Once In A Generation

Investors At The Inflection

ST. JOSEPH PARTNERS

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Summary

- Despite being within 15% of its all-time high, gold has never been cheaper to buy relative to the US money supply, its primary proxy as a form of "safe-money".
- Recent Fed meetings have reinforced the Fed does not have the backs of Americans and their policies present material risk to investors with cash-heavy, gold-light allocations as the safe-money portion of a portfolio.
- While Central Banks may be able to prolong the bursting of the biggest financial bubble in American history through ongoing waves of money printing, the uncertainty around the timing of a return to more normal valuations suggests investors should understand there is an urgency to revisit portfolio allocations. Arguably the most attractive attribute of gold is its highly differentiated if not uniquely inverse correlation to stocks, bonds, and real estate as well as paper currencies.
- Major wirehouses, the nation's large oldline stock brokerages that still cater to millions of clients, have been disingenuous in not communicating the positive role gold has on portfolios. With fifty years of data since gold began freely trading, investors achieved higher returns with gold allocations than with traditional portfolios. The chronic inability of major investment houses to allocate client capital properly is seen in 0% physical allocations. Wirehouse intentions become even more questionable when one considers that 20% gold allocations have outperformed portfolios with smaller gold allocations, let alone 0% gold allocations.
- Gold's enhancement to portfolio returns has occurred despite previously unwitnessed levels of government money printing designed to elevate the prices of other asset classes (artificially reducing the price of gold). This capital markets distortion created massive tailwinds for asset classes. If inflation rises from its historically unmatched lows as evidence suggests may be occurring, gold's relative outperformance vs. currently inflated assets may be even more pronounced.
- ***Last month European bonds gave a confirming signal that for the first time in forty years, a generational shift has occurred in markets. The equity, real estate and fixed income tailwind of declining rates, the only cycle most Americans have known in their careers, has ended with those assets priced at all-time highs. This generational shift sets the stage for the next leg higher in metals.***

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A Generational Market Change?

Is it possible that a once in a generational market change really has just taken place? In scripture, the Jewish people wandered the desert for forty years, a time period often considered a milepost for a generation.

To appreciate the scope of what has just happened over the last forty years, let's focus on what may be the timeliest question for investors in the coming years:

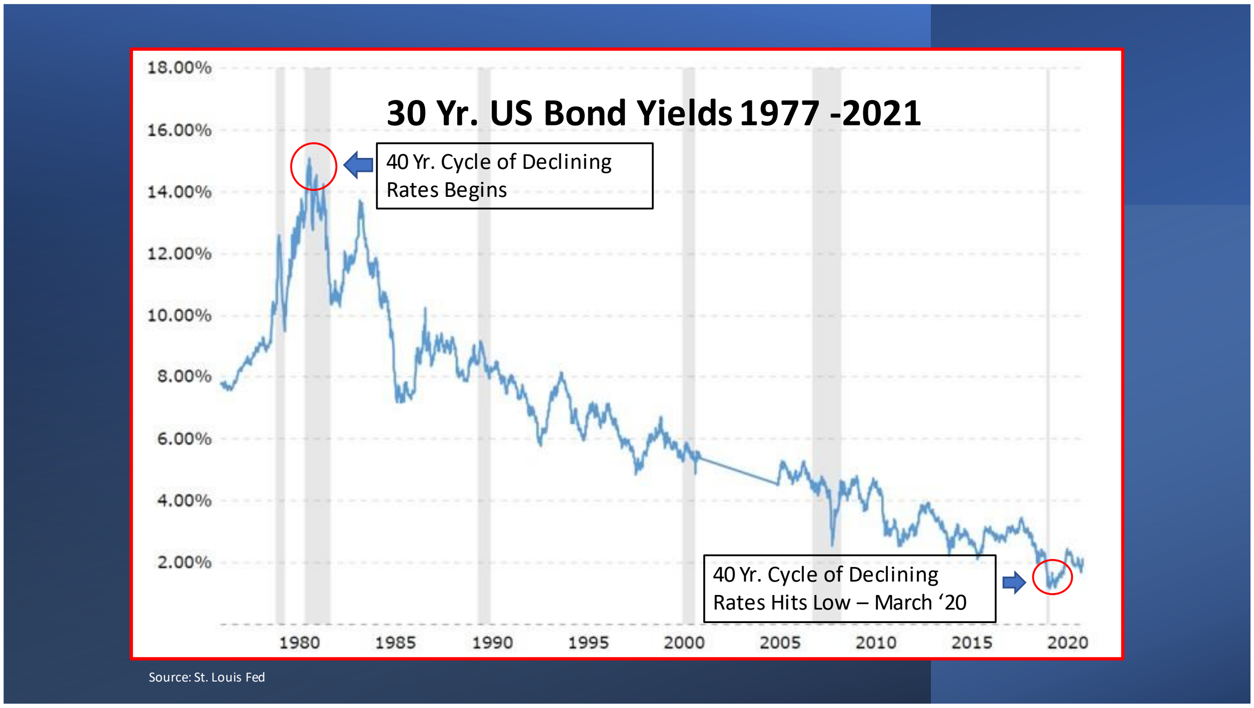
What input is most important to valuing stocks, bonds, private equity, and real estate?

The answer is inflation.

The reason inflation is the most important input is that stocks, bonds and real estate are all valued on their anticipated cash flows discounted by an inflation rate to create a price considered fair value today. With this methodology *lower* inflation supports higher valuations in all of those asset classes. Conversely, *higher* inflation reduces the multiples applied to stocks, bonds, and real estate and erodes the value of paper cash as well. Consider for example real estate – How many buyers can afford a $500,000 mortgage with rates at 2%? That pool of buyers clearly shrinks if rates were at 10% as less can afford the larger monthly mortgage payment that comes with higher inflation. Historically the inflation rate and interest rates were similar numbers as rates were set off of inflationary pressures. With government debts at today's levels, history suggests inflation and rates may diverge in the future. Government motivation for this is that public officials may choose to keep rates artificially low to reduce its debt payments. When the two diverge, historically markets ultimately look to inflation as more meaningful since it is a real market input vs. an arbitrary rate set by a central bank.

Consumers are noticing early signs of this occurring today. For example while government cites 4% inflation in apartment rents, most industry groups are pegging the number in the 15-20% range, obviously a dramatic difference. This follows years of CPI numbers lagging the rate of rising costs experienced by consumers. As one would imagine, no one in the apartment rental market cares about what a government statistic says rental rate increases theoretically should be. It is the real world that matters and eventually capital markets will price assets off of what is real, namely inflation. In this note for simplicity we will reference rates as a proxy for inflation.

Our first chart is a snapshot of this most important consideration of inflation spanning the entire investing careers for most working Americans. This trend of declining inflation has been the backdrop for all of our adult financial experiences and this 40-year trend hints at the unbroken tailwind equities, real estate and bonds have all enjoyed. This trend has without question boosted valuations on these widely owned assets across America:



What was going on in 1980 as this 40-year, generational move in rates commenced? Peak rates coincided with the fear that inflation would never become manageable again. Stocks and bonds which were valued on cash flows were viewed as terminally flawed, a view that was memorialized with *Business Week*'s infamous cover story titled "*The Death of Equities*." Interest rates were an extreme burden on the cost of borrowing all goods, especially mortgages with overnight borrowing even touching 20%.

