Alps Precious Metals Group

Commentary – December 1, 2021

The Sound of Ringing Bells

"…This is why I am returning capital. Markets have now become a political choice. US markets are essentially a bet on the Fed unable to raise rates, and Congress unable to regulate big tech or raise corporate tax rates. Commodity markets have now become a bet on Chinese policy objectives, and currencies have become a bet on what Chinese policy objectives are too. Give me an economic problem, then I can properly gauge risk.

Give me a Chinese political problem – I am taking a guess as much as the next person. Did I think Alibaba was going to fall 50% this year? No, not until the Chinese government told me to think that way. Is Alibaba a good short now? I have no idea, and like everyone else will have to wait to see what the Chinese government says.

So, I think it time to step back, have a think about where we are going, and then come back when I can see an opportunity for my skill set. Perhaps that's never, but I doubt it. The only constant in life is change…."

Source: Russell Clark, Horseman Global/Russell Clark Investment Management, Excerpt from Letter to Shareholders & Zero Hedge 11/11/2021

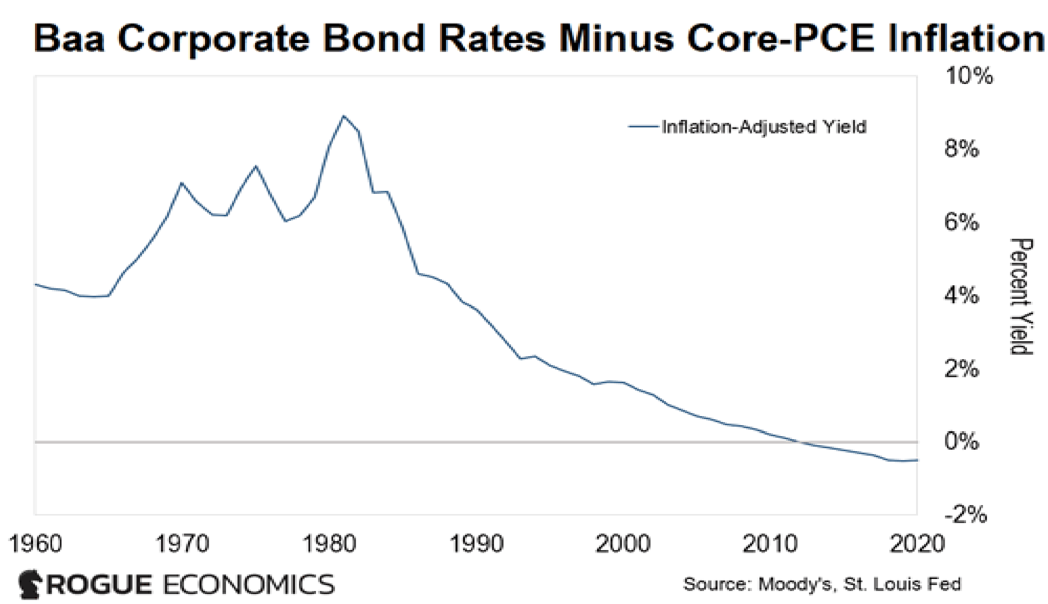
…2 YEARS AGO, WE WERE SELLING AT 10 TIMES REVENUES WHEN WE WERE AT $64. AT 10 TIMES REVENUES, TO GIVE YOU A 10-YEAR PAYBACK, I HAVE TO PAY YOU 100% OF REVENUES FOR 10 STRAIGHT YEARS IN DIVIDENDS. THAT ASSUMES I CAN GET THAT BY MY SHAREHOLDERS. THAT ASSUMES I HAVE ZERO COST OF GOODS SOLD, WHICH IS VERY HARD FOR A COMPUTER COMPANY. THAT ASSUMES ZERO EXPENSES, WHICH IS REALLY HARD WITH 39,000 EMPLOYEES. THAT ASSUMES I PAY NO TAXES, WHICH IS VERY HARD. AND THAT ASSUMES YOU PAY NO TAXES ON YOUR DIVIDENDS, WHICH IS KIND OF ILLEGAL. AND THAT ASSUMES WITH ZERO R&D FOR THE NEXT 10 YEARS, I CAN MAINTAIN THE CURRENT REVENUE RUN RATE. NOW, HAVING DONE THAT, WOULD ANY OF YOU LIKE TO BUY MY STOCK AT $64? DO YOU REALIZE HOW RIDICULOUS THOSE BASIC ASSUMPTIONS ARE? YOU DON'T NEED ANY TRANSPARENCY. YOU DON'T NEED ANY FOOTNOTES. WHAT WERE YOU THINKING?

