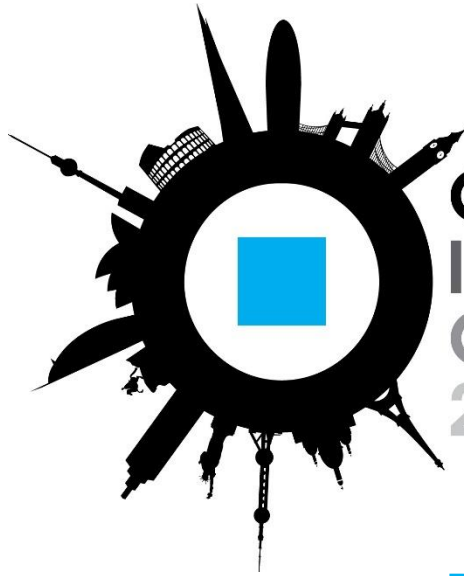


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2016

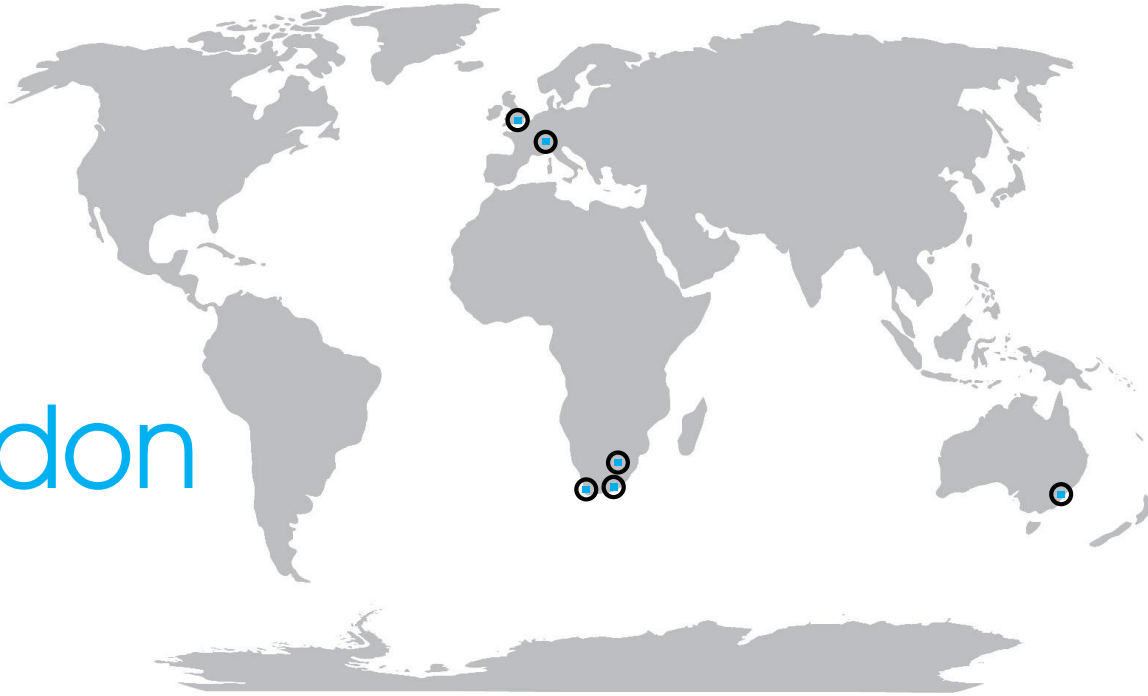
BUSINESS OVERVIEW
ROY ETTLINGER

About Credo



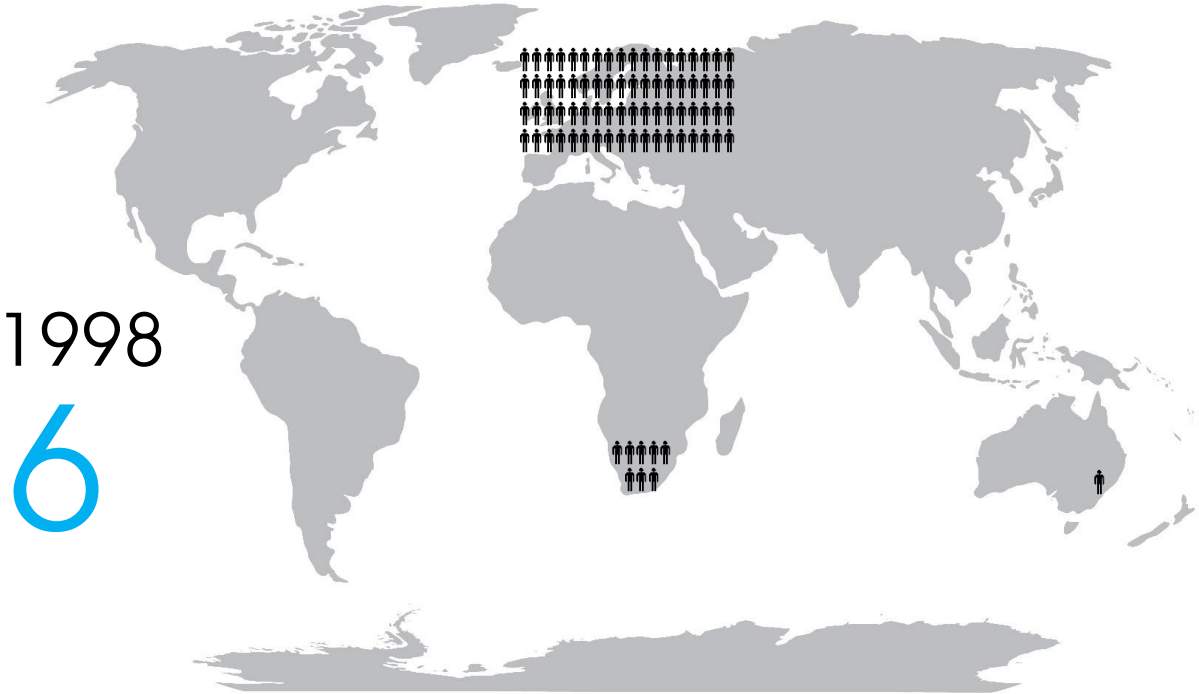
- Independent group founded in 1998
- Today circa 70% of equity owned by executives / employees
- Over 5,000 clients
- United Kingdom, Switzerland, South Africa. Interests in Australia and Luxembourg
- Employs over 80 people

1998
London



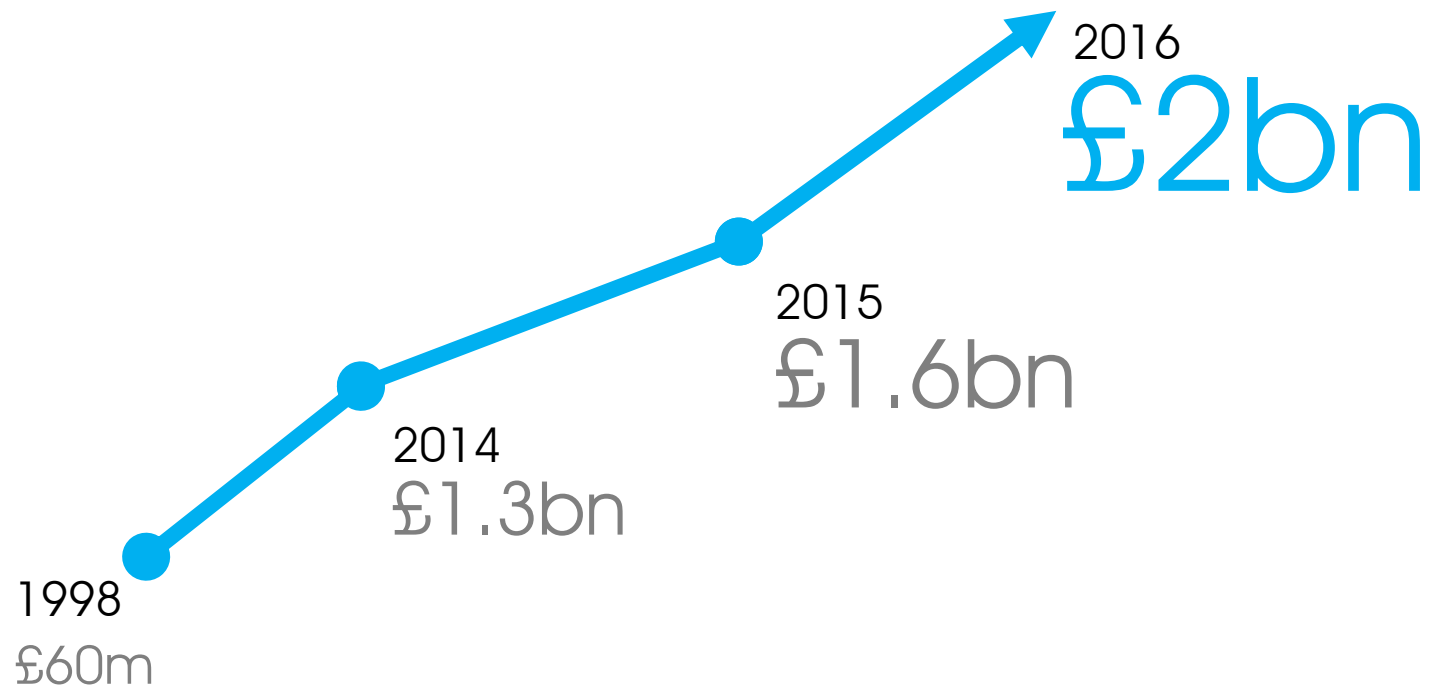
2016
London
Geneva
Johannesburg
Cape Town
Port Elizabeth
Sydney

Employees



2016
more
than
80

Assets under Administration



Events and data that will shape markets for the rest of 2016



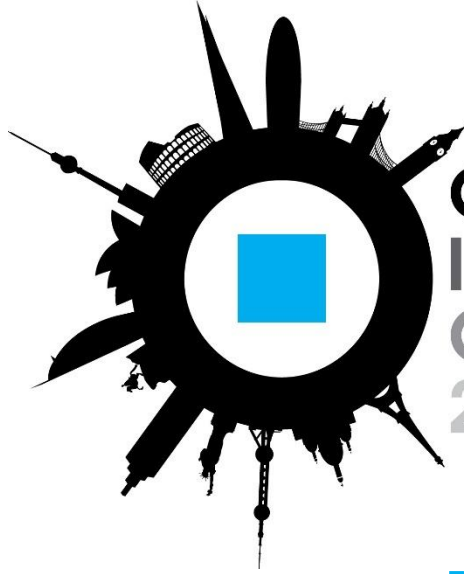
- Brexit
- Federal reserve
- US presidential elections
- China

Which asset classes are most/least attractive?



“ *There aren't any, the choice facing investors is choosing the least unattractive offerings.* ”

Larry Hathaway - GAM group chief economist



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PRODUCT OVERVIEW
ALAN NOIK

Product Overview



Equities

**Fixed
Income**

Multi-Asset



- April 2011
- High conviction, global equities – 20 stock cap.
- Long-term, value investing
- Developed market, large capitalisation stocks



Portfolio Performance (GBP)

Long Term Returns	Best Ideas Portfolio	MSCI World	Relative Return
5 Year	66.1%	52.5%	13.6%
3 Year	32.4%	27.5%	4.9%
1 Year	2.0%	0.4%	1.6%
Short Term Returns	Best Ideas Portfolio	MSCI World	Relative Return
YTD	5.9%	2.0%	3.9%
3 Months	6.8%	4.7%	2.1%
1 Month	1.7%	-0.1%	1.8%

(1) Performance figures are based on a notional portfolio, denominated in pound sterling, designed to track the holdings of the Credo Best Ideas Portfolio. The portfolio incorporates all additions and removals. As the portfolio may not be fully invested at a point in time, it may hold a portion of assets in cash. Performance is calculated before any fees (which can vary depending on the level of service) but includes net dividends, reinvested. Following additions or removals, each holding is rebalanced to a 5% weighting.

(2) Source: Bloomberg pricing as of 29/04/2016 close. All portfolio performance is calculated using Bloomberg PORT.

Portfolio Performance (USD)

Long Term Returns	Best Ideas Portfolio	MSCI World	Relative Return
5 Year	45.5%	33.6%	11.9%
3 Year	24.6%	20.0%	4.6%
1 Year	-2.7%	-4.2%	1.5%
Short Term Returns	Best Ideas Portfolio	MSCI World	Relative Return
YTD	5.1%	1.2%	3.9%
3 Months	9.9%	7.7%	2.2%
1 Month	3.4%	1.6%	1.8%

(1) Performance figures are based on a notional portfolio, denominated in pound sterling, designed to track the holdings of the Credo Best Ideas Portfolio. The portfolio incorporates all additions and removals. As the portfolio may not be fully invested at a point in time, it may hold a portion of assets in cash. Performance is calculated before any fees (which can vary depending on the level of service) but includes net dividends, reinvested. Following additions or removals, each holding is rebalanced to a 5% weighting.

(2) Source: Bloomberg pricing as of 29/04/2016 close. All portfolio performance is calculated using Bloomberg PORT.

DIVIDENDGROWTHPORTFOLIO



- December 2012
- Attractive dividend yields
- Sustain and grow dividends
- Developed market, large capitalisation stocks

Johnson & Johnson

MONSANTO



DIAGEO



Portfolio Performance (GBP)

Long Term Returns	Dividend Growth Portfolio	MSCI World	Relative Return
Since Inception	55.6%	46.8%	8.8%
3 Year	34.3%	27.5%	6.8%
1 Year	8.5%	0.5%	8.0%
Short Term Returns	Dividend Growth Portfolio	MSCI World	Relative Return
YTD	4.1%	2.0%	2.1%
3 Months	3.1%	4.8%	-1.7%
1 Month	0.4%	0.0%	0.4%

(1) Performance figures are based on a notional portfolio, denominated in pound sterling, designed to track the holdings of the Credo Dividend Growth Portfolio. The portfolio incorporates all additions and removals. As the portfolio may not be fully invested at a point in time, it may hold a portion of assets in cash. Performance is calculated before any fees (which can vary depending on the level of service) but includes net dividends, reinvested. Following additions or removals, each holding is rebalanced to a 5% weighting.

(2) Source: Bloomberg pricing as of 29/04/2016 close. All portfolio performance is calculated using Bloomberg PORT.

Portfolio Performance (USD)

Long Term Returns	Dividend Growth Portfolio	MSCI World	Relative Return
Since Inception	41.6%	33.6%	8.0%
3 Year	26.4%	20.0%	6.4%
1 Year	3.5%	-4.1%	7.6%
Short Term Returns	Dividend Growth Portfolio	MSCI World	Relative Return
YTD	3.3%	1.2%	2.1%
3 Months	6.0%	7.7%	-1.7%
1 Month	2.0%	1.5%	0.5%

(1) Performance figures are based on a notional portfolio, denominated in pound sterling, designed to track the holdings of the Credo Dividend Growth Portfolio. The portfolio incorporates all additions and removals. As the portfolio may not be fully invested at a point in time, it may hold a portion of assets in cash. Performance is calculated before any fees (which can vary depending on the level of service) but includes net dividends, reinvested. Following additions or removals, each holding is rebalanced to a 5% weighting.

(2) Source: Bloomberg pricing as of 29/04/2016 close. All portfolio performance is calculated using Bloomberg PORT.

SPECIAL OPPORTUNITIES PORTFOLIO



- Launched August 2014
- Shorter holding period, higher turnover
- Entry and exit points matter even more
- Catalysts (profit warning, restructuring, IPO, take-over)
- Temporary mispricing
- Currency and market agnostic

SPECIAL OPPORTUNITIES PORTFOLIO



Portfolio Performance

- Currently hold 10 positions
- Total number of positions held 14
- 9 winners
- 5 losers
- Average annualised return of 11%

BEST IDEAS PORTFOLIO

DIVIDEND GROWTH PORTFOLIO

SPECIAL OPPORTUNITIES PORTFOLIO



GLOBAL
EQUITY FUND

Rationale

- Strong client demand
- Greater diversification
- Greater flexibility in portfolio composition
- Audited track record
- Capital gains on exit
- Cater for smaller investment amounts

Key Features

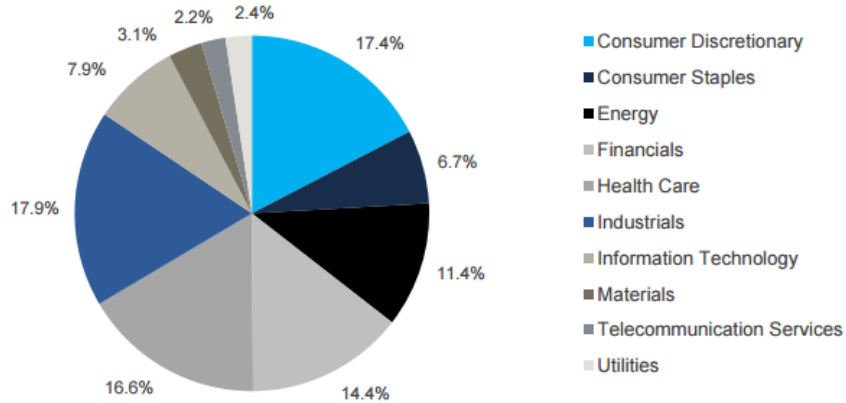
Minimum initial investment	£10,000 or \$15,000
Asset management fee	0.75% p.a.
Number of shares	30+
Share classes	£ and \$
Platforms	1. Credo 2. Momentum Wealth International

Regulations

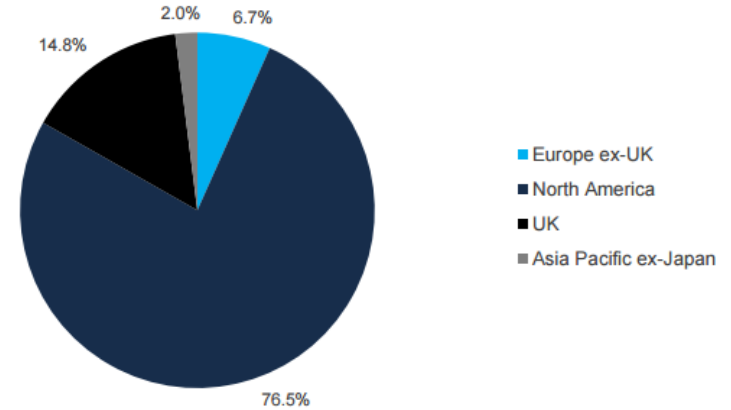
- Regulated by the Guernsey Financial Services Commission
- Pending FSB approval



Sector Allocation



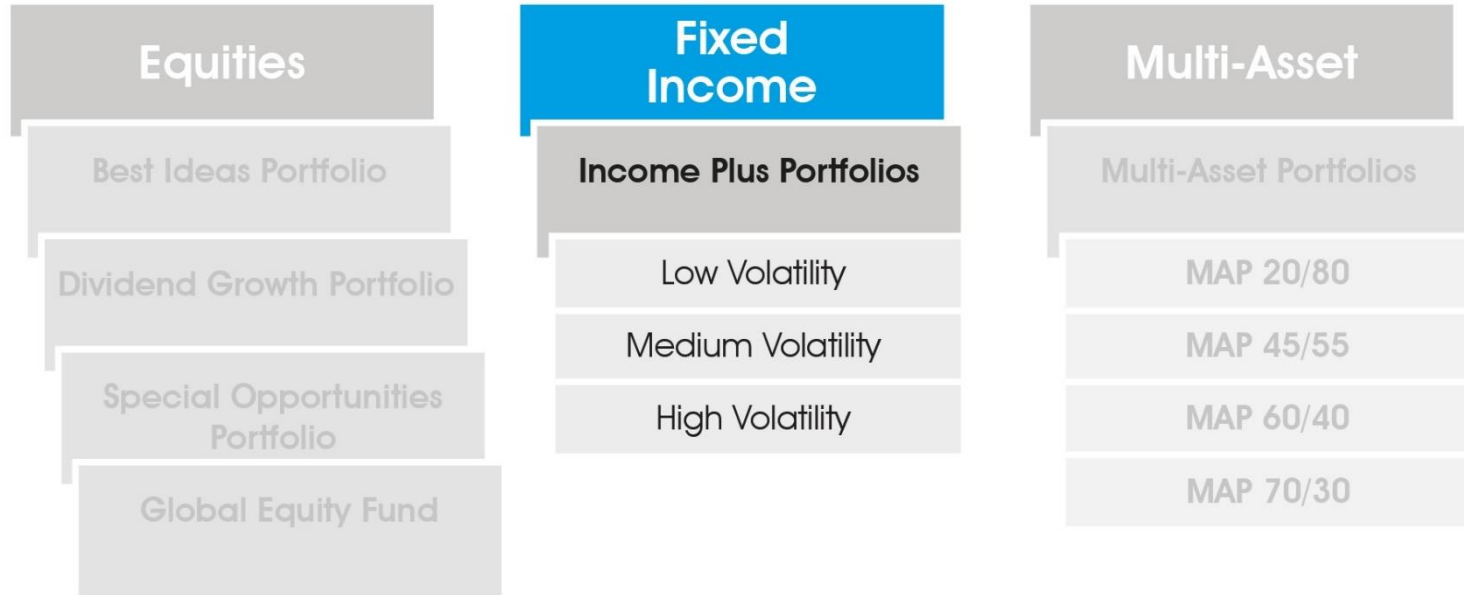
Regional Allocation



Source: Bloomberg, Momentum Global Investment Management Limited & Northern Trust International Fund Administrative Services (Guernsey) Limited.

Fund Performance

Currency	Date Range	CGEF	Relative Return
GBP	1 Mar to 1 June	6.18%	2.61%
USD	1 Mar to 1 June	9.93%	2.90%



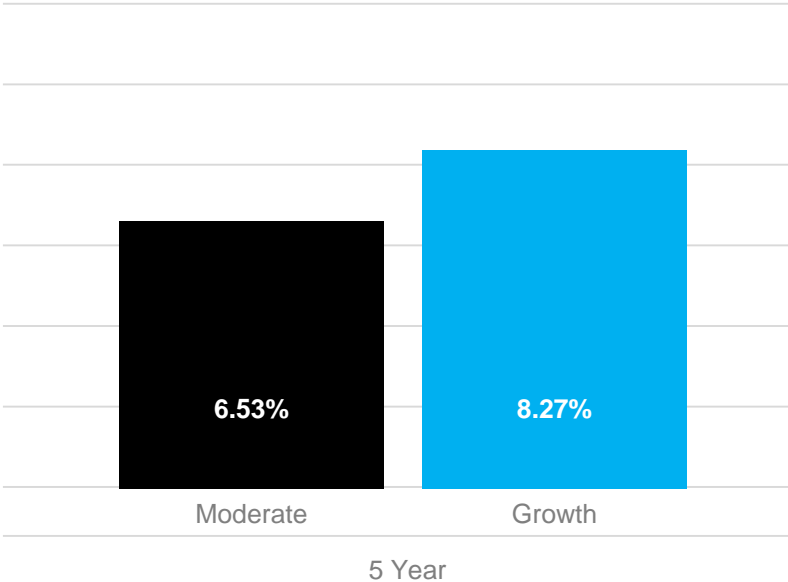
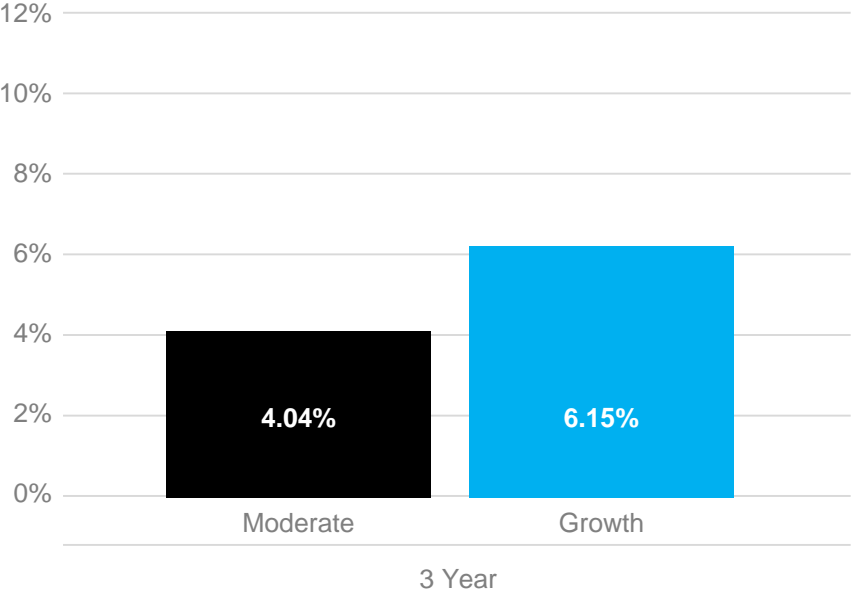
- Interest on cash is negligible
- Achieve return on capital without taking undue risk
- 3 actively managed bond portfolios across 2 currencies
- Solid track record

Low Volatility
(Target: 2% Plus)

Medium Volatility
(Target: 3% Plus)

High Volatility
(Target: 5% Plus)

