Minutes of the Advisory Board Meeting

August 1st, 2022

HOW TO PROFIT FROM CHANGING INFLATION DYNAMICS

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Biography of our special guest: Lawrence Lepard

Larry founded Equity Management Associates, LLC (EMA) in 2006. EMA is an equity investment management firm that invests in growing private and public companies located around the world.
Since 2008, EMA has focused on investing in companies which mine the monetary metals, gold and silver. Larry presently serves on the Board of Directors of two development-stage gold mining companies: Amarillo Gold Corp. (Toronto/Brazil) and Rise Gold Corp. (California).

He has been a frequent guest of many media outlets including Bloomberg Television for his expertise on the monetary metals market. Prior to founding EMA, he spent 13 years at Geocapital Partners (Geo) in Fort Lee, NJ. There, he was one of two Managing General Partners and was responsible for four venture capital funds, aggregating ~$500 million. At Geo, he invested and/or served on the boards of many successful deals including Autoweb, Jackson Hewitt, Netcom, and Realtor.com.

Prior to Geo, Larry spent seven years at Summit Partners in Boston, MA and Newport Beach, CA, where he established Summit's West Coast office. Larry was a General Partner in Summit I and Summit II. Earlier in his career, Larry worked in the Mergers & Acquisitions Group of Smith Barney, Harris Upham & Co.

Ronnie Stoeferle

Gentlemen, it's a great pleasure having you for our Advisory Board meeting for the third quarter of 2022. Here with me, my dear colleague, Mark Valek, currently in Spain and he's sweating. Then we've got our regular member Jim Rickards, currently in Rhode Island. Hi, Jim, good to see you.

Jim Rickards

Ronnie, Great to see you and the whole group.

Ronnie Stoeferle

Thanks a lot for taking the time. And then we've got a very, very special guest, my dear friend, Larry Lepard, currently a little bit outside of Boston.

Lawrence Lepard

Thanks for having me, Ron. It's an honor to be with you guys, especially with Jim.

Ronnie Stoeferle

Thanks a lot for taking the time. So yeah, I think there's many, many topics to discuss today, in markets, but also in geopolitics, I'll make a brief introduction for those of you who aren't on Twitter or haven't heard of Larry. Larry, we actually met at the precious metal summit last year in Beaver Creek for the very first time. But then we already knew each other via Twitter, and our email conversations for quite a while, and when we actually met in person for the first time, it felt like well, we're good friends for many decades already. It felt very, very natural. And we had some great fun and fantastic conversations. So, so I'm very happy that that you're on the call today.

Lawrence Lepard

Thank you for your gold report has always been a big part of my research and as featured in all my letters, so I do feel like I've known you for a bunch of years.

Ronnie Stoeferle

Excellent. I'll just read your biography. Just briefly

Lawrence Lepard

Don't do that, you know, I'm an old guy, and I'm a sound money guy and I invest in gold.

Ronnie Stoeferle

But you founded equity Management Associates in 2006, which is an equity investment management company that invests in growing private and public companies around the world. You're investing primarily into monetary metals, gold and silver, you're on the board of directors of two development stage gold companies (Amarillo Gold and Rise Gold). Two very, very interesting companies. You're a frequent guest at many media outlets, including Bloomberg. You're all over on Twitter. Prior to EMA, you spent 13 years at Geo Capital Partners, where you were one of the two, managing general partners. So that was basically a private equity company, right?

Lawrence Lepard

Yeah. So, the first half of my career was venture capital. And what happened is in 2008, I got radicalized for sound money. You know, I should have seen it earlier. But when they started printing money like crazy in 2008, I ditched the venture capital and went 100% gold, gold equities and silver equities. So, I pivoted as they say.

Ronnie Stoeferle

We'll also talk about other pivots. Later, on. And earlier in your career, you worked in the M&A group of Smith Barney, you've got a very, very decent education you went to, to Harvard Business School and to Colgate University come louder. And you're very, very competitive CrossFit masters athlete.

Lawrence Lepard

Not sure I'll call it that, I try.

Ronnie Stoeferle

And a former pilot. Larry, again, thanks for taking the time. Just a brief housekeeping from our side. We are now basically finished with all the marketing of the *In Gold We Trust report 2022*. We did dozens of interviews, podcasts, in June and in July. Now it's time to recharge our batteries and prepare for a very intense fall and winter.

Mark and I will be attending and speaking at many conferences. Precious Metal Summits in Beaver Creek and Zurich again, Denver Gold Show in Colorado Springs, 121 in London. Mark is speaking at the biggest Bitcoin Conference in Europe.

And of course we are very busy and also successful with managing our funds and navigating through these crazy markets. <u>We're now up 18% year to date in our Inflation Protection fund that we manage.</u>

And of course it feels good to recharge batteries now over summer, but we're already preparing for a very, very busy quarters ahead.

I think we are ready to get going now. Larry, I wanted to start with you, you've got this analogy where you basically describe the Fed as a bunch of clowns in a clown car, and they have lost control of the car and they keep bumping against walls. So, Larry, we all know that, basically, the whole world is waiting for this big Fed pivot. For this U turn by Jay Powell, we know that inflation numbers are coming down significantly. We know that we are now technically in a recession, although Jerome Powell and Janet Yellen they basically try to pretend that everything is fine, because the unemployment is still very low and and above the surface everything still is "kind of okay". So, Larry, do you think that this rally that we have seen over the last couple of days, be it in the equity markets, but also in in commodities in gold and also in the crypto market. Do you think this is already telling us that the market is discounting that we have seen "peak hawkishness" when it comes to Fed policy? Or do you think they will continue raising rates and we'll see another leg lower?

Lawrence Lepard

That's a great question. I if I had the answer, I'd be rich. I mean, I'm going to do what Jimmy Rogers says. My short-term timing is awful and I'll probably be wrong. I mean, you know, I'd like to think that's the case. And the gold miners got incredibly oversold. And it appears to me that, you know, a bottom could be in there. I think the Fed kind of pivoted, probably a tad early, you saw Kashkari walk it back a little bit after the close on Friday. You know, where they go from here, who the hell knows. I mean, it's, you know, as I say, what really angers me about the whole situation is that we are forced to speculate for our bread stuffs. It seems we are on a knife's edge between extreme inflation and extreme deflation. And they're trying to keep the car right in the middle of this icy road, as I the analogy I've used, and I keep bouncing off the guardrails. I mean, they were incredibly lacs incredibly irresponsible, and incredibly loose, you know, post COVID, of course, they were incredibly irresponsible prior to that, from 2008 to 2015, when they had zero interest rate policy, that kept rates at zero at totally puts the capital asset pricing model on its head with a 0% discount rate, the value of any business with positive cash flow is infinite. And they've really just completely destroyed price discovery in these markets. And as a result of that, they forced us all to speculate on what a bunch of people are going to say about the economy and it's ridiculous. I mean, it's like looking at the, you know, at the Vatican and waiting for the white smoke to come out, you know, on every Fed meeting. I mean, it's just, it's ridiculous. And so, where's it going to go? I have no friggin idea. I really don't I'm not smart enough to know. I mean, maybe Jim has an idea, but I don't. And so, but what I do know is that ultimately, it doesn't end well, for fiat currency. And I think on that Jim would agree with me. And so, I know how I want to be positioned. I know that didn't really answer your question, but I don't think there is a good answer to your question, Ronnie, it's just impossible to tell with these jokers at the helm, you know?

Ronnie Stoeferle

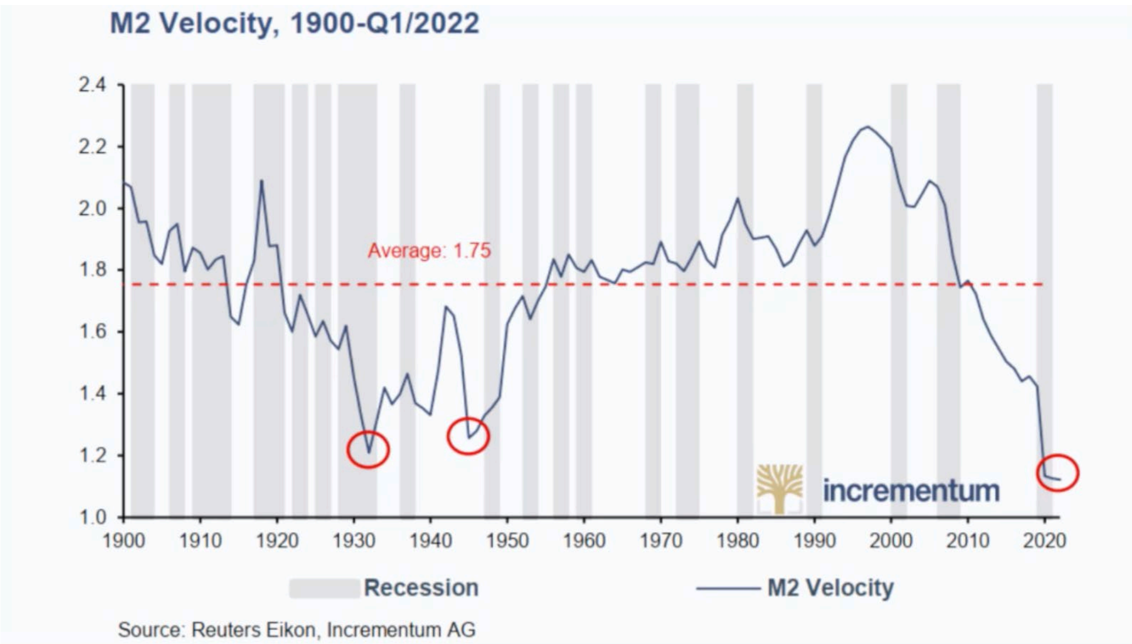
So, let's pass it on to Jim. But I have to agree, I think that the fact that everything in markets these days is only about anticipating and interpreting every sentence and every nuance in the communication from Central Bankers is already quite telling that, that the system is heavily dependent on low rates and yeah, ample amounts of liquidity. As soon as we go cold turkey, you know, the markets are getting very frothy quickly. And, you know, I mean, in absolute terms, this has been the biggest wealth destruction ever, and, so far, nothing really happened. I mean, in the Eurozone where, I don't want to defend the Federal Reserve, but on a relative basis they did a significantly better job than Madame Lagarde over there in Frankfurt. But, Jim, what's your view on recent Fed policy? Do you think we have already seen the highs? Do you think they will pivot already in September? Or should we expect more rate hikes?

