IceCap
Asset Management Ltd.

Our view on global investment markets:

October 2015 – Collision

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The trouble with tribbles

Hitting warp 9.8, the USS Enterprise NCC-1701 was screaming through space. It's goal – hitting a worm hole just big enough to knock it out of its latest dangerous predicament and into a far safer World.

"Captain! I'm giving it all she's got!" shouted Scotty.

Calmly, yet firmly, Kirk responded "Spock, will our collision be powerful enough to break us through the time-space continuum?"

Spock pondered for just a moment, and then with one eye brow raised responded "Captain, there's only been one other collision known to mankind that has generated enough force to produce our desired outcome."

Captain Kirk: "what collision was that?"

Spock: "The 2015 Global Bond Bubble."

Newsflash

Newsflash # 1: A few short weeks ago, Canada's self-proclaimed biggest and best bank told clients: "much of the negative news from Europe is firmly rooted in the past" and that there is "more potential for upside for markets."

Result: European Stocks subsequently declined -13.5%

Newsflash # 2: America's biggest and best bank bragged: "global developed market equities should remain attractive".

Result: Global Stocks subsequently declined -11.3%

Newsflash # 3: Britain's biggest and best bank was all squiffy over markets, proclaiming: "Economic growth is gaining momentum" and "overall, we continue to prefer risk assets such as equities, high yield credit and EM debt."

Result: Global stocks subsequently declined -11.3%, High Yield Bonds subsequently declined -4.7%, and Emerging Market Debt subsequently declined -3.2%

By now, most people are once again painfully aware that stocks, high yield bonds and emerging market bonds can actually go down as well as up. For stock investors, it has been a brutal 5 weeks with most markets dropping -10% or more.

As a reminder, a -10% decline needs a +11.1% rebound to get back to where you started. Or from a more serious perspective, a -50% decline needs a +100% rebound to get back to where you started.

The reason we share these very simple and obvious mathematical facts is due to the following intelligent investment insight: avoiding and limiting downside losses is a crucial aspect of investment management.

Don't worry about it

Yet, as you can see from the market wisdom from the biggest Canadian, American and British banks – they completely ignore this very simple rule of investing.

Instead, millions of investors are constantly bombarded with the seemingly innocuous market wisdoms:

1) Buy the dip
2) Invest for the long term
3) Know your time horizon
4) Invest regularly

And in our opinion, this is a real shame – a very, real shame. There certainly are times when these are words of wisdom. But, there are also times when they are not.

By now, clients, non-clients, and peers are all familiar with our big view of the World. Our experience, perspective and research continues to conclude that global financial markets, the global economy and government fiscal balances are all converging to make everyone's investment experience very different than that painted by the very big banks.

Yet, the big banks continue to shamefully respond as if all is well. Considering the fact that central banks have kept interest rates at 0% for 7 years and the global economy continues to decline is the clearest of clear messages that the financial World isn't quite right.

And if that isn't clear enough, just know that now many countries have begun to implement NEGATIVE interest rates to help stimulate their economies.

Yet, we rarely read or hear any of these facts from the big banks. This of course can mean several things – none of which are complimentary:

1 – the big banks feel the average investor isn't intelligent enough to understand what is happening

2 – the big banks cannot articulate the true state of the money World to their millions of clients

3 – the big banks truly believe all is well, and that the World will always see a few bumps every now and then.

As we all know, investment managers will ALWAYS make a few wrong decisions – it's inevitable. Managing other people's wealth can be a stressful responsibility. The good times are awesome. The bad times, not so much.

However, if anyone has any aspirations to be an investment manager – this is THE most perfect time to realise your dream.

Let us explain why.

As of today, 100,000s of investment professionals around the World are following the age-old adage of buy and hold, buy the dip, stocks always outperform bonds, and never invest in currencies.

Just steer the course and you'll be fine, just fine.

Razzle dazzel 1-2-3

Unless of course, the ship you are in doesn't have a rudder, a mast, a jib, a boom, a tiller or a keel. In truth, these ships are not really investment managers at all, instead they are asset gatherers.

The difference being is that real investment managers are very focused on making investment decisions to preserve your capital during volatile times, while growing your capital during the good times.

Asset gatherers on the other hand, are very focused on winning new clients and receiving new money to manage – after all, investment management IS a business.

At these firms, the focus is on marketing and sales. They razzle and dazzle you with very nice commercials, brochures and presentations, as well as a splendid array of investment options.

Yet, if you open your eyes and ears just enough, you'll notice the difference and it mainly starts with investing for the long-term, buy and hold, and invest regularly – sadly, it ends the same way as well.

In other words – investors hear the same old story, time and time again. This would be perfectly acceptable IF we lived in a linear World.

The problem of course is that we DO NOT live in a linear World.

While it is human nature to think and expect along linear lines, our World just doesn't work that way. Instead, everything moves in cycles, some short and shallow, while other cycles are long and deep.

What we are experiencing today is the likely turning point in a very long cycle of borrowing, borrowing and then borrowing some more.

The capacity to borrow has reached the limit for many, yet our governments and central banks are desperate to keep the party going. Yes, despite foggy heads, tired legs and full bellies; governments and central banks continue to pour more drinks, dish out more food, all while playing even louder music.

In some ways, the real question to ask your mutual fund sales person is whether the party has ended or is it just getting started?

The real difference between the investment managers and asset gatherers is in their ability to truly understand market conditions, identify the key driving points, reposition your strategies and then to easily communicate the entire process.

Let's be honest here – the calm sailing and the good times ended in March 2000. That was the end of the most beautiful simultaneous bull market in both stocks and bonds ever known to mankind.

For 18 stunning years prior to March 2000, financial markets everywhere, charmed everyone into believing that life as an investment manager was as difficult as a sail into a gentle, onshore breeze.

It's your life

And considering markets produced an average annual return of +15%, how could anyone not be happy?

This was the way life should be.

However, since March 2000, stocks plummeted -50%, then soared +100%, then crashed -56%, only to zoom +215%.

So since March 2000, 16 years of buying the dip, investing for the long-term, knowing your time horizon, diversifying your portfolio, and investing regularly netted you a handsome annual return of +2%.

This wasn't the way life should be.

So which is it? Do you expect stocks to always perform like they did from 1982 to 2000? Or, do you expect stocks to perform like they did from 2000 to 2015?

Judging by their investment commentary, the big banks obviously believe in the 80-90s era. In reality however, the big banks believe in gathering your assets, and investing for the long-term, buying the dip...

Collision Time

Make no doubt about it – our economy and our debt loads have created a very uncomfortable environment for those in governments and central banks.

