IceCap Asset Management Ltd.

Our view on global investment markets:

March 2014 – Connecting the Dots

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He shoots, he scores

Canadian, Wayne Gretzky is known as the greatest hockey player ever to lace up a pair of skates. His magical performances have left many fans, teammates and opposing players shaking their heads in awe. When asked the secret to his success, Mr. Gretzky simply replied that he connected the dots and went to where the puck was going – not where it had already been.

American football legend Frank Gore, has also made a career at connecting the dots. This mystical man also has the uncanny ability to anticipate slight movements of opposing defensive ends and linebackers, and then suddenly burst through the smallest of openings driving his team to victory.

While we all can't be Wayne Gretzky or Frank Gore, we do have the unique opportunity to connect the dots of our investment world. Seeing these dots and their connections, and correctly anticipating the windows of opportunities will guide investors to benefiting of what is about to happen on the investment field.

The Shoe

Just a few short weeks ago we dedicated our global market outlook to the increasing social unrest in emerging markets and the probability of it spreading into developed markets. In the publication we specifically addressed Saudi Arabia's positioning and the potential impact in the Middle East, as well as the developing crises in Ukraine, Turkey, and Thailand.

We have been told by our readers that the reason for the success of our Global Outlook is due to our ability to think independently, to remain objective and above all, to consistently challenge you to think outside the box.

Today, the box has shifted ever so suddenly into the next phase of the ongoing debt crisis. While it's difficult to find this perspective from the main stream media and worse still, the big banks - if you refocus your direction away from the daily minutiae of financial markets and reporting, you'll see very clearly that social and political change has taken hold.

Mind you, we have also been told that this stuff is irrelevant – just buy strong companies that pay dividends and you'll be okay. After all, this is what your big banks told you at market highs in the summer of 1987, then again in the spring of 1998, and let's not forget March of 2000, or the summer of 2007.

Financial historians are undoubtedly responding that despite sharp losses following each of these cherry-picked dates, markets have always recovered and will recover again, regardless of whatever happens next.

These infinitely-optimistic market cheerleaders are correct – markets will recover, they always do. Yet, few of these pundits acknowledge that each of these preceding, devastating market events, were followed by aggressive responses from our central banks and governments.

Animal blazoned logos

In addition, not everyone has a 30 year investment horizon. Sharp turns in markets actually hurt real people. Anticipating these turns will reward you with a few more solid nights of sleep.

With each crisis, our academically-anchored leaders cut interest rates, then cut taxes, and then increased spending. Of course, none of this would have been possible without borrowing more money. And it is this continuous increasing of our debt load that has quietly pushed the world's financial boat out too far one last time.

Now don't be too alarmed. Despite our vision of very serious events on the horizon, there are investment strategies to both grow and protect your capital during these volatile times. Yes, this is nice to hear. On the other hand, there are also investment strategies that will produce a few rather uncomfortable and likely awkward moments.

And it is this upcoming state of uneasiness that grabs our attention the most. During conversations with other investors and managers, it has become equally shocking and disappointing to learn that the majority are in the investment dark. Failing to recognise or worse still, acknowledge the extreme conditions the world is in will be the downfall for many.

For many investors these days, their hard earned savings have all been slammed into various reincarnations of the expensive balanced fund. Saving for a house – you get the balanced fund. Saving for your kids' education – meet the balanced fund. Retiring soon – there's a balanced fund for you. And even saving for that very special rainy day, will find yourself eyes deep in a balanced fund.

Not to worry though. Some of these funds have really cool names and animal-blazoned logos. Others come attached with manager pedigrees that would make a Labrador retriever proud.

Yet in the end your wealth is ricocheting down the highway at night with no lights on, and the radio blaring Pink Floyd and other hot money hits. Yes, the investment industry is degenerating right before your very eyes.

There is some good news. Using those very same eyes and a glass of unencumbered reality, you can see for yourself the two events that will significantly affect financial markets.

Connecting these dots is easy, but seeing them is up to you.

Government Bond and Currency Crisis

Rock star status is achieved by the very few. To be eligible, one must simply be held in a very high regard. It's difficult to achieve, but once you've earned this distinguished level of recognition, in the eyes of many you can never do wrong. Until of course you do.

In universities, students no longer aspire to become hedge fund managers, or investment bankers – that is so 2000s. Today, the really sharp knives all want to become a central banker. Posters of Warren

A Mona Lisa Smile

Buffett and Ray Dalio have been replaced with the Mona Lisa-like grins of Mark Carney, Ben Bernanke and Janet Yellen.

