Minutes of Advisory Board Meeting of the Austrian Economics Golden Opportunities March 7th, 2014

"Is Inflation making a comeback just as the consensus worries about deflation risk?"

Ronald Stoeferle: Gentlemen, it's a great honor to welcome you to the first meeting of the advisory board of our Austrian Economics Golden Opportunities Fund.

Mark and I (Ronald Stoeferle) had the idea to establish such a board because we always try to question the consensus opinion. For us, critical analysis, unconventional thinking and out of the box approaches are the cornerstones of our investments philosophy. So we're really looking forward to the discussion here at the beautiful library of the institute for value based economics in Vienna.

First of all, I want to introduce the esteemed members of our advisory board:

James G. Rickards

First Jim (James) Rickards is joining us live via videoconference from his home in Connecticut. Jim is the author of the bestseller *Currency Wars* and the forthcoming *The Death of Money: The coming collaps of the international monetary system*. Jim 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

Currently, 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. His analyses are regularly quoted on Zerohedge, Seeking Alpha and Marc Fabers "Gloom, Boom & Doom reports.

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 studied Economy and Econometrics at the University of Exeter and then completed a masters degree in Finance with honors. 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 in 1994. Afterwards he moved to M&G in London. Since 1998 he has developed absolute return strategies and specialized more and more 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.

Ronald Stoeferle: Gentleman, it's a real pleasure! I am really looking forward to the discussion. Mark will now give you a brief overview about the fund and the starting phase.

Mark Valek: Also thanks from my side to all of you!!!

After a lot of administrational work and preparation, we have finally launched our ***Austrian Economics Golden Opportunities Fund***. At the moment, we are slowly and cautiously starting to invest.

Interestingly two weeks before we launched the fund after a period of 19 month of disinflationary signal our signal actually turned and started signaling us rising inflationary momentum. This means for us that we have green light to invest in inflation sensitive assets. Those are mainly mining equities (gold and silver miners), commodities in general, commodity related equities and energy related equities. I would like to stress, that the outcome of the signal is not binary. Right now we do not have a 100% long signal on Inflation.

So, that's basically what we do. We also have a budget for tactical opportunities. We are going to talk about these two a little bit later.

Heinz Blasnik: *Which component of the signal is giving it the biggest push in the direction of inflation right now?*

Mark Valek: The most obvious signal is coming from commodity prices, which is quite an interesting and intuitive indicator. From our point of view price inflation will be triggered by rising commodity prices (or falling paper value vs. commodity prices).

Ronald Stoeferle: *This brings us exactly to one of the main topics of this meeting:* ***Is Inflation making a comeback just as the consensus worries about deflation risk?***

Based on the Incrementum Inflation Signal, we are seeing rising inflation rates at the moment. Let me clarify this: For us, not the *absolute* level of inflation is important. It is rather the *direction* of inflation.

At the moment, especially central bankers and mainstream economists are scared of deflation and that is why we might see some more dubious actions by central bankers. Yesterday the ECB did not do anything. The German attitude is still to some extend alive within the ECB. However we think that the ECB and also the FED will be forced to become more expensive as we're seeing lots of weak economic data going forward.

Gentleman, what are your thoughts on that?

James Rickards:

My expectation is that the Fed may pause the taper by July and perhaps increase asset purchases during the year. I want to separate my opinion and what I think they are going to do. And I think it is more important what they are going to do. They tapered into weakness. They should have not tapered in December by their own metrics, specifically inflation, employment and a few other things.

Bernanke tapered anyway to tie Janet Yellen's hands.

March 19 is the first meeting of Janet Yellen as chairwoman of the FOMC. She is the chair today already but she hasn't had a meeting yet. So she is not politically able to walk in her first meeting and blow up Bernanke's playbook.

They will taper 10bn more in March. I think they shouldn't but they will for political reasons. There is no other meeting until the end of April.

There are meetings in June and July. By that point, if this weak data continuous – she should have a couple meetings under her belt. And certainly by her metrics she will decide what to do. She is not going able to flip from - reducing asset purchases

