EMA GARP Fund, LP. --- Report for the First Quarter ended March 31, 2020.

FIRST QUARTER REPORT -- KEY TAKEAWAYS

- **Q1 2020, Global margin call for a leveraged world**
  - Credit bubble burst and is unwinding.
  - Reason bubble occurred was ZIRP policy (2008-2015) which led to capital misallocation.
- **Fed (monetary) and US Government (fiscal) response was massive and aggressive.**
  - *Monetary Policy* -
    - Aggressive monetary expansion began (again). QE open ended.
    - All categories: Treasuries, Agencies, Corporates, Munis, Money Market Funds, Auto Loans, Student Loans. Basically everything.
    - Fed purchase of equities also a future possibility.
    - Financial Repression: yield curve control is in the Fed's back pocket.
    - Emergence of currency debasement and yield curve control may cause the Fed to lose control of the bond market.
    - Fed purchases of bonds could lead to a doom loop. Or at least be a big problem.
  - *Fiscal Policy* -
    - Rubicon crossed. US Government "Goes Direct" with Helicopter money.
    - Safety net is needed during this difficult period; however, Helicopter money and Federal deficits are a slippery slope.
    - US fiscal condition just deteriorated. Much larger Federal deficits are ahead.
- **Inflation.** Recently considered not a risk. Just became a very real medium-term risk.
  - Inflation-Two kinds:
    - Demand pull, cost push; and
    - "CSIP" (currency substitution inflation psychology).
  - Deflation is a risk in the short-run given the likely recession and lack of velocity of money.
- **Gold Opportunity is Here**
  - Gold is a natural "store of value" alternative currency. No counterparty risk. BK impossible.
  - Gold has performed well (11% pa) since December 2015 but still early days. 1st or 2nd inning.
  - Gold investment supply is only 0.06% of worldwide financial assets (cash, stocks, bonds).
  - Gold stocks remain very cheap and provide leverage and growth versus the metal.

QUARTERLY OVERVIEW

The US equity and most major stock markets crashed in the first quarter of 2020. The largest credit driven financial bubble in the history of the world just burst. The last time something like this happened was 1929, nearly 100 years ago. In the US, everything appeared to be fine until the peak on February 19th and then the bottom fell out. In the span of five weeks, the stock market (S&P500) plunged 34% from peak to trough. The COVID-19 virus was the trigger, but as I showed in my Mid-March Update, the US stock market was extremely overvalued and vulnerable. (if you did not see the Mid-March update email me for a copy). The three best performing assets in the quarter were cash, physical gold and government bonds. If you had money in most other financial assets, you lost money.

What happened in the first quarter amounted to a global margin call, as investors rushed to sell assets and raise cash or pay off debt. It was one of the strongest deflationary impulses in the history of markets. In many ways it resembled the crash of 1929 with the differences being that this one happened much more quickly and was not quite as deep. In 1929, the initial total decrease was 45% but it took 2.5 months. This one happened in five weeks. Note that in the Great Depression that began in 1929, from top to bottom, the Dow fell by 89% but it took three years to do so (with six intermittent big rallies in the stock market of between 16% and 48% during that multi-year bear market).

As you can see in the schedule above, gold stocks were not spared in the first quarter of 2020 and, in fact, did worse than the general market. This is similar to what happened in the 2008 GFC. Gold and gold stocks fell, only to recover quickly within the next three months. They then went up 2.8x (gold) and 4.0x (gold stocks) over the next three years.

PREAMBLE TO THIS LETTER

Before I review the current landscape allow me to give some background. A lot of what I am going to speak about in this letter is negative[1]. There is a compelling investment opportunity here, but our society will be changing. I do not like or enjoy this fact. I am simply an analyst who has been studying monetary economics for my entire career. My job and fiduciary duty is to analyze the facts, calculate the probabilistic outcomes and invest my own and my investors assets accordingly on a “just the facts, ma’am” basis. Could I be wrong? Sure. I have been before.

CREDIT BUBBLE, BUSINESS CYCLES AND THE VIRUS

What happened here (2008-2020) is that a classic credit bubble was blown as the byproduct of the Fed’s ZIRP policy(2008-2015). Artificially low interest rates fooled business people into misallocating credit and over expanding. As long as the free money flowed everything was fine. The Fed tried to tap the brakes in early 2016 when they began to gradually increase interest rates and then in 2018 quantitative tightening began. I always believed you could not taper a credit bubble, but the Fed tried. It led to trouble in Q4 2018. Additionally, this past Fall, the IOER spike and Repo blow out created the fastest Central Bank U-turn in history. A highly leveraged system could not handle any form of tightening. Neverthe-

[1] Please do not shoot the messenger. Given some of the outcomes outlined herein there is no one who wishes more that this crisis had not happened.

less, the patrons in the stock market casino did not want the party to end, and more booze in Q4 2018 and then 2019 drove stocks to the all-time highs on February 19, 2020. This date will be written about for a long time. I believe it represented the peak of the largest credit bubble in the history of the world, and it occurred not in dotcoms, or housing, but in consumer, sovereign and corporate credit. (Some have called it "The Everything Bubble")[2]

I always believed that one day the final snowflake would fall and an avalanche would be triggered. I just had no idea the snowflake would be a virus. And it is important to understand that the virus is not something that can be solved by monetary stimulus or an attempt at re-inflation. Businesses are shutting down and the ripple effects on unemployment, incomes and supply chains are going to be large and persistent until the virus burns out or an effective vaccine is scale-manufactured and distributed. Now it is possible that we recover quickly post virus, but it is not certain.

For a long time in my letters (nearly eight years), I have discussed how mispriced debt will ultimately lead to a bubble, and when the bubble bursts it will be a massive deflationary event. Similar to what happened in 2008. This is because when a massive credit bubble bursts, asset values collapse, and paper money values disappear. The values were never real. They were inflated by all of the mispriced debt that chased the assets. This is deflation: asset values collapse; money is destroyed; but the debt remains. Then as organizations go bankrupt, the debt collapses too. It can create a vicious unwind.

In the eyes of the Fed "Deflation is the Devil".; thus, it is easy to anticipate the Government's fiscal and monetary response. They will be required to deficit spend and print money with almost no end. Perhaps, they likely will resort to other measures, as their only alternative is to watch collapsing asset values and deflation wreak havoc on the economy. This would closely be followed by massive unemployment and widespread bankruptcies (i.e., a Depression).

With this current crisis, the amount of new money that needs to be created, to make up for the potential losses, is staggering. Credible analysts suggest that it could be in the range of between $10 and $40 Trillion. All to maintain the current pricing structure (i.e., no severe deflation). I believe there is some chance that it could be larger than these figures.

So the unknown questions are:

- Will the virus burn out quickly and will the economy restart and recover swiftly?
- Will the Central Banks be able to successfully inject all of that credit/money into the system to prevent a deflationary collapse?; and
- Even if they are successful, will their monetary creation not lead to serious currency debasement as it becomes clear that they will never be able to stop printing?

In other words, it is possible that the Fed's credibility will be severely impaired. The Dollar's value is a psychological issue, dependent upon trust in the US Federal Government and the Fed. (see CSIP discussion on page 15)

Reviewing the issue of the credit/debt bubble, I have been saying for many years this was an unsustainable situation. Mathematically it is impossible for the trends in the following charts to continue. The rate

[2] I believe market analyst Jesse Felder was the first person to adopt this label, and it spread from there into widespread usage.

of growth of debt cannot exceed the rate of growth of the GDP without there eventually being a day of reckoning. It appears that this day has arrived.

We could have addressed this problem in 2008, but we did not. In 2008, we learned demonstrably that we had a serious debt problem, but rather than address it, we grew the debt under the assumption that the Fed's "iron-clad" balance sheet could warehouse any bad debt during the workout period, and then an exit would follow. The next two charts show how debt growth has exceeded GDP growth over the past 18 years.

