

Alps Precious Metals Group

Monthly Commentary and Update

March 2017

- A) The Fed enjoins the battle
- B) Liechtenstein's legacy - May 1945
- C) The Fine Print
- D) LPM – Late February visit

Here comes the tightening

On Monday, February 27th, Robert Kaplan, President of the Dallas Federal Reserve, declared that a rate increase should happen sooner rather than later and that the Fed desires to “prevent a situation where we fall behind the curve.” Tuesday, February 28th: Fed Presidents Harker of Philadelphia (“3 rate increases in 2017”), Williams of San Francisco (rate increase is “very much on the table for serious consideration” at the March 14-15 meeting; and “right now interest rates are abnormally low”), and finally the “Big Dog”, William Dudley of New York (a Fed tightening has become “a lot more compelling”). Wednesday, March 1st: Lael Brainard, easily the Fed’s most “Dovish” member, turns uber-hawk at a speech at Harvard – “...it will likely be appropriate soon to remove additional accommodation, continuing on a gradual path.....We are going to be in a slightly different kind of posture, I think, going forward....”



As discussed in last month's commentary, the Fed is in fact a political animal, irrespective of its protestations to the contrary. In lockstep with the leadership of Republican and Demolican politicians, the academic status quo and entrenched interests both in Government and the "quasi-private" sector, the Fed disdains the worldview of those who elected Donald Trump – a worldview that believes in dramatically less centralized control of money, that local/self-determined concerns are superior to global/hierarchical-planned concerns. All of the above-listed comments by the Fed Presidents could have been made at any time over the last 4 years; that such phrases were rarely if ever uttered speaks volumes. The battle has begun and the Fed will hold most of the cards, no matter what Trump attempts to do.

While the equity markets this week have rallied on the fuel of Trump's State of the Union speech, Gold and Silver have been slammed (especially today, March 2nd). Continue to expect tightening, even alongside falling equity markets, as hawkish arguments magically find a voice given the new political environment. In the short-run, we expect precious metal prices will be under pressure; long-term, they will gain handsomely as the Fed's new game will result in the loss of confidence in the system, which subsequent easing and other insane "tools" won't be able to rectify this time around. Again, Gold and Silver find their most powerful bids when confidence is lowest and uncertainty is highest, regardless of whether inflation or deflation is the disease of the day.

A history of fortitude

A truism states that events in this gift of life - and likewise in human history – are usually not as simple as black and white, but are better understood in deeper or lighter shades of gray. How many stories from both fiction and non-fiction leave one with a complete sense of utter ambiguity? When considering the events of World War 2, the Nazis were certainly beyond unconscionable. But what about the denizens in power in the USSR? Were the atrocities of Stalin and his armies any less obscene? And what is to be said about those who fought on the German side not because of their love of the Third Reich, but because of the cause of ending the nightmare of Bolshevism/the Soviet state in their home country?

At the end of WW2, the Crown Prince of Liechtenstein was faced with answering these questions. Should he relinquish the Russian Cossack soldiers who had come to his neutral country for asylum, though they had fought on the German side? Or should he stand up to the Soviet Army - which had tanks and crack troops all over Feldkirch, Austria on the literal border of his country – and tell them "No, you shall not have these men who I have promised asylum"?

Needless to say, the USSR versus Liechtenstein would not exactly have been a fair fight. Yet, the Prince stood his ground and would not release the Cossacks to near certain imprisonment, torture or death in custody of the Soviet Army. While he certainly would have been aware of the “political pariah” status the USSR would have gained by mowing over his defenseless country, the Prince nonetheless took a serious risk – this was the army of the USSR and they weren’t used to being given “No” for an answer. (As a side-note – the Prince’s actions were in stark contrast to that of the British and Americans; see “Operation Keelhaul” and the post-script of the Yalta Conference).

A historical marker on the Liechtenstein/Austrian border reads (highlight is mine):

"Here in Hinterschellenberg, on the night of 2 May 1945, the asylum-seeking remainder of the 1st Russian National Army of the German Wehrmacht under Major General A. Holmston-Smyslowsky, with about 500 fully equipped men, crossed the border of the Greater German Reich into Liechtenstein. The first negotiations took place in the "Wirtschaft zum Löwen" tavern, which led to the granting of asylum by the Principality of Liechtenstein. It was the only country which resisted the Soviet Union's extradition demands. After two and a half years, the Russians were free to leave for a country of their choice."

