Dr. Polleit 's

BOOM & BUST REPORT

FOR INVESTORS WHO REALLY WANT TO KNOW

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TOPICS IN THIS ISSUE:

Max Schreck (1879– 1936), Nosferatu, 1922

THE VAMPIRE FIAT MONEY SYSTEM: HOW IT WORKS, AND WHAT IT MEANS FOR YOUR WEALTH

Who doesn’t know them: the blood-sucking vampires, the eerie undead, immortalised in countless films and inspired primarily by Bram Stoker’s novel Dracula (1897). Just think of iconic movies like the silent film Nosferatu – A Symphony of Horror (1922), Dracula (1958) with Christopher Lee, Roman Polanski’s parody The Fearless Vampire Killers (1967), or Nosferatu – Phantom of the Night (1979), starring Klaus Kinski as Count Dracula.

Vampires are demons who rise from their graves at night, seeking to drain the blood of innocent victims. Not only do they steal the life force that sustains them, but they also spread their curse. Many victims, bitten by vampires, are “turned”, become undead themselves, thus joining the vampire’s dark domain.

The enemies and hunters of vampires face a formidable challenge: vampires can disguise themselves, transforming into creatures like wolves or bats, and often display immense, superhuman strength. They can only be repelled by some traditional defences—garlic cloves, rosaries, holy water, or the Christian cross. But truly destroying a vampire requires decapitation, driving a wooden stake through its heart or bright sunlight that turns them to dust.

The vampire is an ancient and widespread myth. The image of a blood-sucking undead creature, or similar concepts, has existed across many cultures. This demon embodies superstition, acting as a projection of primal fears, the inexplicable, and evil as the counterpart to good. The notion of a creature that emerges at night, drains its victims’ blood, and draws them from light into darkness is undoubtedly a profoundly threatening one. When you reflect a little longer on the horror story of the vampire demon, however, you will inevitably begin to see parallels, or at least points of contact, with the fiat money system that exists worldwide today.

It Takes Place Under The Cover Of Darkness: It is fair to say that the vast majority of people are unaware of how today's fiat money system is structured, how it operates, or what its effects are. Students in schools and universities are, for the most part, left in the dark about it, and the consequences of the fiat money system, therefore, take most people by surprise—unprepared and relentless. Indeed, how many people know that our current fiat money system is a system in which the state's central bank holds a coercive monopoly on the creation of fiat central bank money, while commercial banks issue their own fiat commercial bank money based on central bank fiat money.

Who knows that fiat money is literally created out of thin air, representing a form of money creation that has no connection whatsoever to "real savings"? And who explains to people that, from an economic perspective, expanding the fiat money supply is inflationary, leading to higher prices for goods and services compared to a situation where the money supply had not been increased? It is also unknown to many that the issuance of fiat money via the credit market causes a misallocation of capital, initially triggering a boom, only to be followed by a bust; that it drives economies into excessive debt; and that it allows the state to grow ever larger at the expense of the freedoms of citizens and entrepreneurs.

In short: for most people, the damage caused by fiat money is unknown; it creeps upon them under the cover of darkness, like a vampire.

The Victims Are Often Helpless And Unaware, With The Fruits Of Their Labour Effectively Being Siphoned Away. Fiat money has something vampire-like about it, enabling one group (those allowed to create fiat money) to live at the expense of others (those forced to use the monopolised money). The first recipients of newly created fiat money are the beneficiaries. They can use the new money to purchase goods and services whose prices have not yet risen, making them wealthier.

As the money changes hands, it increases demand, and prices of goods rise accordingly. As a result, the late recipients of the new money can only buy goods at higher prices, leaving them at a disadvantage. And so the first recipients improve their position at the expense of the late recipients. The most severely affected are those who receive nothing from the newly created money supply—they are, in effect, the ones "sucked dry."

The vampire-like redistributive effect of fiat money, which operates in the shadows, particularly benefits commercial banks that create fiat commercial bank money, as well as those in a position to take out new bank loans in fiat money.

First and foremost, it is the state and those who benefit from it who are among the biggest winners of the vampire fiat money system. The state finances a significant portion of its expenditure with newly created fiat money, using it to pay its representatives, employees, and their pensions, as well as the companies from which it purchases goods and services. The state and its beneficiaries are among the early recipients of the newly created fiat money, making them the primary beneficiaries—at the expense of the many who are not closely connected to the state.

One might argue that a redistribution of income and wealth, brought about by the increase in fiat money, would also occur in a commodity or precious metal money system. This is true in principle, but the increase in, say, a gold money system would be less pronounced than in a fiat money system. The fact is that the latter was deliberately chosen for its vampire-like nature. It benefits the state, banks, and big business at the expense of the general population, keeping them below their economic potential.

Like A Vampire, Fiat Money Infects Its Victims, Turning Them Into Accomplices Of The Fiat Money System: fiat money quite literally enslaves its users, making them dependent. For instance, fiat money incentivises firms and private households to incur debt and live beyond their means, made possible through artificially low interest rates. People are also encouraged to invest in assets (such as houses and companies) because the chronic inflationary nature of fiat money ensures a continual rise in asset prices.

Once people are lured into exposure to fiat money, their economic and financial well-being becomes dependent on the continuation of the inflationary fiat money system and on it being "rescued" by the state and its central bank during times of crisis—even at the expense of those who do not benefit from the system, or benefit much less.

Politicians, bureaucrats, bank employees, and companies that receive government contracts all develop a vested interest in ensuring that the fiat money system is maintained. In this sense, they become fiat money vampires, feeding off the lifeblood of those engaged in productive work by claiming a share of their income. Moreover, holders of fiat money are the ones who lose out, as fiat money continually loses its purchasing power. In a fiat money system, the central bank ensures that interest rates are kept artificially low—often negative after accounting for inflation—so that savings in time deposits, savings accounts, and bonds are effectively eroded (or: sucked dry).

The vampire and the fiat money system cannot withstand the bright light of day; both will crumble to dust when exposed to sunlight. If people truly understood the negative effects of fiat money and the damage it causes to the world, they would likely reject it—along with the production and employment structures it creates. This is likely why so little is taught about fiat money in schools and universities. Its darker aspects are concealed, with the statist education system as *particeps criminis* ensuring the bright light of knowledge does not shine on the fiat money system.

Remember that central bank councils are typically referred to as "the guardians of the currency," and it is said that they "fight" inflation. Nothing could be further from the truth—much like a vampire who welcomes his guests and engages in witty conversation without revealing his true nature. Just as sunlight kills a vampire, sound economic knowledge would destroy the fiat money system, especially when coupled with a simple, well-understood ethic like "do unto others as you would have them do unto you."

Until that day comes, investors should be aware of the serious economic and ethical flaws of fiat money. The uncomfortable truth is that long-term prosperity and peace cannot be sustained under a fiat money system. Therefore, it is in everyone's best interest for the bright light of truth to expose and thus end the fiat money system. But how can this be achieved?

