EMA GARP Fund, LP. --- Report for the Second Quarter ended June 30, 2020.

SECOND QUARTER REPORT -- KEY TAKEAWAYS

- **Saved by The Printing Press--Markets Bounce Back**
  - Extreme monetary and fiscal measures generate a rally in stocks.
  - Gold and gold stocks bounce back even more, top performers.
- **Monetary Aggregate Growth Goes Parabolic**
  - US Federal Debt, Deficits and M2—growth goes vertical.
- **Psychology: The Unanswered Question**
  - Will Trust in the monetary authorities endure?
- **Sign Posts for The Dollar**
  - Will world finance US deficit? [No]
  - Will US domestic savers finance deficit? [No]
  - Will Foreigners keep buying treasuries? [No]
  - Is the Dollar doing well? [Mixed]
  - Is the price of Gold going up? [Yes]
  - Is Gold becoming more popular as an asset class? [Yes]
  - Are real interest rates negative? [Yes]
- **Gold Stocks**
  - Gold stocks are super cheap. Gold stock bull markets are explosive.
- **Gold Mining**
  - Challenging and capital intensive. Lots can go wrong. Selection important.
  - Emerging Producers = sweet spot.
  - Junior Miners = deep value.
  - Development and Drill Stories = optionality.
- **Conclusion**
  - Prolonged US budget deficits and the absence of foreign and domestic UST purchasers given the 10-year UST at only 65bps will force the Fed to monetize deficits. M2 year/year growth will continue at unprecedented levels.
    - Gold and miners are an asset class with a massive tailwind.
  - EMA's Monetary Debasement Insurance is cheap and asymmetric -a two'fer.

RESULTS SUMMARY

This is the EMA GARP Fund L.P. report for the second quarter of 2020, ended June 30. For the month of April, the Fund increased in value by 46.4%. In May, the Fund increased in value by 32.1%. In June the Fund increased in value by 15.3%. For the quarter the Fund increased in value by 122.9%.

Quarterly	Return*	Cumulative
Q2 2020	122.91%	36.9%
Q1 2020	-38.58%	-38.6%

Monthly	Return*	Cumulative
June	15.29%	36.9%
May	32.10%	18.8%
April	46.36%	-10.1%

Annual	Return**	Since Inception
2019	97.9%	40.7%
2018	-31.8%	-28.9%
2017	-7.8%	4.3%
2016	75.0%	13.2%
2015	-8.0%	-35.3%
2014	-26.8%	-29.7%
2013	-50.8%	-4.0%
2012	-7.9%	93.3%
2011	-32.2%	110.0%
2010	47.1%	209.5%
2009	33.2%	110.4%
2008	-5.8%	58.0%
2007	40.5%	67.9%
2006	19.5%	19.5%

* Net of fees; incentive allocation charged in December if 10% hurdle is reached.

** Net of fees and incentive allocations: audited.

RESULTS COMPARISON

In the second quarter of 2020 the EMA GARP Fund increased in value: 122.9%.

The schedule below shows how the Fund's quarterly performance compared to the general stock market indices, and the gold stock indices for the first two quarters of 2020.

Year-To-Date 2020

	Q1	Q2	YTD
EMA GARP Fund, LP	-38.6%	122.9%	36.9%
DJIA	-23.2%	17.7%	-9.6%
S&P 500 Index	-20.0%	20.0%	-4.0%
NASDAQ Composite	-14.2%	30.1%	12.1%
XAU Gold/Silver Stocks	-26.2%	63.6%	20.8%
HUI Gold Stocks Index	-23.1%	54.6%	21.8%
GDX Gold Majors ETF	-21.3%	53.3%	25.2%
GDXJ Gold Juniors ETF	-33.5%	70.6%	17.3%
GOEX Gold Explorers ETF	-31.4%	73.5%	19.1%
SIL Silver Miners ETF	-28.2%	55.5%	11.6%
Gold Bullion	3.6%	13.1%	17.1%
Silver Bullion	-21.8%	30.3%	1.9%
Crude Oil	-64.2%	94.5%	-34.8%
Goldman Sachs Commodity Index (GSCI)	-41.4%	27.4%	-25.4%
CCI Commodity Index	-23.1%	94.5%	-17.0%
US Government 10 Year Yield	0.65	0.65	
US Dollar Index	99.00	97.39	

QUARTERLY OVERVIEW

As discussed in my Q1 report (email me if you need a copy), the first quarter of 2020 was historic. In a different way so was the second quarter of 2020. After what can only be described as a market crash in Q1, the markets staged an impressive comeback in Q2, proving that the aggressive Federal Reserve and Treasury actions actually worked and caused investors to do what they have done since 2008, which is, buy the dip.

In March, when liquidity was threatened and markets were collapsing the Fed and Treasury stepped in to calm the markets and effectively said: "we are going to do whatever it takes to restore health to the markets…there are no limits." Realizing that they meant it, and understanding how it is pointless to fight the Fed, investors calmed down and stopped selling. Some even bought.

The unprecedented stimulus (in size and scope) had a notable effect on all asset classes. As you can see in the schedule above, the Dow and S&P rallied substantially and are very close to recovering all of their first quarter losses. The Nasdaq index recovered all of its losses and went on to new all-time highs. But there is more to the story because as much as the general stock indices rallied, gold and gold stocks rallied more. Gold, silver and the miners outperformed the market in the quarter and year to date.

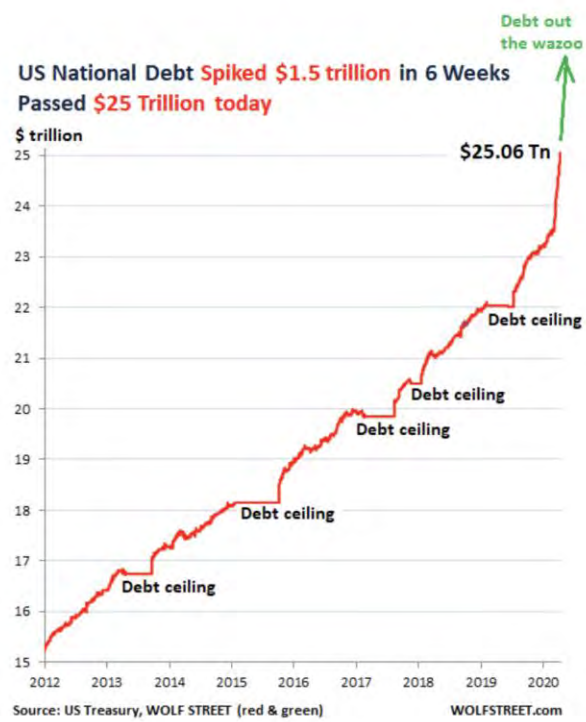
I believe there is useful information in this relative performance. The fundamental driver for this outperformance is that enormous sums of money and credit were issued and spent by the US Government (Treasury & Fed). This action represents extreme monetary debasement, and gold can smell it. Investors are flocking to gold because they are slowly coming to see that the Government cannot escape from a debt trap without the Fed financing it and thus causing monetary debasement and, eventually, inflation.

