Minutes of the Advisory Board Meeting
Austrian Economics Golden Opportunities Fund
June 2014

Highlights of the conversation:

Jim Rickards:

- **Draghi played it brilliantly. He is a man, who says little and does less. He understands that currency wars don't win**
- **Think of cash as a) a deflation hedge, b) something that reduces the volatility in the rest of the portfolio and c) something that has enormous embedded optionality.**
- **The fact that Yellen is the new kid on the block, the fact that Bernanke tied her hands and the fact that you have a very hawkish FOMC, makes it almost impossible for her to pause the taper.**
- **The Fed will have to come back with QE4 in 2015, because the data is going to be horrendous.**
- **The US economy is fundamentally weak but the big story in the world today is China is back in the currency wars.**
- **The Euro has found a floor and will go up again.**
- **Everyone is screwed! This is the problem with currency wars, this is the problem with depression and this is the problem with deflation. Everybody loses.**
- **The Japanese are like on a lifeboat surrounded by sharks, and as long as they stand in the boat together and there is enough food, then they don't have to worry about the sharks.**

Heinz Blasnik:

- **More and more production is moving to the higher stages of the capital structure. That is actually potentially inflationary, maybe not right away but in the long run it is, because the supply of consumer goods is shrinking.**
- **At some point JGB's are going to be a good short. I don't know when, but I would watch it very, very closely.**

Ronald Stoeferle:

- **Stagflation is a very realistic scenario for the northern Euro countries.**
- **I think gold is a very contrarian play and gold mining stocks are probably even more contrarian.**
- **Monetary policy does not work like a scalpel, but like a sledgehammer.**

Ronald Stoeferle:

Gentlemen, it's a great honor to welcome you to the second meeting of the advisory board of our Austrian Economics Golden Opportunities Fund. Unfortunately, Zac Bharucha and Rahim Taghizadegan are not able to join us today.

Perhaps just a little recap from our last call: It was at the beginning of March when the whole Ukraine crises was picking up momentum. We were mildly bullish, I would say, with regard to gold. Our inflation model gave us a weak "rising inflation"-signal in the beginning of the year, but it went back to disinflation very quickly. So we are seeing that the inflation model works very well. On the other hand, we can observe that central bankers fight against disinflation – or how it is called nowadays "lowflation". This is still a tough fight, especially having the ECB's decision in mind. So, that's a great starting point! **Jim, what's your view on the ECB's move? I think it was very interesting that the Euro sold off initially and then actually rebounded! Was it a classical „buy the rumor, sell the fact"?**

Jim Rickards:

It was, but with a little "Draghi-*headfake*". Let me explain: Draghi will only do *anything* for one or two reasons. One is price stability, the other one is the actual defence of the Euro itself. The defence of the Euro is not in play right now. It was two years ago, but it's not today. No one thinks that the Euro is falling apart at the moment. The only reason he would do *anything* is price stability. The idea that you will do something to 'stimulate' is nonsense and all of the UK and US analysts keep looking at the ECB, for 4 years now, saying: *"What's wrong with you guys? Why don't you cut rates anymore? Why don't you do QE? Why don't you stimulate the economy?"*

And Europe, to their credit, is sitting there and saying: "*Well, none of that works and you guys are the ones who have it all wrong!*" So, they are just talking past each other. However, I always understood that Europe basically has it right. This is one of the reasons why I have been very bullish on Europe! On the other hand, deflation was a serious threat for the first time! Once it happens, it feeds on itself and is therefore very difficult to stop. So once European inflation got to 50 basis points, Draghi said: "*Ok, I have to do something! I can't just let this go into outright deflation because it could spiral out of control!"*

Now, just to make that slightly more complicated: You know the ECB does this crazy thing where they issue the policy guidance and then the press conference is two hours later. Draghi said: "*Here is our policy rate guidance. We will have a further announcement at the press conference"*. So a typical Draghi, it's an announcement about an announcement, right? The market believed "*Oh, they are going to announce QE at the press conference!"* So that's why the Euro traded down initially because they were still on this hope and expectation that there will be

QE. But when Draghi came and said: "*No, we are going to do some funding for lending*", which is a sort of a joke, but no QE, then the Euro traded back, which I expected it to go.

But you had that little hour or so where it traded down a little bit based on the hope of the hope. **So Draghi played it brilliantly. He is a man, who says little and does less. He understands that currency wars don't win!** So I have been a Euro-bull for years and I remain a Euro-bull. I am recommending European stocks to US investors, because I think we can win not only on growth but also on the currency.

