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Nr. 10 | July 2020

THE DIGGER QUARTERLY

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

The Golden Arrow

Superhighway to the cashless society

By Scott Schamber

When one thinks about the covid crisis and its economic and social impact, the first things that spring to mind are lockdowns, global unemployment spikes, public health challenges, and the recession that is now upon us. We've been bombarded with countless headlines and expert analyses on these issues and the debate still rages on about the political responses and the countermeasures.

However, much less has been written about some of the other, less obvious, effects of the pandemic and the institutional and political reaction to it. One of the most worrying developments that went largely unnoticed and underdiscussed was the escalation of the "war on cash".

Money as a health hazard

There's been a dramatic decline in the use of cash over the last few months and especially during the strictest phases of the lockdown. The forces driving this shift are varied and some are more "organic" than others. One of the most straightforward explanations is, of course, the lockdown itself. Since billions of citizens were forced to stay at home and directed to avoid all physical contact with others, cash transactions simply became impractical or even impossible in many cases. >>

Editorial

Scott Schamber,
Managing Director

It's been another tumultuous quarter, full of new records and surprises in the global economy. And yet, regrettably none of them were in the right direction. Unemployment levels all over the world continue to be dismally high, even after the "reopening" rebound. Banks are setting aside record amounts to cover current and future loan losses. Fiscal and monetary "bazooka" policies keep spreading newly printed money far and wide, while new measures are now being discussed for the next round of "relief" spending. In this backdrop, the stock market rally is looking increasingly artificial and divorced from reality.

There's only one place in the markets that still provides a sense of normalcy and predictability. Precious metals, and gold in particular, seem to be the only asset class that is doing what it's supposed to be doing in a crisis. The recent price gains and the broad, steady increase in demand for gold have served as yet another confirmation of the metal's reliability as a safe haven.

In this environment of unprecedented uncertainty, the risks that investors must consider are numerous and varied. The damage that's already been done by the lockdowns and the shutdowns was deep and extensive and we're just beginning to understand the full impact of the covid crisis. In this issue of the Digger, we'll examine the latest developments and economic indicators, as well as the main themes and challenges that will define the months and years ahead. We'll also look at another important trend that has gone underreported: the pandemic's role in accelerating the decades-long war on cash.

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

Shopping activity moved online, contactless payment and delivery became the norm in many cities and digital transactions spiked as a result. This shift was just a matter of convenience and efficiency. As e-commerce was already very widespread in all developed economies, we were already used to it, so most of us barely used cash at all during our time under lockdown and thought nothing of it. And why would we? After all, what's wrong with digital payments?

Indeed, there is nothing new or particularly worrying about the rise of digital payments, per se. Having more options has never been a bad thing for any consumer, investor, or citizen. On the contrary, it is one of the best features of the free market. However, there is an important caveat here: any new idea, product, or service can be beneficial, but only as long as it expands our choices, not limit them. In other words, there is nothing wrong with digital payments, as long as we still have the freedom to use cash as well, or any other form of mutually agreed upon means of exchange, for that matter.

This brings us to the other, much more disconcerting force driving the shift away from cash during the covid crisis: the top-down, coercive and largely unsubstantiated decision to severely limit the use of paper money, or even outright ban it in some cases, under the pretext of protecting public health. Paper notes and coins were flagged as a possible risk from the very beginning of the pandemic. Concerns over their role in spreading the disease were raised by government agencies and international organizations very early on, even when there was no scientific consensus or any sort of direct evidence about how long the virus could survive on various surfaces and how it may be transmitted.

The only available research examining cash as a disease vector was conducted on different pathogens, on fungi, bacteria, and other viruses, but there wasn't a single >>

peer reviewed study on SARS-CoV-2. And even then, the results were really quite reassuring. For example, a 2015 study from the Institute of Genomics and Integrative Biology in New Delhi demonstrated that paper notes can provide hospitable environments for fungi and some bacteria, to a lesser extent, but viruses constituted less than 1% of the pathogens present on the notes.

As scientists began to study the transmission of the novel coronavirus specifically, a clear consensus soon started to take shape: it is predominately transmitted from person to person, not through surfaces. More recently, Gary McLean, a professor of molecular immunology at London Metropolitan University, confirmed this: "The virus will not survive on cash for the length of time certain bacteria can, and will still require hand-to-face contact, minimizing the transmission chances. There are no scientific studies demonstrating the coronavirus on cash, nor if it can be transmitted in that way."

"This is simply a single battle in a decades-long war, and the covid hysteria is just the latest in a long series of fear-based campaigns against cash."

In early March, despite the lack of any sort of evidence in either direction at the time, warnings by WHO officials were widely circulated in the media. As the Telegraph reported, the UN agency's advice to prevent the spread of the disease was that "people should use contactless technology where possible". In a matter of days, the international organization had to issue a "clarification" and walk back that statement after members of the scientific community pointed out there was no research to support such a recommendation.

Despite that very public blunder, science continued to take a back seat on this issue, as panic took over and overreaction became the order of the day. Central banks, including the Fed and the People's Bank of China, started isolating and disinfecting banknotes. Government and central bank officials continued to issue warnings and guidelines without any scientific basis. The Bank of Canada went as far as to test different cleaning substances on its paper notes, only to reach the less-than-shocking conclusion that "repeated contact with substances such as bleach and ethanol resulted in damage that could make the notes unrecognizable as legitimate money" and to recommend that citizens clean their polymer bank notes "with a bit of soap and water" instead.

Given the intensity and scale of the anti-cash hysteria and the fearmongering propagated by both political figures and the media, many citizens were terrified and went to extremes in order to practice what their leaders preached. Predictably, hilarity ensued: in South Korea, a man microwaved 1.8 million won ($1,500), which turned out to be a very expensive way to disinfect banknotes, as a lot of them were singed in the process. Americans were reported using Clorox wipes, while a Turkish grocer took to boiling his money.

