Minutes of the Advisory Board Meeting

Incrementum Inflation Diversifier Fund

April 12th, 2018

The Market is Grossly Underestimating the Impact of Quantitative Tightening and Inflation

Highlights of the conversation:

Special Guest - John Hathaway:

- The Fed will abandon its path of steady rate increases
- We need to see a bear market in bonds and stocks before gold takes off
- 20% of income tax receipts comes from capital gains, so a weak stock market is a big fiscal risk
- I believe we are at a turning point for sovereign risk
- Short-term rates might become unruly, which could topple asset valuations
- In the short-term we might have to go through another dip in the gold price before it starts rising longer term
- We need to get above the $1,370 resistance level, and then gold will move higher, and the miners will triple or quadruple in price

Heinz Blasnik:

- The macroeconomic factors are not supportive for gold, but nonetheless demand is strong
- Corporate debt levels are extremely high, but default expectations are not increasing, they are decreasing
- We might see higher price inflation over the next few months, the Fed will therefore probably stick to its QT and rate hike plans
- This will unsettle asset prices eventually and only then are we going to see a deflation scare
- QT will create a tipping point and I think it can happen very fast

Jim Rickards:

- We are in a new bull market for gold that can last 6-7 years; we have a long way to go
- Gold is currently not driven by inflation, but by a weaker dollar
- I believe we will see disinflation over the next 12 months, then a sustained period of inflation
- The Fed is grossly underestimating the impact of QT, they are tightening into a weakening economy
- North Korea is still a big risk; but the situation has currently paused
- Iran is front and center, the US is putting extreme financial pressure on Iran

Ronald Stöferle:

- Our Incrementum Inflation Signal is signaling rising inflation
- The looming trade war is inflationary
- ETFs like GDX and GDXJ are having a negative impact on gold stocks
- Silver stocks are one of the most contrarian investments you can make at the moment

Mark Valek:

- If short rates rise it could be a catalyst for a decline in the markets
- We know that the outcome of Fed policy is inflation, but we don't know what will happen before that

Biography of Our Special Guest – John Hathaway:

John Hathaway is the Chairman of Tocqueville Management Corporation, the general partner of Tocqueville Asset Management L.P. and a Portfolio Manager at Tocqueville Asset Management L.P.

Mr. Hathaway joined Tocqueville in 1997. He co-manages the Tocqueville Gold Fund. In addition, he manages separate accounts with a gold equity mandate including the Falcon Gold Fund, the Falcon Gold UCITS Fund, Tocqueville Gold Amerique (FCP), a sovereign wealth fund, and various separate accounts for family offices.

Prior to joining Tocqueville, Mr. Hathaway co-founded and managed Hudson Capital Advisors, followed by seven years with Oak Hall Advisors as the Chief Investment Officer. In 1976, he joined the investment advisory firm David J. Greene and Company, where he became a Partner. Mr. Hathaway began his investment career in 1970 as a research analyst with Spencer Trask & Co.

Mr. Hathaway graduated from Harvard College in 1963 (B.A.) and from the University of Virginia Business School in 1967 (M.B.A). He also holds the CFA designation.

Transcript of the conversation:

Ronald Stöferle:

Gentlemen, welcome to this quarter's advisory board call. I'll start off with some housekeeping. We are currently working full time on the "In Gold We Trust Report". It will be published on the 29th of May. One of the things we are excited about is that we have an interview with Luke Gromen about de-dollarization. We also have a lot of thoughts around the Chinese oil contract that was launched a couple of days ago. We will of course also write about Quantitative Tightening and its consequences. Additionally, we are writing about mining stocks, the combination of the blockchain technology with physical gold, the shadow gold price, Austrian business cycle theory, technical analysis of gold, financial repression etc.

As always it will be quite a read, so mark your calendars, 29th of May.

Now, let's kick off the discussion. Let's start with gold; the metal struggled to rise above the resistance level at $1,370, but now it seems we are at the verge of breaking this level. From a technical point of view, the sky is the limit after that. It seems like gold is indicating that the US rate hike cycle will be over pretty soon, and this will be a big surprise for market participants. We believe the Fed will have to make a U-turn and the economy will turn weaker, and at this point gold will really take off. It seems like gold is already discounting that.

John, what are your thoughts on this?

John Hathaway:

I agree, and couldn't have said it much better myself. $1370 seems to be a key resistance level. I expect gold to discount that the economy is softer than the market thinks and that the Fed will have to abandon its stance on steady rate hikes.

I recently held a presentation where I said that the main factor that will ignite interest in precious metals is most likely a change in perception about the stock and bond markets, i.e. we need to see a bear market in both bonds and stocks before gold takes off.

Gold Performance During Periods of Market Stress

	Start	End	S&P 500 index	U.S. Treasuries	Gold
1987 crash	8/25/87	10/19/87	-33.2%	-7.2%	5.0%
Iraq invades Kuwait	7/17/90	10/12/90	-17.6%	-0.4%	7.6%
Asia crisis	10/7/97	10/28/97	-6.2%	0.0%	-4.6%
Russia/Long-Term Capital Management crisis	7/20/98	10/8/98	-18.7%	5.3%	1.2%
Sept. 11	9/10/01	10/11/02	-22.3%	11.2%	16.6%
Global financial crisis	10/11/07	3/6/09	-54.5%	15.8%	25.6%
2010 euro zone crisis and flash crash	4/20/10	7/1/10	-14.5%	4.5%	5.1%
U.S. sovereign debt downgrade	7/25/11	8/9/11	-12.3%	3.6%	7.8%
Taper tantrum	5/22/13	6/24/13	-4.8%	-2.0%	-6.4%
China worries	8/18/15	2/11/16	-11.8%	3.5%	11.5%
Average			-19.6%	3.4%	6.9%

