Minutes of the Advisory Board Meeting
Incrementum Inflation Diversifier Fund
October 10, 2017

HOW QUANTITATIVE TIGHTENING WILL LEAD TO INFLATION, NOT DEFLATION

Highlights of the conversation:

Ben Hunt:

- Quantitative Tightening is deflationary in theory, but will be inflationary in practice

- The narrative around inflation is about to change, which in turn will lead to higher inflation
- It's the market narrative that's important, not the underlying reality of markets
- I don't think that reality moves long-term interest rates, I think it's expectations.
- The VIX has seized to be a good measure of risk because it is a target of too many investment strategies.

Heinz Blasnik:

- I am not currently seeing warning signs of an imminent market crash
- De-dollarization is coming at some point, but currently there is no alternative reserve currency
- One argument against gold in the short term is that speculators have a large net long position in gold, but in the medium to short term I am bullish.
- I think a downtrend has begun in the dollar, but it hasn't been taken seriously by anyone.
- Stay away from high yield bonds

Jim Rickards:

- I believe there will be a war with North Korea in 2018
- Company earnings might stall in 2018
- I think that the best case scenario is that we get a business cycle recession, and a major stock market correction, over the next six months
- The Fed will not raise rates in December

Ronald Stöferle:

- The current narrative among analysts is that there is a 0% chance of a GDP contraction, which is an extreme consensus view
- I think we are close to “peak complacency”; the market and the reality are moving in opposite directions
- Our inflation signal recently switched from “disinflation” to “inflation”
- The fact that gold is up 12% this year, despite all the headwinds, is very positive

Mark Valek:

- If the Fed doesn’t raise rates this December it could be a trigger point for a further leg down in the dollar
- I believe de-dollarization is coming

Biography of Our Special Guest:

Ben Hunt is the chief investment strategist at Salient, a $14 billion asset manager based in Houston and San Francisco, and the author of Epsilon Theory,a newsletter and website that examines markets through the lenses of gametheory and history. Over 100,000 professional investors and allocators read *Epsilon Theory* for its fresh perspective into market dynamics.

He received his Ph.D. in Government from Harvard University in 1991. He taught political science for 10 years, leaving academia in 2000 to co-found a successful software company. Dr. Hunt began his investment career in 2003, first in venture capital and subsequently as a portfolio manager of two hedge funds. Dr. Hunt joined Salient in 2013, where he combines his background as a portfolio manager, risk manager, entrepreneur, and academic to provide a unique perspective on investment risk and reward on behalf of Salient and its clients.

Transcript of the conversation:

Ronald Stöferle:

Gentlemen, welcome to the Q4 discussion of our Advisory Board, featuring regular guests Jim Rickards and Heinz Blasnik, as well as your hosts Mark Valek and Ronnie Stöferle. I am delighted that the author of Epsilon Theory, a must-read publication for me, Dr. Ben Hunt, is joining us today! Ben, welcome and many thanks for joining!

Just some housekeeping from our side, we are working on our new book called "The Zero Interest Rate Trap"; we hope that we can release it by the end of the year. We are currently in the editing stage.

We are going to publish a new chartbook on gold that should be out soon. And our inflation signal just switched to rising inflation after showing disinflation since November 2016. Moreover, we are starting a new business in the crypto space where we want to publish research about cryptos and their advantages and disadvantages!

Our quarterly **Crypto Research Report (CRR)** will provide an extensive study of crypto assets and blockchain-related market developments. Incrementum applies a holistic approach to understanding cryptocurrencymarkets and the relevant impact these technologies will have on traditional asset classes. Similar to the Internet, the blockchain technology is changing the way we do business and we are convinced that a small investment in knowledge about these new technologies may prove to yield a high return over the coming years. We will share our main findings in each edition of the CRR in order to decrypt the world of crypto for financial market participants and institutions.

With that out of the way, let's start today's discussion. **The first question is: what is the current narrative in the markets and what might change that narrative?** Ben, I recently finished re-reading your piece called Sheep Logic and let me mention a few things I highlighted. You wrote that the Common Knowledge Game is a secret of success for shepherds in business, politics, religion and any aspect of our social lives. It's not what the crowd believes that's important; it's what the crowd believes that the crowd believes. So the power of a crowd seeing a crowd is one of the most awesome forces in human society. It topples governments, it launches crusades, it builds cathedrals and it moves markets.

So the most important media outlets (e.g. Bloomberg, FT, WSJ,..) offer perspective on the financial market Common Knowledge Game because "everybody knows" we subscribe to these media outlets. So what matters is what everyone thinks that everyone knows, and that's how sheep logic, aka the Common Knowledge Game works in markets.

So my first question is about the narrative that is going on at the moment. You are writing a lot about volatility, the transformation of capital markets into political utility. You say that when Trump and Mnuchin talk about the stock market being the report card they are basically just saying out loud what every other administration has known for years, so forget about markets; our entire political system relies on stocks going up.

Ben, the floor is yours. What are your thoughts?

