



Strategic Wealth Preservation



INSIDE THE VAULT

A QUARTERLY NEWSLETTER FEATURING
PRECIOUS METAL INSIGHTS - JULY 2023

THE TRUE NORTH OF GOLD

There is more speculation than ever in relation to what the Fed might do next and the knock-on effect of inflation, bank vulnerabilities, \$32 trillion in US debt, and the quiet escalation of the situation in Ukraine. As facts and figures become more ambiguous, we share our experts' opinions on what to pay attention to and the true North that gold continues to provide. Jeff Clark summarizes how gold and silver performed over the year-to-date, plus what may be lurking around the corner, Jeff Thomas looks at the fundamentals of gold through history, and Chris Vermuelen looks at all the important numbers and activity we should pay attention to, in his quarterly report.

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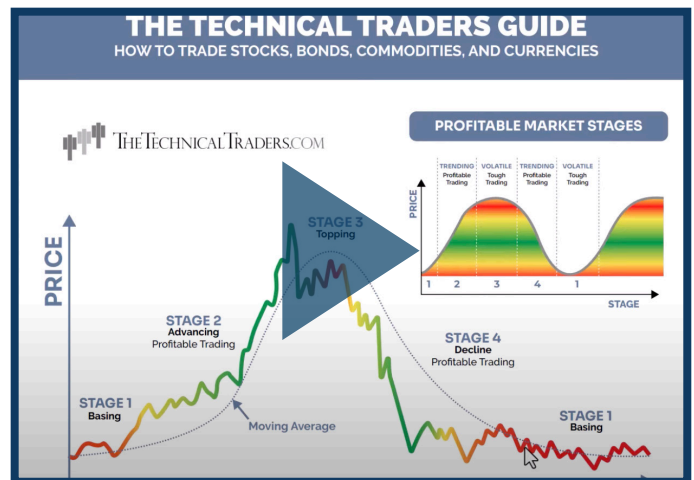


Mark Yaxley, General Manager for Strategic Wealth Preservation (SWP). He has been focusing on the diverse needs of retail and commercial precious metal investors since 2006.

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: PAUSE FROM THE FED—BUT WAIT, MORE HIKES!

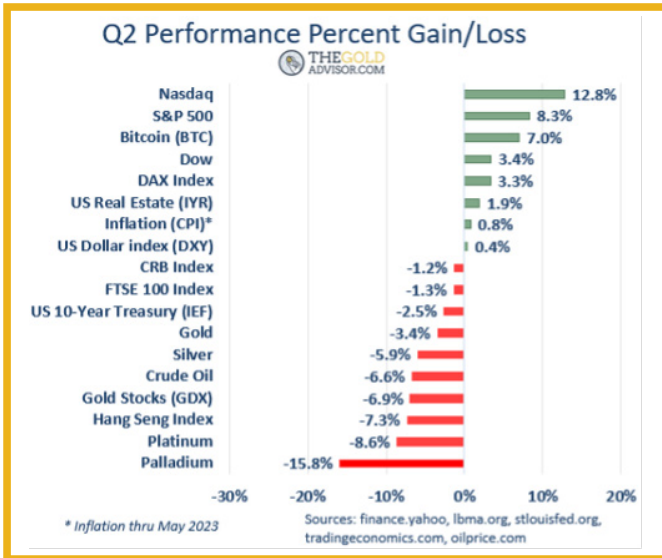
Jeff Clark, Senior Analyst *GoldSilver.com*, Advisory Board Member *SWP*, *TheGoldAdvisor.com*

After hiking interest rates at 10 consecutive meetings, spanning 15 months, the Federal Reserve announced a pause in rate hikes last month. But Chairman Jerome Powell quickly and adamantly added that “at least two more” rate hikes were coming. This was the backdrop for the market in Q2.

Our ITV quarterly report summarizes how gold and silver and other major asset classes performed in the second quarter and year-to-date, plus the major catalysts to watch in the second half of the year.

