Minutes of Advisory Board Meeting

Incrementum Inflation Diversifier

July 8th, 2020

THE STEALTH BULL MARKET IN GOLD HAS BEGUN

Highlights of the conversation:

Jesse Felder:

- I think either politics, or the currency markets, will take the printing press away from the Fed.
- I think the dollar could fall 30 to 40 percent against the euro and yen.
- The Fed will be forced to either protect the currency, or to fund the government; it's going to be one or the other.
- Long-term I'm really bullish on gold; in the short-term I think it's over-bought.
- The only opportunity in stocks right now might be on the short side.
- I think we started a new bear market in March. I currently hold gold and cash.

Jim Rickards:

- Money printing has almost nothing to do with inflation; it's the velocity that creates inflation. And velocity is psychological.
- Government bond markets are not a bubble. Real interest rates have a lot further to fall.
- We are currently in a depression.
- Talks about re-opening is nonsense. Many businesses will never re-open.
- Europe's not going to let the euro go up against the dollar. It will kill their exports.
- The dollar has already collapsed and the inflation is already here. But it's in gold.
- Trump's reaction to the pandemic started out okay, but he made the mistake of taking the blame for all the failures, when they weren't necessarily his.

Ronald Stöferle:

- Research on pandemics suggests there will be a secular shift towards savings, and reduced investment demand.
- Inflation is probably not around the corner, but it's building up on the horizon.
- The control of the money supply has been passed from central bankers to governments.
- Gold miners are doing well, which confirms there's a stealth bull market in gold.

Mark Valek:

- If you look at equity markets priced in gold; the picture is not as bullish.
- Rising commodity prices might suggest that velocity is on the rise.
- In Weimar Germany price inflation skyrocketed as a result of rising velocity; even as money printing was falling.
- I think the central banks were pushed to print money and buy bonds during the pandemic because companies were not able to refinance.

Biography of our special guest – Jesse Felder

Jesse has been managing money for over 20 years. He began his professional career at Bear, Stearns & Co. and later co-founded a multi-billion-dollar hedge fund firm headquartered in Santa Monica, California. Since moving to Bend, Oregon in 2000 and founding The Felder Report shortly thereafter his writing and research has been featured in major publications and websites like The Wall Street Journal, Barron's, Yahoo!Finance, Business Insider, RealVision, Investing.com and more. Jesse also hosts and produces the Superinvestors and the Art of Worldly Wisdom podcast.

Transcript of the conversation:

Ronald Stöferle:

Alright gentlemen, many thanks for taking the time for our advisory board call. It's a great pleasure having Jesse Felder as a special guest here. Jesse, thanks a lot for taking the time. Jim, thanks a lot for taking the time as well. I know that you are currently writing a book and you are probably in the editing stage, which is, as we know, most of the work. And I think you should write more books, because in the meantime you've been basically offline, but the gold price did pretty well in the last couple of weeks.

Jim Rickards:

The less involved I am the more it keeps going up, so I'll talk about China and not about gold, and let it keep going up.

But thank you, the book is actually done and I did the editing also; so, the writing and the editing are done. It's with the editorial director of my publisher, which is Penguin Random House. She might have a few more tweaks, but everything I did was in response to her suggestions, so hopefully she's happy. We're getting closer to the final page pass and then we'll send it off to the printers. The publication date is mid-October; I don't have a specific date as of now, but we are getting close.

Ronald Stöferle:

Great. Congrats. Of course, we will probably talk a bit about the content of the book. You can give us a little teaser, hopefully.

For the people that do not know Jesse Felder, a brief biography: Jesse has been managing money for over 20 years. He began his professional career at Bear Stearns and later co-founded a multi-billion-dollar hedge fund firm headquartered in Santa Monica. Since moving to Bend, Oregon in 2000 and founding The Felder Report shortly thereafter his writing and research has been featured in major publications and websites like The Wall Street Journal, Barron's, Yahoo!Finance, Business Insider, RealVision, Investing.com and more. Jesse also hosts and produces the Superinvestors and the Art of Worldly Wisdom podcast.

Jesse, many thanks for taking the time. I think we've got many, many mutual friends, like Grant Williams, like Raoul. I think the overlap of our friends is pretty big, and I'm really glad you are joining us.

I would like to do some very brief housekeeping about what happened on our side in the last couple of weeks. **Actually, we had the last advisory board call with our special guest Rick Rule.** That was on the 8th of April, so basically in the midst of the whole COVID turmoil. We've been pretty vocal regarding gold and of course the mining space, which has done tremendously well. Actually, it seems that gold is really in a stealth bull market. We're now trading above $1,800. I think we will hit new all-time highs in US dollar terms very soon. It's trading so strong, there's so much momentum. And of course, we're going to talk about gold later.

And as you know, **we just published on 28th of May, our 14th annual In Gold We Trust report.** This has been quite a read again; we wrote 350 pages in German and in English about all sorts of aspects of the gold market. **We got tremendous feedback from all over the globe and already hit almost two million readers**, so it's really a big success and we want to thank the whole team and of course also our partners for supporting us.

Now, Mark is currently with his family in Spain. I am here in Vienna. Jesse's in Oregon. Jim you are in?

Jim Rickards:
I am in the mountains of New England.

Ronald Stöferle:
Looks beautiful.

Jim Rickards:
Yeah, thank you.

Ronald Stöferle:
Let's jump into the discussion.

Jesse, I wanted to ask you: I don't know your exact age, but I'm guessing when you left the hedge fund industry 20 years ago to set up your own information business in Oregon - how do you come up with that decision, being young and basically having a dream job like hedge fund manager back then? What triggered that decision, to go out of the fund management business and start writing? I think Grant once said that you're some sort of a distillery because you're reading many, many hours every day, and then you distil all those thoughts into your Felder Report. So, it would be terrific to hear what led you to this decision; getting out of the hedge fund space.

Jesse Felder:
It's actually pretty simple; I left Bear Stearns in '97 with my mentor in the business, and we co-founded the hedge fund. At that time, we started a long only fund, a long short fund and a short only fund. And we were also running separate accounts; we started our own broker dealer. So, I was the head trader and co-portfolio manager of the funds at the time, and this was leading into the peak of the dot-com mania into 1999. You can imagine how our short only fund did through that period; it was a very difficult time. But our other funds actually did really well.

But the reason I left the industry was: even though we were doing very well in terms of performance and in terms of raising money - we started with a hundred million and before the firm folded in 2010 or '11, I think, it was up to 12-13 billion dollars under management - I quit in 2000 basically because of moral disagreements with my partner. He was of the mindset that he wanted to do everything possible within the law to maximize returns and then even push the envelope a little bit. And I said I'm not interested in pushing any legal envelopes, and I could see where it was headed. So, I quit the firm literally in March of 2000 right as the Nasdaq was putting in its peak. And I think was probably a combination of those moral disagreements and then also that I was buying really, really cheap stocks in 2000; Washington Mutual was trading at five times earnings, Abercrombie & Fitch was a retailer that had huge returns on capital, trading eight times earnings. And these stocks ended up doing really, really well in 2000, 2001, 2002 after the dot com bubble burst.

But I think it was a combination of the stress of trying to be a value investor in the midst of the mania, and I felt compelled to stick to our mandate, which was that we raised money as a value shop; we were going to buy cheap stocks and try and short things we thought were overvalued, but also had a catalyst on the short side. And we kind of abandoned that discipline in 1999. And so, the growing disagreement between my partner and I just led me to leave the firm. It was not so much anything about the industry; it was just a decision that I felt I had to make personally.

Ronald Stöferle:

Great, and could you let us know a bit more about the Felder report? I receive the Saturday summary, which is terrific – great links to articles, fantastic charts and tweets. But what is the focus of the Felder Report?

Jesse Felder:

Right, basically I started as a pure value investor and so it's still kind of grounded in that. And a lot of what we did back in the fund I still do today, which is to follow insider buying and selling very closely**. I was tweeting in February that I was seeing insider selling across a broad spectrum of companies like I've never seen before. And it was clear that a lot of these executives saw what was coming in terms of the pandemic** and thought: "I might not have a chance to sell at these prices again". **Conversely, when you see compelling, predictive insider buying - that's one of the best indicators that I could look at for individual stock selection.**

Jesse Felder @jessefelder · Feb 13

Replying to @jessefelder

And still he's not alone. Yesterday was another huge day of insider selling. Executive sales > $1 million, via OpenInsider.com:

D	2020-02-12 17:05:35	2020-02-12	GGG	Graco Inc	Gallivan Karen Park	EVP	S - Sale+OE	$56.25	-54,000	47,872	-53%	-$3,037,543
M	2020-02-12 17:01:20	2020-02-10	IBP	Installed Building Products, Inc.	Edwards Jeffrey W.	Pres, CEO, COB, 10%	S - Sale	$75.86	-30,169	6,870,313	0%	-$2,288,563
	2020-02-12 17:00:22	2020-02-10	PFGC	Performance Food Group Co	Holm George L	See Remarks	S - Sale	$53.77	-19,000	2,075,080	-1%	-$1,021,717
D	2020-02-12 16:57:27	2020-02-11	KBH	Kb Home	Hollinger William R	SVP, Chief Accounting Officer	S - Sale+OE	$39.17	-125,844	158,332	-44%	-$4,929,309
D	2020-02-12 16:53:27	2020-02-10	CL	Colgate Palmolive Co	Jakobsen Henning I	CFO	S - Sale+OE	$76.79	-34,384	48,533	-41%	-$2,640,285
D	2020-02-12 16:53:23	2020-02-10	CL	Colgate Palmolive Co	Tsourapas Panagiotis	Grp Pres, Lat Am, Asia Pac	S - Sale+OE	$76.51	-17,702	53,532	-25%	-$1,354,392
D	2020-02-12 16:42:02	2020-02-10	FTNT	Fortinet, Inc.	Whittle John	VP Corp Dev, Strat Alliance,GC	S - Sale+OE	$117.51	-14,830	1,269	-92%	-$1,742,661
D	2020-02-12 16:37:45	2020-02-10	INFO	Ihs Markit Ltd.	Kansler Adam Jason	EVP, Pres Financial Services	S - Sale+OE	$81.09	-100,000	179,667	-36%	-$8,109,000
DM	2020-02-12 16:27:21	2020-02-10	RGNX	Regenxbio Inc.	Simpson Curran	SVP, Product Development, CTO	S - Sale+OE	$50.28	-56,993	3,948	-94%	-$2,865,636
	2020-02-12 16:23:59	2020-02-11	MTH	Meritage Homes Corp	Hilton Steven J	CEO	S - Sale	$72.45	-140,000	480,758	-23%	-$10,143,244
	2020-02-12 16:18:12	2020-02-10	MKTX	Marketaxess Holdings Inc	Themelis Nicholas	CIO	S - Sale	$342.01	-4,000	38,451	-9%	-$1,368,040
	2020-02-12 16:15:48	2020-02-10	MKTX	Marketaxess Holdings Inc	McVey Richard M	COB, CEO	S - Sale	$339.25	-25,000	952,944	-3%	-$8,481,255
D	2020-02-12 16:15:30	2020-02-11	SAIA	Saia Inc	Ramu Raymond R	EVP, Chief Customer Officer	S - Sale+OE	$97.02	-10,349	10,676	-49%	-$1,004,057
DM	2020-02-12 16:15:05	2020-02-10	SAIA	Saia Inc	Odell Richard D	CEO of Saia	S - Sale+OE	$97.07	-25,879	52,806	-33%	-$2,512,065
D	2020-02-12 16:10:08	2020-02-10	AMD	Advanced Micro Devices Inc	Wolin Harry A	SVP, GC, Corporate Secretary	S - Sale+OE	$50.81	-153,984	1,476,279	-9%	-$7,823,927
	2020-02-12 16:07:39	2020-02-10	ELF	E.L.F. Beauty, Inc.	Amin Tarang	CEO	S - Sale	$18.85	-73,141	1,423,534	-5%	-$1,378,779
M	2020-02-12 16:05:29	2020-02-10	CARG	Cargurus, Inc.	Steinert Langley	CEO, COB, 10%	S - Sale	$32.94	-51,970	2,019,841	-3%	-$1,711,632
D	2020-02-12 16:03:21	2020-02-10	ALNY	Alnylam Pharmaceuticals, Inc.	Keating Laurie	EVP, GC	S - Sale+OE	$129.00	-10,000	12,692	-44%	-$1,290,000
D	2020-02-12 16:01:47	2020-02-10	CRUS	Cirrus Logic, Inc.	Case Thurman K	VP, CFO	S - Sale+OE	$76.62	-18,642	7,569	-71%	-$1,428,400
	2020-02-12 16:00:42	2020-02-12	SAM	Boston Beer Co Inc	Koch C James	COB, 10%	S - Sale	$415.33	-10,000	234,688	-4%	-$4,153,300
D	2020-02-12 15:54:59	2020-02-10	SHW	Sherwin Williams Co	Morikis John G	COB, CEO	S - Sale+OE	$572.32	-14,733	114,635	-11%	-$8,432,024
D	2020-02-12 14:35:32	2020-02-10	IPHI	Inphi Corp	Edmunds John	CFO	S - Sale+OE	$81.24	-42,856	242,181	-15%	-$3,481,559
	2020-02-12 14:30:41	2019-12-19	HST	Host Hotels & Resorts, Inc.	Marriott Richard E	COB	S - Sale	$18.51	-146,026	5,939,049	-2%	-$2,702,941
DM	2020-02-12 14:09:06	2020-02-10	GL	Globe Life Inc.	Svoboda Frank M	EVP, CFO	S - Sale+OE	$108.54	-20,000	108,330	-16%	-$2,170,772
	2020-02-12 13:59:20	2020-02-11	OHI	Omega Healthcare Investors Inc	Booth Daniel J	COO	S - Sale	$42.95	-25,000	174,986	-13%	-$1,073,750
D	2020-02-12 13:13:01	2020-02-10	FORM	Formfactor Inc	Slessor Mike	CEO	S - Sale+OE	$25.91	-50,000	336,623	-13%	-$1,295,550
D	2020-02-12 12:32:31	2020-02-10	RMD	Resmed Inc	Farrell Michael J.	CEO	S - Sale+OE	$172.21	-6,647	363,670	-2%	-$1,144,663
D	2020-02-12 11:51:50	2020-02-10	FMC	Fmc Corp	Brondeau Pierre R	CEO, Chariman of Bd	S - Sale+OE	$104.83	-82,534	301,106	-22%	-$8,651,876

4 14 37

Source: Twitter.com

So, it's grounded in that, but I also think about in the mid-2000s - in the lead-up to the housing bubble and actually even through my experience going through the dot-com bust - I realized that focus on macro was going to be very important, with central banks becoming so activist in the markets and in the economy. And so, it was about 15 years ago I really started paying a lot more attention to macro and paying attention to narratives and trends and things that are driving prices. So, that’s probably the main focus of the report now, paying attention to what are these narratives and trends that are driving markets, and what stage of their life cycle are these narratives in.