Ben Hunt:

The notion of the Common Knowledge Game is what Keynes used to call the newspaper beauty contest. What Keynes meant by this is that newspapers would regularly have contests to draw readership and the contests consisted of printing the pictures of ten or twelve pretty, local girls. And the newspapers invited the readership to send in a ballot and vote for who they thought was the prettiest. If you were one of the people who ultimately voted for the girl who won the contest, you would be entered into a sweepstakes drawing; e.g. an all expenses paid trip.

Keynes said that everyone would be going through three stages when figuring out how to play the newspaper beauty contest. Stage one would be figuring out which of the girls you thought was the prettiest, however it wouldn't take you long to realize that voting for the girl you thought was the prettiest won't win you the contest because you had to pick the one that everyone else thought was the prettiest, in order to actually win the contest.

We then get to Stage two, where you would start thinking about what other people find attractive, i.e. which girl other people would pick. So you have to figure out what the consensus is.

Stage three occurs when you realize that other people might also have figured out how to play the game (i.e. they need to figure out what the consensus is). So in stage three everyone is looking around at everyone else and trying to figure out how everyone will vote, i.e. what is the consensus of the consensus; what is it that everyone thinks that everyone thinks.

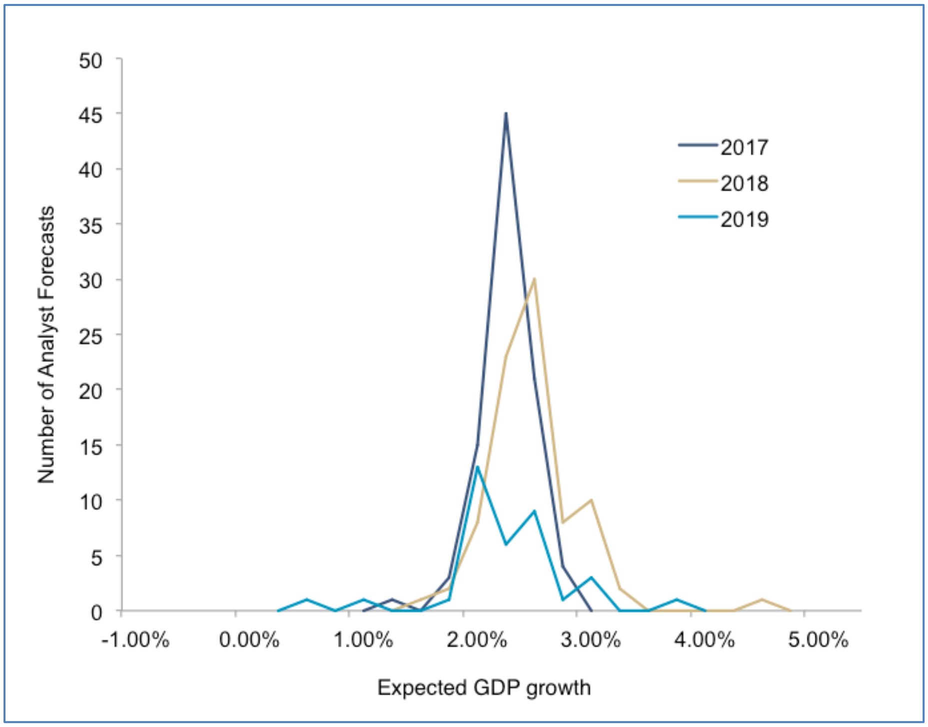
Modern Game Theory today gives us some guideposts on how to play this game successfully, i.e how to figure out what everyone thinks that everyone thinks. And the answer, I believe, is found in what modern game theory calls "The Missionary". The classic example is where a missionary comes to an island, and starts to talk about taboo subjects. By doing that he creates common knowledge, which is not necessarily public knowledge. Common knowledge is knowledge that everyone believes that everyone has heard. So the way to figure out where the Common Knowledge Game will go is to look at what Game Theory calls Missionary Statements, e.g. statements by a famous politician or investor that everyone believes that everyone has heard.

So if you think about the markets today, what drives investment behavior is this Common Knowledge Game, which is driven by narratives.

I'll stop there for now and open it up for discussion.

