Minutes of Advisory Board Meeting

Incrementum Inflation Diversifier

July 31st, 2019

The Complacency Bubble

Highlights of the conversation:

Special Guest – Simon Mikhailovich:

- I think the Fed has triggered hyperinflation, but it’s not in consumer goods.
- There is a bubble in complacency.
- China is not a friend of the U.S.; we are going in separate directions.
- The U.S. might have to enter an arms race during a time when they are already running trillion-dollar deficits.
- The pension crisis is coming. That is not a risk, it’s a certainty.
- The U.S.’s debt level is a national security issue.
- J.P. Morgan is suggesting their private banking clients should hold up to 5% in gold.
- I think ETFs will be the CDOs of the next crisis.

Jim Rickards:

- Indefinite stagnation is a big risk to the U.S. economy. We are stuck in a rut.
- The U.S. has already had its first lost decade.
- The U.S.’s debt to GDP is at 106%, the highest level since World War 2 and the only way out of the problem is inflation.
- Modern Monetary Theory is flawed because it ignores the “psychological boundary”.
- My intelligence out of China says there are riots and targeted assassinations of government officials.
- No president since Woodrow Wilson has exerted more power over the Federal Reserve than Trump.
- At a recent conference in Bretton Woods, ECB and Fed officials believed European rates need to become more negative, and that U.S. rates have to go lower.

Heinz Blasnik:

- Financial repression will increase in the next crisis.
- The divergences in the stock market are a warning sign.
- I think the recent move in gold is just the beginning, but there is some short-term downside risk because the net speculative long position is very large.

Ronald Stöferle:

- Christine Lagarde is going to be the new head of the ECB; many people think Draghi was a dove, but I think Lagarde will make him look like a hawk.
- European bureaucrats are now making it more difficult to buy physical gold.
- It was a big surprise to me that Judy Shelton got nominated to the Fed because she believes in a gold standard.
- European markets look weak.
- The gold/silver ratio is rolling over.
- $13 trillion worth of bonds are now trading at negative yields.

Biography of our Special Guest – Simon Mikhailovich

Simon Mikhailovich is a contrarian investor and entrepreneur. He grew up in Leningrad, USSR, and at 19 made it to the US as a stateless refugee with $100 and a suitcase. After graduating from Johns Hopkins University in 1983, Simon worked in the investment department of the USF&G Corporation until co-founding, in 1998, a successful investment firm focused on special opportunities in corporate credit, CDOs and credit derivatives. In 2014 Simon co-founded Tocqueville Bullion Reserve to offer a full service solution for holding physical gold without relying on the financial institutions and markets. Simon has been married for over 30 years, lives in NYC, and has two grown daughters. He is an avid student of history and a competitive sailor.

Transcript of the conversation:

Ronald Stöferle:

Gentlemen, welcome to this quarter's advisory board discussion. Our special guest today is Simon Mikhailovich, a dear friend of mine. Simon is a contrarian investor and entrepreneur. Simon, thanks for taking the time.

I'll start off by covering a bit of housekeeping. Last quarter we had Mark Burridge on the call. He is from Baker Steel, which Incrementum recently started working with. The title of that call was "Gold Equities – Finally Turning A Corner?", and I think we have been spot on. Mining equities since then are up more than 35%. And gold has held up well over the last few weeks, despite the dollar being very strong.

GDX 1-Year Share Price

Source: investing.com

We also published our "In Gold We Trust" report, which was a huge success. For the first time we published the report in Chinese. The main take away from the report was that once we went above the technical resistance level around $1,360-$1,380, momentum would kick in and investors who had been on the sidelines would start investing, which is what we are seeing now. Moreover, **our new book "The Zero Interest Rate Trap" will be published in English soon.**

In terms of the investment landscape, the macro regime is shifting; we are hearing increasingly dovish comments by central banks, while geopolitical and recession risks are increasing. Moreover, Christine Lagarde is going to be the new head of the ECB; many people think Draghi was a dove, but I think Lagarde will make him look like a hawk.

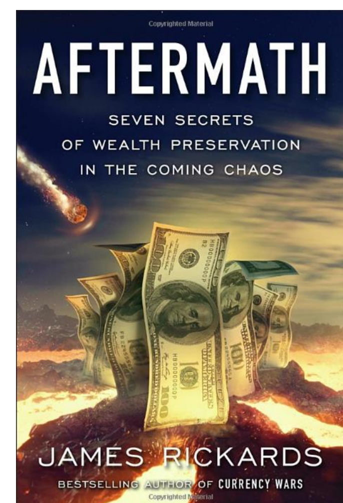
With that said let's start of the discussion. I'd like to call on Jim first. He was recently at Bretton Woods for a conference with, among others, Larry Summers, Benn Steil, Gillian Tett, and Stephanie Kelton, who is sort of the "Queen of MMT". Jim also recently published his new book "Aftermath", which is available on Amazon.

