KTS
CAPITAL
MANAGEMENT

# KTS weekly update Nr. 48

The 2nd of December 2022

# Speech of Fed Chair, Mr. Powell - less hawkish

- After the St. Lous Fed President, Mr. Bullard, and other Fed members were keeping their own show, still calling for additional interest rate hikes and to keep an hawkish path, **Mr. Powell was a bit less hawkish on his speech on the 30th November,** saying that he still thinks there is a "path to a soft or softish" landing for the economy, but suggested that the next hike in the federal funds rate on December 14 is likely to be 50bps rather than 75bps.
- The stock market's reaction on the 30.11.2022 was a tremendous rally, with Nasdaq up 4.4%. The investment community was happy to hear that the **FED doesn't want to tighten too much if that won't be necessary to bring inflation down**. We sense that also the FED does not want to cause a financial crisis, having the global financial system on a very fragile balance and on the brink of a collapse, if the FED would push it too "hard".
- Many market participants are still negative on equity markets, especially expecting a severe recession combined with the collapse of the financial system and therefore causing a financial crisis. We would also like to mention the comment of Mr. Elon Musk on CNBC, who sayid that the FED must cut rates immediately to stop a severe recession and he already had similar comments back on the 24th of October. Reading the recent speech of Mr. Powell, we sense, also the FED is slowly but surely aware of such risk.
- **The yield curve (2y -10y US T-Bill) is inverted to -74 bpts, the most in history**, showing that the bond market is in fact expecting a severe recession.
- Mr. Yardeni explains the rally on the 30.11.2022 by saying that investors seem to have concluded, **that inflation peaked during the summer and will continue to moderate through next year,** which was always his forecast, but also KTS has the same opinion.

# Macro U.S. - macro very weak, but we should expect a soft landing

- On the 30th of November 2022 the latest **Beige Book of the Federal Reserve**, which sums up economic anecdotes from the central banks' dozen regional banks across U.S., showed that there is **growing evidence of moderating inflation,** due to a combination of improvements in supply chains and weakening demand. We are pleased to read that FED's economic data are pointing out the same conclusion as KTS has in the last 2 months.
- US PMI composite index fell to 46.3 vs 48 estimated and from prior 48.2 and overall new orders fell at fastest pace since May 2020 indicating the **worsening of the U.S. economy.**
- New orders for the **Dallas Fed manufacturing index is the lowest level since the covid lockdowns and the GFC in 2008.** Both times, the FED came to rescue, but this time market participants like Mr. Costa are arguing that the FED is executing the QT and still increasing rates.
- Having the FED recognizing the risk of the global financial system falling in a "chaos", if interest rates would increase too strong and too fast, combined with the fact, that CEO of companies would start to feel more comfortable with the new tone of the FED, we tend to agree with Mr. Yardeni, that we are going to experience the wished soft landing, which would support equity markets, which are discounting such scenario, but the very depressed sentiment is still expecting a severe recession.
- Mr. Yardeni expects a soft landing based on the inflation peaking, the FED not willing to push the economy into a recession, M-PMI still in expansion territory, though the lowest growth since May2020, and still a robust consumers spending. Meanwhile construction and housing are in a deepening recession (residential construction index at -21.3% and spending on non-residential structures was slashed from 0.8% to -4.9%).

# Macro U.S. - US consumption still strong, but negative YoY

- According to Mastercard spendingPulse, which measures in-store and online retail sales across all forms of payment, and is **not adjusted for inflation,** U.S. Retail sales on Friday were up +12% year-over-year excluding automotive (in-store sales increased 12% YoY while e-commerce sales +14% YoY).
- **But inflation adjusted volume of sales are actually down,** therefore the news is not that positive, as the headlines are showing it. A not too strong consumption is positive for equity markets, because it would ease pressure on the FED.
- The MoM change in **National Rent index of the provider Apartment List (chart posted by Mr. Barraud not included) fell for the 3rd** consecutive month in November and should ease inflation pressures.
- CNBC reported, consumers spent a record USD 9.12 billion online shopping during Black Friday this year, up 2.3% YoY and **buy now pay later payments increased by 78% compared with the past week,** beginning Nov. 19, as consumers continue to grapple with high prices and inflation. This is on one hand **positive for our investment into Fintech,** because basically we are strongly exposed to BNPL applications, but on the other hand shows **how consumers are increasing leverage and this is could be dangerous, if we take into consideration that the labor market is worsening.**
- The oil price is falling further and is down around 33% from the highs in Q2 2022 and therefore easing pressure on inflation. Meanwhile, energy companies are actually holding very well and are still up around 68% YTD.

# US employment report for November - theoretically stronger, but is not

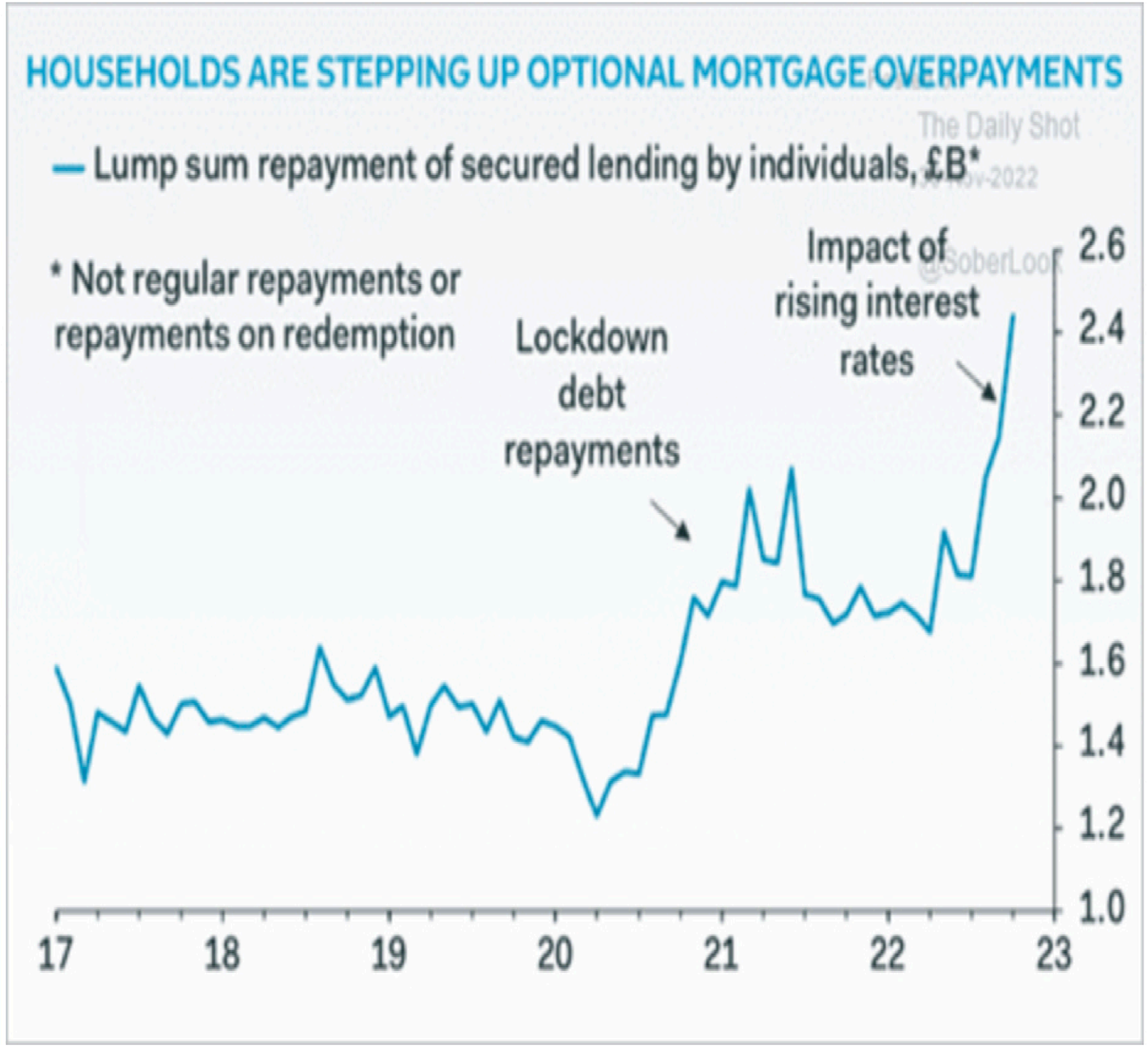
- Today, US Non Farm payrolls surprised on the upside and therefore the equity market reacted negatively, speculating there is pressure on the FED's meeting on the 14th December, especially with wage growth at +0.6% MoM.
- The main issue is the **low participation rate**, which is remaining below pre-pandemic levels. As we have recently seen, many US citizens are still sick due to the pandemic (over 3.5 mio citizens) and many elderly people retired earlier after the pandemic.
- As we have argued in the past, apart the fact, that recent announced massive layoffs are still not included in the statistics, but will in the near future, the best solution for fulling the 10 mio open jobs' gap, would be **targeted immigration**, rather than the FED further hiking rates.
- In addition, analyzing the snapshot of the industries with the highest and lowest rates of employment growth, we have mostly entertainment, logging or Museums & recreational facilities, which are lower incomers, rather than high end jobs.
- On this subject, Mr. Peccatiello is arguing, that there is also a issue on **how different survey are run**. In fact, **some people are holding 3 different jobs** and the household survey counts a person holding 3 jobs as one employed person, but the establishment survey counts that as 3 jobs being created.
- Over **700k Americans have had to get a second or third job in the last 12 months to make ends meet**, and NFP double-counts them. On top of it, the BLS keeps telling that after the pandemic the net birth/death in the creation of new businesses is literally double of what it was before, which is obviously not and therefore the mistake lies on statistical adjustment of the BLS.
- Reading the blog of Mr. Peccatiello and re-connecting with Mr. Larsen arguing a few weeks ago, some open jobs are double counting, we start to believe, surveys are statistically wrong and the truth lies probably somewhere in the middle.