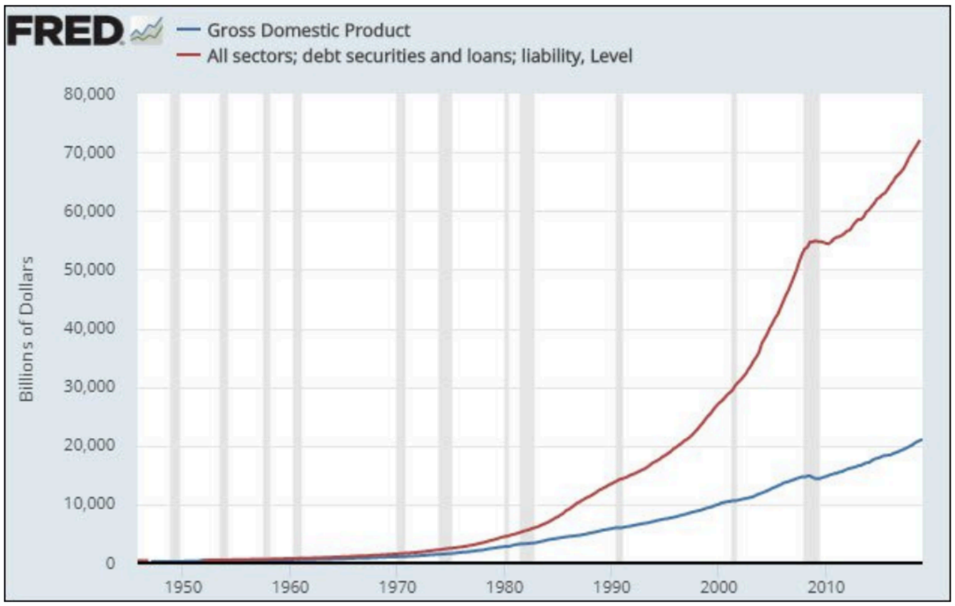
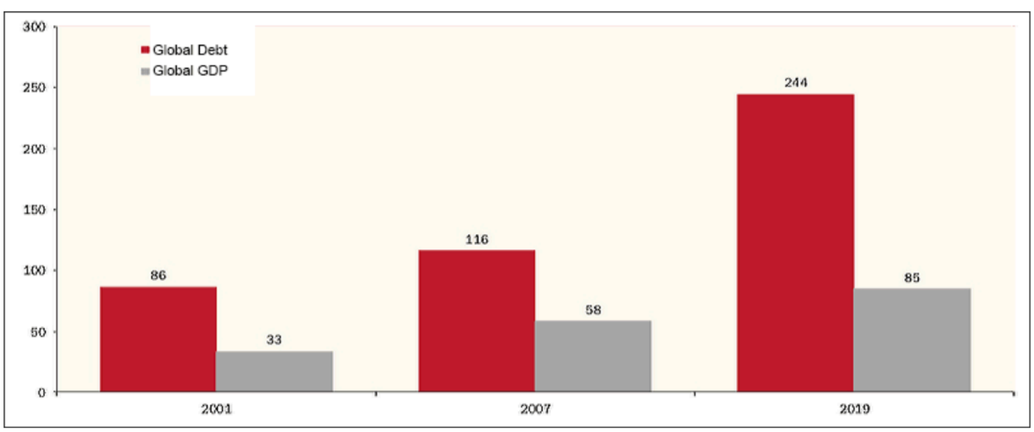


Figure 3. Global Debt vs. Global GDP ($ Trillions)



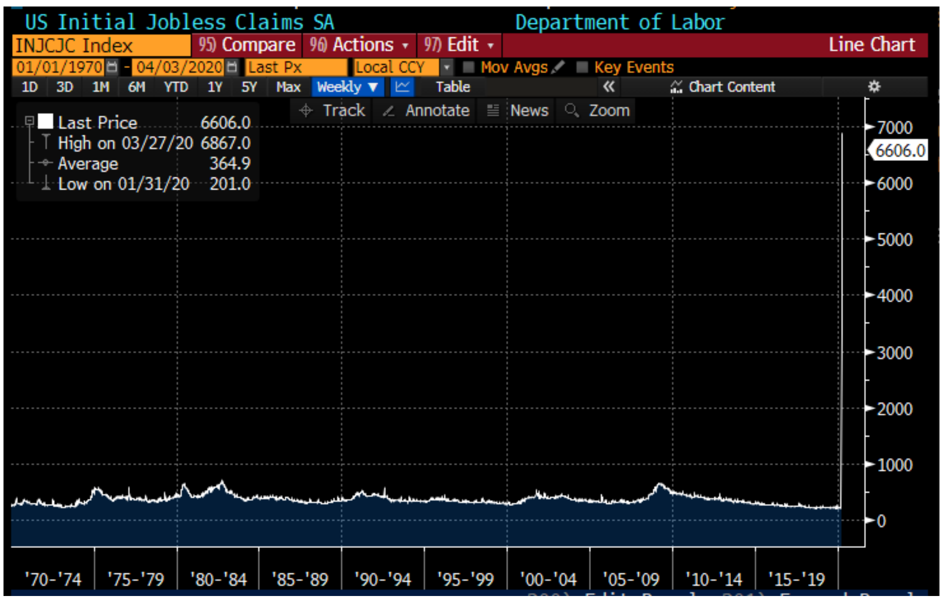
Source: Rosenberg Economics. Data as of 12/31/2019.

MARCH 2020: ECONOMY -- HARD STOP

The COVID virus was the trigger, but the US economy was already in a bubble, and after the longest expansion in the post WWII period it was due for a setback. A complete shut-down of the economy through strict "social distancing" to prevent the spread of the virus is, and will continue to be, devastating for economic activity until either a vaccine is created or the virus burns itself out. Goldman Sachs and other economists expect US GDP to decline by as much as 15-30% in the next several quarters.

It is fair to say that this type of damage to the economy has never occurred before in modern history. Unemployment claims went vertical as seen in the chart below:

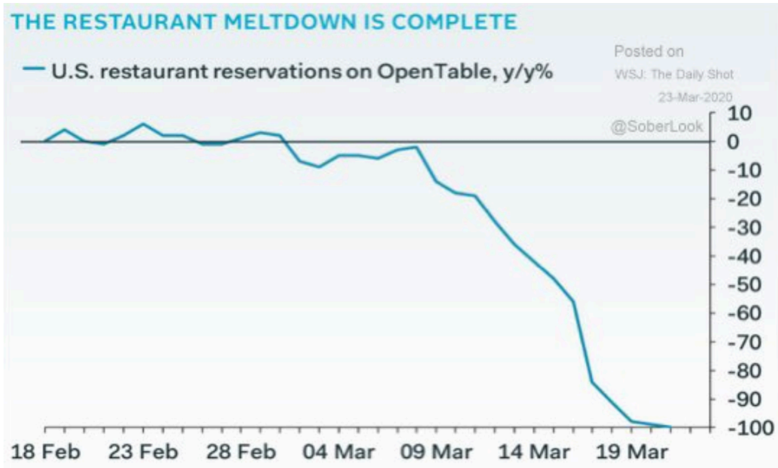
US Initial Jobless Claims (seasonally adjusted) (1970-Present)



Source: Bloomberg and Department of Labor

Initial claims over the past three weeks were 3.3 million, 6.9 million, and 6.6 million, respectively. So in three weeks, 16.8 million Americans lost their jobs (or 10% of the US total labor force of 164 million). And the aggregate number will continue to grow in the coming weeks. Credible analysts think the unemployment rate could hit 25% before this downturn is over (or 41 million jobless claims). That would be awful, but it is not impossible.

Restaurants are closed. Hotels and airplanes are empty. Many retail stores are closed. Cruise lines are shut down.



Source: *Wall Street Journal* and OpenTable

People who are still employed are telecommuting, and over 90% of the population is encouraged to stay at home, and they are not driving. Crude oil is down 65% from its recent peak and gasoline prices are in the $1.80 per gallon range. Only supermarkets, drug stores, gas stations and essential services are operating.

This crisis has also had a direct and immediate impact on the credit markets:

S&P US Leveraged Loan Index (2014-Present)

Source: Bloomberg

It is an economic catastrophe. Particularly so in a highly leveraged economy. Remember many families have minimal savings and substantial debt.

THE FED RESPONDS

In light of the severe deflationary conditions and a plunging stock market, the Fed acted aggressively and immediately undertook the following actions:

- Feb. 28: Statement, monitoring COVID. Ready to act.
- March 3: Fed Funds, ½ point rate cut to 1 to 1 ¼%.

- March 4: Reduces capital requirements for banks.
- March 15: FOMC meeting cuts Fed Funds to 0 to ¼%.
- March 17: Reduces bank regulatory capital buffers.
- March 17: Establishes CPFF, Commercial Paper Funding Facility to buy CP.
- March 17: Establishes PDCF, Primary Dealer Credit Facility to support Primary Dealers.
- March 18: Establishes MMMLF: Money Market Mutual Fund Liquidity Facility.
- March 19: Establishes facility for Dollar Swaps with Foreign Central Banks.
- March 19: Increases Discount Window availability and borrowings.
- March 20: Announces coordinated efforts with Major Foreign Central Banks.
- March 20: Expands MMMLF to include Tax Exempts and Municipal Bonds.
- March 20: Loosens Credit Rules and encourages lenders to work with borrowers.
- March 23: Announces unlimited QE and purchases of Agencies and Treasury Securities as needed to address market conditions. Previous limits had been $500B and $200B (agencies).
- March 23: Establishes PMCCF, Primary Market Corporate Credit Facility.
- March 23: Establishes SMCCF, Secondary Market Corporate Credit Facility.
- March 23: Establishes TALF, Term Asset Lending Facility to buy student loans, car loans, asset backed loans, etc.

