SEMI-MONTHLY FISCAL/MONETARY REPORT - GENERAL EQUITY MARKET VOLATILE - RE: GOLD, THE SPRING IS COILED, THE GUN IS LOADED

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The general equity market was volatile and weaker during October. Gold bullion, and the mining stocks were relatively quiet, all changes rather immaterial. Gold bullion was up 2.2%; the mining stocks as represented by an average of the three mutual funds we track (Tocqueville, Oppenheimer and Van Eck) down an average of 1.8%, possibly weaker from the tail end of the Vanguard liquidation we have discussed. The two ETFs, GDX and GDXJ were up an average of 1%, so obviously their holdings did better than the broader mutual fund portfolios. Though it’s our job to focus, and report, on small changes such as these, the longer term is obviously our major concern. The downside damage in the gold sector over the last several years obviously dwarfs a few points one way or another, and the upside when it comes will make our monthly reports seem immaterial.

The following bullet points summarize our current thoughts:

- Gold, as a “safe haven” is not yet in great demand in “the West”, though major accumulation continues in China & India and all major Central Banks. North American investors will see the light sometime soon, especially if the equity market’s recent downside volatility persists.
- The mining stocks continued to act a bit weaker than bullion in October, possibly representing the tail end of the Vanguard liquidation.
- It is just a question of time until Jay Powell, Fed Chairman, backs off of his intention to keep raising rates, and reinstitutes an accommodative monetary policy (QE4, or whatever). This will happen when the stock market takes a more sustained tumble and the slowing worldwide economy becomes more apparent. Calendar ’19 will not have the tailwind of much lower tax rates, and the resumption of monetary stimulus should generate much more interest in gold related securities. The gun is loaded, the spring is coiled.
- Central Banks, including Russia, Poland, Turkey, India, China, and others, are steadily increasing the gold bullion reserves within their foreign exchange holdings. Through September, the amount bought was the largest in six years, over 200 tons, and that doesn’t include China, who alone may be purchasing that much, or more.
- Central Banks, on the other hand, are reducing their holdings of US Treasury securities,

expressing dissatisfaction with our accelerating deficits.
- China, allowing their currency to cheapen, has virtually offset the effect of the new tariffs. This demonstrates how major trading competitors can use their currency as an economic, and even political, weapon of sorts.
- China, Russia, and Europe have set up alternate payment systems that do not require the use of US Dollars, undermining the credibility of the US Dollar as a reserve currency. The last time there was a major movement away from the US Dollar was 1971, when Richard Nixon ended the dollars convertibility into gold, inflation took off and gold went from $35 to $850/oz.
- The recently announced merger of Barrick Gold and Randgold, both within our portfolio, is no doubt a reflection of what they perceive as a bargain price level, and their desire to be the very strongest participant in a dynamically evolving gold market. These kinds of transactions often occur at the bottom of a cycle.
- Goldcorp, one of the premier gold mining companies, also in our portfolio, just announced a buyback of approximately $350M of their public shares, an obvious statement that their stock is considered substantially undervalued, and another possible indicator of an inflection point.
- There have been hardly any major gold discoveries in recent years, as opposed to a decade ago. Since major new mines can take a decade or more before production commences, increased demand will *not* bring out more supply for many years, even at higher prices, and the upside price volatility will be that much greater.
- Considering that the price of gold bullion, though down this year, has been fairly steady the last several months, even in the face of higher interest rates and a strong US Dollar, we believe the stage is set for a major rally in gold bullion and the mining stocks once the dollar weakens a bit (or more) and/or the stock market has its long overdue correction (or worse).

For the above reasons, and many others, we believe the stage is set for a major upward move in the most unloved asset class on earth. Legendary investors like John Templeton are famous for saying that the time to buy is when there is “blood in the street”. It seemed that way to us a few years ago, but nobody can tell when the bottom will be put in. None of the concerns that we have been enumerating regularly have gone away. It’s not a question of “if”, just a question of “when?”.

Roger Lipton

P.S. As I finish this letter, at 10:18am on November 1, the dollar is weak, gold bullion is up 1.2% and the mining stocks are up about 3%. Every long trip has to start with a single step?