# The Gold Bull

It's estimated that over 40% of all US Dollars in circulation were printed in the last 12 months. With a global pandemic and geopolitical destabilization, a global recession is undoubtedly on the horizon. The rising costs of living and the devaluation of fiat currency mean that investors that are looking to preserve their wealth must look to more sustainable investment opportunities. In our first TBG signal, we will deconstruct money supply, inflation, CPI, and the Fed's strategy to tackle these elements in order to develop your understanding and benefit from it. Our research team believes precious metals to be the best hedge against inflation. Through our in-depth analysis, this signal provides a substantial case for an upcoming bull market in these respective assets and the immense gains that are to be made.

Disclaimer: Not financial advice. Please conduct thorough research before making investment decisions.

### What Are Precious Metals & Commodities

Precious metals are rare earth metals that are also considered to be investment vehicles, such as gold and silver, while commodities are raw materials that are bought and sold, such as sugar, copper, and uranium.

### The Uranium Bull

Uranium has been in a multi-year bull market since the 2016 low, with signs of continuation. As of writing this, 55 new nuclear reactors are being built on top of the current 440 reactors. Nuclear power is deemed a clean energy source that can run round the clock, unlike solar. The ESG movement and the general consensus that nuclear energy is safe and clean are driving factors for the current bull market. On top of this:

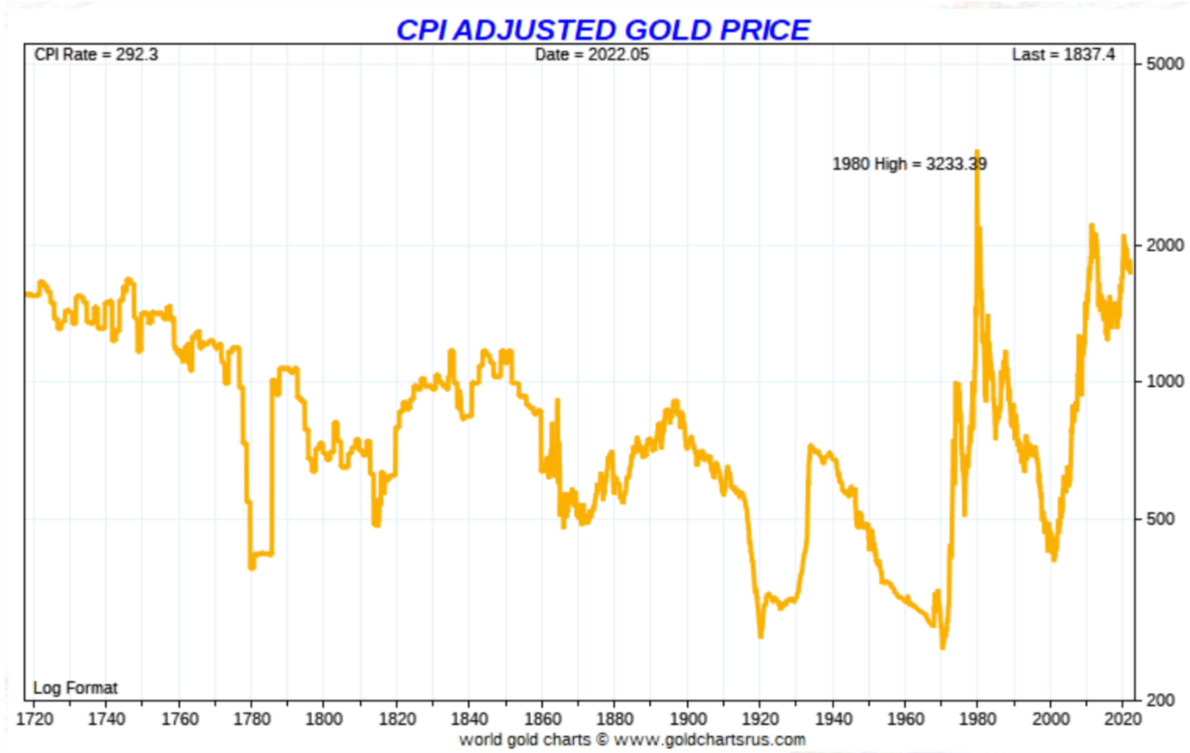
- Saudi Arabia recently announced the creation of a nuclear energy holding company that will aid in building reactors for the kingdom. The kingdom aims to be carbon neutral by the year 2060. This move is a planned continuity to their sustainability-driven vision of 2030. The kingdom is planning the use of solar, concentrated solar, wind, and nuclear energy to achieve its goals.
- Japan, which experienced a devastating nuclear meltdown in Fukushima over a decade ago, had a 53% vote by its citizens to restart idle nuclear plants. Japanese Prime Minister Fumio Kishida claims that he has asked for 9 nuclear reactors to be up and running this winter to help with the expected power shortages. Japan also plans on cutting its import of energy sources from Russia.
- South Korea's newly elected pro-nuclear president also reversed the nuclear phase-out plan. The country plans on resuming the construction of 2 new nuclear plants and extending the life of currently operating ones. The South Korean government plans to have at least 30% of the country's power generation from nuclear energy by 2030.
- Western Europe's ongoing energy crisis is another bullish sign toward nuclear power adoption as energy-troubled countries that rely on Russian fuel to power their plants are facing shortages and multi-fold price increases. Many European countries are rushing plans to ensure energy independence, most of which already include or will include nuclear power.

