**Minutes of the Advisory Board Meeting**
**Austrian Economics Golden Opportunities Fund**
**April 10, 2015**

# A New Bull Market in Gold?!

## Highlights of the conversation:

**Ronald Stöferle:**

- **In the beginning of February our proprietary *Incrementum Inflation Signal* gave a full inflation signal. The first one, since we launched our fund.**
- When it comes to gold, institutional clients and bankers and that like tell us that they're waiting for a correction. So there's quite a lot of institutional money on the sidelines. They are buying every dip, as they have not participated in the gold rally in Q1.
- We've launched our new fund, that is based on the concept of the Permanent Portfolio.
- We've published a chart book called "Who's Afraid of Recession?", in which we pointed out a lot of recessionary developments in the world and discuss some recession indicators that are at critical levels right now.
- What I feel while talking to a lot of asset managers in the gold space, which really suffered during the last 4-5 years, is that many of them are still extremely cautious and most of them don't really believe that we've seen the end of the correction and have entered a new bull market. **But the price behavior and the development of mining stocks make me pretty convinced these days that this is the beginning of the next stage of the bull market of gold.**

**Heinz Blasnik:**

- I do believe that the counterparty risk issue is very, very important for gold. For instance, if you look at European bank shares and also US bank shares, they all have fallen very steeply against the broad market – and during this time gold shares started to accelerate upwards.
- To keep the system going, central banks must print – people are probably realizing that by now. So there's plenty of reasons to buy gold as insurance.

- About the gold-silver ratio: if you look at the beginning of the gold bull markets generally, you will always see a pattern like the current one, because gold usually starts to outperform other assets when economic confidence declines.[1]

**Jim Rickards:**

- For me a higher or lower dollar price is more a dollar story than a gold story. So I'm thinking about the currency wars and what's happening to the dollar and then one has to think about the dollar price of gold, the euro price of gold, and the yen price of gold separately.
- For the last three years we've seen a weaker yen and a weaker euro with a fairly strong dollar, and that was designed to help the European and Japanese economies.
- But the problem is: the theory was that the US economy was strong enough to bear the cost of a strong dollar and we could give Europe and Japan the benefits of a weak currency. However, the US economy was not strong enough to bear a strong dollar, the US economy slowed down significantly and might have entered a recession.
- **"Shanghai Accord"** (something that was agreed by the central banks during the G20 meeting in Shanghai on February 26): "Let's have tightening in euro and tightening in Japan and ease by the Fed, and China would do nothing."
- March 10: Draghi did the 10&10 – the 10 basis point more negative interest rates, ten billion more QE –, which, relative to expectations, was a form of tightening.
- Two days later Kuroda also tightened relative to expectations by *not* increasing QQE in Japan. And then Yellen and the Fed on March 16 didn't raise rates (which was priced in) and the press conference was extremely dovish. On March 29, Yellen gave a speech to the Economic Club of New York, which was extraordinarily dovish.
- **This is a major turning point in the currency wars – this is the reversal of the strong dollar.**
- I regard the gold rally to simply have 3 vectors: (1) One is simply reciprocal of the dollar, so a weaker dollar means a higher dollar price of gold. (2) The second vector is the fear trade: it does seem that there's a loss of confidence in central bankers. It's not that they're out of tools, it's just that the markets no longer are impressed by them. It's very clear that monetary policy is not working, will not work, that that won't change and this confidence is being lost. Money printing has very little to do with inflation, inflation is primarily a socio-psychological phenomena, having to do with confidence and velocity. (3) And the third vector is simply scarcity of supply

[1] Note: At the time of the discussion, silver was underperforming gold significantly - it is worth noting that it began to outperform with the continuing rebound in stocks and industrial commodities, i.e. as economic confidence increasingly improved.

relative to demand.

- **The US is hanging by a thread, recession is a clear and present danger and we need a weaker dollar to avoid that. That's why the president summonsed Janet Yellen to the White House today. The politics and the body language are unmistakable – they're basically warning the Fed not to raise rates. The solution will be to cheapen the dollar. And that's extremely bullish for gold.**

**Frank Shostak:**

- **Chinese money supply shot up strongly.** This is probably on account of stimulating policies like the lowering of the required reserves from the banks, the lowering of interest rates. All our indicators were quite good in China relatively speaking, as opposed to what the media projects or presented. Of course it's still a subdued economy, but with a slight improvement that must be on account of strong monetary pumping.
- **We observe some softening in the American economic activity.** The CPI including food and energy stood at 2.2% in March against 2.3% in February and 1.8% in March last year, so it's basically around the magical number of 2% that they're using as a target.
- The Europeans were pumping much faster money than the Americans. That should be positive for the American dollar and negative from a money growth differential perspective.
- The main problem that I see is that the pool of funding or net wealth in America is not very strong. And if the pool of real wealth is stagnating or declining, then obviously monetary funding is not going to help, it's just going to make things much worse.
- If we look at the price of oil, the model continues to show a downward tendency for some quarters. It won't surprise me, if we reach next year around $20 a barrel.
- **In gold, there is an underlying general uptrend. However, there will be quite a lot strong swings around this general uptrend.**
- In particular in Europe, the net wealth is probably very precarious and not in very good shape. **So it's a Goldilocks scenario on very thin ice.** This thin ice, namely the pool of wealth, may collapse any moment and then the whole thing would just fall apart.

**Brent Johnson (Special Guest):**

- I think most people that come into the gold world, come in it for the inflationary purpose. They see the system can't survive, the Fed will have to create ever more dollars to support the system – eventually that will be inflationary, the dollar will lose value and therefore you need to be in real assets. **I do however happen to think that before that happens we will see another big deflationary move.**

- I'm of the opinion that we may have a few months of a soft dollar, but I still believe that in the months and years ahead, there will be a strong dollar that creates the problem which then leads to the full on printing by all the central banks.
- I still think that we may get one more test, one more big test in the gold world to the downside, before we get the final runaway gap to the upside.
- The monetary system as it's currently designed can't continue, it can't go on forever. It's designed to get bigger, it's designed to inflate and it doesn't have a neutral gear in it – it certainly doesn't have a reverse gear in it. So I do believe in the long-term inflationary effect. But I also think that so much debt has been created that they will have to print a lot more than they have already printed to counteract those deflationary forces.
- The outside reversal days put in by the miners on heavy volume in late January is one of the most encouraging signs I have ever seen.
- Commitment of Traders: The commercials are now as net-short as anytime in the last three years. Caution is warranted…
- It's not without risk, but we believe that *Reservoir Minerals* is among the companies that could deliver the attractive high returns of a miner at a reasonable risk.
- **I'm of the opinion that negative rates at the level at which they currently are, are actually a deflationary force for the economy and not an inflationary force.** Policymakers understand that negative rates would be inflationary, as nobody wants to pay tax on their bank account, so they think they will take it out and do something productive with it. I doubt this. I think rather it gets taken out of the economy as a tax paid to the bank, which would be deflationary.

# Transcript of the conversation:

**Ronald Stöferle:**

Welcome gentlemen to our 9th Advisory Board discussion!

Unfortunately, Zac Bharucha and Rahim Taghizadegan cannot join us today.

We're having some very interesting topics to discuss. The last Advisory Board discussion was called "*Is the narrative of the healing economy finally collapsing?"* . I have just reread it and I am actually quite proud, that so many of our calls were very accurate.

For today, there are specifically **three topics that we would like to discuss:**

**(1) Turning tides: have we seen the end of the dollar bull market?**

**(2) Jim Rickards' new book: "The New Case for Gold"**

**(3) Equity markets: Are we going to see a classical sell in May?**

**But first of all some housekeeping.** For the first time since we launched the fund, **our proprietary *Incrementum Inflation Signal* gave a full inflation signal. So now we're really able and allowed to invest in inflation-sensitive assets.** Accordingly, we've built up positions recently in the Canadian dollar, Australian dollar, we're buying mining stocks, we bought silver, and we bought the Bloomberg Commodity Index.

**This is what we wrote our investors regarding our inflation signal:**

Dear investors, advisory board members and friends,

We hereby want to inform you, that as of March 18, our proprietary inflation signal has reached the maximum possible "RISING INFLATION" dynamic.

