



**IceCap**  
Asset Management Ltd.



Local heritage,  
Global experience.

Our view on global investment markets:

*July 2015 – Elementary my Dear Watson*

Keith Dicker, CFA

Chief Investment Officer

[keithdicker@IceCapAssetManagement.com](mailto:keithdicker@IceCapAssetManagement.com)

[www.IceCapAssetManagement.com](http://www.IceCapAssetManagement.com)

1-902-492-8495

## One more thing...

If you're into mysteries, there's certainly no shortage of them around the world. Enjoying them is one thing, solving them is quite another.

In the mystery solving world, Sherlock Holmes was clearly heads, hands and feet above everyone else. His unorthodox thinking was the key to solving the mystery behind the Hounds of Baskerville, while shrewd decision making always proved valuable when up against the maniacal Moriarty.

Lieutenant Columbo meanwhile, was also a sharp cookie. Whereas Sherlock dove straight into a mystery and aggressively confronted his foes, the affable Columbo excelled at bumbling around the problem which caused his foes to underestimate him. Which of course, always helped everyone's favourite detective gather more clues and crack the case.

Mysterious hounds and mysterious criminals certainly help keep our minds razor sharp as well as entertained. Yet, perhaps the biggest mystery in the world today involves - *pension plans*.

Many people have them, and most people fully know what their eventual pension payout will be. Unfortunately, the average person doesn't know how their pension plan is actually taped together, and fewer still, appreciate that the "promise" of their "eventual pension payout" is not as guaranteed as they may believe.

Let's leave no doubt - considering the mysterious complexity of these plans, to understand them one must certainly be a sharp cookie – that's the easy part.

However, to *fully* understand them, one must use unorthodox thinking and make shrewd analytical decisions. Last but not least, never underestimate how today's financial environment is about to leave many pension plans scratching their heads with confusion and despair.

Our previous [Global Market Outlook "Right on Target"](#) discussed [Defined Contribution](#) Pension plans and why they will be significantly affected by the upcoming crisis in the bond market.

For this Global Market Outlook, we are writing about [Defined Benefit](#) Pension Plans. They too will be affected by the bond crisis. But whereas individuals will be affected in Defined Contribution Pension Plans, both individuals and their employers will be affected in Defined Benefit Pension Plans.

The big difference of course, is whether your employer is a company or a government entity.

### **DBP vs DCP – the big difference**

The main difference between Defined Benefit Plans (DBP) and Defined Contribution Plans (DCP) all boils down to who ultimately bears the risk.

## It's complicated

For DBP, the ultimate risk is with the employer. After all, if the investments do not grow to what is needed to make pension payments – the employer must make up the difference.

On the other hand, DCP are set-up so that the employee bares all the risk. On retirement day, if there isn't enough money in the investment pot – tough luck. Don't go running to your employer – you, and only you are responsible for ensuring you have enough set aside.

If you don't have enough, you'll have to either scrape and scrounge to make ends meet, continue working, or maybe move in with your kids (provided they are not already living with you).

Recognising this key fact will help you understand why practically all employers today have moved towards DCP. After all, if you had a choice whether to accept or reject any risk that carried no return – you would choose to reject the risk, every single time.

This is exactly what employers have done by moving towards DCP.

### The Defined Benefit (DBP) Pension Plan

Few people today know why, when or how pension plans were created. They're just there, and if you are a member of a pension plan, the financial burden of retirement has been greatly relieved.

If only that were true.

In fact, today pension plans have become so large and systemically important - not only from a financial perspective, but also from a social and political perspective, that they are fully entwined and exposed to the perils created by today's bizarre investment environment.

The key to understanding pension plans is knowing that they are one gigantic pool of money - meaning there are a lot of individuals, agencies, consultants, investment managers, accountants, actuaries, lawyers, record keepers, administrators, corporate trustees, performance measurement analysts and other service providers lined up to offer their help; all for a fee of course.

**Weeding through this convoluted scheme, there is only one thing you need to know to solve the pension mystery:**

- pension funds rely upon an estimated rate of return for valuing the financial health of the fund, and
- it has become virtually impossible for them to achieve this return

### The First Step

The first step in de-mystifying the DBP, is simply understanding that it has 2 dimensions: 1) Assets 2) Liabilities

Assets	Liabilities
All contributions and investments	All current & estimated future pension payments

## Things get tricky

The Assets for all DBP's are a consolidation of the contributions from the employer and the employee and the resulting investments. Investments can include many things but commonly include stocks, bonds, and real estate.

The Liabilities represent all the money that needs to be paid out of the fund and is called the PBO (pension benefit obligation). The most prominent obligations are the current and future pension payments, as well as healthcare premiums.

This however, is where things get a bit tricky due to a fair bit of educated guessing taking place. The very best actuaries sharpen their spreadsheets and guess:

1. when most employees will die
2. what their future salary will look like
3. how long she will work for her employer
4. the rate of inflation
5. an appropriate discount rate

There are a few other moving parts, making it even easier to see how slight changes in one component can really change the liability picture for a pension plan.

