Strategic Wealth Preservation

INSIDE THE VAULT

A QUARTERLY NEWSLETTER FEATURING PRECIOUS METAL INSIGHTS - JULY 2022

DON'T PANIC AND REMAIN PATIENT

A lot of people, including some of my industry colleagues, have been left wondering lately why gold and silver have not reacted more favourably to current market conditions.

I remind them (and myself) that we are experiencing relatively unprecedented events, particularly the aftermath effects of a global pandemic and historic government deficit spending. It is my personal belief that we are in the midst of a life changing event, which legendary investor Ray Dalio refers to as the 'Changing World Order'.

Call it what you will, things are likely to get much worse before they get better. Owning gold and silver is critical during these pre-crisis times (i.e. again, things will get worse). If there is one thing I've learned over my 16-year career in precious metals, it is that the metals ALWAYS rise to the occasion, but, we must remain patient until they do.

Mark Yaxley, General Manager for Strategic Wealth Preservation (SWP). He has been focusing on the diverse needs of retail and commercial precious metal investors since 2006.

Follow Mark on Twitter @YaxleyYax

GOLD AND SILVER TECHNICAL ANALYSIS

Technical Analysis Video by Chris Vermeulen, Chief Market Strategist for TheTechnicalTraders.com

You can follow Chris on Twitter @TheTechTraders

GOLD IN Q2: THE GLOBAL SELLOFF

Jeff Clark, Senior Analyst GoldSilver.com, Advisory Board Member SWP

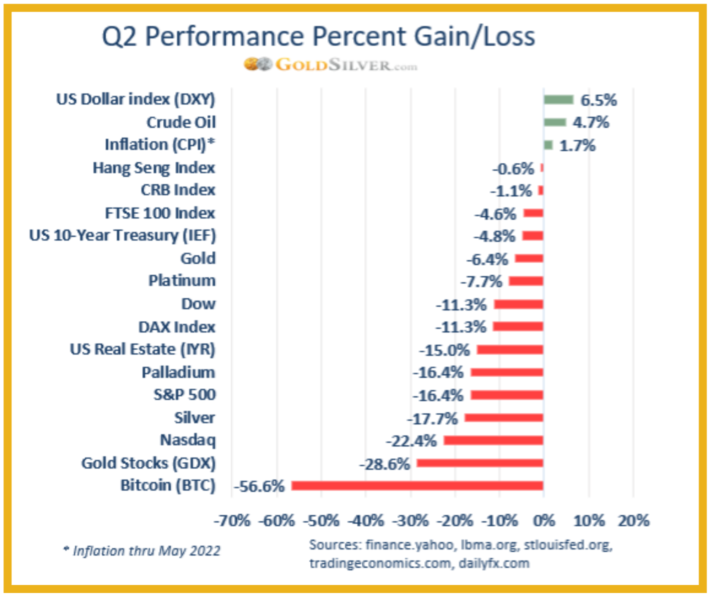
It was a rout. Other than oil and some commodities, virtually nothing was left unscathed last quarter.

Our ITV report examines the performance of gold and other major asset classes during the second quarter of 2022, plus YTD. We also look at the conditions that could impact precious metals in the second half of the year.

Q2: "Sell Everything!"

In what amounted to a selloff in most investment assets, only the US Dollar and some commodities rose last quarter.

Gold was down 6.4% in the three-month period, while silver lost 17.7%. Platinum and palladium fell hard, too.



The broad stock market took it on the chin. Uncertainty in global markets pushed the US dollar higher. The 10-year Treasury lost 4.8%, and Bitcoin crashed a whopping 56.6%.

Oil rose, along with a small gain in the commodity complex. However, we should point out that the metals group ended the quarter down significantly from their earlier highs—copper, for example, logged its worst quarterly performance in more than a decade.

Margin calls and a desire to move to cash meant the adage "there's no place to hide" was largely true last quarter.

YTD: Gold Hangs Tough

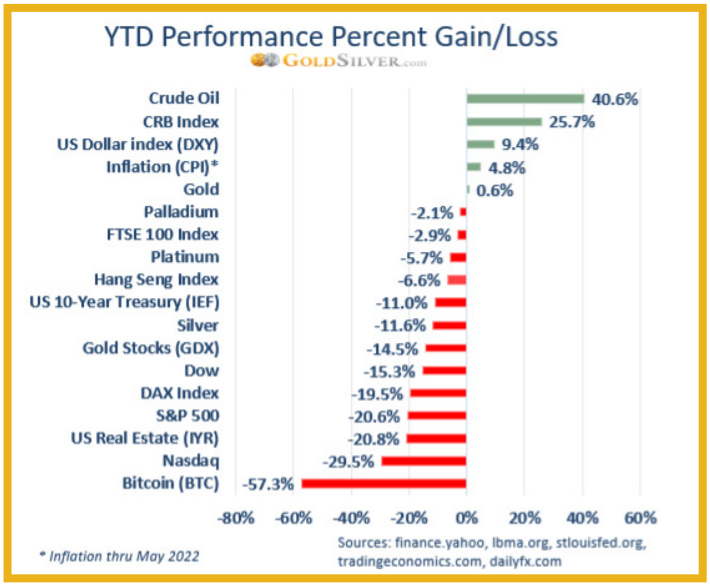
The first half of 2022 was harsh to most investors. So far only oil and a commodity basket have logged gains.

