



# Gold and Cryptocurrencies



CPM Group

13 February 2018

# Crypto-Currencies Are The Ultimate Fiat Currencies

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**They are backed by nothing, no one stands behind them, and they are intangible.**

**While investors in crypto-currencies share a distrust in government-issued currencies with many gold investors, crypto-currencies are in fact the ultimate fiat currency.**

## **National Currencies:**

**Backed by the ‘full faith and credit’ of a government.  
Issued at will by governments, unlimited supply.  
No tangible asset backing.**

## **Crypto-currencies:**

**Backed by faith in anonymous internet entities.  
Issued through mechanical processes, in theory has limited supply but  
in reality has unlimited supply.  
No tangible asset backing most crypto-currencies .**

## **Gold:**

**No entity backing.  
Limited supply.  
Tangible asset backing.**



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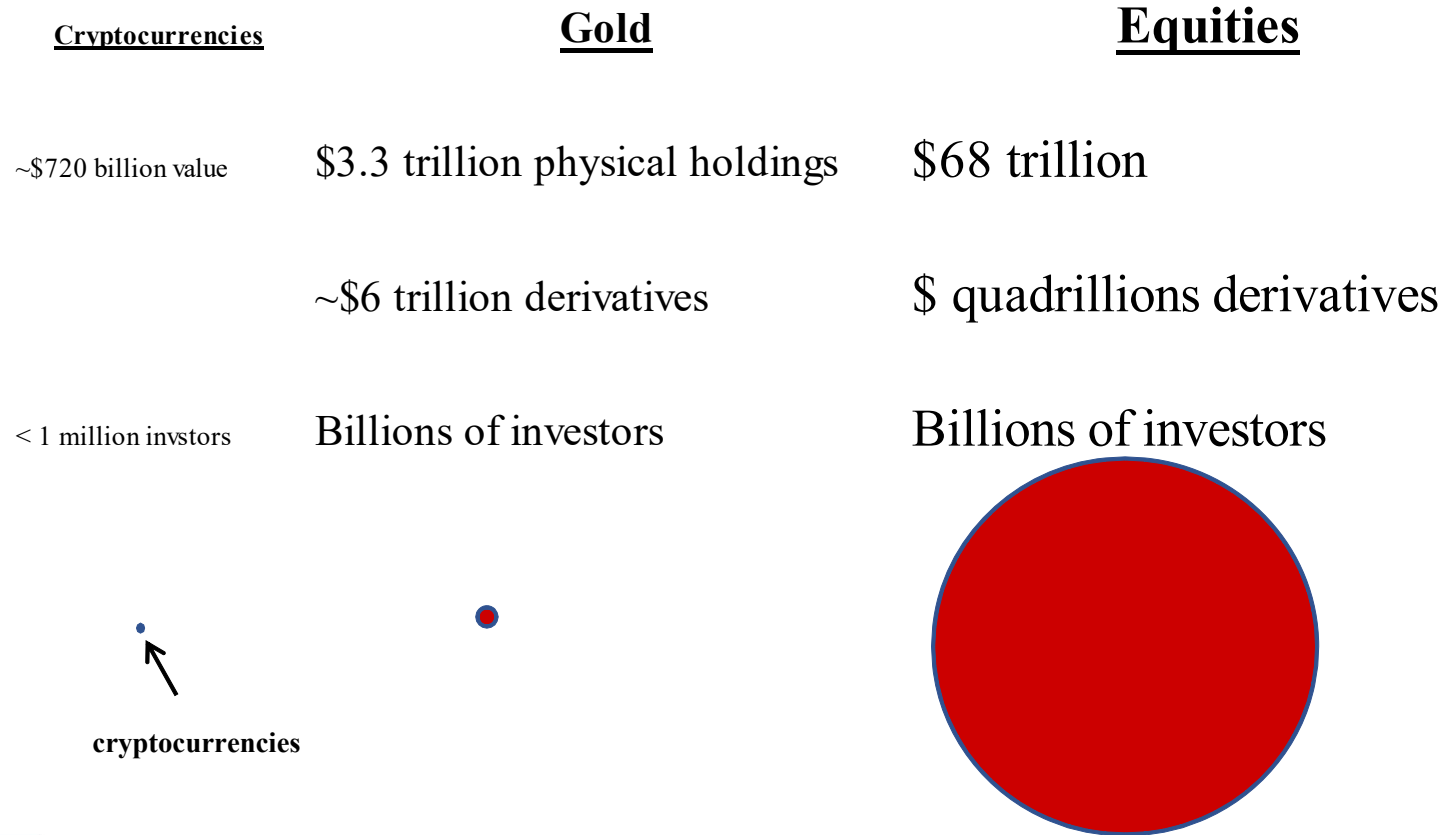
**Crypto-currencies are the anti-thesis of Gold**

