



**Minutes of Advisory Board Meeting**

**Incrementum Inflation Diversifier**

January 29th, 2020

# **Inside Incrementum:**

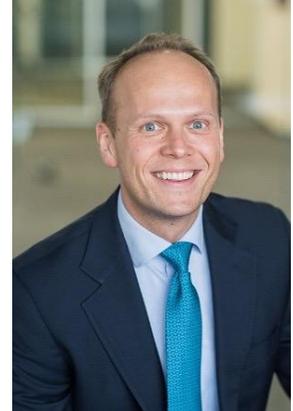
## **The 2020ies - The Decade of Crypto, Gold, Commodities and MMT?**



## Highlights of the conversation:

### **Ronald Stöferle:**

- ▶ The big question from our point of view might be: when is going to be the moment when market participants really lose faith in central bankers and the extreme measures that they have taken in the last couple of years?
- ▶ Gold is behaving well in this strong dollar environment - it seems this bull market is just about to start.
- ▶ It seems like recession risks are completely priced out of the markets.
- ▶ Incrementum's inflation signal moved to full inflation in early Q4 last year, and we are building positions in inflation sensitive assets.
- ▶ We see value in inflation linked bonds, gold miners, and energy stocks.
- ▶ I think value stocks might start to outperform growth again.



### **Mark Valek:**

- ▶ I would argue that digital money can be scarce and therefore can be valuable in a time when debt is inflated away.
- ▶ Stagflation is a possibility and one should position oneself accordingly.
- ▶ A big topic for the markets going forward is the US election. But in the grander scheme of things the outcome of the election is not that important because no candidate can stop the current trajectory of debt.
- ▶ In the decade to come I am focusing on hard assets – gold and Bitcoin.





## **Stefan M. Kremeth:**

- ▶ My long-term view is that in the G20 nations we will see a massive over-aging population.
- ▶ Pension scheme outflows (as a result of baby boomers retiring) will have a huge impact on markets in the next 1-2 decades.
- ▶ We took profit for our private clients in 2019, and currently hold huge cash positions.
- ▶ Negative interest rates are hurting pension schemes, and they might be forced to invest in risk assets, which could hold the market up.
- ▶ In 2020 I think we will see the first real year where crypto currencies become a small player in the industry of money transfers and purchases.



## **Hans Schiefen:**

- ▶ Financial markets are plagued by mediocre growth, deglobalization and reduced international co-operation.
- ▶ Aging societies and too much debt are long-term problems that also weigh on the economic growth outlook.
- ▶ I don't want to put capital at risk by chasing assets that are already extremely highly valued.
- ▶ There is a serious risk of stagflation.
- ▶ I see troubled times ahead, and I am protecting my investors' money by buying real assets.





## Dr. Christian Schärer:

- ▶ Aging societies are affecting commodity markets, but overall the global population is still growing, which is positive for commodities.
- ▶ I see opportunity in the copper and uranium markets.
- ▶ Uranium is necessary in emerging economies because it provides steady, baseload electricity supply.
- ▶ Given the backdrop of uncertainties in the markets, a return of volatility in 2020 could be one of the surprises of the year.
- ▶ This is probably not the time to be a buy and hold investor.





## Biography of our Board Members

### Ronald Stöferle:

Ronni is partner of Incrementum AG and responsible for Research and Portfolio Management. At the age of 14 he bought his first share, and his fascination with the financial markets was further fuelled during the dotcom boom. He has felt this passion ever since, which is why he is happy to have found his vocation at a young age. He studied Business Administration and Finance in the USA and at the Vienna University of Economics and Business Administration, and also gained work experience at the trading desk of a bank during his studies.



Upon graduation he joined the Research department of Erste Group, where he published his first “In Gold We Trust” report in 2007. Over the years, the Gold Report has proceeded to become one of the benchmark publications on gold, money, and inflation. Since 2013 he has held the position as reader at scholarium in Vienna, and he also speaks at Wiener Börse Akademie (i.e. the Vienna Stock Exchange Academy). In 2014, he co-authored the book “Austrian School for Investors” and in 2019 “Die Nullzinsfalle” (The Zero Interest Rate Trap). Ronnie is married and proud father of three daughters. He likes to spend his spare time with his family, watching and playing football, running, and at classical concerts.

### Mark Valek:

Mark is partner of Incrementum AG and responsible for Portfolio Management and Research. His passion is to apply interdisciplinary thinking to investment. He is particularly fascinated with the Austrian School of Economics, monetary history, and the foreseeable paradigm shift in the monetary system. While working full time, Mark studied Business Administration at the Vienna University of Business Administration and has continuously worked in financial markets and asset management since 1999.



Prior to the establishment of Incrementum AG, he was with Raiffeisen Capital Management for ten years, most recently as fund manager in the area of inflation protection and alternative investments. He gained entrepreneurial experience as co-founder of Philoro Edelmetalle GmbH. Since 2013 he has held the position as reader at scholarium in Vienna, and he also speaks at Wiener Börse Akademie (i.e. the Vienna Stock Exchange Academy). In 2014, he co-authored the book “Austrian School for Investors”.



## **Stefan M. Kremeth:**

Stefan is CEO of Incrementum AG and responsible for our individual wealth management. After a traditional bank apprenticeship with UBS, Stefan joined UBS and worked for the institution across numerous areas in Zurich, Toronto, and Madrid. His career then led him to the investment banking department of two private banks, and from there to Incrementum advisors AG in Zug, where he became partner in 2009. Since June 2013, Stefan has been partner and CEO of Incrementum AG in Liechtenstein.



He has honoured his own motto of “life-long learning” by adding an Executive MBA in International Asset Management from the University of Liechtenstein to his earlier degree from the Swiss Banking School. Currently Stefan is pursuing a degree in Business Administration from Durham University Business School while preparing his dissertation, “The Influence of Demographic Change on Financial Markets”. Stefan is proud father of two grown-up children. He likes to spend his spare time with family and friends. Among his hobbies are football, golf, and books.

## **Hans Schiefen:**

Hans is partner of Incrementum AG, responsible for fund management and research.

Born and raised in Germany he bought his first shares at the age of 17, which proved the foundation for his lifelong fascination with global economic affairs, financial markets and investing. He studied Economics at the University of Siegen and Cologne in Germany. His passion for investing drove him to set up the first Investment Club in his hometown in 1989 and had him join the Investing Workshop at his Alma Mater in Cologne. After obtaining his M.Sc. in Economics he decided to pursue a Private Wealth Management career.



Over the ensuing 28 years he worked in various roles with Deutsche Bank, HSBC Trinkaus & Burkhardt (Int'l) SA and LGT Bank, spending 11 years in Hong Kong before moving to Liechtenstein in 2006. Over those nearly three decades he gathered invaluable experiences in advising high-net-worth individuals and families, as well as in portfolio- and fund management. Since 2019 he has been a partner of Incrementum AG, responsible for managing the Incrementum All Seasons Fund.

Hans is married and has two daughters. He enjoys spending his leisure time with his family, loves a good read, music and traveling, and tries to balance his lifestyle with sports.



## **Christian Schärer:**

Christian is partner of Incrementum AG and responsible for Special Mandates. Even while studying for his degree he was on the look-out for the strategic factors of success of prosperous business models – a topic that fascinates him to this day and that inspires him in the selection of promising investment opportunities. Christian studied Business Administration at the University of Zurich and, while working, obtained a PhD at the Department of Banking and Finance (University of Zurich).

His dissertation was on the subject of the investment strategy of Swiss pension funds in the property sector. He has gained comprehensive know-how in financial markets by working across various functions as investment advisor, broker, and portfolio manager. Since summer 2004, Christian has focused on various investment topics revolving around assets as entrepreneur, advisor, and portfolio manager. He contributes his practice-oriented financial market expertise as member of the advisory board of companies. Christian is married and has one son. In his spare time, he likes to cook for friends and family or reads biographies of fascinating personalities.





## Transcript of the conversation:

### **Ronald Stöferle:**

Ladies and gentlemen, happy new year. I hope you had a great start to the new year.