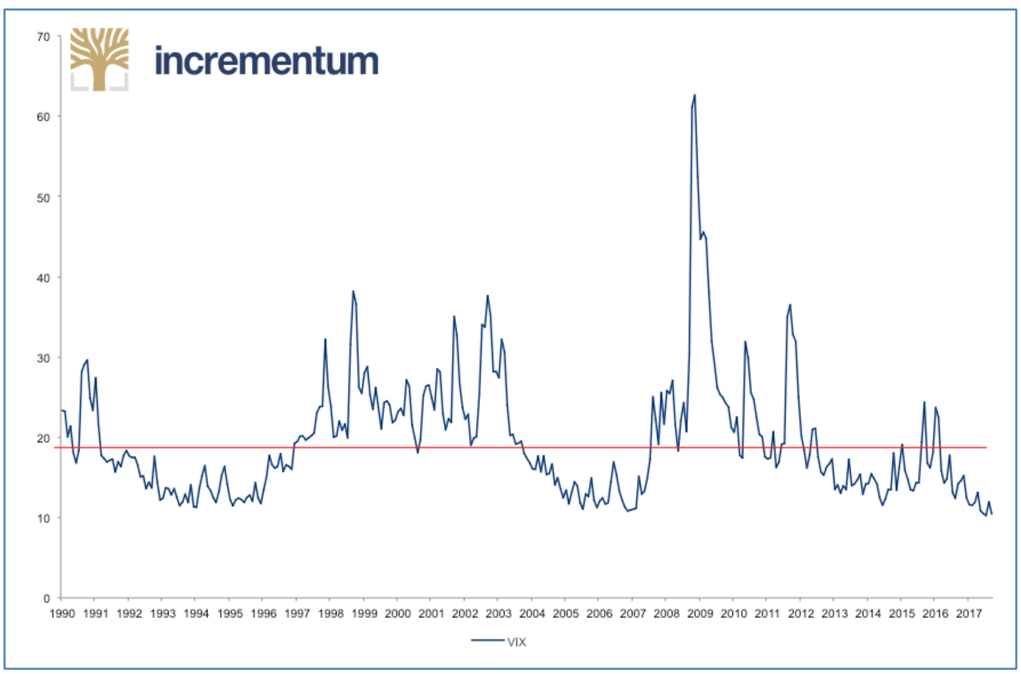
Ronald Stöferle:

Given what you have said I find the chart below very interesting; it shows the consensus view about expected GDP growth, and what jumps out is that no analyst expects a recession in the next two years. It's a consensus view that the economy will continue growing at 2.2%-2.4%.



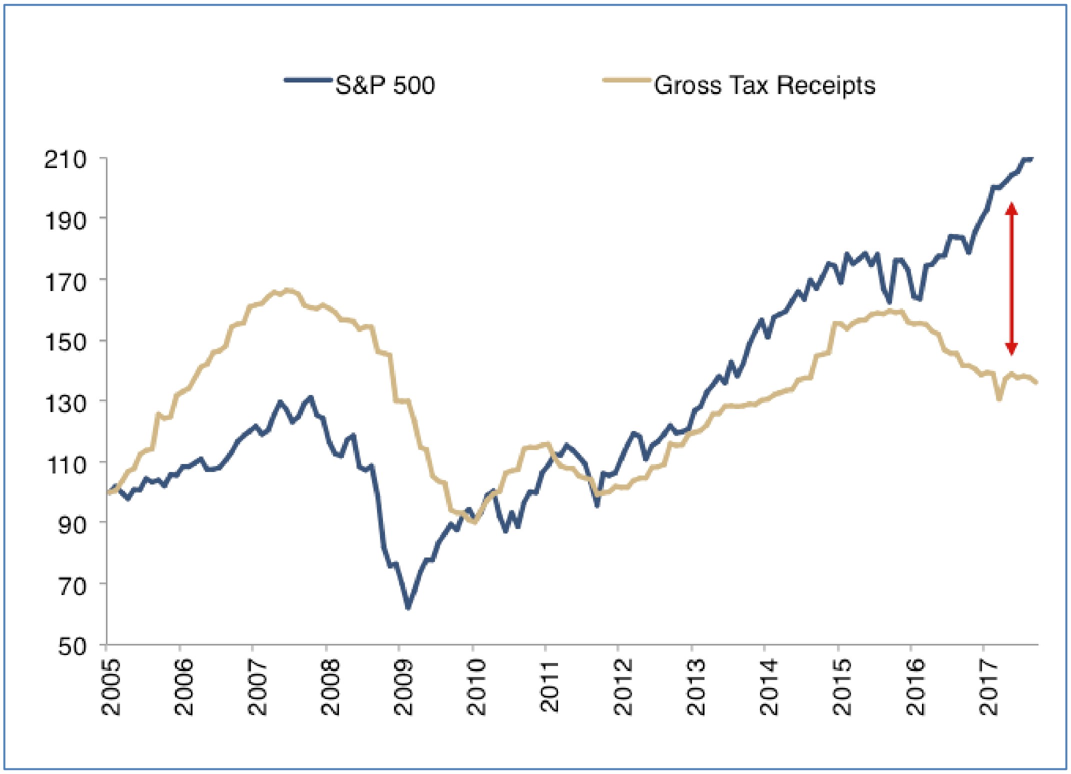
Source: Bloomberg, Incrementum

Moreover, the chart below highlights “peak complacency”; it’s a chart of the VIX, the “fear gauge”, and it’s at all-time lows. This suggests that market participants are not worried about a crash.



Source: St. Louis Fed, Incrementum

Our view is, that below the surface the US economy is actually much weaker than assumed. The next chart shows the divergence between tax receipts and the S&P 500; tax receipts are going down while the S&P is continuing to go up. If the economy is improving, why are tax receipts going down? The way I analyze these charts is that consensus is not in line with what the underlying truth is.



Source: https://www.fms.treas.gov/dts/index.html, Mac Overton, Incrementum AG

Heinz, what are your thoughts around this topic?

