Incrementum All Seasons Fund

– in pursuit of real returns –




2020 / 07

July 2020

Seasonal Reflections

Helter Skelter

quote(s) of the month: (sections in this report written and underlined in blue represent active weblinks)

"Current valuations are the result of a liquidity-driven rally and are being sustained in the short term only thanks to the continued aggressive monetary expansion." (Asset Manager Amundi, FT, 23JUN2020)

"To many, it will seem like a great buy-the-dip opportunity, but the risk is that it's only reloading the spring for the next fragility event and the potential for a more major trend reversal." (Attributed to Bank of America analysts, in FT Market Forces, 17JUN2020)

"There's a widely held theory that government benefit checks have been behind some of the retail investors' purchases. And that makes sense: in the last three months, there've been no games for sports bettors to wager on, and the stock market was the only casino that was open." (The Anatomy of a Rally, Howard Marks, Oaktree Capital Management, 18JUN2020)

"Suckers think that you cure greed with money, addiction with substances, expert problems with experts, banking with bankers, economics with economists, and debt crises with debt spending." (Nassim Nicholas Taleb, The Bed of Procrustes: Philosophical and Practical Aphorisms, 2010)

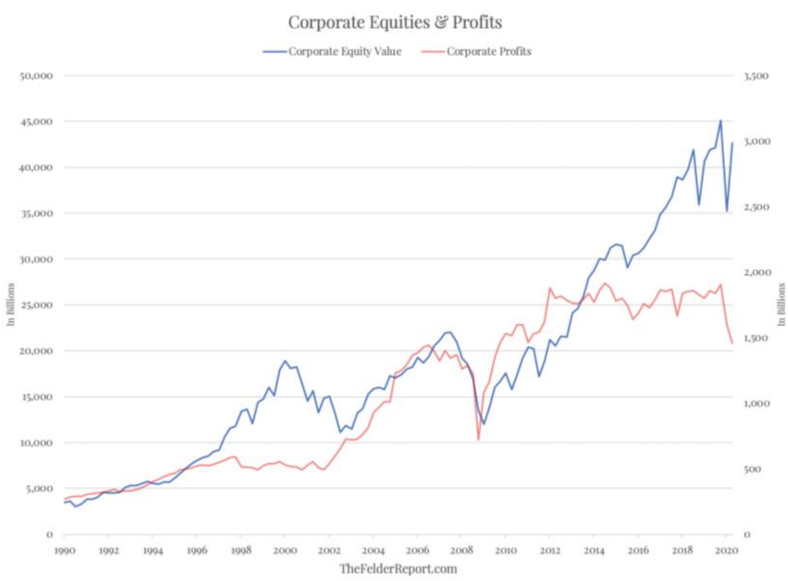
"Inflation will rise considerably above the level of nominal interest rates that our political masters can tolerate. The excessive debt amongst non-financial corporates and governments will get inflated away. The negative real interest rates that may well be necessary to equilibrate the system, as real growth slows in the face of a reversal of globalization and falling working populations, will happen.
Even if central banks feel uncomfortable with such higher inflation, they will be aware that the continuing high levels of debt make our economies still very fragile. And if they try to raise interest rates in such a context, they will face political ire to a point that might threaten their "independence." Only when indebtedness has been restored to viable levels can an assault on inflation be mounted." (Capitol Ideas, ADG, 17JUN2020)

<u>worthwhile reads:</u> + The gap between the haves and the have-nots is widening sharply, Peter Atwater, FT, 10JUN2020
+ MMT Going Mainstream, Adventures in Capitalism, 14JUN2020
+ It's Getting Harder to Avoid the Insanity Trade, J. Authers, Bloomberg, 18JUN2020
+ Retail-investor euphoria will come to tears and cause a long-term cultural, political and regulatory reckoning for financial engineering, 13D Research, 23JUN2020.
+ Towards More of the Same, by Louis-Vincent Gave, 3JUL2020

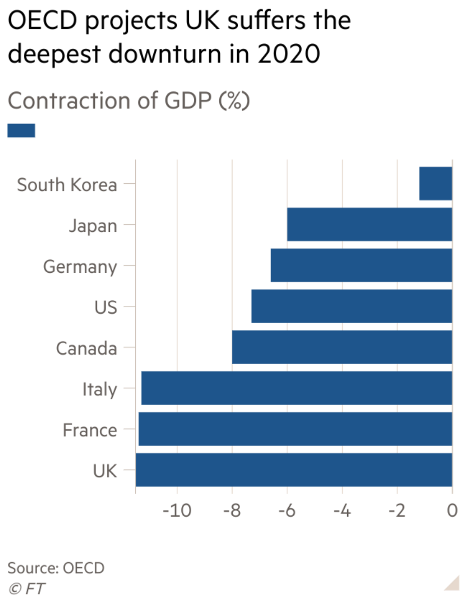
<u>must watch:</u> Stock-market legend who called 3 financial bubbles says this one is the 'Real McCoy', this is 'crazy stuff', marketwatch.com, 18JUN2020 (interview video to be found at the bottom of the article)

<u>putting CoV in perspective:</u> Locusts Are A Plague Of Biblical Scope In 2020, Source: NPR, 14JUN2020

<u>chart(s) of the month:</u>



Source: The Felder Report Blog, 24JUN2020



Source: FT, 10JUN2020

<u>title soundtrack for this issue:</u> **Helter Skelter**

When you get to the bottom, you go back to the top of the slide,
And you stop and you turn, and you go for a ride,
Then you get to the bottom, then you see me again. …

(Source: Beatles, though my favorite version is from U2's magnificent Rattle and Hum album)

<u>ENJOY!</u>

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Dear Reader,

slowly but surely life appears to return to normal, and I do hope you are all well.

Gerstuben, 23JUN2020 (HGS own pic)

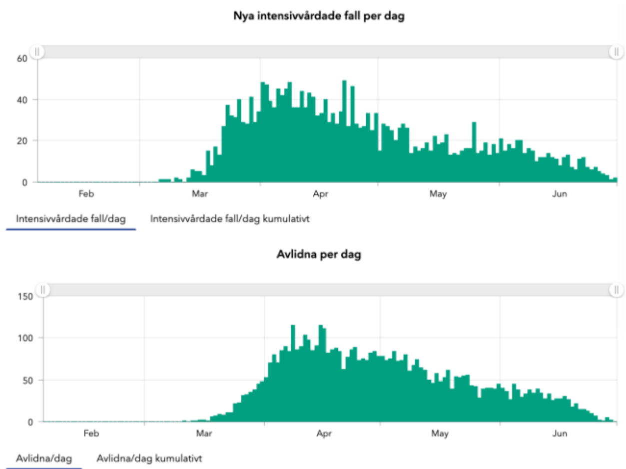
In mid-June, my wife Alexandra and I took advantage of the re-opening of European borders by spending a start-of-summer long weekend in Oberstdorf, Bavaria, Germany: Four days with mixed weather in a beautiful countryside, with plenty of hiking and excellent food, presented a welcome change in scenery!

Yours truly

Unless CH / LI, Germany mandates the wearing of facial masks, which was quite a change for us. There was no visiting of shops / restaurants or moving through the hotel without putting a mask on, and though I got the impression that people are somewhat fed up with it, Germans tend to be a disciplined lot. The more disturbing aspects of this were stories of local health office staff visiting small businesses incognito, pretending to be a non-compliant customer, and then levying serious penalties on the owner who had not insisted immediately and forcefully enough on mask-wearing compliance. Such tales carry an almost Stasi-like echo... – They leave one concerned about growing incursions on individual liberties amid a developing power grab by state bureaucracies under the cover of fighting the CoV pandemic.

Overall, global confirmed CoV cases have passed 10 million, with half a million people dead, so the virus should hardly be taken lightly. This especially as recent reports suggest new local outbreaks (e.g. in China or Germany), and even more worryingly a developing second wave in the US, which has witnessed a renewed rise in reported infections, especially in states that perhaps did not adhere too strictly to social-distancing measures. Given that a potential vaccine and effective treatments still seem out of reach, I expect this issue to continue to weigh on our lives, as much as on the global economy.

One final thought on the issue resurfaced again on the morning of July 1, when I came across a tweet by Jonathan Tepper, referring to the charts of daily CoV infections and death count in Sweden. To quote: *"Do you remember how the Swedes were all going to die? Team Apocalypse has moved on to new pastures. The virus has effectively died out in Sweden."* – Looks like Sweden has reached herd immunity already... – in the end, it is all about the ability to properly care for symptomatic cases.



Source: Jonathan Tepper, @jtepper2, Twitter, 1JUL2020

IASF and going quarterly

Seasonal Reflections is an investment letter, and following my introductory remarks, I would like to use this section for a quick review of my first year as a fund manager of the **Incrementum All Seasons Fund (IASF)**. But before I head on, please take note of the (usual) required reminder:

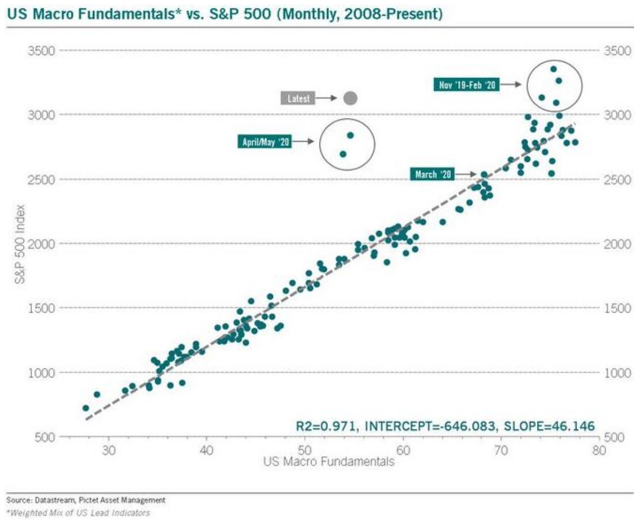
Any investment analysis, views, assumptions, and recommendations included in this letter are based upon current market conditions and reflect the opinion of the author. Seasonal Reflections are issued for information purposes only and must not be regarded as an attempt to solicit an investment in individual securities or the Incrementum All Seasons Fund. Past performance is no guarantee for future results, and the value of the fund may go up as well as down. If you are seeking investment advice you should consult a licensed investment advisor or do your own due diligence.