Heinz Blasnik:

Yes, that's actually true. **The ECB is unlikely to do QE or anything like that in order to spur growth because that's actually not its mandate. The ECB's mandate is narrower than the FED's.** It doesn't have an employment mandate and moreover, the Bundesbank is still sort of dictating the limits of what can be done. The Bundesbank is on record for agreeing with: "*OK, price stability, if deflation is a threat then we must do something about it!*" But they disagree with outright QE. They have gone as far as saying that one might consider stopping the sterilization of the SMP, where the ECB bought bonds of Portugal and Greece. So they might stop sterilizing that, but that's just about 200 billion Euros.

So there won't be any outright QE unless there is some kind of emergency situation. Then, they might change their opinion, but I agree with Jim that they don't want to do this and they're actually not allowed to do it. Draghi did say something about the Euro being strong and that the strong Euro might add to deflationary pressures. But on the other hand, if we look at this more closely, the Euro-area is not a homogeneous currency area, it consists of very different economic regions. At the moment, price deflation is mainly an issue in Greece, Portugal and Spain. These countries actually need to have lower prices, because how else are they going to restore their competitiveness? **There has been severe mispricing in these countries during the boom. These prices need to correct!**

Ronald Stoeferle:

I actually talked to some people who visited Spain and Greece recently. They said that there are really lots of positive things going on in terms of affordability and as a consequence in tourism for example. The forecasts for their tourist season appear quite good. So, I think we shouldn't forget that a lot of positive things happen. I think the crisis is creating opportunities. This is the essence of successful entrepreneurship.

However, when it comes to *monetary* deflation, Jim made a brilliant comment in his new book: "*Deflation is every central banks nemesis, because it is difficult to* *reverse, impossible to tax and makes sovereign's debt unpayable increasing the real value of debt.*"

Just one more point to add. I think in Austria we actually already got some sort of a stagflationary environment already. I think CPI numbers are running at 1.80% at the moment, while GDP growth is only 0.30%. **So, stagflation is a very realistic scenario for the northern Euro countries.**

Jim Rickards:

I agree completely with Heinz's about the ECB's mandate. What amazed me is how UK and US analysts failed to understand that. He understands it and I understand it. I think it is because of the different legal systems, because Europe has what we call civil law system, which goes back to the Napoleonic Code and before that to the Code of Justinian. The UK and the US have a common law system and they're different philosophically, because the common law system makes room for what we call equity, which is basically that you can make things up, make things come out your way. It has a little wiggle room. But the European approach is, you write a rule and if something isn't clear you write another rule and you keep running rules and everything has to be in the rule. The Europeans take it seriously. They think that's the better way. The US has another system. But the point is, the ECB takes that law very seriously. **In the US, if you don´t have a mandate, you make one up. You would say: "*Yeah, we're gonna do it anyway!*"** But in Europe you say no! They feel bound by that. So, I understand that, maybe being a lawyer, but I think the ECB takes it to heart and I think in the UK, people like Martin Wolf at the FT, people in New York, in the FED and so on just don't get it.

On your point, Ronny, at the beginning you said that your inflation/deflation-indicator was showing a little inflation and then it flipped back to disinflation very quickly. So, that's actually not surprising and I think you should expect to see more of that in both directions. And here is why: Usually, when you have inflation as a trend, and it feeds on itself, so something is needed to reverse it. The same is true if you have deflation as mentioned which is the more powerful trend, it can feed on itself and something is needed to reverse it.

The problem right now is that we have both inflation and deflation at the same time. We have what I call natural deflation coming from the fact that we are in a global depression. On the other hand, we also have a sort of unnatural or artificial inflation coming from policy, the printing of trillions of Dollars by the FED, the Bank of Japan, the Bank of England and the Bank of China.

From a portfolio perspective: You can't make no bets, because then you're just a bank account. But you're right that you don't want to get too much on one side of the boat, because it can flip back very quickly. **You probably need to make both**

bets. Meaning that you have some inflationary bets and some deflationary bets at the same time. Cash actually works best.

Think of cash as a) a deflation hedge, b) something that reduces the volatility in the rest of the portfolio and c) something that has enormous embedded optionality. The current situation is very frustrating, it confuses every investor I am talking to right now. I talk to guys who have been doing this for forty years and they say: "*Jim, I don't get it! I don't understand this!*" and I say to them: "*Yeah, you're right, this is not anything we have seen probably since the 1930s!*"

Heinz Blasnik:

I personally have a cash allocation of 45%.

