

# INCREMENTUM

## CHARTBOOK

**Gold Bull & Debt Bear in 50 Charts**

# Disclaimer

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## **CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS**

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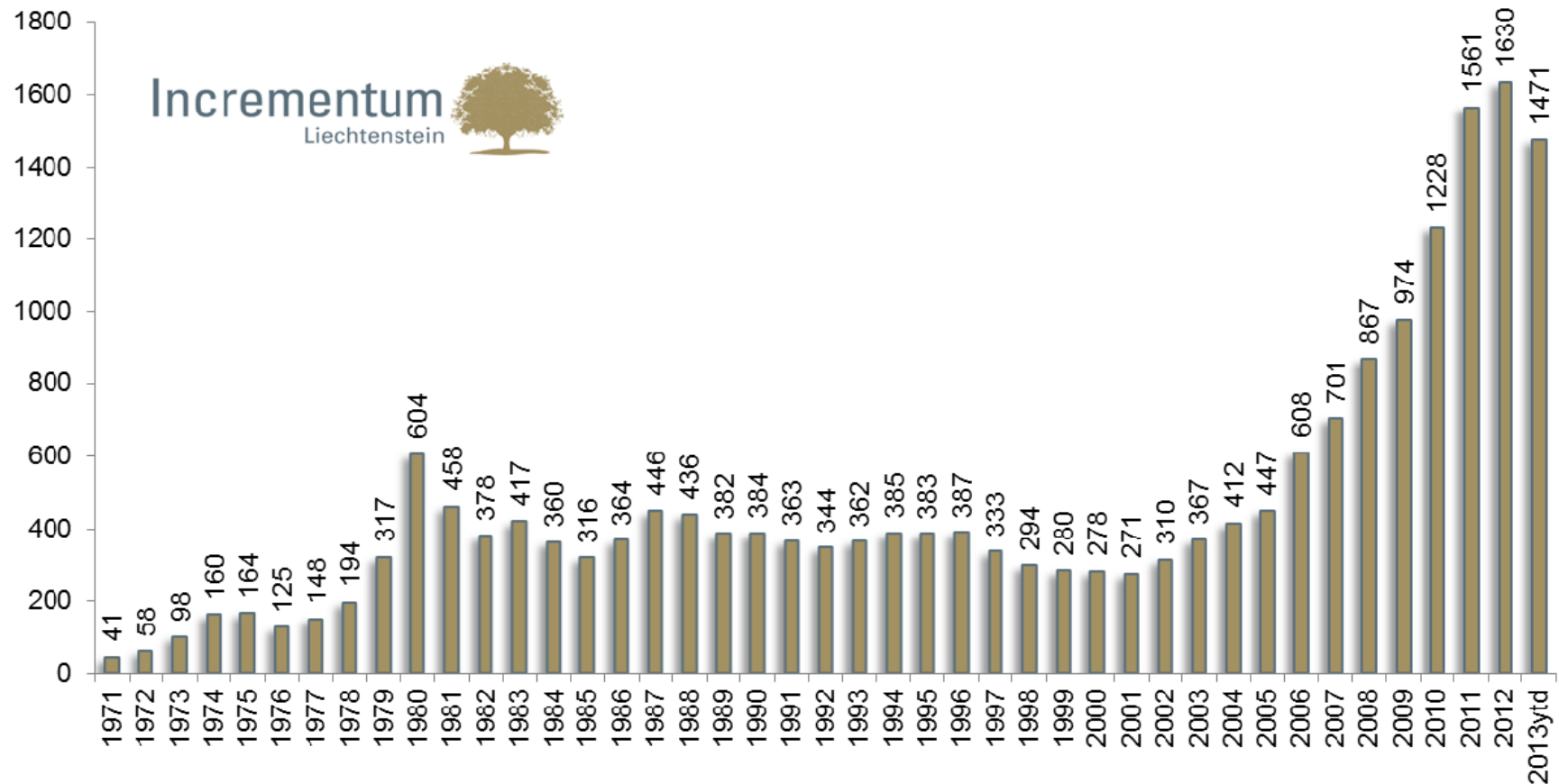
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# ***GOLD***

# Average Annual Gold Price



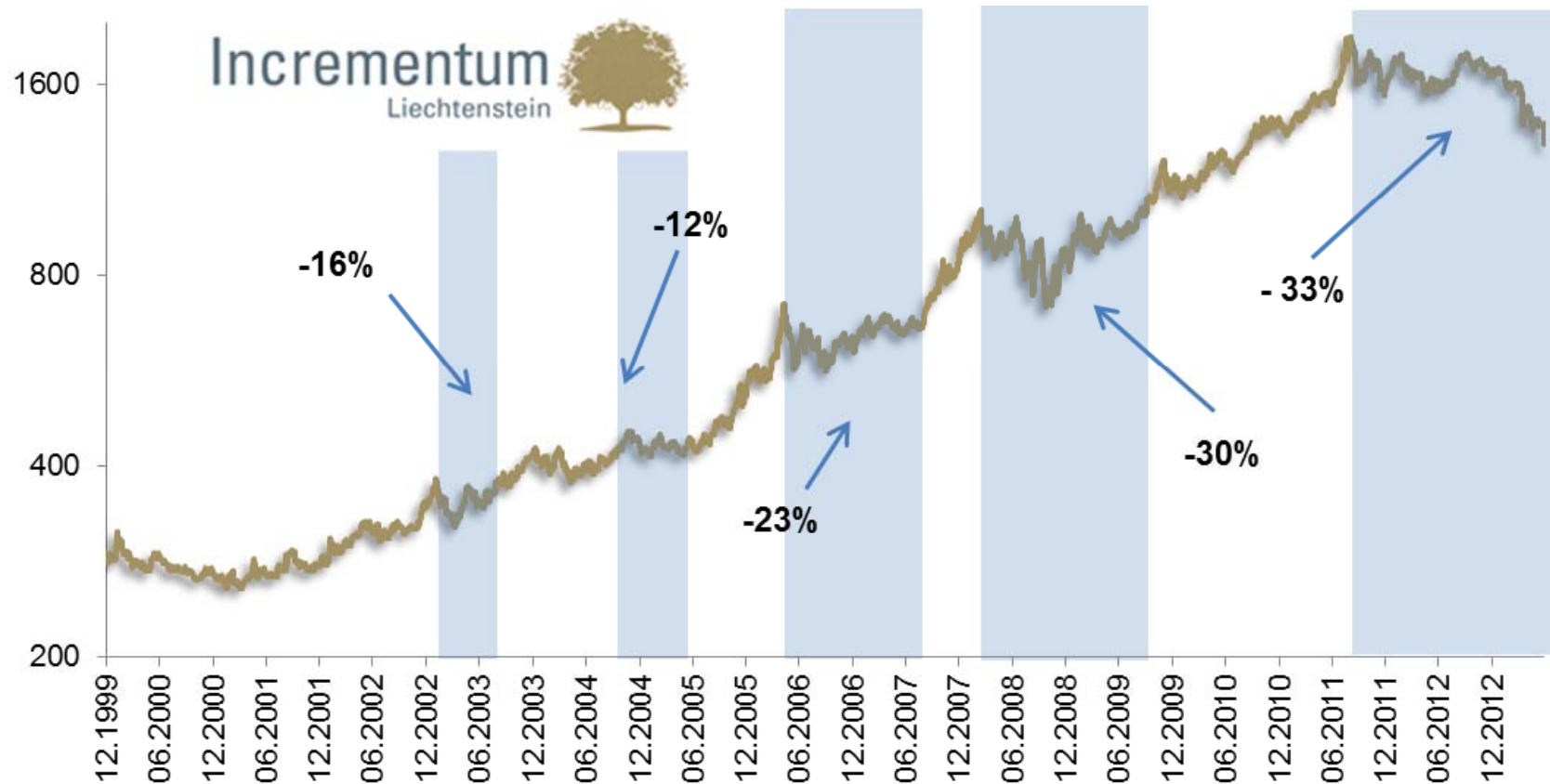
Sources: Federal Reserve St. Louis, Incrementum AG

# Comparison With Mid-Cycle Correction in 70s



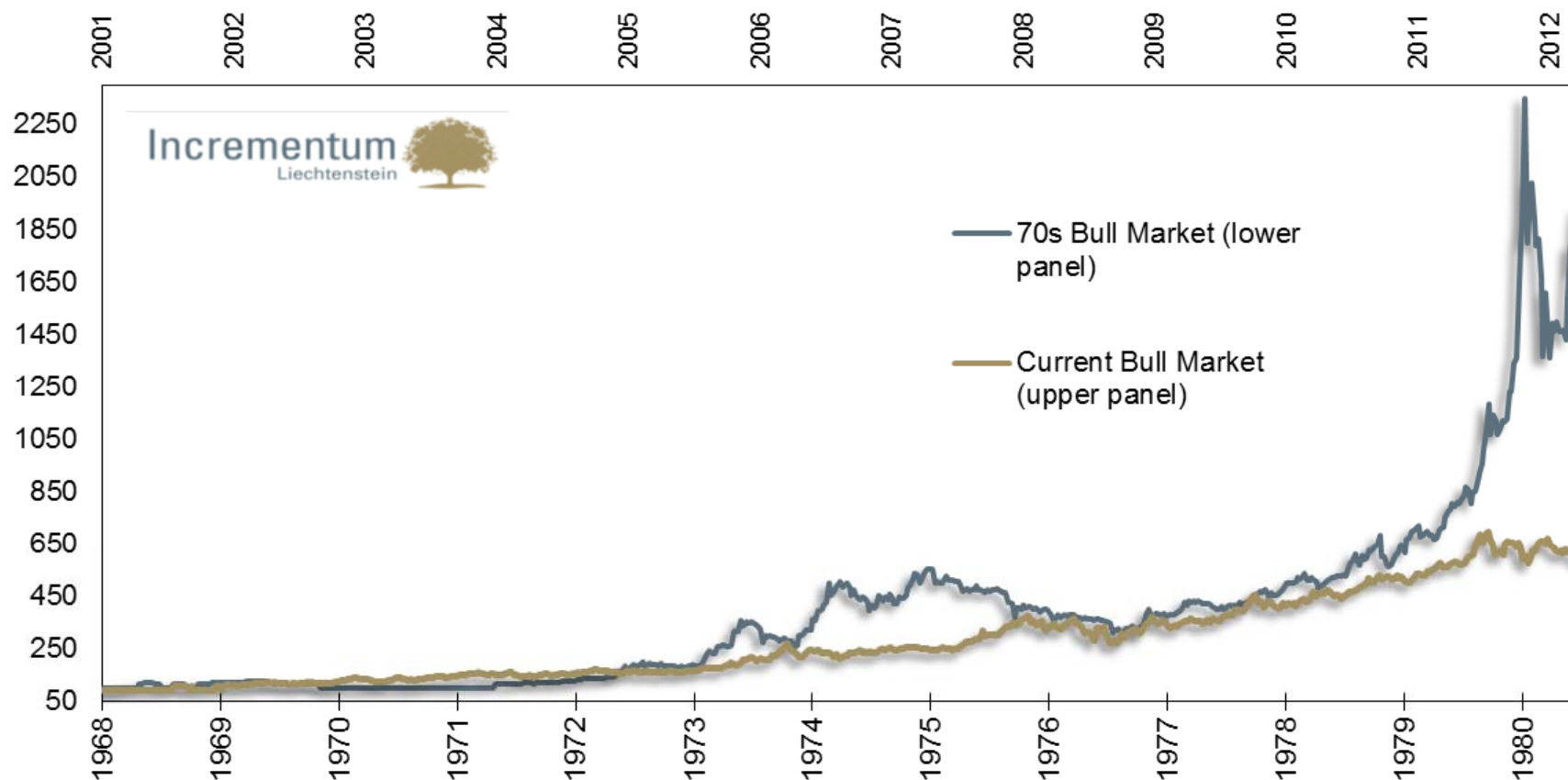
Quelle: Fed St. Louis, Erste Group, Incrementum AG

# Corrections Since The Beginning of This Bull Market (Logarithmic Scale)



Quelle: Fed St. Louis, Erste Group, Incrementum AG

# Two Bull Markets: No Parabolic Trend Acceleration Yet



Sources: Federal Reserve St. Louis, Incrementum AG

# Gold During Various Currency Crises

**Gold in Mexican Peso**



**Gold in Indonesian Rupiah**



**Gold in Russian Ruble**



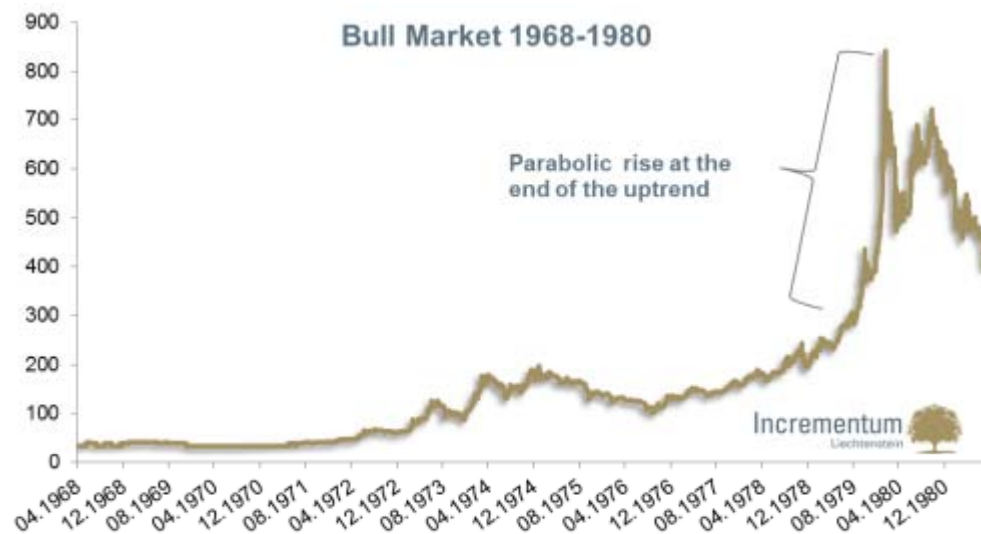
**Gold in Korean Won**



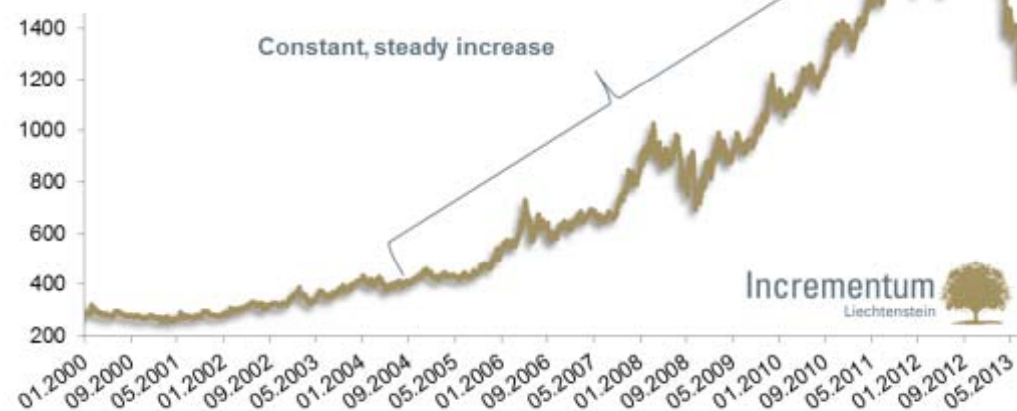
Source: Incrementum AG



# Two Bull Markets: No Parabolic Trend Acceleration Yet



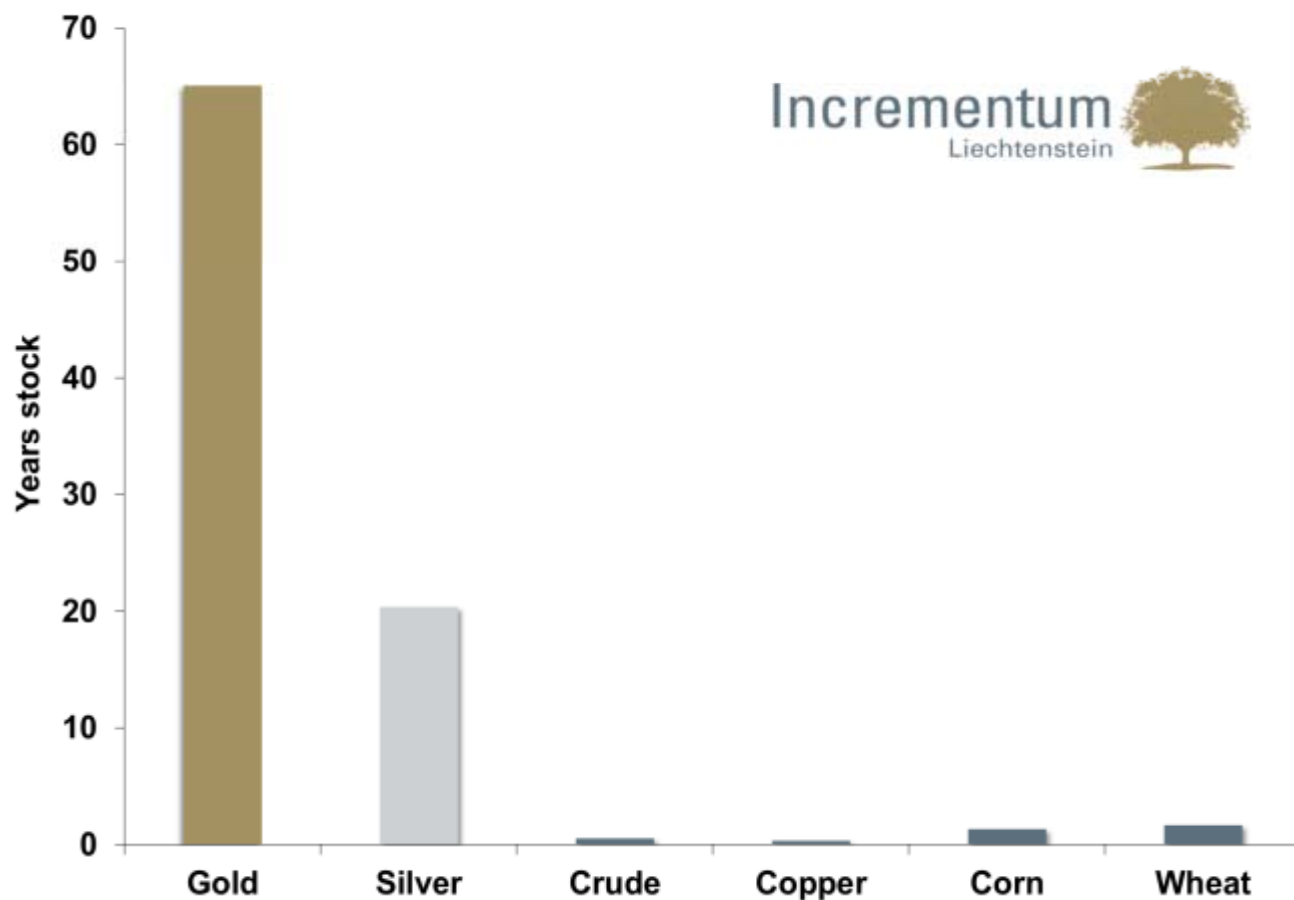
**Current Bull Market 2000 - ???**



Sources: Federal Reserve St. Louis, Incrementum AG

# Stock-To-Flow Ratio: The Most Important Reason for Gold's Monetary Status

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Sources: Incrementum AG

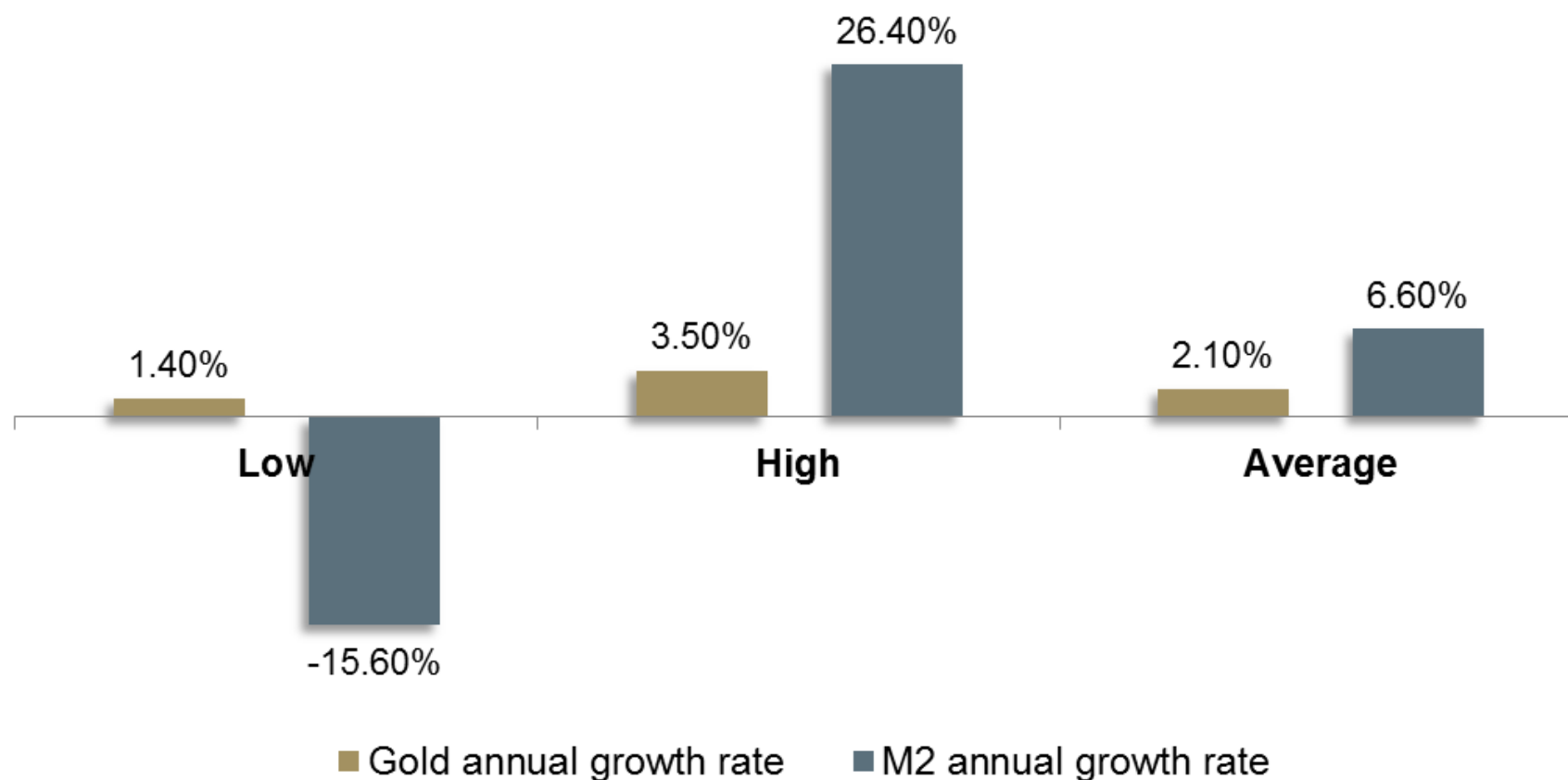
# Stock-To-Flow Ratio: Annual Production vs. Total Stock in Tonnes



