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Things that make you go hmmmm

Crikey!

"Unseen in the background, Fate was quietly slipping lead into the boxing-glove."

– P.G. Wodehouse

"It was one of those cases where you approve the broad, general principle of an idea but can't help being in a bit of a twitter at the prospect of putting it into practical effect. I explained this to Jeeves, and he said much the same thing had bothered Hamlet."

– P.G. Wodehouse

"In a series of events, all of which had been a bit thick, this, in his opinion, achieved the maximum of thickness."

– P.G. Wodehouse

"If I had to pick my favourite trade for the next 12 or 24 months, it'd probably be gold. I think if it goes through $1,400 an ounce, it goes to $1,700...quickly. It has everything going for it in a world where rates in the US are conceivably going to zero..."

– Paul Tudor Jones

"Some regard [gold] as a metal, we regard it as a currency and it remains our largest currency allocation..."

– Stanley Druckenmiller

"A melancholy-looking man, he had the appearance of one who has searched for the leak in life's gas-pipe with a lighted candle."

– P.G. Wodehouse

"You never give me your money
You only give me your funny paper
And in the middle of negotiations
You break down..."

– The Beatles, *You Never Give Me Your Money*

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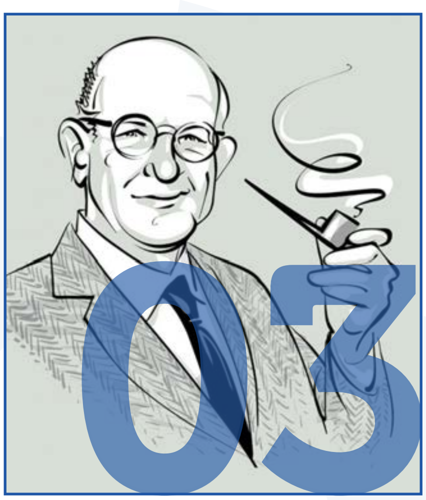


Things that make you go hmmm

THINGS THAT MAKE YOU GO HMMM...

CRIKEY!

I've given a lot of these presentations over the years and, whenever I talk about gold, I'm circumspect about the price action because, for me, an appreciation in price simply isn't my primary reason for owning gold.

I'm far more interested in the reasons for *holding* gold than in its short-term price movements.

Back in December 2015, however, I gave a presentation in London called 'Nobody Cares' in which I *did* speak about the price – because it felt to me as though the stars were aligning for a move higher.

Over the next six months, gold and mining stocks went on a rampage.

I'll be the first to admit that the timing was pure luck as the rally started the day after I spoke, but today, I feel as though the stars are once again aligned for the precious metals – though, this time, I think what's going to be another explosive rally is already under way.

As you saw, the title of this presentation is '*Crikey!*', a very English word, popularized in the 1920s, to express surprise. It was originally a euphemism for 'Christ' but was subsequently hijacked by this Australian fella, and, sadly, turned into punctuation.

But the 1920s wasn't just a decade filled with upper class Englishmen running around shouting '*Crikey!*'

> ***(The History Channel): The 1920s were an age of dramatic social and political change. For the first time, more Americans lived in cities than on farms. The nation's total wealth more than doubled between 1920 and 1929, and this economic growth swept many Americans into an affluent but unfamiliar "consumer society."***
>
> ***People from coast to coast bought the same goods (thanks to nationwide advertising and the spread of chain stores), listened to the same music, did the same dances and even used the same slang!***
>
> ***Many Americans were uncomfortable with this new, urban, sometimes racy "mass culture;" in fact, for many–even most–people in the United States, the 1920s brought more conflict than celebration...***

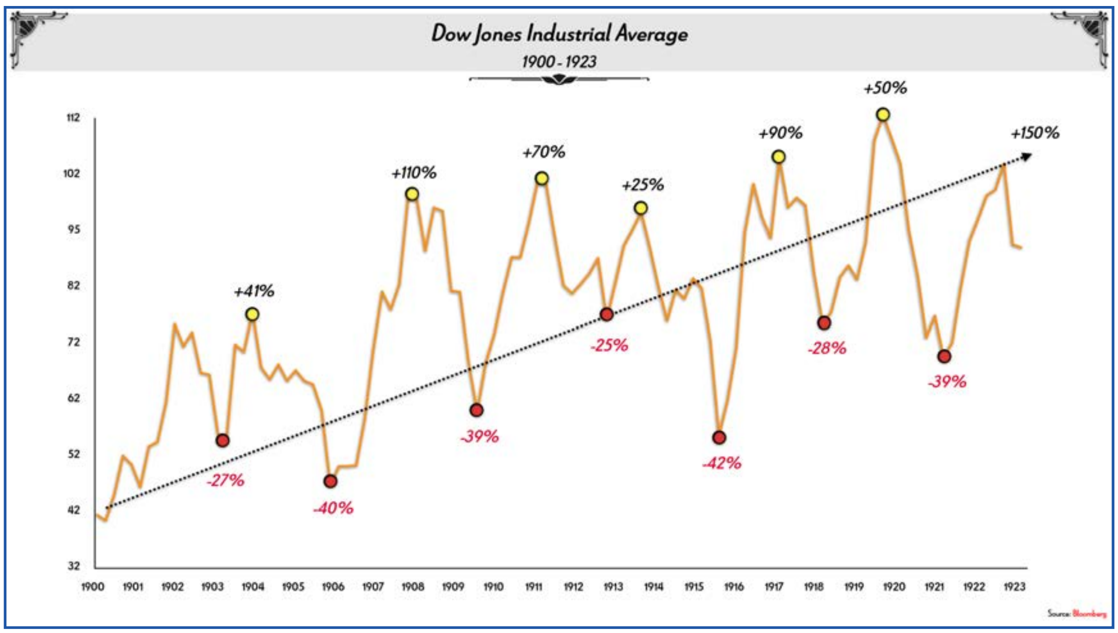
Things that make you go hmmm

In America, as you can see, it was an age of dramatic social and political change and it became known as '*The Roaring Twenties*' thanks to everything you see in the passage above.

Dramatic social and political change, a doubling of the nation's 'wealth', a feeling of great discomfort amongst many Americans and a decade that brought more conflict than celebration…does any of this seem familiar to you?

Today shares many societal and cultural similarities with the 1920s, but beyond conflict and discomfort, the stock market has performed in similar fashion to its parabolic rise into the 1929 top so I want to take you back and take a look at what happened during those heady days to remind you of just how traumatic the 1920s were for investors.

As you can see here, the first quarter of the 20th century was characterized by a series of wild swings in the Dow Jones Industrial Average.



The 23 years you can see represented here saw no less than *seven* declines of over 25% and six *major* bull runs – two of which each saw the Dow essentially double in just twenty-four months.

Despite all this volatility, the market ended those 23 years 150% higher than it began the 20th century.

However, one important distinction here is that ownership of stocks in America at that time was largely confined to just 1% of the population – the wealthiest of American society.

After 1923, as we'll see shortly, those wild fluctuations gave way to an epic bull market, but the stock market of the 1920s didn't just climb the proverbial wall of worry – it rose against a backdrop of total economic chaos.

In the US, there were two major recessions *and* a stock market crash between 1920 and 1927 while, across the Atlantic, in Germany, the decade was bookended by the Weimar Hyperinflation and the Brüning deflation.

Things that make you go hmmm

In 1929, after a truly parabolic blow-off in the stockmarket, *The Great Depression* began.

Below, right, you can see how the Dow Jones performed during the 1920s.

It's clear that the various periods of economic uncertainty, in the scheme of things, did little to derail the upward momentum of the Dow.

Crashes and recessions were shrugged off for two main reasons;

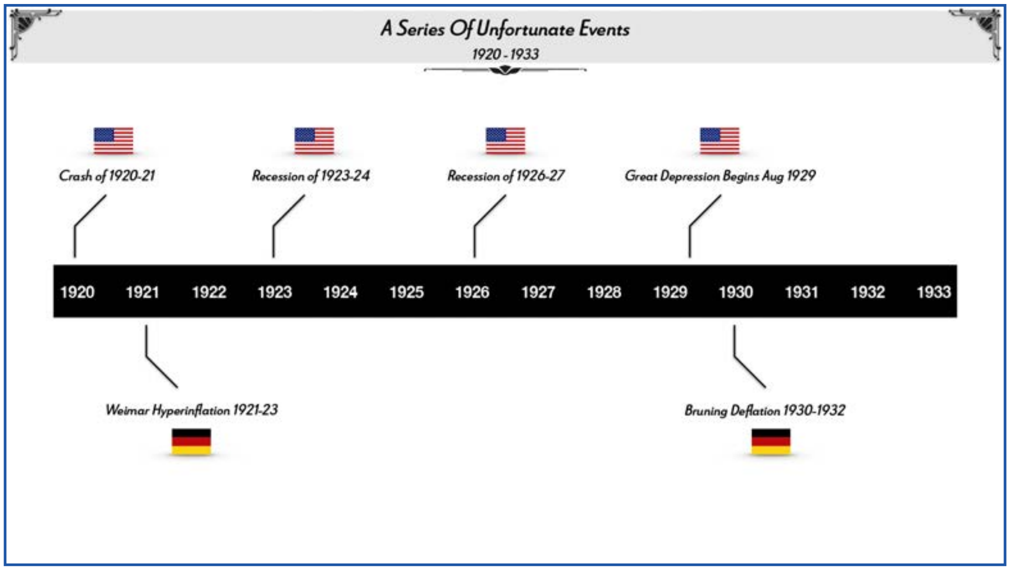
Firstly, they were part and parcel of the economic cycle in America at that time – as you can see here:

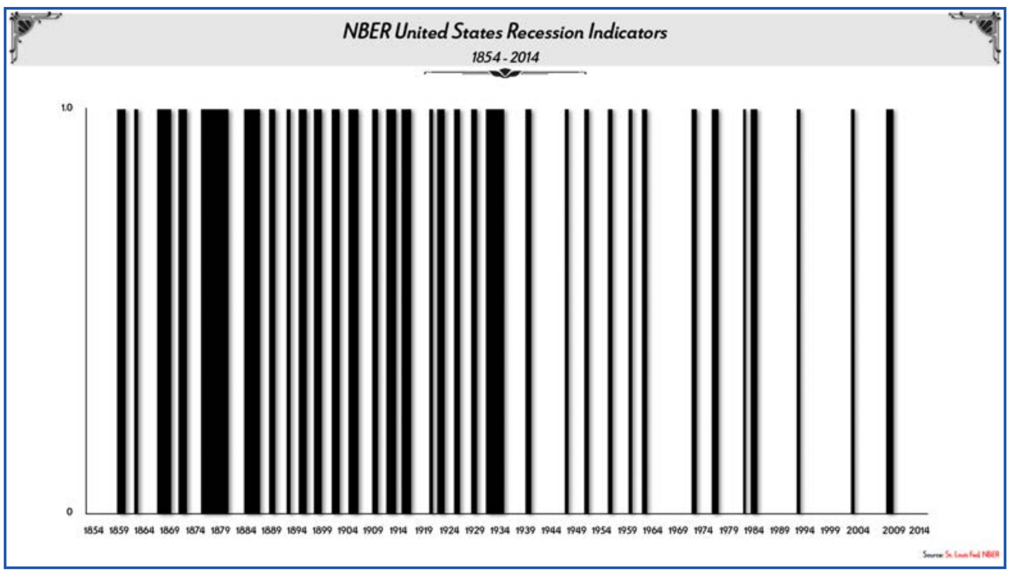
And secondly, because the Fed, having only been in existence since 1913, was much less interventionist back then – having not yet figured out just how much power they had.

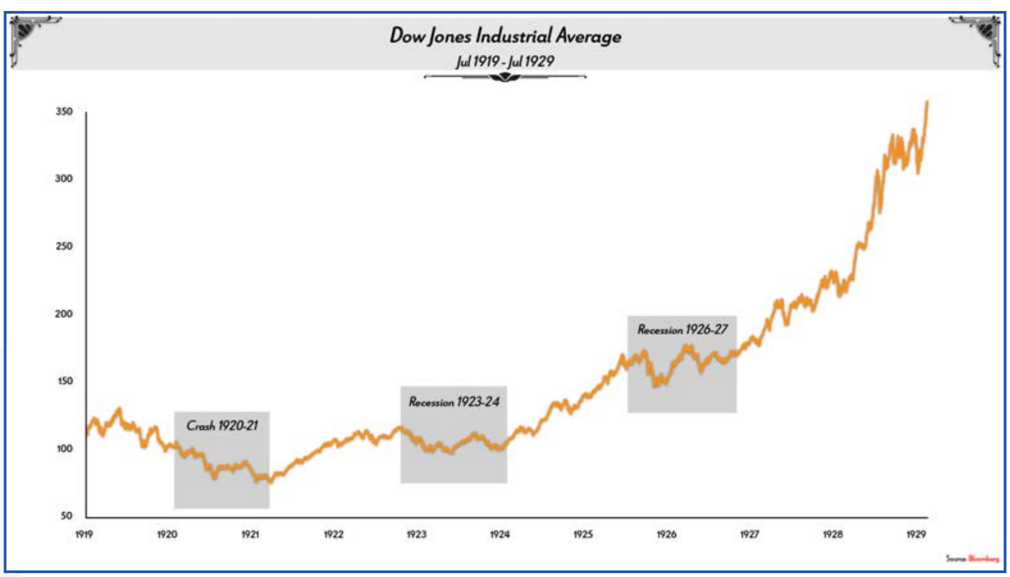
Thank God.

But, as markets peaked in 1929, amidst a sense that nothing could derail the stockmarket bubble, the excesses of *The Roaring Twenties*, which had been building steadily over the decade, were about to reveal themselves in the worst way possible.

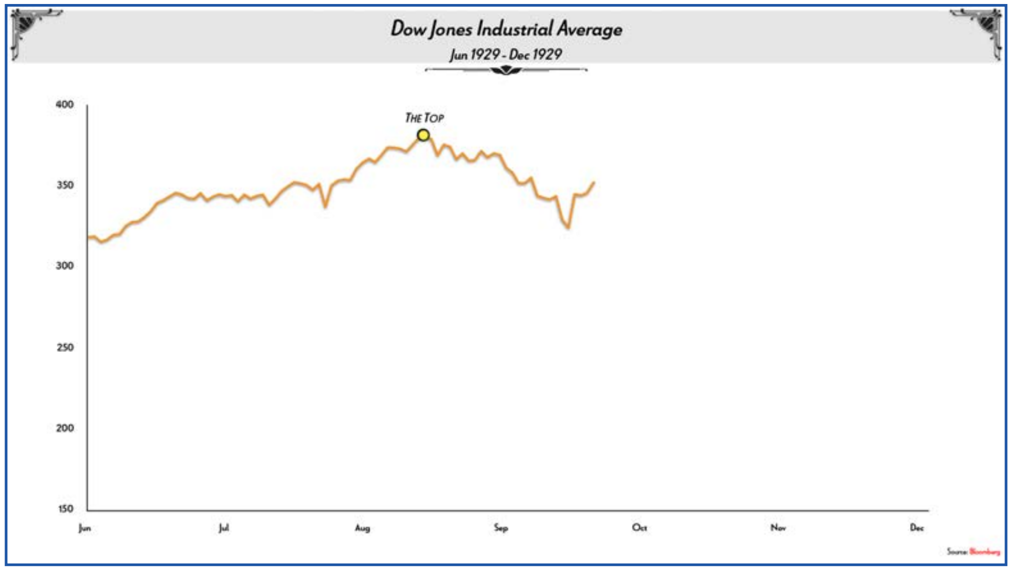
The Dow Jones topped in August, 1929, though, obviously, nobody knew it at the time.







It spent the next couple of months basically just not going up anymore – and that caused a fair degree of consternation.



Luckily, in 1929, just as today, they too had a series of superstar economists standing ready to offer their thoughts on the state of things and, in 1929, none of them were more Superstarry than the dapper gentleman on your right;

Irving Fisher.

Think of him as Paul Krugman, but without a face you just wanna slap.

Fisher was the big economic brain of the time and, as the market began to fall, he was called upon to offer some words of comfort.

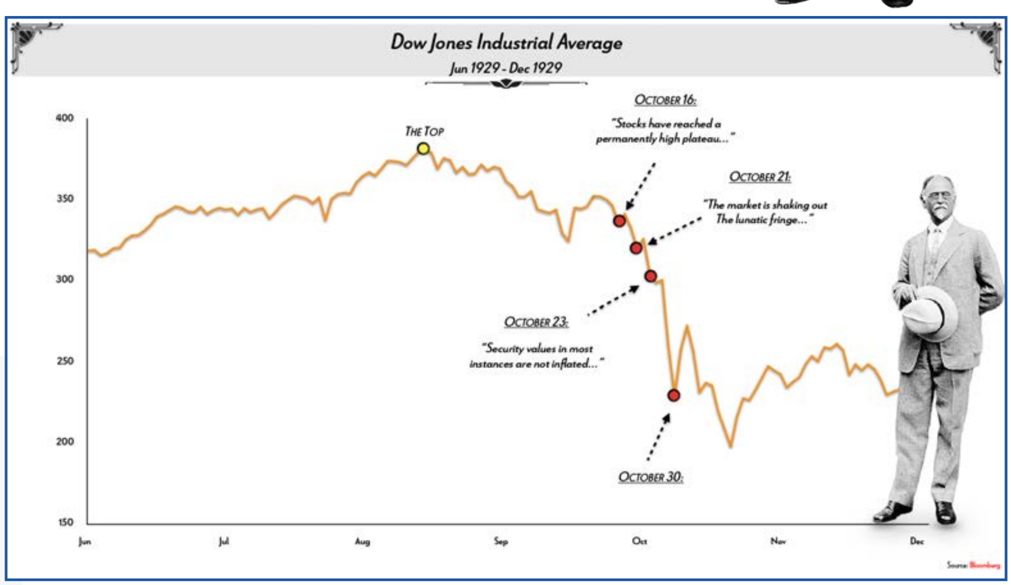
On October 16th 1929, Fisher famously opined that stocks had reached what he called "*a permanently high plateau*."

As market pronouncements go, this one is perhaps the all-time greatest in terms of timing.

Five days later, with the market looking even more shaky, Fisher explained that the lunatic fringe were being shaken out and that all was well. The market had simply gotten things wrong.

Two days later, and, it has to be said, sounding juuuuust a little more uncertain, Fisher was back to explain that there was no reason to panic because prices weren't inflated – in most instances, at least.

You'll let me know if any of this sounds familiar, right?



Then, on October 30, with the Dow Jones in freefall, Fisher appeared on TV in something that can really only be described as looking like some sort of hostage situation:

PLEASE CLICK HERE TO WATCH NEWSCLIP

Fisher was clearly shaken by the fact that the market seemed to be getting things more wrong by the day, but, like all public figures, he remained confident, he remained calm and he continued to explain, in clipped tones, why things were all OK.

According to Fisher, the market fell because people had been speculating on small margins.

What Did Irving Fisher Learn From The 30% Fall In The Dow?

The Reasons For The Fall

- People had been speculating on small margins
- It was not that the stock market was "very much too high"
- People were so enthusiastic about making the money that they properly expected to make in the investment of stocks ... they went into debt

The Lessons From The Fall

- If you buy stocks, buy them with your own money and not with borrowed money (any more than can be helped)
- If that lesson is learned possibly in the end this experience to some people may be a blessing in disguise

That was true.

Of course, it couldn't *possibly* be related to the fact that the market was way too high and, in fact, according to Fisher, people should properly have expected to make money in stocks.

But never let it be said that Fisher didn't learn any lessons from the fall in the Dow Jones.

The main one was not to buy stocks with borrowed money (well, at least any more than can be helped, obviously). If investors learned that lesson, he said, then the crash of 1929 might end up being a blessing in disguise.

Things that make you go hmmm

So...did we learn?

Of course we didn't. We never, ever do.

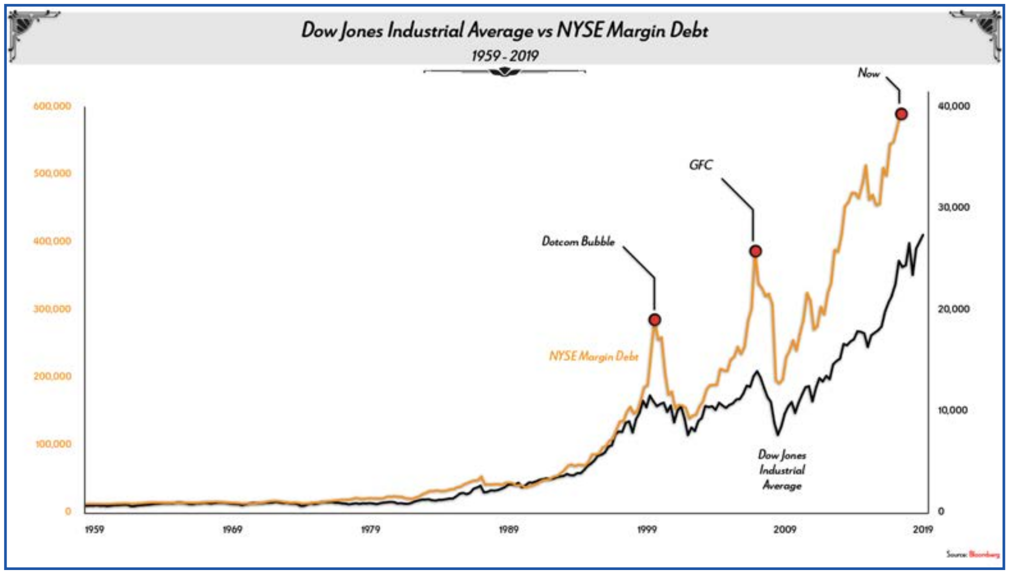
Margin debt on the NYSE is now not only at nosebleed levels, but it's reached them on a trajectory similar to that which has preceded each of the two previous major bubbles – both of which led to massive stock market corrections (chart, right).

