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In Gold we Trust – 2018 Report

Gold and the Turning of the Monetary Tides

- **The 12th edition of the annual *In Gold we Trust* report discusses three fundamental turning points affecting the global monetary system. The authors of the report Ronald-Peter Stoeferle and Mark Valek refer to these as "*Monetary Turns of the Tide*":**

    1. The Federal Reserve has sounded the bell on a beginning ***turn of the tide in monetary policy***: the start of a global rate hike cycle and particularly the reversal from "QE" to "QT" puts an end to a decade of flooding the markets with liquidity. The fact that the liquidity tide is going out marks the first time in ten years that financial markets are facing a real test.
    2. A ***turn of the tide in the global monetary system***, away from the US dollar-centric monetary order toward a multi-polar order increases the relevance of gold. Gold is beginning to play a more prominent role in the currency policy deliberations of central banks, above all as a result of growing geopolitical polarization, increasing over-indebtedness and the continuing process of "de-dollarization".
    3. A ***technological turn of the tide*** has occurred due to the proliferation of blockchain technology and the cryptocurrencies associated with it. These new technologies are offering a multitude of innovations as virtual means of payment and stores of value. In the meantime even gold-backed crypto-tokens have been successfully launched.

- **Another topic examined in this year's *In Gold we Trust* report are the inflationary tendencies**. In the ongoing tug-of-war between inflationary and deflationary forces, inflationary forces appear to have gained the upper hand in the course of the past year. Since September 2017 also our proprietary *Incrementum Inflation Signal* indicates that price inflation is gathering pace.
- **After a period of intense creative destruction, precious metals mining stocks are once again attractive**. In light of the currently extremely high level of the gold-silver ratio, excellent investment opportunities should become available in the stocks of primary silver producers, in particular once the trend in the ratio changes again.
- **Technical analysis by and large indicates that a positive set-up for gold is in in place.** Sentiment on gold is pessimistic and there was a healthy adjustment in speculative positioning in the futures markets. The seasonally strongest period for the gold price begins in June.

This year's edition of the *In Gold we Trust* report was presented at an international press conference in Vienna, Austria on May 29, 2018. Ronald-Peter Stoeferle and Mark Valek, investment managers of the asset management company *Incrementum AG* in Liechtenstein, are the authors of the report. Last year's edition of the *In Gold we Trust* report was downloaded more than 1.7 million times and the report is widely considered the "gold standard" in gold-related research. Further information on the report and its authors can be accessed at www.ingoldwetrust.report.

On more than 200 pages, the authors analyze a wide variety of drivers affecting the gold price. This year's edition of the report also contains two exclusive interviews: one with US-based analyst Luke Gromen (FFTT), in which he discusses the future of the US dollar. The other interview was conducted with Dr. Richard Zundritsch, the nephew of renowned Nobel Prize laureate Friedrich A. Hayek. He comments on Hayek's proposal calling for competition between (privately issued) currencies. **Due to the introduction of gold-backed cryptocurrencies, the idea has gained renewed topicality**.

In the course of 2017 the price of gold rallied primarily in US dollar terms (+13.7%). It gained ground in almost every other currency as well (AUD, CAD, JPY, etc.). Only in euro terms did the gold price suffer a small decline of -1%. Since the beginning of 2018, the performance of gold in USD terms was to date slightly negative (-1.2%), while euro-based investors enjoyed a small gain of +0.6%. The recent low volatility of the gold price is quite remarkable. It has decreased to the lowest level in more than 10 years.

