Dr. Polleit's

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FOR INVESTORS WHO REALLY WANT TO KNOW

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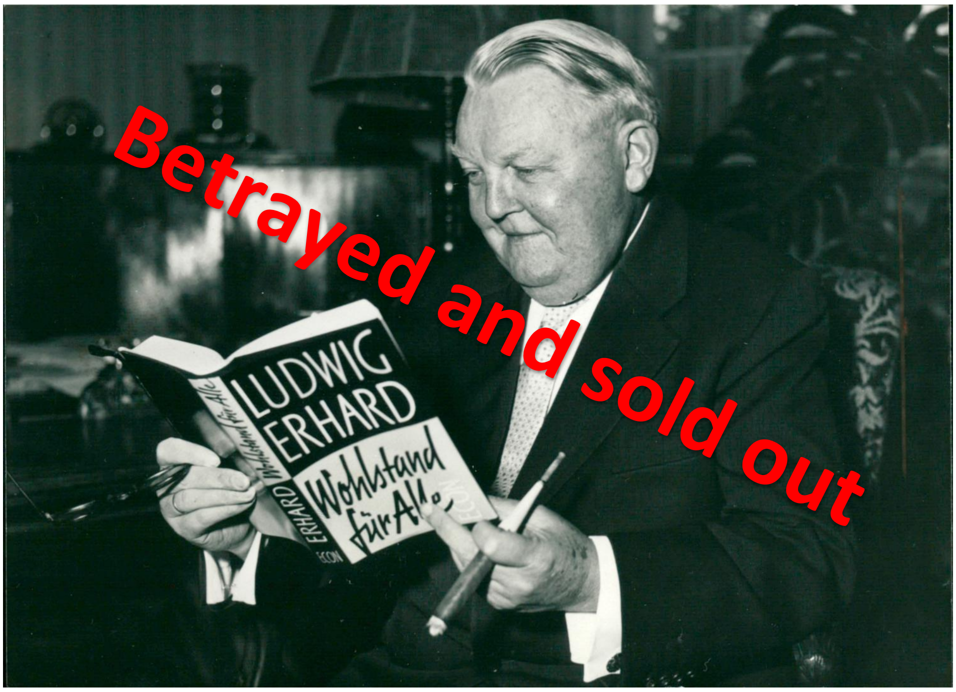
TOPICS IN THIS ISSUE:



Ludwig Erhard (1897–1977)

UNMASKING THE HIDDEN PLAN: THE WESTERN WORLD IS ON THE ROAD TO NEO-SOCIALISM

"Prosperity for All," is the title of the 1957 book by the German free-market economist Ludwig Erhard (1897–1977), the first Minister of Economics of the Federal Republic of Germany and its second Chancellor (1963–1966). In his seminal work, Erhard vividly explains how an economy becomes wealthier, and how this wealth benefits the population at large. According to Erhard, a free economy brings material prosperity. (It should be noted here for completeness that Erhard advocated the prevention of cartels and monopolies.) Erhard wisely pointed out that economic well-being and peace, both nationally and internationally, do not come naturally. Rather, ongoing economic growth, the increase in material prosperity, and social and cultural progress, are the result of rational human design.

Anyone who understands the economic foundations of prosperity and peace—especially as Erhard tirelessly explained them—, and who looks at the economic and political developments in the Western world must inevitably conclude that (1) Erhard's teachings are not being followed, quite the opposite is happening. And this explains why (2) economic prosperity, with all its societal and cultural achievements, is actually in decline, and the danger to peace worldwide is seriously increasing.

All this is not due to the "failure of free markets" or "capitalism," but rather to the unchecked rise of states (as we know them today), which are increasingly intervening in the economic and societal system. In recent years, an increasingly market-sceptical, even market-hostile mindset, the ideologies of collectivism-socialism, and more recently, even Neo-Marxism, Neo-Feudalism and Neo-Fascism concepts, have been gaining ground. These intellectual currents, which have a bearing on, and shape, current policies, are usually not, or only very difficult, to identify by the general public—because they are either not understood by the political actors or deliberately concealed. However, all of these ideological currents unite and manifest in an "anti-capitalist mentality." Think, for example, the ideas of the "Great Reset", the "Great Transformation" or the "New World Order."

"Neo-Feudalism is what some social scientists call ... the introduction of feudalism-analogous organizational forms in a modern economic, political, and societal order, which can no longer be characterized as capitalist, market-based, competitive, and democratic."

—Wikipedia (accessed on Sep. 28, '24)

Generally speaking, there are a couple of factors that contribute positively to an economy's growth performance:
(1) Property. – Property means that each person is the owner of themselves, has self-ownership of their body, and that they are also the owner of goods acquired in a non-aggressive way—through first possession ("homesteading," i.e., taking possession of goods previously claimed by no one else), production or exchange (including gifts). Property induces people to economize scarce resources and act responsibly, as the property owner enjoys not only the profits of his actions but also bears the costs that result from it.
(2) Division of labor. – People, when endowed with at least a minimum intelligence, sooner or later recognize that it makes sense for them to engage in a division of labor with their fellow people. Each person specialises in the goods they can produce at the relatively lowest costs. Then, the goods produced through the division of labor are exchanged. This allows for increased productivity: Everyone benefits compared to isolated production. The principle of the division of labor is—and this needs emphasizing—the core of economic progress. It also creates peaceful bonds between all participants involved, nationally and internationally: Everyone sees the other as being helpful, supporting them in improving the state of economic affairs. The division of labor is therefore not only a driver of prosperity, it is also a peace program for humanity.
(3) Free markets, free competition. – Free markets and free competition mean that everyone has the chance to offer their products to their fellow human beings, and that buyers are also free to demand the products that best meet their wishes, having the opportunity to reject unwanted offers. And new suppliers are free to enter into existing markets at any time, competing with established producers. New suppliers have the chance to push competitors out of the market.
(4) Free price formation. – Prices serve as signals. For instance, if the price of a good rises, it signals increased scarcity of the good in question. This, in turn, prompts consumers to use the scarce good more sparingly; and it motivates entrepreneurs to increase the supply of the scarce good, counteracting the price rise. Conversely, if the price of a good falls, it indicates that the good in question is relatively abundant, and that it may be more efficient to produce other goods. The free price formation makes sure that the most urgent needs of consumers are satisfied first.
(5) Profit and loss principle. – In free markets, those make a profit who sell goods that their fellow human people voluntarily wish to buy, and do so at prices that exceed production costs. In this sense, entrepreneurial profit is a reward for satisfying customer desires. If customers do not buy the goods offered, entrepreneurs incur losses. Consequently, their capital is proverbially transferred to other, better hands: namely to the entrepreneurs who, from the perspective of consumers, offer better goods. The profit and loss principle thus ensures that scarce resources are allocated to the best producer, making sure that consumer needs are met optimally: that goods are provided in the best quality at the lowest prices.

