

THE DIGGER QUARTERLY

A quarterly review of precious metals markets, big picture trends and wealth preservation topics worth your while.



The Golden Arrow

Safe deposit boxes: Understanding the risks

By Scott Chamber

It is remarkable how change can creep up on us sometimes. Incremental improvements and minor tweaks in products and services we use every day can go unnoticed for a long time, with each individual step providing only a marginally better experience. Most of the time, we either take these small upgrades for granted or, at best, we notice a useful new feature and briefly think to ourselves “oh, that’s a good idea”, before we forget about it again and go about our day. Constant change and unceasing progress in modern technologies and new systems simply become the norm. And yet, if you stop and really think about the technological miracle that is a modern smartphone and compare it to your first cell phone, the leap suddenly seems giant.

What is even more staggering is the effect that “change” has had on us. Realizing just how dependent we have become on new technologies, how often we casually sign away our privacy rights and how we willingly compromise the security of our private data, and even of our property, by handing control over to third parties, is something of an epiphany. >>

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Editorial



Scott Schamber,
Managing Director

Although we usually don't follow specific themes in our Digger issues, the topics we chose to examine this time happen to have a common denominator: at their core, they all have to do with large-scale changes, shifts, new trends and their practical investment implications. This is quite fitting at a time like this, as we reach a turning point in the markets and the economy. Uncertainty and recession fears are on the rise, as the global economic slowdown accelerates and as long-standing geopolitical tensions escalate. From Brexit to the impeachment efforts against the US President, and from key central bank decisions to the developments in precious metals markets, there are certainly plenty of good reasons to contemplate what lies ahead.

At Global Gold, we've always highlighted the importance of being prepared and of adopting a pragmatic approach when planning ahead. This is why, in this issue, we look at the practical considerations that surround the storage of precious metals. We examine some of the assumptions that investors often make about safe deposit boxes and the effect of technological advances on their privacy and security. Also, bearing in mind that the socioeconomic and political changes we've witnessed over the last decade have all but ensured that the next recession will be quite different from the last, we take a closer look at some of these changes that will certainly play a role. We focus on those slow but steady shifts that often go unnoticed and outline some of the new challenges and risk factors that investors will likely be faced with this time around.

We hope you'll enjoy this issue of the Digger and do not hesitate to contact me directly with any questions.

A handwritten signature in blue ink, reading "Scott Schamber".

I had such an epiphany a few weeks back on a Saturday afternoon during a visit to a local, small bank, when I went to see a friend's safe deposit box. My friend – let's call him "David" for the sake of this article – knew I worked with precious metals and storage and thought I might find it interesting. I'm not a huge fan of keeping bullion at the bank, something I've occasionally debated with others about. In David's case, he has relegated its use largely to holding the numismatic and semi-numismatic coins he's collected over the years, plus some documents.

The last time I visited a bank safe deposit box in Switzerland was about 15 years ago in Bern. You might imagine all the assumptions about the process, the setting, and the experience of accessing one's safe deposit box at a Swiss bank. Hollywood spy movies were not really that much off the mark at that bank in Bern 15 years ago, so I expected nothing less this time. Wow was I wrong! Change has crept up and entirely transformed this experience, even in the tiny cantonal bank of the small Swiss town we visited.

Today, the safe deposit box "ritual" is nothing like the old days. Gone are the guys with bespoke suits and solemn looks to escort you to a centuries-old underground vault, and to match their key with yours, before leaving you on your own in a room with your box, closing the curtain or door behind you. Allow me to describe my experience: David took out a card and password, we stepped in front of a glass door immediately next to the entrance to the bank, entered our information, and walked into a small room. Once in, the glass door glazed over behind us so no one could see us from the outside. In this very plain, small room, there was a countertop, roughly the size of a work desk, but with a rectangular "mechanism" that looked like small trapdoor in the middle of the table and a keypad above it, where clearly a card and another password needed to be entered. As soon as the code was accepted and we were verified as the "right one", the safe deposit box >>

began its automated journey from the underground storage facilities and arrived through an elaborate system hidden underneath the table. After a few low-toned whizzes and whirs – that made me conjure up an image of a miniature Amazon supply chain underground – a green light went on above the rectangular cut-out of the table. A door slid back, we plugged in our key in the spot provided, gave it a twist, the cover opened up away from us, and our box was revealed: slightly bigger than a shoebox, with its top side flush with the countertop. There, in their bundled-up glory, was the mishmash of crumpled envelopes and old plastic containers that housed David's coins.

It was clear the space to the right and to the left on the table was to take the holdings out on for examination, and we proceeded to rummage a bit. I tried to hide the blank look I had on my face that clearly betrayed my confusion over the process I just witnessed. More interestingly, I seemed to suspiciously keep looking back at the glazed over door thinking someone could be looking at us.

When we were done, the box was closed, the key turned, the cover closed, and with some whizzes and whirs, our box was gone again. The glazed door opened, and we were out in front of the bank, as well as the local grocery store, and walked on our way amongst those shopping for Saturday's dinner.

