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# Income Growth Advisors

## Gold: An Emerging Investment Sector in the Great Rotation

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# The Great Rotation

## Gold an Emerging Investment Strategy

- We have entered an inflationary commodity cycle.
- Four decades of declining interest rates has ended and burst three standard deviation bubbles in stocks, bonds, and real estate.
- We believe that Gold, Precious Metals and Commodities could outperform in the coming years.

# Risk Disclosure

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## There are several risks associated with buying gold stocks or commodities:

1. **Volatility:** The price of gold can be very volatile, and prices can change rapidly in response to geopolitical events, changes in monetary policy, and other factors.
2. **Inflation:** Gold is often considered a hedge against inflation, but if inflation expectations change or do not materialize, the price of gold may decrease.
3. **Currency fluctuations:** The price of gold can also be influenced by changes in currency exchange rates, as it is typically priced in US dollars.
4. **Interest rates:** Rising interest rates can reduce demand for gold, as the opportunity cost of holding gold increases relative to other investments.
5. **Mining risks:** Investing in gold mining stocks comes with additional risks, such as operational risks at the mine, regulatory risks, and exploration risks.
6. **Market liquidity:** The market for gold and gold stocks can be less liquid than other financial markets, making it more difficult to buy and sell large positions quickly and at favorable prices.

# Cycle Timing and Gold Cycle

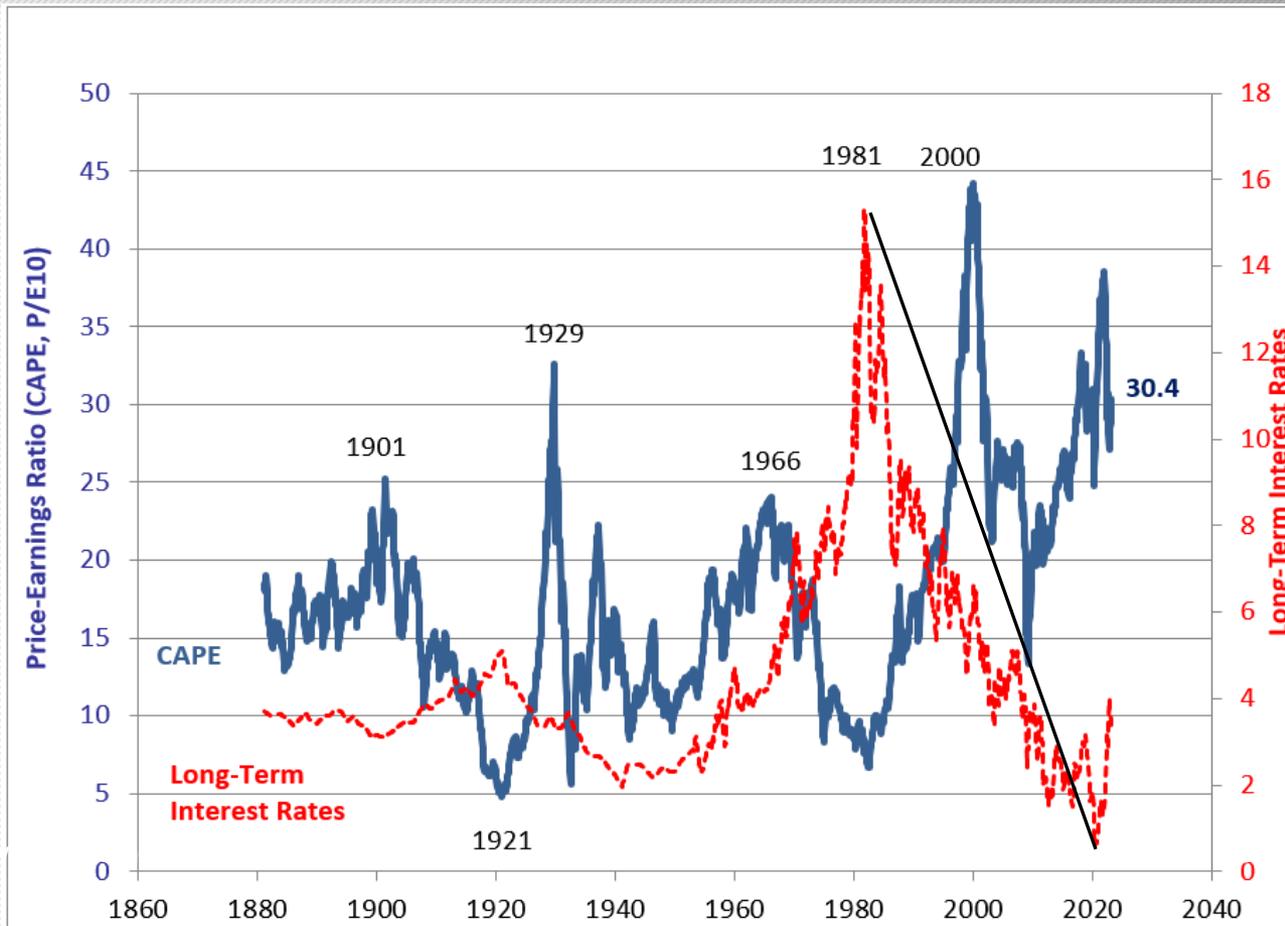
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- Commodity Cycle -- (CRB)/S&P 500 ratio
- Inflation Cycle S&P500/PPI ratio, since 1887
- History of Gold Bull Markets
- Gold/Real Estate ratio -- (RE is a leveraged interest rate vehicle)
- Growth/Value Cycle -- 7-8 years
- Gold Inversely Correlated to Dollar -- US\$ is breaking down