Over the years, individuals, companies and governments of all kinds have borrowed to their hearts content. Subsequently, all of this borrowing gushed new money into our economies and swirled around, around and around.

The good times became so great, they turned awesome.

Politicians promised a chicken in every pot – yet, by borrowing and borrowing they delivered entire farms to their voters.

Companies promised steady hours with steady pay – yet they delivered more jobs, more pay and more pensions.

Not to be outdone, individuals goosed the system too, and enjoyed golden eggs year after year after year.

It happened during the hippy-days of the 60s, and during the disco-days of the 70s. Of course, bumps also happened during the metal-days of the 80s and then again during the grunge-days of the 90s. Then American Idol took over and all was lost – well, all except the ineffective vision of our leading central bankers and government treasuries.

While some people began their careers in the 1970s, even more started their investment careers in the 1980s; with more still in the 1990s and 2000s.

Ignore the talking heads

Worse still, many of today's investment young guns started their careers ***after*** the 2008 crisis.

We share this perspective because every market expert today draws upon their years of wisdom to make very important investment decisions for you, your family and your pension plans.

This would be great if everyone lived to be 300 years old and shared this much longer, and much richer experience with the World.

Instead, our minds are trapped within a very narrow place in time which limits our ability to think and see things from a much broader and clearer perspective.

Today, we have 3 enormously important market drivers steam rolling towards each other and when they collide, the distortions will be leave everyone dazed, confused, asking questions – and demanding answers.

Sadly, the answers will be completely unsatisfying entirely due to an industry focused on linear thinking and obsessed with gathering assets. Fortunately, the key to understanding why the World has reached a precarious point in time is actually quite easy to achieve – just shed your mind of your tunnel visions and linear thinking, and open it to a World that is crystal clear.

For starters, knowing and accepting that every market, every economy, and every society is interconnected will allow you to understand the events that are unfolding around us.

Next, ignore the drivel from the talking heads and asset gathering machines.

Then, know that every single time our World has experienced an economic bump, our governments and centrals always responded by:
1) Borrowing more money to spend on special projects
2) Cutting interest rates to make it cheaper for individuals and companies to borrow

The result of 1) and 2) would be more money pumped into our economies which would inevitably help us recover from the little bumps.

This happened like clock work in the 60s, 70s, 80s, 90s, and 2000s.

Unfortunately, this clock has suddenly become broken. Yes, broken clocks are correct twice a day, but right now our global financial World is over 11 figurative hours away from that effusive goal.

Over 60 years of borrowing and 35 years of cutting interest rates has left us with the mess we have today:
1) Excessive debt loads for practically EVERY country
2) ZERO and NEGATIVE interest rates

Collision Time

Linear thinkers not only see these as two separate market dynamics, but they also view it as two markets factors within every single, separate country and market.

To proclaim that Greece doesn't matter is tunnel vision.

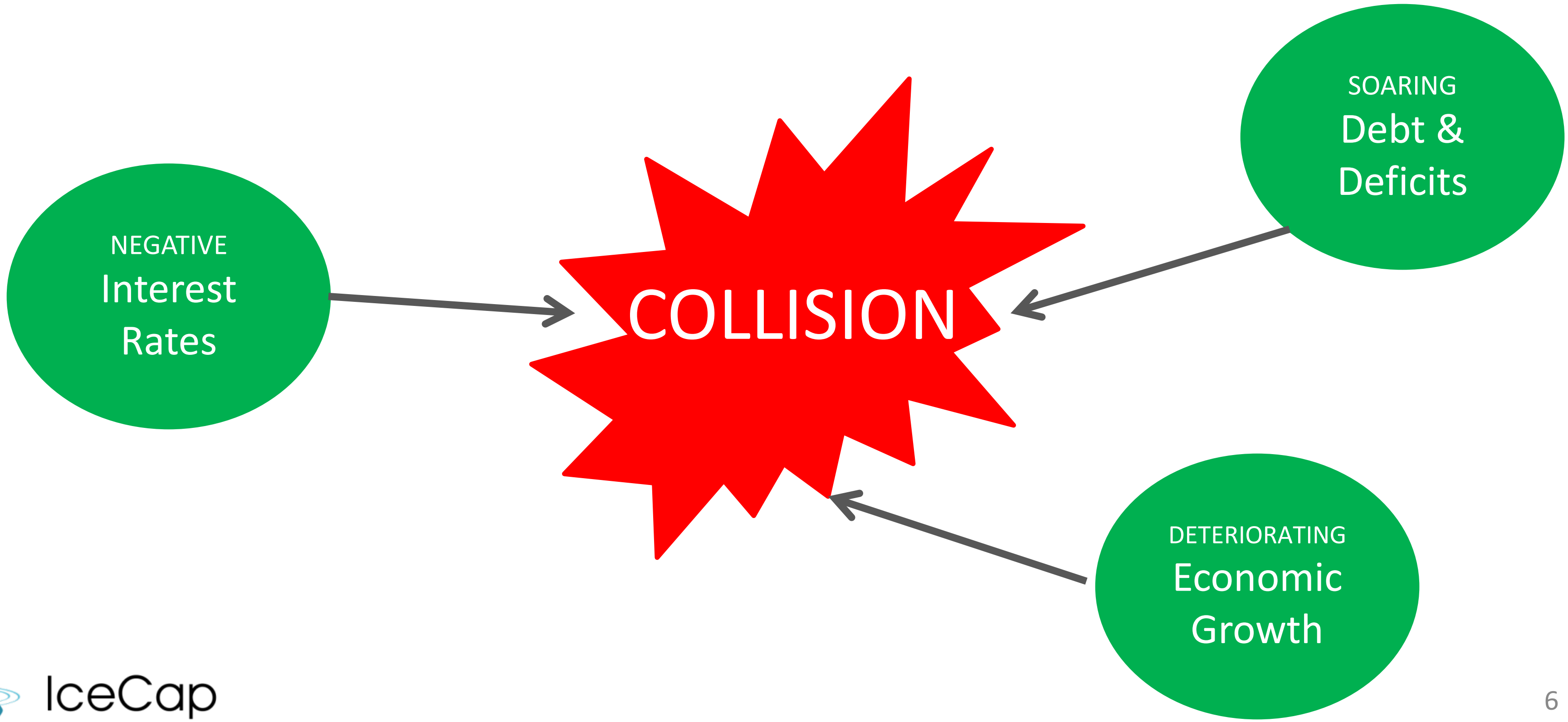
To believe China is an economic miracle is gullible.

To conclude that lower interest rates and money printing will create a better World is pretty weak.

Instead, we'll show you how to liberate your mind and see the World as one continuous flowing market, where capital, ideas and innovation always seeks safety and avoids excessive risks and losses.

