Alps Precious Metals Group

Monthly Commentary and Update

May 2017

Postcards from the Edge

The title of this month's commentary is derived from the semi-autobiographical novel/film written and created by the late Carrie Fisher. The first line of "Postcards'" plot summary in Wikipedia reads: "…*The novel revolves around movie actress Suzanne Vale as she tries to put her life together after a drug overdose….".* Our view of global financial markets is that they are literally on "The Edge"; poised to exit their drug-induced euphoria – the "drug" being Central Banking/Planning credit creation from thin air – to the realization that they have in fact "OD'ed". While much ink has been spilled to lambast and lament the lunacy of what the Fed/ECB/BOJ/et.al. have done, we felt that some limited comments beneath graphical depictions – aka "Postcards" - of the markets' current state may be the best way of presenting our thoughts for this month. Pictures do indeed paint a thousand words:

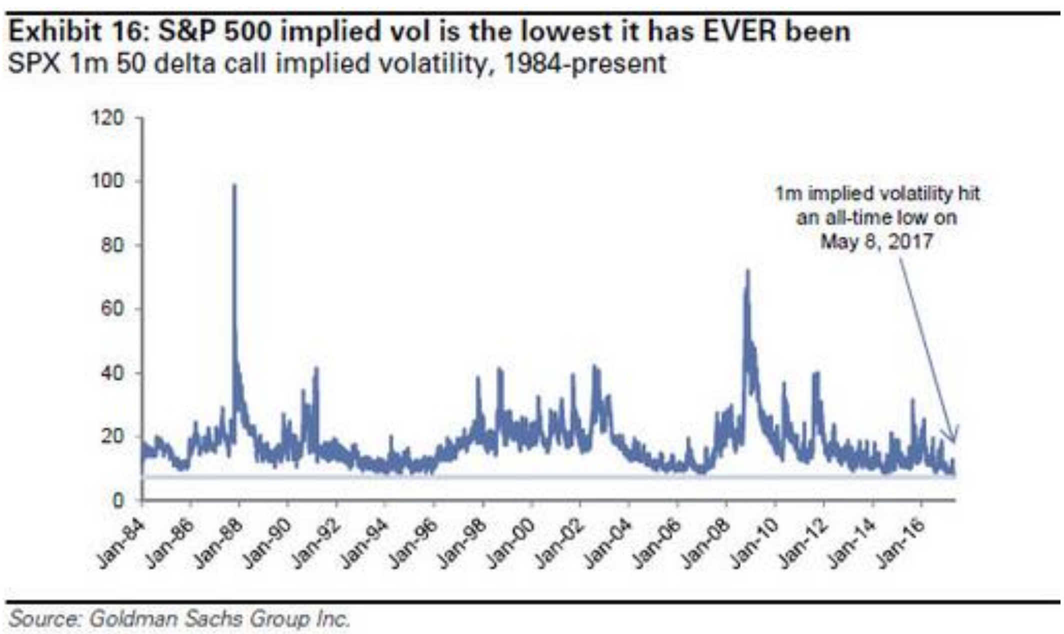
On a Price-to-Sales ratio, current equity valuations are **much higher than the housing bubble,** and are rapidly approaching the dot com bubble's all-time highs. *(Source: Zero Hedge)*

A market priced for perfection – Exhibit A

Today, the S&P 500 price/EBITDA sits at an all-time high.

Source: [The Credit Strategist]()

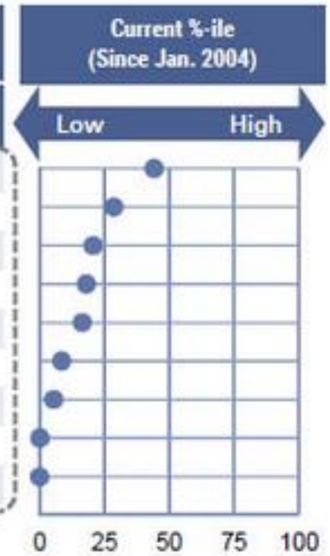
A market priced for perfection – Exhibit B



A market trading as if perfection has been achieved…

Exhibit 17: The lack of fear is not just an equity phenomenon
Implied volatility across select asset classes, 2004-present

