Strategic Wealth Preservation

INSIDE THE VAULT

A QUARTERLY NEWSLETTER FEATURING PRECIOUS METAL INSIGHTS - OCTOBER 2020

MESSAGE BY MARK YAXLEY

Back in July, I wrote that “my personal outlook for 2020, no pun intended, is $2000/gold and $20/silver.”

Well, those two boxes have been checked! In fact, we saw both all-time highs for gold, and silver flirting with $30/oz in the last quarter. Truly exciting times for precious metal investors.

As we now work through a period of consolidation, as explained by Jeff Clark in his excellent market update, the question becomes what to expect next. The consensus amongst analysts is that a) a consolidation period following a strong bull run is completely normal and healthy and b) we are likely to see further increases in the price of gold and silver in the next 12 months.

What better way to embark on the next leg of this bull market than with information and perspective from two of our industry’s most respected authors, Jeff Clark and Jeff Thomas. Enjoy this edition of Inside The Vault and don’t forget to check out our YouTube channel for more precious metals videos and interviews this fall.

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.

GOLD HITS ALL-TIME HIGHS, THEN CONSOLIDATES

Written by Jeff Clark, Senior Analyst for and SWP Advisory Board Member

This quarter’s ITV report begins with an examination of gold’s performance during the third quarter of 2020, along with its year-to-date performance vs. other assets. I’ll also highlight the potential catalysts that seem to grow stronger and stronger. As you’ll see, Q3 was one for the record books, and yet the risks surrounding us point to more records ahead…

Third Quarter: Gold’s New Record High

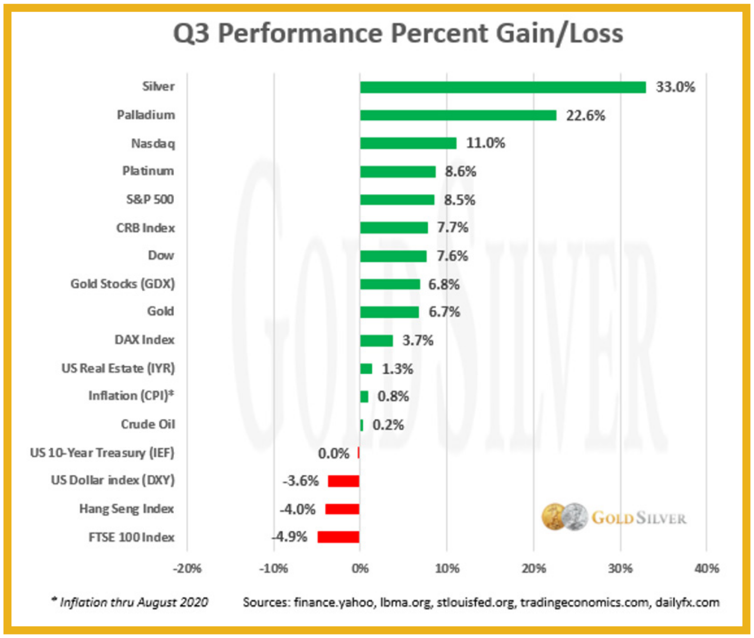
Gold made history last quarter, pushing to a new all-time high. On the back of growing Covid-19 cases, a continued flood of Fed liquidity, and geopolitical conflicts that never seem to subside, demand for gold pushed the price into record territory.

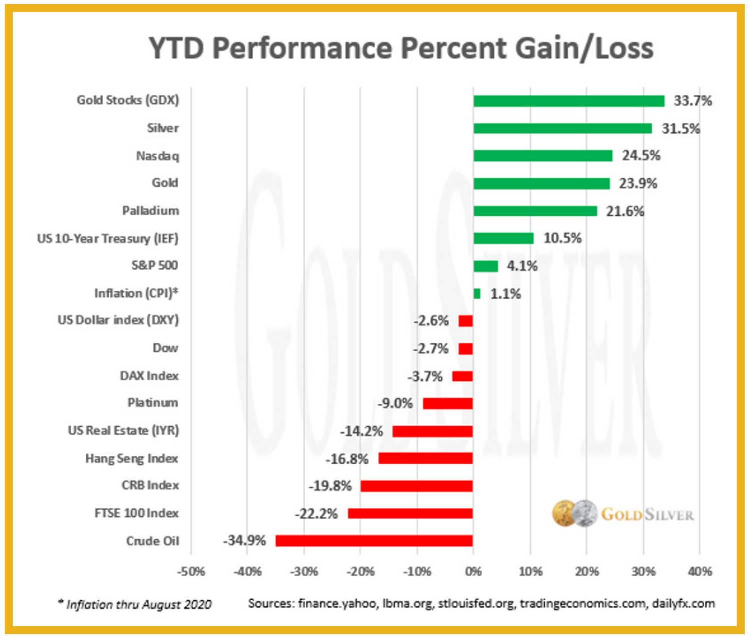
Gold hit $2,066.90 per ounce on August 6, forging a new record high close, surpassing the previous record close of $1,904.98 set in August 2011. The gold price then eased off and has since been consolidating.

