Alps Precious Metals Group

Monthly Commentary and Update

March 2018

An Anniversary that is Not What it Seems

March 12, 2009 –

Excerpt from Opening Statement by Rep. Paul Kanjorski (D-PA), Chairman of the House Financial Services Subcommittee:

"We can, however, no longer deny the reality of the pro-cyclical nature of mark-to-market accounting. It has produced numerous unintended consequences, and it has exacerbated the ongoing economic crisis. If the regulators [SEC] and standards setters [FASB] do not act now to improve the standards, ***then the Congress will have no other option than to act itself."***

Comments from Accountants the same day:

"...The House subcommittee was scheduled to hear from a three-man panel of accounting overseers -- James Kroeker of the SEC, Herz of FASB and Kevin Bailey of the Office of the Comptroller of the Currency. And in their prepared testimony, all three spoke of the need for further improvements to the fair value rules, ***while emphasizing that fair value accounting provides critical information to investors that wouldn't be available under competing accounting regimes.***

That view was bolstered by comments made by private sector fair value advocates such as Jeff Mahoney of the Council of Institutional Investors and Cindy Fornelli of the Center for Audit Quality. ***"Investor confidence in the reliability and transparency of financial reporting is critical to our financial system's long-term well being****," said Fornelli in her testimony. "We must pursue only those proposals that do not put that confidence at risk...."*

Outcome?:

Following a two week review period begun on 3/16/09, FASB suspended FASB 157*, which required the banks to use mark to market accounting to value their assets. FASB is supposed to be an independent agency, regulating the accounting standards.* ***Congress, put pressure on FASB to suspend the mark to market accounting in order to prop up the banks. This prevented the banks from admitting they are insolvent.***

"…'My poor countrymen, what monstrous madness is this? Do you believe the foe has sailed away? Do you think that any gifts of the Greeks are free from treachery? Is Ulysses known to be this sort of man? Either enclosed in this frame there lurk Achaeans, or this has been built as an engine of war against our walls, to spy into our homes and come down upon the city from above; or some trickery lurks inside. Men of Troy, trust not the horse…." *(The Aeneid, Book 2 – Virgil)*

Ripley: Any suggestions from you or Mother?

Ash: No. We're still collating.

Ripley: You're what? You're still collating? I find that hard to believe….I've got access to Mother now, and I'll get my own answers, thank you.

Ash: All right. There is an explanation for this, you know.

Ripley: Let me by, Ash. What the hell are you doing? (Ash begins to suffocate Ripley until help arrives in Parker)

*Parker: Get her up! Get her up, get her up! It's an android!...**Ash is a %$#&@%$ robot!***

Ripley: What was your special order?

Ash: You read it. I thought it was clear.

Ripley: What was it?

Ash: Bring back life form, priority one. All other priorities rescinded.

Ripley: The damn company! What about our lives, you S.O.B.?!?

Ash: I repeat, all other priorities are rescinded.

(Excerpt from “Alien”, a film by Ridley Scott, 1979)

COMEX Official: Margin call, gentlemen.

Mortimer Duke: Why you can't expect…..!!!!

COMEX Official: You know the rules; all accounts to be settled at the end of the day's trading, without exception.

Randolph Duke: You know perfectly well we don't have $394 million in cash!!!

COMEX Official: I'm sorry, boys. Put the Duke brothers' seats on the exchange up for sale at once. Seize all assets of Duke and Duke Commodity Brokers, as well as all personal holdings of Randolph and Mortimer Duke.

Randolph Duke: My God, we're ruined!

(Excerpt from "Trading Places", a film by Aaron Russo, 1983)

The greatest wisdom is seeing through appearances. - Atisa (11th Century leader of Buddhism)

Genesis 2:11-12a – "The name of the first (river) is Pison: that is it which compasseth the whole land of Havilah, where there is gold; and the gold of that land is good…"

The process of conducting research over the years has led me to a number of learned and well-written men who are incredibly prolific, insightful and a delight to read. In fact, over a long period of enjoying another's writings, one begins to feel a certain kinship with the author; which oftentimes begets a form of loyalty. As a result, when any of said writers undergo an "on-line attack", one is moved with compassion for the victim, even to the point of coming to his defense if the aggressor is acerbic and unprovoked – which is sadly quite common.

