Minutes of Advisory Board Meeting

Incrementum Inflation Diversifier

April 8th, 2020

HOW DO YOU INVEST IN THE POST-CORONA WORLD?

Highlights of the conversation:

Rick Rule:

- To get out of the current economic crisis we need a reckoning, as a nation, and as a society.
- We currently have a war on savers, by spenders – and it's accepted politically.
- In my markets there are two places investors need to be right now: cash and gold.
- In the gold space, the physical metal price will move first, then large cap miners, then mid-tier producers, then junior producers, and lastly the exploration sector.
- The gold mining industry is facing a virtuous set of circumstances: gold is going up, while input costs (energy) are going down.
- I don't think people, other than speculators, need to become involved in broader commodity markets yet.
- A decline in commodity supply is inevitable, but in the near-term demand could fall just as fast.

Jim Rickards:

- The recent monetary and fiscal measures won't provide any stimulus because inflation is not caused by money supply; it's caused by velocity.
- Interest rates today are sky high when you think about them in real terms.
- Don't be shocked to see the Fed go to negative interest rates.
- There's no reason for the U.S. to not pay, or restructure, its debt; we can print the money, and inflate away the debt. That's what we have done before.
- The Fed can get inflation in an instant by raising the price of gold. So, get your gold now to hedge against the inevitable inflation that is coming.
- The Coronavirus situation is not over - there will be a second and third wave.

Heinz Blasnik:

- The pandemic could have been foreseen; there was a conference half a year before the outbreak, discussing the likelihood of a pandemic.
- Once the crisis is over the Fed will probably find it impossible to reduce its balance sheet.
- They will have sown the seeds for the next bubble - it's a never-ending vicious circle.
- The gold industry has a tendency to waste capital during boom times; there's too much money flowing into the industry; they don't know what to do with it.
- At the moment I think one should be long gold, gold stocks and cryptocurrencies.

Ronald Stöferle:

- The Coronavirus is not a black swan – it could have been foreseen.
- Things will get worse in the coming months, so don't expect a V-shaped recovery.
- From a technical point of view there is no sector that looks better than gold at the moment.
- Central bankers are likely to overreact, and provide too much stimulus. This is good for gold, but it can be dangerous for the economy, and society.

Mark Valek:

- The research I am currently seeing is completely underestimating the potential decline in GDP, as a result of the Coronavirus.
- You need money printing and velocity to get inflation; at the moment we are missing the velocity.
- We are in a huge deflationary trend that is preventing monetary inflation to create price inflation.
- We need to see a loss of confidence to get inflation.

Biography of our special guest – Rick Rule

Rick Rule began his career in the securities business in 1974 and has been principally involved in natural resource security investments ever since. He is a leading resource investor specializing in mining, energy, water utilities, forest products and agriculture, and has originated and participated in hundreds of debt and equity transactions with private, pre-public and public companies. Mr. Rule is also the Founder of Global Resource Investments, President and CEO of Sprott U.S. Holdings, Inc. and a member of the Sprott Inc. Board of Directors. He is a frequent speaker at industry conferences and has been interviewed for numerous radio, television, print and online media outlets concerning natural resource investment and industry topics. Mr. Rule is frequently quoted by prominent natural resource-oriented newsletters and advisories.

Transcript of the conversation:

Ronald Stöferle:

Thank you very much for taking the time. I know it's quite demanding for everybody. It's a very difficult time for every one of us; it's very demanding as a citizen, as a businessman, as an investor, as a market commentator, but there will also be a lot of topics to discuss today.

So, I will make the official introduction of Rick. Rick began his career in the securities business in 1974……, no that cannot be true, it must be '94?

Rick Rule:

No, true.

Ronald Stöferle:

Really? Ok, so you have to tell me your secret to how to look that young. It cannot be from investing in junior mining stocks because I lost all my hair during that short time.

He has been principally involved in natural resource security investments ever since. He is a leading resource investor specializing in mining, energy, water utilities, forest products and agriculture, and has originated and participated in hundreds of debt and equity transactions with private, pre-public and public companies. Mr. Rule is also the Founder of Global Resource Investments, President and CEO of Sprott U.S. Holdings, Inc. and a member of the Sprott Inc. Board of Directors. He is a frequent speaker – he is a fantastic speaker – at industry conferences and has been interviewed for numerous radio, television, print and online media outlets concerning natural resource investment and industry topics. Mr. Rule is frequently quoted by prominent natural resource oriented newsletters and advisories.

And he is also a very down to earth, gentle, and thoughtful gentleman; always a pleasure talking to you - always a pleasure listening to your keynotes. And as far as I know you, you are one of the hardest working men in the whole industry because at every conference I attend, you are one of the first there, and you are always one of the last leaving. You are always open to talk to basically everybody. So, Rick it's a great, great pleasure having you today and welcome to our advisory board call.

Rick Rule:

Well, thank you for that flattering introduction. And I'll return it, I really enjoy the work that Incrementum does, in particular the annual gold books; I really look forward to them. I am delighted with them as an information product, and frankly, as an entertainment product. All of the work that you guys do, being able to make it both topical and humorous simultaneously is a great joy. So, thank you for all of the work that you do, and for putting on this webinar at this point in time.

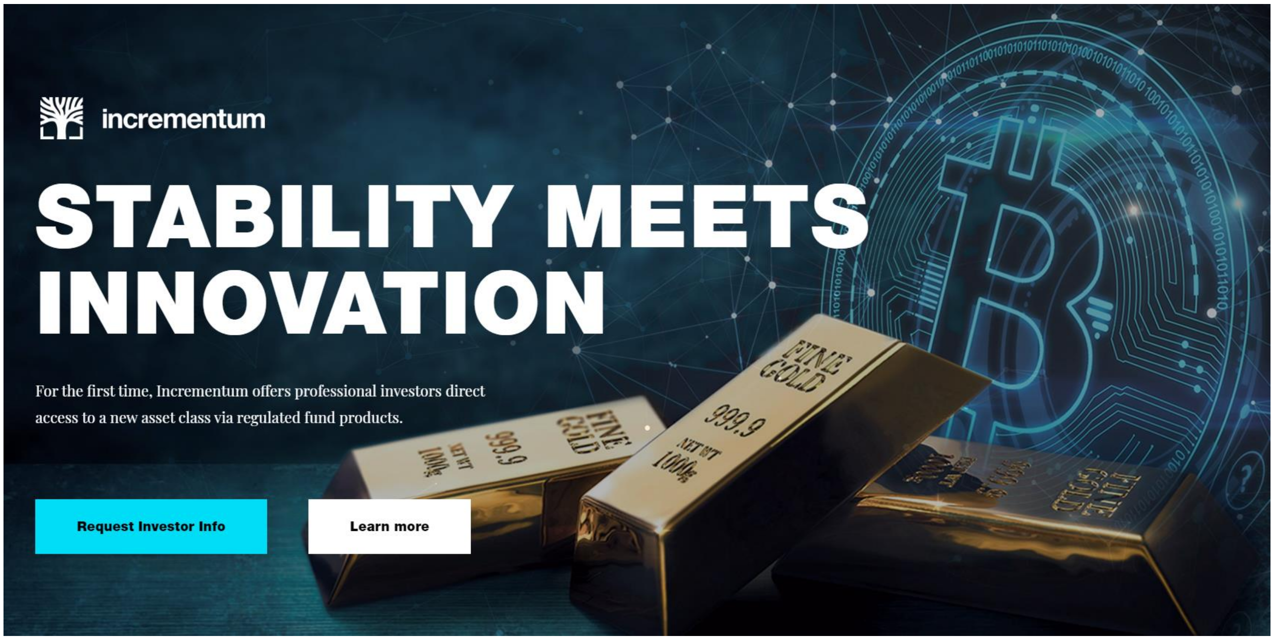
Ronald Stöferle:

Thank you very much.

Sprott is a premium partner of our In Gold We Trust report, thank you very much for that. As you know, we are currently writing, researching editing and proofreading almost 24/7 for the upcoming In Gold We Trust Report. It will be published on 27th of May, and of course it's a big challenge writing about the gold market, about mining stocks, about central banks at the moment because every day there is so much going on; you could literally write a book about those developments. But we are doing our best, we've got a fantastic team – 17 people working on the report.

And as I've said, the 27th of May is the big date. It is published in German and in English, and in Mandarin. It's available for free for everybody because we think it's important to put out really serious information about the portfolio characteristic about gold – about how gold and mining stocks work in your portfolio, the disadvantages and the advantages, valuation and so on. So, without the help of our premium partners this would not be possible, so also thank you very much to Sprott for supporting us.

Gentlemen, just a few housekeeping things before we start the discussion. As you know, we are currently writing the report; we just published the English translation of our book – the Zero Interest Rate Trap – and we published a chartbook on gold where we actually said that a recession was around the corner. Of course, that was before the whole COVID-19 crash. **We just launched a new fund – a fantastic fund – that combines physical gold and Bitcoin – digital gold.** So, it's 75% physical gold and 25% Bitcoin, with an options overlay. So, actually, there's enormous volatility in the Bitcoin space; it's not an enemy, but it's our friend. We are using this volatility via an options overlay that Mark manages very, very well.



Source: Incrementum (cryptofunds.li)

That's basically what's going on here at team Incrementum. Of course, everyone is working from home. So, if you should hear children screaming, it's probably going to be my girls. I hope you understand.

Mark, I hope I didn't forget anything, but I'd say let's jump into the discussion and I would like to ask you a bit of a provocative question first, I would like to ask you gentlemen: if you were president Trump, or Jay Powell, what would you do, and what would you have done, in the whole situation – in terms of fiscal stimulus, but also in terms of monetary stimulus? What would you have done, and how satisfied are you with the steps that were taken? And of course, what do you think will be the consequences of those enormous and unprecedented monetary and fiscal stimuli?

Who wants to go first? Our guest, Rick?

Rick Rule:
Perhaps James should go first; he was actually in the belly of the beast, and at least indirectly part of the government, so I'd like him to go first if I may.

Jim Rickards:
Who says indirectly?

