



Strategy update

Why we do not get bored in Q4: Central Banks, Elections and Volatility



BK & Associates
Private Wealth Management
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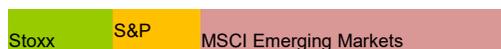
Asset Allocation Model

Momentum: markets on neutral – No changes

Valuation: US high, Europe neutral, Emerging Markets cheap

Valuation	Momentum Model: Buy					Momentum Model: Sell					Momentum Model: Neutral				
very high	P	C	C	B	B	C	C	C	C	C/B	C	C	C	C/B	C/B
high	P	P	C/E	B	B	C	C	C	C/B	B	P	C	C	C/B	C/B
neutral	E/P	E/P	E/B	E/B	E/B	C	C	C	C/B	B	E/P	C/E	C	B	B
low	E	E	E/B	E/B	E/B	P/E	C/E	C/E	C/B	C/B	E/P	C/E	C/E	E/B	E/B
very low	E	E	E	E	E/B	E	E	E/B	E/B	E/B	E	E	E/B	E/B	E/B
	very low	low	neutral	high	very high	very low	low	neutral	high	very high	very low	low	neutral	high	very high

Volatility



E = Equity, High Yield Bonds

B = Barrier

P = Protection / Participation / Hedge funds

C = Cash / Quality bonds



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If history repeats...

Seasonal tailwind – after weak September strong, but volatile Q4 should follow



Data: 1897-2011, 28 Presidential cycles



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Dollar Index

With mixed economic data & passive FED policy on one side and geopolitical tensions & volatile markets on the other side, the USD trading within a sideways range. Against Euro still -4% year to date.



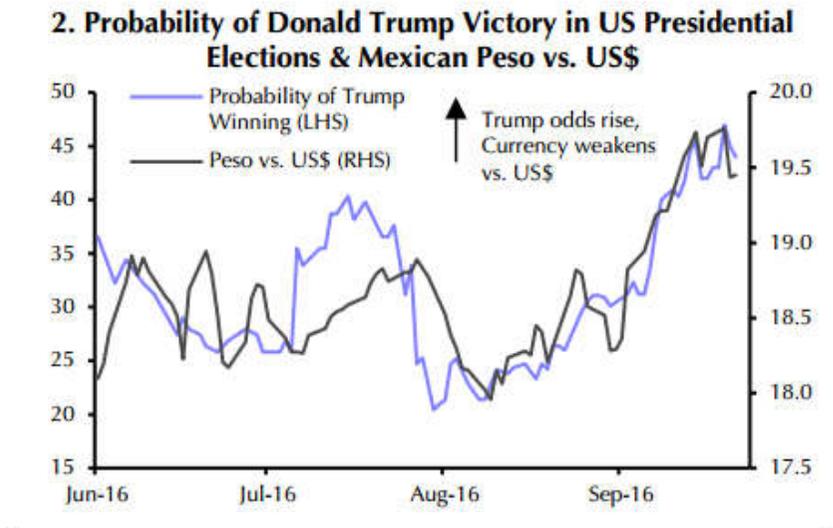
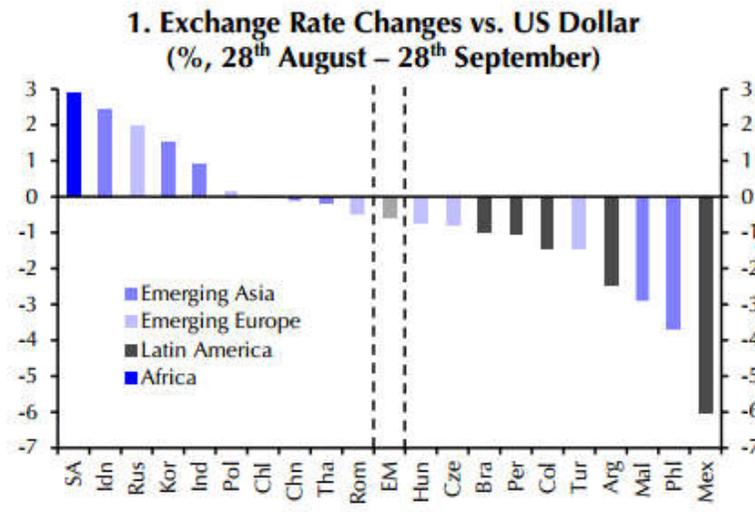


US Dollar vs. Emerging Market Currencies

The EM currencies weakened by about 0.5% against the US dollar on average in the past month.

