Strategic Wealth Preservation

INSIDE THE VAULT

A QUARTERLY NEWSLETTER FEATURING PRECIOUS METAL INSIGHTS - OCTOBER 2019

FINALLY, IT'S HAPPENING

The last three months have certainly given precious metal investors reason to get excited. Gold, silver and the platinum group metals are up significantly in 2019. The yellow metal recently reached new record highs in many major currencies including both the Euro and Canadian dollar.

All of this news is welcome amongst gold and silver investors, not to mention those brave enough to speculate on the price of platinum, palladium and rhodium. And there are indications that much more upside lays ahead. With central bank and ETF purchases and accumulations of gold reserves continuing at record levels, the gold price has found solid support in the USD $1450 - $1550/oz range. We may very well have entered the early stages of the next bull market, as outlined in Jeff Clark's quarterly market recap. It seems that all we're missing now is for main street to join the party. Hold onto your hats folks, the next 12-36 months promises to be a wild ride!

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.

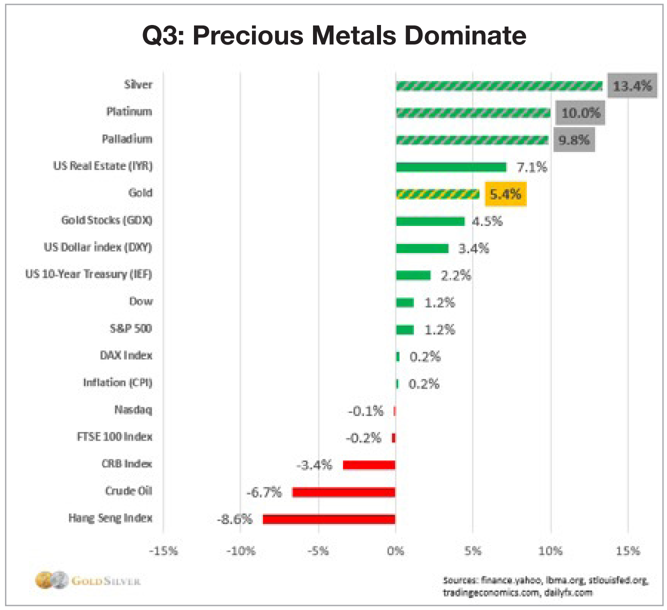
PRECIOUS METALS IN Q3: CONFIRMATION OF A NEW BULL MARKET

Written by Jeff Clark, Senior Analyst Goldsilver.com and SWP Advisory Board Member

It's an exciting time in the precious metals market. Our Inside The Vault quarterly update covers the evidence that gold has entered a new bull market… strong performances by platinum and silver… and palladium beating all comers so far this year. We also outline the jump in investor participation into these markets, along with the potential catalysts that lie ahead.

Precious Metals Q3-2019: Leader of the Pack

Following a quiet July, gold broke higher in early August when economic and geopolitical circumstances changed. Most headlines were very positive for gold last quarter: tensions in the U.S. trade war with China… the



25-basis points cut in the Fed funds rate… the ongoing increase in negative rates… and growing recession fears. The gold price pushed as high as $1,550 in September, ending the quarter at $1,471 per ounce.

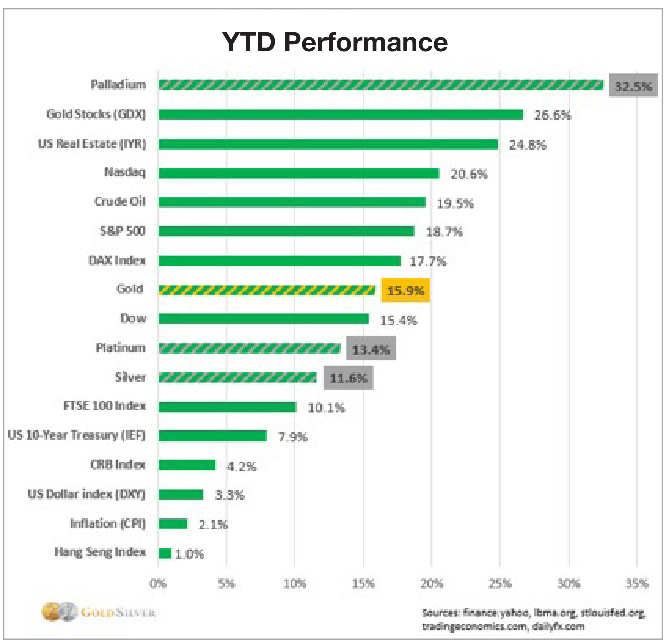
Above is the Q3 performance of the precious metals complex, along with other major asset classes.

