dancing, they cannot basically avoid the natural consequences of what we are doing.” An inadequate supply-side response to the plunge in commodity prices as the resources industry declines to reduce production was in effect stimulating supply into falling demand. „The trouble is today the players, whether they are the miners or the oil companies or the Saudis or anybody else, they are not doing the right things. This is the first time in my career where economics 101 doesn’t work at all.”

But it was also true that the world has not had a major recession for 25 years and thanks to frequent interventions, „there is a sensation we don’t have a business cycle”. Stocks are enjoying a six-year bull market but he also hinted at liquidity issues bubbling under the surface. „I just think that you and I have got grandstand seats here [to an imminent market shock] and my point is having found myself in the second quarter of last year selling a lot of equities and starting to go short, I found out just how illiquid it all was. You never actually see it until people try and get out of these things.”

It was unclear to Mr Odey what central banks could do to prevent a crash... „I find it intriguing that we are so dependent on these central banks who are expected to do great things and yet what can they do? They start with interest rates pretty well at zero.” He believes the US Federal Reserve will be motivated to begin the tightening cycle. „You’re going to be very tempted to raise interest rates simply because you want to normalize,” he said. „There is a sense in which these guys are longing to try and stop some of this activity taking place as well as getting the situation back to some kind of normalcy.

„My view is hey look, if they do raise interest rates, I don’t even need it to happen but I do think that will put a bit of pressure on the share market as well... Everything points to it being a bubble. You can never know the height of a bubble but by the time it gets to here you haven’t got much time.”

„For me, what I find very interesting is given the risk of recession, how is it the West stock market can be hitting all-time highs? History tends to be not very generous in this regard. If you get a recession in a low inflation environment it tends to impact the ratings of stocks dramatically.”

It was akin to „watching the markets take drunken bow after drunken bow“.

„It’s amazing that nobody else is on the same page.”

The Sydney Morning Herald

Emerging markets corporate defaults

Pension Partners
BOJ survey shows bond dealers feel market functioning impaired

The majority of Japanese government bond dealers think that the bond market is not functioning well and that bid-ask spreads are not very tight, a Bank of Japan survey showed. The BOJ surveyed 40 financial institutions that are eligible to participate in JGB market operations, in order to better understand how its purchases of government debt via its quantitative easing are impacting the market.

Of institutions surveyed, 65 per cent said the bond market is not functioning at a very high level, while 62.5 per cent said the difference between bid and ask prices is not very tight. The survey also showed that 55 per cent of firms said orders from their customers are not very large.

The Business Times

Fed heroin trumps fundamentals

S&P 500 vs. Earnings Estimate Revision Trend

EU nears deal on $338 billion plan to tackle drop in investment

“EU finance ministers agreed the details of a 315 billion euro ($338 billion) investment plan on Tuesday to help revive the European economy without piling up more debt, and now aim to get the first projects going by the end of the year. EU lawmakers must now approve the fund.

The plan is the answer we need to confront the main handicap of the European economy: the lack of investment,” said Pierre Moscovici, the EU economics commissioner, adding that investment had fallen by 15 to 20 percent since 2008.

The four-year plan fleshes out a call by European Commission President Jean-Claude Juncker to back riskier projects from airports to railways and to confront the fall in investment since the financial crisis. Setting up the European Fund for Strategic Investments (EFSI) has been sensitive, with EU governments fearful of not having their projects chosen from a list of almost 2,000 projects worth 1.3 trillion euros that countries put forward. Some EU lawmakers are wary of favoritism toward western European countries over poorer, eastern European members.

Another problem has been that the Commission wanted countries to stump up money for the fund, insisting that it would not be included in debt and deficit calculations. That idea flopped because countries had no guarantee that their projects would be chosen.

Instead, countries such as France, Spain and Germany said they would help fund projects in their country via national development banks, and Italy on Tuesday promised to contribute 8 billion euros to the Italian projects chosen, via its national promotional bank.

There are also doubts whether the plan will attract enough private money, however. Juncker’s goal is to have 315 billion euros of largely private new investment by providing 21 billion euros in capital and first-loss guarantees from the EU budget and the European Investment Bank.