By proactively and honestly informing people about the evils of fiat money; by advising them to reduce their dependence on it, both in their lives and their employing savings; and by promoting a free market for money, while encouraging technological innovations in the monetary sphere that lie beyond the state's control. Together, these efforts will act like a ray of sunlight striking the vampire-like fiat money system—ultimately causing it to crumble to dust. ■

> *"When you combine ignorance and leverage, you get some pretty interesting results.*
>
> *—Warren E. Buffett*

TROUBLE AHEAD: THE NEXT GLOBAL CYCLE OF BIG INTEREST RATE CUTS HAS ALREADY BEGUN

The global interest rate cutting cycle has already begun. Although it is still tentative, it is undoubtedly underway. Central banks in Switzerland, the Eurozone, Canada, China, England, and Sweden have already lowered their key interest rates. The US Federal Reserve (Fed) reduced its key rate for the first time in this cycle on 18 September 2024, and this step will likely be followed by further rate cuts, and many other central banks will follow.

A central reason for the return to expansionary monetary policy is the end of high inflation. Indeed, official consumer goods price inflation numbers have been declining in recent months.

The latest shock of high inflation in recent years was due to central banks creating a true flood of money during the politically mandated lockdowns of 2020/2021. In an effort to protect the economies from a recession-depression, central banks purchased government and corporate bonds in exchange for newly created money. The result was a massive 'excess quantity of money', an enormous 'monetary overhang', which, compounded by the cost-push effects of the lockdowns, translated into strongly rising goods prices.

From early 2022, however, the growth rate of the money supply in many economies began to slow down and, in some cases, even turned negative. In the meantime, the excess money supply has been reduced through output and goods price increases, and particularly the latest contraction of the money supply is now providing a disinflationary impulse: the tightened money supply is reducing goods price inflation with a time lag. This disinflationary process is occurring not only in the US and the Eurozone but across the entire OECD.

Central banks will take the easing of inflation as a welcome opportunity to lower interest rates. On one hand, such a monetary policy response seems appropriate, doesn't it? As inflation decreases and reaches or falls below the 2 per cent mark, it is generally considered good and right to reduce borrowing costs. On the other hand, political pressure on central bankers to lower rates is increasing because in many economies public debt has become so high that "fiscal dominance" must be diagnosed: The precarious financial situation of many states effectively dictates what the central bank must do.

That said, it is not governments' finances that must adapt to monetary conditions, but rather central bankers must create a monetary and credit environment that is considered favorable by governments.

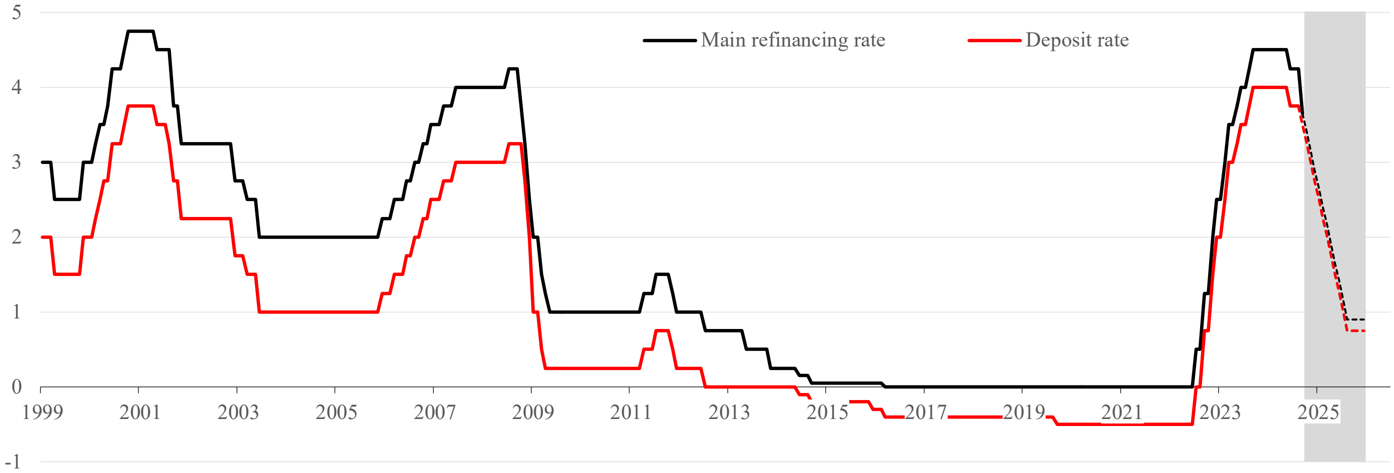
However, it is not only the precarious level of public debt in many countries that effectively forces central banks to keep rates low or cut them. It is actually the 'global mountain of debt' that puts pressure on the economies; it no longer allows for persistently high interest rates without raising the risk of widespread defaults. Global debt reached 315 trillion US dollars in the first quarter of 2024, according to the *Institute of International Finance* (IIF), amounting to 333% of global GDP. Most of the debt outstanding has been built up during a period of falling interest rates or refinanced during periods of extremely low rates. Higher borrowing costs have been increasingly putting pressure on many debtors.

The outstanding debts are not all due each year; only a portion of loans must be repaid or refinanced each year. In this way, the higher interest gradually eats into the interest cost calculations of companies, households, and states over time. In this process, loan defaults typically increase in bank balance sheets, and banks become more cautious with lending. And when the availability of new credit diminishes, the economic and financial system also faces problems. After all, the influx of credit and money is almost the lifeblood for ongoing economic activity, and it drives up prices in asset markets (homes, stocks, etc.). That said, it is obvious that an ongoing decline in the inflow of new credit and money into the system would most likely trigger a new crisis.

It seems almost inevitable that most

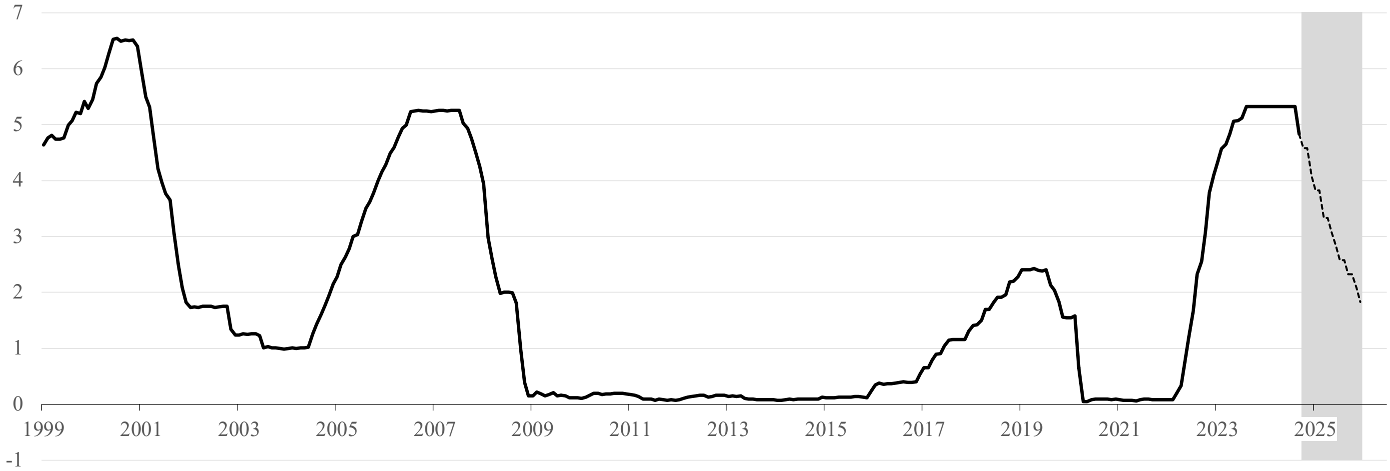
1 Central banks key interest rates will be pushed down strongly …

*(a) Key interest rates of the European Central Bank (ECB), actual and forecast**



Source: ECB; graph and forecasts *Dr. Polleit's* BOOM & BUST REPORT. – *As from October 2024 to December 2025. Shaded areas: forecast period.