Up until now this never has been the case since we launched our fund 25 months ago. In our view, this is a further confirmation that the scenario that we outlined in our December 2015 letter to investors is now materializing:

> ***"While many market participants have been trying to evaluate for years the sustainability of the current recovery, our view in this context is clear: Our belief is that we won't see any self-sustaining economic recovery in the years to come and that*** *reflationary policy measures of governments and central banks will finally cause a (systematically required) U-turn in inflation dynamics. We are quite sure that the low in inflation dynamics – and thus*

*the low of the inflation-sensitive investments – will be overcome in the next months."*

**In our last note from February 2016 we stated:** "In our view one can make a reasonable argument, that we finally may have seen the bottom in gold." *We are sticking to this view. The next hurdles for further price appreciation of inflation-sensitive assets which have to be taken are 1) the technically important resistance in the price of silver at 16.39 and 2) confirmation that the strength in the USD finally has turned into weakness (DXY< 93.18).*

**Although mining equities enjoyed quite a significant rally recently, the following monthly chart of the HUI index puts the performance into perspective. Based on our view, this confirms that there is still significant upside potential for the next years to come, as well as that the bear market in mining stocks finally seems to be over:**


*Source: Investing.com, Incrementum AG*

Some FED-officials have recently acknowledged the surge in consumer price inflation, which was interpreted as a signal for a more hawkish Fed policy. However, the economic situation hardly allows much leeway for significant rate increases. Therefore, we want to emphasize that Western economies may be close to entering a stagflationary environment. *In our view, investors should definitely have sufficient insurance in their portfolio if this materializes, as conventional asset classes tend to perform pretty poorly in this environment!*

**So, Mark and I are absolutely certain that we have – finally – entered the perfect market environment for the funds that we are managing.**

**When it comes to gold, institutional clients and bankers and that like tell us that they're waiting for this kind of correction.** So there seems to be so much money on the sidelines that no bigger correction is happening – everybody is just buying the smallest dips. We hoped that we'd have had a higher allocation in the end of January, **but we're doing excellent and just had the best performing week since launching the fund.**

So we're really happy about the environment in these days, as it seems that the market is rediscovering gold and especially mining stocks. Of course, we're going to talk about this at length.

What else has happened? **We've launched our new fund that is based on the concept of the Permanent Portfolio.** We're very happy about raising seed capital these days as well as about the performance. Our English book "Austrian School for Investors" is selling very well and we got some extremely positive reviews, for example by the great Douglas French "Responsible Investing in an Irresponsible World"

**Moreover, we've published a quite extensive chart book called "Who's Afraid of Recession?", in which we pointed out a lot of recessionary developments in the world and discuss some recession indicators that are at critical levels right now.**

And last but not least, we are already working 24/7 on our 10th "In Gold we Trust" report, that will be released on June 28.

**Mark Valek:**

Thank you for the introduction, Ronni!

And thank you Brent for joining us today from Jamaica, where you are currently on vacation, and for the slides that you have prepared! I think our way of thinking converges a lot – I know a lot of your work and I'm convinced that your input will enrich our discussion very much. Maybe you start with presenting your points, and we take them as a starting point for our discussion?

**Brent Johnson[2]:**

Part of the reason that I appreciate the invitation to talk to you guys is: I've been speaking to Ronni for 2-3 years now, I've had the pleasure of meeting Jim a couple of years ago, and I think – I don't want to put words in anybody's mouth –, but **I think we all kind of see the same endgame**, whether that's five or ten years down the road or whatever it is. **Perhaps I might have a little bit different opinion concerning the short term.** One of the reasons I have always enjoyed talking to

[2] **Brent's biography can be found in the appendix on page 36!**

Ronni is because you guys have this inflation signal. And **I think most people that come into the gold world and have been in it for a long time, come in it for the inflationary purpose. They see the system can't survive, the Fed will have to create ever more dollars to support the system – eventually that will be inflationary, the dollar will lose value and therefore you need to be in real assets.** And I do see that as the endgame. **I do however happen to think that before that happens we will see another big deflationary move. And I'm of the opinion that we may have a few months of a soft dollar, but I still believe that in the months and years ahead, there will be a strong dollar that creates the problem which then leads to the full on printing by all the central banks**, which then in turn leads to the new system.

**I still think that we may get one more test, one more big test in the gold world to the downside, before we get the final runaway gap to the upside.** I would be very, very happy to be wrong on that – and if it takes me coming out and saying we're going to have one more test for gold to keep running up, then I will gladly fall on that sword.

It's interesting because I initially got into gold and started allocating clients' money to gold for the counterparty aspect of it as opposed to the inflationary protection part of it, because of the fact that gold has no counterparty. **The monetary system as it's currently designed, I just believe can't continue, it can't go on forever. It's designed to get bigger, it's designed to inflate and it doesn't have a neutral gear in it – it certainly doesn't have a reverse gear in it.** If it sits in neutral or it goes back for any length of time, the whole system comes down.

**So I do believe in the long-term inflationary effect. But I also think that so much debt has been created that they will have to print a lot more than they have already printed to counteract those deflationary forces.**

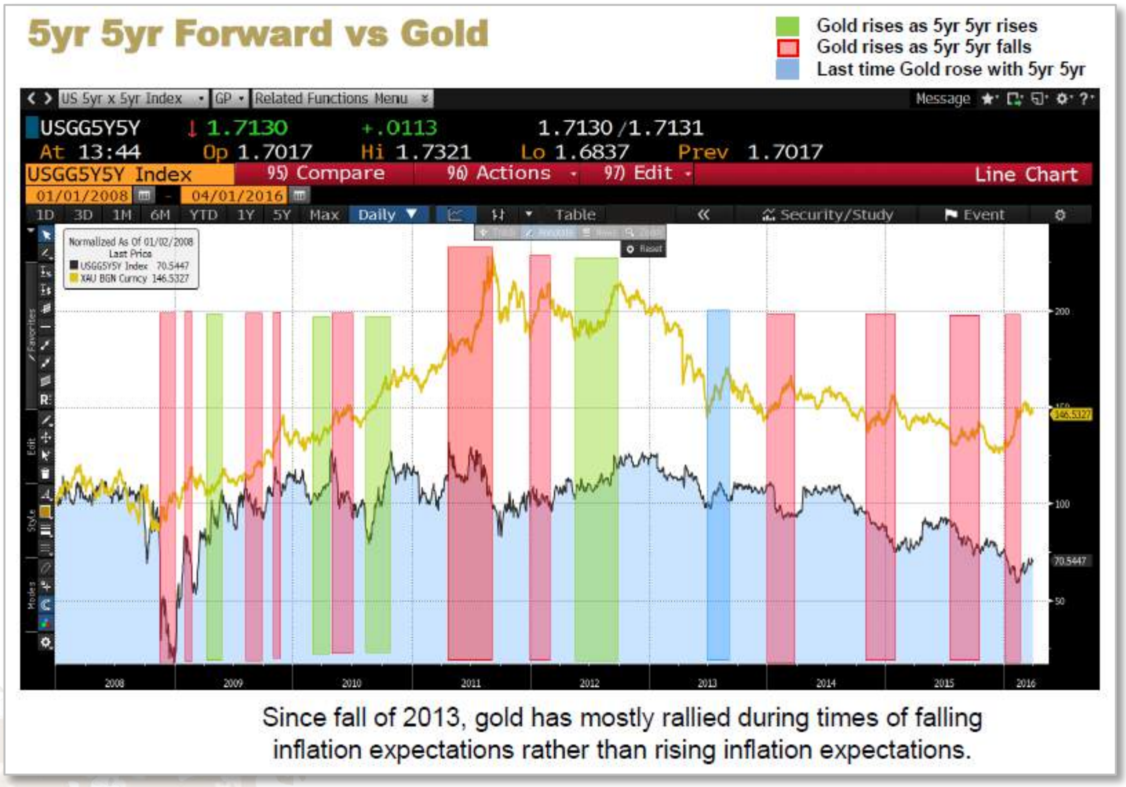
The first slide – which is probably not a slide that comes as a surprise to anybody – depicts the 5-year forward curve, which is basically used for inflation expectations (it's a market to gauge inflation expectations). **And if you look over the last 6 or 7 years, despite all the QE programs and all the central bank activity around the world, inflation expectations are lower now than they were in 2009.** And so, despite eliminating or at least deferring the market crash, they have not been able to successfully greenlight the time change for inflationary expectations. Maybe that's changing now, but for the last five years, despite all this, the inflation expectations have actually dribbled lower as opposed to the dribbling higher.


QE programs have deferred a market crash but have so far been unable to significantly alter inflation expectations.

*Source: Santiago Capital, Bloomberg*

The other thing that I did is, I took it back to 2008 and what I tried to show was that **in the bull market of gold from 2008 to 2011 gold often suddenly moved up in environments when inflationary expectations declined. The big move in the summer of 2011 actually came during big deflationary forces in the rest of the economy**. So I think that's pretty interesting. If you take it forward, then the last time that gold rallied along with inflation expectations for more than a week or something, was the fall of 2013 – so that was after we had the big sell-off in 2013.

And **if you look at every time subsequent to that, every time gold rallied, it was in a disinflationary market signal on the 5-year forward.** And we've even seen that here in this year to date, from December until two or three weeks ago, there were deflationary pressures; now I guess in the last two or three weeks, maybe even a month, we've had some inflationary pressures, but what has gold done? Gold is lower today than it was on February 15 – so it's two months since gold hit its high this year. And I guess, **the reason that we should be cautious in gold and not get too far ahead of ourselves is, the pattern is playing out exactly as it has done for the last few years.** Now perhaps there has been a mindset change now, perhaps this move towards negative rates is finally kind of waking people up to the fact that the central bankers are losing some of their shine so to speak. And I'm not saying that gold is going to $800 or $1,000 or anything. I'm just saying: look at this pattern for the last three years, it's pretty clear what the pattern is. The question now is, is the pattern ready to break?