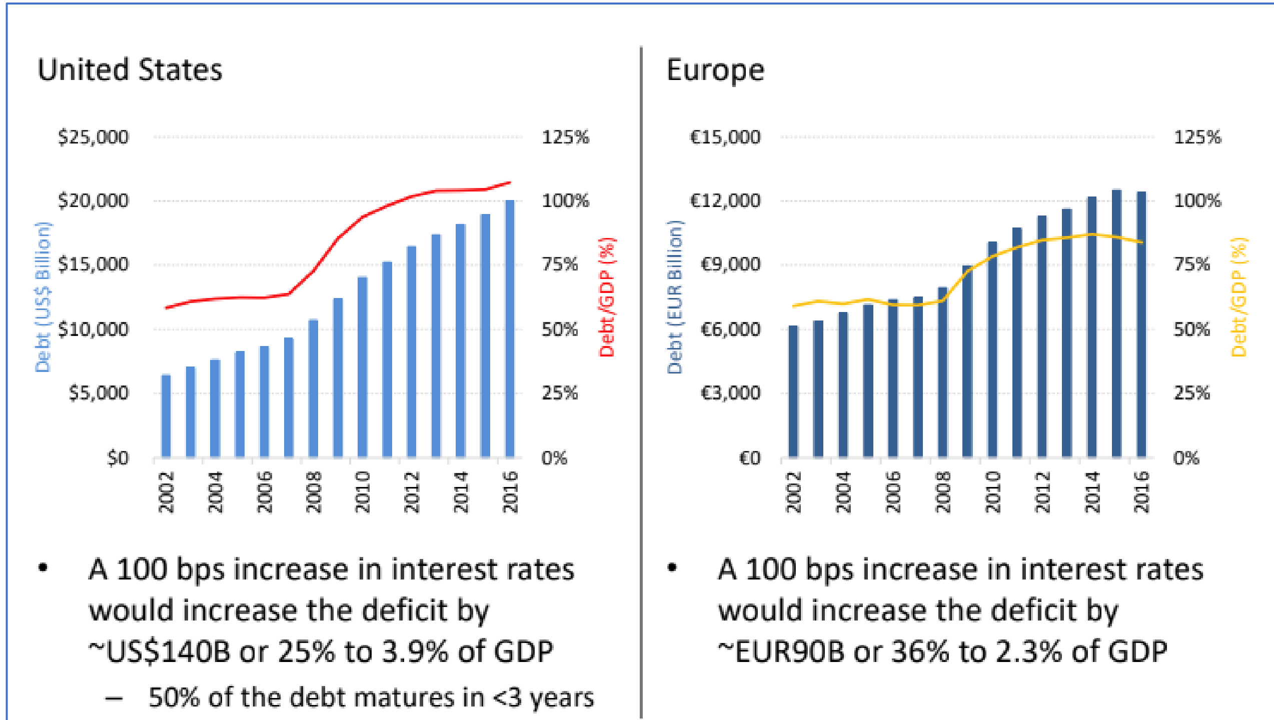
Source: Bloomberg

Source: Bloomberg, Tocqueville Asset Management, John Hathaway

I think there is a lot of room for disappointment, e.g. it could come from lower earnings guidance. But at some point this resolute bullishness towards the market will change.

I believe a unifying theme that people should watch now is the fiscal peril that western democracies face, particularly the US. I follow the monthly reports on the fiscal deficit and we are already running at a rate that will exceed $1 trillion this year, and there is no way that future GDP growth will be able to support the current debt burden. The current debt in the US is around $20 trillion; the interest that is being paid on that debt is 2.4%, which is very low, but if interest rates continue to rise, it will put tremendous pressure on the deficit. Part of the thesis for gold is that we can’t cope with that sort of pressure on deficits. Markets believe the yield curve can be normalized (higher rates), but this is highly unlikely.

How would an increase in interest rates affect deficits?



Source: Bloomberg, Tocqueville Asset Management, John Hathaway

Our mutual friend Luke Gromen points out that if the stock markets stops going up, and starts going down, it's a major headwind for the fiscal picture because a good 20% of income tax receipts comes from capital gains. 97% of individual tax receipts is paid by 5% of the population, the wealthy people, so a bad stock market is a big fiscal risk.

I believe we are at turning point for sovereign risk and I believe it can be triggered by a bad stock market, or simply headlines here and there. I focus on the US, but I don't think it's much different in other Western democracies.

A monetary crisis is in the cards for these reasons, and quite bullish for gold because it will trigger a new round of massive money printing.

Heinz Blasnik:

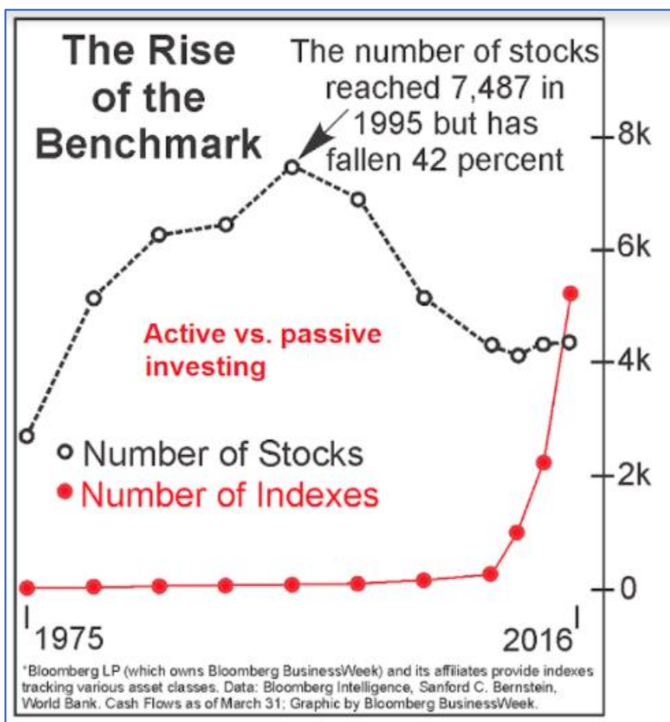
The skeptics among us look at current stock valuations and tell themselves that this can't go on for much longer. Government debt, as well as corporate debt, has grown out of control and something has to give at some point.

During the last two booms (tech and housing) we could point to specific sectors of the economy that were in bubble territory, however this time around everything is in a bubble. Gold is interesting at the moment because the macroeconomic factors driving gold, e.g. real interest rates, economic

confidence, credit spreads, faith in the monetary authorities, are actually not currently bullish. But physical demand for gold is currently strong.

Keith Weiner tries to determine the demand for physical gold by comparing spreads between the futures and spot markets and then works out if it is worth doing arbitrage or not. From his analysis he can glean if dealers are selling gold while speculators are buying paper gold, or if anyone is accumulating physical gold. From his data we know that someone is indeed accumulating physical gold. But who is it? It's not the little guy, because the US Mint only sold, I think, about 35,000 gold coins last year. I'm not sure about the exact number, but it was very little.

