

Alps Precious Metals Group

Monthly Commentary and Update

August 2017

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More on Cryptocurrencies

“...Digital currencies are nothing but an unfounded fad (or perhaps ‘pyramid scheme’).” – Howard Marks, Chairman of Oaktree Capital Management

“...Bitcoin will be the best performing asset through year-end 2017....” – Tom Lee, Former Chief U.S. Equity Strategist for J.P. Morgan

Much of the time since last month’s update has been spent analyzing Cryptocurrencies. Bitcoin, the current leading name in the sector has had quite a run over the last 30 days, trading as low as \$1800 to the current high north of \$4000. The question the participants in the Precious Metals markets must answer is whether or not Cryptocurrencies have transformed Gold and Silver into the modern day “Horse and Buggy”, aka, the latest victims of creative destruction.

In the June update, we posited several thoughts on the “Cryptos”. Here are three excerpts from those thoughts along with some expanded reflections:

1) The most important lesson the bid for Bitcoin and other cryptocurrencies teaches is that there is MATERIAL demand for stores of labor/wealth and mediums of exchange away from those created and managed by Central Banks/the status quo.

Point “1)”: Our research has completely confirmed the legitimacy of Point “1)”. While the skyrocketing price is undoubtedly a function of speculative fervor, the ground of “finding a way that is outside the status quo to store, protect and use savings/wealth” is the launch pad from which that speculation began.

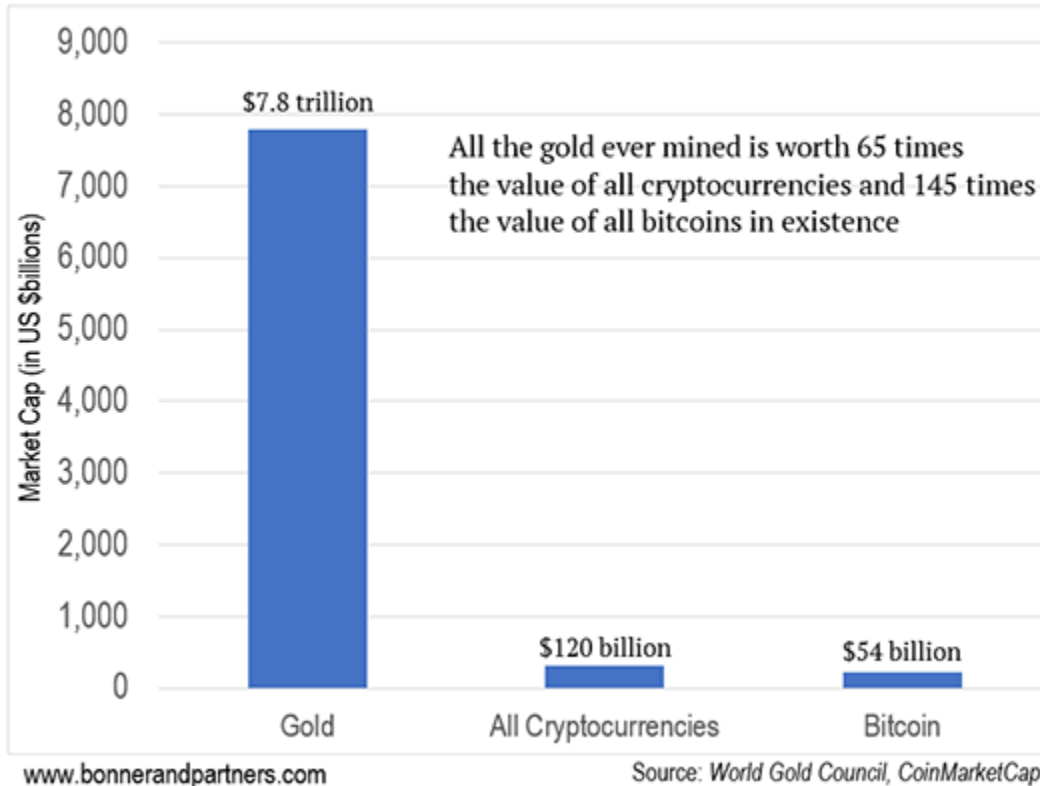
So what is a “cryptocurrency”, aka, “an electronic coin”? At its essence, the answer is “a chain of digital signatures”. These digital signatures verify that labor or savings has been exchanged for value – just as does a paycheck or a brokerage account statement. The good news is, due to the complicated math involved in producing the “coin” or “digital signature”, it is basically impossible for the coin to be counterfeited or compromised. Further, the entire history of all the exchanges of the “Coins” is permanently recorded on the “Blockchain” – which is essentially an electronic ledger - to further impede any attempt to corrupt the system.