Gold ended the quarter up 5.4%, beating all major US stock market indexes. The top performers were silver, platinum and palladium. Only a US-based real estate ETF competed with precious metals, helped along, of course, by an accommodative Fed. Bitcoin (not shown) fell 25%. It's clear that **as a group, precious metals beat all comers last quarter.**

Meanwhile, the gold/silver ratio (gold price divided by the silver price) remains very compelling for silver investors. Despite a small reversal from 26-year highs last quarter, it remained elevated at 86. This suggests that **silver remains deeply undervalued relative to gold and should thus be viewed as a "best buy."**

Precious Metals YTD: Palladium Dominates

Through September 30, precious metals are among the top performers for 2019.



Largely due to supply concerns **palladium is the top performing asset of 2019.**

And despite the US equity markets logging positive returns, gold—usually thought of as a defensive asset—kept pace with them. In our view gold's core advantage will exert itself once the stock market enters a definitive downturn. Stay tuned.

Bull Market Confirmation

Gold's price action over the past two quarters confirms it remains in a decisive uptrend.Gold's $1,400 ceiling is now a floor. But it's about more than price action; **the number of investors jumping into this market has spiked…**

Hedge Funds: Net longs among hedge funds are at their highest level in 3 years.

Central Bank Purchases: Central banks purchased the most gold in H1 this year since becoming net buyers in 2008. China and Russia continue to add gold to their reserves every month, while Turkey's gold holdings are up a whopping 45% year over year.

Gold-Backed ETFs: Holdings in bullion funds rose significantly last quarter, including the biggest jump in 3 months on September 23. And as of September, 26 ETFs had added gold holdings nine consecutive days.

Sector Rotation: The SPDR S&P 500 ETF Trust lost $8.7 billion in withdrawals the week of September 23-27. Given that gold holdings were rising at the same time, it seems clear some of those investors sold equities and bought gold.

Perth Mint Sales: While US Mint sales remain subdued, Perth Mint gold sales reached their highest level for the year last month, with YTD sales up 21% compared to last year. Silver sales from the Perth Mint also hit one-year highs.

As conviction in gold's uptrend has strengthened, many analysts and banks have raised their price forecasts. Most see $1,600 gold next year, with some as high as $2,000.

The Trend Ahead

As we enter the final quarter of 2019, watch the following developments for potential catalysts.

Ongoing Growth in Negative Rates: The growth in sub-zero bonds seems an unstoppable trend. Negative rates make gold more attractive to mainstream investors.

Global Slowdown/Recession Fears: Weaker economic data have surfaced, particularly from China and Germany. The 2-year and 10-year Treasuries inverted for the first time since June 2007, and the New York Fed gauge of the probability of a US recession in the next 12 months is at the highest level since 2008. Gold has historically performed well in recessions.

Geopolitical Tensions: The trade and currency wars with China, along with a renewed conflict with Iran, remain unresolved.

Impeachment Inquiry: Who thought we'd be talking about impeachment of the US president last quarter? It appears the inquiry will drag on, with several of Trump's close associates, including cabinet members and his lawyer, likely forced to testify.

Hong Kong Protests: Demonstrations have become more violent. If mainland China intervenes, the equity markets would likely respond negatively and gold positively.

Brexit: The lingering uncertainty surrounding the UK/EU breakup continues to weigh on markets. No light at the end of the tunnel has realistically emerged yet.

With the weight of numerous factors bearing down on global markets and economies, gold and other precious metals remain our best bets for the likely fallout ahead.

THE CONFISCATION GAME

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

Recently, Italy's Deputy Prime Minister, Matteo Salvini announced that Italy's government may tax cash and other valuables locked in safety deposit boxes in banks.

He referenced, "Money that is substantially hidden," suggesting that deposit boxes were a way of hiding income and assets from the tax authorities.

We'll be seeing a lot more of this in future – the suggestion that stored wealth is somehow inherently ill-gotten and deserves to be confiscated. The first warnings of this trend will come from Europe, as they're further along in the decline than North America. But we'll see the same trend in North America as well.

The announcement by Mr. Salvini is the customary one used by governments. First you invite people to come forward, admitting as to what they have legally tucked away. This is not meant to reward those people; it's meant to save the government the trouble of finding them. After they've come forward, you pass legislation that allows you to confiscate what's held in safety deposit boxes. (You don't necessarily implement confiscation immediately.)

Then, at the chosen time, you put a freeze on access to the boxes. After that, you can confiscate at your leisure.