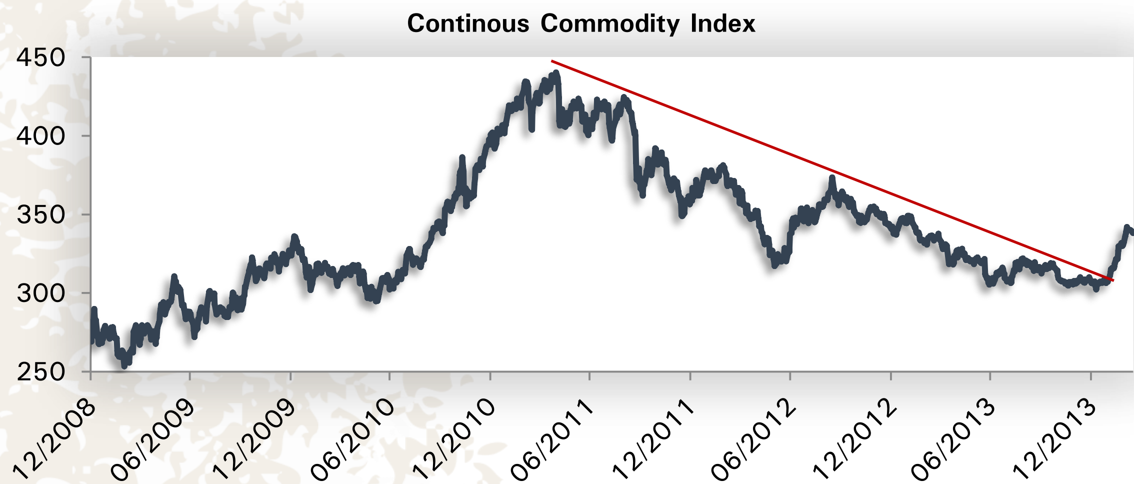
to increasing asset purchases in one meeting. They will have to pause first probably at another meeting and then increase.

So given the politics and the constraints I expect the sequence as follows: I think they are tapering 10bn in March; they will taper another 10bn in April - now pause in June and July and then probably increase asset purchases later in the year maybe August or September. That's the sequence. Yellen can't pause at the first meeting and they can't go from decrease to increase in a single meeting. They need this pause state.

But I would look to them – to increase asset purchases later in the year. **That is apart easing – that should be bullish for equities but also signal to commodity investors that inflation is on the way, because it just says that the Fed will do whatever it takes to get inflation. So I think you (Ronald & Mark) are right about their concept of the fund and their current positioning.**

Mark Valek:

I want at this point just to throw in one graph:



Source: Incrementum AG

At the moment commodity prices are very divergent. Industrial metals and esp. copper are really weak. On the other hand you see agricultural prices rises massively and also gold and silver were actually quite strong up to a few days. In aggregate commodities made a huge move. Interestingly, not many people (in my view) are talking about this.

***What are your thoughts on this massive divergence within the commodity complex*?**

Heinz Blasnik:

Agricultural commodities such as coffee for example had a big move. Natural gas had a big move. All these moves are actually weather related. Natural gases moved up because of the cold weather in the US. You have to discount that move a little bit by these considerations.

Regarding industrial metals, let's have a look at China: Broad money supply in China (M2) is now growing at 13.2%. That is at the low end from the range of the post decade. M1 has actually collapsed to 1.5% growth from almost 40% in 2009. I think that is where the weakness of industrial metals is coming from. It's definitely China, because money supply growth is declining and also bank-lending and total lending are declining. You get weak data out of China. The PMI's are in contraction. There is not many data out of China that we can really trust but it seems that the economy is weakening dramatically. It actually seems that house prices are beginning to turn down as well. They had a really good year last year. This year the rate of change in price-increases is turning down now.

So I'm not so sure how much we can read into this breakup in commodities. But I do agree with one thing. Nobody is talking about it and nobody is taking this seriously. This seems very reminiscent of the commodities rally that started in 2000-2002.

Zac Bharucha:

I also notice, what Heinz said about the strength of the commodities is not broad based – and I'm not totally convinced. I think we need to back up and say the inflation/deflation or disinflation discussion is one that is basically gone for at least 40 years. You will find, if you go back through history – regardless of what the situation is at the time – people are always debating, what's coming next.

But the focal point is: If you knew it was one or the other, basically what would you do differently? If you find you will putting the same trades anyway then you shouldn't be hung up about trying to define the inflation/deflation or disinflation scenario. Let me explain a bit further.

If you are talking about house prices, luxury homes in the center of London or the West coast of the US, there is rampant inflation. If you are talking about private school tuition, there is been rampant inflation. If you are talking about works of art etc., there is rampant inflation. So when we are looking at this macro number where obviously none of us can buy the CPI – we don't live according to a CPI – the CPI is a totally artificial construct. It is imaginary, it's not real. ...

The point is also if you think commodity prices are rising and you using that as a trigger to buy commodities as an inflation hedge then you are basically momentum traders.

Rahim Taghizadegan :

I was a bit skeptical when you mention prices as an indicator, because the argument is quite cyclical. I wonder how are you weighting the different indicators? Is there a weight for a certain indicator or would you always buy with rising prices and sell with falling prices? Or is it just one part of a basket, which is weighted in a certain way?