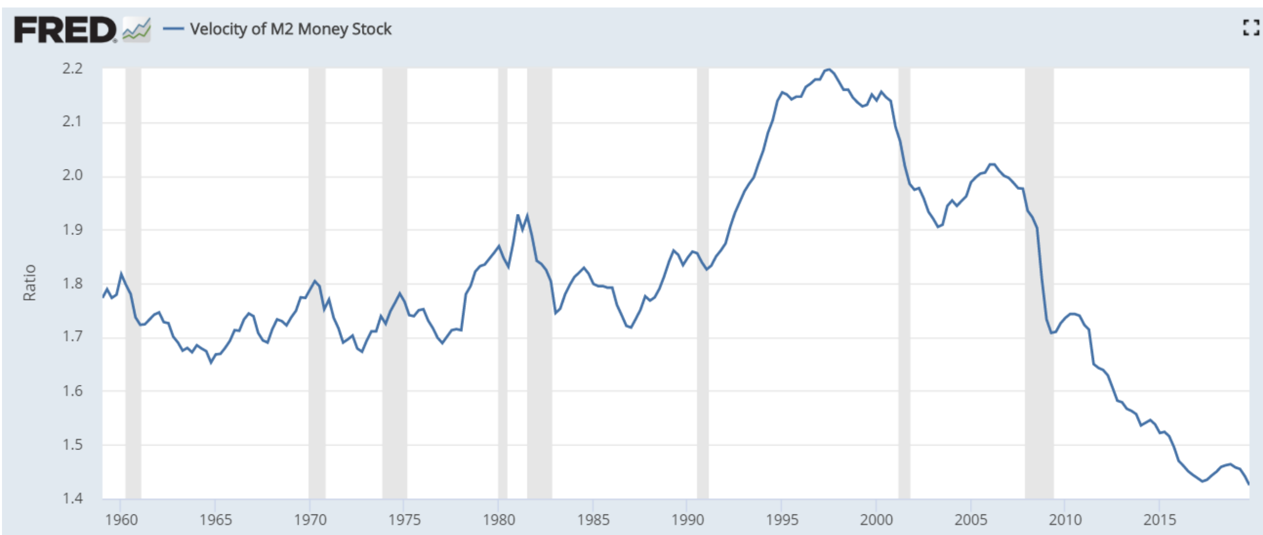
Thanks Rick. To answer Ronni's question - **there is no fiscal stimulus and there is no monetary stimulus.** There is an expansion of the Fed's balance sheet from where it is today, $5 trillion, which is higher than the peak of 2014, at the end of the taper and QE3. It's on its way to $10 trillion. I can explain that if you'd like, but that is where it's going to be fairly soon. And we had a $1 trillion deficit for fiscal 2020 going into the crisis. That deficit will now be at least $3.2 trillion based on the $2.2 trillion rescue bill that was passed last week. Although, I think it's almost a certainty that we will have at least another trillion on top of that, so **we are looking at a deficit for fiscal 2020 of $4.5-$5 trillion.**

So, you'll have a $10 trillion Fed balance sheet. You'll have, I'll say, a $5 trillion deficit, which by the way is 25% of GDP for one year. And the Fed balance sheet will be 50% of GDP. That's a little "apples to oranges" comparison because one is a balance sheet, and one is in effect an income statement, or gross receipts statement. So, the Fed will be 50% of GDP and the budget will be 25% of GDP. **None of it will provide any stimulus at all.**

I suppose I should give some reasons for that. The Fed is doing probably what it needs to do to keep the lights on. They have thrown liquidity wherever it's needed. So, in addition to the primary dealers and the big banks, which is kind of business as usual, they have guaranteed the commercial paper market. They've guaranteed all the money market funds, they've in effect guaranteed the corporate bond market and municipal bond market by buying those assets. They have pre-announced that they will buy the small business loans originated by the banks – they are already government guaranteed, but now they will also be owned by the Federal Reserve. So, they are making sure the liquidity – the plumbing if you will, the financial system – is not jammed up.

But none of it will have any effect on growth or provide any kind of stimulus. The reason for that is that money supply has nothing to do with inflation; that's something that has been propagated by Austrian economists, monetarists, Milton Friedman – even neo-Keynesians are on board now. But **inflation is not caused by money supply, it's caused by velocity** – that's the technical name. In other words, turnover of money. So, if I feel prosperous and I go out to dinner, and I tip the waiter, and the waiter takes a taxi home and tips the taxi driver, and the taxi driver puts gas in her tank – in that example my dollar has velocity of 3. It's supported a waiter's tip, a taxi driver's tip, and a tank of gas. But if I decide to stay home, which I'm doing lately, and watch television, my money has velocity of 0. And I remind people that $5 trillion times 0, is 0. In other words, **if you don't have velocity or turnover, you don't have an economy.**

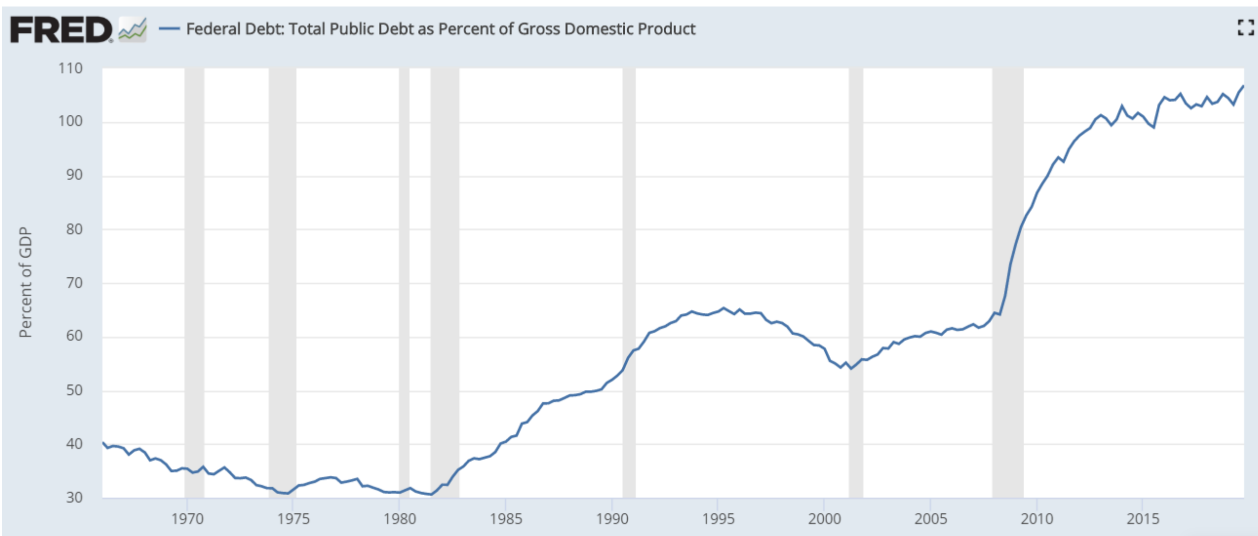
So, the problem with getting the economy moving, even in nominal terms, certainly real terms - and getting any kind of inflation, or avoiding deflation - is one of velocity, which is a psychological problem. It's not a monetary problem. The Fed can, at least as far as base money, M0, is concerned – the Fed can stick the landing. They can make that anything they want, to two decimal places. But they can't change how I feel, they can't change how the American people – and I'll extend that globally – feel right now, or in the future. So, we have declining velocity, which by the way started in 1998. There's nothing new about the decline of velocity. You can go back and look at the charts of that. It went down a little more steeply after 2008, but it was already trending down. Nothing the Fed has done, nothing anyone has done, has been able to bend that curve. And now it's probably going to go vertical to approaching the X-axis.



Source: St. Louis Fed

Fiscal policy will not provide any stimulus; I just talked about a $5 trillion deficit for fiscal 2020, but the Keynesian remedy - Keynes called it his general theory of employment, income and money – the phrase "general theory" is a little bit of Einstein envy; in fact it's a special theory, which means it works in limited circumstances. So, Keynes identified the liquidity trap and if you are coming out of a recession – or are in one, or a depression for that matter – and people won't spend, they are saving, you substitute government spending for individual spending. And if you have a manageable, sustainable debt load, excess capacity, and you are in a recession or liquidity trap, there is some evidence that government spending can create the famous Keynesian multiplier; you borrow a dollar, you spend a dollar, and you get $1.20 of GDP. And that's how you get the economy moving - Keynes called it the animal spirits – and pull yourself out of a recession. I query whether those effects are permanent or temporary, but temporary works when you are stuck.

But the research of Ken Rogoff and Carmen Reinhart – she was at the university of Maryland, she's now at the Kennedy School; Rogoff is at Harvard – over centuries, broken down by developing economies, developed economies, all economies, specific subsets, specific timeframes - every way you can slice it – shows the same result, remarkably consistent, which is that **when debt to GDP exceeds 90%, when that ratio exceeds 90%, the Keynesian multiplier falls below 1. In other words, you can't borrow your way out of a recession**. At least not if your debt to GDP ratio is over 90%. So, the U.S. went into this crisis with a 106% debt to GDP ratio, which is one of the reasons we had such poor growth from 2009 to 2020, notwithstanding the $870 billion fiscal stimulus in 2009.



Source: St. Louis Fed

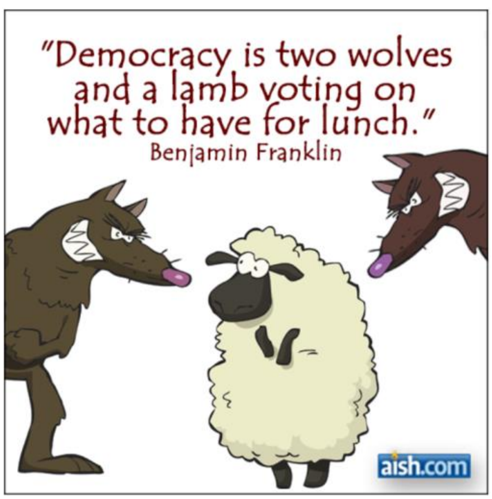
It didn't work. It's not going to work now. And the reason is, as a physicist would say, we've crossed the critical threshold to the point where now you borrow a dollar, spend a dollar, and you may not get 90 cents of growth; forget about the $1.20. **So, fiscal policy will not work because the debt to GDP ratio is so high.** We're going to take it to about 115%-120% as a result of the deficits I just mentioned. We're catching up with Italy. We haven't quite caught up with Lebanon and Greece yet, but we are getting closer. But that's why fiscal policy won't work, why monetary policy won't work. **Because the problem is not monetary, it's psychological and related to velocity.**

So, if you want to call the spending bill spending, that's fine, but don't call it stimulus. And if you want to call monetary policy "keeping the lights on", that's fine too, but don't call it stimulus. So, there's no way out of this, but we will run up a lot of debt, and print a lot of money.

Ronald Stöferle:
Rick, do you want to go next?

Rick Rule:
I'm delighted I let Jim go first. And I agree with most of what he said. I think it's very difficult to borrow your way out of recession when you have too much debt to begin with. It's like the old adage: when you are deep in a hole - stop digging. And that's the circumstance we find ourselves in. I think the name of this year's book sort of defines a problem – the zero interest rate trap. It goes a long way to describing the efficacy of the policy responses that are forced upon the politicians today.

In direct answer to your question, what would I do were I Trump: certainly, given the excesses of the last 20 years, **had I been elected president I would have demanded an immediate recount.** Because the circumstance that we are in is a circumstance of our own construction, going back, as Jim suggests, 20 or 30 years. And I would suggest merely to echo what he said, but also to echo the title of your book, that we are in a trap that we spent 20 or 30 years constructing. **And my suspicion is that the way out of the trap will be – ultimately – that markets work, which is to suggest that we have a bit of a reckoning to deal with as a nation, and as a society.**



I would go further to say that the debt that we have, and the artificially low interest rates that we have constructed – the whole political and fiscal construct that we have – is part of a trend that I have described as a war on savers. **In democracies the truth is that spenders, who are more numerous, vote to redistribute the wealth of the savers.** It's very difficult to spend your way out of a circumstance where you owe too much. But the nature of a democracy, of course, is that spenders - who are numerous - vote to redistribute the wealth of the savers. Which is to say that they vote to decapitalize the system that exists. And there needs to be a reckoning to get our way through this. I don't think it's going to be particularly pleasant, but that notwithstanding, I think it needs to occur. There's a great, old Libertarian lapel pin that describes democracy – by the way I am not necessarily mocking democracy, but there is an old lapel pin – this will play better in the United States than in Europe – that a democracy is where four coyotes – predators – and a lamb vote on the lunch menu. **And the circumstance that we have today really, I think, is partly the consequence of a politically popular war on savers, by spenders. And there is going to have to be some sort of unwinding of this.**

But as I say, in direct answer to the question, had I been Jay Powell I wouldn't have accepted the nomination, given 30 years of history. And were I president Trump, I would have demanded an immediate recount had I been elected. I don't think that this will be an easy problem to solve politically because I think politics is what caused the problem.