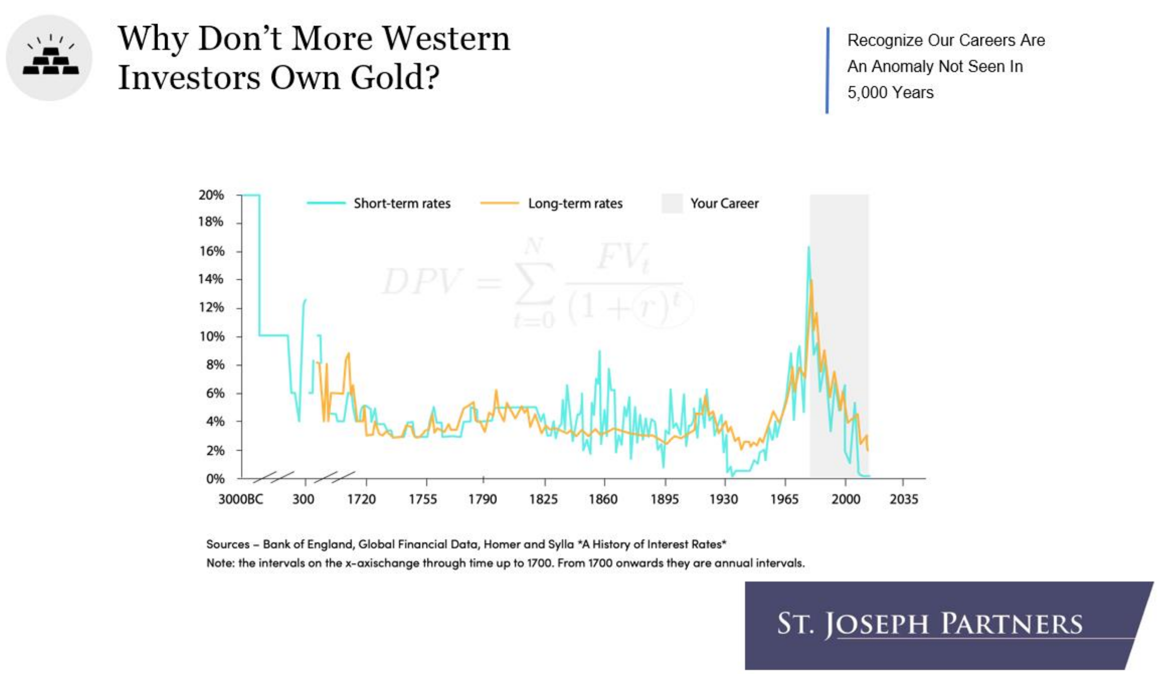
In contrast at the time, assets that could not be valued on a stream of cash flows such as gold, silver and many commodities were seen as having great appeal. As the purchasing power of cash bought noticeably less during the last inflationary cycle, the value of a real asset that would take more dollars to buy tomorrow than it did yesterday brought obvious diversification and benefits to a portfolio.

After inflation's peak in 1980, the generational march lower in rates coincided with the expectation that newly elected President Reagan and Fed chairman Paul Volcker would succeed in corralling inflation. As that view broadened among investors, stocks, bonds and real estate began to enjoy expanding multiples. And as this multi-decade tailwind for stocks, bonds and real estate matured, investors appropriately allocated incremental capital to these rising asset classes and Americans reduced gold exposure to essentially 0%. As inflation slowed, the erosion in purchasing power of cash also slowed and became a non-event in day to day living such that younger Americans have difficulty relating to life with inflation. Despite the slowing of eroding purchasing power, the inability for paper currencies to maintain their value when not backed by gold was manifesting quietly. Even with the declining rate cycle of the past 40 years, the dollar still lost more than 70% of its purchasing power.

Ultimately this once in a generation, 40-year super cycle culminated with an equally hysterical market view at the other extreme marking its appropriate grand finale. In March 2020 the whole world was shut down by government mandates and demand for most goods and services was shrouded in doubt. Against that backdrop, markets held the equally extreme and total opposite view as what had reigned in 1980 – no matter how low yields may be, at least a bondholder would be paid *something*. In contrast to 1980 the view of the moment was skepticism whether business would ever return to normal. It was a fitting story to tell around the end of the 40-year cycle, the mirror opposite view as that held by investors at the start of the cycle.

30-year bond yields marked what looks to be their generational bottom at less than 1%.

How atypical has this generation's experience has been? Our lives over the last 40 years appear literally unique in financial history. The period marked the first time a sole reserve currency was able to sustain interest rates of 20% without falling apart and its effect has been intoxicating to investors. Dialing our view of inflation and rates much further out, consider this snapshot of financial history dating thousands of years:



Let us call your attention to two points from the millennial snapshot above. First when rates get stretched in one direction, a snapback has consistently ensued in the opposite direction. This repeated cyclicality suggests we are going to see inflation move demonstrably higher than where rates are today. Secondly you will notice that never before have rates been so stretched to the downside that they cross the threshold of 0% as they have in this cycle. Given that, does it seem reasonable to expect the inflationary snapback may also be higher than what the US has seen in the past?

If so, inflation will be the defining issue for virtually all investments moving forward and a gnawing element in day-to-day living. Consider a few excerpts from *When Money Dies*, the study of how life in Europe was impacted by inflation when governments become overly indebted in the 1920's:

WHEN a nation's money is no longer a source of security, and when inflation has become the concern of an entire people, it is natural to turn for information and guidance to the history of other societies who have already undergone this most tragic and upsetting of human experiences…

A [consumer] who has had no experience of the horrors of currency depreciation has no idea what a blessing stable money is, and how glorious it is to be able to buy with the note in one's purse the article one had intended to buy at the price one had intended to pay.

To frame for you how dramatically this declining rates cycle impacted asset valuations, consider that in 1980 as rates touched 20%, the S&P 500 multiple was only 9x. At the conclusion of our generational move lower in rates, the multiple on the S&P500 was 36x at the end of 2020 and even higher intra-year.

This suggests that in the lower interest rate environment of 2021 the same dollar of earnings on stocks was valued fourfold more than during high inflation.

Think about that – the same stock is worth 4x more in a low inflationary environment as it was at the start of our declining rates cycle. It is little wonder investors are now loaded with these assets that so benefitted from declining rates.

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Consensus Believes The Inflationary Cycle Will Peak … In Just A Few Months

Even though the last inflationary cycle took forty years to play out, Wall Street economists are suggesting that inflation will peak and that inflationary pressures will begin receding in the weeks ahead. What if however, economists and advisors are again underestimating this fledgling inflationary cycle as they did at the beginning of the declining rates cycle? Rather than lasting six more months, could inflation be a six-year phenomena? Or more?

Looking back through newspaper reports even two years after inflation peaked in 1980, skepticism remained broad that the inflationary cycle was finally behind America. Perhaps due to the equivalent of muscle memory, the experience of searing inflation was so deeply ingrained into that generation's personal experience, many expected it would return in full vigor.   Beyond skepticism the last cycle was over, suffice it to say that no one was speaking of a 40-year generational move lower in rates. Here is a clip from *The New York Times* in December 1982 citing a member of Brookings Institution:

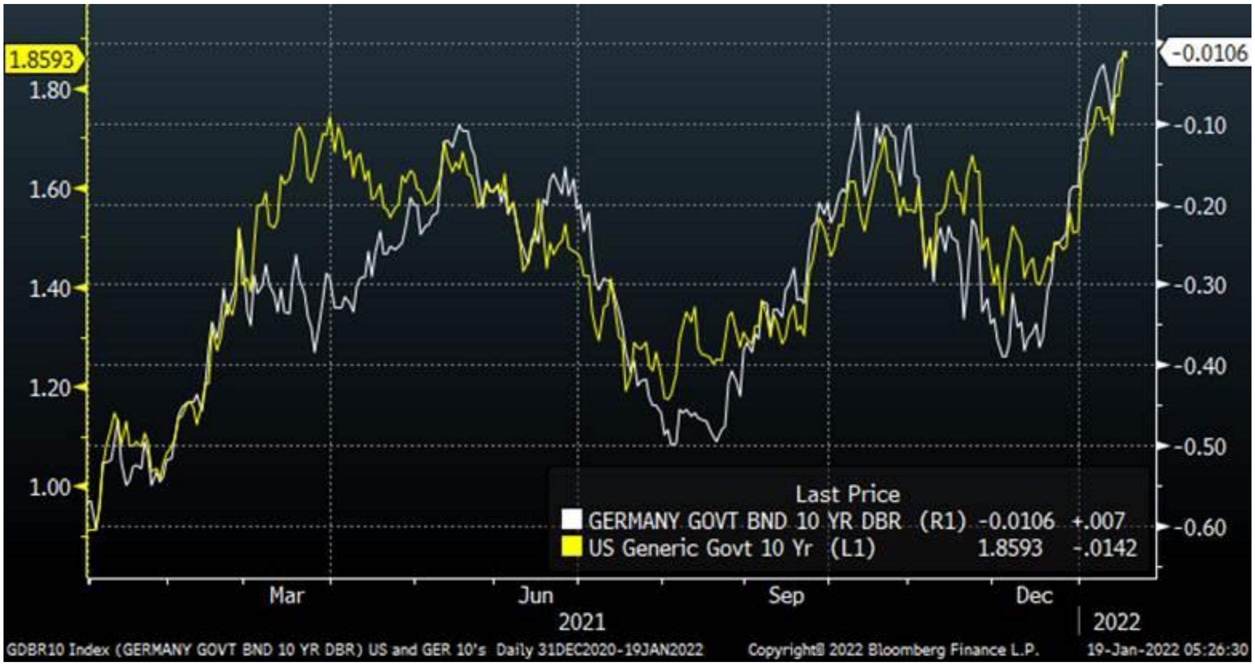
If the price indexes rebound sharply then, he said, the cure will not have been worth the pain. And, he added, he thinks they will. ''I don't know if we have changed the system enough so that we can have full employment, prosperity and low inflation,'' he said. ''As of now, I don't see any evidence of that.''

