



Investment fund Alpha Centauri

Macro-economic environment

Last updated 3. Feb 2025

Currency and exchange rate arbitrage

The fund Alpha Centauri is based in Romania, where the national currency is the Romanian Leu (RON), it also has a reach to World-wide markets through the broker XTB Romania. The currency of the Fund is USD, with all the investment instruments also engaged in denominated in USD.

The Manager, Dr. Fran Nekvapil, has observed the long-term depreciation trend of RON relative to USD (Figure 1) long time ago. The domestic currency has depreciated from about 3.9 RON/USD in 2015 to about 4.8 RON/USD at the beginning of 2025. The exchange rate fluctuates considerably, but the long-term trend is in favour of USD.

On the other side, the exchange rate RON/EUR was stable between 4.9 and 5 for the last two years. This is because the Romanian National Bank (BNR) has engaged in exchange rate control of RON/EUR. They do it because of foreign investments into Romania, mostly from the eurozone. However, BNR also has to spend its own resources to keep the exchange rate stable. On the other hand, BNR has little interest to control RON/USD, so this rate is free-floating and determined by open market.

This trend favours the Fund, as its profits are made in USD, which results in more purchasing power in Romania. This also favours the Romanian Investor in our fund, since they also realize their interest rates in USD.

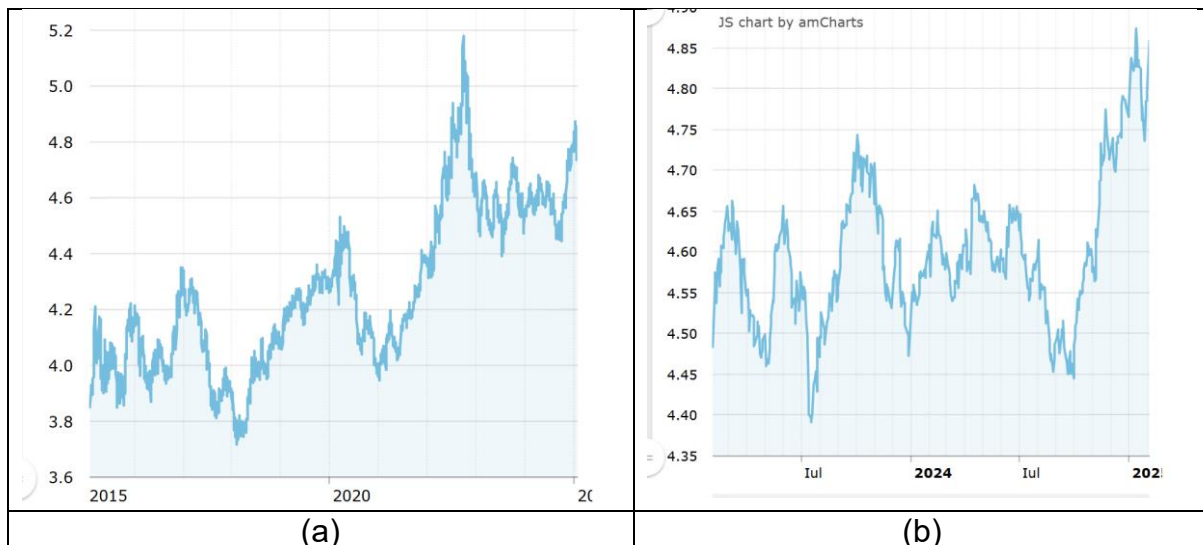


Figure 1. Exchange rate trend USD/RON: (a) longer-term trend from Feb 2015 to Feb 2025, (b) Short-term trend from 3.Feb 2023 to 3. Feb 2025. Downloaded from the official website of Romanian National Bank.



Investing using a more stable currency

Romanian government is not fiscally responsible, and currently runs an annual budget deficit of 8 %. On top of that, interest rates on government bonds are steadily increasing in recent months, indicating a lack of confidence from the investors, and in turn meaning that the Romanian government will not have it so easy to raise cash through this vehicle.

Inflation in Romania reached a maximum of 19 % MoM in 2023, which is significantly higher than the inflation on USD or EUR which maxed at about 19 % (Figure 2.). Although the US government is also being accused of various financial misbehaviour, the fact remains that the US economy is large and can handle deficits and debt. Hence, Alpha Centauri expects that the differential between the US and Romanian economy will remain. Taken together with the fact that BNR is controlling the exchange rate EUR/RON, USD remains the best currency to do business in for the Fund.