It's a great pleasure for Mark and me to have a very special advisory board meeting today. As you know, we have our regular guests, like Heinz Blasnik from the Acting Man blog, or Jim Rickards for example, and then always a special star guest. But this time we've got, actually, three star-guests. And those three gentlemen are partners at Incrementum.

Perhaps you have seen it on our webpage, and throughout our publications, but we've got a new kid on the block, we've got a German gentleman who just joined us as the fifth partner of Incrementum. So, now it's Stefan M. Kremeth, our CEO, Christian Schärer, Mark Valek, and me - and Hans Günter Schiefen. Hans, I would like to take the opportunity to again warmly welcome you. We are very glad that you joined us. You are already an extremely important part of the Incrementum team and allow me to officially welcome you as the fifth partner - and start with a brief introduction about your background and perhaps a bit later on, about your investment style.

### **Hans Schiefen:**

Thank you, Ronni, that's very kind of you. I'm glad to have joined Incrementum, and it's now my eighth month, so I'm fully up and running with my new project at Incrementum, and it's been great fun to work with all of you.

About my background, how should I say, I'm a wealth management veteran. 30 years in the industry. Private wealth management, portfolio management, fund management, with major banks, both in Germany as well as in Hong Kong, and for the last 16 years here in Liechtenstein. I joined Incrementum mainly because I wanted to evolve my own fund management approach and offer something that is different from what you would normally find in the market. And I think Incrementum is an excellent place to do that.

So, I am glad that you have welcomed me all so warmly, and I look forward to many years of successful cooperation. Let me pass the word now to our CEO, Stefan Kremeth.

### **Stefan M. Kremeth:**

Ladies and gentlemen, thank you very much for listening to this call and I think it's very interesting that Ronni and Mark, for years now, have had the chance to develop these advisory board meetings into something that is appreciated, not only by investors, but also industry professionals in general.



My role at Incrementum is first of all CEO, and I was one of the co-founders. And I am responsible for the private wealth management side. Private individuals who want to have their money managed by Incrementum would usually start with me. My credentials, which is the case for all our partners, can be seen on our website.

I think I will hand on to Christian Schärer.

**Christian Schärer:**

Thank you very much, Stefan. My name is Christian Schärer, I cover various topics along the commodity value chain as a portfolio manager – niche topics such as investing in uranium or gemstones for example.

**Ronald Stöferle:**

And last, but not least, we've got Mark.

**Mark Valek:**

Yes, great to have you all here, and thanks for joining us.

It's a great pleasure to have this very special advisory board call with all our partners, and I'm looking forward to some interesting discussion, because we obviously know each other very well. We are all free spirits and have very interesting views. I really enjoy the discussions with all our partners; we don't always agree on everything - which is clear because we are all individuals - so we have slightly different views in terms of the big picture, but also in terms of investment strategy. But I think that is something which is very attractive. So, why not perhaps start again with you Hans? Do you want to give us a big picture about how you think, and what's your investment style?

**Hans Schiefen:**

Sure, Mark. I have set up, and I am running a global strategy fund with a benchmark unconstrained and multi-asset approach. I have always been a global investor; I've had lots of exposure internationally, and I think it's very important for investors to be globally diversified because there are a lot of opportunities that cannot be found at home.

I'm running the fund on a value driven basis, so for me valuations are always most important for my investment decision, from a bottom up point of view – PEs, price-to-book ratios, cash flows – these are things that are very important in my investment decisions.

I also have a bit of a contrarian bias, I must admit. I do like to invest into assets that are out of favor, and also as a trained economist I look at macro trends which play an important role, be it interest rates, currency developments, debt levels – all this can have an impact on how I position



my asset and currency allocation in the fund. The idea, at the end of the day, is that investors are keen on preserving their capital, and building it. And when I say preserving capital, I mean on a real inflation adjusted basis. And that is what I'm trying to achieve across the investment cycle.

More information can obviously be found on our website, and if anyone is interested in learning more about it, I can be approached directly at Incrementum of course.

### Ronald Stöferle:

Hans, you are a very gifted writer. I love reading your material, and I think you basically found out about Incrementum due to our publications. Everybody who is interested in those out of the box macro publications should also subscribe to Hans' publication, [Seasonal Reflections](#), which is a very entertaining and stimulating read.

Stefan, may I hand over to you? What is your current view on the macro picture? I know you are investing primarily in value stocks, I would say kind of old school, but in a very positive way. But you are also extremely keen on the very long-term picture when it comes to demographics. You are actually writing your thesis for your PHD about demographics and the challenges of demographics for the asset allocation of institutional players.

So how do you actually implement those long-term views in your daily business, Stefan?

### Stefan M. Kremeth:

First of all, to those who don't know me I have to tell them that I am the oldest one of all the partners at Incrementum, so I am extremely humble. I became humble because I lost a lot of money when I was younger. Today I believe that I can't foresee the future, or where the markets are going, which is why I developed a strategy for myself and my clients which is relatively simple to explain – I am very interested in cash flows.

I would invest only in equities of companies that produce positive net free cash flows with their intrinsic business. Let me explain - if you have a company producing cars, and they had enormous cash flows in the past and they built in a real estate portfolio, but today they are losing



January 23, 2020

## IASF – Seasonal Reflections – 2020 – Issue No. 1

The fund manager's reflections on important political and macro topics and how they affect his management of the fund

[Read more](#)

Source: [Incrementum.li](#)



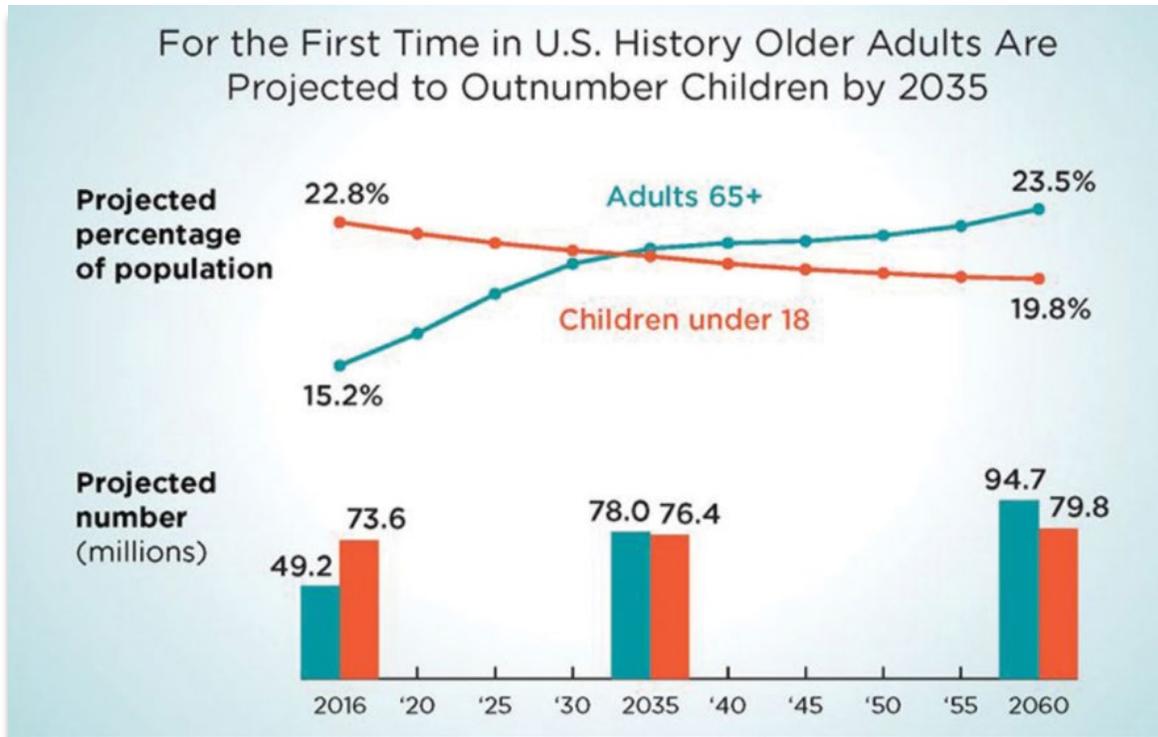
money for 5, 6, 7, 8 quarters with their car manufacturing. But they are making a lot of money on the real estate rental income and overall there are positive net free cash flows. But I would not invest in it because the intrinsic business of that company is still the car manufacturing part, and if they are not able to produce net free cash flows with that business, I would not invest in it. I want to have positive net free cash flows in the intrinsic business. That is the first one.

