Incrementum All Seasons Fund

– in pursuit of real returns –

2020 / 08

September / 3Q 2020

Seasonal Reflections

Mettle Testing

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

"This market is setting up to be one of the great short opportunities of all time." … "Trouble's coming, I don't know when, but it's coming." (Jim Chanos: 'We are in the golden age of fraud', FT, 24JUL2020)

"If we can maintain unlimited amounts of debt without any consequences, then fine. But we have an ever-wider swath of society that is not partaking in the economy." (Sven Henrich, interviewed by Raoul Pal on Real Vision, 17JUL2020)

"Now, we find ourselves amidst the most uncertain period (in economic terms) for almost a hundred years and yet the level of certainty is, if anything, even more solid than it was in the mid-1960s: Stock prices always go up (they don't), valuations don't matter (they do), bonds are a sensible investment at these levels (they most assuredly aren't) but, most of all, central banks have it all under control (Oh, come on! You don't need me to write anything in these parentheses)." (Grant Williams, Things That Make You Go Hmmm…, A Nice Place To Visit, Vol.07 Issue 14, 19JUL2020, page 21)

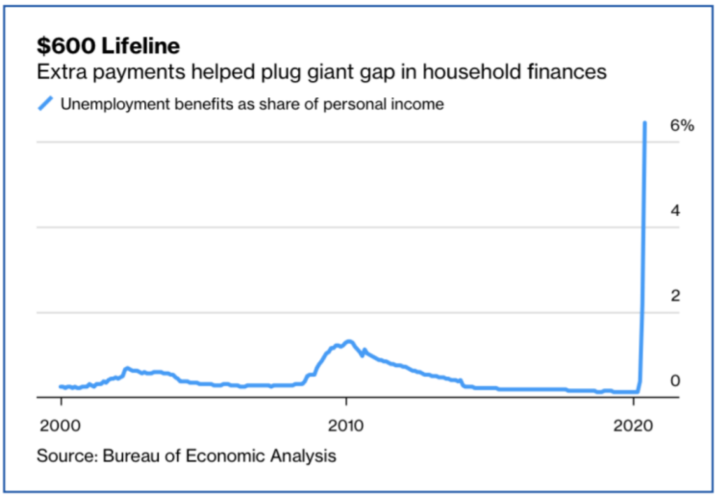
"In a world in which the Ayn Rand Institute can apply for a Paycheck Protection Loan from the US government with no thought of public embarrassment, anything becomes possible." (Have Equities Become a Bubble?, EVERGREEN VIRTUAL ADVISOR Weekly Newsletter Mail, 24JUL2020)

"I think I FINALLY figured out this market: Everything we're LONG is "sell on the news," while everything we're SHORT is "buy 5 or 10 times on the news." (Mark B. Spiegel, @markbspiegel on Twitter, 27AUG2020), Reply: *"If you are an investor (i.e. if you apply any kind of fundamental analysis to decide what to buy or sell), that seems how your mettle is tested these days. - Hang in there!"* (@SchiefenHg, 27AUG2020)

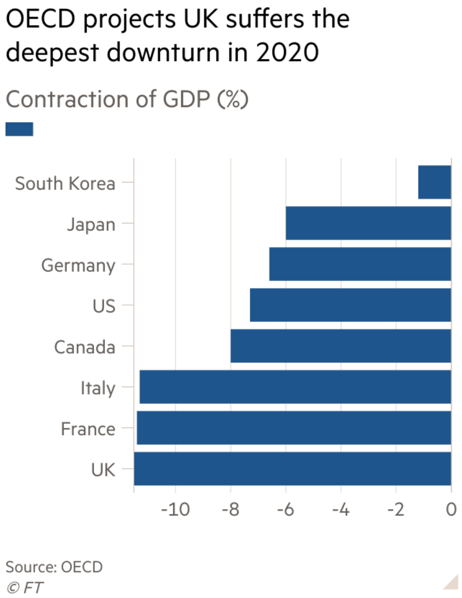
"There is a Latin saying, attributed to the Greek philosopher Epictetus: Dum vivimus, vivamus. It means: While we live, let us live. When we say "Dum vivimus, vivamus," we are thinking of someone like David, who waged war, loved when it was time to love, and risked his life when it was time for that.
"Dum vivimus, vivamus" means that we are all going to die, and that the most important thing is not how long we live but how well we fill life with the joys that it offers us. Without life, we can't do that, but if we obsess over staying alive, we won't do that. David risked all to kill Goliath, and having done that, I am sure he had a good time until the next time duty called.
And this is the point I am driving at. Among the joys of life is doing your duty and, in doing your duty, living or dying, having lived as a human being should. And if you live, then live well, with all the pleasures you have earned. What your duty is is a matter for you, but that you should risk something is the true meaning of "Dum vivimus, vivamus." You can't live without risk, and the only meaningful risk comes from duty (or purpose, I would add)." (Thoughts at 30,000 Feet, by George Friedman, 24SEP2020)

worthwhile reads: Who picks up the bill? Part 1 – By Roger Hirst, The Lykeion, 3SEP2020
This US stock market bubble could rank among the biggest in history, FT, 7SEP2020
The President's Taxes, NYT, 27SEP2020
Lies, Damned Lies and Health Statistics, Lockdown Sceptics, 20SEP2020

chart(s) of the month:



Sustainable? Source: Things That Make You Go Hmmm..., 19JUL2020, page 26



Source: FT, 10JUN2020

ENJOY!

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Dear Reader,

What a year this has been so far...

Summer has now passed, and it was truly marvellous. Now the days in our part of the world are growing noticeably shorter, though their beauty can still be breath-taking.

But for all the apparent tranquillity that usually seems to permeate our tiny principality in the upper Rhine Valley, it has been a tumultuous year, indeed.

Sunset over the Rhine Valley, Schaan, 27AUG2020 (HGS own pic)

2020 – the year of living dangerously...

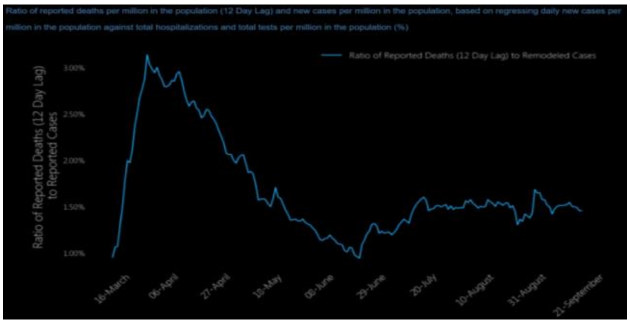
2020 will be forever remembered as the year when Covid-19 changed our world. Over the past quarters, we have learnt to live with the virus as well as the many measures implemented to combat its spread, whether we liked them or not. The way we live, work, and interact has been drastically changed, and despite of growing familiarity, widespread fear of the virus still seems to dominate all other concerns.

Dum vivimus, vivamus! (While we live, let us live!) – The final quote of the quarter and related article has resonated with me, as I wonder whether in dealing with the virus, we are not too concerned with the question of whether, rather than how we live. And here I am not referring to the fact that we are instructed to wear masks, or to shy away from shaking hands and otherwise to keep a distance from our fellow men, but to the general fear and suspicion it has sowed, and the purported benevolent(?) paternalism it has spawned in our political leaders. Meanwhile, crisis fighting, whatever the cost, seems to override all concern for a sustainable approach.

To avoid any misunderstanding, I am not proposing we should not care about the virus and its threat to human life. But as according to the latest available figures 1.35 million people dying in road traffic accidents in 2016 globally (Source: Wikipedia) has not stopped us from driving, or the death of 41,000 people annually in the US due to second-hand smoke (480,000 overall, Source: CDC) has not led us to abolish cigarettes, it suggests to me where we should be going with Covid-19.

Personally, I would advocate a path of reasonable caution and personal responsibility, rather than heavy-handed and often erratic government regulation. As the Swedish example shows this will ensure that our healthcare systems do not get overburdened, without wracking our economies and thus peoples' livelihood – and least this is overlooked our (collective) government finances. But as I write this, governments around the world are opting for stricter measures again amid a recent resurgence in virus cases.

Source: @AlessioUrban, Twitter, 1AUG20



Source: themarketear.com, 7OCT2020

These seem less alarming though, as more frequent testing inevitably leads to more registered cases. In addition, as my worthwhile reads suggest there are reasonable doubts about the reliability of the tests used. Meanwhile, hospitalizations and fatalities have fortunately remained relatively low, suggesting we have learnt how to better deal with infections.

However, restrictions here in Europe are thightening again, thus threatening to turn around the modest recovery seen over the summer. In this context I find it remarkable, how little attention is given to the second-order effects of these restrictions. Anecdotal evidence suggests a rise in domestic violence, burnouts, and other stress-related symptoms, as well as suicide numbers. Uncertainty and suspicion versus our fellow citizens are growing, conspiracy theories abound, and general aggression levels seem to rise as a growing number of often violent protests show. Some protest the restrictions of their civil liberties, while others are driven by growing despair for their economic future.

