



## MAKING PLANS FOR NIGEL

"Trying to take this all in  
I've got one, two, three, four, five  
Senses working overtime"

-XTC, ['Senses Working Overtime'](#)

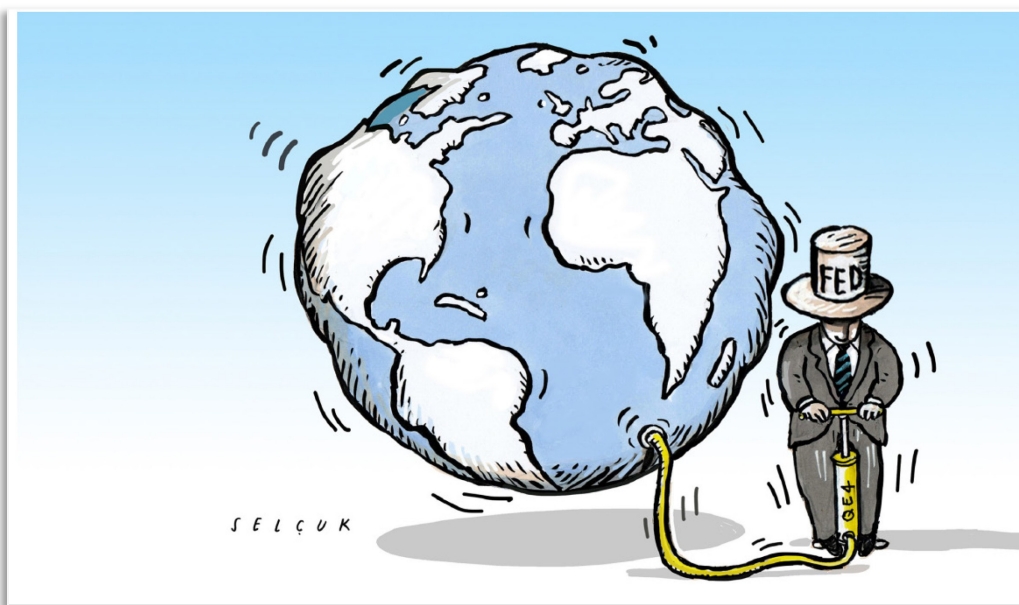




On behalf of the Kopernik team, our heartfelt condolences and prayers to those who have suffered sickness, pain, job loss, economic hardship, and, especially, loss of life.

I remember well the autumn of 2007, watching the financial system come crashing down around us. The Dow Jones Industrial Average was obviously hitting new all-time high levels. Flabbergasted, as the Wall Street party raged on, I penned the Weekend at Bernie's commentary, certainly the timeliest one in the 25 years I've been writing them. Twelve and a half years later, the ACWI Financials Index trades 48% below its 2007 peak and the ACWI Banks Index is down even further – 58%.

In 2020, things seem **much more serious than in 2007, as the entire monetary system trembles** under the weight of decades of gross mismanagement. This time, as the very “money” in which bonds are to be repaid undergoes massive, orchestrated debasement, it is the bond market that has surged to the highest prices in recorded history. **Much of the tens of trillions of dollars' worth of world sovereign debt sells at negative real yields; i.e. they are guaranteed to impose real economic losses over their duration.** À la Weekend at Bernie's, the party rages on, seemingly unaware of the fatal blow being dealt to the monetary system. After all, the Fed and government have promised to throw \$2, no \$4, make that \$6, did I hear \$8, trillion dollars into the system, most of it in support of the most expensive bond market of all time. Some of it will be used to resuscitate the collapsing economy. It's noteworthy that this collapse comes a mere two months after being at record strength.



*Pump it up until you can feel it.  
Pump it up when you don't really need it*

[-Elvis Costello & The Attractions, 'Pump It Up'](#)

(Artwork is from the incomparable WILTW, from 13-D Research. Elvis Costello lyrics were our addition)

Some even suggest that with this massive, globally coordinated, government/central bank intervention, we are witnessing the last legs of capitalism. Their case is compelling. The near future will provide more data, but let's start with what is known now. We know that “Big Brother” has come to our rescue and done so in mind-blowing fashion. As for our take on recent events, **we've got one, two, three, four, five senses working overtime. Trying to take it all in.**



To get a glimpse into the sensory overload, let's begin with this from Almost Daily Grant's:

*The Howitzer Chronicles (March 25, 2020)*

*In other words, "whatever it takes!" Before the opening bell, the Federal Reserve pledged to purchase Treasuries and mortgage-backed securities "in the amounts needed to support smooth market functioning and effective transmission of monetary policy to broader financial conditions." Minutes later, the Federal Reserve Bank of New York chimed in **with plans to buy \$75 billion in USTs and \$50 billion in agency MBS each and every day**, "subject to reasonable prices."*

*For context, the Fed bought \$75 billion in Treasuries per month under the so-called QE2 program of 2010 to 2011, and \$40 billion of mortgage backed securities per month in the 2012 to 2013 QE3 program. The newly announced weekly pace of \$375 billion of Treasury and \$200 billion of MBS purchases would add roughly 15% and 18%, respectively, to the central bank's current holdings of each asset class. That is, per week.*

*And that's not even all. Beyond ramping up those existing strategies, the Fed is expanding its QE into different realms, announcing the establishment of a pair of facilities, one directly lending to new corporate debt issuers and the other to a so-called special purpose vehicle which will then purchase corporate bonds on the secondary market (issues must be rated investment grade by at least two agencies and mature in five years or less) as well as ETFs which "provide broad exposure" to the investment-grade bond market.*

*Step aside, Mr. Market. Uncle Sam is buying you out. (emphasis added)*

Grant's Interest Rate Observer quotes Evercore ISI thusly – "officials worldwide have floated 168 stimulus measures over the past eight months." Elsewhere, surely most of you have seen the following headline:

## **Kudlow, Mnuchin Hail \$4 Trillion Market Bailout through the Fed, as Part of \$6 Trillion 'Stimulus Package'**

Yes – that is trillion with a T. Scuttlebutt suggests that an additional \$2 trillion is on the way for infrastructure, extra pork, and whatever else they can come up with. \$8 Trillion!!! Although, most importantly, **they've made it clear that the ultimate amount of money printing will amount to "whatever it takes!"** As to how much it is likely to take, the Austrian economists have been warning us for decades that once money printing commences in earnest, it must continue exponentially to postpone an asset price collapse. For continued evidence that central bankers view us as being past the point of no return – keep reading.

From the *LA Times* (March 26, 2020):

**You might get \$1,200 from the \$2-trillion stimulus bill. What will special interests get?**

- A \$17-billion loan for aerospace giant Boeing, which was struggling long before the coronavirus pandemic
- Lower capital reserves for small banks, a longtime goal of their lobbyists
- Federal tax breaks for restaurants, grocery stores, and other retailers that would let them write off renovations
- \$75 million in grant money for the National Endowment for the Arts and the National Endowment for the Humanities to award



- A provision that speeds up the FDA's review of over-the-counter drugs and sunscreen
- Tax provisions for wealthy real estate investors (potentially including the president and his family)
- \$500 billion in loans from the federal government to distressed businesses, states, and local governments

**From CNBC (March 25, 2020):**

[What's in the \\$2 trillion coronavirus relief plan?](#)

- One-time direct payments of up to \$1,200 for individuals and \$2,400 for couples
- \$25 billion in grants to airlines and \$4 billion to cargo carriers for payroll expenses
- Another \$25 billion and \$4 billion to airline and cargo carriers for loans and loan guarantees
- \$117 billion for hospitals and veterans' healthcare
- \$16 billion for the strategic national stockpile of pharmaceutical and medical supplies
- \$350 billion in loans for small businesses

*(Editorial note: this fund quickly ran dry – but was rapidly restocked. \$485 billion was added on April 23<sup>rd</sup>.)*

**The University of Texas News appropriately labeled all of this:**

[“Proposed Bailout is Socialism for the Rich”](#)

**The Treasury Department** reminds people to please [return stimulus checks accidentally sent to deceased relatives](#).

**And finally, Howard Marks**, in his weekly [Update \(March 27, 2020\)](#) notes the following actions:

- An emergency interest rate cut of 100bp on March 15, 2020 (This on top of a recent 50bp cut means interest rates are now at 0%)
- The Fed and Treasury are supporting the commercial paper market; asset purchases are possible
- The relaunch of the Commercial Paper Funding Facility and the Primary Dealer Credit Facility on March 26, 2020. With the PDCF, dealers can even pledge equities to the Fed, with only a 16% haircut, and receive a 90-day loan at 0.25%

Okay – the use of “finally” above was premature. I can't type as fast as our governments provide fresh fodder. These headlines are from late March. Still typing away in mid-April and the news just keeps getting more surreal.

**From Bloomberg News (April 11, 2020):**

[“Fed Has Firepower to Do More after \\$2.3 trillion aid blitz”](#):

- Fed unveils a municipality Liquidity Facility under which it will buy up to \$500 billion in short-term notes directly from U.S. states, counties, and cities
- Fed announces potential purchase of so-called junk bonds, those with lower than investment-grade ratings

**And this just in from FoxCarolina (April 15, 2020):**

[“New Bill in Congress calling for \\$2,000 per month to be sent to Americans amid pandemic”](#)





*The voice of reason  
Is one I left so far behind  
Head over heels, where should I go?  
Can't stop myself, out of control  
Head over heels, no time to think  
Looks like the whole world's out of sync*

*-The Go-Gos, 'Head Over Heels'*

Okay! **That is admittedly a whole lot for the senses to take in.** Grant's Interest Rate Observer noted the following:

*A layman may well conclude that somebody isn't reading the newspapers. BlackRock, Inc., after all, is speculating about a \$10 trillion Federal Reserve balance sheet (up from \$4.2 trillion at the new year), while the Committee for a Responsible Federal Budget is forecasting a \$3.8 trillion federal deficit (versus an annual run rate of \$1 trillion before the pandemic). Each estimate is disorienting. And each prompts some curiosity, to say the least, about the integrity of the currency that the government is materializing and spending with such dazzling ease.*

*Sometimes I laugh and sometimes  
I cry, other times I sit and  
Wonder why.*

*-Social Distortion, 'Sometimes I Do'*

On the surface, all is well. The government and Federal Reserve have yet again “come to our rescue.” Bonds will be bought in unlimited quantity, so no need to sweat the lack of yield. The Fed’s implicit “put option” will protect you. Stocks will continue to be indirectly supported through low-cost loans to companies, and *wink-wink* will be bought outright, if need be, in the future. And the largest stocks will continue to receive undue largess from the government through lower interest rates than their competitors pay, tax breaks, ability to acquire competitors without antitrust enforcement worries; and beyond these, the Fed will do “whatever it takes.” The market still wholeheartedly embraces these platitudes as reassuring. Hence, the 30% rebound in the U.S. stock market as the economy plunges into the worst recession since the Great Depression of the 1930s.

*If I fall back down, you're gonna help me back up again,  
If I fall back down, you're gonna be my friend*

*-Rancid, 'Fall Back Down'*

We, for one, find that most of the data on the previous pages assaults the senses; it batters them. It is all too much to take in. Famously slow to anger, we now feel rage. **Welcome to the punk/new wave issue of our commentary.** “Making Plans for Nigel” is a great song by British post-punk band XTC (who also wrote the lyrics that led off this correspondence, from “Senses Working Overtime”).

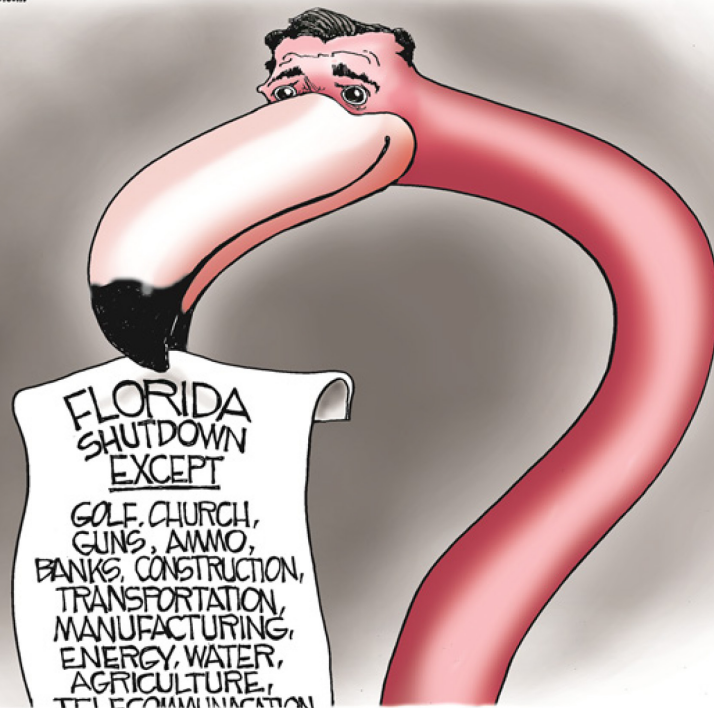


*We're only making plans for Nigel  
We only want what's best for him  
We're only making plans for Nigel  
Nigel just needs this helping hand  
And if young Nigel says he's happy  
He must be happy*

*-XTC, 'Making Plans For Nigel'*

Apparently, this is a song about parents badgering their son to take a job with the steel company, but others interpret an anti-“big-brother” element to it. The latter angle inspired this missive. **This commentary is written for those who don't want the government making outsized plans for us: for those who prefer capitalism to cronyism; prefer that assets be allocated by markets rather than by bureaucrats; that winners and losers be determined in the marketplace rather than by committees; and who prefer price discovery to suppression.** We now live in a time when Orwell is increasingly thought a prophet and one of the few things that is staunchly agreed upon by West and East alike is the importance of a command economy. This is especially evident in the eager acceptance of ultra-expansive, experimental monetary policy in conjunction with record-setting, deficit-generating fiscal spending. Government planners now decide for us when businesses must “temporarily” close, but also which business are exempt from those orders.

**BillDay** FloridaPolitics.com



While everyone supports protecting the vulnerable, allowing them to self-isolate and otherwise shield themselves from harm, instead it is the government who decides who gets to go outside and who is effectively under house arrest, umm, shelter in place. A healthy twenty-five year old with a nascent business that will perish if neglected isn't allowed the freedom to make a different choice than an elderly person with diabetes or respiratory issues. They get to decide which companies are given life-



saving access to cheap capital and which are left to a Darwinian future, likely to succumb to the hardships resulting from the government mandated closures. They plan to whom they will extend largess and who shall be cut adrift. They plan to bail out one industry, but not the next. Occasionally the propaganda machine releases surveys suggesting that “*Nigel's happy*” and “*if young Nigel says he's happy, he must be happy.*” And so, they commence even more planning, but mind you, “for the greater good.”

*Grasping to Control, so I better hold on*

*-Green Day, 'Basket Case'*



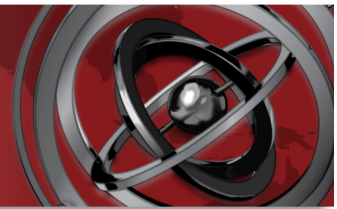
We'll try to minimize the time spent opining about our new, centrally planned economy and promise to eventually focus on how to best capitalize, in the stock market, upon the opportunities that always seem to go hand in hand with such challenges. But the challenges are real enough. We don't take any comfort in the fact that the central banks, and governments, purportedly have our backs. One must wonder if the virus, which is serious enough, also served as a convenient excuse to unleash the plans that they've known they'd eventually have to execute when they first headed down the path of QE (quantitative easing), which was always a path of no return. That “*you can check out anytime you like, but you can never leave,*” was the major point of our Hotel California commentary, penned nearly a dozen years back at the onset of QE.

*You and me have a disease  
You affect me, you infect me  
I'm afflicted you're addicted  
You and me, you and me  
I'm on the edge  
Get against the wall  
I'm so distracted*

*-Bad Religion, 'Infected'*

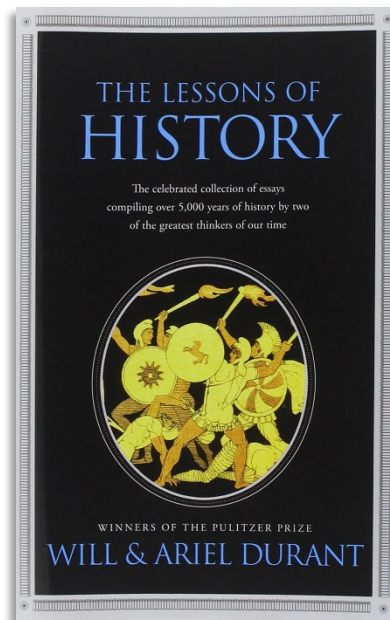
*discussing the Fed's relationship with the economy, perhaps?*

And so here we are, and one must ask themselves the (admittedly rhetorical) questions: Can interest rates be held to *de minimis* levels forever? Are negative rates sustainable? Are they a panacea or a *disease*? Might the artificially supported asset classes, the *afflicted* ones, now reside at levels that portend more risk than prospective gain? It's clear that in this debt-*infected* economy, it's important to search for securities where the systematic risk is low, and to find areas where the opportunities are abnormally exciting. Don't worry. The daunting challenges we face, as is often the case, have led to monumental investment opportunities. Let's discuss probable winners and losers in this New World Order.