Performance



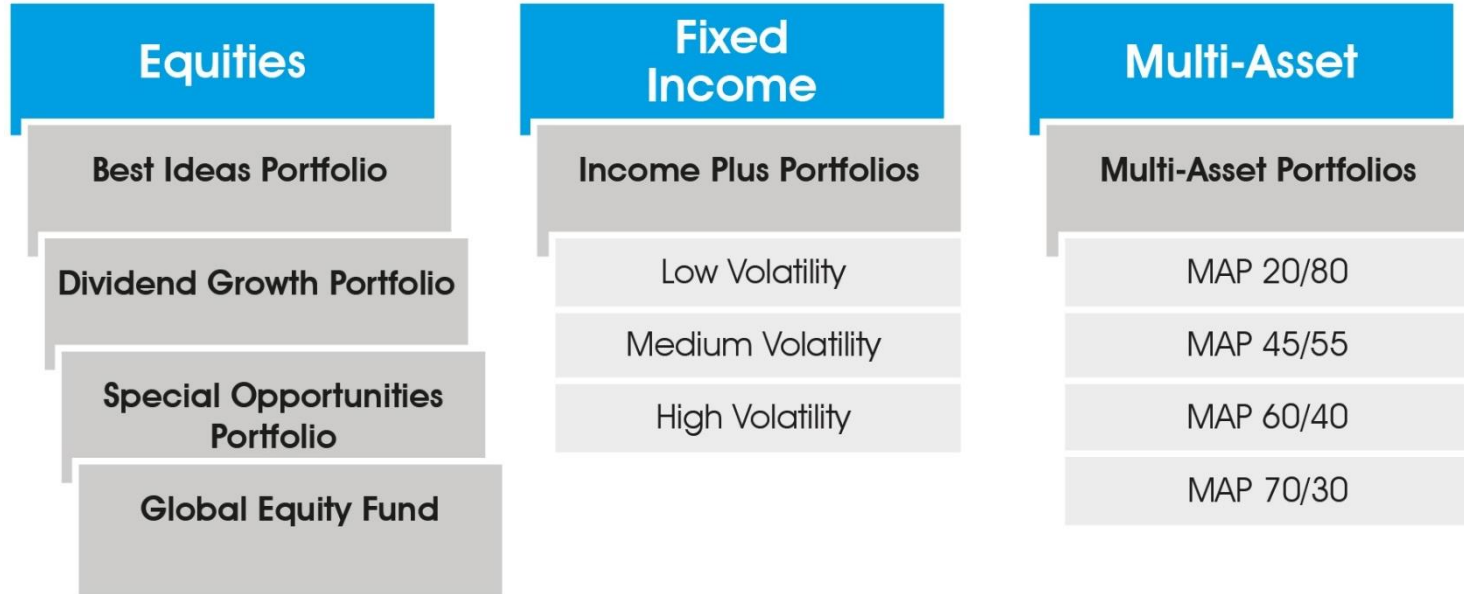


- Asset allocation portfolios
- Adopt a strategic asset allocation
- Avoid short term market timing
- Combination of best-of-breed, actively managed, regulated funds and passive ETFs
- In-house selection process

MULTI-ASSET PORTFOLIOS



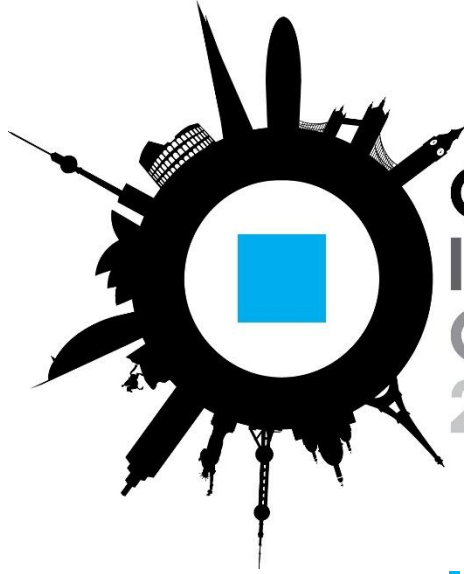
Since Inception				
GBP	9.02%	9.66%	9.07%	10.04%
USD	3.73%	-0.34%	-2.13%	-3.04%
Year to date				
GBP	3.40%	3.19%	3.01%	2.87%
USD	3.43%	3.03%	2.65%	2.55%
Year to date relative				
GBP	-0.30%	-0.04%	0.10%	0.19%
USD	0.30%	0.18%	0.11%	0.22%



“One of the key problems today is that politics is such a disgrace,
good people don't go into government”

Donald Trump



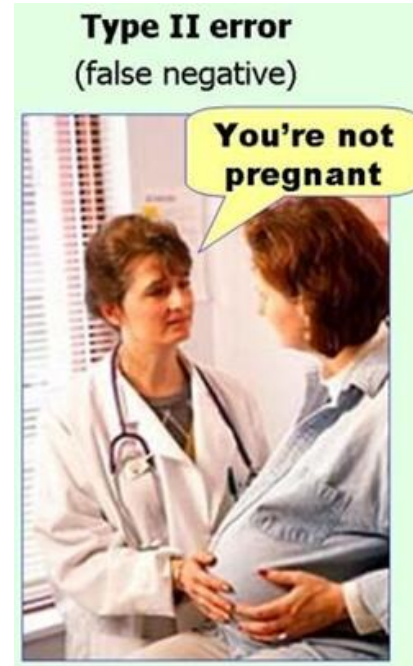
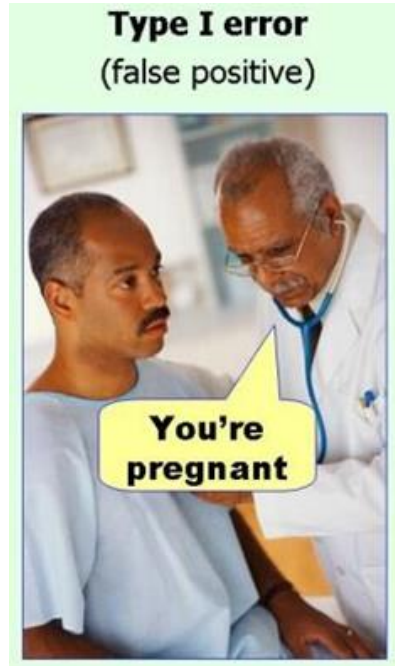


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INVESTORS BEHAVING BADLY
AINSLEY TO

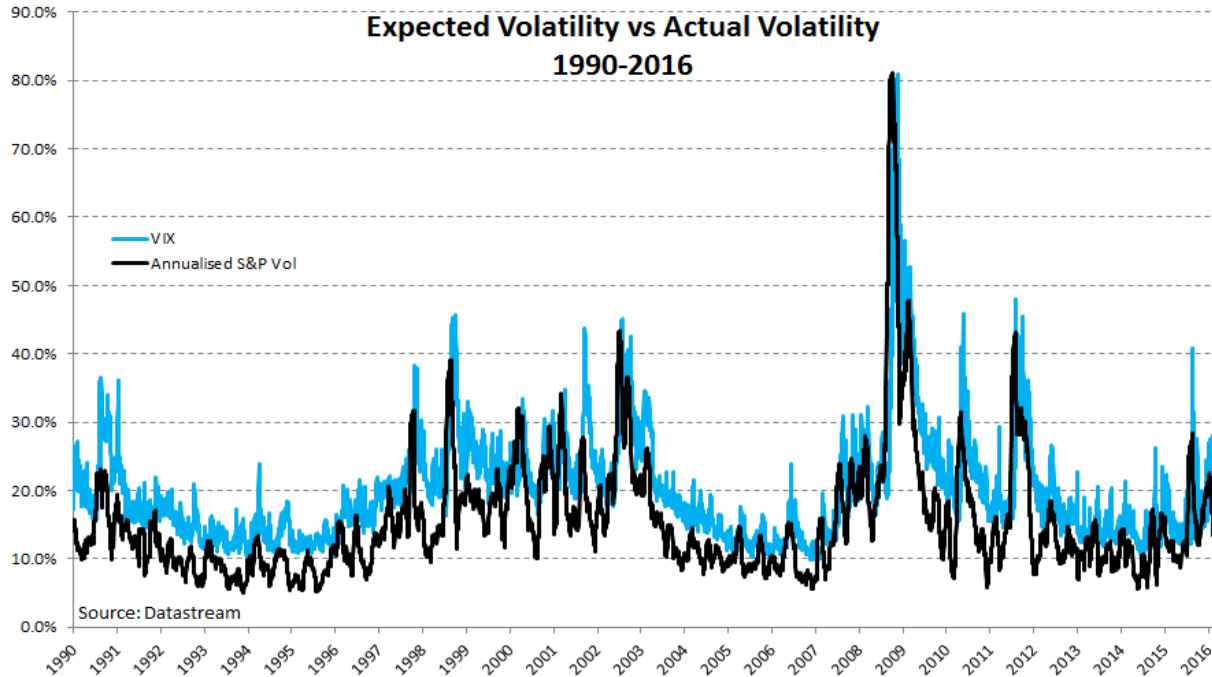
Negativity bias

- We have evolved to be prone to Type 1 errors



Loss aversion in the equity market

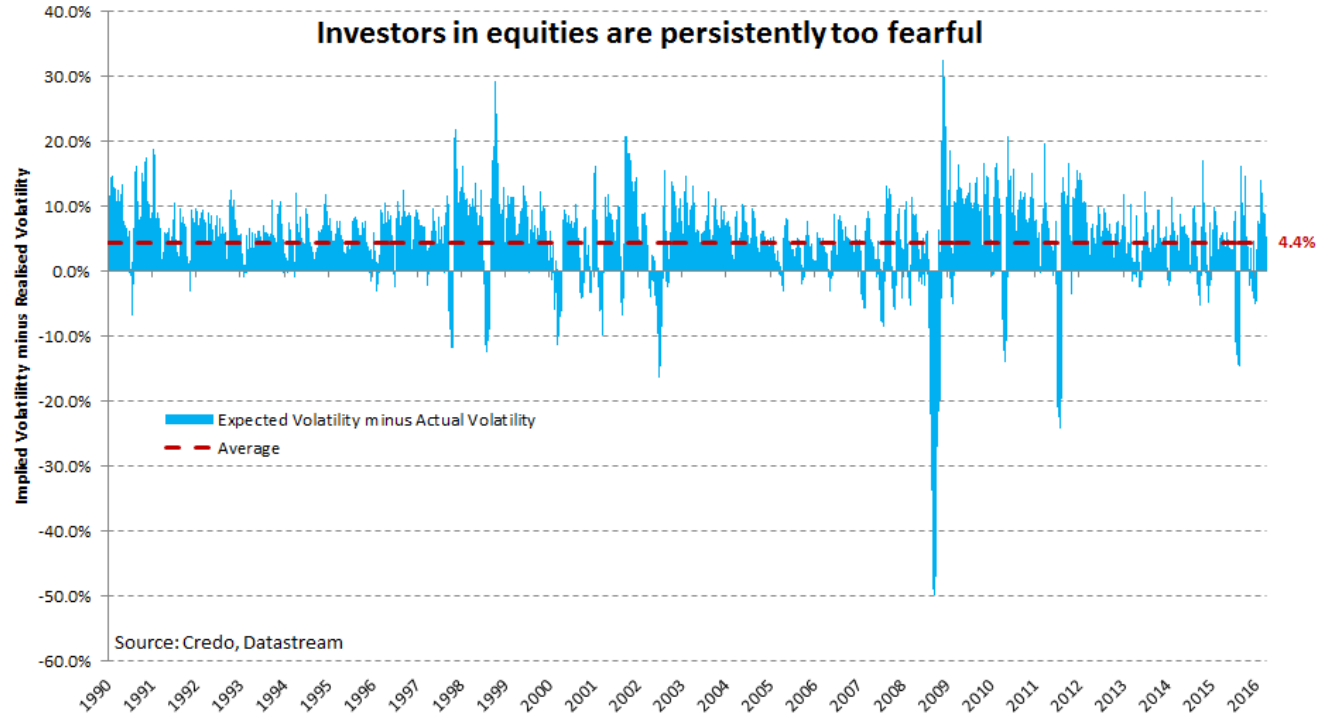
- Investors persistently overestimate risk



VIX Average	S&P Vol Average
19.8%	15.4%

Loss aversion in the equity market

- “Economists have predicted 9 of the last 5 recessions”



Prospect theory

- **Gamble A:** 100% chance of receiving £30,000
- **Gamble B:** 80% chance of receiving £40,000 and 20% chance of receiving nothing

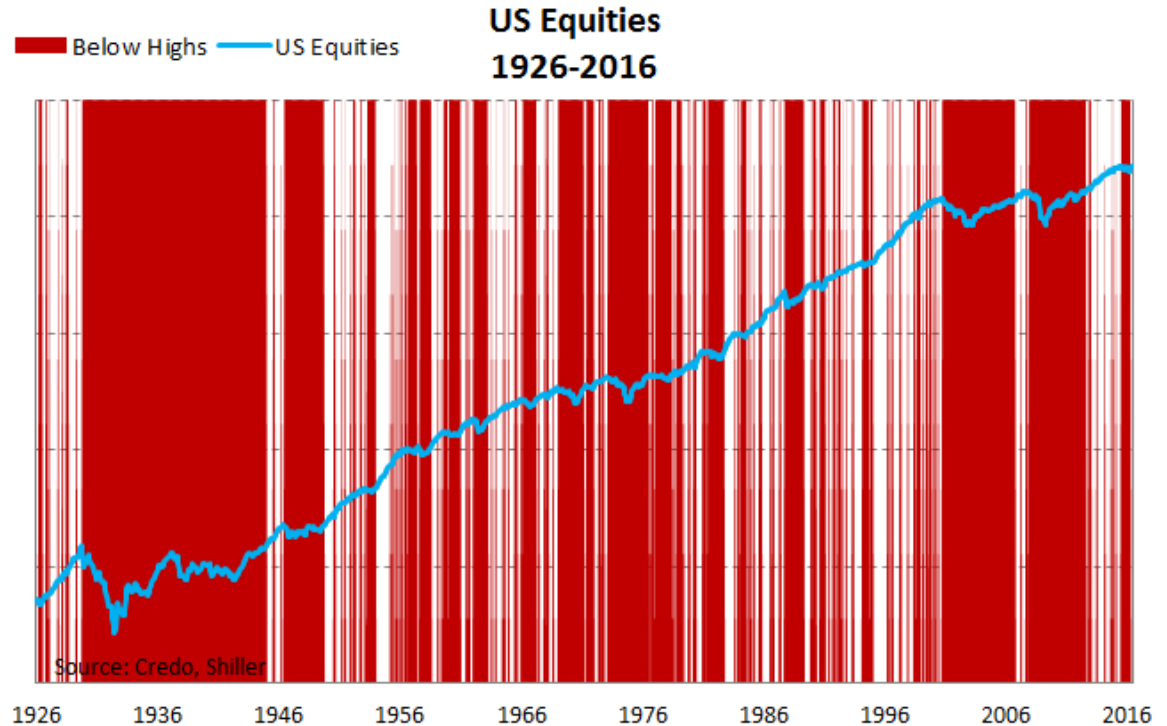


- **Gamble C:** 100% chance of losing £30,000
- **Gamble D:** 80% chance of losing £40,000 and a 20% chance of losing nothing

Equities – A Behavioural Nightmare



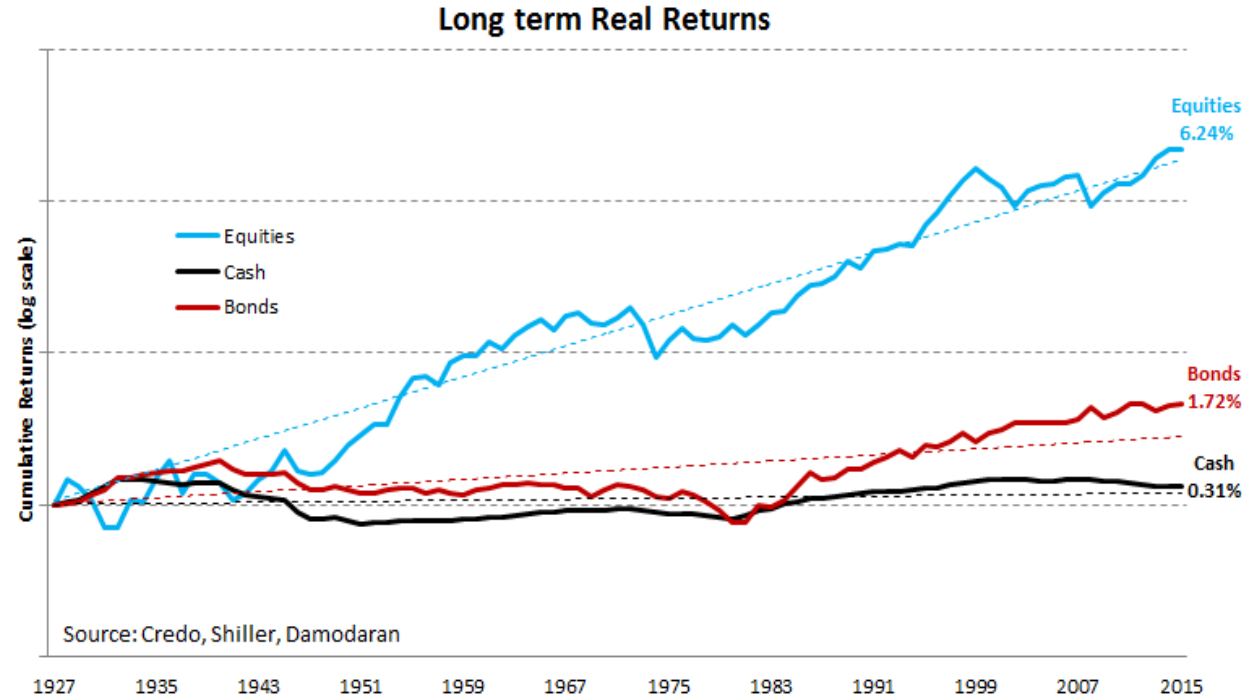
- Equities are in drawdown 70% of the time



Opportunity cost of loss aversion

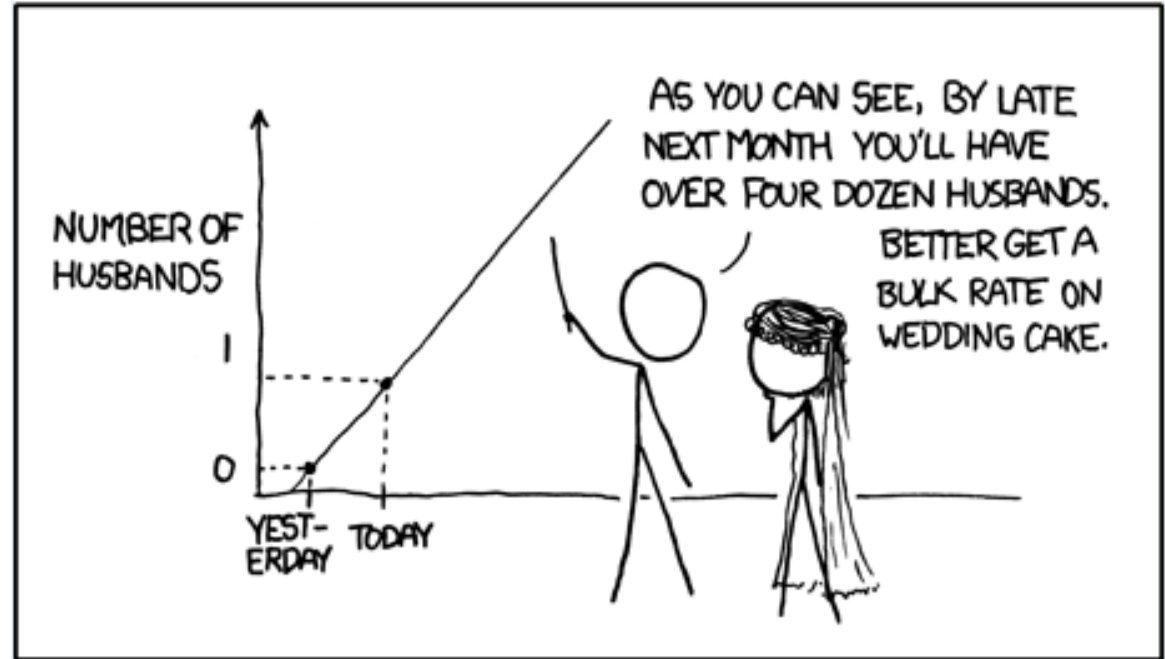


- Holding through drawdowns have been rewarded in the long term



We tend to extrapolate

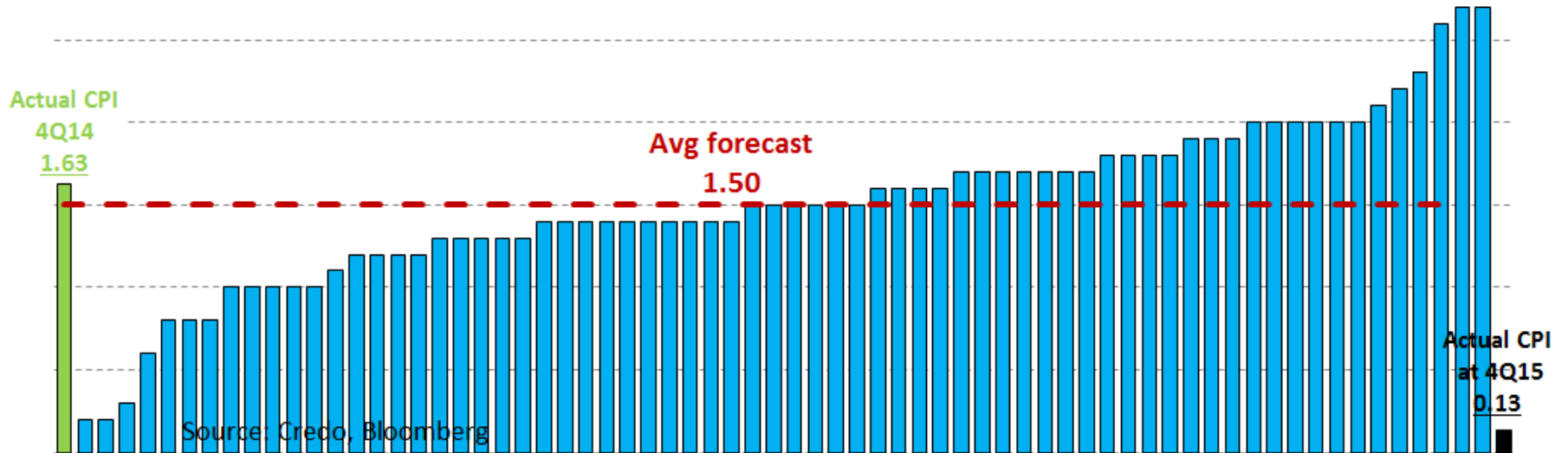
- Recency bias – tendency to rely too heavily on recent experience in our decision making
- We recognise patterns from random noise



Pattern recognition & extrapolation

- Our forecasts tend to look more like the past than the future

Sell side forecasts for U.S. CPI from start of 2015

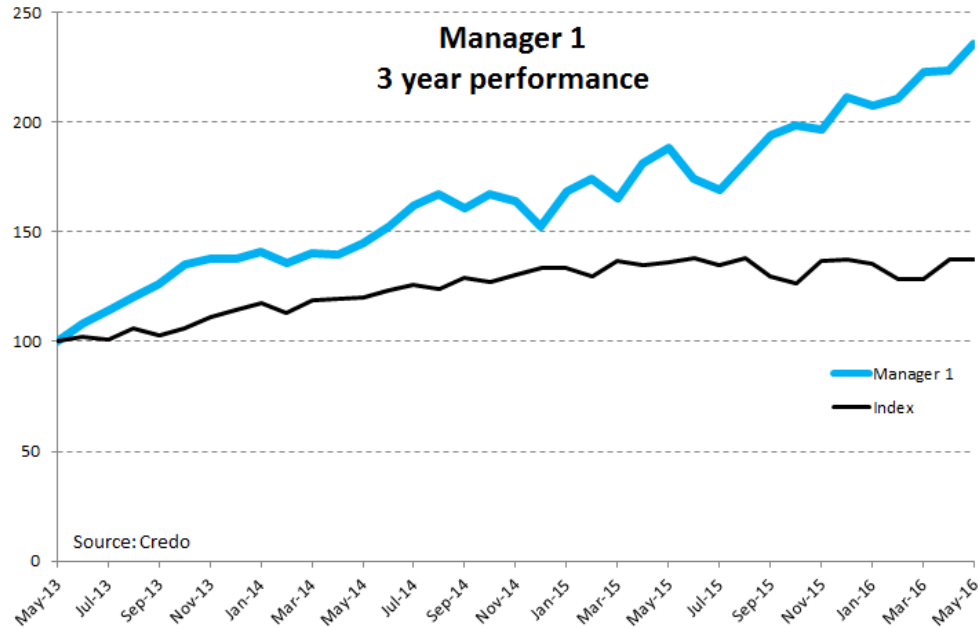


“Forecasting is difficult, especially about the future”

Extrapolation & pattern recognition



- Would you invest in Manager 1?

