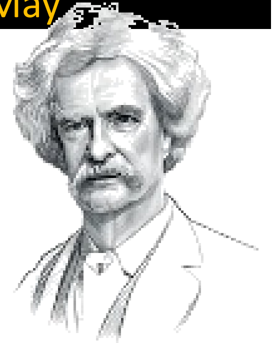
"All you need in this life is ignorance and confidence – then success is sure." -

Mark Twain.



Gold's Renaissance

Heavyweights are Returning

The actions of the world's central banks appear to be adhering very much to the tongue-in-cheek words of Mark Twain. It's clear that the level of faith that investors have in Central Banks around the world has rapidly diminished – and the reasons are obvious.

The biggest catalyst for this loss of confidence lies in the implementation by central bankers of a negative interest rate environment, which I believe is a very clear (and extremely worrying) signal that they are well and truly out of ideas.

Negative interest rates are an unprecedented phenomenon – and a desperate measure to try and arrest declining economies burdened by enormous debt levels.

An article I came across recently quoted a former U.S. Treasury Secretary calling for a cashless society. This was supported by a Citigroup economist who opines that the solution to a slow global economy is to abolish cash.

Let's just think about this for a second, as I believe the consequences of such a move are chilling, particularly when combined with the concept of negative interest rates.

With the inability to withdraw large sums of cash, individuals' savings effectively become hostage to the banks. Savers would be charged a negative interest rate that would inevitably result in their savings slowly evaporating over time.

By contrast, gold has retained its role as a proven store of value for centuries.

This is enhanced by the fact that with negative interest rates being implemented in some countries, investor faith in fiat currencies is disappearing.

The Negative Interest Rate Experiment

Negative interest rates are being used as a mechanism by Central Banks to help try and inflate away crushing levels of government debt. Deflation is a nightmare for those carrying a lot of debt, as this recent quote from *The Wall Street Journal* describes:

"Inflation is a vital part of the effort to reduce the heavy burden of debt in European economies.

This applies most obviously to the strained government finances of southern Europe, which are vulnerable to another downturn, but also relatively high private-sector borrowing in countries *including France, Belgium and the Netherlands… Low inflation, particularly if it proves persistent, means that debt burdens aren't being eroded as borrowers might have expected. That can force them to devote greater resources to deleveraging, hampering growth."*

We are all now effectively participants in a giant 'easy money' experiment that's being conducted by the world's central banks – where the ultimate result is unknown. This is because negative interest rates have never before been implemented, let alone on the sort of scale that we're witnessing now.

Hence, investors today have very low levels of confidence in the world's currencies, as currency levels typically reflect the underlying level of faith in a particular country's economy.

The gold price however is the antithesis of paper money. The last few years have seen gold reaching record levels when measured in most emerging economies' currencies, but languishing against the US dollar. Nevertheless, growing economic uncertainty could well result in a strong appreciation in gold against all paper currencies – including the US dollar.

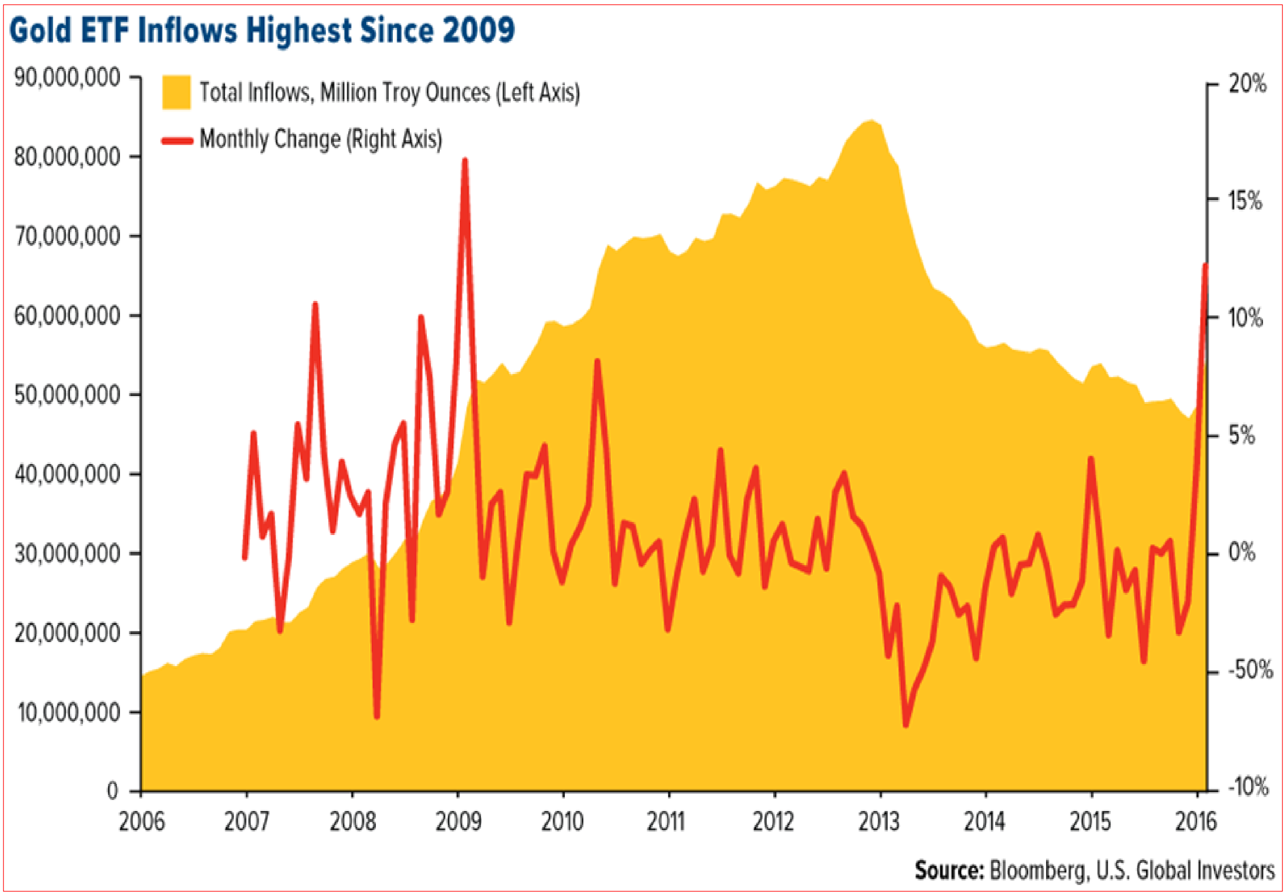
We're already aware of the enormous continuing flow of gold from West to East, as Indian and Chinese buyers continue to accumulate gold at enormous rates. In China, gold purchasing is occurring not only at the retail investor level, but also at the central bank level – where the ultimate strategy is to have a currency backed by gold and a legitimate rival to the US dollar.