Jim, it would be great if you could give us some insights about your book, and also the Bretton Woods conference.

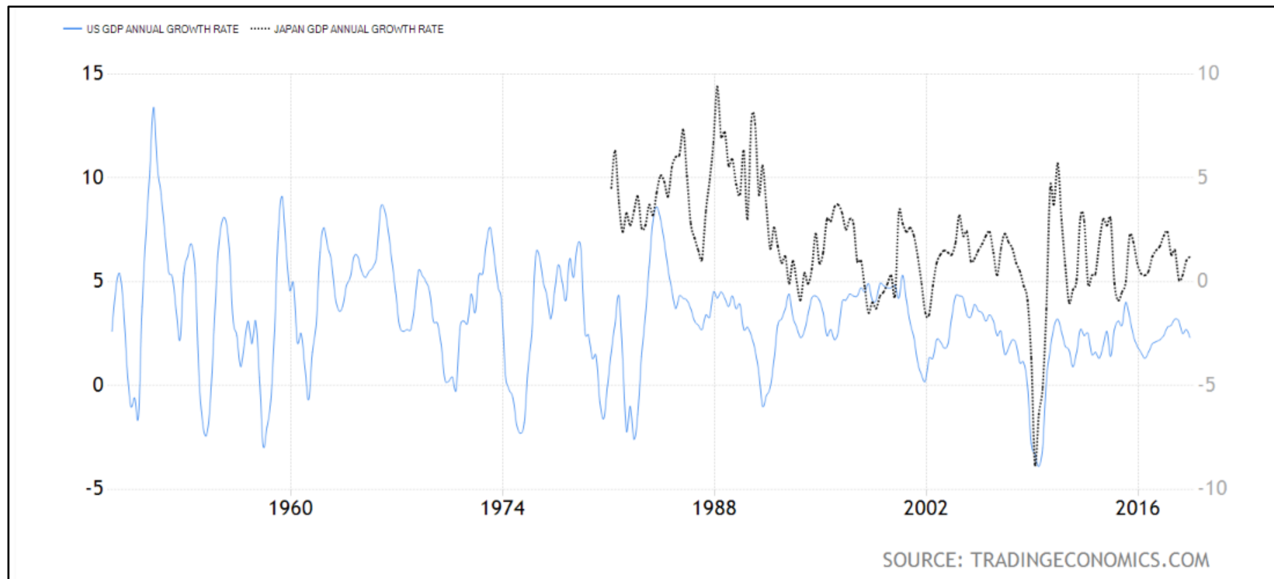
Jim Rickards:
Thanks Ronni.

This book is volume four of what I call the "international monetary quartet". The first book was Currency Wars, the second was Death of Money, the third was The Road to Ruin, and now the fourth and last one is Aftermath. I named the book Aftermath because it refers to the aftermath of the 2008 financial crisis, but I also talk about the aftermath that will follow the next crisis; I describe what it might look like.

This book talks about gold, but does not nearly focus as much on it as some of the other books. I wanted to cover different topics this time, such as the causes of stress in the financial system. **One traditional cause of stress is a financial crisis, but there is one other cause as well, that in some ways could be worse, and that is indefinite stagnation.** And that's the situation the U.S. is in today. To make the point I compare the U.S. to Japan; the U.S. is not getting near the 3%-4% growth that it has had historically, but we are not in a recession either. We are getting about 2.5% growth on average; **we are stuck in a rut.**



US GDP (blue line, left axis) vs Japan GDP (dotted line, right axis)