Perhaps then it stands to reason that after the just-concluded declining rates cycle that was more than three times as long as our last inflationary cycle, investors may be underestimating the duration and magnitude of the pending cycle? And underappreciating the import of preparing for it?

While investors take pride in looking forward rather than being rear-view mirror investors and while professionals passionately believe markets discount future trends, there are glaring examples where markets have simply failed to look forward. As a case in point look no further than the period we have been discussing. Remarkably at the commencement of this greatest American bond market cycle, inflation again peaked in 1980 - but it took more than a year for bonds yields to begin recognizing the epic sea change had begun.

Bond markets never anticipated the cyclical change and lagged the data at the last generational turn. Could that be replaying today given investor allocations and the expectation of relatively painless fixes to our debt issues?

The likelihood that this generational cycle has indeed transitioned picked up another important confirming data point last month. In Europe the most widely watched bond index, German ten-year bonds, traded above 0% yields for the first time in more than two years suggesting the US Treasury Yield reversal may not be just an errant data point:

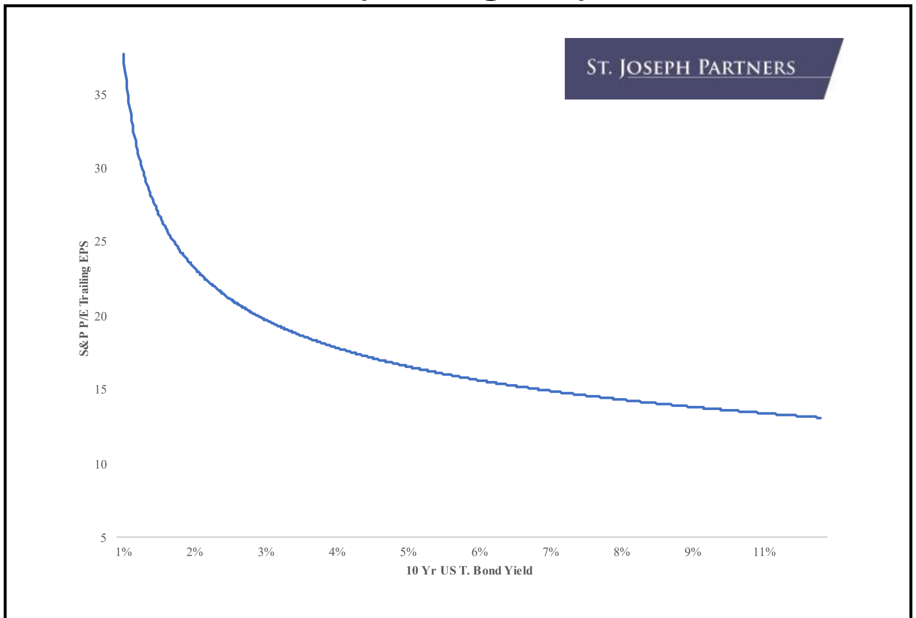


If inflation proves to be stickier than Fed officials are admitting and longer lasting than market participants may be expecting, what can we expect in the re-pricing of assets?

Here is a chart documenting historic relationship between stock multiples and 10 yr. yields as a proxy for inflation. One can see it is the mirror opposite of what investors have enjoyed over the past forty years. While the market multiple exceeded 40x when yields fell below 1%, if yields were to rise towards just the average inflation rate of 7% from the last inflationary cycle, equity markets may see a 50% drawdown based on past datapoints.

What has the impact been from inflation on the returns of gold and equities? We looked back at the period from 1928 – 2020, examining the relative performance of gold vs equities during the five years with highest inflation. As you can see, on average gold outperformed equities by 8x:

S&P 500 P/E (Trailing EPS) 1970-2021

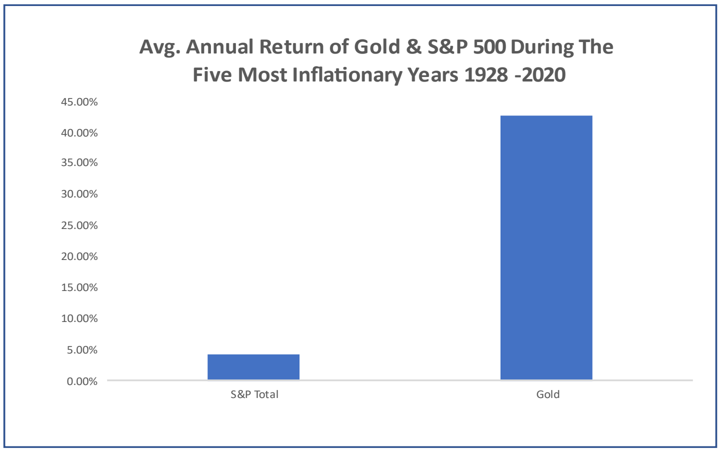


Source: St. Joseph Partners, Palos Harbor Estimates, SMU Alts

A 7% yield on the 10 yr. seems unthinkable now but as we have seen in every example of sovereign indebtedness since ancient Greece, at some moment in time markets stop trusting government printing presses and inflation rises materially. Consider also that historically bond owners have understandably required positive real yields on bonds, or else why bother to extend the credit? If inflation were to rise to prior peak levels, a possibility that mathematically is not unthinkable in light of the sheer size of the money supply growth, the market correction could move back below a 10x P/E multiple where it began the prior cycle.

In the US where inflation is officially now at a multi-year high 7%, the real yield (interest payment to investors minus the inflation rate) is negative 5%. This means that even when one factors in coupon payments investors receive from bonds, bond owners are still losing 5% of their money net of inflation for the “privilege” of lending their money to maturity.

This level of negative real yields edges out prior negative yield extremes in America, perhaps again to be expected as the amount of distorting money printing has never been greater in the US. History shows such negative yields can be coincident with the start of dramatic gold moves higher. Thematically this may occur as bond owners who previously invested in bonds for safety first and income second, see neither of those attributes as assured in the future of fixed income investments.



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Hey Jerome, Who's Your Daddy?

But The Fed's job is to fight inflation many say. The Fed has our backs … There is no chance inflation will return to America as we experienced in the 1970's, Fed-believers continue.

To which we would ask if readers think the Fed's behavior over the last decade demonstrates any support for such a view? Forget about what is in print about the "Fed mandate" or what the Fed says with its talking points. What about the Fed's actions? Do the Fed's actions align with the notion it exists to help the working class … rather than stock market investors? Recall in 2009, Bernanke promised not only was old-fashioned money printing that he dubbed "quantitative easing" soon to end, but that the Fed's balance sheet was about to be right sized to pre-2008 levels. More than ten years later, the public has simply forgotten broken promise after broken promise to do that, year after year. Throughout 2021 and already this year we have seen the Fed choose to ignore clear evidence that the purchasing power of Americans is under siege. No longer can disingenuous changes as to how inflation is calculated, consistently lowering reported inflation be masked. With labor shortages everywhere, with inflation at multi-decade highs and with markets at valuations previously unforeseen, no one could have argued against raising rates or withdrawing liquidity was in the best interests of American workers. These workers have far more cash exposure than market exposure. Yet the Fed did nothing.

Why? On a practical level the Fed knows that as it raises rates there will be negative consequences for the market. It has tried to transition from QE to QT already and not been able to do so without triggering market selloffs. The Fed also is very aware that simply stopping the increase in money supply growth, let alone shrinking the amount of government money in the markets, will create extreme pressure on the markets.