Under the plan agreed by ministers, the plan will run for four years but will be reviewed after three years to see if it is working. A steering board made up by the European Commission and the European Investment Bank will oversee the fund, while an eight-member investment committee will choose the projects.
The list submitted in December, which officials stress is not definitive, includes plans for housing regeneration in the Netherlands, a new port in Ireland and a 4.5 billion euro fast rail connection between Estonia, Latvia, Lithuania and Poland. Other ideas involve refueling stations for hydrogen fuel cell vehicles in Germany, expanding broadband networks in Spain and making public buildings in France more energy-efficient.

Reuters

Banks shift bond portfolios

Banks are shuffling big chunks of their securities portfolios around the balance sheet to shield capital levels from rising interest rates.

The moves, also encouraged by recent changes by regulators in bank-capital requirements, mean that billions of dollars in bonds and other debt held by banks have gone from being available for sale at a moment’s notice to being parked in an area of their books where they can’t easily be traded.

In the 18 months ended Dec. 31, US banks moved $293 billion of their securities investments to the „held to maturity” bucket on their balance sheets, according to data from the Federal Deposit Insurance Corp. that covers more than 6,500 banks.

That 84% increase since June 30, 2013, means that about $640 billion, or one in five dollars in banks’ securities portfolios, can’t be sold easily, up from about one in nine dollars in mid-2013. Once banks put securities into the held-to-maturity bucket, they generally aren’t permitted under accounting rules to take them out and sell them.

It is „not in the best interests for the bank,” to move securities into the held-to-maturity bucket, said Gerard Cassidy, an analyst with RBC Capital Markets. „They’re just going to restrict themselves” and leave themselves „handcuffed.”

The Wall Street Journal

NYC’s record homeless population

Varoufakisis says QE to fuel unsustainable equity rally

The European Central Bank’s bond purchases will create an unsustainable stock market rally and are unlikely to boost Eurozone investments, Finance Minister Yanis Varoufakis warned during a conference on Saturday.

„QE is all around us and optimism is in the air,” Varoufakis told a business audience in Italy. „At the risk to sound the party pooper ... I find it hard to understand how the broadening of the monetary base in our fragmented and fragmenting monetary union will transform itself into a substantial increase in productive investments. The result of this is going to be an equity run boost that will prove unsustainable,“ he said.

Earlier, Varoufakis reiterated that the new Greek government was ready to time its promised anti-austerity measures in a way that helped negotiations with European Union partners over the disbursement of financial aid. „We never said we’re going to renege on any promises, we said that our promises concern a four-year parliamentary term,“ he told reporters on the sidelines of the conference.

„They will be spaced out in an optimal way, in a way that is in tune with our bargaining stance in Europe and also with the fiscal position of the Greek state,” he said.

enikos.gr
Video of the month

Justice, capitalism and progress: Paul Tudor Jones II at TED2015

Can capital be just? As a firm believer in capitalism and the free market, Paul Tudor Jones II believes that it can be. Jones is the founder of the Tudor Investment Corporation and the Tudor Group, which trade in the fixed-income, equity, currency and commodity markets. He thinks it is time to expand the „narrow definitions of capitalism” that threaten the underpinnings of our society and develop a new model for corporate profit that includes justness and responsibility.

„This gap between the 1 percent and the rest of America, and between the US and the rest of the world, cannot and will not persist,” says the investor. „Historically, these kinds of gaps get closed in one of three ways: by revolution, higher taxes or wars. None are on my bucket list.”

Click to watch
TED Blog

Joke of the month

„Think about how stupid the average American is, and then realize than half of the population is stupider than that.” – George Carlin

Cartoon of the month
BOJ helps Tokyo stocks to soar

The Bank of Japan’s aggressive purchasing of stock funds has helped Japanese shares climb to multiyear highs in recent months. But some within the central bank are growing uncomfortable about the fast-paced rally and the bank’s own role in fueling it.