*Source: Santiago Capital, Bloomberg*

The next slide is one of my favorite slides. Jim, I hope you appreciate this, because I'm going to try to raise a bunch of money to keep you on tour. Three of the biggest rallies we've had in the last five years have come while you've been out promoting your latest books, so I hope that continues – I hope you keep promoting your books and I hope you already have another one in the works...

**Jim Rickards:**

Well, actually I do. The publication date will be November 15, so if you want to buy some long-dated call options, now that's fine!


*Source: Santiago Capital, Bloomberg*

**Brent Johnson:**

**Then the next slide is silver versus gold. Gold has had a nice move this year. I think it was the best quarter in 30 or 40 years.** Again, I'm not certain that move comes on inflationary expectations though. The biggest move came late January through the middle of February and that was in a period where gold and the miners really started its move. Those started around January 20th, that was pretty close to the date of the Davos economic summit. And it was at the Davos economic summit where a lot of this official talk of negative rates started coming out. And so I think that jump started it. But generally the first six weeks of the year were pretty volatile just from an overall market standpoint, a lot of equities had sold off, trouble in the world markets etc. **I felt like gold was getting a bit more on flight to safety and flight to quality issues than it was on inflationary issues. And part of the reason why I think so: if that development was moving purely on inflation expectations, I would have expected silver to be outperforming gold – but so far it's not.** It doesn't mean it can't change, but again, it's just another thing. It's not a red flag, it's more like a yellow flag – just something to keep your eye on.


*Source: Santiago Capital, Bloomberg*

I will say on the positive side **it would be hard to paint a rosier picture from the miners than what we've seen over the last two months.** Again I think it was around the same date, around January 20th, certainly late January, I remember I came in the office and I was starting my day and bullion was flat and all the miners all of sudden sold off. Huge moves to the downside with no real news and bullion being flat. It just really didn't make a lot of sense. The very next day, they rallied back to even, and as you can see, since then they had a heck of a run. And when gold finally bottoms in and makes its turn, this is exactly what I would expect to see, I would expect the equities to outperform the bullion.

## Gold vs Gold Miners


The outside reversal days put in by the miners on heavy volume in late January is one of the most encouraging signs I have seen this year.

*Source: Santiago Capital, Bloomberg*

**So, like I said, I still think we're going to have another test – I don't know if it's a test of $1,250 back to $1,150, or if it’s going to be something bigger than that –, but this move here has been the most encouraging thing I've seen in the gold market this year.**

Then finally, the next slide just shows that we’ve seen a number of these bear market rallies since 2011. If gold doesn't move more than 2% or 3%, I don't even think it's a move, and if the miners don’t move 5% or more, I don't even think it's a move, I consider it flat. So it's certainly nice to see this move from the miners; on a percentage basis it's the biggest one we've seen since the bear market started, on an absolute value it's pretty similar to what the others have been. Again, I think that caution is warranted, it doesn't mean that you need to sell everything, but it does mean that they've come a long way in a very short period of time. I will say that for all the pain that has been suffered in the miners, it is one area of the market where if you lose 30, 40, 50, 60%, you can actually make that back fairly quickly; whereas, if you lose 30, 40, 50% in a blue-chip Dow-type stock, it takes a long time to earn it back.

**Gold Miners bear market rallies**


Since Gold topped in 2011, there have been several large bear market rallies. But this is the biggest one by far (80%!).

*Source: Santiago Capital, Bloomberg*

And then the next chart is just a technical look on the same information. The part of the reason that I was encouraged with the miners is they did break through that very long resistance band. But from a shorter-term view they're still kind of at the top of the band, so I would like to see them kind of bounce through that. Finally, I'm not a huge technician, but I do look at it a lot because I know a lot of other people look at it a lot, and to a certain extent it's just like playing poker: sometimes you've got to play the other guys rather than play the hand, so I think it is important to look at this kind of stuff from time to time.

## Gold Miners


Gold miners broke through their long term resistance
but are still within shorter term trading band.

*Source: Santiago Capital, Bloomberg*

**The other thing that I think leads to being somewhat cautious is the Commitment of Traders.** This chart goes back to 2013, and this chart has worked like clockwork as far as gold rallying and gold pulling back. The Commitment of Traders looks at the different market participants. What I've charted here is the futures positioning of the Commercials.  These are the big banks and their customers, who actually deal in the gold world, use it as a product. They in my mind have more knowledge, are better informed, and they to a certain extent tend to be the smarter people in the market as opposed to just the pure speculators. And so it's kind of worked like clockwork. **And the Commitment of Traders has not been more net-short than now since the bear market started.** There's been one other time when it was at this level, but it hasn't been deeper than this as far back as I can see. So caution is warranted.

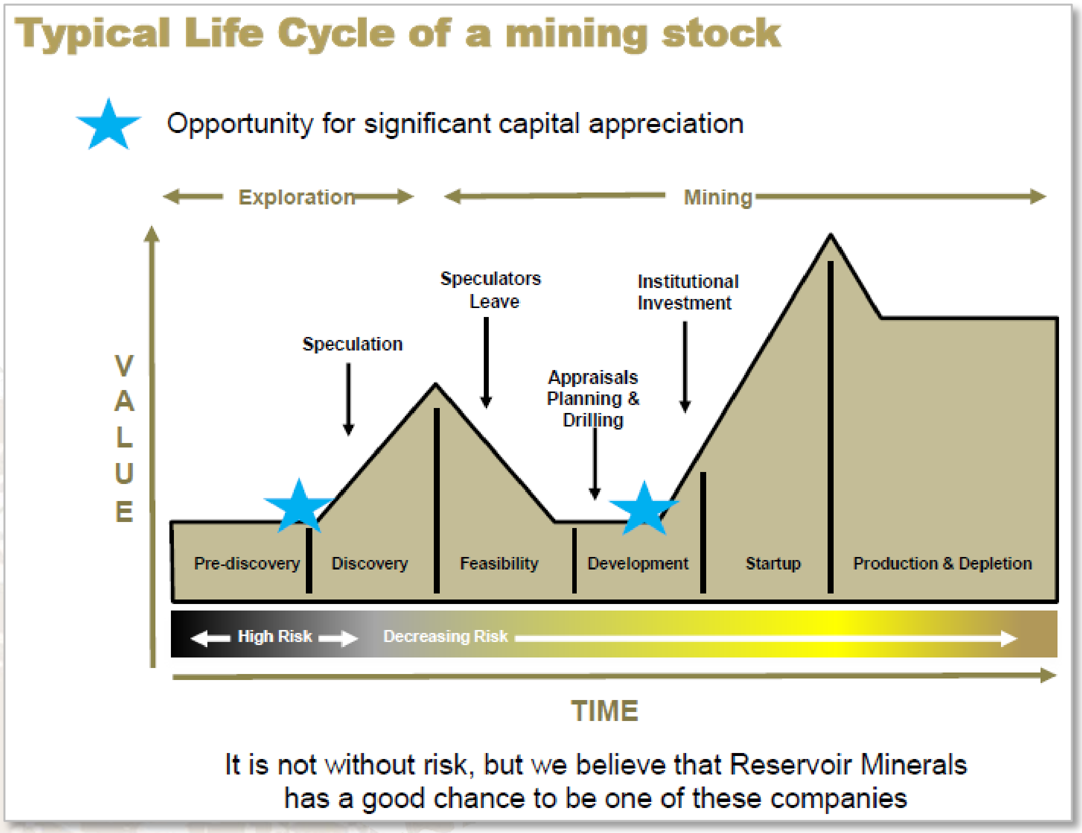

*Source: Santiago Capital, Bloomberg*

And then the last two slides that I have deal with just an individual equity. I kind of got into gold again for the bullion aspect of it or for the counterparty, but I also think that this is an arena just like every other arena: it will have its day and will be in a bubble. **And I think when gold eventually goes into a bubble, the mining stocks will be a bubble on steroids – so I didn't want to have some exposure to mining stocks.**

A lot of the times, if you look at this chart, the high risk is on the left and the low risk is on the right. I would say that the low risk on the right is still high risk compared to everything else, as mining stocks are not for the faint of heart. I think one of the reasons people go into mining stocks is to get the really big returns, you know the 5X, the 10X. Now, I think **if you want to get the 5X or the 10X, what you've got to do is you've got to find a couple of very good companies with smart management teams who have done it before. You need to try to find them in one of these two spots where I have the blue star. And that's (1) either pre-discovery**: so you're actually going out there and investing in somebody who's exploring for gold and who doesn't have an ounce to their name yet, but is exploring – and if they are a really good team and they have a history of success and they find a new discovery, that stock is going to appreciate quite a bit. **Or (2) you can buy when a reserve has been found and now you have a good team in there that's exploiting**

**that resource and moving towards production.**

In general, I think most people should stay away from mining stocks and **if you are going to be in mining stocks, you should be at the far right.** You should probably just buy some royalty names or some of the big producers who already have a big deposit and are pulling that resource out of the ground. So for the most part I think you should stick to the right – but again: to get the big pops, I think you want to be in one of those blue star areas.