Heinz Blasnik:

I absolutely agree that these narratives shape the investment landscape. For instance, at the moment one of the widely accepted narratives is that central banks have everything under control, and if anything bad happens they will just print money and everything will be fine again.

In my opinion if we look at all these narratives that are shaping markets, the point is to find out which ones are incorrect, and when and how that will be discovered.

Often the narratives that shape opinions are correct, e.g. the people who have been bullish on the market for years have been correct up until now, even if the market has been, and remains very overvalued.

I believe there is a dichotomy between the underlying reality, and what everyone believes. And my impression is that people are aware of the dangers; they know the market is overvalued, but on the other hand there is a narrative that says: “the market may be highly valued, but there isn’t much downside”. And many of the warning signs that we usually see prior to a crash, are not present at the moment. For instance, margin debt usually declines for a few months before the market turns, however margin debt recently reached a new record high.

In my opinion I believe that things will play out a bit differently than usual because we are in a unique situation considering all the stimulus by central banks over recent years.

Ronald Stöferle:

Thank you Heinz.

Jim, what do you think? The floor is yours.

Jim Rickards:

I would point out that there is a distinction between a normal business cycle recession, and a financial panic.

Typically with a recession you get some warning signs first, e.g. the stock market tops out, inventory to sales ratios increase etc. But with a financial panic, it is different; they seem to come out of nowhere; 1998 and 2008 are good examples of this. But for now I think we are chugging along, we have been in a depression since 2007 and we will be in a depression indefinitely until it is punctuated by a either a financial panic, in which case things will get a lot worse, or structural reform, in which case things might get better. But I think the likelihood of structural reforms is low.

Whenever we have a strong quarter of GDP growth people seem to get excited and think we have entered a higher growth period, but over the last seven years we have had several such strong quarters, but overall growth in that period has been low.

A panic is different because it comes out of nowhere, it can come tomorrow, or it can come several years from now. I look at markets using complexity theory and given how complex markets are it’s very difficult to pinpoint when a crisis may come.

Stock valuations are currently at, or near, all time highs when you look at several valuation metrics (e.g. Buffett’s favorite which is market cap to GDP). Stock prices are often driven by future earnings projections and price multiples (e.g. P/E ratios). Earnings growth from 2016 to 2017 has been high, and Wall Street tends to simply project last years’ earnings into the future, and therefore current projections for 2018 are high. However, the growth from 2016 to 2017 was high because the level of earnings in 2016 was low, so when you compare 2017 to 2016 it looks like earnings have grown a lot, but in reality earnings are at about the same level as in 2014.

The result is that the market takes very high earnings multiples and applies them to high earnings projections, which results in the high stock market valuations you have today. But we are going into earnings season for Q3 and I think earnings might fall flat starting now and going forward the next months. So when we get into 2018 earnings might be flat, and on top of that we will have a "tough" comparison, i.e. they will be compared to 2017 earnings figures, which were quite strong. So the stock market could hit a wall simply based on the non-sustainable narrative of persistent strong earnings.

I think we are currently seeing the result of monetary policy, because it works with a lag. The Fed started tapering in September 2013, and they started raising interest rates in December 2015. Subsequently there was a sequence of rate hikes. So we've had tightening for the past four years, which became more intense over the last two years. So it's not surprising to see the results of monetary tightening showing up now. And then the Fed has continued with balance sheet normalization, so called Quantitative Tightening (QT), starting October 1st. The result is that the Fed has blundered, because their models are flawed, and they have tightened into weakness, which will probably lead to more weakness.

Given everything I've said above I think that the best case scenario is that we get a business cycle recession, and a major stock market correction, over the next six month.

I think the current narrative is that the Fed will tighten in December by raising interest rates 25 basis points and as a result we have seen a stronger dollar, a weaker euro, weaker gold, weaker EM currencies, and higher bond yields.

From early on I have been adamant that I don't think the Fed will hike rates in December, and we will find out if I'm wrong or not. This is based on a Fed model I use, which was explained to me by a Fed insider. The model says that the Fed will raise interest rates four times a year; in March, June, September and December, by 25 basis points each time, like clockwork. This will happen until 2019 until they get rates to more normalized levels of about 3.25%. They are doing this because they want to get rates high enough so that they can cut them during the next recession. This thought process is rooted in research saying that negative interest rates don't actually work (because people start saving more), and therefore if a new recession hits and the Fed rates are at 0%, bringing rates into negative territory won't actually work. The Fed therefore has to raise rates first, and then cut them again when the next recession hits. They are basically trying to reload the gun, so they can fire it again.