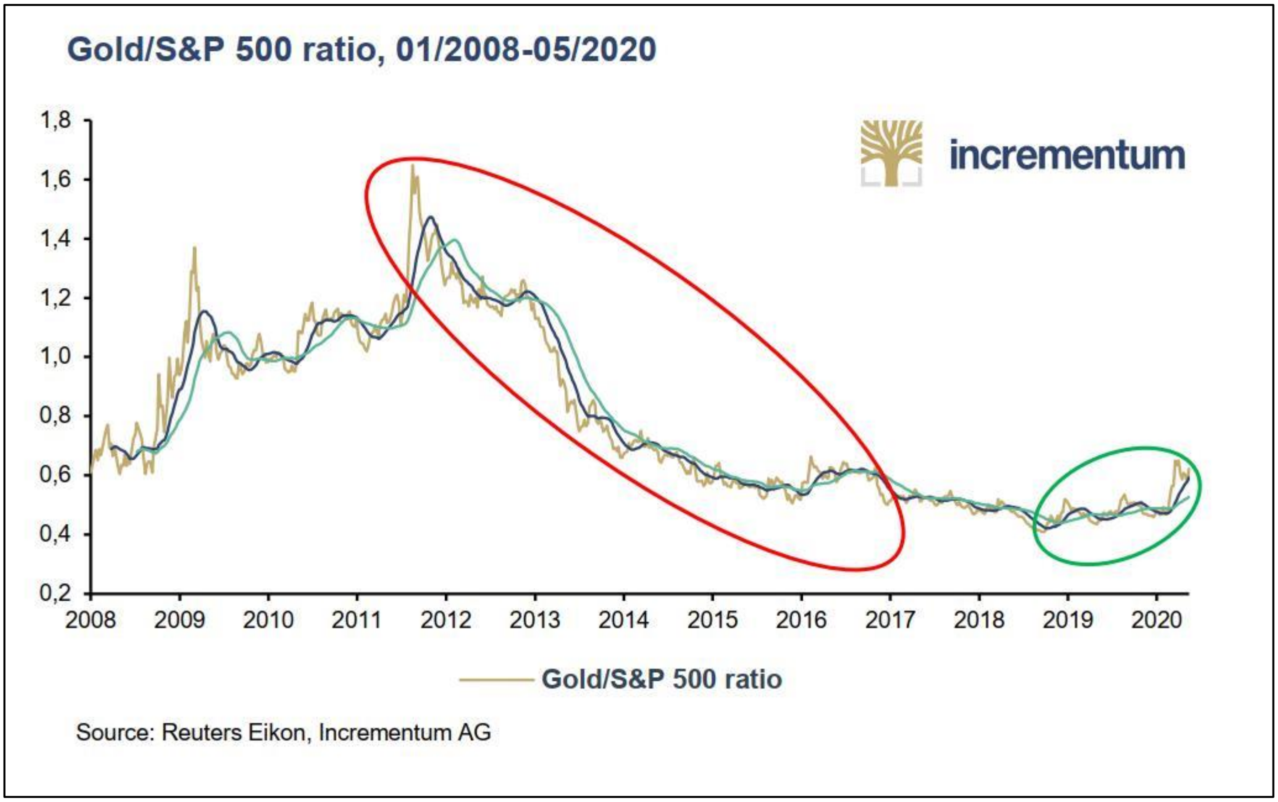
And by the way, that Saturday morning email is free, [you can sign up for it on my website](), and I regularly feature charts from the In Gold We Trust report because it’s fantastic. I’m a big fan.

Ronald Stöferle:
Thank you very much, Jesse, great.

Mark, I'd say let's just jump into the macro discussion. Do you want to start off, Mark?

Mark Valek:
Happy to do so.

Okay well, the last time we talked, as you mentioned, was early April. What we saw in the markets was a huge roller coaster - obviously the up slope, stimulated by a huge amount of money, which is really un-comprehendible actually; what the central banks created and then also the measures which they've been taking. They've been pushing their mandate more and more. I think this is going on internationally; we saw it at the Fed, but we also saw it in Europe and other central banks. But it is what it is. **And we're seeing new all-time highs even in equity markets, which is remarkable, I think, as we have a huge economic contraction. Everybody knows this; everybody is talking about it. But it seems as if everybody is more or less fine with it.** On the other side, what we are also seeing is obviously a gold price which is doing very well. **Something that we are always stressing is to have a look at equity markets priced in gold; if you look at that picture, the picture looks a little bit different.** It was already not extremely convincing priced in gold.



Source: Reuters Eikon, Incrementum AG

Spreads closed and came back - corporate spreads. That was a really bad situation going into April, and **I think that the central banks basically were pushed to do all these actions because companies weren't able to refinance.** So, that's actually why the Fed started buying bonds, which I think is quite an unprecedented move. But we are here now and this everything bubble, as we've mutually all been calling this stock market and bond market bubble, is back where it was. And one could argue it’s even bigger than it was. On the precious metals side, we are feeling very convinced that this is going to continue helping the precious metals.

But let's talk a little bit about the other markets; let's start with our special guest. Jesse, how do you perceive markets, especially corporate bond markets? How long can this money printing go on - and this is obviously a very central question for us – and only lead to asset price inflation, and not lead to significant consumer price inflation?

Jesse Felder:

That's a great question. I really do think that the Fed will start to run into a couple of impediments to the unprecedented policies that they've been putting in place. **I think they can only continue to print as much money as they have, as long as the currency markets will tolerate it.** I think at some point - my friend Bill Fleckenstein has been writing for years that at some point - the bond market's going to take the printing press away from the Fed, and I think it's probably more likely that the currency market will take the printing press away. At some point, if they decide we're going to have to monetize all of this new debt creation that the federal government is being forced into doing - in order to try and support the economy and try and support the markets at the same time - the relief valve is the currency, and the dollar is going to depreciate rapidly. **I think we could actually even have a currency crisis at some point.**

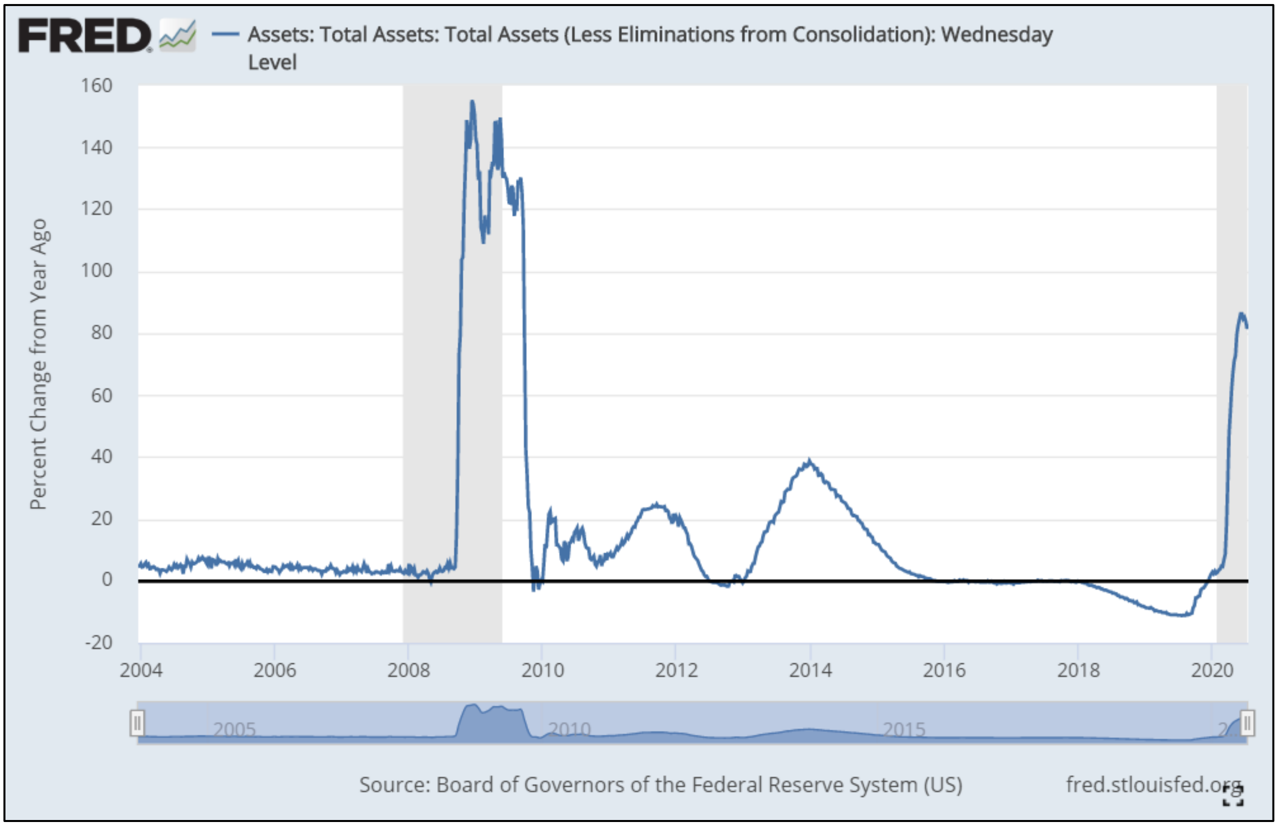
But the other potential impediment that I'm seeing is that so **many people are realizing the Fed's role in the wealth inequality that we're seeing in the country.** And I think people are starting to talk about this a lot more, that you cannot target a wealth effect without exacerbating wealth inequality. It's just absolutely asinine to even imply that. So, when Jay Powell says: "we have no effect on wealth inequality", you hear from everyone that they absolutely do not believe that. And when you see the last couple of press conferences, he's been asked the question over and over again. So, we're already seeing political ramifications of these kind of trickle-down policies for so long and I think it's going to become even more of a political problem going forward. **I don't know if it's going to be politics, or if it's going to be the currency, that essentially takes the printing press away from the Fed, but I think it's going to be taken away one way or the other.**

Mark Valek:
That's a very interesting point. Jim, do you want to jump in? I'm sure you have a lot of interesting thoughts.

Jim Rickards:
Yeah, sure.

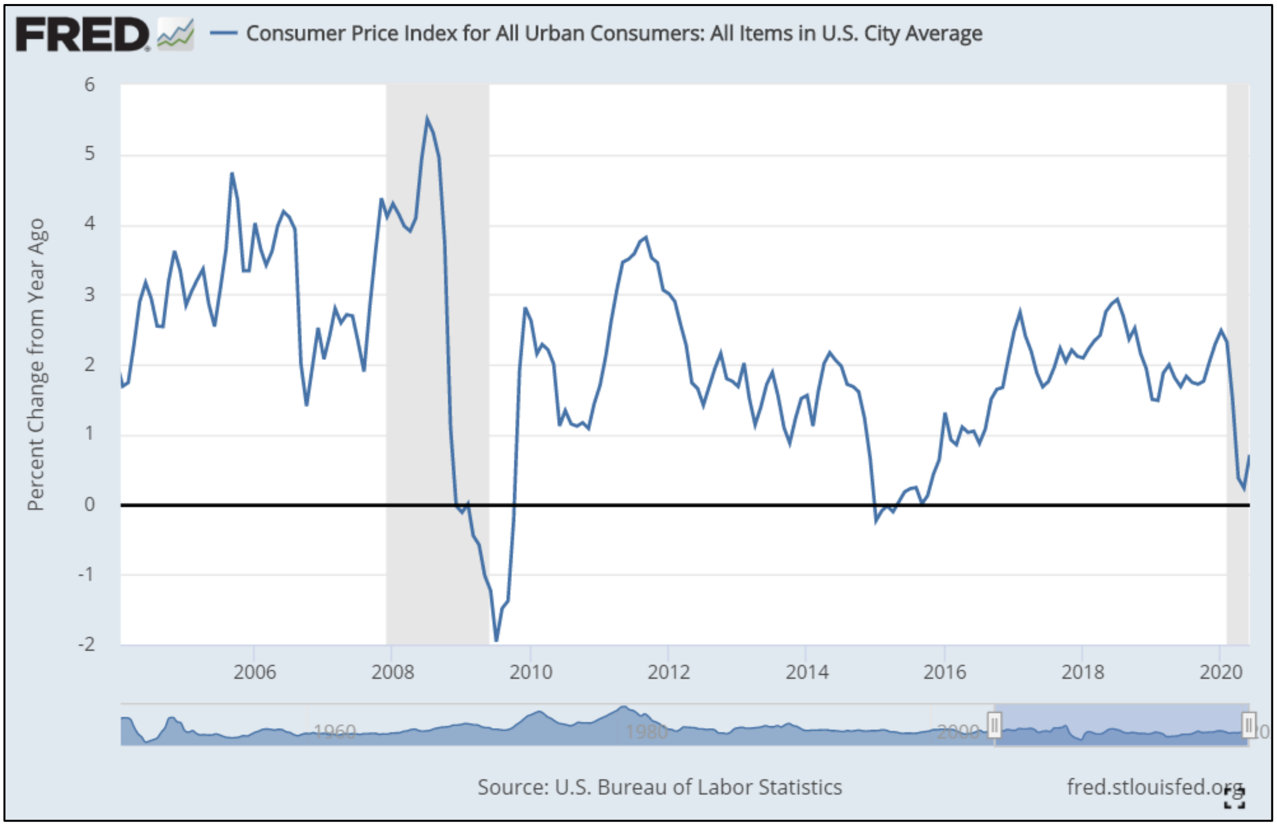
Jesse made a number of very good points. Just to kind of expand on that, maybe offer a slightly different take on it. **The money printing has almost nothing to do with inflation; that's sort of an Austrian, Milton Friedman construct for which there's almost no empirical support** - it's just not true. So, I think the Fed can print money all day long; they have printed money for eleven years, twelve years actually, and we're not seeing the inflation - and we won't, based on that alone.