Jim Rickards:
I agree with what Rick said, and I'm glad Rick used the word "politically". He said it will not be an easy problem to solve politically, and I agree with that. It's actually a trivial problem to solve economically, you can solve it in 15 minutes. But the politics - and I won't say lack of education, I'll say miseducation – that stand in the way of that are daunting. We talked about the debt, and Rick's exactly right, that's just a way of deciding to eat the lamb, it's a way of pushing the burden onto someone else – disenfranchising savers.

By the way, interest rates today are sky high, they are not low, when you think about them the right way, which is in real terms, not nominal terms. Nominal interest rates are at, or near, historic lows – the lowest ever in U.S. history. But in real terms they are quite high. And let me illustrate that. In 1980 I took out my first mortgage to buy a condo in New York and my interest rate was 13%, and my mother cried because her first mortgage was about 2%. She said "that's so much money, you are paying so much money". But inflation at the time was 15%, which meant that my real rate was negative 2%. And I was living in New York so taxes were 50% and interest was deductible, so my after-tax real rate was negative 8%. That's cheap money – negative 8% real rate is cheap money.

Today interest rates are, say, 50 basis points on the 10-year note yield to maturity. And we haven't seen this in the data yet, because the data hasn't arrived. But I use a lot of inferential method and **I think we know enough to make a fair inference of that – we are in deflation**, which means that if nominal rates are 50 basis points and deflation is even 1%, that's not an extreme estimate, the real rate is positive 1.5%. So, my 13% mortgage had a real rate of negative 8%, and today 50 basis points is a real rate of positive 1.5%. That would be my estimate. Not to belabor it, but real rates are actually quite high. I was in a closed door meeting up in Bretton Woods last summer before the COVID thing, but economic growth wasn't in any great shakes. We had two senior

Federal Reserve board officials – one governor and one head of research for a regional reserve bank – and a member of the governing committee of the ECB. So, real central bankers – kind of off the record. But they made this distinction, I was pleased to hear it. I'm glad someone understands it, but they were talking about the difference between the real rates and nominal rates. And they made the point that it's real rates that drive the economy; it's real rates that drive borrowing, lending decisions, velocity and the kind of things we talked about.

So, at the time the 10-year note yield to maturity was close to 2% - of course it's collapsed since then – but inflation was 1.5%. And so, they said the real rate is still positive 50 basis points. We've got to get the real rate negative. But it was like a cat chasing its tail, in other words, the more disinflation got a grip – and I would say today we have deflation, but at the time it was disinflation – they said if inflation is going down, and we want to get nominal rates below inflation to get negative real rates, guess what we have to do to nominal rates? **And I said last summer that rates are going to zero, and I didn't base that on COVID, because who had heard of COVID? But I based it on what central bankers were telling me.** There's an old saying: don't fight the Fed, but I'll take it a step further – **when they tell you to your face that rates are going to zero, you should bet that they are going to zero, and here we are.**

But it's worse than that. Then they pivoted into negative interest rates. Just to be clear, they didn't say they were going to do it, or it was a policy decision, but I was surprised about how relaxed they were talking about it: "yeah, it's just another tool in the toolkit. Yeah, it's on the table. We'll look at it when the time comes". Well the time is now; let this play out over the next few months, but **don't be shocked to see the Fed go to negative interest rates**, which of course we already have in ECB, Switzerland, Sweden, Japan, and a few other places.

Without going on too long I'll make the point that negative rates don't work, but just because things don't work doesn't mean they won't be tried. How do you get out of this debt overhang? There are a couple different ways to do it, going back to the fifth, maybe fourth, millennium BC, continuing through the book of Leviticus and over and over throughout history. **There's something called the debt jubilee** – administrators, kings, whatever, understand that people borrow too much, lenders lend too much, the burden of debt becomes a drag on growth and you have to get rid of it.

So, what do you do?

What they did in antiquity was just forgive all the debt – say: "all debts are forgiven as of now". Wipe the slate clean, and let's start over. And that actually works, and people say that's a little rough on the creditors because they are getting wiped out. But the answer is that this was done, and again specifically from the book of Leviticus, this was done on a schedule, 50 years or 60 years, whatever the tempo was. And you could see it coming. So, if you just had a jubilee last year, and you have 50 years until the next one, you can feel pretty comfortable making a ten-year loan secured by property, or crops, or whatever collateral you want. But if you are in year 45, it's been 45 years since the last jubilee, you are not going to be making any ten-year loans. You might not make any two-year loans. The point being, it was a way of descaling the system. The system voluntarily and with foresight reduced the amount of debt on its own. Knowing that the jubilee was coming, why would you want to be the big creditor on the day of the jubilee? You wouldn't because creditors, for the most part, aren't stupid. But what it was – it was self-regulating, self-equilibrating. And the debt would come down as the jubilee approached. So, when the jubilee actually happened it wasn't as traumatic as it might sound, certainly today, because the system had self-regulated. You avoided the excess, and you started over. I don't think that's going to happen, but it's kind of in the air.

The other ways of dealing with debt: one, you just don't pay – the Argentinian solution. That works. You're going to have a few rough years afterwards, but creditors have short memories. You can have a restructuring. That was done in the case of Greece.

By the way, I'm being handed a note that Bernie Sanders just dropped out of the race, so if we are not multi-tasking, I'll pass that along to the group. Now we can look forward to president Biden.

So, restructuring is again the Argentinian solution. There are variations on that. You can say capital controls; I'm going to pay you, but I've got 100% capital controls. They are all sort of half way measures, and they work for everyone except the United States. **There's no reason for the U.S. to not pay, or to even restructure its debt because we can print the money**, as I said earlier. So, what's the best way out for the United States? **Well, the American way, which we've done many, many times – it works like a charm – is inflation.** Even modest inflation, 3% a year, for 20 years, will cut the value of the dollar in half. That's how historically – between 1945 and 1980, following the Civil War and other periods – we have gotten out of debt with inflation. **The problem is that, as I described earlier, inflation is a psychological phenomenon. So, you actually have to change psychology, which is more to it than money printing.** So, I'll give you my 15-minute solution, then I'll shut up, and this will be music to Rick's ears, and my own.

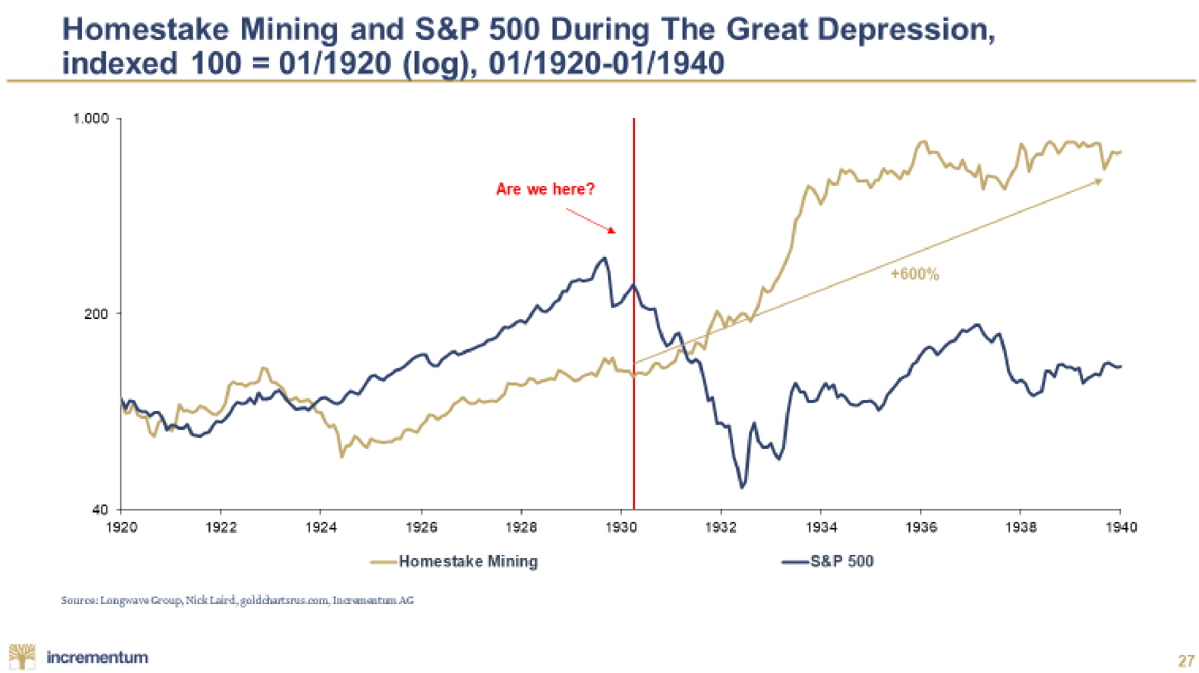
U.S. Inflation Rate – 1785-2019

Source: Incrementum AG, Presentation at the World Gold Forum

You call an emergency meeting of the Federal Reserve board; you get the governors in a room, you take a vote, you walk out of the room and you walk up to a microphone and you say: "my fellow Americans, this is Jay Powell speaking, as of now the price of gold is $5,000 per ounce. And if you think that is cheap, come get it. We've got Fort Knox, West Point, the doors are open. We'll ship it to any address you say. If you think it's rich, we'll buy it from you and we've got a printing press to prove it. **In other words, use the U.S. gold hoard – the 8,000 tons and the printing press – to conduct open market operations in gold.** No different than you would do in 10-year notes, Treasury bills or anything else. And so, if $5,000 is your target, you are a buyer at $4,975, and you are a seller at $5,025. You've got the actual gold and the printing press to do that. If you do that, guess what? The price of gold is $5,000 per ounce. Now, here's the point – why would you do that? Not to enrich gold holders or gold miners or anyone else – the idea is that nothing happens in isolation. **$5,000 gold is the world of $200 oil, $100 silver, $20 copper etc. You would do it to inflate the price of everything else.** Because $5,000 gold doesn't actually mean anything for gold. What it represents is an 80% devaluation of the dollar. If I have an ounce of gold, and I stick it in a drawer, and go away for a year, and I come back and I open the drawer, it's still an ounce of gold.

