WHY BUY GOLD

Information booklet to support decisions about investing in physical gold.

By David Mitchell

Dear Investor,

Thank you for downloading this 'Why Buy Gold' eBook, by David Mitchell.

This guide has been put together to help investors make informed decisions about precious metals and supports the logic around these decisions.

The information is tailored not only for new investors in the field of gold, silver and other precious metals, but also well-established investors looking for more relevant information to support their investment decisions.

Yours Sincerely,

The GBA Team

ABOUT THE AUTHOR – David Mitchell

David Mitchell is a friend and respected colleague of Gold Bullion Australia.

David has nearly three decades of experience in the financial markets working for some of the world's leading international banks.

Some of his most notable roles have been Head of Proprietary Trading, Europe and Head of Spot Trading, Asia-Pacific for HypoVereinsbank AG; Chief Dealer and Manager of the G10 Desk for HSBC; and Chief Dealer at the Forex Desk for NationsBank Group, Singapore.

David brings his expertise and energy to the role of Managing Director of Baird & Co Asia, and is a Founder and Non-Executive Director of Indigo Precious Metals

IPM Group, indigopreciousmetals.com has a presence in Singapore and Malaysia and trades in physical precious metals. Its primary focus is the supply and physical delivery of investment grade precious metals directly to customers.

David is a skilled economic writer, he produces regular commentary to demonstrate his views on precious metal investing. His articles and reports are insightful, full of factual data and references and are a valuable source to assist with investment decisions. David mixes his connections, experience and analytical mind with an entertaining and explanatory writing style that is enjoyable and easy to read.

"I approach my long-term trading strategies from a knowledge based on how all markets and assets classes are inexorably linked to each other within major cycle trends in capital flows."

How GBA and David Mitchell work together

The team at Gold Bullion Australia enjoys regular communication with David Mitchell in several ways:

- David shares his views on precious metal investing with commentary, team training and regular updates about the fiscal environment, Macro Economic drivers and supply and demand scenarios affecting precious metals.
- IPM and GBA work closely in offering solutions for investors to trade and store precious metals including offshore vaulting of Palladium and Rhodium.
- David has recently been appointed Managing Director of Baird & Co Asia and hence a partner of GBA who is an official distributor of Baird & Co in Australia.

Introduction

Why is a diversification into physical gold at this particular juncture in history considered so important?

Physical gold and precious metal holds no 3rd party liability (unlike any other monetary asset) and is considered the only true safe collateral in times of crisis.
Rather than gold being the pre-eminent monetary inflation- proof trade, it's quite simply crisis insurance and a wealth preservation vehicle.

Considering the deteriorating World macro-economic scenario we find ourselves in - namely the largest debt bubble ever recorded, we consider 'fully allocated physical' holdings as a compulsory 'part' of one's overall asset portfolio, as it has been historically.

"If you don't own gold, there is no sensible reason other than you don't know history or you don't know the economics of it.

We are beyond the point of being able to successfully manage this (economy)...

and I worry about another leg down in the economy causing social disruption... Hitler came to power in 1933 because of the social tension between the factions.

Gold should be a part of everybody's portfolio to some degree because... it is the alternative money."

Ray Dalio (August 2015)

Founder & Co-Chief Investment Officer, Bridgewater Associates

The world's largest hedge fund

Without question all markets move in major cycles, every asset class has its day in the sun and indeed on the inverse side of the cycle they are either hated, forgotten or mired in misunderstanding.

There are times to buy and times to sell any asset class. We are very much focussing on the former at this particular point in history when it comes to physical precious metals, which we will explain in the pages ahead.

Only by understanding how all markets and assets classes are inexorably linked to each other within major cycle trends in capital flows, can one understand how to trade between assets and indeed protect and build one's wealth.

Understanding "**why gold now**" is an enormous subject, one that covers every facet of the financial monetary system. We will refrain from building the full macro picture supporting the obvious reasons (*in our opinion*) to hold gold in this eBook. Instead, we will simply paint a picture of the trends and some of the main questions asked by investors, and keep it as short as possible within each category, namely the following ……

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“There are about three hundred economists in the world who are against gold, and they think that gold is a barbarous relic – they may well be right. Unfortunately, there are over three billion inhabitants of the world who believe in gold.”

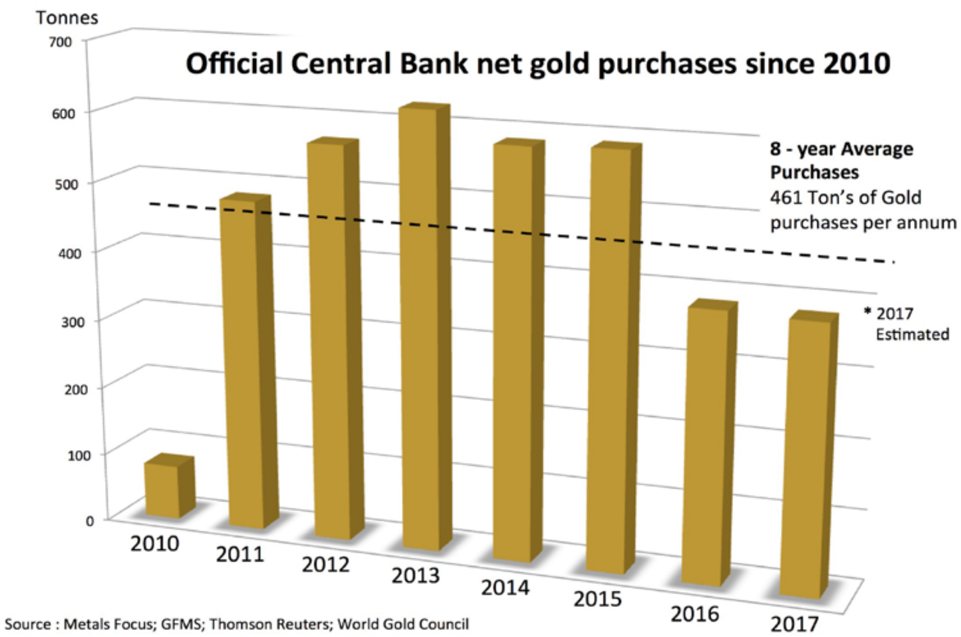
Janos Fekete

Hungarian banker and economist

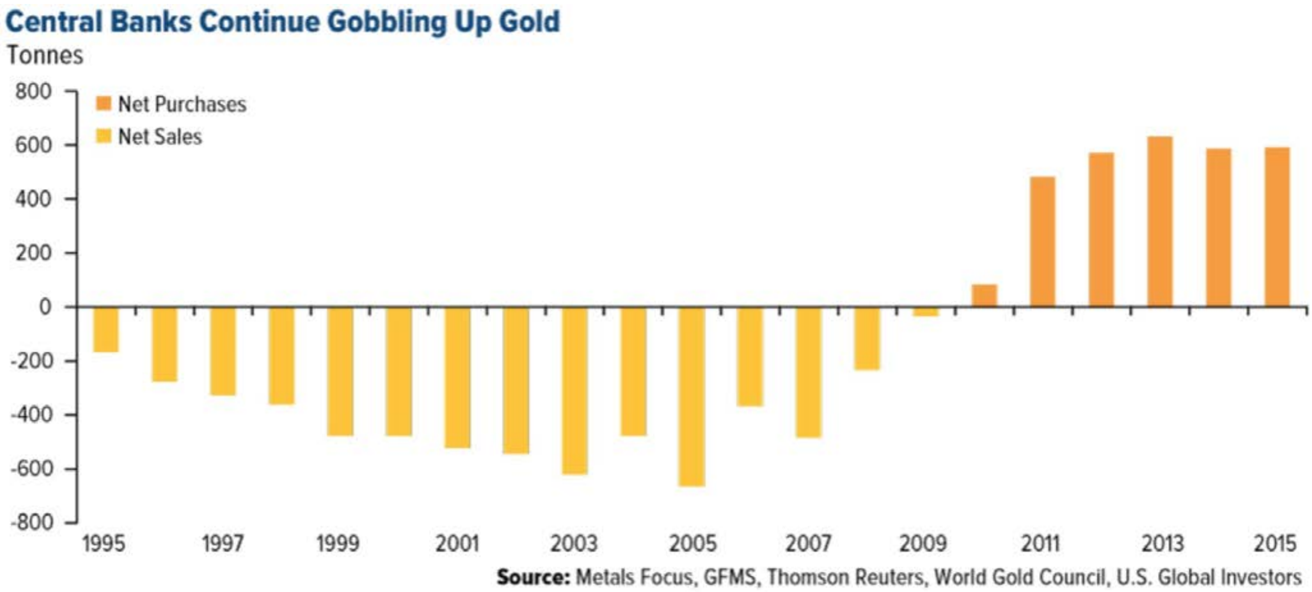
1. SOVEREIGN CENTRAL BANK BUYING OF GOLD

Since 2010, global central banks have been net buyers of gold as they move to diversify their official reserves. Although 2016 purchases fell by about 35 per cent compared to 2015, the buying remained very elevated on a historical basis.

In fact, over 22 central banks signed the fourth 'Central Bank Gold Agreement' on the 19th May 2014 stating, "Gold remains an important element of global monetary reserves". The previous three agreements were solely focused on net selling of gold (a huge change in sentiment and perspective to gold).



Or to put it another way, for the first time in over 50 years Central banks have become very large net buyers of physical gold since year 2010 (*rather than net sellers*) and have officially purchased over **3,680 tons of gold** in just 7 years (*level of buying not seen since the 1960's*) into late 2017. To demonstrate the extreme turnaround; see below



> The question then remains - why are central banks buying physical gold in such an assertive manner if it's such a useless barbaric monetary asset, as some would claim?

Gold is also used as a balancing item on official countries balance sheets, effectively re-balancing the accounts due to excessive and continued debt creation and forced paper currency devaluation.