# Equities, not bitcoin, are ‘distracting’ gold investors

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Equity markets are distracting investors away from gold.

Cryptocurrencies are a sideshow compared to real financial markets.



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**It is not bitcoins or other crypto-currencies, and  
it is not blockchains, but**

**distributed ledger protocols that are powerful and important.**

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# *Gold's Investment Role*

# Invest In Gold

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CPM advised clients to think of precious metals as a series of separate investments.

One part of it is *insurance*, against both catastrophic financial and political events, but also against smaller problems and dislocations that arise.

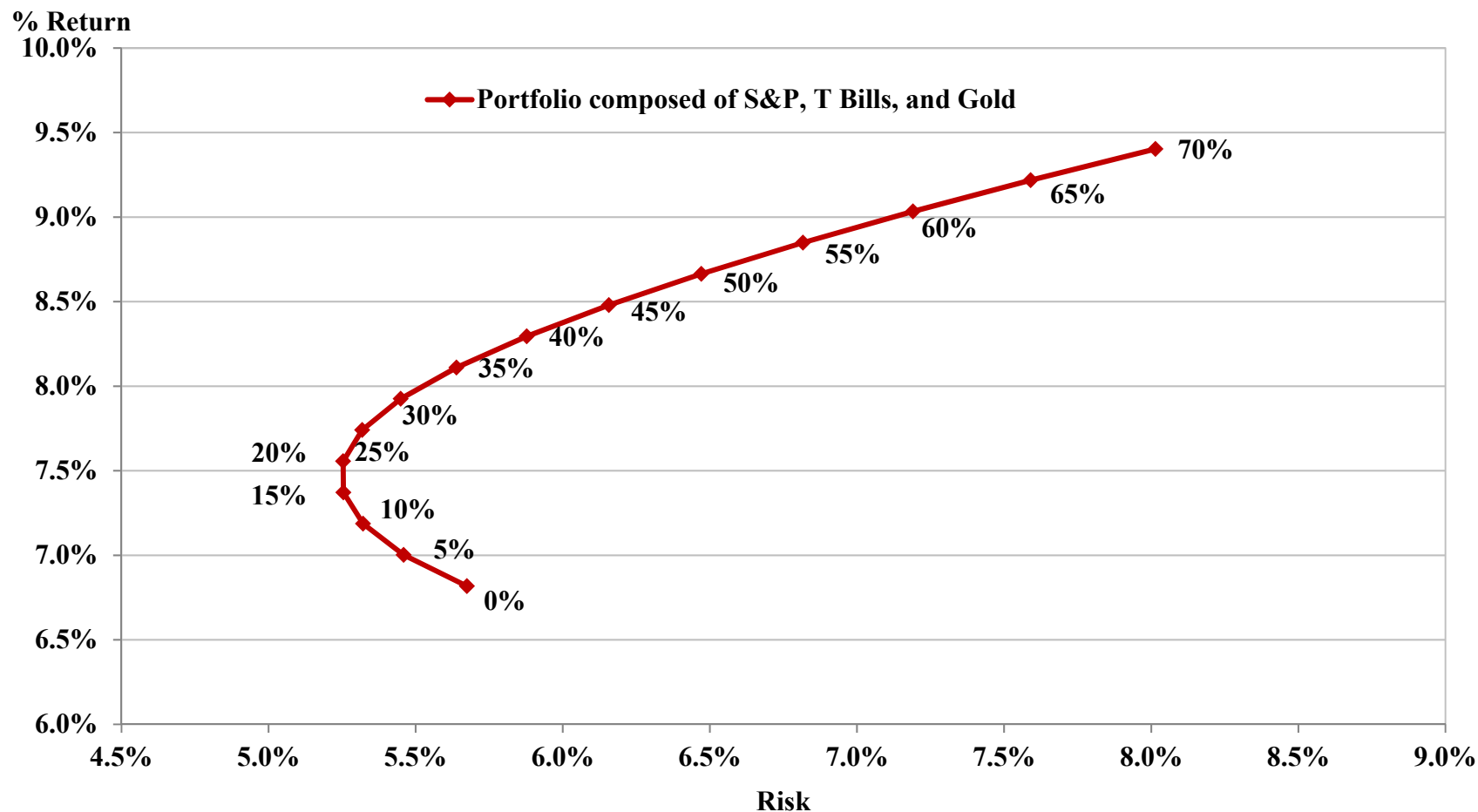
A second part of one's precious metals holdings should be a *core portion* of one's **wealth**.

