Nr. 1 | April 2018

THE GLOBAL GOLD
DIGGER QUARTERLY

A quarterly review of precious metals markets, big picture trends and wealth preservation topics worth your while.

The Golden Arrow
It's Hard to Keep a Good Country Down

By Scott Schamber

Over the last couple of decades, the global financial services sector has been transformed through intensified regulation, increased scrutiny, and escalated government pressures. Particularly in the West, authorities have tightened their grip over the financial activities and the autonomy of individual investors and savers, restricting their options through regulation. At the same time, Central Bank policies have achieved the same through the introduction of a new economic reality that tends to penalize saving and encourage spending.

Switzerland has long been amongst a minority of countries trying to resist the trend. Now, it aligns itself with those who seek to reverse it, by embracing the rise of the crypto sector, by reinventing itself and by evolving into a leading global hub for the crypto and blockchain industry.

A solid track-record

Switzerland's status as a high-income country with enviable life quality, a peerless service industry, and trains that run on time, is a direct result of its history, its political system, and its legislative philosophy. At the core of the Swiss political system lies the principle of subsidiarity and direct democracy, placing strict limitations on the power of its government and on its potential for overreach. Frequent referenda on important topics ensure that the decision-making power remains with the people and does not bend to the will of politicians.

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Editorial – From the Desk of…

Scott Schamber,
Managing Director

Happy Easter! And welcome to a new version of what used to be the Global Gold "Outlook". It's now the "Global Gold Digger Quarterly".

The American singer, Sheryl Crow, once sang about how a "Change Would Do You Good", and in preparing this new rendition of our quarterly newsletter, I couldn't help but think of the song. It's a fitting way to describe many of the changes we've had here at Global Gold. Sometimes a little change can do you good. But, even with the change, Global Gold still remains what we've always been: Your Swiss Solutions for Precious Metals.

At Global Gold, we are optimistic that 2018 will be a good year for precious metals as well as for our own operations and efforts to continuously improve our service quality and to strengthen our relationships with our clients. In May, our parent company, BFI Capital Group, will be celebrating 25 years in the wealth protection and wealth management business. The focus has always been "Protecting and Growing What is Rightfully Yours" While Global Gold can't necessarily "grow" your metals – we wish! – we are serious about protecting what is yours.

Also, as we naturally welcome every opportunity to personally meet and interact with our clients, we are very happy to announce our participation as a Gold Sponsor in this year's Freedom Fest in Las Vegas, from the 11 – 14th of July. Together with BFI Capital Group, we'll hold a private afternoon briefing on the 11th, focused on jurisdictionally diversified wealth strategies. It would be a great pleasure to meet you there, to answer your questions and to share our insights and experiences in international investments and wealth preservation.

Thanks for reading and enjoy this new issue of the "Digger".

The nation's long track record of neutrality and stability has also played a major role in the evolution of the financial services sector. Through times of conflict or peace, Switzerland has remained unaffected by the political crises and upheavals in the rest of the world. One need not look further than the last couple of years: Brexit, critical elections throughout Europe, the rise of right-wing parties, the Trump election, terror attacks. They all had their impact in the US and in Europe, yet Switzerland remains largely unaffected.

Another key advantage is the Swiss legislative philosophy, which guarantees respect for private property rights. Also, unlike the US or in the majority of EU member-states, legal simplicity prevails and one's rights and obligations are clearly outlined. This, combined with the rule of law, the economic stability and political predictability of the country, continue to make Switzerland the ideal jurisdiction to do business and invest in.

Regulatory pressures and media offensives
Although none of these core foundational elements have changed over the last years, it is true that the financial services and private-banking industry in Switzerland has been forced to adapt to the changes in the rest of the world. In recent years, we've seen an increase in the density of regulation, resulting in increased compliance costs for many firms in the sector. A rough transition period saw a decrease in assets under management in 2014 and 2015, with the US's "war on tax evasion" as a key factor that led to the exit of a number of players.