Source: Incrementum AG

## Relative Scarcity: Gold's Supply Curve vs. M2 Growth Maximum, Minimum and Average Rate of Change From 1868 To 2011

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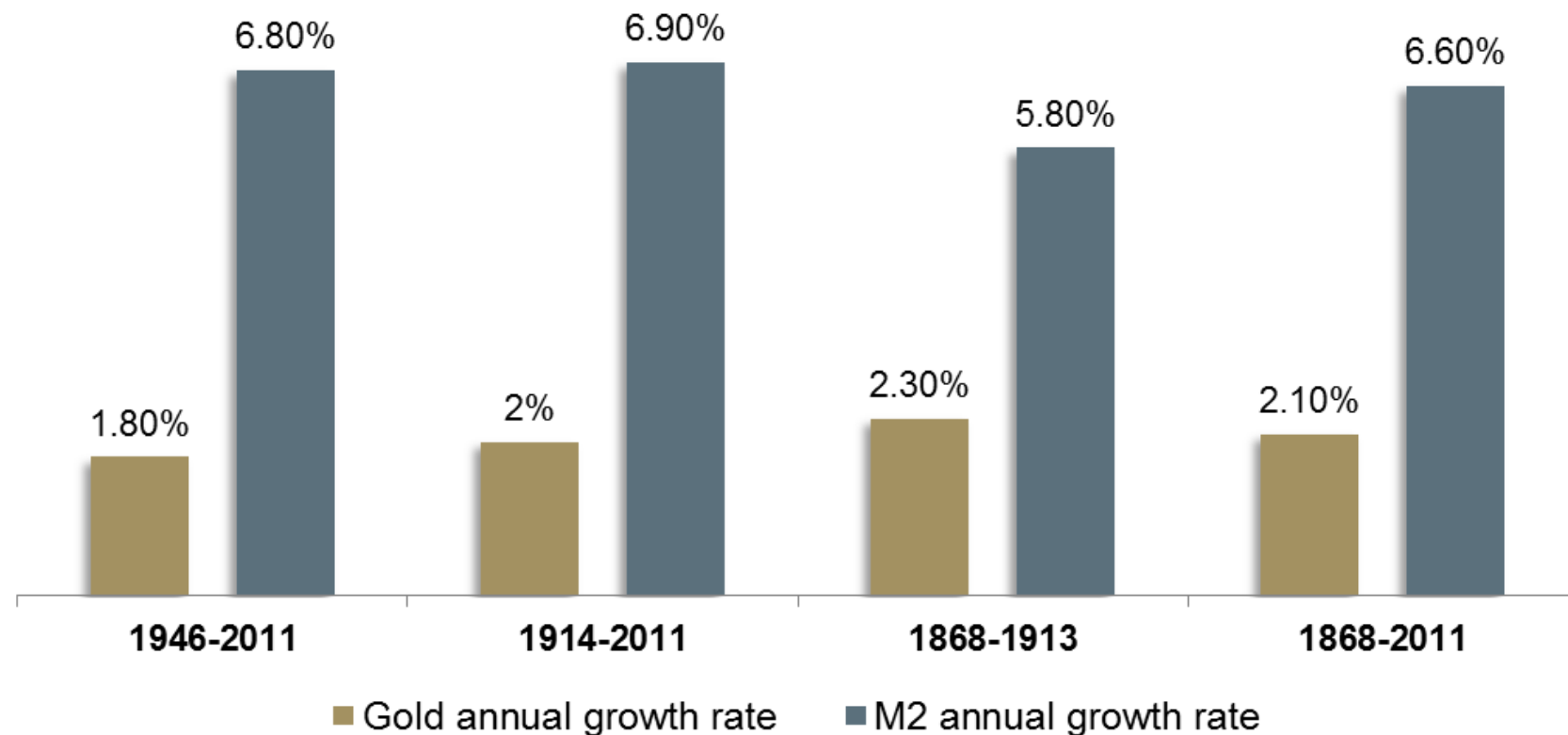


Sources: GoldMoney Foundation, "the aboveground Gold Stock: Ist Importance and Ist Size", James Turk, Incrementum AG

## Relative Scarcity: Gold's Supply Curve vs. M2

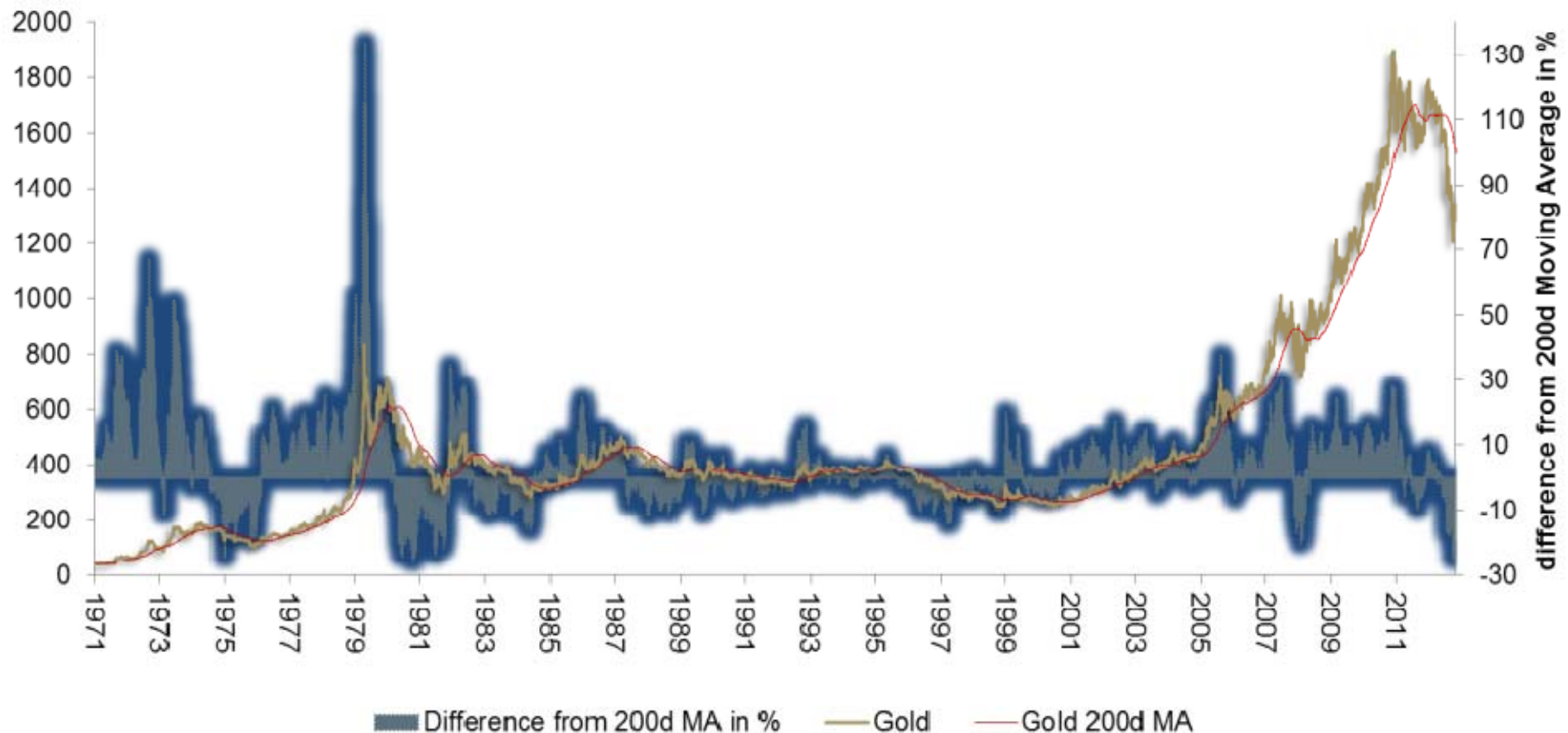
### Average Rate of Change: Gold & M2 in Different Time Periods

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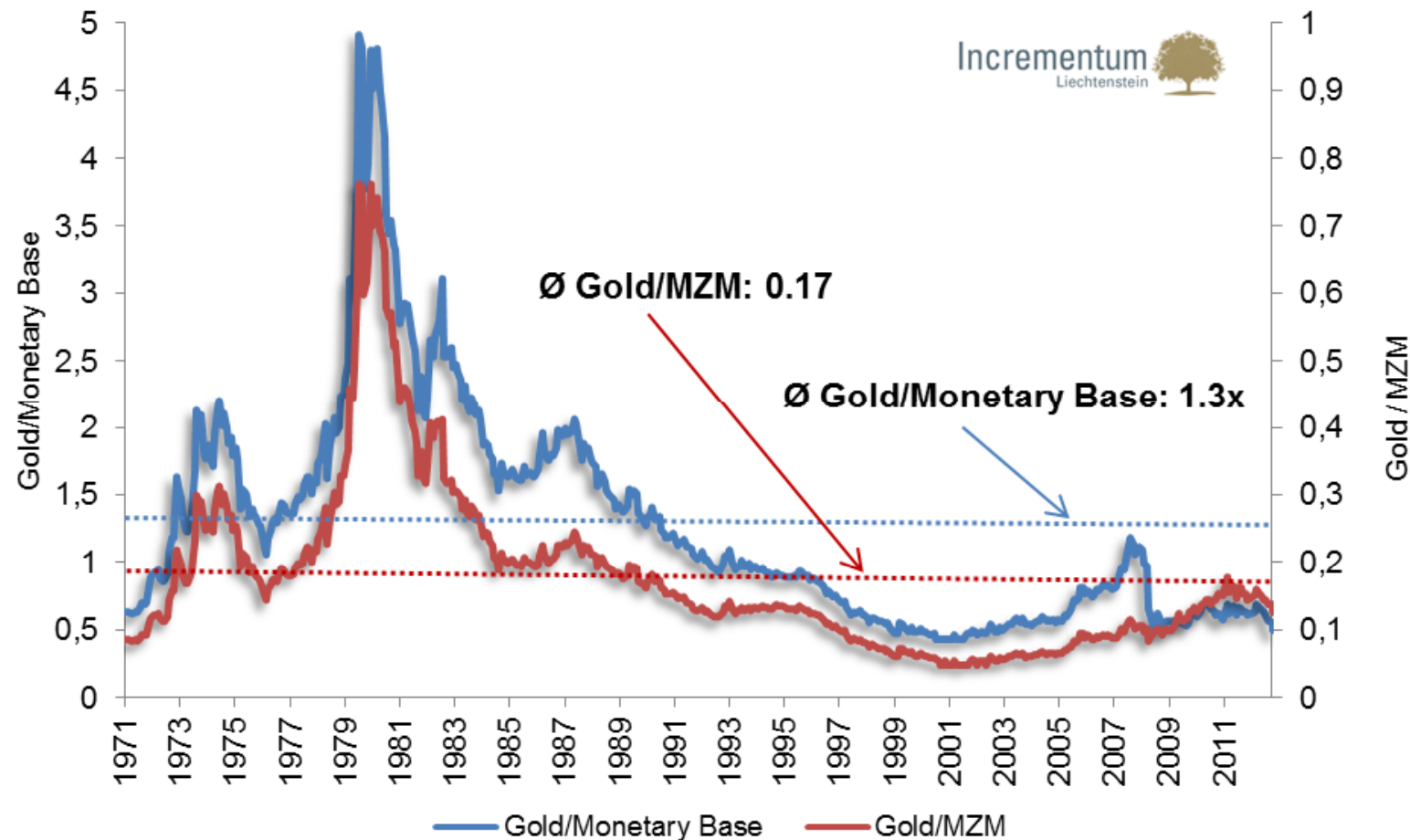
Sources: GoldMoney Foundation, "the aboveground Gold Stock: Its Importance and Its Size", James Turk, Incrementum AG

# Gold vs. 200 Day Moving Average and Deviation From 200 Day Moving Average



Sources: Federal Reserve St. Louis, Incrementum AG

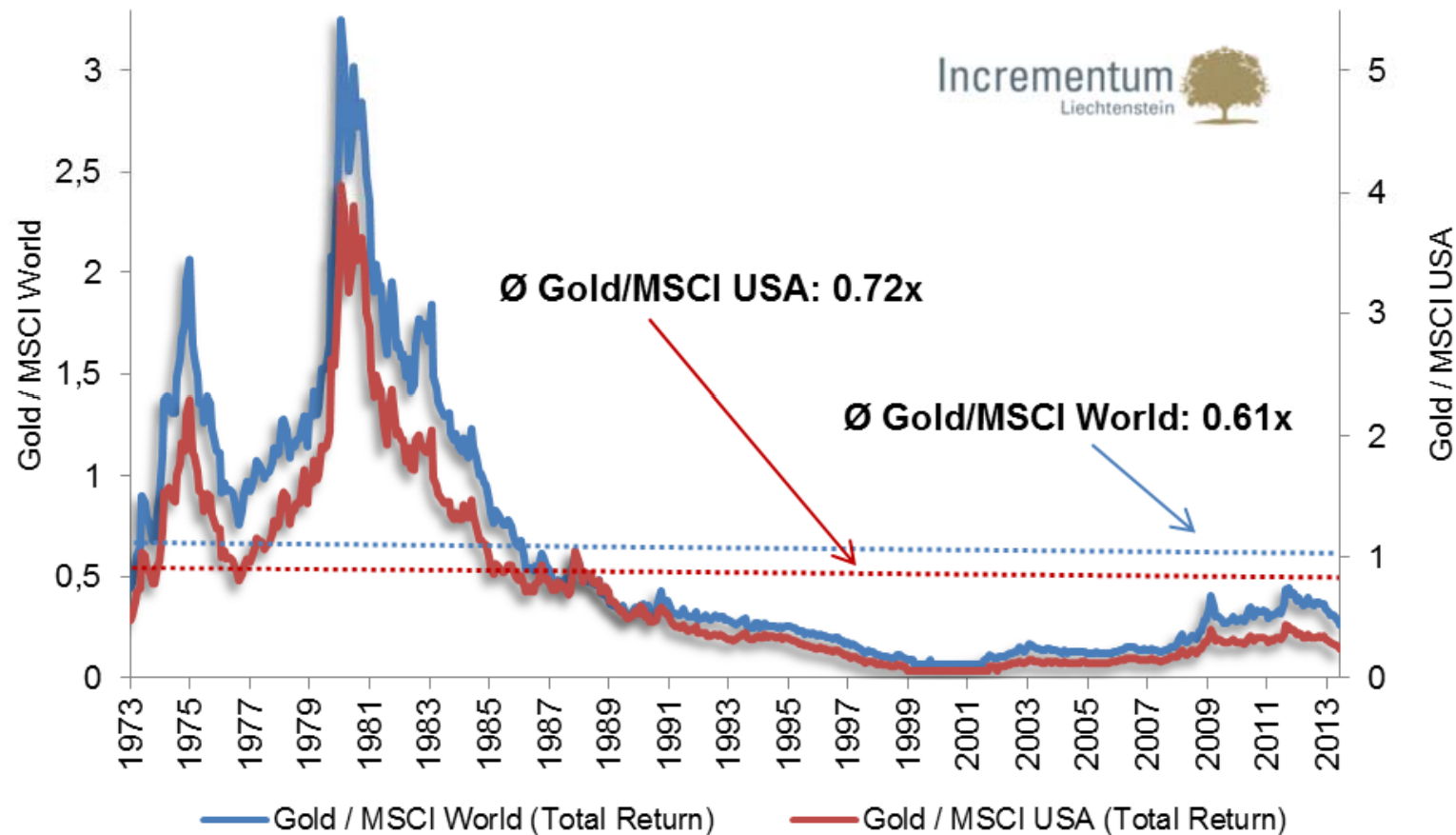
# Gold is “Cheap” vs. FIAT-Money (M0 and MZM)



Sources: Federal Reserve St. Louis, Incrementum AG

# No Overvaluation Compared to Stock Market Indices!

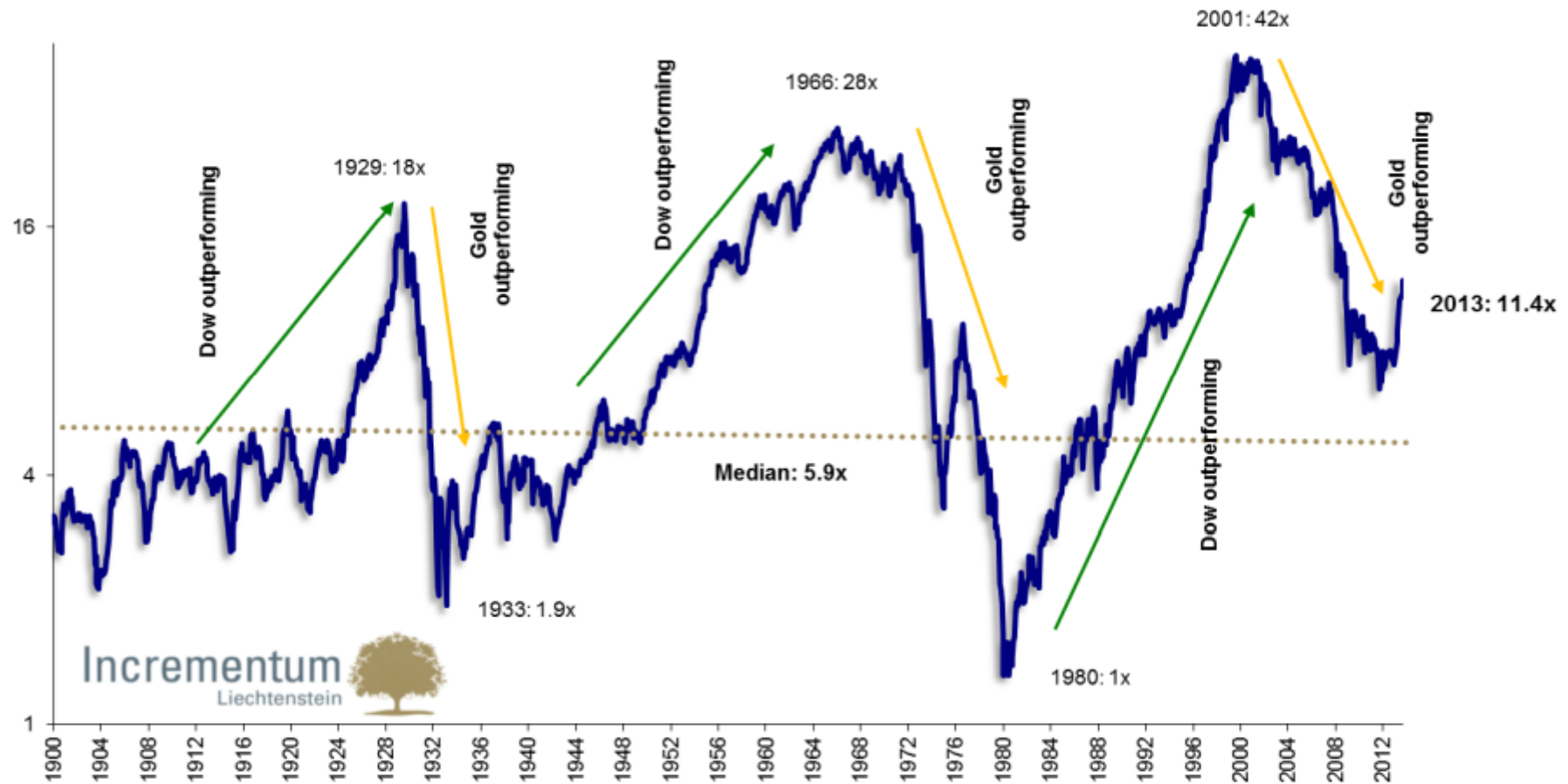
## Gold vs. MSCI USA & MSCI World (Total Return)