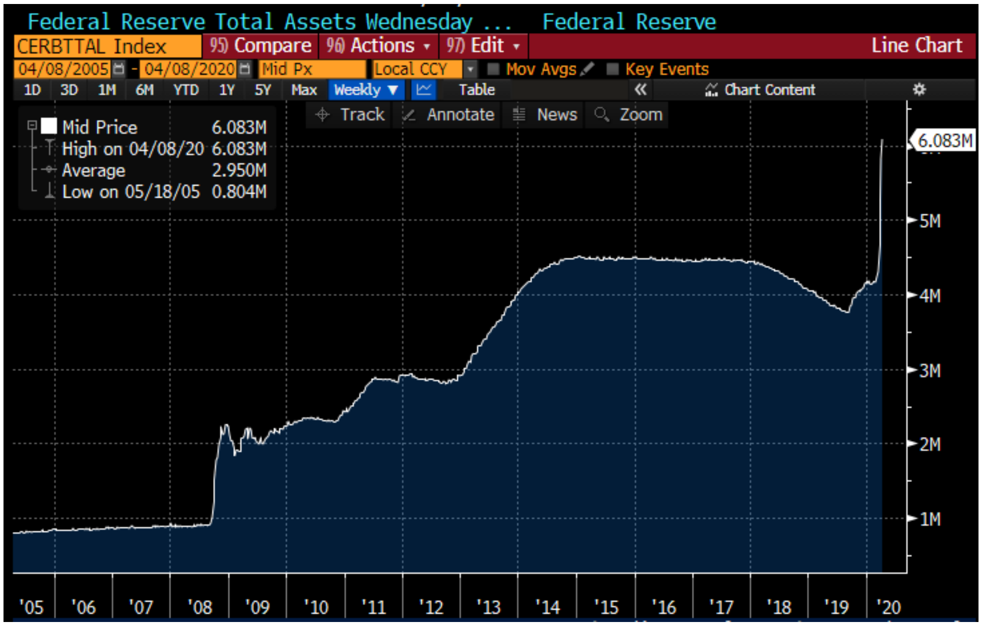
Many of these facilities were established in conjunction with the US Treasury and the two organizations are going to coordinate their efforts and purchase securities through special purpose vehicles that can be leveraged at a 10:1 ratio. This circumvents laws regarding what the Fed can purchase.

This is a lot of information, and the details of each program are complex; but the bottom line is that the Fed just agreed to back stop: the entire banking system; US government debt market; US Agency debt market; commercial paper market; money market funds; municipal bond market; foreign central banks; primary dealers (brokerage firms); student loans; car loans and other asset backed securities. In some cases the amounts involved are unlimited and in other cases there are limits which the Treasury and Fed have implied would be raised, if necessary.

What you have right here is the largest open ended, coordinated money printing operation in the history of mankind. The Fed is almost nationalizing a large portion of the US securities markets in order to prevent further collapse or a deflationary melt down. By the way they are behaving and coordinating their actions, it appears that the US Treasury and the Fed have effectively merged and become one entity.

What this tells you is that the "sudden stop" problem was deadly serious and the Fed was looking at a meltdown that was similar to or worse than the GFC in 2008. The Fed wasted no time in using these new programs, and in the two weeks since they were established, its balance sheet grew at an enormous rate.
Below is the Fed balance sheet assets over the past 15 years. Tapering was on auto-pilot in 2018-2019. Then the IOER and Repo blow ups ended that. With this crisis, growth accelerated and in the week of April 8th, Total Assets went to $6.08 Trillion.

US Federal Reserve Total Assets (2005-Present)



Source: Bloomberg

The schedule above shows the unprecedented and rapid expansion of the Fed balance sheet or credit supply. We now have three weeks of data post bazooka. In week one, reserve assets grew by $586 Billion, week two by another $557 Billion and week three (ended April 8) by another $272 Billion.

Since January 1, 2020, the Fed balance sheet has grown by $1.91 Trillion. Post the GFC, during all three Quantitative Easing (QE) operations the Fed Balance sheet grew from $800 Billion to $4.5 Trillion, a net addition of $3.7 Trillion. Those operations took 7 years to be completed. If the current monthly rate of expansion is continued they will add the same amount in just eight weeks. Even if the rate slows down to $1 Trillion per month (last week's run rate), the Fed will end 2020 with a balance sheet of $15 Trillion. This is 4x the size of the Fed balance sheet before they resumed QE in late 2019. Here is a comparison of the prior QE operations and the present one:

Post GFC QE 1-3	**Current Crisis QE**
• QE 1: $1.7 Trillion (14 months)	• QE 4: $1.4 Trillion (in just the past *3 weeks*)
• QE 2: $600 Billion (9 months)	
• QE 3: $1.6 Trillion (16 months)	

Additionally, the Federal Reserve's purchases of US Treasury Securities (chart below) has begun to grow massively recently, given the huge deficits (more on that later) and the absence of foreign purchasers as we addressed in our most recent annual letter. Increasingly, the Fed is monetizing the deficit.

US Federal Reserve US Treasury Holdings (2007-Present)

Source: Bloomberg

This rate of growth in the Fed balance sheet is truly staggering. But wait, there is more. In conjunction with the programs above, the US Treasury announced a plan to reimburse employers for sick pay leave in conjunction with the COVID crisis. They also delayed the 2019 income tax filing deadline from April 15 to July 15. Finally, the US Congress got involved and passed the CARES Act which provides the following:

- Direct payments to taxpayers of $1,200 per individual or $2,500 per couple plus $500 per child. This is pure "Helicopter money" albeit a compassionate and necessary safety net, IMO; arguably, should be much larger.
- Extended unemployment benefits in addition to state programs. $600 per week for 4 months. Total cost is estimated to be $250 Billion.
- Delay on payroll taxes, allowing employers to delay their payment until 2021.
- Waive the 10% penalty on early IRA and 401K withdrawals.
- Small business relief covering payrolls for 8 weeks if businesses retain their employees. Capped at $350 million, but Secretary Mnuchin stated on CNBC that it will be expanded, if needed.
- Loans and loan guarantees of $500 Billion for large corporations.
- Hospitals and healthcare providers will receive $140 Billion.
- State and local governments will receive $150 Billion.
- Agriculture Department will establish a bail-out program of $50 Billion.

In aggregate, these measures are expected to cost the Federal Government $2.2 Trillion. The total bill was sold as a $6.2 Trillion aid-package consisting of $2.2 Trillion of grants and $4 Trillion of loans and loan guarantees. And as if this were not enough, on April 9th the Fed expanded the size of the loan package by $2.3 Trillion, making the total of direct and loan assistance $8.5 Trillion. Some of which will undoubtedly be forgiven. Already many politicians are saying this is not enough, and the payments to families and tax payers will have to grow.

In addition to these spending measures, President Trump just called for a $2 Trillion infrastructure bill to get the economy growing again.

I do not believe it would be too much of a stretch to say that the US Federal Government just attempted to provide an open ended guarantee to support the US Financial Markets, the US Economy and the well-being of US Households. While all of this may be compassionate and the right thing to do, I wonder about the issue of can they pull it off without severe deflation or severe inflation or some combination of both? The implications for investors in all asset classes are enormous and in some cases existential.

And it is not just the Fed. The Bank of England announced a £200 Billion QE program. The European Central Bank announced a €750 Million QE program and said the amount could become unlimited. The Bank of Japan followed suit and is also buying and supporting the Japanese equity markets. The Fed has not taken that step of equity purchases yet, but it would not surprise me. In fact, on the morning of April 6, 2020, former Fed Chairperson Janet Yellen appeared on CNBC to say that she did not think the Fed should currently be buying equities, but that she thought it was a good idea to legally give the Fed this power in case they need to do so in the future. In my opinion, no prior Fed Chairperson appears on a national news program and makes such a statement unless they are encouraged to do so as a trial balloon.

US FEDERAL GOVERNMENT FINANCES: ARE WE BANKRUPT?

Look at the United States. As a nation we are arguably the technological and clearly the military leader in the world, although on the manufacturing and technology front we have a very strong emerging competitor (China) which has already surpassed us in manufacturing capacity.

Balance Sheet:

The US Government debt ($24.5T) is equal to 120% of GDP ($20.4T) which until this collapse was growing at a 6.7% rate (last 10 years). This compared unfavorably to a 10-year rate of GDP growth of 2.4%. We also have off balance sheet liabilities equal to between $137T (CBO office) and $239T (Kotlikoff). These obligations are due on a pay as you go basis to the Baby Boom generation in the form of Social Security, Welfare and Medicare. That cohort is well into their retirement years and these liabilities will be claimed. So the Balance Sheet does not look great.

Income Statement:

The US has been consistently running deficits since 1961 (59 years) with exceptions in only two years, 1999 and 2000 when Dotcom company capital gains taxes and FICA receipts swelled tax revenue.