Gold in Q2: Precious Metals Weak in the Knees

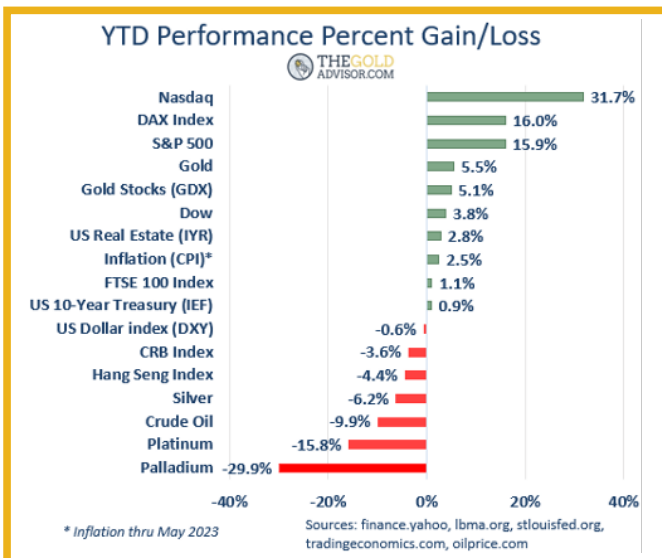
Gold was down 3.4% in Q2, and silver 5.9%. Like last quarter, platinum and palladium once again took it on the chin.



US stock markets continued their rebound from Q1, as usual the Nasdaq leading the way, this time from the sudden and booming interest in AI. Bitcoin rose modestly, along with real estate. Crude oil and gold stocks were down 6.6% and 6.9%, respectively.

Gold YTD: Gold Up, Silver Down

Through the first half of 2023, the gold price is up 5.5%, while silver remains weak, down 6.2%. Platinum and especially palladium trail all comers.



The Nasdaq is the frontrunner so far, widely outpacing all other asset classes.

Although it had a modest gain in Q2, Bitcoin (not shown) is up 84.2% YTD, from its big gain in Q1.

The Precious Metals Watchlist

What will precious metals and other markets likely do in the second half of the year? See if this sobering list of potential catalysts tell us to continue accumulating nature’s money...

Fed Pivot—Not! The Fed paused last month, leaving rates where they were. But the language from Chairman Powell was very clear: the central bank is not yet finished with its aggressive tightening cycle. In one public talk he said there will be “at least” two more rate hikes. Most analysts expect a 25-basis-point increase at the July 25-26 meeting.

In contrast to stubbornly raising rates, the Fed’s own researchers issued a stark warning about the growing number of distressed American companies, largely due to the surge in borrowing costs that pose a significant risk of widespread corporate collapses. Specifically, a whopping 37% of firms are in distress, meaning over one-third of US companies face default due to tightening monetary policies, a higher percentage than in previous tightening cycles.

Any fallout from the Fed stubbornly raising rates will be positive for gold.

Recession: The most accurate predictor of a recession is an inverted yield curve (10-year Treasury minus 2-year), and it has deepened further since we reported last quarter. This indicator has foreshadowed every major US recession since 1969.

An analyst at Verdence Capital Advisors says that historically, after the yield curve inverts, it takes approximately 15 months for the economy to officially enter a recession. He says, “Applying this same time frame to the current inversion (roughly one year ago), the economy could enter a recession in October of this year.” Another analyst said that based on historical patterns, a recession could strike as early as Thanksgiving.

A recession by year-end grows increasingly likely—yet the Fed plans even more rate hikes, which clearly hurt businesses and consumers. It’s hard to not take this personally at this point!

Inflation: The CPI in the US has come down significantly since its high last year but is still far from the Fed’s 2% goal. Their insistence on more rate hikes is a bold refusal to acknowledge the negative impact their policies have on the economy. In a convenient and insulting gall, they

blame climate change, and ultimately demand we bear the burden of higher taxes to pay for the cost of higher rates.

Chairman Jay Powell publicly acknowledged the Fed has limited impact on the service sector, which hasn't come down much. And yes, research shows monetary policy has little impact on service sector prices. Which begs the question... why are they still raising rates?!

Meanwhile, inflation in Germany rose to 6.8% in June. The rise in prices in Europe's largest economy will likely impact overall eurozone inflation. The ECB remains "concerned about underlying price pressures" and is thus expected to maintain high interest rates.

Real Estate: Commercial real estate has become more vulnerable, in what is now a \$20.7 trillion market. Stating the obvious, Treasury Secretary Janet Yellen said, "I do think there will be issues with respect to commercial real estate. Certainly, the demand for office space since we've seen such a big change in attitudes and behavior toward remote work, especially in an environment of higher interest rates."

As evidence, major landlords from Blackstone to Brookfield have been reportedly bracing for a significant drop in office property values. PGIM Fixed Income, a major investor in commercial property debt, said they expect office values to fall 20%-50% from peak levels, while values of multifamily units could drop as much as 22.5%, in part because financing has become more expensive.

