GLOBAL GOLD
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THE DIGGER QUARTERLY

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

The Golden Arrow

Interview with Ronald Stöferle

"The next recession will make 2008 look like a kindergarten party"

By Scott Schamber

Ronald-Peter Stöferle, Managing Partner of Incrementum AG in the Principality of Liechtenstein, is the co-author of the widely popular "In Gold We Trust" report, which he first published in 2007. Today, the report has amassed an extensive and loyal following of gold investors, market analysts and wealth managers globally. At Global Gold, we count ourselves amongst this group, as we find great insights in the report every year. We also have a long-standing relationship with the Incrementum team, and we share many core ideas and investing principles. As the 2019 "In God We Trust" report was just released last month, we were very happy to have the chance to discuss some of its main themes with Ronald, who kindly agreed to an interview with our own Scott Schamber.

Scott Schamber: We've run in many of the same circles for years, thanks to our common beliefs in the principles of the Austrian School of Economics, amongst many other things. While we've known you for quite some time, there may be a few of our readers that haven't been introduced to you yet. Can you tell us a bit more about your background and what you're doing today with Incrementum? >>

Editorial

Scott Schamber,
Managing Director

In the last couple of months, we have seen a number of important developments for precious metals investors. Significant shifts on the geopolitical, economic and monetary policy front have triggered a spike in demand for gold, pushing prices higher and reaffirming a positive outlook for the metal's performance in the coming months.

The escalating tensions between Iran and the US, combined with an increasingly dovish tone adopted by the Federal Reserve and other major central banks, contributed to existing investor anxiety and heightened volatility levels in equity markets. As for the US-China trade friction, the recent announcement of a "truce" between the two superpowers might have temporarily assuaged some of the fears over an all-out trade war. Yet, we've been there before, only to see negotiations freeze again and tariffs multiply. At the same time, clouds over the Eurozone economy continue to gather. Brexit remains unresolved, Germany's manufacturing sector contracted in June for the sixth time in a row, while the ECB is expected to cut the already negative interest rates and to relaunch its QE program in September.

For a deeper analysis of all these economic pressure points and his expectations for precious metals going forward, we spoke with Ronald Stöferle, Managing Partner of Incrementum AG in Liechtenstein and co-author of the "In Gold We Trust" report, an essential reading for all gold investors. In this issue, we'll also examine the practical implications of the current economic and monetary environment and its impact on long-term financial planning and transgenerational wealth preservation.

We hope you'll enjoy this issue of the Digger and all of us at Global Gold wish you a wonderful summer.

Ronald Stöferle: Of course. I'm 38 years old and the father of three gorgeous daughters. I've always been very interested in financial markets and I bought my first stocks when I was 13. I learned some lessons the hard way, as I made a small fortune and lost one too during the dot com boom. I studied Finance and Business Administration in Vienna and in the US and then started working as an analyst in 2007.

Around that time, I was privately invested in a mining stock that did very, very well and actually ended up as a 40-bagger. I thought I was a financial genius, even though, of course, I was just purely lucky, but that experience got me interested in gold. That wasn't too great a leap, since in Europe, especially in Germany and in Austria, gold is still in our monetary DNA. The memories of hyperinflation in the Weimar Republic, and before that in Austria, are still fresh, so gold is embedded in our culture. Growing up, for school graduation, birthdays or Christmas, it's common to get little gold coins from your grandparents. For them, it represents a kind of a monetary insurance that they know worked well during the wars and the monetary reforms that they had to live through, and they passed this attitude down the generations.

In 2007, I started my first "In Gold We Trust" report and then, over the years, I learned more about monetary history and the Austrian School of Economics, something that nobody teaches you in school or university. At some point, I felt a bit like a vegetarian in a butcher's shop, writing about gold and the gold standard while sitting in a bank, so I decided to set up my own company together with an Austrian friend of mine, Mark Valek, who is from the fund management industry, and two partners from Switzerland, who are more senior and have an extensive background in private wealth management. We met in the middle and set up Incrementum in Liechtenstein.

SS: When you started the report in 2007, did you expect it was going to grow into what it is today? >>

RS: No, never. At the moment, there are 15 people involved in the "In Gold We Trust" report. Researching, editing, crunching the numbers, preparing charts.... It really has turned into a big project for us. As for my role, I actually feel a bit like a distillery these days. I'm travelling quite a lot, meeting people from all over the world, from different industries. I also really enjoy reading books, blogs, and newsletters. So I just try to distill all the thoughts and ideas that I get from traveling and reading over an entire year and put them in the report.

At the end of the day, it's all about preparing a high-quality publication for our readers, because they give us something very valuable, namely their time. So, after finishing the report, I want them to say: "Well, I invested my time pretty well. I really enjoyed reading it. I learned a lot. I even had a good laugh with the cartoons or the side comments".

For 2019, the big step for us is that we're entering China, with a Chinese edition of the "In Gold We Trust" report. As I've said, I never expected that it would become such a benchmark publication. That, of course, makes us very proud, because we are investing so much love, time, and capital in this work. I think that our readers can really feel that.

SS: Certainly, and I know we all look forward to it every year. In the latest issue, you highlighted an important shift in the global monetary architecture, with a massive move away from the US dollar and a solid expansion of gold reserves in key countries, like China and Russia. How do you interpret this gold buying spree by the central banks?

RS: I think it's a sign that many countries are losing trust in the US and in the US dollar. Actually, the topic of trust was the leitmotiv of the 2019 "In Gold We Trust" report. I think trust in general is a bit underappreciated. Everybody thinks that trust is just there, but how it is created, how it's fostered and how it's destroyed is something that people don't think about too much.