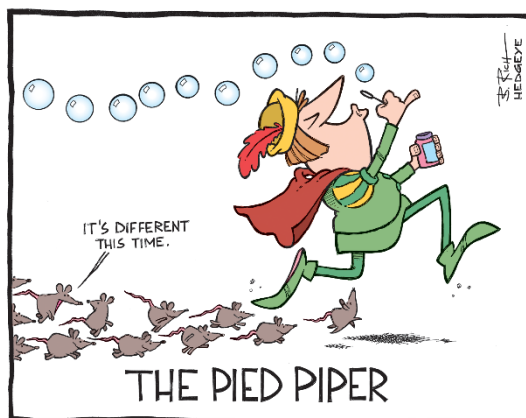
## CHAPTER 1

The Case Against Last Generation's Winners  
Continuing to be This Generation's Winners



*Those who do not learn history  
are doomed to repeat it.*

– George Santayana

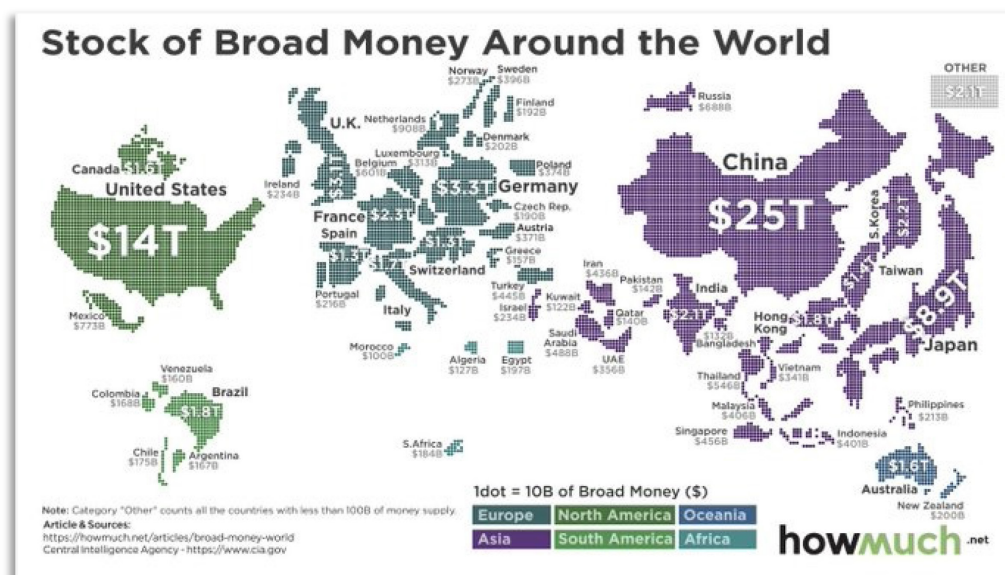




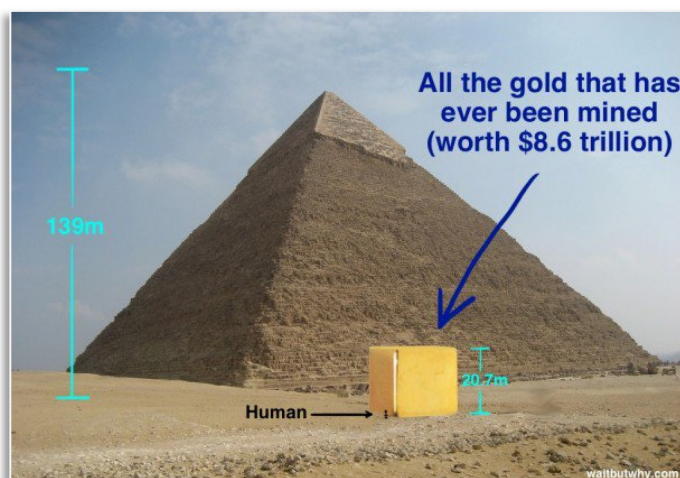


## Derivatives of Money and Derivatives of Derivatives of Money

It makes sense to start by addressing investment categories that possess more risk than potential return before migrating to some truly exciting opportunities. As the bond market levitates near six-thousand-year high levels, a logical starting place is with the medium in which bonds are payable - currencies. Should one choose to hold their liquid wealth in Yen, Yuan, Euro, Dollars, Francs, or in harder currencies like precious metals? Let's start with a map of what the currency world looked like before the recent deluge.



Yes, those are Ts for trillions, not B for billions. And this data is from 2017! By February 2020, U.S. broad money stock had increased to \$15.5 trillion; on March 23, 2020, the Fed announced unlimited QE, so who knows how much more that number will grow. The "printing presses" have had a busy dozen years prior to the current, hyper-frenzied activity. Imagine what this map will look like in a year. By comparison, let's graphically look at all the gold that has ever been mined.

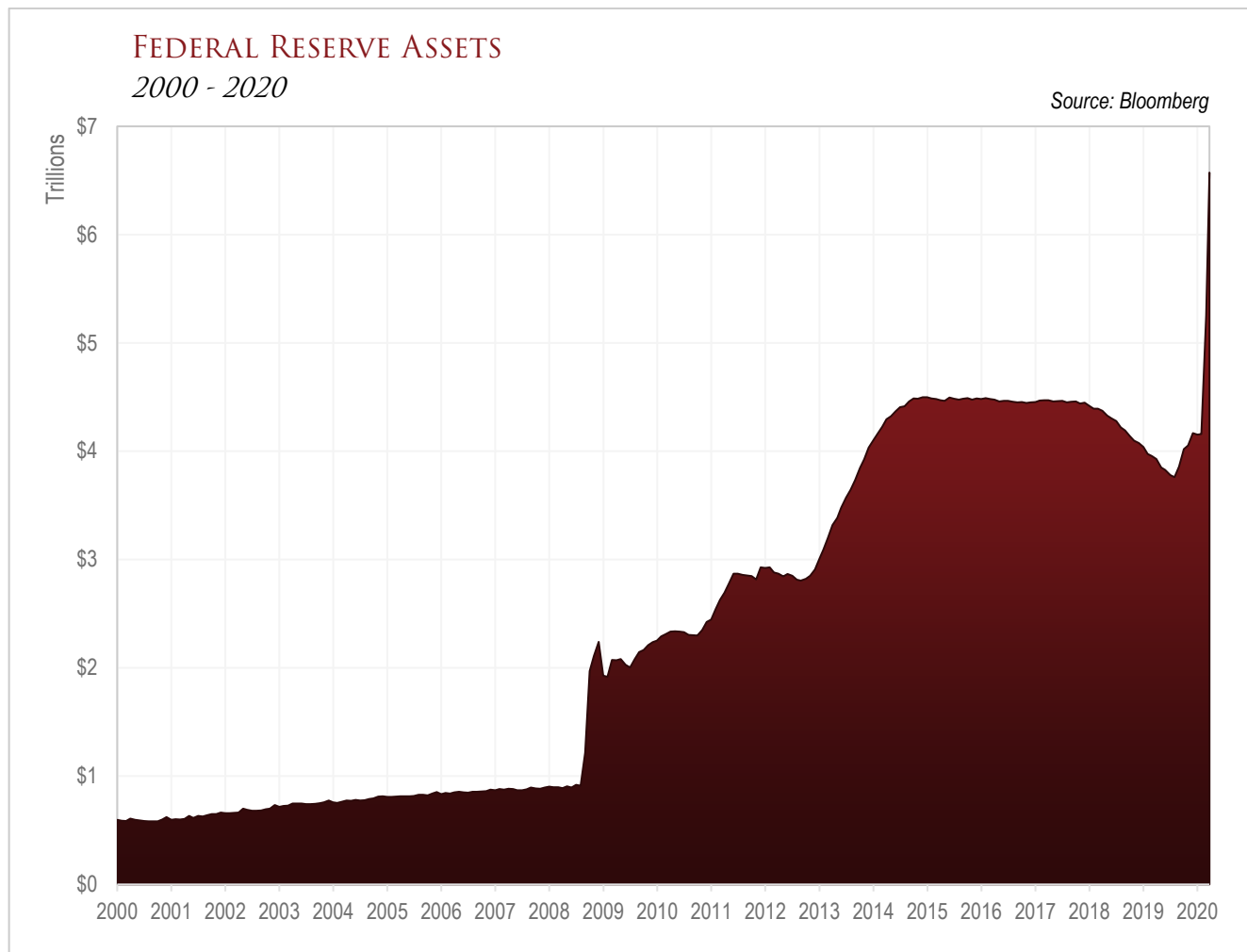




*We bulls stare open-mouthed as gold – gold, for Pete’s sake, nature’s own hedge against the Ph.D standard of monetary management – buckles in the face of one central-bank liquidity gusher after another.*

*-Grant’s Interest Rate Observer - March 20, 2020*

And, let’s not forget the current trend in money debasement:



*You wonder what it takes to unnerve the holders of currencies that tumble off the digital presses by the trillions.*

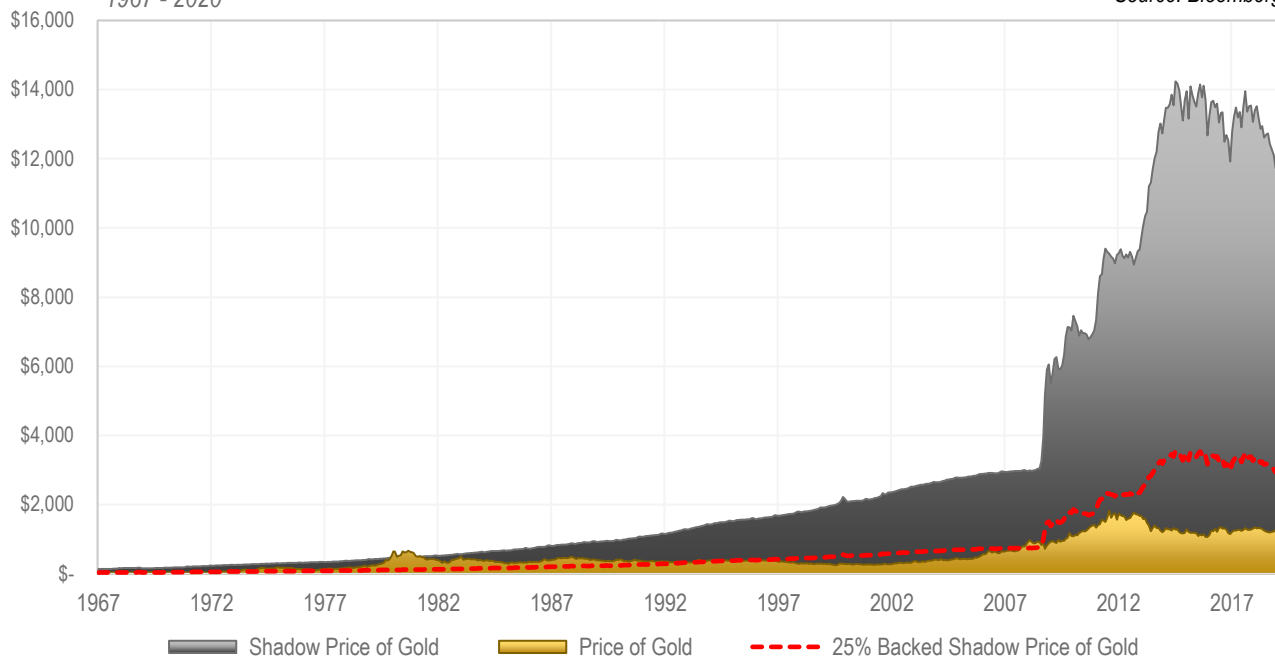
*-Grant’s Interest Rate Observer - March 20, 2020*

Anyone who believes that supply and demand still matter, that scarcity is valuable, that governments should pay a reasonable real rate of interest to compensate for perennial debasement, and/or that the central banks are at all sincere about their “do anything to reflate pledge” should have some gold in their portfolio. The only question is how much? Just for fun, the chart below suggests what the value of gold would be if even a sliver of gold was demanded as partial collateral for currently unfettered central bank currency emissions.



THE PRICE OF GOLD - ACTUAL VS. SHADOW VS. 25% BACKED SHADOW  
1967 - 2020

Source: Bloomberg



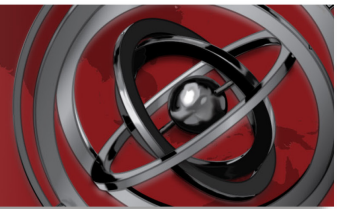
The value of the U.S. dollar has fallen from approximately 1/21 of an ounce of gold less than a century ago to 1/1700 of an ounce of gold now. That's worth repeating: in 1930 one could buy a gold coin for \$20.67, whereas that same coin now would cost \$1695, eighty-two times more. This is an ominous tendency. We'll be the first to admit that trending past results into the future can be dangerous, so let's investigate a little further. After all, **the viability of fiat currency as a store of value is the preeminent issue here**. Relevant fact number one – a hundred years is a long time, encumbering many generations, suggesting it is much more meaningful than just a shorter-term trend. Point two – building off the previous one, there are more than two thousand years of written history that show that fiat currency **always** suffers material devaluation.

As Voltaire famously put it, *"fiat currency always returns to its intrinsic value – zero."*

Thirdly – gold is not an aberration; this hasn't been gold's value going up, it has been gold holding its purchasing power while the dollar lost most of its. The prices of education, healthcare, prime real estate, common stocks, and a lot of other things have surely gone up more than eighty-two times. In a similar vein, the chart above shows that, theoretically, gold hasn't yet risen nearly enough to reflect the massive increase in money supply; we'll call this point four. Even if one conceded that Bretton Woods tended to have a coverage ratio roughly twice the 14% used in the chart, the suggested further drop in the dollar, relative to gold, is still quite significant. The fifth, and perhaps most persuasive point, is that all of the headlines encapsulated near the beginning of this narrative suggest that the Fed, and their brethren in other countries have come forth with actions in support of their promises, demonstrating determination to debase their currencies in major fashion. And lastly, and equally persuasive, the governments have debts (i.e. claims on currency) that far, far exceed their abilities to settle those debts.

Recent events have shown the importance of holding enough cash to tide one over on a rainy day. Events have also shown the beauty of holding cash as both a buffer and as a means to take advantage of market downdrafts. People should always hold enough cash to suffice and to provide peace of mind. But, it should be clear that **cash has been a horrendous "investment" over the past hundred years**, and all evidence points toward it being worse over the coming decade. Those who can afford to invest elsewhere must do so to protect their purchasing power.

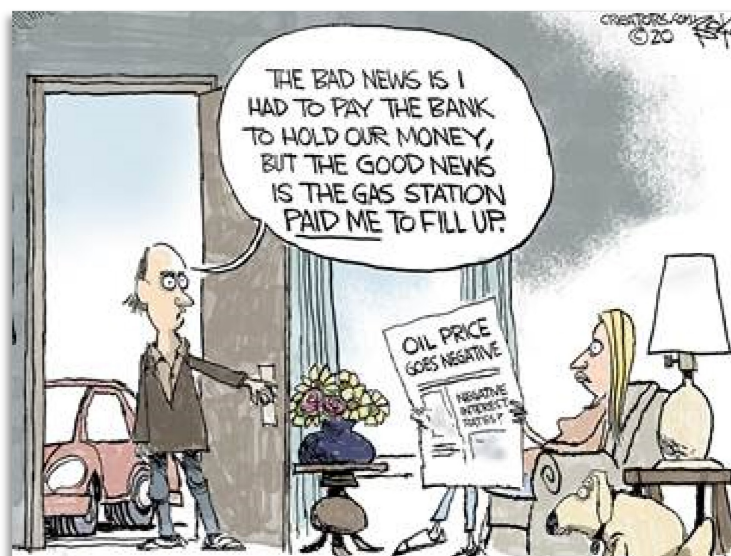




And, if **long-term holding of currencies is ill-advised**, perhaps the absolute last place one should invest is in **low paying claims on these rapidly depreciating currencies**. Of course, we are referencing fixed-income securities. Intermediate to long-term bonds, yielding near zero, are in fact a prime example of **return-free risk**. Regarding the returns, the U.S. 30-year Treasury yields a whopping 1.17% annually. Admittedly, this is better than the 60 basis points (hundredths of a percent) offered by 10-year Treasuries, and well above the negative yields on offer in France, Germany, the Netherlands, Sweden, and Japan. Oh, and the Swiss require you to pay them more than one percent for the privilege of loaning money to them. What risk must one take on for these woeful yields? Some believe there is none since the central banks have backstopped us. They had better be correct, since a return of interest rates to the levels that existed when I entered the business in the early eighties would result in an 88% drop in the price of the bond. Even a small step in that direction would be quite painful. Is risk real? Read on.

*They think that I've got no respect, but everything (yields) less than zero*

*- apologies to Elvis Costello*

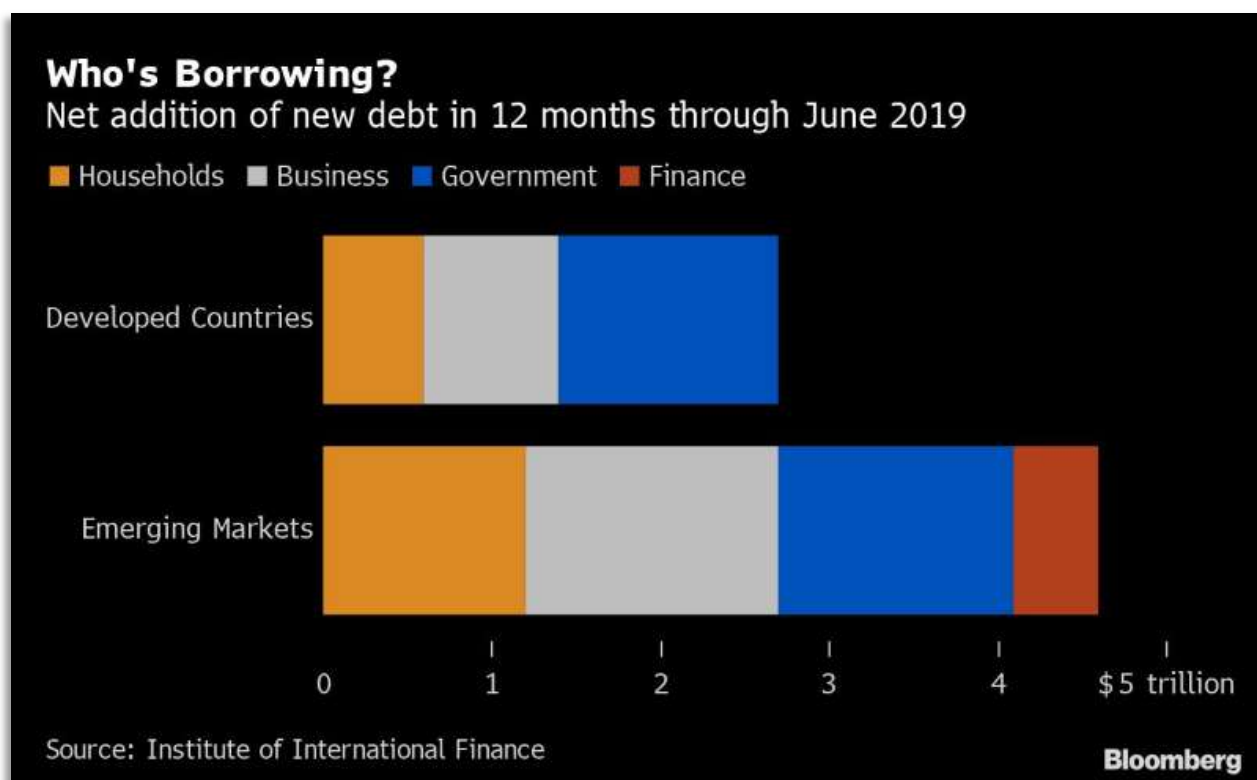






Assessing the prospects for bonds (future claims on fiat currency) in absolute terms and relative to stocks, it is noteworthy that stocks just fell significantly, while bonds soared still higher. This, of course, was in response to the Central Banks' pouring money into the market, and thereby validating people's faith in the "Fed-put." Quickly they succeeded in gunning sovereign bond prices to the highest in recorded history.