Mark Valek:

Well, generally Zac noticed something correct with regard to the signal: Yes, we have **some kind of a momentum bias.** We are aware of that, because it also disciplines us on the downside. So it gives us an implicit stop loss, because it is unrealistic that our indicators signals falling inflation rates and commodities go through the roof and vice versa. But perhaps, just to clarify our signal a little bit more: It's not only based on commodities!

First: Answer to Rahim Taghizadegan:

At terms of commodities what do we look at? We do look at a broad index of traded commodities = standardized commodity prices traded on an exchange because our thinking process was: How can we actually gauge the transmission from monetary inflation to price inflation? How can we see and find how much of this monetary inflation is going into the real economy? One inflection point definitively is the commodity area.

Everybody wants to devaluate their paper currency. But against what do you devalue? Either against gold - perhaps the ultimate barometer – and/or against a broad commodity index.

Ronald Stoeferle

For us it's really important to discipline ourselves because people having an Austrian mindset often tend to be very dogmatic and extremely pessimistic.

So for us it was really important to discipline ourselves in the investment process and we said: Ok we are having massive asset price inflation already so the next step will probably be consumer price inflation.

Now: Where can consumer price inflation come from? Mostly commodities, that's basically our call. Perhaps we are wrong but we are fairly confident that we might see some sort of stagflationary environment like in the 70s.

If you compare the attitude central bankers now and back in the days: Paul Volcker had the mandate to kill inflation. **Now central bankers want to *produce* inflation. That's their job. Their comfort zone is official CPI inflation rates between 1.5% - 2.5% and they will do whatever it takes to create this inflation.**

We will not pick the bottom of the market. We want some confirmation by the market. We don't care about CPI statistics, because we all know that there rigged and basically useless. Therefore we are getting our inflation data from the market and only from market based indicators. They still can be manipulated but there is probably much more information in the market than in government statistics. So we are feeling quite confident with these indicators but we are happy to discuss these.

Heinz Blasnik:

I want just quickly say something about the CPI. Even it were not rigged it would actually be worthless because it cannot measure anything. You cannot measure a price level that doesn't even exist. So we can forget about the CPI! But central bankers care about it. The central bankers have already said on several occasions that if the CPI goes up 2% for reasons that we think are only temporary then we are not going to change it. So they are already talking about ignoring their own target limits. We have already seen it once in England, when the CPI went to 5% and Mervyn King said: well, we don't care. Actually he was right, because it came back again.

Zac Bharucha:

I wanted to bring Jim in. I just want to ask you about the Fed and your expectations concerning a reversal of the tapering policy.

We now invented quantitative easing as a toy and it doesn't look to me once you have a toy in the toy box that you then give it back to the toyshop. Do you think quantitative easing (QE) is a permanent fixture now as far as the eye can see on the financial horizon and it will be used as a sort of fine tuning mechanism?

James Rickards

I think it will remain a tool and will be used by the Fed until such time as nominal rates are normalized. Having said this, I think we are years away from a normalization of nominal rates. In other words: If you actually got the Fed-funds-rate to 2.5% - 4% or something that would be more normal historically, they would not use quantitative easing as a tool they would use the policy rate and they would like

very much to get back to that world. The problem is: They cannot get back to that world.

For so long as the policy rate is zero, they will use quantitative easing .But here is the problem. **The global problem in the world today is that we are in a depression. And everyone says: Why hasn't a recovery been more robust? The answer is, because we are not in a recovery. We are in a depression.** You can have growth in a depression. In the United States for example we had very strong growth from 1933 to 1936 but we have never escaped the depression that began in 1929 until 1941.

When you have growth in a depression it is not a recovery. And I go with Kings definition: A lot people think a depression has continuous decline in GDP. But that is not the definition! The Depression can have growth. If your trend is 3% or 4% and your potential is 5% – 6% and you are growing at 2% that is a depression. You have growth but it's below trend and therefor it's depressionary relative to trend. That is what we mean by depression. The reason why this is an important distinction is that; depressions are structural. That's the difference between a depression and a recession.

When you have a structural problem you need structural solutions. You cannot solve it with monetary solutions because it's not a monetary problem.

The United States is trying to solve the structural problem with monetary solutions. It won't work. It's like treating cancer with aspirin. They are treating the problem with the wrong medicine. I think Europe has done a better job of addressing the structural issues. It is very painful, very costly in term of unemployment and lower growth in the meantime. But at least you see a little bit light at the end of the tunnel. What that means is: That right now the Fed is tightening the policy rate. They are reducing quantitative easing (QE), which is a form of tightening. I think we will discover that it doesn't solve the problem. The problem gets worse (what I expect later this year).