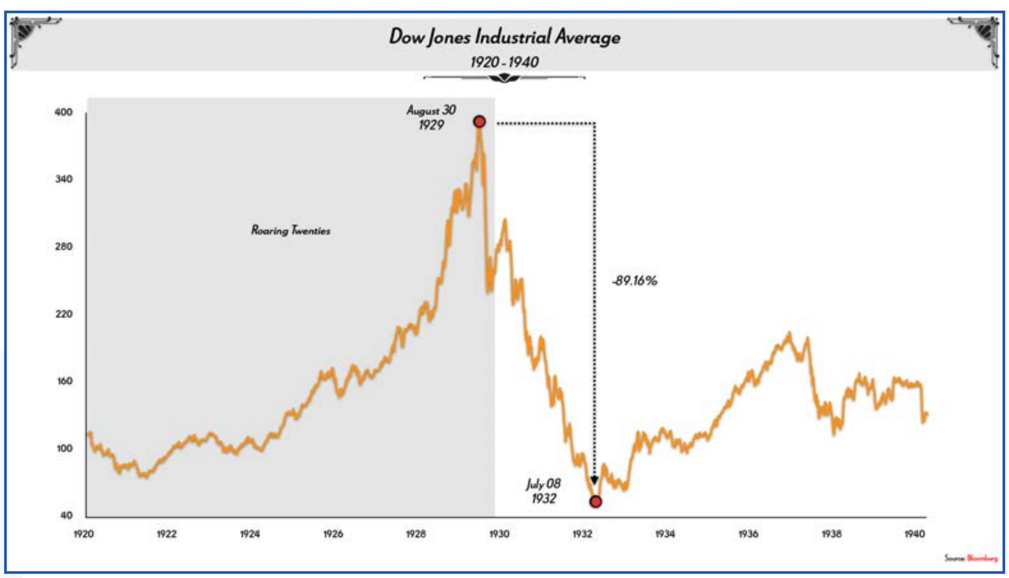
But, if we go back to 1929 and Fisher's prediction, you can see, it coincided with a sharp bear market rally, before the final drop in November.

A four-month relief rally followed that before the market resumed its downward trajectory for another 18 months.

From peak to trough, the Dow Jones lost 90% of its value over the next three years as the excesses of the roaring twenties were purged – both in the stock market and in the broader economy.

Excess debt was wiped out and asset prices fell below fair value – giving plenty of opportunities to those with the foresight to accumulate cash ahead of the fall.





Things that make you go hmmm

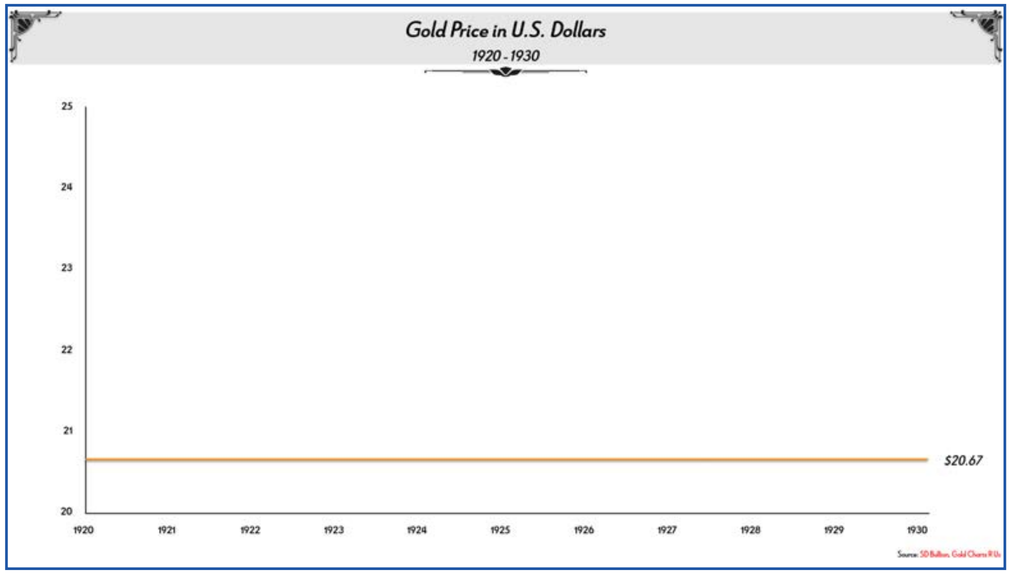
While all this was happening, the gold price was, of course, fixed at $20.67 per ounce and, while the chart you'll find at the top of the next page isn't exactly the most exciting chart you'll ever see, it's important to see because, as far as gold is concerned, it's not the lead-up to these excesses which are so important, but the <u>aftermath</u>.

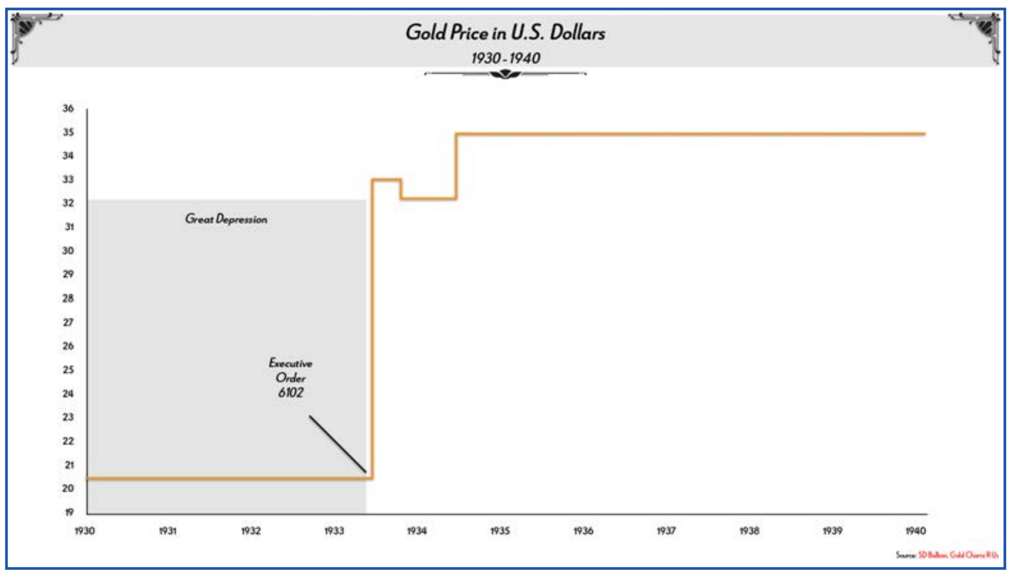
That's when gold does its job... and that's *exactly* what it did in the aftermath of *The Great Depression* – with a little help from Executive Order 6102, of course.

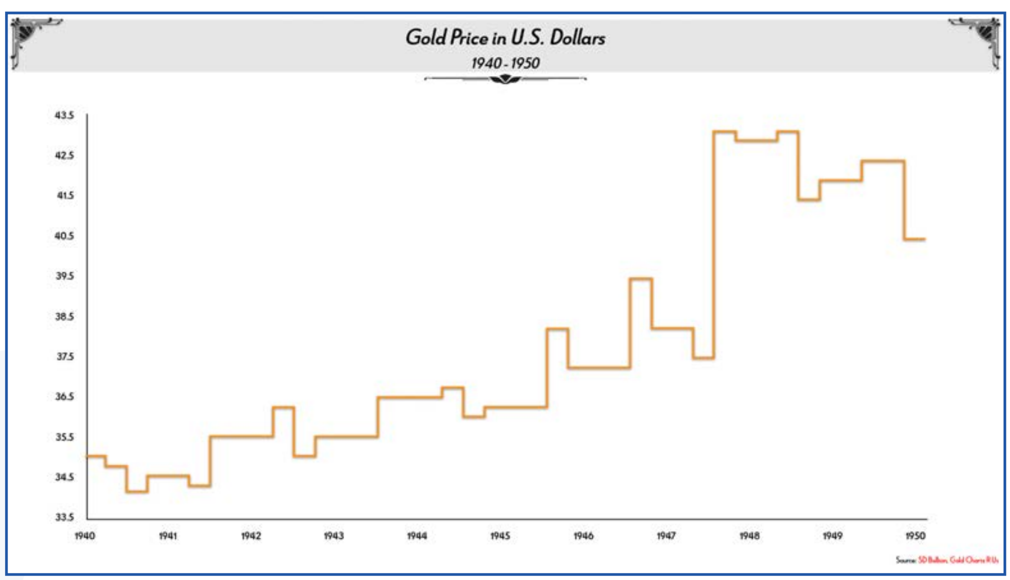
In 1933, FDR mandated, by Executive Order, that U.S. citizens turn over their gold to the government.

Once this was completed, FDR was in a position to devalue the dollar from $20.67 to $35 per ounce of gold over the next 12 months – and it's important to think of it that way – as a *devaluation of the dollar* and <u>not</u> an increase in the gold price.

The 1940s saw gold allowed to climb relentlessly higher, albeit in a managed fashion, as the pressure on the dollar continued.







Overall, the gold price more than doubled over this period – or, more correctly, the purchasing power of the dollar halved – but it's important to remember that this was a *managed* process.

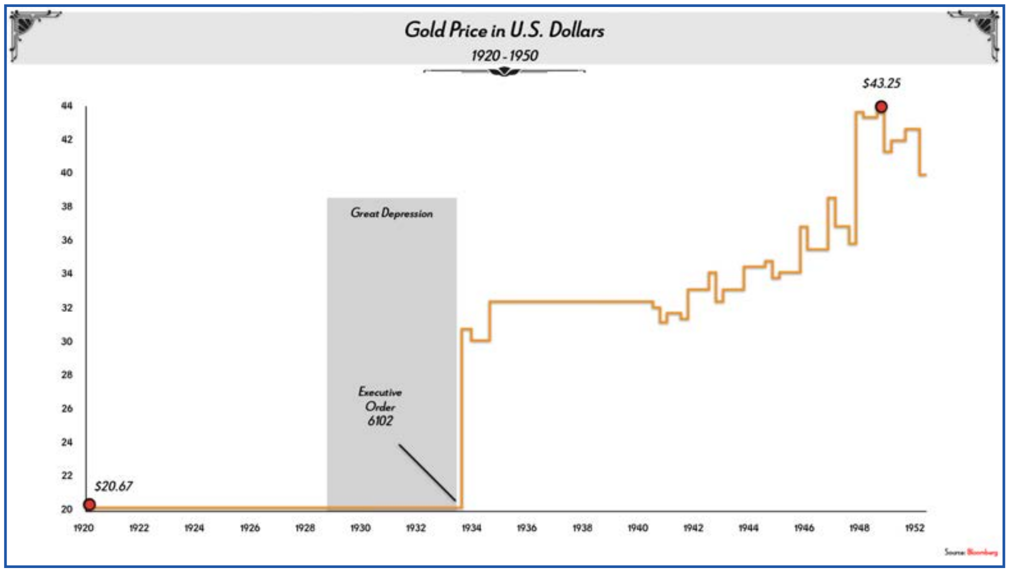
Gold wasn't – and couldn't – be allowed to rise freely to its market price.

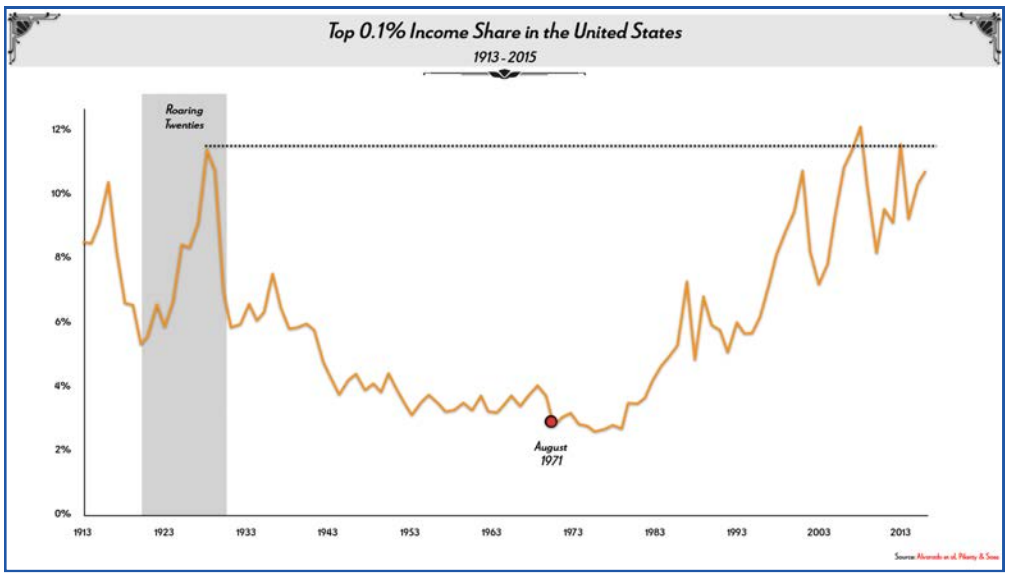
The other thing that you'll notice is that gold moved *after* the pain of *The Great Depression* because its price had been fixed and it therefore provided the escape valve for an ailing system.

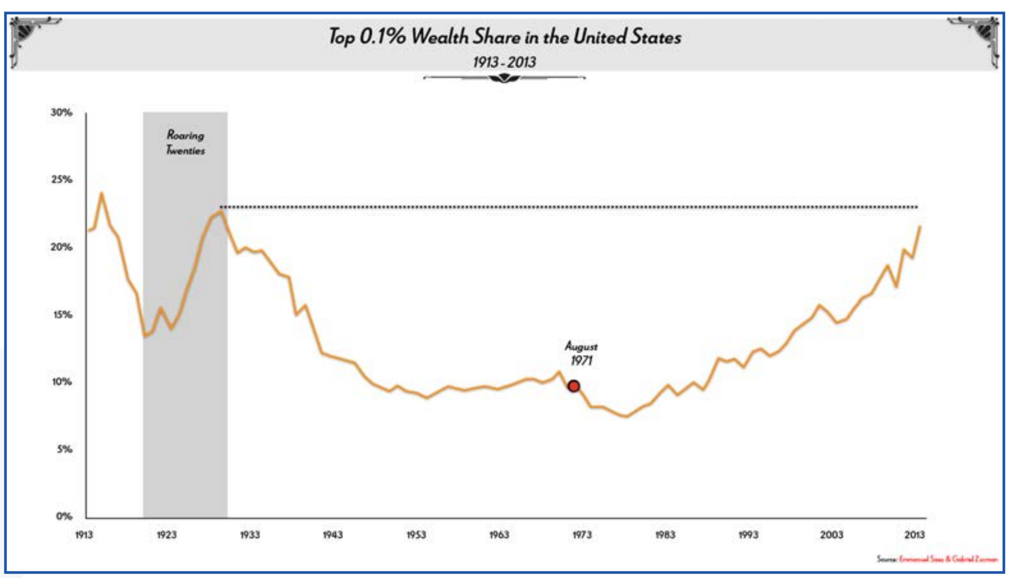
Today, we don't have that situation so gold is likely to move *ahead* of any significant economic pain – just as it did in 2008.

Back in *The Roaring Twenties*, the wealthiest Americans saw a massive spike in their share of income – it essentially doubled in the decade leading up to the Great Depression.

Today, from the lows in the late 1970s, the top 0.1%'s share of income has increased four-fold, while a very similar story can be told when looking at the wealth share of America's wealthiest citizens which, once again, is closing in on levels last seen at the end of *The Roaring Twenties*.

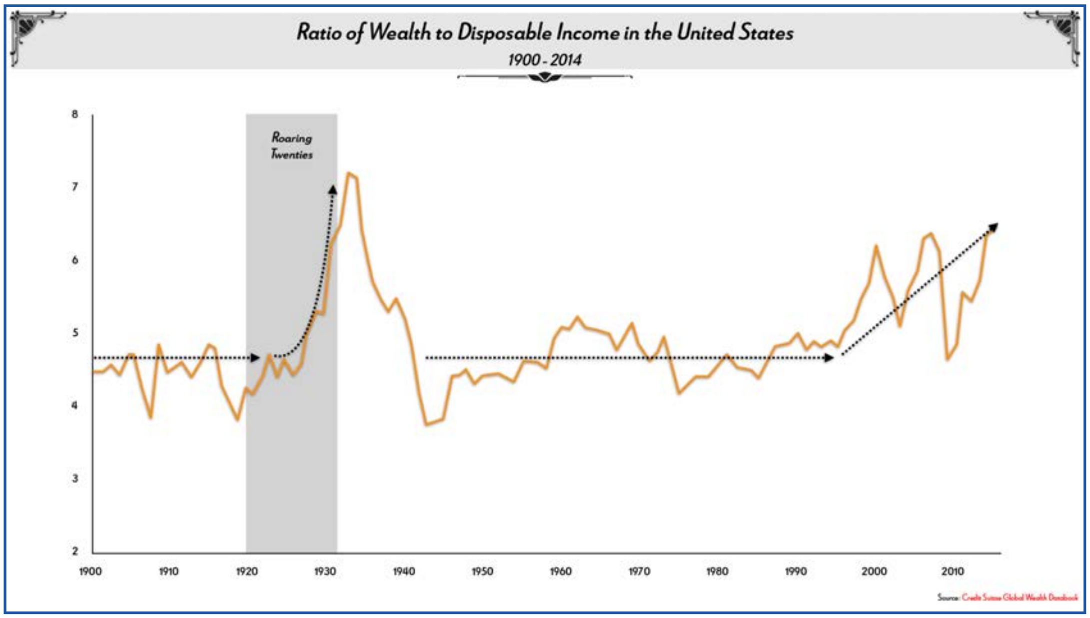






Things that make you go hmmm

The rapid increase in asset prices in the 1920s saw the ratio of so-called 'wealth' to disposable income spike before returning to its equilibrium, where it remained for over half a century – something that lasted right up until the Greenspan Fed got into the bubble-blowing business.

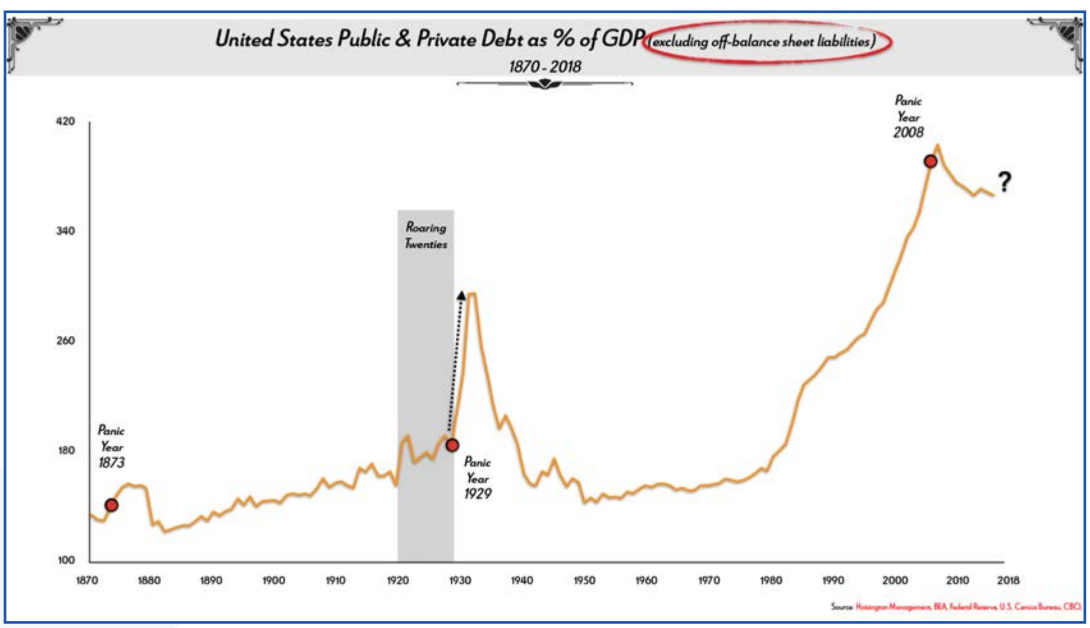


Since then, we've been on a similar, though admittedly shallower and choppier trajectory.

But, of course, this supposed 'wealth' has been funded, now as then, largely through debt.

The build-up of debt leading *into The Great Depression* was steady but the *response* to the eventual downturn was dramatic.