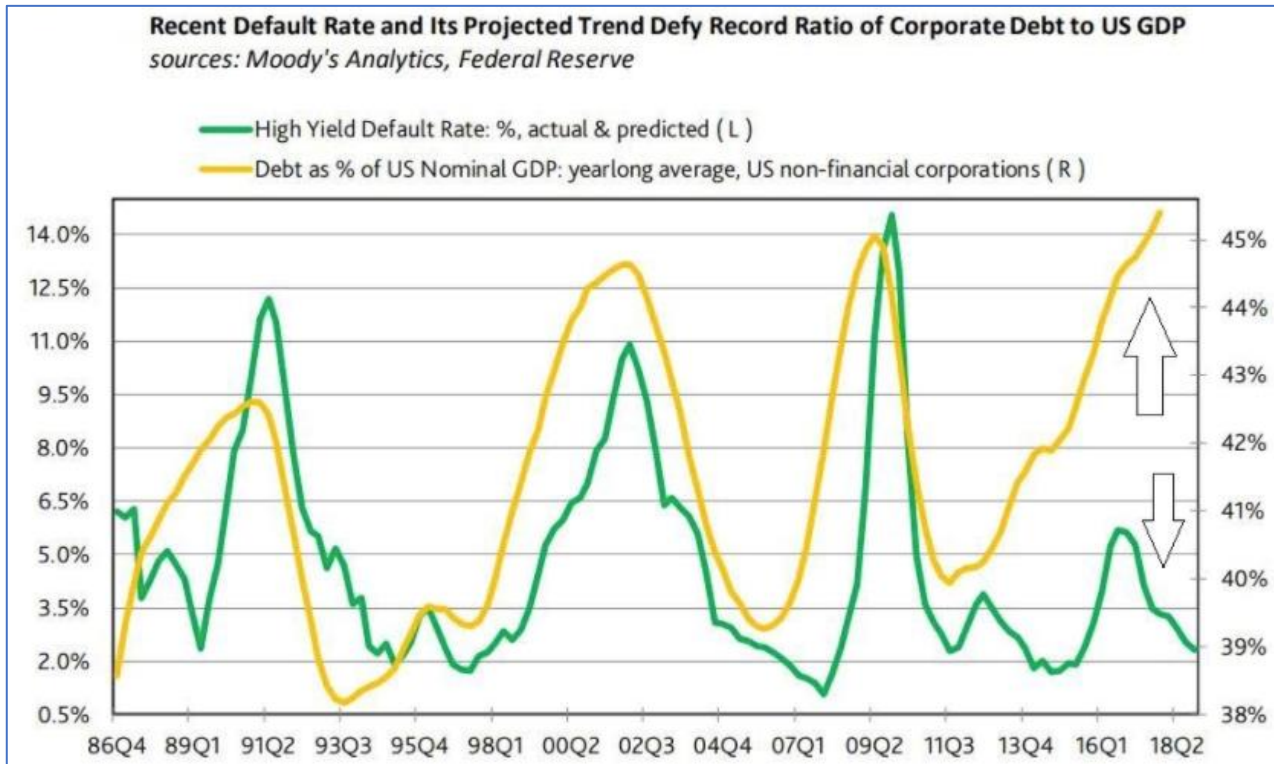
This tells me that it's people with big money who are buying. But if the macroeconomic factors are currently not supportive for gold, why are they buying? It could be the overpriced stock market, a large part of which is driven by passive investing (e.g. ETFs) and computerized trading strategies (e.g. risk parity funds) is making them nervous.



Source: Bloomberg, Sanford Bernstein, World Bank

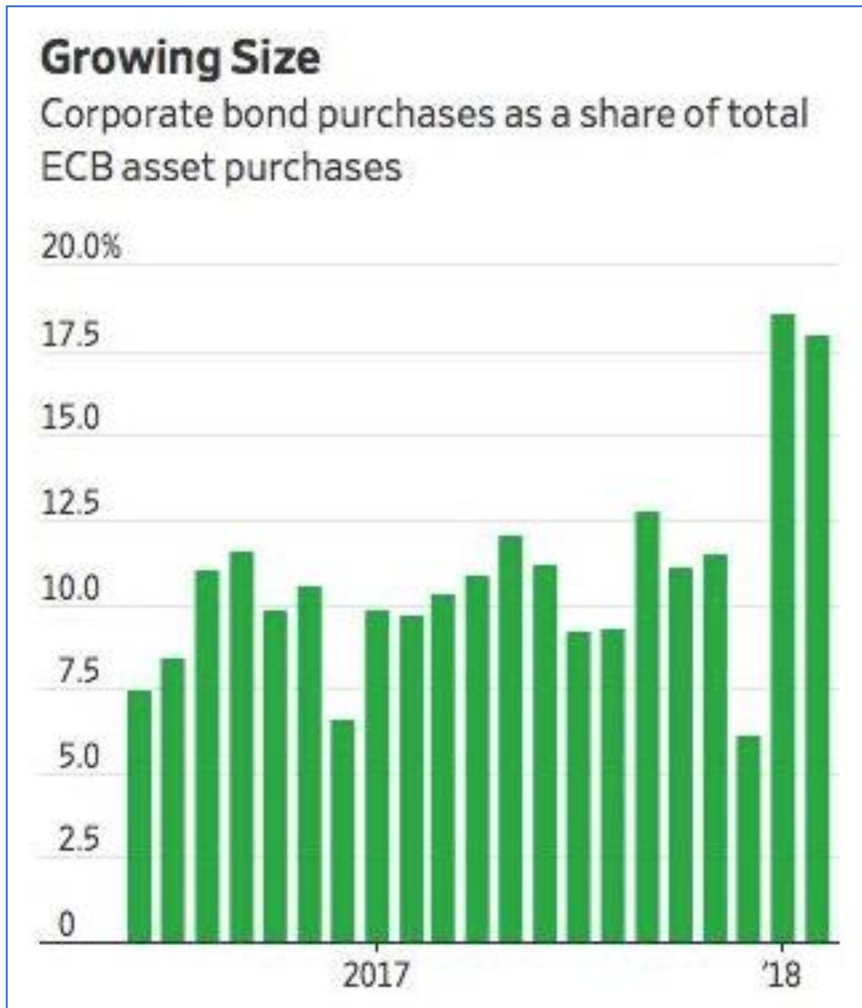
I think the economy is more dependent on the stock market than it used to be because, as John mentioned, the government is dependent on tax receipts from capital gains. US tax revenues were actually very low even before the new tax code came into effect.

Moody's has a chart that looks at default expectations for high yield bonds, and it compares the relative level of corporate debt to different yardsticks, like GDP or cash flows, and it shows that corporate debt levels are extremely high. Usually we see defaults and default expectations going up as well in such times, but this time around they don't; they are actually going down - at least for now.



Source: Moody's, Federal Reserve

We know that the ECB is buying corporate bonds and suppressing credit spreads. Usually before a crash we see credit spreads widening, but it may not happen this time. I think things will look fine one day, but then terrible the next i.e., the trend change in credit spreads will be a non-linear event. And all it takes is probably a small catalyst.



Source: European Central Bank

Ronald Stöferle:

I think inflation could be such a catalyst. Mark and I often use the term "Monetary Tectonics" when we talk about inflation, and it seems at the moment that our Incrementum Inflation Signal is signaling rising inflation. Oil, which is a big factor in inflation, is strong at the moment, and we were one of the very few bulls on oil a few months ago because it seemed like the consensus was so overwhelmingly bearish. We also see the looming trade war as inflationary. **As Jim Rickards wrote: first there are currency wars, then there are trade wars, then there are actual wars. At the moment it unfortunately seems that Jim is right again.**

We initially had monetary inflation, then over the last few years we have seen asset price inflation and now it would make sense that we saw price inflation picking up significantly going forward. However, we should not forget that there is quantitative tightening kicking in. We know that by October it will be $50 billion per month, and it seems that QT is not a big concern for markets, at least for now. This big liquidity drain will be about $420 billion this year and $600 billion in 2019;