As seen in the above chart, the spike in uranium futures is a typical case of "buy the rumor, sell the news" where we are in the "sell the news" phase. Since Uranium fuel is a commodity and cannot be physically sold to retail or institutional investors, there are only two ways to benefit from the booming market. First is buying futures contracts, which we wouldn't recommend as it would involve timing the market. The second is investing in the companies that extract uranium, in other words, uranium miners. As the entire world narrative is shifting towards climate change, carbon neutrality, and clean energy, we expect that a long-term 10+ year uranium bull run will be underway. Although there is a large world reserve of this commodity, which would easily satisfy any future increase in demand for uranium fuel, it does not come without an immense increase in mining cost, which would drive up the sale price even for the low-cost miners. It is important to note that the peaks in uranium are often short-lived, while corrections could last decades; that being said, if you're into ESG investing or believe in the global vision for clean energy having a portion of your portfolio in uranium mining ETFs, might not be a bad idea.

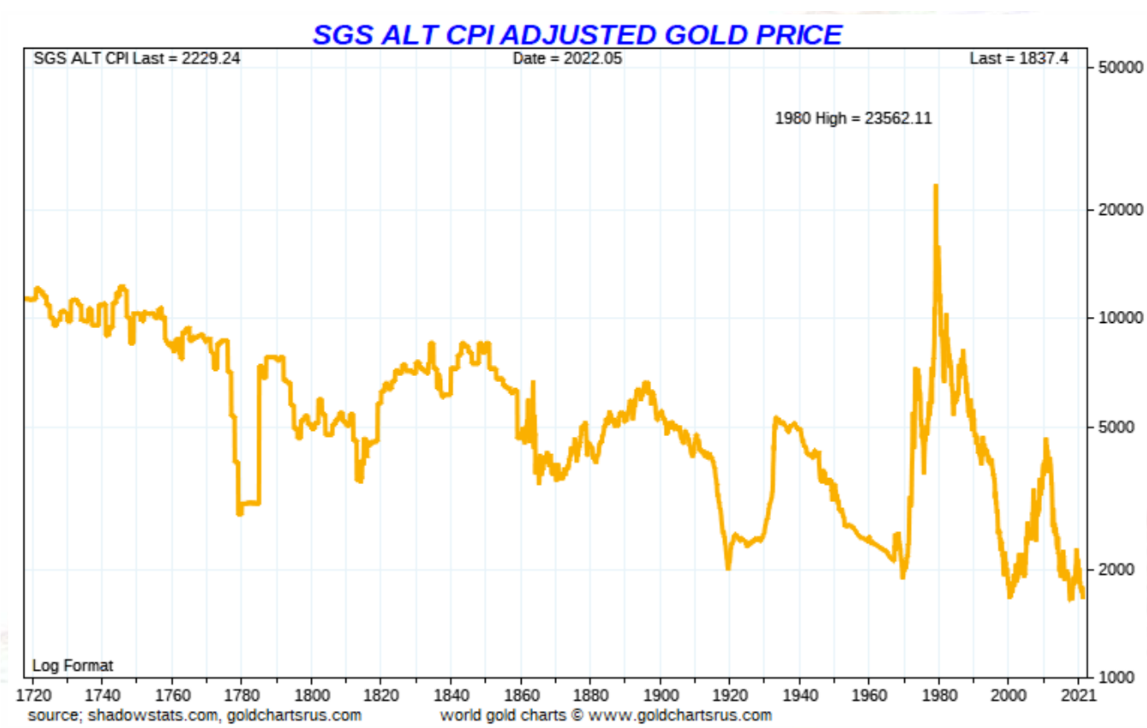
**Precious Metals Bull Market?**

When talking about gold or any other asset entering a bull market, we have to take a macro perspective and look for cycles. From the 2008 crash up until 2011, gold was in a bull market, followed by a 7-year bear/correction. From 2019 to 2020, gold broke the bear cycle and made new all-time highs of around $2,100 due to the Covid-19 scare, and has been correcting since due to the Fed's policies and the market's behavior towards it. This entire document will present you with all possible scenarios as to why the real gold bull market is about to start soon.

**Gold Fair Value**



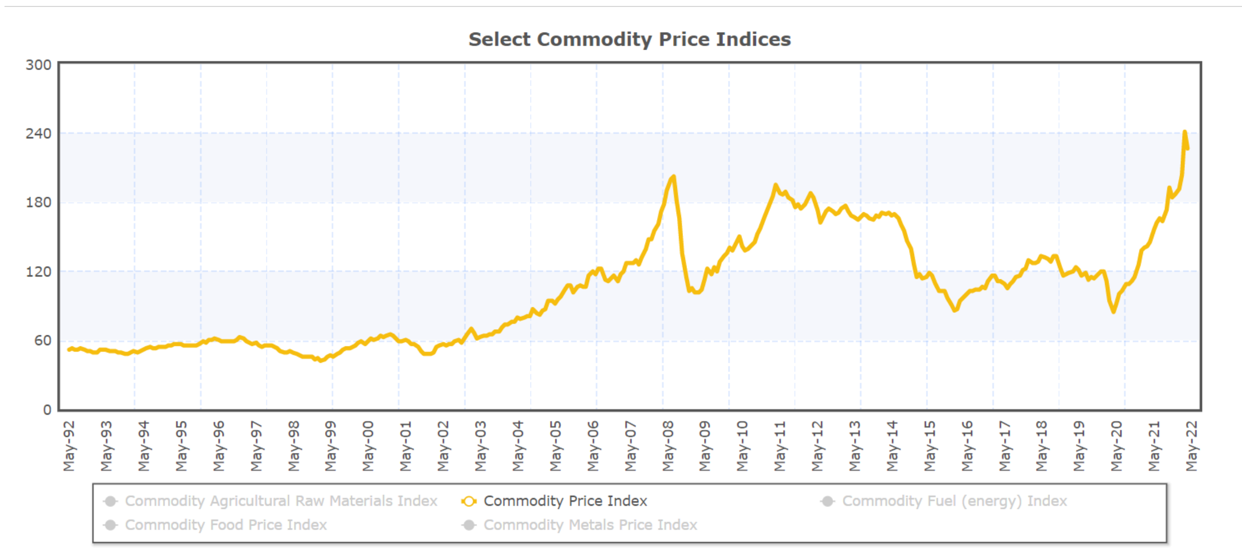

