GLOBAL GOLD
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THE DIGGER QUARTERLY

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

The Golden Arrow

State of Debt

Where do we stand a decade after the Great Recession?

By Frank Suess

The aggressive market sell-off that started in early October and included an 832-point Dow drop in a single day evoked strong memories of the frenzied correction at the beginning of the year. It also confirmed that in an aging and increasingly volatile bull market, any sudden move might be enough to spook investors into panicked selling. In this case, the main trigger was the widespread fear that the Federal Reserve's interest rate policy will prove too aggressive. Amid the market plunge, President Trump himself criticized the Fed's rate hikes, describing the central bank as "crazy" and "out of control".

The fear of rising rates is justified, albeit not for the reasons most investors have in mind. Currently, most fears are concentrated on the superficial level of the problem, namely the effect that higher rates will have on the market rally. As the Fed stops holding the market's hand, the largely artificial boom could come to a screeching halt. However, this is only the tip of the iceberg. The real problem is what such a move could do to the long-ignored time bomb that is the US debt. >>

Editorial

Scott Schamber,
Managing Director

The past few weeks have seen fierce volatility and contagious anxiety send stock markets into a tailspin, rattling investors and raising serious fears that the historic market rally might be coming to an end. Historically, October, sometimes known as the "jinx" month, is notorious for market turbulence, yet this time felt different. There is an increasingly widespread understanding that the ageing, overstretched bull market might be running out of steam.

However, while most investors currently worry about interest rate hikes and their impact on the day-to-day moves of the markets, we see this as a superficial and myopic concern. There is a far deeper problem that has been papered over for too long and could cause much more extensive damage than a short-lived 10% correction. In this issue of the Digger, we look into the out-of-control US debt and its wider implications as interest rates pick up.

Staying on the theme of reckless financial mismanagement and the chronic failure of governments to spend within their means and pay their bills on time, we'll also examine the dire state of pensions in most western economies. As warnings and calls for politically inconvenient but much needed reforms have gone unheeded for decades, the pension crisis has now ballooned to an unprecedented extent.

Finally, as we recently celebrated the 25th anniversary of BFI Capital Group, we're very happy to share with you some of our best memories and key milestones of this long and successful journey.

I hope you enjoy and don't hesitate to contact us with any questions.

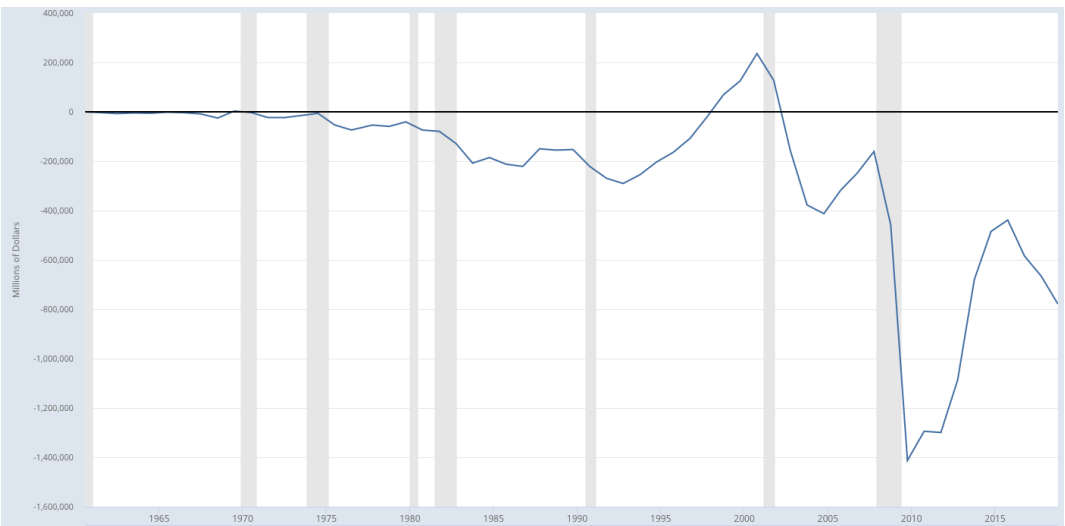
The scale of the debt burden

The US debt is now around $21.5 trillion, a historically unprecedented sum, which only keeps rising at a rate of about a trillion a year. By comparison, the total debt of the European Union, all 28 member-states combined, stands at €12.5 trillion ($14.3 trillion), according to Eurostat figures. The total US debt also exceeds what the entire country produces in a year, with a debt-to-GDP ratio of over 105% in 2017. By comparison, in 1988, the debt was only half of country's economic output. To make matters worse, a forecast by the International Monetary Fund showed that by 2023 out of all advanced economies, only in the US is the debt-to-GDP ratio expected to rise.

How the problem ballooned to this extent is not too hard to fathom. A quick look at the record of the current and previous administrations makes it clear that reckless spending supersedes political lines. Presidents and Congresses of both parties have failed to rein in the debt, balance the budget, and spend within their means. The last time the US had a budget surplus was 2001. In more recent years, Barack Obama presided over the largest dollar increase in debt, while President Trump suspended the debt ceiling until March 2019, essentially enabling the government to borrow an unlimited amount of money until then. For the 2018 fiscal year, Treasury Department data released on October 15 shows that the U.S. recorded a $779 billion deficit. That's a jump of $113 billion, or 17%, as spending increased while revenue remained almost the same. In relation to the GDP, the deficit rose to 3.9%, the highest level since 2012.