Sources: Federal Reserve St. Louis, Incrementum AG

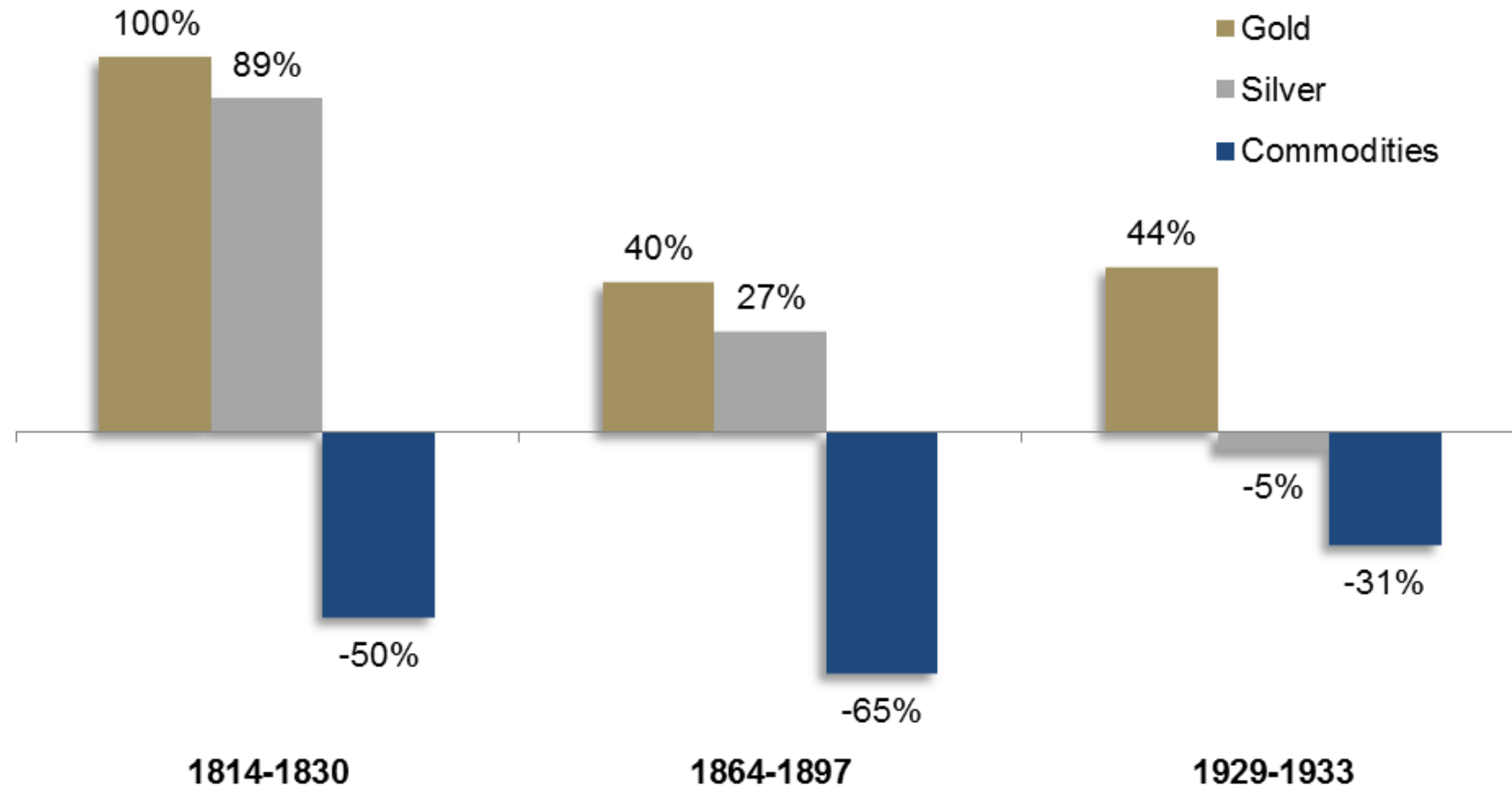


# Dow/Gold Ratio since 1900



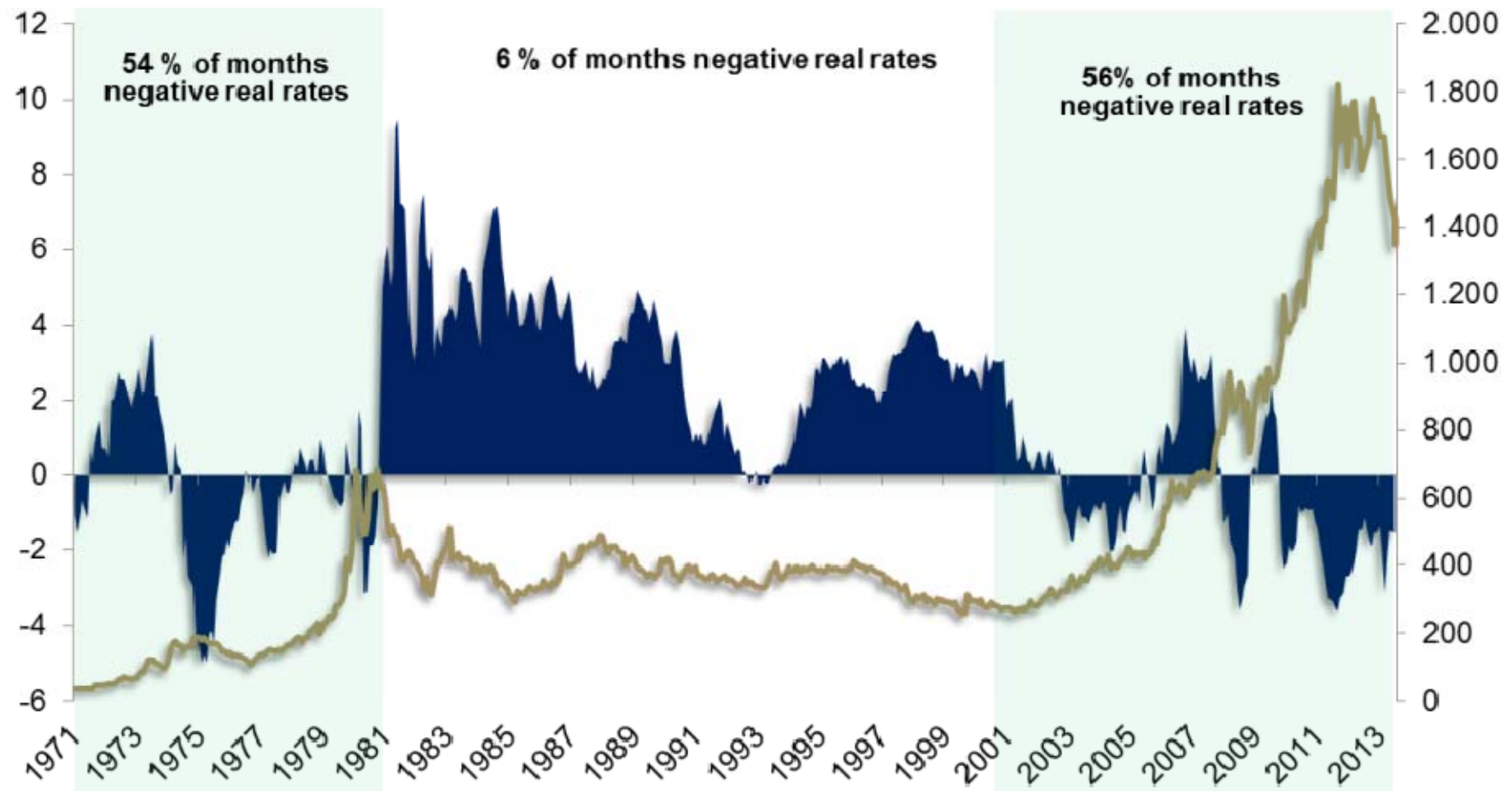
Source: Federal Reserve Bank of St. Louis, Incrementum AG

# Gold, Silver & Commodities During Deflation



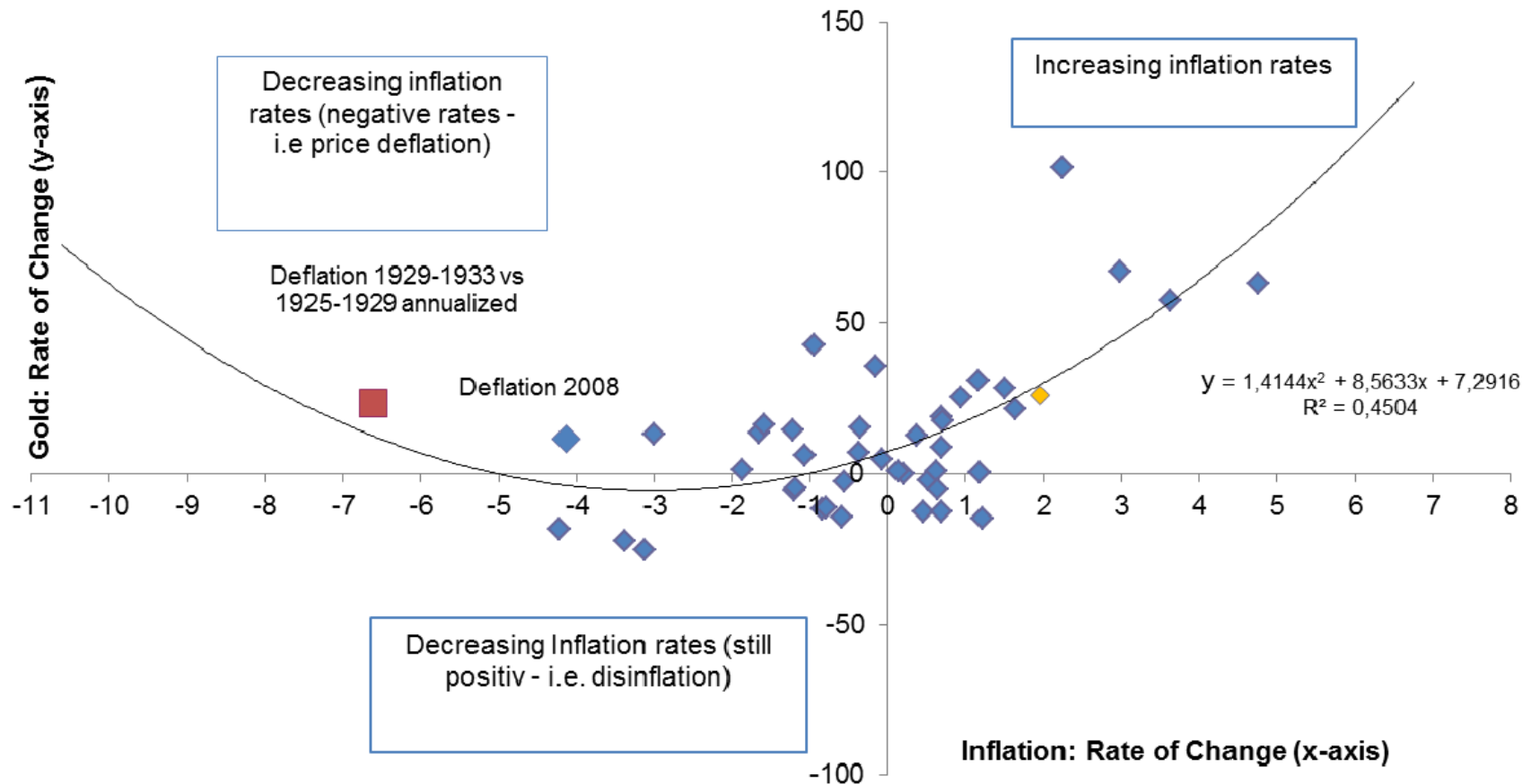
Sources: Roy Jastram, "The Golden Constant", "Silver, the Restless Metal", Incrementum AG

# Real Interest Rates vs. Gold Price since 1971



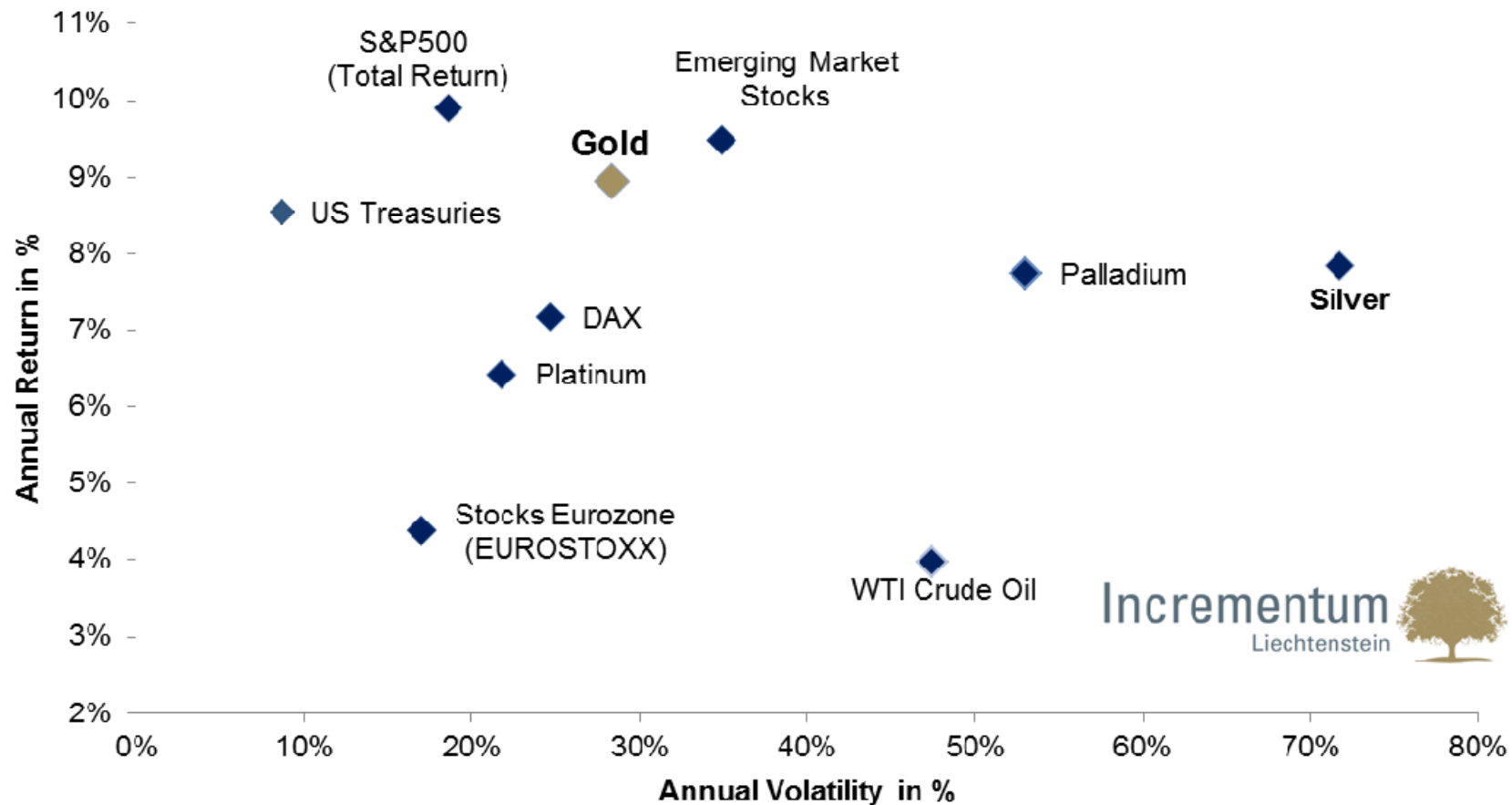
Source: Federal Reserve Bank of St. Louis, Incrementum AG

# Change in Inflation Rate vs. Change in Gold Price: Gold Does Not Correlate With Inflation Rates, But With the Change in Inflation Rates



Quelle: Fed St. Louis, Erste Group, Incrementum AG

# Annual Return versus Annual Volatility since 1971

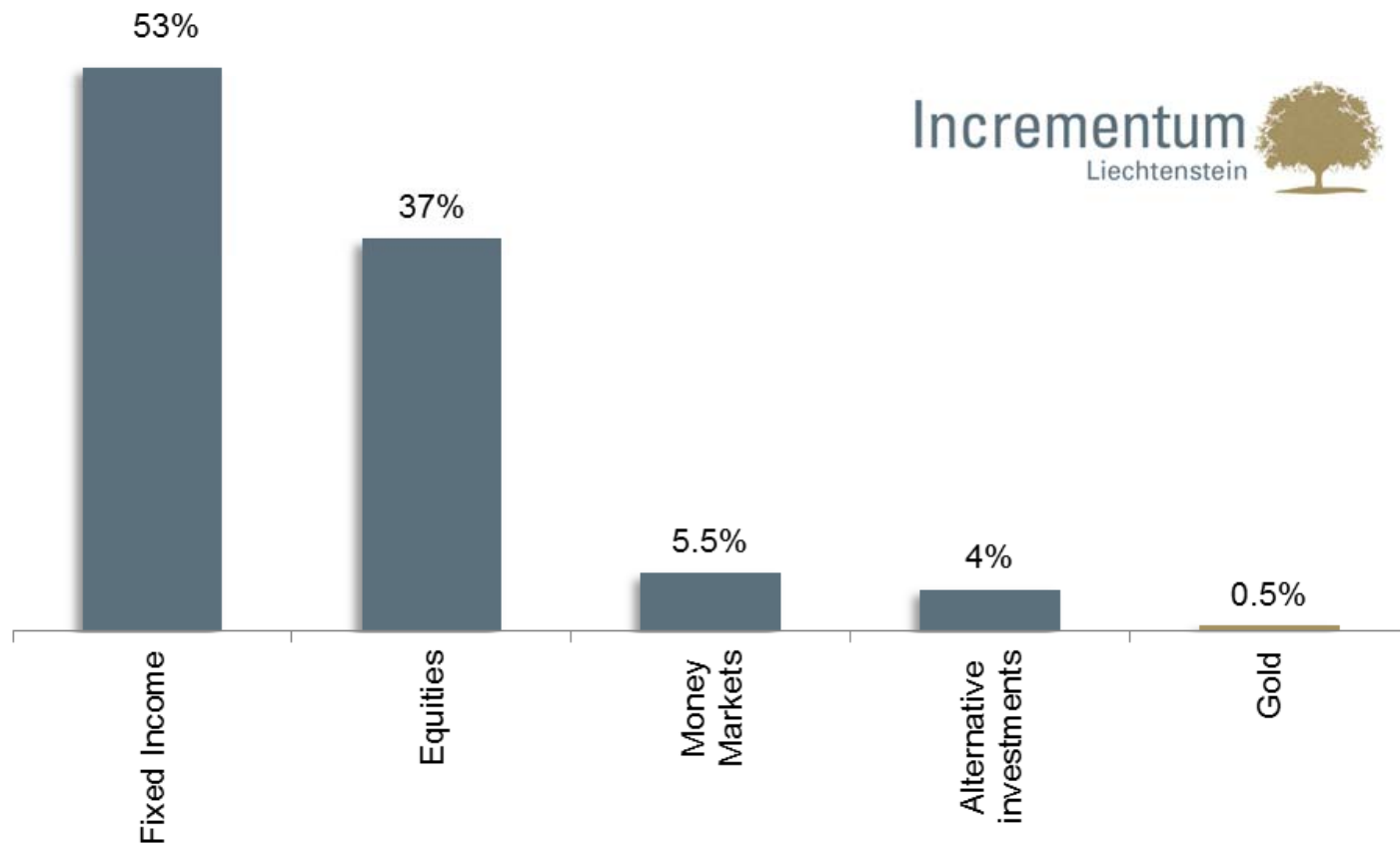


Sources: Bloomberg, Ferdinand Regner, Incrementum AG

## Crowded Trade?

Gold's Share of Total Financial Assets Currently at a Mere 0.5%

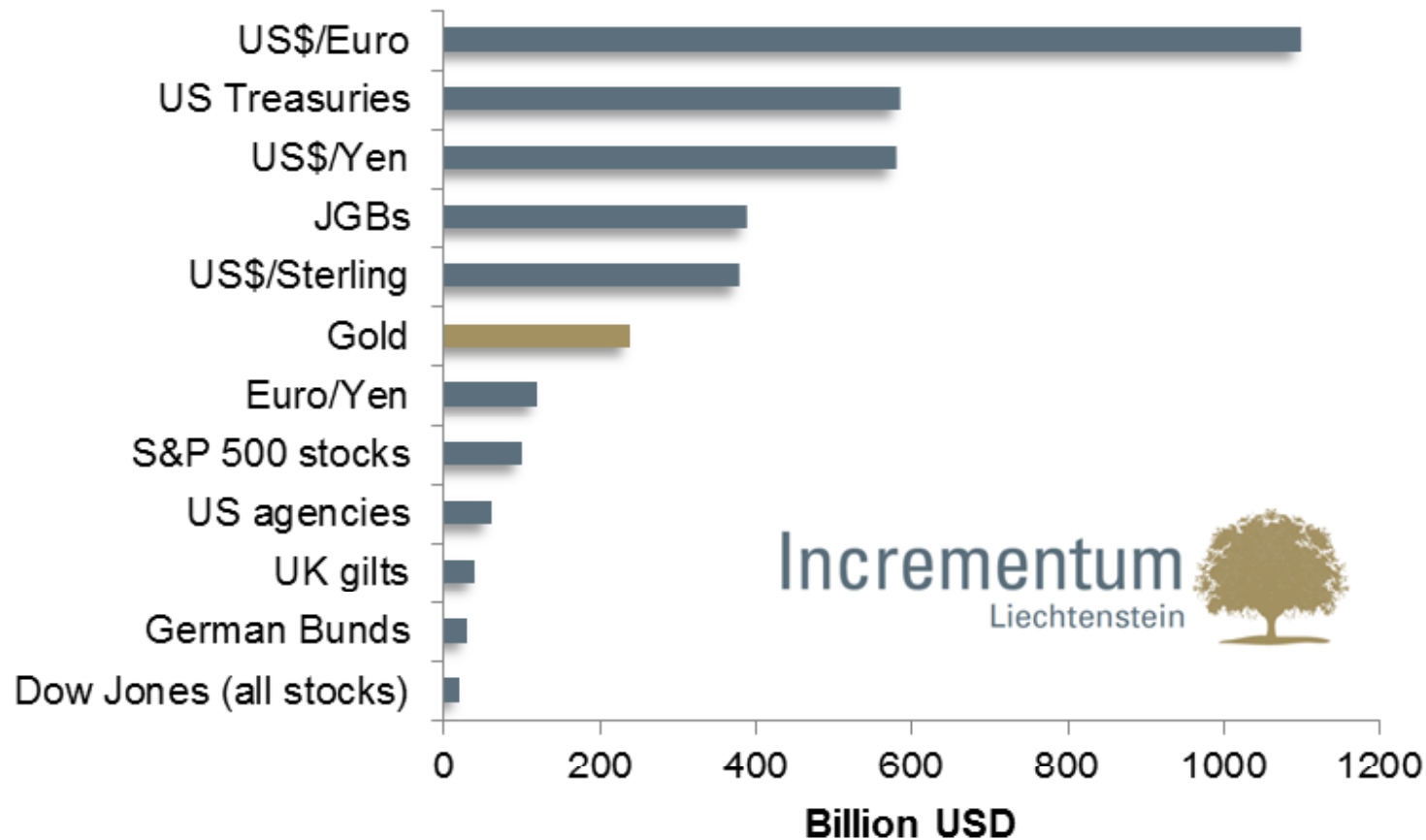
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Sources: World Gold Council, Credit Suisse, World Federation of Exchanges, Incrementum AG