# US employment report for November - theoretically stronger, but is not

- Adding all the various observations together, we believe, the equity market's reaction of today is wrong and in the near future we should also have weaker labor market numbers.
- On top, with the Dallas Fed manufacturing index negative for the 7th consecutive reading and cost of capital unbearable for small businesses, expenditures/capex are going to be delayed or even reduced and hiring hold, putting millions of jobs at risk.
- In fact, US ADP employment were up 127k, the lowest since January last year and below the 200k expected. Even if the JOLTS job openings figure for September is still elevated at 10.334 million open jobs, it was revised down heavily, with October data now 1.551 million below the March high and as we have previously analyzed, many jobs are most probably double counted.

# Enough spare cash to pay down mortgages

- The right-hand chart, courtesy Mr. Lysiuk of Canaccord London/Pantheon, shows the point that **household balance sheets are strong** and that they should overall be able to withstand economic stress, and apparently we are **far from an over-levered 2008 style situation.**
- The idea of **reducing leverage was being put into action even before rates were increasing, see overpayment spikes 2020-21,** so perhaps household behavior is more sophisticated than the investment community thinks.
- This is in line with the arguments of the Flossbach's manager, who showed, on the **lows of interest rates February 2021, that US citizen and also German ones, renewed their mortgages for 30 years + with low interest rates.**
- This would explain the still buy Christmas season, even with high inflation.
- We believe the truth lies in the middle, as we have analyzed, credit card loans are at highest levels and during the Black Friday, people were buying with BNPL leverage.




Source: Pantheon

# Macro Europe

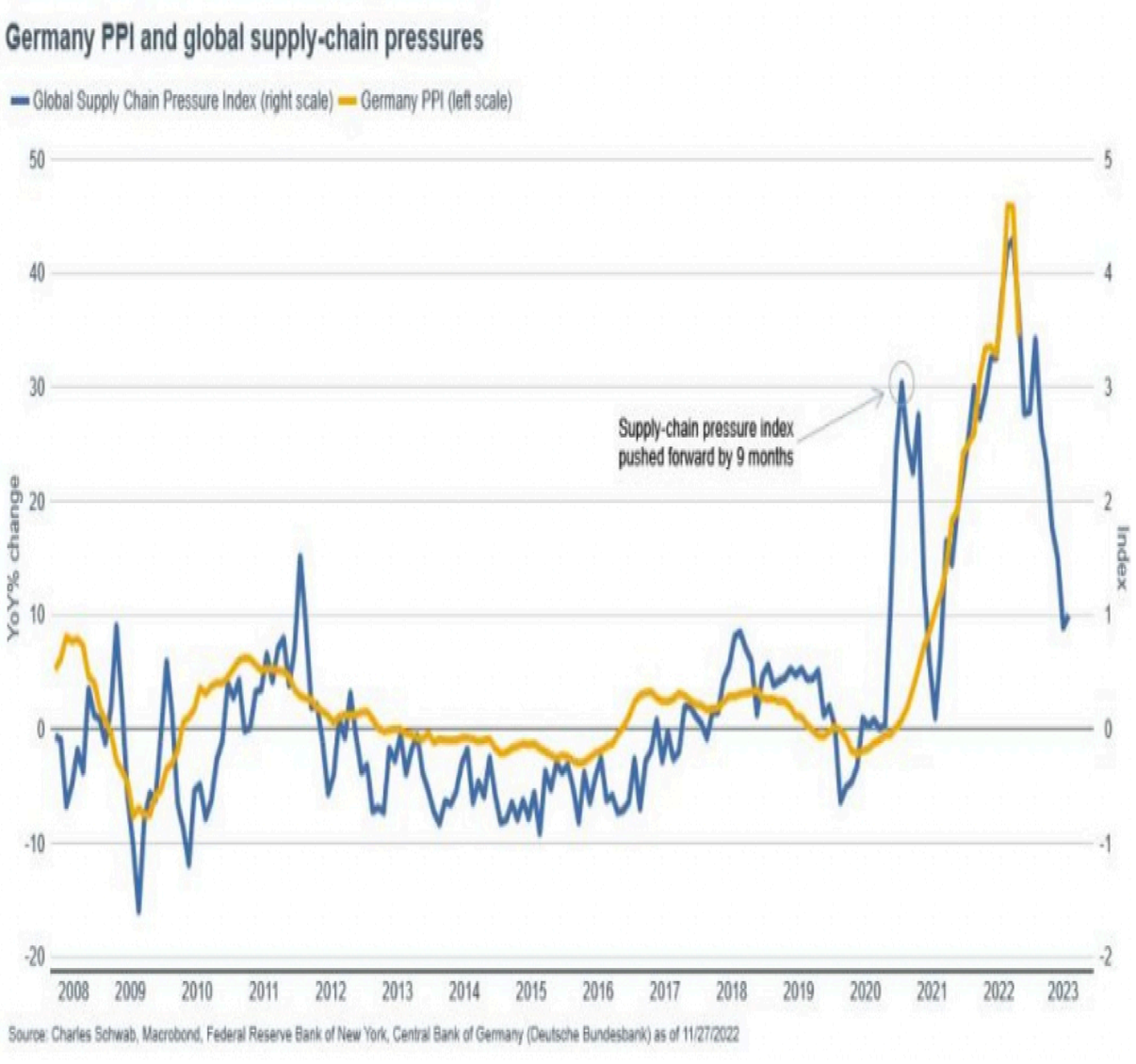
- The German economy expanded 0.4% QoQ in Q3 2022, slightly better than 0.3% estimated, and the **latest PMI data signal recession in Germany may be less severe than feared,** even if Gfk German consumer confidence is still at lowest levels ever, but posted at least the 2nd straight improvement for December. Most probably, the fact that the government brought forward gas price brake for consumers 2 months to save Christmas business is helping, but it is still not a guarantee of a sustainable trend.
- Germany and Qatar closed a 15-year LNG supply deal, starting from 2026. Starting from 2026, the dilemma in the next 2-3 years is still not solved and the highest risk for Europe is the increasing production costs, especially for the heavy industry.
- Volkswagen was announcing, that electric vehicle battery plants in the EU are practically unviable, because of the soaring energy costs. Basically further investment in key industrial projects such as battery cell plants in Germany and the EU are becoming more unfeasible due to policymakers' inability to control skyrocketing long-term energy prices, VW CEO Thomas Schaefer said.
- On this subject, we were reading an interesting interview with Mr. Thierry Breton, an EU-Commissioner for the domestic economy, asserting, that the US was Europe's most dangerous enemy because its policies and NATO had led to an existential challenge for Europe.
- This interview shows, how EU bureaucrats are no longer supporting the war effort unconditionally and that within NATO differences are arising. The challenging situation for the whole heavy industry in Europe is finally not unnoticed by policy makers and combined to the fact, that Republicans in U.S. are slowly but surely against the Ukraine-Russia conflict, we have more hopes of a possible end of the war next year? As we have seen next week, CNN was already spreading some rumours on a possible end of the war.