Since Gov. Haruhiko Kuroda took office in March 2013 and introduced monetary easing of what he called a „different dimension,” the central bank has sharply increased its buying of baskets of stocks known as exchange-traded funds. By directly underpinning the market, officials have tried to encourage private investors to follow suit and put more money in stocks in the hope of stimulating the economy and increasing inflation.

During the past two years, the central bank entered the stock market roughly once every three days, picking up a total of ¥2.8 trillion ($23 billion) of ETFs that track Japan’s major stock indexes, according to Bank of Japan records. That distinguishes it from the US Federal Reserve and European Central Bank, both of which have bought bonds to pump up the economy but haven’t directly bought stocks.

Analysts say the bank’s action has been a significant driver of Japan’s stock-market rally in recent months, combined with hefty purchases by the $1.1 trillion Government Pension Investment Fund. Their buying has often countered selling pressure from individuals in the market and made up for a weaker appetite among foreign investors.

Printing and Buying
The Bank of Japan’s accelerating purchases of equity funds are seen as a driving force in the Tokyo market.

BOJ officials used to be cautious about purchasing ETFs, worried that it could distort market activities and put the central bank’s own financial health at risk. But under pressure from politicians following the global financial crisis, the bank changed its stance in late 2010.

“[W]e led the cows to water, but they didn’t drink it, even though we told them it tasted good,” Miyako Suda, who was a board member then, wrote in a 2014 book discussing monetary easing at that time. „So we thought we should drink it ourselves, showing them it was tasty."

The Wall Street Journal

Apple is a lagging Dow indicator

I want to address the addition of Apple to the Dow Jones Industrial Average, so we have to get a few things out of the way up front.

The venerable Dow isn’t really all that important. It began life on May 26, 1896, but in the last 30 or so years, it has faded in significance. It remains deeply flawed in its methodology, driven rather arbitrarily by the price weightings of its constituents rather than their market values.

You can see how this affects the weighting of each component in the index. Companies with higher stock prices such as Visa and Goldman Sachs have a 9.7 percent and 6.7 percent weight, respectively, while lower-priced stocks such as Cisco Systems and General Electric are merely 1.05 percent 0.91 percent, respectively. Why Goldman Sachs, with an $84 billion capitalization, matters more to the Dow than General Electric, with a $257 billion capitalization, is rather mystifying. A high-priced, smaller company carrying more weight than a lower-priced, bigger company makes no sense.
Not only that, but it is an actively selected -- though not actively traded -- portfolio, managed by a group of editors. Originally these editors were employees of Dow Jones, the company, but since 2012 the index has been purchased the index from Dow Jones in 2010, owned by McGraw Hill Financial. The CME group, which had 73 percent owned by McGraw Hill Financial. The CME group, which had purchased the index from Dow Jones in 2010, owns 24.4 percent; Dow Jones retains the remaining 26 percent stake.

I can’t think of these strange bedfellows now in charge of selecting Dow components without being reminded that a camel is a horse that was designed by a committee.

What qualifies a company to be included in the Dow? According to the DJ Index fact sheet, a „stock typically is added only if the company has an excellent reputation, demonstrates sustained growth and is of interest to a large number of investors.” (The full history of additions and deletions can be seen here). But that description is so broad as to be almost useless. There are hundreds of companies with those qualifications.

Why Apple, and perhaps more importantly, why now?

The problem is mostly revealed in the name of the index -- the Dow Jones Industrial Average. As the history of the index reveals, the editors do fine with manufacturers, but they seem to have a problem with technology and telecom -- which look and act decidedly unlike traditional big iron companies. Looking at some recent additions and deletions, it is clear that technology companies are not the forte of the index’s editors.

Now we see Apple, having one of the most epic runs of all time, becoming the biggest company in the world, and only NOW does it get added to the Dow? After it created, reinvented or disrupted numerous industries? AFTER the iPod, iPhone, iPad? After Apple destroyed so many companies (Dell, Research in Motion, Nokia, etc.) along the way?