It's worse than that. Researchers at the NYU Stern School of Business and Columbia Business School estimate banks own 61% of U.S. commercial property debt. They called it a "doom loop," where commercial real estate weakens banks, which weakens commercial real estate, which weakens banks, etc. They concluded, "We think banks are broadly preparing for some restructuring and difficulties going ahead."

That doom loop may already be underway, as an increasing number of distressed property owners have simply walked away—like overleveraged homeowners did in the 2008 bust. They either can't pay now or can't afford it after they refinance at starkly higher interest rates. "It's going to be a long haul," said Vince Schwab at Marcus & Millichap in San Francisco. "There's a lot of stuff going back to the bank."

It truly is hard to imagine this not affecting banks. Darin Mellott, VP at commercial real estate firm CBRE, says, "There are some market players who have made the determination that, 'We're giving the keys back.'" But there's a basic problem with that: lenders don't want to be asset managers, which means loan losses will flow to investors in securities backed by expected cash flow

from commercial mortgages.

Meanwhile, the "Airbnb bust" is well underway too, which has seen a drastic 50% decline in revenue for its operators. A wave of distressed selling by Airbnb operators is expected in 2023 and 2024, particularly in the cities most severely affected by plummeting revenue and excessive supply. One analyst said this could create a "housing market collapse reminiscent of the 2008 Subprime Crisis."

Last, mortgage purchase demand is down 45.3%, refinance demand is down by 91%, and mortgage rates have increased 128%.

All of this makes the real estate market highly vulnerable. And despite gold near record highs, its ratio to property values is historically very low, meaning any kind of bust in the real estate market could lead to a significant rise in the gold price.

Central Bank Digital Currencies: While there can be benefits to digital money, the fear is that they can be programmed. For example, your currency could come with expiry dates... or government controls what you can purchase—and what you can't, like things it doesn't like such as ammunition, drugs, junk food, pornography, etc.... or your social credit score is too low and your account is frozen... or you owe the IRS and without notice you can't access any of your funds.

European Central Bank president Christine Lagarde admitted it could have "conditionality." Either way, programmability is a key feature of CBDCs, where governments and banks could have total control over when, where, and how you spend your money.

Think this is a long way off? The Federal Reserve recently revealed that 57 companies have received certification to utilize its upcoming "FedNow" instant payments system. While an exact launch date was not disclosed, 41 banks and 15 service providers, including firms like JPMorgan Chase, New York Mellon, US Bancorp, and Wells Fargo, have successfully completed testing and will be prepared to offer instant payments once the service goes live. You may at first like the convenience—but then they got you.

This issue alone demands that we all own physical gold, one of the last bastions of money that can't be programmed.

Banking Crisis? Wall Street's biggest banks all passed the Federal Reserve's annual stress test. So, all clear now?

Deposits at small US banks are still at extreme lows, a result of the collapse of SVB last quarter.

Further, Treasury Secretary Janet Yellen recently warned

about the potential for big banks exposed to commercial real estate to feel strain from weakening valuations.

Banking is at the core of commerce, so any continued threat here will drive investors to gold.

Government Debt: US debt now exceeds a whopping \$32 trillion. One knock-off effect is that high interest rates are making it more expensive to service that debt. A significant amount of short-term debt issued at near-zero interest rates is coming due, which will likely worsen the situation.

According to the Congressional Budget Office, U.S. debt is now projected to reach 181% of GDP by 2053. It warns this will cause a major drag on future economic activity and poses significant risks to long-term fiscal health. This directly threatens retirement and other programs, too.

Gold is a direct hedge to any fallout from gross fiscal mismanagement.

Stock Market: The S&P 500 has now risen 3 quarters in a row. The Nasdaq posted its best start to a year in 4 decades. Apple now has a \$3 trillion market cap.

All this points to an overvalued stock market, one vulnerable to the elevated risks of recession, interest rates, and inflation.

Gold is typically inversely correlated to stocks. Like real estate, its ratio to stocks is near all-time lows, putting it in a position for a rather large catch-up.

Gold Demand: In the first quarter of 2023, central banks bought a combined 228 tonnes of gold, the most ever seen in a first quarter.

The Moscow Exchange is set to introduce gold futures this month, another move that highlights the growing interest in gold as an investment.