In fiscal year ended September 30, 2019 tax receipts were $3.5T, expenditures were $4.4T and the deficit was $0.98T. But, because some expenses are not included in the income statement, debt increased by $1.2T in this time frame - thus the actual deficit was $1.2T. In fiscal 2020, expenditures were again increasing faster than revenues and even before this crisis it was fairly easy to predict a “real” US Federal budget deficit of $1.6T this year.

Growing Deficits:

So, the virus hits, stocks plunge, businesses shut down, unemployment soars and analysts suggest the US economy will shrink by 15-30% in the coming quarters. Following the 2008 financial crisis, tax receipts went down by 16% and expenditures (social safety net) went up by 30%. Tax receipts and expenditure declines will likely be far worse this time given the job losses, business interruption, and safety-net payments.

To extrapolate the potential US Government budget deficit from this current crisis, we can use the FY 2019 tax revenues and expenses as a baseline and then adjust it to reflect the impact following the 2008 recession. 2020E pro forma tax revenues would fall (16%) to $2.9T and expenses would swell (30%) to $5.8T, leaving a deficit of $2.9T. Now, as I said earlier, I think this downturn will be more harmful to the economy than the 2008 GFC. Furthermore, the US Congress just committed $2.2T to the CARES Act which is completely un-funded. If the new spending programs do not expand further, the deficit would be $5.1T. However, I very much doubt that this will be the last spending bill passed by the US Congress this year. If you use your imagination and believe, as I do, that this economic downturn will be severe, and that more spending will be authorized, the deficit this year (rolling twelve months) could possibly be $6 or $7 Trillion.

To review, the US Government has debt equal to 120% of GDP. If the deficit comes in at $7 Trillion it will be 34% of GDP. Last year the deficit was 4.1% of GDP. The US Treasury funds these deficits by issuing treasury bonds. At the end of this year the US National Debt will approximate $31 Trillion or 151% of GDP, and that assumes GDP does not fall. With a 30% decrease in GDP the debt becomes 200% of GDP and growing rapidly. And that is before we consider off balance sheet liabilities.

Ask yourself, can that debt ever be repaid in real terms? The dollar is the "financial common stock" of the US Government. Its value is derived from the country's productive capacity, taxing authority and trust in the official stewards of the currency

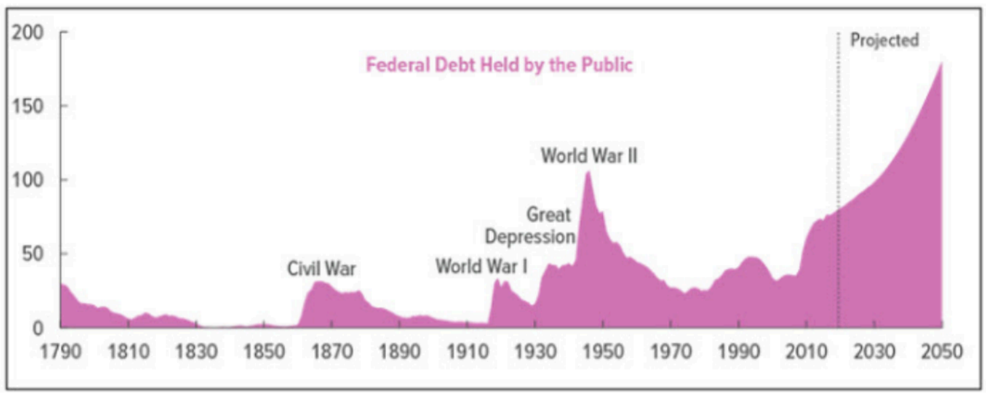
I recall reading a study on the causes of hyperinflations which showed that in all cases of hyperinflation the government was running a deficit which was larger than 20% of tax receipts and they were monetizing that deficit. Before the COVID Crash events occurred the US was on track for a $1.6 Trillion deficit which equals 45% of pre-crash tax receipts. Above I outlined how the next twelve month deficit could easily be $5T which is 172% of pro forma tax receipts. Indeed, 172% is a lot larger than 20%.

Also, let me address the case of Japan. Some people have cited Japan as a case of a country that has an enormous debt burden, has done unlimited QE, and yet sees no inflation. They then jump to the conclusion that the US can increase QE without consequences. But Japan is different. They actually have domestic savings to finance themselves. They have a very productive export economy. Unlike the US, they are running a modest trade surplus ($5B in Feb 2020) while we ran a $616 Billion trade deficit in 2019. Their budget deficits are also smaller than the US as a percentage of GDP. And, finally Japan has a large positive Net International Investment Position (NIIP) whereas the US has a large negative NIIP.

US DEBT & THE DOLLAR

In the next chart we show the CBO projection of Federal Debt to GDP. Note that this schedule shows Debt approaching 200% of GDP in 2050 (30 years from now). As our back of the envelope calculations above show we could be there within a year or two.

Figure 5. From the Congressional Budget Office: Federal Debt Held by the Public as a % of GDP



Source: Congressional Budget Office.

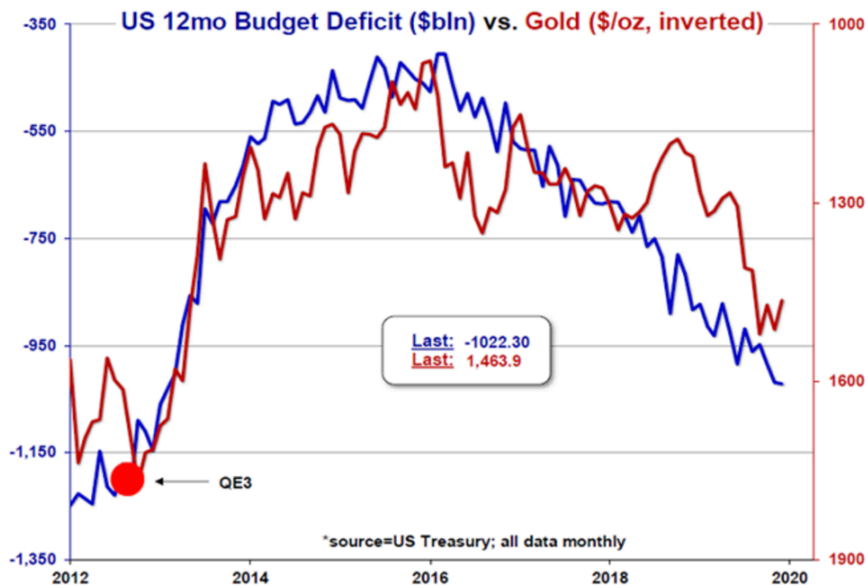
Using the numbers outlined above, if the US Federal Government were a household, here's what their finances would look like assuming they earn $100,000 per year. They spend $206,000 per year. They owe ~$1.1 million on balance sheet and an additional $4.7 million in off balance sheet liabilities. Is this household bankrupt? Does this household deserve a AAA (Fitch's) or AA+ (Moody's) credit rating?

The counter argument is that deficits have never affected the US's ability to issue Treasury bonds in our great 200+ year history. Therefore an investor should "not fight the Fed"; rather simply have confidence in the "full faith and credit" of the Fed and their ability to monetize deficits and control inflation. I believe that faith may be misplaced.

However, let us postulate that one of the important properties of a currency is that it be a store of value. The dollar and gold are substitutes for one another in the store of value category. A study of economic history conclusively shows that to the degree that a Government is profligate then the value of that government's currency suffers in gold terms. The next chart shows that relationship nicely in the US for the past eight years. Notice how there has been a tight fit between US Government Budget Deficits and the price of gold. The last point on the chart shows a $950 billion budget deficit and a $1,600 gold price. This relationship shows that the gold price rises $500 for every $500 Billion increase in the US Budget deficit. Earlier in this report I estimated that the US Government is on its way to recording a $6 Trillion annual deficit, which would portend a gold price of $6,600 per ounce (4x from gold's current price), should this relationship hold.

Now I know that correlation does not equal causation. However, history has demonstrated in many other countries that there is a strong correlation between government deficits and their currency/gold exchange rates.

Figure 3. Spot Gold Price (Inverted) vs. Trailing 12-Month Federal Budget Deficit
(2012-11/2019)



Source: Meridian Macro.

INFLATION: TWO KINDS

There is a lot of confusion around the subject of inflation. I think this can be explained by considering that there are two types of inflation. Or to be even more precise: there is traditional inflation, and then there is the inflation caused by currency debasement and abandonment.

One of the arguments made against gold as an investment is that we have had a lot of quantitative easing, in both the US and Japan and yet there has been relatively mild inflation.

This argument is best expressed by Lacy Hunt of Hoisington Investment Management who observes that while the Federal Reserve Balance Sheet grew substantially (over 4x) following the GFC, and the amount of credit in the system has increased, it has not translated into high rates of CPI inflation given a global debt overhang. The velocity of money (M2) has remained low and excess manufacturing capacity has restricted growth; so the demand pull and cost push inflation of the 1970's has not yet been apparent.