Now, the next step is where the pension mystery really turns interesting. The difference between what the pension fund owns and what it owes is called either a surplus or a deficit.

Assets	Liabilities
All contributions and investments	All current and estimated future pension payments
Deficit	

If the actuaries determine that the pension fund has more than enough money to make all present and future payments, then the pension plan is said to be in a SURPLUS position.

On the other hand – if the pension plan does not have enough money available, then it is in a DEFICIT position.

Around the world today, the vast majority of DBP are running a deficit. Many plans are running close to a 20% deficit. – incredibly, this is considered to be healthy. Other plans such as the Illinois Public Pension Plan is running a 50% deficit – clearly this isn't healthy.

If your plan is in a surplus position today, we suggest your pension plan is in a very rare and favourable financial position.

## It has never happened before...

Where things become especially mysterious, is how the Assets are valued. This is where the pension plan uses an estimated or expected rate of return to value their assets over the long-term.

What makes this such a high alert/danger zone warning is that very few of the consultants and actuaries involved with pension plans understand and appreciate the bubble that has developed in the global bond market.

No one alive today, has ever experienced a global bond bubble, and because it has never happened in the recent past, practically everyone in the investment and pension industry does not believe in the bubble, or what will happen once it pops.

And when the bond bubble pops, it will have significant long-term effects on pension plan assets and their financial health.

### Pension Plan Assets

Everyone knows their pension plan owns stocks and bonds. What few know is how they are actually valued.

Because stock and bond markets can be very volatile in the short-term, and pension plans provide benefits over the long-term, many argue that it is unfair to determine the financial health of a pension plan based upon short-term, recent market performance.

Unless of course, the short-term market performance is exceptionally

good – then the above doesn't apply.

However, if markets whipsaw around like they did in 2012, 2009, 2008, 2002, 2001, 1998, 1994 (we could go on but...), then pension plan consultants prefer to smooth out these return fluctuations when reporting their financial check-up.

The main tool used for smoothing returns is called the Expected Rate of Return. It isn't the actual rate of return, but rather, it is an estimate of what the pension plan will earn over the long-term.

Now, here's the trick – the higher the expected rate of return, the higher the expected value of plan assets.

The higher the expected plan assets, the lower the expected deficit.

And, the lower the expected deficit, the lower the expected contributions that is required by the employer.

Note: these expected returns are theoretical - not actual.

In a nutshell – high expected rates of return are good. But only good if they retain a semblance of reality. And since most people live in reality, the expected rate of return used by pension plans should also resemble reality.

## Don't live in the past

And this brings us to the very big problem for pension plans today. Theoretical or expected returns used by pension funds today are nowhere close to what may be earned in reality.

### 60% Stocks + 40% Bonds

In order to better appreciate reality, one must first understand that most pension funds typically hold about 60% in stocks and 40% in bonds.

The popularity of DBP pension funds really surged in the 1980s only to plateau in the 1990s. And during that time, a diversified portfolio with a roughly 60-40 split almost always produced a really nice return experience, which made everyone really happy.

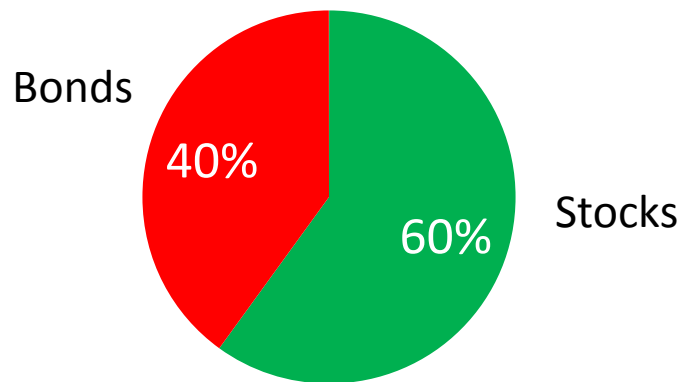
And since all of today's consultants cut their teeth during this period, or learned from people who worked during this period – then a balanced 60-40 split will do just fine for everyone today. After all, the 80s and 90s happened over 25 years ago. For any investment strategy to endure over that amount of time, it must be good.

Unfortunately, due to high expected rates of return, many pension funds are actually living in a fantasy world.

Case in point, consider the Expected Rate of Returns for:

- Ohio Police & Fire Pension Fund = +8.25%
- California Public Employees Retirement System = +7.50%

### Structure of typical pension plan



More conservative Expected Rates of Return can be found with:

- Nova Scotia Public Service Superannuation Plan = +6.50%
- Healthcare of Ontario Pension Plan = +6.34%

To the naked eye, these return expectations may appear quite reasonable – after all, we've always been told that over 100 years, the stock market always averages 10% annual returns or higher.

However, our regular readers know that it isn't the stock market that worries us. Instead, it's the bond market that should be keeping people awake at night.

Yet, even long-term stock market returns have a major flaw. For starters, the 10% number comes from the well-known Ibbotson/Morningstar studies which show that since 1926, the US stock market returned 10% annually.