Source: Scott McNealy, CEO of SUN Microsystems in an interview with Business Week, April 2002.

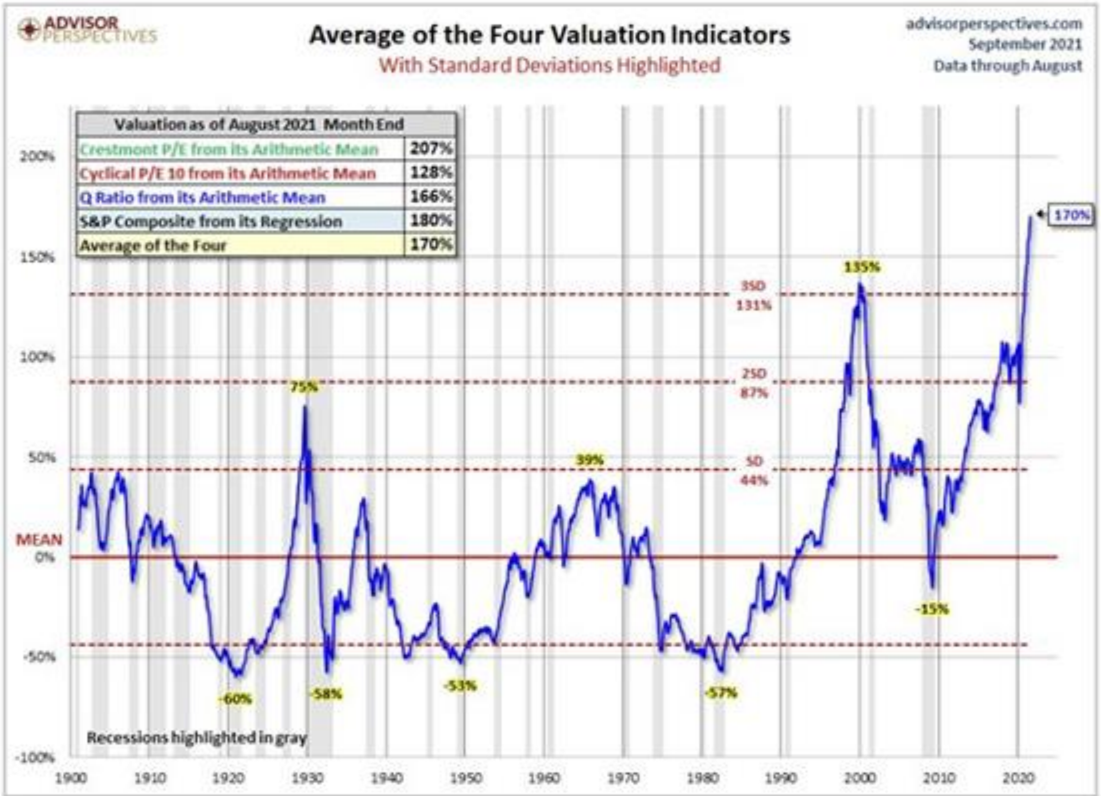
When comparing and contrasting the current unbridled mania in financial markets with the same episode 20 years ago, one is struck at the level of equally unbridled complacency that this era has when compared to the "Dot Com days" of the late 90's/early 00's. At the turn of the century, the euphoria over "new paradigms", "new ways to value financial securities", etc. overwhelmed the airwaves. To be sure, many voices were sounding alarms, but the manner in which they were dismissed was different. "New and exciting" ruled the day and the naysayers were simply seen as too Luddite to understand the new investment world.