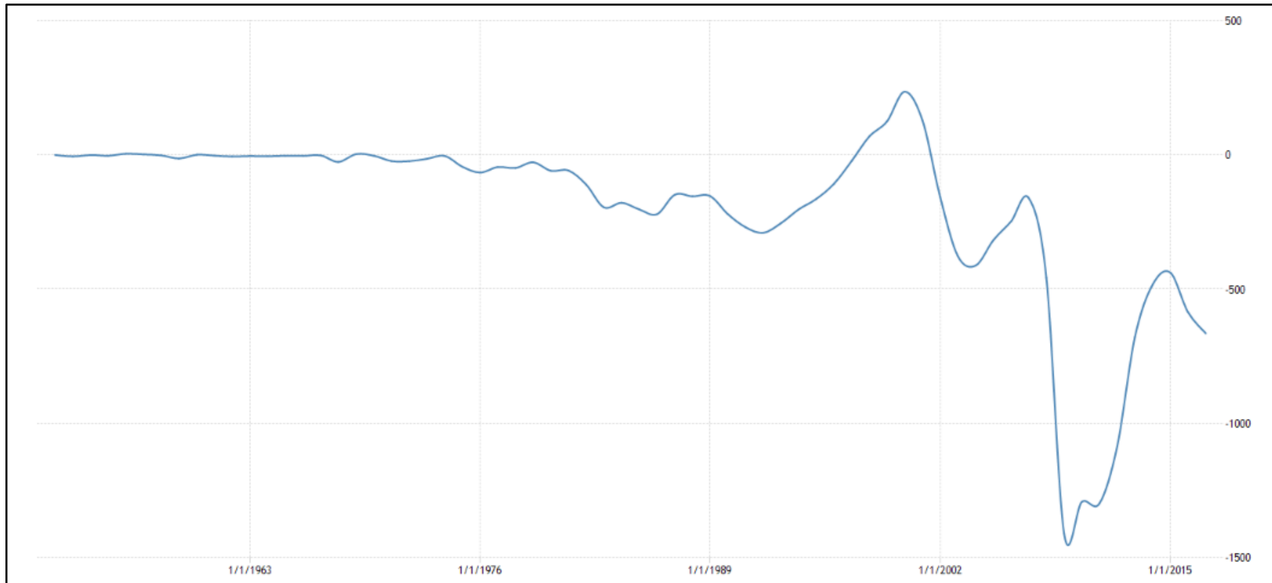


Source: Tradingeconomics.com

Since 1980 the average growth after every recovery has been 3.2%, but the average growth since June 2009 has been 2.2%. You might think that 1 percentage point of lost growth is not a big deal, but when you apply it to a $22 trillion economy, compounded over 10 years, the gap is about $5 trillion. Japan has had three lost decades; they have been in a rut since 1990. And the U.S. now has been in a rut since 2009, **we've already had our first lost decade.**

Meanwhile the U.S. debt is growing at 5%-6% of GDP, and that number is about to increase. Trump has brought back trillion-dollar deficits, something last seen in the early years of the Obama administration. We had trillion-dollar deficits in 2009, 2010, and 2011, but after that Obama got them down to more "manageable" levels of around $500 billion.

US Federal Government Budget Surplus/Deficit



Source: Tradingeconomics.com

Currently the real growth is 2.2%, and when we add inflation of 2%, we get nominal growth of 4.2%. However, the nominal debt is growing at 6% and higher, which means that **we are adding about two percentage points on the debt to GDP ratio per year.** The U.S.'s debt to GDP is already at 106%, which is the highest level since World War 2. And it will keep growing. Rogoff and Reinhart researched debt to GDP levels and found that a 90% debt to GDP was a critical threshold.

According to the standard Keynesian model, if you are coming out of recession you have a lot of unused capacity, high unemployment etc., and therefore government deficits are warranted because for every dollar of debt the government takes on, they will get more than a dollar back in growth. However, the problem today is that we are in the eleventh year of an expansion, but the government is still running huge deficits. At the stage the U.S. is currently in, each dollar borrowed actually generates less than a dollar in growth, so the debt to GDP ratio will keep increasing; the economy is getting into a deeper hole. It's impossible to borrow your way out of a slump. **There are only three ways to get out of this current situation:**

1. Economic growth
2. Default
3. Inflation

The two first options are not possible, and therefore the only way out is inflation. We don't have a lot of inflation right now; central banks are trying, but they can't get it. What do they have to do? They will have to try harder. We will remain in stagnation for a while, but inflation is the inevitable outcome, and therefore all the more reason to buy gold.

In my book I also talk about Modern Monetary Theory (MMT); it has a superficial appeal because under this model there is no limit on how much the government can spend. And the Fed can monetize that debt by putting it on its balance sheet, waiting for 30 years, and collecting the debt at maturity. MMT proponents use Ben Bernanke as evidence that this approach works; he printed almost $4 trillion dollars to prop up banks and pay Jamie Diamond's bonus. There was no collapse, there was no loss of confidence in the dollar**. But this thinking is flawed, because it ignores one issue: a psychological boundary.** There comes a time when people realize that what's happening is crazy, they will want to get out of the dollar and buy anything tangible, like cars, silver, gold, natural resources etc.

And then lastly, you wanted me to talk about the Bretton Woods conference I attended. I was up there at the Mount Washington hotel, which was the site of the original Bretton Woods conference in 1944. We were there to discuss the future of the international monetary system, and there was actually a lot of talk about crypto currencies.

One notable point is that I asked Larry Summers why China and Russia have more than tripled their gold reserves over the last 10 years. He said they were probably doing it for diversification, **and then he also said they might think the price is going up. It really surprised me that he said that.** Personally, I think China and Russia are building a new international monetary system based on a permissioned distributed ledger with their own trading network.

All in all, it was an interesting conference, there were a lot of younger up-and-comers focused on the crypto space, which I liked because it's good to interact with a younger crowd.

I'll leave it at that for now, but let me know if you have any questions.

Ronald Stöferle:

Thank you, Jim. Simon, would you like to jump in?