*(b) Key interest rate of the Federal Reserve (Fed), actual and forecast***



Quelle: Fed; graph and forecasts *Dr. Polleit's* BOOM & BUST REPORT. – **As from October 2024 to December 2025. Shaded areas: forecast period.

economies can no longer afford permanently elevated interest rates. The adjustment costs in terms of temporary production and employment losses that a return to "normal" interest rates would require are deemed too high and politically undesirable in many places. It is against this backdrop that the global fiat money system turns out to be a one-way street.

While central banks can initiate an artificial boom by lowering interest rates and expanding the credit and money supply from nothing, such a 'boom' will eventually turn into a downturn, a 'bust', and lead to recession. To prevent a boom from turning into bust, policymakers and central banks, quite often with support from the general public, are relying on further interest rate cuts and even more credit and money expansion.

How far will interest rates drop in the unfolding global interest rate cutting cycle? In many economies, central banks will continue to do what they have doing in the last decade(s): force short-term rates to or (slightly) below zero after accounting for inflation. Now, the downward pressure on officially measured inflation, currently coming from a tight money supply, has the potential to drive inflation to or below the 2 per cent mark.

From this perspective, it is very likely that key interest rates in the US and the Eurozone will be pushed down strongly. According to *Dr. Polleit's* BOOM & BUST REPORT, it is likely that the ECB key interest rate will reach 2 per cent by mid-2025, to be lowered further to 1% towards the end of 2025. The Fed will also substantially cut rates, likely pushing the Federal Funds rate to 3% by mid-2025 and further down to 2% by the end of 2025. (For the illustration of these forecasts, see the two charts in Figure 1 on this page.) Many other currency areas will follow the lead of the major central banks and reduce their official interest rates accordingly.

As an investor, there are good reasons to expect a return to a regime of low short-term rates. However, it is less likely that long-term rates will decrease equally: the flood of government bonds, expected in the coming years, will continue to exert upward pressure on long-term rates. Additionally, inflation expectations will have a negative effect: If central banks significantly cut rates again, then, sooner or later, credit and money supply growth will rebound, releasing forces that drive future inflation upwards. In other words: There is trouble ahead, caused by central banks cutting interest rates. It is like making the same mistake over and over again; or like pursuing a rather sinister agenda, namely deliberately causing one crisis after another. Over the ups and downs in the business cycles, total debt increases, exceeding the increase in consumers' and producers' incomes, leading to a situation of over-indebtedness – which makes people see inflation as the lesser evil: Faced with the choice of accepting a bust that corrects over-consumption and mal-investment or further expanding the credit and money supply and driving inflation up, both policymakers and the public can be expected to prefer inflation.

Dear readers,
Perhaps there is a (financial) topic that is of great interest for you, one that you would like to be discussed?
If so, please write to
Dr. Polleit's
BOOM & BUST REPORT
at *boombustreport@gmail.com.*
We look forward to your email!

It is rather tragic, so to speak, that the damages caused by central banks' downward manipulation of interest rates may not be immediately apparent. Instead, a new rate-cutting cycle has the potential to initially act like a feel-good drug. Investments and consumption receive a boost. Stock and real estate markets benefit. Lower interest rates ease the burden on debtors, reduce credit default risks, and, by no means less important, increase the present value of assets' expected future cash flows and thus their market price. Prices for gold and silver are also likely to reach new record highs when interest rates go down again. The big losers are holders of US dollars, euros, and other fiat currencies and bonds denominated in fiat currencies: Their purchasing power will be eroded. For sure. ■

Readers' questions, *Dr. Polleit's* BOOM & BUST REPORT's answers

Mrs. S. S. wrote to us on September 15, 2024, asking: "The price of gold has risen sharply in recent weeks. Does it still make sense to buy gold? Or is it already too expensive?" Thank you for your question! It is correct that the price of gold, calculated in US dollars, has gone up strongly, having risen by around 15 per cent since the beginning of 2024 – significantly more than the gold price's long-term average increase of about 9 per cent per year. That said, in the short term (i.e., on a monthly or quarterly basis), there could indeed be setbacks in the gold price. However, from a long-term perspective (i.e., over the next three, five, or more years) the likelihood is pretty high that the price of gold – not only in US dollars but also in other fiat currencies, especially in euro – will rise much further. That said, from a risk-reward standpoint, we still believe that it makes sense for long-term investors to keep and expand their gold positions.

Gold price in US dollars per ounce, actual and estimated trend

Source: WGC; Graph from *Dr. Polleit's* BOOM & BUST REPORT. – *Dotted line: exponential trend estimate; scattered line: linear trend estimate.

In the table below, you find our new price estimates for gold and silver prices in US dollar and euro. Compared to the previous price forecast (see *Dr. Polleit's* BOOM & BUST REPORT, 25 July 2024), we have increased the price estimate for gold by 6 per cent to 2.860 USD/oz by the middle of next year, for silver by 9 per cent to 35.9 USD/oz (based on the current rice, respectively). Please note that these estimates do not factor in an exceptional, dramatic crisis during the forceast period.

Gold and silver prices per ounce, actual and estimated

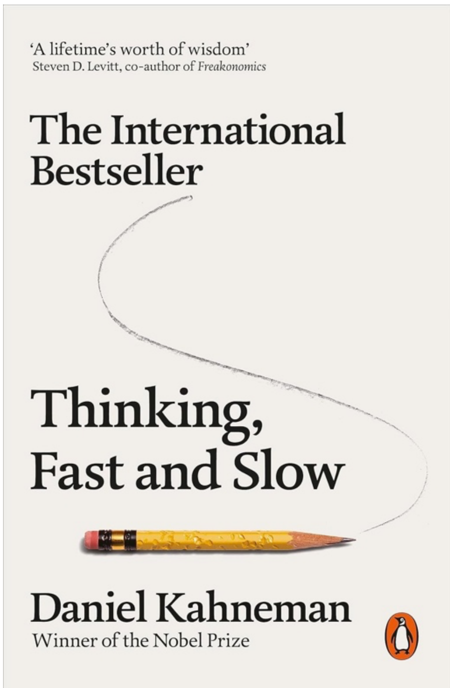
	Gold	Silver	
I. In US dollar			
Acutal	2580	30.7	
End '24	2735	33.2	
Mid '25	2860	35.9	
*Change in %**	*11*	*17*	
II. In euro			EUR/USD
Actual	2320	27.6	1.112
End '24	2320	28.1	1.180
Mid '25	2600	32.7	1.100
*Change in %**	*12*	*18*	*-1*

Source: *Dr. Polleit's* BOOM & BUST REPORT; own estimates; differences due to roundings.