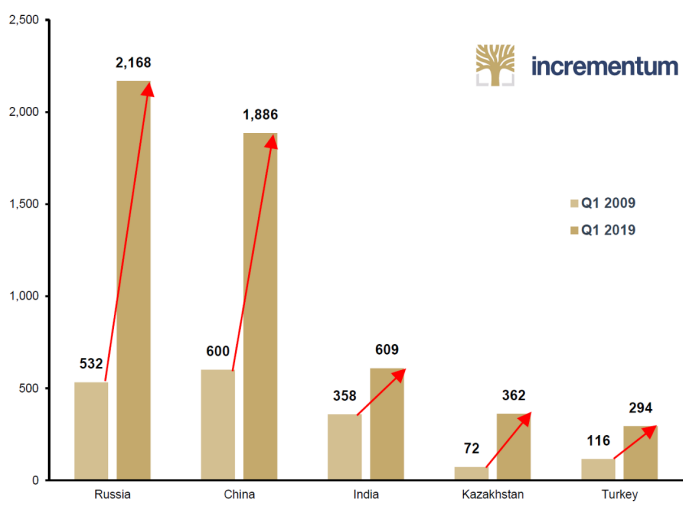
When it comes to trust, it's important to understand that it's very asymmetrical. It takes years or decades to build it and it can take a week, a day, or even a single moment, to completely destroy it. We saw this with Lehman Brothers, for example. In 158 years of existence, Lehman Brothers didn't have one quarter posting losses and then within a few trading days, the market lost trust in their balance sheet and their liquidity and it was all over.

At the moment, we're seeing trust seriously corrode in institutions, in politics, in science, in the media and even in our democracy itself. That's why I think the matter of trust is really something that is important to understand. And it's especially relevant when it comes to gold. Last year, we saw the biggest buying spree since the resolution of the Bretton Woods agreement, in 1971. Central banks bought 650 tons of gold. It's clearly a sign that governments or central banks, especially in Russia, China, but also India, Kazakhstan, Turkey, and even some EU members like Poland or Hungary, are diversifying out of the US dollar. And it's not just the central bank buying, it is also the repatriation of gold that is currently happening. This rush to redeem the gold, to bring it back to the home countries, is a clear sign that trust is crumbling in the monetary system.

SS: We've recently seen a significant uptick in volatility in the equity markets, especially in the US. In May, the VIX, the most popular gauge of volatility and investor anxiety, hit its highest levels since January. Many have blamed the US-China trade war for the increased uncertainty. Do you agree with that view or do you believe that there are other underlying forces that are threatening the record-breaking bull market at this point?

RS: I think that's a bit of "first level" thinking. Of course, the trade war is important for markets and especially for politics going forward. After all, as Frédéric Bastiat put it, "if goods don't cross borders, >>

Change in gold reserves, Q1/2009-Q1/2019



Source: "In Gold We Trust" 2019, Incrementum AG

soldiers will". But I also think that most of the risks are already priced in and we can see that the markets are a bit more resilient to tweets out of the White House. Overall, I find it rather superficial to attribute the uptick in volatility exclusively to the trade tensions.

"Recession risks are definitely much higher than the market discounts at the moment."

First of all, only in the last 10 years, central banks created 18 trillion US dollars out of thin air. The fourth quarter of 2018 was the first time in a decade that central banks actually reduced central bank liquidity. The Fed, but also most other central banks, became at least slightly more hawkish and as a result, Q4 was quite a negative quarter across the board. In December, stocks had their worst performing month since the Great Depression. In this negative environment, gold once again did what it's supposed to do: It went up 7%, mining stocks were up 17%. Gold acted as the perfect portfolio stabilizer.

Now, following the monetary U-turn we saw in December, market expectations have really shifted. Just one year ago, everybody thought we would see three to four rate hikes in 2019. Now the expectation is that the Federal Reserve will actually cut rates. This is a huge shift and this monetary reversal, for me, is the main reason why we are seeing those big moves in equity markets and in bond markets. We're inverted in many parts of the yield curve, but also in the stock market. Recession risks are definitely much higher than the market discounts at the moment.

SS: Speaking of the Fed, what do you believe would be the implications of a return to a supportive monetary policy direction and how sustainable do you think such an approach can really be?

RS: I think it's important to understand what normally happens within a recession. Normally, rates get lowered by 500 basis points. So, on a relative basis, the Federal Reserve has ample leeway to lower rates. For the other major central banks, especially the ECB and the Bank of Japan, there's no such leeway, unless they want to go into deeply negative territory. In my view, it is no coincidence that we see quite a lot of academic papers coming out recently, making the case for further quantitative easing, like the one from the Federal Reserve Bank of San Francisco, saying that negative rates would have been the best solution in 2008 and the perfect tool to fight the next recession.

It is also no coincidence that everybody is excited about MMT nowadays, i.e. Modern Monetary Theory or as Dave Rosenberg said, "Magical Money Tree". Especially as we are facing an election in 2020, MMT will definitely become more important. In fact, you could say that Donald Trump is some sort of MMT President already, as he massively increased fiscal stimulus, at a time of full employment and with GDP growth being quite positive.

Looking forward, in contrast to quantitative easing, I believe MMT will have a much more direct effect on the inflation rate. QE has basically directly impacted only the yields of the purchased bonds. And of course, we've seen second round effects, which were kind of inflationary, but MMT will increase demand more directly and rapidly through higher budget deficits. I don't know what will be bought with this MMT money - if it's a green new deal, if it's an infrastructure program or if it will be used to finance wars - but it's essentially a blank check for politicians.

As you can imagine, I'm not really a big fan of MMT, but I think it would be naive to just ignore it. It will likely become one of the most important drivers for markets going forward.

SS: We're looking at the possibility of another recession within the next two years. What do you think could be some of the tools the central banks might be able to use to fight it beyond negative interest rates and aggressive QE?