**BloombergView**

**Pay gaps**

The CEOs of 350 Standard & Poor’s 500 companies made 331 times more than their employees in 2013, up from a ratio of 46-to-1 in 1983, according to the AFL-CIO. That’s more than twice the gap in Switzerland and Germany, and about 10 times bigger than in Austria. In Japan, CEOs make about 67 times more than workers (although the country’s highest-paid woman earns only 25 times more). Australian CEOs get 93 times more. A global Harvard Business School survey found that most people think pay gaps are far smaller than they are. That was particularly true in the US, where survey respondents thought the ratio of CEO to average worker pay was 30 to 1; they put the ideal ratio at 7 to 1.

**Bloomberg**

**The tried-and-true blueprint for raising taxes**

1. Declare the tax is an emergency measure.
2. Start the tax out at a low rate to minimize resistance.
3. Levy the tax only on the wealthy to play the „it’s only fair“ card.
4. During some late-night session when the public isn’t looking, make the tax permanent by burying the provision deep inside some popular and/or complicated legislation.
5. Raise the tax rate in response to deficits, i.e. „we need more money,“
6. Gradually expand the base by reducing the qualification level from „wealthy“ to „well-off“ and eventually to everyone.
7. Gradually reduce deductions and exemptions to pittance.
8. Auction off exemptions for the super-wealthy via campaign contributions.

**Of Two Minds**
### Bogle launches renewed attack on ETFs

Legendary investor John “Jack” Bogle, who founded low-cost fund giant Vanguard, has launched a renewed attack on exchange traded funds, calling them little more than a marketing innovation. Mr Bogle, who created the first ever index fund, has told investors to „beware“ of ETFs, warning that the only clear winners in the rapidly expanding market are the brokers and dealers.

He said: „Investors, who have come to expect their index funds to be commission-free, beware. Mark me as a member of a small group of cohorts who are dubious about the utility of ETFs for long-term investors.”

Unlike traditional index funds, ETFs trade on an exchange and can be bought and sold at any time. That creates a temptation to trade, incurring costs for investors, said Mr Bogle. He pointed to evidence that the most active ETFs have annual turnover rates of between 2,000 and 4,000 per cent.

**In an editorial for FTfm** the 85-year-old said: „I freely concede that the ETF is the greatest marketing innovation of the 21st century. But is the ETF a great innovation that serves investors? I strongly doubt it. For better or for worse, ETFs have opened indexing to a new market of stock traders. The only sure winners are the brokers and dealers of Wall Street.”

**The Financial Times**

### Are central banks creating deflation?

**Courtesy of Citi’s Matt King:**

> It’s that linkage between investment (or the lack of it) and all the stimulus which we find so disturbing. If the first $5tn of global QE, which saw corporate bond yields in both $ and € fall to all-time lows, didn’t prompt a wave of investment, what do we think a sixth trillion is going to do?

> Another client put it more strongly still. „By lowering the cost of borrowing, QE has lowered the risk of default. This has led to over-capacity (see highly leveraged shale companies). Overcapacity leads to deflation. With QE, are central banks manufacturing what they are trying to defeat?”

**Zero Hedge**

### Boeing helped craft own loan rule

When the Export-Import Bank sought to respond to critics with tighter rules for aircraft sales, it reached out to a company with a vested interest in the outcome: Boeing Co., the biggest beneficiary of the bank’s assistance.

For months in 2012, according to about 50 pages of emails reviewed by The Wall Street Journal, the bank worked with Boeing to write rules that would satisfy critics in Congress and the domestic commercial airline industry—while leaving most sales of Boeing’s airplanes to foreign carriers unscathed.

Ex-Im Bank, which helps finance the purchase of US exports through loans and guarantees, is the target of Republicans who want to kill it, in part because they say it mostly provides subsidies to America’s largest companies. The Boeing emails will add fuel to that fight.

The previously unreported documents, obtained through an open-records request, show how the two sides swapped ideas, drafts and data on sales of wide-body airplanes. Ex-Im Bank officials pushed their Boeing counterparts for information. Boeing suggested changes to the bank’s draft proposal.

They reveal an extraordinary level of coordination between public officials and corporate executives. In a message one Saturday morning, Bob Morin, then the bank’s head of aircraft financing, sent a plea: „If Boeing expects Ex-Im Bank to continue supporting wide-body aircraft, we need to get this right.”

