Strategic Wealth Preservation

INSIDE THE VAULT

A QUARTERLY NEWSLETTER FEATURING PRECIOUS METAL INSIGHTS - APRIL 2021

MESSAGE BY MARK YAXLEY

Our clients have been asking us lately *'What are gold and silver going to do next?'*. Following an epic bull run that lasted almost the entire 2020 calendar year, we have experienced a recent pull back for both metals. This quarter's edition is focused on answering that question. We start with a wonderful technical analysis video from Chris Vermeulen, followed by a quarterly recap and outlook from senior precious metals analyst Jeff Clark. Both Chris' video and Jeff's report will provide you with valuable insights about the current state of the market and what to expect next.

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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.

GOLD SILVER TECHNICAL ANALYSIS

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

You can follow Chris on Twitter @TheTechTraders

GOLD IN Q1: PRICE SOFTENS, BUT NEW CATALYSTS EMERGE

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

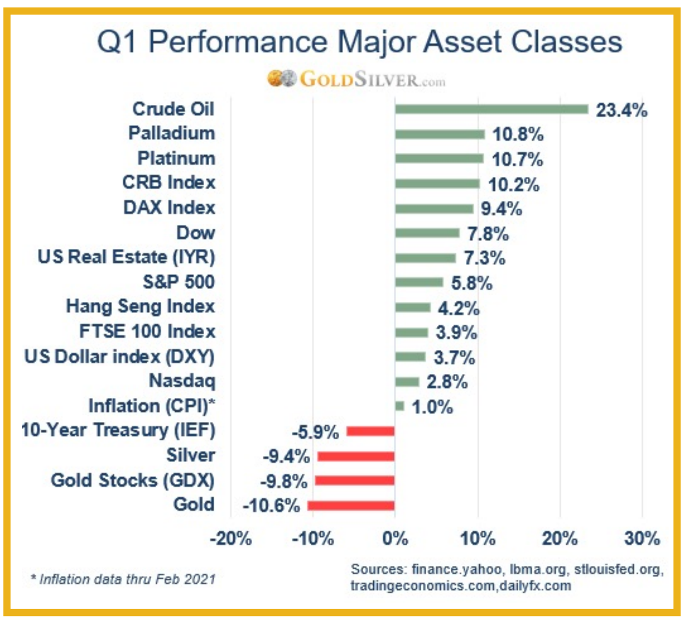
The big story in Q1 was the sharp rise in bond yields, putting pressure on gold and silver prices. But as the world begins to transition from pandemic to recovery, new potential catalysts emerge for precious metals.

Our ITV report looks at the performance of precious metals and other major asset classes during the first quarter of 2021, along with a review of the conditions that are likely to impact them as the year progresses.

Gold and Silver in Q1: Spiking Yields Pressured Prices

The U.S. 10-year yield rose from 0.916% on December 30 to 1.744% by March 31. This near doubling of the benchmark bond within three months is outsized by historical standards, and impacted most assets including gold and silver.

Here's how precious metals and other major asset classes performed in Q1.



Gold declined 10.6%, ending Q1 at $1,691.05. It was gold's worst quarterly performance since Q4-2016, and worst Q1 since 1982. Silver fell 9.4% to $24.

The US dollar rose 3.7%, while Treasuries logged their worst quarter since 1980, pushing yields sharply higher. Both of these factors put a damper on gold and silver.

Platinum and palladium were leaders last quarter, boosted by the prospects of economic recovery.

Crude oil prices saw a hefty rebound, and the commodity complex continues to show signs of strength. Broad stock markets also continued to rise, largely in response to optimism surrounding an improving economy.

Bitcoin (not shown) continued its volatile surge, rising 103.2% in the quarter.

The View for the Rest of 2021

As we start Q2, recovery efforts are picking up speed worldwide, despite some countries seeing an uptick in Covid-19 cases. President Biden announced that 90% of adult Americans will be eligible for vaccination by April 19, a goal that if met would surely impact economies and markets.

Reflation is arguably the dominant driver of current global price action. A $1.9 trillion coronavirus relief plan was approved, and a $2.25 trillion infrastructure bill is on deck. Similar measures have taken place in many advanced economies.

All this and more brings a shift to the factors that could impact markets going forward. Here's what we're watching that will likely have the most effect on precious metals.

Interest Rates: The size of the U.S. stimulus packages is likely to continue to push global bond yields higher, at least in the short-term. And the Fed has made clear it will maintain an easy monetary policy; according to San Francisco Fed President Mary Daly, "We still have almost 10 million people on the sidelines looking for jobs… we really aren't projecting achieving either side of our dual mandate in 2021 and that's why policy is remaining accommodative."

A CNBC poll of over 100 chief investment officers, equity strategists, and portfolio managers showed that almost half cited rising interest rates as the #1 factor that could impact markets the most going forward. Over 60% believe the 10-year Treasury yield will exceed 2% by the end of 2021. Rising yields could dampen gold's appeal, though the real interest rate is the bigger determinant.