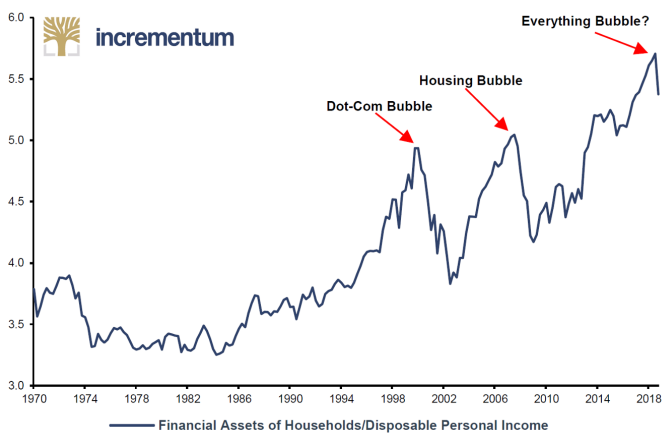
RS: When it comes to fighting the next recession, I think that many central banks will say: "We have already done quite a lot. Now it's really time for the politicians to support us to fight the recession". So, I believe there will be much more fiscal stimulus than in 2008 and 2009. And of course, if you're a holder of real estate, equities, or art, you appreciate QE, because it fuels asset price inflation.

However, it's important to look at the bigger picture too. We might have forgotten about the >>

"Occupy Wall Street" movement, but back then it was widely covered, and it was seen as a significant manifestation of public anger and discontent. And it was peaceful, we didn't see any massive riots or violence. If you compare the level of inequality, the sense of injustice and all the reasons that pushed people to the streets back then with what we currently face, it's plain to see that there's a lot more to be outraged about today. The gap between rich and poor, between haves and have-nots, got bigger and bigger. We are seeing increasing polarization all over the world, as the middle is breaking away. It's either right-wing or left-wing populists winning elections and it is mostly inequality that fuels this trend. Some of the root causes of this inequality become obvious if you study and really understand our monetary system. That's why more direct measures, such as MMT or helicopter money, will be the "solution" that will be presented for the next crisis.

Of course, we know that the Austrian approach would be a laissez-faire approach. A recession is nothing else but a reallocation of resources. Businessmen, or owners, that are well financed or well established in the market, will use the recession to pick up misallocated capital, employees, projects, etc., so that the basis for the next cycle can be more solid and healthier. But if you try to avoid the natural recession, you just make those relocations of wasted resources much more dramatic. Given that we haven't had a recession in more than 10 years now, I think the next one will make 2008 look like a kindergarten party.

The "Everything" Bubble



Source: "In Gold We Trust" 2019, Incrementum AG

SS: A lot of our readers and clients here at Global Gold are from the US, so we like to spend a little time looking at Europe, because maybe there are some angles that they're not used to hearing. The current climate in Europe is quite worrying, with Italy's conflict with the EU over the budget, Germany slowing down, and Brexit still unresolved. After so many years of QE and negative interest rates, what do you think the ECB has really achieved? And what would you expect the next steps to be in the face of such an anemic Eurozone economy?

RS: I just returned from a short vacation in Italy and I talked to many people there. Everybody said it doesn't really feel like a recession. It feels more like a depression. My response was that it's probably because the Euro is just way too strong for Italy, and people just stared at me and said, "That's an interesting answer. We never considered that". And that was in the northern part of Italy, which is still doing relatively well. The Southern part is a whole different story. When you travel through Europe and you see the situation for yourself, it is pretty obvious that the Euro is too strong for the southern countries, Italy, Greece, Spain, but also for France, while it is way too weak for Germany, where they're building massive over-capacities.

There will be a new head of the ECB in the fall, but it seems that Mario Draghi will go down in history as one of the few central bankers that did not raise interest once in his career. Whoever comes next, however, it seems that 1.20 EUR to USD is the line in the sand and as soon as we go over that level, there will be yet another round of QE in the Eurozone.

We just published a book on the topic, "Die Nullzinsfalle", which translates to "The zero interest rate trap". It's still only available in German, but we are now preparing the English translation and it should be out in the fall. We clearly explain in the book how, on a relative basis, the Federal Reserve did a much better job than the ECB. If recession clouds become darker over Europe, they really have to take very, very aggressive measures. >>

They are in a trap of their own making and they're not even trying to escape by raising interest rates. That makes me very concerned over the longer term.

Now, a lot of the risk factors, such as the problems in Italy, Germany, Brexit, and so on, are already priced in, so on the short- to medium-term, I'm pretty confident regarding the Euro. But over the longer term, of course, it has enormous structural problems. For one thing, since the Euro was introduced as book money, on the 1st of January 1999, gold is up 360% in Euro terms. I think that's all we need to say about the purchasing power of the Euro.

"If our basic assumption of a changing inflation trend proves to be correct, then silver is probably one of the best investment opportunities."

SS: Staying on the subject of currencies, let's turn to gold's performance over the last few months. It becomes especially striking when one looks at the price in relation to other major currencies, beyond the Dollar and the Swiss Franc, where gold has hit or is near all-time highs. Do you think it's important to consider this big picture trend and what does it say about fiat currencies versus gold in general?

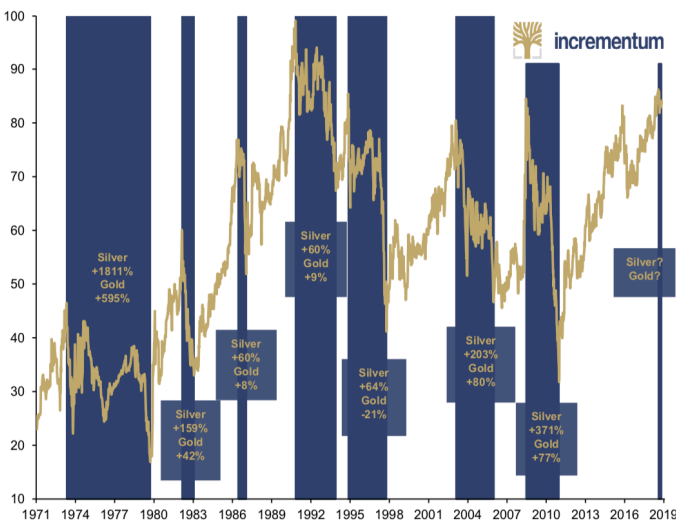
RS: In the report, we often criticize the fact that everybody's staring at the Dollar price of gold. Over in Europe, it makes more sense for us to track the price in Euro terms or in Swiss franc terms. If you're sitting in Australia, you shouldn't care too much about the US dollar price of gold. I think there is a staggering divergence between public perception and actual market price action. People just cannot believe that gold is trading at these levels in so many currencies at the moment. For example, in Australian dollar terms and in Canadian dollar terms, gold is very close to new all-time highs. The world gold price, or gold in a kind of trade-weighted dollar, is also very close to new all-time highs. In US dollar terms, gold is up 10% since the beginning of the year. In Australian dollar terms, it's up 12%, in Swiss francs its up 9%. So, the performance is quite decent, but still, nobody's really talking about it.