Simon Mikhailovich:

Sure. First, I'd like to comment on what Jim mentioned about Japan. We might be on the Japanese path, but I don't think the U.S. can be compared to Japan as a country, not for financial reasons, but for other reasons. Japan is a homogenous society; very law abiding and compliant, and they are very respectful to their elders. It is also a nation of savers and exporters. And therefore, whilst they are having all these issues, they are not quite as politically and socially set up as the United States. I therefore don't think the U.S. will go on for 30 years the way Japan has.

The other thing I wanted to mention is Ben Bernanke and the question of why inflation has not been triggered. **I actually think the Fed has triggered hyperinflation, but it's not in consumer goods.** It's in asset prices and luxury goods. If a company's share price increases without an underlying increase in its profits, we call it multiple expansion, but in reality, it's inflation. With QE, central bankers put vast sums of money into the hands of financial investors, who in turn went and bought financial assets and luxury goods driving up the prices.

S&P 500 vs. Consumer Price Index

Source: Tradingeconomics.com

I just wanted to mention those two things first, but the main thing I wanted to talk about is complacency. I speak to quite a few institutional investors and what I see is that complacency in financial markets is pervasive**. I also think that since imbalances in the financial markets have so far not been allowed to "clear," we instead see the pressures being released in other arenas, such as political, geopolitical, and social.** In the end, if the financial markets don't "clear" the imbalances that have been taking place, then they are likely to clear in other areas. For example, I think the outcome of the 2016 election was a result of the pressures of inequality building up; it was a result of the skewed distribution of the spoils of the asset price inflation. Similarly, we see rising populism and nationalism in Europe; for example, there might be a hard Brexit in the UK, which few could have imagined being a possibility.

From a geopolitical perspective, **China is not a friend of the U.S.**, China is a rising superpower, while the U.S. is the incumbent. There may or may not be a trade deal, but strategically I think **the two countries are going in separate directions**. I don't think China will accept the U.S. hegemony. And if China is not a strategic friend, then how can we keep manufacturing our defense

components in China? In fact, the Huawei incident where the CFO got arrested was a shot across the bow to China. I think that a de-globalization of the high-tech supply chain has probably started. It may have positive implications for some manufacturers in the U.S., but globally it has negative implications because of the disruptions and costs involved with separating the supply chains.

Moreover, Russia has announced that it has developed hypersonic weapons, for which the United States has no countermeasures at the moment. **And therefore, the U.S. might have to enter an arms race during a time where they are running trillion-dollar deficits**, which is dangerous

And then we have **the pension crisis coming. That is not a risk, it's a certainty.** In 5-10 years, every baby boomer will be 65 or older, and the vast majority of them will be collecting full benefits. The social security system went slightly cash flow negative last year, but the trend will expand dramatically. The social security system has been a structural buyer of treasuries for decades, but will now turn into a structural seller. As an aside, to Jim's point about Modern Monetary Theory, the proponents would not care about any of this, because they believe they can monetize all the spending without any limitations. Good luck with that.

And finally, John Bolton, who is the national security advisor to the U.S. President, said that **the U.S.'s debt level is a national security issue.** And he is right because the ability of the United States to maintain its global hegemony relies on its ability to fund its military and on the status of the U.S. dollar as the reserve currency. In 2008 the crisis was handled as a financial emergency, while the next crisis might be handled as a national security emergency. And in such a scenario, the International Economics Emergency Powers Act (IEEPA) grants the president virtually dictatorial powers to impose capital controls; **essentially Financial Martial law.**

The reason I am recounting all these risk factors is because I see that there is a high level of complacency among investors with regards to these risks**. It's like there is a bubble in complacency.** Investors know about all these problems, but they don't seem to care that much. **The institutional investors I talk to are not paid to think about these risks**, they are paid to produce short term outperformance, or at least performance close to their benchmark. I think gold currently is set up to act like insurance because it offers an asymmetric payout. But despite the recent price move, there is not a lot of interest from investors. I don't know if you saw it, but the other day on Zerohedge there was an article that referred to a research piece by J.P. Morgan Private Bank expressing concerns over the reserve status of the U.S. dollar. And it shows that

J.P.'s private bank clients hold virtually zero gold, but the bank is now suggesting that they hold up to 5%. If institutional investors move into gold on that scale, it would be momentous.

