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Chartbook of the

"In Gold we Trust" Report 2018

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October, 2018

In Our Partners We Trust

Learn More About The Premium Partners of the IGWT

Executive Summary Of The IGWT Chartbook

1. A Turn of Tide in Monetary Policy

- 10 year long liquidity glut is ending due to QT and rising interest rates
- The end of the liquidity party is the first crash test for financial markets in 10 years, as investors have become used to the “monetary surrealism” created by central banks

2. A Turn of Tide in the Global Monetary Architecture

- Renunciation of the US-centric monetary order ("De-Dollarization")
- Geopolitical tensions are increasing: Trade Wars -> Currency Wars
- Debt issue unsolved, US with exploding budget deficits

3. A Turn of Tide in Technological Progress

- Blockchain technology as a central component for our future economy?
- Cryptocurrencies and gold are friends, not foes

4. Gold‘s Status Quo

- Due to the most recent capitulation selling in gold and mining stocks, we see a heavily skewed risk/reward-profile over the next couple of months
- CoT report offers the best setup in 17 years

5. Gold Stocks

- The HUI/SPX ratio currently stands at the same level like in 2001 and 12/2015 when the last bull markets in gold stocks started
- Gold & silver mining stocks are probably the most hated asset class these days. We are convinced that the recent capitulation selling offers a very skewed risk/reward-profile of the next couple of months

1. The Turning of the Monetary Tide

"People vastly underestimated the power of QE.

And they are in danger of doing the same with QT."

Franz Lischka

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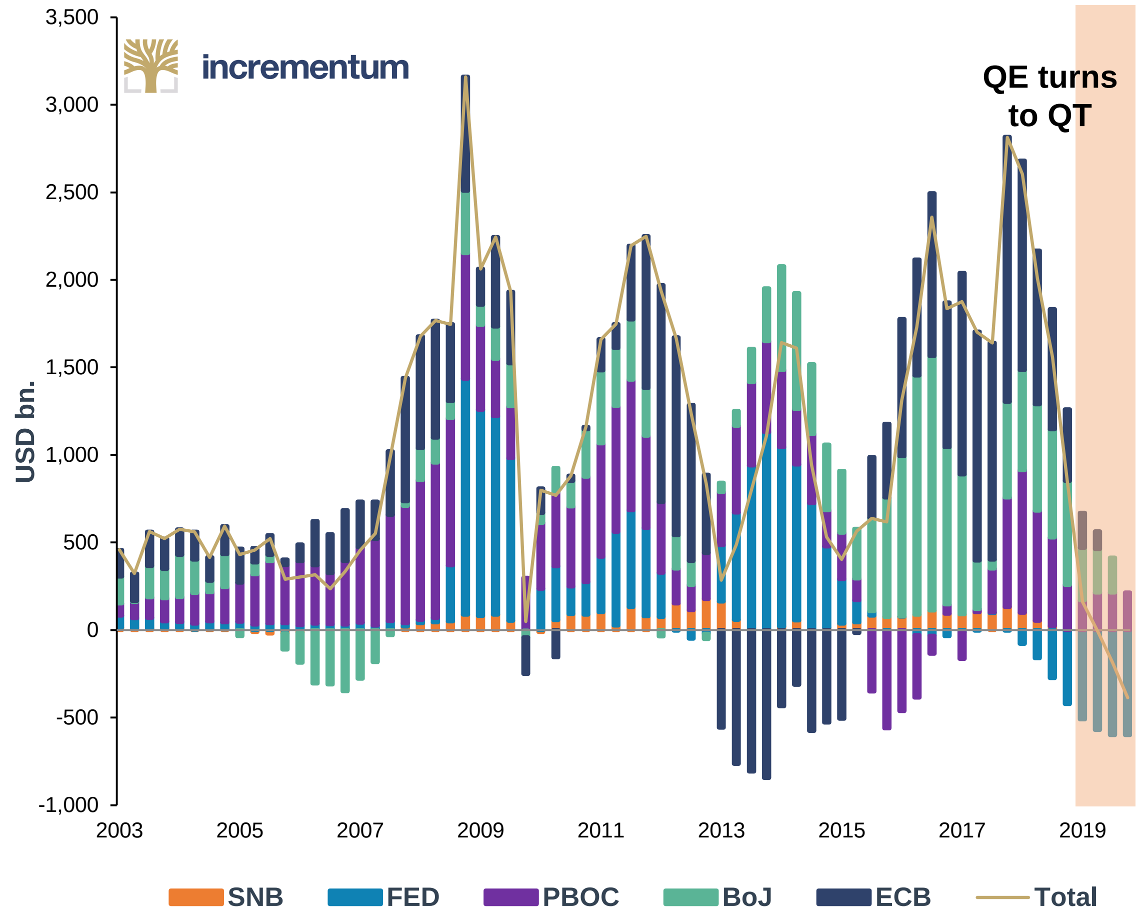
Monetary Policy Tides Turn: From QE to QT

- **The Liquidity Party is officially over:** 2018 will be the year when central banks withdraw liquidity from financial markets for the first time since the GFC.

- Slowly but surely, ECB, BoJ, and BoE are thinking about measures similar to the ones taken by the Fed.

"We've never had QE like this before, we've never had unwinding like this before... When the unwind happens of size and substance, it could be a little more disruptive than people think. We act like we know exactly how it's going to happen, and we don't."

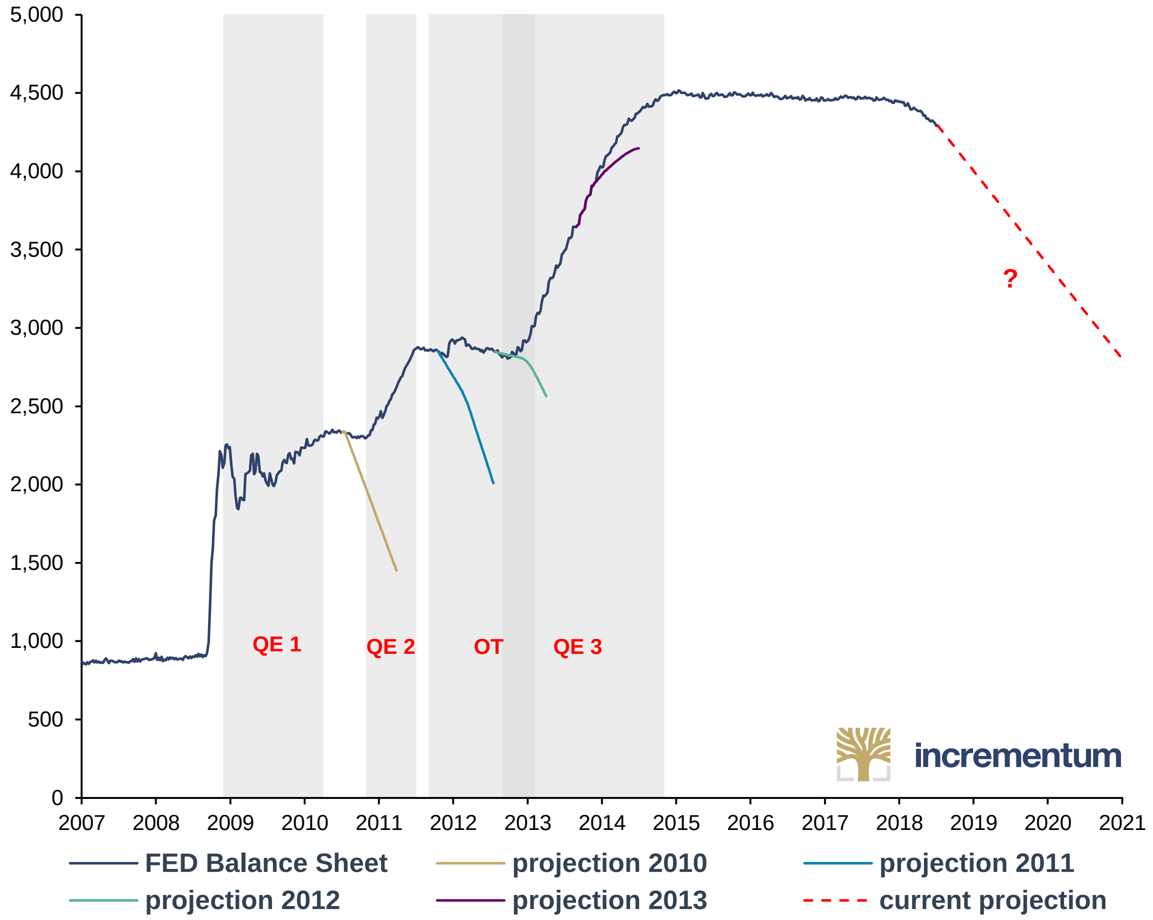
Jamie Dimon



Sources: Bloomberg, Incrementum AG

Expected FED Balance Sheet Path

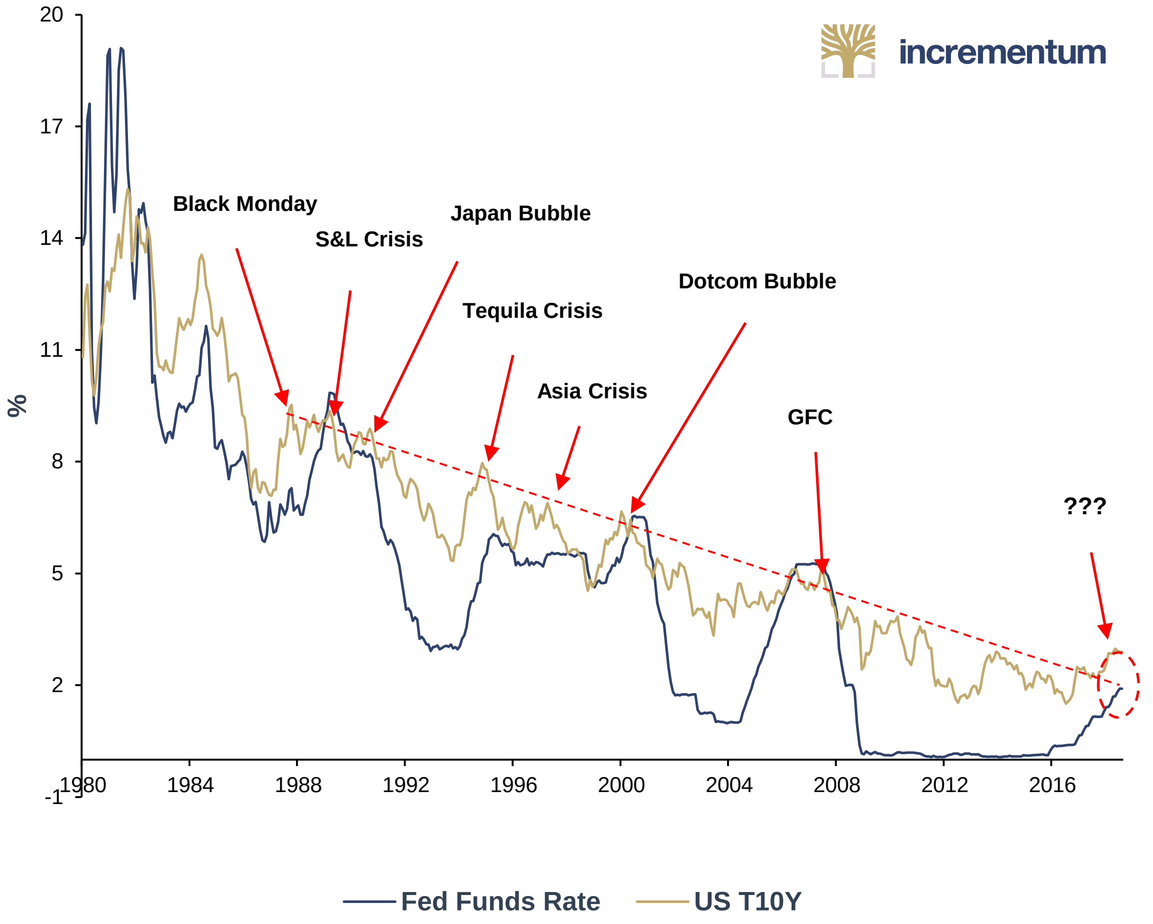
- The Quantitative Tightening (QT) plan for the Fed is to shrink its balance sheet by USD 420bn in 2018 and by USD 600bn in 2019.
- So far, everything seems to be going according to plan: The balance sheet of the Federal Reserve has so far fallen by 7% or USD 308 bn to its lowest level since March 2014.
- The Fed's balance sheet has drastically deteriorated over the past years, not only in quantitative but also in qualitative terms.
- **The quality of its balance sheet will sooner or later haunt the FED, especially in an environment of rising interest rates and inflation.**



Sources: Federal Reserve St. Louis, Incrementum AG

Federal Funds Rate & UST 10Y

- **Loose monetary policy was a major ingredient of the unsustainable boom that resulted in the GFC.** The bust was met with even more radical interventions, such as various forms of quantitative easing programs, zero and negative interest rate policies as well as massive fiscal stimulus.
- Those drastic measures have clearly hampered the economy's self-healing powers and have made the system dependent on continual injections of credit.
- But now, the first dark clouds are gathering on the (interest) horizon. Not only the Fed but also the ECB is slowly but surely leaning into the monetary turn (although with a substantial time lag).



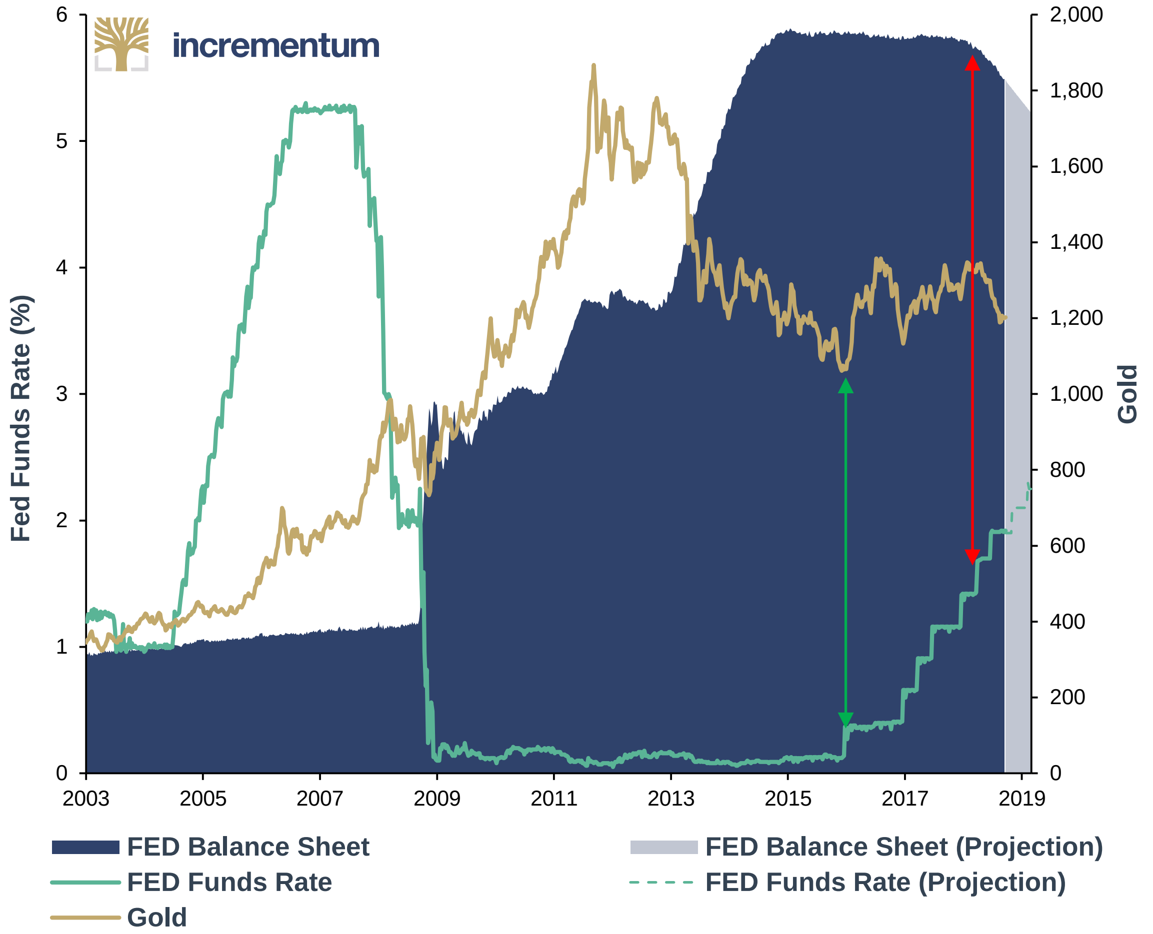
Sources: Federal Reserve St. Louis, Incrementum AG

Rising Interest Rates Paired with Central Bank Balance Sheet Reduction

- Gold price (in USD terms) bottomed out exactly at the beginning of the current rate hike cycle.

- In addition to hiking interest rates since late 2015, the Fed began reducing the size of its balance sheet in Q4 2017, which seems to have a negative impact on the gold price.

- We believe this monetary normalization plan is unlikely to survive a significant decline in one, let alone several major asset classes (equities, bonds, real estate).



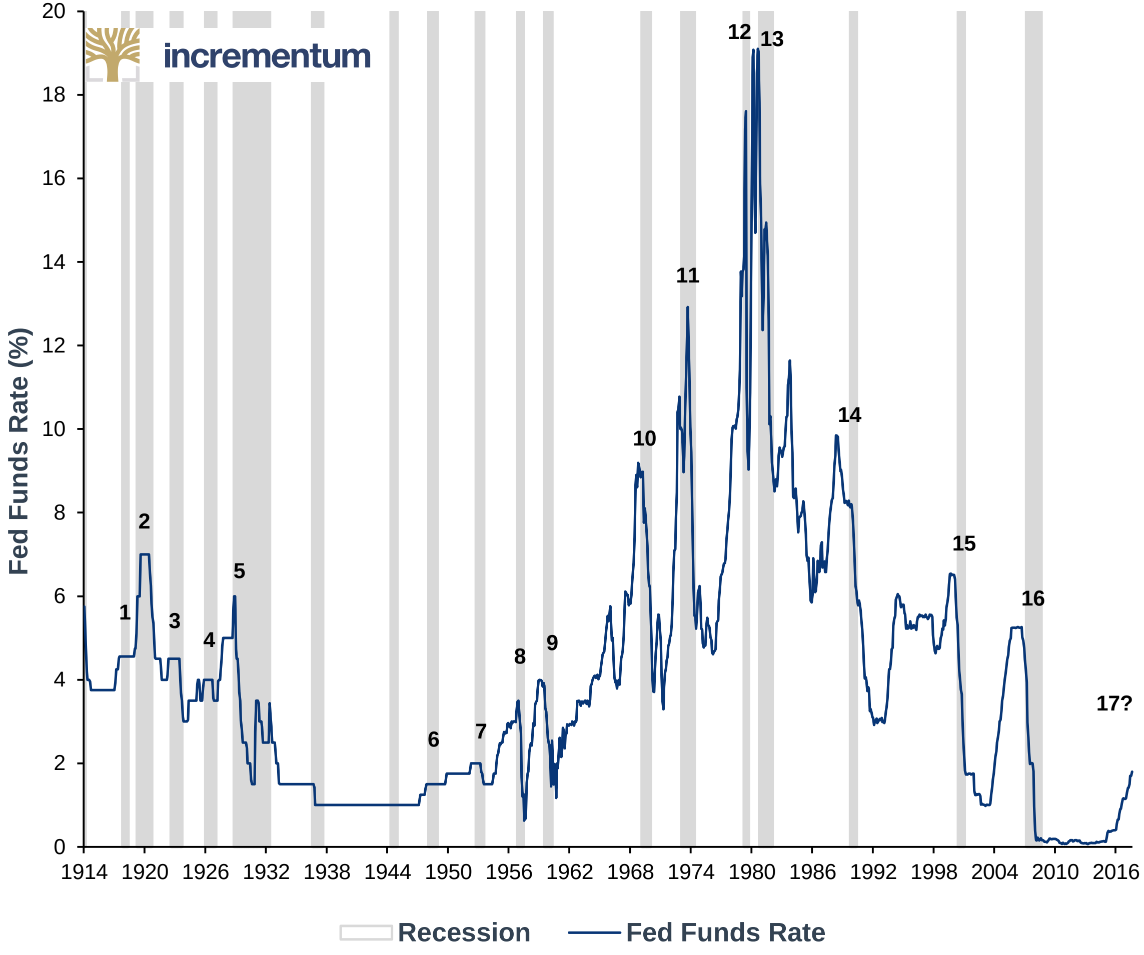
Sources: Federal Reserve St. Louis, Incrementum AG

Rising Interest Rates and US Recessions

- The vast majority of rate hike cycles has led to a recession. Moreover, every financial crisis was preceded by rate hikes.
- The historical evidence is overwhelming – in the past 100 years, 16 out of 19 rate hike cycles were followed by recessions.

„The next recession by definition will happen with income and wealth disparities at their highest levels ever, and the unrest will likely be a tad more forceful than the well-behaved Occupy Wall Street movement was nine years ago."

