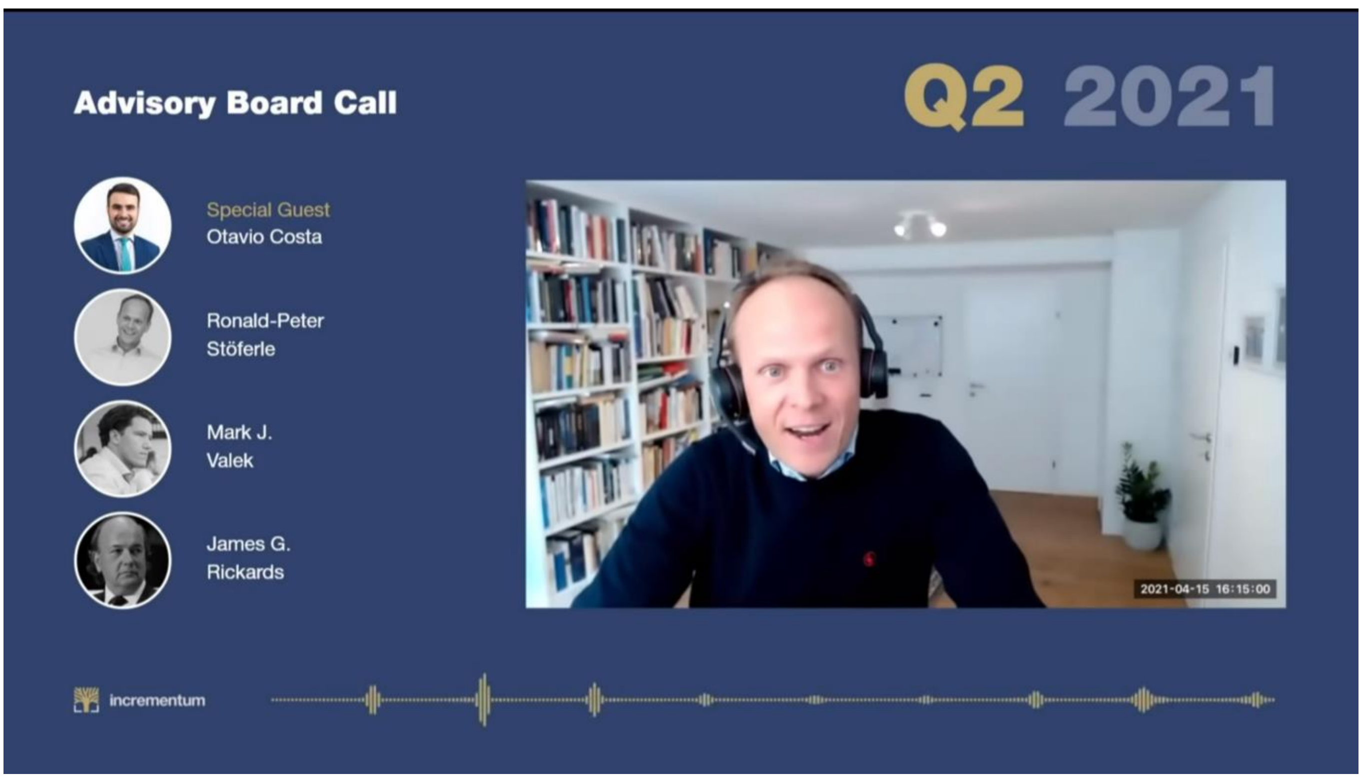
Minutes of the Advisory Board Meeting

Incrementum Inflation Diversifier

April 15, 2021

INFLATION DATA AND PROMISING OPPORTUNITIES IN MINING



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Highlights of the conversation:

Tavi Costa:

- We are at the beginning of a secular bull market for gold.
- CPI figures do not accurately reflect inflation, as we have seen steep rises in the price of food and cars.
- The balance sheets of the bottom 50% of US households have increased, and the bottom 50% tends to spend. We should expect inflation when this pent-up demand is unleashed.
- There are large “asymmetric” opportunities in the gold mining sector, particularly in exploration and discovery.
- Inflationary forces will manifest themselves soon: in a one to five-year timeframe.

Jim Rickards:

- The data does not show that we have entered an inflationary environment. I expect the environment to remain broadly deflationary until around 2023. Position yourself for short-term deflation, with the prospect of a sudden uptick in inflation.
- The market expects inflation in the short term, but I think the market is wrong.
- When inflation comes it will be with us for the long term.
- Money printing is not necessarily linked to inflation. We have not yet seen an uptick in money velocity, which is what determines inflation most directly.
- Tavi is right that there are great opportunities in the gold mining sector.

Ronald Stöferle:

- We have launched a new fund, the Crypto Gold Fund that combines gold, silver, mining equities and cryptocurrencies.
- Our new In Gold We Trust report relates to the topic “monetary climate change”.
- Russell Napier, a long-term deflationist, has recently joined us in the inflation camp.
- The correlation between the 10-year Treasury note and gold has proved to be strong.
- The Federal Reserve is open to tolerating higher inflation numbers.

Biography of our special guest:

Otavio ("Tavi") Costa – Member & Portfolio Manager

Tavi is a Member and Portfolio Manager at Crescat Capital and has been with the firm since 2013. He built Crescat's macro model that identifies the current stage of the US economic cycle through a combination of 16 factors. His research has been featured in financial publications such as Bloomberg, The Wall Street Journal, CCN, Financial Post, The Globe and Mail, Real Vision, and Reuters.

Tavi is a native of São Paulo, Brazil and is fluent in Portuguese, Spanish, and English. Before joining Crescat, he worked with the underwriting of financial products and in international business at Braservice, a large logistics company in Brazil. Tavi graduated cum laude from Lindenwood University in St. Louis with a B.A. degree in Business Administration with an emphasis in Finance and a minor in Spanish. Tavi played NCAA Division 1 tennis for Liberty University.

Transcript of the conversation:

Ronnie:

Gentlemen, it's a great pleasure to have you here again for our second quarter advisory board meeting. Jim Rickards is here, he is currently in his car, so you won't see Jim, you will just hear him.

Jim, thanks for taking the time to speak to us. We also have a special guest, a dear friend of mine, Tavi Costa. Tavi, thank you very much for taking the time to be with us. It's a great pleasure to have you here.

Tavi:

Thanks for having me. I look forward to this conversation.

Ronnie:

Thanks, Tavi. I will briefly introduce you, for anybody that has not heard of you before. Ottavio or "Tavi" Costa is a Portfolio Manager at Crescat Capital, and has been with the firm since 2013. He built Crescat's macro model that identifies the current stage of the United States economic cycle through a combination of 16 factors.

Tavi is a native of Sao Paulo and is fluent in Portuguese, Spanish and English. Before joining Crescat he worked as an underwriter of financial products, and in international business at Braservice, a large logistics company based in Brazil. He graduated cum laude from Lindenwood University in St. Louis with a BA in Business Administration with an emphasis on finance and a minor in Spanish. He also played National Collegiate Athletic Association (NCAA) Division One tennis for Liberty University. And I know that Tavi is also a big fan of Gustavo Kuerten, my favorite Brazilian tennis player. So Tavi, *bom dia*! Thanks for taking the time to speak to us.

Tavi:

Well, thanks for having me again. Yes, I'm a big fan of Kuerten. Anyways, it's nice to talk to you, Ronnie, Mark and Jim.