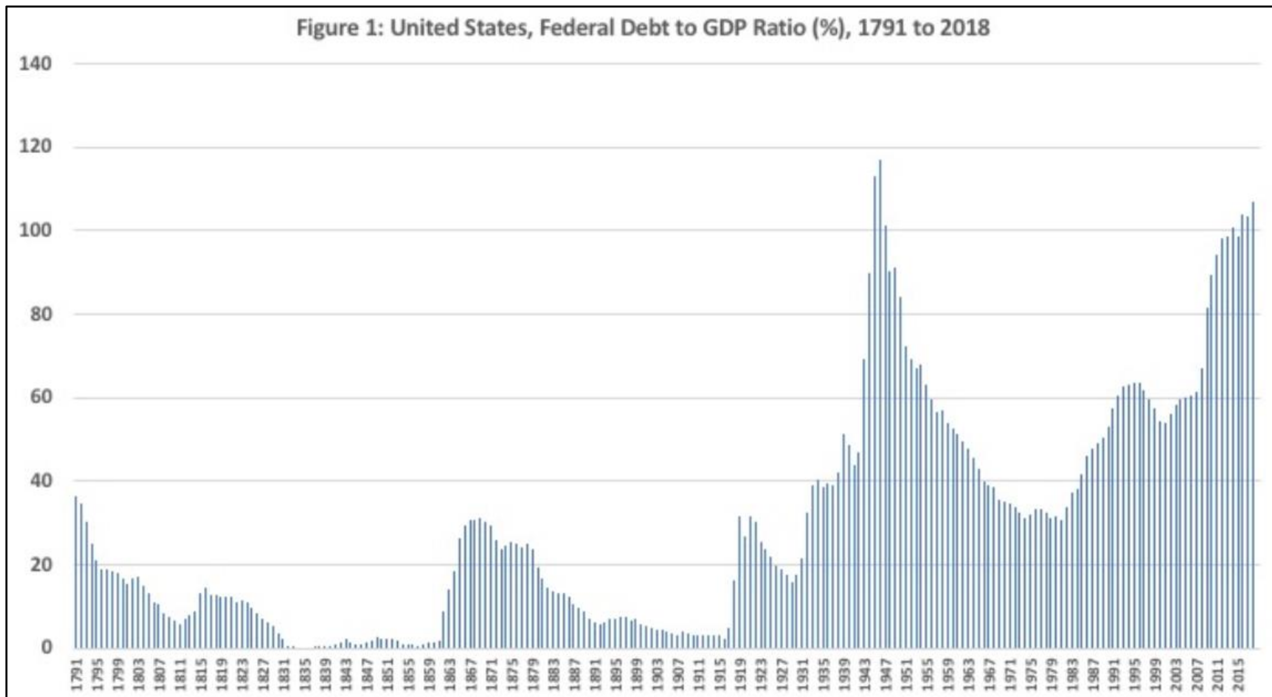
Jim Rickards:

To Simon's point about Japan; I think that Japan is the best model to understanding where the United States is right now in terms of growth dynamics, but I completely agree with Simon that we will not end up in the same place. People mention that Japan's debt to GDP is double that of the U.S., and therefore believe the U.S. can double its debt. Japan can do it for a lot of reasons that Simon mentioned, but the endgame for the U.S. will be completely different.

And Simon's point about how disruptive it is to move the supply chain out of China is spot on. It's happening as we speak, it's not hypothetical. And once you move a supply chain (e.g. to Vietnam) you don't move it back, even if there's a happy ending to the trade war (which I don't think there will be). China will therefore experience permanent losses to their economy, which is a very big deal. **Some of the intelligence I am getting out of China is that there are riots and targeted assassinations of government officials**; things are happening on the city level and provincial level that doesn't get widely reported.

Another point that Simon mentioned is: if you expand the debt of the U.S., like the MMT proponents want, do you lose your capacity to use debt for other reasons, such as war? And the answer is yes. Historically, the debt in the U.S. went up, and down, and up, and down etc. like a wave. Why did it act like this? Because of war. Debt goes up in times of war, and down in times of peace. And that was true from 1789 until 2000. But after that it just started going straight up. Obama and Trump have not had any new wars, and they had an opportunity to bring the debt-to-GDP ratio down, but instead they doubled it, and continue to increase it.

US Debt to GDP Ratio



Source: worthwhile.typepad.com

And lastly, on the point of complacency, there definitely is a lot of it going around. And there is a reason for it – the Fed put. The Fed has alleviated every crisis in the last 30 years, which makes investors feel that the Fed always has their back. And it's a huge risk.

Ronald Stöferle:
Terrific points, many thanks! Heinz, what are your thoughts?

Heinz Blasnik:
It is true that there are a lot of financial and political risks, and complacency is definitely also a problem.

We have to keep in mind that the measures taken by central banks to bail out markets (money printing and zero interest rates) are simultaneously weakening the real economy. And in my opinion, there is no doubt that these risks will manifest one day. **And when the next crisis comes the monetary and/or fiscal authorities will increase financial repression in one form or another.** That is why I believe it is important to own gold, because it offers a way to counteract

these risks as one can keep it outside of the system. One could argue that cryptocurrencies are also a viable alternative, but the downside is that they are tied to the system through the internet.

Ronald Stöferle:

With regards to gold, **bureaucrats are now making it more difficult to buy physical gold.** They will introduce a limit of EUR 2,000 physical limit in Europe, which is another sign of financial repression. So even if gold is outside the system, the bureaucrats are still trying to control it somewhat.