Gold ended the quarter up 6.7%. But silver took the prize.

The lower US dollar helped all four primary precious metals log a strong quarter. But the yellow metal set yet another record: **it was gold’s eighth straight quarterly gain.**

Silver also had a strong surge into early August, closing at $28.93 on August 6. However, it remains 42% below its all-time high of $50 in 1980.





Investment demand for gold remained elevated, in some cases surging. As one example, GLD (SPDR Gold Shares ETF) saw its biggest one-day influx this year on September 21, adding a whopping 1.2 million ounces. On a day gold fell by almost 2%.

Palladium's gain reversed a four month decline. The 10-year Treasury offered zero return, and a negative return on a real basis. Bitcoin (not shown) rose 50% last quarter.

Year-to-Date Performance

Gold and silver remain asset leaders for 2020.

Of the major asset classes, only gold stocks have outperformed silver so far this year. Silver even outgained the high-flying Nasdaq that mainstream investors remain so excited about.

The YTD laggard is platinum, despite its gain last quarter. The US dollar fell into negative territory for the year.

With silver's outperformance of gold in Q3, the gold/silver ratio (gold price divided by silver price) fell to 79.5, from 99 at the end of Q2. The historical average ranges between 50 and 55 (depending on the timeframe), so despite the decline **the current ratio still suggests silver is more undervalued relative to gold**.

Gold Outlook: Coiling for Another Run?

While gold and silver were up for the quarter, both pulled back from their August highs and have since been consolidating. Another way to put it is, they're coiling for the next run.

How do we know there will be a "next" run? Perhaps the most important thing about the future gold price right now is that it doesn't center around just one issue; uncertainty persists in most segments of society. Despite a Fed-fueled surge in stock markets and stimulus amounts that could reach to the moon and back, the degree of unease in many areas of society simply hasn't gone away.

In fact, it's hard to look at the horizon and not see numerous risks—and thus numerous catalysts—for gold over the coming years…

US Election. While elections are usually political lightning rods, next month's promises to be tumultuous. Both parties pledged they won't agree to a winner if the results are close, something that will only increase uncertainty. Reactions from the opposing party once a winner is declared could spark further unease. While each party claims the other would be worse for the markets, gold appears to be the safest bet.

Social Unrest. Protests and riots, particularly in the US, have persisted, leading to extreme calls like "defund the police" that would promise disaster if enacted. One insurer was quoted as saying the damages have reached "catastrophic" levels. It's also led to a noticeable exodus out of many large cities. Perhaps the most apropos sign of social unrest was the U.S. Department of Justice declaring New York City, Portland and Seattle as "jurisdictions that permit anarchy."

US Dollar. Watching the US dollar is important, since it is still comprises the biggest portion of global trade. And it seems no country wants a strong currency, which has arguably made the dollar the most overvalued major currency, something President Trump has made clear he does not want. In the current circumstance, further monetary debasement appears unavoidable, what would be a weight on the world's reserve currency, even if the index rises at times.

Coronavirus Fallout. Mass layoffs, plummeting consumer spending, and widespread business shutdowns show the pandemic continues to wreak havoc on the economy. To put last quarter's GDP decline of 9.5% into perspective, GDP had never fallen more than 3% in any quarter since record-keeping began in 1947. A vaccine would help, but admittedly a lot of damage has been done that isn't easily reversible.

Meanwhile, the virus rages on. Global deaths crossed the one-million mark at the end of September, with total cases reaching 33.5 million. In the U.S. there were 205,000 deaths at the end of the quarter, while cases have surpassed 7.1 million.

Monetary Stimulus… World central bankers seem to think there is no logical limit to monetary intervention. **The Fed balance sheet is perhaps the #1 driver of gold prices this year—and the** current budget deficit, already a record, has yet to be funded.

And now the US Treasury has hinted it may lend directly to borrowers. This would represent a watershed moment, even though it's technically illegal for the Fed to do it—but so was buying corporate bonds! Direct lending would represent a new weapon in the Fed's arsenal, one that would arguably speed up their goal for more inflation.