# The average return never happens

With almost 90 years of history, this must be pretty darn accurate. However, if the Ibbotson study started 20 years earlier, the annual return declines to about 7% a year (source: Crestmont Research).

Think about this; a 90 year study shows a 10% annual return, but a 110 year study shows a 7% annual return. That's a pretty big difference, and certainly throws doubt on what exactly is the long-term average.

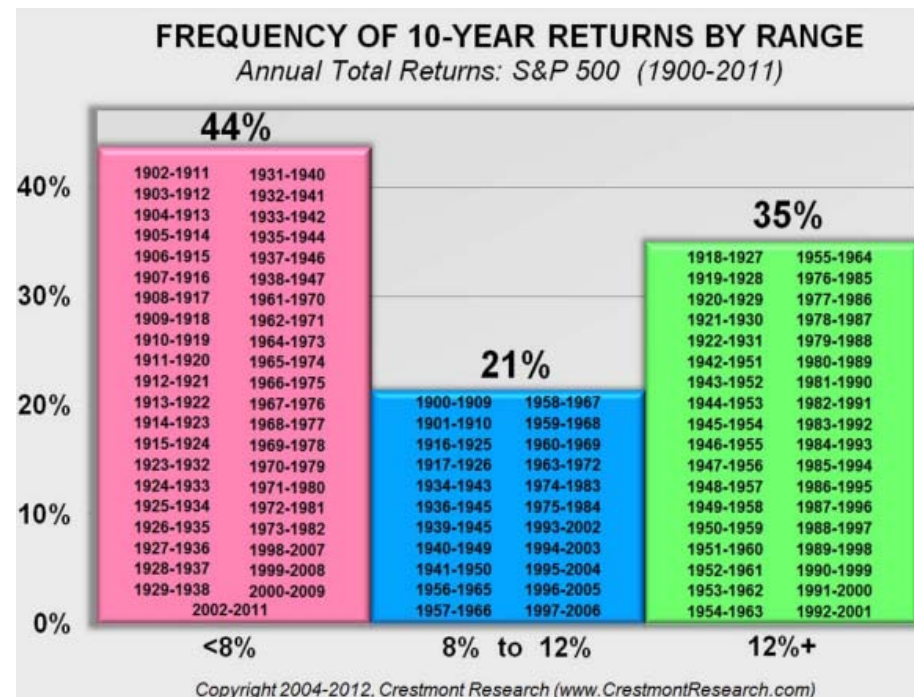
Better still, **Chart 1** (this page) shows the 10% average return is actually rarely achieved. Since 1900, 44% of the time the average 10-year return was < 8%.

Think about that one – whether you exceed an 8% return has effectively become a flip of the coin.

While that describes the challenges of using long-term returns from the stock market, our real concern is actually with the bond market. We've [written](#), presented, interviewed and even web-casted many times before about the bubble in the bond market. It's a very big deal, and when it bursts it will have cascading effects in every market, all over the world.

And considering that the average pension plan has 40% of its investments in the bond market – this is a **BIG** deal.

**Chart 1: Frequency of average returns**



To fully appreciate how big of a deal this is, one needs to appreciate the complete picture of:

- expected rates of return
- stock market returns
- bond market returns

# Theory vs Reality

Since most pension plans hold about 60% in stocks and 40% in bonds, the pension plan's total return is simply:

$$60\% * \text{Stock Market Return} + 40\% * \text{Bond Market Return}$$

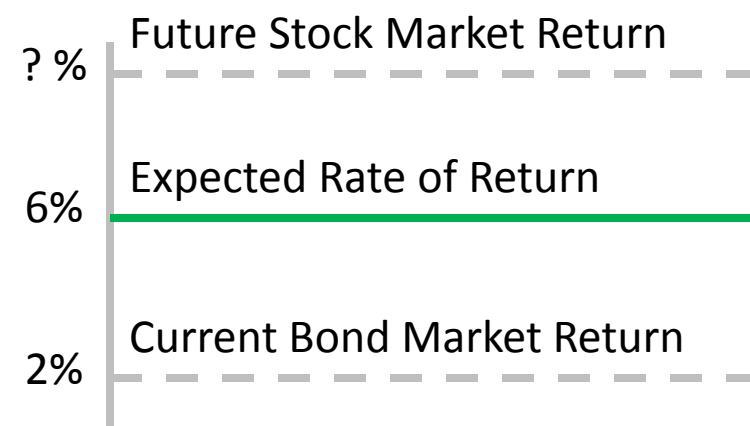
As an example, if Stocks increased 10% and Bonds increased 5%, the pension plan's total return =  $60\% * 10\% + 40\% * 5\% = 8\%$  Total Return.

Simple enough and in theory, that's how it works. However, it's reality that has us concerned.

To demonstrate exactly why pension funds are in trouble, note the above calculation. Due to the way the bond market works, it is fairly easy today to accurately predict the maximum return achievable – we'll get to the minimum return in a moment.

Today, the yield or interest received on a 10 year US Government Treasury Bond is about 2%. This means if you buy the bond today, the best return possible is 2% a year for the next 10 years.