However, there are three exceptions to why the Fed would not raise rates at an FOMC meeting. Those three exceptions are:

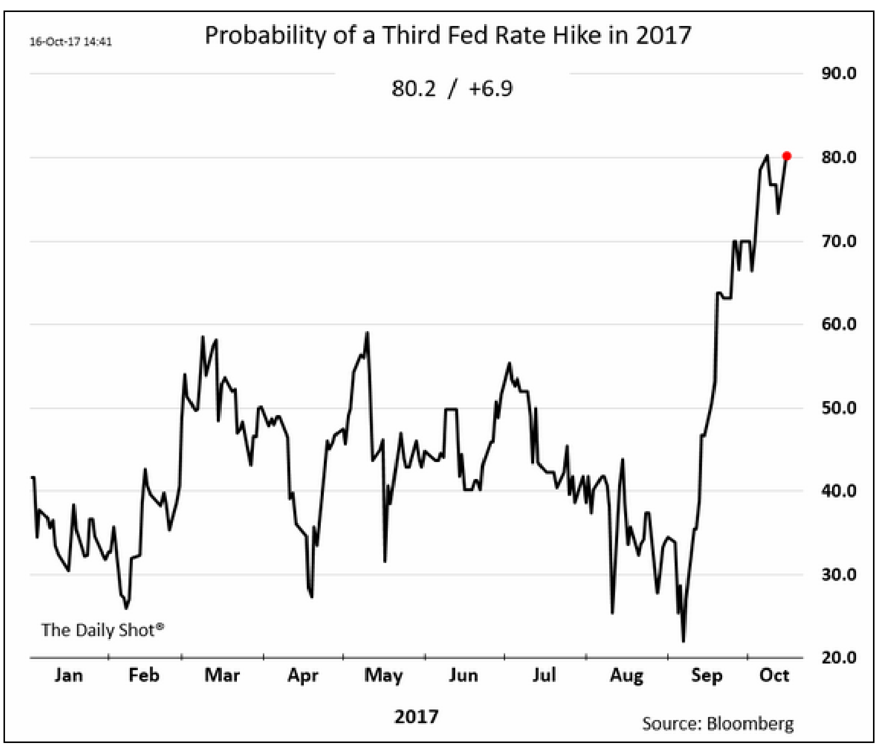
1. Disorderly market declines
2. Strong disinflation or deflation
3. A drying up of job growth.

At the moment we have two out of three: slowing deflation and job losses. Usually, having only one factor out of three is enough to make the Fed pause their rate hikes.

I therefore believe that rate hikes will pause for a while, however over the longer term we are on a rate hike path because the Fed is desperate to raise rates. The reason the market isn't picking this up is because when the Fed is planning on raising rates, and the market doesn't believe it will do so, the Fed tries to change people's expectations through speeches and leaks. They do this to avoid shock interest hikes. On the other hand, when the market thinks the Fed will raise rates, but in reality they won't raise, there is no particular incentive to set the market straight because that would be a positive shock.

An example of this is March 2017, when the Fed knew it was going to raise rates. The market only gave it a 30% probability, measured by Fed funds futures. I had it at over 80%, and the Fed had it at over 80%. So the Fed went on a kamikaze raid at the end of February giving three speeches in three days insinuating that they would raise rates. The market woke up and Fed funds futures gapped up from about 30% to 80% in three trading days.

Right now we have a similar situation, the market is giving an 80%+ probability of a rate hike in December, but my probability is about 20%. My opinion is that the market will converge on the 20% level. Unlike March, the Fed is not worried about this because it would be a positive shock for the market. When the market wakes up to the truth I expect the dollar to go lower, the euro to go higher, EM currencies to strengthen, gold to strengthen and bond yields to decrease. I think all the recent trends will reverse violently in late November or early December, and the only exception to that would be war with North Korea, which I estimate will not happen until first quarter 2018.



Source: Bloomberg, Daily Shot

Ronald Stöferle:

Thanks a lot Jim.

I have a second question that I wanted to ask Ben. Ben, you recently said in one of your pieces that quantitative tightening and rate hikes could turn out to be inflationary. Your point was that in the same way that QE was deflationary in practice, but inflationary in theory, so will the end of QE be inflationary in practice, when it is deflationary in theory?

I think this is an interesting way of thinking because nobody is expecting inflation these days, and as I mentioned at the beginning of the call, Incrementum's proprietary inflation signal recently switched to rising inflation.

Source: Ben Hunt - Twitter

Ben Hunt:

Ben Goodhart, who was at the Bank of England a few years back, came up with Goodhart's law, which essentially says that when a measure becomes a target, it seizes to be a good measure. I think we are seeing a lot of that these days. I think the VIX is an example; it is not currently a good measure of volatility or risk because it has become a target for so many investment strategies.

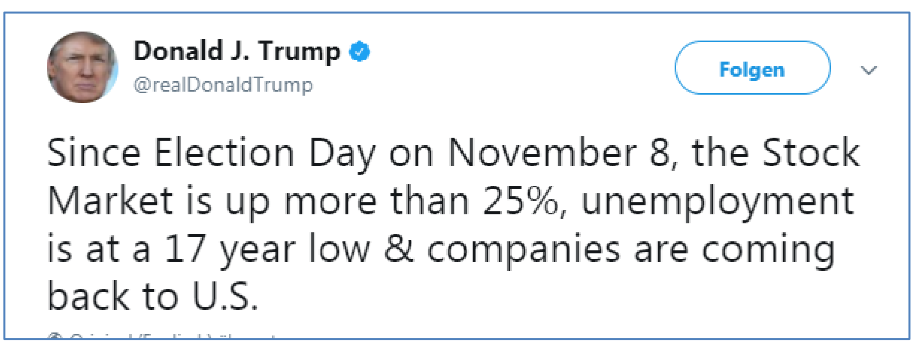
Another example is how the Fed is targeting long-term interest rates. In Japan they are doing it directly and explicitly, while in the US they are doing it indirectly, but still quite explicitly, through quantitative easing, and through this new tool called communication policy, which is what I have described as the narrative.