We cannot stop what is coming, however if you escape the traps caused by linear thinking, the opportunity for your own personal schadenfreude is right around the corner.

And it all starts with a collision:



Confidence IS the key

DETERIORATING
Economic
Growth

Here comes the recession

Recently someone told us that if everyone simply acted with more optimism, then all of this gloom and doom would disappear.

In one way, this is 100% correct. Positive thinking is great for a positive economy which leads to positive everything – more jobs, more bonuses, more raises, and more spending, and then rinse and repeat.

Yet, all of this optimism can only carry an economy so far. Eventually mathematics take over, and soon thereafter one realises positive thinking doesn't automatically give you a new job with more bonus, more raises which creates more spending.

It's funny how the loss of a bonus, or worse still, the loss of a job really affects the ole' optimism gene by affecting it with something very different – *pessimism*.

Suddenly, that vacation in Europe becomes a stay-cation. That new dream kitchen remains a distant dream. And the weekly eat-outs, turn into home pizza night (*not that there's anything wrong with home pizza night*).

As you can see, eventually mathematics always trumps optimism and pessimism too for that matter. Unfortunately, today's market cycle - has the World sliding downwards and not upwards. Eventually the day will come when the opposite is happening, but we have to slump into the financial valley first – that's just the way it works.

According to the sage advice from the big banks – it's always a terrific time to invest. And if there's ever a hiccup one should simply buy the dip, maintain your discipline of buying the dip, and since the big banks are profit seeking machines – you should always save and invest more than before.

But what happens if you don't have more?

Whereas individuals and families react by reducing or delaying spending, governments react in a very different way. In fact, it is the exact opposite – they increase income by hiking tax rates.

Property taxes are the first to go up.

In Canada – currently home to one of the World's best housing market bubbles; property tax rates will at first stay the same. But local governments will instead increase the taxation value at which the rate is applied. Either way – it's still a tax increase.

Across the pond, the British have upped everyone. Whereas every other country is doing their darndest to at least maintain their property bubble – the British government has done the exact opposite.

Vicious cycle

Essentially, if you borrowed to invest in housing and use those properties as rentals, any net profit will be completely taxed away. So now instead of investing in real estate, people will be divesting their real estate.

Of course, the end result to this brain-dead decision will once again be driven by mathematics whereby the number of people looking to sell will exceed the number of people looking to buy.

In this scenario, housing prices can only go in one direction – down.

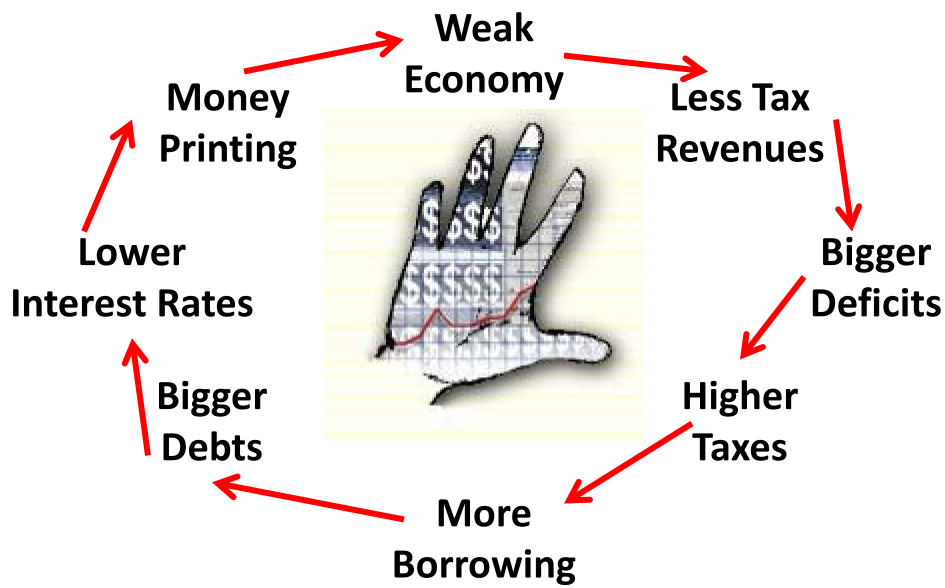
Unless of course, the very same British government introduces even more new tax laws that act as deterrent to ultra wealthy non-residents snapping up homes in Kensington, Chelsea, and Knightsbridge; which will only cause prices to go down *further.*

Not to be outdone, the poor will be hit as well – but not with income and property taxes. Instead the poor will deal with higher consumption taxes in the form of higher rates on gasoline, alcohol, and tobacco as well as soda, crisps and candy bars.

And once they have been squeezed, expect a new taxation to be applied to your car. But instead of simply higher annual registration fees, there are already talks of taxation based upon how much you drive.

The reason for this sudden interest in direct and indirect taxation is due to slowing economies and widening budget deficits.

The vicious cycle literally goes around and around, until markets reach certain levels of comfort, and then the invisible hand reappears.



The first question that should be asked by all investors is whether your country is growing or slowing: the difference will have a severe impact on the dollar amount of tax revenues being collected by your government.

Deteriorating economic growth is on course to collide with government debt/deficits, and interest rates. They drive each other

No quick snapback

and as the trend continues, it will drive financial markets further into unrecognizable states.

When we look around the World, we see a growing number of countries who have slowing or declining economies. Every country is linked to each other – viewing them in isolation will give you an isolated investment outlook, and that's not good.

As economies turn further downward, their collective impact on taxes and interest rates will be the same.

And it is this collective reaction which will cause dramatic shifts in investment capital and the always inevitable collapse of a specific investment bubble – *the government bond market*.

Here in **Canada**, during the first half of the year our national economy has declined close to -0.7%. This is big for two reasons:

1) Once again, as a group, the big bank economists did not see this one coming. Instead of seeing the development of a global slowdown and a negative effect on energy prices – bank economists relied upon their linear thinking to expect a stabilizing growth rates at worse.