It didn’t add on, there’s no dividends or buybacks, or it didn’t reproduce. **So, gold is just gold. But by raising the price, you’re devaluing the dollar, and there’s your inflation.**

By the way this has been done twice in U.S. history – once on purpose, once by accident. On purpose was Franklin D. Roosevelt in 1933 – **1927 to 1933 was the longest period of sustained deflation in U.S. history. And the price of gold went up 75%.** From $20 an ounce to $35 an ounce. The government did that on purpose, not to enrich gold holders. In fact, they very cleverly confiscated all the gold before they did it so they could pocket the insider trading profits. But it was done to get the price of everything else to go up. And it worked. 1933 was one of the best years in the history of the stock market. There you are in the middle of the Great Depression, and you’ve got a huge stock market rally. **The economy expanded; unemployment dropped – it worked like a charm. But the purpose was to get the price of everything else to go up – break the back of deflation.**



Source: Incrementum AG, Presentation at the World Gold Forum

The second time it happened was by accident, in 1971. Richard Nixon suspended the redemption of dollars for gold by our foreign trading partners. It took a few years to get traction, but between 1971 and 1980 the price of gold went up 2,700%, and inflation skyrocketed – back to my story of the 13% mortgage, which was cheap. **So, the point being, you can get inflation in a heartbeat;**

you can't get it by printing money, you can't get it by jawboning, you can't get it by flooding the system with liquidity. You can get it by changing the psychology. And the proven way to do that, by FDR and Nixon, is to devalue the dollar - there's your inflation instantaneously. And you do that by raising the dollar price of gold, because gold is the only numeraire where you can't print it and it's not done by fiat. The dollar-euro exchange rate is interesting if you're an exporter, or a currency trader, but it doesn't mean anything because you are measuring one paper currency against another. And they are all in the same boat. But when you have an exogenous metric, such as physical gold, you can do it.

Ronald Stöferle:
Thanks a lot, Jim. Mark, do you have a question?

Mark Valek:
Thanks for the first two contributions - very, very interesting. I've just got two small add-ons. A back of the envelope calculation: Jim, you told us you are expecting, potentially, a $5 trillion deficit this year, which adds up to almost 25% deficit of GDP. If I didn't miscalculate that, that actually doesn't take into account a recession this year, or does it? And just to specify, do you have some kind of estimate of how deep this recession is going to be, how much GDP will actually shrink?

Jim Rickards:
That is a very good point because, you're right, I was using – my baseline is about $20 trillion. But the expectation is that GDP will shrink, at least in the second quarter, by – take your pick – you hear 20%-30%. So, you're exactly right. If you took off, let's just say 20%, which is conservative – take off $4 trillion of GDP, all of a sudden $20 trillion becomes $16 trillion. And $5 trillion looks more like one third of GDP. So, you make a very good point.

Mark Valek:
We will see, it's very difficult to estimate. **But I also think this is currently completely underestimated in most of the research I saw.** But that's a moving target. And the other point is just a side note, this point you brought up historically already, Jim, regarding the relationship and potential revaluation on gold. I actually asked this exact question to former chairman Greenspan via a letter. I mean, it's a little bit of a long shot, but he did already respond to me once a few years ago, so we'll see if he answers this, and some other interesting questions I asked him. Perhaps we

can have some kind of interesting news in our next report. But I think that will be a very interesting thing to watch out for.

Jim Rickards:

I agree, and if I could just add a very quick footnote: the two times I mentioned - FDR in 1933 and Nixon in 1971 - both times we were on a gold standard. Now, it was a messed-up gold standard, not the classical gold standard, I understand all that, but there was a fixed price for gold. And so, you could raise the price of gold, which I really think of as devaluing the dollar by government fiat, which is what happened. The case today is that we are obviously not on a gold standard, meaning that individual investors, institutional investors can front run the inevitable; **get your gold now. Of course, I said this years ago, but get your gold now, and you'll be the beneficiary of the inevitable, which is that the price of gold is going to have to go up a lot in order to get the inflation that is necessary to diminish the real value of the debt.** So, you can front run your own government. In the case of FDR, the government was front running investors, but now the shoe is on the other foot because you can actually go buy gold at the market, and you can front run the government.

Mark Valek:

Great, so why not pass over to Heinz? I'm sure he has something to add regarding all this.

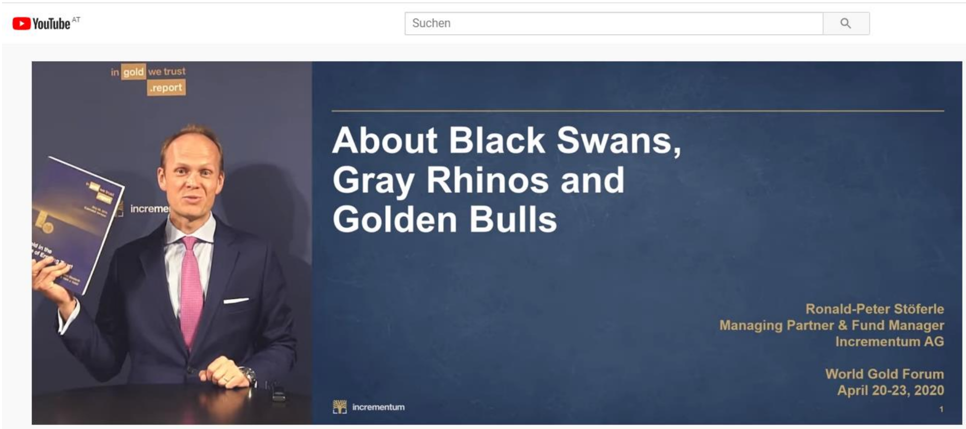
Heinz Blasnik:

Jim, I would like to correct your view of the Austrian view of inflation – of price inflation in particular. What you call velocity the Austrians refer to as the "*demand for money*". And the supply of money is just one of four variables of the money relation. One is the supply of money, the other is the demand for money, and the other two are the demand and supply of goods and services. So, these four variables interact with each other to give you the purchasing power of money. So, it's clear, money supply increases alone are not going to produce nominal price inflation, necessarily, if the demand for money, for instance, is greater than the addition to the supply. But one thing is clear: if the supply of money increases, prices will be different than they would have been without the increase. Because some of the recipients of the new money are going to spend it. So, price relations within the economy are going to change – relative prices are going to change. That's one thing I wanted to quickly say.

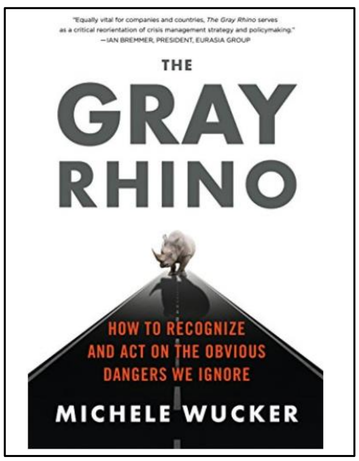
And as to the question: what would you have done in the place of Mr. Powell and Mr. Trump? Well, I wouldn't be in their position because, just like Rick, I would have resigned on the day they would have nominated me. And in my opinion, it is indeed a self-inflicted wound in a way. I mean, the pandemic could not have been foreseen – or let me rather say, it could have been foreseen, actually. It was foreseen, to be precise. **There was actually a conference half a year before the pandemic broke out in which they discussed just such an event as a very likely thing to happen within the next few years.** So, it's not something that should be too big a surprise. But anyway, let's just call it a surprise for the time being, for argument's sake. Now, if we had not produced this giant bubble in everything – in credit, in asset prices and so on – then there would not be the need for Mr. Powell to douse all sorts of fires in the credit markets by printing money. And frankly, **once the crisis is over, we will once again find that the Federal Reserve will probably find it impossible to take any of these facilities back in a significant way.** In other words, I don't think their balance sheet is going to shrink after this is over. It's probably going to stay as big as it now gets. **And we will have sown the seeds for the next bubble. So, it's a never-ending vicious circle actually. And it's clear – one of these days it will end.** And it's quite possible that this event is going to end it, depending on how long it takes for the pandemic to recede. Anyway, the situation as it is, forces these people who are in charge to do the things they are doing. There is nothing else they can do. It is what's expected of them, so they are doing it.

Ronald Stöferle:
And it's highly path dependent. If you already decided to go along this path, you are basically stuck. And we are seeing that on an international basis – that everybody is going that way. And I actually wouldn't want to be in the position of a politician at the moment. I mean, it's probably really hard to make the right calls at the moment.

Heinz, you were referring to what I just described in a new keynote, and I called it the black swan that wasn't, because Taleb just said that, actually, what's going on at the moment, **the Coronavirus, COVID 19, is not a black swan – it's completely the wrong metaphor.**



Ronald Peter Stöferle: Black swans, grey rhinos and golden bulls - World Gold Forum 2020



Because, actually he consulted the Singaporean government because the pandemic actually is something that every government should have been prepared for. I looked it up, and it seems that the proper metaphor would be a grey rhino, which is something that is highly probable, but neglected. And actually, there is an economist – Michel Wucker, I didn't know her before – she wrote a book about it: The Gray Rhino – How to Recognize and act on the Obvious Dangers we Ignore. So, it seems that COVID 19 is not a black swan, but it is actually the actions that were taken by politicians and central bankers, and their impact on real economies - businesses, wealth, society, and financial markets – that's probably the real black swan.

Jim, you are on the east coast. Rick, you are probably on the west coast right now. I would love to ask you what the whole situation is over there in the United States, and specifically east coast versus west coast. Over here in Europe, and especially in Austria and in Liechtenstein, at the moment everybody thought: "OK, we'll just make the best of it". And now, after four weeks of lockdown, they just said we won't be allowed to make any business- or any trips abroad until the summer. Shops will be closing up, but only very few different businesses are allowed to open up after Easter. So, we will have much more restrictions. And it seems, so far, everybody kind of believes – the consensus believes – politicians will rescue basically every company out there. **Central banks will print us out of the problems. But, of course, that is pretty naïve.** And so far, we haven't seen any major bankruptcies, any major problems coming from the real economy. But it's obvious that this will happen in the next couple of weeks**. So, I think everybody that believes in this V-shaped recovery is probably a bit naïve.**

But gentlemen, what would you say are the most dramatic consequences, both for business life, for financial markets, and for society? I mean, it's obviously going to be more market interventionism, less free markets, less capitalism. I think there will be tremendous implications for our liberties, in terms of social life. What's, from your point of view, the most dramatic impact of the whole crisis?

Rick Rule:
I need to disclaim, first of all, that I am not a political scientist, a social commentator, or an economist. I am a credit analyst and an investor.

It's difficult for me to understand how you can have an economic slowdown of this magnitude and escape, in any way, unscathed. The idea that, as an example, the service economy is basically down makes me wonder how individual balance sheets are going to work in a circumstance with record individual debt. The small business debt in the state of California has actually been in pretty good shape. But I wonder if it's in good enough shape to survive the sort of decline in economic activity that we are seeing. If you have no income, you can't have any outgo. There is a wonderful old saying that if your outgo exceeds your income, your upkeep becomes your downfall. And one wonders in a circumstance where there is almost no economic activity, how we reconcile that little ditty.