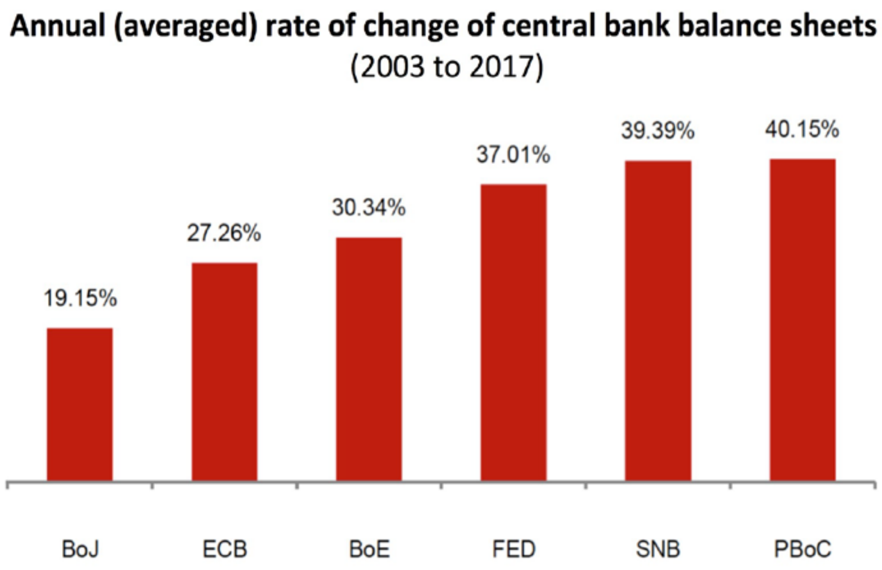
2. SOVEREIGN 'CENTRAL BANK' BALANCE SHEET EXPANSION

Major central banks of the world instigated enormous expansion of their balance sheets at the start of the crisis of 2007/08. Effectively pumping money directly into the system by purchasing debt instruments from the banks and financial institutions at full face value and replacing the debt instruments with liquid cash.
Of course, since that date they have widened their buying spree to cover many other asset classes.

As of May 2017, it was reported central banks have bought $1 trillion of financial assets just in the first four months of 2017, which amounts to $3.6 trillion annualized, "the largest CB buying on record" according to Bank of America. As of June 2017, BofA's Michael Hartnett provided an update on this number: he writes that the top 5 central bank balance sheets have now grown to a record $15.1 trillion, up from $14.6 trillion in late April, and says that "central banks have bought a record $1.5 trillion in assets YTD."

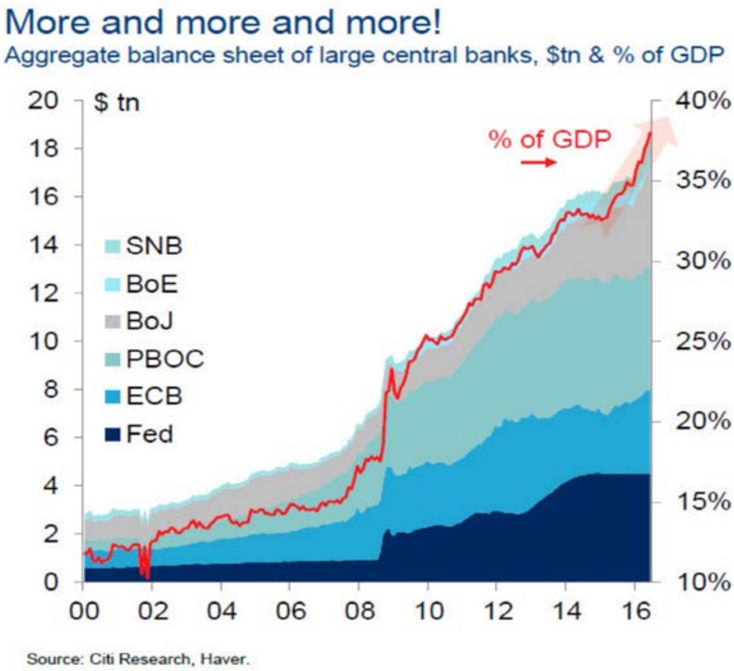
In fact, global central banks have instigated over 2 Trillion US$ of asset purchases in 2017 up to end of August. The chart below demonstrates the extreme leverage of central bank balance sheets as a percentage of GDP - indeed an **experiment with apparent breath-taking and eventual consequences.**

The chart below simply takes my breath away….



Radical Monetary Policy Begets More Extreme Radical Policy

This emergency policy in the face of the 'global financial crisis' of 2007/09 has not only remained firmly in place but has picked up speed.



The question then remains - Considering this policy is emergency policy action only, why then are central banks expanding their balance sheets in 2017 at the fastest rate recorded since 2008, have they not told us the Global Financial Crisis is over, do they see something different?

In September 2017 former chief economist of the 'Bank for International Settlements' (central bank of central banks), William White, told Bloomberg TV overnight that the current situation "looks very similar to 2008," adding that OECD sees "more dangers" today than in 2007.

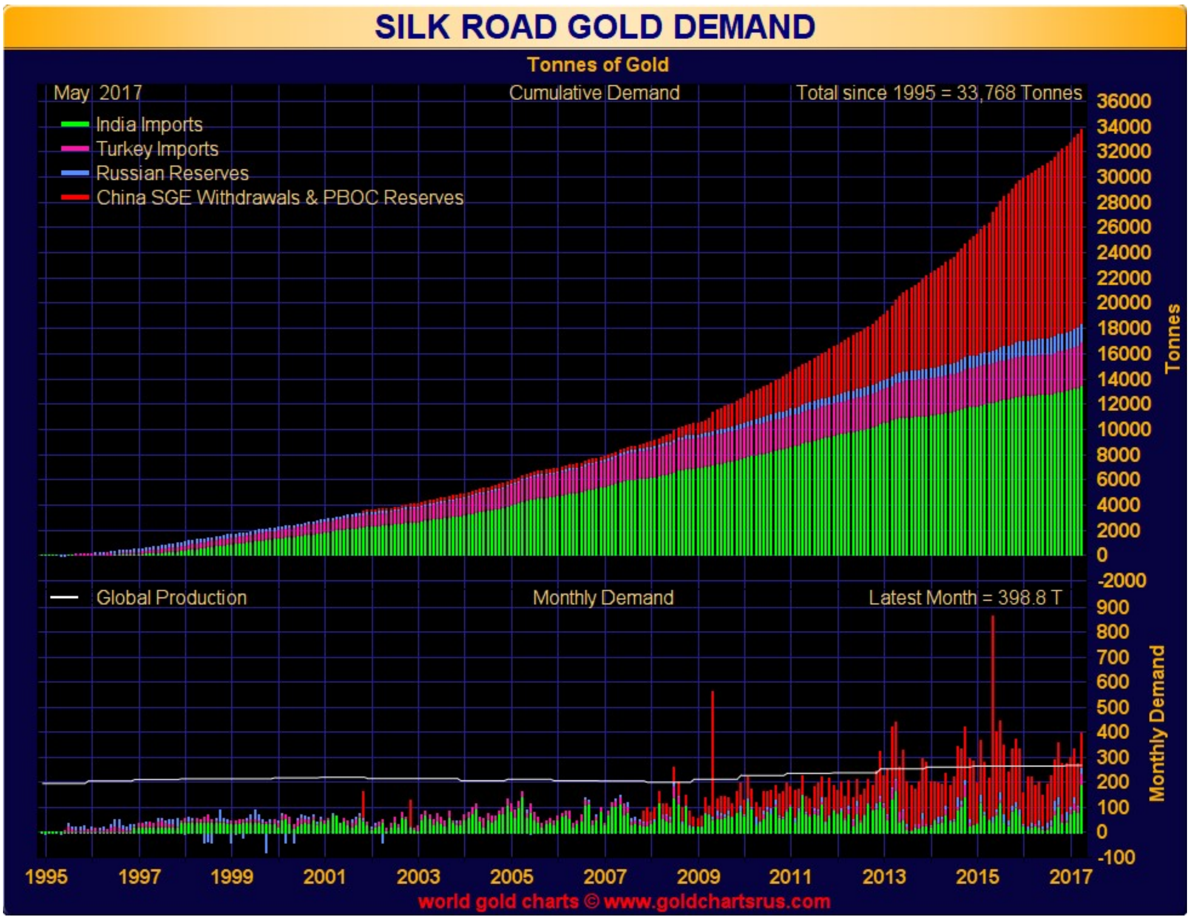
"We don't have a liquidity problem that central banks can solve - if we have too much debt, we have a ***debt resolution or insolvency problem*** *and only governments can address problems like that.*
World needs more fiscal expansion, structural reforms, and have to look closely to debt write-off some of it and maybe recapitalize financial institutions. Central bank tightening is inevitable, but have to be careful."

As White concluded,
"it is every man for himself. And we do not know what the long-term consequences of this will be"

3. EMERGING MARKET BUYING TRENDS IN GOLD

Just looking at these four countries alone: India, Turkey, Russia and China, between 2007 and up until June 2017 they have officially purchased 25,768 Tonnes of physical gold.

This does not take into account the rest of the investment world and other official sovereign buying of physical gold, thus far out-stripping global production levels.

