Alps Precious Metals Group

(An Americas Partner of LPM Group – Liechtenstein)

A Tale of Two Committees

June 2018

Can the world experience “2008 – 2.0”?


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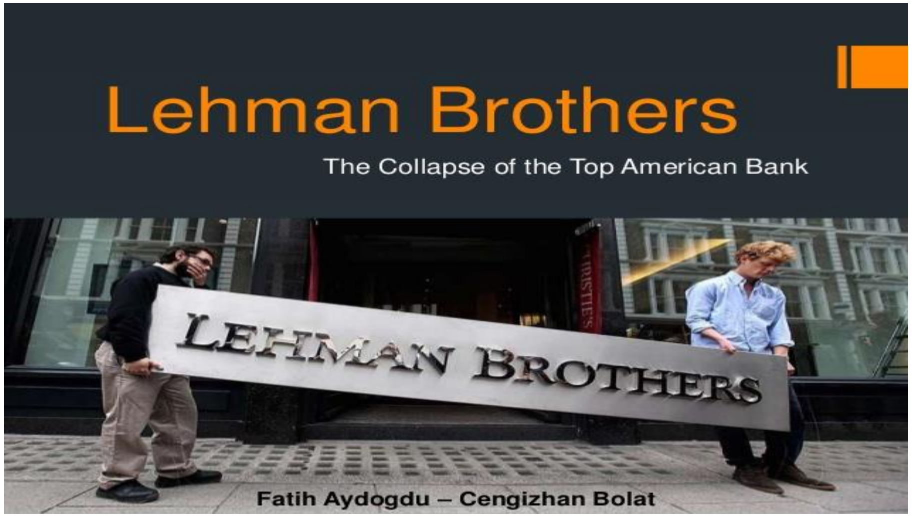
AIG, Lehman Shock Hits World Markets

Focus Moves to Fate of Giant Insurer After U.S. Allows Investment Bank to Fail; Barclays in Talks to Buy Core Lehman Unit

AIG Faces Cash Crisis As Stock Dives 61%

Is Your Risk Strategy Prepared for Bank Deposit Tail Risk?

- **What was formerly called a "bankruptcy" is now a "resolution proceeding." The bank's insolvency is "resolved" by the neat trick of turning its liabilities into capital. Insolvent TBTF banks are to be "promptly recapitalized" with their "unsecured debt" so that they can go on with business as usual. "Unsecured debt includes deposits, the largest class of unsecured debt of any bank. The insolvent bank is to be made solvent by turning depositors' money into an equity position - bank stock that could become worthless on the market or be tied up for years in resolution proceedings. -** ***Ellen Brown comments on IMF Staff Discussion Note of 4/24/2012 in "New Rules: Cyprus –style***



5 Largest U.S. Banks – Deposits as of Q3 2017 = $5.31 Trillion

Avg. Deposits ($ tril)	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	YoY Growth
JPMorgan	1.34	1.37	1.39	1.41	1.43	7.0%
Wells Fargo	1.26	1.28	1.30	1.30	1.31	3.6%
Bank of America	1.23	1.25	1.26	1.26	1.27	3.6%
Citigroup	0.94	0.94	0.94	0.96	0.97	2.3%
U.S. Bancorp	0.32	0.33	0.33	0.33	0.34	5.2%
Top 5 Total	***5.09***	***5.17***	***5.22***	***5.26***	***5.31***	***4.3%***
All U.S.-Based Banks	***12.66***	***12.85***	***13.04***	***13.09***	***13.16***	***3.9%***
=> U.S. Top 5 as % of Total	*40.2%*	*40.3%*	*40.0%*	*40.2%*	*40.4%*	

Source: Forbes, December 14, 2017 – The 5 Largest U.S. Banks hold more than 40% of all Deposits in the U.S.