Jim Rickards:

I am running a mutual fund and my cash allocation is 40 %. But we're making money, because the cash reduces the volatility and if deflation gets the upper hand, cash is a good asset to have.

Heinz Blasnik:

I'm just waiting for opportunities to emerge. Since we are talking about hard assets like mining stocks for instance: Maybe it will take a while for them to do anything, but on the other hand, these stocks have become so cheap, especially the gold stocks. Even if we only get a bear market rally, you can make a lot of money because these rallies tend to be quite big, I mean, we've seen some stocks rise 100% from the end of last year to the end of March.

Ronald Stoeferle:

I attended a big mining conference a few weeks ago and have to admit that I was not 100 % happy with the one-on-one meetings. However, a lot of positive things are happening at the moment. Some of them are getting their cost base in order, for the first time in ten years we have seen the cash costs actually come down. There are definitely some positive things going on, while gold mining stocks are roughly 70% below their all-time-highs. However, Mark and I always explain that mining stocks are definitely not a buy-and-hold investment. You have to *time* them, if you cannot live with their enormous volatility. **To put it in a nutshell, I think gold is a very contrarian play and gold mining stocks are probably even more contrarian.**

Jim Rickards:

Don't underestimate the extent to which they will just let some of these companies go bankrupt. I am not saying these assets may not have value nor that it's a bad investment but don't underestimate the extent to which some of these companies will be allowed to go bankrupt and then their assets will be bought up in a bankruptcy sell. That's cheaper than buying stock. **So I would almost be inclined to go with the big names like Barrick and Anglo Gold and a few others, because you get the economics of beaten down price in a depressed sector, but they are not going to go bankrupt.**

Heinz Blasnik:

I agree with that. Actually, my point was that the prices have also come down for the large caps. You can buy the really good ones at a really cheap price.

Jim Rickards:

Let us take a look at Barrick. I like the fact that John Thornton is now the Chairman of the board because there is no American who has better connections to China than John. He was the former CEO of Goldman Sachs, left Goldman and took a faculty position at a Beijing University where he started the Thornton Center and spent the last ten years in Beijing. He is a top tier US banker and now he is the Chairman of Barrick. So, you get a Canadian international gold mining company with a chairman, who has joined at the hip with the Chinese and has just planted the flag in China. I think his information is the best in the world. That's one reason why I like the company.

Mark Valek:

I know Jim's view on this, I mean I'm not talking about the collapse of the monetary system now, but what I would like to go to is the potential infliction points of the market. In my view, we have a sluggish or a mediocre sentiment in the market, where inflation still doesn't seem to be a concern for the FED. This is quite surprising to me, as CPI data seems to have reversed actually.

So long as price inflation, according to official statistics, remains below the target set by the FED, market participants won't be concerned that monetary policy will make an about-turn in my view. So the one inflection point I would see, is price inflation accelerating faster than people expect and people starting to discount a change in monetary policy. **What's your view on that and other potential inflection points do you see for a) the gold market and b) equity markets?**

Jim Rickards:

I remain of the view that the FED has tapered into weakness, because fundamentally, the US economy is weak. They began to taper in December 2013, sort of mistakenly looking at the Q3 and Q4 GDP numbers. I mention this, because I think there was also a political aspect. It was Bernanke's last meeting. So, It think he wanted to tie his legacy "*I got you into it and now I'm going to get you out of it and let's start to taper!*" He really tied Janet Yellen's hands. So, she comes into his chair in January. Her first meeting was in March and she has chaired two meetings since then. And as the new kid on the block, you simply cannot just walk into a position like that and overturn policy. You need to build consensus.

This is a very, very hawkish FOMC. Because of the vacancies and because you overweight FED presidents vs. governors, where the governors are more dovish and the presidents more hawkish and you overweight FED presidents because of the vacancies. And then, among the presidents, you have the two super-hawks Charles Plosser and Richard Fisher. **So, putting all that together: The fact that she's new, the fact that Bernanke tied her hands and the fact that you have a very hawkish FOMC makes it almost impossible for her to pause the taper.**

I said it while ago, that if the May data and the June data are all weak, meaning that you get two bad employment reports, low inflation, lower labour force participation, confidence, retail numbers, if it's all weak, then they would pause tapering in July. However, we got some data recently, that wasn´t that weak. I think it was weak but the conventionalism is that it is not. I think right now they are going to finish the taper. They taper in July and by then there is only 25 billion left and then they will taper to zero.