We emphasized in our last report that the technical Rubicon was at the USD 1,360 - 1,380 price range. Because of the correction that we saw in Q4 of 2018, which was a big warning shot for most generalist investors, many were watching and waiting on the sidelines. They wanted to start buying gold, but it seems that they needed some sort of additional confirmation by the market. Those types of money managers always only buy the stuff that has already gone up. As we are now above this range, we start to see institutional demand kicking in, private bankers will start buying too, the media will get more positive on gold, analysts will raise their forecasts and so on. FOMO will probably be one of the key drivers for rising gold prices.

SS: And let's not forget about gold's little brother, silver. What do you think is the outlook there?

RS: The silver price could also be interpreted as a sentiment indicator for gold. Strong bull markets for silver usually only happened because of rising gold prices, as investors seek higher leverage and they turn to mining stocks or silver. At the moment, the gold to silver ratio is around 90, which clearly shows that there's no real momentum yet and no trend strength in silver in the last couple of weeks. >>

Gold/Silver ratio at extreme highs



Source: "In Gold We Trust" 2019, Incrementum AG

This shows me that we are not there yet, but it also shows that this extreme relative valuation is an opportunity for people that want to have some leverage on the gold price and want to invest in silver, because we all know that silver is a tiny market. And if our basic assumption of a changing inflation trend proves to be correct, then silver is probably one of the best investment opportunities.

SS: Given the increased economic and geopolitical uncertainty that we're looking at right now, what would be your advice for individual investors who want to protect and preserve their wealth? And what role should physical precious metals be playing in that strategy?

RS: I tend to say that I am not a radical gold fundamentalist. For me, gold is not a religion. Gold is hard money. It is the hardest money that is around. It is probably the best portfolio insurance that you can imagine. In the previous "In Gold We Trust" report, we crunched the numbers and showed how gold acts in the various stages of recessions. It really has an excellent track record as a hedge in times of crisis and as a portfolio stabilizer during bear markets in equities. Of course, I can't say if it should be precisely 5%, 10%, or 20% of your portfolio, but you should definitely have some gold. Especially under the current market conditions, as we're approaching the end of this "everything bubble", it's just prudent to have some insurance and gold does the job pretty well.

SS: Before we conclude our discussion today, I have to guiltily admit that one of the first places I like to look in the "In Gold We Trust" report is your conclusions, the "Quo Vadis, Aurum" and the scenarios you see for gold. So, to wrap up, just give us a few key points we should walk away with. What scenario do we find ourselves in with gold at this moment?

"In the previous 'In Gold We Trust' report, we crunched the numbers and showed how gold acts in the various stages of recessions. It really has an excellent track record as a hedge in times of crisis and as a portfolio stabilizer during bear markets in equities."

RS: First of all, one of the key takeaways is that inflation is not a concern yet, but we are seeing many indicators that point to an increase going forward. This might be "anecdotal" evidence, but we saw in April that Businessweek came out with a cover asking, "is inflation dead?", which reminded us of the infamous "death of equities", back in 1979.

Another important point, of course, is the current gold price, which relative to stocks, bonds and some monetary aggregates, is still very, very cheap. Also, the de-dollarization trend is picking up momentum, with 70% of all the gold demand at the moment coming out of emerging markets and not just Russia and China. Additionally, the creative destruction that mining stocks went through in last couple of years have made them much leaner and more solid, so this is definitely an asset class that one should have a very close look at.

You can listen to the full interview here and don't forget to check out this year's "In Gold We Trust" report, for more details and furher insights on the topics dicussed.

Big Picture Sentinel

Financial Planning: Adapting to the new normal

By Frank Suess

It is not uncommon even for seasoned investors and keen observers of economic and monetary policy developments to experience a degree of cognitive dissonance and to fail to recognize the relevance of these headlines in their daily lives.

That is understandable, as the effect of most large-scale policy changes is not always immediately felt. Not all economic events are as explosive as the 2008 crisis, and not all policies are as obviously impactful as the Cyprus deposit "haircut" of 2013 that saw funds being taken directly out of savers' bank accounts. However, every decision made by central bankers and governments has consequences that can be just as detrimental down the road, especially when they form a long-term pattern of aggressive interventionism and real value destruction. Such is the policy trend we have seen over the last decade, full of excessive monetary and fiscal measures, that have effectively and possibly irreversibly changed the rules of the game.

Fundamental economic concepts that were once thought to be set in stone have been absurdly redefined, such as the role of interest rates. For millennia, interest served to incentivize saving and control borrowing, yet policies like NIRP and ZIRP turned this concept on its head. Combined with QE and out-of-control government deficit spending, the ripple effects have been incalculable. For almost a decade, this policy shift has been wreaking havoc with stock valuations, inflating and encouraging toxic debt in all levels of the economy and punishing responsible, long-term investors and individual savers. Now, as the global economy slows down, the promise of normalization seems increasingly unlikely to be honored. If anything, the future likely holds even more aggressive policies and monetary experiments.

In this environment, where basic economic rules are bent and liquidity injections cripple core market mechanisms, savers, investors and ordinary citizens will need to adapt, adjust their strategies and tailor their financial planning decisions to the "new normal".