The Mexican peso underperformed, as its fortunes continued track the likelihood that Donald Trump will emerge victorious from the election given his protectionist mantra.

Tighter monetary policy in the US should not have a major impact on EM currencies. After all, most have already fallen a long way against the dollar. And policy rate differentials have not been an important driver of these moves.





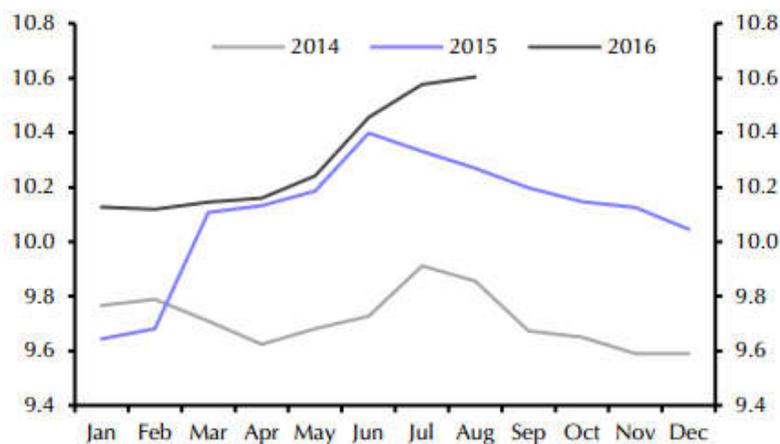
First deal after years – Just to shore up OPEC’s credibility?

Although our sense is that it’s unlikely to be a game-changer for Saudi Arabia, even if it shoulders most of the burden of the fall in production. The deal does show that the Saudi authorities have moderated their opposition towards coordinated action in the oil market.

But we remain of the view that the Kingdom will continue to tolerate relatively low oil prices and pursue fiscal austerity to adjust instead. There would need to be a marked rise in prices to make a fundamental difference to the country’s budget and current account balances (Chart 2).

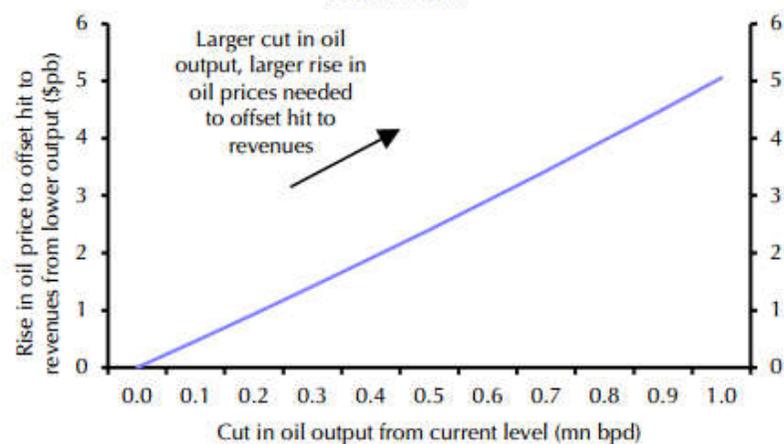
Despite cut, no real changes in the seasonal trends. After summer peak, always correction toward year end (Chart 1).

Chart 1: Saudi Arabia Oil Production (mn bpd)