Moving on to another topic, I would love to hear your thoughts on Judy Shelton. We had a great interview with her in a previous In Gold We Trust report. It's interesting that she is nominated to the Fed by Trump. There was an interview with her where she said it's premature to talk about international agreements or linking to gold. She said that returning to an authentic gold standard in which dollars are redeemable for gold would not be feasible at the moment, but that it might be worth incorporating some gold or silver link to future debt instruments to add intrinsic value.

She wrote a brilliant book called Money Meltdown in 1994 and for me **it was a big surprise that she got nominated to the Fed**; I wonder how that fits together with the extreme pressure that Trump is putting on the Fed to aggressively lower interest rates. She is more in our camp when it comes to monetary policy.

Jim Rickards:

Judy is very smart, and she won't be walking in to the traps that her enemies are setting for her. Gold bugs think that we will have a gold standard just because she is on the Federal Reserve board. That is of course nonsense. We might have one someday, but not because she is there. But her presence on the board has an impact.

It's important to remember that there are only seven members on the Board of Governors. The regional reserve bank presidents don't actually count. They get to show up and vote, but it doesn't actually matter. High level Fed insiders told me this. The votes from the seven governors are the ones that count. They try to reach consensus; one or two dissents is ok, but if there is three, alarm bells start to go off. But Trump will end up appointing five of the seven governors, and he has

already promoted Powell to Chairman. **No president since Woodrow Wilson (when he got to appoint everybody) has exerted more power over the Federal Reserve than Donald Trump.**

This is a very big deal. And Judy Shelton will be a voice for thinking about commodity prices, inflation etc. I think she will go on the board in October.

Ronald Stöferle:
Let's talk about markets. The U.S. stock market is more or less the only market that is currently trading at all-time highs. **And we are seeing divergences under the surface; small caps, the Dow Jones Transports, they don't confirm the new highs.** Moreover, it seems that we have clearly entered an earnings recession with profits now falling three quarters in a row. Additionally we are losing momentum: the January 2018 high had the most momentum, the September 2018 high had the next best momentum, the early May 2019 high, the next best momentum.

And European markets look pretty weak. We are also seeing the gold/silver ratio rolling over, with strength coming from silver. And $15 trillion worth of bonds are now trading at negative yields.

Negative Bond Yield Matrix

@CharlieBilello	The Negative Bond Yield Matrix													
Country	1-Year	2-Year	3-Year	4-Year	5-Year	6-Year	7-Year	8-Year	9-Year	10-Year	15-Year	20-Year	30-Year	50-Year
Switzerland	-0.71	-1.04	-1.05	-1.05	-1.03	-0.98	-0.92	-0.89	-0.95	-0.87	-0.61	-0.49	-0.31	-0.19
Germany	-0.73	-0.81	-0.84	-0.82	-0.78	-0.75	-0.71	-0.66	-0.63	-0.52	-0.36	-0.22	-0.02	
Netherlands		-0.78	-0.79	-0.78	-0.71	-0.64	-0.59	-0.52	-0.48	-0.40	-0.26	-0.16	-0.01	
Denmark		-0.83	-0.78		-0.73			-0.62		-0.48		-0.26		
Japan	-0.19	-0.21	-0.24	-0.26	-0.27	-0.28	-0.28	-0.26	-0.22	-0.19	0.00	0.15	0.29	
Austria	-0.61	-0.75	-0.69	-0.69	-0.61	-0.56	-0.48	-0.44	-0.38	-0.29	-0.03	0.10	0.34	0.49
Finland		-0.73	-0.72	-0.70	-0.65	-0.60		-0.40		-0.26	-0.05		0.21	
Sweden		-0.62			-0.64		-0.45			-0.22	-0.05	0.23		
France	-0.62	-0.71	-0.75	-0.72	-0.64	-0.57	-0.49	-0.41	-0.33	-0.24	-0.07	0.29	0.62	0.81
Belgium	-0.63	-0.63	-0.73	-0.70	-0.64	-0.56	-0.42	-0.34	-0.30	-0.18	-0.05	0.32		
Slovakia	-0.39				-0.36	-0.63		-0.17	-0.08	-0.13			0.69	1.01
Ireland	-0.56		-0.52	-0.50	-0.43	-0.33	-0.24		-0.09	-0.01	0.36	0.55	0.91	
Slovenia	-0.07	-0.30	-0.51		-0.35		-0.24	-0.17		-0.03		0.70		
Spain	-0.49	-0.50	-0.48	-0.40	-0.26	-0.20	-0.08	-0.02	0.09	0.24	0.66	0.67	1.14	
Portugal	-0.40	-0.54	-0.38	-0.29	-0.23	-0.09	-0.02	0.08	0.19	0.28	0.66	0.84	1.18	
Malta	-0.29		-0.25		-0.25					0.30		0.91		
Cyprus	-0.07		-0.04		0.08		0.28			0.50				
Italy	-0.15	-0.04	0.33	0.57	0.85	0.99	1.11	1.26	1.30	1.54	2.06	2.24	2.59	2.80
Bulgaria	-0.20		0.30		0.18		0.37			0.45				
United States	1.76	1.60	1.56		1.56		1.65			1.76			2.31	

Source: Acting-man.com

Moreover, Deutsche Bank published a piece on stress liquidity; they said the buy side significantly outweighs the sell side, which comes at a time when BBB represents 60% of investment grade, and 300% of high yield. The conclusion was that liquidity remains an illusion and that the only real test is when there is a crash and the market is indefinitely halted.