Cryptocurrencies have electronic versions of “Dealers” and “Vaults” – two essentials to the Physical Gold and Silver community. “Coinbase” is an example of where one can purchase a cryptocurrency. An “Electronic ‘Wallet”” (of which there are several competing companies) is essentially an electronic “Private Vault” where one’s electronic coins can be stored. Bitcoin, et. al. is just as easy to use as on-line banking transactions; though that ease is a function of the relatively small size of the current user community. The aforementioned complete transaction history will continue to grow; as it does, computing power will need to expand rather dramatically in order for electronic coins to be as easy to use as they are now. Here’s the rub: Bitcoin can currently process 6 transactions per second, while in that same second Visa/Mastercard can process 3000!

Irrespective of the “Miles to go before it sleeps” nature of Cryptocurrencies, the point remains: The current exploding interest/value that electronic Money is enjoying is all a function of distrust of Central Authorities (Banks or Governments) and the demand to find alternative solutions.

What electronic coins do not currently share with Gold is the crucial component for ANY form of medium of exchange/store of labor/store of value, aka, “Money”: Shared, Collective TRUST that the Money in question will be widely or universally accepted by all counterparties. Gold and Silver have a several thousand year track record; Bitcoin’s only has 9 years of existence in the books. However, the more that Cryptocurrencies gain that Trust on a Global basis, the higher the value they will enjoy. And as one can see from the following chart, a GREAT deal of Trust is still to be earned:

Gold vs. the Crypto Market



2) One of the reasons Bitcoin has had such a powerful bid is the (CURRENT!) absence of government/status quo ability to manipulate the alternative currencies.

Point "2"): In spite of the fact that the Coins are subject to the Internet, there is not an ultimate, CENTRAL authority which has complete control over the operations of Internet. In fact, the Internet was originally created by "D.A.R.P.A." (Defense Advanced Research Project Agency) in order for the U.S. Military to not lose communications in the event of a nuclear war. The key breakthrough of the work of these researchers was to establish "Dynamic Re-routing" of communications should any part of the Network be completely compromised. The test case for its success was the first Gulf War in 1990. Even though the U.S. military had destroyed most of Iraq's communications network, the Iraqi military and government were able to continue to communicate as a result of the Internet doing exactly what it was designed to do; a decentralized network worked in the midst of devastating war-time damage to a great deal of Iraqi communications infrastructure!

Perhaps one of the main reasons the chart above looks as it does is the fact that Governments and Institutions have a long history of “success” in figuring out how to make a truly decentralizing breakthrough into something that serves their needs. Cryptocurrencies will need TIME to establish the fact that they will be able to maintain the same “relative” independence from manipulation as have Precious Metals. Even Gold and Silver constantly have their true value subjected to all kinds of status quo machinations used to control/suppress their price – futures, options and other forms of “Paper Gold”.

As a matter of fact, the very week that Bitcoin is hitting its all-time highs, look what has come slithering forth from Capitol Hill:

H. R. 3364—51

(7) **ENHANCEMENT OF INTERGOVERNMENTAL COOPERATION.**—A discussion of ways to combat illicit finance by enhancing—

(A) cooperative efforts between and among Federal, State, and local officials, including State regulators, State and local prosecutors, and other law enforcement officials; and

(B) cooperative efforts with and between governments of countries and with and between multinational institutions with expertise in fighting illicit finance, including the Financial Action Task Force and the Egmont Group of Financial Intelligence Units.