If the Fed really was interested in protecting Americans and the currency rather than the markets and its affluent, why wouldn't the Fed have done the right thing long ago?

And why would the Fed have disingenuously claimed 13 times in their meeting last month that Fed members didn't know the answers to basic questions or had not discussed basic principles that are covered in any decent econ 101 class? Clearly Fed speakers did not want to be transparent with their conflict that likely dates back to the roots of the Fed's origins.

While beyond the scope of this paper to go into detail about the battle over the existence of central bank in this country, all investors should realize the high points of this critical history.

The founders of America specified in the Constitution of The United States that gold and silver would be the only legal currency of this country. The brilliance of such a structure, notably different than the gold standard, was architected to insure financial protection for the working class of our nation. This framework, reinforced in 1802 when it became law that anyone who tried to change this structure "shall suffer death," was a fundamental catalyst to the rise of the American middle class. Americans should also be aware that the brilliance of such a structure lasted for over 150 years until Lyndon Johnson destroyed this protection. LBJ surely knew that he was lying to the American people as the ignorance he claimed was far too grand to be believed.

These constitutional benefits protecting the American worker however curtailed the ability of big banks to make even more money than they had been despite being the undisputed aristocrats of the day. This infuriating constraint led bankers to collaborate as to how they could destroy these financial restraints for their own self-interests. Leaders from these banking giants gathered together, shrouded in secrecy, and in 1910 detailed their plan to push for the creation of a "federal reserve bank". This entity would be neither federal, a reserve, or a bank but would be an entity that from its origin was owned and controlled by these banking titans for the benefit of these banks and not the nation.

The banking moguls persuaded friends in Congress to advance their cause but when it came time for a vote on the creation of a central bank that specifically went against the tenants of the founders, the vote was shot down. The public rallied against such an entity. Unwilling to accept public desire for restraint on their banking empires, the financial moguls were able to persuade their congressional contacts to push for the creation of this entity once again. Only the next time the proposition was under different auspices such that the public did not realize the sponsors of the legislature were simply pushing for the same central bank that taxpayers clearly did not desire. The bankers pushed to hold the vote late on Christmas Eve. In that pre-flight era numerous politicians who had accurately perceived the deceit in the original legislation were absent as the holy day began and in their absence the bill passed.

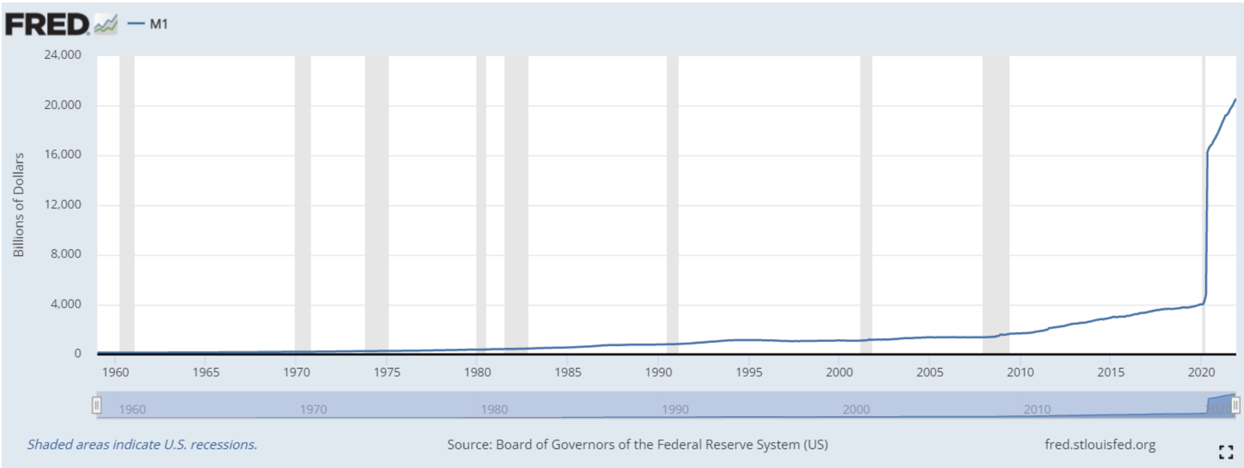
The impact? Consider that from the passage of the Constitution in 1787 until the Fed was created, the US dollar had retained virtually 100% of its purchasing power, protecting the wealth and welfare of American citizens. In contrast since the creation of the Fed as a central bank a century ago, the dollar has lost 98% of its purchasing power. The relative wealth of banking's elite however surged.

In light of that history, the Fed's inexplicable refusal to see the obvious and implement the necessary solutions over the last decade … suddenly become more understandable. Broken promise after broken promise to the American people while the Fed protected the markets. Perhaps just as one may expect the Fed to do in light of its lineage?

Having stepped through that history consider anew that today Americans still hold large allocations of cash within their portfolios. Americans who see their money market funds always innocuously priced at $1.00 fall prey to the notion that paper cash is "safe money." Workers forget that the purchasing power of that $1.00 is eroding at an accelerating rate in today's environment. Investors who have 100% dollar allocations or close to 100% dollar allocations rather than a mix of gold and dollars for the safe-money portion of their portfolios may want to remember former Fed Chairman Bernanke's sobering words:

"*By increasing the number of U.S. dollars in circulation … the U.S. government [will] reduce the value of a dollar in terms of goods and services …U.S. dollars have value only to the extent that they are strictly limited in supply*."

In light of that quote here is an updated snapshot of the US money supply that continues to grow double digits annually as we commence 2022:



… So, Mr. Chairman if dollars only have value when their supply is limited, what does this chart suggest the Fed should tell American investors about large exposure to bank deposits and money markets? And why don't you express that guidance Mr. Chairman?

In closing out this topic of the Fed and its failure to protect American workers, recall a quote that former chairman Alan Greenspan surely wishes he had never made in public but should be considered by all investors as they allocate their portfolios today:

"Gold is a currency. It is still, by all evidence, a premier currency, where no fiat currency, including the dollar, can match it."

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The Best Little Wirehouse In New York

Per the charts, data and history above, gold's ability to preserve wealth relative to cash and money markets has been noteworthy. In our opinion this is the number one reason to own gold – preservation of capital. And while that goal, protecting what one has earned throughout a lifetime, may not be the #1 goal for younger and more aggressive investors, it should be seen as critical for older investors and for wealthy investors who would dread having to rebuild their wealth.

Specifically since gold began freely trading in the US fifty years ago it has appreciated at 7% annually. Since the turn of the millennium that number has risen to 8% per annum. Those are respectable returns for what functions primarily as a defensive asset that has never gone to zero, never defaulted, and does not carry any liabilities.

Remarkably however the nation's largest wirehouses who represent millions of American clients discourage their advisors from fully disclosing the merits of having physical gold in portfolios. Despite rhetoric from c-suite management to the contrary, the reality is apparent in defacto 0% physical gold allocations among wirehouse clients.

Consider the following data which makes the case for owning gold even more astounding and wirehouse guidance towards 0% physical gold even more bewildering if wirehouses truly put client's interests first.

Looking back over the last fifty years from 1972-2021, essentially the entire period in which gold has freely traded in America, the frequently cited US portfolio of 60% stocks and 40% bonds compounded at 10.3%.

If one were to add just a minimal 5% gold to the portfolio, adjusting the other positions so that 60% was still allocated to equities, and the bond position was reduced to 35%, the average annual return would have increased by 6.7% from 10.3% to 10.7%.

If one's allocation had been 60% stocks, 20% bonds and 20% gold, the average annual return increased again from 10.3% for the model paper portfolio return to 11.0% with the more material gold allocation. And although we would consider standard deviation a poor measure of risk, it is the metric most widely used by financial advisors. The portfolio with 20% gold exposure not only returned 10% more than the 60/40 portfolio annually over the last fifty years, but it did so with less risk as measured by financial advisors.

Do you think most wirehouse clients have any idea that returns have historically increased and risk has been reduced with allocations to physical gold?