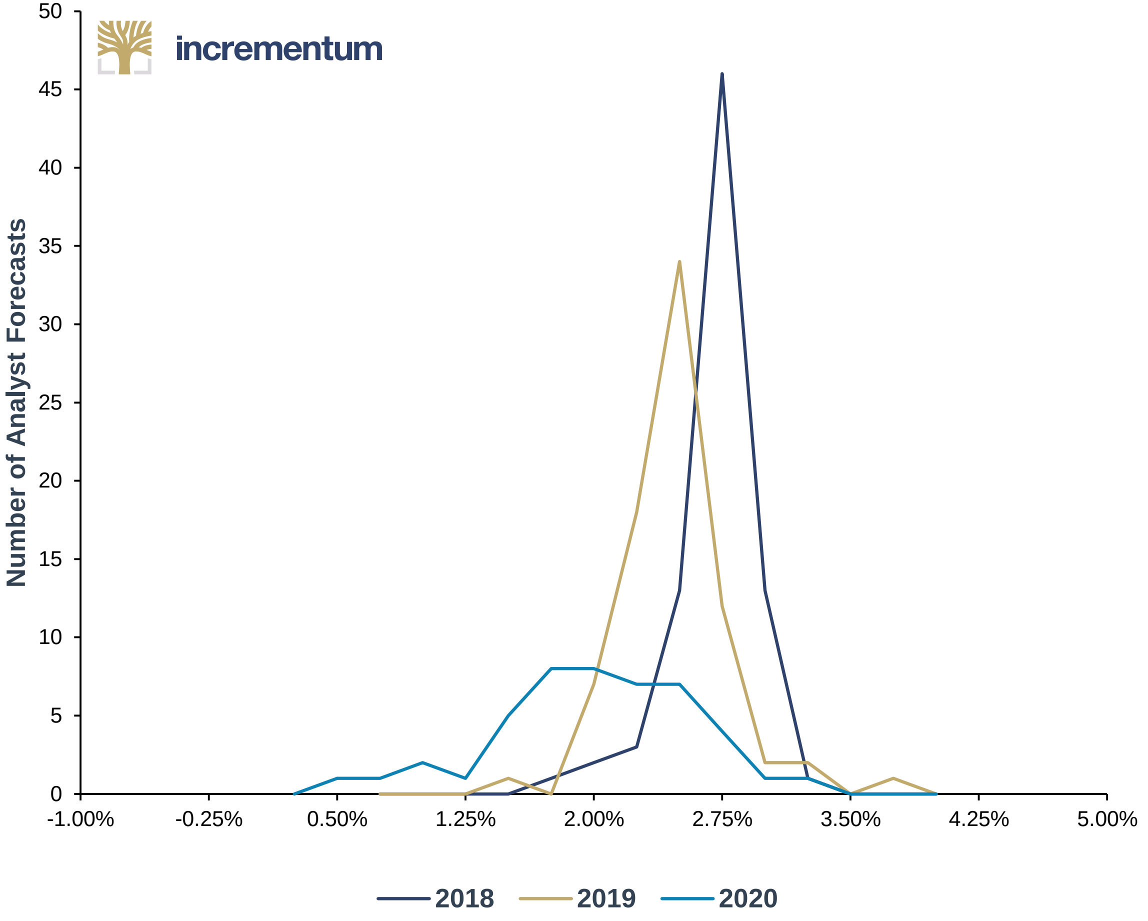
Dave Rosenberg



Sources: Federal Reserve St. Louis, Incrementum AG

A Recession as a Black Swan Event?
Unanimous Analyst Consensus about Further Growth

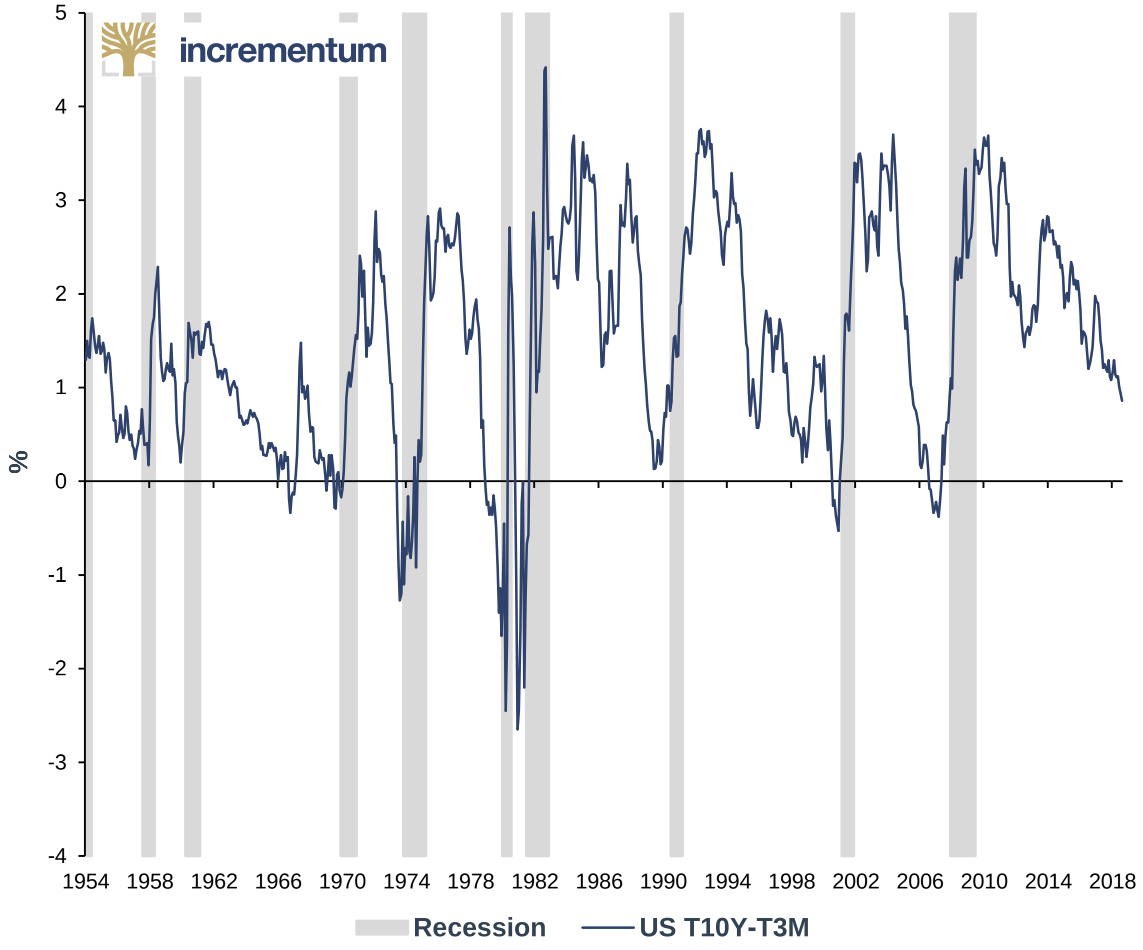
- Of 78 analysts surveyed by Bloomberg, not even one is expecting US GDP to contract in 2018, 2019, or 2020.
- The median of the expected growth rates for those three years falls in a bandwidth of 2.1% to 2.8%.
- **Contrary to all the optimistic forecasts, some facts suggest increasing recessionary risks ahead:**
  - Rising rates & QT
  - Record high consumer confidence
  - M&A boom
  - Rising default rates
  - NY Fed sees recession risk at 12.5% which seems low but it's the highest since January 2009, when the US economy was knee-deep in a downturn
  - Stagnating tax revenues



Sources: Bloomberg, Incrementum AG

Recession Ahead? Yield Curve is Continuously Grinding into the "Danger Zone"

- The US yield curve is now at its flattest level in over a decade
- All the past 9 recessions/bear markets were accurately predicted by a yield curve inversion!
- On average, the stock market peaked 8 months and the recession started 14 months after the inversion of the yield curve.
- After inversion, the average bear-market decline was 33% and it lasted on average for 16.7 months.
- Due to the low interest rate levels this time around, the yield curve possibly will not even invert before the recession, as happened in Japan for example.



Sources: Federal Reserve St. Louis, Incrementum AG

Historic Yield Inversions and Subsequent Bear Markets

Bear market	Decline	Bear market duration	Inversion lead time
07/1956 - 10/1957	(-)22%	15 months	4 months after S&P top (S&P had already dropped 6.5%; final low was 16% below inv. level)
08/1959 - 10/1960	(-)14%	14 months	1 month after S&P top (S&P had already dropped 7%; final low was 8% below inv. level)
12/1968 - 05/1970	(-)37%	17 months	12 months before S&P top (S&P rallied an extra 14.7%; final low was 28% below inv. level)
01/1973 - 10/1974	(-)50%	21 months	8 months before S&P top (S&P rallied an extra 10%; final low was 45% below inv. level)
02/1980 - 03/1980	(-)19%	2 months	17 months before S&P top (S&P rallied an extra 15.3%; final low was 6% below inv. level)
11/1980 - 08/1982	(-)29%	21 months	2 months before S&P top (S&P rallied an extra 12.8%; final low was 17% below inv. level)
07/1990 - 10/1990	(-)20%	3 months	17 months before S&P top (S&P rallied an extra 22%; final low was same as inv. level)
03/2000 - 10/2002	(-)50%	31 months	1 month after S&P top (S&P had already dropped 10%; final low was 45% below inv. level)
10/2007 - 03/2009	(-)58%	17 months	21 months before S&P top (S&P rallied an extra 23%; final low was 48% below inv. level)

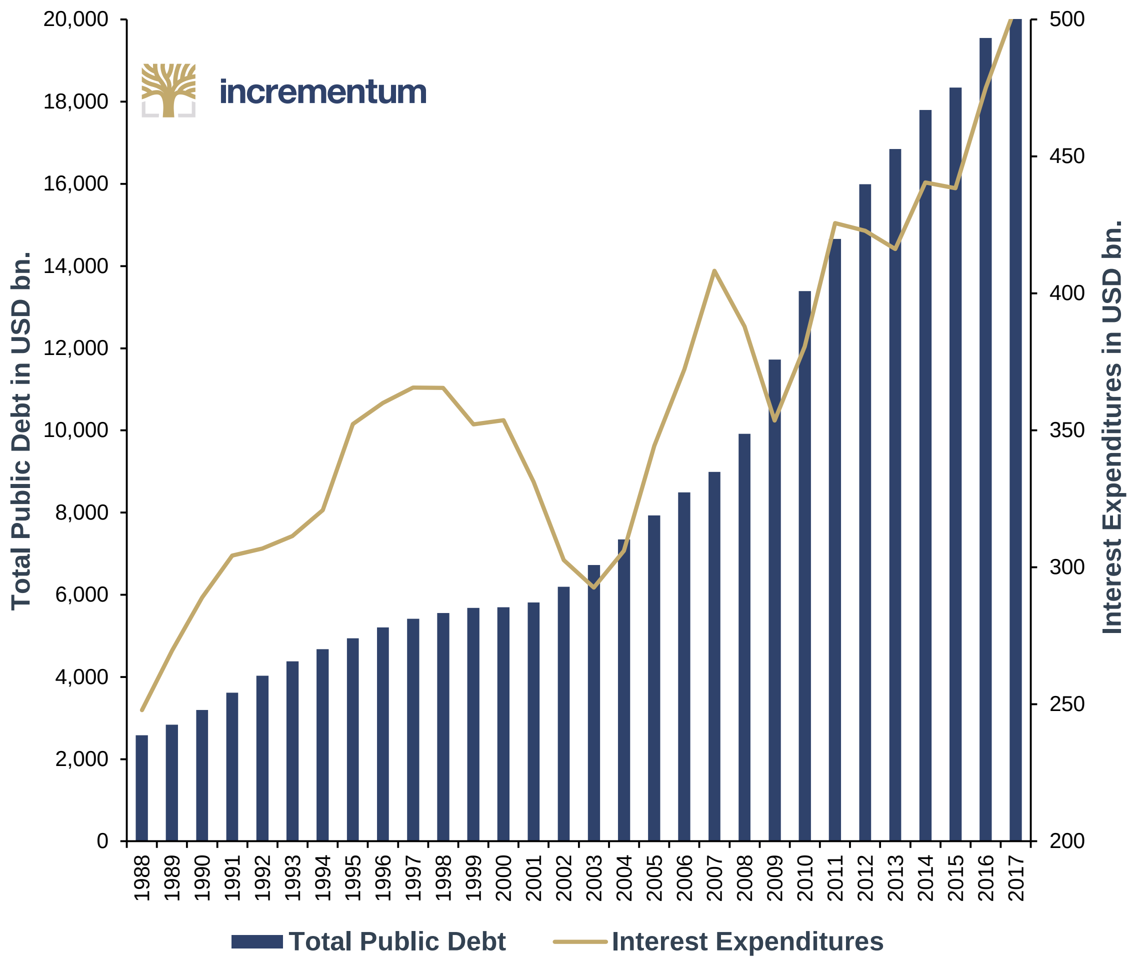
Sources: Puru Saxena, Incrementum AG

US Government Debt and Annual Interest Payments

- US government debt outstanding continues to rise rapidly.
- Interest rate service will reach a new record high of more than USD 500bn in 2018.
- The US fiscal deficit (at sub 4% unemployment and 4.2 GDP growth) is up 30% on a calendar year basis. The highly pro-cyclical fiscal largesse feels like Keynesian's wonderland.

"If we keep running deficits at this rate, we will need to think about what kind of debt burden we are going to leave for Keith Richards."

Kevin Muir



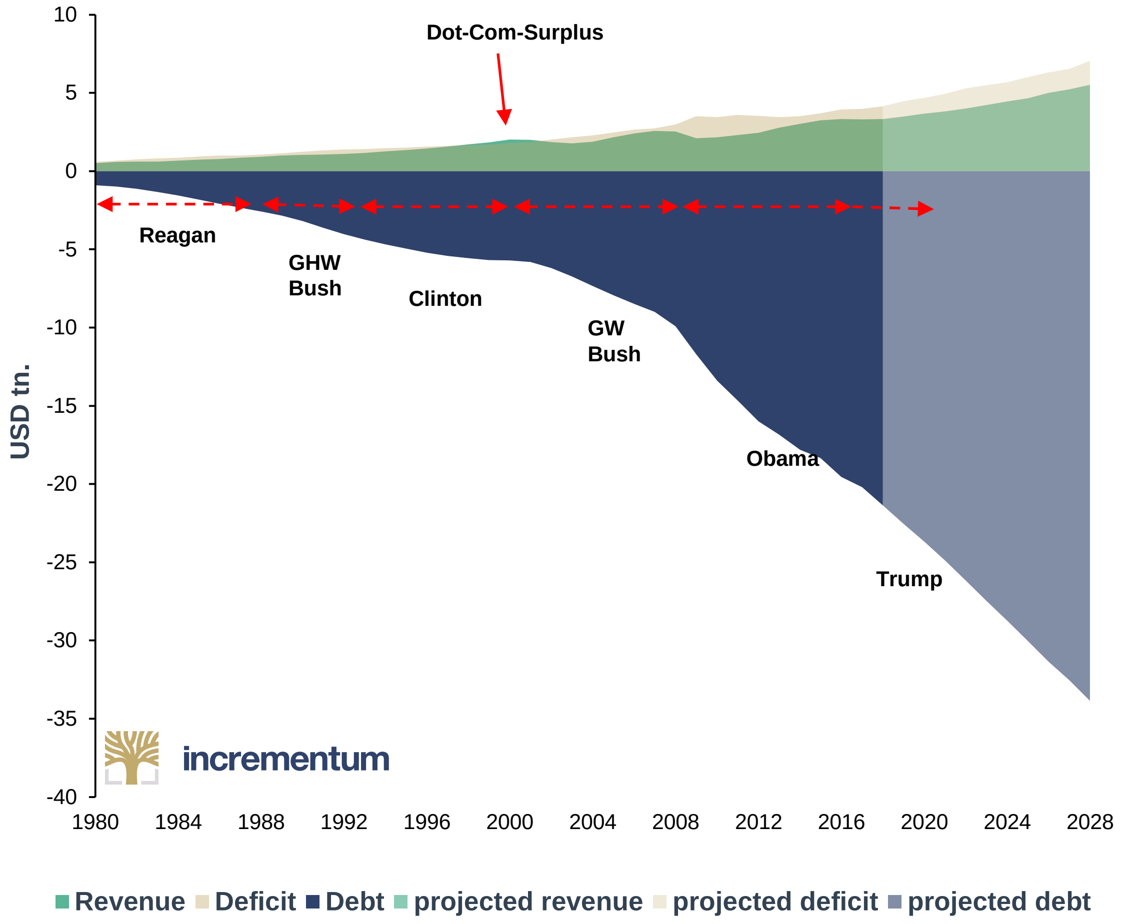
Sources: Federal Reserve St. Louis, Incrementum AG

Debt by Presidential Period & Projected Debt

- Government debt has more than doubled to USD 21,000bn in the past decade and is now expected to rise up to USD 33,800bn by 2028.

- An additional budget deficit of USD 1,000bn is expected for the fiscal years 2017–18 and 2018–19.

- The CBO expects a deficit of USD 13,200bn for the period 2018 to 2028. However, these numbers are based on the highly unrealistic assumption that there will be no recession before 2028 (!!!).



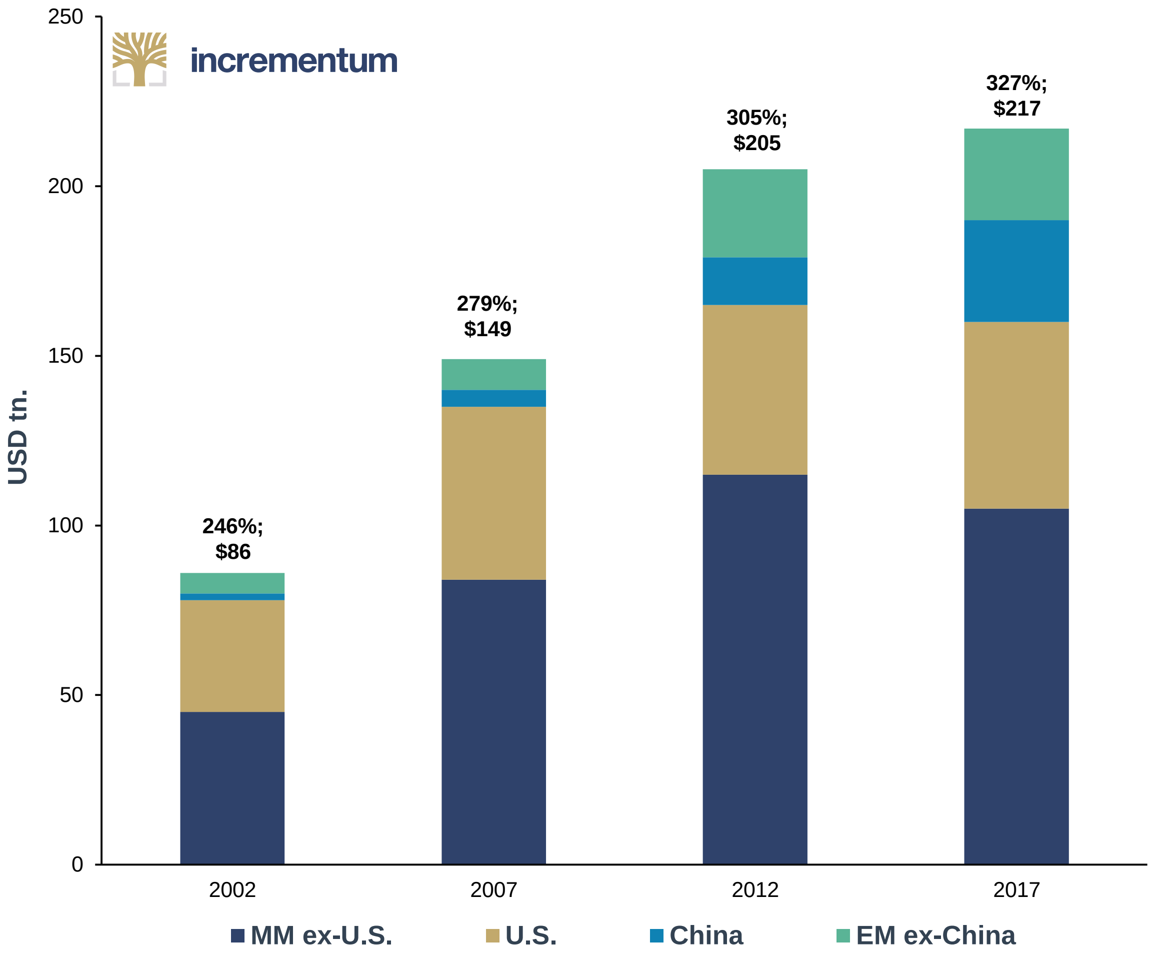
Sources: CBO, Federal Reserve St. Louis, Incrementum AG

Global Debt in USD tn. & in % of GDP: Mature Markets and Emerging Markets

- Global debt just rose to over 247 trillion USD (318% of GDP).This is 96 trillion higher than a decade ago.
- Debt levels in EM's grew from 17 trillion in 2007 to 54 trillion in 2017.
- Dollar-denominated debt issued by non-US countries rose from 10 trillion USD to 34 trillion since the GFC. This makes EM's extremely vulnerable to a strong USD.
- In 2008 EM's were part of the solution, now they are part of the problem!

"All the evidence suggests that the authorities have so far failed to inflate away their debt burdens and thus some are now turning to more extreme solutions… it is impossible to inflate away debts denominated in somebody else's currency, *and once again many emerging markets find themselves with too much foreign currency debt. It is thus emerging markets that will be forced to take extreme* measures first, and extreme measures require extreme leaders."