# 40 years of declining rates

Led to bubbles in stocks, bonds, and real estate.

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Money will flow from stocks, bonds and real estate to commodities (minerals, metals, energy, agriculture), industrials, emerging markets, small cap, and value.

# CRB vs S&P ratio marks new commodity cycle

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“Patterns repeat, because human nature hasn’t changed for thousands of years” said legendary trader Jesse Lauriston Livermore.



Jeff Gundlach initially highlighted this chart. **Outperformance -- on the order of 700% to 900% -- of commodities over the S&P 500** during inflationary periods.

Dovetails with commodity super cycle advanced by Jeff Currie at Goldman Sachs.

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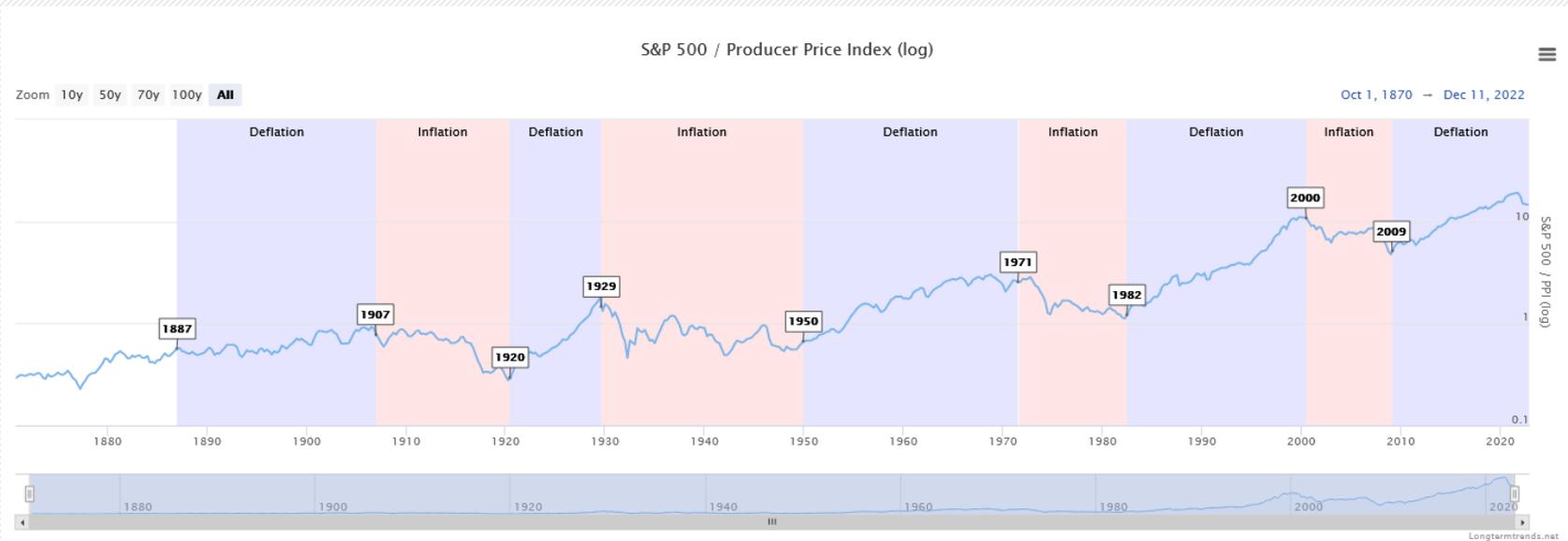
Source: Trend Surfer on Trading View and IGA Research

# Inflationary Cycles

shown by S&P 500/PPI log

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Wages sticky, commodity cycle, energy costs, near shoring, Fed recency bias....