John Hussman is an example of just such a writer. A Stanford PhD and a former professor at the University of Michigan, Dr. Hussman has managed funds that bear his name since the 1990's. He has composed a weekly on-line letter detailing his latest thoughts on the valuation of the markets since August of 2000 – available to anyone for the low, low price of free. Therefore, he allows the world to have complete and total access to everything he's ever written, as well as every report ever issued of the precise details of his performance as a manager; ie, the definition of "transparent" (www.hussmanfunds.com). Hussman has been extremely defensive in his management of the money entrusted to him since the meltdown in 2008 and has paid for it dearly in terms of lost Assets under Management and, far worse, lost reputation – undeserved or not.

Yet all through the past 10 years of underperformance, Dr. Hussman has continued to issue his thoughts and returns for public consumption – and many times, ridicule. A recent "Twitter" exchange was a prime example. Hussman tweeted a chart and brief commentary demonstrating that the equity market has again risen to its all-time widest differential to average expected returns – over 200% or 3 times greater. One Twitter-ite (possessing no such equivalent transparency as does Hussman) took it upon himself to fire off the following unprovoked mortar round – *"You've been bearish since 2010, losing people money during one of the greatest bull markets of all time. Why should we listen to you now?"*

Why indeed should we listen to a man with the courage to consistently state his views, describe in nano-detail the source of his errors, the steps taken to address those errors and unflinchingly display his results, good or bad? Could a possible answer be that we don't know yet whether Hussman will ultimately be vindicated? While the objective of making his clients money has not been achieved over the course of this "bull market", the fact remains that there is no official clock that runs out on any manager. Unless and until a client decides to part ways, thereby stopping the game himself, Hussman and all his fellow managers are still on the field until they decide to hang 'em up.

In earlier editions of our reports, the terms "markets" and "bull markets" have often appeared in quotation marks. The reason to do so is because when one describes a free market, especially a bullish free market, a primary assumption is made; namely, that the participants in the market are risking their own capital in the full knowledge that it is truly at risk of partial or full loss. While one would be hard-pressed to find any market at any time that was truly and completely "free", most markets in Western Civilization have been far closer to free than not.

But the realities of our time do not allow the term “market” to go forth without quotation marks. When Global Central Banks have created credit “ex nihilo” in some whacked-out size like $20 Trillion or so (all of which can be levered), we are no longer dealing with a “market”. We’re dealing with a network of powerful intertwined interests that have “taken over the place” so that the status quo can remain. Whether by accident or on purpose, Mario Draghi lifted the curtain six years ago when he uttered the infamous words of “Whatever it Takes”.

Whatever it takes to ensure that the current players don’t go belly-up and the centers of power hold. Employing “tool kits” (which have absolutely no legal foundation in the black letter of the Fed charter) to buy assets of every shape, size and sector – all carried “at par” thanks to the enlightened seers on the House Financial Services Subcommittee and their compliant minions at the FASB – in order to “curb the volatility in the market” and “allow for a self-sustaining economic recovery”. Bank of Japan “purchases” of Japanese government debt such that the BoJ owns 46% of the entire Japanese bond “market”. A Trojan Horse of truly epic proportion out of which spilled Goldman, Barclays, Mitsubishi, JP Morgan, AIG, Citi, et.al.; institutions which all should have met the fate of Mortimer and Randolph Duke and be completely out-of-power - yet remain unscathed and victorious via the illusion of strength, far-sighted vision and resolve; courtesy of raw fiat alone.

This is not to say this is a conspiracy; the activities of the current Western system are on display for all to see. What is hidden in plain sight to most of the world’s denizens (and a great deal of investors!) is the means by which the plan is maintained – Mark to fantasy accounting, the mechanics of Quantitative easing, and Fed Funds rates below the true inflation rate. All three enable the plan to continue and the “market” to be “one of the greatest bulls ever”. But like “Science Officer Ash” on board the Nostromo, a “normal fellow”, the entire construct is a fraud – irrespective of the 9 years it has been around. It has had one purpose – keep the status quo financial and governmental power structure in place. All other priorities rescinded.