Ronnie:

Excellent. Before we start with the discussion, just a little housekeeping. We have been pretty busy during the last quarter, having **launched a new fund, the *Crypto Gold Fund* that combines gold, silver, mining equities and cryptocurrencies.** It is already our sixth fund. We are working twenty-four-seven on the upcoming *In Gold We Trust* report that will be published on May 27th. We have a big team of more than 20 people crunching the numbers, writing, researching, arranging layouts and preparing charts, which we are really excited about. However, there is still lots of work to do. **The title will relate to the topic "monetary climate change", so Greta Thunberg will also love it!** It will be published, as always, totally free of charge on our webpage on May 27th 2021. Recently we have done quite a few interviews. **I think one of the most interesting interviews was with Russell Napier, one of our favorite strategists.**

As you might know, Russell was previously in the deflation camp, but he recently joined us in the inflation camp. I think we had a really fascinating discussion with Russell about what is going on at the moment, drawing on his deep understanding of monetary history. Also, we have just published our new chartbook on gold, the preview chartbook for the upcoming *In Gold We Trust* report that will give you some hints about the most important chapters in our new report.

I'd like to start with our special guest Tavi. Tavi you are from Brazil, but you have been living in the United States for quite a while. I have to say that I have done quite a few presentations about gold during my career, and I particularly remember one keynote that I gave in Istanbul, where the asset managers attending my speech probably asked the best questions. I've never received so many really thoughtful and smart questions about gold.

Over the years I realized that asset managers and people from countries with traditionally weak currencies and high inflation rates have a completely different attitude when it comes to gold. For them, it is just natural to have gold as some sort of monetary insurance in your portfolio, which is completely different to the view of gold that people in the Western world have. I would like to ask you Tavi, how much did your background growing up in Brazil affect your thinking? And what's your general view, especially on the topic of inflation at the moment? Of course, it isn't such a contrarian topic anymore, we are seeing lots of interest when it comes to the topic of inflation, but I think it would be really interesting to hear your thoughts, as a Brazilian, but also as an asset manager, based in the US now.

Tavi:

Sure, I think we have seen issues with the Brazilian real (R$) many times throughout history, and even with previous currencies before the real. **My dad bought a motorcycle to protect himself against inflation. He was not a market practitioner or anything like that, for him that was a desperate move that worked out very well**.

When you experience this type of desperation to get out of a local currency, it makes inflation a concern, especially in places, such as emerging markets, that have some political weaknesses. **That is why when I hear about hyperinflation in the US, I have to say that I think it's a bit extreme relative to what we see in places like Argentina, Venezuela and Turkey.**

Throughout history, we've seen many of those currencies being devalued relative to hard assets. And one of the common themes that we hear a lot is the strategy of devaluing your currency to export more. What many people don't understand about Brazil is that devaluing your currency creates inflationary forces, and becomes a negative feedback loop. So you are able to export a lot of raw materials, but Brazil actually *imports* a lot of final products, so that feedback loop is very important as it increases inflationary pressure in the country. You immediately see tightening, and that is when things fall apart very quickly.

I often hear that Brazil is an emerging market, but it has been an emerging market for a really long time and has never emerged to be a developed economy. And that's the joke about emerging market countries in general.

When you research the history of emerging market credit collapses sometimes you see a currency fall apart, sometimes you see a stock market have issues even in local currency terms, but **the usual pattern that we see is that gold, in local currency terms, tends to rise significantly**.

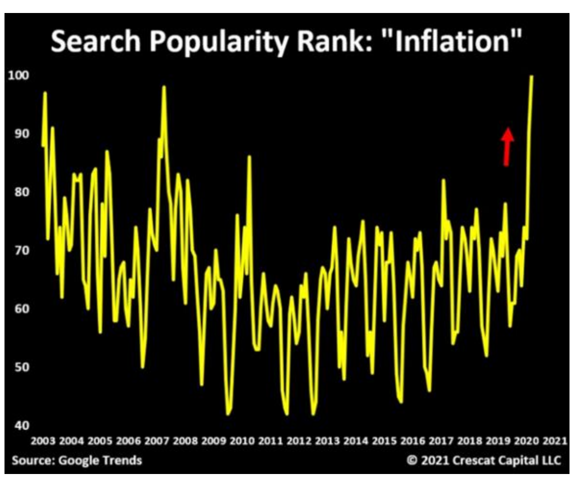
This is especially true when you have a very weak political environment, where the smart money in that country begins to leave, which is certainly what is happening in places like Argentina right now. **These are not quick developments, they take time to occur, so you start seeing the large firms exiting countries, as has happened in Venezuela**. In Brazil, we are not that far along the road yet, but I still think the real is a very overvalued currency relative to gold or even relative to the dollar. **It's always interesting to me, not only to be long gold, but long on gold**

against the most overvalued currencies we can find. I think the Brazilian real certainly fits into that category.

Ronnie:
Excellent Tavi – now tying in the United States – what's your opinion regarding interest from investors? Is it similar to what it is like in Europe, where more and more investors – especially institutional players – are becoming increasingly concerned about inflation, despite the fact that central banks are telling us that it is only transitory?

Tavi:
Certainly, I think that has been one of the narratives that has prevailed recently. I would say that there are two narratives. It's almost like a collision of two macroeconomic narratives that are very important. One is that a lot of people end up confusing things and talking about the coming of a new roaring ‘20s, which I completely disagree with. **There are parts of the situation where personal income and the households in the US have certainly improved in terms of balance sheets, in terms of income, net worth, and so forth.** All those things have actually improved significantly, but all we actually saw was a **relocation of the macro imbalances from the private sector to the public sector.** Therefore, the government is certainly a lot more levered and we are going to see issues with that as well, meaning it is very difficult to see organic growth returning to normal.

Going back to your question, it's very interesting how even if you look at Google Trends for inflation it's spiking right now, and for a lot of mean reversion asset managers that would be a time to do the *opposite*.

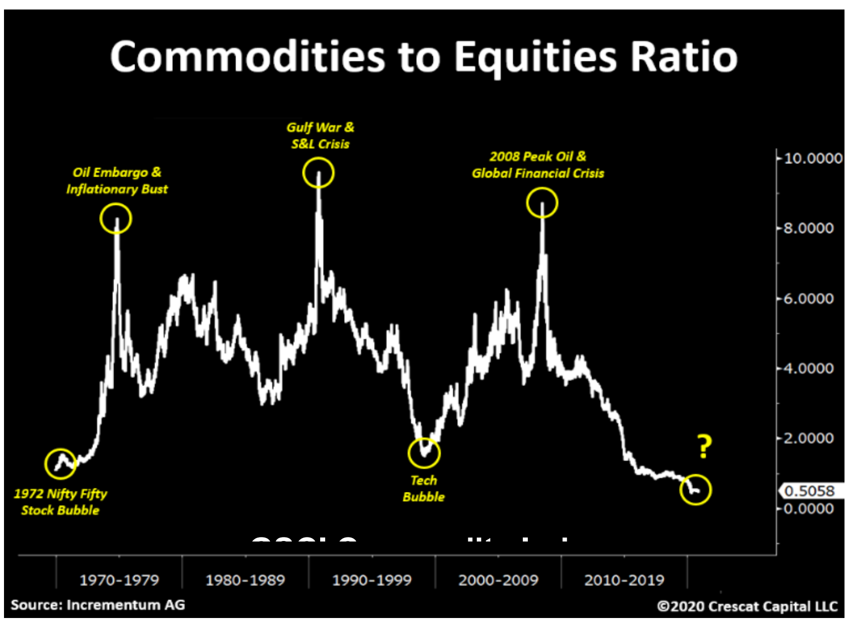


However, in my view, when you start seeing people hoarding money or hard assets – and that's one part of it we're seeing with Bitcoin – certainly there is an amount of speculation happening there too, but I don't think people are buying hard assets, especially Bitcoin, to go to the coffee shop and buy a coffee. **I think what they are doing here is showing a general concern regarding inflationary pressure building up due to this combination of extreme monetary and fiscal policy that we are seeing worldwide**.