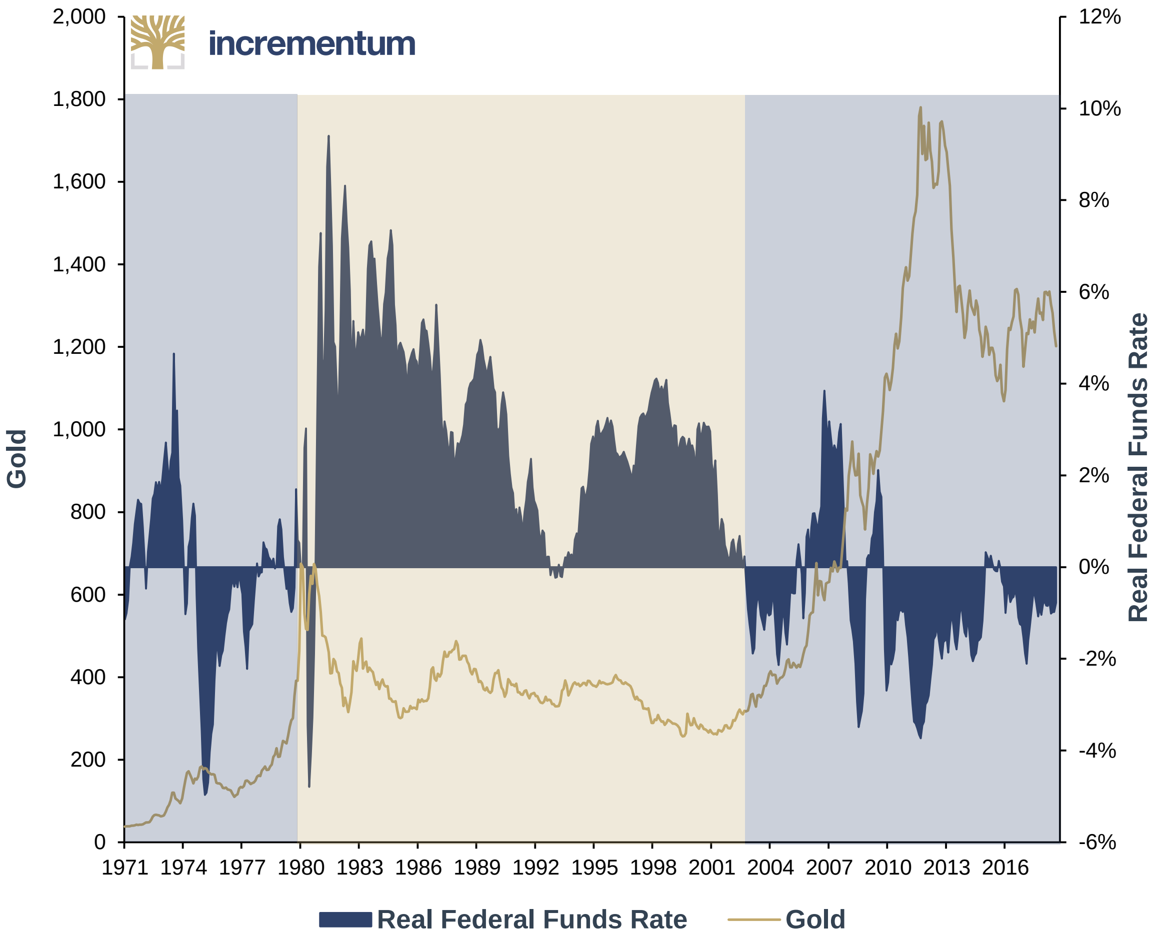
Russell Napier



Sources: BIS, IIF, Incrementum AG

Due to the Enormous Debt Pile, High Positive Real Rates Seem Implausible
Negative and Falling Interest Rates Boost Gold Price

- Real interest rates, their direction and momentum are one of the most important drivers for gold!
- There are two time periods that were shaped by predominantly negative real interest rates (in blue colour): the 1970s and the period since 2001. Both phases clearly represented a positive environment for the gold price.
- One can also discern that the *trend of real interest rates* is extremely important for the gold price. Real interest rates were in negative territory most of the time since 2011, but trended higher. This increased the opportunity cost of holding gold, which created an unfavorable environment for the gold price.
- One thing is certain in our opinion: We are unlikely to see strongly rising or clearly positive real interest rates in the coming years, in view of existing levels of debt. **We are caught in a zero-interest-rate trap.**



Sources: Federal Reserve St. Louis, Incrementum AG

2. The Turning of the Global Monetary Architecture

„While the dollar has been the World's Reserve currency for 40 years, that hasn't always been the case. The British Pound, the Spanish Peseta, and even the Portuguese Escudo at one point in history were all as mighty in their time as the dollar is today. Throughout history, when civilizations needed to finance expansion, they were constrained by their gold reserves.“

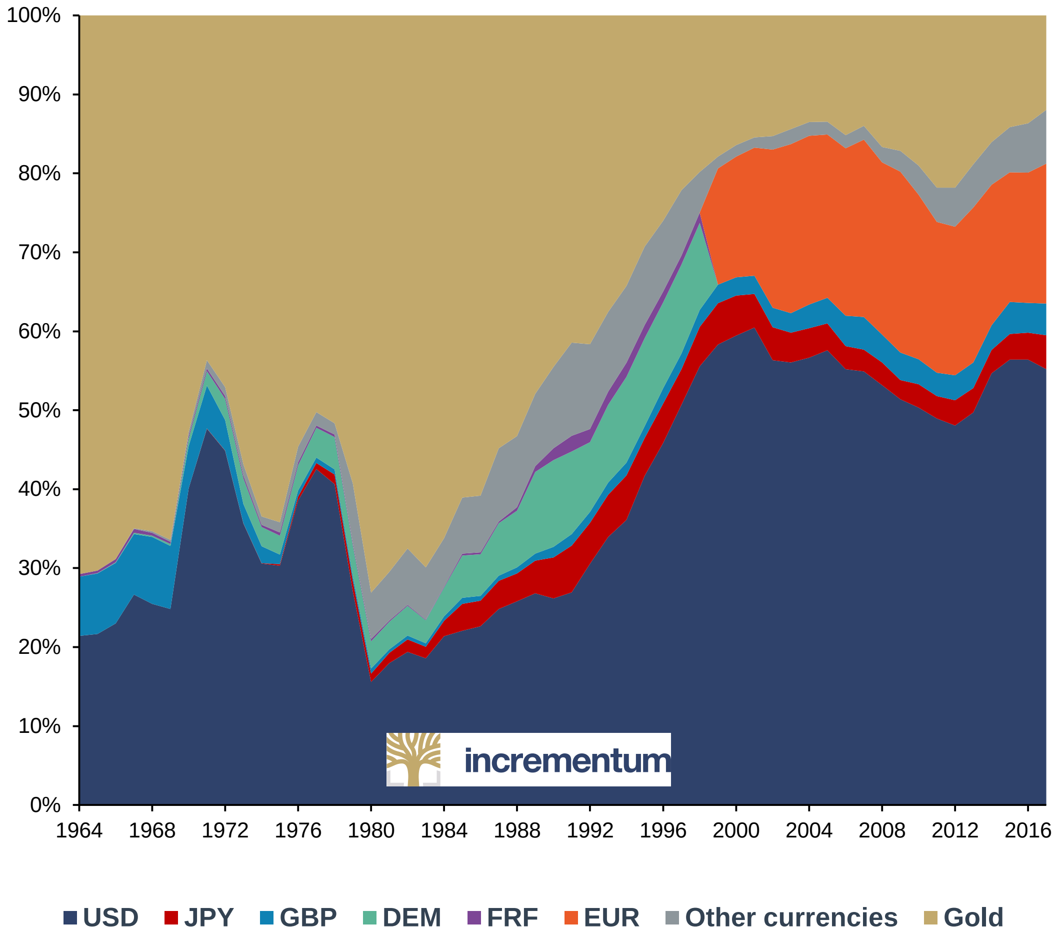
Grant Williams
„Gold: The Story of Man's 6000 Year Obsession“

Monetary Architecture: The Tide Turns

- **The global economic order was and is dominated by the US.**

- On the currency front, the global balance of power is embodied in the long-standing US dollar-centric global currency architecture, which critical observers have warily referred to as an "exorbitant privilege"

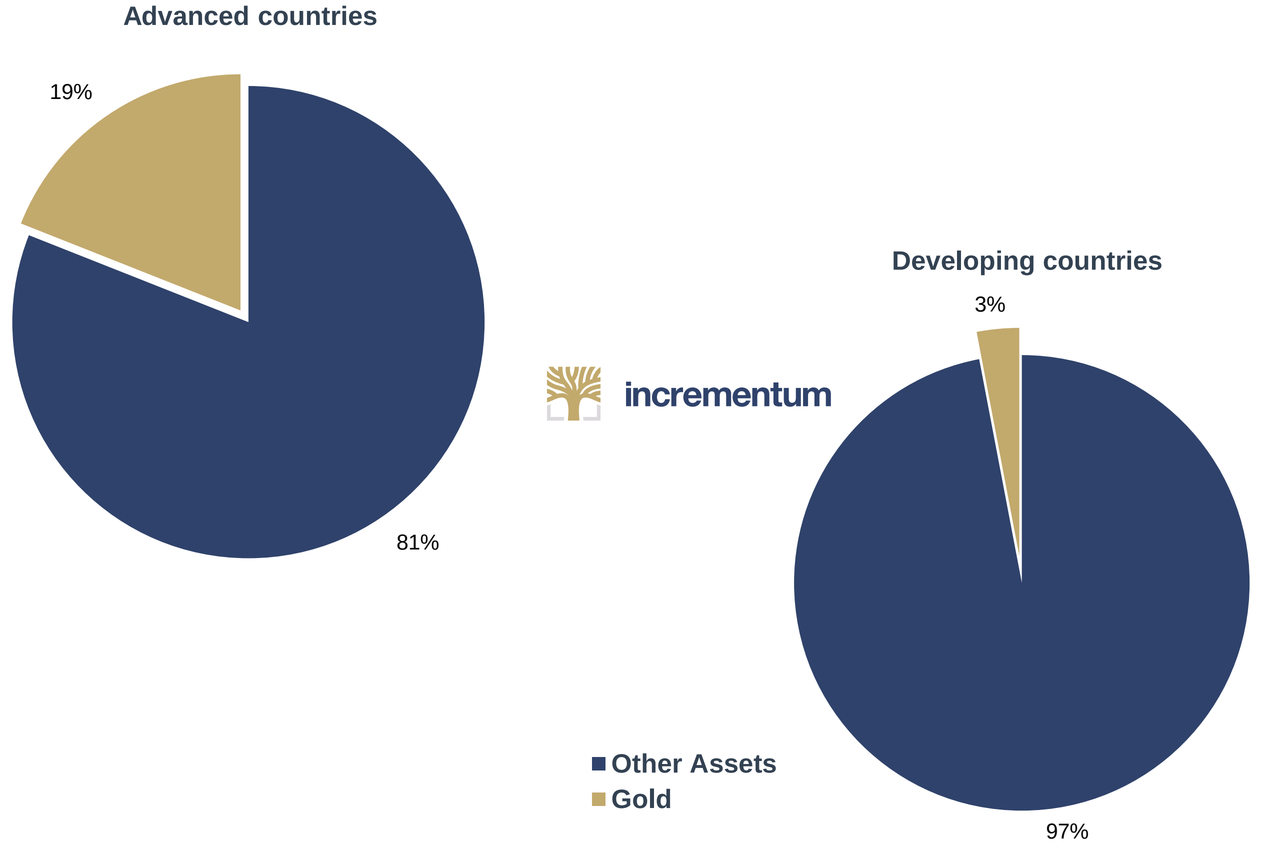
- **But:** faith in the US dollar-centric dispensation is not carved in stone. One measure of international trust is the proportion of global currency reserves held in US dollars. So far, it remains relatively stable, but it seems that the times they are a-changin, as Bob Dylan would have said.



Sources: IMF, World Gold Council, Incrementum AG

Share of Gold in Total Currency Reserves

- The proportion of total currency reserves consisting of gold holdings amounts to 19% among industrialized nations, which exceeds the 3% reported by emerging markets by a large margin.
- This substantial difference is primarily attributable to (a) monetary history, (b) financial market-related factors, and (c) monetary policy factors.
- In light of this it is perhaps not too big a surprise that Kenneth Rogoff recommended in 2016 that emerging-market governments should massively expand their gold reserves.



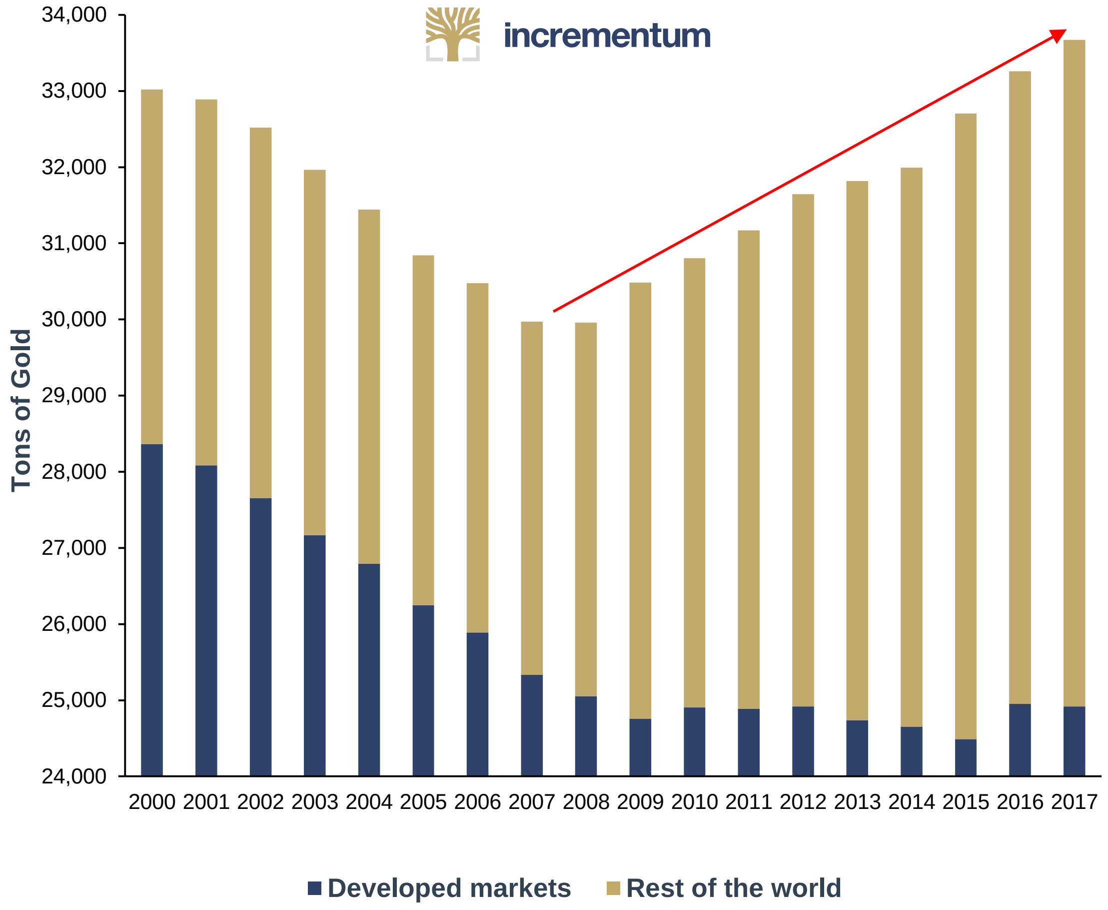
Sources: World Gold Council, Incrementum AG

Gold as a Popular Reserve Currency

- Although industrial nations historically hold the largest gold reserves, a change in trend is discernible in emerging markets.
- As the chart shows, the financial crisis of 2008 marked a turning point.
- While gold reserves held by developed countries have fluctuated around the 25,000-ton level, gold reserves of emerging markets have increased consistently since reaching a low in 2006. From a total of 4,596 tons in 2006 they rose to 8,755 tons in 2017. This is a quite stunning 90% increase.

"I believe in the golden rule – the man with the gold…rules!"

Mr. T



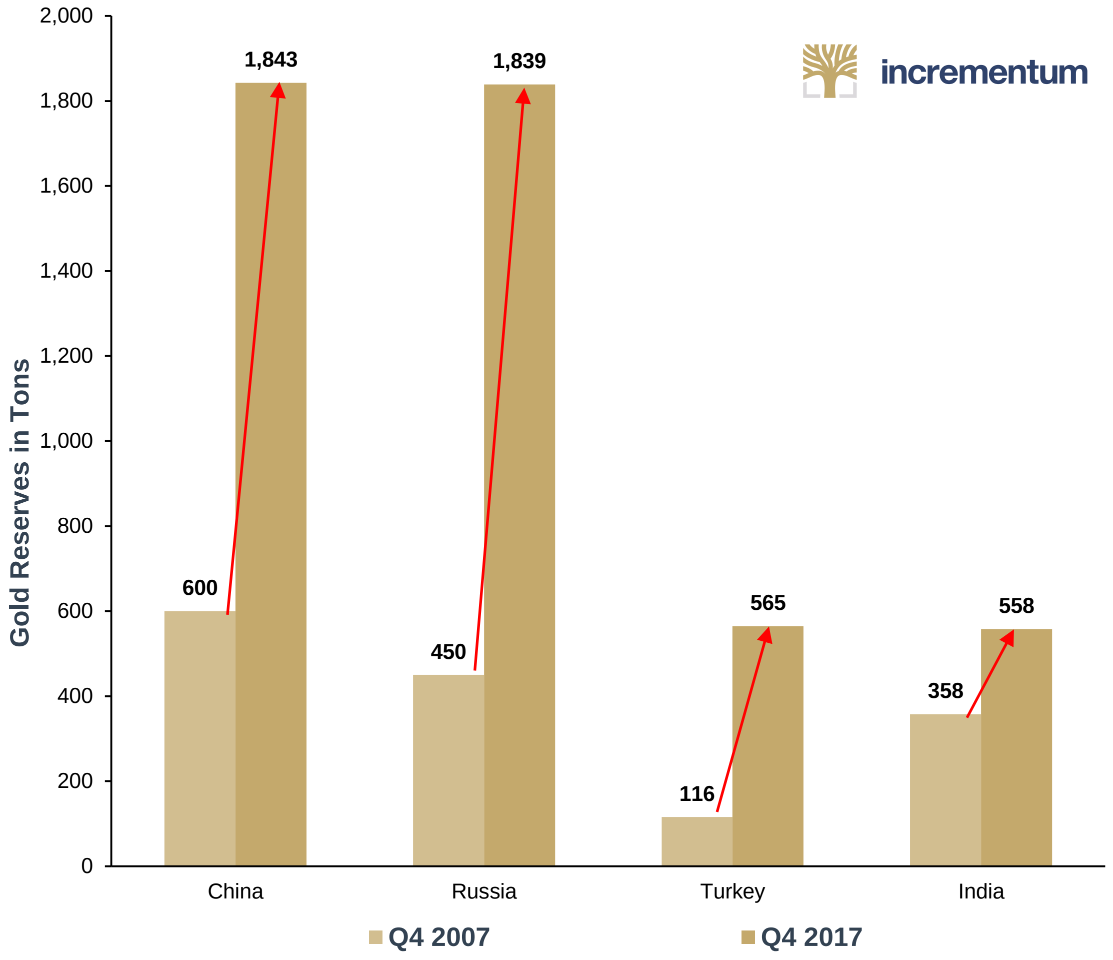
Sources: World Gold Council, Incrementum AG

Change in Gold Reserves Held by Emerging Countries

- In recent years the "axis of gold"* (countries such as China, Russia, Iran, Turkey) have frequently and more or less openly questioned the US-dominated global economic order. Their distrust is reflected in the steady expansion of their gold reserves.

- China, Russia, and Turkey in particular have boosted their central bank gold holdings substantially since 2007, namely by 307% (China), 408% (Russia), and 486% (Turkey).

- The increase in gold reserves should be seen as strong evidence of growing distrust in the dominance of the US dollar and the global monetary and credit system associated with it.