Hard Numbers on Deposits Subject to Bail-In Risk

Deposits/ Bank	JPMorgan	Wells Fargo	Bank of America	Citibank	U.S. Bank
# of Accounts Over $250K	447,000	501,000	474,000	254,000	89,000
Total $ Amount of Deposits Over $250K	$834 Billion	$743 Billion	$737 Billion	$382 Billion	$182 Billion
Average Account size over $250K	$1.86mm	$1.48mm	$1.56mm	$1.50mm	$2.04mm
FDIC guarantee amount = # of Accounts x $250k	$112 Billion	$125 Billion	$119 Billion	$64 Billion	$22 Billion
FDIC Assets	$25 Billion	$25 Billion	$25 Billion	$25 Billion	$25 Billion
Minimum Amount of $250k or greater Deposits at risk for Bail-In	$722 Billion or 86%	$618 Billion or 83%	$618 Billion or 84%	$318 Billion or 83%	$160 Billion or 88%

Source: FDIC.gov > Industry Analysis > Bank Data & Statistics > Banks > Details and Financials - ID > Advanced Search

5 Largest U.S. Banks – Unhedged Derivative Exposure has *DOUBLED* since 2012

Banks Ranked by Derivatives

The following is a ranking of all banks in the United States in terms of "Derivatives". This comparison is based on data reported on 2018-03-31.

Rank	Derivatives	Bank Name
1	$56,147,808,000,000	JPMorgan Chase Bank
2	$55,499,714,000,000	Citibank
3	$51,736,340,000,000	Goldman Sachs Bank USA
4	$21,593,895,000,000	Bank of America
5	$8,549,476,000,000	Wells Fargo Bank

Source: Forbes, December 14, 2017 – The 5 Largest U.S. Banks hold more than 40% of all Deposits

Total Derivatives Positions of the Top 5 Banks in the United States is $193 Trillion. $38 Trillion (approximately 20%) is exposed to another Lehman, "daisy-chain" credit event. In 2012, exposure to the same type occurrence was far better at only 10%. In typical behavior of Banks late in an economic and market trend, risk has been expanded and protection against loan losses and credit events has been *LOWERED*. For further reference, see Appendix #2 and https://www.occ.gov/topics/capital-markets/financial-markets/derivatives/dq118.pdf.

5 Largest U.S. Banks – Deposits vs. Derivative Exposure

Deposits

- Total Deposits = $5.31 Trillion
- Insurance on Deposits is up to $250k on each individual deposit account.
- Should a "2008 – 2.0" Event occur such that only 14% of current Exposed Derivative risk was affected, all bank deposits greater than the $250k FDIC limit would be vulnerable to Bail-In.
- Using Cyprus as a benchmark, those subject to bail-in can expect up to a 50% haircut on their deposits, as well as being "awarded" worthless, illiquid stock in the encumbered bank.

Derivatives

- Total Derivatives = $193 Trillion
- Exposed to Credit Event = $38.6 Trillion
- Recent changes to banking and bankruptcy law has made settling of Derivative contracts **SENIOR** to deposits.
- Should a "2008 – 2.0" Event occur such that only 14% of current Exposed Derivative risk was affected, encumbered derivative exposure would equal the ENTIRETY of U.S. Deposits!

Tale of Two (Investment) Committees

- Let us imagine 2 different Investment Commitees managing $2B in assets each.

- Both Committees are concerned about the risk of a global recession and the advent of another market downdraft (“2008, 2.0”). Additionally, both Committees are concerned about what Global Derivative Risk may mean for their deposits, and that liquidity may be an issue as a result.

- Given the past actions and current philosophy of Global Central Bankers (“QE” and general currency debasement), both Committees believe that risk for “stagflation” is also probable.

- Current construction of both portfolios is the traditional 60% Equities, 30% Bonds and 10% Cash.

Tale of Two Committees

#1 – $200mm in Gold

- Reallocates $200mm into Physical Gold. New asset is stored outside the banking system at Liechtenstein Precious Metals (“LPM”), and therefore NOT subject to Bail-In procedures.
- Costs: A) Conversion of Cash into Gold = $1.3mm ($200mm x 0.65%). B) Yearly Storage Fees = $1mm ($200mm x 0.5%). Total costs are just over 1%.
- Benefit: During business day trading hours (approximately 16 hours per day), full reentry to financial system via LPM trading desk.

#2 - $200mm in Cash

- Retains the $200mm in the banking system in Cash. $199.75mm of this asset is subject to Bail-In.
- Costs: None unless negative interest rates are imposed (Europe currently has this cost).
- Benefit: Earning ~2% interest on Bank deposit balance.