(6) Sound Money. – In modern economies with an extensive division of labor, money must be used for economic calculation. Because only with money is it possible to meaningfully estimate the profitability of various, competing uses of resources. For instance, businessmen make profitability calculations, which use monetary prices. If the production of a product requires many different intermediate inputs (such as energy, transportation, rent, wages, etc.), the associated costs can be expressed, calculated, and compared only in terms of money prices. Without money and money prices, economic calculation and thus a highly developed modern economy would not be possible. However, money must be of "good quality." It must not "inflate," i.e., lose its purchasing power, especially not suddenly and unexpectedly. An inflationary money complicates economic calculation, leads to poor entrepreneurial decisions and mal-investments, harms growth and employment.
It is not difficult to provide examples that show how the state (as we know it today) and its representatives are damaging or destroying the economic foundations of prosperity and peace. Private property is increasingly relativized and undermined. For example, businessmen find their room of manoeuvring increasingly re-

stricted by regulations and laws; taxation, in particular, hinders the accumulation of property, sometimes makes it impossible to retain property. Likewise, the division of labor is hindered. The state, for example, imposes minimum wages, restricts free trade with other nations (through tariffs, for instance), or even prohibits it outright (e.g., "Russia sanctions"). However, when the division of labor is disturbed or rendered impossible, this foreseeably has negative consequences for the peaceful coexistence between nations. As already mentioned: The division of labor is actually a peace program, and reducing the level of the division of labour among men leads to conflicts, even increasing the opportunities for governments to initiate and wage wars. Free competition is increasingly undermined by state regulations that make market entry for new competitors difficult or impossible.

Also, there is no longer free price formation in many markets: Taxes, changes and fees distort market prices, and scarce resources are no longer consistently directed to their most urgent uses. What is more, the states increasingly intervene in the profit and loss principle, for instance, by subsidizing politically desirable industries, preventing the market exit of less efficient producers. Last but not least, states systematically debase the currency: Their fiat money is inflationary, it leads to increasingly severe financial and economic crises, and it pushes the economies into over-indebtedness. Experience shows: When money is becomes increasingly inflationary, the creation of wealth suffers, and societal cohesion, morality, law, and security decline. Above all, the relentless crises caused by fiat money are exploited by the state to grow larger and more powerful. The reason: The cause of the crises is falsely blamed on the free market system, and not on state intervention. Deliberately exploiting an incorrect diagnosis, the state introduces new measures to allegedly prevent crises in the future: more regulation, more prohibitions, more taxes, and, by no means less important, even lower interest rates and even more credit and money. However, this at best masks the problems, but the truth is that it exacerbates them. The seed for future crises is sown, allowing the state to intervene even more in the economic and societal system, and over time the few remaining freedoms and liberties of citizens and entrepreneurs diminish, eventually disappear altogether.

Where is the Western world headed? As things stand, it is moving toward a kind of neo-socialism. The state (as we know it today: *a territorial monopoly of coercion for all ultimate decisions in its territory, endowed with the right to tax*) becomes ever more powerful, intervening more and more in actually all walks of peoples' lives. At the same time, the state increasingly aligns itself with large industries (Big Business, Big Banking, Big Tech, Big Pharma), expanding its sphere of influence, shaping education, influencing the media according to its own objectives. For many, however, this ominous path may not be readily apparent. Friedrich August von Hayek (1899–1992) foresaw this, though. He wrote in 1960: *"... socialism as a deliberately pursued goal has indeed been generally abandoned, but it is by no means certain that we will not establish it anyway, albeit unintentionally. The reformers, who limit themselves to the methods they deem most effective for their specific purposes and do not pay attention to what is necessary to maintain an effective market mechanism, are easily led to exercise more and more central control over economic decisions (even if private property may nominally remain), until we end up with exactly the system of central plan ning that few consciously wish to establish today. Furthermore, many of the old socialists seem to have recognized that we have already drifted so far toward the welfare state that it now seems much easier to continue in this direction than to push for the discredited nationalization of the means of production. They seem to have realized that with increased state control over the nominally private industry, they can more easily achieve the redistribution of income, which was the real goal of the more spectacular expropriation policies."*

Friedrich August von Hayek (1899–1992)

The "Great Reset" agenda of the World Economic Forum (WEF) or the UN's "**Agenda 2030**" are perhaps the most obvious evidence of the "anti-capitalist mega-project" – essentially an "Anti-Ludwig-Erhard Plan" – that has been rolled out worldwide in recent years. The central idea is that people are no longer supposed to be in charge of their own lives within a system of free markets, be self-determined, but subdued to a global system of control and management. At the same time, the growth of economies shall be slowed, increases in production and consumption be reduced – something that can be termed "eco-socialism," led by a politically selected elite that operates under different rules than the general public (they no longer represent). Many individual steps are being taken toward reaching this goal: strengthening "public-private partnerships," moving away from fossil fuels, increasing energy and food prices, introducing central bank digital currencies (CBDC) and digital (vaccination) passports, reducing population growth, or even decreasing the number of people on the planet. From an economic standpoint, the decline of prosperity and the threats to world peace can be unambiguously identified and pointed out: It is the departure from the system of free markets and free competition, the growing relativization and erosion of property, law, order and security; it is the relentless rise of the state (as we know it today). In the age of digitization, global narratives, accompanied by deep-seated and wide-spread anti-capitalist mentality that systematically discredits the ideas of free markets and free competition, this is no doubt particularly concerning. The crucial question is: What needs to be done to stop and reverse the destruction of prosperity and peace in the West? If we do not want to rely solely on a happy coincidence, there is nothing left but to engage in "enlightenment": to explain to people the great possibilities that free markets offer, and to point out the destruction that arises for prosperity and peace if the state continues to expand, is not pushed back.

If "Prosperity for All" is the goal, the recommendation is really to push back and scale down the state and its interventions to the greatest extent possible. Incidentally, there is a strong incentive even for those who believe a great (a super) crisis can no longer be averted to engage enlightening their fellow people: Because even in the deepest crisis, it is essential to correctly interpret why the crisis had occurred, and how get out of it. And since people do not necessarily learn from their mistakes, there is little reason to put too much hope in pathological learning.

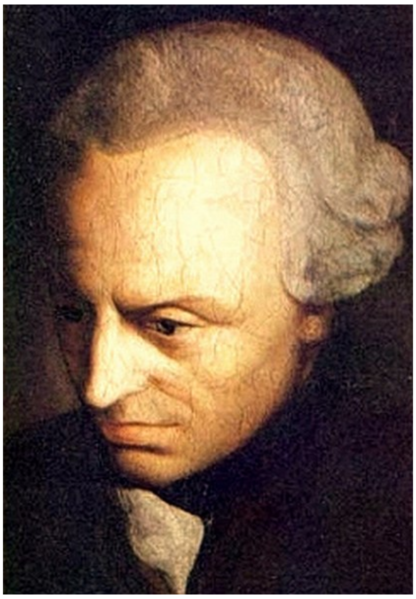
Therefore, if people want to achieve what Ludwig Erhard once recommended – namely "Prosperity for All" –, the strategy of enlightenment is indispensable.