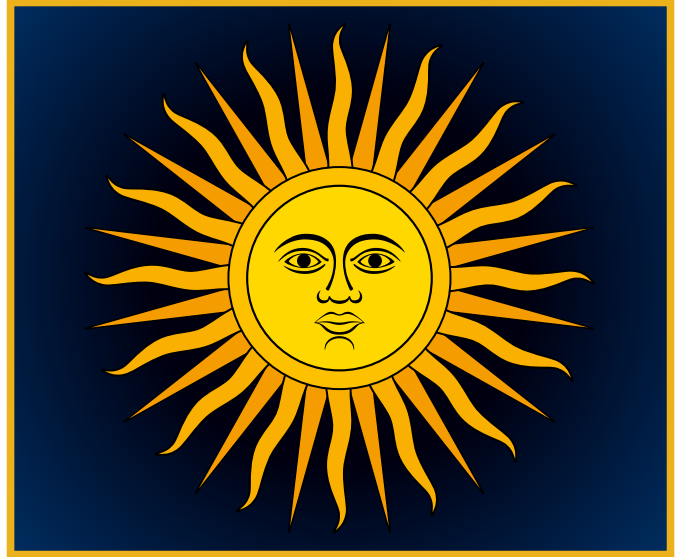
Based on the demand for gold they see coming, Adam Rozenchwajg of Goehring & Rozenchwajg has set a long-term price between \$12,000 and \$15,000. This may seem high, but what happens when the US dollar gives up the ghost?

Gold/ Silver Ratio: The ratio (gold price divided by silver price) ended the quarter at 84, a third above its long-term average of 55. It fell to 32 in 2011, and 20 in 1980. As such, silver remains deeply undervalued relative to gold. Silver usually trails gold in the initial stages of a bull run, but it has surpassed gold by the time that run is over.

The need for a safe haven asset remains clear. Recession risks, a vulnerable stock market, and a

stubborn Fed leave investors with few places to turn. History shows gold is a strong choice to balance a portfolio in this type of environment. |

Follow Jeff on Twitter @TheGoldAdvisor



GOLD AS THE MONETARY SUN

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

For millennia, people believed that the sun revolved around the earth, appearing, as it did, on the eastern horizon in the morning and setting on the western horizon in the evening. Greek astronomer Aristarchus of Samos is generally credited with the concept that the universe is heliocentric, with all the planets revolving around the sun. Yet it took a further eighteen centuries before Nicolaus Copernicus came along and convinced people that this was the case.

So, we can be forgiven if we educated modern-day people sometimes have difficulty in understanding that gold is the monetary sun. Even those of us who have been tracking gold's progress for decades frequently give in to the ease of quoting gold's value in terms of fiat currency – most commonly in US dollars. And yet, we have it the wrong way round. Gold is in fact the centre of the economic universe and all the fiat currencies (including cryptocurrencies) revolve around gold. But isn't this an exercise in hair-splitting? After all, does it really matter whether we acknowledge "Oro centrality"? Doesn't it amount to the same thing?

Well, no, it doesn't. For those of us who deal frequently (or even entirely) in US dollars, there would be an inclination to say that, for years, gold has been essentially stagnant, varying no more than \$200 an ounce. But,

during that time, the US dollar has risen against major currencies. Although the price of gold has risen in this period, the US dollar has risen more. More to the point, this has been no accident. A major effort has existed to repeatedly knock down the value of gold in relation to the dollar. This is only possible in an environment in which public faith in the banking system and the stock market remain high. As soon as those two confidence bubbles burst, the dollar will decline rapidly in relation to gold and gold will once more return to its intrinsic value, just as it has done time and time again for over 5000 years. It's interesting to note that, throughout history, banks and governments have fiddled with the value of currencies, from the devaluation of the denarius in ancient Rome, through the increased mixture of copper in the coins, to the successful introduction of paper currency in China in the seventh century. The practice later took off in Europe in the seventeenth century and continues today.

Over the millennia, mankind has used cattle, tobacco, seashells, even tulips as currency, yet each of these has failed at some point. More importantly, all paper currencies that have ever existed, except the current ones, have not only failed, but have gone to zero in worth. Which brings us around to gold once more. The “barbarous relic” as John Maynard Keynes called it, has easily outlived his opinion of it. But then, according to his contemporary, Friedrich Hayek, Mister Keynes was an exceptionally intelligent man who was so convinced of his superiority that he based all his economic theory on what he learned at Cambridge and never even bothered to attain a full education of Austrian economics, or even classical economics. Yet all world banks and governments today operate on the principles set down by the misinformed Mister Keynes.