WEALTH OF U.S. BILLIONAIRES AT 6 MONTHS & 20 MONTHS

	Wealth Growth ($ Billions) March 18, 2020 – September 15, 2020				Wealth Growth ($ Billions) February 8, 2019 - September 15, 2020			
Name	Net Worth Mar. 18, 2020	Real Time Worth Sep. 15, 2020	Wealth Growth	% Wealth Growth	Net Worth Feb. 8, 2019	Wealth Growth	% Wealth Growt h	Source
Jeff Bezos	$113.0	$186.2	$73.2	64.8%	$131.0	$55.2	42.2%	Amazon
Bill Gates	$98.0	$116.3	$18.3	18.7%	$96.5	$19.8	20.5%	Microsoft
Mark Zuckerberg	$54.7	$100.6	$45.9	83.9%	$62.3	$38.3	61.4%	Facebook
Elon Musk	$24.6	$92.0	$67.4	273.8%	$22.3	$69.7	312.4%	Tesla, SpaceX
Warren Buffett	$67.5	$83.2	$15.7	23.3%	$82.5	$0.7	0.9%	Berkshire Hathaway
Larry Ellison	$59.0	$79.2	$20.2	34.3%	$62.5	$16.7	26.8%	Oracle
Steve Ballmer	$52.7	$71.4	$18.7	35.5%	$41.2	$30.2	73.3%	Microsoft
Larry Page	$50.9	$69.2	$18.3	36.0%	$50.8	$18.4	36.3%	Google
Sergey Brin	$49.1	$67.4	$18.3	37.2%	$49.8	$17.6	35.3%	Google
Alice Walton	$54.4	$64.9	$10.5	19.3%	$44.4	$20.5	46.2%	Walmart
Jim Walton	$54.6	$64.7	$10.1	18.5%	$44.6	$20.1	45.1%	Walmart
Rob Walton	$54.1	$64.4	$10.3	19.0%	$44.3	$20.1	45.3%	Walmart
MacKenzie Scott	$36.0	$59.9	$23.9	66.3%	N/A	N/A	N/A	Amazon
Michael Bloomberg	$48.0	$54.9	$6.9	14.4%	$55.5	-$0.6	-1.1%	Bloomberg LP
Daniel Gilbert	$6.5	$50.2	$43.7	672.1%	$6.7	$43.5	649.0%	Quicken Loans
SUBTOTAL	**$823.1**	**$1,224.5**	**$401.4**	**48.8%**	**$794.4**	**$430.1**	**54.1%**	
ALL OTHERS	**$2,124.4**	**$2,568.1**	**$443.7**	**20.9%**	**$2,316.6**	**$251.5**	**10.9%**	
TOTAL	**$2,947.5**	**$3,793**	**$845.1**	**28.7%**	**$3,111.0**	**$681.6**	**21.9%**	

Source: Inequality.org, 5SEP2020

Meanwhile, the gyre between the haves and the have nots keeps widening. While the status quo of the "have nots" was maintained by throwing the kitchen sink at the economy in terms of fiscal intervention (see Helter Skelter, SR, July 2020, page 7, ff., for details), the "haves" have enjoyed another boost to their wealth, as unprecedented monetary expansion has caused renewed asset price inflation. This is most obvious in the USA, where billionaire wealth has grown by 22% over the past 20 months, despite of the worst recession in 80 years.

I have as much tendency for being a socialist than the POTUS himself. But I fear that the growing inequality we are witnessing in the advanced economies of the world, which has been quietly accepted by its political leaders over the past two decades, may eventually spark a revolution that risks causing a systemic reset.

Covid-19 has brought many people to the brink of their existence, making them more dependable on government handouts. Meanwhile, financial markets provide an illusion of wealth that is not founded in the real economy, but merely the result of a gargantuan ponzi scheme, based on growing leverage, multiple expansion and momentum chasing, as financial markets have turned into The Grandest Casino the world has ever seen.

Source: Hedgeye

Ah, I can sense the pushback already, as this is not a popular idea these days, but merely gets you the label of a perma-bear, someone who does not get it. And yes, it makes me feel a bit old, because I can still recall a time when investing was firmly grounded in fundamentals. Today's markets bring David Foster Wallace's opener of his commencement speech to Kenyon College class of 2005 to mind: *"There are these two young fish swimming along and they happen to meet an older fish swimming the other way, who nods at them and says* "Morning, boys. How's the water?" *And the two young fish swim on for a bit, and then eventually one of them looks over at the other and goes* "What the hell is water?" (Source (in full): Youtube)

Source: Hedgeye

I came across the above as a regular reader of Dr Ben Hunt's Epsilon Theory Notes, and here in particular Yeah, It's Still Water. It deals with the narrative that supported the meteoric rise that Texas Instruments (TXN) stock experienced from 2012 to 2019, and it is a story that could be retold many times with countless other names. I urge you to read it to understand why we need to change perspective.

We need a different perspective on the stories we are told about "capitalism", "shareholder value" and increasingly "to do whatever it takes", the narratives that disguise how share prices are no longer grounded in fundamentals but have become the ultimate business goal, while the stock market has become a political utility as the barometer of our economic well-being, facilitating a massive wealth transfer in the process.

"And everyone is perfectly fine with this. No one even notices that this is happening or that it's different or that it's a sea change in how we organize wealth in our society. It's not good or bad or deserved or undeserved. It just IS. This is our Zeitgeist. - This Is Water." (Source: Yeah, It's Still Water)

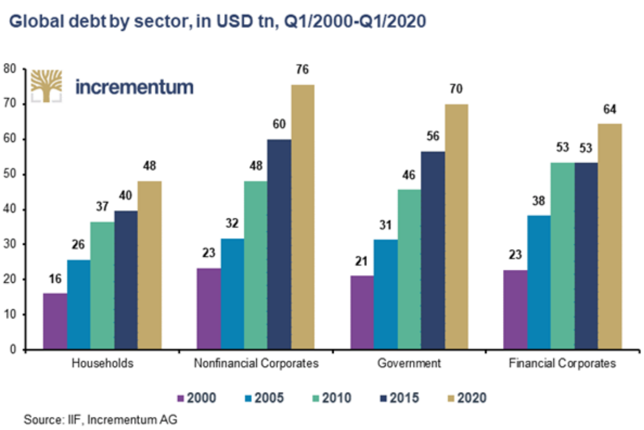
reflections on our investment approach

I had begun penning this part of my quarterly reflections at a time (Sep25) when **IASF** had just registered its worst weekly performance (-6%) since the week from March 5 (-11%), which turned a good month into a bad and an o.k. quarter into a poor one. But before I continue, let me remind all readers:

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 seek investment advice, please consult a licensed investment advisor or do your own due diligence.

Now, before I deal with this recent setback in the cyclical-rotation trade, I thought it might be useful to provide some background on the origins of the **Incrementum All Seasons Fund** and its investment strategy: When after nearly 30 years as investment advisor and portfolio manager I decided to leave the Private Banking sector in the summer of 2019, my goal was to launch a global, active investment strategy *"that aims to achieve long-term real (i.e. inflation-adjusted) capital appreciation."* (Source: Factsheet Evolution from IPF to IASF)

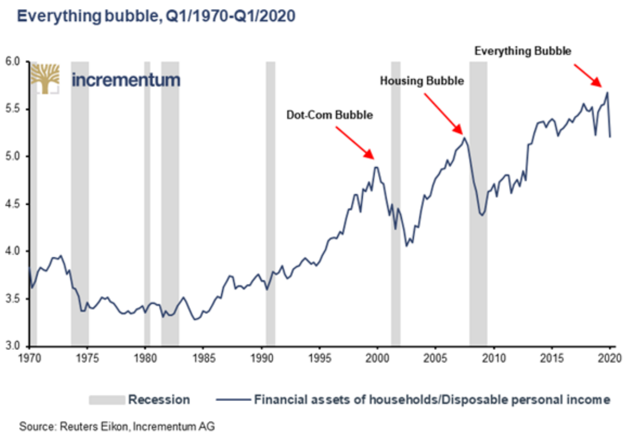
I was motivated to take this step by the growing realization of a major shift occurring in global macro-economic conditions. This shift is marked by a maturing secular debt cycle and a related rising degree of political, monetary, and fiscal intervention in markets and the economy, designed to keep a house of cards from collapsing. These interventions have worked so far. However, history suggests that excessive debt levels ultimately either end in deflationary default/restructuring or are inflated away.



Under our current political system in the Western world, there is not a snowball's chance in hell for a deflationary default, and thus the inflationary route offers the only credible alternative.