*Source: Santiago Capital*

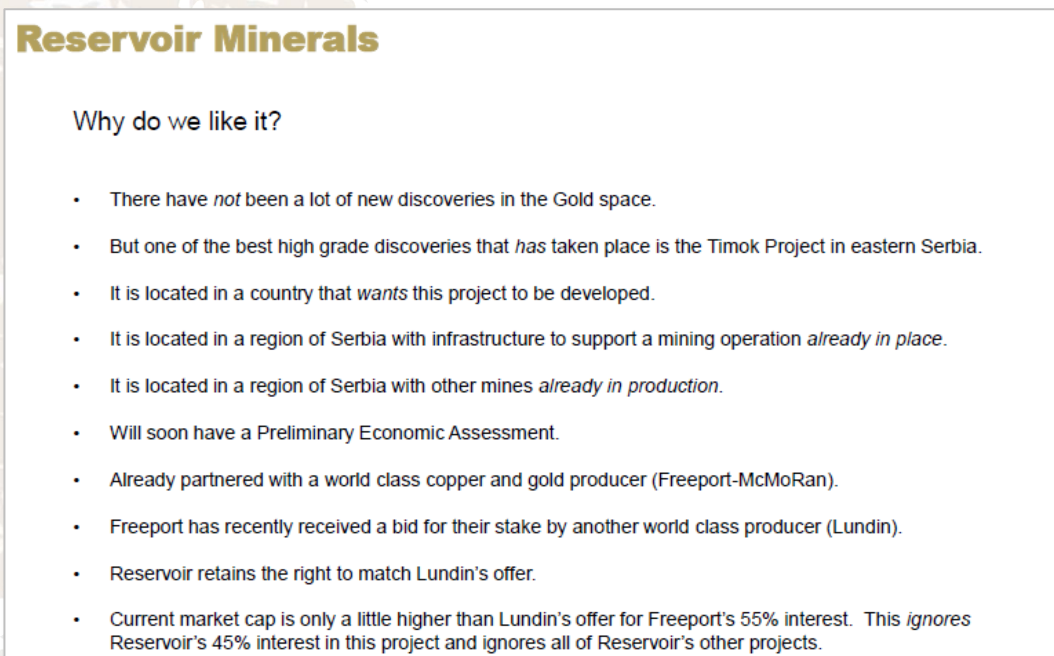
And then **one of the companies that I think are in that blue star area is *Reservoir Minerals*.**[3] Now, it's actually probably between those two blue stars somewhere and that's the reason I like it. It has had a really good run here over the last two months, it's gone from $2.50 to $5.40, so it has doubled, which is obviously nice. What I would encourage you to do though is to look to the left part of that slide and realize it was at 4 bucks and went all the way down to $2.40 before it made that move. So this is not for the weak of heart, it's not for the people who don't have strong stomachs, because prior to that 100% move, we had had a 60% or 70% drawdown – and that's pretty normal for mining stocks.

**One of the reasons I like this stock is there have not been a lot of new discoveries.**

[3] A few days after the Advisory Board discussion took place, *Nevsun Resources* and *Reservoir Minerals* agreed to merge. The stock is up 30% since then.

If you go back 10 years, I don't think there's been that many new discoveries So that's one thing. The other thing is, **one of the biggest discoveries that has been made has taken place in the Timok project in Eastern Serbia, which is where *Reservoir Minerals* has their mine.**


*Source: Santiago Capital, Bloomberg*




*Source: Santiago Capital*

**The other thing is, one of the biggest risks against mining stocks is they're kind of political dynamite.** Often in countries, citizens don't want to see some foreign company come in and make a lot of money on that mine if the local country doesn't benefit from that. But **in the Timok project we have a country that wants the project to be developed, it's located in a part of the country that already has the infrastructure to support a mining operation** – that's important because that keeps costs down. And **they're working with a world class mining operation already as half of the project is owned by Freeport-McMoRan** (who is one of the biggest copper and gold producers in the world). So it's nice to know that you have some expertise and some capital behind it. The other thing is, **Freeport last month has received a bid towards their 55% stake by another world-class producer, Lundin.** You know, anybody who has been on mining stocks knows that Lundlin has been pretty successful. So it's nice to see that somebody else that has a lot of success is looking at that project and says: "Hey, you know we need to go out and we need to expand, and we don't have enough discoveries around, maybe we need to buy that one". To see them come in and make a bid is very encouraging. Also the size of their bid is encouraging from a valuation perspective: they're basically offering almost a full price of the company for 55% of this project. Now again, it doesn't mean that we're not going to see some pullbacks and it doesn't mean this is going to start producing gold tomorrow and it's going to go up to ten bucks or twenty bucks or whatever it is; but if you're going to venture into this space, this is the type of thing that you should look for.

So I'm happy to answer any questions on those – those are just kind of my thoughts on the stakes for now.

**Ronald Stöferle:**

Thanks a lot, Brent! These are very interesting thoughts that you brought up!

Let me tell you my views on this. I agree for example regarding the Commitment of Traders report. But **what I feel while talking to a lot of asset managers in the gold space, which really suffered for the last 4-5 years, is that many of them are still extremely cautious and most of them don't really believe that we've seen the end of the correction and have entered a new bull market. But the price behavior and the development of mining stocks make me pretty convinced these days that this is the beginning of the next stage of the bull market of gold.** But I think this cautious attitude is of course a product of the last 4 years, when we have seen quite a number of bear market rallies – when it comes to the sentiment within our space, I think it's still slightly bearish.

Jim, Frank and Heinz, I think Brent opened a number of interesting topics and I'm sure you have a lot of interesting comments on that.

**Heinz Blasnik:**

I've made a few notes, let me quickly comment on that. **About the monetary system: not only can't they go neutral or wind anything down, they can't even slow**

**down. In my opinion, if money supply were to slow down below 5% y/y, the stock market would probably crash.**

Then I wanted to say something about inflation expectations and gold. It's true, inflation expectations are weak, although in recent weeks there has been a little bit of a bounce. But one should not forget that these are only inflation expectations about the Consumer Price Index. It's actually not correct to say there's no inflation – there's a lot of money supply inflation and the price effects of inflation are simply showing up elsewhere such as in asset prices.

**But I do believe that you're perfectly correct that the counterparty risk issue is very, very important for gold and we can see this. For instance, if you look at European bank shares and also US bank shares, they all have fallen very steeply against the broad market – and during this time gold shares started to accelerate upwards.** So I believe this is playing into this as well. People are getting concerned that central bank policies like negative interest rates as well as new regulations are really hampering the banking system. There's a feedback loop going out which is expressing itself in inflation expectations on one hand, because people don't expect private sector credit expansion and they're actually right about that, there's very little of that. And it's all central bank dependent now. **To keep the system going, central banks must print – people are probably realizing that by now. So there are plenty of reasons to buy gold as insurance.**

And in that context I also wanted to say something **about the gold-silver ratio. If you look at the beginning of the gold bull markets generally, you will always see this, because gold usually starts to outperform other assets when economic confidence declines. When economic confidence declines, silver is less attractive because it's partly an industrial metal**, so you're correct. If you see gold is outperforming silver, then it usually means we're either in that early phase where gold outperforms silver in the world markets and silver then will start outperforming after a certain lag-time; or we're in a bear market rally, that's the other possibility. **I actually don't believe we're in a bear market rally anymore, because gold stocks as of today are up 108% from their low – so that's a pretty big move! That's already a bull market in my opinion.**

**Gold-Silver Ratio since 1970: Silver relatively interesting on current price levels**


*Source: Incrementum AG*

Of course we know miners are very volatile, so that might not mean much here. But still, if some other market were to rally more than 100%, then everybody would be convinced it's a bull market. And it’s interesting that in this space the conviction is actually not that great.

I also wanted to say something also about the **Commitments of Traders**. I've been looking at these reports for two decades now and I've noticed something odd about the recent expansion of this speculative net-long position. For one thing, **small traders – the non-reportables – are actually not all that bullish**: their net-long position is only 16,000 and something contracts as of last week. That compares to a record high of more than 60,000 back in 2012 at the secondary peak. **So it's mostly big speculators that have bought so many contracts.** And I’ve gone through the history of this, of the gold Commitment of Traders report specifically. And for instance, back in early 2010, when gold for the first time approached $1,200 (the close was at $1,196 or so), at that time the net speculative position was 50% greater. Now they're at about 210,000 contracts net-long all speculators combined. At that time, they were along 310,000 contracts, i.e.100,000 contracts more. What this report means depends a bit on the circumstances. I've seen it mentioned in many articles that people are careful, because obviously the wind is no longer at the back of gold in term of this data point, as gold is rising when speculators expand the long positions – and once they reach a certain size, it becomes more difficult to see an expansion. But if you look at the rally from early 2010 to late 2011, when gold rallied about 700 bucks, then what happened there was that speculators sort of changed places – some speculators sold and other speculators bought from them and gold managed to rally about another $700.

I'm also thinking that some of these positions may actually not be directional and they may actually become more extreme, because there's so much automated trading going on.