What does all this mean for the investor? The likelihood that the Western world will continue to evolve into a kind of neo-socialism with fascist elements ("Public-Private Partnership") is quite high –, before there is (after "purification" and "enlightenment") any chance of improvement. For the time being, therefore, *Dr. Polleit's* BOOM & BUST REPORT expects the following in the short-term: (1) As states and their representatives keep pushing for the "Great Reset," central bankers lower interest rates further – which currently appears acceptable to many, since officially reported inflation is on the decline. (2) Official inflation will likely continue to recede further, well into the coming year. This gives central bankers carte blanche to push inflation-adjusted, that is real, short-term interest rates again below the zero line. (3) The governments of the Western world will do everything they can to avoid a severe economic contraction – because it would reveal the true costs their "global agenda" imposes on the people and provoke quite some resistance. Governments will deliver not only interest rate cuts but also new debt-financed spending programs, which they will pay for with newly created fiat money. The result will be a return to a period of elevated goods price inflation (probably from the end of 2025/beginning of 2026) and even more intrusive and powerful states.

Against this backdrop, investors have good reasons to keep as little fiat money as possible, hold liquid means in gold and silver, and remain invested in the stock market (preferably in selected companies with inflation-resistant business models). Precious metals immunize against the loss of purchasing power in fiat currencies and a potential default risk in the banking sector. Investing in companies with inflation-resistant business models promises not only protection against the losses that result from the debasement of fiat currencies. The investor also participates in the economy's productivity gains (if there are any) which, in turn will be reflected in dividends and/or rising stock prices. ■

"The stock market is a device to transfer money from the impatient to the patient."

—Warren E. Buffett



Immanuel Kant (1724–1804)

"In a republican system it must be the citizens, who are all legally on a par, who decide 'War or no war?', and in answering that they have to contemplate all calamities of war, in which they would have to fight, pay the costs of the war out of their own pockets, painfully repair the devastation war leaves behind, and, load themselves with a heavy national debt that would embitter peace itself and could never be amortised because of constant further wars. Faced with all that, it is utterly natural for them to be very cautious about getting into such a dangerous game."

"On the other hand, in a non-republican political system in which the subjects are not citizens, it's the easiest thing in the world to decide to declare war. The ruler isn't a member of the state—he's its owner—and a war won't cost him the least sacrifice of the pleasures of his table, his hunting, his country houses, his court functions, and the like. So he can decide on war for the most trivial reasons, as though it were a pleasure party, casually leaving it to his ever-ready diplomatic corps to come up with 'reasons' that will make the war seem respectable."

Perpetual Peace, 1795

THE IMPORTANCE OF BUYING CHEAP – AND THE MEANING OF THE INVESTMENT HORIZON

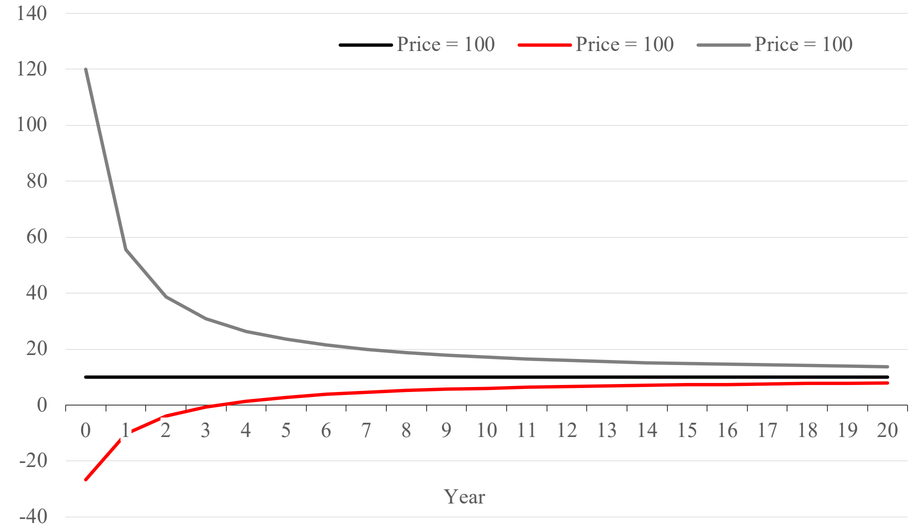
"Buy cheap, sell high" is particularly relevant and important in investing. When you buy something cheap, acquiring it below its "true value," you can later sell it at a higher price. However, the time span between purchase and sale—meaning the investment horizon—also plays a rather significant role for the investment success. Let's clarify this with a simple example. Imagine a company with a capital of 100 US$, which generates a return of 10 per cent each year. The company reinvests all profits each year and does not pay out any dividends. Let's also assume that the company's business ends after 20 years. Figure 1 shows the company's value over time. As can be seen, 100 US$ today become 672.55 US$ after 20 years. The exponential increase in the value of the company over time is clearly visible: It is the result—or rather, the *magic*—of the effect of compound interest.

Now let's assume that the market interest rate is also 10 per cent. If we were to discount the company's (terminal) value in year 20 back to the present by using this interest rate, we would arrive at a present value of 100 US$. So, if someone buys the company for 100 US$, he achieves a return of 10 per cent per year over the entire investment period. But what happens if the company is bought for, say, 150 US$? In this case, you pay "too much": you pay 150 US$ for a company with a capital of 100 US$, which has a 10 per cent return per year. After the first year, the company's value is 110 US$, and since you paid 150 US$ for it, the return is minus 26.67 per cent. In the second year, it is minus 10.19 per cent, in the third year minus 3.9 per cent, in the fourth year minus 0.60 per cent, and by the fifth year, the return becomes slightly positive, at 1.43 per cent (see Figure 2). At the end of the 20 years, the return on this investment is 7.79 per cent per year—it is positive but significantly below the market interest rate of 10 per cent per year that could have been achieved alternatively.