Then they get from red light to green light. They will pause and after some time restart purchasing. Quantitative easing on-off, on-off! The Fed thinks that is the answer, but it is not the answer.

Ronald and Mark have started by saying their indicators are showing some sign of inflation. Then Heinz and Rahim said that our inquiry is circular because you are looking at commodity prices as a signal to buy commodities. I think everyone is right. The way I want reconcile this difference is as follows: **I think it is a mistake to get into a binary world where you have inflation and then you have deflation.**

I think we have both at the same time. We have inflation and deflation at the same time. Deflation is natural because of the depression. Inflation is induced because of policy.

But having said this, it is absolutely the case that central banks cannot allow deflation. They must cause inflation. They are going to keep printing or keep easing or whatever it takes to defeat this deflationary monster. I think we are on an inflationary track but it might not come so quickly. It might take another year or so to really take off. But I agree it's probably the right time to be buying commodities. They won't go a lot lower.

Zac Bharucha

I find the price action in gold is very positive at the moment. I find that in the last 3-4 weeks it acted more independent. It hasn't been a sort of risk on risk off trade. It is regardless of the data points or what the stock prices are doing.

Gold is surging up. Now I don't know that's because all the longs are cleared out. A lot of people have bought gold a couple of years ago because of an Armageddon scenario. And the Fed has postponed Armageddon for now. So a lot of gold got liquidated and there was great temptation to pile into the rallying stock market. But now you are getting gold at a big discount from where it was selling 3 years ago. **So I think that does shape up as a nice trade.**

Heinz Blasnik

I agree. I want to say something about gold quickly. My feeling is; first of all the longs have been cleared out and there has been a bit of a change of mind as large speculative players covered about 1/3 of their short position. That's actually a positive sign. I'm thinking that there are people out there who are looking at gold and they are saying to themselves, okay it's gone down 700$ from the high; why not buy some as an insurance?. **It's a cheap insurance**. And I actually think it's a good way for a bull market to start.

Ronald Stoeferle

I think the confirmation, that we are seeing by gold mining stocks is really impressive. Perhaps we've gone too far too fast recently and have to take a breather. But for the first time in more than a year, we are seeing some improvement in ETF holdings. We're seeing some more positive analyst's calls especially by the big banks because of the beginning of the year all of the big banks were kind of cautious or bearish on gold. I think the consensus was at 1300$ for the end of 2014. **At the beginning of the year I was the most bullish forecaster on gold – with a target price of 1480$ - which is not very bullish from my point of view.**

I think it is highly interesting that the reversal in gold basically started when the Fed started tapering. So my view is that perhaps (in the last couple of months) the price of gold was already discounting tapering and perhaps now it's kind of discounting "the tapering to taper" as Jim calls it. **So perhaps the gold price is already telling us that there is something boiling.**

I don't think it's only the Ukraine crisis as most of the market commentators like to say these days because the rise already started much earlier. Having been at modern forty or even fifty meetings with institutional clients I can say that gold is definitively a contrarian call nowadays. **Big institutional players hate gold. I think gold mining equities are definitively the most contrarian call that you can make at the moment.**

Zac Bharucha

I think Ukraine is something like a symptom of the problem that is going on in the emerging markets and the asset markets since May of last year with the early warning signals of the Fed-taper.

Moreover, there has been a massive political shift in China and as the new guard has come in – and you can see this in the allowing certain companies to go bankrupt - they are trying to reshape the economy away from this capital intensive economy more towards a consumer economy. Okay, we will see how that works out. But also some of the pet projects of the previous guard are being killed off or closed down. I think there is a possibility of great instability. **The idea that China is controlled by bureaucrats a better form of capitalism; I think is totally insane. In the end there must be some horrendous crisis that comes from that country.**

James Rickards

Fundamental growth in China is about 3-4% per year. Reported growth is about 7,5% per year. The difference is malinvestment – classic Austrian malinvestment.

So if you adjust Chinese growth from malinvestment you would be down to 3-4% right now. The question is: How long can that go along?

Heinz was absolutely right about that. So you had a policy constraint which I don't see happening voluntarily and the other constraint is a credit constraint. Well, we are not close to that either. China still has plenty of borrowing capacity. They have printed money, they have levered up, they do have a credit bubble there is no question about that. But they are not at the limit. So this could go on for another year or two. But when it ends it will be a disaster.