Bitcoin is stealing the show a little bit from the precious metal side, but, for any precious metals investors, such as yourself, **it is a dream to have all these macro factors that we have today with almost record pessimism in terms of sentiment**.

This narrative of inflation: it's really a deflationary environment with a lot of speculative bubbles being met with truly unprecedented inflationary responses by the government. Where do we go from here? **I think it all comes down to the commodities to equity ratio.** That's where it is: right in between the narrative of the roaring 20s and the forthcoming liquidity crisis. So when you find that ratio is at a 50-year low, I think that's how you have to think about positioning yourself.

The commodity-to-equity ratio is at a 50-year low.



Mark Valek:

Great response thanks. We want to bring in Jim at this point. Jim, we saw you tweeting that you had recently held quite a few interesting presentations. Can you share some of your recent activities here? I think that would be really interesting for us and our audience.

Jim:

Thank you, Mark, I am glad to do that, some of it is part of the long tail of book publicity. **My book came out in January on [The New Great Depression]**, and you do an intensive stage of interviews in the weeks around that. I always say book launches are like movies or plays: they can flop or they can succeed, but you know immediately, you can't flop and then have a success two weeks later, your books are going to take off or not so you put everything you have into it. So here we are a few months later, and I'm still doing interviews. I am also doing quite a few consultations, some with hedge fund managers, some with other analysts or just interviews that are not specifically book-related. But I always say when things are going well no one calls me, when things are falling apart my phone doesn't stop ringing! Maybe that's a bad leading indicator…

I did an event yesterday that was sponsored by the National Defense University, which is one of our leading national security academic institutions. I was the guest lecturer in one of their classes, which had about 700 people from 68 countries around the world in it, many of which were very high-ranking officials. I asked the Navy Commander in charge of it if they were all friendly countries, he hesitated a little bit, but then he said "yes", but he mentioned Ukraine… so I don't know where those guys stand. I did get some questions, and the questions were interesting, including some about Bitcoin.

I have to hand it to Tavi, Tavi is the first analyst I have ever heard refer to Bitcoin as a "hard asset". **I've heard Bitcoin called a lot of things, but it's the first time I've heard anyone saying it is a "hard asset".** I'm doing a consultation this afternoon on Bitcoin, so it gave me a couple of hours to think about that and see if I can factor that in. It is some kind of asset, I'm not sure I would say "hard", but to Tavi's point, Bitcoin, even though people can't quite figure out what it's for, has taken on some of the characteristics of a safe haven.

The fact is, in difficult circumstances, people will buy gold, they might buy Treasury notes, but some people will run to Bitcoin, so it started to get some of those dynamics, which is interesting to watch.

The biggest point of discussion right now is whether we are in an inflationary or deflationary environment. Because, if you just said inflation, it would be very easy to start your portfolio, you could just buy gold, smart assets, land… you would lever up, a set of things you would do that would be very straightforward. If you said it's a deflationary environment, it would also be very easy by doing things such as holding cash and buying government bonds. That's a little harder to touch… you would have a very straightforward solution.

But what if (a) you don't know, which is the most common comment I hear today, or (b) you may get both in rapid sequence? **What I see right now is the latter, that is today we are in a deflationary environment or disinflationary environment.** However, that may not last beyond 2022. By 2023 we may be encountering inflation that may last for decades: an intergenerational inflationary wave, and that's hard for people to process because they ask, “what do I do?”

Well the answer is, **right now I would make a deflationary portfolio, that means more than the usual amount of cash, Treasury notes, utility stocks, other hard assets.** But prepare and be nimble for a **profound inflationary wave that may be right behind it** and that's what I see. Now coming back specifically to Tavi's point about gold. The market right now, and there's no doubt about this, **the market is anticipating inflation or reflation – if you want to call it that – and I have never seen a more perfect correlation between interest rates on the 10-year Treasury note and gold.**

Now typically the dollar price of gold is a multi-factor analysis, inflation and deflation is a factor, interest rates, real interest rates versus nominal interest rates, geopolitical stress, supply and demand, there are a number of factors that go into it. **I would say for the past three months, there has really been only one driver of the price of gold, which is the interest rate on the 10-year Treasury, and that has been going up**.

The reason it has been going up is that **when the market expects inflation, inflation arrives.** But I'm very confident that the market has that wrong. The market is doing what it's doing. You don't want to stand in front of markets, it's like being run over by a truck, but **the inflation is not coming**.

The disinflation is also strong, but the market thinks it's okay so one of two things is going to happen. If inflation does not appear, which is my expectation, and interest rates reverse rapidly, which is my expectation, **the price of gold will go up very sharply, because it is just the inverse of what has happened.**

Ronnie:

I think I know what you are trying to say. **I think this correlation between the 10-year Treasury note and gold has been very strong**. I think also that the strength in the US dollar put some pressure on the price of gold. But I think it's also **the enormous run that we saw in Bitcoin that clearly stole some interest from the media and investors from gold.** However, I think we are pretty much relaxed when it comes to gold, because I think the fundamental picture is still very powerful.

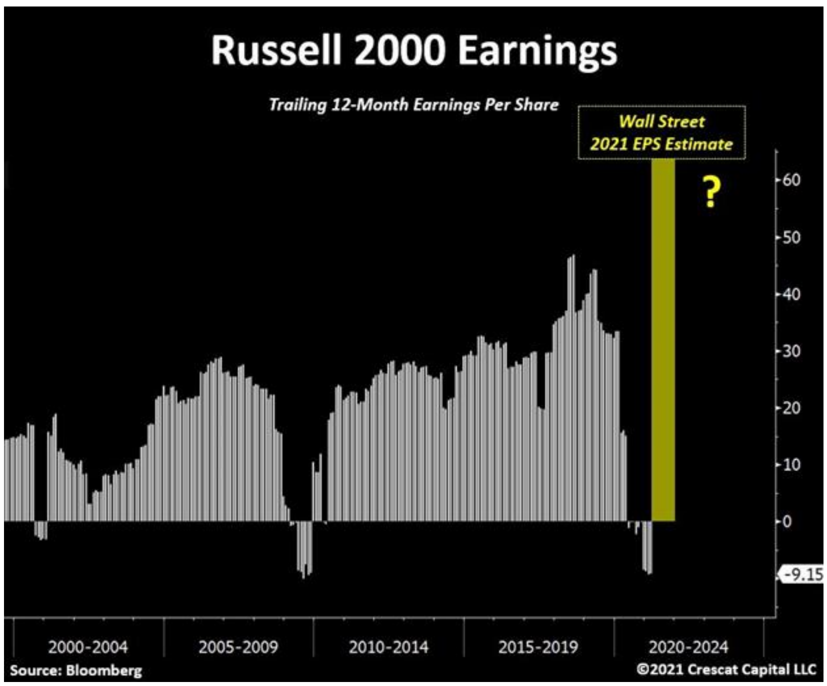
We crunched the numbers on some sentiment indicators. **The sentiment is extremely bearish**. So I think that's a very good setup. But I think one point that Jim mentioned is a very important question because at the moment, the market is primarily seeing reflation as a type of the *Goldilocks scenario*. But I think that inflation concerns for the longer term are not really discounted by the market yet.