And what happens if the investor can buy the company for 50 US$ (because sellers are panicking and want to sell at any price)? For the investor, this would be a very attractive investment! Their return after the first year is 120 per cent per year, after the second year 55.56 per cent, after the third year 38.59 per cent, and after the fourth year 30.81 per cent. That said, it becomes obvious that the investment return is significantly above the alternative market interest rate of 10 per cent each year. After 20 years, the investment return is 13.88 per cent per year. The return for the investor who bought "cheap" was, of course, higher from the beginning than the company's own capital return (and in this example, also higher than the market interest rate). However, this advantage dwindles over time, year by year. The investment return converges toward 10 per cent (the company's internal return on investment) but remains slightly above it. In contrast, the return for the investor who bought at an expensive price never reaches the 10 per cent return per year over the entire investment period. Yet, the initial error and

2 „Buying cheap" pays off …

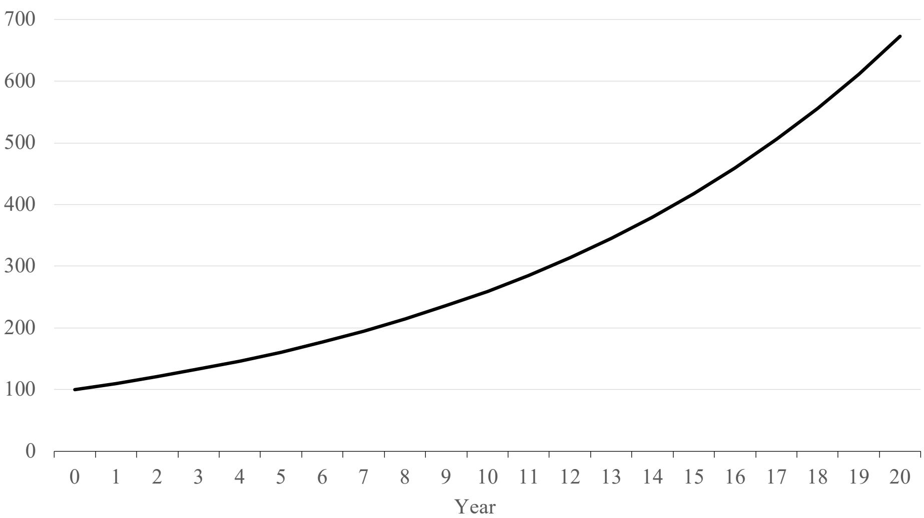
*Return on investment in per cent **



Source: Calculation and graph *Dr. Polleit's* BOOM & BUST REPORT. – * Initial capital 100 US$, return on capital 10 per cent p.a., profits are reinvested in full, end of profit series in year 20.

1 The secret of compound interest …

*Value of the firm in US$ **



Source: *Dr. Polleit's* BOOM & BUST REPORT. – *Initial capital of the company is 100 US$, capital return of the firm is 10 per cent p.a., profits are fully reinvested, end of profit series is in 20th year.

the associated disappointing returns diminish somewhat over time; his return becomes positive and moves toward 10 per cent, without ever reaching it, though. What can investors learn from this simple example? There are mainly three takeaways:

(1) The price at which a stock is purchased fundamentally determines thee return on investment. There is no doubt about that. Therefore, investors are well advised to ensure that they do not buy a stock at too high a price. If you as an investor succeed in buying "cheap," then you are already on the safe side.

(2) For those who have bought a great company at an expensive price, time will come to your rescue: The longer the investment horizon, the less severe the impact of the mistake of buying too expensively will be on your investment return. If you have bought a stock at a low price, it may be worthwhile for you to shorten your investment period, searching for new and attractive companies, trying to achieve "excess returns" in this way.

(3) If you accidentally buy a "bad company" that fails to achieve the expected return on capital or even goes bankrupt, you will suffer significant losses. In such a case, of course, the losses for investors who bought "too expensively" will be greater than for investors who (erroneously thought they) had bought the stock at a cheap price. Therefore, it is of utmost importance to carefully select the companies in which one would be willing to invest – to achieve a high return on capital and avoid unpleasant surprises. ■

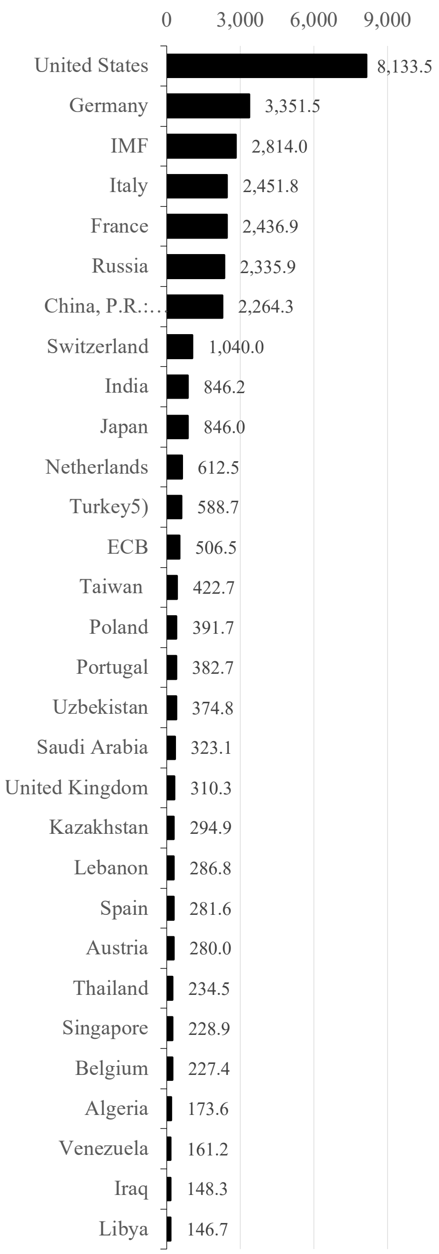
Dear readers,
Perhaps there is a (financial) topic that is of great interest for you, one that you would like to be discussed?
If so, please write to
Dr. Polleit's
BOOM & BUST REPORT
at *boombustreport@gmail.com.*
We look forward to your email!

WHAT IF THE BRICS GO FOR GOLD MONEY? WHAT WOULD IT MEAN? SOME INITIAL THOUGHTS

On 20 September 2024, we received the following email from one of our readers: *"A great number of gold reserve nations are critical of the dominance of the US dollar. As their growing holdings of gold show, these countries are increasingly trying to decouple from the US dollar. Let's assume that one not-so-distant day, around 20 countries decide to (re)introduce the gold standard for their currencies. What impact would this have on money, gold, and foreign exchange markets – also for the countries not participating in the 'gold rebellion'? What would be the advantages or disadvantages for the 20 'new gold countries'?"* Thank you for your questions! They address a truly significant topic that, unfortunately, cannot be fully covered in a single article. However, some initial thoughts can certainly be put forward. To start with, it should be noted that the BRICS nations (Brazil, Russia, India, China, South Africa plus the new club members Egypt, Ethiopia, Iran, and the United Arab Emirates) are not aiming to provide the world with "better money." Their goal is to dethrone the US dollar, pushing back or even breaking its dominance. But could gold-backed currencies in the BRICS bloc—or even a unified BRICS gold currency—be a way to genuinely challenge or end the US dollar's supremacy?