OK, so what does this have to do with Physical Gold and Silver? To get there, I need to mention one other writer – Dr. Ben Hunt of Salient Partners. Ben is the creator and principal author of “Epsilon Theory”, an absolute must-read for all investors, regardless of station. He is also a “born and bred in ‘Bama” compatriot. The presentation/structure of this month’s letter looks quite similar to most of “Epsilon’s”; however, I have mentioned to Ben himself that during my hedge fund days (long before Epsilon was on the scene), I always prefaced my quarterly remarks with quotes and dialogs of various sorts, so I would assert we’ve had the same calling as to report writing! Dr. Hunt has been regularly publishing Epsilon Theory letters since June 2013 (www.epsilontheory.com). Give yourself a treat and education/refresher course by clicking on any of these superb essays.

The thrust of Hunt’s 6/30/2013 essay entitled “How Gold Lost Its Luster” is that Gold is no longer thought of as money nor the ultimate source of wealth, but only as insurance against money and wealth’s true source and protector – Central Banks. In today’s world, Gold’s bid or lack thereof is simply a function of what Dr. Hunt calls “Common Knowledge”; essentially, in the landscape of investment participants, “everyone knows that everyone knows” that Central Banks have the wisdom to control and determine economic and market outcomes. Therefore, "markets" are driven almost solely by Fed policy; ie, "Don't Fight the Fed". My only addition to Hunt's comments are that against only a few dissenters (eg., Andrew Jackson and Austrian economists), the vast majority of investors also share the belief that the Central Bankers are a <u>legitimate and necessary entity</u> of the investment discipline.

Jim Grant is spot-on in his description of what has transpired: "We have replaced the Gold Standard with the PhD Standard". Consistent with our post-Modern zeitgeist, we have traded the wisdom of old for the cockiness of what I call the "We're much smarter now" syndrome. Hence the propensity of Western governments over the last 50 years to deplete their supplies of the "barbarous relic" as Gold's time "has passed".

But was and is that wise? According to appearances, it was and is. But if we look a bit deeper, we are struck by some things. First, how old and how ubiquitous has been Gold's prominence in the eyes of men? Well, in the East – ie, China and India – it has always been and is now revered as the true, unabridged physical manifestation of wealth. In the West, the history is equally long. No matter if one is a dyed-in-the-wool atheist, Russian Orthodox, British Anglican, Spanish Catholic or Backwoods 'Bama Baptist, he knows that Gold has been around since the beginning – Genesis 2:11-12a to be exact (in 421 other places in the Bible as well). And the Scriptures confirm that it was not only Israel that saw Gold as the "purest, highest and best", but so did the Egyptians, Assyrians, the Queen of Sheba, the Wise Men from the East, you name it.

Second, one would also notice that modern "Risk Parity" strategies, Synthetic Structured Credit, traunched cash flow bonds, etc. are simply today's version of investments built on the confidence the market had/has for similar types of securities/strategies. Tulips, South Sea and Florida Real Estate ventures, Roaring '20's stocks bought at 10x leverage as a norm, as well as innumerable investment ideas since 1971 when Nixon closed the Gold window – all examples of investments based solely on confidence, the ebb and flow of which resulted in volatile "risk on and off" episodes. The last material loss of confidence in the system was in 2008/early 2009; which resulted in a series of experiments whose 9-year anniversary is upon us.