The market has priced in inflation for the next couple of months, but we don't see any inflation scale for the longer term. Now the big question is – perhaps this time it's real – and as you might know, we published this special report called *The Boy Who Cried Wolf* where we said people have been concerned about inflation twice before but perhaps this time it's real and we will elaborate on that in the upcoming *In Gold We Trust* report.

There are many reasons to think this. Not only is there an interplay between monetary stimulus and fiscal stimulus, but there is also average inflation targeting and the introduction of Modern Monetary Theory (MMT)-style policies. Markets are screaming out for inflation, you just have to look at the commodity markets and real estate markets all over the globe. I think an interesting question would be, and I think Tavi, you have got a very interesting view on this: Where is the level where inflation really hurts the general equity market? There was a study by Citigroup which said that **this feel-good zone of positive inflation or reflationary environment ends at 2.5%,** and then equity investors will get nervous. So what is your take on this Tavi? Because I think that you've got a very pronounced bearish view on equities.

Tavi:
I do. And actually, I just want to say that I'm not a person who believes in reflation, I think there's a longer-term inflationary narrative building up. **This is not a healthy recovery from deflationary forces like those that are normally seen during recovery from a recession.** To your question, a few things are going on right now, even using the bogus Consumer Price Index (CPI) number reported at 2.4%. **Right now, if you look at Russell 3000 earnings yield, for the first time since August of 2008, and since the peak of the tech bubble, it is actually at a negative level, so it's below the CPI.**

Wall Street analysts are now estimating that small cap earnings for 2021 will be almost 40% higher than the previous highs in 2018. This level of optimism perfectly reflects the euphoric environment we are in.



So companies' earning yields are actually lower than the government CPI. The other thing I would point out is certainly positioning on inflationary trade or reflationary trade – which is basically the same – was very heavy. We saw a breather for commodities like oil and copper, which have certainly seen a pullback from declining prices since March. I think that's very healthy. Going back to your question about when the equity market is actually going to start to get bothered by inflationary forces, **I think it's very soon, and that's exactly why I believe there will be a pause in its inflation thesis**.

My issue with all this is that it doesn't really matter. **It's very difficult to see a deflationary bust in a place where you can print unlimited amounts of dollars.**

I do have significant hedges in the short side of the equity market, as I do not believe that most of the sectors currently justify their multiples. **It's also important to see the eurodollar market, that is pricing in not only a full rate hike this year, but two rate hikes in 2022 and another four rate hikes by 2023.**

So those are parts that are also being priced into precious metals today, which in my view, I highly doubt that the Federal Reserve can even do. **That's the whole reason why I think we might be triggering or entering a long-term inflationary problem.** To be fair, we've had two of those throughout history in the 1910s and in the 1970s.

What I'm referring to is, if we use the CPI – which is not a perfect measurement – when you look at those two decades, **the average or the annualized return for the equity markets was actually about 1% in the 1910s, and even lower than that in the 1970s.**

When you compare it with inflation running in the medium-term for the whole decade at about 6%... by the way, a lot of people ask the question: “What about the 1940s?” **The 1940s had a whole decade that had sporadic increases of inflation, but the real inflationary decades were the 1910s and 1970s, where inflation was running above 6%, on the CPI on a medium basis for the entire decade.**

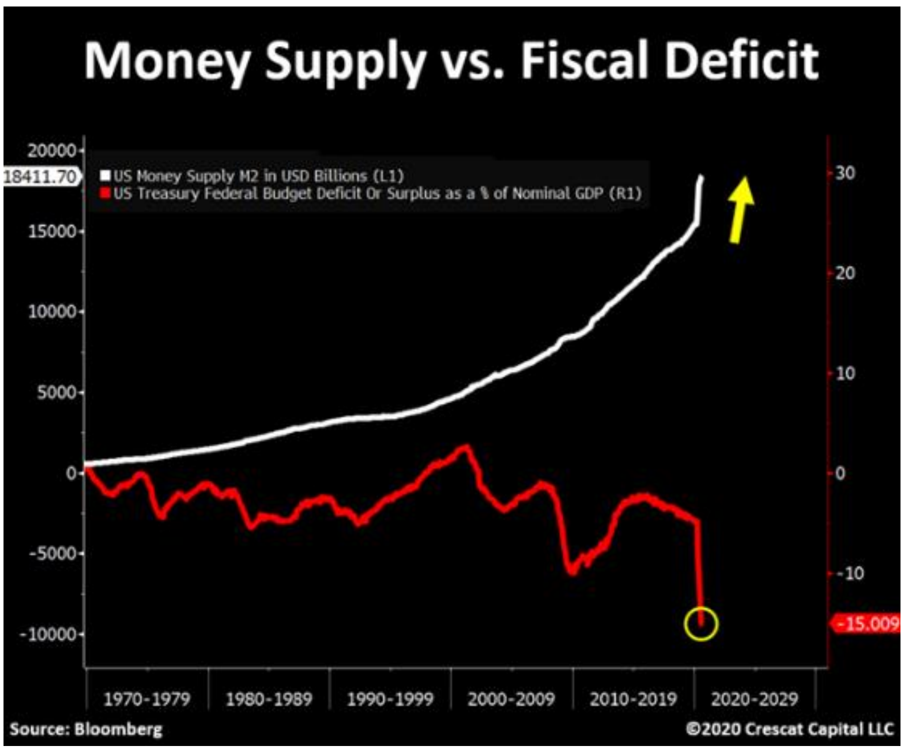
So in those two decades, we saw a very poor performance by the equity market. I feel strongly that commodities will outperform the equity market in the following years, and therefore, the position here, once you trigger and enter this inflationary environment, it's very difficult to get out. I look at things in probability terms, **I think there's a high probability we may be entering an inflationary environment in the next one to five years**, and so therefore, I take these positions.

Jim:
I have a question for Tavi. **In 2008, the beginning of 2008, the Federal Reserve balance sheet was $800 billion dollars. Today, it's about $7.5 trillion dollars.** In those 13 years, we've had no inflation. So tell me what money printing has to do with inflation?

Tavi:
That's a good question. I think that there are really three types of inflationary forces, monetary dilution could be one. The second one is the combination of policies, the best answer for that is looking at what's happening with the household situation. The net worth of the bottom 50% of the population in the area that you refer to, especially following the Global Financial Crisis, declined by 84%. **Now we're seeing the largest increase in net worth in history in the middle of a recession that we just had, which looked a lot like a depression.**

So **the combination of the fiscal and monetary policy is absurdly different from what we saw back then**. I think a lot of people using that as an analogy that money printing does not create inflation are not looking at the full picture.

Monetary and fiscal disorder have perhaps gone too far this time around and significant monetary debasement is, in our view, inevitable.