Money Supply Growth hit another all-time high in February, the 11th consecutive month of remarkably high growth. The money supply grew 39.1% from a year ago, historically very large, the 1970s the only comparable period. Monetary dilution provides a strong incentive to hold monetary metals like gold and silver.

The US Dollar hit a one-year high versus the yen and multi-month peaks against other currencies by quarter's end. The dollar rose for the third consecutive month against the yen, its biggest ascent since the end of 2016. The dollar responded mostly to the surge in U.S. bond yields, currently at a one-year high.

In the bigger picture, I'll point out that the global share of US-dollar-denominated reserves dropped to 59.0% in Q4 (IMF's most recent data), its lowest level since 1995. The dollar's share has dropped by a full 7 percentage points since 2014—if the current pace continued the dollar's share would fall below 50% by the end of the decade. Precious metals prices are inversely correlated to the U.S. dollar and are thus excellent hedges against dollar weakness.

Inflation: Most economists and investors anticipate some level of higher inflation, due to a myriad of factors, most of which picked up steam in Q1.

Shortages, stockpiling, supply chain bottlenecks and some continued Covid-19 restrictions all contributed to increased costs. Kimberly-Clark, J.M. Smucker and General Mills all announced plans to hike prices.

Meanwhile, U.S. manufacturing expanded at the fastest pace since December 1983. The Purchasing Managers Index hit its highest reading since the survey began in 1997. Factory activity in the Euro zone also grew at its fastest monthly pace in nearly 24 years.

Chinese exporters are raising prices too, due to higher raw-material costs and supply-chain constraints. Prices for U.S. imports from China rose 1.2% over the past year, the fastest increase since 2012 according to the Bureau of Labor Statistics. Shipping rates have climbed roughly 90% since last June, pushing some Chinese exporters to raise prices for new orders by 10% to 15% just since the beginning of March.

And as most investors know, commodity prices have surged. Many are up double-digits over the past year, with lumber prices up triple digits. Some businesses report they have little choice but to pass the higher costs on to customers; according to the National Association of Home Builders, soaring lumber costs have added more than $24,000 to the price of a new home in the U.S.

It seems inevitable consumer price inflation will climb this year—if so, investors are bound to look for hedges, gold and silver being obvious choices.

Housing Trend: US home prices surged by 11.2% vs. a year ago, the biggest increase since the peak in 2006 (based on January's National Case-Shiller Home Price Index).

One factor in determining if this trend continues is home availability. According to the National Association of Realtors, there were only 1.03 million homes for sale at the end of February, the lowest level since 1982. Above average demand may thus continue for a while, but soaring home prices makes the market increasingly vulnerable, which gold can hedge.

Higher Taxes: While a political hot potato, President Biden proposed increasing the U.S. corporate tax rate from 21% to 28%. If adopted company profits would be impacted. It would also affect multinational companies, as it would be harder to qualify for federal tax deductions based on payments to certain foreign governments. Gold can hedge the impact higher taxes would have on stocks and even entire industries that might see lower profit margins.

Silver Outperformance: Part monetary metal like gold, but also an industrial metal whose uses will climb in the infrastructure and clean-energy spending plan proposed by Biden, this dual role could push it to advance more than gold. It's noteworthy that despite a more volatile metal, silver fell less than gold in Q1.

The gold/silver ratio (gold price divided by silver price) ended Q1 at 70; despite the decline from its record high of 123 a year ago, the ratio is still 22% above its long-term average of 55, showing it remains undervalued relative to gold. The ratio fell to 32 in 2011.

Black Swans: The environment remains ripe for an unforeseen event. Potential candidates include unexpected delays with the vaccine rollout, a surge in Covid variants, and a stock market or real estate reversal. Another shock to the global economy would underscore the importance of gold's hedging abilities.

The Hard Asset Edge

The current circumstances of runaway money supply growth, rising inflation expectations, and ongoing fiscal stimulus plans creates an ideal scenario for gold.

The most likely scenario for the remainder of 2021 is one where gold and silver continue to offer meaningful and necessary hedges, along with the distinct possibility of record high prices.

We recommend investors continue to accumulate precious metals in the current environment, one that seems increasingly vulnerable to financial, market, and monetary threats.

You can follow Jeff on Twitter @TheGoldAdvisor

BUS DRIVER ECONOMICS

Jeff Thomas

Economics should not be an especially difficult subject to understand. In essence, it's simply the study of how money functions. However, academics, theoreticians, politicians and financial leaders all stand to benefit if they can manage to complicate the basic principles and muddy the waters of economic comprehension.

No individual has been manifestly more successful at this than the economist John Maynard Keynes. Educated at Cambridge, a bastion of Socialist thinking, Mister Keynes famously published "The General Theory of Employment, Interest and Money" in 1936, forever changing the world's perception of economics.

This was quite an amazing feat, especially as Mister Keynes goal was not to explain economics, as had traditionally been the object of the subject; his goal was to distort the study of economics - to confuse economic principles in order to promote socialist concepts.