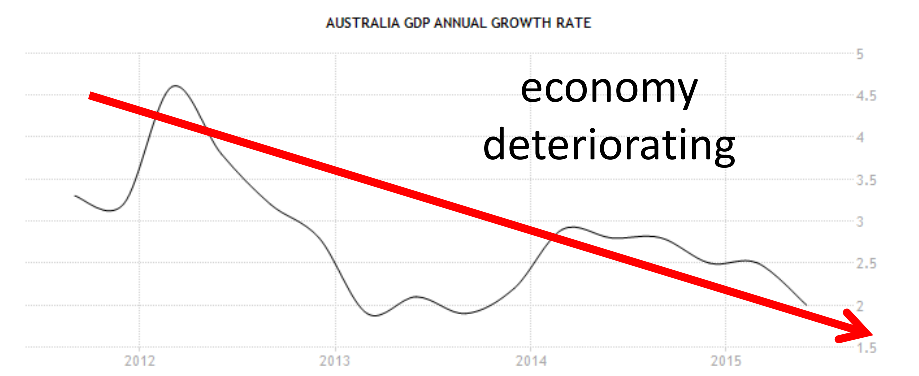
2) Prior to the beginning of the recession, Alberta and Newfoundland were the economic engines of the country. Excluding these two energy juggernauts, the rest of the country wasn't pulling their weight. With the collapse of energy prices, both provinces will be entering DEEP recessions and just as both were able to spread their wealth around the country, their contractions will be felt just as hard.

Source: tradingeconomics.com

It shouldn't be a secret by now – yet many still refuse to believe – the energy and mining sectors are NOT on the verge of a quick snapback. Alberta and Newfoundland are entering Year 1 of a very deep recession, and it will drag the rest of the country down with it.

While the country is in the final weeks of the national election, truthfully, we'll feel sorry for whichever party wins. The winner will be walking smack into the middle of a deepening recession, widening budget deficits and the eventual back tracking on all fiscal election promises.

THAT'S a knife



Source: tradingeconomics.com

Meanwhile, **Australia** too is on the verge of its own deep recession. Growth there is also nose diving, yet most talking heads refuse to see the day of reckoning. Instead, they too believe their country has diversified away from commodities and that the Chinese slowdown will be mild at worse.

The country relies heavily upon China to buy the bulk of their mining exports and in case you've missed it – China has fallen off the economic cliff.

To make matters worse for Australia, practically ALL of the big bank economists believe there is nothing to worry about. All of them are calling for no further rate cuts and for the economy to stabilise.

IceCap expects the opposite – be prepared for Australia to move towards 0% interest rates. This will happen. The economy and the currency has much further to fall.

While this is happening, the Australian government continues to split hairs over who in fact should be the leader of the coalition ruling party. Of course, this will be irrelevant. All economic and fiscal budgets will miss dearly, due to the optimism attached to the economy. The country will be forced to borrow more, and raise taxes.

The positive takeaway, is that this financial predicament isn't the fault of Australia – rather, the country just happens to be caught in a global trend that can't be stopped.

Around the World, stock market turmoil is being blamed completely on **China**, and while it is a contributor, in truth it is not quite fair to completely place the blame on the World's (previously) fastest growing economy.

People forget that when the American-created 2008 credit bubble burst, it was China that helped pull the World out of the fast swirling sinkhole.

Yet, this saving was certainly no economic miracle. Instead it was simply created by more debt. Instead of copying the ridiculous money printing schemes created by the Americans, British, Japanese and Europeans; the Chinese simply lent money directly to people and companies.

What happened next was COMPLETELY predictable. The borrowed funds were used to build and buy new manufacturing and housing capacity. Everyone knew eventually there would be too many new

It's okay to be early

condos and manufacturing buildings which always results in too much supply and too little demand.

Of course, the end result shows investors fleeing the Chinese condo and manufacturing real estate market faster than Usain Bolt on race day. What happens next is also very predictable – many of these loans will not be paid back, which creates enormous losses for banks, and job losses for individuals.

While we say this was easy to see – it wasn't easy to call the exact time. In reality, does it really matter if you are selling or avoiding a high probability market risk a little early?

The answer: No.

And just as it was easy to see the Chinese market imploding, it is also rather easy to see that the government bond market will implode. We cannot call the exact day, but the timing is very soon.

Continuing on with the deterioration in global growth, **South Korea** is one of the BEST bellwethers for measuring the health of the global economy. And, unfortunately it is trending in the exact same direction as Canada, Australia, and China – downward.

Together with Indonesia, India, and China; South Korea makes a whole bunch of stuff that American's and European's buy. And, when American's and European's are not buying as much, it immediately shows up in these Asian countries.

Source: tradingeconomics.com

Now, this is the point where linear thinkers will proclaim that Europe and America are not slowing. In fact, if anything both the new and old World are recovering rather nicely, thank you.

It ain't happening

Yet, if these same people used objectivity when looking at the data, they too would see that neither America nor Europe is accelerating – and that's the key. Growth in both areas peaked some time ago. And now just as it is elsewhere around the World, the trend is turning lower again.

In the United States, GDP growth remains trapped between 0% and +2.5%. While the investment community digs their heels in and believes these are great numbers, again the fact remains that the upcoming slingshot into economic nirvana always remains around the corner.

Yet, considering the American government and its central bank has thrown trillions of dollars into creating a sling-shot economy, I would only imagine someone, anyone within the secretive walls in Washington asking why the recovery isn't happening.

Instead, the media and the big banks continue to congratulate everyone for creating a remarkably low 5.1% unemployment rate which must mean the economy is doing very well.

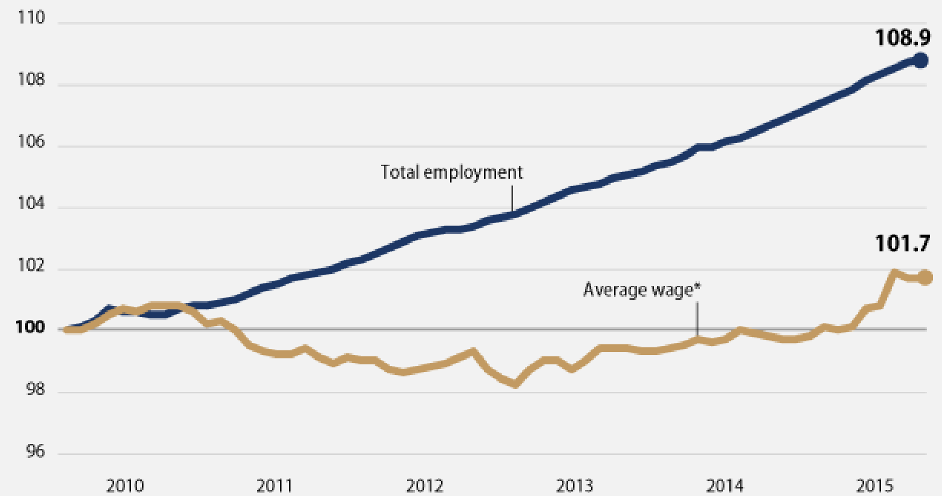
However, the "thinking" investor would only have to peel one layer off of this rose-colored onion to see that the majority of jobs created are either government jobs, or low paying retail jobs such as those at cafe's, restaurants, and bars.

Chart above shows exactly this point – over 6 years into the alleged recovery, the number of jobs are increasing, but the average pay isn't.