The second one is that cash flow needs to be shared with investors, in whatever form - dividends, stock options etc. I want to have positive cash flows stemming from the operational business shared with investors. The investor can choose what he wants to do with the cash flows. Does he want to re-invest in the same company, or does he want to invest in something else, or does he just want to spend it? That is basically the strategy I am applying to private accounts in Incrementum.

The other question was whether my long-term view would have an impact – yes, it definitely would. My long-term view is that in the G20 nations we see a massive over aging population. This will have huge impacts on financial markets.

Why is this?

The largest cohorts of the baby boomer generation are still working. They are, on a monthly basis, paying into their pension schemes. But those largest cohorts of the baby boomer generations - they will retire in the next 8-15 years. Once they are retired, they will be taking money out of their pension schemes, so there will be a net outflow of funds from those pension schemes. This may have an impact on financial markets because until now the largest homogenous investor in financial markets probably was pension schemes, and if those schemes start to have net outflows instead of net inflows over the decades to come, we will feel that - not only in financial markets, but in real estate and so forth.



Source: AARP.org, U.S. Census Bureau

And I think that's something to keep in mind. Now, it's long term still - we still have a lot of time until this is happening. And it will not, even if I am getting retired, with the older people around me in my cohort, this is not going to have an immediate impact. But it's going to be a slow, and not easy to reverse, impact that will go on for 1, 2, 3 decades maybe. Unless, all of a sudden, we will have a boom of children coming in and paying into those pension funds. But this is not to be seen, at least not in the G20, in the largest countries of the G20.

From this point of view, I am humble enough to say that I can't foresee the future. I'm extremely cash flow driven with the investments for our private clients, and I foresee difficult times ahead, but still, this is going to be only in about 10 years or so. But the trend of money flow could change dramatically into the reverse of what we've seen in the last 50 years.

**Ronald Stöferle:**

Thanks a lot Stefan. Mark and I are actually working very hard to solve our demographic problems. We are giving our best to solve the problems of the pension systems, but it's hard work.

Stefan, I think you will also publish parts of your thesis, a special report, on those demographic challenges in the coming month? We are really looking forward to it.



**Stefan M. Kremeth:**

This is true, it will be published under the brand of Incrementum, and maybe even in book form.

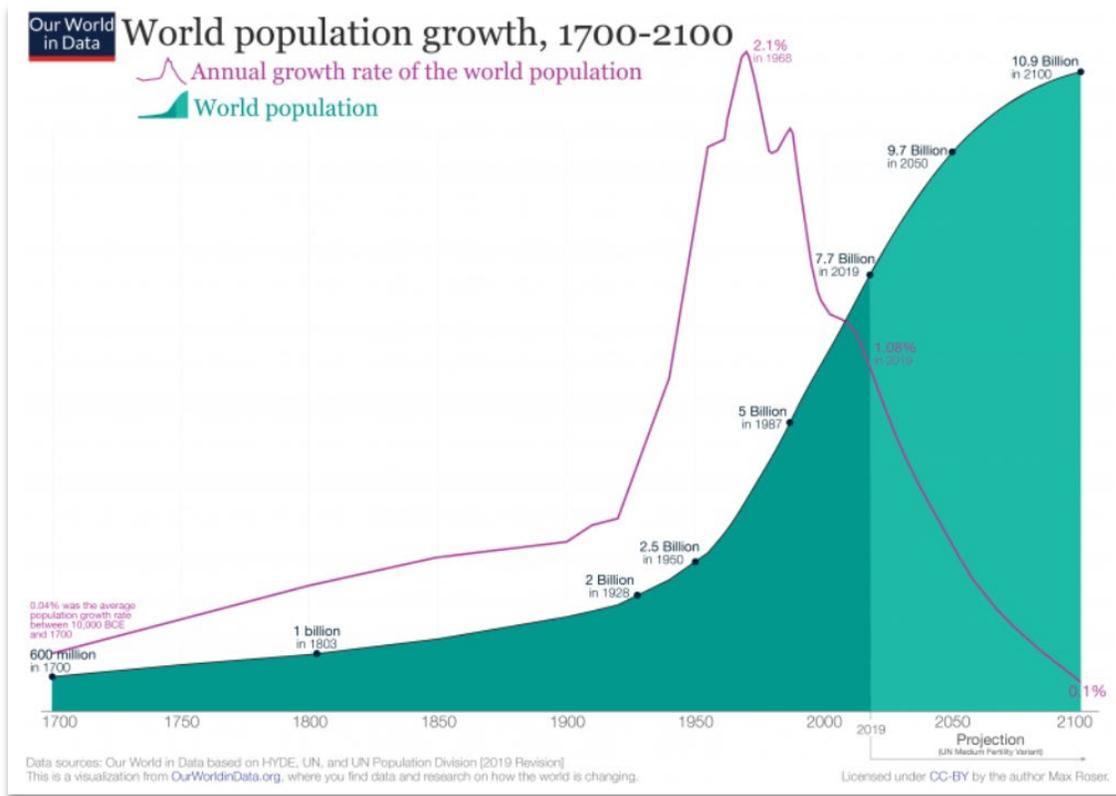
**Ronald Stöferle:**

Excellent.

Christian, you are also part of the commodity gang over here. First of all, do you think those demographic challenges have a real impact on commodity demand for the longer term, or do you think macro developments, like economic growth and central bank policy, are more important? And where do you see, in the very diverse areas that you are following, the most interesting risk/reward?

**Christian Schärer:**

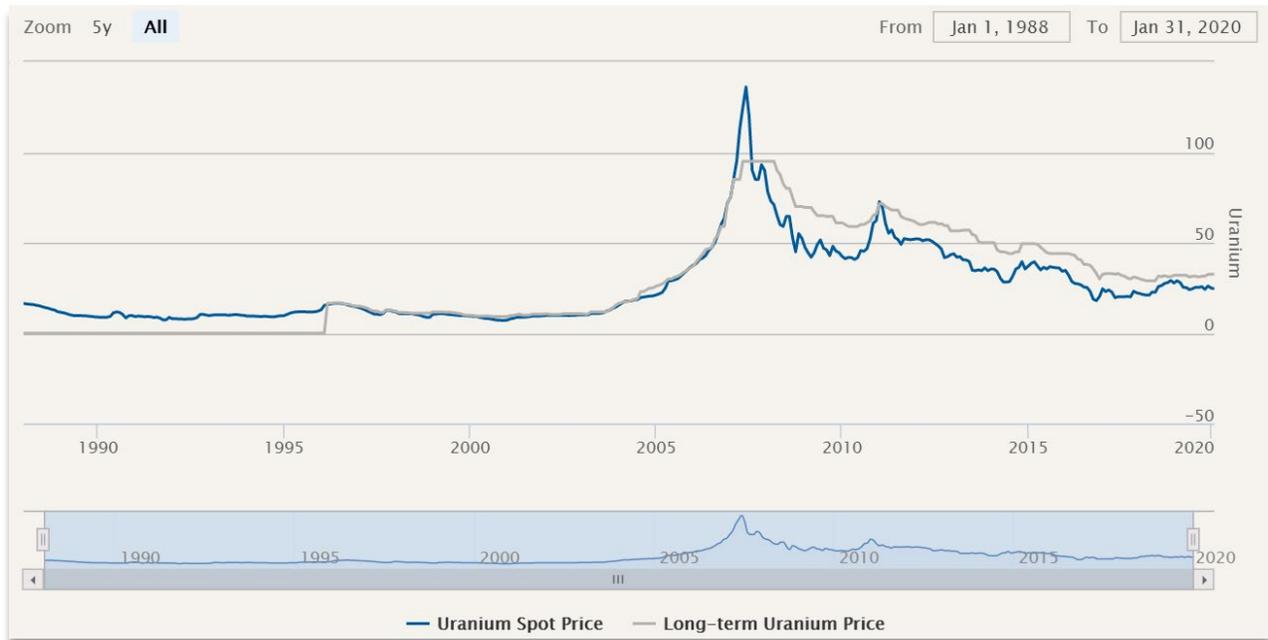
Yeah, for sure, there is a long-term impact from the demographic side on the commodity market. I think this story will change the world significantly. But for the commodity market we have more a global view, and the global population is still growing. And when we are talking about demographic changes we are often focused on countries in the established western world. But when you have a look at India, for example, there is still growth driven by an increasing population, so there's a different picture in this area of the world.