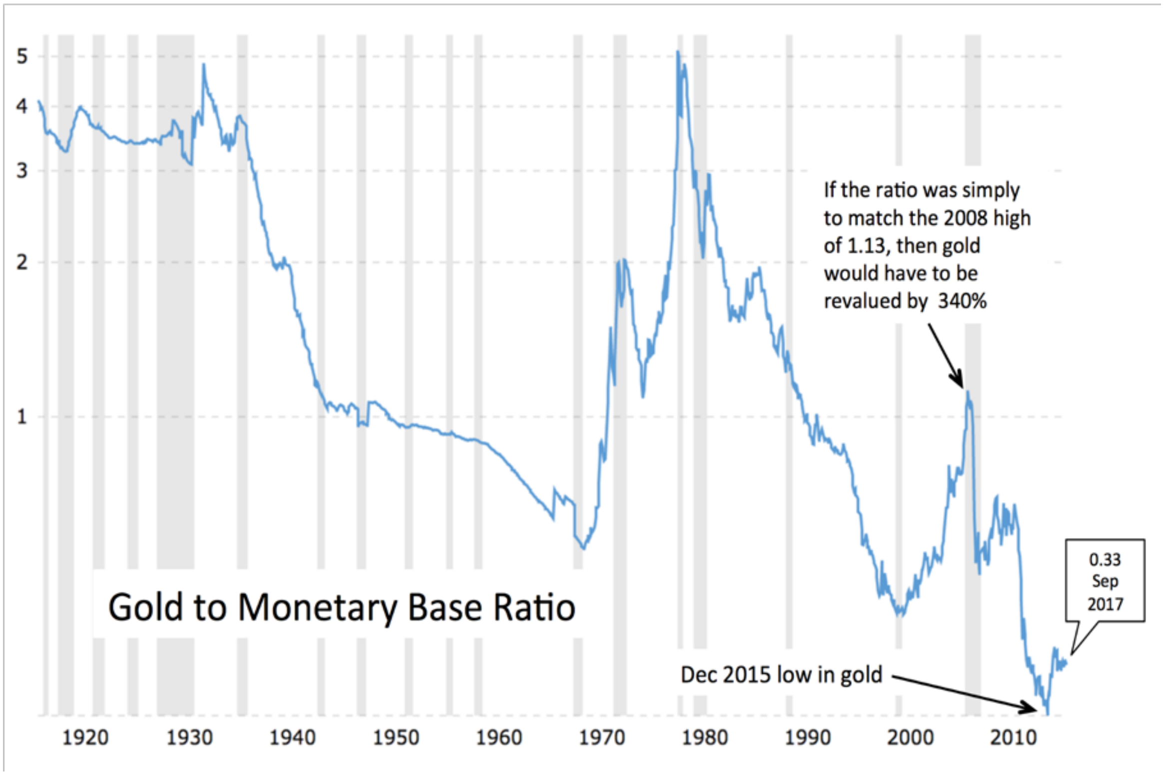


4. UNDERVALUATION OF GOLD AND COMMODITIES VERSUS THE BUBBLE IN FINANCIAL PAPER ASSETS

How realistically is gold undervalued?

The chart on the next page shows the ratio of the gold price to the USA St. Louis Adjusted Monetary Base back to 1918. The monetary base roughly matches the size of the Federal Reserve balance sheet, which indicates the level of new money creation required to prevent debt deflation. Previous gold bull markets ended when this ratio crossed over four.

We would suggest a ratio closer to 2 is a lot more realistic this time around, but even a move to the 2008 highs of this ratio would see a dramatic appreciation for the gold price, due to the enormous expansion of central bank largesse / money printing.



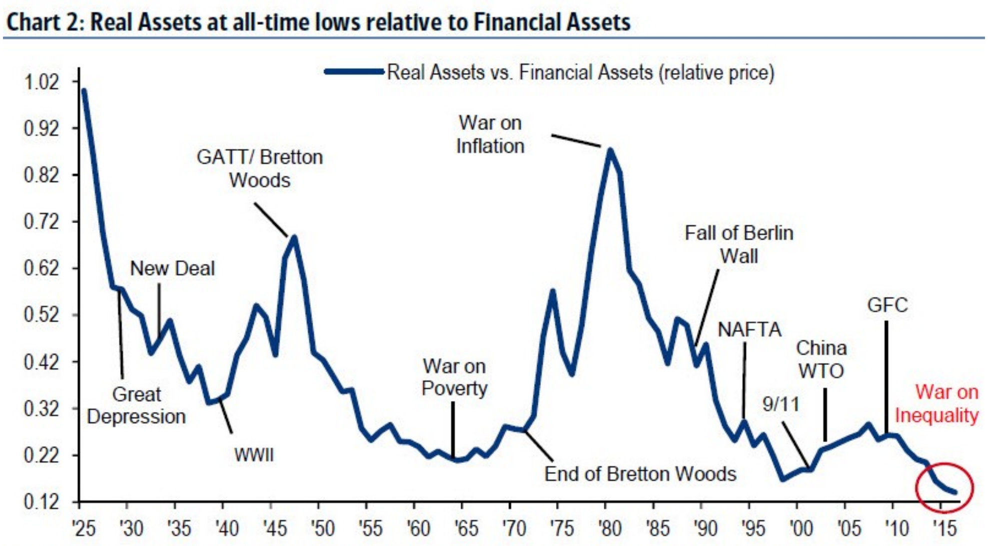
The ratio of real assets to financial assets is currently the lowest ever recorded.

In a study by Michael Hartnett, chief strategist at Bank of America Merrill Lynch, recommends to “get real”, i.e. to reallocate investments from financial assets into real assets.

Although property bubbles are recorded around the globe driven by cheap finance, huge debt growth and leverage.

" Today the humiliation is very clearly commodities, while the hubris resides in fixed-income markets "

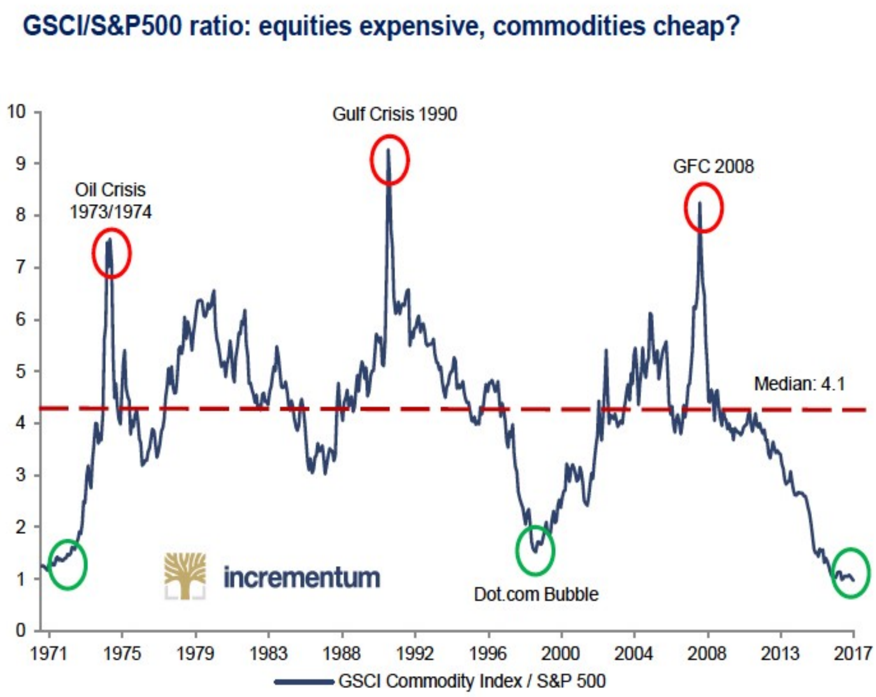
Or another way to look at it, we can map the commodity sector against the US stock market to garner a ratio to map; the results are startling to say the least (see below).



Source: BofA Merrill Lynch Global Investment Strategy, Global Financial Data, Bloomberg, USDA, Savills, Shiller, ONS, Spaenjers, Historic Auto Group. Note: Real Assets (Commodities, Real Estate, Collectibles) vs. Financial Assets (Large Cap Stocks, Long-term Govt Bonds)

Definition:* *GSCI *or the 'Goldman Sachs Commodity Index' A composite index of commodity sector returns which represents a broadly diversified, unleveraged, long-only position in commodity futures.*

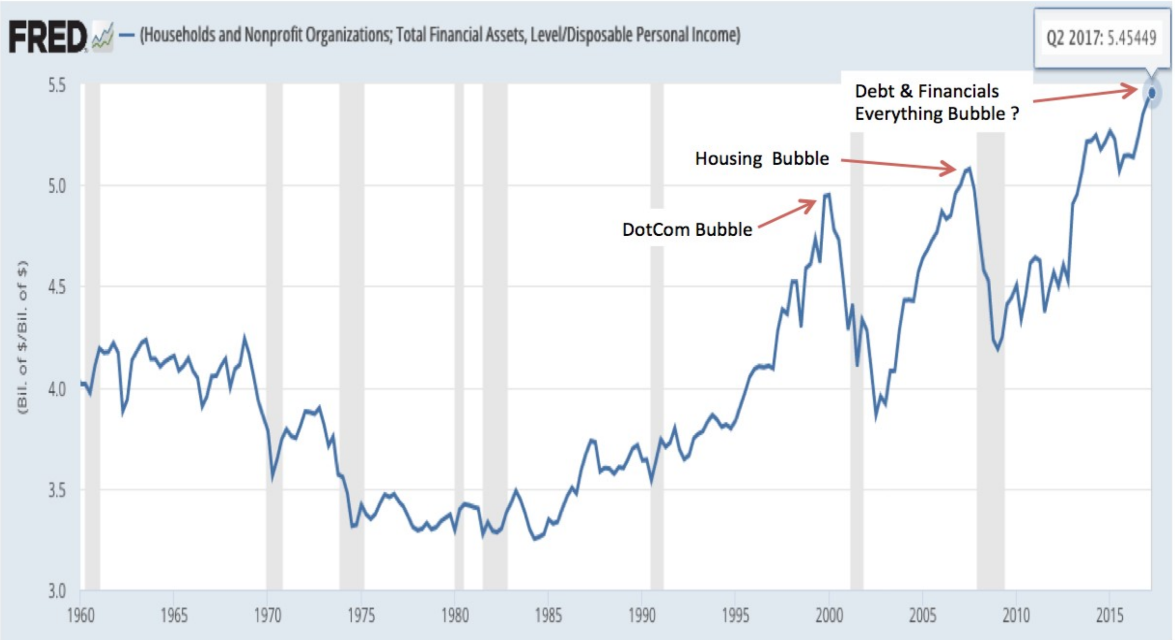
This is a more broad-based commodities picture below, of physical assets valued against paper financial assets, this chart is not pointing to the stock markets selling off per se, what it's clearly picturing is the fact hard commodities are about to go through a hard revaluation higher versus paper assets; over the next few years.