Walking on thin ice

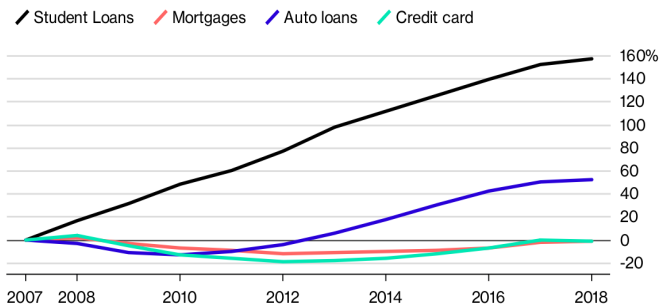
One of the most important principles in financial planning, regardless of where we may currently find ourselves in the economic cycle, is the idea of building a solid defense against future adversity. This could be external, in the form of a recession, third-party defaults, or even sudden political changes, or it could be a much more common scenario, such as a family or health emergency. Whatever the case might be, one needs to have enough savings and liquidity to absorb the losses and to ensure that long-term financial stability will not be threatened.

Most people who are prudent enough to privately plan for their own retirement or independently try to ensure financial stability for the next generation understand this concept well. However, the vast majority of the public in the US and in Europe do not. Many don't see the need for planning ahead, while others simply cannot afford it. In any case, a "critical mass" of the population is utterly unprepared for even a moderate economic downturn. >>

Household finances in the US are in a dire state. Far from having a plan in place for the next generation, or the next decade, or at least the next year, a very alarming 40% of American adults can't even meet an emergency expense of $400 today, according to a Federal Reserve survey. When asked how they would make that surprise payment, respondents said they would have to sell assets or borrow money. The same report found that, even among those with retirement savings, less than 40% believe they are on track to have enough when they leave the workforce. Another study, published in May by the University of Chicago, found 51% of working US adults are one paycheck away from serious financial hardship. In fact, we saw the real-life consequences of this financial tightrope act, when the most recent government shutdown entered its second month. Desperate pleas were made to the government for emergency funds to be made available to public servants, as many were struggling to meet their obligations without receiving their paycheck for just one month.

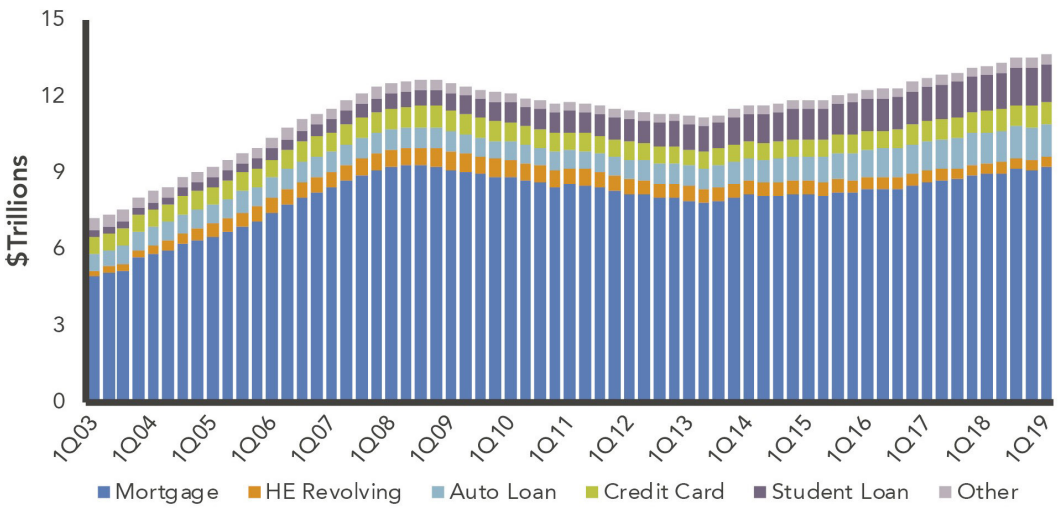
And it doesn't end there. Debt levels are extremely and unsustainably high, with US consumer debt reaching levels not seen since 2008. An analysis released in June by Marquette Associates estimated that the aggregate consumer debt in the US hit $14 trillion in the first quarter of this year, overtaking the $13 trillion mark observed just prior to the onset of the crisis a decade ago. A rapidly growing part of this, currently at $1.5 trillion, is student debt, which represents a new and heavy burden that the previous generation did not have to deal with. Millennials are in an especially precarious position when it comes to their savings as well. Data from the Federal Reserve and the Federal Deposit Insurance Corp. show that 29% of all US households have less than $1,000 in savings, but 50% of millennials specifically have no savings at all. At the same time, most people are also consistently living beyond their means, as the average income is enough to cover rent costs in just 11 states, among them being West Virginia and Oklahoma. According to figures released by the U.S. Department of Housing and Urban Development, >>

Student loans have grown 157% since the 2008 financial crisis



Source: Bloomberg

Total U.S. consumer debt surpasses 2008 levels



Source: Marquette Associates, US Census Bureau, Federal Reserve, NY Fed Consumer Panel

in the rest of the country and especially in Washington D.C., California and Massachusetts, average wages are much too low to afford median rents.

This is far from just an American problem. The situation isn't much better on the other side of the ocean either. The savings rate for households in the Euro area has fallen markedly in the last decade, from 15% in 2009 to 12.6% today, according to ECB data. In most EU countries, severe discrepancies between age groups, similar to the situation in the US, are also presenting serious challenges for the next generation.

This trend is, of course, a great challenge for those indebted or financially stretched, but it also poses a serious threat to the entire economy. As most households are unable to absorb the impact of monetary policy normalization, governments and central banks are extremely restricted in their ability to withdraw the massive artificial supports they've put in place since 2008, lest they trigger its repetition. As a result, once the next recession takes hold, they will likely have to go beyond QE and negative rates to fight it.