Jim Rickards

Yeah, I think we have a very good idea of what the Fed is going to do. Because they always tell you. Now that over time, they can change but they don't change quickly. They signal as much as possible they call it forward guidance. So, I think we have a very good handle on what they're going to do. I'm not sure it matters. I don't think the Fed's very important as a player, I think they're, Larry, they're a joke, but they're a joke, because they don't matter. But everyone goes through the pretense of what's the Fed doing.

The Fed printing money, if that's what it is, and basically, we're talking about base money, or M0, has no relationship to inflation at all. And that's, it was always true, but has been very clearly demonstrated between 2009 really late 2008, rather, and 2014, at the end of the taper, they printed almost $4 trillion. And there was no significant amount of inflation, it was sort of a sad thing, they were trying to get it to 2%, they couldn't do it. It got to 2% for like a month, every now and then, basically around about 1.6% well below the Fed's target. Not, that sounds zero, I mean, 2% will cut the value of the dollar and half and 35 years. So, it's not zero. But I think it'd be better if it were zero, but even with a modest 2%, they couldn't do that.

So, if you print $4 trillion dollar and don't get inflation, you're supposed to step back and say, well, maybe it has nothing to do with it, and it doesn't. Then in 2020, they printed something like $7 trillion. This, again, I'm talking about base money, M0, and M1 and M2 is a completely different analysis. And there was no inflation that now the inflation did arrive in a very strong fashion in the middle of 2021. But that was for other reasons, which I'll get to, so I think we can kind of dismiss Fed money printing is sterile, unimportant, and having nothing to do with inflation. But you know, the markets followed it. So, if you're in markets, you better pay attention, not because it really does anything, but if enough people believe it does, then that behavioral narrative, welcome back to the what the narrative is, can have an impact. So, you have to pay attention to it. The Fed and by the way, just mean the reason Fed money printing has something to do with inflation is because inflation is basically coming from money supply growth and velocity.



What people miss is that money supply was skyrocketing, it went vertical, but velocity has gone vertical in the opposite direction. So, a Red Bull cliff dive at this point. So, and I remind people that $24 trillion times zero is zero, at least where I went to school. In other words, if your velocity goes down, your nominal GDP is going to go down. Or at least it won't go up. You can think of nominal GDP as, as a race between excessive money printing, which is, it's just in the data and crashing velocity. So, you're taking a larger, it's M x V = nominal GDP. And that's the quantity theory of money. It's not really a theory. It's just the definition. And M has been skyrocketing. There's no question about it.

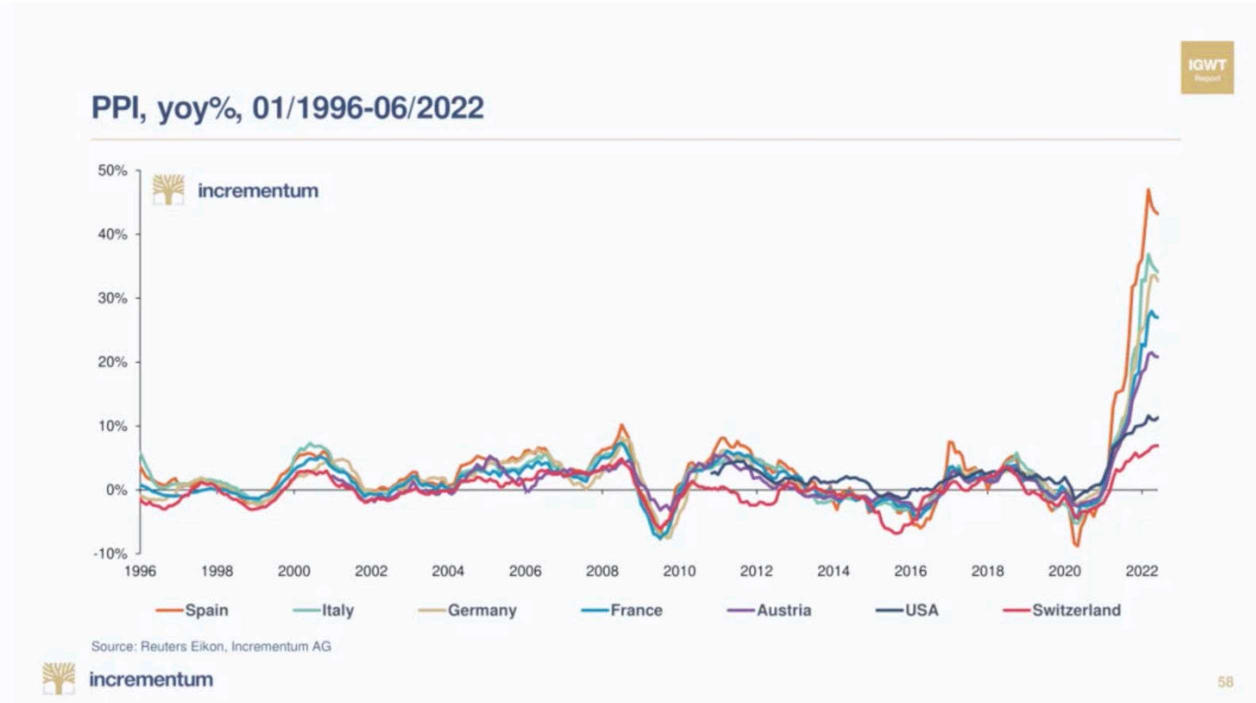
But what the Austrians and the monetarists and the inflationistas miss continually is the fact that velocity has been crashing, it's gone from eight, actually slightly higher around 10 in 2008, to 1 and 1.2. And it's still going lower. There's no evidence that it has turned around. So, like I said, if it goes to zero, you have no economy left, and it's heading in that direction. So, you take that quantity, that money supply times velocity equals nominal GDP and you say, well... how much can real GDP be? And the answer is, I mean, Friedman got the velocity thing wrong, but you got the second part, right, which is around 3.5%. A mature industrial developed economy can grow around three and a half percent. Now the short run it can grow 5% or 6% coming out of a recession? Yes. Can it go lower? Sure, I would bet policy from 2009 to 2019, pre Covid.

Average annual growth was 2.2% versus long term average of about 3.4% and occasionally higher 4% or even 5%. So, you can grow below potential, which is really the result of bad policy. If you grow above potential, in other words, if my supply times velocity produces growth greater than about 3.5%, the excess is inflation. That's what inflation is. Really, again, this is all this is all definitional. And so, Friedman incorrectly assumed the velocity was constant, and in fairness, it was from 1950 to 1980, which is most of his career. And so, he said, if real growth can only be about three and a half percent, and that's true. And if you want inflation to be about, well, the P. P x Y, if you want P to be about one, one means no inflation, no deflation, it means nominal GDP equals real GDP. So, you want you want that factor to be one. That's price stability. And if velocity is constant, then you can treat the money supply, like a thermostat, dial up, dial it down, and get maximum real growth with no inflation. That's sort of monetary nirvana. But the problem, as I described is that velocity is not constant number one, which Irving Fisher understood very well. It's funny how we actually had this knowledge in the 1920s. And we seem to have lost it along the way. But, with velocity declining all that money, printing doesn't mean anything. Now, M1 and M2 are different. That's not created by the Fed, that's created by commercial banks. And that money supply can produce inflation and does if the banks are lending and people are spending, but they're not. And this is exactly what happened during the Great Depression.

You know, all the stuff about gold was the cause of the Great Depression because it tied the Feds hands is nonsense. I spoke to Bernanke about it, he actually agreed. Because he had written a book about it, I said, Mr. Chairman's, did I understand your book correctly? He said yes, you did. And the point is, during the Great Depression, we were on a gold standard, but M0 was allowed to be 250% of the physical gold times the value at the time which was just $22.67 an ounce, actual M0 was never more than 100%. Meaning you could have doubled the money supply doubled the base money supply in the Great Depression, if that's what you thought you needed, and gold would not have been a constraint. Now some level yeah, 250% is the constraint but it never was. The M0 never got above 100% of the value of the gold, which means the money supply never got to where it needed to be or could have been. But that's because nobody wanted to borrow, nobody wanted to spend. If you're not lending and spending, and you're not growing M1 and not increasing velocity. If none of those things are happening, and none of them are, you're not going to get inflation. Now, we obviously do have inflation. Where did that inflation come from? Well, there are two sources.

