Minutes of the Advisory Board Meeting
Austrian Economics Golden Opportunities Fund
April 7, 2015

To hike, or not to hike?

Highlights of the conversation:

Heinz Blasnik:

- We have seen economic data weakening across the board in recent months. This is some indication that the economy – especially the US economy – is weakening, which I attribute to a lagged effect of a slow-down in money supply growth that happened a while ago.
- What I would watch in terms of data are certain components of the ISM, for instance the new orders component. If the reading falls below the 50-mark, then you know the danger of a recession is elevated.
- Last week's employment report is the first that shows that the negative effects of the declining oil price will be visible in the data before the positive effect on oil consumers.
- One also has to keep in mind that the ECB has begun with its Quantitative Easing program; money supply is growing in Europe already above 11% annualized. Hence, there is a big push in money supply growth in Europe and we already see that economic data in Europe is beginning to improve.
- I believe that all the economies in the world are on very shaky ground. The central bank experiment, which has been going on since 2008, is a very, very big mistake.
- In the end, this is going to lead to the implementation of another monetary architecture – only I fear it will be another type of fiat money system, probably an even more centralized one than is now in place.

Jim Rickards:

- Right now the Fed Funds Future Market is pricing a rate increase for December. It would not take much to push this out to 2016.
- If they should actually raise rates in September – which is not my assumption – this could be a disaster, as they would be hiking into weakness.
- The Fed has the worst record when it comes to forecasts. All the way through the last 6 years, they have been wrong each year with their growth forecasts by a huge magnitude. So they are relying on forecasts that are always wrong. But they still trust those numbers.

- The defining characteristic of a depression is growth that is significantly below potential. So if potential is 3 or 3.5% in the long run and 5% in the short run and your actual growth is 2%, this is a depression from my point of view.
- No monetary authority can do anything to get us out of this mess. We need structural changes, not monetary stimulus.
- Asian Infrastructure Investment Bank: what it really means is that China wants to be part of the old boys club, which is the IMF.
- The big guys – United States, Europe and China – do not really think of gold in terms of the dollar and price. They think about gold in terms of quantity. What matters is the weight, how much gold you actually have, how much gold is available when they restructure the national monetary system.
- None of these [the growth phenomena of recent years] are normal cyclical recoveries! All these are the temporary effect of a cheap currency, but no one has come up with a solution to the global problem. The only solution is structural reform, which we are not seeing; the other solution is to merge all the currencies into a single global currency and then print a lot of that.
- We are now at the point where the United States is bearing the entire cost of global adjustment through the strong Dollar. The Dollar cannot get much stronger, technically it can, but it probably cannot without putting the US into a recession. The Euro is probably at its lowest.
- The biggest bubble in the world right now is the Shanghai Stock Exchange; when that bursts, it is going to be one of the biggest collapses in the world.

Frank Shostak:

- In November 2011, the year-on-year rate of growth of money supply was 14.8%, and then by October 2013 it had fallen to 5.8%. This is the reason for the sharp fall in the growth momentum that we are witnessing.
- The momentum of price inflation will weaken further, such that we could end up with a severe price deflation by December this year.
- Next year, we will probably have a sudden bounce in economic growth again, based on the current structure of the money supply.
- I am surprised that the S&P is still holding – it would not surprise me to see it plunge.
- Printing money by itself, it does not matter what kind of Quantitative Easing, is not going to fix the issue if we are in a depression; it will make things much worse.

Zac Bharucha:

- Nobody thinks rates are going to rocket up here. I think we all appreciate that something structurally has changed since this last crash 2007/2008.
- Japan and Germany have enjoyed better progress due to their courses of trashing their currencies.
- I think crude oil and gold look like quite good bets at the moment, especially the former.

- I think talking about a depression is a bit exaggerated in the classic sense of a depression; falling output and prices; we have skirted away from that. But we have certainly had very peculiar economic developments over the last 6/7 years and many people feel worse off.

Rahim Taghizadegan:

- Entrepreneurs in South East Asia are pretty confident that the future is theirs, but they do at the same time feel that they are falling short in identifying entrepreneurial opportunities. They lack creativity and culture in a certain sense.
- I am a bit doubtful about China's economic expansion strategy – labor productivity is generally very low in Laos and Cambodia and those countries that are not already even part of the Chinese-driven bubble economy.
- In contrast to South East Asia: We have seen a lot of diversity in the area of the Alps, and this diversity has led to quite a large cultural capital, which still has survived in crafts and quite a lot of cultural knowledge is embedded.
- I was impressed by the extent of cultural destruction that has gone on in Asia so far, the extent of homogenization that has taken place and the resulting lack of cultural diversity. This of course in my view answers Asian entrepreneurs' conundrum of why the region still lags behind in the field of creativity and identifying new and original entrepreneurial possibilities; and why most consumer goods are produced in Asia, but still a lot of value-creation happens outside Asia and is dominated by the West.

Mark Valek

- Our inflation signal still signals "neutral". With this neutral signal we are cautiously positioned with a "barbell strategy" for both scenarios: rising inflation and also rising deflation.

Transcript of the conversation:

Mark Valek

Welcome to our second advisory board meeting this year! Ronni and I as always have thought about some topics to discuss.