(8) **TREND ANALYSIS OF EMERGING ILLICIT FINANCE THREATS.**—A discussion of and data regarding trends in illicit finance, including evolving forms of value transfer such as so-called cryptocurrencies, other methods that are computer, telecommunications, or Internet-based, cyber crime, or any other threats that the Secretary may choose to identify.

(9) **BUDGET PRIORITIES.**—A multiyear budget plan that identifies sufficient resources needed to successfully execute the full range of missions called for in this section.

(10) **TECHNOLOGY ENHANCEMENTS.**—An analysis of current and developing ways to leverage technology to improve the effectiveness of efforts to stop the financing of terrorism and other forms of illicit finance, including better integration of open-source data.

During the time it takes for Cryptocurrencies to establish Trust and immunity from manipulation, expect a material amount of price volatility during the discovery process!

3) Cryptocurrencies' main problem is that the theoretical supply is infinite; it is simply a matter of technological progress to create them efficiently and at will. Physical Precious Metals are rare and difficult to "create" and therefore make sense as store of labor/value.

Point "3)": "Moore's Law" of computing power, along with the tried and true behavior of crowds in Bubbles, are both in play when considering this concern. Each and every day, incredibly brilliant mathematicians and computer scientists push the boundaries of Man's technical prowess. The very brief history of Cryptocurrencies' stratospheric rise has seen innumerable "Me Too" versions of electronic coins explode on the market like toadstools after thunderstorms. This Achilles' Heel of infinite supply is a concern, though the "early returns" seem to indicate that market leaders like Bitcoin and Ethereum are taking the bulk of market share – "Plus ça change, c'est plus la meme chose"!!!

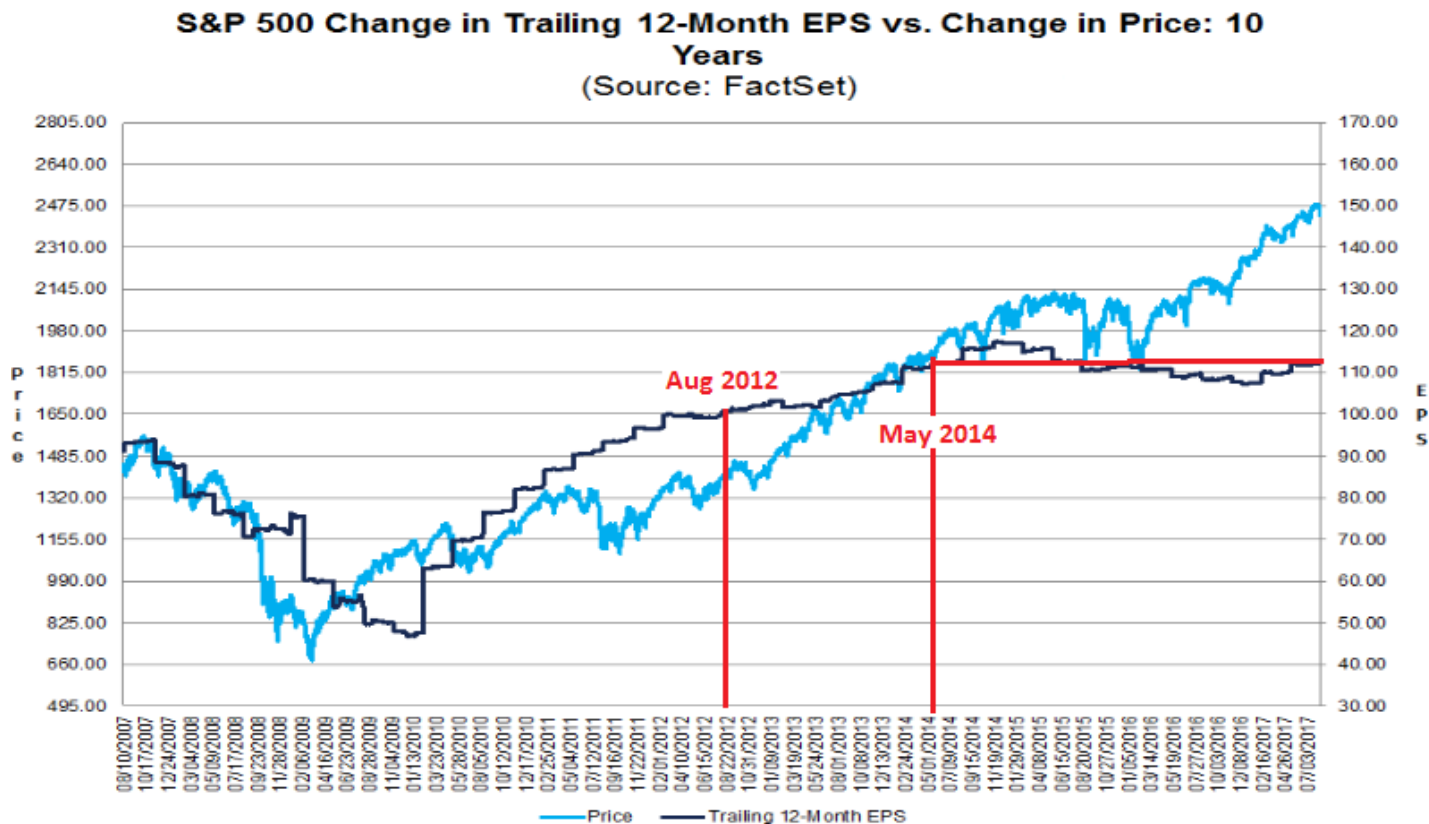
What seems impossible now might be very possible in 5 years; inclusive of the computing power/knowledge to do some very nasty things to what today seems to be an unassailable-to-fraud technology. Additionally, theoretical infinite production of electronic money takes us right back to the hideous condition of "Printing our way out of Problems" that we are enduring right now. The mountains ahead of Cryptocurrencies are considerable.