The second thing that I would point out is what's going on with supply shortages in commodities. That is real, and that is what is happening. When you study what happened in 1919 during the Spanish Flu, one of the things that came out of that development was that we saw not only that aggregate demand wasn't growing – it wasn't the roaring 20s during that period – what was happening was that aggregate supply was constrained and caused prices to re-accelerate and actually trigger a decline of the equity market of over 40%. I think that that's the big difference.

The third thing is, with any improvement, we have the monetary dilution, the fiscal package, which has no end in sight… and the second part is the supply constraint, and now we have this improvement from a net worth perspective of that US bottom 50%, and I think that is coming from an emerging market. **I know that the bottom 50% spends money, and I can factually prove that the bottom 50% balance sheet has improved in the last decade and it's actually in the best setup that it has been in the last 10 years or so.**

That is the same case with any part of society. That is not to say there are no inequality problems in the US, I don't want to sound like there are no problems in terms of that. But the inequality problems actually exacerbate the need for further monetary and fiscal stimulus. **Handing money to the population, that wasn't something we saw in the 2008, and that's new. That's something that is happening now.**

So the policies that are in place are completely different than what we saw in the last decade or so. I would just point out my last thing, which is commodity prices. **Commodity prices have done nothing but go lower and lower in the last decade or so.** Finally, we are seeing some movement here. That is just another factor, it's not the main factor, but it's an important one. **When you start seeing investors, worry about inflation and start hoarding tangible assets, in this case commodities, that's when you start seeing this is the inflection point for inflation itself.**

Jim:
Well, that's a long answer. **You mentioned asset prices 10 times and you never mentioned consumer prices once, and that's a typical Austrian kind of jujitsu**. There's a lot of money printing, it is not showing up in consumer prices, that's what people notice and that's what the Fed uses for policy. If you want to redefine inflation to include asset prices – okay – but you have to state that's not the way analysts, economists and policymakers think about it. They look at consumer prices… and consumer prices have gone nowhere.

Asset prices have gone up, you are right. They may go up more, we do have asset bubbles. I agree with all that, but that's not the definition of inflation. That is a kind of a Peter Schiff definition of inflation. If you want to redefine the terms, that's okay, but we can't talk past each other. When most people say inflation, they are talking about consumer prices, and there has been no inflation in consumer prices. The net worth element, yeah, house prices are going up, stock prices are going up, I understand all that. **But that's not inflation, those are possibly asset price bubbles.**

It's not inflation as defined by anyone except by some Austrians and Peter Schiff. Now, getting back to the spending you use the word stimulus: there is no stimulus. And by the way, I don't really do concepts or theory, I look at data. **The data is on the $3 trillion of government handouts so far, the COVID relief bills under the Trump and Biden administrations, approximately 76% of it is either being saved or used to pay down debt.**

Economically, paying down debt is the same as savings. In other words, there's no new consumption, if I paid out that I might be paying off debt, reducing my balance sheet for consumption from a year ago or two years ago, but there's no new consumption. **Only 24% of the government handouts are going into spending of one kind or another and that includes stock market investing, which is consumption.**

So there is no stimulus effect. And that's consistent with the Reinhart Rogoff Theory that at about 90% debt to GDP levels, more debt doesn't stimulate anything. So there is no stimulus, there is no spending, there is savings, and there are asset price bubbles, and there's no consumer price inflation. **So the monetary and fiscal policy will both fail because of the already high debt loads, which inhibit spending and the lack of velocity, which is the key to inflation.**

Tavi:

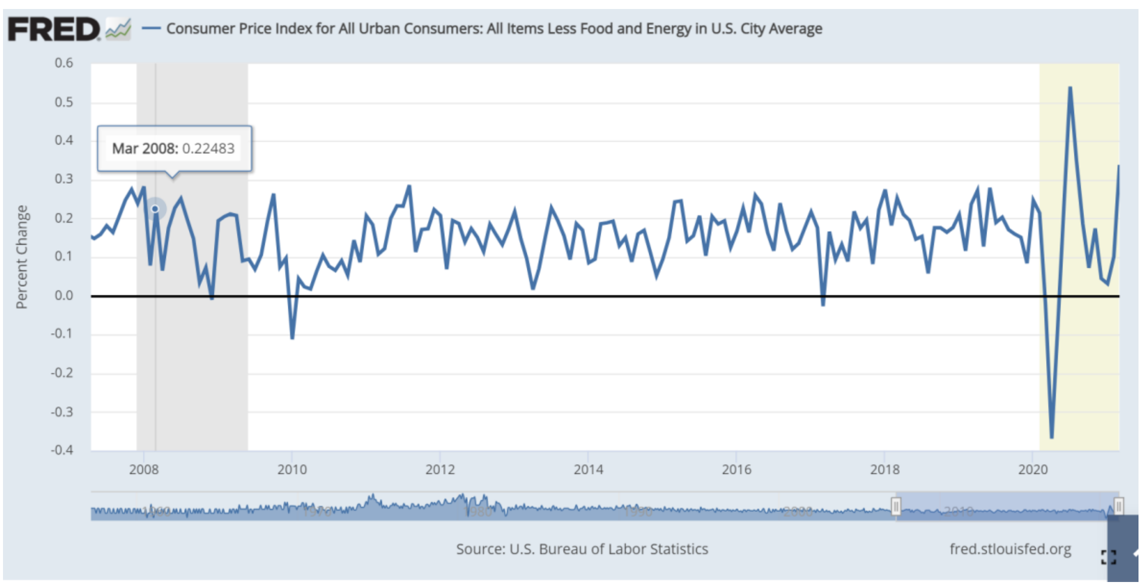
Well, let me point out something, you said inflation is not in place. Look around you. I know this has been a case for a lot of people, such as Peter Schiff. I'm not going to get into that because I don't have anything against him. But I know his thesis.

Jim:

I do.

Tavi:

What I'm trying to say is that's not my point from 10 years ago, I'm talking about today. **I've looked around myself where I spend my money, everything is up at least 10%. The only thing that is not up about 10% is the facemasks that you wear!**



Jim:

Well, people are highly selective. So in the United States we were the largest dollar economy in the world. The price of gasoline at the pump is up, it's up about $1 a gallon, I put gas in my car so I notice that. Clothing is down, technology is down, tuition is down, healthcare is down. People tend to look at a couple items, but they don't understand that consumer price indices are a fairly large basket, and they tend to selectively pick out one or two items that are up, that is certainly true and they ignore all the things that are going down. What do you pay for clothing? I bet the price is down, they are practically giving it away.

Tavi:
Ah, that's not true. **Actually, clothing prices, especially in the last few months have increased significantly.**

Jim:
In what currency?

Tavi:
In the US dollar.

Jim:
No, they haven't. I mean…

Tavi:
You can't find the same discounts you found back in March. In March, it was the case that we saw a deep drop, and many things were a lot cheaper but it's not that way now. Everything has increased in price.

Another point here Jim – I don't want to force this disagreement by any means – but I would suggest you look at the Institute for Supply Management (ISM) manufacturing report from last Friday. A lot of the executives were complaining about the fact that demand is surging, meanwhile, we have supply constraints so prices are being forced to go up. **In fact, if you look at inventories of sales of durable goods, they are declining, not rising.**

So we can have a discussion about what happened throughout the last decade or so in terms of inflation. I think we're entering a different regime here. I would also point out the stuff you said about savings. Yep, that's been true, but that's cash being held in the sidelines now to be used later. In fact, they paid down debt so their balance sheets improved in terms of the bottom 50% or the top 50%. **That is not to say that we're going to see the roaring 20s, which was organic growth in a reflationary environment,** on the disinflationary part where we came out from an inflationary bust. That's not the case here. And I completely disagree with that thesis. I'm not here to tell you that I believe that we are going through another roaring 20s. But I do believe that... yeah, go ahead?