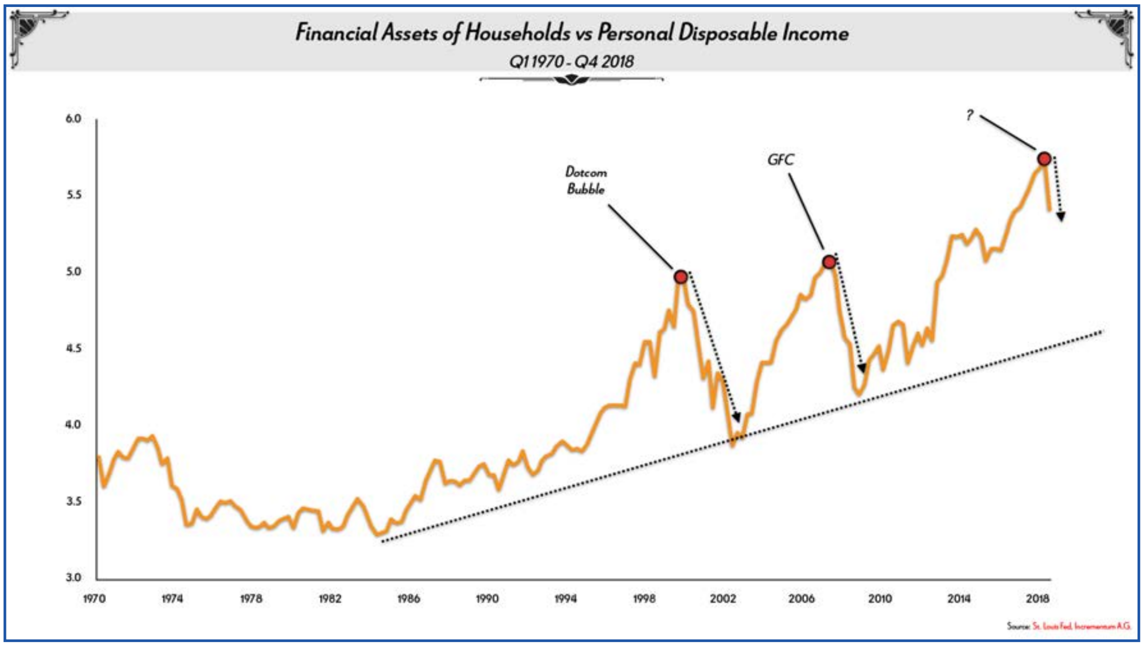
In 2008, the buildup was dramatic, but the response, seemingly muted. However, you'll notice that this chart excludes off-balance sheet liabilities – which now total somewhere between $100 and $200 trillion depending on who you ask.



When the next reckoning happens, with monetary policy essentially exhausted, the response will be based upon increasing the size of this debt and the increase will necessarily be gargantuan.

That means asset purchases – and massive currency devaluations, *exactly* like we saw in the 1930s.

Each time we reach tipping points of over-indebtedness, the retracement to the mean is both sharp and painful with the inflated value of financial assets being corrected versus disposable income in a hurry.

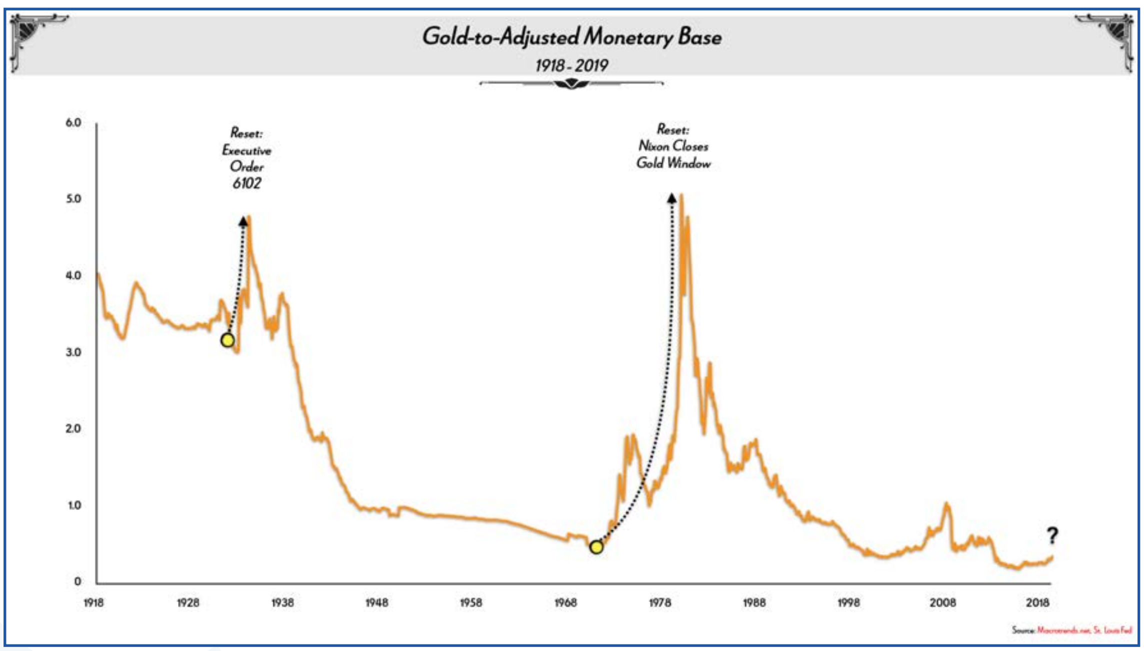


We're there again.

But these periodic resets in asset prices are part of a much broader reset which takes place far less frequently.

A reset of the monetary system itself.

Executive Order 6102 and FDR's subsequent devaluation of the dollar constituted one such reset and then, in 1971, Nixon engineered an even larger reset when he closed the gold window and gold was allowed to find its equilibrium price.



The chart, right, showing the ratio of gold to the adjusted monetary base demonstrates how seismic these resets are due to the excesses that build up in the system over time.

They are caused by the same thing every time; man's insatiable thirst for leverage getting out of control.

Again, you can see where we are.

If you're paying attention you can also feel the pressure building.

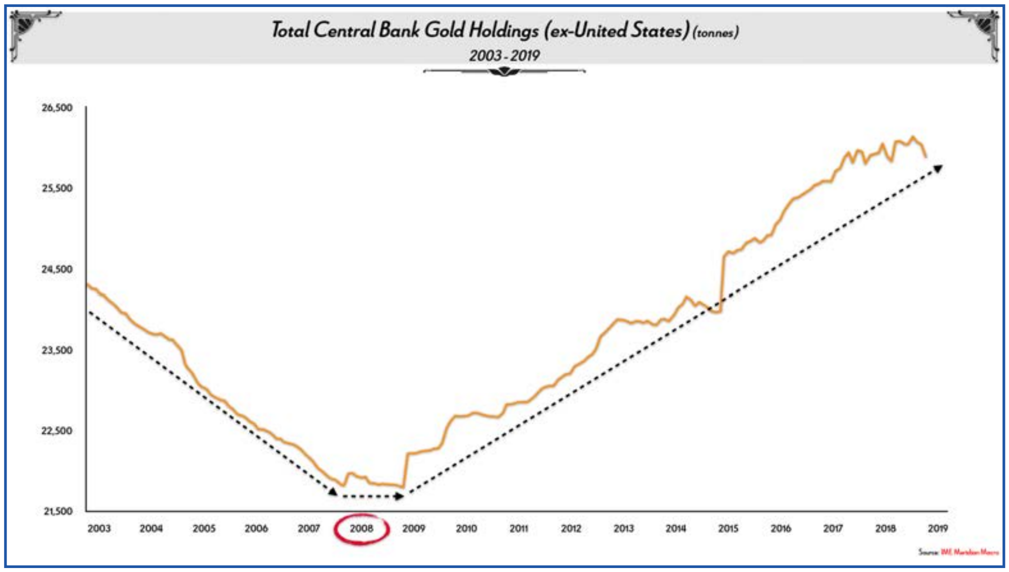
But to understand that pressure, you have to somehow ignore the words of central bankers and economists who, as Irving Fisher did in 1929, will tell you that not only is everything under control, but that gold is either pointless, unnecessary or, as Ben Bernanke famously described it, 'merely tradition'.

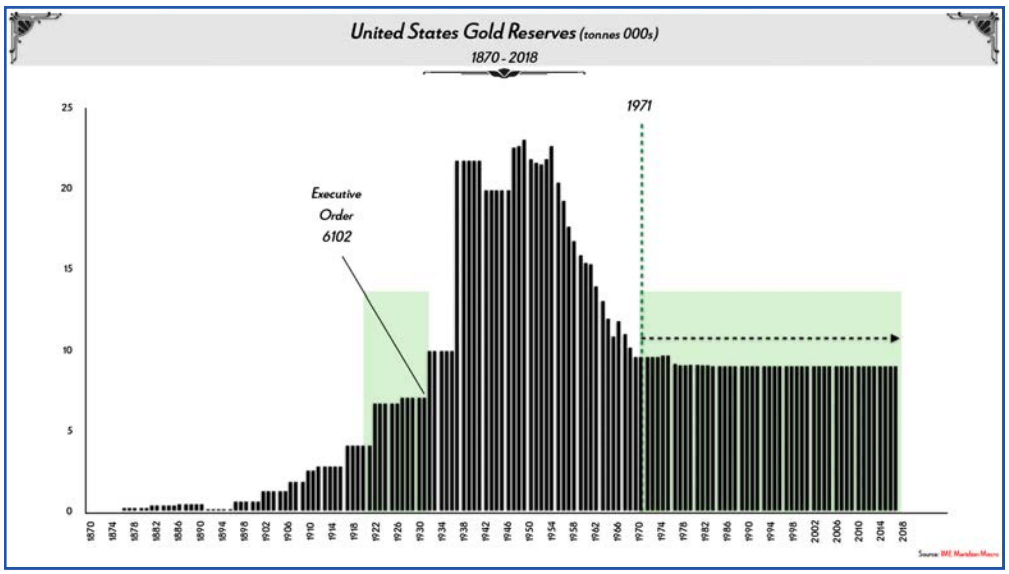
What they say, however, isn't always reflected in what they *do*.

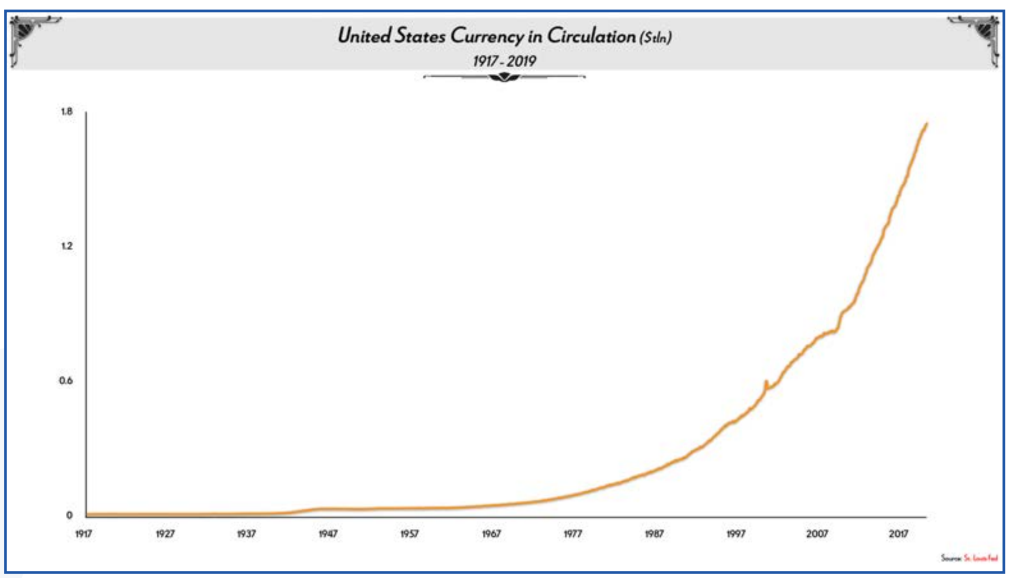
Despite their words to the contrary, central bank actions have been proving gold's worth as a financial asset in extraordinary ways since 2008.

From consistent sellers for a couple of decades under the Washington Agreement, central banks have been accumulating the pet rock relentlessly since 2008.

The US hasn't sold a single ounce of gold in over 30 years after closing the gold window to stem the outflows as confidence in both the dollar and the United States waned in the early 1970s but when it comes to 'funny paper', they have no such problems.







Currency in circulation has exploded, alongside the total debt owned by the public and the increasing steepness of these charts is testament to how close we're getting to the next reset.

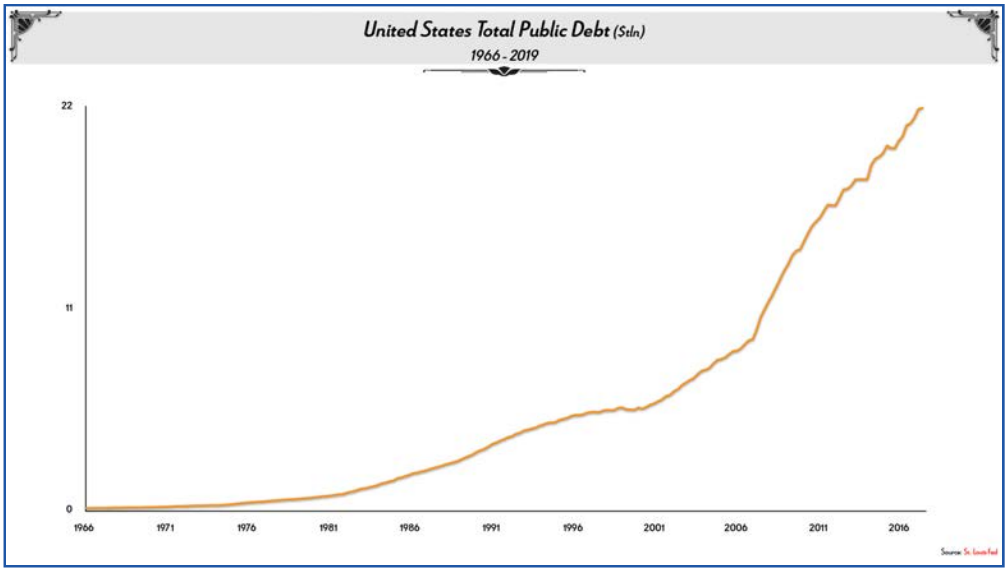
US treasury bonds, considered a safe haven in the eye of the storm by foreign central banks, have ceased to be so appealing and the Russian central bank has essentially traded its entire holding of treasuries for gold.

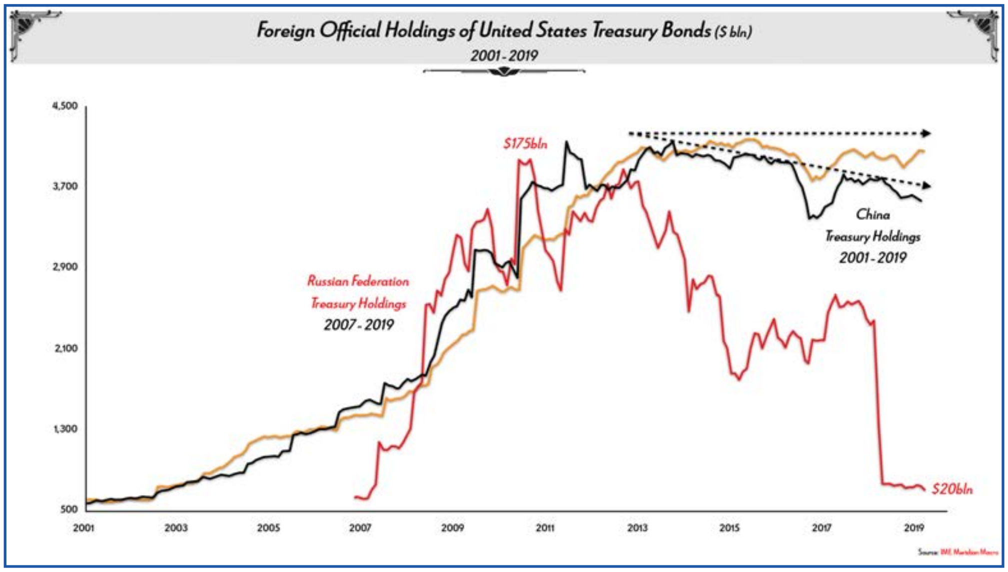
Additionally foreign holders of US sovereign debt are flatlining just as America's deficits are set to explode.

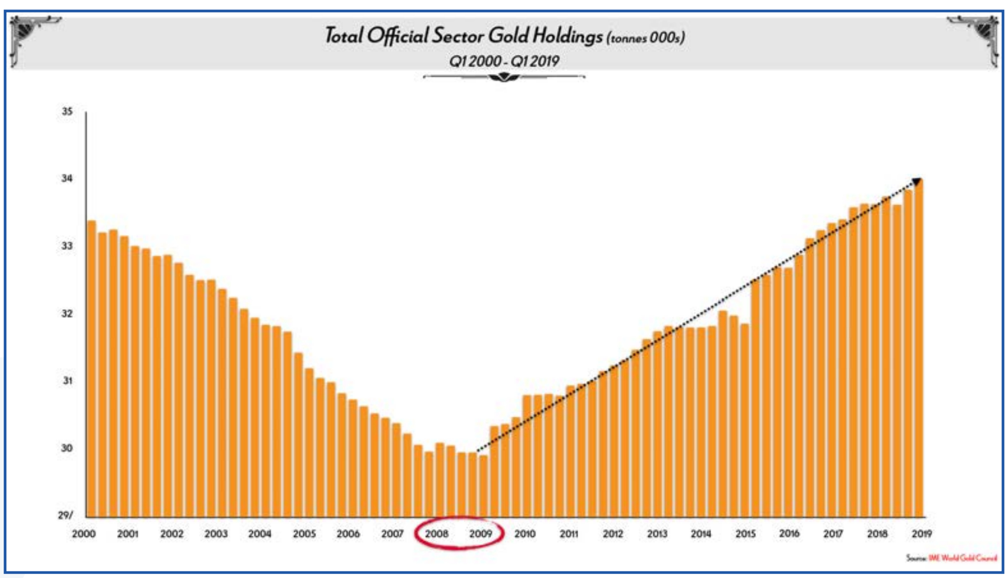
Trust me when I tell you that this will not make gold less attractive in the coming years.

Official sector gold holdings have been rising at a 45 degree angle for a decade – despite constant assurances that 'there is nothing to see here'.

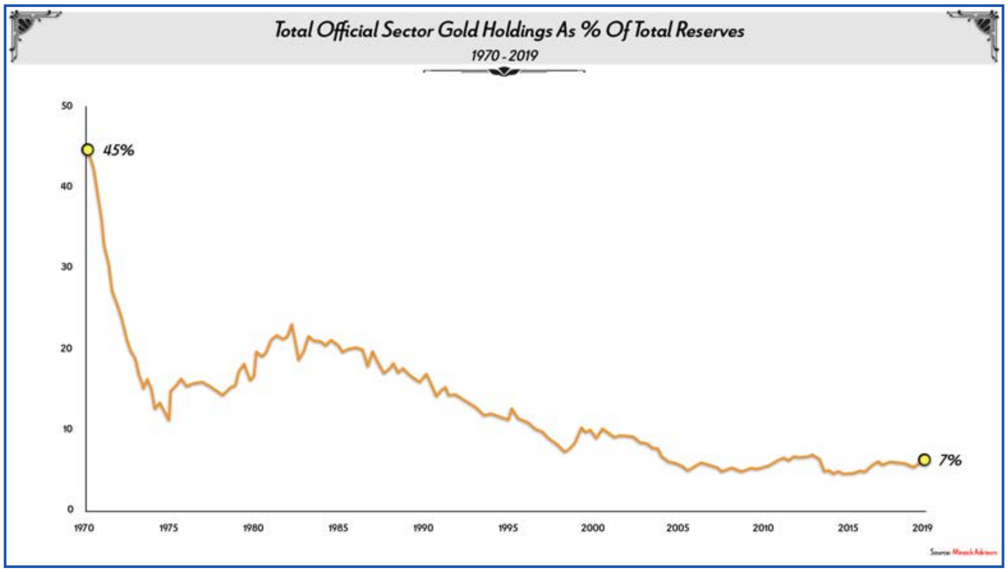
It's impossible to reconcile those two ideas, I'm afraid, because when everything IS good, as we saw in the 1980s and 90s, many central banks (yes, I'm talking to you Canada – and you, Great Britain) can't get rid of their gold fast enough.





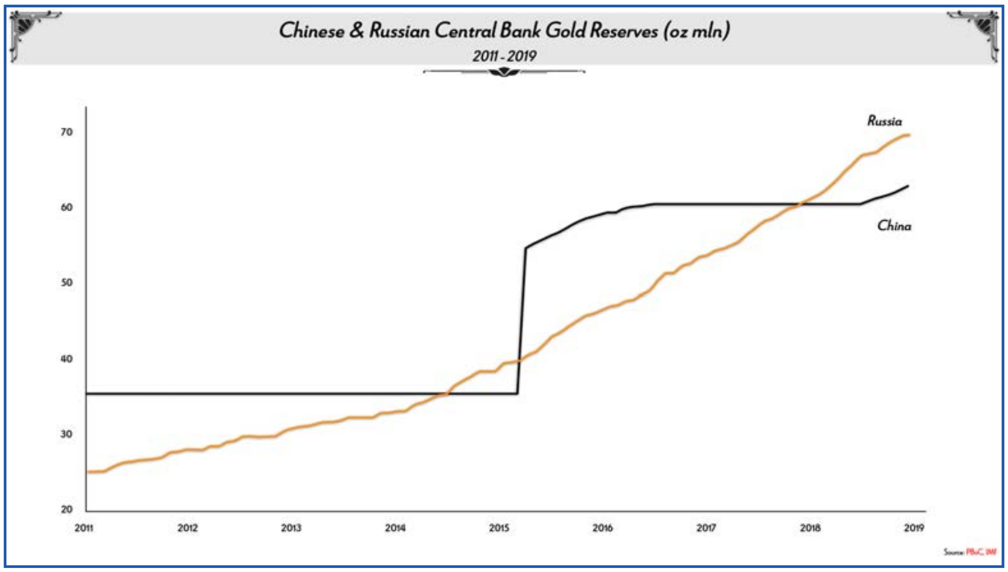


Today, despite that frenzied central bank buying, gold as a percentage of total reserves remains near its lowest level for a generation – just 7%, down from 45% in 1970.