Fear-driven monetary policy

While ridiculous incidents like these were thankfully rare, the wider effect of the mass fearmongering campaigns was no laughing matter. It became even more sobering once these unfounded fears were transcribed into official guidelines and even into law. To this day, the CDC insists that grocery and retail stores, banks, restaurants, and bars should "encourage customers to use touchless payment options".

On the surface, the most striking thing about this policy direction is its total disregard for science and evidence. It is even more peculiar when one considers that the enforcers and chief supporters of these anti-cash directives mostly belong to the most fervently "pro-science" groups in all of western society. In a variety of other issues and debates, these voices are usually the first and loudest in urging everyone else to "listen to the experts" and "trust the scientific process". And yet, what might look paradoxical at first glance, can be easily explained when we look at the efforts to limit, and eventually eliminate, cash in their proper historical context. This is simply a single battle in a decades-long war, and the "covid hysteria" is just the latest in a long series of fear-based campaigns against cash.

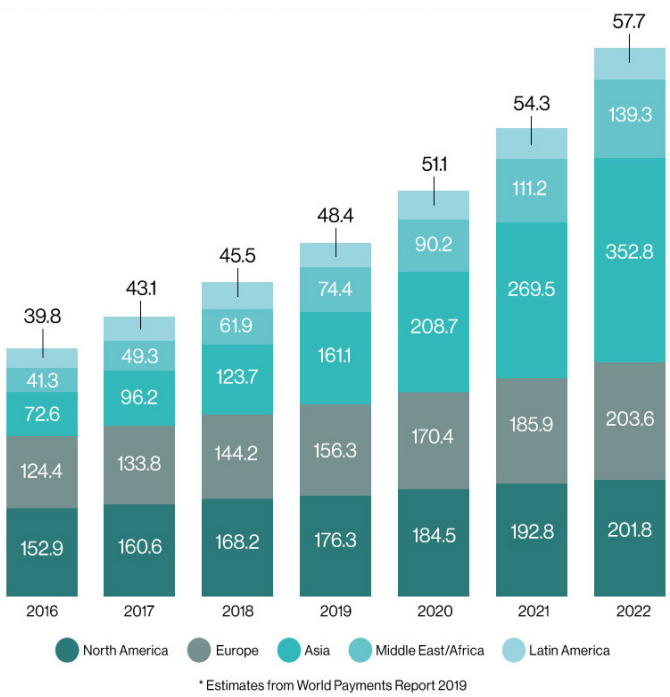
Only a few years ago, the then ECB President, Mario Draghi, also successfully employed scare tactics in order to scrap the €500 note. He just presented unsubstantiated hypotheses as fact, positing that the only people who ever used that denomination were either terrorists or organized crime, Godfather types. Therefore, eliminating the note was a no-brainer, as it would indubitably throw a wrench in nefarious mob activities, foil evil jihadi plots and help keep us all safe. Not only was that argument entirely devoid of evidence, but it also failed to take into >>

account all the perfectly law-abiding citizens and business owners that used that note in their daily operational activities in many of the continent's cash-heavy industries. Nevertheless, this glaring factual deficit did not stand in the way of the successful implementation of Mr. Draghi's decision.

Not long after that, Indian PM Modi tried his own version of that strategy. He eliminated the highest denominations there too, based on a nearly identical narrative about criminals and tax-evaders, and of course, "in the name of the people". It was the very same people, naturally, that paid the price for that decision, as in India's case the rollout of the policy was especially catastrophic. The country was sunk into chaos for weeks. Countless workers went unpaid, many could not afford the bare necessities, while others were even denied emergency treatments at the nations' hospitals, including documented cases of infants that were left to die.

A very similar pattern can be found behind nearly every single decision to lower the limits on cash transactions over the last decade. In Germany, France, Spain, and Greece, "ceilings" have been placed, as low as €1,500 in some cases, on how much of their own money citizens can use to make purchases or investments in cash. Fear of bad actors is the predominant narrative that all these policies came wrapped in, while the vilification of cash itself has been increasingly employed in official communications. Suspicion has been cast on people and businesses that deal heavily in cash, while those who chose to save in it are increasingly seen as quaint and unreasonable.

Non-cash transactions worldwide, in billions



Source: Asean Post

Tip of the iceberg

Privacy advocates and financial sovereignty supporters have railed against all these policies for many years and pointed out the serious risks they entail. We count ourselves among them. At BFI Capital Group, we have repeatedly expressed our opposition to all measures that unilaterally and coercively remove options for savers and investors, by either penalizing them, as is the case with negative interest rates, or by restricting them, as we saw last year in Germany, when the limit for cash purchases of gold was lowered again to €10,000. As early as 2016, we highlighted the social challenges and the dangers of financial exclusion of the unbanked part of the population. Today, the majority of payment services require access to a bank account, a smartphone, and broadband. This automatically excludes 8.5 million in the US alone, a figure that is dramatically higher in less developed nations.

However, even the staunchest detractors of this kind of surreptitious financial repression could not have foreseen just how accurate their worst-case scenarios would turn out to be. Quite predictably, China was the first nation to prove how far a monetary monopoly can go once it's digitalized. In April, the new "digital yuan" was introduced, with a view to be soon adopted nationwide and to eventually replace the physical legal tender. It works through a digital wallet app that is to be installed on citizens' smartphones and the entire system is centrally controlled and monitored by the People's Bank of China. So far, the digital yuan is still in its infancy adoption-wise, as we are barely three months in, but there have already been reports of privacy concerns and violations. Given China's track record on mass surveillance, censorship and human rights atrocities, efforts to predict or even conceive of all the potential abuses of this system are probably futile, as limited by our naïve, Western imagination. >>

What is important to note here is that such an initiative would have been impossible to implement in any nation, let alone one with 1.4 billion people, if the road to transaction digitalization had not already been paved. According to management consultancy Bain, more than 80% of consumers already used mobile payments in 2019 in China. Our adoption rates for mobile and online payments in much of the Western world might be steadily on the rise over the last years, but still pale in comparison.