The other thing I want to add to the discussion is: I don't consider gold to be a commodity. Commodities are copper, steel, wheat, corn etc. Gold is not a

commodity in my view, because it's not an input factor. Gold can go up in dollar-terms which mean the dollar is going down for fundamental and technical reasons independent of what's going on with commodities as a whole.

Commodities discussions are important, because the *Austrian Economics Golden Opportunities* fund is not a gold fund, it's a hard asset real return fund.

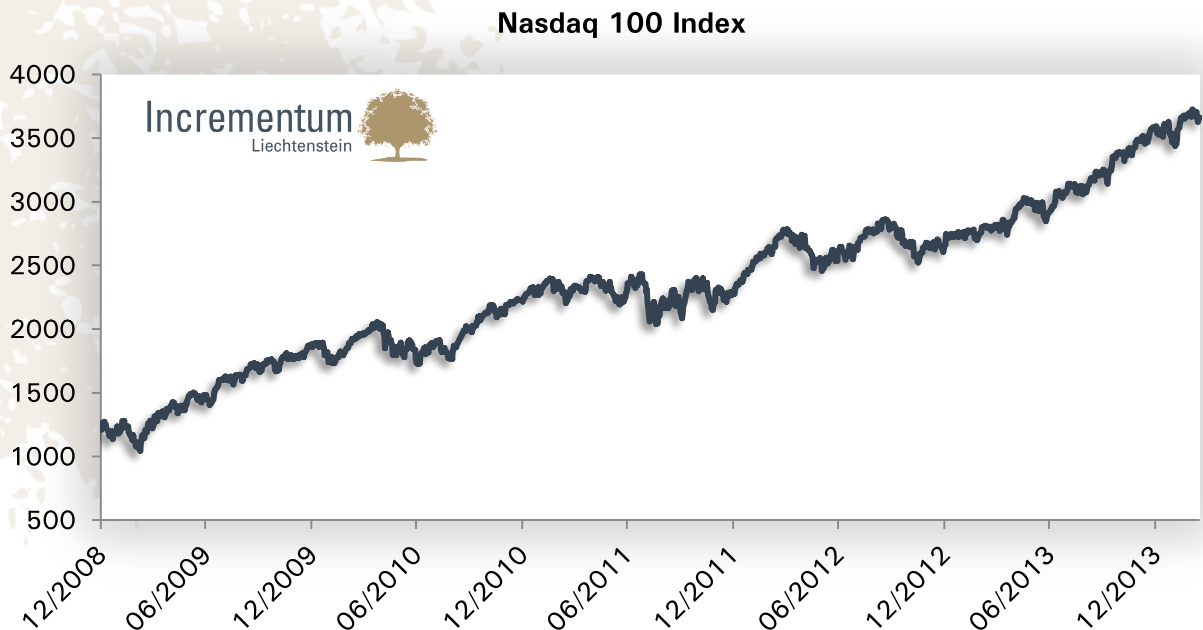
Rahim Taghizadegan :

I think there is one problem for gold and that is a possible opportunity cost with all kinds of other assets being more a beneficiary of this inflationary politics – which is not really working. The intentions of the central banks aren't really working. **I totally agree that we will see inflation and deflation almost at the same time in the future.**

You see inflation in financial assets going on and of cause they had performed much better than gold in the past. I think that was the main reason why you had at the same time inflationary politics and gold prices falling. In fact it even looks like as if the inflationary politics had a deflationary effect on the economy by sucking a lot of funds into financial assets and out of the real economy. So I think the only way this inflationary politics will work is with even more interventionism and trying to bring this money in the real economy by state actions and state intervention.

Mark Valek:

I want to touch one or two points. Inflation and financial assets: Talking about financial assets, let's have a look at a 5 year chart of the Nasdaq Composite index.



Source: Incrementum AG

We are now five years away from the low, which we had in March 2009 in the Nasdaq. Since then basically we've been on a great uptrend especially notable the last 14 month. Volatility is decreasing significantly. This is actually just a straight line going up here. Obviously this is seen critical by most of you guys but what is your view? How long will it go? That is the million dollar question.

Zac Bharucha

I lost a lot of hair on that Nasdaq-spike in 1999- 2000 when I was a value investor. So that is not an experience that I want to repeat. What I've learned about bubbles is: Don't short them! Because once the bubble bursts there is plenty of time on the way down. So you don't want to be selling short into a rising market. I've got some brief comments on the stock markets.

If you look at the sentiment indicators in the US markets – there is very low cash in the mutual funds – just 3.3% cash which is a historically very low level.

If you look at sentiment of advisors - it's the highest level since the 87 crash. So sentiment-wise the market looks very stretched.