Here is a snapshot of gold's impact on portfolios during its first fifty years of trading freely in America:

1972-2021 (50 Years)	60% Stocks	60% Stocks, 20% Bonds	55% Stocks, 25% Bonds	60% Stocks, 30% Bonds	65% Stocks, 30% Bonds
	40% Bonds	20% Gold	20% Gold	10% Gold	5% Gold
Arithmetic Average	10.3%	11.0%	10.7%	10.6%	10.7%
Standard Deviation	10.8%	10.5%	9.9%	10.2%	11.1%
CAGR	10.0%	10.7%	10.5%	10.4%	10.4%
Sharpe Ratio	0.54	0.62	0.64	0.60	0.57

Finance is supposed to be about track records but when it comes to gold, the nation's wirehouses spew indefensible double speak. To the credit of wirehouse brokers, many advisors are speaking the truth to their clients and directing investors to simply get gold elsewhere. We hear from a notable number of advisors that they agree – the position of the wirehouses to have zero percent physical gold allocations is simply indefensible if not negligent in this environment. GLD and other paper-gold solutions historically have not afforded the same security or counter party diversification.

Beyond negligence wirehouse advisors felt betrayed when one of the nation's oldest and largest New York firms paid millions to settle a class action lawsuit regarding wirehouse deception surrounding client gold offerings. The class action lawsuit against the national New York firm alleged the wirehouse sold clients gold, reported the gold on client statements as if the gold were there, charged clients for the gold, but the wirehouse never actually bought gold for its clients. This reprehensible behavior was not an isolated incident with just one of the nation's largest wirehouses as another was sued in a similar manner for also charging clients fees on gold it had never bought.

Increasingly wirehouse advisors are pushing back on the maniacal control firms look to have over their lives and over client guidance. More than one advisor has compared their state to that of doctors who are pushed to prescribe treatments that may be financially lucrative for their hospitals but not in the best interests of patients. Let's delve into the data one last time to understand what many financial advisors are now realizing and why independent financial advisors who have the flexibility to recommend what they feel is best for clients have chosen to collaborate.

Let's consider how gold has done over the last ten years. The answer is that the metal has significantly underperformed stocks. Over the last ten years from 2012-2021 gold has returned 2.5% annually while stocks have returned a stunning 17.2%. The catalyst for stocks' unequaled run during the period is again QE as the government printed a record-smashing amount of money, pushing rates to an all-time low in financial history and distorting asset prices to the most extreme levels observed in America. Consider:

- 15% of the equity markets as measured by the S&P 500 index at year-end traded at price to sales multiples of 10x or higher. This is three times the level observed at the peak of the .com bubble. *(Think about that – 2021 asset prices were three times the prior bubble peak? Do investors realize the prior valuation peak that looks so trivial compared to today led to a 70% correction in the Nasdaq?)*

- Following last year's record 20% rise in average prices, homes in the U.S. are at the richest multiple of family income ever witnessed, even loftier than observed prior to the bursting of the housing bubble in '06-'08.

- And of course, as it relates to the most important market given its sheer size and role in pricing other asset classes, as stated above bonds have never traded at negative yields like they have in this cycle because of the magnitude of money printing thrown at markets.

In this environment when no insurance has been necessary, diversification has morphed from the bedrock of portfolio construction to an artifact of yesteryear when assets actually traded down as well as up and reacted to risk.

Remarkably however despite this anomalous period that was so negative for gold in comparison to other assets, consider how gold exposure during these ten years has *not* impacted portfolios. Investors who had 60% equities and 40% bonds returned an average of 11.2% over the last decade. If investors held the aforementioned 60% equities, 20% bonds and 20% gold over the decade, investors average annual return would have still been 11.2%. Consider the same detail, again looking specifically now at the last ten years of market returns:

2012-2021 (10 Years)	60% Stocks 40% Bonds	60% Stocks, 20% Bonds 20% Gold	55% Stocks, 25% Bonds 20% Gold	60% Stocks, 30% Bonds 10% Gold	65% Stocks, 30% Bonds 5% Gold
Arithmetic Average	11.2%	11.2%	10.5%	11.2%	11.9%
Standard Deviation	7.4%	8.3%	7.9%	7.8%	8.1%
CAGR	11.0%	10.9%	10.2%	11.0%	11.7%
Sharpe Ratio	1.44	1.29	1.27	0.98	1.41

Have large advisory firms discussed with their clients that even in such an environment as the last ten years which have been completely dominated by QE, that a material allocation to gold has not hurt traditional portfolios? And that with gold allocations investors have far better diversified their wealth? If not, how can these wirehouses claim they are acting in clients' best interests?

Obviously if the next years is a repeat of the last ten years, stocks will be the only place to be. The question for investors however is if they want to wager 100% of their wealth that the Fed will be able to bubblegum markets together for ten more years.

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What If The Next Ten Years Are Different Than The Last? Are You Ready?

What if looking forward, the next ten years play out with a different script however? Per the data above we see that if markets continue to disregard all types of concerns and gold underperforms, a portfolio with gold may still perform in line with paper-only portfolios.

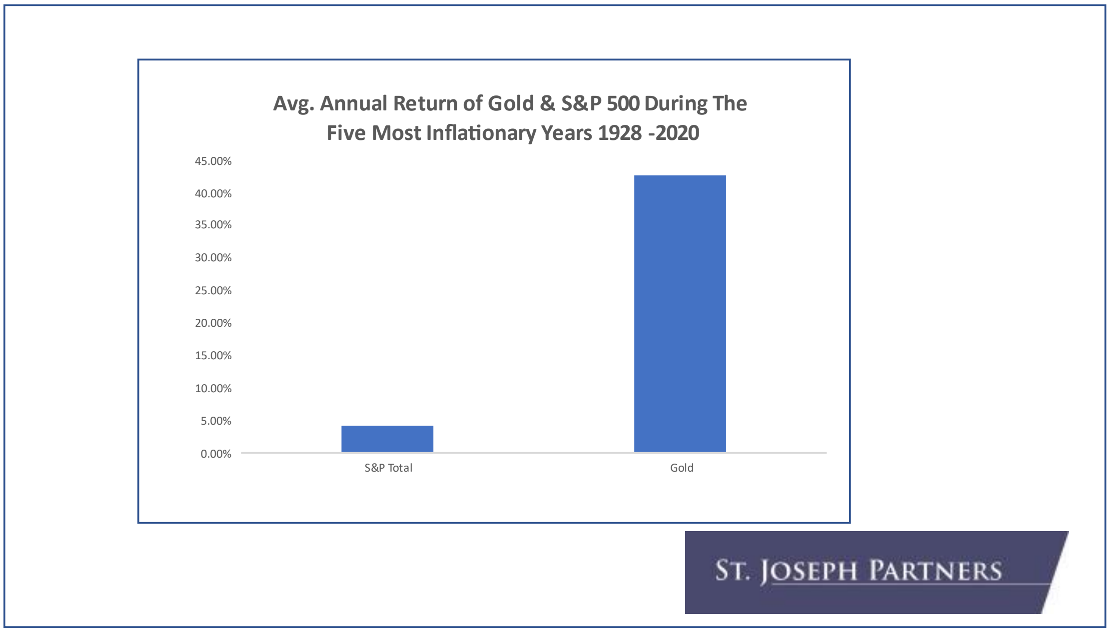
But what if inflation proves more problematic than Fed heads and Wall Street economists are suggesting? After all, we have yet to find a case in history where a country that could not repay its debts saw the purchasing power of its currency recover. In every case that we have seen, such overly indebted currencies are a precursor to dramatic inflation. What does the performance of the various assets look like when inflation is high?

Consider the ten-year period from 1972-1981. This period is notable as it is the only ten-year period we have where inflation was high while gold traded freely in America. During that time, a portfolio of 60% stocks, 20% bonds and 20% gold returned 12.4% annually. In contrast a portfolio of 60% stocks and 40% bonds returned only 6.4%.

During years of inflation, having a 20% allocation to gold nearly doubled investors returns vs. having only the traditional paper portfolio. Consider the details:

1972-1981 (10 Years)	60% Stocks 40% Bonds	60% Stocks, 20% Bonds 20% Gold	55% Stocks, 25% Bonds 20% Gold	50% Stocks, 40% Bonds 10% Gold	45% Stocks, 45% Bonds 10% Gold
Arithmetic Average	6.4%	12.4%	12.2%	8.9%	8.7%
Standard Deviation	12.8%	13.4%	12.7%	10.1%	9.2%
CAGR	6.4%	13.1%	12.9%	9.5%	9.3%
Sharpe Ratio	-0.10	0.34	0.35	0.12	0.10

Economists belittle the idea that moving forward inflation will would ever be worse that what we saw in the 1970's. But what if again the consensus is wrong and stoked by the unprecedented money printing and debts we have seen in recent years, inflation returns to even just the higher bounds of what we have seen in the past? We looked at returns vs. inflation spanning from 1928 – 2020. Consider the returns of gold vs. equities during the five most inflationary years of that period:



During the most inflationary years, gold returned 8x vs. equities.