INVESTORS BEWARE: "FIRST LEVEL THINKING" VERSUS "SECOND LEVEL THINKING" – DO YOU KNOW THE DIFFERENCE?

What do "First Level Thinking" and "Second Level Thinking" mean? The question is best answered through a few simple examples. First Level Thinking means: "Oh, this company is great; it makes unique products, so I will buy its stock!" Second Level Thinking means: "Hmm, not only do I think this company's stock is great, but many others do too. The stock has probably already been bought by many, and it might already be too expensive, so I better not buy it!"

Recommendation: Howard Marks, It's Not Easy, Memo, Oaktree Capital Management, click ***here***.



You can already see: First Level Thinking is, in the truest sense, simple, straightforward, and essentially superficial thinking. It goes like this: "I think this company is great, and therefore its stock price will rise." In contrast, Second Level Thinking is more complex, deeper, and more nuanced: "Okay, the company is great, but do other investors think so too? What is the likelihood that my assessment is correct? And if I am right, is the stock price justified, or is it already too high?"

Essentially, First Level Thinking and Second Level Thinking are about what is commonly referred to as "thinking outside the box" or "seeing the bigger picture." Rather than relying solely on the immediately available information and the initial intuition derived from it, Second Level Thinking means you try to think ahead. It's akin to the beauty contest example that British economist John Maynard Keynes (1883–1946) once used: If you are asked who will win the beauty contest, don't just ask yourself who you personally find the most beautiful. Instead, ask who those judging the contest will find the most beautiful. If you pick the person who appears most beautiful to you, you might be right, but only because your personal opinion happens to align with the majority view. The beauty contest is ultimately decided not by you, but by the (majority) opinion of others.

What does this mean for the investor? The implications are clear, as illustrated by the stock example:

- I think the stock should be bought because the company has a great business model – it has a market position and profit potential that its competitors cannot match.
- But am I right in these assessments? Who are the competitors? And if I identify them, do I know which future competitors might emerge?
- Assuming I am correct, and the company is great: Have other investors possibly had this idea much earlier and already acted on it?
- So, is everything I know already known, and has the stock price already adjusted? Is it still worth investing in the stock?
- And assuming I am wrong, and the company is not great: How do other investors view it? If they generally think the stock is unattractive, maybe it's already so cheap and oversold that it might be a good buy for me?

Another example can be found in the gold and silver market. It is often heard: "How disappointing: The prices for gold and silver are not reacting to the high inflation numbers just released!" The question to ask is: Maybe the prices already reacted beforehand, i.e., long before the inflation numbers were announced? Or are there other developments that are dampening the gold and silver prices, offsetting the impact of increased inflation figures? Or perhaps the explanation is that the current inflation number is indeed very high, but the markets expect a sharp decline in inflation in the future, so gold and silver prices are not moving significantly? These few considerations may show: "It's not easy," as Charlie Munger (1924–2023) said. Indeed, First Level Thinking will not suffice for successful investing. Yes, one might occasionally achieve success in the capital markets with First Level Thinking. But systematic investment success requires something akin to Second Level Thinking. Fortunately, this way of thinking can be learned. Those who have not yet systematically embraced and practiced it need not despair. Hopefully this article serves you as a simple introduction to Second Level Thinking. ■

BITCOIN REVOLUTION – PART 2: THE ONE-FACTOR DEMAND FOR BITCOIN AND WHAT IT MEANS

The "value" of Bitcoin has long been a topic of extensive debate. Some argue that Bitcoin is "worthless" and that its current market price of around $60,000 per coin will eventually drop to zero. Others predict that Bitcoin's price will rise to several hundred thousand dollars per coin or more. This essay does not aim to forecast Bitcoin's price but rather to explore some fundamental (and, in our view, very important) considerations regarding its value and price formation, especially in comparison to gold and silver. To start with, we must understand what "value" means. Economics offers some enlightening insights: The value of an item (whether an apple, book, computer, car etc.) lies in the eye of the beholder. Whether something is valuable to you or me depends solely on our personal, subjective perception. In other words: value is subjective, it is not an objective concept. If we believe that water is useful (for example, for quenching our thirst or boiling potatoes), then it has value for us. Conversely, if we think that apples fallen from the tree offer us no benefit, we attribute no value to them.

Let's move to money. Money – that is the generally accepted medium of exchange – has value for most people because it can be effectively used to exchange for other goods most easily; just think of your supermarket purchases. The question here is: What value does money have for us? We know that, for instance, eating bananas satisfies our hunger, providing us with utility and therefore value. (As an example, if we had a banana allergy and couldn't use bananas for anything, they would hold no value for us.) But how is the value of money – which is neither a consumption nor a production good – determined?

The answer is: The value of money derives from the utility (value) of the goods it can buy. For example, I go to a fruit shop and buy an apple for 1 euro. What is the apple worth to me? Answer: It is worth *more* to me than the 1 euro, otherwise I wouldn't have made the purchase. For the fruit vendor, it's the opposite. The vendor values the 1 euro *more* than the apple. It's important to note that for me, the value of 1 euro does not equal the value of the apple (the enjoyment I get from eating it); rather, the apple is worth *more* to me than the 1 euro. However, the extent to which the apple is more valuable to me than the 1 euro cannot be quantified. The utility we attribute to an item is generally an ordinal measure, expressed as "more than" or "more enjoyable than," rather than a cardinal measure. For example, we cannot say the apple is 1½ times more valuable to me than 1 euro.

Now we understand that the value of money is derived from the utility or value of the goods we can purchase with it.

Let's take it a step further. The uniqueness of money is that it has only one function: the medium of exchange function. All other functions attributed to money – such as the unit of account and store of value – can be traced back to the medium of exchange function. This is where Bitcoin fundamentally differs from gold and silver.

Bitcoin has only one demand, which is demand for exchange purposes (including speculative motives, but these are also ultimately tied to the exchange function). The demand for exchange purposes is the sole factor driving Bitcoin's demand; thus, Bitcoin is characterized by a one-factor demand. If, for instance, an innovation were to come to market that is perceived as superior in just one aspect, Bitcoin's demand would presumably go down strongly and, in the extreme case, could even fall to zero. In such a situation, Bitcoin's market price would also approach zero. In contrast, gold and silver have multiple components in their demand. These precious metals have value resulting from their non-monetary and monetary (or: investment) demand. Gold and silver are sought not only for monetary or investment purposes but also for non-monetary uses such as jewellery production and industrial applications. This non-monetary demand is independent of the precious metals' monetary demand. Therefore, the likelihood that gold and silver will become worthless because of a decline in monetary demand is virtually non-existent. Given current technology, gold and silver are used in production processes, contributing productively, and are thus likely to always have positive value from the perspective of market participants. If gold and silver have positive value from the perspective of market participants, then they will have a positive price in the market; and their price will not fall to zero, they cannot become worthless. Bitcoin, however, could theoretically face such a risk if the monetary demand for it disappears due to, for example, a better alternative emerging.