Source: [Businessweek](), 22APR2020

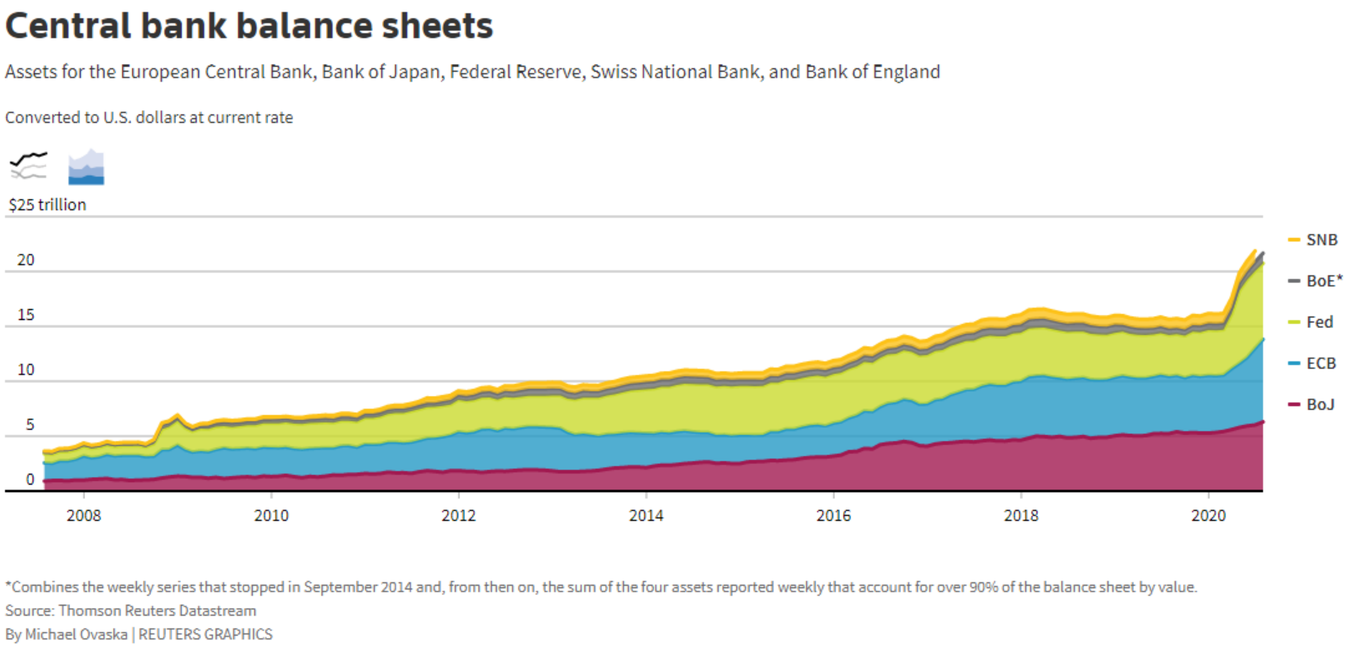
Now, many will argue that we have not had any inflation, which is presumed to be dead or at least sustainably subdued by technological advances / productivity growth, an ageing world population, and the integration of developing economies (EM) into global supply chains. This would seem to be true if we only kept a narrow view on consumer price inflation (CPI). But unconventional monetary policy via asset purchase programs (QE) resulted in inflating asset prices in what is colloquially called the...



QE mainly took the form of bond purchases, conducted with the aim to (A) reduce long-term interest rates and (B) create a wealth effect that stimulates demand and economic growth, while rekindling (consumer price) inflation. (A) was achieved, but (B) empirically not. Instead, inflation has shown up in financial and real estate markets, as central banks have been crowding out private sector investments from erstwhile "safe" government bonds.

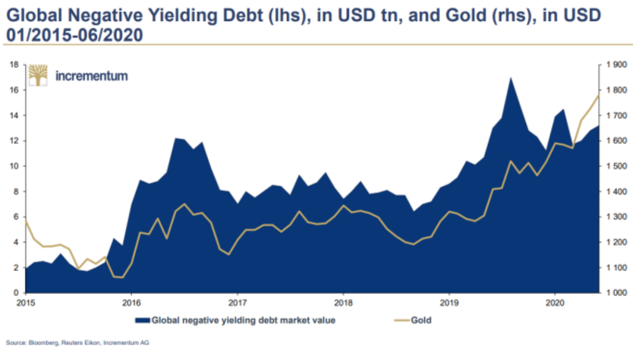
Let's think about this for a moment: Bonds, and in particular government bonds, used to be the safest way to invest, traditionally offering a yield that exceeded the prevailing inflation rate by 1-3% (depending on maturity). Such a positive real (i.e. inflation-adjusted) yield was supposed to compensate investors or savers who bought these bonds for their willingness to forego immediate use of their funds in accordance with the concept of time preference of money. The latter stipulates that individuals prefer to have money today (for consumption or other needs), rather than at some later point, unless of course they are compensated for the wait with an appropriate interest rate. And since government bonds in one's own currency can never default, as the government is in possession of the equivalent of what was once called a printing press, they have always been the least risky securities category.

What global central banks have done, beginning in earnest post GFC (2008/09), is to buy such government bonds at any price. And since the price of a bond and its yield are negatively correlated (the higher the price the lower the yield), this has allowed them to drive nominal bond yields ever lower, making it increasingly uneconomical for private investors to buy / hold these bonds.



… up until July 2020; Source: [Reuters]

The above chart shows that the major Western central banks have accumulated approx. USD 18 trillion in bonds over the past dozen years. And they have done this with such wild abundance that they managed to drive nominal yields below zero for the first time in 4000 years of recorded history (see Sidney Homer and Richard Sylla's "[A History of Interest Rates]" for more details on the subject).

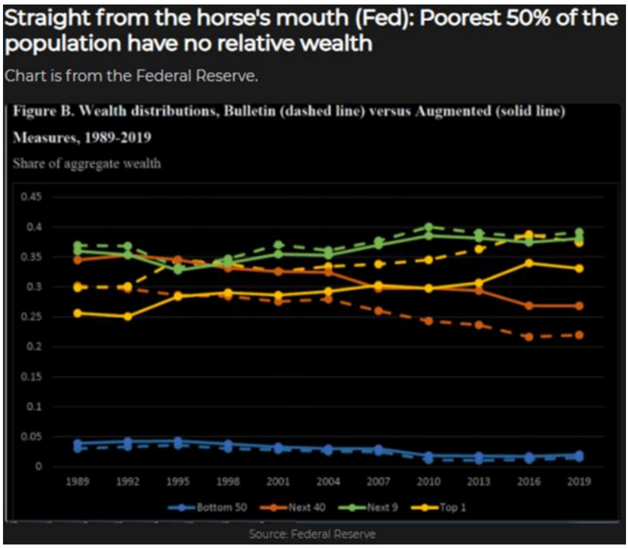


Source: [Chartbook In Gold We Trust Report 2020], 29SEP2020

This did not only have the wonderful effect of making a growing overall global debt burden bearable (higher principal, yet lower interest rate = steady carrying cost), but also meant that yield-seeking investors around the globe directed their fund flows to more risky investments, including equities and real estate. And since investors tend to value such investments mainly via [discounted cash flow] models, it also meant that estimated future cash flows were valued at an ever higher net present value, which helps explain the significant multiple expansion witnessed in equity valuations over the course of the present bull market.

Another result of this artificial interest rate depression has been the private sector taking advantage of cheaper funding cost to increase leverage further, whether in consumer credit or to fund a growing wave of share buybacks, which have also been a major driving force behind soaring stock markets, at least until the end of last year. As the graph on page 4 shows, global debt levels because of all this have more than tripled over the past 20 years.

What that debt accumulation and the financial (and real estate) bubble have also achieved is an ongoing widening of the wealth gap, as – unsurprisingly – the vast majority of investment assets are held by the top 10% of the wealthy. As the graph on the right, depicting recent Fed data shows, the degree of wealth held by the top 1% and the next 9% has been steadily climbing since 1989, while the biggest losers are found in the next 40%, though even the bottom 50% have seen their previously already meagre share dwindle further. I doubt that these are sustainable trends in Western democracies…



Source: themarketear.com, 29SEP2020

Discretionary 2020 fiscal measures adopted in response to coronavirus by 3 September 2020*, % of 2019 GDP

	Immediate fiscal impulse	Deferral	Other liquidity /guarantee	Last update
Belgium	1.4%	4.8%	21.9%	03/06/2020
Denmark	5.5%	7.2%	4.1%	01/07/2020
France	4.7%	8.7%	14.2%	24/09/2020
Germany	8.3%	7.3%	24.3%	04/08/2020
Greece	3.1%	1.2%	2.1%	05/06/2020
Hungary	0.4%	8.3%	0.0%	25/03/2020
Italy	3.4%	13.2%	32.1%	22/06/2020
Netherlands	3.7%	7.9%	3.4%	27/05/2020
Portugal	2.5%	11.1%	5.5%	04/05/2020
Spain	3.7%	0.8%	9.2%	23/06/2020
UK	8.0%	2.3%	15.4%	16/07/2020
United States	9.1%	2.6%	2.6%	27/04/2020

Note: we calculate the ratio of the 2020 measures to 2019 GDP, because the 2020 GDP outlook is very uncertain. The category 'Other liquidity/guarantee' includes only government-initiated measures (excludes central bank measures) and shows the total volume of private sector loans/activities covered, not the amount the government put aside for the liquidity support or guarantee (the amount of which is multiplied to cover a much larger amount of private sector activity).