FIGURE 4

Wage growth still missing from job market recovery

Index: February 2010 = 100



*Average hourly earnings of production and nonsupervisory employees, adjusted for inflation

Source: Center for American Progress analysis of Bureau of Labor Statistics data.

This isn't a feature of an accelerating recovery, in fact it's just the opposite. Don't believe us, try buying a house and paying off your student loans using any of these low-paying jobs; *it ain't happening*.

Despite taking advantage of ultra low interest rates to borrow heavily, companies remain reluctant to invest these borrowed dollars in new factories, machinery and high paying jobs.

Meanwhile in **Europe**, specific countries such as Spain & Ireland are

There's that word again

celebrating better economic times. Yet, the rest of Europe continues in economic lock down mode.

As we've stated before, **France** is the real problem child in Europe. Yes, Italy and Spain are the poster children for what doesn't work, but France continues to slowly simmer away in a broth of uninspiring economic stew.

Factories are not churning as fast, companies are not hiring as fast, and only government controlled wages are rising – everything else remains on hold, waiting and *hoping* for the recovery to take hold.

The problem with France is a deep rooted cultural belief that government should provide for its people – provided these people are government workers and salaried workers. This has worked for a long time, until now.

Very generous government services and entitlements only work if the private sector is successful and therefore pays enough in taxes to pay for everything. What makes France broken today is that the private sector is being choked with taxes, regulations, and bureaucracy – all to satisfy the government's promises of France's famously-generous social security system.

It has become so stifling that many small business can't make it work, and those that can are merely creeping along and watching over their shoulder as the French government prepares to ask them for more, more and then more again.

Very soon, the country will once again head to the polls and the likelihood of current President Francois Hollande winning is lower than the ECB's overnight interest rate.

Of course, that likely means Marie Le Pen of the Front National Party may take the grande office at the Elysee Palace. This would complete the political cycle of having France go from the left to the right, back to the left, and then over to the extreme right.

Either way, France is hopeless and it remains the top candidate to finally break the Euro.

Elsewhere, **Brazil**'s economic fortunes continue to tumble, as does the once-oil-rich countries in the middle east. While it shouldn't be a surprise to anyone – **Saudi Arabia** too is feeling the economic pinch.

The country has over $600 billion in oil reserves, yet the recent sharp decline in oil prices is being felt across the Kingdom. Government has recently announced it is withdrawing $70 billion from their energy fund to help pay the bills. Additionally for the first time ever, the country is preparing to borrow in the bond market.

Let's be real here, both actions are not the sign of a recovering global economy, and provides yet further proof that the global slowdown is happening – you just have to open your eyes to see it.

Open your mind

In effect, instead of America and Europe pulling the rest of the World out of its downward spiral, the opposite is happening – America and Europe are about to be pulled back in.

As you open your mind, you'll begin to see and understand how a declining economy affects everyone and everything, especially reactions from governments and how much they borrow, as well as interest rates that are determined by central banks.

But it doesn't end there. The more governments borrow and the more central banks cut interest rates; the more economies decline.

And as economies decline further, governments will need even more tax revenues and more borrowing to simply maintain the status quo – which isn't exactly inspiring to begin with.

To compensate for this very real economical and mathematical challenge – governments are instead relying upon the World's greatest bankers to create a not-so-real economic and mathematical solution.

And by this we are talking about NEGATIVE interest rates.

NEGATIVE
Interest
Rates

Get Ready for NEGATIVE rates

It's astonishing how many seemingly smart and intelligent people completely believe the World's central banks are able to control our economies.

On September 17, 2015 the financial World waited with bated breath as America's central bank announced whether they would raise interest rates.

Now, most people in the World have no idea what the US Federal Reserve (The FED) is – let alone what it does, and more importantly what it has done.

It's been 7 years now since The FED reduced America's over night interest rate to the never before seen rate of 0%. At the time, this unorthodox decision clobbered the collective investment World square on the 'noggin.

After all, how can interest rates be 0%?

The FED justified this Mars-like decision by claiming that 0% interest rates would quickly restore the World to accelerating economic growth, AND that they would INCREASE the 0% interest rate at sometime within the next 12-15 months.

It's JUST a number

Now, here we are 7 years or 84 months later and not only are American interest rates still at 0%, but EVERYONE in the financial, political and economic World are BEGGING the FED to keep interest rates at 0%.

Stock and Bond market experts claim that if the FED increases interest rates above 0%, both markets will crash.

Presidents, prime ministers and mayors claim that if the FED increases interest rates above 0%, millions of jobs, homeowners and cities will crash as well.

Economists claim that if the FED increases interest rates above 0%, global economies will plummet back to the dark ages, and since economists are not needed during dark ages – they too held their collective breath.

Then at exactly 2 pm EST, the US Federal Reserve announced that yes indeed, it would NOT raise interest rates due to their fear of:

1. Financial markets crashing
2. Millions of losses across jobs, housing and cities
3. Economists becoming irrelevant

In effect, everyone is proclaiming that simply raising interest rates from 0% to +0.25% will destroy our planet.

Think about this - we're not talking about the Earth's crust over heating, a Walking Dead-like flu spreading, or even a Borg assimilation; rather a very simple, very small, *fractional* change in a number.

Yes, the change in a number is what has the World quaking in their financial boots.

So, when combining this interest rate decision with the IceCap view that global growth is slowing – not improving, it should become VERY obvious that the hand holding, kumbaya global recovery touted by the big banks and mutual fund sales people is pure rubbish.

The reason this 0% rate is so important is twofold:

1. Since 1980, the US FED has continuously reduced interest rates every single time there was a financial crisis. They started at 20%, and now they are right down to 0% - in other words, they've run out of bullets.

2. The rest of the World sets their interest rates based upon what the US does with their interest rates. In other words, with the US at 0%, the rest of the World has also run out of bullets.

Never to give up (after all, it is their honour at stake here), the World's greatest and dearest economists have concluded the reason everything is not working these days is simply because interest rates are not low enough.

Huh – come again?

Real World vs Fantasy World

While the rest of us live in a World where 0 is the lowest you can go, economists have once again reclaimed their vice-grip hold on the World by saying all the World really needs is NEGATIVE interest rates.

Now, everyone who is a little shy or has low confidence in understanding our complicated money World, just ask yourself the following 2 questions:

1. If you borrow money from a bank, do you expect to pay the bank interest? Yes or No.
2. If you lend money to a bank (ie. leave money on deposit), do you expect the bank to pay you interest? Yes or No.

In the real World, the answer is YES to both questions.

In the fantasy World created by economists, the answer is NO.