Source: Dr. Torsten Dennin, Incrementum AG

Is not the conclusion in the chart on the next page that again the U.S. is caught up for the third time within just two decades in an illusionary financial bubble economy created by enormous money supply inflation driven by central banks largesse and huge debt leverage?

In comparison with the earlier two bubbles, however, the excess is not limited to certain sectors (technology in 2000, credit in 2008), but it is all pervasive and driven by the **largest debt bubble ever recorded.**



This is not an article to negatively spin or demean the levels of which stock markets are presently trading. No, the actual reality is we are in the greatest ever recorded debt bubble across the globe. When the debt markets turn and bond markets start to drop hard, considering this particular stone is multiple times bigger than world stock markets, the ripples will turn into giant waves that will send investors fleeing for safety out of the bond and debt structure markets into the USD, **gold, precious metals**, **commodities** and yes, even the stock market!

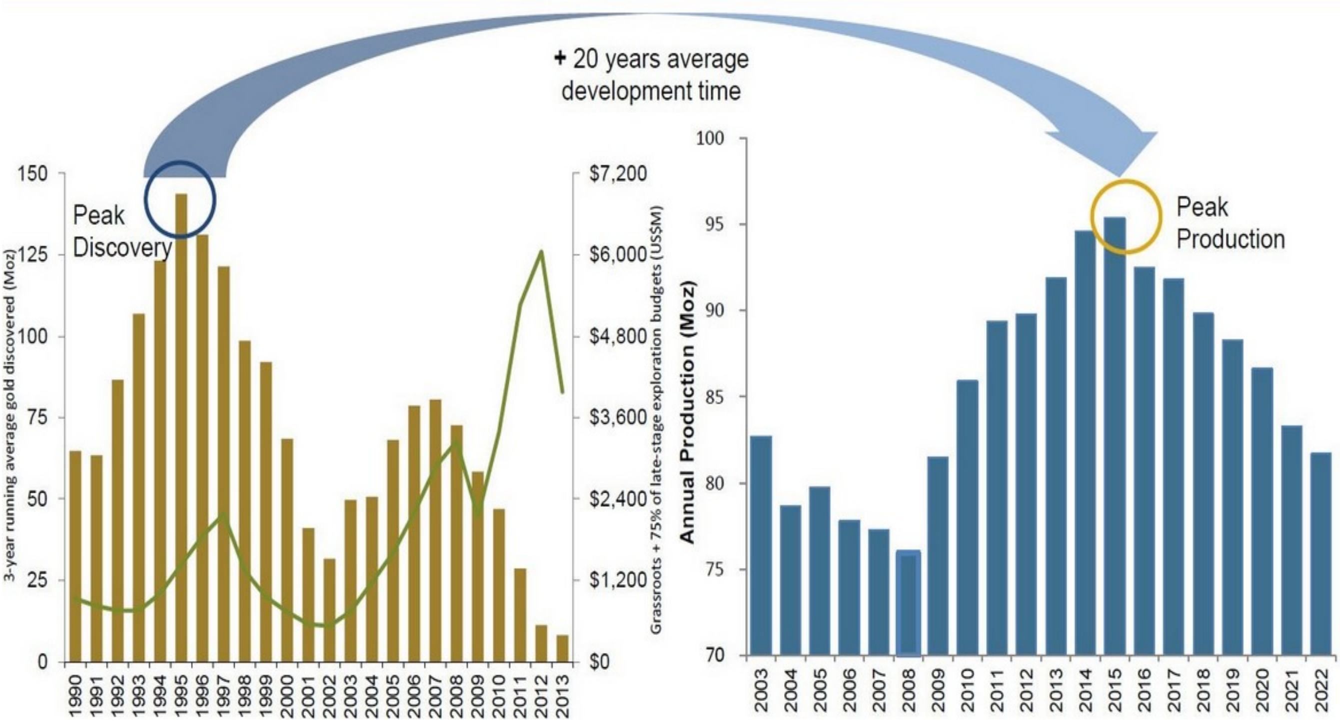
5. SUPPLY CONSTRAINTS AND MINE SUPPLY = 'PEAK GOLD' PRODUCTION

Of course, all the gold ever mined is still held in one form or another, gold is without doubt a unique commodity, as there are enormous gold holdings in the world above ground. Thus, it could be argued that the notion of a production peak in gold is irrelevant; the annual mining production is a negligible fraction of the total gold stock (estimated at between 1.5 to 2 per cent of the total global gold holdings).

But what is very important to consider is that presently yearly global demand far outstrips global production and hence this supply gap is only being filled by holders of gold happy to sell their physical holdings at these low (*and some would suggest artificially suppressed*) price levels.

What happens when global buying demand turns dramatically higher from here as widely predicted? In the face of the now widely flagged imminent world debt crisis, safe haven flows on the back of monetary and geopolitical crisis - all the while production levels fall?

"PEAK GOLD"



The chart above is somewhat inaccurate when looking at future production levels, but it does show a very clear picture of gold discoveries. It's clearly reported that 2016 is more accurately the peak gold production.

A more accurate picture of production levels is in the table below. However, it's now widely reported 2017 & 2018 numbers would be lower moving forward.

WORLD GOLD MINE PRODUCTION

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
World Total	2,538.2	2,466.6	2,651.3	2,775.0	2,867.6	2,883.4	3,076.7	3,172.4	3,208.6	3,222.3

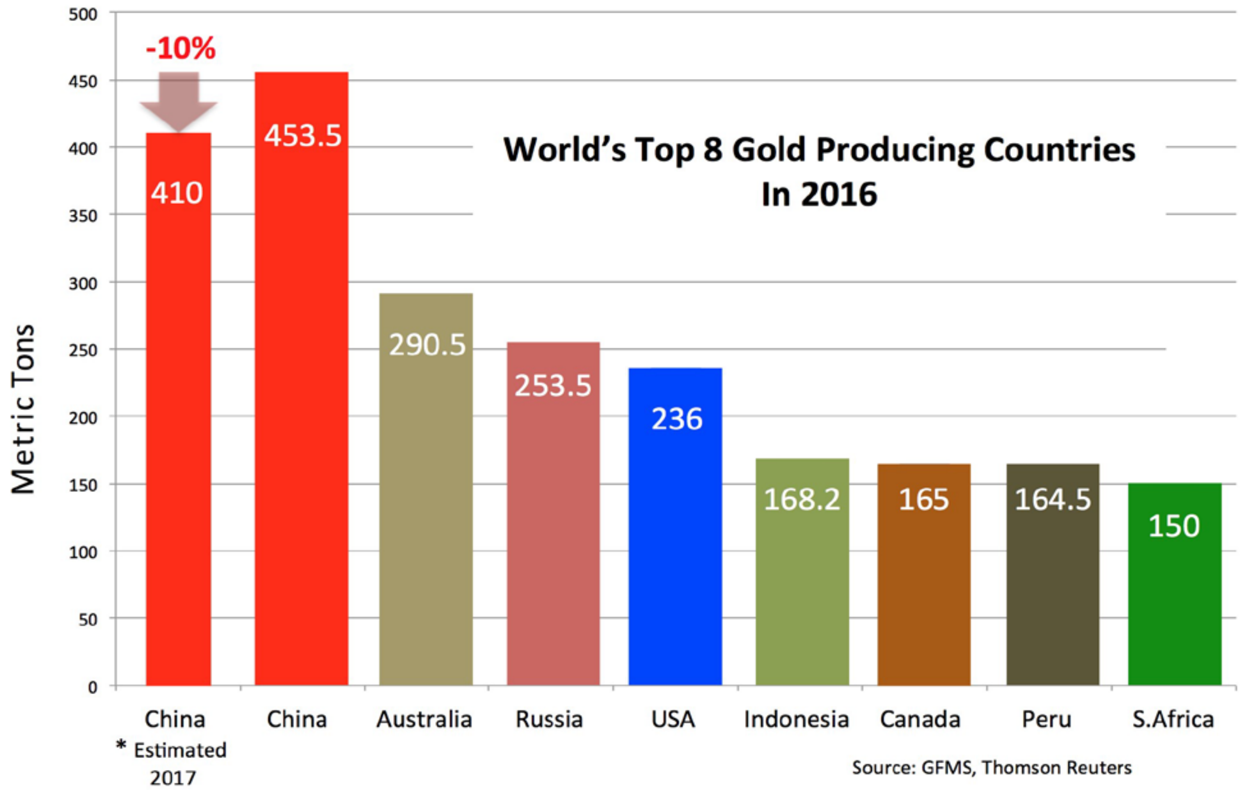
Source: GFMS, Thomson Reuters

GFMS: "we *think the latest stage of growth has now run its course. 2016 marks the third consecutive year of falling year-on-year growth rates and we maintain our near-term forecast for mine supply to decline in both 2017 and 2018".*

The question then remains - Will present holders of gold, the only true safe collateral with no 3rd party liability be happy to continue to sell and fill the growing demand gap at these low prices?

To clarify the production falls to be expected in global production, let us first look at the top 8 gold producing nations as of year 2016.

As you can see in the next chart below; China is the world's top mine producing nation in gold, and actually produces **+56%** more gold than Australia as of 2016, who is second on the list.



As of 2017 …. GFMS 2017 Q3 Gold Survey Update & Outlook [1] reported that Chinese gold mine supply declined 23 metric tons to 207 metric tons in the 1H 2017 versus the 230 metric tons during the same period last year.

That is a **-10%** fall in mine production. Furthermore, GFMS analysts forecast that China gold production will continue to deteriorate for the remainder of the year as production is scaled down due to ore grade exhaustion and the national governments increased efforts to curb pollution.

If we extrapolate the data out, using the last 6-months of data and expected production curbs we could be looking at annual production in 2017 of **410 metric tons** (or lower).