Jim:

It’s not a thesis it’s data. Yeah, I was assigned a thesis two days ago, core CPI came in at 1.6%. Where's the inflation?

Tavi:

It's funny that you're such a skeptic about governments but you believe government data?

Jim:

Well if you want to say all the government data is wrong, then fine, we can live on another planet. You can argue about forecasting, and you can argue about trends, I don't think they make it up. **Core CPI was 1.6%.** That's what the Fed uses to guide policy. So where's the inflation? Explain to me. You agree the savings are up and people are paying down debt, that isn't in the data. But explain to me how paying down debt and deleveraging your balance sheet is inflationary?

Tavi:

Here's what you could do. You take the CPI number, and then you strip all that is offered by the Federal Reserve, strip out every single part of it, from food prices that are up 3.6%, while food prices are actually up when you look at agricultural commodities, and food prices itself, the index is up about 16%. Those are some of the differences. You can look at gasoline prices that are being priced in right now in the CPI number relative to how actual commodities went up in terms of prices. **If you strip out almost every part of the CPI number and compare it with what's actually going on, you can clearly see that there are some major divergences.** Now I'm not here to change the CPI calculation. I'm just seeing this in the system.

Am I saying we're going to see hyperinflation or anything like that? No, I'm not talking about that at all. **In fact, in the 1970s, we didn't see hyperinflation. That was just an inflationary environment, and we don't see those things because the political environment in the US is very different than in places like Brazil and Argentina**.

So I'm not claiming that we are going to see anything like that. But I'm seeing some significant signs of inflation that are similar to some of the things that we see in emerging markets of grocery costs rising, and house prices rising significantly. The asset inflation that you're referring to, that is undeniable and we both agree there.

I do, however, think that there are some significant forces going up that are not being reflected in CPI. That's pretty clear to me. I'll give you another example. Autos, l**ook at the CPI for cars right now, in terms of prices, and look at used car prices, or new car prices, both are surging, they are not up 1% or 2%, they are surging.** So the differences… if you strip out any of the indices from the CPI versus the reality it is insane. I do look at the data in depth, and I don't think that that's reflecting what's really going on here. But you're welcome to...

Jim:
Well again, I don't do beliefs, I do data. Have you looked at the velocity chart lately?

Tavi:
Yes. And I think that the velocity chart is a very important deflationary factor and I don't disagree there that that's certainly....

Jim:
It's going straight down.

Tavi:
Sure, no, it has been going straight down, but as of very recently in the last quarter it actually ticked up a little bit. But you're right, it has been going down....

Jim:
How much is $7 trillion times zero?

Tavi:
Okay…

Jim:
Well, no, I'm serious. If you don't have velocity you don't have an economy. **Velocity has been going down for 10 years. And in 2020, it was like an Acapulco cliff diver and plunged almost vertically**. Tell me how that's inflationary?

Tavi:

No, I don't think it's inflationary...

Ronnie:

But I agree. It has stabilized as far as I had a look at the charts recently. And I think one main point of difference between your views is what's discounted for the future is not a big inflation concern. Obviously, what we are seeing in the various indices is only what happened in the past. **So the big question is what's going on in the future?** From my point of view it's clear that once velocity continues to stabilize and rise again, assisted by more confidence in the economy post-Covid, you would then cause velocity to pick up, then I think inflation will pick up.

I just heard an interview with Robert Kaplan from the Federal Reserve, and he's one of the most hawkish people in the organization. I think listening to him, it was pretty obvious that the Fed will completely tolerate inflation numbers overshooting. **I think the Federal Reserve is very open about tolerating inflation numbers going up**. They will continue to be very dovish, we are seeing that with Janet Yellen, or the Biden administration, are very busy coming up with new stimulus packages all the time. So I would say that going forward inflation isn't a big topic. **But, I think going forward we have laid the foundation for rising inflation numbers.**

Jim:

Saying the Federal Reserve will tolerate it is an exercise in wishful thinking, they don't know how to cause it! I agree they'll tolerate it, but they're not going to get it, saying I'll tolerate something doesn't mean it's coming, if I don't know how to do it. The ISN indices, those are based on the expectations and opinions, all the data you're citing are expectations, opinions, goals, and wishful thinking. I haven't heard anything that says that it's actually happening.

Tavi:

Have you looked at UN food prices? That's not an opinion, that's an index of the prices of food inflation in the system. Have you seen the Manheim US Used Vehicle Value Index Seasonally Adjusted Index? Those are...

Jim:

You know why, car prices are soaring. Do you know why?

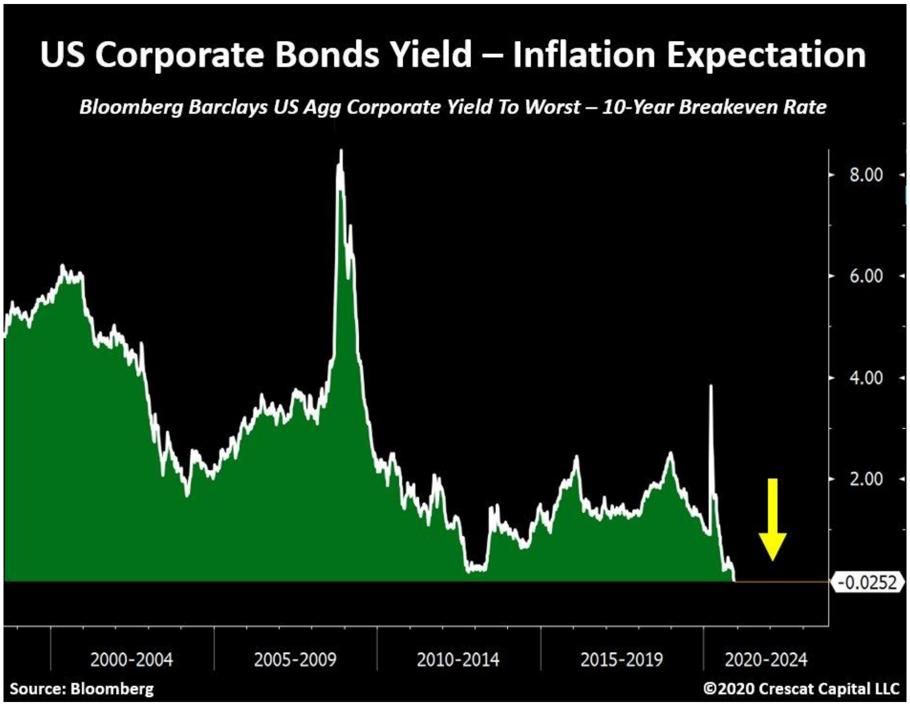
Tavi:

Because of supply, it comes back to supply.

Jim:
No, it's because of demand. **There's a major exodus from the cities, millions of people are leaving cities in the United States and depopulating major wealth creation zones.** When you leave the city, the first thing you have to do is buy a car. I have talked to car dealers, and that's what they say is the reason that car prices are going up. You're right. But people are buying them because they are leaving the cities. They're going to the country. They're going to other parts of the country. They're moving from New York to Nashville, or going to Miami, Austin or other cities. But, the first thing you need is a car, and so those prices are going up. By the way this trend is incredibly destructive of wealth, because we're depopulating major cities which are wealth creation areas.

