Newsletter – March 2016

Dear Partner,

We concluded the first quarter of 2016 with a decline of 36% and a price of the Fund at 3.28.

The 10 year US government bond concluded the quarter with a yield of 1.79% compared to a yield of 2.27% at the end of December. The 30 year US government bond (on which we are in a short position) concluded the quarter with a yield of 2.62% compared to 3.02% at the end of December.

We relate the decline in the yields mainly to the month of January, in which the serious capital adequacy problem of the European banks - rose to the surface in full force. Persistent rumors concerning liquidity difficulties of the largest European bank, - Deutsche Bank caused a spin in the capital markets and as result of that the "run to safety" which in other words the purchase of US government bonds. In our Newsletter of October 2015 we noted that, and we explained that there is a reason for the free fall of the prices of the stocks of the largest banks in the world, that is not yet clear to us at this point. Well, the issue floated to the top in January, and swept the entire financial system. We repeat our stand that commercial banks have difficulty in performing when the unemployment environment is at 10%-12% and definitely have no possibility to collect funds in counties that are hit with unemployment rates of 15% - 25% like Spain or Italy. By the way-the the bonds of the Spanish government rose this quarter more that the German government bond and this is apparently because of the background whereby Spain's got a rating of (BBB+) by S&P. The director of the Central European Bank understood in February that if he won't use a heavy "bazooka" immediately, the banking story might roll to his doorstep very quickly. Therefore – he initiated and acted immediately to increase the bonds purchasing program from the banking system with an additional amount of 20 billion Euros to a total of 80 billion Euros per month. Furthermore he lowered the negative interest rate to an even lower rate (-0.4%) and increased to the banks (ltro) with additional substantial amounts. The whole program was presented as an additional incentive to the European economy however today it is clear to all that we have been explaining for several years that the main purpose of this action is to save the European banking system and nothing else. There is nothing in this program or the other earlier programs that will create demands, or a sustainable growth. The only purpose is to save the large banks so at least they don't collapse during the shift of the current central bank. It is important to understand that these have an economical price. The lowering of yields of European countries to lowest levels of over 500 years, (the bonds with the best performances this quarter were of Turkey, Greece and Ukraine) the lowering of the yields of counties like Spain and Italy to the low levels of the US government yields, and especially the determination of the negative interest for depositors at the central bank creates havoc in the financial markets. Depositors are forced to take bigger and bigger risks and are of them are active in areas totally unfamiliar to them. How are banks expected to function in a negative interest environment? If a bank earns the difference between cost of its resources and what it does with the money, from where should the negative difference be financed? Will it continue to have resources at all? Who will deposit money in order to receive a "fine" on the funds?

During the first quarter, due to fears of a worldwide recession on one hand and the increase in the production of oil on the other the price of oil took a dive to the level of $27 a barrel. The fear of a worldwide recession and mainly the decrease in demands by East Asian countries headed by China, caused the additional lowering of bond yields. Since then there was a slight recovery of oil to the level of $40 a barrel which settled at $37. We are repeating what we wrote here in the past, quite a few countries base their economy on the export of oil, consequently the more the price drops they have to increase the production of oil in order to keep up a reasonable rate of income. In our opinion the price equilibrium of a barrel of oil is closer to $60 a barrel rather than $40. This is also the base price of to produce oil from oil shale. And most important of all, we must remember that when purchasing a barrel of oil there is no risk of non –payment which means that the risk in an investment in this commodity is much less than in the various securities.

The economy in the US continues to expand moderately. The American economy adds over 200,000 jobs a month and the rate of labor force started to rise. The Fed continues to zigzag with its intention to raise the interest rate during this year or not, depending on what the markets did the evening before…the move to lower the yields of the US government bonds this quarter was most significant since 2008. The MOVE index which reflects the fear of the rise of the yields of the US bonds (yes - n there is such a thing) went down at the end of the quarter to 67 points compared to an average of 78 points. The likelihood of raising the interest rate in this coming June according to a Bloomberg survey dropped from a level of 34% last week to 18%.

Dear partner, we are attaching the graphs that describe the "normal" yield rate of the US government bonds in the past 40 years. It is important to understand that when the interest rate return to their normal rates most of the capital assets in the financial markets will lose tens of percent of their value. This will be the largest capital deletion in history of finance and there is no economic solution for that.

All the directors of the central banks dragged all the financial markets into this huge cruel Ponzi adventure. They haven't a clue how to get out of this situation, their ammunition arsenal is empty, the markets are beginning to lose faith, until the breaking point which cannot be predicted. And on this somewhat optimistic note – the central banks are flying us all right into the mountain – the good news is that we're flying "business class".

Respectfully yours,
Roy Mayer

The Fund's Assets Composition for 31/03/2016

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	**-**	**102**	-
Total liquidity	**9**	**9**	-
Total Exposure To Stocks/Commodities	**-**	**0**	-
Total Exposure To Bonds	**-**	**278**	-
Total Exposure To Forex	**-**	**9**	-
Total	**-**	**287**	-

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