** The cut-off date is earlier for some countries, see at the country specific descriptions.*

Source: (European economic think tank) Bruegel, 24SEP2020

The failure of monetary policy to achieve its stated (consumer price) inflation goals has led to growing calls for fiscal policy to take over, based on concepts like MMT, which advocates increased fiscal spending underwritten by monetary expansion. The disruptions caused by COVID-19 have served as the perfect excuse for a giant step in that direction.

The magnitude of government intervention in Europe and the USA is displayed in the table on the left: As the first column shows, the immediate fiscal impulse in percent of GDP is already significant, led by US spending of 9.1% of GDP. Adding in (tax/duty) "deferrals" and "other liquidity/guarantee", the crown of stimulus king is held by Italy (combined 48.7% of GDP), followed by Germany (39.9%), with Greece being the most "frugal" (6.4%).

Financial asset prices as a result have become ever more dependent on such government intervention, as can clearly be seen from the recent wobble in equity markets due to the ongoing and drawn out quarrel about another round of US fiscal stimulus, which increasingly looks like it may not materialize prior to the US presidential election, scheduled for November 3.

Ok, let's summarize: More than two decades of relentless interest rate (cost of capital) manipulation towards zero have resulted in a massive debt build-up, both on the private but since 2008 also on the public side. Public obligations have reached levels that historically have led to debt crisis (see "This Time is Different", by Carmen M. Reinhart & Kenneth S. Rogoff of Princeton University). Such a crisis has so far been avoided by ever increasing levels of central bank asset purchase programs. These in turn have led to serious moral hazard in financial markets, who have become conditioned to assume central banks / governments "to do whatever it takes" to prevent any major correction.

Source: Hedgeye

The resulting asset bubble has also led to growing wealth inequality in Western societies, which is at the heart of rising societal unrest (e.g. French yellow vest movement, HK protests, or recent US racial unrest). Meanwhile, monetary policy as stimulus tool has lost most of its potency, though it can still effectively hold interest rates at the zero bound, thus help with the funding of growing government deficits.

With the extraordinary circumstances of the Covid crisis, politicians have discovered fiscal stimulus as preferred tool ~~in their quest to secure re-election~~ to stimulate demand and create inflation. They have been encouraged by central bankers in the process, who find their own interventions increasingly ineffective, but realize that an imploding financial market bubble will have consequences too dire for the real economy to permit.

Source: investing.com

We expect this to lead to an increasingly inflationary environment, as this is the only path to lower the real burden of debt in society, and thus avoiding large scale bankruptcies and write offs. This scenario includes the growing urge to deploy redistribution policies to address the ever widening wealth gap, and is aided by an accelerating push for de-globalization (as making China the workshop of the world lowered sourcing and production cost, re-onshoring is likely to increase them), and the ongoing debasement of major Western currencies.

Against this backdrop IASF pursues a flexible investment approach, <u>currently emphasizing real assets, commodities, and a meaningful allocation to precious metals</u>. This is a result of fixed income as an asst class having become widely un-investable due to the quest for ZIRP (Zero Interest Rate Policies) and NIRP (Negative Interest Rate Policies), which almost guarantee a negative real (i.e. inflation-adjusted) return on most advanced economies' government and other highly rated bonds. In fact a recent study from JP Morgan estimated the total amount of outstanding sovereign debt that trades at a negative real yield at USD 31 trillion, which amounts to three quarter of total developed economies' sovereign debt (Source: Almost Daily Grants, 12OCT2020).

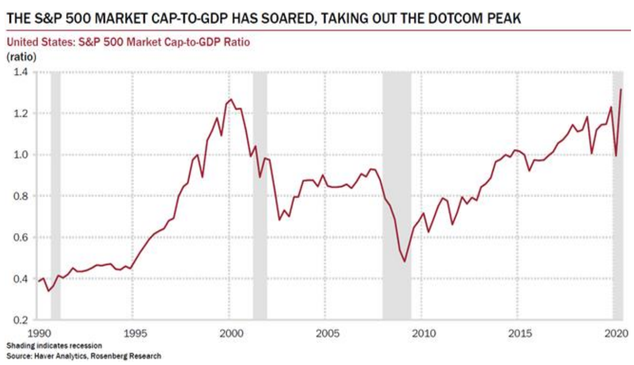
IASF's ultimate goal is to provide investors with inflation-adjusted real wealth growth across the financial market cycle. It turns out, though, that we have not been flexible enough this year, as the before-mentioned allocation has proven problematic. In fact, at the end of last year it looked like the allocation was gaining traction with a December spurt of about 5% beating even global equity market performance as measured by the FTSE Global 100 index.

However, the cyclical- (and hard asset) rotation trade was killed by COVID-19 making an appearance on the global stage in early 2020. Arguably, this portfolio manager who had already lived through the 2003 SARS-CoV outbreak in Hong Kong, underestimated the drastic action that would be taken globally to fight this coronavirus outbreak. Thus, with cyclical stocks being hammered in February / March, even meaningful equity index hedges were unable to prevent a significant drawdown during 1Q 2020. Since then the basic structure of the portfolio has not seen any dramatic change, and I will elaborate further on current positioning in the following chapter.

thoughts on portfolio positioning

How do we deal with the before described circumstances as prudent long-term investors? – As explained above it is evident that **Fixed Income** as an asset class has become almost un-investable for private, yield-seeking investors, at least as far as government bonds issued by advanced economies are concerned. That leaves **Equities** as the default asset class, though high-yield corporate or emerging market bonds may also represent a potential alternative. However, it is worth remembering here that the former represents just another nuance of equity risk, while the latter in my view carries undue risk due to the volatile shifts in geopolitics. Apart from equity risk, commodity and currency risk can be another major return driver, while liquidity risk is not a meaningful driver in a UCITS structure of **IASF's** size that only allows listed investments.

Most fund managers / investors appear to have come to the same conclusion that equity risk is the main game in town. As a result, we have seen an ongoing shift into this asset class over the past 10 years, which has provided the liquidity boost that has elevated equity market valuations to levels last seen 20 years ago. – And yet despite of these apparent valuation excesses, **IASF** has got 70% gross exposure to equities?



Source: Charts with Dave, Rosenberg Research, October 2020

Source: John Authers, [Bloomberg Opinion](), 6OCT2020

How do we handle such excessive valuations? – They are the result of a long-term bifurcation in the **Equities** universe that has seen growth stocks significantly outperform value stocks. Over the past year alone, US Growth (generally defined as stocks that offer high growth rates in their underlying business) has outperformed Value (stocks that are trading below their intrinsic value) by 45%.

The picture is similar, though perhaps not quite so extreme, in other international markets. Even in Europe, the Technology sector was the best performer with a 12.4% gain as of 12OCT2020, while only 4 out of 19 sectors are positive and the 4 worst (led by Energy) have all lost a quarter or more.

IASF has evidently avoided exposure to this area of the market, which has proven a severe drag to its performance. The five largest US stocks (Microsoft, +37% ytd, Apple +59%, Amazon +78%, Alphabet +13%, Facebook +29%, all as of Oct12) now command a 23% weight in the S&P500 index, which far exceeds the concentration levels witnessed back in 2000. And given that US equities account for almost exactly two thirds of the global equity market (in accordance with MSCI), these 5 stocks carry an incredible 14.17% of global market capitalization.

Source: This Is Nuts... - Again, by L Roberts via Seeking Alpha

Source: A Healthy Correction, J Authers, Bloomberg Opinion, 21SEP2020

At the end of September, the MSCI World had registered a 2.12% gain year-to-date. But if one eliminated the contribution of the Big 5, returns would have been 7% lower, i.e. at roughly -5% instead. In other words, equity markets would be down this year were it not for the Big 5. That this is not the case is due to passive investing and herding "active" fund managers, which have all been crowding into the same sector in their quest for performance. As the graph on the left shows, buying the 10 most underweighted and selling the 10 most overweighted stocks yielded a nearly 20% loss, i.e. punishing contrarian investors most severely this year.

The table on the right compares the top five stocks both at the peak of the 2000 TMT (Tech, Media, Telecom)-Bubble, as well as of September this year. It shows that multiples of the top 5 stocks during the height of the TMT-Bubble are comparable to where they are today, which also highlights the extreme valuation levels of the Big 5, which in turn makes them simply un-investable for us.