It is true that these masters' of the universe control the levers that affect our global economy, but is the praise, the respect, and the power justified? Sadly, no.

Reading down IceCap's memory lane, you'll recall our November 2012 "Salma Hayek" publication which described how world leaders had two choices in the way to manage the global economy.

The first option was based upon economic theory by Friedrich Hayek who claimed that the economy couldn't be and shouldn't be managed on an acute basis. Mr. Hayek believed that governments should simply ensure there was enough money available. That was about it.

If only our leaders had listened.

Instead, the financial world we enjoy today chose the second option which was built entirely on the mislead belief of John Maynard Keynes, that man could in fact control or better still eliminate the business cycle by changing interest rates, changing tax rates, and spending more money than you own.

In theory, this approach works beautifully. Then it meets reality. From our perspective, reality arrives when there are no more interest rates to cut, no more taxes to cut, and no more money to spend.

Chart 1 on the next page shows the success enjoyed by the US central bank's interest rate policy over the years. In 1997, the Asian crisis followed by the Russian crisis followed by the collapse of a gigantic hedge fund, allowed the American central bank to plant the seeds for the next crisis which turned out to be the tech bubble.

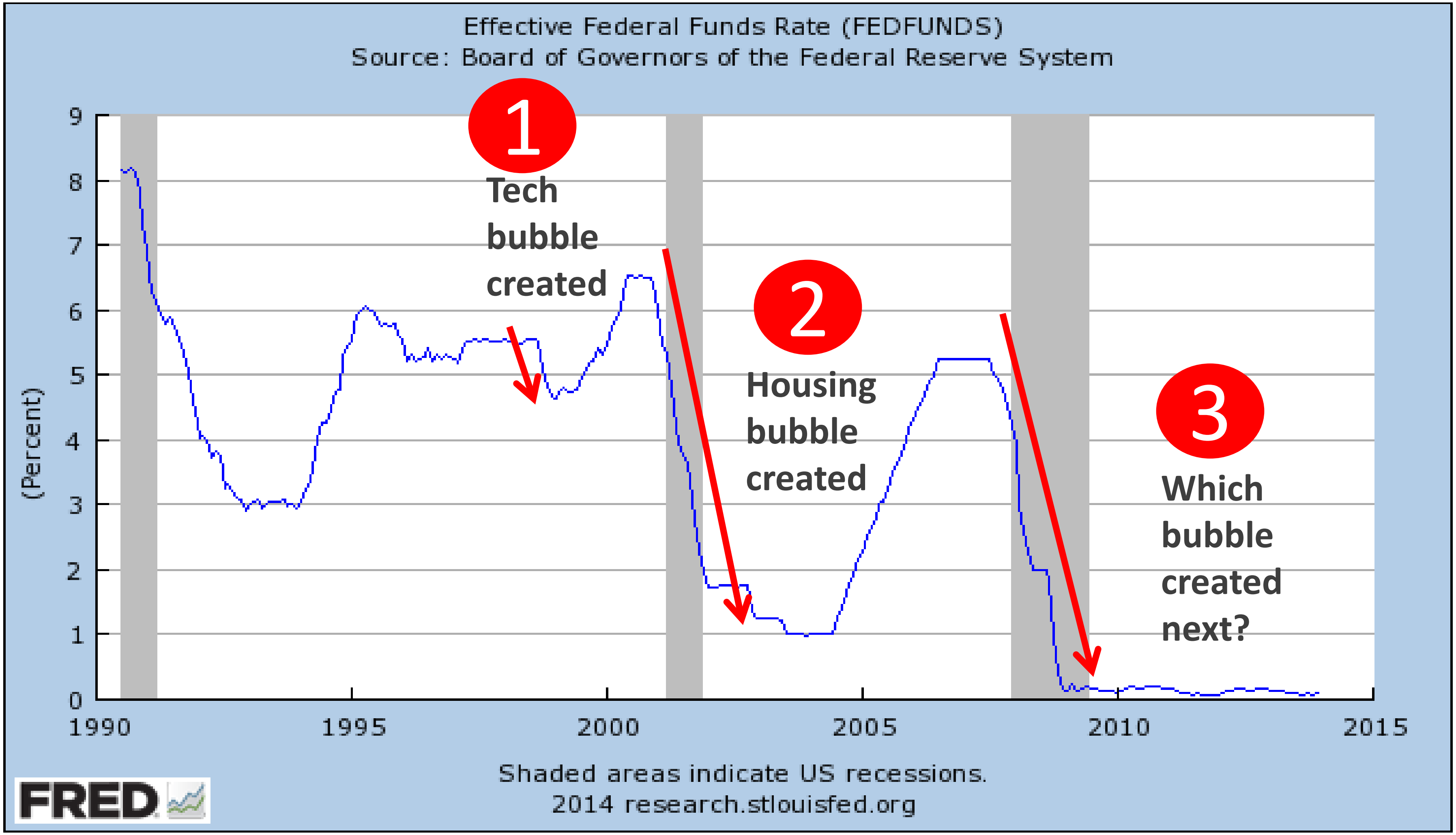
At the time, both financial pundits and the big banks with their balanced funds proclaimed that the world had indeed entered a different financial and economic era – yes, this time it was different.