1907, 1929, 1971, 2000 and 2022(?).

Source: Longtermtrends.net

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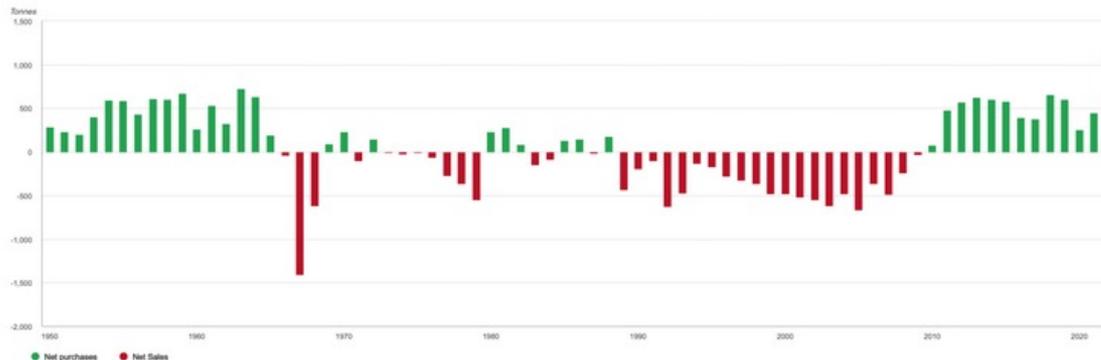
# Record Central Bank Gold Purchases in 2022

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Central bank demand for gold was 1,136 tonnes in net purchase valued at some \$70 billion in 2022, according to World Gold Council

GOLDHUB

**Central bank buying in 2022 was the second highest on record\***



\*Data to 31 December 2022.  
Source: Metals Focus, Refinitiv GFMS, World Gold Council

The WGC confirmed that this level of purchase was indeed the most in any year dating back to 1950, and the 13th consecutive year of net inflows.

According to Rudi Fronk, CEO of [Seabridge Gold, Inc. \(SA\)](#), the World Gold Council just released that “global central banks purchased more gold than they have in 55 years. They bought 800 tons of gold – 400 tons in q3 and 417 tons in q4 of 2022”. Fronk also commented that gold equities prices relative to the gold price are at their cheapest that he has seen in his career.

Source: <https://www.mining.com/2022-was-record-year-for-central-bank-gold-buying-wgc-confirms/>

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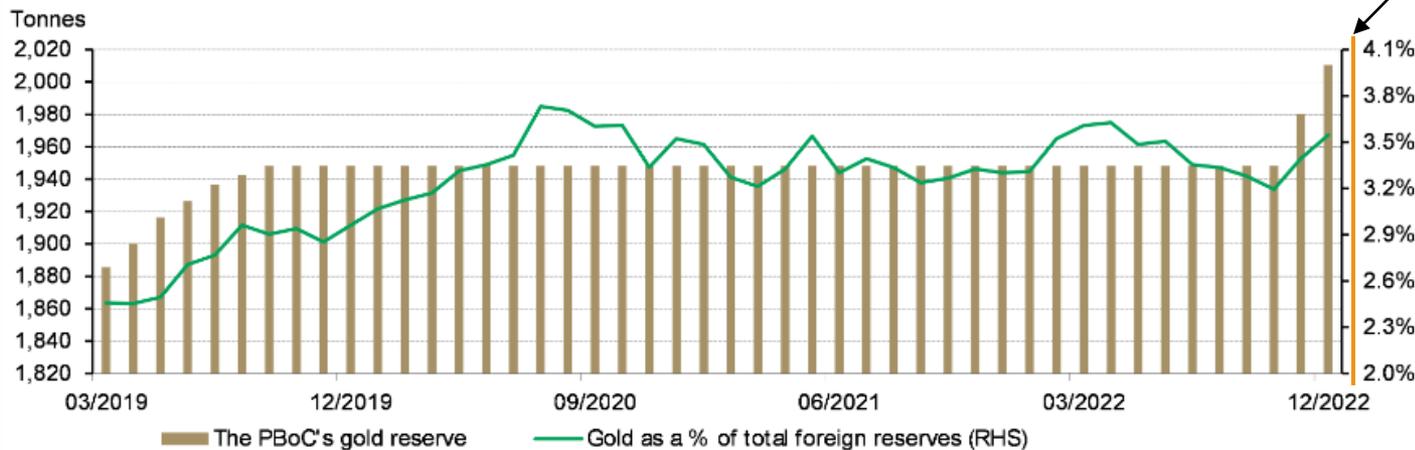
# China Central Bank adds 15 Tons In January for *third month in a row*