One is supply and demand, pretty basic. So, there's what they call cost push inflation, which comes from the supply side. And there's demand pull inflation, which comes from consumers. And that gets back to the lending spending and the velocity and the behavioral aspects and all the things we just talked about. So, the inflation we have so far has not come from the demand side. Expectations are overrated, you don't really see expectations but expectations are still modest. We have inverted yield curves. We'll talk more about that. There are just tons of evidence that no one expects inflation. In fact, they're looking at strong disinflation, if not deflation by early next year.

So, it's not coming from consumers, it's not coming from velocity. I remember the 70s we would we would wake up Saturday, I was thinking of buying a whatever, you know, new car or refrigerators, I better go buy it right now. Because the price is going up. That is a big deal that that does increase velocity and that that behavioral aspect is hugely important. But you don't have that today. But you do have the inflation is coming from the supply side: energy, food, transportation, strategic metals, grains and a lot else. For a variety of reasons. One, you know, obviously, Biden's energy policies are disasters. The war in Ukraine is a factor. The pandemic was a factor. My new book is about the supply chain and the research shows that the supply chain broke down before COVID. Now, COVID made it worse. And the war in Ukraine made it worse, no doubt about it. But it started really in 2018 with Trump's trade wars, and that was that was the beginning of the breakdown the supply chain and then it just got worse from there. So, that's where the inflation is coming from the Fed, it doesn't drill for oil. The Fed doesn't run farm equipment the Fed doesn't drive trucks. If it doesn't do anything, it can't do anything that affects any of the things we just talked about.



So the big question in terms of inflation is, okay, will supply chains get fixed anytime soon. The answer's no, that's going to be years before a new supply chain evolves, will we get into demand pull inflation, which did happen in the 1970s. That started from the supply side, that morphed into the demand side. And then it just got out of control. And then we had the Volcker, you know, 20%, interest rates and all that. Will that happen? Well, it could happen, but so far, it hasn't. And the race is, will we? So, I said the Fed can't drill for oil or drive trucks or grow crops. That's true, but they can destroy demand. But if the inflation is not coming from the demand side, how much do you have to destroy demand to actually get inflation under control? The answer is: not a little bit, a lot. You have to crush the economy; you can do it. They can do it, but the cost will be exceedingly high, it will be a severe recession.

Because we're not seeing much relief from the supply side. Now, eventually, if you just crushed demand like people, some of them question paying high gasoline prices, you're not buying gas, because you're unemployed. You know, he gets to that kind of demand destruction. And we I think we will, then yeah, the price of oil will go down. But that's not because the supply side got fixed is because the demand side got destroyed. So, what I just described as a much more extreme version of the so-called pivot. Now, I mean, I'll shut up in a second. Let me just come back to, I mentioned the word narrative. And narratives are very important. Of course, Robert Shiller wrote a great book on this, and he, he did what we've been known for a long time, which is actually imported, the SEIR model from epidemiology, into economics, and which is perfectly valid, because if they, yeah, people talk about contagion and financial collapses, well contagion is from epidemiology. It works the same way. It's not a virus, it's kind of a behavioral virus, if you want to think of it that way. But the math is the same with the recursive functions and super linear exponents. So an SEIR stands for susceptible, exposed, infected and recovered, which leaves out dead you know, if you if you die from something. But it's good model and a good book, but he talks about narratives, and I was familiar with the model. But what I got out of the book I hadn't quite grasped at the time, was that your narratives are powerful, they're contagious, they affect behavior, and they affect the economy, but they can also be false. Meaning most people say, well, there's a narrative and it's true, and it's affecting what we do. And it's driving stock prices, or bond prices, etc. are all true. But a narrative can be completely false. But still be just as powerful if people adapt their behavior.

You saw this in the Great Depression in the early 1930s. Yeah, I mean, unemployment went to 25%. And businesses failed, and farms were failing and thanks foreclosing, all true. But some people had money, even enable 25% unemployment, 75% of the people still have jobs. And there were a lot of wealthy people, but it was really considered bad form to be ostentatious about your wealth, in other words, even rich people didn't spend money. Or not much, because they didn't think it was good form, if you will, at a time when people obviously were suffering, and that was the narrative. And that's and that made it worse, you know, and economists would say, "hey, if you have some money, please go out and spend it", you know, the more the better, is, that's the only way we're going to get this economy moving. But they didn't. Beginning in 1933, with Franklin Roosevelt, the narrative flipped. And all of a sudden, your happy days are here again. And people said, you know, I really should go out and spend some money. And they did. 1933, 34, in the middle of the Great Depression were two of the greatest years ever, in the stock market. It wasn't till 37, when our friends at the Fed screwed up again, and caused a second severe technical recession in the middle of the Great Depression, that the whole thing died out. But 33, 34, 35 were actually pretty good years.

The problem was unemployment went from 25% to 12%. But it was still 12%. And that was still it's still a big number. So the narrative today is the one you were talking about Ronnie with the pivot and it kind of goes like this: Inflation is bad, but the Fed is determined to squash it. They're raising rates very aggressively which they have. They're also reducing M0. Which the best estimates are that every $500 billion of reduction in the balance sheet is roughly equivalent to 50 basis point rate hike. And the schedule is 80 billion a month, it's 960 billion or basically $1 trillion a year. So at an annual rate of a trillion dollars of reduction in M0, that's, another 1% rate hike equivalent, in addition to what they're actually doing with nominal rates. So, this is, you know, you say, you're going to get the 4.5%. Big deal. Well, that's from zero on March 1, it was zero March 1. So, it's not just the absolute level, it's from a standing start.

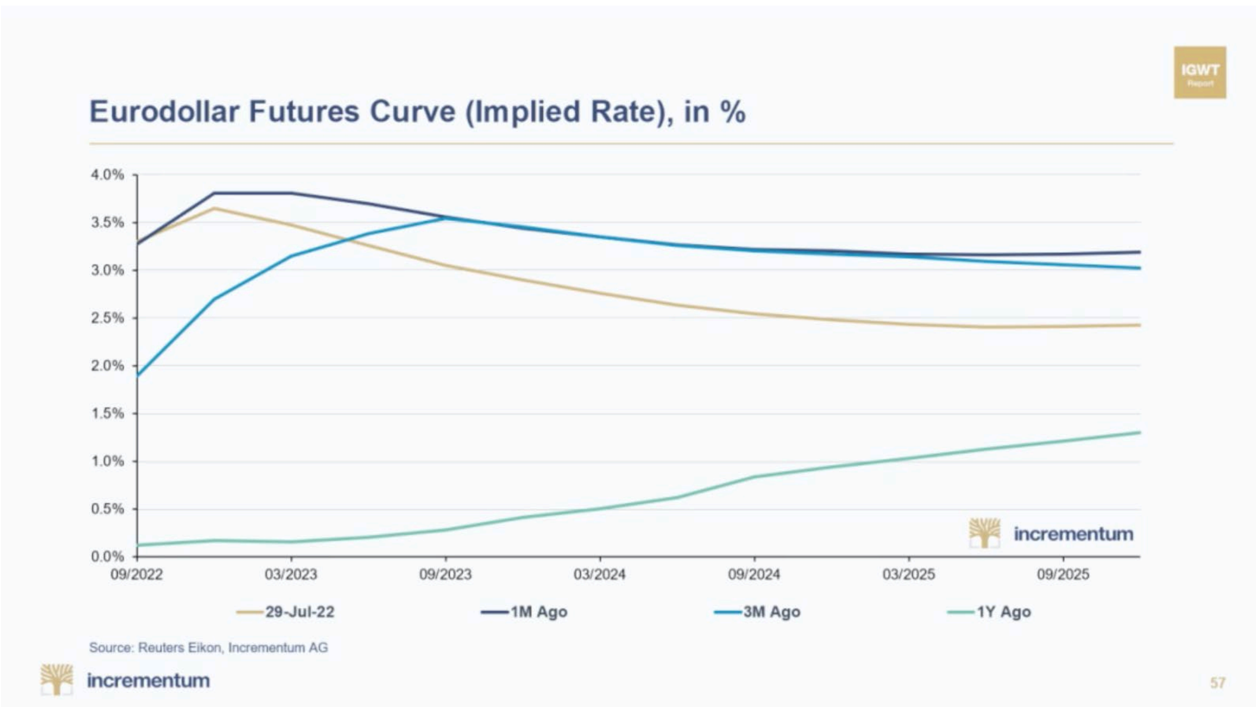
That was, we haven't seen rates go up that high that fast since Paul Volcker. So, they're doing that but then there's the continued and I was like, okay, and that's going to, you know, hurt demand. If you're filling up your car and buying food, you don't have enough money for, you know, dinner out or whatever, that's going to cool things down a little bit, the inflation will come down quickly, the Fed will see that, then they'll actually pivot maybe late this year, early next year to rate cuts. And that's good for tech stocks to buy stocks. And that's sort of, you know, I sent out a little supplement one of my newsletters last Tuesday morning, the day before the Fed decision was announced. And I said, you know, they're going to raise interest rates 75 basis points, well, that was easy. They told us. Just read Nick Timiraos in the Wall Street Journal, he's the designated leaky when the Fed wants to leak information. So that was easy. But I said, stocks are going to go up, a lot. And my forecast, which I'll get to in a second is that stocks are going to go down a lot. But you have to understand that most stock trading about 95% is robotic. And the robots run on, I hate to break it to retail investors, but it is. And they run on algorithms, algorithms are written by coders, some of them, you know, 27-year old's from Bangladesh who don't get out much. And the coding is based on narratives. And the narrative is the one I just described. And so, if you believe all that, then you should buy stocks, and they did on Wednesday and Thursday. But here's what I would say is the reality. And narratives can win in the short run, but reality always wins in the long run. And it's easy to describe both. What's hard is saying, okay, where does the flip come in? Where does the narrative just die and here comes the reality. And it's like a punch in the face and now we got to figure things out. Sometimes it's a long time, you say you lose a lot of money being right.