As for what the future holds, according to the Congressional Budget Office's (CBO) long-term budget outlook, the national debt is set to reach $99 trillion by 2048. The same report projects that the federal budget deficit will reach $1 trillion in 2020, $2 trillion in 2032, and $6 trillion in 2048. What is even more worrying is that these projections were based on the >>

Federal Surplus or Deficit



Source: FRED, US Office of Management and Budget

assumption of a favorable interest rate environment, while the calculations also assumed there would be no recessions during that period. In other words, the CBO's outlook arguably portrays a best case scenario.

The real cost of borrowing

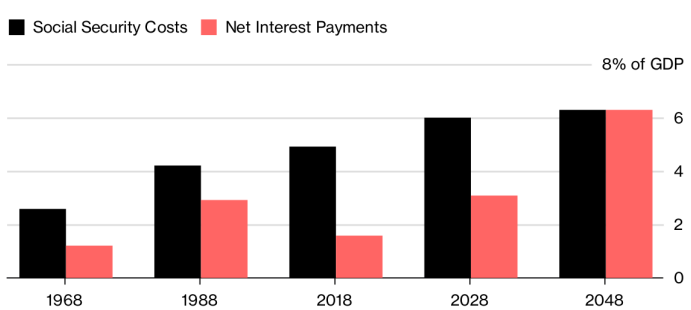
Until recently, the ultra-low interest rate environment made it easier for lawmakers to borrow without thinking too much about the cost of repaying that debt. Now, however, as interest rates begin to normalize, the problem is becoming increasingly difficult to ignore. Not only are interest costs the fastest-growing part of the federal budget, but they are also projected to overtake other core expenditures, including the defense budget, within 10 years.

According to CBO data, in 2018 alone, the US government spent $371 billion on net interest. By comparison, the budget for the Defense Department was $599 billion, Social Security cost $977 billion, and Medicare $585 billion. Over the next decade, interest costs are set to skyrocket to $914 billion. By 2048 they are expected to match Social Security spending, posing a serious threat to essential public services and to future economic growth, as well as severely limiting the government's capacity to react in the next recession.

Far from a theoretical problem for another day, the effects of the debt and its interest costs eating away at the budget can already be seen. Years of running deficits and the unwillingness to reduce waste or make cuts in politically contested areas, such as defense, benefits or subsidies, meant that infrastructure has long remained in the back of the funding line. The chronic lack of investment in upgrades and maintenance has left highways, bridges, dams and airports in a dire state of disrepair.

The Infrastructure Report Card, published by the American Society of Civil Engineers, gave the US a D+ grade, with aviation, roads, and drinking water being the systems with most urgent need of investment. Since 1998, the grade range has remained stuck between D and D+. The ASCE estimates that $4.5 trillion is needed by 2025 to repair the country's roads, bridges, dams, and other infrastructure. >>

Interest Payments will match Social Security by 2048



Source: Bloomberg, CBO

The consequences of this lack of funding have been widely documented, from the devastation of Hurricane Katrina and Sandy, together claiming the lives of almost 2000 people, to the destruction of more recent natural disasters. Amid dam failures, bridge collapses and sinkholes, last year's Hurricane Harvey caused over $75 billion in economic damage, according to Bloomberg estimates, while Moody's analysts calculate the economic losses from Hurricane Florence between $38 billion and $50 billion.

Living on borrowed money

Precarious as the state of the US government's finances might be, its impact on the wider economy could be easier to contain if the private sector and the individual households were robust enough to withstand the effects of a potential economic downturn. However, a decade after the onset of the 2008 crisis, it would appear that little progress has been made and few lessons learned. According to S&P Global Ratings, US companies (excluding banks), encouraged by the low borrowing costs of the past years, have amassed $6.3 trillion in debt. This amount is not only higher than the one before the Great Recession, but also the highest on record.

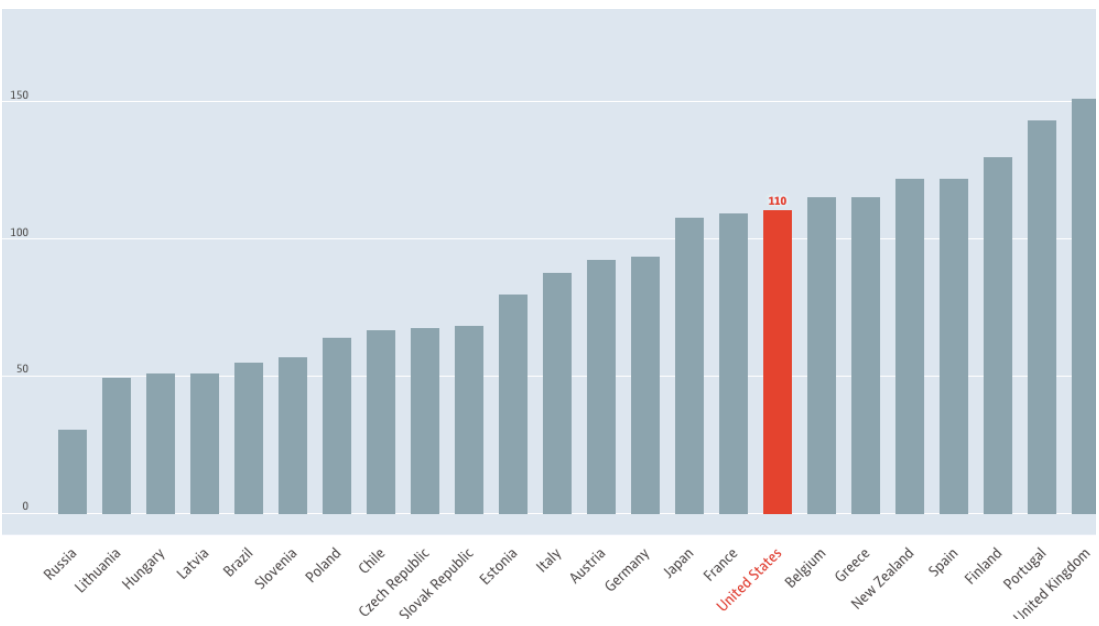
With rising interest rates, it now becomes severely more expensive for companies to service and repay their debt when it comes due, a problem that is bound to become exponentially worse as inflation picks up, forcing the Fed into further rate hikes.