However, I think they will have to come back with QE4 in 2015, because the data is going to be horrendous. I think the deflationary vector has got the upper hand. There is no doubt that the FED wants inflation. I'm absolutely certain that the FED wants more inflation than they will admit. You know, officially it's a 3% target, but go back to September 2012 they said: 2.5 % on a forward basis, but really they would like to see 3 or 3.5 % at least for a while and we're not anywhere close. We do have an inflationary bias, but we're not going to get it. **We're going to get deflation or more disinflation, because they have tapered into weakness.**

At the end of the day, an economy is one plus one equals two. It's how many people are working and how productive they are. How big is your labor force and what's your productivity? That's all there is. This is definitional. **Well, with our labor force participation, I mean our labor force participation is where it was in 1978. When women got into the work force for the first time**. The number of Americans working today is approximately where it was in 1999, but now the population is 30 million larger, but the number of people working hasn't grown at all in 15 years. This is the same problem that Japan and Russia have with declining populations. The US does not have a declining population but what we do have is a declining or stagnating labor force, which is the productive part of the economy. So in productivity terms, we're negative. **Putting all that together, I don't see any growth in the US economy at all and we already saw that in the first quarter.**

Ronald Stoeferle:

There is a beautiful quote from "Lords of finance": Monetary policy does not work like a scalpel, but like a sledgehammer.

Well, we can already see it: real estate prices are going through the roof in Europe and basically the same in the better parts of the US. We're seeing it in equity prices but we're also seeing it, when it in bond issuance. For my "In Gold we Trust" report, I had a look at the frontier markets and their sovereign debt issuance.

Zambia, for example, recorded demand amounting to USD 12bn for a 10-year bond yielding 5.4% - the issue was 15 times oversubscribed. Even Rwanda had no problem finding financing at 6.875% and saw its issue 8 times oversubscribed. Pakistan issued its first bond since 2007 and received USD 1bn at 8.25%. This issue is the equivalent of 5% of annual government revenue. **These record prices and massive oversubscriptions remind me of the excesses in Germany's "Neuer Markt" or in the NASDAQ at the end of the 1990s.**

However, when it comes to the four letter word gold, do you think that the price of gold needs weaker stock markets or do you think that gold can kind of decouple from this "strong equity markets, weak gold" correlation that currently prevails: What's your view on that?

Heinz Blasnik:

Gold is more sensitive to changes that are in the winds than equities. Equity markets strike me as being very sluggish, having almost become a lagging indicator. The stock markets are in decline once the economy is already in the recession. I mean that's basically what happened in 2007. The NBR backdated the recession and shows that the recession began in November 2007 and that's when the stock market started going down. It's no longer a leading indicator of the economy, it's more of the coincident indicator.

Gold is a bit different. I think it's far more sensitive when circumstances change. So I believe that, first of all, there are some people buying gold already because they want some insurance, because they can see there is a bubble on the way and we don't know how long this bubble is going to last. It could last longer. Most people actually believe that it could last a while longer but I don't think so. But one never knows.

So you have this contingent of buyers in the market and, of course, that also goes for reservation demand. So the people who already own gold and are thinking about whether they should sell it or not. I think most gold owners are probably not very eager to sell at this point. **Should we see some changes like credit spreads getting a**

bit wider or some other early indicators that show that things are not so smooth anymore as than they were, then you will see gold rising for no obvious reason.

But at some point, gold and equity markets will probably decouple again. In other words: I don't think it requires a falling stock market, it only needs a certain percentage of people who start seeing that things are changing at the margin. At some later stage, it will probably be the case that equities are going down and gold is going to accelerate in the opposite direction. But I mean we're not at that point. **At the moment, gold it still looking for a bottom.**

Jim Rickards:

The US economy is fundamentally weak but the big story in the world today is China is back in the currency wars. Look at the Yuan collapsing. Let's go back to the 2002 to 2011 period, a pretty long period. The whole time the United States complained that China was a currency manipulator, that they were keeping the currency too low, promoting Chinese export sales. China didn't listen. Finally, at the beginning of 2012, they let the Yuan go and it surged from 8.25 to almost 6 to the dollar and then the US stopped criticising them and said: "Well that's fine! Thank you very much!" But the Chinese actually don't care what the United States says.

In the past six months, inflation has collapsed in China. There is a serious danger of deflation in China, so the reason China let the Yuan go down was because the inflation threat was no longer there. They were back to deflation and by letting the Yuan go down, what they are doing is exporting their deflation to the rest of the world. This is what happens in Europe; this is what is showing up in the United States. So we're back to this deflationary engine of the kind that we saw earlier in the decade. So that is putting enormous deflationary pressure on the US and Europe, which is why we are seeing all this monetary policy over here.