Source – OPEC

Chart 2: Change in Oil Prices Needed to Offset Decline in Oil Production

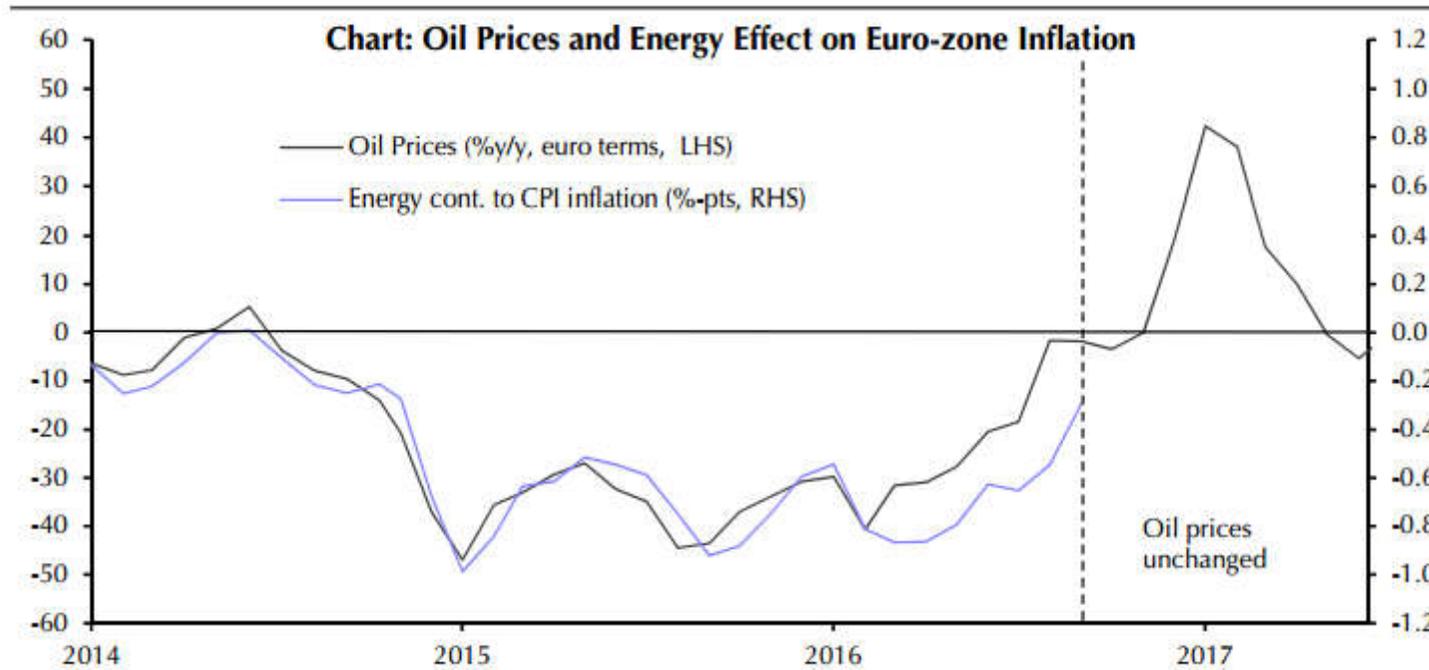


Sources – OPEC, Capital Economics



ECB: ahead of busy Q4 2016 – Extension and further measures?

Headline inflation in the euro-zone has started to pick up as the effects of previous falls in energy prices fade. But with a large amount of slack in the labour market, underlying price pressures will remain subdued, meaning that pressure on the ECB to increase its monetary stimulus will build.



ECB has more work to do to return euro-zone inflation to target on a sustained basis.