Despite institutional efforts, cash still has a strong foothold in the US and in Europe, with the exception of some Scandinavian nations. According to Pew Research, cash remains the most frequent method of payment in the US, while those with lower incomes heavily rely on physical dollar bills for their daily expenses. A recent Federal Reserve study confirmed this stark contrast between income levels: about 25% to 30% of households with an income of $50,000 or more use cash, but for households with an income below $25,000 that figure climbs to 43%.

Over in Europe, cash is even more popular. It accounted for a striking 76% of all retail transactions in Germany in 2018, according to Cologne-based EHI Retail Institute. In Greece, Italy, Spain and Portugal, cash is also the undisputed king, as it is the payment method of choice for over 75% of all transactions at points of sale.

This enduring popularity that cash still enjoys might provide some comfort to those of us who fear we might soon wake up to a dystopian future that so many Chinese citizens now wish they could escape. However, it is dangerous to grow complacent and to adopt naive assumptions of the "it could never happen here" sort.

All the incremental changes, all the bans and limits and penalties against cash use, have been steadily building up. Taken individually, these restrictions may not amount to much, but their cumulative effect is formidable over time.

The list of what you can't do with your own money is likely three times longer today than it was just a decade ago. This frog-in-boiling-water process has been as effective as it has been insidious, and this recent covid-inspired acceleration could sound the death knell of cash much earlier than previously expected.

Big Picture Sentinel

The post-covid landscape

By Frank Suess

It is undeniable that the covid crisis has already taken a steep toll, as the lockdowns and shutdowns deeply impacted all levels of the global economy. Only a couple of months ago, the "reopening" prospects for many economies were not even a matter of "when", but "if". Uncertainty reigned supreme and most projections and forecasts were entirely pointless. This is arguably still true to a large extent, as the full scale of the economic damage is only now beginning to be understood.

At Global Gold, we tend to be skeptical about forecasting in general. Nevertheless, there are reliable conclusions to be drawn from careful observation, from historic patterns, and from a decent understanding of economic principles that can and routinely do provide an investing edge.

No surprises on the monetary front

While it is true that the monetary expansionism we have seen in response to the covid crisis is absolutely unprecedented, it is worth remembering that the global monetary direction itself has basically remained the same for over a decade. Inflationary interventions, artificially low rates, massive liquidity injections: they have all been with us for years, as the "doves" have cemented their dominion over the world's major central banks and the few conservative voices of reason that remained after the 2008 crisis were successfully displaced. Even a few months before the coronavirus disaster, anyone supporting the normalization of monetary policy was looked at like a madman. These days, the notion of a rate hike or balance sheet unwinding anytime soon is simply a bad joke.

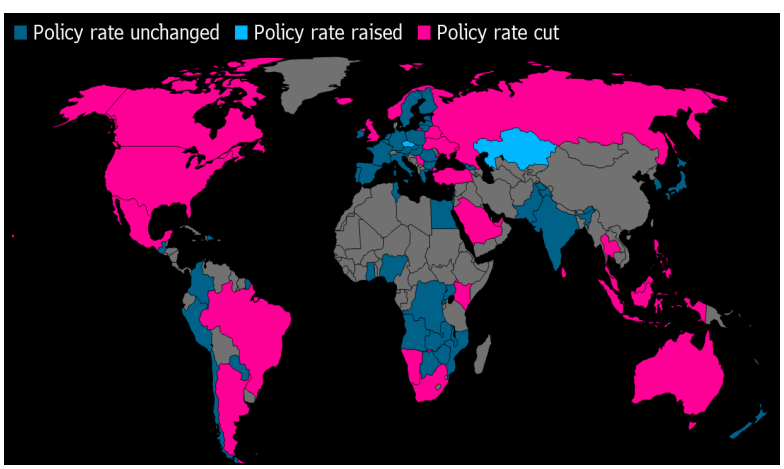
We therefore expect no surprises on the monetary front. Central bankers will keep doing what they've been doing, just more of it and in more aggressive ways. The results of these policies are quite predictable too. As we outlined in our last edition of the Digger, all the "unlimited QE" promises, the unprecedented ventures of the Fed into private debt and ETF purchases, and the gigantic lending programs, are bound to backfire sooner or later. In the meantime, they will just keep fueling massive debt accumulation and this surreal disconnect between market performance and the real economy.

At this point, we see this global monetary expansionism trend as realistically irreversible for the foreseeable future. And it is clearly not just us that feels this way. Market participants have already taken this support for granted and priced it in, while Fed announcements no longer serve any purpose other than to reassure investors than the next announcement will be in line with expectations as well.

The politicization of fiscal policy

By contrast, we find that governments are much more likely to deliver surprises over the next months. Their relief "bazookas" at the height of the economic shutdown >>

Global interest rate decisions since the start of the year



Source: Bloomberg

set the stage for all kinds of absurd policies that seemed unthinkable only a few months ago. Helicopter money, subsided work schemes, mass loan forbearance, rent relief, and direct payments to all citizens all radically expanded the spectrum of what we thought was possible.

"The divide might be growing deeper on most social, political, and cultural issues, but the one thing everyone seems to implicitly agree on these days is that deficits don't matter, and that the national debt is not really a priority anymore."

The forced shutdowns and the mass unemployment that followed, the supply chain disruptions, and the financial uncertainty were so extremely destructive in all levels of the economy, that the damage could only be countered with equally extreme "relief" packages. Governments all over the word, realizing the political implications and the consequences of their own policies, rushed to plug the holes of a sinking ship with panic-spending, blindly throwing money at citizens and businesses whether they needed it or not. This resulted in a surreal, "anything goes" policy environment, as radical measures, that would normally cause a government crisis, were adopted overnight with no opposition. Universal Basic Income (UBI), which was seen as childish and unrealistic not too long ago, became mainstream fiscal policy. We saw direct and indirect bailouts, nationalizations of private companies and incredible amounts gifted to large corporations, while small businesses had to wait in the "breadline".

