Interview with Sid Klein, Founder & CIO at Global Alternative Investments

Mr. Klein is Founder and CIO of Global Alternative Investments (GAI). His 37 years of experience[1] began as a stockbroker working at local and multi-national firms, where he developed his knowledge in the US, Japanese and Chinese equity markets, along with a matching proficiency in precious metals and major currencies, all with an accompanying expertise in derivatives. His comprehensive methodology includes in-depth technical, quantitative, fundamental and valuation analyses. Over a multi-decade period, Sid has identified multiple historic turning points[2] in the major markets and asset classes, often within days. He has appeared in the popular print and TV media[3] since the nineties, while also sharing his commentaries on specialised websites.

Mr. Marex[4] serves as the Chief Operations Officer for GAI, and provides ongoing quantitative analysis in support of the funds. His 11 years of industry experience began at Citi in New York where Mark was a Vice President working in Client Strategy and Analytics, with a heavy emphasis on statistical analysis and integration of Big Data techniques. Subsequently, he co-founded and acted as Managing Partner of Roundtree Capital Management, a systematically-driven US Equity Long/Short investment firm. Mark graduated from Duke University in 2008 with a Bachelor of Science in Economics and has been a CFA charterholder since 2012.

GAI is a boutique investment advisory firm specializing in wholly differentiated products designed to hedge against, and profit from, global volatility while providing stable income during any absence of volatility. Both funds are start-ups.

1. **Please share with our readers more about your latest fund offerings – The US Equity Index Income and Protection Fund and the Global Multi-Class Structured Products Fund.**

   The **US Equity Income & Protection Fund** (option fund) sells near term options, to fund intermediate term protection against sharp corrections and an eventual bear market. The sale of the short term puts has limited capital risk, and so the combination represents a value-oriented play engineered to significantly hedge investor portfolios.

   In-depth study of the strategy's results through the different market cycles that one may encounter longer-term illustrates two findings: Firstly, sideways or positive periods in the S&P 500 yield healthy returns, driven by the ongoing income provided by selling near-term options; hence, investors are not dependent on volatile markets for profits. Meanwhile, for those seeking to hedge portfolios, sharp declines can yield triple-digit gains in any given quarter.

   The **Global Multi-Class Structured Products Fund** (precious metals outperformance fund) benefits from the projected outperformance of precious metals versus global equities, by structuring long term warrants on the inter and intra-asset class long/short underlying which comprise the tailor-made vehicle. The inherent leverage of warrants, despite a typical duration of 2.5 years to 3 years, provides *efficient asset reallocation from equities to precious metals* by requiring relatively little capital in comparison to funding the purchase of precious-metals-related securities with the proceeds of equity sales.

   Further, historical asymmetric performance between the two asset classes would suggest a *geometric* increase in profits, while a simultaneous increase in volatility premiums from historically low levels should yield *exponentially* increasing gains.

2. **What led you to offering these strategies and how well are each of them positioned to capture current and ongoing opportunities in the markets? What is your planned geographical exposure for each of these funds?**

   Historically comfortable with bear markets[5], and a writer and advisor to hedge funds and high net worth individuals for 13 of my 37 years in the field, I decided to take advantage of what could be a most tumultuous period in history by employing my expertise to engineer vehicles that maximise profits during a globally bearish period, while at the same time aiming to profit from bullish phases; we must note that most days in bear markets are still positive. Notwithstanding, *these funds are engineered to be most profitable during bearish equity cycles,* including bullish precious metals periods, at least where the **precious metals outperformance fund is concerned***.*

   The **option fund** employs U.S. index options only. The **precious metals outperformance fund's** underlying components include global equity indexes.

[1] http://sidklein.com/Japanese_equity_markets_expert.html
[2] http://sidklein.com/investment.html
[3] http://www.sidklein.com
[4] http://www.globalalternativeinvestments.com/the-team.html
[5] http://www.sidklein.com

3. **How are your fund offerings different from other funds in the market? What competitive edge do your funds offer its investors?**

The **option fund** is designed to *benefit greatly* from bearish markets, while the probabilities for positive returns are nearly assured during bullish periods. *Meanwhile, many or most option writing programs could lose gains quickly in a sharp bear market.*

The **precious metals outperformance fund** is engineered to provide *maximal efficiency in asset reallocation from global equities to precious metals.* I know of no such fund anywhere, precisely when such a strategy is most needed given (a) how over-weight investors are in stocks, (b) while being so underweight precious metals. Asset reallocation is achieved with relatively little capital (please see answer 1).

4. **How does the fund manager plan on generating his trading signals on a day to day basis?**

The **option fund** is a para-algorithmic strategy. Profit enhancement is sought by curtailing losses on the income portion of the strategy during periods of unfolding market weakness. At those times, the broad comprehensive tools at which we are each specialised will be the determinants, namely, the multiple forms of technical analysis, as well as the quantitative research that supports our fundamental evaluations, which includes the assessment of market valuations.

The **precious metals outperformance fund** is very much the result of our expertise in technical and fundamental analysis with respect to the asset classes and markets in question, in conjunction with the quantitative analysis that must be laboriously employed to fine-tune and tailor-make idealised premium levels, with respect to the three moving parts that comprise each structured long-dated warrant, namely, the long/short underlying, and the currency denomination of the long-term contract.