This will happen, I think, in relatively faster. It'll go like this. I mean, I love that Jay Powell said: "Well, we just did 75 basis point rate hike. But we don't know, we're probably going to keep raising rates don't rule out 75 basis point. But we're not going to tell you, we don't have any real guidance for you". And then he proceeded to say exactly what he was going to do. So, you just have to listen to Jay and believe him. But he said, and this is a little cryptic, but he said: "I think by the end of the year, we'll get to where the average of the dot plot indicated, based on the last meeting", there were no dots this meeting, by the way, I just know from inside the Fed, the dots are a joke, they wish they'd never started them. But they can't get out of it. Because everyone pays attention. They got the journalists got to write about something. But he said, it'll get us about where the dots said, well, that was three and a half percent. So, if you're two and a quarter right now, which we are, and you're going to be three and a half percent by a year-round, which is what Powell said. And there are three meetings left, that's 50, 50 and 25. That's, you know, that's the 1.25% and 2.25%, it gets you to 3.5%. So, he kind of told us, they're going to two 50's and a 25. 50 in September, 50 in November and 25 in December.

The Fed can't tell us what they're going to do. That's down significantly from 75. Don't believe for one sec, anyone tells you the Feds not political that's nonsense. It's one of the most political institutions you can think of. It's not that they favor Republicans or Democrats, they actually just want to keep out of things. And we have a big significant midterm election coming up in November. The Fed can raise rates more aggressively, but then when the Democrats lose, everyone will blame the Fed. They could raise them less aggressively, but then the inflation will continue and everyone will blame the Fed. So they're like "Hey, let's just, we're just going to smooth this out a little bit". So look for 50 in September, 50 in November, but that's kind of I think it's a day or two after the election and then 25 in December. That's what they told us they're going to do. But a couple of things. Number one, that's not exactly a pivot that's, you know, you still raising rates, it's okay to reduce at a milder rate. But that's not the pivot and will they cut rates in January? I doubt it. The Fed doesn't know they might stay flat. But this presupposes the inflation is under control and to the sense that its coming from the supply side, it won't be under control. So, and we're already in a recession. So everyone except Janet Yellen, who doesn't really know much about economics and the White House would agree with that. But there's they're saying, look, I saw a recession. Of course, it is. But again, going back to the narrative, is it fairly mild recession. We are down 1.6% annualized, down 0.9% annualized. They're not trivial numbers, but it's not like 2020 or, even 2008? Not yet. Well, that's my point, that the narrative is a shallow recession, a pivot by the Fed then happy days are here again, buy stocks. The reality is that the recession came sooner than we expected, it's going to get a lot worse. The Fed may try to pivot but they won't. And stocks are going to go down, you know, 30% or more. But that reality won't become really apparent till late this year. Because in the short run, the narrative is too powerful.

Ronnie Stoeferle

Not yet. Thanks for the short answer, Jim (smiles). But we all learned a lot. So I think it's interesting that the market is already pricing in rate cuts for January, and I had a look at the Eurodollar curve, it was cuts of 125 basis points for 2023 already.

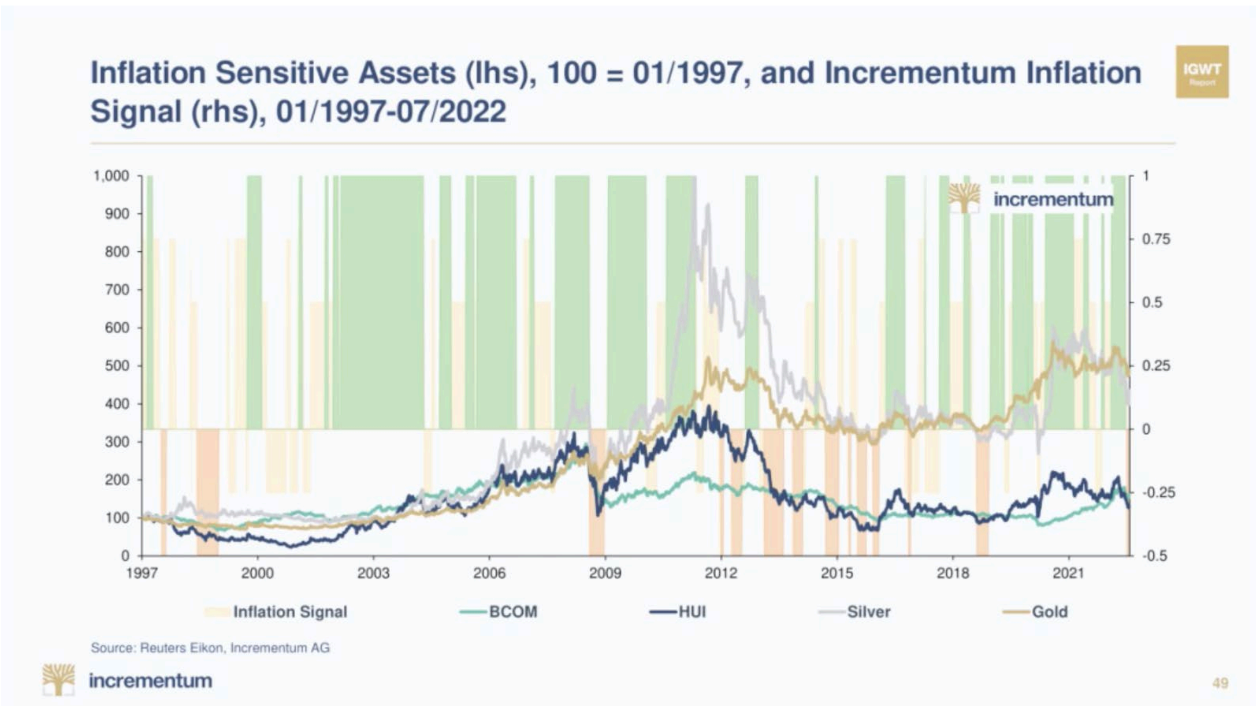


And we're already seeing you know that the curve is being inverted, and the swaps curve, even more inverted than any time since 1990. So, I think the market is already telling us “well, this is going to be a nasty, nasty recession”. And I think, just as a side comment, I think what most people don't really have in mind is, I think that everybody kind of waits for the pivot, and then we're seeing the everything bubble being reinflated, I think nobody really expects a nasty sideways market with bear market rallies followed by big draw downs. So, you know, kind of a two or three year long or even longer volatile sideways market. This would basically be the nail in the coffin for the big trend in passive investing. You will need active asset managers in the years ahead!

I think that's, that's something that is kind of not expected by many market participants. Mark, we did send out quite recently an update of our inflation signal. And I think many of our followers were quite astounded that our signal is actually showing disinflation. Perhaps you could briefly outline what the signal is telling us and also how we how we basically implement this signal in our portfolio currently.

Mark Valek

Of course. We are gauging for 10 years now already what the market telling us in terms of inflation momentum. We don't look at any inflation statistics, price inflation or anything like that, because first of all, they're lagging, they're backwards looking at they've got all sorts of flaws associated with them, what we are looking at is only at market prices.



Using the inflation model, we analyze in which direction inflation momentum is going. Is it going up strongly? Or is momentum according to markets and inflation sensitive assets even going downward? And exactly that happened recently. We had a very high inflation, the highest possible inflation momentum, so price inflation seems to be going up very highly, which obviously was confirmed by the official CPI rates and so on. Our inflation signal weakened at the beginning of July and even switched into inflation momentum. And I think that's, as you said, very surprising, for a lot of people, especially now I mean, also we who have been historically rather in the inflation camp, you would perhaps suspect that we have a bias towards inflation, long inflation. So, specifically for that reason we actually work with this inflation signal. And it has profound impacts on our investment decisions. So we were able to basically reduce our inflation sensitive assets in the first half already when the momentum got weaker, and now we are completely out of most inflation sensitive assets. With even long duration positions on and yeah, so we readjusted our portfolio completely. And I think it's interesting to follow. So if listeners want to be on our list, we have a research distribution list where everybody can get on this email list.

Ronnie Stoeferle

Could you also briefly explain the strategy that we implemented regarding miners?