SAVED BY THE PRINTING PRESS

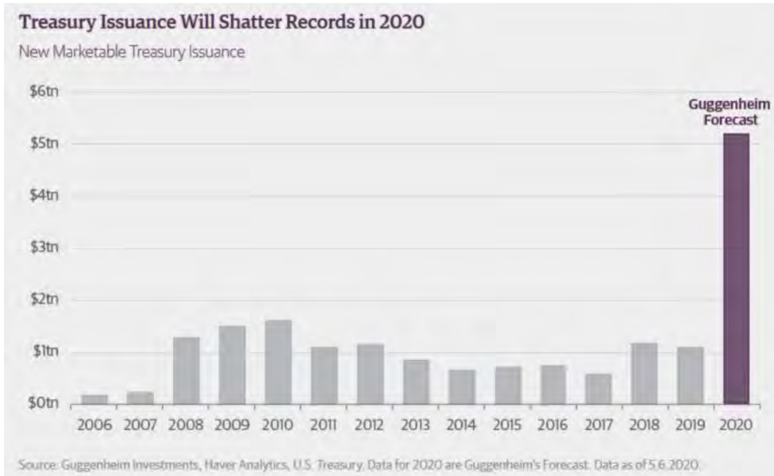
As detailed in our last report, the Government response to the COVID driven bursting of the credit bubble was large and unprecedented. At peak, in the three-month period ended 6/11/2020, the Fed balance sheet expanded by 66% as it grew from $4.2 Trillion to $7.2 Trillion. Most of that growth has been the purchase of US Treasuries as the Fed has had to monetize deficits in the absence of foreign and domestic UST purchasers in this low treasury yield environment.

Separate and aside, the total Fed/Treasury JV rescue package was $6.2 Trillion in size, and it had a huge impact on boosting the confidence of financial markets.

Turning our attention to the US Treasury's National Debt, the next two schedules show just how much that leverage has swelled. Note that this first chart is one month old and the US Federal debt today (7/9/2020) stands at $26.5 Trillion.



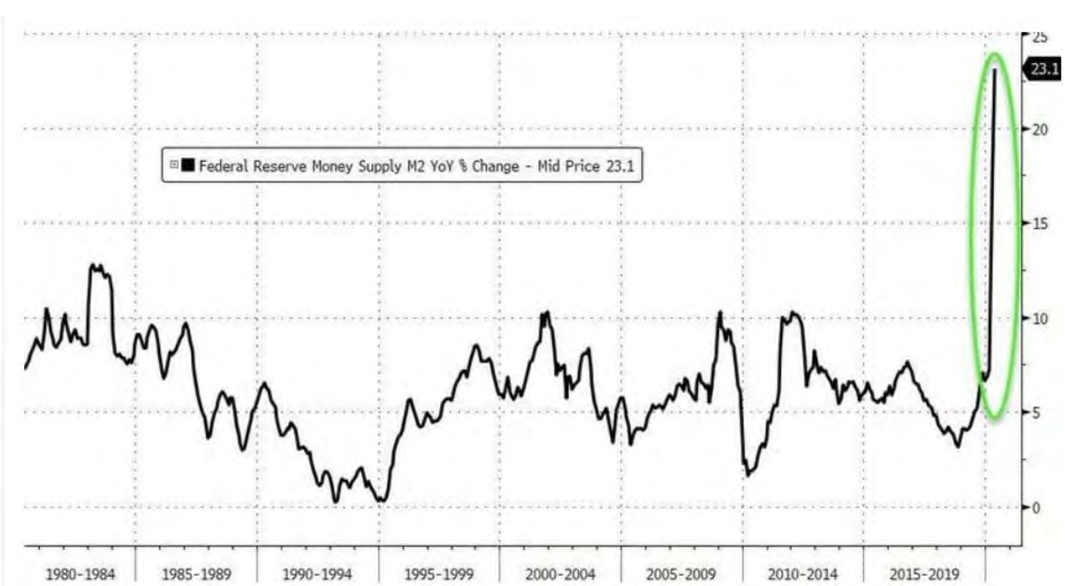
The scale of the projected Federal Debt issuance is truly unprecedented when compared to prior years as seen in this chart:



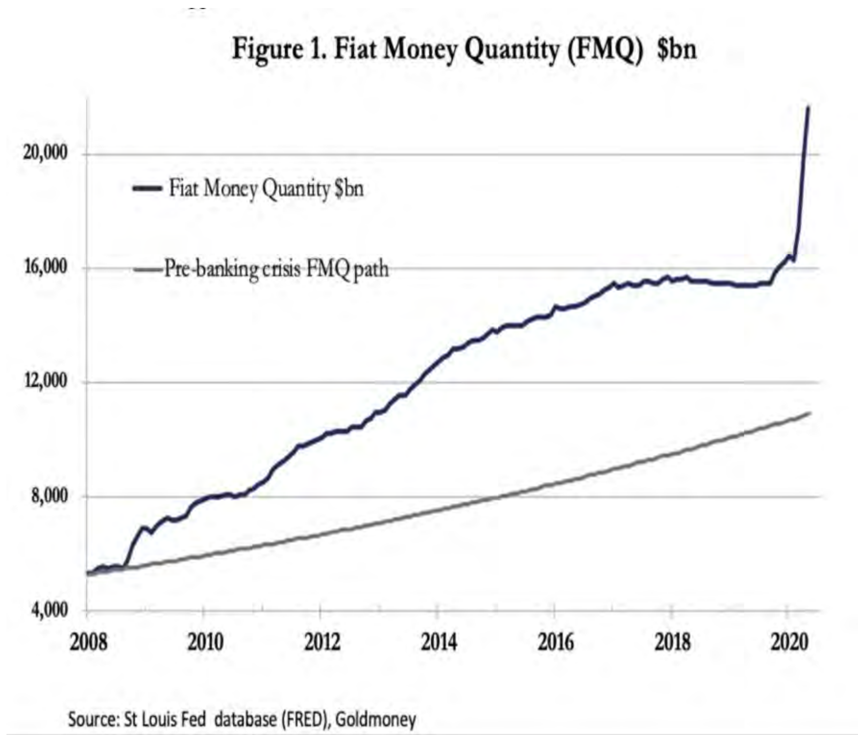
If you find yourself wondering how the government can issue this much debt and still maintain "full faith and credit" in the currency then you are not alone.

Who is financing these deficits? The Fed. As the chart below shows these actions had a more profound effect on growth of the money supply than those taken after the GFC in 2008. Likely this is due to low interest rates (or concern of growing deficits) no longer enticing domestic and foreign purchasers of US Treasuries as in years past.

% Change in Money Supply Year/Year (1980-Present)



The amount of money being created has almost gone vertical.



Note: Fiat Money Quantity (FMQ) as defined by Goldmoney is all money in existence (i.e., what the Government used to call M3 plus bank reserves).

MACRO ISSUES

As pointed out in our last letter, the conditions coming into this crisis were the perfect set up for a credit collapse and had been anticipated by Austrian School economists for some time.

The COVID shut down triggered the collapse, but the conditions precedent already existed. Stock and bond markets were extremely overvalued. The business expansion that began in 2008 was very extended and one of the longest on record. The Fed's ZIRP policy had led to huge capital misallocations and a credit bubble.

