

SEMI-MONTHLY FISCAL/MONETARY REPORT – GOLD LOOKS GREAT TECHNICALLY, HERE ARE THE FUNDAMENTALS !!

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The capital markets these days are driven by computers, and their technical charting algorithms ("algos"). We believe, however, that over the long term it's the fundamentals that matter. Chart patterns can carry the day, but at some point the fundamentals have to support the valuation. It's been a painful six or seven years for investors in gold related securities, from 2011 when gold bullion topped out at \$1850 and when the gold miners peaked a year later. Six years, though, within the context of modern economic and political history since 1913 when the Federal Reserve Bank was established, is obviously a small part. We believe that, even a few years from now, 2011-2018 will be viewed as a relatively brief price consolidation in the long term bull market for gold-related assets.

As we discuss the last 95 years of fiscal/monetary history, please refer to the chart we have provided below.

The Fed was established in 1913, to manage the money supply, in those days (since 1792) backed by gold, with the single stated objective of controlling inflation. It was hoped that management of the economy by the Fed would reduce the likelihood and severity of financial cycles (i.e. panics, booms, busts, etc.). In those days, it was a single mandate: inflation control, not including employment as is the case today. 105 years later, while we can't say definitively whether more booms and busts would have taken place without the Fed, inflation control has been dismal. The 1913 US Dollar is worth about \$.02 today. We suggest that the way we are going, in a lot less than 100 years from now, the US Dollar will be worth 2% of today's paper currency. Our overriding thesis is that "gold is the real money", as proven over 5,000 years of economic history. The fact is that there has never been an unbacked currency ("fiat" money) that has survived. It's just a question of how long the politicians of the day take to destroy it. Every indication continues to be that the current crop of politicians, around the world, will be no different.

The table below shows, since 1929, the amount of debt the US owes (without unfunded entitlements). We have provided a commentary as to major economic and political events, especially relating to the status of gold in relation to the economy.

As a broad overview of the last ninety years in the table below, you can see that the debt as a percentage of GDP started rising materially through the depression of the 1930's, peaked at over

100% of GDP when we were paying for WWII, came down materially until the late 1960s when LBJ instituted his “great society” and was paying for the Vietnam war. The Bretton Woods Agreement of 1944 created the US Dollar as the world’s reserve currency, to be the primary unit of exchange for worldwide trade. The US, in return for this huge privilege, was obligated to manage our economy, money supply, and spending in a responsible fashion. The US had the largest stash of gold among the world’s trading partners, with over 20,000 tons, and our dollar was convertible into gold, at \$34/oz. (after FDR raised the exchange rate from \$20.67 during the depression).

The Bretton Woods Agreement worked fairly well, and the US, including the Fed, managed fairly well through the postwar rebuilding, until the late 1960s under LBJ. As spending increased and deficits loomed, major countries around the world, led by France’s Charles DeGaulle, started exchanging dollars for gold. The gold backing of our dollar, got down to about 6-7% of our currency in circulation, from the area of 25-30% in the postwar period. *(It is worth noting that 6-7% is approximately the percentage where it is today, in the US and among major worldwide economies in total).* The US stash of gold was taken down to about 8,400 tons from over 20,000 tons in just a few years prior to 1971. Richard Nixon, and his treasury secretary, Arthur Burns, made the decision in August’71 to “close the gold window”, ending convertibility into gold. Nixon, naturally, told the American public it was all for the best, would strengthen the economy, etc.. Predictably, however, over the next eight years, the price of gold went from \$35 to \$850, stagflation set in as the inflation rate went into the teens, interest rates went to the high teens by the time Jimmy Carter hired Paul Volcker in 1979.

Volcker started raising interest rates further, to squeeze out inflation, and Ronald Reagan, taking office in early 1981, backed him in that process, tolerating the three year recession that ended in 1983. The stock market took off in August, 1982, anticipating the economic upturn.

At this point, you might suggest that a dedicated Fed chief today, backed by a financially astute President and legislative branch, could correct today’s problems, just as in the 1980s.

The problem is that debt as a percentage of GDP is over 100% today, versus 32% in 1980, the annual deficit is about 13-14x as big (in an economy that is 6x as big), interest rates are very, very low now, so can’t be lowered by much to help the rebound, versus very, very high in the early 1980s, and the unfunded entitlements overhanging us now are a huge headwind that didn’t exist 39 years ago. You also didn’t have today’s worldwide co-dependency that complicates our ability to manage our own economy.

Moving on: from 1980 to 2000, with some fits and starts, the US economy grew fairly steadily, especially under Reagan and later under Clinton. While the debt was still rising, it was well below the 100% of GDP thought to be a troubling level. Relative to gold, the urgency of the 1970s had dissipated, with good reason as stagflation had been defeated, so gold retreated from \$850 to a low around \$250 by 2000.