Tale of Two Committees

#1 – Gold scenario after "2008, 2.0"

- Performance: $20mm profit potential using the experience of the last three Bear Markets which featured the advent of extremely aggressive Central Bank policies, (Average Gold appreciation was 10%).
- Capital Preservation: These assets in the portfolio are Physical (identical to the form in which Central Banks hold the assets) and, being held at LPM, are outside of the banking system; and are therefore NOT subject to Bail-In; not so for Gold held in Swiss Banks.
- Liquidity: Conservative estimate is that Bid/Offer spreads remain similar, especially given the likely increased demand for Gold in the new, highly uncertain environment.

#2 – Cash scenario after "2008, 2.0"

- Performance: $50mm (at least) LOSS potential in uninsured cash deposits if Bail-In's occur - using the Cyprus example as a template and conservatively assuming only a 25% haircut.
- Capital Preservation: Function of the presence or lack thereof of Bail-In. Absent a Bail-In, $200mm remains. With assumed bail-in terms, $150mm remains.
- Liquidity: Immediate given cash deposits…..assuming Bail-Ins do not occur.

Tale of Two Committees

#1 – Gold scenario after "2008, 2.0"

- Portfolio Updated Value: Physical Gold and Silver = $220mm. Net of fees = $217.7mm.
- As Physical Gold is held at LPM, any danger of Bank (including Swiss Bank!) bail-in mischief of "other deposits" is moot.
- Liquidity sustained; available at Committee's convenience when "post-crisis asset fire-sale opportunities" arise.

#2 – Cash scenario after "2008, 2.0"

- Portfolio Updated Value: Absent Bail-Ins, $204mm. If Bail-In's occur, using the earlier assumptions, Portfolio Value is now $150mm, with perhaps $50mm in worthless, completely illiquid "New Bank Stock".
- Should the crisis worsen, more bail-in procedures could be on the docket.
- Liquidity: Immediate given Cash Deposits…..assuming Bail-Ins do not occur.

Table of Possible Outcomes - Stagflation

Scenario/ $200mm Liquid Portfolio	1970's Stagflation without Cyprus & without Gold	1970's Stagflation without Cyprus & with Gold	1970's Stagflation with Cyprus & without Gold	1970's Stagflation with Cyprus & with Gold
Gold	n/a	+70%	n/a	+70%
Cash	-2%	n/a	-27%	n/a
Portfolio Value	$196mm	$340mm	$146mm	$340mm

Table of Possible Outcomes – 2008, 2.0

Scenario/ $200mm Liquid Portfolio	2008, 2.0 without Cyprus & without Gold	2008, 2.0 without Cyprus & with Gold	2008, 2.0 with Cyprus & without Gold	2008, 2.0 with Cyprus & with Gold
Gold	n/a	+22%	n/a	+22%
Cash	+1%	n/a	-24%	n/a
Portfolio Value	$202mm	$244mm	$152mm	$244mm

Tale of Two Committees – Final Analysis

- The portfolio that has swapped into Physical Gold in anticipation of market turmoil has outperformed dramatically; not only in realized return, but perhaps more importantly in the on-going protection of these assets from confiscation.

- Should less conservative assumptions be made about what would occur in a "2008, 2.0" event, the outperformance of Committee #1 is likely to be far more dramatic.

- In such a re-experience of the troubling days of "The Great Recession", one can surely know that governments and global Central Banks will respond to the problem in such a way that will produce significant change that will attempt to preserve their member Banks. Gold's track record in periods in which the status quo is in question has been superior; assuming another recession/bear market scenario, the Committee which added a healthy allocation to Physical Gold will likely be seen to have been prescient.

Biography and Contact Information

James P. Hunter

Mr. James P. Hunter is the Managing Partner of Alps Precious Metals. He has 28 years of investment experience. Mr. Hunter was a Co-Founding Partner of Point Clear Capital Management, LLC ("PCCM") from 2005 to 2010. From 1989 until he co-founded PCCM in 2005, Mr. Hunter was a member of the Institutional Fixed Income sales and trading divisions of several Wall Street investment firms, including Merrill Lynch and Lehman Brothers. Additionally, he has managed a number of separate accounts for high net worth individuals and families. Mr. Hunter is experienced in portfolio management of all types of equity, fixed income and alternative assets, as well as macro-economic analysis. Mr. Hunter holds a BA (Religion, 1985) from Rhodes College, and an MBA from Auburn University (1988).

