IceCap
Asset Management Ltd.

Our view on global investment markets:

December 2010: The Secret Santa

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Ben Bernanke Meet Joe Black

Ugh...here we go again, the dreaded annual office tradition of getting a gift for someone you don't really know and worse yet, receiving a gift from someone who doesn't really know you.

This rather awkward (or maybe, ingenious) tradition must have been created by executive management as a way to ensure a little "bah humbug" remains in everyone during the festive season. Or maybe it was simply Santa's revenge on his investment manager.

Nevertheless, let's review some of the *worst* secret Santa presents of all time:

1. Meet Joe Black DVD
2. Hai Karate aftershave
3. 30 Year US treasury bonds

And, here are some of the *best* ever secret Santa presents of all time:

1. Ben Bernanke action figure
2. Bar of gold
3. Barrel of oil

As the year comes to a close, let's take a look at how IceCap faired during the year with our monthly outlooks, as well as provide insight as to what we see developing in 2011.

The Good in the World

So often with managing wealth, it is too easy to focus on the really important issues that are making central bankers behave like drunken poker players. While we have (in our opinion) covered the big issues very well during 2010, we would be ashamed if we didn't finish the year by expressing our unbridled love for the Good in the World – gold, commodities, and the commodity driven theme.

It certainly isn't a secret that IceCap believes gold should be an integral part of our portfolios. Money printing + zero % interest rates + spiraling bad debt burdens, virtually guarantees a promising future for this non-paper currency. However, let's suppose for a minute (or maybe a second) that the governments and central banks of the World do resolve this economic mess – what opportunities exist to make money?

In our opinion, the humongous demographic & sociographic wave slowly and surely pushing China and India into the 21st century is creating an enormous end market for commodities. Which commodities? Take your pick – oil, wheat, corn, copper, rare earths, we could go on and on. The fact is, there are millions of people on the verge of permanently entering the middle class - the very economic stage in life that many of us take for granted in the developed World. These new entrants will undoubtedly adopt better diets (read: agriculture), require transportation to work (read: energy) and demand a roof over their head (read: anything housing related).

The simple question to ask is "who sells commodity related stuff?"

Invest in rugby and hockey...

The answer – Australia & Canada. Since the 2008 global credit crisis, both countries have ranked amongst the top performing economies in the developed World. It is true that both local stock markets (like all stock markets in the World) are pretty bank heavy, but what sets these two countries apart from their old World counterparts is their exposure to commodities.

You ask any American mutual fund manager about their allocation to the Materials (ie. mining) sector and you'll receive blank stares, and justifiably so. These managers are paid to outperform the S&P 500 Index which has a 4% exposure to the commodity intensive sector. Little wonder these managers are still longing for the return of mythical NASDAQ 5000 to boost their technology stock portfolios.

Ask the same question to an Aussie or Canadian manager and not only will you hear "30%-60%" in their answer, you'll also hear their *excitement* when talking about the opportunities for each countries' beloved commodity sectors. At the end of the day, week, month and year – there is little debate that the global demand for commodities is increasing while the supply for commodities remains inelastic.

Look for IceCap to share more of our views on commodities and emerging markets as we zoom along in 2011.

The Rearview Mirror

IceCap is a new firm and we are proud to say that during our first year our global market outlooks have attracted readers from 29 countries.

To tell the truth, we are kinda miffed we didn't reach 30 countries. As a result, HSBC remains safe as the self-proclaimed leader in global wealth management...for now.

Having said that, let's revisit our main themes of 2010 and then take a quick peak at 2011.