These developments fueled a wave of negative media coverage at the time, erroneously and prematurely heralding in an "end of an era". While it never manifested, the regulatory fervor did weed out a few bad actors and gave some fits to the larger and more complacent operations. On the other hand, it also offered a competitive advantage to smaller and more agile players that specialized in regional compliance and adapted to the new requirements.

As it was largely unaffected by the new regulations in the same way as others in the financial sector, the precious metals industry >>

has only seen a turn for the better, especially as concerns mounted over the extreme global monetary policies of the past years. The Swiss advantages became increasingly apparent to foreign investors.

Nevertheless, negative reports on the Swiss financial sector continued to proliferate, some with more journalistic merit than others. Some of them sensationalized developments such as account leaks or the publication of the Panama Papers and used them to resuscitate worn-out clichés of tax-evading clients colluding with unscrupulous bankers. Yet what they forgot to clarify was that in the majority of recent revelations, nothing illegal actually happened.

There have been also some opinion pieces bluntly aimed at fear-mongering, founded exclusively upon unsubstantiated claims and anecdotal stories. Usually such pieces include recycled prophesies of an imminent global economic collapse or cases of banks unlawfully withholding clients' assets. Even gold was sucked up into this melee with stories warning investors of an upcoming gold confiscation order. The common denominator amongst these warnings is the comprehensive absence of sources, references, or any information that can be used to verify the claims.

Switzerland and the US dominate digital coin offerings

Countries that raised more that $20m from ICOs in Jan – Oct 2017

Source Lykke: Coindesk:
© FT

Staying ahead of the curve

As the global tide of the tightening regulations continued unabated and as the media and politicians doubled down on their attacks against banking secrecy and privacy, one couldn't be blamed for thinking that Switzerland's financial sector would be facing an uphill battle going forward. However, thanks to a far-sighted and rather contrarian strategic maneuver, the country's financial services and fintech sector is now in the vanguard of the crypto revolution.

Long before Bitcoin made its first headline and entered public consciousness, the alpine country already saw an opportunity in the emerging crypto industry. While most other nations saw the new sector as a threat and some even tried to close their doors to crypto entrepreneurs, Switzerland flung them wide open and welcomed the burgeoning sector's business and capital.

As the economy minister, Johann Schneider-Ammann, recently put it, the country aims to become the "crypto-nation", a goal that seems increasingly within its grasp. Starting in 2013, after the Ethereum Foundation based itself in the canton of Zug, more and more firms from the crypto sector have flocked to Switzerland, eventually making the country a global hub for crypto and blockchain-based businesses as well as for initial coin offerings (ICOs). According to research by PwC, out of last year's total of $5bn globally raised in ICOs, almost a quarter was raised in Switzerland.

As for Zug itself, nowadays being referred to as the "Crypto Valley", it has clearly emerged as the epicenter of all crypto-related activity. This small town south of Zurich decided early on to adopt a crypto-friendly framework and in 2016 it even became the first to accept bitcoin as payment for some public services.

Combined with the forward-looking regulatory approach of the Swiss financial market authority FINMA, this might go some way into explaining PwC's recent findings showing that out the ten largest ICOs in the world last year, four were in part based in Zug.

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Where the old meets the new

The practical manifestations of the Swiss values, the nation's particular principles, and its philosophy have played a decisive role in attracting and keeping the crypto sector's business. The ideas shared by many of the entrepreneurs and investors in the emerging industry revolve around decentralization, privacy and protection of private property. Thus, they are likely to feel intellectually at home and operationally safe in the country that was built on and still respects such values.

Furthermore, Switzerland's well-deserved reputation for security and stability, both in geopolitical and legal terms, also offers a rare advantage to crypto businesses. In times like these, when many other countries move to enforce ever-stricter measures, stifling the nascent industry, legal predictability can prove crucial to its survival. Aggressive crackdowns in China, South Korea and Japan have taught important lessons to investors about how swiftly regulation can change and how costly compliance or forced relocation can be.