Tavi:
Jim, I think the major reason why car prices are rising is in fact supply problems. The other factor you pointed out is a big deal. Auto dealers here that I have spoken to say that what is going on is a major supply problem due to the pandemic. Now, is that transitory? There are certainly parts of that are transitory. I think it's all about probabilities here, there's certainly a probability that we may see another deflationary bust and gold may do great, as you pointed out. I don't disagree there. I think that from a probability perspective when I look at breakevens, which is manipulated by the Federal Reserve, five year breakeven, even with the massive purchases of the Federal Reserve is at 2.5%. That's the expectation of where CPI is going to be. **Having a deflationary view about the economy isn't so contrarian either.**

Corporate bonds now yield less than inflation expectation for the first time in history.



Jim:
So what do expectations have to do with reality? The forward indices are usually wrong. They are what they are, I don't deny the data, you're right about the expectation, but what does that have to do with reality?

Tavi:
Well, that's exactly right. If 2.5% is what is expected, I believe there's a very high probability we could be running much higher than that. You're right, it's usually wrong, and that's exactly my point. Going back to the money velocity issue you're referring to. I don't disagree, I am actually in agreement. But as an asset manager, you shouldn't be looking back and saying that, you have to look forward. As Ronnie just said, and I think that there's a big chance, we may see money velocity stabilizing and allowing inflationary forces to run a little higher. **In fact, it's hard for me to see a total deflationary bust today when you can just print dollars and fix almost any problem.** So if we continue that way, and what we're seeing is policies against inequality, rightly or wrongly, that's what's happening. That is certainly directly intervening on households' net worth, which is what we're seeing in terms of the bottom 50%. That's not an opinion, that's data. **It's the largest increase in net worth of the bottom 50% in history.**

Jim:

You are talking about asset prices. That's not inflation. You just said net worth. I said that net worth is assets minus liabilities, which are asset prices,

Tavi:

Jim, the bottom 50% doesn't hold financial assets, as you should know, they hold some housing, which is a financial asset, about 30%, they have a lot of cash, but they don't hold stocks, like the top 50%.

Jim:

I understand that, but again, you keep talking about net worth and asset prices, whether it's housing, stocks, commodities, that's not inflation, inflation is consumer prices.

Tavi:

No, I think that leads to higher consumer prices as a whole, because we know for a fact that the bottom 50% are holding a lot of cash. Once the economy reopens, again I'm not referring to a roaring 20s, but **I think there's pent up demand, and I think that money will be spent.** And it will meet an economy that has supplies that are incredibly constrained, so it's going to lead to higher prices, those are opinions from the ISM report. That's a very important opinion from executives telling you that consumer suppliers' inventories are plunging. Therefore I don't disagree with your positioning. It sounds like you have more of a deflationary view, and I think that the biggest point for that is not only the money velocity side of things, but the speculative bubbles, and when they have a reckoning, that is deflationary, not inflationary, so I'm in agreement there.

The way I position myself in terms of portfolio is to be long commodities and short equity markets. I don't know whether that's going to be right or wrong, but I'm looking at probabilities and I think that's the most sound positioning I can find.

Ronnie:

Perhaps we can talk about another topic that is somewhat related to this. Jim I would love to hear your opinion on this. I don't know if you saw the recent tweet storm by Janet Yellen? And one of them was, **'As I prepare to meet with my colleagues from around the world this week at the IMF and World Bank spring meetings, I find myself thinking back to the policymakers, who**

met at Bretton Woods a year before I was born to define our post-war order.' Jim, what do you make out of that? I thought that was a pretty interesting comment from Janet Yellen.

Jim:
Yeah, you have to look at what Klaus Schwab said in his book, about COVID-19 and things such as *The Great Reset*. This is the Davos World Economic Forum. **It's the G7 finance ministers, it's Christine Lagarde, it's the IMF: they see the opportunity to restructure the international financial system.** They have been talking about it for decades, but COVID has provided an opportunity for a lot of people to pursue a lot of agendas that have been on the shelf. These agendas don't come out of nowhere.

They are well prepared and well-vetted, but what they wait for is the opportunity. **This is what Naomi Klein calls 'The Shock Doctrine', you shock society, one way or another, then use the shock to implement the agenda that you've had all along, you create fear, and then fear is a good way to get people to go along with you.** Everything from these vaccines – which are actually not vaccines – to a global monetary reset.

We are having an issuance later this year, of approximately $1 trillion of Special Drawing Rights (SDR). That number is I think, 640 billion of SDRs, but as an exchange rate of $1.40 per SDR, the dollar equivalent is over 900 billion or close to a trillion dollars. That's a lot, that's five or six times more than they did in 2009, which was a relatively small issuance. They've already made provisions, of course, the SDRs are allocated by capital account, which means that most of them will go to the United States and the G7 economies because they have the largest capital accounts. But they've already made provision for secondary market trading SDRs. And so the US will get more SDRs. It will get the biggest share, at 16.5% of the SDRs, but then the United States can very quickly loan them back to the IMF and then the IMF can lend them to more needy countries who can then convert them to dollars through the IMF trading desk. So the facilities are already in place to turn them into dollars.

But what they're trying to do – and you have to put this in the context of central bank digital currencies and the digital yuan, and the SDR issuance – is **diminish the role of the dollar as the global reserve currency. It is a globalist agenda, Janet Yellen is not really thinking of America, she is thinking of this globalist agenda, but they're sort of going for it.**

Ronnie:

That's a pretty interesting tweet that came out. And I agree with you,

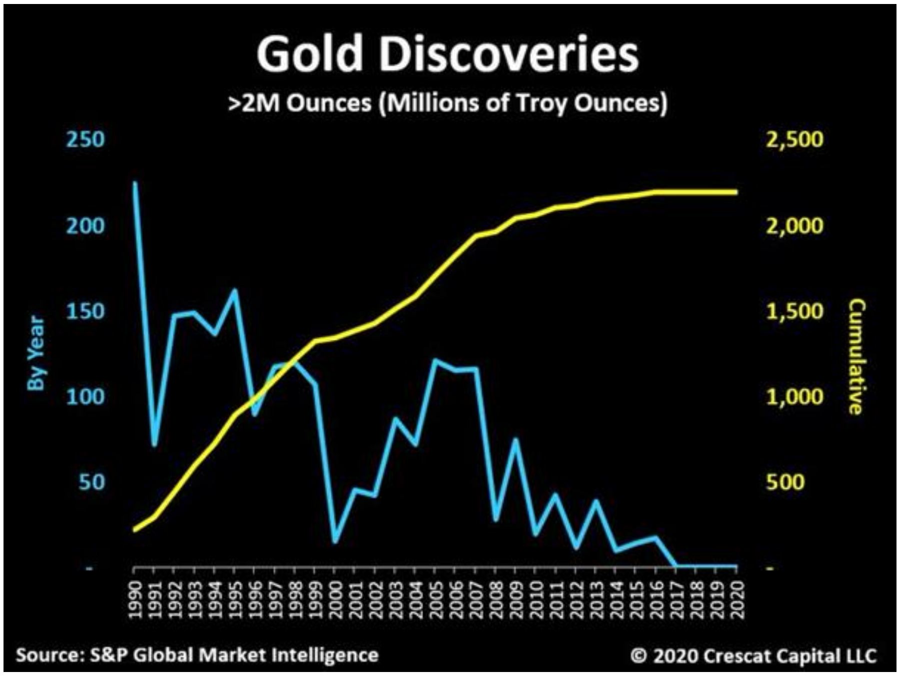
We will have a special chapter on CBDs in our upcoming report. I think it's a very interesting topic, with so much research coming out about it. That's probably the next stage of solution to all the problems where you can pretty easily introduce negative rates and abolish cash.