Gold's CPI-adjusted price (inflation-adjusted) tells us that buying one ounce of gold today is cheaper than buying it in 1980 and 2011. This graph is misleading, as it implies gold's current price is dear due to the use of the official CPI numbers, which I will explain in a later section.



Shadow Government Statistic's alternative CPI uses the pre-1980 CPI calculation to adjust gold's price to inflation. This chart is more accurate as to how cheap or expensive gold is right now. If we follow the downward sloping trend, we can see that we are currently scraping the bottom, meaning gold is cheaper to buy today compared to the last 300 years. A fair value for gold would currently be around $3,500 an ounce, and a dear value would be around $5,000.

**Silent Global Recession**
The world has been going through a global silent recession ever since the pandemic lockdowns started in 2020. The reason I call it silent is that everyone from retail to institutions is expecting an upcoming recession, and usually, when everyone expects something, it either already happened or won't happen. This in itself is an indicator that we are already in one. Below is why I believe we have been and still are in a recession:

**Commodity Prices:**




*Courtesy of: indexmundi.com*

Commodity prices are based on supply and demand, and this graph is the representation of the price fluctuation of all commodities, which are the building blocks of the world we live in. As we can see, commodity prices are in an upward trend since raw materials are not exempt from the law of supply and demand, and when currency is inflated (which happens on a yearly basis), prices go up. As you might have noticed, prices go up exponentially during times of financial crisis (2008, 2020): the average commodity price doubled from 2020 to 2022, suggesting many have had their costs double in the last two years.

