

FINANCIAL EXTREMES

EMA GARP Fund September 2018 Update

Rather than my usual quarterly report with a lengthy analysis of monetary conditions I am going to provide a brief update on the positives I am seeing at this time.

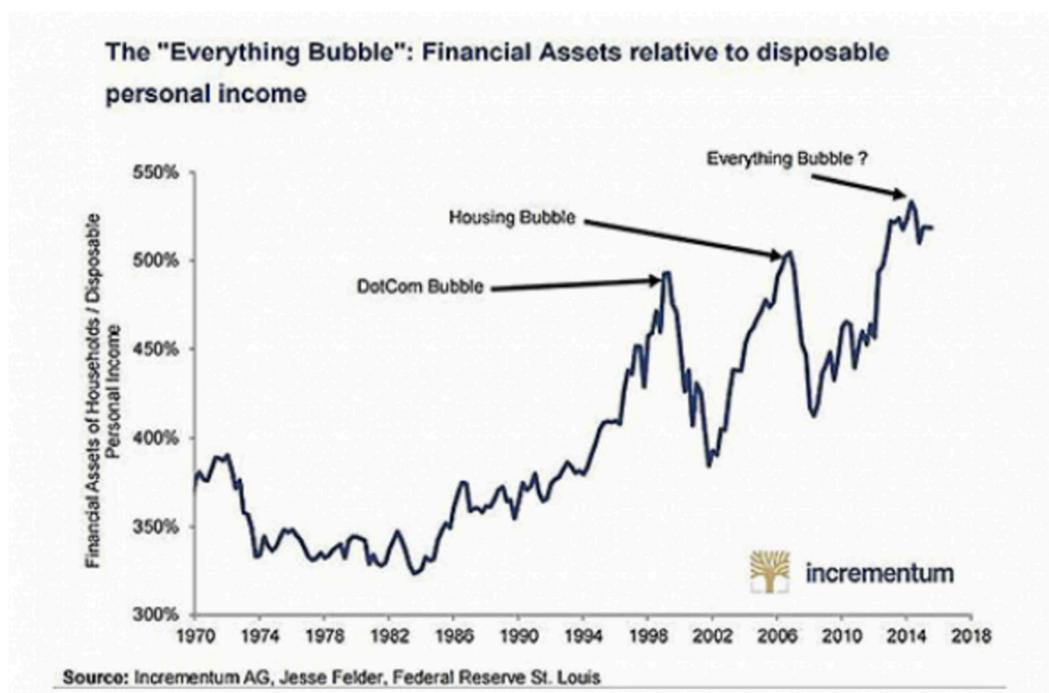
First, and most importantly, the Fund is up 15% month-to-date in October. On Thursday October 11 the price of gold was up \$34 and the gold stocks took off. Notably, at the same time the stock market corrected by 7.5% in the span of six days.

This behavior of stocks down, gold and gold stocks up is what we have been waiting for. If it continues, this trend reversal is enormously important.

As my prior letters have explained all of the excess money that has been created by the FED and other Central Banks flowed into the stock market.

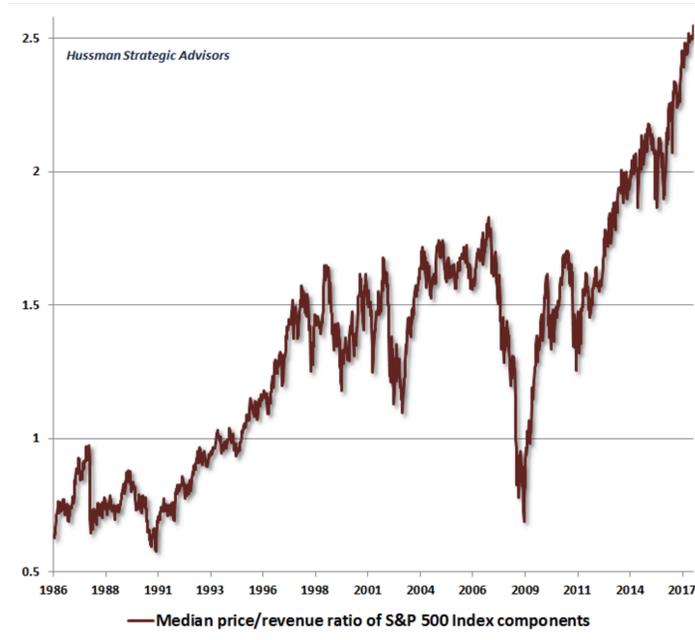
Therefore, there was little (reported) inflation in goods and services, all of the inflation took place in financial assets (ex-gold).

This chart shows this bubble:

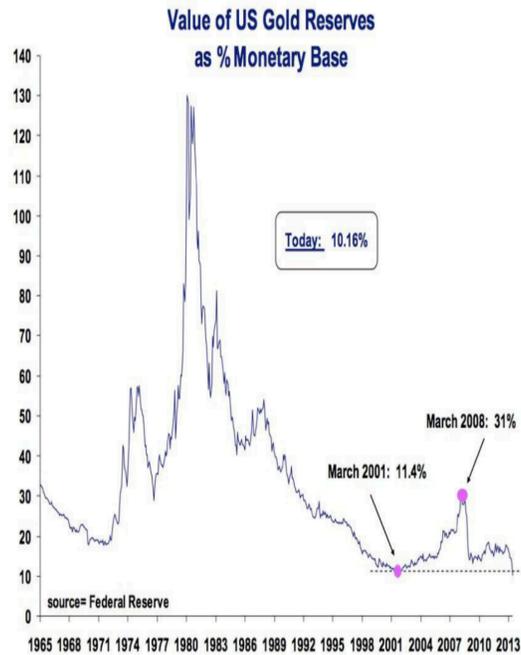


A decade of money printing and zero percent interest rates worldwide created all time extremes in a number of financial areas.