This is where our technical readers point out that bond investors also hold corporate bonds, junk bonds and emerging market bonds which will increase the yield further. As a result, even using the Barclay's US Aggregate Bond Index as a different return proxy still only increases the yield to 2.2%. For this example, we'll simply round down to 2%.



Putting it all together: below we show using a 6.5% Expected Rate of Return and a 2% Bond Market return, the pension plan would need a 9.50% return from the stock market to meet it's return objective.

% Allocation	Strategy	Strategy Return	Proportion Return
60%	Stocks	9.50%	5.70%
40%	Bonds	2.00%	0.80%
Expected Rate of Return			6.50%

Most people would agree that over the long-run stocks will produce a 9.50% return.

This is true for a 6.50% Expected Rate of Return. Watch happens to the poor folks at the Ohio Police & Fire Pension Fund who has elected to use a 8.25% Expected Rate of Return



# They're just numbers

% Allocation	Strategy	Strategy Return	Proportion Return
60%	Stocks	12.42%	7.45%
40%	Bonds	2.00%	0.80%
Expected Rate of Return			8.25%

Whoa - this pension plan needs a +12.45% return from the stock market to meet it's return objective. And considering everyone swims in the same stock market, the probability of the Ohio Police & Fire Pension Fund meetings its return objectives are next to 0%.

And that's assuming a +2% return from the Bond Market.

Next, and this is the most critical aspect of the pension mystery and why we are writing about it – what happens to pension funds when (not if), the bond bubble breaks?

Let's return to the more conservative +6.5% Expected Rate of Return, and assume the bond bubble breaks with a -20% permanent loss.

% Allocation	Strategy	Strategy Return	Proportion Return
60%	Stocks	24.17%	14.50%
40%	Bonds	-20.00%	-8.00%
Expected Rate of Return			6.50%

Whereas the pension plan previously needed a +9.5% return, now it needs a +24.17% annual return to meet its objective. That's a pretty big swing in the required return from the stock market.

Using the same -20% loss in the bond market for the Ohio Police & Fire Pension Fund and their +8.25% Expected Rate of Return shows the following:

% Allocation	Strategy	Strategy Return	Proportion Return
60%	Stocks	27.08%	16.25%
40%	Bonds	-20.00%	-8.00%
Expected Rate of Return			8.25%

As you can see, losses from the bond market has the potential to make life really uncomfortable for pension plans.

Unfortunately, the probability of even more extreme losses exist. Consider what happens if bond markets suffer a -50% loss:

% Allocation	Strategy	Strategy Return	Proportion Return
60%	Stocks	44.17%	26.50%
40%	Bonds	-50.00%	-20.00%
Expected Rate of Return			6.50%

Yes, at this point it's very likely nothing is working anyway. Losses will have become too great to be covered by stock market returns, and the employer is likely struggling as well.

And this is our point - our research shows that the bond market is clearly in bubble territory. The reason it should be greatly feared is

## Hope of a better day

that the majority of investors, managers, and consultants do not believe anything bad can happen to the bond market.

We've been taught that only the stock market can produce spectacular crashes and upheaval. Bond markets are dull, boring, anonymous creatures that never go beep in the night.

Some may consider a 5-10% loss will occur but it will be recovered. Others truly believe government finances will slowly recover, creating a gradual return to financial market normalcy.

We hope (there's that word again) both are right. However, the continuing deterioration in government finances, increasing debt loads, and the use of money printing and negative interest rates to spark a recovery leaves little doubt – the bond market is going to produce many nasty surprises for all investors, and most notably pension funds.

### The Solution

For starters pension plans must recognise the risk – without admitting to the problem, nothing will be done. Unfortunately, very, very few see the risk. We've spoken with many pension funds and the majority hide behind the consensus view that there is no problem with the bond market.

Consultants play a pivotal role. And unfortunately, they too do not see the risk, or worse still even want to look at the risk. We've seen

many studies produced by the big consultants, and they'll commonly use 20, 30 and even 50 year data to support their recommendations.

Again, the problem with this approach is that a sovereign bond bubble hasn't occurred during any of these periods.

Another problem that has been created over the years is the complete transition away from using investment managers to make the asset allocation decision and towards this decision being made by the consultants.

In the 70s and 80s, a pension plan would hire an investment manager with a balanced mandate – meaning it was up to the manager to make tactical moves between stocks and bonds.

As the years rolled on, the investment industry enjoyed the biggest bull market known to mankind. This experience showed consultants that instead of letting managers decide between stocks and bonds, they would simply select managers who focussed exclusively on either stock or bonds.

Balanced fund managers were terminated and replaced with small cap managers, value managers, growth managers etc.

In other words, the consultants took full control over the asset allocation decision. And considering the world was experiencing a bull market – it worked out very well.

## Chicago is nice, but we prefer the Bay area

---

Like all good things, eventually they come to an end. And in our opinion, the current global financial landscape has once again tilted the focus back towards balanced mandates. Well, at least that's where it should be.