A third part should be more *investment* oriented, rising and falling as a proportion of one's **portfolio**, depending on economic cyclical shifts.

A final portion might be a shorter term, more speculative or *opportunistic investments*.

# The Optimal Allocation To Gold

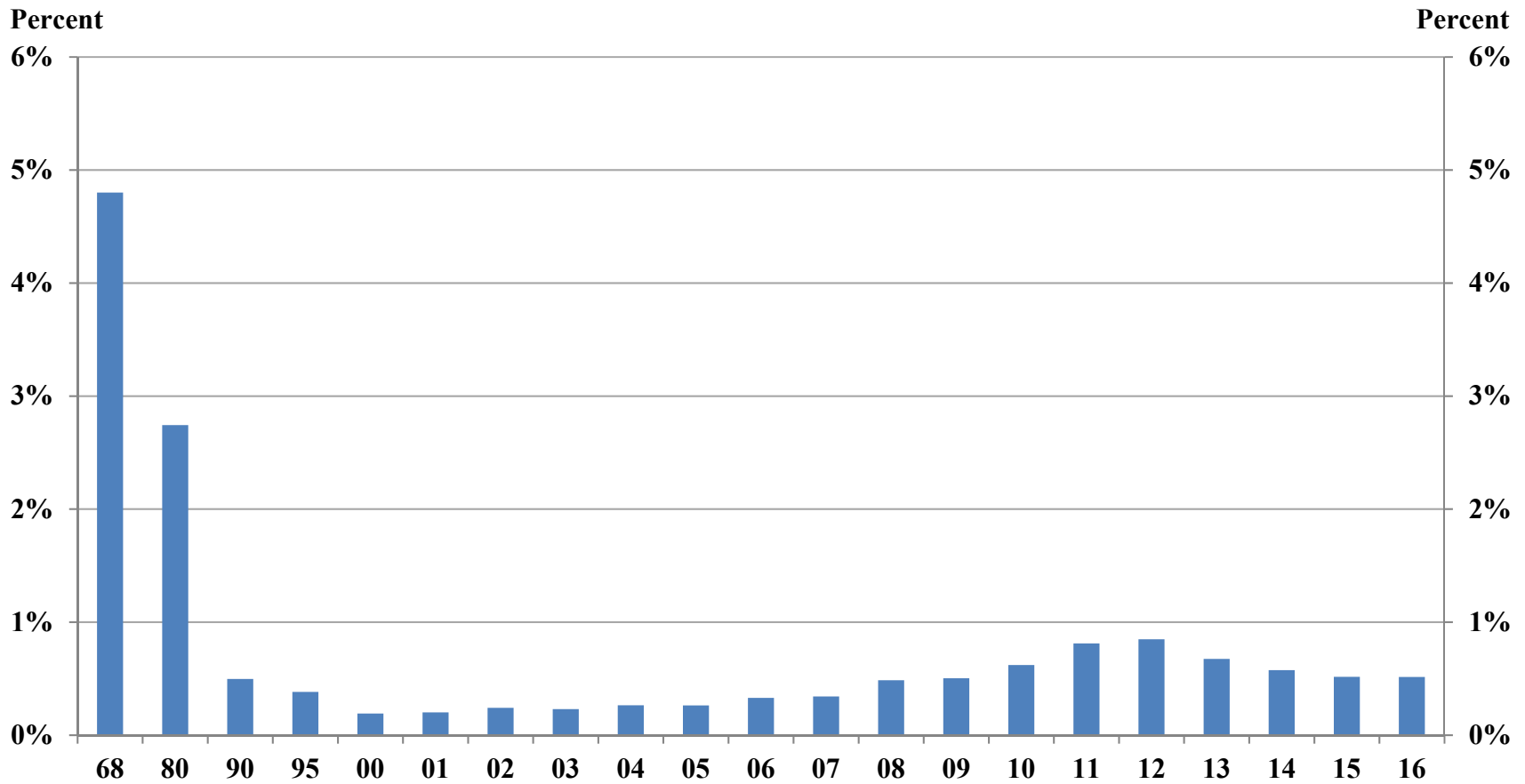
A portfolio with 25% of its assets in gold had the best risk: reward ratio in the years 1968 - 2016