Paltry yields are a major deterrent to holding bonds. Beyond that obstacle, current and potential bondholders needn't argue the pros and cons of modern government, but they must recognize what the New World Order is, and then invest accordingly. Remembering that a sovereign bond is a loan to a country, it is important to ascertain whether said country has the wherewithal and/or the integrity to repay the loan. We are unaware of any prominent politician, representing any major party, in any country, who advocates balancing his/her country's fiscal deficit or meaningfully paying down the sovereign debt. To the contrary, rapid growth of debt is a universal phenomenon.



*As this chart shows, between June 2018-2019, total new debt in emerging markets approached \$5 trillion.*

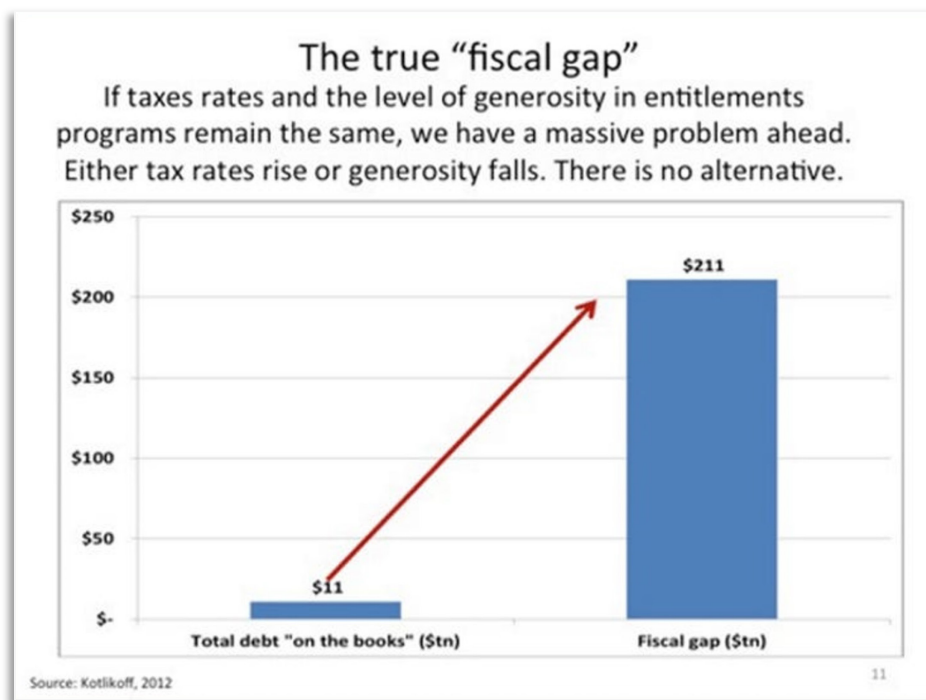
By the first part of 2019, total global debt was over \$250 trillion:

*Global debt hit a fresh record above \$250 trillion in the first half of 2019, with China and the U.S. accounting for more than 60% of new borrowing, the Institute of International Finance said. Borrowing by governments, households and non-financial business now accounts for more than 240% of the world's gross domestic product, and it's growing faster than the global economy, the Washington-based IIF said in a report published Thursday.*

*-Bloomberg.com, November 14, 2019*



Imagine how much deeper the hole is now, in 2020. Hedge Funder Stan Druckenmiller points out that if you take the present value of the benefits we promise, the current debt present is about \$211 trillion. The chart below illustrates why tax increases, broken promises, and massive currency debasements are all in our future.



*Take away, take away  
Take away this ball and chain  
I'm sick and I'm tired  
And I can't take any more pain*

-Social Distortion, 'Ball and Chain'

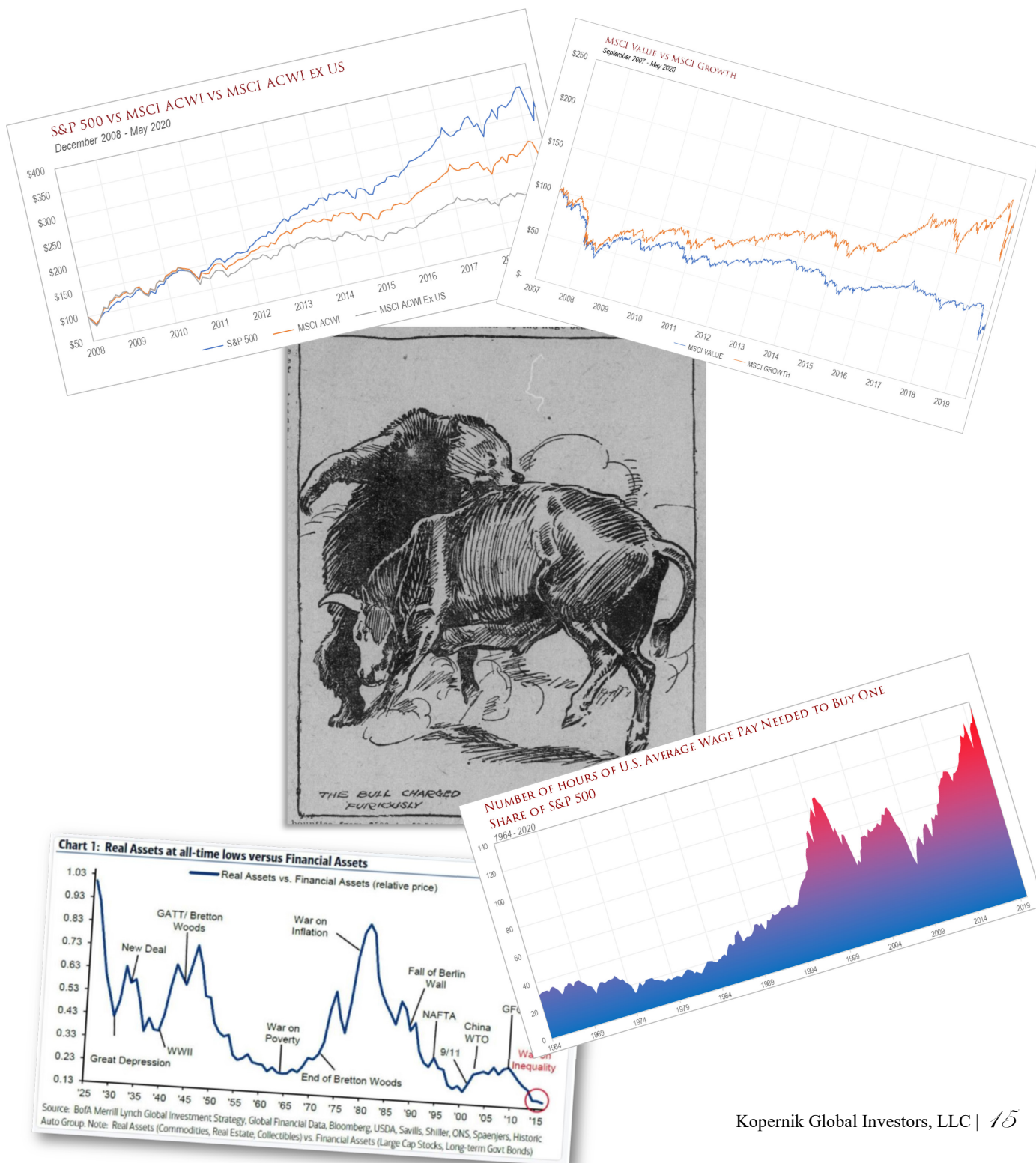
A look at the financial positions of the governments of Japan, China, most European countries, and the United States, among others, demonstrates that the ability to repay those loans (in script with purchasing power equal or even close to the money lent) is simply not there. The aforementioned political considerations; the galactic monetization of the debt; the advent of MMT (modern monetary theory), including people's QE (quantitative easing in a manner that puts the money into the broad population rather than **just** the hands of asset owners); previously unimaginable lack of fiscal discipline; lack of monetary discipline; massive debt loads; and thousands of years of monetary history, all make clear that **governments do not have the integrity, willingness, or ability to repay**. Bonds have their purposes but are no longer an investment asset that can meet the needs of investors.

Central banks have well succeeded on their GFC (global financial crisis) pledge to make bonds so ugly as to force investors to invest in other asset classes and thereby force those prices higher. They were arguably far less successful in their contention that QE would spur economic growth, as well. We take the central bankers and politicians at their word on this particular issue and will continue **to approach bonds as quasi-uninvestable for the foreseeable future**.



## CHAPTER 2

### The Case Against Stock Indices (But for Undervalued Businesses Trading Publicly)





Time to segue to stocks in general; we'll get to the specifics later. Remember T.I.N.A. (there is no alternative [to stocks])? It was a widely held belief prior to March 2020. The idea was that, post-GFC, the Fed would make bonds so unappealing that investors would **have** to roll out the *risk* curve. It was fascinating to watch investors abandon this tenet during March, even as market action made it now more valid than ever before. At any rate, central banks have succeeded in making bonds less inviting than any other asset class. And since bonds are now more expensive (and stocks cheaper) than was the situation two months ago, when investors felt that they had no alternative but to buy stocks, **it should be clear that over the long-term stocks are likely to perform much better than bonds.** However, two points are important to consider: 1) **over the short-term, stocks may disappoint people.** They aren't cheap (especially in the U.S.) and the near future could prove daunting as the economy tumbles and unemployment soars. 2) The old saw was probably never more true than now – "it's not so much a stock market as a market of stocks." Buying the popular indexes is still not an enticing risk/reward proposition, whereas there are now many businesses that are at historic bargain prices. It is a great time to be a bottom-up, value-conscious investor.

Before going further into *which* value stocks, let's dig a little deeper into *why* value (and not popular "anti-value") stocks are the more desirable place to be. And, apologies, this does involve delving back into the social distortion that has been building over the past dozen years and is now accelerating into warp speed.

Why is it necessary to go off on this tangent? Well, currency, stocks, and especially growth **stocks are a reflection of confidence in the future.** Willingness to hold currency depends upon a belief that central bankers won't allow the loss of purchasing power to be painful. If you haven't lived in a high inflation country, talk to someone who has. Cash isn't saved, it is spent, ASAP. For investors in equities, **putting a moderate to high multiple on an estimate of earnings sometime in the future requires faith that the company will not encounter undue competition or other business issues, that society will continue to favor the company, free enterprise and capitalism, that management will make no major missteps, and that multiples won't dip someday soon.** Growth stocks tend to have the most aggressive estimates for future earnings and the biggest multiple on those estimates. This is warranted when all the assumptions play out as planned. Currently they are priced to reflect extreme sureness and optimism. QE has certainly been a wind at the back of growth stocks for the past dozen years, a gale force wind at that. Will the "category 5" storm that the new QE promises to be also obediently lift growth stocks and bonds while leaving the CPI (consumer price index) behind? Looking beyond the past dozen years, history and logic suggest that this is unlikely to continue to be the case. Remember, this would require maintenance of today's optimism, valuation multiples, economic continuity, and preference for things financial over things real. At the onset of QE1, Marc Faber, Jimmy Rogers, and other experienced, successful investors alerted us that this was "socialism for the rich" and "sowing the seed for extreme inequality and social discord," robbing the marketplace of the pricing mechanism upon which it relies, and more. Evidence mounts that they were correct. Of course, the Austrian economists have been telling us this for decades.

Obviously, society is faced with many tough choices. Triage is a word that is being used a lot recently. It must be tough on medical professionals, having to decide who gets attention, and is therefore likely to live, and who is left without access to necessary apparatus, drugs, and help, and is therefore probably destined for an adverse outcome. Military leaders have similar choices. And it is difficult making subjective, fateful decisions. When it comes to governing, do we allow hundreds of thousands to potentially die from a disease or do we put tens of millions out of work?

*Don't Stand so Close to Me*

*[-The Police, 'Don't Stand So Close to Me'](#)*

On the economic front, the age old debate has been: do we let the market cycle happen, cleansing the system, at a heavy short-term cost to people's livelihood, or do we prolong the cycle, avoiding the pain, but with the high likelihood that future pain will be much greater, when the piper eventually calls? These are difficult decisions. Subjective decisions. We don't know the future.

*You Gotta Keep 'Em Separated*





- [The Offspring, 'Come Out and Play'](#)

I have my opinions, as do all of you. **The message here is not that my opinion is correct, it is that the last people on earth that I'd like to see making these all-important decisions are politicians and bureaucrats.** Don't get me wrong, many of them are fine, upstanding individuals who are working hard on our behalf. We applaud them. But we are also talking about many others, about people who are famous for "kicking the can down the road" rather than addressing a problem now. Many of them, unfortunately, have earned a reputation for selling out, choosing votes and monetary donations over doing the right thing.

*You wanna make a little mess  
You wanna make a little crime  
If you're gonna do wrong, buddy, do wrong right*

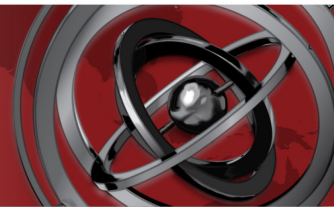
- [The Devil Makes Three, 'Do Wrong Right'](#)  
(possibly singing from the governments' monetary  
and fiscal policy mission statements?)

And they find themselves in a quid pro quo world where they often must support unworthy causes to garner support for their own pet projects. But most importantly, even if we dismiss all of the above – even in a perfect world where every single person in government is honest, diligent, and doing the best that they can – we still don't want them making such decisions. Large groups of bureaucrats, famously, are poor decision-makers. **If super large, bureaucratic, centralized decision making was a superior model, the Soviet Union would have won the Cold War.** There is a reason that centralized economic decision-making has always failed in the past. And, outside of economics, the history books are filled with volumes of stories of autocratic governments eventually tragically inflicting pain on a subset of their populace.

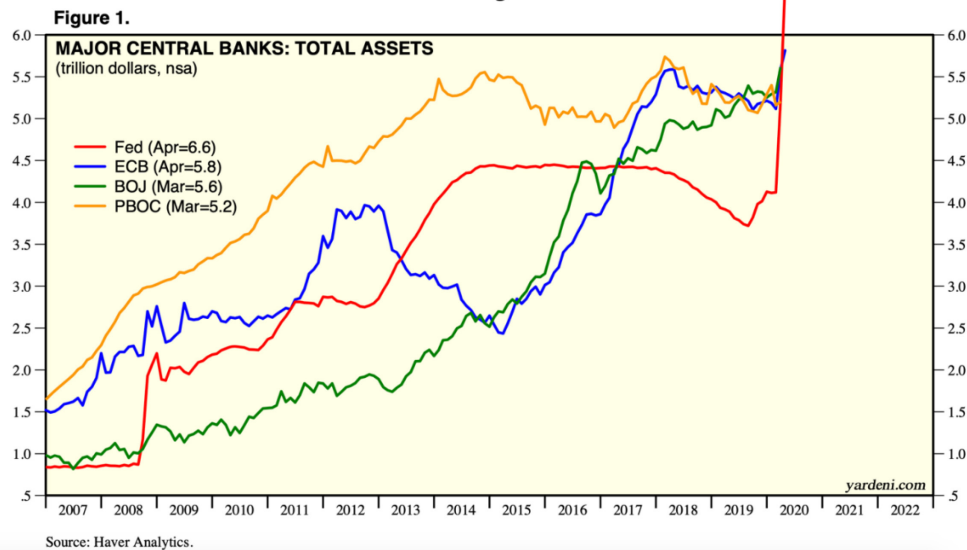
*Don't want a nation under the new mania  
And can you hear the sound of hysteria?  
The subliminal mind-#\$\$%\* America  
Welcome to a new kind of tension  
All across the alien nation  
Where everything isn't meant to be okay  
Television dreams of tomorrow*

- [Green Day, 'American Idiot'](#)

Furthermore, if printing money were a panacea for the stock market, why has the Chinese market done so poorly over the past dozen years? The Japanese market is below where it was 30 years ago despite mind-blowing amounts of centrally planned monetary stimulus beginning in 2000. The chart below shows the scale of global quantitative easing.



## Total Assets of Major Central Banks



*For treatment of coronavirus, depression, recession, bear markets, unemployment, debt contagion, deflation anxiety, ecoanxiety and political risk. Take as directed.*

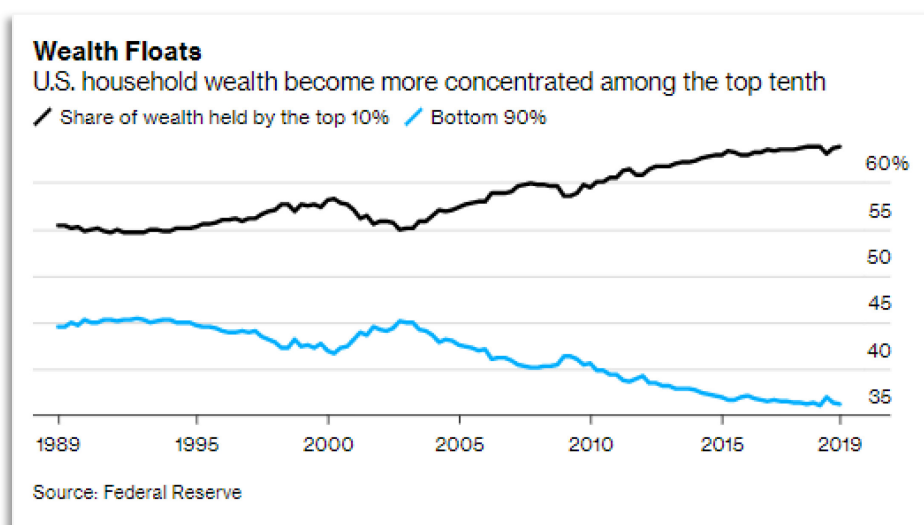
Grant's Interest Rate Observer, February 7, 2020



*The reality is that maybe the word 'cycle' is no longer even relevant, given that we have so much unconventional central-bank involvement.*

*- U.S. equity strategist at a prominent bank, recently echoing Irving Fisher's unfortunately timed quote in 1929.*

As optimists, we at Kopernik are willing to assume that none of the tragic outcomes are in our country's future. As realists, we are all too aware of what central planning has brought us thus far. It has brought us a society where news is commonly believed to be fake, and where inequality is back to the levels of circa 1929. Unfortunately, the lessons of history instruct us that over time wealth always concentrates and later gets redistributed, sometimes peacefully, but often violently.



