Put into perspective

Ahead of the mainstream

March 2016

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"The last duty of a central banker is to tell the public the truth."

–Alan Blinder, former Federal Reserve Board Vice Chairman
**HEDGE FUNDS**

**Lansdowne, Odey said to lose as market turmoil hits hedge funds**

As European hedge funds that bet on stocks post the worst start to the year since at least 2000, managers from Stephen Roberts to David Craigen are said to have lost more than 10 percent.

The Lansdowne European Equity Fund, with $517 million of assets managed by Craigen, lost 11.4 percent through Feb. 19, a person with knowledge of the matter said, asking not to be identified as the returns are private. A Lansdowne spokesman declined to comment.

Roberts' Horseman European Select Fund, which managed $566 million at the end of December, fell 22 percent in the first two months of the year, a spokesman said. Crispin Odey's main hedge fund, which oversees 1.6 billion euros, declined by 4.4 percent, a spokeswoman said.

European equity long-short hedge funds lost an average of 3.9 percent through February this year, their worst decline in the period since Eurekahedge began compiling data 17 years ago. Losses when shares fell in January were compounded when managers decided to increase their short position in February, just before stocks rallied. Investors short companies by selling borrowed stock and seek to profit by buying it back later at a lower price.

"There was hardly a space to hide over January and February," said Miranda Ademaj, chief executive officer of fund of hedge funds Skenderbeg Alternative Investments. "A lot of long-short equity hedge funds, especially long-biased fund, suffered losses as stocks declined across sectors."

Global equity markets lost about $6.3 trillion in the first two months of the year, according to data compiled by Bloomberg, as investors grew concerned at slowing economic growth in China, negative interest rates in Japan and Europe and the impact of a decline in oil prices on corporate balance sheets and banks.

Banks stocks that are members of the STOXX Europe 600 Index led the falls, losing almost a fifth of their value, the data shows.

Bloomberg

**The hottest hedge fund strategy tells you everything you need to know about markets right now**

Investors clearly can’t make up their minds about where stocks are heading in 2016. The good news is that there's a hedge fund strategy for that, and it’s set to be a very popular approach.

Fundamental equity market neutral funds, or hedge funds that take an offsetting number of longs and shorts with the goal of generating alpha no matter the market direction, are in fashion, according to Deutsche Bank. The bank’s global prime finance group surveyed 504 hedge fund allocators (fund of funds, pension funds, family offices, endowments, foundations, etc.) who collectively manage and/or advise on $42 trillion in total assets and $2.1 trillion of hedge fund assets. The hedge fund industry is made up of many different types of strategies — long/short equity, activist, event-driven, distressed credit, global macro, the list goes on. Allocators have to decide which strategies are poised to perform. Deutsche Bank found that the "most in-demand" strategy was the equity market neutral strategy.

About 32% of the respondents said they were increasing their exposure to fundamental equity market neutral managers, up from 17% in 2015. A further 18% of the allocators were increasing their exposure to systematic equity market neutral funds, up from 11% in 2015. Toward the tail end of 2015, investors had the view that equity markets might be volatile and that there would be opportunities on the short side. Investors are expecting more volatility in 2016, and market neutral funds are one way to manage that.

"Typically, market neutral managers tend to have more diversified portfolios with more names," Naidoo said. "Investors are utilizing that diversification to manage a volatile environment." These sorts of hedge funds take long positions in stocks they think will outperform the market and short positions in stocks they think will underperform, aiming to hedge out broader market moves. In finance lingo, they aim for a beta to equity markets of zero. That’s appealing to investors when the market is volatile. According to the results, most of the respondents expect hedge funds to outperform equity markets in 2016. What’s more, 41% of them plan to increase their hedge fund allocations over the next 12 months, up from 36% who increased in 2015.

Business Insider

**Survey shows institutional investors intend to increase hedge fund allocations in 2016**

A recent survey conducted by Context Summits showed that 79% of institutional investors intend to increase their hedge allocations in 2016. The survey was conducted at the Context Summits Miami 2016 and included approximately 200 investors. The survey also showed that 96% of investors plan to make allocations to two or more funds in the coming year. The conference was attended by approximately 500 investors and 450 fund managers and the combined assets under management of those in attendance was over $1.5 trillion.
"This survey provides invaluable insight into allocation trends for 2016 and offers a snapshot of the conversations between managers and allocators at our Summit," said Mark Salameh, Co-Founder and Chief Executive Officer of Context Summits. "We believe this year presents a unique opportunity for many managers to distinguish their story and attract institutional capital, particularly considering findings in this survey coupled with the current macro environment and broad range of strategies represented at our Summits."

HedgeCo.net

Alternatives may help investors win more by losing less

2016 is already looking to be a bumpy year. While "market pros" use the mainstream media to assuage investor fears, alternative investors often tend to be contrarian by nature, and perhaps a bit more savvy. Jonathan Belanger, Director of Research for AlphaCore Capital, is in the latter camp: he thinks investors are generally underestimating risks in the stock and bond markets, while alternative strategies have the potential to protect capital – and this is the thesis of his recent white paper, titled Win More by Losing Less.