We're reached a point where there are now so many liquidity programs, most of which are complicated to understand, that it's hard to quantify the amount of currency being thrown at the global economy. We don't know where this ends, but the trend is clearly bullish for gold.

… And Fiscal Stimulus. As the quarter ended, US politicians had still not agreed on the next stimulus package, though it almost certainly will be measured in the trillions of dollars.

Meanwhile, US Treasury data show that total government spending in fiscal 2020 had reached $6.1 trillion by August 31, a never-before-seen amount. The 2020 budget deficit now stands at $3 trillion, also a first, and means the government has spent $3 trillion more than it has taken in this year. The current budget deficit is now almost twice as large as the previous highest deficit in fiscal 2009.

Real Interest Rates. US Treasuries, regardless of duration, pay no real yield after adjusting for inflation. At the end of the quarter the benchmark 10-year Treasury cost investors as much as 100 basis points. This vastly lowers the opportunity cost of gold.

Vulnerable Stock Markets. All three major U.S. stock indexes rose in Q3, pushing stock valuations to overpriced levels by almost any measure. In the same breath one must ask… to what extent does the Fed intervene again when the markets have their next correction or crash?

Central Banks. As a group, central banks were net buyers of 8.4 million ounces of gold during the first seven months of this year, compared to 15.8 million ounces through August 2019. While lower, this amount remains above average on a historical basis. CPM Group forecasts central banks will buy 10.5 million ounces in 2020, which compares with net purchases of 17.3 million ounces in 2019. The consultancy reports the two primarily reasons for the decline in purchases is 1) sensitivity to higher gold prices and 2) fewer central banks buying. However, it and several other banks project higher central bank purchases in 2021.

The Hard Asset Answer

The circumstance of artificially low rates combined with ballooning fiscal deficits, extreme monetary creation, and inflated equities creates a veritable utopia for gold. The uncertainty surrounding the Fed's diminishing ability to respond to crisis only adds to the importance of holding gold going forward.

The most likely path ahead is one that is not just supportive of higher gold prices, but one where gold offers a financial safe haven to those with meaningful accumulations.

As we move into the final quarter of this tumultuous year, gold is increasingly likely to serve as a hedge of absolute necessity, particularly in light of the Fed's extreme dovish stance, ongoing geopolitical conflicts, and the risks associated with the virus, bloated stock markets, and cantankerous US election.

You can follow Jeff on Twitter @TheGoldAdvisor

COKE & PEPSI

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

In 1999, I concluded that the world would experience a major economic reset. Not just a typical recession, but a full-blown depression with all the requisite social, political and economic devastation. My best guess was that, sometime within a decade, there would first be a crash – a major recession - and that it would not be dealt with properly – that the central banks would provide bailouts and paper over the crash.

This would result in a false recovery, which would eventually lead to a major collapse – one that would take decades to play out, before any solid recovery would ensue.

I would very much have preferred to have been entirely incorrect in this prognosis, but that hasn't been the case. To date, the events have played out as envisioned.

As to when the major collapse would arrive, there could be no exact certainty, as the central banks could trigger it at a time of their choosing, as they did in the 1929 crash.

But the ideal time to trigger it would be six months prior to the 2020 US presidential election. The election could be used to create as great a distraction as possible.

Although any of a dozen triggers could be used to usher in the crisis, I confess that the idea of a pandemic was not on my radar at all. Yet, a pandemic was ideal. A simple seasonal virus could be blown out of proportion by governments to create a panic – a distraction that would eclipse the consciousness of an economic crisis. Better still, the eventual crisis could be blamed on the pandemic, not on those who caused it.

This distraction has been so successful that many people who would now be looking closely at their wealth insurance portfolios have paid less attention to them than they might have.

But by August, this began to change. Many investors realized that, if there were a time to load up the truck with precious metals, this was that time. Gold rose by 14% and silver rose by 45% in just a few weeks. Both soon corrected, but retrenched at numbers well above the July levels.

For many years, when people have asked me what form they should buy precious metals in, I first ask them, "Is this primarily an investment – something that you expect to appreciate in value, or is it primarily an insurance policy to cover you in troubled economic times?"

If they say that it's primarily the latter, I suggest that they consider buying metals in the form that would be the most saleable - not now, in relatively quiet times - but in the middle of a crisis, when there is widespread fear and even panic.

So, what might that form be?

Well, a mix of metals, primarily gold and silver would be likely to attract the largest number of buyers in a crisis. To be sure, platinum and palladium can be expected to rise in value in a crisis, but there will be fewer buyers who understand them. They therefore fall more into the investment category, not the insurance policy category.