# Macro Europe

- UK is going to push on energy efficiency and the government wants to improve EPC (energy-performance-certificate) rating with a score of at least 69 by 2035.
- As we have seen, in U.S. Black Friday's sales were still strong, but in Sweden, according to Mr. Larsen, we have just experienced the weakest retail sales numbers ever with -7.7% y/y and according to NIER consumer survey major purchases next 12 months, it could even get worse. The index (chart not included) is at -28, the NIER index is pointing -45 and the worst years were 2008 with -20 and 1993 with -27!

# Inflation in Germany

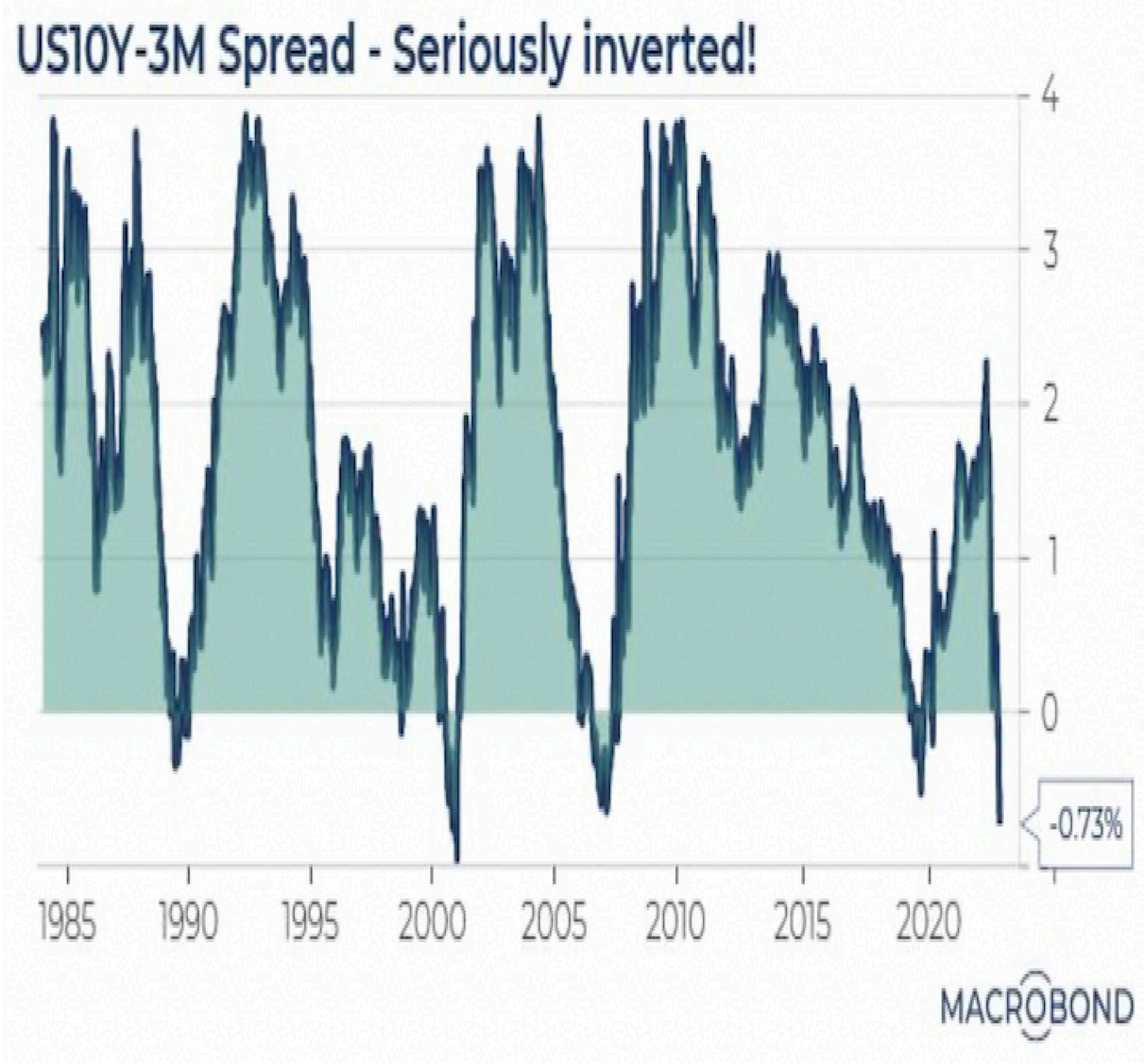
- We are including an interesting chart, courtesy Mr. Kleintop and Macrobond Financial, where we can notice that the **inflation in Germany was supply chain driven, and not the result of monetary policy.**
- The PPI in Europe's largest economy went ballistic over the last year as soaring commodity prices made companies inputs more expensive.
- The conclusion is that, with supply chain improving, especially in the second half of this year, inflation should have some relief.
- Therefore Mr. Kleintop argues that the ECB can pause now with an eye towards continued improvement in supply chains!?
- This would be clearly positive for Germany and most probably for the whole Europe.
- The falling PPI and the possible further fall is also the reason why **Germany's business outlook is rising from historical low levels**, though, still very depressed, but is a reason more for an upside potential, when the sentiment would change.