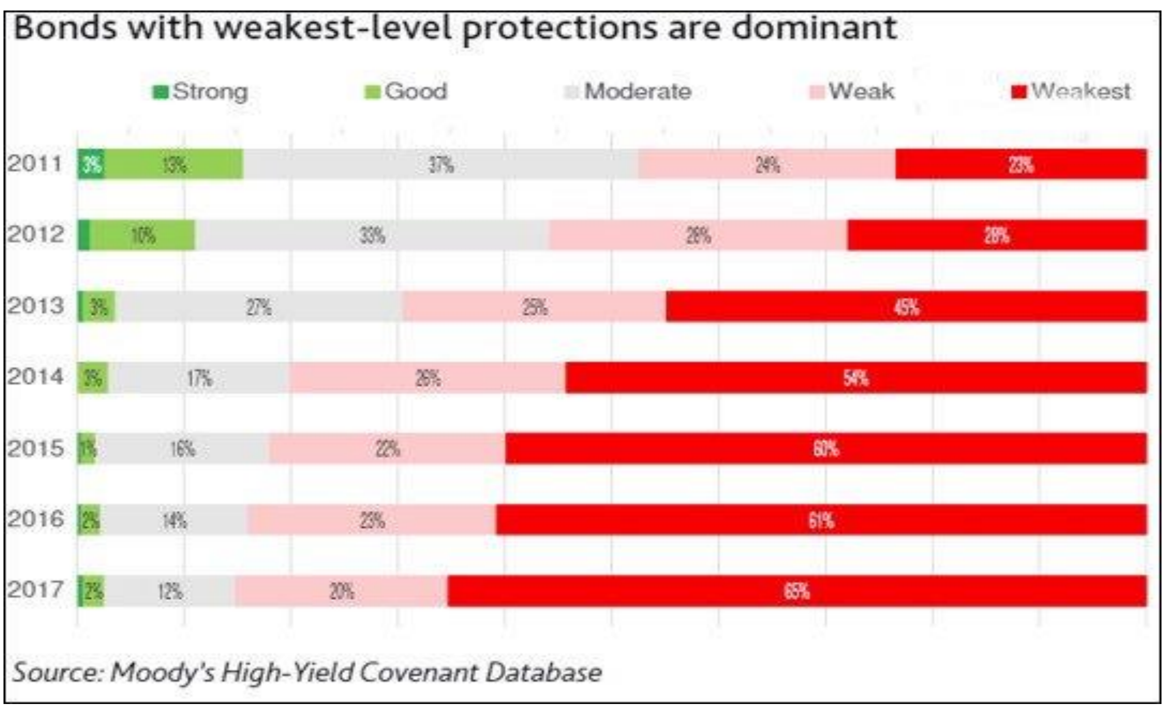
What happens when Common Knowledge changes and moves over to something else that "everyone knows that everyone knows"? Not unlike the ferocious tornados which rip across the American continent when winter turns to spring, the change may be rapid and violent. When "Common Knowledge" believes the last 9 years to be a fraud, investors will likely look to abandon the new theories on "market stability" predicated on the brains and goodness of the anointed – the PhD standard - that may very well bring us a round trip to the '09 lows. In its place will be what history has defined as tangible and trusted stores of value. Investors will trade "we are smarter, see farther and can manage all outcomes" for a more historically informed "we don't really know what the future holds, but we do know what everyone everywhere will take as tangible value no matter what comes to pass." The intangible and suspect thoughts of men will be traded for historically-proven "timeless and universal" physical wealth. Be sure you own the same.