Once confiscation of assets in safe deposits boxes has been achieved within the boundaries of a country, the government may be expected to pursue wealth held in nonbanking facilities within that same country.

In anticipating confiscation, investors tend to assume that governments will focus legislation on the individual – that citizens will stand to lose all their assets, wherever they may be in the world. Investors often fail to understand that legislation doesn't work that way. One country cannot pass a law that dictates what another country must do. They therefore pass legislation that affects all assets within their own borders. Once they've confiscated what's inside their borders, they'll try to intimidate their own citizens individually as to what they hold outside their home country's borders, although the government lacks the leverage to confiscate those assets.

Any of the countries that will be experiencing economic collapse will follow the same game plan. The preparations are being made now, slowly, but the confiscations, when they happen, will be swift and without warning.

For one country to confiscate the assets of its citizens that are stored in another jurisdiction is the hardest confiscation to accomplish, as they face a wall of legislation that exists in that target country. In order to confiscate, "double criminality" must be established.

What this means is that the pursuing country must demonstrate that its laws have been broken by the individual who is being pursued. Then, they must be able to demonstrate that the target country has similar laws; that what is a crime in the pursuing country is also a crime in the target country. Then it must be proven within the court system of the target country that the individual has also broken the laws of the target country. Only then can the pursuing country appeal to the government of the target country to allow the pursuing country to confiscate the individual's assets.

Of course, to pursue assets in this manner, in a foreign court system, is both slow and costly and may well fail to succeed. Understandably, a pursuing country will undertake such a pursuit only as a last resort, if it chooses to do so at all, due to diminished returns.

It's important to understand that we now live in an age in which people who have committed no crime are seeing their wealth confiscated, sometimes by their own government. As this is the case, any investor should prepare for possible confiscation by first converting his wealth into a form that's hard to confiscate, then storing it in a jurisdiction where it will be difficult for any confiscatory jurisdiction to get at.

If an individual lives in, or is a citizen of, a country that has passed confiscatory legislation (EU, US, Canada), he cannot be guaranteed safe harbour for his wealth, but he can most certainly avoid being the low-hanging fruit. He can position his wealth so that it's as difficult to confiscate as possible by rapacious governments.

That would be sound advice now, in a period of relative economic calm, but as the world moves into the economic crisis, it may be essential to economic survival.

The layers of safety (from least to greatest) can be described as follows:

Banking Institutions: Highest Exposure

a) Any assets in a bank in the EU, US or Canada should be regarded as sacrificial (whether on deposit or in a box)

b) Any assets in an international bank in a safer jurisdiction, should be considered to be only as safe as its EU/US//Canada branch exposure.

c) Even if it has no branches in the EU, US or Canada, its exposure to possible interjurisdictional shakedowns should be examined.

Non-Banking Institutions Within the EU/US/Canada: Diminished Exposure

d) Consider any assets located in non-banking institutions in these jurisdictions to be at risk, if not sacrificial.

Non-Banking Institutions Outside the EU/US/Canada: Least Exposure

e) Consider any assets located in non-banking institutions in these jurisdictions to be at the least possible risk.

In considering the above, there are three general guidelines to follow in order to ensure that assets are as well-protected as possible.

1) No safe-haven, anywhere, is 100% guaranteed. The objective is to make your wealth as difficult to pursue as possible, whilst remaining 100% within the law.

2) Those who live in a country that has confiscation laws, should define their net worth as being the value of those assets that they hold outside of countries that have confiscation laws. In a crisis situation, the total value of those assets is likely to prove to be their real net worth.

3) Any preparation with regard to wealth preservation must take place prior to the implementation of confiscatory laws. The date of passage of the laws is relatively unimportant. Once implemented, the ability to save wealth from confiscation will cease.

As stated above, we cannot be certain as to the timing of events. We can only be reasonably certain that they will occur and will do so suddenly. Therefore, it's essential to place assets outside your home jurisdiction now, before a change in local laws traps them.

LESS MONEY THAN MEETS THE EYE

Written by Emil Kalinowski, CFA

'Money' is being crossed out. Not lost. Not wasted. Crossed out.

The author is aware that such words will offend the reader as absurd. True, the reader may grant that normal 'billfold money' does have a tiresome habit of departing too quickly. But it is certainly not dematerialising.

And yet this year marks the 12th anniversary of an astonishing, monetary phenomenon. One that has occurred just three times in the last 150 years: a global depression in money. This is a rare socioeconomic illness, one that weakens the financial and economic realms and, when it persists long enough, debases the social and political domains as well.

