

Precious Times Ahead

Stockholm (HedgeNordic) – In a world that, arguably, surrounds us with inflated prices across its financial markets from equities, fixed income and real estate, there could be upsidest in a market that has been kept suppressed: Gold.

The new baby bull market for gold that started in December 2015 at \$ 1060/oz has corrected during the last two years from \$ 1360/oz, since July 2016 and now hovers around \$ 1200/oz. “The metal built a base for a more mature bull ready to take hold. Ready to take out the old all-time-high, resting at \$ 1921/oz.”

Behind the scenes, the dynamics steering the gold price are undergoing some fundamental changes that could lead to this breakout, Eric Strand of Swedish Pacific Fonder suggests. One indication, he believes, came when the CFTC (Commodity Futures Trading Commission) reported in early September 2018, that for the first time in 17 years, commercial participants in gold futures flipped their COMEX positioning from short, to being net long. Retail, and technical funds, however, now have big short positions, “which could lead to a big short squeeze”, Strand adds.

“The price of gold has been suppressed artificially for too long, Strand believes, and now may be the time for a change”.

Strand refers to Silver expert Ted Butler who has monitored the market every single day for over 30 years and describes it as follows: *“Every time we’ve had a rally in the last 10 years, ever since J.P. Morgan took over the investment bank Bear Stearns, J.P. Morgan has added aggressively to its paper short division on the COMEX as retail speculators and technical funds come in to chase rallies higher. J.P. Morgan has always been the seller of last resort, and they sell whatever is required to satisfy all buying. And, ultimately, after that buying is satisfied, the prices roll over and come back down. J.P. Morgan adding short positions has stopped every rally in silver – and gold, for that matter – over the last 10 years.*

J.P. Morgan never sells on the way down. They only sell and add short positions on the way up. And, when J.P. Morgan adds short positions, once they’re done selling and the buyers are done buying, the price stops going up and people turn to sell. That’s when J.P. Morgan rings the cash register and buys back all the shorts that they’ve added at lower prices than where they sold, meaning they always make a profit.

J.P. Morgan has never taken a loss in 10 years when adding short positions in silver.

J.P. Morgan by virtue of its now giant physical silver holdings now, has positioned itself and may be done positioning itself – we won’t know that until after the fact – but, the same causes that have driven prices down in a bewildering, unexplained fashion, are going to cause those prices to explode.”

Also, central banks have been net buyers of bullion for twenty quarters, with Russia and China on the forefront of such buyers.

Strand, a former Olympic athlete, is portfolio manager to Pacific Precious fund, which has an absolute return claim, aims to be market neutral towards the (Swedish) equity market and is set to

outperform the price of gold.

The funds' strategy stands on multiple legs which Strand believes makes his fund "like no other."

The first leg are directional positions on the appreciation or depreciation of the spot price of precious metals such as gold, silver, and palladium, typically through ETCs.

The second is an allocation - depending on the managers market view -between "Royalty/Streaming" companies and Precious Metals "Retail" companies. Royalty/Streaming are companies showing streaming revenues, or royalties and they have approximately 2 times the volatility of gold (still half of the volatility of gold mining stocks), Strand points out. A royalty company serves as a specialized financier that helps fund exploration and production projects for cash-strapped mining companies. In return, it receives royalties on whatever the project produces.

Strand summarizes "retail" as a defensive option which could be, for instance, companies that sell gold jewelry or products that need the properties that only precious metals have, like Tiffany, Chow Tai Fook Jewellery but also companies like Johnson Matthey - all companies that may even benefit from lower precious metals prices.

The third leg is a market neutrality strategy and is achieved by creating a spread between being long eight selected gold/silver mining stocks, and short a much broader mining index.

"Inflationary pressures will ultimately pick up and real rates will be getting even more negative as the inflation will be rising faster than central banks are rising rates. Going forward I see inflation as a potential driver for gold as it ultimately will put upwards pressure on the metal."

Strand also describes M2, a measurement for the velocity of Money, has been going down year after year since the last crisis and Central Banks have printed money to counter this problem. "When the velocity comes back, with a lot of money in the system you have the recipe for inflation," Strand foresees.



Eric Strand, Portfolio Manager to Pacific Precious fund

Strand had a wealth of interesting points, too, when making his case for the precious metal,

reaching from Petro-Yuans, the SWIFT systems' future, Blockchain and Crypto, Richard Nixon leaving the gold standard after the US gold reserves had gone from 16000 tonnes to 8000, as well as the periodic table and the US Dollars loss of value since 1913 to explain the intrinsic value of gold.

Breaking it down though, Strand sees various geopolitical triggers which traditionally have supported the case for safe havens, such as gold and a 30 years bond bull market and 10 year equity bull market that may turn at the same time "setting us up for a perfect storm, that could leave gold as one of the few winners on the field."

Strand closes with a daring bet: he sees that over the next three to four years, the stock market could be down by 60%, while his fund could well appreciate by that same amount.