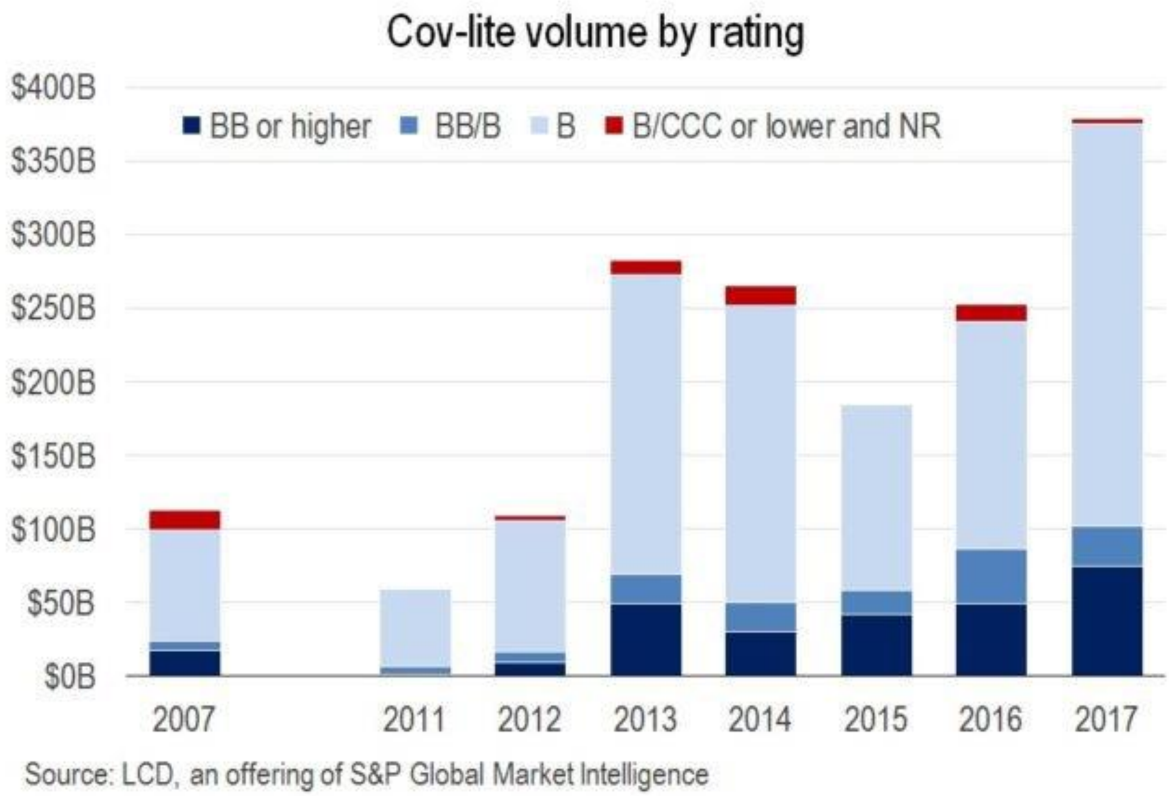
To conclude, here are a series of current charts which we believe lend credence to why we suggest that a material allocation to Physical Precious Metals held OUTSIDE the status quo financial system is warranted for any investment portfolio:

1) **<u>Lessons learned from 2008?</u>**

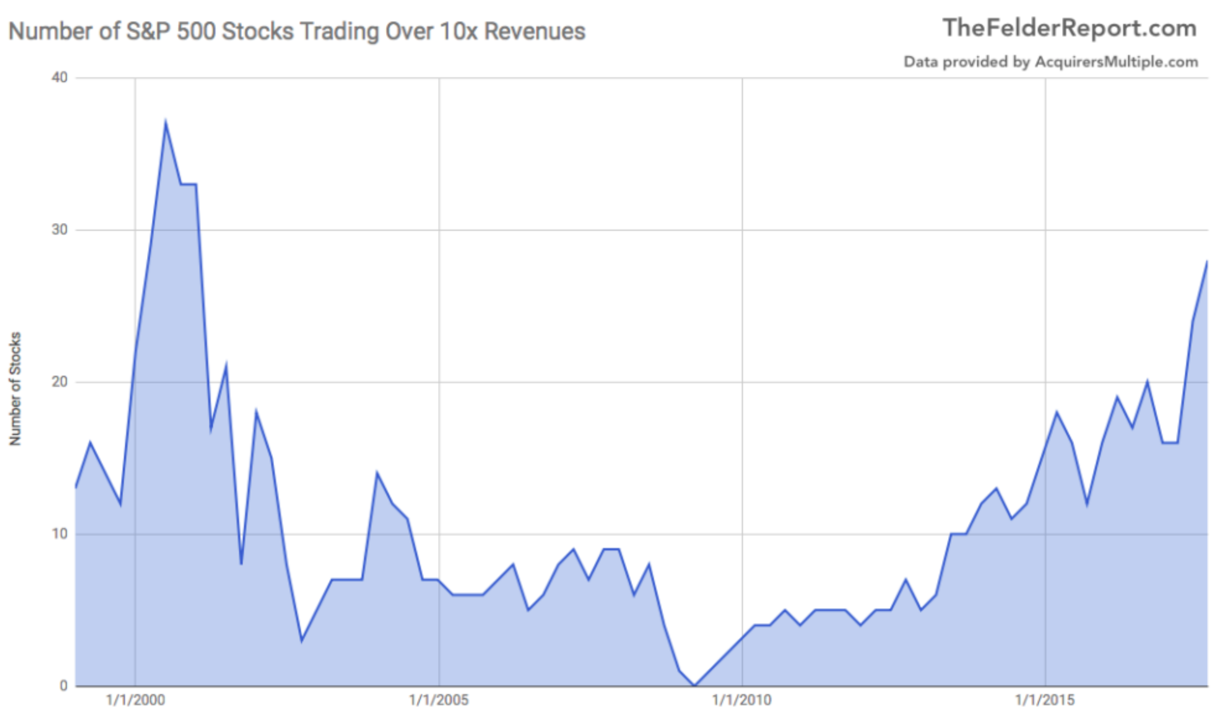
A) Chinese Household Indebtedness is 2x what it was in 2008.