When the markets cratered in March, the Fed/Treasury response was predictable as safety nets are necessary in recessions. However, they went even farther than I thought was possible.

It is still an unanswered question as to how long the COVID related problems will remain and how fast the economy will recover. However, I honestly do not think the rate of recovery is going to have an enormous impact one way or the other. In a sense the milk has been spilt and it will be tough to clean it up. Presently, we are now 3.5 months into the collapse and all of the loans, stimulus and unemployment benefits have somewhat cushioned the blow. Looking at the stock market, some might think the storm is behind us. However, it will take time to see how deep and extensive the economic damage has been. Anecdotally, there are reports that many commercial landlords are not being paid, huge percentages of rents and credit card bills are late, and beneath the surface people are very stretched financially. The Federal unemployment benefits expire at the end of July and if these are not extended there will surely be additional distress.

The problem displayed in the next chart has not gone away and has in fact gotten worse since GDP will be contracting and the debt level is growing even more quickly.

Furthermore, the Federal budget deficit picture is looking worse than when we last discussed it. Recall that in Fiscal 2019 (September 30) the US Federal deficit was $0.96 Trillion. The CBO's[1] latest projection (April 24th) is a 2020 fiscal deficit of $3.7 Trillion and the run rate is much higher than that. For the three months ended June 30, the Federal Government deficit was $2.0 Trillion. Annualized this is a run rate of $8.0 Trillion. While much of the past few months deficit spending is non-recurring, our sense is go-forward deficits are likely to be at least $4 Trillion and possibly more depending on future governmental spending programs. Keep in mind, in 2019 many eyebrows were raised at $1 Trillion annual deficits, let alone future ones of greater than $4 Trillion.

Peter Bernholz in his book, Monetary Regimes and Inflation[2], studied cases of high inflations and hyperinflation and drew the following conclusions:

- "In this section it will be demonstrated by looking at 12 hyperinflations that they have all been caused by the financing of huge public deficits through money creation." p. 69-70.
- "The figures demonstrate clearly that deficits amounting to 40 per cent or more of expenditures cannot be maintained. They lead to high and hyperinflations…" p. 71
- "The examples of both Germany and Bolivia suggest that at least deficits of about 30 percent or more of gross domestic product are not maintainable since they imply hyperinflations." p. 71.

[1] Congressional Budget Office.
[2] Peter Bernholz, *Monetary Regimes and Inflation* (Cheltenham, UK: Edward Elgar Publishing, 2003)

- We maintain the position that the huge budget deficits strongly suggest that the hyperinflations were caused by issuing money to finance them. P. 71.

The US deficits are running at over 20% of GDP (i.e., $4T/$20T). To be fair, the present rate of spending may not continue. It is possible that future spending will be restrained, but it is also possible that future expenditures will grow.

There is certainly some evidence which suggests that additional stimulus will be offered.

MARKETS BUSINESS INVESTING TECH POLITICS CNBC TV

Trump says he supports 'larger' payments to Americans than Democrats in next coronavirus relief bill

PUBLISHED WED, JUL 1 2020-2:02 PM EDT | UPDATED WED, JUL 1 2020-8:06 PM EDT

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SHARE

When politicians begin to compete on the basis of how much "free" or printed money they can hand out one can certainly be concerned that the value of the money will be debased.

There is also the issue of getting re-elected and infrastructure spending:

> *"With interest rates for the United States being at ZERO, this is the time to do our decades long awaited Infrastructure Bill. It should be VERY BIG & BOLD, $2 Trillion, and be focused solely on jobs and rebuilding the once great infrastructure of our Country!"*
>
> President Trump, on Twitter 3/31/20

INFLATION PSYCHOLOGY: THE UNANSWERED QUESTION

As you will recall, in our last report I discussed two different kinds of inflation. There is the traditional demand pull/cost push inflation that is reflected in the CPI, and then there is what I labelled Currency Substitution Inflation Psychology (CSIP).

First let's consider CPI inflation. Reported CPI inflation has been subdued as the result of the falling velocity of money and the fact that the numbers are not accurate. Shadow Government Stats and the Chapwood Index show significantly higher CPI numbers versus what the government reports. There has been meaningful inflation in healthcare, education, real estate and stock prices. Nevertheless, CPI has been relatively contained.

The effect of COVID and its related demand destruction has been to create a real mish mash of inflation and deflation. Perhaps inflation in essentials, and deflation in discretionary items. With respect to CPI inflation, the Tweet below is not encouraging. Food prices have not shown as large a monthly increase since 1974. Let's hope that this is just one time and due to supply interruption issues.

The second type of inflation is different from the CPI variety. I label this type of inflation: Currency Substitution Inflation Psychology (CSIP). CSIP is the type of inflation which occurs when a currency is so heavily debased by its issuer that people flee the currency to find a harder version of money as a store of value. The key driver in this type of inflation is psychology. People either believe that the issuer of a currency is sound and can be trusted to not over issue the currency—or they do not.

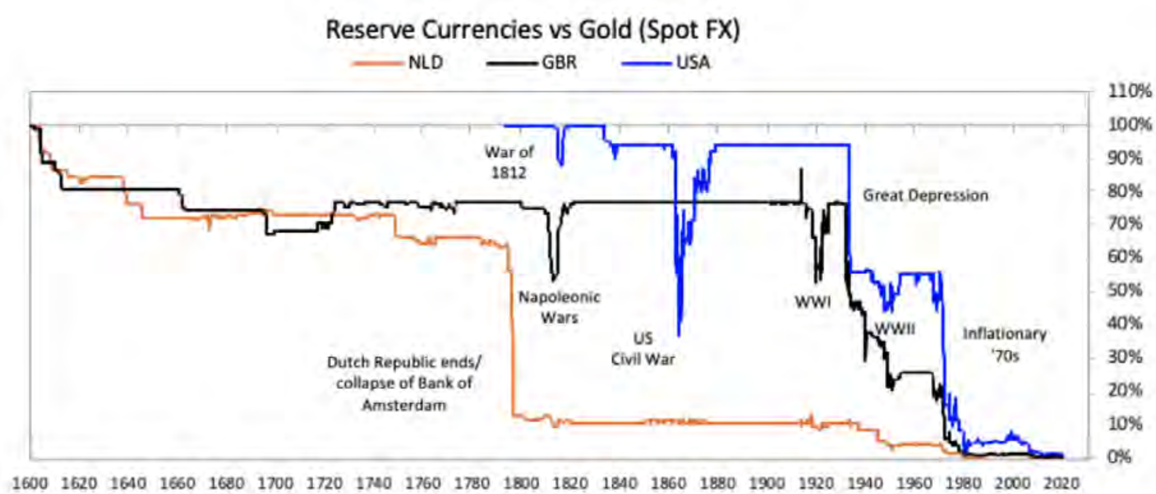
Because all currencies are really nothing more than a claim on future goods and services their value is subjectively determined in the marketplace. People who hold a currency always have a choice to hold competing currencies. If they feel that the currency in which they are paid or trying to save is losing purchasing power they will naturally, as a matter of economic self-defense, convert the bad currency into a good currency which is not losing value. This is the well proven economic maxim of Gresham's Law. Over thousands of years it has played out over and over again.