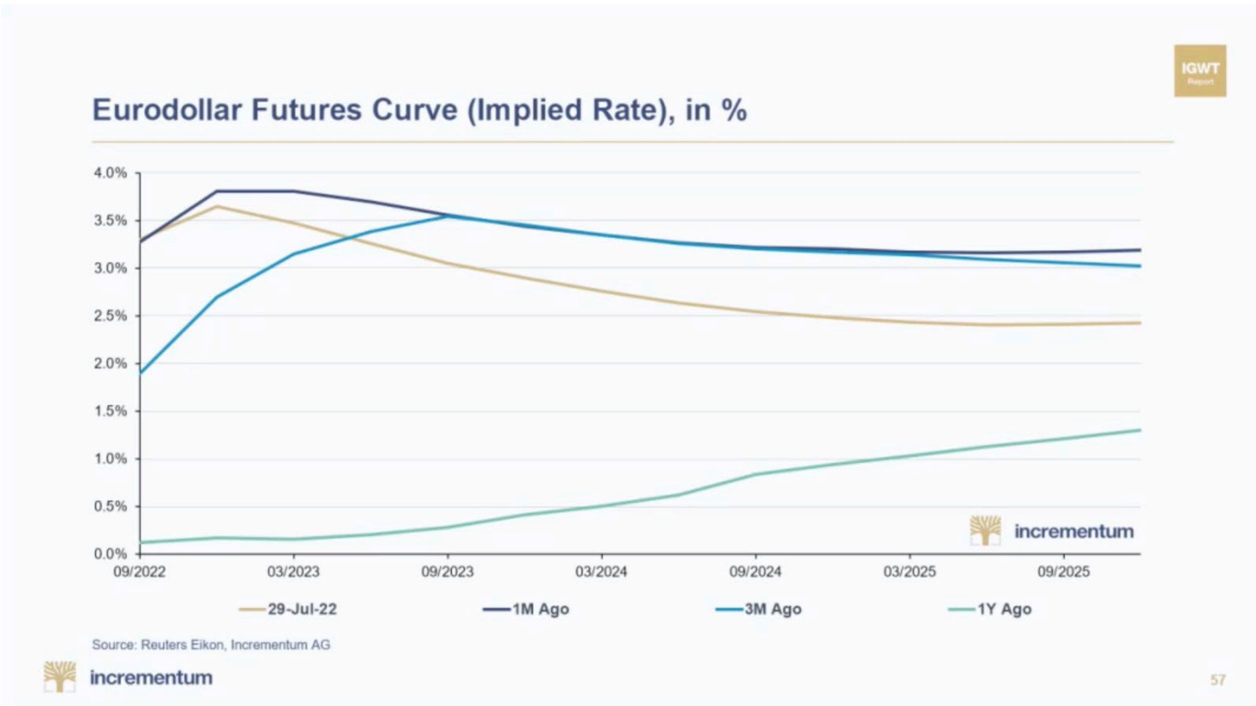
Mark Valek

What's interesting about inflation momentum is we've got different kinds of durations. So, if some assets are more sensitive for inflation expectations in the short term, and some more perhaps sensitive on the medium and long term, we would put called into the category more being more sensitive to the medium term, actually, not so much to the short-term inflation.

Therefore, we did put on quite a big trade on mining stocks using options recently. This is very, very recently, but we've got a protective put on our biggest mining position. So we basically have a long call gold mining equity position, implemented that the end of July or during July. And the idea is, we could see this disinflation momentum drifting down. But then the longer term actually, it may reverse. But we've hedged this bet, basically, long call GDX or gold mining position, which I think is very interesting due to the very low levels, which we are at right now.

Jim Rickards

Ronnie, can I drop a footnote on your comment about the inversion of the Eurodollar futures curve? By the way, my models are showing exactly what Mark just described there. It's not outright deflation, but a disinflationary trend, so different methodology, but it's sort of turning out the same result. But I think it's important to understand what eurodollar futures actually are and what they're signaling because I think that not you, but the market is misinterpreting it.



They're saying, "Okay, eurodollar futures are inverted". That inversion point has been coming in very rapidly, meaning it was out in the middle of 2024. And now it's like March 2023, might actually be December 2022, at this point. So it's come in, so that it's really only a matter of five or six months away. So people look at that and go, Oh, yeah, that's a very powerful signal of interest rate cuts, and so the Fed's going to pivot. That's a non sequitur, meaning, it is very powerful signal of interest rate cuts, but it's not the Fed funds rate, and it's not binding on the Fed. Don't underestimate the ability of the Fed to screw this up. That is a bet on a rate of how major banks lend to each other in the interbank market and the price of collateral on one quadrillion dollars’ worth of derivatives.

That's what that price is. That’s real money, it's where the big money plays. And it's very powerful. But it is not, first of all it's not clear that the Fed pays attention to it, number one, not sure they can even look it up on the CME homepage. There's certainly evidence in the past when they had discussed it, which is rare, that so well, you know, it's Deutsche Bank and Credit Suisse, who cares? And, it's of course, it's not the Fed funds rate, it's not binding on the Fed. So it is saying that the economy that the recession is going to be more severe, it's going to happen faster and interbank rates are going to go way down. When you look at the Treasury yield curve, it's inverted in segments, I think kind of between 2's and 5's, right now and 7's to 20s, that there are these inversions in the treasury yield curve. The Treasury yield curve is a short term look at the long-term rate, it's like today's what today's market is telling you about where they think long term rates are. The Eurodollar Futures Curve is a long-term bet on the short-term rate, you're betting on an overnight rate six months from now or a year from now or two years from now as the case may be. So, just because it's signaling a bad recession, first of all, doesn't mean that the Fed looks at it doesn't mean the Fed understands it doesn't mean the Fed is going to react. So I wouldn't use that as support for a pivot, I would use it as support for a really bad economy by next winter, for sure. But not that the Fed is going to get the message number one, number two, it could be telling us something a lot worse than a recession and slow growth, it could be a pretty powerful red light flashing on a global liquidity crisis. Because there are other indicators along the same lines, for example, the Fed has a huge reverse repo program. So they're basically saying to banks, if you want a place to put your money, this is not excess reserves, it's just say, give us your money and we'll pledge Treasury securities.

And that's where the reverse repo is in the dealer’s perspective. So it's a secured loan, short term, and we'll pay you a certain rate. And that's a pretty attractive rate. What auctions and the secondary market trading banks are bidding on Treasury bills, yield to maturity, or that, are less than what the Fed will give you for free. So why would you go into the market and buy a treasury bill with a lower yield than what the Fed will hand you? The answer is you need the bill. In other words, you can't be bound by the terms of the reverse repo agreement with the Federal Reserve, you need the bill, why do you need the bill? For collateral to support your balance sheet to support your derivatives. And we're at a point where nobody wants, counterparties don't want your mortgages, they don't want your 10 year notes. They want 30, 60, 90 day bills or, one year or less, but the shorter the better. And by the way, this explains why gold has been performing so poorly. Why the dollar is so strong. I looked at a bunch of markets the other day I was writing an article and I said, well, the Yen's down, the Euro is down, gold's down, silver's down, stocks are down and other commodity prices, oil was down. And like what's up with that? Like, why is everything down? Well, the answer is everything is quoted in dollars. When you say gold's down, you're only talking about the dollar price of gold, the dollar price of oil, the dollar price of the euro, the dollar price of the yen, etc. And what you have is a super strong dollar.

So if you get a strong dollar, the price of everything denominated in dollars should go down. And it is, right across the board. Well, why is the dollar so strong? Well, it's because of what I just said about the treasury bills. If you're a foreign banker, or any bank, really, and you want to buy 30,60, 90 day treasury bills, you need dollars to do it. So there's a strong bid for the dollar to get dollars to buy the dollar denominated bills to post as collateral to support your balance sheet. So when you see that inverted Eurodollar Futures Curve and you're absolutely right in describing it, that that's telling you that the interbank rates are going to go a lot lower, which is a result of the scramble for collateral in the scramble for the dollar and that the dollar is going to get stronger, and those are all symptomatic of a global liquidity crisis. So, recession, yes, worse than expected? Yes. Disinflation? I agree with Mark on that. Maybe deflation down the road, but it's a little too soon to call that. But that could be accompanied by a liquidity crisis worse than 2008. So, let's take that off the table.

Lawrence Lepard

Mark, and Ronnie, I'm curious, how did you get your 18% year to date? Because I'm not doing that well. What have you guys been doing?

Mark Valek

Well, basically we got the big move pretty right, I'd say. So long inflation for the first four months and then we went more and more cautiously out of inflation sensitive assets, again also because our inflation signal warned us, and now it's like more on the cautious and long disinflationary side with long duration positioning and most recently, gold mining position, which hasn't had any huge impact yet, because it's just fresh in the portfolio right now. But yeah, I think we, Ronnie named the last mailing, "Surfing the inflation waves", right? I think we achieved this pretty well this time.

Ronnie Stoeferle

And I think as we wrote in the In Gold We Trust report this year, we expect some waves of inflation. I think, Jim, talked about the narrative and I think when it comes to inflation, it's also really important to talk about the psychology of inflation. And, boy, if I tell you what's going on in Europe, currently, inflation is all over, everybody is you know, it's really a conversation that you now have every time you meet relatives, business partners, it's a really central topic at the moment, and probably, you know, it will kind of wear off over the next couple of months, slightly, but I think over here, everybody is really trying to make the best out of this summer and to have a good time, because we all know that, that this fall, and especially winter are going to be really, really tough. And, you know, the energy situation, obviously, is, I'm not really becoming very optimistic having a look at our political leaders. I'm not sure if there's any strategy at all, when it comes to solving these issues.

And, Jim, it reminded me very much of the conversation that we had many, many, many years ago when I think when we met for the first time and you brought out Currency Wars back then, and we met in person for the first time. And you told us about the financial war games, and said that you came home from this war games happening at the Pentagon or whatever, and you told your wife, well, I've got good news and I've got bad news, you started with the with the good news, and you said, well, my team won. But the bad news is my team was team Russia. So, you know, having a look at the environment at the moment, it's really frightening. And I think all this De-dollarization. And all those topics that we've talked about for so many years already, they are now really materializing.