Fed Balance Sheet Yearly Percentage Change



Source: St. Louis Fed

Consumer Price Index Yearly Percentage Change



Source: St. Louis Fed

The greater danger right now is deflation, starting with disinflation going into deflation. As far as "the everything bubble" is concerned, I agree that there's an everything bubble when you look at the stock market; that's just the Fed pumping it up. So, I completely agree with that**. I don't believe that government bond markets are a bubble. I think interest rates have a lot further to fall because interest rates are not far from all-time highs at the moment. Of course, I'm talking about real rates. Nominal rates are irrelevant**; that's what you hear about on TV. You have to think in terms of real rates. And if I'm right about this inflation and deflation, real rates are going up very steeply because they're not cutting nominal rates to zero. But if you get more disinflation, more deflation, the real rate is actually going up, which is the worst thing you want in an economic depression.

And that's another point I would make: The National Bureau of Economic Research a couple weeks ago announced we're in a recession, which is their job. And they said the recession started last February. Usually they wait two quarters; they wait until there are two quarters of declining GDP with rising unemployment, and a couple other bells and whistles. And then they wait a couple months, and then they have a meeting, and then they say we're in a recession, as of last year.

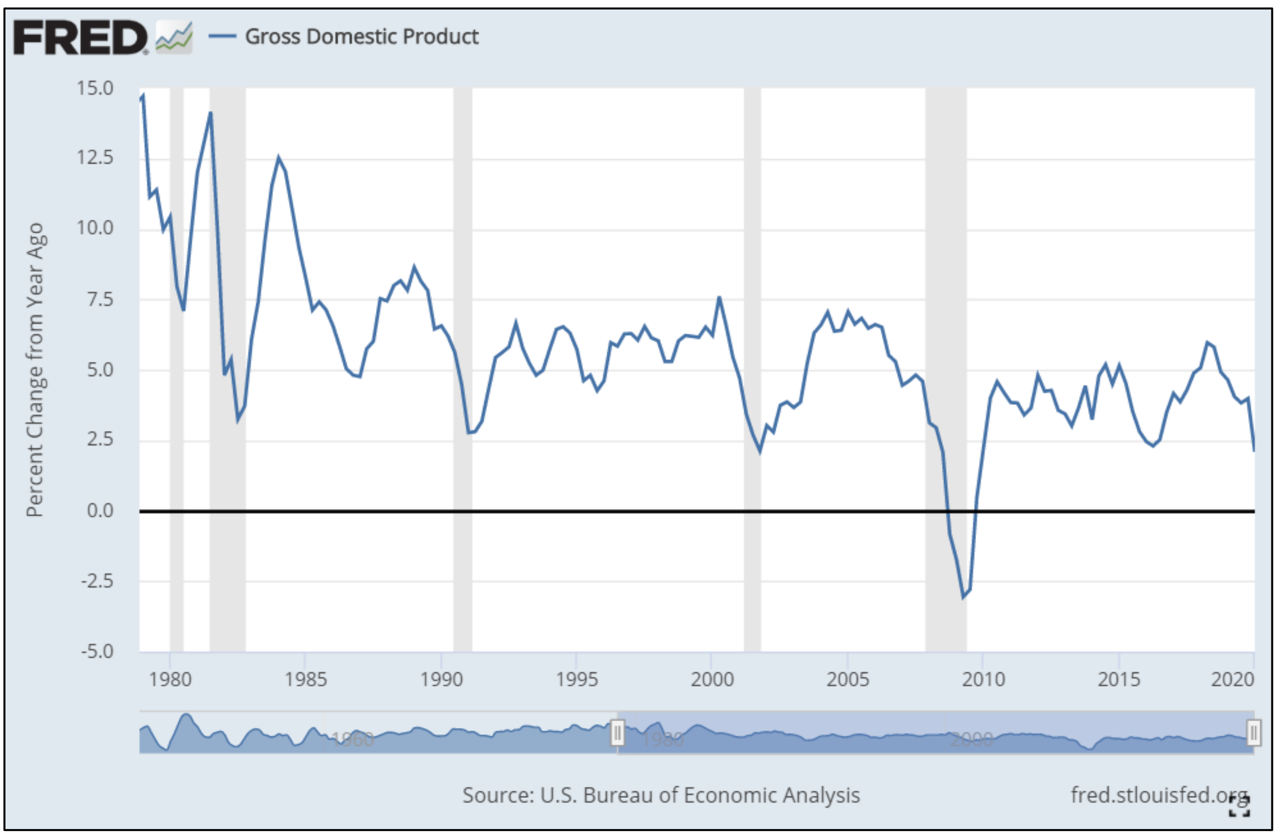
So, that's an announcement I fully expected, but I didn't expect it until maybe late this year, early next year. Well, they jumped the gun, they said: "we know things are bad enough that we're declaring a recession". It's probably not doing president Trump any favors with the Harvard/MIT crowd, but **I agree with that; we're certainly in recession. But that is irrelevant; what's much more relevant is that we're in a depression.** We're probably actually out of the recession already, if we went into a recession in February. We're seeing unemployment declining, but still quite high. Growth is expanding - not enough to dig us out of the hole. And you hear a lot of happy talk from the White House, and Washington D.C., and CNBC - they're like: "we created 4.8 million jobs in June", which is true. Unemployment dropped from 13.3% to 11%, which is true. A lot of the PMIs are coming out north of 50, which indicates an expansion, which is true. So, they think happy days are here again. And you have to take a deep breath and say: "no". When you go down 35% at an annualized rate, it comes out to seven or eight percent, maybe as much as 10% in absolute terms. So, if you have a nominal 100 - if that's your 22 trillion dollar GDP - and you just give it a value of nominal 100, and you go down to 90, and you grow at five percent - which we haven't done since 1982 by the way - you're still only back to 94.5. And if you grow at four percent the year after that, you're still only back to about 98 – 99.

In other words, we're not going to get to 2019 output levels until 2023 at the earliest. We're not going to get to 2019 employment levels until 2025 - that's a depression. When you have to take three, four, five years to get back to prior levels of employment and output - that's a depression. And people don't understand what depressions are. First of all, academic economists have banished the word - they don't use the "D word". They don't use it because it's difficult to quantify and you can't plug it into a closed-form equation, therefore it doesn't exist. But in the real world they do exist, and the difference is if a recession is two quarters of consecutive declining GDP, which you might not even get by the way, we might have growth in the third quarter - actually, sorry, I guess the first quarter was down, so you get your two quarters.

So, people say: "well gee, a depression sounds worse than a recession". So, if a recession is two quarters, a depression must be six, or seven, or eight, or ten quarters - it must be really bad. That's not what a depression is; you can have, for example, during the Great Depression, which is generally dated from 1929 to 1940, we had two technical recessions: in 1929 to 1933, and 1937 to 1938. But 1933 to 1937 was one of the strongest growth periods; the stock market rallied, unemployment went down, growth was substantial. We had a significant rally in the middle of the Great Depression. But the point is: we were so low, the levels were so low, that even with the rally - if you saw unemployment go from 25 percent to 14 percent - that's nice, that's good, but it's still 14 percent. I mean, that's the point.

And so, depressions are not defined as continuous decline in GDP; they're defined as a prolonged period of below trend GDP, with no potential to rally and regain the prior output level. That's a depression. If you take all the recoveries since 1980, that's a very prosperous period - actually, recoveries in the 50s and 60s were stronger - but if you just take the period since 1980, growth and the average recovery was 3.2% annualized. But if you take the recovery beginning in June 2009 - for eleven years, or ten and a half years - that growth was 2.2%. I rate that as a depression. **If your long-term trend is 3.2, when your actual is 2.2, that below trend growth is what a depression is. We've left four or five trillion dollars of wealth potential on the table**; four or five trillion dollars that are not there because we could not get back to trend.

U.S. GDP Yearly Percentage Change



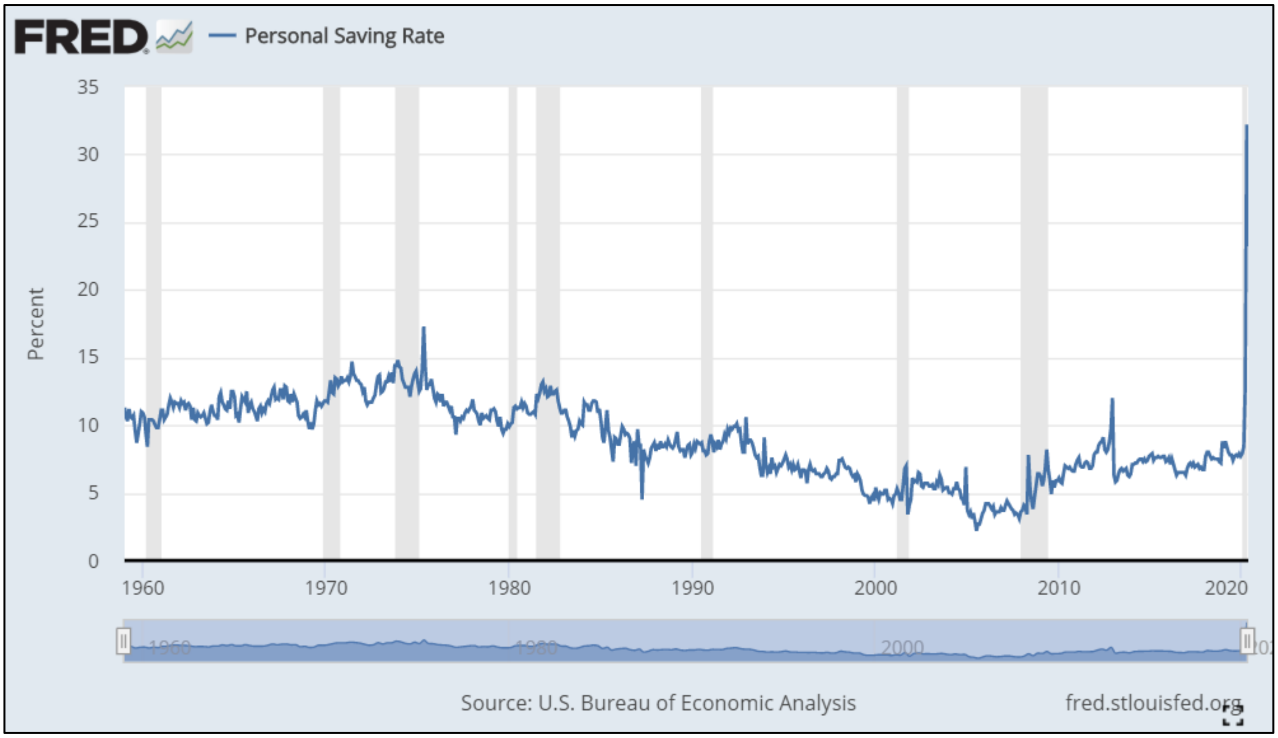
Source: St. Louis Fed

Well, the same thing is going to happen now. We'll have growth, as I said; we'll probably have growth in the third quarter. **But if the new trend is something like 1.7-1.8%, which is what I expect,** not only is that nowhere near the 5% I was talking about in the hypothetical - I was being generous - but it's not even as good as the 2.2% we saw in the 2009 - 2019 recovery, which was the worst recovery in US history.

So, the big problem is: we're in a depression; not defined as continuous declining growth, but defined as a prolonged below trend growth. We never make up the wealth gap, we never recover the lost wealth. And meanwhile, what's going up faster than ever is the debt. So, what's happening to your debt to GDP ratio? Well, debt is going up this year maybe 20% of GDP, but even if that gets back to a 1 to 2 trillion dollar deficit in 2021, it's still going up by 10% of GDP. So, the debt is going up 10% or more, but your growth is going up 1-2%, which is what I expect. What's happening to your debt to GDP level? You start to look like Lebanon or Greece - or heaven forbid, Japan. And Japan has been in a depression since 1990.

