Incrementum All Seasons Fund

– in pursuit of real returns –




2021 / 01

January 2021

Seasonal Reflections

Bubblicious

<u>quote(s) for reflection:</u> (sections in this report written and underlined in blue represent active weblinks)

"There is no escaping that if you enhance liquidity dramatically, the money will go in search for yield and certainly can expose assets to mispricing." (Agustín Carstens, Bank for International Settlement (BIS) GM, Source: Market Intelligence Report by TIS Group, 26JAN2021)

"… it also points to a less funny issue: the ongoing gamification of stocks and the lack of seriousness with which many now view financial markets.
As asset prices decouple further and further from the real economy and a rising percentage of unprofitable companies come to market, a new generation buys a stock not because they believe in the company and its products and want to share in its future profitability. They buy stocks as a substitute for sports gambling or to stifle the unending boredom of the pandemic. They bet their entire stimmy check on deep OTM options in a YOLO move to bragpost @ their online friends." (Source: Off Wall Street and Off-Off Wall Street, Brent X. Donnelly, Epsilon Theory, 21JAN2021)

"The retail frenzy driving GameStop, Bitcoin and suchlike reminds me of my early days as a broker in Malaysia, when the market only ever went up and the hottest stocks had the worst fundamentals. The drivers were retail investors and syndicates. Whizz forward from 1993 and we can replace the word "syndicate" with "chat room". Otherwise, not a lot is different. (Source: James Hay in his Pangolin Asia Fund January 2021 Newsletter, 4FEB2021)

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worthwhile reads: Take Profits!, David Hay, Evergreen GaveKal, 1JAN2021

Seth Klarman compares investors to 'frogs in boiling water', FT, 21JAN2021

For posterity, Almost Daily Grants, 25JAN2021

Hunger Games, Ben Hunt, Epsilon Theory, 4FEB2021

podcasts & videos: The End Game, Ep. 14, Grant Williams & Bill Fleckenstein interviewing Paul Singer, Co-CEO and CIO of Elliott Investment Mgt LP, 22JAN2021

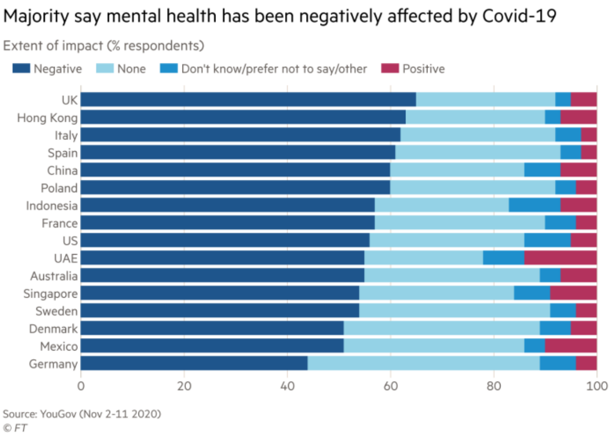
Ships Make The World Go, BIMCO (Baltic & Int'l Maritime Council Org), JAN2021

Cryptocurrencies, Foreign Threats, & the Fight of a Generation, Demetri Kofinas, Hidden Forces Podcast, Episode 176, 25JAN2021

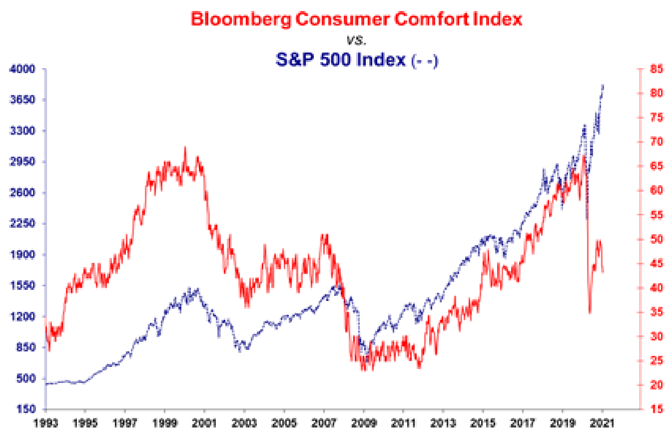
Buy The Dip, YouTube (Descriptive of today's sentiment – of course, I feel like I am the f...... idiot 😉)

Here's How Wall Street Has Always Manipulated the Markets, The Daily Social Distancing Show, YouTube, 3FEB2021

chart(s) of the month:



Source: FT Brussels Briefing, Chart du jour, 27JAN2021



Source: Steph Pomboy, spomboy, Twitter, 28JAN2021

ENJOY!

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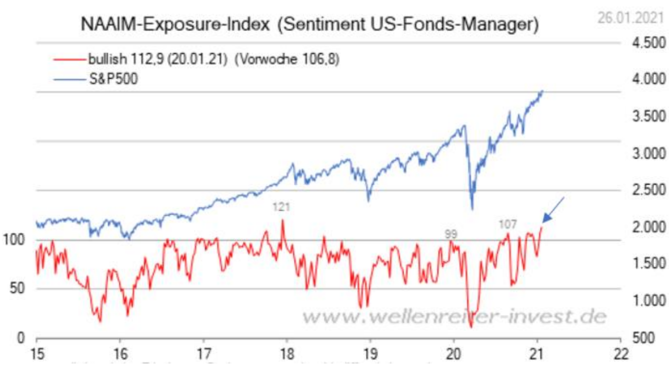
Dear Reader,

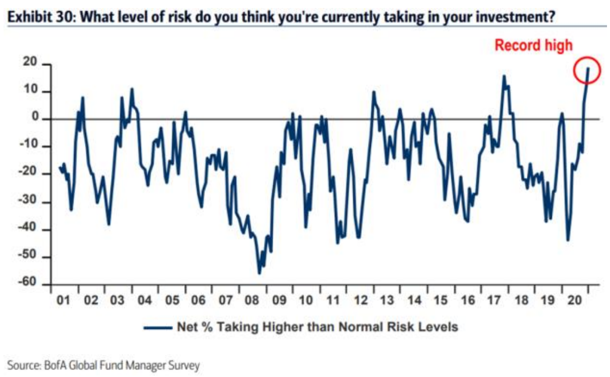
It has merely been a few weeks since I sent out my last Seasonal Reflections with the 2020 Investment Management Review, and normally I would have quit writing anything until April. However, amid the restricting effects of Covid-19, an (occasionally) sheer overwhelming winter, and a new financial market tale for the history books, I have decided to take the opportunity to provide you with a Post Scriptum to my last report, as we truly live in extraordinarily interesting times.