Source: [ourworldindata.org](http://ourworldindata.org)



But overall we can say that the commodity market is driven by specific supply and demand situations in certain commodity areas; there are different areas that we see potential, especially given the fact that the supply side suffered over the last few years by a lack of new investments, driven by lower prices in the market. My mid-term perspective for the copper market, for example, is an attractive one. Or there are niche topics like the uranium market where we have seen a correction after the Fukushima incident and the market has corrected for nearly 10 years. This is an example for an anti-cyclical chance to invest in an out-bombed market.



Source: *cameco.com*

**Ronald Stöferle:**

Excellent. Thank you very much, Christian.

Kind of touching the commodity space is of course gold, which we don't regard - based on the stock to flows ratios - primarily as a commodity, but rather as a very hard currency that has done incredibly well in the last couple of quarters. Last year gold was up basically in every currency, between 17%-25%. The big question is of course: where from here? And it seems that since the beginning of the year - where we have already seen so many different topics happening, like the whole Iran crisis, and now of course another potential black swan coming out of China (the Coronavirus) – and it seems that gold is really behaving quite strong in this environment where we have seen a pretty strong US dollar the last couple of weeks. But still gold held up very well. It hit new all-time highs in Euro terms and in many other currencies. So, it seems like this bull market in gold is just about to start, basically, like we wrote in our 2019 In Gold We Trust Report.

And we are already working on the 2020 report. There will be a chart book published very soon, probably end of February, and we will also start publishing the In Gold We Trust Classics. They are chapters from previous reports about theoretical things - about topics that are still very current



and not outdated. I think there will be some interesting reads about gold coming out from our side.

Mark, you are also a co-author of the In Gold We Trust Report, but you also developed strong knowledge in the space of crypto currencies. We recently did a discussion about the differences, but also the similarities, between gold and Bitcoin. And we have a very interesting fund that will soon be launched.

Mark, where would you see the biggest overlaps between Bitcoin and gold, and where would you see the disadvantages or advantages of Bitcoin versus gold?

### Mark Valek:

Thanks Ronni.

I think it's a fascinating topic, cryptocurrencies. I wasn't ever, and am still not, a huge tech geek. I'm coming from an economic and historical point of view, as a student of history and monetary systems. You, Ronni, and I discovered Bitcoin at a pretty early age, when it was just in its infancy, and so we got interested in it. And it has become an extremely interesting topic, especially if one monitors the developments and the global monetary system. We now have central banks talking about cryptocurrencies, or digital currencies, as they call it. And we have Libra. A lot of things have actually developed from the first occurrence of Bitcoin.

What generally is the big question, even on a higher level, is: does debt matter? The question should be pretty simple, and the answer should be simple. But it is actually quite debated, if we can have ever increasing debt levels, because that is what we've been seeing for many decades. And if one believes that debt matters at some point, it probably makes sense to have some kind of scarce monetary metal as part of the portfolio.

And now with the occurrence of cryptocurrencies we have arguably a new scarce commodity, although that is often debated. It is true that there is no scarcity in cryptocurrencies per se. However, what is often overlooked is that censorship resistant cryptocurrencies are in fact very scarce because there are not many of them around and it is difficult to start a new one with enough computing power backing the network. So, I would definitely argue that digital money can be scarce and therefore can be valuable in a time where debt is reflat, or in danger of being inflated away. One way to put it may be: Gold is the ultimate hedge against the fiat system. Bitcoin is a cheap call option on an emerging decentralized digital system. So, in fact gold and Bitcoin, are very interesting.



Mark J. Valek @MarkValek · 15. Feb.

Gold is the ultimate hedge against the fiat ponzi. Bagholders are those who don't exit the fiat debt bubble before it either busts via debt deflation or burst into high inflation.

#Gold hedges in both those scenarios. #Bitcoin  is a cheap call option on an emerging digital system.

Source: [twitter.com](https://twitter.com/MarkValek)

Just a few numbers – we know that for gold, approximately 193,000 tonnes have been mined and this is equivalent to 26 grams per person on the planet. With Bitcoin, the ultimate supply cap is 21 million; so, if you divide 21 million by the



global population of about 7.7 billion, then you get 0.0027 Bitcoins which are available per person. So, this is a very scarce piece of information, or commodity. One can debate what Bitcoin is, but it is very scarce. Therefore, it can have a very interesting purpose in a portfolio in case of a reflationary move due to the indebtedness of the world. This is, I think, the big story and something one has to look at.

Our approach from the point of an asset manager is to combine these two assets - digital gold and physical gold. And I think that is a very innovative approach and also something that gives you a really alternative risk profile. So that's something I am very enthusiastic about, and something I am focusing on right now, as you know.

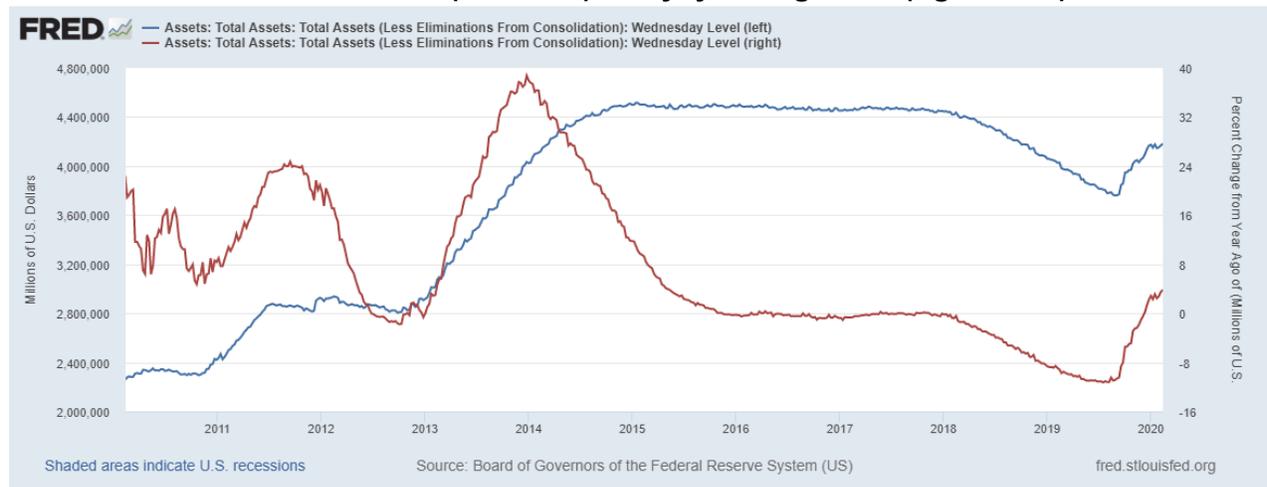
**Ronald Stöferle:**

We are all extremely excited about this new fund that we have been working on for quite some time now. I remember when we walked to the financial market authorities for the very first time and they almost wanted to kick us out because back then Bitcoin and cryptocurrencies were really not very well known. So being a first mover sounds terrific, but it also means doing quite a lot of pioneer work. So, we are really excited we are about to launch the fund now.

As you can see, or hear, ladies and gentlemen, Incrementum has got expertise in a very broad and diverse set of investment spaces and topics. This is really something that we enjoy quite a lot.

But the overall macro view is definitely something that affects all of our investment areas, so let's talk a bit about the macro view. Central bankers have been one of the driving forces of this bull market - of this, as many people put it, "everything bubble". So, it seems that with the "not QE4", where the Federal Reserve supported the repo market, it of course had a tremendous effect on markets.