First, let me say that Hunt has been right and has been rewarded for a good call. Although, I would argue that in certain pockets of the economy (college education, healthcare, rents) there has been meaningful inflation. Also, there has been enormous inflation in stock and bond prices. This is because the structure of the money and credit that have been injected into the system by Central Banks has been sterilized to hit bank and financial institution balance sheets. Also, with artificially suppressed interest rates, financial players have an incentive to take on "carry trades" - borrow cheaply and invest in anything with a positive rate of return. This is the essence of the bubble. Bonds have rallied because interest rates are suppressed downward. Without lending to consumers or injections of direct money to consumers (helicopter money) it is hard for demand or costs of the CPI basket of items to increase.

But, I think there is a piece that is missing in this analysis. I would submit there is a second kind of inflation that I label: "Currency Substitution Inflation based upon Psychology" ("CSIP"). CSIP is the type of inflation which occurs when a currency is so heavily debased by its issuer that people flee the currency to find a harder version of money as a store of value. This process is more fully described later in this letter in the section labeled: DOOM LOOP.

But in abbreviated form CSIP occurs in an economy when:

- Bond holders suspect or anticipate inflation and rush to sell their bonds driving interest rates up.
- In turn, the currency issuing central bank is forced to purchase bonds to keep interest rates low.
- At some point it becomes clear that there is never any going backward (as the economy would slow) and that the currency issuance will continue at ever increasing rates.
- At that point, people rush to deploy the currency in goods or hard money because they realize it is losing value and the velocity of money explodes upward very rapidly. High inflation follows.
- Having studied this phenomenon in other examples, I have learned that the key variable is psychological. It occurs when people truly accept that there is no going backward on inflation and that inevitably future inflation will get worse. It is a psychological loss of confidence in the currency. First described as Gresham's Law[3] .

I found it interesting that others are beginning to share my view. Ray Dalio of Bridgewater Associates made the following comment this past week:

> *"Hyperinflation comes from investors who are holding money and credit assets (e.g. bonds) wanting to sell those and move their money to other assets either in the same country or in other countries. As they do this selling, the central bank is put into the position of having to choose between having interest rates go up (which is undesirable because it weakens the economy) or printing money and buying those financial assets (which can devalue money and debt). When they need to do this a lot, it causes a monetary inflation which can become a hyperinflation."*
>
> Ray Dalio - April 2020

And just to prove that what is old is new again:

> *Von Havenstein faced a real dilemma. Were he to refuse to print the money necessary to finance the deficit, he risked causing a sharp rise in interest rates as the government scrambled to borrow from every source. The mass unemployment that would ensue, he believed, would*

[3] Gresham's Law states that "bad money drives out good." Or simply, people will save the "good money" which retains its value, and spend the "bad money" whose value is depreciating. So the good money is "driven out of circulation" by the bad. The law is named after Sir Thomas Gresham (1519-1579), English financier, who was one of the first to express the concept

> *bring on a domestic economic and political crisis, which in Germany's current fragile state might precipitate a real political convulsion. As the prominent Hamburg banker Max Warburg, a member of the Reichsbank's board of directors, put it, the dilemma was 'whether one wished to stop the inflation & trigger the revolution, 'or continue to print money. Loyal servant of the state that he was, Von Havenstein had no wish to destroy the last vestiges of the old order.*
>
> Source: "The Lords of Finance-The Bankers Who Broke the World", page 125, Liaquat Ahamed.[4]

As many of you know, my investment style dating back to my Venture Capital career, is to find an area with a big tail wind (macro or technological) and then to try to find the investments with the best combination of growth and low multiples of cash flow (GARP). When done correctly, these investments provide well above average returns because the growth continues and the multiples often expand as the area becomes better understood. I have done this successfully my entire career until this last cycle. Let's understand why I have been wrong – thus far.

In 2008, I pivoted the fund from investing in the Indian emerging technology service companies, and selectively shorting highly leveraged housing and financial firms on the cusp of the GFC, to investing exclusively in gold and silver mining stocks. I did this in response to the monetary actions which the US Fed took post GFC. It was clear to me that gold and silver mining stocks were going to enjoy a large macro tail wind. This worked very well for 2009, 2010 and part of 2011. Then the gold price peaked (September 2011) at $1,900 and began its entry into a bear market that lasted until December 2015 when gold bottomed at $1,045 per ounce.

I believe the reason this gold bear market occurred is that the Fed's ZIRP policy was beginning to work – businesses began to grow, the next bull market in stocks was born and another credit cycle was created. In the early part of a credit cycle, inflation is tame and gold is typically a poor investment as nobody wants or needs the protection that gold offers. (I blew that call from 2011-2015).

GOLD VOLATILITY UP AND DOWN

One of the questions I anticipate receiving from investors goes as follows: If you are so right, then why did we lose money on a mark to market basis in Q1 2020?

My response: This is a larger crisis than the GFC in 2008 and it happened very quickly. Major structural trend changes are taking place in global financial markets. We just suffered a huge worldwide margin call where everything got sold including gold stocks. It was and has been an enormous financial storm--almost a financial heart attack. I believe there is useful information in how each asset recovers off of the bottom. From last month's bottom until now the S&P has rallied 24.7% and the gold stocks (GDXJ) have rallied 60.8%. That is a huge divergence. What that tells you is that once the margin selling pressure subsided in late March, people bought gold stocks by a huge margin versus the S&P.

In times of monetary turbulence the price of gold can be very volatile as displayed in the following chart. As you can see the price of gold was down 16% and up 16% in the space of 12 days! That, is volatility.

---

[4] Hat tip to financial and monetary analyst Luke Gromen who brought this quote to my attention. (www.fftt-llc.com)

March 23, 2020 will be recorded in history as an important day because the Federal Reserve took massive action to support the financial system. To say the gold market noticed would be an understatement.

On the date of the Fed's announcement, the price of gold went up $80 per ounce. On the following day at one point gold was up $135 per ounce and it closed up $104 per ounce. All of these movements are all time record daily moves. In the space of two days the price of gold went up $184 or 11%. This kind of movement in the price of gold is unprecedented.

Perhaps the timing is just a coincidence, but on the evening before making this unlimited QE announcement, Fed Governor Neel Kashkari, on the TV Show *60 Minute,* said: "there is an infinite amount of cash in the Federal Reserve. We will do whatever we need to do to make sure there's enough cash in the banking system." Even Scott Pelley appeared a little surprised and then he asked:

> Scott Pelley: "Is the Fed just going to print money?"
>
> Neel Kashkari: "That's literally what Congress has told us to do. That's the authority that they have given us, to print money and provide liquidity into the financial system. And that's how we do it. We create it electronically. And then we can also print it with the Treasury Department, print it so that you can get money outta your ATM."

HELICOPTER MONEY: THE US GOVERNMENT CAN NEVER STOP

I think it is incredibly important for all investors to sit back and digest how much the world has changed in the past six weeks. It seems to me that many market participants have not fully absorbed and appreciated the changes in US Government policy which are a huge and important paradigm shift, in my opinion.

Prior to the COVID induced stock market plunge, if I had said the US Federal Government will effectively nationalize the entire government and corporate bond markets, send checks to every household in America (Helicopter money or UBI), eliminate payroll taxes, pass a $2.2T unfunded corporate and small business rescue bill and commit to loan $4T to Investment Grade companies (total stimulus of $6.2T) you would have said I was crazy. And yet in the span of a few weeks that is what happened.

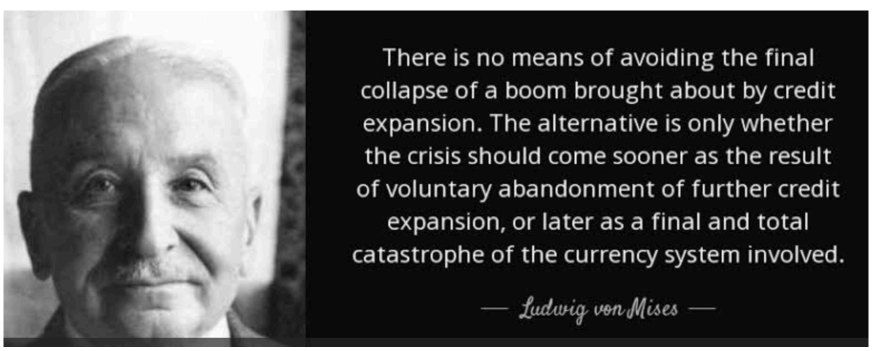
When Bernie Sanders, Andrew Yang and the MMT (Modern Monetary Theory)[5] crowd proposed similar measures they were branded as socialist crack pots by many mainstream capitalists. But, threaten the beloved stock and bond markets of the so called "capitalists" and they say, "wait a minute" ….. "the Government must save us".