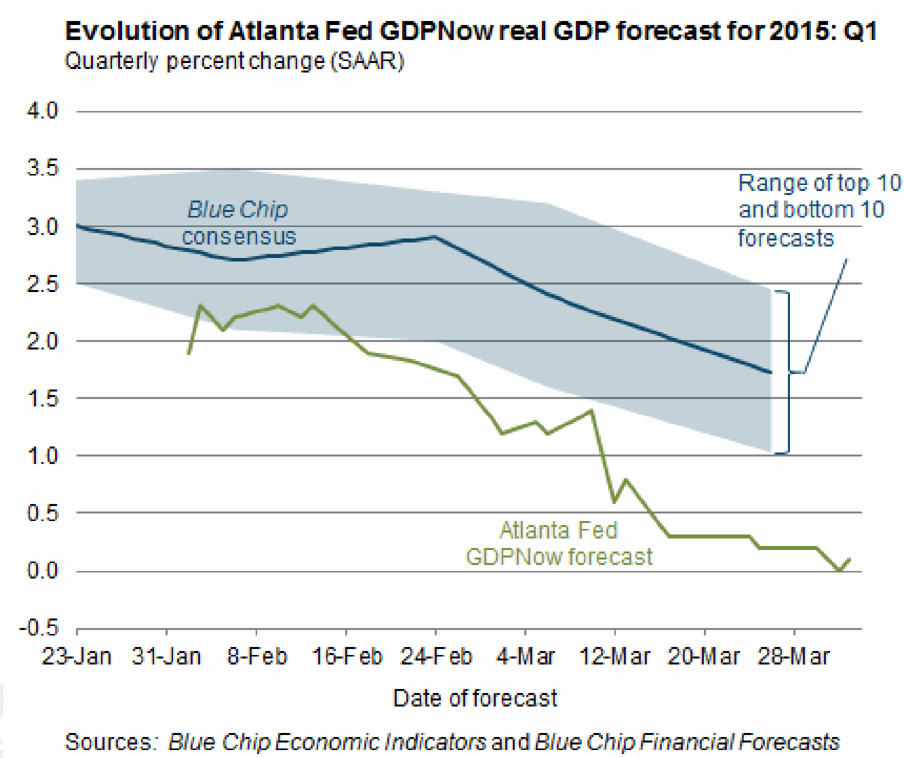
Ronni, perhaps we can go over a few things in the beginning and then ask our board members some specific questions, as usual.

Ronald Stöferle

Thank you very much. We had a look at the transcript of our last Advisory Board and we are impressed to note that most of the predictions you made have turned out to be quite accurate – we are glad to have chosen you for our advisory board! We would also give a short review of the comments you made during our last meeting and see if something has changed.

We all saw last Friday's job numbers and this raises the following question; have we to say good-bye to the rate hike that market pundits still see in June, but where the market is already seeing it delayed until December or even beyond. This is going to be a main topic of today's discussion – especially the consequences for commodities, gold, the US Dollar and so on. We would also like to talk about our inflation signal, the recent positioning and the Asian Infrastructure Investment Bank.

The Atlanta Fed's "GDPNow" indicator recently moved to zero, down from 0.2% "growth". Another one or two weak numbers and the indicator will show a recession. This is a huge gap to the other regional Feds, Wall Street forecasters, economists, and the general media. I think this disparity is really crucial, especially if the consensus on the economy and earnings should be wrong and "GDPNow" should be right.

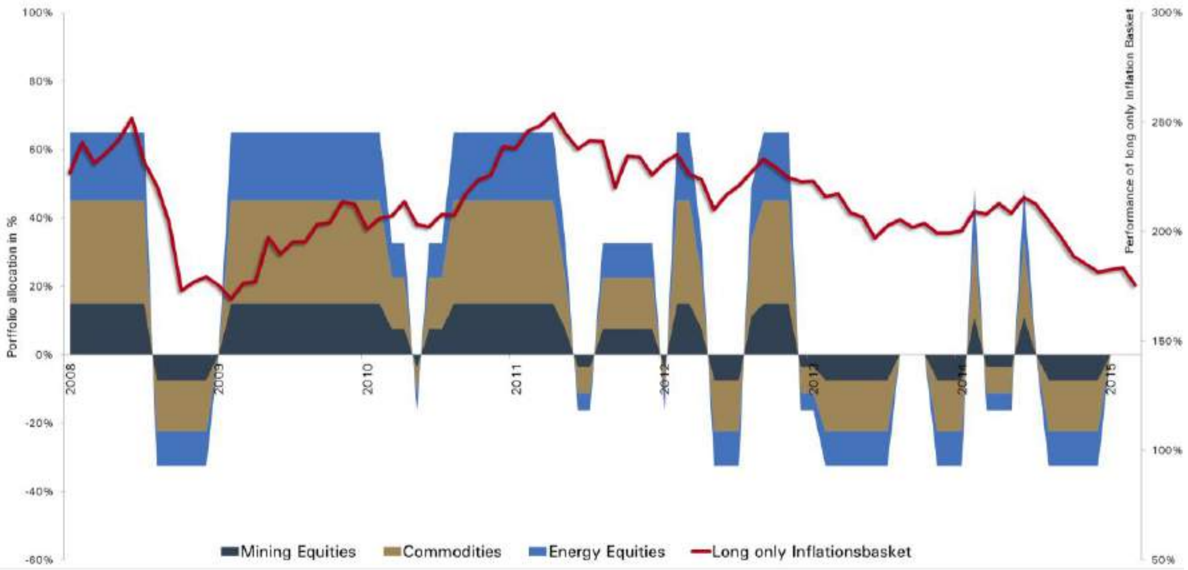


Mark Valek

I would like to briefly comment on our recent activities in the fund. Our inflation signal still signals "neutral". This is pretty unusual, based on the calibration of the model, but in our view it quite accurately represents the tug-of-war between inflation and deflation. We had a slightly negative first quarter this year, due to the indecisiveness of markets.

Given this ongoing neutral signal we recently adopted a "Barbell strategy" **for both scenarios: rising inflation and also rising deflation.** On the deflation side, it was plain vanilla going long treasuries. On the inflation side, we were long gold miners and complimented this with some straddles on the SLV Silver ETF. The volatility on silver had been quite low before volatility spiked after the Fed Meeting – that was quite a successful position. We started to accumulate some of the miners – mid-March, before the Fed Meeting. Right now, we are tending towards rising inflation, but we are still positioned with this Barbell strategy. This has started to pay off since the end of March.

Implied commodity allocation based on Incrementum Inflation Signal



Source: Incrementum AG

Zac Bharucha

How have you been doing for the second quarter so far?

Mark Valek

Good, thank you. Especially during the last few days the mining positions have been providing some tailwind. We have thus had a good start so far. However, we have not increased our risk exposure a lot yet, in accordance with our neutral inflation signal.

Ronald Stöferle

We took positions in oil stocks, in mining indices – the GDX, the GDXJ – but since we are conducting single-stock research in the mining sector, we also bought the following stocks: Mandalay Resources, Torex Gold, Silver Wheaton and Sandstorm Gold, which are royalty companies.

Mark Valek

That was a short update on what we have been doing. I think we should now turn to the discussion. As Ronni said: “Inflection Point March 2015?” – with a question mark, however. Are we there? Did we see one? Nobody knows obviously. But I would like to formulate the question this way: **I think all of us were very much in line with the bearish view on the economy. Has anyone changed his view on this**

broad economic outlook in the meantime? And, if not, what needs to happen in order to reassess the view from last month?

Let us start with Heinz.