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Appendix

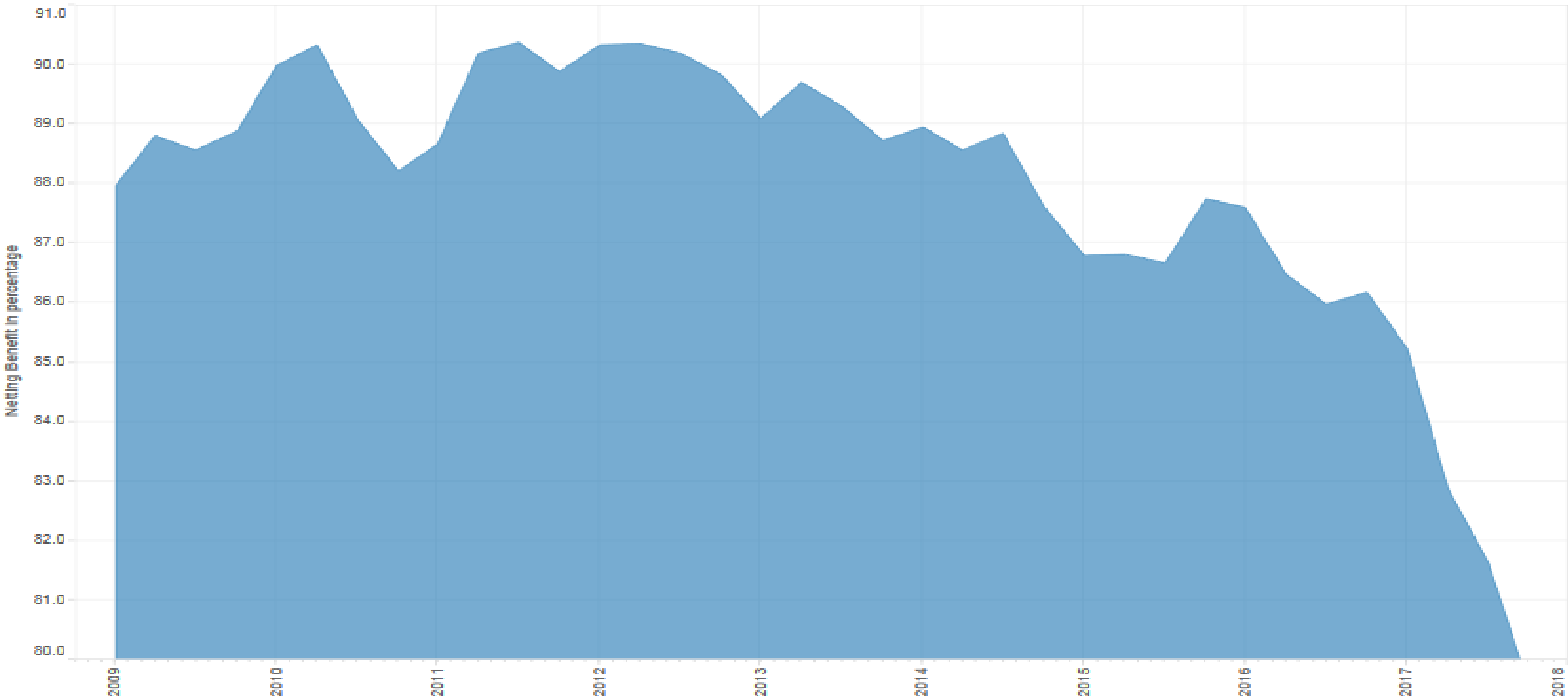
Appendix #1 - More comments on Bail-Ins

- "…global regulators have created (or are creating) resolution regimes to mitigate the risk of a full-fledged government bailout. These initiatives are supported by regulatory proposals mandating that banks hold elevated levels of loss-absorbing capital. While resolution regimes will differ by jurisdiction, the guiding principle is that shareholders, depositors, and creditors — not governments — will bear the cost of a bank failure going forward and that these actions will generally result in lower credit ratings…."   *State Street Global Advisors, "Bank Bail-In Regimes" – June 2015*