The thought occurs to us again that we previously proffered. We respect and enjoy the wonders of modern technology; we are able to connect with business associates and friends all over the world instantaneously because of those wonders. Yet, at the same time, the "old paths" still ring true - knowing that we TRULY own something if and only if we can put a "No Trespassing" sign in front of it and fortify that command with force if necessary. If the marriage of Precious Metals and Cryptocurrencies can be enjoined, perhaps a private solution to many of the economic woes engulfing the planet can be found. If one protests that the Internet, which is essential to the whole business, was a Government invention, an answer is readily available. While the U.S. Military was the catalyst to find a solution to communication disruptions in times of devastating war, they turned to private Universities (UCLA, Stanford, UC-Santa Barbara and the University of Utah) to discover the answers.

The status quo won't go away easily and they will fight to the last man to maintain their power. However, private ingenuity along with trusting that "Tangible Assets have intrinsic Value" would suggest that Gold and Silver are NOT horses and buggies and that they will play an essential and SUSTAINABLE role in the upcoming "Grand Reset".

One Market Chart

“...More than three years of earnings stagnation. No growth whatsoever, even for “adjusted” earnings. In fact, on a trailing 12-month basis, aggregate EPS of the S&P 500 companies are down about 5% from their peak in Q4 2014. And yet, over the same three-plus years of total earnings stagnation, the S&P 500 index has soared 34%. This chart shows those “adjusted” earnings per share for the S&P 500 companies (black line) and the S&P 500 index (blue line):