Now picture yourself in early 2015, let's say February or March 2015: the markets are down significantly and all the data is lousy, and the Fed comes back with QE4 then you would see a correlation between stocks and gold. I agree with Heinz completely, there is a correlation in the long run, but in the short run they can sometimes trade together on the same news. **So if the Fed comes back with QE4, and I believe they will, the market is just going to say: You know that proves that they can never stop printing money. It proves that they can never go backwards.** They tried it three times; they failed three times. They're back for a fourth time. Gold is going to take off, stocks are going to be take off – at least for a while. Now ultimately stocks are a bubble and every bubble crashes. Gold in my view is not a bubble. It's a real fundamental trade but very, very difficult for people to understand it. I think from now, gold goes sideways, stocks go sideways to down with volatility. **In 2015 with QE4 stocks will trade up together very shortly and then beyond that, the stock bubble will burst and gold will have it's day.**

Mark Valek:

Jim, as long as this perception of a strong US economy lasts, what is making the dollar weaker?

Jim Rickards:

Well, the Dollar has actually been a little bit stronger because China has devalued, Abenomics is all about cheapening the Yen and the Euro went down a bit in anticipation of Draghi. **Now I think that the Euro has found a floor and will go up again.**

Mark Valek:

Exactly, but why shouldn't that continue?

Jim Rickards:

Well, it might continue but then the FED would stop it. At the end of the day, the FED has to have a weaker dollar for the same reason everybody was saying Draghi wanted a weaker Euro which he doesn't really but he let everybody believe that, because he is a smart central banker. The point is: It's amazing how people miss very fundamental things. If you have a dollar you got a cross-rate, right? Guess what, both can't get cheaper at the same time. It's mathematically impossible. So, as the Euro was getting a little bit cheaper in recent weeks the dollar got a little bit stronger, **but within the end of the day, we will see a cheaper dollar and a stronger Euro. There is no other way that it could be.**

Here's the thing: Everyone is screwed! This is the problem with currency wars, this is the problem with depression and this is the problem with deflation. Everybody loses. The big problem globally is that there is not enough growth. **When there is not enough growth, how do individual actors behave? The answer is they steal growth from their trading partners through a cheaper currency.** But it doesn't work because everyone fights back. This is the essence of currency wars. And everyone acts like they understand it and they know better and they won't fall into the trap, but they do it for political reasons.

So what will the world look like when you know Yuan is going from 6.25 to 7, the Yen is going from 101 to 110, and the only strong currency is the Euro because they don't play the game. And we want a cheaper dollar! This is the problem you can't all win. Somebody has got to lose. So it's a mess, but I think you are going to first see inflation, then deflation. First, a stronger dollar and then a weaker dollar! First, a stronger Yuan, then a weaker Yuan. This is going to keep happening and it's confusing people because there is this global war between inflation and deflation. Until it breaks one way or the other, when we will have massive global deflation and we will have a depression that's worse than the 1930s or we will have massive global inflation and we will see something that is worse than the 1970s. **This is where oil goes to 200, not because there is an energy shock, but because the dollar is collapsing. So it's very, very difficult for investors. We're just waiting for the earthquake, but it doesn't come when we want it to.**

