Strategic Wealth Preservation

INSIDE THE VAULT

A QUARTERLY NEWSLETTER FEATURING PRECIOUS METAL INSIGHTS - APRIL 2020

"WE'VE REACHED THE BEGINNING OF THE ECONOMIC CRISIS."

– JEFF THOMAS, MARCH 31, 2020

I couldn't agree more with my dear friend Jeff Thomas. I believe we should be prepared to experience a prolonged period of crisis and a continued escalation of events, both in frequency and magnitude – enough to make anyone's head spin.

What we've seen in the last 45 days is a market crash, a virus "emergency" and gold's reactions to both. But this stage of the crisis is only minor in comparison to the confusion that will follow. In the coming years, it's likely we'll see banking problems, government overreach, and some citizens literally crushed by this new reality. I do wish the outlook were brighter, but I don't think optimism is necessarily the appropriate antidote. It's time to come to together (figuratively, not literally) and listen to those wiser than ourselves; Doug Casey, Jeff Thomas, Bob Moriarty and Raoul Pal come to mind. Their otherwise contrarian views are massively important and relevant at a time like this.

SWP's team is here to help you and your family navigate these challenging times by providing you with market information, access to physical precious metals, global storage solutions and liquidity.

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.

THE BLACK SWAN STRIKES! GOLD DEMAND IGNITES AND TESTS THE INDUSTRY

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

It came almost out of nowhere, a black swan event that engulfed the world. As everyone from citizens to governments scrambled to deal with Covid-19, the gold industry was impacted in unprecedented ways as well.

Our ITV report begins by highlighting the historic impacts the gold industry saw over the past three months:

- Price Action
- Liquidity Pressures
- Soaring Demand
- Supply Shortages
- Unlimited Fed Liquidity
- Inflation Prospects
- Historic Gold/Silver Ratio

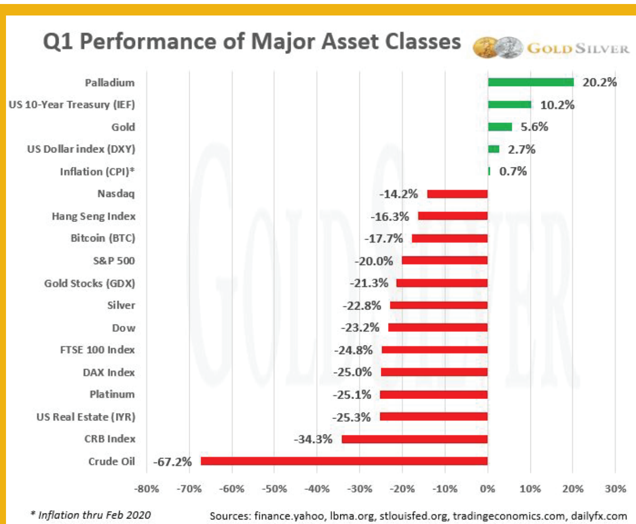
Last quarter taught us a lot about our favorite investment. As you'll see, the word "unprecedented" is not too strong to describe what transpired…

Price Action

While the coronavirus began spreading in China in December, it did not make many headlines in North America until early January. The gold price initially rose as the fears gained traction, climbing roughly $150, nearly 10%, from its January low to February high.

But as the rout in equity markets picked up steam, gold succumbed to the pressure. The price fell nearly $200 from late February to early March, an 11.8% drop in three short weeks.

By the end of the quarter, though, despite the volatility and equity selloff, gold did its job: the price ended higher than where it started, hedging losses elsewhere.



Amidst a sea of losses, gold was up 5.6% last quarter. I'll point out that **the gold price has now risen six consecutive quarters.**

In contrast, all major stock indexes were lower. In fact, the Dow booked its worst Q1 in 124 years. Oil was pummeled, partly due to the oil war between Russia and Saudi Arabia. Bitcoin fell 17%.

Even other precious metals prices struggled under the weight of Covid-19. Platinum registered its worst quarter since 2008, and silver logged its worst quarter since 2013. Palladium continued higher on the back of a supply crunch, though a slowing economy could weigh on demand given its industrial focus.

The 10-year Treasury outperformed gold, and while the US dollar rose, it lagged the gold price.

The value proposition offered by gold, as well as its hedging nature, was clearly evident last quarter. In fact, **investors who owned gold entering the worst black swan event in modern history are sitting on gains.**

Liquidity Pressures

Some investors questioned why the price of mankind's oldest crisis hedge declined in the middle of a global pandemic.