At the very least, one can understand the argument that the Principality of Liechtenstein, though small in stature, enjoys a history of standing by its word even when the “rational” approach would result in action diametrically opposed.

“Noblesse Oblige” is the ancient phrase a friend so aptly used to define what was the likely source of the Prince’s bravery in the face of Soviet tanks and troops. The descendant of the sturdy soul who said “Nyet” to the USSR is the leader of Liechtenstein today. When considering the nature and character of the various and sundry nations around the globe, one would be hard-pressed to find a country (if one exists) which could claim such a heritage. Given the nature of the catalysts which drive the demand for ownership of Precious Metals, an investor in hard money should strongly desire the jurisdiction of his vault to be one that respects and honors private property and keeps its promises to those of honest character who enter its borders, even if only as a guests or visitors. Liechtenstein has the history to back up its claims of being a unique country which can be believed when she gives her word.

The Fine Print

Many are the means in today's financial markets to gain exposure to the risk/reward profile of the asset(s) of one's choice. Precious Metals are no exception and Exchange Traded Funds, "ETF"s, are an example of a mechanism used to garner exposure to Gold and Silver. A fair number of competing funds exist in the market, offering various degrees of ability to convert the paper ETF into the actual underlying specie and take delivery of it. Sprott, Inc. of Canada has created a Gold and Silver ETF – "PHYS" and "PSLV" – which are arguably the best-in-class due to their 100% backing by physical specie. In addition, if one's investment is of material size, delivery of the physical from the ETF to its owner can be had for the asking. If asked for our opinion of the best ETF to buy in the space, we would unhesitatingly answer "the Sprott products".

Yet even a product as impeccable as the Sprott PM ETF has an "Achilles Heel", no matter how miniscule. A recent review of the prospectus of PHYS led us to the following paragraph on Page 44:

Under "Custody of the Trust's Assets":

...However, a Crown corporation may be entitled to immunity if it acts as agent of the Crown rather than in its own right and on its own behalf. Although the Mint has entered into the Precious Metals Storage Agreement on its own behalf and not on behalf of the Crown, a court may determine that, when acting as custodian of the Trust's physical gold bullion, the Mint acted as agent of the Crown, and that the Mint may be entitled to immunity of the Crown. Consequently, a unitholder may not be able to recover for any losses incurred as a result of the Mint's acting as custodian of the Trust's physical gold bullion....

PHYS uses the Royal Canadian Mint ("RCM") for the storage of its physical specie. The RCM is a "Crown Corporation"; therefore, the PHYS prospectus correctly identifies to its shareholders this risk - something could conceivably come to pass where "The Crown" might announce a decree that would leave the RCM with no course of action other than to comply.

Please note that we are in no way shape or form calling into question the soundness of Sprott, Inc. or the fine ETFs they have created; in fact, Sprott would be one of the few investment firms on the planet to which we would entrust our own assets. Further, Sprott's

ETFs are far better in terms of construction and transparency than any other competing ETF of which we're aware – unquestionably, PHYS and PSLV are *infinitely* better products than the current market benchmark ETFs - GLD and SLV (both of which are “paper gold” dominant in their construction). However, the fact is that a small risk remains in the form of the custodian of the ETFs. In nearly all scenarios, the risk is nearly nil; however, Gold and Silver are assets to hold in case the “un”-imaginable occurs. If/when the unimaginable does occur, one will be relieved to know that the Precious Metals held with APM/LPM Group have ZERO risk of being so encumbered.

Update on Alps and Liechtenstein Precious Metals

In February, we enjoyed the pleasure of hosting prospective clients in Liechtenstein for a due diligence review of our facility and management team. We were very pleased with the reaction these seasoned investors experienced. We have several other due diligence visits scheduled for the coming months. We strongly believe that a due diligence site visit - the culminating practice of a thorough investigation of our firm and what we have to offer – will quickly assuage any final questions or concerns. Please let us know if you would like to arrange a tour of our facility and meetings with our team – we are confident that a mutually beneficial business relationship will be the result.

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