"Compound interest is the eighth wonder of the world. He who understands it, earns it. He who doesn't ... pays it."~ Albert Einstein

American households are also sliding deeper into debt. As a recent New York Federal Reserve report shows, US household debt reached $13.29 trillion in the second quarter of 2018, up $454 billion from a year ago. This was the 16th consecutive quarter of increases, while mortgage debt alone rose 3.5%, to $9 trillion. Moreover, Federal Reserve Board data released earlier this year showed that 40% of US adults do not have enough savings to cover a $400 emergency.

Finally, according to OECD data, as a percentage of disposable income, US household debt stands at 110%, alarmingly close to the 111% that households in Greece are struggling with, a country that has yet to recover from its 2010 economic collapse. By comparison, household debt in Italy, despite the widespread concerns over the country's dire finances, stands at only 86% of disposable income. >>

Household Debt



Source: OECD

Investment implications

Apart from the grave risks that the US debt and its implications pose, it is important to remember that most advanced economies are also debt-ridden and standing on dangerously thin ice. Japan, for example, with the highest per capita government debt in the world, would need each citizen to pay $90,345 to cover its debt.

"Solvency is maintained by means of a national debt, on the principle, "If you will not lend me the money, how can I pay you?" ~ Ralph Waldo Emerson

The EU is fighting its own budgetary battles and facing serious destabilization risks from Italy, as the new populist government seems determined to defy the bloc's wishes and make good on its pre-election extensive spending promises. After years of QE and persisting ultra-low interest rates, most major economies are woefully unprepared for the next crisis and vulnerable to contagion scenarios, should the US face another downturn.

Nobody knows for how long the market rally will persist, neither can anyone accurately predict the exact moment that interest rates will catch up and the exorbitant debt on all strata of the US economy will reach a tipping point. What is clear, however, is that the toxic combination of an aging bull market, record US debt, rising interest rates and overall indebtedness in all layers of the economy should sound the alarm for all prudent investors.

Amid the anxiety of the last market sell-off, interest shifted to safe haven assets and gold prices hit a 12-week high. Predictable as this was, it also served as a confirmation of the role that precious metals play in every market tumble. Considering the magnitude of the current underlying risks to the economy, the entire incident resembled a mere preview of what lies ahead.

Despite their recent uptick, gold prices still remain at relatively attractive levels. Gold is still down about 9% from its April peak and its outlook for 2019 appears positive. Widespread geopolitical tensions, such as the sanctions against Iran, the US-Saudi Arabia friction and the EU standoff with Italy, continue to spark uncertainty, while the ongoing and significant gold purchases by a number of central banks around the world are also noteworthy.

In October, Hungary increased its gold reserves 10-fold, bringing its holdings to their highest point in three decades. Over the summer, Poland added 9 tons to its stockpiles, in the country's largest purchasing spree since 1998. Russia and China have been making headlines for years for their gold-buying appetite and this year alone Russia has been adding an average of 20 tons each month.

There is a very good case to be made for investing in silver too. At its current price levels, it is extremely attractive, as the precious metal is down more than 70% from its 2011 highs.

The gold-to-silver ratio, widely used to identify buying opportunities, has historically averaged around 60. It is now hovering over 80, a strong indicator that silver currently presents a longer-term, value-buying opportunity.

Overall, given the present risks and the rare opportunities to mitigate them, it would appear that now is an ideal time to prepare for what lies ahead. The US might be able to postpone its long overdue debt crisis for a while longer and the market might continue on its upward trajectory with whatever steam it has left. Nevertheless, the buying opportunity that presents itself at this point in precious metals is rare.

At Global Gold, we've spent years trying to help people understand how important precious metals are for preserving wealth and how essential they are as a hedge against volatile markets. However, what we've always also insisted on is the idea that if there is anything more vital than being prepared and building up a solid precious metals position, it's having the acumen to do so in time.

Big Picture Sentinel

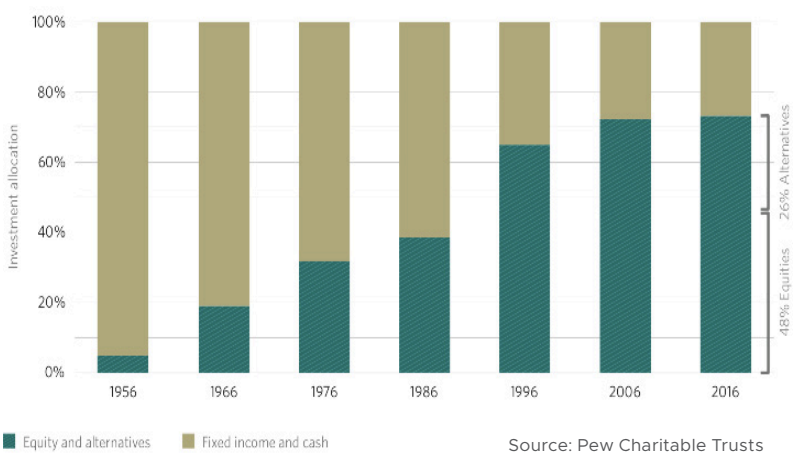
Pensions at breaking point

By Scott Schamber

Concerns over the unsustainability of pension systems in most Western nations and the dangers of their inevitable failure have been voiced for decades. However, judging by their dire state today, it would appear that the warnings have largely fallen on deaf ears. Politicians have systematically kicked the can down the road and while they successfully managed to make it the next incumbent's problem, the pension crisis is now approaching a point of no return.