Gold is flat on the year, though it ended the quarter at its one-year average.

Silver is down 11.6% YTD, with the gold/silver ratio (gold price divided by silver price) reaching 90, highlighting silver's deep undervaluation relative to gold.

For equities, it was the worst first-half for the S&P 500 since 1970, and the Dow's worst first-half since 1962. The Nasdaq logged its largest first-half drop ever. Bitcoin is down 57.3% YTD, with June its biggest monthly drop ever.

Inflation and the USD moved stubbornly higher.



What Does 2H-2022 Bring?

A number of hot issues are likely to impact the second half of the year.

Recession Watch: GDP Now for Q2 is predicted at -1.0%, while the Atlanta Fed projects US GDP at -2.1%. The definition of a recession is when gross domestic product contracts for two consecutive quarters, and it's getting easier to see that happening. "Real" GDP fell at an annual rate of 1.6% in Q1.

Numerous economists have publicly stated they expect the US to enter a recession. "More likely than not" said Andrew Balls of PIMCO. "Uncomfortably possible," said economist Mohamed El-Erian said. As a group, economists give a 50% chance of a recession within the next 12 months. Historically, gold has usually risen during recessions.

With the slowdown would come higher unemployment. Facebook warned employees to "brace for layoffs."

This naturally raises a question. How long can the Fed continue to raise rates?

Rising Interest Rates: Fed Chair Jerome Powell stated interest rates would continue to rise until the central bank sees "clear proof that inflation is slowing."

Powell admitted that elevated rates could lead to a recession. We'll note that only 3 of the last 20 rate hikes did not end in recession. And while interest rates keep rising, the "real" rate (10-year Treasury minus inflation) remains starkly negative.

Stock Market Vulnerability: Goldman Sachs Group warned that the risk of a renewed selloff in equity markets is still high, as they believe investors are pricing in only a mild recession. One also has to wonder what earnings will look like in Q2.

Either way, would the Fed continue pushing rates higher if share prices keep falling? One reason for the drop in stocks is almost certainly due to investor fret over the Fed's determination to tame inflation.

Stubborn Inflation: The CPI continued rising, hitting 8.6% last month, still 40-year highs. The Eurozone also registered 8.6% last month, its highest reading ever.

Higher consumer prices, including energy costs, has led some US states to mail relief checks to residents. Maine is sending $850 checks to residents… Kansas announced it would issue $250 rebate checks for qualifying residents… California is sending checks up to $1,050.

President Biden unfortunately didn't help matters… when asked how long Americans should expect to pay high gasoline prices, he replied, "for as long as it takes."

Real Estate Rollover: Higher mortgage rates are leading to early signs of a cooling housing market. US existing home sales sunk to a two-year low in May, though the median house price still rose 14.8% from a year earlier.

The jump in mortgage rates indeed appears to be cooling the market. The National Association of Home Builders said that not only has the cost of building a home risen, but predicted that mortgage lenders, refinancing companies and real-estate brokers will lay off thousands of employees in the coming months.

Debt and Deficit Spending: As the Wall Street Journal wrote, higher interest rates and quantitative tightening "will increase the volume and cost of federal government borrowing, slamming the federal budget and exposing the consequences of decades of deficit spending." And if the economy does contract, the Fed will have limited capacity to spur a recovery with fiscal stimulus.

Meanwhile, the Fed's reduction in its asset portfolio is going slower than it projected. June saw a $1.5B reduction, far short of the $67B per month they need to reach their stated goal.

US Elections: It's a midterm election year, with the country as divided as ever. For what it's worth, the Stock Trader's Almanac reported that since 1946, the second year of a new Democratic president has ended with the S&P 500 losing an average of 2.3%.

Crypto Weakness: The Bank of America reported that customers transacting in crypto has shrunk by 50%. Meanwhile, Bloomberg noted $4 billion has been loaned to crypto miners, secured against the mining rigs as collateral. Securitize Capital said this could lead to a shakeout, as leveraged players need Bitcoin prices greater than $20,000 to cover infrastructure and interest rates.

The need for a safe haven asset is clear. With unresolved issues encompassing much of the globe, it would not be surprising to see the gold price achieve new record highs.

Follow Jeff on Twitter @TheGoldAdvisor

THE ECONOMIC CRASH TEST DUMMY

Written by Jeff Thomas, feature writer for Strategic Wealth Preservation, Doug Casey's International Man and 321gold.com

In 1971, the US government went off the gold standard. From that point on, the dollar was no longer backed by gold. In essence, that meant that paper bank notes could not be redeemed for real money – gold. From then on, the US dollar has only been backed by a promise.