China production peaked in 2014 at 478 metric tons, so a near **-15%** fall in production by end 2017. This is a huge fall in mine production and a clear warning to the market of "**peak gold production**"

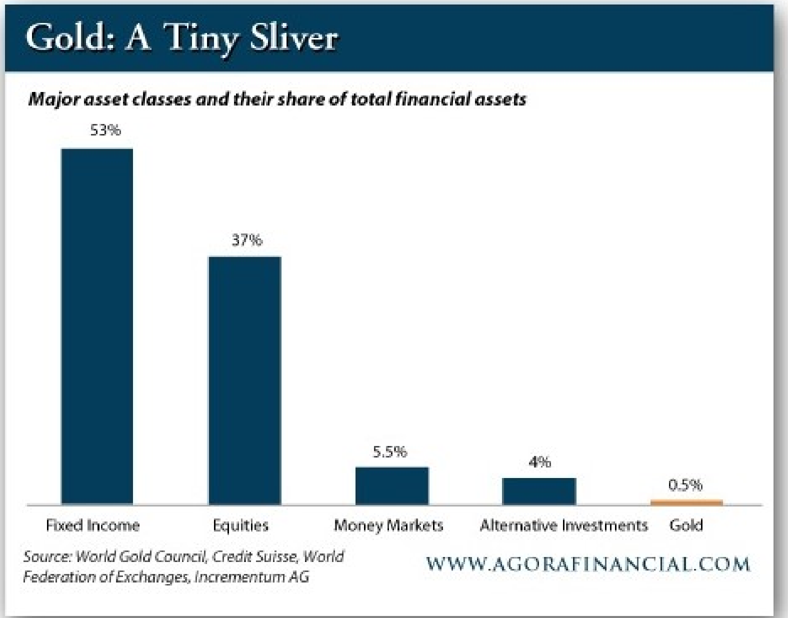
Source:
http://thomsonreuters.ru/wp-content/uploads/2017/04/GFMS-Gold-Survey-2017.pdf

6. HISTORICAL ASSET PORTFOLIO DIVERSIFICATION

The world is presently and without doubt exceptionally underweight in portfolio diversification to physical allocated precious metals in percentage terms, held outside of the banking and financial system.

Physical precious metals are not only a diversification within portfolios; a tier one-asset class, but also an incredibly important insurance policy against world debt and leverage excesses.

Or as of 2017 (see next page), a major generational opportunity presents itself?

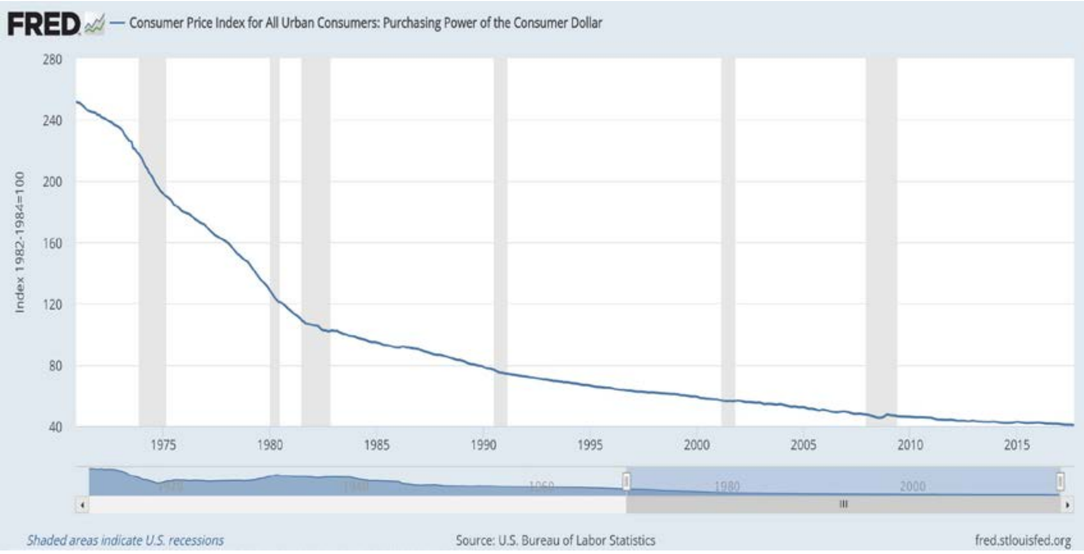


7. GLOBAL DEBT EXPANSION & ZERO PER CENT INTEREST RATES

Why is this particular section so important in regards to gold and its future value?

Money is the common denominator of all economic transactions. It is that commodity which serves as a medium of exchange, is universally acceptable to all participants in an exchange economy as payment for their goods or services, and can, therefore, be used as a standard of market value and as a store of value, i.e., as a means of saving, however today what people refer to as "money" operates solely as a means of exchange and a unit of account, but the dollar or any other sovereign fiat currency ceased to be a store of value decades ago.

A picture certainly paints a thousand words, the **purchasing power of the US$** since 1970 ……



Now the simple truth and mathematical certainty is the amount of credit that an economy can support is determined by the economy's tangible assets, since every credit instrument is ultimately a claim on some tangible asset or energy production. **But** sovereign government bonds are not backed by tangible wealth, only by the government's promise to pay out of future tax revenues, and cannot easily be absorbed by the financial markets.

This is the squalid secret of the welfare statists' tirades against gold. **Deficit spending is simply a scheme for the confiscation of wealth**. Gold stands in the way of this insidious process. It stands as a protector of property rights. If one grasps this, one has no difficulty in understanding the statists' and government's antagonism towards physical gold.

Radical Monetary Policy Begets More Extreme Radical Policy

This is exactly where we find ourselves today, a truly important juncture in our world history.

Interest rates around the world are at unprecedented historic lows, in many instances they have turned negative, a deliberate policy decision made by Financial authorities and central bankers in an attempt to stave off recession and boost economic growth.

For those in debt, the Governments themselves, corporate entities and in many cases householders with mortgages, this policy has offered welcome relief from high interest payments in the short term.

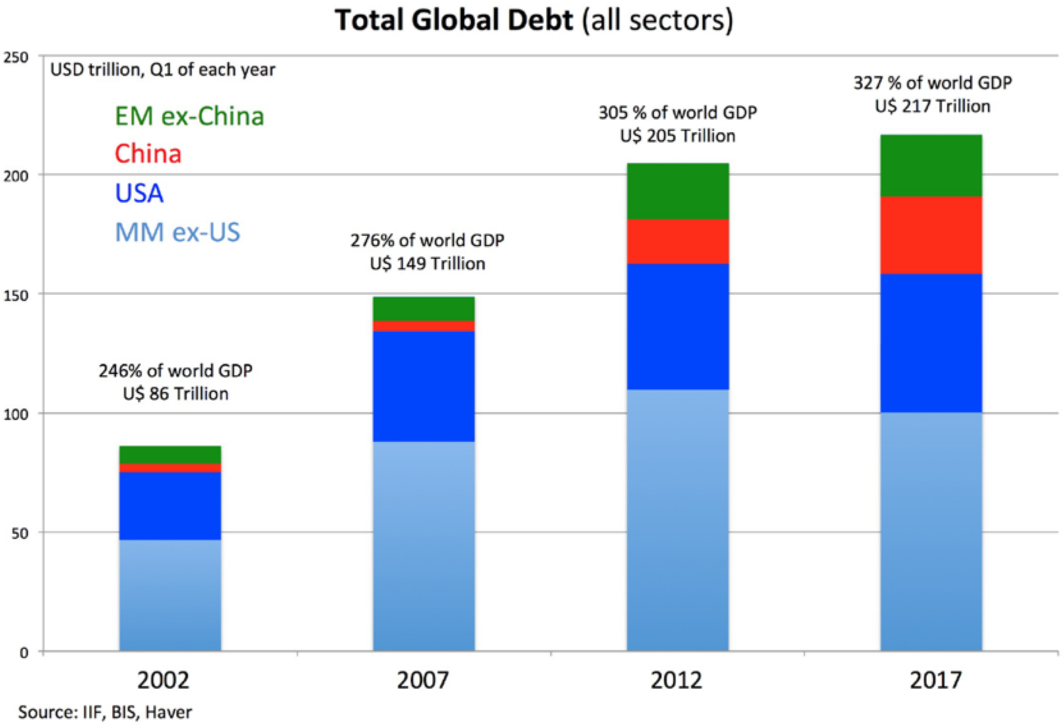
However, despite perhaps being well intentioned, this deferment of debt cost has also aggravated real actual debt loads by allowing much greater leverage and large increases in borrowing.
There are two sides to this coin, which we need to examine to fully realise that this zero-rate policy stance has serious and unavoidable consequences…

The Institute of International Finance is perhaps best known for its periodic - and concerning - reports summarizing global leverage statistics, and its latest Q1 2017 report was the most troubling yet, because what it found was that in a period of so-called "coordinated growth", global debt hit a new all-time high of $217 trillion, or over **327% of global GDP**, up near $70 trillion over the past decade. **Debt growth is far outpacing economic growth!**

Global Debt Crisis

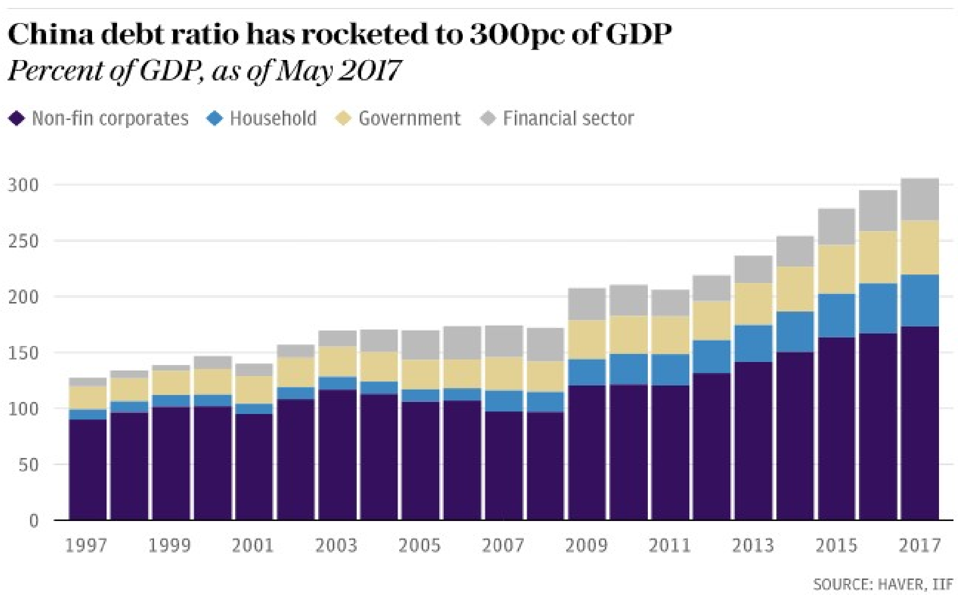
The world debt markets are risking a "Minsky moment" as debt reaches a saturation point. Concerns from world authorities on the continued build up in debt loads and overstretched asset valuations that are likely to have severe global economic repercussions are real.

