MacroVoices Holiday Special
with Ronald Stoeferle & Grant Williams Part 1

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Erik: Macrovoices Episode 251 was pre-recorded on December 14, 2020. I'm Erik Townsend.

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There won't be any market wrap or postgame segment this week or next. Instead we'll be bringing you a two-part holiday special, in which we're going to take a deep dive on the topic of fiat currency being debased in real value because of accommodative central bank monetary policy and expectations that the growing popularity of Modern Monetary Policy among policymakers will accelerate the pace of fiat debasement. And we're bringing in the big guns for this special series. Patrick Ceresna will host the series, and I'll be acting as a panelist alongside both Grant Williams, author of the Things that Make You Go Hmm newsletter and producer of the Grant Williams Podcast, and Ronni Stoefele, publisher of the In Gold We Trust report and fund manager for Incrementum.

In this week's episode, we'll start with a review of the major events of 2020, then review the topic of fiat currency debasement at a high level, and consider whether there's anything that could change the view all three panelists share: that governments around the globe are going to continue to debase the real value of paper money. Then we'll distinguish fiat debasement from inflation, and consider which trading strategies are appropriate to hedge each of these separate and distinct phenomena. We'll revisit the question of whether Bitcoin is replacing Gold as the favored store-of-value hedge against fiat debasement. These topics alone consumed more than a full hour of discussion, and will complete this week's episode. But that's only half of our overall conversation. I'll be back at the end of this episode to tell you what to expect in the second and final part of our year-end series, which airs next week. Then we'll be back to our regular format with a market wrap and postgame segment on January 7th.

Patrick: And I'm Patrick Ceresna, your host for this special series. Now, gentlemen, let's dive right in.

It's easy for us to all declare that the government money printing is running out of control, and we've been all saying that for years. And it's a theme that resonates for most of our listeners.

But let's face it guys, 2020 has been a year where the central bank stimulus game took on entirely new proportions. Just a few years ago, the entire financial industry freaked out when the Fed expanded its balance by half a trillion dollars in a single year. But in 2020 we saw that much central bank balance sheet expansion in a single week in reaction to the coronavirus crisis.

So, as this historic year draws to a close, let's begin by taking stock of where we stand at the moment in history with respect to the subject of fiat currency debasement. Ronnie, let's start with you.

Ronnie: Thanks, Patrick. It has been quite an interesting year, let's put it that way. I just tweeted out just one thing that is so 2020, I just learned there is a Vegan Climate ETF. And the biggest positions are Tesla, Apple, Microsoft, and Mastercard. So I think this says quite a lot about the market that we are in.

And I think that when it comes to 2020 it will go down in the history books when all taboos have been broken. Grant Williams, I think he once made a fantastic presentation called *Nobody Cares*, and it seems when it comes to debt and monetary discipline nobody cares anymore.

Just to give you some comparisons between the COVID stimulus versus the 2008 Financial Crisis, in Germany the stimulus was 10 times bigger than 2008. In Japan, nine times bigger. And in the US, four times bigger. Western European countries alone have allocated a stimulus almost 30 times larger than today's value of the Marshall Plan. And just in the first two months of this COVID crisis, governments worldwide announced a staggering $10 trillion of stimulus.

So I think it is really all about those taboos that have been broken. And, let's say, the narrative surrounding deficit spending has completely changed. So all the deficit hawks have basically been silenced.

Now, as you know, I'm based here in Europe.

And just to give you a few examples, France is now ruling out a return to the previous rules of the EU stability pact, the so-called Maastricht criteria. In Italy, we just has some senior Italian officials, including the Prime Minister's economic advisor, suggesting that, basically, the ECB should forgive government debt buying through quantitative easing.

Mario Draghi came out in the *Financial Times* a while ago and he said much higher public debt levels will become a permanent feature of our economies and will be accompanied by private debt cancellation.

So I think that really this year is quite special. I've been writing a diary, a journal for the whole year, and I think it's really going to be interesting in the next couple of years to reread all the things that have happened.

And just one more thing: I think that the fact that Janet Yellen is nominated as the head of the Treasury is a highly, highly symbolic thing. And it shows us that this relationship between fiscal policy and monetary policy it is not a flirt anymore. It is basically a marriage, a wedding that we are seeing.

So I think that when it comes to putting a term for 2020, it would be the break of all taboos. And the second term would actually be the beginning of a crack-up boom.

I think, really, if you read *Human Action* by Ludwig von Mises, starting on Page 400, he is writing about this crack-up boom, this flight into real goods – in German it would be *sachwerte*. And he coined the term crack-up boom, but I think in German it is even better. It's called *katastrophenhausse*.

And I think this is really what we are seeing now. People are losing confidence in paper money. They are rushing into real assets. And that's really, from my point of view, that's the most important driver for investors going forward.

Patrick: All right, let's go to Grant. So, Grant, from your perspective as well, where do we stand at this moment in history with respect to the subject of fiat currency debasement?

Grant: It's interesting. And Ronnie made a couple of really interesting points there. First of all, this marriage between central bank and Treasury, which I think is absolutely crucial. And it gives the ability to do things which are important and necessary and will be done. And I'll come to those in a second.

But I think we have to take a step back. As people who are focused on finance, we have to – when we talk about what this year has meant, our view is very narrow.

And if we put aside what it's meant in markets and we put aside what it's meant in risk asset prices, there are billions of people around the world for whom this year has nothing to do with stock markets, nothing to do with bond prices. This is a year where they've faced personal loss, whether it's family members, friends who have actually lost their lives. Or it's loss of job, it's loss of income, it's loss of business.

And so what most people are going to remember 2020 for is wholly different from what we as practitioners in financial markets are going to remember it for. And that I think is a really important thing to try and step back and understand. Because you're going to realize when you do that, solutions being offered which play into the need and desires of real people with real jobs in the real world economy are very different from how we look at them through a financial lens.