Let's start with a look at the data. In the second quarter of 2024, global official gold reserves stood at just over 36,000 tons. The 30 largest gold holders collectively held 32,897 tons, thus accounting for 91.4 per cent of the world's official gold reserves (see Figure 3). The United States was by far the largest holder, followed by Germany, the International Monetary Fund (IMF), Italy, and France. The euro area as a whole has official gold

3 The 30 largest holders of gold reserves in tons, second quarter 2024



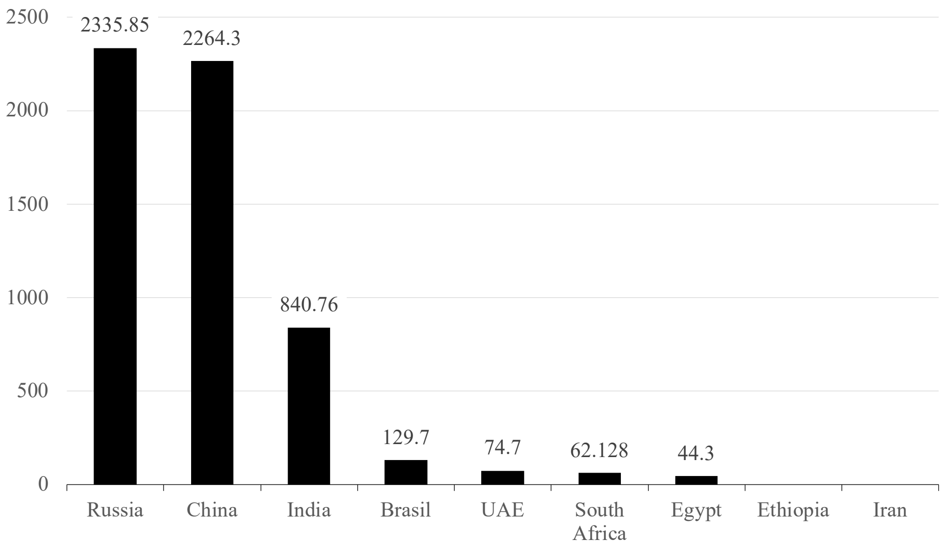
Source: WGC; graph *Dr. Polleit's* BOOM & BUST REPORT.

reserves of 346.28 million ounces. Figure 4 shows the gold reserves of the BRICS: Brazil, Russia, India, China, South Africa plus the new members, the UAE, Egypt, Ethiopia and Iran (the latter two having no gold reserves). Together, the BRICS countries hold 5,751.7 tons of gold, that is approximately 16 per cent of the world's official gold reserves, with the largest reserves held by Russia and China. Given these figures, one can already see a kind of "gold dominance" of the West, particularly of the US.

What is more, establishing a gold-backed

4 BRICS have 5.752 tons of gold, 16 per cent of the world's official gold reserves

Gold reserves of the BRICS in tons



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

currency, or returning to a gold standard, is possible if there is political will. However, depending on its concrete design, a return to a gold-backed currency could cause enormous, even massive, economic and political disruption. The crucial question is how exactly the re-anchoring of fiat currencies to gold would look like. There are various scenarios to consider. Here are a few examples: (1) The outstanding quantity of fiat currency is made redeemable in the physical gold stock held by the central bank. In this case, one must decide: (1a) Should the base money supply or (1b) the broad money supply of commercial banks be redeemable in gold? (2) The quantity of fiat money is just formally tied to the central bank's gold at a politically determined price, but there is no obligation on the part of the central bank to redeem fiat money against gold. (3) The government and its central bank restrict circulating gold money to coins (and bars) minted by its own mint. Or (4) gold is officially declared money, and the market for gold money and free gold minting is fully liberalized.

These examples already indicate how difficult a forecast of the effects of reintroducing a gold-backed currency would be from today's perspective. Let's consider the case using US data (1). As of September 2024, US cash stood at US dollar 2.352 trillion. The US Treasury and the Federal Reserve's official gold holdings amount to 261.5 million ounces. A 100 per cent gold-backing for US cash would thus result in a market price of about 9,000 USD per ounce of gold. Compared to the current gold price of approximately 2,660 USD per ounce, this would represent a rise of around 238 per cent. If the entire US M2 money supply (cash and deposit money) were backed by official US gold reserves, the price of gold would be about 80,960 USD per ounce—a staggering 2,933 per cent increase compared to the current price.

Such a massive revaluation of gold would have far-reaching consequences. Domestically, it would lead to a far-reaching redistribution of income and wealth. Gold holders would dramatically gain in purchasing power. And as they spend their gold (on consumer goods as well as stocks and houses), prices for these goods would rise sharply. Thus, the initial purchasing power gain that gold holders experience through a rise in the official gold price would erode over time. The one-off price effect of revaluing gold in US dollar terms would be even more pronounced if US banks were willing to accept additional gold, for example, from abroad, in exchange for issuing new US dollar deposits. Higher prices for goods would reduce purchasing power in US fiat money and the real value of US denominated debts, thereby easing the burden on debtors. And since the credit supply could no longer be expanded at will in the new gold money regime, interest rates would (at least temporarily) rise sharply. Many debtors, especially governments and banks, would presumably go bankrupt. The prices of assets would fall, leading to a deep recession.

The BRICS nations would not be immune to the effects a return to backing official currencies with gold would cause. Especially so because many of them have relatively large fiat money supplies compared to their official gold reserves, meaning their currencies would likely experience a particularly sharp decline in both internal and external purchasing power (if backed 100 per cent by their respective central banks' gold reserves). The exchange rates of these currencies would most likely plummet against the US dollar (in this context see the comments in the adjacent box).

If the BRICS were indeed the first to introduce a gold currency, we could expect reactions from other nations. Western countries might also decide to reintroduce gold-backing for their currencies. Essentially, the currencies with the highest gold coverage ratios would appreciate, while those with relatively little gold backing would depreciate. The US, for example, could establish a relatively high gold coverage ratio. Thus, in the foreign exchange markets, the US dollar would likely appreciate significantly against all currencies not backed by gold to the same extent as the greenback. As a result, the purchasing power of Americans abroad would increase, and imports would become cheaper. However, the US exports would lose price competitiveness in international markets.