* A term famously coined by Jim Rickards

Sources: World Gold Council, Incrementum AG

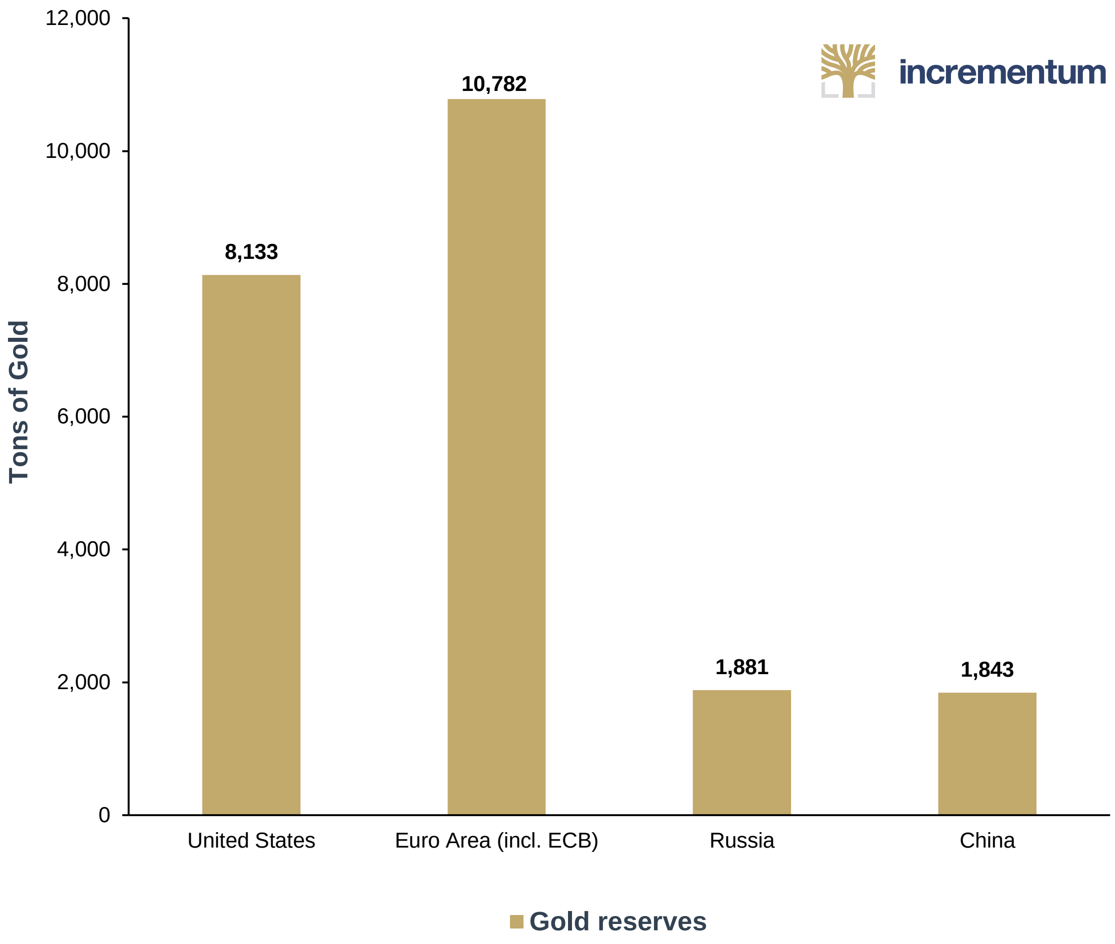
Gold Reserves: USA, Euro Area, Russia, China

- When the gold exchange standard was abolished in 1971, the US left a back door open: 8,000 tons of gold, which can be used as seed capital for a new system.

"If it's not money, what does the US have 8-thousand tons? Why does the IMF have 3,000 tons? Why has Russia tripled its gold reserves in the last 10 years? Why is China buying every piece of gold that's not nailed down at the largest mining production in the world, and zero exports."

Jim Rickards

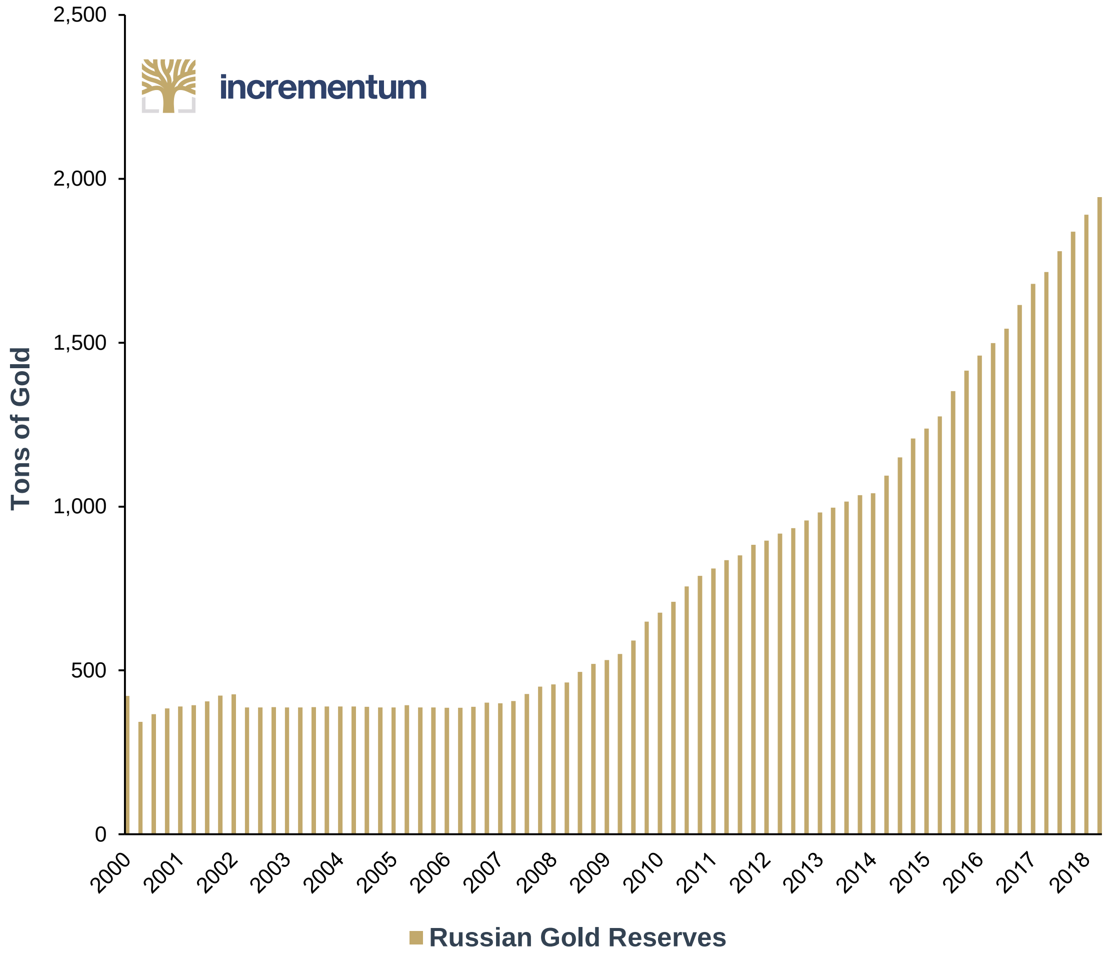
"Gold: The Story of Man's 6000 Year Obsession"



Sources: World Gold Council, Incrementum AG

Russian Gold Reserves

- A lot can be achieved if monetary authorities have the required political will, as the recent history of Russia's gold reserves reveals.
- While official gold reserves initially remained by and large constant after the fall of the Soviet Union until 2006, they have been in a steady uptrend since then. In 2018 alone, Russia's gold reserves have already risen by 107 tons to 1,944 tons.
- The accumulation of reserves has accelerated significantly since the beginning of the Ukraine crisis in 2014, in the wake of which Western countries imposed economic and financial sanctions on Russia.
- Currently, the monetary base of the Russian ruble has by far the highest gold coverage ratio at almost 55%.



Sources: Bloomberg, World Gold Council, Incrementum AG

Top Oil Net Exporters and CNY Oil Supply/Pricing Deals

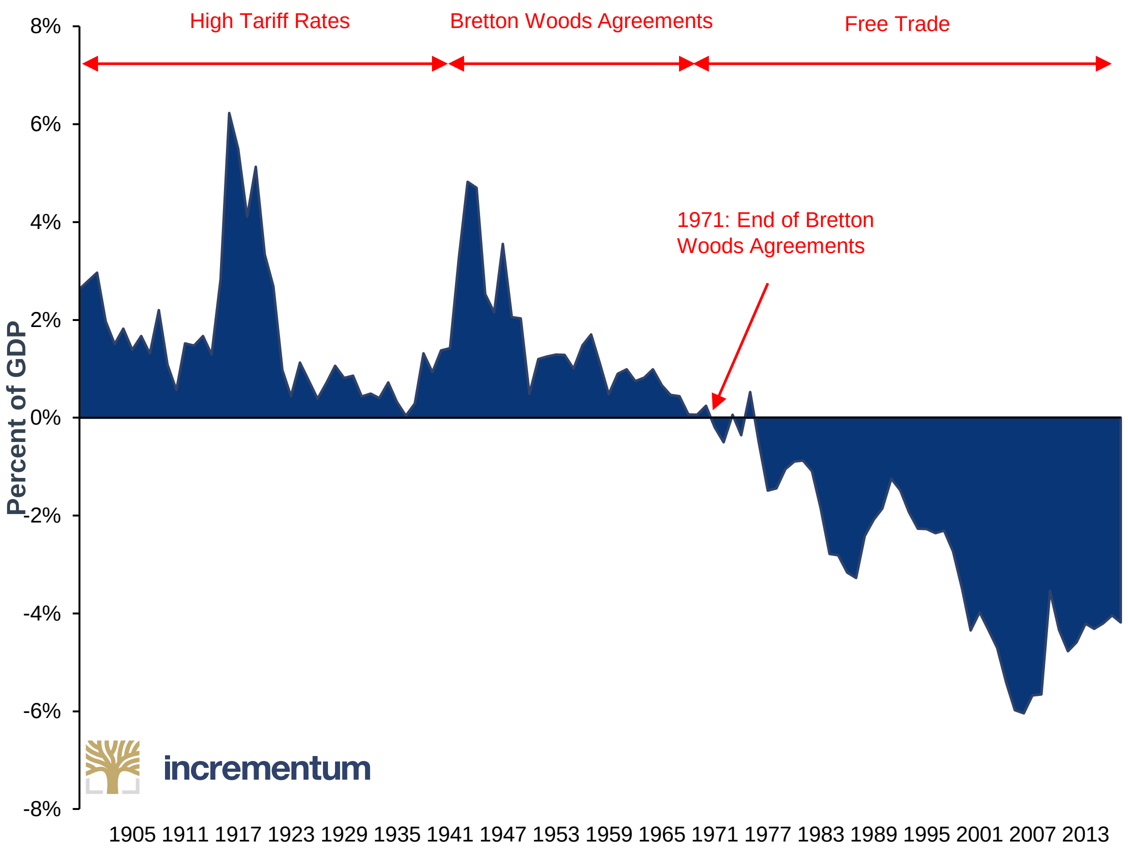
- 2018 will enter the history books as the year in which the "petro-yuan" was officially born.
- The process of establishing the Chinese currency as a petro-currency (and subsequently as a reserve currency) is not an overnight affair; rather it is likely to take decades.
- The internationalization of the yuan can be viewed as a mirror image of the de-dollarization of the world.

Nation	Net oil exports (000's b/d)	CNY Oil Supply/Pricing Deals
Saudi Arabia	7,016	Moving towards pricing oil in CNY
Russia	5,223	Pricing oil in CNY
Iraq	3,750	Building a refinery with Chinese companies, planning 3 more; profit-sharing/marketing-deal
Canada	2,897	Signed agreement to expand CNY trade usage in '14, named ICBC CNY-clearing bank in Canada
Iran	2,150	Pricing oil in CNY
UAE	2,065	Direct CNY/UAE Dirham trading (9/16); Dubai gold exchange launched CNY gold 4/17
Kuwait	2,025	China one of biggest drillers in Kuwait market with 45% market share of rigs
Angola	1,650	Made CNY 2nd currency in 2015
Nigeria	1,598	Nigeria, China Sign $2.4 Billion Currency-Swap to Lift Trade
Kazakhstan	1,424	Partially Chinese-owned, massive Kashagan oil field began shipping quarter 4/2016

Sources: Luke Gromen, FFTT, EIA, Incrementum AG

Negative US Trade Balance since Bretton Woods

- The US trade deficit last year increased to USD 566bn, its highest level since 2008.
- In this context it comes as little surprise that the status of the US dollar as the classic safe-haven currency seems to be reversing.
- The simultaneous correction of equities, bonds, and the US dollar at the end of January may offer a glimpse into the erosion of the currency's safe-haven status.



Sources: Federal Reserve St. Louis, US Census Bureau, Incrementum AG

3. The Turning Technology Tides

"Gold has always been criticized as being an inefficient product, a lazy product, a product that's hard to transact with…It's almost as though the blockchain were invented for gold. The marriage of the two, I think it's going to be incredibly powerful."

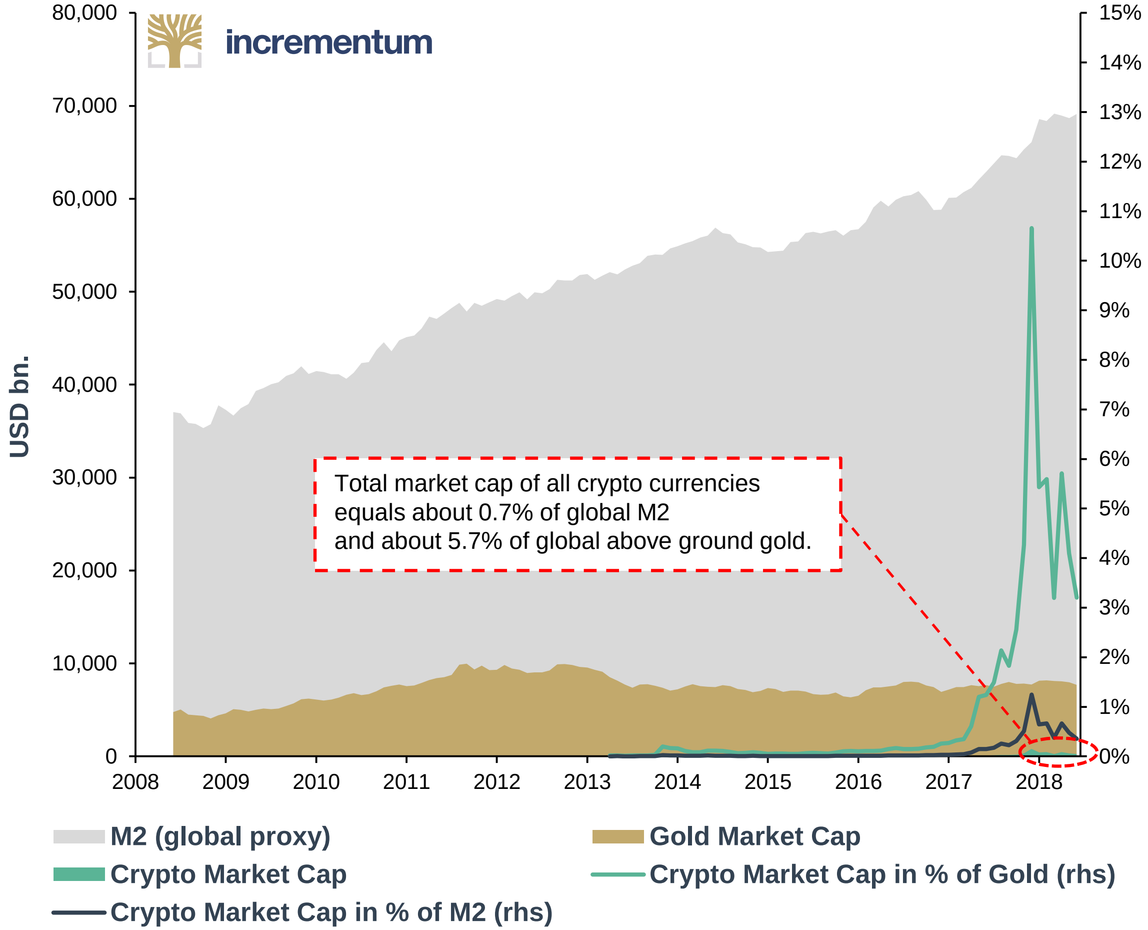
Peter Grosskopf
CEO Sprott Inc.

Technological Tides Turn: Market Capitalization of Cryptocurrencies

- The emergence of new technologies has set off a Hayekian competition that is attracting a huge amount of human and financial capital.

- With regard to cryptocurrencies, **we are convinced of two truths:**
  - (1) Cryptocurrencies and especially the underlying decentralized ledger technologies might fundamentally change many sectors and possibly the reality of the global monetary order.
  - (2) Gold and cryptocurrencies are friends, not foes. In fact, a collaborative approach would play to the strengths of both. The first gold-based cryptocurrencies are underway as we speak.

- **For further info, please have a look at our quarterly Crypto Research Report: https://cryptoresearch.report/#**



Sources: Bloomberg, coinmarket.com, Incrementum AG

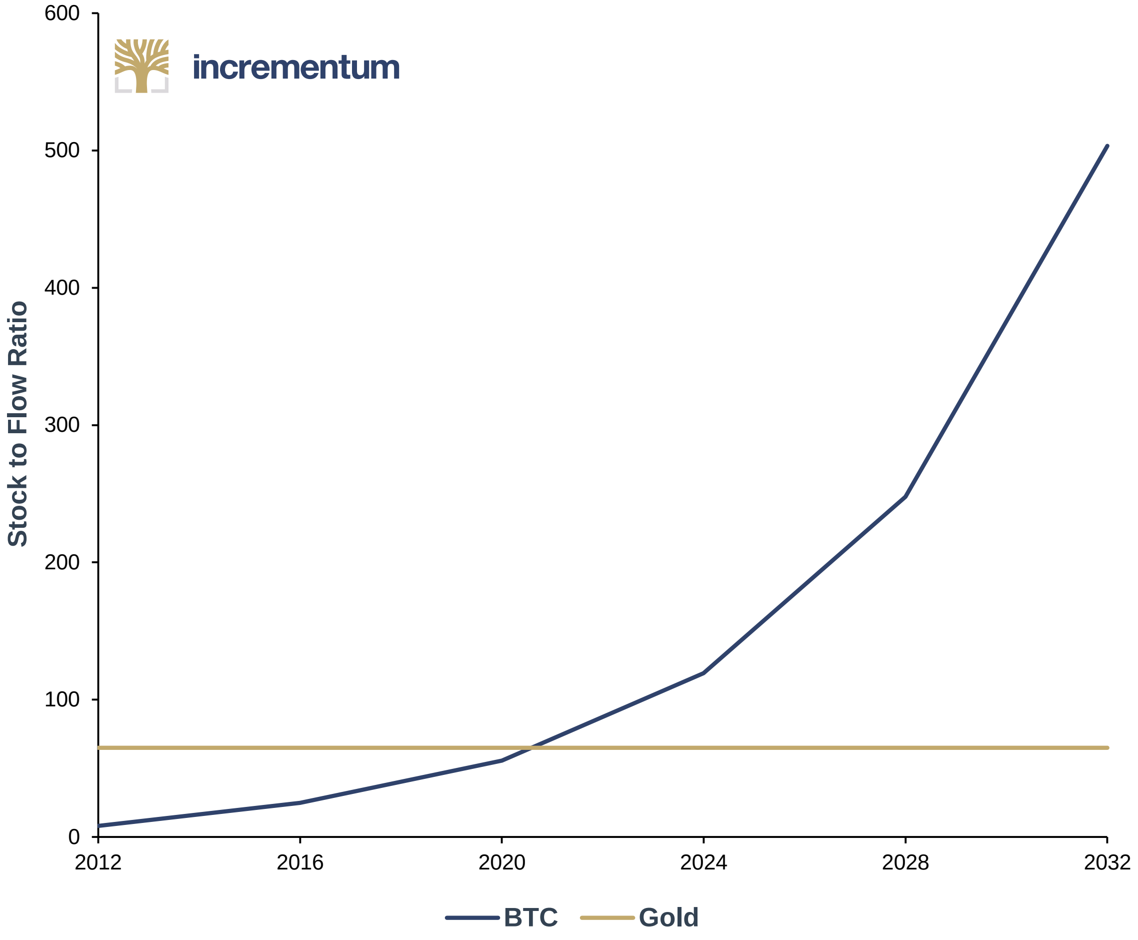
Stock To Flow Ratio Over Time: Bitcoin and Gold

- The creation of cryptocurrencies was supposedly inspired by the yellow precious metal. Therefore, it is no coincidence that Bitcoin is often referred to as "digital gold".

- Bitcoin's SFR-ratio will continue to increase over time as the number of newly created bitcoins halves every four years. In 2024, the SFR will be approximately 119 years. The SFR of Bitcoin will then be *ceteris paribus* about twice as high as that of gold. For some, this makes Bitcoin the ultimate store of value, one that might even be superior to gold in the future.

"In a free market for money, individuals would choose the currencies they want to use, and the result would be that they would choose the currency with the reliably lowest stock-to-flow ratio. This currency would oscillate the least with changes in demand and supply."

Saifedean Ammous



Sources: World Gold Council, bitcoinblockhalf.com, Incrementum AG

Crypto SDR Ante Portas?

"At the IMF spring meeting about a month ago, Christine Lagarde said that the time has come to look at the SDR. The IMF executive committee has launched a new study on the uses of the SDR and explicitly how that can be expanded. Why would you have the existing SDR system today with distributed ledger technology or so-called blockchain? You would have an e-SDR, a crypto- SDR.

The IMF can't get too far out of their lane or they'll run into trouble with the United States, but they can push a lot. With Russia and China looking at this on their own, the IMF saying "Let's look at a crypto SDR," a lot of gold piled up in certain places, and a necessity to transact in gold because you're kicked out of the dollar payment system and probably SWIFT, we're getting closer to the point where there's going to be an all-out attack on the U.S. dollar."