I think, as you say, unfortunately the people – and I don't mean all people – but many people on the street, while they are scared, believe that the big thinkers of the world will stick handle, in Canadian parlance, the circumstance in the same way that they are alleged to have stick handled 2008, 2000, 1987, 1980 and '81**. While I would argue that it's the big thinkers that cause those problems, I think the person on the street believes that they are responsible for solving it. And they are looking to them to solve the problem again.** Now, in the United States, if you happen to be a Democrat you probably believe that Trump is the problem. If you're a Republican you probably believe that Pelosi, or Biden, or whatever the schmuck that just dropped out - you probably believe that they are the problem. I would describe it as: that whole political class is the problem. But that's introducing politics into the question you asked.

My suspicion, my sense, is that we need a reset. And I have no idea how that reset occurs; perhaps in the way that Jim describes. Perhaps in some, if it's possible, messier fashion. I am nervous that when the political class is unable to deliver a solution that satisfies the collective want of the people, the response won't be good. I am not apocalyptic, I am actually a fairly sunny, a fairly optimistic person. But I wonder what happens when the people who are used to having their expectations met by the political class realize that the political class doesn't have sufficient tools to meet the population's expectation in the near term. That's answering the question from an American's point of view and from a Californian's point of view. From the human being's point of view, looking at the world, my primary concern is that this damned virus doesn't hit the third world shanty towns. When I think about how inconvenient it is for me to have to be concerned about going to the store as a 65 year old during senior's hour, and wearing a mask – when I juxtapose what might be my concern, the inconvenience I feel, with the thought of a highly contagious disease hitting the shanty towns of Mumbai, Kinshasa, Lagos – that really puts my concerns in perspective.

You know, the last thing I want to say is that the longest unbroken bull market that any of us can observe is the ascent of man. And my certain knowledge is that we will get through this, but it won't be pretty. Hopefully we use this circumstance as individuals and as societies to make ourselves, in Taleb's framework, antifragile. If we make ourselves stronger, our families stronger, our companies stronger, our relationships with our neighbors and our customers stronger – those individual actions will do more to strengthen society than any amalgamation of the political class. But I think there's going to be a reckoning, or a series of reckonings, between now and then. From my own point of view, and I'm sure from the point of view of everybody on this call, **one of the keys to getting through this circumstance, and coming out of the reckoning in good condition, will unfortunately be gold.** For all the reasons that you know, it's an asset that isn't simultaneously somebody else's liability, it isn't a promise to pay, it is in fact payment itself. So, I suspect, from our point of view, that the circumstances that we need to accommodate ourselves to will be less unpleasant as a consequence of the fact that for the last ten years we didn't listen to more popular noise. But the idea that we can get through this unaffected as a consequence of the fact that we were brave with regards to gold when others were afraid, I think is incorrect. I suspect that we all have to get through a lot of strange circumstances and I would urge everyone on this call, to the extent that you can, to be as generous as you can afford, to those that didn't prepare.

Ronald Stöferle:
Great point, yeah. Thank you. Jim?

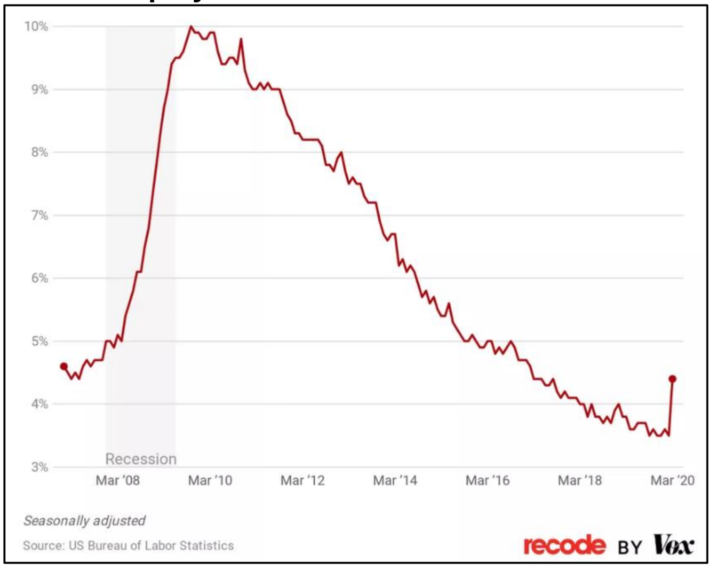
Jim Rickards:
I agree with almost everything that Rick said. One place where I take exception: he described the ascent of man as the longest continuous bull market. I would say that it is a bull market, but it's not

continuous**. We have two examples of global collapses of civilization** – I'm still researching a third, but the data from early antiquity, or borderline pre-history, is sketchy. But the two examples we have are **the 12th century BC - the collapse of bronze age civilization**, which is a very prosperous era of globalization by the way. They found one vessel off the southern coast of Turkey; there was a circular trade route in the Mediterranean, because along the northern shore the winds blew to the west. So, you could start in present day Lebanon, or Phoenicia at the time, and make stops in Turkey, Greece, Italy, and then come down and do Carthage and back the other way. They found a cargo vessel with amber, which came from the Baltic area. They also found gold, which came from present day Sudan. And they found lumber from Lebanon. So, basically all these cargoes were being swapped and traded and sold in all those ports. Very prosperous era, the Mycenaeans and the Hittites and other civilizations – and they all collapsed. Not one, not two, but all of them. And the evidence is pretty good that something similar happened in China.

The second collapse, of course, is in the 5th Century AD with the fall of the Western Roman empire. But that also coincided with the collapse of empires in India and elsewhere. So, they do look like global collapses, and that tempo for the two data points we have is every 1500 years, and it's been 1500 years since the last one. Using two data points, I just query whether we are not in for something bigger, although we will get through it.

Now, I grew up in the 1950s and early 60s. I did not live through the Great Depression, I did not live through World War 2, but my parents did. And my grandparents did. And I was raised under their influence. And I remember we saved rubber bands. It was a shame to throw away rubber bands. As boy scouts, or even cub scouts, we would go out with our wagons and we would collect tin cans and newspapers. And we weren't doing it for environmental reasons, maybe that's why you would do it today, but tin was valuable – it had steel in it. You could use it to make automobiles or tanks. And newspapers could be reused, and had value as well. So, my point is that I grew up with a depression mentality, even though I did not live through the depression. **And the bigger point is that when you have a change like that – a change in mentality because of extreme economic circumstances, or World War 2, and of course the two went back to back - it lasts for 30 years.** It lasts for a couple of generations. It's not over in six months or a year. The change in psychology is profound. And so, whether you are a millennial or a generation X'er, or even younger, when you have seen a third of your savings wiped out in the second time in ten years, and **unemployment this time is going to be 25%**, it will come down from there, but it's probably going to hit 25%. Forget 10%, we saw 10% in the 2008 global financial crisis; we saw 10% approximately during a very serious recession in 1982. Now we are talking 25%.

U.S. Unemployment Rate



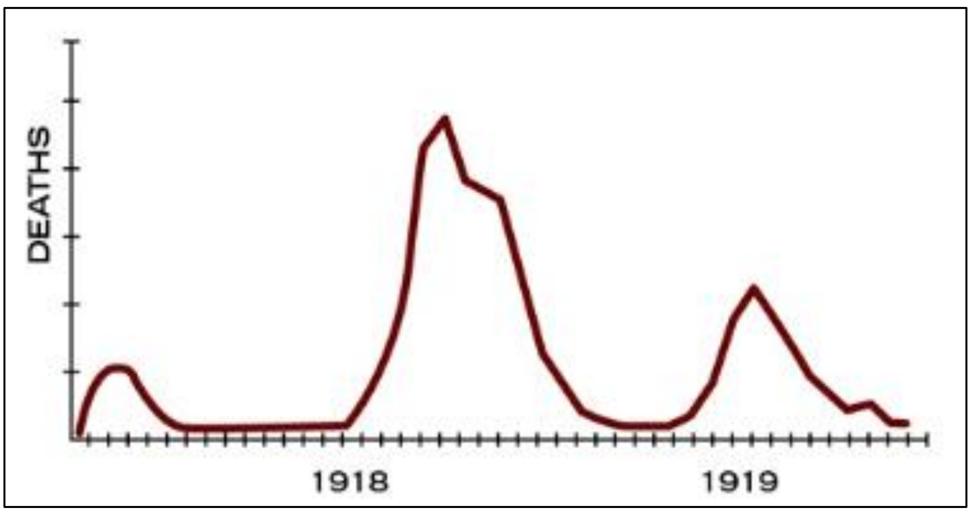
Source: Vox.com

So, the 1980 baseline, the 1998 Russia/Long Term Capital crisis, the 1994 Mexican tequila crisis, and you can think of the dotcom crash – none of those are a good baseline for understanding what is happening now. You have to go to 1929, which is outside the living memory of everyone alive. I mean, if you are 98 years old and you remember the crash, fine, but there are very few people who fit that description. So, for all of us there is no living memory of that. We have to get it from books, and statistics and study, and other sources, which can be done. The Dow Jones Industrial Average fell 89.2% between 1929 and 1933. Not 27%, which is where we are today, or 30%, or 50% or more, which is what we saw in 2008 – but 89%. That's what a depression looks like. That's what a true bear market looks like. And no one is ready for that, no one is prepared for that. And the effect of that will be intergenerational and of course the solution, which I already mentioned, was devaluing the dollar against gold. So, that's one thing.

Rick mentioned shanty towns around the world. South Africa, not to pick on South Africa, they are all over the world – he's absolutely right, but I'm equally concerned with shanty towns in Los Angeles, San Francisco, Seattle and New York. You don't have to walk very far to find them. And these are people who don't wash their hands ten times a day, and don't live in sanitary conditions, and don't embrace social distancing etc. And we are just catching up with data. The data is incomplete and you have to use inferential method or Bayesian techniques to even draw semi-reasonable inferences, even though humility is a good place to start. No one knows exactly what is going to happen**. But there is good reason to believe that the decline of the fatality rate and**

hospitalization rate is not linear, or even normally distributed, it's more of a sine wave. **It will go down, and it appears to be getting better in a lot of places, but there will be a second wave, and then a third wave**. And we are already seeing the second wave in China and we may see it elsewhere. And there is no vaccine, period. There are some treatments that have promise and that's great; let's bring on the treatments, but that's not a cure. And there is some reason to believe that this is seasonal, so maybe we will catch a break in the summer with more heat and humidity, although the opposite is true in the Southern Hemisphere of course. So, let's see what goes on there. But maybe we'll catch a break, but there's every reason to believe there will be a second wave of infections; a second outbreak, if you will – or spread is probably a better word – in the fall. **This is far from over.**

1918 Pandemic Influenza: Three Waves



Source: cdc.gov

So, combining the profound psychological impact of this, what I would describe as an intergenerational impact, with the fact that this isn't pneumonia or anything else that is under control – it's not under control. And forget the v-shaped recovery, I'm already tired of hearing about it. **Larry Kudlow, the president's chief economic advisor has the worst forecasting record of any individual or institution that I could think of, with the exception of the Federal Reserve and the IMF.** They are actually worse, empirically worse. But Kudlow's pretty bad. And whether it's Mnuchin, Kudlow or the president talking about pent up demand – pent up demand, as if to say this is just a big fat timing difference and it all will be well in the third quarter. But remember, go back to 2009, what did we hear? Green shoots. Remember green shoots? And in 2009 and 2010 secretary Geithner talked to Joe Kernen on CNBC about green shoots. There were no green shoots. We got brown weeds. The growth from 2009 to 2020, as I mentioned, was 2.2% - a full percentage point below the post 1980 trend. Even further below the post World War 2 trend. And slower than the increase in debt, which is why the debt to GDP is where it is; and not much different under Trump and Obama. All this talk about Trump's economic recovery – it was the same recovery. Just look at the data, it's the same rate. We did not have a single 3% year – not one. **The data is pretty clustered around 2.2%, not much variation. And not much difference between Trump and Obama, which means that there were larger forces in play – which were demographic, debt, technology related – that created persistent deflation that the Fed was barely able to offset with money printing.** There was a tug of war over quantity theory of money – nominal GDP was punk – but there was **a bitter contest between money supply and velocity; velocity declining and money supply increasing.** And, you know, it's a simple mathematical identity, and we were barely able to keep nominal GDP on track.