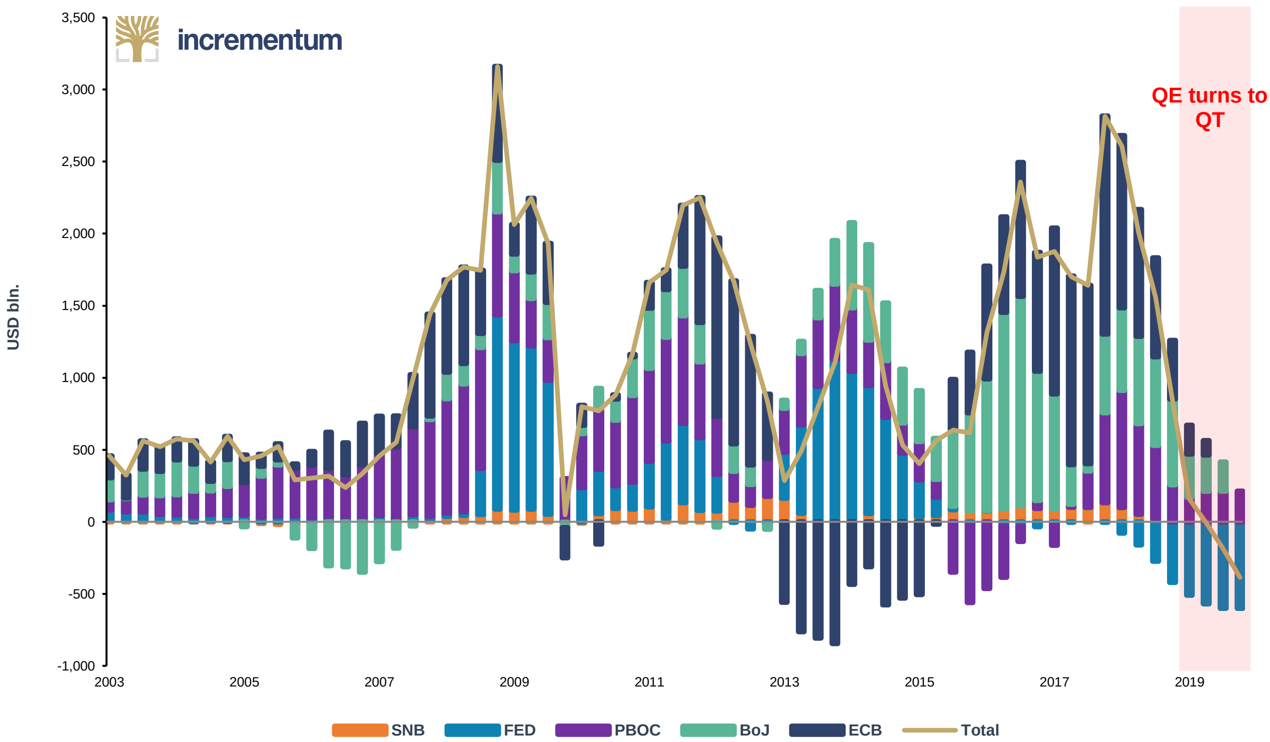
Three turns of the tide are the focus of this year's edition of the In Gold we Trust report:

1) A turn of the tide in monetary policy
The changeover from quantitative easing (QE) to quantitative tightening (QT) has received surprisingly little attention in public debate. By creating a gargantuan flood of liquidity over the past decade, global central banks have pushed asset prices to dizzying heights. The world's five largest central banks have created the almost unfathomable equivalent of USD 14.357 trillion in this time period and invested it in securities. However, this year central banks will turn from net buyers of into net sellers of securities. The consequences of this turn of the tide in monetary policy – the implementation of which has already begun in the US, with the euro area set to follow suit soon – could be quite dramatic, as the monetary stimulant applied in an attempt to prevent a relapse into crisis conditions in the post-Lehman era had numerous side effects.

For one thing, the medicine enticed the patient to indulge in a *da capo* of the global debt accumulation orgy. Mario Draghi's "whatever it takes" policy was supposed to buy time for Southern European countries to implement structural reforms and reduce their indebtedness – that was the theory, anyway. In practice extremely low interest rates were an irresistible incentive to pile up even greater mountains of debt.

For another thing, investors have come to know and love what is a supposedly low-risk financial market environment. Now the first dark clouds are appearing on the interest rate horizon. Apart from the Fed, the ECB is slowly but surely implementing a turn of tide in monetary policy as well, albeit with a considerable lag. The tide of global liquidity is beginning to go out.