Winter in (or better around) Schaan, 16JAN2021 (HGS own pic)

To illustrate how much this is true for financial market action, I have recorded a weblink to Evergreen GaveKal's David Hay's year opener headlined "Take Profits!" among my **worthwhile reads** on page 2. It represents a rare message in its clarity and in its reasoning, which underscores many of the points I made in my last Seasonal Reflections 2020 / 09. From elevated insider selling to the truly epic spike in call options buying (and related depressed put-to-call ratio), via top-heavy investor sentiment readings, the IPO (Initial Public Offering)- and SPACs (Special Purpose Acquisition (aka Blank Cheque) Company) issue frenzy, all the way to peak equity valuations, he convincingly lays out the arguments supporting his unambiguous headline.

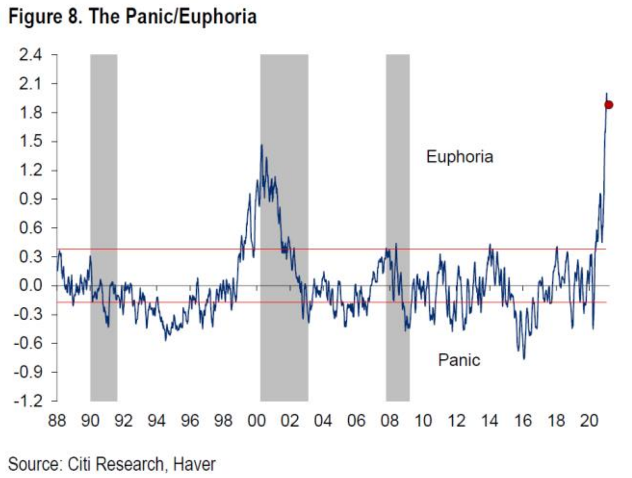
Even fresher out of the press, and just to illustrate that other market watchers cannot help but register the same facts, even if they may come to different interpretations, daily German Investors Newsletter Wellenreiter (www.wellenreiter-invest.de) contrasted fund manager sentiment (ultra-bullish) and risk appetite (record high) on January 26 as follows:





Source (both): Der Wellenreiter, 26JAN2021

And according to [CNBC](#) even Goldman Sachs concedes that (parts of) the market look **bubblicious** - but of course they do not believe there is any reason to worry. After all, they have set a S&P 500 price target of 4300 for year-end, which at the time of my final revision to this piece still leaves another 10% more to go… - Meanwhile, Euphoria levels according to Citi are in completely unchartered territory, far outpacing even the once record-setting year 2000 bubble top. Does that in any way appear sustainable?



Source: [Forever blowing bubbles](#), J Authers, Bloomberg, 25JAN2021

My second **worthwhile read** is a Financial Times' summary of the annual investors' letter penned by Seth Klarman, founder of hedge fund Baupost Group, which once again speaks for itself, and I urge you to read it, even if the ultimate message is hardly unexpected. In my own words: Government policy has destroyed price discovery in financial markets and turned the latter into "[The Grandest Casino](#)".

Lastly, for those who rather prefer listening to reading, I strongly encourage you to spend an hour listening to Grant Williams' excellent **podcast**, [The Endgame, Ep. 14](#), where together with co-host Bill Fleckenstein he had the chance to interview (or rather listen to) Paul Singer, founder, Co-CEO and -CIO of Elliott Investment Management LP, one of the world's largest activist investors and hedge funds. [Fortune](#) magazine once described Singer as one of the "*smartest and toughest money managers*" in the hedge fund industry, but he is also a renowned philanthropist, and his ~~damning critique~~ description of our current economic and financial market predicament, and how we got there, is worth every minute spent listening to. Fascinating, I believe, even for financial "laymen"!

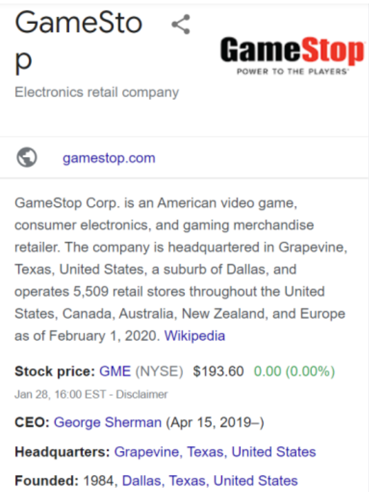
And yet, as always seemingly completely undeterred, equity markets almost managed to climb another step higher in January. In the end, it was the last trading day of the month that caused the FTSE Global 100 Index (USD) to end slightly in the red for the month (-0.5%). This was led by a 2% loss in the Euro Stoxx 50, and not helped by a 1.1% fall in the S&P500.

What has not changed yet is the leadership of the tech-heavy Nasdaq which gained 1.4%, though that was still beaten by China's CSI300. So, for now this is merely a pause in a sheer unrelenting upward scale by global equity markets, and superficially for those with a bearish disposition there seems only the old adage "*As January goes, so goes the year*" to cling to. It would be business as usual if it had not been for the GameStop saga…

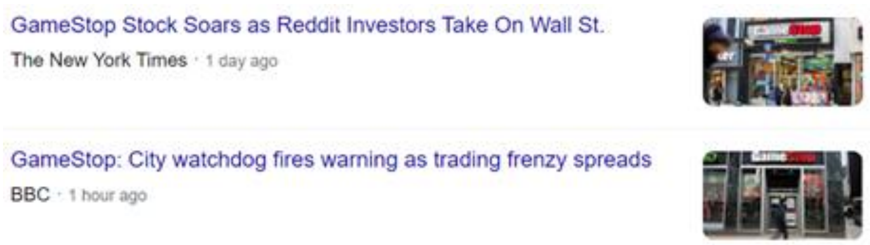
Source: [Mamamia](#), 1FEB2021

For anyone who does not avoid the business news like the plague, GameStop related tales and commentary will likely be familiar. To me the drama that has been playing out during the last weeks of January and into February represents a new climax in speculative activity, which has been rampant for years, and further emphasizes the growing separation of stock market pricing from underlying fundamentals. (Yes, all this thanks to the flood of liquidity unleashed by our friendly central bankers, as even the BIS GM admits to in the opening **quote** on page 1.)

It was as if markets (through the haunting refrain of Bachman Turner Overdrive) in late January were whispering to me "You ain't seen nothing yet"… – And so, I have been watching with growing interest and disbelief a story that has been unfolding around US based GameStop Corp (GME), as well as some of its "peers", which I believe is worth relating here to allow you to judge the state of financial markets at the beginning of 2021.



