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THE AUSTRIAN ECONOMIST

Portfolio manager Ronald-Peter Stöferle on commodities, macroeconomics, central bank policy, and strategy for affluent institutional and private clients

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> "Gold held in own vaults or on an allocated basis has always been a tier 1 asset under the Basel Accords."

CEOPROFILE
Ronald-Peter Stöferle
Managing Partner & Fund Manager, Incrementum AG

THE AUSTRIAN ECONOMIST

Our special interview on the The Austrian Economist with RONALD STÖFERLE, Managing Partner of *Incrementum AG*, interviews another fund manager behind the operation of one of Liechtenstein's pre-eminent asset management firms. *Executive Global* gain fundamental insights into gold, inflation, Keynesian and Austrian economics with the author, researcher and portfolio manager to wealthy institutional and private clients.

EG Basel III now classifies physical gold to be a tier I asset and the world's central Banks are buying gold hand over fist at the fastest rate in history. Should retail investors be copying the smartest men in the room on this?

RS There has been much speculation about the impact of Basel III on gold markets. Some commentators have noted that allocated gold can be considered a tier 1 asset and therefore receives a risk weighting of zero. This is nothing new. Gold held in own vaults or on an allocated basis has always been a tier 1 asset under the Basel Accords. This is because allocated gold attracts no credit risk – it is neither the asset or liability of the custodian bullion bank and is therefore not considered part of the custodian bank's balance sheet.

In our previous, "In Gold we Trust"-reports we highlighted that there are in fact many reasons to gold hold, for example the performance during time of crises, the fact that it works well as a long-term store of value and inflation hedge, the fact that gold has proven to be a reliable portfolio diversifier. Most importantly gold does not have any counter-party risk and with 58, a very high stock-to-flow ratio, meaning that the natural inflation rate of gold is currently around 1.7%.

EG Alan Greenspan stated that 'in the absence of a gold standard, there is no way to protect savings from confiscation through inflation. There is no safe store of value'. Why do contemporary economists and Keynesians seem to think he is wrong?

RS Alan Greenspan's highly recommended essay "*Gold and Economic Freedom*" (published in 1966) emphasised the importance of *sound money and limited government intervention*. Unfortunately, when "The maestro" became chairman of Board of Governors of the Federal Reserve in 1987, he did quite the opposite from what he suggested in his prior life as a libertarian economist reading Ayn Rand.

As of now, most contemporary economists, particularly those influenced by Keynesian theory, diverge from the importance of sound money. They argue that a flexible monetary policy, allowing for controlled inflation, can stimulate economic growth and mitigate the risks of deflationary spirals. They suggest that central banks, equipped with the ability to manage interest rates and money supply, can exercise a stabilising influence on economies, even in the absence of a gold-backed currency. While Keynesian principles emphasise the potential benefits of government intervention in times of economic distress, critics argue that such interventionism might inadvertently lead to unintended consequences, including moral hazard and misallocation of resources.

Ironically, Alan Greenspan assumed leadership at the Federal Reserve, a pivotal player in guiding the US economy through monetary policies and market interventions. These interventions, aimed at addressing immediate economic challenges, draw a parallel to the outdated strategy of controlling forest fires, inadvertently leading to the accumulation of dry underbrush and escalating the risk of severe wildfires. Similarly, excessive economic interventionism, rather than fostering resilience, may inadvertently sow vulnerabilities and distortions that culminate in crises. This highlights the crucial importance for policymakers to consider the lasting repercussions of their actions, seeking a balanced approach that acknowledges the perils of extensive short-term interventions for long-term stability. One can only hope that an economic equivalent of the 1988 Yellowstone fires isn't necessary for policymakers to realise that extinguishing every minor economic issue might sow the seeds of an unmanageable major crisis.

> "As governments worldwide shift towards a greener economy, *they risk overlooking the essential need for abundant commodities.*"

CV RONALD-PETER STÖFERLE

BORN
Vienna, Austria

ALMA MATER
Vienna University of Economics and Business Administration

EXPERIENCE

2020 Advisor at Matterhorn Asset Management AG.

2019 Author of the bestselling book *The Zero Rate Trap*.

2017 Advisor and later Member of the Board of Directors, Tudor Gold Corp.

2014 Author of the bestselling book *Austrian School for Investors*.

2013 Managing Partner and Fund Manager, *Incrementum AG*.

2006 International Equities & Commodities Research Market Technician, ERSTE Group, Global Markets.

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EG Could you elaborate on the types of gold that every investor should have in their portfolio?

RS Physical Gold!

EG Why do you think that Ludwig Von Mises and the philosophy of the Austrian School of Economics is not taught - even in Austria?