Today is different. After major league Bear markets from 2000-2002 and 2007-2009, investors theoretically relearned the lesson that simply printing money doesn't mean, in the immortal words of Irving Fisher in September of 1929, "…stock prices have reached a permanently high plateau…". Unfortunately, global Central Banks were not willing for *any* lessons to be relearned. Instead of seeing the error of their ways, the U.S. Federal Reserve and friends have doubled, tripled and quadrupled down on their policies of attempting to permanently *SUPPORT* asset prices at the current "lack of oxygen" heights. Therefore, after 13 years of the global investment community observing that whenever something goes kaputz with stock prices, the Central Banks quickly resurrect them, valuations have vaulted far ahead of the madness of 1929 and 2000. This new market reality has been met with a complacency which truly boggles the mind. Commentary and stories from the mainstream financial press, some which emanate from 15-year "veteran" reporters, simply assume that the status quo is, in fact, permanent. Rarely, if ever, is the concept of "highest valuations in financial history" raised for discussion.

But facts is facts. The charts below tell the sobering details. Bonds trade at *negative* nominal rates in many countries, and trade at negative *real* rates in this country – paying for the privilege of owning a bond is not a path tread by thoughtful investors. In real terms, investment grade corporate bonds are a *cost* to the owners:



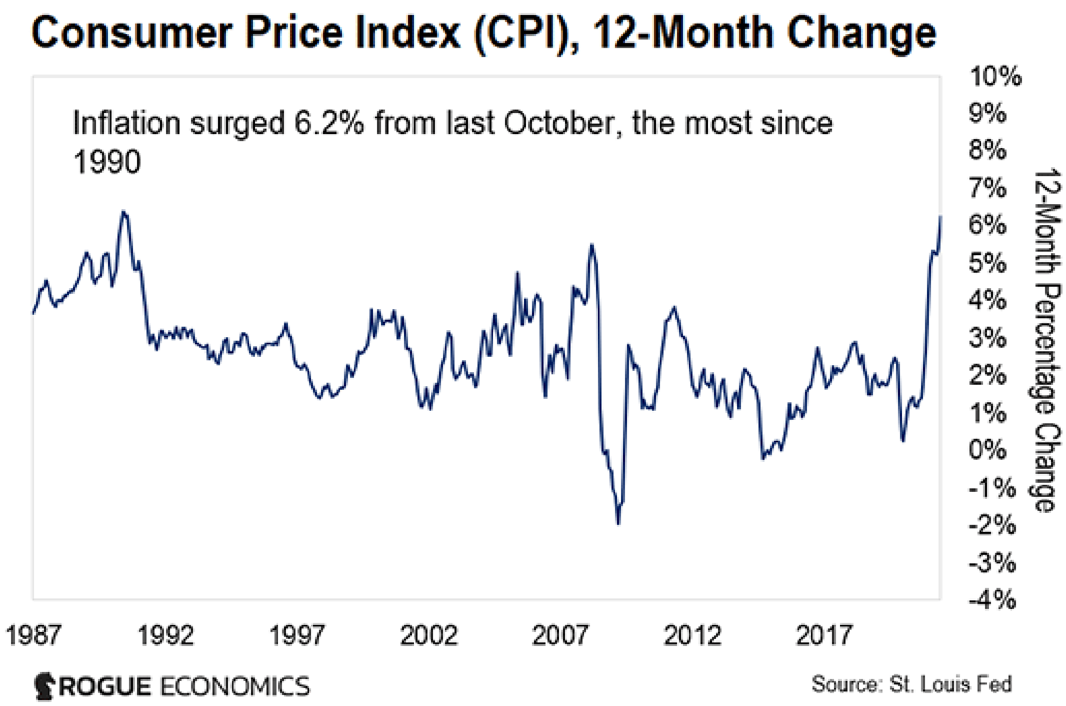
Equity valuations are at all time highs, virtually irrespective of what valuation measurement one cares to use.