What are your views on the current state of financial markets, and what are you following closely these days?

Heinz Blasnik:
There are indeed a lot of divergences in the stock market, and they act as warning signs. And the bond markets are very distorted as well. It wouldn't surprise me if a correction starts soon.

The distorted stock and bond markets are a result of central banks suppressing interest rates and printing money. And the more extreme it gets, the more dangerous it gets. And we are seeing a lot of nonchalance about the situation.

I think this is one of the reasons why gold is going up. Real interest rates have started declining, which is the main driver. But even before that we saw the gold price going up, despite a stronger dollar. That is something that usually happens early in new gold bull markets, **so I think that gold is just starting to move.** And the reason why gold has held up so well in the face of a strong USD and even before the recent decline in real interest rates (TIPS yields are my preferred tool of gauging the state of real rates, as they embody expectations of future CPI) is that 1. some market participants have indeed decided to buy gold as systemic risk insurance while it is still relatively easy to do so and 2. reservation demand has increased a great deal, i.e., current gold holders are extremely reluctant to sell at current prices for the very same reason, namely they want insurance against systemic risk, be it of a financial or political nature (of course these risks go hand in hand).

However, there is some short-term downside risk, because the net speculative long position in gold futures is very large, it is almost at 300,000 contracts (net).

In terms of the bond market we have to distinguish between government bonds and corporate bonds. All these bonds are overvalued, but if there were to be a sharp stock market correction corporate bonds would probably fall, but government bonds should hold up well.

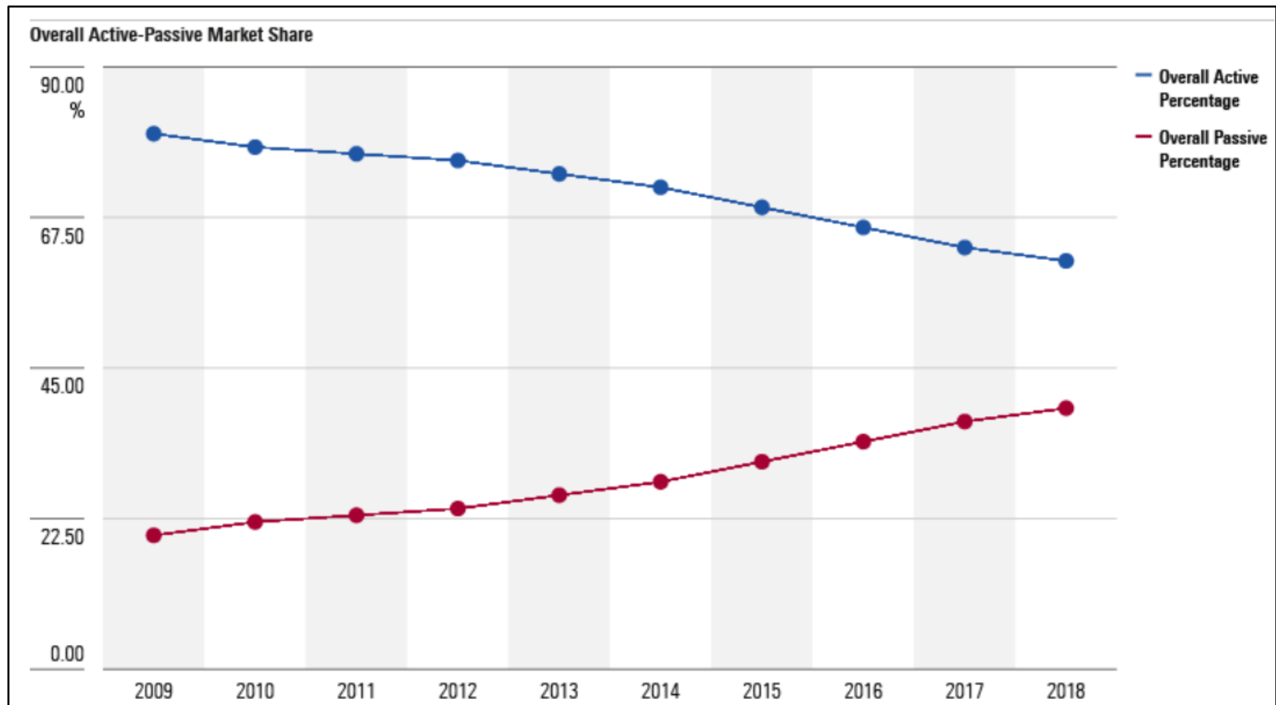
I also think we will see a lot of volatility this year. And I expect the next correction to be bigger than the last one. We could easily see an initial decline in the stock market of 25%-30%, which could be exacerbated by systematic trading strategies. And if gold were to correct back to the breakout level of $1,360, one should use that as an opportunity to buy with both hands.