Socialism had, since its beginnings, been unpopular with many people, as it clearly did not work economically. So, in order to make socialism more broadly acceptable, Mister Keynes, in his book, suggested, essentially that, although 2 + 2 = 4, with socialism, 2 + 2 could somehow equal 5.

Mister Keynes recommended that governments control the economy, saying that, in good times, they could tax and regulate the people so that government held the money. Then, in bad times, they could pour that money back into the economy in order to revitalise it. In saying this, he ignored the fact that, historically, free markets tend to be self-regulating – that supply and demand invariably create their own balance.

Of course, his concept gained the instant approval of all the world's governments and has held it ever since, as every government would like to control all the money, if at all possible.

Interestingly, just before his death in 1946, Mister Keynes confessed that, in reality, governments, ever-dependent upon election cycles, will collect money through taxation and regulation during good times, then immediately spend all of it, then borrow more. Then, when bad times arrive, the government will not only be broke, but in debt. And, instead of then relieving the economy by going out of business, as any failed business would do, they increase taxation, to keep their own nests feathered. Thus, in bad times, government becomes a country's greatest detriment to economic recovery.

Back to the present day, we observe both the EU and US governments (and a host of other economically-troubled governments) actively pursuing Keynesian economics. As much of the world is presently in the midst of the (still unacknowledged) Greater Depression, politicians in each election cycle, trot out yet another promise for prosperity, always based upon governmental control of the economy – the very same Keynesian concept that created the economic calamity in the first instance. One year, the promise will be "green shoots". When that fails to materialise, the next promise will be "shovel-ready jobs," which also fails to materialise – in every case, because the premise itself was fundamentally, economically unsound.

During downswings in each of these jurisdictions, government prides itself on declaring, at intervals, that a small percentage of new jobs has been created, in an effort to suggest recovery. They do this in the face of the fact that government employment numbers are skewed to not include those who have given up looking for work. In addition, anyone who has insufficient work to support himself and his family, but is still employed even one day a week, is counted as "employed". In the US alone, if all the people who are not fully employed were acknowledged, the present percentage of unemployment would be 25.7%.

When an economy is in decline, there are few new real jobs to be had, whilst others continue to disappear. And here is where Keynesianism really comes to the rescue. Since the actual take-home pay of an individual is less important to government statistics than new-job creation, one socialist solution is simply to divide up the existing jobs. By creating shorter work-weeks - say, thirty hours, many ten-hour jobs open up and these can be claimed to be "new hires". Of course, they are improvements only in a statistical sense, as both the thirty-hour employee and the ten-hour employee see diminished standards of living than if a free market economy had prevailed and both employees may have had the opportunity for forty-hour employment. (This "solution" is now being promoted by the present US government.)

As previously stated, this condition, whist simple to understand in principle, is hopelessly confused and muddied in practise – a situation that allows it to prevail.

Perhaps it would be helpful to offer, for comparison, a more transparent version of the same condition. From the 1960's through the 1980's, Cuba's primary export product had been sugar. The USSR was Cuba's principle customer, paying roughly three times the going rate to Cuba for its sugar, in trade for being a loyal Russian ally. When, after the collapse of the USSR, the Russians pulled out of Cuba, the Cuban economy, having been based on an inflated product value, virtually collapsed.

Large numbers of Cubans, previously employed in the sugar industry, were simply no longer necessary and Cuba had a problem on its hands. One attempted solution was the "sharing of jobs" (essentially the same "solution" that is now developing in the US). In the years following the sugar debacle, if you were on a bus, travelling from, say, Havana to Santa Clara, you would have two bus drivers on board for the entire round trip. One would drive to Santa Clara, whilst the other sat in a seat behind him. On the return trip, the second driver would take over. A pointless exercise that only resulted in a divided paycheque.

Yes, both drivers were now "employed", but each earned less than he might have in a less socialistic economy. Understandably, nothing improved in any real sense for the Cuban people.

The lesson here is that a socialist government first degrades the free market through over-taxation and over-regulation. Once it has done so and the system is beginning to break down, a socialist government never reverses its policies in the face of failure, it instead redoubles the failed policies. Having made the pie smaller overall, it then divides up the slices in an effort to maintain the perception that everyone still has his piece of the pie. Unfortunately, that sliver may not be enough to sustain the recipient.

But, of course, in socialism, as in governments in general, perception has always been regarded as being more important than reality.

As a footnote to the Cuban comparison, it's instructive to note that, when the Cuban government launched policies like the above-described Bus Driver Economics, during the economic crisis that it euphemistically called, the "Special Time," another policy was to limit the expatriation of its citizens to other countries. As the Special Time grew worse, the penalties for exiting Cuba became more severe. This is another classic symptom of major economic decline – an effort by the government to trap the population from exiting. And, not surprisingly, we're seeing the early stages of this in the EU/US.

As Doug Casey might say, the chances of a people changing a country's direction from within are "Slim to none – and Slim is out of town." Socialism, historically, has never ended with a gentle reversal to a free-market system. It invariably ends with further deterioration until the point of economic collapse.

When a country is clearly on the road to socialistic oblivion, the wisest decision might be to get off the bus.

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