The world has evolved

The Internet Revolution has changed the way the world works as much (if not more than) its predecessor, the Industrial Revolution. Perhaps the former could even be seen as a continuation of the latter, as progress has been geometric or even exponential in the past 200 years, after millennia of comparatively little change. Just in the past 20 years, whole industries have been transformed and geopolitics and international finance bare virtually no resemblance to the world of a few decades past: and yet, investors still think a "60/40" buy-and-hold strategy is wise?

Mr. Belanger certainly does not. Instead, he favors a well-constructed portfolio combining significant exposure to alternatives and traditional investments. Such a portfolio, in his view, has the ability to outperform over time.

Uncompensated risks in traditional portfolios

Many investors want to cling to the belief that a "diversified" portfolio of stocks and bonds will yield their traditional 8-10% over the long term, with bonds providing downside protection during bear markets for equities. These investors ignore mainstream projections that stocks are likely to earn just 0-3%, annualized, over the next ten years, and bonds around 2% per year. Ultra-low bond yields don't provide much of a safety net, either, and in Belanger’s view, those expected returns don’t justify the risks. There is very strong empirical evidence that equity valuations and bond yields are good predictors of future returns for stocks and bonds.

By contrast, a diversified portfolio that includes a variety of alternative strategies – each with low correlation to stocks and bonds, and to one another – should outperform. The low correlations of these assets and strategies should help investors mitigate downside risk, especially in turbulent markets.

DailyAlts

Eric Bennett’s top 10 manager search and selection tips

Giving money to an investment manager is not something done casually. It may be tempting to chase performance, but if you’re not careful you’ll give your client’s money to a manager who was merely lucky and is destined to underperform, or even worse, is a con artist like Bernie Madoff. As a fiduciary, it’s your duty to conduct sufficient manager due diligence to reduce the probability of disastrous or disappointing outcomes. At the Asset Allocation for Private Clients conference held in Atlanta this October, Eric Bennett, CFA, chairman and CEO of Tolleson Private Wealth Management, gave his top 10 tips for manager due diligence before and during engagement. According to Bennett, following these guidelines could help you avoid some common manager-selection pitfalls.

10. Remember you are investing in people, not just performance.

Performance results are, by definition, backward looking, but hiring a manager is a business relationship like any other, and if you engage a manager of poor character, you will find your problems run much deeper than underperforming your benchmark. In good times and bad, integrity matters.

9. Have a well-defined process, and stick to it.

Develop your checklist for manager eligibility, and then stick with it. If you find yourself tempted to waive one of your requirements, examine the reason very closely. This might be an indication that you are responding emotionally to some attribute of the manager and should be a warning sign to you.

8. Patience!

Finding managers with talent and integrity isn’t easy, so don’t rush. Don’t take shortcuts in your process to meet an arbitrary deadline, and don’t be rushed by the prospect of an oversubscribed fund. Consider if a small "seed allocation" might be an appropriate way to get to know your manager before making a full commitment.
7. Make sure the strategy has an opportunity set.

Innovative, alpha-generating strategies may not persist once word gets out. Convertible arbitrage, for example, worked well until the market wrung the inefficiencies out of the convertible bond market, but what was once alpha has become beta. Before making an allocation to a strategy, consider what might cause its ability to generate alpha to be short-lived.

6. Go see their office.

Never give money to a manager you haven’t visited. Is the business orderly and well run? Do the managers work well together or is there tension in the office? If something’s not right, you’re more likely to detect it with a visit.

5. Ask what percentage of their own money is invested in their strategy, and look for meaningful changes in partner capital over time.

All things equal, you want your managers to have "skin in the game," so that their interests are as aligned as possible with yours. Are general partners pulling money out? If so, this doesn’t have to be a deal breaker, but the reasons should be thoroughly investigated.

4. Watch for strategy divergence.

If your fund has been 25% net long for three years and is suddenly 75% net long, you should ask for an explanation. If there are significant changes in the types of holdings, or changes in concentrations of certain sectors or asset classes, these are signs of strategy divergence, and you may not be getting what you expect from a manager.


Strategies that work in small volumes may not be as successful on a larger scale, but a big change in AUM might also suggest the manager is disproportionately focused on asset gathering instead of investing. Also, beware of big sideline interests that might compete for your manager’s focus — the purchase of a NBA basketball team, for example. Distracted managers can become average very quickly.

2. Do a background and credit check.

An easy screen for potential red flags that you should do as a matter of course. A simple public documents search could save you major headaches down the road.


You’ve heard it before, but don’t chase performance! Most top-quartile managers will not hold their spots, and research suggests that a significant percentage will perform below the median in the future. Rather, examine track records closely and try to understand what is driving performance. Beware of concentrations in last year’s winners, and closely examine down periods, and outlier quarters and months. If you use manager performance as a window into understanding a manager’s analytical process, you’ll make better, long-term decisions and will be less likely to bolt a skilled manager experiencing temporary, short-term underperformance.

Bennett’s bonus tip: As long as human decision-making remains the core of investment management, you need to understand psychology in order to truly understand your fund managers.