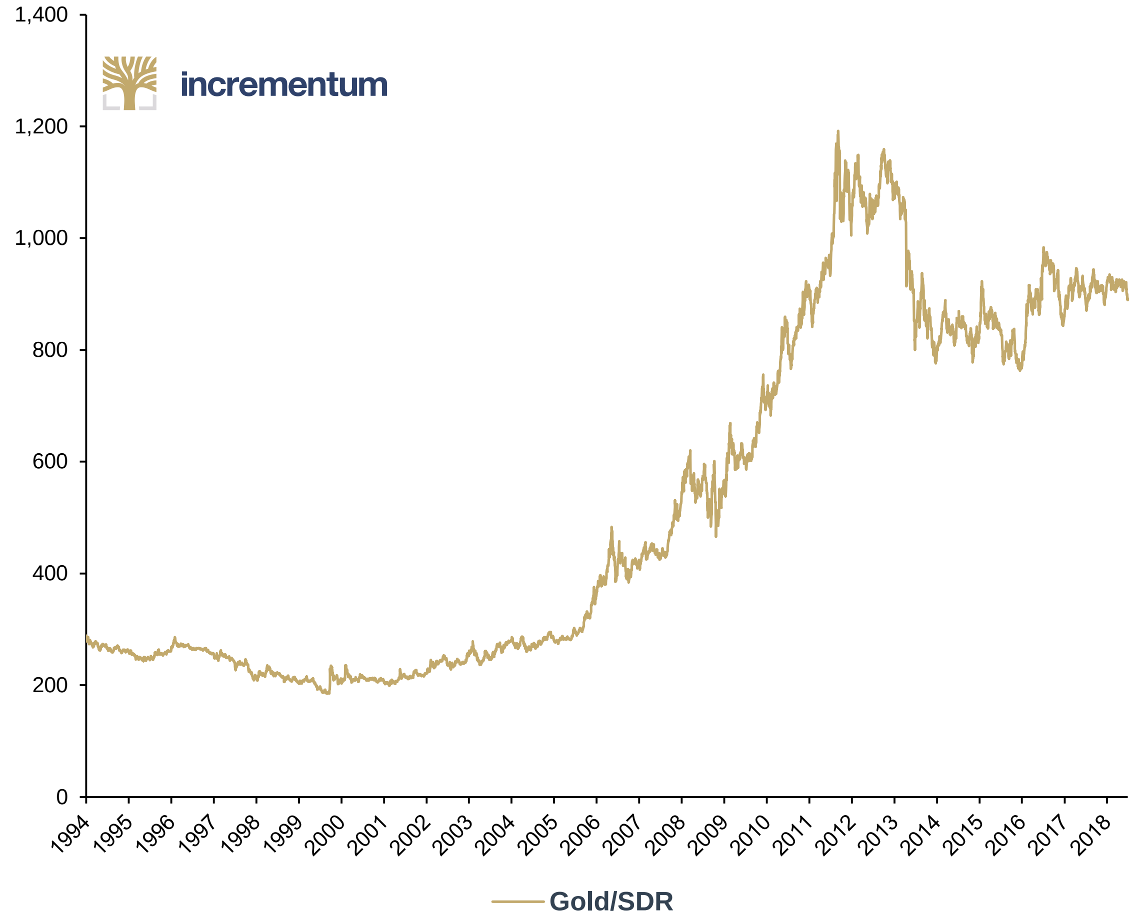
Jim Rickards

Source: http://physicalgoldfund.com/transcript-of-jim-rickards-and-alex-stanczyk-the-gold-chronicles-may-2018/

Is a Global Monetary Reset Already Happening? Gold in SDR

- *"In short, world money has now been pegged to gold at a rate of SDR 900 to 1 ounce of gold. It's a new gold standard using the IMF's world money.* ***There's the global monetary reset right in front of your eyes."***

Jim Rickards



Sources: Bloomberg, Incrementum AG

4. Status Quo

“The risk of not owning gold is greater than the risk of owning gold.”

Brent Johnson

Dow Jones/Gold Ratio as an Indicator of Trust And Long-term Sentiment

- The Dow/gold ratio serves as an indicator of confidence in the economic and monetary order and a representation of long-term public sentiment.
- The boundaries but also the periodicity of the ratio are very consistent. From peak to trough it usually takes 12-14 years, and then from trough to the next peak it takes around 20 years.
- By the end of the 1970s, confidence in the US monetary system had eroded substantially. The Dow/gold ratio hit an all-time low of 1.29x in January 1980, well below its median of 6.6x.
- Currently the ratio stands at 22x, in other words, it takes 22 ounces of gold to buy one share of the Dow Jones. We are far away from the high of 42x that we saw in 1999, but we are already slightly above the 1929 high.

Sources: McClellan Financial Publications, Bloomberg, Incrementum AG

Gold/S&P Ratio: Stocks Still Outperform Gold – Momentum Decreasing

- Comparing gold price to S&P 500 development, we can see that gold continues to underperform stocks.
- However, the intensity of the downward trend has slightly decreased recently.
- After seven years of underperformance of gold vis-à-vis the broad equity market, the tables might soon be turning in favor of gold.

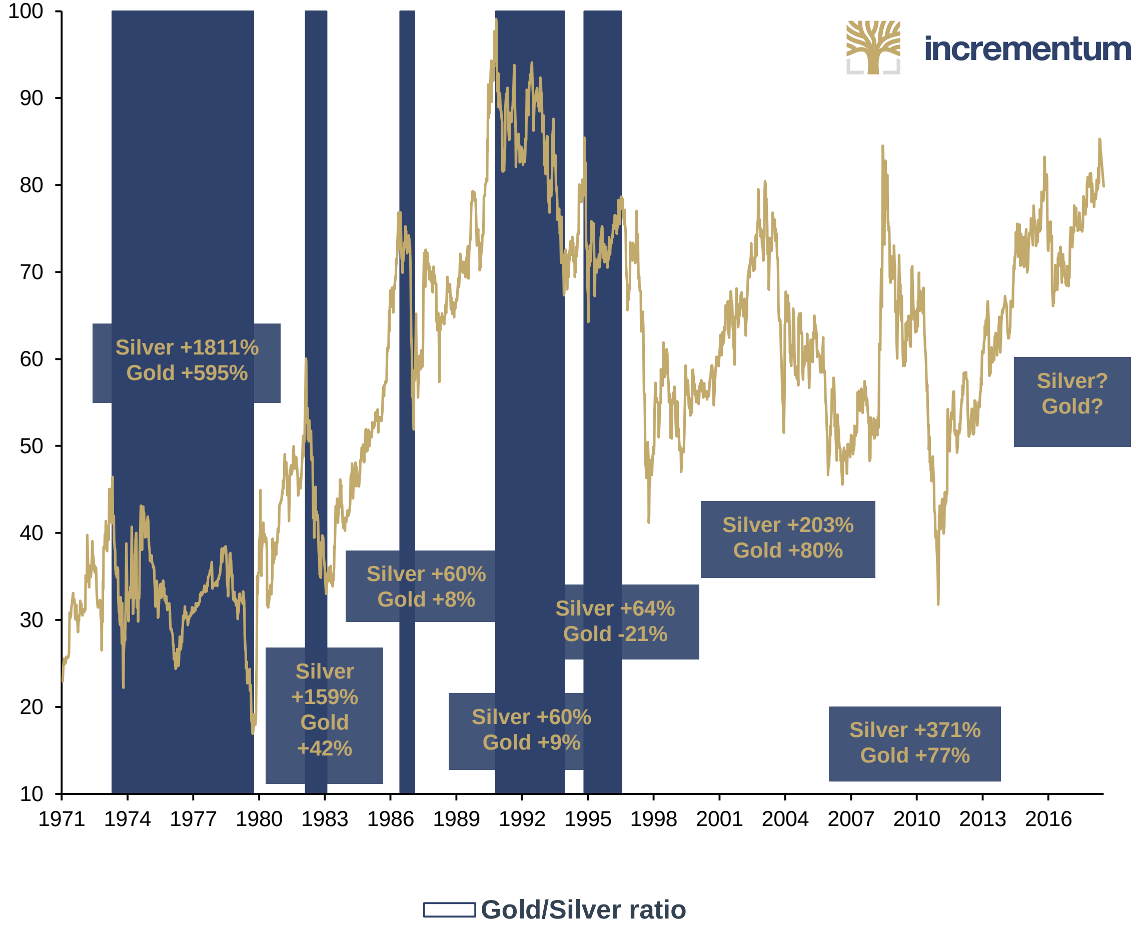
Sources: Federal Reserve St. Louis, Incrementum AG

Gold/Silver Ratio: Falling Ratio To Be Expected?

- **The Gold/Silver ratio recently traded at the highest level since 1991!**

- At the moment, it seems as if the ratio has hit a potential reversal point again after an upward trend of almost seven years. The ratio has knocked at the upper resistance level of 80x several times already.

- According to the results of our statistical analysis, a sustainable increase in the gold price is unlikely to happen in tandem with an increase in the gold/silver ratio. A falling gold/silver ratio significantly increases the probability of a bull market in gold and silver.

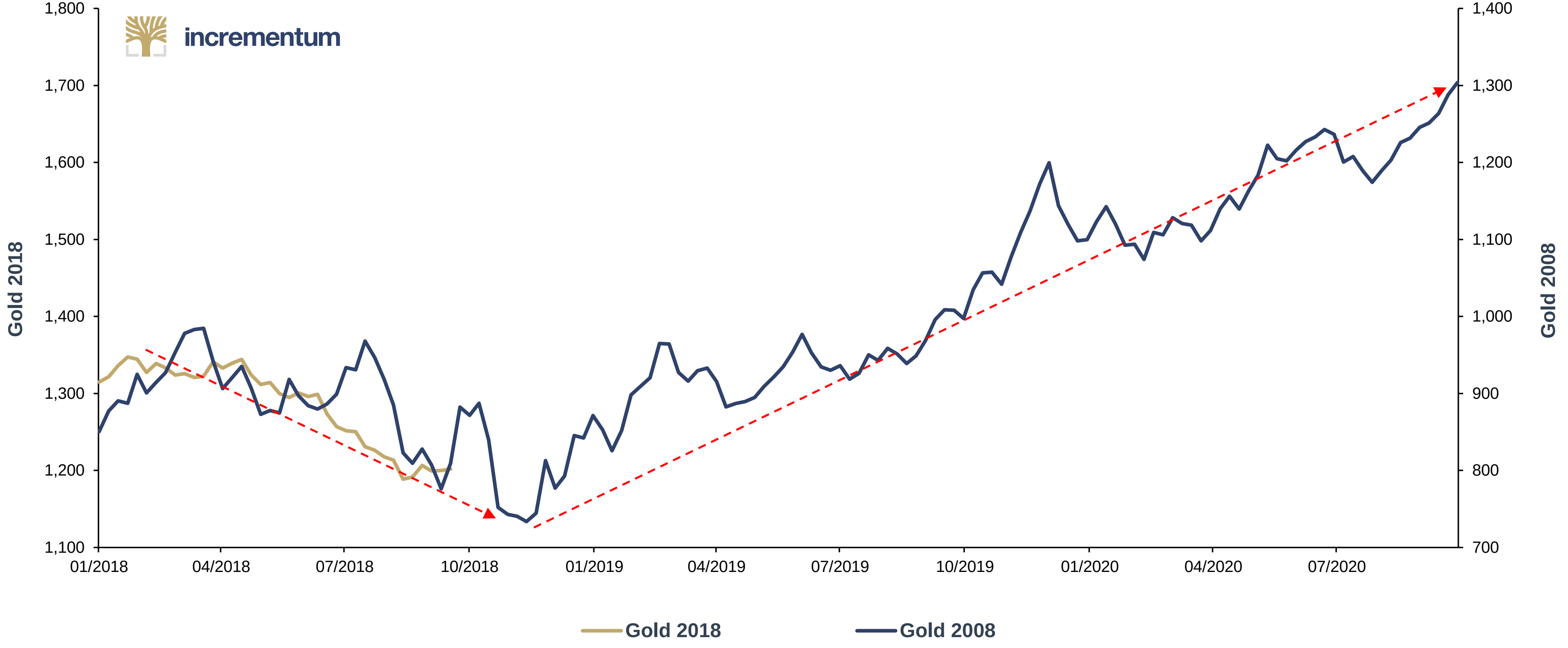


Sources: Bloomberg, Incrementum AG

Highs in the Gold-Silver Ratio (~80x) Were Great Buying Opportunities For Gold

Sources: McClellan Financial Publications, Federal Reserve St. Louis, Incrementum AG

Is It 2008 All Over? If Yes, Gold Should Be Close to a Bottom!



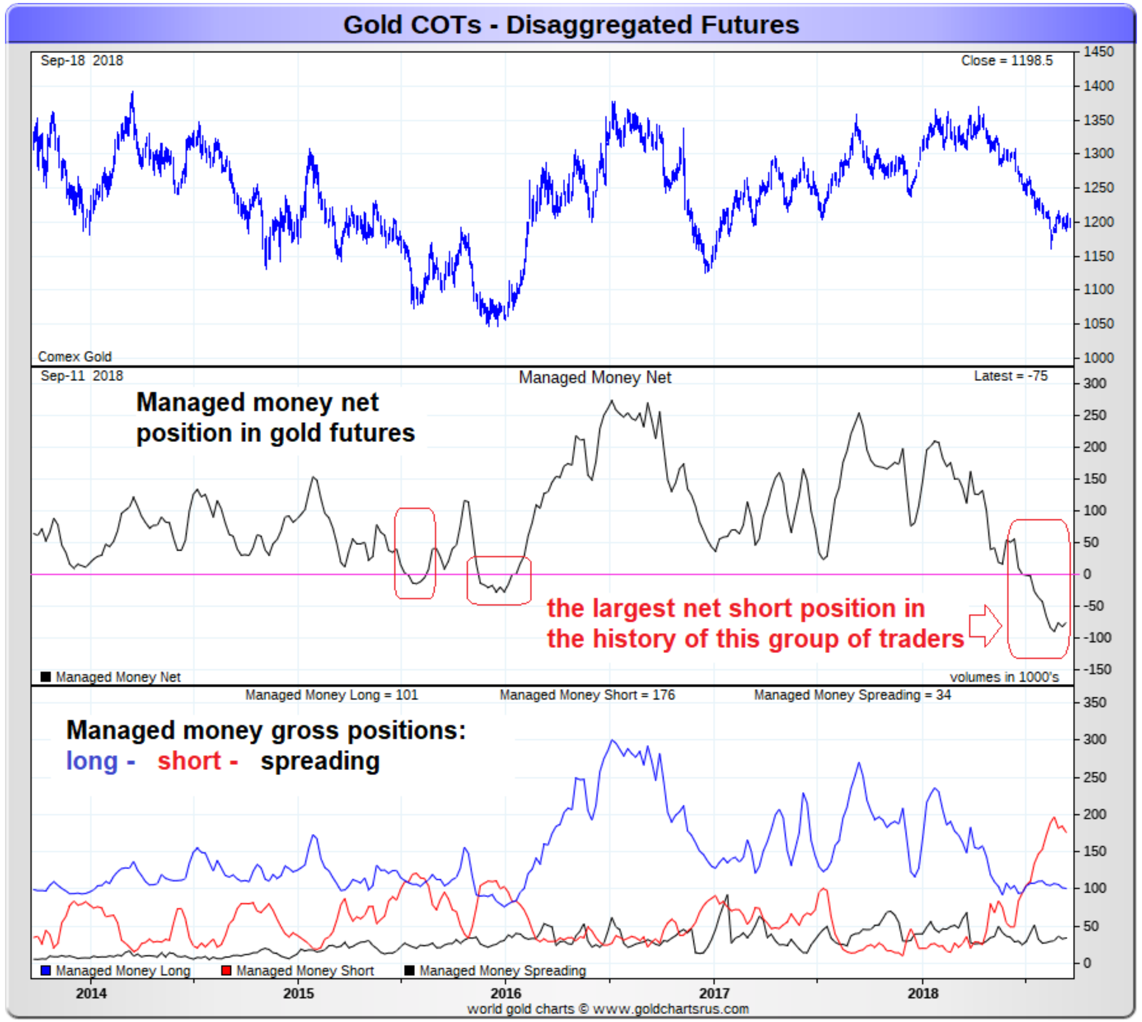
Sources: Federal Reserve St. Louis, Incrementum AG

Technical Setup:
Gold Trading at Crucial Support Levels (Monthly & Quarterly)

Sources: Bloomberg, Santiago Capital, Brent Johnson

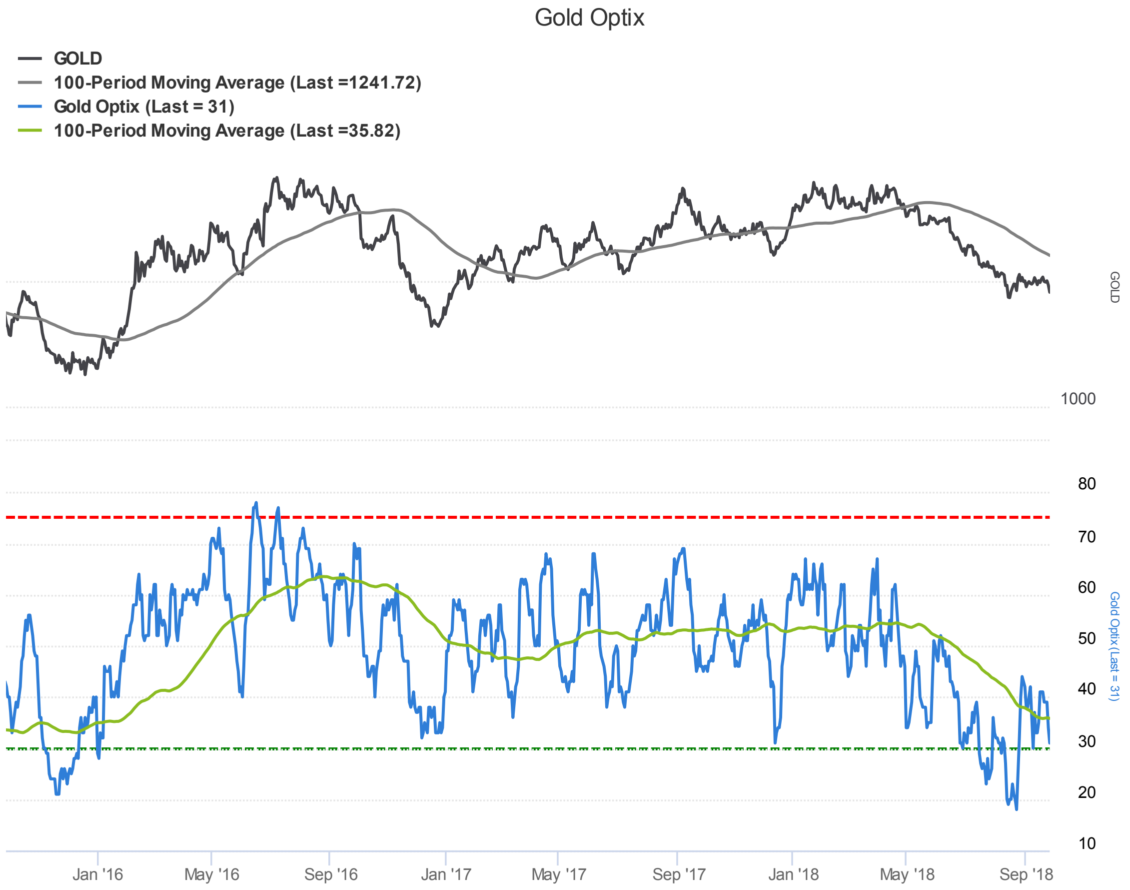
Technical Setup: CoT-Report: Best Constellation in 17 Years?

- According to the COT report, large speculators have completely abandoned their net long exposure to gold futures. They are currently slightly **net short for the first time since gold prices crossed the USD 270 level more than 17 years ago.**
- The managed money (including CTA's, hedge funds etc.) has amassed the **largest net short position** in the history of the disaggregated CoT report. It is currently three times greater than the previous record set in December 2015, when Gold bottomed and began its rally from 1,045 to 1,377 within 6 months.
- Commercials - the so-called "smart money" because they tend to be right at extremes - had their lowest net short position since December 2015. **On Sept 9th, commercials for the first time in 17 years flipped their COMEX positioning to net long.**
- **Is an epic short squeeze in the cards?**



Sources: Nick Laird, Sharelynx.com, www.acting-man.com

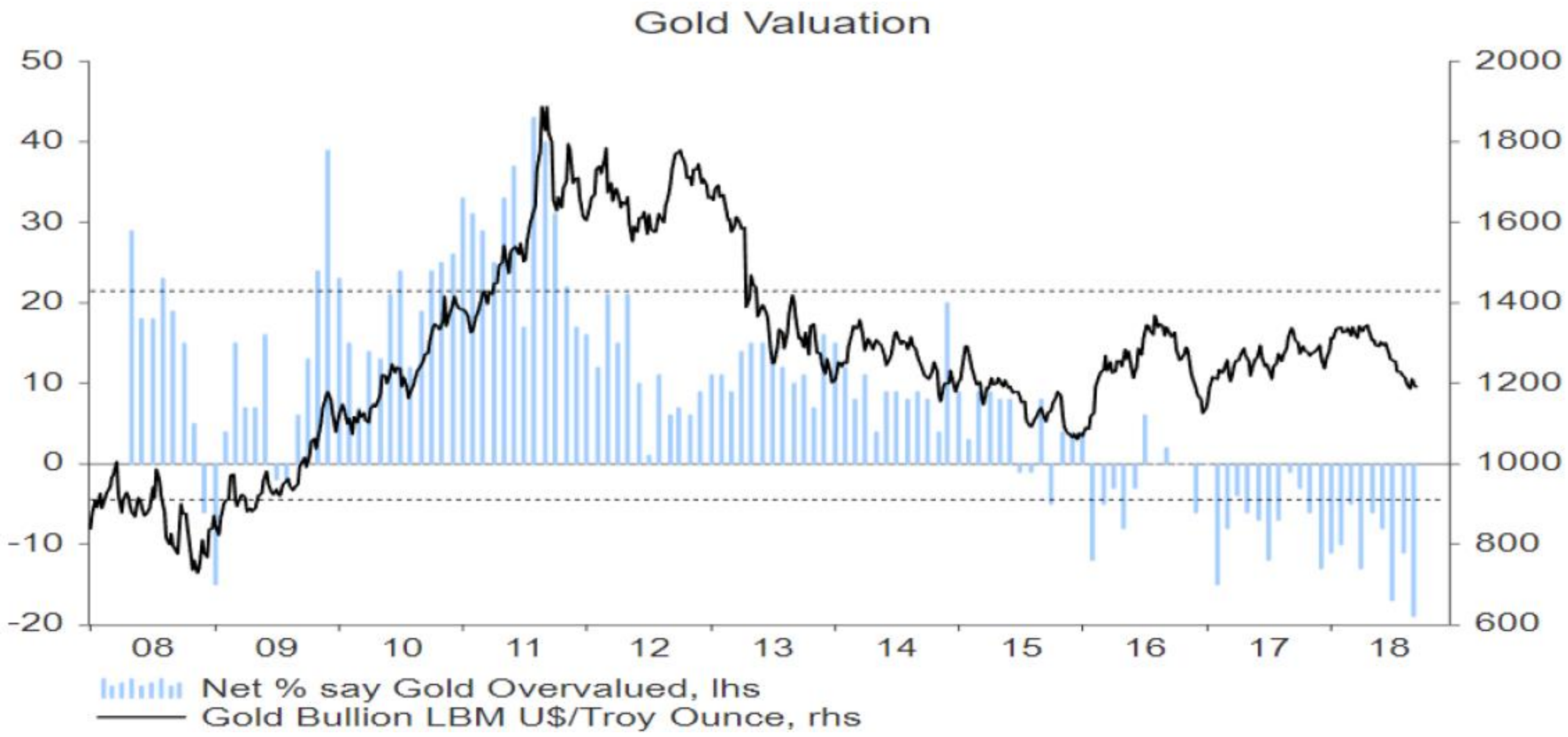
Technical Setup: Gold and Silver Optix* Show Extreme Pessimism



Source: www.sentimentrader.com

***The Optix Index – one of our favourite sentiment indicators – is published by Sentimentrader.** It amalgamates the most prominent sentiment surveys with positioning data from the futures and options markets. Similar to most other sentiment indicators, it works as a contrarian indicator, i.e., high levels of optimism are considered bearish and vice versa.