- What are your concerns, if any, for the ultimate success of bail-in? I think we've crossed the Rubicon in the US…you have both the will and the tools to do this today if any of the big US banks ran into trouble.   *Wilson Irvin - Credit Suisse, "The Lehman Experience and the Birth of Bail-In" – 9/4/2015*

Appendix #2 - Derivatives now have over *20%* of Notional fully exposed

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



Netting Benefit (in percentage)

2009			2010				2011				2012				2013			
Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
88.0	88.8	88.5	88.9	90.0	90.3	89.1	88.2	88.6	90.2	90.4	89.9	90.3	90.3	90.2	89.8	89.1	89.7	89.3

2014				2015				2016				2017				2018
Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
88.7	88.9	88.6	88.8	87.6	86.8	86.8	86.7	87.7	87.6	86.5	86.0	86.2	85.2	82.9	81.6	79.5

Source: Office of the Comptroller of the Currency Quarterly Report on Bank Trading and Derivatives Activity – 1st Quarter 2018 (published June 2018)

Appendix #3 (Five Slides)

Is Gold the Proper Hedge for another Maelstrom?

Extremely Uncorrelated Asset? Gold according to PwC

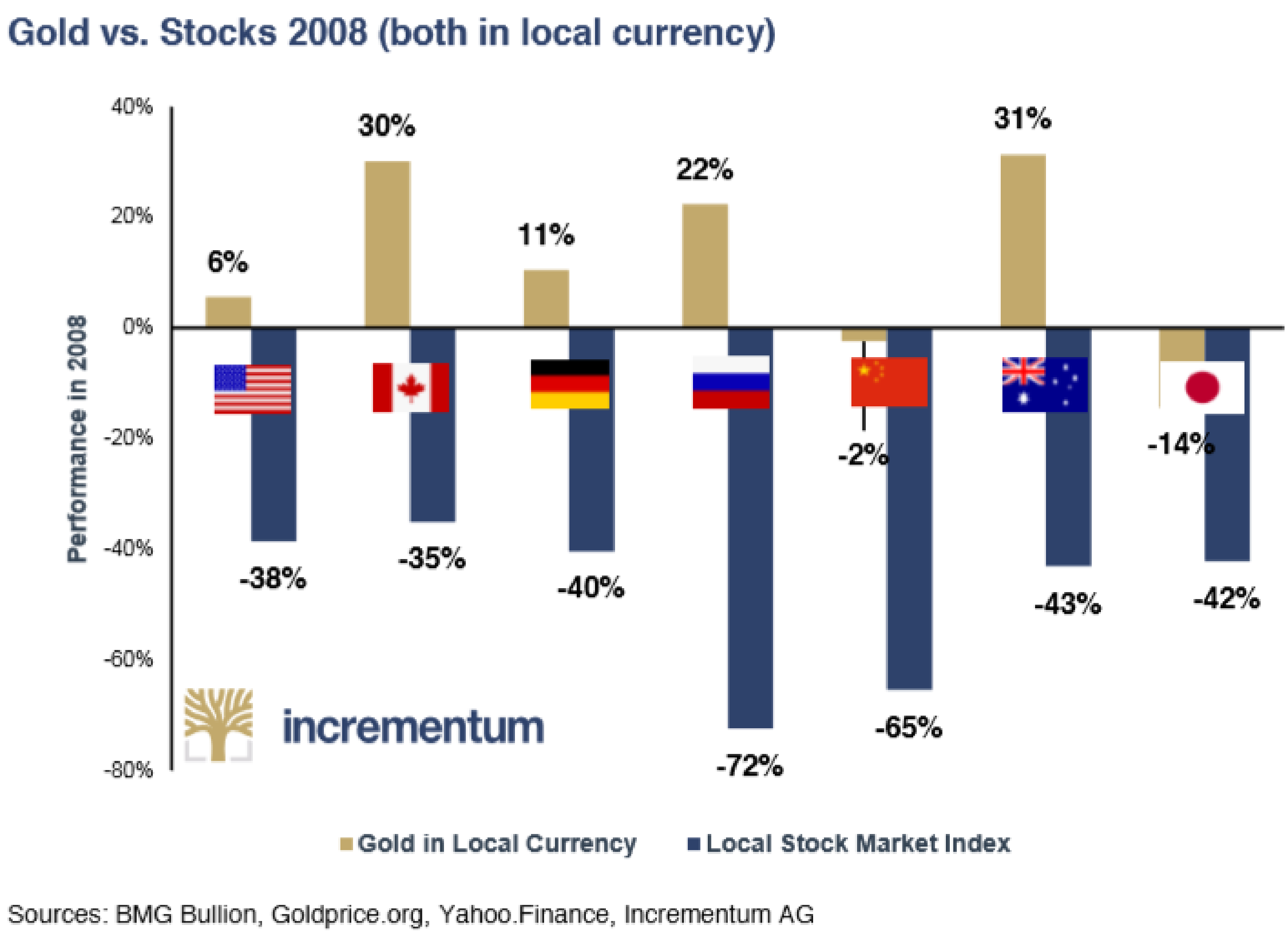
Figure 27: Correlation of gold monthly returns with equity and bonds