Of course 4,000 Dow Jones Industrial and NASDAQ points later, the sheep started to lazily admit that perhaps this new post-Y2K economy wasn't all that it was cracked up to be.

Not to worry, once again the American central bank mounted their ponies and rode the global economy straight into several years of ultra-low interest rates. The hope (there's that word again) was that really cheap money would encourage people, companies and governments to borrow and spend again.

And borrow and spend they did – right smack into the biggest housing bubble in economic history. Day traders became passé, and the newest game in town was flippin' houses. Rich people flipped mansions, plumbers and teachers flipped suburban homes and even

Chart 1: Bubbles created by the US Federal Reserve



Flippin' out

Vegas strippers got in on the act and flipped condos among other things. By the time it was over, the entire world was flipped upside down – courtesy of the US Federal Reserve and their interest rate machine.

And this brings us to the next global crisis, which we assure you is on its way. After all, **Chart 1** proves it is crystal clear that every time the US Federal Reserve acts to save us from one crisis, it directly sows the seeds for an even bigger crisis in the future.

The thing to understand about the US Federal Reserve is that although it makes decisions to acutely affect the American economy, it also directly affects the economies of other countries around the world. First of all, many countries do not have their own currency and instead rely upon the US Dollar. Others have their own currency, yet have it directly tied to the US Dollar and therefore the interest rate policies that come with it.

Since 2009, the 0% short-term interest rate policy, money printing, bailouts, implicit and explicit guarantees effectively been exported to the entire US Dollar world.

To put it another way, we estimate that only about 40% of America's economic stimulus has actually stayed in America – the remainder has flowed elsewhere. But what has made this policy especially ineffective, is that the stimulus has been indirectly thrown at the economy in the form of lower interest rates and higher stock markets. In other words – these extraordinary stimulus plans are not reaching the real economy and the average person on the street.

Now the curious thing about our world's financial leaders is that they all read from the exact same playbook. It may come in different names, shapes and sizes but at the end of the day the Bank of England, the European Central Bank and the Bank of Japan all hum and whistle to the same tune as the US Federal Reserve.

This means all of the world's biggest economies and biggest borrowers have 0% interest rates, money printing and explicit and implicit guarantees for various countries and companies who need to borrow money.

This point is important to understand and this is how you connect the dots to the next crisis on the horizon.

These extreme interest rates, money printing and debt guarantees have created the illusion that everything looks marvelous. On the surface, stock markets are rising, and bankrupt countries look beautiful when borrowing in the bond market.

Yet, when you strip away the wonderful headline news, you can see that no country is decreasing the money they owe. Worse still, new jobs and wages are not increasing enough to maintain an accelerating economy. This is an economic death sentence – debt totals continue to rise, not decline.

Neuron numbing

What this means is that the weakest of the weak countries are gradually reaching the point where either they won't be able to borrow additional money, or implicit guarantees from a larger country will no longer be available.

In terms of where exactly this occurs, you have to look no further than Europe.

Connect the dots – European Union Wealth Tax
In our opinion, the European Wealth Tax is the most sure fire event that will occur in the very near future. Anyone living in the Eurozone or the maybe even the entire European Union should be prepared to hand over 10% or more of your wealth to the governments.

Let that sink in for a minute – 10% of your wealth will be confiscated to fight the good fight.

Anyone who disagrees with the seriousness of this risk either has their head completely buried in a hole or still belongs to the flat earth society – take your pick.