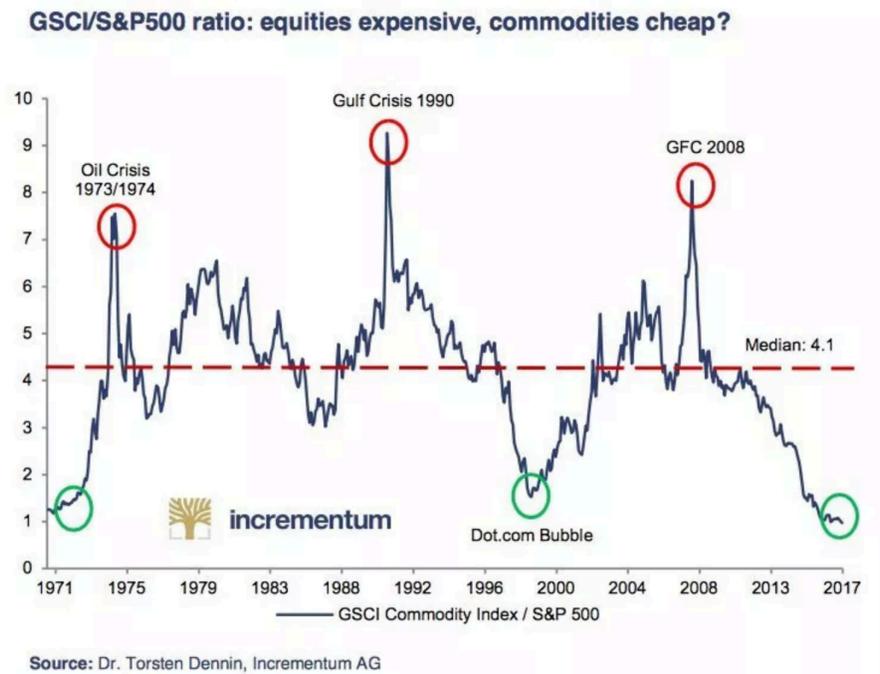
Extreme 1: the stock market has never been more overvalued.



Extreme 2: gold has never been cheaper when compared to the monetary base, or all the money that has been created or printed. (US example, world is similar).



Extreme 3: commodities and real assets have never been cheaper when compared to stocks.



If you believe in mean reversion over time, as I do, then you can see that there are very asymmetric investments to be made here.

A modest change in trend will make these investments perform well. A full-fledged reversal in the opposite direction will create enormous outsized returns.

If inflation returns to account for all the money that has been printed, as I believe it will:

- I can see a future where gold is valued at between \$2,000 and \$10,000 an ounce. Perhaps more.
- I can see a future where gold stocks appreciate by 5-10 times their current value. Perhaps more.
- I can see a future with much lower stock prices and much higher reported inflation. An environment that favors gold.

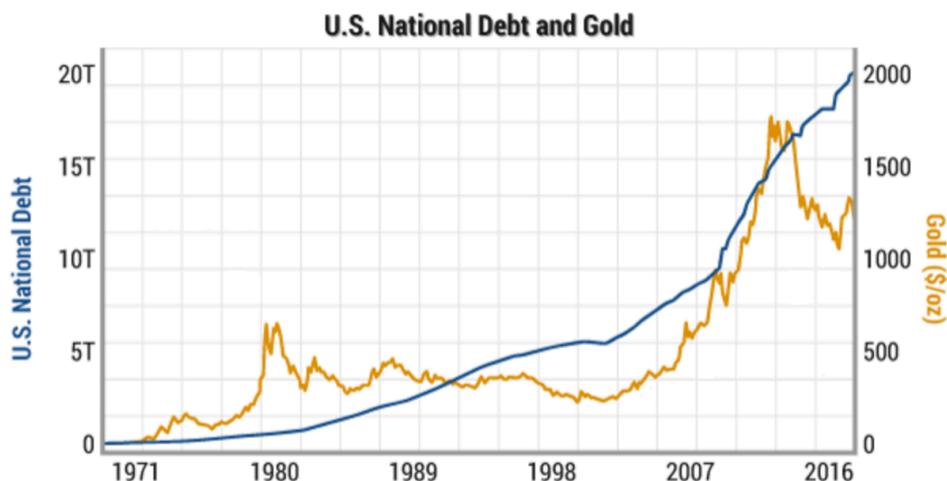
Being a gold stock investor has been a tough road to travel. However, there is no doubt that ultimately all of the fiat money that has been created will have an impact on the price of gold.

I see signs that indicate that this time is drawing nearer.

Record US Debt growth and deficits, hyperinflation in Venezuela and Turkey. Collapsing currencies in many emerging countries. Debt crisis' in Italy and Argentina. Rising interest rates and the withdrawal of monetary stimulus. Politic dysfunction worldwide. China bear market and severe economic downturn. Trade wars. Currency wars. Investor complacency (everything is fine.)

The list of potential catalysts is long and growing every day. All of these developments favor gold.

Gold has not tracked debt growth for several years now, as shown in the chart below. If it were to catch up its price would be much higher.



I will leave you with a quote by Ray Dalio the Founder and Senior Partner of Bridgewater Associates, a multi-billion dollar hedge fund that has enjoyed outstanding returns and success.

If you do not own gold, there is no sensible reason other than you do not know history, or you do not know the economics of it.....over long periods of time the price of gold approximates the total amount of money in circulation divided by the gold stock.

Ray Dalio, 2015.

Gold represents a unique form of financial security in a turbulent and extreme financial climate. It is monetary insurance. All portfolios should hold some.

I am available to discuss all of this at any time. Please continue to be patient. The upside is substantial.

Sincerely,

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