From quantitative easing to quantitative tightening



Source: Bloomberg, Incrementum AG

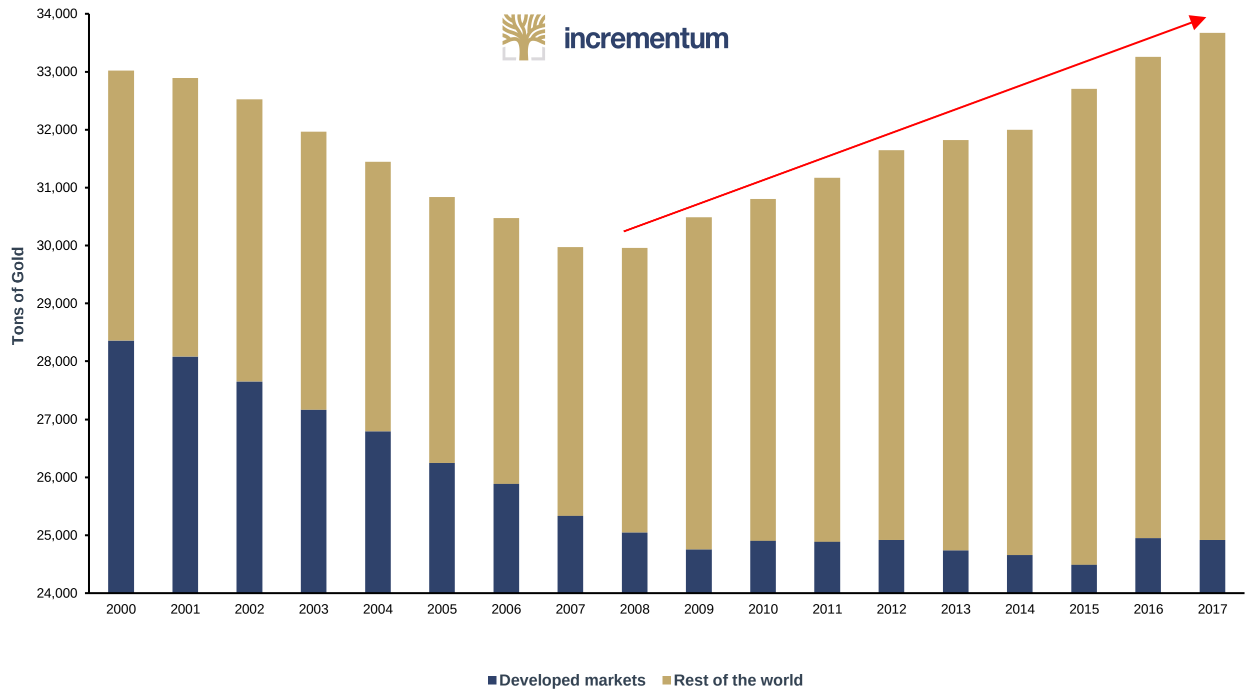
2) A turn of the tide in the global monetary order
This fundamental change is nothing less than the process of "de-dollarization", i.e., the slow renunciation of the US dollar as the dominant global reserve and trading currency and the associated changeover from a uni-polar to a multi-polar world and monetary order continues.

The process is accompanied by geopolitical polarization and a rhetoric that puts greater emphasis on divisiveness rather than on common ground. This trend has reached a new pinnacle with the election of Donald Trump. European politicians in particular are trying to take advantage of this geopolitical opportunity to escape – at least to some extent – from the clutches of the US.

The creeping loss of the hegemonic status of the US dollar as the senior global reserve currency could have far-reaching consequences for the US. Declining global demand for the US dollar and treasury bonds could boost domestic US price inflation and drive interest rates up further.

The increasing need for substitutes for the ever less popular US dollar leads – not least due to a lack of real alternatives – to a revival of gold's role as a currency reserve. Particularly the central banks of Russia, China, India and Turkey have been regular buyers of gold for quite some time.