Heinz Blasnik

First of all I would like to say that a single data point, like last week's employment data, is not enough to form a firm opinion. But **we have seen economic data weakening all across the board in recent months, so there are signs that the economy – especially the US economy – is weakening, which I attribute to a lagged effect of a slow-down in money supply growth that happened a while ago**.

However, we have seen similar situations twice since the 2009 turning point. The last one was in 2012 when we also had a string of weak data and then the economy recovered again in the wake of another round of QE and so on. **So, it is not yet certain if we really will see a recession. What I would watch in terms of data are certain components of the ISM, for instance the new orders component – these are pretty straightforward data. If the reading falls below the 50-mark, then you know the danger of a recession is elevated.** We have also seen in recent months that US banks have started to lend a lot of money again, especially in the commercial and industrial sectors. Credit has been growing rather fast – so from that perspective there is actually a chance that economic data improves again from here. We will have to wait and see because one has to suspect that a lot of money that has been lent is being used mainly for financial engineering projects (like stock buybacks and so on).

What we are also seeing now is that the decline in oil prices has affected the oil producing states a lot. We see employment and so on under pressure. **Last week's employment report is the first that shows that the negative effects of the declining oil price will be visible in the data before the positive effect on oil consumers.**

We see a hugely negative effect from declining capital investment and declining employment in the oil producing states. The only reason why this is actually important is because the US has become such a big oil producer itself and because these states have actually carried most of the recovery on their shoulders.

That is the situation right now. It is not unambiguous. We cannot yet say there will be a recession. **One also has to keep in mind that the ECB has begun with its Quantitative Easing program; money supply is growing in Europe already above 11% annualized. Hence, there is a big push in money supply growth in Europe and we already see that economic data in Europe are beginning to improve.** Economic activity is accelerating in Europe somewhat. Of course one cannot say anything about the quality of this economic activity – there might be a lot of malinvestment. But anyway, this might also lend some indirect support to the US economy, although I would not overestimate that.

Mark Valek

Thanks a lot for your - not as bearish as I would have expected - view! Good points!

Jim, last time you provided an explicit time frame of May to June for which you were expecting market participants to start to price out this rate increase. What are your thoughts now on these latest developments?

Jim Rickards

Well, you know going back to the 4th quarter and even the middle of last year, there was a high expectation of a rate increase in 2015 and the talk back then focused on the debate between the March-people and the June-people. Well, March has now come and gone. There will not be a rate increase in June. The debate has shifted to the September-people and a small number of December-people. I have said often that the Fed will not be able to raise rates in 2015.

Right now the Fed's Funds Future Market is pricing the rate increase for December, it would not take much to push it out to 2016.

Here is the problem: The Fed desperately wants to raise rates, there is no question about this. They signal it, they warn the markets, they continue to talk about it. Anybody who is still in a leveraged Dollar-carry is warned to get out of this trade.

The problem is that actually raising rates and warning people that you are probably going to raise rates is not the same. Meaning: you still have this issue of data dependence. **Now where the Fed gets it wrong is that they have removed all forward guidance.** The Taylor rule is gone, the shadow gold standard of Greenspan is gone, basically every rule that was used in the last 30 years has been abandoned. **The Fed only has two options: one is their own forecast; the other is data dependence.**

Here's the problem with those two tools: The **Fed has the worst record when it comes to forecasts**. All the way through the last 6 years, they have been wrong each year with their growth forecasts by a huge magnitude. So they are relying on forecasts that are always wrong. But they still trust those numbers.

Now the problem with data dependence is that this data is mostly lagging. You are always the last to know. So you have two tools that do not work and they are flying blind.

You have two states of the world:

Either, the Fed blinks, throws in the towel, says there is no chance of a rate increase in the foreseeable future and says QE4 is not off the table. Then you'll see a huge rally.

Or, the Fed actually raises rates in September – which is not my assumption – and this turns out to be a disaster as they would be hiking into weakness. Then stock markets get crushed, and the dollar rallies.

What they are doing is the old Draghi trick… talk tough and do nothing. The Fed keeps promising to raise rates, but they don't do anything.

Now we have this somewhat schizophrenic market, where on certain days, weak data comes out and the market believes that this will delay the rate hike. Then on other days, Fed officials come out and talk tough. So this is another example of what we saw in 2011/2012 in Europe, which is non-directional volatility.

I do not think that business cycle analysis matters in this environment. From my point of view, we have been in a global depression since 2007. People say: *"You're crazy Jim, we are having an expansion for 6 years now, growth is up, unemployment is coming down, etc."* **The defining characteristic of a depression is that growth is significantly below potential. So if potential is 3 or 3.5% in the long run and 5% in the short run and your actual growth is 2%, that is a depression from my point of view.**

So if you take annual numbers, the US economy has been growing at 2% for 6 years. That is a depression, as the potential is much higher. **No monetary authority can do anything to get us out of this mess. We need structural changes, not monetary stimulus.**

My expectation is 2% growth as far as I can see, no rate increase but some volatility because of talking tough on the one hand and doing nothing on the other.

Mark Valek

Thanks Jim for this elaboration! In the meantime, we welcome Rahim to our call! He is back from a longer Asia trip. We have prepared an Asia question for later. But let us first finish with this round.

I would like to hand over to Frank. Frank you also made a great call last time. Has anything changed in your models? You told us that you were expecting the economy to cool exactly in the second quarter. Now we are in the second quarter. What is your view?

Frank Shostak

Well, I have not changed my forecasts since then. I should just like to make some short comments on what Jim just said. I am very much in agreement with his comment about depression. Perhaps we are in a so-called depression without anybody saying it. I would add to this, rather than talking about growth vis-à-vis potential, that the ability to generate real wealth in the US and also the rest of the world is actually shrinking. For me, in a depression, the pool of real funding is under pressure: it is not growing, it is declining. And the result is that there is no economic growth; it is not possible to have economic growth. So whatever we call economic growth in terms of GDP, it is just something like an illusion, or mumbojumbo. But if one wants to talk about real genuine economic growth, probably we do not have such a thing.

In terms of conventional indicators, I suggest that they may deteriorate further. The reason is – as both of the other speakers suggested before – the effect from the lagged decline in money supply growth of our measurement of money – adjusted money supply / Austrian money supply. **Just to give an example: in November 2011, the year-on-year rate of growth [of money supply] was 14.8%, and then by October 2013 it had fallen to 5.8%. This is the reason for the sharp fall in the growth momentum. So I am suggesting that the effect from this decline has still to come – now it is starting to filter in.** And the lags are quite prolonged, it could take 22 months and even longer.