In short, the rout in equity markets forced margin calls and immediate **liquidity needs. Cash was desperately needed to meet unexpected and sudden margin requirements and offset losses elsewhere. To a large extent, gold was sold to meet those needs.**

Meanwhile, many gold positions were sitting on a profit, with the metal up 18.8% last year and up 10% in early 2020 trading. Profits were ripe for the taking.

A similar effect was seen in October 2008. The sudden crash in equity markets pressured investors and traders to sell gold to meet margin demands.

This fact highlights another advantage of the yellow metal: **gold can be a very useful tool when liquidity needs arise.**

Soaring Demand

That gold demand spiked last quarter is an understatement. That spike was so sudden and strong that it overwhelmed the industry. Here are some highlights:

- Retail demand for physical product was, by any account, greater than what was seen during Y2K, 9/11, or the Great Financial Crisis. Volumes were reported to be 5-10x higher. Many trading desks shut down. Many products were backordered 3+ months. Premiums rocketed higher.
- Institutional demand soared, particularly after Goldman Sachs released a report saying gold was at an inflection point and it was time to buy on the back of the new Fed stimulus measures.
- Comex inventories were tested. In response, the exchange recently moved 34 tonnes, about 13% of total holdings, from the "eligible" to "registered" category, to increase the amount of deliverable ounces.
- Gold contracts in NY traded at a $60 premium to those in London, the highest spread since 1980. Several news reports said this development "rattled even veteran traders."

Overall, **demand ranged from an incredible two to as much as five standard deviations above normal.** That surge led to…

Supply Shortages

In a relatively short period of time, the availability of physical metal was in short supply.

Not only did the spike in demand gobble up more supply than usual, the virus hindered the industry's ability to supply metal. It is not far-fetched to say that the entire supply chain was disrupted, something many insiders thought would never occur.

- The US and Royal Canadian Mints both shut down. A West Point Mint police officer recently tested positive for Covid-19.
- Many gold refineries around the world were shuttered. Three refineries in Switzerland, a global hub for precious metals refining, suspended operations, which took offline 1,500 tonnes of gold annually between the three of them. The huge Rand Refinery in South Africa is operating at reduced capacity.
- With most flights canceled it has become more challenging to transport metal, as well as more expensive. One airplane can only take so much gold; the value becomes an issue since insurance will only cover a certain amount.
- Mining operations have also been disrupted. Several countries announced nation-wide shutdowns, including South Africa, one of the globe's biggest sources of new metal. Operations were also suspended elsewhere, from Chile and Peru to Argentina and Canada.
- Other miners and refiners stopped deliveries that had not formally announced it. Some countries like China and Indonesia have not publicly reported, though news sources have cited various mine shutdowns.

The disruption to the industry has affected every part of the supply chain. Future supply is also impacted, as miners generally cannot restart operations overnight.

Unlimited Fed Liquidity

The response to Covid-19 by central bankers and governments has been swift and dramatic. The net effect of these actions are very supportive to the gold price.

Over 50 countries cut rates last quarter, including the Eurozone, UK, Japan, Canada, and Switzerland, among others. The US Fed cut rates twice—the first unscheduled action since 2008—bringing rates to near zero.

Further, global liquidity injections were decisive and on a scale never before seen. The details have fluctuated, but the latest includes the Fed planning to inject $4 trillion of liquidity through business loans, while the US government agreed to a $2.2 trillion stimulus package… Germany enacted a loan program that could provide up to €550 billion (US$610 billion) in corporate loans… the Bank of Japan significantly increased spending on ETFs and corporate bonds, while the government issued two loan packages totaling nearly US$20 billion… the European Central Bank said it may remove the limits on its Pandemic Emergency Purchase Program, currently €750 billion (US$821 billion)… and Italy unveiled a €25 billion (US$28 billion) stimulus plan, split into two packages of loans to small- and medium-sized companies.

The amount of planned worldwide stimulus is without precedent. Any reasonable conclusion must acknowledge the need to own gold, as well as the probability of higher prices, potentially much higher.