The plausibility of your author's contention rests first upon you, the reader, appreciating the strangely broad continuum of money itself. In that sense money is much like light. Everyday experience is confined to a narrow band defined as 'visible light'. But the true breadth of the spectrum – practically all of it invisible to the human eye – encompasses a universe of different wavelengths; from radio waves to gamma rays, from near ultraviolet to far infrared. Humanity's monetary spectrum, unconstrained by the laws of physics is even broader than nature's electromagnetic rainbow.

Wavelength and energy

In terms of breadth, there are numerous currencies. The United Nations lists 151 currencies; different 'wavelengths' if you will. In terms of depth, there are numerous formats; 'energy' if the author were to push the analogy beyond the literary pale. It is here that the multifariousness of money is revealed.

For early societies, the preferred format was an item which was readily available, broadly acceptable and could serve as a medium of exchange. Common monetary formats included cereal, cattle and cowrie. As civilisation advanced so did monetary composition with the invention first of coin and then cash. The evolution continues to the present day with the introduction of cryptocurrencies, perhaps the most ethereal format to date.

Not that familiarity with computer science is a prerequisite to appreciate the depth of modern 'money'. Just consider subway tokens, frequent flyer miles, grocery store coupons, massively multiplayer online role-playing manna. And the classics remain in style too; mints continue to produce gold and silver coins in America, Australia, Austria, Britain, Canada, China and South Africa.

But the format that is of overwhelming importance, the one that is filled with the most latent energy, the one that serves as the foundation for global capital markets and economic activity is credit and collateral. This is the 'money' that is being crossed out.

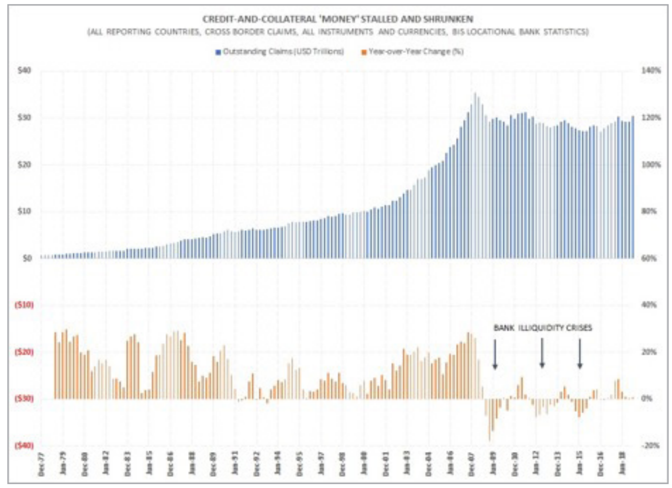
Bookkeeper's pen

Credit and collateral are the realm of the financial institution. Though central banks and national treasuries have a monopoly on notes and coins, it is the depository, commercial and investment banks that govern credit and collateral. Instead of minting nickels or printing hundreds, these institutions extend their balance sheets to farmers, manufacturers, wholesalers, retailers, explorers, researchers, insurers, pensions, investors and governments. They 'mint' bespoke financial products. They 'print' interest rate swaps, Eurodollar futures, foreign exchange forwards, and other esoteric sounding 'money'. And they do it on a global scale.

Their proliferation of 'money' was the great flood of liquidity that swept the post-cold war globalisation across national boundaries. The capital flows reduced transactional frictions and rounded off harsh social edges that might have been obstacles to the everexpanding cross-border movement of people, goods and capital. But tides cannot flood indefinitely, they must ebb.

The first illiquidity crisis struck in 2007-08. For most observers that period was about the American real estate market. But for financial institutions this was an episode in which large segments of credit and collateral were 'demonetised'. An alphabet soup of monetary formats (e.g., MBS, CDS, CLO) were suddenly no longer money-good.

But as upsetting as 2007-08 was, financial institutions were more disturbed by the fact that a once-in-four-generations global monetary shock occurred again. By 2011-12, another monetary composition – sovereign debt of European countries on the Mediterranean – was being rejected.



Then it happened again. This time, from 2014 to 2016, the bank crisis did not centre on format, instead the epicentre was a collection of emerging market currencies, China most prominently.

As one type of 'money' after another was invalidated or discounted, non-state banks retreated – from each other, from engaging economic actors and from globalisation. Their decision to withdraw resulted in the contraction of the collective private banking balance sheet. Credit and collateral were being crossed out by the bookkeeper's pen.