When googling the company, it is described as a merchandise retailer of video games through its 5,509 stores in the US, Canada, Australia / NZ and Europe, and consequently does not appear all that exciting… – until you peruse the recent headlines.

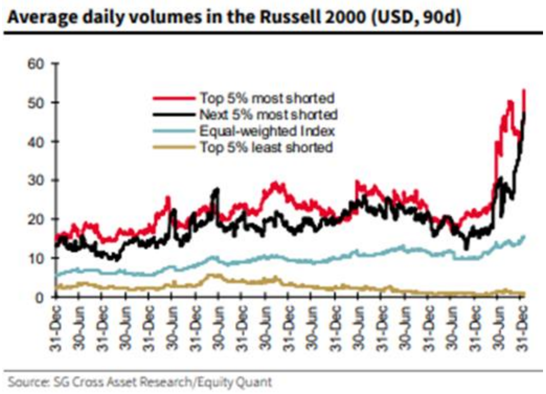


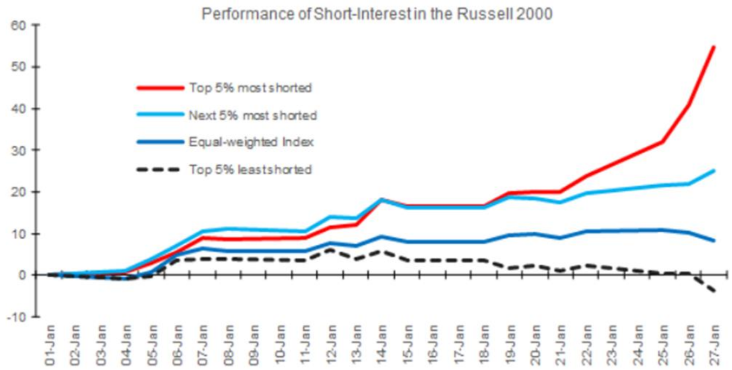
Source (both): Google

Source: investing.com (GME share price until 28.1.)

Financial media at the end of January were brimming with news about retail investor interest in heavily shorted US stocks. It turned out that a band of merry Robinhood and other retail investors had been using social media to setup "betting" groups (most quoted is wallstreetbets on Reddit), and used their combined market power, amplified by margin leverage and via options markets to drive some of the most widely shorted stocks, among them GameStop, to the moon (🚀🚀🚀🚀).

GameStop (GME) was not the only stock that was driven higher in the process, which is demonstrated in the graphs below.





Source: [Outside the GameStop Bubble, Stocks Have Concerns](), by John Authers, Bloomberg, 28JAN2021

But GME was the most heavily shorted counter, and thus figures as the posterchild for this essential pump- (and-dump?) scheme, which caused the share price of an arguably unhip, yet still sizeable business to go vertical. According to its Annual Report 2019, GME registered sales of USD 6.5bn, had 14k employees, and with approx. 70m shares outstanding in early January a market cap of approx. USD 1.4bn (using a share price of USD 20) – so it is not exactly a small company. And yet amid an unprecedented retail buying frenzy the stock soared from less than USD 20 on January 12 (2021) to a high of USD 481 on January 28, i.e. it took exactly 13 trading sessions for the stock to go up **24(!)** times in value.

Other stocks that experienced a similar, though less dramatic fortune were AMC (Entertainment Holdings), a global chain of movie theatres, which saw its share price go up 10 times between January 12 and 27, and even IASF's Nokia, which rose from EUR 2.25 to a peak of 4.95.

With over 3 decades of investing experience under my belt, I thought I had seen the lot, but the GME saga clearly tops it all. That it has been a mass retail phenomenon is evidenced by my daughters approach me on the subject, while two friends I talked to recently also had their sons seek their advice on the subject of buying stocks in general, and GME in particular. – Beware the power of Social Media!

So, let's introduce the main "characters" of this play: First, there are forums like the aptly called "wallstreetbets" on Reddit, where "investment ideas" are posted and ~~speculators~~ members chat about their investment successes, their hate of and disgust about Wall Street / hedge funds / bailouts, and their desire to bring the system down while benefiting from the process and getting rich. If that sounds somewhat revolutionary, it probably is. GME has become their most high-profile (corporate) target to-date because it had essentially its entire share count shorted. In other words, investors / hedge funds had analysed the company and concluded it was a dying business, which is why they borrowed shares and sold them with the aim of buying them back later at a lower price (which is a brief description of what "shorting" means).

That crowd of young and ~~desperate~~ hopeful investors has been using a "free trading" app called Robinhood (obviously named after Robin Hood, the long-stockinged hero of my youth whose motto was *Take From The Rich & Give It To The Poor*) and similar online brokerage platforms to place their bets. And since trading is free of charge, margin lending easily available, and speculating in options encouraged, Robinhood got centre stage in the unfolding drama, as it facilitated a significant part of the retail order flow into GME.

But wait, I hear you asking: Why is trading free of charge on these platforms???

Well, as with many modern online / platform businesses, if it is free you are the product. Online brokerages like Robinhood generate most of their revenues from

- net interest (on cash deposits held with the broker, which at least in the US still "yields" a positive nominal interest rate),
- securities lending (i.e. lending securities held on behalf of their clients to – yes, short sellers, for a modest fee)
- credit margin (by enticing clients to take advantage of these spectacular opportunities in stock market La La Land in a leveraged fashion via margin lending, at a modest interest rate)
- and last but not least from payment for order flow.

Now the latter may require a little further explanation for which I refer to Epsilon Theory's Ben Hunt, who in his aptly titled "Hunger Games" (another worthwhile read) explained this as follows:

"Last year, Citadel Securities, the market maker division of Ken Griffin's financial empire and the largest market maker that executes retail trades, made $6.9 BILLION in net trading revenues. That's more than twice their prior best year. They did this without taking ANY market risk. NONE.

Every time you push that button on Robinhood to buy something, Citadel Securities matches you with the seller and tells both of you what price you got. Every time you push that button on Robinhood to sell something, Citadel Securities matches you with the buyer and tells both of you what price you got.

And in that infinitesimal point in time when there is a tiny difference between what a buyer bids for a security and what a seller asks for a security, an infinitesimal point in time when Citadel Securities is BOTH buyer and seller of that security, an infinitesimal point in time that exists for EVERY market order that has ever occurred in the history of man … Citadel Securities is there.

They pocket that tiny difference. Not so tiny in the case of options. Definitely not so tiny when volatility spikes and that bid/ask spread widens dramatically. That's what a market maker does, and that's why they are the masters of this game. They literally make the market.