Unfunded pension liabilities, or the gap between the future payment obligations and the current assets available to cover them, pose a severe threat to many Western countries. The imminent pensions disaster is not merely the state workers' problem. On the contrary, it is everyone's problem, as it is the taxpayer that has to cover the government's pension promises and all citizens suffer when resources are redirected from core public services to prop up a failing pensions system.

US Public Pension Investment Allocations, 1959-2016



Source: Pew Charitable Trusts

US pension liabilities: Unfunded and unfundable

US public pensions have been chronically underfunded to the point that, much like the US national debt, the issue is hardly newsworthy anymore. The numbers are, nevertheless, staggering. In 2017, the officially reported total unfunded pension liabilities of state and local governments reached $1.6 trillion, a deficit that is higher than at any other time since the Great Recession. A report published by the American Legislative Exchange Council (ALEC), using the actuarial figures officially reported but applying a more realistic risk rate and more reasonable long-term market performance assumptions than the funds themselves, estimated state and local governments' unfunded liabilities at over $6 trillion.

To make matters worse, since 2000, the costs of state pensions have almost doubled as a percentage of available state revenue. Also, during the years of aggressive QE and extremely low interest rates, investment risk tripled in pension portfolios, in largely fruitless efforts to fill the gap with higher returns. As a result, not only are US pensions heavily underfunded and consuming an ever-increasing portion of the states' revenues, but they are also heavily exposed and dangerously vulnerable to an economic slowdown and a market downturn.

A recent Harvard study, commissioned by Pew Research, employed a stress test analysis on the retirement systems of 10 different states, similar to the "worst case scenario" tests used in the banking sector, to examine their resilience to >>

unfavorable conditions. New Jersey and Kentucky emerged as the states with the highest insolvency risk in their pensions systems, both currently being only around 31% funded to meet their liabilities. Illinois, Connecticut, and Colorado did not lag too far behind.

Far from it being a problem for another day, the consequences of the pension crisis are already being felt, as among others, governors in Colorado, Minnesota and Illinois have signed tough measures into law in 2018 to deal with their unfunded liabilities. Although these included cutting public pension benefits and increasing contributions, these steps are not enough, according to a Fitch Ratings report released in June, stating that "funding improvement for many major pensions may not materialize any time soon."

While the public pensions problem in the US is steadily deteriorating, private pensions are not on solid ground either. Private pensions overall have only 82% of the funds necessary to meet their obligations. Also, in the low-to-negative interest rate environment of the past years, traditional, safe investments could no longer reach the necessary return targets, thus triggering a seismic shift towards riskier investments.

UK: "Chronicle of a death foretold"

The UK is facing is own pensions time-bomb, with its gross pension liabilities at £7.6 trillion ($9.9 trillion), up by £1 trillion in five years, according to the Office for National Statistics (ONS). Of the total amount, £5.3 trillion is the responsibility of local and central government, while the rest is the gap faced by private sector pensions.

Earlier in 2018, the UK's Government Actuary's Department (GAD), warned that a 5% increase in national insurance contributions will be necessary to fund the state pension system. In the absence of a hike, the fund will be completely depleted by 2032. What is even more worrying is that on top of this massive chasm between future commitments and the means to honor them, the ONS data also showed that over a third of employees in the UK did not have a pension at all. And taking it even a step further, in 2017 the household savings ratio fell to a record low. The share of income UK households saved dropped to just 4.9%, the lowest point since record-keeping began in 1963, thereby exacerbating the effects of a potential pensions meltdown, or even of benefits cuts or increased contributions scenarios.

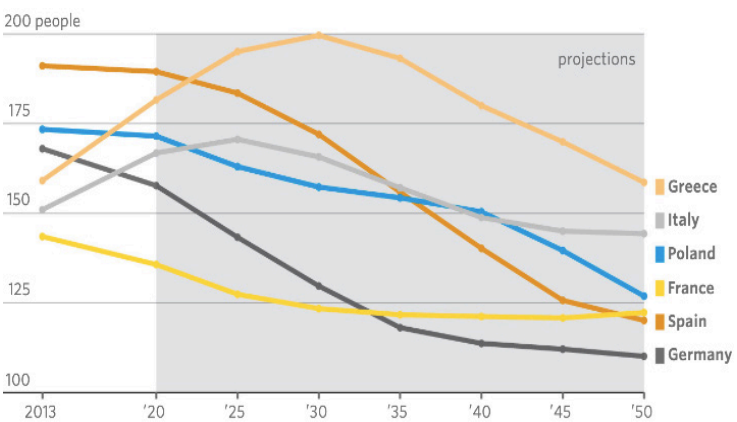
As Steve Webb, director of policy at Royal London and ex-pensions minister, put it, "Today's population has built up £7.6 trillion in pension promises but has only set aside about a third of that amount to pay for them. The rest will have to be financed by tomorrow's workers." Nevertheless, with the UK population ageing rapidly and dependency rates rising steadily, relying on the next generation to cover the bill will likely prove problematic.