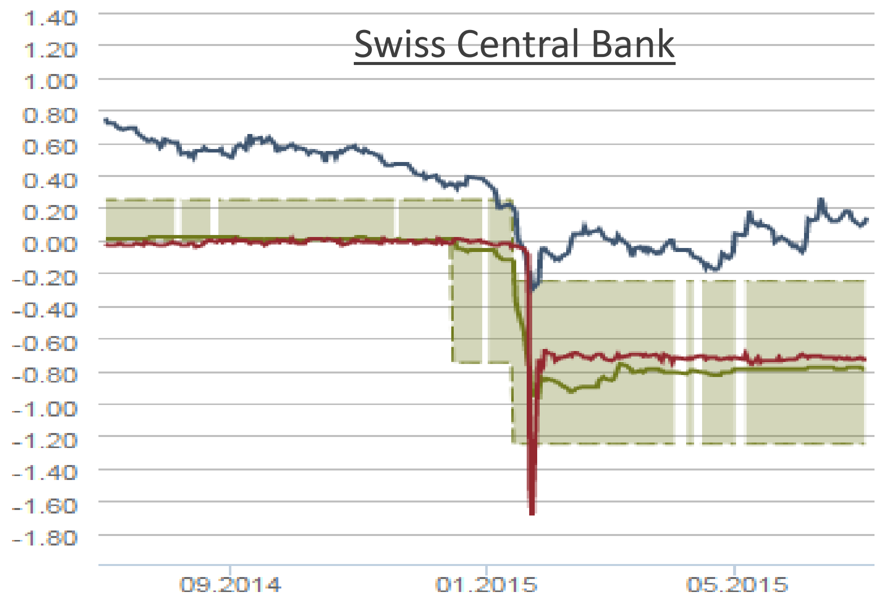
NEGATIVE interest rates turns everything upside down and changes the answer to NO.

Economists claimed 0% interest rates would encourage everyone to borrow money and then spend it, which would create an enormous economic recovery.

But this didn't happen. Instead, people and companies are hording their savings. Never one to back down, economists responded with a "I'll show you".

NEGATIVE interest rates will discourage people and companies from hoarding, and if you are not hoarding, it means you are spending. And THAT is exactly what is needed to kick-start the economies.

In the World today there are 22 countries with NEGATIVE interest rates including all 19 countries in the Eurozone as well as Denmark, Sweden, and Switzerland.



Addition by subtraction

And countries who are not at 0% will be there before you know it. So far in 2015, the following countries have reduced interest rates:

1. Albania
2. Argentina
3. Armenia
4. Australia
5. Azerbaijan
6. Botswana
7. Bulgaria
8. Canada
9. Cape Verde
10. Central African States
11. Chile
12. China
13. Congo Democratic Republic
14. Croatia
15. Dominican Republic
16. Egypt
17. Hungary
18. India
19. Indonesia
20. Israel
21. Jamaica
22. Jordan
23. Macedonia
26. Mauritus
27. Mexico
28. Morocco
29. Mozambique
30. New Zealand
31. Norway
32. Pakistan
33. Poland
34. Romania
35. Russia
36. Rwanda
37. Serbia
38. Sierra Leone
39. South Korea
40. Sri Lanka
41. Taiwan
42. Thailand
43. Turkey
44. Ukraine
45. Uzbekistan
46. Vietnam
47. West African States

Source: Centralbanknews.info

As you can see, practically every country on the planet is desperately trying to reinvigorate their economies by reducing their interest rates.

Yet, despite everyone reducing interest rates the global economy continues to act in a way not published in any economic text book.

The reason this should be a concern is due to the effect it is having on people who rely upon higher interest rates including:

1. Savers
2. Pension funds
3. Banks
4. Insurance companies

By targeting lower interest rates, the World has unknowingly favoured one side of the economic pie and grossly disfavoured the other side.

In theory, lower interest rates should entice people to borrow more and spend more. Yet, in reality this obviously isn't happening.

Instead, low interest rates are absolutely crushing savers everywhere. Those who previously relied upon earning 5% and higher on their savings are instead earning 0% or a smidgen higher than 0%.

This means, many elderly people have suddenly absorbed an enormous cut in their retirement income. The gentleman with $100,000 in deposits who previously earned 5% or $5000/year, is now collecting less than $1000/year, or put another way – a 80% cut in his retirement income.

Look forward, not backward

Pension funds usually have anywhere from 30% to 70% of their investments in bonds – none of which are earning anything close to the amount required to meet their legal payment obligations.

Virtually all pension funds today are in a deficit position, and applying traditional thinking and backward looking consulting advice will drive many to extinction.

Banks too are being burned by the scorched interest rate earth. Banks maintain virtually all of their investments in bonds as well, and the interest income from these trillion dollar portfolios are also decreasing by the day.

Ever wonder why banks are nickel, diming and dollaring everyone for every account, and every transaction? Because of 0% interest rates.

Same story for insurance companies – they cannot earn interest on their investments. Instead, they are increasing premiums on everything all because of 0% interest rates.

The further our economies decline, the lower interest rates will fall. The lower interest rates fall, the less money is paid out as interest. The cycle continues, until unfortunately something breaks – and that something will be the bond market and those companies that are dependent upon the bond market to survive.

Meanwhile as economies decline, governments have to borrow even more to repay old loans & make up for the lower tax revenues received.

SOARING
Debt &
Deficits

Governments are in trouble

During the last 70 years, Puerto Rico has never, ever failed to pay back a loan – until now.

One of the biggest fallacies in the investment industry is the belief that if something has never happened in your lifetime, then it will never happen.

If only that were true. For our long-time readers, you are well aware of our view that governments everywhere have accumulated too much debt.

Countries, states, provinces and cities are all guilty. Borrowing worked in the past, but that was a past with solid economic growth, normal interest rate levels and financial markets void of direct manipulation.

Today is a different story, but only different in that the debt mess we are in today hasn't occurred during our lifetimes. And hence, the skepticism to the suggestion that we are headed towards a *different* financial reality, and worse still, the deer-in-headlights reaction from other investment professionals.

