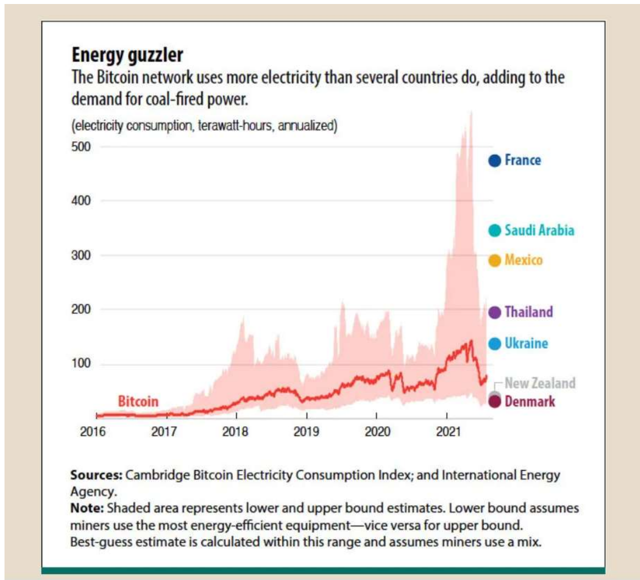
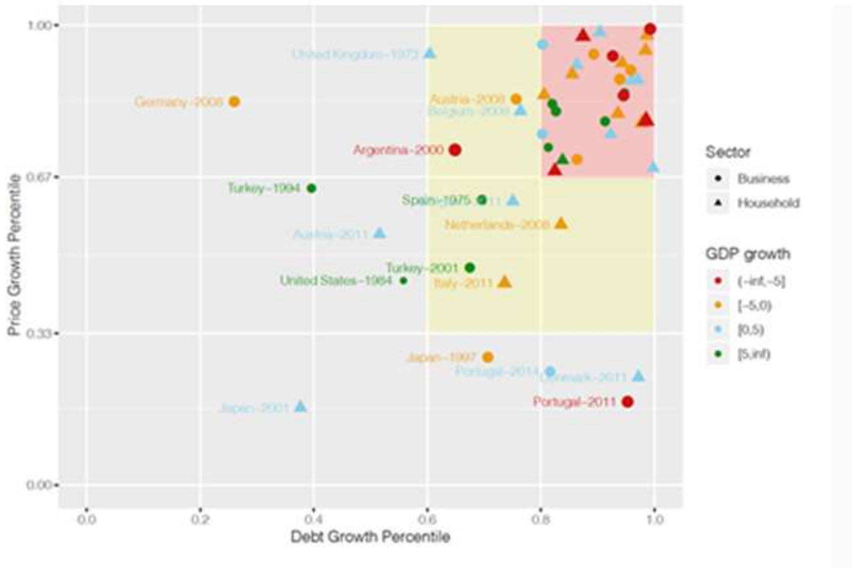
BITCOIN



In a few years, everyone will look back and shake their heads at the amount of resources and intellectual capital used in mining Bitcoin. What was formerly known as "Money" is currently far quicker, cheaper, easier and less volatile for all transactions than Bitcoin (any readers who have paid for a coffee or a car with Bitcoin, please let me know). So, the only possible people who should care about Bitcoin right now are speculators and people who want to launder money. Not obvious groups of people who should be lionised. And as the chart above (source: Conversable Economist) shows, it chews up a phenomenal amount of electricity. Most of the Bitcoin mining occurs in China, so its plausible that the recent blackouts in China and surging coal and energy prices are at least partly attributable to Bitcoin mining (and maybe the reason behind China's banning of it). Let alone the amount of greenhouse gases generated from the Bitcoin miners using Chinese electricity, which is largely coal sourced.

BUBBLES

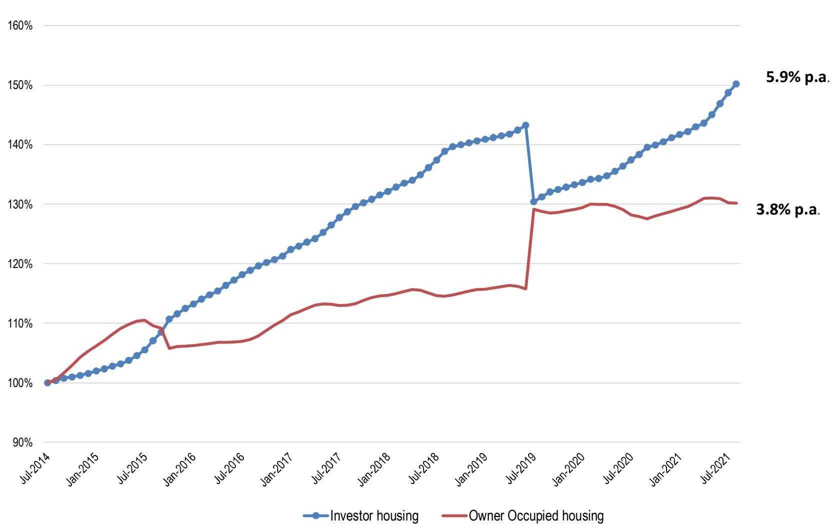
The chart above is from Google trends. It is the search for "Asset bubble" and it "kinda" shows what we think happens. "Asset Bubbles" become part of the zeitgeist for a short period of time (when the chart hits greater than 50) and then everyone thinks of something else to worry about. We're seeing more mention of asset bubbles (equities, bonds, housing, everything). However, it's important to be reminded that the problems caused by asset price increases without a corresponding debt expansion is more flu like than Ebola (with the caveat that for really big sectors like housing, you don't need much debt growth to get into danger territory. The chart below is via *Verdad* from Greenwood et al. These Harvard dudes mapped crisis to asset price growth and debt growth and found that the ones where there was a big fall in GDP (the red and orange dots) almost always happened when you had world class debt and asset price growth. Otherwise, it was nasty but not fatal. That's why no one should care about bitcoin prices or meme stocks or Tesla – nobody has borrowed shedloads of money (compared to GDP) to buy them.



BORROWERS

As we said above, we think it's different for big bits of the economy, such as housing, but we still think it's moot. This week everybody is talking about housing bubbles and reining in lending. The chart below shows owner occupied and investment housing total lending (source RBA) since 2014 (base 100% is July 2014). Whatever is happening to house prices is not being caused by lending, which is growing at close to nominal GDP levels. Obviously, there's real issues in not allowing categories of people who shouldn't borrow too much and nobody should feel any sympathy for "investors" who have 80% LVR lending removed. We're not really sure there is a macro economic problem developing from lending. Maybe it's the regulatory prudential equivalent of the "ring of steel", so that at least the regulators can be seen to be doing something.

Debt Outstanding July 2014 =100%



More about Elstree Hybrid Fund (EHF1)

Elstree Hybrid Fund (Chi-X: EHF1) is an exchanged traded product or ETP. The fund is designed to allow retail investors to access the same successful and long-term investment strategy as our actively managed unlisted wholesale fund, the Elstree Enhanced Income Fund.

The Elstree Hybrid Fund is an ideal investment for investors seeking a cash or bank term deposit alternative investment that displays an acceptable and appropriate risk adjusted return outcome.

The Elstree Hybrid Fund has 'on market' liquidity provided by a market maker (Nine Mile). The iNAV which is estimate of the live NAV, is updated every 20 seconds.

Additional details can be found on the Elstree Hybrid Fund website or email Norman Derham or Michelle Morgan for further information.