Overall, the evolution of Switzerland and its expansion to the crypto sector provides a strong response to the global push for more regulation and control over the financial sector and to the resulting challenges facing investors. However, what really drives this move is nothing new. The country is simply offering what it always has: freedom of choice, stability, and respect for private property. What cemented it and still does today as a safe haven for wealth protection and precious metals owners, is also now making it a safe haven for crypto investors too.

Big Picture Sentinel

Central Bankers Running out of Road

By Frank R. Suess

We are fast approaching a crossroads in global financial markets. The tides are changing! After more than four decades of decreasing interest rates and the past decade of extensive, and at this point global, quantitative easing and currency depreciation games, it is becoming increasingly difficult for central bankers to "kick this can" any further. The road plastered with paper money is coming to an end. It is not a question of 'if', but 'when'.

I understand, it borders on blasphemy to question the wisdom and "omnipotence" of central bankers. But history will stand testimony to how very human and imperfect these godly engineers of money really are. And that moment in history is approaching fast.

The problem is that the risks of sudden changes in the system, such as an inflationary boost, often do not become visible until it is too late. To understand the basic problems, or the moral and economic issues of continuous "money printing", one might compare central bank policies visually with a ketchup bottle that you shake and shake. Nothing comes out at first; it is in essence risk-free. So, you shake harder, hitting the bottom of the bottle with your palm, when suddenly the ketchup splashes out, across your plate and all over your dress shirt.

The next few years, and the crisis that comes with it, will make 2008 look like a blip of nothing in hindsight. Debt levels and the derivative structures that come with them are higher than ever. Particularly in the US, the last ten years of stark monetary interventionism have not led to any improvement of the overall public and private balance sheets, to the contrary. The debt that has been built up since 2008 is gargantuan.

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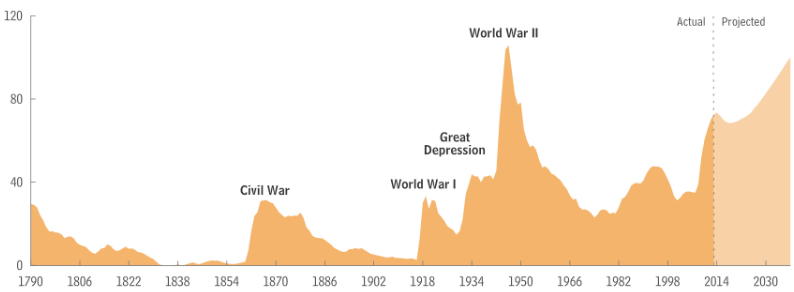
Drowning in debt
I have particularly big concerns for America, which translates into concerns for the rest of the world really.

The US government is fighting its way from debt ceiling to debt ceiling, from deficit to deficit, and from imminent insolvency to the next. More and more debt is piling up at an ever increasing rate. The following graph affords an interesting perspective in this regard.

U.S. federal debt held by the public as a percentage of GDP, from 1790 to 2013, projected to 2038
The graph displays the Debt-to-GDP ratio in 2013, and the US Congressional Budget Office's projections until 2038. The Budget Office expected debt to stand at roughly 100% of GDP in 2038. Well, we don't have to wait another 30 years. Today, merely 5 years after that projection, the US national debt officially stands at over US$ 21 Trillion, or at roughly 105% of US GDP. Of all industrialized nations, only Japan (250%) and Italy (132%) are more indebted.

Federal Debt Held by the Public Under CBO's Extended Baseline

(Percentage of gross domestic product)



Source: Congressional Budget Office, The 2013 Long-Term Budget Outlook, Page 10, Figure 1-1

And if you think that this part of the US debt is bad, what do you think of the other generally unmentioned part of public debt: US federal unfunded liabilities? They are estimated at over US$ 210 Trillion (!!).
These "unfunded liabilities" are not accounted for as public debt. But they should be. They largely consist of the two US national entitlement programs, Social Security and Medicare. They are "guaranteed" by Uncle Sam. Trusting in being paid down the road, no matter how meager the benefits, they are funded gregariously by American workers. And Uncle Sam is trying to keep his side of the deal, but for how long?