Hence, the broad solution is for pension funds and their consultants to move away from niche managers, and back towards asset allocation focussed managers. The sooner they understand the world has moved away from a stock picking game, and towards an allocating game the better.

A more specific solution involves re-allocating plan assets away from the danger areas of the world (Euro-zone, government debt, banks and insurance companies) and towards the markets big enough to absorb the capital flows – USD and US equities.

We fully expect this to occur, but only after the bond bubble breaks.

### Chicago

It's an amazing city. The architecture is great. The food is great. The football team is, well just okay. We do love Chicago. Yet, it's also a text book example of how unrealistic pension fund benefits and return expectations can put a city on the verge of bankruptcy.

Without going into great detail, Chicago has accumulated enormous, Greek-like debts. Based upon current economic activity and tax revenues, the City will never be able to repay the debts.

One of the biggest debts is money owed to the pension fund. The problem is that if the City declares bankruptcy (same as Detroit), courts have ruled that pension benefits cannot be touched.

In other words as the crisis continues, Chicago's budget deficit increases further and since it cannot reduce benefits to the pension plan, the only other way to improve its debt owing is to raise taxes.

There are two challenges to this simple solution:

- 1) raising tax rates actually reduces economic activity and therefore reduces the total tax revenue collected (see Greece);
- 2) it creates a social problem in that everyone in Chicago will be forced to pay higher taxes, so that the City can continue to offer a very generous pension plan to a select few.

This same problem in Chicago, is also happening elsewhere in the United States, as well as Germany and other countries. It's yet another example of how the debt bubble is seeping around the world.

We suggest you do your own research. You may be surprised as to how quickly the conflict between pension benefits and city/state fiscal balances has grown.

We expect it will become even more contentious.

## Just a little outside

---

### Not Now

Throughout the ages, folk songs and camp fire stories have spread around the world about ways to get under the skin of the big bank economist.

There are several strategies – yet few of them have been successful.

The first one is really only understood *inside the investment industry*. In case you haven't noticed, the big banks and investment dealers make a tonne of money – a tonne of money.

Within this bucket of money, traders contribute significantly. After all, they scrape pennies, nickels, dimes and in the case of foreign exchange – thousands of dollars from each trade. Great work if you can get it.

Meanwhile, investment bankers have reached near rock star status as they typically earn millions simply for recommending how a company should issue shares and debt.

Of course, once shares and debt have been issued, and fees have been paid, the newly minted stock and bonds are then passed along to the traders to extract even more fees. Talk about double-dipping.

And then, we have the economists.

They have no clients. They do not recommend trades. Nor do they

scheme any new equity or debt issuance for companies seeking capital. In fact, in many ways they are a drain on a bank's resources.

Yes, most dress nicely, many are terrific public speakers, some even look good on TV, and best of all, practically all of them can dazzle you with charts, spreadsheets and economic theory only proven in the academic world.

Make no mistake, the global economy is extremely complicated. There are many moving parts, making it a multi-dimensional puzzle that perhaps can only be solved by a select few and unsurprisingly, none of them are big bank economists. And, there is plenty of data and evidence to show why.