Moreover, under a true international gold standard, the US would no longer be able to sustain prolonged trade deficits, meaning it could no longer import more than it exports over the long term. Persistent trade deficits would lead to an outflow of gold out of the US, as gold would be used to pay for imports. This, in turn, would reduce the gold and thus the money supply in the US, thereby lowering US goods prices. At the same time, goods prices would rise in surplus countries receiving gold inflows. Consequently, the US trade deficit would shrink, and also the trade surplus in

A Return To Gold-Backed Currencies And Exchange Rates – A Calculation

We have made some calculations based on national gold reserves and outstanding money supplies to answer the question: Where would the exchange rate be if countries fully backed the money supply with their gold reserves? If the US M2 money supply and the euro area M3 money supply were backed by central banks' gold reserves, the gold price would be nearly 81,000 USD per ounce and about 47,500 euro per ounce. This would imply a depreciation of the US dollar exchange rate vis-à-vis the euro from the current level of around 1.12 to 1.70. If, however, the M1 money supply were backed by gold, the resulting exchange rate for EUR/USD would be 1.35. In any case, the US dollar's external value against the euro would fall considerably if the currencies were re-pegged to gold. Russia holds a relatively large amount of gold compared to other nations. However, the country also has a rather large nominal ruble money supply. The same is true for China: While the country has substantial gold reserves, it has also a rather huge yuan money supply. Both currencies—the ruble and the yuan—would therefore (likely) depreciate significantly against the US dollar in a scenario in which fiat currencies would be backed by official gold reserves; they would presumably fall far below current exchange rates (USDRUB is around 94, and USDCNY is about 7). This outcome might come to the surprise of many market observers! However, our calculations should be interpreted with great caution: The exchange rates that would emerge would, of course, be influenced by numerous other factors—such as the expected stability of the domestic banking system and the production and employment structure. However, what our numbers do suggest is that the US dollar should not be written off too quickly, given the relatively high gold reserves that the Americans (officially) still hold relative to the US dollar money supply. ■

other economies would decrease, effectively reshaping the international division of labor and capital structure.

These few considerations might illustrate that a switch from fiat money to a gold-backed currency system, as briefly outlined in this essay, would foreseeably lead to massive economic, financial, and political upheaval. At the same time, the specifics of how a return to gold backing is implemented would be crucial—the devil is in the details, so to speak. However, one thing can be said with certainty: The purchasing power of fiat currencies and the debt obligations denominated in fiat money would be severely eroded. ■

There is no "Gold Shortage"

It is often claimed that the available gold is insufficient to establish a global gold-based monetary system. The argument is that there simply isn't enough gold. However, this is an economically incorrect conclusion. A gold-based monetary system can be created with any available amount of gold, no matter how small. The actual quantity of gold available is only significant for two reasons. (1.) If the nominal amount of fiat money is very large relative to the central banks' gold reserves, the gold price at which fiat money could be exchanged for gold would be set very high, and the purchasing power of fiat currencies would drop sharply. (2.) With a relatively small amount of gold reserves available, a rather limited number of gold coins would be in circulation. Instead, people would use "money certificates": these certificates would be issued by gold depositories, serve as money, and could be fully redeemed for physical gold at any time by the issuer. Therefore, a "gold shortage" would not occur. Moreover, it is important to consider that once gold is used as money, gold mining production would increase. Additionally, gold that had not previously been used for monetary purposes would be converted into money. Both factors would increase the gold supply, allowing it to grow over time in accordance with market demand. ■

THE BITCOIN REVOLUTION – PART 3: WHY OUR MONEY NEEDS SOME SORT OF INTERMEDIATION

Most people understand very well what money is: It is the generally accepted medium of exchange. However, the term "intermediation" may perhaps require some explanation. An "intermediary" is the "middleman," the one who mediates between parties. For example, real estate agents are intermediaries: They bring together buyers and sellers (and earn a fee for doing so). Banks that typically do not engage in money creation such as, say, building societies and mortgage banks, can also be called intermediaries. They transfer their customers' money to borrowers. (We won't delve into the issue of commercial banks creating new money through lending here.) From everyday experience we know that people don't wish to carry all their money with them. Instead, they prefer to keep only a relatively small portion of their wealth in the form of cash (coins and notes). Most people entrust their money holdings to an intermediary — such as their local bank. Banks do not just process electronic payments for their customers. They also serve as custodians, securing and insuring the money held in their customer accounts. There is plenty of evidence that custodial and security services are in high demand by money holders. That said, people voluntarily seek money that can be *intermediated* (otherwise they would only hold and use cash).

Intermediated money, however, implies that the account holder is known to the bank, is not anonymous, and that all his electronic transactions are potentially traceable by third parties. A customer must disclose their name and address to the bank, effectively "bearing it all," especially if they seek credit. And when the bank allows the state to investigate customers' transactions, financial privacy is no longer guaranteed. Nonetheless, modern economies cannot function without intermediated money, particularly as far as credit markets are concerned. In the credit market, "specialists" emerge who have a clear understanding of credit demand and the associated risks of the lending business. They can offer suitable investment opportunities to those looking to invest their money. Naturally, the borrower must also be known to the lender, using their real identity, providing collateral that can be seized if they default. No sensible lender would extend credit without ensuring that the borrower can be held accountable in case of default.

Harwick, C., Cryptocurrency and the Problem of Intermediation, in: The Independent Review, Vol. 20, No. 4, Spring 2016, pp. 569–588.

If Bitcoin were to become a widely used medium of exchange, or even ascend to the status of money, we would expect a (growing) market for Bitcoin intermediaries. While dedicated Bitcoin enthusiasts often emphasize peer-to-peer transactions — i.e., transactions without intermediaries — many Bitcoin holders see it differently. A great number of Bitcoiners stores the coins with Bitcoin platforms (like Binance, Coinbase Exchange, OKS, and others). This means that the private keys for these Bitcoins are held by the platforms, not by the Bitcoin owners themselves. This indicates that many Bitcoin users demand intermediary services such as custody, and the wish to have the ability to trade Bitcoin most conveniently against fiat currencies.
Institutional investors seem particularly attracted to holding shares in Bitcoin Exchange Traded Funds (ETFs). For instance, the IShares Bitcoin Trust (IBIT) ETF currently has a volume of approximately $21.1 billion, while Bitcoin's market capitalization is around $1.2625 trillion. If Bitcoin is increasingly used for monetary purposes, it will likely involve intermediated solutions. One possible scenario is that Bitcoin depositories (such as the existing crypto trading platforms) issue Bitcoin substitutes that are fully backed by the Bitcoins stored in these depositories. The issuers of these substitutes would have to exchange them for Bitcoin upon request by the customer. However, in such a case Bitcoin would lose one of its key advantages: the anonymity of its owner, the anonymity of its owner's transactions. The owner and bis Bitcoin transactions would potentially come into the open. This could make other forms of money — especially a digital gold or silver payment system — relatively more attractive. It's hard to predict in advance which form of money people would choose if they had the freedom to select their currency. However, one thing is certain: The money must be capable of intermediation, as this is what is in the economic interest of most money users. Intermediation services represent a form of division of labor in the monetary system.
Ultimately, the answer to which type of money will prevail in the future can only be found in a free market for money—a market where you and I, and everyone, have the option to use the money that best serves our needs; and at the same time, in a free market for money we would each have the freedom to offer a good that others voluntarily demand as money. As long as states prevent a free market for money, however, we will have to wait for the answer.
That said, there is currently no reason to doubt Bitcoin's potential to perhaps become money in the future. However, there are also no compelling reasons to declare Bitcoin's victory just yet. The market environment required for intermediated money may actually make digitized forms of a gold- or silver-backed payment system serious competitors in the monetary landscape. ■

"A lot of people with high IQs are terrible investors because they've got terrible temperaments."