Readers will be aware that the world is nearing an economic collapse of historic proportions. In attempting to understand the price of gold in the future, such notables as Eric Sprott, Peter Schiff, Jim Rickards, Jim Sinclair and many others have all predicted that gold would have risen to at least \$5000 by now. Conversely, deflationist Harry Dent predicted that gold would drop below \$750 by 2015.

Are all of these men fools? Far from it. They've merely been premature. As Eric Sprott has repeatedly stated, “I tend to confuse inevitable with imminent.” Even Harry Dent could conceivably still prove to be correct. A crash in the markets is almost certain to create an immediate downward spike in the price of gold, prior to the creation of currency by the central banks that would immediately follow, sending gold, in short order, to a brief, but unprecedented low price. Such a crash would predictably cause a gold mania. \$5000 is in no way an unrealistic number.

Will it stop there? Well, in spite of the fact that virtually no one is even considering the possibility now, gold could conceivably go to \$50,000, \$500,000, \$5,000,000 or beyond. Whilst this would appear to be an absolute absurdity to us at present, if hyperinflation kicks in, in the US, as it has in so many previous cases of currency collapses, there's literally no limit to how high the price can go. (I keep on my desk a \$100,000,000,000,000 Zimbabwean bank note from 2008 as a reminder.)

If that's the case, would it also be true that gold can't be overpriced? In a word, no. Manias have a way of overshooting – creating prices that go far beyond common sense. In a mania, those who are knowledgeable keep their heads, whilst those who don't understand the dramatic price rise, tend to assume that there's no limit as to how high it can go. They're the creators of bubbles and a bubble can exist in gold, as in any other investment.

And a gold bubble, like any other bubble, would be temporary. Eventually, gold would return to its intrinsic value. It's been said that, 2000 years ago, an ounce of gold could buy a good toga and a pair of sandals. Today, an ounce of gold will still buy a good suit and a pair of shoes. If gold were to go to, say, \$10,000 soon, it would be in a bubble. But, if, with inflation, the price of a good suit with shoes were to rise to \$10,000, then gold would be quite comfortable at that level.

If gold rises well beyond the price of a suit and shoes as a result of a mania, those who know precious metals well will be seen to sell and move the proceeds into something that's underpriced at the moment. Gold will once again, settle at a natural level. Long after fiat currencies like the dollar, the euro, the SDR, etc., have gone the way of the dodo, gold will still be around and will remain the centre of the economic universe. Although gold will outlive us all, we can, by understanding “oro-centricity,” provide ourselves with an insurance policy against the ravages of currency failure. ■



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prior to maturity, and others elected to renew their loan for another term.

Because borrowing rates are tied to actions by the U.S. Federal Reserve, interest rates on PMMLs have increased from a low of 3.75% p.a. in October 2021 to the current rate of 9.25% p.a. This is all due to ten interest rate increases by the U.S. Federal Reserve, raising rates from 0.25% p.a. in March 2022 to 5.0% p.a. in May 2023. As a result, U.S. Prime increased from 3.25% p.a. in March 2022 to 8.25% p.a. in May 2023 as PMMLs are priced against U.S. Prime. Consensus is, the U.S. Federal Reserve will continue to raise rates by 25 bps after its meeting on July 26th, 2023, and more if needed in order to bring down inflation towards its target of 2%. Inflation is coming down, but obviously it is definitely not fast enough.

SWP Capital is here to provide flexibility and convenience for our clients who prefer a loan structured using their precious metals, by a company they can trust. We remain transparent and responsive at all times and are standing by to assist. Terms range from 3-months to 12-months (renewable) with a minimum PMML/PMBSN of \$100,000.

Talk to your client representative or contact Bruce John, Managing Director of SWP Capital at bj@swpcapital.com for more information.

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- Episode 1 – The Queen of Precious Metals
- Episode 2 - Treasures Inside The Vault
- Episode 3 - Deep Dive Into Gold and Silver Storage
- Episode 4 - 3 Golden Rules of Investing in Precious Metals
- Episode 5 - Precious Metals IRAs
- Episode 6 – The Construction of a Gold Vault Release date to be advised

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The Boka Production crew outdid themselves this season.



Strategic Wealth Preservation

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