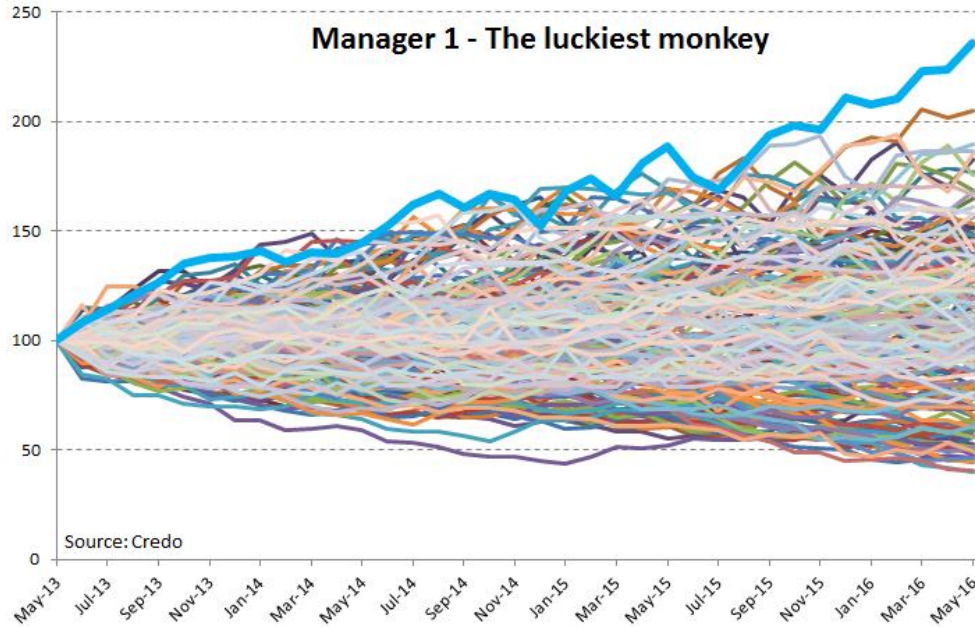


	Sharpe Ratio
Manager 1	2.08
Index	0.99

Extrapolation & pattern recognition



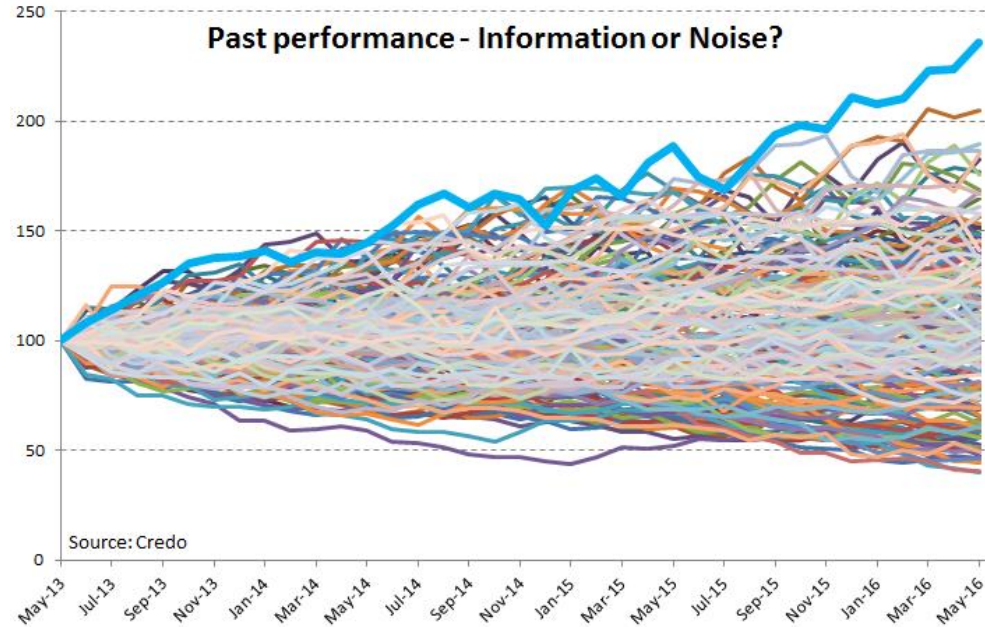
- Manager 1 is the best of 200 random number generators, all designed to have exactly **zero** skill
- How likely is it that he will outperform in the future?



	Random Returns
Average Return	0%
Annual Volatility	16%

Extrapolation & pattern recognition

- We are often fooled by randomness



Extrapolation



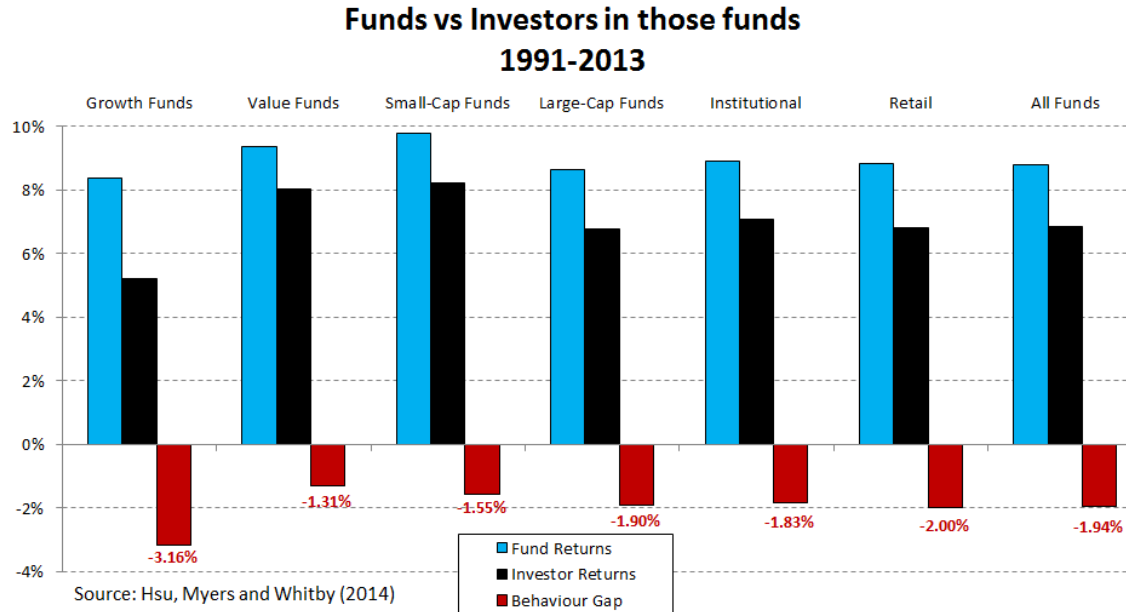
- Past performance has little predictive power

Number of Funds	Past 5yr Excess Return by Quintile	Subsequent 5yr Excess Return by Quintile					
		Highest	2nd	3rd	4th	Lowest	No Data
335	Highest	12.8%	11.0%	10.7%	17.3%	24.5%	23.6%
339	2nd	13.9%	9.1%	17.4%	14.7%	14.5%	30.4%
336	3rd	9.8%	13.1%	14.0%	16.1%	11.3%	35.7%
337	4th	11.9%	17.8%	11.3%	10.7%	8.6%	39.8%
337	Lowest	15.1%	12.8%	10.4%	4.7%	5.0%	51.9%

Source: Vanguard (2013)

Short termism - the price of performance chasing

- Fund investors tend to buy high and sell low
- Overtrading has cost investors as much as a third of their returns



Short termism – opportunity cost



- Biases can cause investors to miss the wood for the trees
- Average tenure for an investment committee member is 3.5 years

Rolling 3 year returns

Investment Legend	Annual Outperformance	<u>Total Time Under</u>	<u>Longest Consecutive</u>
		%	No. of Quarters
Berkshire Hathaway	5.4%	32%	18
Franklin Templeton Mutual Share	3.0%	35%	18
Fidelity Magellan	2.9%	43%	23

Source: Credo, Research Affiliates

Controlling your biases



- Mean reversion – noise cancels out over time

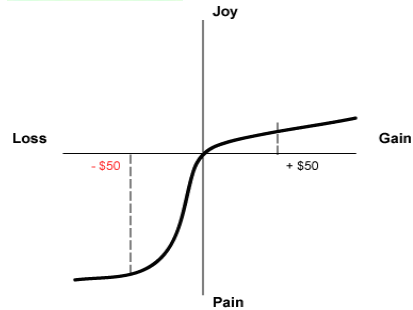
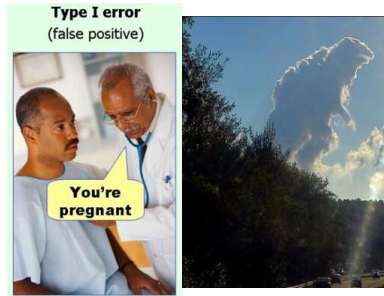
Global Equities (1971-2015)

How often you check performance	% of the time its UP	% of the time its DOWN
Daily	52.9%	47.1%
Weekly	55.8%	44.2%
Monthly	58.9%	41.1%
Quarterly	65.7%	34.3%
Annually	74.4%	25.6%

Controlling your biases – cut out short termism (where possible)

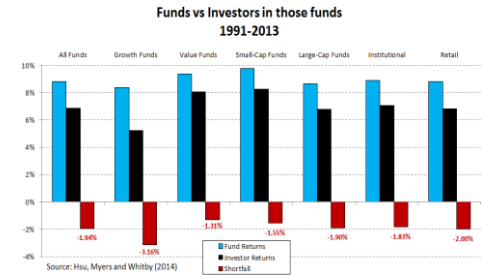
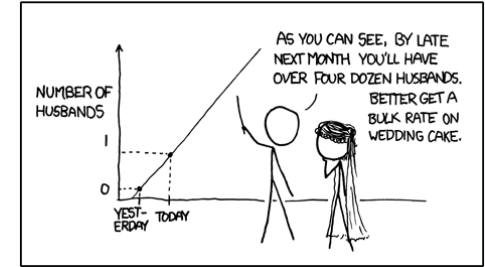


- Shorter time horizons expose you to more behavioural biases
- Obsessing over short term performance is a masochistic exercise



Global Equities (1971-2015)

How often you check performance	% of the time its UP	% of the time its DOWN	Pain Index
Daily	52.9%	47.1%	-41
Weekly	55.8%	44.2%	-33
Monthly	58.9%	41.1%	-23
Quarterly	65.7%	34.3%	-3
Annually	74.4%	25.6%	+23



Conclusion



Loss aversion

- Risk is endogenous - be prepared for periods of losses before investing
- Have a long term plan in advance - don't let market conditions dictate your risk preferences

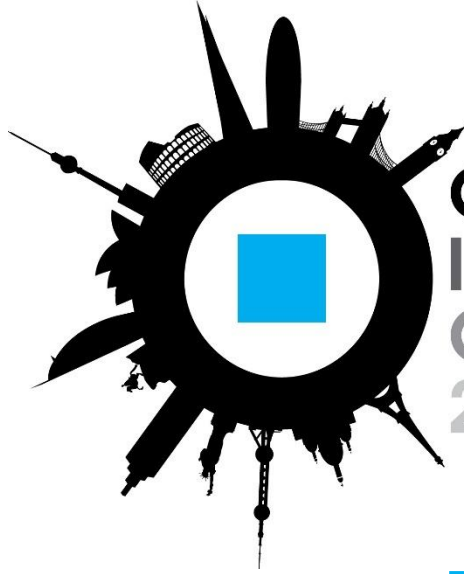
Stop extrapolating!

- Take forecasts with a pinch of salt
- Look beyond recent performance when making investment decisions

Think long term

- Put mean reversion and compounding in your favour

“All men’s miseries derive from not being able to sit in a quiet room alone” - Blaise Pascal



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FIND THE GAP
JARROD CAHN



FIND THE GAP

FTSE 100 Index (31/12/2014 to 24/05/2016)



-5.78%

Eurostoxx 50 Index (31/12/2014 to 24/05/2016)



-5.46%

S&P 500 Index (31/12/2014 to 24/05/2016)

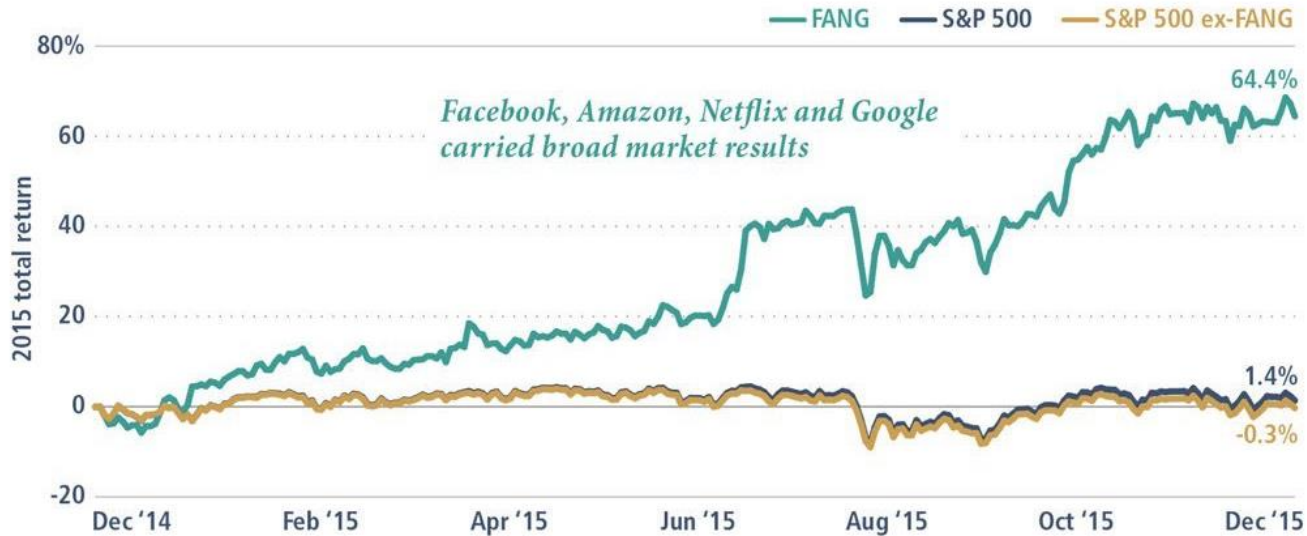


-0.53%

2015 – The year of the “FANG”



...led by a small number of technology stocks



Source: Factset. Data as of 31 December 2015

MSCI USA sector performance

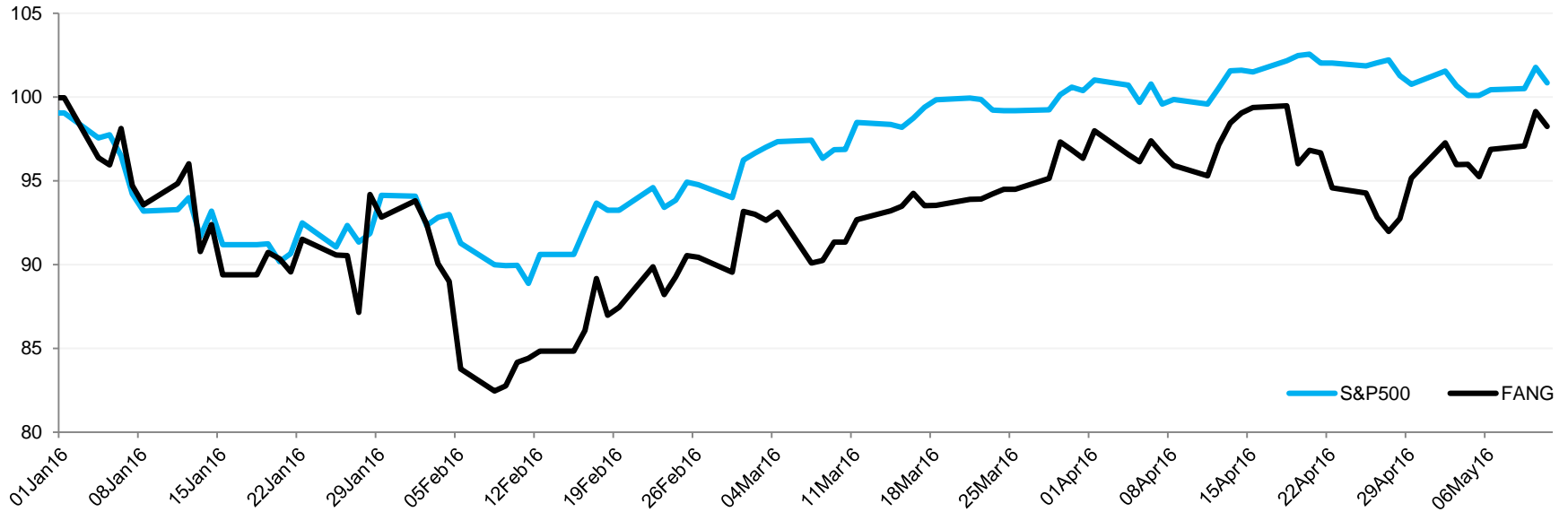


	2015
Consumer Discretionary	7.40%
Health Care	5.50%
Information Tech	3.69%
Consumer Staples	3.11%
Telecom Services	-1.28%
Finance	-2.87%
Industrial	-4.16%
Utility	-9.27%
Material	-9.55%
Energy	-24.07%

Until 24/05/2016



FANG vs S&P 500 (01/01/2016 to date)



Source: Bloomberg

MSCI USA sector performance



	2015		2016 YTD	2015 Ranking
Consumer Discretionary	7.40%	Utility	11.12%	8
Healthcare	5.50%	Energy	9.10%	10
Information Tech	3.69%	Telecom Services	8.63%	5
Consumer Staples	3.11%	Material	7.69%	9
Telecom Services	-1.28%	Industrial	4.36%	7
Finance	-2.87%	Consumer Staples	3.84%	4
Industrial	-4.16%	Consumer Discretionary	-0.19%	1
Utility	-9.27%	Information Tech	-0.35%	3
Material	-9.55%	Finance	-1.54%	6
Energy	-24.07%	Healthcare	-3.03%	2

Until 24/05/2016

Value

Stocks are **attractively valued** and are **fundamentally sound**

Quality

Profitable companies with **sustainable earnings** and **disciplined capital management**

Momentum

Stocks supported by **positive price momentum** and **earnings momentum**

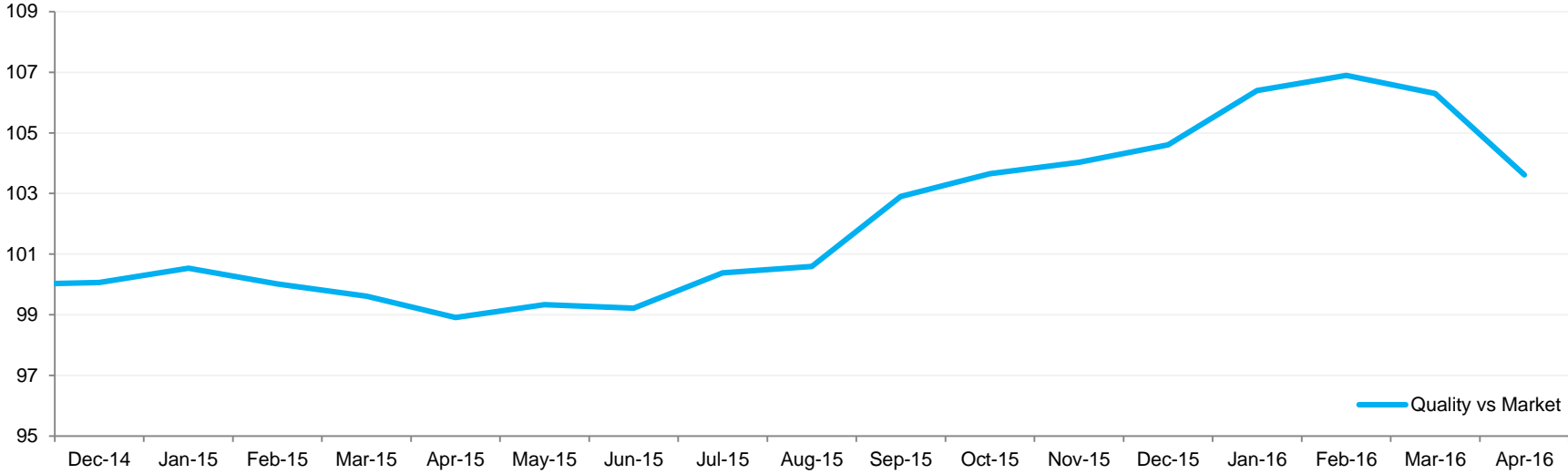
Tough times for value investors



Joel Greenblatt, Gotham Asset Management, and prominent value investor shared the following observations in a September 2015 note to investors:

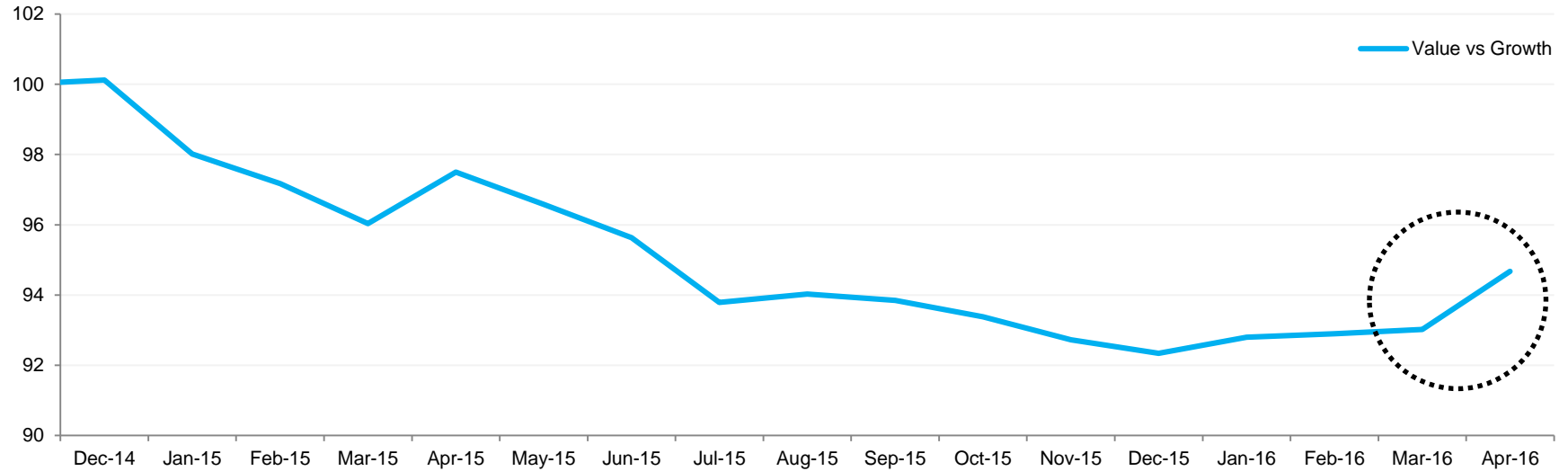
1. Buying only those companies that **lose money** has earned investors anywhere **from 20% to 50%** over the last twelve months.
2. This is the first time since the late 1990s that over **80% of IPOs are losing money**.
3. Buying **the top momentum stocks** and **shorting the bottom momentum stocks** would have achieved **positive 18%** returns so far this year whereas **buying the top value stocks** and **shorting the bottom value stocks** would have **lost 13%**.

MSCI world quality vs MSCI world total return



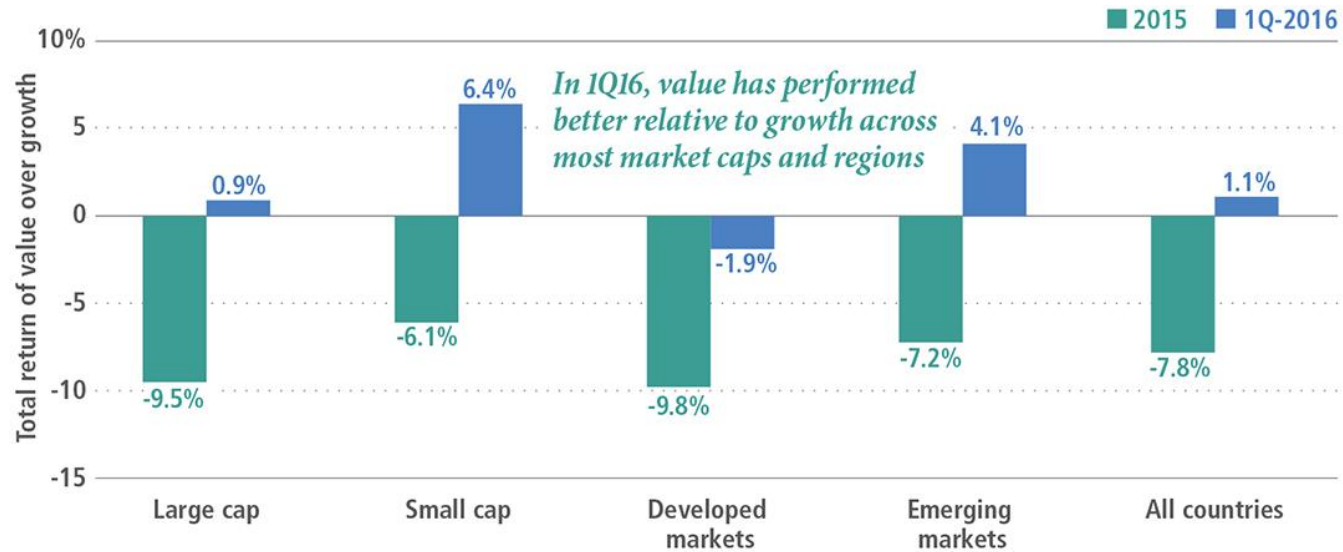
Source: Credo, Bloomberg

MSCI world value vs MSCI world growth



Source: Credo, Bloomberg

Starting to see signs of a rotation back to value



Source: Bloomberg. Data as of 31 March 2016.



FINDING THE GAP

1. Unloved , under-owned and inexpensive
2. Sometimes being slightly contrarian
3. Sometimes too early

Where are
the opportunities?