CFA Institute

Billionaire Griffin pays $500 million for two paintings

Billionaire Ken Griffin paid about $500 million for two paintings by Abstract Expressionist masters in one of the largest private art deals ever, according to people familiar with the transaction.

Griffin, founder of Chicago-based hedge fund firm Citadel, bought works by Jackson Pollock and Willem de Kooning from David Geffen’s foundation, said one of the people, who asked not to be identified because the information is confidential.

The deal, completed in the fall, is a record for both artists and exceeds the last high mark for a private sale, the $300 million that Qatar Museums paid for Paul Gauguin’s painting “When Will You Marry?” Griffin’s purchase preceded a slowdown in the art market in the second half of 2015. Sales of Impressionist, modern, postwar and contemporary art at Sotheby’s and Christie’s in London earlier this month fell from a year ago.

"In order to own the greatest art historical objects of our time one has to go above and beyond to obtain them," said Abigail Asher, a partner at art advisory firm Guggenheim Asher Associates Inc. in New York, who wasn’t involved in the transaction.

Bloomberg
MARKETS

The latest raw PE estimate from The Wall Street Journal for the Russell 2000 index

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PE data based on as-reported earnings; estimate data based on operating earnings.
Source: BofA Merrill Lynch

Equity market index weakness is now being met by profit weakness

At this time, in which phase of the economic cycle would you say the global economy is?

Faster-than-standard downgrading

Minack Advisers
What do you consider the biggest "tail risk"?

BofA Merrill Lynch

Technology stocks selloff may turn IPO chill into IPO freeze

U.S. technology initial public offerings

Reuters

Correlation of cross-asset volatility is increasing

BofA Merrill Lynch

Looking for, but failing to find, an expansion in new highs

Gavekal Capital
Expectations for the next Bank of England rate hike just keep drifting

**If it takes forever...**

Expectations for a U.K. rate hike are being pushed further and further into the future*.

*Source: Bank of England, projections based on instantaneous OIS forward curves | WSJ.com

The Wall Street Journal

Yardeni Research

Many unicorns finding it hard to survive in the wilderness

*Source: Bloomberg, Techcrunch, JPMorgan. February 16, 2016. "Current" shows most recent price index for companies public for more than 960 days.

JP Morgan
Probability of a recession in the next 12 months predicted by the 3m10y slope

World trade records biggest reversal since crisis

Art & shipping stocks lead the economic cycle

Recent price action of Sotheby’s & Maersk is similar to 2000 & 2008.

Sovereign wealth funds may sell $404 billion of equities

Sovereign wealth funds may withdraw $404.3 billion from global stock markets this year if crude prices stay between $30 to $40 per barrel as oil-rich nations seek to shore up their finances, according to the Sovereign Wealth Fund Institute.
The value of listed equities held by the world's largest wealth funds will probably drop to $2.64 trillion this year, from about $3.04 trillion at the end of 2015, the Las Vegas-based SWFI said in an e-mailed report. Withdrawals are set to approximately double from last year, when sovereign funds sold about $213.4 billion of equities, it said.

Bloomberg

Maersk warns business conditions worse than during 2008 crisis

AP Møller-Maersk warned that it was facing conditions significantly worse than the financial crisis after it plunged to a large net loss as global trade growth ground to a halt last year. The Danish shipping-to-oil conglomerate has been hit by the slump in both petroleum prices and container freight rates in what its chief executive described as a "massive deterioration" in its business. Nils Andersen told the Financial Times: "It is worse than in 2008. The oil price is as low as its lowest point in 2008-09 and has stayed there for a long time and doesn't look like going up soon. Freight rates are lower. The external conditions are much worse but we are better prepared."

The Financial Times

S&P 500 earnings: Far worse than advertised

The gap between reported and pro forma earnings last year reached its widest level since the financial crisis.

The Wall Street Journal

Companies lose billions buying back their own stock

If you think your stocks are doing poorly, check out the performance of some of the most sophisticated investors, the ones with more knowledge about what’s going on inside businesses than anyone else: Companies that buy their own shares. The companies losing money on these bets are down a collective $126 billion over the past three years, a decline of 15 percent. Many corporations would have been better off investing that cash in an index fund instead of their own stock. The overall market rose 39 percent over the same period. The companies could also have distributed that cash as dividends to shareholders, allowing them to spend what is, in the end, their money.

And it’s not just a few big corporate losers accounting for all the pain. The group includes 229 companies in the Standard and Poor’s 500 index, nearly half of the companies in the study prepared by FactSet for The Associated Press. When a company shells out money to buy its own shares, Wall Street usually cheers. The move makes the company's profit per share look better, and many think buybacks have played a key role pushing stocks higher in the seven-year bull market. But buybacks can also sap companies of cash that they could be using to grow for the future, no matter if the price of those shares rises or falls.