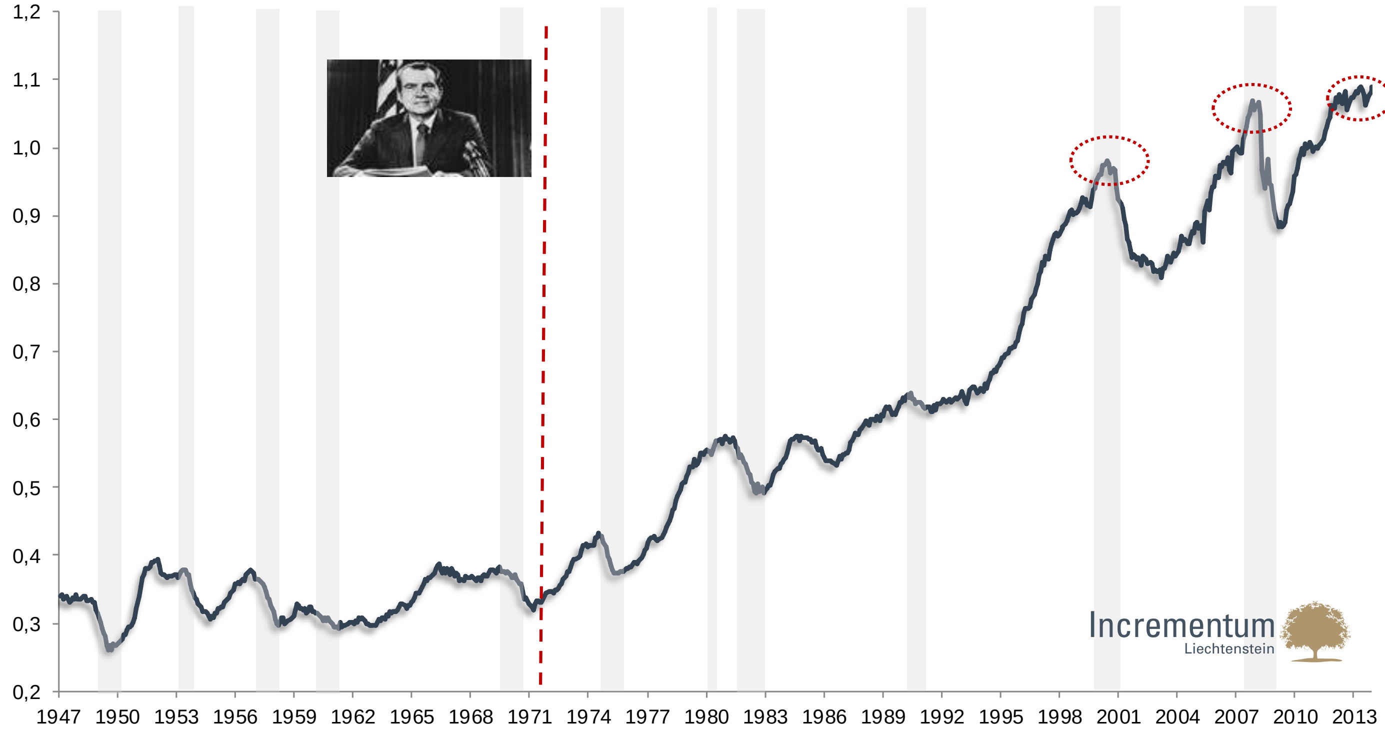
Heinz Blasnik:

I think we must not underestimate the fact, that a lot of money has in fact already been printed. And although it's all done electronically, there is a difference between what central banks are doing and how the commercial banking system is expanding the money supply. And that is that much of the money that has being added to the money supply since 2008 is actually covered by bank reserves.

The whole excess reserves that are piling up on the central bank balance sheets are standard money cover for deposit money. You know that if this policy continues, it tips us in the long run towards inflation, because a deflationary threat fundamentally speaking is when fiduciary media - i.e. deposit money that is not covered by anything - has grown to such an extent that you know there will be bank runs and the banks cannot pay the depositors because they don't actually have the money. But now they actually do have a lot of money, because bank reserves can be exchanged for currency. Now if somebody goes to the bank and says: *"I want my money!"* They can get it because it exists in a form of bank reserves. So if you look for instance at Japan. In Japan, a very large part of the currency and deposit money that is in the banking system is in fact covered by bank reserves. Some 60% or 70% by now. In the US by comparison, the coverage ratio has gone from around 4.5% to almost 20%.

On a purely technical basis, we do have all this money floating around, there is strong demand for money, people are not expecting any inflation and you know all these forces are balanced. Money supply is not the only factor in determining what happens to prices, but as this tug of war continues, central banks intervene more and more and print more and more money. Slowly but surely, it tips towards inflation. I'm always watching the production indices and it is notable that in the US, while business equipment production has almost gone back to the highs of 2007, consumer goods production hasn't. It's actually stagnating**. More and more production is moving to the higher stages of the capital structure. That is actually potentially inflationary, maybe not right away but in the long run it is, because the supply of consumer goods is shrinking.**

Ratio of capital vs. consumer goods production (gray areas indicate US recessions)



Source: Federal Reserve St. Louis, Incrementum AG, acting-man.com

Jim Rickards:

I agree with that completely and this is one of the reasons I said that they will come back with QE4, because if it failed three times before, they'll just try it again. They will keep trying it again until they get inflation. At some point, there will be a shift from asset price inflation to consumer price inflation. Technically the FED does not consider asset price increases to be inflation and they are incompetent when it comes to seeing bubbles. Today they're just seeing the wealth effect and that's a good thing for them, because the wealthier I feel, the more I spend.