The old continent getting older

Europe has the largest population of pensioners in the world and according to Eurostat figures, there are 42 non-working people, aged 65 or older, for every 100 workers, a figure projected to rise to 65 by 2060. For comparison, the US equivalent is 24 per 100, as data from the Bureau of Labor Statistics shows. Also according to Eurostat, the number of people aged 65 or older in the EU already exceeded the number of children for the first time back in 2005, and the next year, that number already stood at 97.7 million, compared with 79.5 million children.

High longevity and low birth-rates have placed a heavy burden on the member-nations' pension systems, especially since most of them follow the "pay as you go" model. This means that nothing is saved in the governments' coffers to pay their future pension commitments and each year the funding comes out of the general budget instead. >>

Pension Contributors per 100 Recipients



Source: European Commission, Wall Street Journal

In other words, systems like these, almost entirely reliant on the next generation of workers to pay the pensions of the previous one, are all but doomed to be crushed under the pressure of the dismal demographic trends.

The effects are already widely felt, albeit unequally, across member states. The 2018 "Pensions Adequacy Report" released by the European Commission, showed that 17.3 million or 18.2% of people aged 65 and older in the EU are at risk of poverty or social exclusion.

Big spenders and overdue bills

Many member states have been spending on pensions beyond their means for decades. For example, in Spain, a country that recently witnessed mass protests demanding pension increases and opposing reforms, the income of retirees between 66 and 75 is 6% higher than the national average, according to OECD data. In France too, pensioners aged 66 to 75 make 10% more than the average worker.

Of course, paradoxical figures like these result from a combination of factors, including high unemployment rates and wage devaluation. However, the generous pension promises and government guarantees of the past also play a major role.

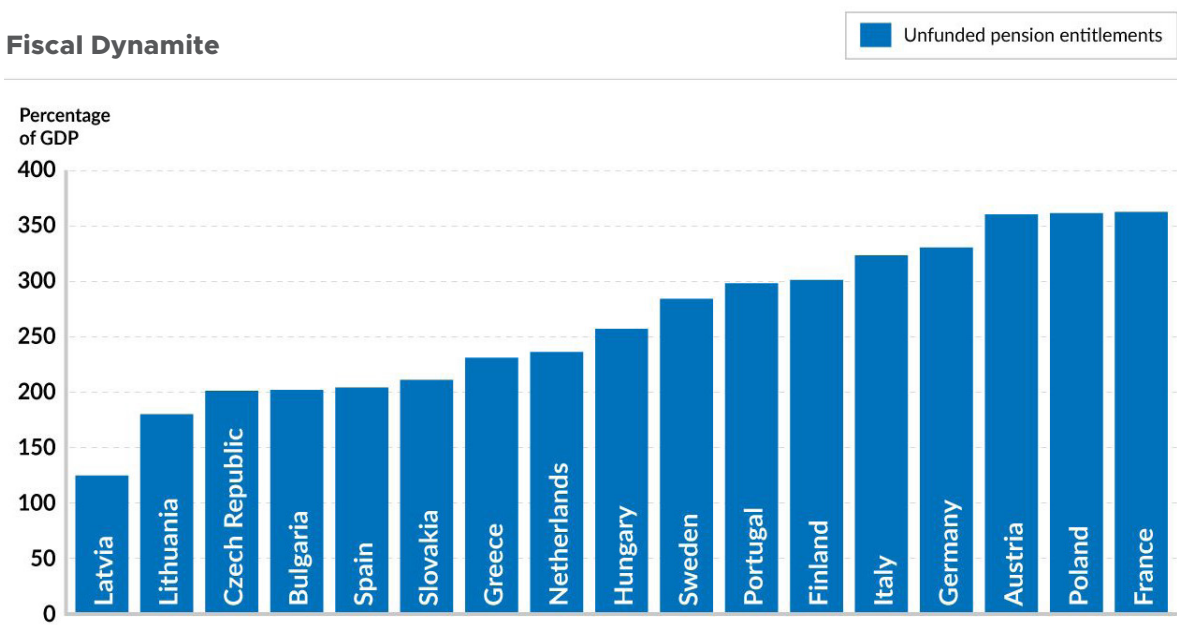
In the last few years, a number of new governments across the EU were ushered in with the promise to reverse the austerity measures that were widely adopted in the aftermath of the 2008 crisis. Pensions are a key electoral issue and reversing cuts or other reforms has proven a reliably popular stance. One of the main commitments of new Italian government, for example, was to lower the retirement age and to increase the lower pensions to €780.

Another good example is Greece, which despite some signs of progress, continues to be the problem child of the EU. Since the start of the bailouts in 2010, imposed reforms and cuts have resulted in an estimated pension income loss of up to 70%. Harsh as that might sound, the country still outspends every other EU member state on state pensions, with almost 18% of its GDP. The leftist government, less than a year away from the next elections, is also known to regularly use its small budget surpluses as opportunities to announce one-off payments to state pensioners.

Plugging holes in a sinking ship: Too little too late?