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"The PBoC announced another gold reserve rise in January, the third consecutive month. By the end of January, China's gold reserves reached **2,025t**, a 15t rise from its end-2022 level. Currently, gold accounts for 3.7% of China's total official reserves" reported Ray Jia, Senior Analyst, China World Gold Council on Feb. 13, 2023, on [www.gold.org/goldhub](http://www.gold.org/goldhub)

January 2,025  
Tonnes

Chart 6: The PBoC announced another gold reserve increase in January

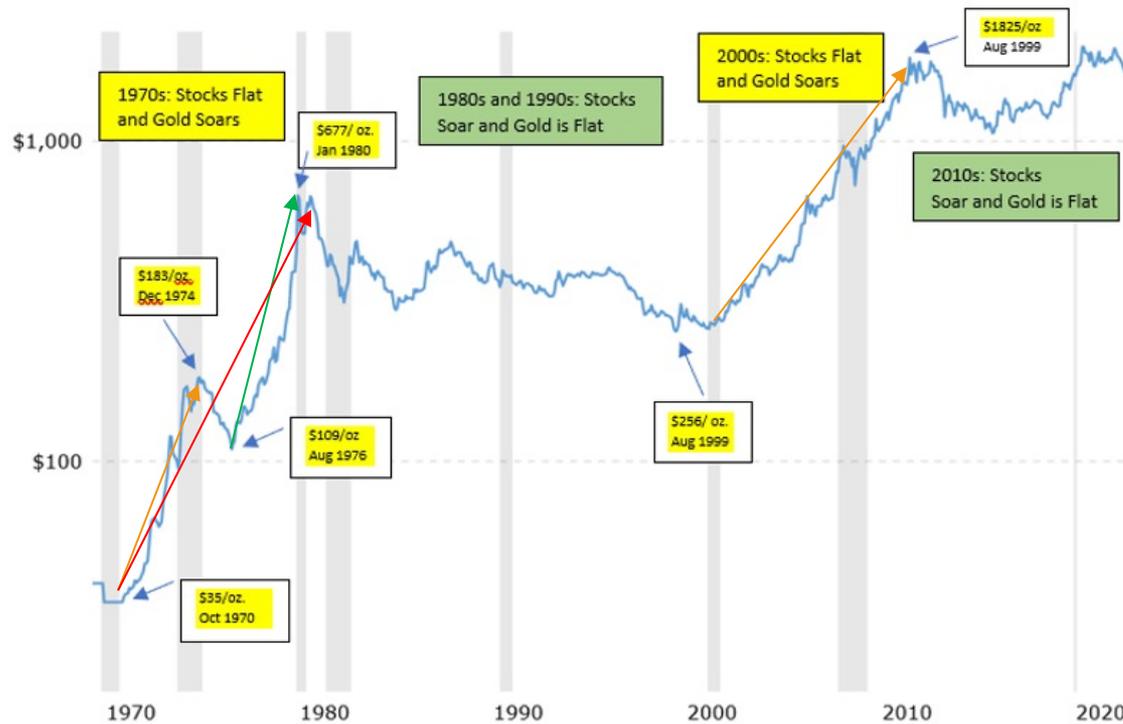


"After 38 months of silence, the PboC made its first gold purchase announcement in November. And during the past three months, the PboC's gold reserves reported increase totalled 77t" Ray Jia

Source: PBoC, World Gold Council

# Gold's Bull Market Performance

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Source: Macrotrends.net

## Bull Run One: The 1970s

October 1970 \$35/oz  
December 1974 \$183/oz  
422%

Aug 1976 \$109/oz  
January 1980 \$677/oz  
521%

October 1970 \$35/oz  
January 1980 \$677/oz  
1834%

## Bull Run Two: The 2000s

Aug 1999 \$256/oz.  
Aug 2011 \$1825/oz  
612%

# Real Estate versus Gold Ratio

the amount of gold it takes to buy a single-family house

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Real Estate has an impeccable reputation as a solid winner; however, we believe Real Estate is a huge beneficiary of lower interest rates and those days are over.