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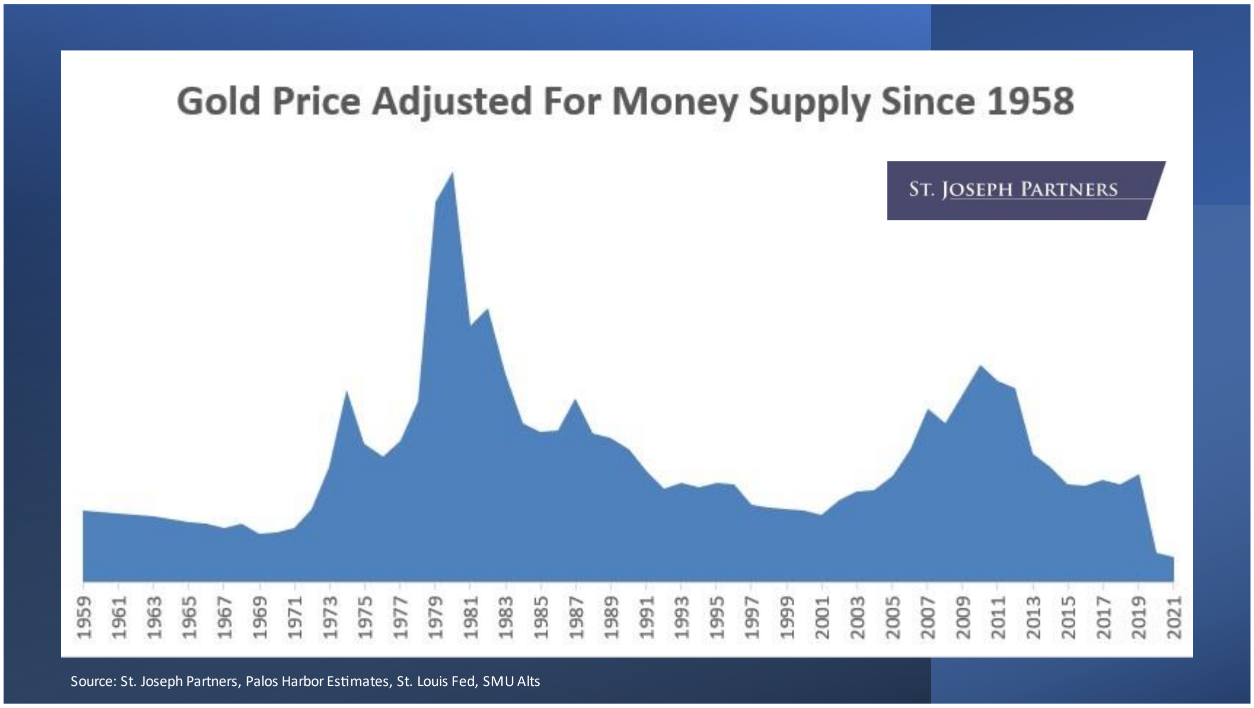
Has Gold Ever Been Cheaper?

While the nominal price of gold (i.e., not adjusted for inflation or any other metric) may be within 15% of its all-time highs, we suggest the price of gold should not be looked at in such a vacuum. After all, if the standard gold is being compared against, namely the US dollar, is changing dramatically, why wouldn't investors expect the relative value of gold when valued in dollars to change as well?

Here is a snapshot of the price of gold adjusted for the money supply since 1958. By year end 2021, gold's price was at a 60+ year low when considered against this benchmark.



Source: St. Joseph Partners, Palos Harbor Estimates, St. Louis Fed, SMU Alts

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Lessons Young Traders & Algos May Soon Learn (More to Finance than FOMO)

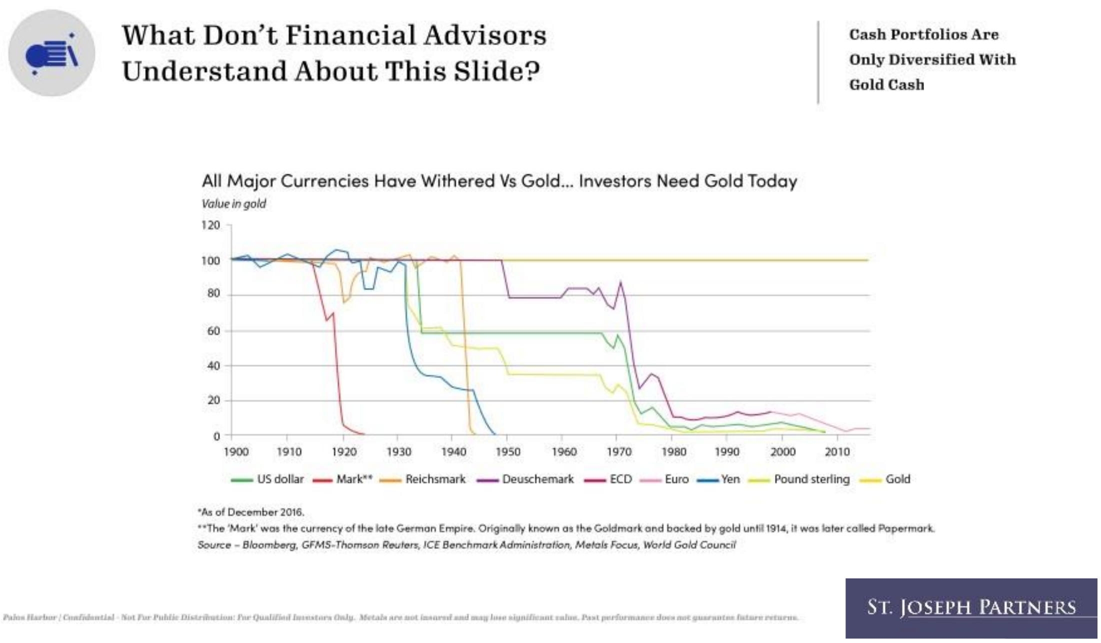
The consensus on Wall Street is that rising rates are bad for gold. The thought is that as rates rise, the "cost of carry" of gold becomes more burdensome for gold owners. The thinking is that because gold doesn't pay any interest or dividends gold owners are missing out on more yield.

In contrast to the views of these traders who have mostly never experienced inflation, history suggests with real yields near all-time negative levels, this is an attractive moment for gold. While young traders focus on 0.25% rises in rates, such a higher coupon payment do not come close to covering the inflation rate. So in terms of bottom-line purchasing power bond holders are still destroying wealth by holding bonds. In contrast as highlighted above, gold has historically done well in periods of strong inflation.

Additionally think about the argument that gold doesn't yield anything that so many critics focus on. Did they ever stop to consider as a cash substitute, your dollars don't yield anything either? Only when you lend out your dollars to others in a money market fund, or to your bank do paper currency holders yield anything.

Neither dollars or gold inherently yield anything.

Far more important than yields however is the understanding that when it comes to safe-money allocations, FOMO (Fear Of Missing Out) can be devastating while nothing is more important that asset security when it comes to the defense of your wealth. Consider how gold has done vs. the world's major paper currencies over the last 50 years including the dollar:



As one can see through history, when governments print money that is not backed by anything, over time the value of paper currencies becomes like monopoly money. In light of the above is it worth the risk of having too high a concentration of cash for a little yield? Or does it make sense to diversify one's safe asset portfolio from all cash to cash and some gold?

The most important tenant of portfolio construction for wealth preservation is diversification. And while investors may feel well diversified because they own 20 different stocks and several private equity investments, historically in bear markets over ¾ of stocks decline in value. So the real question is what can diversify the stocks you feel most strongly about owning during potential bear markets if simply adding more stocks or more private equity really doesn't do the job?