To which many people would reply, "So what? Everything has been okay since then. I can still buy goods. I can still pay my mortgage."

Except there's more to it than that. Going off the gold standard allowed the US to get more heavily into the debt business. Since 1971, the US went from being the largest creditor nation to the largest debtor nation.

Stop and think for a moment about the gravity of that simple statement. Although it's taken sixty years, the US has gone from the very top to the very bottom, economically.

So, why isn't this evident? Why do we still appear to be solvent?

Well, that's the key in this discussion – the word "appear."

At this point, the US still appears to be the world's policeman, still buys energy with the petro dollar and still posesses the default currency.

But there are major cracks in the dyke. The US dropped out of Afghanistan, suddenly and unceremoniously, because it was about to trigger a war in Ukraine. It was unable militarily to wage two such wars at once and today, after fighting a world power for the first time since 1945, is already losing the war in Ukraine.

In addition, Russia and China have moved away from the petro dollar and many other countries are now following them. After all, they understand that a country that confiscates Russian assets abroad could do the same to them. Russia and China are now looking like better trading partners, and a trade exodus away from the US has already begun.

Further, once the petro dollar collapses, so will the default currency. The agreement forged in Bretton Woods in 1944 is now losing the last of its teeth and US economic hegemony is on its last legs. It will last only as long as it takes the world's 195 other countries to create new arrangements with Asia.

Some will do so in mere months. Others will take a year or more. The final countries exiting US control will be the UK and EU. But, even for them, the US sanctions that they were forced to endorse, will cripple them in the winter of 2022-23, when Europeans "freeze to death in the dark" due to the loss of their largest and cheapest energy supplier.

As this plays out, what we shall witness is rising inflation which, at present, although worrisome, is not at the hyperinflation level – the level at which it will collapse the US economic system.

For months, the Biden Administration, instead of addressing runaway inflation honestly, has been fobbing the blame off – first on Vladimir Putin, then on the fuel companies, then even resorting to blame the retail gas station owners.

As desperate and transparent as this attempt is, Mister Biden really can do nothing else. The alternative would be to admit, "We caused this mess. It's taken decades, but we - the Government and the financial industry - have created this problem and it's beyond fixing. The system is going down and you're going with it."

Meanwhile, central bankers, who had been instrumental in creating this unfolding debacle, thoroughly understand that, once the creation of debt has reached the point that the debtor (the US) can no longer even pay the interest. The one event that would speed up a collapse would be to raise interest rates. That scenario would increase the payments on an already unpayable debt.

This is the very trigger that was employed in October of 1929 that brought about the Great Depression and we are now at this point once again, only this time, the stakes are higher, as the debt is far greater.

For months, the Chairman of the Federal Reserve and the US Secretary of the Treasury (herself a past Chairman of the FED) have been parroting the idea of "transitory inflation," in order to delay the wrath of those who are in debt (conservatively estimated at 80% of Americans).

Now, they've stated that "transitory" wasn't exactly accurate and that, whether they like it or not, they'll have to raise interest rates, and keep raising them until inflation subsides. (Good luck with that.)

This guarantees either one of two outcomes:

1) The FED will keep raising rates, putting the 80% or more of Americans under water economically, triggering a Greater Depression

2) The FED will fail to raise rates sufficiently to hold down inflation, causing stagflation and collapsing the economy.

So, what we have here for most investors is a "Heads I win, tails you lose" situation.

Or, to return to the title of this article, a test car is speeding toward a concrete wall, and you, the investor, are the test dummy in the car.

This, of course, is not an easy truth to face. But better to face it and act on it than to behave like an ostrich and become a victim of events.

Of course, the banks and other financial institutions that were instrumental in creating this crisis are now scrambling to buy gold as fast as they can, so that when the fiat dollar collapses, they will still have something of actual purchasing power in their vaults. In May alone, banks have purchased some thirty-five tonnes of gold to add to their existing reserves.

But then, regardless of how many of their depositors are ruined in this debacle (80% or more), the bankers hope to escape it with their own skin intact.

In order to gobble up as much gold as they can at this time, they've repeatedly driven down the gold price since February of this year to an irrational low of $1740 (at the time of this writing.)

In doing so, they've created a very small window of opportunity for those who see the writing on the wall. Although premiums are rising, due to increasing awareness that the time to buy gold is running out, at $1740, gold is a bargain.

We cannot say with certainty whether it might go even lower, nor can we say with certainty how soon gold will begin its final rise that takes it to $2,000, then $3,000, then beyond.

But once this rise is underway, it will indicate that gold has been cut loose from its tether, and the banks, who by then have loaded up all they can, are only too happy to watch its rapid rise. The faster the better. The higher the better.

This window provides a very brief opportunity for us to decide whether we might want to exit the economic crash test car by increasing our gold position.

SOMETHING TO CONSIDER

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Bruce John, Managing Director,
1-954-686-5455 bj@swpcapital.com
www.swpcapital.com

Strategic Wealth Preservation

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