Citadel Securities doesn't care if you're buying or selling.

Citadel Securities only cares that you ARE buying or selling." (Source: Hunger Games, Epsilon Theory, a worthwhile read, indeed!)

If anyone wants to dive further into the subject, I recommend reading Michael Lewis' Flash Boys, which although a few years old tells the story about high-frequency trading firms and their alternative market places in his usual insightful, yet entertaining fashion.

So, now we have our major players, including of course a couple of hedge funds, most prominent among them Melvin Capital, who because of its outsized (and likely overleveraged) short position in GME stock had to be bailed out by… – hold, while the drums are rolling:

"Hedge fund giants Steve Cohen and Ken Griffin are joining forces to bail out a fellow trader whose positions in runaway stocks like GameStop have been getting hammered.

Griffin's Citadel and Cohen's Point72 Asset Management are investing a combined $2.75 billion into Melvin Capital Management, which has seen its recent bets on stock declines thwarted by a small army of investors with get-rich-quick dreams.

The fund, run by ex-Cohen lieutenant Gabe Plotkin, is down 30 percent, the Wall Street Journal reported.

The bailout comes as retail investors swarm online forums like Reddit board "wallstreetbets" to push each other to invest in cheap stocks with short positions against them using no-fee trading sites like Robinhood.

GameStop, which Plotkin has been betting against, had a short interest of 102 percent of its outstanding shares on Friday, making it a prime target for sending a stock higher through what's known as a short squeeze." (Source: This short seller just got a $2.75bn bailout, New York Post, 25JAN2021)

Ok, let's recap: We have coordinated (pump-and-dump-?) **retail buying** in a highly shorted stock (**GME**), which has driven retail investors trading volumes to the moon, through an **online broker** that provides "free" trading to the masses, a **short selling hedge fund**, which was obviously too highly leveraged and required a bailout in order to survive and cover its shorts, and got this from the ~~Flash Boys~~ finance wizards / **high frequency trading firms**, who benefit the most from the ongoing gamification of investing and thus are likely most eager to avoid any appearance of "systemic risk"… - You can't make this stuff up!

But wait, I hear you asking, what happened then? – Well, Melvin Capital – thanks to the bailout by its friends at Citadel and Point72 – managed to cover its shorts (i.e. buy back the originally sold shares at far higher prices), and is now ready to go and recover its losses by entering other (highly leveraged) positions. Meanwhile, Citadel and Point72 have probably had another bumper month, and with retail investors on the hook this also promises to be an even better year than last year.

But what about the GME share price? – Well, there is another twist to this tale. As GME stock was heading for the stratosphere on January 28, Robinhood (and Interactive Brokers) restricted trading in GME stock, partly by no longer allowing buying (but still selling), partly by raising margin requirements on the stock. – Hmm, you wonder what that did to the GME share price, and thus the hopes of all the would-be-millionaires putting their savings / borrowed funds / government cheques on the line?

Source: investing.com (GME price until 28.1. & beyond to 4.2.)

Naturally, if investors are only allowed to sell, and / or are facing increased margin requirements, the moon-shot fizzles out, and the rocket succumbs to gravity, as can clearly be seen in the graph above, which a week later shows GME's share price around the USD 50 level or approx. 90% below its peak.

But how could they do this, I hear my daughters ask? – Isn't this unfair?

I guess you could call it that, if you are ignorant of the financial plumbing that helps facilitating share trading. But then again, perhaps it takes more to informed decision-making than buying the most shorted stocks and make a killing… – US brokers have to settle their clients transactions through the Depositary Trust & Clearing Corporation (DTCC), and as this is done on a T+2 (Trading Date + 2) basis, it involves credit risk for which connected brokerage houses have to post margins. These margin requirements depend on the volatility in the securities the brokerages transact in, and with a significant part of Robinhood's order-flow in the last week of January consisting of excessively volatile GME et al. shares, those margin requirements went through the roof.

Quoting Financial Times: "*Robinhood chief executive Vlad Tenev late on Sunday said that its equities clearing house had asked for $3bn of margin deposits overnight on Thursday — during a week marked by chaotic trading in stocks popular with its users — before negotiating a lowered sum of $700m, after the company limited trading in certain stocks.*" (underscore mine)

Source: Financial Times, 1FEB2021

USD 700m, let alone 3bn, is not exactly small change for a start-up online broker to come up with, and of course without the intervening trading halt and increase in margin requirement, it may have threatened Robinhood's solvency. Hence, they had to do this ~~to protect their 10+ billion dollar PE valuation for a potential IPO~~ to protect retail investors from excessive speculation, or so the story goes…

Look, I know this leaves plenty of room for speculation and interpretation of these events. At the time of writing these lines (Sunday, February 7), things have calmed down. GME's stock was up 19% on Friday, closing at 63 and change on a daily trading volume of more than 80m shares (over 100% of its issued stock), which suggests that this story may or may not be over yet. – I still wager it is.

When we look back and count all the cost, what can we conclude?

First, the revolution of the retail investing masses has failed. Sure, Melvin Capital and some other hedge fund guys probably had a rough week and may have broken a sweat about the losses that were rapidly accumulating, but they are professionals and pulled out, and they live to fight another day.

Smart Reddit bros will have already sold out to the Greater Fool, but those who got in late are sitting on heavy losses, and even Diamond Hands 💎✋ are unlikely to prevent their eventual realization. Moreover, this whole tale provides additional evidence for the heightened state of feverish attention the wide public is paying to the stock market, as speculation seems to have replaced sports betting.

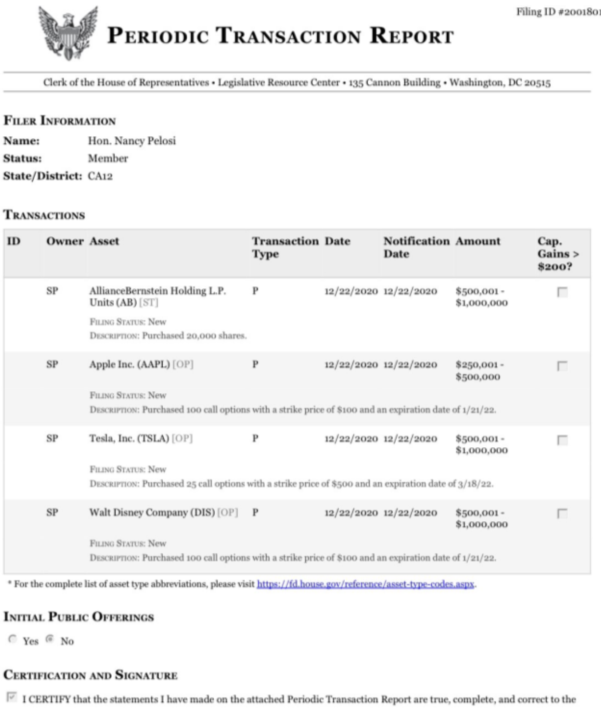
"I'm sure there's something to be said for the financials AND the FANGs. Now, let's play ball, shall we?"