In my opinion it will take more than $6T to save the economy from this bursting bubble. The total US Stock Market Capitalization (S&P IQ data) fell by $10.8T and other assets (high yield bonds) decreased in value as well. The discussions for the next round of stimulus have already begun. House Speaker Pelosi has said that households will need more assistance, and then we got this Tweet from President Trump:

> *"With interest rates for the United States being at ZERO, this is the time to do our decades long awaited infrastructure Bill. It should be VERY BIG & BOLD, $2 Trillion, and be focused solely on jobs and rebuilding the once great infrastructure of our Country!"*
>
> President Trump, on Twitter 3/31/20

Due to recency bias, and the past 30 years in which US deficits were funded by foreign investors or savers, the politicians in Washington, DC, in my opinion, are severely underestimating the currency debasement risk of their new policies.

Those of us who believe in the "Austrian School" of economics (as opposed to Keynesians who dominate academia and the public narrative) could see this coming a mile away and understood that it was driven by unsound money with no link to gold. In the words of the leading Austrian economist, Ludwig Von Mises:



This is not offered as an "I told you so" but more as a call to understand that there is an alternative school of economic thought which understands and explains the boom/bust cycle that fiat money causes. The

[5] Modern Monetary Theory (MMT) is a school of economic thought that has become much more popular in recent years. Briefly, the notion is that a Government that prints its own currency can just print money into existence. They do not need to borrow money. Deficits are not relevant. The principle proponents of this in the US are Professors Warren Mosler and Stephanie Kelton. Ms. Kelton is an economic advisor to former Presidential candidate Bernie Sanders. The theory is not really very modern. It has also been referred to as the State Theory of Money or Chartalism. Georg Friedrich Knapp originated the theory in Germany in the early 1900's. Following this theory ultimately led to the devastating Weimar hyperinflation. Today's proponents say that is not a risk because the government spending can be controlled and taxes can be used to control inflation. Real world observations suggest that once serious inflation starts it is almost impossible to control it unless real interest rates are set at very high rates.

Keynesian economists who have ignored Austrian Theory will perhaps one day come to say "we are all Austrians now".

FED IS TRAPPED

In my December 31, 2019 Quarterly Report I made the following statement. Now we know the answer.

> "As the 2019 year has unfolded the Fed has found itself increasingly in a tight spot. The stock market is making record highs, unemployment is at record lows, and inflation, in the way they measure it, is contained. The President and Wall Street are talking about how great and strong the economy and labor market are, but if this is true then why is the Fed being accommodative and providing liquidity? What are they afraid of?
>
> What is clear to me is that the Fed believes, wrongly, that a strong stock market is central to keeping the economy on track and so at any sign of a weak stock market they become more accommodative. This happened in the fourth quarter of 2018 and the Fed's announcements have followed a pattern of being very supportive whenever the stock market takes even a small stumble.
>
> Furthermore, in his most recent press conference Fed Chairman Powell talked about even letting inflation "run hot" for a little while to make up for past periods when inflation was too low. When you add this statement to their announced policy action of adding another $450 Billion of liquidity at year end to insure that there is adequate liquidity to close out the December quarter one cannot help but wonder what the Fed sees that is causing them to be so accommodative. One thing is for sure, the US stock market loves this easier monetary policy as new highs are being made almost every day. Something clearly has the Fed acting in a very aggressive manner to provide liquidity and low cost capital.

Interesting, isn't it? As recently as the fourth quarter of 2019 the Fed fully understood how fragile the system was and they were pumping money in to keep the bubble inflated.

There is substantial evidence that the Fed has been game planning this scenario for some time now.

If you read Fed Governor speeches and white papers you can see how they have signaled that they have additional tools for combating downturns and deflation. These tools now become very relevant because the historical tool, lowering interest rates, is no longer available since the Fed was never able to fully normalize interest rates in the aftermath of the GFC.

Two of the potential tools that they have signaled are "Going Direct" and "Yield Curve Control" (YCC). Going direct is nothing more than bypassing the banks and financial entities and sending money to consumers and businesses to stimulate demand. Former Fed Chairman Bernanke indicated years ago (2002) that the Fed could always address deflationary impulses because "we have a technology….. the printing press". In the same speech he re-iterated Milton Friedman's idea of using a helicopter to drop money to fight deflation, thus earning the nickname of "Helicopter Ben". As we just saw, the process of Going Direct just began a few weeks ago with the grants ($1,200 per individual/$2,500 per couple). In my opinion it is likely that this is just the beginning. Helicopter money is like heroin. Speaker Pelosi and Senator Schumer have already said that more is coming soon after they reconvene on April 20th.

YCC is a form of financial repression that is used to fix the US Government bond curve interest rates at a certain low level (as higher interest rates would've driven bigger budget deficits). This tool was used by the Fed post WWII to help work off the huge debts that were incurred to win the war. By fixing bond rates at a low level and then allowing inflation to run at higher levels, the real burden of the debt is reduced. It is very bad for bond holders and a gift to the debtor in question. There is little doubt in my mind that the US Fed is going to have to institute YCC since I believe that the next market which is going to experience difficulties is the bond market. Further, separate speeches by Fed Governor Lael Brainard and Fed Chair Powell have signaled that it is a part of their tool kit.

Of course, YCC means that the Fed will have to be the marginal buyer of all bonds offered (interestingly, they almost just announced as much). The Bond market is very large and if the FED is forced to buy bonds to keep rates low, their balance sheet will balloon upward - further expanding the supply of government credit. I address the implications of this topic next.

MMT people say that deficits do not matter and cite the example of the US during and post WWII. Keep in mind, post WWII the US economy was expanding as Germany and Japan's manufacturing bases had been destroyed. After enormous war time deficits, the US returned to a balanced budget. The Fed enacted a version of YCC but hyperinflation did not result, I believe in large part because we were on a gold standard. Given our ballooning Government Debt and growing deficits, once the bond market starts to sell off the Fed will be compelled to implement YCC as every 100bps increase in US Treasury Rates would = $250-$300 Billion in higher annual interest expense given current US Government debt levels.

BOND DOOM LOOP

The rapid decline in stock prices that we just saw was a large deflationary impulse. The Federal Reserve's primary purpose is to address and solve this type of problem. The Fed is tasked with providing liquidity and fighting deflation

The only thing holding it all together is the Fed and their its ability to expand credit. Chairman Bernanke assured us that a determined Fed could always address and solve the issue of deflation with Helicopter money. The problem is the amount being printed will get bigger and bigger because all the new debt needs to be serviced. Furthermore, if buyers and holders of US Government debt decide they have better places to put their money other than US Treasuries, then interest rates will rise (i.e., less bond demand combined with greater US Treasuries supplied = lower bond prices & higher yields). But, this is a real problem because higher interest rates increase the deficit requiring even MORE DEBT. **So, the FED will have to buy even more of the government bond market (e.g., issue more credit/print more money) in order to keep interest rates in check. Can you see where this is leading? This is a classic doom loop**. Printing money leads to more inflation, which leads bond holders to sell, which leads to the need for more printing. Eventually, when the Fed is printing money so rapidly that its value is disappearing daily then they will have another problem: hyperinflation.

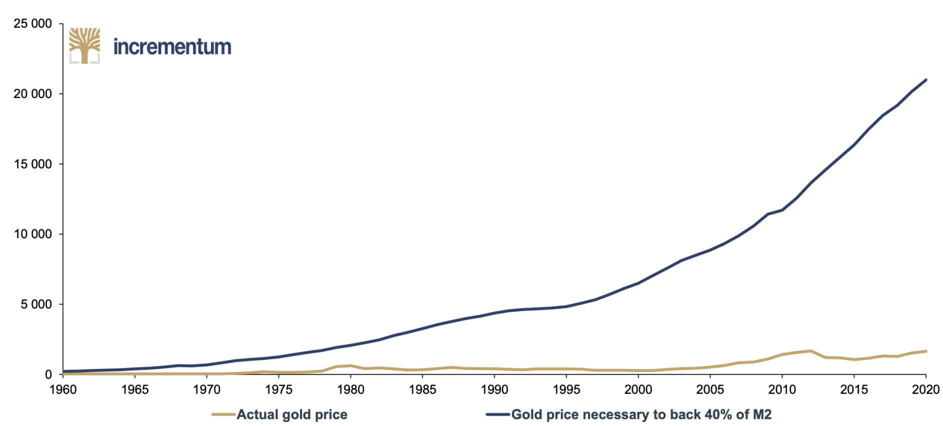
This is why I say the Fed is trapped – it's a pick your poison game for them of (i) doing nothing = deflation & bad recessions vs. (ii) monetizing deficits but at the risk of debasing the dollar and CSIP.

I have read multiple books on the history of the Weimar Republic and the hyperinflation that destroyed German society in 1923. The set of circumstances which occurred there are now occurring here and are eerily familiar. Of course, there is one solution. Raise interest rates and create a positive *real* (inflation adjusted) rate of interest. This is what Paul Volcker did in 1980. He had to go as high as 20% per annum to check the inflation of the 1970's and save the dollar. I suppose this solution is possible, but a 20% interest rate in today's debt burdened world would create a deflationary holocaust as everyone and their brother declared bankruptcy (not to mention that the annual US Deficit would increase by ~ $5 Trillion from higher annual interest expense alone).