Having spent nearly 3 decades in Private Banking (investment advisory and portfolio management; for those who would like to get more background, please click here), I decided to join **Incrementum AG** in June 2019. An independent investment manager seemed the ideal platform to help me achieve my goal of offering a managed **All Seasons Portfolio** solution for high net worth individuals, who are sceptical of today's increasingly index- and momentum driven investment approach detached from underlying fundamentals, and who instead seek to position their savings in value investments with the goal to preserve and expand their purchasing power. Together with my partners at **Incrementum**, I have spent the past year setting up and getting **IASF** going, and I am grateful to all seed-investors who helped me get the fund off the ground. I would also like to specifically thank Incrementum partner and **IASF**-co-fund manager **Mark Valek**, for being an important sparring partner in the effort.

Quite frankly, it has not been an easy start: We spent the first seven months converting the erstwhile Incrementum Permanent Fund into **IASF**, onboarding investors, and implementing the desired portfolio allocation. With financial markets exceedingly bubbly, and debt monetization the logical conclusion of the prevailing policy direction, a hard-asset focused investment approach was implemented. It yielded mid-single digit returns over the first 6 months under my stewardship of the fund's assets in 2019. Although this comfortably beat inflation, respectively the risk-free interest rate in all respective currencies, it was dwarfed by global equity market performance in 2H19. **Here it is worth reminding readers though, that the fund's mandate is NOT to beat global stock market performance.**

The first half of 2020 turned out extremely challenging – to say the least – as a commodity- and especially energy-heavy portfolio allocation was beaten down amid the sudden CoV-induced global demand and recession shock in Q1, and the portfolio has not been able to fully recover those losses in Q2. I will provide more details in the latter parts of this report, but needless to say this has been rather disappointing, most of all of course for myself as responsible manager and co-investor.

The most frustrating development for any value-driven investment manager has been the growing disconnect between underlying fundamentals and the trend in related asset prices, which for US markets is highlighted in the graph on the right. The unprecedented monetary infusion by global central banks has been further crowding out private investors from high grade global fixed income markets, and left them with no alternative to equity investments, driving stock prices back towards prior highs, despite of the sharp deterioration in underlying macro fundamentals.



Source: Julien Bittel, CFA, @BittelJulien, Twitter, 18JUN2020

Meanwhile, equity markets have been a tale of two cities, where internet / tech related, or more broadly growth stocks have been flying high, often without any viable underlying business. A recent case in point is Nikola Corp (NKLA), which saw its share price go up six times between end of April and June 9. – For those who have never heard about the company, this is the Tesla for heavy duty vehicles:

NKLA share price as of 26JUN2020, Source: investing.com

According to a recent presentation NKLA, founded in 2015, has raised USD 1.3bn in equity so far, employs 250 staff, and has registered 14,000 truck reservations to-date. Its electric and hydrogen powered vehicles are still under development and envisaged to go into production in 2021/2023 respectively, which has not prevented the company from accruing USD 23bn in total market-cap by the end of June (80% of that since May this year…)

Quite frankly, it is difficult to compete with this type of valuation expansion if one is focused on businesses with actual (and mostly established / more predictable) revenues, earnings, cash-flows and a corresponding asset base. But as I have pointed out in prior reports already, these are the kind of companies that have been driving the recent equity market rally. And this is by no means supposed to be an assessment of NKLA's future as a company, as I have neither spent much time and effort on looking into its technology nor into its overall business prospects. But being valued essentially like Ford Motor (F) with its USD 150bn in revenues, over 5m vehicles built and delivered last year, and its 190k staff employed, even on a cursory glance just does not seem to be fair or deserved. (This comparison was made on June 26 – as usual, next to my main duties these reports take a while to finish…)

Source: Blue-sky hopes tested by Covid clouds, FT, 29JUN2020

Thus, the core problem for any value-driven investment manager remains that it is impossible to keep up with broad equity market performance without "investing" in these kinds of "growth stocks". **And once again with emphasis:** IASF is not an equity fund, and thus unlikely to ever have 100% equity exposure to begin with.

Personally, I am convinced that this type of persistent outperformance sooner or later is going to come to an end. As Morgan Stanley Wealth Management put it in a warning cited in the article that yielded the graph above: *"While liquidity and low interest rates could continue to power price/earnings multiples forward, at some point valuation matters in terms of corporate earnings meeting extreme expectations"*, and the second quarter may just be the period to test this thesis. – Having said that many investment managers, incl. yours truly, have been waiting for this disconnect between valuations and underlying corporate investment fundamentals to end, but timing this has proven rather challenging.

In fact, some people argue it will never happen. Francesco Fila of Fasanara Capital in a recent podcast had this to say: *"I think the rules of the game have definitely changed: Whoever is still looking at valuations is fooling himself. Whoever is still listening to earnings releases is also fooling himself. Whoever is listening to the press conferences of central banks is completely wasting his time. The linkage to headline figures, the linkage to earnings capabilities of a certain company, has been impaired in a very significant way! And the rules of the game have changed and it is well-known that momentum is all there is, and all people are chasing the same two factors, either long beta / long carry, or short vol / short tail risk. Those two factors are disseminated across the industry and you cannot find a successful - meaning that they perform - asset manager unless its field is in those two factors. And the proof of the matter, the smoking gun, is what happens to the market when those two factors go the other way, and you see the biggest decline, the fastest decline in history all over sudden…"* (Capital Markets and Real Economy, Blockchat with Icononic Holding, YouTube, 24JUN2020)

It is hard to argue with his description, and frankly I have sometimes wondered whether I should just ditch my value-driven approach and follow the momentum crowd, as it would seem to make things so much easier. But any time I wrestle with such a decision, I am aware that this is all about hindsight, and that the above described market regime can still change at any time. And as I am still a firm believer in Benjamin Graham's timeless quote *"In the short-run, the stock market is a voting machine. Yet, in the long-run, it is a weighing machine"*, I beg to differ: I will continue to pursue a value-driven investing approach, even if the short-term seems to have turned increasingly long-term, and has been delivering all manner of frustrations to the investment manager in the process. And these frustrations are at the root of why extremely smart people like Franceso Fila above have thrown in the towel on investing.

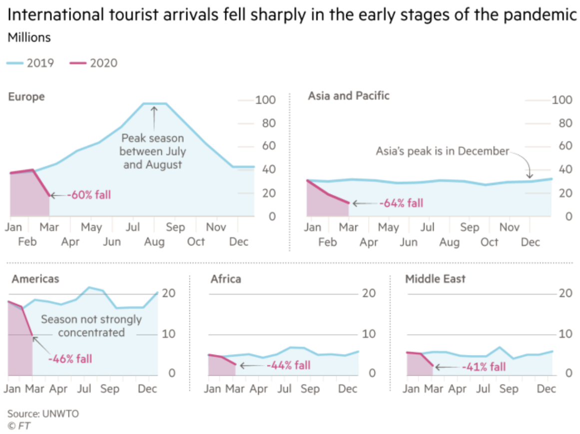
For investors in the fund who are of course among SR readers, it is essential to remember that investment horizons typically span years not days, and that patience is among the most important ingredients for successful investing. I will elaborate on the fund's current allocation further below, but remain absolutely convinced that over the coming year or two, which promise to present an exceedingly challenging financial market environment, **IASF** will deliver results that help investors' in their quest to weather the stormy seasons and earn a decent real, i.e. inflation-adjusted return on their investments.

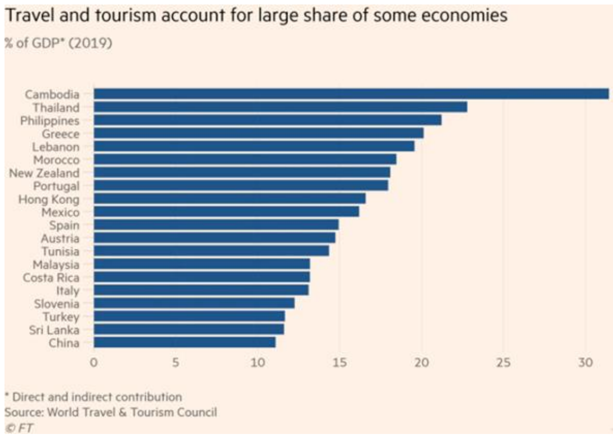
For now, allow me to conclude these remarks with the confirmation that my monthly **Seasonal Reflections** publishing schedule will turn to a quarterly rhythm from 2H20. As regular readers will know these letters have shown a tendency to mushroom in size, and on a monthly schedule risk becoming somewhat repetitive. A quarterly schedule should be sufficient to report both on the changing market seasons, as well as to provide a comprehensive review of **IASF's** performance. For those who have any immediate feedback on this, please do not hesitate to contact me here.

a glance at the macro backdrop in mid-2020

Ok, let's resume our regular programming: As the second **chart of the month** shows the OECD expects overall 2020 GDP growth to contract between 5 and 12% for various major economies. If those numbers prove correct, they represent a record contraction for the post-WW2 period, and this despite of the massive fiscal and monetary intervention we have witnessed in response to the CoV crisis.

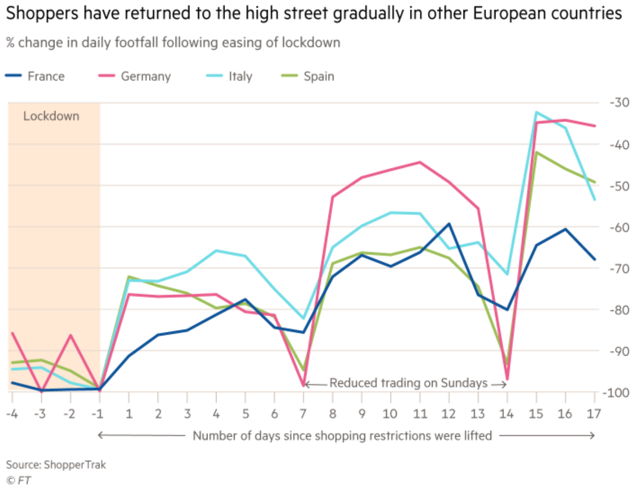
Having opened this letter with a brief statement about my recent vacation weekend, the below graphs provide snapshots of the deterioration in the fundamental backdrop for the global tourism industry, which accounts for approx. 10% of global employment. Of course, the numbers so far are showing only the first and possibly worst reaction to the pandemic, but given the comparative declines it is hard to overstate the impact this will have on many countries (especially those that rely more heavily on travel and tourism in the composition of their GDP).