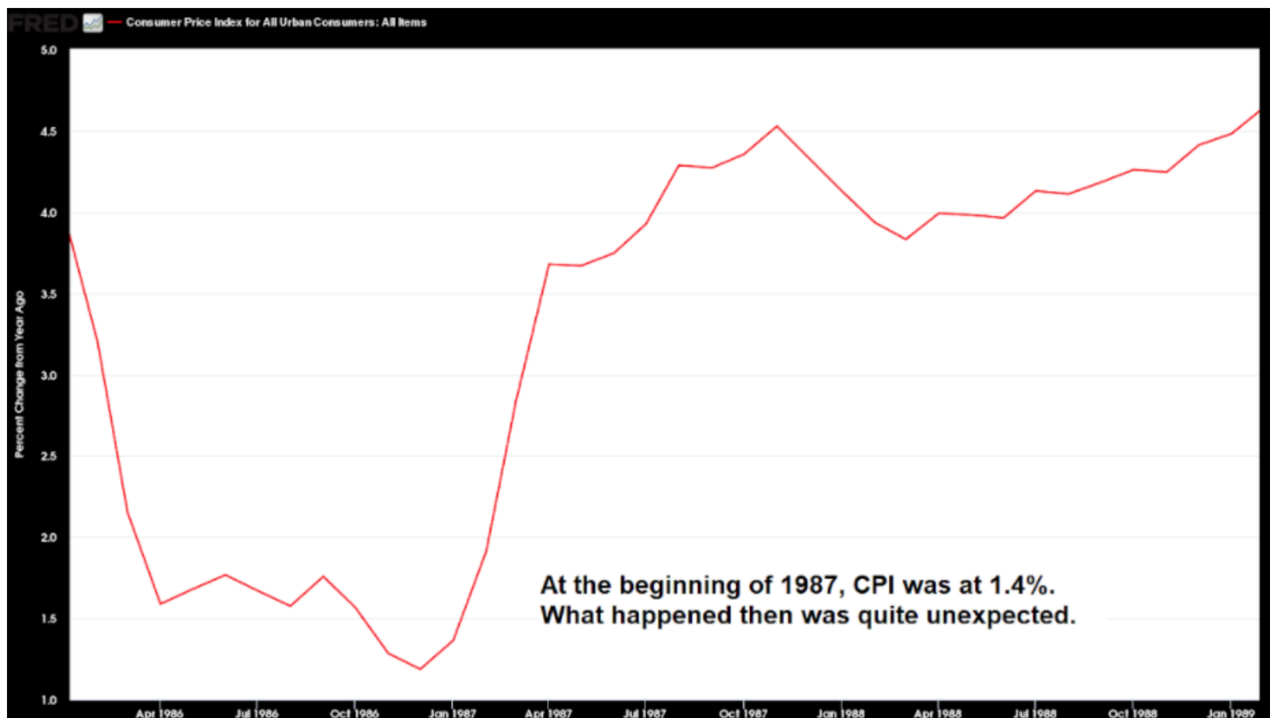
more and more central banks are becoming increasingly hawkish, which is deflationary for markets. **It seems like this is the first big stress test for markets in the last 10 years!**

What are your views on this interplay between inflation and deflation?

Heinz Blasnik:

The current price inflation development reminds me of what happened in 1987. CPI inflation at the start of the year was very low, a little over 1%, but it ended the year around 4.5%.

Consumer Price Index 1986 to 1989

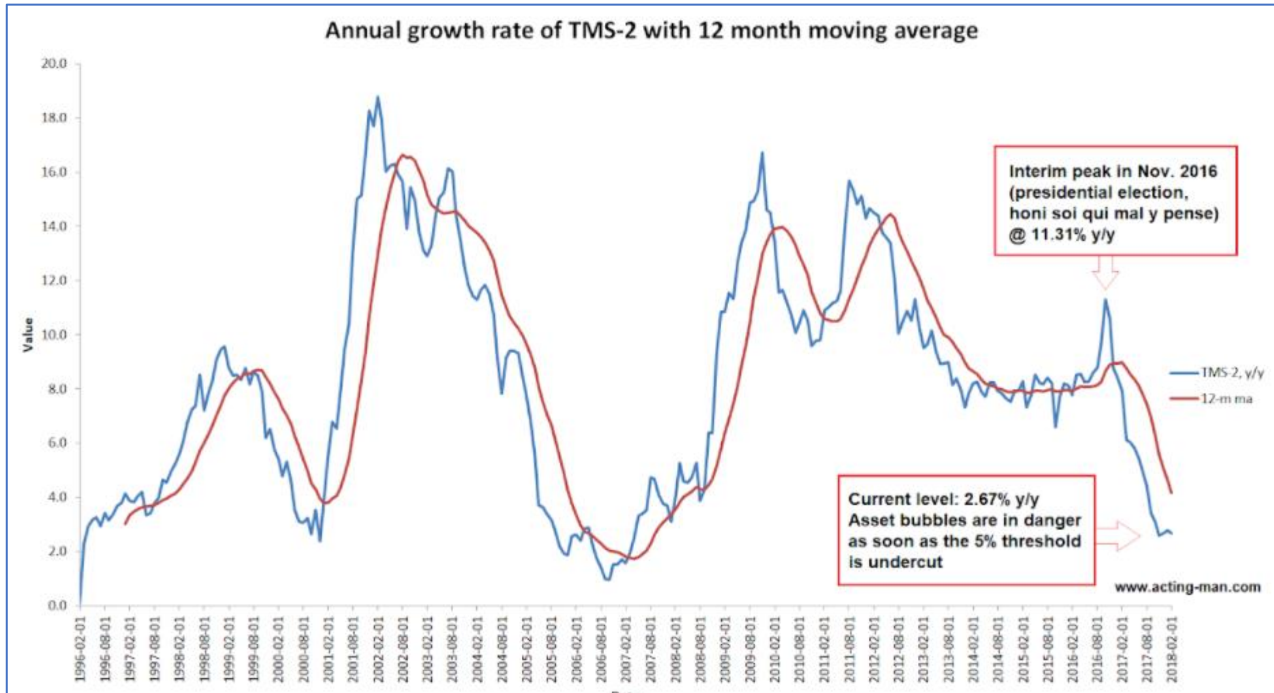


Source: Heinz Blasnik, Federal Reserve St. Louis

I think that the oil price will put upward pressure on headline inflation in the short term.

We had a sharp decline in US money supply growth even before QT started and that means economic activity will eventually slow down.

US money supply growth (1996 – 2018)



Source: Acting-man.com

The Fed's rate hikes are lagging behind increasing interest rates, it is not leading them. Austrian School theory says that bottlenecks in consumer goods production will eventually emerge as a boom ends, and therefore the previous tendencies of rising prices for long lived capital goods and falling prices for consumer goods will reverse to some extent. I believe there is a chance we are at that point. We might see some higher price inflation data coming in over the next few months, the Fed will therefore probably stick to its QT and rate hike plans, which will unsettle asset prices eventually and only then are we going to see deflationary effects on the price structure again. When such a deflation scare happens, the Fed will start cutting rates.

And one last thing I want to mention is that risk has moved from banks to investors. In the past banks were holding large inventories of corporate bonds, but that is not the case anymore. That risk is now in the hands of mutual funds, pension funds etc.