Top Stocks by Market Capitalisation in the Russell 1000 Index
Dot-Com Bubble peak vs. Today (18 September, 2020)

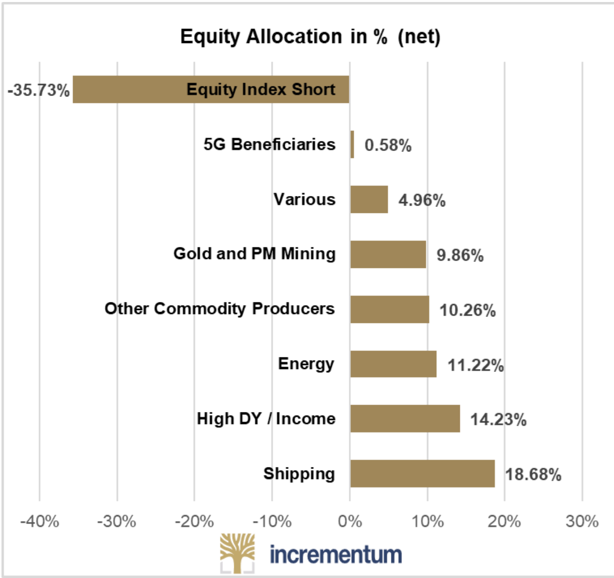
10 March 2000				18 September 2020			
Ticker	Name	Mkt Cap ($bn)	Fwd P/E	Ticker	Name	Mkt Cap ($bn)	Fwd P/E
MSFT	Microsoft Corp	521	56	AAPL	Apple Inc	1,827	33
CSCO	Cisco Systems	477	121	MSFT	Microsoft Corp	1,495	31
GE	General Electric	432	35	AMZN	Amazon Com	1,464	94
INTC	Intel Corp	395	40	GOOG	Alphabet Inc	982	32
XOM	Exxon Mobil	278	23	FB	Facebook Inc	716	31

The organisations and/or financial instruments mentioned are for reference purposes only. The content of this material should not be construed as a recommendation for their purchase or sale. 10 highest market capitalisation stocks in the Russell 1000.
Source: Man Numeric

Source: Will Value Ever Work Again – Man Institute, 29SEP2020

At the end of the day, we are convinced that investors ~~are or better~~ should always be value investors, i.e. they should seek to assess what they are getting in return for the price of a share. And that analysis includes the potential growth in the underlying business. But in the case of the Big 5 (similar to other, though "smaller" companies like Nvidia, PayPal, Netflix, Salesforce, Adobe, etc., which are all above USD 200bn in market cap and have all advanced more than 50%(!) this year), we find it impossible to justify current valuations, given the size and maturity of the underlying businesses, not even taking into consideration ongoing legislative scrutiny and potential regulatory intervention.

Well, back to our main theme: With **Equities** the main game in town, **IASF** has gross equity exposure of approx. 70%. Without any of the Big 5 (or their "smaller" brethren), which on a global index basis already made a difference of over 7% performance contribution on a long equity book alone, this has not worked too well so far this year. In addition, due to the extreme overvaluation of both Nasdaq and S&P500, we have chosen to carry a meaningful index short position to hedge against a potential broad market correction. (More details on **IASF's** equity allocation are shown on the right.)



About 70% of that short position is in Nasdaq futures, which in a way has added insult to injury, as this hedge has actually "cost" another 3% of performance since we established it in June 2020. The S&P500 shorts (which were originally established in May / June and then partly swapped into Nasdaq shorts) added another 4% negative performance contribution. – Some may argue that we should have worked with Stop Loss limits, others prefer options to prevent major drawdowns. The former has seen us too often whipsawed; the latter we find generally too expensive in the current volatility environment. But no doubt, with the benefit of hindsight, any of these alternatives would have been preferrable.

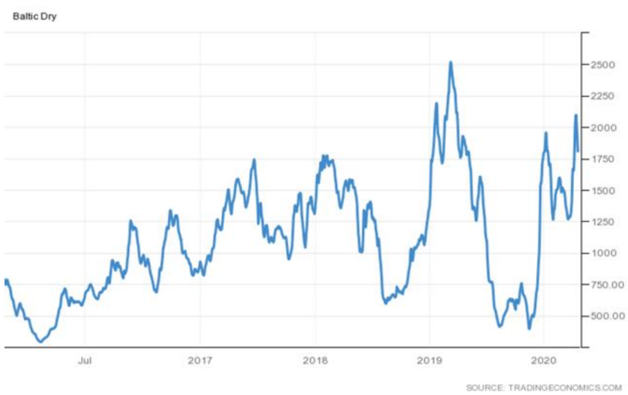
In any case, it is worth recalling that we went into 2020 in anticipation of seeing a cyclical-rotation trade, i.e. that the overdue shift from overvalued growth stocks into cyclical and value stocks would get underway. Covid-19 in our opinion has merely delayed this process, which is why we continue to regard maintaining short exposure appropriate. However, it does make the fund's NAV vulnerable to growth stocks getting even more expensive, while value / cyclicals get even further depressed.

But let us get back to our original question on how to position an "All Seasons" portfolio on the equity side in the before described environment: Here regular readers may have noticed that we have always been looking at investment themes, which were then filled with life by picking individual stocks. These themes tend to be driven by macro-economic observations and may also have a contrarian tilt. After all: *"To achieve superior investment results you have to hold non-consensus views regarding value, and you have to be right."* (Source: Howard Marks, The Most Important Thing)

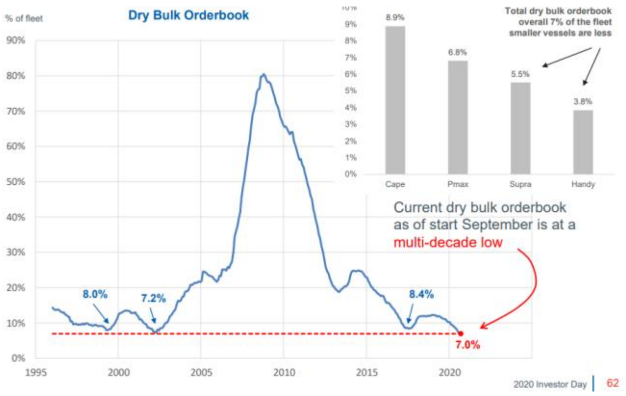
On **Shipping** I have previously commented already extensively (Seasonal Reflections - 2020/07), but given this is the largest thematic exposure right now, I will again summarize the investment case and merits below: First of all, it is fair to say that this is a cyclically bombed out sector with favorable long-term supply and demand conditions, which is completely out of favor (and valued accordingly).

Among industrial sectors it is listed as a sub-category of "Industrials", which make up about 8% of the S&P500, and "Shipping" as a sub sector of that index is not even listed (while Railroads, Airfreight /Airlines and Trucking are), which shows how diminutive the sector is... I reckon it may be part of Diverse Support Services, which make up 2.09% of the sector and thus about 0.16% of the overall index, though I was honestly unable to verify this on short notice. – Be that as it may, the 7(!) tanker companies **IASF** currently owns, which with Euronav and Frontline include the market leaders in the sector, have a combined market cap of a grand USD 6.3bn, which is a 0.021% rounding error of the S&P500's total market cap of close to USD 30tr (both are not S&P500 constituents).

Unfortunately, the long-term value thesis has experienced a setback this year amid the sharp fall in economic activity. Oil transportation demand has contracted, though offshore oil storage yielded a rate bonanza in 1H, which should more than compensate for a weaker 2H. (I gave an example on page 20 of the last SR). Dry Bulk stocks had a very weak 1H, but have seen rates picking up recently, especially in large cape-size vessels. And if I had to identify a trend in the Baltic Dry Index over the past 5 years, it would be upward sloping.



Source: tradingeconomics.com



Source: Pacific Basin 2020 Investor Day, 22SEP2020

Shipping is a cyclical sector which has been beaten down for years now. While global demand for oil liquids and dry bulk is still rising and requires inter-continental logistics, the fleet orderbook both for tankers and bulkers (see chart on the left) is at a long-term low, and ship financing harder to get as many traditional funding houses have withdrawn from this market. Considering also the age profile of both the global tanker and bulker fleet, which makes more vessel scraping likely going forward, this all should keep a lid on overall fleet growth.

I have elaborated on the overall valuation argument in my last **Seasonal Reflections** already, but to provide more color **IASF's** shipping portfolio trades at an average Price-to-Earnings (PE) ratio of 7, at 0.57 times book value, 2.4 times Enterprise Value (EV) to Sales and 6.6 times EV/EBITDA (Earnings Before Interest Tax Depreciation & Amortization). Meanwhile, the weighted average dividend yield is almost 9% right now, with 11 out of 14 stocks in distribution mode. That elevated yield though is mainly due to the dividend bonanza in tanker stocks, which over the past year in a few cases offered double-digit annualized distributions, which however in a weaker rate environment are expected to fall sharply. Overall, however, these valuations clearly suggest the market is not anticipating meaningful good news.

In this context, it is hard to overstate how completely out of favor this sector of the market has become. First, there is the growing ESG (Environmental, Social, Governance) trend, where owners of ocean going vessels score poorly amid their environmental impact and often also on a governance level (as there are many companies with major (often founding) shareholders). From all I have seen the industry is working hard to improve their standing in this regard; at the same time, their ESG score (according to Reuters) remains at a fairly low 35 (out of 100 being the highest).

The shipping industry is principally regulated by the International Maritime Organization (IMO), which is the London based United Nations agency responsible for the safety of life at sea and the protection of the marine environment, and which stipulates a comprehensive framework of detailed technical regulations. In addition, the International Labour Organisation (ILO) is responsible for the development of labour standards applicable to seafarers worldwide.