Against this backdrop, it becomes clear that the value people ascribe to Bitcoin significantly depends on its acceptance and use as a monetary means – initially as a store of value, perhaps later also as a medium of exchange in a growing number of markets. Some even expect that Bitcoin may eventually replace established fiat currencies. From this perspective, one can indeed say that the price of Bitcoin is highly dependent on market participants' expectations that the cryptocurrency will evolve into money.

And given these "Great Expectations", it is not surprising that the price range for Bitcoin, as projected by supporters and critics, varies from zero to stratospheric heights. Bitcoin advocate Michael Saylor, for instance, predicted in a CNBC interview in July 2024 that Bitcoin's price "could" rise to $13 million per coin within 21 years, which would imply an impressive annual growth rate of 16.2 per cent. (Such a forecast might elicit both astonishment and scepticism: At such a growth rate, €10,000 today would grow to €232,143 in 21 years!)

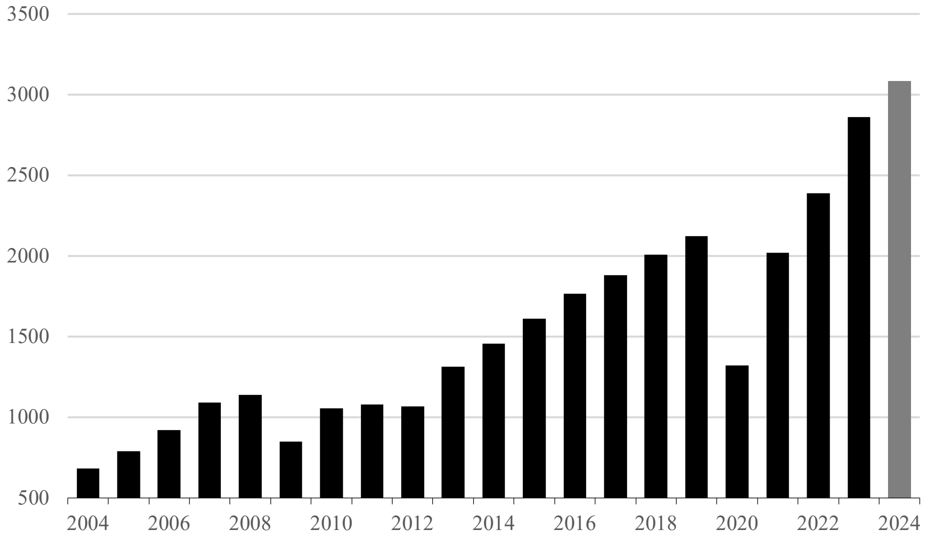
To conclude, the actual market prices for Bitcoin, gold, and silver will always depend on the specific supply and demand situation. However, it is important to remember that supply and demand reflect the values people assign to the goods in question. And these values are not fixed into stone – but can change rapidly and substantially. ■

STOCK MARKET - GUIDE: *SWISS CHOCOLADE FROM LINDT & SPRÜNGLI AG*

In previous editions of *Dr. Polleit's* BOOM & BUST REPORT, we have already presented several company stocks that we consider very interesting, as they feature inflation-resistant business models and, at the time of recommendation, were reasonably valued in our opinion. The table on page 10 provides an overview of the stocks analyzed so far. The

2 CAGR of around 7.8 per cent

*Earnings per share of Lindt & Sprüngli AG**



Source: marketwatch.com; graph *Dr. Polleit's* BOOM & BUST REPORT. –*For 2024 estimated.

table also includes gold and silver. Holding precious metals was recommended from the start, specifically as part of liquid assets. *Dr. Polleit's* BOOM & BUST REPORT recommends a portfolio allocation of 60 per cent stocks and 40 per cent liquid assets (see 16 May 2024).

As a new and, in our view, very interesting company, we introduce in this article the Swiss chocolate producer Lindt & Sprüngli AG, headquartered in Kilchberg ZH. This company is a global market leader in premium chocolate products – chocolate bars, but especially gift formats, pralines, and hollow figures that Lindt & Sprüngli AG produces, mainly through its high value-added chain. The products are sold under the "Global Retail" division (with brands Lindt, Ghirardelli and Russell Stover) in its own stores. In 2023, sales grew by 16.5 per cent compared to the previous year, driven by the expansion of stores (by 20 to 520), but also by increased sales in existing stores. In the "Global Travel Retail" division, Lindt sells in duty-free stores, and this sales channel benefited from a further recovery in passenger numbers (sales growth of 20.1 per cent compared to the previous year). Regionally, Lindt & Sprüngli AG's sales were as follows: Europe, the largest region in terms of sales, achieved 2.41 billion CHF, an increase of 4.9 per cent compared to the previous year; in North America, sales amounted to 2.11 billion CHF (2022: 2.03 billion CHF), an increase of 11.0 per cent; and in the "Rest of the World," sales were 683 million CHF, an increase of 5.8 per cent.

For Lindt & Sprüngli AG, developments in procurement markets are, of course, very significant, particularly in the markets for cocoa, the most important raw material (high-quality chocolate recipes contain high proportions of cocoa and cocoa butter). Cocoa prices nearly doubled in 2023, and the company expects permanently higher purchasing prices. It is worth noting that the firm has managed to offset rising raw material prices and inflation-driven cost increases through efficiency gains in procurement, production, and logistics, according to its own statements.

Lindt & Sprüngli AG will celebrate its 75th anniversary in 2024, making it something of a traditional company. Major shareholders include BlackRock Inc. with 4.50 per cent of the share capital, the "Supplementary Pension Fund of Chocoladefabriken Lindt & Sprüngli AG," and the "Financing Foundation for Pension Schemes of Chocoladefabriken Lindt & Sprüngli AG," both based in Kilchberg ZH, which together hold a total of 15.43 per cent of the share capital and voting rights of the company. This group, in particular, can be expected to have a long--term interest in the company's well-being. In terms of management compensation, the company relies, among other things, on options for the acquisition of participation certificates with lock-up periods between three and five years. This should also strengthen the firm's management interest in the company's long-term economic success.

For 2024, Lindt & Sprüngli AG aims for organic growth of 6 to 8 per cent compared to the previous year and an improvement in the operating margin by 20 to 40 basis points. According to the half-year report, Lindt & Sprüngli AG had a good start to 2024. Overall, sales increased by 7.0 per cent compared to the previous year to 2.16 billion CHF, and due to the appreciation of the Swiss franc, this was an increase of (only) 3.5 per cent in domestic currency. Profit after tax (net income) amounted to 218.0 million CHF, compared to 204.5 million CHF in the previous period. Earnings per share were 943.4 million CHF compared to 872.6 million CHF in the previous half-year. The firm's liquidity position was comfortable at 402.0 million CHF, or about 16 per cent of the total balance sheet.