**Source: Mr. Kleintop / Charles Schwab / Macrobond**

# 3 month Treasury yield is now 0.73% higher than the 10 year Treasury yield

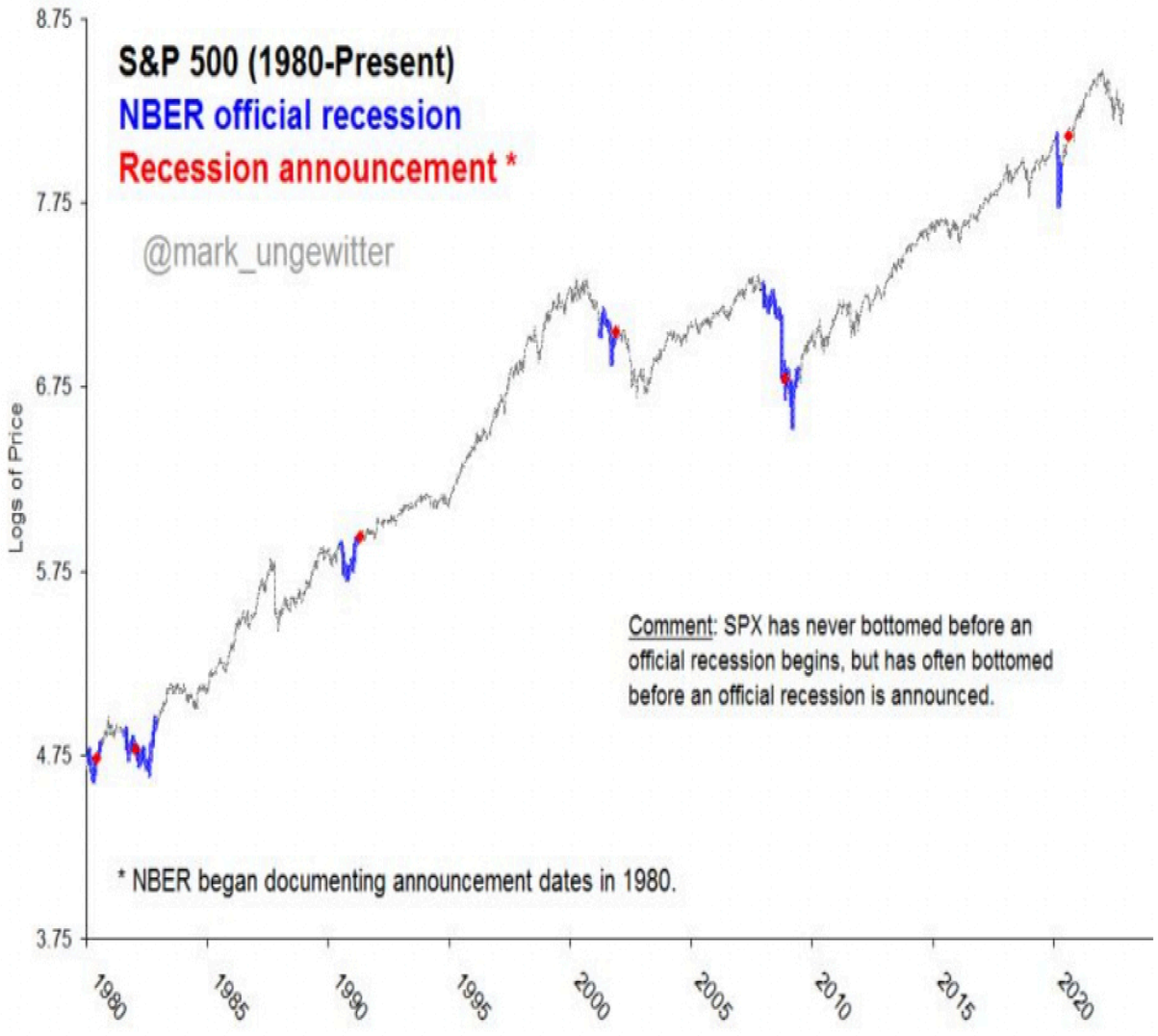
- According to Mr. Budelmann, in the last **60 years, there were only 3 periods with a more invested US yield curve:**
  - 2000-2001 (recession in 2001)
  - 1979-82 (recession in 1980 and in 1981-82)
  - 1973-74 (recession in 1973-75)
- While most of investors are just referring, that an inverted yield curve is forecasting a recession, Mr. Budelmann goes further.
- In fact, he argues, that while 2000-01 and 1973/74 were bad years for equity markets, 1979-82 were great years and indicate the performance for every year thereafter:
  - 1979: +19% , 1980: +32% , 1981: -5% , 1982: +20%
  - 1983: +22% , 1984: +6% , 1985: +31% , 1986: 19%
  - 1987: +6% (including “Black Monday”), 1988: 17%
  - 1989: +32%
- Taking into consideration, that 2022 was the worst year in 100years history for a balanced portfolio and that the current situation is not comparable to 1980, 2023 should be good.




Source: Macrobond

# S&P 500 Index has often bottomed before an official recession is announced

- On the right-hand chart, courtesy Mr. Rochat, the **S&P 500 Index has never bottomed before an official recession begin, but has often bottomed before an official recession is announced.**
- As argued last week, investors are at the moment in a limbo between very weak fundamental data pointing out a recession and according to Mr. Yardeni, the possible recession next year is the **most predicted recession in history,** and the **hope of a pivot and inflection point of the FED, having inflation and labor wage peaking.**
- As we have seen last week, Bank Vontobel showed a very interesting chart, arguing that in the year 2009, **equity markets increase 20%, while EPS were downgraded 35%.** For the moment during 2022, EPS have being downgraded only 15%, but the energy sector contribute with the biggest positive upgrade and other sectors were more resilient, than investors expected.
- Meanwhile, **insider selling is at extremely low level.**