There is some of loss of participation in the stock markets but the breath is still good in the US. The US could carry on a while. Even if the market is turning US leading stocks will still continue to outperform.

Regarding the Nasdaq: We will continue to have extremely low real interest rates. What are people going to do with their money? You can go nowhere, you can earn nothing, house prices and have exploded, nobody sees too much opportunity in bonds anymore, so people are herded into the stocks. That is exactly what the Fed wanted to happen. They wanted them to go to long duration assets.

Yes, there are certain symptoms of a bubble. Watch it, be very careful but don't fight it, don't try to time the bubble. Wait for further signs of technical deterioration.

James Rickards

I agree with that completely. I would expect US stocks to go significantly higher. It might be a little bit sideways volatility for the next few months. **I would definitively not short US stocks and their might be ways to participate if you see companies that are consistent with a hard asset philosophy which I would call transportation, mining and energy stocks.**

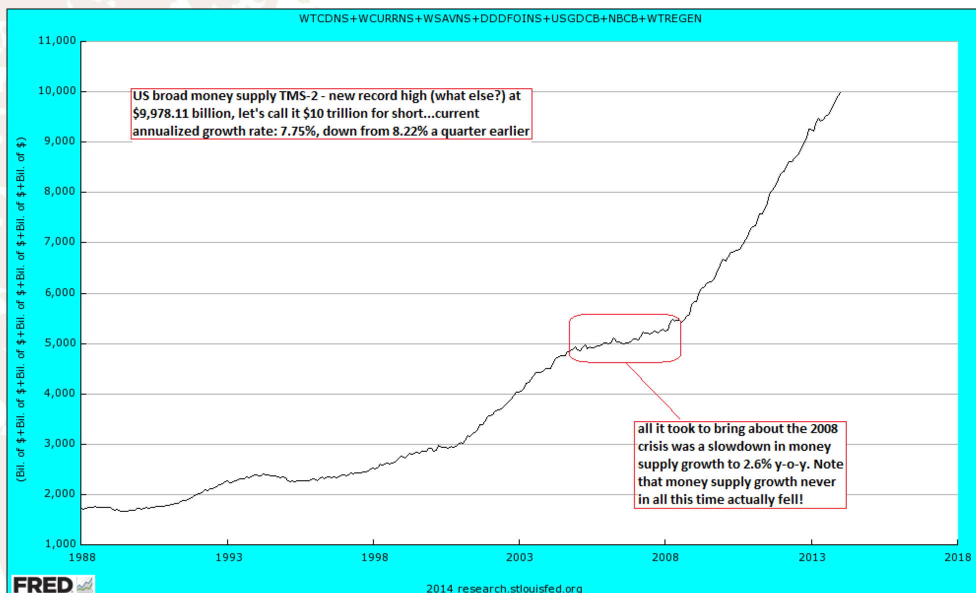
Heinz Blasnik

One thing about the chart of the Nasdaq. The advances since the 2009 low looks exactly like the model by Sornette - the bubble model. The volatility declines more and more the higher it goes. So it has these bubble characteristics – the very typical ones.

Domestic US money supply growth is the decisive factor for US stocks. The latest year on year growth number is +7.75% which is below the 10% which we have seen in 2012. So it's slowing down. But 7.75% yoy[1] money supply growth is still quite a lot historically. Since it is not going anywhere else it's going into assets. So we have this strange situation where we've got a market which is overbought and has extremely bullish sentiment readings.

Still the market is going up and the only explanation that I can come up with is that money supply growth is still strong enough to push stocks higher. But there is a limit somewhere. The problem is that we don't know where that limit is. In 2007 it was 2.6% yoy growth. That was enough to burst the real estate bubble and the stock market bubble at the same time. I believe that this time around this demarcation is going to be higher. The reason for believing so is because the underlying economy is much weaker. I would expect – if money supply growth fall to say 4,5% yoy growth that would be a very big warning sign.

We are now at 10 trillion $ money in the US economy and that means that money supply has almost doubled since 2008.



Source: www.acting-man.com

[1] Yoy = year over year

Ronald Stoeferle

There is a brilliant quote by fund manager John Hussman. He said: "*The problem with bubbles is that they force one to decide whether to look like an idiot before the peak or an idiot after the pea*k". I think this fits pretty well. **It seems to me that greed is still much more important than fear these days.** We don't see this rally running out of steam at the moment. I mean we had some political issues in the last view days but still US markets are trading close to all-time highs.

I think every crash needs a catalyst. I am not sure if the whole Ukraine thing which is developing at the moment is the catalyst but it seems that the equity markets are still fairly strong. I definitively agree, it is too early to start shorting US equities.