Convenience, but at what cost?

Naturally, my first reaction was to marvel at the ingenuity of the system, as well as at the added convenience it affords the clients. Having direct access to one's box, independently and at all times apparently, is undoubtedly an advantage. However, it didn't take long for me to start recognizing the implications of this technological shift and the practical limitations and vulnerabilities of a system like this.

For one thing, the lack of privacy poses a serious concern, as does the security issue that it raises. When you walk out of this dedicated, glazed-over side door, everyone in the village of 7,000 knows that you've just accessed your safe deposit box. Much like taking money from an ATM, it struck me as the perfect spot to rob someone. In fact, it is even more attractive than an ATM: every criminal worth his salt knows that people tend to keep things much more valuable than cash in their safe deposit boxes. Even if it is "only cash" that's retrieved, in the age of

digital payments, there's a good chance it'd be a much higher amount than what people would routinely withdraw from an ATM. In countries like Switzerland and Germany, some of the staunchest of defenders of cash transactions in Europe, the average ATM withdrawal is just EUR215, according to Bundesbank data.

Staying on the topic of security for a moment, it is highly debatable whether such automated systems are better at eliminating threats than traditional vaults and secure storage facilities or if they come with their own set of problems and added vulnerabilities. For instance, one might argue that the complete lack of the human element and the reliance on technology for client identification and access are very efficient and accurate ways of preventing errors and fraud, and of making sensitive processes tamperproof. However, as technology has transformed our financial activities, it also transformed security threats. The time between the release of a new security update or a new system and the first successful attempt to compromise it is getting shorter and shorter. At the same time, the impact of cybercrime and the losses from individual attacks are skyrocketing, as illustrated by a recent report by Cybersecurity Ventures which predicted that global losses will reach \$6 trillion annually by 2021.

"The devil's in the details"

Another very important issue is paying attention to the fine print. The contracts that outline the precise terms and conditions of keeping one's valuables at a bank, all the caveats, and the rights that the bank has over its clients' property, must be carefully scrutinized. More often than not, one finds very unpleasant surprises lurking in these lease agreements. This is especially true for prudent precious metals investors, who see their holdings as a hedge against economic crises and as an insurance against severe financial or political instability. This strategy is heavily undermined if their bank can simply deny them access to their property in such a scenario, or if it goes bankrupt. And if these risks might seem far-fetched, at least to those who might not recall the experiences of thousands of bank customers in the 2008 crisis, there is a much more likely scenario to take into account.

Most people choose to place their valuables in a safe deposit box because they assume that there is no place safer than the vault of a reputable bank. >>

However, as was revealed by a [New York Times exposé](#) published in July, the obscure contracts, the very limited liability that banks assume and the lack of accountability has already cost millions to US clients who kept safe deposit boxes at the largest banks of the nation. According to the NYT article, almost 33,000 boxes every year are harmed by accidents, natural disasters and theft. Of course, sometimes it is the customer's own fault, as they might be careless with their identification credentials or grant access to the wrong people. Nevertheless, it is all too often the case that it is the bank itself that is directly responsible for the losses, as numerous documented complaints and court cases demonstrate.

"Most people still assume that both privacy and security are part of the deal, and not the price they might actually have to pay."

Some clients lost all their valuables when their banks lost track of their boxes during relocation. Others, like a Wells Fargo client from California, lost everything when the bank accidentally re-rented her box to another client who apparently made off with its contents. In many other cases, jewelry, art, rare collection items and precious metals have gone missing when the bank attempted to move them to a new box, only for the client to discover that not all of their items actually made it there. If there is anything more striking than the staggering amounts of the losses, sometimes in the tens of millions, is the fact that in the vast majority of those cases the law was actually on the banks' side.

Even when the clients did have grounds to sue and the court found the bank guilty, the compensation awarded was ludicrous, as was illustrated by a 2017 verdict that awarded \$2,460 in losses and \$150,000 in punitive damages to a Bank of America client who lost items worth over \$7 million from her box. This incident is far from isolated and verdicts like that are not unusual, thanks to the fine print in the lease contracts that all too often goes unread. As the NYT highlighted, "Wells Fargo's safe deposit box contract caps the bank's liability at \$500. Citigroup limits it to 500 times the box's annual rent, while JPMorgan Chase has a \$25,000 ceiling on its liability".

Food for thought

On a superficial level, one might argue that this is another one of those "privacy vs. automation" or "security vs. convenience" debates we seem to be having more and more of these days. However, it goes deeper than that. It's impossible to make that choice if you don't realize you even have to. In the case of modern safe deposit boxes, it's not just Hollywood that failed to keep up with the times. Most people did too, as they still assume that both privacy and security are part of the deal, and not the price they might actually have to pay.