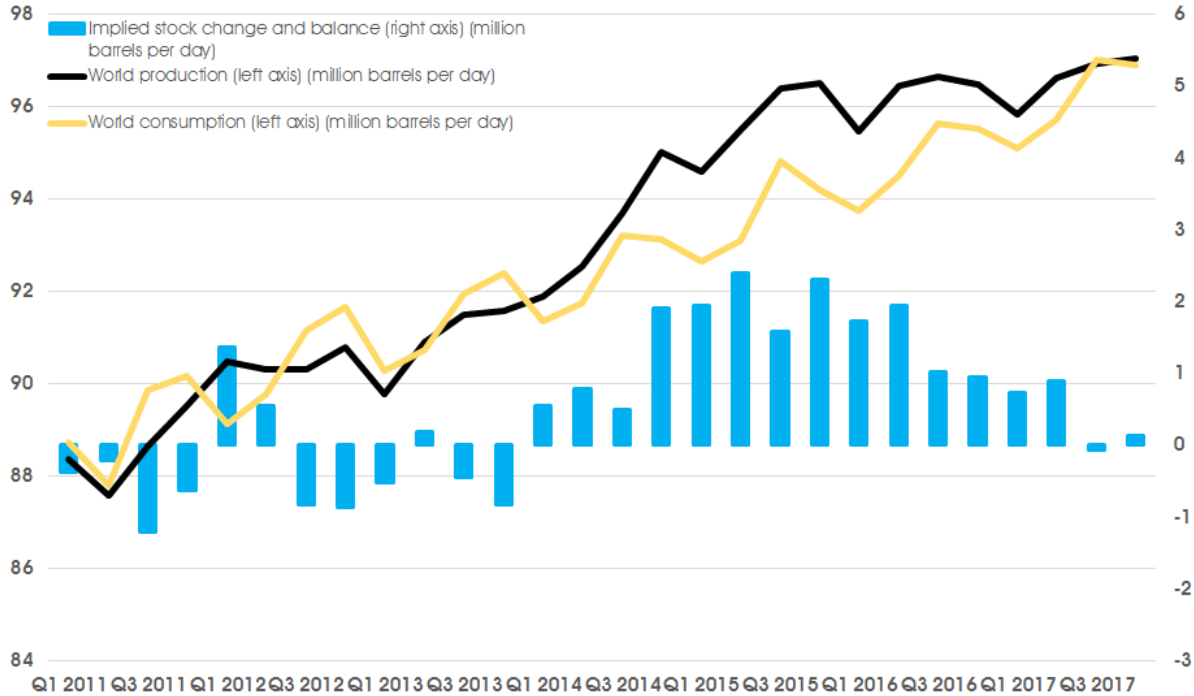


Here is what we don't know



- Will **global demand strengthen** or **weaken**?
- If this turns into a demand led shock, then all bets are off!
- Will **Non-OPEC supply increase** by **less** than expected?
- Will **OPEC cut production**?
- Will there be **supply disruptions** triggered by **geopolitical instability**?
- Will **capex reductions today** lead to a **longer term supply shortage**?

World liquid fuels production and consumption

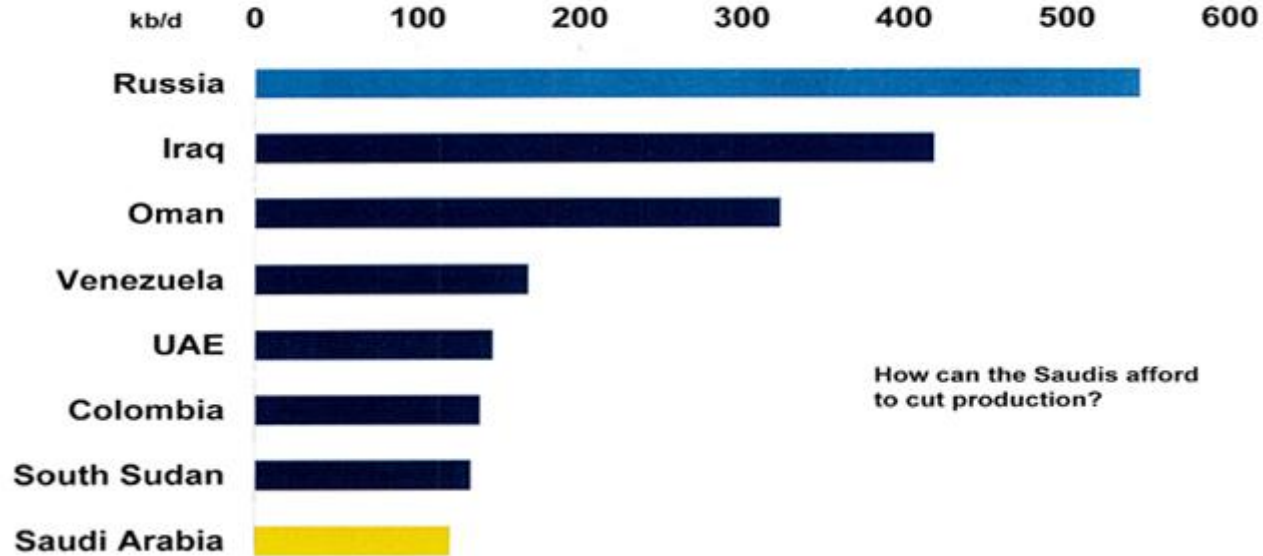


Source: EIA, Credo Wealth

Will OPEC cut production?

Battle For Asian Market Share Is Heating Up...And Saudi Lags!

Chinese Crude Import Growth By Region, '10 vs '15



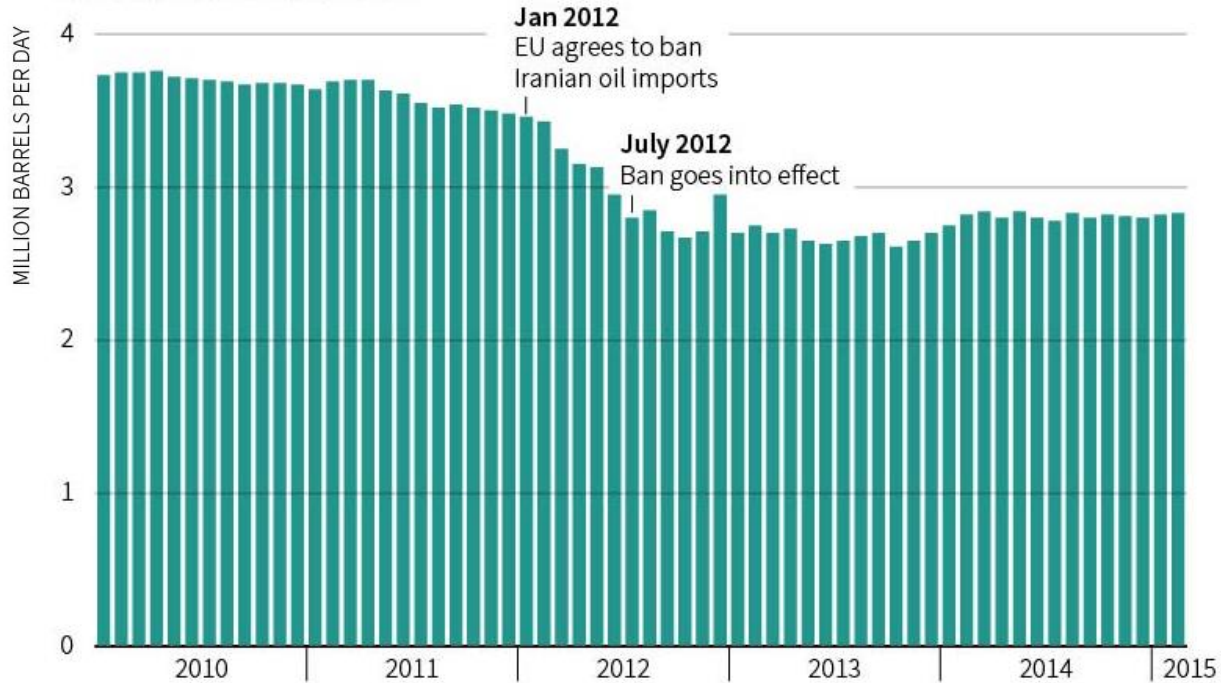
Source: RBC Capital Markets, Chinese Customs General Administration

Will OPEC cut production?



Source: Ian Berry / CNN Money

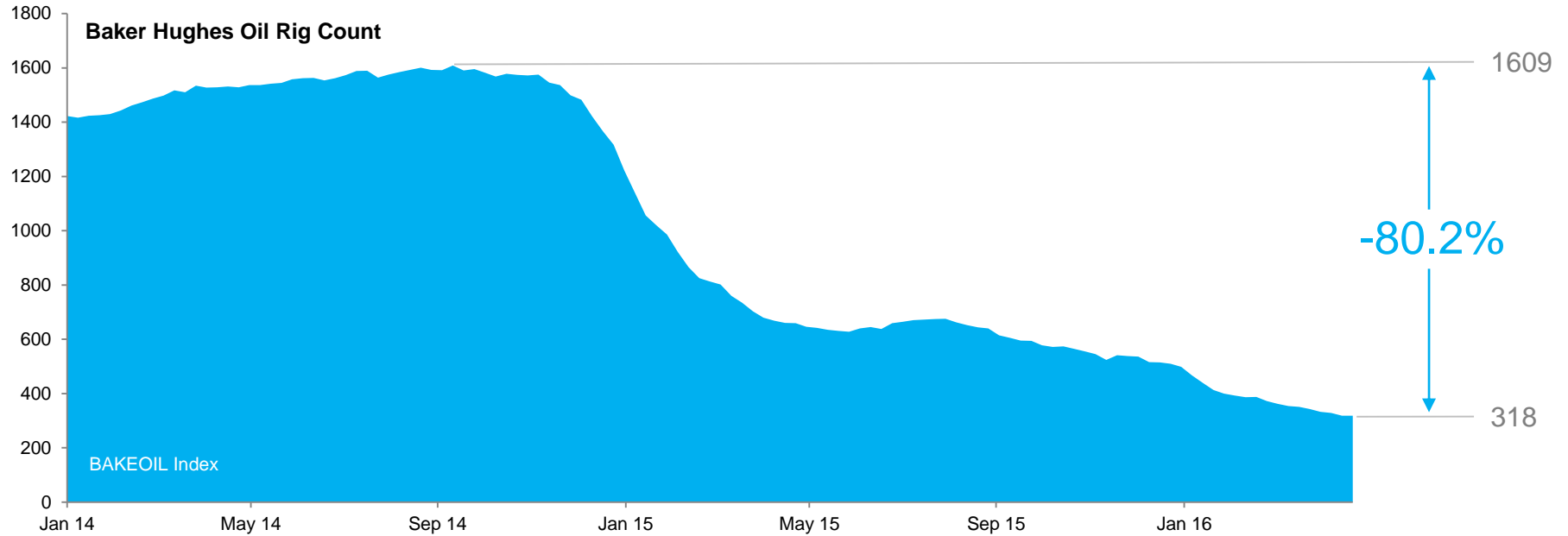
Iran's crude oil production



Source: Reuters OPEC Survey / C. Chan, 02/04/2015

- 50% of Iranian production comes from fields that are 70 years old.
- Production cannot be ramped up so easily.
- The country will need foreign investment and capex.
- Iran presents a significant growth opportunity for large majors looking for low cost oil.

Will Non-OPEC supply increase by less than expected?

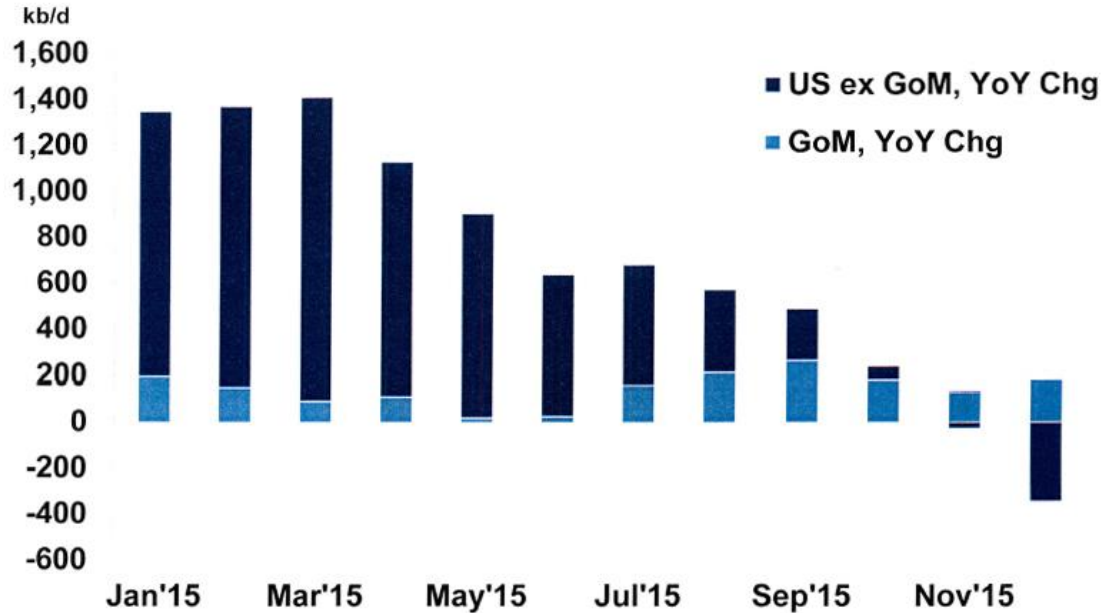


Source: Bloomberg, Credo Capital plc. As of 20/05/2016.

US Gulf of Mexico growth masks declines in shale regions



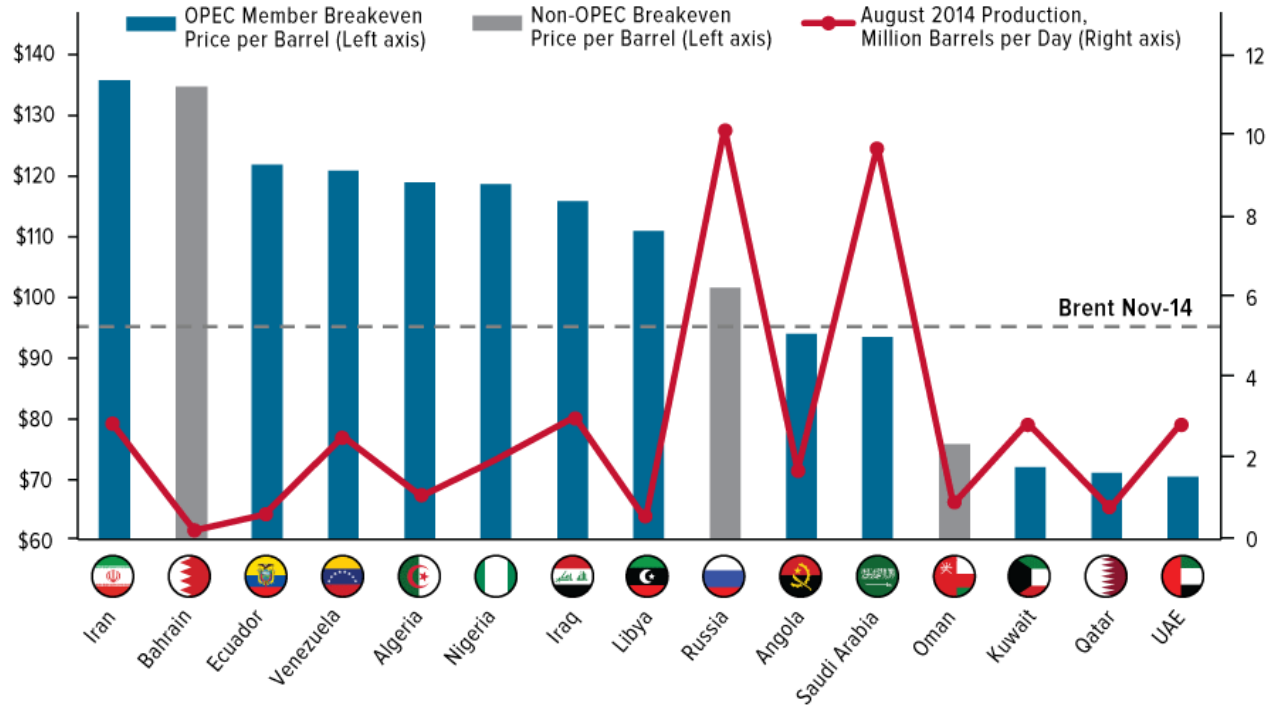
US Production Growth, YoY Chg



Source: RBC Capital Markets, EIA

Will there be **supply disruptions** triggered by **geopolitical instability**?

Producer country budget breakeven prices



Source: DB Emerging Markets Research, Reuters, IEA, Deutsche Bank, U.S. Global Investors.

Saudi's new economic vision



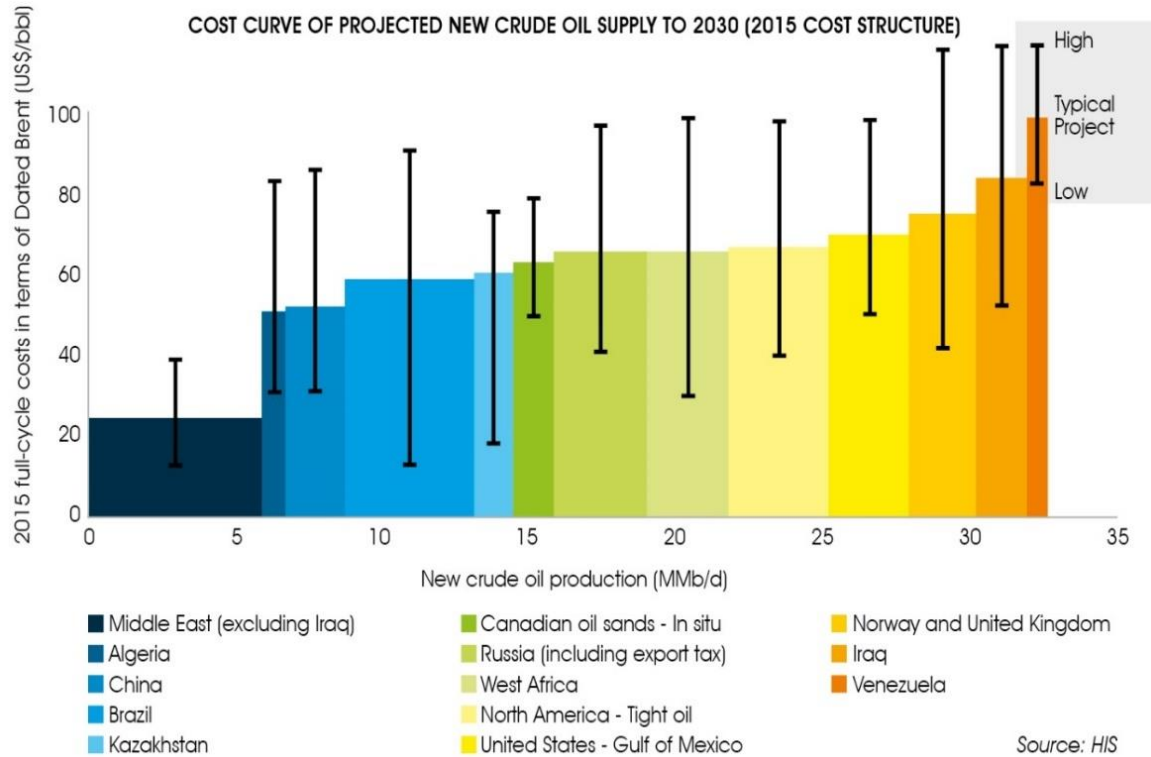
15-year plan includes:

- diversification;
- privatisation of state assets – 5% sale of Aramco;
- tax increases; and
- creating a \$2tn sovereign wealth fund.

Potential OPEC supply disruptions



The bottom line



We remain constructive on oil



- Physical market will **rebalance at the end of 2016**, and then feed in to late 2017 as we work off the large inventories.
- Oil price is likely to **tend higher** over the next 18 months as market returns to a potential deficit.
- Continue **averaging in**, buying **market leaders**, with strong balance sheets, and pricing power.
- Large integrated oils - BP, Statoil, Chevron.
- Oil services - Halliburton, Baker Hughes.



Key drivers for the healthcare sector



1. Scientific advance and innovation
2. Increasing prosperity of emerging market consumers
3. Ageing population

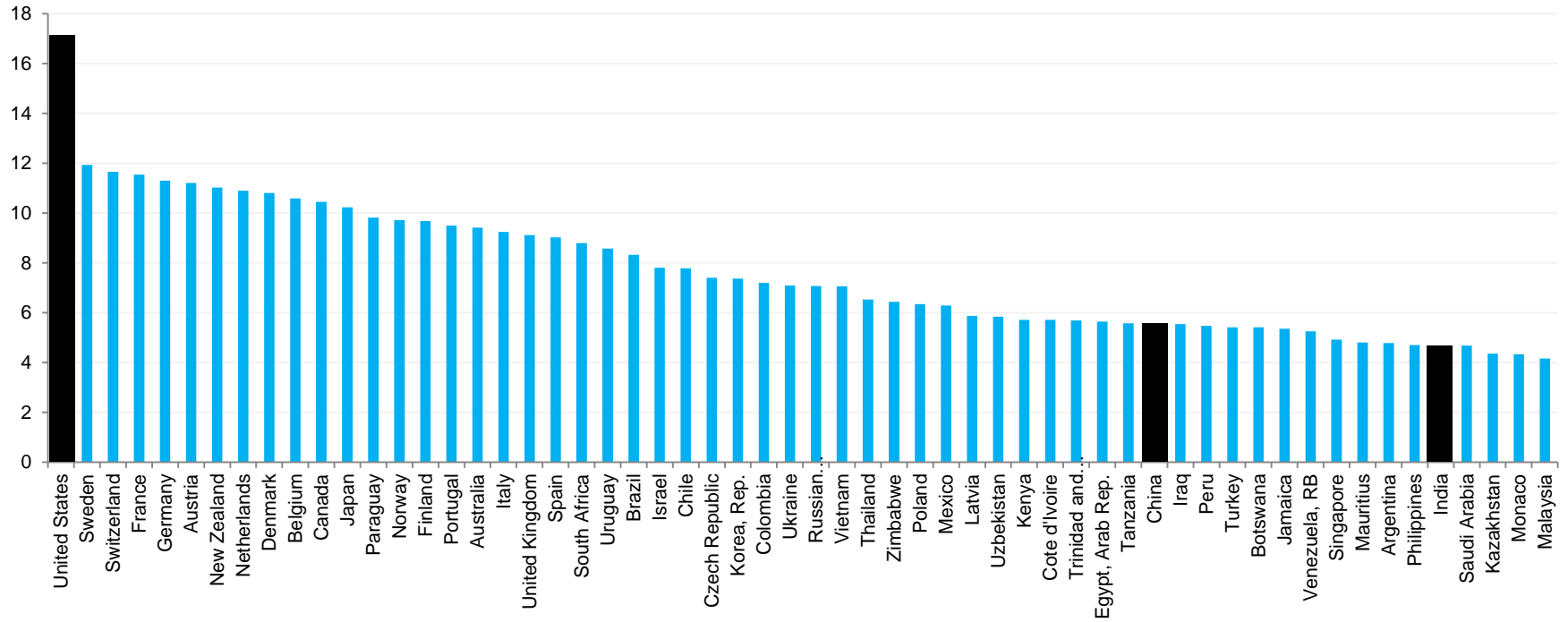
Key facts



- Between **2015 and 2050**, the proportion of the world's population over 60 years will nearly double **from 12% to 22%**.
- **By 2020**, the number of **people aged 60** years and older will **outnumber** children **younger than 5 years**.
- **In 2050, 80% of older people** will be living in **low and middle income countries**.
- All countries face **major challenges** to ensure that their health and social systems are ready to make the most of this demographic shift.