*It goes down the same as the thousand years before  
No one's getting smarter  
No one's learning the score*

*- [The Offspring, 'Come Out and Play'](#)*

Also mirroring 1929, the Fed has brought us a major stock market bubble, which may have just popped. This time around they created the biggest bond market bubble of all time. In the process they created the "bubble in everything," which is starting to spring leaks, even as they pump feverishly. Evidence of years of malinvestment is cropping up everywhere. The Fed "had" to come to the rescue of the repo market sixteen months ago, and again recently. Before the virus, delinquencies and defaults were becoming worrisome in auto loans, student loans, and the high-yield corporate market. Ultra-expensive real estate has not been moving well for quite some time. There has been an explosion of so-called "zombie" companies, those that aren't earning enough to cover obligations. They remain on "life-support" loans while making life difficult for their prudently managed competition. In a free market they would have been allowed to fail, cleansing the economy and sowing the seeds for better times ahead. We know that suppressed interest rates have been a major transfer of wealth from savers to debtors, while delivering a fatal blow to many pension funds in the process. Because pension funds can't come close to meeting their promises to pensioners in an environment where bonds pay paltry yields, their promises will be broken. People will find they either can't retire because the pension payments are a far cry from what was expected, or will spend retirement in poverty.



*They're saying things that I can hardly believe  
They really think we're getting out of control  
They say you better listen to the voice of reason  
But they don't give you any choice 'cause they think that it's treason  
So you had better do as you are told  
I wanna bite the hand that feeds me  
I wanna bite that hand so badly*

*- [Elvis Costello & the Attractions, 'Radio Radio'](#)*

It is logical to assume that unlimited QE will cause unlimited malinvestment. How could it not? Very little of the torrent of new programs are funding investment in projects that will **sustainably** improve lives, improve society, improve the economy, or provide a means for payback. Much of it is going to keep afloat companies that squandered their money over the past decade; creating many more “zombies” in the process. It is great that many deserving small companies will be helped back to their feet, and that struggling individuals will have a lifeline. But, trillions of dollars being figuratively blasted out through a firehose by bureaucrats with questionable expertise and/or motives can't be all good, to put it mildly.

*I'm a match, she's kerosene  
You know she's gonna burn down everything*

*-[The Interrupters, 'She's Kerosene'](#)  
perhaps talking about the Treasury  
and the Central Banks collaborating? 😊*

In the GFC, they talked about addressing the “too big to fail” banks while in actuality merging them into bigger banks. Now, they say they are addressing the struggles of small businesses, but again their actions speak to the contrary. In a world afflicted by too much money in the hands of too few firms, the \$350 billion small business fund has run dry (and was later increased to a total of around \$800 billion) and pales in comparison to the \$4 trillion of funds being conjured to support the markets and rain largess on private equity firms, hedge funds, bond funds, and others exposed to troubled bonds. In an environment where ETFs (exchanged traded funds) have caused grossly inflated valuations for mega-cap stocks and for most bonds, a trillion greenbacks are being handed to \$7 trillion ETF behemoth, Blackrock, to distribute. We're not making this up; really.

These economic decisions are made by the same governments that have decided that you can't have eleven people get together for a BBQ, but some states say 25, others say 1000, and the CDC earlier said 50. You can't have a meal in a restaurant but can in an airplane or on a cruise ship. Sports – out, oh, except golf. Retail stores closed, uh, unless they sell ammunition or liquor. Here in Florida, they arrested a pastor for holding a service, and then a couple of days later specifically listed church services as exempt from the closures. Meanwhile, people in the U.S. will be getting checks from the government, regardless of whether they have permanently lost their job, temporarily lost their job, or have never lost a day's pay. While \$1200 dollars will help many, it won't make up for lost jobs. And it won't create new jobs. And, if the \$5600 per family until you go back to work proposal passes - Katie bar the door. It is great to help the unfortunate, but if the government incentivizes both sloth and mischief, it doesn't take a genius to figure out what we will get.

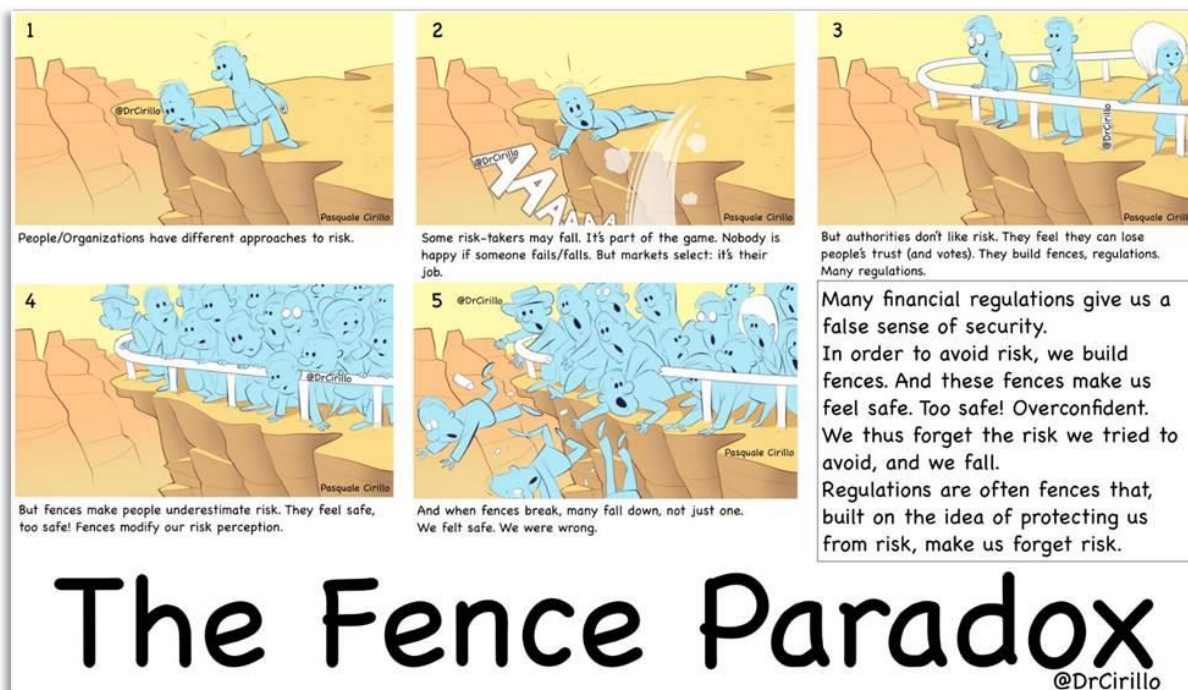
*I don't want to work  
I want to bang on the drum all day*

*-[Todd Rundgren, 'Bang the Drum All Day'](#)*





We could go on for pages, but you get the point. **Central planning politicians are not the people I'd like to see running the economy, or the healthcare system.**



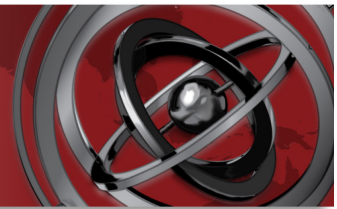
(found on the internet)

Yet some are suggesting that we're on the verge of that idyllic (or dystopic, depending upon one's point of view) world where we eat and are entertained on the government's dime. **Market action certainly promises that Domino's and Netflix will be the key providers of the twenty-first century's version of bread and circuses.**

*But you know you're gonna come down every night  
And there ain't no way you're ever gonna feel satisfied  
Well now you'll find me downtown  
Gracefully face down  
Just wishing I could feel alright*

[-The Devil Makes Three, 'Gracefully Facedown'](#)

Reasonable people can disagree as to governments' competence and motives, but if we can all agree that unintended consequences are a certainty, then it's time to move back to a discussion of the stock market.



*Coming down is the hardest thing  
I'm learning to fly  
Around the clouds  
But what goes up  
Must come down*

*-Tom Petty & the Heartbreakers, 'Learning to Fly'*

The first, and most obvious, question is this: QE worked wonderfully for stocks, especially for large stocks, U.S. stocks, growth stocks, venture cap stocks, stocks of quality franchises, and for momentum stocks of all kinds. **Won't the "mother of all QE programs" provide more of the same, but on steroids?** Our answer is – it could, but that is doubtful. Like all Fed induced bubbles in the past, in the end the best performing bubble stocks will end up "gracefully face down," with their investors wishing that they "could feel alright." Logically, when asset prices run up far in excess of their fundamentals, they will falter, regardless of how good the companies are. Exhibit one shows what happened to the stocks of "really good companies" when similar markets hit an inflection point.

1973-1974	2000-2002	2007-2009
Du Pont -58.4%	Cisco Systems -89.3%	Google -65.3%
Eastman Kodak -62.1%	Microsoft -65.2%	Bank of America -94.0%
Exxon -46.9%	JP Morgan -76.5%	Microsoft -50.3%
Ford Motor -64.8%	Intel -82.3%	Merck -65.5%
General Electric -60.5%	McDonalds -74.4%	Coca Cola -42.3%
General Motors -71.2%	EMC -96.2%	JP Morgan -68.5%
Goodyear -63.0%	Disney -68.4%	Intel -56.8%
IBM -58.8%	Oracle -84.2%	AT&T -49.3%
McDonalds -72.4%	Merck -58.8%	Cisco Systems -60.0%
Mobil -59.8%	Boeing -58.6%	Boeing -72.6%
Motorola -54.3%	IBM -58.8%	Apple -60.9%
PepsiCo -67.0%	Amgen -66.9%	Citigroup -98.1%
Philip Morris -50.3%	Apple -81.1%	
Polaroid -90.2%		
Sears -66.2%		
Sony -80.9%		
Westinghouse -83.1%		



And only time will tell whether the impressive recent rally, led by momentum stocks, is a resumption of a powerful dozen year trend, or a bear market countertrend rally, known as a bull trap. The 1999 tech bubble broke on March 9<sup>th</sup>, yet the NASDAQ-100 bounced, and peaked 18 days later. From June to August 1999, it bounced 35%. Also, in August 1999, the S&P 500 came close to its March peak before falling in half over the next year and a half. Intel actually reached a summit that was 20% higher than its March 1999 high. The chart above points out that the NASDAQ-100 subsequently fell 82%. Given the worst fundamental backdrop since the 1930s, buyers of this trend should tread carefully. *Caveat Emptor!*

Before moving on, we'd be amiss if we didn't address the inherent advantages of large companies. The idea that mega-caps, with their economies of scale, market clout, and government influence are unbeatable is compelling. However, it is important to keep in mind that, at a point, diseconomies of scale build, clogging the works.

*Scale has its diseconomies as well as economies. At some invisible inflection point, the colossus loses more in dexterity than it gains in power and loses more in political vulnerability than it gains in commercial prestige. And at some other unmarked bend in the road, the once admirable founder of a great business may undergo the not unfamiliar personality transformation from entrepreneur to lord of creation.*

-ADG April 16, 2020

One need look no further than GE, and its long descent from its zenith at what was far and away the largest market cap in the world, several decades ago. Some of us remember well, former "unbeatable" global marketshare leaders: Sears, Schlitz Beer, Kodak, U.S. Steel, and General Motors. None of the components of the Dow Jones Industrial Average from a hundred years ago are still in the index. Only GE even survived. No, while size is advantageous, mega-size is both a blessing and a curse.



*The Dow Jones Industrial Average was created in 1896 by Charles Dow and originally consisted of 12 companies: American Cotton Oil, American Sugar, American Tobacco, Chicago Gas, Distilling & Cattle Feeding, General Electric, Laclede Gas, National Lead, North American, Tennessee Coal and Iron, U.S. Leather and U.S. Rubber. At the time, these companies represented each sector of the market.*

*-Investopedia*

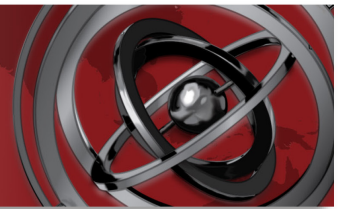
As to the idea of Fed-inflated assets outrunning their fundamentals, evidence mounts that housing prices have outrun rents, and rents have outrun wages, i.e. people's ability to pay the rent. The April rent arrears are mindboggling, by the way. Returning to equities, it is fairly well-known by now that Apple stock went up 78% over the two-thirds year that ended in mid-February, while its estimated operating income this year is less than last year's which, in turn, was less than the prior year's. Less well-known is that the S&P's six-year run has been unaccompanied by any pre-tax economic profit, **as the *Wall Street Journal* pointed out [late in 2019](#)**. And it's not just Apple. After the past twelve years of 'free' money, there is evidence that the economy is vastly overbuilt already. Who's going to build more restaurants, retail stores, office buildings, etc. when we are so over stored already compared to other countries and to the past? And when thousands of companies, most with seemingly endless access to capital, are all employing a 'blitz-scaling' model, is it logical to assume that they all are going to win? Can they scale perpetually in our finite world? You know our answer. **For "players" of momentum, indices, ETFs, and other popular vehicles of investors' fancy, we repeat – *Caveat Emptor!***

*...gonna get ya, get ya, get ya, one way or another*

*-Blondie, 'One Way or Another'*

**No, rather than investing in companies striving for infinite growth in a finite world, we suggest doing just the opposite. It's an opportune time to own scarce, need-fulfilling assets in a world of prolific fiat currency.**





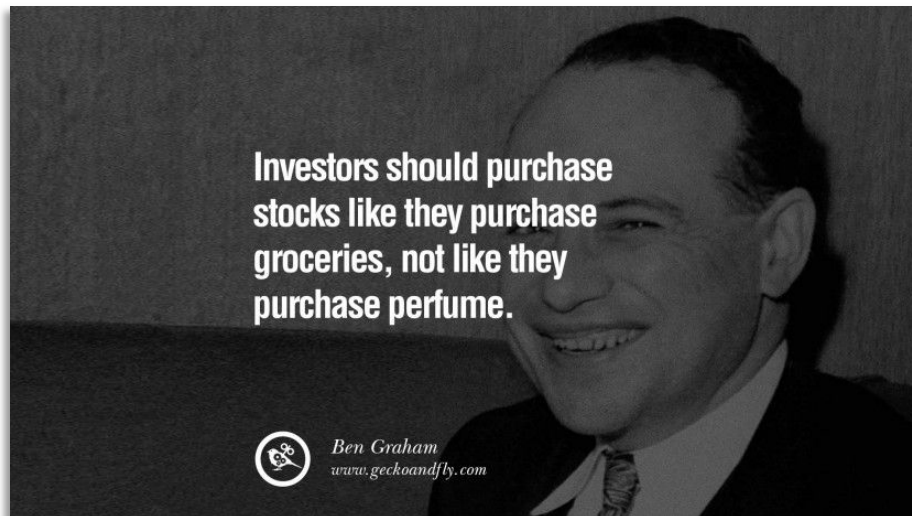
## CHAPTER 3

### Unparalleled Opportunities for Managers Employing Bottom-Up Fundamental Research

*It's Not A Stock Market. It's A Market Of Stocks*

*-Old Wall Street Saw*

The current market offers unprecedented bargains on finite, need-fulfilling assets,  
in a world of proliferating, limitless fiat currencies!





*Go! Go! Black and gold!  
Old-time hockey, bar the door  
Clear the track it's all-out war  
Light the lamp, throw a hit  
Black and gold never quit*

[-Dropkick Murphys, 'Time To Go'](#)

I'm certainly not a Bruins fan. But, we're appropriating the meaning of this great song from the Dropkick Murphys on behalf of hard assets, be they hued black, gold or otherwise. Oil, gold, and other extracted minerals deserve a spot at the forefront of investor attention. The Materials sector certainly is priced to warrant attention, even lyrics, at this juncture. We already touched on gold and precious metals (above ground anyhow) in the currency discussion, since ultimately they have always been monetary assets. But, **while gold is money, gold miners are investments – extremely attractive investments at that.** It's been a rough decade as reserve grades dropped, costs rose, many management teams blundered at the previous cycle peak and then again at the 2015 cycle trough, and geo-political issues became more challenging. So, a performance lag was in the cards. But, as highlighted in the following chart, **when the price of the gold they own in their reserves climbs by 12%, while the market revalues those same reserves down by 60%, that is not a performance lag, that is a complete disconnect!** It is a great opportunity to buy at a steep discount.