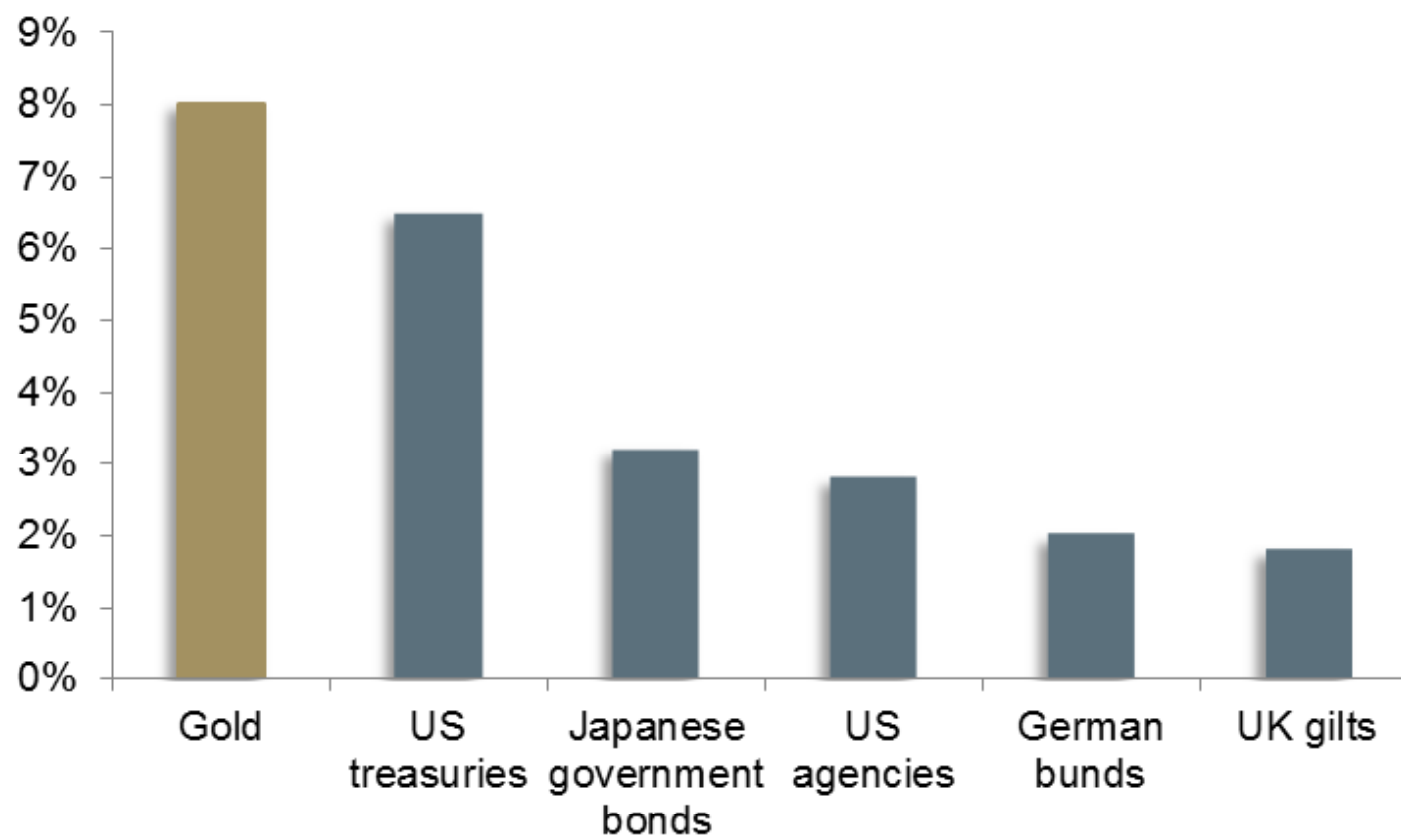
# Daily Trading Volume in Billion USD: Gold Is One of The Most Liquid Currencies

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Sources: World Gold Council, Bloomberg, Incrementum AG

# Average Daily Turnover as % of Total Outstanding\*



\*Daily turnover is calculated as daily average volume divided by total outstanding value. In the case of gold, total outstanding is calculated using private and public bullion holdings.

Sources: German finance agency, Japanese MOF, SIFMA, Thomson Reuters GFMS, UK DMO, WGC



# Gold in USD & EUR Since 1968 (Logarithmic Scale)



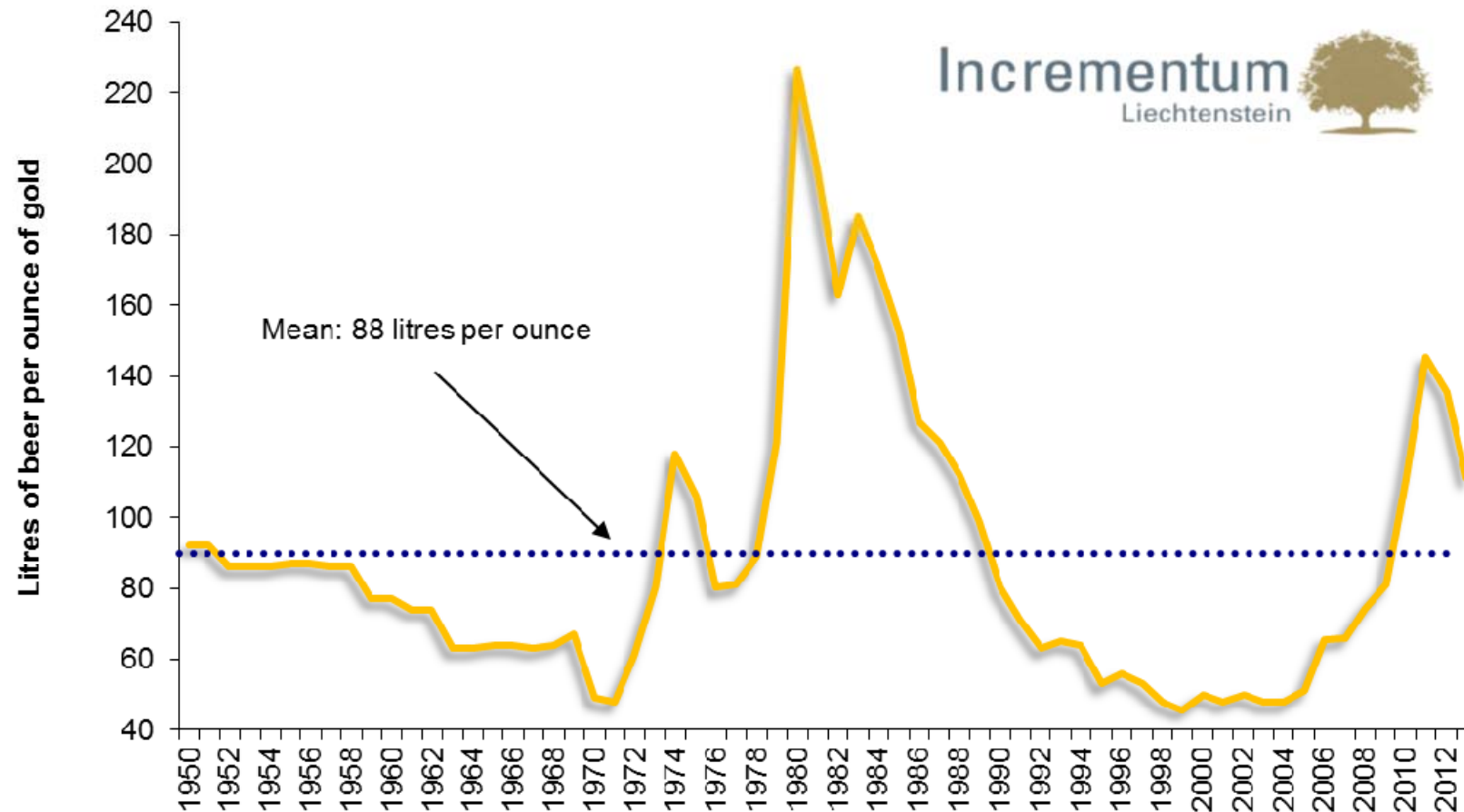
Sources: Federal Reserve St. Louis, Incrementum AG

# Gold Price in USD and EUR Since 1999



Sources: Federal Reserve St. Louis, Incrementum AG

# Good Outlook for Beer-Drinking Gold Bugs: Gold/Oktoberfest Beer Ratio

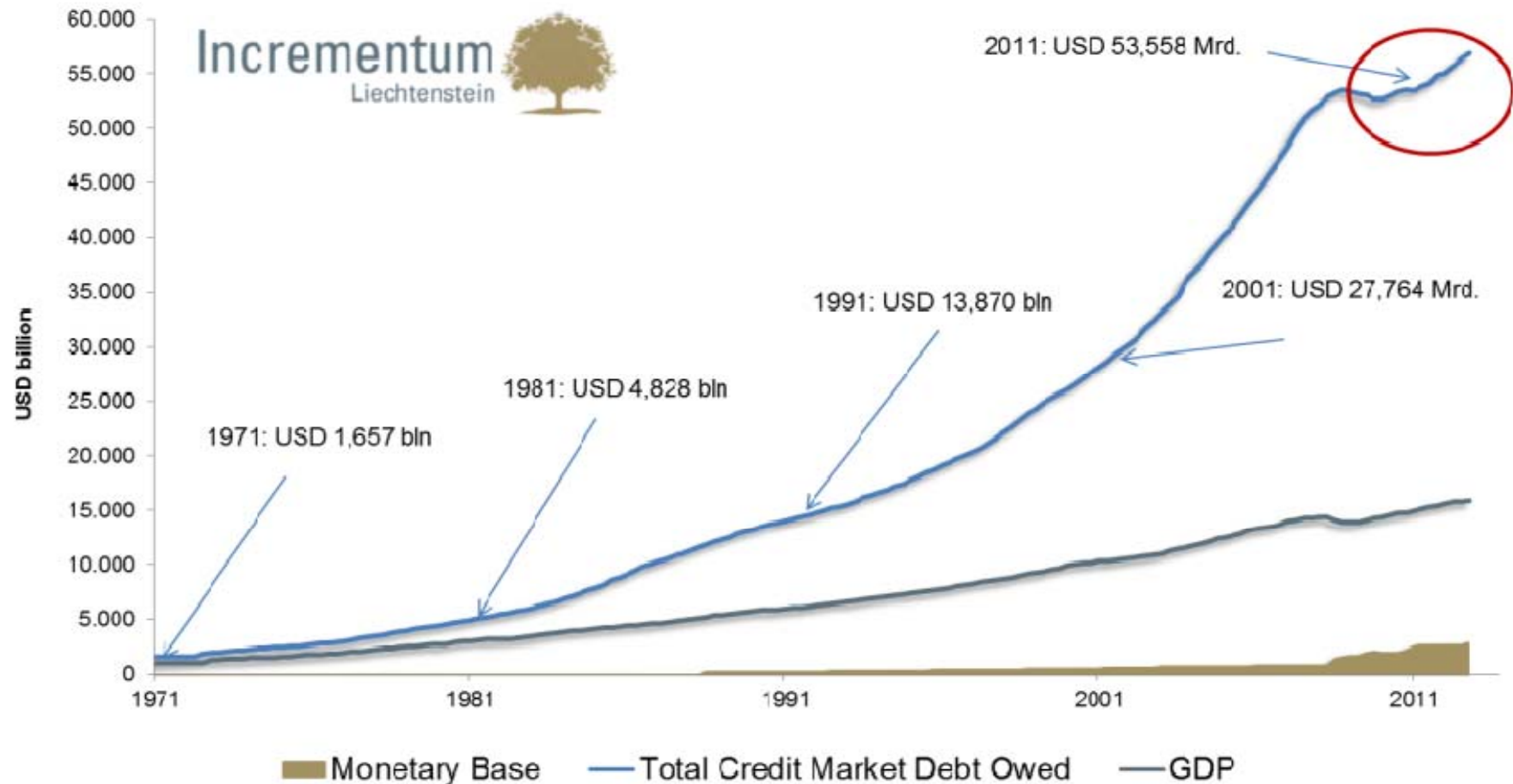


Sources: [www.HaaseEwert.de](http://www.HaaseEwert.de), Historical archive Spaten-Löwenbräu, Incrementum AG

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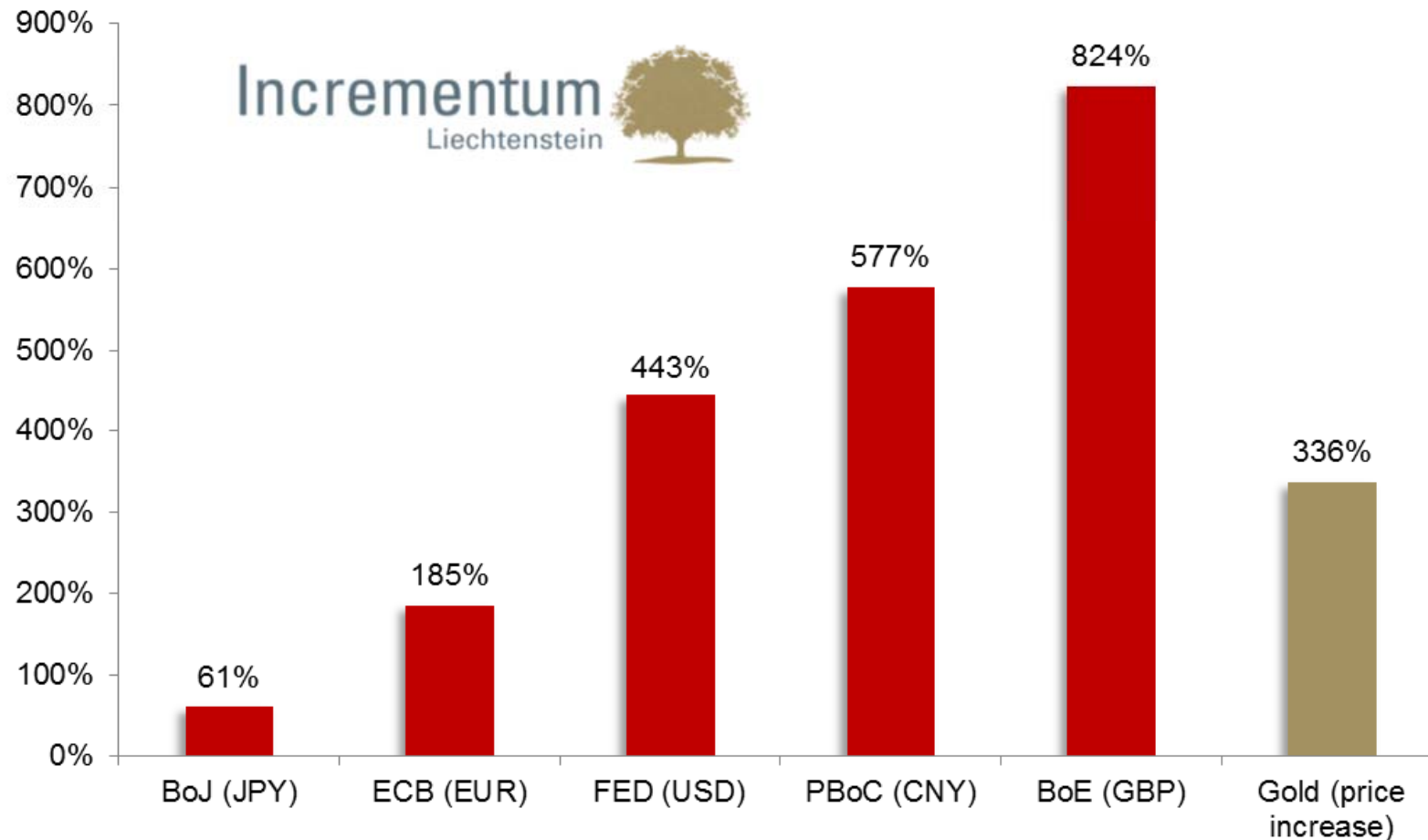
# ***DEBT & ECONOMY***

# Total Credit Market Debt Owed, GDP & Monetary Base



Sources: Federal Reserve Bank of St. Louis, Incrementum AG

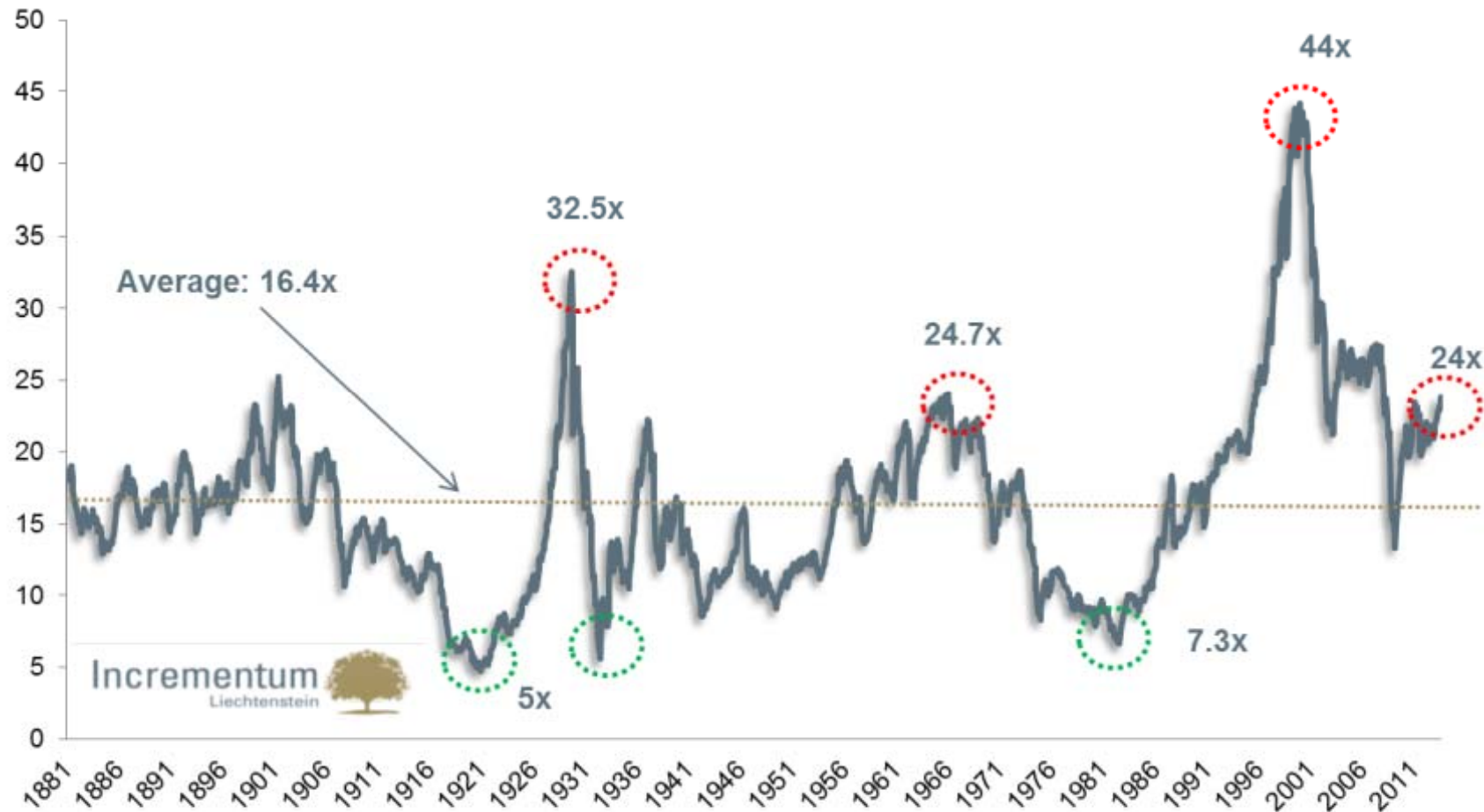
# Change in Central Bank Balance Sheets + Gold Price Increase: January 2002 vs. August 2013



Sources: Central Bank Information, Bloomberg, Incrementum AG

# Stocks are Cheap? Not really...

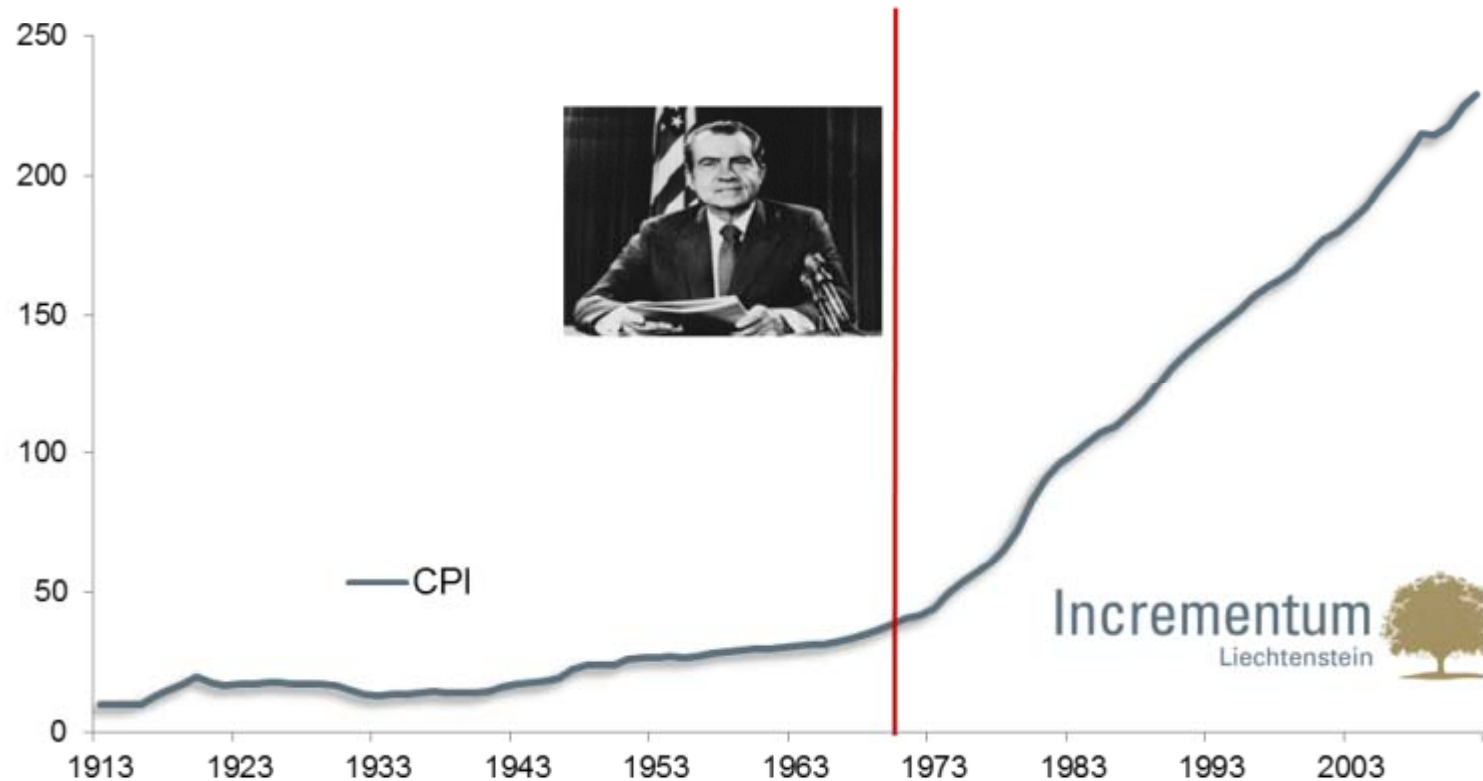
## S&P: Shiller PE since 1881



Sources: <http://www.econ.yale.edu/~shiller/data.htm> Prof. Robert Shiller, Incrementum AG