—Carlie T. Munger

+++++ The following statements do not constitute an offer to buy or sell securities.
They merely reflect the views of Dr. Polleit's BOOM & BUST REPORT. +++++

STOCK MARKET - GUIDE: *A SERIOUS WORD ON DIVERSIFICATION*

Every long-term investor should be aware that the relevant investment risk is the permanent loss of their invested capital (plus any returns on it). Their risk is not the short-term ups and downs of stock market prices, often referred to in lofty terms as "volatility" (see *Dr. Polleit's* BOOM & BUST REPORT, 4 April 2024). Price fluctuations can be tolerated (if you have strong nerves), but permanent capital losses should be avoided by all means.
A piece of advice that most investors have likely heard or read in this context is: "Diversify." In simple terms: "Don't put all your eggs in one basket" – so if you stumble, not all the eggs will break at once. It's safer, and therefore better, to spread the eggs across different baskets. This idea is the cornerstone of modern portfolio theory and has significantly influenced investment practice. Specifically, diversification means: don't put all your money into a single stock, bond, or currency, and don't invest everything in gold, silver, or even Bitcoin. But how valuable is this advice to diversify your portfolio?
Firstly, it's worth being critical of diversification. After all, many successful entrepreneurs haven't diversified much or at all; they've invested all their energy and wealth into their business. While that may be true, most of us (unfortunately) are not such 'successful entrepreneur types', and thus, we must be more cautious. A certain degree of prudence, foresight, and humility is advisable for most of us, and for that reason, the idea of diversification should not be dismissed outright.
Another critique of diversification is: if you diversify, it's because you don't really know enough about the investments you're making. However, there's a solid

argument against this accusation: Yes, it's true, you can't know everything in advance about what might happen to a company, no matter how much you analyze it. A company that is successful today could face problems tomorrow – due to better and cheaper competitors, the departure of key management, or new laws and regulations destroying its success. And since you can't know everything, it makes sense to ensure a certain level of diversification in your portfolio. But what does "a certain level" mean? There are two fundamental answers to this.

The first is: make sure your portfolio contains a little bit of everything – stocks, bonds, and real estate around the globe, as well as commodities and currencies like the US dollar, euro, and Japanese yen. With such a "world market portfolio", the investor will perform as well or as poorly as the average of all investors. However, creating a world market portfolio is complex and comes with increased (transaction) costs.

The second answer is: focus on what you understand relatively well, and then spread your money across a manageable number of what you consider to be the best opportunities in that field. *Dr. Polleit's* BOOM & BUST REPORT follows this second approach: we are assembling a portfolio of selected stocks – which will consist of no more than 15 to 20 stocks – while holding ample liquidity, preferably in the form of gold and a smaller portion of silver. Specifically, the recommended portfolio consists of 60% selected stocks and 40% liquidity (see, for example, *Dr. Polleit's* BOOM & BUST REPORT, 16 May 2024). This portfolio structure ensures a certain, though not excessive, level of diversification – after all, it's also possible to over-diversify. By focusing primarily on companies with relatively inflation-resistant business models, we believe the stock investments should continue to perform well in the coming years, especially as a resurgence of inflation can be expected. The relatively large portion of liquid assets, preferably held in gold and silver, also provides long-term protection against inflationary spikes and even offers the potential for real value growth. In this light, diversification, from our perspective, is not a simple yes or no question but one that should be taken seriously and tailored to the risks deemed relevant by the investor. The latest overview about our preferred stocks can be found in *Dr. Polleit's* BOOM & BUST REPORT, 19 September 2024. ■

Publication dates for *Dr. Polleit's* BOOM & BUST REPORT in the coming twelfe 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*
	…	…	…

GOLD AND SILVER PRICES

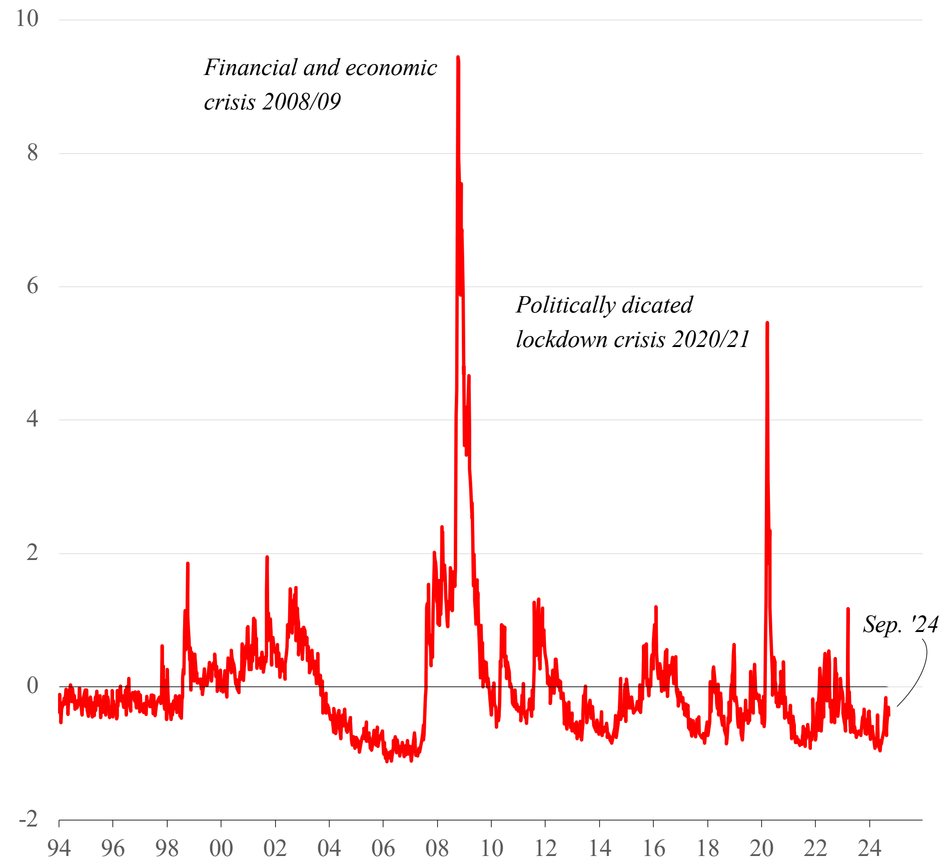
Gold and silver prices per ounce, actual and estimated			
	Gold	Silver	
I. In US dollar			
Acutal	2650	31.4	
End '24	2809	33.9	
Mid '25	2940	36.7	
*Change in %**	*11*	*17*	
II. In euro			EUR/USD
Actual	2383	28.2	1.112
End '24	2380	28.7	1.180
Mid '25	2670	33.4	1.100
*Change in %**	*12*	*18*	*-1*

Gold and silver prices in USD per ounce

Source: WGC, Bloomberg; graphic *Dr. Polleit's* BOOM & BUST REPORT. – Our estimates for the future prices of gold and silver are not based on the trend line in the chart above. The estimated trend line is to highlight the rather strong upward trend of the gold price in recent years.