The issue is TRUST. Will the issuing authority prevent over-issuance?

Today's major reserve currency is the US dollar and since WWII it has enjoyed the status of being the most heavily used currency. Although it has suffered inflation, it has not collapsed because fundamentally people have trusted the US Government and the US Fed (monetary authority). IF this trust erodes severely enough, or it is lost, it is not going to matter what the reported CPI rate of inflation shows. IF people flee the US dollar it will be a massively inflationary event in US dollar prices.

I would submit that the US Dollar has never been at greater risk of loss of confidence in its issuing authority and that the superior currency which more and more people are choosing is gold.

The US has been the world's reserve currency for a long time now. Most people take it for granted that the trust in the US dollar will always continue--but as history has shown over a very long time span all reserve currencies have been debased when measured against gold.



SIGN POSTS FOR THE DOLLAR

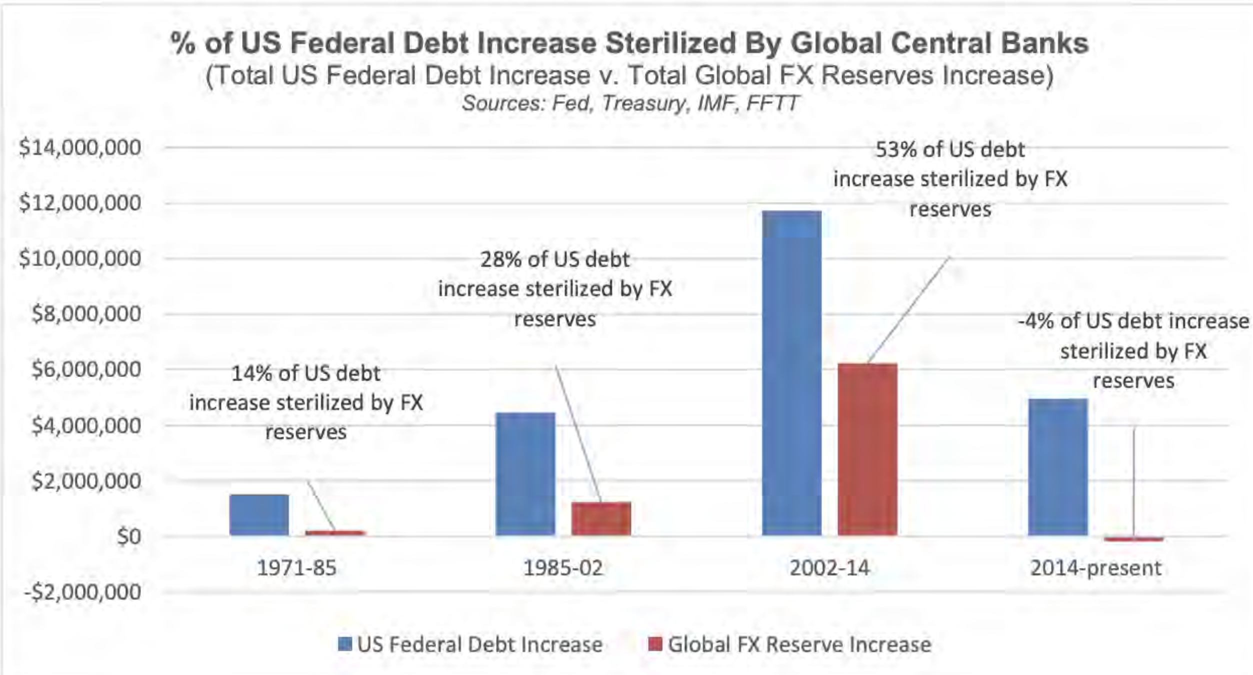
So, what sign posts can we use to judge how well the US Dollar is doing as the world's reserve currency?

There are many, as outlined below:

1. Is the world willing to finance the US Budget Deficit? [No]
2. Are domestic investors willing to finance the US Budget Deficit? [No]
3. Is the world increasing or decreasing its holdings of US Treasuries? [Decreasing]
4. Is the Dollar performing well against other country's currencies? [Neutral, mixed]
5. Is the Dollar price of Gold going up or down? [Up]
6. Is Gold becoming more or less popular as an asset class? [More]
7. Are real interest rates positive or negative and what is the trend? [Negative, trending more negative]

1. Is the world willing to finance the US Budget Deficit? [No]

- Foreign purchases of US Treasuries since the end of 2014 have been very minimal. We can no longer count on overseas investors to support our debt issuance.



Source: Luke Gromen, FFTT-LLC.com

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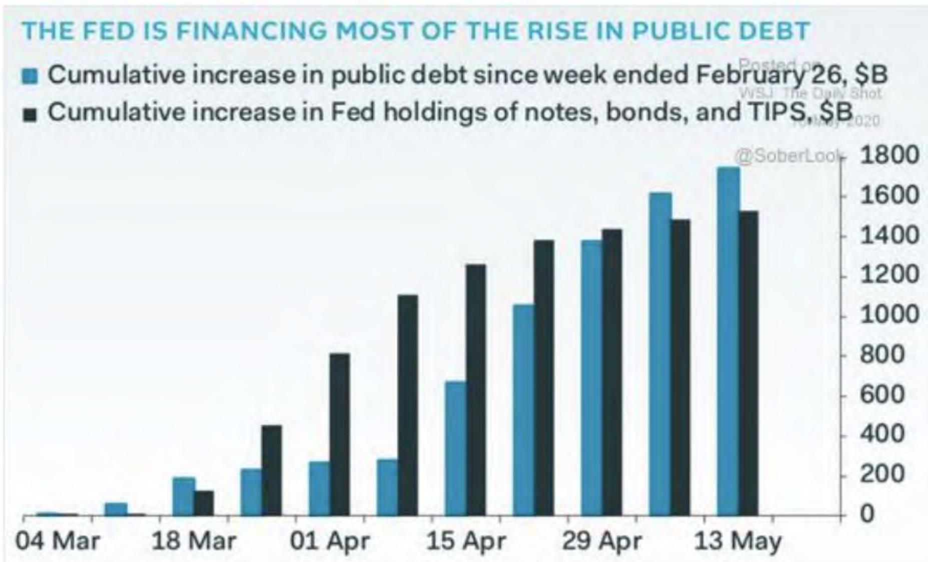
2. Are domestic investors willing to finance the US Budget Deficit? [No]