I think that point that Ronnie made about the Fed and the Treasury in a marriage now is important.

If you look at Australia for example, you'll see the Treasury down there, Josh Frydenberg is talking about QE, which is a new thing in Australia this year. Several people including myself have been talking about how they were on a road to that. It was going to happen in Australia. Even when rates were at 3–4%, it was clear the path they were on.

But they're now talking about asset purchases continuing until they become contingent on the unemployment rate reaching a certain level. And I suspect that's what you're going to see.

I've had interesting conversations with James Aitken about this this week. You are going to see contingencies put upon asset purchases that impact the real world, i.e., we are going to keep buying X billion dollars of bonds a month until unemployment rates reach 4% or 5%, whatever it may be.

And the importance of that is clear.

It allows policy makers the chance to, essentially, support Wall Street, support asset prices, but in a way that's very palatable to Main Street. And once they are told, oh, you know, we're going to continue supporting things, continue applying stimulus until the unemployment rate reaches a certain %, the transmission mechanism of that is just opaque enough that it will give people comfort and they won't really understand what it means.

Ultimately, I think we as financial practitioners understand what it means. It's more of the same. The game is going to continue to be heavily skewed to benefit of Wall Street as opposed to Main Street. But it's going to play very well on Main Street.

So I think Ronnie's point about the loss of faith in fiat currencies is true, but I don't think it's really begun yet. I still think we're not at the stage where people are losing faith in it. At the bleeding edge, people are. People who understand currency debasement, who understand the loss of purchasing power.

But, realistically, it's the concept which, by the time the masses wake up and understand what's being done to them, it really switches to panic very, very quickly.

And we're definitely seeing panic yet. We're seeing a rush into alternative assets. We're seeing a rush into real assets. We're seeing a rush into gold, into bitcoin, all these things that can provide you with protection from that loss of faith.

But I don't think the real loss of faith has occurred yet. I think we're going to need to see real inflation and, more importantly perhaps, a nascent fear of real inflation, before we start to see that part of this whole thing play out.

Patrick: All right. Well, let's circle to Erik. Now, Erik, that you've listened to Ronnie and Grant give their perspective, how do you look at it differently? Do you have anything that you want to add to that?

Erik: Well, it's actually Kyle Bass's comment on last week's MacroVoices that comes to mind. We've crossed the Rubicon to a point of no return.

And I guess for the last several years, you could have made the argument that it's hard to see how you could go anywhere other than the path that we're now on. But there was a little bit of room there.

You could say, look, Trump was trying to put Judy Shelton on the Fed board, who is a believer in Austrian economics. Maybe, maybe, maybe somehow we could have grown our way out of some of the debt problems that we had and changed our ways and gotten the Fed's balance sheet under control and so forth.

But just as – I'll just draw an analogy to a young person who goes out of control in spending money on their credit cards, living beyond their means. For a while, it's plausible that they could get themselves out of it.

And then you get to a point where they realize, they know perfectly well, eventually they're headed toward bankruptcy or some very bad outcome. And they stop worrying so much about what it's going to take to pay off the debt or whatever because they know it's never going to be paid off.

We've reached the point where any fantasy that we're going to somehow not going to have any runaway inflation, in real terms we're going to repay the national debt, we're going to get into some kind of fiscal responsible state, it's out the window.

We're past the point of no return. We cannot go back to that.

And I think you see it from a monetary policy standpoint, that there is no getting around the fact that we're going to see more and more central bank balance sheet expansion, more and more money printing, as some people call it.

And it's not just going to be to create bank reserves anymore. We're going to move across another Rubicon to creating money for the purpose of supporting the broader economy. And it's going to do some good to help some people in need. I'm for that part of it. But it's also going to unleash inflation which eventually is going to be unstoppable.

And I think the other crossing of the Rubicon is on the political front. We've gotten to a point now – and I talked to Pippa Malmgren about this two weeks ago on MacroVoices – where it's pretty clear that President Trump's efforts to stay in the White House – President Biden is going to be the President.

And the thinking is President Trump is not going to just go away quietly. He's probably going to start some kind of news network where he's going to continue to press his agenda.

So the division that we already have in society and the tension between the extreme left and the extreme right in political circles is only going to get worse.

And that getting worse eventually, I think, leads to the things that Ronnie alluded to and that Grant spoke about, which is I agree with Grant that we don't quite yet have a situation where the masses are ready to give up on fiat currency. And I agree very much with Grant that they don't really understand the shortcomings of fiat currency, most of them, well enough to get that.

But the train has left the station. Everything is in motion to get to this major societal breakdown that Neil Howe wrote about in *The Fourth Turning*. And I think it happens in the 2020s. I think it eventually gets much better in the 2030. But I think it's going to get pretty ugly.

And it's clear to me that we're past that point of no return. There is nothing that can be done to stop it as this point. We know we're going to continue to debase fiat currency until something blows up the system.

And it's just like a young person who says, okay, I know it's too late to pay it off. I'm going just to keep on partying like it's 1999 until I eventually go bankrupt. And hopefully I can party for a while longer.

I think that's where we are.

Patrick:Now I want to move on to our core topic of Fiat debasement, and ask each of our panelists to weigh in on where we stand in this story and whether there's anything that could possibly change our outlook. That's coming up next, right after this message from our sponsor.

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Patrick: Okay. Now, we've all been talking and writing about fiat debasements for years, a theme that resonates with most of our listeners.

But as a professional investor, our job is not to look for people who agree with us so we can just sit around and pat ourselves on the back. Our job as professionals is to constantly question our own investment narratives and consider what could make us wrong or what could cause investment strategies to fail.

So I want to start with what will probably the hardest question of the entire special series, which is with Janet Yellen as Treasury Secretary and with MMT growing in popularity with policy makers, it's easy to jump to the obvious conclusions.