IMO INTERNATIONAL MARITIME ORGANIZATION

International Labour Organization

A big regulatory change for owners of ocean-going vessels for example was IMO 2020 which requires international shipping companies to either burn more expensive cleaner fuels or install exhaust cleaning systems (aka scrubbers) at not insignificant cost. Initiatives like this and their application should help improving ESG scores in the medium-term. However, they have also introduced a lot of uncertainties among shipowners over future compliant vessel designs and propulsion standards to meet future emission limits, which is often cited as main reason for shipowners' reluctance in ordering new vessels. As a result, Cleaves noted this month that only 23.7m dwt of vessels have been contracted / ordered so far this year, which on an annualized basis represents the fourth worst year on record. This in turn will have a beneficial impact on overall long-term new vessel supply.

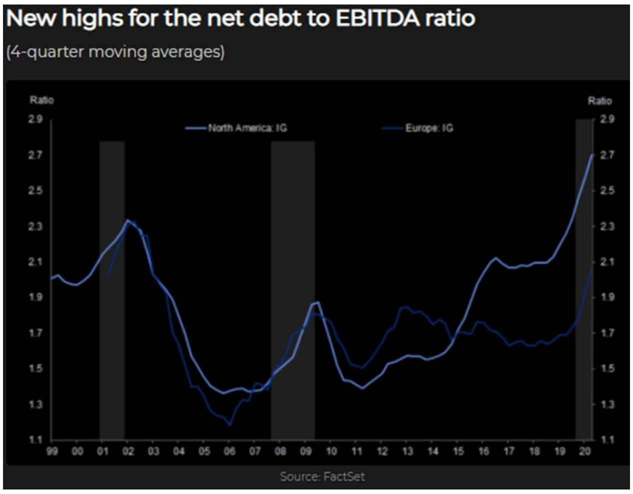
The shipping sector (not dissimilar to the precious metals mining sector a few years ago) also has a reputation for poor returns and high volatility. Therefore, many institutional investors tend to eliminate a prospective investment in the early stages of the investment process, often due to technical issues like low market liquidity / free float, low market capitalization, limited analyst coverage, or the fact that the vast majority of companies in the sector are not included in major equity indices. As a result, there is less institutional money flowing into shipping equities relatively to the broader market, thus leading to even less liquidity. This can become a vicious cycle which tends to ends when valuations are so bombed out that the old saying *"The cure for low prices are lower prices (and vice versa)"* gets to work and ultimately causes a rebound that can be very profitable for investors.

So, in summary we are investing in shipping companies because they are cyclically depressed, cheap, and unloved, while providing essential logistical services for still very vital raw materials, thus helping to keep a tightly trade-interconnected world functioning. In addition, they own long-life hard assets, which in an expected more inflationary environment will be worth a lot more than they are today.

The second largest investment theme until (and still listed in my) September (reporting) was **High Dividend Yield** / **Income**, which however we have decided to abolish starting from October, as we simply did not find this a theme that is easily defined. – Does e.g. a regular dividend paying oil company belong into this bucket, or rather into the **Energy** bucket? We decided on the latter, but it inevitably meant there was no clear consistency to the grouping under this theme. – Then there were cases of companies suspending their dividend distributions amid Covid-19 related uncertainty, which caused us to move them into the **Various** basket. Moreover, a few of **IASF's** shipping stocks have been significant dividend payers over the past year, and yet we did not include them in the **High Dividend Yield** / **Income** bracket, as these distributions are too volatile.

In general, we find companies that offer a secure and meaningful dividend to be extremely expensive these days, or else their reliability in paying regular dividends questionable. This, together with the above described inconsistencies led us to our decision to terminate this bucket and redistribute its holdings into existing and new themes.

Personally, I have always been fond of dividends, and in this day and age they may be particularly important to income investors. But the dividend distribution capacity of a company is ultimately but one of many variables that enter the analysis equation, and the willingness (and perhaps ability) of companies to adhere to a regular and steady distribution has been falling in line with the rise in corporate gearing. Thus, we felt we can enhance the transparency of our reporting by suspending this theme and allocating constituents to other existing themes.



Source: themarketear.com, 14OCT2020

Hoping this sufficiently explains our motivation, let's move on to the now second largest equity theme in **IASF**, which is the **Energy** sector (mostly oil plus some gas & uranium & services in the mix).

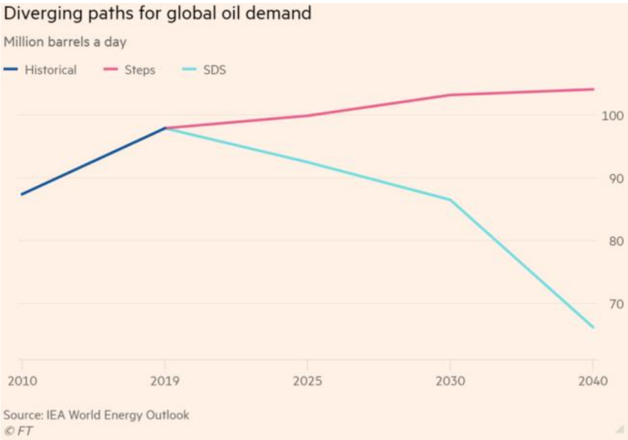
Source: The Felder Report Blog Post, 30SEP2020

It is also cyclically depressed, cheap, and unloved, while providing essential ingredients to the global economy. The cyclical depression can be gauged from the graph: Amid the Covid-19 related demand destruction early this year, prices revisited levels last seen two decades ago. The unloved aspect shines through from *"The Economist"* title annotations referring to oil headlines, which according to the newspaper cover thesis typically indicates a major long-term trend turning point.

Another measure of the unlovedness of the **Energy** sector is its weight in the S%P500, which has fallen from the top in 1980 with a 30% weight (6 of the 10 biggest global stocks then were energy companies) to the lowest weight at little over 2% right now. And only recently the once largest company in the world, Exxon Mobile (price-to-sales: 0.7) has not only been thrown out of the Dow Jones, but its market cap now is equal to the market cap of Zoom (PTS 103), which shows what's hot and what not…

Source: Financial Times, 12OCT2020

Many will argue that this is a poor comparison, as one is a dying industry while the other has tremendous growth potential, especially now that the home office has become an established and perhaps even desired place to work. As much as we do not want to argue the latter, we certainly question the former. In the last couple of weeks, three major global energy projections (by BP, OPEC and IEA) were published, and though they all offered different scenarios at a time that is marked by a heightened degree of uncertainty, base case projections still see absolute oil consumption rising, even if ever so gradually going forward in absolute terms.



Source: Financial Times, 14OCT2020

Source: Financial Times, 8OCT2020

Meanwhile, near-term *"pandemic-related behaviour changes will actually increase oil demand a bit, reckons the IEA. Forget all those cancelled flights, teleworking, and empty commuter parking lots. The shift away from public transport to private cars, the delay in purchasing new ones, and consumers' preference for SUVs will more than outweigh the demand losses."* (Source: Financial Times, 14OCT2020)

The 10 largest oil[1] producers and share of total world oil production[2] in 2019[3]

Country	Million barrels per day	Share of world total
United States	19.51	19%
Saudi Arabia	11.81	12%
Russia	11.49	11%
Canada	5.50	5%
China	4.89	5%
Iraq	4.74	5%
United Arab Emirates	4.01	4%
Brazil	3.67	4%
Iran	3.19	3%
Kuwait	2.94	3%
Total top 10	71.76	71%
World total	100.63	

[1] *Oil* includes crude oil, all other petroleum liquids, and biofuels.
[2] Production includes domestic production of crude oil, all other petroleum liquids, biofuels, and refinery processing gain.
[3] Most recent year for which data are available when this FAQ was updated.

Source: US Energy Information Administration

The broader discussion about peak oil demand often reveals it as very US centric. Sure, the US is the world's largest oil producer and consumer. And demand may indeed be peaking in advanced, though not so in developing economies. Unsurprisingly, the fastest demand growth is registered in China, which back in 2008 consumed about 7m barrels per day (bpd). This has more than doubled to nearly 15m bpd, as its oil consumption in 2020 is more than 1m bpd higher than last year. And according to analysts China's oil demand is expected to grow by another 10m bpd over the coming decade.

But this is not only about China. The most populous nation in the world, India, is currently approximately at a development stage where China was in the late 90s. And history shows that the development phase it has now entered requires the highest energy support. The story is much the same in Vietnam, Philippines, Indonesia, as well as many other developing nations around the world. Therefore, we do not see any reason to change our expectation of a full recovery in global oil demand over the coming two years.

The 10 largest oil[1] consumers and share of total world oil consumption in 2017[2]

Country	Million barrels per day	Share of world total
United States	19.96	20%
China	13.57	14%
India	4.34	4%
Japan	3.92	4%
Russia	3.69	4%
Saudi Arabia	3.33	3%
Brazil	3.03	3%
South Korea	2.63	3%
Germany	2.45	2%
Canada	2.42	2%
Total top 10	59.33	60%
World total	98.76	

[1] *Oil* includes crude oil, all other petroleum liquids, and biofuels.
[2] Most recent year for which data are available when this FAQ was updated.