But still it's of course true: once a speculative net-long position is this large, there could be a pullback. But also once again, and thinking back to the start of the last bull market in late 2000 / early 2001, at that time gold actually pulled back very sharply from its initial advance, but gold stocks did not – they just consolidated, they went sideways for a while. And then once when gold confirmed that advance, that was when the first big correction in the gold stocks started. So maybe that's going to happen here as well. Actually, **I expect gold to follow the gold stocks higher in the short term. And once it does, then there will probably be a short-term correction.**

**Mark Valek:**

Great points, thanks Heinz!

Let's switch to Jim: do you have anything urgent to say to Brent?

**Jim Rickards:**

The only thing I have to add is, when people are talking about gold going up or down, what they really mean is the dollar price of gold going up or down. You're privileging the dollar as a numeraire. You'd better treat gold as a numeraire, as it's far more constant – you should think about things in terms of weight of gold. **For me a higher or lower dollar price is more a dollar story than a gold story. So I'm thinking about the currency wars and what's happening to the dollar and then one has to think about the dollar price of gold, the euro price of gold, and the yen price of gold separately.**

What I'm saying now is what I call the ***"Shanghai Accord"***, which was basically **something that was agreed by the central banks, during the G20 meeting in Shanghai on February 26**. This was the central banks' and finance ministries' meeting, technically G20, but **I really think of the G4 operating inside the G20. The G4 would be China, the US, Japan and Europe** (probably led by Germany and the ECB, but thinking of the euro zone as a whole). And they had a difficult problem to solve, which was **for the last three years we've seen a weaker yen and a weaker euro with a fairly strong dollar, and that was designed to help the European and Japanese economies.** But the problem with the currency wars is of course it's impossible for every currency to devalue against every other currency at the same time, it's just an impossibility. So if somebody is weak, were going to get the perceived benefits of weakness, it means somebody else must be strong by definition, as they are reciprocal and it can't be any other way. So a weak euro and a weak yen. The weak yen started in December 2012, it was down a little bit before that, but it got an extra drawdown with the announcement of Abenomics, which was one of the three arrows of Abenomics in 2013 – that was the weak yen story. The weak euro really started in June of 2014 with negative rates and then continued into January 2015 with euro-QE, and that's a 2-year old story.

**But the problem is: the theory was that the US economy was strong enough to bear the cost of a strong dollar and we could give Europe and Japan the benefits of a weak currency** – having strong currency ourselves, we were strong enough, they would get a boost and the whole world would be better off. That turned out to be completely false, mainly because the **US economy was not robust enough to bear a strong dollar; we had a strong dollar, but the US economy slowed down significantly** and we're seeing that right through the first quarter of 2016, where it looks like we may even be in at least a one-quarter recession (if not a full-scale technical recession).

**China has equally severe problems, probably worse.** What they were trying to solve: **China needs to devalue, for a lot of reasons. The problem is, the last two times China devalued, US stock markets crashed and there was some risk of contagion or spillovers to global stock markets.** So August 11, 2015, was the overnight shock of 3% devaluation and US stocks went straight down for the next three weeks, and by August 31 it was like we were staring into the abyss. And it was only when the Fed backed away from interest rate cuts in September and did nothing, then there was some happy talk that the stock market started to come back.

The next time China devalued was in December and early January 2016. And this was done much more in baby steps – you didn't have the overnight 3% shock, but they were moving 5 basis points or more a day in increments. And once again, US stocks fell out of bed and we had a six-week period staring into the abyss – we all know what happened in January and February.

So you had this problem, which is on the one hand China needs to devalue. On the other hand, the last two times China devalued, US stock markets collapsed. **So how could you devalue the yuan without crashing US markets?** And the answer is to realize that there're more currencies in the world than just the dollar or the yuan. So the thought was: **"Let's have tightening in euro and tightening in Japan and ease by the Fed, and China would do nothing."** Think of the implication: the combined trading relationship of China with Europe and Japan together is larger than China's trading relationship with the United States. So certainly the Chinese-US relationship is important, as everyone is looking at their cross rate and as soon as you see China devalue, again US markets crater. But what they did is, **they decided to hold the China-dollar cross rate constant, but tighten the euro, tighten the yen and ease the dollar. And of course, if you are pegged to the dollar and the dollar eases, then you ease too.**

And **that's exactly what happened on March 10: Draghi did the 10&10 – the 10 basis point more negative interest rates, ten billion more QE** –, which the markets expected. But he didn't do 20&20 or 30&30, which some people talked about – he did 10&10 and that was the minimum and then said he was done. And that was not expected: **so relative to expectations, that's a form of tightening.**

And just to be clear, **the way central bankers tighten and ease around the zero bound: they can't actually change interest rates very much, but they can change expectations and that has the same market impact as actually raising or lowering rates.** So Draghi tightened relative to expectations by saying he wasn't going to do more.

**Two days later Kuroda also tightened relative to expectations by not increasing QQE in Japan.** And then just the icing on the cake: **Yellen and the Fed on March 16 did not raise rates – which was fully expected, that was priced in –, but the press conference was extremely dovish. And then on March 29, Yellen gave a speech to the Economic Club of New York, which was extraordinarily dovish.** I was actually surprised at how dovish it was, given the fact that she had been the one talking about raising rates for all 2015. She basically adopted Charles Evans' formula, the asymmetry of risks between what happens if you tighten and you are wrong, and what happens if you do nothing and you are wrong: it's easier to fix the latter than the former, so there's an argument in favor of doing nothing. She fought that argument last year but adopted it, so that was a super-dovish speech!

So the script is: China does nothing, Japan tightens, Europe tightens, China gets the benefit of devaluation and then the Fed eases – so even if China maintains the peg, it still gets easing. **China has received a significant devaluation from three sources – Europe, Japan and the US –, without ever affecting the China-US cross rate.** What a very interesting finesse!

**This is a major turning point in the currency wars – this is the reversal of the strong dollar.** So my expectation is the yen will trade down to 100 or maybe even below 100, the euro will trade up to a $1.15, maybe even higher, the dollar index will go lower, and China will just sit there and get the benefit of the ease. It's a pretty simple analysis: if the two world's largest economies are slowing down, the world has a problem.

**So, is this good for Japan? No. Is it good for Europe? No. But the US and China right now need help more than Japan and Europe.** Japan and Europe have had 2-3 years of relative ease to get themselves a lift, their turn is up. But again this is the basic dynamic of currency wars, not everybody can cheapen at once, you have to take turns. And I have analogized it in the past to a group of soldiers fighting on a hot day and they take a break and they only have one canteen and everybody wants to drink the canteen, but you can't, you take a sip, you pass it to the next guy, he takes a sip, he passes it to the next guy, and so on. So the currency wars can be understood as passing the canteen – and China and the US just took the canteen away from Japan and Europe. So even though this is not good news for Japan and Europe, it's too bad, they're going to have to suck it up and deal with it.

**Now let me give you my views on gold. I regard the gold rally to simply have 3 vectors.**

**(1) One is simply reciprocal of the dollar, so a weaker dollar means a higher dollar price of gold.** That's going on, that's part of the currency wars, that's going to continue.

**(2) The second vector is the fear trade. And it does seem that there's a loss of confidence in central bankers.** They're not technically out of tools – people keep saying they are out of tools, I don't agree with them, I think they could do Forward Guidance, they could do QE4, they could do currency wars, they could do negative interest rates; there are a host of things, the central bankers can do and they will do if they feel it's necessary. **It's not that they're out of tools, it's just that the markets no longer are impressed by them.** They've seen eight years of this, they've seen hardly any growth, trillions of dollars of lost wealth. **It's very clear that monetary policy is not working, will not work, that that won't change and this confidence is being lost. Money printing has very little to do with inflation, inflation is primarily a socio-psychological phenomena, having to do with confidence and velocity.** You could have a little money supply, but if velocity is sky-high, you're going to get inflation; you can have a huge money supply and if velocity is low, you're going to get deflation. So money supply is not the explanatory variable for inflation – although more money makes it more likely –, but the explanatory variable is velocity, which is a psychological, social phenomenon. And right now the mentality is not in favor of spending – but that could change very quickly. So when we get inflation, it will happen very, very quickly and surprise a lot of people and will not have a lot to do with increasing or decreasing the money supply, but has everything to do with a loss of confidence and a change in opinion. We might even get the worst of both roads, which is stagflation, so inflation and low/negative growth.

**(3) And the third vector is simply scarcity of supply relative to demand.** I just have been in Switzerland recently and talked to the head of one of the world's largest gold refineries: they're having great difficulties sourcing gold and a waiting list of buyers.

So to put it all together: a of a loss of confidence, the cheaper dollar (at least for the dollar price for gold), physical scarcity creates a very positive environment for gold. But – and there I disagree with Brent a little bit – I don't see this as a temporary thing, at least in the dollar space it looks like an intact trend that has a long way to run.

**Mark Valek:**

Super, thanks Jim! That's great because you already covered some topics that we wanted to put to the discussion.

Just one follow-up for Jim: You highlighted at several occasions a Bernanke speech in Tokyo in October 2012[4] after which the theory came up that he liked to have a ***coordinated easing***. Wouldn't this be the logical next step, if Japan and the Eurozone are not able to withstand this and retaliate within the currency war?