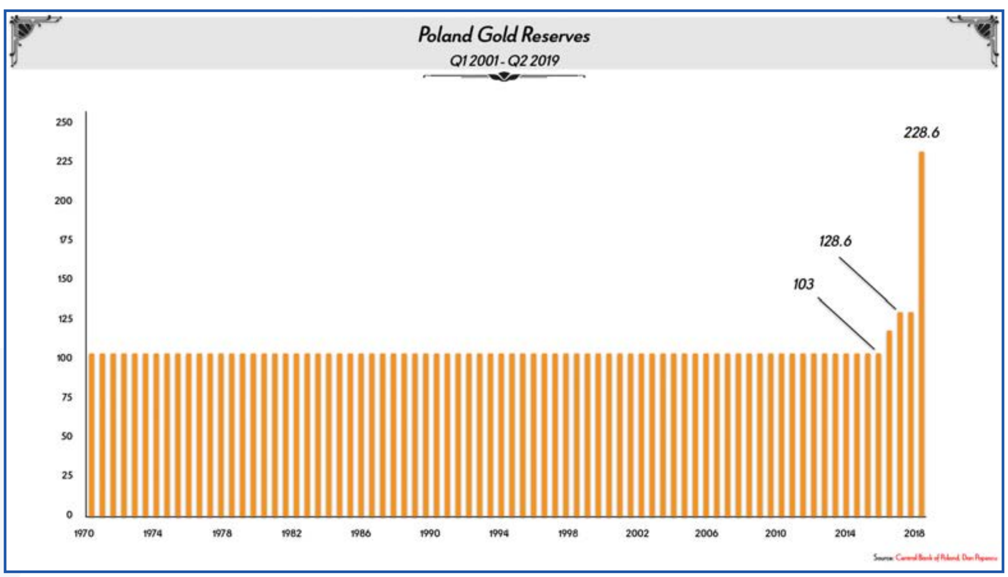
Given the likelihood of additional QE and further asset purchases, simply to remain at these levels, central banks will need to accelerate their gold buying considerably.

But, as we all know by now, countries like China and Russia – both of whom are *definitely* looking to loosen the dollar's grip on their financial ecosystems – have been doing just that as a means of escaping the world's creaking existing monetary system. At the very *least*, they are giving themselves options.



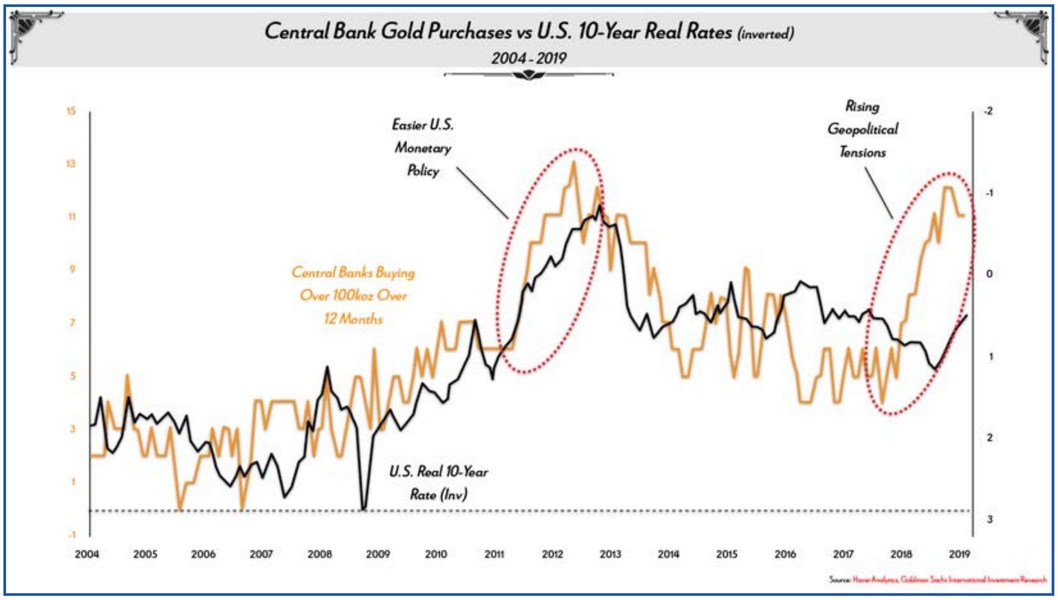
This understanding the Chinese and the Russians have about the weaknesses inherent in the dollar-centric global financial system has recently been dawning on a few other central banks – in a surprisingly big way.

Poland, a member of the European Union – another institution coming under increasing pressure – doubled its gold holdings in a single month.



Think about that for a moment.

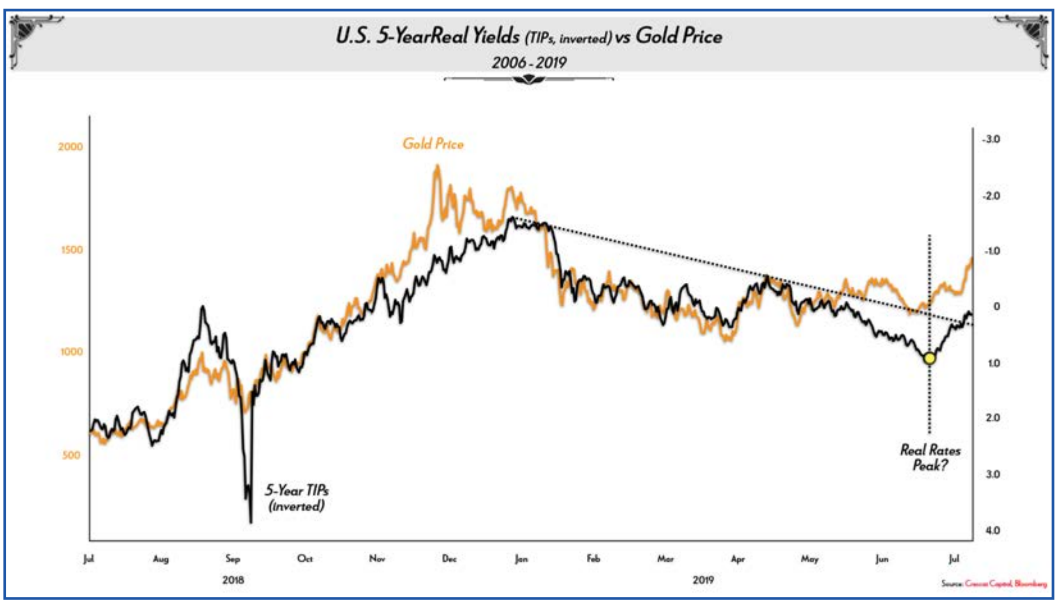
These days, central banks can (and do, in many cases) conjure money out of thin air and buy assets with it so why, when you can buy US equities like the Swiss National Bank has done, or ETFs like the BoJ, or corporate bonds like the ECB, would you buy gold?



The answer lies partly in the chart, right, which shows the number of central banks buying over 100 thousand ounces of gold in a 12-month period versus US real interest rates.

The interest rate line is inverted to show the correlation but, essentially, when U.S. monetary policy weakens, central banks accelerate their gold buying and when geopolitical tensions rise, they do the same thing.

Right now, as of about 2:15pm on Wednesday July 31, we are about to see both these tailwinds blowing up a storm.



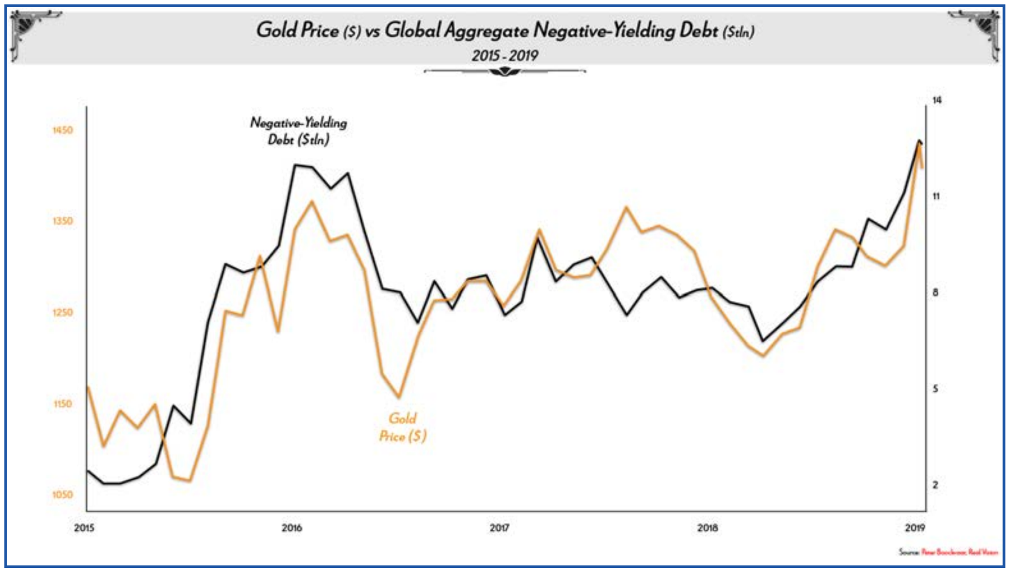
So let me ask you this; do any of you see either geopolitical tensions easing? Or U.S. monetary policy tightening, any time soon?

Me neither.

And when equity and bond markets do nothing more than just stop going up – just like they did in August 1929 – the case for owning gold gets even stronger.

Seen another way, perhaps the biggest tailwind for gold has been negative real rates which of course negate the age-old *'gold earns no interest'* argument and here, you can see that 5-year rates in the US have seemingly peaked (the 5-year TIPs yield is again inverted to highlight the correlation).

That peak coincided with the beginning of gold's recent rise through some fairly important multi-year technical resistance levels.



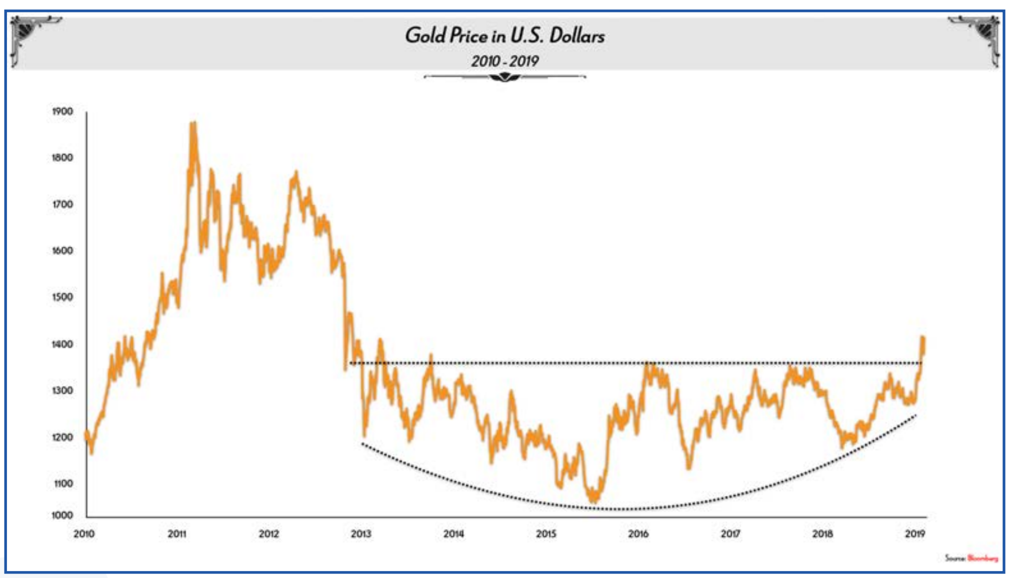
And, with rates heading lower, you can be fairly certain that the amount of negative-yielding debt sloshing around the world is going to increase significantly from the current $15 trillion – yes, you heard that correctly, there is $15 trillion of negative-yielding debt in the world.

This is another massive tailwind for gold, which, as you can see in the chart, top, understandably tracks negative-yielding debt almost perfectly.

These tailwinds are significant and they're everywhere.

And, even if the very idea of a bond that you pay someone to allow you to hold seems outrageous, it's the world in which we find ourselves.

So where does all this leave us?



Well, as we get ready to make the transition to the Twenty Twenties, it's time to put the pieces of this puzzle into place and understand what it all means for gold because we haven't had a setup this broadly constructive for precious metals in quite some considerable time.

On a chart basis, gold looks to have completed and then broken out of what was, depending on who you asked, either the end of the gold bull market or a six-year bottoming pattern.

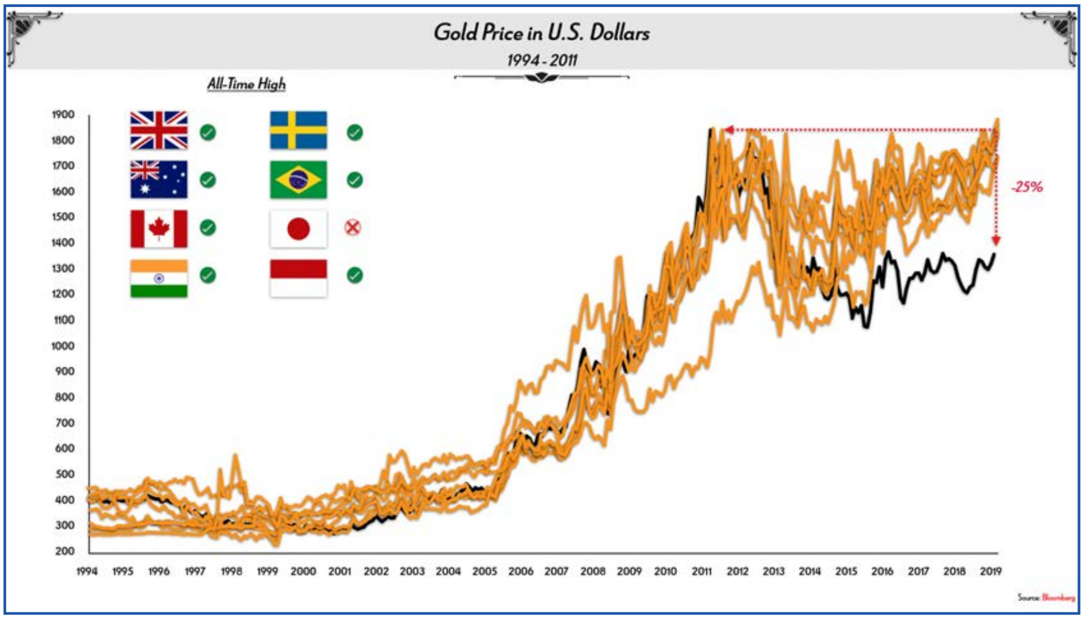
I know what I think.

Things that make you go hmmm

The broad narrative over those six years has been that gold has fallen dramatically in price and this has led to all those 'pet rock' articles and calls for gold to return to $800.

Gold still sits 25% below its 2011 high, they'll tell you (black line, chart, right).

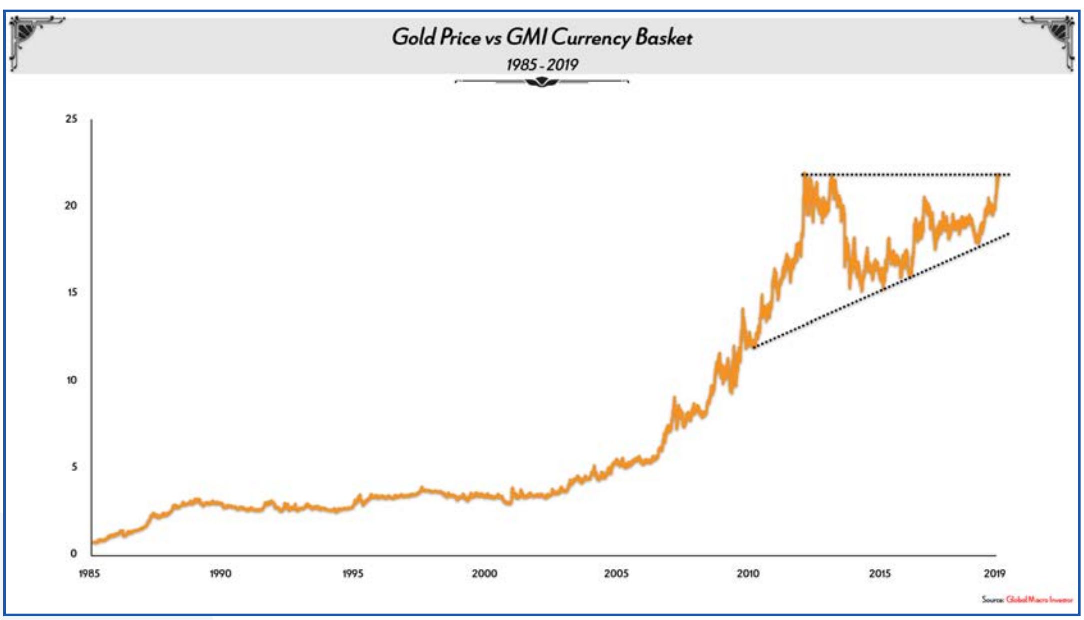
The reality, though, is that this is a very dollar-centric view amidst a very dollar-centric system.



But, if that system IS under threat, then it makes sense to look outside it and, when you do that, you find a very different picture.

Whether you are looking at British pounds, Aussie dollars, Canadian dollars, Indian Rupees, Swedish Kroner, Brazilian Real or Indonesian Rupiah, gold is at all-time high prices – and the Japanese yen isn't far behind.

In fact, gold versus a basket of 22 currencies NOT including the US dollar is finally breaking out of its own 6-year consolation pattern – and the fact this is happening against an increasing desire on the part of the Fed to cut beyond the 25bp move last week, is definitely *not* a coincidence.

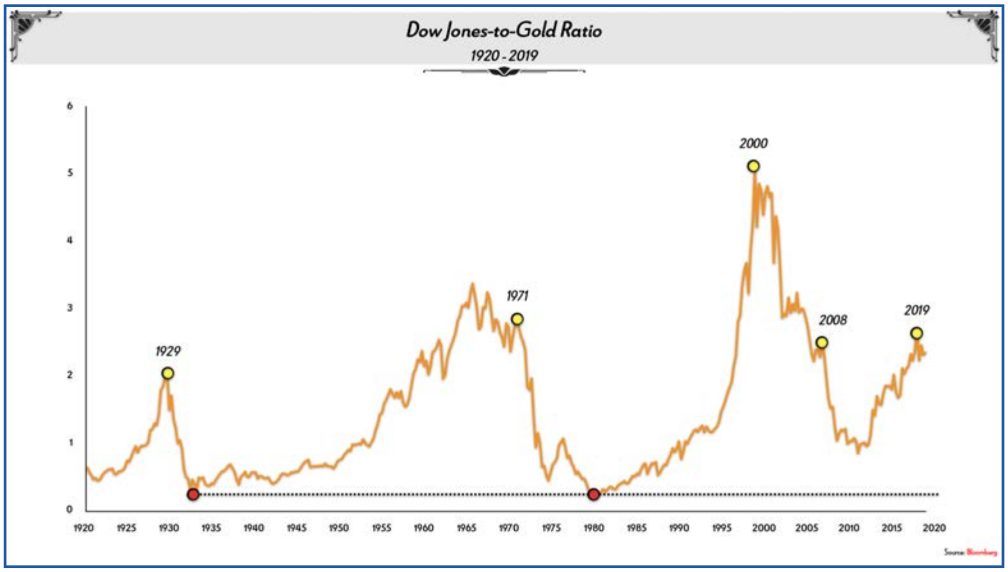


The ratio of gold to the Dow Jones (I'm choosing the Dow to keep things consistent all the way back to the 1920s) is screaming 'reversal' – just as it did in 1929, 1971, 2000 and 2008 (chart, next page).

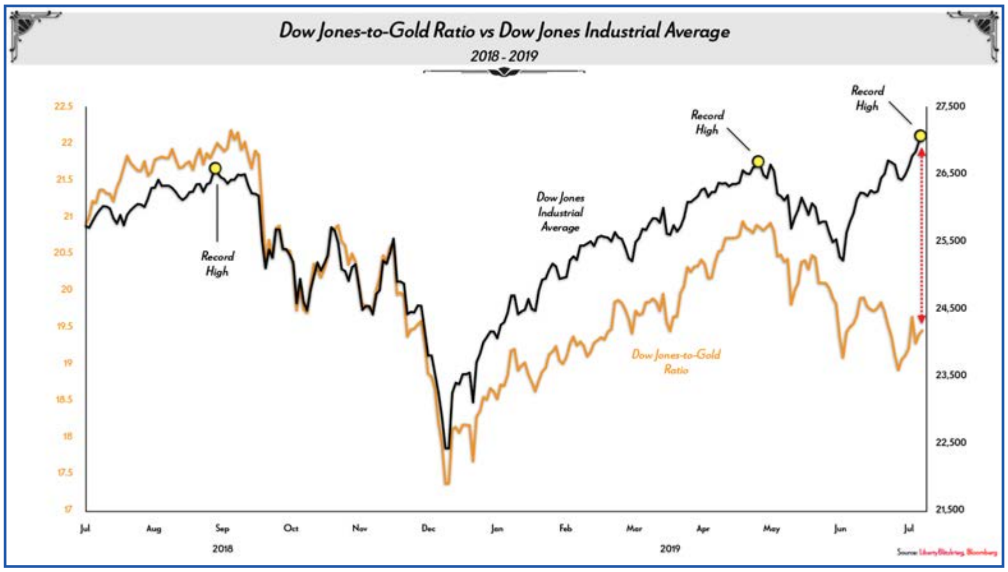
Things that make you go hmmm

Each of these reversals saw a material retracement to an equilibrium level – although the retracement in 2008 (itself a continuation of the purging of excess post-2000) was arrested in mid-slide by trillions of dollars of stimulus.