YOU DON'T WANT TO MISS THESE CHARTS

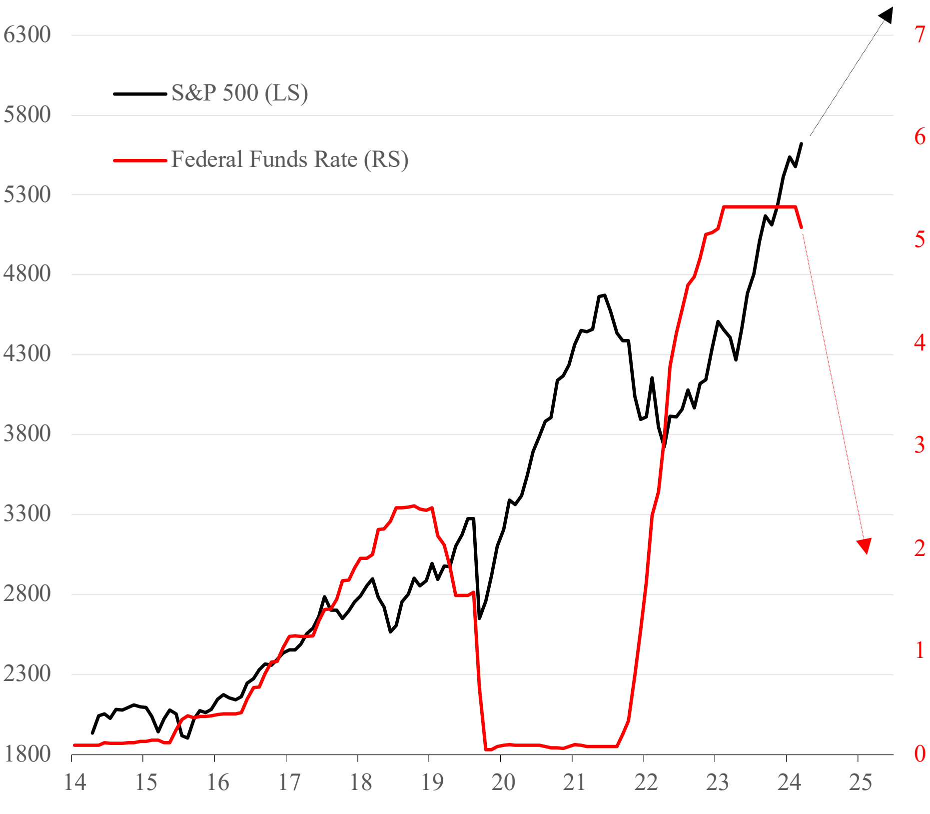
(a) Financial market stress indicator*



The "stress" level in the financial markets has remained relatively low—tensions are still significantly below the average level since 1994, as we can see. In other words, the markets are liquid, normal transaction volumes can be processed without problems, and new credit can be easily obtained. The reason for this "relaxation" is most likely the monetary policy of the US Federal Reserve: investors assume that the Fed will not let the markets collapse, that it will attempt to prevent a new crisis or keep the markets liquid and the economy running in the event of a downturn. As a result, market participants' risk aversion has been put to rest, likely driving prices further upward in financial and commodity markets. ■

Source: Federal Reserve of St. Louis; graph *Dr. Polleit's* BOOM & BUST REPORT. – *A rise (fall) in the series denotes a high (low) level of stress in the marketplace.

(b) S&P 500 stock market index and US Federal Funds Rate in per cent



Stock prices have trended upward in recent years, even though US interest rates have also generally risen. However, one should not conclude that interest rates have no impact or even a positive effect on stock prices. Investors now understand that the US Federal Reserve will support financial markets if problems arise. Moreover, the accompanying chart does not show that, in the long term, interest rates have been falling. This trend, along with the chronic expansion of the money supply, has been a driving force for stock prices. US interest rates can be expected to be significantly lowered in the coming months (see *Dr. Polleit's* BOOM & BUST REPORT, 19 September 2024), and the likelihood that a return to a more inflationary monetary policy will push drive stock prices upward is relatively high. ■

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

THE TECHNICIAN*

(a) Euro STOXX Banks: *Facing the risk of running into a 30 % setback*

The uptrend since March 2009 looks structurally complete, which is mainly based on the fact that the setback of 2022 from 495.46 to 379.72 almost exactly retraced 38.2 % of the preceding 3rd wave impulse (maturing phase), which is typical for an internal wave 4 setback. This implies that we were dealing with the completing 5th wave impulse (Saturation phase) since October 2022, which is already displaying a complete looking 5 wave structure in itself, so that the risk of running into a much broader down-consolidation appears to be very high. The latter would naturally retrace back to the last major bottom on the way up, which is the October 2022 low at 379.72. Negative divergences (MACD & RSI) in the monthly chart support the greater bear view, but only a break of the row of higher lows at 506.11 would provide a confirming warning signal. It would however take breaks below 474/73 and below 465 (Weekly trend/July 2023 high/Weekly trend) to confirm a scale jump in favor of a much broader setback. ■

(b) 10 year US yields: A setback to 1.5 % is imaginable within the next 1-2 years

Based on the 5-wave structure of the massive yield rise in between 2020 and 2023 from 0.33 % to 5.02 %, it is highly likely that we only saw the completed accumulation phase of a new, long-term uptrend. This implies that we are dealing with a much broader down-consolidation since, which would typically form a classical zigzag pattern (A-B-C). This consolidation phase would most likely last for another 1-2 years whereas the first leg (A-wave) tends to bottom somewhere in the area of the 50 % retracement (2.68 %), which regularly offers the base for the countertrend B-wave rally. Thereafter, the completing C-wave decline could be expected, which would naturally tray and reach the 76.4 % retracement at 1.44 %. This would most likely offer the last good opportunity to ask for a long-dated mortgage before the next and longer lasting yield rise would be due. ■

*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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