Source: Longtermtrends.net

The ratio has an interesting historical track record for identifying turning points in long-term gold price trends. When exactly is one of the assets "cheap" and what is "expensive"? Answering that question is where the Gold/Housing ratio is quite useful. As there is no dollar component in the ratio itself, inflation concerns drop out, and we are left with the value of two of the most popular tangible investments relative to each other.

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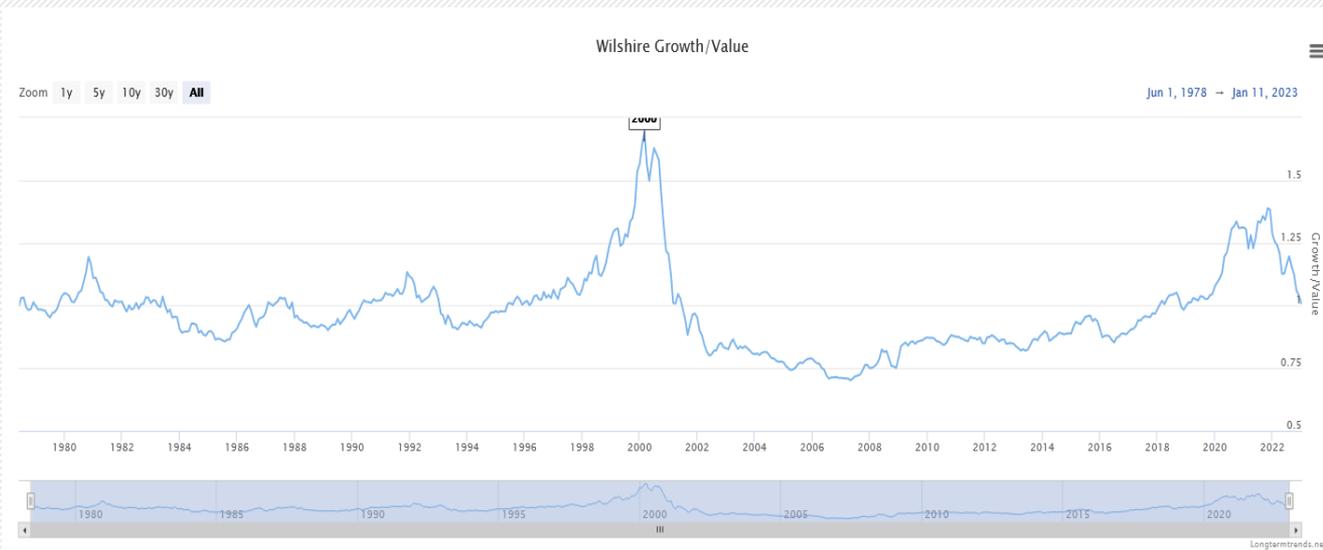
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# Growth/Value Cycle

Growth down cycle is about 8 years

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From 2000 to 2007 growth underperformed value.



The post bubble period -- the unwind of the 3 standard deviation bubbles in stocks, bonds, and real estate -- will take years.

Source: Longtermtrends.net

If the 2000 technology bubble growth to value analogue parallels the current post bubble environment, growth stocks should underperform value stock for several years.

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# Gold versus US Dollar

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Gold rallies when Dollar is flat. Gold is weak when dollar is strong. 2011-2016 and 2021-2022



The dollar has peaked and that correlates with gold appreciation. Other paper currencies look like fiat currencies which should increase interest in gold.

Source: Macrotrends.net

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# The Cross Asset Allocation Considerations for Gold

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- Quantitative Methodology applied to Gold
  - 90% of exchange traded investments are quantitatively driven
  - Momentum is highly ranked
  - Covariance or correlation are important
  - Gold is viewed as an inflation hedge
- Case for Equities and Bonds is Poor
- Gold Stocks Offer Historic Value Proposition
- Macro Economic Case for the Yellow Metal
  - Supply is shrinking and demand is growing.

Money will flow to assets with best return profile.

Investing in gold like any speculation involves risk and potential loss of capital.

**After Four Decades of Declining Interest Rates** the investment prospects for stocks, bonds, and real estate look weak.

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Stock, bonds and real estate are on the back end of three standard deviation above trend bubbles. *Could* gold emerge as a new investment leader?

- Gold is non-correlated, gaining momentum, and a historic inflation hedge.
- Central banks are buying it to replace other currencies in reserves.
- Gold mining production has declined, and reserves are low.
- Gold stocks have many compelling fundamental valuation attributes.

Gold and precious metals are noncorrelated Investments. Gold is considered to be a safe haven investment. Gold historically has been a good store of value that offers inflation protection.