At Global Gold, we always say "privacy starts with you". This is why it's imperative for precious metals investors to do their homework and to carefully consider all the risks and trade-offs that come with their storage options. For instance, it is important to understand that the rules are very different for a dedicated high-security precious metals storage facility when it comes to insurance and liability, as are the security standards. The same goes for privacy. For instance, when you drive up to our storage facility in Zurich, you'd never guess there's a vault in that location and you can enter discretely from a side entrance (and that's only the start of the security provisions you end up going through). Alternatively, you can safely pick up your metals from our client advisory center in Ebmatingen, a little village outside of Zurich, with no one around to see you come and go.

Storage options all have their pros and cons, but for the long-term investor, who has chosen precious metals as a way to protect and preserve their wealth, it is wise for this investment strategy to also be reflected in their storage strategy as well. Keeping some of your most liquid holdings instantly accessible in a safe at home is a prudent step, especially in case of an emergency. On the other hand, long-term precious metals investments are best kept with a storage provider with high security standards, a specialization in high-value items, and a transparent relationship with the client.

Let's face it: as much as you may trust them, you don't want your neighbors seeing you walk in to access your safe deposit box, while they are going shopping for their Saturday evening dinner.

Big Picture Sentinel

The known unknowns of the next recession

By Frank Suess

The past couple of months have certainly been an interesting period for the markets and for precious metals investors. The global economic outlook has deteriorated considerably since our last issue of the Digger. Fears of a recession are on the rise and investor anxiety is being reflected both in the spiking market volatility and in the revived interest in gold and silver. And yet, while there are plenty of reasons to be concerned about the effect of the economic slowdown, there are many who still argue that such concerns are meritless, as central banks will once again come to the rescue and ensure the continuation of an eternal expansion.

Of course, the fact that they are eager to do so is beyond doubt. The ECB and the BoJ, and more recently the Fed too, have shown their willingness to return to the easing path and to provide more of the cheap credit that the markets are addicted to. However, even though their eagerness to intervene is given, their ability to actually achieve their aims is far from certain.

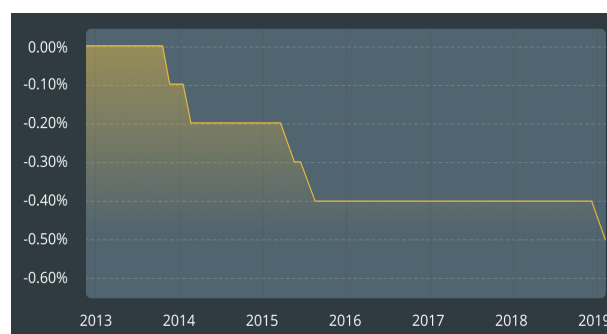
The conditions on the ground have changed so radically since the last recession that it is truly doubtful whether the tools at the central bankers' disposal will have the same or any desirable effect at all this time around. The same can be said about the traditional risk assessment tools that investors used to rely on and the defensive strategies that worked during uncertain times in the past. Thus, to adequately and effectively prepare for the next downturn, we must look beyond today's headlines or the latest stock market moves and focus on the bigger picture.

In order to be able to weigh the numerous risks that lie ahead, we must first understand and appreciate the magnitude of the shift that has taken place in the global economy and the challenges it presents to investment planning.

“Do as I do, not as I say”

An interesting phenomenon that speaks volumes about the need to prepare and seriously plan ahead is the increasingly common trend among central bankers to negate their words with their subsequent actions. In the most recent manifestation of this phenomenon, we saw Mr. Powell offer repeated assurances that the economy is doing just fine and go to great lengths to dispel recession fears, right before he announced the central bank's decision to cut rates for the first time in a decade. The 0.25% cut, he argued, was merely an “insurance”, a preemptive move to support and protect the economic expansion. Similar arguments were put forward by ECB President Draghi in mid-September, who claimed that the probability of a recession in the Eurozone is still >>

ECB interest rates, 2013-2019



Source: ECB

ISM manufacturing index at a 10-year low



Source: Bloomberg

“small”. He then proceeded to announce the revival of the central bank’s controversial €2.6 trillion bond purchasing program for an unlimited period and its decision to cut interest rates further into negative territory.

A recession, far from a “small possibility”, is actually a very clear and present risk in key European economies. Germany, the powerhouse of the bloc, saw its economy shrink by 0.1% in the second quarter of 2019, with many economists forecasting another contraction in the next quarter of this year, which would put the country officially in a recession. Italy already entered that territory in the final three months of 2018. In the first quarter of this year, its economy shrank by 0.1%, while its gigantic debt load, which exceeds 132% of GDP, is increasingly seen as systemic risk for the entire Eurozone. Economic figures out of Spain are also very troubling. In September, the country recorded its weakest job creation data in six years, while its manufacturing sector contracted at the fastest pace in nearly six-and-a-half years, according to IHS Markit. The Bank of Spain also cut the country’s economic growth outlook for this year to 2%, substantially lower than its previous estimate of 2.4%.

As for the outlook for the Eurozone as a whole, investor sentiment in the region fell to its lowest level in more than six years, according to Sentix, providing additional evidence that investors are losing faith in the ECB’s ability to boost economic growth.