And then there's very good research that shows that - and again, this is something that monetarists and New Keynesians simply don't comprehend - but the empirical research says that at debt to GDP levels north of 90% - and at the beginning of the pandemic we were at 106; we're going to end up at 120-125; we're catching up to Italy pretty quickly - at those levels of debt to GDP there are behavioral changes. Once again, the academic economists don't know how to account for behavior – except, just look around, right? Behavioral change is that people save more, they spend less, they begin precautionary savings programs because they don't know how it's going to end. They think: “well, it's either going to be hyperinflation, or default, or restructuring, or it’s just going to get worse in terms of deflation”. They don't know how it's going to end; they just know it's going to end in such a way that there’s either going to be higher taxes, or taxation in the form of inflation. And so, they begin precautionary savings to prepare for that day, against something the economists don't know how to account for. I mean, the savings rate in May was 33%, not five percent. It was 33%.

U.S. Personal Savings Rate



Source: St. Louis Fed

Even if it levels off at 20, it’s starting to look like Japanese and Chinese savings rates. **And savings can be a good thing if you can direct it to productive investment, but we haven't shown much ability to do that.** Meanwhile, savings comes at the expense of consumption. Seventy percent of U.S. GDP is consumption. If you convert consumption into savings, where's your GDP? Plus, velocity declines; I always remind people that five trillion dollars times zero, is zero. This is what gets back into the money supply. **Print all the money you want, but if velocity is declining, you're not going to get inflation; you're not even going to get nominal growth, let alone real growth.**

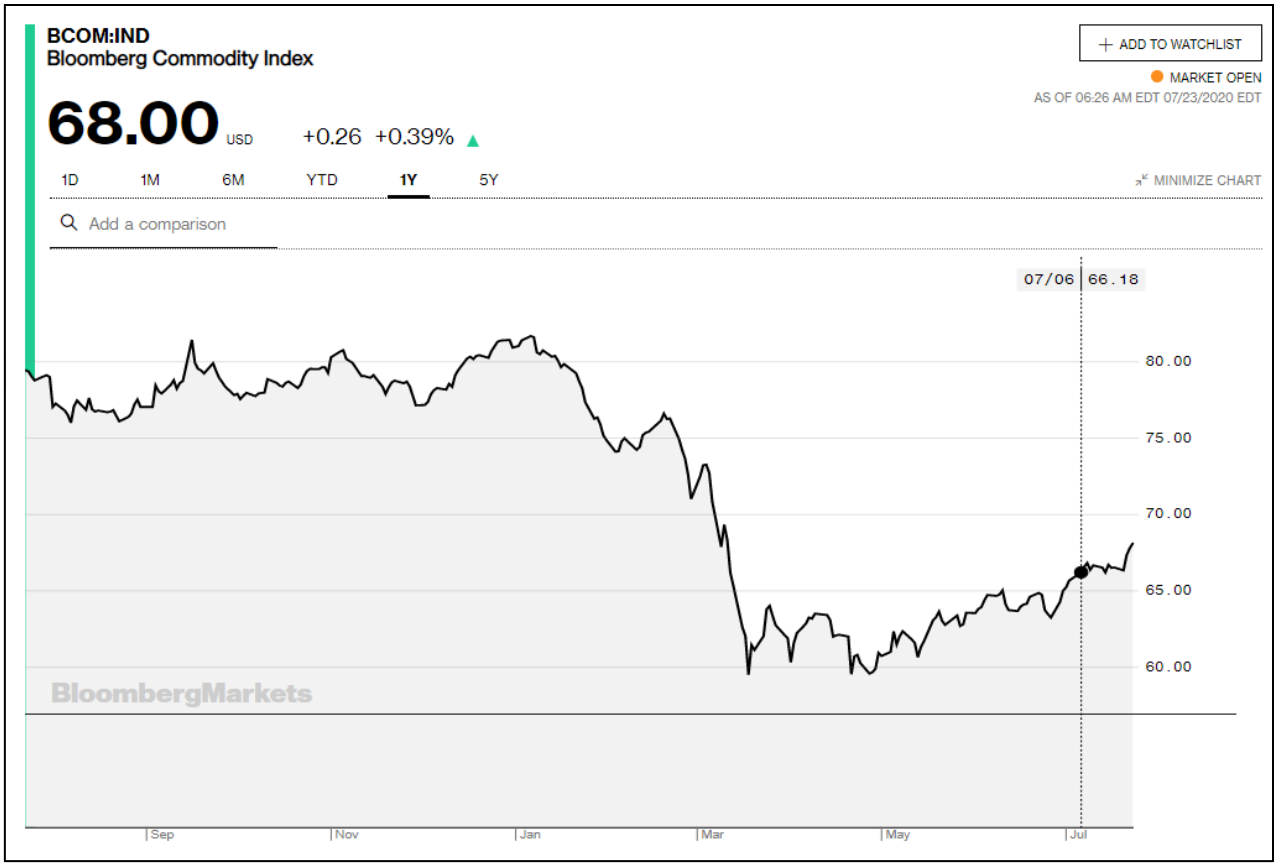
So, just to sum up, I would say we're in a depression. It's going to persist; it's going to be intergenerational; it'll affect our children behaviorally. There's only one way out of it, but central bankers have forgotten what it is.

Ronald Stöferle:
Jim, great points.

I just wanted to refer to a **great study coming out from the San Francisco Fed. It's called "Longer- Run Economic Consequences of Pandemics**", where **they basically analyzed fifteen pandemics dating back to the 14th century. And as you rightly say, the major finding is that they're seeing a secular shift to greater precautionary savings, and at the same time investment demand tends to decline.** I don't know, perhaps this is also a reason why we cannot completely rule out negative rates in the U.S.; and what the study says: "following a pandemic the natural rate of interest declines for decades thereafter, reaching its nadir about 20 years later". **I think this is a pretty good advertisement for gold actually.**

But I wanted to go back to the inflation discussion; **we talked about inflation already at our last advisory board call with Rick Rule**, and it's interesting that Mark and I are really getting lots of emails and phone calls from people that are now being a bit more concerned about inflation, it seems. And Dave Rosenberg just wrote about stagflation: "it's as if I'm talking about dessert and we're just serving the appetizers, but I always believe in staying ahead of the curve". I think that's a fairly good analogy that he makes; **inflation is probably not around the corner, but it's building up on the horizon.** And this is really something that many institutional players and really sophisticated investors are seeming to prepare for. We're seeing it, of course, in gold. We're seeing it in the whole commodity space; have a look at agricultural commodities, but also base metals - they're doing really well.

Bloomberg Commodity Index – 1-Year Chart



Source: Bloomberg.com

And I just wanted to ask you this: this is really something fascinating that I just read from Russell Napier - I think he's one of the greatest minds out there, I really read everything that he writes; he's hard to understand with his Scottish accent, but he's a fabulous bloke - and he was writing that **the control of the money supply has been passed from central bankers to governments.** And I think the main point that he's making is that we're now seeing so many programs where governments basically guarantee the loans. There was an article in the FT where they asked senior loan officers and 50% of them said those loans are rubbish: “we wouldn't do them; we wouldn't hand them out if there wasn't a state guarantee.” And I think that's pretty interesting. Just recently the Spanish government's bank credit guarantee program has been extended from 100 billion to 150 billion.

So, do you think this is really a trend towards much more interference, much more control from governments regarding credit creation? Because then you can make a guarantee for a new Green Deal; you can do a big infrastructure program, and so on. But for me, it might be one of the better explanations why, already, the broad monetary aggregates are rising. And if we compare it to 2008/2009 it was basically just base money that was surging then, while commercial banks were fairly reluctant, and so the Federal Reserve basically just compensated for what didn't happen in the commercial banking sphere. What do you think about that thought?

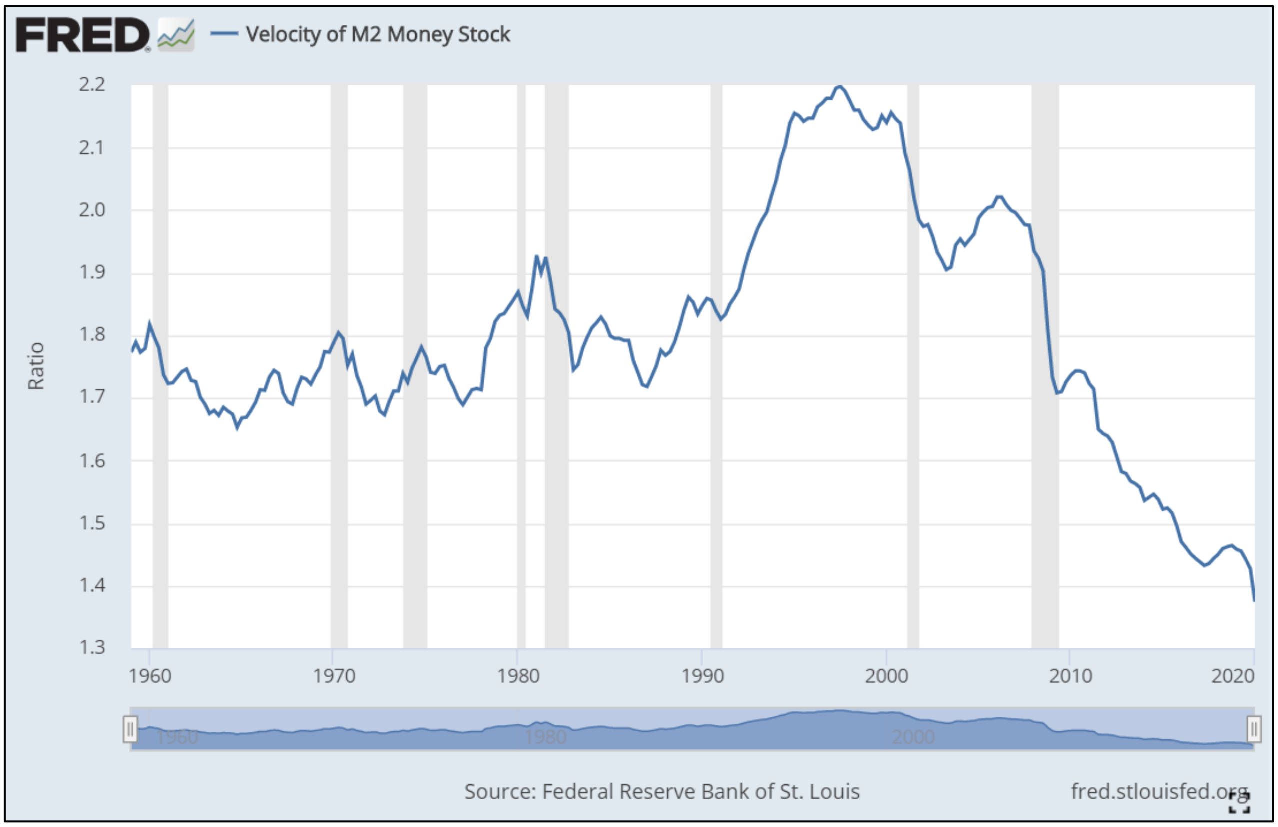
M2 Yearly Percentage Change

Source: St. Louis Fed

Jim Rickards:
Well, I I'll be really brief because I want to hear from Jesse, but I'll give you a 30 second answer, Ronni.

The first point is that you just gave an extended, very insightful, summary of modern monetary theory. I'm not saying you agree with it; I'm not tagging you with it. I'm just saying everything you said is modern monetary theory. But as far as Rosie's concerned - **you will never understand monetary economics and you will never understand inflation unless you begin by saying that Milton Friedman was wrong**. As long as you cling to Friedman-ism and his version of the quantity theory of money - there's nothing wrong with the quantity theory money, it's an identity and it's good for thought experiments, but Friedman believed that velocity was constant. If that's true - if there's a cap on real growth of around 3.5% and any growth in excess of that is inflationary, and velocity is constant, and you don't want inflation - all you have to do is dial the money supply up or down about 3.5%, and you'll get full growth and no inflation. And Friedman said we don't need a central bank; we just need a computer. Everything I just said, which is a kind of capsule summary of Friedman, is true if velocity is constant. And Friedman believed it was, and in fairness to him, for 30 years - from 1950 to 1980, which was the main part of his career - it was constant. But it's not constant, just go look at velocity charts that go back to the Great Depression. Look at velocity since 1998, which is when it peaked - it's plunging.

M2 Velocity



Source: St. Louis Fed

Well, the minute you say the velocity is not constant, the minute you say velocity can plunge, then all the money creation in the world is simply an offset to declining velocity, and you get no real growth. **Which is another way of saying that money supply has nothing to do with inflation. So, you've got to tackle the V-variable, you've got to tackle velocity. And you've got to understand that that is psychological; that is not something you do with a printing press**;

that is not something you do by open market operations. You've got to change the way people think; you've got to change what they believe and the way they behave, and that's very difficult to do.

