The Beginning Of The Next Big Gold Rush Has Commenced

Dear investor,

We pleased to report that Precious Metals Opportunity Fund was up 12.2% for the quarter. This compares to 5.5% for the S&P 500, which was in the media "spotlight" for hitting all-time highs on several occasions during Q1.

The performance of the precious metals sector relative to the stock market during the first quarter is a function of the continued strengthening of the fundamentals that drive the price of precious metals. Despite the Federal Reserve's insistence that the U.S. economy is strengthening and that it will seek further interest rate hikes, the actual data behind the headline hype reflects the descent of the U.S economy into a recession.

While a headline-glistening 4.5% unemployment rate was reported for March by the Government, the alleged 98,000 new jobs "created" in March was about 80,000 below the consensus Street forecast. It's easy to pick apart some of the specific areas in which the Government claims there was job growth. As an example, the BLS claims that "food services and drinking places" (i.e. bars and restaurants) provided 21.7 thousand new jobs in March. However, the restaurant industry has suffered declining comp store sales and foot traffic in 10 of the last 12 months, including a 1% drop in comparable store sales and a 3.4% decline in foot traffic in March. We find it exceptionally hard to believe that restaurants were not shedding workers in March, as opposed to adding over 21 thousand employees. At best there were likely no new jobs created in that segment. In other words, the creation of jobs right now by the economy is likely not even remotely close to the numbers claimed by the Government.

John Williams of Shadow Government Statistics has been analyzing and criticizing the quality of Government economic reports for over three decades. Using the statistical methodology employed by the Government in 1980 to calculate the rate of unemployment, Williams has the true unemployment rate pegged at 23%. The primary difference is how the Government now defines someone in the “working age population” to be part of the Labor Force. The current definition has removed some 95 million people in the “working age population” from the Labor Force and those bodies are not counted in calculating the unemployment rate, though a majority of them would no doubt like to find a good job. A significant percentage of the "employed" are working more than one part-time to make ends meet.

Auto sales plunged in March to a 16.6 million SAAR vs 17.6 million in February. The consensus estimate was for 17.4 million. This is a huge miss of expectations and was 600k below the lowest estimate of 17.2 million. Every major auto manufacturer except Nissan missed their sales estimates for March. The results would have been worse if auto-makers had not implemented the biggest price incentives ever. GM implemented the highest incentives, which likely helped it to report a 1.6% increase in sales vs. the 7% Wall Street estimate. Ford's sales dropped 7.2% and Chysler's were down 5%.

The point here is that the economy is considerably weaker than is being advertised by the politicians, Wall Street analysts and the Government propaganda-laced media. The upward trajectory in the price of gold is the recognition by "smart" money that the next major shift in the monetary policy of the Federal Reserve will be a substantial easing in interest rates and more money printing ("Quantitative easing"). That's not to say we won't see one more "gratuitous, face-saving and meaningless quarter-point hike in the Fed Funds rate.

Perhaps a more substantive driver of the price of gold and silver is the accelerating level of physical gold accumulation by eastern hemisphere countries - specifically China, Russia and India - but also by many other smaller countries. This is occurring as a precursor to the removal of the U.S. dollar as the world's reserve currency, which has been ongoing for the past decade but has begun to happen at an accelerated pace. Russia and China have been phasing in a mechanism which enables countries to by-pass the U.S.-controlled traditional trade payment system (the SWIFT system) with their own monetary trade settlement system. As the dollar is phased out of its reserve role, we anticipate that the dollar-based price of gold will rise more rapidly. The price of gold is at all-time high levels in many non-dollar currencies and has been for an extended period of time.

The mining stock portion of the fund was the primary driver of the fund's Q1 performance. The mining stocks, and especially the smaller cap companies, have been and remain extraordinarily undervalued relative to the current price of gold and silver. While many stocks have doubled and tripled (or more) in the last 15 months, they are still remarkably undervalued. More important, most investment funds and retail investors continue to ignore the sector, which means there will be at least two more big waves of capital flowing into the sector over the next few year: the "less smart" money and the price-chasing retail money.

We have recently spoken with several mining stock executives. Two of the recurring themes are that it has become easier to raise money from sophisticated institutions and that strategic investors (large mining companies primarily) are coming out of the "woodwork" to show investment interest. As the smaller "junior" mining stocks - like the ones we hold in PMOF - are acquired by the major mining companies, it will open the door for a lot more investor capital to flow into the junior miners, propelling their stock prices even higher.

In fact, Exeter Resources - one of the fund's largest holdings - recently agreed to be acquired by Goldcorp for a 67% premium to Exeter's price the day before the takeover was announced. That the stock was considered to be at least 67% undervalued in the market by one of the world's largest gold miners is testament to just how undervalued the entire sector is right now.

We are confident that 2017 will be an even better year for the sector than 2016. As the unprecedented size of the current stock bubble pops, a meaningful portion of that cash will seek safety in the precious metals sector in recognition that gold and silver are the more reliable forms of money and wealth preservation.

Don, Dean, Dave and Mike