Based on these assumptions, I expect a weakening into recession at least this year. I also believe that the various price indices including the CPI (which I think is nonsense, but anyhow, we look at it) **will weaken further, such that we could end up with price-deflation by December this year.** It would not surprise me if we have a year-on-year minus 1%. And **next year we will probably have a sudden bounce in economic growth again, based on the current structure of the money supply**, like growth has started to pick up a bit.

As far as my view on the financial markets is concerned, **I am surprised that the S&P is still holding.** I believe it already surpassed the normality. It would not surprise me if it will just plunge, as there is no justification to rise further. **Printing money by itself, it does not matter what kind of Quantitative Easing, is not going to fix the issue if we are in a depression**. And I suggest that the pool of real wealth is declining. **Then printing money will make things much worse.**

Mark Valek

Thanks a lot Frank! I would like to hand over to Zac before we finish our round with Rahim.

Zac, you actually said last time (on January 15th) when gold was having a run up: "*Be careful right now as it is overbought and will hit the 200-day moving average soon. In the broad range between 1,100 and 1,200, gold should be accumulated, especially if you have a bearish view on the stock market."* Congratulations on that call!

What is your view now in the context of the broader economic perspective that we have just discussed?

Zac Bharucha

Well, I would like to begin with some general comments. Obviously, there has been something of a convoy system going on in terms of Quantitative Easing and money printing, which has travelled its way around the globe. And I think that has helped propel the financial markets. Clearly the data in the US has weakened; the last two month's payroll data were revised down when the March numbers came out. The numbers are still not so bad overall if you refer to the three-month moving average around 200,000. Some 30,000 jobs have been shed this year in the private sector in the metals and mining and oil and gas industries – due to the sharp drop in the oil price. So, I think there are some temporary factors that are perhaps making the weakness look a bit greater than it really is.

Last time I was calling a low in the energy complex. The energy complex has bottomed out, crude oil in particular looks like a good buy. Gold looks a better buy than a sell.

The Fed talks the talk, but they seem very indisposed to raise rates. In previous cycles – even if it was a kind of typical cycle –, when the Fed moved to a tightening bias, up to the first, second, third or even fourth rate hike, the stock market would actually continue to rally.

I think this cycle, the structural weakness that Jim and Frank referred to is noteworthy. The structural weaknesses and the depression-like symptoms are evident; so perhaps the market will be more sensitive than normal to the first rate hike; because it may not take much to stall the economy. Most market participants might recognize this- **Nobody believes rates are going to rocket.**

What does this mean for markets? Surveying stock price trends in the US, we observe 5 or 6 months where there has been virtually no momentum to the downside. Every occasion it seemed the markets were breaking down, they recovered – a big drop and then a big rally. So we are holding sideways, but we lost upside momentum. The same is true I think for the UK market.

Japan and Germany have enjoyed better stock market progress due to their implicit policy of trashing their currencies. These countries enjoy a free lunch. What surprised me in January: I did not expect the DAX to rocket 20 to 25%, nor did I expect the Euro to fall through the floorboards. Both these moves were surprises.

And now? I prefer to short the big stock indices, but being very careful and using stop losses because it may take several breaks to actually generate momentum on the downside.

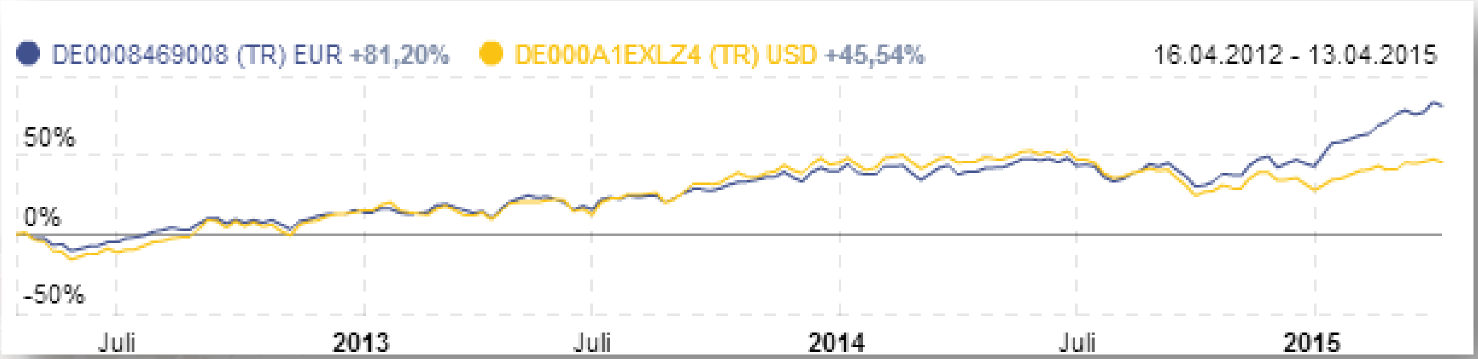
In regard to longs, I agree with your positions: energy stocks, especially the upstream end. I think the energy complex offers value in the UK and the US. **I think crude oil and gold look quite good bets** – gold as the alternative currency in this turbulent world, people will come back before this cycle is over.

How do we invest in this environment, how can we benefit? I think by deploying capital cautiously with very controlled risk. If you go short in a market and then it drops and then it rallies strongly, just make sure you have set tight stop losses- walk away and look for better / other opportunities!

Ronald Stöferle

Zac, thank you very much!

I would like to add just a short comment on European equities. In German, there is this beautiful expression of an "*Abwertungs-Hausse*", which could be translated as a "devaluation rally". It is very interesting to draw a chart of the German DAX index for example in US Dollar terms – in Dollar-terms the DAX actually looks quite weak. That might be some sort of a first stage of a crack-up boom that we are currently in in Europe.



Source: dax-indices.com

But now I want to hand over to Rahim, who is just back from a lengthy trip to Asia (Thailand, China, Vietnam and Cambodia, etc.), which was a honeymoon but also a study trip. I would like to ask three questions.

First of all, what were – in a nutshell – the most interesting developments that you recognized during this trip?

And as a follow up question, I'd like to ask you about your upcoming book. It is about the region of the Alps and the advantages that we have in this region (including parts of Austria, Liechtenstein, Germany, Switzerland, and also a regions of France). May you provide a short description of this new book project?