Over in the US, the numbers are also painting a worrying picture. The country appears to be following the wider slowdown trend. Despite the comments of Fed chief Powell about the country’s economy being in a “good place”, the latest payroll report showed that new jobs fell short of expectations. At the same time, manufacturing and services data continue to flash warning signs.

In September, manufacturers cut 2,000 jobs, new orders pointed to a decline in activity levels, and the manufacturing index of the Institute for Supply Management (ISM), a key industry gauge, contracted again, plunging to levels not seen since the Great Recession. The significant slowdown in manufacturing has spread to the services sector too, with the ISM non-manufacturing activity index falling to a three-year low in September, a decline that is expected to continue. >>

It's clear that the recession risk is there, and the question now is whether central bank and government interventions will once again "soften the blow". The situation today is dramatically different from what we faced a decade ago. Interest rates are no longer the potent weapon they once were. We saw this reflected in the market reaction to the Fed's last rate cut, which received only a lukewarm welcome by investors and a wholehearted condemnation by President Trump himself, who openly attacked the central bank for not cutting enough. The prospect of the Fed joining the ECB and BoJ in negative interest rate territory, although increasingly probable, is hardly reassuring, given the poor results that this approach has yielded. The option of large-scale government spending and fiscal relief, which is being zealously pushed by the ECB, presents its own set of challenges and risks, especially when one considers the massive debt that most major economies have already racked up.

"The situation today is dramatically different from what we faced a decade ago."

New political risks

The aforementioned "traditional" economic vulnerabilities and potential recession triggers are worrying enough. However, today, we are also facing a new class of risk factors. The trends and patterns we now see in the current geopolitical and socioeconomic landscape have changed so radically over the last decade, that most of our assumptions and the projection tools we used to rely on will need to be carefully reexamined.

One obvious example is the impact of presidential tweets on the markets. By now, most of us are likely used to seeing violent swings in the stock markets resulting from Donald Trump's Twitter-delivered threats against China, Turkey, the EU, or Fed Chair Powell, but it is useful to remember that this wasn't always the case. And even when today's markets react to actual economic data, the reaction is perverse: celebrating bad news, as they increase the probability of further interventions and monetary easing.

As the line between politics, monetary decisions and the economy fades, the extreme political polarization that we have witnessed over the last few years becomes a considerable risk factor that investors have to take into account. In the US, this political risk is increasingly evident, with fringe economic ideas entering the mainstream conversation, as well as the actual presidential candidate debates. Proposals like aggressive emissions taxes, universal healthcare and a "wealth tax" are among the main issues of all recent Democratic debates, as are discredited ideas like a Universal Basic Income, on which every real-life experiment has failed. Economic analyses and factual arguments have long given way to emotional rhetoric and wishful thinking, as was best exemplified by the details, or rather lack thereof, of the "Green New Deal", the principles of which are still fueling key policy debates. Modern Monetary Theory, a widely challenged and heavily flawed theory we analyzed in detail in our Q2 issue of the Digger, is still being used to answer funding-related questions. Looking forward, as impeachment is now formally on the table and as the blowback from the trade war has hurt a large part of Donald Trump's voter base, prudent investors should entertain the possibility and consider the consequences of at least some of these ideas being implemented.

Finally, additional risks out of China also need to be factored in. Having evolved into a full-fledged superpower with extensive leverage and influence over the global economy, the country's strategic aims and the means used to reach them give rise to serious concerns for all major western economies. For instance, should the trade war with the US continue, the impact on manufacturing, farming and the tech sector could severely exacerbate and prolong the economic weakness we see today, transforming a mere slowdown into a full-blown crisis. The impact on the US dollar is also bound to be severe. We are already witnessing a shift away from the world's reserve currency, as countries slowly try to reduce their dependence on the greenback. In the meantime, China continues its gold buying spree, adding record amounts to its reserves, as does Russia.

Socio-economic shift

While some of the aforementioned trends might be easier to spot through relevant news reports, others are less apparent. When one looks at demographics, for instance, the rate of change is slow, albeit >>

steady, and the developments rarely make headlines. And yet, the part that millennials play today in determining our political and economic future is decisive and should not be underestimated. Mainstream media often paint this caricature of the average millennial, usually depicted as entitled, lazy and dangerously naive. Given the statistical proclivity of this generation to support “free lunch” policies and their overrepresentation in the voting block that identifies as “democratic socialists”, the stereotype might not be entirely inaccurate. In addition, when it comes to their economic impact, the picture painted by employment figures and by debt and saving data is truly bleak.