Mutual funds, ETFs and closed end funds' ownership of corporate bonds

Source: Bloomberg

John Hathaway:

One interesting point that Heinz made is that the Fed follows short rates, it doesn't lead. If you combine QT with the fact that the funding requirements of the Treasury are rising dramatically because of the exploding deficit, you have a recipe for short-rates getting very unruly. That in itself might topple asset valuations as a result of the carry trades that need to be unwound. I don't know if it will happen that way, but I would pay attention to the dynamic, which is that the Fed is reducing its support for the short end of the curve and the same time that the demands for funding, as a result of the rising fiscal deficit, is increasing the supply of those kinds of instruments.

Unwanted rate increases will damage asset valuations, particularly equity markets. There is so much leverage at the consumer and corporate level. I think the rise in short-term interest rates can be a catalyst for a change in markets.

Mark Valek:

I have focused a lot of my work on how short rates affect the markets and I agree that if they rise it could be a catalyst for a market decline.

John, if the scenario plays out as you indicated, i.e. a sell off in the bond and equity markets, what do you think happens to gold?

John Hathaway:

It's a difficult interaction; when short rates go up it's negative in the short-term for people who trade paper gold, which would encourage the bears to build up their short interest. In the near term we might see the dollar strengthen a bit and I think that might be the last hurdle we need to get through before gold to breaks out. If we look at a more long-term perspective, we should consider what rising short rates should do to the real economy. The consumer has been slowing down and this would only extenuate that. And then the Fed would start easing because they think we are at the verge of a recession. Then the pretense that we are in a tightening cycle would disappear because asset prices are falling as a result of the real economy not being able to cope with even small short term rate increases because the consumer is so levered.

The interplay is complicated, but the endgame is easier to see than the sequence by which we get there.

In sum, short rates might rise further, which might not be good for gold in the short term. But in the long term higher rates will unravel the economy and then we should get a big reversal in Fed policy. I think in the short term we might have to go through another dip in the gold price before it starts rising longer term.

Mark Valek:

This reminds me of Hugh Hendry who said that we know that the last page of the book is inflation, but we don't know what will happen before that.

I also had a follow up question for Heinz; I know from reading your blog that you have pointed out several times that the normal sequence of events regarding the yield curve was that it flattened to 0%, even slightly inversed. And even before the recession hit, the yield curve started steepening again, and the dollar strengthened. That is the classic sequence of events for a recession.

Do you anticipate the same sequence this time around, too?

Heinz Blasnik:

That is a great question, and a difficult one to answer. But one thing is certain: once interest rates have been at the zero bound you don't necessarily get a yield curve inversion prior to a recession. That is an empirical fact from watching what happened in Japan. They have had six recessions without a yield curve inversion after the bubble peak of late 1989.

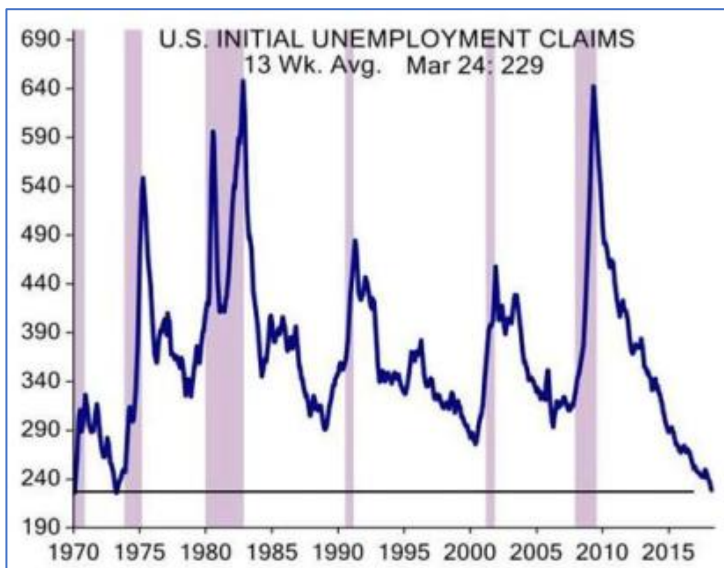
The sequence where the curve is first flattening, or inverting tends to accelerate in the final stages. Thereafter it reverses and steepens very sharply and very quickly. We have actually seen the acceleration in the flattening trend in recent months.

The reversal to steepening is usually a result of the market changing its perception about what the Fed will do next. The market is trying to guess what the Fed will do. I think we will see this again; looking at the speculative short position in the Eurodollar futures, it's the biggest speculative short position in any futures contract anywhere. I think the notional amount is $4.7 trillion net short.

It won't take much for people to believe the rate hike cycle is over because one of the things we have seen in the last few decades is that recessions start after debt expansion had reached a certain threshold. And recessions can start very quickly, it often seems as if they come out of the blue.

One leading indicator of the stock market is that weekly unemployment claims bottom, and then start rising just before the stock market peaks. However, this is not always the case, during the tech bubble unemployment claims bottomed about two weeks after the stock market reached its top. We might see a similar pattern before the next bear market/recession; unemployment claims bottoming before or slightly after the market peaks.

Unemployment claims in the US are at historical lows



Source: Evercore ISI

Lastly, here is a technical point about QT; when the Fed no longer reinvests the proceeds from maturing bonds in its portfolio, the associated deposit money and bank reserves disappear back to where they came from, which is thin air, which means the private sector has to fund not only the ongoing and rising funding demands of government and corporations, but it also has to retroactively fund their past debts because when these debts are rolled over the Fed is no longer there as a buyer. There will therefore be less liquidity available to buy stocks and high yield bonds. I think as QT progresses, it will eventually create a tipping point and I believe the reversal can happen very fast.

Ronald Stöferle:

Let's switch gears and talk about gold stocks. Their performance has been a bit disappointing, which might be in part due to the rise in oil prices, which is a big input factor for the miners. However, volumes seem to be increasing and the sector might be poised for a breakout. John, what effect do the ETFs (e.g. GDX, GDXJ) have on the industry, and I would also like to hear your thoughts on the shareholders' gold council, an initiative started by John Paulson.

I think there has been improvement in the managements of mining companies, but I definitely think there is room for further improvement.

It would be great if you could mention particular stocks that you are interested in at the moment. It's no secret that we are looking at silver mining companies. Looking at the commitment of traders report silver has an interesting positioning at the moment and the gold/silver ratio is at an extreme. **For us, silver stocks are one of the most contrarian investments you can make at the moment.**