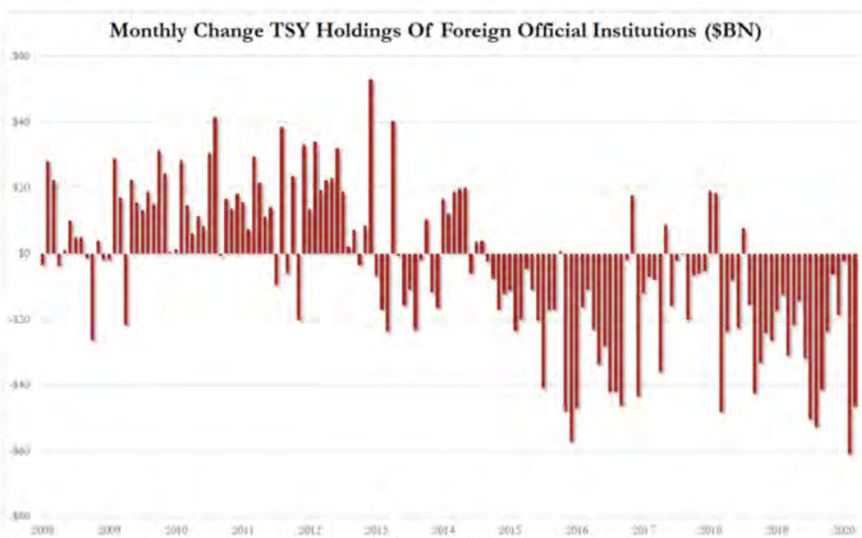
- US investors and savers have also gone on a buying strike (in part because interest rates are so low) and so the Fed has become the "BUYER of last resort" for Treasury securities. This is pure monetization of the deficit, or printing money.



Source: WSJ Daily Shot

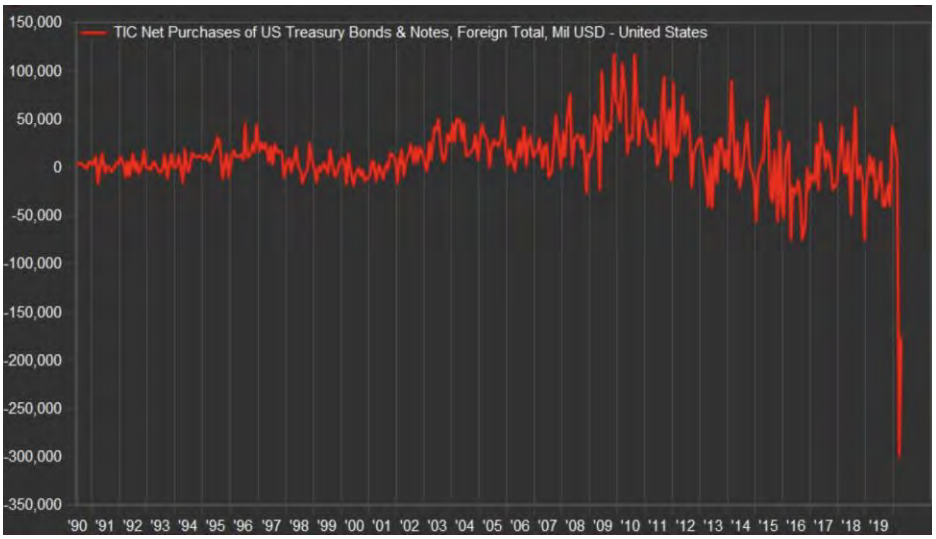
3. Is the World Increasing or Decreasing Its Holdings of US Treasuries? [Decreasing]

- Since 2014, mostly decreasing.



Source: US Treasury, via Zero Hedge

- Particularly pronounced declines in March and April. The COVID shock led to a sharp divestiture of US Treasury bonds held by foreigners. If this continues it will be a problem because the Fed will have to buy what is sold.

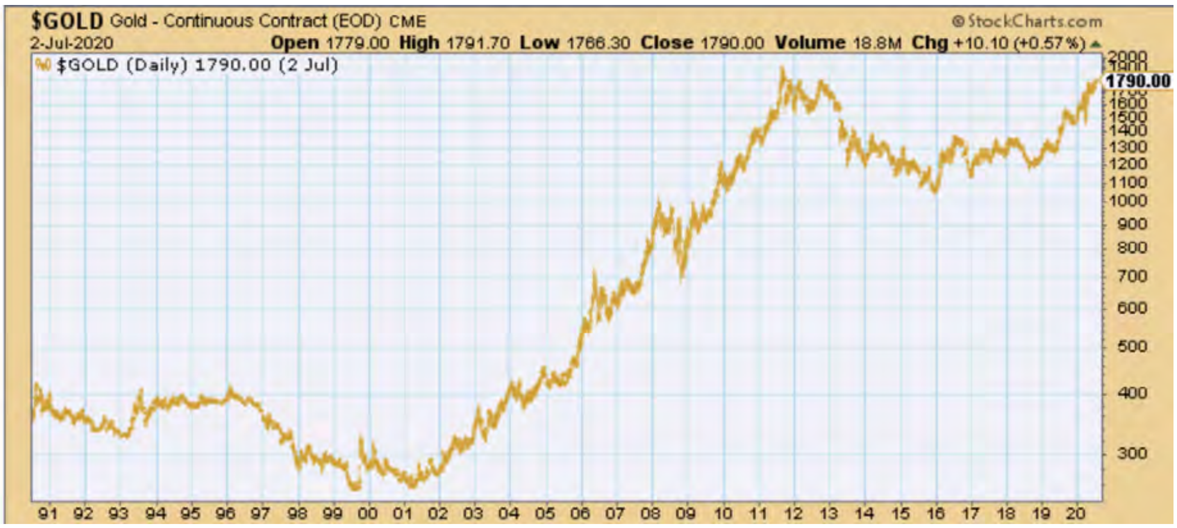


4. **Is the Dollar performing well as measured against other currencies? [Neutral, mixed]**

- The dollar is going sideways. It is unclear what the trend is here.

5. Is the Dollar price of gold going up or down? [Up]

- Gold is in a strong uptrend and is about to surpass the 2011 high of $1,921 per ounce (as this letter is written 7/10/2020 the spot price is $1,799)

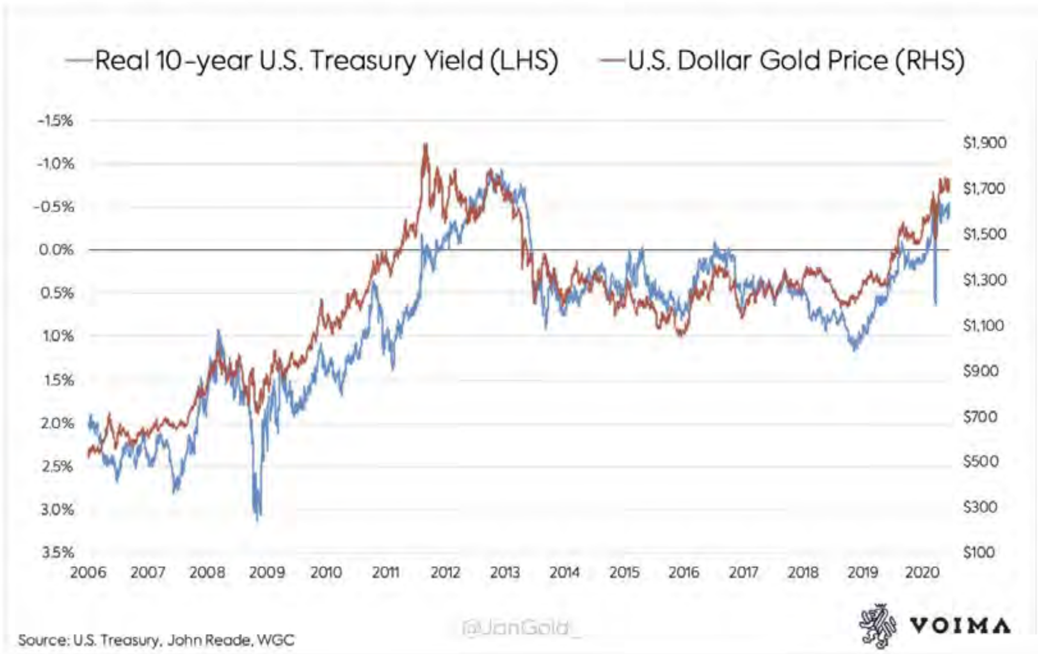


6. Is gold becoming more or less popular as an asset class? [More]

- ETF holdings of gold continue to grow.