**The Wall Street Journal**

### Bridgewater’s Ray Dalio explains the power of not knowing

To make money in the markets, you have to think independently and be humble. You have to be an independent thinker because you can’t make money agreeing with the consensus view, which is already embedded in the price. Yet whenever you’re betting against the consensus, there’s a significant probability you’re going to be wrong, so you have to be humble. Early in my career I learned this lesson the hard way — through some very painful bad bets. The biggest of these mistakes occurred in 1981–82, when I became convinced that the US
The economy was about to fall into a depression. My research had led me to believe that, with the Federal Reserve’s tight money policy and lots of debt outstanding, there would be a global wave of debt defaults, and if the Fed tried to handle it by printing money, inflation would accelerate. I was so certain that a depression was coming that I proclaimed it in newspaper columns, on TV, even in testimony to Congress. When Mexico defaulted on its debt in August 1982, I was sure I was right. Boy, was I wrong. What I’d considered improbable was exactly what happened: Fed chairman Paul Volcker’s move to lower interest rates and make money and credit available helped jump-start a bull market in stocks and the US economy’s greatest ever noninflationary growth period.

This episode taught me the importance of always fearing being wrong, no matter how confident I am that I’m right. As a result, I began seeking out the smartest people I could find who disagreed with me so that I could understand their reasoning. Only after I fully grasped their points of view could I decide to reject or accept them. By doing this again and again over the years, not only have I increased my chances of being right, but I have also learned a huge amount.

There’s an art to this process of seeking out thoughtful disagreement. People who are successful at it realize that there is always some probability they might be wrong and that it’s worth the effort to consider what others are saying — not simply the others’ conclusions, but the reasoning behind them — to be assured that they aren’t making a mistake themselves. They approach disagreement with curiosity, not antagonism, and are what I call “open-minded and assertive at the same time.” This means that they possess the ability to calmly take in what other people are thinking rather than block it out, and to clearly lay out the reasons why they haven’t reached the same conclusion. They are able to listen carefully and objectively to the reasoning behind differing opinions.

When most people hear me describe this approach, they typically say, “No problem, I’m open-minded!” But what they really mean is that they’re open to being wrong. True open-mindedness is an entirely different mind-set. It is a process of being intensely worried about being wrong and asking questions instead of defending a position. It demands that you get over your ego-driven desire to have whatever answer you happen to have in your head be right. Instead, you need to actively question all of your opinions and seek out the reasoning behind alternative points of view.

This approach comes to life at Bridgewater in our weekly research meetings, in which our experts on various areas openly disagree with one another and explore the pros and cons of alternative views. This is the fastest way to get a good education and enhance decision-making. When everyone agrees and their reasoning makes sense to me, I’m usually in good shape to make a decision. When people continue to disagree and I can’t make sense of their reasoning, I know I need to ask more probing questions or get more triangulation from other experts before deciding. I want to emphasize that following this process doesn’t mean blindly accepting the conclusions of others or adopting rule by referendum. Our CIOs are ultimately responsible for our investment decision-making. But we all make better decisions by maintaining an independent viewpoint and the conflicting possibilities in our minds simultaneously, and then trying to resolve the differences. We’re always in the place of holding an opinion and simultaneously stress-testing the hell out of it. Operating this way just seems like common sense to me. After all, when two people disagree, logic demands that one of them must be wrong. Why wouldn’t you want to make sure that that person isn’t you?

0% down, 100% chance of trouble

We’ve seen this movie before, and if I recall correctly, it didn’t end terribly well.

In fact, we’re still living through the seemingly-endless backlog of delinquent loans and distressed properties that the massive housing boom and bust cycle left us with back in 2008. A cycle that was fueled by free-flowing capital, and built bad loan by bad loan by bad loan.

Imagine my surprise to read today about a new loan product that requires 0% down; has no private mortgage insurance requirement; provides cash from the lender for up to $4,500 of the closing costs, and allows gifts or seller funding for the rest of the closing costs; is aimed at borrowers making less than 80% of the median income in the market where they’re buying a home; and available only for properties located in a low-to-moderate income census track.