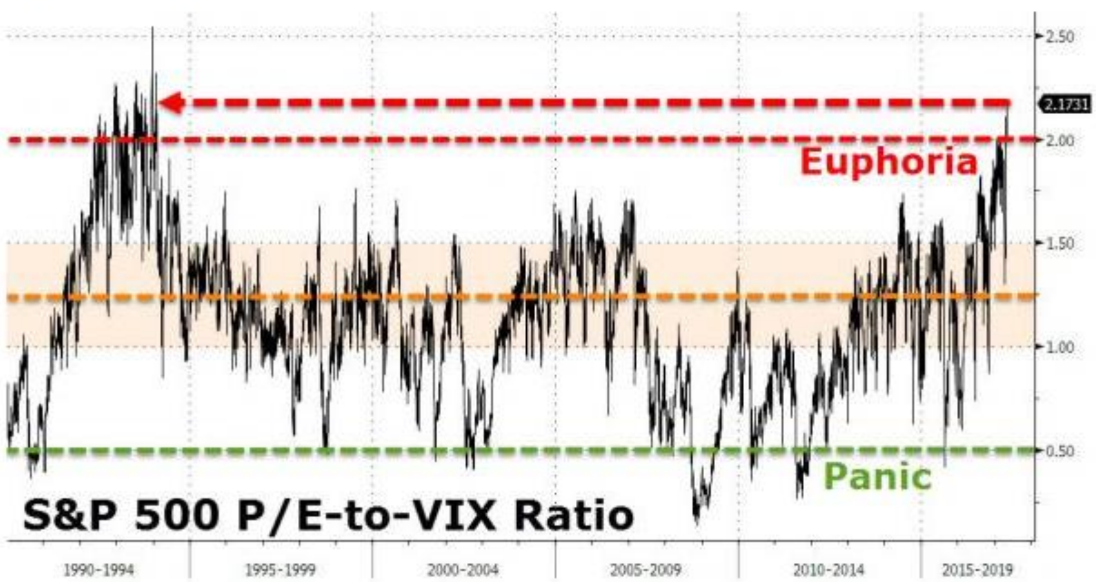
Cross Asset Risk Metrics	Recent	2004-Present		Curr %-ile
		Low	Low Date	
WTI (3m impl)	31	14	2-Jul-14	44
US IG CDX 5y	62	29	22-Feb-07	29
Copper (3m impl)	22	13	21-Feb-14	21
FX: EM (3m impl)	8	6	24-Jul-14	18
US HY CDX 5y	328	208	22-Feb-07	17
FX: G9 (3m impl vs USD)	8	6	3-Jul-14	9
US Int Rate Vol (1y10y impl)	5	4	5-Jun-07	6
SPX avg stock vol (3m impl)	19	18	1-Sep-14	0.2
VIX	10	10	8-May-17	0.0



Source: CBOE, Goldman Sachs Global Investment Research.

…with an astonishing lack of fear across asset classes

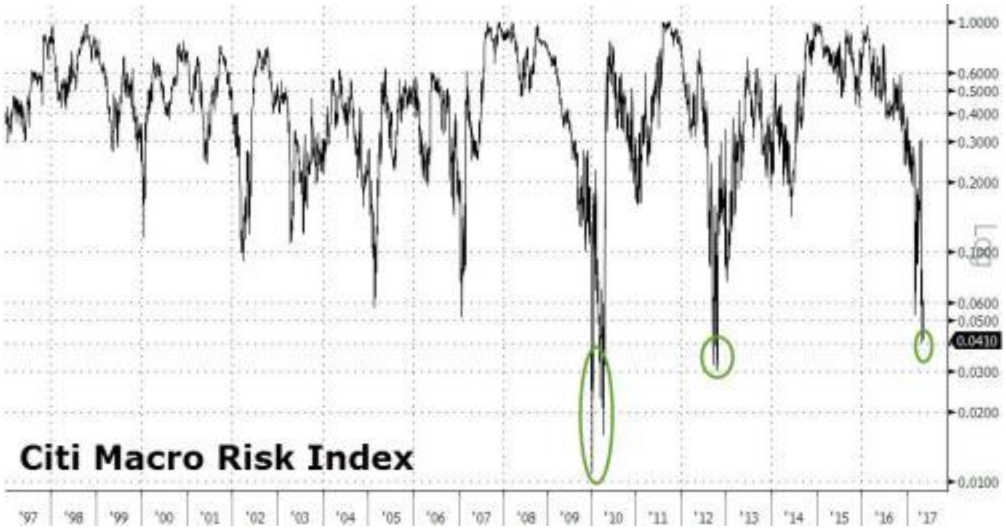
Based on the Panic-Euphoria model, **the S&P 500 has not been this "euphoric" since Jan 1994** (and historically has never stayed here long).