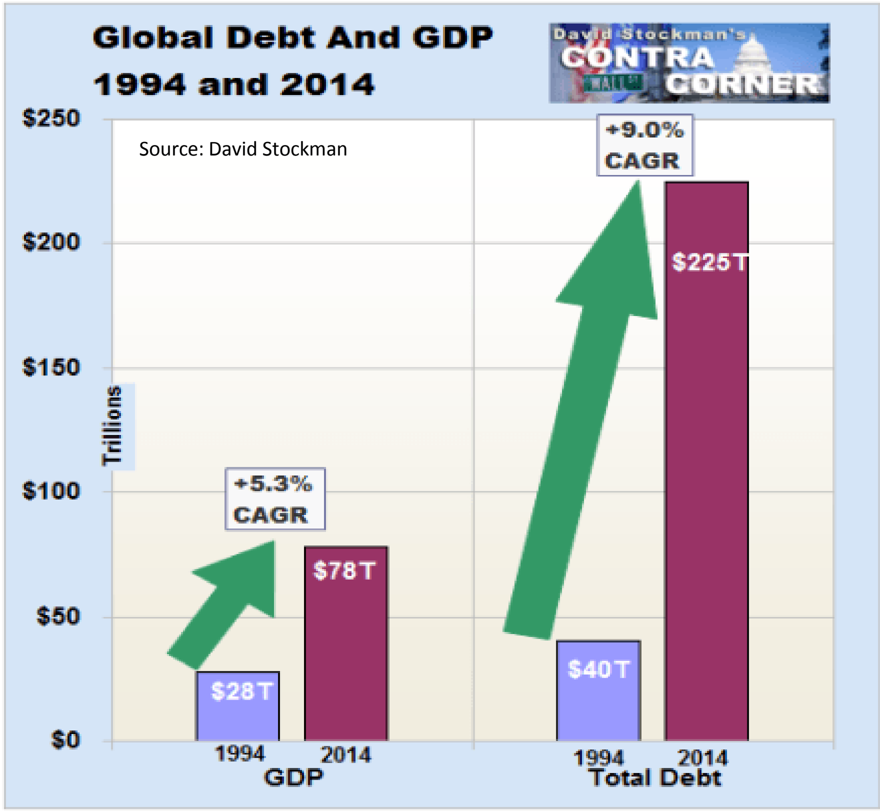
At this point, you know that governments are spending more money than they collect in taxes.

You now also know that as economies decline, governments collect

Less money available for everything

less taxes. Which subsequently means they need to borrow to make up the difference. And since governments perpetually spend more than they collect in taxes, the debt pile increases perpetually.

There are countless charts and data points showing people how government debt has exploded – we'll show you just one:



Of course, the big banks will always say you can "grow your way" out of a debt problem. This may be true for certain individuals and certain companies, but it isn't true at an aggregate level.

The only way for the World to grow its way out, is if it somehow doubles its GDP growth rate, or alternatively it reduces their borrowing rate amount by 50%.

With global growth declining, and government deficits widening it is impossible for either of these scenarios to occur.

On another hand, Captain Obvious will tell you, yes debt levels are reaching high levels, but this doesn't mean it will break any time soon. And this is where we offer a different perspective on why the global debt problem is on the verge of popping.

Instead of looking at the amount of debt, focus on the amount of tax revenues available to pay the interest owing.

Country	Interest Expense as % of Tax Revenues
USA	13.5%
Canada	7.9%
United Kingdom	7.6%
Germany	4.9%
Japan	15.6%
Australia	5.8%

Source: Worldbank.org

Here we show that currently over 13.5% of American taxes are used to pay interest .

And 7.9% of Canada's taxes go towards paying interest expense.

Long term interest rates are the key

Now, where this becomes dreadful is when you realise the average interest rate paid on each country's debt outstanding. These rates are as follows:

Country	Average Interest Rate
USA	2.3%
Canada	1.4%
United Kingdom	1.6%
Germany	0.5%
Japan	0.3%
Australia	2.6%

Next is the key point, and why government bond markets have become the riskiest game in town.

You already know that interest rates have been cut to 0% and lower. As well, previous IceCap Global Market Outlooks explained how money printing has lowered other interest rates to the lowest level in over 750 years.

Accepting these facts, one should conclude that it is only a matter of when, not if, governments and centrals banks are no longer able to artificially suppress interest rates.

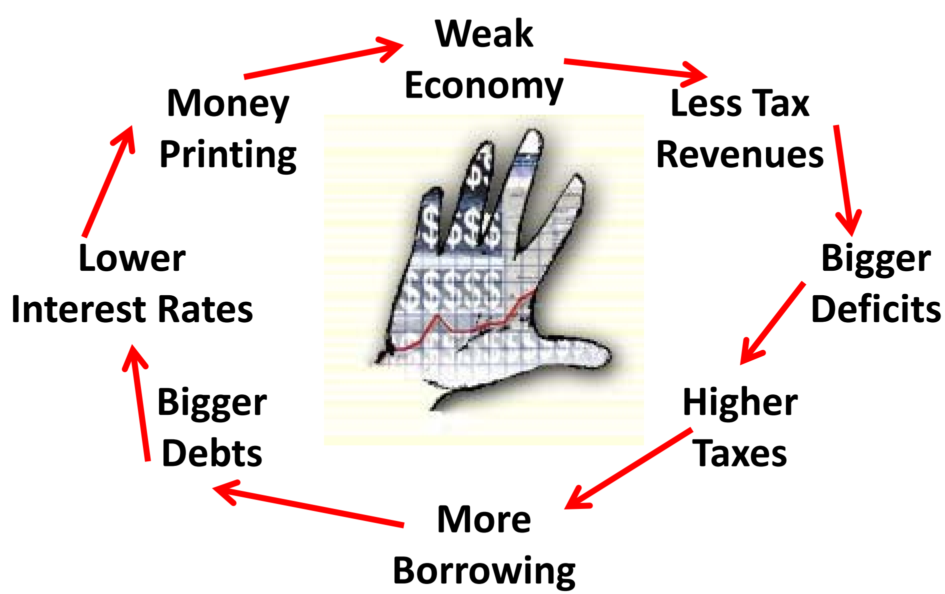
And, when this happens interest rates will increase, not gradually, but dramatically. To understand the impact of dramatically higher interest rates, think about what happens to the amount of interest governments have to pay on their debts.

Now think how this amount changes when interest rates double, then triple, and then quadruple.

Yes, in each scenario the amount of taxes collected being used to pay interest increases exponentially. Which automatically means governments have less tax revenues available to pay for healthcare, education, transportation, social security and so on.

This is the real point that is rarely discussed, and the main point investors need to accept.

To reinforce this point, note the below diagram from page 8:



Eventually, private investors will return to the market and help restore everything to an equilibrium. Yet, this will only happen <u>after</u> the government bubble breaks, not <u>before</u>.

The band wagon

What happens next?

Recent market behavior and reactions from central banks and governments confirms this collision between the ECONOMY, INTEREST RATES, and DEBT/DEFICITS has already started.

While everyone continues to watch the stock market for guidance – we believe this is the wrong place to spend your time. Yes, it's important, but a true investor should spend equal time across stocks, bonds, currencies, commodity and real estate markets.