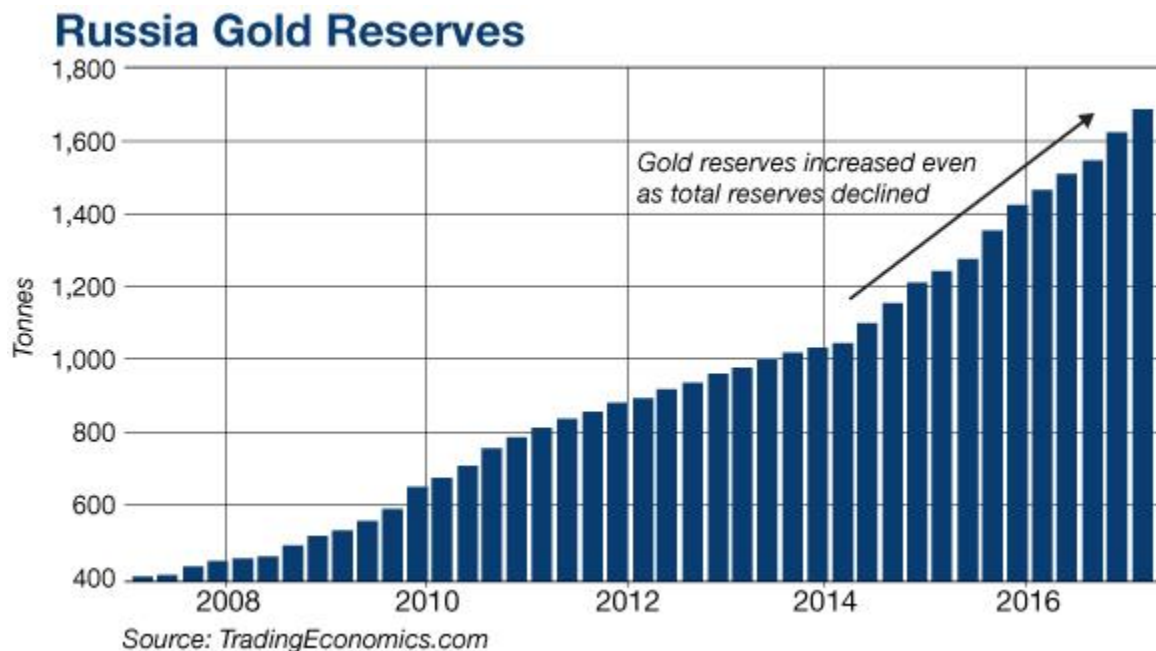


“...these are not earnings under the Generally Accepted Accounting Principles (GAAP). These are the earnings with the bad stuff “adjusted” out of them by management to manipulate earnings into the most favorable light. Since August 2012, the trailing 12-month “adjusted” earnings per share of the companies in the S&P 500 index rose just 12% in total. Over the same five years, the S&P 500 Index soared 72%. Additionally, these EPS are heavily influenced by the share count. Companies have been on a huge borrowing binge over these years, fueled by historically low interest rates, and a big part of that borrowed money was simply used to buy back their own shares. This type of financial engineering lowered the share count, and thus artificially increased earnings per share. Growth in EPS due to financial engineering is fake earnings growth....” Source: Wolfstreet.com

One Gold Chart

The most overriding macro-reality in the Precious Metals markets is the movement of Physical Gold from the leading Western Powers to the BRICS. China gives “fake news” reports as to its total holdings; generally, estimates are that the Chinese government owns 5 times what it says it does.

Irrespective of what the actual number is, it is large. Look also at the following chart detailing consistent additions to the Russian horde of Physical Gold:



Add to that India’s physical Gold holdings (which are immense) and formidable economic power will be enjoyed by the BRICS if/when Gold resumes its central role as the basis of real money. Complimentary to our comments above, if this tangible wealth is tied to a new cryptocurrency payment system, the power structure in the world may change in a rather dramatic – and rapid – fashion.

Alps and Liechtenstein Precious Metals

Alps Precious Metals Group via our partnership with Liechtenstein Precious Metals Group is dedicated to providing the global standard for the finest and most secure storage and trading of Physical Precious Metals. Our Vault is constructed to the highest security standard in the world ("Class 10") and, via our relationship with Lloyd's of London, insures each client's specie at 100% of its market value. Our trading desk provides liquidity on each and every business day with as little as next day settlement. All of these benefits are enjoyed while simultaneously being freed from the status quo global financial system. Contact us (www.alpspmg.com) to discuss how APM/LPM can become a trusted partner in the creation, protection and utilization of the hard money portion of your portfolio.

James P. Hunter
Managing Partner
Alps Precious Metals Group

Sources for this month's report:

<https://bitcoin.org/bitcoin.pdf>

<https://medium.freecodecamp.org/cryptocurrency-101-7197684775fd>

<http://wolfstreet.com/2017/08/12/stock-market-downturn-warning-sign-multiple-contraction/>