**Fed Balance Sheet in Mio. USD (left scale) and yoy Change in % (right scale)**



Source: Federal Reserve St. Louis



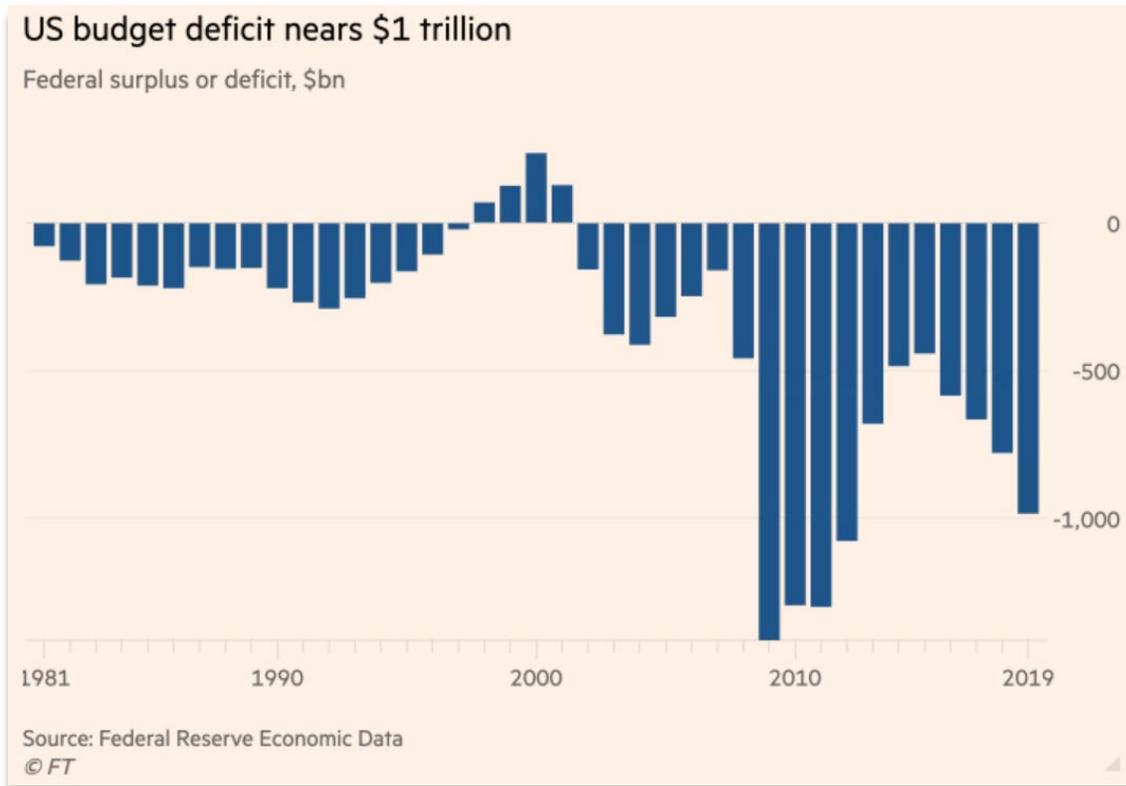
Now they are trying to fade it out, and from my point of view the big question is if the recession risks that appeared last summer, when we saw the yield curve inversion, and now the “unversion”, - and now it seems that the curve is changing again - it seems like the recession risks are completely priced out of the markets. From our point of view, it's still not something that we would completely disregard - of course it will affect the elections in the United States. I don't think Donald Trump would be re-elected if the US really hits a recession.

I would like to ask you, gentlemen, what are your most important macro calls for the next couple of months? Do you see recession risks appearing? Do you see inflation risks? Or do you see the surprises rather on the upside, especially over here in Europe? Let's start with Hans, what's your take?

**Hans Schiefen:**

Well, Ronni, I don't know whether I can foresee a recession for 2020 or not. It's really difficult to say. What I can say, is that this whole economic cycle we have seen post 2009 has delivered mediocre growth compared to previous cycles. Was it last night that the Congressional Budget Office announced their estimates for US growth for 2020 at 2.2%?

At the same time the US has a net new government deficit of over \$1 trillion, let's call that about 5% of GDP. The subject of debt already came up in the discussion, and I think that is the major issue for me that is weighing down the economy. We have to create ever more debt for each additional unit of GDP, if you like. So, the marginal productivity of that debt is falling. And when I look at the overall picture at the start of 2020, apart from mediocre growth, we have trends of deglobalization - certainly reduced international co-operation - America has cancelled international treaties, we've had Brexit, and we've had increasing political confrontation on a national, but also international level.



Source: FT.com

Aging societies were also mentioned by Stefan and elaborated on, which is certainly a long-term problem that weighs on the growth outlook. Debt continues to rise, it's now at 320% of GDP. And I think it does matter. It would have mattered a long time ago if it hadn't been financed by central bank largesse. And all that doesn't look to me, at least, as a scenario in which I would like to put capital at risk by chasing assets that are already extremely highly valued.

So, perhaps that is, from my end at least, a little top down overview of how I see the market and economy in 2020. Inflationary growth, by the way, is also something that might play a role again. The Incrementum inflation indicator obviously signals that inflation is expanding. I wonder sometimes, and I've written about this in my own monthly Seasonal Reflections, whether it's measured properly. I doubt it is. So, that is also something that, in terms of the real economy, is like a millstone to the real economy. Does anyone else have related thoughts?

**Ronald Stöferle:**

Stefan, you have very, very low equity exposure at the moment. So, high cash – lots of dry powder. What's your view?