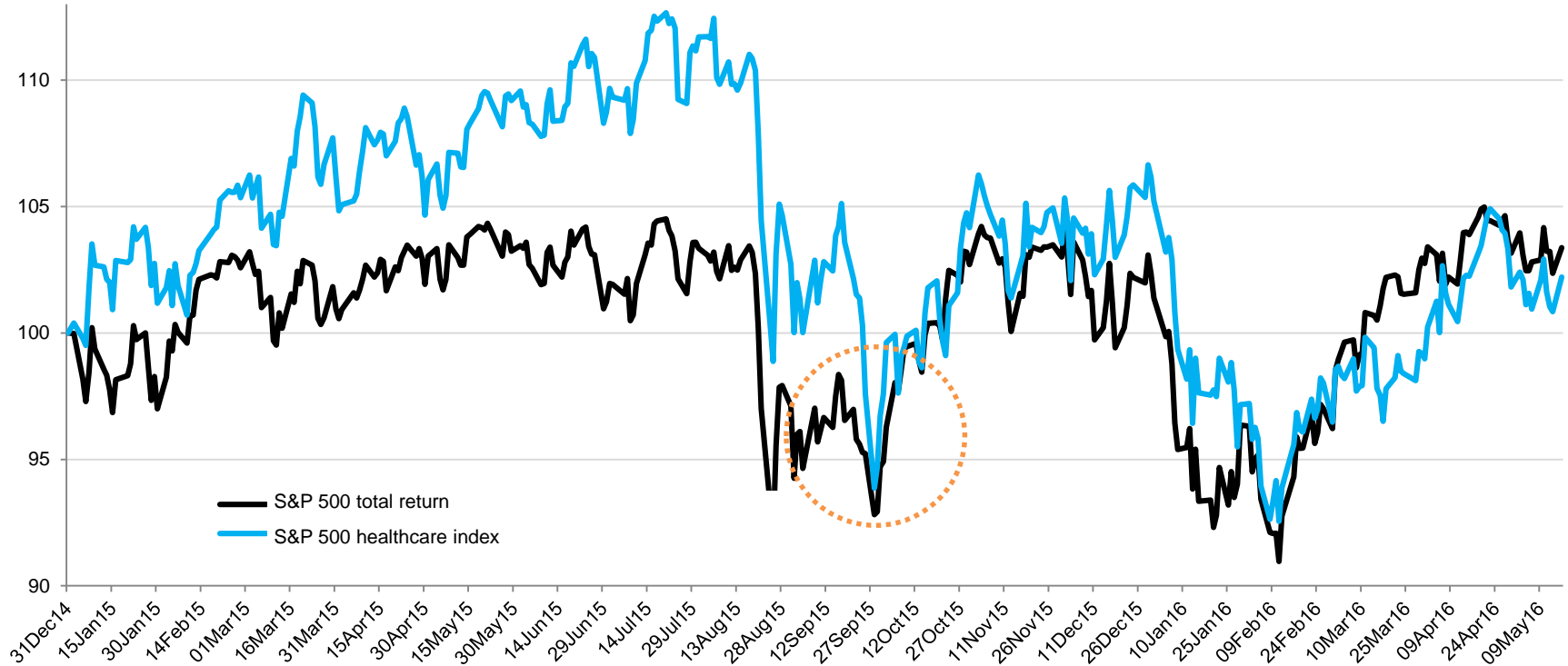
World Health Organization

National healthcare spend as a % of GDP




The world bank 2014

S&P 500 vs S&P 500 healthcare index



The power of the tweet



 "Price gouging like this in the specialty drug market is outrageous. Tomorrow I'll lay out a plan to take it on." –Hillary Clinton* – September 21 2015

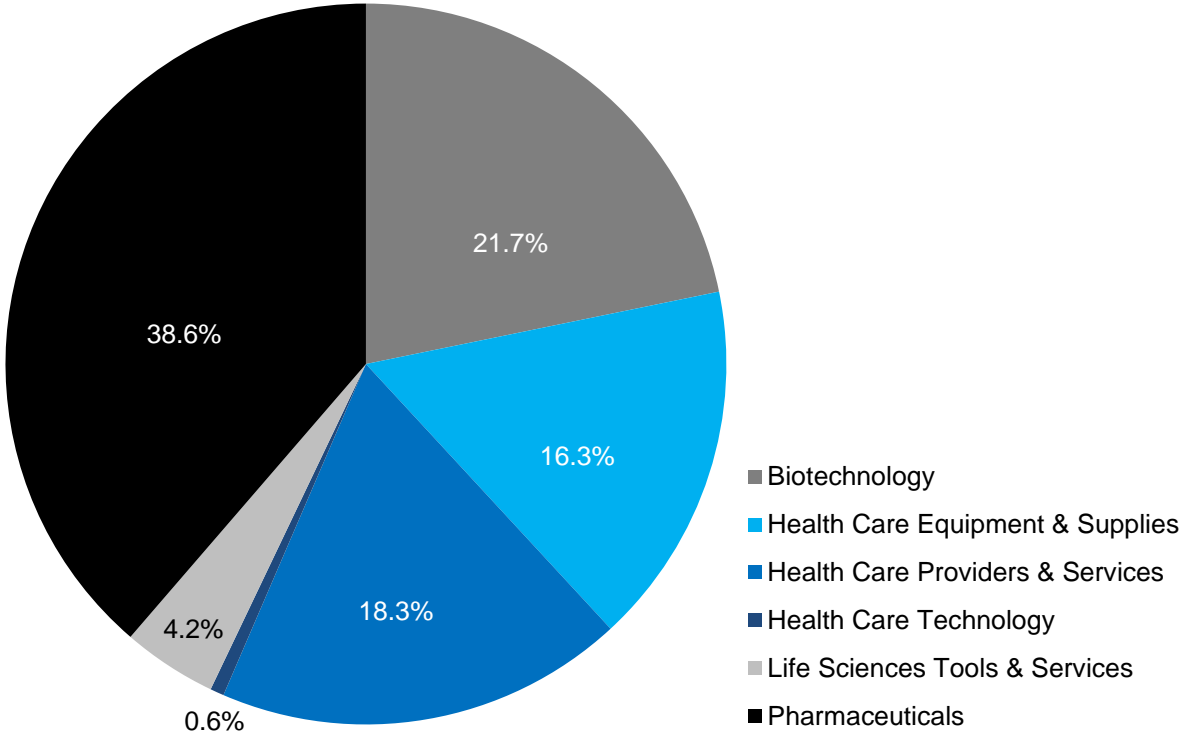


Bad boys of the industry

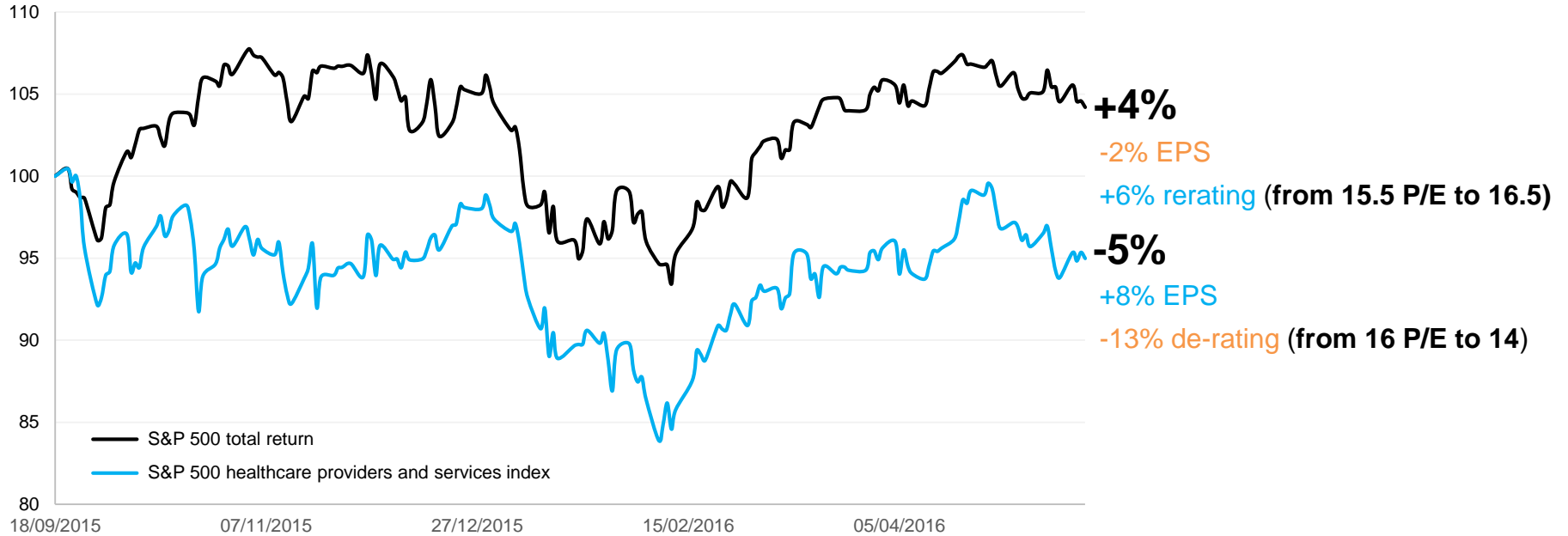


Martin Shkreli's, Turing Pharmaceuticals raised the price of the drug Daraprim, which treats a dangerous parasitic infection, from \$13.50 per pill to \$750 per pill.

S&P healthcare sectors



S&P 500 vs S&P 500 healthcare providers and services index



As of 19/05/2016

Healthcare stocks



Pharmacy benefits management (PBM's)

Healthcare distribution/supply chain

Healthcare services and facilities

Volume 1.5-2.0% of which:

- ~1% is population
- ~1% increased usage (ageing population, innovation leads to more treatments, etc....)

Price inflation:

- 3-4% overall healthcare inflation is implied based on CMS numbers

Margins

- Assumed to be flat

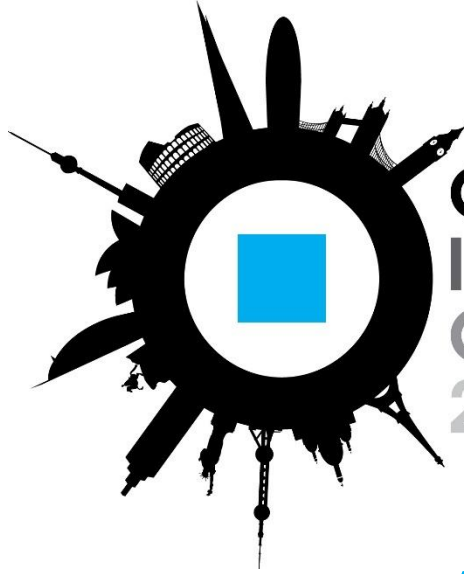
Derating justified

- No, room for multiple expansion

“ *Look at market fluctuations as your friend rather than your enemy; profit from folly rather than participate in it.* ”

Warren Buffett





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2016

A TIME TO BE BULLISH?
DEON GOUWS



The CHAIRMAN. I wonder if you would give us your views in a broad sense about the economic future of the next few years. Do you see any culmination of a business cycle, or do you subscribe to this view that I read the other day of one of your colleagues in the investment field in New York that a final blowout is necessary?

Mr. GRAHAM. Is not necessary?

The CHAIRMAN. I read into the record an opinion that it always must come, that we have to have this final orgy of buying. I wonder if you would give us an idea of your views for the next few years. How has your mind been working?

Mr. GRAHAM. I will do it with the proviso that these views should not be taken too seriously.

The CHAIRMAN. I do not believe you are infallible.

Mr. GRAHAM. As a matter of fact, I have never specialized in economic forecasting or market forecasting either. My own business has been largely based on the principle that if you can make your results independent of any views as to the future you are that much better off. Nevertheless, as an economist of a sort I have studied this question, and I will be glad to give you my view on the matter.

*(Benjamin Graham, to US Congress, 1955, during hearing on
"Factors affecting the buying and selling of equity securities")*

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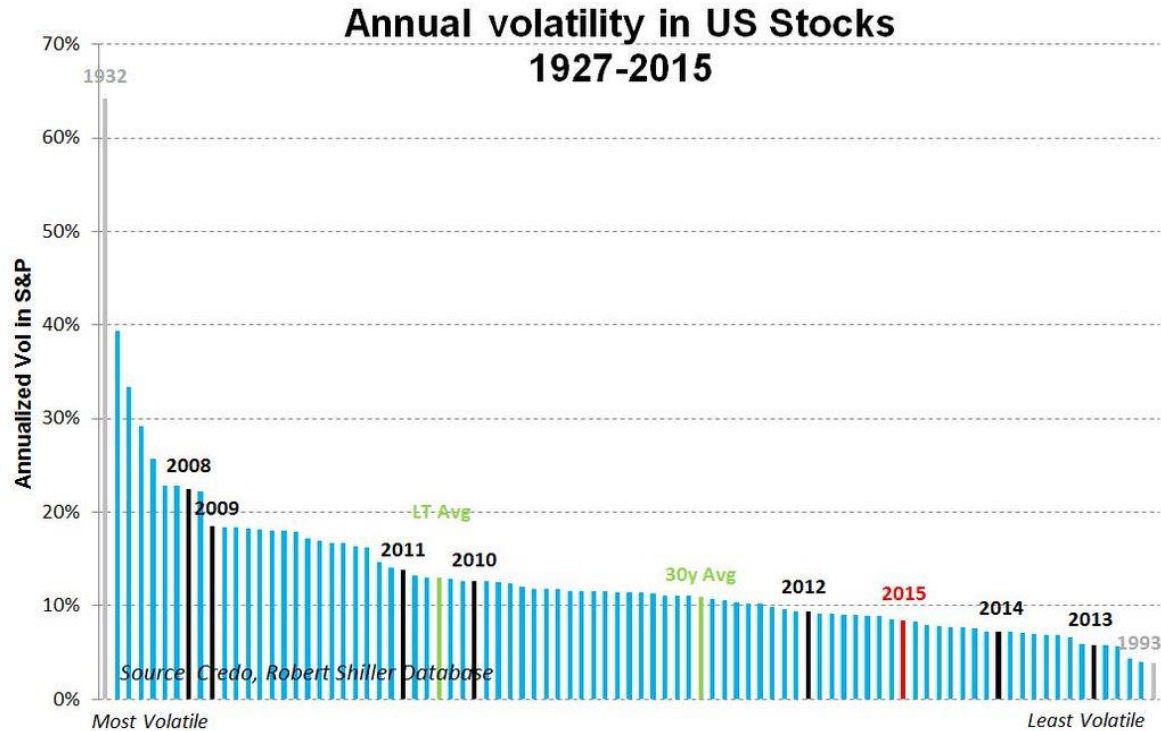
*(Benjamin Graham, to US Congress, 1955, during hearing on
"Factors affecting the buying and selling of equity securities")*

A volatile 2015...



- Oil price collapse
- China bubble burst
- Grexit narrowly avoided
- Renminbi devaluation
- Migrant crisis
- Paris attacks
- 1st Fed rate hike in 7 years

2015: not so volatile after all



A turbulent start to 2016



“Quick, driver, to the markets!”

A turbulent start to 2016

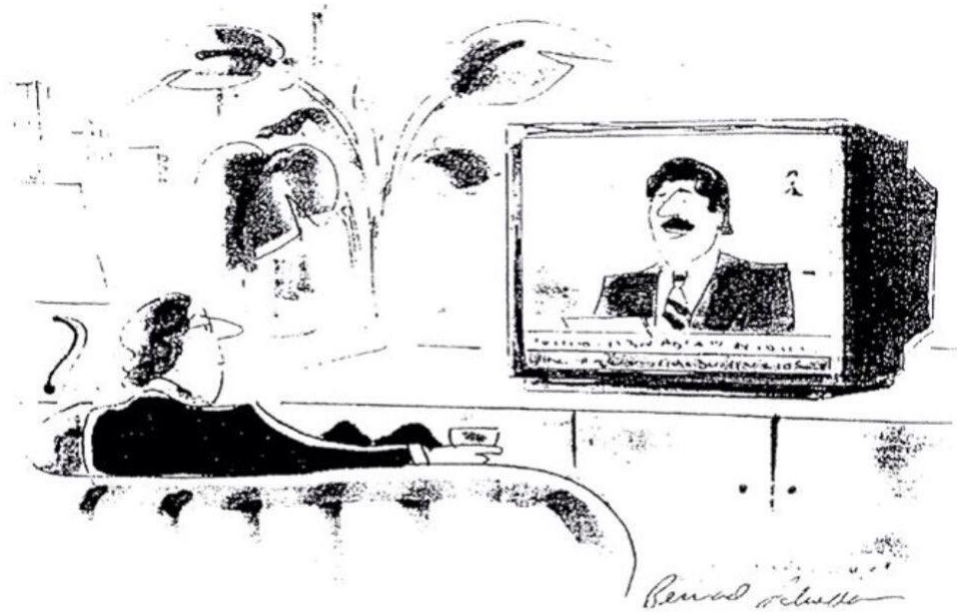


Worst Calendar Year Starts in History (S&P 500, 1928-2016)

Rank	Year	S&P 500 Return (First 28 Trading Days)	Year-End Return
1	2016	-10.5%	?
2	1918	-9.2%	-0.7%
3	2008	-8.8%	-36.6%
4	2009	-7.7%	25.9%
5	1932	-7.6%	-14.8%
6	1960	-7.3%	-3.0%
7	1957	-7.2%	-14.3%
8	1970	-6.5%	0.1%
9	1982	-6.4%	20.4%
10	1939	-6.4%	-5.2%
11	1977	-6.3%	-11.5%
12	1990	-5.8%	-3.2%
13	1968	-5.8%	7.7%
14	1984	-5.8%	6.0%
15	2003	-5.8%	28.3%
16	1974	-5.4%	-29.7%
17	1978	-5.0%	1.1%
18	1935	-4.9%	41.4%

Source: Charlie Bilello,
Pension Partners

A turbulent start to 2016



***“Everything that was good for the market last year
is no good for it this year.”***

“Sell Everything!”



‘Sell everything’ – here’s the incendiary RBS warning on deflation, risk and the next crash

Andrew Roberts



The Telegraph

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Economy | Companies | Opinion | Markets | A-Z | Budget | Business Club

RBS cries 'sell everything' as deflationary crisis nears

By **Ambrose Evans-Pritchard**

11 JANUARY 2016 • 10:20PM

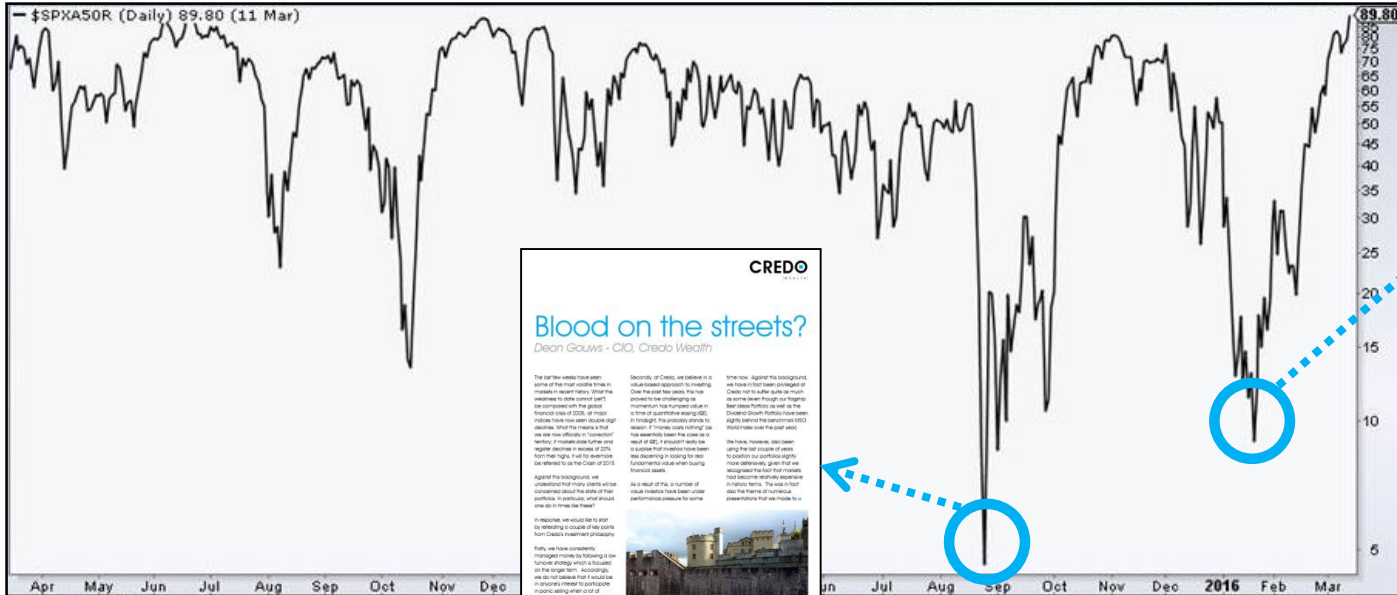
RBS has advised clients to brace for a “cataclysmic year” and a global deflationary crisis, warning that major stock markets could fall by a fifth and oil may plummet to \$16 a barrel.

The bank’s credit team said markets are flashing stress alerts akin to the turbulent months before the Lehman crisis in 2008. “Sell everything except high quality bonds. This is about return of capital, not return on capital. In a crowded hall, exit doors are small,” it said in a client note.

Sell Everything?



S&P 500 Percent of Stocks Above 50 Day Moving Average



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Blood on the streets?

Dean Gouws - CIO, Credo Wealth

The last few weeks have seen some of the most volatile times in markets in recent history. What has happened to cause several world stock indices to fall as far as they have in the past few weeks? It's not just the global economic crisis of 2008, or major events like the Arab Spring or the election of Obama that have caused this. What has the market done that we are now observing in "reactionary" territory? It raises the further and higher volatility in stocks of 2008, from the highs, it fell for over a year as it rebounded from the crash of 2008.

Against this background, we are observing that there is a lot of concern about the state of the world's economies, and that it is not clear how long it will take to get back to normal.

In response, we would like to start by reminding ourselves of the points from Credo's investment philosophy:

First, we have consistently managed money by following a conviction strategy which is focused on the long term. Accordingly, we do not believe that it is a good idea for investors to panic and sell their shares in response to short-term volatility. It is a good idea to be concerned about the state of the world's economies, and that it is not clear how long it will take to get back to normal.



www.credo.com

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There is no crystal ball

Dean Gouws - CIO, Credo Wealth - 18 January 2016

Simply put, through January and early February, the market has been affected more than it has in a long time. Just the fact that the volatility of the market, to the extent of stock indices, is not a new phenomenon, but rather a reflection of the fact that the market has been in a state of volatility for a long time. It is not clear how long it will take to get back to normal.

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Further, it has been noted that the market has been affected more than it has in a long time. Just the fact that the volatility of the market, to the extent of stock indices, is not a new phenomenon, but rather a reflection of the fact that the market has been in a state of volatility for a long time. It is not clear how long it will take to get back to normal.



www.credo.com

Source: StockCharts.com

The most hated bull market in history?

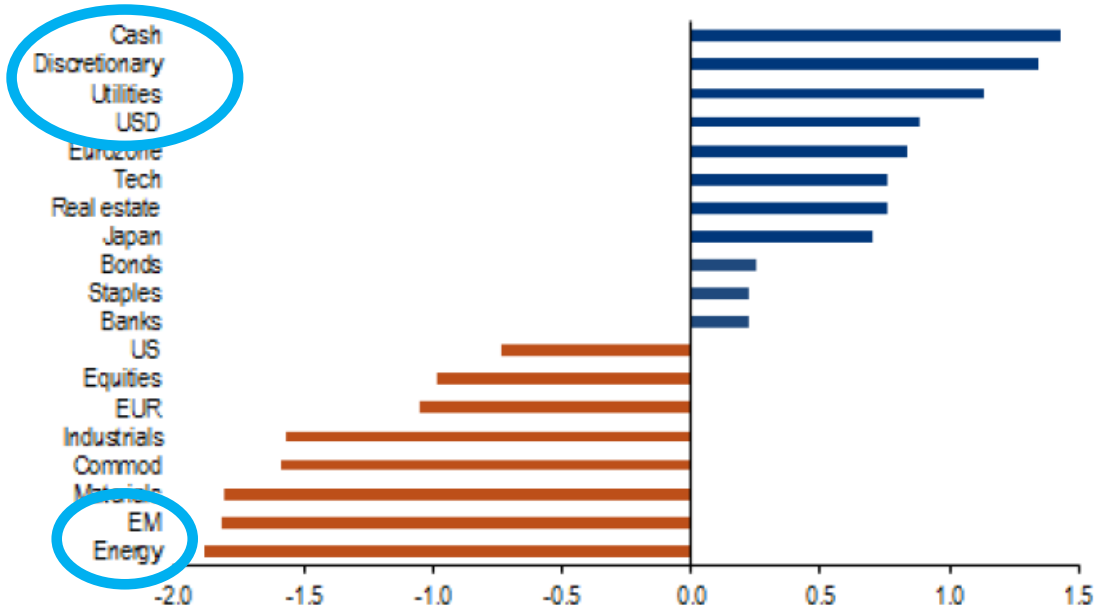


Only 18 months of net inflows (in 7 year bull market)

Outflows from equity funds: near record high

Source: ICI, Bloomberg

Sold Everything...



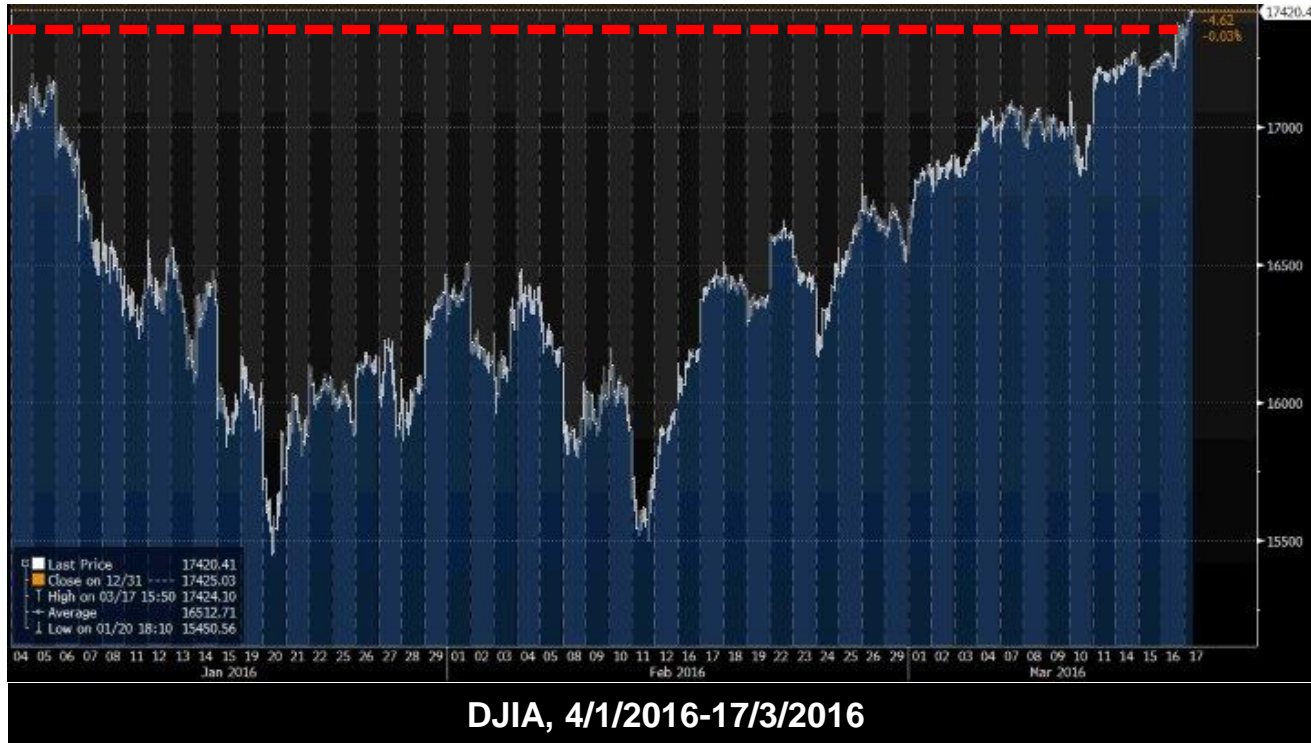
Longs & shorts (relative to Global FMS history)

Source: BAML Global Fund Manager Survey, Feb 2016

And then... some life in the old bull yet?