They are all intricately linked together – one feeds off the other, and then spits it out and starts again. Solely focusing on the stock market, and using 20 years of market history will make you poor.

The bond market remains the key driver, and the pivotal event will be when government bond yields all converge towards 0% or run negative. When this occurs from overnight rates out to 2 year and 5 year rates – you will then know it's time to do something.

Of course, a key driver causing this huge rotation to bonds will be driven jointly by further declines in stock markets and further declines in global growth or a geopolitical event (Syria, European migrant crisis etc).

After the recent correction, many were quick to jump on one of two wagons. The first wagon is being pulled by the big bank machines and they hollered that you shouldn't worry about this little market hiccup – it's a natural part of markets and you should use the opportunity To buy the dip, and then buy some more. After all, we are in a recovery and the world will by-pass Autumn and Winter and head straight to Spring and Summer once more.

The other wagon is supported by those who believe we are on the cusp of a 50% to 75% drop in stock markets everywhere. This camp rightfully points to ineffective interest rates, ineffective money printing and ineffective governments as the reason for an epic cut.

We believe both are wrong.

It's an eternal disappointment that the big banks do not acknowledge the current state of the money world. Serious investment managers within these organizations should be embarrassed to call these firms home.

As well, proclaiming the world faces an inconvenient truth and that the outcome will be reflected in the stock market is another example of using linear thinking in a dynamic world.

Instead, both sides need to understand 2 critical facts about today's market:

1) Money will always run away from danger, and
2) The danger today is in government, not companies

Linear thinkers know that every crisis during our lifetime has always resulted in the stock market producing devastating losses.

Gasps, shrieks & horrors

The crisis today however is in the public sector. We've demonstrated that the entire crisis today is built upon governments and central banks doing everything in their power to prolong the borrowing cycle.

The fact that the world is rolling over into declining growth and governments are now dependent upon artificial interest rate levels to maintain their borrowing capacities shows that the crisis today is in the government bond sector.

Many believe that investors will always move their money around to seek the best possible return. This is true, but only for retail investors.

The very big investors in the world, we're talking about those with millions and billions, do not seek to maximize their return. Instead they seek to preserve their capital, generate steady returns, but most of all – they always seek to avoid near-certain losses.

Few people in the industry understand this most important concept, yet it is absolutely critical if you want to get through this government debt crisis.

Yes, stock and other markets will become quite volatile – that is pretty well guaranteed. However, knowing that when the bond market begins to tip over, investors everywhere will be following the lead of the very wealthy and they will run away from this danger.

It's quite obvious that government bonds will become ground zero.

The next step to liberating your financial mind is asking the following question: Who gets hurt when government bonds fail? The answer: Banks, Insurance companies and pension funds.

Each of these entities are 100% reliant upon the government bond market remaining healthy. Their entire foundations are built upon government bonds remaining as solid as a brick.

We've written, spoken and presented this view before and we have to say the gasps, shrieks and horrors caused by our statements creates quite the stir.

In many ways, it is quite funny. We clearly demonstrate that governments are on the verge of popping their own bond bubble. Our audiences all nod in agreement. But when you then tell them that if government bonds fail, then banks fail too – the deniers quickly dig a hole in the floor and sink their heads long and deep.

Find someone who understands bank balance sheets, and ask them what happens to the bank if government bonds break. If they respond with a "no big deal" – it means they are not the balance sheet expert they make themselves out to be.

High yield bonds, emerging market bonds and emerging market currencies will also suffer the same fate as banks and insurance companies. All are completely dependent upon the government bond market holding.

There are calm waters too

Of course, there are always two sides to every investment coin, in other words there is a positive outlook for other markets.

Yes, for every yin, there is a yang. As money flees the danger zones, it has to go somewhere. And that somewhere will be US Dollars and the stock market.

Naturally, many scoff at this suggestion as well. The internets are crack full of crack pots calling for the US Dollar to collapse. Eventually they will be right – but not yet.

Again, investors need to use both a non-linear perspective AND a global perspective. No matter how bad America looks in isolation – the rest of the World is in worse shape. And as a result, international capital will flow AWAY from non-US markets and TOWARDS US markets. The US Dollar is the DEEPEST market in the world – no other market is big enough to absorb the size of international flows resulting from this quickly deteriorating global decline.

In many ways, the surge into US Dollars has already started. Many currencies are down considerably relative to USD. Yet, as the crisis accelerates, we expect to see even further strengthening of the USD.

Now, it won't be a smooth and easy sail. Rough waters will clearly arise as we go further. Yet, there is a path to successfully negotiating what is coming. But first, you have to recognise and see the rough waters in which we are sailing.

Our Strategy

Well, the quiet sleepy days of summer are definitely over. During the past couple of months, all stock markets and most bond markets declined. And, the decline was both swift and indiscriminate.

Regular readers know that we've been expecting increased volatility and as a result our strategies were already very conservative before the correction occurred.

In many ways, global markets are moving inline with what we have been expecting. Slower growth is creating "growth" scares. Interest rate moves are creating "currency" scares, and Chinese news is creating "everything" scares.

Prior to the correction, our portfolios held no high yield bonds, no emerging bonds, no emerging market equities and for our non-USD portfolios, we've held a 25% holding in a pure currency strategy.

This strategy positioning helped cushion our portfolios and our clients are pleased with the focus on capital protection.

Our specific strategies are as follows:

Stocks

When the recent correction began, our research concluded several significant technical lines were crossed and we therefore reduced our positions. As of writing, global stock markets remain in a volatile state and we'll remain flexible as to when we add or reduce our holdings.

Our strongest conviction is in currencies

Bonds

We continue to avoid high yield and emerging market bond strategies. Both of these areas have been very popular over the last few years, but their appeal has been greatly diminished.

Investors buying these strategies argue that the income payouts are secure – we disagree. From a fundamental perspective, the default risk for many high yield companies will increase significantly as the global slowdown accelerates. Ironically, what makes these bond strategies so unattractive, is how attractive they've been. What we mean by this is that prior to 0% interest rate policies few people were invested in these strategies. Today however, practically everyone has a touch of them in one shape or another. The danger zone with these strategies is that while the entry door was wide open, the exit door is a very small portal that will become a bottleneck. This lack of liquidity frightens us and should frighten you as well.

Currencies

Nothing has changed. Our strong view of the USD and our resulting investment strategy has generated +22% returns for Canadian investors over the last year. Unless the global debt crisis is resolved, we continue to see outsized returns for USD currency. If market conditions change, we will change our view. For now, this is our strongest, conviction view.

Commodities

No changes here either. We are not bottom fishing in energy markets and gold potentially has a lot more downside as well.

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.

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Thank you for sharing your time with us.