So, zero down payment loans to low-income borrowers with basically no cash reserves, on properties least likely to increase appreciably in value, and probably most likely in need of repairs.

What could possibly go wrong with this set-up?

Rick Sharga

Fed policies have cost savers $470 billion: Report

The Federal Reserve’s efforts to stimulate the US economy after the financial crisis ended up costing savers nearly half a trillion dollars in interest income, according to a report released Thursday.

Since the central bank dropped interest rates to near zero at the end of 2008, savers have labored under plain-vanilla bank accounts and money market funds that have yielded close to nothing. Critics have long said the Fed’s quantitative easing efforts have boosted asset prices, particularly in the stock market, but exacted severe costs across other parts of the economy.

CNBC
**TIME OUT**

**Bitcoin scammers run off with $12 million: „Going to the Caribbean... Hope you guys understand”**

For the casual observer the underground online marketplace, often referred to as the DarkNet, seems to resemble the lawlessness of the Wild West. Over the last several years millions of dollars worth of digital crypto-currencies have been stolen, oftentimes by the very operators of the web sites tasked with managing the online digital „hot” wallets of its users. (A „cold” wallet is used to store crypto-addresses on your own Flash drive or can be written down on a piece of paper).

The most recent example comes to us from the „Evolution” Darknet, which according to a report from Crypto Coins News shut down their web server and ran off with $12 million in user bitcoins:

Users of the popular darknet marketplace Evolution were disappointed over the last couple of days as the site has been unavailable. Spotty access is normally unsurprising for the market, and there is a long list of alternative URLs. But none of them have worked, so it appears the site is down.

Evolution has become much more active in the wake of the arrest and subsequent conviction of Ross Ulbricht, the operator of the first major darknet marketplace, Silk Road. Its operators do not have the same philosophical drive as did the Silk Road operator.

A user or users operating under the name Vert0 and Kimble appear to be the culprits responsible for transferring the funds out of the Evolution network. But the story doesn’t end there. The operators of Evolution did leave a note for their users letting them know what happened to the money. As you might expect, the $12 million in bitcoins that have been disappeared will be shared among the former admins of Evolution, with the operator of the site claiming he’s headed to the Caribbean to enjoy his profits:

*Due to unforeseen events I decided to close down Evolution Marketplace. We want to thank you guys for your effort and help making this the most profitable and popular marketplace. This wasn’t an easy decision but due to other marketplaces getting shut down and the forum going downhill I decided to cut my ties and exit with an eight figure profit. The millions from evo will be divided up amongst the mods a few admin and members. Since this is such an abundance of money I may consider buy ins from former evo members in exchange for 1k bitcoins. I’ll be around for a short period of time before permanently moving to the Caribbeans, I hope you guys understand.*

Crypto-currencies like Bitcoin are gaining popularity across the world, but with the anonymity they provide the entire system remains open to unscrupulous brokers.

The Daily Sheeple

**Administration sets record for withholding government files**

The Obama administration set a new record again for more often than ever censoring government files or outright denying access to them last year under the US Freedom of Information Act, according to a new analysis of federal data by The Associated Press. The government took longer to turn over files when it provided any, said more regularly that it couldn’t find documents, and refused a record number of times to turn over files quickly that might be especially newsworthy. It also acknowledged in nearly 1 in 3 cases that its initial decisions to withhold or censor records were improper under the law — but only when it was challenged.

[Associated Press](https://www.associatedpress.com)

**Pentagon loses track of $500 million in weapons, equipment given to Yemen**

The Pentagon is unable to account for more than $500 million in US military aid given to Yemen, amid fears that the weaponry, aircraft and equipment is at risk of being seized by Iranian-backed rebels or al-Qaeda, according to US officials.

With Yemen in turmoil and its government splintering, the Defense Department has lost its ability to monitor the whereabouts of small arms, ammunition, night-vision goggles, patrol boats, vehicles and other supplies donated by the United States. The situation has grown worse since the United States closed its embassy in Sanaa, the capital, last month and withdrew many of its military advisers.