Although the EU, as well as many individual member states, have taken great pains to encourage their citizens to save more, at this stage the only realistic measures that could help alleviate some of the >>

Fiscal Dynamite



Source: Geopolitical Intelligence Service(GIS)

pressure from the overloaded pension systems would be largely unpopular. Increasing mandatory contributions and cutting pension payments are politically untenable at a time of rising populism, the immigration crisis and socio-economic tensions in many European countries.

A number of states have opted for an increase of the retirement age, a measure that has also been met with a hostile reception. Among those that have taken this step or announced their decision to do so are the Netherlands, Germany, Sweden and Belgium, while countries with a long history of problematic pension systems, such as France, have proceeded with other reforms that were met with mass demonstrations and fierce public opposition.

The EU, in its efforts to tackle the widespread pensions crisis among its members, has regularly supported various reforms, like the retirement age hikes, and often called for more transparency on the issue from national governments. In June 2018, the European Council went a step further and announced a proposal for a "pan-European pension product". This new class of personal pension scheme would have the same standard features wherever it is sold, along with a pan-European regulatory framework.

Reclaiming control over your retirement

Past behavior is usually a reliable predictor of future behavior and thus the possibility of a viable solution that would stop the looming pensions disaster emerging from the political world appears wildly unlikely. After decades of kicking the can down the road, the pattern is not bound to change anytime soon.

As the situation further deteriorates, especially in state pensions, instead of fiscally responsible steps, we are more likely to witness politically safer patchwork measures that pander to popular sentiments.

"The promises of yesterday are the taxes of today." ~ William Lyon Mackenzie

Both in the US and in various EU states, "solutions" in the form of bail-outs and increased contributions would make the taxpayer pay for chronically mismanaged and bankrupt state pension plans.

Overall, a prudent step would be to isolate one's pension savings from as many state-borne risks as possible. Private pension plans are essential, but one size most definitely does not fit all. A responsible approach to retirement planning should take into consideration one's individual needs and expectations.

Precious metals, held in their physical form, can play a key role in protecting and preserving one's pension savings. Jurisdictional diversification and tax efficiency should also be part of the planning process. However, it is wise to seek expert advice according to the specifics of each case, as compliance with the relevant legal framework is paramount.

Golden Nuggets

Celebrating our "silver" anniversary in style

By Scott Schamber

A 25th anniversary of any kind, whether wedding, birthday, or the years on a job, is quite a milestone and achievement. Many of our clients and readers know that BFI Capital Group is celebrating its 25th anniversary this year. That celebration culminated in a Gala dinner we held on September 28th. Much about our history and the growth of the company was shared, some of which we'll share with you here. We wish you had been there!

The celebration was held at the Himmapan Lodge, a beautiful restaurant right on the Lake of Zurich. We had glorious late-summer-like weather which allowed us to enjoy the deck around the restaurant.
All of us in management were decked out in tuxedos and the women looked gorgeous in elegant cocktail attire.

The guest list included all of our current team members from BFI Consulting, BFI Infinity, and Global Gold, as well as a who's who of partners, spouses, family members, past employees, and business partners that had an impact on the Group's long history.

We had a wonderful evening that included a quiz and "game show" covering our Group's history, both the factual and humorous stories that occurred over time. A well-known Swiss magician performed both hand-held tricks prior to and then a show after dinner.

After some excellent appetizers and a coconut-based soup, the main meal consisted of a variety of curries and wok dishes, while a special crème brûlée was served as the cherry on top of a great dinner. Frank Suess, our Group's chairman and CEO, after a heart-felt speech on some of the key people and events of our history, overcoming challenges, and the successes that got us where we are today, shared a 15-minute video that took us down a memory lane of faces, team events, and fun.

Also, yours truly served as MC for the evening, doing my best to intersperse the proceedings with some of the entertaining stories I've experienced in my 16 years at BFI.

It wasn't a school night, so the festivities went on until the early morning hours, but a great time full of fond memories, sentimentality, and laughter was had by all.

Here's a quick version of that trip down memory lane...

Swiss Annuities – you have to start somewhere...

The BFI story officially started when Frank, Sr., father of our CEO, Frank Suess, incorporated the first company of our group, BFI Consulting AG, on May 21st of 1993. However, BFI actually goes back to the later part of 1991 and our story started with a strange animal called the "Swiss Annuity".

Back in '91, both of the "Frank's" had no idea how quickly and successfully the business would launch. They liked Swiss annuities but could not have envisioned how much they would be liked by others. Hesitating to incorporate a company right off the bat, in early 1992, Frank Sr. had the idea of operating under the title of "BEFI Consulting AG", an accounting firm owned by his favorite cousin, Franz (yes, there are quite a few Frank's and Franz's in their family).

Swiss annuities did become a "hot product", particularly for American investors. It was an excellent product and easy to sell; the dollar was weakening against the CHF, Switzerland was unblemished, and Swiss insurance rules offered very strong asset protection (which they still do to this day). To top it off, Swiss insurance companies were paying 3 to 4 percent of guaranteed returns on investment, plus dividends, in Swiss francs!

The first rule for building a business:
Stay in business!

Frank went back into management consulting with Price Waterhouse in Zurich, but the family business continued on the side. Then, in 1998, Frank took over the lead at BFI Consulting. Instantly buying into the idea of running the family business, he had always flirted with the idea of being independent and doing something more entrepreneurial.

The first rule for building a business is to stay in business. And occasionally, the best time to play offense is when everyone else is playing defense. As we turned into the 21st Century, Swiss firms and banks were starting to shed and run away from American clients, as the IRS was increasingly aggressive toward Americans who held assets offshore, legally or not.