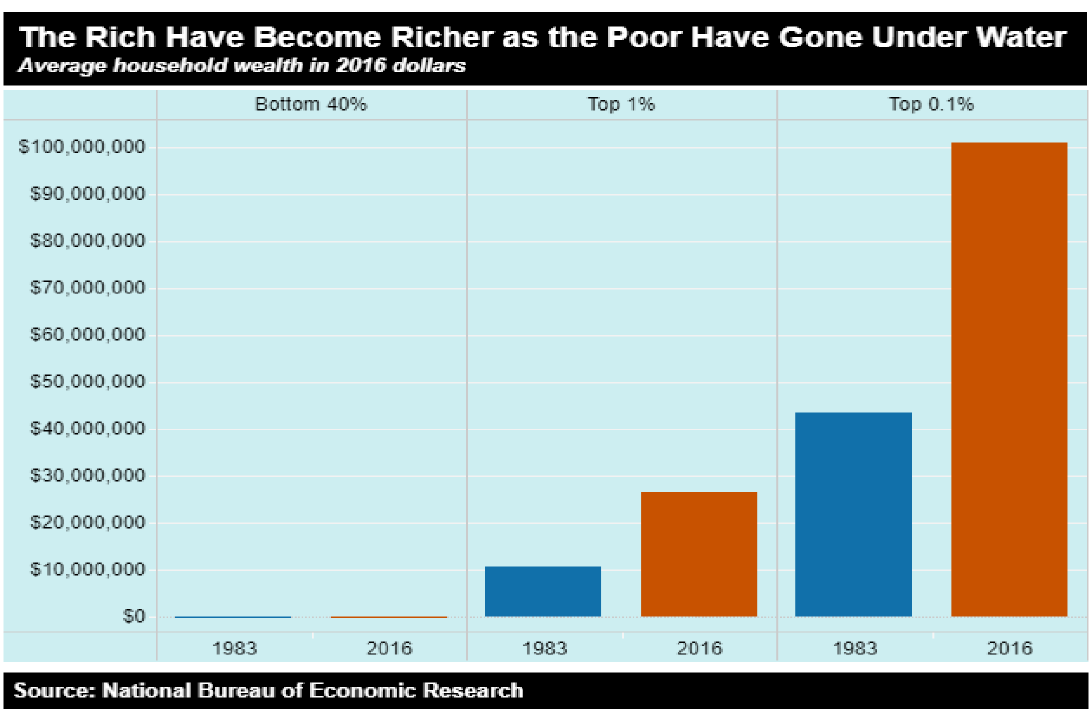
Source: Advisor Perspectives

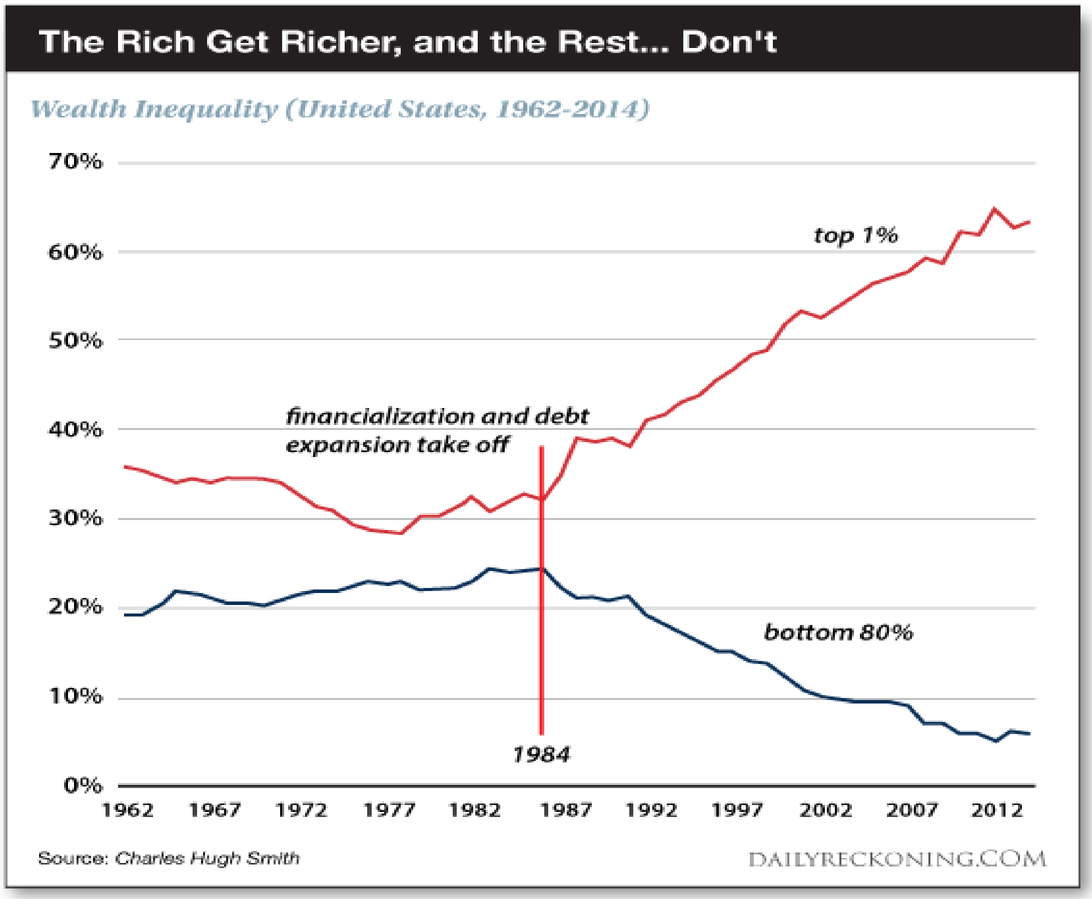
Real Estate values are back to complete fantasyland, and some of those prices are exacerbated by increased demand from those fleeing Covid concentration camp States and Countries for the saner pastures and normal lives found in States like Florida. Commodities are the last sector to join the mad parade, and as a result, the dreaded “i” word has reared its ugly head.

Our contention all along has been “if it’s this easy, why haven’t our all-knowing and wise Central Banking Powers-that-Be enacted this strategy all along?!?”. One of the main reasons these omniscient seers have not been able to sustain such hubristic policies is seen on the following chart; it’s called “Inflation”:



Creating credit ex nihilo (aka, printing money) bubbles up asset prices (stock, bond, commodity and real estate prices), and it eventually shows up in much less welcome "bubbles" - higher prices for general goods and services. One might argue that since everyone has been enriched by the inflation of assets, the higher prices for general goods and services can be absorbed without a problem. However, when one sees the following graphs, he can be disabused of such a quaint thought:



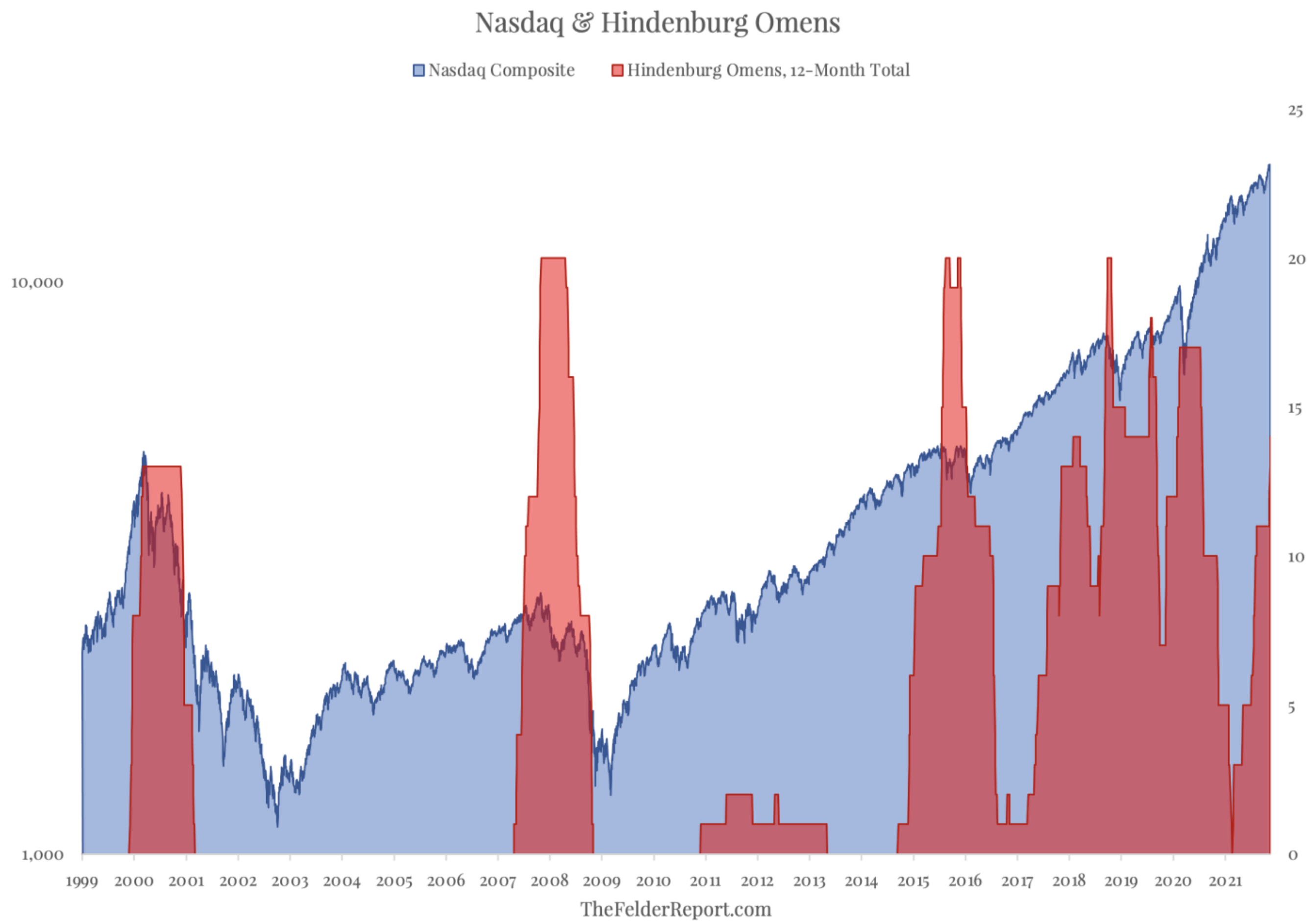


As we have highlighted in the past, wealth disparities such as the ones that are now prevalent in our country and world are the ingredients for hot wars. When one adds brutal goods-and-services inflation to an historic gap between rich and poor, "gasoline on fire" is what leaps to mind.

So, what are those bells we hear ringing? Are they Christmas Bells, or what heretofore have thought to be non-existent bells which ring at the top of markets? Just before Thanksgiving, the always helpful Jesse Felder detailed another rather eye-catching chart (highlights below are ours):

"…I am referring to a signal called the Hindenburg Omen that is triggered when the index sits at or near a new high and both the number of new 52-week highs and lows on the exchange rises above a certain threshold. The indicator gets a bad rap as it was originally billed as a signal of an impending crash and has a terrible track record in this regard.
The vast majority of signals are not followed by stock market crashes as they occur with far too great a frequency. Still, I find that tracking the number of signals over certain time periods has a great deal of value at

forecasting increasing volatility. The history of the Nasdaq Composite over the past couple of decades is a good example of this. This week saw the index trigger its 13th and 14th Hindenburg Omens of the year. In the past, this degree of persistent dispersion has been a consistent precursor to corrections or bear markets in the index.