Ronald Stöferle:
Jim, I totally agree, but I think velocity seems to be building a base. Don't you think that that point - when confidence is coming back to markets, and when everybody is getting a bit more upbeat and perhaps there's a vaccine against COVID, and everything is kind of stabilizing - don't you think that velocity will start rising? And this will be the point in time when central bankers actually would have to become more hawkish

Jim Rickards:
I understand there are serious travel restrictions - and I'd love to go to Switzerland because it's a beautiful country, and maybe you can't come to the United States, but come to the United States; the number in a very reliable poll - it's been going on for decades - **the number of people who think the U.S. is on the right track is 25 percent. That's one of the lowest readings they've ever had.** Go into the neighborhoods; go into the city; **there are mass migrations out of US cities**, I'm talking millions of people. They're leaving New York as fast as they can. You cannot get trailers; you cannot hire movers; there are half empty buildings - relatively new ones. They're leaving Seattle, they're leaving Atlanta, Chicago, Philadelphia, New York, Boston - they're heading for either suburban areas that seem safe, or they are heading out of the country. I don't want anyone coming up here, but they're starting to. I'm up in the mountains; I'm in the middle of nowhere. People are buying houses sight unseen; they're calling brokers, the broker describes the house, they look at some pictures, then they're done and they move in. That's what's going on**.**

Most of this whole nonsense about reopening - it's nonsense. It doesn't take into account the number of people who are never reopening - they're done. It's not that the doors are closed and they're going to reopen – no, the doors are closed permanently. They walked away from the lease, the equipment's up for fire sale, the employees are permanently unemployed. That's what's going on; they're lined up at the Bankruptcy Court. I mean, Brooks Brothers filed for bankruptcy this morning; J.Crew, Gold's Gym, Neiman-Marcus, Hertz, Frontier Communications - and I don't want to mention any prospective names because I don't want to start a panic - but there's a long line behind them, and they'll be coming through in the near term.

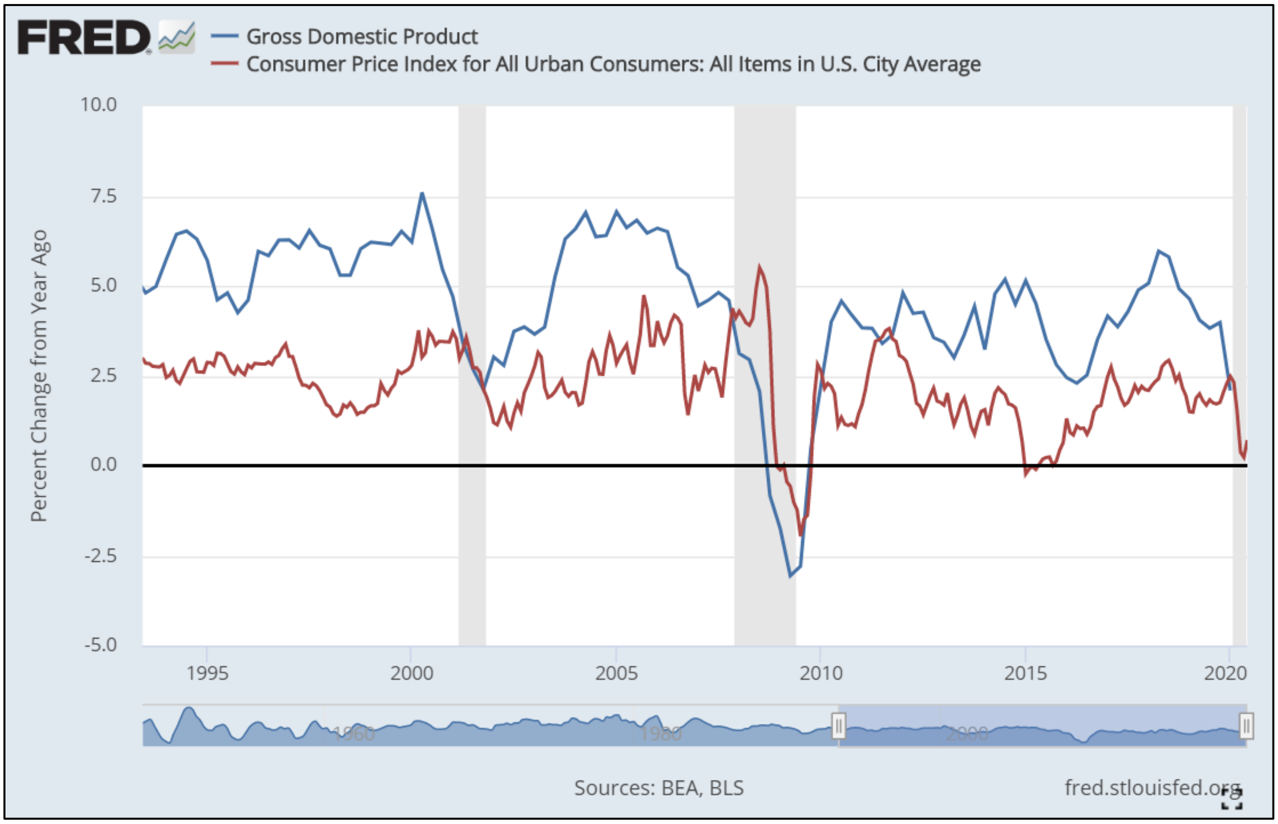
So, big business is lining up at the bankruptcy court, small business is shutting its doors - these jobs are not coming back. Confidence is ruined, so any notion that this is an environment to go have a party and spend money - the only sector that's doing well is existing housing. It's doing well because people are moving out of the cities. It's bad for the cities, but if you're a broker in a nice suburban area, then okay. Best Buy is doing well because everyone's staying home, so they want a new TV set, or CD player, or whatever music system you have. So, there are little pockets of prosperity here and there, but not many. **Again, I'll go back to depressed, with the point being that a depression is a psychological phenomenon. It's almost synonymous to mental health depression - an economic depression is almost the same thing.** It's in my new book, by the way. And the paper you mentioned, I did read it. It's the centerpiece of my book. I was saying it's going to be five years, and I read this papers that says 30 years; okay, I guess we've got our work cut out for us.

Ronald Stöferle:
Jesse, do we want to jump in?

Jesse Felder:
Sure, I really appreciate that Jim is emphasizing the psychological component of a depression and inflation because I think these are things that are very difficult to model, and they are driven by psychology. **Depression is really a change in consumer psychology**, where people decide that conspicuous consumption is no longer something that I want to do because it'll make me look bad, and people change their habits. And that's really what drove the Great Depression. And it's fascinating to study; I think we're seeing some of those similar types of dynamics going on right now, where people are consciously deciding to spend less, even if we do re-open the economy.

But inflation works by the same dynamic too, that people have to - and the Fed understands this - change inflation expectations in order to change inflation itself. And so, I think they do understand that. But in terms of inflation, and I've been writing about the return of inflation for a couple of years now - way early - and I do think it has been even pushed back further because if you look at just the correlation between GDP and core CPI - they're very highly correlated. So, we're seeing a significant - a huge - drop in GDP right now, which is why core CPI is probably going to continue to decline for a time.

GDP vs. CPI Yearly Percentage Change



Source: St. Louis Fed

But one of the biggest drivers of this inflation over the past thirty plus years was a combination of demographics and globalization; you had the baby boomers coming into the workforce - that's a huge supply of labor. And then the trend towards offshoring, which is another huge supply of labor, which pushed down labor costs and inflationary dynamics to a great degree. But I think that trend towards globalization peaked over, maybe, 10 years ago, plus. And we've seen a trend towards de-globalization. And I think we're going to see the pandemic only accelerating this kind of “re-shoring of labor” idea. So, that's kind of a structural or secular force that I think is net inflationary - at least puts an end to the disinflationary forces we've seen for a long period of time.

But I think there's also some cyclical or situational things going on right now; **I think it's really important to differentiate the QE from the past, to the QE we're seeing today.** The QE that was created in the midst of the financial crisis, and we saw extended for years and years afterwards, was explicitly to try and create a wealth effect. We want to buy up risk free assets to push investors into corporate bonds and other risk assets, to try and push up the prices of those things, make people feel wealthier, and that will support their spending and the economy. I think the QE that we've seen really since last fall, when we had the kind of mini crisis in repos, is a different type of QE. **This is QE that's not intended to try and prop up financial markets; this is a QE that's in direct response to financing government debt**, and I think that's a huge difference. I think the repo crisis was a result of massive Treasury bill issuance that there just wasn't enough money out there to buy. And so, we had kind of a squeeze in the funding markets, and the Fed had to come in and say: “okay, we're going to start buying government debt again because there just aren't enough buyers out there”. And to me that is a totally different form of QE, and this gets back to my idea about the currency; if people start realizing that what we're seeing right now is MMT - that was MMT that started last fall; and we're seeing MMT now where the Fed is being forced to buy government debt because there just aren't enough natural buyers – to me that can play into people's psychology, where they realize: “okay, this is no longer something the Fed is doing on a discretionary purpose to try and support markets, they're doing it because they have to fund the government”.

And if people start realizing that, and coming around to that mindset, then that is what is going to result in a drop in the currency. And the combination of those things, that mindset of: “wait a second, we're now in a situation of fiscal dominance and every time the government wants to try and do something to support the economy, the Fed is going to have to print the money to do it; the Fed can't choose not to do that” - that's a situation where people are going to start being concerned about the currency.

Jim Rickards:

Jesse, when you say a drop in the currency - it's like that old Montreux Jazz song - compared to what? Everyone says the dollar has to go down; the dollar is going to go down. Well, if you look at the DXY, if you look at the Bloomberg dollar index, if you look at the Fed’s broad real trade weighted index - it's all versus the euro. Not exclusively, but very heavily weighted to the euro. So, **when you talk about the dollar going down under any currency index, you’re talking about the Euro going up. Do you really think Europe’s going to let the euro go up? It’s going to kill their exports, import deflation, extend their depression - there's no free lunch.** I think it's irrelevant by the way, I think that the dollar could go down against the euro, and then the dollar could go up. Currencies don't go to zero the way stocks and bonds do; they just trade in a range. So, in other words, you can't talk about a weak dollar unless you're willing to admit a strong euro, and a strong euro kills Europe - so is that the policy or the expectation?

Jesse Felder:

That is my expectation; **I think the dollar could fall 30 to 40 percent against the euro and yen - against the basket.** To me, the fundamentals of the dollar is the federal deficit; you look at the correlation between the dollar and the deficit - it's very, very close. The dollar was very strong during the dot-com mania and into the early 2000s; that was the last time we had a fiscal surplus. We had a deficit as a result of the dot-com bust; the dollar started rolling over and didn't bottom until 2009-10-ish, something like that.

Jim Rickards:

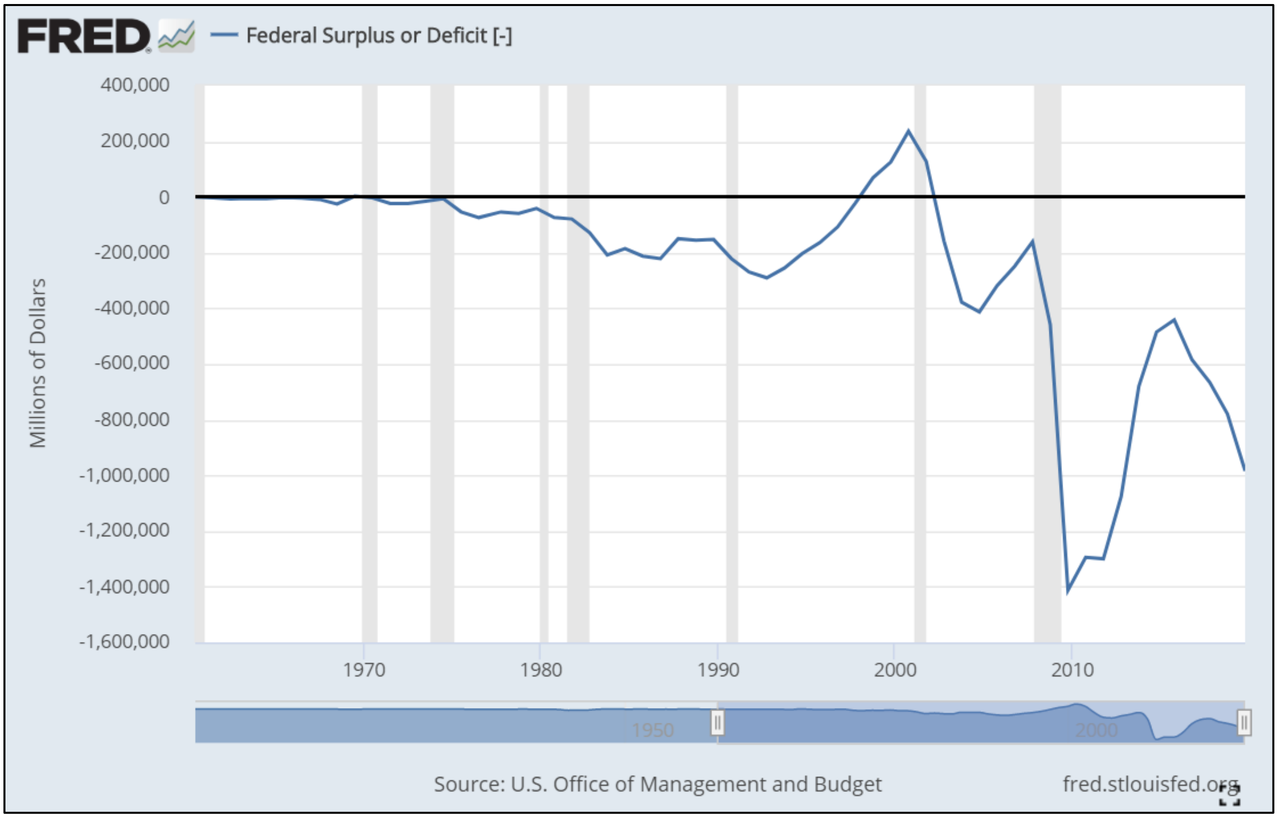
It bottomed in August 2011.

Jesse Felder:

2011, and when was that? That was right when the deficit bottomed out and started narrowing again. So, now the deficit started expanding after Trump was elected and created a trillion dollar deficit during an economic expansion - first time we've seen anything like that since the Vietnam War in the late 60s. And that was why, to me, the dollar peaked in late ’15, or early ‘16, and rolled over pretty hard – that was the currency markets realizing the deficit is going to start blowing out again.