Apart from the ballooning student debt problem, that has reached a record \$1.6 trillion this year, a very large part of the millennial generation in the US is also woefully underprepared for financial emergencies and for retirement. According to Pew Research, when it comes to their income, there is a wild divergence between those with academic qualifications and those without. Those holding a bachelor's

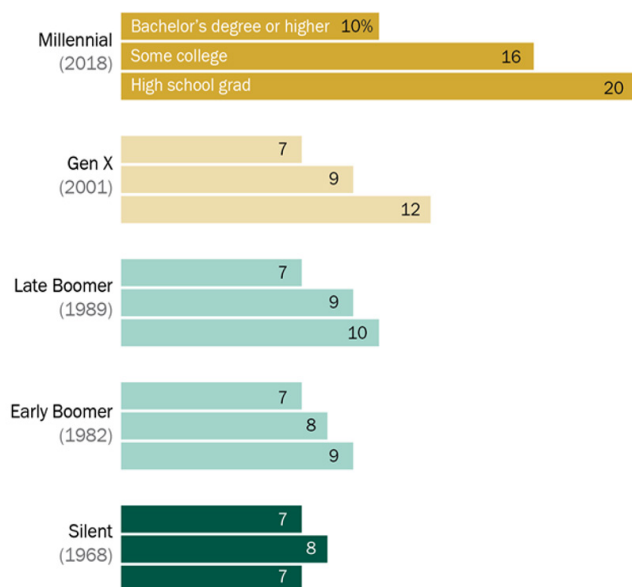
degree or more had “median annual earnings valued at \$56,000 in 2018, roughly equal to those of college-educated Generation X workers in 2001”, but those without, earned significantly less than their peers in the previous generation. Their savings, on average, are also lower, while the household debt load is considerably higher. Retirement planning is particularly poor, with two-thirds of millennials having no retirement savings whatsoever, according to figures from the National Institute on Retirement Security.

Additionally, the gradual but extensive adoption of new technologies and systems in economic activities is also important to consider. The so-called “gig economy”, an economy in which temporary contracts, short-term engagements, or independent contracting has become common, has already begun to redefine work and challenge norms and assumptions around productivity and labor force metrics. Regulations, tax adaptations and the entire legal framework that is supposed to govern this new and fast-growing part of the economy are far from established. In the UK, the gig economy doubled in size in the past three years and now accounts for 4.7 million workers, one in 10 working-age adults, according to the Guardian. In the US, the closest estimate by the Fed brings that figure to 75 million.

Almost by its very definition, this type of employment offers no steady or predictable income. Regulatory uncertainty further complicates the workers' capacity to plan ahead. As we saw in many EU member states and in California, the conditions can rapidly change by enforcing minimum wage laws or other cumbersome regulations. This often forces these new job creators to stop their operations or to comply with existing industry standards that were not designed with these business models in mind and remove most financial incentives and advantages for the gig workers. Given the considerable part of the population that relies on this type of insecure employment to supplement their income or to get by at all, these risks are especially relevant now, as we stand on the brink of a wide economic downturn, with overstretched and dysfunctional welfare programs in most western countries and especially in key economies of the Eurozone, like Germany and France. >>

Millennials are the generation most likely to still live with their parents

% of 25- to 37-year-olds living in parent(s)' home



Source: Pew Research

Technological advances have also begun to redefine and disrupt money itself. While many will argue that we “ain't seen nothing yet” and that the real, widespread disruption hasn't even started, we have already witnessed Bitcoin and various other cryptocurrencies gain acceptance and attract institutional interest in the space of just of few years. Of course, many of the predictions made during the peak of the crypto-bubble of 2017 have been disproven and expectations have been tempered. Bitcoin did not replace gold, nor did it ever seriously compete with precious metals as a store of value or a safe haven asset. Nevertheless, even after the bubble burst, the crypto sector did make remarkable progress by winning regulatory battles and by achieving recognition as a legitimate and still rapidly growing investment field. Digital money continues to gain traction: look no further than Facebook, which is preparing to launch its own “Libra” currency. The regulatory obstacles will likely be numerous and considerable, yet it is a safe assumption that a serious challenge to fiat money and a shift in monetary history is already underway.

Extreme times, extreme measures

Of course, it is impossible to pinpoint the exact date and time of the next economic downturn... and it is foolish to try. However, we at BFI Capital Group believe that understanding the potential magnitude and the implications of the next recession could prove much more important for investors than predicting its timing. When one considers the changes that the economic landscape has undergone, the new risk factors, and the added challenges we face today, it becomes clear that the next recession will be a very different animal from the last one. Attempts by governments and central bankers to fight it using old assumptions and tools will likely prove ineffective and more aggressive interventions could very easily backfire.

Nevertheless, we can still expect to see fresh stimulus packages, more QE, zero and negative interest rates across the board, even as the potency of these cures exhibits diminishing marginal utility and eventually does more harm than good. Having ran out of ammo, it is even possible that the ECB, and perhaps even the Fed as well, could cross the line into domestic stock buying, like the BoJ has done (and is now a

top-ten shareholder in 40% of all listed companies in the Nikkei). Then, on top of the distorted bond market we have today, with over 30% of all investment-grade securities now offering negative yield, we'll also likely see similar absurdities in the stock market too. And much like bonds are largely out of the question as an investment vehicle for a conservative and responsible investor, stocks will also become a minefield.