Just three points to make on gold miners before turning to some other potentially lucrative options: 1) QE-infinity promises to pump the price of gold much higher; 2) we are at the point in the cycle where management teams are erring on the side of excess conservatism; and 3) for those investors who are willing to buy the junior miners, some of which possess very large

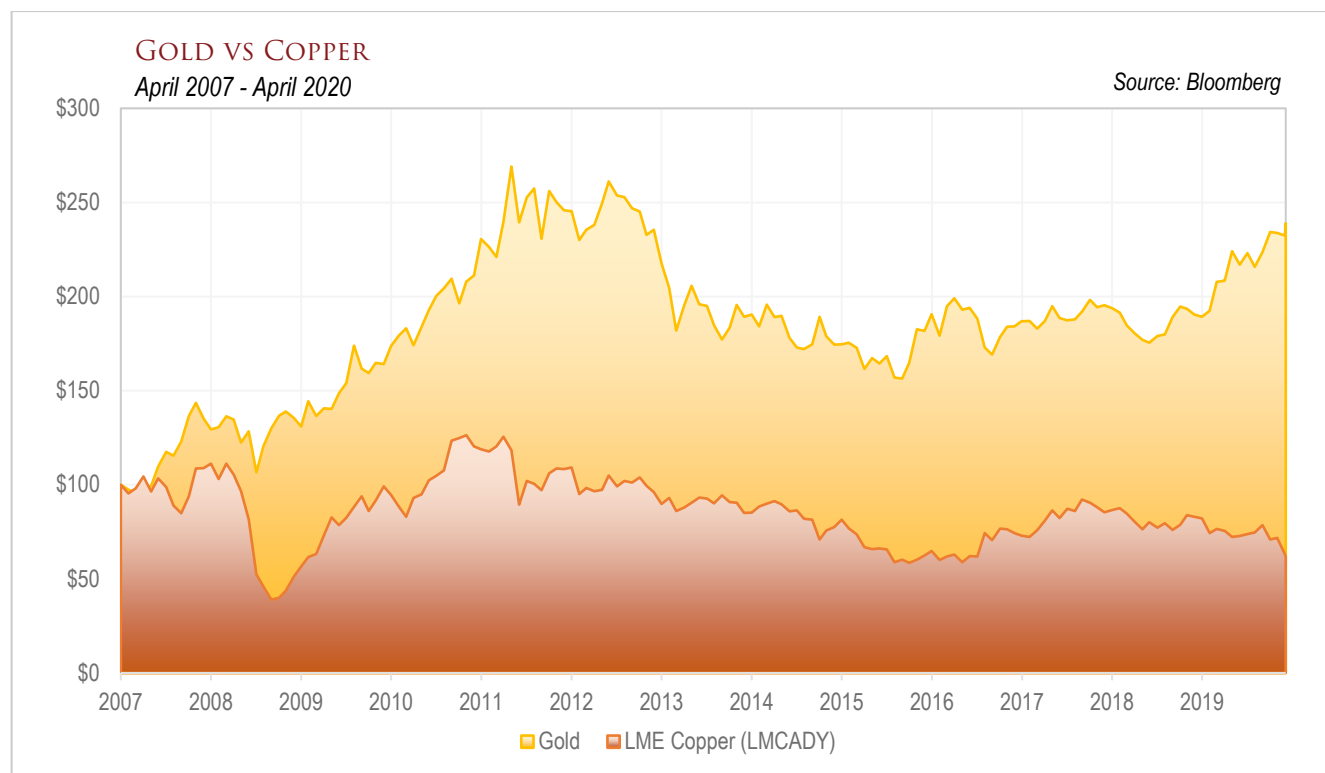


resources, there is an 81% off sale in progress (as represented by the VanEck Vectors Junior Gold Miners ETF [ticker: GDXJ] on the above chart).

Let's turn our attention to other commodities, which recently have reached **generationally attractive prices**. Most of them hadn't been especially interesting since they were pushed skyward by the Chinese-driven bubble of a decade ago. They have become interesting again following their decade long decline, in absolute terms and relative to gold, followed by the recent virus-driven *coup de grace*. The following are various charts highlighting the damage. **This all paints a picture demonstrating that gold is very cheap compared to the dollar, and other fiat currencies, gold miners are very attractive relative to gold itself, many commodity prices have become very depressed in relation to gold, and commodity related companies have become quite attractive relative to the commodities they own.**

## Copper

It's hard to imagine that, despite all of the battery and electronics hype, copper sells at a fifty percent discount to the price of a dozen years ago. As investors' love for copper has waxed and waned over the years, we have trimmed and added back to gold mining companies that own a lot of copper as well. If current trends continue, we will likely add some copper companies to the portfolio.

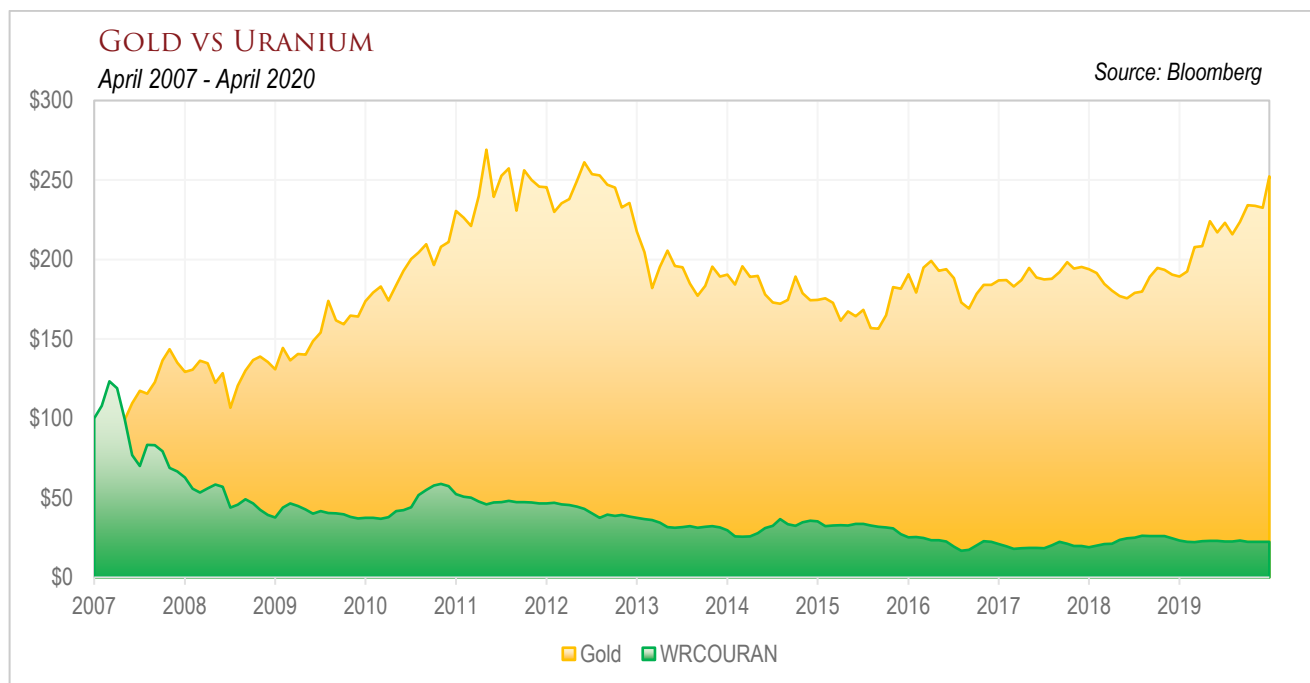


## Uranium

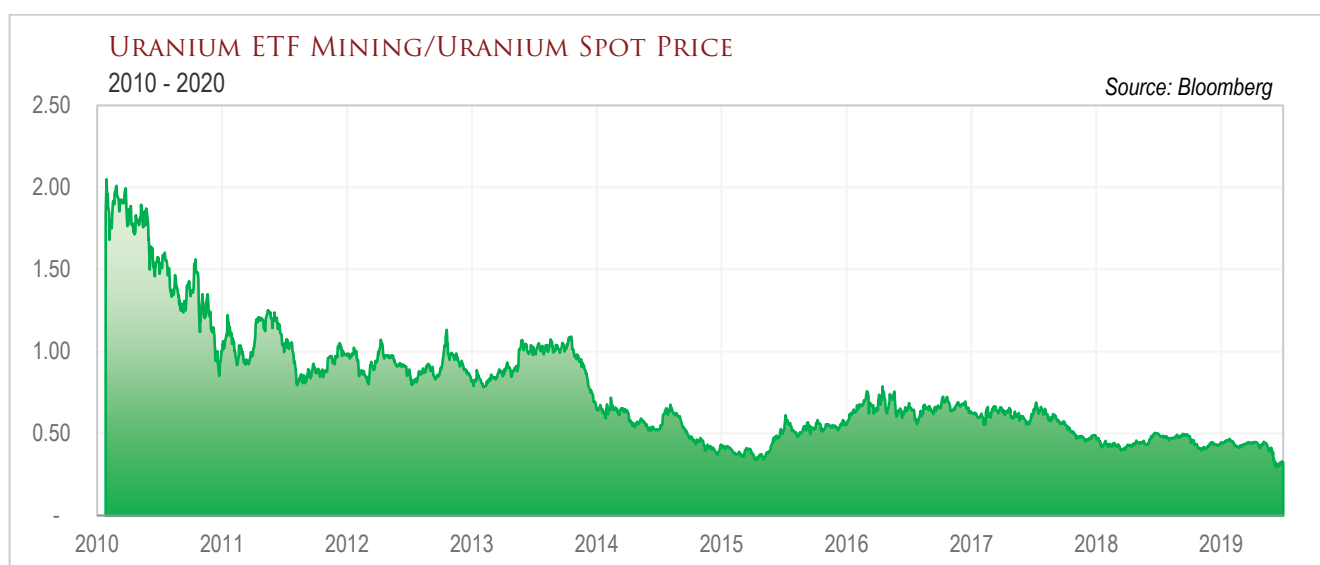
We don't typically invest with a "catalyst in mind," believing that attractive valuation eventually serves as its own catalyst, and having noticed that stocks usually rocket higher before people notice the catalysts. Uranium seems to be one of the rare exceptions. Catalysts have become abundant in recent months. Cameco Corp. closed MacArthur River (maybe the best mine ever). The U.S. Department of Energy stopped selling their stash, and the Russians stopped several years prior. The Kazakhs



cut production once, then twice, and just announced a coronavirus related major reduction of supply. Similarly, Cameco closed its Cigar Lake mine, temporarily, due to the coronavirus. Two high-cost mines in Africa have finally closed. On the demand side, demand for electricity is down some, but Japan has reopened nine reactors and China has opened a similar number, with thirty more in various stages of planning and construction. Funds have been formed to buy and hold. Supply falls well short of demand. The price is up from \$18 to \$32, which is still less than a quarter of the peak. Prices need to double, if not triple, to avoid shortages and multi-billion dollar reactors sitting idle.



Echoing a common theme, the commodity is down 82% but the companies that own uranium have suffered an even more severe hammering. For example, Cameco, peak to trough, was off 90%; the smaller ones companies (?) fared even worse.

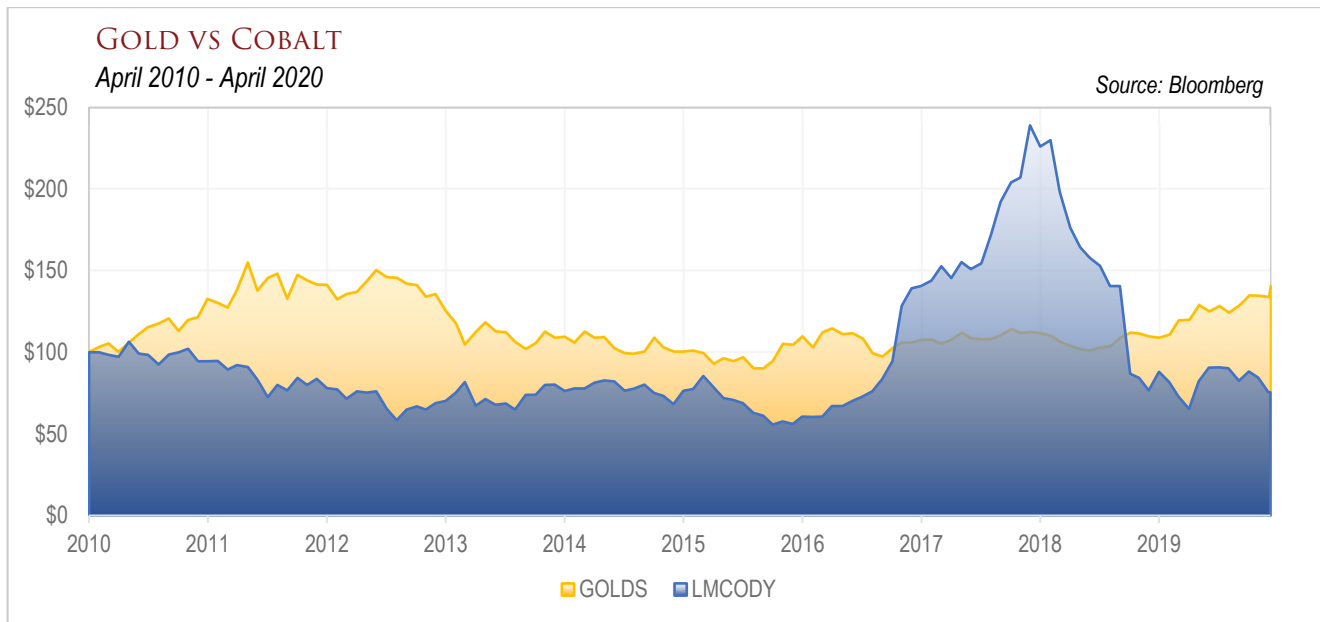






## Cobalt

This chart illustrates the extent to which price can move due to hype about exciting things (in this case batteries for Electronic Vehicles [EVs]) and then the nasty hangover that so often follows. We had a small holding that got bought out. Pure plays are rare.



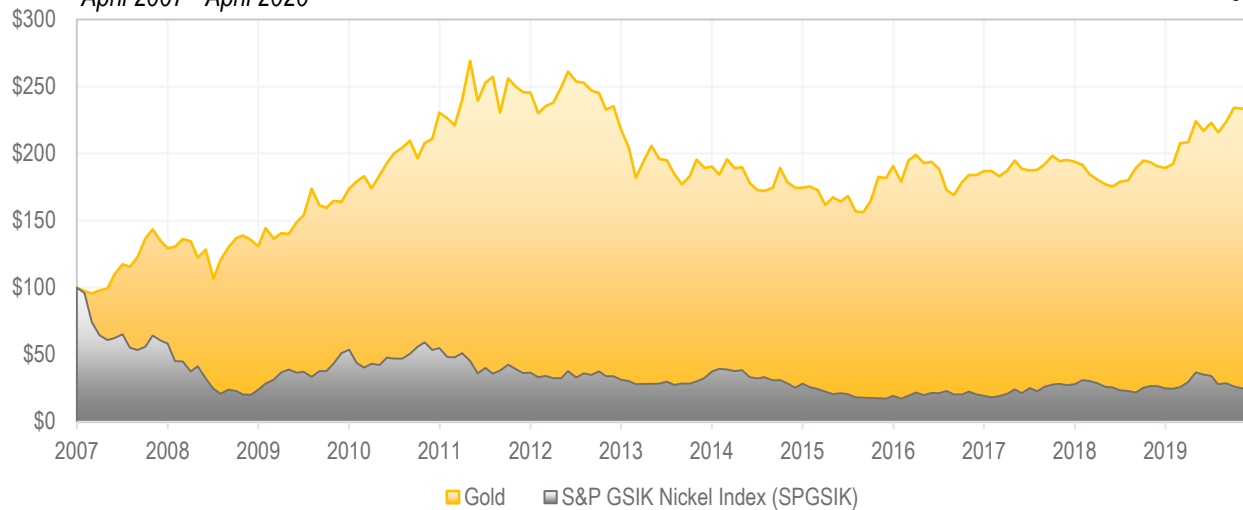
## Nickel

Batteries and storage could use massive amounts of nickel. This fact is highly promoted. Thus, it's a bit of a surprise to see that prices are down three-quarters from 2007. Here again, if present trends persist, the portfolio could take advantage of opportunities in this area.



## GOLD VS NICKEL April 2007 - April 2020

Source: Bloomberg



## Oil

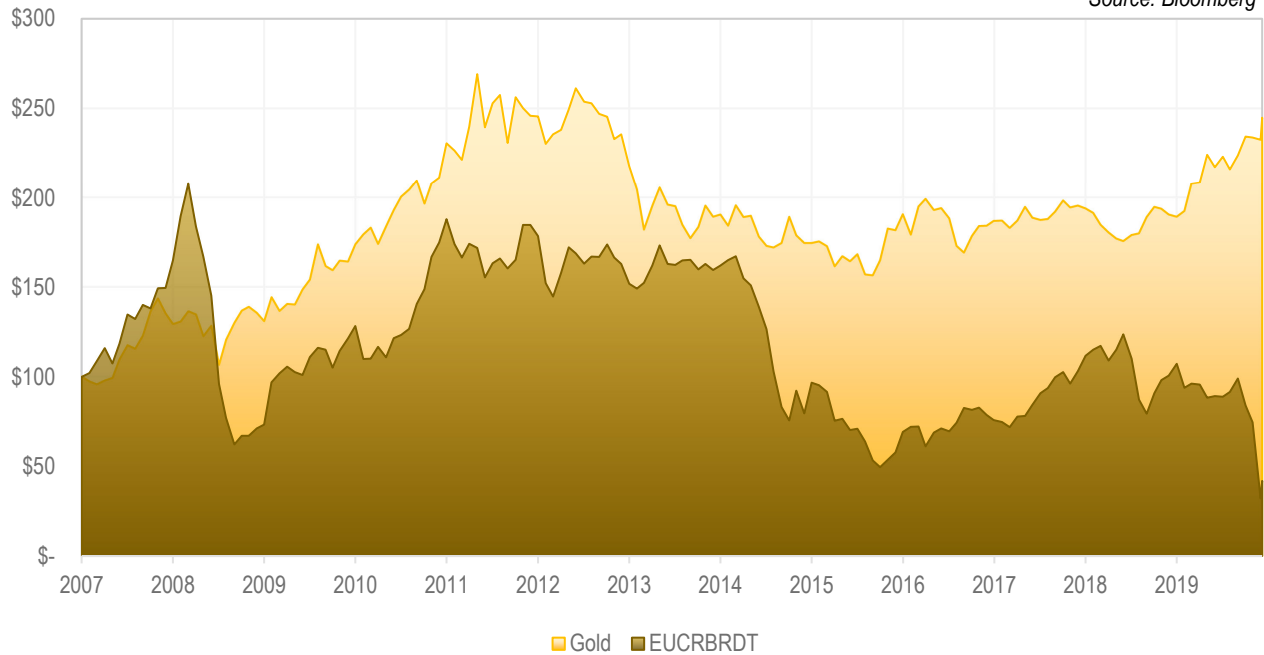
We've invested in oil infrequently over the past dozen years. The 2015/16 period was a profitable exception. In 2020, once again, we find the area to be enticing. Reasonable people can debate what share of the energy market oil will lose over the next half-century, or whether the equilibrium price is \$40 or \$90, but we're willing to go on record that \$13 is not sustainable for any meaningful period of time. (The negative \$40 per barrel recently posted in the futures market can be viewed as a reflection of too much money sloshing around the system and peculiarities of the futures markets, rather than as a reflection of the long-term value of oil.) The price has been periodically negative in parts of Canada, though, due to transportation bottlenecks. As things calibrate, the upside is significant.