Technical Setup:
Capitulation in One Picture: Gold Valuation Hitting Lowest Levels Since 2008



Source: BofA Merrill Lynch Fund Manager Survey

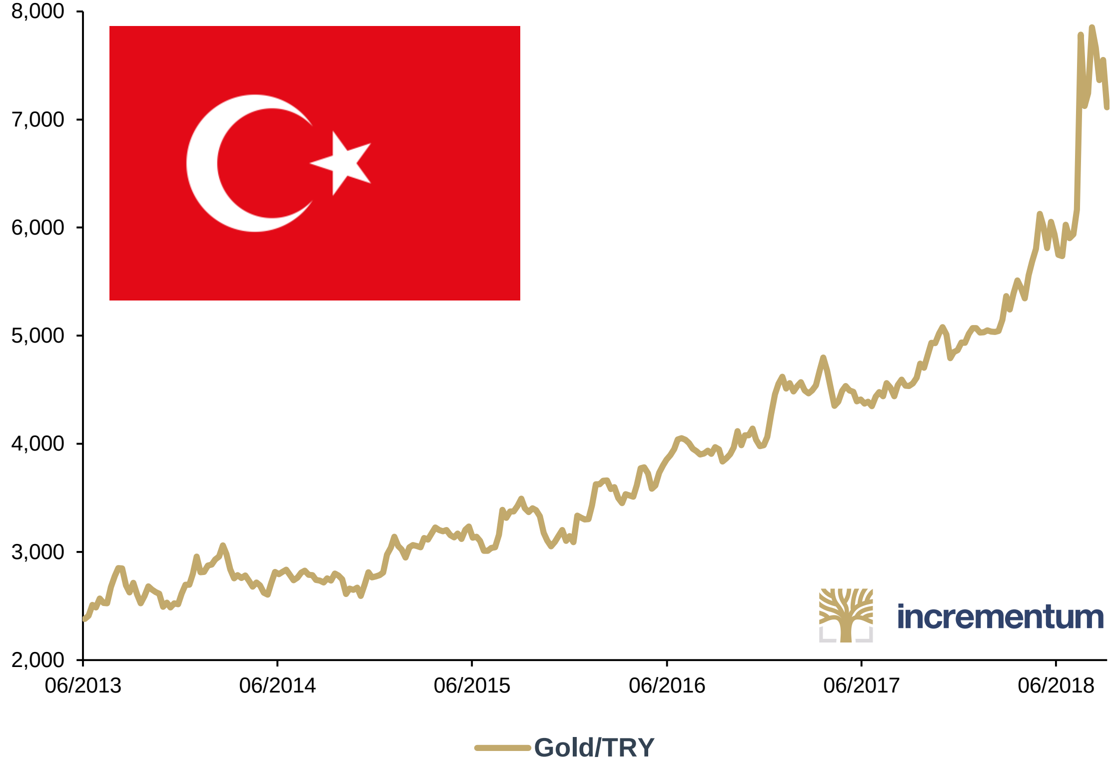
Gold Performance in Various Currencies

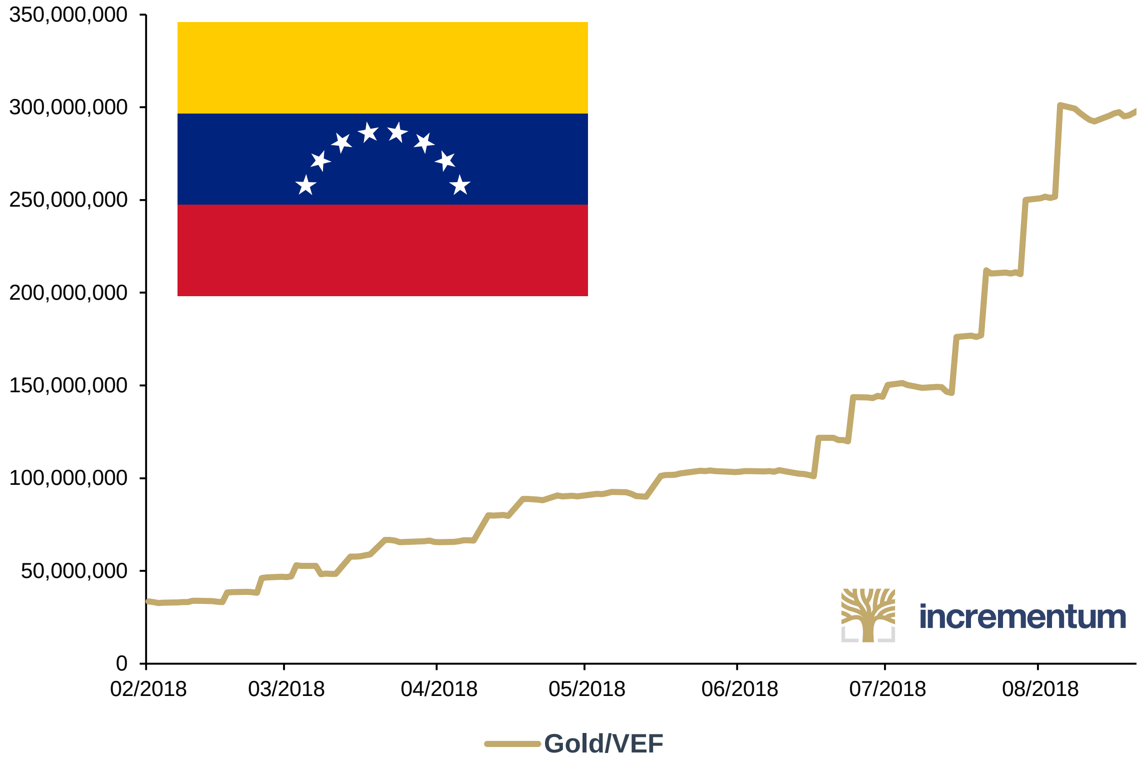
- The price of gold is down in most currencies over the year so far.
- 2017 was clearly positive for gold across all major global currencies with the exception of the euro, where it incurred a slight loss of 1%.
- The average performance in this secular bull market is still impressive. For example, the average annual performance from 2001 to 2018 has been +9.17%. During this period, gold has outperformed practically every other asset class, and in particular every currency, despite intermittent, sometimes substantial corrections.

	EUR	USD	GBP	AUD	CAD	CNY	JPY	CHF	INR	Average
2001	8.10%	2.50%	5.40%	11.30%	8.80%	2.50%	17.40%	5.00%	5.80%	**7.42%**
2002	5.90%	24.70%	12.70%	13.50%	23.70%	24.80%	13.00%	3.90%	24.00%	**16.24%**
2003	-0.50%	19.60%	7.90%	-10.50%	-2.20%	19.50%	7.90%	7.00%	13.50%	**6.91%**
2004	-2.10%	5.20%	-2.00%	1.40%	-2.00%	5.20%	0.90%	-3.00%	0.90%	**0.50%**
2005	35.10%	18.20%	31.80%	25.60%	14.50%	15.20%	35.70%	36.20%	22.80%	**26.12%**
2006	10.20%	22.80%	7.80%	14.40%	22.80%	18.80%	24.00%	13.90%	20.58%	**17.24%**
2007	18.80%	31.40%	29.70%	18.10%	11.50%	22.90%	23.40%	22.10%	17.40%	**21.70%**
2008	11.00%	5.80%	43.70%	33.00%	31.10%	-1.00%	-14.00%	-0.30%	30.50%	**15.53%**
2009	20.50%	23.90%	12.10%	-3.60%	5.90%	24.00%	27.10%	20.30%	18.40%	**16.51%**
2010	39.20%	29.80%	36.30%	15.10%	24.30%	25.30%	13.90%	17.40%	25.30%	**25.18%**
2011	12.70%	10.20%	9.20%	8.80%	11.90%	3.30%	3.90%	10.20%	30.40%	**11.18%**
2012	6.80%	7.00%	2.20%	5.40%	4.30%	6.20%	20.70%	4.20%	10.30%	**7.46%**
2013	-31.20%	-23.20%	-28.80%	-18.50%	-23.30%	-30.30%	-12.80%	-30.20%	-19.00%	**-24.14%**
2014	12.10%	-1.50%	5.00%	7.70%	7.90%	1.20%	12.30%	9.90%	0.80%	**6.16%**
2015	-0.30%	-10.40%	-5.20%	0.40%	7.50%	-6.20%	-10.10%	-9.90%	-5.90%	**-3.75%**
2016	12.04%	8.50%	29.70%	10.10%	5.50%	16.50%	5.40%	10.40%	11.50%	**12.27%**
2017	-1.02%	13.64%	3.23%	4.64%	6.35%	6.42%	8.92%	8.13%	6.42%	**6.30%**
2018 ytd	-4.20%	-8.00%	-4.10%	0.00%	-6.00%	-2.80%	-7.00%	-7.00%	5.70%	**-3.71%**
Average	8.51%	10.01%	10.92%	7.60%	8.48%	8.42%	9.40%	6.57%	12.19%	**9.17%**

Sources: www.goldprice.org, Incrementum AG

Gold in Turkish Lira and Venezuelan Bolivar
Gold Does Exactly What It Is Supposed To Do: Protect Purchasing Power





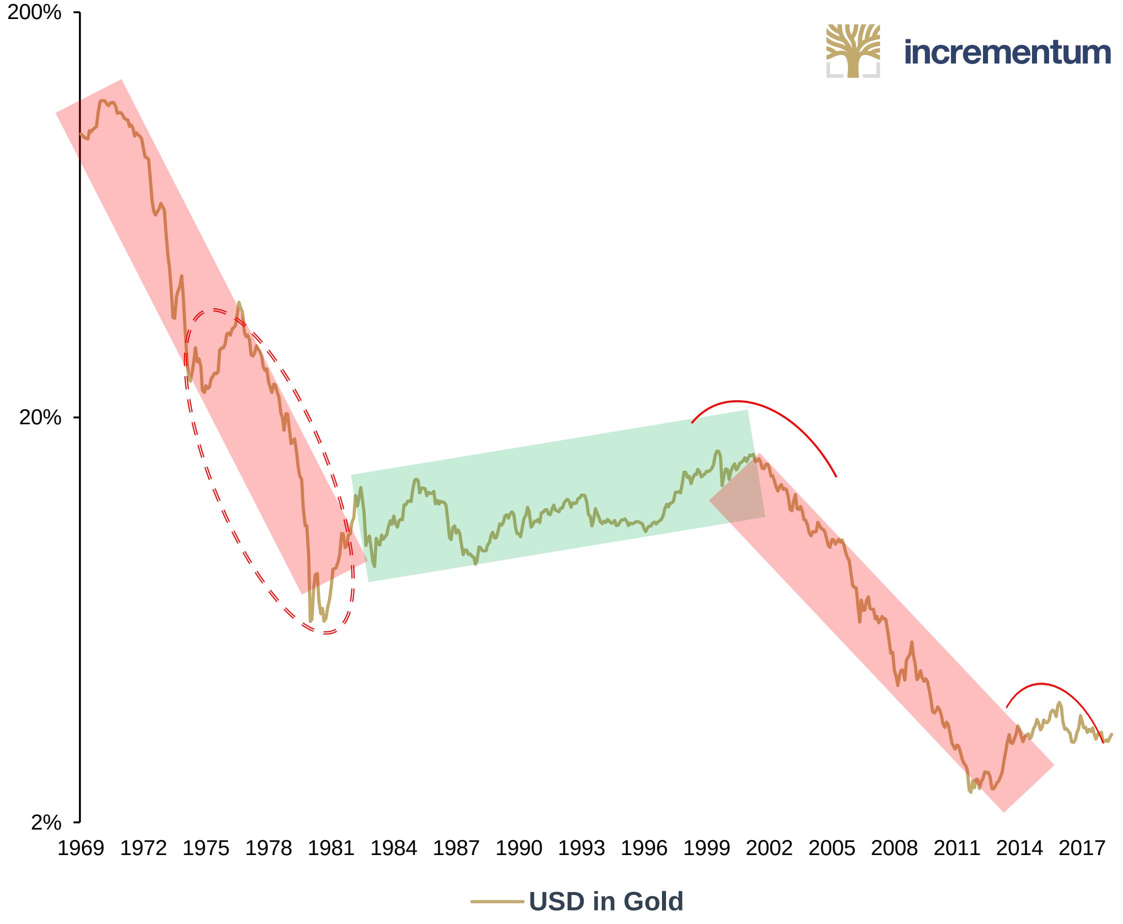
Sources: Investing.com, Incrementum AG

Dollar in Terms of Gold: Are We at the End of the Mid-Cycle Correction? (log-scale)

- Rather than plotting the gold price in US dollars or euros, we here invert the relationship to show that the decline in purchasing power of the US dollar, measured in terms of gold, occurs in long cycles.

- One can see that the ongoing depreciation is still significantly more moderate than it was in the 1970s. However, we have not yet seen the final trend acceleration that occurred in the 1970s (marked by a circle on the chart).

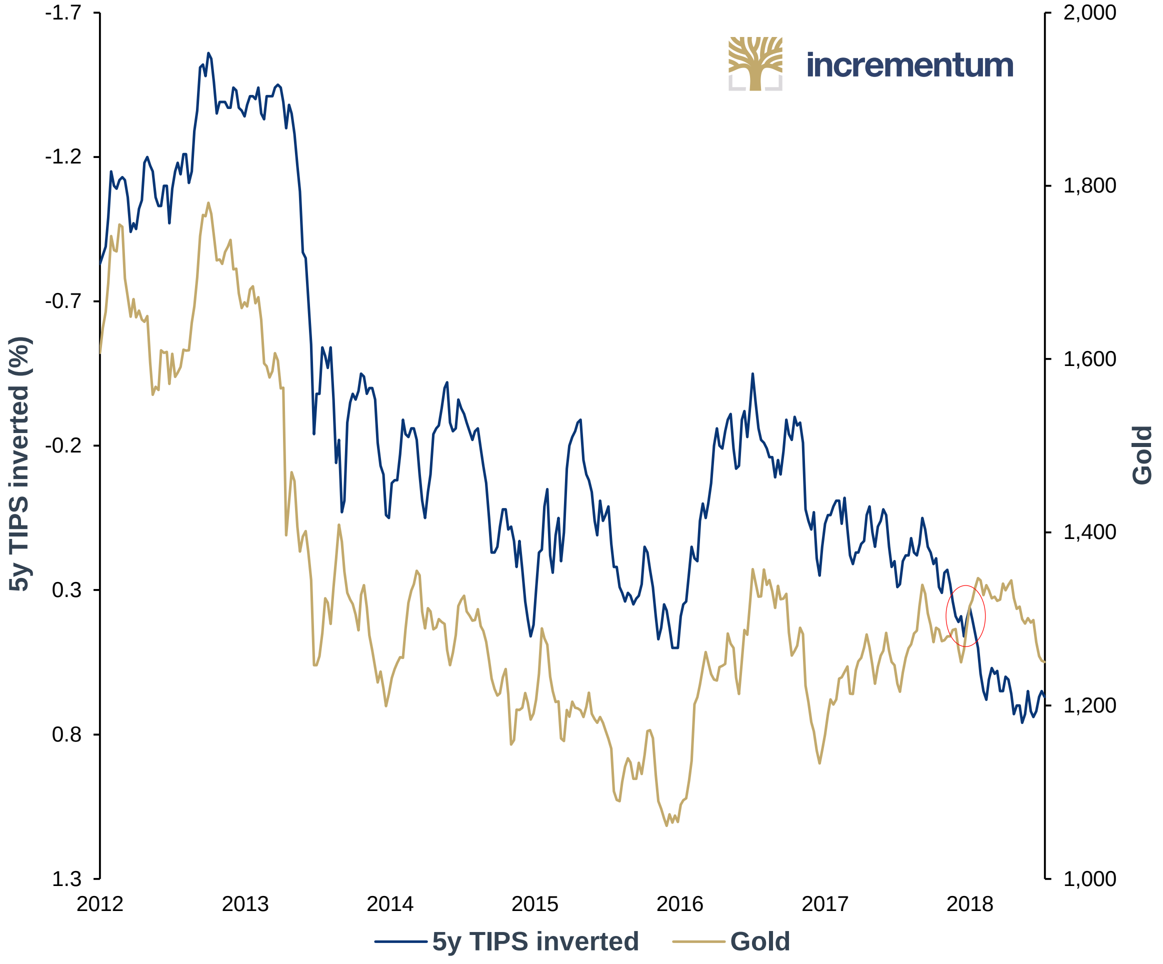
- The recent strength of the US dollar (that Donald Trump seems to be quite worried about) reminds us of the period 1974 to 1976. In our opinion, the similarities of the current development to that mid-cycle correction are striking.



Sources: Federal Reserve St. Louis, Incrementum AG

Gold vs. 5Y TIPS (Inverted)

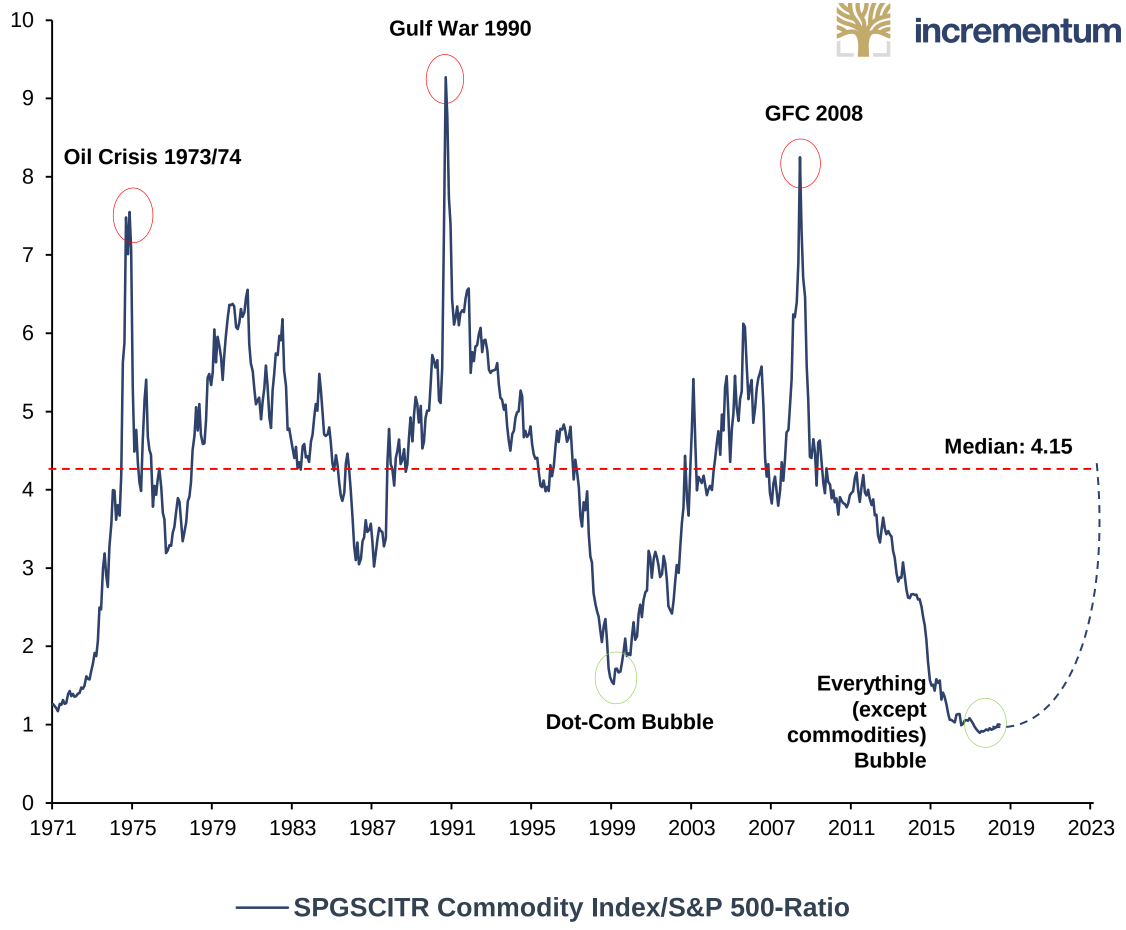
- The yields of inflation-protected bonds exhibit an extremely high correlation to gold.
- The comparison of the gold price with the real yield of 5Y inflation-protected US Treasury bonds (Treasury Inflation-Protected Securities: TIPS) shows that the outbreak of the gold price at the beginning of 2016 was accompanied by the pricing-in of rising inflation expectations.
- However, since the beginning of 2018 this correlation is clearly broken.