The harder question is what could possibly happen that would invalidate our assumptions that governments will continue to debase the value of fiat currency relative to hard assets? Or what might cause the investment strategies we pursue based on that belief to fail?

So let's start with Grant. What's your thought on that?

Grant: I think Erik really summed it up when he talked about crossing the Rubicon. That's where we are.

So at this point, realistically speaking, the only way out for the policy makers to not do what we're talking about – and by doing it I don't mean through choice, I mean being forced to do it – is growth.

If they somehow manage to generate 3% growth, the world looks very, very different and they've got something they can kind of lean into and wind some of that policy back.

If that's the downside, it's great. If the world is growing organically genuinely. But there are so many variables stacked against that right now it's very difficult to see how that happens.

For me, I'd be looking at signs that we were seeing real growth and not growth that was purely propped up by stimulus, which is, in effect, what we've seen, obviously. I think we also have to get through the period where the bills for the pandemic come due.

We've seen what's been happening to the central bank balance sheet. We've seen what's been happening to government finances in terms of deficit spending, and the results have been truly extraordinary.

We are in places – just about every country in the world, particularly in the Western world, are in places now that they've never been before. Nor did they ever consider they would be. The US with $3.8 trillion in deficits, the UK close to $400 billion.

These are numbers that don't just go away. You're going to have to try and plug a hole in these finances. So without that growth I talked about, you've really got two other answers, which is inflation and taxation.

And, sadly, I suspect that taxation is going to be the most appropriate and the most straightforward road to be taken.

We're at the point where wealth inequality is enormous. And, no matter what the Federal Reserve says – it's so disingenuous of them to continually reinforce the fact that they see any direct link between their policies and income inequality. It's shameful, frankly.

But we've reached a point where the only way they're going to fill these holes now is to take money from people that actually have it. The printed money won't work anymore.

We've already had Rishi Sunak, the British Chancellor of the Exchequer, put the country on notice that taxes are going to have to rise, he says in 2022, which I presume is to hopefully calm people down that the tax raises will be coming sooner than that.

But the longer this goes on and the longer it takes to right the ship in terms of the pandemic and the damage it's done to the economies, the more extreme these budget deficits are going to have to get. And that's necessarily going to mean the more extreme the taxation becomes.

And we're going to be looking at wealth taxes. We're going to be talking about increased capital gains taxes. We're going to be talking about countries talking about global taxation like the US does. We're going to be talking about inheritance taxes. There are going to be all kinds of necessary grabs for people's wealth that are going to put any recovery back.

So, whilst it's not impossible, for me, the big threat – and I put that in inverted commas – is genuine, organic growth in the economy. That's the threat to the policies we seeing being pursued at this point.

But – as I said, Erik summed it up when he talked about crossing the Rubicon – they really have no choice at this point but to continue pursuing this now.

Patrick: So let's move back to Ronnie here. Ronnie, you've obviously just heard what Grant was saying. But how could this play out differently than the basic narrative that we've been building up until now?

Ronnie: Well, I think that we sometimes tend to overcomplicate things. And this is also what my wife is always telling me. You're making things too complicated.

Perhaps we should say, well, our view is not a mainstream view. When I talk to former colleagues, I think that 99% of them have no idea about this stuff that I'm thinking and writing about. You know, stuff like de-dollarization, CBDCs, MMT, dollar milkshake theory, monetary reform, a re-monetization of gold.

Those are not mainstream views and we should not overemphasize our egos.

I think we have to be honest. In the traditional investing world, our names aren't extremely well known. So unfortunately we still have pretty much of a contrarian position, I would say. And we tend to overestimate with the filter bubbles that we are all in, on Twitter, in podcasts that we listen to, newsletters and books that we consume.

So I think that we definitely have off-consensus views that are slowly going into the mainstream, I would say.

Because stuff like MMT, for example, we wrote about MMT already four years ago. Now it is really becoming mainstream. MMT is exactly delivering the message that people want to hear. It is a bad idea whose time has come. And I think that MMT would have sounded unbelievable a couple of quarters ago.

But, similarly, the idea that currency would be completely unbacked by anything real would have seemed ridiculous after the Second World War, for example.

So therefore I think that, as I said, our view is becoming much more of a consensus view.

Now, coming back to markets, I think we have seen this year that the market is conditioned like a Pavlovian dog and it needs more and more stimulus. And any attempt of withdrawing liquidity or just even slowing it down risks pricking this valuation bubble.

So, of course, a deflationary bust can happen any time. And the more bubbles and the bigger these bubbles, the less it takes to make them burst.

But I think it was really interesting, if you have a look at inflation expectations in 2020 and if you compare it to 2008–2009, this year it took us exactly six months to recover when it comes to breakeven inflation rates. Just six months to recover from the whole deflationary bust.

So in February 2020 we still had 1.6%. Then we collapsed to 0.5%. And then we recovered by August to 1.7%.

If we compare it to 2008, we dropped from 2.5% breakeven inflation to basically zero in November 2008. And then it took us until mid-2010 to come to pre-Crisis levels.

So this tells me that this time around it is not only very, very aggressive monetary stimulus but is also very aggressive fiscal stimulus. And we're seeing that it has a much more direct impact on inflation expectations.

And I think, to answer your question, I think if we should really see this paradigm shift from a deflationary, disinflation environment to an inflation environment, as – for example, Russell Napier, one of the strategists that I probably most enjoy reading and listening to – as he suggests – and he has been a deflationist for ages – then I think we are still very, very early in this game.

And I think that markets are already telling us that inflation will become one of the main triggers going forward.

Now, what does it mean for your portfolio? At the moment the average of a portfolio manager is 49. So, basically, no professional really knows how to mitigate in an inflationary or stagflationary environment.