I think the odds of a Volcker like solution are very slim, and even if that were implemented, gold will perform well because it is a financial asset without counterparty risk (remember in severe deflation some firms and counterparties will go bankrupt). My strongly held belief is that within the next five years we will go through a period of very serious currency debasement. Possibly, it could lead to an outright currency crisis or restructuring. A new currency will be created, and in order to earn the people's trust, it will have to be backed by precious metals. I say this because historically, gold has always endured as the superior form of money. People say there is not enough gold in the world to return to a gold standard. But there is - if the price of gold is set right; which is multiples of today's gold market price.

If the currency debasement gets bad enough and political leaders realize that hyperinflation is a real threat they could take action to do a monetary reset and return the US to a gold standard on some old dollars converted to new dollars basis. Others have done the math and the excellent analysts at *Incrementum Ag* have calculated the gold price that would be necessary to return the US Dollar to the gold standard. This work is presented in the following chart:

Gold Price Necessary for a Return to the Gold Standard, 1960–2019



Source: Wells Fargo Investment Institute, Reuters Eikon, Incrementum AG

This schedule was computed before the present round of monetary expansion, so the true figure might be greater, but this suggests that it would take over $20,000 per ounce to return to a 40% gold backing of the dollar. Over 10x higher than today's $1,700 price.

A NOTE FROM HISTORY

Sometimes when considering what is taking place, it helps to go back and look at what was written when similar events occurred. As we all know, Germany suffered a currency collapse and hyperinflation during the Weimar Republic from 1919-1923. Here is an account of that time period:

> *"As for speculators, the most extraordinary feature of the Reichsmark's joyride was not any attack against it but quite the opposite, an incredible ("pathological," it was later called) willingness on the part of investors at home and abroad to take and hold the torrent of marks and give real value for them. Until 1922 and the very brink of the collapse, Germans, and especially foreign investors were absorbing marks in huge quantities. Only the international reputation of the Reichsmark, the faith that an economic giant like Germany could not fail, made this possible. The storage factor caused by investor's willingness to save marks kept the marks from being dumped immediately into the markets, and thereby for a long while prices held in check. The precise moment when the inflation turned upward toward the vertical climb was undoubtedly timed by no event but by the dawning psychological awareness of the German and foreign investor that Germany was not going to back its money. With that, the rush to get out of the market was on. Like a dam bursting, the seas of marks flooded into markets and drove prices beyond all bounds. The German government strove mightily to outflood the sea."*

The Great Disorder: Politics, Economics, and Society in the German Inflation: 1914-1924. Gerald D. Feldman.

When I read this excerpt and came to the line: **"the faith that an economic giant like Germany could not fail"**, I nearly fell off my chair. A similar belief is part of what is holding the US Dollar together in spite of dreadful fiscal and balance sheet fundamentals. As we saw in the rapid collapse of the Soviet Union, once trust is lost things move quickly. Think about it. Nearly every policy the US is currently taking indicates that we are bankrupt and can't generate surpluses. Analytically, the US Federal financial condition is a mess. It reminds me of two quotes:

- *"When the music stops, in terms of liquidity, things will be complicated. But as long as the music is playing, you've got to get up and dance. We're still dancing."*

    - Chuck Prince, former Citigroup CEO (*Financial Times* interview July 10, 2007)

- *"How did you go bankrupt? Two ways. Gradually, then suddenly."*

    - Ernest Hemingway "*The Sun Also Rises"(published 1926)*

The US Government's solution to every problem is spend money/run deficits, issue more US Treasury Bonds, and as necessary have the Fed "print more money" to monetize deficits in the absence of institutional and foreign US Treasury buyers. The perception is that this is cost free. And for a while, that has appeared to be somewhat correct. But there will surely be a cost. We just have not seen it yet. That moment will occur when everyone becomes aware that the only policy choice is to print money and that it will never be reversed. Then the cost will show up in the purchasing power of the dollar.

Printing money, *in extremis*, will lead to the dollar becoming worthless. Then the "music will stop", and the rush out of the dollar will be on. Just like the German Reichsmark in 1923. In my opinion, the dollar still has value only because of tradition and recency bias.

If and when faith in the dollar begins to wane, the best indicators will be the dollar price of gold, which has been rising at 11% pa since 2015. Now at ~ $1,700 per ounce, it will achieve an important level when it takes out the 2011 high of $1,900.

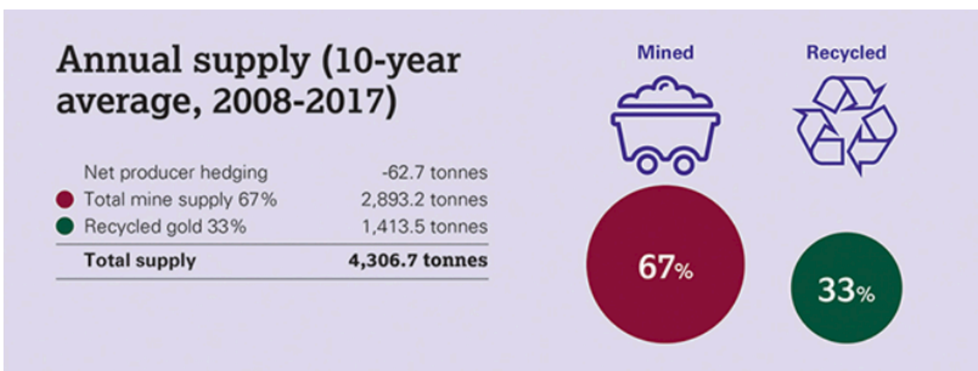
GOLD MATH & THE SUBSTITUTION EFFECT

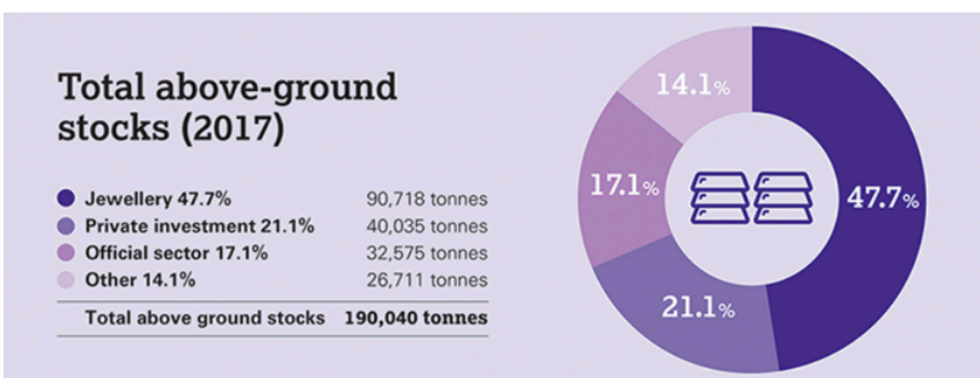
Gold is the 4,000+ year-old (dating back to 1900 BC in Egypt) solution to a mismanaged currency which is being debased.

Another way of looking at what will happen to the gold price is to consider the supply and demand characteristics at an aggregate level. The next schedules help us to do that. It is estimated that there are about 190,000 metric tonnes of above ground gold in the world. Each tonne contains 35,274 ounces. At $1,600 per ounce a tonne is worth $56 million.

At present mine operating levels, gold mining companies add approximately 2,900 tonnes per year to the supply at an industry average marginal cost of ~$1,000 per ounce. So the above ground supply of gold grows at ~ 1.5% per year. Higher gold prices will bring more capacity on line, but it should be noted that it often takes between 5 and 10 years to build a new gold mine. (absolute shortest is three years). Capacity expansions on existing mines can sometimes be completed more quickly but require one to three years. Also, because the gold mining industry has been starved for capital since 2013 (as a result of the gold bear market) production levels are projected to drop in the next five years.

The above ground gold is held in four major forms: jewelry, investment (coins and bullion), official (Central Banks) and Other. The other category includes churches and religious gold and antiquities.





Source: World Gold Council

Because Central Bank gold is often not for sale (generally they have been adding to their balances for five years) and the antiquities and churches are protected, the pool of investable gold is comprised of coins and bullion and to some extent jewelry which could be melted down if it became valuable enough.

For our purposes let's assume that the pool of investable gold is the coins and bullion or 40,000 tonnes. Of course not all of this is for sale. At $1,600 per ounce, this amounts to $2.2 Trillion dollars of value.

Additionally, I estimate that the market capitalizations of all of the gold mining companies in the world total approximately $1.0 Trillion as of April 8, 2020.