My wife and I usually go out to dinner on a Friday night; we didn't go out last Friday; we're not going out next Friday, but let's just say by July things are better, and the restaurants are open, and we go out for dinner. We might do that; we are not going to order three dinners, or ten dinners – we are going to order one dinner. In other words, that's a permanent loss - that's a permanent loss. Now, if I was thinking of buying a car last week, and I decided not to go because the dealer is closed and I go out in August and buy a car. That's a timing difference. I shifted that expenditure from the second quarter to the third quarter. Ok, so we've got permanent losses and temporary losses, or timing differences. How do you break that down across the economy? Well, what do we know? **We know that 70% of the U.S. GDP is driven by consumption. And we know that almost 70% of that is services, not goods. In other words, just based on that, it looks like most of these losses will be permanent, not temporary.** And how do you recover that, if at all, with 25% unemployment? Good luck.

So, there are psychological aspects, there are empirical aspects; there will be a little bit of pent up demand, but nowhere near equal to the actual losses. And the real bottom line here, and I'll just digress briefly: we have a compressed, but interesting, scientifically interesting, model of this, which is the Fukushima event in March 2011. So, what happened there? It started with an earthquake. A pretty bad one, under water. That caused the tsunami. It didn't have to. You can have an earthquake without a tsunami. But this one caused the tsunami. The tsunami came ashore and crashed into a nuclear power plant; it didn't have to, it could have hit a barren island somewhere. But it didn't. It hit a nuclear power plant. And the Tokyo stock exchange crashed. So, what you had: you had four, normally independent, non-correlated, complex, dynamic systems crashing into each other. Tectonic plates are a complex, dynamic system. Hydrology, or hydrodynamics, are a complex, dynamic system. A radioactive plant is a complex, dynamic system. And the capital markets are a complex, dynamic system. But you went from tectonics to hydrology to radiology to capital markets. **So, you had one complex, dynamic system crashing into the other, and interacting in ways that are completely unpredictable.** You can kind of see them after the fact. So, what do we have now? Epidemiology is a complex, dynamic system. Spreads of pandemics is half biology, half math. I don't claim to be a biologist, but I'm pretty good at the math, and **we can see the super-linear functions in terms of the spread crashing into the economy – which is an even bigger, complex, dynamic system, with large psychological inputs that are hard to quantify – crashing into politics, and geopolitics.**

So, now one of our relatively small number of deployed nuclear aircraft carriers is off line. It's sitting in Guam with a crew that is spreading Coronavirus. So, it's offline, well, that carrier was deployed to defend the Straits of Taiwan. Does China get antsy now? Let's see what happens. But we see what is going on elsewhere.

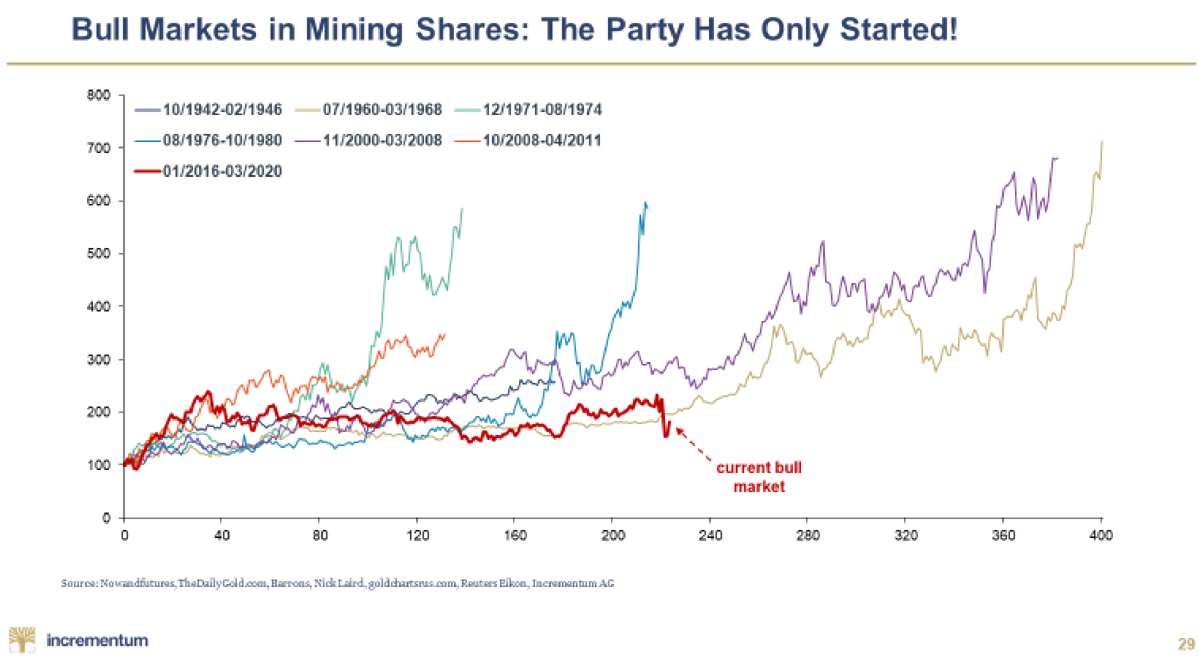
And then finally, what's the next complex dynamic system to get whacked? The answer is civilization. So, I would expect to see social unrest, and that could lead to violence. And when Rick said he is cautious about going to the grocery store because of the possible airborne spread of the virus, that's prudent, it's very prudent. But we may get conscious of going because of armed robbers, or people who hit you over the head with a lead pipe. That's where it goes, and lawyers have an expression for that – it's called self-help. It's when you are frustrated with the legal system; the judges won't help, the lawyers won't help, the courts won't help, the police won't help. You just do it yourself. You take it upon yourself – and it's called self-help. And it's actually recognized in common law. Well, self-help in this case means looters and vigilantes – and that could be next.

Ronald Stöferle:
Thanks Jim.

I would say, as we've got Rick as a special guest, we should also talk about markets, and especially commodity investments. Rick, I assume that you are legally not allowed to mention specific names that you like in particular, but if you could give us a very broad overview about the commodity space – about what you like best. **The gold space is doing extremely well. I think the numbers for**

the first quarter should be really good. I think that from a technical point of view there is no sector that looks better at the moment.

Barrons Gold Mining Index – Bull Markets Since 1942



Source: Incrementum AG, Presentation at the World Gold Forum

So, I think that the mining space really will come into the spotlight again. Even uranium is moving, I think copper is very interesting. Of course, the energy market has been extremely volatile and one thing I wanted to ask you, additionally, is: I remember at Mines and Money in London, I think it must have been 2015, and I arrived there and I thought "did I mix the dates?", because it was basically empty. And you delivered a presentation in the morning, and that was really the bottom of the market. Gold was trading at $1,100 and the commodities sector was basically dead. And you said you saw tremendous opportunities on the debt side. And I thought that was really interesting because most people in the commodities space only invest on the equity side. So, could you give us a rough overview of what you like best at the moment?

Rick Rule:
As Jim says, the future is uncertain. And actually, when I am asked to make predictions I always think back to Buffett's famous quote about predictions: they can tell you a lot about the predictor, but often not very much about the future. So, I'd like to make my own remarks, hedged by that**. In**

my markets right now, there are two places that investors need to be. One is cash. The truth is that the purchasing power of your savings, denominated in euros or dollars or anything else, is going to decline over time, for the reasons that we described, and for the reasons that Jim has so wonderfully well put in context. But in the near term, irrespective of the fact that devaluation means that your purchasing power declines over time, having the liquidity in a liquidity crisis means that you have the tool and the courage to take advantage of the circumstance, rather than be taken advantage of by the circumstance.

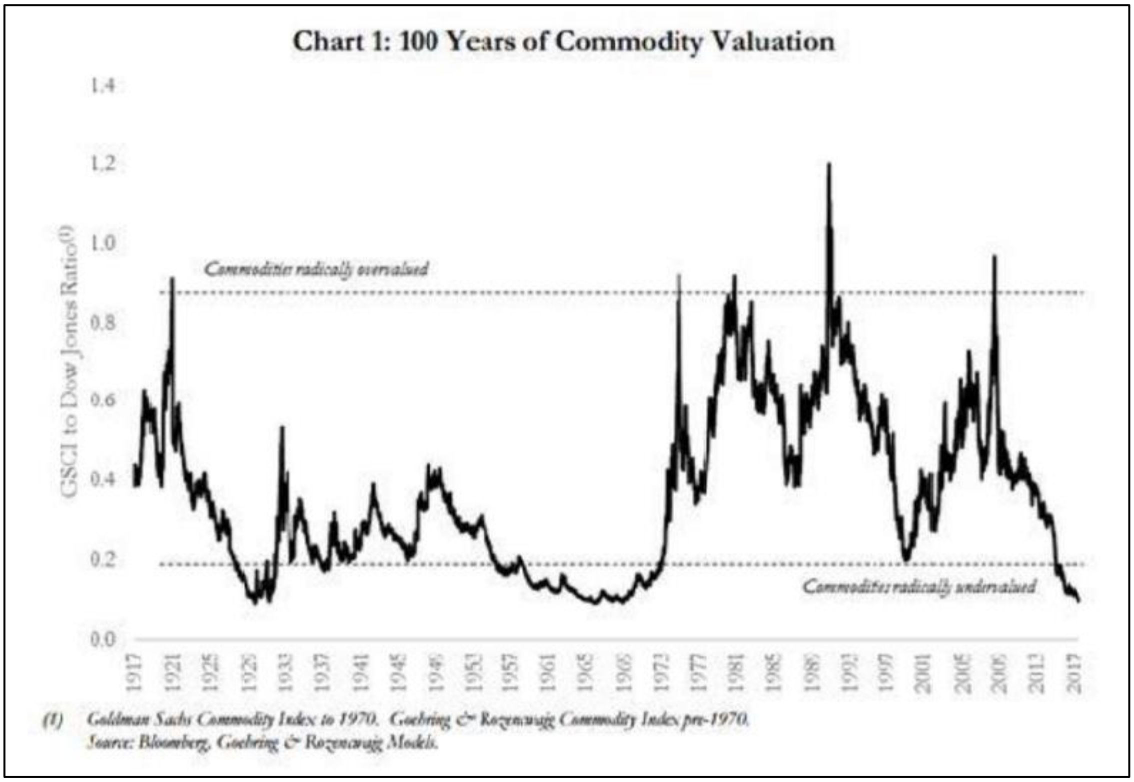
The second is gold. The policy response to the circumstance that we find ourselves in is almost invariably good for gold, for a whole bunch of reasons. In my experience, and I grant to Jim the sense that this time is perhaps more severe than what we have seen in the past, but if you observe gold and gold equity markets for the last 45 years, which is something I have done, there are some fairly predictable patterns. First of al**l, gold and gold stocks, are extremely cyclical. And they vary – imprecisely – but they vary, I would say, in correlation with faith, or lack of faith, in fiat alternatives – particularly the world's reserve currency, which is to say the U.S. currency.** Circumstances where gold and the dollar are strong simultaneously almost always are a consequence of the weakness of competing fiat currencies. In other words, rather than necessarily the strength of the U.S. dollar, or the U.S. economy, they are much more frequently – when gold and the U.S. dollar move in concert – reflections of the weakness of alternative currencies. And I think we see ourselves in that fashion. I won't make the gold case other than to say: the set of circumstances that we find ourselves in seem to me to be fairly attractive to gold.