Traditional defensive strategies and financial planning approaches are no longer viable, and the risk levels needed to ensure decent returns over the long term are to a large extent prohibitive for those who wish to protect and preserve their wealth for the next generation. In addition to bonds, pension funds are also increasingly unfit for that purpose, as there is no end in sight for this era of zero and negative rates. Thus, with pensions on the brink, with bonds that “eat your money”, and with highly overvalued, intensely volatile stocks that seem to be at mercy of the next presidential tweet, precious metals seem more attractive than ever, especially at the current price levels.

Some prudent investors seem to have already reached this conclusion, as gold prices are now hovering around \$1500, whereas for years the metal languished in the \$1100–1300 range. Silver also had an extraordinary run this summer, reaching \$19.70 in early September, a remarkable jump from its \$14.60 levels in June.

As we go through an expected and modest consolidation at this stage, we see these price levels as being a very attractive entry point for those who wish to build or increase their precious metals positions. Given the multiple risk factors in these uncertain and volatile times, this window might not return for a long time.

Golden Nuggets

Facebook's Libra: A double-edged sword

By Dirk Steinhoff

A lot of investors and market observers were taken by surprise when Facebook first announced its plans to launch its own digital currency, Libra, back in June. Even though few details were included in the initial announcement, public opinion was very quickly divided, while regulators and lawmakers were even quicker to raise objections, call for hearings, and place the first obstacles in Libra's way. In the US, regulatory pressure continues to mount, while Italy, Germany and France are all united in opposing the new currency, with the French Economy Minister announcing that steps will be taken in the coming weeks "to show clearly that Libra is unwelcome in Europe".

As a result of these concerted warning shots, many of the project's original backers have chosen to part ways with Facebook and abandon their place in the Libra Association, the group of multinational companies and nonprofits that is registered in Switzerland and created to oversee the new digital currency. Even though Libra has now lost several key partners, among them Visa, Mastercard, EBay and PayPal, Facebook still insists that the project will proceed as planned.

The currency is designed to function as a "stablecoin" and it will be tethered to a basket of global assets to prevent the extreme volatility that is commonly associated with digital currencies. As for the actual launch date, the currency was originally scheduled to become available in 2020. However, after the fiery governmental response it was met with, Face-

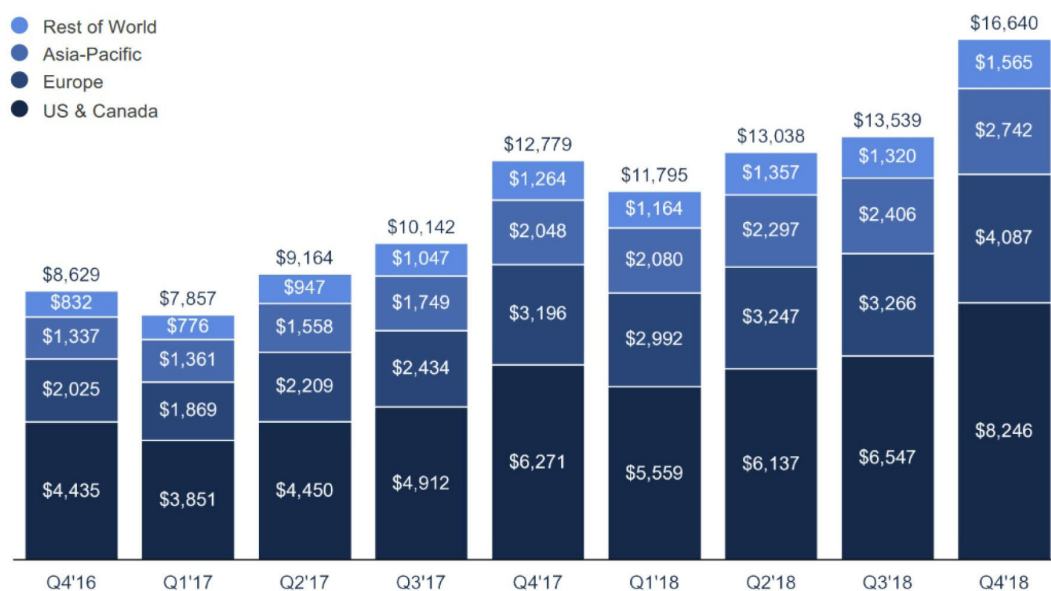
book has clarified that it will wait until all regulatory concerns have been resolved and Libra has the "appropriate approvals".

What differentiates Libra from other digital currencies and projects from the crypto sector is the instant access to the billions of potential users provided by Facebook. Unlike Bitcoin and the thousands of independent digital coins we've seen rise and fall, Libra doesn't have to fight for awareness and recognition in the niche crypto community and the team behind it doesn't have to debate the finer points of its code to gain trust and establish credibility. Instead, Libra has already made international headlines and once launched, it will have immediate access to 2.41 billion Facebook users.