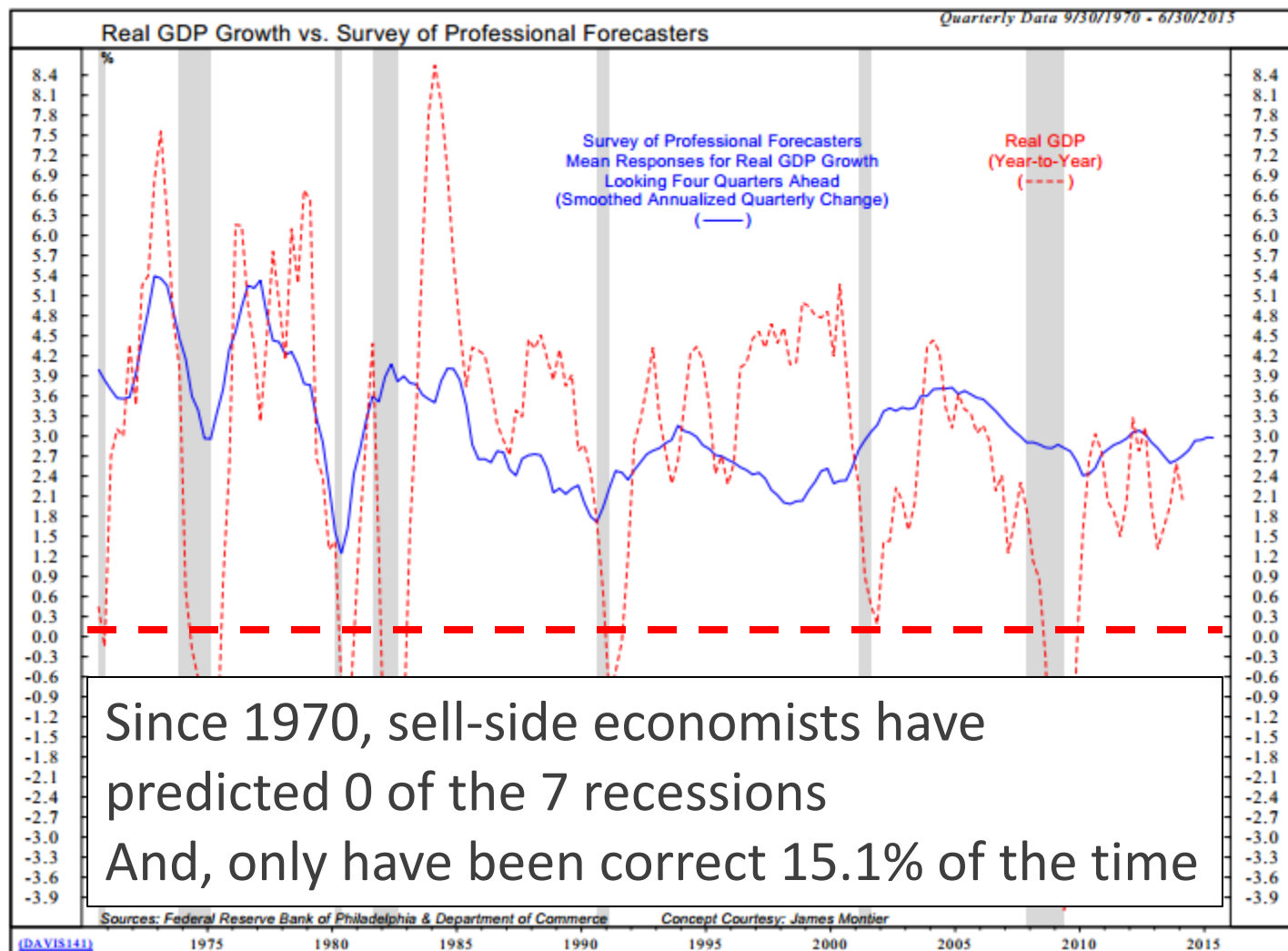
We've previously shown **Chart 2** on the next page detailing the success of professional economists over time.

There are 2 key messages from this study:

- 1) When it comes to estimating the economic growth rate of the USA, over the past 45 years, economists have only been correct 15% of the time.
- 2) Since 1970, there have been 7 recessions in the USA and professional economists as a group have predicted **none** of them.

No one is perfect, and no one on earth can claim to never having made a mistake. But for professional economists to predict none of

Chart 2: Economists estimates of US GDP



## Now, not later

the recessions is startling to say the least.

Worse still, and despite not contributing directly to the bottom line, the big bank economist continues to dominate the overall message sent to the investor masses.

They continue to soak up air time on the telly. Practically every city and town gushes with excitement whenever a big bank economist graces them with their presence at any annual dinner or meeting.

And, despite no contribution to bank profit centers, and an embarrassing track record of never projecting a recession – their confidence remains high, very high.

Well, until now.

A few months ago, the Federal Reserve Board of Atlanta did the unthinkable – they created a quantitative model that accurately predicts America's economic growth.

The “GDP Now” model has taken the investment and economic industry by storm. Since its release, there have been 2 very clear, identifying trends:

- 1) The model's estimates have differed substantially to that of the big bank economists
- 2) The model has been extremely accurate

This is really good news of course. There are numerous ways a better economic forecast can help everyone. Well, everyone that is except for the big bank economists. In fact, they are not only displeased with GDP Now, they are outright angry.

Apparently, GDP Now is the straw that broke the economists back.

During the first quarter of this year, big bank economists forecast the US to grow at about +1.4%. GDP Now forecast was +0.1%.