- **Global AISC Increase:** AISC or All-in Sustaining Cost is the cost method used by earth metals mining companies to figure out how much each ready-for-sale metal costs them. Global AISC is up for the majority of producers, and it's important to note that the major producers have had a lower impact on their AISC than juniors.

- **Energy Prices:** Fuel, which is used to run cars, power plants, restaurants, schools, and your heating, has gone up from a low of 30 to a current 160, a five-fold increase.

**How Companies Deal With Inflation**

Like any for-profit company that has worked since the inception of trade, inflation costs are not eaten up by the company itself but are directly pushed on to the consumer in the form of higher prices. Some companies, especially ones that deal with food, would often opt to decrease the size of their product rather than increase their prices. An example would be when Pringles started rolling out 165-gram tubes instead of the normal 200-gram one - a 17.5% decrease.

**Money Supply**

In the U.S., the money supply, all the money that exists there, is denominated by the M1, M2, the "narrow" money, and M3, M4, the "broad" money.

The M1 money supply is the total amount of currency (cash & notes) plus checking accounts in circulation; pre-2020 covid panic M1 money supply was less than $5T and is now over $20T, a 4-fold increase. The M2 money supply is the M1 money supply added with savings accounts. M2 increased from around $15.5T to $22T, a 42% increase. The Austrian school of economics teaches us that real inflation is created by the central bank printing currency out of thin air, and in this case, the Federal Reserve printing 42% new dollars in the past two years.

The "broad" M3 money supply, which is the M2 money supply added with large deposits, institutional money market funds, and large liquid funds, is no longer made public by the federal reserve. The M4 money supply is the M3 money supply added to all forms of illiquid assets; the M4 money supply is also not made public.

The 42% inflation due to the money supply increase is most probably wrong as to apply the Austrian school of economics's method for calculating real inflation, we require the M3 data, which is not publicly available. However, it is very likely closer to 42% than the official CPI numbers.

It is important to note that if we subtract current M2 from M1, we will see that the American people's savings are currently sitting at $2T compared to around $10T in 2020, which is a very alarming figure that suggests a possible devastating liquidity crisis amongst retail.

**What About the Basket of Goods?**

You might argue that the Fed is right and inflation is not at 42%, and they will be able to achieve a soft landing of the economy and use the basket of goods as an example; after all, this is how CPI is currently calculated. Well, in this case, you are correct, but to an extent, you also have to consider that inflation is not instant since it lags. The bottom line is that whoever prints the money gets to use its current value, but once it reaches retail (the average person), it loses its purchasing power (the lag). To simplify things, assume we have 1 million goods and the total money supply is $10 million; the average price for goods would be $10. If the Fed prints an extra $10 million, bringing the total money supply to $20 million, the average price for goods will become $20 each yet the number of goods hasn't changed, meaning inflation is at 100%.

**CPI**

The current method of calculating the CPI (the most common indicator for inflation) is dividing the current price of the basket of goods by the previous year's basket of goods - which is a manipulative method as it doesn't take into consideration inflation lag(when money is printed it holds it's valued until it reaches the consumer). The pre-1980 CPI calculation was used to measure the cost of maintaining a constant standard of living, and out-of-pocket expenditures, unlike the current one, which is easily manipulated by cherry-picking items which already have a government-set price ceiling and are subject to shrinkflation (when an item shrinks instead of increasing in price).

**Stock Market Turmoil**

What better indicator of an impending financial disaster than when major stocks such as Amazon, Netflix, Disney, Tesla, and Snapchat post double-digit share losses?