In my experience, gold must move first before the gold stocks move. People buy gold out of fear, and they buy gold stocks out of greed. In order for that greed to be stimulated, the increase in the gold price needs to be reflected in the income statement of the gold companies. And then later in the balance sheets. Again, looking back at history over 45 years, what you find is that the gold equities market, or **the gold market as a whole, including the equities and the metal, moves very much like a circus master's whip. The front of the whip moves first of course, that being gold. Then the large cap, high quality gold stocks. Then the mid-tier producers, then the junior producers, then the exploration sector.** And I would suspect in this circumstance that past is prologue, which is to say gold is moving now, but the gold stocks haven't caught a bid because the gold stocks have been such serial underperformers in the past. **One must look at the circumstance around the gold producers and understand that we're faced with a reasonably virtuous set of circumstances.** What they produce seems to be going up in price in any currency that people spend.

The second thing is that at least in the near term the management teams behind those gold companies are a little constrained from stupidity, given the history over the last 15 years. The fact that they wasted the last bull market so completely, is amazing**.** If you look at the 2000-2011 gold bull market, where the metal moved, in U.S. dollar terms, from $250 to $1,900 - the free cash flow per share in the index declined! It took real skill to waste a bull market like that.

The consequence of that is that about 70% of the management teams were allowed to pursue other employment opportunities. **And I think in the very near term, that experience will cause the gold mining companies to behave much more intelligently.** Beyond that, for companies that produce gold outside the United States**, their costs are denominated in their domestic currencies, which are going down, while the product that they sell is denominated in U.S. dollars, which is going up.** It's also pretty hard to screw that up. And I think you are going to see margin expansion**. And I think the other reason you will see margin expansion is that in most mining companies one of the chief input costs is energy.** And if one of your chief input costs has declined really, really, really extensively, it has to help.

So, my suspicion is that people need to own physical precious metals, starting with gold, but also silver. And people need to begin to buy the gold stocks, to the extent that they have the ability to do that in a way that doesn't compromise their other savings. If you look at the broader commodity index, and we do - we have a 100-year commodity chart available for anybody who cares - what you'll find is that commodities measured against many other forms of financial assets, are at hundred-year lows.



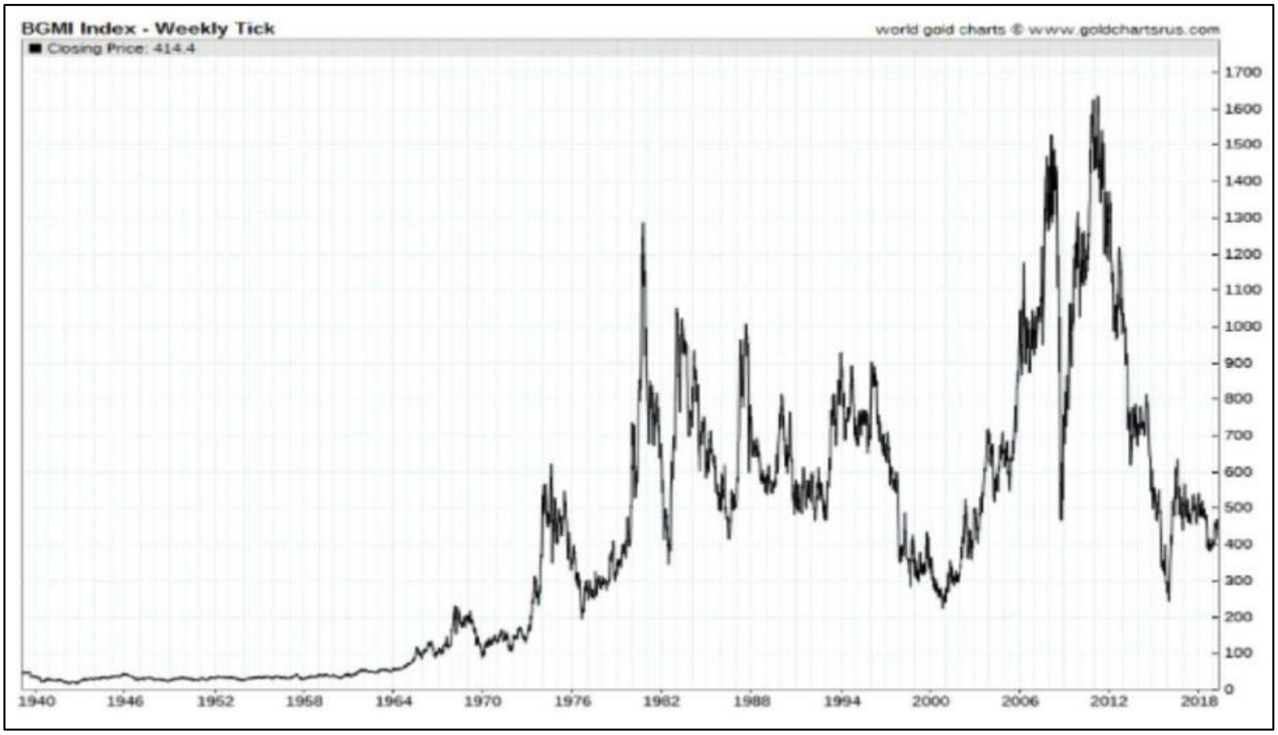
Source: Sprott.com

I don’t think that people other than speculators need to become involved in broader commodity markets yet because my suspicion is that - although at these commodity prices there is no ability for companies to add productive capacity, or even to maintain sustaining capital - the truth is that: **although supply declines in the current pricing environment are absolutely inevitable, demand, I think, in the near term could fall as fast as supply.** An example would be in the oil market, where everybody is looking at the decision by the Saudis and the Russians to take on the Americans. The truth is that the cure over time for low prices, is in fact low prices. If you make oil, and this is for illustrative purposes, it’s not an investment recommendation, but if on a global basis, according to the International Energy Agency, you make oil on a fully loaded basis between $50-$60 a barrel – fully loaded means you add back prior year write-downs, which the industry hates to do, and you add cost of capital – but if you make the stuff for $50 per barrel, and you sell it for $25 a barrel, and you do it 90 million times a day – that is if the industry as a whole loses $1.8 billion a day – that gets sort of boring. And beyond boring, it gets unsustainable. Over time, irrespective of the policy response, what happens is that the companies don’t make sustaining capital investments; they can’t fund new projects. **And the consequence of that is that you have**

a supply decline. And supply and demand balances as a consequence of supply falling. With demand falling simultaneously, that can take much longer to take place than you think it will.

But the truth is that unless you believe – or unless you drive a Tesla – unless you believe that when you walk out to your garage six years from now, or seven years from now, and turn your key to the right, and the car won't start – you believe that the price of oil will rise to the cost of production, including the cost of capital over time. And you believe that for Copper, and you believe it for Uranium, and you believe it for that whole host of products. In the near term, however, that doesn't have to happen. We found in commodities – because of stranded capital, because of the amount of money that was invested in the oil business as an example, over the last 15 years – that supply and demand don't have to balance in the near term. What we in the United States called the gas bubble in 1980 turned into the gas sausage. We had so much productive capacity that we were able to produce below the cost of production for six or seven years. And that can happen in the broader commodity space.

So, look at the broader commodity space as a contrarian investor, but right now focus on precious metals and precious metals equity. Remember, gold moves first, silver moves second. After gold has moved, the gold stocks move. And finally, assuming there is liquidity in the markets, the silver stocks – because of the volatility of silver, and the scarcity of high-quality silver names – move the furthest. Now, my suspicion is, to restate what I stated before, that the first move will occur in the higher quality gold companies. They're also the easiest ones to participate in. If you look at a 45-year chart, the Barron's gold mining index chart, as an example, what you will see is that over 45 years there have been eight recoveries from oversold bottoms.



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The worst of those recoveries has generated an index return, not an individual stock return, but an index return, varying between 180%, as I read the chart, and 1200%, as I read the chart; over periods of time as brief as 13 months or as long as 42 months. What that suggests to me is that you don't have to work too hard early in a bull market to attempt to beat the beta in the market. The beta in the market is extraordinary. **So, begin your gold stock investing quest by owning the best of the best; de-risking your portfolio in the face of a market that will give you beta between 150% and 1200% is probably good enough. That's where I would start.**

Ronald Stöferle:

Thanks, and we quoted you, Rick, in our last gold report because you brilliantly put it; you said that: "For the first time in my lifetime the gold mining industry has actually decided to become an industry, rather than a floating abstraction."

I love it.

Rick Rule:

I may have been too generous, we'll see.

Ronald Stöferle:

Jim, Heinz, what are your thoughts on market developments?

Heinz Blasnik:

If I may?

First of all, I want to say something about the **gold industry; one of the reasons why they have this tendency to waste capital is: in boom times so much money is flowing into the industry, and it's simply too much, and they don't know what to do with it.** That is actually their main problem, they get too much money when the boom is on. We will see how they will handle it this time. It's not the case at the moment, but it's going to come. It's going to happen. And then, I was actually short during the crash, and what I did then was to take profits and I deployed around half of my profits into gold, gold stocks, and cryptocurrencies. And I kept a cash reserve. So, I'm basically on the same page as Rick is, with regards to this. **At the moment I think one should be long gold, gold stocks and, like I said, I'm adding cryptocurrencies as well because I see them also as beneficiaries of what is currently happening.**

Ronald Stöferle:

Jim, what are your thoughts?

Jim Rickards:

I certainly agree with everything Rick said about how this plays out in the commodity space. The only quick footnote on oil, and Rick is exactly right about the long-term cycles, but there's another factor which we have to put in the equation, which is politics. We are in an election year. And both sides are out to win. If I had to pick one state - you can say that 10 states will decide the election, and in the other 40 you might as well stay home because we know how they'll turn out.