(When Art Means Business, American Consequences, JAN2021)

GME had its days in the limelight, though to my knowledge they failed to capitalize on the share price spike by issuing new equity, which may or may not have helped them to turn the business around. AMC managed to do so, and its own unexpected share price spike allowed major investor Silver Lake to extract itself from a doomed investment in a profitable fashion.

The Flash Boys ensured that this did not turn into a systemic issue and brokered the bailout of Melvin Capital and likely Robinhood, who can still go on and pretend that they were forced to restrict trading amid exploding margin requirements. How much that decision has ultimately taken from the poor remains to be seen…

And the regulator, whom I have so far completely failed to mention, will do what politicians are always good at doing, namely demand an investigation, hold a couple of hearings, and eventually even slap some wrists and levy some (modest) fines, which will then be sold as "investor protection". In the end, there are too many "shared interests" between politicians and big business. A suitable example was delivered by a recent SEC filing which revealed that House Speaker Nancy Pelosi on 22DEC2020 had bought call options on Apple, Tesla and Disney, all maturing in 1Q 2022, paying anywhere between USD 1.25-2.5m for these options. – Surely, no potential conflicts of interest could ever arise from holding such positions…



Filing ID #20018011

PERIODIC TRANSACTION REPORT

Clerk of the House of Representatives • Legislative Resource Center • 135 Cannon Building • Washington, DC 20515

FILER INFORMATION

Name: Hon. Nancy Pelosi
Status: Member
State/District: CA12

TRANSACTIONS

ID	Owner	Asset	Transaction Type	Date	Notification Date	Amount	Cap. Gains > $200?
	SP	AllianceBernstein Holding L.P. Units (AB) [ST] FILING STATUS: New DESCRIPTION: Purchased 20,000 shares.	P	12/22/2020	12/22/2020	$500,001 - $1,000,000	☐
	SP	Apple Inc. (AAPL) [OP] FILING STATUS: New DESCRIPTION: Purchased 100 call options with a strike price of $100 and an expiration date of 1/21/22.	P	12/22/2020	12/22/2020	$250,001 - $500,000	☐
	SP	Tesla, Inc. (TSLA) [OP] FILING STATUS: New DESCRIPTION: Purchased 25 call options with a strike price of $500 and an expiration date of 3/18/22.	P	12/22/2020	12/22/2020	$500,001 - $1,000,000	☐
	SP	Walt Disney Company (DIS) [OP] FILING STATUS: New DESCRIPTION: Purchased 100 call options with a strike price of $100 and an expiration date of 1/21/22.	P	12/22/2020	12/22/2020	$500,001 - $1,000,000	☐

* For the complete list of asset type abbreviations, please visit https://fd.house.gov/reference/asset-type-codes.aspx.

INITIAL PUBLIC OFFERINGS

○ Yes ◉ No

CERTIFICATION AND SIGNATURE

☑ I CERTIFY that the statements I have made on the attached Periodic Transaction Report are true, complete, and correct to the

Source: Sawyer Merritt, @SawyerMerritt, [Twitter](), 24JAN2021

A cynic might say that in the end, big business and big finance colluded and brought about an outcome that averted any serious harm to the system and secured their profits, and politicians will just go along with it. – I would not disagree.

"Excuse me, I forgot. Do I work here?"

(When Art Means Business, American Consequences, JAN2021)

But for the main conclusion I personally draw from this unfolding story, I refer to my second opening **quote**, which particularly resonates with me, as it is my long-held conviction that the art of investing has been widely replaced by (either mindless passive investing or) a passion for gambling.

Although it would be ironic if the GameStop saga were to put a stop to the gamification of investing, I am not holding my breath. The lure of getting rich quick is powerful, and in our current pandemic-stricken times, it is important to occupy the masses. Panem Et Circenses seems to have been rediscovered, as we all sit at home increasingly immersed in the virtual world.

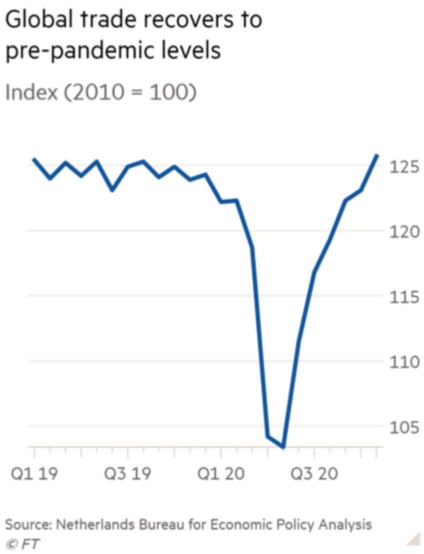
Does the power of social media as exemplified by wallstreetbets change the game? – Of course not, as it only contributes to the lure of the game. If anything, I wonder whether it does not simply open the doors for ruthless stock promoters (here you may want to reread the third **quote** on page 1) to engage in good old-fashioned pump-and-dump schemes. Meanwhile, "free trading" certainly also bears responsibility for this mega wave of retail buying, which will see money lost by people who cannot afford it and are playing a game for which they are significantly handicapped. Caveat emptor (buyer beware)!

There is a lot more that could be said about this whole story, but ultimately it demonstrates that investing is more complex than simply forcing a bunch of investors to buy a highly shorted stock at escalating prices. It also suggests that if this equity bull market required mass retail participation for marking a top, we may be awfully close.