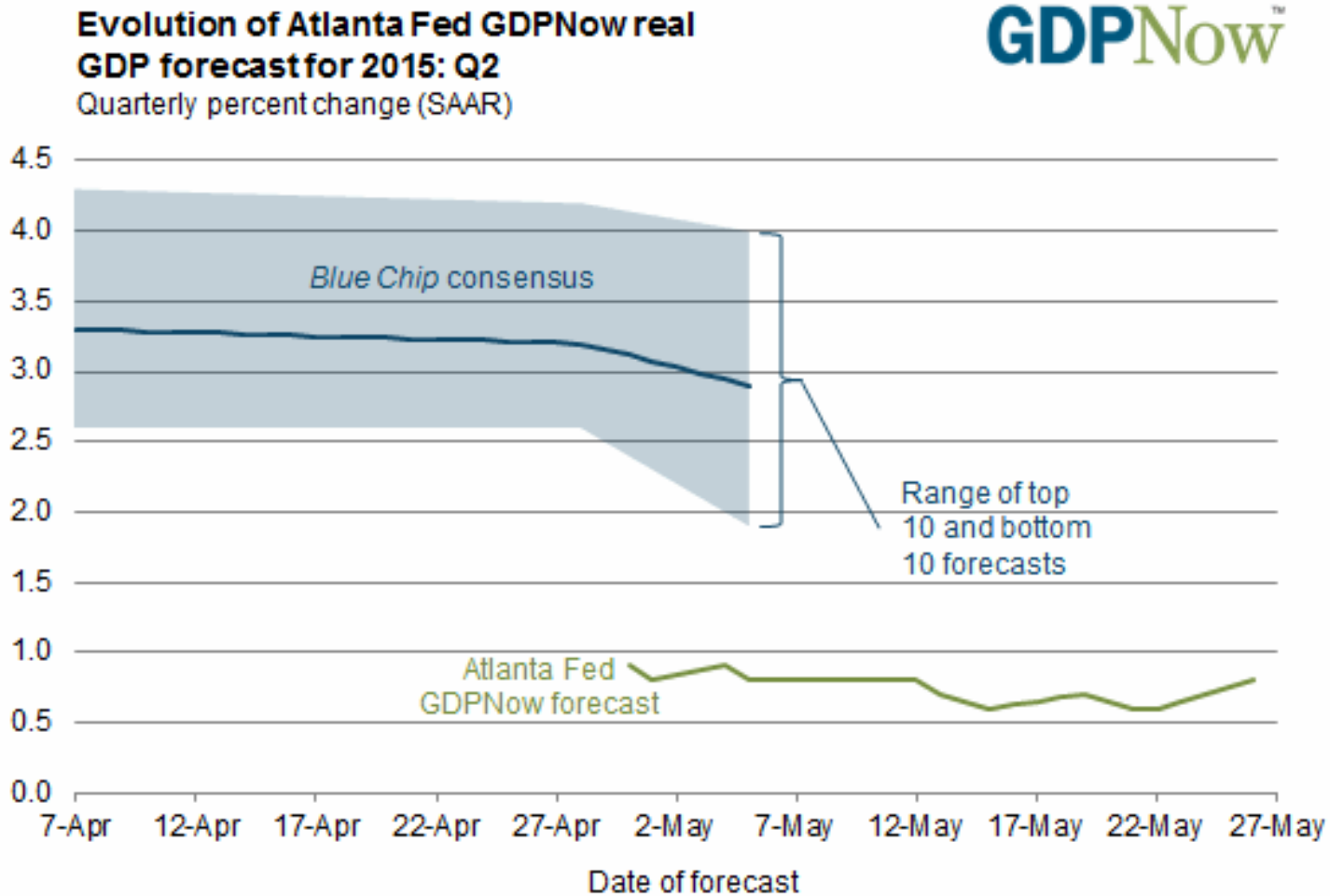
Actual growth? +0.2%

**Chart 2 (next page)** shows estimates from both the big bank economists and GDP Now for the second quarter of 2015. Once again, there's a substantial difference between the two sides with economists predicting a +3.0% growth rate compared to a +0.8% estimate from the GDP Now model.

Of course, instead of trying to improve their game by digging into the details of the GDP Now model, economists are suddenly doing the very human thing – they are attacking the government entity that is in charge of calculating the GDP data.

Yes, that's right. Instead of trying to become better, the economic community is fighting back by claiming that their estimates are actually closer to being right. And once GDP is calculated accurately, they will be proven correct.

Chart 2: GDP Now Forecasting Model



Sources: Blue Chip Economic Indicators and Blue Chip Financial Forecasts

## Keep the good, throw out the bad

This is where the story floats off into academic Neverland. Economists claim the US Bureau of Economic Analysis should start applying a *double seasonal adjustment*.

For those who haven't succumbed to the enthralling world of economic computations, seasonal adjustments are used to effectively smooth out fluctuations in data that regularly occurs during certain times of year.

For example, since it sometimes snows during winter – construction work is often delayed which has a negative effect on economic activity during the winter, while a boost during the summer months.

Seasonal adjustments attempts to smooth out the volatility from one period to another. Note, the singular tense in “seasonal”.

As far as we can tell, double seasonal adjustments will involve ignoring any bad economic data, and calculating GDP with only good economic data.

Since the big bank economists never predict recessions, the net effect will be to bring the reported GDP number up closer to their estimate, and further away from the number estimated by the computer-generated GDP Now Model.

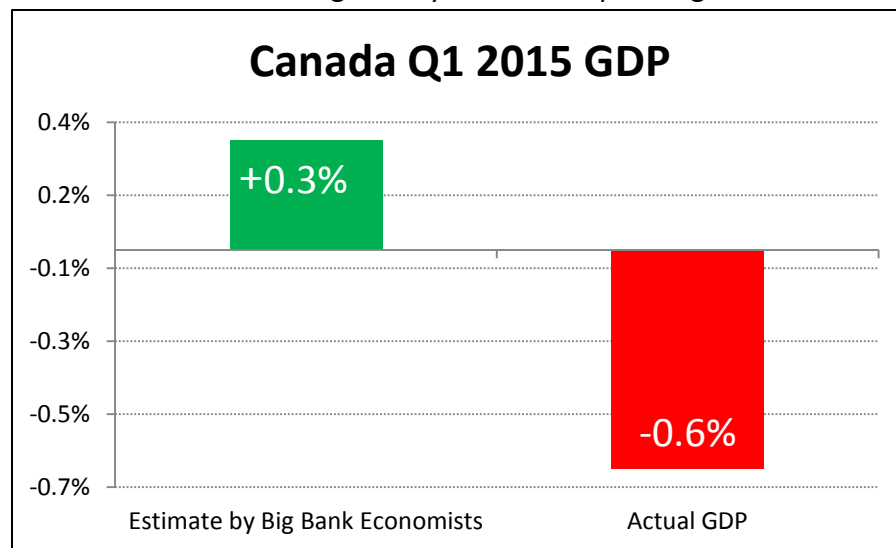
We say this tongue in cheek – yet, if all the bad data was removed, it should in theory create the perfect socialist dream – a complete erasure of all past and future recessions.