	5 years	10 years	20 years
Correlation gold - equity	0.04	-0.05	-0.07
Correlation gold - bonds	0.75	0.58	0.28

Source: PwC Market Research Centre analysis based on Bloomberg and WGC data

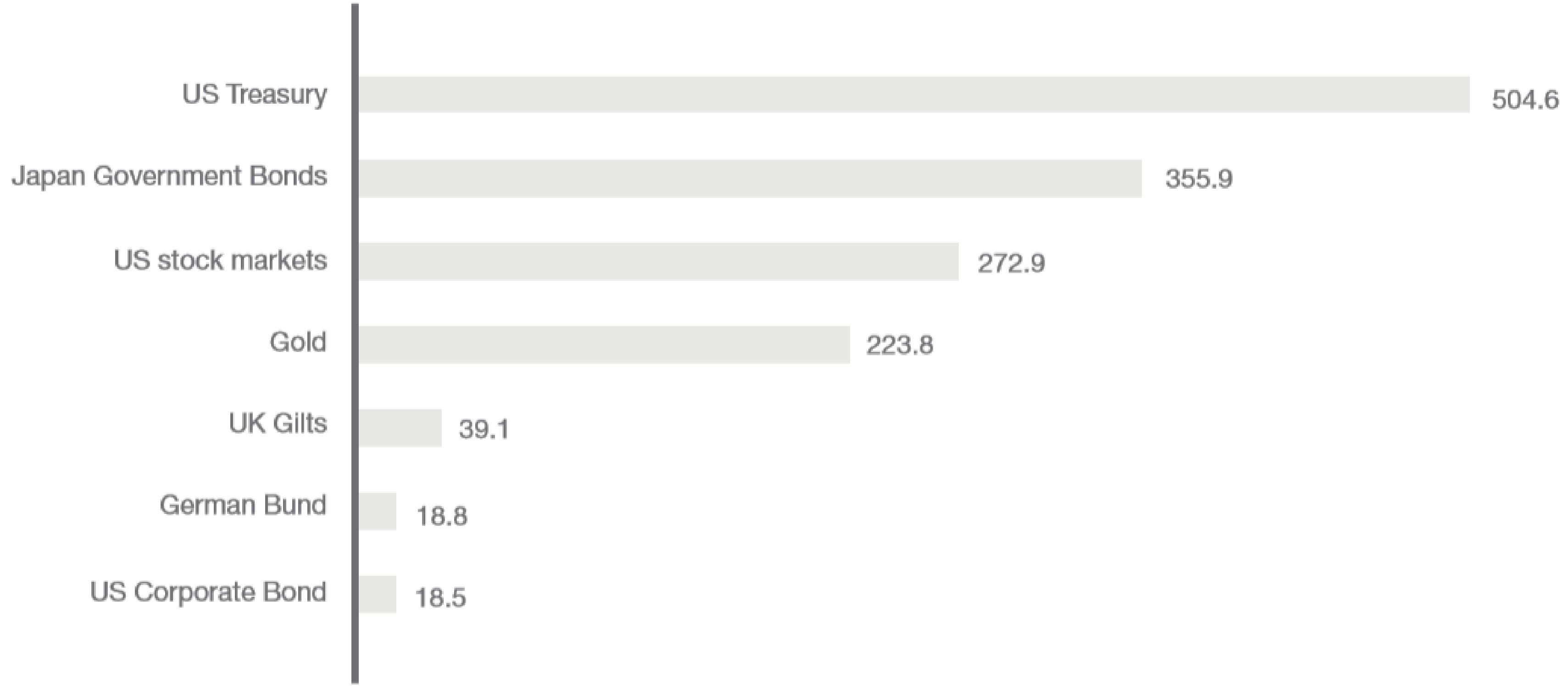
Source: Price-Waterhouse Cooper's 2018 report on Sovereign Wealth Fund investments in Alternatives. Quoting from the report – "…Gold can be a useful addition to investment portfolios compared to other commodities, due to lower correlation to traditional asset classes…." https://www.pwc.lu/en/alternative-investments/docs/pwc-sovereign-wealth-funds.pdf