That day of reckoning, postponed for a decade, may well be finally coming due.



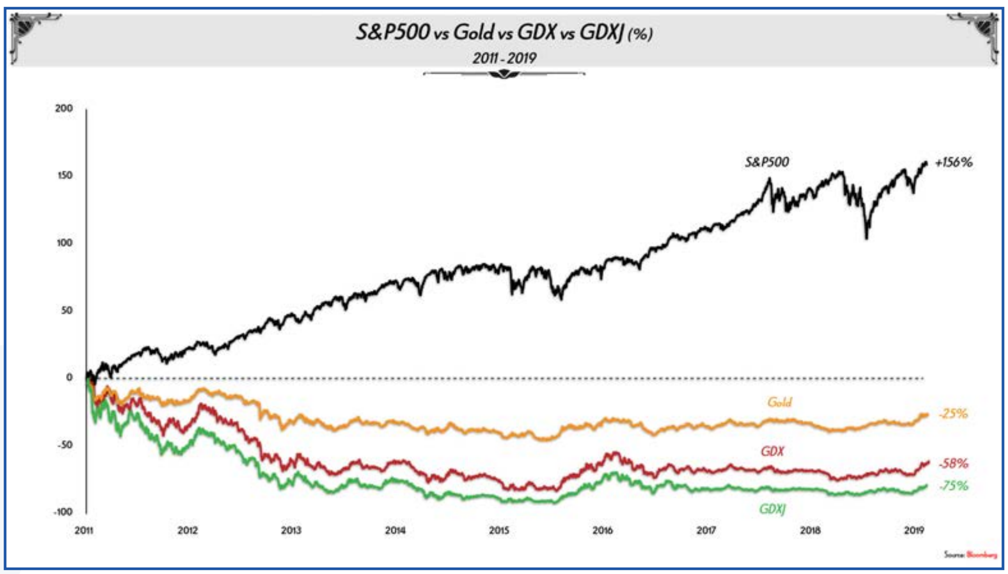
Certainly, when you overlay the chart of the Dow Jones (chart, centre), you can see that, despite a series of record highs in the index, the gold ratio just keeps falling away from stocks and towards the yellow metal.



And, as many of you know, gold and precious metals stocks have underperformed the S&P500 significantly since gold's high print in 2011.

It's been a painful few years – even by gold bugs' standards.

The S&P has climbed 156% during that time.



Gold is still 25% lower – despite its recent run.

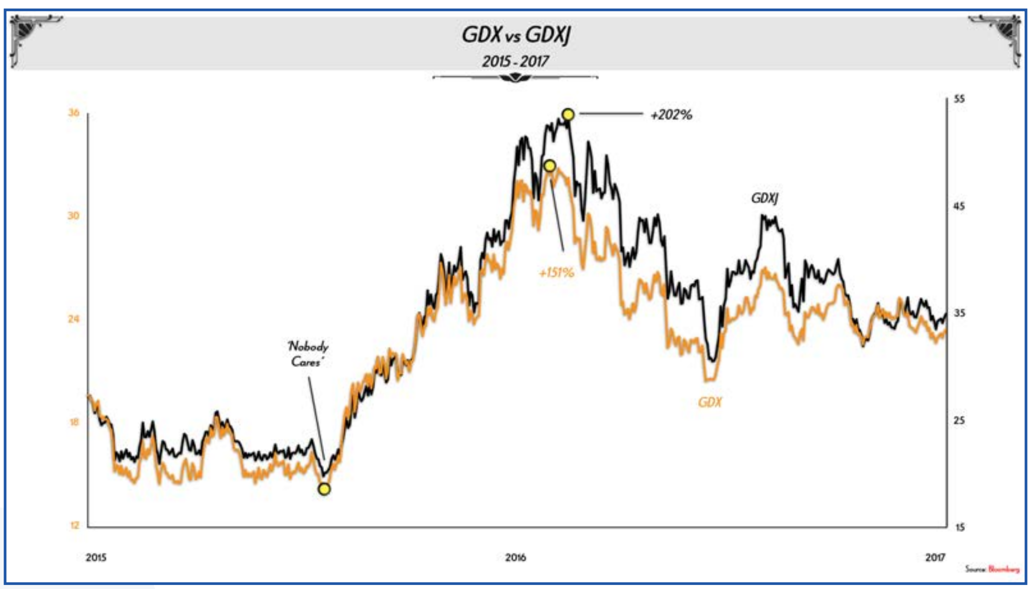
But a decline of 25% is nothing when compared to that suffered by the miners.

The GDX ETF of large-cap miners remains almost 60% below its 2011 high while the junior miners ETF, GDXJ is fully 75% below 2011 levels which, given the set-up currently in place looks ridiculously undervalued.

Now, I'm using the ETFs instead of individual stocks because, whilst individual companies may offer the chance of significant outperformance (and I'll outline a few of my own personal favourites at the end of this letter), when the public come for the miners, they'll come for GDX and GDXJ.

With stocks as unloved and out of favour as the gold mining stocks, there is a great deal of money to be made when they simply make the transition from hated to tolerated. When they move further towards being loved, the gains can be extraordinary.

The fact that the two gold miner ETFs have had such strong runs over the last few months (chart, next page) has people pausing for thought – scarred by previous experiences – and for good reason.



This set-up, however, offers a great risk-reward scenario and, while owning gold miners is never a comfortable place to be, we only have to go back a couple of years to find a little comfort.

In 2015, gold miners were unloved, under-owned and staring into the abyss and it was against that backdrop, as I mentioned earlier, that I gave my *Nobody Cares* presentation.

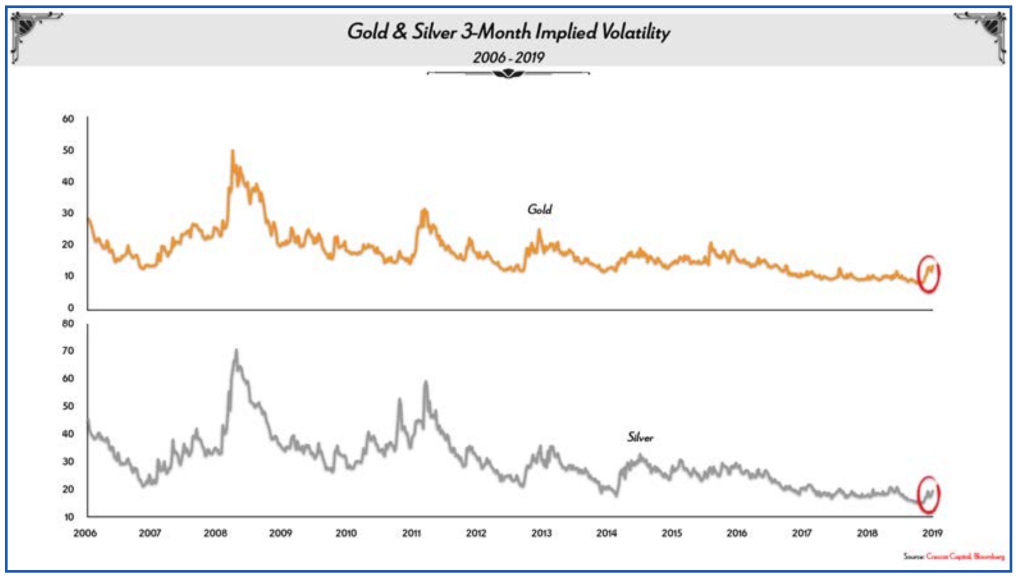
As I've already said, the timing was pure fluke, but the following 6 months showed what can happen when the setup for precious metals stocks is right and I'd say that the setup we have today, is even better than that which we saw in December 2015.

Things that make you go hmmm

But before I finish, I don't want to leave silver out of this conversation because this kind of precious metals setup is incredibly bullish for what is a much higher-beta play on any precious metal strength than gold.

The gold-to-silver ratio is at an extreme and, again, you can see previous reversions to the mean here which are usually incredibly sharp once the ratio gets too far out of line.

Precious metal volatility has, like that in equity markets, been dampened considerably but it's finally showing some signs of life and, when volatility increases in gold and silver, you can expect fireworks to the upside.



As precious metals prices have climbed in recent weeks, Vol has spiked, giving you a window into what to expect, but, like volatility in general, it remains historically very low indeed.

That will change...and when it does, this amazing chart of silver (courtesy of James Turk) will likely resolve itself in much higher prices. This is a near-50-year chart *on a log scale* which has one of the biggest cup and handle formations I've ever seen, along with an almost perfect double-top.

From a technical standpoint, it rarely gets much better than this.

So what should you take away from this week's *Things That Make You Go Hmmm...*?

Well, I know many of you reading this are already bullish on precious metals, but I wanted to give you some reasons as to why right now is a good time to own them – or add to your position.

The technical setups for the precious metals is incredibly positive and the risk/reward skew at this level is excellent.

Putting the emotional rollercoaster of investing in precious metals aside, these are the kinds of conditions which patience rewards.

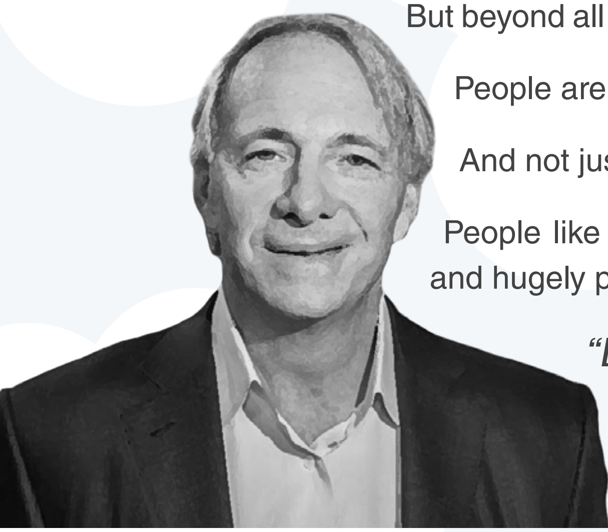
We have twin tailwinds in central bank buying and falling real rates – both of which have proven to be strongly positive for the gold price and neither shows any signs of dying down – quite the opposite in fact.

Lastly, volatility, while rising, remains depressed and, as is perennially the case, the miners, despite their recent strength, remain wildly unloved and absurdly under-owned.

The two big risks for gold and silver are, as always, a strengthening dollar and rising real rates but, the set-up we currently have in place is interesting with regards those two potential headwinds.

Firstly, with the massive increase in dollar-denominated debt in the world (some $13 trillion over the past several years according to the World Bank), a strengthening dollar would create havoc – the kind of havoc that will be a big net positive for gold.

And, with regards any spike in rates, this is likely to be driven by one of two dynamics – rising inflation (always a decent environment for gold), or, perish the thought, a meltdown in the bond market which would be a massive tailwind for precious metals.



But beyond all this, there is one key difference between now and December 2015.

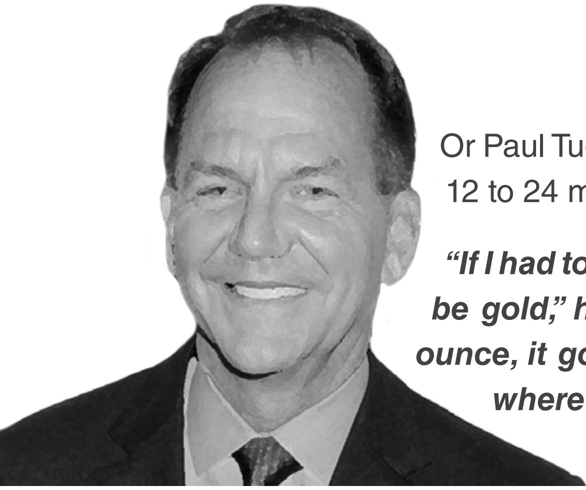
People are finally starting to care.

And not just any 'people'. No. The right people.

People like Ray Dalio, who a couple of weeks ago wrote a widely-circulated and hugely positive note recommending gold...

"[Assets] that will most likely do best will be those that do well when the value of money is being depreciated and domestic and international conflicts are significant, such as gold..."

Things that make you go hmmm



Or Paul Tudor Jones, who, in June flagged gold as his favorite trade for the next 12 to 24 months:

"If I had to pick my favourite trade for the next 12 or 24 months, it'd probably be gold," he tells Bloomberg News. "I think if it goes through $1,400 an ounce, it goes to $1,700...quickly. It has everything going for it in a world where rates in the US are conceivably going to zero...."

Or Stan Druckenmiller, who recently explained that gold is Duquesne's largest currency allocation:

"Some regard [gold] as a metal, we regard it as a currency and it remains our largest currency allocation…"

Forget me... *these* are the guys you should be listening to and they are all saying the same thing with regards gold; *Crikey!*

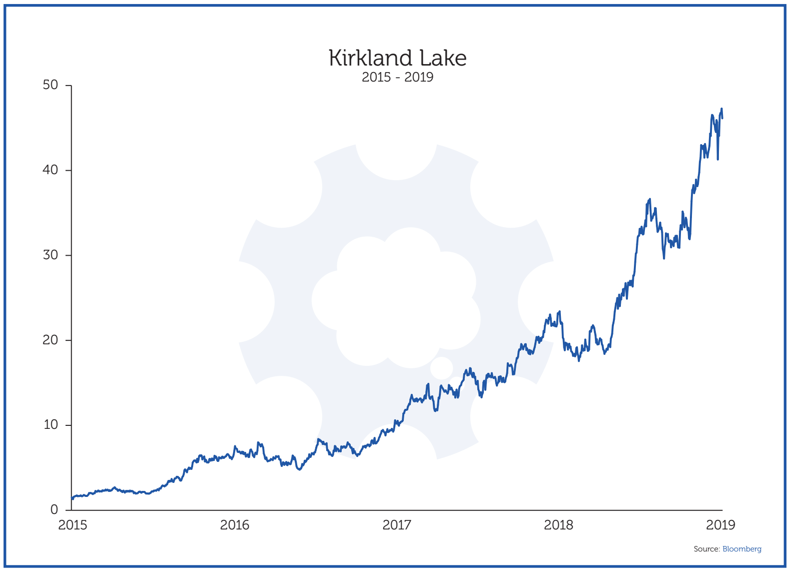
That's where my speech ended, but there are several precious metals stocks about which I'm bullish under the current circumstances. These are all companies which I believe have good resources, good management or, better yet, a combination of both.

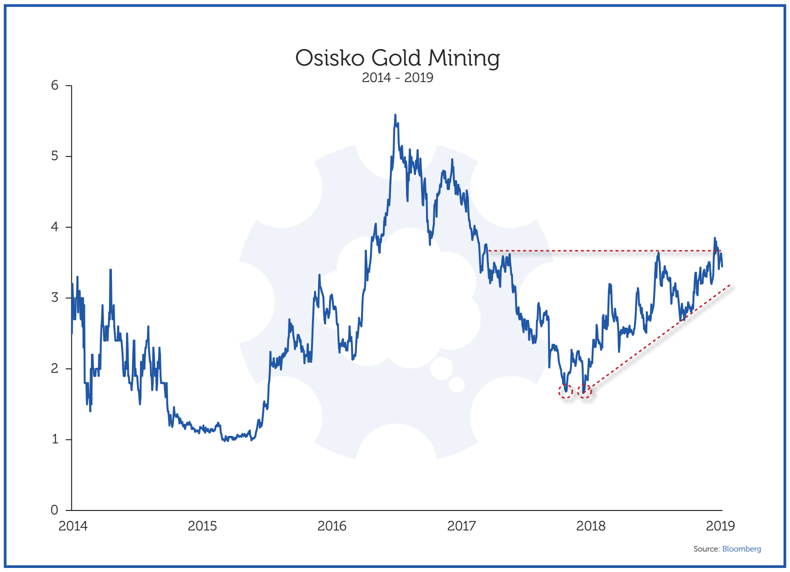
I'll write more about them in future editions and go into more detail as to why I like each company but, for now, here is a shopping list of sorts.

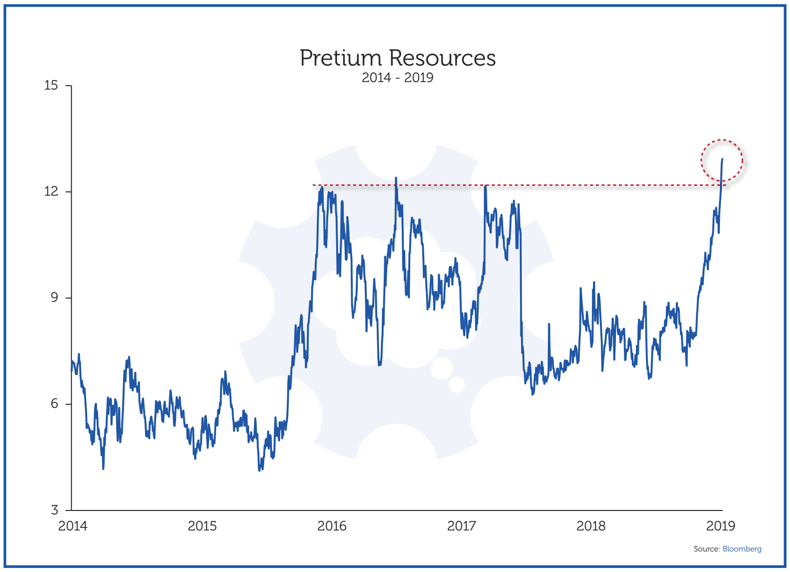
As you'll see, many of them have had stellar runs already and before buying any of them, please do your own research. The volatility in precious metal mining stocks can be extremely taxing and, when buying anything in this sector (particularly after a run like we've recently seen), you can be sure that your intestinal fortitude will be tested.

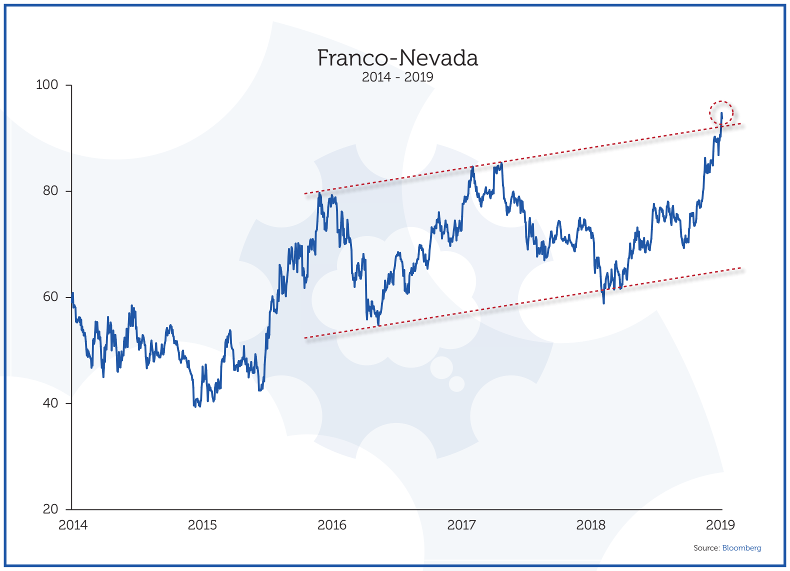
Moreover, as I said in my speech, the simple trade is to be in the ETFs (GDX and GDXJ) as those will be the vehicles of choice when the public come for PM stocks – which they certainly will. Perhaps soon.