## GOLD VS OIL (BRENT)

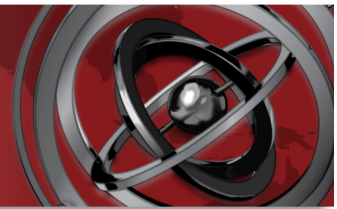
April 2007 - April 2020

Source: Bloomberg



## Natural Gas

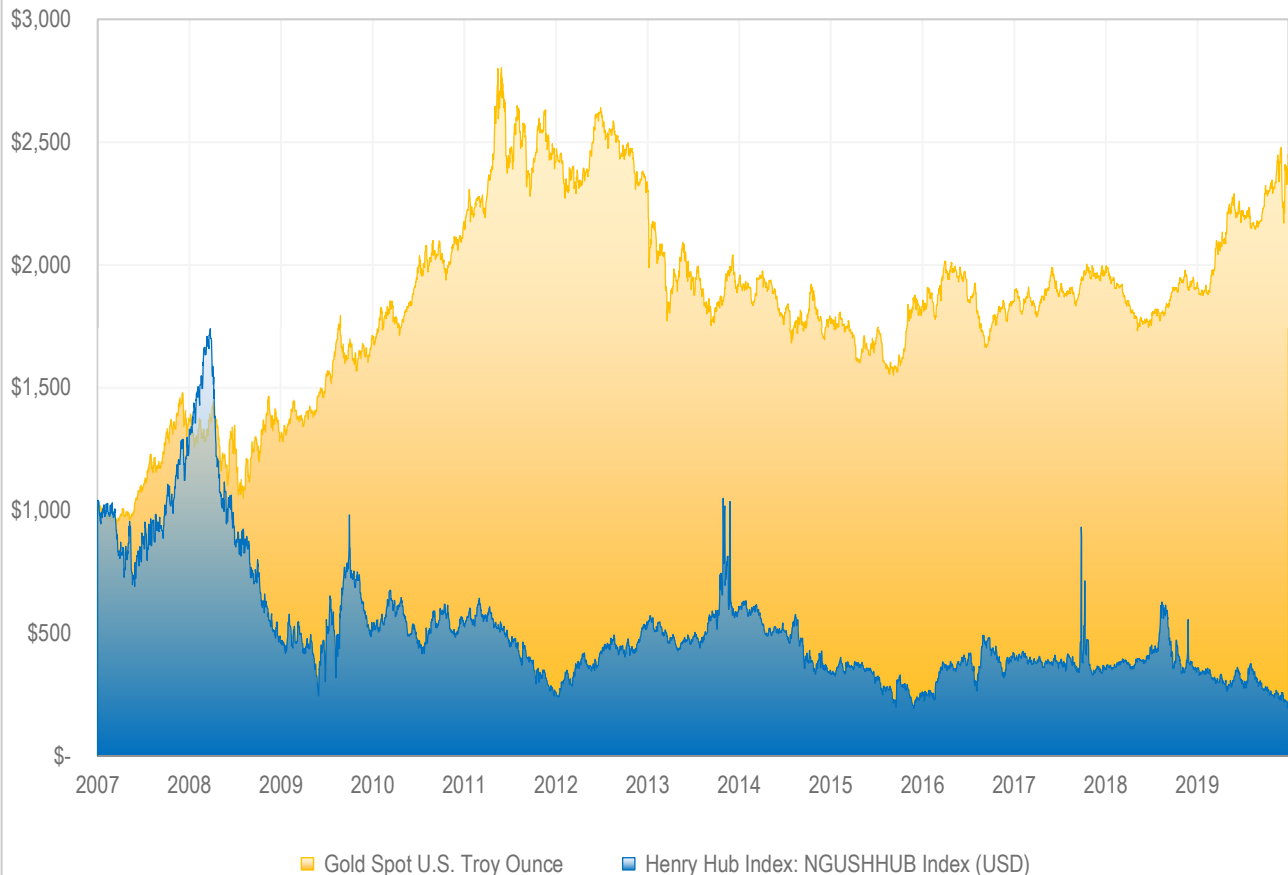
Gold went up 140% while natural gas at first rose faster then dropped over 80%. Investment sentiment has gone from viewing gas as a cheap, clean, strategically located, attractive energy source to disdaining it as a useless, overabundant byproduct of oil, or worse yet, an evil hydrocarbon. Stock market investors were recently reminded that crowd-based opinions are cyclical, even fickle. We suspect that energy investors will rediscover this truism in the not so distant future. Mismanaged and over-indebted, most of the industry's participants have watched their stocks drop more than 95%. COVID-19 was the last thing that this industry needed. But, when we get to the other side, the survivors could register 5, 10, even 20-fold returns from the bottom.



## GOLD VS NATURAL GAS

April 2007 - April 2020

Source: Bloomberg



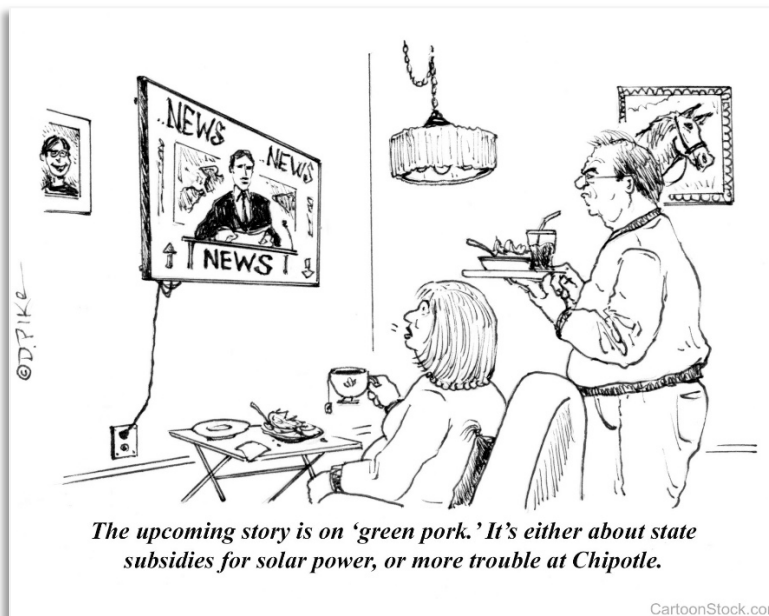
## Grains

Grain prices have held up much better than metals or energy prices. They have held their own in nominal terms, although adjusted for inflation they too have had a rough decade. They are now bouncing around near the lowest prices in thirteen years. Active investors will appreciate the extreme of the anomalies in this area. Publicly traded companies that grow food are trading at single digit price-to-earnings ratios. From the price, it should be clear that they aren't U.S. companies. By contrast, Domino's, a company that turns the food into a pizza, sells at 38 times earnings, while Chipotle, which puts the food in a tortilla, sells for 55 times earnings, 88 times this year's expectation. Evidence of extreme bifurcation is everywhere, but the preposterousness in this industry is beyond the pale. Certainly, opportunity can't be far behind.

*Upon the fields of barley  
You'll forget the sun in his jealous sky  
As we walk in fields of gold*

*-Sting, 'Fields of Gold'*

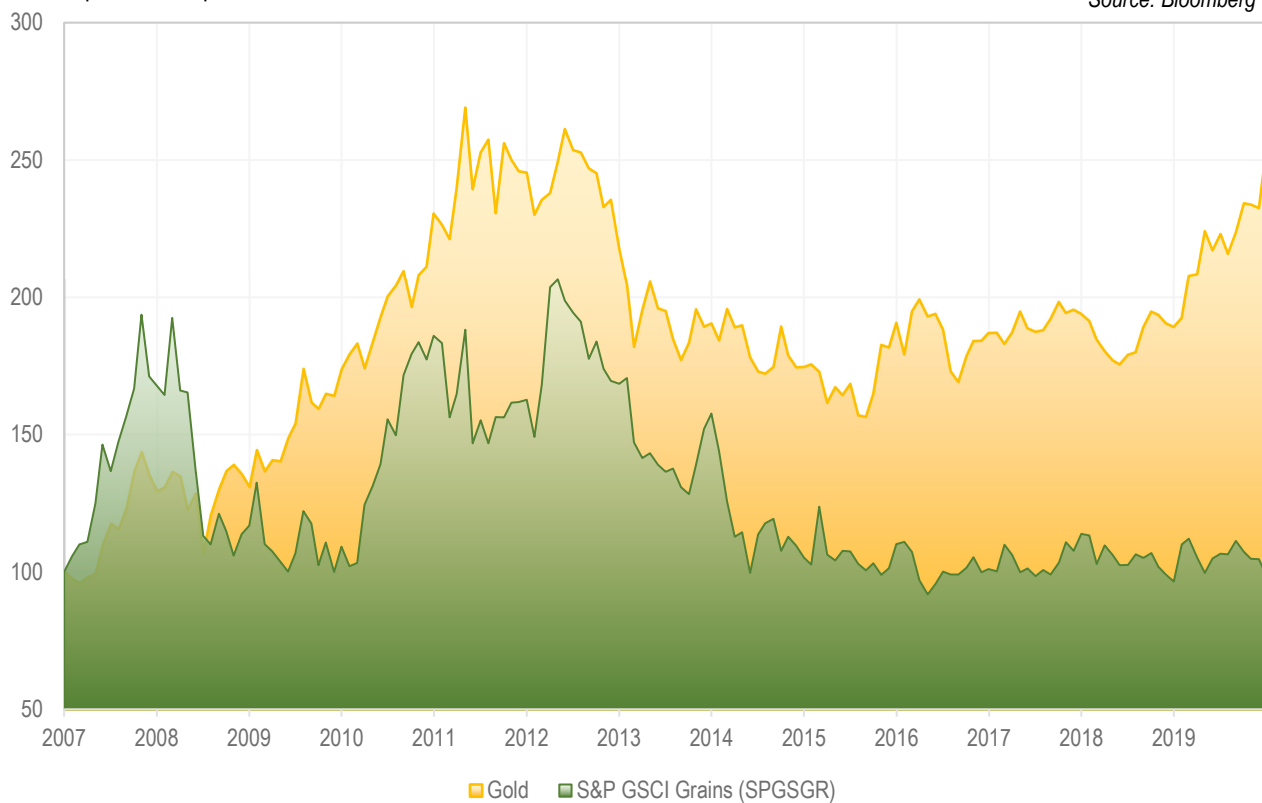




## GOLD VS GRAINS

April 2007 - April 2020

Source: Bloomberg





## Quality Franchises; Unpopular Domiciles

*If my eyes don't deceive me,  
there's something going wrong around here.*

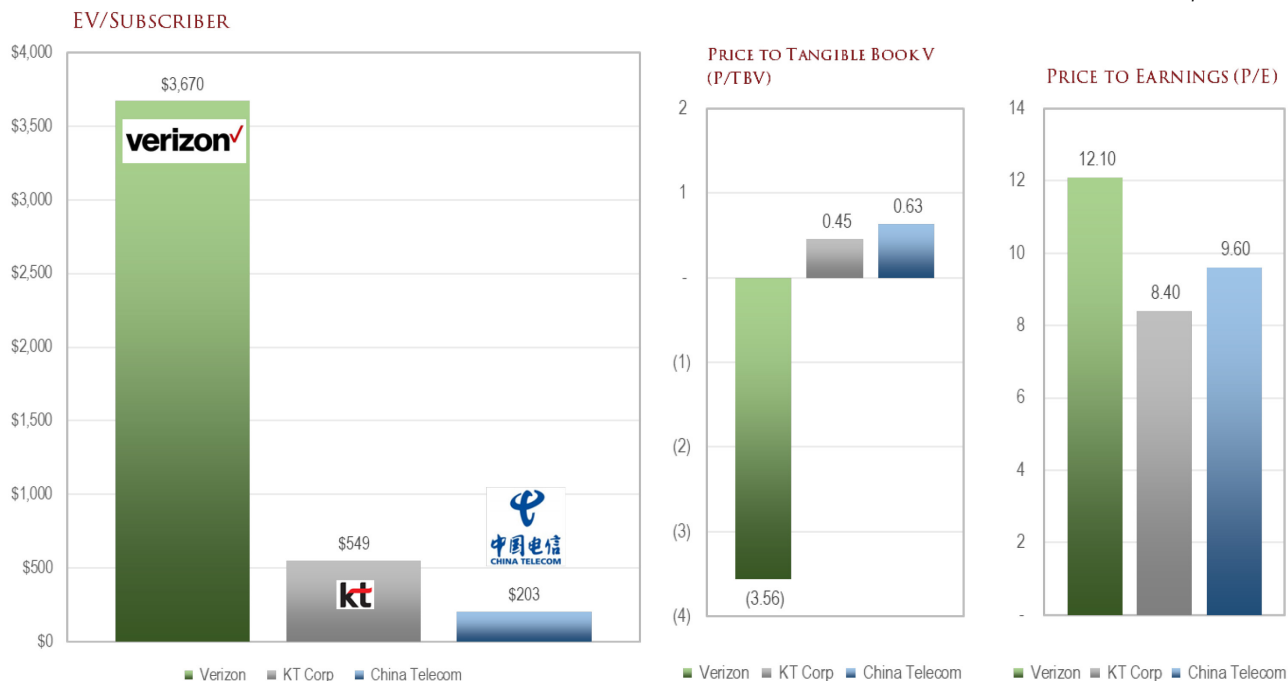
*-Joe Jackson, 'Is She Really Going Out With Him?'*

Most investors say they love quality franchises, and who doesn't? In addition to healthy, and relatively stable, profit margins, good franchises also have scarcity value, an increasingly valuable trait as currency rains from the skies. But we suspect that what most really want is momentum. An eleven-year uptrend is alluring. Clearly, so many investors insist on buying the most expensive ones. This will likely prove problematic as history and logic make clear that paying expensive prices for really good companies is a losing strategy. **Fortunately, quality franchises are available at bargain prices, but it requires venturing into good but unpopular domiciles.**

The pictures below illustrate the large divide in valuation metrics for stocks of U.S. companies relative to non-U.S. companies. Shown are communications, transportation, electricity generation companies, and food producing enterprises across regions. There are many more examples, but this narrative is long enough already.