And for those economists who are still confused why interest rates remain near 0%, the chart below has all the answers.



This debt load does not include global un-funded liabilities, which is estimated at 200 Trillion US$ in the USA alone, or the global pension funds underfunded liabilities which is now reported at near 100 Trillion US$ equivalent for just 8 nations.

Not surprisingly, China continues to be the biggest source of global debt growth, see chart below…



Or as the FT so eloquently headlined recently….

FINANCIAL TIMES MAY 29, 2017

Global debt woes are building up to a tidal wave

Borrowing in the US is at record highs but the phenomenon is a far wider problem

US companies have added $7.8tn of debt since 2010; and their ability to cover interest payments is at its weakest since 2008, according to an April International Monetary Fund report. With total public and private debt obligations estimated at 350 per cent of gross domestic product, the US Congressional Budget Office has recently described the path of US debt (and deficits) as almost doubling over the next 30 years

The threat of a looming crisis is not solely down to the absolute volume of debts. At least three things make the situation especially precarious.

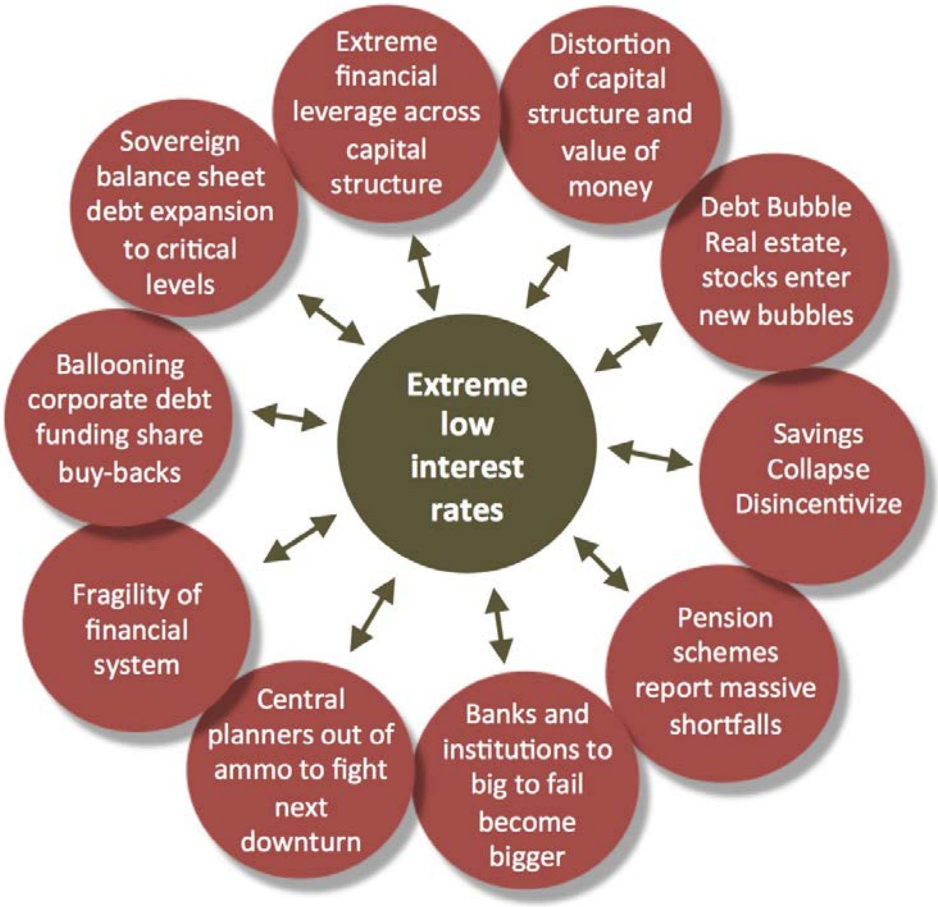
First, debt — particularly dollar denominated — is becoming more expensive as market expectations are pricing rate hikes by the US Fed this year and next, and a relatively strong dollar is putting pressure on borrowers to service foreign currency obligations. The recent downgrades of South Africa to junk status follow a year in which credit rating agencies cut EM borrowers' grades in record numbers. Moody's downgraded 24 sovereigns (including Brazil, Nigeria and Saudi Arabia) in the first half of 2016, adding to concerns as to whether borrowers will be able to service their obligations.

Second, the ability to repay debt is under strain in countries whose revenues stem disproportionately from commodities, whose prices have suffered. Furthermore, nations exposed to significant Chinese trade and investment face fiscal stress as China itself has a relatively soft (perilous) economic outlook mixed with its own debt crisis.

Finally, the prevailing mixed global economic growth picture — underscored by the forecasts in the recent IMF World Economic Outlook — prompts questions as to how (and indeed whether) outstanding debts will be paid or brought under control – **the answer is no**, not until a crisis forces change.

A report I wrote entitled "7 Year of Financial Repression, Why QE and Zero Interest Rates Do Not Work", read https://www.indigopreciousmetals.com/news/financial-repression-zero-rates-does-not-work/

Or for a quick and simpler graphical representation of why zero rates do not work, see below….



The question then remains - When the world's debt loads are expanding more rapidly than world GDP growth the presumption of growing our way out of this mess is simply nonsense. So why not then default on this enormous debt load, well we tried that in 2007/08 and it did not end very well. No, the simple answer is the sovereign governments are going to devalue the debt loads within the currencies they are denominated in. Currencies will be enormously debased.

8. GOLD PAYS NO REAL 'EARNINGS' AND HENCE HAS NO VALUE?

Gold is money, hence central bank buying for official diversification of their portfolios; they do not hold any other asset class other than paper currency, which more accurately is purely an unfunded credit slip.

As JP Morgan himself said while testifying in front of Congress…

> *"Gold* is Money, and Nothing Else"
>
> JP Morgan (1912)
>
> In front of US Congress

If you place a pile of currency paper notes on a table and stare at them intently (*or put in a box for that matter*) it will never earn you interest, it will not grow magically!

You **only earn** interest by lending (*deposit of funds legally means you actually lend to the bank*) it to a bank or financial institution; who in turn re-lends it out (*invests or indeed trades the cash in the financial markets*) to garner a profit spread, to make this currency borrowing work for them in the first place (fractional reserve banking).

Gold has an extremely large and well-established "Gold lending rates yield curve" or also called Leasing rates or referred to as GOFO (gold offered rates). You can lend your gold out and earn interest, this was the famous trick of the FED, leasing out massive amounts of gold to the likes of Goldman's (who in turn sells the physical) to help suppress gold prices then uses the cash raised to speculate on paper asset classes, this is well recorded officially.

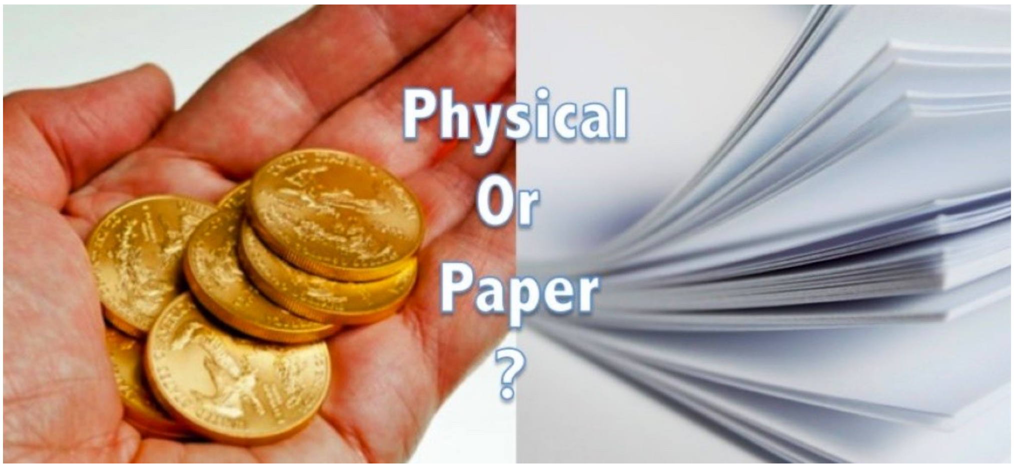
Gold leasing (physical lending) does not appear on the FEDS balance sheet as actual gold sales, so they can simply report they still hold the original official tonnage of gold reserves, as it was **simply lent and not sold** (off-balance sheet item).

Although the financial institution (Goldman's for example) sold the gold that was leased to them and is left exposed to this net short position in physical gold.

> "Remember what we're looking at here. Gold is a currency. It is still by all evidence a premier currency. No Sovereign Fiat currency, including the dollar can match it"
>
> Alan Greenspan
>
> (in November 2014 at the Council of Foreign Relations)
>
> USA Fed Reserve Chairman 1987 to 2006

9. WHY PHYSICAL GOLD AND NOT PAPER GOLD?

The ownership of paper gold means you own a piece of paper acting as a substitute for physical gold. With paper gold, you don't own gold; in most cases you don't even own a promise to receive physical gold, you are a creditor of the party issuing the paper gold certificate or account, and thus subject to a myriad of counter-party risks and potential bankruptcy.



Considering the fact it is widely reported officially that gold has been re-hypothecated over many times and the **leverage of paper to actual physical is over 100 to 1**, when the gold market re-enters its bull market the premium for physical does extend quite quickly, as we observed in 2010 and 2011. Paper claims in an extended bull market could well be reneged upon (as actually written into the ETF's prospectus legal framework) due to shortages of actual physical metals backing up the claims.