# Consumer Prices in the US Over the Past Century (CPI indexed)

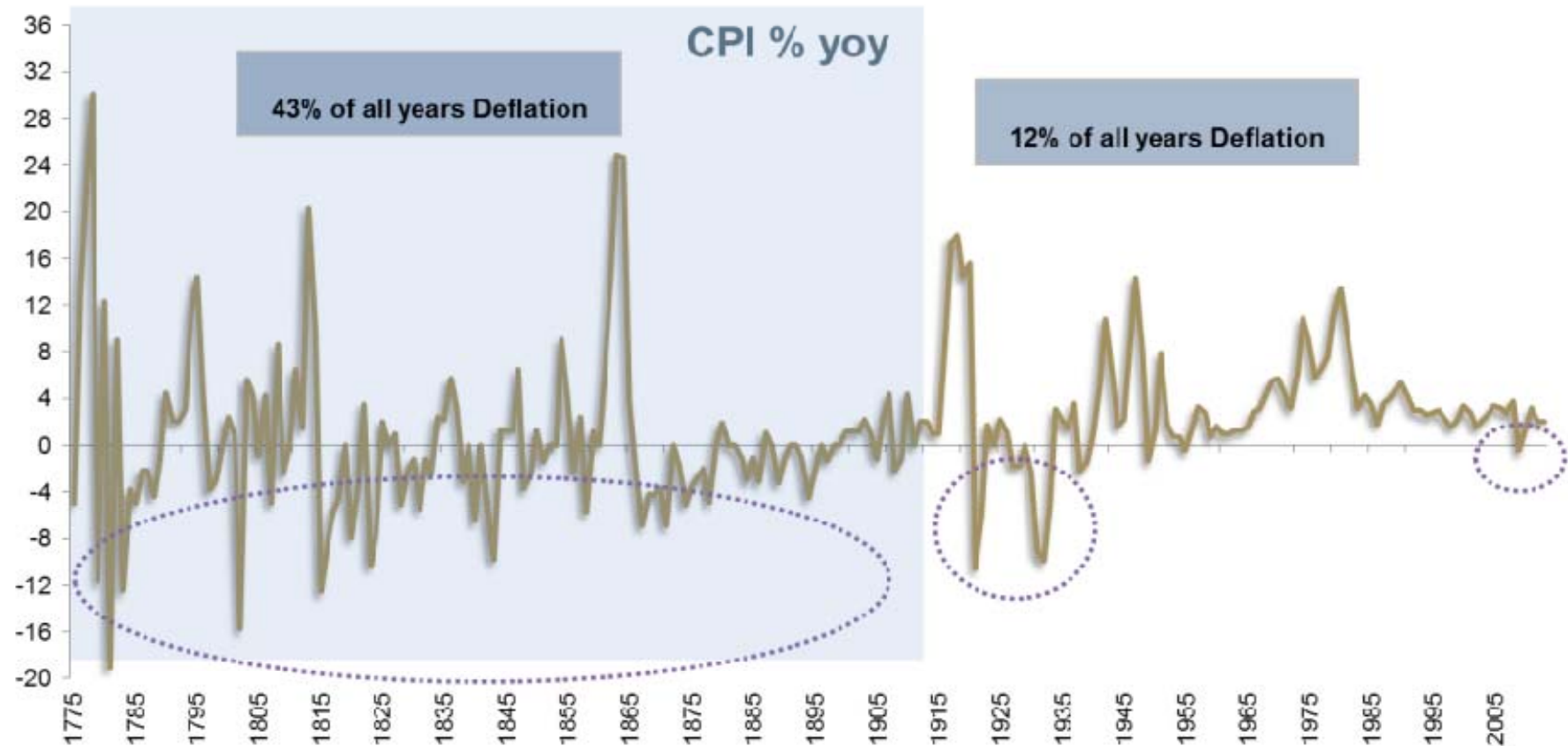
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Sources: Federal Reserve St. Louis, Incrementum AG

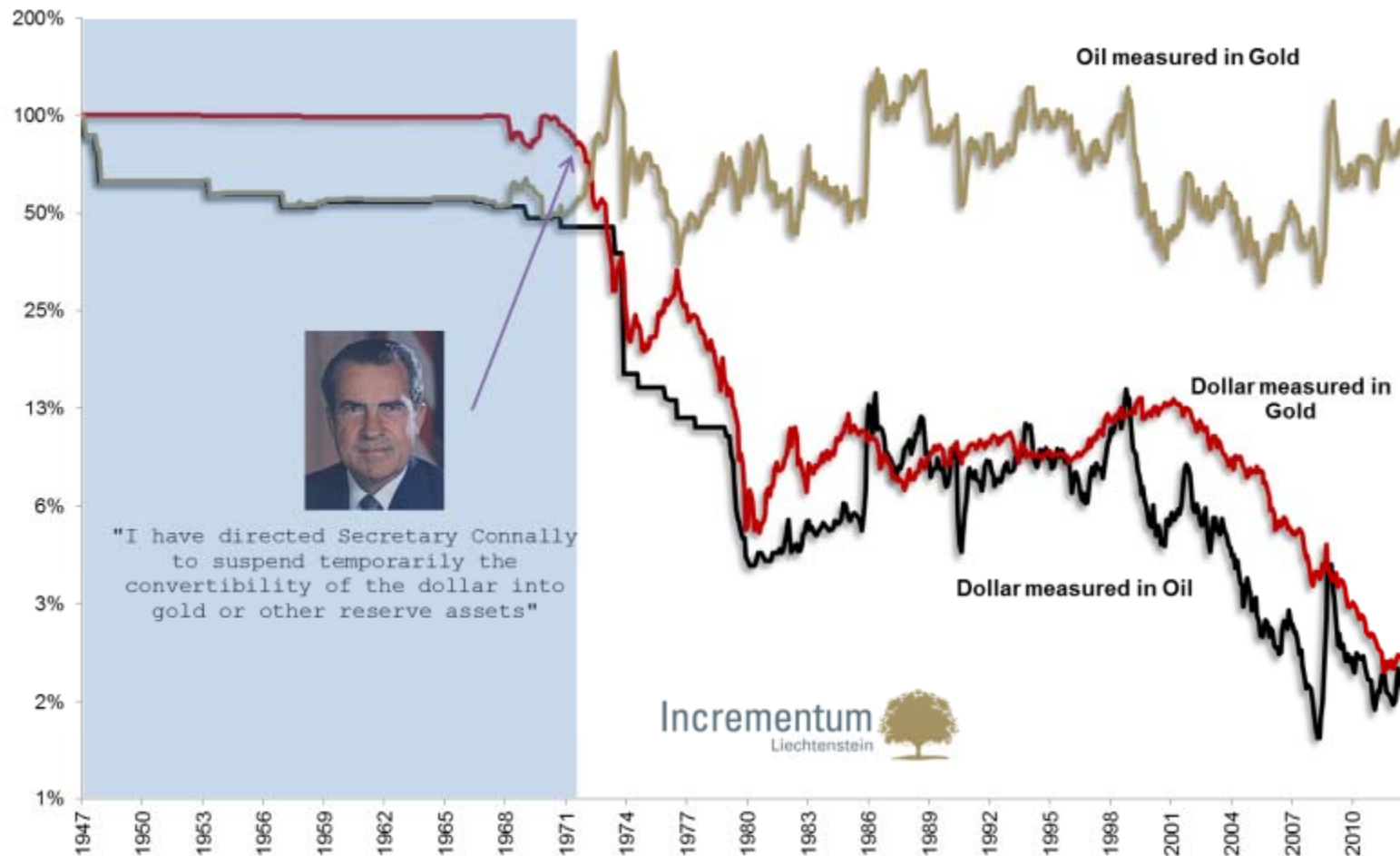


# Barely Any Price Deflation Since 1913 and Especially Since 1971



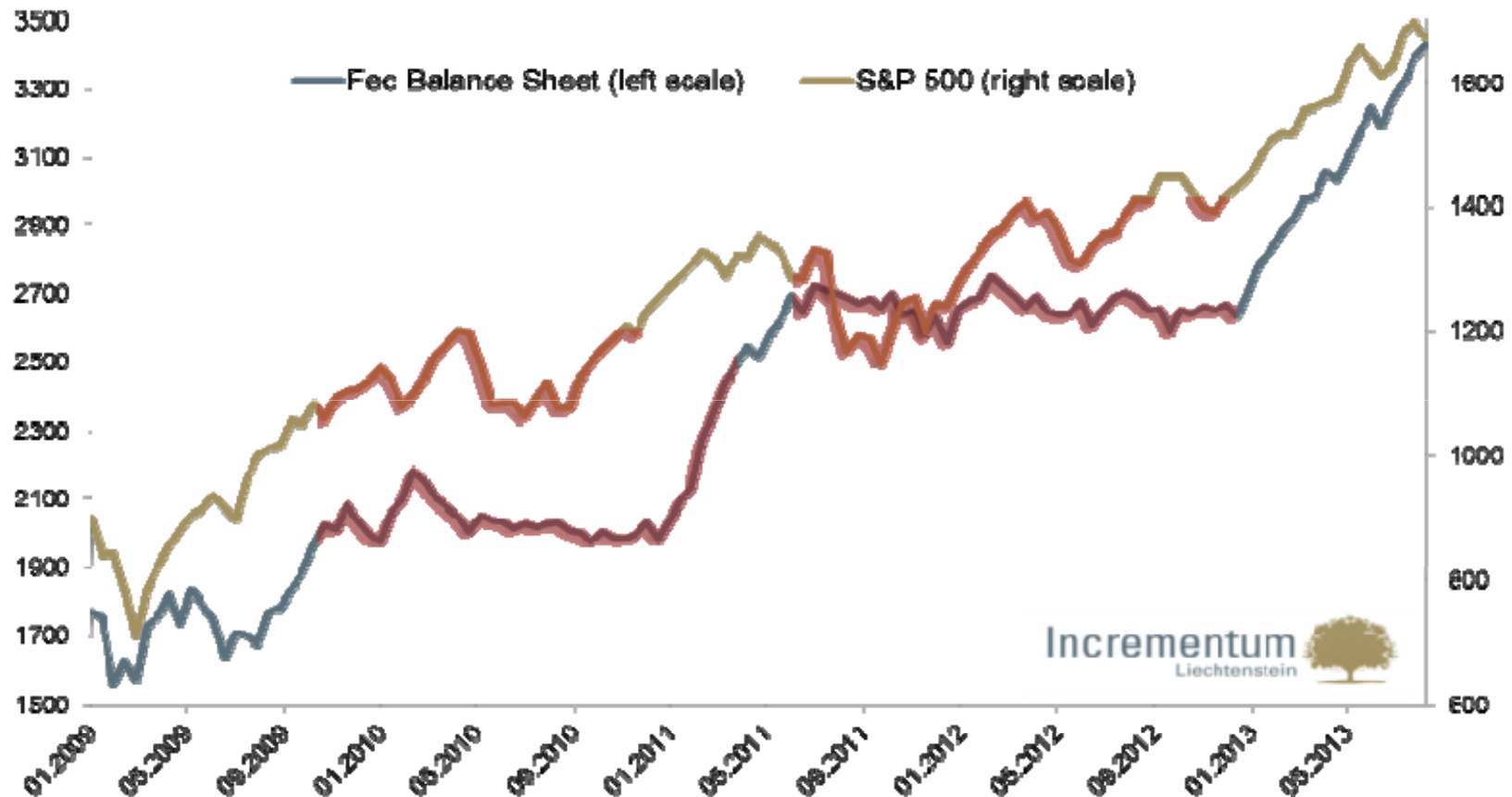
Quelle: Fed Prof. Robert Sahr - Measuringworth

# Purchasing Power of the US Dollar Measured in Gold and Oil Terms vs. Purchasing Power of Gold in Oil Terms (log. scale)



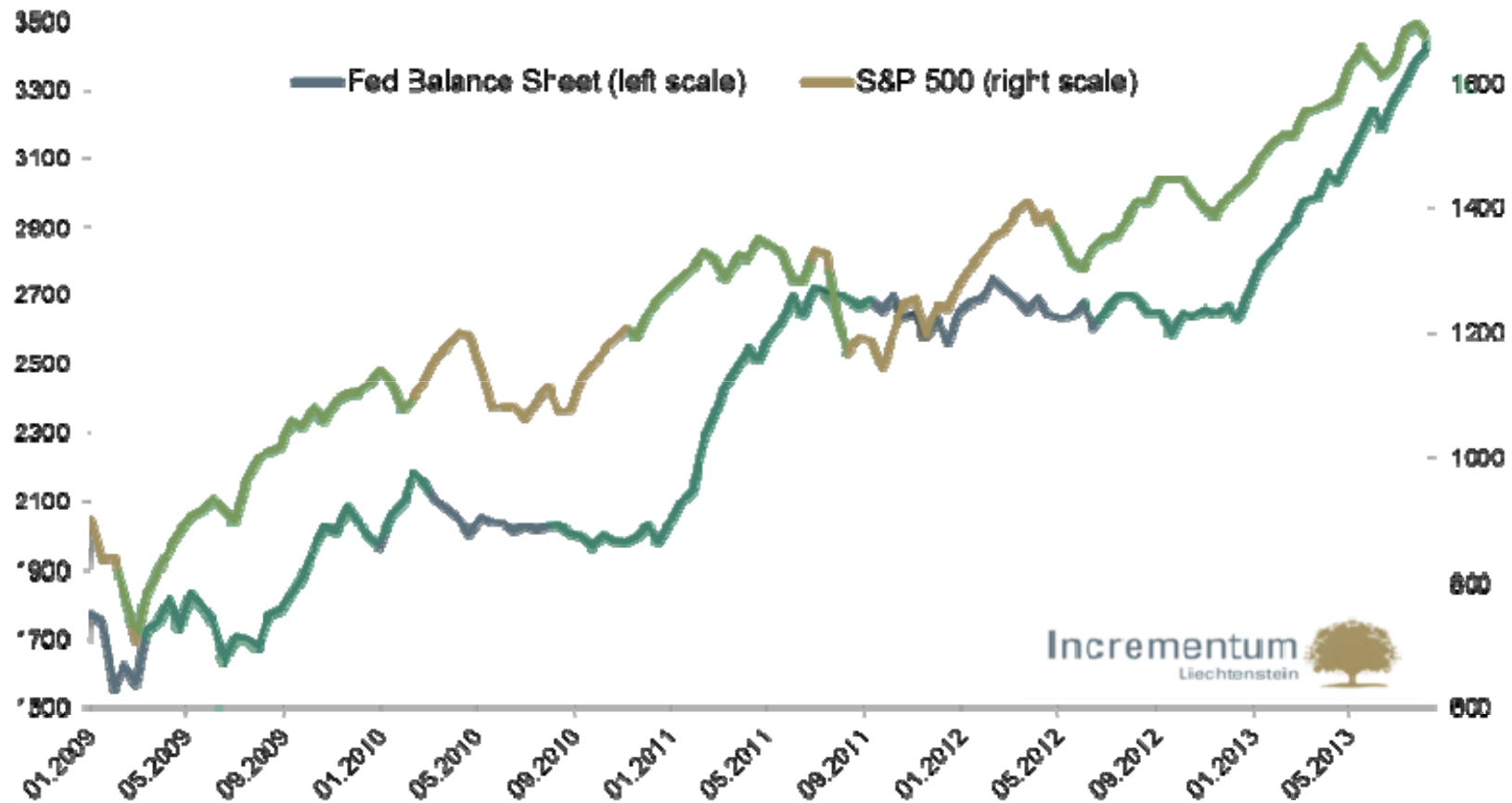
Source: Federal Reserve Bank of St. Louis, Incrementum AG

# The Coefficient of Coincidence



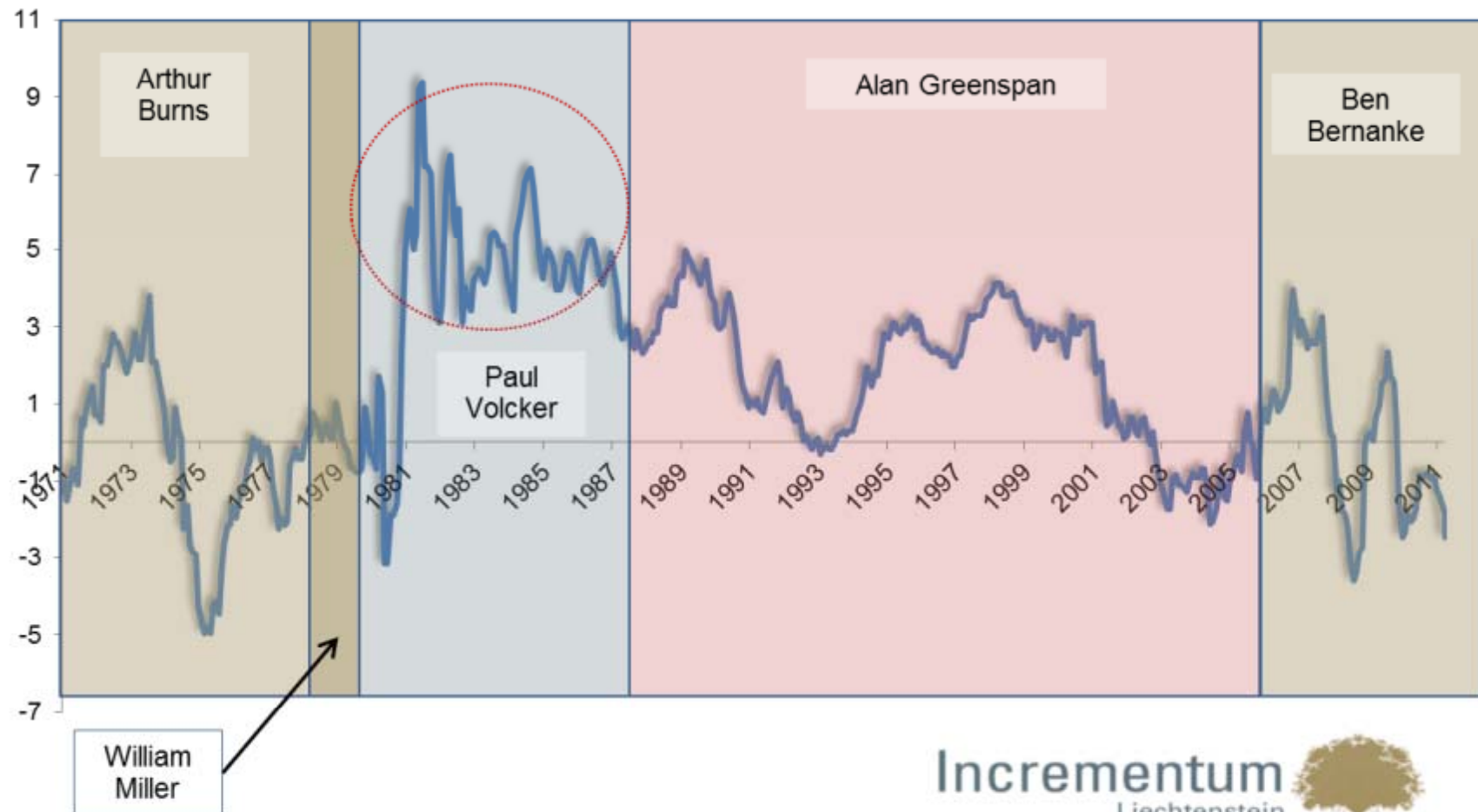
Sources: Grant Williams, Federal Reserve St. Louis, Incrementum AG

# The Coefficient of Coincidence



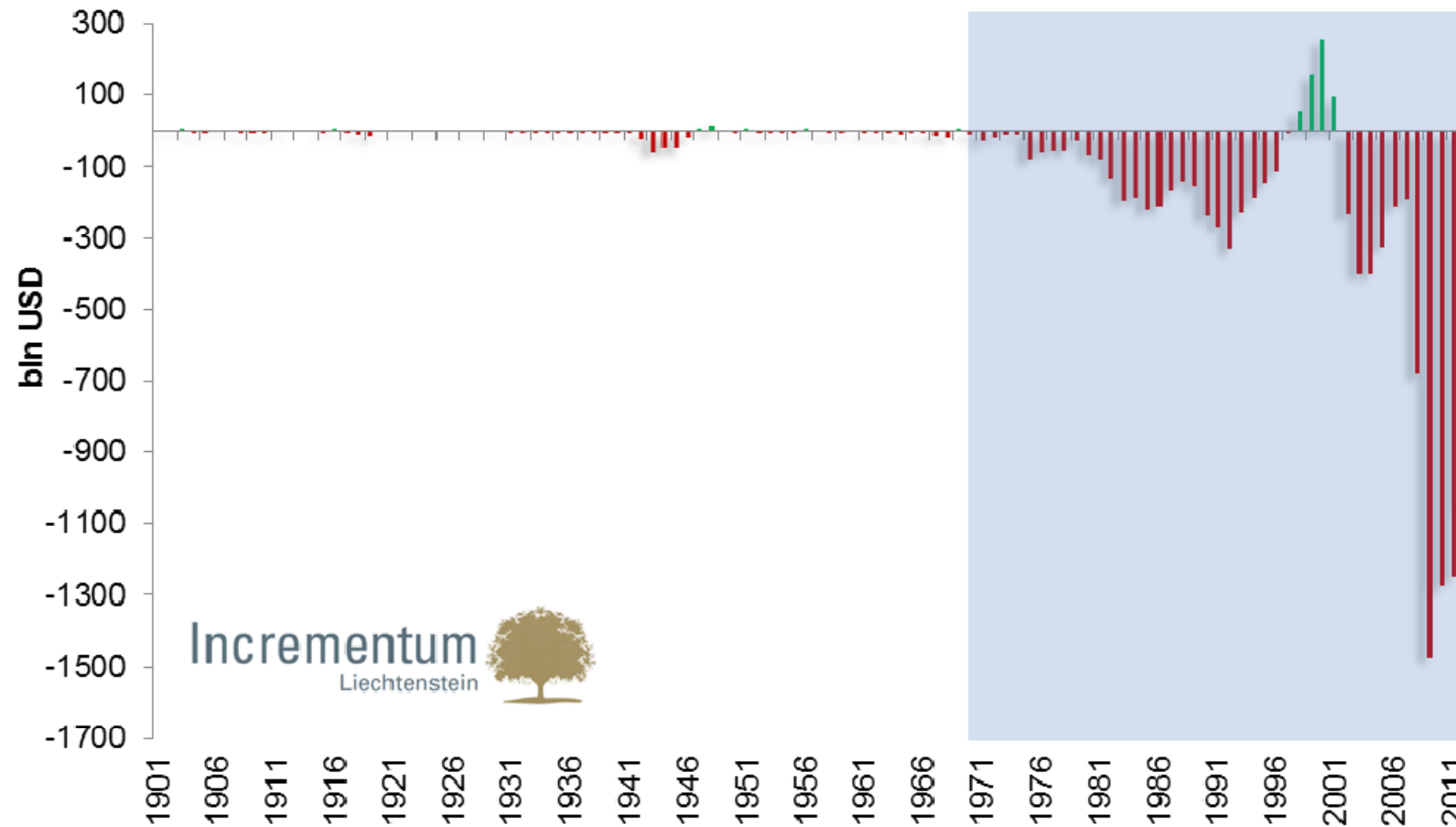
Sources: Grant Williams, Federal Reserve St. Louis, Incrementum AG