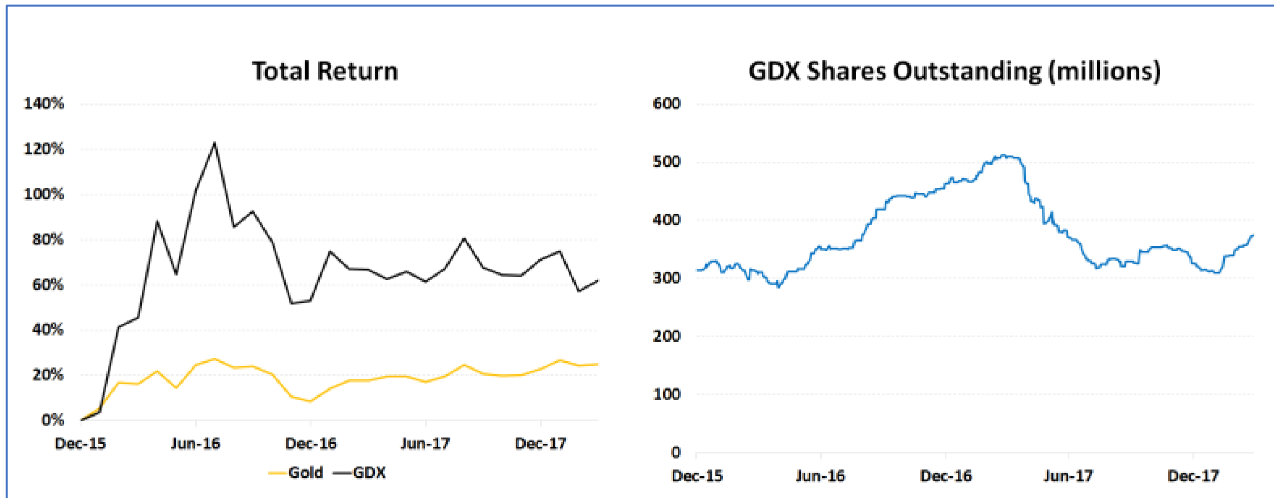
John Hathaway:

The miners' performance has been disappointing. Gold is up roughly 25%-30% since it bottomed in December 2015. Last year gold was up around 11%, while the shares, using GDX as a proxy, were up 6%. We wanted to see if this is normal so we looked back 20 years. In that time period gold rose 14 times year over year. In half of those instances gold stocks lagged the gold price. So it's not unusual that the gold performs decently while the gold stocks perform disappointingly.

This brings up the issue of GDX. The flows out of GDX are very important at the margin for the behavior of the gold stocks. The GDX is, relative to the precious metals sector, about four times as large as SPY is to the S&P 500. So it's very influential. I previously thought the flows were dominated by hot money retail investors coming in and out for a quick trade, but it appears to be dominated by the Deutsche Bank Direxion triple leveraged NUGT on the long side and DUST on the short side. What happens is that when investors rush into these super charged speculative vehicles the robots have to buy or sell huge positions before the daily close. The biggest cause of flows both ways are these speculative vehicles.

If you look at the share creation of GDX and the share liquidation of GDX, if we go back to the beginning of 2016 you saw a big run-up in the gold price, and with a lag, a big run up in the shares outstanding in GDX. I think at the top there were 500 million shares outstanding and that means share creation, which means buying pressure for the gold stocks. Since then there have been net liquidations and now the shares outstanding are down to 330 million, and the short interest is 15%+. I think this is the explanation for the disappointing performance of the gold shares.

Gold and GDX



Source: Bloomberg, John Hathaway

Moving on to the Shareholders Gold Council, it was actually not proposed by John Paulson, but by his colleague Marcelo Kim. John Paulson has just been served with a $1 billion tax bill so I think he is more focused on that at the moment, but I met with him around 6 months ago to talk about the Shareholders' Gold Council. His view is that inflation is the factor that will drive gold much higher.

Ronald Stöferle:

It's interesting that people like John Paulson, Kyle Bass, and your business partner Simon Mikhailovich, are all bullish on gold now. They were also in the subprime trade a bit too early, but eventually extremely successfully. That's probably no coincidence, but maybe gold just takes a bit longer than subprime did.

John Hathaway:

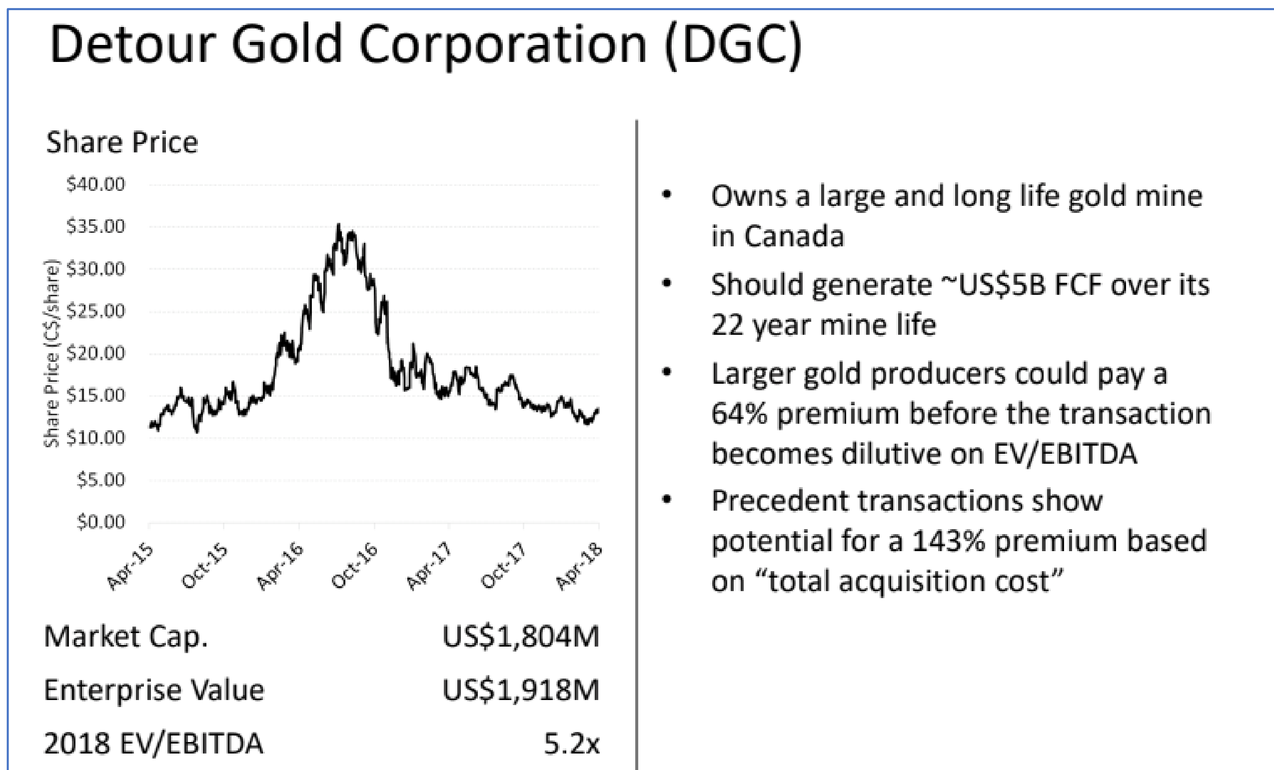
Subprime took a while. There was a lot of pain involved before the crash. This time around we are not talking about subprime, but we are talking about the financial system, and sovereign credit. It's a much bigger fish than subprime, and it therefore shouldn't surprise us that there is more pain leading up to it. I think gold is a big macro idea, but it's also the third rail of investment ideas. You

can't make a career out of it. We have seen that with Paulson and many others. **It get's darkest before dawn, and it's pretty dark now.**

Moving on to gold stocks I like three specific ones.