The Crazy Aunt in the Attic

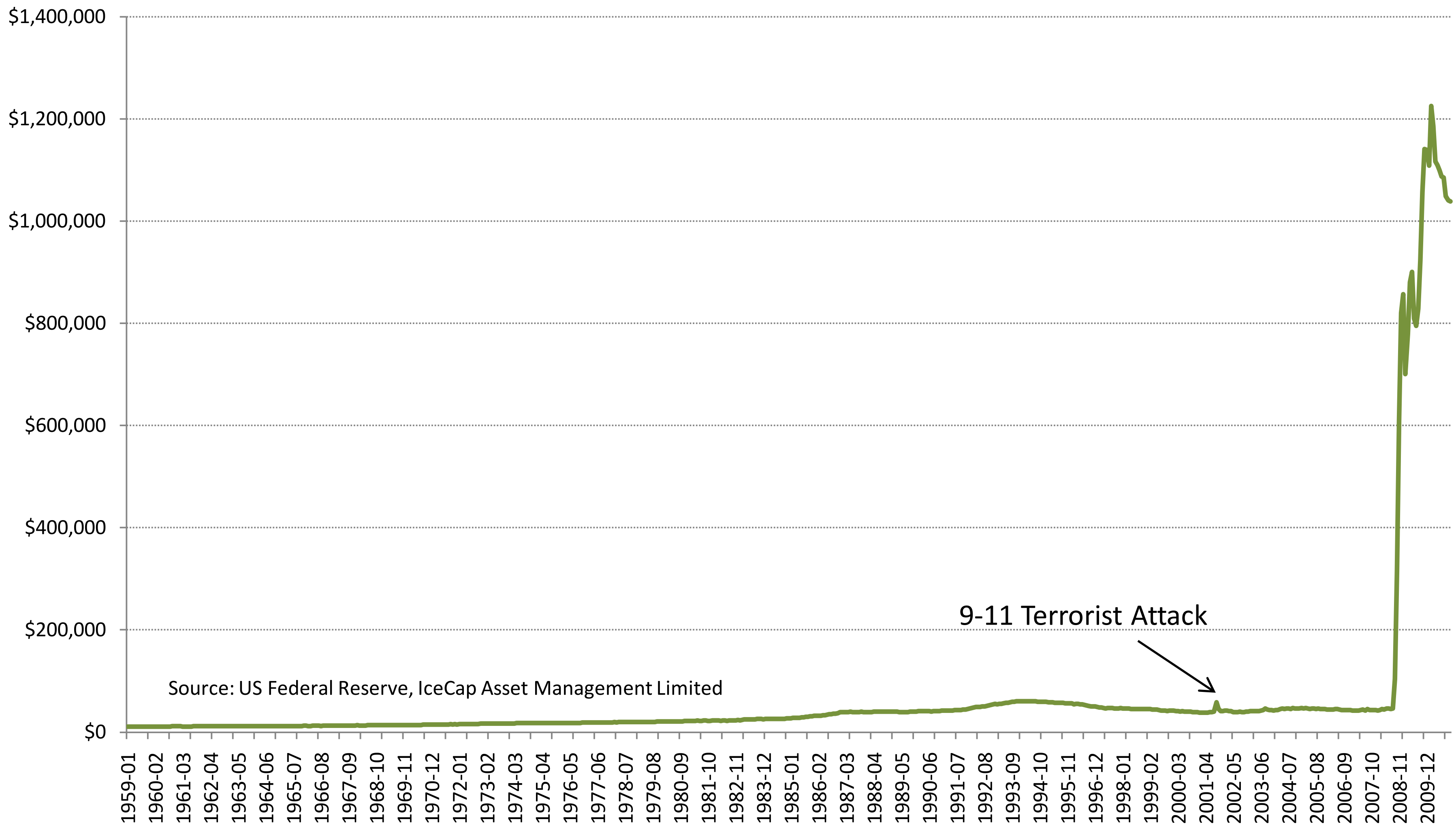
In July 2010, IceCap introduced its readers to the massive cash reserves being held by the largest American Banks. Back at the time, we referred to the chart as a "Lochness Monster" with the name being quite evident once you see the chart itself (see updated chart 1 on the next page). At the time we highlighted the risks involved with the banks accumulating such massive sums of cash.

The first risk answers the "why" part of the question – namely American banks are effectively insolvent and need to accumulate this cash for the day of reckoning, should it arrive. The not so obvious risk occurs if the obvious risk does not materialize; meaning, if the US economy heals naturally the banks will be awash with tonnes of cash that they will quickly lend to anything that breathes.

This future lending machine combined with the FED's self proclaimed expertise with controlling inflation can only have one result – inflation that will make even the Japanese blush.

Make no mistake, if inflation expectations get out of control you'll wish you read our next publication "somewhere over the rainbow."

Chart 1: Reserves of depository institutions at the US Federal Reserve



Source: US Federal Reserve, IceCap Asset Management Limited

Follow your dream...