I think Jim is right; the Fed wants to raise interest rates to put bullets back into that gun. And they are also looking to shrink their balance sheet. And then they have their third tool, which is the narrative, which is the communication policy. They are doing all this to try to impact long-term interest rates.

I actually don't think that reality moves long-term interest rates, I think it's expectations. So these tools have been developed to try to influence our expectations. And when long-term interest rates have now been targeted, they seize being a measure. But when we look at what has actually occurred in terms of expectations, and these fed policies (with QE, negative interest rates and communication policy) the clear impact has not been to increase our inflationary expectations, but to decrease them. And I think that is because we have created a world where on the side of small and medium businesses there is no risk taking because there is both a perception and a reality that the government is not there to alleviate regulation or taxation, but to perpetuate themselves. And large businesses are not incentivized to take risk because they are getting free money. Why would they take risky actions like building new factories or paying up for new workers, when they can have a relatively riskless approach of earnings growth through buying back stocks, issuing dividends etc?

So my view is that in the same way that QE and communication policy was designed to increase our inflation expectation, and thus trying to target long-term interest rates, my view is that a reversal of QE will have the reverse effect. It won't reduce our expectations of inflation, but instead increase our expectation of inflation, even though it is a tightening measure. The reason is that the story around normalization is a very positive story for inflation expectations. And you marry that with the big missionaries that are out there, which is not just the Fed, but also Wall Street, which are desperate for a reflationary story regardless of what reality is because that story promotes a rotation trade out of tech, into financials. And also out of growth, and into value. And that's what Wall Street wants; they want people to rotate into the next big thing.

Similarly, the White House is all in when it comes to constructing a positive story around growth, even if it's nominal and not real growth. They want activity so they have a better chance in the upcoming elections.



Source: Donald Trump - Twitter

I don't know what the inflation reality is; I tend to agree that we are in a deflationary slog, but that reality gets trumped by the narrative, which says that growth is coming. And I therefore believe we will see increases in inflation expectations.

Heinz Blasnik:

While the Fed keet rates low and engaged in QE, investments in production shifted from consumer goods to capital goods. One of the ways a bust can develop, according to the Austrian school, is a prolonged shift in investments to capital goods production, away from consumer goods. That's because the economy ties up more consumer goods than it releases. Eventually interest rates rise, a bottleneck appears and the production structure needs to be re-arranged to come into line with actual consumer demand, which is effectively the bust. This implies that the prices of consumer goods might go up because supply shortages develop. From this perspective it seems possible that removing QE could in the short term lead to pressure on consumer price inflation.

I therefore agree with Ben that this possibility exists.

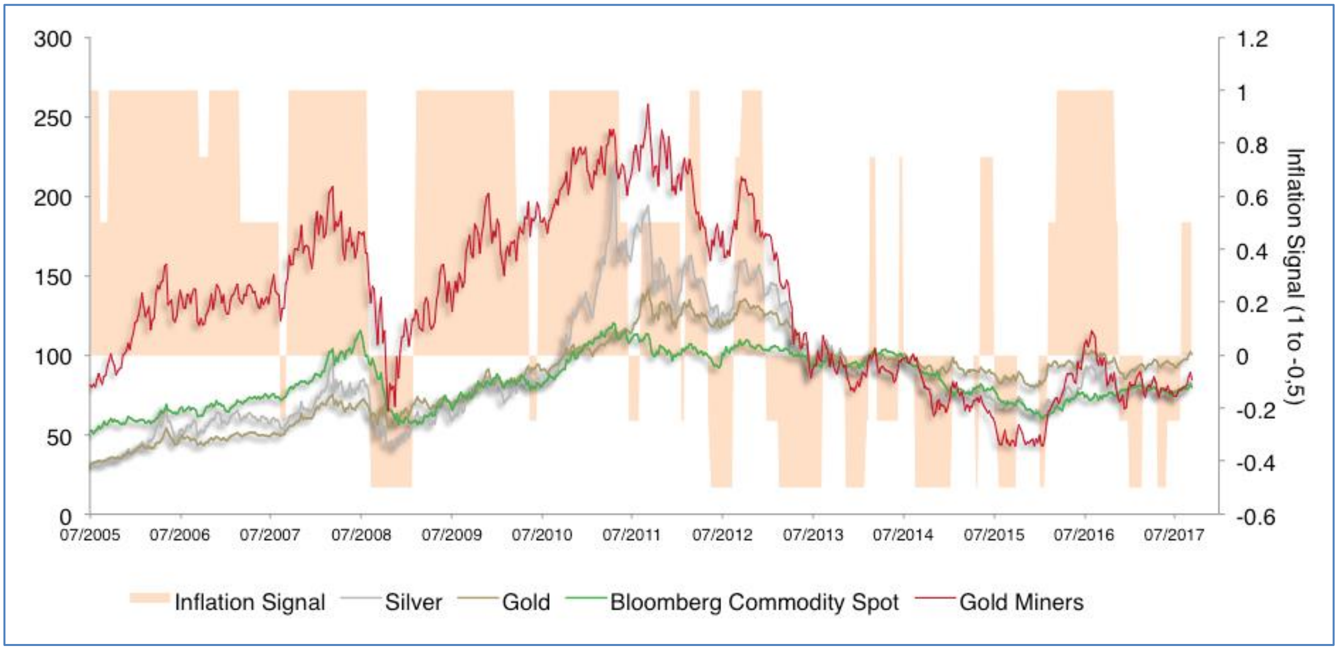
Ben Hunt:

I believe that what we are seeing today is price increases in the real world, for example look at how commodity prices have increased. And if you combine that with a political necessity to create a narrative in the US of rising rates, the result will be that we will get higher prices and higher rates.

Mark Valek:

I'd like to talk about the dollar. Year to date we have seen quite a significant depreciation in the dollar, but the market didn't take much notice of this yet. And if the Fed will not hike rates in December, as Jim believes, this will lead to the dollar weakening further. This might be a trigger point; i.e. a leg down in the dollar pushes through price inflation, which is already on the rise according to our inflation signal. Jim, what are your thoughts on this?

Incrementum Inflation Signal Switching to "Rising Inflation"



Source: Incrementum AG

Jim Rickards:

I think that's a very good analysis Mark, but I would point out that inflationary and disinflationary forces are self-negating. If we see inflation pick up, the Fed raises rates, and the economy slows down. The Fed keeps flip-flopping; when they see an inflationary trend they raise rates, and when the see a deflationary trend they lower rates. They have done this on nine separate occasions since 2013.

In my mind, the natural state of the world is deflationary due to demographics, technology and debt. But central banks can't tolerate deflation, so they have to push towards inflation through money printing. But you need more than money printing; you need a change in psychology, to get inflation going. If money printing is the gasoline, the change in psychology is the match that will light the fire of inflation.

In 2008 we saw an intergenerational change in psychology, which made people more prone to save. It will take a lot to change that psychology. However, if you can change it, it's almost impossible to change it back. A good example is 1974, when there was a stock market crash in the US, and inflation ticked up. Before the crash there was focus on preventing inflation, but then the crash came and inflation collapsed and the Fed was battling deflation. As a reaction to that they created a borderline hyperinflationary episode between 1977 and 1981. The reason I mention this is to point out that expectations can be hard to move, but once you move them they can turn on a dime, and they can be very hard to turn back. So right now inflation expectation are low despite all the money printing, but if for any reason that would turn, it could be almost impossible for the Fed to get the genie back in the bottle. With all the money that’s been printed over the years we could get screaming hyperinflation.

Mark Valek:

Let’s move on to a new topic. What are your views on de-dollarization?

Jim Rickards:

I think de-dollarization is coming, but as many dynamic processes they happen slowly at first, then quickly. I think all the elements are building for a de-dollarization, but we haven’t reached the tipping point yet. There’s little doubt that most of the members of the G20 would like to leave the dollar in the rearview mirror as the benchmark global reserve currency. But there are constraints, if you have a reserve currency youhave to invest it in something, you can’t just stick it under your mattress. That means you need a liquid bond market, which the US has. But I think de-dollarization is coming, and when it comes it will happen very quickly. It probably goes hand in hand with the next financial panic.

Ronald Stöferle:

I just received a notice regarding the Renminbi based oil contract on the Shanghai exchange, and it seems that there will be some newsflow at China’s big five-year forum, which takes place this October, so it seems like there will be an oil contract in Yuan terms, which is definitely a milestone in this de-dollarization game.

Heinz, I assume you have plenty of thoughts on that topic as well.

Heinz Blasnik:

A factor that is making the process slow at the moment is that you need market acceptance of the idea. People are used to using the US dollar, and it’s the major reserve currency holding of foreign central banks. So I also believe it will be a slow process at first, and eventually reach a tipping point. And I agree that a financial panic might precipitate it. If you look back at the 1970s it was a fairly risky period for the US dollar and at the time the US made a deal with Saudi Arabia that they would price oil in dollars in exchange for US military protection. And Paul Volcker raised interest rates signaling a willingness to combat inflation, and stabilize the dollar . So they managed to fix the problems that the dollar was in at the time.

The question is how willing the market is to live with the idea of de-dollarization. I agree with Jim that large and liquid financial markets are a major reason why the US dollar has remained the reserve currency. There are no comparable markets elsewhere at the moment.