Source: US Energy Information Administration

This, by the way, is also a strong argument for owning tanker stocks, as three quarter of global demand growth is expected to come out of Asia, which at the same time is experiencing declines in its own oil production. As this requires demand to be covered by overseas shipments, it means longer voyages for oil carrying tanker.

But what is happening on the oil supply side? – This is perhaps even more important as according to analysts, incl. resources fund manager Goehring & Rozencwajg, the vast majority of global non-OPEC oil supply growth over the past decade has come from US tight oil (aka as shale), and what investors are not realizing is that the shale boom is over. There is an ongoing widespread believe that productivity of shale-drilling is still rising due to improved drilling technology. But many analysts question this thesis and attribute the rise in production in recent years to more drilling rigs employed and to what in the mining industry is called high-grading, i.e. the primary exploitation of areas with the highest expected degree of output. Given that shale reserves deplete just like any other conventional oil field, overall drilling productivity has begun to decline as more tier-2 wells are being drilled. US shale regions have all seen their productivity peak when at least 60% of their tier-1 wells had been drilled, and this point is now reached in most of the major US shale areas. Besides, the shale sector did barely make any money in the past, and thus is likely to require significantly higher oil (and gas) prices to attract new funding.

What about alternative energy sources? – The world is currently spending a huge amount of effort, resources, and capital on developing renewable energy, which is expected to remain the fastest growing primary energy source. But at currently only about 10% of the global energy mix, these are unlikely to crowd out traditional energy sources amid overall rising energy demand globally over the coming decade, especially as they will play a lesser role in high demand growth developing economies. Hence, we do not expect rising renewable energy output to prevent the positive demand scenarios pointed out above from materializing.

Meanwhile, nuclear power as important source of base load energy is also on the rise, especially in Asia. Currently, there are about 50 new reactors under construction globally (more than 11% of existing number of reactors), and significant additional capacity is created by upgrading existing plants. At Incrementum, we are fortunate to be able to tap into the expert knowledge of our inhouse uranium specialist, Dr Christian Schärer, who has been following the industry for decades and has been managing the Uranium Resources Fund since 2012. I could write another few pages on the subject, but in the interest of keeping these SR from reaching book format, I invite you to contact Christian under cs@incrementum.li, if you are interested in talking to the real expert on this field.

From an investment standpoint the **Energy** sector suffers from many of the same problems as the shipping sector. Conventional energy producers are punished with low ESG scores for providing a still essential commodity to our modern advanced economies, without which a lot of things we take for granted today would not work. As a result, many major investors are simply no longer investing in this sector. Ironically, this includes Norway's oil fund, which as the world's largest sovereign wealth fund owes the base of its now USD 1tr in assets revenues generated from the country's oil and gas resources in the North Sea…

Meanwhile, having become such a pariah among investable assets many lenders are introducing lending caps for the industry, which obviously not only limits the industry's access to capital but also increases its cost. Moreover, we expect the oil sector to have been experiencing some year-end tax related selling, given the dramatic losses experienced across the sector. All in all, it is no wonder the sector has reached such diminutive weighting in equity indices. And this despite of the fact, that clean energy stocks are up almost 80 per cent this year, as they represent growth. Whether they will offer earnings and actual shareholder returns remains to be seen.

Ok, let us wrap this up by reminding readers that the world continues to rely on conventional energy sources to supply a large part of its energy needs. These are extracted from the earth to be consumed, but for some time now without providing adequate investment into resource replacement. This ensures that no matter how demand develops, supply is likely to shrink in the coming years. The IEA report specifically highlighted the downside risk for oil supply should investment fail to recover, projecting a drop in conventional oil supply of 25-50%(!) by 2030 if the industry fails to bring on new fields. In the medium-term this is bound to lead to significantly higher oil prices. This is why we believe that as far as the **Energy** sector is concerned the cure for low prices is lower prices (see also Rebalancing the Crude Oil Market, Stefan's Weekly, 10JUL2020), and that patience will eventually be rewarded.

Well, as the number of pages has reached 20 already and I intend to send out these Seasonal Reflections by the end of this week, I will keep my comments on the remaining long equity themes shorter in the following (investors can of course always approach me for more details):

Tied in third and fourth place of **IASF's** equity themes are **Other Commodity Producers** and **Gold and PM Mining**, both with slightly over 10% allocation at the time of writing. Main commodity exposure is in fertilizer, copper and iron ore. The precious metals mining allocation is a mix of gold and silver mining, plus royalty companies and a closed-ended fund. Then there is **Infrastructure**, **Japan Value** (both about 3% allocation) and **Disrupting / Growth** (2.5%). The latter is noteworthy, as it includes a number of smaller investments (mostly up to 0.5%) in predominantly young companies that are at the forefront of new technological developments. 5G is one area that was previously listed separately as a theme but is now part of this bucket. Other areas are computer vision, semiconductor development, pharma or recycling. Lastly, there is another bucket with **Various** (about 10%) stocks that do not fit into any of the above investment themes, but we still like to have exposure to from a bottom-up perspective.

In summary, our long equity themes are well suited to help us on the way to protecting investors wealth from the inevitable path described by Voltaire. Admittedly, with the Covid-19 induced economic shockwaves still reverberating, we have been early with our exposure to real assets and precious metals but are convinced that the world is much closer to proving his wisdom once again.

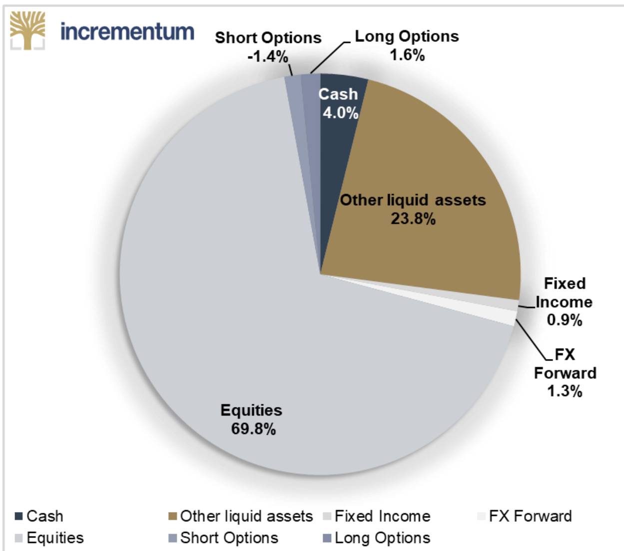
Source: quotesonfinance.com

beyond equities with a glance at quarter-end portfolio positioning

This is also why **IASF** holds close to 18% of its portfolio listed under **Other Liquid Assets** in precious metals. The remaining 6% of that category has been allocated to a trend following fund as well as an absolute return quant hedge fund, both offering daily liquidity.

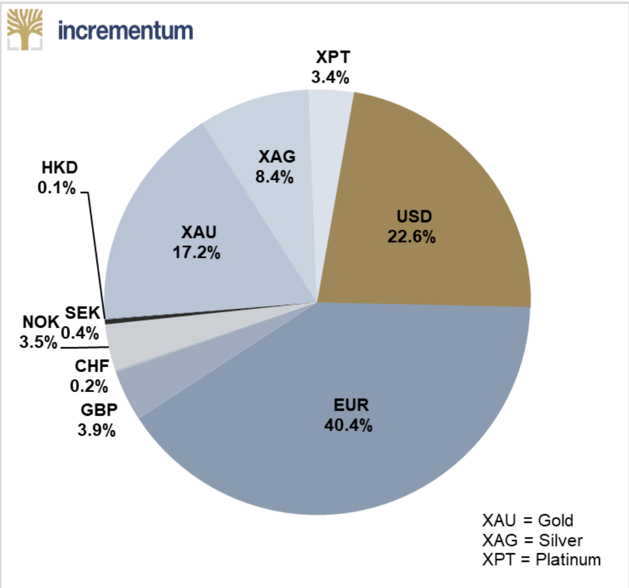
Compared to last quarter, **Cash** levels have been reduced by 11% amid the margin call depletion stemming from our short index futures. **Other Liquid Assets** have gained 2% in weighting due to the rise in precious metals prices. **Fixed Income** is unchanged and **FX Forward** has gained 1%. **Equities** have gained 9% amid rising equity prices and new additions over the quarter.

Asset Allocation



Lastly, **Long Options** represents the market value of **IASF's** remaining S&P500 December puts, a EUR/USD Call option, which is helping to hedge the fund's foreign currency exposure, as well as a couple of call and put options on corporate names. **Short options** represent the present value of the fund's current position of calls and puts written. In fact, selling options mainly on shipping, energy and precious metals stocks has helped to generate quite decent returns in the very volatile environment we have experienced this year, with option premiums earned over the first 9 months accounting for approx. 4.7% of the fund's underlying value.

Currency Allocation



FX allocation has changed only modestly over the quarter. **IASF's** USD exposure has risen 6% and EUR exposure more than 7%. Meanwhile, GBP and HKD exposure are each 3% lower, NOK exposure has fallen 2%, CHF, SEK and SGD by 1% each. – Investors are reminded 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 truer picture of actual FX risk taken.

IASF Quarterly NAV Change

3Q 2020 (25.6.-25.9.)