This is why I really enjoy talking to money managers from high-inflation countries like Brazil, like Turkey, like Russia. They've got a completely different attitude when it comes to portfolio construction.

This is really something that – as I've said we're still early on in this thing, but we shouldn't overcomplicate things. I think that many of the things that we have been forecasting for a while, those are really materializing now.

Patrick: Erik, do you have anything to add to that?

Erik: I want to go back to your original question and really break it into the two separate parts that you asked it in.

You said, first, is there anything that could possibly happen that could invalidate our assumption that governments will continue to debase the value of fiat currency? I can't think of anything.

I mean, even if you had some miracle invention, somebody invents cold fusion, makes it work, and all of a sudden all energy is free. Frankly, at least for the first few years, that would just screw up employment in the energy industry and cause more problems than it would solve right away.

So I don't think there is any magical miracle cure. I think we're on a path. We've crossed that Rubicon. There is no turning back.

The second part of your question, Patrick, is you said, or which might cause the investment strategies that we pursue based on that belief to fail.

That's where we've got to be the most careful. Because the trap here is to say, look, this is the surest bet I've ever seen in my life. We know that fiat currency is going to continue to be debased. Therefore gold can't lose.

Well, wait a minute. Stop. The market loves to make fools out of the maximum number of people possible.

And there's a whole lot of us who have tended to believe that gold can't possibly lose in this environment. So that's where I think we have to really be circumspect and say wait a minute.

Gold is really important historically. For 10,000 years it's been the go-to default scarcity asset that everybody kind of thinks of as what you invest in order to hedge against the debasement of fiat currency.

Yes, 10,000 is a long time. That's a big history. But you could say that for hundreds of years in medicine, bloodletting was an accepted practice. I can't think of another good example, but the point is there's lots of things that do change with modern times.

So is it possible that somehow this time around, even though they do continue to debase fiat currency, that it turns out to be that gold isn't really the big benefactor or the most effective hedge anyway?

Because, really, in today's society, gold gets used in a few very specialized aerospace, electronics applications. And it makes really pretty jewelry. But we don't really use it to run the economy.

If we think that we're going to see this buildout of the green economy, Green New Deal, whatever you want to call it, infrastructure spending, trillions of dollars of infrastructure being contemplated, that's going to benefit copper, not gold.

So I think it's the part of the questions that's about the investment assumptions that we make. No doubt in my mind, we have to see an explosion of debasement of fiat currency.

Are the assumptions we've made that gold and other precious metals are the right way to hedge against it the right assumptions? That's where I think we really have to question ourselves.

Grant: Patrick, can I just jump in here? I think what you say is right Erik. But I think, in terms of gold specifically I think this – let's face it, the debasement of the dollar began in 1971. And, realistically, in terms of central bank reaction function and the concerted efforts they're making to debase the currency, you could argue began around the turn of the century when they started bailing out LTCM and after Greenspan dropped rates essentially to the floor in 1999–2000.

So had you looked at that point in time and said they are going to debase the currency, I need to own gold, well, you were buying gold at $250/ounce. And here we are close to $2,000/ounce.

So over that period gold has done exactly that.

Now, if we are looking to work out, okay, what is the best way to make money? What is the best way to maximize my return under these inflationary policies, under these debasement policies, I think that's a completely different proposition for people.

So there is this idea that, okay, I want something that is going to protect me from debasement. And it's not just gold. There are other real assets that would have done a similar job. But gold is an easy benchmark to do that.

But, again, I think we as financial professionals aren't necessarily always looking to find something that will protect our purchasing power. But it's, okay, what's the best way?

And what we mean, generally speaking, by the best way is the thing that's going to give me the highest return, not the safest hedge, if you like.

And I think it's an important distinction for people to make, because you could have seen this coming at the turn of the century, bought some gold with a part of your portfolio, and really not had to worry about it at any point. Even during that bear market we saw between 2000 and late 2011. And 2018, you were still in line or ahead of the protection that you'd bought it for.

If you'd been trying to pick and choose the assets to give you the best return at a possible time and outpace the others, it's a much more stressful exercise. I think we can all agree on that.

Patrick: That's right.

To continue on with that, then, Erik recently interviewed Goldman Sachs' global head of commodity research Jeffrey Currie on that new Smarter Markets podcast. And Jeffrey said something I thought was really important. He explained that we had a strong case for fiat debasement and we also had a strong case for a return of inflation.

But Jeffrey made a really big point saying that they are not necessarily the same thing. And he went on to emphasize the hedging strategy against inflation is different than the hedging strategy against debasement.

So I think we have to stop and really ask ourselves whether we're concerned about the return of inflation or the continued debasement of the fiat currency or both.

And if it is both, I think we need to stop and think about the degree to which we have the confidence and conviction about each outcome and therefore how much risk exists to our hedging strategies if we are wrong.

So now, Erik, since you were the one who interviewed Jeff Currie, let's start with your view on this one. Are you worried about fiat debasement, wage price inflation, or both? Or how would you approach the different trading strategies?

Erik: I think this ties in very much to the last point that Grant made just a minute ago, which is it really depends on whether you're trying to accomplish the safest hedge or derive the best return from a speculation which is based on this understanding that fiat currency is going to be debased.

The debasement – and I think Jeff makes this really important distinction, which is debasement and inflation are two separate things. So let's start with the debasement argument.

I think, hands down, the way you achieve the safety trade that Grant is talking about has got to be with gold. Because you know that gold is not going to zero. As much as it may not be popular with the young generation, it's got a 10,000 year history. You know it's not going to zero.

On the other hand, if you said I know that the fiat currency debasement is going to continue, and as a speculator I want to wager on this and make as much money as possible if I'm right, I'm starting to think – and I can't believe I'm saying this myself folks – but if you look at all of the misplaced attention that's going into bitcoin right now – and I do think it's misplaced, I don't think it's a smart idea, but that's what's happening. That's where the trend is right now.