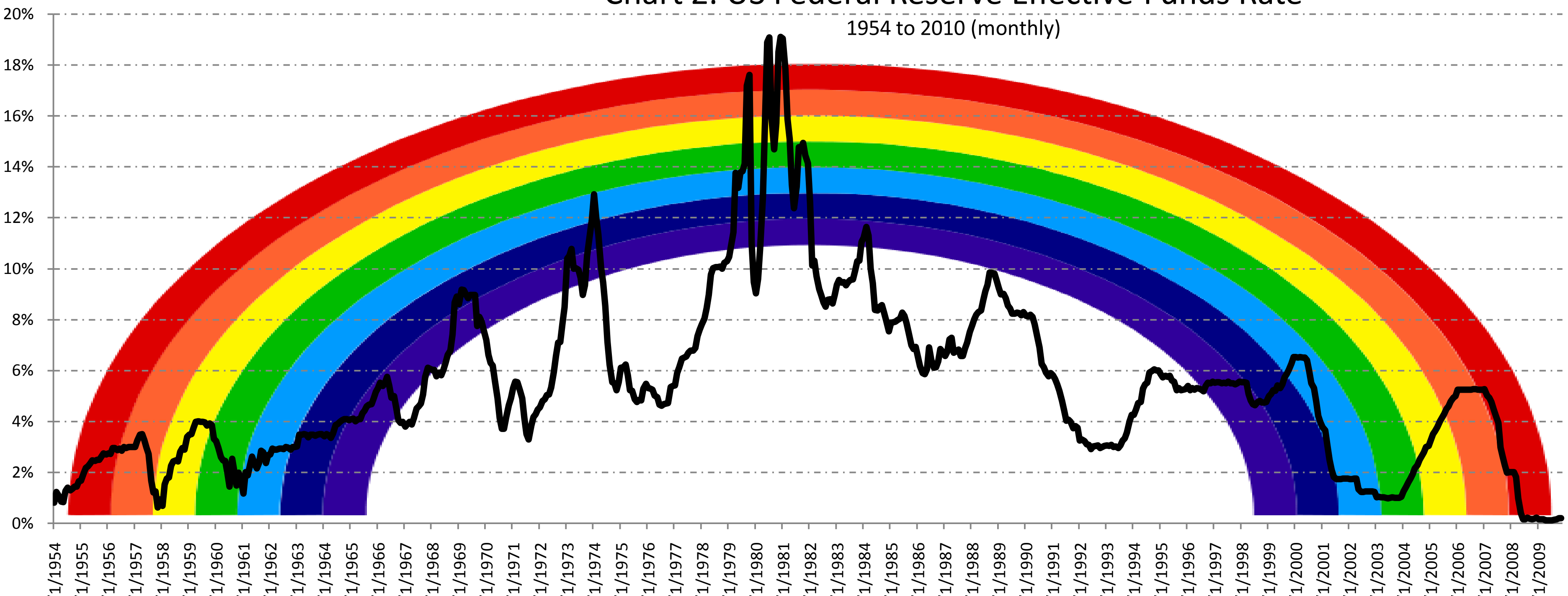
Somewhere over the rainbow

In this issue we showed how interest rates effectively peaked in the early 1980s only then to gently slope to zero in the year 2009 – forming the perfect rainbow. It is a fact that the key driver of investment returns during this period was the decline in interest rates. I'll be the first to agree that short-term rates can remain low for quite some time (and negative after adjusting for inflation), however even a 5 year old will tell you that the only direction from here is up.

It's quite obvious to us that zero % interest rates combined with money printing equals a pretty darn good reason to hold gold, exactly the stuff you'd expect to find at the end of a rainbow. Nothing has changed – the World's central banks are backed into a corner and have virtually run out of options except to print money. As a result, we continue to invest in gold for our portfolios.

Chart 2. US Federal Reserve Effective Funds Rate

1954 to 2010 (monthly)



Slam Dunk for 2011

Easiest Call for 2011

We will be absolutely shocked if there isn't another financial crisis in Europe in 2011. So shocked, that if one doesn't materialize we will be very happy to do push-ups for all to see this time next year.

While it's no secret that the next country to lose their financial independence is likely Portugal, followed by Spain. Should the continent still survive after a Spanish default then we would get to see how well the Italians riot after their default, followed by the same tragic show in Belgium. And then if by some miracle the European Rubik's cube is still functioning, the World will see how well the French riot in their streets (they've got a reputation to uphold).

For anyone not following the European version of "save the banks", it goes something like this:

1. A European country remains mired in recession
2. Job losses sky rocket causing housing prices to collapse
3. The banks teeter on bankruptcy
4. The country's government steps in to bail out the banks
5. The ECB (European Central Bank) and the EU (European Union) then step in to bail out the country
6. Taxes are raised and more job losses mount
7. The taxpayers then realise they are paying for the stupid behavior of the banks
8. The citizens then riot
9. A new country starts at step 1

What really turns this into a "you can't make this up" routine is the countries that formed the Euro are the same countries that are contributing to the bail out fund. Ireland is contributing money to help bail itself out. Portugal will be doing the same, next Spain and so on. It's the saddest game of musical chairs ever played – except this one is being played by the <*ahem*> adults in the room.

Now, many of you are likely saying to yourself – wait...the ECB and their friends have taped together another ironclad plan to help protect all countries involved (if you are counting, this is the 3rd ironclad plan). Yes, this is true. Yet two main points are worth mentioning namely

1) no one on the planet has any idea how it will work and
2) the plan doesn't start until 2013.

So, if you are a hedge fund you have 2 full years to short the shirts off the European sovereign debt of your choosing – have fun shooting the fish in this barrel.

Kick the can

Our Strategy

Not a lot has changed since our last publication in November 2010. At that time we shared our view of the idiotic plan by the central banks to continue printing more money. This strategy surely kicks the can down the road a bit further and at some point the World's economy will catch-up to the can.

The entire strategy in the developed World is to save the banks. Bond holders will not be asked to pay for the excessive risk taking of the banks, instead the taxpayers will have to pay – if you think this is fair, just ask the Irish how much fun they've been having over the last two months.

However, we also stated that the central banks of the World (and most importantly the US Federal Reserve) want stock markets to go higher. Until we reach the proverbial can that was kicked down the road, we choose not to stand in the way of any institution that has a money printing machine. If the central banks want a higher stock market, they will likely get a higher stock market.

Yet, just in case the money printing machine runs out of ink – we continue to feel very comfortable living at the end of the rainbow holding our gold positions.

During our first year, we've made many friends from around the World and wish everyone a safe and happy holiday season.

And if you've been really good – a big lump of coal in your stocking.

If you'd like to chat further about our view and our unique investment solutions, please feel to contact:

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Thank you for sharing your time with us.