

Alps Precious Metals Group

Monthly Commentary and Update

October 2017

3 Reasons

The best way of making a case for any idea is oftentimes best done by describing the concept in a simple and straightforward manner. This month we attempt to do just that. While innumerable arguments can be proffered which suggest material exposure to Physical Precious Metals, three seem to us as being clear and concise: A) Relative Value, B) Trend Following and C) Hedge (Insurance) against Systemic Risk. All of our conversations with those interested in/curious about allocations to PMs generally center on one or all of these topics.

#1 - Relative Value

In the May edition of our report – entitled “Postcards from the Edge” – we demonstrated just how stretched the risk markets currently were at the time; since then, they’ve become even more stretched. Both bond/credit and stock markets are currently priced at what can best be described as “obscene” (h/t, John Hussman) levels of valuation. Several portraits follow. First, Gold in U.S. dollar terms is down over 30% from its peak in September 2011:



Second, Silver in U.S. Dollar terms is down nearly 60% from its high in September 2011:



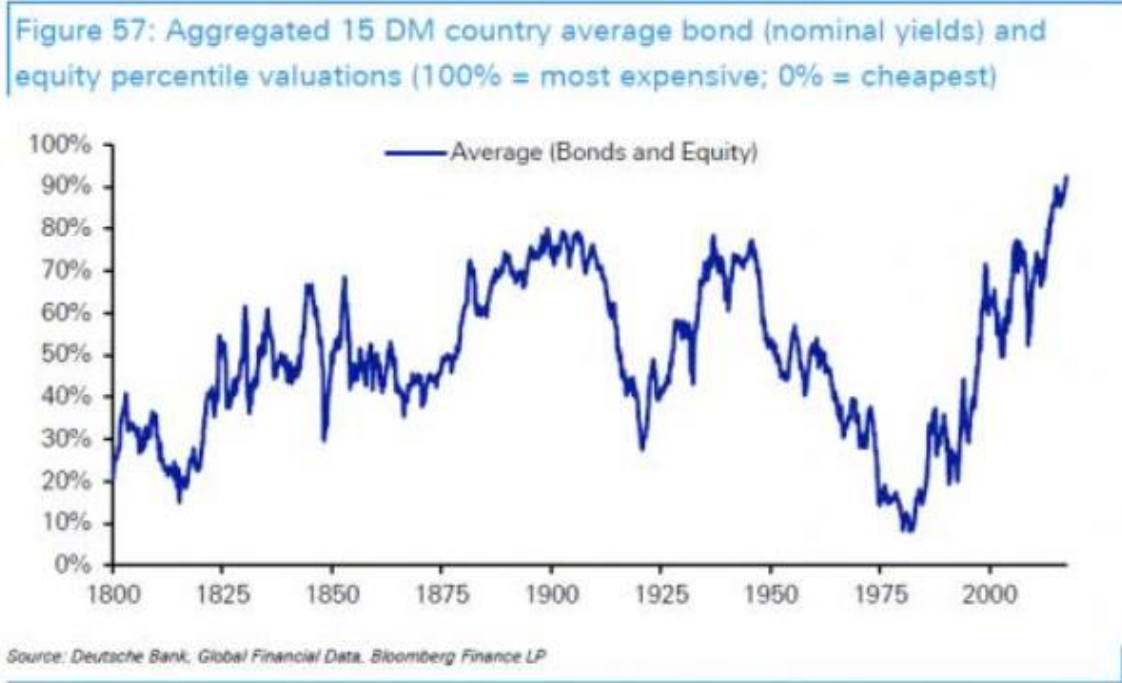
Versus:

The S&P 500 at runaway, absurd valuation:

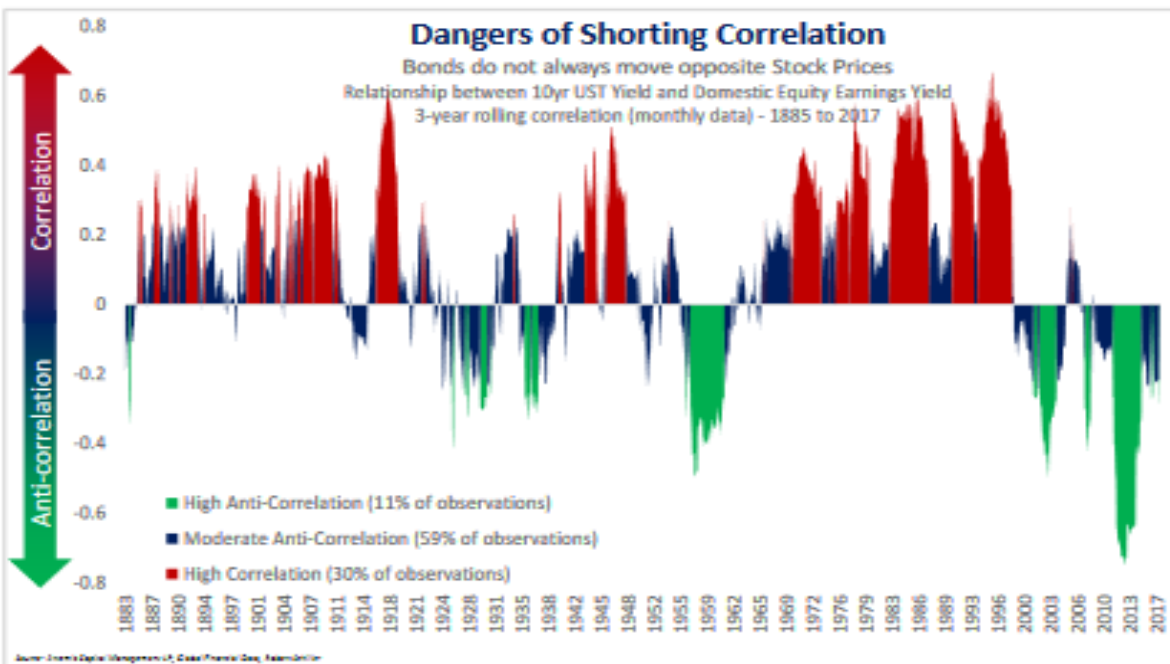


(Source – Real Vision, “Edge of a Cliff” – October 2017)

Stocks and Bonds in aggregate at Most Expensive level ever:



And Bonds and Stocks have historically traded in the same direction on many occasions:



(Source: Artemis Capital, "Volatility and the Alchemy of Risk" – October 2017)

#2 - Joining the Global Macro Trend

Another reason to add a material amount of Gold/Silver to one's portfolio is in order to join a clear Global Trend – led by China and Russia. Being in synch with the behavior of world central banks and governments, yet holding it “off the grid” is likely to be beneficial. Note also how many banks and large institutions are long Precious Metals. “Follow what they do, not what they say” is the directive.

To begin, here are current Official Government Gold Holdings:

Top 40 according to World Gold Council's latest rankings (as at April 2017)^[10]

[\[11\]](#)[\[12\]](#)[\[13\]](#)

Rank ↕	Country/Organization ↕	Gold holdings (in tonnes) ↕	Gold's share of forex reserves ↕
1	 United States	8,133.5	75.0%
2	 Germany	3,375.6	69.6%
3	International Monetary Fund	2,814.0	N/A
4	 Italy	2,451.8	68.5%
5	 France	2,435.9	64.9%
6	 China	1,842.6	2.4%
7	 Russia	1,706.8	17.1%
8	 Switzerland	1,040.0	6.0%
9	 Japan	765.2	2.5%
10	 Netherlands	612.5	66.5%
11	 India	557.8	6.0%
12	 European Central Bank	504.8	27.7%

Though China's ACTUAL holdings are much larger than advertised:

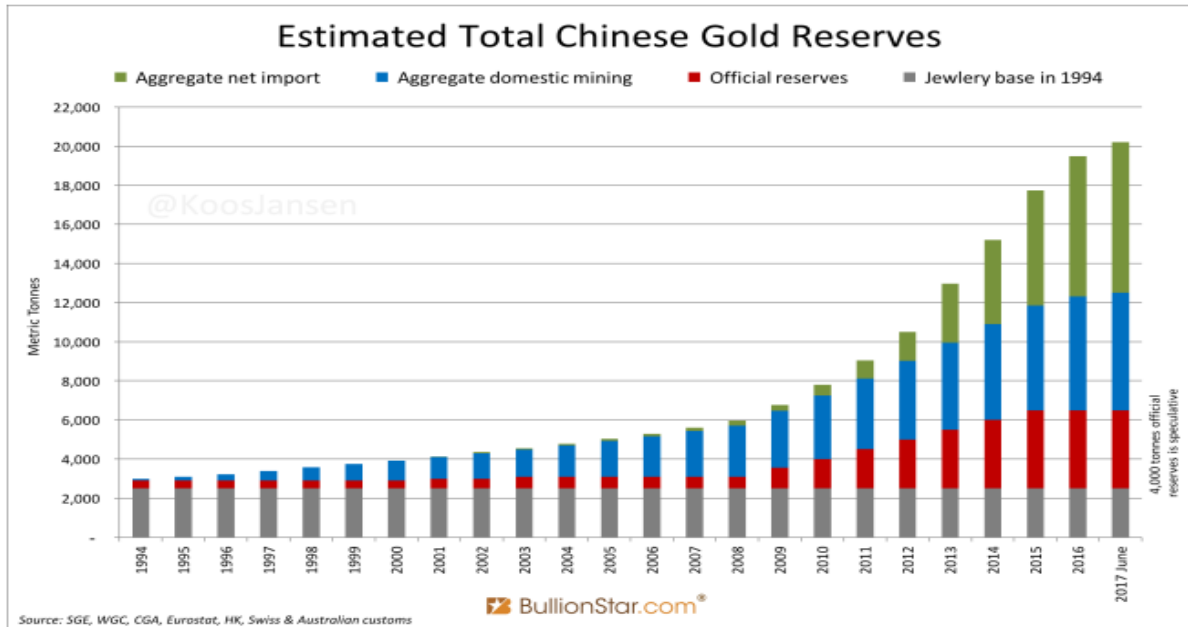


Exhibit 5. Aggregate net import reflects non-monetary gold.

Private Institutions are involved as well:

SPDR Gold Trust ETF Holders for Q2 2017							
Filer	City	State	Shares Held	Market Value	% of Portfolio	Ranking	
Sun valley gold llc	SUN VALLEY	ID	21,020,100	2,480,792,000	87.8273	1	CALL
Citigroup inc	NEW YORK	NY	20,425,300	2,410,595,000	2.17388	4	CALL
Blackrock inc.	NEW YORK	NY	18,604,275	2,195,677,000	0.116147	181	
Goldman sachs group inc	NEW YORK	NY	16,610,000	1,960,313,000	0.507252	16	CALL
Graham capital management l.p.	ROWAYTON	CT	15,500,000	1,829,310,000	47.97	1	CALL
Citigroup inc	NEW YORK	NY	11,695,600	1,380,315,000	1.24477	9	PUT
Credit suisse ag/	ZURICH	V8	8,793,300	1,037,785,000	1.0102	10	CALL
Bank of america corp	CHARLOTTE	NC	7,151,415	844,009,000	0.167798	139	
Parallax volatility advisers l.p.	SAN FRANCISCO	CA	6,645,800	784,339,000	1.5206	9	CALL
Royal bank of canada	TORONTO	A6	6,267,200	739,655,000	0.381982	45	CALL
Bank of america corp	CHARLOTTE	NC	5,655,400	667,450,000	0.132696	173	CALL
Royal bank of canada	TORONTO	A6	5,440,100	642,041,000	0.331571	55	PUT
First eagle investment management llc	NEW YORK	NY	5,371,482	633,942,000	1.52055	18	
Susquehanna international group llp	BALA CYNWYD	PA	5,038,900	594,691,000	0.2613	53	CALL
Fmr llc	BOSTON	MA	4,742,502	559,710,000	0.0696183	293	
Morgan stanley	NEW YORK	NY	4,602,638	543,204,000	0.164043	141	
Paulson & company . inc.	NEW YORK	NY	4,359,722	514,534,000	7.04853	4	
Goldman sachs group inc	NEW YORK	NY	4,322,700	510,165,000	0.132011	130	PUT

#3 - Hedging against Systemic Financial Market Risk

Finally, hedging against what will most likely be the inevitable unwind of the outlandish behavior of central banks and governments, is a third and quite powerful source of demand for Physical Precious Metals held outside the financial system. First, Volatility trades as if risk no longer exists; the unwind of the following monstrosity will be very disruptive to markets, as well as being a sight to behold:



(Source: Zero Hedge)

Next, note that the top 5 U.S. Financial Institutions make up 90% of the total notional amount of Derivatives, currently \$250 Trillion:

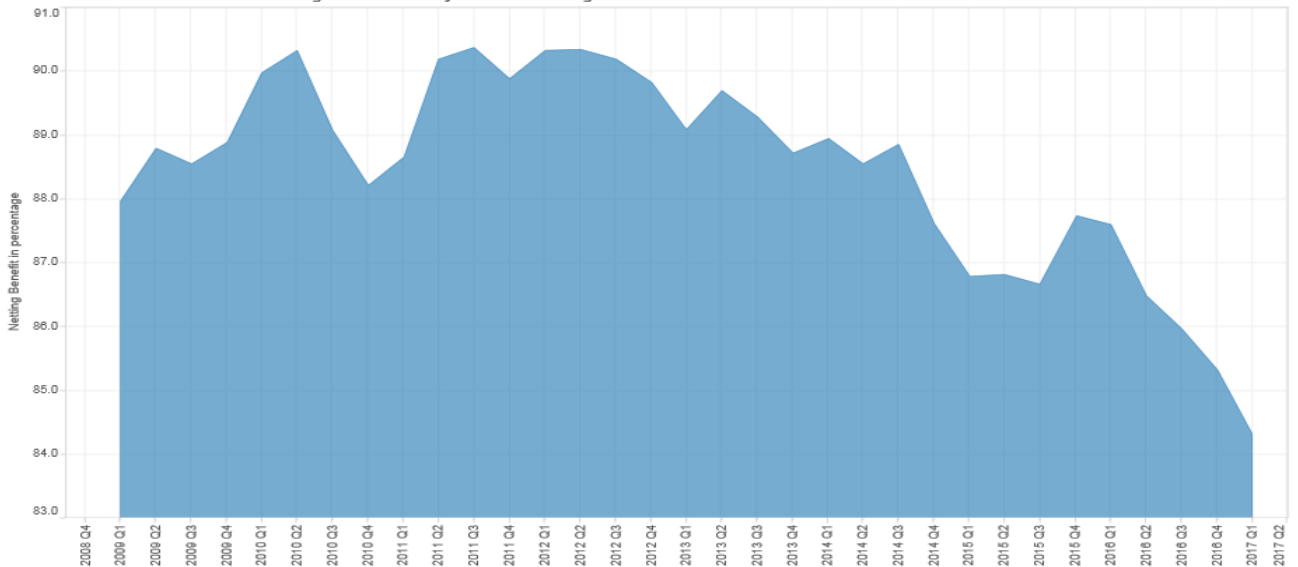
**NOTIONAL AMOUNTS OF DERIVATIVE CONTRACTS (HOLDING COMPANIES)
TOP 25 HOLDING COMPANIES IN DERIVATIVES
JUNE 30, 2017, MILLIONS OF DOLLARS**

RANK	HOLDING COMPANY	STATE	TOTAL ASSETS	TOTAL DERIVATIVES
1	CITIGROUP INC.	NY	\$1,864,063	\$56,061,759
2	GOLDMAN SACHS GROUP, INC., THE	NY	906,536	50,434,374
3	JPMORGAN CHASE & CO.	NY	2,563,174	50,382,837
4	BANK OF AMERICA CORPORATION	NC	2,256,095	36,523,681
5	MORGAN STANLEY	NY	841,016	31,539,365

(Source: Office of the Comptroller of the Currency, Q2 2017 Bank Derivatives Report)

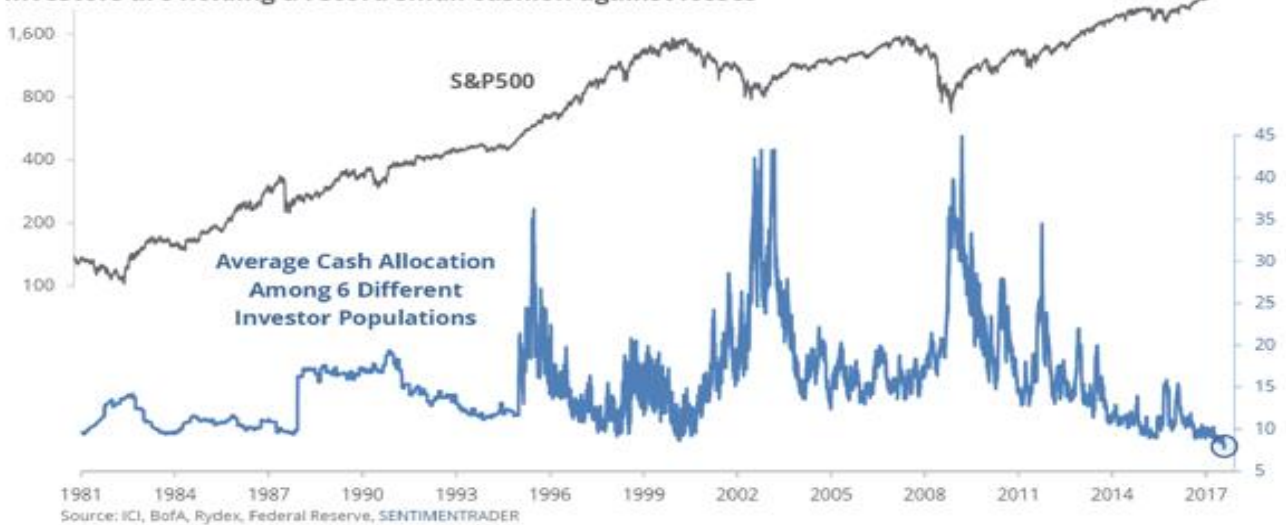
Typically, these intense figures are pooh-pooed away due to Netting of the firms' Long and Short exposures to various counter-parties. However, not unlike the unwise scaling back of loan loss reserves when loan markets are peaking, here too the banks have gotten complacent and increased their exposure to a "Risk-Off" event in a dramatic way. Keep in mind they have levered this exposure in the midst of implied and realized volatility trading at all-time lows. With 15% of total notional derivatives UN-netted, these top 5 banks are exposed to @\$22 Trillion in derivative risk versus @\$500 Billion in Risk-based capital:

Graph 6
Netting Benefit*: Amount of Gross Credit Exposure Eliminated Through Bilateral Netting
Insured U.S. Commercial Banks and Savings Associations by Derivative Holdings

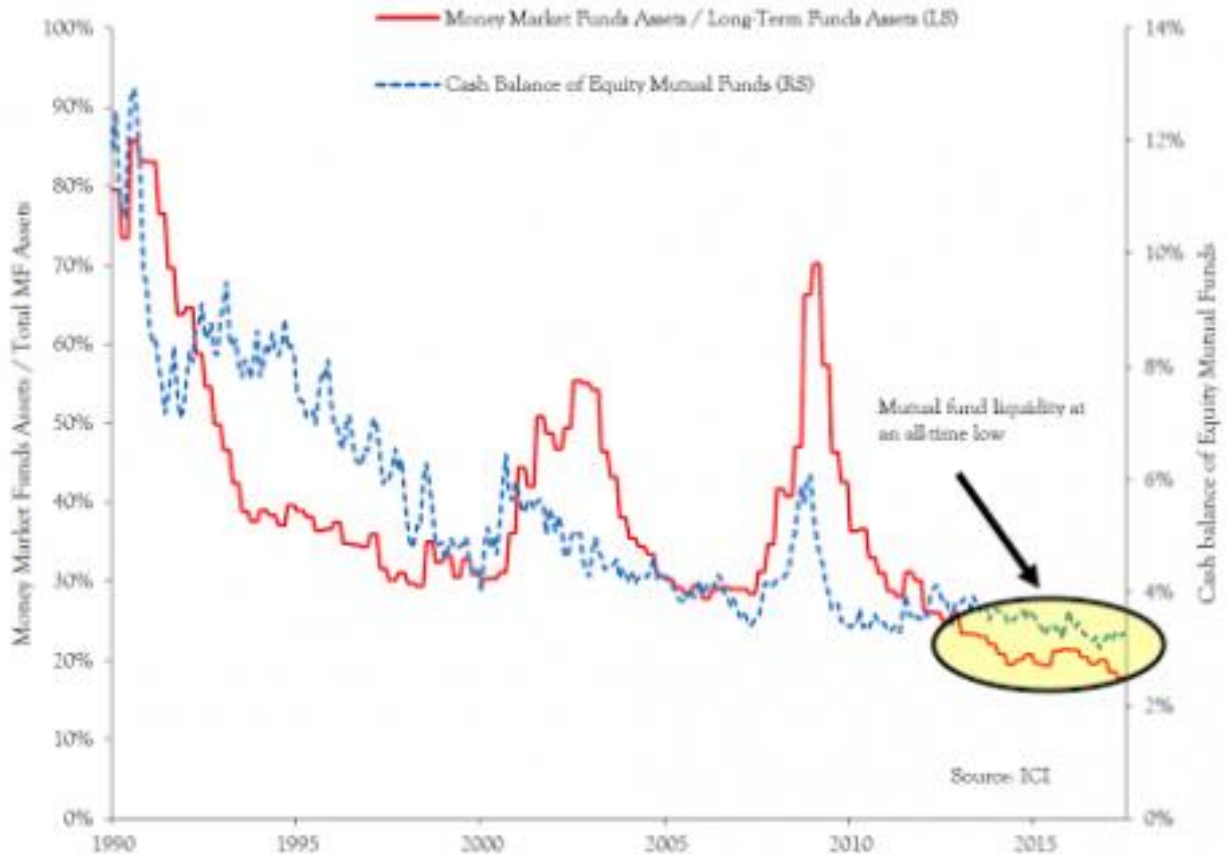


Finally, there is no "Cash on the Sidelines":

Investors are holding a record small cushion against losses



Mutual Fund Liquidity: Cash Is Trash!



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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