Source: Mr. Rochat / NBER

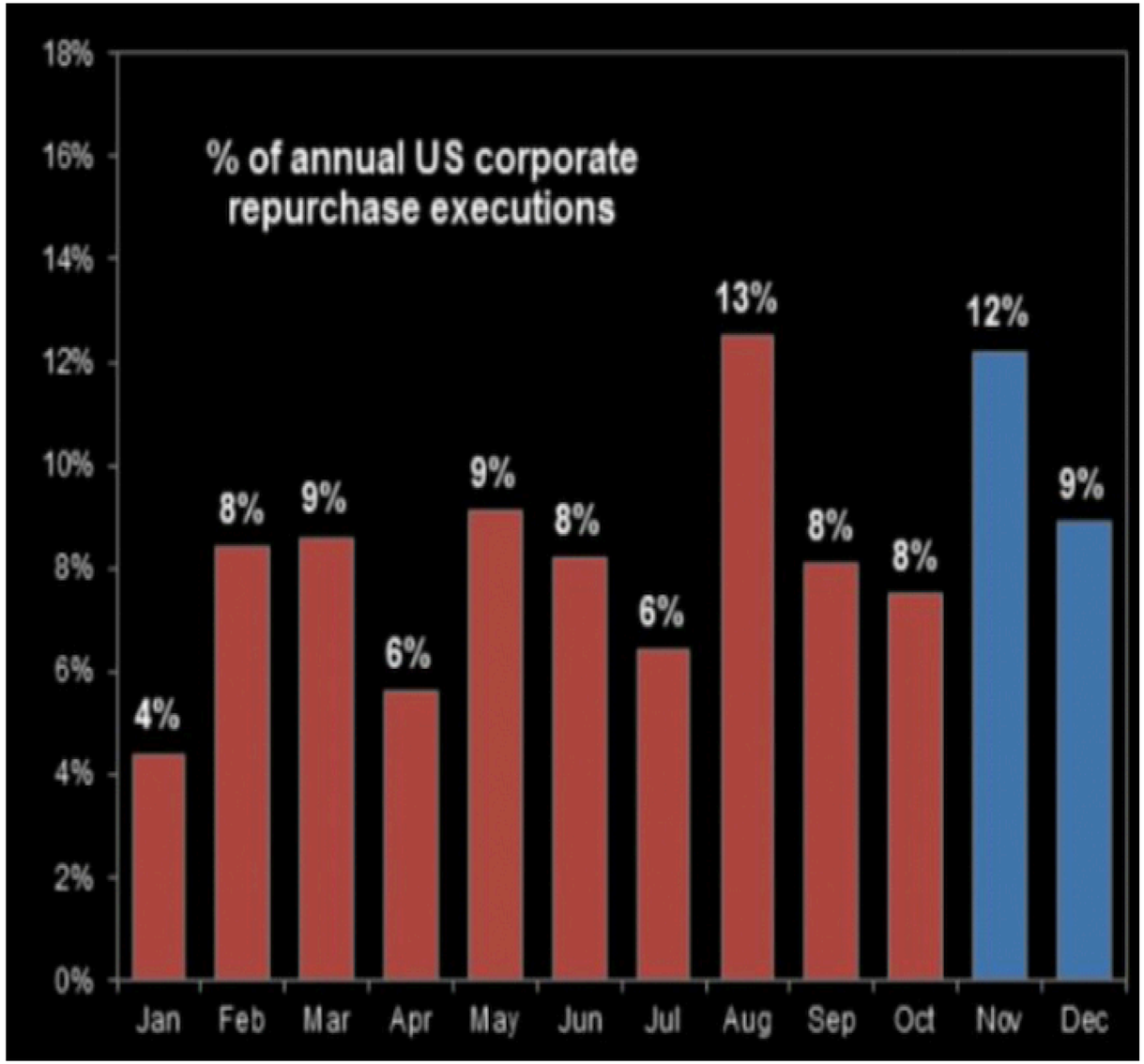
# 1980: market bottomed before Volcker shifted tactics

- We are including a very interesting chart, courtesy Mr. Kirch, which is basically having the same message like the previous slide.
- The S&P 500 Index actually bottomed 2 months before the Fed Chairman Volcker suggested in October 1982 that the FED "may shift tactics" on interest rates. The market's move erased its entire decline in 4 months.
- **The final message is, the equity market rebound around the FED pivot could well already have started and be a fast one.**
- We would like to mention that the **FED's balance sheet also suffers substantially from rising rates** and therefore is also in the interest of the central bank, to stop hiking.


Source: Mr. Kirch / Fundstrat

# Strongest period of the year for shares buyback

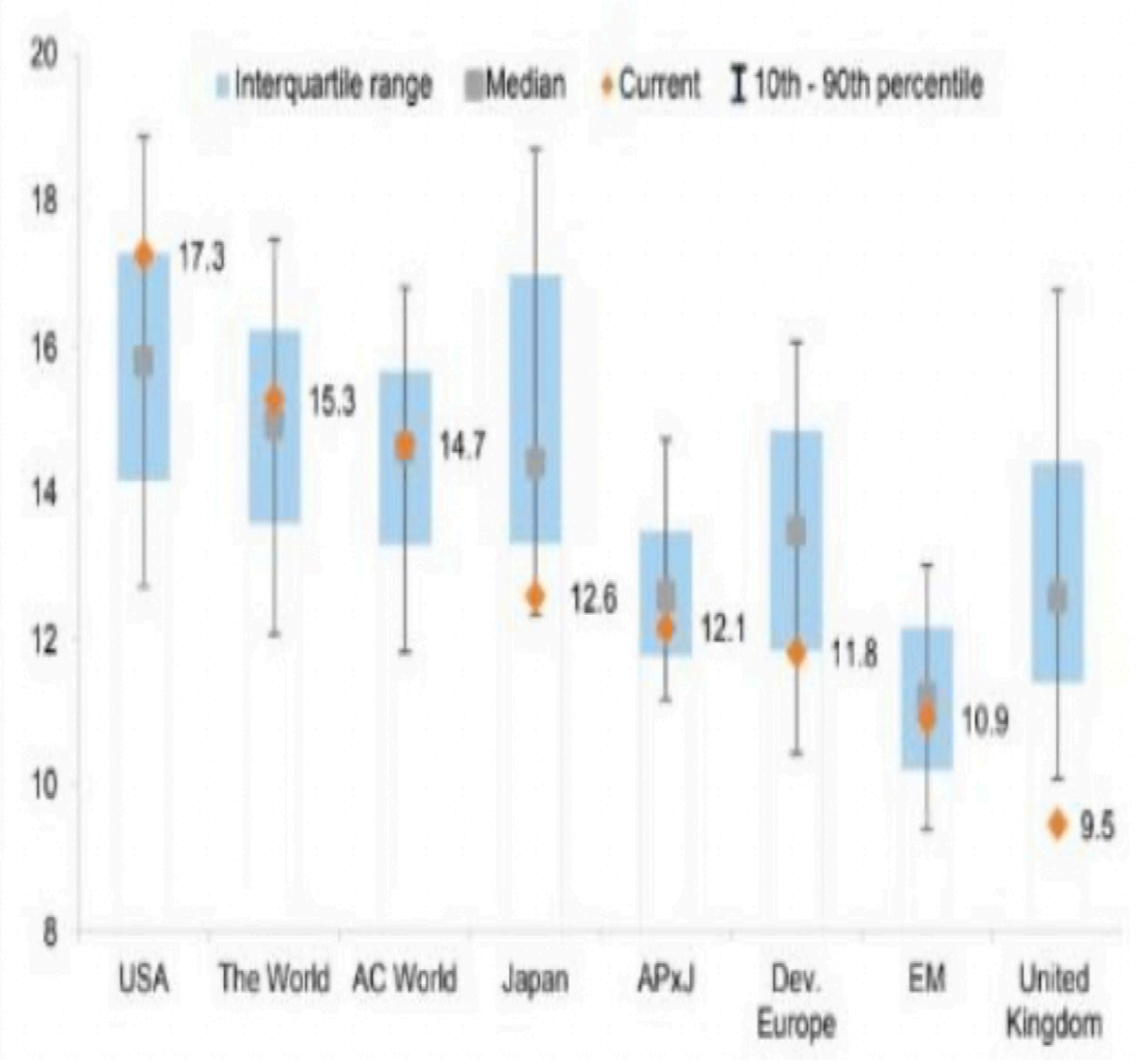
- As recently explained, we are entering the **strongest period of share buyback programs,** after companies announced Q3 results.




Source: Goldman Sachs via Mr. Monchau

# UK equities are valued cheaper than emerging market equities

- According to GS, UK equities valuation is at 12m forward P/E multiple 9.5x and therefore lower than Emmas 10.9x and developed Europe 11.8x .