Gold ETF holdings (troy ounce) 2008-Present

7. **Are real interest rates positive or negative, what is the trend? [Negative, trending more negative]**
   - Real interest rates are negative and trending toward deeper negative values. Note how tight the fit has been between real (inflation adjusted) interest rates and the price of gold. IF inflation increases and rates are suppressed via Yield Curve Control (YCC), gold is going to continue to go up.



Sign Posts Conclusions: Looking at these charts, the process of substitution of gold for the dollar as a store of value is well underway. If budget deficits increase and the Fed is forced to continue to monetize those deficits, I expect the price of gold will exceed its all-time high and the pace of CSIP will accelerate in favor of gold. This would be a classic case of currency debasement as the result of over issuance by the issuing authority, the US Federal Reserve.

US GOVERNMENT ACTIONS: THE FINAL PIECE

The problem really starts and ends with the US Treasury and the Federal Reserve. The government is locked into large deficits today and is in a position where it is going to be very difficult to get them under control. Politics, and the MMT crowd almost ensure that spending will remain at or above present levels. A Democratic administration and a tax increase are certainly possible but that will not do anything for economic growth and it is unclear whether it will really increase revenues to the government.

Given that large deficits seem fairly certain, the issue then becomes how will they be financed. Of course the Treasury will issue debt and the Fed will be forced to continue playing its role as buyer of last resort.

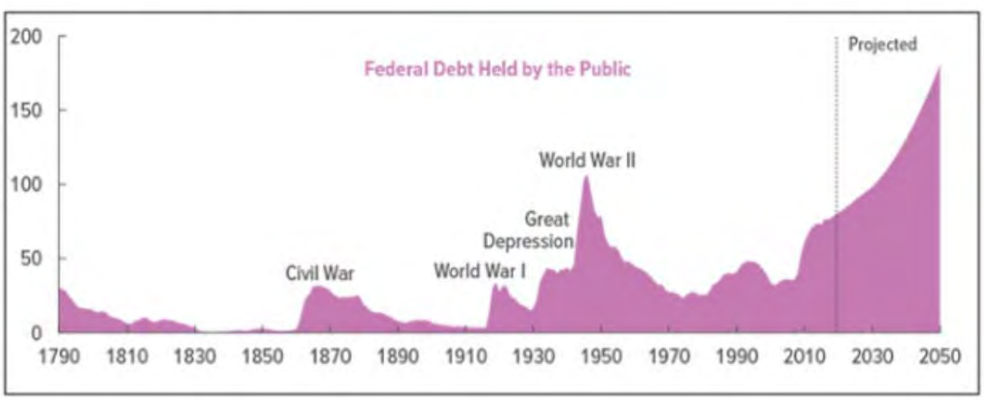
This alone is a problem and leaves the Fed somewhat trapped. But as we have discussed the bigger issue is what happens if and when people begin to sell bonds because they anticipate debasement. The Fed has already signaled that the higher interest rates caused by bond sales would be problematic for the Federal budget and for the economy. They have indicated that they are looking at Yield Curve Control (YCC)/ Yield Curve Targeting (YCT) and that they are prepared to buy bonds in order to keep rates suppressed. Even if this means increasing their balance sheet. [money printing] Of course, that increase means more debasement which would lead to more bond sales. This is a DOOM LOOP as we have discussed before.

The Fed is very aware of this issue as the minutes of their June 9-10 meeting show:

> But the staff also highlighted the potential for YCT policies to require the central bank to purchase very sizable amounts of government debt under certain circumstances—a potential that was realized in the 1940's—and the possibility that, under YCT policies, monetary policy goals might come in conflict with public debt management goals, which could pose risks to the independence of the central bank.

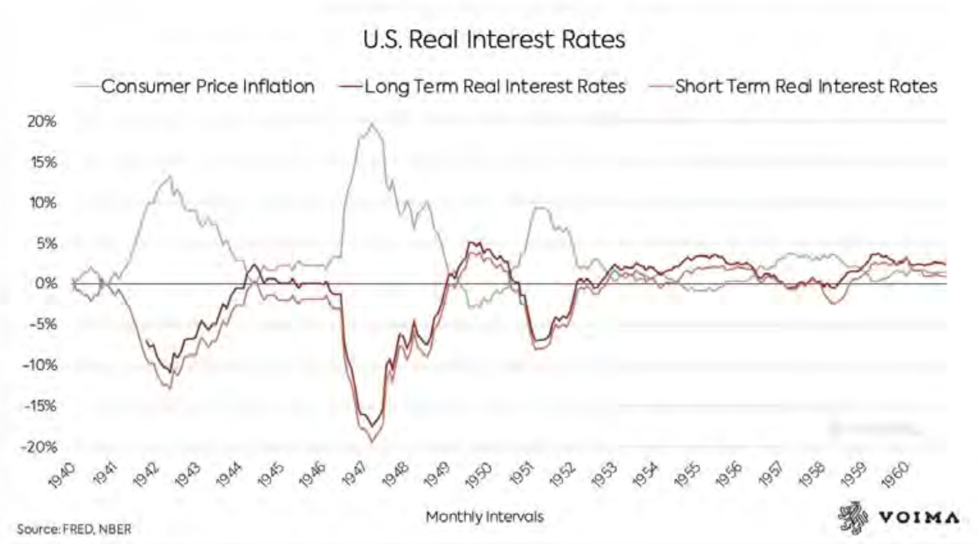
It does not get any more existential than that. Central Bank independence is sacrosanct. I suspect that they also fear that inflation could run away from them. Certainly, that is what happened in the 1942-1952 example as shown in the following schedules. Recall that WWII caused US public debt to swell to over 100% of GDP in order to fight and win the war.

Figure 5. From the Congressional Budget Office: Federal Debt Held by the Public as a % of GDP



Source: Congressional Budget Office.

From 1942-1952 in order to manage the debt the Fed instituted YCC and held the entire Treasury interest rate curve at pre-set levels. The result was extremely high inflation and deeply negative real interest rates. This can be seen in the following chart. At one point annual inflation was almost 20%.



During this 1942-1952 period government bonds were a terrible investment on a real basis. All of the obligations were met, nominally, but consumer price inflation accelerated much higher. Stocks benefited. Gold would have benefited too, except we were on a gold exchange standard, Americans could not own gold, but governments exchanged it at a fixed price of $35 per ounce.