NOTE: From Jan to March 1994, the S&P 500 fell 10% and VIX jumped from 9.59 to over 28

Put it altogether and we are at the most Euphoric point in 23 years. Meanwhile…

Citi released an ominous warning of its own, in which it looked at the bank's proprietary Macro Risk Index, and observed that "a sixth consecutive monthly decline in risk aversion has taken our Macro Risk Index to extreme lows. **Readings below last Friday's 4.1% have only been observed on 31 days since 1997.**"…And with the index currently trading at 4.1%, Citi goes on to warn that "**comparable low levels of risk aversion have historically been followed by higher volatility, stronger USD, higher bond prices and weak performance of global equities."**



Citibank research is concerned, yet……

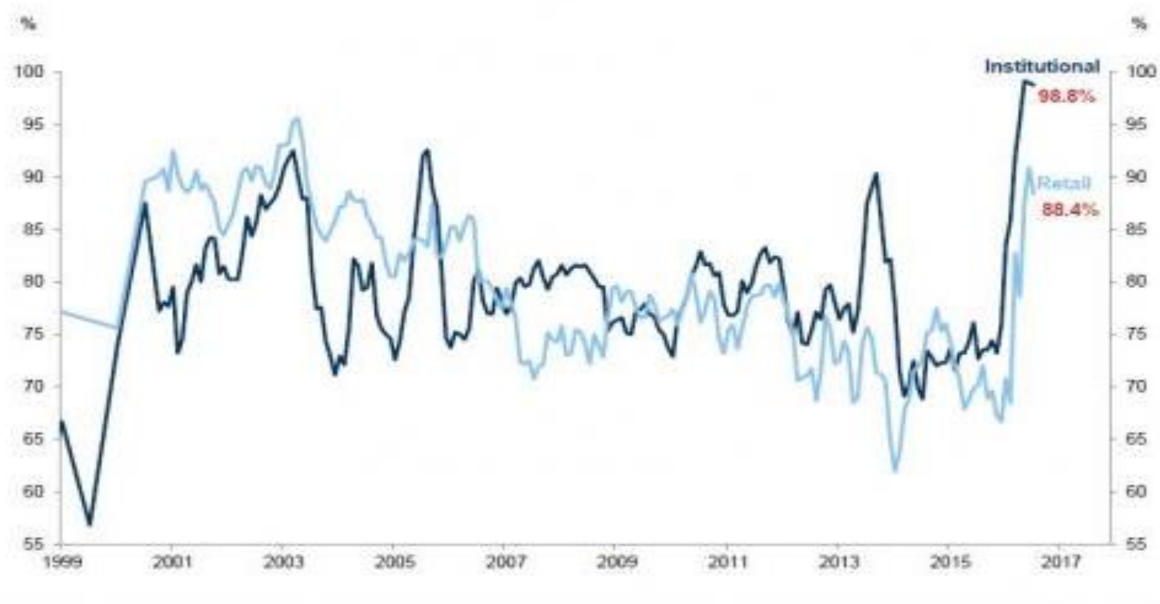
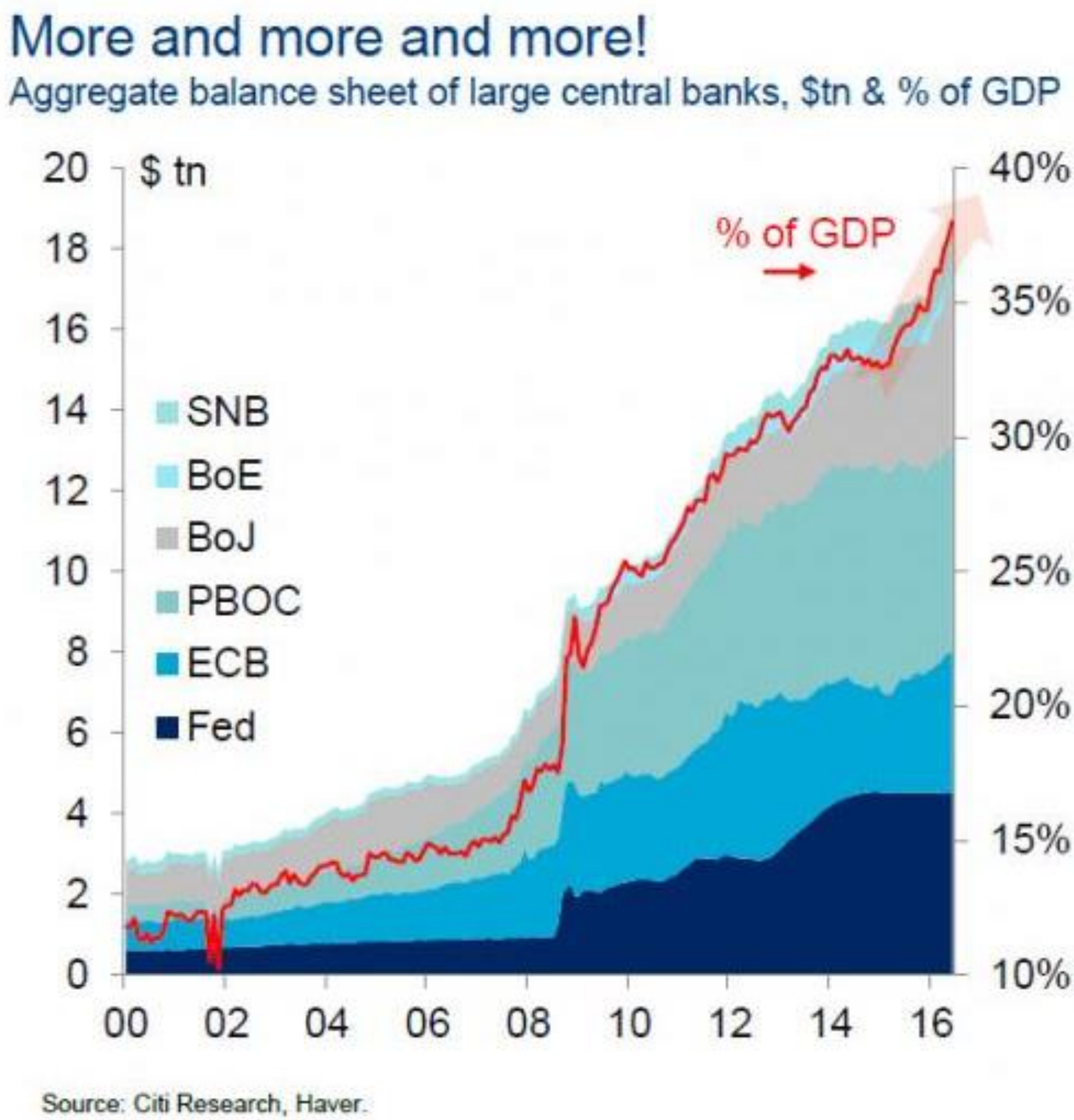