**Why the Fed's attempt at soft landing the economy will fail**

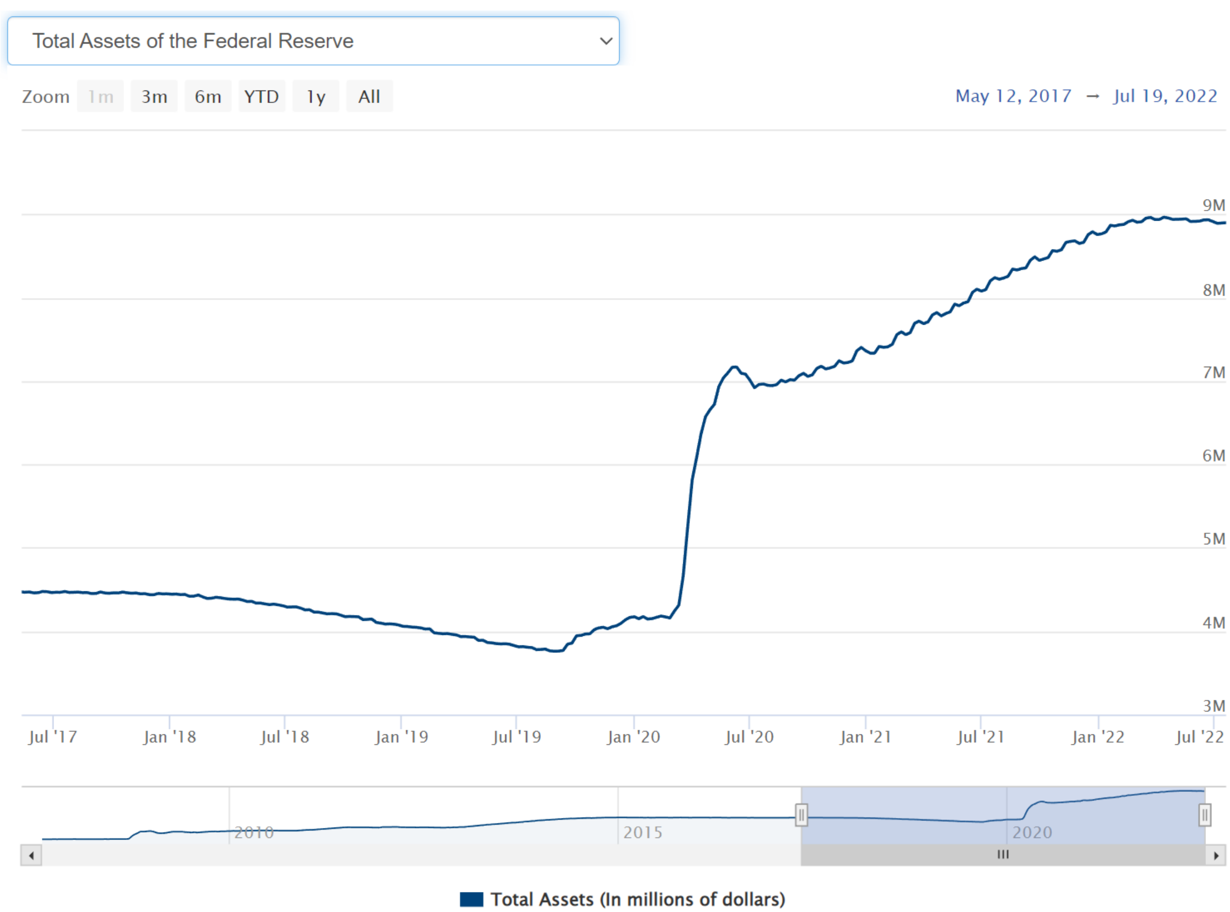
Jerome Powell is on a mission impossible, trying to achieve an economic soft landing and avoid a recession or stagflation. When someone repeats something so many times, they tend to start believing the lie themselves, yet when Jerome says that inflation is transitory and that they are fighting inflation, the industry believes him. But no matter what he or the Fed does, they can't tighten 42% of the money supply that they printed. If they aggressively increase rates, markets will crash, whether it be housing, stocks, crypto, or illiquid firms, and cause the greatest liquidity crisis in American history and possibly the collapse of the everything bubble, which leads to a massive recession worse than 2008. If he lowers the interest rates, markets will be relieved and pump up, but it will cause stagflation, where the economy halts and inflation runs rampant. The bottom line is no matter what the Fed does retail will get scared and cause a rush toward safe-haven assets such as Bitcoin and Gold, as there is no magical interest rate number that would fill the hole the fed dug itself in by printing vast amounts of money without causing a financial crisis.

**Zombie Companies**

Zombie companies are firms that don't produce enough income to cover their debt expenses, meaning that they are unproductive companies that leach off and survive on getting low-interest loans. When interest rates increase, already zombied firms would have to file for bankruptcy or refinance and take a huge hit. This would include industry giants such as Boeing, Macy's, Delta, American Airlines, etc. Another thing that will happen is that many non-zombie firms that have high amounts of liabilities (includes loans that require interest payment) will become zombies once interest is increased. A staggering statistic by Bloomberg recently showcased that there are over 600 zombie firms in the Russel 3000. A 20% current zombie firm rate coupled with a fed increasing rates will spell disaster for the average person as any failed company will ask for the Bear Stearns and Lehman Brothers 2008 treatment in the form of a bailout funded by the taxpayer, meaning more money printing.