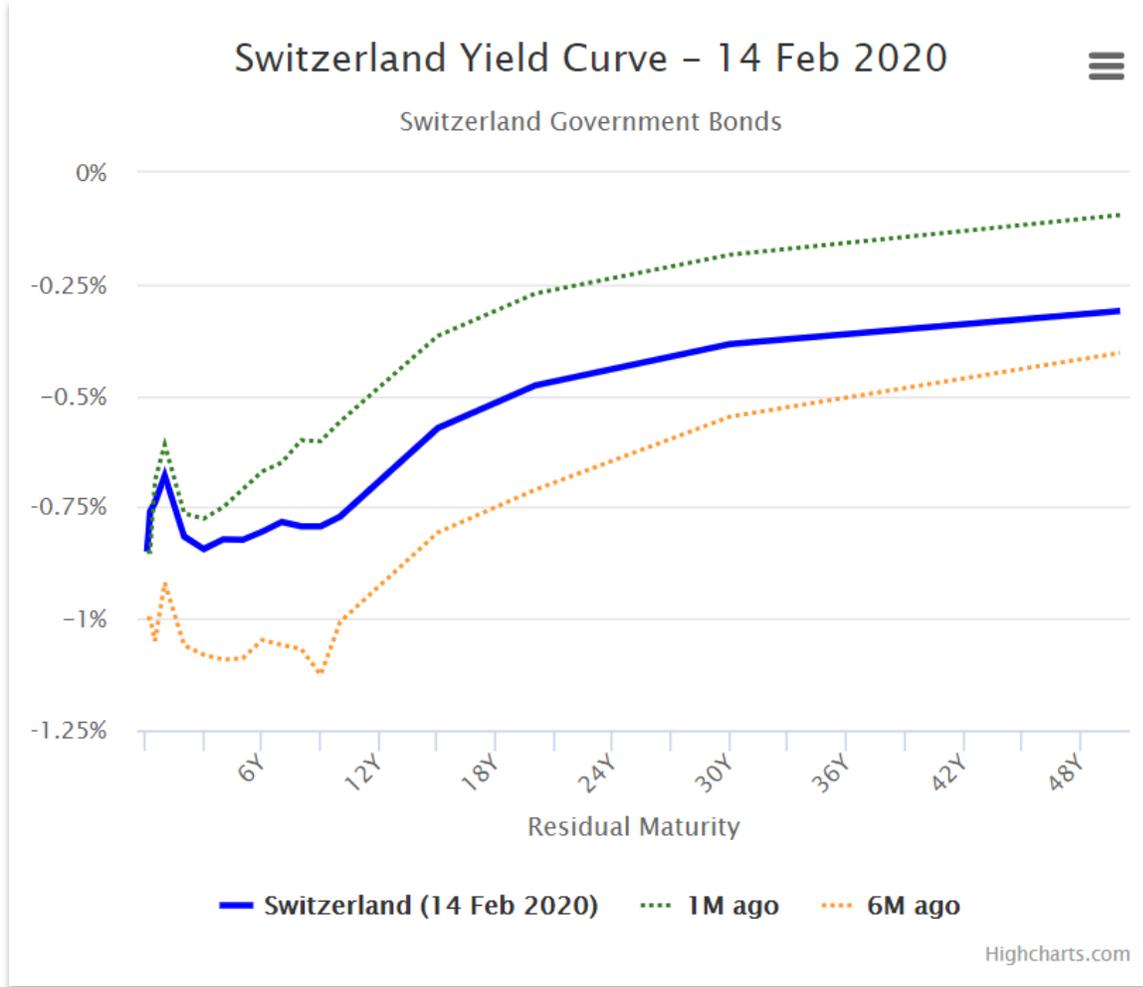
**Stefan M. Kremeth:**

Well, you mentioned it, I have huge cash positions for my private clients. The thing is that I personally do not foresee any huge inflation, but I think there is a risk we see at least a modest



recession. And I'm happy to say our private clients had a tremendous year in 2019. I just felt like taking profit probably wouldn't hurt at this stage. We don't know what this new virus from China could bring to the global economy. We don't know what Brexit and ever increasing tax burdens on company level, on private level, but also in the meantime on government level, could mean because as we have seen, not only is the US imposing taxes on trade with China and other countries, but now Boris Johnson is going in the same direction as president Trump, and threatens the EU. And he could impose taxes between the UK and the European Union if no sympathetic contract for the Brits could be found. And all of this, I think, makes it for me, difficult to allocate capital in risk assets in times where everything has been performing so well, and where we see the highest levels in all the indices.

And having said this, and this is maybe a special situation for Switzerland - and maybe some of the European countries - we have negative interest rates on the entire 30-year bond yield curve. And this is, for the very large investors like pension schemes, a huge problem, as we know. And all those pension schemes in Switzerland together hold about 6.5% cash. 6.5% cash for a pension scheme means they are not paying 0.75% like the average Swiss wealthy person would. But they are paying much more. So, the 0.75% is only true for let's say 1, 2, 3, 4, 5 million Swiss Francs – private individuals that have to pay negative interest rates to their banks. But if you have 100, 200, 300 million, or 1 billion in cash, you pay 1%, 2%, 3%, 4% in interest rates. And that is absolutely enormous. This is a tax on pension schemes, and I think this will lead to the fact that pension schemes will try to invest as much as possible of their cash into whatever there is – real estate, maybe bonds that are close to zero or only slightly minus, and also of course equities.



Source: [worldgovernmentbonds.com](http://worldgovernmentbonds.com)

And that is what could change slightly the picture I'm having now. I'm not going for a big, big, big correction, but I think there could be a slow reaction to what we saw last year. So, to the very positive performance we could see slowing negative performance. But my picture could change if all these assets from pension schemes, at least in Switzerland, are getting reinvested in the markets. And we're speaking about 6%-6.5% of pension fund assets in cash; in the case of Switzerland this is 65 billion Swiss francs. So, these 65 billion Swiss francs cost a lot of money, and if they are not invested, those pension funds will lose money on it so the question is of course are they going to do something with it. And if - what? It's a lot of money. It could keep up the market for some time.

**Ronald Stöferle:**

Thanks a lot Stefan. Who wants to follow up on those topics?

**Hans Schiefen:**

Can I ask you a question, Stefan?

Don't you think that has happened to some extent already? Because, in my personal view, I regard the "everything bubble" that we are currently experiencing, as the result of exactly that: The risk-free rate of return was driven down to zero, and below. And investors, be it institutional or private, have thus been forced to trade up the risk curve and go for ever more risky investments.

**Stefan M. Kremeth:**

Absolutely Hans, I agree. When we talk about risky assets, and we take equities into the equation, I think the question should be today: what is risk? If risk is measured in volatility, I agree. But if risk is measured in missing return, then I probably wouldn't agree. Because on one side you don't have a risk-free asset anymore, because it's totally sure that you are going to lose money investing in government bonds, or first class corporate bonds. You definitely are going to lose money over 5, 10, 20, 30 years.

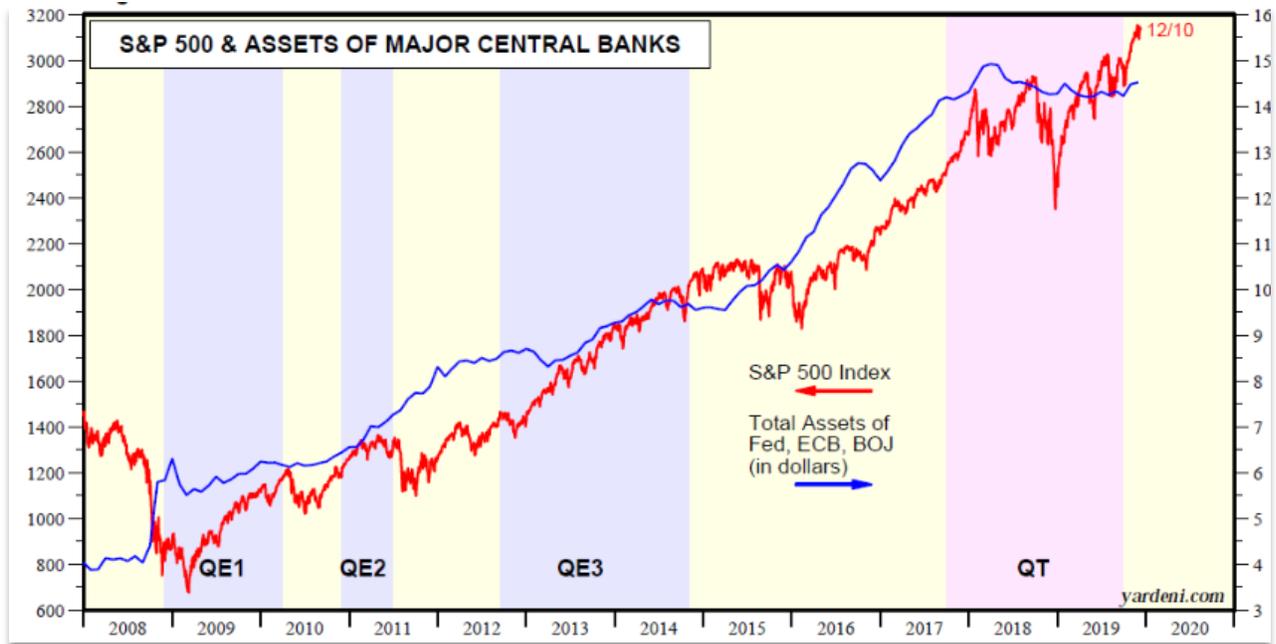
If you invest today in a Swiss government bond you are losing 30-35 basis points over 30 years. That's an enormous amount of money you are losing. This is clear. It's set. You know it already. And it doesn't even include any form of inflation. If you take volatility, yes you are totally right. But the question, probably, for most professional pension scheme managers today is: how do I generate cash flow in order to be able to pay the liabilities? I have to finance the money that is flowing out without having my assets going down in value, short to medium term. The big problem those pension funds have is they are by definition extremely long term, but they still have to report on a monthly, quarterly, and yearly basis to their superiors, to the regulator, and even to the policyholder. And I think that's the big dilemma they are in. They have to produce cash flow; they have to produce some kind of return. And they probably can't take the decisions they would have to take if they were totally free to decide - because of regulations, because of what people expect from them. And that's why they will invest as they have done in the last few years already, in everything that gives them the chance to generate some kind of cash flow.