Sources: Federal Reserve St. Louis, Incrementum AG

Commodities vs. Stocks: Lowest Valuation Since 1971

- This chart was by far the most-quoted one in last year's Gold Report.
- It clearly illustrates the fact that the relative valuation of commodities in comparison with equities seems extremely low by historical standards. Compared to the S&P 500, the GSCI Commodity Index (TR) is trading at its lowest level since 1971.
- Moreover, the ratio trades significantly below its long-term median of 4.15.
- If we postulate the general tendency of reversion to the mean, we may anticipate attractive commodities investment opportunities.



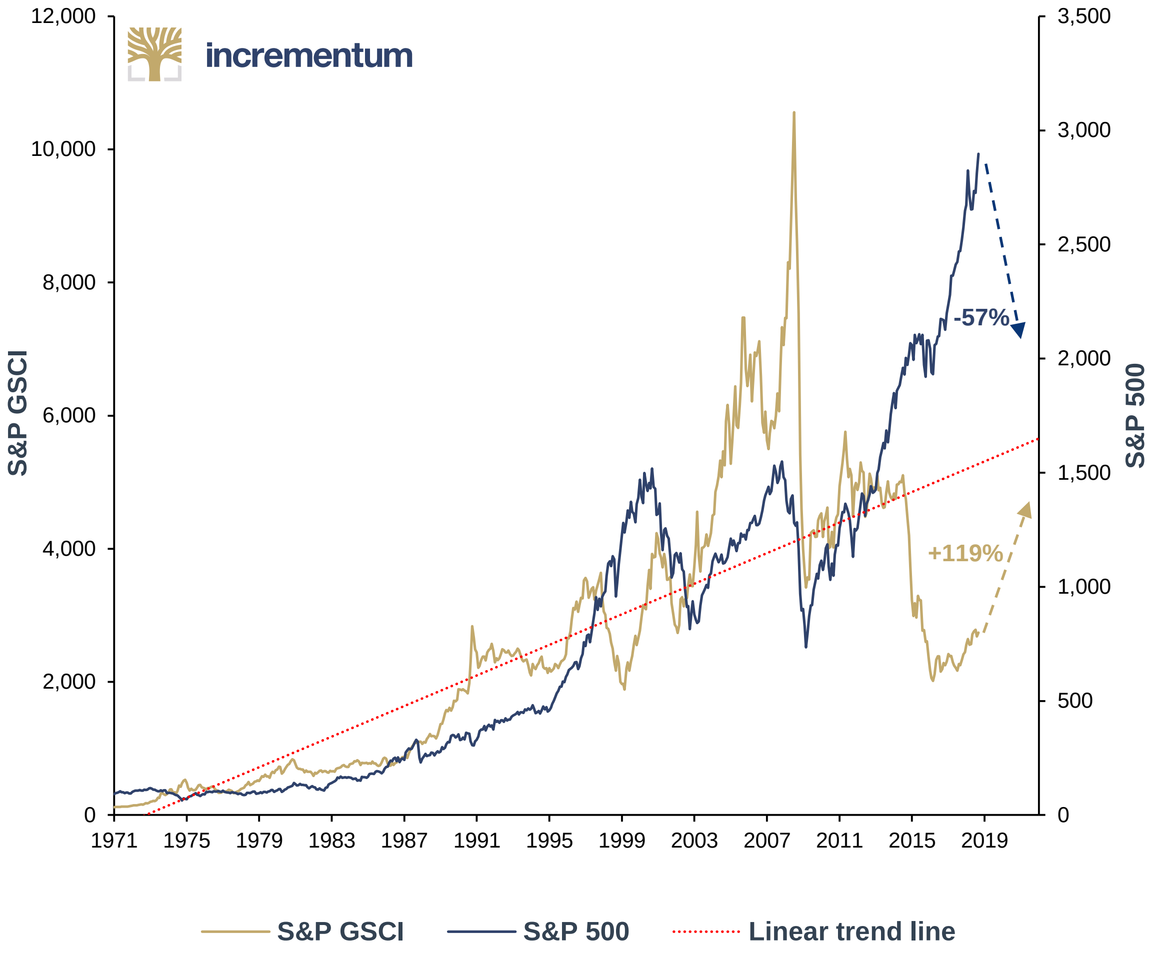
Sources: Professor Dr. Torsten Dennin, Lynkeus Capital, Incrementum AG

Relative Undervaluation of Commodities Compared to US Equities

- The following chart also highlights the (relative) undervaluation of commodities.

- It shows commodities in comparison to the S&P 500 and its long-term upward trend line. In order for the S&P to return to this trend line – which happens on average every six to eight years – the index would have to fall by 57%, while the GSCI would have to increase by 119% to return to trend.

- Indeed, that’s a scenario that seems implausible. However, a deeper look at history (and at this chart) should put things into perspective…



Sources: Professor Dr. Torsten Dennin, Lynkeus Capital, Bloomberg, Incrementum AG

And Finally…
Our Famous Gold/Oktoberfest Beer Ratio

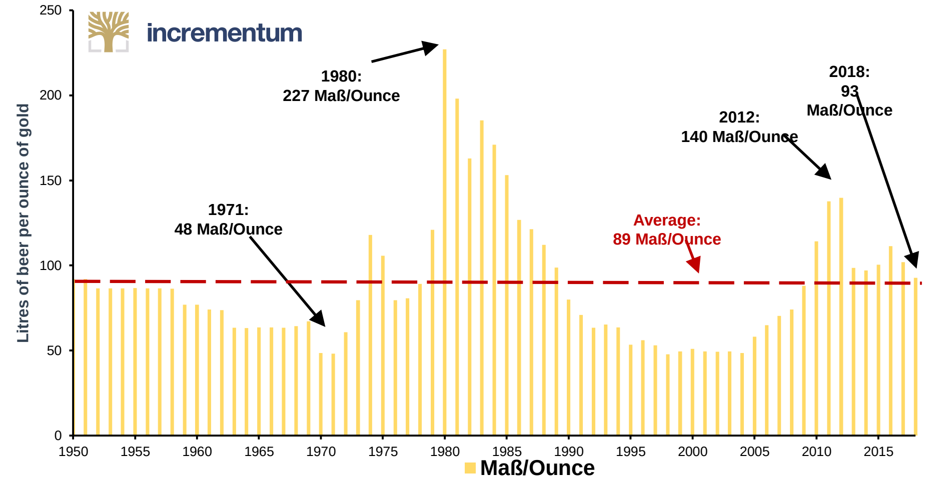
- The gold/Oktoberfest beer ratio expresses how many Maß of beer, can be bought with an ounce of gold.

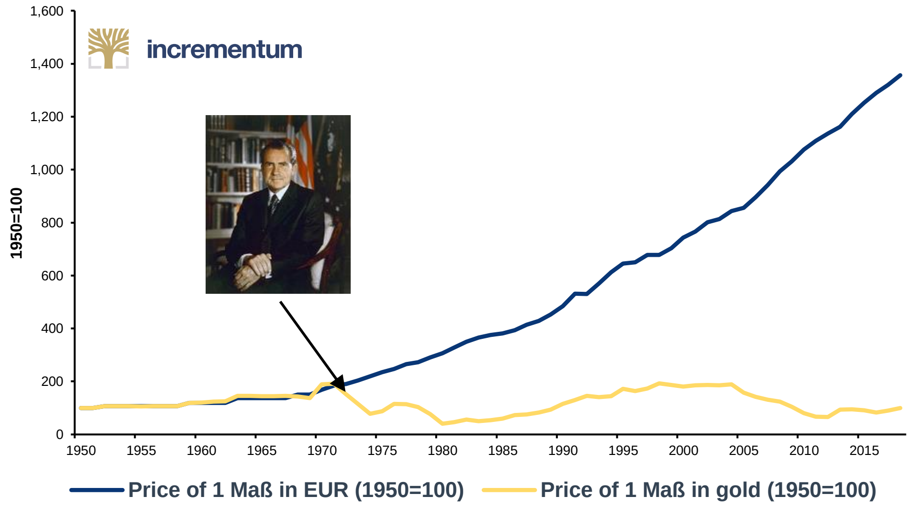
- The price of a Maß of beer has risen again this year, on average to 11.10 EUR. Whereas in 2017 one ounce of gold bought 102 Maß of beer, this year's equivalent is 93 Maß. Measured against the historical average of 89 Maß, the "beer purchasing power" of gold is slightly above the long-term average.

- **Since 1950 the inflation rate for Oktoberfest beer amounts to 3.9% per year.** The steady loss of purchasing power of the euro is clearly visible, while gold has not lost purchasing power in the past seven decades, despite some fluctuations.

- **The comparison with the gold/Oktoberfest beer ratio makes one thing certain: gold protects against paper money's ongoing loss of purchasing power!**

Have a look at the full publication of our 2018 gold/Oktoberfest ratio update.





Sources: www.HaaseEwert.de, Historical Archive Spaten-Löwenbräu, Incrementum AG

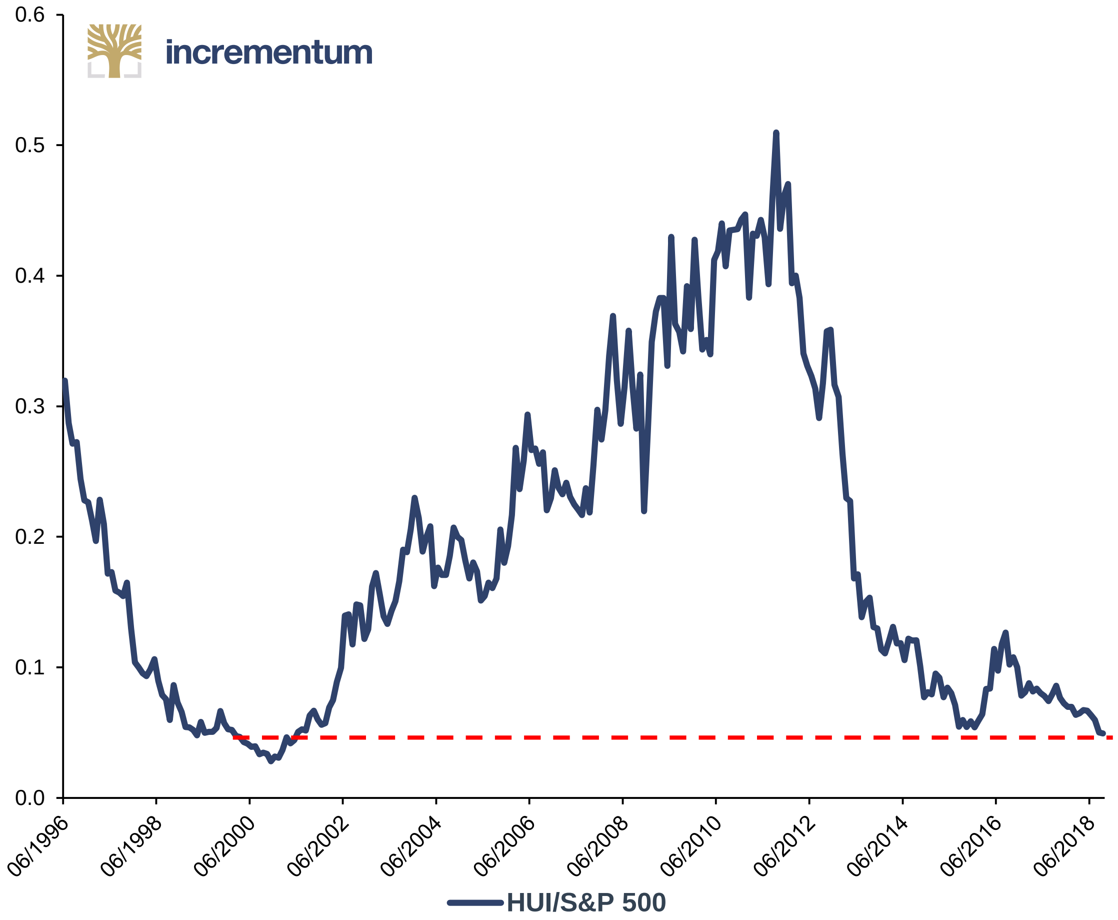
5. Gold Mining Stocks

“Right now, gold has been so boring and asleep that nobody cares. It´s the first time, even my schedule isn´t filled.”

David Harquail
CEO, Franco-Nevada

HUI/S&P 500 Ratio

- The HUI/SPX ratio currently stands at the same level like in 2001 and 12/2015 when the last bull markets in gold stocks started.
- The recent M&A dealflow (Barrick & Randgold) might have marked the bottom of the bear market.
- According to Sentimentrader, 11 out of 12 mining stocks that are traded on a United States exchange have hit a 52-week low. This has happened only a handful times in 25 years. Over the next two weeks, mining stocks rebounded 8 out of 10 times.
- **We are convinced that the recent capitulation selling offers a very skewed risk/reward-profile of the next couple of months.**

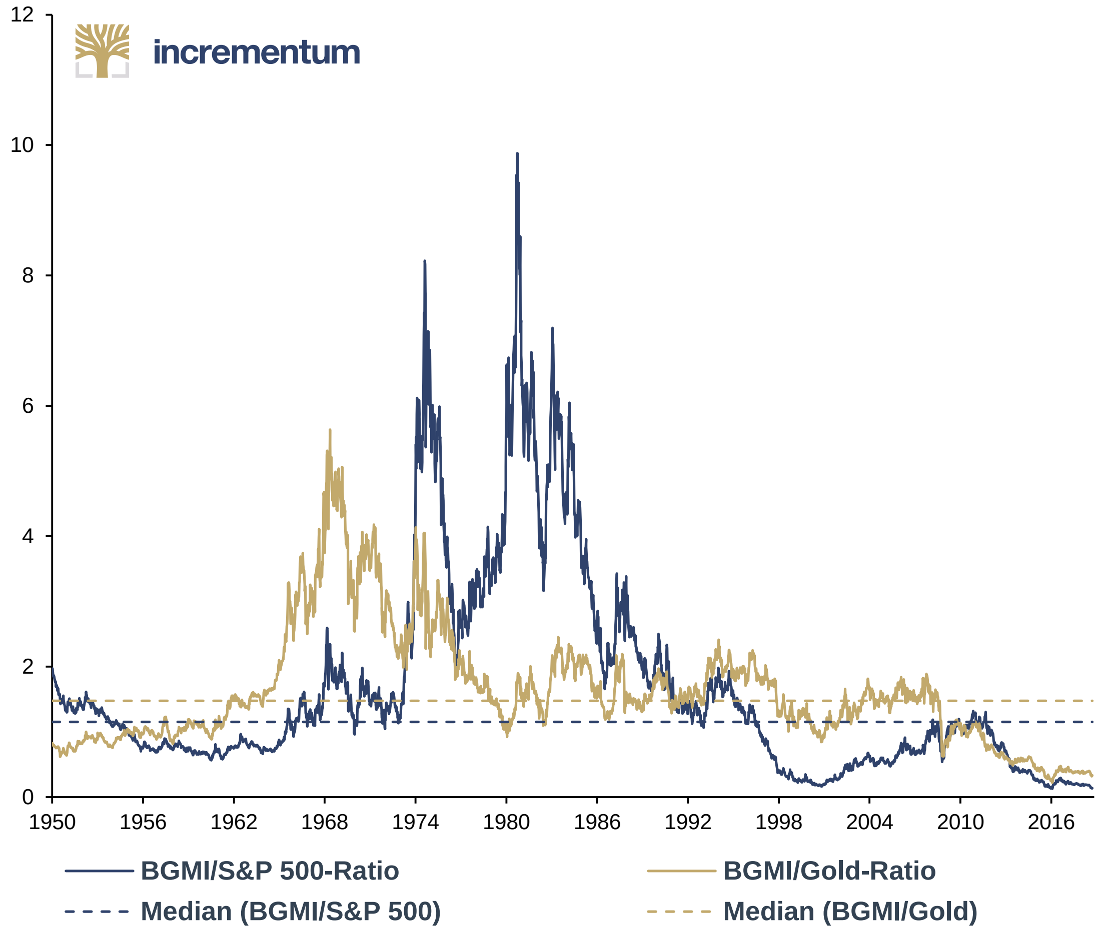


Sources: Bloomberg, Incrementum AG

BGMI/S&P 500 Ratio and BGMI/Gold Ratio

- The enormity of the gold mining sector's underperformance becomes particularly obvious in a long-term comparison. The oldest existing index of gold stocks, **the Barron's Gold Mining Index (BGMI), at present effectively trades at the lowest level relative to gold in 78 years.**

- Relative to the broad stock market, gold stocks also trade at an extremely favourable level, too. The last time this ratio stood at a comparably low level was in the early 2000s.



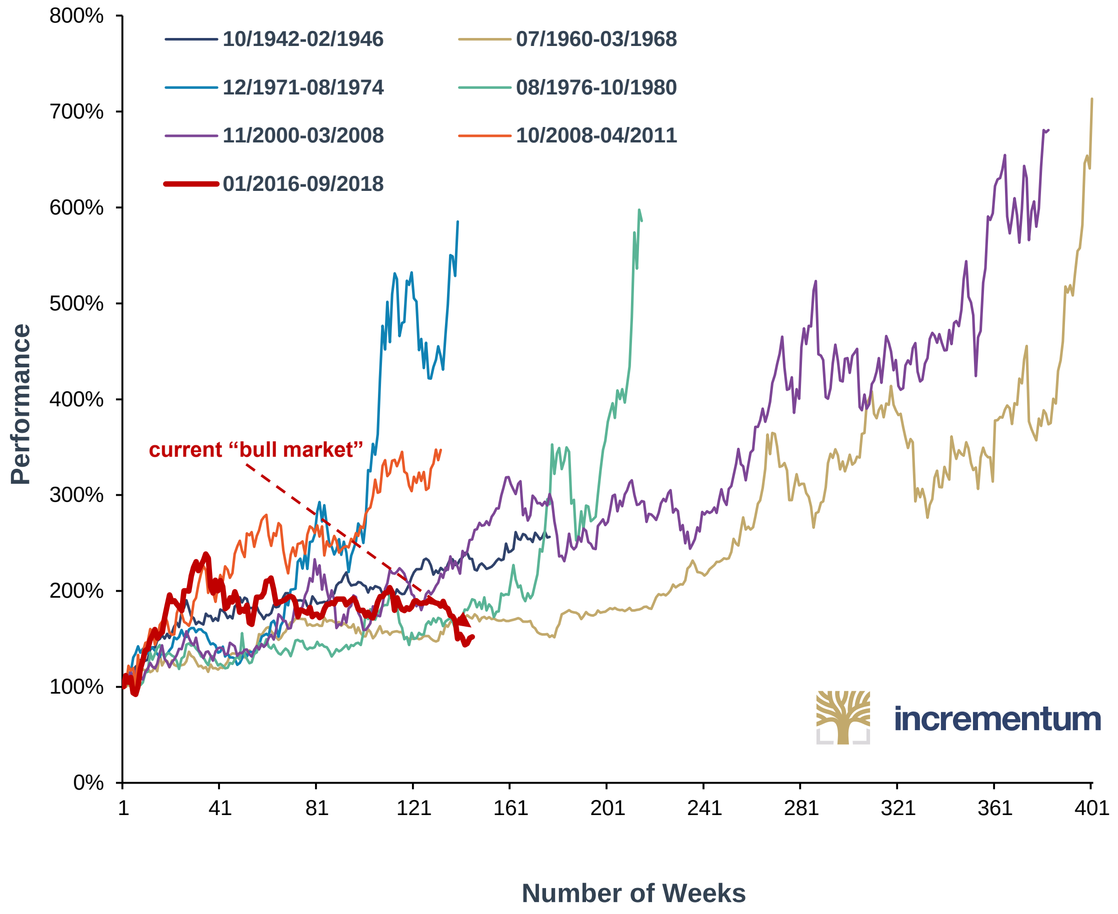
Sources: Federal Reserve St. Louis, Nowandfutures, Robert Shiller, Incrementum AG

Bull Markets Mining Shares: Duration and Performance Are Way Below Average

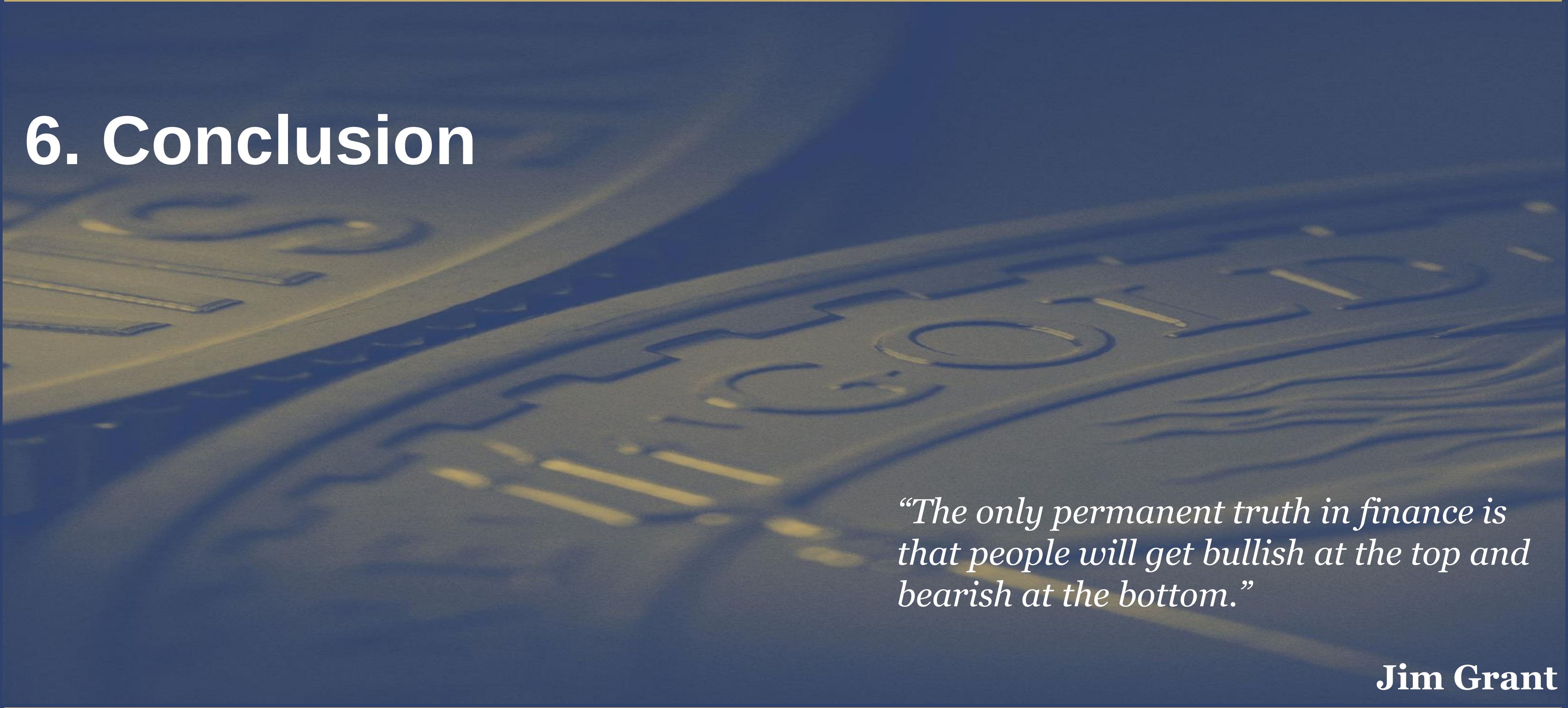
- The chart shows all bull markets in the Barron's Gold Mining Index (BGMI) since 1942.