**Case for the Gold Bull**

Every prior section was put there to convince you that inflation is real, the global economy is bleeding, and everyone is already feeling its effects, blaming it on dictators and viruses, not realizing that they are possibly in the middle of the greatest wealth transfer of our time. In times of uncertainty, people buy gold. In times of war, people buy gold. In times of illiquidity, people buy gold. In times of recession, people buy gold. In times of stagflation, people buy gold. In times of global rapid inflation, **everyone** rushes to buy gold. What we saw in 2020 is nothing compared to what will happen when people realize that inflation isn't transitory and that most central banks printed enormous amounts of fiat currency, not just the Federal Reserve. The reason why I say that inflation isn't transitory is that the Fed cannot simply un-print all the money that they already printed, and their current tightening policy (selling Fed's assets to pull liquidity from the market) is failing (The image attached below shows the Fed's balance sheet has barely gone down since starting the interest rate increases). Increasing interest rates slows down or even delays the effects of inflation further; to delay our 40%ish projected inflation, the fed will most likely need to go into a double-digit interest rate, which would likely cause a multitude of financial crises, including a stock market crash, housing market crash, and a massive liquidity crisis.



Source: https://www.federalreserve.gov/monetarypolicy/bst_recenttrends.htm

On a different spectrum where the Fed eventually gives up on rate hikes and blames everyone but itself for inflation. It would tell the public to live with inflation while lowering interest rates to stimulate the economy, and by doing so, taking the economy into stagflation.

**How to Exploit the Gold Bull**

At The Bull's Gazette, we love low-risk, high-return assets, and whilst you might already know that gold going from low $1700s to $3,500 fair value is just a 2x gain. We aim for the stars, and as such, we created the perfect method: adding a little bit of risk but increasing the reward 10-20x by buying shares in mining companies instead of physical or paper gold. The idea behind it is that a typical gold producer's AISC is between $1,400-$1,600 an ounce, meaning their profit per ounce ranges between $100-$300, which is what their shares are currently priced at. Since these miners are suffering from higher AISC costs due to inflation, their share prices are the lowest they've ever been, potentially meaning explosive crypto-like gains. When the price of gold reaches $3,500, these mining company's profit margin can shoot up from $100-$300 an ounce to $1,900- $2,100 an ounce, meaning a 7 to 19x increase in profit, which would get instantly priced in by the market, and possibly higher if the market assumes gold will keep going up.

**Different types of Precious Metals Miners**

Not every Gold mining company is the same. Let's classify them into five groups:

Senior Producers such as Newmont and Barrick Gold (lowest risk)
Intermediate Producers such as SSR Mining and B2Gold (low risk)
Junior Producers such as Argonaut Gold and Fortuna Silver (moderate risk)
Emerging Producers (high risk)
Discovery Companies (not recommended)

**Where can I buy these stocks?**

You can contact your preferred broker or use an online one such as Interactive Brokers

**What Stocks do we like?**

For the general population, I would not recommend buying individual stocks. Instead, stick to ETFs such as VanEck's GDX (for senior producers) and GDXJ (for juniors) or Sprott's gold miners ETF SGDM and Sprott's junior gold miners ETF SGDJ. For savvy investors, you can pick individual mining stocks based on their cash flow, AISC, and expected production. We greatly discourage anyone from using leverage unless they are willing and ready to lose their entire capital.

**The Catch**

There must be a catch with every good thing, and this is no exception. Gold producers have been hammered over the past couple of years over increased AISC due to inflation, some by an 80% share price decrease. We can’t rule out the possibility of them going down further before starting to pick up. This is especially relevant if the Fed keeps bluffing the market about inflation fears. Just like in 2007 when it took banks and SEC an entire year of stalling before they announced their mortgage bonds worthless, thus causing the housing market crash and recession in 2008.

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Contributor, Researcher, and Analyst. Oussama is a miner and investor who actively manages 2 cryptocurrency-focused companies alongside having a background in managing private equity and cryptocurrency consultation. He discovered cryptocurrency in 2015 and has set on a never-ending journey conducting research on various aspects of blockchain technology and cryptocurrency projects. He holds a business degree in finance from the Lebanese American University. He is passionate about Austrian Economics, Cryptocurrency, Mining, Privacy, and Precious Metals.


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