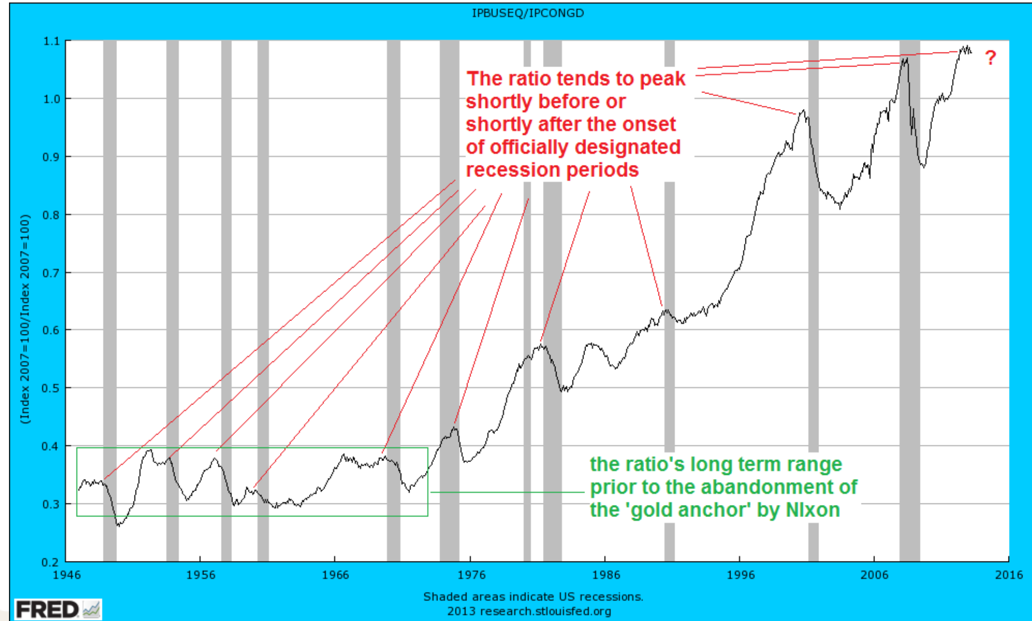
James Rickards

One comment to Heinz's chart: Whenever you look at this type of money supply chart and it is staggering you need to put a velocity chart next to it because velocity is collapsing. Velocity is going down as quickly as money supply is going up. So you have to put the money supply in context by looking at the velocity. The question is not: When does the money supply grow but rather when does velocity pick up? **When the velocity curve turns – that is the point when inflation comes in very rapidly. The problem is that this is a psychological threshold not a monetary threshold.**

Heinz Blasnik

When velocity turns it means nominal GDP is beginning to rise and that probably means prices for other goods are starting to go up. There is one more chart that I would like to look at.

The chart shows the ratio of capital to consumer goods production.



Source: www.acting-man.com

What I want to say about this one is that it basically shows us – that **when money supply is expanding and the central bankers are printing a lot of money and suppress interest rates, then money is flying to higher orders of production stages of the economy.** You see more investments in capital and fewer investments in consumer goods production. When you look at the chart - shortly before recessions begin this is starting to turn over.

Right now it's kind of stalling out. I'm not sure yet if that is already something meaningful but that would tie in with what you have said - that you actually expect the taper will produce later on this year much weaker economic numbers. This chart is actually supporting that contention.

I actually agree that the tapering is going to reduce economic activities. I think they are going to reverse it.

But there is one more thing about that. We got people like Richard Fisher and Charles Plosser as members of the FOMC. They are very committed to staying the course of the current policy.

James Rickards

I think that is exactly right – and bear in mind in the US we call this QE3 for a reason. The tapering is not new – QE1 ended, which is a 100% taper – QE2 ended, which is a 100% taper, so we tapered twice before. Both times the economy started to roll over and they had to start QE again. Now the difference between QE3

and QE1/QE2 – the Fed specified the quantity and the period of time during which there would buy the assets – and the expectation level would work. It failed both times. So they get a little smarter when they came with QE3 – there is no "end-date" and there is now "amount-date". QE3 is whatever they want it to be. There does not have to be a QE4.

Mark Valek

One topic we just would like to touch, because it's potentially so significant – it is obviously the geopolitical situation what emerged in the last two or three weeks.

Zac Bharucha

I can be very briefly. I would just say – underlining the Ukraine decision was a severe shortage of cash and I think it's a symptom of what's happening in some of the other emerging market economies – the BRICS. So I think that's a worrying development.