Of course, the arguments in favor of Libra are not easily dismissed. It has the potential of providing financial services access to a very large part of the global population that is currently either unbanked or underbanked. It can also provide a better and more reliable means of exchange in countries with heavily dysfunctional, devalued or unstable national currencies, like Venezuela, Uganda, Somalia and Zimbabwe. Instead of relying on black market US dollars and unreliable informal payment systems, they can use a standardized digital currency, with reputable backers and a robust infrastructure capable of handling large transaction volumes.

Such a shift could have a tremendous impact on encouraging and facilitating economic activity, it can support entrepreneurship in struggling communities and ease trade and commerce. >>

Facebook's advertising revenue by user geography, in millions



Source: Facebook

As can be expected, Facebook has gone to great lengths to highlight this aspect of the Libra and, although nobody can argue against the idea of lifting people out of poverty, we must keep in mind that the social media giant is not a charity.

This becomes immediately evident if we shift our focus away from the developing world for a moment and turn to the West, where no such humanitarian case can be made and where Facebook generates, by far, the largest part of its revenue. The extraordinary success of the company has been founded on the very simple concept of selling user data to advertisers. The tools to collect that data expanded over time, as it acquired new apps, provided additional services and developed better algorithms. Libra, when examined in this context and as a new and powerful addition to Facebook's data collection arsenal, quickly begins to raise a multitude of questions. These questions become even more pressing when one considers the track record of the company when it comes to handling user data. Facebook has already been involved in data breaches and multiple privacy violations, including a record-breaking \$5 billion fine imposed by the US Federal Trade Commission in July.

Privacy concerns, excessive control over the financial activities of billions of people, and the potential for abuse are all legitimate concerns. However, we must keep in mind that whatever one may think of Facebook and its motives, the company is not forcing anyone to use its currency. Those who have reservations and concerns over their privacy can choose not to use Libra, as they can choose not to have a Facebook account. From this perspective, it can be argued that the new currency, flawed as it might be, still expands our range of choices and adds a new contender in the currency arena. When launched, it will compete with fiat money, with cryptocurrencies, and with a multitude of apps and platforms that people already use for their daily transactions. Thus, perhaps the best way to tell whether Libra will be a valuable tool for financial freedom or the latest ploy of a corporation that cannot be trusted is to let the market decide.

Golden Nuggets

A decade of fraud and market manipulation

By Scott Chamber

The JP Morgan precious metals market manipulation case that erupted in mid-September was one of the stories that really caught our attention. The magnitude and the extent of the fraudulent activity at the bank were truly striking, as were the losses that clients suffered as a result.

So far, three traders have been directly implicated, including the head of precious metals trading, and charged with conspiracy and racketeering under the Racketeer Influenced and Corrupt Organizations Act ("RICO"). RICO charges are very rarely used in banking cases and are normally associated with organized crime syndicates. Investigations still continue and according to US prosecutors, the evidence so far points to a "massive, multiyear scheme" to manipulate markets.

Using their key positions at the bank, which together with HSBC dominates the gold and silver markets, the traders defrauded market participants for nearly a decade, while they made millions in profits for JP Morgan and caused tens of millions of losses for their clients. With the fraudulent and illegal practice known as "spoofing", they placed large orders only to cancel them before execution, thereby affecting prices and profiting from a preexisting trading position. According to the Justice Department, at least one of the traders that was charged "learned to spoof from more senior traders and spoofed with the knowledge and consent of his supervisors".

This case is far from an isolated incident and it is also not the first time that JP Morgan is being implicated in a market manipulation scandal. In 2010, a class action was filed against it and HSBC alleging conspiracy and manipulation of silver futures and options traded on the Comex exchange in New York. Only last year, HSBC, together with Deutsche Bank and UBS were also fined by the Commodity Futures Trading Commission for spoofing and manipulating gold and silver markets. In 2014, the same three banks, together with the Bank of Nova Scotia, Societe Generale and Barclays, were again sued for collusion and manipulation of the gold market.

Even though the tactics used only influence prices for a short time window and cannot cause structural or permanent changes to precious metals markets, the losses that clients suffer are still very high, especially over time and over multiple trades. Thus, cases like this serve as stern reminder of just how important it is for precious metals investors to carefully assess their options, do their homework and choose the right advisors and partners. Evaluating their track record and their reputation is a good place to start, but it is also essential to ensure that their operational standards and processes are transparent and that their interests actually are aligned with yours.

Golden Nuggets

MMT update: Economic populism continues to gather steam

By Frank Suess

In our **Q2 edition of the Digger**, we examined the principles, the ideological foundations and the implications of Modern Monetary Theory (MMT) and demonstrated how its heavily flawed assumptions can inflict real damage to the economy.