B) Bonds with fewest covenants have once again gained pre-eminence:

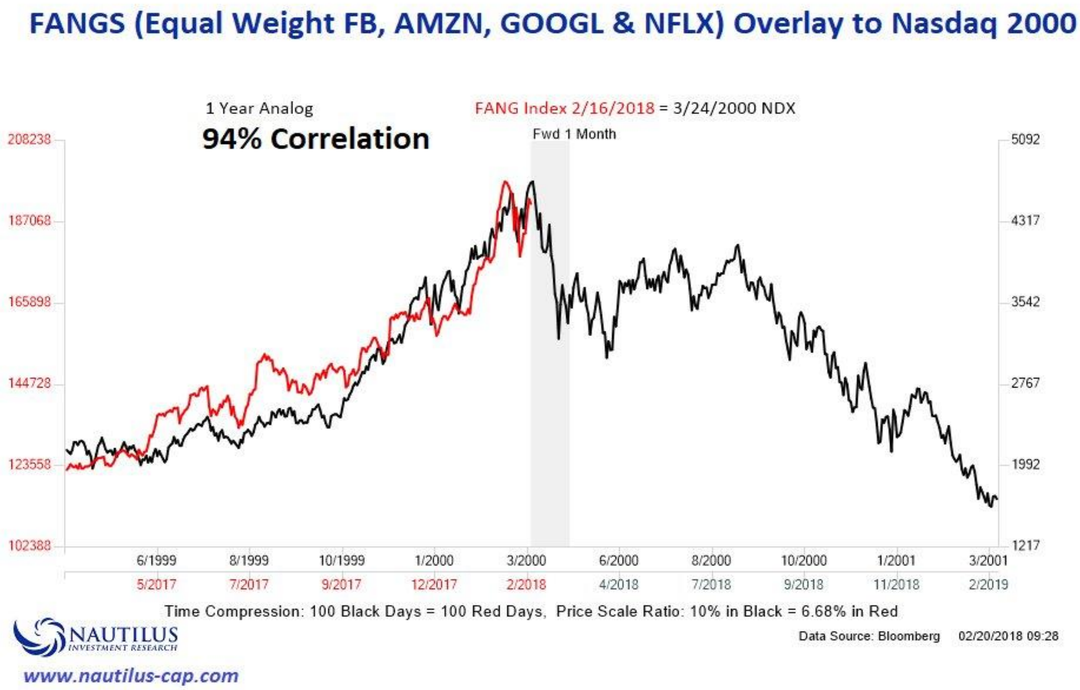




C) Equity valuations right back to La-La Land

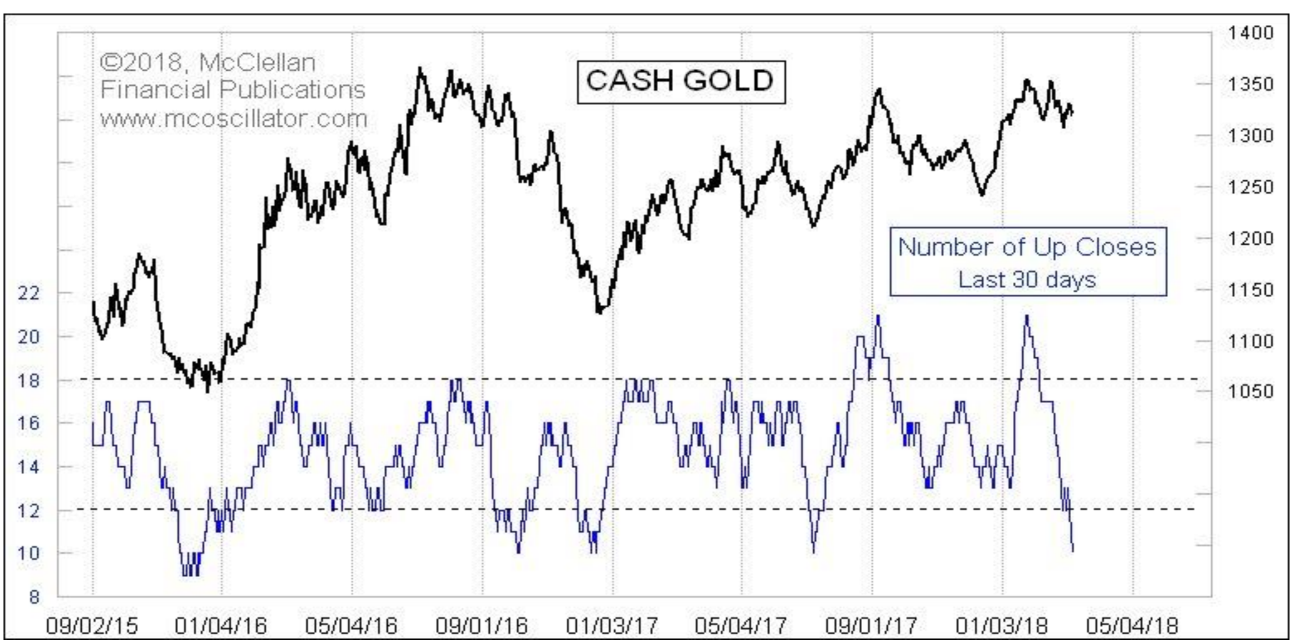


D) An EXTREMELY well-correlated overlay with an Obvious Double-Top