From 2000 to 2009 gold went from \$250 to \$900 as GW Bush, financed by Alan Greenspan and then Ben Bernanke, spent money to offset the dotcom bust of 2001, the war on terrorism after 9/11 and the financial crisis of 2008-2009. The US Debt as a percentage of GDP went from the mid 50s to almost 100%, closely correlating with the rising gold price. When President Obama was elected, and it became clear that spending would continue, not only to close out the wars but on health care and other social initiatives, gold doubled again to over \$1800/oz.

From 2011-2012 until today, gold and gold miners have suffered, because the annual deficits came down, from about \$1.4T in 2010, to about \$400B by fiscal 2015, and still “only” about \$800B in fiscal 2018. This modest progress in controlling spending (we suggest “on the surface”) reduced the urgency for gold as a “safe haven”, an “uncorrelated asset”, or the “real money” (which is our primary motivation). At the same time, the stock market has risen steadily, as the Fed (joined by other central banks) have provided minimal interest rates, to drive a stated “wealth effect”, also reducing the demand for gold. Even bitcoin, now largely abandoned, provided an alternative to traditional precious metals. It is noteworthy that the stated “on budget” deficits, have almost always been substantially exceeded by the increase in the total debt which includes borrowing from the social security trust fund and other emergency measures. You can see from the table below that, even with the lack of concern over deficits, the total debt/GDP % never came down between 2011 and 2018, continuing to rise above the 100% danger threshold where it seriously drags on an economy.

Which brings us to where we are today: We can anticipate, as far as the eye can see, sharply rising deficits and total debt, an economy that is already slowing from the 2.9-3.0% peak of calendar 2018, not much above the 2.3% of the Obama years. We note that a material portion of the modest 0.6-0.7% improvement has come from higher government spending, and the balance in a one time benefit from lower taxes. The public has spent their tax windfall on carefully selected items with Amazon, value meals at restaurants, and more pizza delivered from Domino's. Business have spent their repatriated dollars and tax savings to a major extent on stock buybacks rather than capex. Government receipts are down, spending is up for defense, health care, interest payments and storm remediation (but not Nancy Pelosi's travel). All projections call for a slowing economy over the next several years, as well as higher deficits, which will be substantially exceeded by the increase in total debt. And the unfunded entitlements still loom.

In conclusion: The fundamental stage seems to be set for higher gold prices, which should carry gold mining stocks (even more depressed than bullion) much higher as well. In a long term sense, gold had a twelve year bull market from 2000-2011, has gone through a consolidation, justified or not. Regardless, market place inefficiencies get corrected over time, the long term fiscal/monetary fundamentals justify a much higher gold price, and most technical signals indicate that the long term bull market is about to resume.

Roger Lipton

FISCAL/MONETARY HISTORY - 1929 TO PRESENT

Fiscal Yr.	9/30 Debt (\$Billions)	Debt/GDP Percentag e	MAJOR EVENTS BY PRESIDENTIAL TERM
1929	\$17	16%	Market crash. Depression reduced tax receipts.
1930	\$16	18%	Hoover raises taxes, worsens depression
1931	\$17	22%	Smoot Hawley tariffs don't help
1932	\$19	33%	
1933	\$23	39%	
1934	\$27	40%	FDR's New Deal increased both GDP and debt.
1935	\$29	39%	GOLD AT \$35/OZ.-FDR HAS OUTLAWED PRIVATE OWNERSHIP
1936	\$34	40%	HOMESTAKE MINING GOES UP IN PRICE BY 7X from 1930-35
1937	\$36	39%	US OWNS OVER 20,000 TONS
1938	\$37	43%	FDR cuts spending, Fed tightens. Serious recession.
1939	\$40	43%	Debt & GDP start rising, preparing for war.
1940	\$51	50%	Depression ends though employment doesn't recover
1941	\$58	45%	until after war, US enters war after Pearl Harbor in Dec.'41
1942	\$79	48%	Increased debt and GDP to support war effort
1943	\$143	70%	
1944	\$204	91%	BRETTON WOODS GOLD/MONETARY ACCORD -
1945	\$260	114%	US DOLLAR TO BE WORLDWIDE RESERVE CURRENCY
1946	\$271	119%	Truman's 1st term tight budget. Peacetime recession
1947	\$257	104%	US STILL OWNS OVER 20,000 TONS
1948	\$252	92%	
1949	\$253	93%	
1950	\$257	89%	Truman's 2nd term. Korean War(1950-1953) higher debt & GDP
1951	\$255	74%	Recession after Korean War ends.
1952	\$259	72%	
1953	\$266	68%	Korean war ends
1954	\$271	70%	Eisenhower's budget. Rate rise worsened recession.
1955	\$274	65%	
1956	\$273	61%	POST WAR DEBT FAIRLY CONSTANT
1957	\$271	57%	
1958	\$276	58%	Eisenhower's 2nd term. Recession.
1959	\$285	54%	
1960	\$286	53%	