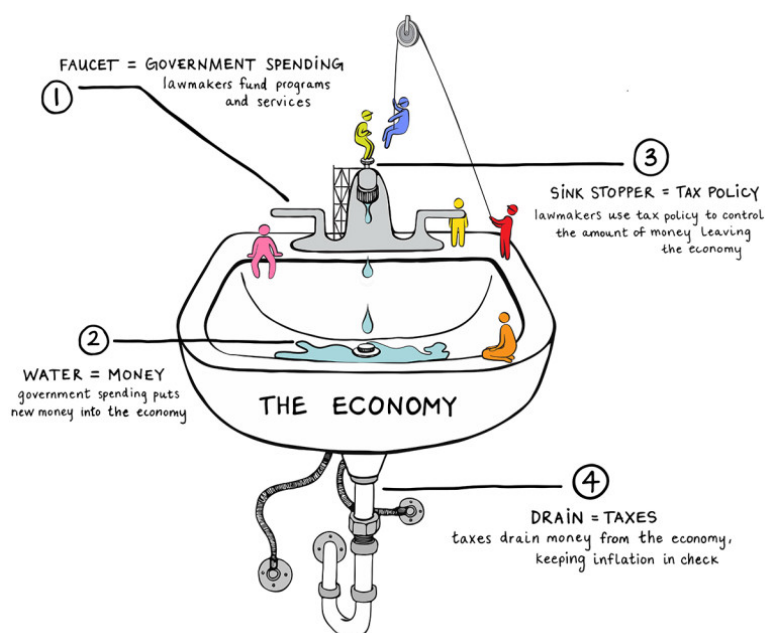
To quickly recap, the theory essentially posits that since fiat money is a construct with no inherent value, created and exclusively controlled by the state, governments can and should print as much as they want to fund their programs, create new government jobs and pay for all kinds of ambitious projects. Debt is also a non-issue. As long as its denominated in its own currency, a gov-

ernment can simply print new money to repay it and so it can never default unless it chooses to. Now, some MMT'ers acknowledge that inflation might conceivably become a problem at some point with all that money printing, but there are solutions for that too. The government can either massively raise taxes to drain all the excess cash out of the system, impose limitations on bank lending, or simply stop printing for a while.

Given the severe deficit of basic economic understanding that is exhibited by the theory and its proponents, we, perhaps naively, assumed that the rising popularity that MMT enjoyed when we first wrote about it would soon fade. It would appear we were mistaken. Instead of retreating back to academic obscurity and to the fringes of the economics departments it came from, MMT continues to infiltrate mainstream conversation and gain traction as a panacea for all economic ailments. That is especially true in the US, where MMT rose to prominence in the first place when it was endorsed by the rising Democratic star, Alexandria Ocasio-Cortez, as a way to fund her Green New Deal.

MMT interest has taken off since then and still remains strong as the 2020 election campaigns are heating up. The Democratic debates have so far been dominated by domestic social and economic issues. The leading candidates have successfully relied on radical proposals and promises of drastic changes and reforms, that have proved to be very popular with Democratic voters, according to the latest polling data. Among the most high-profile proposals are "Medicare for all", extreme increases in Social Security benefits, a Universal Basic Income, free college tuition, the mass-cancellation of student debt and a Federal Job Guarantee.

MMT illustrated



Source: Rose Conlon (illustration), Marketplace

Of course, all these ideas have been around for decades, but have thus far failed to enter the mainstream conversation at this level and to be seriously considered as actual government policies. The question of funding would inevitably implicate tax hikes and render them politically untenable. Now, however, MMT comes to the rescue, offering a convenient solution on how we can have our cake and eat it too.

The rise of this MMT-fueled economic populism has also made great strides outside of the US too. In the UK, Jeremy Corbyn, the Labour Party leader, has embraced many of its core tenets as the foundation of his economic policy platform, or “Corbynomics”. For instance, the “people’s QE”, the idea that the Bank of England should create money to directly finance government investments and infrastructure projects, has been heavily promoted.

In the euro area, it is of course a little more complicated to make the case for MMT, as its whole “magic money tree” principle relies on the government being in control of its own currency. For the bloc’s 19 member nations, that’s a distant dream, as money printing, interest rate policy and even their own budgetary limits are set by the ECB. Nevertheless, these practical constraints haven’t discouraged MMT’ers, who still see solutions there for Europe’s ailing economy. In late September, the outgoing ECB President Draghi mentioned MMT directly, as an idea that should be examined, while he also said that said central banks should put money “directly in the hands of public and private sector spenders.” The ECB has long been pressuring member states, especially Germany, to spend more, warning that monetary policy alone might not suffice to stave off the next recession. With the added urgency of the Eurozone’s economic slowdown, one idea that’s recently gained some traction is to allow central banks to directly finance government deficits.

The core ideas of MMT might seem laughable and unlikely to ever be taken seriously at a policy-setting level. Nevertheless, as the people-pleasing rhetoric and unrealistic promises that increasingly define contemporary politics inevitably fail a reality check, the next logical step is for political populism to seep into economic populism, so that absurd theories can be used to justify absurd policies.

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Scott Schamber | Frank R. Suess

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Global Gold AG

Advisory Center

Zürichstrasse 103e
8123 Zürich-Ebmatingen
Switzerland

Head Office

Am Dürrbach 5
6391 Engelberg
Switzerland

Contact

Tel. +41 58 810 17 50
Fax. +41 58 810 17 51
info@globalgold.ch
www.globalgold.ch

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