At this point, the American government is borrowing its way forward, financing its deficits with growing mountains of Treasury paper. The Treasury also borrows from the aforementioned trust funds (!) – a double-dip so to speak. The US Treasury sells its debt papers in ever growing numbers, borrowing from foreign governments and global investors. They have been all too happy to buy the AAA debt. Elsewhere, government yields have been lower than in America, if not negative.

The biggest questions, amongst others, are how much longer this will work, and what happens when yields start picking up a little too radically, a little too quickly? And what if the dollar continues to weaken? Will investors get even more nervous? It represents a loss of value in the books of investors, governments, banks, insurance companies and pensions around the world. You get the picture: the US Treasury and the Federal Reserve are stuck in a very uncomfortable situation.

Building the global fountains of money in the aftermath of 2008 was the easy part. The hard part is turning them off!

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The end game is near: stagflation on its final approach

Will America – and the world – be able to "grow its way out" of this mess? The very simple answer is "no". What you can expect is a crisis – a currency crisis, a financial market crisis, or an extended economic crisis. You should not expect the end game to be one of growth. First, we will see a phase of deleveraging and shrinkage of debt via other ominous means of financial repression, the worst and most probable being INFLATION.

Even if President Trump turned out to be the biggest hit since Coca Cola was invented, he too is faced with a stagnating economy, financial markets that are toppish and a mountain of debt that he will not be able to remove without pain, no matter what he promised during his campaign. I've had several discussions with American friends and clients that are very optimistic for the US. They believe that the US could be on the brink of an economic up-swing, a political and industrial revolution based on a combination of "Trumponomics", technological innovation and can-do spirit. I wish I could share their enthusiasm. However, I don't think a transition to better times will be possible without pain or crisis.

> *"The first panacea for a mismanaged nation is inflation of the currency; the second is war. Both bring a temporary prosperity; both bring a permanent ruin. But both are the refuge of political and economic opportunists."*
>
> *Ernest Hemingway*

The issue we face: We stand before a "wall of inflation". Inflation will lead to rising interest rates. In the current context of a zero-interest rate world, and after years of radically expansive monetary policies, even a nominally moderate increase of 1 or 2 percent in US interest rates will have a well-noticed ripple effect across all financial markets and asset classes, stocks included.

Yes, I know, like a mantra, we have been told that deflation was the (only) enemy. And, in general, that has been true. However, price stability is a fickle monster. The specter of inflation has been noticed on the horizon. The reactions of market participants to inflation changes are generally not rational. As inflation expectations of market participants rise, the mood in financial markets can turn on a dime in the coming months.

With rising inflation, we stand before one of the starkest challenges we've encountered ever. Frankly, how things will evolve over the coming months is anybody's guess. Personally, I expect an extended period of stagflation. In the Weimar Republic, the path to hyperinflation was anything but linear and clear. Developments were at times slow, calm and unspectacular, only to turn violent and erratic the next moment. We can expect a similar "pattern" moving forward.

Financial markets have started to notice. Volatility in the markets has increased. And, unfortunately, there is no such thing as a free lunch! Those who are benefitting from lax monetary policies and who are enriched by their 'quasi-risk-free' financial maneuvers will not be punished for the risk-taking if things go wrong. It will be the savers, the retirees, and future generations shackled by excessive debt and financial waste. >>

What to do? How to invest?

First of all, as investors, we must always recognize that great risk means great opportunity. I am convinced that formidable profits will be made in the next two to three years by those investors who leave the pack, walk their own path and prepare properly.

Unfortunately, there is no hard and fast method of forecasting the future in a complex system such as the global economy and financial markets. And, while we tend to fall into the trap of linear forecasting, based on the situation that exists today, don't expect things to move in one direction. In the short- to medium-term, things are highly uncertain. However, for the next 12 to 24 months, we can work with general scenarios and anticipate the future in a probabilistic and relative fashion.