RS The methodological approach of Ludwig von Mises to economics, i.e. deductive reasoning based on the human action axiom is not considered as scientific by contemporary economists, who for the most part consider the method of the natural sciences, i.e. empirical testing of hypotheses, as the proper methodology for economics. One corollary of this adherence to the empirical method is the widespread non-interest in older economic treatises.

However, especially in Latin America as well as in former socialist states of Eastern Europe, we have witnessed an enormous influx for the teachings of the Austrian School of Economics in recent years. The western industrialised nations, on the other hand, probably still have too high a level of prosperity and are not (yet) interested in free market economics.

EG What are some of the major takeaways from your books Austrian School for Investors and The Zero Interest Rate Trap?

RS My first book, "Austrian School for Investors," integrates Austrian economics with investment theory. It elucidates the Austrian Business Cycle Theory, spotlighting the issues of low central bank interest rates that lead to capital misallocation and economic cycles. The book suggests Austrian investing techniques, emphasising understanding the economic backdrop and detecting upcoming market upheavals. We promote gold's inclusion in portfolios due to its protection against inflation and monetary instability. Notably, our 2014 publication positively referenced Bitcoin when it was valued around $300 USD.

My subsequent book, "The Zero Interest Trap," delves into the ramifications of ZIRP (Zero Interest Rate Policy). This includes surges in bankruptcies, widespread debt crises, and recessions triggered by extremely low rates. It asserts that post-Global Financial Crisis efforts to slash rates further were stymied by the zero lower bound, linked to physical currency. This led to suggestions of reducing or even abolishing physical currency, which might face heightened challenges from negative interest rate implications. To enhance negative interest rates' potency in future crises, measures like tighter cash transaction regulations or an outright cash ban, currently discussed in Brussels, might be necessary.

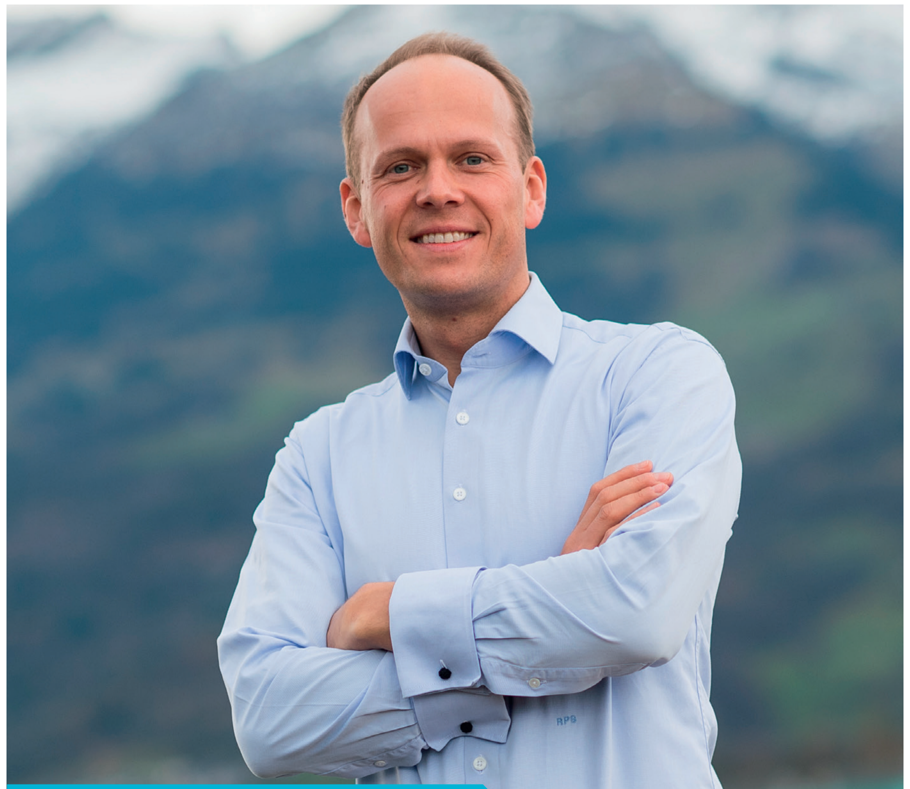
EG Do you see a commodities super cycle forming within the next 10 years, given the current geopolitical and financial headwinds?

RS *The stage is set for a commodity super cycle.* In recent years, geopolitical tensions between commodity-importing and exporting countries have intensified, peaking with Ukraine's invasion in 2022 and subsequent energy price surge, especially in Europe. Capital investments in this sector have dwindled due to stricter regulations and financing challenges. As governments worldwide shift towards a greener economy, *they risk overlooking the essential need for abundant commodities.* This oversight exacerbates the widening gap between rising demand and declining supply, increasing the likelihood of higher commodity prices.