This sudden and sharp turn towards welfarism has opened the door to even more radical ideas going forward. At this point, both the economic and political reality on the ground are converging and they not only justify, but actually necessitate, more spending, more state support, and more benefits. Both in Europe and in the US, there are many that are only too pleased to ride this trend and to seize this opportunity to implement a more comprehensive political agenda. All the toxic ideas that failed to gain momentum under the guise of environmentalism and the "climate emergency" over the last few years - such as the Green New Deal, MMT-based policies and state control over the private sector - now have the chance to be adopted under covid-related legislation and spending packages. The HEROES Act, the record-breaking $3 trillion aid package recently passed by House Democrats in the US, is a great early example. Not only does it provide more blind $1,200 checks to everyone, thereby solidifying UBI as a standing policy, but it is also packed with provisions that have absolutely nothing to do with the covid crisis. Among those are clauses regarding banking access for the cannabis industry, student loan forgiveness, funding for the Postal Service and mail-in voting, numerous immigration provisions, as well as $10 million each for the National Endowment of the Arts and the National Endowment for the Humanities.

Overall, the US will be a particularly interesting case study in the coming months, especially given the recent nationwide riots and tensions, and not to mention the looming election. As all the extra unemployment benefits and rent moratoriums are due to expire at the end of July, we are prepared to be surprised by what will replace them. Nothing is off the table anymore and no idea is too extreme. In fact, MMT-derived, fringe policy proposals are already being seriously discussed. In early July, Rep. Ilhan Omar of Minnesota introduced the "Workforce Promotion and Access Act", a job-guarantee program, through which the government will offer a job to absolutely anyone who wants one and will pay them at least $15 an hour. As for partisan ideological differences that would normally put the brakes on such nonsensical policies, recent developments have shown that the line is getting increasingly blurred.

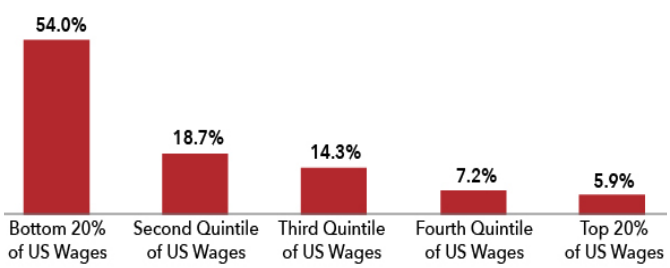
The divide might be growing deeper on most social, political, and cultural issues, but the one thing everyone seems to implicitly agree on these days is that deficits don't matter, and that the national debt is not really a priority anymore. Therefore, it is not inconceivable that, much like we saw with the UBI, other ideas with their roots in the extreme Left could also be swiftly rebranded as "patriotic" and summarily adopted in the context of protectionism or as part of a "conservative" vision to support the American economy and workforce. >>

Inflation vs Deflation

This debate is very complex and inflation projections can be extremely difficult, even under the most normal of circumstances, given the many monetary and economic forces that must be taken into account, as well as the massive manipulation of the currency by central banks. This complexity has been multiplied manifold under the current conditions, as the situation we face today is simply unprecedented. However, the issue can be crudely, but effectively, reduced to a much simpler question: will the gigantic monetary and fiscal stimulus be enough to paper over this unparalleled economic disaster?

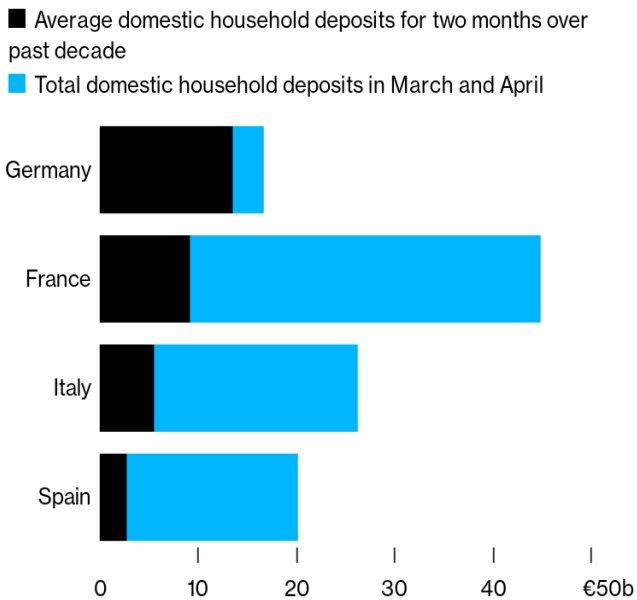
Of course, there is no way to answer this question with any degree of certainty, as we simply have no blueprint and no historic data that can be reliably compared to the current challenges. The best anyone can come up with at this point is an educated guess. Having said that, the deflationary forces do seem primed to take control of the economy in the short- and mid-term. The havoc that the global economic freeze wreaked on the labor market was too severe a blow and even as most major economies reopen, too many of the people who lost their jobs during the lockdown will not be rehired anytime soon. This is especially true of low-skilled and low-income jobs. It was these segments of the population that were hit the hardest and were overrepresented in the unemployment spike and it will be the same ones that will take the longest to recover. This is because many of the employers of these groups suffered the same fate: myriads of small shops, hotels, cafes, and restaurants went into shutdown mode and never came out. Even the lucky ones that did manage to survive until the reopening are now operating with staff cuts or reduced hours and under unsustainable conditions and heavy restrictions that make it impossible to operate profitably.