At this point, probabilities that interest rates will go lower, or stay low for much longer, are relatively slim. Chances of US deficits and debt rising further are close to 100% on the other hand. Meanwhile, inflation expectations are on the rise, central bankers are trying to end their lax monetary policies, and financial markets are generally somewhat toppish. So what is the scenarios we might be looking at? A volatile financial market, or even a market crash? An extended period of stagflation, followed by high inflation? A potentially stark devaluation of paper money and fiat currency? All or a mix of the above?

Whichever scenario you envision, there are a few things you can do immediately to improve your position.

- **Reduce US exposure.** Consider lowering your exposure to US currency and markets. Instead, invest in healthy small to medium-size companies, preferably dividend paying, in Europe and Switzerland. A diversified allocation toward emerging markets might be considered too. However, beware that most emerging markets will suffer from a weaker US dollar, more so than Europe.

- **For liquidity, stay in shorter-term bonds.** At this point, medium- to long-term bonds are no longer to be considered a "conservative" investment, even if the come with the AAA rating of the likes of Standard & Poors… Sudden rises in interest rates will hurt bond portfolios badly.

- **Avoid holding too much cash.** Cash is exposed to currency depreciation and the balance sheet risks of your bank and government. The topic of bail-in should be on your mind at this point, particularly if you live in a highly indebted country.

- **Invest in physically allocated commodities and precious metals.** This is an excellent time to stock up on gold and silver, even though I am not enthused by silver's non-confirmation patterns. At this point, they combine the benefits of insurance against a crisis and an investment with good upside potential in general. Equally, this is a good time to increase exposure to mining stocks. Precious metals prices have been suppressed for some time. With inflation peaking its head, they are poised to rise.

Golden Nuggets

What's on Our Mind…

25 Years of BFI – Yes, we've been around for a while!

As you may realize, Global Gold is a subsidiary of BFI Capital Group (www.bficapital.com). What you may not realize is that we have been around for 25 years. On May 21st, our group will be celebrating its 25th Anniversary since the founding of BFI in 1993!

If this surprises you, you are not alone. It surprises us too. So much has happened, evolved, and changed, and yet it all seems to have passed by so fast. As time flies by, it sometimes becomes a blur.

Our group's CEO and Chairman recently sent out a personal letter to our clients, partners and friends – possibly, you may have received it as well. In the letter, he takes us down memory lane a bit, from the initial founding to the most recent developments and exciting projects we are privileged to work on. Here's a short excerpt from the letter:

"The story of BFI started over 25 years ago! On May 21st of 1993, my father Frank Suess Sr., incorporated the first company of our group, BFI Consulting AG".

"Actually, the business idea and initiation of BFI was even earlier: in late 1991. I vividly remember my father and I traveling to Costa Rica in December of 1991 to our first conference (the first of many) organized by a group called Sound Money, I believe at a hotel called Iguazu, in San José. And there, my father, for the first time, held a presentation on Swiss annuities to a group of internationally minded investors, mostly from America".

"Mind you, the presentation was held using an overhead projector and transparency slides, which I had prepared on an Apple Macintosh and its revolutionary graphical user interface. Do you remember?"

Time flies indeed. And that Macintosh does seem to stem from a different age for sure… Anyway, we've been around for a while, and no worries, we'll be around for "a while longer". Global Gold and the entire group are doing very well; we're profitable and growing across all group companies.

We are continually excited about being part of the BFI story here in our Global Gold team. On behalf of our team, and on behalf of our entire BFI family, THANK YOU for being part of that story as well!

The New ‘New’ Thing in Financial Innovation: ICOs and Tokenization

Technology investing: will the Initial Coin Offering/Tokenization space become an integral part of the ‘Internet of value’ or just another seedy corner of the global financial markets?

The fast-moving area of Initial Coin Offerings (ICOs) is following close on the heels of the wild ride of the crypto currencies, such as Bitcoin, and the increasing interest in the related decentralized ledger technologies best known as the Blockchain. Investors are faced with a still fluid reality it has all the inherent pitfalls of an untested idea mixed with naïve exuberance and fantastical narratives driven by real visionaries and outright fraudsters. Nonetheless, it is worth exploring further, as it’s clear that the current financial system can surely be improved upon.