Rahim Taghizadegan

I will try my best.

Let us start with the sentiment and some anecdotal evidence. I have been speaking to many **entrepreneurs in South East Asia and almost all seem pretty confident that the future is theirs** and, of course, Asia will take the lead, with China having huge importance in this area. The Asian Infrastructure Investment Bank is just one example. **But the entrepreneurs at the same time feel that they are falling short in identifying entrepreneurial opportunities** and I feel it is still at a disadvantage compared to European and American investors and entrepreneurs. They feel that they lack creativity and culture in a certain sense. There is an increasing demand for culture in South East Asia. **The film industry seems to be booming**; China itself helps it by protecting its market – basically by allowing Western movies to be copied without protection, whereas Chinese movies are very much protected such that it is not easy to copy them.

Second field: I have seen a lot of development in the travel industry. However, that is an industry of course that comes along with the rising middle-class of Chinese consumers. A lot of current consumption is pretty much based on prestigious Western brands. But shopping centers are becoming more and more empty. And there seems to be a demand for some kind of new experience; it looks a lot like bubble economics. China is trying to build on an infrastructure that is funding the up-coming markets of Laos and Cambodia. China is currently integrating Laos by connecting a fast train to the Chinese rail network.

I am a bit doubtful about China's economic expansion strategy – labor productivity is generally very low in Laos and Cambodia and those countries that are not already even part of the Chinese-driven bubble economy. So I think the only field in which we will see a lot of potential progress is in automation, in saving labor.

There is fear of the process of democratization or social democratization. The protests in Hong Kong are feared by most Chinese entrepreneurs and observers as somehow a potential change to social democracy. Even most people in Hong Kong are quite skeptical about the promises of democracy. So, we will see if other countries follow the example of Taiwan, where we have witnessed a long journey of social democratization, which of course limits economic expansion and entrepreneurial progress.

On Thailand: I witnessed concerns that a shift back to so-called democracy – the limiting of the role of the military that are in power – would affect stability and present a negative outlook for economic development. At the moment, Thailand is trying to push this infrastructure-backed catch-up growth and bring it to new markets like Laos, Cambodia and later Burma.

So, then you asked about my new book project. It was a kind of assessment by doing a lot of research and talking to people. The central question was: what makes the area of Southern Germany, Austria, Switzerland and Liechtenstein unique? And of course the answer to this question is also a kind of answer to the Asian conundrum as the distinguishing factor is culture. How does culture affect long-term entrepreneurial creativity? And I think here we have something due to the very harsh climatic conditions in the Alpine areas and the rugged landscape, which is sorely missed in Asia. **We have seen a lot of diversity in the area, and this diversity has led to quite a large cultural capital I'd say, which has survived in crafts and quite a lot of cultural knowledge is embedded.** Of course some of this has been put to sleep by the political conditions and financial developments, which have been a big drain of energy, money and intelligence towards the urban centers and towards the finance industry.

So, this book is a kind of assessment of this cultural capital and of what kind of philosophy of life is attached to and has developed under these particular conditions. And these conditions are combined with harsh climatic conditions and the very rugged landscape, which due to the mountain structure and the valleys in between has fostered a kind of multi-central, diverse pattern, while in Asia there has been the opposite process in the past. **I was impressed by the extent of cultural destruction that has gone on in Asia so far, the extent of homogenization that has taken place and the resulting lack of cultural diversity. This of course in my view answers Asian entrepreneurs' conundrum of why the region still lags behind in the field of creativity and identifying new and original entrepreneurial possibilities; and why most consumer goods are produced in Asia, but still a lot of value-creation happens outside Asia and is dominated by the West..**

Mark Valek

Thanks Rahim for these insights!

We would like to briefly ask your views on the **Asian Infrastructure Investment Bank** that has just been set up. It is a multilateral institution and it is challenging the Bretton-Woods institutions – the IMF and the World Bank. The interesting thing is that there are 43 nations that have signed on so far – including Germany, Switzerland, the UK, France, but also South Korea and even Taiwan, who all are big friends of the US obviously. Is this a kind of further sign that the emerging market countries are ready to challenge the status of the US and the US Dollar?

This is, from a geopolitical point of view, quite an interesting development. Do you have some time for a short comment? Perhaps starting with Jim on this topic?

Jim Rickards

Sure! It is definitely important and worth following but I view it a little differently than I think a lot of analysts. This whole notion of the BRICs and China buying gold, and China and the other BRICs coming out with a kind of gold-backed currency and trying to question the status of the Dollar as reserve currency – I do not think any of that is actually what is going on.

What is going on? China really does not care about the BRICs. China cares about China, China does what suits China, and of course the BRICs was an invention of a salesman of Goldman Sachs, so it does not have any intellectual content.

China really wants for the Yuan to be included in the SDR basket and to get more voting rights at the IMF. So China is really a friend of the IMF and a friend of the Bretton Woods institutions. But the United States Congress and to some extent the United States Treasury are standing in the way of China's ambitions trying to get sort of good behavior or a quit pro quo from China in terms of the Yuan-Dollar cross rate.

So China has set up alternatives to the Bretton-Woods institutions and they will make real loans, will get real capital. Why are they doing it? It is really a strategy to get what they want from the US and the IMF. They say: *"We want to join your club, but if you don't let us join your club, we'll set up our own club and we can get a lot of members in our club and the importance of your club will diminish."* And **what it really means is that China wants to be part of the old boys club, which is the IMF.**

Now, a couple of interesting questions. **I think we will see the Yuan included in the SDR later this year.** It will be discussed at the Spring Meeting on April 17th, probably voted on by the executive board at the annual meeting in early October and become effective January 1st 2016. So I think that is the timeline for including the Yuan in the SDR. The bigger question is, will the US congress approve China's quota increase. That remains to be seen, as we are in the political season in the US now.

Mark Valek

Thanks Jim! If you guys have some more time, please feel free to add some more comments. Any other final thoughts?

Rahim Taghizadegan

A short comment on gold and China. I was a bit surprised, because I did not see so much enthusiasm for gold by individual investors and the sentiment seems to be that the Chinese feel that they have not taken full advantage of that financial alchemy that the West has used for its advantage. By considering the point of view of the investor and also the financial regime, which somehow tries to copy this financial alchemy, I do not see that they will return to a sound currency.