Our **chart 2** on the next page details the flawless connectivity between the 2013 Cyprus bank bail-in to the upcoming, and very generous, donation of wealth by Europeans everywhere.

If you are European, to completely understand why you are about to have at least 10% of your wealth skimmed off the top, you only have to go back to the latest Greek bailout when Germany stated that everyone except the IMF, the ECB and the EU bailout programs would have to take losses on their Greek bonds.

As this amount of savings to Greece would only be a minuscule improvement to their debt-filled bucket, it had suddenly become quite obvious that someone else would have to pay for future bailouts. And by a process of elimination, that someone else would be anyone with a bank account.

Unfortunately for the average person in Cyprus, this new and yet-to-be-tried solution would be launched in their backyard. By the time it was over, some Cypriots lost not 10%, but over 50% of their savings.

Prior to unleashing this unpalatable bail-out weapon, the only fear of European leaders was that other Europeans would actually wake up and literally take their money and run out of the old world altogether. But this didn't happen. The Spanish, the Italians, and others remained unhappy, but they remained.

Brussels rolled their political dice – and won.

The next dot formed when the IMF stated that they wholeheartedly recommend that governments implement a 10% wealth tax on everyone. This bold announcement also stated that there should be no declaration of the tax before it is implemented and that it should occur over the weekend – hardly a ringing endorsement for market confidence.

Chart 2: the Wealth Tax is coming

Cyprus, lenders set Bank of Cyprus bail-in at 47.5 pct, sources say

1

NICOSIA, July 28 Sun Jul 28, 2013 6:37am EDT

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The International Monetary Fund Lays The Groundwork For Global Wealth Confiscation

2

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The International Monetary Fund (IMF) quietly dropped a bomb in its October Fiscal Monitor Report. Titled "Taxing Times," the report paints a dire picture for advanced economies with high debts that fail to aggressively "mobilize domestic revenue." It goes on to build a case for drastic measures and recommends

In this handout provided by the International Monetary Fund (IMF), International Monetary Fund Deputy Director Michael

Bundesbank calls for capital levy to avert government bankruptcies

3

FRANKFURT Mon Jan 27, 2014 6:03am EST

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(Reuters) - Germany's Bundesbank said on Monday that countries about to go bankrupt should draw on the private wealth of their citizens through a one-off capital levy before asking other states for help.

The Bundesbank's tough stance comes after years of euro zone crisis that saw five government bailouts. There have also bond market interventions by the European Central Bank in, for example, Italy where households' average net wealth is higher than in Germany.

Exclusive: EU executive sees personal savings used to plug long-term financing gap

4

BY HUW JONES

LONDON Wed Feb 12, 2014 6:00pm EST

Stunning

Yet again, not one European flinched, let alone blinked. Relative to Americans and Canadians, we're not sure if the lack of a response by the average European to the prospect of losing 10% or more of their money is a cultural difference, or maybe they are simply not aware of what is about to happen.

Nevertheless, Brussels is playing the political playbook to the tee. It first floated the idea and implemented it in Cyprus, and then it re-floated the idea via the IMF. Since there wasn't a negative response, the next step was to float the idea yet again.

This next dot was formed when the German central bank, the Bundesbank, stated that they also agreed that capital levies should be used to help countries avoid bankruptcy. And again – zero response from the average European. This is stunning to say the least.

Well, with three very big dots connected, the confidence levels of the folks in Brussels reached astronomical heights. What else could explain the rather brazen announcement by the European Commission that they also endorse the use of personal savings to plug the financial gap created by too much borrowing.

Let's face it, if you live in the European Union, Brussels is laughing at you right now. Four significant announcements about you forking over your hard earned savings, and no reaction.

However, where Brussels may be confident that they can implement wealth taxes with no negative feedback, IceCap is confident they will be wrong.

As far as which country loses control and triggers this wealth tax – take your pick. Italy, Portugal, Spain and France are all solid candidates. However, Greece is actually the one to watch. Greek banks have exposure to Turkish government bonds, and considering the Turkish government corruption scandal is escalating there is a very real risk that should Turkey fall into chaos, then Greek banks would immediately need another bailout. And this is where and how the European wealth tax experiment may begin.

As for the seriousness of chaos in Turkey – take a few well deserved minutes and research yourself. The country is deeply divided between two political parties and it isn't getting any better. For those who think it will take years for such an event to occur, recall that Ukraine literally split in two over a 3 week period. Libya was similar as was Syria.