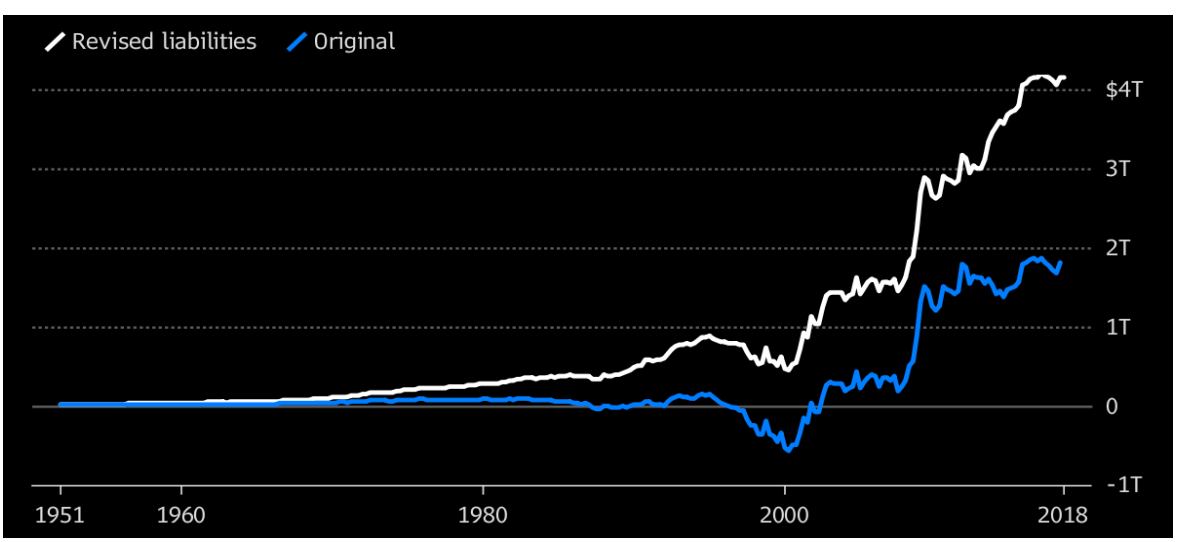
No safety net

The need to prepare and responsibly plan ahead is now more essential than ever, especially as once-trusted financial buffers and state-supported mechanisms are on the brink of collapse. Chief among them are public pension schemes that simply cannot be relied upon any longer.

In Europe, they're either undergoing severe cuts as we saw in Greece, where pension benefits were cut up to 40%, or the retirement age is getting raised, as we see in Germany, France and Portugal. In the US, the subject of underfunded pension funds has largely been treated as a political football for years, but it has recently become impossible to ignore. Many state government-run pension plans cannot afford to pay out the retirement benefits they promised. The problem is particularly pronounced in Kentucky, New Jersey and Illinois, states that have funded less than 40% of the amounts needed to pay the promised benefits.

Once again, it might seem at first glance that this issue is only relevant to those directly affected by the failing public pension schemes, yet nothing could be further from the truth. On the contrary, as pensions are a key electoral issue, strenuous efforts and extreme measures to prevent a complete collapse have and will continue to be taken. In Europe, where most pension systems are pay-as-you-go and it is up to the next generation of workers and taxpayers to pay for the previous one, the need to continuously prop up failing public schemes has resulted in a vicious circle that affects everyone. Over in the US, public funds are increasingly being reallocated to cover the pensions shortfall. >>

U.S. state and local unfunded pension liabilities jump $2.3 trilion



Source: Bloomberg

The public pension recipients might be safe, so far at least, but the resulting cuts to achieve that, often from schools, hospitals, or the police budget, have a severe impact on every citizen's and taxpayer's quality of life and even property value.

Going forward, the downward spiral in public pensions is very unlikely to be reversed. While it is obvious that reliance on government promises of future repayments is a very poor financial planning strategy, the ripple effects of its failure to honor them must also be taken into account. The chronic mismanagement and the costs incurred by public pensions and additional unsustainable welfare schemes are bound to be shouldered by the taxpayer, as has historically been the case. This consideration must play a part in developing a solid plan for the years to come, in order to effectively protect and preserve one's wealth.

Rethinking retirement investments

The monetary policy direction of most major central banks in the last decade had a decisive and game-changing impact on long-term investment strategies. Ultra-low interest rates have been encouraging reckless debt accumulation for so long, and so successfully, that the investment options available to a conservative and responsible investor have radically changed. Overall, these policies have enormously increased the cost of low risk choices.

Traditional, "safe" investments may have provided reliable returns and helped in retirement planning in the past, however that is no longer the case. Bonds, once considered the go-to investment for retirement accounts, are no longer a safe play, while blue chip stocks are also increasigly risky, as stock markets have become bloated and severely overpriced. As a result, both individual investors and pension fund managers have been forced into much riskier corners of the market to achieve decent returns.

Conventional wisdom in the past would largely dictate choosing a pension investment product from a reputable firm and placing one's trust in the manager. After all, pre-2008, similar returns and comparable performances were widely promised and largely delivered. Today, however, blind faith will not suffice. Expert guidance is, of course, still necessary, but the selection of the expert is not as straightforward. Additionally, some degree of personal involvement and an understanding of key concepts can go a long way in ensuring one's individual needs and goals are met.

Implications for investors

Taking responsibility for one's financial future is essential, especially if one wishes to provide some security for the family and next generation, which is bound to face an even more challenging economic environment. This planning process should take into account all the new economic realities and risks and adapt accordingly.

Minimizing your exposure to state-induced risks is of paramount importance. Jurisdictional diversification and tax optimization, when done in a compliant and efficient manner, can make a big difference, particularly when it comes to long-term investment plans or multi-generational wealth preservation. Risk level adjustments are also important in the current climate, as is ensuring that existing strategies still reflect your individual goals. Doing your own homework and finding the right advisor or manager can have a decisive impact on whether these goals are achieved or not.

These are all crucial considerations and they can help mitigate many of the risks in today's problematic investment environment. However, one also needs to look beyond the daily market news, the Fed's next rate decision or the ECB's next QE package. Given the fragile state of the global economy and financial markets, combined with the escalating geopolitical tensions on multiple fronts, different scenarios must be taken into account.