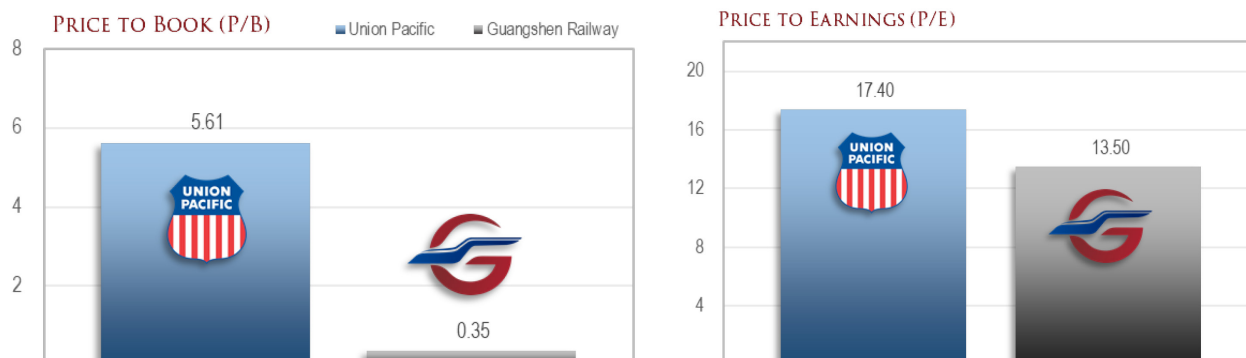
## Communications

Source: Bloomberg  
As of April 16, 2020

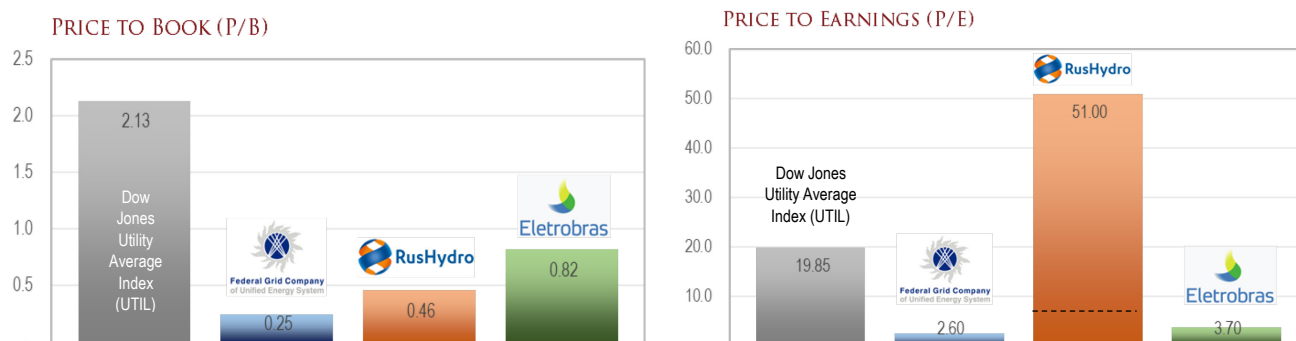


## Transportation

Source: Bloomberg  
As of April 16, 2020



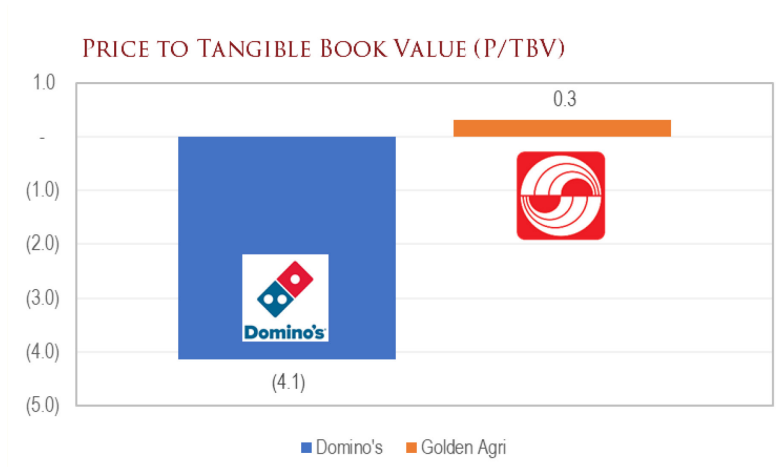
## Electricity Generation



\*RusHydro is 7.6 times this years expected earnings

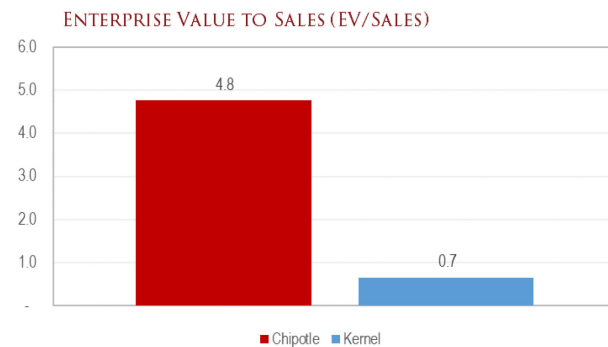
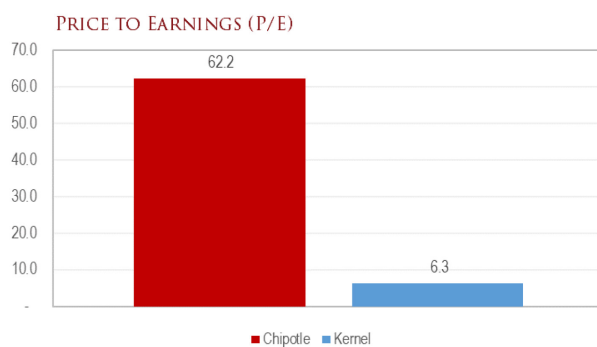
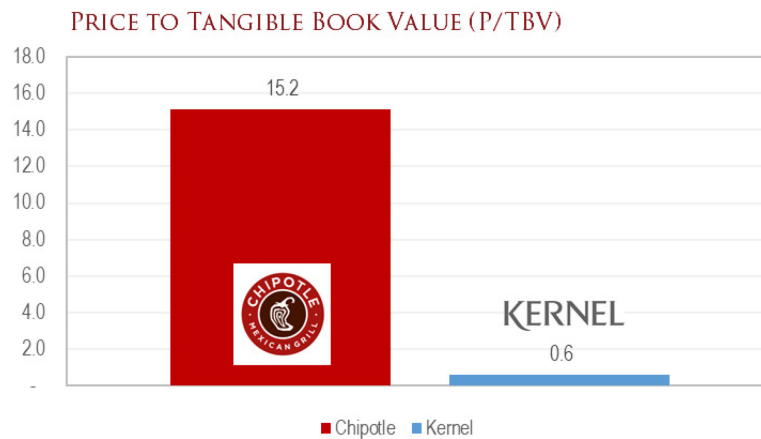
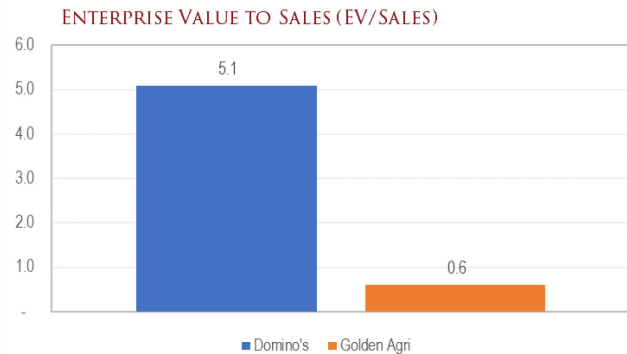
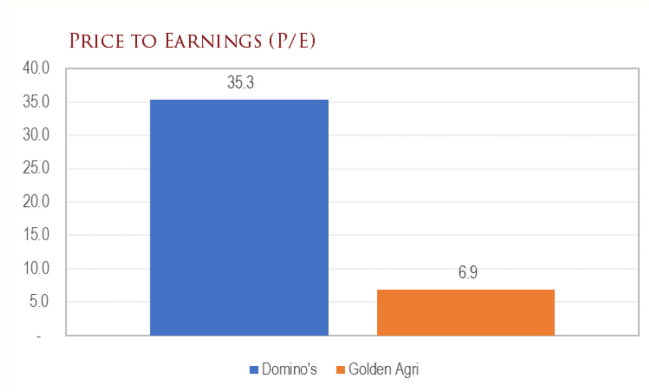
■ Dow Jones Utility Average Index (UTIL) ■ Federal Grid Co ■ RusHydro ■ Centrais Electricas Brasileiras

## Food Production





Source: Bloomberg  
As of April 16, 2020



*Kernel is one of the world's leading producers of sunflower oil and other agricultural products.*

While space does not permit more specific examples, the following chart gives a quick snapshot of the overall market: the U.S. relative to non-U.S, relative to an uncorrelated portfolio that is global, all-cap, and attentive to valuation (using our Global All-Cap portfolio as a proxy).





As of March 31, 2020	S&P 500	MSCI ACWI ex U.S.	Kopernik Global All-Cap
Enterprise Value to Sales (EV/S)	2.4x	1.4x	0.9x
Price to Cash Flow (P/CF)	11.8	8.2	2.6
Price to Tangible Book Value (P/TBV)	10.1x	2.0x	0.4x
Price to Earnings (P/E)	19.6x	13.7x	6.9x

Source: Bloomberg

The difference is undoubtedly bigger than shown since more than ninety percent of S&P companies don't use standard accounting practices anymore, flattering their numbers meaningfully. This is much less common abroad.

*When managing the reported numbers is rewarded more than doing the hard work of managing the business, that incentivises some of the worst forms of managerial behaviour.*

-Jason Hsu, Rayliant Global Advisers

Now, many people say that they agree with our view on stocks, but they are quite concerned about timing. We've written a lot about this topic. We aren't good at timing (obviously) but believe it's over emphasized because: 1) especially long cycles are usually deciphered as evidence that cycles no longer exist. They have always eventually turned, often with exaggerated vigor; 2) The recent events seem to be screaming – "the game is over", market leadership surely is shifting; 3) Timing doesn't matter that much in the big picture. The following chart makes clear that big returns over any reasonable time period will yield stellar investment. This is doubly true in comparison to sovereign bond yields (or lack thereof).

*It's all I can do, to keep waiting for you*

*-the Cars, 'It's All I Can Do'*

Year	Upside Potential			Internal Rate of Return
	2X	3X	5X	
1	100%	200%	400%	
2	41%	73%	124%	
3	26%	44%	71%	
4	19%	32%	50%	
5	15%	25%	38%	
6	12%	20%	31%	
7	10%	17%	26%	
8	9%	15%	22%	
9	8%	13%	20%	
10	7%	12%	17%	

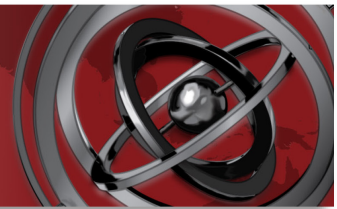
For Illustrative Purposes. Actual results may differ



The “return on patience” is likely particularly high now. Outsized returns are most achievable from extreme points in the cycle, during challenging times, and at major inflection points in the market. For further thought on style shifts and on why efforts to reflate past bubbles go somewhere, but not where they’re intended, let’s turn to 18<sup>th</sup> century philosopher Richard Cantillon. He pointed out the obvious, that monetary inflation is not distributed evenly throughout the economy. Those closest to the money get enriched while those way downstream get the short end of the stick, eventually paying higher prices for things without ever having benefitted from access to the money. The Spanish found money in the New World and benefitted disproportionately relative to the rest of the world. With Bretton Woods, the U.S. was given the sole right to print the world’s reserve money and benefitted disproportionately. Banks can create “money” and benefit accordingly. In QE (1 – 3) money was given to the banks, benefitting the finance industry disproportionately. This time around, money is being tossed around more broadly, but the bulk of it is, once again, being given to the financial industry (although much more broadly this time: private equity, fund management companies, hedge funds). So, people are not wrong to think that we will see the same winners. Central bank money printing always has been, and always will be, a mechanism for transferring wealth from the poor and middle class to the rich. But, beyond the rich winning, it isn’t simple. Cantillon pointed out that moneyed economies tend to lose their manufacturing base and suffer from high prices and lack of drive. Certainly, this happened to Spain eventually and over time they succumbed to the British. It is said that during Bretton Woods the U.S began to lose its manufacturing base and to hemorrhage gold. Are the financial position, work ethic, and morals of very large U.S. corporations, states and the federal government anything like that of the past centuries?

Friedrich Hayek expanded on Cantillon’s analysis, comparing the spread of money through the system to honey being poured on a platter. It congregates in the center where it is poured. But it can only go so high at the spot that it’s poured before it starts to seep outward toward the edges. With time it keeps spreading further. It seems an apt analysis and suggests that while, yes, they are going to dump more money predominantly into the hands of the rich, much of the finance industry is pretty saturated with honey already. Look how supersaturated the sovereign bond market is. Many rates are negative; can they be more overpriced than that? **Paying someone to borrow money from you makes as much sense as paying someone to rent a room from you or to let you work for them.** Sheer madness. Talk about social distortion. Talking about distortion and malinvestment, it is worth repeating a phrase from earlier: Who’s going to build more restaurants, retail stores, office buildings, etc. when we are so over stored already compared to other countries and to the past? And when thousands of companies, most with seemingly endless access to capital, are all employing a “blitz-scaling” model, is it logical to assume that they all are going to win? Can they scale perpetually in our finite world? You know our answer. No, **rather than investing in companies striving for infinite growth in a finite world, we suggest doing just the opposite.**

And, timing-wise, there has perhaps never been a better time to eschew chasing momentum and instead to focus on quality, scarce assets. Growth will be increasingly hard to sustain. The divergence in the valuations between value stocks and growth/momentum is breathtaking. And, while it is strange that style shifts so often happen at the turn of a new decade, that is exactly what so often happens. That style shifts indeed happen periodically is fully logical. The masses always take good things to excess, and thereby sow the seeds for their own destruction. It is said that no investment is so good that it can’t be ruined by being chased by too much money. At any rate, the following chart is interesting. It is our own adaptation of Marc Faber’s work, from a piece he wrote about a fictive uncle, who made trades roughly once per decade. Turned out to be a superb strategy. Cycles are very real.



## WHAT MIGHT THE COMING DECADE HAVE IN STORE?

*Faber's Fictive Uncle*

1960s	Own Quality Franchises	
1970s	Own Gold/Energy	Avoid Fixed Income
1980s	Own Japanese Equities	Avoid Gold/Energy
1990s	Own U.S. NASDAQ	Avoid Japanese Equities
2000s	Own Gold/Energy	Avoid U.S. NASDAQ
2010s	Own U.S. S&P 500	Avoid Gold/Energy
		?
2020s	What's Disliked, Cheap, Useful? Conversely, what is Over-owned, Ultra-expensive?	

Obviously, a few months don't mean much. But, the popular index stocks may have peaked in March, growth will be hard to resuscitate in the post-corona environment, and the market leadership is seemingly much too narrow to sustain. Meanwhile, gold is rising and is back in the vicinity of all time highs, uranium has bounced recently and supply is well short of demand, and some emerging markets are certainly poised to grow faster than the developed world. The times may be a changing.



## CHAPTER 4

### Summary

*Those who would give up essential Liberty,  
to purchase a little temporary Safety,  
deserve neither Liberty nor Safety.*  
-Ben Franklin

*The greatest dangers to liberty lurk in the insidious encroachment by men of zeal,  
well-meaning but without understanding.*  
-Justice Louis Brandeis

*The urge to save humanity is almost always a  
false face for the urge to rule it.*  
-H.L. Mencken

*Liberty means responsibility.  
That is why most men dread it.*  
-George Bernard Shaw

*Let's stand up for truth, bondage or freedom,  
you have to choose*  
[\*-Paddy and the Rats, 'Join the Riot'\*](#)





Several issues ago, we looked back a half-millennium to see what we could glean from the stark contrast with our current era. The following issue looked back a “mere” half-century to re-examine the period that arguably most mirrors our current age. While this commentary is clearly about current happenings, inspiration came from a very different era, jumping forward a decade to the late 1970s/early 1980s. It was a period of bear markets and angst. Not surprisingly, it was a great time to be limping into the stock and bond markets; by the eighties it was time to back up the truck. George Orwell’s *1984* was still about a time in the future and his “Big Brother” still seemed like fantasy. **While the stock and bond markets still seem planted in a mindset circa 1973, the angst of the late ‘70s is palpable;** probably much worse. That era has in common with ours the angst and the likelihood that this is also a major inflection point in the markets. That was the cyclical end of a period of high inflation, of big government, and the bull market in commodities. Conversely it was the beginning of a super cycle in stocks and especially bonds. **The current era is probably the end of all those cycles.**

Fifty years ago, people expressed their discontent by taking to the streets. Now, most seem to internalize their anguish. This is indeed a very different era. The inspiration came to me on the Rooftop at Pier 17, a great venue for music. All of the lyrics used in this paper are from groups that I’ve personally seen perform live, over the years. The notable exception is XTC, who provided the introductory lyrics and also the title song. I find live music to be enjoyable, entertaining, and a great study of crowd behavior and psychology. I look forward to live entertainment being legal again. The Pier 17 event was the third time I’ve seen the group Social Distortion over the past three decades. They were excellent, as were Flogging Molly and The Devil Makes Three. That genre of music caught the angst of forty years ago, an angst that is re-emerging with a vengeance now. The increase in angst was inevitable with the launch of QE. One can only imagine the pain that will eventually be felt as a consequence of QE-infinity. So yes, you can count us amongst the not insignificant contingent of people who believe that when you distort the market’s pricing mechanism (interest rates) you inadvertently **distort the fabric of society**. The signs are proliferating. Last fall, viewing this subject as perhaps too negative, I shelved this commentary for a number of months, until recent events provided much “richer” material than I ever could have imagined. They’ve made so many plans for Nigel – what he can do, when he can work, if he can work, which government funds he’s entitled to. His schedule is booked solid, yet he must hang out at home. Understandably, I felt compelled to finish this. So, here it is. I felt like it needed to be said. Hope it was a worthwhile read.

*It's those changes in latitudes, changes in attitudes  
Nothing remains quite the same  
With all of our running, and all of our cunning  
If we couldn't laugh we would all go insane*

*[-Jimmy Buffett, 'Changes in Latitudes, Changes in Attitudes'](#)*

We don’t want to end this commentary without reiterating that the silver lining in all this is the opportunity to gain attractive cash flow yielding investments in quality business franchises, with the caveat that they mostly reside in unpopular countries, and also to garner massive upside optionality by investing in resource-rich businesses. The valuation divide between expensive stocks and attractively priced stocks has probably never been this wide. Investors have a choice. We believe that this is our most attractively valued portfolio in four decades.

More importantly, **we are all blessed to be in the investment industry**. We have the ability to continue to operate even during the current lockdown. While there are certainly more obstacles, we can still do research, talk to interesting people, learn interesting things, and provide service to clients and friends. Speaking for myself, I feel that now is the time to give back to the community, be that through charity or supporting local businesses that are struggling. I applaud the many others who are responding accordingly.

This missive has been uncharacteristically opinionated. I hope it didn’t offend too many people. And, I endeavored to at least stimulate a lot of thought. If not now, when? And, lastly, I detailed what I believe to be generationally attractive investment opportunities. Hopefully, this proved helpful to some.

The banner features the company name 'Kopernik' in a large, dark red serif font. Below it, 'Global Investors, LLC' is written in a smaller, dark red sans-serif font. The background of the banner is a light red gradient with a faint world map. On the right side, there is a circular graphic containing a stylized atomic model with a central nucleus and three elliptical orbits.

# Kopernik

Global Investors, LLC

Most importantly, we certainly hope that you, your family, and your friends have stayed healthy during this pandemic. We also hope that you are faring reasonably well in the harsh environment that has resulted from this virus and the reaction to it. We wish you good health and happiness.

Sincerely,

David B. Iben, CFA  
Chief Investment Officer  
May 2020



## Related Articles of Interest



When it comes to chronicling what becomes of a society as economic decision-making is wrested from individuals and small businessmen by politicians and bureaucrats, perhaps no one was better than Ayn Rand. A gifted, if eccentric, writer, she grew up in Russia and witnessed the early days of communism there. If there was ever a time to read/reread her masterpiece – *Atlas Shrugged* – it is now. I've reprinted the first few pages, which set the stage and capture a little of the underlying feeling that people are starting to feel again, here in 2020. One can't help but wonder if Eddie's mighty oak tree isn't a fitting analogue for our economy.

We'll then move on to Jim Grant, Howard Marks, and others.

"Who is John Galt?"

The light was ebbing, and Eddie Willers could not distinguish the bum's face. The bum had said it simply, without expression. But from the sunset far at the end of the street, yellow glints caught his eyes, and the eyes looked straight at Eddie Willers, mocking and still—as if the question had been addressed to the causeless uneasiness within him.

"Why did you say that?" asked Eddie Willers, his voice tense.

The bum leaned against the side of the doorway; a wedge of broken glass behind him reflected the metal yellow of the sky.

"Why does it bother you?" he asked.

"It doesn't," snapped Eddie Willers.



He reached hastily into his pocket. The bum had stopped him and asked for a dime, then had gone on talking, as if to kill that moment and postpone the problem of the next. Pleas for dimes were so frequent in the streets these days that it was not necessary to listen to explanations, and he had no desire to hear the details of this bum's particular despair.

"Go get your cup of coffee, " he said, handing the dime to the shadow that had no face.

"Thank you, sir, " said the voice, without interest, and the face leaned forward for a moment. The face was wind-browned, cut by lines of weariness and cynical resignation; the eyes were intelligent. Eddie Willers walked on, wondering why he always felt it at this time of day, this sense of dread without reason. No, he thought, not dread, there's nothing to fear: just an immense, diffused apprehension, with no source or object. He had become accustomed to the feeling, but he could find no explanation for it; yet the bum had spoken as if he knew that Eddie felt it, as if he thought that one should feel it, and more: as if he knew the reason.