Seeing a chance to "run the other way", Frank bravely decided to focus even more on American clients and their needs. BFI specialized in structures allowing a compliant path for American taxpayers to keep their wealth in Switzerland, while still benefitting from a combination of tax efficiency, asset protection and global investment flexibility. The tool used the most for this purpose was private placement life insurance (PPLI) and annuities, also commonly known as "insurance wrappers".

The concept is quite interesting because it combines the benefits of insurance with those of private banking by "wrapping" a managed account in the legal structure of a life insurance or annuity policy. To this day, BFI still uses PPLI as a key planning tool for international and US taxpayers.

The transition from Swiss annuities to PPLI and wealth management services wasn't easy, but it was worth it. BFI was able to help a lot of clients keep their wealth overseas in a compliant and convenient structure, and the business grew and diversified. >>

Fast forward to 2018 – stronger than ever!

Let's fast forward a bit. The past 10 years have not been the most positive for most investment firms, and certainly not for those in Switzerland. The 2008 financial crisis, combined with the UBS tax scandal and the DOJ's hunt for "tax evaders", has completely changed the landscape of our business. Compliance departments, auditors and tax attorneys are having a ball, while financial firms are trying to keep up with all the new procedures and legal requirements.

Change has been the only constant. But it seems to have taken us in the right direction, again and again, as BFI and its subsidiary companies are healthy and profitable. Today, at the group level, BFI is involved and invested in several interesting joint ventures, real estate and private equity, and as you can imagine, quite heavily in gold too.

The core of our business, of course, continues to be at the center of attention and is focused on wealth management, via BFI Consulting, Global Gold and BFI Infinity. BFI Consulting AG continues to be specialized in jurisdictional diversification strategies and wealth planning for wealthy families. Global Gold AG, despite the relatively calm precious metals markets is getting ready for the next leg up with continual improvements in technology and client experience, the New Zealand storage option, and other surprises to come. And BFI Infinity, a boutique wealth management firm and the result of having merged BFI Wealth Management (International) AG with the investment advisory firm of Swiss Infinity Global Investments, has made excellent progress. The decision to move ahead and finally merge took a few years, but after integrating the two teams and operations in 2017, we now wish it would have happened sooner.

In life as in business,
it's all about people and relationships

In hindsight, the old adage rings truer than ever: in life as in business, it's all about the people and the relationships that we are blessed to have established and privileged to maintain. Family, friends, business partners and the team at BFI Capital Group – they make the difference, every day.

Let's raise a glass of champagne together and toast to 25 years…with many more to come!

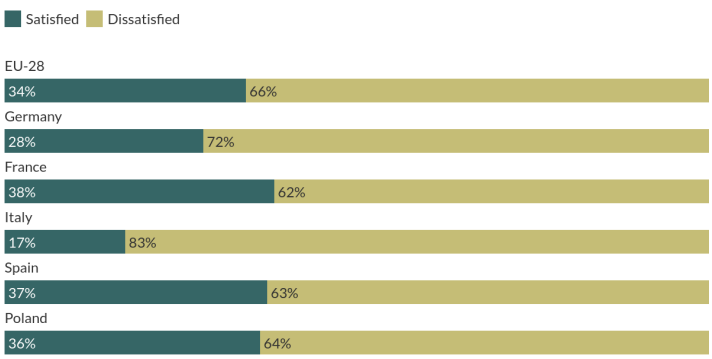
Part of the BFI Team;
not everyone made it to the photo shoot on time – oh, those Swiss!

Golden Nuggets

Europe: A Union (still) coming apart at the seams

In our last issue of the Digger, we looked at the deep divisions and structural challenges that could threaten the future of the EU. A quarter later, it would appear that the various rifts are only getting wider.

Satisfaction with the direction of the EU



Source: Eupinions

Italy has been making headlines for the last few weeks, as its new populist government has been defiantly crossing EU lines on migration and fiscal policy. Tensions have been running high as Italy's 2019 budget includes a deficit hike, increased welfare spending and a lower retirement age, in a move that the European Commission criticized as "an unprecedented breach" of EU fiscal rules.

The brittle Italian economy is burdened with over $2.6 trillion in government debt, or 131% of its GDP, which is more than double that what the EU fiscal rules allow. The budgetary face-off has rekindled serious concerns over an Italian debt crisis that could threaten to destabilize the entire Eurozone. Thus, apart from EU officials, leaders of individual member states have also attacked Italy's government for its planned spending spree. Some were more vocal than others, such as Austria's Sebastian Kurz who told reporters: "We in Austria will certainly not pay for the debts of others and we will not pay for left-wing populist election promises."

The friction with Hungary is also intensifying. PM Victor Orban has been unwavering and successful in passing new laws on immigration and judicial reforms, despite vocal criticism from the EU. In September, the European Parliament voted to trigger Article 7 procedures against Hungary, a process that opens the door for sanctions, EU funding freezes, and also could lead to stripping the country of its voting rights. The tensions now continue to rise, with strong support for Hungary coming out of its Visegrad Group allies. The Czech Republic, Slovakia, and Poland (which is facing its own sanctions battle) have openly sided with Hungary, all being states with plenty of reasons to fear they could suffer the same fate should they defy EU directives.

In early October, Sweden's election aftermath saw the incumbent and Euro-friendly PM ousted in a vote of no confidence. The electoral outcome was, however, inconclusive as the Social Democratic-led bloc won by just one seat over the opposition four-party Alliance and left the country at a leadership impasse. The far-right Sweden Democrats campaigned with a strong anti-immigration and Eurosceptic message and made significant gains that secured them 18% of the vote. Their successful rise from a marginal voice to the third largest party in Sweden demonstrates a radical shift in public opinion and places the party in a position of significant influence, holding the balance of power.