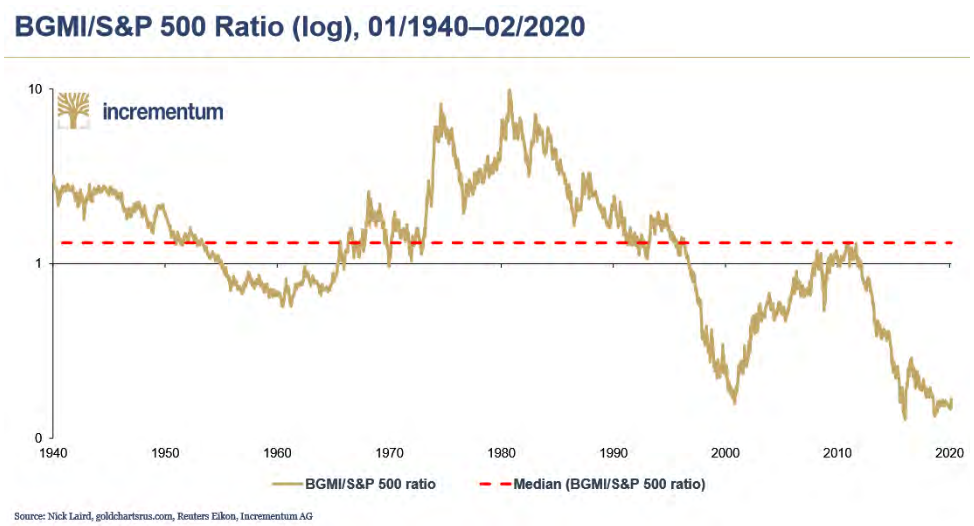
BOTTOM LINE ON GOLD

It all comes down to faith in the stewards of the currency-the Federal Reserve and by extension the US Treasury. If faith in them increases, gold will fall in price. If faith in them diminishes gold will accelerate in price. Because they are in a sovereign debt crisis/trap I believe the Fed knows that the only way out is to inflate. The alternative is a deflationary collapse that they would view as infinitely worse. I believe that they will attempt to have a managed retreat. That is, they know they need inflation and a higher gold price. They just don't want it to happen too quickly or in a disorderly fashion because if that occurs Gresham's Law will kick in and the dollar will fail. So, as investors in gold and gold mining equities I believe we now have the government on our side—sort of. We have to be prepared for them to take actions to attack gold if gold's price begins to accelerate too dramatically.

It is interesting, a similar situation took place in the 1970's when gold ran from $35 per ounce in 1971 to $800 per ounce in 1980. There was talk of the dollar failing and Paul Volcker stepped in and drove nominal rates to 20%. In Volcker's autobiography he even mentions that he thought they made a mistake by letting the price of gold get away from them in the way that it did. I interpret this as a warning that they may take more direct action this time. Another reason why gold investors have to be ready for a rough ride.

GOLD STOCK INVESTING

In prior reports we have discussed how cheap gold is when compared to the monetary base. This relative value also exists in the gold mining stocks when compared to the S&P 500.

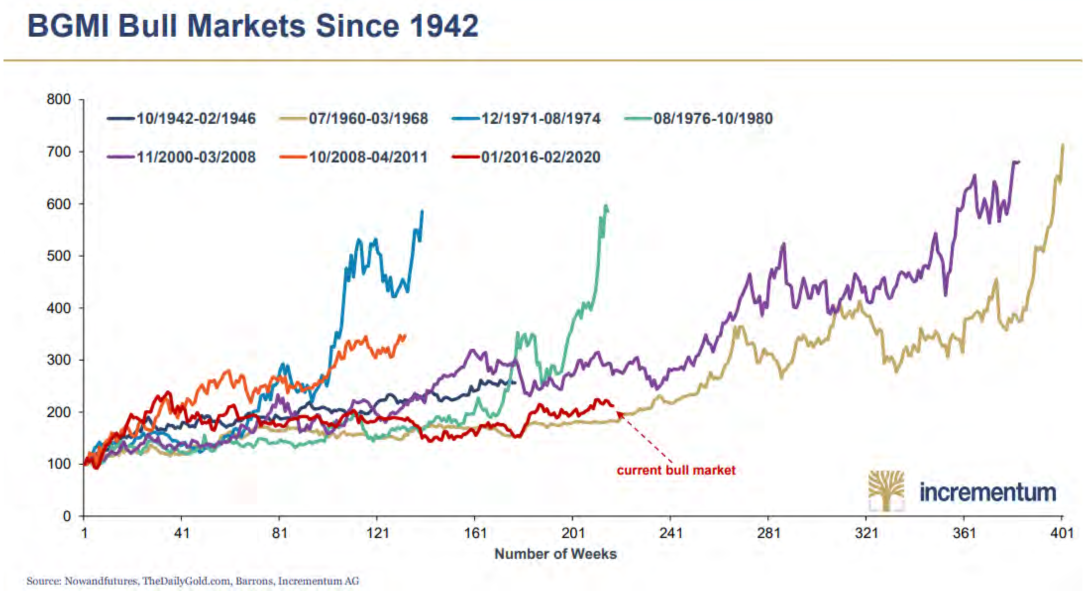


BGMI = Barron's Gold Mining Index, representing large gold mining stocks.

Gold stocks are also cheap when compared to the price of gold. This is because there is a lot of investor skepticism since gold mining equities underwent a devastating bear market from 2011 to 2016.

<u>**Ratio of Gold Stock Index / Spot Gold Price (1984-Present)**</u>

Furthermore, historically, gold stock bull markets have been explosive. 4 out of 7 historical gold stock bull markets have generated cumulative returns in excess of 500%.



Note that this bull market is up approximately 100% from its start point in January 2016. Also, consider that the BGMI index is comprised of the major gold miners. The junior gold miner returns are significantly larger. We are in the first or second inning. The future returns here could be substantial.

Another consideration is that the aggregate amount of investable gold and gold equities is modest. Worldwide financial assets are approximately $350 Trillion (all cash, stocks and bonds). The tradeable gold bullion available for purchase and sale is $2.4 Trillion. The aggregate market cap of all gold miners in the world is approximately $0.5 Trillion. Thus, gold related investments (2.4+0.5) of $2.9T equal 0.8% or less than 1% or worldwide financial assets. If even 10% of worldwide assets were to move into gold assets you would have $35 Trillion chasing $2.9 Trillion. Our investments will perform well.

GOLD MINING: A CHALLENGING & CAPITAL INTENSIVE BUSINESS

Gold Mining is a Risky Business:

- Gold mining requires: (i) finding a deposit; (ii) determining if it is economic to mine it; (iii) procuring permits; (iv) raising capital; (v) building a mine; (vi) and operating it successfully.
  - Murphy's Law applies to every step of this process.
  - Many good mines do not get built due to permitting, regulatory and financing challenges.
  - Even when successful, miners then face a capital allocation/re-investment challenge.

But, there is Big Upside:

- On the positive side:
    - Good mines can operate for decades.
    - Some mining processes are very predictable and reliable.
    - Gold mines generally enjoy enormous operating leverage to the price of gold.
        - i.e., mining costs increase more slowly than gold prices.