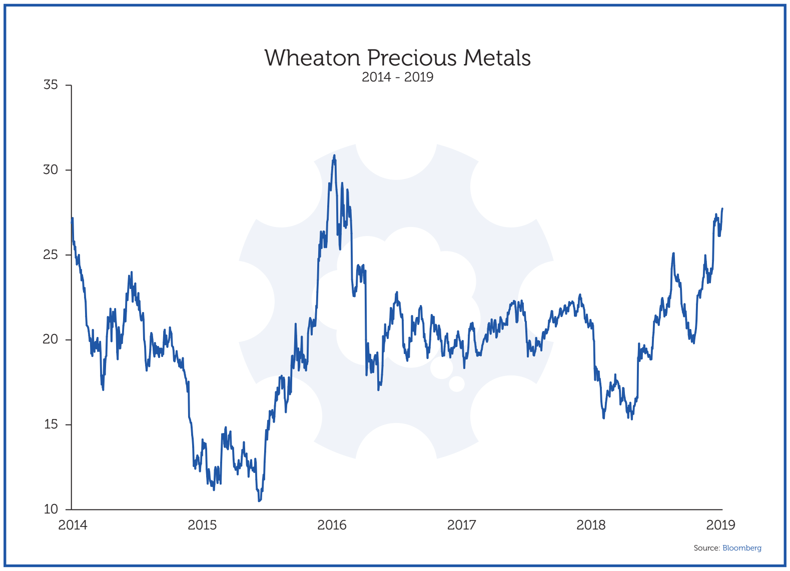
Things that make you go hmmm

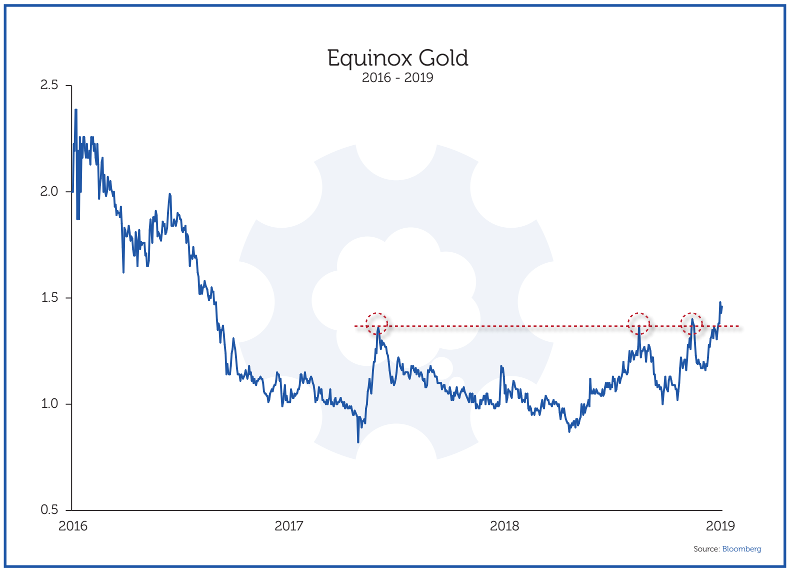


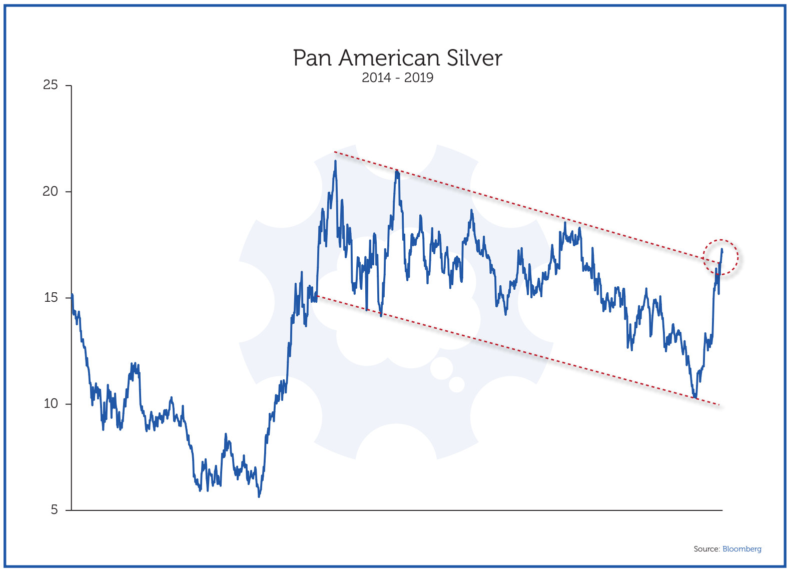








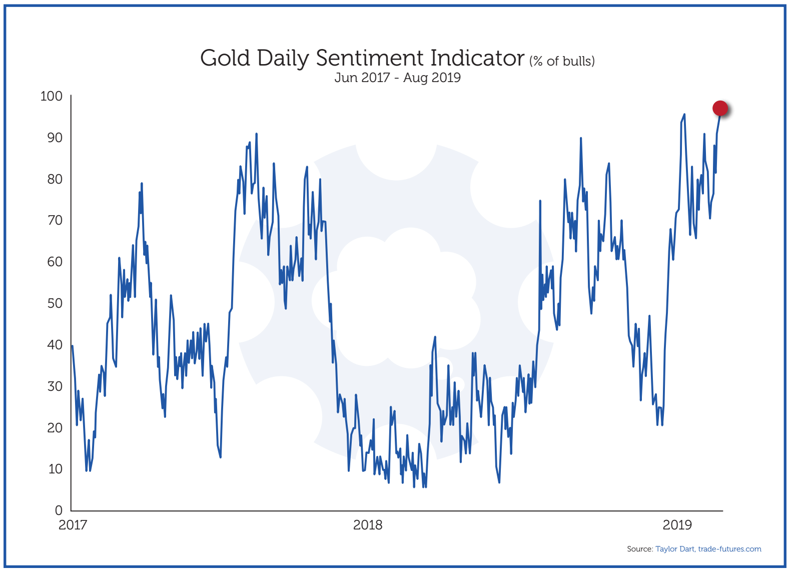




When I put *Crikey!* together a couple of weeks ago, the gold price had just breached $1,400.

Since then it has tacked on another $100 and, while I expect gold (and silver) to move significantly higher over time, both look overbought in the short-term at these levels.

As always with gold stocks, timing is everything and the stocks mentioned above have had a good run which suggests caution is appropriate at this point given the overbought sentiment for both the physical metal (which this week hit 97%) and the mining stocks.



Trade carefully, folks!

OK... so outside of the extremely bullish set-up in the precious metals, what do we have for you this week? Well, in a word, lots.

Negative-yielding debt, central banks and the burgeoning currency war dominate the news and all are represented in the pages of this week's *Things That Make You Go Hmmm...* along with more on two of our favourite subjects; Netflix & WeWork.

The escalating spat between the U.S. and China threatens the health of the global economy, the covered bond market sees yields on 10-year notes turn negative and a phalanx of former fed heads explains in a Wall Street Journal op-ed why the institution's independence is of paramount importance.

The yuan's slide may be China's gold standard moment, short sellers target Australia's Rural Funds and WeWork once again demonstrates why it's a head-shaker of a company.

Central bankers are the fall guys (according to one of their own), the fate of the largest ETF in the world is tied to something rather extraordinary and our friends at Netflix once again demonstrate both how reliant they are on low-cost funding and how cavalier they are with the money once they raise it.

This will not end well.

Away from all that, Bloomberg calls both bitcoin and gold 'monuments to irrationality, we take a look at charts of housing bubbles, the perilous state of the European banking sector and celebrate the one-year anniversary of Funding Secured Day (shouldn't that be April 20? Never mind.)

Lastly, we hear from my friends Ronni Stoferle and Raoul Pal about gold and the likelihood of a recession and a former Tesla engineer spills the beans on her ongoing legal battle with the company.

That's it for another week, folks!

UNTIL NEXT TIME...

Things that make you go hmmm

RURAL FUNDS GROUP DECLARES ACCOUNTS '100 PER CENT ACCURATE' AFTER SHORT ATTACK: *SYDNEY MORNING HERALD*

Rural Funds Group founder David Bryant has declared the company's accounts are 100 per cent accurate after its shares plunged following the publication of a report by American-based short-seller Bonitas Research.

The stock dropped more than 42 per cent on Tuesday morning, wiping $335 million from its value in just half an hour after it was targeted in the report which said its shares may be worthless.

"Our accounts are 100 per cent accurate and absolutely a truthful reflection of our business," he told the Sydney Morning Herald and The Age Tuesday evening.

Mr Bryant said his company is considering getting in an independent firm to to review its accounts and "put things beyond doubt."

Bonitas has a very different view.

"We believe the outcome of corrected financial statements will reveal that RFF minority shareholders were always designed to be last in line when RFF's capital raising days were over and the music stopped," said a report posted to Bonitas' web site.

"Because of this, we are short RFF and believe RFF's equity is ultimately worthless."

Bonitas is the new short selling operation founded by Matt Wiechert, the co-founder of Glaucus Research which launched a withering assault on Australia's Blue Sky Alternative Investments last year. Short selling is a trading strategy where the trader profits from a fall in the target company's share price.

"Evidence suggests that RFF's reported profitability had included $ 28+ million (sic) of fabricated rental income paid to RFF by its two largest third-party lessees," said Bonitas.

RFF is an ASX-listed real estate investment trust which owns more than $900 million worth of agricultural assets including almond and macadamia orchards, vineyards, water rights and cattle. It is managed by the privately owned Rural Funds Management Ltd.

The short-seller said it calculated that RFF had overstated its net assets by 100 per cent and that the company's true net assets figure was only $268 million as of December 31, 2018.

According to Bonitas, that would put RFF in breach of its recently increased minimum $400 million net asset loan covenant.

"And as we have laid out in this report, we believe nearly 100 per cent of RFF's reported profits since FY'17 are attributable to either fabricated rental income or non-cash gains from dubious fair value changes applied to RFF's assets," it said.

RFF went into a trading halt pending an announcement 17 minutes after Bonitas released the report.

The stock had dropped 99c to $1.36, wiping $335 million from its market valuation.

According to the RFF annual report, the company completed a $149.5 million capital raising in July last year.

PwC is RFF's auditor.

RFF is not the first Australian company to be targeted by shortsellers. Last year, Hedge fund VGI Partners publicly accused the $3 billion travel specialist Corporate Travel Management of aggressive accounting, poor disclosure and running "phantom" offices in Europe and America.

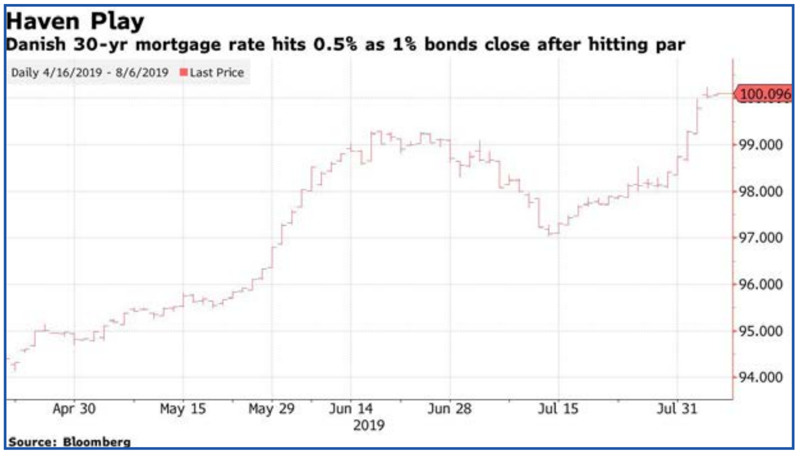
Earlier last year Mr Wiechert's former short-selling hedge fund Glaucus slammed Brisbane-based Blue Sky Alternative Investments over the value of its assets, the group's performance and its fees. Receivers were appointed to Blue Sky in May this year...

10-YEAR NOTES AT NEGATIVE COUPONS HIT COVERED-BOND MARKET: *BLOOMBERG*

In the world's biggest covered-bond market, a Danish bank says it's now ready to sell 10-year mortgage-backed notes at a negative coupon for the first time.

It's the latest record to be set in a world that's being dragged down by ever lower interest rates. In Denmark, where Jyske Bank A/S will offer 10-year mortgage bonds at a fixed rate of minus 0.5%, average Danes will borrow at rates far lower than those at which the U.S. government can sell its debt.

Jyske Bank says it would rather not be setting such records, given the global economic weakness that's behind the historically low interest rates.



"It's a first not only for us but for all Danish mortgage institutions," said Christian Bech-Ravn, head of ratings and investor relations at Jyske's mortgage arm. "Overall, I don't think it's a good sign for the economy with these very low interest levels that we are seeing at the moment."

Nordea Bank Abp, Scandinavia's biggest lender, last month stunned investors in Denmark's $495 billion mortgage market when it amended its prospectus to make way for negative coupons on bonds with maturities up to 30 years. Danske Bank A/S is still monitoring the situation, says Christian Heinig, chief economist at the mortgage mortgage arm of Denmark's biggest lender.

"There's still uncertainty around the trade war, Brexit and the strength of the global economic upturn," Heinig said. "And we have central bankers both in Europe and the U.S. that are poised for further monetary easing."

Denmark's 10-year government bonds, which are less liquid than the country's mortgage bonds, are trading at yields of around minus 0.5% since breaching zero back in March.

Jyske's decision to wade into uncharted territory comes on the heels of a record wave of remortgaging in Denmark. Borrowers with around 185 billion kroner ($28 billion) in bonds outstanding filed notifications last month to prepay their loans; most will refinance into 1% coupons fixed for 30 years, according to final figures released by issuing banks on Monday.

More prepayments are likely to come later this year, as rates offered by banks keep dropping. Lenders last week started offering 30-year mortgages at 0.5%, after the 1% bonds gained in value. (Once the notes hit par, banks take them off the shelf and offer new bonds at lower interest rates.)

"The world is moving very fast right now," says Anders Aalund, director of market strategy at Nordea.

Denmark's mortgage-bond market is split into callable, fixed-rate products and loans backed by short-term bonds that need to be refinanced every few years. In the shorter end of the mortgage market, borrowers have had access to negative rates for a while. But negative coupons on fixed-rate bonds were consigned to theory, until now.

Mikkel Hoegh, an economist at Jyske Bank, says someone should write "a new, modern textbook with some examples that match the current situation."

Denmark has had negative central bank rates longer than any other country, as policy makers defend the krone's peg to the euro. The currency regime forces Denmark to track the European Central Bank in its rate decisions. Denmark is also among a handful of sovereigns left that still boasts a AAA grade at the three main ratings companies, adding to its appeal in uncertain times.

"Danish covered bonds are still considered a safe haven," Bech-Ravn said. "Investors are uncertain about the future, what's going to happen in the following years. We're also seeing more and more international investors buying krone-denominated callable bonds."

Jyske may even need to extend the maturities at which it offers negative rates, if investors keep piling into the securities.

"I can't say what'll happen in the future," Bech-Ravn said. "If you had asked me a year ago, I would have said we would never open a 30 callable covered bond with a coupon of 0.5%..."

'READY TO RUMBLE'; U.S.-CHINA FIGHT PUTS WORLD ECONOMY ON THE BRINK: *NY TIMES*

To most people, Aug. 9, 2007, was an ordinary enough summer day. The stock market fell about 3 percent, sufficiently notable to lead the major newspapers, but hardly anything that would generate panic in the streets.

Yet to many people who work in economic policy or financial markets, that day was the beginning of what would eventually be called the global financial crisis. It was the day that lending froze up among banks within Europe, triggered by the breakdown in the market for bonds backed by American home mortgages, and central banks first intervened to try to keep money flowing.

Monday felt eerily similar, and not just because it was another August day in which the stock market fell by nearly identical amounts: The drop in the S&P 500 was 2.96 percent in 2007 and 2.98 percent Monday.

For months, people who study economic diplomacy between the United States and China have warned that the world's two biggest economies are on a collision course, that the trade war between the two will have no easy resolution, and that this tension could spill into other areas of policy and create dangerous ripple effects for the world economy.

In the last several days, that pessimistic story has become more real.

On Thursday, President Trump said he would place 10 percent tariffs on $300 billion in Chinese goods, ending a period in which there seemed to be some easing of tensions between the two nations. On Monday, the Chinese government allowed its currency to fall below a symbolically important seven-to-the-dollar level, an apparent retaliatory move that amounts to trade tensions spreading into another arena. The United States returned fire by formally naming China a currency manipulator.

The swings in financial markets Monday are hard to justify in narrow terms. A slightly cheaper Chinese currency shouldn't have huge consequences for the global economy. Rather, investors are coming to grips with the reality that the trade war is escalating and spreading into the global currency market.

While the drop in the stock market gets the attention — the S&P is down 5.8 percent in the last week — it is global bond markets that are flashing the most worrying signs about the outlook for growth in the United States and much of the world.

Ten-year Treasury bonds yielded 1.72 percent at Monday's close, down from 2.06 percent a week earlier — a sign that investors now believe that weaker growth and additional interest rate cuts by the Federal Reserve are on the way.

"The Chinese have sent a strong signal that they are ready to rumble," said Paul Blustein, a senior fellow at the Centre for International Governance Innovation and the author of "Schism," a book due out next month about the fraying relationship between the United States and China. "To depreciate the currency at such a fraught time sends a signal that they are prepared to endure a heck of a lot of pain, and it doesn't surprise me that markets would finally come around and say, 'This could be really bad.'"

As we've seen many times through this trade war, escalation and de-escalation can come at seemingly any time. President Trump could back away from his latest tariff threat and calm things down, or move the opposite direction by increasing the tariff to be charged on those $300 billion in imports from China. But one recurring theme of the last two years is that trade conflicts in the Trump era never seem to become fully resolved, but rather go through more-intense versus less-intense phases.

Whatever happens next — and whether this turns out to be the beginning of a major turning point for the global economy or just one rough day on the markets — it is clear that the trade war is no longer confined to trade.

While President Trump has often accused China of seizing advantage in global trade by manipulating the value of its currency to keep it lower, the latest developments reflect pretty much the opposite. In fact, a slowing Chinese economy is creating downward pressure on the renminbi — a pressure that China's government has resisted, through intervention by its central bank and capital controls, to try to keep Chinese citizens from moving money out of the country.

On Monday, the Chinese essentially reduced the scale of that intervention and let the value of the yuan fall closer to the level it would reach in an open market.

The risk is that President Trump and eventually leaders of other nations will conclude that currencies are now fair game — that they are a good and appropriate weapon to use in trade disputes. For weeks Mr. Trump has pilloried the Federal Reserve for not cutting interest rates more, arguing that this has made the value of the dollar excessively high, weakening American exporters.

Trade disputes and currency disputes have historically gone hand in hand. Most notoriously, during the Great Depression nations competed to devalue their currencies in "beggar-thy-neighbor" policies that ultimately made everyone poorer. It's less clear what a 21st-century currency war would look like.

Major nations have mostly agreed not to take action to artificially depress their currencies at the expense of their trading partners. But setting monetary and fiscal policies aimed at helping your domestic economy is considered O.K., even if doing so has implications for currencies.

The thing is, it can be debatable which bucket a given policy fits into. For example, countries including Germany, China and Brazil accused the United States of manipulating its currency when the Fed engaged in “quantitative easing” policies in 2010 that depressed the value of the dollar.

If Mr. Trump directs his administration to try to drive the value of the dollar lower using Treasury Department authorities to intervene in markets, or prevails upon the Fed to more aggressively lower interest rates in order to depress the value of the dollar, that could embolden not just China but other economic powers, like Japan, South Korea and Europe, to do the same...

YUAN'S SLIDE IS GOLD STANDARD MOMENT FOR CHINA: *GEORGE MAGNUS*

China allowing the yuan to slide below 7 to the dollar is a watershed moment for currency markets that’s symbolically equivalent to the U.S. and other countries abandoning the gold standard in the interwar period, or the collapse of the postwar Bretton Woods system of fixed exchange rates four decades ago. The implications for the global economy are equally significant.

The world’s major currencies aren’t tethered in the way they were in those periods, but gold and Bretton Woods both served as anchors for the world’s monetary system, and their demise reflected the economic and political disarray of their times. Today, the yuan is semi-pegged to the U.S. dollar. The arrangement serves as an anchor for China’s financial system, now the world’s largest by assets; for many currency systems in Asia and around the world; and for U.S.-China economic and financial relations.

If that mainstay ruptures, it’s liable to set off chain reactions inside and outside China. That’s why the loosening in currency policy by the People’s Bank of China this week, while it may seem unremarkable for most people, is an important development.

It may be too early to assert that China is “weaponizing” the yuan in the deepening trade war with the U.S., especially because the central bank’s actions still appear measured and moderate. Nevertheless, the assumption that keeping the yuan rate stable against the dollar was part of the complex politics surrounding the trade negotiations no longer holds. President Donald Trump’s decision to impose a 10% punitive tariff on a further $300 billion of Chinese imports – perhaps a waymark to 25% at a later date – looks to have changed the calculus.

China can no longer engage in tit-for-tat tariffs because it imports so much less than it sells to the U.S. Its only options are to target American companies using its own “ entity list” of firms deemed to damage Chinese interests; make life more difficult for them in China; and ultimately to depreciate the currency. The political decision to sanction the move suggests China has weighed the costs of a weaker currency and decided they are less than those of an impasse in talks and continued economic harm from tariffs.

A cheaper yuan, or renminbi, will help Chinese exporters compete in the U.S. and global markets, offsetting the impact of tariffs to some extent. In the short term, it will help to prop up China's fragile growth momentum.

The negative implications are more severe, though. A weaker currency will hurt Chinese consumers, who will pay more for imports, and hinder the intended shift in the economy to a more consumer-oriented structure. It will raise the credit risk and vulnerability of Chinese property and other companies that have been borrowing increasing volumes of dollars in the past few years. It will almost certainly encourage residents to try to evade capital controls and place money offshore. This happened in 2015-16 too, though the strengthened capital controls regime since then is likely to be more effective for the time being.

Beyond China, the yuan's slide is likely to trigger competitive currency depreciations, especially in countries that are part of its Asian supply chains and those that compete with Chinese products. The dollar will be the de facto beneficiary, often a sign that the world economy is faltering. A weaker renminbi will hurt U.S. producers and exporters at a time when the American economy is softening. It will also reduce the foreign earnings of U.S, firms, and as a result, the equity market.

The political significance may be at least as great. The importance of the renminbi, literally the "people's money," to China is no less than that of the dollar to America or sterling to the U.K. China's economic narrative places much pride in, for example, its $3 trillion stock of foreign-currency reserves, and attaches extraordinary status to the role and function of the renminbi. The decision to put the stability of the currency at risk won't have been taken lightly.