Central bank gold reserves

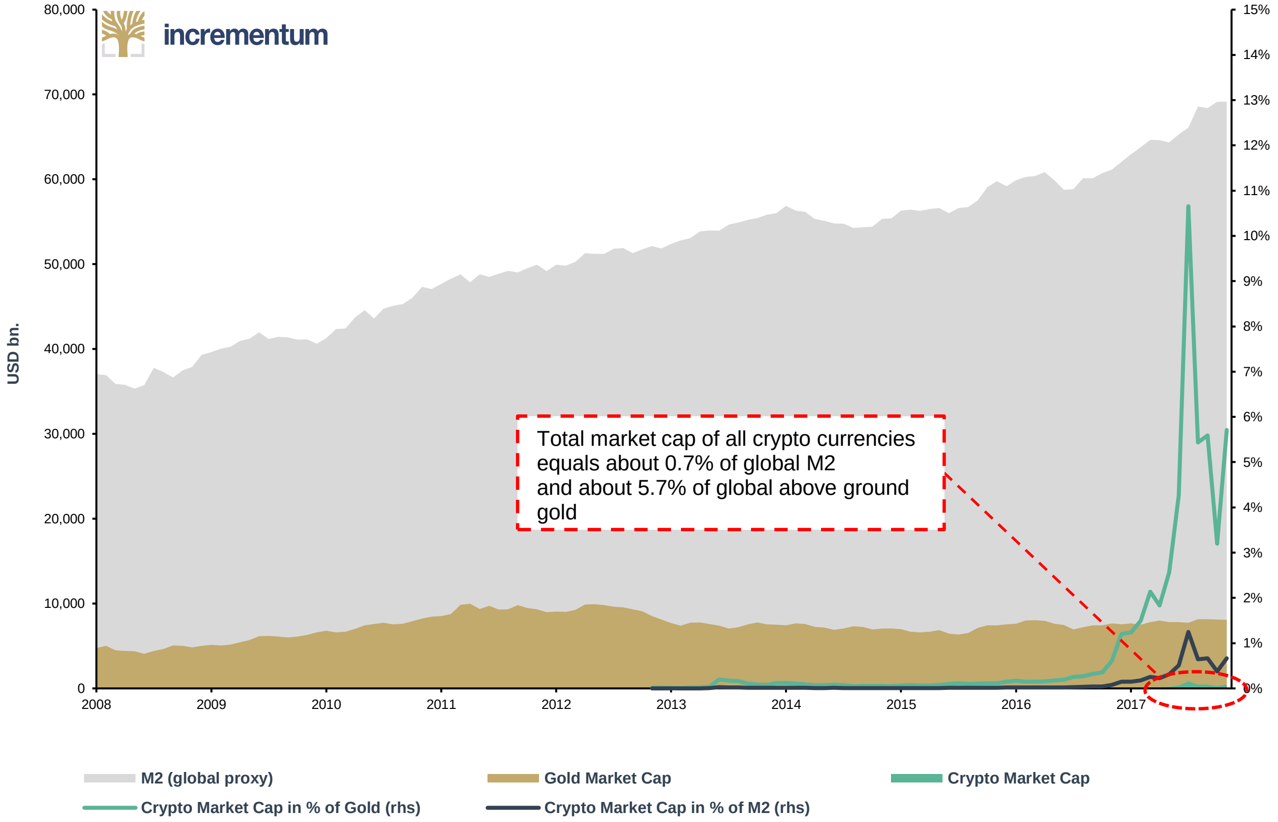


Source: World Gold Council, Incrementum AG

<u>3) Technological turn of the tide</u>
Epochal technological change is taking place at a breathtaking pace. More and more financial transactions are conducted with smart phones or over the internet. With the invention of cryptocurrencies the digitalization of money has received a further boost.

With respect to cryptocurrencies, the authors are convinced of three major points: 1) not everything designated “crypto” has value; 2) nevertheless, cryptocurrencies are here to stay. They will fundamentally change business and quite possibly the working of the current monetary system, perhaps decisively; 3) gold and cryptocurrencies are friends, not foes. In fact, a collaborative approach would play to the strengths of both. The first gold-based cryptocurrencies are underway as we speak.

