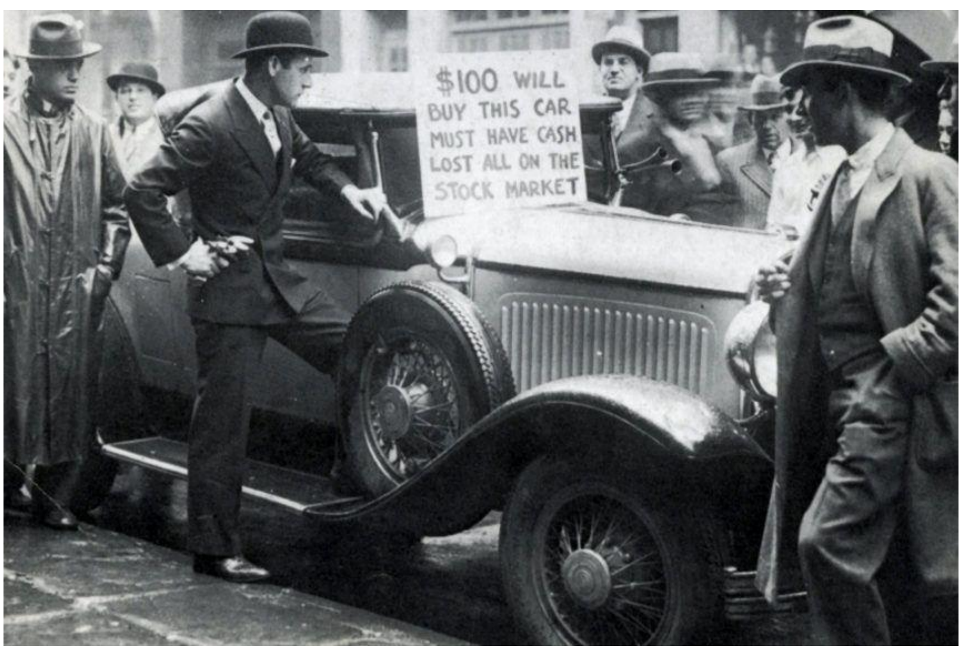
[Alps Precious Metals Group]

Commentary – September 9, 2022

A Fall to Remember?



1st Photo = [www.investopedia.com]; 2nd Photo = [www.saturdayeveningpost.com]

"…The proof of the pudding is the speed and scale of these bear market rallies:

1) *From the November low in 1929 to the April 1930 high, the market rallied 46% - a 55% recovery of the loss from the peak.*
2) *In 1973, the summer rally after the initial decline recovered 59% of the S&P 500's total loss from the high.*
3) *In 2000, the NASDAQ (which had been the main event of the tech bubble) recovered 60% of its initial losses in just 2 months.*
4) *In 2022, at the intraday peak on August 16th, the S&P had made back 58% of its losses since its June low. Thus we could say the current event, so far, is looking eerily similar to these other historic super bubbles.*

Jeremy Grantham, GMO Commentary – 8/31/2022

https://www.gmo.com/americas/research-library/entering-the-superbubbles-final-act/?utm_medium=email&utm_source=episerver campaign&utm_campaign=article-subscription-push&utm_content=Viewpoints&email=jesse%40thefelderreport.com&first_name=Jesse&last_name=Felder
"Entering the Superbubble's Final Act" - Jeremy Grantham, August 31, 2022

Jeremy Grantham and his firm GMO are often early, but rarely wrong. When Grantham steadfastly maintained the warnings he began publishing as early as 2005 about the insanity of the housing market in particular and the overall markets in general, many an "Asset Under Management" were lost by GMO in those halcyon days of 2006 and 2007 before one of the Grizzliest of all Bear Markets showed up in 2008. Mr. Grantham was vindicated, and much was the repentance of those who pooh-pooed Grantham's prescient, but early, commentary. "We won't discount you next time!" were the plaintive calls of the humbled.

Yet here we are, 14 years later, and what has been learned? Only that there is no such thing as an equity market that goes down and *stays* down. The overriding lesson of a decade and a half is that Central Bankers, especially those members of the U.S. Federal Reserve Bank, will ALWAYS step into the flames of down-drafting Bear Markets, quench the fires of losses, and have stock prices headed back skyward in no time.