Mark Valek

Thanks Rahim! I think that is also consistent with what we have discussed here already previously regarding the saving products which are sold in huge quantities enabling more leverage for listed companies and fueling the current stock market boom in China.

Heinz Blasnik

I totally agree with Jim. I would like to add that what the Chinese government really wants is to join the old boys' club: the IMF and that the Asian Development Bank is a sort of side track thing, somewhat saying "*Well you didn't give us what we wanted, so we are now setting up a competing institution*". In the end, they would probably like to merge it with the World Bank or something like that. **It is really a move towards the centralization of everything.**

And regarding Frank's comment on China: it is quite true that China has of course moved towards greater economic freedom and the new government – at least from what it had said so far – is going to try to take further steps in that direction. Whether it is going to come true or not, we will see. But I have heard anecdotally at least one thing that can be said about China in a positive sense: Chinese entrepreneurs are quite energetic and willing to do things – **the entrepreneurial spirit has been awakened in China**. And that is a big plus! And in spite of the fact that China is probably going to go through a bust now, that is a long-term positive aspect.

Furthermore, I wanted to make a comment on the depression framework and on the pool of free funding. First of all, I would characterize a depression period as one in which the cyclical economic expansions are very weak in a historical context, while the downturns are very strong. So, **when the next downturn comes, it is very likely going to be a very painful one.** And with regard to the pool of free funding, this is something that we cannot measure; but we can infer from central bank policy that has been implemented that it has to hurt the pool of free funding. And there are a few indicators that we can watch in this context: these are the production indexes that show how much is being spent on consumer goods production and how much is being spent on capital goods production. And since the 2008 crisis, something has happened that had never happened before, namely that the production index of capital goods in the US has actually risen above the consumer goods production indexes. We can infer from that that **too many consumer goods are probably tied up in production and not enough to be released – so this is an unsustainable state of affairs.** So, **I would say the economies in the world are all on very shaky ground. That central bank experiment that has been going on since 2008 is a very, very big mistake.** And I fully agree also with Jim **that in the end, this is going to lead to the implementation of another monetary architecture – only I fear it is going to be another type of fiat money system, probably an even more centralized one than is in place now.**

Jim Rickards

I was thinking it might be helpful to take one or two minutes in order to give you a couple of my best trading ideas. Is that okay?

Ronald Stoeferle

Perfect! Please go ahead!

Jim Rickards

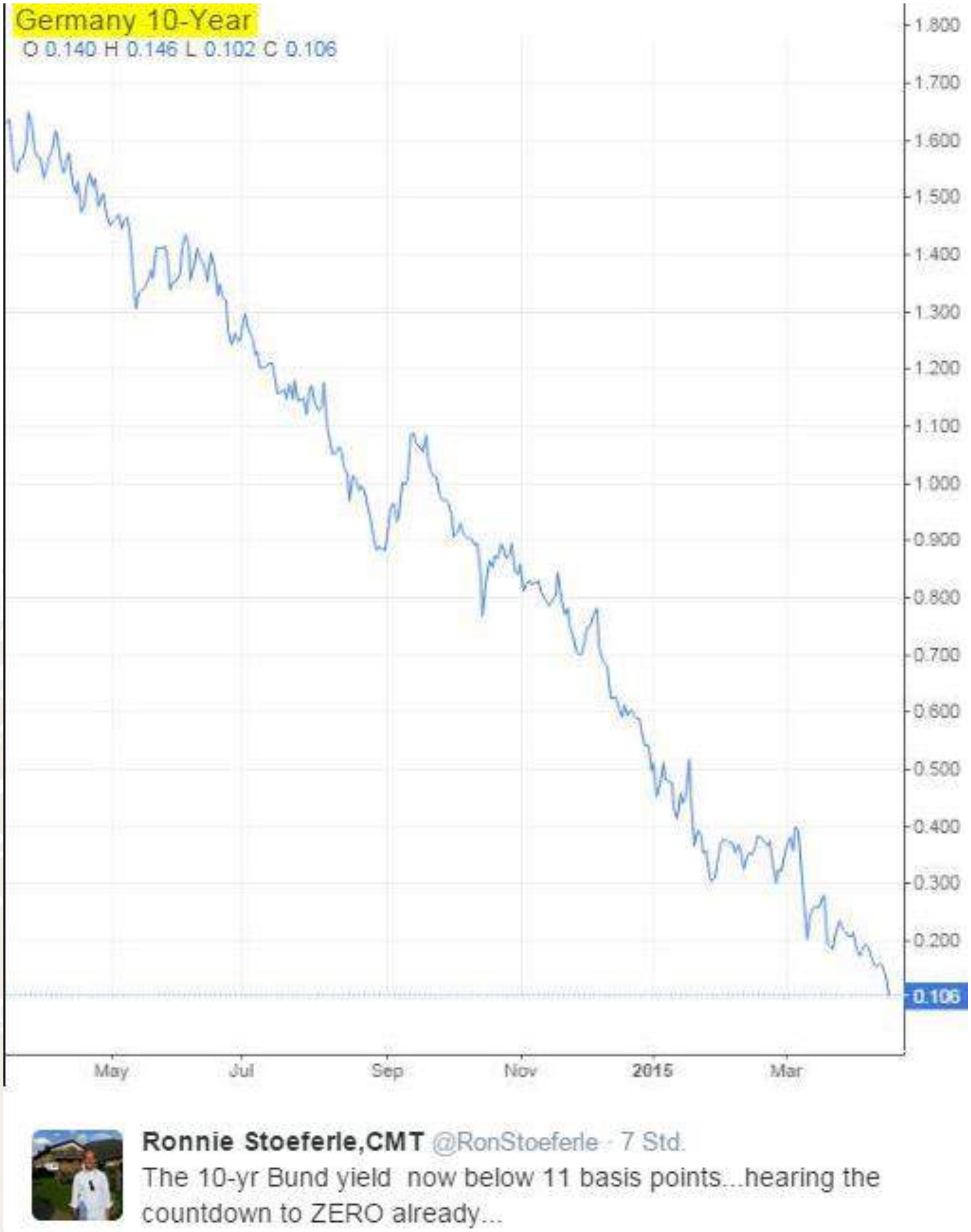
We have a global depression, we have a global shortage of growth. So, what has been going on for the last seven years? The growth has been passed around through the currency wars, or if you like, just cross-rates. In other words, in 2010/2011, the United States effectively said to the world: "*Hey, look guys! If the US doesn't grow, we are all sunk. So let's have a cheap Dollar because we need that to grow and we* *kind of bring the world along with us."* Afterwards, the canteen was passed to Japan, which was allowed to devalue the Yen with the beginning of Abenomics. Meanwhile, the Euro was on a very high level and the Euro was bearing the cost of the global adjustment; finally that became too much to bear and the US said we will have a much stronger Dollar and let the Euro devalue. And now Europe is getting the growth.