US jobs most exposused to covid-related unemployment



Source: Bureau of Labor Statistics

Savings surge in the worst-hit Eurozone members

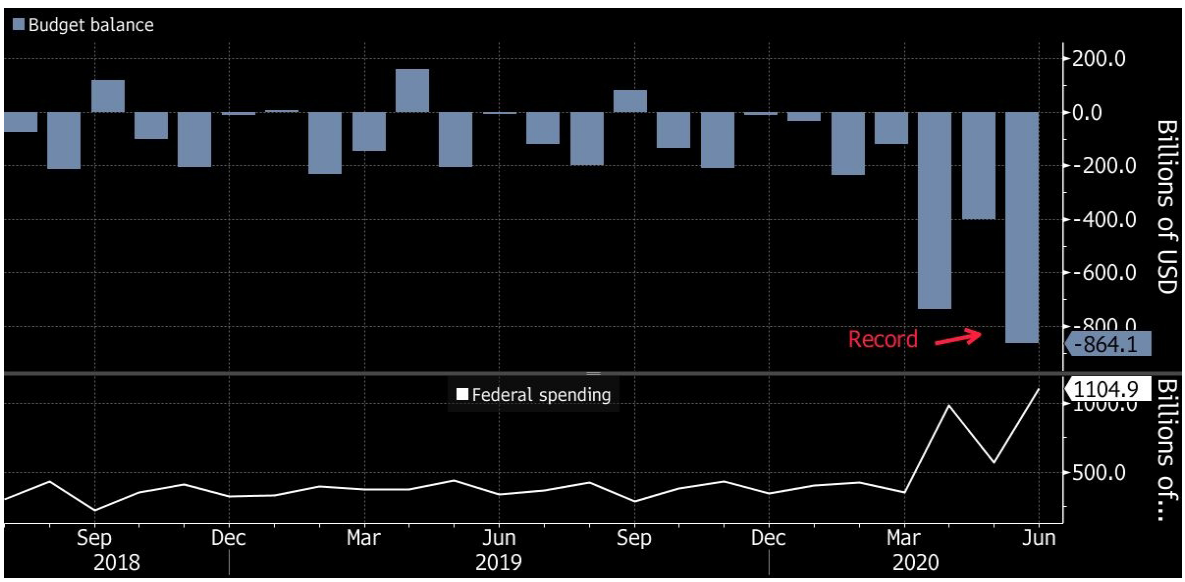


Source: Bloomberg, ECB data

In addition to the unemployment concerns, there are also many good reasons to expect consumer spending to remain anemic, at least over the next few months. We already saw a rare savings spike in the US and in Europe during the lockdown period. As the uncertainty spread, most sensible people froze their spending, as many did not know when and if their next paycheck would come. Even if the government checks keep coming and even if the sentiment is somewhat normalized, this attitude could linger. Those who had never seen a serious recession in their adult lives now know what a true economic shock feels like. At least until this experience begins to fade from the public memory, the fear brought on by the covid shock makes it more likely that those who can will now save more, and those who cannot will at least focus on paying down debt.

The long-term view, however, is dramatically different. The sheer scale of the monetary and fiscal response is bound to have lasting and arguably >>

US deficit soared to record levels in June



Source: Bloomberg, US Treasury Department

irreversible effects, all of them eventually inflationary. The central bank policies that engineered and incentivized the corporate borrowing spree we saw over the last decade have now supercharged and dramatically accelerated it. It is also important to bear in mind that this time around, all the inflationary measures and their effects did not remain contained only within the financial and banking system, as was the case in the last recession. Direct payments, loans, and subsidies meant that liquidity was also injected intravenously into the real economy and so were its side effects, even if they haven't become apparent yet. What's more, employment can be expected to rebound, albeit artificially, as governments are likely to keep subsidizing work, like they are already doing in most European nations, finding new ways to create inefficient and pointless "make-work" schemes and projects. Once the unemployment constraint is removed and the lid comes off the pressure cooker, inflation is liable to run amok.

Ripple effects

One of the most obvious consequences of the covid crisis and the relief measures can already be clearly seen in the exponential widening of the divide between Wall Street and Main Street. The Nasdaq's new record highs against a backdrop of over 40 million newly unemployed Americans might have looked like an extreme incident of cognitive dissonance. However, it was a perfectly sensible and rational reaction to the monetary and fiscal policies in place. This is arguably only the beginning, as these same policies are set to drive an even deeper wedge into and across socioeconomic classes and income levels. While asset price inflation continues on its upward trajectory, fueled by cheap credit and "unlimited QE", the gap widens between the investor class and the vanishing middle class that can no longer afford these assets. Ridiculous valuations in equities and terrifying volatility levels mean that the ticket to the stock market gravy train is simply out of reach for the vast majority of the working population in the West.

Thus, the perceived inequality that so many people are railing against and protesting en masse across the globe is bound to get a lot worse in the coming months. As we already pointed out, in most major economies, it was largely urban, low-skilled and low-education workers that lost their jobs and saw their income evaporate. White-collar jobs, executive positions and tech employees were minimally affected, by comparison. They could work from home and, in some cases, they even saw labor demand in their sectors boom. We're already beginning to see the real-life results of this bifurcation. Racial tensions might have been the spark that set off the recent >>

wave of protests, but a wider sense of inequality was the main driving force. This became abundantly clear from the protesters' actual reform proposals. Beneath the thin veil of the social justice rhetoric, they all boiled down to straightforward demands for more money, access to resources, and calls for punitive, redistributive measures against the perceived elites.

Unfortunately, we expect this trend to persist, as social unrest, widespread anger and eventually violent pushback are all predictable and historically unsurprising reactions to what is increasingly seen as an unjust and rigged economic system. The cynical exploitation of this raw, "righteous anger" is equally predictable, as is its political weaponization.

From an investment perspective, the implications are quite clear. The current covid rally in stocks is entirely artificial and even the most optimistic investors are noticing the disconnect from the real economy and are getting increasingly jittery over the risk of another abrupt correction. However, even if central bankers' promises manage to sustain faith in the system and avert a second stock carnage, the overall heightened volatility levels will persist. The wave of bankruptcies and ratings downgrades that began during the lockdown are also likely to continue. If there is any hope of survival in this climate, it's through active management and very careful screening for solid balance sheets and debt levels, a strategy that was outlined by our BFI colleagues in their latest InSights report.