However, the empirical evidence demonstrates that the wealth effect has completely broken down. You can take stocks and housing, anything you want, and it's not changing the way people spend. So that's one problem but the FED doesn't believe that. The FED believes that the wealth effect does work so when they see asset prices going up, they think that's a good thing because people will spend more, even though it does not reflect reality. Meanwhile they are creating bubbles that will eventually burst. Jeremy Stein was the only FED governor who really understood this and he left at the end of May, so he is no longer around.

Recently, I talked to a guy and this guy is one of the largest private equity investors in the world. He runs some15 billion dollars and said to me: *„Jim, I get all the money I want. I can get the money for like 4%, which is dirt cheap for a higher level* *private equity fund. The covenants are all gone. The banks are giving me all the money I want at 4 %. I'm doing deals and I pay stupid prices, I don't think that they are sensible deals, but I have to do them because my investors expect me to."*

His investors are, by the way, Singapore's government investment corporation and other large institutions, pension funds, insurance companies. So here is a smart guy, who knows that it's all going to end badly.

Ronald Stoeferle:

Gentlemen, we are already in overtime. Just one question: Talking about Japan. The price of gold in Japanese Yen is very close to an all-time high, Japanese gold demand was up three-fold last year. There is something going on. Now, Mr Kuroda said recently (and Shinzo Abe confirmed) that they don't really understand why the Yen is so strong although the numbers don't really support such a strong Yen. **So do you think that shorting the Yen is a reasonable trade? My concern is of a typical risk-off reaction, and the Yen would probably get stronger again. What's your view on this?**

Heinz Blasnik:

I agree that it would get strong, and by the way, one of the reasons why it doesn't get as weak as Kuroda and other want it to go is that **although the Bank of Japan is doing a lot of QE, it isn't translating into a lot of money supply growth.** A five per cent money supply growth year on year is a lot for Japan, but it's not enough compared to other currency areas.

I agree that the Yen is going to be a currency that will rise whenever there is a risk-off event for the simple reason that despite it's recent trade deficit, Japan is still one of the biggest capital exporters in the world. So another repatriation effect sets in. There might not be a big carry trade in the Yen but it cannot be as weak as it used to be. But the repatriation is very big in Japan; you can see it every year in March.

At some point, Japanese government bonds are going to be a short. Not now, because the Bank of Japan is the only active trader left. They are buying everything in sight, **but at some point JGB's are going to be a good short. I don't know when, but I would watch it very, very closely.**

Jim Rickards:

The Yen is difficult because there is no doubt in my view that both the Bank of Japan and the government want a weaker Yen. But just because they want it, doesn't mean they will get it. We saw after Fukushima in March 2011, the Yen got very strong, because of the repatriation trade. That was the last time there was a coordinated G7 intervention. There was a lot in the 60s and 70s but they don't do them often anymore. But the last time there was a G7 intervention, it was to weaken the Yen, because it was getting too strong due to the capital coming back into Japan. **Capital flows dominate cross rates.** If you want to know if the Yen is going to get weaker or stronger, ask yourself if capital is going to come back to Japan or not? They want a weaker Yen, they want the carry trade in the sense of selling the Yen and buying something else. However, Japan might actually end up being a magnet for capital.

It's tough! If I had to make a call, I still think that the US ten-year note has a lot of room to rally because real rates can go a lot lower. You know, why do Spain, Germany and especially Japan have lower ten-year note rates than the United States? Do they have better credit status? Maybe, but it tells me that the US rates are going to come a lot lower. That means there could be a huge rally in ten-year notes. You can make 25% in ten-year notes without credit risk. So that might turn out as a very good trade.

Mark Valek:

Jim, you do not agree with the Kyle Bass scenario for Japan any time soon?

Jim Rickards:

Yeah I know Kyle very well. Kyle is a brilliant guy and has made billions of dollars for his investors and for himself personally. Where I disagree with Kyle a little is that he looks at countries as if they were company. He looks at the balance sheet of IBM or any other company. He then analyses the Japanese balance sheet and says: "These guys are bankrupt!" And he is totally right, but Japan is not a company. It is a country. Countries don't go down without a fight and they have a lot of resources at their disposal. They don't teach you this in business school. They have armies and police, force majeure and price controls. They can just make things happen independent of what any of us think about the market place.

So is Japan effectively bankrupt? Yeah. But who cares if there is no run on the banks, if the Japanese people continue buying the bonds and they're comfortable with the currency and there is a real economy. There is no reason why it can't go on a while longer. I mean Kyle is saying you have a 200% debt to GDP ratio, and it's just a matter of time before the bond market collapses. **Yeah, maybe, but the Japanese are like on a lifeboat surrounded by sharks, and as long as they stand in the boat together and there is enough food, then they don't have to worry about the sharks.**

Mark Valek:

Gentlemen, we are very pleased with our second meeting of the Advisory Board and look very much forward to our next meeting in September. Thank you very much and take care!