Here is data from when gold first began trading freely. What you see is that gold has a negative correlation to stocks bonds and real estate. This means that when those assets trade lower gold has historically moved in an opposite direction. That is a valuable attribute for an asset to bring to a portfolio. We challenge you to find another liquid asset that has such a demonstrated record of wealth preservation and can offer this inverse correlation to those three widely held asset classes.

We ask again - How can wirehouses who have steered their clients to 0% allocations never even discuss this with clients?

CORRELATIONS SINCE GOLD BEGAN FREELY TRADING[11]

1972-2020 Correlations	Stocks	Bonds	Gold	REITs
Stocks	1.00	0.01	-0.20	0.57
Bonds		1.00	-0.14	0.06
Gold			1.00	-0.17
REITs			-0.17	1.00

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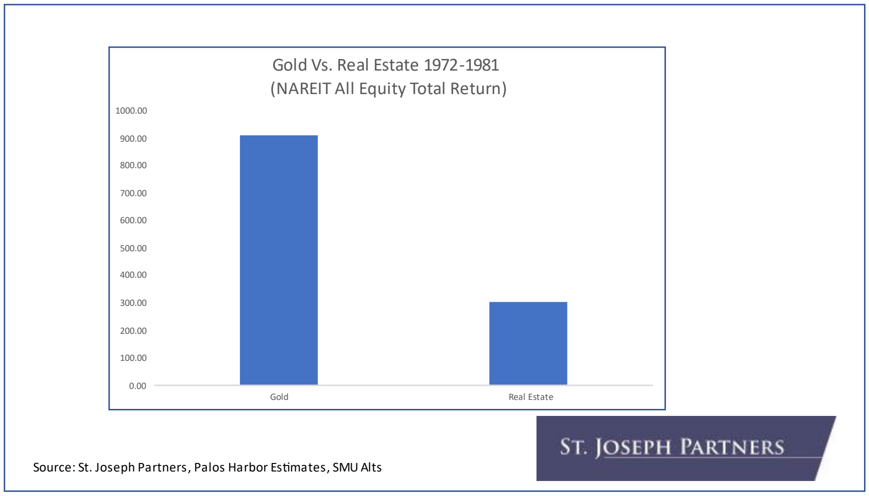
Real Estate Vs. Gold … Is Gold Like Raw Land?

Many question us as to why investors would want gold as an expression of real assets when one can own productive real estate. After all they reason, real estate also diversifies counter party risk (i.e., real estate when owned directly is wealth held outside of your brokerage account, giving investors beneficial diversification from risk of a brokerage default.) Consider:

1) Direct owned gold is liquid, trading around the clock globally. Gold also trades more in daily dollar value that the Dow Jones. Real estate is not nearly as liquid.

2) Gold does not have any maintenance costs.
3) Gold's cost of storage and insurance in less than real estate taxes and the gap is widening in gold's favor
4) As inflation rises and rates presumably rise with inflation, the pool of potential real estate buyers contract as mortgage costs increase. Historically as inflation rises the pool of gold buyers increases.
5) Real Estate is correlated to equities and fixed income, providing less diversification than gold which is inversely correlated to those assets.
6) Investors can't take their real estate with them if they want to change location while gold is portable wealth.
7) Real Estate has been a spectacular beneficiary of trillions in QE, artificially elevating real estate prices and making the asset more expensive to buy now. This also makes real estate more susceptible to a material correction than gold which has returned less in a QE environment than it likely would have in a free market. As a result of QE, gold in contrast appears to be artificially cheap today.
8) Gold's returns during the most inflationary period in modern history notably outperformed real estate returns. Consider the ten year returns of gold vs real estate as measured by the NAREIT All Equity Total Return Index. Gold outperformed real estate by 3x despite being a defensive monetary asset first and foremost:



Perhaps another viewpoint may be helpful to real estate focused investors as well. As one of the nation's most prominent real estate professionals expressed to us before investing in gold for the first time in his storied career, gold is like raw land. It has some carrying costs, but you want to own some because the data is unequivocal – prices of both have a high probability of rising. Then at some point in the future you can monetize either and convert your wealth into any asset you choose.

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If A Broker Asks If You Want To Own Gold Or If You Want To Own Crypto Instead, Ask If He Owns A Car Or If He Owns A Home Instead

So many investors have been presented with the carefully framed question by brokers if they want to own gold or crypto. Our sense is that with crypto captivating the attention of the public, brokers expect investors to accept their "one or the other" proposition and simply choose crypto. This seems to have the effect of disarming any interest in gold as many investors leave such a conversation saying 'I chose to invest in crypto instead of gold'.

The reality is that there isn't any reason why an investor could not own both as the two assets are very different. First and foremost, despite the moniker of "cryptocurrency" we submit crypto is not a currency but it is a risk asset like a stock. An investor may do extremely well in crypto but there is risk of total loss as well, just as with a stock. In contrast gold has been the benchmark over time in preserving wealth and gold has never traded to zero.

It certainly was a conscious decision of bitcoin promoters to create an image of bitcoin as a gold coin even though bitcoin is not a coin, is not backed by anything physical and does not have any claim to gold. That marketing choice by bitcoin also speaks to what is still the standard of currencies – an easily recognizable gold coin. Without question, early adopters of bitcoin were reading from the same sheet of music as gold investors – they sought an asset that would protect them from government policy errors including inflation through unsustainable money printing.

Today however the crypto landscape seems dominated by traders who are understandably seeking a new market to invest in that offers the allure of significant upside. We sense many crypto traders may be in denial about its risks. Our suggestion is to be sure within your allocation you compartmentalize crypto correctly. Be clear you are allocating to a highly volatile risk asset with a wide variety of potential outcomes. Evidence that crypto is owned by traders looking to move in and out of positions rather than allocating to it as a true currency can be seen when risk asset such as equities surge in markets, generally the crypto space has been as well. In contrast gold which is a defensive asset first, does not necessarily participate when investors are reaching for the biggest opportunities. In contrast when equity markets and other risk assets are trading off aggressively, gold historically outperforms.

Perhaps a better comparison for American investors regarding bitcoin is not gold but Facebook. There is little stopping some talented youngsters from coming up with a platform that would be an innovative leap over Facebook. Even today few would object that there are numerous platforms in the market that offer better technology than Facebook but Facebook is worth dramatically more simply because of its network of users. The larger the network, the more valuable the organization. Like Facebook there is not any intrinsic value in the string of characters that represents a bitcoin. However, with estimates that bitcoin has 100 million users, as that network continues to grow so does the likelihood it will continue as an asset owned by some investors. The size of the network is what makes Facebook with its inferior technology in comparison to numerous smaller social media platforms more valuable.

Gold is obviously different because it is a rare tangible asset than investors of any wealth or sophistication can see and touch. Americans underestimate the power and scope of gold's network. Consider the world's nations own over $1 trillion in gold as currency reserves, so it would be an understatement to say those nations who are the most powerful in the world have a vested interest in gold's utility moving forward. In Asia gold is so deeply ingrained as the premier currency not only is it widely owned among individuals but consider the word for money in Chinese and the word for money in Japanese:

金钱　　　　お金

The character that is common to both languages is the word for gold in those cultures. Gold is synonymous with money, just as it was in America during our nation's ascent from rebel pikers to world leader. Gold's network of current and aspiring users numbers the billions. Affecting our perception as to the centrality of gold and its acceptance in a global network is gold's negligible market share in the United States today. And while many brokers describe gold as a useless commodity, we would argue it may have more utility than any other. Why? Bartering is trading among commodities – Gold is payment par excellence for anything. Whether you sell oil, cattle, grain or sugar, the seller will accept gold. But a cattle owner only wants so much oil before he doesn't want to barter his herd for any more oil that he doesn't need. But the herdsman will take all the gold you have as payment for his food. Gold is money and unlike crypto, it is a true currency.

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What If Tomorrow, Supply Chain Problems Disappear & inflation Goes To Zero?

If the aforementioned pipe dream occurred with inflation plummeting to zero and supply chain reverting to peak efficiency, consider the position of the investor with fiat paper cash as his only safe allocation vs. the investor who has both paper cash and physical gold.

Realize that should this occur, we are not aware of precedent where the purchasing power of the dollar will revert back to what it was before the massive policy error of QE. Even if inflation goes to zero, that does not mean your purchasing power will be restored to what it was. Your purchasing power in dollars just won't deteriorate any further if such a theoretically perfect environment ever emerged.

