



Dear Partner,

We concluded the fourth quarter of 2017 with a drop of 11.6% and the price of the Fund at 2.21.

The 10 year US government bonds concluded the quarter with a yield of 2.4% compared to 2.32% at the end of the third quarter. The 30 year US government bonds concluded the quarter with a yield of 2.74% compared to 2.86% at the end of the third quarter.

Yes –this is not an error, the 10 year bonds dropped while the 30 year bonds rose and this while the Fed raised the interest in the last year and a quarter by 1.25%, and it expects three more interest hikes in 2018. This of course is not the only absurd case in the markets, therefore we will stress the absurd points in the market our annual survey.

For the past several years we have been claiming that if there is unemployment of over 10% as exists today in Europe, and specifically in Spain and Italy, it is impossible for people to pay interest or make mortgage payments as usual. However, we don't see any expression of this in the European bank's financial statements. So here is a brief explanation how the banks in Italy succeed in presenting reasonable balance sheets, while their clients have difficulties making their payments as demanded by the banks.

The Italian banks are in the severe shape on the continent only second after the Greek banks. The rate of non-performing loans of the Italian banks was at the beginning of 2017 16% and at the end of the year was reduced to 10.2%, (a non-performing loan is a loan that is not paid back during 90 days, which means a reduction of problematic loans in the bank's balance sheets by 80 billion Euros. The question of course is, is this improvement a result of an impressive growth of which we are not aware, or perhaps a result of some financial acrobatics whose end will come. The scope of the balance sheets of all the banks in Italy is approx. 3.9 trillion Euros. The three largest banks are responsible for 60% of this amount, the scope of credit in Italy tripled itself in the last ten years, which teaches us that, no there were no loan payments made but only deployment of payments, that is, in order not to classify the problematic debts as "non performing loans" they spread the debts for a long period, normally with small payments over a long period and payment of the principle at the end."At the end of the period you and I won't be around anymore" said to me a former General Manager of Bank Leumi Mortgage bank 30 years ago – and he was right.

The Bank for International Settlements (BIS) which resides in Basle and which acts as the Central Bank for the Central Banks defines "Zombie Company" as a company that exists for at least 10 years, is traded in the stock exchange, and that its interest payments exceed its profits before interest and taxes. About 10% of the corporations in six countries in the Euro Zone and amongst them – France, Italy, and Spain, are Zombie Corporations. In Italy and Spain the number of Zombie Corporations have tripled since 2007, and in Italy they employed 10% of the working force of the country. It is clear to all that such a situation is possible only because the financial system is flooded by cheap money by the Central Bank of Europe. A significant portion of these Zombie Corporations enjoy funding at a cost of 2% p.a., a situation that cannot continue for a long time.

The chief economist of the Central Bank of the Central Banks (BIS) – William White, said that "the levels of debt in the world reached unreasonable heights in reaction to the extremely low interest rate, in a way that will be worse than the 2008 crisis". It was reported this week in Britain that the consumer debts rose in October by – 9.6% a growth rate 4 times higher than the growth of salaries.



In the US the Fed Bank announced that debts of households amount to 13 trillion Dollars a growth of .9% compared to the previous quarter. During 13 quarters the debt grew and it is 280 billion Dollars higher compared to 2008. One of the warning signs is the rise of non payment of car loans, loans similar to subprime loans for cars are today about 20% of the car market, 23 million families have these dangerous loans. Thus phenomena is known to all in Israel as well, it is very easy to obtain a car loan for 100% of the price – so why not buy a new car?

The total amount of assets purchased by the Central Banks in Europe and Japan is nearing 2 trillion Dollars, European junk bonds are being traded at yields that are lower than the US government bonds.

The 10 year Spanish government bonds are traded at a yield of 1.5%. The US government bonds are traded at a yield of 2.4%, and in Spain the unemployment rate is 22% while in the US it is only 4.7%.

Israel is ranked in the international ranking scale as four levels below the US, however the 10 year Israel government bond is traded at a yield of 1.8% and the US bond at 2.4%.

The Central Bank of the US raised the interest in 2017 by 1% (from 0.25 to 1.25%) however the yield on the 30 year bond dropped during the course of the year from 3% to 2.74%.

Peter Schiff – the investor who foresaw the previous crisis in the capital markets, claims that the current situation in the markets is far more worse than the situation in 2008. At that time the banks were called to pitch in, they flooded the markets with liquidity, they rescued all the zombies (General Motors, Lehman Bros., Chrysler, AIG and others) and we see the results in the markets to this very day. The next time- the Central Banks won't be able to help, because the public has lost its faith in the current banking system. The printing of money did not solve the problem on the contrary it created a bigger problem.

An expression of that can be seen in two significant phenomena of 2017 – the Bitcoin (how can we manage without it) and the drop of the US Dollar by about 10% versus most of the currencies.

To these two phenomena there is one explanation- the loss of faith by the markets in the Dollar, and in magic solutions. The Bitcoin is an expression of capability of the markets to invest in an asset that is limited in quantity, and that is not part of the policy of the Central Banks that can print every currency except for the Bitcoin. Such was the situation with gold in the past, a refuge for a commodity with a limited amount, but by turning the gold into a financial asset (by future contracts) allowing everyone to sell gold even if one doesn't have any, therefore the amount of gold in the world is unlimited, contrary to the Bitcoin (until some hacker will start reproducing Bitcoins as much as he desires.)

Furthermore the drop in the Dollar despite the rise in interest, is an expression of the amount of money that has been printed in recent years, the bubbles in the markets, the price of real estate, the records of indices that are broken every quarter, these are all results of giant manipulations by the central banks- and not results of real longstanding growth.

Dear Partner, we are repeating ourselves for over six years, however you must remember when rationality will hit the markets, those six years will be meaningless compared to the long time (tens of years) that it will take for the financial markets to recover, as well as the personal savings.

Respectfully yours,

Roy Mayer



The Fund's Assets Composition for 31/12/2017

| Security | % of Portfolio | Rate of Exposure | Profile Exposure |
|--------------------------------------|----------------|------------------|------------------|
| U.S 30 Year T – Bond – Short | 278 | 278 | Bonds |
| Total Short Exposure | - | 278 | - |
| Total Long Exposure | - | 103 | - |
| Total liquidity | 10 | 10 | - |
| Total Exposure To Stocks/Commodities | - | - | - |
| Total Exposure To Bonds | - | 278 | - |
| Total Exposure To Forex | - | 10 | - |
| Total | - | 287 | - |