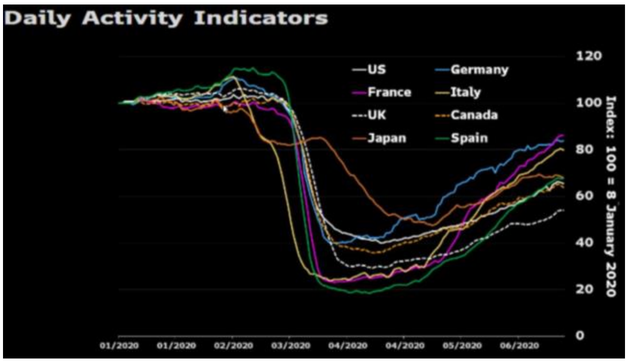


Source (both): FT, 14JUN2020

Of course, the prevailing narrative is that things will get better after businesses are allowed to reopen, and that has certainly been the case, as is evident for all of us to see in our daily lives. However, it is still a long way for e.g. the retail sector to get back to pre-crisis visitor levels, and considering the additional cost of running businesses with newly added hygiene requirements as well as other CoV prevention measures, it hardly needs a rocket scientist to conclude that many will have a far less profitable (if any) future - at least without raising prices.



Source: [FT](), 15JUN2020

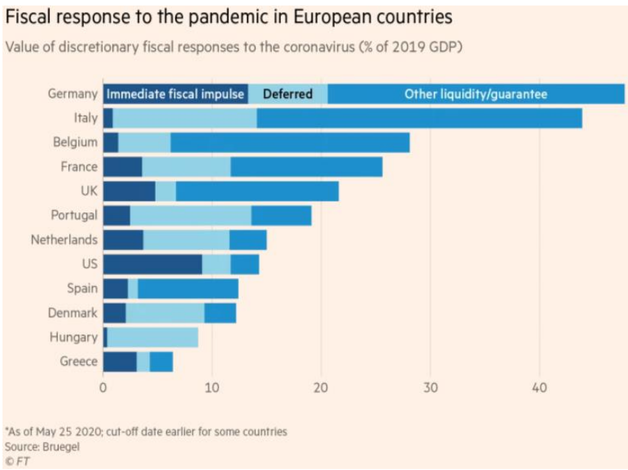


Source: Daniel Lacalle, @dlacalle_IA, [Twitter](), 25JUN2020

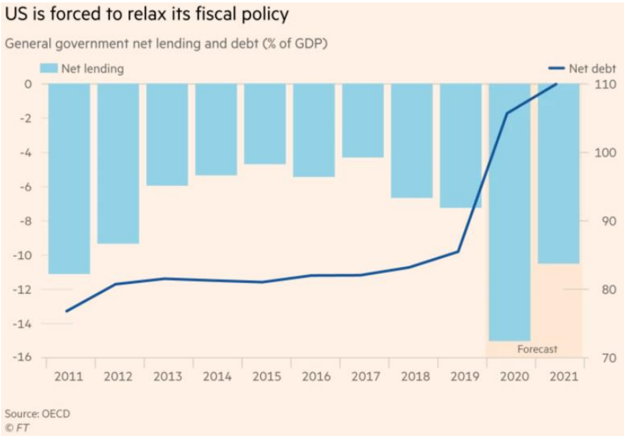
Looking at overall Daily Activity Indicators, it is evident that the return to normal is turning out rather painfully slow for major developed economies, which as the graph on the left suggests have achieved about two thirds of the levels registered prior to the crisis. And this again despite of the massive stimulus we have witnessed from governments to counter the crisis.

Especially a traditionally fiscally conservative, even frugal, Germany appears to have thrown all caution to the wind, delivering by far the largest overall fiscal response to the CoV crisis.

As the graph shows, the German crisis package is estimated at nearly **HALF(!)** of GDP, including a 13.3% immediate fiscal impulse, 7.3% in government payment deferrals, and 27.2% in other liquidity provisions and guarantees… (for more details, please refer to [Bruegel Datasets](), all data here as of 25MAY2020). Not surprisingly, an already overindebted Italy has been ~~kicking the can further down the road~~ relying mostly on other liquidity provisions and guarantees to keep its economy afloat, while the immediate fiscal impulse has also been powerful in the US.



Source: [FT](), 24JUN2020

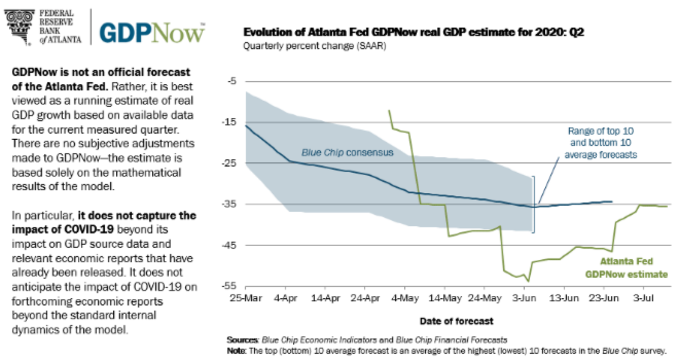


Source: [FT](), 18JUN2020

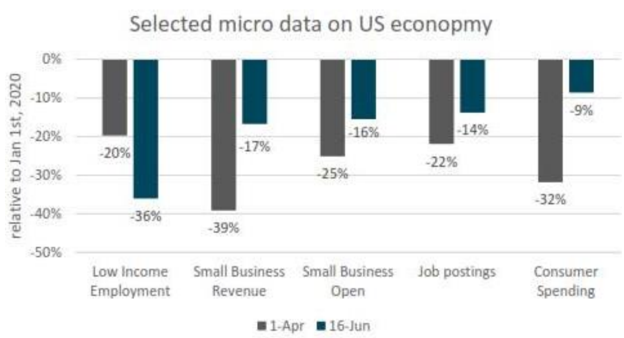
With a 2019 debt-to-GDP level of less than 60% as a result of recent budget surpluses, Germany can probably afford this generosity the most, though its debt-to-GDP ratio is still expected to rise by a quarter to 75% in 2020. Meanwhile, the US government under Donald Trump has shown little inclination for a balanced budget and is currently expected to add another 15% of GDP to its ballooning overall debt burden. – I reckon it is time to end those superfluous debt ceiling debates…

If one was looking for reasons why our current economic system is broken, the above graph may provide some evidence. While US GDP growth has fluctuated between 1.5 and 3% p.a. post GFC, the US government over the past decade has consistently been subsidizing it with budget deficits ranging from 4-11% of GDP, a range that will clearly be exceeded this year. In other words, without the government's deficit spending the US economy would have had little growth to show over the past 10 years.

And yet in the short-term, all those support measures have not appeared to have helped as much as buoyant equity market performance may suggest. The European Commission expects GDP to contract by 8.7% this year, while US Atlanta Fed GDP Now estimates for 2Q 2020 have "rebounded" to -35.5% (see chart below on the left). Even considering that the latter number represents an annualized clip it still suggests a serious economic slowdown. Meanwhile, a recent chart from BNY Mellon highlights *"an economy that is operating at eight standard deviations below its historical level of growth"*, which is an equally dire assessment, and suggests it will take a while to get out of this hole.

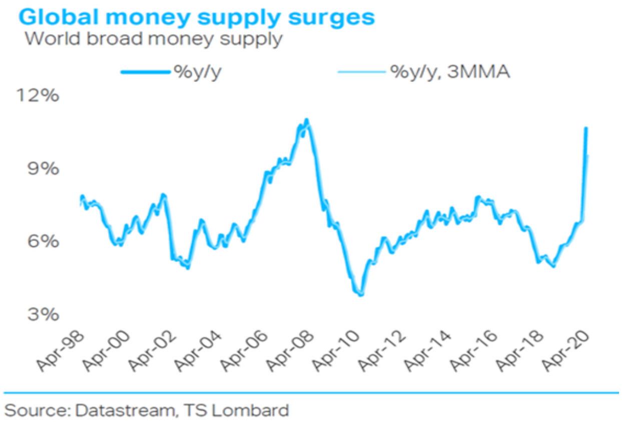


Source: [Atlanta Fed GDP Now](), 9JUL2020



Source: [Blue-sky hopes tested by Covid clouds](), FT, 30JUN2020

Meanwhile, there is another important aspect of fiscal authorities increasingly taking over the baton from central banks in fighting the economic downturn. As the graph on the bottom of page 8 showed, a significant part of the package is labelled under "other liquidity / guarantees".