# Fundamental Case for Gold Stocks

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## Crescat Capital, recently noted several compelling fundamentals for gold:

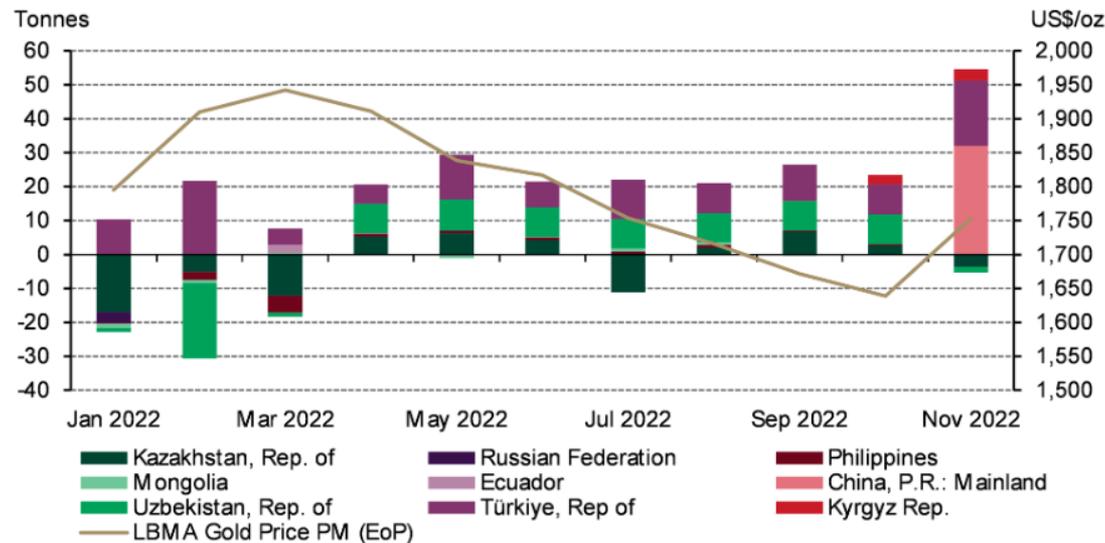
- Companies generating near-historic levels of cash flow
- Miners buying back stocks near-record levels at historically cheap valuations
- Highest dividend yields in history
- Highest cash levels in decades
- Lowest P/E ratio for the metals and mining industry since 2008
- Lack of new high-grade precious metals discoveries
- The mining industry as a percentage weight in the S&P 500 Index near all-time lows
- The growth-to-value transition likely to favor highly profitable, low valuation, and counter-cyclical growth businesses such as gold and silver miners today
- Investors increasingly considering gold as the quintessential offensive asset to counterbalance their falling traditional 60/40 stock and bond portfolio
- Most portfolios remain severely under allocated toward metals, especially gold
- Central banks being forced to buy gold to improve the quality of their international reserves
- Precious metals' prices relative to money supply is near all-time lows

While the fundamentals appear compelling, investing in gold and gold related securities is a speculative operation which could result in financial loss.

# Gold Producing Countries are Buying Gold

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Gold purchases/sales by the central banks of gold producing nations in 2022 \*



\*Data to 30 November 2022 where available.

Source: IMF IFS, Respective Central Banks, World Gold Council

Central Banks want to replace fiat currencies with gold.

Central banks want to replace weakening dollar with gold.