*(several pages omitted here, editor note)*

He did not know why he suddenly thought of the oak tree. Nothing had recalled it. But he thought of it and of his childhood summers on the Taggart estate. He had spent most of his childhood with the Taggart children, and now he worked for them, as his father and grandfather had worked for their father and grandfather.

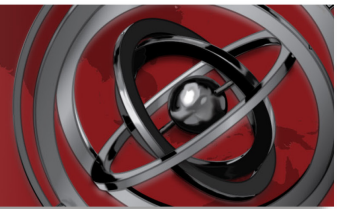
The great oak tree had stood on a hill over the Hudson, in a lonely spot of the Taggart estate. Eddie Willers, aged seven, liked to come and look at that tree. It had stood there for hundreds of years, and he thought it would always stand there. Its roots clutched the hill like a fist with fingers sunk into the soil, and he thought that if a giant were to seize it by the top, he would not be able to uproot it, but would swing the hill and the whole of the earth with it, like a ball at the end of a string. He felt safe in the oak tree's presence; it was a thing that nothing could change or threaten; it was his greatest symbol of strength.

One night, lightning struck the oak tree. Eddie saw it the next morning. It lay broken in half, and he looked into its trunk as into the mouth of a black tunnel. The trunk was only an empty shell; its heart had rotted away long ago; there was nothing inside— just a thin gray dust that was being dispersed by the whim of the faintest wind. The living power had gone, and the shape it left had not been able to stand without it.

Years later, he heard it said that children should be protected from shock, from their first knowledge of death, pain or fear. But these had never scarred him; his shock came when he stood very quietly, looking into the black hole of the trunk. It was an immense betrayal—the more terrible because he could not grasp what it was that had been betrayed. It was not himself, he knew, nor his trust; it was something else. He stood there for a while, making no sound, then he walked back to the house. He never spoke about it to anyone, then or since.

Eddie Willers shook his head, as the screech of a -rusty mechanism changing a traffic light stopped him on the edge of a curb. He felt anger at himself. There was no reason that he had to remember the oak tree tonight. It meant nothing to him any longer, only a faint tinge of sadness— and somewhere within him, a drop of pain moving briefly and vanishing, like a raindrop on the glass of a window, its course in the shape of a question mark.





He wanted no sadness attached to his childhood; he loved its memories: any day of it he remembered now seemed flooded by a still, brilliant sunlight. It seemed to him as if a few rays from it reached into his present: not rays, more like pinpoint spotlights that gave an occasional moment's glitter to his job, to his lonely apartment, to the quiet, scrupulous progression of his existence .

He thought of a summer day when he was ten years old. That day, in a clearing of the woods, the one precious companion of his childhood told him what they would do when they grew up. The words were harsh and glowing, like the sunlight. He listened in admiration and in wonder. When he was asked what he would want to do, he answered at once, "Whatever is right, " and added, "You ought to do something great ... I mean, the two of us together." "What?" she asked. He said, "I don't know. That's what we ought to find out. Not just what you said. Not just business and earning a living. Things like winning battles, or saving people out of fires, or climbing mountains." "What for?" she asked. He said, "The minister said last Sunday that we must always reach for the best within us. What do you suppose is the best within us?" "I don't know." "We'll have to find out." She did not answer; she was looking away, up the railroad track.

Eddie Willers smiled. He had said, "Whatever is right," twenty-two years ago. He had kept that statement unchallenged ever since; the other questions had faded in his mind; he had been too busy to ask them. But he still thought it self-evident that one had to do what was right; he had never learned how people could want to do otherwise; he had learned only that they did. It still seemed simple and incomprehensible to him: simple that things should be right, and incomprehensible that they weren't. He knew that they weren't. He thought of that, as he turned a corner and came to the great building of Taggart Transcontinental.

The building stood over the street as its tallest and proudest structure. Eddie Willers always smiled at his first sight of it. Its long bands of windows were unbroken, in contrast to those of its neighbors. Its rising lines cut the sky, with no crumbling corners or worn edges. It seemed to stand above the years, untouched. It would always stand there, thought Eddie Willers .

Whenever he entered the Taggart Building, he felt relief and a sense of security. This was a place of competence and power. The floors of its hallways were mirrors made of marble. The frosted rectangles of its electric fixtures were chips of solid light. Behind sheets of glass, rows of girls sat at typewriters, the clicking of their keys like the sound of speeding train wheels. And like an answering echo, a faint shudder went through the walls at times, rising from under the building, from the tunnels of the great terminal where trains started out to cross a continent and stopped after crossing it again, as they had started and stopped for generation after generation.

Taggart Transcontinental, thought Eddie Willers, From Ocean to Ocean— the proud slogan of his childhood, so much more shining and holy than any commandment of the Bible. From Ocean to Ocean, forever— thought Eddie Willers, in the manner of a rededication, as he walked through the spotless halls into the heart of the building, into the office of James Taggart, President of Taggart Transcontinental.



Jim Grant adds the following from the April 17<sup>th</sup> issue.

How such meager interest rates will sit with the state pension funds that, with respect to actuarial liabilities, were half broke before the country suspended commerce is another mystery. A catalyzing crisis of the pension funds, should it come, would likely go down as another one of those unintended consequences of well-intended actions.

Frédéric Bastiat, the 19<sup>th</sup>-century French essayist, knew all about well-intended acts and the trouble they cause. “In an economy,” he wrote, “an act, a habit, an institution, a law, gives birth not only to an effect, but to a series of effects. Of these effects, the first only is immediate; it manifests itself simultaneously with its cause—it is seen. The others unfold in succession—they are not seen: it is well for us if they are foreseen.”

Howard Marks always lays ideas out so well. He wrote a memo a while back talking about perverse consequences of negative interest rates. Enjoy:

***“It’s not just Einstein’s observation (the miracle of compounding) that may be rendered invalid. Negative rates turn a lot of the usual processes upside down. Here are several examples:***

- Negative rates make life more difficult in a TINA (“there is no alternative”) world. Many investors don’t want to knowingly sign on for negative rates. ***That makes risky investments preferable, even if they promise historically low prospective returns. In this way, risk aversion is discouraged. “I have no choice but to go into risky assets, because I can’t accept a negative return on safe ones.”***  
There is clear evidence that this is happening among institutional investors. The flow of pension fund money into any asset that promises to beat zero-rate bonds has been so dramatic that equities, junk bonds, property, private equity



and a host of other more abstruse areas of investment have spiraled in value – and to such an extent that they look highly vulnerable to any shock . . .” (Financial Times, August 5, 2019)

Proof? What about the fact that in early July, a €3 billion offering of Italian sovereign bonds maturing in 2067(!) was almost six times oversubscribed thanks to its lavish 2.877% yield? What a bonanza Italy was at the time, with a 10-year bond out-yielding Germany’s 10-year by 215 basis points, 1.78% to -0.37%.

- There’s no longer any reason to pay slowly in order to make money on “float.”
  - In the old days, people paid their bills on the last possible day, preferring to keep the money in the bank and earn interest as long as possible. Under negative rates they may prefer to pay sooner.
  - Many insurers traditionally have made money primarily because they paid claims years after they collected the premiums on the policies they issued. What happens if it costs them money to hold float until claims are paid?
- Likewise, there’s no impetus to collect receivables quickly. In the past, wholesale customers were offered discounts for paying bills early. Now the seller might say, “No, you keep it. I’d rather you paid me in six months.”
- Negative rates put pressure on people, such as retirees, who live on the income from their investments.
- Importantly, the pessimistic signals sent by negative rates may mean they have a contractionary rather than stimulative effect.

Research has suggested that Japan’s negative rate policies may have backfired, actually lowering inflation expectations instead of firming them, as hoped. (The New York Times, September 11)

Last week famously blunt ING boss Ralph Hamers excelled himself, all but calling the ECB idiotic for planning to shift rates further downwards. “The negative rate environment is making consumers so uncertain about their financial environment that they’re starting to save more rather than less,” he said.

Mr. Hamers has a point. Rather than encouraging people to borrow and spend, the data suggests nervous eurozone consumers are hoarding. Eurostat reports the eurozone household savings ratio is at a five-year high of nearly 13 per cent. (Financial Times, August 5)

- If interest rates for small savers ever were to go negative, it would give rise to the juxtaposition of income penalties for households with benefits for “the elites” through their ability to profit from rising equity prices. Economic impact aside, the boost to populist politics would likely be dramatic.
- Negative rates can distort the workings of floating-rate financial products. Lenders and depositors might have been happy in the past receiving interest rates at a spread over the base rate Euribor. With a negative base rate, however, loans and deposits might leave them with less money than they anticipated as time passes.
- Negative rates on U.S. Treasuries would, for example, harm the Social Security Fund (which can only invest in Treasuries), hastening the day when it runs out of money.
- **Negative rates can warp the calculation of discounted present values.** In particular, when the discount rate is negative, the present value of future pension obligations can exceed their future value. The combination of high discounted obligations and low yields on investments can be disastrous for the funded status of pension funds.
- **Ditto for the impact on bank profitability.** Negative rates charged to borrowers can sap the returns banks depend on, throwing countries’ banking systems into reverse. Already, some banks have seen the need to issue mortgages with negative interest rates. “In a negative rate environment, the bank must pay to hold loans and securities. In other words, banks would be punished for providing credit . . .” (Jim Bianco on Bloomberg, September 3) “Certainly Europe’s bankers are squealing, as they feel margins squeezed by low rates on lending and a reluctance to pass on negative rates to depositors.” (Financial Times, August 5) Big banks can charge negative rates to corporate and HNW depositors, but as I mentioned earlier, thus far retail banks haven’t passed them on to small savers. Doing so could cause those savers to leave the banking system, depriving it of a traditional source of deposits.
- What about the application of negative interest rates to corporate bonds? How will the markets value businesses that hold cash versus those that are deep in debt? Traditionally, markets have penalized heavily levered companies and rewarded those that are cash-rich. But if having negative-yield debt outstanding becomes a source of income, will levered companies be considered more creditworthy? Conversely, how will the market value businesses that hold a lot of cash and thus have to pay banks to keep it on deposit?





- *Financial models and algorithms – which essentially are a matter of looking for and profiting from deviations from historic relationships – may not work as well as they did in the past, since history (all of which has been based on positive interest rates) may be out the window.*

## WAITING FOR GOOD-DOUGH

Paul Singer, Elliott Management, April, 2020

In the play “Waiting for Godot” by Samuel Beckett, which premiered in 1953, two characters wait for the arrival of someone named Godot, who never arrives. In our version, Good-Dough is sound money, and its chance of arriving is just about as slim. The reason that we have been harping on the failure of central banks to normalize monetary policy these past 10 years is that we were highly concerned about entering the next financial crisis/bear market/recession (whenever it might arrive) without the fluff, detritus and litter of the previous crisis having been cleaned up and scrubbed clear. To have the curtain go up for the “next show” on a stage where the stagehands are caught in the floodlights holding \$20 trillion dollars of bonds and stocks purchased under the one-size-fits-all monetary flood period, with interest rates at, near, and most significantly below, zero, is to start the next thrilling show deeply unprepared. The world’s major central banks continued emergency policies for 10 years after the emergency was over, with no theoretical or empirical support for doing so. Those policies resulted in a gradual slow-growth recovery coupled with dramatically rising securities and asset prices. The reason this is important is that QE, ZIRP and NIRP are deeply unsound policies, and rely for their magical-seeming efficacy on naïve faith by citizens, investors and businesses that paper money is trustworthy no matter how much of it is whisked into being, and no matter what the return (or literal cost in the case of NIRP!) is from holding claims on it. Like any compelling “serial” on TV, we will start with a reprise of the highlights from the previous exciting episode: 2008. Too much debt, unsound financial institutions, oblivious corporate executives, and arrogant and clueless central bankers brought the world to the brink of financial extinction in 2008. Then, so the story goes, these same central bankers morphed into heroes and saved the world with their monetary fire hose on “full crowd control” and “confetti” settings. That tsunami of newly printed free money lifted securities prices, deepened inequality and unleashed the political testiness that comes along with such a novel and distorted recovery, and it tested and kept testing the willingness of people to accept cotton-candy money at full value. Sadly, when people (including those who should know better) do something stupid and reckless and are not punished, it is human nature that, far from thinking that they were lucky to have gotten away with something, they are encouraged to keep doing the stupid thing, keep believing the unbelievable and keep assuming that they were just plain wrong to be concerned about “old-fashioned” restraints (like sound money: Good-Dough). As we have pointed out ad nauseam et beyondum, doubling down on unsound policy just raises the stakes and the intensity of the future “payback.” Inflation is generally rising price levels. Inflation can be caused by supply issues or blockages, excess demand, wars or various versions of money printing. It is normally hard to convince people to accept paper money (backed by nothing) that is being debased, and human history is full of examples of currencies that were debased and then fell precipitously in value. Debasement is not novel; it is a timeless way for sovereigns to attempt to pay less, or far less, on the obligations they have incurred. Usually it does not “work,” in the sense of permanently fooling people, because at some point people front-run the debasement, which turns into a tail-chasing episode that can, and frequently does, destroy people’s savings and make them really angry, in contrast to the desired result of fooling people into passively accepting the erasure of their assets (the governments’ obligations). In the case of the post-2008 debasement, a combination of technological change, globalization and the use of the newly printed money to buy bonds has kept reported consumer price inflation in bounds and fed the narrative that monetary radicalism is really a panacea without risks and side effects. The inflation instead has gone into stock, bond, real estate and art prices and has exacerbated inequality. It actually has created more financial engineering than economic growth, but the sheer size of it (\$20 trillion of bond and stock purchases and zero percent and below interest rates) brought the global economy close to appearing to return to normal after 2009, albeit growing more slowly than before. But the failure to normalize monetary policy prior to the next crisis (which is now hard upon us) ensured that the next crisis would bring the unsound (and experimental) monetary policy to even greater uncharted heights (depths?) of unsoundness. Prior to 2008, central bank balance sheets were clean and interest rates were sort of low but normal. In contrast, just prior to the virus a couple of months ago, \$20 trillion of purchased stocks and bonds were still on central bank balance sheets, and Japan, Europe and Switzerland





had policy interest rates below zero. One can only imagine what is going to happen to central bank balance sheets and global interest rates now, given that the global economy is screeching to a halt. Is the \$20 trillion of central bank securities holdings going to rise to \$30 trillion? Almost assuredly yes. How about \$40 trillion? \$50 trillion? Who knows? Are short-term policy rates going to be negative everywhere? Is all this going to matter? Will there be a serious deflationary period that will cause governments to pour even more fuel on the fire? Following a brief deflationary period, is the even-more-radical monetary flood going to create a tipping point following after which fiat money is rejected and hyperinflation begins, a process which could be self-reinforcing and serve to wipe out the real value of global savings and send consumer prices, commodity prices and real estate prices to the moon? Even if that is the path that governments are following (wipeout of savings, attempted wipeout of debt), and you try to align your businesses and assets on that path, things will be much more complicated than you think. Take real estate, for example. Of course it is "real," and you might think that it is a slam-dunk to preserve value in a serious inflation. But commercial real estate is a peculiar asset. It looks real because kicking it can break your toes, but it is generally highly leveraged and depends upon the relationship between rents and costs. If there are rent controls or moratoria, formal or forced by circumstances, and no controls on costs, commercial real estate can produce rapid insolvencies. A little thought will reveal many more examples of the complexities involved in a period of monetary destruction such as the one that is possible in the near future. In addition to the monetary excesses, almost all developed countries are growing their debt and their unfunded future promises (retirement, health care and other obligations) to record amounts. Currently, to fight the deepening recession, not only are central banks restarting QE without limit, they are also cutting already-low rates, and their governments are cranking up massive deficit-spending plans. There are many times in a long investing career that one hears, "Where will this all end?" We never thought that was a good question, because there is no "end," just a succession of real-world events and market actions stimulating policy reactions. Politicians love markets going up, and if there are no countervailing considerations, like rapid consumer price inflation, then they will try to keep markets high and rising and interest rates low forever. The world is currently in a deep recession from which it will be complicated to recover. Emergency policy is appropriate. Deficit spending and massive monetary expansion are called for to prevent total collapse. Holes in people's basic ability to feed themselves must be filled with alacrity. However, the new fiscal and monetary policies currently underway are the largest peacetime policies of their type ever enacted, and when piled on top of the existing, pre-virus, central bank policies, the top of the pile of debt will likely reach the heavens. We have a hard time imagining what will occur in policymakers' minds post-COVID-19 to make them responsible stewards of monetary soundness, but monetary soundness is the key to financial system soundness, confidence in economic stewardship and fiat money, and the inauguration of a new period of sound, non-inflationary growth. They got away with unsound policy for 12 years. Now they think they have the magic formula, the one-size-fits-all nostrum that enables them to control the yield curve and to promise and deliver unlimited amounts of money without cost and without risk. They are wrong. They are just as wrong as when they said that recessions and financial crises are things of the past. The new element in the equation of the forces which will shape inflation and deflation in the near future is supply-chain blockages. Prior to the virus, sluggish growth plus globalization and technological change, together with bond-buying by central banks, kept producer and consumer prices calm. It gradually led to a widespread (crazy) belief that inflation is an historical artifact, not a modern possibility. In the current situation, the global economy is plunging in activity, and this would normally be sharply deflationary in terms of producer and consumer prices. However, several factors might change the equation, probably when the economy bottoms but possibly prior to that time. One factor would be very significant supply blockages all through the global supply chain. Additionally, the global supply chain is likely to undergo dramatic changes (as companies and governments recognize the national security as well as economic risks of sole-source or limited-source critical products and services) that will generally increase the cost of goods to the consumer. Other very important factors are that the existing already-radical monetary policies have been dramatically ramped up, and fiscal policies have now gone full MMT with the new huge stimulus bills (which passed without even a discussion of how to "pay" for it). "Paying" for things with "real" money is now a quaint, outdated concept. Money is going to hell. Good-Dough is not coming. As usual, timing and shape TBD. Stay tuned for the next exciting chapters in this serial.



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