As far as economic activity is concerned, the yuan's move through 7 almost certainly reflects concern over the weaker trajectory of the economy, in which trade plays a relatively small direct role, though a cumulatively more important one. It's not only the effect of tariffs that filters through China's economy, but the loss of productive capacity as a rising number of firms move supply chain operations, and jobs, outside the country. A major Chinese investment bank recently suggested the industrial sector has lost about 5 million jobs in the last year, almost half of which are attributable to the trade war.

The yuan's move appears to reflect frustration at the lack of progress in trade talks, and specifically the refusal of the U.S. side to remove tariffs as a condition for any Chinese concessions. The depreciation will be managed for the time being, but it's unlikely to stop. With time, the rapid expansion of financial assets in China, combined with political pressures, will probably lead to a much greater decline.

By then, it won't be only financial markets that are paying attention. The yuan's path may help shape the future of geopolitical and economic arrangements around the world...

AMERICA NEEDS AN INDEPENDENT FED: *PAUL VOLCKER, ALAN GREENSPAN, BEN BERNANKE & JANET YELLEN*

As former chairs of the board of governors of the Federal Reserve System, we are united in the conviction that the Fed and its chair must be permitted to act independently and in the best interests of the economy, free of short-term political pressures and, in particular, without the threat of removal or demotion of Fed leaders for political reasons.

Collectively, we served our nation across nearly 40 years and were appointed and reappointed by six presidents, both Republican and Democratic. Each of us had to make difficult decisions to help guide the economy toward the Fed's legislated goals of maximum employment and stable prices. In retrospect, not all our choices were perfect. But we believe those decisions were better for being the product of nonpartisan, nonpolitical assessments based on analysis of the longer-run economic interests of U.S. citizens rather than being motivated by short-term political advantage.

The Fed's nonpartisan status doesn't mean it is unaccountable. Congress sets the Fed's powers and charges it with maximizing employment and promoting stable prices. The chair and other Fed leaders testify before Congress and speak regularly in public, explaining their views of the economy and how they plan to meet their mandates. Presidents, members of Congress, financial-market participants, pundits and many private citizens advocate that the Federal Reserve make particular monetary policy decisions. In our system of government, that is the right and privilege of every person, one we don't question. The Fed welcomes open dialogue, as evinced by the "Fed Listens" program, in which Fed leaders have engaged with the public about possible changes to the Fed's policy framework. A robust public debate helps make monetary policy better.

History, both here and abroad, has shown repeatedly, however, that an economy is strongest and functions best when the central bank acts independently of short-term political pressures and relies solely on sound economic principles and data. Examples abound of political leaders calling for the central bank to implement a monetary policy that provides a short-term boost to the economy around election time. But research has shown that monetary policy based on the political (rather than economic) needs of the moment leads to worse economic performance in the long run, including higher inflation and slower growth. Even the perception that monetary-policy decisions are politically motivated, or influenced by threats that policy makers won't be able to serve out their terms of office, can undermine public confidence that the central bank is acting in the best interest of the economy. That can lead to unstable financial markets and worse economic outcomes.

Because nonpartisan, independent monetary policy is so important, Congress wisely established the Federal Reserve as an independent agency with regional participation and safeguards against political manipulation.

Among these safeguards are 14-year terms for Federal Reserve Board members (four years for the chair and vice chairs) and the provision that Fed governors, including the chair and vice chairs, may be removed only for a cause related to violations of law or similar misbehavior, and not for policy differences with political leaders. This system of fixed terms is designed to ensure that the Fed makes decisions that best serve the economy—and all of us—regardless of short-term political considerations.

Elections have consequences. That certainly applies to the Federal Reserve as well as to other government agencies. When the current chair's four-year term ends, the president will have the opportunity to reappoint him or choose someone new. That nomination will have to be ratified by the Senate. We hope that when that decision is made, the choice will be based on the prospective nominee's competence and integrity, not on political allegiance or activism. It is critical to preserve the Federal Reserve's ability to make decisions based on the best interests of the nation, not the interests of a small group of politicians...

CENTRAL BANKS ARE THE FALL GUYS: RAGHURAM.RAJAN

Central-bank independence is back in the news. In the United States, President Donald Trump has been berating the Federal Reserve for keeping interest rates too high, and has reportedly explored the possibility of forcing out Fed Chair Jerome Powell. In Turkey, President Recep Tayyip Erdogan has fired the central-bank governor. The new governor is now pursuing sharp rate cuts. And these are hardly the only examples of populist governments setting their sights on central banks in recent months.

In theory, central-bank independence means that monetary policymakers have the freedom to make unpopular but necessary decisions, particularly when it comes to combating inflation and financial excesses, because they do not have to stand for election. When faced with such decisions, elected officials will always be tempted to adopt a softer response, regardless of the longer-term costs. To avoid this, they have handed over the task of intervening directly in monetary and financial matters to central bankers, who have the discretion to meet goals set by the political establishment however they choose.1

This arrangement gives investors more confidence in a country's monetary and financial stability, and they will reward it (and its political establishment) by accepting lower interest rates for its debt. In theory, the country thus will live happily ever after, with low inflation and financial-sector stability.

Having proved effective in many countries starting in the 1980s, central-bank independence became a mantra for policymakers in the 1990s. Central bankers were held in high esteem, and their utterances, though often elliptical or even incomprehensible, were treated with deep reverence.

Fearing a recurrence of the high inflation of the early 1980s, politicians gave monetary policymakers wide leeway, and scarcely ever talked about their actions publicly.

But now, three developments seem to have shattered this entente in developed countries. The first development was the 2008 global financial crisis, which suggested that central banks had been asleep at the wheel. Although central bankers managed to create an even more powerful aura around themselves by marshaling a forceful response to the crisis, politicians have since come to resent sharing the stage with these unelected saviors.

Second, since the crisis, central banks have repeatedly fallen short of their inflation targets. While this may suggest that they could have done more to boost growth, in reality they don't have the means to pursue much additional monetary easing, even using unconventional tools. Any hint of further easing seems to encourage financial risk-taking more than real investment. Central bankers have thus become hostages of the aura they helped to conjure. When the public believes that monetary policymakers have superpowers, politicians will ask why those powers aren't being used to fulfill their mandates.

Third, in recent years many central banks changed their communication approach, shifting from Delphic utterances to a policy of full transparency. But since the crisis, many of their public forecasts of growth and inflation have missed the mark. That these might have been the best estimates at the time convinces no one. That they were wrong is all that matters. This has left them triply damned in the eyes of politicians: they failed to prevent the financial crisis and paid no price; they are failing now to meet their mandate; and they seem to know no more than the rest of us about the economy.

It is no surprise that populist leaders would be among the most incensed at central banks. Populists believe they have a mandate from "the people" to wrest control of institutions from the "elites," and there is nothing more elite than pointy-headed PhD economists speaking in jargon and meeting periodically behind closed doors in places like Basel, Switzerland. For a populist leader who fears that a recession might derail his agenda and tarnish his own image of infallibility, the central bank is the perfect scapegoat.

Markets seem curiously benign in the face of these attacks. In the past, they would have reacted by pushing up interest rates. But investors seem to have concluded that the deflationary consequences of the policy uncertainty created by the unorthodox and unpredictable actions of populist administrations far outweigh any damage done to central bank independence. So they want central banks to respond as the populist leader desires, not to support their "awesome" policies, but to offset their adverse consequences.

A central bank's mandate requires it to ease monetary policy when growth is flagging, even when the government's own policies are the problem. Though the central bank is still autonomous, it effectively becomes a dependent follower. In such cases, it may even encourage the government to undertake riskier policies on the assumption that the central bank will bail out the economy as needed.

Worse, populist leaders may mistakenly believe the central bank can do more to rescue the economy from their policy mistakes than it actually can deliver. Such misunderstandings could be deeply problematic for the economy.

Furthermore, central bankers are not immune to public attack. They know that an adverse image hurts central bank credibility as well as its ability to recruit and act in the future. Knowing that they are being set up to take the fall in case the economy falters, it would be only human for central bankers to buy extra insurance against that eventuality. In the past, the cost would have been higher inflation over the medium term; today, it is more likely that the cost will be more future financial instability. This possibility, of course, will tend to depress market interest rates further rather than elevating them.

What can central bankers do? Above all, they need to explain their role to the public and why it is about more than simply moving interest rates up or down on a whim. Powell has been transparent in his press conferences and speeches, as well as honest about central bankers' own uncertainties regarding the economy. Shattering the mystique surrounding central banking could open it to attack in the short run, but will pay off in the long run. The sooner the public understands that central bankers are ordinary people doing a difficult job with limited tools under trying circumstances, the less it will expect monetary policy magically to correct elected politicians' errors. Under current conditions, that may be the best form of independence central bankers can hope for...

WEWORK WANTED TO LAND VIDEO DEALS WITH NBC AND MARTIN SCORSESE: *BLOOMBERG*

For the past two years, WeWork Cos. has spent more than $40 million to host a series of startup pitch competitions around the world. The real estate company asks contestants to pitch apps or creative projects to celebrity panels of judges and compete for cash prizes, in between musical performances from the likes of the Red Hot Chili Peppers. This year, it hoped to go much bigger.

WeWork teamed up with Ashton Kutcher to pitch a television show to NBC based on the contest, known as the Creator Awards, according to two people familiar with the talks. The show would be similar to Shark Tank and have camera crews follow contestants around the events. The project hasn't panned out, though, and is currently on hold.

As WeWork prepares for an initial public offering as soon as next month, the founders want their creation to be seen as much more than a real estate business. The New York company generates most of its revenue from renting office space to workers but also runs a gym, an app for organizing social gatherings and an elementary school. The pursuit of a television deal illustrates the flashy, and often expensive, way the company approaches many aspects of its business, including marketing.

In another example that hasn't been previously reported, WeWork explored a collaboration with Martin Scorsese, the Oscar-winning director of films such as The Departed and the forthcoming The Irishman. WeWork executives discussed hiring Scorsese to direct a series of videos promoting the brand this summer, according to two people familiar with the plan, who asked not to be identified due to disclosure restrictions around the IPO.

The idea came directly from the founders: Adam Neumann, the chief executive officer; Rebekah Paltrow Neumann, his wife and a cousin of actress Gwyneth Paltrow; and Miguel McKelvey, the chief culture officer. Other directors were also considered, though it's not clear what decisions the company ultimately made. Representatives for Scorsese and WeWork declined to comment.

Neumann, the CEO, frequently portrays WeWork as a cross between a lifestyle brand and a technology business. For a meeting with Wall Street analysts a week ago, WeWork initially sent some invitations to tech and internet analysts, though in the end, several who cover real estate were able to attend, said a person who was there. The IPO is likely to be the biggest of the year after Uber Technologies Inc. and is slated to run alongside a $6 billion debt facility. All that cash has attracted the attention of the world's biggest banks, some of whose CEOs have personally courted Neumann for a shot at the business.

Inside last week's analyst event at a WeWork office in Manhattan's financial district, Neumann and his lieutenants held court for close to three hours. During the presentation, Neumann told the audience to think of WeWork like Amazon.com Inc.—starting off in one business but rapidly expanding to others, even while unprofitable, according to the attendee, who asked not to be identified citing a nondisclosure agreement. (Uber made a similar pitch on its IPO roadshow.) Neumann then joked that he wanted to move away from Amazon comparisons because he'd been using them too often. Attendees were invited to pick from an array of swag, including mugs, T-shirts, black tote bags and umbrellas printed with the company slogan, “Do What You Love.”

Neumann, a 40-year-old Israeli immigrant with dark, flowing hair, has a star power of his own. During a question-and-answer session at the event, no analysts asked him about the controversial deals in which WeWork leased space in properties owned by Neumann. At the end of the meeting, Neumann posed for pictures with some attendees—an uncommon practice for an executive pitching his company to analysts.

For years, Neumann has used celebrities and glitzy performances to reward employees and appeal to potential members. Until recently, WeWork held an annual, multi-day festival for thousands of staff and customers called Summer Camp. The parties featured Neumann delivering inspirational orations onstage, as well as musical headliners such as Lorde, the Chainsmokers and Florence + the Machine. The company also held annual winter gatherings for its workers, usually in Los Angeles.

WeWork started the Creator Awards in 2017 as a way to expand the company's reach to entrepreneurs who aren't already customers. That year, WeWork spent $16.1 million on the project and invested an additional $2 million in the winning companies, according to financial documents reviewed by Bloomberg. Startups, nonprofits and artists competed for prizes at regional events, and the grand winners in 2018 and 2019 were awarded $1 million each. The final event of the first competition featured Neumann, self-help author Tim Ferriss and Miracle Mop inventor Joy Mangano as judges, a fireworks show and a live performance from rapper Macklemore.

The next year, WeWork spent $24 million on the awards, a figure that doesn't include the cost of its final show early this year. Judges at the finals in Los Angeles included Sean "Diddy" Combs and Kutcher, who's an actor, investor and personal friend of WeWork's CEO. The Red Hot Chili Peppers played an hour-long set.

For the TV adaptation of the Creator Awards, WeWork held discussions with Kutcher to serve as a producer, along with Guy Oseary, a talent manager for Madonna and U2 who also runs a venture capital firm with Kutcher, people familiar with the deliberations said. WeWork held talks early this year with executives from Comcast Corp.'s NBCUniversal, the people said. Representatives for the network and WeWork declined to comment. Representatives for Kutcher and Oseary didn't respond to requests for comment.

WeWork classifies the Creator Awards as "strategic marketing events," according to a document relating to a 2018 bond offering. It told investors that the series, held in Berlin, Seoul, Tel Aviv and other international cities, is "a critical means through which we express our key values—inspiration, entrepreneurship, authenticity, tenacity, gratitude and togetherness."...

THE FATE OF THE WORLD'S LARGEST ETF IS TIED TO 11 RANDOM MILLENNIALS: *BLOOMBERG*

The fate of the world's largest exchange-traded fund rests on the health of a group of twenty-somethings.

Thanks to a quirk in the legal structure used to set up the SPDR S&P 500 ETF Trust, known as SPY, more than $250 billion rests on the longevity of 11 ordinary kids born between May 1990 and January 1993.

Those children are now carving out careers in public relations, restaurants and sales, spread around the country from Boston and Philadelphia to Alabama and Utah. But none of the eight spoken to by Bloomberg News was aware of their role in investing history.

“Today was the first I heard about this,” said Alexander Most, 27, who’s about to start graduate school, studying education, policy and management. “Has it made me think about my mortality? Absolutely, in terms of projecting when this thing might end.”

It all harks back to the arcane structure used to create SPY, the first U.S. ETF, in 1993. At the time, setting up the fund as a unit investment trust solved a practical problem. Not only was it an established legal structure, it allowed the issuer to create fund units that resembled a company’s shares. But as a consequence, it required a specified termination date. So like many trusts, the fund was initially structured to expire in 25 years -- in January 2018. It was subsequently amended to peg the fund to the lives of individuals, which extended its own life.

SPY as we know it will cease to be on Jan. 22, 2118, or 20 years “after the death of the last survivor of the eleven persons” -- whichever occurs first. The structure doesn’t provide those people with a financial interest in SPY.

At least 8 of the 11 named in SPY’s documents have a family connection to the American Stock Exchange, which structured the first ETF and was bought by NYSE Euronext in 2008. For example, Most -- the grad student -- is the grandson of Nathan Most, one of the creators of SPY. State Street Corp. referred requests for comment on plans to deal with the fund’s end to NYSE, which declined to comment.

Claire McGrath was a lawyer in the options division of the AMEX in the early nineties. She remembers a call going out for babies’ names that could be used by the trust and volunteered her son, Kevin, and two nephews, Paul and Peter Pavelka.

“I had my son, and they asked if I would mind if they used him,” McGrath said. “It’s interesting because it’s an arcane rule that trusts always have to deal with, but it’s not a big deal. At the time, when we were creating these things, we had no idea they would become as spectacular.”

Kevin now works in PR in New York, while Paul and Peter are based in Philadelphia, tending bar at a trendy restaurant and working for the city’s water department, respectively. Birmingham, Alabama-based siblings Rian and John Imwalle also ended up on the list (their late step-grandmother, Marilyn, worked for the corporate communications team) as did Emily Weber, whose father Cliff Weber worked at the AMEX and later NYSE for more than two decades.

Jay Baker, now director of capital markets at Exchange Traded Concepts, an ETF issuer, says he put forward his daughter’s name. “They needed some names,” said Baker. “I think somebody said ‘Would you volunteer your daughter?’ and obviously she didn’t have a say in it -- and I was fine with it. It was just part of the process.”

One of the few non-AMEX-related people mentioned in SPY’s documents is Elizabeth Angel, an Atlanta-based engineer, and daughter of Jim Angel, a renowned finance professor at Georgetown University.

SPY isn't the only ETF set up in this way. Seven other funds were also set up as unit investment trusts, according to data compiled by Bloomberg. And at least three of them include a provision relating to human lifespans.

Of course, with the oldest of the 'SPY 11' not yet 30, anyone who invests in, or trades, the ETF has a while to work out an alternative. But it's a quirky reminder of how the ETF industry started out.

"I'm honored to be part of it and how we're tied together on this is, I think, pretty special," said Emily Weber, 26, who works in enterprise sales in New York. "I'm proud of the way it's gotten to this point. I'm happy for everyone who was working on it."..

NETFLIX JUST SPENT $200 MILLION FOR 'GAME OF THRONES' CREATORS, BUT THE COST COULD BE GREATER: *CNBC*

Game of Thrones showrunners David Benioff and D.B. Weiss are leaving HBO for a $200 million paycheck from rival streaming service Netflix.

The deal is one of many that Netflix has made in the last year to bring in top-tier talent to make TV shows and films exclusive to the platform to better compete with rival streaming services like Hulu and Amazon Prime as well as up-and-coming ones like Disney+ and Comcast's yet-to-be-named service.

However, analysts wonder if these deals are worth the money for Netflix.

Netflix has been burning through cash for the last decade, signing names like Guillermo del Toro ("Shape of Water"), Ryan Murphy ("Glee") and Shonda Rhimes ("Grey's Anatomy").

Last year, Netflix shelled out more than $12 billion to purchase, license and produce content. This year, that figure will rise to $15 billion. It will spend $2.9 billion more on marketing. These costs come as Netflix is expected to report $20.2 billion in revenue in 2019, according to analysts surveyed by Refinitiv.

While Benioff and Weiss were the shepherds of the Emmy Award-winning "Game of Thrones," there has been criticism about their writing on the show in later seasons, when the pair no longer had author George R. R. Martin's source material to work from.

"Either [Benioff and Weiss] are the next Steven Spielberg or they are the next Michael Cimino," Wedbush analyst Michael Pachter said.

While Spielberg has continued to thrive in the industry, Cimino famously wrote and directed "Heaven's Gate," a film that flopped so badly at the box office it caused Transamerica to shutter its film production and sell its studio to MGM. This was just two years after Cimino made the Academy Award-winning "Deer Hunter."

“I’d say somewhere in between,” Pachter said. “They might be good enough to justify the price, but they might not be. Remember, they still have to produce something, and if it’s not great, it isn’t worth it.”

And that’s been an issue for Netflix. While someone like Murphy, whom they paid a reported $300 million for a five-year contract, has said he has 10 greenlit projects in the pipeline for Netflix — three documentaries, four TV shows and three movies — only one has been given a release date.

“The Politician” is an eight-episode show about the lengths the super rich will go to stay on top, including paying to get their children into elite colleges. The show, whose premise predates the college cheating scandal, is due out at the end of September.

Rhimes signed a deal with Netflix in 2017 for $150 million. While she has detailed eight projects in the works, none has a production or release date.

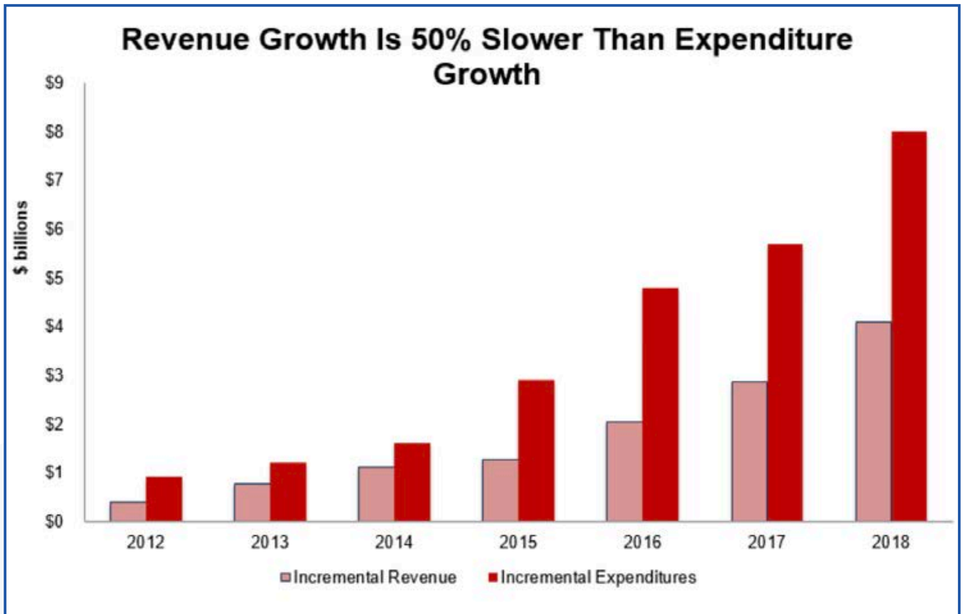
Then there is the monetization issue. Netflix makes the majority of its money from selling monthly subscriptions. It also makes a small amount from merchandising content that it owns. Netflix doesn’t make money from individual views of content or from advertising.