The risk of a severe and prolonged recession, which appears increasingly likely, will need to be factored in too, with all its implications accounted for. Gold and silver can always play a useful stabilizing role in any portfolio and under any market conditions. However, when it comes to this scenario, physically allocated precious metals, stored in a safe jurisdiction and outside the banking system, are the only reliable countermeasure for those seeking to protect their wealth.

Remember: central bankers cannot eliminate the cycle, at least not forever!

Golden Nuggets

Silver: Setting the stage for a breakout?

By Frank Suess

It looks like the patience of silver investors might finally be rewarded, as the metal's price appears to be gathering momentum in recent weeks. The silver price plummeted to $13/oz in early 2016, a long way down from its peak at $50/oz in 2011. It has since been stuck in a low price range, most recently around the lower end of $14/oz-$16/oz, and refused to move even in the face of increasingly supportive market conditions and favorable geopolitical factors.

However, it recently showed strong signs of life, making investors question whether gold's little brother is finally set for a long-overdue breakout. Since bottoming in late May, silver has rallied by 7.3% in just three weeks. In June, silver flew by the $15 mark before seeing some pushback and settling around $15.40.

A positive outlook is well supported from a technical and fundamental perspective, while external forces and recent developments on the monetary policy front also seem to have set the stage for a comeback of the metal. Gold prices have shot up over the last month, and even though silver is known to lag gold, it is still a positive omen.

Another important factor is the Federal Reserve's monetary policy reversal that fueled equity investors' hopes of upcoming rate cuts, as is European Central Bank's dovish stance, which has renewed expectations for a return to quantitative easing. Geopolitical tensions also make a convincing case for continued strength in precious metals in general, as the US-Iran standoff adds to the uncertainty that's already heightened by the trade war with China.

A key indicator, the gold-to-silver ratio, or the amount of silver that can be bought with one ounce of gold, is highlighting the current buying opportunity. The ratio has averaged around 58 since gold was unpegged from the Dollar in 1971 and has been known to spike before a significant upwards move in silver prices. At the time of writing, the ratio stands over 91, its highest level since 1993 and near its all-time high readings, close to 100.

The long-term price outlook for silver appears positive and solid gains can be expected if the current monetary and geopolitical environment persists, and in the increasingly likely event of a widespread economic recession or extensive market correction. In the short- and mid-term, silver could continue its rise to the $16 mark, where it is bound to face resistance. Once this hurdle is overcome, however, the positive scenario should be decisively reinforced.

Overall, silver is still extremely cheap and as Ronald Stöferle earlier highlighted in the interview, it has the potential for extraordinary gains. Given the significant upside and the factors that support it, the metal could offer one of the best investment opportunities available at this moment.

At the current price levels, the cost of participation in an upcoming rally can be a rare bargain.

Golden Nuggets

Interview with Dimitri Speck

By Scott Schamber

Global Gold recently sponsored The Future of Gold Conference, which took place in Breda, the Netherlands. One of the most noteworthy interviews conducted at the event was certainly that with Dimitri Speck, founder of Seasonax and author of "The Gold Cartel".

Mr. Speck is an expert in the field of pattern recognition and the development of trading systems, with an exceptional and decades-long track record in managing large volume funds.

In this interview conducted by Brecht Arnaert, editor-in-chief of Macrotrends, Mr. Speck discusses the history of gold market manipulation and suppression by central banks and analyzes why the perfect storm for gold is brewing.

Golden Nuggets

The Swiss Franc Rally

By Frank Suess

The Swiss Franc has been getting a lot of attention from Forex traders in recent weeks, as the currency hit a 9-month high against the US dollar and 2-year high against the Euro.

The notable weakness of the USD against the CHF, currently hovering around 0.9719, has been attributed to a series of developments on the trade war front. Despite the recent "truce" announcement that brought some temporary relief to the markets, doubts remain over an effective deal being reached with China. The ongoing escalation of the tensions with Iran also contributed to the recent uptick in investor anxiety.

The CHF, long perceived as a "safe haven" currency, benefited from the developments in the US, but also from the instability in the Eurozone, that caused it to reach a high of 1.1130 against the EUR. The economic slowdown in Europe has seriously troubled investors over the future of the bloc. Also, the prolonged political infighting at the very top of the EU over high-level appointments showed a pronounced lack of unity and gave rise to concerns over a fragile consensus and leadership going forward.

Arguably, one of the key drivers of the CHF's recent performance has been the reversal of monetary policy direction, as most major central banks have now clearly adopted a dovish stance. Historically, this is known to push the CHF even higher, as JPMorgan Chase analysts recently highlighted, after the bank raised its forecast in June. >>