# Real Interest Rates post Bretton Woods



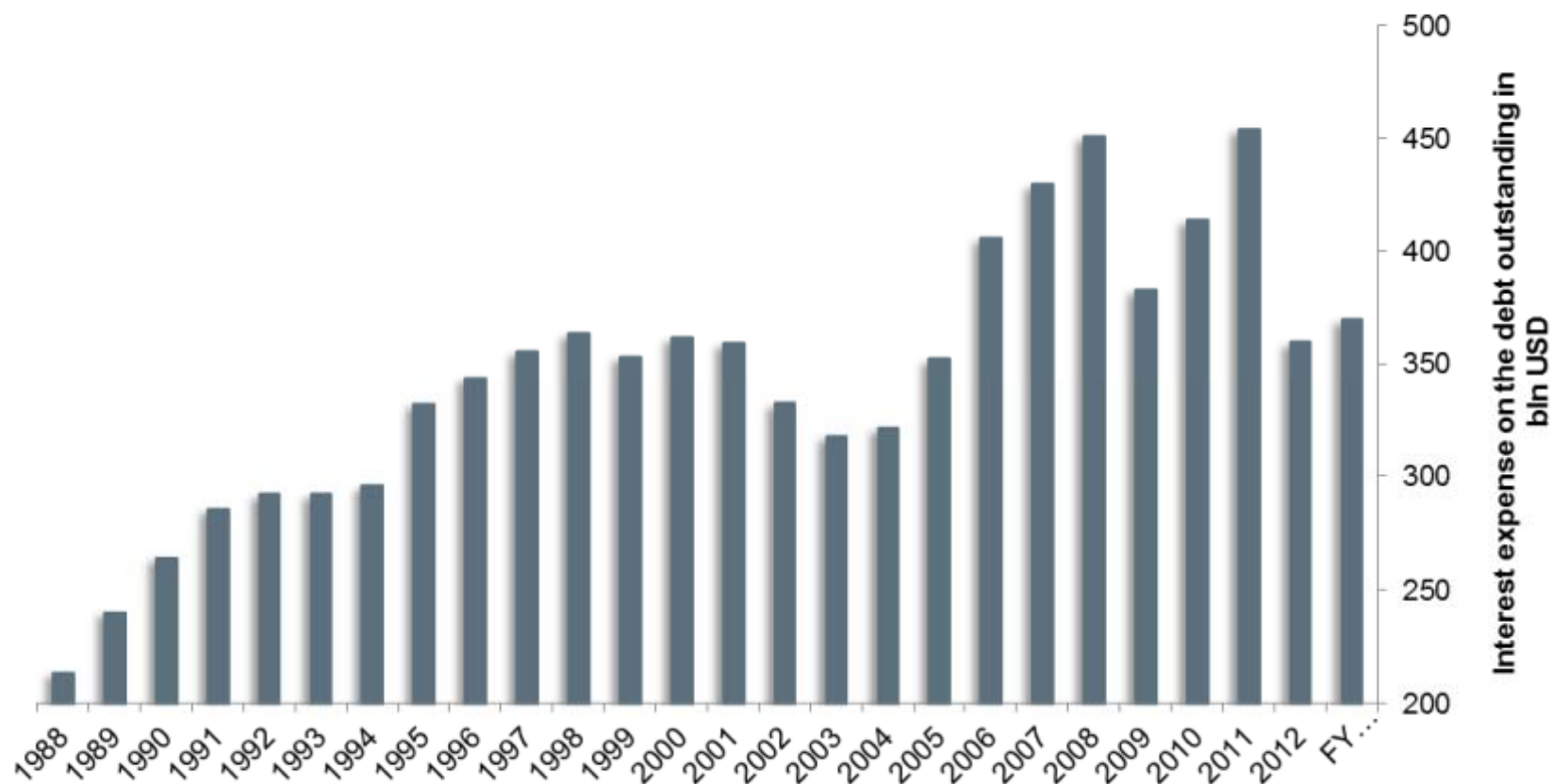
Sources: Federal Reserve St. Louis, Incrementum AG

# US Budget: Surpluses and Deficits



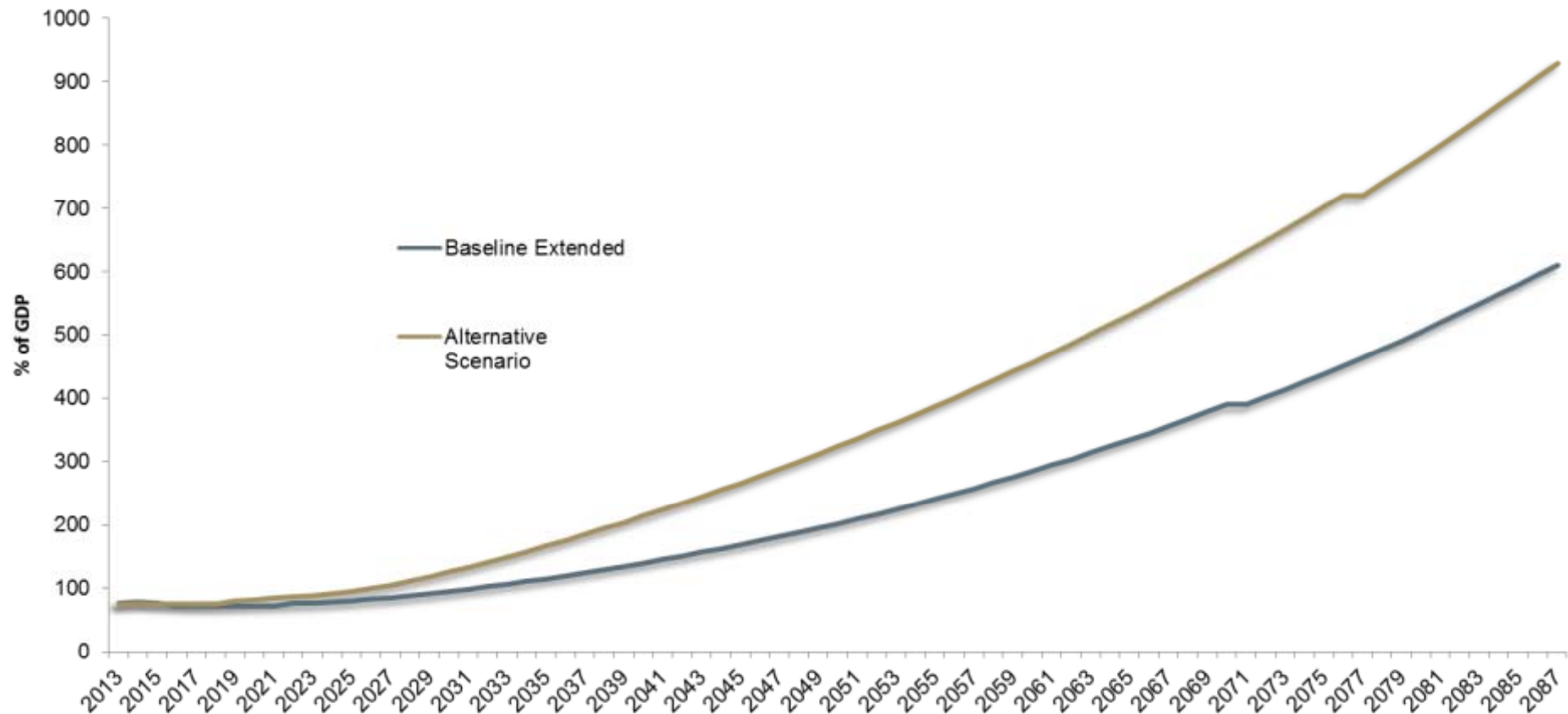
Sources: Federal Reserve Bank of St. Louis, Incrementum AG

# Interest Expense on the Debt Outstanding (billion USD)



Sources: Treasurydirect.gov, Incrementum AG

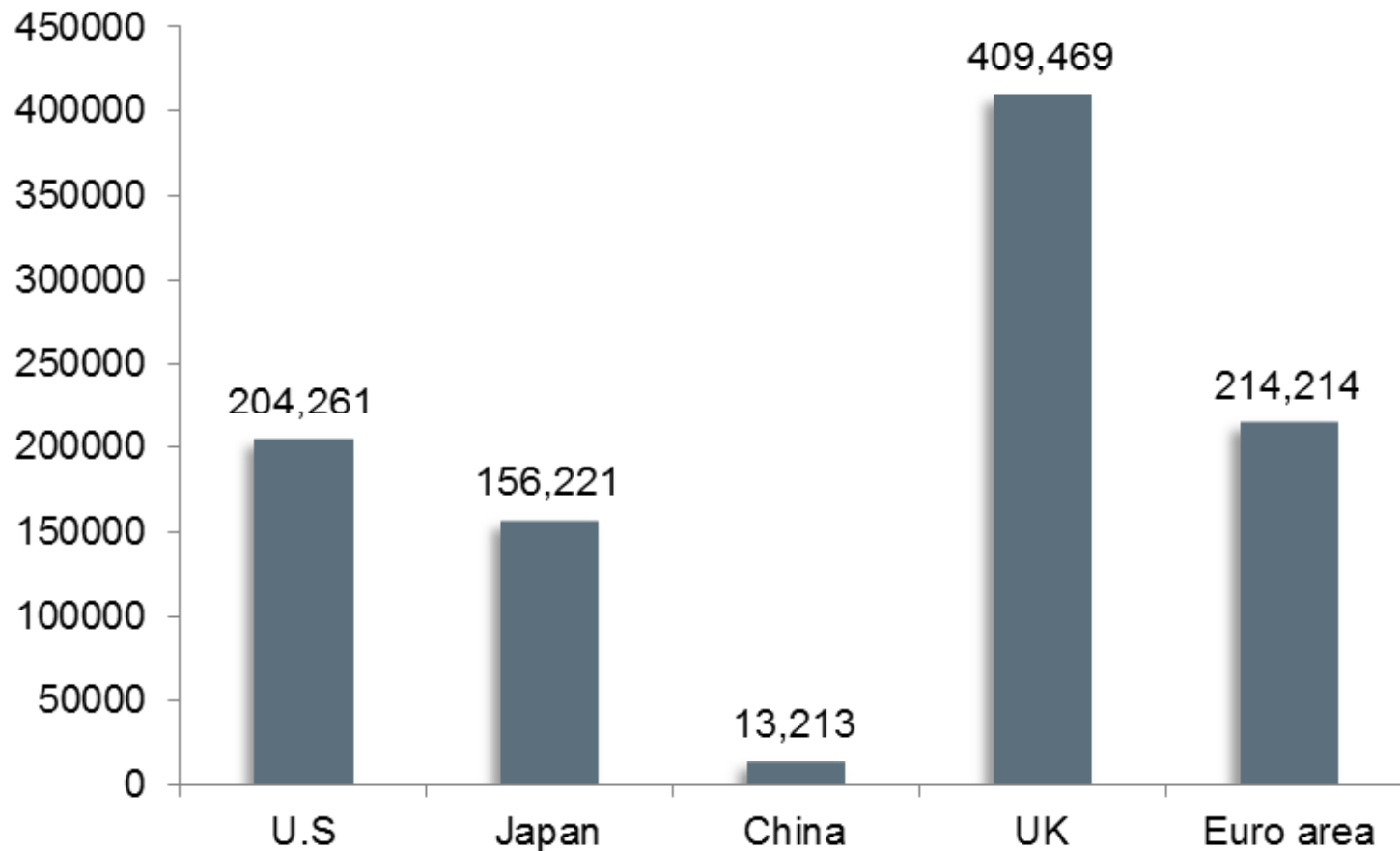
## Debt held by Public (% of GDP): Two Scenarios by the Government Accountability Office (GAO)



Source: GAO, Incrementum AG



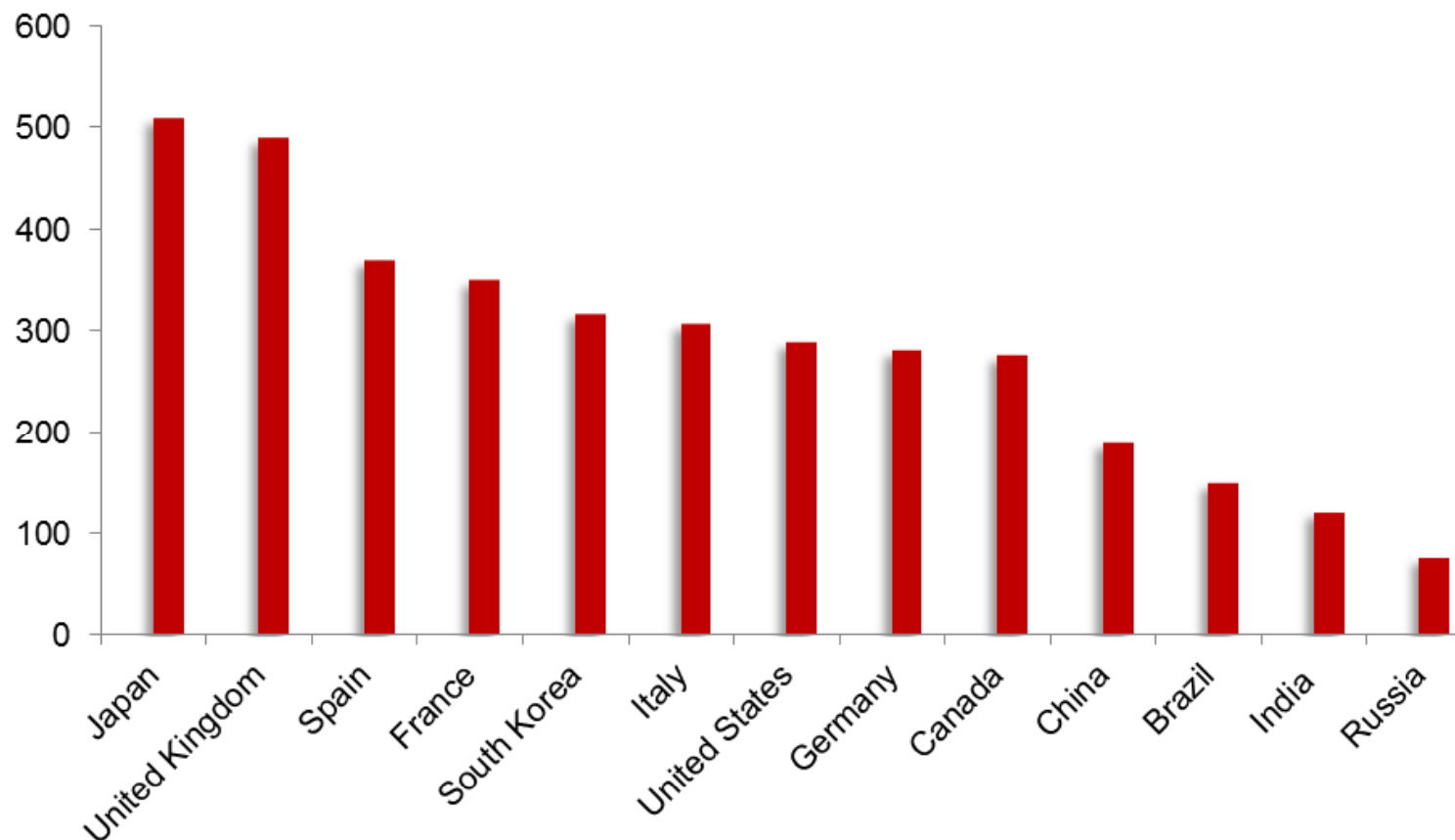
## Grand total Credit and debt per capita (USD)\*



• As of April 2012  
Source: [www.nowandfutures.com](http://www.nowandfutures.com)

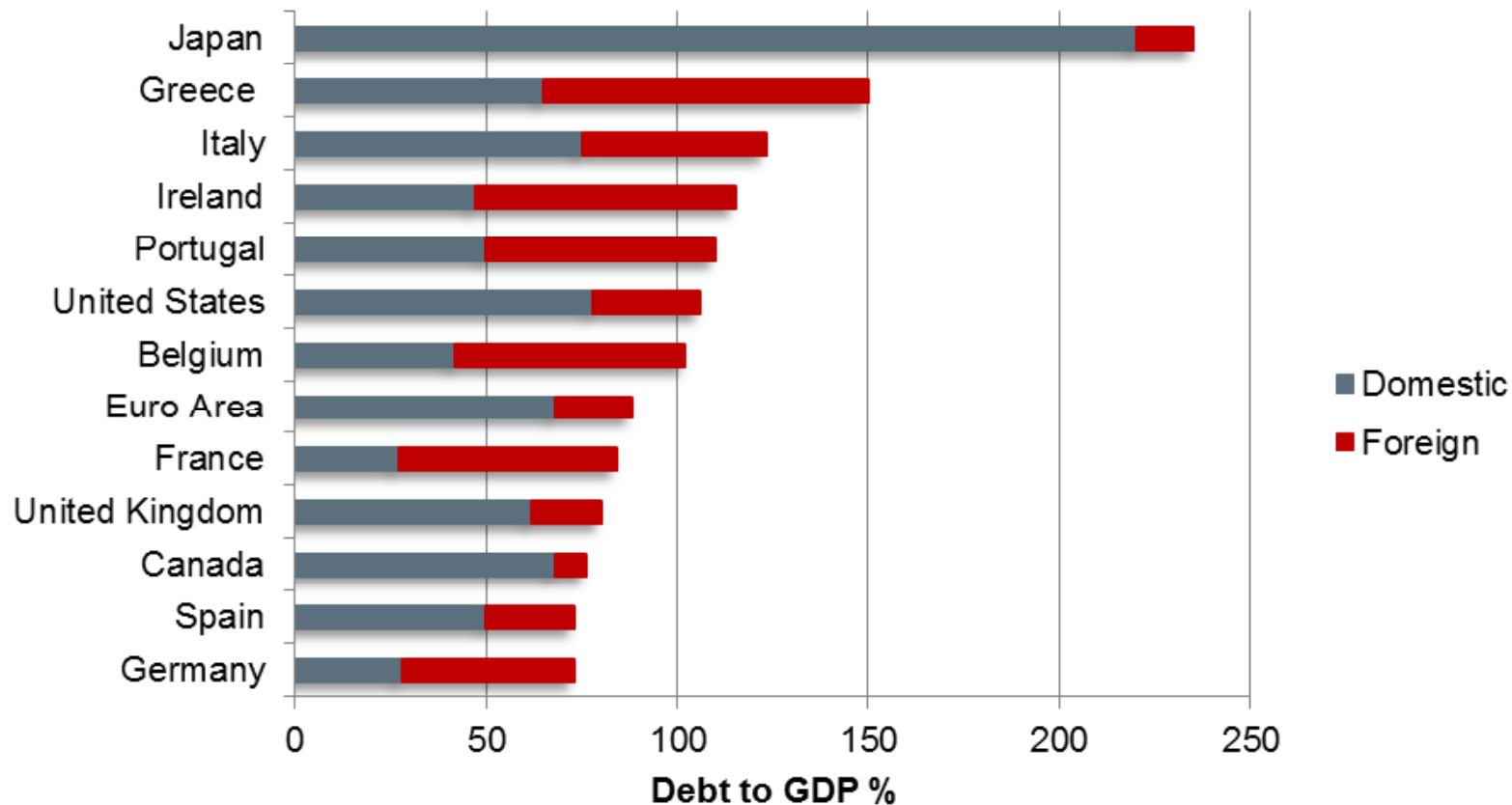
# Government, Household, Financial & Non-Financial Debt (% of GDP)

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Source: The Economist, Incrementum AG