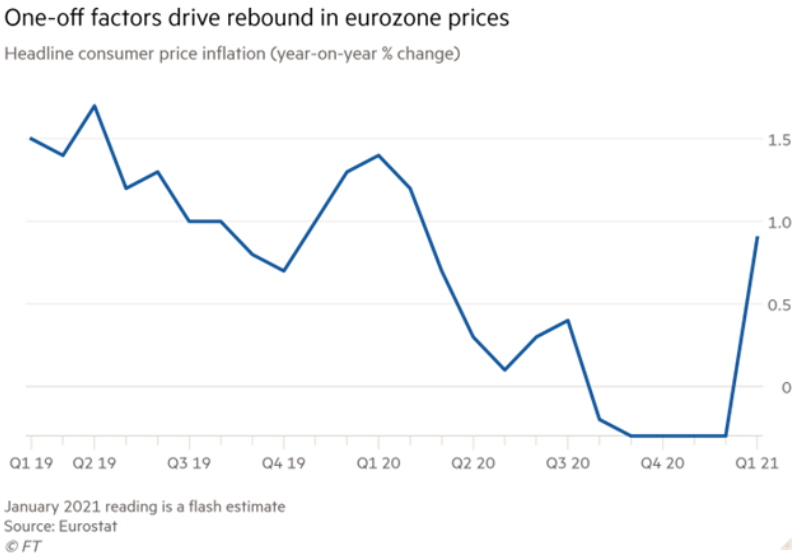
2021 – More of the same

Well, for a P.S. this has become a rather expansive piece, so I would like to round it out with a few additional graphs and related thoughts.

Frist of all, despite of renewed Covid-19 containment measures, global trade continues to recover, because even when people stay at home it seems they are not inclined to stop spending.



Source: FT Trade Secrets, 28JAN2021



Source: Financial Times, 4FEB2021

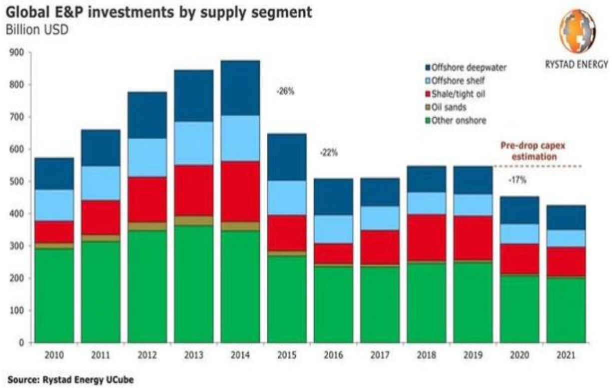
At the same time, the rate of inflation is obviously rising. Whether this is only temporary or not will remain to be seen. The above (with the graph on the right) quoted article on the recent rise in EU consumer price inflation argues this may be due to temporary effects:

"The fastest jump in more than a decade was driven by a combination of one-off factors rather than a revival in underlying demand, as many of the bloc's shops, schools and leisure venues remain closed due to lockdowns to stem the spread of the virus.

The reversal of a temporary reduction in German value added tax at the start of this year played a role, as did higher energy costs and supply chain disruptions that have raised container shipping prices for retailers and manufacturers. …

An annual revision in the weightings used to calculate inflation also pushed up average prices, as more weight was given to products for which demand had increased, such as food, and less to products hit by the pandemic, such as packaged holidays." (Source: Eurozone inflation jumps by most in over a decade, Financial Times, 3FEB2021)

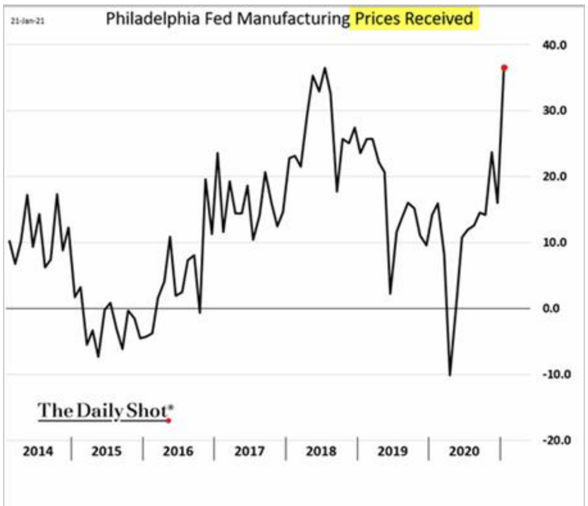
Sure, the reversal of a temporary reduction in German VAT is a one-off factor, which however was similarly one-off in nature when it was lowered last year. To call the annual revision in the weightings used to calculate inflation one-off is more daring. In any case, when the weightings used reflect Covid-19 influenced consumer behaviour, it seems to be a truer reflection of actual inflation than the pre-Covid-19 weightings used last year…, a phenomenon I referred to in my January SR (p. 11).



Source: Let Them Eat Cake by Lyn Alden Schwartzer, 28JAN2021

Other factors are unlikely to be one-off in nature, though. Rising commodity prices or increased global logistics cost may be in effect for years to come, as they reflect a growing supply / demand imbalance following years of underinvestment. This could have an even more dramatic short-term impact if base case expectations of a strong demand recovery amid a post-vaccination reopening of our economies materializes.

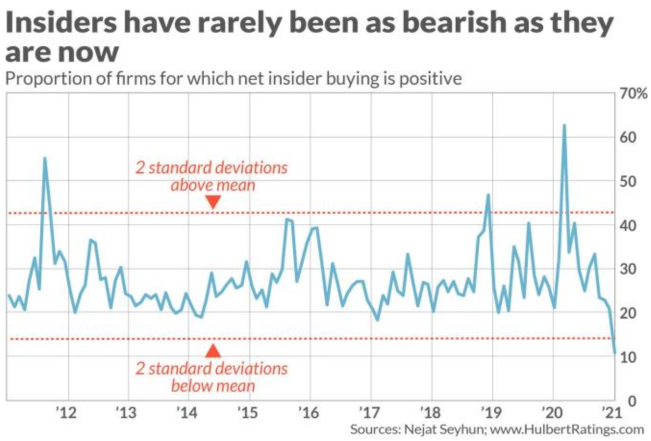
In the USA, a weaker USD is expected to strengthen inflationary pressures. The Philadelphia Fed's manufacturing indices on the following page already show not only elevated prices paid, but also prices received, which are approaching the highest levels over the past decade. In other words, manufacturers are already passing on pricing pressure. After all, there are always quarterly earnings estimates to beat…



Source: Ronnie Stoerferle, @RonStoeferle, Twitter, 24JAN2021

Hence, at Incrementum we continue to expect that the recent rise in inflation and inflation expectations will turn out more than just a temporary phenomenon.