Regardless of whether investors choose to remain in equities and bonds or not, it is our view that in the coming months and years, physical precious metals will play a crucial role for every type of portfolio. Bearing in mind the extreme challenges and pressures that lie ahead, physical gold and silver allocations are more necessary than ever to protect and preserve wealth.

And this time around, it is not just the serious risk of economic and market shocks that render a solid and reliable hedge essential, but there are also legitimate concerns of a political and legislative nature that must be taken into account. As governments grow desperate to scrape together the funds for their grand designs and spending promises and as the political climate becomes ever more conducive to persecuting those who still produce, invest and save, jurisdictional diversification and the compliant allocation of assets outside the banking system are quickly becoming a basic requirement of any sound financial plan.

Golden Nuggets

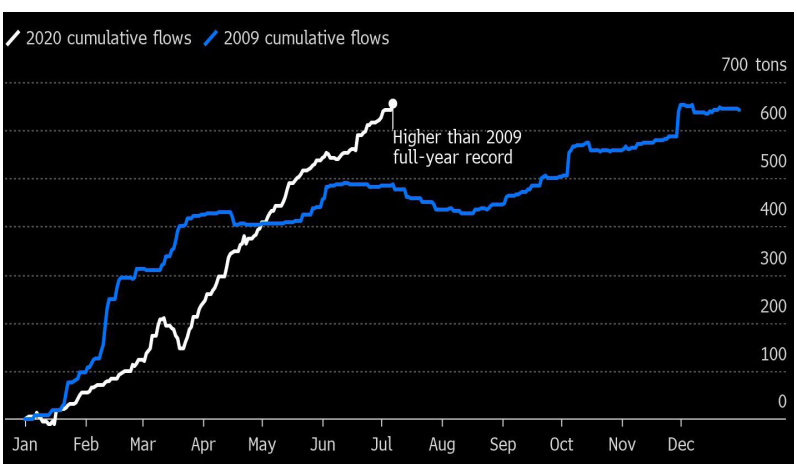
Gold update: The next bull market is well underway

By Global Gold

The last few months may have been a stressful time for equity investors, but those who were able to recognize gold's potential early on were generously rewarded.

The covid crisis, with all the panic and the uncertainty it introduced to the markets and throughout the economy, triggered a broad new wave of demand for precious metals and gold. The supply shock that was caused by the economic shutdown, which we covered in our previous issue of the Digger, is now behind us, availability of bars and coins in the physical market is almost back to normal, and premiums are coming down. Demand, however, remains robust. Over the last couple of months, gold ETFs saw the highest quarterly inflows in four years and broke new records in terms of total Assets under Management (AuM) reaching nearly $200 billion, while the gold price recently surpassed $1,800 for the first time since 2011.

Year-to date inflows to gold ETFs overtake 2009's full-year record



Source: Bloomberg

Interestingly, a lot of this new demand is coming from retail and even first-time investors. As reported by BullionVault, there was a 413.5% surge in first-time precious metals buyers between March and May compared to last year. This covid-driven renewed interest is something we've experienced too at Global Gold. It is clear that many individual investors and ordinary savers are realizing the need for a solid hedge during these uncertain times and gold once again is living up to its reputation as the most reliable safe haven.

The mid- and long-term outlook appears to be stellar too. As we recently reported in our BFI Capital Group Blog, a strong bullish consensus seems to be taking shape and a growing number of seasoned investors and gold market experts expect the gold price to continue on its upward trajectory, with some thinking it could go to $10,000.

While we are generally not inclined to make specific predictions and price forecasts at Global Gold, as we feel the sheer complexity of the markets and the economy has a way of making fools out of those who think they can fully master them, we do share this optimism and expect further price gains. There are simply too many forces working in gold's favor at the moment and they are only going to intensify as the recession deepens, as >>

economic uncertainty grows, and as governments and central bankers resort to even more inflationary experiments. A very illuminating, in-depth analysis of most of these drivers for gold can be found in the latest In Gold We Trust report, which was recently published by our good friends Ronald Stöferle and Mark Valek at Incrementum AG. As with previous years, they have once again prepared an extensive and detailed analysis of the gold market, examined from many interesting angles. It is certainly worth the read.

It is important to highlight, however, that we don't expect this uptrend in gold to manifest itself in a straight line. We anticipate fluctuations and short-lived pullbacks, as in any healthy bull market. We see those pullbacks as further buying opportunities, especially for investors that failed to take advantage of earlier entry opportunities at lower prices. In our view, there's still time to participate in this rally. Having said that, and while we do recognize the speculative attraction particularly for newcomers to precious metals, we do not encourage our clients to look at gold as a "quick buck" trade.

There are plenty of other investment vehicles that serve this purpose and there are countless instruments out there, specifically developed for those who wish to take chances with their savings or to gamble them away. Precious metals, especially in their physical form, are not meant for this type of "investor". Instead, physical gold is a time-tested way to protect one's wealth over the long term and to preserve the purchasing power of their savings.

In this context, we see price gains as a great and welcome bonus and as further confirmation of gold's superiority over fiat money.

Golden Nuggets

Your Economic Impact Payment has arrived...in Switzerland!

By Scott Schamber

The letter I received started with "My Fellow American" and ended with President Donald J. Trump's signature.

As you are all familiar with, on March 27th, 2020, the US Congress passed the CARES Act – the "Coronavirus Aid, Relief and Economic Security" Act - a $2.2 trillion injection of cash into the US economy, which includes an "Economic Impact Payment" of a maximum $1,200 for each American, and $500 for each child claimed as a dependent. I received my letter stating that I will be receiving a payment of $1,700, for my son and myself.

Now, a little bit of history is important here to explain why I was surprised to get this letter. I was born and raised in Milwaukee, Wisconsin, but moved permanently to Switzerland in 2001. For 19 years, I have retained my US citizenship, and as every American, whether living on US soil or abroad, I continue to submit my tax declaration every year, even paying taxes to the US despite the foreign tax credits. But I have a home, family, and roots now in Switzerland, even have Swiss citizenship, and have never spent more than a 3-week period in the US on vacation since leaving in 2001.