Source: investing.com

U.S. Government Deficit



Source: St. Louis Fed

So, that's the difference between the U.S. and Europe too; we're going to have massive deficits and literally no impetus at all to try and rein them in. Whereas in the European Union you have regulations against these types of things, and you still have a mindset against deficits. And you also have a central bank that is not completely beholden to try and prop up financial markets; our Federal Reserve has decided not only do we need to print money to fund the government, we also need to print more to prop up markets. So, I do think the Fed is going much, much larger.

And then you also take the other fundamental I look at: the dollar is overvalued on a purchasing power basis - Big Mac index, whatever you want to look at – 20 to 30 percent against almost every other major currency?

Jim Rickards:

How many Big Macs do we export every year? The Big Mac index is one of those economist jokes; I mean, it's sort of laughable.

Jesse Felder:

On a purchasing power basis, we are 20 to 30 percent overvalued against the Euro.

Jim Rickards:

Purchasing power is irrelevant if you can't export haircuts and Big Macs - that's the point.

Jesse Felder:

Well, if I look at the history of purchasing power parity across currencies, there are times when currencies are overvalued and times when they're undervalued, and those always revert over time.

Jim Rickards:

Purchasing power parity has some predictive analytic ability in a regime of fixed exchange rates; it meant something under Bretton Woods - it hasn't meant anything in decades.

Jesse Felder:

So, do you think that the European Central Bank and the Bank of Japan have the ability to be as easy as the Fed?

Jim Rickards:

Yeah, they've proved that many times.

Jesse Felder:

But they don't have as far to go with interest rates, and they can't monetize debt in the way that the Fed is being tasked to do.

Jim Rickards:

Well, they can do something else. **See, the European Central Bank doesn't care about European capital markets because they're not an important part of the financial system. Europe is run by banks; they care about Deutsche Bank, they care about UniCredit. They care about the big banks.**

Jesse Felder:

If they cared about them, they wouldn't have negative interest rates right now because that's what's killing the banks.

Jim Rickards:

Well, they'll bail them out whenever it's necessary, that's my point. The same as the federal bailout. And they're doing it with currency swaps from the Fed because they need dollars because Deutsche Bank has got a ton of dollar liabilities. **So, the Fed and the ECB are going to coordinate the currency; markets are practically irrelevant.** It could fluctuate in a small band, of course, but you're not going to get a much weaker dollar because that implies a much stronger euro; it's just two sides of a seesaw - one's up, one's down. You get a stronger euro and you're going to kill Airbus, Volkswagen, and we actually need them as a trading partner. It's like the reverse of the Marshall Plan.

The only time the U.S. insists on a weaker dollar - and Jesse's right, we do have a weaker dollar, sometimes - but the only time the U.S. allows it to happen is when our growth is so weak that you have to bail out the United States. But otherwise, if everyone else is suffering, and the U.S. is suffering, but we look a little bit stronger, we'll suck it up and have the stronger currency to throw them a lifeline. That's what we're doing right now.

Jesse Felder:

My point is that the Fed will be forced to either decide to protect the currency, or to fund the government; it's going to be one or the other. They cannot do both; they cannot fund massive deficits by printing money, and protect the currency at the same time. So, it's a choice between the devil and the deep blue sea; you either print money to fund the government, and allow for a potential drop in the currency that could create runaway inflation, or you say: "we're not going to allow the currency to depreciate, so we're going to have to rein in money printing. We're not going to be able to finance all of these deficits ourselves". And then you have to allow for a crash in the financial markets. I think that is the decision they will be faced with.

Jim Rickards:

I agree that the Fed will print all the money it needs, as long as it needs, to prop up U.S. financial markets, and the US stock market in particular - I agree with that.

Jesse Felder:

Do you think they can do that, and prop up the currency at the same time?

Jim Rickards:

The Fed does not drive cross exchange rates; they are not driven by Big Macs, haircuts or the Fed - they are driven by capital flows.

Jesse Felder:

These capital flows will get to the point where they're saying: “I'm not going to earn fifty basis points on a 10-year t-note while you're debasing my currency by 20 percent per year”. That's what those foreign currency flows will do.

Jim Rickards:

But how are they debasing it? The currency flow is buying the dollar - making the dollar stronger. How is the money printing debasing it?

Jesse Felder:

But look at how much M2 is growing.

Jim Rickards:

Yeah, I'm saying it's irrelevant. That's my point. What are you going to do - buy Tik Tok? Go into Chinese capital markets? Invest in Hong Kong? Want to go into India? They're on the verge of a war. What do you like – Turkey? They have a trillion dollars' worth of debt. What do you like better than dollar?

Jesse Felder:

At some point almost anything could look better than dollars.

Jim Rickards:

I'll give you an answer, Jesse, and this will actually prove your point. The inflation is already here and the dollar has already collapsed, but no one knows where to look. And you look at gold; you have to stop thinking about gold as a commodity, and start thinking of it as a form of money. The cross-exchange rate between dollar and gold – **the dollar has already collapsed and the inflation is already here. But it's in gold, and gold is the best and longest-horizon leading indicator of just about everything.** People say that the stock markets look forward and discount to the present value - that's fundamental analysis. I get it, but stock markets usually get it wrong. If you get the forecasts wrong, you're going to get discounting wrong. The stock market did not see the 2008 crash; did not see the 2020 crash; they're not going to see the next crash. They try - I give them credit - they try, but they do a really, really lousy job. But the one cross rate that does a really good job - in fact it looks so far ahead that people don't even pay attention to what it's saying - is gold.

So, your inflation and your collapse have already happened, but they've happened in the gold space - that's your metric.

Source: bullionstar.com

Jesse Felder:

I agree with all of that; I think the only thing that I disagree with is that I don't think the Fed can monetize the debt indefinitely, or infinitely, without it affecting the currency.

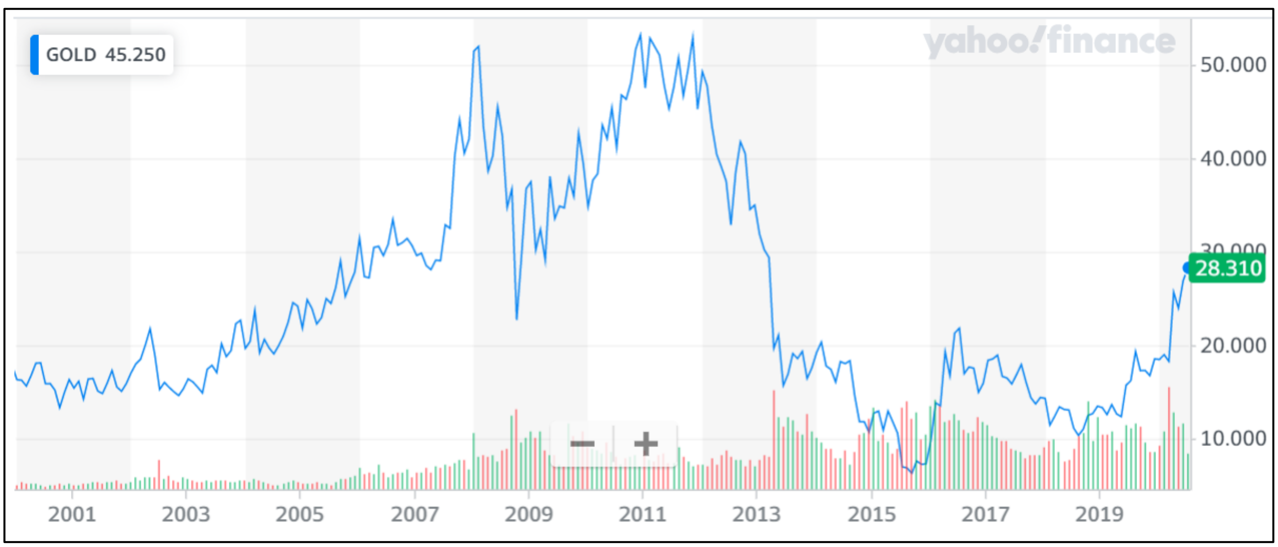
Jim Rickards:

I agree with infinitely, but it could be a long time between here and there.

Ronald Stöferle:
Just a few things about gold, as we tend to share a little affinity for gold, it seems. I just crunched the numbers, and gold advanced now for seven consecutive quarters; it's trading very close up to its U.S. dollar all-time high. If you have a look at the performance in different currencies, gold was up 18.9% last year in dollar terms and this year, only after the first half of the year, it is up 18.1%. In Euro terms it was up 22.7% last year, and it is up 17.3% this year. And on average gold is up 17% since the beginning of the year, so it's rising, really, in every currency. That's obvious, but it's also rising against the stock market and it's rising against the bond markets.

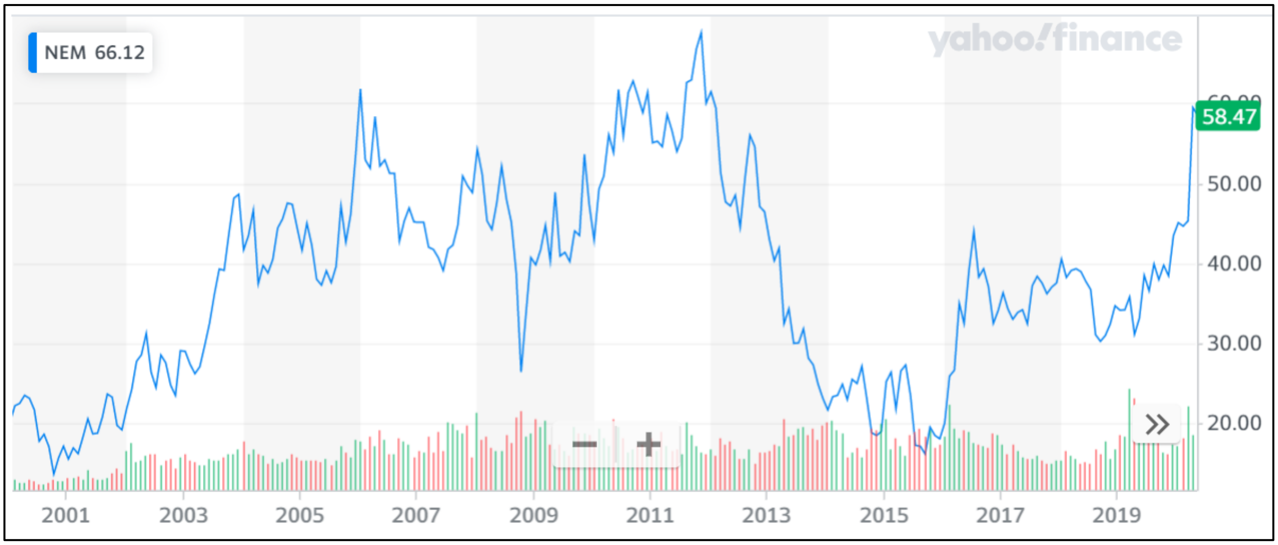
Another sign that it's really a stealth bull market is that miners are doing really well. We are seeing huge volumes being traded in the large caps like Barrick, like Newmont, like Franco, for example – really, really large volumes. So, it seems that generalists are coming into the market again. ETF inflows were significant last quarter.

Barrick Gold Share Price & Volume



Source: yahoofinance.com

Newmont Corporation Share Price & Volume



Source: yahoofinance.com

So**, it seems that gold is going mainstream again**, and of course we've all been waiting for it. And I don't know if you share this thought, but I think that a good investment at the beginning kind of has to hurt. It has to leave you in discomfort because if it's so obvious, then it's probably obvious to everybody. And now it seems sometimes, to me, that it all sounds a bit too easy. So, did we miss anything? But I don't see any big u-turn when it comes to monetary policy; I see inflation on the horizon; I see that large institutional players are coming into the market; I see that the commitment of traders report is still looking good. Silver is now kind of confirming gold. But do you sometimes wake up at night and think: "geez, I did forget that thing about gold; this might be a real threat to this bull market."

Jim Rickards:
Well, I'm the guy who had a forecast of gold at $10,000 an ounce, so I'm all for it.

But I disagree with one thing you said, Ronni. Of course, all the facts are perfectly correct, but when you said: "we see it and everybody else sees it" – the first part is true, but I don't think the second part is true. I think your everyday investor, and in fact, we don't have to talk about retail, let's talk about institutions; institutional allocations to gold are about 1 to 2 percent – maybe.

Ronni Stöferle:
But they are not allowed to invest in gold.

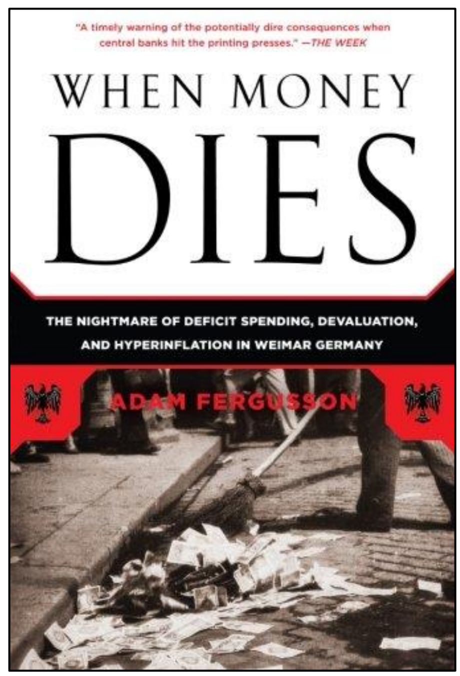
Jim Rickards:

Many are not, that's correct. And a lot of 401(k)s cannot, and you are right about that. So, there's a lot of money that is ringfenced away from gold – that can't invest in gold; that's important.