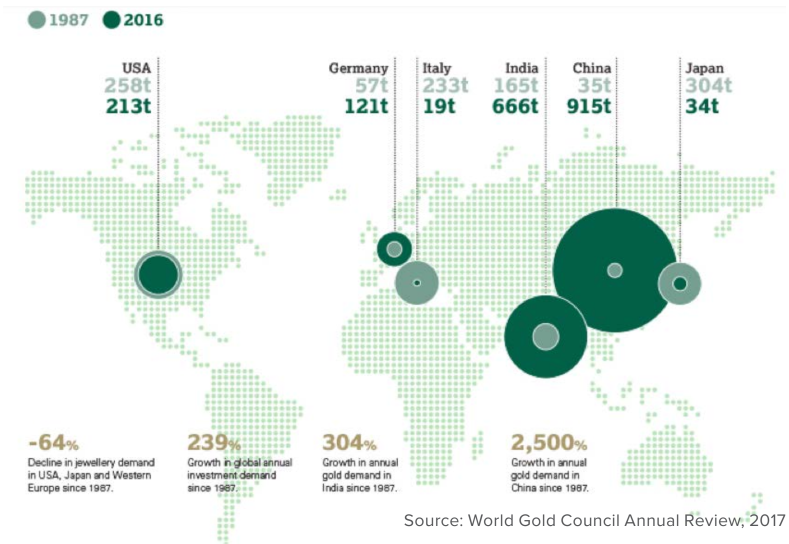
Our friends at Librarium Associates Ltd – a boutique investment research company focused on delivering distinctive insights on global trends to help investors make informed decisions in an ever-changing world – have produced an overview of the developments in this interesting area.

In their “8 Pages About the ICO Wave Report”, they dig deep to assess the potential of this “new ‘new’ thing” in financial innovation. Drawing on the lessons of history they separate the reality from the hype, take a look at the regulatory & tax framework coming into place, assess the potential future disruption this so-called “internet of value” may provide to the established players and how investors can best seek to take advantage of these trends while avoiding becoming lost in the maze of the “crypt”.

It has been well said that in times of change, learners inherit the world. To see the report, visit our blog at globalgold.ch. Please feel free to reach out to the Librarium team with any related questions:
https://www.librariuminsights.com/

Geographic centers of gold demand (tons) in 2017

A comparison of 1987 vs. 2016



Source: World Gold Council Annual Review, 2017

World Gold Council Annual Review 2017

On February 27th, the World Gold Council published their annual review for 2017. The strong performance of gold prices in 2017 is seen as a positive shift in the general market sentiment toward gold, a growing recognition of gold’s role as a wealth preservation and risk mitigation tool.

As usual, while the World Gold Council is not completely objective in their perspectives when it comes to the subject of gold and precious metals in general, the report is filled with interesting stats and diagrams.
Here, for instance, is an interesting diagram on annual gold demand in 2017.

Review, 2017
https://www.gold.org/annual_review_2017

The Next Financial Crash Will be Like an Avalanche

In an interview of January 18th, 2018, Robert Kiyosaki sums up his expectations for 2018. Mr. Kiyosaki expects gold, crypto-currencies and blockchain technology to be around for the long-term. He's not so sure about the US dollar, and other government-backed fiat currencies. He says: "Everyone should ask themselves, what do you expect to still be here in 2040?"

This is a great interview which we came across by coincidence. Everyone should know Mr. Kiyosaki's first bestseller titled, *Rich Dad, Poor Dad.* If not, buy it.

Robert Kiyosaki's views on the current markets and debt bubble, as well as the issues with the global financial system, are clear and to the point. And, frankly, we were surprised to what degree he sounds like us! As he states, he has "more gold than he could ever spend in his lifetime"!

Check it out. Well worth your time.

https://www.youtube.com/watch?v=kTnlj3qoDoM

Impressum

THE GLOBAL GOLD
DIGGER QUARTERLY

Publisher
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Published
Four times a year.
Exclusively for clients, partners and friends of Global Gold