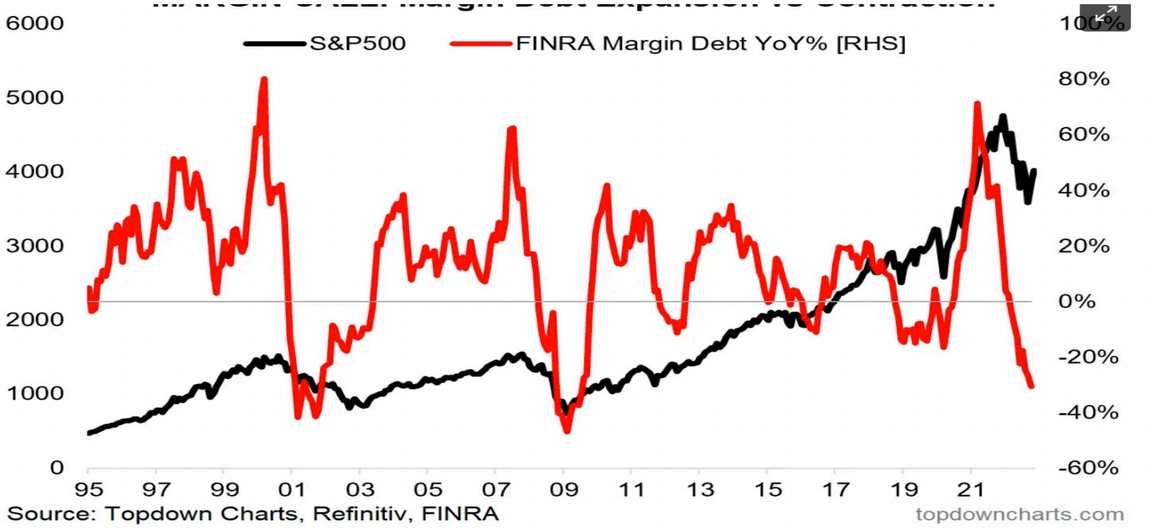

Valuation ranges (MSCI regions) over 20years (Source: GS via Mr. Monchau)

# Technicals

- On the right-hand chart we can notice how the selling pressure from corporate insiders is exhausted and historically, when the level is such depressed, it was the bottom of the equity market.
- On the below chart we can notice the possible break out of the 200d and downtrend line of the S&P 500 Index. Next target: 4’300 points.
- Meanwhile hedge funds have reduced net-leverage and funds increased cash. Margin debt are at lowest levels. Bull/Baer ratio is also still very depressed.


CORPORATE INSIDER SELLS (Source: chartstorm)


Break out of the 200d resistance?



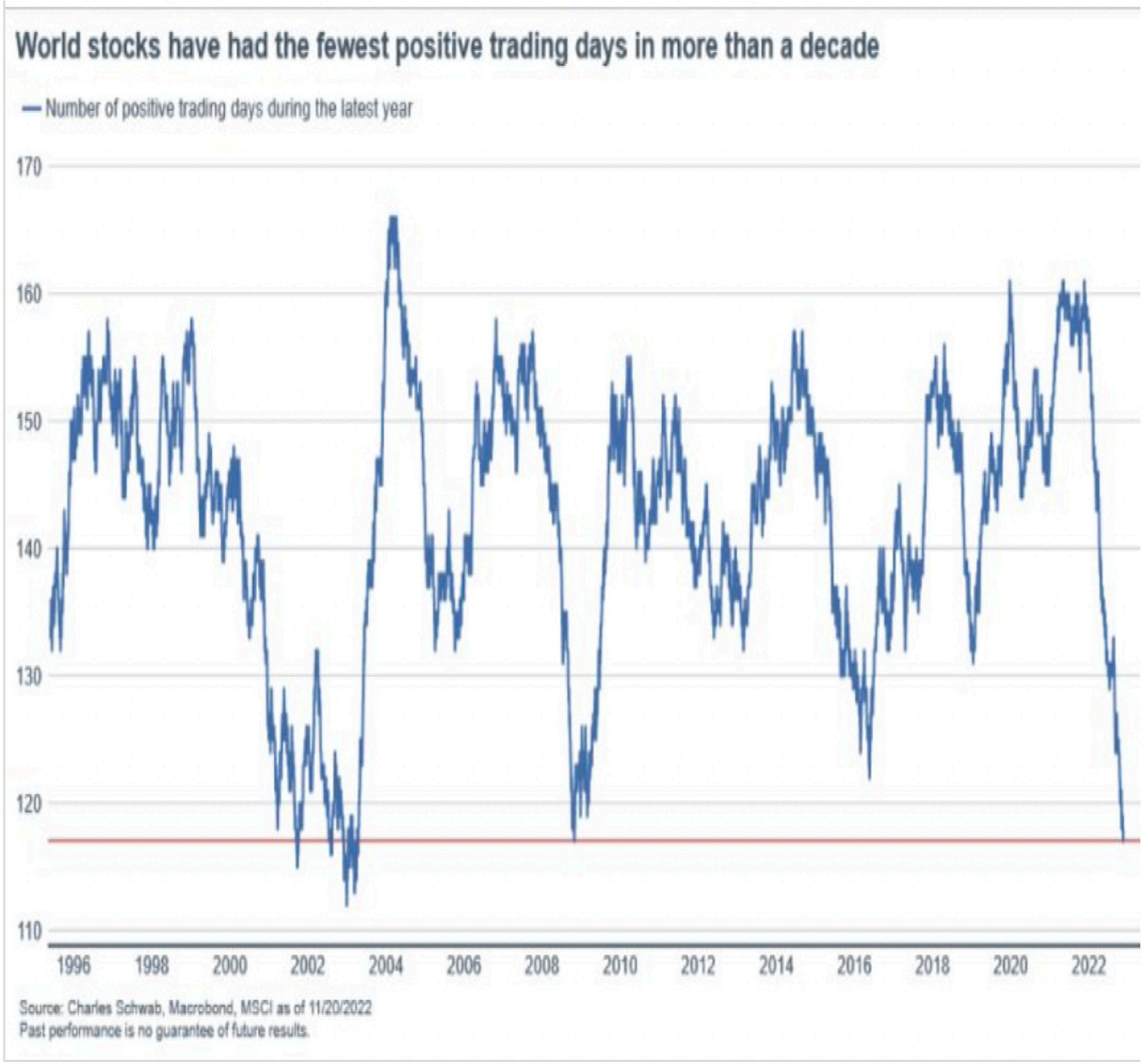

Low level of margin debt (source chartstorm)

# Technicals - S&P 500 Index closing above the 200d : bullish signal

- According to Syz group, Ms. Noël, the S&P 500 Index closed above the 200d MA for the first time in more than 7 months.
- Analyzing the previous 13 times since 1950, it was beneath this trend line for 6 months or more and closed above **showed only once did it move back to new lows.**
- In addition, **the S&P 500 Index was up on average 18.8% one year later and higher 12/13 times.**
- This should help to answer, whether equity markets should experience a double dips next year and we are going to experience new lows. As we know, this is the general consensus and normally as we know, reality going to turn out differently.
- The **next major bullish signal going to be the breakout of the highs in August 2022: 4'328 points**. In our opinion, the breakout of such resistance would mean the start of a new bull market. But we expect a rally up to 4'300 by year's end and a consolidation phase at those levels in Q1 2023, before we start a new bull market and should **clear any doubt of another bear market rally, which is still the main conviction of most of professional market participants.**
- According to BofA the investor risk appetite is still at lowest levels ever, even lower than GFC 2008. But equity markets are climbing the wall of worries and some of the Q2/Q3 headwinds are now starting to recede:
  - USD is weakening
  - Inflation peaked
  - FED is turning slightly more dovish
  - Market's breadth is improving
- The final assertion of Mr. Monchau of Syz group: this looks like a nice combo from a tactical perspective.