So I think, especially if bitcoin breaks out to new all-time highs – as of when we're recording this, which is a couple of weeks before it airs, folks, so that may have already happened now –

If bitcoin breaks out to new all-time highs and really gets some momentum going in a rally, I think you could easily see that – even though Grant and I would probably agree that gold is the smartest hedge here – where the action is going to be is in bitcoin.

But there is also plenty of room that bitcoin could be outlawed by governments and crash to zero or crash to nera zero. Gold is not going to crash to near zero.

So I think it's a question of whether you're trying to achieve a safety hedge or whether you're trying to speculate for maximum gain.

Patrick: All right, Grant. Let's go to you. Do you have a different perspective? Is it just nuance between debasement and inflation? How do you think about it or do you approach it differently?

Grant: I thought Erik did a great job of that interview. It was a really, really interesting conversation with Jeff. I listened to it and I understand the distinction he was making between debasement and inflation. But I think it's important to understand the part of the cycle we're in.

Because if you look at the inflation of the '70s, it was triggered by debasement. The inflation we saw in the '70s was triggered by the debasement of the US dollar when Nixon closed the gold window in August of '71.

If you look at the inflation we saw in the 2000s, there was a lot more of that inflation that was driven by growth. It was China's insatiable appetite for commodities which was a big reason behind that spike of inflation we saw. It wasn't overt debasement, even though that was going on to some degree through a low-interest-rate environment.

But I think the point Jeff is making is somewhat moot in this case, because the inflation I suspect we are going to see in the next year, 18 months, is the kind of inflation we saw in the '70s that is a direct result of debasement.

So, whilst I understand the point he's making, that debasement and inflation aren't the same thing, I think the kind of inflation we're in for is the inflation –

Well, Ronnie made that point earlier on about the panic that sets in when people realize and they start buying goods, they start hoarding. It's kind of the road to hyperinflation we've seen in so many banana republics over the years, to say nothing of Weimar Germany in the '20s.

It's that kind of inflation that results not from strong growth and a desire for raw materials to build infrastructure, even though we might get that. It's basically this time it's going to be triggered by debasement. So that is – I think that makes them one and the same thing in this particular instance.

Patrick: Ronnie, do you have anything to add to that?

Ronnie: Well, I think it's a very, very interesting thought by Jeff Currie and I really have to think about it. But I think when it comes to – it is pretty similar I would say.

So what I always do with people telling me, well, gold has risen too far, I tell them no, it's not the price of gold that is rising. You just need more units of Euros or US dollars to buy one unit of gold.

And it's the same with real estate, with stocks with commodities, and so on. So once you convert your thinking, it gives you a totally different perspective on this devaluation and the debasement.

A friend of mine, he's from former Yugoslavia, and he only calculates prices for real estate, for example, in ounces of gold. And I think once we change our thinking in that direction, I think everything makes a bit more sense.

Now, when it comes to inflation, how to hedge from inflation, we just published a paper called *Inflation: The Boy Who Cried Wolf*. It's 40 pages about our inflation case for the next couple of years and how to basically stabilize your portfolio and to structure your portfolio.

And we crunched the numbers and it is pretty clear. The highest correlation coefficient between a change in the 10-year breakeven inflation rate and various sectors, first of all it's commodities 0.7% correlation. Then it's energy 0.67%. Materials, industrials. Then down to real estate, which basically has no correlation to inflation.

Negative correlation to inflation, obviously long dated Treasuries –0.5% and the US dollar – 0.44%.

So if you want to hedge against inflation, obviously commodities, energy, and precious metals are a pretty good bet.

Many people often tell me, well, equities are the perfect inflation hedge. And then I think you really should have a very, very close look at the sector. There is a brilliant article by Warren Buffett, he wrote it in 1977. It's called *How Inflation Swindles the Equity Investor*.

So if you want to hedge against inflation with your equities, you should have a close look at average profit margins, labor share of costs, nominal debt levels, and, of course, if it's a cyclical or a defensive stock.

So how do we structure our inflation portfolio?

We've got one fund that focuses on inflation with basically our proprietary inflation model that tells us when to play defense and when to play offense. And we've been playing defense for quite a while, which is really hard for a fund manager.

But now our signal gives us maximum inflation signals.

So we have structured a diversified inflation portfolio consisting of commodity currencies, like the Russian ruble, the Canadian dollar, the Australian dollar, the financial index on commodities, the Bloomberg Commodities Index has a future on it. Of course, equities from commodity producers in the gold, silver, and diversified space. Also uranium and copper plays. And some options.

So this is basically our way to hedge against inflation and perhaps to profit from inflation. And I think when it comes to commodities you have to be very, very careful with rolling costs.

So I see many, many charts that are a bit misleading telling us how cheap commodities actually are. And it's not that easy hedging against inflation with commodities. So you really have to do your homework.

Erik: Patrick, I'd like to add a few more comments here. Because, honestly, as I was listening to Grant, I realized in my first answer I was really reacting to what he said on the previous question.

So, coming back to Jeff Currie's distinction between inflation and fiat currency debasement, they really are two different phenomena. And I think the trap here for investors is you can say, as we've already said – I think all three of us agree – there is just no getting around the fact that we're on a path toward more fiat currency debasement by governments. It's coming.

It's so tempting to, in the very next breath, say therefore there has to be runaway inflation. And those are not the same thing.

And if anything the last 10 years of quantitative easing have taught us, so many people, myself included, incorrectly concluded when QE1 was announced, okay, this is going to be wildly inflationary. And it wasn't.

Because what ended up happening, it was wildly inflationary to asset prices but not to wages and prices because that money never got spent into the real economy. It got spent into financial markets.

So I think you do have to think of them separately.

And what Jeff said is if you're thinking or worried about hedging against fiat currency debasement, gold almost by definition is your hedge trade there.