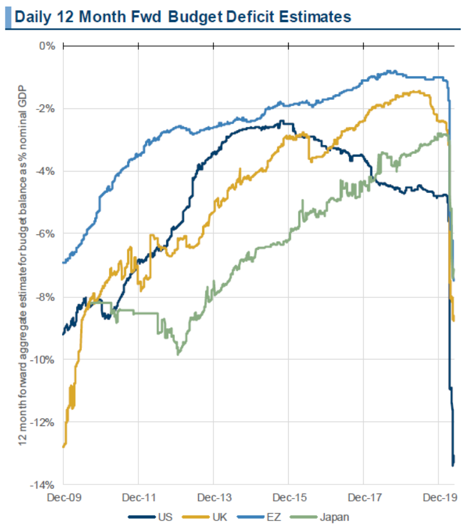


Source: John Authers, Bloomberg Opinion, PoR, 19Jun2020

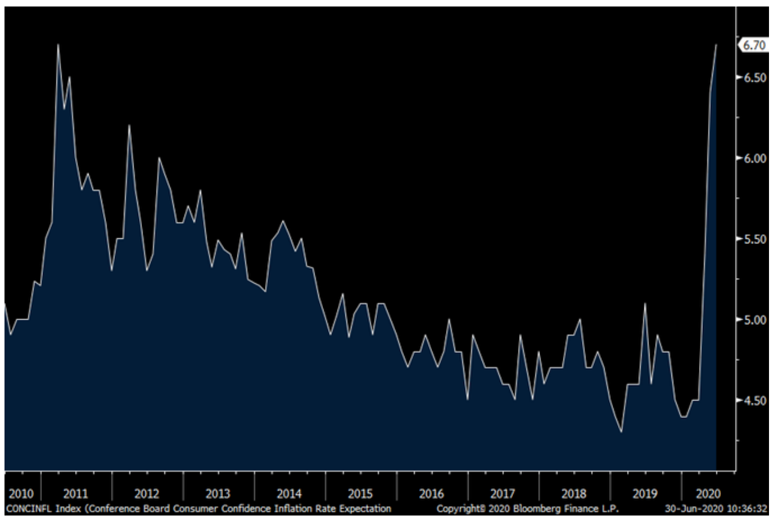
That means governments have stepped in as guarantors of lending programs provided through the commercial banking system, which is aimed to achieve what central banks have failed to do over the past decade, namely create more demand (and thus inflation) in the real economy. With such government guarantees in place bank lending can be expected to expand significantly, which has already caused monetary aggregates to be off the charts.

To further illustrate the mechanics of this, Russell Napier in a recent webcast, titled *"The Age of Inflation: Why After 25 years I Changed My Mind"*, mentioned that even though senior UK bankers expect 50% of CoV-crisis loans to go sour, they will not hesitate to lend anyway, as these loans are guaranteed by the government. Thus, with increased commercial bank lending money will flow into the "real economy" rather than the "financial economy", where past QE measures have pushed it, and there it will be spent. As a result, it is now politicians that control the amount of money in the system and no longer central banks. - And politicians aim to get re-elected…

Hedge-fund manager Man plc has extensively studied the history and dynamics of inflation and has found that one important ingredient for past inflationary bursts was a combination of expansionary monetary and fiscal policy. Global central banks have arguably expended their tool kit to a large degree, and the main purpose of monetary policy is now to fund exploding fiscal deficits. Fiscal is thus taking the lead from monetary policy, and market participants are smelling a change in the air, as one-year inflation expectations from the June US Conference Board consumer confidence survey suggest.

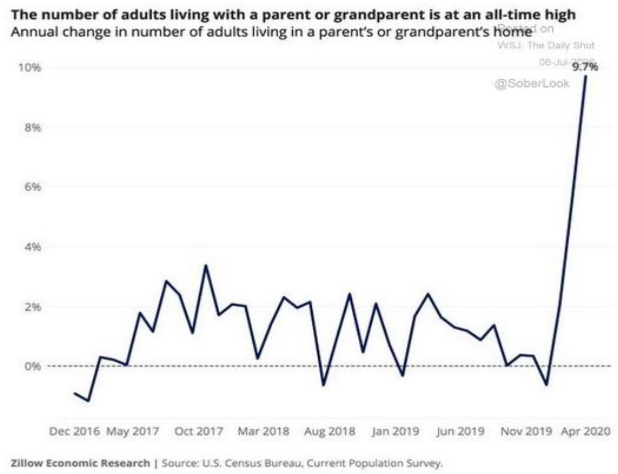


Source: [Inflation Regime Roadmap](), 3JUL2020

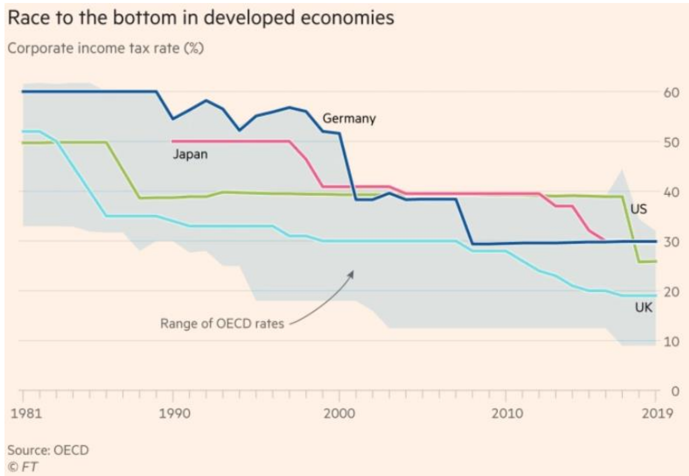


Source: Peter Boockvar, @pboockvar, [Twitter](), 30JUN2020

Another factor that tends to spur inflation is a shift from capital to labour. This is typically the result of redistribution policies. As a growing chunk of the economic pie has accrued to capital in recent decades and thus has helped cause today's inequality levels, it is not difficult to predict that this trend may reverse. Especially, in the context of the social pressures the CoV pandemic is fostering: As an example it is telling that nearly 10% of US adults have been moving back in with parents / grandparents this year - if you lose your income and are saddled with debt or lack savings what is your choice?



Sources: Liz Ann Sonders, @LizAnnSonders, [Twitter](), 6JUL2020



A matter of fairness: squeezing more tax from multinationals, [FT](), 8JUL2020

Meanwhile, the corporate sector has enjoyed ever decreasing tax rates as the graph above on the right shows. If Joe Biden beats Donald Trump in the upcoming US presidential elections, rising taxes will certainly be on the menu as a means to address the inequality gap, which under normal circumstances should also pose a problem for the US stock market. *"Goldman Sachs has estimated that a partial reversal of the 2018 tax cut that would raise the rate to 28 per cent, in addition to increases on other rates, would take about 12 per cent off the total 2021 earnings-per-share of the constituents of the S&P 500."* (Source: [FT](), 5JUL2020)

After all, as the Financial Times (FT) in relation with the graph above on the right writes [here](): *"At some stage, governments will need to start thinking about who will pay for their ballooning deficits. And that means they will have a historic and compelling reason to look again at the creaking international framework for corporate taxation.*

Multinational companies make an attractive target. The corporate sector as a whole has been a relatively stable contributor to the overall tax take: over the past half century, corporate taxation accounts for roughly 8-10 per cent of revenues in OECD countries. Yet over that same period, tax rates have more than halved, tax breaks have proliferated, and tax avoidance through offshore havens has blossomed."

There are other factors that may put a longer-term dent in corporate profitability, namely the effect of ongoing trade wars and the partly related and growing de-globalization trend, which aims to reverse the offshoring of production to Emerging Markets and thus the benefits of international division of labour. As much as globalization was an important factor to help achieve low inflation over the past few decades, it is hard to argue that a reversal will not have an inflationary impact.

But equity investors are not concerned about such fundamental developments. Neither do they apparently care much about the rising wave of bankruptcies, which has merely started. Case in point is the real estate sector, which not only since the demise of WeWork we know is highly leveraged and relies on rents being paid.

Perhaps investors bet on the government bailing out landlords who do not receive rents anymore as much as of the tenants who are unable to pay? After all, if they want to keep the party going, i.e. prevent the house of cards that is our presently over-leveraged economic system from collapsing, they may have to do even more. Can it work? – Can the Everything Bubble be kept inflated? – I wonder…

Source: Gregory Daco, @GregDaco, Twitter, 7JUL2020

In summary, fundamentals suggest a gooey and possibly drawn out recovery in economic growth, which will to a large extend depend on how quickly the world can get beyond the current state of CoV crisis fighting measures that have been strangling its economies. Since I expect societies to learn to live with the virus, I am optimistic that the recovery will continue during 2H 2020 and into 2021. But whether it will be a slower or quicker recovery, I do see a real risk that the extraordinary monetary and fiscal stimulus already in the system and expected to further being administered, will create an acceleration in inflation that so far is on few investors' radar screen. – Stay tuned!

helter skelter markets

Ok, let us now move to financial resp. stock markets, and here particularly the leading US bourses. They seem to pay little heed to the dismal fundamental economic picture, or the still uncontained CoV pandemic. Instead, aided and abetted by J Powell and his fellow central bankers, investors have been chasing stocks into the V-shaped recovery that has been promised to them for their underlying economies as well, riding a rising tide of liquidity that has lifted all boats – albeit not in equal fashion.

Source: Hedgeye, @hedgeye, Twitter, 26JUN2020

That the ascent was primarily driven by major tech stocks was demonstrated above on page 5 and 6 already.

Source: FTSE Global 100, year-to-date, www.investing.com

Source: Ronni Stoerferle, @RonStoeferle, Twitter, 18JUN2020

But market action overall in 1H2020 was so extraordinary that it has given rise to a new animal classification, i.e. the kangaroo market.

Source: Hedgeye

Like many professional investors I have struggled with what has been driving especially the rebound from the March lows. Clearly, central bank money creation has helped. But another noteworthy phenomenon has been soaring retail investor participation, which helps to explain the sheer unstoppable rise of large tech as well as the unfathomable investor interest in bankrupt company stocks (e.g. Hertz, see page 10 of SR 2020 / Issue No. 6).

13D Research offered the following comments on this matter:

"Millennials and Gen Z appear to be gambling in markets out of financial desperation. And when euphoria inevitably backfires, the backlash will be severe. It could further fuel social unrest, with anger directed at the inequities of financialization. It could trigger a political sea change in November. And it could instigate a large-scale regulatory re-evaluation of retail access to modern market structures.