Detour Gold, Mag Silver and Semafo. All these companies are in the range of 6x EBITDA. The major mining companies will soon run out of reserves, and they are going to make acquisitions of companies that are similar to the ones I just mentioned. I know the vultures are circling on all these companies. Companies like Newmont, Barrick and Goldcorp trade at 9-10x EBITDA, and that's on an assumption of a gold price of $1,300 forever. It's clear that these companies will benefit from taking an activist approach and swallow up smaller companies like Detour, Mag and Semafo.

And these big companies tend to sell low and buy high, they won't move on takeovers until the gold price is $1,500-$1,600 per ounce.



Source: Bloomberg, John Hathaway

MAG Silver Corp. (MAG)

Market Cap.	US$861M
Enterprise Value	US$687M
2021 EV/EBITDA	6.6x

- Owns a 44% interest in an advanced high-grade silver project in Mexico
- Production to begin in 2020 and there is significant potential for future expansion
- Precedent transactions show potential for a 35% premium based on "total acquisition cost"

Source: Bloomberg, John Hathaway

SEMAFO Inc. (SMF)

Market Cap.	US$953M
Enterprise Value	US$905M
2019 EV/EBITDA	4.1x

- Owns one operating mine and a development project scheduled for production in 2018
- Strong West African experience and historically a good allocator of capital
- Larger gold producers could pay a 66% premium before the transaction becomes dilutive on EV/EBITDA

Source: Bloomberg, Tocqueville Asset Management, John Hathaway

I think we need to get above the $1,370 resistance, and then gold will move higher. When that happens I think companies like Detour, Mag and Semafo might triple or quadruple.

Moving to the topic of silver, we have a very high gold/silver ratio. We have also seen that the configuration of traders on CFTC data is wildly bullish. We also know, through the works of Ed Steer and Ted Butler, that J.P. Morgan has accumulated a massive silver position for its proprietary account. That tells me that when the stars start to align silver will be the star of the show. It's a far more bullish picture than gold.

Heinz Blasnik:

I would like to add something about silver positioning. **Two weeks ago the net speculative short position in silver futures was the largest since at least 1990.** It was very likely a record. This is interesting considering that two years ago there was a record net long position. At the time this was a big worry and rightly so, because not too long after traders acquired this large net long position gold and gold stocks topped out.

This situation actually makes me less concerned about currency positioning. In currency futures it usually signals a turning point when speculative positioning reaches extremes, however these extreme situations can persist in currency futures for long time periods. We saw this in the Yen in 2012 when it sold off, the speculative short position was very large throughout the sell off, but it didn't pause or stop the sell-off. I presume this is due to the fact that there are a great many over the counter positions in currencies, so that the window you look at when you just look at futures contracts is perhaps not as statistically significant as a contrarian indicator. I think it has more significance in the precious metals space.

John Hathaway:

I think that's a good point. And we don't know what else is going on behind the curtain, there are probably multiple pair trades that are being used to offset positioning in the bond markets or the commodity markets, and it's done using machines. There are therefore a lot of factors that could explain why those currency positions are what they are.

I'd feel better if we could see the positioning reverse a bit, and then see how gold reacts when that happens. My guess is that gold will withstand it.

Heinz Blasnik:

I also wanted to make a comment about the recent underperformance of gold stocks versus gold; I also believe that ETFs have a large influence on their performance, but even absent this influence

the underperformance of gold stocks in this part of the cycle is actually not that unusual. After the 1976 low in gold, gold stocks initially didn't perform that well relative to gold either. Gold was rising pretty steadily out of that low, but gold stocks didn't really join in until late 1978 or 1979. And they only started to outperform significantly in 1979 when gold had its final blow off rally. And then interestingly gold made a high in January 1980, and thereafter a lower high in September 1980, at which point gold stocks reached a new all time high. So gold stocks went even higher after gold topped in January 1980.

Ronald Stöferle:

Jim, what are your thoughts on these topics?

Jim Rickards:

I'll give my opinion on gold and inflation. Gold stocks are not my area of expertise. With regards to gold nothing has really changed since we spoke last. We have started a new bull market in gold, the third one in my lifetime. The first one was from 1971 to 1980 and the second one was from 1999 to 2011. The first bull market produced 2,000% gains, the second one produced 700% gains. I believe the third bull market started in December 2015. The price has moved up 30% since then with lots of volatility, but this looks like a 6-7 year bull market, i.e. we have a long way to run. This will get gold above $5,000 per ounce and eventually to my target of $10,000.

I don't think gold is being driven by inflation at this stage, but it eventually will. Currently gold is being driven by a weaker dollar, which in theory is inflationary, but that hasn't played out yet. In terms of inflation and deflation I see both. In the short term I see deflation, or I should rather say disinflation, for the remainder of this year and early into 2019. Beyond that I think we will almost certainly get a sustained period of inflation. We need inflation to solve our debt problem; we need GDP to grow ahead of the accumulated debt in order to reduce the debt to GDP ratio. The question is how we're going to get inflation; we haven't been able to get it yet. It can be done in three ways: they can devalue gold, they can use what is called guaranteed basic income or they can just use an extreme version of QE. I don't think they will do this yet, and I therefore see flat or mild inflation in the year ahead, but I still see a stronger gold price, which is driven by supply/demand fundamentals and a weaker dollar.

Ronald Stöferle:

Jim, what are your thoughts on the deflationary effects of Quantitative Tightening?

Jim Rickards:

I think the Fed is grossly underestimating the impact of QT. They are raising interest rates and reducing the balance sheet because they want to get to more normal levels of interest rates, and a smaller balance sheet, before the next recession. The Fed isn't too focused on the economy right

now; they are worried about what would happen if they had a new recession**. How will they respond if there is a new recession? In a recession the Fed should be able to reduce interest rates 300-400 basis points. Currently that is not possible because rates are too low.**

In sum the Fed is not raising rates and reducing the balance sheet because of fundamental economic reasons, they are doing it because they need to prepare for the next recession. They need to get rates to over 3%, and they need to get their balance sheet to $2.5 trillion. If they are at those levels they feel comfortable that they can get the US out of the next recession. I therefore think the market is misinterpreting the Fed's actions.

I've said that I believe the Fed will raise rates four times per year until 2020, unless there is a reason to pause. They are also cutting the balance sheet, which is estimated to be equivalent to 2-4 interest hikes per year. This is of course impossible to quantify because it has never been done before. But the point is that Wall Street is debating if we will have 3 or 4 rate hikes per year, but in reality we will have 7 or 8 (if we count interest hikes and balance sheet reductions). And the economy is already weak to begin with. People might think the tax cuts will have a stimulating effect, but that analysis is based on the Laffer curve. One can debate if the Laffer curve exists at all, but it certainly doesn't exist when your debt to GDP ratio is 105%, when we are in the 9th year of an expansion, and when spare capacity is very limited.

I expect that by summer this year the Fed will realize that they can't tighten in September, and if that happens it's not going to be an easing compared to expectations; it's not going to be a rate cut, but it might be a pausing of the rate increases. This will give gold another boost.