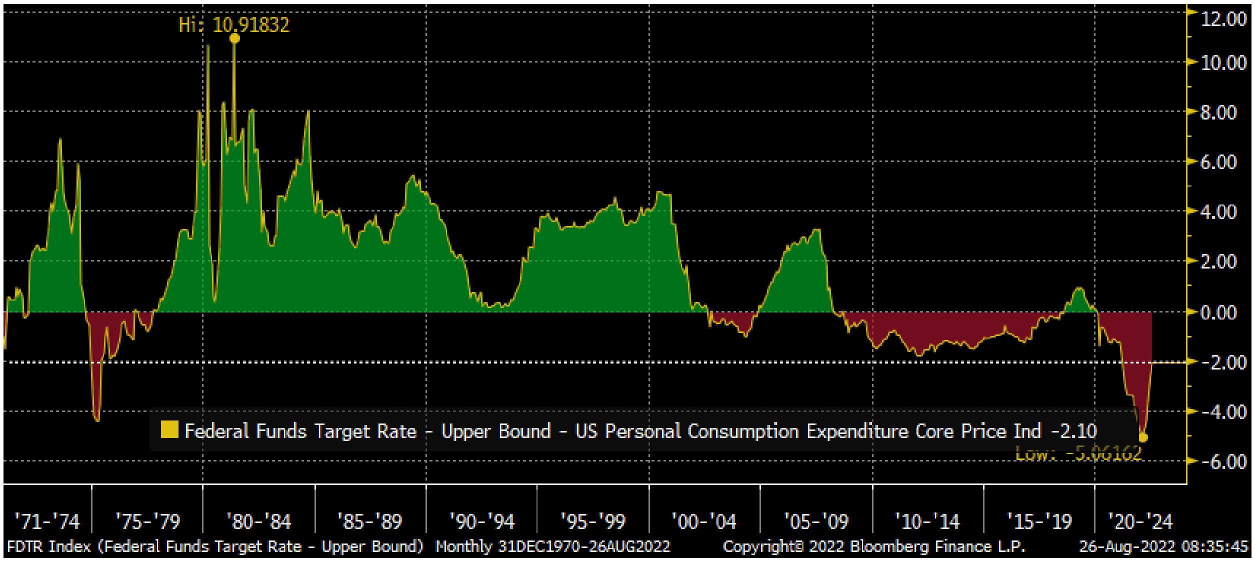
Could, of all things, this time be different? Could it be that something else is afoot this go-round that means that some new/old instruction is about to be proffered? If one pays more attention to what the Fed does than to what they say, an interesting new way of doing business seems to have emerged. In spite of the fact that equity markets are down 15% or more this year, the balance sheet reduction/tightening of the money supply/raising short-term interest rates continues. What are these guys up to?

First, something to make clear. The U.S. Federal Reserve Bank is *NOT* 3 things that one would think it is, given its name:

1) It is not a branch of the Government. It is a private corporation, owned by a number of entities, the largest of which are the NYC Money Center banks like JP Morgan, Citibank, et.al., along with families such as the Rothschilds.
2) The Fed does not have real reserves. They create credit ex nihilo.
3) The Fed is not a Bank; it is a cartel of banks

According to our friend Tom Luongo of the Gold, Goats and Guns report (https://tomluongo.me/) there is a much bigger game going on that is driving the Fed's behavior. Luongo's thesis is that the owners of the Fed have looked into the future proposed by the self-appointed "World Elite" of Davos/The World Economic Forum ("The Great Reset" of Klaus Schwab) and don't like what they see. Contrary to the "share of mind" manifested in the Fed's once coordinated policy with the ECB, BOJ and BOC (which was existentially needed by all of them in 2008), the owners of the Fed have no interest in a World Currency issued by Davos and the World Socialism implied by the same, for the ultimate result is the utter irrelevance of banking as it is known today. Therefore, the Fed owners have instructed their clerk, Jerome Powell, to shrink the Fed's balance sheet/tighten monetary policy/raise interest rates in order to reestablish the strength of the dollar – the currency of NYC banks and still the most dominant Global currency for commerce - and thereby undermine the plans of the Davos-controlled and Government-owned rival Central Banks. The cover for all of this is "Fighting Inflation", which probably won't succeed unless the ghost of Paul Volcker begins to call the shots for those who hold Jay Powell's leash. While we suspect Mr. Luongo's theory more likely than the for the headlines "Fight Inflation" rationale, the Fed, whatever the motivation, is acting quite differently from how they have acted this Century, and, truth be told, differently from how they've acted for the last 35 years. So, it appears that into a Stagflation world we go.