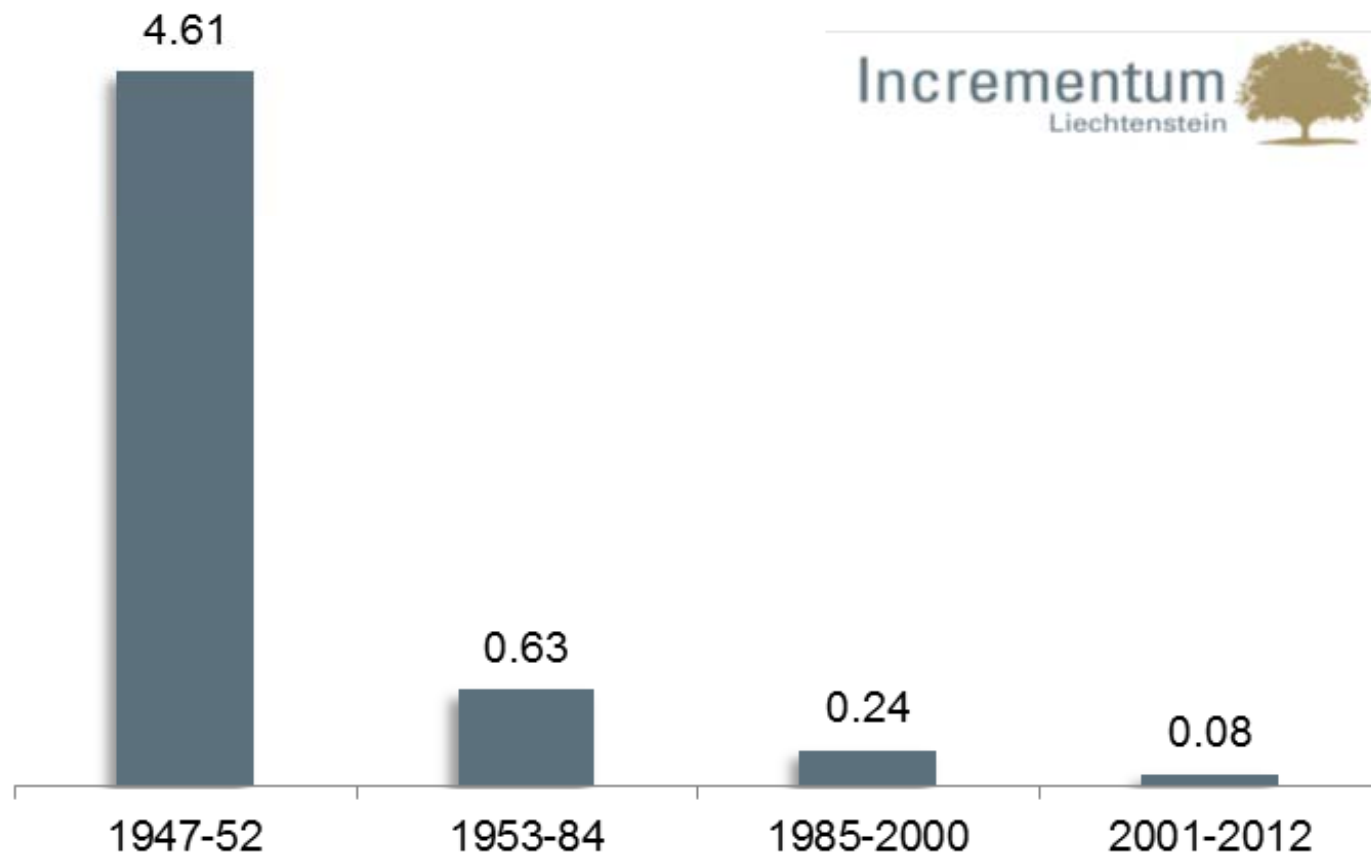
## Domestic vs. Foreign Debt (% of GDP)



Source: The Economist, Incrementum AG

## No bang for the buck: Increase in real GDP per dollar of incremental debt

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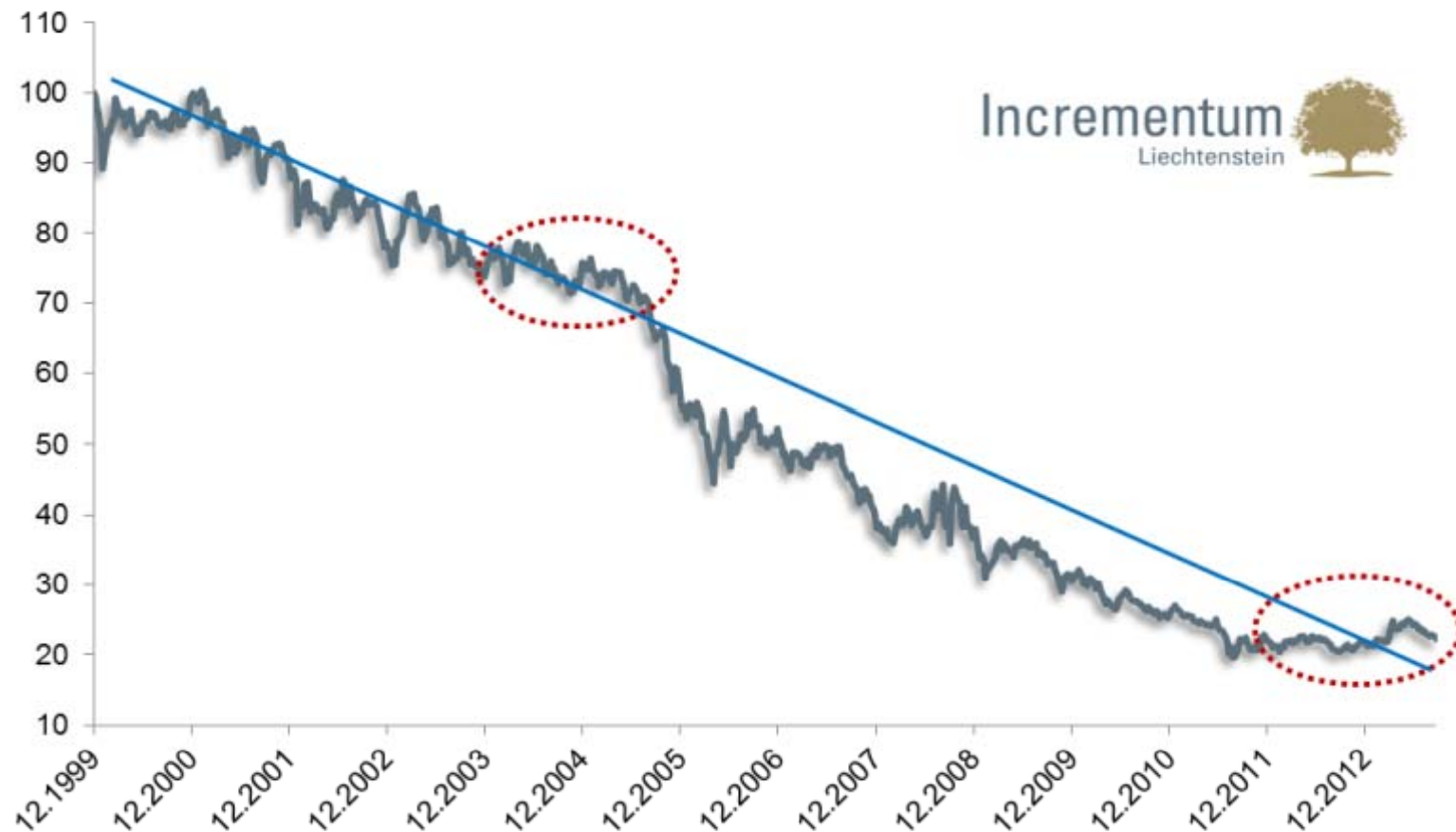


Sources: Ned Davis Research, Federal Reserve, Gary Shilling

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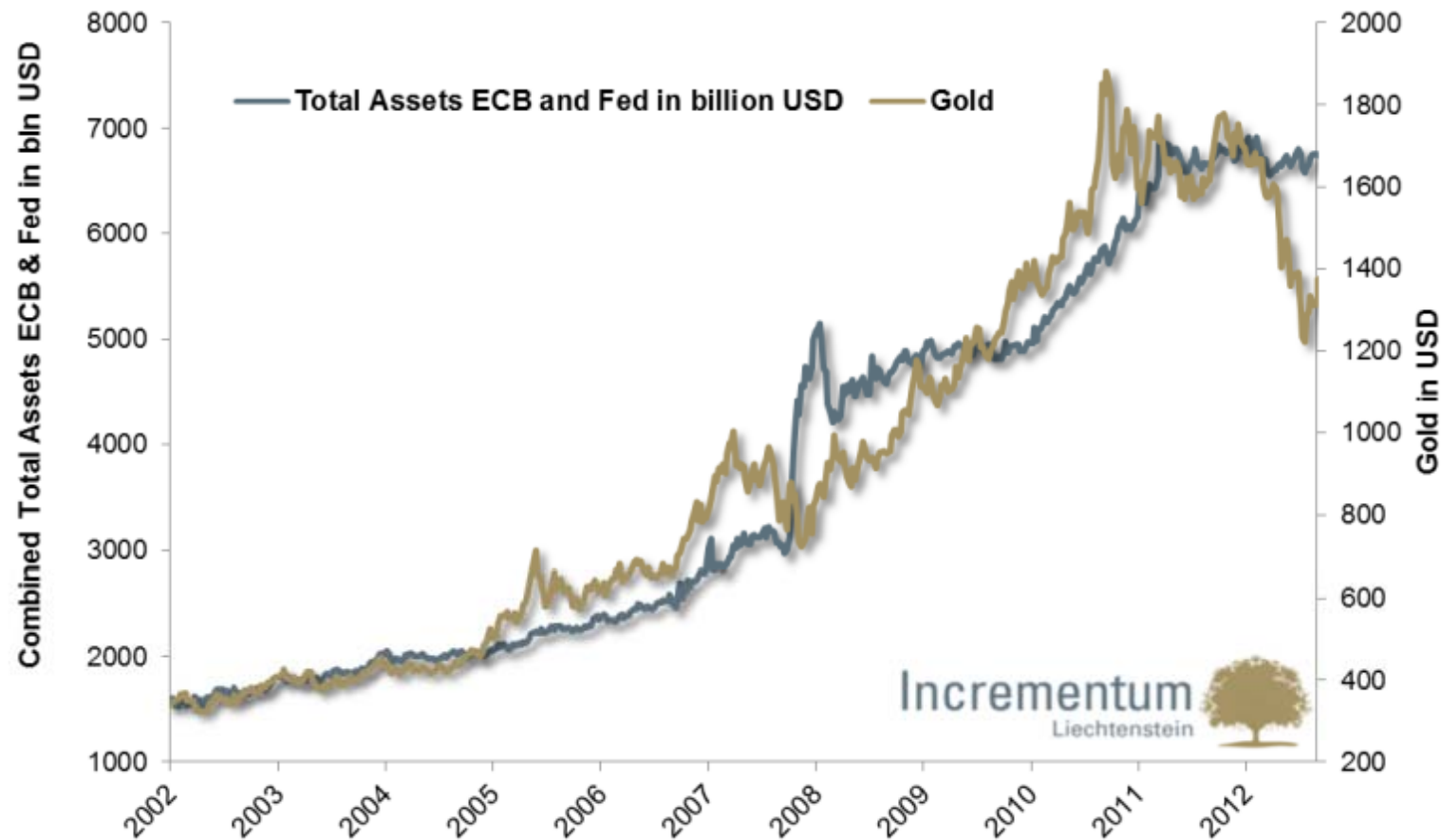
# ***CURRENCY DEBASEMENT***

# Currency Basket\* Measured in Terms of Gold: Long Term Downtrend Intact



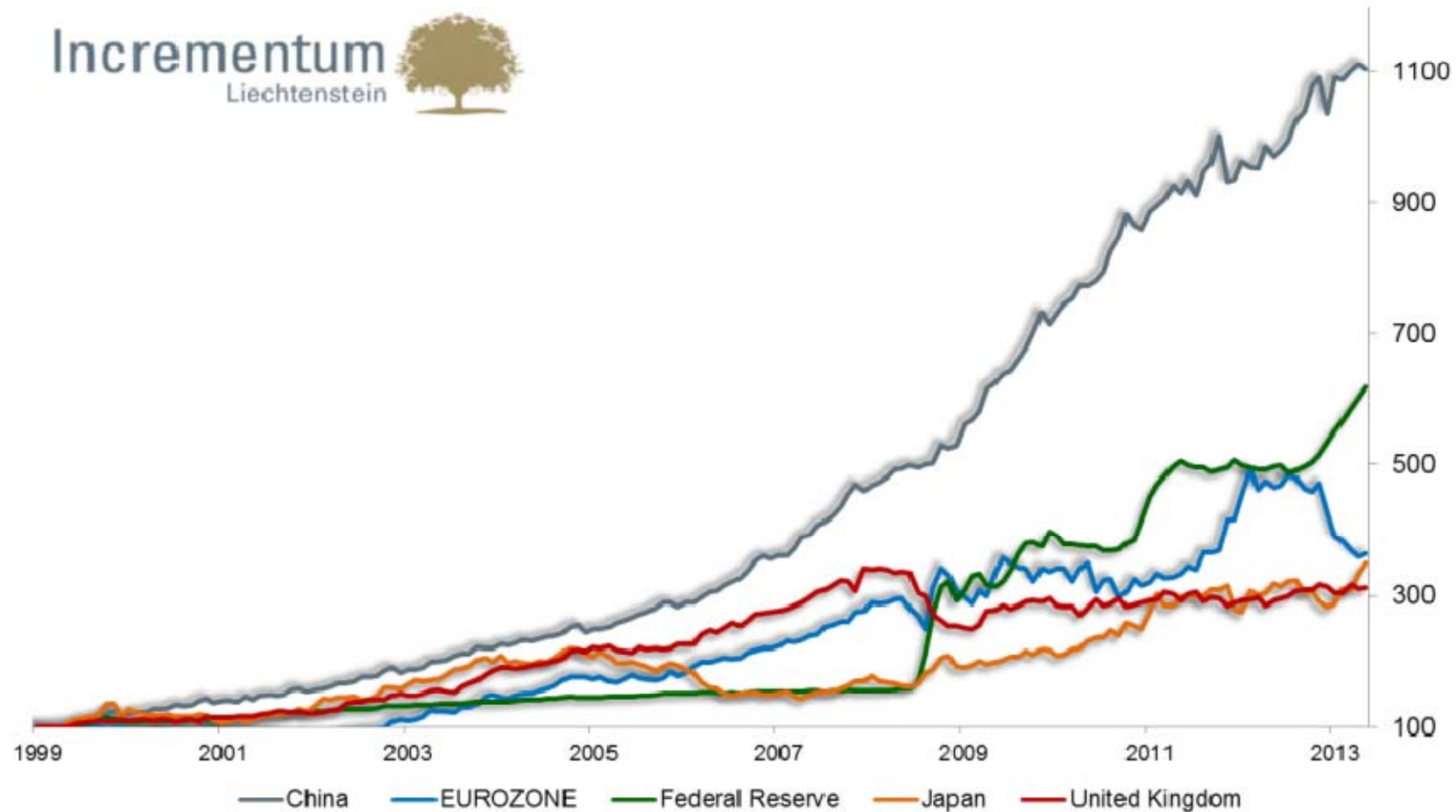
\* The basket consists of US-Dollar, Euro, Swiss Franc, Japanese Yen, Renminbi, Indian Rupee, British Pound, Canadian Dollar and Australian Dollar  
Sources: Fed St. Louis, Erste Group, Incrementum AG

# Combined Balance Sheet Fed+ECB (USD bn)



Sources: Federal Reserve Bank of St. Louis, Incrementum AG

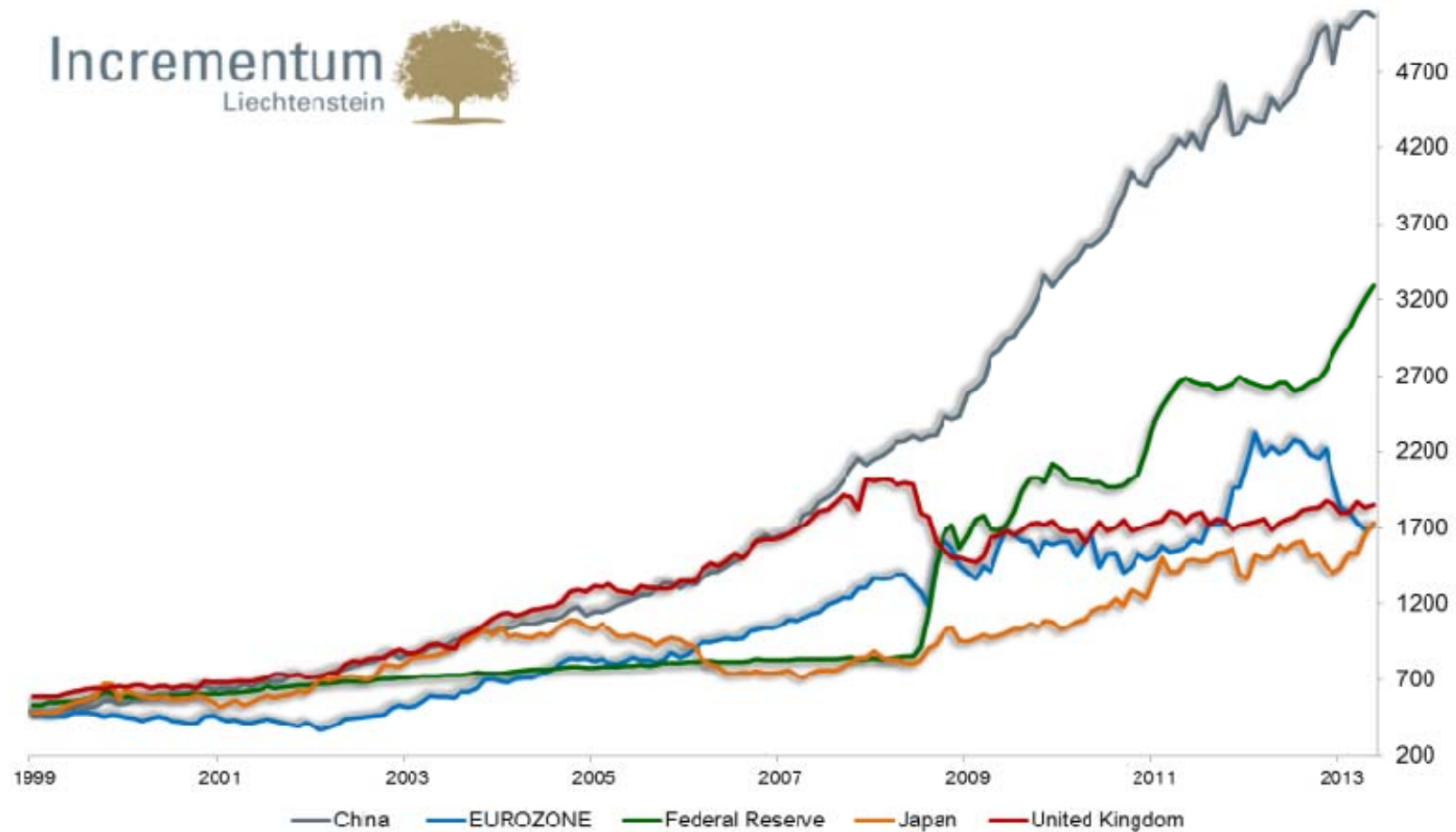
# Development of the Monetary Base since 1999 (indexed to 100)