I wanted to ask Tavi, because Tavi, you're also very active in the mining space, and I am currently attending the virtual European Gold Forum, which used to be the Denver Gold Show. I have had around 20 meetings over the last two days with management teams from mining companies and I've got a couple of meetings coming up tonight.

I have to say that I sometimes feel like I am at a deep value conference. Companies are producing record amounts of free cash flow and considering how to distribute it to their shareholders via buybacks or by raising dividends. They've got very conservative price assumptions. **So far the M&A activity has made sense in most of the cases.** Tavi, what's your view on the mining space? Do you have any particular names that you like at the moment? I know you're working very closely with Quinton Hennigh, who is one of the top geologists out there. What's your take on the mining space at the moment? And which parts do you like best?

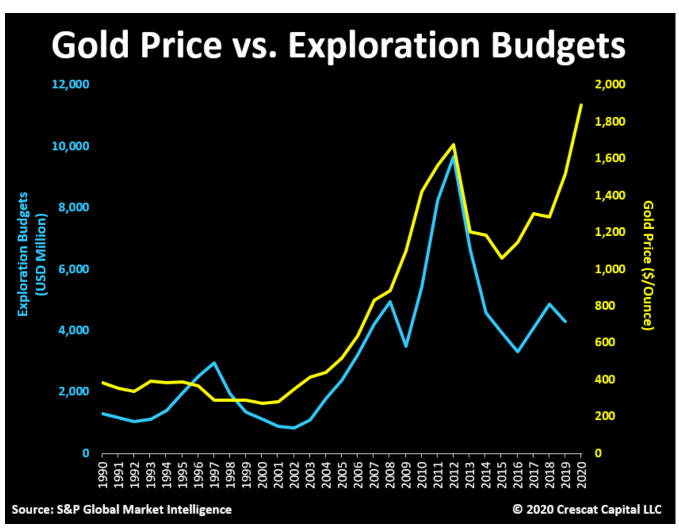
Tavi:
Well, that's a good question. As you become constructive in the precious metal space, and especially underlying prices of the metals, you are going up in the risk curve and searching for other opportunities. **I believe we are at the beginning of the secular bull market for gold, even though it started for gold itself, back in 2015.** When you look at the miners, what I find interesting about this is that I think we're at the very early stages of a much bigger move for those companies. I like to be positioned mostly in the discovery and exploration side of the industry, and some development businesses too.

There were zero gold discoveries above 2 million ounces in the last 3 years. Precious metals companies are reluctant to spend capital even though gold prices have reached all-time highs.



I would say a lot of investors are in the same camp and are starting to allocate more capital towards this industry, and start going a little bit higher in the risk curve, even trying to buy some of the developers. There are quite a lot of financially savvy people trying to buy those companies. **I think the real opportunity in the precious metals market right now is in discovery and exploration, given the lack of discoveries of gold and silver that we've had in the past.**

Exploration budgets and gold prices have been diverging for over 8 years.



We are seeing that CAPEX has been contracting for over a decade. Recently it has ticked up a little bit, but it's not a real move similar to that which we saw back in 2010-11 leading up to the peak of the market. We are seeing, as you said, the major producers really being more cashed up. They are improving the balance sheet, we are seeing free cash flow yield for the gold companies. **They lost money for basically 25 years, when you look at the median free cash flow yield for those top 50 miners, they lost money for about 30 years straight.** There was one incident in 2010, where they actually turned positive. **This time around, we are seeing about five quarters of positive free cash flow so far.** I think that's a big change for most of the skeptics in the industry.

Then we are seeing the free cash flow growth of over 130% on a year-on-year basis for those miners**. They are actually more attractive than even tech companies today, which I think goes back to your deep value idea**. It is also true that it is a value opportunity, but better with a lot of growth in my view when you look at the balance sheets of those companies.

We just saw the largest repayment of debt for the miners in history in the last quarter in comparison to 2011 when we saw the largest increase of debt during the final quarter of the peak of the gold market.

We are seeing balance sheet improvements, we are seeing free cash flow improvements, and our focus has been on the purchases and acquisitions of those businesses in the very early stages. **If you look at the size of the precious metals industry today – at about $600 billion – and compare that to a lot of tech companies today that are much larger than the overall industry, I find that very interesting as an asymmetric opportunity.** I think there are strategic regions in the world today that we are really bullish on in terms of those discoveries. We have significant positions – activist positions – in parts of the Golden Triangle and Newfoundland. We have incredible positions in Nevada here in the US and other parts of the world such as Brazil. Altamira Gold is one of the investments that we have there that we like a lot.

There are some other names in the Golden Triangle… we think it could be Eskay Gold Number 2 which was a company maker for Barrick… we are very bullish, we think that they have another seven or eight Volcanogenic Massive Sulphide (VMS) targets and about 500 square kilometers of land in a very promising region.

So we like to be long on a lot of those gold miners through this left side of the curve. We have investments in Bolivia such as Eloro Resources, which are some of our largest positions as well. It is a very interesting play, probably one of the largest silver deposits we've seen, and a lot of tin as well.

So we are very involved in different deals and are able to do so through private placements and acquiring some warrants. **I like to think that we are well positioned with about 60 companies that we have in our portfolio currently that we have a very large involvement in with Quinton Hennigh, who is probably the most successful exploration geologist we have seen so far.**

Ronnie:
Those are companies that I like very much as well. I am also a member of the board of Tudor Gold in the Golden Triangle. We published one of the biggest initial resources over the last two decades recently. I send an open invitation to all our listeners to have a look at the webpage, and also to follow Tavi on Twitter (@TaviCosta), where he is also very active and puts out fantastic charts that we sometimes borrow. So I think we are coming to an end. Jim, is there anything on your mind that you would still like to discuss?

Jim:
Well, I agree completely with Tavi on gold. I am an investor in a couple of gold and silver mines, some publicly traded so I'm going to refrain from mentioning any specific names, but with regard to the sector, yes, I agree absolutely. **I'm extremely bullish on that**. I think there are great opportunities there. Tavi has obviously done some great work drilling down – no pun intended – on a couple of specific names. But I certainly agree with that overall analysis.

The key with gold and silver mining stocks is: gold is gold, geology is geology and costs to capital are about the same across the board. The big difference is management. So what I look for is really good management people who have done it before, perhaps other successes running another gold mining operation. I agree with Tavi and I also very much like the subject. It's a great opportunity.

Ronnie:
Perfect. So Gentlemen, thank you very much – *obrigado*. That's one of the very few things I can say in Portuguese! Thanks for taking the time, Jim. Tavi, thanks for taking the time. I hope that

we will meet each other in person in Denver, Liechtenstein or Vienna soon. All right, gentlemen, thank you very much. Take care!

Appendix: Permanent Members of our Advisory Board

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 *scholarium*, 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 *In Gold We Trust* 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 *The Zero Interest Trap*. Moreover, he is a member of the board at *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 Hongkong, 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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