Inflation Prospects

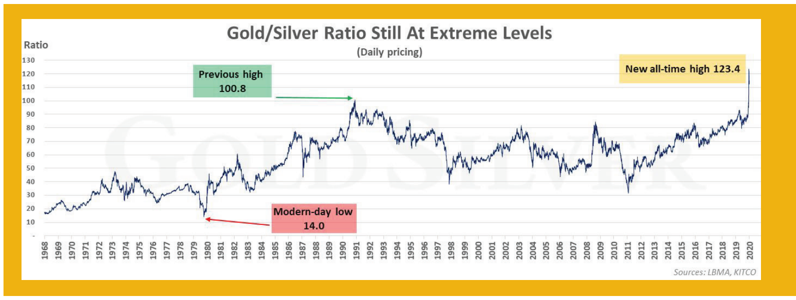
Recent policy decisions by the Fed and most central banks are likely to have long-lasting ramifications on the global economy. These decisions underscore the investment case for gold, as well as the likelihood of demand remaining high for the foreseeable future.

The US deficit, already high, will grow even further. The same is true in developed economies. Currency debasement concerns will easily equal or exceed what was seen in the Global Financial Crisis. The concern this time is that it could lead to actual inflation, not just the fear of it.

It seems only prudent to hold an appropriate weighting to gold to offset potential inflationary outcomes from central bank actions.

Historic Gold/Silver Ratio

The gold/silver ratio (gold price divided by the silver price) made history last quarter. Its prior record high was 100.8 in 1991—but it hit 123.4 on March 17.



The ratio remains at extreme level, ending the quarter at 112.4.

The value offered by silver, relative to gold, is hard to overstate.

The Gold Advantage

We said last quarter that "the number of risks embedded in global economies, markets, and currencies point to the increased likelihood of a major crisis." Little did we know.

What we do know is that gold performed as expected. And that that performance is almost certainly far from over—indeed, it is likely just getting started.

The advantages of holding physical gold were made abundantly clear last quarter. I encourage all to make sure they have meaningful exposure, as we face the ongoing challenges of a global pandemic and the subsequent economic and monetary fallout.

IS THE GOLD RUSH ON HOLD?

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

For many years, I've forecasted a dramatic rise in gold at some point. We are now coming much closer to that point.

Historically, governments have had a tendency to spend beyond their means. They've built governmental superstructures up to an unmanageable size, taxed the populace increasingly heavily to support the monolith, provided largesse in the form of bread & circuses to placate the population and, finally, created often unnecessary warfare in order to distract the populace from the mess they've created.

This is nothing new. The first government to follow this pattern on a grand scale was the Roman Empire, but the tendency predated Rome.

Ultimately, of course, a collapse follows. The economy crashes and time must pass before the dust settles. Eventually, a recovery begins and the cycle starts anew.

During the boom, governments promote the use of fiat currency, which they themselves produce. The only worth that fiat currency possesses is a "promise" that the government will guarantee its value.

Of course, this is the same government that's created the problem in the first place. Not surprisingly then, those who are wise have always created an insurance policy against economic crisis. For 5000 years, gold has served as that insurance policy.

After all, gold is finite. Governments cannot print more of it. So, when the fiat currency goes to zero (as all fiat currencies eventually do) gold retains its lustre and provides a safe haven for those who were wise enough to buy it.

It then would seem logical that, when a crisis has been triggered and the stock market craters, gold would immediately rise. And yet, in response to the recent crash in the market, the gold price dropped quickly and dramatically.

So, what's going on here? Were the long-term gold holders wrong? Or is it possible that they know something that we don't know?

Well, it's the latter. *A downward spike is a predictable prelude to a dramatic rise*. But why should this be?

The answer is: paper gold.

Typically, investment managers encourage their clients to be in the stock market 100%. When their clients say, "I want to be safe, so I want to diversify – say, 10% in gold," all of the investment managers I know say, "No problem, our gold ETF's are the best bet."

And this is where the antennae should go up.

In recent years, we've seen a repeat of the late 1920's – Get into the market as much as you can and when you run out of money, you can still buy on margin. And when you no longer have the funds to buy on margin, you can take out a loan to buy on margin.

Of course, this leaves the investor way over extended, but this is what happened in the leadup to the 1929 crash and again, in the 2020 crash.

Once buyers have been attracted into the markets as much as possible, it's time to trigger a crash. There's a margin call as brokers try to save their skins and those clients who are up to their eyes in debt must watch as their paper gold holdings are sold off to pay their debt to their broker.

ETF's are sold as being backed by physical gold. However, like all forms of paper gold, they can be manipulated, shorted, have multiple owners, counterparty risk and the trust may ultimately be unable to deliver the actual metals to the investor.