„We have to assume it’s completely compromised and gone,” said a legislative aide on Capitol Hill who spoke on the condition of anonymity because of the sensitivity of the matter.

... Washington has supplied more than $500 million in military aid to Yemen since 2007 under an array of Defense Department and State Department programs. The Pentagon and CIA have provided additional assistance through classified programs, making it difficult to know exactly how much Yemen has received in total.

[The Washington Post](https://www.washingtonpost.com)

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The New York Times

France likely to ban super-skinny models

The link between high fashion, body image and eating disorders on French catwalks may lead to a ban on super-skinny models. France’s government is likely to back a bill being discussed in Paris banning excessively thin fashion models as well as potentially fining the modelling agency or fashion house that hires them and sending their agents to jail, Health Minister Marisol Touraine said on Monday.

Style-conscious France, with its fashion and luxury industries worth tens of billions of dollars, would join Italy, Spain and Israel, which all adopted laws against too-thin models on catwalks or in advertising campaigns in early 2013.

Under the proposed legislation, any model who wants to work has to have a body mass index (a type of height to weight ratio) of at least 18 and would be subject to regular weight checks. Health Minister Marisol Touraine says the ban would protect young women who see models as the ideal female form. Plus, many models in France are still in their teens.

So, a woman who is 5-foot-7 would have to weigh at least 121 pounds. The normal weight BMI range is around 18.5 to 25.

The law would enforce fines of up to $79,000 US for any breaches, with up to six months in jail for any staff involved, French Socialist Party legislator Olivier Veran, who wrote the amendments, told newspaper Le Parisien. The bill’s amendments also propose penalties for anything made public that could be seen as encouraging extreme thinness.

CBC

Obama’s HI vacation cost US taxpayers more than $3 million in flights alone

The Obama family’s 2014 Christmas vacation to Hawaii cost taxpayers more than $3.6 million in flight expenses alone, according to Air Force records obtained by Judicial Watch.

The president grew up in Hawaii, and Christmas there is an annual family tradition. The most recent trip marked the seventh consecutive time the Obamas have spent the holidays in Hawaii – the sixth as the first family. All told, those Christmas vacations have cost taxpayers $15.5 million just in transportation expenses, according to figures obtained by Judicial Watch over the past three years...

Last July, Obama headed to the West Coast for a three-day fundraising tour on behalf of the Democratic National Committee. His visit to Seattle, San Francisco, and Los Angeles encompassed at least five fundraisers, including one where guests paid as much as $32,400 to attend.

While the funds raised during the trip went to the DNC, all American taxpayers were forced to foot the $2.4 million cost to transport the president.

Sputnik News
In Italy, they’re now taxing shadows

As Greece struggles to convince the world it’s serious about adopting a series of reforms designed to bolster its economy including cracking down on rampant tax evasion, the Syriza government may want to look to Italy for creative ideas on how to boost government revenue. As Italian newspaper Leggo reports, store owners in Conegliano are now faced with the unfortunate (albeit comically absurd) proposition of paying taxes on shadows.

The rationale appears to go something like this: an awning casts a shadow on public property and therefore you must pay to use that property. Here’s more:

The best thing about this policy (if you’re the government) is that taken to its logical extreme, you could charge everyone a fee on sunny days as unless you’re a vampire, you probably are using public land by casting a shadow. We would also note that this gives new meaning to the term „shadow banking.“

Ex-FinMin Hardouvelis transferred money abroad out of „fear of default“

Gikas Hardouvelis, the man who headed Greece’s Finance Ministry until the January 25th elections unseated the New Democracy-led government, has revealed that he transferred large sums of money out of the country in 2012 out of fear that the country was headed for a default and euro exit.

The money transfers took place only a few months before Hardouvelis became a key adviser to the technocratic Prime Minister Lucas Papademos who led a unity government following the resignation of George Papandreou. Hardouvelis went on to become Finance Minister in 2014.

Pay levels of world leaders in perspective

AirBnB welcome in capitalist Eden of Cuba, still fighting socialist regime of NYC

Sharing economy behemoth – and hotel industry nightmare come to life – AirBnb announced today that it has opened operations in Cuba, making it possible for users to sip Mojitos in the privacy of their own room for less than $50 a night.