But if you're thinking about hedging against inflation, oil and copper and things that actually are in the inflation basket are much more important.

And the way I think about this is the trap that we don't want to fall into is we know for certain that there's going to be a lot of fiat debasement. We don't want to make the assumption of saying therefore inflation has to start tomorrow. We don't know that.

It seems very likely to me that we're on the hairy edge here of a big return of secular inflation. That's kind of my base case. But we can't assume that with anywhere near the same degree of certainty that we can assign to the fiat debasement.

So the way I see this is gold – or if you are one of those people who believes that crypto is a better hedge against fiat debasement, then go with crypto – but whatever your fiat debasement hedge is, that's the trade that you know is certain right now. You've got to be in that.

As far as whether inflation is really happening, I sure think it's coming soon. But I need to see it start to happen in order to make sure that I'm proven right before I put a whole lot of risk on the table. Whereas I feel very differently about my degree of conviction about the fiat debasement side of it.

I'm very curious, Grant, with that explanation do you feel any different about what you said? Because I was surprised by your answer.

Grant: Well, no, as I said, I think you're right. I think the question here for investors is what exactly are you looking to achieve? And perhaps more importantly, Erik, is over what timeframe?

Because this inflation bogeyman – Ronnie calls the report *The Boy Who Cried Wolf* for very good reason. We've had these inflation scares so many times, and obviously QE1 was a big one of those. Everybody assumed it would happen.

I think once we got to understand the function of QE, how it would work, and then more importantly the reaction function of it, we understood why the inflation didn't show up.

But I suspect the point we're in right now is the inflation we get will be, as I said, the kind of inflation that is driven by currency debasement. It's the kind of *I need to spend this money and buy things with it before it starts to lose its value*.

So whilst I completely understand Jeff's point about the function of gold and the function, say, of oil or copper, depending on what you want to hedge against, my point was you need to understand what it is you're trying to do.

If you're just trying to protect yourself from currency debasement, regardless if you think it's going to be inflationary, it's clear the path that central banks and policy makers are on is currency debasement. If gold is your natural hedge for that, then that's what you should be owning.

If you also think you're going to get inflation, fine. Allocate to oil and gold as either a hedge against that or a trade which you think you can actually make returns on.

But understand your timeframe and understand what your primary goal here is.

If it's to protect purchasing power against debasement, it's gold. If it's to hedge against inflation, it may well be other things. But I think in this case gold will do a good job simply because the inflation we're going to get is going to be debasement-driven.

Patrick: Now it's time to deliver a Christmas present to our many listeners who have been asking for more coverage of cryptocurrency topics. That's coming up next, right after this message from our sponsor.

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Patrick: Gentlemen, let's tackle Bitcoin next. Now, both Erik and Grant both have expressed skepticism about the merits of bitcoin as a true store of value. And they both make excellent arguments that are quite though provoking. But, meanwhile, Ronnie has been raking in profits for his investors by holding precious metals and crypto as a fiat debasement hedge.

So my question is whether it's time to revisit that question of bitcoin's role. And there's a whole new generation of investors saying gold is outdated and bitcoin is the modern-day replacement for it.

So Ronnie, you're the one holding bitcoin. Let's start with you. What's your take on all of this?

Ronnie: Obviously, it's both. Bitcoin and gold is very, very emotional. I remember I had presentations making the case for gold and people – I was lucky that they didn't shoot eggs or tomatoes at me.

And then you've got of course those hard-core gold bugs, those groupies. But they tend to be male and most of the time above 60, so it is not something that makes my wife jealous.

But I think that everybody has or really wants to have an opinion on gold and on bitcoin. So if you got to a cocktail party and say I like bitcoin, everybody will just say something. Nobody will say I don't get it, I don't care about it. And it's pretty similar with gold, I would say.

Now, when it comes to bitcoin, I think that 2020 is really the year when bitcoin is moving into a new phase. It has kind of let's say graduated from college, so that the heydays of youth are over and we are seeing on our end much, much more institutional demand.

And this is coming especially from smaller entities with lean hierarchies that are entering the field. Those are family offices. Those are smaller wealth managers that tend to be more pragmatic, more open. And I think the bigger those institutions get, the more topics like career risk and those biases become important.

So we are clearly seeing much, much more interest from the institutional side. Something that we haven't seen in 2017, for example.

It is also the year when big names like Stan Druckenmiller, Paul Tudor Jones are entering the market. I mean, Paul Tudor Jones, he said bitcoin reminds him of gold in 1976 when he first got into business.

Then we've got insurance companies entering the market, like MassMutual, buying 100 million worth of bitcoin. We have seen MicroStrategy basically investing all their cash on their balance sheet into bitcoin. From my point of view, it's a pretty risky position for a CEO. But of course now he's the big guy, Michael Saylor.

But we're seeing many of those signs that it's really becoming more and more accepted in the traditional investment space.

I think what we are doing in one of our funds, we are trying to rebalance between gold and bitcoin. And for some reason I got lots of criticism for that.

I think people know our *In Gold We Trust* report, and we are writing about bitcoin in the report since 2014. We are comparing the stock-to-flow ratio of gold and of bitcoin. We are talking about all those gold-backed digital currencies. Most of them I would say are rubbish. We are talking about all the scams in the industry.

So I think we've been really open to this idea, but still we get lots of criticism, especially from the gold camp, I would say.

And somebody said it reminded of cheating on my wife with my mother in law. And I thought yeah, well, that's not the best idea, but I am not married to gold and I am not in love with bitcoin. It's just the result of our thought process and our research.

And I think with bitcoin, at the moment I think it's really something that gives your portfolio a positive skew. So we hold in this fund gold for the stability and digital gold, which is bitcoin in that case, for the convexity.

We've got a strategic asset allocation of 25% in bitcoin and 75% in gold. We use the volatility of the market – volatility for us isn't something bad, it's something fantastic. So we are writing options and make use of that volatility.