AP

Non-GAAP: The path to profitability

Bloomberg
Video of the month
Central bankers “don’t have a clue” – Jim Rogers

Famed investor Jim Rogers is warning that financial Armageddon is just around the corner, and it’s being fueled by moronic central bankers. "We’re all going to pay a horrible price for the incompetence of these central bankers," he said in a TV interview with CNNMoney’s Nina dos Santos. "We got a bunch of academics and bureaucrats who don’t have a clue what they’re doing." The Singapore-based American investor said central bankers are doing everything they can to prop up financial markets, but it’s all for naught. He predicts their unconventional monetary strategies will lead to a stock market rally in the near future, but deep trouble later this year and into 2017. "This is going to be a disaster in the end," he said. "You should be very worried and you should be prepared."

Central bankers around the world have been increasingly using negative interest rates to prop up inflation and support their economies, but Rogers said the moves aren’t working. He said they are simply trying to rescue stock markets and help brokers keep their Lamborghinis. “The mistake they’re making is, they’ve got to let the markets sort themselves out,” he said. “It’s been over seven years since we’ve had a decent correction in the American stock market. That’s not normal ... Markets are supposed to correct. We’re supposed to have economic slowdowns. That’s the way the world has always worked. But these guys think they’re smarter than the market. They’re not.”

CNN

Joke of the month
My wife’s a Keynesian - she’s always spending herself out of depressions.

Cartoon of the month
Tensions mounting around the globe could lead to disaster

China recently deployed advanced surface-to-air missiles on the Paracel Islands, an archipelago in the South China Sea. Chinese air force facilities on the Spratly Islands, another archipelago about 300 km south of the Paracels, may be operational within a few months. All this underlines China's growing naval power in the region, writes Prince Michael of Liechtenstein.

Although China claims its activities are purely defensive and peaceful, tensions will further increase with ASEAN countries, especially Vietnam and the Philippines, and the United States. It is likely that China will use the US naval presence in the Pacific to argue the necessity of these "defensive" measures.

China is also increasing its naval presence in the Indian Ocean, an understandable move in order to guarantee its supply of raw materials. Though this issue garners less media attention than the activity in the South China Sea, it raises serious concerns for the US and especially for India.

Tensions, however, are not only mounting in the Pacific and Indian Oceans. Many other regions are heating up.

The still unresolved disputes that pit Russia against the EU and US — mainly over Ukraine but also the Balkans and Georgia — are resulting in "hybrid war" between the two sides. With the West and Russia issuing tit-for-tat sanctions, an economic war is underway. The one-sided reporting coming out of media such as Russia Today, and even some Western outlets, show a propaganda war is also being waged. Meanwhile, it has become common to see militaries flexing their muscles.

Moscow's intervention in Syria has given the conflict another dimension. Russian forces are operating in an area very sensitive to Turkey, NATO's number-two military power. Conflict between Russia and Turkey has so far remained verbal and economic, but is intense nonetheless. This serves as another point of potential confrontation between the West and Russia.

Adding to these worries are grave economic crises that have reduced trust between peoples and their governments. The huge difficulties facing China and Russia have, justifiably, generated a lot of discussion. But we should not forget that Europe and the US have proven unable to resolve their public deficit and sovereign debt problems. As it is now, Europe and the US will not find a solution to these issues without asking their populations for huge sacrifices, similar to those in a wartime economy.

As the economic picture worsens, governments not only in China and Russia, but also in the West, may become more outwardly aggressive in an attempt to divert attention from domestic problems. Historically, it's easy to see the resemblance not only to the politics of 1910-1914, which led to World War I, but also to the economic scenario of the 1930s, which led to the political circumstances that caused World War II.

Another similarity can be found in leadership. It appears that both China and Russia have clear, interest-driven strategies. Western leaders however, so focused on their domestic problems, so convinced of their "value superiority" and, unfortunately, so reactive rather than proactive, do not pay enough heed to long-term Chinese and Russian interests. This lack of vision does not allow for dialogue on a level playing field, and casts doubt on Western leaders' strategic planning.

We are only left to wonder if the world is again approaching a major human disaster.

Geopolitical Information Services

Ex-GAO head: US debt is three times more than you think

Dave Walker, who headed the Government Accountability Office (GAO) under Presidents Bill Clinton and George W. Bush, said when you add up all of the nation’s unfunded liabilities, the national debt is more than three times the number generally advertised.

"If you end up adding to that $18.5 trillion the unfunded civilian and military pensions and retiree healthcare, the additional underfunding for Social Security, the additional underfunding for Medicare, various commitments and contingencies that the federal government has, the real number is about $65 trillion rather than $18 trillion, and it’s growing automatically absent reforms," Walker told host John Catsimatidis on "The Cats Roundtable" on New York’s AM-970 in an interview.

The former comptroller general, who is in charge of ensuring federal spending is fiscally responsible, said a burgeoning national debt hampers the ability of government to carry out both domestic and foreign policy initiatives.

"If you don’t keep your economy strong, and that means to be able to generate more jobs and opportunities, you’re not going to be strong internationally with regard to foreign policy, you’re not going to be able to invest what you need to invest in national defense and homeland security, and ultimately you’re not going to be able to provide the kind of social safety net that we need in this country," he said.