EUR-D	93.11	-1.63%
USD-D	94.77	-1.48%
CHF-D	91.93	-1.67%
EUR-P	91.54	-1.72%

For Charts, See Appendix

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

IASF Year-To-Date NAV Change

31.12.2019 - 25.9.2020

EUR-D	93.11	-10.89%
USD-D	94.77	-10.66%
CHF-D	91.93	-10.71%
EUR-P	91.54	-11.14%

For Charts, See Appendix

Without doubt this has been a difficult 3Q for the fund. There have been a few times over the course of the quarter where we felt our allocation would gain traction and finally lead the fund back into positive territory, but each time delivered a renewed blow. For your fund manager it is no consolation, though it provides context that many value-driven managers are struggling. Only today (15OCT), AJO Partners with USD 10bn in total assets announced it was closing. According to Financial Times the decision was explained by a lack of interest in value funds after a prolonged period of underperformance (its large-cap absolute fund lost 15.5% ytd), and likely the result of dwindling assets which have shrunk by two thirds since 2007.

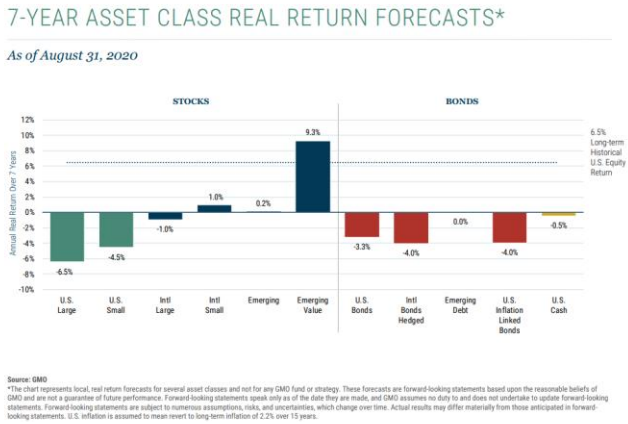
This is the most fundamentally detached market I have witnessed in my 30+ years of investing, and speculation clearly rules supremely. Repeated market stabilizations by the authorities, no matter the cost, have obviously coloured investors' glasses with a serious tint of rose. I cannot recall how many times I have heard the argument that investors will continue to buy equities (and other riskier assets) because there is no alternative.

Source: Hedgeye('s Keith McCullough) on Twitter

But fundamentals do matter, and what they promise is regularly summarized by GMO: A look at their latest 7-Year Real Return Forecast will cause any serious investor equal despair. But we remain convinced that the expected negative annualized return for equity markets is likely to end up masking a major reshuffling from today's overhyped sectors into those that currently do not get investors love, and we fully intend to take advantage of this shift in **IASF**.

Source: Hedgeye, 15OCT2020

This shows that the only thing that matters is price gains and momentum, and the financial industry will make up any argument to justify higher prices for growth stocks. And with investors conditioned to always buy the dip, any serious consideration of true underlying value of a business or the potential risk of share prices to rebase with true underlying business fundamentals is no longer en vogue.



Source: GMO, 31AUG2020

REMINDER: 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 seek investment advice! And remember that past performance is no guarantee for future returns, and all investments involve risk including the loss of principal.

in closing

Unsurprising to myself this has become a longer piece than anticipated, which I hope you have found worth your time.

At the time of writing these closing remarks, stock markets have drifted higher again on a cocktail of a slowing economic recovery, coupled with rising Covid-19 infections around the world, the eternal hope of more state aid to an ailing economy, and the further unfolding ~~farce~~ spectacle as we are heading for another US presidential election.

Source: Picture from The Macro Tourist by Kevin Muir, 23JUL2020

Source: Hedgeye, 15OCT2020

Quite frankly, it is hard not to feel that our societies are becoming ever more torn, our politics more dysfunctional, and our economic and monetary backdrop more desperate. But it is the world we live in, and as always – perhaps through strive and harder times – the human race will continue to progress and continue to create and build on the wonders it has already achieved so far. And that is a comforting thought.

For investors, the coming years may prove disruptive (got gold?) and demand more adaptability than the recent past, but it also promises to be an interesting period full of opportunities.

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

Greetings from Schaan, Liechtenstein!

Best regards,
Hans

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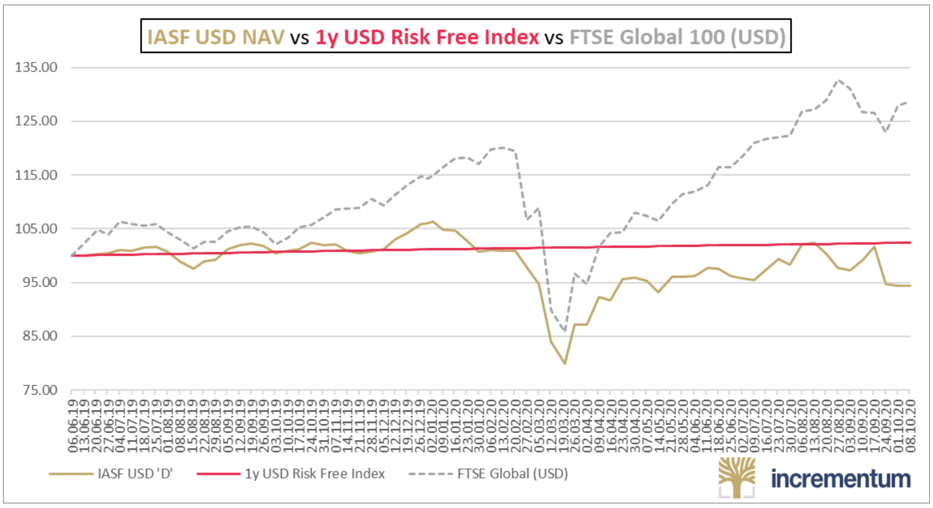
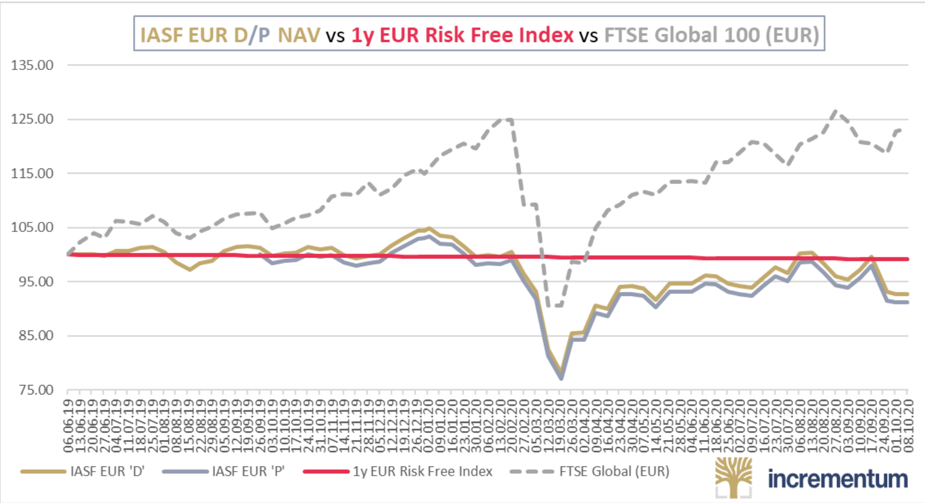
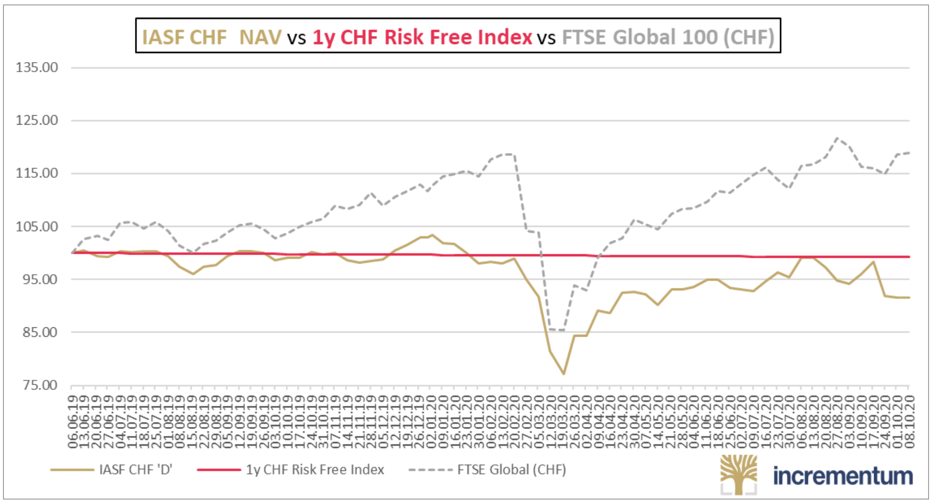
Appendix *







* Graphs display NAV of IASF performance until last valuation date (**26SEP2020**), compared to the respective risk-free 1y-government yield, as well as the FTSE Global 100 Index in respective currency as a proxy for broad 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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