At the end of 2023, Lindt & Sprüngli AG had a total balance sheet of 7.9 billion CHF. Of this, current assets amounted to 2.6 billion CHF (or 33.2 per cent of the balance sheet total), while fixed assets corresponded to 5.3 billion CHF (66.8 per cent). Thus, Lindt & Sprüngli AG is not really "asset light," meaning the company's capital requirements may increase significantly during inflationary periods. However, the company also possesses sufficient "pricing power," allowing it to pass on increased (capital) costs through higher sales prices. Lindt's financing structure is "conservative": long-term debt amounted to 1.8 billion CHF, only 22.4 per cent of the company's total assets, and equity accounted for 4.3 billion CHF or 54.2 per cent. In 2023, operating cash flow amounted to 778.6 million CHF, representing 15 per cent of sales (2022: 756.0 million CHF and 15.2 per cent). This comfortably covered its investments in tangible/intangible assets, which amounted to 301.8 million CHF, meaning the company did not need to tap

3 A conservatively managed company on a solid growth path …

Stock price of Lindt & Sprüngli AG in CHF

Source: marketwatch.com; graph *Dr. Polleit's* BOOM & BUST REPORT.

into external debt or equity. The return on equity was 15.8 per cent in 2023 and 12.9 per cent in 2022 – with an average of 11.8 per cent for the period from 2018 to 2023. Lindt & Sprüngli AG's business is, of course, subject to risks. The company faces significant competition in the market for sweets and confectionaries – from companies like Nestlé AG, Mondelez Inc., Mars Inc., Hershey's Inc., and in Germany (the second-largest market for Lindt & Sprüngli), from companies like Ritter, Stollwerck, Storck, Krüger, and Weinrich, or from Belgium's Baronie N.V. and Callebaut, and from Switzerland's Läderach. Additionally, demand for Lindt & Sprüngli products has not proven to be fully recession-proof, as demonstrated by the crisis years of 2008/ 2009 and 2020 – although demand did recover afterward and resumed its upward trend. The company's strong brand, international recognition, and the potential for further global growth are certainly positive factors.

The firm's stock, with a price-earnings ratio of over 37, does not appear cheap, and the dividend yield of just over one percent might not immediately impress investors. However, a present value calculation suggests that the stock is currently attractively valued for investors, offering an appealing entry point that can enhance their investment returns (see the table below). In summary, Lindt & Sprüngli AG seems to be an attractive investment for investors concerned about inflation – a Swiss company, conservatively managed, with a robust business model that can continue to grow sustainably and actually globally for many years to come. ■

Estimation of the ‚fair' value of the stock

Lindt & Sprüngli AG

In CHF milion	i =	5								
Year	0	2	3	4	5	6	7	8	9	10
Profit after tax '23	671.40									
Growth rate in % p.a.		*5.00*	*5.00*	*5.00*	*5.00*	*5.00*	*6.00*	*6.00*	*6.00*	*6.00*
Profit after tax (e)		704.97	740.22	777.23	816.09	856.90	908.31	962.81	1020.58	1081.81
Dividend in % of profit after tax (cal.)		*0.45*	*0.45*	*0.45*	*0.45*	*0.45*	*0.45*	*0.44*	*0.44*	*0.44*
Dividend '23	303.60									
Dividend growth in % (e)		*5.00*	*5.00*	*5.00*	*5.00*	*5.00*	*5.00*	*5.00*	*5.00*	*5.00*
Dividend (e)		*318.78*	*334.72*	*351.45*	*369.03*	*387.48*	*406.85*	*427.20*	*448.56*	*470.98*
PV dividends (e)		289.14	289.14	289.14	289.14	289.14	289.14	289.14	289.14	289.14
Sum of PVs of dividends (e)	2891.43									
Profit after tax and dividends (e)		386.19								
Groth profit after tax and dividends (e)			*5.00*	*5.00*	*5.00*	*5.00*	*5.00*	*5.00*	*5.00*	*5.00*
Profit after tax and dividends (e)		386.19	405.50	425.77	447.06	469.42	492.89	517.53	543.41	570.58
PV of profit after tax and dividends (e)		350.29	405.50	425.77	447.06	469.42	492.89	517.53	543.41	570.58
Terminal value (e)										
PV of terminal value (e)	7005.71									
Total	9897.14									
Number of shares outstanding	0.23									
Number of shares outstanding (e)		0.23	0.22	0.22	0.22	0.21	0.21	0.21	0.20	0.20
Share price (cal.)	12463.05									
Actual share price	**10880.00**									
Überbewertet (-), unterbewertet (+) in %	14.55									
Profit per share	2893.97	*3084.94*	*3295.20*	*3519.80*	*3759.70*	*4015.96*	*4330.54*	*4669.76*	*5035.55*	*5429.99*
Profit per share, CAGR in %	*7.30*									
Price-Earnings ratio	37.60									
Dividend per share	1308.62	1265.28	1287.17	1309.43	1332.07	1355.11	1378.54	1402.38	1426.64	1451.31
Dividend yield in %	1.20	11.63	11.83	12.04	12.24	12.46	12.67	12.89	13.11	13.34
*Total return in % p.a. (e)**	*8.50*									

**Assumption: Share price gain plus dividend yield.*

Source: yahoo finance; calculations *Dr. Polleit's* BOOM & BUST REPORT. – No dividend payments included. – Because the stocks were analysed at different points in time, we also show annualized returns. – Prices from 18 September 2024.

Performance of our stocks

I. Stock	Currency	Day of recommendation	Purchasing price	Actual price	Return during the period in %	Return annualized in %
[redacted]	US$	4 April '24	391.57	482.70	23.27	50.56
	US$	18 April '24	51.97	78.80	51.63	122.36
	US$	2 May '24	400.60	452.60	12.98	33.84
	US$	30 May '24	442.10	500.90	13.30	43.34
	US$	27 June '24	122.90	131.80	7.24	31.47
	US$	11 July '24	59.99	71.80	19.69	102.65
	US$	25 July '24	54.79	53.45	-2.45	-15.94
	CHF	8 August '24	513.00	582.50	13.55	117.74
	US$	5 September '24	567.93	508.00	-10.55	-93.94
	CHF	19 September '24	11000.00	…	…	…
II. Precious metals						
Gold		4 April '24	2288.90	2571.70	12.36	26.84
Silver		4 April '24	26.94	30.67	13.85	30.08