What a difference a month makes



What a difference a month makes



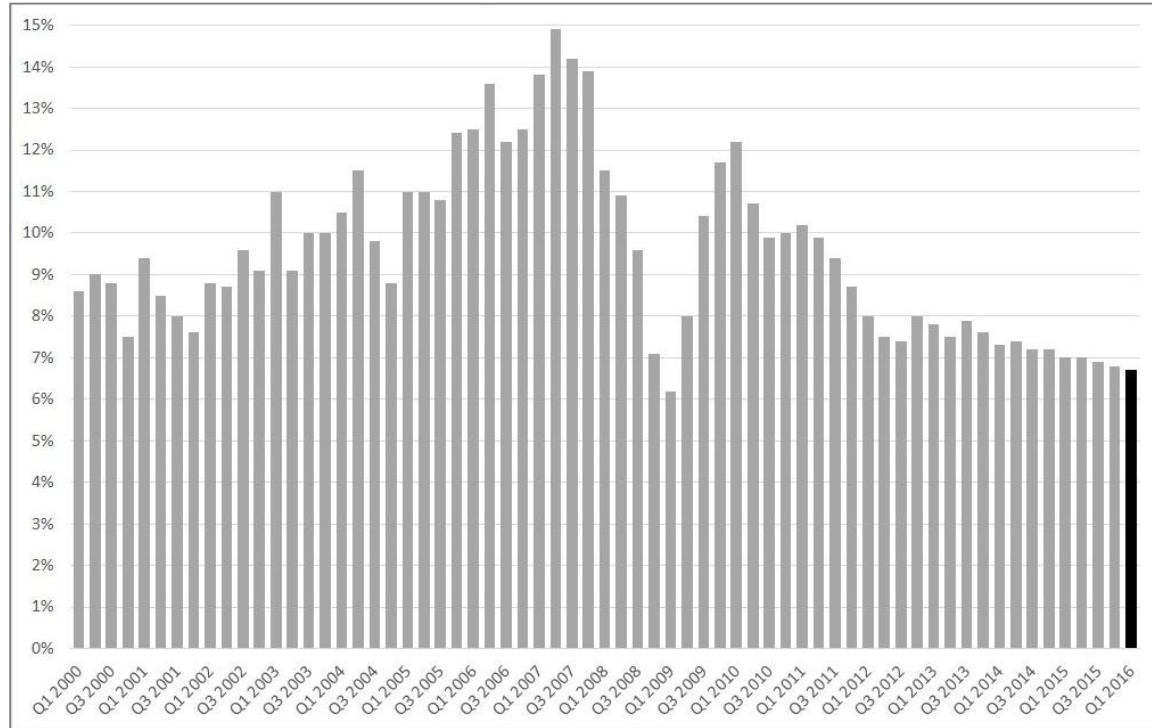
Q1, 2016:

***First quarter since 1933 for S&P 500 to be down >10%,
yet finish up.***

Why the volatility?

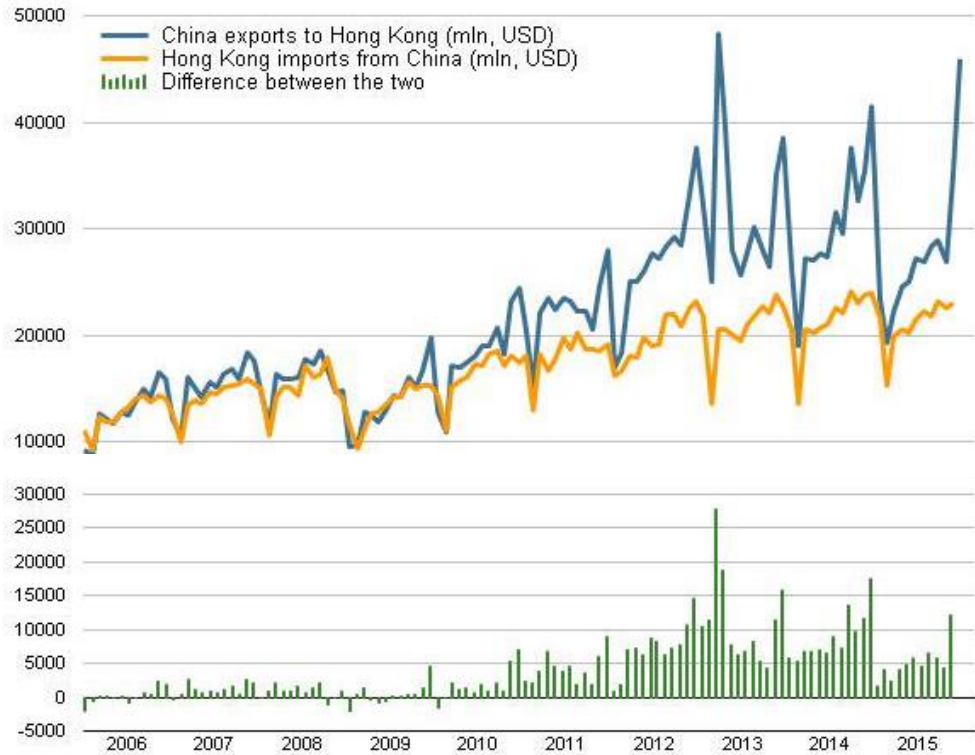


China GDP



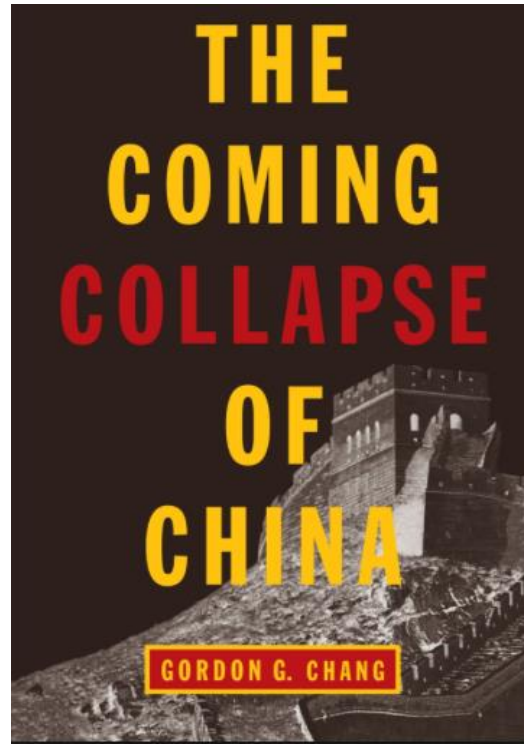
Source: China National Bureau of Statistics,
Business Insider Australia

China trade & invoicing

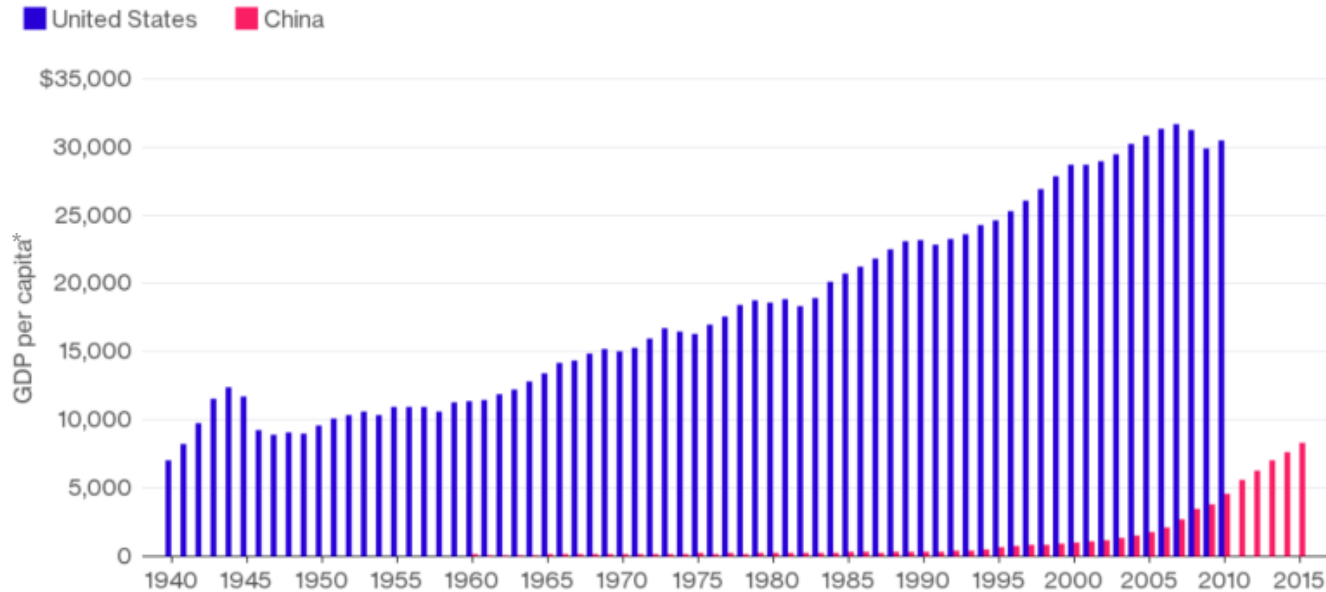


Source: Thomson Reuters Datastream,
China Customs, HK Statistics

The coming collapse of China! (published 2001)



China: still 75 years behind the USA (per capita)



(*) in 1990 international dollars

Source: Bloomberg, World Bank, IMF, Maddison Project



...or simply too cheap?

								
	Oil	Water	Regular Gasoline	Milk	Soda	Premium Coffee	Wine	Vodka
	\$36/bbl	\$1.30/Jug	\$2.00/gallon	\$4.99/Jug	\$1/can	\$3 / LargeCup	\$15 / bottle	\$20/ bottle
per gallon	\$0.83	\$1.30	\$2.00	\$4.99	\$11.43	\$19.20	\$75.71	\$100.94
Basis to Water	-\$0.47	\$0.00	\$0.70	\$3.69	\$10.13	\$17.90	\$74.41	\$99.64

Source: Valuewalk.com

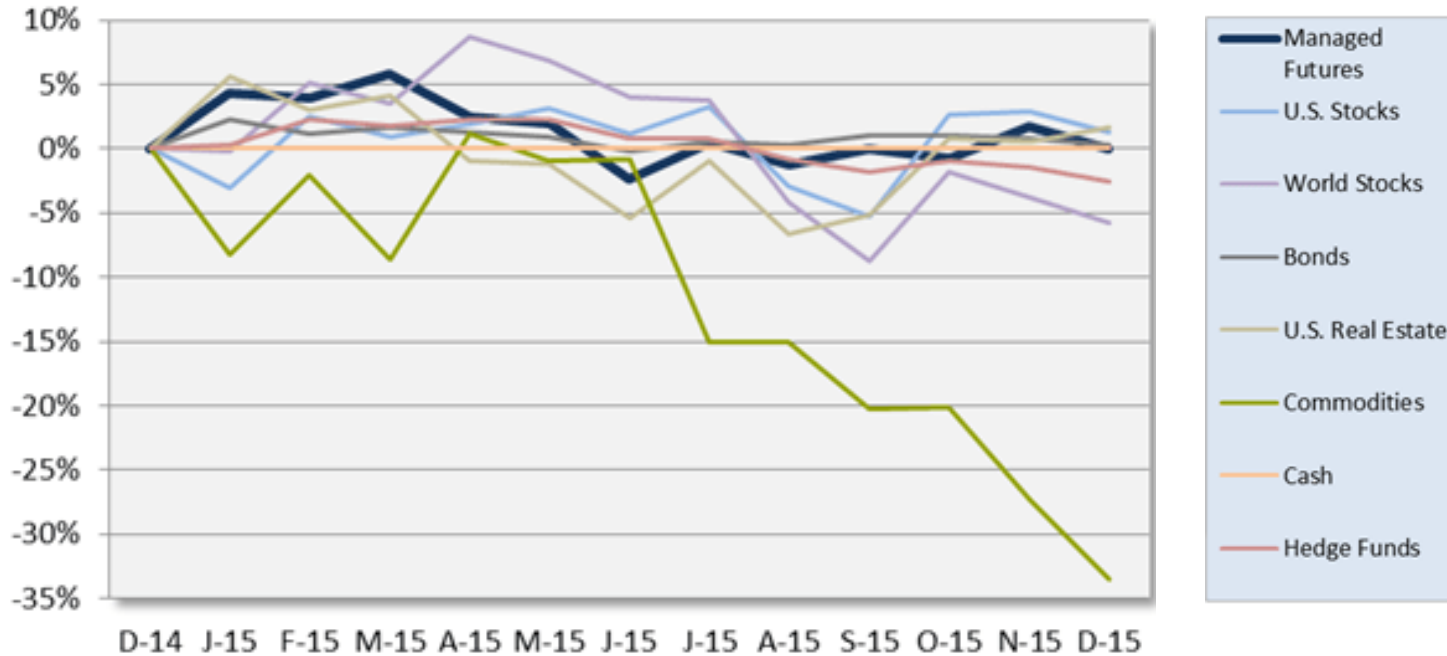
...or simply too cheap?





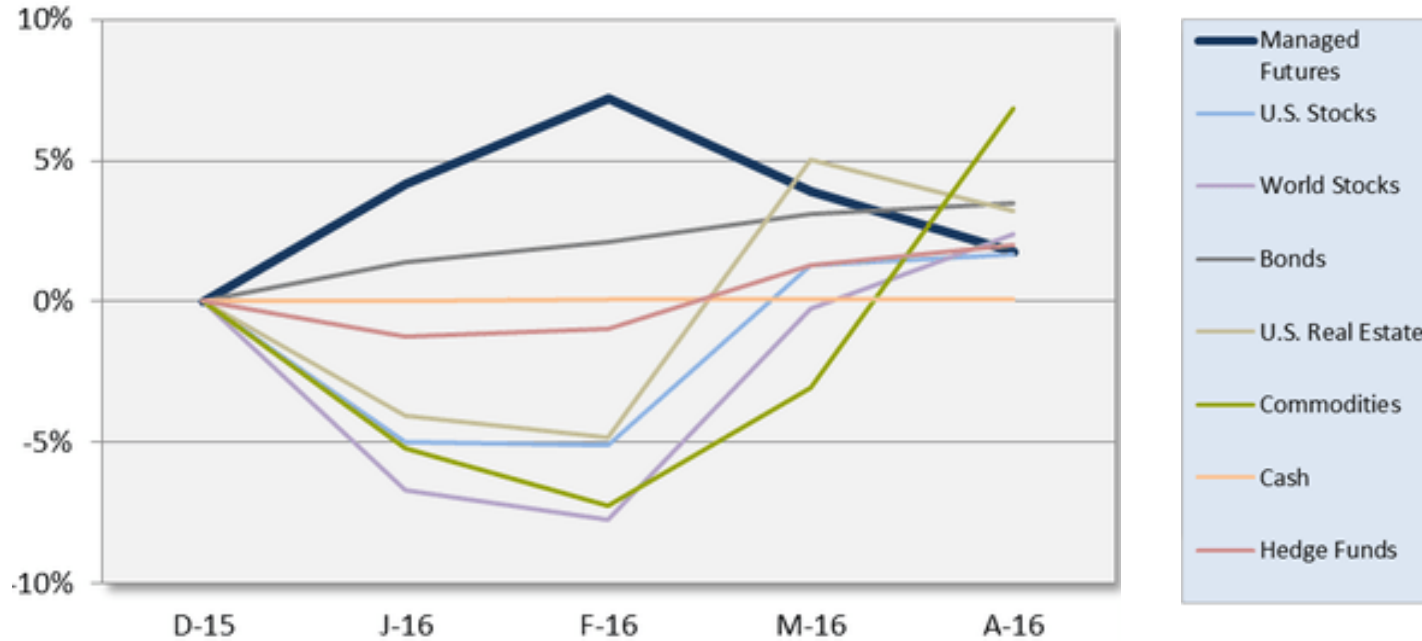
The SIX YEAR OLD BULL MARKET

Asset Class Performance (2015)



Source: Attain Capital Management

Asset Class Performance (2016 YTD, to 30 April)



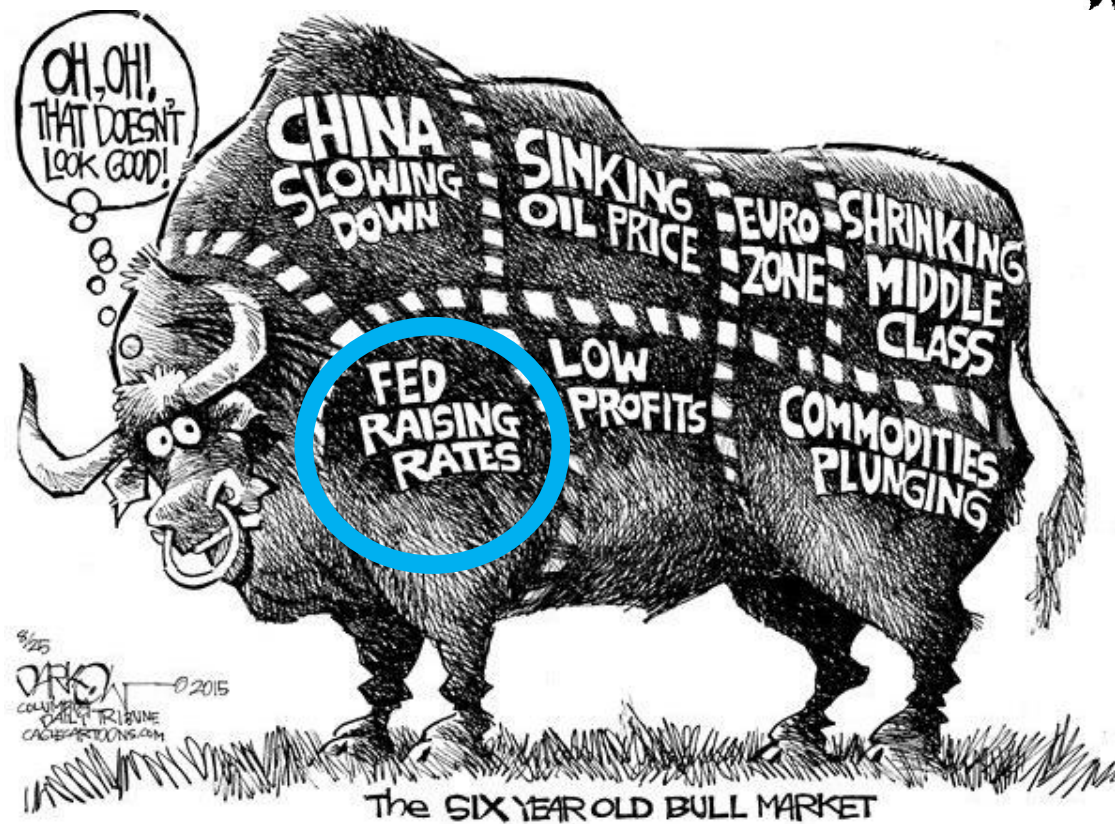
Source: Attain Capital Management

Commodity Performance (2016 YTD, to 24 May)



Commodity	Index	52-Week Low Date	All-Time Closing High Date	Months From All-Time Closing High	All-Time Closing High	Last Price	% Below All-Time High	% Above 52-Week Low	2016 YTD Return
Heating Oil	Generic 1st 'HO' Future	1/21/2016	7/3/2008	96	411	150	-63%	76.8%	36.3%
Lean Hogs	Generic 1st 'LH' Future	11/17/2015	7/15/2014	23	134	79	-41%	52.5%	22.1%
WTI Crude Oil	Generic 1st 'CL' Future	2/11/2016	7/3/2008	96	145	49	-66%	87.3%	31.7%
Gasoline	Generic 1st 'XB' Future	2/9/2016	7/3/2008	96	357	166	-54%	84.9%	36.0%
Soybeans	Generic 1st 'S' Future	11/23/2015	9/4/2012	45	1,771	1,066	-40%	26.3%	22.4%
Lumber	Generic 1st 'LB' Future	9/28/2015	3/8/1993	283	492	305	-38%	42.2%	18.3%
Silver	Silver Spot \$/Oz	12/14/2015	1/18/1980	443	49	16	-67%	19.8%	16.1%
Gold	Gold Spot \$/Oz	12/3/2015	9/5/2011	57	1,900	1,235	-35%	18.0%	16.4%
Platinum	Platinum Spot \$/Oz	1/21/2016	3/5/2008	100	2,251	1,008	-55%	24.4%	12.4%
Corn	Generic 1st 'C' Future	8/12/2015	8/21/2012	46	831	402	-52%	15.9%	11.9%
Sugar	Generic 1st 'SB' Future	8/24/2015	11/20/1974	505	46	17	-63%	65.9%	10.3%
Orange Juice	Generic 1st 'JO' Future	9/29/2015	1/23/2012	53	220	147	-33%	42.1%	5.0%
Wheat	Generic 1st 'W' Future	3/2/2016	2/27/2008	100	1,280	468	-63%	7.5%	-0.5%
Cotton	Generic 1st 'CT' Future	3/10/2016	3/4/2011	64	215	63	-71%	12.5%	-1.1%
Copper	Generic 1st 'HG' Future	1/19/2016	2/14/2011	64	463	207	-55%	7.0%	-3.0%
Palladium	Palladium Spot \$/Oz	1/12/2016	1/26/2001	187	1,111	545	-51%	20.7%	-3.1%
Coffee	Generic 1st 'KC' Future	1/20/2016	4/14/1977	476	336	122	-64%	10.0%	-3.6%
Nickel	Generic 1st 'LN' Future	2/11/2016	5/4/2007	110	53,750	8,298	-85%	7.7%	-5.6%
Cocoa	Generic 1st 'CC' Future	1/28/2016	7/18/1977	473	5,368	2,954	-45%	8.2%	-8.0%
Natural Gas	Generic 1st 'NG' Future	3/4/2016	12/13/2005	127	15.4	2.0	-87%	25.8%	-13.3%
Live Cattle	Generic 1st 'LC' Future	5/2/2016	11/17/2014	18	171	118	-31%	2.3%	-13.4%

Source:
Charlie Bilello,
Pension Partners



Fed Statement Tracker (16 Mar 2016 – 27 Apr 2016)



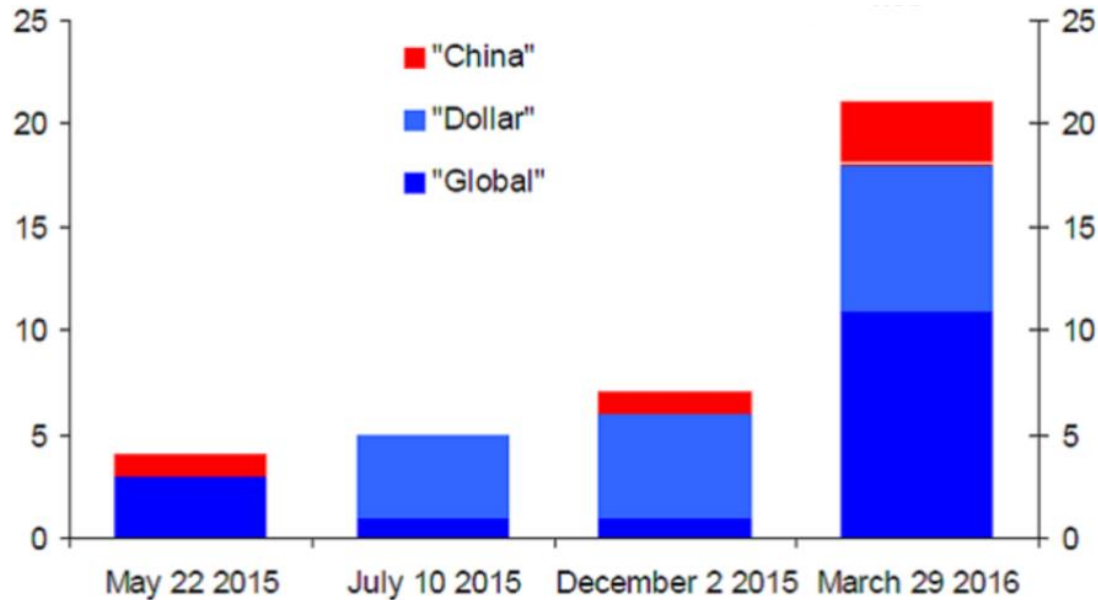
Information received since the Federal Open Market Committee met in January suggests that economic activity has been expanding at a moderate pace despite the global economic and financial developments of recent months. Household spending has been increasing at a moderate rate, and March indicates that labor market conditions have improved further even as growth in economic activity appears to have slowed. Growth in household spending has moderated, although households' real income has risen at a solid rate and consumer sentiment remains high. Since the beginning of the year, the housing sector has improved further; however, but business fixed investment and net exports have been soft. A range of recent indicators, including strong job gains, points to additional strengthening of the labor market. Inflation picked up in recent months; however, it has continued to run below the Committee's 2 percent longer-run objective, partly reflecting earlier declines in energy prices and falling prices of non-energy

imports. Market-based measures of inflation compensation remain low; survey-based measures of longer-term inflation expectations are little changed, on balance, in recent months.

Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. The Committee currently expects that, with gradual adjustments in the stance of monetary policy, economic activity will expand at a moderate pace and labor market indicators will continue to strengthen. However, global economic and financial developments continue to pose risks. Inflation is expected to remain low in the near term, in part because of earlier declines in energy prices, but to rise to 2 percent over the medium term as the transitory effects of declines in energy and import prices dissipate and the labor market strengthens further. The Committee continues to closely monitor inflation indicators and global economic and financial developments closely.

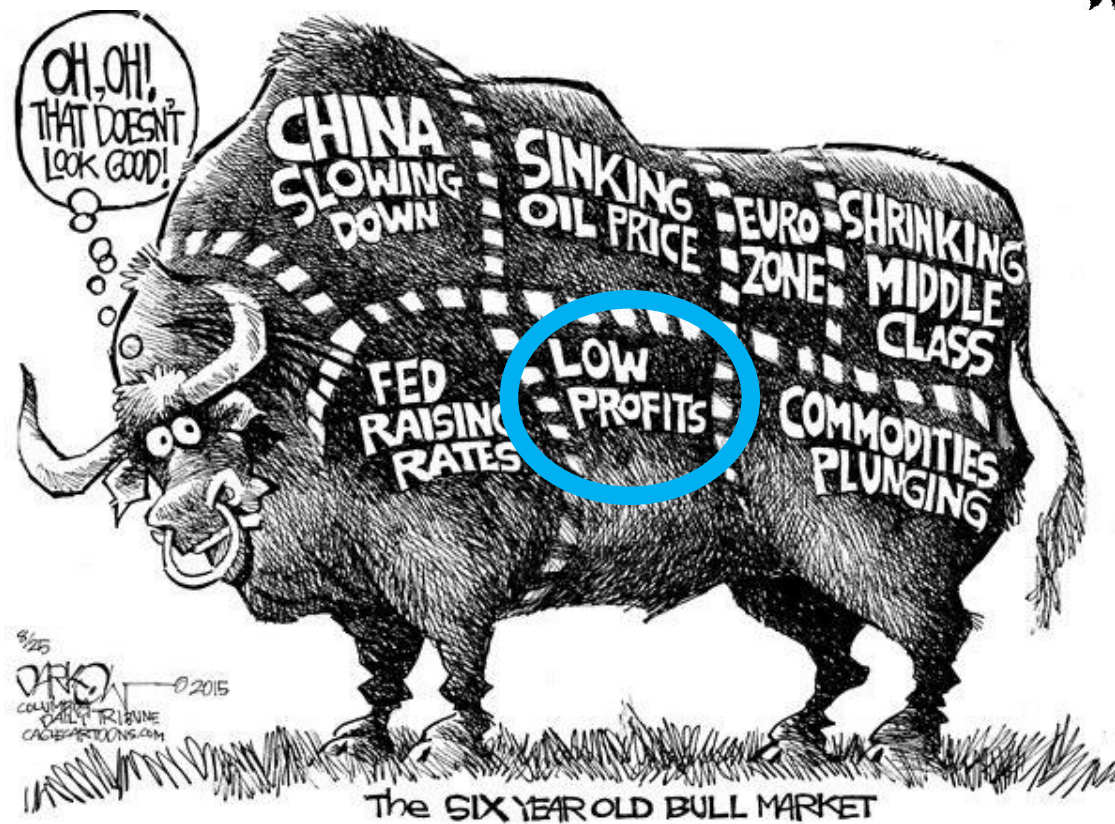
*Source: Sudeep Reddy
(The Wall Street Journal)*

Fed Statement Tracker: Word Count



Rest of the world increasingly important for Fed policy

Source: Federal Reserve,
DB Global Markets Research



The SIX YEAR OLD BULL MARKET

US earnings scorecard: Q1, 2016



<u>Sector</u>	<u>EPS Growth</u>	<u>EPS Surprise</u>	<u>Exceeded</u>	<u>Matched</u>	<u>Missed</u>
Health Care	14.59%	3.73%	76%	18%	6%
Telecom	7.88%	1.71%	50%	50%	0%
Industrials	4.29%	6.27%	86%	5%	10%
Consumer Staples	3.60%	3.36%	80%	7%	13%
Information Technology	1.16%	2.64%	72%	7%	21%
Materials	-2.32%	7.97%	82%	0%	18%
Consumer Discretionary	-2.91%	5.61%	85%	6%	9%
Financials	-6.29%	3.58%	67%	14%	18%
Utilities	-6.87%	3.70%	50%	25%	25%
Energy	-41.15%	-47.09%	43%	14%	43%
S&P 500	-1.16%	4.10%	76%	10%	14%

Source: The Earnings Scout

US earnings scorecard: Q1, 2016



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Financials	-6.29%	3.58%	67%	14%	18%
Utilities	-6.87%	3.70%	50%	25%	25%
Energy	-418.45%	-47.09%	43%	14%	43%
S&P 500	-1.18%	4.10%	76%	10%	14%

Source: The Earnings Scout

US earnings scorecard: Q1, 2016



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Source: The Earnings Scout

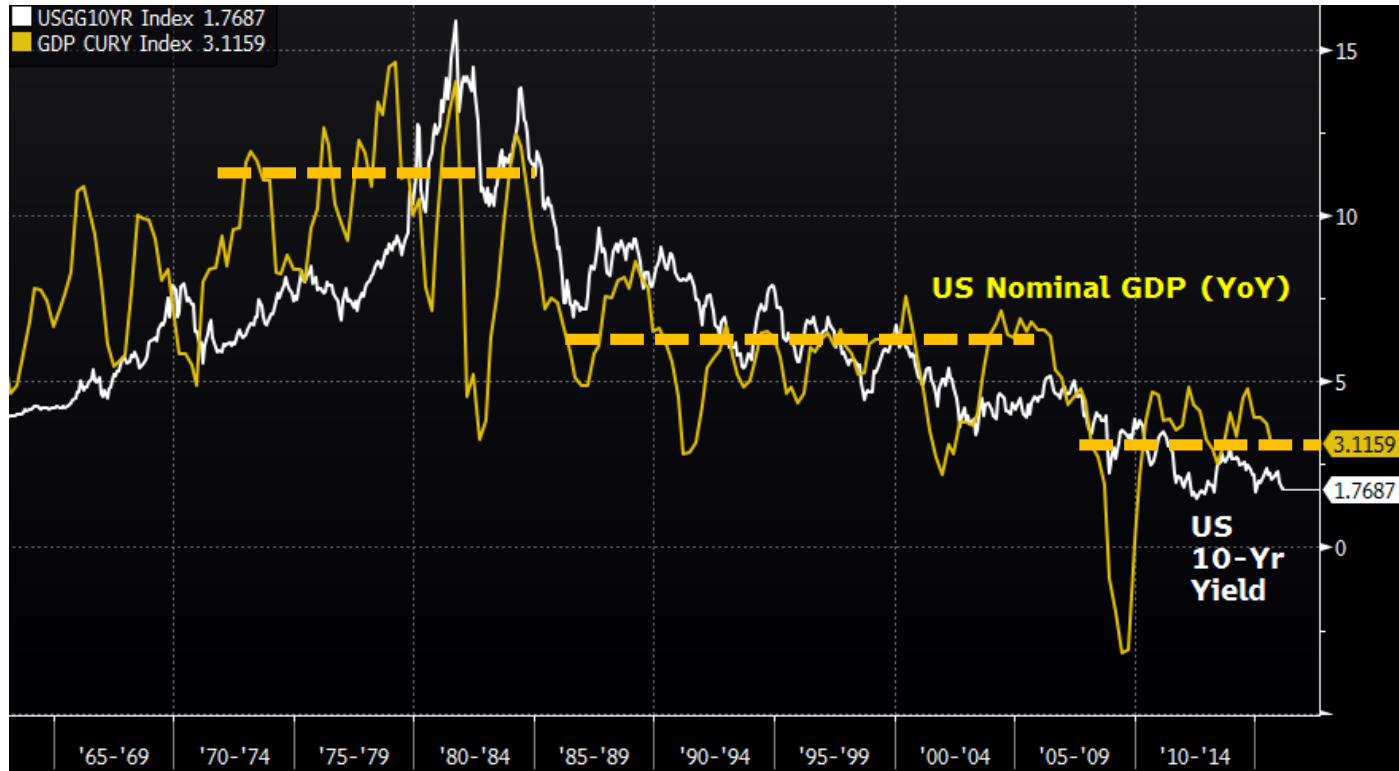
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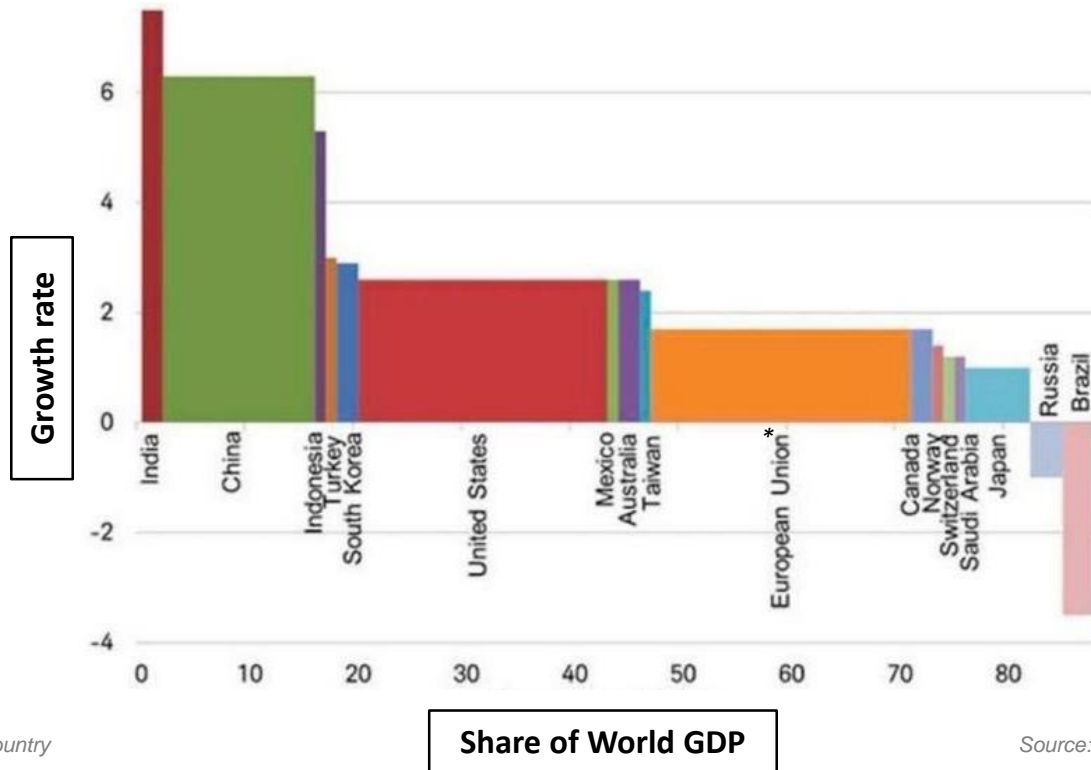
Source: The Earnings Scout

US GDP growth



Source: Charlie Bilello,
Pension Partners

Economic Growth (17 countries, 90% of World GDP)



(*) EU counted as a single country

Source: Charles Schwab, Business Insider



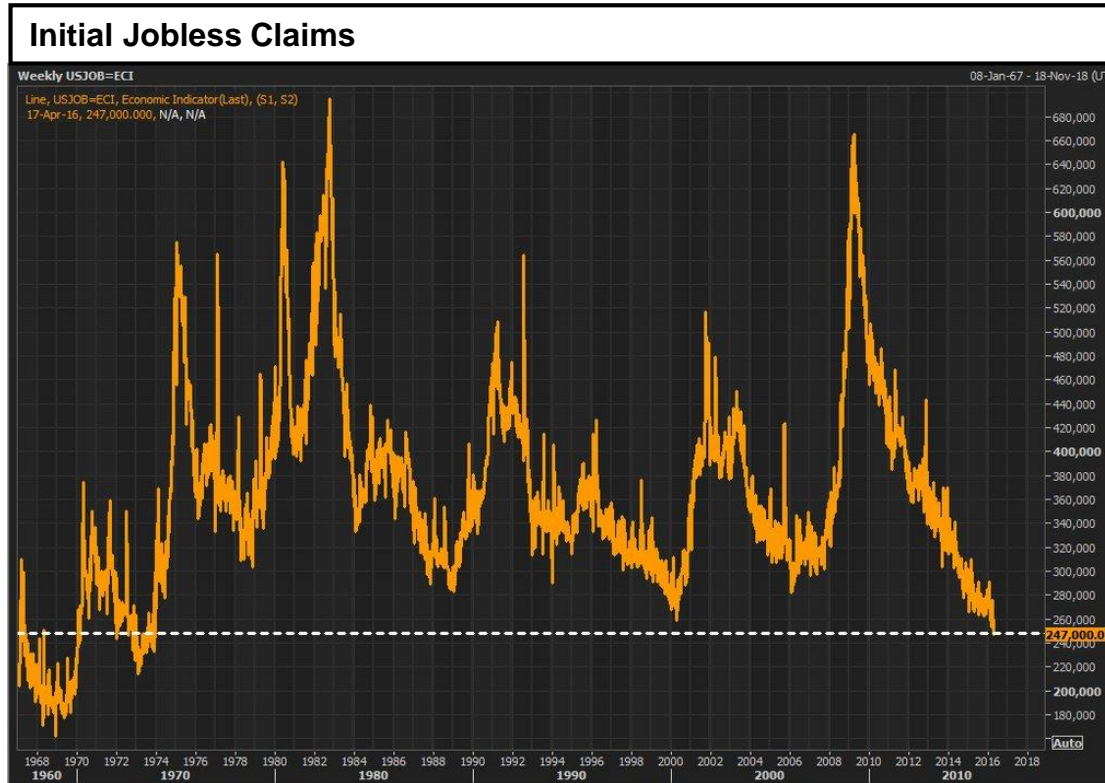


“No need to 'make America great again' - it's already great...

***Your children are going to live better than you
if we elect three bad presidents in a row.”***

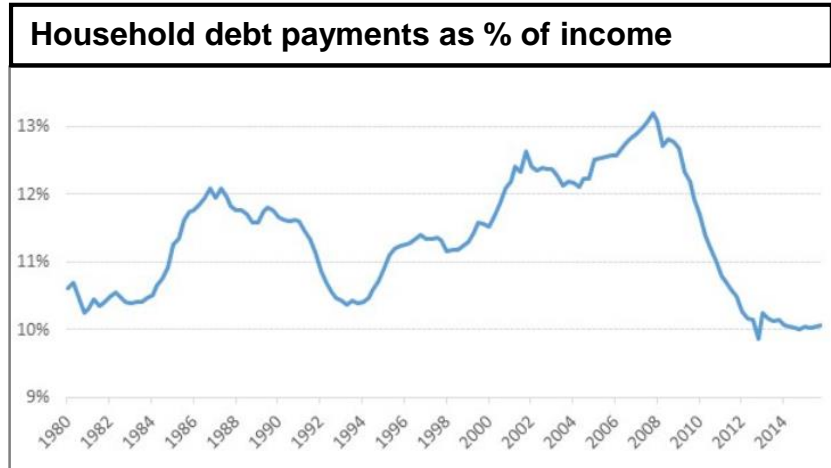
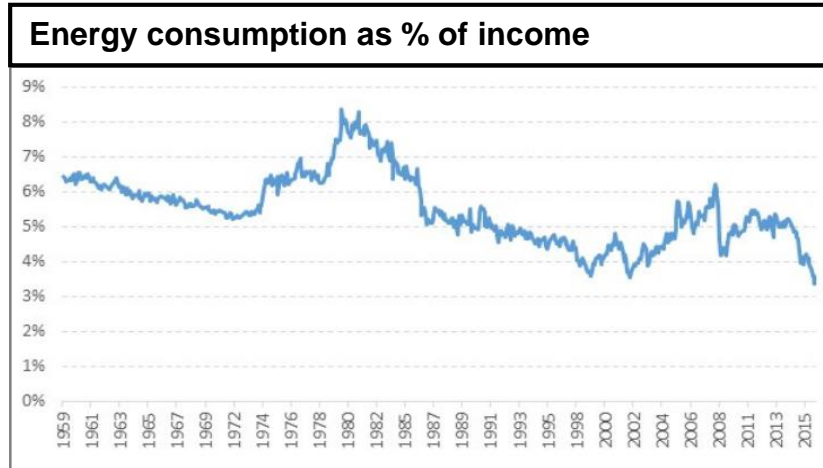
(Warren Buffett, 2 May 2016)

The American Consumer: Alive & Well



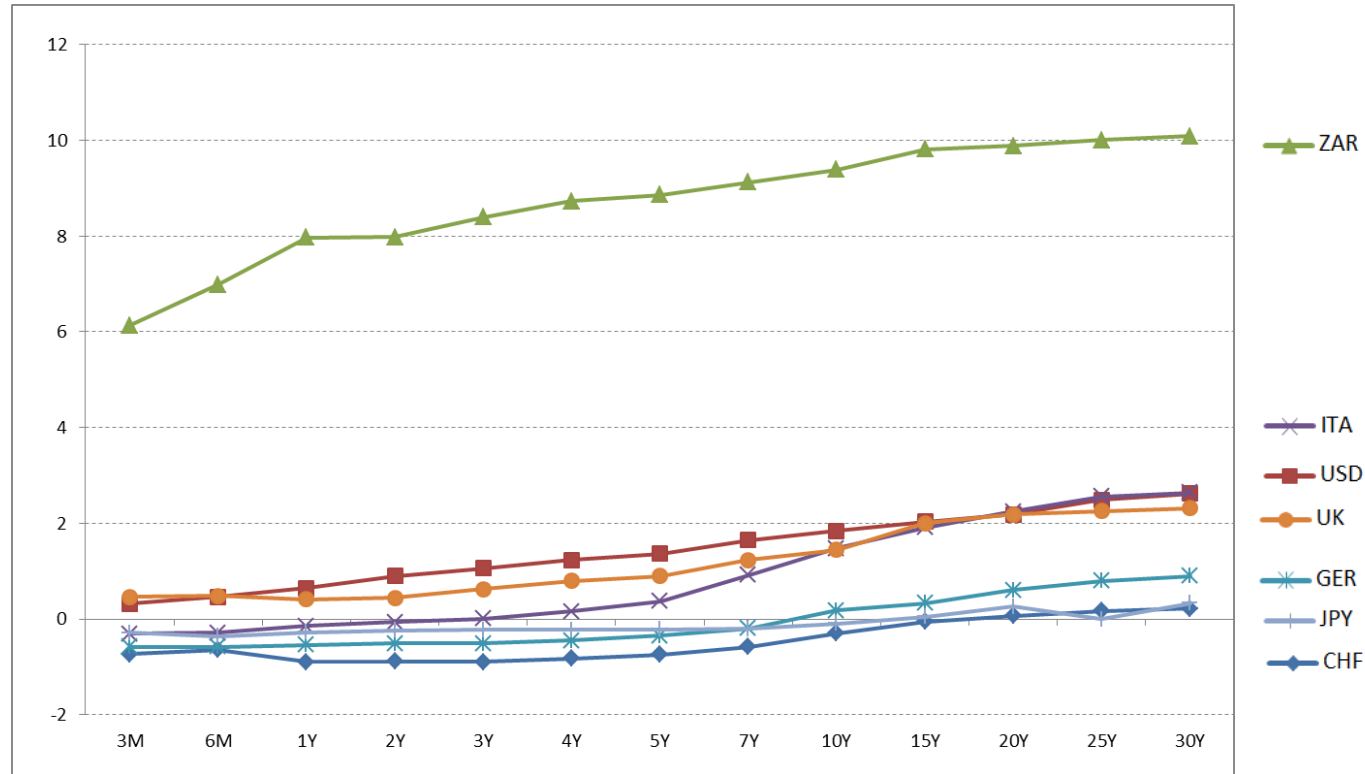
Source: Bloomberg

The American Consumer: Alive & Well



Source: TMF Housel

International Yield Curves (24 May 2016)



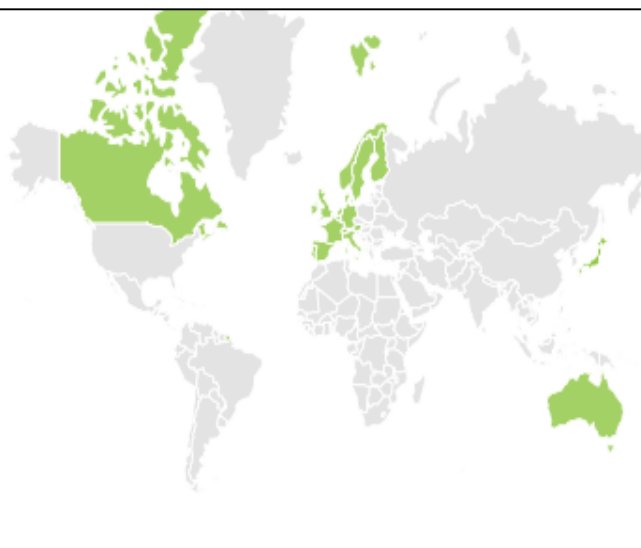
Source: Credo, Bloomberg

Looking for negative interest? There's an ETF for that...



iShares 1-3 Year International Treasury Bond ETF

Japan	22.75%
France	9.18%
Italy	8.57%
Germany	7.81%
Portugal	4.8%
United Kingdom	4.77%
Netherlands	4.75%
Belgium	4.68%
Spain	4.58%
Canada	4.5%
Australia	4.42%

A world map where the countries listed in the table to the left (Japan, France, Italy, Germany, Portugal, United Kingdom, Netherlands, Belgium, Spain, Canada, and Australia) are highlighted in green.

PORTFOLIO CHARACTERISTICS

Distribution Yield i as of 19-May-2016	0.00%
Weighted Avg YTM i as of 20-May-2016	-0.10%
12m Trailing Yield i as of 19-May-2016	0.08%
30 Day SEC Yield i as of 19-May-2016	0.00%
<hr/>	
Weighted Avg Coupon i as of 20-May-2016	2.52%
Effective Duration i as of 20-May-2016	1.79 yrs
Weighted Avg Maturity i as of 20-May-2016	1.83 yrs

FEES as of 01-Mar-2016

Expense Ratio [i](#)

0.35%

Speaking about negative rates...





NEGATIV-ZINS-
FINANZIERUNG

-1,0%

FINANZIERUNG
AUF 24 MONATE*

Jetzt mit 0% finanzieren &
1% des Kaufpreises
ausgezahlt bekommen

WHO'S
PERFECT.
So will ich leben.

Choose our market leading mortgage rate today

Start making the most of tomorrow.

1.99% 5 Year Fixed Rate Special

Representative example
For a repayment mortgage of £135,000 payable over 21 years.

1.99% 5 year fixed rate until 31/07/2021 Requires 60 monthly payments of £659	The overall cost for comparison
Reverting to 3.94% variable rate For the remaining 16 years; Requires 192 payments of £761	
Total amount payable	3.3% APRC representative
Loan amount £135,000	
Interest £50,609	
Booking fee £1,499	
Completion fee £30	
Valuation fee £197	
Total £187,335	

► **Call** **0800 022 3314**

► **Drop in** To your local branch

► **Visit** www.hsbc.co.uk/mortgages

Europe, UK: Interest Rate Expectations



Source: Charlie Bilello,
Pension Partners,

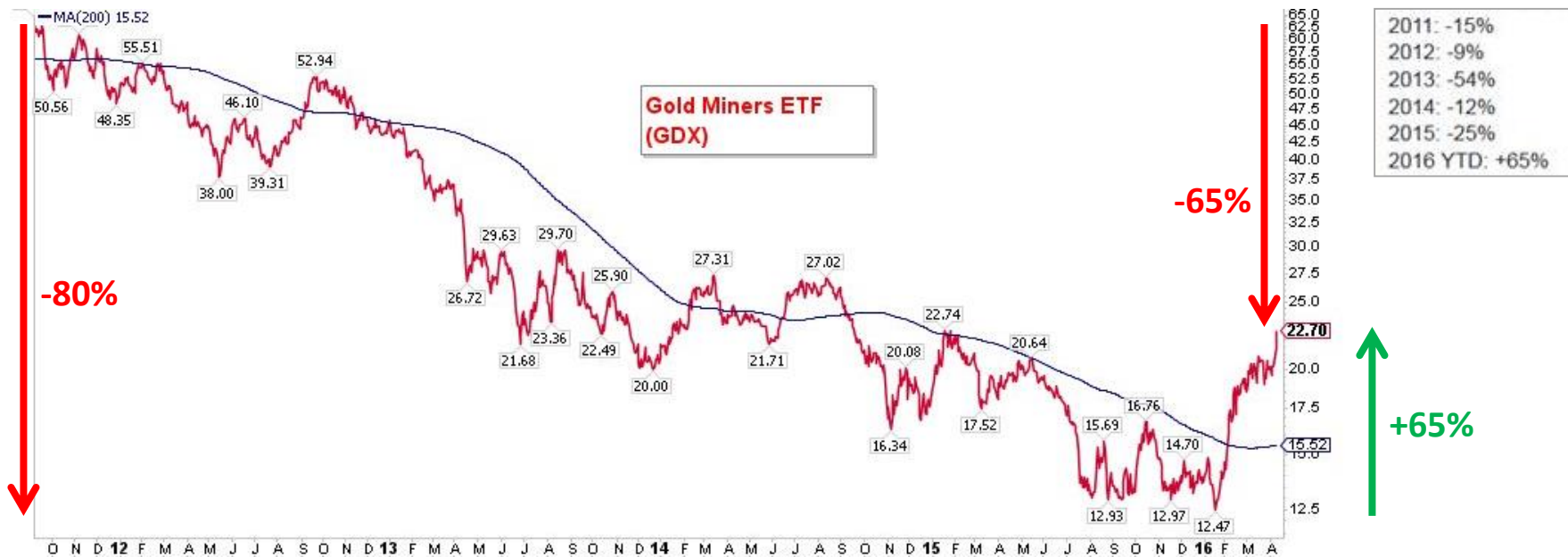


Gold has zero yield...