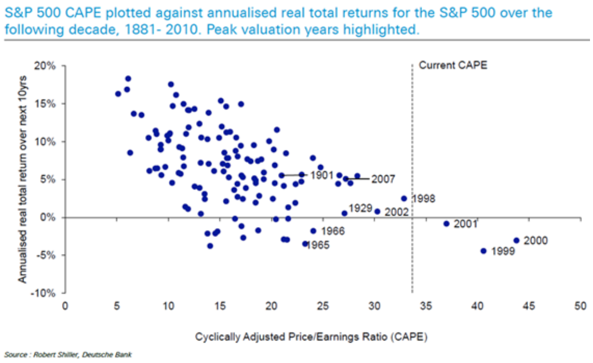
Allow me to finish with some charts concerning equity markets, which at the time of writing (8.2.) have resumed their upward trend. Thus, despite of record levels of insider selling in US stocks, the bulls remain firmly in charge.

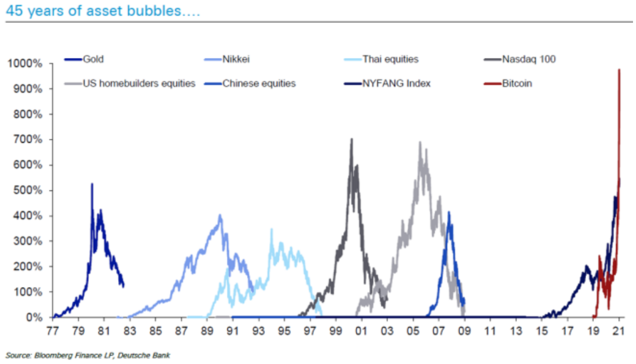


Source: Jesse Felder, @jessefelder, Twitter, 31JAN2021

Source: Hedgeye Cartoon of the Day, Happy Bull, 26JAN2021

All this despite of the fact that US stock market valuations remain at record high levels. As the graph on the top left on the following page shows, current levels of the **C**yclically **A**djusted **P**rice **E**arnings (CAPE) ratio (aka Shiller PE) suggest negligible to negative 10-year forward return expectations for the coming decade, which I doubt neither the pros nor the Reddit bros are figuring into their own expectations. Will it be different this time? – Perhaps, but then again when has it ever truly been?





Source: Is there a bubble in financial markets, Deutsche Bank Presentation, 21JAN2021

At the same time, the recent past has been featuring some rather spectacular bubbles. Of note is the bubble in the NYFANG Index, which is a New York Stock Exchange index of the original four prominent US major technology companies, for which the acronoym FANG (= **F**acebook, **A**mazon, **N**etflix, **G**oogle) was created, an index that in the meantime has been expanded to FAANG+ (and beyond) in order to capture all the growth stocks investors have been chasing for years now. The other spectacular bubble is the one in Bitcoin, which is clearly advancing at a record-setting pace.

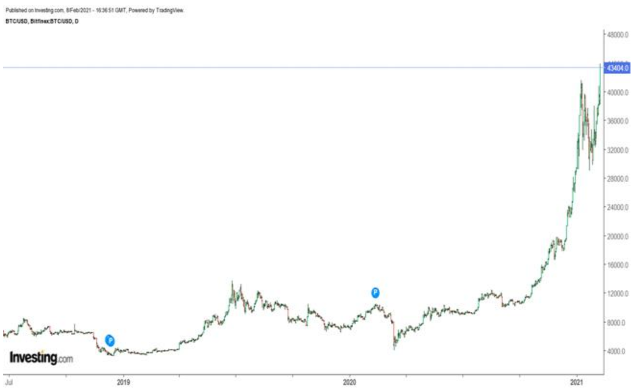
Source: Is there a bubble in financial markets, Deutsche Bank Presentation, 21JAN2021

I close with a relative index of S&P500 vs CRY (**C**ommodity **R**esearch **B**ureau) Index, which suggests that over the past 100+ years stocks have never been as expensive compared to commodities. Though this is no guarantee for an imminent reversal, it indicates the state of relative pricing. If we assume a reversion to the mean over the course of this year and next, IASF should be well positioned to benefit from it.

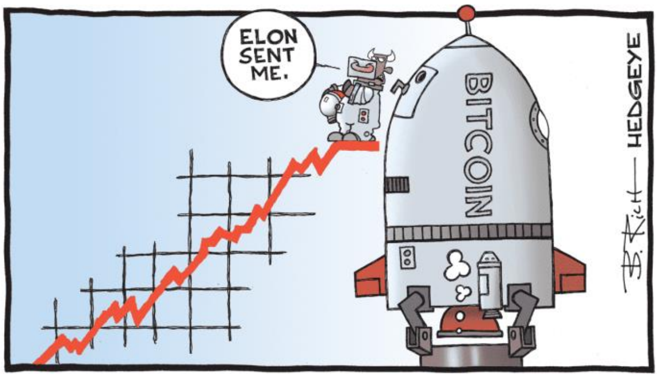
REMINDER: This report is for information purposes only. As responsible fund manager for IASF all my views expressed herein, and particularly those concerning fund holdings must be considered biased and are not tailored to my readers' individual needs. Although I use great care in writing this commentary, it reflects my personal views and opinions, and as all we 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.

closing remarks

On the day that Tesla announced its purchase of USD 1.5bn worth of Bitcoin and its intention to accept it as payment for its cars, which had the inevitable effect to extend the biggest bubble of the past half century even further, this piece may seem superfluous, written by an old-timer (can't believe I have just labelled me thus), who is so out of touch with these modern times, that he just does not get it.



Source: investing.com



Source: Hedgeye, Cartoon of the Day: Rocket Fuel, 8FEB2021

Alternatively, it may rightfully point out speculative excesses that ultimately reflect the accelerated debasement of money we have been witnessing over the past decade… – After all, what is money actually worth, if all manner of "asset"-prices explode like they have been doing recently?

No doubt, I am wondering why "investors" are putting their hard-earned money, or the funds they should at least have a fiduciary obligation towards, into stocks that have fancy stories to tell, but whose main attraction is that they are going up, and whose promise of decent profitability and ultimately a dividend as the most important reward (and risk compensation) to the investor is moving further and further into a distant and unpredictable future?

What kind of mindset has "investors" (including the institutional and corporate type) pile into cryptocurrencies like Bitcoin? Rationally, it may be because they have realized how tight this market actually is, where few willing sellers are meeting a rush of indiscriminate and to a large degree leveraged buyers, and thus the prevailing supply / demand situation is boosting prices. But from my and a longer-term perspective, the growing list of increasingly high-profile promoters, the complete disregard of the environmental impact of the Bitcoin network, which consumes 0.5% of **global** energy production, as well as the flood of new products launched in this area, has my bubble alarm bells ringing. That will eventually be a problem for all pure play products, which is why I rather prefer an investment into our Incrementum Digital & Physical Gold Fund, which has not only been excellently managed by my esteemed colleague Mark Valek, but contains physical gold and silver as diversifying hard assets, while it has benefited hugely from the enormous volatility in the sector.