He said Americans have "lost touch with reality" when it comes to spending.
Walker called for Democrats and Republicans to put aside partisan politics to come together to fix the problem. “You can be a Democrat, you can be a Republican, you can be unaffiliated, you can be whatever you want, but your duty of loyalty needs to be to country rather than to party, and we need to solve some of the large, known, and growing problems that we have,” he said.

The Hill

**Fukushima: Tokyo was on the brink of nuclear catastrophe, admits former prime minister**

Japan’s prime minister at the time of the 2011 earthquake and tsunami has revealed that the country came within a “paper-thin margin” of a nuclear disaster requiring the evacuation of 50 million people.

In an interview with The Telegraph to mark the fifth anniversary of the tragedy, Naoto Kan described the panic and disarray at the highest levels of the Japanese government as it fought to control multiple meltdowns at the crippled Fukushima Daiichi nuclear power station. He said he considered evacuating the capital, Tokyo, along with all other areas within 160 miles of the plant, and declaring martial law. "The future existence of Japan as a whole was at stake," he said. "Something on that scale, an evacuation of 50 million, it would have been like a losing a huge war."

Mr Kan admitted he was frightened and said he got “no clear information” out of Tepco, the plant’s operator. He was “very shocked” by the performance of Nobuaki Terasaka, his own government’s key nuclear safety adviser. “We questioned him and he was unable to give clear responses,” he said. "We asked him – do you know anything about nuclear issues? And he said no, I majored in economics."

“When we got the report that power had been cut and the coolant had stopped working, that sent a shiver down my spine,” Mr Kan said. "From March 11, when the incident happened, until the 15th, the effects [of radioactive contamination] were expanding geographically. "From the 16th to the 20th we were able to halt the spread of radiation but the margin left for us was paper-thin. If the [fuel rods] had burnt through [in] all six reactors, that would definitely have affected Tokyo. From a very early stage I had a very high concern for Tokyo. I was forming ideas for a Tokyo evacuation plan in my head. In the 1923 earthquake the government ordered martial law – I did think of the possibility of having to set up such emergency law if it really came down to it. We were only able to avert a 250-kilometre (160-mile) evacuation zone [around the plant] by a wafer-thin margin, thanks to the efforts of people who risked their lives."

The Telegraph

**Ray Dalio: Get ready for "lower than normal returns with greater than normal risk"**

Amid persistent anemic global growth and signs that central-bank policy is losing its potency, investors should brace for a period of "lower than normal returns with greater than normal risk".

That’s the view of Ray Dalio, founder and co-chief investment officer of the world’s largest hedge fund, Bridgewater Associates, who believes that the future of monetary policy will require a significant rethink amid signs that current policies are losing their effectiveness.

In an investor note released overnight, Dalio, the 29th-richest person in the world, suggests that, having lowered interest rate to zero or below and pushing asset prices to elevated levels through the use of quantitative easing, the ability of monetary policy to further stimulate asset prices and the economy "is weaker than what is has ever been".

Business Insider

**US allies now fighting CIA-backed rebels**

Not long ago, US jets and Shia militias worked together to battle ISIS. Today, those militias are trying to take down American proxies in Syria.

Iraqi militias who once fought ISIS with US help are now working with Russian and Iranian forces to crush American-backed rebels in the strategic Syrian city of Aleppo, two defense officials have told The Daily Beast. At least three Shia militias involved in successful battles against ISIS in Iraq—the Badr Brigade, Kata’ib Hezbollah, and the League of the Righteous—have acknowledged taking casualties in fighting in south and southeast Aleppo province. US defense officials confirmed to The Daily Beast that they believe "at least one" unit of the Badr Brigade is fighting in southern Aleppo alongside other Iraqi militia groups. Those groups are backed by Russian airpower and Iranian troops—and all of whom are bolstering President Bashar al-Assad’s Syrian Arab Army.

The presence of militias fighting on behalf of Assad—a dictator that the US has pledged to depose—is yet another reminder of the tangled alliances that the United States must thread as it pursues seemingly contradictory policies in its battles against the self-proclaimed Islamic State. In Iraq, these Shia militias were battling on behalf of the US-backed government. In Syria, they are fighting against an American-supported rebel coalition that includes forces armed by the CIA. In other words: The forces the US once counted on to take back Iraq’s cities are
the same ones the Russians now are counting on to get Aleppo back. And those militias are fighting units of the American-backed Free Syrian Army—including the 16th Division, elements of Jaish al Nasr, and Sultan al Murad—according to Nicholas Heras, a research associate at the Center for a New American Security.

The Daily Beast

Euro depression is "deliberate" EU choice, says former Bank of England chief

Europe's deep economic malaise is the result of "deliberate" policy choices made by EU elites, according to the former governor of the Bank of England.

Lord Mervyn King continued his scathing assault on Europe's economic and monetary union, having predicted the beleaguered currency zone will need to be dismantled to free its weakest members from unremitting austerity and record levels of unemployment.

Speaking at the launch of his new book, Lord King said he could never have envisaged an economic collapse of the depths of the 1930s returning to Europe's shores in the modern age.

But the fate of Greece since 2009 - which has suffered a contraction eclipsing the US depression in the inter-war years - was an "appalling" example of economic policy failure, he told an audience at the London School of Economics.