# Gold as Percentage of Financial Assets

Gold as a Percent of Global Financial Assets



# Shorter Term Investing Can Be Highly Profitable

These are the results of an actual trade CPM structured for clients on 7 October 2016, to take advantage of an expected increase in gold prices leading up to the 8 November election. The trade was intended to be liquidated around the election, on 8 or 9 November, as prices were expected to decline sharply after the election. The trades were liquidated 9 November.

Per Ounce			Per Ounce		
Initial Trade			Closed Out Position		
7 October 2016			9 November 2016		
Dec16 options - Expiry 22 November					
Actual Pricing			Actual Pricing		
\$1,256.00			\$1,303.00 8:40 AM		
Priced at	Strike	Premium	Premium	Change from Initial Trade	
Buy Call	\$1,300	-\$9.20	Sell Call	\$17.50	\$8.30
Sell Call	\$1,350	\$2.80	Buy Call	-\$4.00	-\$1.20
Sell Call	\$1,350	\$2.80	Buy Call	-\$4.00	-\$1.20
Buy Call	\$1,400	-\$1.10	Sell Call	\$1.10	\$0.00
Premium Paid		<u>-4.70</u>	Premium Received	<u>\$10.60</u>	
			Net Gain/Loss		\$5.90
Value Per 100 - oz Contract				\$1,060	\$590
Gross Profit					125.5%

# Such Strategies Work Repeatedly

Such trades do not need events to drive them. They can be developed and managed on an on-going basis. These are the results of an actual trade CPM structured for clients on 11 April 2017, to take advantage of an expected decrease in gold prices. The trades were liquidated 9 May.