Simon Mikhailovich:
I have a couple of comments.

During the last cycle, my firm specialized in CDOs and we saw that there was a structural issue around how the financial system had re-organized itself to provide credit from the shadow banking system. Currently, I think there is a big shift in the structure of the equity and fixed income markets, which is due to the rise of ETFs, which, in a way, are modern CDOs. An ETF is a vehicle that has a duration mismatch between assets and liabilities. Take the S&P 500 ETF for example; it is said to provide a smooth replication of the S&P 500 index, but if they have to liquidate the underlying positions, not all 500 stocks in the S&P 500 are equally liquid. They are providing one share that has one liquidity (the ETF share), but the underlying stocks have different levels of liquidity. This is also true for high yield bond ETFs, esoteric mortgage bond ETFs and many others.

There is a tremendous amount of passive investment flows that have gone into these vehicles and they amplify the moves in the underlying assets because ETFs have to try to pro-rata buy and sell the underlying positions when someone invests in these ETFs, however, in reality it’s not possible to always pro-rata buy or sell the underlying positions. Whenever there’s a significant drawdown in markets **I think ETFs will be the CDOs of the next cycle**, and there will be a big dislocation.

Active vs. Passive US Equity Funds Market Share



Source: Morningstar.com

With regards to the gold market, I want to point out that there is a big difference between the paper gold market and the physical gold market. The main difference is how investors feel about counterparty risk. If you want to bet on the gold price going up, you can buy paper gold, but if you are concerned about counterparty risk, sovereign risk, and systemic risk, you should buy physical gold. But people aren't really concerned about these risks currently, and are not acting on them, and therefore we are not seeing the true potential gold has (which is the physical demand). And there is a natural limit to the amount of gold that is available at any given time; new production is about $120 billion per year, but once that is gone, everything else needs to come from people who already own it, which is a significant chokepoint. And when there is a crisis of confidence, and people want physical gold, it might not be available. People **should, therefore, buy it now, while it's still available.**

Jim Rickards:

I agree with Simon's point about there being a limit to the physical supply of gold, and that people should get it while they can. But I actually think it's more difficult than what Simon was describing. Economic theory says that if the gold price goes up, more supply will come to the market, and the price will find a new equilibrium. However, the opposite could happen. If gold is in strong hands,

the people who bought it might not want to sell it, even if there is a price spike. And therefore, a price spike might turn into a super spike.

I also forgot to mention, there was a panel at Bretton Woods which was off the record, which means I can't say too much about it, but it was with high level Fed and ECB officials; these were real policymakers. **What surprised me was how relaxed they were about lower interest rates; they believed European rates need to become more negative, and U.S. has got to go lower.** And I was surprised about how knowledgeable they were about the difference between real and nominal rates, I don't see that very often. They agreed that real rates (nominal interest rate minus inflation) were too high, and that they have to go lower. And disinflation has us in its grip; which means real rates are getting higher which is very bad for the economy. And they will therefore lower nominal rates. The Fed officials were willing to discuss negative rates and said it might be what the U.S. has to do. Based on that I expect rates to come down and I expect a triple rally – a rally in stocks, bonds, and gold.

On the other side of that there are some political issues because Trump has been putting pressure on the Fed to lower rates. He wants a 50-basis point rate cut today. If you are Jay Powell you might lower rates cause you think it's the right thing to do, but it makes it seem like he is kow towing to the president.

However, if there is a correction in stocks, I think it's more likely to be due to political or geopolitical factors, rather than market related factors. **Don't discount the chances of an impeachment.** I'm not saying that it will necessarily happen, but I think the probability is higher than what most analysts think. Then throw in the dynamics of the 2020 election, and also the fact that now that the President has been cleared of wrongdoing, there's a close look at the people who were responsible for the wrongdoing. We could be looking at indictments and arrests of senior government officials.

And then of course there are other dynamics, such as the situations with Iran, China, North Korea, Venezuela, Syria, Hamas, Lebanon etc. If you throw all that in the mix it can set the stage for a stock market crash.

And lastly, I completely agree that there is no liquidity, it's a complete illusion. I've spoken to people on the floor of the New York stock exchange, the head of global rates at Citi etc. and they say there is no liquidity, they just hope things go well.

Ronald Stöferle:

Thank you, gentlemen. Let’s end it there. We touched on a wide range of interesting topics and it has been a terrific conversation. Thank you for taking the time, and especially to Simon who was our special guest. All the best and be good!

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 2019 "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".

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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