In 1Q20, weekly hours spent in the top-ten stock-market monitoring and trading apps surged 82%, according to CNBC. Online trading platform Robinhood has reported a 30% increase in members (10 million to 13 million), and a 600% surge in usership. Comparing 1Q19 to 1Q20, Charles Schwab saw an increase in new accounts of 58%. For TD Ameritrade, that number was 149%. And for ETrade, it was 169%. …

However, as John Kenneth Galbraith argued, all asset bubbles are inflated by price-trend chasers who believe, "their particular genius…will allow them to get out before the speculation runs its course." *History attests, the vast majority are always wrong. And the pain will be severe. Retail investors are leveraging their positions at historically high rates. According to Sundial Capital Research, two weeks ago, "small traders" accounted for more than 50% of total new call options, the highest number since the dot-com bubble. …*

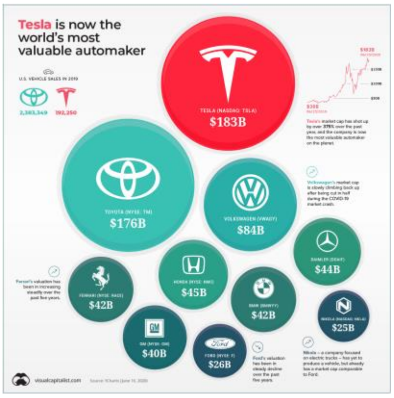
According to software and data aggregation company Envestnet Yodlee, stock trading trails only "increased saving" and "cash withdrawals" as the most-common use for stimulus funds. And the increase in equity buying was the greatest amongst those with limited means. We quote CNBC: "People earning between $35,000 and $75,000 annually increased stock trading by 90% more than the prior week after receiving their stimulus check."*"* (Source: [Retail-investor euphoria will come to tears](), 13D Research, 23JUN2020)

Consumers that received stimulus checks made stock trades

Categories which saw highest week-over-week changes in bank account transfers, from households which received stimulus checks compared to those that did not

Rank	<$35K	$35K-$50K	$50K-$75K	$75K-$100K	$100K-$150K	$150K+
1	Savings +250%	Savings +197%	Savings +188%	Savings +234%	Savings +223%	Loans +84%
2	ATM/Cash Withdrawals +199%	ATM/Cash Withdrawals +137%	ATM/Cash Withdrawals +102%	ATM/Cash Withdrawals +111%	Securities Trades +82%	Insurance +69%
3	Home Improvement +129%	Securities Trades +93%	Securities Trades +90%	Home Improvement +90%	ATM/Cash Withdrawals +76%	Savings +57%
4	Transfers +126%	Home Improvement +93%	Home Improvement +80%	Education +86%	Loans +70%	Travel +52%
5	Utilities +111%	Transfers +85%	Utilities +68%	Loans +70%	Home Improvement +69%	Home Improvement +52%
6	Electronics/ Gen. Merch. +100%	Utilities +75%	Travel +63%	Utilities +66%	Insurance +66%	Entertainment/ Recreation +48%
7	Education +99%	Electronics/ Gen. Merch. +67%	Electronics/ Gen. Merch. +61%	Rent +64%	Education +61%	Securities Trades +46%

SOURCE: Envestnet Yodlee



Source: [Visualcapitalist.com](), 16JUN2020

If retail participation had previously been missing as a mark of the end of this secular bull market, perhaps we have the final ingredient to establish a turn in this cycle. Honestly, I am humble enough to realize that already a few times before in this cycle it looked as if the bulls were tired and breaking down, and yet they have kept running, and so running ever further away from underlying fundamentals. This has created a valuation bubble of epic proportions, which is plain to see in examples like the one presented on the left, but also in many more sophisticated metrics.

For now, momentum is clearly on the side of those investing in (predominantly US) tech / growth stocks, which has led to valuation excesses we have not witnessed in 20 years.

Source: www.investing.com (https://invst.ly/refhz)

Amazon stock e.g. has doubled since March and is now valued at USD 1.6tr – trading at 170 times this year's earnings estimates, 35 times EBITDA, 4.6 times sales, and 20 times book value. Even usually bullish analysts are failing to keep up with their current price target of USD 2780 (according to Reuters), which despite no "Sell" rating is 10% below the market price.

The two graphs at the bottom provide further general evidence for the growing discrepancies in the market. The graph on the left shows the S&P500 in blue, and the number of index companies trading in excess of 10 times their revenue. Jesse Felder in one of his recent blog posts reminded readers with this chart of a famous Scott McNeely quote. The founder and CEO of Sun Microsoft commented on the dot-com-bubble rise of his company's stock to over 10 times revenue as follows:

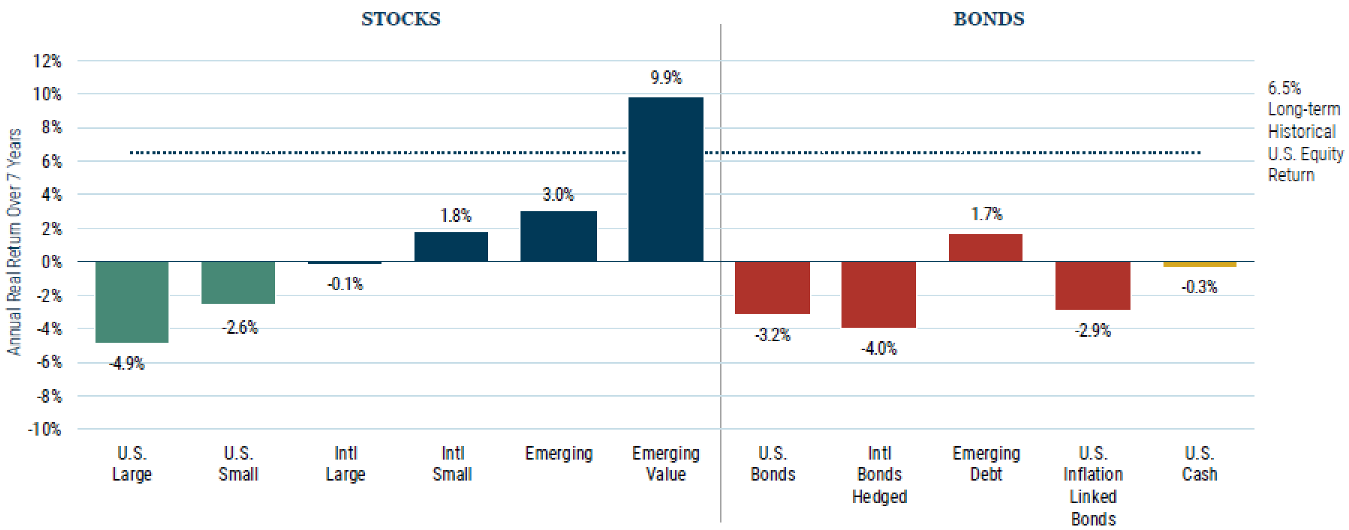
"At 10 times revenues, to give you a 10-year payback, I have to pay you 100% of revenues for 10 straight years in dividends. That assumes I can get that by my shareholders. That assumes I have zero cost of goods sold, which is very hard for a computer company. That assumes zero expenses, which is really hard with 39,000 employees. That assumes I pay no taxes, which is very hard. And that assumes you pay no taxes on your dividends, which is kind of illegal. And that assumes with zero R&D for the next 10 years, I can maintain the current revenue run rate. Now, having done that, would any of you like to buy my stock at $64? Do you realize how ridiculous those basic assumptions are? You don't need any transparency. You don't need any footnotes. ***What were you thinking?"***

Source: The Felder Report Blog, 8JUL2020

Source: Neal Falkenberry, CFA, @TNF_CFA, Twitter, 2JUL2020

What, indeed, are those people thinking who are presently prepared to pay more than 10 times revenues for 37 stocks in the S&P500, which by the way is more than the 30 reached in March 2000, before Sun Microsoft fell back all the way to below 10, while the Nasdaq lost 75% of its' value?

Meanwhile, if you plot the EV (**E**nterprise **V**alue = Market Capitalization + Net Debt) ratio to EBITDA (**E**arnings **B**efore **I**nterest, **T**ax, **D**epreciation and **A**mortization), which has been an excellent forward looking indicator for future returns (graph on previous page on the right), a concept on which John Hussman has done a lot of interesting work, it suggests that we are heading into a 10-year period with negative annual equity market returns. Similar results are forecasted by GMO, one of the largest US-based asset management firms, which publishes a monthly update of its expected 7-year returns for various asset classes, which has previously graced these pages already.

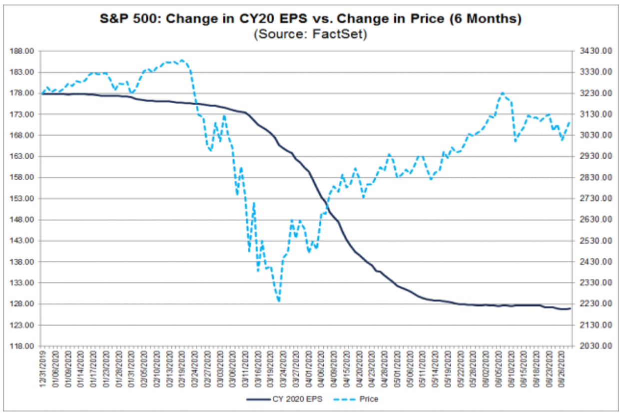


Source: GMO 7-Year Asset Class forecast: May 2020

Again, this is not the first time you will have read this argument in these pages, and I know that investors who have ignored it so far, may have achieved a better performance than me or other investors who have followed the same line of reasoning in the past. That does not mean that the argument is not valid, but merely confirms that the majority of investors have been ignoring company fundamentals, and instead relying solely on ongoing monetary stimulus.

This is exactly what happened in the late 90s and into March 2000, when value got cheaper and cheaper, while perceived growth stocks became ever more expensive. A lot of money was lost in the subsequent 3-year period, and many investors saw their savings permanently impaired. By foregoing some of the earlier gains, I managed to guide my clients through this period without the risk of a permanent destruction of their savings base, and I mean to achieve the same for my investors today.

Source: Hedgeye Cartoon of the Day, [Doctor's Orders]



Source: [FactSet], 6JUL2020

But for now investors remain all focussed on an increasingly narrow group of companies which has created very powerful momentum for the major tech stocks, a trend that is also evident in Asia (less so in Europe, where one of the (fin)tech stars, Wirecard AG, has recently been exposed as a spectacular fraud by journalist of the FT, a story that is neatly summarized [here]). Recently, Chinese equities, which represent 41% of the MSCI EM index have been rising, led by Alibaba and Tencent, which combined account for more than 13% of the entire index. Thus, the same kind of increasingly narrow market action is at play there. In these kind of markets you either just hold your nose and follow the crowd chasing momentum, or you chose to look for value which as long as the bubble continues to expand can be a seriously frustrating exercise.

