KTS CAPITAL MANAGEMENT

MARKET UPDATE

22 February 2018

ASSET ALLOCATION UPDATE

As explained in our market update, during the last correction we increased the equity exposure; now we are fully invested in almost all of our investment vehicles and we are going to stay invested, raising our stop loss on the various indices. On the S&P 500 we are setting up the new stop loss at 2'532, which is the low of the reverse day (hammer formation) and corresponds to the level of the 200 days moving average. If the market falls under this level, for us it would mean the start of a new bear market. KTS believes in the current strong fundamentals, and, therefore, that the market is going to rally for new highs. An additional example is the index of Gold mines ETF (GDX US), where we can also see a technical formation (hammer formation) on the 9th of February. Usually this is a strong sign of a trend reversal, which, as a trading rule, must be bought on the following trading day, setting the stop loss at the low of the previous day, which is 20.83.

BEST IN CLASS FUND SELECTION

In the last four years we noticed the increasing phenomena of the launch of new funds based on a short volatility strategy. The typical example was Credit Suisse's fund: XIV US, with around 500bn AuM (most probably clients' money allocated through discretionary mandates). Knowing the underlying and following the strategy over the last four years, we know that the volumes invested in these strategies were massive. For this reason, we also believe that the recent flash crash was caused by these strategies because the volume has become bigger than the future market could absorb. We are always against these strategies, and have always thought that there will be a day in which this will end up in disaster. Not only for the assets invested in this strategy, but also for the overall market because short positions will have to be closed at any price causing panic. Technically speaking we have been wrong for four year, but eventually when the event happened, investors lost 93% of the investment in a single day. Our major shock was the comment in CNBS from Credit Suisse's CEO, stat-

S&P 500

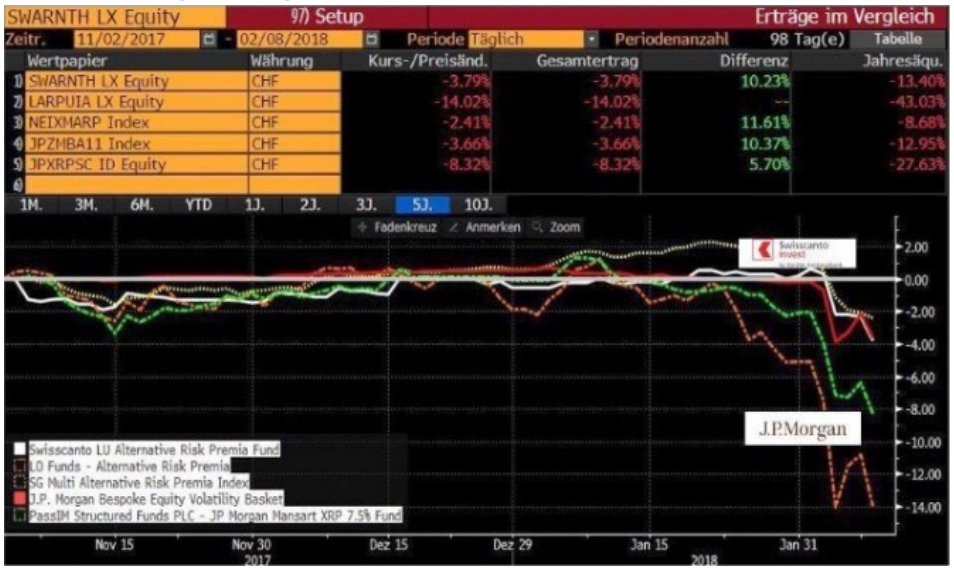
GDX US

ing the innocence of the bank and leaving the investors blaming themselves. This event shows once again the vital importance of the fund selection. KTS is spending lots of time and money constantly monitoring fund's strategies, avoiding products based on short volatility when the timing is wrong. What we have never liked about short volatility funds is that the upsides are capped but the downside is unlimited. We are therefore focusing our efforts with our risk model, monitoring funds where we can calculate the downside risk. For example, we are invested in our KTS Strategy Fund in a long volatility combined with long SPX index (ABRDEVI ID) and this strategy has showed an attractive performance during 2017, or +11%. During 2018 the fund spiked to +18% while the market was down 15%. In fact, we selected this strategy as a hedge for a potential market correction, and it has proven to work. Whereas, many other similar strategies which were supposed to have worked as a hedge, have not delivered.

WIX US

COMPARISON

ALTERNATIVE RISK PREMIUM



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