And finally, what does it say about the state of investing, when the ultimate value investor, Warren Buffett, has become an also-ran in the major billionaires' league table, which is now led by a man who clearly has had visionary ideas, but has ultimately only succeeded because he happened to live in times of ultra-easy monetary policies, and despite of his at times rather poor execution. Nikola Tesla must be turning in his grave from envy…

For treatment of coronavirus, depression, recession, bear markets, unemployment, debt contagion, deflation anxiety, ecoanxiety and political risk. Take as directed.
(When Art Means Business, American Consequences, JAN2021)

Such an irresponsible monetary policy, which through its Quantitative Easing (QE) policies has been manipulating financial market prices, including the most important price of all, namely the cost of capital, will ultimately be held responsible for creating the largest asset bubble in history.

As investment managers we are fully cognizant of these circumstances and consequently seek to prudently steer our investors' funds through such treacherous bubbly waters.

IASF Month-Over-Month NAV Change

January 2021 (1.1.-28.1.)

EUR-D	106.38	2.85%
USD-D	108.98	3.01%
CHF-D	104.86	2.77%
EUR-P	104.47	2.83%

In January that worked out well, with all IASF share classes in positive territory, even if we had to give back more than half of the gains registered by mid-month. For more details, please refer to the Appendix and our fund factsheets. In case more specific questions arise, investors are welcome to contact us directly.

So much for a long-form P.S. to Seasonal Reflections 2020 / 09. As always, I welcome readers' feedback by e-mail, and sincerely thank you all for your interest and our investors for their trust and support. And for my Chinese friends and business partners I wish you all a happy and prosperous Year of the Ox. – Kung Hei Fat Choy!

Greetings from Schaan, Liechtenstein!

Best regards,
Hans

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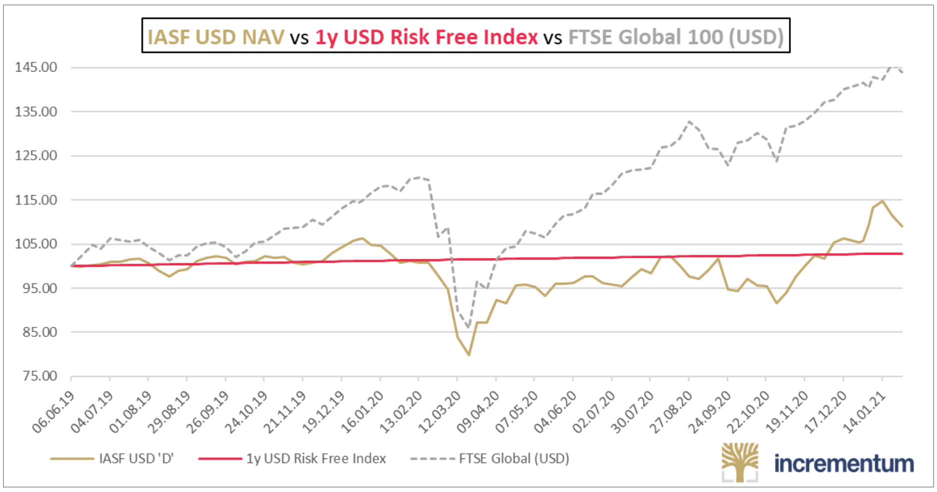
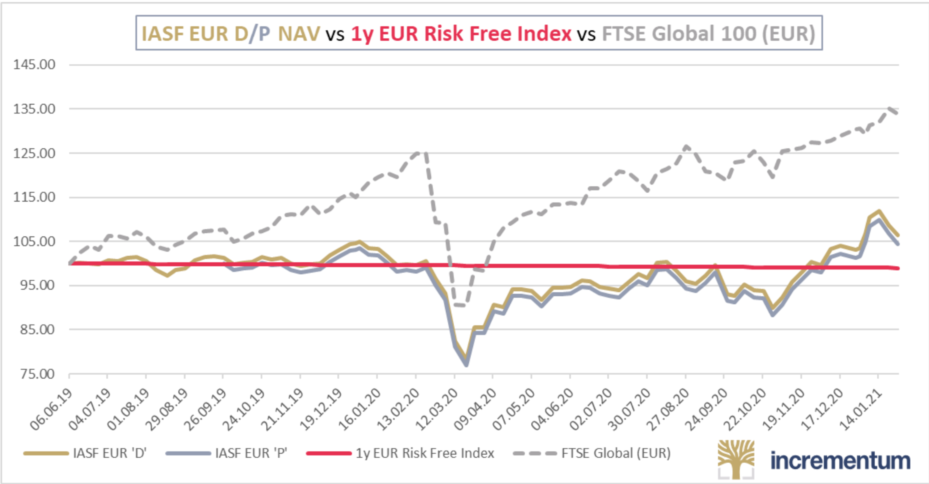
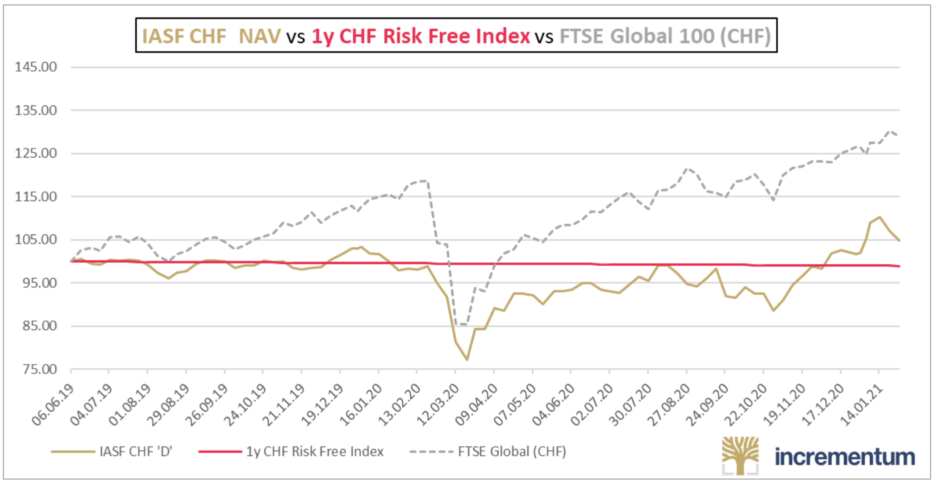
Appendix *







* Graphs display NAV of IASF performance until last valuation date (**28JAN2021**), 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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