**Jim Rickards:**

**Well, Bernanke's theory was that, if everyone eases at once, there's no currency war, because there's not much impact on the cross rates. So everyone gets the benefit of stimulus, but there's no currency war.**

The problem is, like in most of Bernanke's theories: it's completely false, meaning there's no evidence. I mean, QE appears to be a failure and that's not just an opinion. Now we've had a lot of it for a long period of time. There's pretty good empirical evidence that you don't get much back for the buck when you begin with it, and that it's definitely subject to diminishing marginal returns – QE produces progressively less of whatever it's supposed to produce (I guess nominal growth, but we're not even seeing that anymore – again, it looks like we're in a recession).

So **Bernanke's speech in Tokyo in October 2012 was a theory of a coordinated easing**. If you apply that to today's markets, you would say: "Sure, the US can ease, China can ease, Japan can ease, and Europe and we can all look happier thereafter." **But the fact is, there's a lot of doubt about it, about whether it works at all and on how much more printing Japan can actually do.**

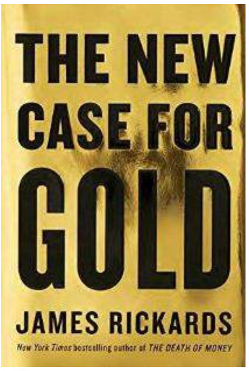
But **what we know: for a short period of time – so only temporally –, you can give your economy a lift with a cheaper currency**. It did work in Europe with pretty good growth results in Spain, Ireland, Italy and a few other places, when the euro went down from $1.45 to $1.20 to $1.05. Also Japan got a little bit of such an effect, but is now running out of steam, and now they're starting to go the other way.

Meanwhile the US was suffering with the strong dollar and got very weak growth results. And now we're at a point, where **the US is hanging by thread, recession is a clear and present danger and we need a weaker dollar to avoid that. That's why the president summonsed Janet Yellen to the White House today**. I emphasize the word "summonsed". It's not unusual for a Fed chairman to have a periodical lunch with the president: George Bush used to have lunch with Alan Greenspan, Bill Clinton as well had lunch with Alan Greenspan. So a casual chat between the president and the Fed chairman is not unusual. But this one today was a very high profile, with the chairman was literally summonsed by the president. Last time I know that happened was in 1951 when Harry Truman did something similar.

[4] https://www.federalreserve.gov/newsevents/speech/bernanke20121014a.htm

Hence, **the politics and the body language are unmistakable – they're basically warning the Fed not to raise rates.** My expectation is that as the whole US economy is weak, the solution will be to cheapen the dollar. **And that's extremely bullish for gold.**

**Ronald Stöferle:**




*Source: Amazon.com*

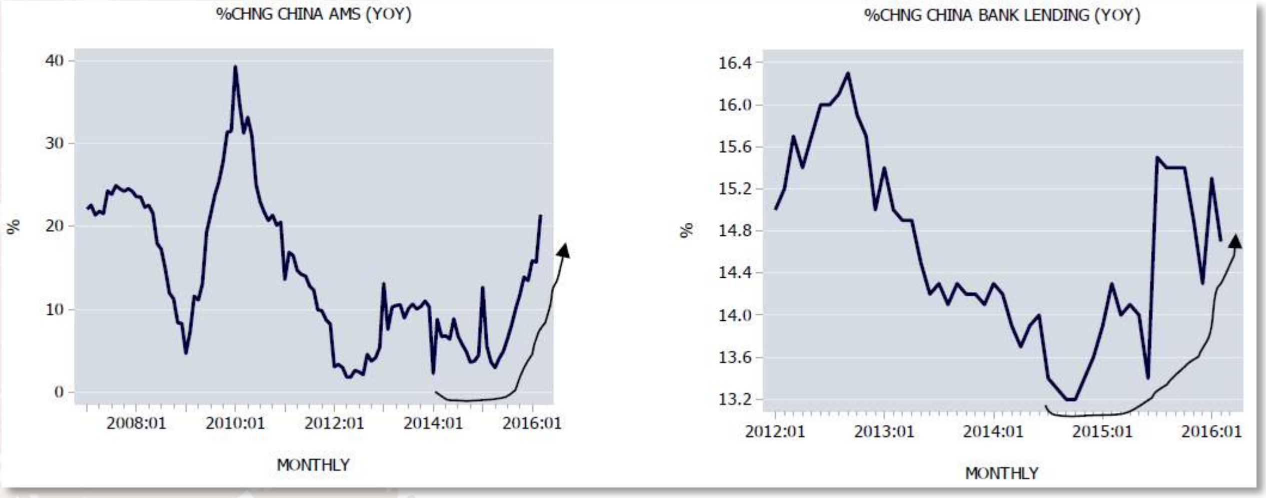
Thank you very much, Jim!

Also congratulations on your new book "The New Case for Gold"! You made me smile when mentioning Mark and me in the beginning of your book, also when you wrote about the Austrian School and Carl Menger. I wish you good luck with the book and I am certain that it will become a bestseller again.

Frank, any other topics that you would like to bring up?

**Frank Shostak:**

I would like just to mention a few things that happened recently in the last few days. First of all, we have had a release of Chinese data. **Chinese money supply shot up strongly**: the year-on-year rate has gone up to over 21% in March from 15.7% in February and 3.6% in March last year. So we definitely see strong capability of Chinese authorities to inflate things.

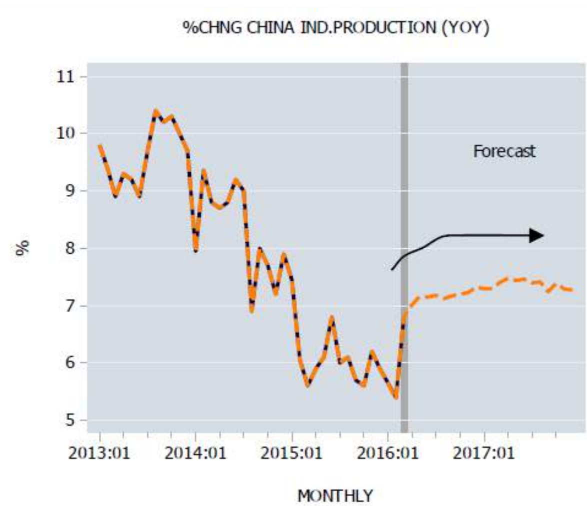



*Source: AAS Economics, Economic Commentary April 17, 2016*

**This is probably on account of the lowering of the required reserves from the banks, the lowering of interest rates.** So the stimulating policy is starting to produce results in money supply, which shot up strongly. Whether it will continue like that remains to be seen, but it's already quite visible.

**We've also seen in China the GDP slightly weakened.** It's basically 6.7% (yoy) in the first quarter 2016 versus 6.8% (yoy) in the fourth quarter of 2015. That's just in terms of GDP. **Industrial production on the other hand has shown some strengthening**, which was 6.8% (yoy) in March compared to 5.4% (yoy) in February and 5.6% (yoy) in March last year, which is interesting. **This may suggest that the monetary pumping is starting to work.** It doesn't mean from an Austrian perspective that it's a healthy thing – they're creating a lot of bubbles. They managed to create the wealth and now they're squandering it again. And our model suggests that it may even strengthen a little bit – but that's it, we don't expect major rallies there in China. It has probably reached a high of 7%, where our models suggest to stabilize and go sideways until December next year.






*Source: AAS Economics, Economic Commentary April 17, 2016*

Now what else do we have? We've had a visible strengthening in new home prices in China: in February 3.6% (yoy) from 2.5% (yoy) in January and -5.7% (yoy) in February of last year. So they're definitely having some success in inflating. And retail sales also have strengthened in March, 10.5 % (yoy) against 10.2% (yoy) and 10.2% (yoy) in March last year.

**All our indicators were quite good in China relatively speaking, as opposed to what the media projects or presented.** They always somehow present things in reverse of what at least I'm trying to say. Now it appears as if GDP has been 6.7% for the first quarter, and I expect a slight strengthening up to the 6.9% / 7%, where it will stay for a long period. So nothing really significant: **it's still a subdued economy, but with a slight improvement that must be on account of strong monetary pumping.**

We also have some interesting recent data in the United States. Industrial production was negative in March with -2% (yoy) against -1.7% (yoy) in February and 1.4% (yoy) in March last year. Retail sales had a softening in March with 1.7% (yoy) from 3.7% in February and 2.3% in March last year. So **we observe some softening in the American economic activity.** Advanced inflation eased in the United States, the year-on-year CPI was 0.9% against 1.0% in February and -0.1% in March last year. And even **the CPI including food and energy – that's the one that they are looking at always – stood at 2.2% in March against 2.3% in February and 1.8% in March last year, so it's basically like around the magical number of 2% that they are using as a target.**

Now we looked at the model and the lagged money supply where the American economy is heading. Surprisingly, **as the money supply is starting to show some strengthening in the United States, we expect a certain strengthening in the activity** – not very much, but at least a bit of strengthening. In fact, **it won't surprise me if we will have some bottoming out in activity.** Based on the model, we don't forecast any collapses in terms of momentum at the moment. We may still have negative data and growth, but the momentum for growth should start displaying some improvement.