The biggest bubble, I think we are going to see, which is next to the bond bubble, is probably real estate over the next 10-15 years. If it happens that the pension schemes will have net money outflows in a decade from now, even in 15 years, who do you think will buy those huge pieces of real estate that the pension funds have built up over the last 5, 10, 15 years, which they will have to sell eventually if they need the cash to pay to the policyholders? This is going to be a very tricky moment. But it's extremely far away, and maybe something else will happen until then. But short term, which means the next 3 to 6, or 9 months, I would stay cash long as much as possible. But there is a risk that this is going to continue because the pension schemes are investing 65 billion of cash held in Switzerland - that's a lot of money. And that's a year end number. This money has not been invested.



**Ronald Stöferle:**

I would like to add, Stefan, to the biggest bubbles - even bigger is the bubble in the faith in central bankers. We crunched the numbers and at the moment there is only a 7% correlation between the S&P 500 and GDP in this cycle, but a 70% correlation between the S&P and the movements in the Fed balance sheet. The big question from our point of view might be: when is going to be the moment when market participants really lose faith in central bankers and the extreme measures that they have taken in the last couple of years?



Source: Macro Trading Factor ([seekingalpha.com](http://seekingalpha.com))

And I think it's probably a pretty interesting question; we have seen a big spike in the level of bonds with negative yields quite recently, in this risk off move, and I think the big question for markets is: what would really be the biggest pain trade for those negative yielding bonds?

And from my point of view it would be inflation. As you know our Incrementum inflation signal moved to a full signal in, I think, the beginning of October last year. And since then we have been building up our positions in inflation sensitive assets - of course in gold mining stocks, in the broad commodity complex. Also, in inflation linked bonds. In the energy space I think energy stocks are extremely favourable at the moment. The sector, for example, in the U.S. pays on average a 4% dividend yield and double digit pay out growth. And at the moment it is a mere 5% of stock market cap valuation, which is close to the record low in 1998, when WTI was trading around \$11 per barrel. And if you have a look at natural gas for example, quite recently we see some contrarian opportunities at the moment.



Source: *Incrementum.li*

I think inflation might really be the biggest pain trade for those safe haven bonds that are trading at a guaranteed loss, basically. Now, the big question is if we would regard something like a stagflationary environment - would this be something that you would expect as a black swan for markets? Because I think nobody is really expecting price inflation to become a concern in the next couple of quarters. Recession risks at the moment for the next 12 months are between 25%-30% max, but absolutely nobody is seeing stagflation, which is the combination of higher inflation and recession, as a risk. Mark and Christian, would you say that stagflation is something that might be some sort of tail risk event?

**Stefan M. Kremeth:**

Ronni, excuse me. I would just like to add something to what you said before. Maybe us, and not our children - our generation and the generations before, maybe we give too much value to money. We still have in our heads that money is something to be saved, to be put in a piggy bank. If we have enough, we can buy some toys as kids, or cars as adults, or houses as even more successful adults, whatever.

But maybe what is happening today is a paradigm change, and maybe money becomes nothing else than a lubricant for the economy. It always was, but maybe in a more extreme sense. A little



bit like what petrol is for a car, now we have electricity driven cars, but if you take a normal combustion engine you need petrol in one form or another for it to work. And maybe money becomes nothing more than a lubricant for the economy, like the petrol is in an engine. And I think it's interesting to think about that concept, and that would mean that money has no value whatsoever, it's only there for the short moment in order to make things move. And then it goes down again. Boom. We don't have money anymore. The engine stops. Maybe we should eventually think about that sort of concept. I wouldn't be surprised if some of the potential outcome of our discussions in the future would become different.

**Mark Valek:**

Well, these are interesting thoughts. I think these thoughts are quite fundamental, but they have been already discussed, I think, in the academic literature. But I don't want to go into that too much.

I think money is a unit of account, and it has to be a store of value. And the store of value function is still working because we don't have that much inflation in terms of CPI, and so on. But in reality, the inflation we have discussed already is in the asset prices. The big question is how long can this monetary inflation be channeled into, and kept, in these inflated asset prices? This inflation/deflation discussion is highly interesting in my view, very dynamic - also from an intellectual point of view - a big challenge to think about both things at once.

And you talked about the inflation signal. Recently we saw a little bit of a stronger dollar; we saw a little bit of more the classic disinflationary/deflationary move again. But I think, Ronni, you brought up something very interesting last year when you had a few speeches with the title: "Gold, the seventh sense of the markets" - I think. This is also a little bit of what our inflation signal captures. It's not only gold going in there, but different indicators, which perhaps are some kind of a foreshadow of increasing price inflation sooner or later. It is quite significant, I think - the performance of gold in all currencies in 2019 was highly positive, even though it was not a weak dollar environment, which is usually even better for gold. So, one could point to this as a potential canary in the coalmine for future inflation, but we are still waiting for it.

And a lot of inflation hawks, people who are similarly minded to us, are still waiting for the final manifestation of price inflation, also in the traditional indices. So far one has to say it has not happened yet, but I definitely would agree - going back to your initial question Ronni - inflation/stagflation would probably be the pain trade of most asset managers. Especially taking into consideration that we have four decades of falling interest rates, disinflation if you want, and also rallying asset markets - bond and equity markets especially. We had some bear markets during the last four decades, but in the grander historic scheme the last four decades were quite unprecedented.

So, yes, I think one should consider stagflation as a possibility and one also should position oneself accordingly, and I think a lot of people underestimate this as a risk.

Christian, would you like to add something to that, perhaps?



**Ronald Stöferle:**

Perhaps as a little side note, we all know that ESG is becoming a very big topic when it comes to investing, especially in the commodity space. We just yesterday had a call with Terry Hayman at the World Gold Council who is, I would say, one of the thought leaders when it comes to responsible mining. He publishes fantastic reports on how the industry should be changing, what actually the impacts are of legislation from the European Union, but also from the World Bank - for the mining industry. Now, uranium might be a bit counter intuitive when it comes to green energy, but I think it's definitely something that should not be forgotten when it comes to sustainable energy security. Christian, could you let us know a bit more about this topic?

**Christian Schärer:**

Thanks, Ronni. Yeah for sure.

Uranium is a controversial issue in front of the ESG discussion. For many investors, they clearly exclude uranium because it's such a dangerous thing - to run a nuclear power plant - from their point of view. But on the other hand, when you have a look at what happened in the emerging country environment you will see there is clearly an argument to support the expanding of the fleet of nuclear power plants. The main reason is that in a strongly growing economy there is a high growth rate in electricity consumption. And you have to make sure there is a certain amount of secure base load in your electricity net, and nuclear power is probably the most attractive alternative to fossil fuelled power plants to establish such a reliable base load in electricity environment. That is one reason we are seeing this high growth rate in uranium demand coming from nuclear power plants built in China or India.

I think this is a controversial issue, but on the other hand there is also good growth potential for the uranium industry given the fact that this could be a bridge technology to overcome the disadvantages of coal power plants.

**Ronald Stöferle:**

Thanks a lot, Christian.

Gentlemen, I think it would be interesting to do a final round. I would like to ask you what are your main concerns or your biggest positive surprises for the next couple of weeks, but also for 2020?

And for you as a partner of Incrementum, what are the biggest milestones that you want to achieve for the company, for the products, for the marketing strategy, for research, and so on? What would you see as your biggest projects for 2020?

So, who wants to start? Mark?

**Mark Valek:**



Well, I think what obviously will be a big topic for the markets going forward is the US election. This is a very influential factor for markets; we saw that with the Trump election, and we will see it again this year. So, the closer the election will come, the more people will talk about it and markets will actually take notice about it. Should the next US administration really move to the left, it could rattle markets quite a bit. In a grander scheme of things, I don't think the outcome of the election is extremely decisive because both parties, and potential candidates, would probably not have the willingness, nor the political ability, to stop the current trajectory of debt.

So, the big question, as I already pointed out, is how does the debt situation resolve itself? And I think if one considers a time horizon of this decade, we will see some severe developments in that regard. Therefore, I am focusing on hard assets, as I said – precious metals and some selected crypto currencies, like Bitcoin. This is something I think will be very interesting for this decade going forward.

Hans, perhaps you next?