As I said, I have been in the business long enough to have seen the same story play out during the dot-com-area years. What investors during mania phases like the current one always fail to understand is that I can be a fan of Amazon's service, or Apple products, or even Tesla's cars, and yet find the stocks of these companies just too expensive for me to invest in.

What has been different in this cycle has been the sheer size of central bank interventions, which ultimately have been able to continuously stoke investors' risk appetite. – I am curious how long this can go on, while I am quite certain that the level of distortion to capital markets as well as overall malinvestment this has caused will be something books will be written about in the future!

Caveat Emptor!

(Cartoon: [Retail-investor euphoria will come to tears], 13D Research, 23JUN2020)

consequences for IASF positioning and june / 1h performance review

Of course, there are other warning signs for cycle conscious investors, one of which is persistently elevated volatility levels. As such the VIX Index has stubbornly been refusing to fall below the 25 level since its Feb24 break above that level. And since April 6 it has essentially been stuck in a range between 25-45, which as the table on the right below suggests historically has not been a good time to invest in equities. To quote the FT's Mike Mackenzie: *"In 30 years of data, Vix between 25 and 45 has been accompanied by large net declines for the S&P 500; positive stock returns are skewed toward the low volatility regimes (January and early February 2020) and the market reversals from the 'blowout' vol spikes (March/April)."* – Maybe this time it will be different, but I would rather not bet on it.

Figure 3: 2020's Unprecedented Volatility Rollercoaster

Source: Bloomberg, BTIG Research

Figure 4: Historical Returns in Different VIX Regimes

	# Trading Days	S&P 500 Return Avg. Daily	Total Cumul. %	Total Cumul. Pts.
VIX 25-45	1,215	-0.11%	-78.8%	-2,286.91
VIX < 25, > 45	6,409	0.06%	4,069.7%	5,051.37
Total	7,624	0.04%	782.2%	2,764.46

1/1/1990-6/22/2020

Source: Bloomberg, BTIG Research

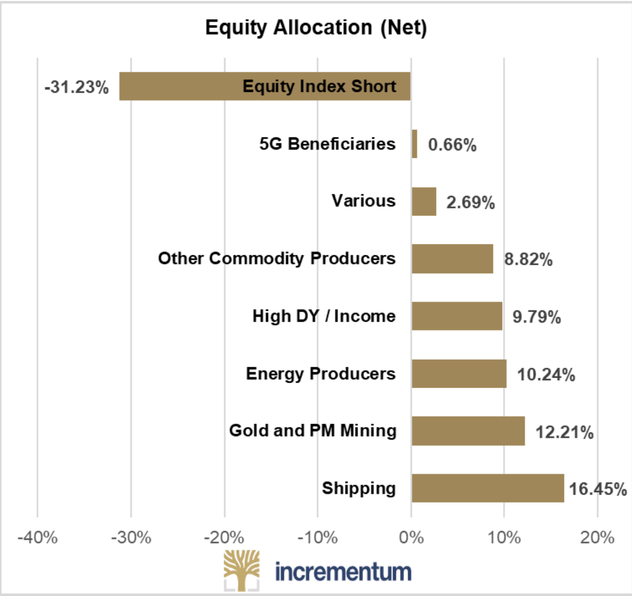
Source: FT, 25JUN2020

And there are the multitude of high-profile fund managers, like GMO's Jeremy Grantham, whose recent CNBC interview is listed as "must watch" on page 2 of this report. For those looking for some morsels, rather than listening to the 15 minutes interview, consider this:

"My confidence is rising quite rapidly that this is, in fact, becoming the fourth, real McCoy, bubble of my investment career. The great bubbles can go on a long time and inflict a lot of pain but at least I think we know now that we're in one. And the chutzpah involved in having a bubble at a time of massive economic and financial uncertainty is substantial."

On the question by the interviewer what level of exposure investors should have to U.S. equities, Grantham had this to say: *"I think a good number now is zero and less than zero might not be a bad idea if you can stand that."*

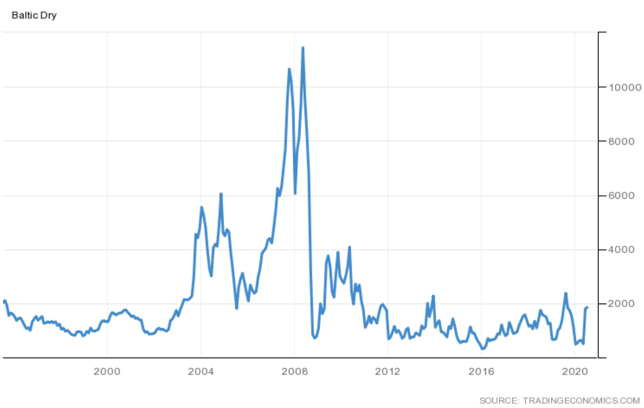
Regular readers will hardly be surprised to learn that this very much reflects my own views of especially broad US equity markets, which currently account for nearly 60% of global equity market capitalization (57.56% weight in the MSCI World Index). And talking about **IASF's** positioning, this explains why the fund's long equity positioning is partly hedged by S&P500 and Nasdaq short future positions, which have been rebuilt over the past two months.



This makes sense because **IASF's** equity allocation bears little resemblance with broad indices. The three largest MSCI World sector weightings are Information Technology (20.74%), Financials (13.43%) and Health Care (12.92%), sectors that except the remaining Nokia position in **5G Beneficiaries**, and a few tiny technology disruptor positions in **Various**, are playing no role in **IASF's portfolio.** Instead, the fund's largest equity theme is **Shipping**, a sector that is so small it barely registers on investors' radar screen. In fact, the MSCI World Marine Index is made up of only 3 companies, which suggests the sector is barely investable.

So, why would **IASF** make this its biggest equity theme? – In short, because it is a cyclical sector, which has been in a bear market for a decade, and thus is completely out of favour. Stocks are typically trading at significant discounts to NAV, while the underlying rate environment does not invite new capacity investments, resulting in a very low new vessel order books. Similar to the precious metals mining cycle post 2011, the sector has disappointed investors so much that even good results are no longer rewarded. As a result, management teams have been consolidating their business and strengthening companies' balance sheets, providing one of the more compelling risk-return scenarios.

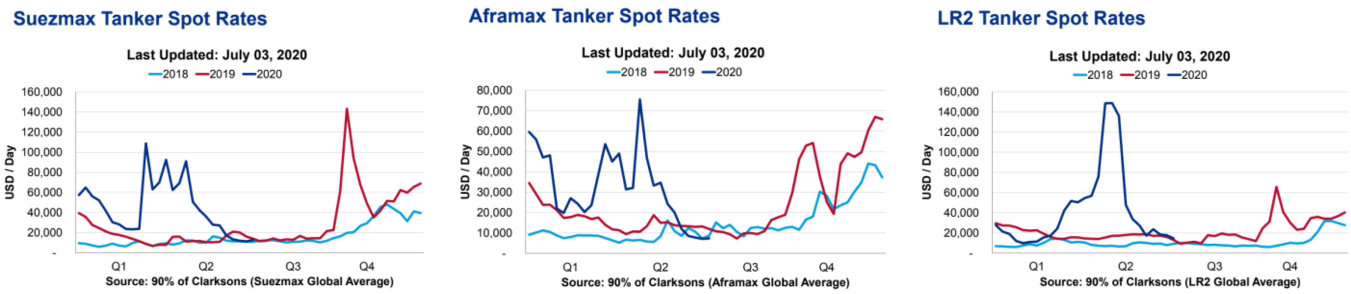
For a more detailed insight, analysts typically refer to the Baltic Dry Index to provide an idea about international trade activity, though this only covers freight rates in the bulk shipping area. **IASF's** positions include Belships, Eagle Bulk, Genco Shipping & Trading, Pacific Basin, as pure plays, which account for 5.75% of the fund's assets, and as the graph on the right shows, the last major bull market in this sector has been more than a decade ago.



Source: tradingeconomics.com

The other large **IASF** sub-sector exposure is to tanker stocks, including DHT, Euronav, Frontline, Scorpio Tankers and Teekay Tankers, which at the end of June made up 8.29% of the fund's portfolio. While **IASF** has had bulk shipping exposure since its start, the tanker exposure has been a more recent addition, and I have already explained our rationale in more detail in SR 2020 / 05 (page 18-20).

Tanker stocks, unlike bulk carriers, have had a terrific last year, and 1Q has and 2Q of 2020 is expected to deliver record high results and cashflows for the sector. This was mainly attributable to the fact that tankers were used to store excess supply of oil following the CoV-induced demand shock, given that land-based oil storage facilities had been filling up to the brim. This in turn caused TCE (Time Charter Equivalent) rates to skyrocket. This trend has recently reversed, as oil demand has picked up and supply has been curtailed. However, the seasonal comparison of the TCEs for various vessel type's shows the extraordinary nature of the recent high in rates.



Source: Teekay Tanker Market Insights

And before I continue with a more general outline, let me use the Teekay Tankers (TNK) investment case as an example for why I think this particular sector offers a very favourable risk-return profile for longer-term and patient investors:

IASF has accumulated a 1.7% position in TNK over the past few months at an average price of USD 15.35. Following an April high of USD 25, the stock currently trades at 12.70, which has the fund holding it at a loss of 17% (USD 159k book loss). So far, so bad, right? At the same time, **IASF** has sold TNK options, which have yielded about USD 60k in option premiums, i.e. reducing the current book loss to approx. 10%.


Source: investing.com

Still, a loss is a loss, though on a positive note one can certainly argue that the technical picture for the TNK chart looks attractive at this stage, with good support above the USD 12 level, especially after the stock recently was excluded from the S&P500, which had created substantial selling pressure from index-driven investors.

What about fundamentals (all data used are derived from Thomson Reuters Eikon)? – The company has 33.7m shares outstanding for a current market capitalization of USD 446m, with an EV (**E**nterprise **V**alue = Market Cap + Net Debt) of USD 1,184m. 2020 EV/EBITDA is currently estimated at 2.5 times, i.e. the company is expected to generate EBITDA (**E**arnings **B**efore **I**nterest **T**ax **D**epreciation & **A**mortization) of USD 470m, which actually exceeds its current market capitalization… - over the course of a single year! – I almost feel like resting my case here, but obviously this is a highly cyclical business, and who knows whether they can ever earn such cashflows / income ever again?