Now, it is at this point many of our Canadian readers are thinking that this doesn't apply to them and will not affect them. Canadians have a noble belief that if you run into money problems, work your way out of it. After all, this is precisely what happened in Canada not too long ago and the country worked its way through it.

However, extrapolating this perspective and experience onto the current European situation is a mistake. Canada is a great country,

You're richer than you think

but it is a small country whose international capital flows and banking system are not capable of pushing the world around.

Instead, Canadians and others must know the European Union Wealth Tax will be the last attempt by Brussels to save the Euro – after all, once this genie has been let out of the bottle there is no stopping the capital flight that is certain to follow.

In our opinion, the European Wealth Tax will be announced over a weekend giving all governments a few days to prepare for the dreaded Monday morning that follows every weekend. This Monday morning will be unlike any other. Furious savers from every European country will forego their morning espresso and hit the streets.

And, while these public protests build and gain momentum, money and capital fleeing Europe will also gain momentum and seek a safer home.

That home will be the USD Dollar.

Connecting more dots

Some time ago, IceCap began preparing our readers for the oncoming tidal wave of wealth re-distribution everywhere around the world.

The term wealth re-distribution isn't a particular fear-inducing word. Its mere mention is causing few to fall out if their chairs, less are choking on their espresso, and virtually no one is running for the hills. This lack of a reaction is simply due to either denial or a lack of appreciation for what "wealth re-distribution" really means.

In simplest terms, it means most people are about to pay considerably more in annual taxes as well as one-time wealth taxes.

In other words, if you've managed to save money over the years you are about to hand a lot of this over to those who haven't saved a single dime.

Still, few people are blinking as many of them don't believe they have saved enough or earned enough to qualify as being rich. We hate to disappoint you, but some people in Cyprus with $100,000 in savings discovered that they were actually rich and ended up donating almost 50% of their savings to help bail out their country.

Meanwhile, in the land of the brave and home of the free, it's already been established that if you make over $260,000 a year, you are free and brave enough to pay the highest tax rates in the country.

And, if you think that's not an especially high threshold to be tagged with the rich label, consider the Canadian perspective which defines a "middle class" family as one that earns $40,000 to $80,000 in annual pay.

Unfortunately, from a tax perspective – perhaps many of you are richer than you think.

flabbergasted, gobsmacked, and dumbfounded

In our February 2013 Global Market Outlook, IceCap warned investors that governments were slowly and subtly digging everywhere to grab more taxes, and in our mind, property taxes had an enormous target on its back.

It turns out, just a few months ago the IMF, introduced a paper that details how property taxes around the world are too low, and that countries should target this soft area as a place to raise taxes.

Yes, this is the very same IMF that recently stated it is ok to tax every European 10% of their wealth (repeat, "wealth", not "income“).

It's at this point, you should be flabbergasted, gobsmacked, and of course, dumbfounded. On the other hand, if the likelihood of paying more taxes and having your hard earned savings confiscated excites you, then we suggest you are a unique individual indeed.

Of course, these silly IMF sponsored taxes haven't and won't happen - especially in Canada, USA, Australia, South Korea, Japan, Norway, Britain, Sweden, and Switzerland.

And this is the point we make – financially speaking, many people in the world are perfectly comfortable. They do not see the financial struggles caused by the ongoing debt crisis. They do not connect the dots to see the rising unemployment, the social unrest, the massive demonstrations and the political change that is creeping across the world.

The debt crisis, particularly in Europe, is very real. Investors must understand that the IMF would not be making such draconian wealth tax and property tax recommendations without the explicit support of the USA, Germany, and Britain.

These trial balloon IMF papers and subsequent confirmations by other important entities are invoking very little professional pushback or public angst. Unfortunately, these straw polls only further reinforce the increasing probability of these taxes occurring.

In other words – be prepared. Even though you probably don't live in the Eurozone or the European Union, these taxes are going to have a significant impact on financial markets in North America and Asia.

Global currencies, stock and bond markets are all going to behave in an expected and sometimes paradoxical manner.

For starters, as these taxes become more and more real, capital will flow out of the areas affected. European stock and bond markets will not enjoy this movement. Broad European markets, especially bond markets will not do very well.

Connecting even more dots, it should be easy to see European banks not doing very well either. Remember, for every $1 lost in deposits, a bank becomes about 15-20 times weaker.

Since capital has to go somewhere, it's important to know where it's

The Paradox

headed. In our opinion, the USA is the only market big and deep enough in the world to absorb the kind of capital flows in which we envision moving. **Chart 3** demonstrates how the money will flow.