But some can, and they generally do not. They watch it; they hear everyone disparage it; they hear people talk about bubbles; they don't understand what's going on. What I tell people, and I have some clients - I can't mention their names, but if I did, you'd go: "oh yeah, those guys"; they are some of the biggest funds in the world – and we talked about this**; we all like to see gold go up in dollars, euros, or whatever, but it's not conceptually correct to think of gold going up. What's happening is the dollar is going down. We're witnessing the collapse of the confidence in the dollar.** That's what's really going on. It expresses itself in terms of a higher dollar price per ounce of gold, and the gold people are cheering, including myself, but that's not what's going on - the dollar is collapsing.

Mark Valek:

A few thoughts, I think this discussion is really an important one; first of all, discussing which currencies are declining relative to each other. You guys had a little bit of an argument if the dollar is going to decline relative to euro or to other fiat currencies, but then we turned the corner and I think that's really the most important question: will fiat currencies generally decline, or keep on declining, relative to gold? I think the answer is pretty obvious to us. But I also think the other view point, or the other reference one can look at, is commodities in general.



And I think if one looks at commodity prices in general, one can also perhaps gauge if the very important factor, which Jim mentioned – velocity, at one point will turn. I think it's important to think about velocity as a backward-looking factor because we can only calculate velocity looking backwards. So, maybe it's true that velocity has no chance of turning in the medium term, but I wouldn't bet on it. And I think if one has one chance to gauge if this picture is turning, looking forward, I think a very important component to look at is not only gold prices, but commodity prices in general. **And what we saw in the short term is commodity prices have been bottoming out recently.** It's perhaps a bit early to call for a huge change in dynamics, but some of the commodity prices, not only gold, but agriculture prices and energy prices have done quite a bit - they are rising.

What we also saw is that the gold/silver ratio peaked on March 22nd at 122; it came down significantly. That's also a little bit more of a forward-looking indicator, and perhaps this dynamic is changing. So, I think there are quite a few other market-based indicators which are worth looking at and trying to anticipate a change in velocity.

Gold to Silver Ratio

Source: macrotrends.net

And I'll make another point: I would qualify myself as an Austrian based thinker - Austrian School of Economics. I'm very aware of the fact that velocity is a big factor and actually it became clear to me when I studied Weimar Germany and looked at the very famous book “When Money Dies”, because what I learned is that that was basically the reverse case of where we are now. The Reichsbank stopped inflating – or reduced their monetary inflation, in the fall of ’23 – significantly, and only inflated the money supply at the rate of 4x at the end of the hyperinflation. But the price inflation didn't stop; so, they were inflating like crazy and then they reduced their inflation significantly, and price inflation kept on skyrocketing. There, I think, you had the reverse effect: the velocity kept increasing, so all that printed money that was out there had higher and higher velocity.

So, it really didn't matter that the monetary inflation was stopped because velocity kept on skyrocketing, and therefore price inflation kept on skyrocketing. And this is just worth mentioning because it can go both ways, that's actually the thing I want to say. It's obviously not the case that we are anywhere close to a hyperinflation right now, in the major currencies at least, but once this money is out there – and I think the Austrians have some credentials in saying so – it's really difficult to get it back. The question is really how to gauge this psychological element; when will this behavior change? And my best shot at this is to look at some market factors because the markets usually know more than we do because there is collective information there. So, do you want to add some thoughts on the recent commodity price dynamics? That's something we are looking at very closely right now. Jesse do you have some thoughts on that?

Jesse Felder:
Sure, I think it's probably important to watch the oil price, specifically. There's a lot of supply and demand dynamics going on there, with the whole shale boom and everything, but I think it will be interesting to watch what oil does going forward, and that will have a lot to say about what's really going on with the currency.

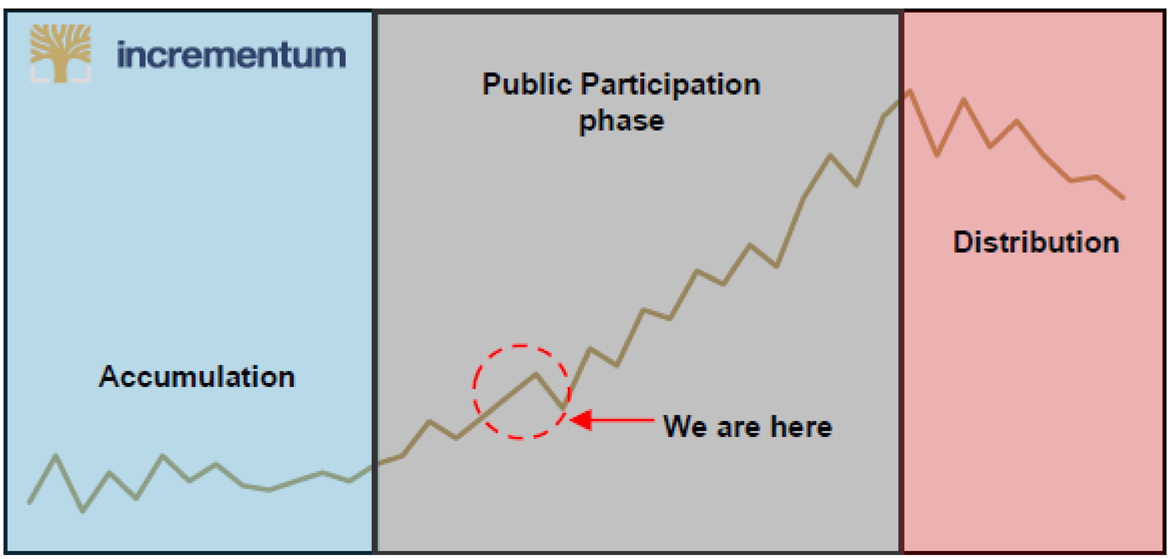
From a perspective of being a trader, I look at gold fundamentally; **I turned bullish on gold in mid-2015**, largely because I saw so much hate for it from a sentiment standpoint. The Wall Street Journal calls it a pet rock. And that's one question I ask myself all the time: “what's the most hated asset class on the planet? What’s the most hated stock in the market?”. That's usually where there's some opportunity; and there was so much hate for gold in 2015 that I thought: “there's got to be terrific opportunity here”. And the more that I looked at it, the more I thought: “gold should do really, really well going forward”. I do think gold is probably going to go to new highs; it could see $3,000 an ounce over the next couple of years. In the short run, however, I do think that we haven't gotten to that point like we did in 2011, where gold was on everybody's radar. I do think we're starting to see retail pile in and we're seeing a lot of interest in ETFs, but you look at past gold bull markets and there's always 10-20% corrections over the course of the long run. **So, I do think we're probably a little bit over-bought in the short run, in this trend.**

Technically, I like to see periods of consolidation and then strong breakouts, and that's not really what we've seen over the last couple of months. We've seen incremental price highs with waning upside momentum on a short-term timeframe, which has me a little bit more concerned about a correction. And then also, when we talk about the potential for deflation, one of the strongest drivers for gold is real interest rates, and if inflation falls faster than interest rates over the next month or two, that probably leaves a potential for a corrective period. There are also a lot of speculators in futures markets; it’s pretty crowded right now, so I'd love to see those folks shaken out in a correction, just in the short run. **But longer-term I’m still really, really bullish on gold.**

Ronald Stöferle:

We wrote in the gold report - it's based on the Dow theory – that we entered this public participation phase, which is the longest phase, where the media starts getting more positive. And Wall Street analysts and private bankers say you should have a 2% or 3% allocation. That's the fun part of the party, but I agree that it's definitely not a contrarian investment right now.

The Three Trend Phases According to Dow Theory



Source: Incrementum AG

Now, let me ask you: what's the most hated asset class now? Is it agricultural commodities? Is it value? Is it Japanese equities? Is it silver? What do you think?

Jesse Felder:

Well, small cap value is certainly very hated right now. But there are some very powerful trends in passive investing that are kind of conspiring to make that trade not work. One of the most important trading lessons that I've learned from my career is: when there's nothing to do, do nothing. And what that means is, wait for extraordinary opportunities to commit capital. You don't always have to be trading. And so, **right now I have a balance of cash and gold** because I want to have dry powder to take advantage of opportunities in financial markets when I think valuations are more attractive, but I also don't want to have a bunch of money in cash when I think the value of that cash is being rapidly degraded, and so I hedge that with a large gold position.

I don't see anything that jumps out to me today as a terrific opportunity, in the short-term. But my background is in the stock market, so especially in terms of the stock market I think **the only opportunity there might be in stocks right now, is on the short side. I think we started a new bear market in March**; this rally is very similar to rallies we saw after the 1929 crash. After the March of 2000 burst of the Nasdaq bubble there was a nice rally going into the fall of that year. I look at a lot of price analogues, and look at the Japanese Nikkei implosion in 1990, and actually the S&P 500 looks really close to what the Nikkei I did in early 1990 after its initial sell-off. So, I think if there's any real opportunity, it's probably in the short side of the stock market right now.

Ronald Stöferle:

Okay. If you would have ten more minutes, we have two brief questions, and Jim this is especially for you. It's about the upcoming U.S. elections. Of course, it will be quite an important driver for markets, and I saw that PredictIt now has a 60% chance of Joe Biden winning, and 40% for Trump. I saw a comment which said that two-thirds of Biden supporters see their vote as being against President Trump, and this probably means that, unlike the situation in 2016, they're probably more likely to show up and vote this time around.

So, what do you think about a sweep of the Democrats? It seems that the team of Joe Biden is filled with guys from the Bernie Sanders camp that are definitely very pro MMT, and whatever they want to call it. Do you think this is really realistic, with those odds that are pretty extreme now? And what do you think would be the outcome of a sweep of the Democrats in November?

Jim Rickards:

That’s a lot to unpack.

My book “The Road to Ruin” came out in the fall of 2016 and I thought I was on a worldwide book tour - I was doing network TV interviews in Australia, in London, New York etc., but it was like a week before the election and the anchors invariably said: “well, Jim, you're the American here - who's going to win the election?” And I did have a model that I was following very closely, and I said Trump was going to win. It's going to be close and we'll be up late. Usually their face would turn white; they would not know what to say, and then you get laughed at and all that stuff. But remember, that was at a time when the polls were giving – and the betting odds – were giving Hillary a 92 to 93 percent probability of winning. It was very apparent that Trump was going to win.

And I'm using the same models today. They're updated; you continually update for improvements you can make in terms of conditional probabilities, and also data inputs. And I look at polls. **You can pretty much throw away betting markets - they don't mean anything**, and let me explain why. You mentioned, I think, 60 or 70 percent chance of Biden winning; it was also a 60 or 70 percent chance of the UK voting to remain in the EU. And I stood in what they call a capsule – a bubble – in the London Eye on June 20th 2016 - three days before the vote - and I said that the UK was going to vote to leave the EU, and that you should buy gold and short sterling. For months later I got thank you notes: "thank you for helping to put my kids through college because that was the best trade of the year", which it was.

I'm just giving that background to make the point - oh sorry, let me finish the thought on betting; here is why betting odds don't matter: if you're a bookie, you set the odds not based on the number of bettors, you set it on the weight of money. In other words, you give short odds to the weight of money, not to the number of bettors. So, what happens is that the Biden bettor will bet a thousand bucks, two thousand bucks - they're the big shots. By the way, the same was true in the City of London; it was all the city bankers betting ten thousand quid on remain etc., but the everyday guy, the guy in the pub up in Lancaster - he was betting one quid. And so, you had one bet for remain, and one bet for leave, but it was a £10,000 bet versus a £5 bet, and so you had to give the £10,000 guy really short odds, so you had to say we're going to remain.

So, what you want to know – and I don't know if PredictIt makes this information available or not - but don't look at the odds, because that reflects the weight of money. In a voting booth money doesn't matter. You can be a billionaire, or poor, but each guy gets one vote. So, what you want to ask PredictIt is how many bets each way, not the odds, because they're weighted by money. Unless you can get the raw data on the number of bets, not the odds or the weight of money, then it really doesn't mean very much. **And the polls are all messed up. I've got a 50/50, and that sounds wimpy, but it's not wimpy because I use a Bayesian model along with complexity theory, and a few other inputs. And what 50/50 really means is that there's a very high degree of uncertainty** - we just don't know, and there's a lot of volatility around it. And you kind of referred to this Ronni; I don't think this is an election between Trump and Biden, I think this is an election between the good Trump and the bad Trump.

Policy-wise he was just one huge success after another; putting tariffs on China was long overdue, trying to get jobs back in the U.S. was long overdue, cutting off Huawei, cutting off intellectual property theft in China, all the stuff Lighthizer did as U.S. Trade Representative. **Almost every policy Trump has pursued has been extremely successful, but personally he's vulgar, he's crass, he's a name-caller, he's crude.** And none of that mattered very much. If you don't like Trump, you don't like Trump. There's not much that can change that; 73-year-old guys are not going to change their habits. You can bet money on that.