# World stocks have had the fewest positive trading days

- KTS has seen for the first time such statistic, courtesy Mr. Kleintop, which gives a clear idea in a rather unusual way, how during 2022 the sentiment was extreme depressed.
- **In fact, during 2022, equity markets experienced the fewest positive trading days in more than a decade.**
- **As we can notice in the chart, similar lows were during the years 2003 and 2009, where were not only the bottom of equity markets, but the start of a new bull market.**



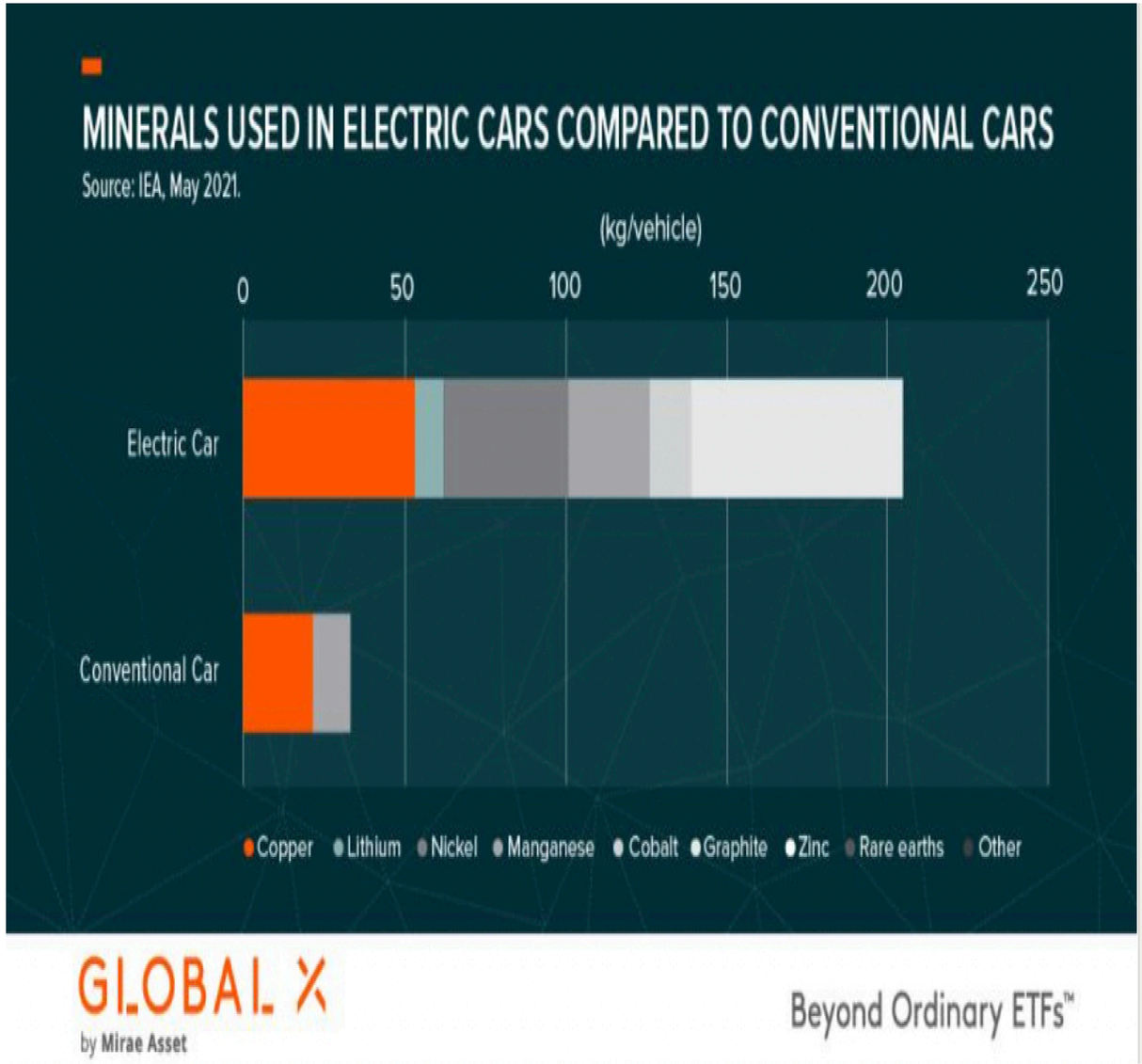

**Source: Mr. Kleintop**

# Recession risk is priced?

- We agree with market participants arguing that **recession risk is priced differently in various companies and asset classes.**
- As always argued, having **M2 collapsing, all the momentum asset classes and meme stocks, SPACs, cryptos, ARK have already corrected in the same magnitude as previous crisis like the tech bubble in year 2000 and GFC in 2008.** We believe, there are good, solid and very attractive investment opportunities around.
- In addition, the **IT sector corrected more than 35%**. The IT segment experienced a tremendous growth during the pandemic and was hiring substantially. Now, we have 0% growth and major tech companies are laying off massively, cutting significantly costs, therefore improving profitability, but keeping strong share buyback programs, which are going to support shares' price. We would like to remind our clients that share buyback is responsible 40% of the stock performance, earnings 1/3 and re-rating 1/4.
- Meanwhile, the energy sector had a tremendous re-rating, and also many "old economy" companies, which are experiencing new highs, having strong demand (agricultural like Deere, infrastructure and mining like Caterpillar) or market's leaders being able to increase prices (Pepsi or Coca Cola). Energy and materials have still very attractive valuations and strong cash flow generation.
- Therefore an investor has to build up its own scenario and decide where is going to be the major upside potential for 2023.
- KTS believes that inflation has peaked and therefore the FED is going to pivot in Q1 2023. Therefore we are expecting **yields to fall, which is translated in a re-rating of the technology sector and also Biotech**. We are not going to invest into spac, long cryptos or meme/non profitable, but we are invested into special investment opportunities like Gevo, Nevada, Docusign, etc.
- Yields are going to fall also in case of a recession and therefore we feel very confident with the upside potential of our **investment in the fixed income,** especially the newly increase into high yield bonds (manager MAN) and CLOs (Cartesia).

# Electric cars are more mineral-intensive to build

- A picture is worth a thousand words.
- Electric cars run cleaner than conventional cars, but we can notice on the right-hand chart, courtesy Global X ETF, how they are **more mineral-intensive to build.**
- Therefore as the manager of our best-in-class fund Bakersteel Electrum argued again in their latest outlook webinar, materials are going to experience a **tremendous increase in demand in the next decades.**
- Asides from the fact, as we have seen in our last weekly report, that **China accounts for more than 50% of the global commodities demand** (especially for Zinc, Copper, Nickel, Aluminum), combined with the fact that for most of such materials, inventories are at lowest, we will probably experience a rebound in prices, as soon as China is reopening.
- Taking copper as an example, offshore win turbine requires about 8 metric tons of copper per megawatt, **4 times more t**han a gas-fired power plant and on average, a gasoline car uses 25 Kg of copper, an **EV needs more than double.**