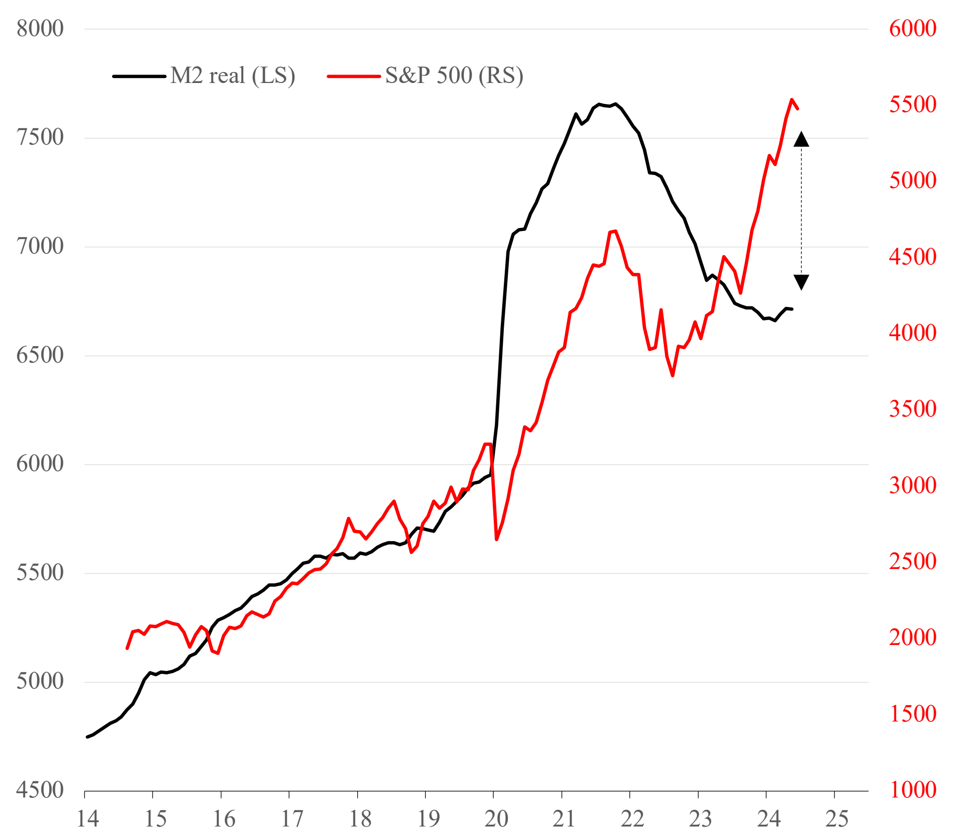
Quelle: yahoo finance; calculations *Dr. Polleit's* BOOM & BUST REPORT. – Actual closing prices from 18 September 2024.

Publication dates for
Dr. Polleit's BOOM & BUST REPORT
in the coming twelve months

2024	4	April	*1*
	18		*2*
	2	May	*3*
	16		*4*
	30		*5*
	13	June	*6*
	27		*7*
	11	July	*8*
	25		*9*
	8	August	*10*
	22		*11*
	5	September	*12*
	19		*13*
	3	October	*14*
	17		*15*
	31		*16*
	14	November	*17*
	28		*18*
	12	December	*19*
	23		*20*
2025	9	January	*21*
	23		*22*
	6	February	*23*
	20		*24*
	6	March	*25*
	20		*26*
	6	April	*27*
	…	…	…

YOU DON'T WANT TO MISS THESE CHARTS

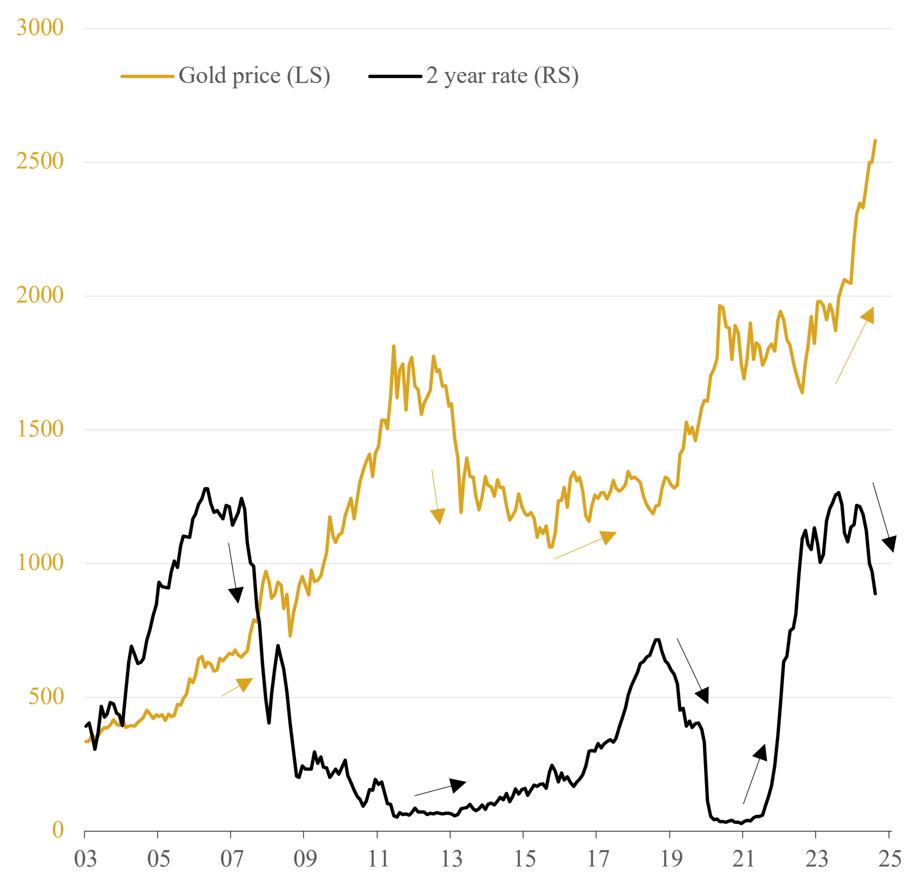
(a) US money stock M2, real*, and S&P 500 stock market index



In the long term, there is a positive (well-established) relationship between the money supply and stock prices. For example, it is obvious that US stock prices significantly increased from 2020 to 2022 due to the massive expansion of the money supply M2. Notably, stock prices have risen sharply since about mid-2022, even though the money supply has not (yet) increased again. A plausible interpretation of the "gap" between US stock prices and the US money supply is that the US stock market anticipates a return to money supply expansion. There is a compelling reason that supports this view: The US central bank has begun its rate-cutting cycle, and as a result, it can also be expected that credit and money supply creation will gain momentum again. ■

Quelle: Federal Reserve of St. Louis; graph *Dr. Polleit's* BOOM & BUST REPORT. – *Adjusted for US consumer goods price inflation. ('M2 real' is therefore a kind of measure for ‚excess liquidity'.)