Heinz Blasnik

I agree with Zac. **Ukraine was actually the weakest link in the emerging markets space.** CDS spreads on the Ukraine were continually very high. So it was actually fated to be a place where a crisis would break out. The way I understand Viktor Yanukovychwas offered by the EU some sort of an agreement but that agreement would have included: first of all austerity measures and secondly some kind of security agreement – NATO would have gotten a foot in the door. That is why Russia decided to offer him a better deal: A 15bn $ loan without any strings attached. And where we are now, I do not think that Putin will back down from the whole Crimea thing.

James Rickards

I agree. **Crimea should be seen as a part of Russia now. This is another nail in the coffin of the role of the Dollar as a reserve currency.** But there is another important thing going on at the same time: President Obama has more or less anointed Iran as the regional hegemon in the Middle East. This is a stab in the back to Saudi Arabia which for 45 years or 70 years - depending how you start counting - has supported the dollar by insisting that oil has to be priced in dollars. The quid pro quo is that US would in fact insure the national security of Saudi Arabia. By backing Iran the US has undermined the national security of Saudi Arabia and therefore Saudi Arabia has less reason to support the dollar. Russia has said: No one thinks that Ukraine should turn into a shooting war. **So if you don't have a shooting war – what kind of war do**

you have? You have a financial war. Immediately the US says we are not attacking anybody but we are going to impose financial sanctions. The Russians came back next day and thought: If some oligarch can't go to the Super Bowl - who cares? That's what we have done so far. But if we were to go further – start to freeze assets – freeze Putin's personal assets and so on, Russia has said that they would not pay their dollar loans and begin to dump treasury bills.

You have an escalating situation that nobody wants to do. I mean the Russians can bring in hackers to close our exchanges and destroy our capital markets. This is a lot like a cold war where both sides have nuclear weapons – and either side would use these because they knew the other side would shoot back.

We already know what China is doing with gold. Saudi Arabia has less reason to hold dollars because of Iran. Russia has less reason to support the dollar because of the Ukraine. **Putting all this together a large part of the world is working very hard to get out of the dollar system. That is going to be bad for the dollar and it is going to be good for gold.**

Rahim Taghizadegan

I think at the moment it looks pretty good for the Russia-Iran-China axis. I think we will see more places in particular close to Europe, I guess Turkey – and even within Europe problems will arise because Russia is driven by Eurasian ideology. They seek to establish themselves firmly in the Eurasian area which means they wouldn't bother for Brazil or other places where you would have similar possibilities – but they focus a lot on the Eurasian area. That means of course Middle East, Turkey and potential countries within Europe – that's why the Baltics are very skeptical about what's happening in Ukraine – you can even feel the fear of people from the Baltic region. I think we will see quite some tensions in these areas in the future.

Ronald Stoeferle

Rahim, we had a discussion last night about the Ukraine-crisis and you said that you are very much concerned about the whole situation. What would be a scenario going forward?

Rahim Taghizadegan

I was actually just concerned about the European politics in a way that they are treating the Russian consciousness.

I am concerned for the very long term. I'm quite relaxed at the moment. I see no immediate threat of any military interaction. The European Union neither has the military nor the financial means to really act as a regional power at the moment.

What they are doing – because they don't have any power in this region – a lot of verbal politics and that is destroying a lot of porcelain. That is what makes me concerned. Out of weakness - you see a lot of irrationality politics and out of this weakness, or out of this retreat actually towards this axis makes me afraid that the Russian people really might feel provoked.

Zac Bharucha

Do you think that the Russian people feel very aggrieved to that loss of the former soviet empire right through the society?

Rahim Taghizadegan

They feel aggrieved that they are not treated seriously as a world power. They feel not taken seriously and that is why Putin is so popular because he is promising to bring back this power on the international stage. **Nationalism is a very important driver of geopolitical actions in the long term. I think Russians will eventually get back on the scene.**

Heinz Blasnik

There is another aspect to this. Russian minorities that are living in the former Soviet-republics – many of them are actually oppressed become second class citizens. In Tajikistan, in Kyrgyzstan and in several others. The one's living in Ukraine are afraid that the same thing is going to happen to them – and the trigger for that fear was that the new government immediately banned Russian as a second official language. I think this is a really important aspect of this whole situation because that's how it's got started in these other republics as well. As first they banned Russian as second official language and then in the next step ethnic Russian citizen became second class citizen.

Mark Valek

This is a very complex topic. We could go on talking about this crisis for a lot further.

Gentlemen, we are very glad about the first meeting of our Advisory Board and we are looking forward to our next meeting. Thank you very much and take care!

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