Money Printing, Money Printing and More Money Printing

"Gold, unlike all other commodities, is a currency…and the major thrust in the demand for gold is not for jewelry. It's not for anything other than an escape from what is perceived to be a fiat money system, paper money, that seems to be deteriorating." … Alan Greenspan, ex-US Federal Reserve Chairman, August 23, 2011

Dear Investors,

2020 was an interesting year, to say the least. One aspect of the markets that is not mentioned in the mainstream media is that gold turned in its best year since 2010. Skepticism with regard to the durability of the rally in gold and silver imposed restraint on the mining stocks, as the stock segment of the 2020 precious metals rally lagged the returns on gold and silver.

There are two ways to interpret the relative performance of the mining stocks vs gold/silver. One interpretation is that, because they underperformed, the stocks are signaling at some point the entire sector will decline in 2021. The alternative analysis suggests that, because the metals historically lead the mining stocks in the early stages of an extended bull move in the sector, the entire sector will push higher in 2021 and the mining stocks will "catch up" to and begin to outperform the metals. We are inclined to believe the latter. The precious metals sector is in the middle-stage of a cyclical bull move that began at the end of 2015.

The previous cyclical bull move lasted from late 2000 to the mid-2011. The primary factors that drove the previous cyclical bull move include expansion of the money supply, which facilitated expansionary Government spending deficits and rapidly rising Treasury debt outstanding. This in turn fueled the tech and housing bubbles of the first decade this century. The implosion of the housing bubble and the related financial instruments that exacerbated the bubble caused the de facto collapse of the financial system in 2008 and led to a massive bail-out of the banks and other financial intermediaries, funded by the taxpayer and an unprecedented amount of money printing.

The same underlying fundamental factors have supported the current cyclical bull move in precious metals. In response to large cracks emerging in the health of the banking system, the Fed began quietly to print money starting in mid-September 2019. Contrary to its insistence that these "repo" operations were temporary, the monetary support provided to the banks quickly escalated both in size and frequency. Note that the system problems were bubbling to the surface well before anyone had ever heard of "coronavirus."

The deteriorating health of the economy and financial system was exacerbated by the virus crisis. In response the Fed printed even more money than it printed after the 2008 financial crisis, under the guise of supporting and "stimulating" the economy. After a brief sugar high early in the summer of 2020, many measures of economic activity began to slip again. Though some portion of those who lost their jobs in March and April have returned to work, there's still over 20 million recently unemployed who are dependent on jobless benefits.

Worse, the lock-down forced the closure of a large percentage of small businesses across the country. According to a survey done by Yelp, some 60% of these businesses are permanently closed. Over 100,000 restaurants have closed permanently. That plus the fact that many large shopping malls are losing tenants at an increasing rate will lead to a commercial real estate debt crisis. By the way, the taxpayers are on the hook for a large portion of the commercial real estate loans that end up in default.

Print or collapse - The only trick left in the bag for the Government to keep the economic and financial system from complete collapse will be the implementation of massive "stimulus" programs. Biden has already called for $trillions of new support programs. Because of this, the Fed will be compelled to print a lot more money this year. That money will be funneled into the financial system to fund massive amounts of Treasury issuance. Printed money not used to fund Treasury issuance will flow into “things” – primarily commodities and maybe stocks.

Currency depreciation through an expansion in the money supply in excess of the marginal output wealth (increase in real GDP) is a slow and silent cancer to any financial and economic system. As history has shown repeatedly, starting with the demise of the Roman Empire, a fiat -currency based monetary system ultimately leads to exploitation and abuse by those who happen to be in a position to benefit from it. The collapse is inevitable, occurring slowly and then suddenly. We believe the current system is entering the "suddenly" stage.

The dollar has lost 98% of its value vs gold since 1971, the year Nixon closed the gold window, presumably temporarily. It is the further decline to zero that will cause the most damage to the global financial and economic system and that will fuel a move in gold and silver that will take most of the populace by surprise. The most salient contemporary example is the collapse of German mark in November 1923. The best way to protect your wealth from this inevitability is to own physical gold and silver and mining stocks.

We hope everyone was as pleased as we were with the returns on PMOF this year. Despite the big sell-off in everything in March, gold and the mining stocks outperformed the S&P 500 for all of 2020. This is something that is never reported in the mainstream financial media. We feel good about the prospects for the mining stocks to take over the reigns in the precious metals sector this year as a wider range of investors have been allocating money to the precious metals sector. This is based on the high volume gold and silver eagle sales in 2020 as well as an increase in money flows into precious metals specific funds.

We wish everyone a Happy New Year and a healthy 2021

Dave and Dean