Exhibit 5: One-year-ahead confidence of institutional investors has reached its highest level over the past 10 years
Percentage of institutional and retail survey respondents reporting positive expected returns for the year ahead

Source: Yale School of Management Stock Market Confidence Indexes, Goldman Sachs Global Investment Research

…Institutions and Individuals are at a 20yr pinnacle of confidence, because…



…they are completely addicted to the free credit "drugs" peddled to them by Central Banks.

A simple question: If the only "game plan" Central Banks/Planners need to execute in order to achieve perpetual, all-time highs in risk markets which (theoretically!) represent a robust/soon-to-be robust economy, why is the overnight lending rate not set at zero permanently? And why, also, have these policies never been tried until these late, lost days? Is it perhaps that those who preceded the current batch of "experts" had the humility to know that experiments like this were wildly reckless? With repercussions such as:

The danger of creating a crippling debt mountain, as well as…

According to the latest breakdown from Goldman, as of May 10, just 10 companies are responsible for half, or 46% to be exact, of the entire S&P's rally YTD.

Ticker	YTD Price Perf (%)	Market Cap Created ($,bn)	% of Total	Equivalent to the Mkt Cap of:
AAPL	32%	190.4	12.7%	VZ
GOOGL	20%	109.5	7.3%	EBAY + YHOO + EA
FB	31%	102.8	6.9%	TWX + CBS
AMZN	27%	95.9	6.4%	UPS
MSFT	12%	54.8	3.7%	HPQ + SYMC
V	18%	31.6	2.1%	TGT
PM	21%	30.2	2.0%	HCA
ORCL	18%	29.6	2.0%	RHT + CTXS
HD	18%	26.4	1.8%	YUM
AVGO	31%	22.4	1.5%	LRCX
Top 10		693.5	46%	
S&P 500/Total	7%	1,499.8		

…a completely unbalanced distribution of the beneficiaries of "the tool kit".

We believe it is a question of “When” not “If” this experiment comes to an extremely unpleasant conclusion – so unpleasant that it will set brand new standards for market and societal upheaval. We believe it will be so disruptive because of old truisms such as “what goes around, comes around” and Newton’s 3rd Law of Motion – “For every action there is an equal and opposite reaction”. The behavior of the Central Banks has appeared utterly benign to the vast majority of men, both wise and simple. We argue that what has been thought benign is in fact sinister. If investment arises from capital, but that “capital” is a fraud created from whole cloth by Central Bankers, one shudders to imagine what an “equal and opposite reaction” to that fraud would resemble. Look to the early 30’s and the early 80’s for possible examples and note how Precious Metals performed when all was in disarray.

Therefore, if our analysis is sound, Physical Gold and Silver are imperative portions of one’s portfolio. Currently, the Gold-to-Silver ratio suggests that the argent metal looks to be particularly attractive:

Gold to Silver Ratio - 100 Year Historical Chart

This interactive chart tracks the current and historical ratio of gold prices to silver prices. Historical data goes back to 1915.

The 20 year depiction of the same ratio:

(Source for both graphs – Macrotrends.net)

<u>Alps and Liechtenstein Precious Metals</u>

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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