"In the euro area, the countries in the periphery have nothing at all to offset austerity. They are simply being asked to cut total spending without any form of demand to compensate. I think that is a serious problem. I never imagined that we would ever again in an industrialized country have a depression deeper than the United States experienced in the 1930s and that's what's happened in Greece. It is appalling and it has happened almost as a deliberate act of policy which makes it even worse".

Lord King - who spent a decade fighting the worst financial crisis in history at the Bank of England - has said the weakest Eurozone members face little choice but to return to their national currencies as "the only way to plot a route back to economic growth and full employment".

The Telegraph

70% of Obama's budget is writing checks to individuals

The move toward electronic payments allows governments "total surveillance over individuals,

Investor's Business Daily

Zug MPs call for new 5,000-Franc banknotes

Two MPs from the canton of Zug's parliament are calling on the Swiss federal government to create 5,000-Franc banknotes to "save the privacy and freedom" of citizens. Philip Brunner and Manuel Brandberg, members of the right-wing Swiss People's Party, have proposed a motion that they hope Zug will support for a cantonal initiative seeking changes to the federal currency law. They argue that the creation of 5,000-Franc notes will ensure that the Swiss Franc maintains its status as a safe haven currency. The move goes in the opposite direction of in the European Union, where finance ministers have talked about withdrawing 500-euro bills from circulation to deter their use for financing terrorism, money laundering and other illegal activities.

But Brunner and Brandberg maintain that the tendency in the EU and in OECD member countries is to "weaken individual liberties" and to exercise greater control over citizens. In this context "cash is comparable to the service firearm kept by Swiss citizen soldiers," the pair argued in their motion, saying they both "guarantee freedom". "In France and Italy already cash payments of only up to 1,000 euros are allowed and the question of the abolition of cash is being seriously discussed and considered in Europe," Brunner said on his Facebook page. The move toward electronic payments allows governments "total surveillance" over individuals, the pair claim.

The Local

Apple unlocked iPhones for the Feds 70 times before

Apple CEO Tim Cook declared that his company wouldn't comply with a government search warrant to unlock an iPhone used by one of the San Bernardino killers, a significant escalation in a long-running debate between technology companies and the government over access to people's electronically-stored private information.
But in a similar case in New York last year, Apple acknowledged that it could extract such data if it wanted to. And according to prosecutors in that case, Apple has unlocked phones for authorities at least 70 times since 2008. (Apple doesn’t dispute this figure.)

In other words, Apple's stance in the San Bernardino case may not be quite the principled defense that Cook claims it is. In fact, it may have as much to do with public relations as it does with warding off what Cook called "an unprecedented step which threatens the security of our customers."

The Daily Beast

Toscafund hedge fund says UK would be better off outside EU

The UK would be a "better place" if it left the European Union, according to a London-based hedge fund that manages about $4 billion of assets. "If the EU doesn't want to reform we should leave it," Savvas Savouri, an economist at Toscafund Asset Management, wrote in a report titled "Britain Stands Up -- Better to Exit European Union." London’s position as the continent’s pre-eminent financial center would be safe in the event of so-called Brexit because there is no "plausible alternative," Savouri wrote. Neither Frankfurt or New York can beat London for this "hugely important and lucrative role," he said.

Hedge funds have been split on the issue. Money manager Crispin Odey of Odey Asset Management has questioned the point of being "part of a Europe that keeps mangling us," while Winton Capital Management founder David Harding has said it is "vital" that the UK remains an EU member.

Bloomberg

High-frequency trader warns of potential market "catastrophe"

The head of one of the biggest high-frequency trading companies has warned that there are several faultlines in the structure of increasingly electronic, automated financial markets that could lead to a "catastrophe" in the long run. Mark Gorton, the founder and head of Tower Research Capital, argued that exchanges have become far more efficient with the advent of more computerized markets, but cautioned that increasing complexity brought new dangers that needed to be mitigated.

"The recent evolution of markets from manual to electronic trading has had huge benefits and investors save money every day due to the lower cost of trading. But electronic trading brings with it a number of new risks, and we need to continue to strengthen the resiliency of electronic markets," Mr Gorton told the Financial Times.

The high-frequency trader is particularly concerned over the lack of risk controls at exchanges, which he said constituted a "large hole in the middle of the system that needs to be filled".

HFT outfits and investment groups that use algorithmic strategies say they have a latticework of different safeguards to prevent ultra-fast computerized strategies from running haywire, which has been further reinforced after one high-profile market maker, Knight Capital, imploded in 2012 after losing $10m a minute in a 45-minute electronic trading rampage.

Regulators and bourses such as the New York Stock Exchange and Nasdaq have introduced a clutch of reforms and firebreaks in recent years — especially in the wake of a "flash crash" in 2010 that underscored how automated markets have become — such as circuit-breakers when stocks or markets fall by a certain amount.

Nonetheless, exchange-level risk controls remain "limited at best" and should assume there will inevitably be glitches, bugs and errant trading algorithms that could cause problems in the wider market, according to Mr Gorton. "We need a regulatory framework that assumes that any single system in the market will fail and insures that we have multiple redundant levels of checks that can catch failures in other parts of the system," he said.