...which means it has a higher yield than bonds from Switzerland, Japan, Germany, Italy, etc.

Gold Miners ETF

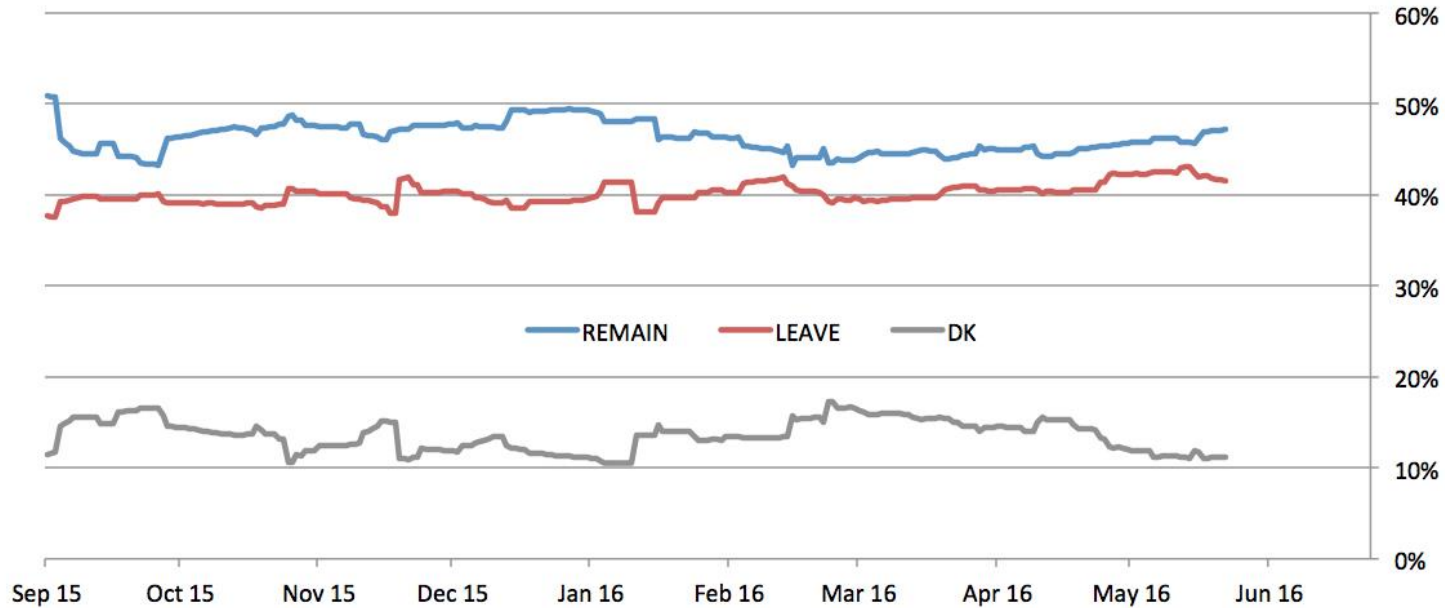


Source: StockCharts.com

...and lastly: Brexit?

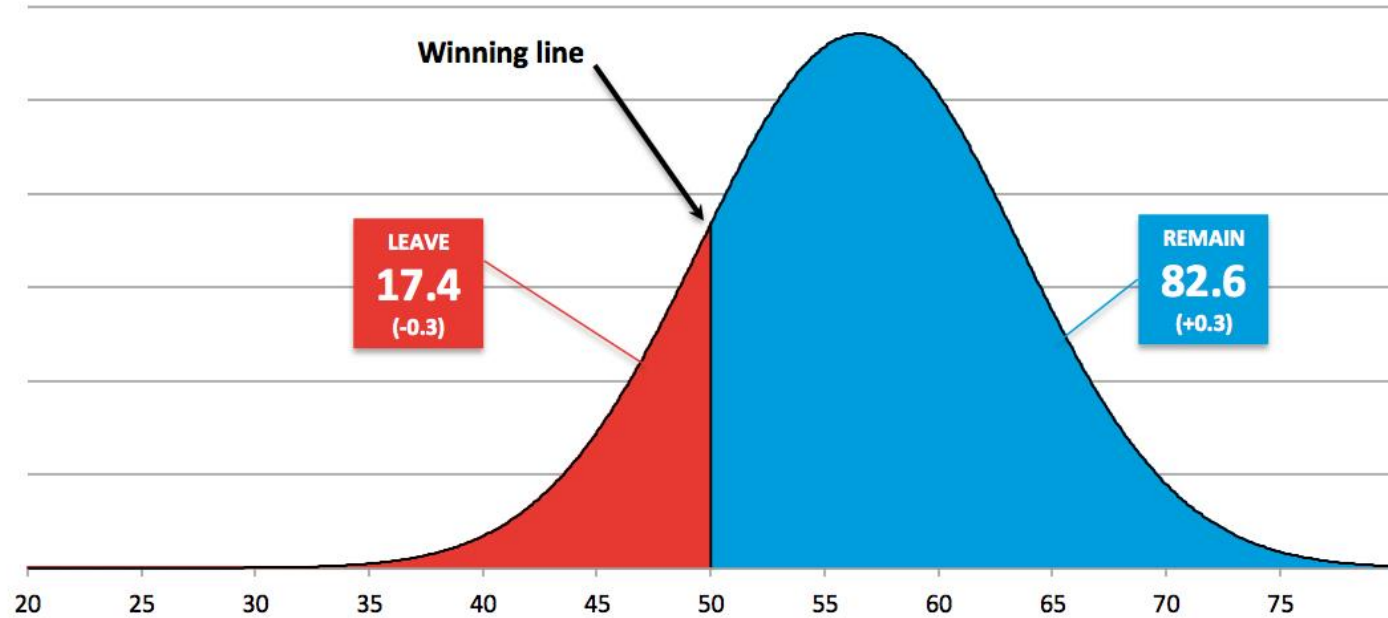


EU referendum polling average (24 May 2016)



Source: Number Cruncher Politics

EU referendum outcome probabilities



Source: Number Cruncher Politics

EU referendum betting market



	bet365	sky BET	lotesport	BoyleSports	BETFRED	sportingbet	BETVICTOR	PADDYPOWER	StanJames	888sport	Ladbrokes	CORAL	Exploiters HILL	winner	betfair	betway
  Stay	<u>4/11</u>	1/3	<u>4/11</u>		<u>4/11</u>	1/3	1/3	1/3	2/7	1/4	1/3	<u>4/11</u>	1/3	1/3	1/3	<u>4/11</u>
  Leave	11/5	9/4	9/4		9/4	9/4	9/4	9/4	9/4	<u>5/2</u>	9/4	9/4	9/4	9/4	9/4	2

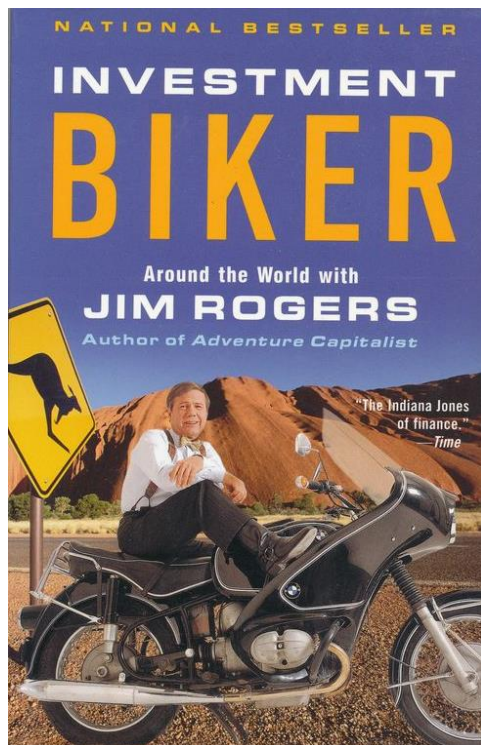
Source: Oddschecker.com



Lots of bears out there...



Lots of bears out there...



Jim Rogers: There's a 100% Probability of a U.S. Recession ...
www.bloomberg.com/.../jim-rogers-there-s-a-100-proba... ▼ Bloomberg L.P. ▼
4 days ago - Rogers Holdings Chairman **Jim Rogers** is certain that the U.S. economy will be in **recession** in the next 12 months. During an interview on Bloomberg TV with ...

Jim Rogers: "US Heading for Disaster. Be Prepared" | Gold ...
<https://www.bullionvault.com/.../jim-rogers-us-gold-121220...> ▼ BullionVault ▼
Dec 12, 2013 - "In 1918," **Jim Rogers** explained, "the UK was the richest most powerful nation on earth. ... "Whether it's 2014, 2015, whenever [the downturn] comes next time it's ...

Jim Rogers: Recession Could Come in 2013-14
www.newsmax.com/.../Rogers-recession-2013.../460480... ▼ Newsmax Media ▼
Oct 18, 2012 - Things could well take a turn for the worse in the economy next year and the year after, says renowned investor **Jim Rogers**.

Recession 2013 Is On the Way; Here's What Jim Rogers is ...
moneymorning.com/.../recession-2013-is-on-the-way-heres-what-jim-ro... ▼
Sep 14, 2012 - If legendary investor **Jim Rogers** is right, not only is **Recession 2013** ... And while Rogers sees no true safe havens out there, a few investments can provide ... Rogers sees the **coming** elections as the end of a joy ride for both ...

US Is Nearing Even Worse Financial Crisis: Jim Rogers
www.cnbc.com/id/43328325 ▼ CNBC ▼
Jun 8, 2011 - The U.S. is approaching a **financial crisis worse** than 2008, **Jim Rogers**, chief executive, Rogers Holdings, warned **CNBC** Wednesday.

Jim Rogers predicts a new recession in 2012 - Telegraph
www.telegraph.co.uk > Finance > Economics The Daily Telegraph ▼
Jul 27, 2010 - **Jim Rogers**, the market sage, has warned the global economy is just two years ... **Jim Rogers** predicts a new recession in 2012 ... **27 Jul 2010**.

Jim Rogers Buys Land, Starts Farming
CNBC - Mar 3, 2009
Commodities are still the best play for the long term, legendary investor **Jim Rogers** told **CNBC**, confessing that he has been buying farmland himself. "We're still ...

...and the bears often sound so smart



*“The drumbeat of negativity ... has been nearly endless during this market recovery. And the **pessimistic case will always sound more intelligent than optimism because we have such an aversion to losses.**”*

(Ben Carlson)

*“**Pessimism always sounds smarter than optimism. That's because pessimism sounds like someone trying to help you,** while optimism sounds like a sales pitch - even if it's usually right.”*

(Morgan Housel)

“Wall Street operators commence their career as bulls, and finish it as bears.”

(William Worthington Fowler, 1870)

“I am no longer an advocate of elaborate techniques of security analysis in order to find superior value opportunities. This was a rewarding activity, say, 40 years ago, when our textbook “Graham & Dodd” was first published; but the situation has changed.”

(Ben Graham, 1974)

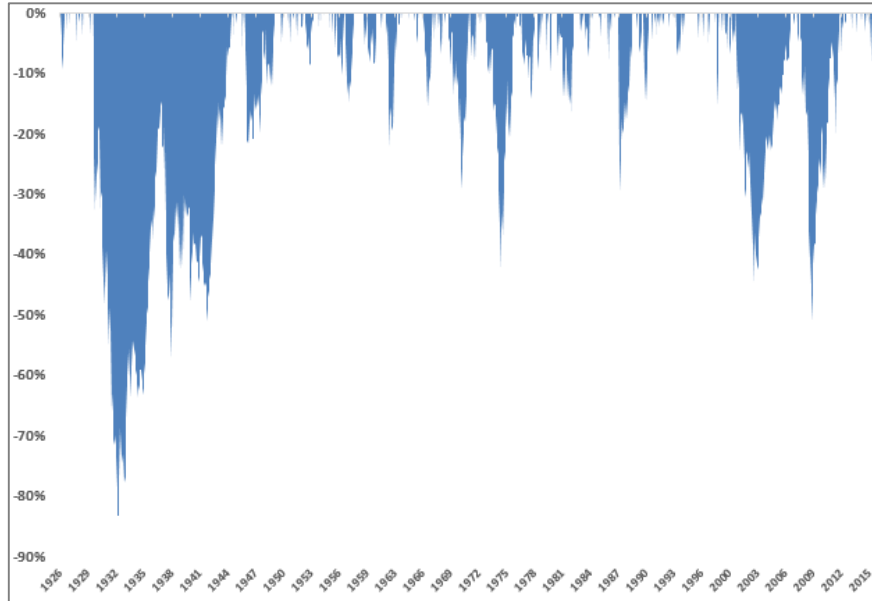
Even if the bears have a point...



...there's always a bullish perspective as well



S&P 500 Historical Drawdowns: 1927-2016



Drawdowns	% of the Time
5% to 10%	12.8%
10% to 20%	13.1%
20% or Worse	23.1%

*Monthly Total Returns

49%

*“An investor would have been down from a prior peak over 70% of the time. **The majority of your time invested in stocks could be spent thinking about how you coulda, shoulda, woulda sold at that previous high price...** This is why stocks are constantly playing mind games with us.”*

Source: Ben Carlson

Long term equity returns



Morgan Housel
@TMFHousel

There are two people still living who were born in the 1800s. US stocks increased 47,607-fold in their lifetime. (~1400x after inflation).

2016/03/18, 7:13 PM

S&P 500: annual returns for different holding periods



S&P 500: 2 year intervals

Percent of the time S&P 500 earned different annual returns



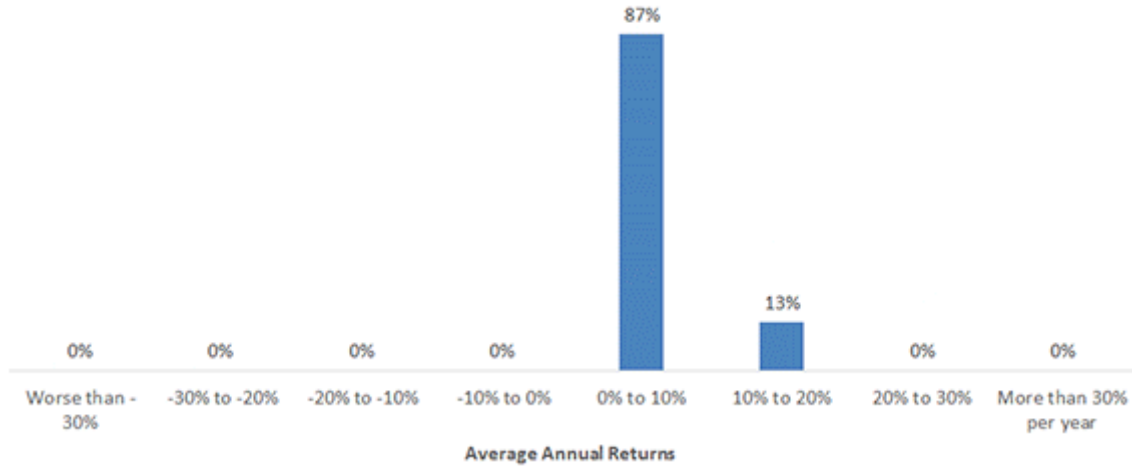
Source: Ben Carlson

S&P 500: annual returns for different holding periods



S&P 500: 20 year intervals

Percent of the time S&P 500 earned different annual returns



Source: Ben Carlson

Patience is key...



***“The big money is not in the buying or the selling
... but in the sitting.”***

(Jesse Livermore)

“It’s in the nature of stock markets to go way down from time to time.

There’s no system to avoid bad markets. You can’t do it unless you try to time the market, which is a seriously dumb thing to do.

Conservative investing without expecting miracles is the way to go.”

(Charlie Munger, 2009)

...and make sure you don't overpay



“Systematically buying cheap stocks is a better strategy than aggressively yelling about expensive stocks.”

(Michael Batnick)

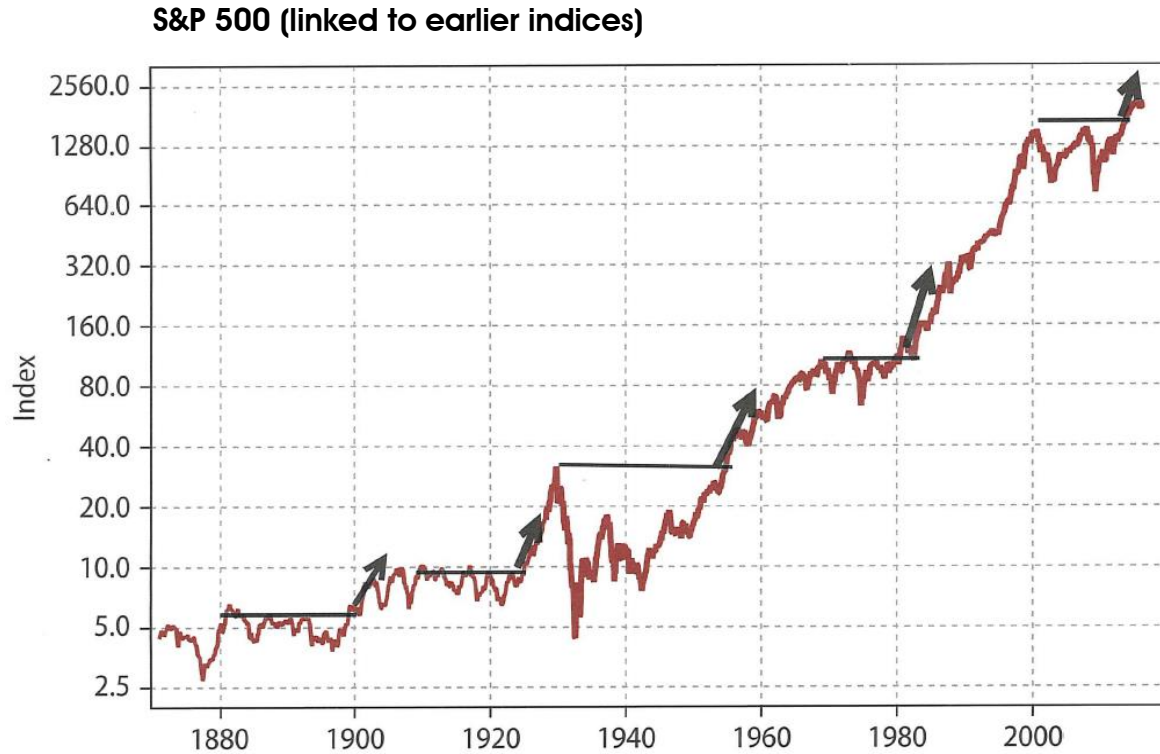
The end of a cyclical bounce?

MSCI All-Countries Index, price return



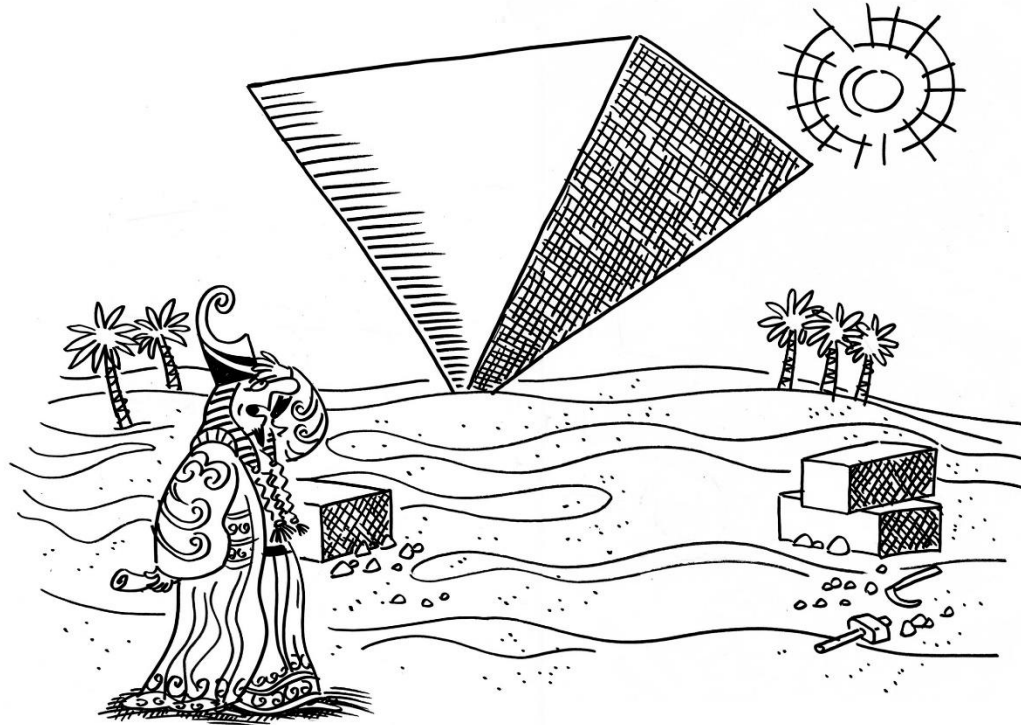
Source: Gavekal

...or just a correction after a structural break-out?



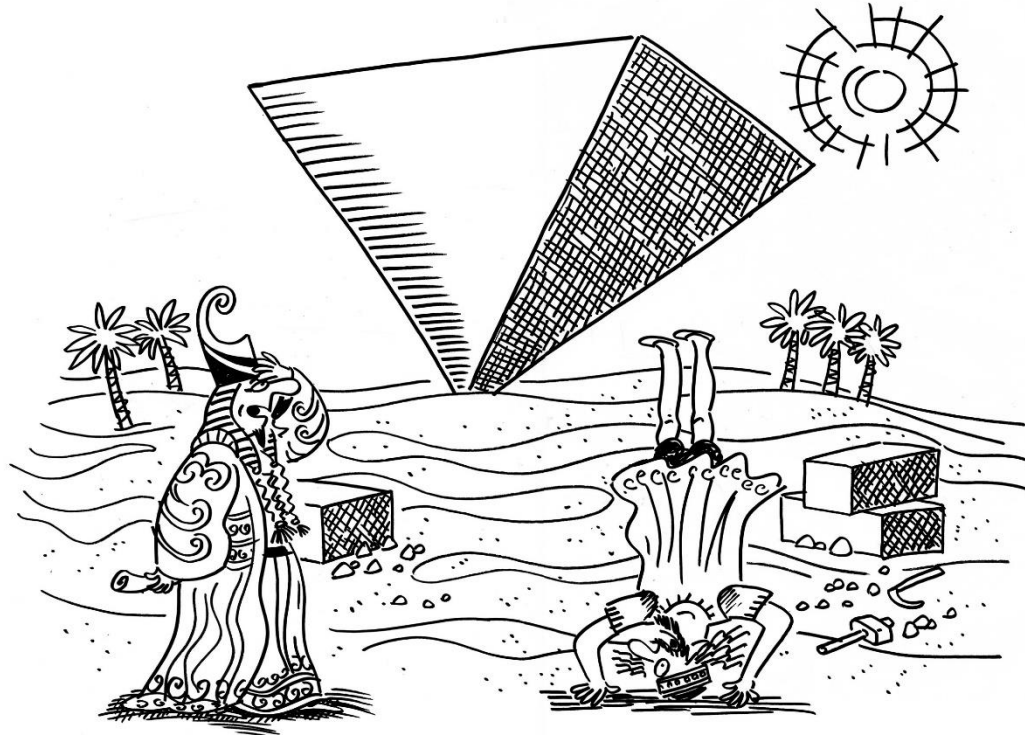
Source: Gavekal

A matter of perspective...



But it's upside down!

A matter of perspective...



It all depends on your perspective...

In closing: a time to be bullish?

***“The past wasn’t as good as you remember,
the present isn’t as bad as you think,
the future will be better than you anticipate.”***

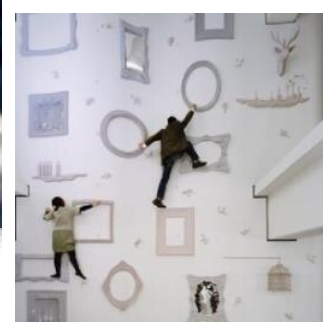
(Morgan Housel)





***“Mr. Osborne, may I be excused?
My brain is full.”***

#ThankYou



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