Folks... I've lived in Switzerland for 19 years!

Do I deserve this stimulus check? I know I am not the only one that will be receiving it. My mother, who has called Switzerland her permanent home since 2009, already received her direct deposit in the US. I know other members of the "American Club of Zürich" also received the letter the exact same day as I did. And, perhaps most interesting, I know someone that is also getting a check, even though he never had a US citizenship, hasn't lived there in a few years, and only spent time there because of earning his master's degree.

Why would the US government send stimulus checks to Americans outside of the US, especially at a time when we already have a huge amount of debt, as well as the coronavirus and everything that came with it that has decimated the economy? Remember, there are potentially 9M - 10M of us expats living in Mexico, Canada, across Europe, and as far as South Korea and New Zealand. I personally have been filing with my same Swiss address for nearly 2 decades, so it is no secret I've been gone from the US.

And not only are they sending checks, but the IRS sent a letter to warn the check is coming, and, from what I've read, as a way to make sure you have received your check, a follow-up letter to confirm the check was sent. That's a lot of letters!

Not only is the US figuratively "writing a check that will be hard to cash" in the amount of debt they are creating, but they are literally throwing stimulus outside of the country. And there is likely another round coming!

If you think with a level head, it's understandable that with the amount of time it would take the IRS to "weed out" all of the US taxpayers living abroad, we might >>

be in recovery by the time checks actually went out. After all, I've read - and have a friend that works for the IRS that confirmed this - that over the past 10 years, the IRS budget has been reduced by roughly 20%, forcing them to cut staff, training, and toil away with aging technology. Better to cast the net than to hit fish with an arrow, I guess.

On top of the absurdity of the situation, and what looks like an enormous amount of waste, think about this: Blindly sending checks to all citizens without any kind of means testing or control is a policy that is akin to Universal Basic Income, something conservatives decried as "basically Communism" several months back when they argued that Andrew Yang was "crazy" for suggesting it! Our memories do not go as far back as they used to, apparently.

What will I do with my check? I'm really torn about this. I'm still very proud to be an American. With all due respect to those that have given up their US citizenship, I haven't given up mine and it would be a really hard choice to ultimately make. There is a part of me that might just return the payment to the IRS. After all, do I really deserve it?

And, do you know the look I am going to get at the bank counter here in Switzerland when I bring my check to cash or deposit it? I think I may have used one check since moving to Switzerland in 2001, and even that was probably 18 years ago. Actually, the Swiss and Europeans can't understand how us Americans still even use checks.

On the other hand, it is coming in my name. And frankly, as I do still pay taxes in the US – what I commonly refer to as my "annual fee" for my blue passport – there is a part of me that says "hell yeah! I deserve it!". I don't even use any facilities, public services, or infrastructure in the US, but still pay taxes for them each year. I've read that the only other countries that tax their citizens like this are Libya, North Korea, Eritrea, and the Philippines.

What would you do?

Of course, the letter does mention that I might also receive a debit card instead of a check. But as far as I know, I can use a US debit card outside of the US for a fee. With the US government paying the fee, it just got even easier to spend my stimulus money.

I have some thinking to do yet on the subject, and, if the IRS finally does get my Swiss address right, I should get my check at the end of July. A planned trip to the US in the fall still might not happen if COVID-19 has anything to do with it, so I may have no choice but to spend my stimulus check in Switzerland.

To conclude the letter, President Trump writes "Just as we have before, America will triumph yet again--and rise to new heights of greatness." With throwing money outside of the country, to be injected into other economies, and considering the crazy amount of debt we are seeing – and will probably continue to see – those "new heights of greatness" are going to take a wee bit of time getting to yet.

Golden Nuggets

Caveat Emptor: The surge of risky bets by rookie traders

By Scott Schamber

In our first issue of the Digger for 2020, we investigated the rise of "zero-commission" brokers and the wave of new trading account openings by first-time investors. In our analysis, we outlined the key changes and the driving forces that led to this "democratization of investing", but we also sounded the alarm regarding the formidable risks it entails, not just for the new traders themselves, but for all of us.

Just a few months after we first flagged this issue, the dangers we foresaw all came alive before our eyes. While we did expect the worrying dynamics we outlined in that article to play an important role going forward, even we were surprised to see our fears materialize so quickly and so forcefully. And while we anticipated this trend to take a steep financial and social toll, we were shocked to see it claim a human life.

Canary in the coal mine

The tragic case of Alex Kearns, a 20-year-old student at the University of Nebraska, captured international media attention and exposed the dark side of amateur trading. On June 12th, the young man took his own life after an options trade went wrong. Believing that he had lost almost $750,000, he left a note for his parents, writing "I had no clue about what I was doing" and "I never intended to take this much risk". In an even more harrowing turn of events, soon after his death, it emerged that he had misunderstood the trade and its impact on his account, which still had a balance of $16,000.

The distress and despair that this young student found himself in is, unfortunately, increasingly common. New traders are reporting steep losses, sometimes wiping out the entirety of their savings in a single bet that went sour. While the losers are swelling in numbers, the biggest winners are arguably not the ones on the other side of those bad trades. It's the brokers that enable them. According to a recent FT report, "Robinhood added 3m users in the first quarter, pushing its total number of users above 13m. Schwab, ETrade and Interactive Brokers together added 1.5m new accounts in the first five months of the year, nearly double the amount for the same period in 2019. TD Ameritrade, which shares quarterly data, added more than 500,000 new accounts in the first quarter - three times the amount for the same period a year earlier."

The digitalization shift and the dawn of the "zero commission" era have completely transformed the broking arena, making stock trading easier than ordering a pizza. The gates to the markets were flung open and the covid crisis drew in a lot of young, vulnerable, and often desperate people. At the same time, the "gamification" trend made sure they'd be hooked, remain engaged, and keep playing what is specifically designed to look and feel like an online game. One look at the intentionally addictive Robinhood app perfectly illustrates this. Like many video games, a "new player" account can be opened seamlessly within just a few minutes and newcomers are given some free tokens or a "beginner pack" to get them to start playing right away, which in Robinhood's >>

case is a free stock. The app interface is colorful and engaging, the design is dynamic and frictionless, while "milestones" are also marked. Similar to "passing a level" in a video game, confetti blasts across the screen to celebrate each transaction and to give the user a sense of achievement and progress.