For a more thorough investigation of physical versus paper please read
https://www.indigopreciousmetals.com/news/paper-gold-versus-physical/

> "An investor in physical gold will control everything: quality, quantity, security and storage from start to finish. When it comes to storing value for the future, what else could be safer or more powerful?"
>
> Indigo Precious Metals

Then we have **Goldman Sachs on the 4th September 2017....**

For Goldman Sachs to break ranks and publicly admit that only physical gold held wholly segregated is the only way to hold this essential portfolio diversification, but also to imply that gold is the true tier one asset class is rather shocking with its honesty.

In a note to clients on the role of gold as a "geopolitical hedge of last resort", Goldman chief commodities strategist, Jeff Currie stated ……

"The lesson learns was that if gold liquidity dries up along with the broader market, so does your hedge, unless it's physical gold in a vault, the true hedge of last resort"

Jeff Currie, Goldman Sachs bank

September 2017

"If buying gold, don't buy futures or ETF's. Buy the real thing"

Jeff Currie, Goldman Sachs bank

September 2017

10. GOLD ADVANTAGES OVER OTHER ASSET CLASSES

Gold is a tangible asset	Physical gold is not subject to the risks that come with paper assets. It can't be hacked or erased.
Gold has no counterparty risk	Physical gold has no 3rd party liability, unlike any other asset class such as currency, bonds, stocks, houses etc..
Control over your wealth	Considering the lack of counterparty risks if you actually own physical itself, these full ownership rights gives you a secure investment, crisis insurance, low risk and a unique element in your portfolio.
Gold can be private and confidential	If you want a private or confidential form of wealth, gold is one of few assets that can offer complete anonymity.
Easy to store, low vaulting costs	Gold storage is low maintenance, low-cost, and requires very little space.
Gold requires no specialized knowledge	No special skills or expertise is needed to buy or indeed value physical gold.
Gold can protect against government intrusion	International gold storage is simple to implement and can provide financial flexibility, full liquidity and investment options outside your home country.
Gold protects against crisis	In a world of elevated risks on multiple fronts, gold offers lower risk, greater safety, and bigger upside than any other investment. Gold is your preservation vehicle and insurance policy.
Gold is Money	Physical gold is considered a tier one asset class by the worlds sovereign nations and central banks, one of the best forms of long-term wealth protection. It is ideal for your heirs since it will outlast any currency systems that may come into effect in the future.

In fact, many including the likes of Goldman Sachs who recently wrote a report in October 2017 [1], emphasised gold's role as a hedge to systemic monetary and financial tail risk, which is precisely the point. "Gold tends to preserve its real purchasing power over the very long run (albeit with substantial short-term deviations)", but this is when cycles come into play and knowing when to buy and when to stay away.

Source:
https://www.bloomberg.com/news/articles/2017-10-17/goldman-says-gold-beats-bitcoin-as-bank-weighs-fear-andwealth

Since Roman times, the real value of gold has remained more or less unchanged in the face of wars and political, social and technological shocks. Many investors therefore see gold as a way to hedge against structural tail risks, which could potentially erase the real value of all other financial assets. Throughout history, governments have run deficits and built large levels of debt - having accumulated a large stock of debt, governments must either pursue austerity, and a way to boost growth, or engineer inflation ('print money') to erode the real value of their debt.

Historically, governments often chose money expansion over austerity. Gold has traditionally been in competition with government paper currencies. When there is loss of credibility in the central bank/government's ability to meet their liability of maintaining the real purchasing power of their currency, gold demand gravitates higher. Normally, this happens when the government does a large monetary expansion, which the public fears could lead to currency debasement."

A diversification of a percentage of your liquid assets into physical precious metals, held outside of the financial system, fully segregated and protected against all risks, insured while also making sure it's in a position to be fully utilised at any time as a fully liquid exchangeable asset class

is essential.

11. CYCLE PICTURE OF ASSET CLASSES, GOLD TIMING?

What is the 'Economic Cycle'

The economic cycle is the natural fluctuation of the economy between periods of expansion (growth) and contraction (recession). Factors such as gross domestic product (GDP), interest rates, levels of employment and consumer spending can help to determine the current stage of the economic cycle.

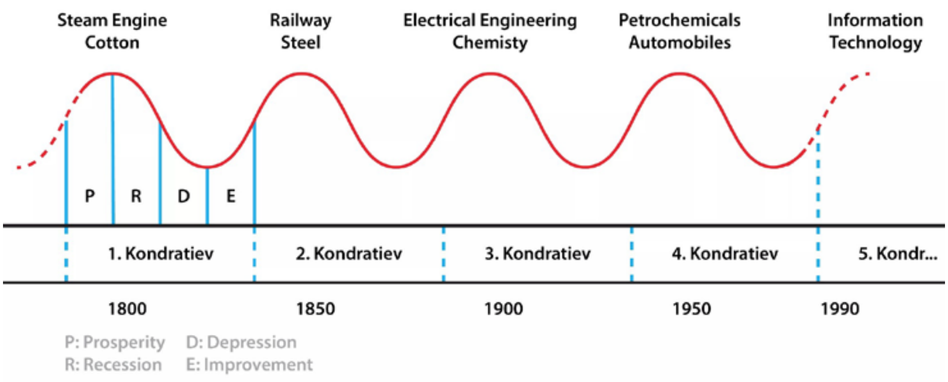
These cycles have been pushed to extreme historical deformities under the stewardship of Keynesian central bank policies of the last 25 years, massive expansion of debt and all-time ultra-low world historical interest rate management.

But the lengths of the cycles while pushed to extremes (energy) still remain locked in time, as in length of the waves.

These cycles can be recognised and most definitely traded, there is a great deal of research into cycle analysis; probably the most famous of which is the Kondratiev's Wave. Soviet economist Nikolai Kondratiev [1] who was the first to bring these observations to international attention in his book The Major Economic Cycles (1925).

Source: 1 https://en.wikipedia.org/wiki/Kondratiev_wave

See K-Wave ….

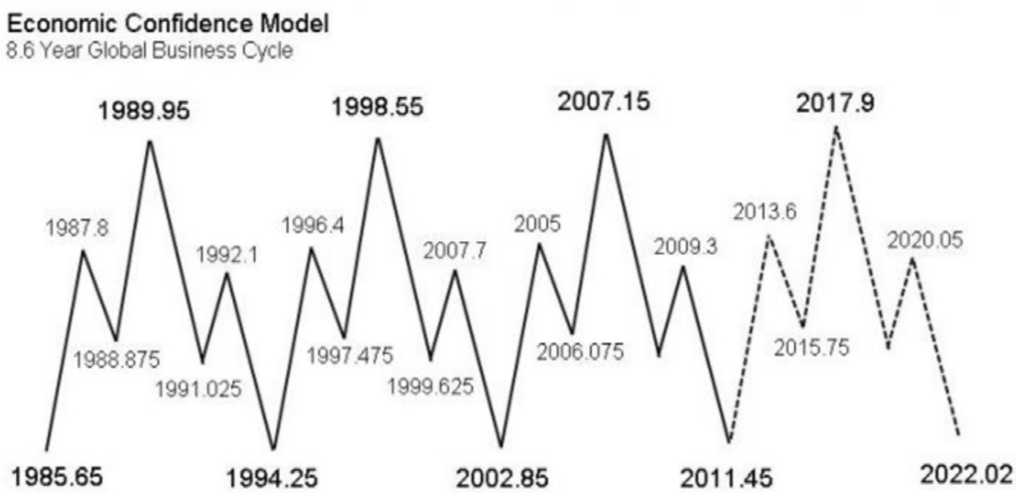


Basically, there is a long-term business cycle of 309.6 years, which is broken down into six waves of 51.6 years in length.

One of the more accurate and in-depth cycle recognition analysis and trading can be credited to **Martin Armstrong** who has accumulated an enormous database of economic data going back to the Roman Empire in his on-going research of his cycles.

Martin Armstrong [1] who discovered and developed his "Pi Cycle" and "Economic Confidence Model" cycles [2] then broke this 51.6-year wave down into six waves of 8.6 years each.

The total number of days in one 8.6-year cycle is 3,141 – pi times 1,000. Hence the model is also known as the '**Pi Cycle**'.

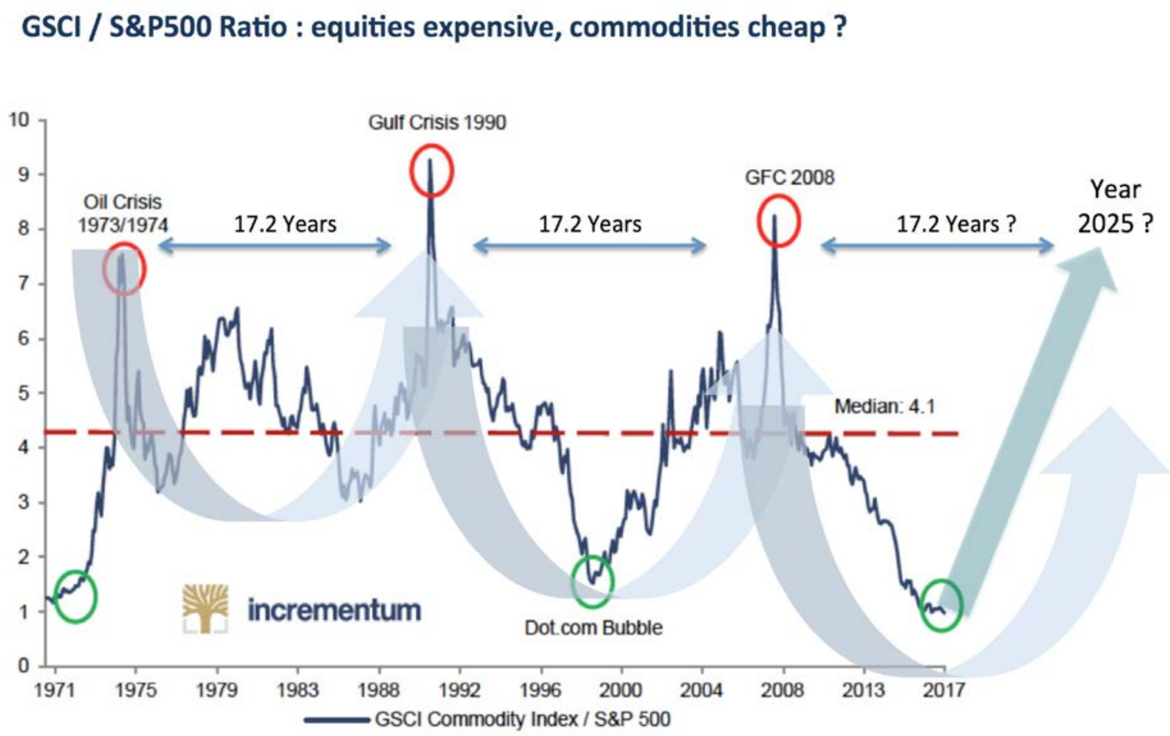


Source:

1 https://www.armstrongeconomics.com/the-business-cycle/

2 https://www.armstrongeconomics.com/models/

So as an example, and a distinct recognition of the 8.6-year cycle in action we can see this in the following chart on the next page, in which I have drawn in the cycles, **8.6 years x 2 = 17.2 years**



Source : Dr. Torsten Dennin, Incrementum AG

In relation to the S&P500, the GSCI commodity index is currently trading at the **lowest level in 50 years**. Also, the ratio sits significantly below the long-term median of 4.1. Following the notion of mean reversion, we should be seeing very attractive investment opportunities in the commodities sector versus paper financial assets.

In absolute terms, the scene seems set for a new bull market for commodities. According to Ned Davis Research, commodities gained 217% on average over the period of a bull market. This would mean that we are currently only at the beginning of the development, as the Bloomberg Commodity index [1] is only **+48%** (2/11/17) above its low of January 2016.

Cycle wise we at IPM Group [2] flagged to our investors the huge opportunity to buy gold at the end of December 2015, with gold presently trading **+22%** above that buy signal as of writing this report (2/11/17).

Source:

1 https://www.bloomberg.com/quote/SPGSCI:IND

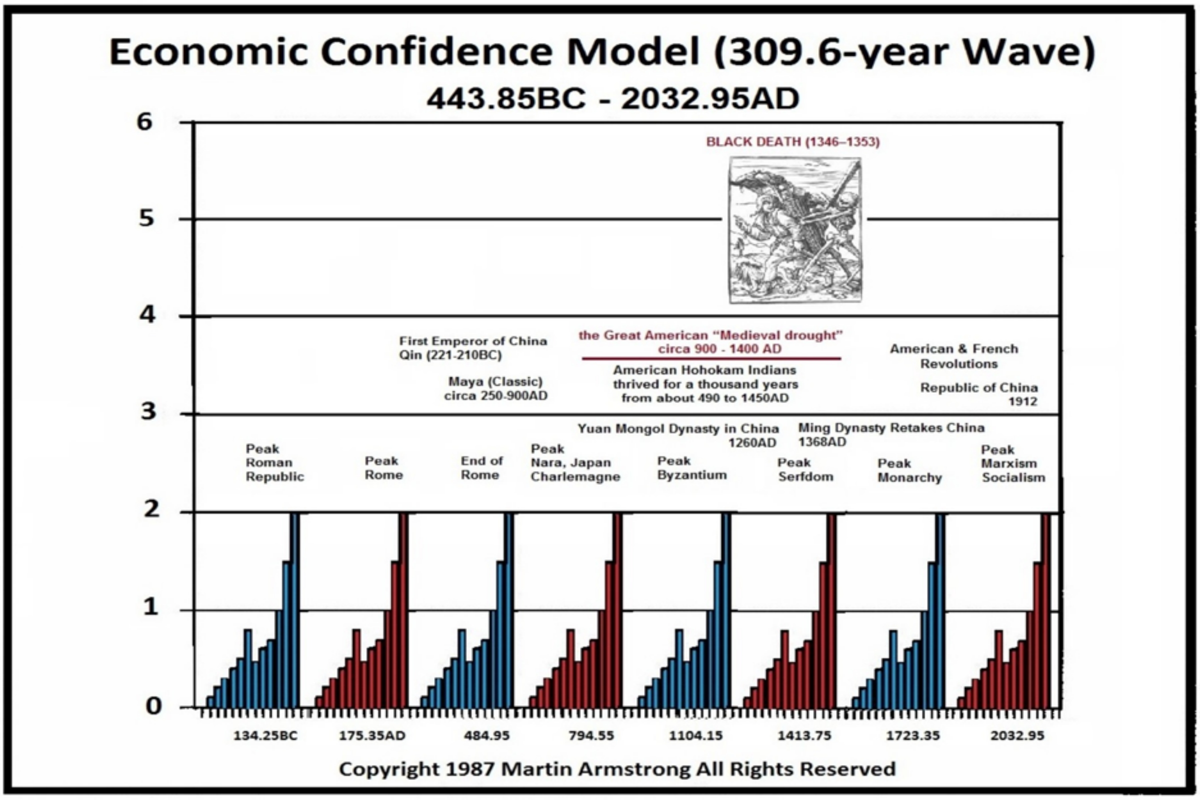
2 https://www.indigopreciousmetals.com/news/Gold_Silver_Price_Update_from_Indigo1/

Cycles are clearly pointing to year 2018 for the momentum to really build in the latest revaluation of gold higher.

The K wave is a 60-year cycle (+/- a few years or so, although Armstrong has these cycles of Economic Model at **51.6 years**) with internal phases that are sometimes characterized as seasons: spring, summer, autumn and winter:

- **Spring** phase: a new factor of production, good economic times, rising inflation
- **Summer**: hubristic 'peak' war followed by societal doubts and double-digit inflation
- **Autumn**: the financial fix of inflation leads to a credit boom which creates a false plateau of prosperity that ends in a speculative bubble
- **Winter**: excess capacity worked off by massive debt repudiation, economic crisis and depression. A 'trough' war(s) breaks psychology of doom.

As we enter the **winter period** of this particular major cycle, which is actually the 6th Cycle and **the culmination of the 309.6-year cycle**. At the 309.6-year level is a particularly disruptive and painful period historically. It is the rise and fall of empires, so we have the most drastic elements at play, the swing between civilization and isolationism through fragmentation. This is typically evident by governments becoming so corrupt that people abandon the idea of collective societies as being beneficial (see any similarities to today's governments?)



So, let's look a little closer of what to expect in the gold price and the debt cycle, see table on the next page….

The 'winter' crisis of 2018 to 2030?

Cycle	Period	Description	Gold Performance?
1st Wave Cycle	1755-1770	Seven-year war was a global conflict fought between 1756 and 1763. It involved every European great power of the time and spanned five continents,	
2nd Wave Cycle	1805-1820	Napoleonic wars	Severe inflation broke out and huge demand for payments in gold drained the coffer of states.
3rd Wave Cycle	1860-1870	Crimean war, Triple Alliance war, American civil war, unification of both Germany and Italy. Leading into the stock market crash of 1873 and a long Depression.	Culminating in "Black Friday" 1869 gold price rose to a of high of $ 164 from a low in 1860 of $ 19 or **+ 860%**
4th Wave Cycle	1914 - 1930	World War 1 followed on by the roaring 20's and huge speculation and leverage ending in the Stock Market crash of '29 - the Great Depression and into World War 2	Great Depression of 1930's - The holding of physical gold was made illegal in the USA, but was then promptly revalued by near **+70%** from $20.67 to $35 by the government. This pushed investors into the prime gold miners of the day Homestake Mining and Dome Mines (for example) that appreciated near **+550%** (in just a few short years) between them in actual terms, but in real terms that appreciation was that much greater due to rampant deflation in the economy.
5th Wave Cycle	1965-1980	Vietnam war, Rise of terrorism, 1972 Olympics Munich massacre, 1973 oil crisis, 1979 energy crisis, Arab-Israeli conflicts – Yom Kippur War, cold war escalations, rampant inflation	The USA reneged upon its obligations, a default against its gold reserves. On 15 August 1971, the United States unilaterally terminated convertibility of the US dollar to gold, effectively bringing the Bretton Woods system to an end and rendering the dollar a fiat currency. Gold rallied over **+2,000%** between 1971 to 1980. Silver rallied over **+3,000%** .
6th Wave Cycle	2018-2030	**?**	Debt crisis and a flood into hard assets away from paper leverage, Gold enters its next great revaluation **?**

12. HOW TO INVEST IN GOLD AND PRECIOUS METALS LIKE A PROFESSIONAL - FOR NEW AND CURRENT BUYERS ALIKE.

New Buyers - We totally and fully understand the psychological threshold that needs to be crossed with NEW buyers to this asset class. Understanding why one needs to be exposed to physical metals as the sole titleholder and legal owner is easy enough to comprehend, but to embrace this is as an active asset class and manage your own vaulted account can feel overwhelming at first. **We are here to help and guide you every step of the way,** we have done this for many novice clients and we have an experienced team on hand for this very purpose.

Storing your private wealth allocation is all important, we of course very much support and encourage the investor who wishes to collect personally or take delivery via insured shipment of their precious metal investments. This method works perfectly well for the smaller allocations and certainly contributes to a regular saving scheme.

But to hold and trade metals as the professionals, family trusts, and wealthy do; then approaching a company such as Gold Bullion Australia to work on your behalf will allow you to fully benefit from the following:

- Ultimate wealth protection
- Enjoy full liquidity (the means of selling very quickly) of all sized trades and holdings
- Best market prices of physical metals
- Monetary asset held outside of the financial system
- Secure vaulting facilities
- Fully insured by Lloyds of London
- Complete privacy & confidentiality
- Regular inventory audits

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We are not tax advisers and we would always recommend you seek out independent tax advice. This guide is only meant to be used as an aid and an introduction to physical precious metals investment.

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