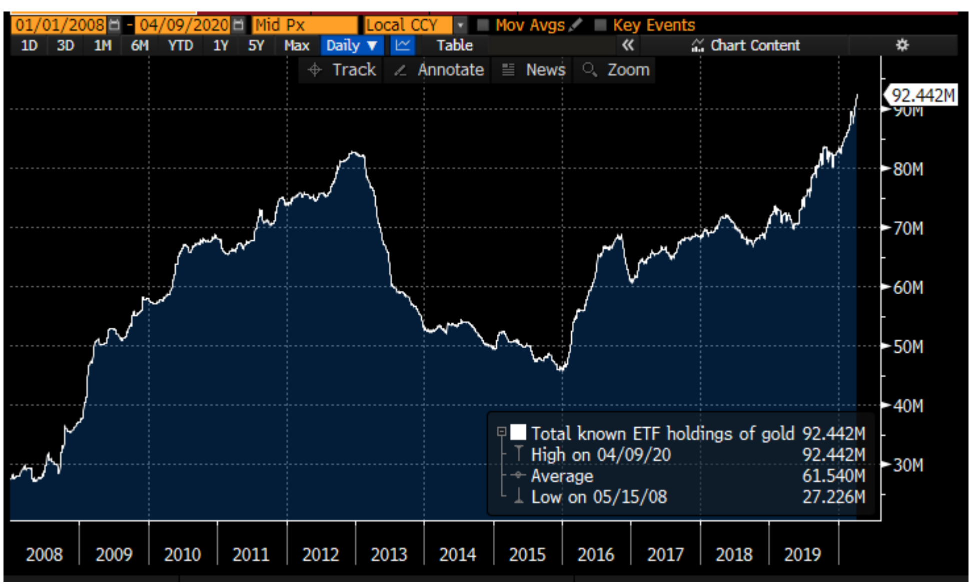
Now there are a lot of financial assets in the world. I have seen estimates that worldwide there are a total of between $300Tand $400T of Cash, Common Stocks, and Bonds. Take the mid-point $350 Trillion.

What this means is that all of the investable gold in the world is equal to 0.06% of all of the financial assets in the world. Not even 1%. So, say only 10% of investors globally begin to worry about inflation and decide gold is a better store of value than Cash, Stocks and Bonds. There would be ~$35 Trillion trying to purchase an investable gold supply valued at $2.2 Trillion. (or approximately 16x). Of course gold prices would rise substantially. I believe people are beginning to think about this issue as evidenced by the rising gold price.

GOLD IS BECOMING MORE POPULAR

In my Mid-March update, I discussed how the US market for gold coins saw a 10x increase in demand for delivery when the COVID induced financial market collapse began. Nearly all precious metals dealers in the US are now sold out. The chart below shows that the investment demand for gold, as expressed through the purchase of gold ETF's is also growing steadily.

Gold ETF holdings (troy ounce) 2008-Present



Source: Bloomberg

If it is any indication of interest in gold, I have received more calls in the past month from friends, acquaintances and potential new investors than I have experienced in 12 years of pursuing investments in gold mining stocks. I have also had interest from large institutional asset managers.

One of the smartest of the asset managers asked me several questions, but the best one was the following:

If someone invested in the MSCI and invested in your Fund and held these two positions for 10 years and it turned out that the MSCI outperformed your fund, what would a rational observer say was the explanation. Or in other words, how can you be wrong and what are the odds of you being wrong. I provided the following answer:

1. A coordinated effort by all world governments to ban gold ownership by private citizens and seize all gold mines. (I rate the odds of this at 20%). Obviously if this occurs it could be devastating to the Fund unless fair compensation is paid for the confiscation. That may limit downside but would completely eliminate upside.
2. Crypto currencies (Bitcoin) catch on very quickly and usurp gold's role. (In a five-year time frame I rate the odds of this as very low, under 2%, over longer time frames the odds increase).
3. World Governments restructure the broken monetary system (like Roosevelt 1933-1934) and reset currencies in a one-time devaluation of "old dollars" for "new dollars". The New Dollar is gold backed. (at a much higher gold price). I rate the odds of this as low (20%), but not impossible. Hard to handicap and even if it occurs from this level gold and gold shares will benefit.

Also, I think it is helpful to review how gold and gold stocks performed in the last two notable periods of currency debasement in the United States. In the 1930's, suffering from massive deflation, President Roosevelt confiscated gold (1933) and then devalued the dollar (1934) by raising the official price of gold from $20.67/ounce to $35.00/ ounce. We were on a gold standard, but domestic exchange was banned. In the 1930's the large gold stocks went up 5x and the smaller ones 10x. In the 1970's example we entered the decade on an international gold standard ($35 per ounce) but when the French demanded that we deliver physical Nixon renounced it (temporarily) on August 15, 1971. Gold went on to appreciate by 22x to $800 per ounce. The mining stocks (BGMI) went up 10.7x. And those were the large miners, smaller companies performed better.

FUND STRATEGY

This letter has been light on discussing my fund strategy. That is because a lot has been occurring in the macro picture and I thought that took precedence. Also, I am already at 24 pages so if you have come this far you are probably ready to finish.

Briefly, I take a balanced but aggressive approach to managing the Fund. I am going for multi-year large returns and therefore it can be volatile. I balance my holdings among the three mining categories: producers, developers and drill stories. Producers have deposits and positive cash flow. Developers have a deposit but have not finished building the mine. Drill stories are exploring for gold. My weightings are 70% producers, 20% developers and 10% drill stories.

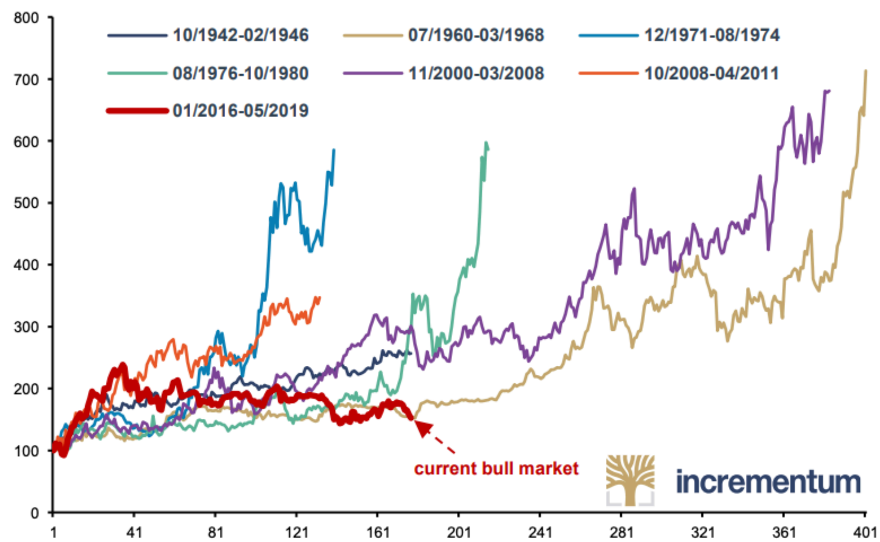
When investors look at the Fund I try to explain that they should view it as "monetary debasement insurance." It is counter cyclical to the broad stock market. Furthermore, it has large asymmetry. 1x downside and I believe 5 to 10x upside if the proper condtions unfold. It is also volatile. In my opinion the way to deal with the volatility is position sizing. A very small allocation can provide a lot of optionality. Many of my investors have it as a 5-10% weighting in their portfolios. Everyone who considers the Fund should keep these factors in mind.

BUY GOLD COINS, BULLIONS AND MINING SHARES

Overall, I believe we are in the early stages of a large and lengthy bull market for gold and gold equities. The next several years should be highly profitable for us on an absolute and relative basis. I believe for many investors with an investment time frame of under 10 years, an allocation to gold makes sense. Even if the allocation is modest, the optionality and current conditions suggest a zero weighting is a mistake.

History shows that once a bull market in the gold stocks gets started it often has a long way to run. Note where we are in the current bull market should be adjusted up about 35% since this chart was compiled before the Summer 2019 rally. Nevertheless, all gold bull markets post 1942 have provided returns of 300-700%. I believe the gold bull market we are currently in will outperform all of these prior examples.

BGMI bull markets in comparison, length in weeks, 100 = beginning of bull market, 1942-2019



Source: Nowandfutures, TheDailyGold.com, Barrons, Incrementum AG

In addition to gold equities and your position in the Fund, I strongly encourage my investors to hold some of their assets and savings in gold bullion in the form of coins or bars (unfortunately coins and physical gold that you can possess directly are in short supply presently and the premiums are very large.) These can be purchased from any reputable coin and bullion dealer.

If you prefer to have an institutional solution I recommend www.bullionvault.com out of London and Switzerland. They hold allocated metals in Switzerland and I have done due diligence on them. Both the Fund and I personally have an account with them. They very conveniently address the storage issue.

I am available to discuss this further at any time. Please do not hesitate to call me or drop me an email.

Thanks for your patience and support.

Best,

Larry

Lawrence Lepard
Managing Partner
Equity Management Associates, LLC
Wellesley, Massachusetts
Office: 781 772-1528
Cell: 617 462-8224
Email: llepard@ema2.com