What makes us believe that the nerve and guts of "Tall Paul" will be needed to quell inflation? Take a look at the following chart, noting that in spite of the tightening experienced in the recent past, we ain't anywhere near where we need to be. The Fed Funds target rate minus the Fed's favorite inflation measurement (PCE Core prices index) is currently as negative as it was in the stagflationary days of the mid-1970's. To reach a level where one could reasonably infer that inflation would be in jeopardy, the rate would need to be far higher than where we are currently. 7% Fed Funds, anyone?



Source - https://twitter.com/RBAdvisors/status/1563152176574148611/photo/1 ; The Felder Report and Richard Bernstein Advisors

Traditionally, a stronger dollar means lower commodity prices, especially that key commodity known as Oil/Gas. However, the Dollar has been strengthening since the Russian/Ukrainian war began; yet, except for very recently, Gasoline has risen in price and stocks have fallen. But clearly, this chart shows that Gasoline and Stocks are currently inversely correlated:

Source - https://twitter.com/FusionptCapital/status/1558183112097423360/photo/1 ; The Felder Report & Arun Chopra, Fusion Point Capital

This "Gas/Stocks" relationship is particularly important going forward, as the chasm between "The West" (aka, the U.S., the U.K., Canada, Australia/New Zealand and Europe) and Russia, China and just about everyone else grows wider. In such a case, the Dollar could strengthen, but new arrangements in the settlement of Oil trading and the dynamics of Oil's geo-politically influenced supply and demand may mean higher Crude prices irrespective of Dollar strength. And that, too, would mean Stagflation.

Four years ago, in October of 2018, another friend of Alps, Ben Hunt, wrote a seminal essay about what sort of events would cause a true unraveling of the appetite for risk, which has been engineered by Central Bankers over the last 14 years. The title of the essay series is "Things Fall Apart" and the link is here:

https://www.epsilontheory.com/category/things-fall-apart/

To us, the most important part of the series was "Part 3, Markets". Hunt describes the "4 Horseman of the Market Apocalypse" which were major risks which could lead to a significant downdraft in markets. The first three "Horseman" are:

The Three Horsemen of the Investing Semi-Apocalypse

1. **The Fed** keeps on raising interest rates and shrinking its balance sheet, ultimately causing a nasty recession in the US and an outright depression in emerging markets.
2. **China** drops the trade war atom bomb by letting the yuan devalue sharply, sparking a global credit freeze that makes the 1997 Asian financial crisis look like a mild autumn day.
3. **Italy** and its populist government play hardball with Germany and the ECB in a way that Greece could not, leading to a Euro crisis that dwarfs the 2012 crisis.

Source – Ben Hunt, Epsilon Theory/2nd Foundation Partners – "Things Fall Apart – Part 3", 10/24/2018

Please note that Condition #1 has been upon us all during 2022 and the Equity market is down 22%, while the Bond market, as measured by the 10yr Treasury Note Futures Contract, is down 10%. In terms of Condition #2, the Chinese Yuan is down 9% this year, and could continue to have an unorderly down swing should the CCP decide to get very aggressive relative to the situation with Taiwan and the South China Sea, and/or be forced to dramatically invoke QE in order to prop up their very sketchy internal Real Estate markets. As to Condition #3, Italian elections will occur in 2 weeks, and the possibility is quite high of a populist, "we've had enough of the EU and we're out of here" party becoming the ruling power.