With respect to commodities, I don't see a hell of activities, neither in China nor in America. Price inflation I see quite subdued, so this probably will keep the commodity prices relatively subdued. Oil prices are still expected to trend down.

**Ronald Stöferle:**

Very interesting, Frank!

What would be your strongest calls, your highest convictions based on your models?

**Frank Shostak:**

As I said, at the moment we first of all had quite an increase in the money supply rate of growth in the US. This increase in momentum, which would lead to bubble activities, still could come in the future. **The main problem that I see is that the pool of funding or net wealth in America is not very strong.** I cannot prove it, but I suspect that that's the case. **And if the pool of real wealth is stagnating or declining, then obviously monetary funding is not going to help, it's just going to make things much worse.** But I tend to believe that maybe the pool of funding is slightly above stagnating, to put it this way. So, the government may and the Fed may pull off the trick again and pull the economy out of disaster.

**If we want to talk about price inflation, I expect the price inflation to hover at around half a percent for a long period of time from now.**

**If we look at the price of oil, the model continues to show a downward tendency for some quarters. It won't surprise me, if we reach next year around $20 a barrel.**

**In gold, there is an underlying general uptrend. However, there will be quite a lot strong swings around this general uptrend.**

**Mark Valek:**

Do I understand correctly that you see monetary growth for the US economy that is sufficient to keep the nominal growth going on? And for Europe and China?

**Frank Shostak:**

In Europe, the monetary funding was very strong, and still it is. And this is likely to create more bubbles in the Eurozone. So we should see better activities there in the future.

In China, this is already happening. China's industrial production, as I said before, will have a certain strengthening to about 7% and then it will go sideways. But definitely the model doesn't point out any collapses in China based on the monetary pumping. So China will probably have a subdued type of growth.

In America, price inflation is going to be moderate. In Europe, there will be a slight increase in price inflation, but not hell of a lot. So as there was concern about deflation, I don't think that they would have this in the near future. One can talk about some kind of a Goldilocks economy in this sense. **The price inflation would still remain subdued, the economy is not growing much in most countries now – just in the Eurozone it grows a little bit stronger because of the pumping.** That's really what the model is suggesting.

**Ronald Stöferle:**

But that sounds a little bit like a "**Goldilocks scenario on very thin ice**". Is that right?

**Frank Shostak:**

The point is, we should never forget that the main reason for the crisis was the collapse in the pool of real wealth – otherwise there wouldn't have been such a great crisis. And I don't think they have allowed to reveal the full wealth. Therefore,

**in particular in Europe, the net wealth is probably very precarious and not in very good shape. So I would agree with your comment that there could be a Goldilocks scenario on very thin ice. This thin ice, namely the pool of wealth, may collapse any moment and then the whole thing would just fall apart.**

So now it's still a very sick person – they managed to fix some of the symptoms here and there and they're telling "You look all right now." But it's fundamentally is very sick. They have never pursued policies to strengthen the underlying health of the economy, in no country in the world, in particular in America.

So the only reason why there could be certain improvements in the health is because the private sector maybe did something okay. But as we started our discussion, the degree of regulations has risen enormously, which means that, whatever the private sector would want to do, they have curtailed its ability to do to a great extent.

**Brent Johnson:**

**I think the discussion is fascinating! It confirms my belief that everybody should own some gold as the anchor of their overall diversified portfolio for all the reasons we've talked about.** I should make it clear: I'm probably as bullish on gold as anybody. I don't think somebody could give me a price target for gold that I would say would be out of the range of possibility. I think, we all assume to end up in the same space and it seems fascinating for me that there're so many different roads to get there. That's the advantage of gold: it will protect you against a huge deflationary event as well as against a huge inflationary event; it will protect you against crazy governments gone wild; and it will do fine if you have a government that's doing fine. If my comments sounded bearish on gold, I hope that is not how it came across! I just think gold has the ability to move on a number of different factors and that fact is why everybody should own it.

**Mark Valek:**

Brent, thanks! We enjoyed your comments a lot and we do also share many of your concerns. Especially, we were looking also, among other things, cautiously on the gold-silver ratio and had pretty similar thoughts regarding that. We'll see how it turns out to be.

**Brent Johnson:**

The one thing I didn't say that I probably should, is that it kind of goes to both your comments and Heinz's comments, even going back to the Commitment of Traders, or the inflation: if the Commitment of Traders becomes less net-short and gold doesn't fall back, that would be an incredibly bullish signal. I just haven't seen it pull back yet, it continues to get a little bit worse, but the speed at which it's getting worse is slowing down. **And if we come in in a couple of weeks and the**

**Commitment of Traders has come backed off of their short position and gold is still at about $1,250, I mean that would be a major bullish signal.**

**The other thing to your point that is the fact that people like me are even still a little bit cautious: that's probably one of the biggest bullish indicators.** The bull markets usually catch everybody off-footed – that's what makes them turn. And so I would be more than happy to be wrong on being cautious! I just don't think that the move so far has been an inflationary move, but it doesn't mean it can't turn into an inflationary move very quickly. Inflation will be here and moving before anybody realizes it. And so if that is indeed where we are at, it could be exactly where we are at right now. I look at all of this stuff very optimistically and try to be as objective as possible. **Just from a gold price perspective, I wouldn't be upset from more deflation, because I think deflation has been better for gold in some cases than inflationary expectations.** But regardless, I think we all end up in the same place.

**Heinz Blasnik:**

That's right, I agree with that! What I also think of the Commitment of Traders is that the gold posts are going to shift pretty big actually. And if this is the start of the new rally phase that lasts 4-5 years hypothetically, then I believe we'll see new record highs in speculative positions. We'll see new record highs in GLD gold holdings and so on. Also, things are going to shift....

I've looked at the 1970s as well a little bit and you know what's very strange: the entire bull market from 2000 to 2011 and the correction that followed, looks exactly the same as the 1970s bull market stretched by the factor of 2.1. And back then, also when the second big upmove came from 1976, first of all the sentiment was very similar.


The mid-cycle correction of the 1970s gold bull market vs. the bear market of 2011 - 2015. The same patten and extent, only the moves in gold since the low in 2000 have happened at about half the speed of the 1970's moves

*Sources: [www.acting-man.com](www.acting-man.com), Federal Reserve St. Louis*

**Ronald Stöferle:**

**I think, as Jim said before, it's primarily a dollar story. What I said at a lot of conferences last year: gold has been performing well in quite a number of currencies, but not in US dollar terms.** And now it's finally performing in dollar terms as well. Having a look at the dollar against the euro, against the Japanese yen, against the Canadian dollar, against the ruble, against the Australian dollar etc.: it's indeed looking really, really weak. And I think it's a consensus trade being long dollar, as everybody expected 2-4 rate hikes in 2016 and everybody thought the US economy would be doing so well. Now the 4th quarter 2015 was weak and the 1st quarter 2016 was really weak – so I think the whole world actually wants and needs a cheaper dollar. That basically sums up what Jim said before.

Perhaps one more topic that is crucial regarding inflation and inflation expectations. I'm sorry, Brent, but we have to do the joke even though you might have heard it a 1000 times before: **What is your view on oil, and especially on Brent, Brent?**

**Brent Johnson:**

**I am of the opinion that oil may continue to rally – commodities in general have kind of been in a little bit of a rally for the last few weeks. I would not be surprised to see that continue for a few more weeks, maybe even a couple more months, but I do believe that oil will ultimately turn back down. And I do believe that we will revisit the high 20s before it's all said and done. So I don't think we're going back to $50 or $60 in oil anytime soon.** If we do get a little spike, I think it will be due to some short covering rally or some temporary inflation expectations, but I don't think demand is picking up dramatically. I think China has a lot of problems; **I think the US, the whole oil and gas sector, is going to see a lot of bankruptcies before this is all said and done, which will provide a deflationary force.** Even if oil goes back to say $35, or even if it stays at this level, I think we're still going to see a lot of bankruptcies in the US oil and gas sector.

One more thing, where I'd be interested in hearing your opinion on that. **I'm of the opinion that negative rates at the level at which they currently are, are actually a deflationary force for the economy and not an inflationary force. Policymakers understand essentially that negative rates would be inflationary, as nobody wants to pay tax on their bank account, they will take it out and do something productive with it.** But I have a hard time believing that there's a manager sitting in Germany saying "I take a million euro out of the bank and build a new plant so that I don't have to pay $4,000 tax." Maybe I'm wrong, but I have a hard time getting there on that. **I think they rather take it out of the economy as a tax paid to the bank, which would be deflationary.** What will be your points on that?

**Heinz Blasnik:**

You're 100% correct in my opinion! I know from various bankers that banks themselves are reluctant to extend credit, because they have to pay the penalty rate to the ECB. That doesn't spur credit expansion! They're even more cautious – and they have already been very cautious due to new capital requirements that forced them (and actually that's financial repression in its purest sense) to buy government bonds, as only those bonds have a 0% capital requirement – for everything else, they have to keep aside capital. So there's very little encouragement for them to lend. The ECB tried something new now with its targeted long-term refinancing operations, but this is just a short-term band-aid solution – and it's not going to work, because **there's no credit demand anymore**.