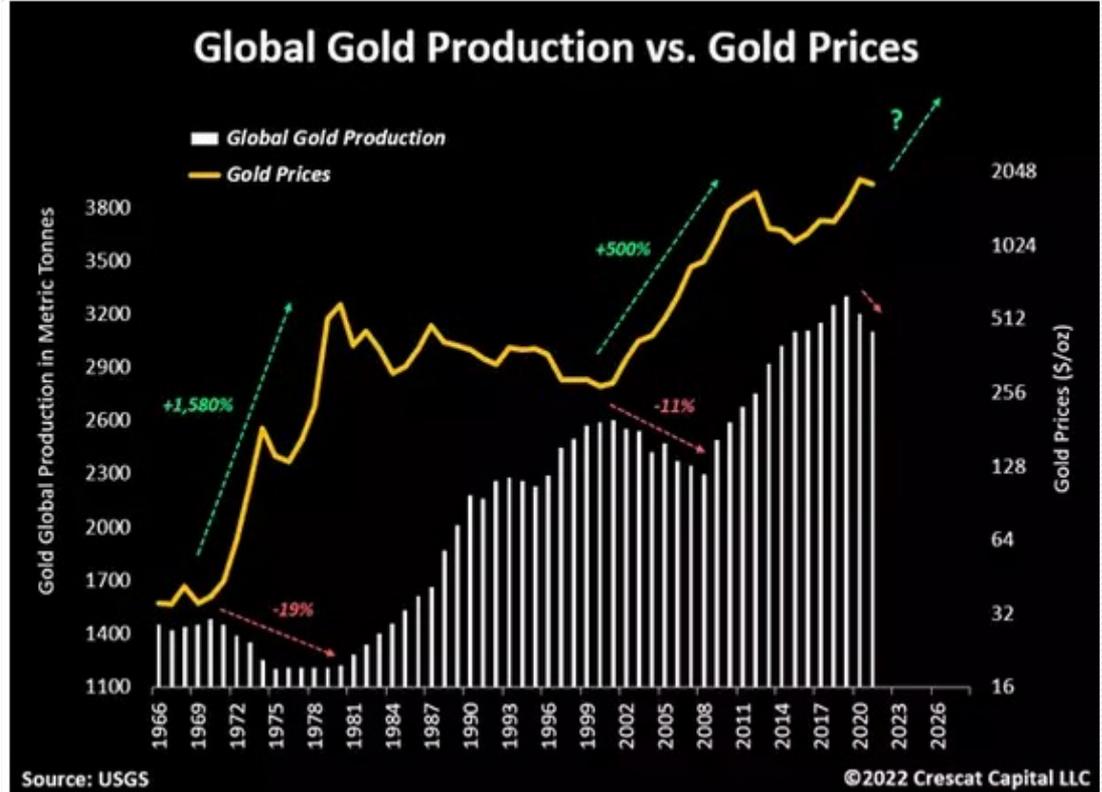
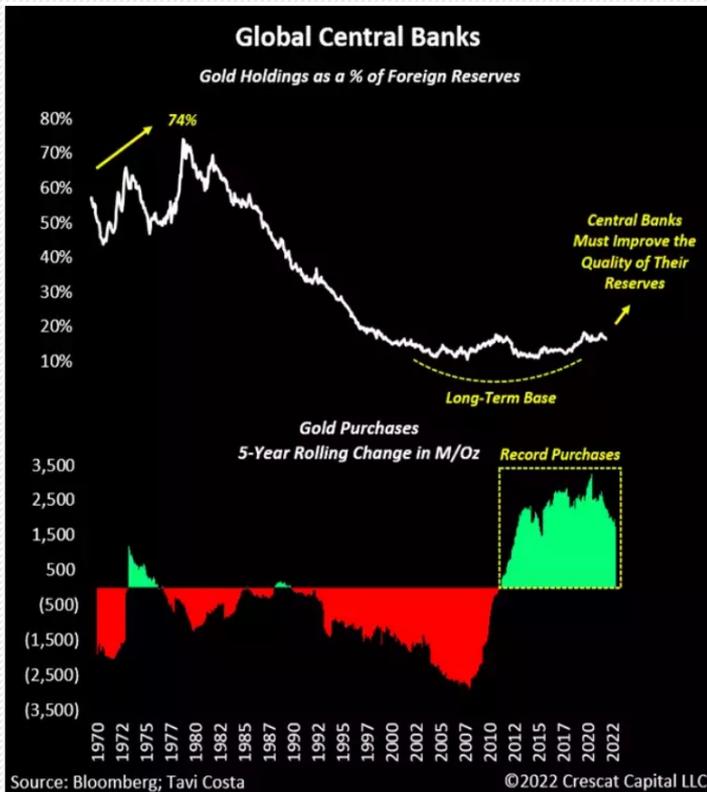
[Central banks add more gold in November as China joins the fray | Post by Krishan Gopaul | Gold Focus blog | World Gold Council](#)