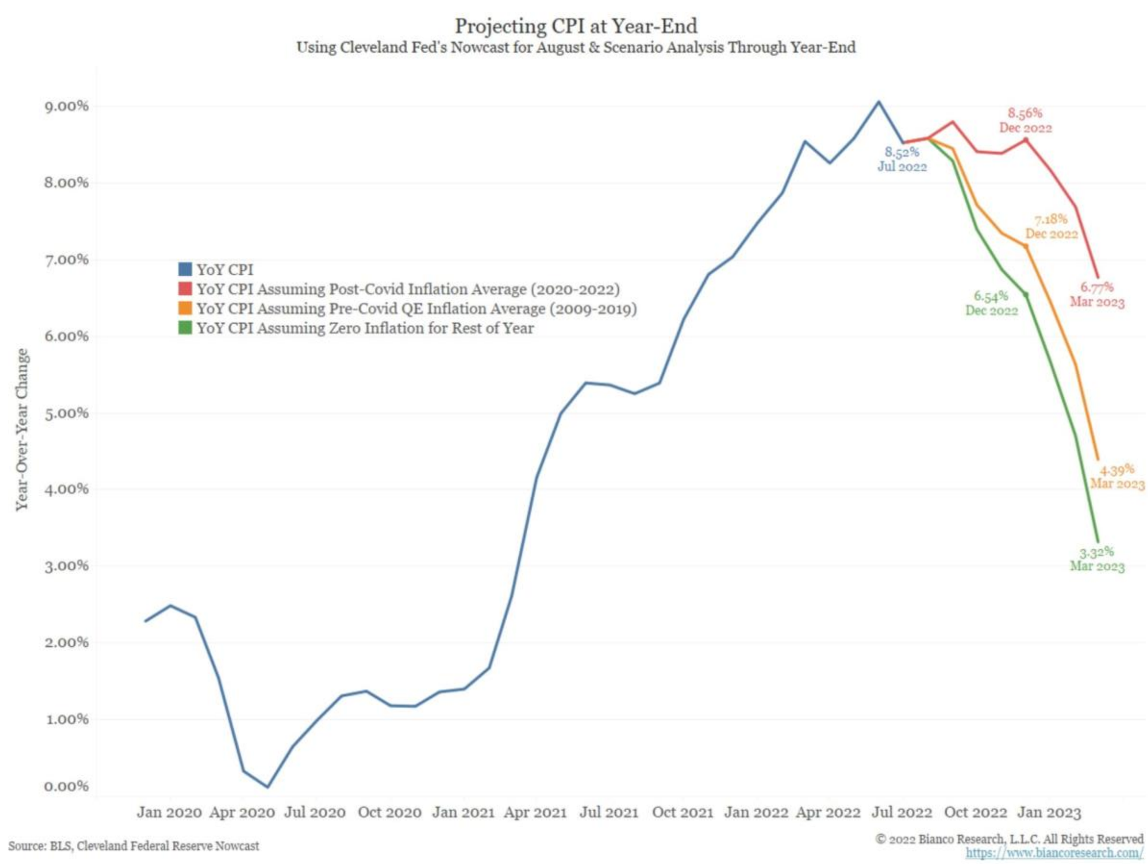
Three for three. Then there's this kicker:

The Fourth Horseman of the Investing Apocalypse

4. **Inflation** is not a cyclical blip and inflationary expectations are not "controllable" by the Fed without taking politically suicidal actions. They don't commit political suicide, and the world enters a new inflationary regime.