In response, central banks have both enticed and threatened their private cousins to get back to business. But these financial institutions have by now been burned thrice; for them risk far outweighs reward.

To quantify their risk perceptions, consider that in the dozen years since the first bout of illiquidity struck, the Federal Deposit Insurance Corporation (FDIC) has identified 544 bank failures in the United States. Over the same time period leading up to August 2007, the FDIC had identified only 48.

From 1934 through 2007, the total assets of commercial banks in the US (and its territories) compounded at an annual growth rate of 7.8% per year. But from 2007 to 2017 (the latest available data) the rate is 3.8%, less than half of the three-quarter-of-acentury baseline. Those few percent may not sound like a large difference but it works out to $7.5 trillion US dollars in missing bank activity. It makes the US banking system approximately one-third smaller than it should be.

The American example can be generalised globally. According to the Bank for International Settlements the total cross-border claims of banks (i.e., private bank money-creation activity) grew 3.3% over the past dozen years, in *total*. In the dozen years leading up to 2007/2008 that growth rate was compounding at 11.4% *per year*.

Which brings our story to present day: During 2018, various monetary and financial markets signalled that a fourth bank illiquidity disturbance was coalescing. More than halfway through this year, precious few economic accounts suggest anything other than gathering momentum of an approaching squall. As central banks race to accommodate conditions by lowering short-term interest rates, the private banking system continues its retreat; their bookkeepers, out of self-preservation, crossing out 'money'.

ASK THE EXPERT – "WHAT IS THE IDEAL RATIO OF METALS TO HOLD TO WEATHER THE ECONOMIC STORMS ON THE HORIZON?"

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

Thank you, Heather Bjork, for submitting your question to our experts: What is the ideal ratio of metals to hold to weather the economic storms on the horizon? For her curiosity, Heather is the winner of a 1 oz limited edition Silver Marlin coin.

To answer Heather's question, we've taken a look at data provided by the CPM Group, a leading precious metals research firm out of New York City.

CPM computed data collected between 1968 and 2016, to determine the optimal amount of gold that a portfolio should have held during that time period. The remainder of the portfolio ingredients included in their study were the S&P 500 and treasury bills.

Their findings concluded that the optimal gold allocation in terms of risk:reward should have been 27% - 30% during the 48-year period. That seems high compared to the generic advice given by most financial advisors that one should hold 5% - 10% of one's wealth in gold.

There is a simple reason for this difference. The 5% - 10% portfolio allocation was calculated using the same data and formula, but in the early 1980s, using data from 1968 to 1980 only. Since that time, there have been several gold bull markets, including an 11-year-long run from 2000 to 2011. There also have been several stock market crashes and bear markets, including the 2008 financial crisis, and an extended period of time when interest rates were virtually zero.

Email your questions to info@swpcayman.com and enter the chance to win a limited edition 1 oz Silver Marlin coin.

Conclusion:

You should hold between 27 – 30% of your investment portfolio in precious metals to optimize overall long term performance in terms of risk:reward.

- Mark Yaxley,
Precious Metals Expert

ONE ACCOUNT, ONE WORLD

Benefit from SWP's global reach under one single account. Store with SWP in the Cayman Islands, Canada, the United States, the United Kingdom, Germany, Switzerland, Liechtenstein, Singapore or New Zealand.

Learn more:
swpcayman.com/storage/locations

ASK THE EXPERT CONTEST – WIN A LIMITED MINTAGE SILVER MARLIN COIN

If you have a question about precious metals that you'd like answered by one of our experts, please submit your question to info@swpcayman.com. If your question is selected, you will receive a limited mintage 1 oz Silver Marlin coin.

Strategic Wealth Preservation

ABOUT US

Strategic Wealth Preservation (SWP) is an international precious metals dealer and secure storage provider headquartered in the Cayman Islands. We specialize in the acquisition and secure storage of precious metals for individuals, companies, trusts and wealth management professionals on behalf of their clients. We deliver precious metals worldwide to homes and businesses and offer secure storage in vaults located in the Cayman Islands, Canada, the United States, United Kingdom, Switzerland, Liechtenstein, Germany, Singapore and New Zealand. We also offer offline cold storage services for cryptocurrency devices and corporate disaster recovery services for businesses located in the Cayman Islands.

SWP's secure storage facility
George Town, Grand Cayman

» LEARN MORE ABOUT BUYING GOLD
» LEARN MORE ABOUT SECURE STORAGE
» READ MORE ARTICLES
» VIEW OUR VIDEOS
» FREQUENTLY ASKED QUESTIONS
» CONTACT US

October 2019 Edition