**Brent Johnson:**

You see, that's why I'm very interested in talking to you, guys. I see that is a deflationary force. I feel like the reason that the G4 have moved to weakening the dollar: there must be so much deflationary pressure out there and that's why all the central bankers want to inflate so much.

**Mark Valek:**

Just **one thought on your slide with the gold price and the 5-yr forward**. One could perhaps also explain those short bear market rallies that occurred quite often on this rather deflationary vector as this canary in the coalmine which was beaten down again, because it turned out to be wrong and just kind of trying to discount the possibility more QE or generally a kind more effective easing of whatever type, but it just didn't materialize in terms of rising consumer price inflation. So **the market might have bet on that these falling inflation expectations would trigger some new and effective kind of easing, which finally didn't happen**. Perhaps that's also a way to interpret it.

And then another perspective on these negative rates and deflation. I think Keith Weiner and professor Antal Fekete are very interesting on that!

**Brent Johnson:**

Yes, it's something I heard of a couple of years ago, we made a call together and spoke. So I know what he's doing.

**Heinz Blasnik:**

I'm publishing Keith Weiner's weekly gold market update on acting-man.com. They're looking at things like futures market spreads to determine fundamental gold and silver prices. It's a worthwhile approach in my opinion. They're fighting with this problem of leads and lags as well that Mark just mentioned. For instance, the current gold price should according to their methods be 100 bucks above the current price. So if that's correct, obviously the actual market price is lagging.

**Ronald Stöferle:**

Gentlemen, thank you very much for another very interesting discussion! Thank you very much, Brent, for joining us! Your points have enriched our discussion very much and we'll definitely invite you again! Bye, bye.

## Appendix: Members of our Advisory Board:

**Special guest: Brent Johnson**

Brent brings over 15 years of experience in the financial markets to his position as CEO of Santiago Capital. He has been creating and managing comprehensive wealth management strategies for the personal portfolios of high-net-worth individuals and families since the late 1990s. The lack of an appropriate precious metals solution for his clients is what led him to create and launch the Santiago Gold Fund LP in January 2012. As a recognized expert in the gold community, Brent's views have been quoted in numerous print, online and television outlets. In addition to managing Santiago Capital, Brent is a Managing Director at Baker Avenue Asset Management. Before joining Baker Avenue, Brent spent 9 years with Credit Suisse as vice president in their private client group. Prior to that, he was with Donaldson, Lufkin & Jenrette (DLJ) in New York City before moving within the firm to San Francisco. He joined Credit Suisse in the fall of 2000 when the bank purchased DLJ. Earlier in his career, Brent was a financial auditor for Philip Morris Management Company in New York City. In addition to performing audits at the company's headquarters, he worked on projects for Philip Morris subsidiaries in Germany, Hong Kong, and Richmond, Virginia. Brent played on the junior varsity basketball team at the University of Kansas before transferring to Rockhurst College in Kansas City, where he graduated with a dual degree in economics and global studies. He received his M.B.A. from Thunderbird School of Global Management. Brent lives in San Francisco with his wife Mary and son Moses.

**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 a regular publisher for the Independent Research House Asianomics in Hong Kong. Heinz primarily is responsible for his blog www.acting-man.com, on which he analyses developments in the financial markets from an Austrian point of view.

**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.

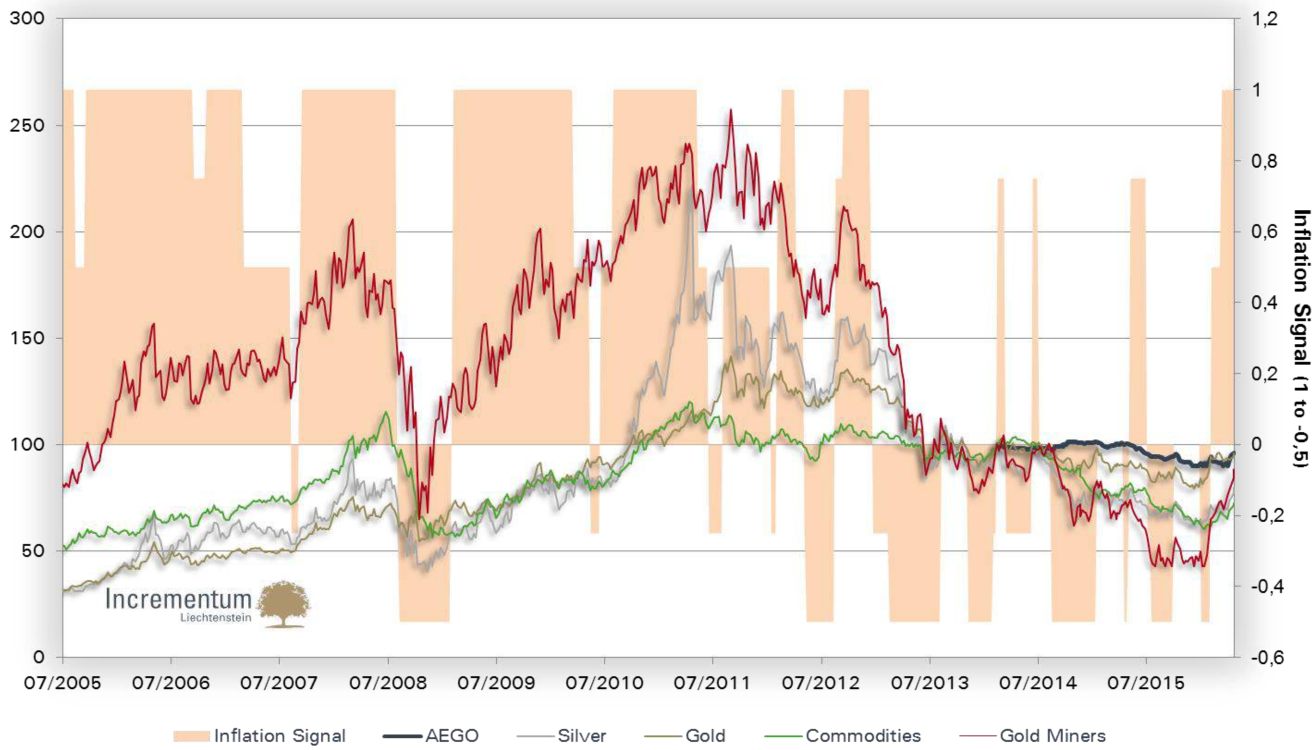
**Rahim Taghizadegan**

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.

# Incrementum Inflation Signal

At Incrementum, we are convinced that inflation is a monetary phenomenon. Because of the dynamics of "monetary tectonics", inflationary and deflationary phases can alternate. **To measure how much monetary inflation actually reaches the real economy, we utilize a number of market-based indicators** - a combination of various quantitative factors including the Gold-Silver Ratio - which result in a proprietary signal. This method of measurement can be compared to a "monetary seismograph", which we refer to as the **"Incrementum Inflation Signal"**.

**Inflation-sensitive Assets and the Incrementum Inflation Signal**




*Source: Incrementum AG*

## Cautionary note regarding forward-looking statements

**THE INFORMATION CONTAINED IN THIS DOCUMENT HAS NOT BEEN INDEPENDENTLY VERIFIED AND NO REPRESENTATION OR WARRANTY EXPRESSED OR IMPLIED IS MADE AS TO, AND NO RELIANCE SHOULD BE PLACED ON, THE FAIRNESS, ACCURACY, COMPLETENESS OR CORRECTNESS OF THIS INFORMATION OR OPINIONS CONTAINED HEREIN.**

**CERTAIN STATEMENTS CONTAINED IN THIS DOCUMENT MAY BE STATEMENTS OF FUTURE EXPECTATIONS AND OTHER FORWARD-LOOKING STATEMENTS THAT ARE BASED ON MANAGEMENT'S CURRENT VIEWS AND ASSUMPTIONS AND INVOLVE KNOWN AND UNKNOWN RISKS AND UNCERTAINTIES THAT COULD CAUSE ACTUAL RESULTS, PERFORMANCE OR EVENTS TO DIFFER MATERIALLY FROM THOSE EXPRESSED OR IMPLIED IN SUCH STATEMENTS.**

**NONE OF INCREMENTUM AG OR ANY OF ITS AFFILIATES, ADVISORS OR REPRESENTATIVES SHALL HAVE ANY LIABILITY WHATSOEVER (IN NEGLIGENCE OR OTHERWISE) FOR ANY LOSS HOWSOEVER ARISING FROM ANY USE OF THIS DOCUMENT OR ITS CONTENT OR OTHERWISE ARISING IN CONNECTION WITH THIS DOCUMENT.**

**THIS DOCUMENT DOES NOT CONSTITUTE AN OFFER OR INVITATION TO PURCHASE OR SUBSCRIBE FOR ANY SHARES AND NEITHER IT NOR ANY PART OF IT SHALLFORM THE BASIS OF OR BE RELIED UPON IN CONNECTION WITH ANY CONTRACT OR COMMITMENT WHATSOEVER.**