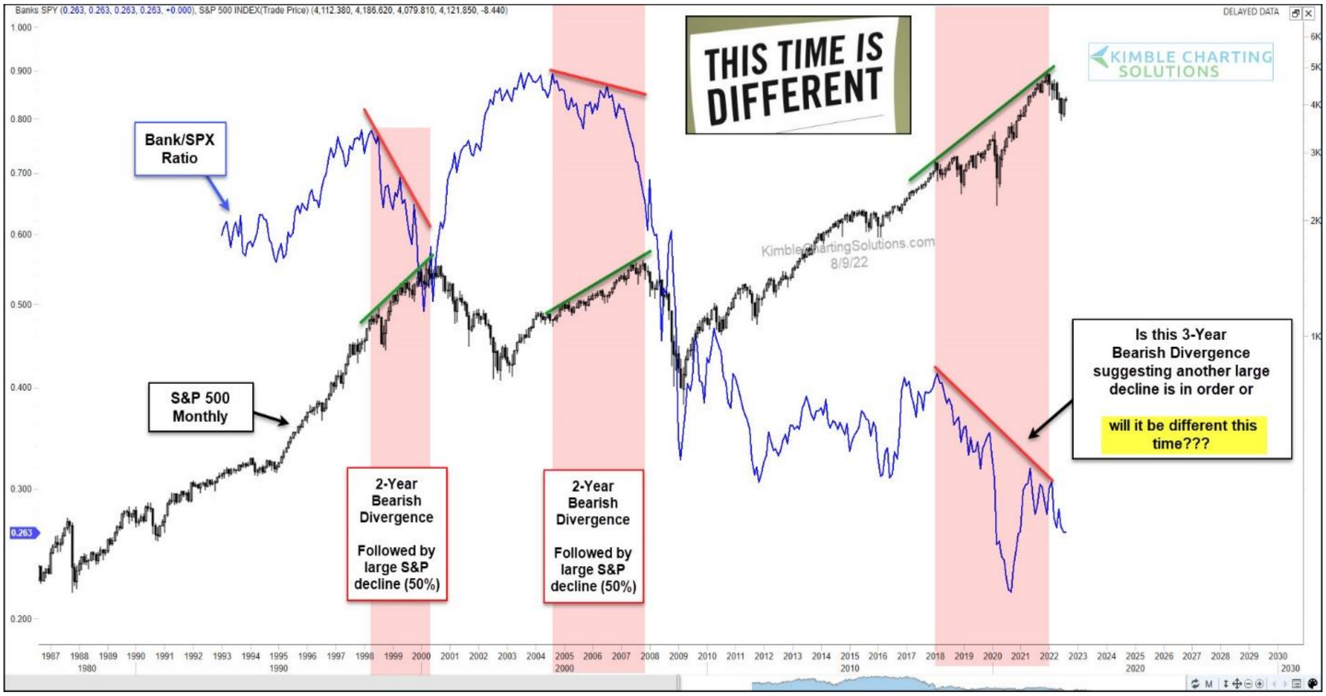
Source – Ben Hunt, Epsilon Theory/2nd Foundation Partners – "Things Fall Apart – Part 3", 10/24/2018

Four of a kind, Aces. All the elements are there for this to indeed be a Fall to Remember. What other road markers would suggest that one should prepare for something extremely wicked headed our way? Exhibit A, even if Inflation went to zero for the remainder of 2022, we would still have a massive Inflation problem on our hands:



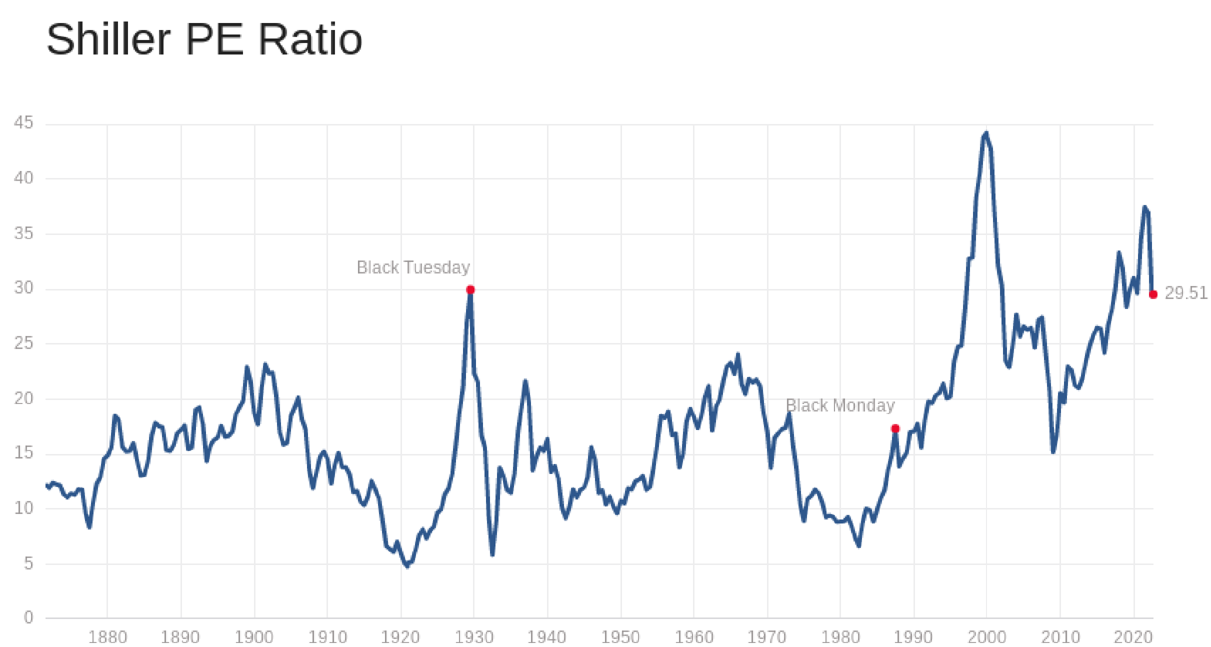
Source - https://twitter.com/LizAnnSonders/status/1557736868631916546/photo/1 & The Felder Report & Liz Sonders (@lizsonders)