Per Ounce					
Initial Trade			Closed Out Position		
11 April 2017			9 May 2017		
Jun17 options - Expiry 25 May					
Actual Pricing			Actual Pricing		
\$1,273.00			\$1,221 9:26 AM		
Priced at	Strike	Premium	Premium	Change from Initial Trade	
Buy Put	\$1,250	-\$14.72	Sell Put	\$31.40	\$16.68
Sell Put	\$1,220	\$6.18	Buy Put	-\$10.40	-\$4.22
Sell Put	\$1,220	\$6.18	Buy Put	-\$10.40	-\$4.22
Buy Put	\$1,190	-\$2.42	Sell Put	\$1.90	\$0.52
Premium Paid		<u>-4.78</u>	Premium Received	<u>\$12.50</u>	
			Net Gain/Loss		\$7.72
Value Per 100 - oz Contract			-478.00	\$1,250	\$772
Gross Profit					161.5%

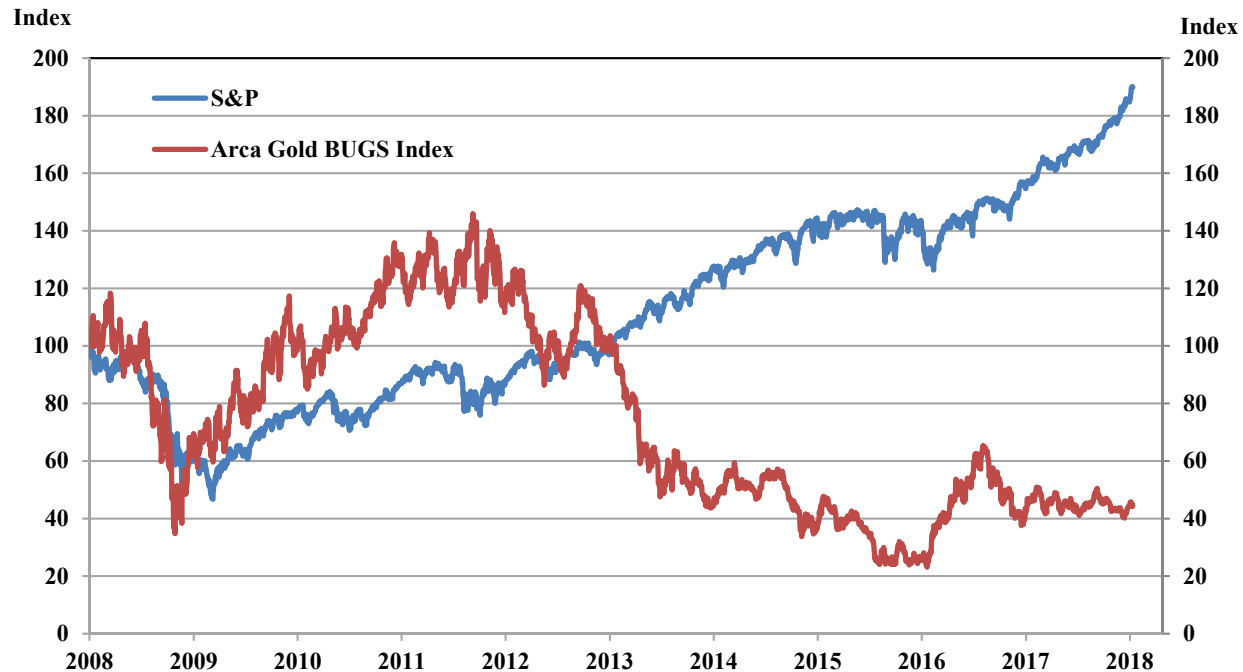
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# *Investing In Gold Mining*

# Equities ‘Distract’ Investors From Gold Shares, Too

## Major Gold Company Index and the S&P 500

Daily Data, Index 100=2 January 2008, Through 9 January 2018



The NYSE Arca Gold BUGS Index is a modified equal-dollar weighted index of companies involved in major gold mining. The index was designed to give investors significant exposure to near term movements in gold prices by including companies that do not hedge their gold production beyond 1½ years. The index was developed with a base value of 200 as of March 15, 1996.