Paper gold is merely a *promise* that you own gold. Unfortunately, more paper gold has been traded than all the physical gold in existence, so that promise is impossible to keep.

The result is a massive selloff of paper gold, causing prices to plummet.

But then, we have the other gold – physical gold that you hold in your own possession. As it has over 5000 years, that gold will retain its value.

As paper gold becomes worthless, the demand for physical gold will be on the rise. So much so that dealers can't keep up with demand.

And not surprisingly, bullion dealers are now charging large premiums to sell. This is partially because the demand allows them to get away with those premiums and partially because dealers themselves are being charged more to procure product.

As discouraging as those high premiums are, they tell a tale. The bullion dealers understand that gold is headed dramatically north. They're paying below spot to those who are now in financial trouble and need to sell their physical gold, then reselling it with a considerable premium tacked on.

Were they not to do this, they would be out of business as gold rose to $2000, $3000, $5000 and beyond.

Once the paper gold market has fully collapsed, all that will remain will be physical gold and we shall then see a price rise of historic proportions.

Not surprisingly, investment counsellors are in the business of selling stocks and they have a difficult time understanding gold, as it pays no dividends.

But gold should never be treated as a stock. Its primary purpose for the investor is as an insurance policy against economic crisis. As with any insurance policy, the objective is to hold and wait.

Those who now hold physical gold will need the temerity to sit tight during the rollercoaster ride in pricing with the understanding that this is a long game. We'll see more dramatic daily price fluctuations before this is over and by the time gold passes the $2000 resistance point, we'll be looking at much larger premiums, as those who hold physical won't be selling.

For those who do not presently hold physical gold, and are coming to it belatedly, the objective would be to seek the lowest premiums that you can find on offer and buy as much as you can whenever you find them.

As a footnote, there's another facet to gold as an insurance policy.

In any economic crisis, large numbers of people are cleaned out entirely. It can take many years for them to ever return to where they were, if ever.

We can be certain that, in this period, central banks will print as much money as they can, in order to create a recovery, but this is not what will be the outcome.

Instead, what they'll achieve is dramatic inflation, sending consumables prices soaring.

This will occur at a time when the average individual is already pressed for liquidity, inducing him to sell off whatever assets he can. This in turn will cause the prices of those assets to fall.

At such times, liquidity is king. The person who has liquidity has far greater buying power than ever before. Gold, therefore, will not only rise in price, but its purchasing power will rise even more dramatically.

As the old English saying attests, "When no man has a farthing, the man with tuppence is a king."

In recent years, more and more people have chosen to create insurance policies against an impending economic crisis by purchasing gold.

The Gold Rush may be on hold for the moment, or a bottom may already have been reached. Either way, downward spikes can be expected, to be followed by recoveries.

But the end game will be a dramatic rise. Those who have the temerity to hold will be those who are the most greatly rewarded.

HOW THE CAYMAN ISLANDS CONTINUES TO BE A FAVORABLE PLACE FOR INVESTORS, BUSINESS OWNERS AND RESIDENTS

Contributed by Doug Casey's International Man (internationalman.com)

International Man: Jeff, you have lived in the Cayman Islands for some time. You've witnessed that country undergo a huge amount of growth and have personally played a significant role in the country's development. What can you tell us about the Cayman Islands, and why is it such a unique jurisdiction?

Jeff Thomas: Well, that's a tough one — there's quite an extensive list.

I think, if I were to try to simplify it as best as I could, I'd say that, first, Cayman had a very late start. This was a backwater until 1968, so we've only really been in business, per se, for 50 years. That's a good thing because the longer a country is in business, the more laws it has on the books, and the more conflicting they are, and laws don't tend to go off the books, they remain forever, and they create quite a mess.

In the Cayman Islands, the laws are very simple. When they were first drawn up, they were drawn up to be simple so that politicians couldn't mess with them very easily. Very much like the American constitution, its purpose is to try to be as simple as possible so that it couldn't be messed with, and it would be hard to misinterpret.

There's an additional advantage here — for an investor, it's easy to operate in the Cayman Islands. You don't have so many obstacles that are confusing and self-contradictory.

So, the simpler things are, the easier it is for you to function within that jurisdiction. That's quite important, especially when you consider that for someone coming from another country, they don't want to go through the process of learning all those laws, they just want to know that they're going to have an easy road, that once they understand what they need to do, they're going to be okay.