Sources: Central Bank Websites, Bloomberg, Incrementum AG

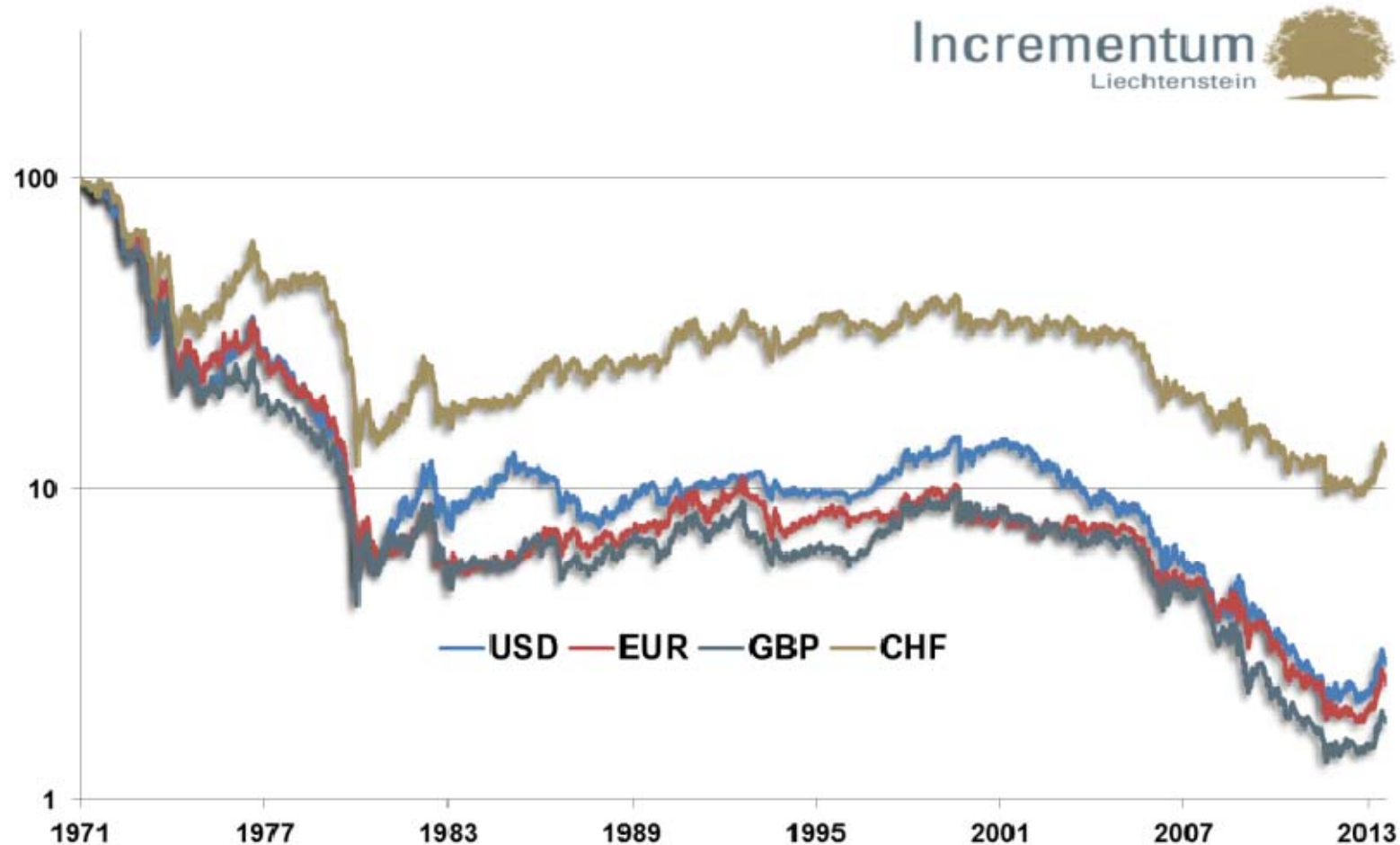


# Development of the Monetary Base since 1999 (USD bn.)



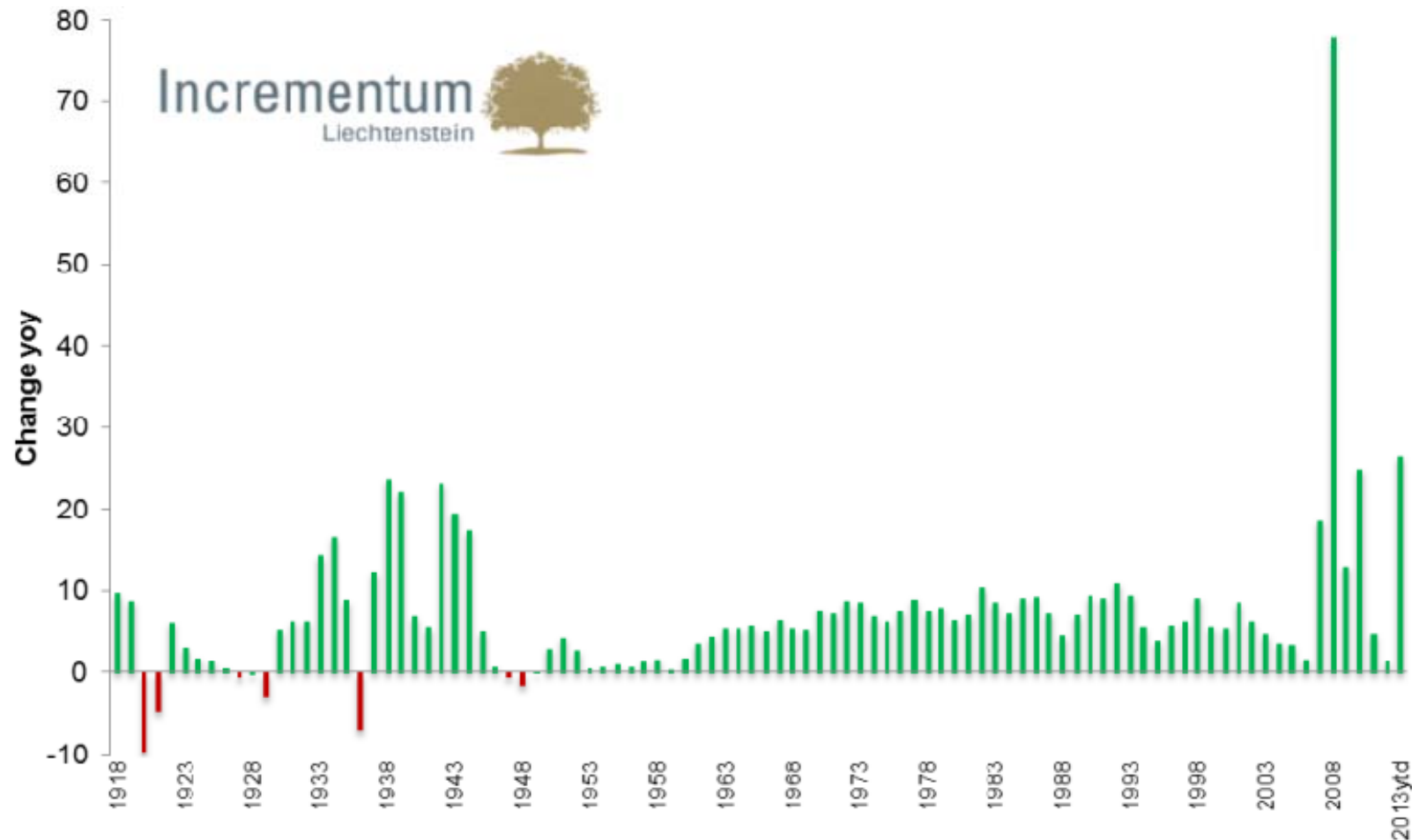
Sources: Central Bank Websites, Bloomberg, Incrementum AG

## Purchasing Power in Various Currencies – How Much Gold Does One Unit of Currency Buy? (log. Scale, indexed to 100)



Sources: Datastream, Incrementum AG

# Adjusted Monetary Base yoy Change



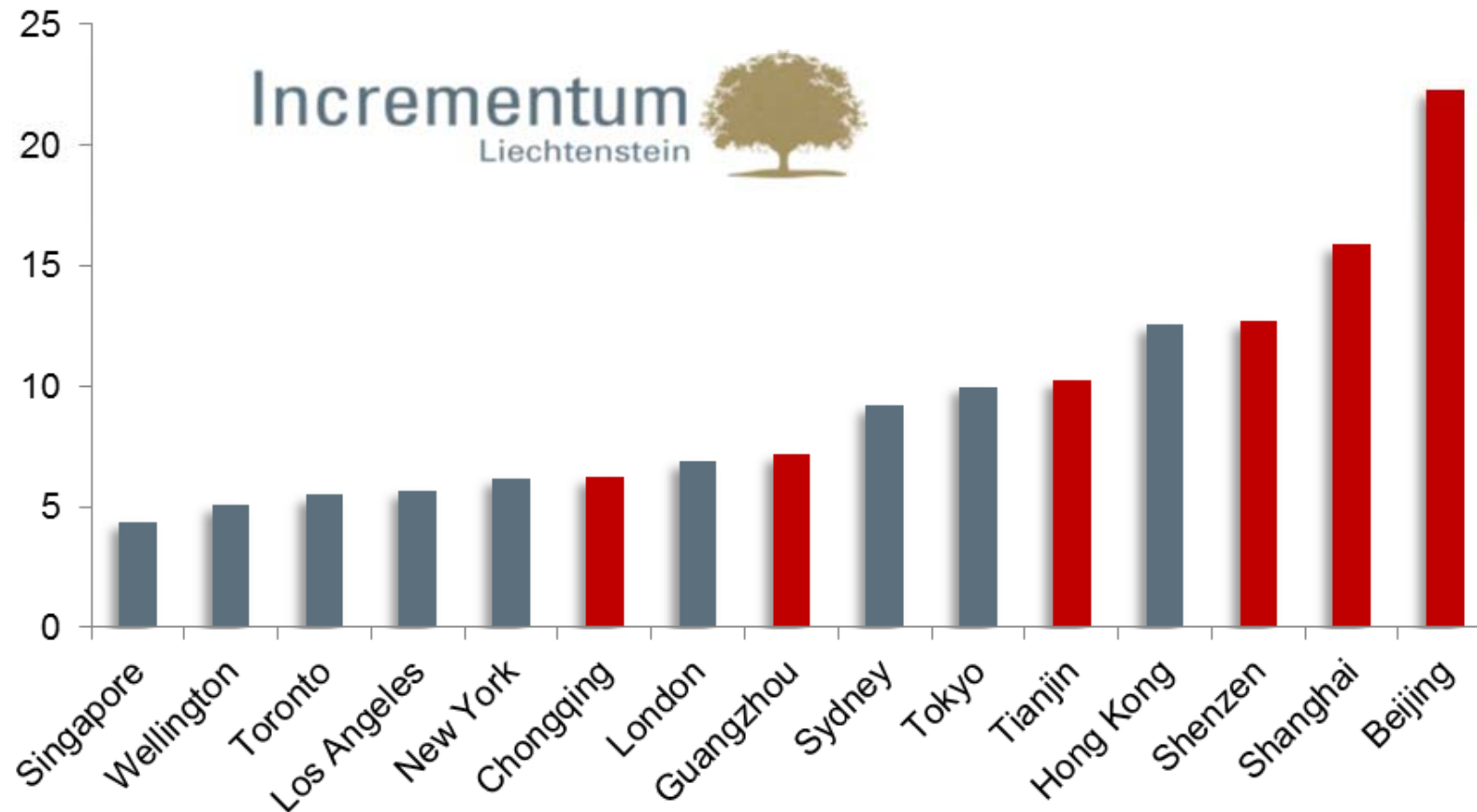
Source: Federal Reserve Bank of St. Louis, Incrementum AG

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# ***MISCELLANEOUS***

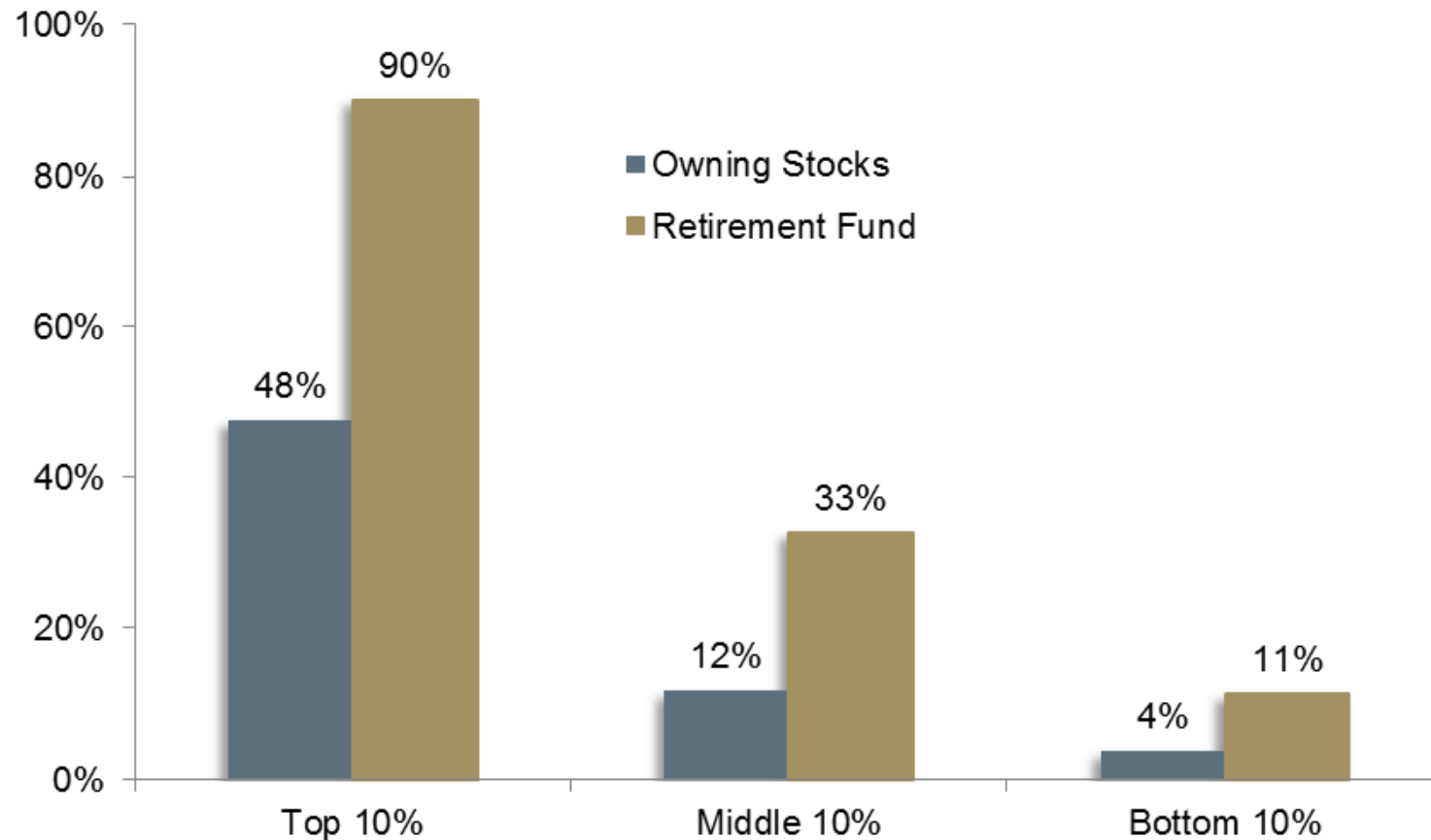
# Housing Bubble in China?

## Ratio of House Prices to Annual Income



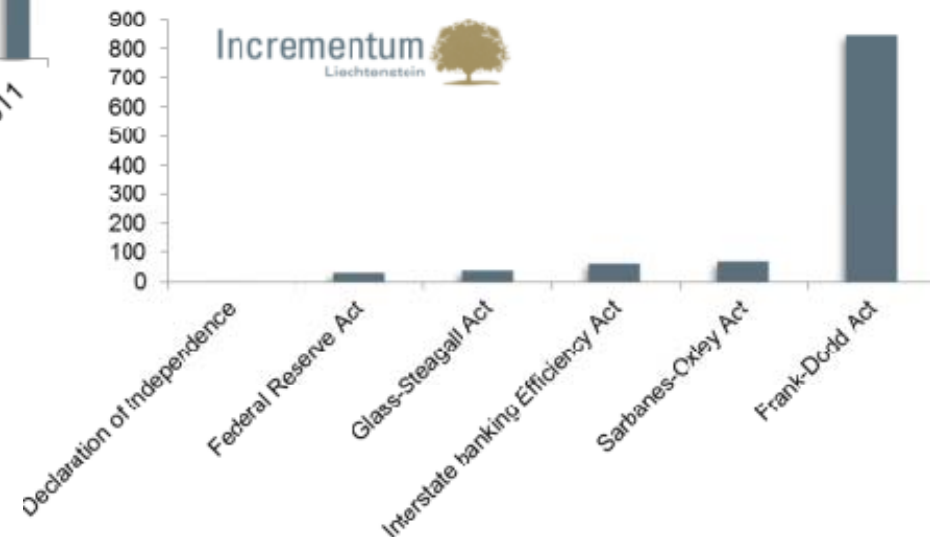
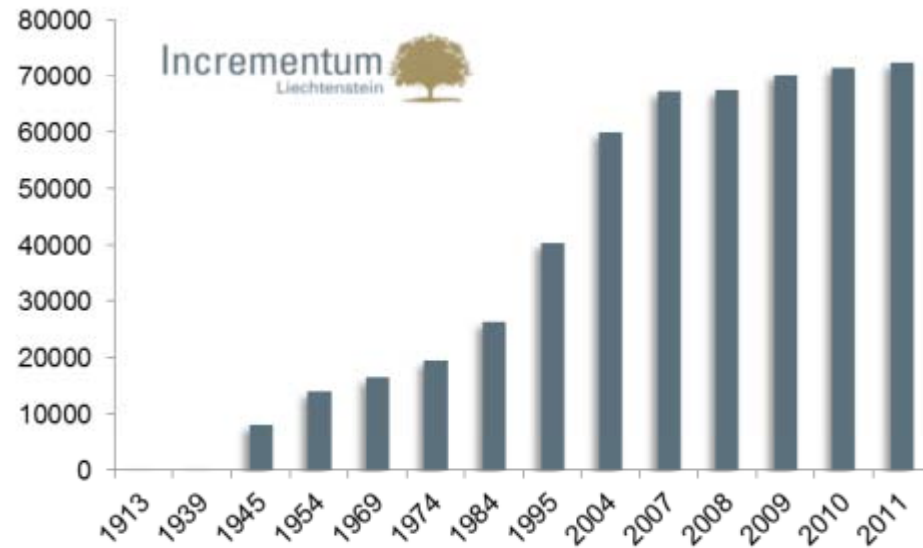
Sources: Global Financial Stability Report: The Quest for Lasting Stability, IMF, April 2012

# Cantillon Effect\* Applied: Fed's „*Wealth Effect*“ only for the Richest



\* The Cantillon effect describes the fact that newly created money is neither distributed evenly nor simultaneously in the population. That means that users of money partly profit from rising prices, and partly suffer from them. This results in a transfer of wealth, resp. a hidden tax, from later receivers to earlier receivers of new money.  
Source: Incrementum AG

# A Bull Market in Bureaucracy: Pages of US Tax Law & Pages of US Legislation



Sources: Incrementum AG

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# ***APPENDIX***

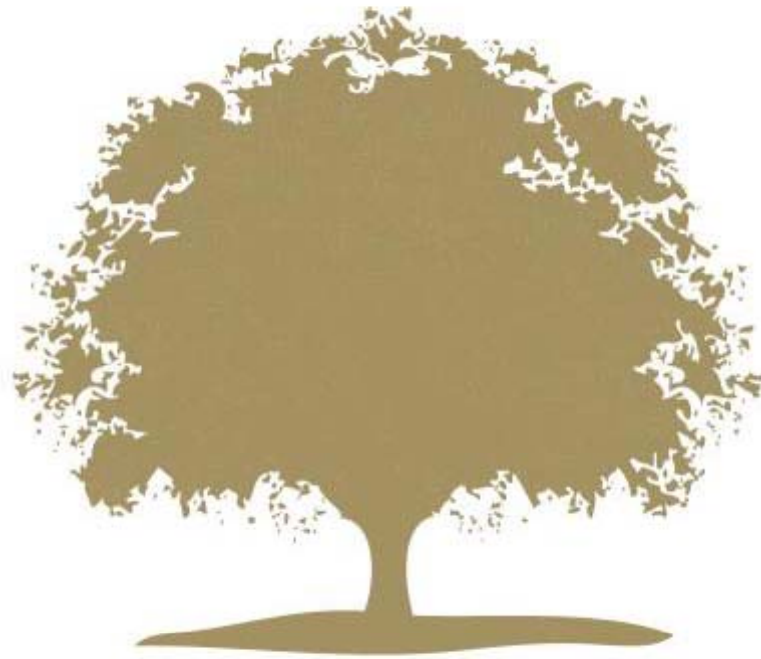


# Why Incrementum?

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***Incrementum*** is the Latin word for:

- advancement
- expansion
- growth
- development
- seed
- offspring



# About Incrementum AG

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- ▶ Incrementum AG is an owner-managed asset manager & wealth manager based in the Principality of Liechtenstein. Our business focus is the management of investment funds that we believe to be unique.
- ▶ We evaluate all our investments not only in perspective of the global economy but in context of the current state of the global monetary regime. This enables us to gather what we consider ***a truly holistic view*** of the state of financial markets. A ***deep understanding of monetary history***, out of the box thinking and prudent research enables our clients to prosper in this difficult market environment.
- ▶ We believe our investment team offers a distinct skillset which has proven to be extremely valuable for us as investors in these uncertain markets. Among our partners are experts within the fields of:
  - ▶ Asset Allocation
  - ▶ Fundamental Bottom Up Research
  - ▶ Precious Metals
- ▶ Our boutique approach allows us to combine unconventional thinking with state of the art asset management wisdom. Our independence empowers us to communicate unbiased and our flexibility enables us to respond to evolving markets rapidly.
- ▶ Our intention is to deliver a selected range of investment funds, which we believe are able to grow ***incrementally*** also during times of increasing economic challenges.

# About Incrementum AG

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- Incrementum AG Liechtenstein is an asset management company founded in 2013 in Vaduz, Liechtenstein. As ***independence*** is a cornerstone of our philosophy, the company is one hundred percent owned by its partners. There are ***no affiliations to any banking institutions***, which enables us to implement our investment strategies autonomously. As a boutique with lean hierarchies, we are able to execute our strategies swiftly and respond to regime changes flexibly. Our partners practice what they preach. Therefore we are invested in each of the funds we manage.
- The partners of Incrementum AG are highly qualified and ***have over 140 years of combined banking experience***. Prior to joining the company the partners held positions within UBS, Dresdner Bank, Lombard Odier, Darier Hentsch & Cie., Cantrade Private Bank, PBS Private Bank, Bank Leu, Pictet & Cie., Bank Sal. Oppenheim, Merrill Lynch, Raiffeisen Capital Management, Erste Group and Société Générale.

# Our 'Austrian' View

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*'An economic school of thought that originated in Vienna during the late 19th century with the works of Carl Menger. The Austrian school is set apart by its belief that the workings of the broad economy are the sum of smaller individual decisions and actions, which are based on laws that can be deduced by rational logical methods, unlike the Chicago school and other theories that look to surmise the future from historical abstracts, often using broad statistical aggregates.'*

Investopedia on the Austrian School of Economics

## Central view points of the Austrian School of Economics:



- ▶ Money is not neutral
- ▶ Inflation is the increase in the supply of money and credit
- ▶ Inflation is a harmful policy and causes a transfer of wealth (Cantillon Effect)
- ▶ Private ownership and property rights are essential
- ▶ Economics is all about individuals (subjectivism, methodological individualism)
- ▶ Actions have consequences – good and bad
- ▶ Bailout policies lead to moral hazards
- ▶ Prices signal scarcity and abundance and are essential for allocating resources efficiently
- ▶ Erroneous price signals set by central banks are the cause of boom and bust cycles
- ▶ Lowering interest rates leads to distortions in the economy by altering relative prices, which results in an artificial boom. Eventually, misallocations and malinvestment can no longer be supported and a 'bust' ensues in which these misallocations are worked out
- ▶ A **return to sound money** is necessary and advocated

# The Relevance of the Austrian School for us at Incrementum

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- ▶ The majority of Western nations have amassed **unsustainable debt levels**. Politicians now are faced with the choice of rigid austerity measures, massive tax hikes, national bankruptcy, or extensive financial repression.
- ▶ By a process of elimination we can quickly find the supposed magic formula, given that the political implications of rigid austerity measures and drastic tax hikes are largely unpopular and squarely at odds with the goal of getting re-elected. On top of that, drastic austerity measures tend to result in social upheaval. According to Bridgewater the frequency of protests and social unrest increases sharply as soon as annual public spending is cut by more than 3% of GDP.
- ▶ Therefore, we believe that **financial repression** will continue to crop up in many shapes and sizes over the coming years. However, the long-term costs of the lack in efforts made towards consolidating national finances are substantial. While low bond yields in the short run suggest that the saving measures are on course, one has to bear in mind that this has mainly been achieved by market interventions.
- ▶ The crucial question of whether price **inflation or deflation** will be the determining environment in the coming years remains unanswered. The fear of deflation as manifested, for example, in numerous essays and speeches by Ben Bernanke (e.g. 'Deflation: Making Sure 'It' Doesn't Happen Here') argues very much in favour of further interventions in increasing magnitude. The natural shakeout during a deflationary recession will probably be avoided at all costs and **even more aggressive monetary expansion programmes will be launched**.
- ▶ Most of the global financial savings are currently invested in sovereign debt instruments. With yields at record lows and debt at record highs evidence is increasing, that this could be the largest bubble in financial history. We believe that **a significant revaluation of assets is looming and a great transfer of wealth will be the consequence**.
- ▶ We will gladly alter our stance as soon as signs of sounder financial and monetary policies can be discerned. As a boutique with lean hierarchies, we are able to execute our strategies swiftly and respond to regime changes flexibly.
- ▶ We sincerely believe that the Austrian School of Economics provides us with the **appropriate intellectual foundation** especially during this demanding financial and economic environment.

*'The key is not to predict the future, but to be prepared for it.'*  
Pericles