And from my point of view, I think going forward we should not forget that – when you talk to younger market participants, like for example our neighbor's boy, he's like 12 years old and his whole world is in a digital sphere, so it's just normal for him to trade certain goods in this Fortnite game. For him, things like bitcoin is just something natural for him.

And we shouldn't forget that this asset class is still extremely young and it is developing. So there are lots of scams around. There will be bubbles that will burst.

But from my point of view, bitcoin really did a tremendous job over the last couple of years. And the dominance of bitcoin versus the rest, all those altcoins or sometimes also labeled shitcoins, I think that bitcoin really came out as the best coin, as the best store-of-value coin.

And therefore I think it is not something that will be forgotten over the next couple of years. I think at some point it will just be normal to have digital assets as a part of your portfolio.

Patrick: Erik, let's go to you here. What's your take on where we stand with bitcoin as an investment asset?

Erik: Well, let's step back to what we're trying to accomplish. If you want to hedge against fiat currency debasement, the way that you do that is you buy whatever scarcity asset you think society would be most likely to turn to if the whole system collapsed, the fiat money lost all of its value, you had to go back to something that has tangible value because of its scarcity, you have to realize that if you're going to a scarcity asset because systems are collapsing, it's kind of a tradition question.

Why is it gold? Well, it's always been gold for 10,000 years because gold is the element in the periodic table which is very scarce. It's something that's been treasured culturally for hundreds of years, thousands of years. People make jewelry out of it. Everybody just kind of agrees that it's worthwhile.

Oh the other hand, if you were to say that gold's got 10,000 years of history, blah, blah, blah, blah, it sounds great.

Look, in 1993, if you said forget about this internet stuff, newspapers have for hundreds of years been the de facto source for news and information. Nobody is going to use this new internet thing. Forget about it.

Well, no, actually, modern times modernize things, and things like newspapers get put out of business by the internet.

So bitcoin is, and cryptocurrency in general is the new-age invention for a virtual only exists in cyberspace digital scarcity asset. It is the replacement for gold as a scarcity asset.

So do you think if society collapsed that we would go back to gold? Or that we would go back to bitcoin as the store of value because we're in a new era where people don't really care about shiny gold metal and we need something to transact on and we've got this established thing that works on the internet called bitcoin and a lot of people believe in it?

You could make an argument for either one. Now, there are reasons to be concerned about bitcoin.

#1 – and as I laid out in my book two years ago, the #1 reason to be concerned about bitcoin as a long-term investment is that it's very much in the best interest of governments to figure out what an incredibly huge threat it poses to their power and authority over society. And to outlaw it for that reason.

And to be clear, I'm not personally advocating outlawing bitcoin. I think it would be wonderful if bitcoin took over and we really did replace government-controlled money with an alternative that's private sector. But I don't think governments are going to let that happen long term.

So a lot of people will tell you bitcoin was designed to be completely impervious to being outlawed. That's nonsense. Governments could outlaw the conversion of fiat currency to and from bitcoin and they could just make it illegal, which would cause institutional holders to be unable to invest in it.

And they would never be able to completely eradicate it. But they could certainly cause major problems for bitcoin if they wanted to.

So far, to my complete astonishment, governments don't seem to get it. They just don't understand why it's a threat to them. They don't understand the risk it poses to them. And they're not doing anything about it.

Now, the other thing that I did acknowledge in my book two years ago is I said the longer this goes and the more institutional investors and well-moneyed investors start buying bitcoin, then the less politically expedient it's going to be to outlaw it someday. It becomes more and more difficult to outlaw it the more people hold it.

And as Ronnie said, we've got the Paul Tudor Joneses and the Stan Druckenmillers of the world starting to invest in bitcoin. If that trend continues and governments continue to just lay asleep at the switch not paying attention here, it's going to be politically very, very difficult to outlaw it. And that's going to change the game.

The other risk to bitcoin is that it's based on a distributed ledger architecture called blockchain which relies on proof of work. It's very inefficient. And people are inventing better ways to skin a cat.

Now, the problem that bitcoin has is cultural. The bitcoin miners are kind of in control of the bitcoin system. This goes back to Upton Sinclair's famous quote that it's very difficult to get a man to learn something when his salary depends on him not learning that thing.

What's going to happen is we're going to get to the point where cryptocurrency doesn't need mining anymore. You can have faster, better, more reliable currency systems that don't need mining and don't need proof of work and are much more efficient.

But is bitcoin – which is controlled by this culture of miners who are able to essentially, if they have the right kind of computer equipment, print their own money in bitcoin – are they going to give it up and allow their precious bitcoin network to transition to something that basically puts all the miners out of business because they're obsolete?

And is it possible that, as they take that question on, that that makes them vulnerable to another currency system, which doesn't have mining, coming and taking all the market share and basically wiping them out because something better came along?

Those are the big risks to bitcoin.

And I'll be the first to admit, I thought two years ago when I wrote my book about this that by now governments would be taking strong action to outlaw bitcoin. They're not.

So – and I think the other thing to consider is from a momentum standpoint we're getting more and more people are convinced that it's the way of the future. And that means that, in terms of price appreciation, the momentum is going to be in bitcoin and it's going to take away from price appreciation in gold.

I think it creates a buying opportunity in gold. I wouldn't be surprised if, when bitcoin breaks out above its previous all-time highs, if that results in maybe a correction all the way down to $1,350 or so in gold. And if that's the case, I'll be buying more gold. I'm not buying any bitcoin.

Patrick: All right. Well, let's go to Grant. And now that you've had a chance to hear both Ronnie and Erik, do you have different perspectives on bitcoin?

Grant: I always kind of chuckle when people ask me about bitcoin because I am self-confessed (professed, whatever you want to call it), I am not a bitcoin expert.