Also, it's a small jurisdiction, and that means that we're on a first-name basis with our political leaders. They can't get out of hand very easily and drop enormous bombs on us where they're going to change how we live and what our laws are going to be.

If they start to take a bad turn, we can actually sit them down and say, "You're making a mistake here, you're going to need to back out of this," and we actually can work one-on-one with them. It's a tremendous advantage.

Our leaders understand that the great majority of our prosperity is generated by overseas investors who have the freedom to withdraw at any time, so to cut back on economic and social freedoms would mean the end of their political careers.

Unlike most countries and unlike large countries, they know that they can lose everything they have very easily if they start to misbehave and suddenly get grabby or decide that they're going to impose taxation or whatever else.

So, they have a vested interest in sticking to the promises that we've made to investors. If they keep changing things regularly, they know that money is going to leave here, so they must behave themselves.

Of course, we're mainly known as being one of the most tax-free jurisdictions in the world. In our 500-year history, we've never had any direct taxation of any kind, so it would be very, very difficult for them to ever even try to pass a law to create taxation because the island would be in an uproar over it. Everyone would understand that they're cutting everyone's throats and, even though they'd like to tax us directly, they can't really do that, or their careers are over.

International Man: What else can you tell us about the Cayman Islands? It seems to be a favorable place to be an investor, a business owner, or a resident.

What about the overall quality of life, the education system, the infrastructure?

Jeff Thomas: Well, it's a slightly different structure from what you would have if you were in Europe or North America because it's a tiny place but has an enormous amount of money pouring through it.

It's the fifth-largest banking center in the world, yet we only have 65,000 people. So, we can have a very small government yet, because the company fees are high, the revenue per capita into the government is high.

We can afford to have a very good infrastructure here. Our roads are very good. Schools are good. We started off as a very good jurisdiction in terms of morality. We have a very traditional morality here that's almost Victorian in its nature. Caymanians tend to be very moral people, very honest people; they keep their word.

We don't have any problems with racism here; it just doesn't exist. We're all the same regardless of what we look like. We just all treat each other as kind of a big family. We have very little in the way of violence and crime here, and most of it is pretty controllable.

Unlike 50 years ago, when we were a backwater, the standard of living has raised considerably where most people tend to live very well.

Anyone who wants to work can work. We don't have a problem with people being out of work unless they just don't feel like doing it, and you have those in every society.

Because of the high standard that we now have, it's more expensive to live here than most places. You certainly wouldn't want to be 25 years old with a tent and a backpack and go and live on the beach. It isn't that kind of place.

International Man: How easy is it to establish some sort of presence or residency in the Cayman Islands?

Jeff Thomas: It's actually quite easy. The easiest way is to get employment here. And there you'd only have to have applied for some sort of position and gotten it, and then a work permit would be applied in your name to the government. And as soon as it's approved, then from that moment on, even though you hadn't even arrived here yet, you would be a legal resident, and you would have an income waiting for you. So, that's really the easiest.

However, if you are an investor, say someone retiring, and you didn't want to have actual employment—you just wanted to protect the money that you owned and have a good life—you could apply to the government to do that. There are several opportunities for different types of residency where, as long as you didn't need to work, and you could demonstrate that you had enough money to live on, you could get a 25-year residency here.

Have questions about the Cayman Islands? You can email Jeff Thomas at jeff.thomas1066@gmail.com

ASK THE EXPERT

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

Thank you, Eduardo Silva, for submitting your questions to our experts: **Is it necessary to establish a new SWP account to store metals in one of your overseas storage facilities? In the case of a facility in the US or Canada, does the storage facility file any reports with local authorities that could trigger tax reporting obligations for the metal's owner?**

For submitting his questions, Eduardo is the winner of a 1 oz limited edition Silver Marlin coin.

Eduardo, your single SWP account gives you access to our complete network of global storage facilities. Not only does your single account allow you to store precious metals in any one of our ten locations, it also allows you to buy and sell precious metals in any one of those locations. In short, no, you do not need to open a new account for each location.

In terms of reporting to local authorities, the facilities do not report any holdings or personal information to the authorities. However, that does not change your personal tax reporting obligations in your own jurisdiction of residence. We recommend you consult with a tax professional regarding your personal tax reporting obligations.

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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

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SWP's secure storage facility
George Town, Grand Cayman

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