Strong Gold ETF Buying

What's most intriguing however is the level of gold purchasing by gold Exchange Traded Funds (ETFs). These extreme heavyweights of the investment world had largely abandoned gold over the past three years, so their re-entry into the fray is an extremely interesting development.

It's been a spectacular year for gold so far and the yellow metal has experienced its best quarterly performance in 30 years during the recent March quarter. Prices rose by 16.1% during the quarter to end at $1,232.71 after starting the year close to their lowest level since 2009.

But another significant milestone was the fact that an ETF that tracks gold captured the most investor dollars of any ETF so far in 2016. The SPDR Gold Trust enjoyed inflows of $6.8 billion through the first three months of the year, according to FactSet. The second-largest gold ETF, the iShares Gold Trust, also enjoyed a $1.2 billion inflow.



The evidence suggests that a rising gold price and inflows into gold ETFs may well go hand in hand. Gold ETFs bought up a whopping 9.7 million troy ounces (or 300 metric tons) worth of bullion during the first quarter. Now to put that into perspective, that's the equivalent of 27% of total global gold demand during the fourth quarter.

So the conclusion we can draw is that the investment rational is the same for heavyweight investors, as for all others. Gold is gaining greater support from safe-haven demand after currency devaluations, along with fears about negative interest rates and uncertainty surrounding the future direction of Fed monetary policy.

The Investor Mindset

Let's examine gold's rise within the context of a key change in mindset on behalf of a key heavyweight investor - Stan Druckenmiller.

Stan is an American hedge fund manager that used to manage money on behalf of George Soros, as the lead portfolio manager for Soros' Quantum Fund. His relevance to our discussion is two-fold: firstly, he's dramatically increased his fund's exposure to gold; and secondly he believes that central bankers are doing some "crazy stuff." In fact Druckenmiller has invested 30% of his publically-disclosed portfolio into gold.

In this case, Druckenmiller tipped his hand when he gave a speech during Q2 2015 where he said the following:

"Our monetary policy is so much more reckless and so much more aggressively pushing the people in this room and everybody else out the risk curve that we're doubling down on the same policy that really put us there (in the 2008 financial crisis) and enabled those bad actors to do what they do. Now, no matter what you want to say about them, if we had had five or six percent interest rates, it (the housing bubble) would have never happened because they couldn't have gotten the money to do it.

This is crazy stuff we're doing. So, I would say you have to be on alert to that ending badly. Is it for sure going to end badly? Not necessarily. I don't quite know how we get out of this, but it's possible."

To put things mildly, Druckenmiller seems to believe that Central Bankers around the world may not be fully in control of what ZIRP (zero interest rate policy) and now NIRP (negative interest rate policy) ultimately turn into.

It's my firm belief that years of 'easy money' policy will ultimately cause all sorts of market distortions. Companies for example have borrowed vast amounts of money at ultra-low rates in order to buy back stock (despite share prices being at all-time highs), whilst at the smaller end of the spectrum mum-and-dad type investors have been pushed way out on the risk curve as they try to achieve a decent yield (particularly retirees on fixed incomes and with significant savings).

This has resulted in greater risk-taking and a speculative bubble in various asset classes, such as shares, property, collectibles etc. A *Bank of America* report released in November 2015 commented, "Zero rates and asset purchases of central banks have, thus far, proved much more favorable to Wall Street, capitalists, shadow banks, 'unicorns,' and so on than it has for Main Street, workers, savers, banks and the jobs market."

Summary

Like Druckenmiller, I believe that ultimately this unnecessary monetary policy and unusual risk taking by investors will result in the "chickens coming home to roost."

At the same time the global supply of gold fell by 4% last year to 4,258 tonnes, partly because of slower mine production. Mining companies have scaled back since 2013 in a bid to slash costs, with mine production shrinking during the fourth quarter of 2015 - the first quarterly contraction since 2008.

Accordingly, I maintain confidence in gold as a safe-haven investment and also our base-case gold price forecast of between $1,100 and $1,300 during 2016.