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# General news

- Chevron Corp received a U.S. license allowing the second-largest U.S. Oil company to expand its production in Venezuela and bring the South American country's crude oil to the United States. And Mr. President Joe Biden starts to lift sanctions on Venezuela.
- According to Goldman Sachs, **hedge funds are massively shorting energy stocks,** having the oil price falling and the sector being YTD the best performer. Asides from the fact that being the best performing stocks, up to the end of the year, because of the tax compensation of profit and losses, energy stocks are not going to correct, on the contrary, the sector has still a very attractive valuation, in addition to strong share buyback programs. KTS is not going to sell the exposure in the energy sector, because the stock selection of the portfolio is not pure oil players, but rather energy companies, which are improving their ESG.
- Reading in the news, that **Italy plans 50% one-off windfall tax on energy firms in 2023,** it is very important for our oil expert to know, in which companies and which countries should be invested. UK had also a similar windfall tax.
- Meanwhile Saudi Energy Minister Prince Abdulaziz bin Salman said **OPEC+ was "ready to intervene" with further supply reductions if it was required "to balance supply and demand".** Bloomberg says estimates of cuts ranges between 250k and 2m bpd. The OPEC+ meeting going to be hold next Sunday.
- We are reading, that **Rio Tinto plans another 2 large solar farms and 200MWh battery storage in Pilbara** (reneweconomy.com.au) for a total investment of USD 600 mio. The company's global commitment to invest into renewable is approximately USD **7.5 billion to halve its emissions by 2030.** This is a perfect example of how miners are increasing the effort in the renewable space and improving their ESG rating and therefore supporting our investment into the green transition Bakersteel Electrum and our oil&gas / green investments with our expert Mr. Renaud.

# Due diligence on VCs

- We are reading with surprise an article in the Financial times, titled “doesn’t anyone do due diligence anymore?” citing the collapse of **FTX or the sentenced Ms. Elizabeth Holmes to 11 years in prison for Theranos.** The article is also citing Ontario Teachers’ Pension Plan investing USD 95 mn into FTX and insists that its professionals “conduct robust due diligence on all private investments”. Tiger Global, which tossed in USD 38 mn in FTX, **pays outsourced consultants including Bain & Co to do the work.** Sequoia Capital, which handed FTX founder Sam Bankman-Fried USD 214 mn even though, he played video games during his pitch to them, has walked a fine line. It issued a rare apology and promised tougher standards in the future, while insisting that it did the proper checks.
- The article rightly asserts that we had **decades of easy money and lack of decent yields from safer alternatives and therefore investors jumped into early investments rounds involving a few million dollars to gigantic deals involving billions.** KTS fully agrees and argued that especially last 2 years, too much capital was at disposal of VC, SPAC, meme, non-profitable companies and valuations were insane and not sustainable.
- In addition the journalist also rightly argues, that investors started picking companies based on **who else was part of the funding round rather than on whether the entrepreneur’s business plan made sense.** We agree that when a start up has on board giants like Softbank, Sequoia, Tiger Global, other investors tend to trust the due diligence of the major players and are not doing their own proper due diligence, especially in periods of hype, where the time is limited and the queue of investors is long and “hungry” for a deal. In addition, VC funds have to repay back capitals to investors, if they can not invest the full commitment.
- KTS believes that the hype is over and non sustainable business plans already failed and that start ups which survived the tremendous “disaster” during 2022 are solid with a bright future in front of them and of course, less competitors.

# General news Asia / China - unrest breaks out across China

- Many market participants are arguing that the unthinkable is happening in China: a large student assembly at the prestigious Tsinghua University just publicly called for freedom of speech, Rule of law and democracy and therefore direct challenging Mr. President Xi Jinping and the Chinese Communist Party. For others, the **protests could be also a game changer**, having the government pushing the country's citizens to their breaking point for months, with large-scale lockdowns in addition to mass testing and forced quarantine of positive Covid cases.
- **Protesters have started demanding greater political rights,** not just the easing of Covid-zero measures and in the city of Chengdu, demonstrators do not want a leader for life political system. **Chinese people do not want an emperor.**
- As everyone probably has seen, Chinese people are on the street protesting latest strict covid measures. As per headline in the magazine The Economist **"unrest breaks out across China, as frustration at lockdowns grows".**
- The Hangseng index corrected 4% last Monday.
- **Goldman Sachs gives a 30% probability of a "messy exit"** and earlier than previously expected (Q1 2023) exit from Covid Zero policy, having infections spreading and residents protesting. Meanwhile China is pushing elderly vaccination.
- **According to Bloomberg, actually more than 90% of Chines people (1.4 billion) are fully vaccinated** and 65.8% of over 80-year-olds are fully vaccinated. Just 40% have received booster shots. About 86% of those aged 60 and above are fully inoculated.

# General news Asia / China

- With 90% of Chines people fully vaccinated, it is honestly hard to understand a strict 0 Covid-policy, especially when the rest of the world learned, how to live with the virus.
- Latest news on Bloomberg are announcing that **China's top official in charge of Covid restrictions said efforts are entering a new phase as vaccinations intensify and therefore further driving hopes of easing covid restrictions.**
- Due to the lock down of the manufacture Foxconn, Apple is experiencing supply disruption (30%) and delays for this Christmas season.
- China and Qatar signed a 27-year LNG deal . The deal is between QuatarEnergy and China's Sinopec. As competition is heating up, countries are trying to secure supply.

# General news on cryptos

- Also BlockFi filed for Chapter 11 bankruptcy. The platform was not resulting on the top 20 trading platforms by volume anymore. Peter Thiel was shareholder of the company.
- We are including this news, just to give an idea of the magnitude of the “bloodbath” in the crypto space: **the number of bitcoin millionaires has declined by 70% and according to statistics,** basically from 99k individuals at the beginning of 2022, 72k have had to say goodbye to their easily earned wealth with the cryptocurrency.

# FTX was a typical structure of fraud in the hype

- We would like to mention following points of Mr. Goyvaerts and Mr. Beliunas, because it is not the first time in our life, we experienced such a fraud of such magnitude, but we believe the structure is always the same and it should help also in the future to ring the alarm bells. We would like also to remind, that after the Madoff's scandal, the world though, such fraud is not going to happen again, but FTX is turning out a much bigger fraud, the biggest of all time.

1. Raise institutional money and get some of the biggest celebrities in the world to promote your product
2. Set up 100 shell companies and make direct equity investments with client funds. KTS would argue, if a structure have many shell companies, it is a reason to believe, the manager is not fully transparent.
3. Charity: even if, luckily, many managers mean it to help, many fraudulent managers are abusing of charity to cover real intentions.
4. Large donations to politicians and Senators (USD 70mio): we would argue, this is the biggest shock to everyone, having Mr. Sam Bankman-Fried as ambassador for a regulated and transparent crypto space. In addition, 8 congressmen tried to stop the SEC's inquiry into FTX back in March. 5 out of 8 received donations from SBF and FTX from USD 2'900 to USD 11'600.
5. Mr. Bankman-Fried cashed out USD 300 million personally during a USD 420.69 mio raise from 69 investors. When the founder is cashing out, it is never a good sign.
6. Jurisdiction Cayman Islands or Bahamas are not regulated enough for institutional structures. We understand, some structures need flexibility in order to apply the optimal strategy, but as we have seen once again, at the end of the day, too many managers just abuse of the lack of regulations.

# FTX was a typical structure of fraud in the hype

7. FTX owned an USD 11.5 mio stake in a tiny rural bank in Washington state with just 3 employees. FTX invested in the rural bank through its now-bankrupt sister company Alameda, with an investment of USD 11.5 mio for 10% of the bank, valuing the bank at USD 115 mio, but the bank had only USD 10mio in customer deposits. The idea of FTX was to bypass the requirements of owning a banking license in the US. We would like to re-connect with the Netflix's documentary on Wirecard, where the heart of the fraud was a small and rural company in Philippine.

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