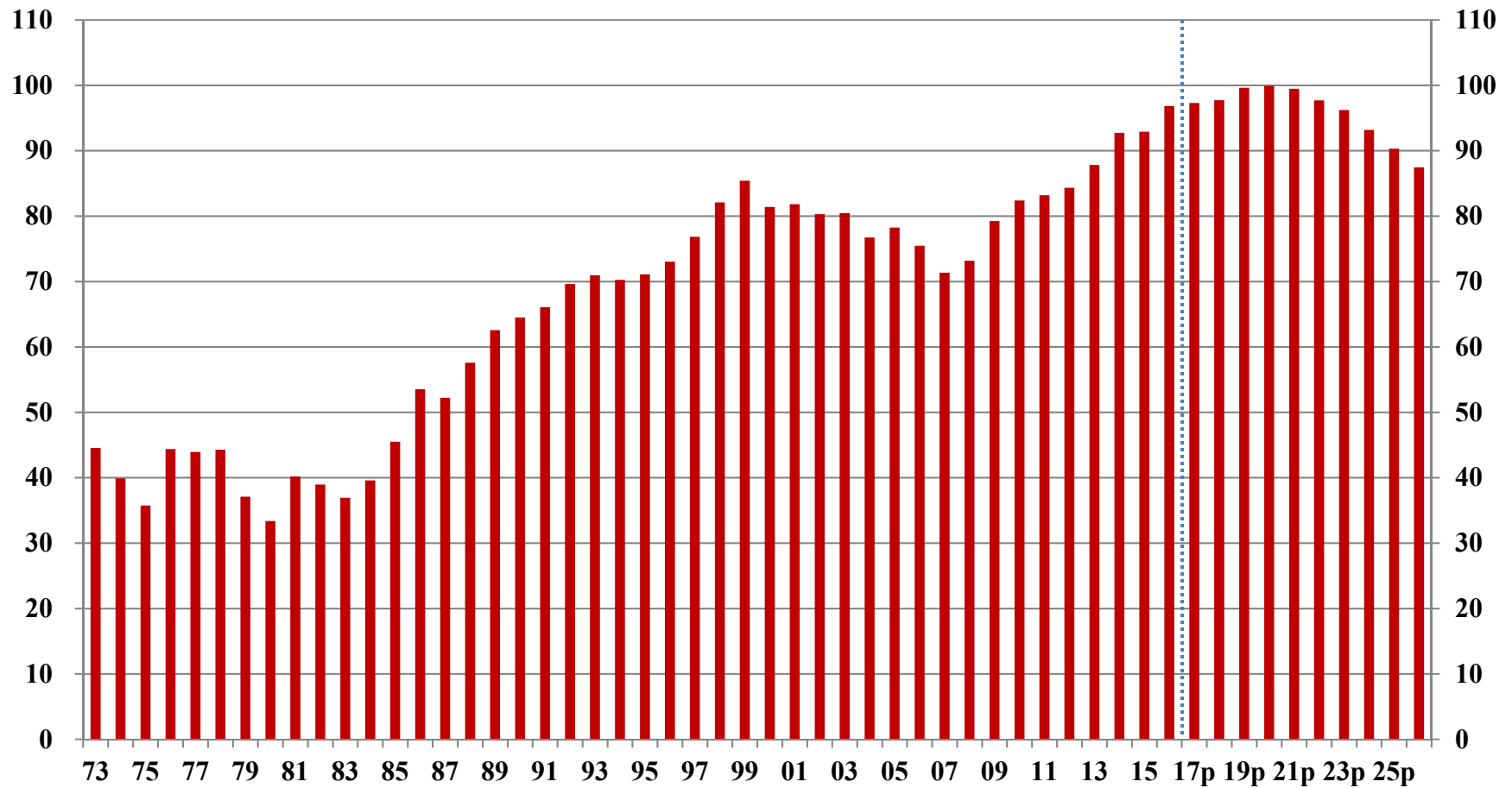
# Global Gold Mine Supply: Nearing A Turning Point