Ok, let' continue: TNK's book value is USD 29.45 per share, i.e. the stock trades at only 43% of its book value. That book value consists mainly of a diverse fleet of Suezmax, Aframax and LR2 product tankers, including 1 VLCC, i.e. a middle-aged tanker fleet that represents hard assets, which in an inflationary period will benefit from rising replacement cost.

Exactly one year ago and heading into the seasonally weakest (i.e. 3rd) quarter, the stock was trading at USD 10.40 (closing price on 9.7.2019). Today, it is 22% higher; no dividends were paid in the interim, as the company has been keen on strengthening its balance sheet and renewing its fleet. At the time, TNK had many near-term debt maturities, and reported a (better than expected) 5c loss for 2Q19. In fact, let's review its quarterly earnings since:

	EPS (USD)	adj. EBITDA
2Q19:	-0.05	USD 36.2m
3Q19:	-0.08	USD 27.8m
4Q19:	2.47	USD 131.5m
1Q20:	3.27	USD 155.4m
last 4Q:	**5.61**	**USD 350.9m**

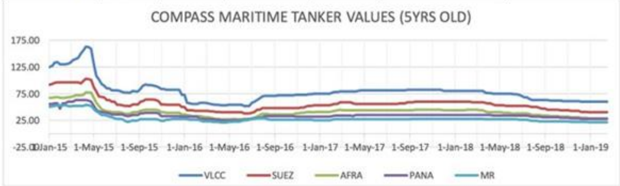
This means TNK earned more than half of its share price exactly a year ago over the following 12 months or is now trading at 2.26 times trailing 12 months earnings. And 2Q20 is expected to deliver another strong set of results (mean estimate: USD 2.58 per share; EBITDA: 135m), which will further strengthen the balance sheet and substance of the company.

If this proves anything than that the company has had an extremely profitable recent past, which partly explains why the median share price target for TNK is now USD 27.

The company has utilized this rate bonanza to significantly reduce its debt (USD 200m in 1Q20 alone) and to extend its debt maturity profile mainly to 2024 and beyond. In fact, between 3Q19 and end April 20 net debt was reduced by nearly USD 10 per share. Should that not be reflected in a commensurate rise in the value of the shares? – Investors seem not to feel that this matters, but instead appear merely guided in their interest in the stock (as well as its sector peers) by the recent fall in TCE rates (see graphs on the prior page). Meanwhile, through favourable time charter coverage secured, the company according to management has lowered its breakeven level to USD 10k until 1Q21.

To cite from 1Q earnings release: *"Our low breakeven rate is expected to enable us to create shareholder value in almost any market which is important given the current market uncertainty for the second half of 2020."* – And yet, investors do obviously not care. Perhaps, they fear that the value of TNK's fleet is going to fall further, even though second-hand tanker values are far closer to trough than peak valuations already!

COMPASS MARITIME TANKER VALUES						
ASSET CLASS	NB CONTRACT		NB PROMPT DELIVERY	5 YEAR	10 YEAR	20 YEAR
TANKERS	SIZE (DWT)	*(All Numbers in US $ Millions)*				
VLCC	300,000	90	98	73	50	25
SUEZMAX	160,000	60	67	50	35	13
AFRAMAX	115,000	49	54	41	27	11
PANAMAX - LR1	70,000	42	43	31	19	8
MR TANKER	51,000	36	38	29	18	7



Source: calvinfroedge, @calvinfroedge, Twitter, 20JUN2020

To me, the recent share price fall does suggest a serious mispricing, as it completely ignores the actual real value added for shareholders. This is why **IASF** has accumulated TNK's shares, as well as further holdings in four other major tanker stocks, which have enjoyed a similar business environment. Management boards are increasingly aware of the gross mispricing of their companies shares, though they employ different strategies to address this. TNK has been strengthening its balance sheet, DHT, Euronav and (traditionally) Frontline have been paying out big dividends, while Euronav is also one of the first to have bought back 3.38m shares in early July (at a 40% discount to NAV). With only average business outlook going forward this sector could double without being overly expensive.

In addition, I regard **Shipping** stocks as an excellent inflation hedge, which given the macro outlook outlined above is also a not insignificant advantage of having exposure to the sector. The same is true of course for **Gold and Precious Metals Mining** stocks, which on June 30 accounted for 12.21% of the portfolio.

I have written about this sector many times, and thus will not elaborate in too much detail on the case for gold (and silver) investments, except to present you the table on the right. It compares the number of gold ounces the US Federal Government keeps in its reserves with the "Currency in Circulation" figures reported regularly via Barron's over time, and suggests that every ounce of gold held by the US federal government currently backs USD 7,483 in paper currency, which obviously is way above the current gold price.

Paper Dollar Inflation 1945 to 2020
US Paper Dollars to One Ounce of US Gold

Event Milestone	Year	Dollars per One Ounce of US Gold
Start of Bretton Woods	1945	$39.00 : 1
Start of London Gold Pool	1961	$64.97 : 1
Kennedy Assassination	1963	$81.42 : 1
End of London Gold Pool	1968	$135.01 : 1
US Closed Gold Window	1971	$198.82 : 1
Barron's 22 June 2020 Issue	2020	$7,483.00 : 1
In 1945 the US Federal Government Promised not to Issue More than 35 Paper Dollars for Each Ounce of Gold it Held in Reserve. This was a Promise not long kept.		
Source Barron's Graphic by Mark J Lundeen		

Source: Market Intelligence Report by TIS Group, 24JUN2020

This is another reason for why we are convinced that precious metals have entered a new secular bull market, which is why **IASF** keeps exposure to gold (and silver) via precious metals mining stocks but also through the fund's liquidity position (gold / silver backed ETPs account for 9.42% / 3.87% of the portfolio). With total precious metals exposure exceeding 20%, and the miners' strong recent performance, **IASF** has constantly rebalanced its exposure. Due to high volatility in the sector, we have mostly used options on some of the fund's holdings (mainly Gold Fields ADR, Newmont Mining, Wheaton Precious Metals and Pretium Resources), which so far in 2020 has generated significant premium income of nearly EUR 250k (or 0.6% of total fund assets). This has helped us rebalance our growing precious metals exposure into the recent rally, keeping it still at above our target 10% allocation.

We have also used our **Energy** exposure for more active option sales, and overall the fund managed to generate 2.2% of total portfolio assets in 2020 this way. But there have obviously been a number of (big) losers on the long equity side of the portfolio, chiefly among them through the fund's **Energy** exposure, where stocks like Cosmo Energy, Husky Energy, Marathon Petroleum, Peabody Energy, Royal Dutch, and Transocean have registered high double-digit losses. Other large loss-making positions can be found among the bulk shippers, but also **Other Commodity Producers** (e.g. K+S).

IASF Month-Over-Month NAV Change

June 2020 (28.5.-25.6.)

EUR-D	94.65	0.07%
USD-D	96.19	0.11%
CHF-D	93.49	0.35%
EUR-P	93.14	0.05%

For Charts, See Appendix

IASF's month-over-month and year-to-date NAV performance for the various share classes is shown in the accompanying tables.

IASF Year-To-Date NAV Change

31.12.2019 - 25.06.2020

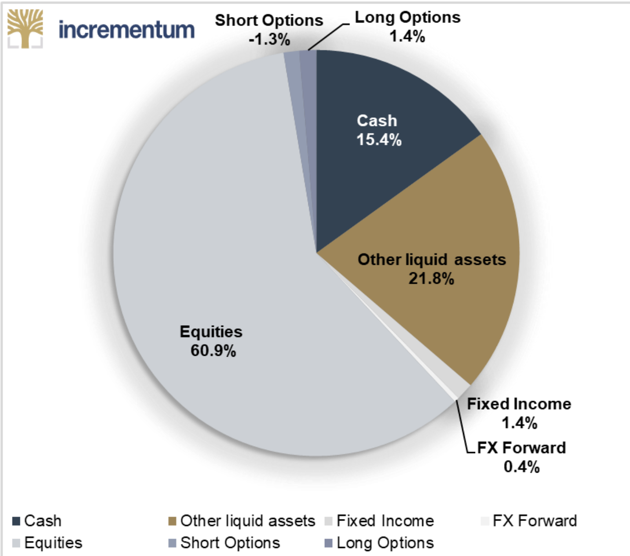
EUR-D	94.65	-9.42%
USD-D	96.19	-9.32%
CHF-D	93.49	-9.20%
EUR-P	93.14	-9.59%

For Charts, See Appendix

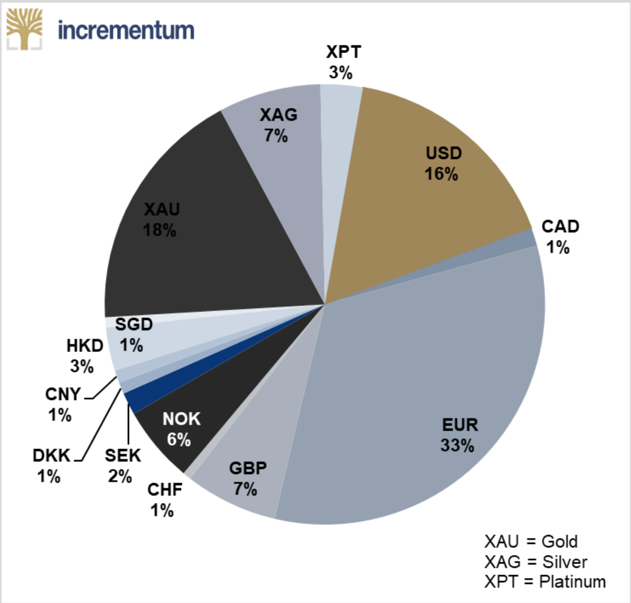
IASF's allocations over the course of June have not changed a lot:

As far as asset allocation is concerned, it registered a slight decrease in **Equities** to 60.9% (-0.4%), which was the net result of the exercise of call and put options, as well as trading around general positions. Notable profit taking was seen in Ericsson and half of the fund's Nokia shares, which has reduced the **5G Beneficiaries** exposure to below 1% for trading purposes. And lastly, with Phasanara's Quant fund we have added another alternative fund in addition to **IASF's** existing position in Man AHL Trend Following last month, which resulted in a 2% shift from Cash to Other Liquid Assets. – As I said, nothing major overall!