But let us come to the topic of gold. We all know that it has been slightly disappointing. But obviously, the enormous strength in the US Dollar was one of the major reasons. If you talk to, you know, Japanese people, in Japanese yen terms, it's up, I think 15%. In Euro terms, gold is up 9%. And in dollar terms, it's now down, I would say like 3% or 4%. So, it's not that bad, compared to equities and also to fixed income. But still, I think we all, to be honest, would have expected slightly more. So, do you think that now we're trading at $1780 again, do you think that the lows are in or what do we really need for for gold to pick up more momentum? If it's not inflation, if it's not, turmoil in equities and fixed income, what do we need for gold to make new all-time highs?

Gold Performance in Major Currencies, 2000-2022 YTD

Year	USD	EUR	GBP	AUD	CAD	CNY	JPY	CHF	INR	Average
2000	-5.3%	1.2%	2.4%	11.2%	-1.9%	-5.4%	5.8%	-4.2%	1.4%	**0.6%**
2001	2.4%	8.4%	5.3%	12.0%	8.8%	2.4%	18.0%	5.5%	5.8%	**7.6%**
2002	24.4%	5.5%	12.3%	13.2%	22.9%	24.4%	12.2%	3.5%	23.7%	**15.8%**
2003	19.6%	-0.2%	8.0%	-10.7%	-1.3%	19.6%	8.1%	7.4%	13.9%	**7.2%**
2004	5.6%	-2.0%	-1.7%	1.5%	-2.0%	5.6%	0.8%	-3.1%	0.1%	**0.5%**
2005	18.1%	35.2%	31.6%	25.9%	14.1%	15.1%	35.9%	36.3%	22.8%	**26.1%**
2006	23.0%	10.4%	8.1%	14.3%	23.3%	19.0%	24.2%	14.1%	20.7%	**17.5%**
2007	30.9%	18.4%	29.2%	18.0%	12.0%	22.5%	22.5%	21.8%	16.9%	**21.4%**
2008	5.4%	10.0%	43.0%	30.5%	28.7%	-1.5%	-14.2%	-0.8%	30.0%	**14.6%**
2009	24.8%	21.8%	13.0%	-1.6%	7.9%	24.8%	27.9%	21.1%	19.2%	**17.6%**
2010	29.5%	38.6%	34.2%	13.9%	22.8%	25.1%	13.2%	16.8%	24.8%	**24.3%**
2011	10.2%	13.8%	10.6%	9.9%	12.7%	5.2%	4.5%	10.7%	30.7%	**12.0%**
2012	7.1%	5.0%	2.4%	5.3%	4.2%	6.0%	20.7%	4.5%	11.1%	**7.4%**
2013	-28.0%	-30.9%	-29.4%	-16.1%	-23.0%	-30.1%	-12.6%	-29.8%	-19.1%	**-24.3%**
2014	-1.8%	11.6%	4.4%	7.2%	7.5%	0.7%	11.6%	9.4%	0.2%	**5.6%**
2015	-10.4%	-0.2%	-5.3%	0.6%	6.8%	-6.2%	-9.9%	-9.7%	-5.9%	**-4.4%**
2016	8.5%	12.1%	29.7%	9.4%	5.3%	16.1%	5.4%	10.3%	11.4%	**12.0%**
2017	13.1%	-0.9%	3.3%	4.6%	5.9%	6.0%	9.0%	8.3%	6.3%	**6.2%**
2018	-1.5%	3.0%	4.3%	9.0%	6.8%	4.1%	-4.2%	-0.8%	7.3%	**3.1%**
2019	18.3%	21.0%	13.8%	18.7%	12.6%	19.7%	17.2%	16.6%	21.3%	**17.7%**
2020	25.0%	14.7%	21.2%	14.1%	22.6%	17.2%	18.8%	14.3%	28.0%	**19.5%**
2021	-3.6%	3.6%	-2.6%	2.2%	-4.3%	-6.1%	7.5%	-0.6%	-1.7%	**-0.6%**
2022 YTD	-3.5%	7.4%	7.4%	0.3%	-2.2%	2.5%	11.7%	0.7%	2.9%	**3.0%**
Average	**9.2%**	**9.0%**	**10.7%**	**8.4%**	**8.3%**	**8.1%**	**10.2%**	**6.6%**	**11.8%**	**9.1%**

Source: Reuters Eikon (as of July 31st, 2022), Incrementum AG

Lawrence Lepard

So, gold is money without counterparty risk. And gold is cash that can't be printed. So, some say well, we're having all this massive inflation. Why isn't gold working? Well, that's why gold went from \$1365 to \$2050 a couple of years ago, gold looks around the corner, in my estimation, in my observation of it, and it's also driven by the deficits that we're running and the negative real interest rates and the deficits have come down substantially. I think that's going to change. And the negative real interest rate has shrunk slightly as a result of the Fed's action. And so, you know, the gold has reacted to that, and it actually reacted to that before those things happened. I think it's now turning the corner. It's about to react to what's coming next. Which Jim alluded to, which I think is, you know, the third Fed mandate is functioning financial markets. And if they continue with the policies they've got going, and they really do try to destroy demand by creating a severe recession, as he points out, and the tell on this, by the way, my thing that I watched for the tell on inflation is the price of oil. The price of oil just drives everything, right? The world doesn't run, but for on oil and energy. And so, we'll know that deflation is here, or disinflation is here, if we see oil coming off the boil at \$90, \$95, into the \$80's, and \$70's. We'll know, and then I'm sure that's what they're watching as well. So my sense is that there's a good chance that something's gonna break, you know, it already has broken a little bit. I mean, you look at Sri Lanka, you look at the Italian debt spreads, you look at CDS on so many of these countries, you look at what's going on in Argentina, etc, etc. So things are starting to break and the third Fed mandate is functioning financial markets. We saw how in March of 2020, when the US Bond went no bid, you know, and they came in and Powell did his "I am Mario Draghi", whatever it takes, we saw what they would do when things start to not function. And I think there's a decent chance that something like that occurs sometime in the next three to six months, which is why, you know, even going into this, I'd never really lightened up probably inappropriately my positions long gold miners, and I paid for it in this quarter. But the problem is, you know, these guys driving the clown car, you just don't know what headline is gonna pop out of the ether.

And so, unfortunately, you've got to place your bets and hang on for the rough ride. And it's going to be a rough ride, but my opinion is, yes, the bottom is in for the price of gold, and that we will eventually take out the $2050. We bumped up against this $1900, $2000 - $2080 level, we were we were there in 2011. We were there in 2020 and we were there again earlier this year. And when we take out $2050 to $2075 with authority, we're going to squirt up to $2500 or $3000, that's going to be total game on! People don't see that now, the sentiment has been extremely negative, the narrative has been, you know, the Fed has got everything under control, and we're gonna go back to a deflationary environment, and perhaps we will, but if we get in back into a deflationary environment, that's going to create a whole different set of problems, they're gonna have to deal with that. And gold will smell it. It'll smell around the corner, and I think it's already starting to smell it. So I'm actually quite bullish. I think we end this year, somewhere through the $2050 level. And, of course, you know, for the gold equities, the implications are outstanding. So that's kind of how I see it.

Ronnie Stoeferle

Thanks a lot, Larry. Jim, you, you're already mentioned that you're about to publish a new book. I think it's coming out in November. And the title will be "Sold Out", "How broken supply chains, surging inflation and political instability will sink the global economy". So yeah, I mean, that's that's definitely a topic that that we will talk at some point at length. I think it's very timely book as always, but what caught my eye was a tweet that you made recently, I think, July 26, because you've been to Japan, and you wrote: "Nice to be back in Tokyo, had a great dinner with a Ronin Samurai descendant, one of the longest serving Diet members, and a political scholar". "Japan is a straightforward case. We mostly talked about China, the Japanese expect a September shock. Wasn't on my calendar. Is now." So, could you briefly elaborate on the thoughts that you have regarding China?

Jim Rickards

Sure. Yeah, it's funny to get to Japan and me with some of the Japanese elites and you know, one guy, codename Samurai, but he's the real deal. And you think while you're sitting there in Japan, let's talk about Japan. Well, there actually wasn't a lot to say about Japan. I mean, we have a good read on Kuroda. He's not going to raise rates, he's not going to do anything. There are reasons for that having to do with what the Japanese call "the descend from Heaven". And so, you know, you got to raise rates to defend in the end. They're not going to, they're just going to leave it alone, at least until the middle of next year at the at the earliest. And they've had eight, recessions since 1990. What else is new? An entire generation of Japanese have grown up in a deflationary environment, or at least something close to zero, no inflation and deflation or outright deflation. And they think that's normal. You know, you go down there, the lights are on the place is as rich as ever and I had a conversation with Sakikabara San. He was the assistant finance minister, Deputy Finance Minister in the 1980s. He was known as Mr. Yen. But I ran into him not long ago in Korea. I said "Sakikabara San, what's going on with the Japanese economy?" All this debt, the debt/GDP ratio. You know, 80%. Well, however many at the time, and he said, Jimmy you have to understand the population is collapsing. So, on a per capita basis, we're really outperforming. And I knew the math, I was like, yeah, actually, you're right.