Exhibit B, the divergence between Bank stocks and the S&P 500. In the last 30 years, Banks have had two major divergences from the S&P; those divergences preceded the two most significant drawdowns we have seen this Century; and the third divergence began in 2018:



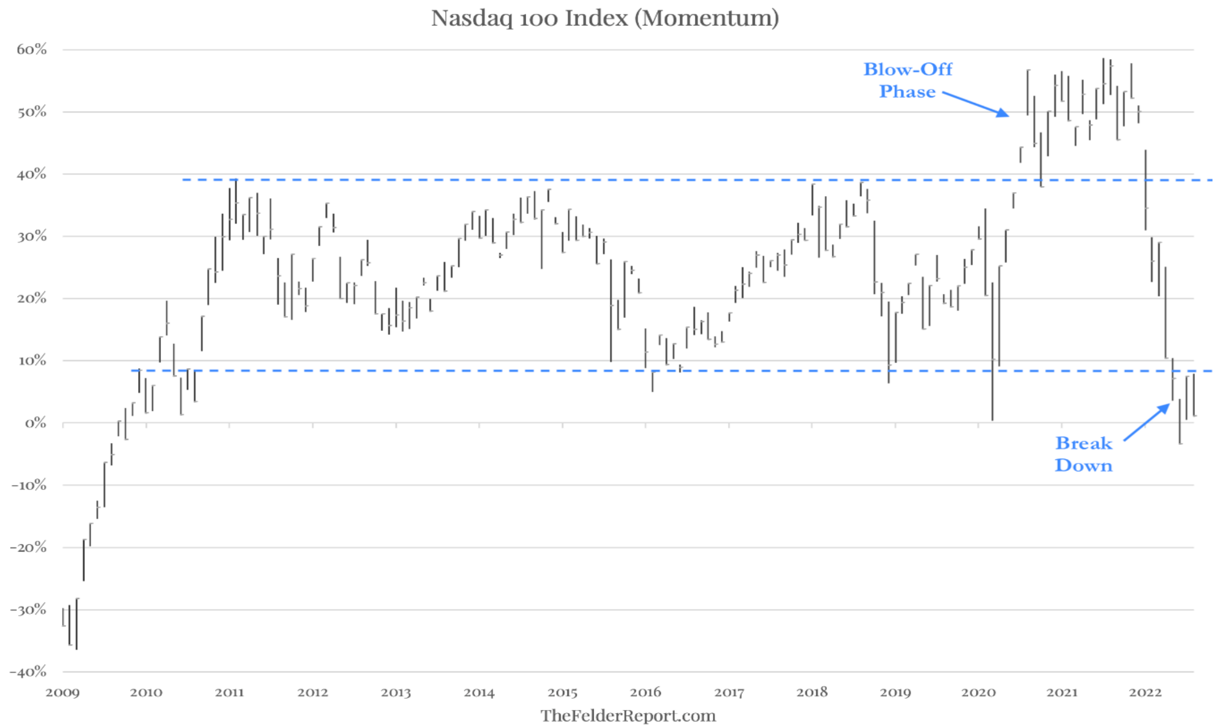
Source – https://kimblechartingsolutions.com/2022/08/will-bank-stocks-divergence-lead-to-another-market-crash/?mc_cid=2dc2ebcbb0 – 8/13/2022

Exhibit C, the Shiller CAPE ratio is as high as it was before Black Tuesday in October of 1929:



Source – Bonner Private Research, 9/7/2022

Exhibit D, the 20 year Momentum chart of the NASDAQ has broken down, a very ominous development for Tech stocks:



Source - https://thefelderreport.com/2022/08/31/the-massive-momentum-structure-in-the-stock-market-is-breaking-down/ & https://www.olivermsa.com/