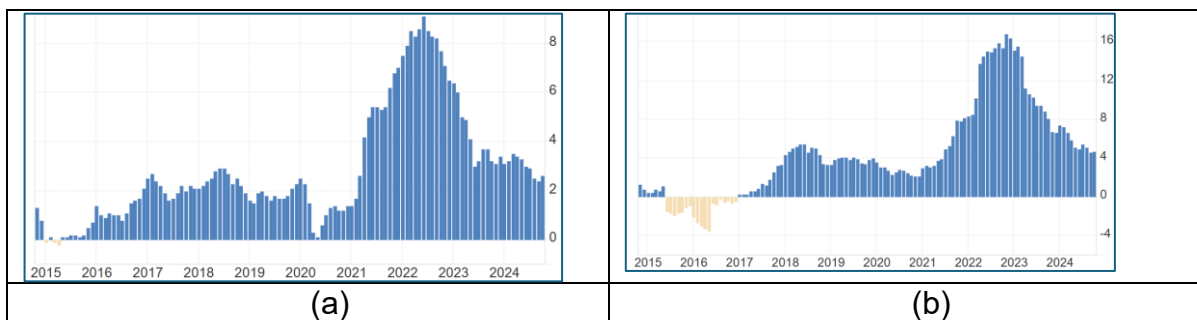


Figure 2. Inflation rate on (a) USD, and (b) RON. Source: TradingEconomics website

Cantillon's law

This law claims that those who are closer to the source of money will benefit more and faster than those further in the chain. This is especially true in investing, and investing in one of the major currencies/markets. Alpha Centauri will feel any shifts in dollar strength and re-pricing of the assets straight away. This allows for benefiting from opportunities which the employee class may not experience at all, or there may not be opportunities anymore by the time the macroeconomic shifts trickle down to the farthest.

Systemic trends

Capitalism is a system that benefits the investor. This is especially true for debt-based economies. Most of governments run a budget deficit, which is covered by new bond issuance, ultimately leading to the increase of national debt levels. Cutting of government spending is politically unpopular, so it is expected that spending levels will grow or at least stay around current levels.



Hence, governments actually need small levels of inflation in order to monetize their debts. Hence, the long-term trend underlying everything is the depreciation of fiat currencies and therefore increase of asset prices. This is the reason why people who just work regular jobs for monetary salaries are getting poorer, while the people who own assets are getting richer.

Fractal nature of markets

Markets (stock, bond, commodity, etc.) have a fractal nature, meaning that the patterns that occur on a higher timeframe (yearly, monthly) also occur on shorter timeframe (weekly, hourly). Alpha Centauri aims to trade short-term “waves” in the direction of longer-term trends, thereby capitalizing on the sum of multiple fluctuation waves in the direction of the trend. This allows capitalizing on the sum of all small moves in the direction of the trend, which is larger than the price difference covered by the trend by itself.

All employees have to contribute to the pension system. Both the obligatory and the facultative pension funds in essence work like closed investment funds with low-risk strategies. Thus, pension funds automatically buy up stocks and bonds all the time and fill the markets with fresh cash. This is one of the factors contributing to growing tendency of prices of assets.

Profits made through investments are under more advantageous tax rules than regular job income. In Romania, income tax on job income is taxed 45 %. On the other hand, capital gains are taxed 10 %, dividend income tax is 8 %, and profits made by trading are taxed 3 % (+10 %).

Tax efficiency

In Romania, regular job income is taxed 45 % before the salary hits employee's account. Increasing the salary (i.e. moving to a better paying job) is also not a solution, since the amount of taxes will also scale. It can be argued that the money is not lost, but goes to social and health funds. However, the 25% that goes to the pension fund and 10 % that go to the public health fund will be worthless by the time these funds will be needed.

The whimsical issue is that money taken out through e.g. bank credit with fixed rate also loses value and depreciates with time. This is the money that can actually be used immediately to buy assets, but no taxes have to be paid when receiving the credit.

From all issues put forth above, it can be concluded that money now is more valuable than money in the future, and money should preferably be spent as soon as possible to buy liquid, cash-flowing, or appreciating assets, rather than waiting.