SEMI-MONTHLY FISCAL/MONETARY UPDATE - PRECIOUS METAL PRICES CONSOLIDATE - WHY GOLD?

Date : March 1, 2019

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The general equity market continued strong in February, while the precious metals complex consolidated the strong gains of December and January, with hardly any change. Gold bullion was down 0.6%, the gold miner ETFs (GDX and GDXJ) were down an average of 1.8%, the three mutual funds that we track (Tocqueville, Oppenheimer and Van Eck) were up an average of 0.6%. Our gold mining oriented investment partnership is performing in line with those ETF and mutual fund benchmarks, for the month and the year to date.

While we have a lull in marketplace volatility, it seems worthwhile to reflect on at least part of the essence of our conviction, why gold is the "real money", proven to be so over literally thousands of years, currently representing probably the most undervalued asset class of all. It is true that there are other asset classes that have protected purchasing power as well or better than gold over chosen periods of time, such as: stocks of well run companies, well situated real estate, art created by legendary artists, to name just a few. Gold, however, the same gold that was produced in the days of King Tut (1341-1323 B.C.E.) has protected purchasing power without the uncertainty of stock picking, location analysis, or artist selection. An ounce of gold reflects roughly the same number of hours worked, and value of goods and services as it did 3,000 years ago, 200 years ago, 100 years ago, 50 years ago, and 20 years ago. (Not 6 years ago, to be sure, but give it time!)

Everyone talks about how inflation is "non-existent", in spite of the monetary "accommodation", which means money printing, unbacked paper currency creation with no limitation, debt levels worldwide still increasing. Even our Federal Reserve PHD's are scratching their collective heads as to why inflation has not resulted from the trillions of paper dollars injected into the monetary system by the Central Banks. The new theory, dubbed Modern Monetary Theory, is postulating that the paper unbacked currency creation doesn't matter. Remember the last "new paradigm", the dotcom bubble of 1999-2000?

Let's keep it simple. Put a few people in a small city, perhaps on an island, with a fixed amount of goods and services, and a fixed amount of money in circulation. If suddenly the money supply doubled, and there was no change in the goods and services available, what do you think would happen to prices? Of course everyone would have more "money" to spend, and they would compete for the "stuff" and prices (the quoted required paper exchange value) would of course rise. By the way: it's the *currency creation that's the inflation,* the cause, which we've already experienced. *The price rise is the effect* of the inflation (insertion of more currency), and is coming.

So why hasn't the price rise, following the "inflation" happened in the last ten years? The answer is, IT HAS! The Central Banks created trillions, which governments used to buy bonds and stocks around the world, keeping interest rates low in the bond markets, forcing fixed income buyers to reach for yield in the bond market and sometimes buy stocks in desperation while governments (Switzerland and Japan & others) bought stocks as well. This "misallocation of resources", this "financial promiscuity", this unprecedented monetary "experiment" has created not only artificially high stock and bond markets but private market valuations approaching $100 billion for unprofitable companies such as Uber and WeWork. Why do you think $100M (and higher) transactions in residential real estate are becoming commonplace and $200M was spent for a Van Gogh. People of substantial means are trying to get at least some of their resources out of "cash", which they know is being diluted all the time. They don't know what their Central Park West apartment or Van Gogh will sell for fifty years from now, but they are certain that the colored paper in their pocket will buy a very small fraction of today's purchasing power. Grocery prices, certain Chinese or Mexican produced apparel, or increasingly powerful consumer electronics may not be quoted higher in price, but almost every important asset class other than gold has appreciated substantially, especially over the last ten years.

One last point for this installment:

While the hue and cry for a higher minimum wage has been a constant feature of our political and economic dialogue, let's think for a moment about the way the economic world really works, and always has. Workers get a raise, $15 minimum hourly wage now in 20 states, and feel good for a little while, because they immediately have more discretionary income. However, the higher wage comes from their employer who produces goods and services and that production has to generate a return on investment. Since that employer's profit margin has just been materially reduced, in probably a matter of months they will raise the price of whatever they are selling. So the employee who received higher pay fairly quickly finds that he or she is paying more for the stuff they are buying. This is why, it's the middle class that really gets screwed by the inflationary process. The wealthy have their stocks, bonds, homes, art, stock options, etc. The impoverished have their various government benefits, food stamps, and emergency care at the hospital if they really need it. It's the middle class, playing by all the rules, that can't seem to get ahead. They are making more "money", but don't ever seem to get ahead.

Wrapping this up, the "Inequality of Wealth, the "Wealth Divide", as the rich get richer and the poor left behind, that everyone talks about has been a feature of the last 47 or 48 years. Various charts clearly show that prior to the 1970s the purchasing power of the rich and poor was increasing at just about the same rate. The divergence in discretionary purchasing power clearly began in the late 1970s.

I don't believe it is coincidental that Richard Nixon "closed the gold window" in August of 1971, eliminating convertibility of the dollar into gold. This predictably allowed for unfettered money creation, kicking off the double digit inflation of the 1970s, a fed funds rate that was 18% when

Ronald Reagan took office, and the move in gold from $35 to $850/oz. The 1971 Dollar is worth about $0.15 today in purchasing power, and that seems to me like just yesterday. This is why it's been said that *"inflation is the cruelest tax".*

It just so happens that the gold owned by the US Treasury as well as the major trading countries collectively, relative to the unbacked (fiat) paper currency that is circulating, is almost the same very low percentage (6-7%) that it was in 1971, before gold went from $35 to $850/oz. in eight years. Most economists, even non "goldbugs" would agree that gold represents an alternative currency. This particular currency, gold, is mined, with great investment and risk, at the rate of about $140 billion per year. The colored paper that we all carry around in our pocket is being created worldwide, with the tap of a computer key, at the rate of trillions of dollars annually. Which currency would you suspect will maintain its purchasing power better over time?

Sincerely,

Roger Lipton