Finally, keep in mind that even though the market is down 15% from its highs, Bear Markets don't really hammer the disbelievers in it until late in the game, as this table reveals:

	Duration		
Bear Market	1st Third	2nd Third	3rd Third
1929-33	-36%	-25%	-71%
1933-35	-6%	-21%	-11%
1937-38	-12%	-38%	-17%
1938-42	-8%	-22%	-24%
1946-47	-25%	4%	-8%
1948-49	-6%	-9%	-7%
1957-58	-6%	0%	-17%
1961-62	-3%	-3%	-23%
1966	-3%	-5%	-15%
1968-70	-5%	-9%	-25%
1973-75	-12%	-8%	-36%
1981-82	-6%	-12%	-13%
1987	-4%	-24%	-9%
2000-02	-11%	-16%	-34%
2007-09	-15%	-8%	-44%
2020	-13%	-2%	-22%
Mean	*-11%*	*-12%*	*-24%*
Median	*-7%*	*-9%*	*-20%*
Central Tendency	*-9%*	*-11%*	*-20%*

Source: Merk Investments, Bloomberg

Source – https://twitter.com/nicholastreece/status/1564961807793618946/photo/1; Nick Reece & The Felder Report, 9/3/2022

And what does this mean for Gold? We leave you with two charts. First, the Dow/Gold ratio chart. Simply put, one should buy Gold and sell stocks when the ratio is 15 or higher; currently, we are at 18.74. Keep in mind that the *demand* side for Gold has dramatically increased over the last 20 years in the form of the governments and people of China, Russia and other countries around the world. That robust enlargement of Global demand for the Midas metal could mean that the "20" level is the new cap for this ratio – time, as always, will tell:

Source – https://mcusercontent.com/b268a38a165b03979d95268dd/files/ee1f83b4-922b-9552-ed2d 65127dc3a834/September_2022_Monthly_Gold_Compass.pdf

This second chart concludes this edition of our thoughts and comments. We believe it may be the most compelling of all the reasons that Individuals, Families and Institutions need to have a material portfolio position in Gold. In the slightly edited words of a great old song, "…You can look around about, the wide world over…and you'll never find another honest hedge…". Gold may not "be doing what it is supposed to do" right this instant, but for the last 100 years, it shines brightest when it really matters:

Gold Captivates as Equity Hedge

S&P 500 Return vs. Gold Return during Times of Equity Crashes

Date of Market High	Date of Market Low	S&P 500 Return	Gold Return	Gold Relative to S&P500 S&P 500
9/16/1929	6/1/1932	-86.19%	0.29%	86.48%
8/2/1956	10/22/1957	-21.63%	-0.11%	21.52%
12/12/1961	6/26/1962	-27.97%	-0.06%	27.91%
2/9/1966	10/7/1966	-22.18%	0.00%	22.18%
11/29/1968	5/26/1970	-36.06%	-10.50%	25.56%
1/11/1973	10/3/1974	-48.20%	137.47%	185.67%
11/28/1980	8/9/1982	-27.27%	-45.78%	-18.51%
8/25/1987	10/20/1987	-35.94%	1.38%	37.32%
7/16/1990	10/11/1990	-20.36%	6.81%	27.17%
7/17/1998	10/8/1998	-22.29%	1.71%	24.00%
3/24/2000	10/10/2002	-50.50%	11.18%	61.68%
10/11/2007	3/6/2009	-57.69%	25.61%	83.30%
9/21/2018	12/26/2018	-20.21%	5.59%	25.80%
2/19/2020	3/23/2020	-35.41%	-3.63%	31.78%
1/3/2022	**3/8/2022***	-13.05%	12.25%	25.30%
	MEAN	**-36.65%**	**10.28%**	**45.85%**
	MEDIAN	**-27.97%**	**1.38%**	**27.54%**

Source: Cornerstone Macro, Bloomberg, Reuters Eikon (*Lowest Closing Price Since 1/3/2022), Incrementum AG

Alps, LPMG, St. Joseph Partners and Monetary Metals

Alps Precious Metals Group via our partnerships with Liechtenstein Precious Metals Group (our Global and Offshore clients) and St. Joseph Partners (our 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 global financial system.

We have an additional partnership with Monetary Metals ("MM") appropriate for both foreign and domestic clientele. 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