(b) Gold price (USD/oz) and return on 2-year US-Bills in per cent

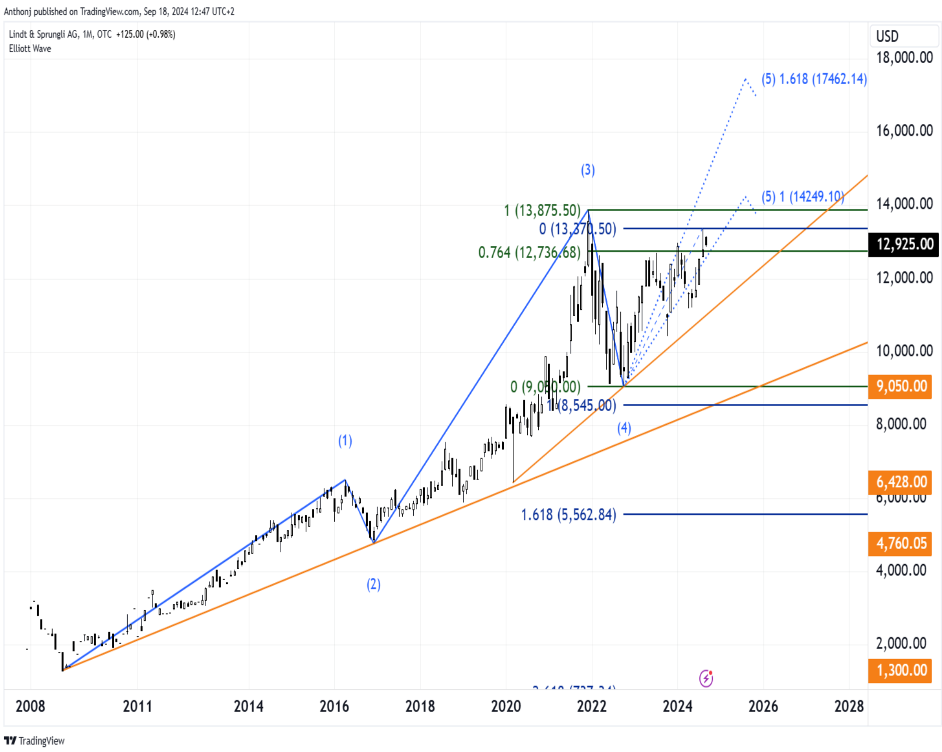


The US Federal Reserve lowered borrowing costs on 18 September 2024. It marked the beginning of a cycle of interest rate cuts. Credit markets are already anticipating further reductions in the US benchmark interest rate, as evidenced by, say, the yield on two-year US Treasury bonds. This is good news for the gold price: Falling interest rates support the price of the yellow metal, as has been observed repeatedly in the past. For instance, from late 2007 to 2011, with the onset of interest rate cuts, the gold price (USD/oz) increased by approximately 185 per cent. If a similar increase were to occur since, say, the end of 2018, it would suggest a gold price of about USD 3,420/oz. Of course, this should be taken only as a rough estimate, not a precise prediction. However, it should provide us with an idea of the extent to which the price of gold can possibly move. ■

Source: WGC, Federal Reserve Bank of St. Louis; graph *Dr. Polleit's* BOOM & BUST REPORT.

THE TECHNICIAN*

(a) Lindt & Sprüngli AG: *New all-time highs in sight despite increased setback risks*



The consolidation phase between December 2021 and October 2022 displays an internal zigzag pattern and can thus be labelled as a classical 4th wave setback so that we'd conclusively be dealing with the completing 5th wave advance since, which is equivalent to the saturation phase in the Dow theory. Projected wave 5 topping targets for this 5th wave advance cut in at 14.249 and at 17.462, in case we'd be dealing with an extension within wave 5. But as most leading western indices like the S&P 500 are currently in their final stage of multi-decade up-cycles, the risk of running into a deeper setback is currently very high, which would most likely also increase the setback risk for Lindt & Sprüngli AG. But as long as the row of higher lows at 11.180 and monthly trend line support at 11.033 are holding, a deeper setback is not indicated. However, a break above 13.875.50 (2021 top) is needed to escape the threat of only performing a countertrend rally. ■

(b) Shanghai Composite: *The most promising index based on a completed triangle*

The consolidation triangle in play since the 2007 top was marked at 6.124 is the dominant theme in the big picture and the base for my idea that this index could become the absolute outperformer over the next 2-3 years. For this bull view to stay intact, it is essential that preceding lows at 2.635 and at 2.441 are defended. Stabilization in the 2.745 (internal 76.4 %) area would now reinforce the view that the classical 5-legged triangle has indeed been completed at 2.635 in February. But it takes breaks above 3.123 (monthly trend) and 3.174 (last top) to receive confirming evidence that a new, long-term uptrend has been launched. The final confirmation would be given via breaks above 3.918 (c = a) und 4.038 (upper triangle), whereas breaks below 2.635 and 2.441 would question the bull view and would only leave 2.304 (lower triangle) to still prevent a much deeper setback. ■

*An analysis of Thomas Anthonj. Thomas has 40 years of experience in trading and analyzing financial markets across all asset classes, having worked in research for JPMorgan in London from 2009 to 2021. After that, he founded his own company, "STA-Systematic Trade Advice GmbH" (www.sta-anthonj.com), which offers trading strategies based purely on technical analysis. You can reach Thomas via email at ta@sta-anthonj.com.

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German language editions	4. April 2024	Gold weiter im Aufwind: Bauen Sie Ihre Positionen auf und aus │ Inflation kommt runter, Zinsen auf dem Rückzug │ Was Sie über Risiko beim Investieren wissen müssen │Aktienmarkt-Kompass: *Moody's Corporation*
	18. April 2024	Krisen, Krieg und Crash – was Anleger im Auge behalten sollten │ So beurteilen Sie, ob Sie mit Ihren Aktien richtig liegen │ Goldpreis steigt weiter: Es lohnt sich immer noch, auf das gelbe Metall zu setzen │ Aktienmarkt-Kompass: *Green Brick Partners, Inc.*
	2. Mai 2024	Die Achillesferse des Fiatgeldsystems │ Die entscheidende Frage, die Sie sich als Investor stellen sollten │ Menetekel im FX-Markt? Der japanische Yen stürzt ab │ Goldrausch geht weiter – bleiben Sie „Gold-Long" │ Aktienmarkt-Kompass: *Berkshire Hathaway Inc.*
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	30. Mai 2024	Der Prometheus-Effekt: das dröhnende Schweigen über das Fiatgeld │ „Kicking the can down the raod" – die US-Schuldenkonjunktur geht weiter │ Der Goldpreis, der Zins – und was man aktuell daraus ableiten kann │ Darauf sollten sie schauen: Gewinn-pro-Aktie │ AKTIENMARKT-KOMPASS: *Visa, Mastercard & Co* │ DER TECHNIKER: S&P 500 und USDJPY
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	11. Juli 2024	Die Wurzeln des „Great Reset". Oder: Warum der Neo-Sozialismus noch lange nicht besiegt ist. │ Der Zinssenkungszyklus: Wieso er schneller kommt und tiefer geht, als viele denken. │ "Den Teufel spürt das Völkchen nie, und wenn er sie beim Kragen hätte." Aufwachen, ihr Fiatgeldbenutzer! │ Warum Crash-, Hausse-, Boom-und-Bust-Prognosen so oft enttäuschen (müssen). │ AKTIENMARKT-KOMPASS: *PayPal Holdings, Inc.* │DER TECHNIKER: PayPal Holdings, Inc. und USDCNY
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