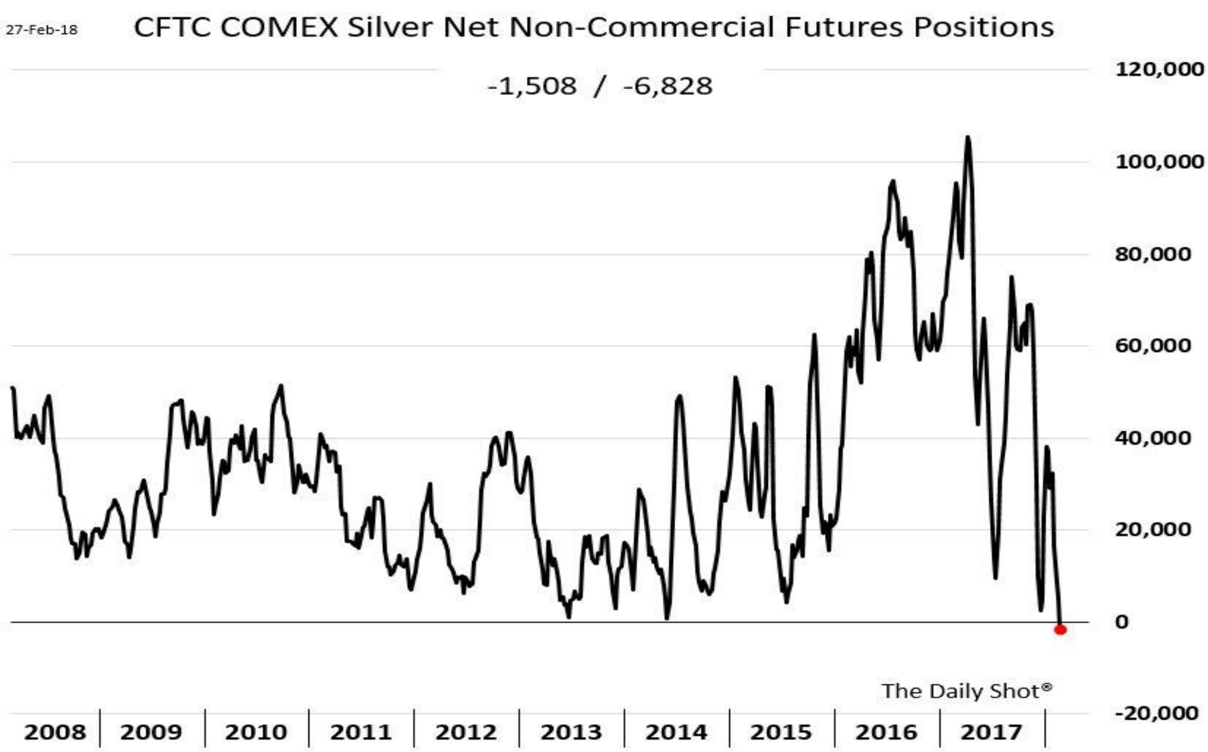
2) Gold and Silver

A) Gold – Short-term value (When "+" Closes are few and far between, rallies often follow)

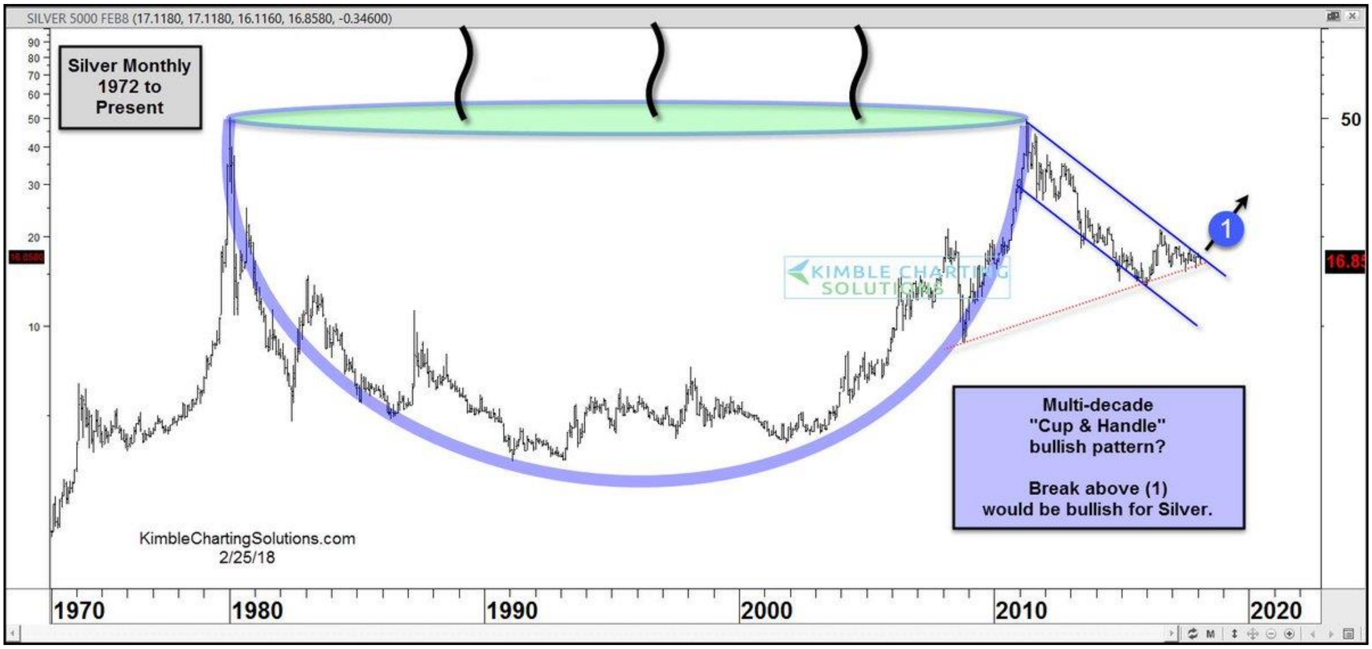


B) Gold – Long-term Value (Gold's Price to S&P 500 cheapest in 38 years)

C) Silver – Short-term Value (When "Everybody's Short", get Long!)



D) Silver – Long-Term Value (A multi-decade “Cup and Saucer” bullish technical pattern)



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.

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Alps Precious Metals Group