But of the 10 states that will decide the election, if you had to pick one where it will pivot the election, it would be Pennsylvania, which has a very large fracking industry with good, unionized, high-paying jobs with benefits. So, we somehow managed to get a price war between Saudi Arabia and Russia in the middle of everything else that is going on. Whether that was opportunistic timing or just unfortunate coincidence – there it is. But the message that's been delivered to MBS is that he has to make nice with Russia, agree on output cuts, and get the price of oil up fast. And if that doesn't happen, he might not be around.

So, I would look for oil to rally pretty significantly, not because of any supply/demand fundamentals, but because of just outright supply manipulation, policy – call it whatever you want. Partly because those jobs have to be protected, because everything Rick said is right, but if the correction for low prices is low prices – and that's right – but it takes time and involves a lot of bankruptcy and asset sales for 10 cents on the dollar, and revised price structures. It's a very messy, elongated process, but you could be looking at tens of thousands of layoffs – on top of everything else that's going on. **We have 10 million layoffs, so why worry about those jobs? Well, those jobs are high paying jobs in states that will decide the presidential election. So, they've got to get the price of oil to around $35 dollars, which is close to break even for the fracking industry.** Close enough to keep the doors open, to keep the lights on.

So, I would look for a short-term rally in oil – that may even be counter trend to the bigger deflationary rallies in the process Rick described, and he's right – for purely political reasons having to do with Texas and Pennsylvania, and the fracking industry. And I endorse everything Rick said about gold and I would say you don't have to wait for central banks to go on a gold standard, you can go on a personal gold standard. Just go buy some.

Mark Valek:
I would have one last add on question for Jim, in this regard, actually.

So, we've been talking about falling velocity. And you, I think rightly, have pointed this out quite often, I think once with an analogy: you need ham and cheese to make a ham and cheese sandwich, right? So, the cheese, being the velocity, is missing. Clearly it is. Well, you also, on the other hand, often point to the loss of confidence. **So, we would need to see something between now – which is a huge deflationary trend that is probably preventing monetary inflation to actually create price inflation – to an actual loss of confidence as a result of price inflation being too high.** So, what, other than a revaluation of gold, which you mentioned, could trigger that? That would be very interesting.

Jim Rickards:

That's a great question, and an important one because I told you how to get inflation in 15 minutes, which is to raise the price of gold, but I didn't say that I thought that would happen anytime soon. And it probably won't, almost certainly will not, in the short-run, even if our friend Judy Shelton is confirmed for a board seat, and then later becomes chairman, because of Trump's disenchantment with Jay Powell.

That's a space to keep your eye on, but let's assume the Fed doesn't do what I just described, or for that matter the Treasury doesn't do it; and I think that's right. So, start with the question – why did the Fed stop its balance sheet expansion at about $4.5 trillion at the end of QE3? And I talked earlier about how they wanted to get it back down, so they could do it again in the next recession, which, here we are. But, why? **Why not just keep it at $4.5 trillion, not do QT – quantitative tightening – which nearly caused a recession at the end of 2018? And if you had another recession, take the balance sheet to $10 trillion. Why not do that? And the answer is, and they've never said this publicly, and this is my inference, they felt that there was some limit.** There is no legal limit, by the way, just to be clear. There is no legal limit, and my friend the former board member – a governor of the Federal Reserve – she said that central banks don't need capital. But, in my view they felt there was an invisible confidence boundary. No one knows where it is, but there just comes a point where you don't need a PHD in economics, you just look up, you read the headlines and you say: "I don't know what's going on here, but I don't like it. Get me out of the dollar, fast". And you could buy gold or silver of course. But you could buy real estate, you could buy fine art, you could buy natural resources. You could buy a lot of things, but you just want to get out of the dollar as fast as you can. And we did see exactly what we are describing, in the late 1970s.

On the other side of that – and this is something I talk about at length in chapter 5 of my new book, Aftermath – we have modern monetary theory. And modern monetary theory is pretty simple, and the big brain here is Stephanie Kelton, professor Kelton, at the state university of New York. She's the bright light, if you will, of modern monetary theory. And she says a number of things, and I've actually read all of her technical papers, so I'm not giving you the pop version of this – she said: there is no distinction between the balance sheet of the Treasury and the balance sheet of the Fed. They should be thought of as a consolidated balance sheet. The Treasury can spend as much as it wants. She actually goes as far as to say: how do you get any GDP if the Treasury isn't spending any money? As if the private economy didn't matter. But she said that the Treasury's spending is where your GDP comes from. If they need to borrow, they can borrow it. And if the banks are not willing lenders, the Fed can monetize the debt. And there is no limit on the Fed balance sheet expansion. So, if you think about that; there's a consolidated balance sheet. Well, I attacked that. Or, I didn't attack it; I dissected it, and offered my rebuttal, which is that: **legally the Fed can go as high as it wants, but psychologically there's a boundary. And you don't know where it is until it's too late. You find out the hard way where that boundary is.**

Now, the difference between what I wrote about in chapter 5 of Aftermath - what professor Kelton said and what I've been saying – and reality, is that reality is here. We are actually seeing MMT in action. Let me just give you a very concrete example: I said earlier that the Congress authorized $450 billion of new capital for the Fed; so, the Treasury is going to borrow the money and give it to the Fed, and the Fed is going to expand its balance sheet. Well, one of the things that the Fed is going to do with the money is to buy the small business loans, which was a separate – approximately $380 billion – program. Well, the banks are lending to small businesses with some fits and starts, but they are getting the money out the door. I think $100 billion has already been committed, or actually advanced. Well, doesn't that clog up the bank balance sheets? Well, maybe, but the Fed has an asset. They are going to buy the small business loans from the banks. In other words, something like $380 billion of the $4.5 trillion balance sheet expansion is going to go to buying the SBA loans from the banks, and put them on the Fed's balance sheet. Again, perfectly legal. Oh, well that's interesting; where does the Fed get the money? They print it. Where does the Treasury get the money to invest in the Fed? They borrow it. Well, who buys the bonds? The Fed. How does the Fed buy the bonds? They print it. **In other words, we have a perfect doom loop between the Treasury and the Fed. We have exactly what Modern Monetary Theory advocates.** We may not be using the money for the projects they had in mind, but the economic process is identical. In fact, we are witnessing an experiment in Modern Monetary Theory, where the Treasury and the Fed act like there's a consolidated balance sheet – one borrows and spends, and the other one prints money and monetizes, and holds the assets on the balance sheet. Will it work? I'll suggest that we are going to find out, but **to answer Mark's question: if the psychological shock that converts deflation into hyperinflation in the blink of an eye is not a government mandated devaluation of the dollar against gold, it could very well come quickly as a revulsion against the expansion of the Fed balance sheet.**

Ronald Stöferle:

Thanks a lot, Jim. That's highly interesting. There was an article by Jim Bianco, you probably saw it, that perfectly explained the difference of those programs – this CPFF, PMCCF, TAUFF, SMCCF. And somebody wrote: "the more acronyms used, the worse the crisis". But he perfectly explained how, basically, the Federal Reserve just creates those SPVs and the Treasury invests into those SPVs, and how closely politics and central banking is aligned now.

Gentlemen, let me end this discussion with a great quote by Stephen Poloz, the governor of the Bank of Canada, and we used it for one of our new keynotes; he said: "*A firefighter has never been criticized for using too much water*".

So, I think, in doubt they will probably do way too much. Of course, this should positively affect gold and, let's say, our asset classes. But it's also kind of scary, and I think Rick put it brilliantly: it's not just about capital markets, it's about our society, and actually the whole foundation of our society, and our lives, that are questioned at the moment. And I happen to be reading the fourth turning by Neil Howe at the moment, and it very much reminds me of things that are going on at the moment.

Gentlemen, it's been a great pleasure, as always. Rick, hope you enjoyed it, thank you very much for joining us.

Thank you very much for taking the time. Happy Easter holiday. Be safe. Be healthy. And take care. Thank you very much.

Appendix: Permanent Members of our Advisory Board

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 an author on Austrian economic theory for the independent research house Asianomics in Hong Kong. Heinz also publishes the blog www.acting-man.com, on which he analyses developments in the financial markets and the economy from an Austrian School perspective.

James G. Rickards

Jim is the author of the international bestsellers *Currency Wars* and *The Death of Money: The coming collapse of the international monetary system*. He is portfolio manager at the West Shore Fund. During his career, Jim has held senior positions at Citibank, Long Term Capital Management and Caxton Associates.

Dr. Frank Shostak

Frank is chief economist at AAS Economics. He has over 35 years of experience as a market economist and central bank analyst. He holds a PhD, MA and BA honours from South African universities. He was professor of economics at the Witwatersrand University in Johannesburg. He is one of the world leaders in applied Austrian School of Economics and an adjunct scholar at the Mises Institute in the US.

Rahim Taghizadegan

Rahim is the founder and director of the 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.

Ronald-Peter Stöferle, CMT

Ronni is partner of Incrementum AG and responsible for Research and Portfolio Management.

He studied Business Administration and Finance in the USA and at the Vienna University of Economics and Business Administration, and also gained work experience at the trading desk of a bank during his studies. Upon graduation, he joined the Research department of Erste Group, where he published his first "In Gold We Trust" report in 2007. Over the years, the Gold Report became one of the benchmark publications on gold, money, and inflation.

Since 2013 he has held the position as reader at scholarium in Vienna, and he also speaks at Wiener Börse Akademie (i.e. the Vienna Stock Exchange Academy). In 2014, he co-authored the book "Austrian School for Investors" and in 2019 "Die Nullzinsfalle" (The Zero Interest Rate Trap). Moreover, he is an advisor for Tudor Gold Corp. (TUD), a significant explorer in British Columbia's Golden Triangle and a member of the advisory board at Affinity Metals (AFF).

Mark J. Valek, CAIA

Mark is partner of Incrementum AG and responsible for Portfolio Management and Research.

While working full time, Mark studied Business Administration at the Vienna University of Business Administration and has continuously worked in financial markets and asset management since 1999. Prior to the establishment of Incrementum AG, he was with Raiffeisen Capital Management for ten years, most recently as fund manager in the area of inflation protection and alternative investments. He gained entrepreneurial experience as co-founder of Philoro Edelmetalle GmbH.

Since 2013 he has held the position as reader at scholarium in Vienna, and he also speaks at Wiener Börse Akademie (i.e. the Vienna Stock Exchange Academy). In 2014, he co-authored the book “Austrian School for Investors”.

About Incrementum AG

Incrementum AG is an independent investment and asset management company based in Liechtenstein. Independence and self-reliance are the cornerstones of our philosophy, which is why the four managing partners own 100% of the company. Prior to setting up Incrementum, we all worked in the investment and finance industry for years in places like Frankfurt, Madrid, Toronto, Geneva, Zurich, and Vienna.

We are very concerned about the economic developments in recent years, especially with respect to the global rise in debt and extreme monetary measures taken by central banks. We are reluctant to believe that the basis of today's economy, i.e. the uncovered credit money system, is sustainable. This means that particularly when it comes to investments, acting parties should look beyond the horizon of the current monetary system.

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