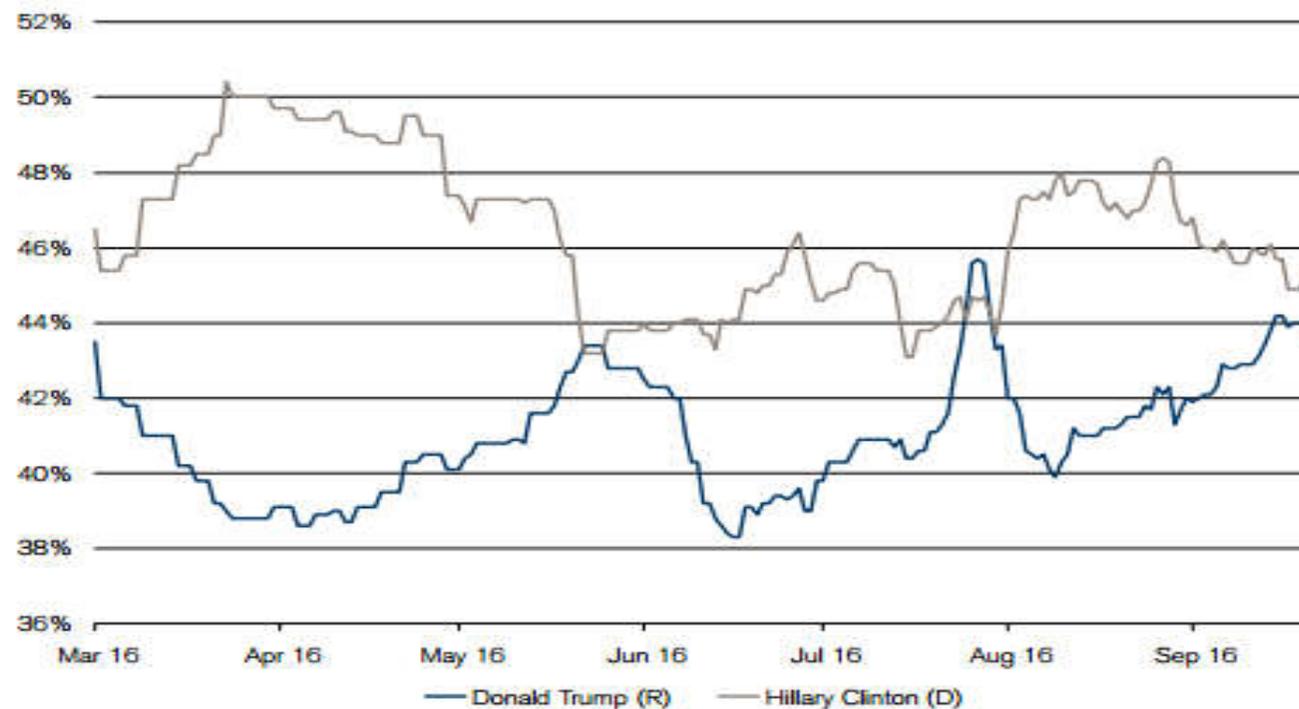
We think that the Bank will announce a six-month extension of its asset purchases in December.



US Presidential race remains wide open

For the markets and the world, there is little doubt that a Trump victory would be a source of increased uncertainty. Similar reaction as after the UK's Brexit vote: sharp fall and strong recovery of equities combined with persisting weak Dollar?

US presidential election poll: Narrowing lead for Clinton



Last data point: 23/09/2016. Source: Bloomberg, Credit Suisse



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Summary

- **Asset Allocation Model** keeping neutral for equities (page 3)
- **Equity Markets: Still strong in Minus this year.**
Except the US, all major markets (Asia, Europe) are still in average by minus 8-10% this year.
However, the weak USD against EUR eliminating completely the positive US market performance for European investors.
Despite Brexit and historically weak month September, market should move higher this year (page 4)
- **Corporate Bonds and High Yields** moving sideways and still offering good opportunities.
Important to not look at short-term volatility, but waiting patiently to achieve the targeted yields.
- **Commodities:** still in consolidation phase and we waiting for buying opportunity.
- **Hedge Funds:** having another difficult year so far after challenging 2015. Long-term approach important.



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Strategy implementation

- **Slightly lower exposure** with strong European bias to equity markets (Emerging Market: took profit on the Brazilian market) through structured products and the BK Fund.
- **Alternative Investments:** Added a new position “Oceano” with very stable and strong track record. The Fund is designed to provide investors with a constant return and a maximum protection against the typical defaulting risk of the capital market. The Fund using insurance by global providers to protect capital.
- **Fixed Income:** After adding diverse positions over the last six months (single positions; bond baskets and bond funds), we keeping our positions and waiting patiently.
If we find the right composition, then still like to create a new corporate bond basket in USD and maturity 2020
- **Structured Products:** We used the higher volatility of the last weeks to build up a new positions in the banking sector: 10.8% Reverse Convertible on BNP / ING/ UBS with 30% conditional capital protection
- **Commodities:**
Would reopen positions in Gold- and Silver mining stocks in a consolidation phase



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- Name Bardoly-Küzmös (BK) & Associates AG
- Headquarters Seefeldstrasse 283 A
CH – 8008 Zurich
- Telephone +41-44-515-2041 (central)
- Fax +41-44-400-9203
- Internet www.bkwealthmanagement.com
- Registration/Jurisdiction Kanton Zurich
- SHAB Number CH-020.3.034.164-2



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