1961	\$289	52%	
1962	\$298	49%	JFK budgets. Cuban Missile Crisis. U.S. aided Vietnam coup.
1963	\$306	48%	
1964	\$312	46%	
1965	\$317	43%	LBJ's budget. War on Poverty. Vietnam War. Fed raised rates.
1966	\$320	40%	
1967	\$326	38%	
1968	\$348	37%	
1969	\$354	35%	DEBT RISING, EXPECTATIONS WORSE, GOLD FLOWING OUT
1970	\$371	35%	Recession. Wage-price controls. Oil embargo. Int.rate double.
1971	\$398	34%	US GOLD DOWN TO 8400 TONS, NIXON ENDS CONVERTIBILITY
1972	\$427	34%	INFLATION TAKES OFF, GOLD GOES FROM \$35 TO \$850 BY 1979
1973	\$458	32%	
1974	\$475	31%	Stagflation. Watergate.
1975	\$533	32%	Ford budget.
1976	\$620	33%	
1977	\$699	33%	
1978	\$772	32%	Carter budget.
1979	\$827	31%	GOLD PEAKS AT \$850/OZ.
1980	\$908	32%	Volcker raises rates to 20%. Iran oil embargo. Recession.
1981	\$998	31%	Reagan budgets 1st term.
1982	\$1,142	34%	Recessionn continues, stock market ramps in August.
1983	\$1,377	37%	Recession ends.
1984	\$1,572	38%	
1985	\$1,823	42%	
1986	\$2,125	46%	Reagan lowers taxes.
1987	\$2,340	48%	S&L crisis costs US gov. \$50B
1988	\$2,602	49%	NO URGENCY TO OWN GOLD, FOR TWENTY YEARS (1980-2000)
1989	\$2,857	50%	DEFICITS RISING BUT ECONOMY IS STRONG
1990	\$3,233	54%	Bush 41 budget. Desert Storm. Recession.
1991	\$3,665	59%	
1992	\$4,065	62%	
1993	\$4,411	64%	
1994	\$4,693	64%	Clinton budget.
1995	\$4,974	65%	
1996	\$5,225	64%	Budget Act reduced deficit spending.
1997	\$5,413	62%	
1998	\$5,526	61%	No deficit, but debt still up. Last Clinton budget. Recession.

1999	\$5,656	58%	No deficit, but debt still up
2000	\$5,674	55%	NO DEFICIT, BUT DEBT STILL UP - GOLD AT \$250/OZ.
2001	\$5,807	55%	Bust adds \$22.9B to '01 budget for War on Terror
2002	\$6,228	57%	First GW Bush budget.
2003	\$6,783	59%	War on Terror costs \$409.2B. Bank bailout costs \$350B.
2004	\$7,379	60%	Bush Tax cuts.
2005	\$7,933	60%	
2006	\$8,507	61%	Wars cost \$752.2 billion.
2007	\$9,008	62%	Katrina Costs \$24.7B
2008	\$10,025	68%	FINANCIAL CRISIS COSTS \$242B, GOLD AT \$900/OZ.
2009	\$11,910	83%	Great Recession and tax cuts reduce revenues.
2010	\$13,562	90%	Obama Stimulus Act cost \$400 billion. War cost \$512.6 billion.
2011	\$14,790	95%	DEBT APPROACHING 100% OF GDP, GOLD AT \$1850/OZ.
2012	\$16,066	99%	US CONTINUES TO ABUSE RESERVE CURRENCY PRIVILEGE.....
2013	\$16,738	99%	BY PRINTING TRILLIONS OF NEW DOLLARS
2014	\$17,824	101%	War cost \$309 billion. QE ended. Strong dollar hurt exports.
2015	\$18,151	99%	FOR SIX YEARS, DEBT STILL RISING, BUT AT SLOWER PACE
2016	\$19,573	104%	NO URGENCY TO OWN GOLD, CORRECTS TO LOW OF \$1050
2017	\$20,245	103%	Congress raises debt ceiling, again.
2018	\$21,658	99%	Trump tax cuts, spending up. Debt ceiling suspended 'til 2019.
			HERE WE GO AGAIN! THE STIMULUS, AND DEFICITS, HAS NEVER, IN PEACETIME, BEEN SO LARGE AND ACCELERATING, ESPECIALLY IN THE MIDST OF SUPPOSED PROSPERITY
2019	\$23,000	109%	assumes no recession, \$1.1T deficit, debt up by \$1.342
2020	\$24,500	111%	assuming no recession, \$1.2T deficit, debt up by \$1.5T
2021	\$26,000	113%	assuming no recession, \$1.2T deficit, debt up by \$1.5T
			YOU CAN MAKE YOUR OWN ASSUMPTIONS AS TO WHAT THE PRICE OF GOLD DOES FROM HERE!