Mr Gorton highlighted in particular the lack of a centralized position-tracking mechanism for the US stock market, the need to refine and synchronize market circuit-breakers between highly correlated markets, such as cash equities and futures, and the absence of clarity over what it takes for trades to be declared invalid.

Exchanges can in certain cases cancel trades when there is "clearly erroneous execution". Usually this happens automatically when someone tries to trade at a clearly illogical price, but bourses are given more latitude in times of extreme turbulence.

For HFT that help make markets by trading constantly at lightning speed, that can be problematic as it "creates a situation where market participants are forced to pull back during times of extreme stress due to uncertainty about their positions due to potential trade breaks, and this weakness can contribute to a crash in the future", Mr Gorton said.

While electronic, computer-driven markets have been a boon to investors, some of these holes should be addressed, the former Credit Suisse trader and electrical engineer said. "We're creeping in the right direction, but unless we proactively address these issues, sometime in the next several decades we are going to experience a catastrophe due to runaway computerized trading," Mr Gorton said.

The Financial Times
Tucking 10,000-Yen bills under the mattress spells worry for Abe

Demand for 10,000-yen bills is steadily rising in Japan, even as the nation’s population falls and the use of credit cards and other forms of electronic payment increases.

While more cash might sound like a good thing, some economists are concerned that it shows Japanese households are squirreling away money at home instead of investing it or putting it into bank accounts - where it can make its way back into the financial system and be put to productive use.

"The negative-rate policy is likely to intensify the preference of Japanese households to keep cash at home," said Hideo Kumano, an economist at Dai-ichi Life Research Institute. "Overall, the trend of more cash at home reflects concern about the outlook for economy among households. This isn’t a good thing."

US airstrikes destroy more than $500 million in ISIS cash reserves

The US believes that airstrikes in Iraq and Syria have destroyed more than $500 million in cash that ISIS used to pay its fighters and fund its terror and military operations. That is probably a low estimate, as one US official told ABC News that the figure is in "the high hundreds of millions of dollars."

As part of the effort to weaken ISIS, the US military has struck at ISIS’s finances, particularly its lucrative oil smuggling enterprise in Syria that provides revenue for its operations. Ten strikes have been conducted since then with the most high profile being two airstrikes in Mosul, in northern Iraq, targeting facilities that American officials characterized as ISIS banks.

"Obviously, it’s impossible to burn up every single bill," said Warren. "So presumably they were able to collect a little bit of it back. But we believe it was a significant series of strikes that have put a real dent in their wallet."

Ukraine bans officials from criticizing government

Ukraine banned government officials on Tuesday from publicly criticizing the work of state institutions and their colleagues, after damaging disclosures last month that highlighted slow progress in fighting corruption. The move immediately drew criticism from some civil servants who saw it as a blow to freedom of speech at odds with the embattled government’s Western-backed reform drive. The rule on "loyalty" is one of several outlined in a new ethics code that civil servants must follow or face disciplinary action, according to a decree posted on the government website.

Circulation of Switzerland’s 1,000 Franc note jumps

Demand for Switzerland’s 1,000 Franc note ($1,010), one of the largest denomination bills in the world, rose sharply last year after the country’s central bank cut interest rates deeply into negative territory. The increased prevalence of the large bill comes amid recent calls for major central banks to restrict the circulation of big bank notes, which critics say make it easier for criminals to move around their ill-gotten gains. In addition, some economists argue that the large bills make it tougher for central bankers to influence the economy by steering interest rates to a negative mark.

According to data published by the Swiss National Bank, there was 45.2 billion Swiss Francs worth of 1,000 Franc notes in circulation in December, up from 40.5 billion Francs in December 2014. It marked a 17% increase since November 2014, the month before the central bank began implementing its negative interest rate policy.

One consequence of the decision to cut the Swiss central bank’s deposit rate into negative territory in late 2014, and deepen the negative rate to -0.75% early last year, may have been to increase stockpiling. Holding money in cash would protect it from the risk of Swiss banks at some point charging a broad range of customers to deposit money. The connection between the increasing circulation of the big Swiss bill and the central bank policy is "obvious," said Karsten Junius, chief economist at Bank J. Safra Sarasin.
Zombies

Germany allegedly pays African countries to accept rejected asylum seekers

If the German authorities can't deport refugees to their countries of origin, they allegedly pay other countries to accept them, thus changing their nationality, the website local.de reported.

Sputnik

Islamic State rigs currency rates in Mosul to prop up finances

Currency manipulation

Islamic State militants in the northern Iraqi city of Mosul are manipulating the exchange rate between U.S. dollars and Iraqi dinars to squeeze money out of local people as coalition bombers attack the group's finances.