Less than three months after the US announced it will ease travel to Cuba, home rental site Airbnb is listing properties in the island nation. The average price for a room or home in Havana is currently $43. The company says it’s starting out with more than 1,000 listings.

The move is huge on a geopolitical level, signifying Silicon Valley’s first foray into Cuba since the thaw of a 50-year embargo began at the end of 2014.

Turns out that AirBnB is finding it easier to deal with the „Hermanos Castro“ than the New York City government, which makes you wonder how effective Cuban hotel industry lobbyists are at their jobs.
The rise of luxury toilet paper

Americans have a new favorite way to flush money down the drain: luxury toilet paper.

Sales in the United States of what the industry calls „luxury“ rolls — anything quilted, lotioned, perfumed or ultra-soft, from two- to four-ply — climbed to $1.4 billion last year, outpacing all other kinds of toilet paper for the first time in nearly a decade, data from market research firm Euromonitor International show.

The luxury market is one-fourth the size of the standard TP market, but its prominence in Big Wipe is growing faster than many industry watchers expected. Luxury toilet paper sales have grown more than 70 percent since 2000, and they’re expected to keep growing faster than all other categories every year through at least 2018.

“Higher growth is expected out of the luxury segment as the improved economy allows consumers to satisfy their desire for comfort,” Euromonitor analysts wrote in a recent industry report about toilet paper’s „increasing premiumisation.” „While the idea of ... luxury toilet paper may be slightly odd, (its) performance suggests otherwise.”

The Washington Post

One investor has an unbelievable „magic ticket“ that is turning him into a billionaire without any risk

One French investor owns a financial contract so good that most people wouldn’t believe it exists. It gave him 68.6% returns every year from 1997 to 2007, and he is exposed to almost no risk at all. That man is Max-Hervé George, who is the subject of an amazing FT Alphaville piece, and his deal with a major insurance company may be the best in the world.

When George was 7 years old his father bought him a life-insurance contract that allowed him to switch his investments based on their market prices published each Friday. He can switch those investments at any time in the next week based on those prices, regardless of what happens to them during the week.

It is almost unbelievable. Here is how it works, according to the FT, which called it a „magic ticket“:

Life insurance is a popular savings product in France, and typically the customer allocates their money among different investment funds offered by the insurer. But this contract was not typical: prices for the funds were published each Friday, and clients were allowed to switch funds at those prices anytime before the next price was published, even if markets moved in the meantime.

L’Abeille Vie called this an arbitrage, but really it was a gift. Is the stock market up this week? Just call your broker to buy it at last week’s price and pocket the difference...

Mr George continues to arbitrage time. For instance, he might have his money in an Aviva fund invested in the French stock market. Let’s say the Nikkei 225 rises 5 per cent during the week. He’ll tell Aviva to move his investments into its Japanese fund, at the price before the market moved.

If George’s investments crash, no problem: He can just move them into something that didn’t crash. Aviva is legally bound and has to accept this. George has to deliver instructions by letter, which he makes sure is done by a bailiff.

The contract is an artifact of a bygone age in which financial price data was not readily available to anyone with a computer and switching your investments took time. The company that sold it, Abeille Vie, was merged into Commercial Union, which was then merged into Aviva. Aviva France is still bound to the contract.

George and his family have won at least three court battles to keep the deal. As of 2007 the family had €21 million ($23.53 million), of which €1.4 million belonged to Max-Hervé. That’s from just €8,000 worth of French francs initially. As for how much the family has now, Alphaville have crunched the numbers:

Estimating the size of his windfall is an illustration of exponential growth. Assume the growth rate of 68.6 per cent a year continues, and €1.4m becomes £93m. There was quite a significant market crash in 2008, but imagine you were able to pick the best performer each week as markets rebounded in 2009.

By 2020 that would be €1.2 billion, and over €230 billion by the end of 2030 (at which time it would be worth more than Aviva).

Business Insider
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 of Skënderbeg Alternative Investments AG.

Prior to establishing the company, 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 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.

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