In comparison the investor who has held gold as safe money diversification has already had his purchasing power protected given gold's dramatic appreciation vs the dollar and all other fiat currencies. So on a relative basis the gold investor has been far better off looking backwards, but what about moving forward?

As long as central banker policy errors disappear and the money supply holds stable, then an investor with all cash theoretically will fare as well but not better than the investor who has some gold.

But how long do you think the world can go without government policy errors?

So the tradeoff becomes: hope, hope, hope that supply chain is fixed, hope that wisdom comes to government and that policy errors become an historical artifact… then if all of that hope occurs, only then will investors be indifferent to not owning any gold.

Or more realistically, investors may want to simply accept that human nature is unchanging, history's lessons remain useful and owning *some* gold may be opportunistic. In this case as has been the case throughout our nation's history, you will likely be pleased you diversified your paper cash into part gold-cash as investors have been through the years.

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Why Do I Need Diversification From The Financial System? We Have A Quadrillion Reasons For Your Consideration & Submit Exhibit A – Prime Minister Trudeau

Sophisticated institutions never rely on one financial counterparty no matter how invincible the financial broker / vendor / exchange may appear. Why? History is replete with examples as to why that is a naïve view as things can go awry. This becomes more complicated when the entire financial system may call for diversification from its' boundaries. What would make an investor think that is warranted? Consider that derivatives, leveraged claims on financial assets, now number into the quadrillions of dollars. Don't let anyone tell you all derivative issues are siloed. No one knows what will burst but at some point something of that scale will have problems. Recall the Fed told America not to worry about the crisis in 2008 because it was ring-fenced. That could not have been more wrong. It is in your best interests to be ready for the unexpected.

In recent years a new type of risk to the financial system has resurfaced that Americans may not have seen since FDR stole his citizens' money. While the US has weaponized the dollar as sole reserve currency against nations that did not cooperate, now we are seeing nations weaponize the financial system against their own citizens to force control on them. In Europe this became an issue in 2013 when under EU law, banks confiscated the savings of depositors claiming customer savings were needed by others. In early February we saw this manifest again as TD Bank locked funds it was holding for Canadian citizens when ordered to do so by Prime Minister Trudeau. One only has to experience government taking your money one day in life to believe it is wise to have some assets outside of the financial system. Obviously this is yet another tremendous attribute of physical gold that financial assets simply cannot replicate.

Americans should know too that protecting wealth away from the financial system extends to saving valuables in bank safe deposit boxes. From Beverly Hills to New Jersey citizens have had their life's savings seized by banks out of customer safe deposit boxes. To its credit JP Morgan sent a letter to its customers warning them not to store gold or other valuables in their safe deposit box network. JPM nobly guided its clients to choose other insured options to safeguard their valuables.

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Conclusion – What Can Go Wrong With A Once In A Generation Call?

What could make the notion of a once in generational turn in rates prove premature?

In all likelihood the Fed is going to reverse course from the talk tough posture it is displaying in early 2022. We have seen the Fed's glaring inability to transition from words to action without tanking markets at which time the Fed recoils with an about face.

Merely letting past asset purchases run off without replacing the liquidity will prove challenging for markets. Raising rates at the same time is likely to trigger a notable correction. When markets inevitably correct, how much QE will be issued to prop values up? Whatever the number, there is the distinct possibility that the next flood of money may push bonds to even more negative levels than we saw during the shutdown and we may be early in our call for a generational turn.

But the possibility also exists we have seen the markets at their most extreme. History is clear that at some point paper money will be remembered as useless and the Fed's power will then be taken away by the markets. Notably over the last five years through year end 2021 while we have seen a 5x increase in money supply and markets touched new highs, gold is still up 58% in a lackluster metals environment. At the same time the purchasing power of the dollar has declined meaningfully.

Which is to say even if a potential new tsunami of money printing is released to support markets, we may not see record negative yields. *But whether rates bottomed during the lockdown or if they bottom around a future rendition of QE, in either scenario we believe the benefits of being ready far outweigh the risks of being a little early*.

Realize gold's steady performance at this point in the cycle has been true even while caution marked extreme lows and investor complacency measured all-time highs with record retail investments in derivatives.

Obviously this paper is constructed on our opinion. Our views are born from the pain of working at Lehman Brothers in 2008 when management swore to employees everything would be fine despite knowing the LEH's balance sheet was irreparable. The employees who stayed, *hoping* that the inevitable would never occur because we wore the blinders of restricted stock ownership learned the hard way – The laws of finance don't care about hop and are unchanging even though they make take longer to surface than investors expect.

The pain of losing so much to what was clearly avoidable is something we hope to spare investors from rather than going through that we endured. From our vantage Lehman in ’08 has similarities to America in ’22 – hopelessly indebted only its currency was LEH stock whereas America’s is the dollar. And just as Lehman employees could have walked away, investors can so easily today walk away from all fiat cash allocations with their safe money and diversify into gold cash, surely priced below where fair value would be for the metals without QE.

In contrast the bleakness and pain of seeing paper assets go to zero, it was the confidence that risk averse investors can have a far better tomorrow which first led us from Lehman to gold. The story revolved around a North Carolina’s family’s cratering empire as a cyclical downturn appeared likely to leave them penniless. But then unexpectedly the family found some gold coins in a forgotten box, put there on a whim and purchased when they had some money to spare. That drawer of gold coins allowed them to keep hundreds of acres of their estate and generations of their family were blessed with a better tomorrow than they would have been without a reserve of gold coins.

Over the last decade we have also been blessed to work with families from around the world whose small allocations to gold helped them launch memorable endeavors when the world was under stress and they had some gold to trade. Whenever our markets finally crack, be it in 2022 or the years ahead, history says you will be well served to have some gold as we are likely to look back on this era as one of the greatest market bubbles of all time.

For investors over fifty we suggest a 20% gold allocation as a baseline in this environment. Younger investors who are more aggressive may want to allocate more than the defacto 0% as well for if markets are peaking, a little gold may serve you just as it did the aggressive JP Morgan. Morgan opportunistically used his gold in the early 1930’s to emerge as America’s premier name in finance. For Morgan, like investors through the ages, gold became a bridge to transport his capital beyond the fog of so many daunting unknowns. Then when the fog of uncertainty began to lift, giving sight to extraordinary values, gold became the currency that unlike paper assets had preserved Morgan’s wealth and affording him the opportunities of a lifetime.

We welcome the chance to speak with you about customizing a gold and silver solution specific to your circumstances. One that can help protect you and your family from what history says is ahead for paper portfolios. We’ll show you how easy it is to reallocate a portion of your wealth into history’s acknowledged wealth preservation tool.

Investors should know that gold does not carry any guarantees and we cannot guarantee any results in the future. Gold has price risk and what we have expressed is our opinion only. In parting we offer these words that perhaps should be de riguer for every financial writer who offers his opinion to investors, putting you ahead of us:

May God our Father who crafted the blueprints of the universe in His magnificent mind, who sculpted the galaxies in His workroom and hung each star in its place, send His Spirit of Wisdom upon you.

If the words we have expressed in these pages are folly, may He open your eyes to our mistakes and lead you away so that we will not harm you in any way.

But if what we have written is indeed wise, may the Spirit give you peace about this path so as to protect you and your loved ones in the days ahead and secure a far brighter tomorrow for you. We pray this in the name above all names, Jesus.

Haggai 2:8 - ***The silver is mine, and the gold is mine, saith the LORD of [The Armies].***

Revelation 3:18 - ***I counsel thee to buy of me gold refined by fire, that thou mayest become rich.***

Jeremiah 29:11 - ***For I know the plans I have for you," declares the LORD, "plans to prosper you and not to harm you, plans to give you hope and a future."***

{And for the many who will criticize us saying there is no place for God in business we submit the greatest deception of our day is not the covid sham or the border treason. If there is a God, the greatest deception of our day is that we can cast Him and His wisdom out of our nation without consequences. Look where that lie has brought us today since we have ripped His commands from our courts and our classrooms. You want His wisdom to surround your finances, His joy to permeate your family, and His grace to help you transcend the headlines of the day. *Good news is on the horizon America*.}