While the long-term outlook seems promising, short-term risks loom. Commodity prices, which soared since early 2020 and peaked in mid-2022, remain well above pre-pandemic levels. A slowdown in global economic growth and recent technical recessions in parts of Europe, combined with dwindling hopes of a boost from China's reopening and central banks' potential for prolonged high rates, place downward pressure on short-term commodity prices. In essence, while the next decade appears favourable for commodities due to their renewed significance, we must remain cautious of the global growth slowdown's impact on short-term prices.

EG Nuclear power is one of the cleanest forms of energy, favoured by legendary resource investors like Rick Rule. Tell us about your Uranium Resources Fund?

RS Climate policy aims to reduce the global economy's dependency on fossil fuels, leading to more electrification in various sectors and a surge in electricity demand. Consequently, there's a push to amplify electricity production from renewable sources like wind, solar, and hydro. However, these sources can be inconsistent. To ensure grid stability, consistent non-fossil electricity generation is vital.



ABOUT RONALD-PETER STÖFERLE

Ronald-Peter Stöferle is Managing Partner and Fund manager at Incrementum AG, based in the Principality of Liechtenstein. The company focusses on asset management and wealth management and is one hundred percent owned by its partners.

ACCOMPLISHMENTS

- Graduation from Vienna University of Economics and Business Administration.
- Equity Analyst at Erste Group.
- Publication of the first annual *In Gold we Trust* report.
- Most accurate gold forecaster in 2011 according to Bloomberg.
- Founding Partner of Incrementum AG.
- Frequent guest in the media including on CNBC, Bloomberg, Kitco, Wall Street Journal and Stansberry Research.
- Keynotes about gold, mining and commodities in more than 30 countries so far.

EG Would you say that being situated in Liechtenstein presents some additional advantages to clients, particularly where investment management is concerned?

RS Certainly! Liechtenstein, a tiny yet captivating country located in between Switzerland and Austria, possesses a rich history and unique attributes. Despite its small size of just 160 square kilometers and a population of around 38,000, it enjoys one of the world's highest GDPs per capita, owing to its robust industrial and banking sectors. While not an EU member, Liechtenstein is part of the European Economic Area (EEA), granting it access to the EU's single market and economic regulations. Notably, its banking system is famed for strong privacy laws, appealing to wealth management and financial services. Governed by constitutional monarchy under Prince Hans-Adam II, Liechtenstein offers a nice blend of political stability, economic prosperity, strong legal and financial frameworks, and a close-knit community. For us at Incrementum, Liechtenstein is the ideal homebase.

EG Financial experts like Max Keiser are very bullish, but does the volatility of Bitcoin and other cryptocurrencies offer the greatest potential as opposed to its long term utility as a financial asset?

RS Whether the volatility of cryptocurrencies is seen as a curse, or a blessing depends on the perspective. Undoubtedly, high volatility offers diverse opportunities for utilisation. In the context of portfolios, skilfully applying suitable investment strategies to the volatility of Bitcoin and other cryptocurrencies can lead to not only attractive risk-adjusted returns but also a reduction in the overall portfolio risk. Particularly with volatile assets, the value of active management becomes significantly relevant. At Incrementum, we manage two funds (Incrementum Digital and Physical Gold Fund as well as the Incrementum Crypto Gold Fund) that combine Bitcoin and crypto assets with gold, silver and mining stocks. To exploit the enormous volatility of this sector, we use our proprietary "Vol Harvesting"-strategies.

EG Given all of the current data, if you were Chairman of the Fed making major decisions on markets and the economy, what levers would you pull, and why?

RS We seem to be approaching a familiar "Until something breaks" scenario due to inflation miscalculation attempts. With the most aggressive rate hike cycle in years, there's heightened risk of an economic downturn from the Federal Reserve's drive for price stability. Should interest rates keep rising with continued Quantitative Tightening, we may face necessary money market interventions, akin to those earlier this year for market stability. In this complex situation, careful navigation is crucial. Considering the delay in monetary policy impacts, we believe the Fed should pause further rate hikes. Stability is more likely achieved by focusing on long-term objectives rather than short-term fixes. Though mitigating economic cycles often causes financial fluctuations, fewer interventions might promote longer-term stability. That said, despite our opinions, we'd decline a Fed chairman role, being content with our current position.

EG What is the secret to successful wealth management for High Net Worth clients?

RS Our CEO and head of wealth management Stefan M. Kremeth has over the last couple of years developed a tremendous setup of our wealth management division. From our point of view, the secret to successful wealth management for High Net Worth clients lies in a clear, easy-to-understand and transparent long-term investment approach, a straightforward, easy-to-understand and transparent pricing model and a steady hand managing it. EG

For further information, please visit:
www.incrementum.li