Source: Jim Rickards - Twitter

Jim Rickards:

I think the event that could displace the dollar as the world reserve currency is a global financial panic where you have a liquidity crisis, and where it happens before the central banks have had a chance to normalize their balance sheets or normalize interest rates. As a result the central banks' ability to provide liquidity is constrained and the IMF will have to issue SDRs, because they will have the only clean balance sheet, and they can print trillions of dollars equivalent of SDRs.

But that would be subject to veto power by any block of more than 15%. Right now the BRICs plus Venezuela have more than 15% voting power. And I include Venezuela because they seem to have come under the wing of China. So the BRICs and Venezuela could block a world rescue.

But they could say that they will agree to the world rescue, but they want this to be the end of the dollar as the world's benchmark reserve currency. That could all happen quite quickly.

Heinz Blasnik:

From a geopolitical perspective I am also looking at North Korea. What I find worrying is that we know so little about Kim Jong Un. For all we know he might actually be crazy, although I don't necessarily think that's the case.

Source: express.co.uk

Jim Rickards:

I don't think he is crazy, but I do think that we are moving towards a war. I think he is a rational actor. We killed both Gaddafi and Saddam Hussein, who did not have nuclear weapons at the time they were invaded. However, Iran does have nuclear weapons, and we have not invaded them. The message this sends is that if you have a weapons program we won't invade you, but if you give it up we will kill you. So Kim Jong Un's conclusion is that if he keeps the program going, he stays alive. So he is completely rational.

But I think we are going to war with North Korea because Kim Jong Un has the ability to launch a missile on California that could kill 3 million Americans and leave the state radioactive for the next 400 years. Even if this is a very low probability, the damage would be so large that it's an unacceptable risk for the US. So that's why I believe the US will attack North Korea in the next 6 months.

These things don't happen overnight. The US invaded Iraq in March 2003, but the orders were given in mid 2002. And in the case of North Korea the orders have already been given, and the military is doing everything possible to warn us. Today there was a story out of the UK that the HMS Queen Elizabeth, which is the newest aircraft carrier in the Royal Navy, is scheduled to be commissioned at the end of the year. Being commissioned and being ready are two different things, but the admiralty said it would be prepared to deploy the carrier in action on North Korea following the commissioning. I think the reason they are saying this is to warn us.

Source: Marian Kamensky - Twitter

Ronald Stöferle:

Jim, do you have any interesting investment ideasat the moment?

Jim Rickards:

Based on the market narrative that the Fed will hike rates in December, and my expectation that they will not, I would go long gold, long the euro and long US treasury notes. Not necessarily tomorrow morning, but look for a good entry point sometime between now and the end of October, early November.

Ronald Stöferle:

Regarding gold, Adrian Day recently said something very interesting, he said that people are expecting too much from gold. Gold is up 12% this year and we should not forget that the current environment is not great for gold. We've got real estate markets doing well, the stock market, which is the biggest opportunity cost for holding gold, is doing very well, we've got a hawkish Fed, we've got low volatility and we've got high confidence in the banking system. But the fact that gold is up 12%, despite all these factors, is in my view very positive for gold, even though some of it is because of a weaker dollar.

Gold Price ytd (+ MACD, RSI)

Source: Investing.com

Jim Rickards:

And imagine how well it will do when the headwinds dissipate.

Ronald Stöferle:

Exactly.

Heinz, what are your final thoughts?

Heinz Blasnik:

I'm watching the stock market closely because I think that at some point we will get big opportunities when the structural problems I mentioned earlier manifest themselves. (i.e., the proliferation of systematic and/or passive investment strategies and the high degree of leverage used by the former and the frequent lack of liquidity in the underlying securities held by the latter). It might only take a small decline in the market to get things going. It could for example be some news that triggers a short-term decline, which then snowballs. A way to play this would be to buy options on the VIX. These options are very cheap because the VIX is so low at the moment.

And I agree with your views on gold. The environment hasn't been bullish for gold, but it's been doing well. One argument against gold in the short term is that speculators have a large net long position in gold, but in the medium to short term I am bullish.

Moving on to the bond market I would say that people should stay away from high yield bonds, and they could also be a good shorting opportunity. You could play it with put options, rather than straight up shorting, which could be expensive due to the high cost of carry.

Regarding currencies I think that what I said about gold is also applicable to the US dollar. In this case I think a downtrend has begun, but no-one is taking it seriously yet.

Ronald Stöferle:

I think we will end it there. We've had a lengthy and interesting discussion. Thank you to everyone who attended and we will see you on the next advisory board discussion, which will be at the beginning of 2018.

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

James G. Rickards

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

Dr. Frank Shostak

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

Rahim Taghizadegan

Rahim is the founder and director of the institute for value based economics, an independent research institute in economical and philosophical issues in Vienna. He is bestselling author and a popular speaker internationally. Rahim studied Physics, Economics and Sociology in Vienna and Lausanne. He has worked in the fields of economics, space research and journalism. He has also taught at the University of Liechtenstein, the Vienna University of Economics and Business Administration and the Universität Halle an der Saale.

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 2017 "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.

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" and in 2017 "Die Nullzinsfalle" (The Zero Interest Rate Trap).

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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