The Franc is set to be a winner if rates drop

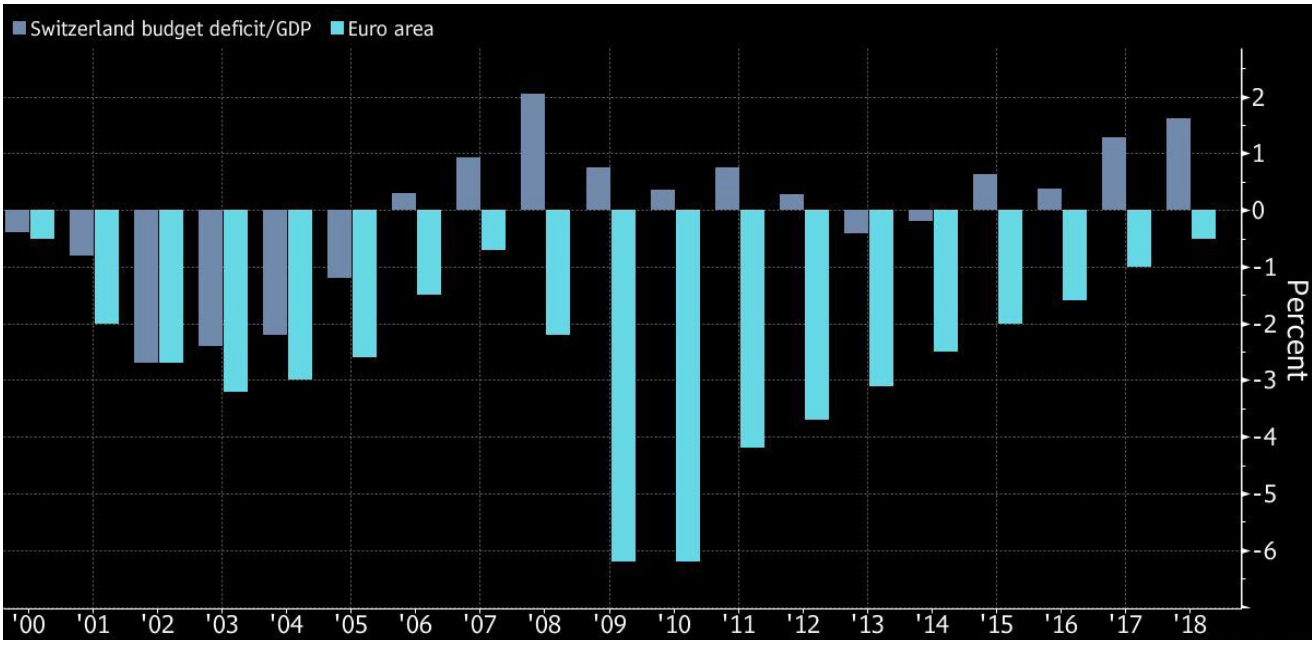
Source: Bloomberg

In fact, the CHF was the best performing currency in the past four rate-cutting cycles, supporting the case that history could repeat itself in the widely anticipated, upcoming rate cut by the Fed. The new forecast expects the franc to strengthen to 0.95 against the dollar, its highest level since March 2018 and a significant upgrade from the previous target of 0.98. As Paul Meggyesi, currency strategist at JPMorgan, put it: "a downturn in the global economy and risk markets would have the potential to drive sharp and accelerated gains in CHF".

This move not only reflects the diminished trust towards the USD, which is also underlined by the wider de-dollarization trend we have witnessed over the last years in key emerging economies, but also reaffirms the long-standing position of the CHF as the go-to currency for investors during economic or geopolitical turmoil.

This, of course, is also reinforced by Switzerland's current account surplus, at 10% of GDP, which places the country at a sharp contrast with its European neighbors, where the 28 EU member states run a combined deficit of -0,6%.

Switzerland's surplus stands out from its neighbors' budgets



Source: Bloomberg

Golden Nuggets

A Great Time to Buy Gold, and a Reminder Where (Not) to Store It

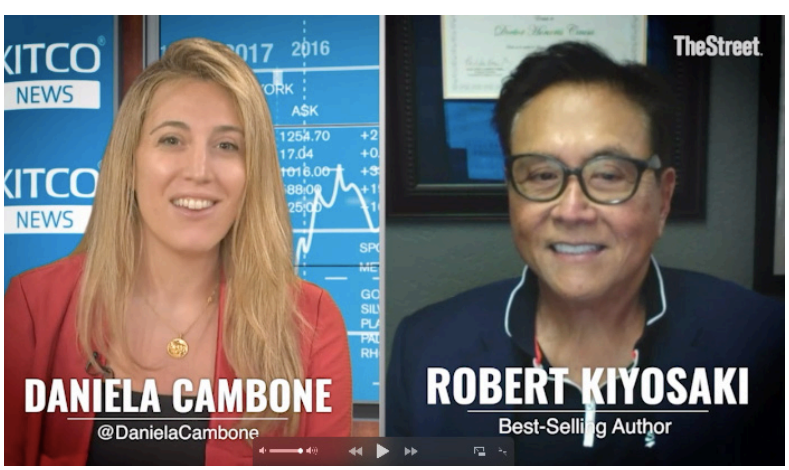
By Scott Schamber

The recent jump in gold prices led to a sudden wave of interviews, articles, and posts on whether we were finally seeing the gold bull market rear its (lovely) head.

At Global Gold, we observed an interesting development that could help our clients waiting to jump on a bit of the gold bandwagon or that are still considering topping up at this time. It seems that the recent price jump found some investors liquidating their gold holdings. We also heard there was a rumor in the industry of a large seller of gold coins last month which resulted in a high quantity becoming available in the wholesale arena.

Whether true or not, we have noticed premiums coming down, and particularly on gold coins recently. In some cases, we are down nearly one-third to a half of the size of premiums we were used to seeing from our metals' providers.

An interesting development that serves well those who still have gold on their shopping list. How long this will last, we don't know, but we certainly have our hands on our wallets.



Then, among the many sudden news stories that popped up regarding the gold prices, we found a great interview conducted by Kitco News with Mr. Robert Kiyosaki, author of the international personal finance series of books, "Rich Dad Poor Dad".

In this interview, Mr. Kiyosaki shares his opinions on what is currently driving the gold prices; we certainly shouldn't be surprised by anything we are seeing now. He isn't putting much stake in the recent oil tanker attacks, the saber-rattling Trump is doing over China, or dropping bond yields. He prefers to watch world events and form his judgements from there. He also has some scathing remarks regarding the Fed and their role in the problems we have now.

Kiyosaki knows he can't control the gold prices, but he knows he can control how he stores what he does own.

He tells Kitco News that he prefers to store his gold outside of the banking system. "I don't store [gold and silver] in the banks. I'm completely outside the banking system, except I do go to the banking system to borrow money. I don't save money inside the banking system, so my recommendation, much like my friend Jim Rickards', is we say you've got to be able to operate outside the banking system, in case something, heaven forbid, happens, like a black swan goofy event and they shut the banks down," Kiyosaki said.

We couldn't agree with him more; that's precisely what Global Gold was set up for over 10 years ago.

It's a great time to consider a purchase of gold, and we know just the place you can store it!

GLOBAL GOLD
The Swiss Solution for Precious Metals

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