- One can see that the current uptrend is still relatively short and weak compared to its predecessors. Should we actually be at the beginning of a pronounced uptrend in precious metals stocks – which we assume to be the case – there remains plenty of upside potential.

- Moreover, the chart shows that every bull market in the sector ended in a parabolic upward spike, which lasted nine months on average and resulted in prices doubling at a minimum.



Sources: Nowandfutures, TheDailyGold.com, Barrons, Incrementum AG



6. Conclusion

“The only permanent truth in finance is that people will get bullish at the top and bearish at the bottom.”

Jim Grant

Gold Performance during US Recessions

- **How does the gold price perform in recessions? Short answer: Very well!**

- On the one hand investors are looking for safe havens in times of crisis, and gold is the classical safe haven asset; on the other hand many investors will anticipate monetary and fiscal stimulus and buy gold for inflation protection.

- If the Fed fails in its normalization efforts and the US falls into recession – which is our favoured scenario – a severe loss of confidence in central bank-administered monetary policy seems likely to ensue. It is highly doubtful whether the current global monetary architecture will be able to withstand such a profound loss of confidence unscathed.

Decade	Gold Start (USD/oz)	Gold End (USD/oz)	Change (%)
11/1973 – 03/1975	100	178	78.0
01/1980 – 07/1980	512	614	20.0
07/1981 – 11/1982	422	436	3.3
07/1990 – 03/1991	352	356	1.0
03/2001 – 11/2001	266	275	3.5
12/2007 – 06/2009	783	930	18.8
Mean			20.8

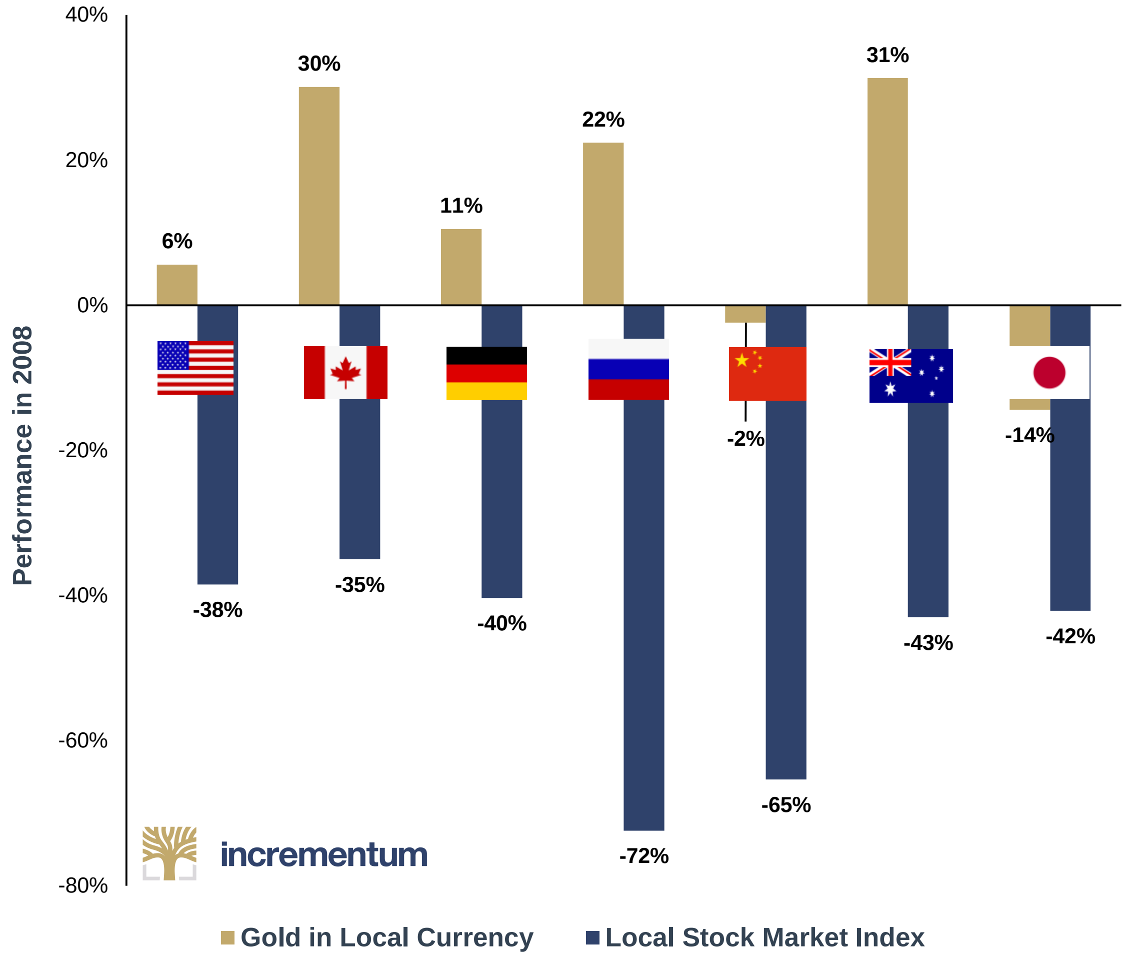
Sources: Deutsche Bank, Incrementum AG

Gold Proves To Be a Safe Haven in Equity Downturns

- Gold outperformed all major stock markets significantly in 2008 and has therefore done his job as portfolio stabilizer perfectly.

- The fact that gold is an excellent diversifier and a hedge in crisis situations is known not only to "gold bugs" but is also accepted by a number of heavyweights in the "mainstream" of the financial industry.

- **So what happens if both shares and bonds dive in a bear market?** What will be the safe haven, now that the traditional pattern of negative correlation has changed? Will it be cash, property, Bitcoin, or – yet again – gold? We are convinced that in a bear market environment, gold will be among the biggest beneficiaries.



Sources: BMG Bullion, Goldprice.org, Yahoo.Finance, Incrementum AG

Scenarios for the Gold Price

- Last year we established several scenarios for the gold price that were in tune with the momentum of GDP growth and the further development of US monetary policy.

- **The time horizon that we used was the term of office of the current US administration (2017-2021), by the end of which period the Fed expects monetary normalization to have been achieved.**

- The path of the gold price has so far moved in the range of scenario B.

- The crucial issue will be whether monetary normalization is successful and whether scenario B or C will prevail in the coming years. A recession is overdue; the changing of the tide in monetary policy could trigger one in the coming 6 to 24 months.

Term is characterized by	Growth	Monetary Normalisation	Gold price in USD
Scenario A: „Genuine Boom“	Real growth >3% p.a.	Successful; Real Interest Rates >1,5%	**700-1,000**
Scenario B: „Muddling Through”	Growth & inflation 1.5-3% p.a.	Not completed	**1,000-1,400**
Scenario C: „Inflationary Boom“	Growth & inflation >3% p.a.	Not completed	**1,400-2,300**
Scenario D: „Adverse Scenario“	Growth / Contraction <1.5%	Normalization paused or renewed easing	**1,800-5,000**

Source: Incrementum AG

Conclusion

- **While the US Economy is still humming, the problems in Emerging Markets unveil the fragility of the global economy.** High debt, a soaring dollar and rising interest rates could trigger a recession faster than expected. **Governments and central banks are out of bullets, both fiscal and monetary, to fight the next recession.**

- **For the first time in 20 years, gold has declined for 6 consecutive months**. According to Sentimentrader, every time it suffered such a losing streak, it rebounded at least 4% and on average 15%.

- **Mining stocks are in the beginning of a new bull market.** Creative destruction has taken place, leverage on rising gold price is higher than ever. The mega-merger between Barrick and Randgold might have marked the bottom.

- Gold and especially mining stocks have recently posted some of the most negative sentiment readings in 30 years. **We are convinced that the capitulation selling offers a very skewed risk/reward-profile of the next couple of months.** However, Gold has to hold the crucial USD 1,180 level.

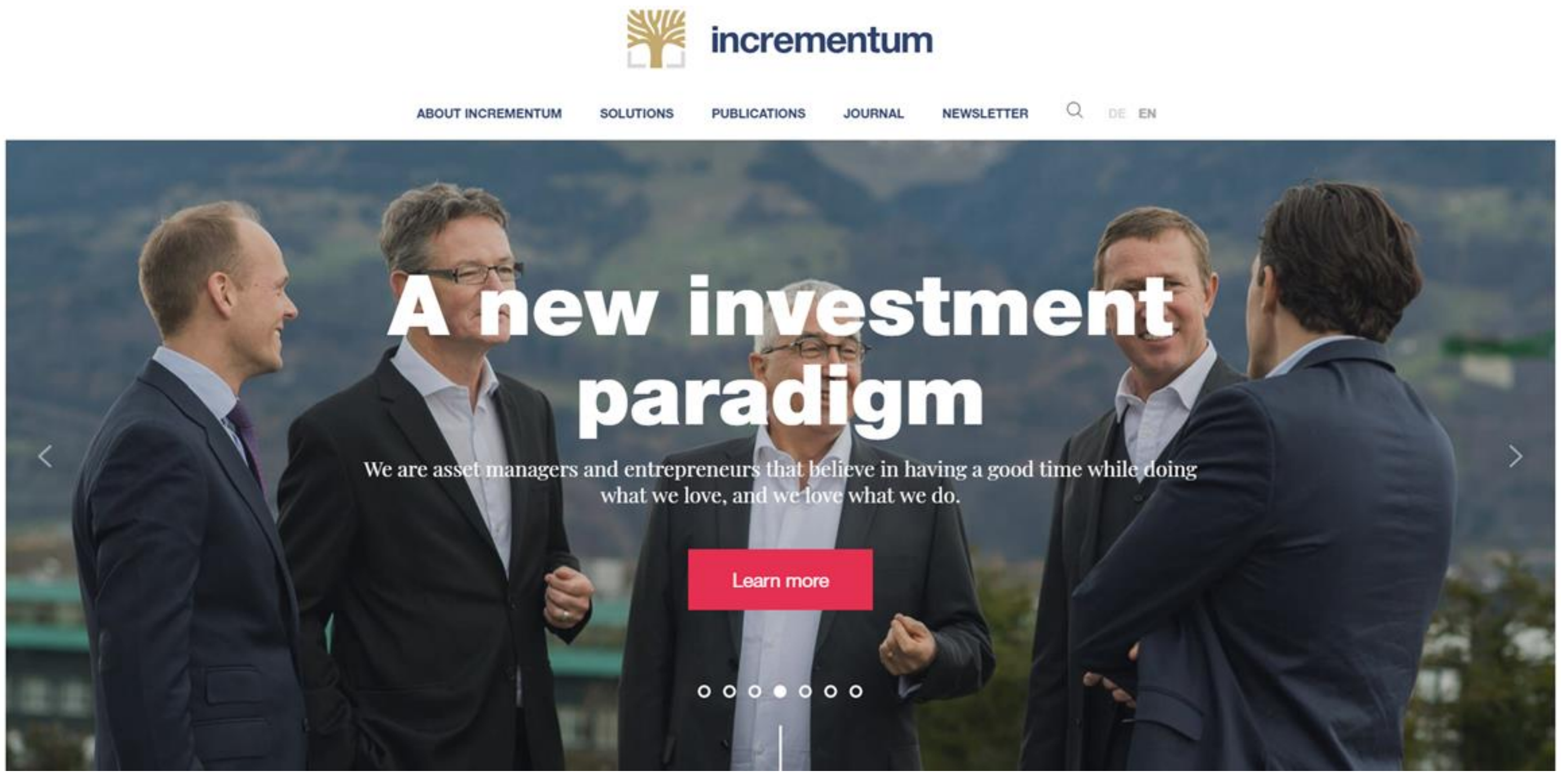
Addendum

Because we care…

About our Clients. About the Society. About the Future.

About Incrementum AG

Incrementum AG is an owner-managed and fully licensed asset manager & wealth manager based in the Principality of Liechtenstein.



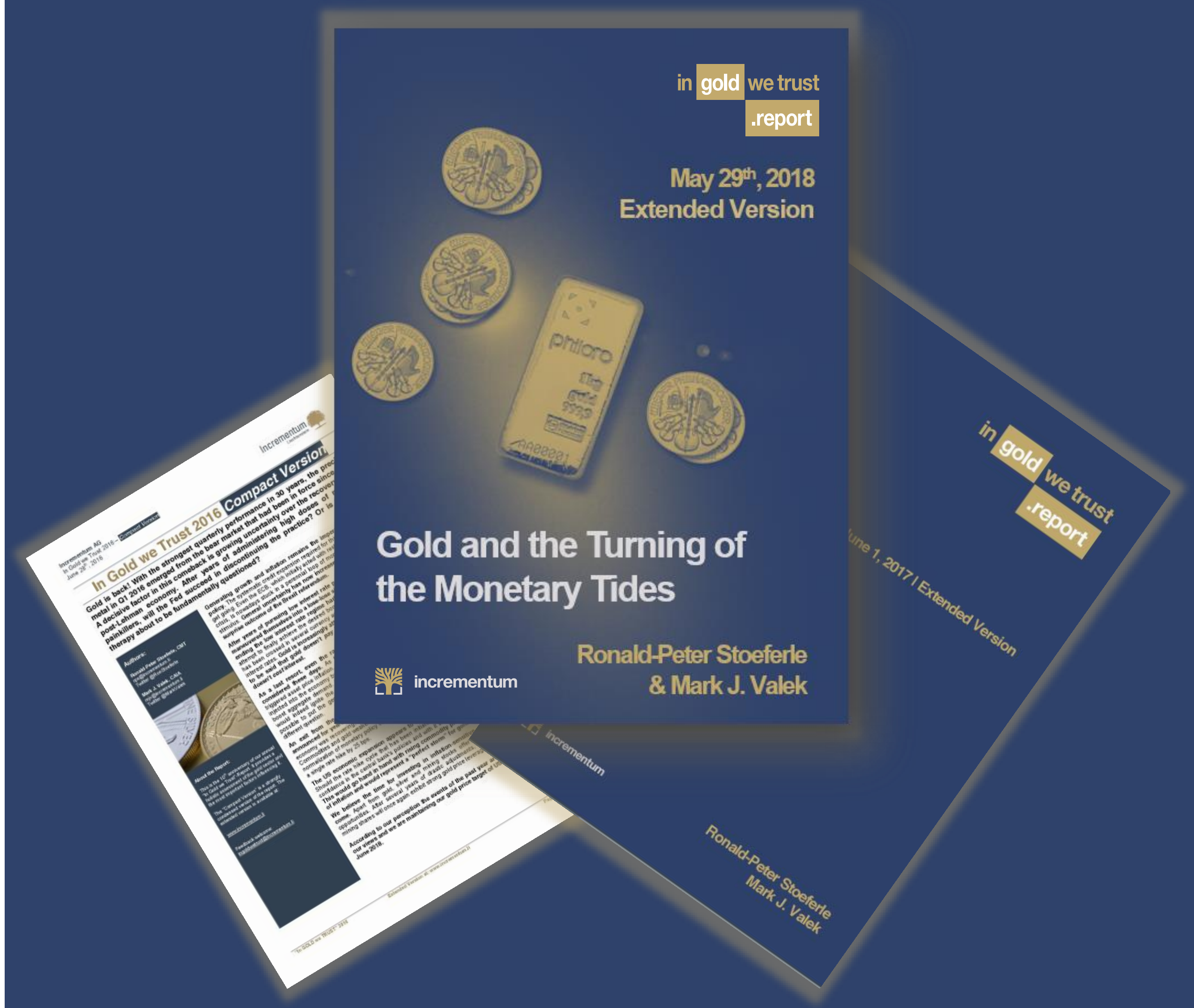
more information on www.incrementum.li

- Independence is the cornerstone of our philosophy. The four managing partners own 100% of the company.
- Our goal is to offer solid and innovative investment solutions that do justice to the opportunities and risks of today's prevalent complex and fragile environment.
- **Our core competencies are in the areas of:**
  - Wealth Management
  - Precious metal and commodity investments
  - Active inflation protection
  - Crypto and alternative currency exposure
  - Special Mandates

About „In Gold we Trust“

- *The gold standard of gold-research*: Extensive annual study of gold and gold-related capital market developments
- Reference work for everybody interested in gold and mining stocks
- International recognition – newspaper articles in more than 60 countries, almost 2 mn. Readers
- German and English versions, available in a Compact and Extended version
- Published for the 12th time in 2018
- Further information and previous editions can be found at:

  https://ingoldwetrust.report/?lang=en



About the Authors

Ronald-Peter Stoeferle, CMT

- Ronnie is managing partner of Incrementum AG and responsible for Research and Portfolio Management
- In 2007, he published his first "*In Gold we Trust*" report. Over the years, the study has become one of the benchmark publications on gold, money, and inflation.
- 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 a partner of Incrementum AG and responsible for Portfolio Management and Research.
- Prior to Incrementum, he was with Merrill Lynch and then for 10 years with Raiffeisen Capital Management, most recently as fund manager in the area of inflation protection.
- He gained entrepreneurial experience as co-founder of philoro Edelmetalle GmbH.

Testimonials

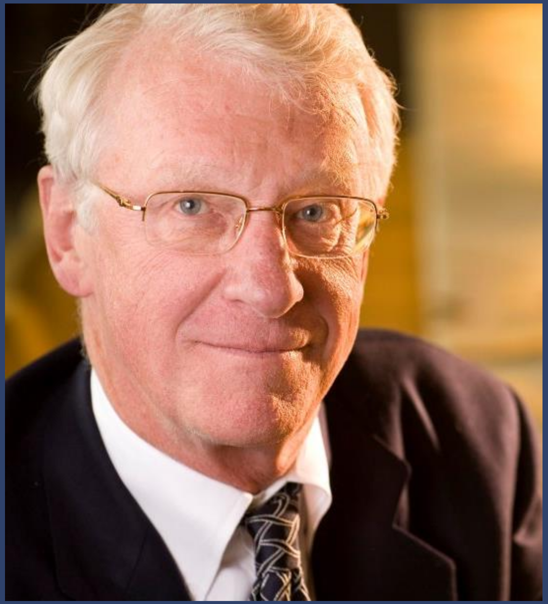
Marcus Grubb

Former CEO World Gold Council

*„**I think it is the most comprehensive report produced on the gold market** - to me it is like the Barclays Gilts Study in the UK - a must read to understand the medium-term market view and direction.“*

in gold we trust .report

Testimonials



John Hathaway

Chairman, Tocqueville Asset Management

„The annual 'In Gold we Trust' report is the most widely forwarded research piece in the gold scene."

Testimonials

James Turk

Founder GoldMoney.com

*„**Each report provides a thorough analysis of the gold market**, written by money managers who understand the principles of Mises, Rothbard and the other great thinkers of the Austrian school of economics.“*

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