Gold's Outstanding Performance vs. Stocks in 2008



Best Global Liquidity in Alternative Sector? Gold according to PwC

Figure 11: Average daily volume exchanged in 2016 (USD bn)



Source: PwC Market Research Centre, BIS, SIFMA, Deutsche Finanzagentur, UK Debt Management Office, World Gold Council

Source: Price-Waterhouse Cooper's 2018 report on Sovereign Wealth Fund investments in Alternatives. Quoting from the report – "…compared to traditional asset classes, most alternative asset class liquidity presents a major drawback. Gold is the exception…." https://www.pwc.lu/en/alternative-investments/docs/pwc-sovereign-wealth-funds.pdf

Performance of Assets Post-WW2 Equity Bear Markets (Stocks Down 20% or More)

		Government bonds						
		(local currency)			FX			
Start	Trough	US 10Y	Germany	Japan	CHF	JPY	Cash	Gold
Aug 56	Oct 57	-5%					0%	-4%
Dec 61	Jun 62	3%	3%			-1%	1%	-1%
Feb 66	Oct 66	-2%	-3%			-3%	0%	-3%
Nov 68	May 70	-15%	-13%	1%		-8%	3%	-19%
Jan 73	Oct 74	-16%	-14%	-24%	7%	-16%	-2%	100%
Sep 76	Mar 78	-3%	21%	20%	20%	11%	-2%	40%
Nov 80	Aug 82	5%	-2%	8%	-30%	-28%	12%	-53%
Aug 87	Dec 87	0%	1%	1%	9%	7%	1%	4%
Jul 90	Oct 90	-3%	-4%	-6%	7%	11%	0%	5%
Jul 98	Aug 98	4%	4%	4%	4%	-1%	1%	-7%
Mar 00	Oct 02	27%	14%	6%	3%	-18%	4%	6%
Oct 07	Mar 09	21%	16%	5%	0%	16%	1%	22%
Apr 11	Oct 11	15%	14%	2%	-6%	5%	-1%	7%
	Average	2.2%	3.1%	1.7%	1.6%	-2.1%	1.4%	7.6%
	Median:	-0.3%	1.9%	2.9%	4%	-0.9%	0.5%	3.9%

Sources: Goldman Sachs, Incrementum AG

Appendix #4 - Table of Possible Outcomes

Scenario/ Asset	1970's Stagflation without Cyprus & without Gold	1970's Stagflation without Cyprus & with Gold	1970's Stagflation with Cyprus & without Gold	1970's Stagflation with Cyprus & with Gold
Gold	n/a	+70%	n/a	+70%
Stocks	-31%	-31%	-31%	-31%
Bonds	-10%	-10%	-10%	-10%
Cash	-2%	n/a	-27%	n/a
Portfolo % Return	-21.8%	-14.6%	-24.3%	-14.6%
Portfolio Value	$1.564 B	$1.708 B	$1.514 B	$1.708 B

Appendix #5 - Table of Possible Outcomes

Scenario/ Asset	2008, 2.0 without Cyprus & without Gold	2008, 2.0 without Cyprus & with Gold	2008, 2.0 with Cyprus & without Gold	2008, 2.0 with Cyprus & with Gold
Gold	n/a	+22%	n/a	+22%
Stocks	-58%	-58%	-58%	-58%
Bonds	+21%	+21%	+21%	+21%
Cash	+1%	n/a	-24%	n/a
Portfolo % Return	-28.4%	-26.3%	-30.9%	-26.3%
Portfolio Value	$1.432 B	$1.474 B	$1.382 B	$1.474 B