But the per capita figures are better than their gross figures, because the population is shrinking. And, I said, but the extension of that is Japan ends up with like, one citizen who owns the whole country. That was that's kind of what scholars have called the reductio ad absurdum of what he was discussing. It was correct that you have to adjust for declining demographics to see how they're not doing quite as badly. But having said that, there wasn't a lot to say about Japan, that's all baked in the pie. But we got into a really interesting conversation about China and I follow it very closely and have been there quite a few times, etc. But what they said is that, and everybody knows there's a lot of resistance to Xi Jinping inside the Chinese Communist Party. And he's ruthless in squashing it, and he's, he's the new Mao Zedong. I mean, all that's well known, he's going to get his third term, which will make him de facto president for life, or chairman for life, probably this November at the 20th National Party Congress.

So all that is not necessarily known to non-experts, but it's, it's out there. But what they were saying is that they had some reason to believe that Xi might actually get whacked in September. And I would have regarded that as not impossible, you never say impossible, but the definitely very, very, very unlikely. And the Japanese are very close to China, I mean, that's an important a bilateral trading relationship and as important an outsourcing relationship to Japan as the United States is to Japan, maybe not in terms of total volume, but in terms of how they think about their financial chains, their physical supply chains, distribution, chains, etc. And he said: "Okay, what's the space?" I'm not going to make a huge bet on that, but it's good to position yourself so at least you're not surprised. So I thought that was fascinating, like I said they were pretty serious people.

And I agree with everything Larry, said about gold, I think the bottom is in. I think it's a great time to buy miners, I could expand on that. But I think Larry had it right. But I'm surprised, everyone is disappointed in gold, you know, why isn't it $2000? Why isn't it on its way to $3000 etc.? I'm actually impressed at the performance given the headwinds. I mean, given the strength of the dollar, like why isn't gold even lower? Given the collapse in stocks and, you know, not so much us real estate, but what's going on in Europe. Germany's going to be freezing in the dark and about four months. I mean, that's, that's already baked in the pie. I don't think it's priced into markets, but it's coming. Chinese property collapse, you know, you look around the world, why isn't gold doing a lot worse? And I would say it's performed very well considering the headwinds. If you remove one or more of the headwinds, and this is to say the dollar stays strong but doesn't get stronger. Because there's a limit on these things. I spent a week near Chamonix and Geneva in the end of 2000, and the Euro was 80 cents. And we had a group of seven, a couple of families, and we would go out at four course dinner, good wine and the works, and we couldn't spend $100, if we tried. Because the Euro was so cheap. And we did try, but it bounces around, it was $1.60 Not that many years ago. So, if the Euro has kind of found the bottom, the end will probably get a little bit lower, meaning it'll go like to 140 or more yen per dollar, etc. But that's got to lose some momentum and so that's removing a headwind to gold. And then the question is: "Okay, is there a tailwind? Is there a catalyst something that could drive it a lot higher?" Well, certainly the kind of global financial crisis I was describing would do it. And you know, breaking news, Larry said, you know, kind of watch your headlines. I mean, it's now been confirmed, this was rumored and mostly expected but not confirmed. But it now has been confirmed that Nancy Pelosi is going to Taiwan. And I would not underestimate, I don't underestimate the seriousness with the job with which the Chinese take this. She's sorry, the Chinese. She is third in line to the presidency after Kamala Harris. Or you may say, second in line, not counting the President and to say, well, she's the legislative branch and foreign policies in the executive branch. As an American civics class, the Chinese don't believe that. I mean, they're like, "Hey, she's the most powerful political figure in Washington".

Ronnie Stoeferle
And she's a hell of a trader.

Jim Rickards
Oh, yeah, she's probably going to pick up some stock tips on Taiwan Semiconductor while she's there. But, if they decide to divert her plane and two planes crash into each other, we put up, you know, an F 35 escort for her plane, and they People's Liberation Army Air Force flies in or they declare a no-fly zone, and she flies into it. I mean, you know, give me a break. I mean, this is kind of this is so sensitive and so vulnerable to just a mistake, even if no one's looking for war, that that's the kind of thing that will certainly get people to take notice. But I agree with Larry's fundamental analysis, I think it's a good time to buy miners and a good time to buy physical.

Ronnie Stoeferle
Thanks, Jim. Well, Larry, I mean, I wanted to start talking regarding some ideas that you have, and you've got, on your Twitter profile, it says, fix the money, fix the world, and you're very vocal and strong advocate of sound money, and I had the delight to, give you some feedback on a speech that you delivered at the New Orleans Conference, which I thought was a was a terrific speech.

But, let's talk, let's talk a little bit about your fund management style, and also, you know, kind of the best ideas that you currently have.

Lawrence Lepard

Happy to do it. Okay, so, the fund is 80% gold and gold miners. Bullion and the miners and also silver too. And then 20% Bitcoin and Bitcoin related infrastructure things, but within the gold bucket, which is probably what more of your listeners are concerned about, I'll just rattle off a few of my top names. You know, basically as the major my favorite major right now is Agnico. They are a big holding, there are a lot of other good majors, but that one kind of stands out to me, and I think political jurisdiction is going to become a much more important issue. I'm guessing Jim would agree with me on this. I think eventually, a lot of these countries, they're just saying South America, they're really going socialist you're seeing you know, Chile is a very hostile environment now and all the countries that are going in the wrong direction. So, I think where your mines are located is really going to matter. My favorite growing producer is GCM mining. They just announced a deal to merge with Aris. I'm not very happy about that deal. I don't think it's was a particularly wise choice. But even so it's 30% dilution and they are getting some future projects. And GCM itself is my largest holding apart from AEM and it's really a great growing story, very low multiple cash flow, paying a dividend. It is in South America, Colombia and then the development project they have is in Guiana. But Guiana is actually a very favorable environment. A lot of money has gone in there recently to produce oil. And politically, Guiana I have zero concern about, so that would be my favorite kind of growth producer. And then you can get into the drill stories and there are plenty of drill stories with plenty of risk. But you know, I love names like Lion One, which I think is sitting on top of 10 or 15 million ounces. It's in Fiji right?(Ronnie). Yeah, it's in Fiji.

Ronnie Stoeferle

We should do a road trip there, a site visit.

Lawrence Lepard

It would be fun to go do some due diligence there. Yeah, so there are tons and tons of drill stories. I like, you know, what's not a drill story, but a producer that is emerging that I like a lot, it is i-80, which I think is doing an outstanding job. I hesitate to listen to drill stories, because drill stories can go south, but if you're correct, they can also be 10 baggers, so, I got a bunch of them. Anyone who's interested shoot me an email I could give you a few names, but we just invested in Guanajuato Silver, which we think is an outstanding silver producer, they just did a fantastic deal. They bought, you know, in the mining business, one of the things, it's important to buy cheap and mining, and one of things they were able to do was, Great Panther Mining is in the process of failing. And so they had a number of assets right next to the Guanajuato silver assets. And these things were valued at between $70 and $80 million. And because they needed the cash badly, we bought them for $16 million. So we more or less doubled the size of the company, by paying $16 million for $80 million worth of assets. This is a very cheaply valued silver producer that will soon be producing between four and 5 million ounces a year. So that's another favorite. I could go on. But you know, keep in mind that within the mining business, Jim knows as well, the mining businesses is an incredibly tough business, incredibly tough, you're breaking rocks, and you know, it's unpredictable. And you've really got to look for extreme optionality, and you've got to have a number of names, because you can be absolutely sure that some things that you think are going to work, won't work. A perfect example of that is Alexco, which is a beautiful deposit. But they mismanaged it, and it just got bought by Hecla. Hecla got one hell of a buy. But, it was a big holding of mine and the management team completely effed it up. And that's just part of the way this game goes. Occasionally, you get screwed, you know, down 70%. But when you're right, you know, you can get a 10 bagger. So, that's the nature of the mining bets. So that's kind of what I'm doing. And then of course, I do believe in Bitcoin. I'm not sure where Jim is on that. But I think Bitcoin is going to emerge as, as a digital sound money alternative to gold. It's still quite small, but it's coming on.

Ronnie Stoeferle
Excellent, thanks. Thanks a lot, Larry. Well, we will have dozens of meetings over the upcoming conferences, I know that when I see you at the big mining shows, you're always very, very busy as well. Meeting companies, you know, grilling them and asking tough questions. So I really look forward, because I think at these levels, there's just fantastic opportunities out there. Mark, any questions left?

Mark Valek
Closing round. Okay. I mean, I don't know if this opens up to too big of a Pandora's box, and it probably will. But still, it did spark my interest. Jim is so knowledgeable about these topics. I think that you already mentioned Taiwan. So, what is pretty evidently going on is this polarization of the geopolitical world between, call it whatever, East/West, probably the broadest sense of breaks, and so on, obviously, it's multi-dimensional. But since you touched Asia, Jim, I guess you would be probably the right guy to ask. I think the US is doing quite a good job, setting up kind of an alliance there. Do you have some thoughts about that because I think this is these are recent developments. I think this is something which one should watch.