Finally, Brexit still remains a thorn in the EU's side, with little to no progress made in the negotiations. In fact, Theresa May has hinted at extending the transition period, keeping the UK tied to the EU beyond the December 2020 deadline. Over the last months, the British PM has been steadily losing support and confidence even within her own party, with the latest polls showing that over 52% of Conservative voters want her to step down before the next election. The next general election is scheduled for 2022. However, should a snap election scenario materialize, the EU might find itself in a much tougher negotiating position. Many have seen Mrs. May's approach to the Brexit talks as over-accommodating and oppose her efforts to keep the country too closely tied to the EU, opting for a "no-deal" path instead. Her successor, likely to be a hard-liner like Boris Johnson, could present significant challenges and complications to the EU's current vision of "life post-Brexit".

Golden Nuggets

Trump so far: a fair review

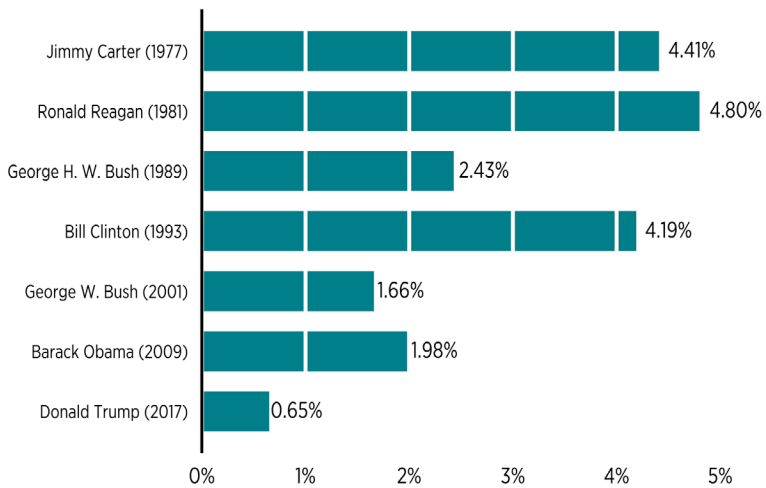
With the midterm elections in the US fast approaching, President Trump's record has come under close scrutiny, even more so than usual. His unorthodox approach to key issues, his bombastic rhetoric, his often abrasive demeanor and his never-back-down attitude have won him loyal followers, sworn enemies and practically nothing in between. As a result, most conversations about the current administration tend to be focused on and biased by the superficial sentiments, positive or negative, that one might have about Donald Trump.

However, whether one likes or dislikes him, it is the efficacy and the impact of his policies and executive decisions that should matter the most. In practical, measurable and objective terms, the Trump administration has adopted a number of controversial policies and taken steps with questionable consequences, such as excessive spending and a record deficit or dangerous escalations of the trade conflict with China, but there were also some successes that often fail to be recognized.

For one thing, under President Trump, GDP growth reached an annual rate of 4.2% in the last quarter, while the Dow Jones Industrial Average reached record highs under his watch, largely without the help his predecessor had in supporting the economy from the expansive polices of the Fed. He has also successfully delivered on his pre-election promise to cut taxes, as he did on his commitment to reduce regulations. He signed an executive order requiring that for every new federal regulation implemented, two must be rescinded, a measure that has made significant strides in cutting red tape.

Furthermore, unemployment rates can also be counted amongst his top achievements. Unemployment claims have continued on the downward path of the last 7 years and hit a near 50-year low. Unemployment for African Americans has reached its lowest point since the Bureau of Labor Statistics records began. The rates for Hispanics and Asian-Americans have also been reduced to record levels, while women's unemployment stands at a 65-year low.

Regulatory Restriction added during the President's 1st year, as a percentage of total restrictions



Source: Mercatus Center, George Mason University

Finally, another promise that was honored, or is at least in the process of being honored, is the commitment to improve the access to and quality of care for veterans. President Trump signed the largest-ever budget for the Department of Veterans Affairs, allocating $200 billion to fund benefits and discretionary programs, while he also expanded veterans' access to private healthcare providers.

Overall, only time will tell if the economic expansion and booming markets witnessed since Trump took office will last, if his foreign policy approach will serve to strengthen or to isolate the US, and if the average American taxpayer, business owner or retiree will actually be better off at the end of his Presidency.

In the meantime, challenging as it may be in such a polarized media landscape, it is important to remain dispassionate, objective and take all headlines, from both sides, with a pinch of salt.

Golden Nuggets

Jordan Peterson: Trust as the basis of capitalism

Over the last couple of years, Dr. Jordan Peterson has increasingly penetrated mainstream audiences, as the arguments and positions he outlines in his lectures, interviews and debates really seem to have struck a chord in our deeply divided western societies. His advocacy of personal responsibility and his defense of individual critical thinking against collectivist ideologies added new layers to the current cultural frictions and attracted both sharp criticism and thundering applause.

While his views on cultural, socio-political and philosophical matters and the fierce rhetorical skills he employs in their defense might be what he is best known for, we came across an interesting analysis from his earlier years on topics that we at Global Gold routinely grapple with.

In this video, Dr. Peterson clearly explains the key role that public trust plays in our financial system, the impact of its loss, as well as its function as the basis of a free market.

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