### **Hans Schiefen:**

My aim for this year, like every year, is to try steering my investors' money through what I perceive will be very troubled times. I think that the risk of stagflation, that was discussed earlier, is indeed a very serious one because with the huge debt burden that the world is carrying, there is usually only one way to get rid of that, and I read the other day in a Wall Street Journal article that apparently the Fed is already thinking about yield curve control, i.e. keeping interest rates across the curve below inflation rates in order to basically devalue that debt level.

At the same time there are all these trends for modern monetary theory which describes how money is basically given to the public, to the wider public, so that everyone can participate in the riches that the asset bubble in the past decade has maybe only created for a few. All that together, in my view, makes inflation and low growth a really serious threat, or scenario, going forward. And in that scenario real assets, which I focus on also a lot, including of course precious metals exposure, should provide, in my view, the best protection.

Christian, would you like to add something at the end?

### **Christian Schärer:**

Thanks, Hans.

Concerning the markets, against the background of all the uncertainties I mentioned today, I wouldn't be surprised if the return of volatility would be one of the surprises of the year. And the impact is clear, you have to make sure that you can act. And Stefan is a good example for that. Be flexible - having cash in the portfolio is an important thing.



On the other hand, you have to be active as an investor. I think it's probably not the most successful way this year, to act as a buy and hold investor in the market. So, I think this is one of the main points for me to cover over the coming weeks and months.

**Ronald Stöferle:**

Thanks, Christian. Stefan?

**Stefan M. Kremeth:**

I think that crypto currencies are going to become more and more important. As we know, central banks are talking about this. We know that Libra is going to be introduced. And I think as a financial market professional, it's fascinating to see how this is going to develop. I must say I am not quite sure how it will develop, but I'm totally positive that there is going to be some disruption potential there if all of a sudden money flows go over a system like Facebook instead of over regular bank accounts and post offices. This means, of course, that a part of the regulation is not going to be possible, unless, and I think this is definitely something governments are working on, crypto currencies will become regulated more, and more, and more.

So, I think in 2020 we will see the first real year where crypto currencies could become some sort of small player in the industry of money transfers and purchases, and so on, even for normal average people. So, I'm not speaking about the geeks, I'm not speaking about the people who knew about this a long time ago. I'm speaking about normal people who are partially educated and know about these things. And that is going to be very interesting. And I see some disruption potential from that side.

**Ronald Stöferle:**

Thank you very much, Stefan.

From my point of view, probably the most contrarian call would be that Austria will win the European football championships. I'm not 100% sure about it, but I think the odds are pretty attractive at the moment.

But seriously, I think that some sort of mean reversion of value versus growth might really be something that might surprise markets this year. We have seen this relative strength of growth over value. I think it would be fair to say that there is a high possibility that value might really outperform growth again. And we have seen, having a look at some charts of "everybody's darling" stocks in the US, that actually there is some technical damage that was done in the last couple of days.

On the other hand, I think that MMT - which should stand for "*Mugabe Maduro Theory*", or "*Magical Money Tree*", as Dave Rosenberg just said - will become something that's really mainstream. I don't know if it will be called MMT, or QE for the people, something like that, but I



fear that in the course of the next correction, crisis, this will be something that will definitely be introduced. And besides that, I think that at the moment, having a bit more of a conservative or defensive approach definitely makes sense.

But there will be tremendous opportunities appearing this year in the asset classes that we follow, and I hope - ladies and gentlemen - that you enjoyed this special advisory board call. We touched a number of topics. I hope you got a feeling for the broad range of topics and ideas that the partners at Incrementum cover. And as you know, markets attract those who want to make quick money, but it rewards only those who are comfortable getting rich slowly. And as you know – Incrementum - incremental growth also means slow, but very steady growth. And this is actually what we partners at Incrementum really want to achieve and we are all really excited about 2020 and the years beyond.

And I would like to sincerely thank you. We welcome your feedback via email, via Twitter, whatever channels you might want to use to give us feedback and to ask us regarding our funds, our wealth management, our special mandates. And we all wish you a happy, healthy, and prosperous 2020, and very much thank you for your attention.

Thank you very much.



## Appendix: Permanent Members of our Advisory Board

### Zac Bharucha

Zac began his career in finance at the investment bank Kleinwort Benson and later became an equity portfolio manager at Philipps and Drew Fund Management. He then moved to AMP Asset Management where he was responsible for managing more than GBP 1bn of institutional assets. Afterwards, he moved to M&G in London. Since 1998, he has developed absolute return strategies and specialized in equities and commodities. After 25 years in asset management, he retired from professional life in 2011 and wrote his first book about market timing.



### Heinz Blasnik

Heinz is an independent trader and market analyst for the consulting firm Hedgefund Consultants Ltd, as well as an author on Austrian economic theory for the independent research house Asianomics in Hong Kong. Heinz also publishes the blog [www.acting-man.com](http://www.acting-man.com), on which he analyses developments in the financial markets and the economy from an Austrian School perspective.

### James G. Rickards

Jim is the author of the international bestsellers *Currency Wars* and *The Death of Money: The coming collapse of the international monetary system*. He is portfolio manager at the West Shore Fund. During his career, Jim has held senior positions at Citibank, Long Term Capital Management and Caxton Associates.



### Dr. Frank Shostak

Frank is chief economist at AAS Economics. He has over 35 years of experience as a market economist and central bank analyst. He holds a PhD, MA and BA honours from South African universities. He was professor of economics at the Witwatersrand University in Johannesburg. He is one of the world leaders in applied Austrian School of Economics and an adjunct scholar at the Mises Institute in the US.



### **Rahim Taghizadegan**

Rahim is the founder and director of the institute for value based economics, an independent research institute in economical and philosophical issues in Vienna. He is bestselling author and a popular speaker internationally. Rahim studied Physics, Economics and Sociology in Vienna and Lausanne. He has worked in the fields of economics, space research and journalism. He has also taught at the University of Liechtenstein, the Vienna University of Economics and Business Administration and the Universität Halle an der Saale.



### **Ronald-Peter Stöferle, CMT**

Ronni is partner of Incrementum AG and responsible for Research and Portfolio Management.

He studied Business Administration and Finance in the USA and at the Vienna University of Economics and Business Administration, and also gained work experience at the trading desk of a bank during his studies. Upon graduation, he joined the Research department of Erste Group, where he published his first “In Gold We Trust” report in 2007. Over the years, the Gold Report became one of the benchmark publications on gold, money, and inflation.

Since 2013 he has held the position as reader at scholarium in Vienna, and he also speaks at Wiener Börse Akademie (i.e. the Vienna Stock Exchange Academy). In 2014, he co-authored the book “Austrian School for Investors” and in 2019 “Die Nullzinsfalle” (The Zero Interest Rate Trap). Moreover, he is an advisor for Tudor Gold Corp. (TUD), a significant explorer in British Columbia’s Golden Triangle and a member of the advisory board at Affinity Metals (AFF).





**Mark J. Valek, CAIA**

Mark is partner of Incrementum AG and responsible for Portfolio Management and Research.

While working full time, Mark studied Business Administration at the Vienna University of Business Administration and has continuously worked in financial markets and asset management since 1999. Prior to the establishment of Incrementum AG, he was with Raiffeisen Capital Management for ten years, most recently as fund manager in the area of inflation protection and alternative investments. He gained entrepreneurial experience as co-founder of Philoro Edelmetalle GmbH.

Since 2013 he has held the position as reader at scholarium in Vienna, and he also speaks at Wiener Börse Akademie (i.e. the Vienna Stock Exchange Academy). In 2014, he co-authored the book “Austrian School for Investors”.





## About Incrementum AG

Incrementum AG is an independent investment and asset management company based in Liechtenstein. Independence and self-reliance are the cornerstones of our philosophy, which is why the four managing partners own 100% of the company. Prior to setting up Incrementum, we all worked in the investment and finance industry for years in places like Frankfurt, Madrid, Toronto, Geneva, Zurich, and Vienna.

We are very concerned about the economic developments in recent years, especially with respect to the global rise in debt and extreme monetary measures taken by central banks. We are reluctant to believe that the basis of today's economy, i.e. the uncovered credit money system, is sustainable. This means that particularly when it comes to investments, acting parties should look beyond the horizon of the current monetary system.





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