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# Increasing Demand and Decreasing Production

supply and demand will drive higher gold prices

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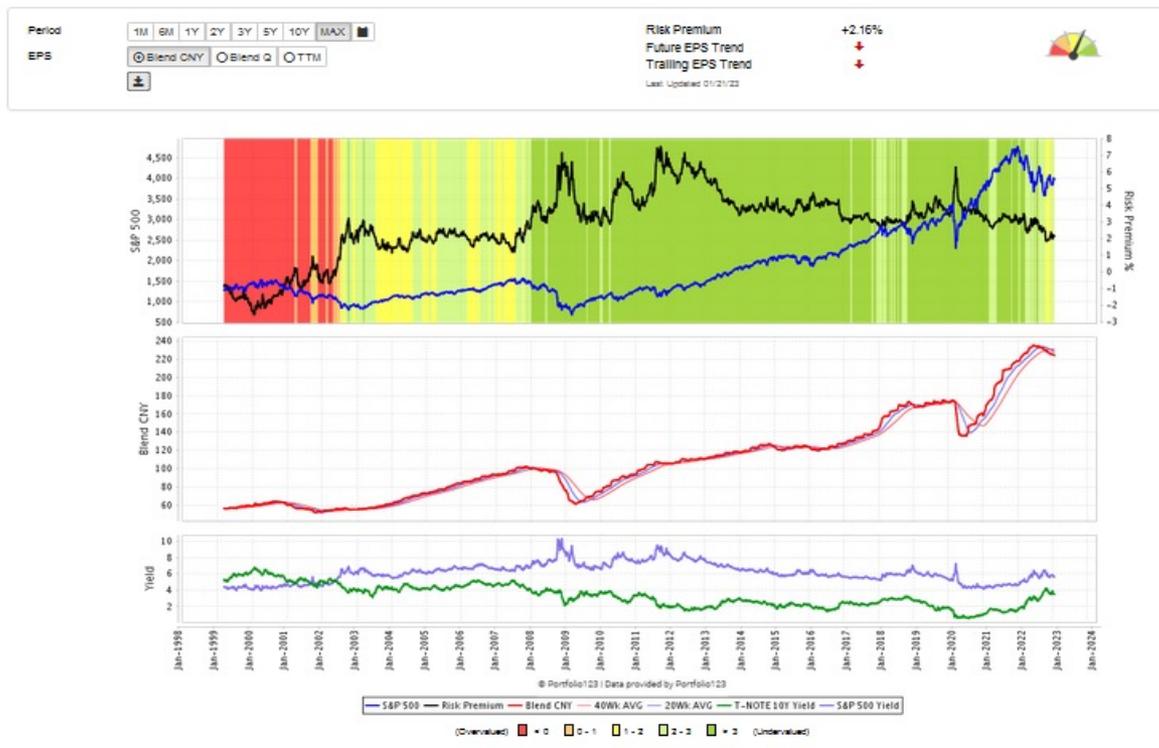


# Risk Premium/Fed Model

equity prospects lackluster

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## Fed Model Risk Premium Current and Historical values



2.16% risk premium positive, but: earnings risk from

- lower margins,
- higher interest rates, and
- multiple compression.

Funds will flow away from equities and towards gold and commodities.

# 40-year Bond Bull is Dead

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40 years of declining interest rates powered epoch bubbles in stocks, bonds, and real estate.



Source: St. Louis Federal Reserve Database  
[www.fred.stlouis.org](http://www.fred.stlouis.org)

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# 40 years of Declining Fed Fund Rates are Over.

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Fed Funds exceeding prior April 2019 high of 2.42%. Now 4.10% headed to 5-6%?



Trend  
Change in  
interest  
rates.

Fed Funds  
rate  
notches  
higher  
high.

Source: St Louis Federal Reserve Database

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# Risk Disclosure

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In this presentation, Income Growth Advisors, LLC and its founder Tyson Halsey, CFA present an investment case for gold and gold securities.

Both investing in gold and gold securities e.g., gold stocks are speculative investments.

Speculative investments risk loss and are not guaranteed in any way.

While we have opinions on gold and gold stocks, this presentation is for educational purposes. Circumstances will change and our views will change in the future.

If you want to invest in gold, gold securities, precious metals, commodities, and/or stocks, we advise you to hire a professional to advise you on the appropriateness of any investment strategy particularly one related to gold, precious metals, commodities, and/or securities based on gold, precious metals, and commodities.

# Tyson Halsey, CFA

## Income Growth Advisors, LLC



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- Registered Investment Advisor, Charleston, SC 29462
- Focused on inflationary investment strategies, like gold, precious metals, and commodities.
- Conferred CFA designation 1993.
- Published 72 Articles on Seeking Alpha.
- Halsey has managed Master Limited Partnership (MLP) portfolios for over 20 years.

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- President, Optima Process Systems Inc. an ESG process start up.
- Focused on strategies designed to enhance retirement income.
- Founded and managed several hedge funds and investment advisories.
- Won USA Today-CNBC National Investment Challenge in Q1 1992
- Appeared in Wall Street Journal, Barron's, and other papers and on CNBC and SC Public Radio.