And more importantly – big bank economists may finally begin to earn their keep.

### Oh Canada

With all of the Canadian-based hockey teams eliminated from the Stanley Cup Playoffs, Canadians have now resorted to watching the American-based teams battle for their prestigious Cup. Considering Canadian-born players make up over 70% of the league, the Canadian flag continues to fly high.

Unfortunately, during the first 3 months of the year, the Canadian economic flag has been flying at half mast - maybe too many Canadians were watching hockey instead of spending their loonies.





## The first rule of Boy Scouts

During the quarter, Canada's economy declined -0.6%. And, since we are talking about economics, it's only fair to once again highlight the performance of the Canadian big bank economists.

Although Canadian hockey players dominate their American counterparts (European & Russian too for that matter), Canadian economists were equally ineffective as American economists.

Prior to the big announcement of Canada's GDP, Canada's big economists confidently predicted a +0.3% expansion of the great northern economy.

Once again, the big bank economists were not only significantly off with their guess, but clearly no one expected a declining economy either.

### Be Prepared

Here at IceCap we are invited to speak at many events – both big and small. Investors everywhere are very interested in our global market outlook and how we see the world developing over the near term.

Contact us directly if you'd like to have us speak at an event or directly to your team.

We often begin by saying our research shows there is a very high probability of the world seeing a major global recession AND a surging stock market.

Since the 2 events are widely considered to be mutually exclusive – we often see pained, and confused looks across the room. And since the majority of investors' expectations have been shaped and molded by our big banks, their economists, and of course recent market experience – this confusion and skepticism is perfectly logical.

Once you've cleansed your mind, and are able to see and think freely, it's quite obvious that the entire world is experiencing an economic slowdown. China and Brazil are slowing. Canada and the USA are slowing. As too are countries in the European Union.

Analysts can slice and dice the data seven ways to Sunday, yet the objective conclusion remains the same – negative growth and slowing growth but no accelerating growth. Despite the hope (there's that word again) that things will work their way out, evidence clearly says otherwise.

Over the last 80 years, every time there's been trouble in the world and the economy, it was eventually and inevitably reflected in the stock market. And in all cases it was justifiably so for one reason and one reason only – during this period the safe haven investment was always government bonds.

Think about that last statement – this is the key to understanding where markets are heading today.

Today, the reason why we expect both a global recession and a

## USD remains our favourite

surging stock market is due to the eventual recognition that the trouble in the world today is in the government bond market meaning it will NOT be the traditional safe haven investment.

Once you recognise this unique feature of today's financial world, then it becomes easy to understand that as soon as the troubles in the bond market make the front page headlines – Billions and Billions of Dollars, Loonies, Pounds, Euros and Yen will be tripping over themselves to leave the bond market.

And since all money needs a home – the stock market, and the USD will be the home of choice.

### Our Strategy

Over the last few months, practically all markets have nudged down. Whereas the first couple of months of 2015 gave investors nice returns, markets have largely come back to where many investors are now close to flat for the year.

**Currencies:** The US Dollar weakened somewhat last month and for non-USD clients, we used this as an opportunity to add further to our currency strategy by increasing our allocation to US Dollars. This strategy now equals approximately 25% of all portfolios.

**Equities:** Emerging market strategies have been carried by the surge-like strength of China. This move is not sustainable, and we therefore realized profits and sold our emerging markets position.

**Fixed Income:** As you know, we fully expect bond markets to really shake around later this year, and are now preparing for strategic moves within these strategies.

**Commodities:** We remain out of gold and commodity markets. Neither is appealing at this time. We expect one more leg down in gold and would likely use this as an opportunity to enter that market.

These days we remain on high alert within both stock and bond markets. The volatility within each is enormous and the possibility of significant moves in either direction remains high. We continue to use our momentum-based models for signals in these areas.

As always, we'd be pleased to speak with anyone about our investment views. We also encourage our readers to share our global market outlook with those who they think may find it of interest.

Please feel to contact:

Keith Dicker at [keithdicker@IceCapAssetManagement.com](mailto:keithdicker@IceCapAssetManagement.com)

John Corney at [johncorney@IceCapAssetManagement.com](mailto:johncorney@IceCapAssetManagement.com) or

Ariz David at [arizdavid@IceCapAssetManagement.com](mailto:arizdavid@IceCapAssetManagement.com)

Thank you for sharing your time with us.