However, since mid-2014, Netflix has been cash flow negative, which means more money is flowing out of its business than in. In fact, the company has been spending nearly twice as much as it has earned over the last few years in an effort to differentiate itself from other streaming services.

Part of what Netflix is spending is on original content, with the idea these shows would help drive subscriber growth. But it’s difficult to say what drives members to sign up and stick around. The company doesn’t often release viewership data for its shows or movies and, since Netflix releases so many new programs and shows each month, it’s difficult to connect a spike in members to one individual program.

“This reeks of desperation,” said David Trainer, founder and CEO of investment research firm New Constructs. “For how long will investors continue to tolerate what appears to be Netflix’s reckless allocation of capital?”

Netflix shares, which have a market value of $134 billion, are up 14% since January, but are down 12% from a year ago.



(Source: New Constructs)

Trainer noted that deals like the one signed with Benioff and Weiss don't include the cost of production or marketing. Netflix is paying millions just for the content creator, not the content.

And, unlike many of the film deals made in Hollywood, which pay actors, producers and directors for a specific job and offer rewards based on performance, these deals are entirely based on past performance and future potential.

"Netflix is banking on [Benioff and Weiss'] future success," said Paul Dergarabedian, senior media analyst at Comscore. "Things like this often seem expensive, but in retrospect were good deals."

Dergarabedian noted how many analysts felt that Disney had overpaid for Pixar in 2007 when it shelled out more than $7 billion to bring the animation house under its umbrella.

But price isn't the only thing Netflix will deal with when it comes to Benioff and Weiss. While the pair have cut ties with HBO, they still are contracted by Disney to write, produce and direct three Star Wars films. The first film in that trilogy is due out in December 2022.

"How are they doing both?" Trainer asked.

Netflix did not immediately respond to CNBC's request for comment...

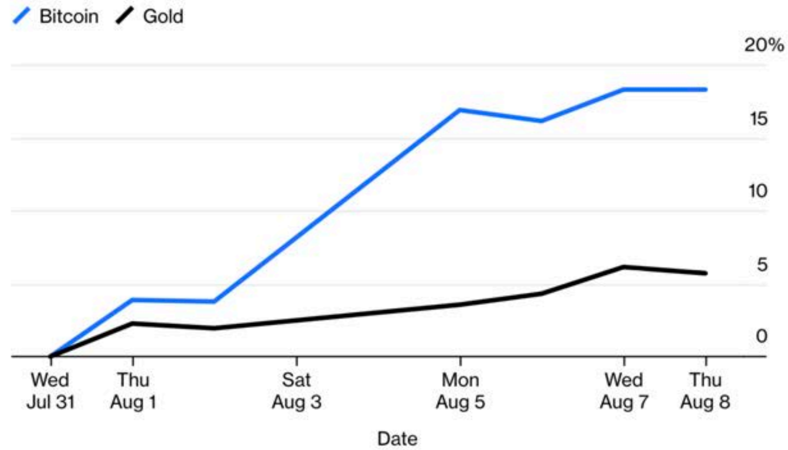
BITCOIN AND GOLD ARE MONUMENTS TO IRRATIONALITY: *BLOOMBERG*

With worries about a currency war growing and bond yields collapsing, investors have reached for their usual haven of gold. Only this time it has a friend (as my colleague Tim Culpan wrote this week): Bitcoin.

Gold's dollar price has risen 7% this month, Bitcoin's by 18%. This apparent use of the two commodities as companion ports in a storm will be music to the ears of cryptocurrency boosters like Mike Novogratz, who has argued that "Bitcoin will be digital gold." The self-justification of gold bugs and crypto fanboys are indeed starting to sound remarkably similar: That they both offer the prospect of sound and stable repositories of your cash at a time when central bankers are printing money like it's going out of fashion.

Currency Wars Lift Analog, And Digital, Gold

Investors seem to think these are safe havens in a world gone mad.



Source: Bloomberg
Note: Chart shows price change in percentage terms, from July 31

Things that make you go hmmm

With Bitcoin, of course, it's easy to laugh off any claims to stability given its wild west status and mad gyrations in value over the past few years. But gold, the "barbarous relic," is hardly a guarantee of boring reliability.

The creed of "sound money" as a safe haven paints commodities that have a fixed supply as good, and sovereign currencies with a potentially unlimited supply as bad. The past decade's experiments in quantitative easing and negative interest rates have energized its inflation-obsessed disciples.

"Gold is nobody's liability and it can't be printed," Robert Mundell, an influential Columbia University economist said in 2011. Cryptocurrency evangelists sing the same tune. Bitcoin has no central bank, they point out, while its supply is capped by algorithms.

However, the idea that these are stable stores of value doesn't stand up.

In 2018, Bitcoin lost almost two-thirds of its worth after a 15-fold price jump the year before. There's no guarantee that the 220% price rise in 2019 won't unravel. Demand for the digital currency ebbs and flows, largely driven by emotional factors like greed and fear, while its value is purely in the eye of the beholder as it's still largely unused as a way of exchanging goods.

The concentration of Bitcoin wealth among "whale" investors – about 1,000 addresses control 85% of its supply – means they can greatly influence the price by either taking their stash out of circulation by hoarding it, or by pouring more supply in by trading it.

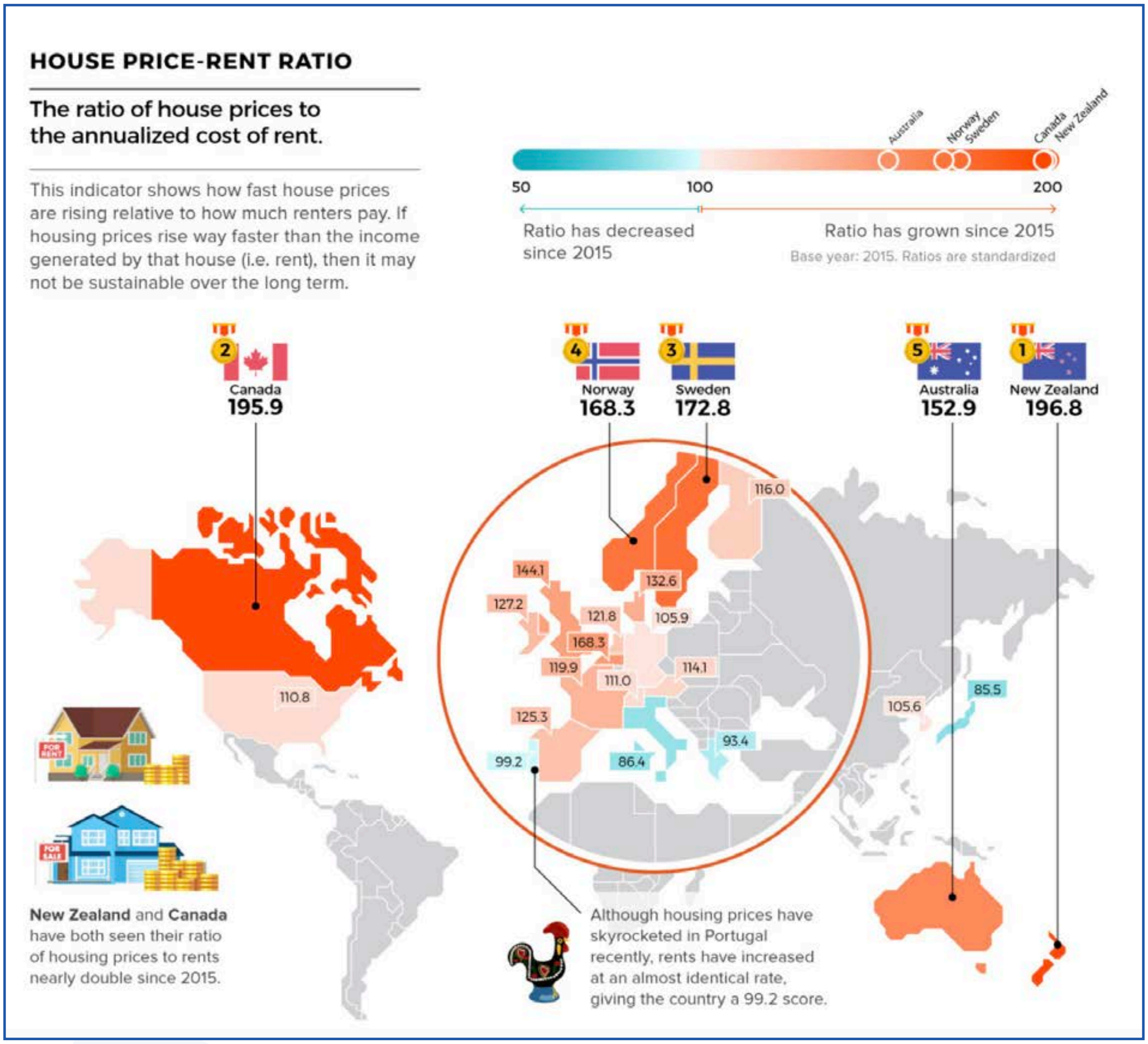
Gold isn't much more rational. Adherents believe that its thousands of years of history as a means of exchange show it will always be in demand and retain value. But gold prices too depend on human psychology and herd-like investment behavior.

The yellow metal's prices hit a record of about $1,900 in 2011 but fell soon after despite market expectations of a longer boom driven by the first waves of monetary easing. They're still about 20% below that level today. The Bloomberg Barclays Global Treasuries Index, which measures the performance of sovereign bonds, is up about 11% over the same period on a total return basis.

Of course, even irrational markets can be exploited by shrewd investors. Adding gold or – god forbid – Bitcoin may somehow make sense in an investor's portfolio as a way to add risk or diversification, or to exploit the madness of crowds. But don't mistake the recent market moves as expressing some kind of proof of the "sound money" status of gold or crypto. This is all backed by faith. Not fact...

Things that make you go hmmm

CHARTS THAT MAKE YOU GO HMMM...



With a decade-long bull market and an ultra low interest rate environment globally, it's not surprising to see capital flock to housing assets.

For many investors, real estate is considered as good of a place as any to park money—but what happens when things get a little too frothy, and the fundamentals begin to slip away?

In recent years, experts have been closely watching several indicators that point to rising bubble risks in some housing markets. Further, they are also warning that countries like Canada and New Zealand may be overdue for a correction in housing prices..

LINK

"Holy hell!" a member of the FT editorial team screamed across the newsroom late last August 7.

It was a balmy summer evening, and the paper had just broken a big story -- Saudi Arabia's investment fund had invested $2bn in electric car company Tesla -- but little did Alphaville, or anyone, know what was to follow.

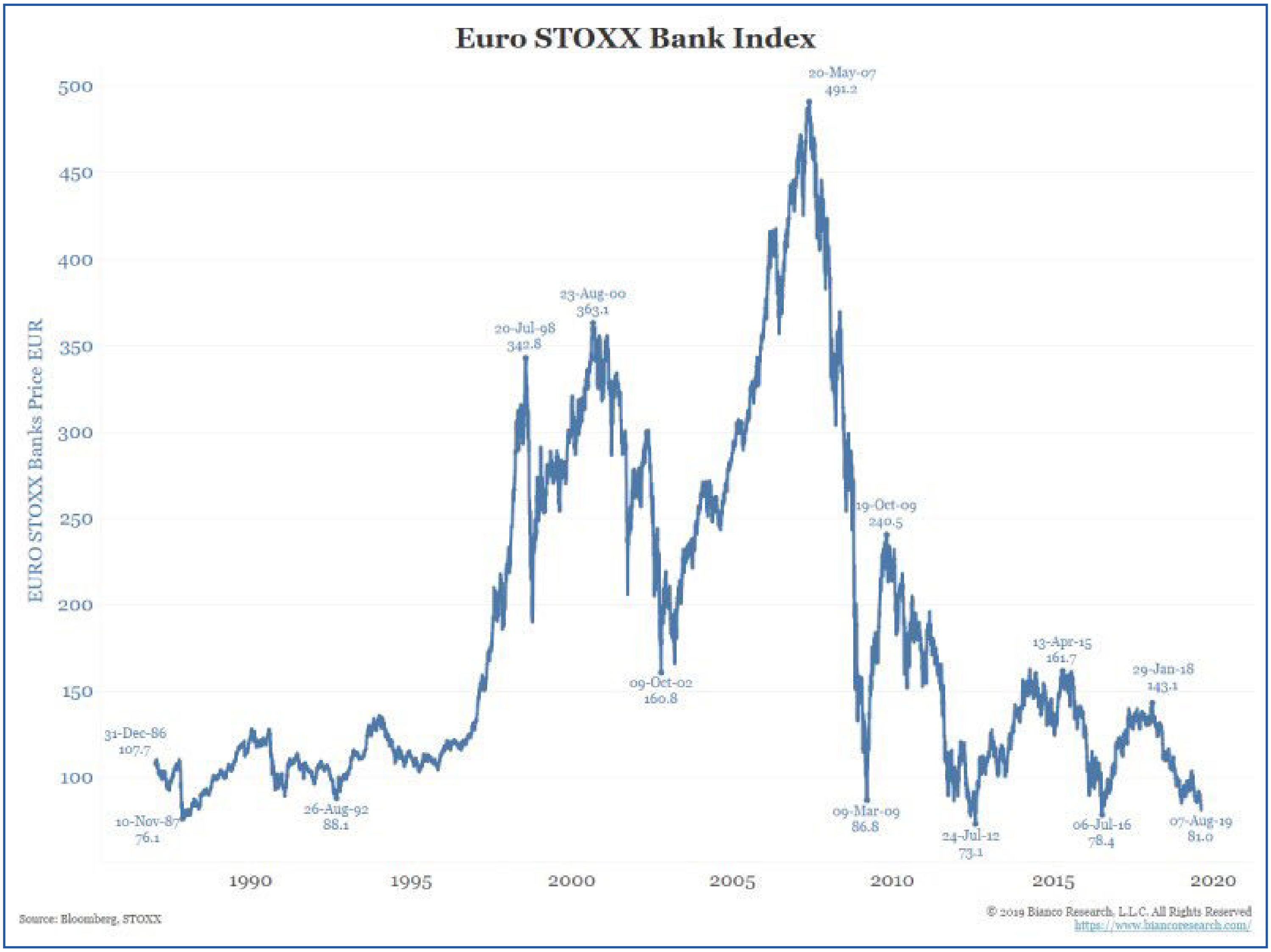
Moments after our story dropped, Elon Musk, Tesla's chief executive, announced on Twitter that he was taking Tesla private at $420 a share, for a valuation of $70bn.

The money to do it, he said, was secured.

Twitter exploded, and Tesla's shares, which were already trading higher following the FT's story, immediately spiked up to the high $360s before being halted. Following a blogpost on Tesla's site, the shares reopened, closing just below $380 in anticipation of what would have been the largest leveraged buy-out in corporate history:

LINK

Things that make you go hmmm



This great chart from Jim Bianco does a tremendous job of putting the dire situation in the European banking sector in perspective.

The beauty of this chart is that you don't need to be any kind of market technician to recognize that it's a hundred kinds of ugly...

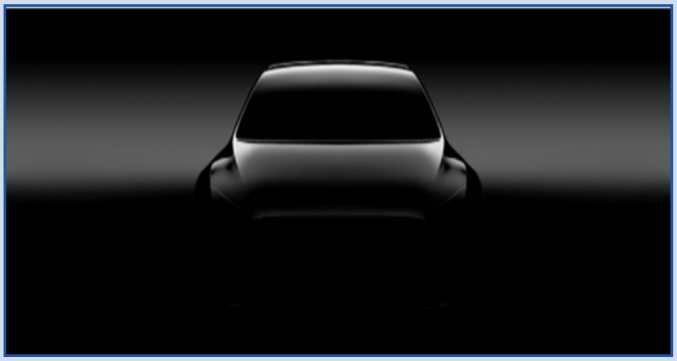
Things that make you go hmmm

WORDS THAT MAKE YOU GO HMMM...

Ronni Stoferle is a dear friend, the co-author of the annual In Gold We Trust report (with Mark Valek) and one of the most knowledgable and thoughtful 'goldbugs' around..

The timing of his recent appearance on MacroVoices simply couldn't have been more fortuitous so sit back and enjoy...

CLICK TO LISTEN



Regular readers will be well aware how much the ongoing Tesla saga fascinates me.

In this podcast, Christina Balan lays out the bones of her lawsuit against Tesla.

I have no idea how much of what Ms. Balan has to say is the truth, but, after listening to her putting her case... well, listen for yourselves and come to your own conclusions.

One thing's for certain, this ain't over – not by a long shot...

CLICK TO LISTEN

My partner in crime at Real Vision has been all over the media recently and he's been brlliant every time.

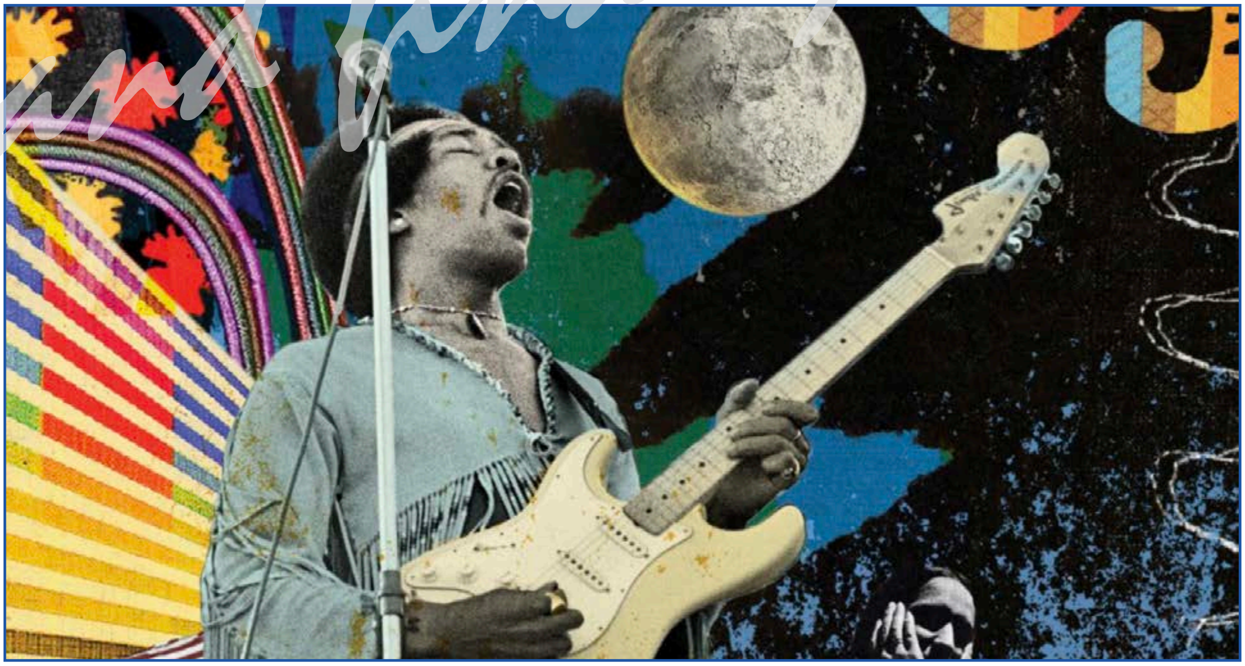
After his two-week Recession Watch on RV, Raoul joined HedgeEye's Keith McCullough for a discussion on his findngs and it was an absolutely riveting discussion.

Raoul lays out what he sees, explains why it worries him and warns of the possible consequences...

CLICK TO WATCH

Things that make you go hmmm

AND FINALLY...



CLICK TO READ

Around lunchtime on Friday 8 August 1969, as a policeman held up traffic, the four members of the Beatles crossed and re-crossed the zebra crossing outside the studio in St John's Wood where they were making their latest and what would turn out to be their last album. The photographer, who had erected his ladder in the middle of the road, took just six exposures before they went back into the studio to complete it.

That same night, thousands of miles away, four other long-haired people, this time acting on the orders of a jailbird and would-be rock star called Charles Manson, descended on a luxury home in the Hollywood hills and butchered the five people they found there, the most famous of whom was the beautiful actress Sharon Tate.

Fifty years later those two events continue to reverberate, benignly or otherwise...

Things that make you go hmmm

About The Author

Much to his chagrin, Grant Williams has reached 30 years in finance.

Over that period, he has held senior positions at a number of investment banks and brokers including Robert Fleming, UBS, Banc of America and Credit Suisse in locations as diverse as London, Tokyo, New York, Hong Kong, Sydney and Singapore.

From humble beginnings in 2009, *Things That Make You Go Hmmm...* has grown to become one of the most popular and widely-read financial publications in the world.

Grant is a senior advisor to Vulpes Investment Management in Singapore, an advisor to Matterhorn Asset Management in Switzerland and also one of the founders of *Real Vision Television*—an online, on-demand TV channel featuring in-depth interviews with the brightest minds in finance.

A regular speaker at investment conferences across the globe, Grant blends history and humour with keen financial insight to produce unique presentations which have been enthusiastically received by audiences wherever he has traveled.

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