But where Trump ran off the rails in late March – and I just wrote this book on the pandemic; you mentioned that it's coming out soon – and one point I made is that the virus doesn't care. The virus is not a Republican, it's not a Democrat, it's not red, it's not blue - the virus just wants to kill you. That's all you need to know. The virus wants to kill you – that's all the virus knows. **And the way we've politicized the pandemic is a disgrace because it should be based on good science and good medicine.** How did wearing a mask become a political virtue signal, as opposed to good public health? We don't know. Actually, we do know - that's the unfortunate part of it. **So, Trump started out okay, putting the travel ban on the Chinese in January - really good move. He saved tens or hundreds of thousands of lives. He then extended that through a series of proclamations.** Andrew Cuomo's on TV every day: "ventilators, ventilators, ventilators - give me ventilators!", and Trump actually got the ventilators. He used the Defense Production Act. By the way, the ventilators turned out to be an enormous blunder, they killed a lot of people. They don't work. You need pure oxygen; you need other treatments. **Ventilators are almost the worst treatment you can think of; the doctors didn't really understand the disease etc etc. The ventilators were never used, New York City never ran out of ICU beds, Trump delivered everything that the governors wanted.**

Trump made one huge mistake, which is typical of Trump. He stepped out in front of this. We never had a national lockdown, there was no such thing. You could have it; the president has the power. We had 50 individuals state lockdowns, ranging from extreme measures in Michigan, Maine, New York to some extent, and in other states too. South Dakota had no lockdown; the governor never gave an order to do anything; he said wash your hands, wear a mask, stay home if you're sick, but the governor never made anything mandatory in South Dakota. And then other states went to extremes. So, what we had were 50 governors and a whole bunch of mayors and city councils making individual decisions, which is probably the right way to do it because conditions vary from coast to coast. **But Trump made the mistake of making himself the center of a three-ring circus; he caught the blame for all the failures when they weren't necessarily his failures.** Trump has made it very easy for everyone in America to duck responsibilities. Burning down the cities? Blame Trump. The virus is out of control in Texas? Blame Trump. And then he started picking fights with John Karl. John Karl is a nice guy, I know him, but he's not a policymaker; he's not Chairman of the Fed. So, **Trump did everything wrong from a perception point of view, even though his policies are pretty good. He dug a hole for himself, so this is Trump versus Trump.**

The thing about Biden is that he is pretty far along in dementia; whether it's early stage Alzheimer's or early stage dementia, it's a progressive disease and it jumps in exponential leaps. He can't finish a sentence; he can't compose a coherent thought; he'll be medicated if he does have to go on stage in the debates. We're electing - and I say this with nothing but sadness, and I wish his family would intervene - but we're in the process of electing a serious mental health defective, cognitive deficiency, as president of the United States, with nuclear war fighting powers. How cynical do you have to be to push that guy?

Now, what are they going to do? You need to watch the vice-presidential selection because the vice-presidential selection for Biden will, in effect, be the next president of the United States if the Democrats win. And they know it. And that's why they're fighting over it; we've never seen fights like this for the VP job. So, if Biden wins, the cabinet will be a bunch of Obama recycled resistance people. You'll see Sally Yates as the Attorney General, you'll see Susan Rice - if she's not VP, she'll be Secretary of State, and so on. So, Biden – who is mentally incompetent at this stage – will be surrounded by Obama resistance figures, and they'll exercise the 25th amendment – remove him from office sometime in mid-2021, and then the VP will become the president. Think of president Susan Rice, or president Val Demings. There are a number of names out there.

Now, here's my question for you Ronni: how much of what I just said has the market discounted?

Zero.

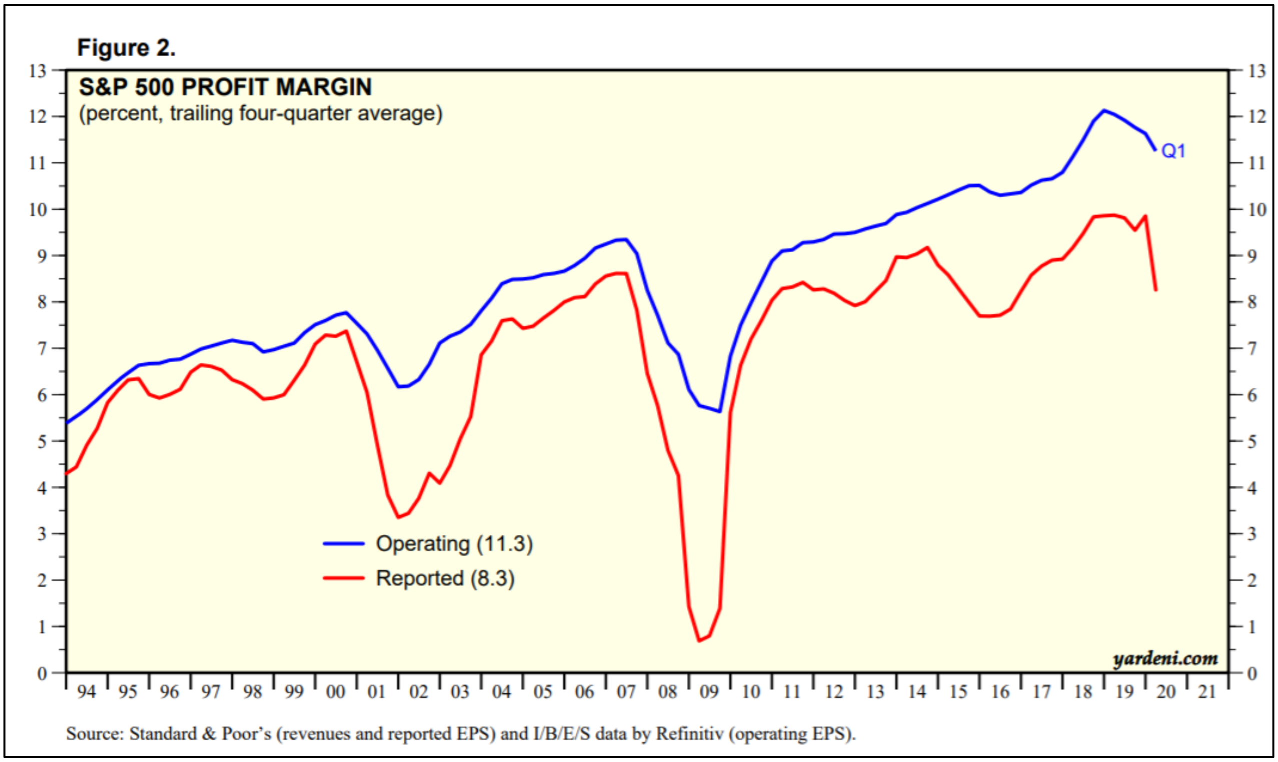
I promise you. The market – all it can do – is to discount the on-again-off-again impact of the pandemic, discount the effect of monetary policy and the economic depression. It's all the market can do – to discount those two really big stories. They haven't really begun to think about the election; it is three months away. So, we're in for another shock from that source alone.

Ronald Stöferle:
Thank you very much.

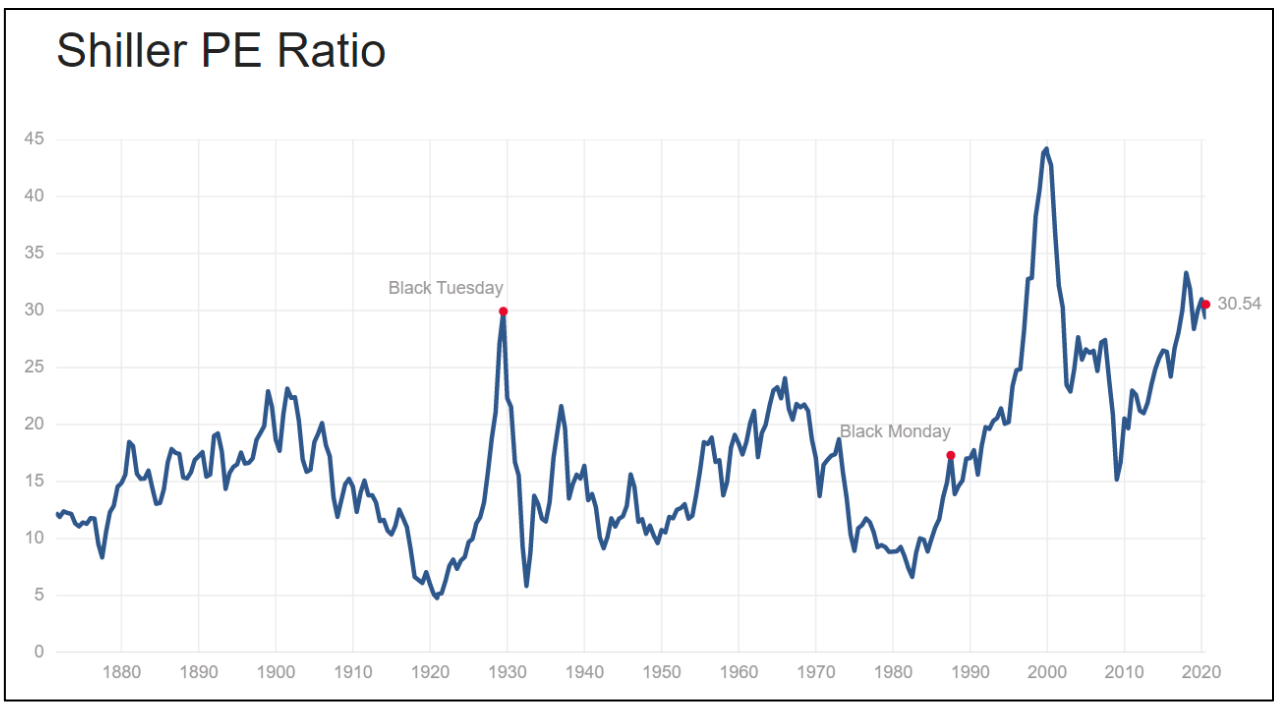
Jesse?

Jesse Felder:
I don't have any models to predict who's going to win, but I do think there is a good chance the Democrats take the White House, and the Senate. And I agree – Biden has been telling donors: "I'm going to undo the tax cuts; I'm going to undo the corporate tax cuts." If you look at just S&P 500 earnings since 2016, I would argue – and I haven't looked at the data – but you look at S&P 500 earnings versus corporate profits as reported on Fred, and there's a huge disparity. Some of that is buy backs, some of that is accounting**, but I think a majority of the growth in earnings in the last few years is just the corporate tax cuts.** And so, if you undo those corporate tax cuts, you're talking about a big drop in earnings. We're already seeing a big drop in earnings. I think we're looking at a 40% drop in earnings. I think that is what Factset is saying for Q2. **And if you add a corporate tax raise next year, going into the year after, that's going to be very, very bearish for the stock market.**

Part of this is that people look at price-to-earnings ratios; the price to earnings ratios are very high. **But price to earnings ratios don't account for the fact that corporate profit margins are also, very recently, at record highs. If you mean-revert profit margins to a historical average you're looking at the highest valuations we've ever seen in stock market history.** Part of that mean-reversion is probably rising corporate taxes. I think a lot of people think PE ratios are high, but if you look at a PE ratio adjusted for normalized profit margins, we're totally off the charts. And so, there is potential for a huge reckoning in the stock market and maybe that catalyst would be undoing those corporate tax cuts.



Source: Yardeni.com



Source: multpl.com

Ronald Stöferle:
Very good point, Jesse.

We're coming to an end, but we’ve got a question from a young follower. He’s a very nice bloke, and I think he asks an important thing, because he asks: do you have any advice for young people wanting to enter the investment management industry? Where will the best opportunities be in the next 10 to 20 years? Or is the financial service industry so saturated that young people should avoid the industry altogether? What would your recommendation be for the young folk?

Jesse Felder:
I would just basically repeat the advice Warren Buffett has given because I wish I had taken it when I was entering the industry; it's to just find somebody that you really admire and try to work for that person. I think it's important to find somebody who you admire, not just from a professional standpoint, but from a personal standpoint. You think they're not just good at what they do – they're good as a person. And you really can't go wrong, you're going to learn a ton. Even offer to work for free, if that's what it requires. But I think that's probably the best way to get your start in any business, really.

Jim Rickards:
I agree with Jesse, I think it's excellent advice. Myron Scholes, who I worked with for many years, he said when young people are looking at colleges to go to, they tend to go with the brand. They want to go to Harvard, or Stanford, or Yale, or Columbia. He said that's nonsense. He said figure out what you want to do – and some people can’t, that's okay – but if you can figure out what you want to do, then find the best school for that specialty, which is exactly what Jesse was saying, because you'll get the best mentoring. If you want to be a writer don't go to Harvard, that's a nightmare. Go to the University of Iowa; the University of Iowa has the best writing seminars – creative writing program – probably in the world, certainly in the United States. And so, you go to Iowa if you want to be a writer, don't go to Harvard.

And as far as going into the wealth management industry – it’s a growth industry. The field is still expanding. A lot of things are contracting all around us, but as the baby boomers get older, as people retire, and all of a sudden you don't care about big returns, you just care about preserving wealth. The money management business is going to be more important than ever. I think it's a growing field. If you want to be successful at it, I think Jesse gives some good advice. I would add: don't study economics, you'll be miss educated. You'll learn a lot of things wrong. You’re better off studying physics and psychology; if you do physics and psychology – and applied mathematics – you'll be a much better wealth manager than if you study economics, most of which comes under the heading of miss education.

Ronald Stöferle:
Excellent advice, thank you very much.

Jim, by the way, there's a cat behind you.

Jim Rickards:
It's not a white Persian – I'm not Blofeld. But yes, it's my daughter's cat; we're cat sitting.

Ronald Stöferle:
Great.

All right gentlemen, it's been a great pleasure – great discussion. Thank you very much, Jim, thank you very much Jesse, for joining us. We really enjoyed it. We will publish the transcript, and we will publish the video. We wish you a fantastic summer. Be good; be safe and healthy.

Thank you very much for taking the time. Thank you, gentlemen.

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 and a member of the advisory board at Affinity Metals (AFF). Moreover, he joined as an advisor to Matterhorn Asset Management, a global leader in wealth preservation in the form of physical gold stored outside the banking system.

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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