Ronald Stöferle:

Jim, what are your thoughts on the geopolitical situation currently, with regards to Syria and Iran? Why did the focus suddenly shift from North Korea to the Middle East?

Jim Rickards:

Let me spend a minute on North Korea first. Last fall I was quite pointed that we were on a path to war with North Korea by the end of March. March has come and gone and we are not in a war, we are actually in peace talks. What happened is that both parts hit the pause button. We had a de-facto freeze in December. We froze the war games and they froze the missile tests. North Korea's last missile test was in November, the last nuclear bomb test was last September, so they have superficially frozen their developments. But they are probably doing a lot of secret developments in laboratories and wind tunnels and other kinds of engineering and testing. The US has reciprocated and the summer summit is on track. But I don't think anything has fundamentally changed, North Korea still wants to re-unify the Korean peninsula on their terms, but they are hoping they can negotiate a US exit. If the US leaves and the North finishes its development program they will be able to invade the South without the US being able to do anything about it. This situation will probably take North Korea off the table for the remainder of this year because it

will take more time to get the summit organized, then there will be negotiations, which I don't think will be fruitful, but they will take up time.

Iran is back, front and center; we are re-engaging in financial warfare with Iran. Since 2012 we fought a very successful financial war with Iran; we caused hyperinflation, we caused a run on the banks, the central bank had to raise interest rates to 20%, we dried up their imports, we smuggled dollars across the border from Iraq. But half way down the road to a regime change Obama decided to pursue his nuclear negotiations that Trump and a lot of people in Washington can't abide by. What we are doing now is going back to 2012 and tearing up the agreement and putting extreme financial pressure on Iran.

Things seem to have cooled down a bit in Syria. They seem to be waiting for the intelligence assessments on this gas attack. If it was a gas attack there will be a military response, but there seems to be some doubts about it. The Russians said it was all staged and fake. I don't follow Russian propaganda, but the lack of response from the US tells me that they are not certain. It will take a while to get to the bottom of this. The benefit of this is that it creates a dialogue between the US and Russia.

Currently I see the threat of Israel attacking Iran, or the US engaging in financial warfare against Iran, as the biggest it's been since 2012. This is a positive for gold by the way.

Remember, Iran is part of what I call the Axes of gold, four countries comprised of Turkey, China, Russia and Iran. These countries are acquiring as much gold as possible. We have no transparency with regards to Iran, but we do know they are stockpiling a lot of gold.

Another factor that has an effect on gold is that it seems that gold production has peaked; whether that is permanent or temporary is less important than the fact that it has currently plateaued. The fact that there is a strong bid for gold from China, Iran, Russia, North Korea, Turkey, Kazakhstan etc., gold output plateauing, geopolitical tensions rising, and the dollar weakening are all positive factors for gold.

Ronald Stöferle:

I couldn't agree more. Gentlemen, I think we should end it there. We've covered a diverse range of topics and I'd like to thank you for taking the time to join us today. We will see you next time.

Appendix: Permanent Members of our Advisory Board:

Zac Bharucha

Zac began his career in finance at the investment bank Kleinwort Benson and later became an equity portfolio manager at Philipps and Drew Fund Management. He then moved to AMP Asset Management where he was responsible for managing more than GBP 1bn of institutional assets. Afterwards, he moved to M&G in London. Since 1998, he has developed absolute return strategies and specialized in equities and commodities. After 25 years in asset management, he retired from professional life in 2011 and wrote his first book about market timing.

Heinz Blasnik

Heinz is an independent trader and market analyst for the consulting firm Hedgefund Consultants Ltd, as well as an author on Austrian economic theory for the independent research house Asianomics in Hong Kong. Heinz also publishes the blog www.acting-man.com, on which he analyses developments in the financial markets and the economy from an Austrian School perspective.

James G. Rickards

Jim is the author of the international bestsellers *Currency Wars* and *The Death of Money: The coming collapse of the international monetary system*. He is portfolio manager at the West Shore Fund. During his career, Jim has held senior positions at Citibank, Long Term Capital Management and Caxton Associates.

Dr. Frank Shostak

Frank is chief economist at AAS Economics. He has over 35 years of experience as a market economist and central bank analyst. He holds a PhD, MA and BA honours from South African universities. He was professor of economics at the Witwatersrand University in Johannesburg. He is one of the world leaders in applied Austrian School of Economics and an adjunct scholar at the Mises Institute in the US.

Rahim Taghizadegan

Rahim is the founder and director of the institute for value based economics, an independent research institute in economical and philosophical issues in Vienna. He is bestselling author and a popular speaker internationally. Rahim studied Physics, Economics and Sociology in Vienna and Lausanne. He has worked in the fields of economics, space research and journalism. He has also taught at the University of Liechtenstein, the Vienna University of Economics and Business Administration and the Universität Halle an der Saale.

Ronald-Peter Stöferle, CMT

Ronni is partner of Incrementum AG and responsible for Research and Portfolio Management.

He studied Business Administration and Finance in the USA and at the Vienna University of Economics and Business Administration, and also gained work experience at the trading desk of a bank during his studies. Upon graduation, he joined the Research department of Erste Group, where he published his first "In Gold We Trust" report in 2007. Over the years, the Gold Report became one of the benchmark publications on gold, money, and inflation.

Since 2013 he has held the position as reader at scholarium in Vienna, and he also speaks at Wiener Börse Akademie (i.e. the Vienna Stock Exchange Academy). In 2014, he co-authored the book "Austrian School for Investors" and in 2018 "Die Nullzinsfalle" (The Zero Interest Rate Trap). Moreover, he is an advisor for Tudor Gold Corp. (TUD), a significant explorer in British Columbia's Golden Triangle.

Mark J. Valek, CAIA

Mark is partner of Incrementum AG and responsible for Portfolio Management and Research.

While working full time, Mark studied Business Administration at the Vienna University of Business Administration and has continuously worked in financial markets and asset management since 1999. Prior to the establishment of Incrementum AG, he was with Raiffeisen Capital Management for ten years, most recently as fund manager in the area of inflation protection and alternative investments. He gained entrepreneurial experience as co-founder of Philoro Edelmetalle GmbH.

Since 2013 he has held the position as reader at scholarium in Vienna, and he also speaks at Wiener Börse Akademie (i.e. the Vienna Stock Exchange Academy). In 2014, he co-authored the book "Austrian School for Investors" and in 2018 "Die Nullzinsfalle" (The Zero Interest Rate Trap).

About Incrementum AG

Incrementum AG is an independent investment and asset management company based in Liechtenstein. Independence and self-reliance are the cornerstones of our philosophy, which is why the four managing partners own 100% of the company. Prior to setting up Incrementum, we all worked in the investment and finance industry for years in places like Frankfurt, Madrid, Toronto, Geneva, Zurich, and Vienna.

We are very concerned about the economic developments in recent years especially with respect to the global rise in debt and extreme monetary measures taken by central banks. We are reluctant to believe that the basis of today's economy, i.e. the uncovered credit money system, is sustainable. This means that particularly when it comes to investments, acting parties should look beyond the horizon of the current monetary system.

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