5. **Do you plan to use leverage, to enhance your fund's returns? If so, to what extent?**

The **option fund** only utilises 30% of the book value of its assets, without reinvesting profits. This is so as to be able to easily fund *cash drawdowns,* which may occur when *market value is increasing* (market value is the common basis for "drawdowns"). Apart from this more striking aspect, and to simply answer the question literally, the fund does <u>not</u> borrow.

The **precious metals outperformance fund's** composition of diversified long-dated warrants (see question 1) provides inherent leverage, while the fund's vehicles are long only by definition (no borrowing).

6. **Could you tell us about your risk management practices for both the funds?**

The **option fund's** strategy, without too much discussion of the special sauce, employs triggers for resetting positions based on market advances of certain magnitude and/or duration, as well as declines of predetermined depth (set by a combination of market prices and key thresholds determined in advance). Of course, no more than 30% of the fund's book value is employed.

The **precious metals outperformance fund** manages risk on two levels. Firstly, the structured products that comprise the fund each have three components, the long/short underlying, and the currency denomination of the long-dated contracts. A break in the *trend* of any of these three would call for liquidation, as would the passing of six months, *even if the warrant is still profitable.* This is a non-arbitrary approach, as opposed to selling something simply as a result of a predetermined percent decline in price.

Secondly, risk is managed by the portfolio construction which includes inter and intra-asset class underlying. The combination of the multiple moving parts allows for a reduction of portfolio volatility by way of a mix that achieves risk reduction, without sacrificing the goal of profiting from each security.

7. **What class of investors, according to you, are your funds best suited for? What sort of time horizon and risk appetite must one have, in order to be exposed to a fair balance between risk and return, while invested in your fund?**

The **option fund** is most appropriate for those wishing to hedge conventional assets and remain invested for at least one year. Our work demonstrates few and muted drawdowns for any given quarter, and the quarterly test periods were designed to study how the strategy behaves over any sufficiently long period of time. Still, as each quarter in any given year tells a different story, it is worthwhile to be invested over four (quarterly) cycles. *There is no lock-up, coupled with a 7-day redemption period.*

The **precious metals outperformance fund** is best suited for those who wish to both hedge conventional assets, as well as gain exposure to the outperformance of precious metals. *The lock-up is six months, coupled with a 7-day redemption period.*

Looked at on stand-alone bases, risk assessment is different than if contemplating investment strategically, in that the funds are **engineered to lower a portfolio's volatility**, notwithstanding the positive results aimed for during bullish periods.

8. **Could you give us your outlook of the global equity markets both in the near- and medium-term? Are there any regions/sectors /asset classes that you are particularly bullish on at this point in time?**

I am extremely concerned about conventional assets turning around sharply in the second half of 2019, but I am very much of the view that the longer term certainly portends deep and protracted financial and political upheaval, including a historic revaluing of the US Dollar and other global currencies. That said, I was and am aware of how long topping (or bottoming) phases can last, as well as how the length of reversals correlates to the duration of the preceding cycle.

Simply, whether with respect to my long term bearishness on global equities, or long term bullishness on precious metals, I engineered products that aim to do well during a possible intermediate-term continuation of long-running market trends, while being positioned to capture the full benefit of reversals as they play out over a disruptive multi-year period.

9. **Many pundits have long been predicting of an expected blow up in financial markets that would dwarf the Global Financial Crisis of 2008 – as yet, that has not happened with global central banks still on high alert watching over the financial markets. Where do you stand on this? Do you feel a crisis is around the corner? If so, where do you expect it to begin and how would you expect it to play out?**

Regarding central banks, history shows that the longer authorities artificially influence an otherwise free market, the more violent and long-lasting the repercussions (please see answer 8 above).

Secondly, one must understand that "planned chaos" still appears to be chaos. There exist political manipulations whereby the authorities deem collapses to be favourable for securing sought-after assets more cheaply (i.e. strategic sectors such as communications, water, etc.). A planned loss of control is not a loss of control, notwithstanding the concurrent mayhem.

It is irrelevant where or how the crisis begins. The result will be the same, regardless the so-called origin. When it all hits the fan, the media will dredge up hackneyed reasons because reporting is their job. Understanding the big picture is what is fundamental. Please forget focusing on questions regarding *how or where* something will start, the correct or incorrect answers to which NEVER offer anything of value. My mentor taught me as much 37 years ago, and this fact will never change.

In the short-term, I see a strong chance for a new all-time high in US equities.[6] My tracking of the Dow shows an expanding triangle, which has often typified trend reversals, and portends an ongoing volatility increase that could draw in the last round of bullish investors with a headline-grabbing S&P 500 lurch toward 3000. At the same time, I see a time-cycle low in precious metals (not a price low) in the near-term, consistent with the very long-term history of silver (my benchmark, since gold often obscures the group's true trend by leading), as a result of commodity funds' window dressing. Could occur at the end of this half.

I personally expect a nearly 50% decline in the S&P 500 over the next two years or so. However, all that matters is to know how to be positioned to protect oneself against and profit from such an event, regardless of precisely how dramatic the decline, or how long it takes to play out.

GAI's funds are engineered to benefit from the crises that investors' concerns presently contemplate, since the focus is on hedging against and benefitting from a reversal from the recent years' trends in global equities and precious metals.

Contact Details
Sid Klein
Global Alternative Investments
+1 877 939 2221
Sid@GlobalAlternativeInvestments.com
www.GlobalAlternativeInvestments.com

[6] Written on 31 May 2019.