So, you see these growth spurts around the world, Japan getting a little pick-up – not sustainable, the US doing a bit better earlier – not sustainable, Europe doing okay now – not sustainable! One thing to understand is that **none of these are normal cyclical recoveries! All these are the temporary effect of a cheap currency, but no one has come up with a solution to the global problem. The only two solutions are, on the one hand structural reforms, which we are not seeing, and on the other hand to merge all the currencies into a single global currency and then print a lot of that. We are not there yet, but we are moving in that direction.**

Europe is this year at a bright spot, but understand that it is not a cyclical recovery, but simply the effect of a cheap Euro. Having said that: **we are now at the point where the United States is bearing the entire cost of global adjustment through the strong Dollar. The Dollar cannot get much stronger, technically it can, but it probably cannot without putting the US into a recession. So I think the Euro is probably at its lowest**, but the combination of cheap Euro and Quantitative Easing has done its work. **That is how I understand the global dynamics, so let me tell you my three favorite trades right now:**

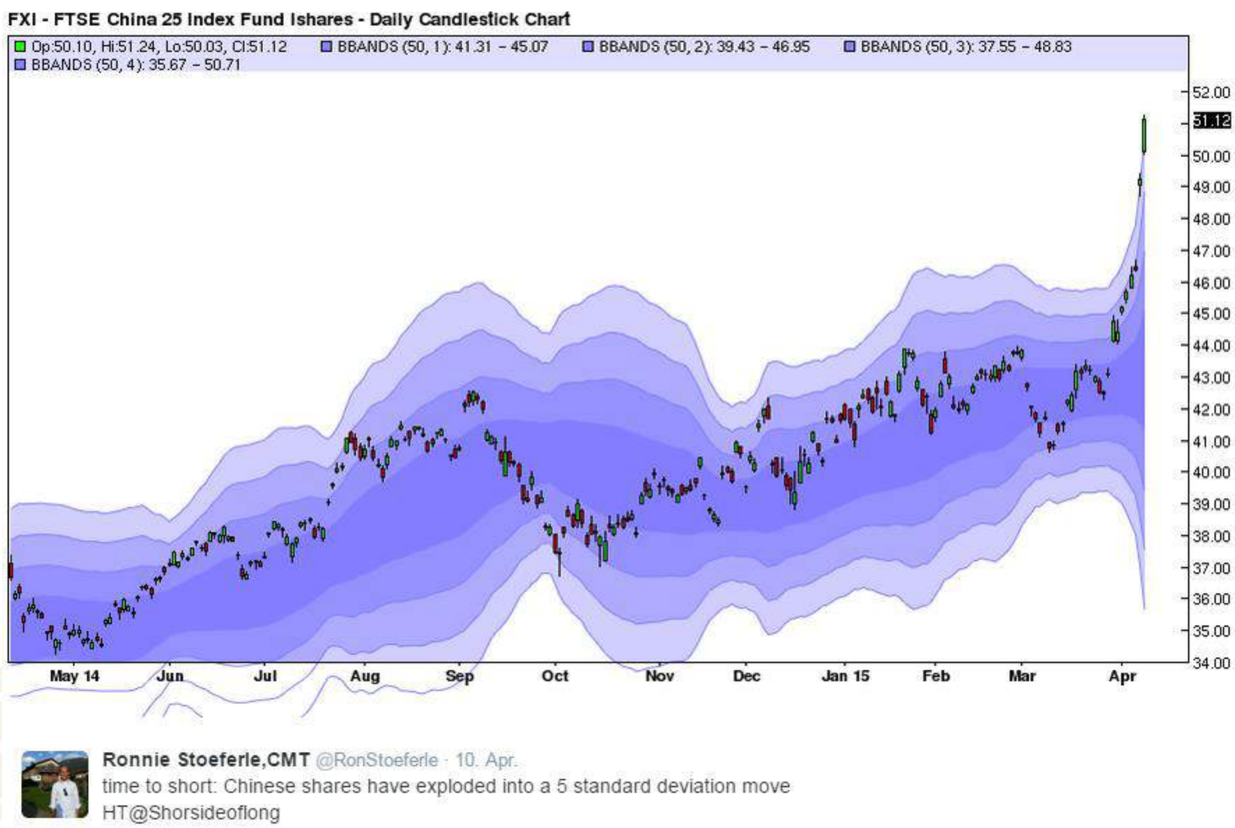
I would take a really closer look at Germany. Germany is going to be the big winner of the recent developments in Iran; especially the large cap stocks like Siemens, SAP, Volkswagen, Daimler, you guys know German stocks better than I do. If you think the Euro is close to a low, which I do, and if you furthermore think that Germany is the big winner if sanctions on Iran are lifted, which I do, then it follows from that that German large cap stocks should do very well.

A second trade which I continue to like is US 10-year notes, just because the deflation is not going away and there is just going to be a convergence in European rates and US rates – European rates have to come up, US rates have to come down, and my expectation is that US rates will continue going down. US nominal rates are chasing deflation down, trying to get to negative real rates, but that can be a long struggle, so I like 10-year notes.



Source: Twitter: @RonStoeferle

The third trade – this is much more speculative and I am not sure if it is right for the fund – is concerning **the biggest bubble in the world right now, which is the Shanghai Stock Exchange.** There is a double inverse ETF available. So I want to make sure that you keep an eye on that, because **when that bubble bursts, it is going to be one of the biggest collapses in the world.**



Source: Twitter: @RonStoeferle

Mark Valek

Thanks a lot Jim for these concrete trading ideas! We actually do have some similar ideas. You are right about the China story, which is not so much in our focus. We have done the Treasury trade and we are also tactically looking at Germany in fact. So, thanks for these thoughts!