Market capitalization: cryptocurrencies vs. gold vs. M2



Source: Bloomberg, coinmarketcap.com, Incrementum AG

Other key messages of this year's edition of the *In Gold we Trust* report are:

- **The risk-reward profile of the precious metals mining sector strikes us as excellent.** We expect the gold-silver ratio to decline in the medium term. In this scenario stocks of primary silver miners should offer particularly enticing investment opportunities. In our own investment process we remain focused on developers and emerging producers.
- **In the great tug-of-war between inflationary and deflationary forces, inflationary forces have gained the upper hand in the course of the past year.** Since September of 2017 our proprietary *Incrementum Inflation Signal* also indicates that price inflation is gathering pace.
- **Technical analysis by and large indicates a positive set-up for gold is in in place.** Sentiment on gold is pessimistic and there was a healthy adjustment in speculative positioning in the futures markets. The seasonally strongest period for the gold price begins in June; this seasonal pattern in the gold price tends to be particularly pronounced in mid-term election years.

The authors expect significant upheaval in coming years that will have noticeable effects on the gold price. “In view of the three major turns of the tide discussed in this year's edition of our *In Gold we Trust* report, we are quite confident regarding the prospects for gold. Once the consequences of the recent turn of tide in monetary policy become obvious and the threat of recession looms on the horizon, demand for gold as a traditional safe haven is bound to return”, notes Ronald Stoeferle in summarizing the insights of this year's ***In Gold we Trust*** report.

About the *In Gold we Trust*-Report:

Ronald-Peter Stoeferle has written the *In Gold we Trust* report for 12 consecutive years. For 5 years it has been co-authored by his partner Mark Valek. It provides a "holistic" assessment of the gold sector and the most important factors influencing it, including real interest rates, opportunity costs, debt, central bank policy etc.

The authors are proud that the following highly renowned companies are "Premium Partners" of the report: **Agnico Eagle, Endeavour Silver, Tudor Gold, Leagold Mining, McEwen Mining, Münze Österreich, philoro EDELMETALLE, Victoria Gold, Real Vision TV, Silver Bullion, Sprott Asset Management und Tocqueville Asset Management.**

Ronald-Peter Stöferle, CMT

Ronni is partner of Incrementum AG and responsible for Research and Portfolio Management.

He studied business administration and finance in the USA and at the Vienna University of Economics and Business Administration, and also gained work experience at the trading desk of a bank during his studies. Upon graduation he joined the research department of Erste Group, where he published his first *In Gold we Trust* report in 2007. Over the years, the Gold Report has proceeded to become one of the benchmark publications on gold, money, and inflation.

Since 2013 he has held the position as reader at scholarium in Vienna, and he also speaks at Wiener Börse Akademie (i.e. the Vienna Stock Exchange Academy). In 2014, he co-authored the book "*Austrian School for Investors*". In 2018 he will publish "*Die Nullzinsfalle*" (The Zero Interest Rate Trap). Moreover, he is an advisor for Tudor Gold Corp. (TUD), a significant explorer in British Columbia's Golden Triangle.

Mark Valek, CAIA

Mark is partner of Incrementum AG and responsible for Portfolio Management and Research.

While working full time, Mark studied business administration at the Vienna University of Economics and Business Administration and has continuously worked in financial markets and asset management since 1999. Prior to the establishment of Incrementum AG, he was with Raiffeisen Capital Management for ten years, most recently as fund manager in the area of inflation protection and alternative investments. He gained entrepreneurial experience as co-founder of philoro Edelmetalle GmbH.

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Incrementum AG

Incrementum AG was founded in 2013. Independence and self-reliance are the cornerstones of our philosophy, which is why the four managing partners own 100% of the company.

Prior to setting up Incrementum, we all worked in the investment and finance industry for years in places like Frankfurt, Madrid, Toronto, Geneva, Zurich, and Vienna.

We are very concerned about the economic developments in recent years especially with respect to the global rise in debt and extreme monetary measures taken by central banks. We are reluctant to believe that the basis of today's economy, i.e. the uncovered credit money system, is sustainable. This means that particularly when it comes to investments, acting parties should look beyond the horizon of the current monetary system. We want to re-think investment strategies and implement them in a way that is in line with today's requirements. Our clients appreciate the unbiased illustration and communication of our publications. Our goal is to offer solid and innovative investment solutions that do justice to the opportunities and risks of today's prevalent complex and fragile environment.

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