Jim Rickards

I mean, I think the US under the Trump administration, they did a very good job of launching what they call "The Quad", which is Japan, Australia, United States and India, three of which were already allies in different ways. And bringing India into the group makes perfect sense if you're, if one of your goals is to be able to effectively interdict maritime trade to China. Well, it goes through the Indian Ocean before it gets to the South China Sea. So, India is, it's probably in real time surpassing China in terms of the world's largest population. They are kind of tied at about 1.4 billion people each, but India is probably larger, or soon will be if it isn't already. Large economy, technologically advanced, very well-educated workforce, again, I'm talking about a middle class of 300 to 400 million people inside a country with 1.4 billion people. So, I'm not minimizing agrarian poverty or the culture that goes with it, etc. But even if you have a middle class with 300 million, that's still as big and bigger than the United States, not total population, but middle class, so you can't underestimate that. So with all India has going for it, it makes sense that it should be in what's called "The Quad". But as Barack Obama said, "Never underestimate Joe Biden's ability to F things up". And, and you've got some, I wouldn't say lightweight but medium weight intellects, certainly not stars, in the form of Tony Blinken and Jake Sullivan, and others, Susan Rice, who are making all these decisions. And they are really attacking India, because it has remained neutral on the Ukrainian issue. And to your point, Mark, you have to you know, it's a big world. But there are a lot of short paths and a lot of dense connections. A lot of what I did for the intelligence community in the Defense Department over the years was about sanctions and financial warfare. So that was my specialty. They didn't need me to jump out of a helicopter with a knife between my teeth. But I did do work on the financial warfare front.

And I teach a seminar at the US Army War College, I told them months ago that the sanctions are going to fail. Russia is winning the economic war, they are winning the war on the ground, etc. But I was surprised that the list of countries, very large economies, very important countries that have remained neutral, that haven't jumped on the US bandwagon. Now, Europe, I think, soon to their regret, have joined the United States in this. But India, Brazil, China, Argentina, Turkey, Iran, Saudi Arabia, whether it's friend or foe, these are all important economies, regionally or globally, and none of them have joined the sanctions. For that matter, the UAE has not joined the sanctions. But the US is coming back aggressively at those who have not. Including China and India, so while The Quad has got off to a good start in 2019 and 2020, it's sort of under a lot of stress right now because the US is confronting India now, for, in my view, no good reason.

But so we'll see how that that plays out. And then of course, the other thing to watch is the war in Ukraine. But they're, you know, Russia is winning, they're going to win, they're gonna keep the third of Ukraine, maybe more of it. You know, the longer the Ukrainians fight, the more the Russians we end up having. With Odessa next on the hit list. But we'll see, I think what I expect is they will whack Zelenskyy, either he will be assassinated or removed. Maybe, if he's lucky, he'll make it to his place in Florida. And they'll put in some new leadership who will negotiate a truce with the Russians. That's what they should do, should have done that before the war. But that's where this will end up, it's just a question of how long it will take. And Europe is running energy policy by press releases, "we're not buying any more oil from the Russians". "We're not buying any more natural gas from the Russians". And they've had this series of press releases. They haven't actually done anything. If you read the fine print, the deadlines, one had a deadline of August 31. We're still a month away. One had a deadline of year end, it was almost as if they were standing the deadlines in the hope that the war would be over before they actually had to live up to any of it. And they can't live up to any of it, because there are no easy substitutes. I mean, I know a lot of guys there. I mean, they have tons of natural gas, they're selling it all to China on like, 10 year pay contracts. The idea that US has a big surplus in natural gas that they can ship to Europe, if Europe even had the LNG terminals, which they don't, they have some but not enough capacity, is nonsense. So, it's just a sort of fantasy world, so yeah, Europe's going to suffer severely, Germany in particular, of course. I think the war drags on because the US wants it. And for reasons that we can spend another two hours on that, but I'll just say that US policy is pretty misguided at this point. So yeah, no, shortage of geopolitical crisis going on. Probably good for gold.

Ronnie Stoeferle

Thanks, Jim. Thanks for that. Larry, as you’re our special guest, final words, perhaps something on a more positive note?

Lawrence Lepard

Yeah, look, I think that I think the positive note is that probably most of the people listening to this are invested in sound money assets. And I think that sound money assets and commodity assets are going to be what's going to perform I'm extremely well, I mean, as Jim correctly indicated, this cost push inflation is not going to get solved overnight. And the amount of demand destruction the Fed would have to create in order to solve it is ridiculous, and they're not going to be able to handle that pain. So, it's a pretty safe and as you guys have so well pointed out in your books, and your most recent report, the tide has shifted, and we are now in the age of commodities.

And so, you know, Zoltan Poszar, or so many others have documented it so well, the Russian moves have been documented so well, and you can't just turn on the tap and create oil, you know, it's not that easy to do, and, or a lot of other things that we're short of. So, as a result, you know, you add that to the pandemic, the worry, add it all together. And, we've got a consistent cost push inflation problem here for, many, many years, at least several, you know, single digit years, and perhaps 5 or 10. And although inflation will wax and wane as Tavi Costa's chart of the 70s, so accurately shows, the trend is up, I mean, we're not going back to 1% or 2%, we're certainly not going back to disinflation for any long period of time, in my opinion. And so what I would say is, to your listeners, is just make sure you're not in high tech, that is still in my opinion, overvalued and multiples that don't support higher interest rates, and make sure you are in the basic building blocks of society, you know, which really are commodities and commodity related things that can't be printed, because we've under invested in them for a long period of time. And, you know, as Jim points out, this isn't going to get solved overnight. And, Jeff Currie at Goldman Sachs has done great work on this as well, I listened to all his research, it's outstanding. You know, this is the 1970s. And in fact, it's probably the 1970s on steroids. And I remember the 70s. And, you know, stocks, in general sucked. Bonds really, bonds really sucked. And, you know, if you weren't in oil and gas or gold, it was pretty hard as an investor to make money in the 70s, or real estate. And the real estate didn't even do well until we came out of it, and the interest rates dropped. But, you know, my parents had a $40,000 house that did a 20 bagger over the next 20 years. But, you know, that's not going to happen now. Because real estate's overvalued.

So, again, I think the bright side is that all these problems that we see, in my opinion, are going to get solved with this reset. It's, as you know, Ronnie, I've used the fourth turning model. And, you know, it's, I think there gonna be some pretty tough times for people and for markets. And I don't disguise that I'm sure Jim would kind of agree with me. But I do think that also, you know, the human race continues to improve conditions, and we have for hundreds of years, and unless we blow ourselves up, which I hope we won't, I think we will continue to and my sense is, we're going to have to, we're going to be forced into resetting to some kind of sound money standard, you know, we need a neutral reserve currency, we absolutely have to have a neutral reserve currency, or else these problems are going to continue.

But I think that when, you know, ultimately, this, in my opinion, will resolve via hyperinflation, and that that will drive us into that neutral reserve currency. And the reason, the reason I say that hyperinflation is going to occur. And this is one area where I would differ with Jim slightly, Jim pointed out so correctly, that cost push was a big part of what was going on. But there was also a demand pull side, you know, where you saw it, you saw it in housing in the US. And, you know, it wasn't that the cost of housing went up, although it was going up, but you saw a huge push in the price of housing, post COVID. And what that was, was people putting on the Hugo Stinnes trade, the inflation king of Weimar. And what you started to see there was the beginning of Gresham's Law. So people said, okay, let me see if I get this straight, I can borrow money at 3% and buy an asset that I know I need, that will be around, that can't be easily replaced, you know, at a certain price. I'm going to do that. And so they did. And that's why you saw the housing price pop that we had. And I think, you know, that kind of thing is going to continue because the way that governments have structured this system, is that really their only way out is monetary debasement. I mean, yes, they have another way out, they could pretend to be Volker and shove us into something that will rival or exceed the Great Depression. But for them, in my opinion, that's political suicide, and they won't do it. They'll threaten to do it, they'll head fake to do it, they've just done it, they'll, continue to do it. It's going to be a rough ride, it's gonna go up and down. There's gonna be all these waves, you know, wave up of inflation, wave down. Like I said, they got a clown car, they're gonna bounce off both the guardrails. When the day is done, they will have to debase and inflate, because the alternative is, the entire world is a smoking wreck. And they're just not going to let that happen. And so, with that as a as a backdrop, I think the one thing that investors can do is invest in sound money, things, knowing that over time, if they have a five- and 10-year time horizon, they will be better off than if they don't invest in sound money things. That I'm quite certain of. I feel very strongly about.

Ronnie Stoeferle

Larry that was a very powerful final word. Thank you very much for that. Gentleman. It's been a great, great pleasure talking to you. Again, Larry, thanks for taking the time as our special guest. We'll meet each other in September in Colorado. So I'm really looking forward to it. Gentlemen, have a great summer. You know, spend some quality time with the family, recharge your batteries. And I think there will be plenty of topics to talk about in our upcoming advisory board meetings, plenty of stuff to write about. And yeah, again, thank you very much for taking the time.

Lawrence Lepard

Thanks for including me. Nice to meet you, Jim. Nice to meet you, Mark. Take care, guys. Thank you.

Ronnie Stoeferle

Thank you very much.

Mark Valek

Take care. Thank you.

Jim Rickards

Thanks a lot. Bye bye.

Appendix: Permanent Members of our Advisory Board

James G. Rickards

Jim is the author of the international bestsellers *Currency Wars* and *The Death of Money: The coming collapse of the international monetary system*. He is 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 *Scholarium*, an independent research institute in economical and philosophical issues in Vienna. He is a 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 Stoeferle, 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 *In Gold We Trust* 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 *The Zero Interest Trap*. Moreover, he is a member of the board at *Tudor Gold Corp*. (TUD), a significant explorer in British Columbia's Golden Triangle. He is also an advisor to *Matterhorn Asset Management*, a global leader in wealth preservation in the form of physical gold stored outside the banking system.

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 Hongkong, 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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