The US Dollar in particular will increase relative to every other currency. US stocks will also absorb money and high end real estate will attract attention.

The paradox in financial markets will occur as many bonds - the traditional capital preservation investment, will actually become riskier than stocks. Go figure.

And then we have gold. As this transition develops, gold will outperform non-USD's. Yet, it won't go parabolic, not yet anyway. Gold will have its day, but only after the US has its day in the debt filled sun.

Well, that was awkward
Just as the world converged upon the 2014 Olympics in Russia, our world super powers were at it once again. It was only a few months ago the Americans and Russians were playing hardball in Syria, now they are using Ukraine as their next war proxy.

Yes, Ukraine has a democratically elected government. And yes, Ukraine was previously a part of the Russian communist sphere. And, yes just recently Ukraine backed out on becoming that much closer politically and economically to Europe. But, in the world of super powers, only today and tomorrow matter – anything in the recent past, is simply passé.

While the rest of the world focused on Canada's drive for more Olympic hockey gold, Ukraine remained deeply divided. The west wanted closer ties to Europe and the east wanted closer ties to Russia. Sounds simple enough. So simple that thousands of soldiers, tanks, armoured vehicles, warships and warplanes later, the world gets to relive the 1980s cold war all over again.

Yet, we'd like to draw your attention to the real reason behind the split of Ukraine – its debt crisis. Ukraine is flat broke. This was the reason for its agreement to grow closer to Europe – Europe offered financial assistance and a bailout. Of course, Russia caught wind of this upcoming trade and galloped into Kiev with an even bigger and better bailout.

What happened next is of course history but without the debt problem, the current situation would likely not have happened. Remember; people with jobs and full bellies do not protest in the streets.

Connecting the dots, we see the potential for similar uprisings in France, Greece, Italy, Spain and Portugal. In addition, continuous political unrest in Turkey also has the potential to grow into something we wouldn't like.

Chart 3:Anticipate global capital flows to land in the US

The most peaceful man on earth

Remember, just connect the dots and the current global landscape becomes much clearer.

UN Security Council

In what can only be described as a Seinfeld episode, the UN Security Council – yes, the very group which was mocked by Saudi Arabia and detailed in our last global market outlook, held a vote on whether it would recognise Russia's annexation of Crimea from Ukraine.

As a reminder, five countries are deemed to be permanent members of the council and each holds a veto vote on everything brought to order. Yes, even if four of the permanent member countries votes yes on something, the entire issue can be rendered moot by a veto vote by the fifth member.

This of course brings us to the latest episode of the UN Security Council and its vote on whether to recognise Russia's annexation of the Crimea Region in Ukraine.

What made this vote very Seinfield-esque, was that Russia was voting on whether to allow itself to annex another country. While the main stream media reported the outcome as a surprise, we find it hilarious that many actually expected Russia to vote against itself.

This would have been analogous to Obama voting for Romney, W. Bush voting for Gore, and H.W. Bush voting for Clinton – we think you get the picture.

But then again, maybe our quick witted response to the UN Security Council is off base. After all, Russia's President Vladimir Putin was just nominated for the Nobel Peace Prize. We kid you not.

Yes, apparently if you move thousands of troops, tanks, nuclear powered submarines and ships to threaten another country and then annex the very same country, you not only qualify as a war monger but also meet the criteria of those kind little folks in Norway who determine who is most peaceful man on earth.

And that man is the President of Russia.

The beat goes on

Our Strategy

Since September 2013, we have increased our allocations to the stock market, as well as added direct exposure to the US Dollar for our Canadian clients.

However, our research now shows that stocks are getting rather toppy and we'll continue to respect our sentiment and trend models for guidance as to our next move.

Within currency markets, we did close our short Canadian Dollar strategy for clients realizing a 7% gain. Since this shift in strategy, Canadian Dollar conditions have changed yet again, and we are returning to US Dollars for appropriate clients.

Our fixed income strategy hasn't changed, overall we continue to prefer corporate bonds over government bonds, and keep duration and maturities low. In the bond market, higher long-term rates remain the primary risk; however, inflation remains low all around the world. From our perspective, bond market risk remains fully anchored to happenings at the central banks as well as geopolitical risk.

The Ukraine crisis is not over, this will continue to evolve and keep markets on edge producing even more market volatility as we head into April.

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.