EXCHANGE RATES FOR US$100

<table>
<thead>
<tr>
<th>Official rate* Set by Iraqi government</th>
<th>118,000 Iraqi dinars</th>
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</thead>
<tbody>
<tr>
<td>Rate in Mosul Purchased in 25,000 IQD notes</td>
<td>127,000</td>
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<tr>
<td>Rate in Mosul Purchased in 50,000 IQD notes</td>
<td>127,500</td>
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<td>Rate in Mosul Purchased in 100,000 IQD notes</td>
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<td>Rate in Mosul Purchased in 250,000 IQD notes</td>
<td>132,000</td>
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<tr>
<td>Rate in Mosul Purchased in 500,000 IQD notes</td>
<td>155,000</td>
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</tbody>
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Source: Reuters

*Approximate

Reuters

Ocean will contain more plastic than fish by 2050

Water bottles, Tupperware containers and even children's toys are made of the same thing: plastic. Pretty soon, you can add the ocean to that list, according to a new report.

In fact, the ocean is expected to contain more plastic than fish by 2050, according to a report by the World Economic Forum (WEF) and Ellen MacArthur Foundation.

The report, which urges more recycling and reduced waste, goes on to note that the production of plastic materials has increased twentyfold since 1964. Also, plastics now make up around 15 percent of all parts in cars and roughly 50 percent of the Boeing 787 Dreamliner.

CNBC
EU nations with far-right in power could be suspended: Hollande

French President Francois Hollande warned that an EU member state could be sanctioned if the extreme-right came to power there -- and could even be suspended from the bloc. "A country can be suspended from the European Union," Hollande told France Inter radio. "Europe has legal tools, through articles in treaties, to prevent a country from violating democratic principles," he said.

Business Recorder

Malaysia says Saudis gave prime minister Najib Razak a $681 million "donation"

A transfer of nearly $700 million to Prime Minister Najib Razak's alleged private bank account before a 2013 election was a "personal donation" from Saudi Arabia's royal family and not illegal, a Malaysian investigating body said. The nation's top prosecutor, Attorney General Mohamed Apandi Ali, said all but $61 million of the $681 million transferred in March of that year was returned to the Saudis five months later.

Mr. Apandi said he ordered Malaysia's anticorruption body to close its investigation into the transfers, which sparked mass street protests against the prime minister after they became public last summer. "The notion that the Saudi 'royals' would 'donate' hundreds of millions of dollars to a foreign leader, as opposed to a government institution, struck me as suspect, to say the least," said Fahad Nazer, a senior political analyst at consultancy firm JTG, in an email. Mr. Nazer previously worked as a political analyst at the Saudi Embassy in Washington.

The attorney general's four-page statement didn't address several issues Malaysians have sought answers to, such as: Who specifically donated the money? Why was it donated? And what happened to the money that wasn't returned?

The Wall Street Journal

Sensitive financial data "missing" from central bank report on capital flowing out of China's economy

Sensitive data is missing from a regular Chinese central bank report amid concerns about capital outflow as the economy slows and the yuan weakens. Financial analysts say the sudden lack of clear information makes it difficult for markets to assess the scale of capital flows out of China. Figures on the "position for forex purchase" are regularly published in the People's Bank of China's monthly report on the "Sources and Uses of Credit Funds of Financial Institutions". But the data was missing in the central bank's latest report.

This is not the first time the PBOC has tweaked items in its financial reports, but the unannounced changes come at a sensitive time as Beijing tries to stabilize the yuan exchange rate. "Its non-transparent method has left the market unable to form a clear picture about capital flows," said Liu Li-Gang, ANZ's chief China economist in Hong Kong. "This will fuel more speculation that China is under great pressure from capital outflows. It will hurt the central bank's credibility."

It is common practice to calculate China's capital outflows by studying the gap between positions on the yuan in the financial system and at the central bank alone. But the latest changes render such calculations impossible now, analysts say.

South China Morning Post

Hungary central bank stockpiles guns, bullets citing terror risk

Hungary's central bank, already facing criticism for a spending spree ranging from real estate to fine art, is now beefing up its security force, citing Europe's migrant crisis and potential bomb threats among the reasons. The National Bank of Hungary bought 200,000 rounds of live ammunition and 112 handguns for its security company, according to documents posted on a website for public procurements.

Bloomberg

Islamic State "enjoyed Turkish money for oil": Israeli minister

Israel's defense minister said that Islamic State militants had been funded with 'Turkish money', an assertion that could hinder attempts to mend fences between the two countries after years of estrangement. "It's up to Turkey, the Turkish government, the Turkish leadership, to decide whether they want to be part of any kind of cooperation to fight terrorism. This is not the case so far," Moshe Yaalon told reporters in Athens. "As you know, Daesh (Islamic State) enjoyed Turkish money for oil for a very, very long period of time. I hope that it will be ended," Yaalon, a right-wing former armed forces chief, told reporters after meeting his Greek counterpart, Panos Kammenos.

Turkey has denied permitting oil smuggling by the Islamist militant group, which holds swathes of territory in Syria and Iraq. The United States last month rejected Russian allegations that the Turkish government and President Tayyip Erdogan's family were in league with Islamic State to smuggle oil. However, US State Department spokesman Mark Toner said last month that IS was selling oil to middlemen who in turn were involved in smuggling the oil across the frontier to Turkey.

Reuters
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.

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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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