## Global Gold Mine Supply

Annual Data, Through 2026

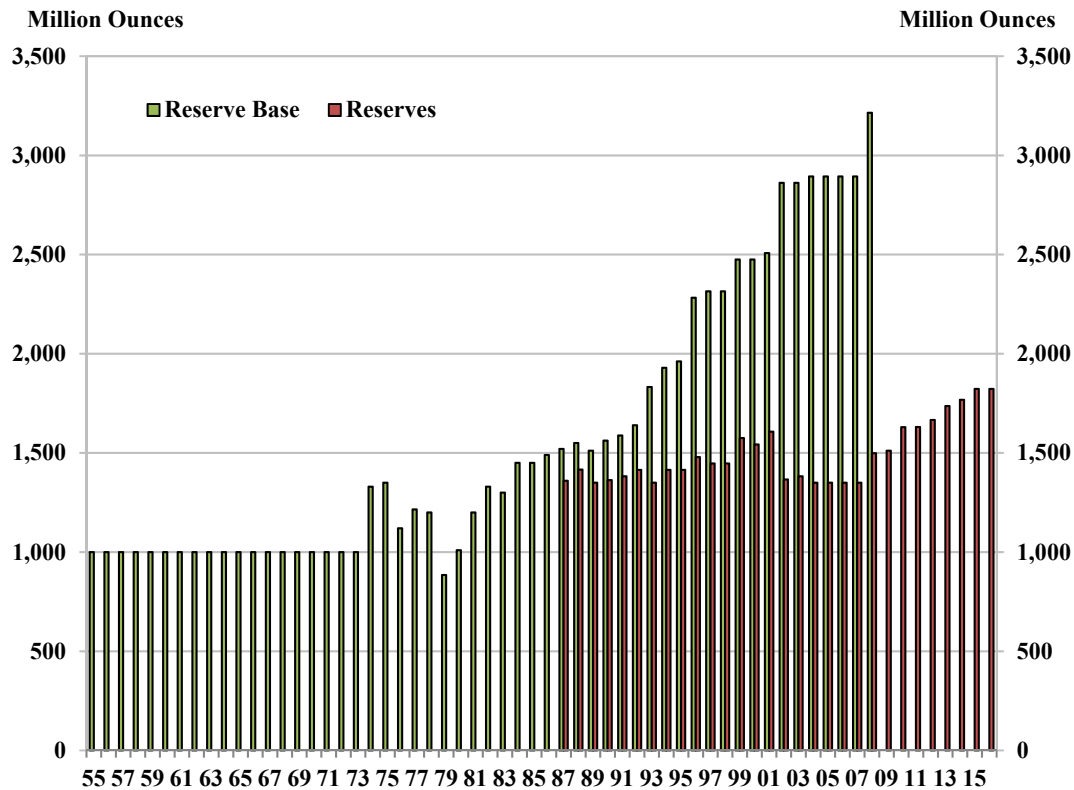
Mln Oz

Mln Oz



# Gold reserves are at an all time high

Gold Reserves and Reserve Base



Source: USGS.

Notes: Reserve Base refers to the Measured and Indicated Resource. USGS discontinued its reporting of the Reserve Base as of 2009.

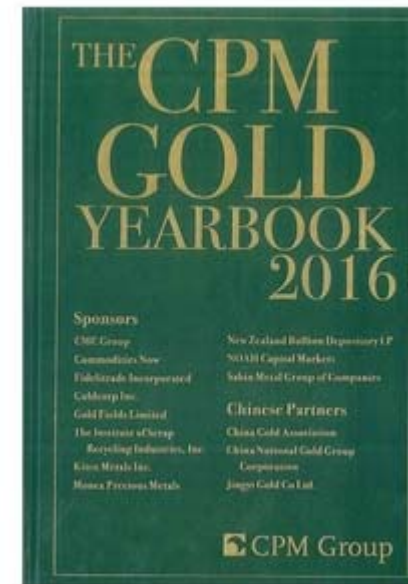
Bad data suggest reserves are at historical lows. They are not. In fact, they are higher than ever before.

And, these reserve figures exclude massive resources, including mineralized properties in China and Siberia.