What I find interesting is I understand, having spent so much time looking at precious metals, understanding the gold market, understanding the history of gold as money and as a store of value, I completely understand the case for bitcoin.

So the reasoning behind it and the rationale make perfect sense to me. I get it, I understand it, I believe in it. Check that box.

The part where I struggle, and Erik touched upon it, I basically, I am yet to be convinced that there aren't some really meaningful hurdles to this thing that make it far more risky than people who cheer about it from the rooftops think. It seems to be a very simple thing to kill in terms of adoption. Erik, again, touched upon that a short while ago.

And I think what's happened recently is the confusion of something as the savior of the financial system versus something which is a tremendous speculative instrument in which you can make an awful lot of money.

It is absolutely, most categorically the latter at the moment.

And, whilst I understand the case for it being this revolutionary new money, I think of bitcoin as perfect money in an imperfect world. I think it is perfect money. But unfortunately the world we live in is imperfect. And there is no chance that our world will ever be perfect.

And, unfortunately as far as bitcoin is concerned, the people it will ultimately be competing against, should it realize its potential, are in charge of making the rules in that imperfect world.

And so it faces enormous challenges, I think, not to make inroads, which it's clearly doing, not to gain significant market cap, which it's also doing, not to create a lot of wealth, which it's also doing, but to survive. That's going to be, I think, the challenge.

And, look, if every bitcoin fan out there now is throwing things at their screen telling me this guy doesn't know what he's talking about, that's absolutely fine. I hold my hands up to that. I'm really going on the reading I've done, the understanding I've done. And I am keen to understand it better.

But I struggle to understand a rational case for people putting their entire investment portfolio into bitcoin, for example.

Now, Michael Saylor, who I'm incredibly impressed with, I think he's a very, very smart guy. He's a great speaker. He's very eloquent and he communicates his message very effectively. But he's become – I think Ronnie you touched on it – he's become something of a bitcoin Jesus. And this thing becomes a self-fulfilling prophecy.

Raising $400 million in convertible notes paying 75 basis points of interest to buy a bitcoin is genius. When you already have half a billion dollars in bitcoin and you have such a small market cap and you want to force more money into that market cap, it's great. This thing is going to go around, it's going to keep going up, it's going to keep feeding on itself.

But when I look at 95% of the bitcoin is held by 2% of the accounts open, it just gives me pause.

And I'm not saying I know what's going to happen. But what I am saying is I have serious questions which I'm very keen for people who understand it better than me to give me answers to. And I'm perfectly open-minded to be proven that these are concerns that I don't need to have.

But until someone can do that, until they can lay my concerns at rest, until they can answer to my satisfaction the fears that I have about [INAUDIBLE] being made illegal, about bitcoin being outlawed, about conversion to certain fiat currencies being outlawed, I view it as a great speculation but I have trouble contemplating how it survives when it becomes the kind of threat that the people who admire it so much insist it's going to be.

I hope that answers the question. As I said, I'm by no means any kind of bitcoin expert.

Erik: Grant, I'd like to just ask a follow-on to that because it plays back to something we talked about earlier. Would you agree with me that if you're talking about hedging, meaning safety, protect myself, my answer is no way on bitcoin? It's all about gold, baby.

On the other hand, if what you're talking about is I see fiat currency debasement and I want to gamble as a speculator and try to make as much money as possible if that turns out to be right, it seems like bitcoin kind of has to be part of that strategy.

Grant: Yes, I completely understand. And I think you're 100% right, Erik.

If you think about that as a strategy, then your next step is to understand the amount of protection you want and the amount of appreciation potential you want and calibrate accordingly.

Ronnie's got 75/25 allocation gold/bitcoin, which would seem to follow the kind of rationale that you and I have. Some people would want more bitcoin. Some people want all of it in bitcoin. Some people want all of it in gold.

I totally understand every single strategy here, depending on your risk tolerance.

But I think that, at the moment at least, bitcoin being touted as a store of value I think has yet to be proven. I mean, the volatility in it suggests there are any number of times that you could have bought bitcoin as a store of value and seen 85% of your value wiped out.

And, yes, people will say, well, if you bought it and held on to it the whole time, you'd be fine.

But very few people who are looking to protect the value of their investments can stomach an 85% downdraft without – either at some point along the way or at the bottom – cutting it, because they can't stand the volatility. They're looking for a store of value, not a store of value that causes them sleepless nights.

So I think bitcoin has got a lot of work to do. But right now – and I would add that the run we're seeing now, which in many ways echoes what we saw in December 2017, this time I think it is different.

And I talked about this recently I think with Bill Fleckenstein and Fred Hickey. It feels different to me because of Ronnie's point, the institutional money coming in.

But I don't know how much of that is smart investors understanding what a tiny free float there is in this thing and just how easy it is to push it up with a few headlines about $100 million here $100 million there. What you won't read, I guarantee you, is if some of these guys who put $100 million in, whether the Druckenmillers or the Tudor Joneses of the world, quietly exit their positions in bitcoin. You won't hear that. That will not be a headline.

But these guys, let's not kid ourselves, are savvy enough to look at the size of the market, look at what headlines do, and understand there is a very, very easy way to make some serious money here. And good luck to them.

Patrick: Gentlemen, this has been a great discussion so far, but unfortunately we've run out of time for this week's episode. Erik, before we close, please give our listeners a sense of what's coming in Part 2 of this series which airs at 9am Eastern Time on New Year's Eve.

Erik: Next week we're going to start by revisiting Goldman Sachs commodities chief Jeffrey Currie's important distinction that fiat debasement and inflation are two different risks, which require two different hedging strategies. Then we'll go through all the various fiat debasement and inflation hedging trades from precious metals to crypto to crude oil to base metals to farmland, and compare notes between our panelists on which trading strategies make the most sense.

All of that is coming up next week in Part 2 of this series.