Most of these trading platforms have addictive features and insidious reward mechanisms inspired by social media, online games and casinos, all tested, developed and fine-tuned with the explicit aim of keeping the user active in that environment for the longest time possible. Berkshire Hathaway's Charlie Munger hit the nail on the head in his criticism of these practices in trading systems: "I regard that as roughly equivalent to trying to induce a bunch of young people to start off on heroin". In this context, it might be truly tragic, but it is not surprising, that we are now seeing an overdose wave.

The other pandemic

The lockdowns that governments all around the world imposed in response to the covid pandemic undoubtedly played a key role in accelerating the preexisting trend of new account openings by first-time investors. In fact, it can be argued that it was these measures that ensured this phenomenon would get out of control much sooner than anyone could have predicted pre-covid.

It was a perfect storm: billions of citizens were suddenly plunged into financial uncertainty, while they were stuck at home, mostly forbidden from engaging in any kind of productive activity and gainful employment. This made online trading extremely attractive, even to people who knew nothing about it and never even considered it as an option to supplement their income before. And then the stock market started making mainstream headlines. The correction in US equities, oil "going negative", gold rallying... all of these developments were extensively covered by generic news outlets globally and presented in very crude and superficial terms. All these stories, aimed at the general public, were largely free of nuance or any kind of serious analysis, and clearly demonstrated how half knowledge can be more dangerous than ignorance.

During the lockdown, click-bait headlines full of half-truths and misinformation became the norm in financial reporting by mass media, while mainstream efforts to "dumb down" complex concepts and multi-factorial market dynamics have resulted in an abundance of articles that leave the reader less informed when he finishes reading them than when he started. Social media and online forums further exacerbated this misinformation pandemic, as they're now routinely used as tools for "pump and dump" schemes and for "tip sharing", a practice that is reminiscent of the old boiler-room scams. >>

"Bankruptcy stocks" surge

Source: Bloomberg

This time around, however, the destructive potential of these practices is supercharged by their "viral" spread through online and social media and much more worryingly, by the widespread access to leverage and its ignorant misuse.

The oil story was a great example: as the average layman has no idea about derivatives markets and how futures contracts work, a lot of new traders believed that the reported move into negative territory presented a once-in-a-lifetime opportunity to buy oil in rock bottom prices. As they also had no idea about how ETFs work, what they actually track, and what leverage means, a startling number of retail accounts suffered extreme losses or were wiped out completely in just a few weeks. The same behavior resulted in wild spikes in insolvency stocks, as inexperienced investors rushed to buy literally bankrupt companies like Hertz, Chesapeake Energy and JC Penney, thinking they were "great bargains".

The higher they climb, the harder everyone falls

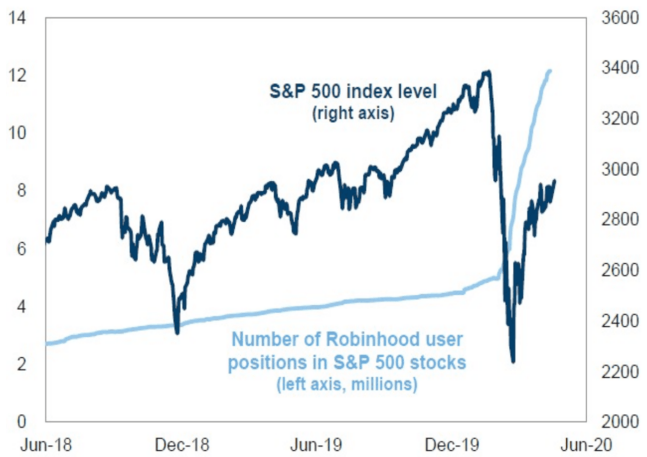
There is, of course, a positive way to look at this trend. It can be argued that having more people participate in the markets is actually a good thing. The removal of the old barriers to entry will allow more widespread access to investing, to wealth building, and will eventually set the stage for a more equal financial system in the future, where everyone can benefit from market rallies, not just the "elites".

Even though we would all want it to be true, unfortunately this assessment is desperately naive. In fact, so far everything points to the exact opposite scenario. Today, there is an army of teenagers using their pocket money to pump bankrupt stocks, to buy fractions of Tesla and Apple, and to follow the latest "hot tip" they saw on their Twitter feed or Reddit thread. More worryingly, there are now thousands, if not millions, of adults and primary breadwinners that opened trading accounts after the first covid dip out of "Fear of Missing Out/FOMO", funded with money they can't afford to lose. Most of them are waiting to get wiped out in the next correction and many are leveraged too, so they are risking money they literally don't have. They don't know the first thing about investing, but they know they don't want to be left out of the "rebound" and miss the chance to become millionaires overnight.

It is obvious that these unqualified investors face a massive risk of financial ruin, bound to affect not only them, but their entire families. It is also obvious that, unlike Lehman Brothers, nobody is going to bail them out and pay for their mistakes. What is less obvious, but equally alarming, is the impact they are already having on the markets at large and, by extension, on the rest of us.

As this kind of blind greed and herd behavior drive the already absurd valuations in equities even higher, we can be sure that the impact of the next bubble to burst will be amplified accordingly.

Robinhood trading activity and S&P 500



Source: Robintrack, Goldman Sachs

GLOBAL GOLD
The Swiss Solution for Precious Metals

Impressum

THE DIGGER QUARTERLY

Publisher
Global Gold AG | Head Office
Am Dürrbach 5 | 6391 Engelberg
Switzerland

Editors
Scott Schamber | Frank R. Suess

Published
Four times a year.
Exclusively for clients, partners and friends of Global Gold.

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