Appendix: Members of our Advisory Board:

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 partner of Tangent Capital Partners, a merchant bank based in New York. He held senior positions at Citibank, Long Term Capital Management and Caxton Associates.

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 the developments of in the financial markets from an Austrian point of view.

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 international popular speaker. Rahim studied Physics, Economics and Sociology in Vienna and Lausanne. Then he worked in the fields of economics, space research and journalism. He also taught at the University of Liechtenstein, the Vienna University of Economics and Business Administration and the Universität Halle an der Saale.

Zac Bharucha

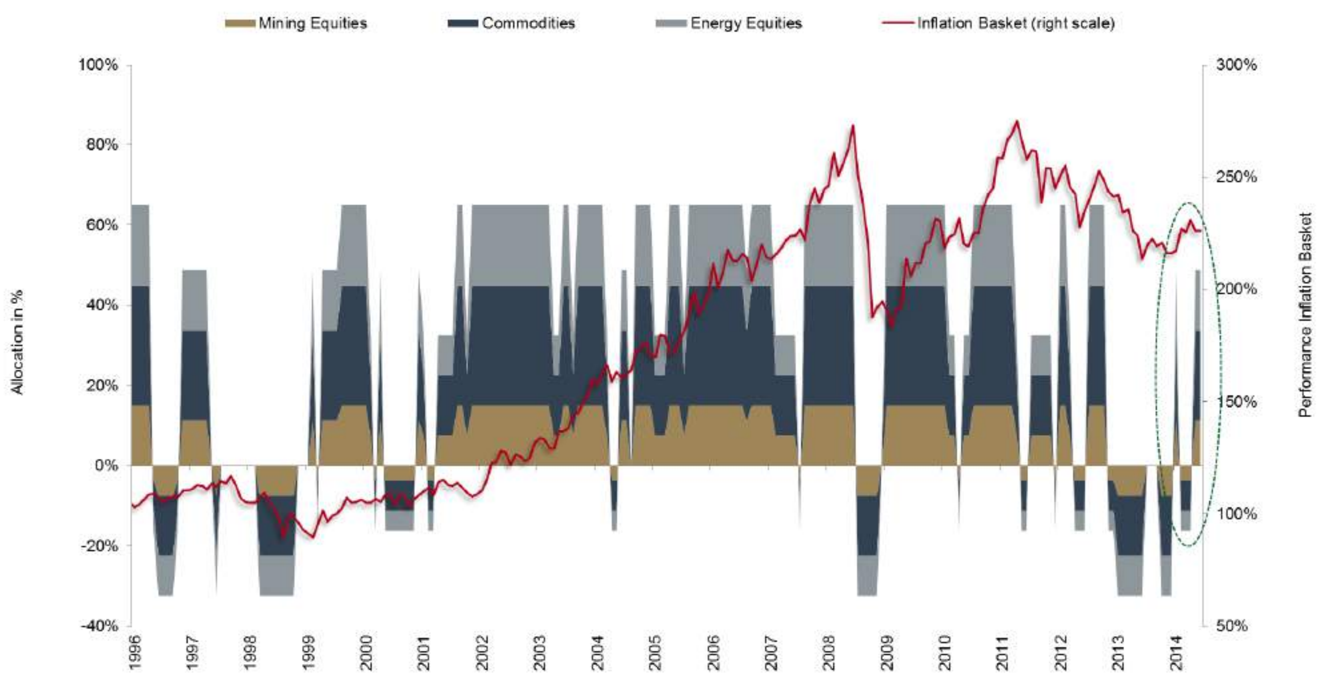
Zac was born in London in 1963. He started his career in Finance at the investment bank Kleinwort Benson and later became an equity portfolio manager at Philipps and Drew Fund Management. Zac was responsible for managing more than 1bn. Institutional assets at AMP Asset Management. Afterwards he moved 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.

Incrementum Inflation-Signal

At Incrementum, we are convinced that inflation is definitely 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"**.

In the fund we manage, our Incrementum Inflation Signal gauges the inflation trend and we position the fund accordingly. Historically, we observed periods of between 6 and 24 months during which disinflationary forces were dominant. These phases were particularly painful for the holders of inflation sensitive assets. Right now it looks as though we could be moving towards the end of such a phase. **Our inflation seismograph has triggered a "rising inflation signal" in mid June.**

Incrementum Inflation-Signal



Source: Incrementum AG

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