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**Precious Metals Advisory**  
Vol. XXVIII, No. 9 | 3 September 2015

Next Scheduled Issue: 8 October 2015

**Perspective Flies Out The Window**

*This month's report has two articles up front. The first concerns the volatility that has rattled all financial markets, and some governments, over the past month. Much of the volatility originated in changes the Chinese government and People's Bank of China (PBOC) initiated, beginning in July but becoming more apparent in August. Many of these changes will bear long-term positive fruit. The shift to a new world paradigm for financial and monetary markets caught a lot of investors by surprise, however. Furthermore, the changes and the market reactions spawned an obscene amount of totally preposterous and over-sized fears in global commodities, equities, fixed income, and currency markets.*

*The first article deals with precious metals markets over the past month, and where they are likely to head.*

*The second article focuses on the immediate and long-term implications for gold markets and prices of a major shift in the PBOC's posture toward gold.*

After falling sharply in July and early August, precious metals prices recovered by the end of the month. Gold prices had the strongest recovery, finishing the month at \$1,132, up from \$1,085.30 on 5 August, the lowest settlement price since February 2010, and up from \$1,094.90 on 31 July 2015. Other precious metals prices were also up from the lows that they reached during the first few days of August, but silver and palladium remained below their settlement prices at the end of July while platinum rose 2.6% over the course of August to \$1,010.50 from the end of July.

The rebound in gold prices, primarily, reflected investors covering previously established short positions. There was some increase in fresh long demand, but most of the buying seemed to be from investors buying back their short positions. Total open interest on the Comex gold futures market dropped -7.4% from the low of gold prices on 24 July to 1 September.

**Market Data** (Data as of 1 September; Changes from 4 August)

Commodity	Price	% Chg	\$ B.	
Gold	1,132.00	↑	1.7%	3,820
Silver	14.75	↑	1.2%	1,020
Platinum	1,010.50	↑	1.7%	5,610
Palladium	986.40	↓	-2.2%	1,820
Whitegold	790.00	↓	-0.8%	4,000

*\*Market prices in \$ per ounce.*

Commodity	Inventories	Δ	% Δ	
Gold	4,894,942	↓	-0.80	4,997,740
Registered	1,548,777	↓	-0.80	652,042
Total	3,346,165	↓	-0.80	5,789,582
Silver	1,114,846,006	↓	-0.88	1,118,512,478
Registered	52,717,110	↓	-0.71	5,825,200
Total	1,062,128,896	↓	-0.88	1,112,687,278
Platinum	97,100	↑	22.02	7,127
Registered	28,100	↑	22.02	1,000
Total	125,100	↑	181	18,127
Palladium	42,187	↓	-47.70	30,110
Registered	39,318	↓	-4.71	9,481
Total	81,505	↓	-22.01	10,591

*\*Open Interest*

Commodity	Δ	% Δ		
Gold	1,075,000	↓	-15,200,000	22,800,700
October	31,000,000	↑	20,700,000	1,200,000
Total	42,700,000	↓	1,500,000	40,400,000
Silver	968,500,000	↓	122,275,000	607,000,000
October	22,200,000	↑	20,200,000	607,000,000
Total	932,000,000	↓	99,075,000	590,100,000
Platinum	1,000,000	↓	80,000	1,000,000
October	1,000,000	↑	80,000	1,000,000
Total	1,000,000	↑	80,000	1,000,000
Palladium	1,000,000	↓	200,000	1,200,000
October	1,000,000	↑	200,000	1,200,000
Total	1,000,000	↑	200,000	1,400,000

*\*Data as of 1 July; changes from 7 June*

Index	% Chg	\$ B.
DAX	0.57%	1,001
FT World Stock Index	0.4%	2,001
FT Gold Mine Index	0.3%	1,001
CRB Index	0.1%	1,001
Gold	1.7%	1,001
ICE Dole Index	0.1%	1,001
Silver	1.1%	1,001

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