Zac Bharucha

Well, I think, as I said already, crude oil – you know, the energy complex – looks a good bet. Gold – I think longer term – looks a good bet. I was looking at the Euro-Dollar-parity earlier: I am not quite convinced yet, the sentiment on the Euro has been extremely negative. I think the US is really feeling the burden and now feeling the weight of the strong Dollar, that is feeding back into the economy. So, maybe wait and watch that a little longer and see if that low around the 1.05 / 1.06 holds, because a lot of people at that time are calling for a break through parity and for it to go even lower. Thus, the sentiment is getting very negative on the Euro, so perhaps it is close to an inflection point. So, that might be one to sort of watch while it simmers on the back burner.

Regarding stocks: if you are going to short them, just be careful with stop losses, because it really takes time for these major tops to form. We have had a six-year up-cycle in stock prices and nothing goes on forever. So, at some point there could be a really sharp reversal, but you will not be able to precisely pinpoint the timing, so you have got to have the stamina for several little forays during the campaign.

Mark Valek

We already shot a few times but always with a very disciplined risk management, Zac, but thanks.

Rahim Taghizadegan

I think if it were not for geopolitics, Iran would certainly take the lead from the Gulf States. There is huge potential in Iran, Lebanon might become a financial hub again for Iran with a Shiite population. But again that is geopolitics, so there is a very high risk – it might not turn out this way. In Asia, I was quite impressed by some CNC manufacturers, because I see a trend towards automation due to low labor productivity. So, that is something I would look into, and – as I mentioned – China-based entertainment industry.

Heinz Blasnik

What I have been doing in recent months: I have been accumulating Russian stocks. That is a play on a recovery in energy, a recovery in the Ruble, and generally a value bet. And Russia is interesting mainly for one reason: whenever emerging market stocks advance and commodity prices advance, Russia tends to be one of the best performing markets. And actually the relative strength of the Russian market in Dollar-terms has greatly improved relative to all markets and also relative to emerging markets. So, there is already some positive movement there.

Moreover, I am also long Treasuries. I see no reason yet to ditch that trade. I think gold and gold-related investments should be bought on weakness with a longer-term view. These are actually all relatively longer-term oriented recommendations.

Mark Valek

Thanks Heinz! What we really liked and still like – and I just heard by chance that it is currently Bill Gross's trade as well – is long Treasury and short the Bund. In fact, I liked the two-year ratio even more, so short Schatz and long the T-bill Future, because you get some negative carry on the Schatz on top of it, and this spread has been quite enormous. Obviously, it was extremely successful these last days, but it is probably still attractive.

Alright gentlemen, many many thanks for your insights! Have a great rest of the day and we are looking forward to our next discussion!

Appendix: 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 a regular publisher for the Independent Research House Asianomics in Hong Kong. Heinz primarily is responsible for his blog www.acting-man.com, on which he analyses developments in the financial markets from an Austrian point of view.

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 MMG Zurich. 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

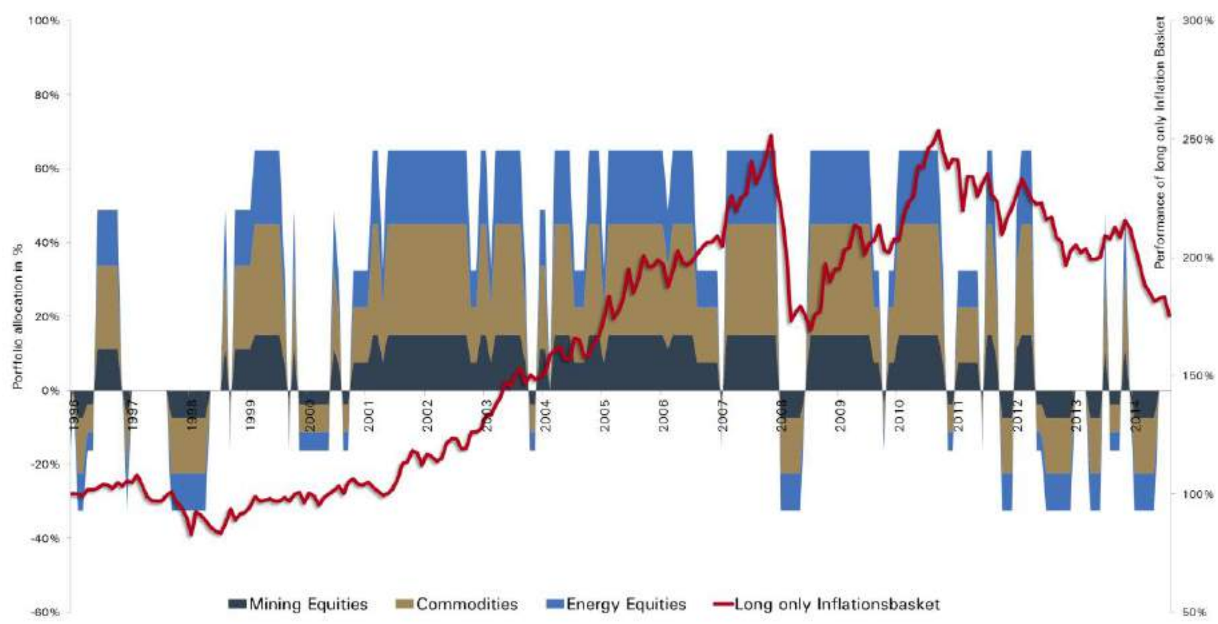
Rahim is the founder and director of the institute for value based economics, an independent research institute in economical and philosophical issues in Vienna. He is bestselling author and a popular speaker internationally. Rahim studied Physics, Economics and Sociology in Vienna and Lausanne. He has 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.

Incrementum Inflation-Signal

At Incrementum, we are convinced that inflation is a monetary phenomenon. Because of the dynamics of "monetary tectonics", inflationary and deflationary phases can alternate. **To measure how much monetary inflation actually reaches the real economy, we utilize a number of market-based indicators** - a combination of various quantitative factors including the Gold-Silver Ratio - which result in a proprietary signal. This method of measurement can be compared to a "monetary seismograph", which we refer to as the **"Incrementum Inflation Signal".**

In the fund we manage, our Incrementum Inflation Signal gauges the inflation trend and we position the fund accordingly. Historically, we observed periods of between 6 and 24 months during which disinflationary forces were dominant. These phases were particularly painful for the holders of inflation sensitive assets. Right now it looks as disinflation might continue for a while. **Our inflation seismograph triggered a "falling inflation signal" in August.**

Implied commodity allocation based on Incrementum Inflation Signal



Source: Incrementum AG

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