In March of 2000, at the peak of the DotCom mania, we saw the index trigger its 13th omen and a bear market ensued shortly thereafter, as did another in 2007-2008, after 13 omens were triggered in October of 2007. It wasn't until almost eight years later the running total hit 13 again, just prior to a pair of corrections in mid-2015 and early-2016. Then, in late-2017, we saw 13 omens eclipsed again heading into the "Volmageddon" episode in early-2018. 13 proved the magic number once again later that year just prior to the fourth quarter selloff that bottomed around Christmas. Finally, we saw 13 omens triggered again just prior to the Covid crash in early-2020…."

Source: https://thefelderreport.com/2021/11/17/the-fasten-seat-belt-sign-just-lit-up/

What does all this have to do with Gold and Silver prices? Consider the following table, which details the macroeconomic differences between the last obscenely valued equity market in 1999 with the one in which we find ourselves. Readily apparent is the fact that things are worse today than they were then, and the ability to continue these bubble-blowing experiments is near absolute zero:

	1999	2021
GDP Growth Rate *	5.80%	4.10%
EPS Growth Rate	7.46%	6.70%
Real Earn Yield **	0.74%	-2.81%
Govt. Debt to GDP **	54x	125x
Private Debt to GDP **	181x	235x
Prodctivity Growth (private business) **	5.04%	0.00%
Labor Force Participation Rate	67.20%	61.60%
% Population > 65 *	12.31%	16.63%
CPI **	3.40%	6.20%
Fed Bal Sheet ($ trillions)**	$ 0.68	$ 8.57
Fed Funds **	5.50%	0%
10-Yr. UST Yield **	4.65%	1.46%

** Using 3 year Prior Avg.*

*** Using Most Current*

Source: Michael Leibowicz, Real Investment Advice - 12/1/2021 - https://realinvestmentadvice.com/is-a-stock-market-crash-like-2000-possible

Any investor who was wise enough to buy Gold and/or Silver at any time between 1999 and 2001 was handsomely rewarded for so doing. If the now 13-year old monetary experiment of Central Banks and Governments goes the way of all flesh, then the probability is high that history will repeat itself and a long Precious Metals strategy will outperform most, if not all, others. Such an investor would then qualify for a sought-after category defined by Jeremy Grantham, the co-founder of the GMO Investment Management firm:

"…I've been very clear about what I consider a definition of success – and that is only that, sooner or later, you will have made money to have sidestepped the bubble phase…."

This experiment has required an extremely savvy modern investor - Russell Clarke – to close his fund because it has become no longer "investing". Remember, however, the words of Scott McNeally from 20 years ago. For Precious Metal investors, when this phony rally dies, we believe the phrase will not be "What were you thinking?"; but instead, "My gosh, were you thinking!"

Alps, LPMG, St. Joseph Partners and Monetary Metals

Alps Precious Metals Group via our partnerships with Liechtenstein Precious Metals Group (Global and Offshore clients) and St. Joseph Partners (U.S./Canadian focused clients) is dedicated to providing the global standard for the finest and most secure storage and trading of Physical Precious Metals. Our Vaults have some of the highest security standards in the world ("Class 10" at LPMG) and, via our insurance partners, each client's specie is insured at 100% of its market value. Our trading desks provide 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.

We have an additional partnership with Monetary Metals ("MM"). MM has a unique niche in the Precious Metals markets, which is summarized in their motto: "A Yield on Gold, Paid in Gold". For investors who would like exposure to the Precious Metals sector but require an income flow from the investment, our partnership with MM can provide the same.

Contact us (www.alpspmg.com) to discuss how Alps 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