Asset Allocation



<u>Currency Allocation</u>



FX allocation has also hardly changed in June and remains reasonably diversified. **IASF's** USD exposure fell 1% to 16%, EUR base currency exposure rose from 31 to 33%, while SEK fell 2% amid the execution of a FX option, and gold exposure rose 1%. – I want to remind readers here that in terms of FX exposure evaluation we look through the fund's investments. That means if there are e.g. commodity or shipping companies that conduct their business in USD and use it as reporting currency, we will classify them as USD exposure in the fund, even if the underlying stocks are traded in different currencies (e.g. CAD, NOK, HKD, etc.). Thus, we provide a true picture of actual FX risk taken.

This, by the way, is different in the case of the fund's above shown precious metals exposure. Here we count Gold ETPs as XAU, but also include gold mining companies, because even if they report in USD, they have a far higher sensitivity to the price of gold. The same is true in the case of silver.

Well, that concludes **IASF's** portfolio review for this month, which I sincerely hope you have found informative and useful. As pointed out before in this piece, investing can at times be a seriously challenging and occasionally frustrating activity, and I am sure every investment manager has had periods where he got the impression that few things he touches seem to work out. I certainly have experienced that kind of situation (my wife can attest to this, as it tends to make me unusually grumpy), and the past six months have certainly been another phase like that. I sometimes feel that this is almost like the market's attempt to test my nerves and mettle, and eventually it always turns out merely an uncomfortable period, which is frequently followed by the best gains of a cycle. I obviously cannot guarantee this, but I remain optimistic that the second half of the year will be a lot more satisfying from a performance point of view for all investors. – Having said that please be reminded once again that …

As responsible fund manager for IASF all my views expressed in this report, and particularly those concerning fund holdings must be considered biased and are not tailored to my readers' individual needs. Although I use great care in writing this commentary, it reflects my personal views and opinions, and as all I do as a fund manager is subject to a great amount of uncertainty, you should not rely on it for accuracy. Thus, always consult a licensed investment professional if you are seeking investment advice! And remember that past performance is no guarantee for future results, and all investments involve risk including the loss of principal.

in closing

As I wrote in my market commentary for the fund's monthly factsheet, 2020 is destined to end up in the investing history books. Bloomberg's John Authers summarized things neatly in a recent "Points of Return" piece: *"There are plenty of differences between the current situation and the great bubble that burst in 2000. Perhaps most significantly, there is still a gusher of liquidity at present, while in 2000 the Federal Reserve was withdrawing liquidity after the world's computer systems had managed to navigate the "Y2K" problem successfully. There are also rather more evident risks now than there were then; the world is a more dangerous place than it was 20 years ago, and the risks from the Covid-19 pandemic continue to be skewed to the downside.*

What we do have in common with 2000 is an exceptional rise in tech stocks, accompanied by evidence of utter insanity at the margins. When investors bought the stock of companies that had not yet even made revenues, let alone profits, 20 years ago, now they are prepared to hand money straight over to companies in bankruptcy, facing the virtual certainty that it will all immediately be paid to creditors.

Then as now, conventional valuation metrics have ceased to matter. If tech stocks were bothered by valuations, they would have sold off a long time ago. And also, oddly like 2000, there are large swathes of the market that are unaffected by the mania." (Source: It's Getting Harder to Avoid the Insanity Trade, J. Authers, 18JUN2020)

Source: Hedgeye, 29JUN2020

In situations like that my contrarian sense urges me to move towards the *"large swathes of the market that are unaffected by the mania"*, even if this seems counter-intuitive to short-term performance. But this is what makes up the difference between "investing" and "speculating", and experience has taught me that it is the safest way to avoid being torn up by the bears.

As always, I appreciate any feedback by e-mail, and sincerely thank all readers for their interest, my investors for their support, and wish everyone a great weekend ahead.

Greetings from Schaan, Liechtenstein!

Best regards,

Hans

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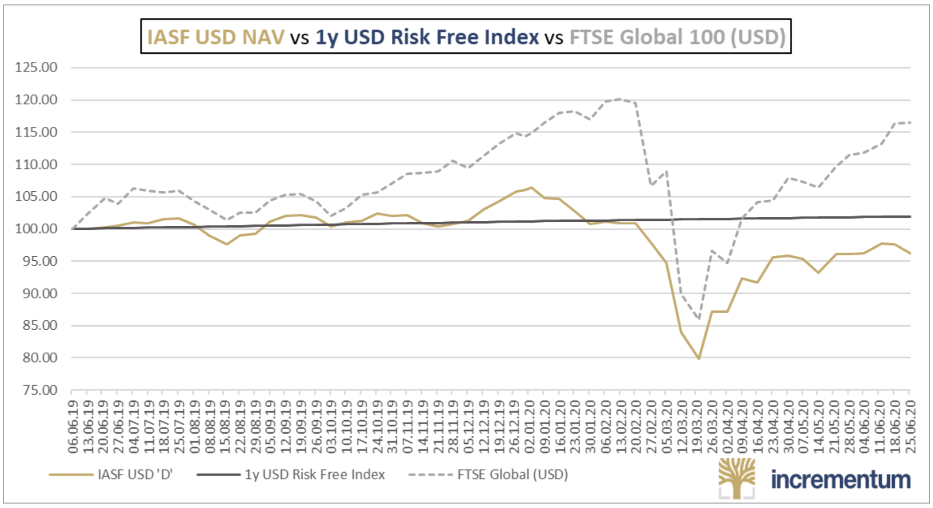
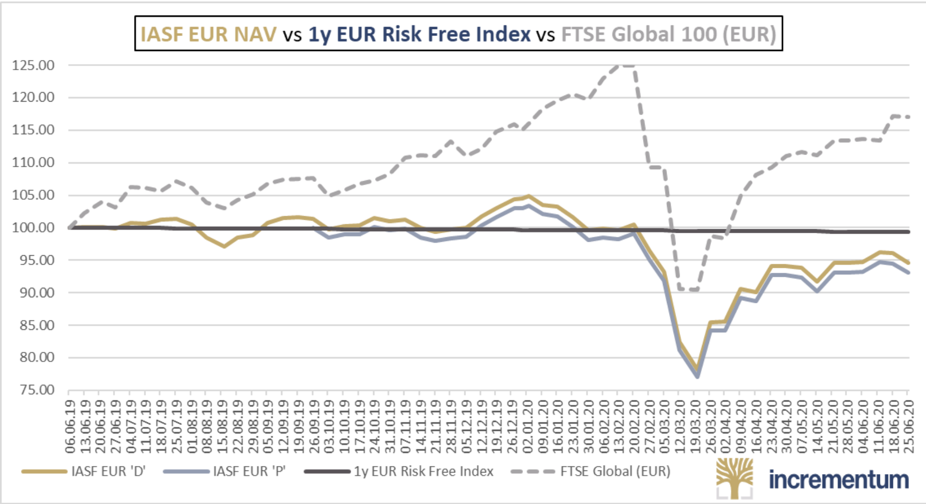
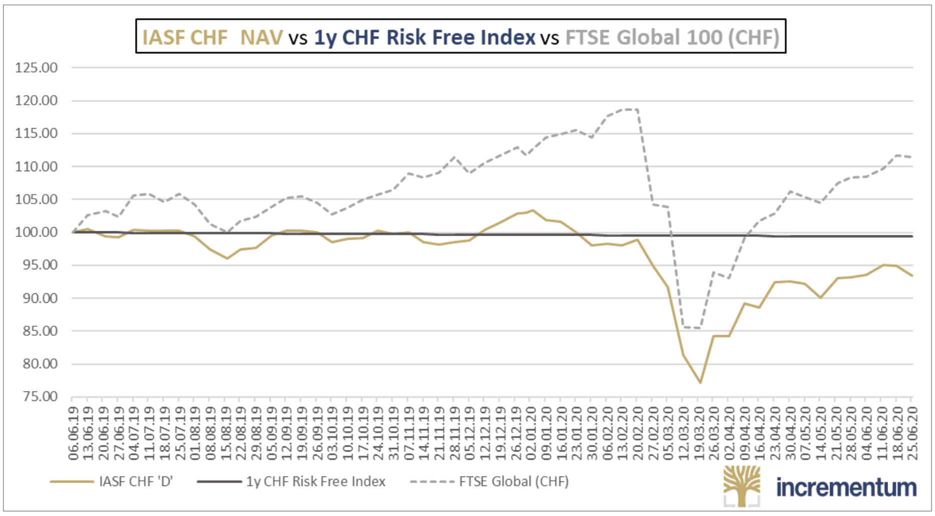
Appendix *







* Graphs display NAV of IASF 'D' shares as of last valuation date (**25JUN2020**), compared to the respective risk-free 1y-government yield, as well as the FTSE Global 100 Index in respective currency as a proxy for overall equity market performance, from the start of the investment period (6Jun2019 for 'D' shares; 26Sep2019 for EUR-P shares) on an indexed basis.

IASF PM Shaped By 8 Investment Lessons

1. Capital markets, like the economy, are inherently cyclical in nature, and you must always know where you are in the cycle, while not hesitating to "Be fearful when others are greedy and greedy when others are fearful." (Quote: Warren Buffett)
2. Prices paid determine future returns, i.e. the higher valuations are, the lower future return expectations must be (and vice versa), which is the essence of value investing.
3. Capital preservation is the conditio sine qua non, and a consistent and long-term investment strategy is more important than short-term momentum chasing.
4. As a result you must always know when you trade, or when you invest.
5. The most basic and effective risk management tools are proper diversification and the ability to hold cash.
6. Hard assets are preferable to intangibles, distributions to accruals.
7. Look for the incentives: True alignment of interest works in investors' favor.
8. There is no magic formula for successful investing: Consider both macro- and micro-economic issues, be diligent, flexible, patient, keep an open mind, and realize that investing will always remain more of an art rather than a science.

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