In a crisis, the ideal is to focus on the largest group of possible buyers so that, should you need to sell all or a portion of your policy, the maximum number of possible buyers is available to you at short notice.

This doesn't mean that you will choose to sell at short notice, or at a disadvantageous time, but it does mean that, if the coming turmoil changes your personal economic situation, you'll have the ability to shift gears quickly.

And on any given day, either gold or silver may be the hottest item, so you'd want to be holding both. Silver tends to be the more volatile of the two and is likely to rise more substantially in price, whilst gold is looked upon more as a store of wealth than silver.

We will therefore see some buyers who are looking for both, but many will be seeking only one or the other.

But what form would you buy them in?

Well, silver, having a lower price, tends to be offered in larger weights. As an investment, 100 ounce bars are common and even 1000 ounce bars are available. However, the latter may not be ideal as an insurance policy. Silver at $25 per ounce would price a 1000 ounce bar at $25,000, but silver at $100 per ounce, as might easily occur, makes the bar $100,000. The number of buyers at that price would be fewer. In addition, if you only needed, say, $20,000 at that time to cover your expenses, you couldn't simply cut off a $20,000 slice from the bar and sell it.

You may be better served by purchasing either 100 ounce bars or coins, or both.

To be sure, coins are the ideal, as they are recognizable by even those who have minimal knowledge of precious metals.

But there are so many to choose from. Would you purchase the ones that were the most attractive to your eye? Certainly Philharmonics and Libertads are very pretty coins.

But again, if your purpose is insurance, you wouldn't choose what you like to look at; you'd choose what's most recognizable to buyers – especially those who may be new to precious metals and are desperate to get their hands on them in the midst of a crisis.

Every dealer will have his own personal favourites and a responsible dealer will be likely to recommend those coins that carry a low premium. As an investment, a low premium is very much a primary concern.

But again, you may seek that which is the most recognizable to the greatest number of possible buyers. When we consider this aspect of a purchase, we're not thinking cool-headed investment logic, we're thinking panic-buying. This is a different realm entirely.

To get a handle on this, imagine that you're in a far-flung country somewhere. You don't know the language and you're not sure you can trust those around you. You're thirsty and you come across a restaurant that looks questionable at best. They offer you a glass of water for free, but you worry that it may make you sick. You see bottles of soda in a cooler, but the labels are in foreign languages and, again, you have no idea whether they're safe.

But then you see bottles labeled "Coke" and "Pepsi."

You recognize instantly that they represent the greatest likelihood of safety at a time of great uncertainty.

It matters little which you prefer. You'll take either.

And this may be essentially what we're headed for in precious metals in the future.

In precious metals, the Coke and Pepsi are American Eagles and Canadian Maple Leafs.

They carry a relatively high premium, but no form of metals is so recognisable to so many people, and they will therefore always have a ready supply of buyers.

It would be wise co consider them for all or a portion of your metals. If you're economically comfortable enough that you're unlikely to need to make any sales in the coming years, these will be less necessary, but to the extent that you may wish to make some quick sales at some point, you may wish to stock up on Coke and Pepsi.

Whatever you choose to buy as an insurance policy against a crisis period, at the time of this writing, gold is about $1900 and silver is about $24. This is a "calm before the storm" moment. As each crisis event occurs, the prices will go higher.

ASK THE EXPERT

Written by Mark Yaxley, Precious Metals Expert and General Manager for Strategic Wealth Preservation

One of the things that makes gold so wonderful is that its behavior is very predictable and very reliable. We know exactly what it is going to do under certain market conditions, especially during a crisis period. The same is true for silver, to a certain extent. **But what about platinum and palladium? Is now a good time to invest in these precious metals?**

As a general rule, I tend to advise my clients to diversify amongst the precious metals, and to allocate 5-10% of their metal's portfolio to platinum and palladium. These two metals are used almost exclusively for industrial purposes, largely for the production of catalytic converters ***(check out this great video we did on the subject)***. Therefore, their value is greatly impacted by demand for motorized vehicles that feature catalytic converters to reduce toxic outputs.

Because people tend to buy more new cars, trucks and scooters when they have cash in their pockets, a global economic downturn is negative for the price of platinum and palladium. We saw this clearly with palladium; the pre-Covid price was approximately $2800/oz and has been trading 25% lower since March.

Better days lie ahead for platinum and palladium prices, but you will have to wait until the global economic recovery is underway, making now an excellent opportunity to add these white metals to your portfolio, if you haven't already.

You can follow Mark on Twitter @YaxleyYax

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Strategic Wealth Preservation

SWP's secure storage facility
George Town, Grand Cayman

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