Don’t Try This at Home:

- The list of things that can go wrong is long, here are *some* of the issues:
    - Grade deteriorates.
    - Ground conditions become unstable (cave-ins, flooding).
    - Metallurgy changes or becomes challenging.
    - Veins pinch, deteriorate or die.
    - Environmentalists or locals shut down mines.
    - Governments shut down mines.
    - Governments raise taxes and fees making mining uneconomic.
    - Management misallocates capital.

Portfolio/Timing/Risk Management are all Critical:

- Understanding these risks, and therefore, active stock selection have never been more important.

- Unlike many businesses with a knowable residual value, in mining a total loss of capital is entirely possible.
    - Therefore, the upside must be multiples of capital invested to justify the risks.

- Also, a diverse portfolio is extremely important.

GOLD MINER SWEET SPOT: EMERGING PRODUCERS

Cash Flow is King.

- Because there is risk in finding gold, de-risking a project, planning/financing/building a mine, the safest approach emphasizes companies that already are producing gold economically with positive cash flow.
    - Emerging Producers enjoy significant operating leverage to higher gold prices and have the potential to self-finance production capacity growth

Operating Leverage is Substantial

- **Example of operating leverage for a gold mining company:**

($US Per ounce)			
Gold Price	$1,700	$1,900	$2,500
% price increase		*12%*	*47%*
All In Sustaining Cost (AISC)[1]	1,000	1,000	1,000
Gross Profit	$700	$900	$1,500
% GP increase		*29%*	*114%*

1. All in sustaining cost (ASIC) is the industry standard term for the cash cost to produce an ounce plus the related exploration cost to replace that ounce. It includes sustaining Capex but does not include expansion Capex. Presently, industry wide the ASIC is averaging around $1,000 per ounce. Cash cost is another measure of profitability which is the cash expense to remove gold, not including drilling capex. Industry average cash cost is approximately $750 per ounce as of mid-2020.

Valuations Are Low:

- Today, many emerging producers trade at 3-5x cash flow. Some are as cheap as 1-2x pro forma cash flow.

- These companies have three ways for their stock price to appreciate:
    1. The price of gold increases and their profits rise.
    2. Their multiple expands to trade at 9-15x cash flows like the majors.
    3. They grow their production capacity by increasing throughput, or adding new mines.

Portfolio Management:

- EMA Fund holds a core of emerging producers with selected developers and drill stories added to provide upside optionality. 18 names account for 45 percent of the Fund. In total the Fund owns roughly 100 companies. Some drill stories carry a 0.5% weighting but could return 10-50x if they work.

DEEP VALUE EXISTS IN THE JUNIOR VS. SENIOR MINERS

- Apart from the fact that they often grow production faster, the Junior miners are also significantly undervalued. As you can see in the chart on the next page.
    - Junior miners presently trading at -81.5% discount to NAV.
    - Senior miners trading at +7.2% premium to NAV.

- Furthermore, many juniors are not captured in the junior index because they are too small.

Miner Premium/Discount to Net Asset Value (NAV)

Source: BMO Capital Markets, FactSet. North American senior vs. junior gold miners. As of 4/30/2020.

OPTIONALITY: DEVELOPERS AND DRILL STORIES

- There are three categories of gold mining equities:

    1. Producers: have at least one operating mine, produce gold and have cash flow.
    2. Developers: have proven 43-101 compliant reserves[3] and are working to build a profitable mine.
    3. Drillers: have a land package and are drilling to define a 43-101 compliant reserve.

- While Producers can grow in value consistently and relatively safely, they are unlikely to produce 5-100x ROICs.

- Developers and Drillers have much greater risks but also have greater potential to multiply..
    1. Developers often achieve a 5-10x increase in valuation if they are successful at building a mine.
    2. Drillers can increase in value between 5-50x if they are successful at delineating an economic deposit.

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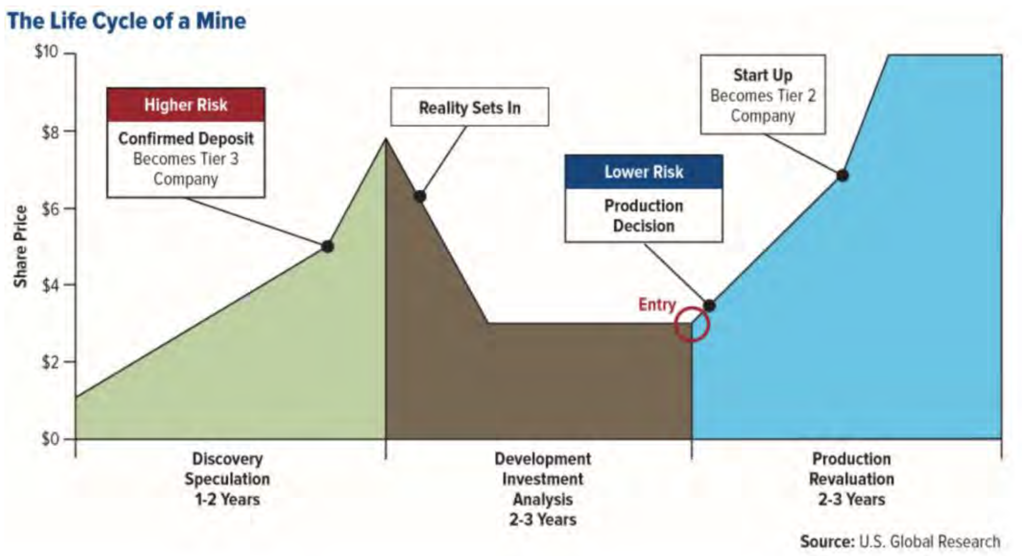
[3] : Canadian Gold miners operate under a tightly defined set of rules called National Instrument 43-101. This methodology provides a standard for quantifying drill results and measuring resources in the ground by placing them into categories which are: proven, probable, measured, indicated and inferred. The results are publicly disclosed and peer reviewed.

- It takes knowledge, skill and research to handicap the best risk/reward opportunities. Timing is also important. I have spent 12 years (since 2008) building this knowledge.

- Note the following cycle, which has been dubbed: The Lassonde Curve[4].



From this chart you can see that the two best entry points are when a Company begins to get good drill intercepts which outline a discovery, and when they have fully de-risked a project and are on the cusp of becoming a producer.

EMA focuses heavily on the producers but when looking at Development and Drill Stories we look for these two entry points.

CONCLUSION

In my opinion we are approaching the end of a long-lived monetary order that will need to be re-structured or reformed. This is because mathematically Keynesianism is flawed.

Fiscal Stimulus and debt growth are not substitutes for genuine investment in productive capacity. The world is overindebted. The solution is either to:

(i) Let the debts collapse and restructure.
(ii) Have the Fed finance the ongoing deficits and debase the currency.

Nothing in this world is certain, but given our current government structure, I believe that present and future policy choices will lead to a debasement of the currency. This is bad, and suggests to investors that they should select investments which protect against this debasement. A form of monetary debasement insurance is called for.

[4] The curve was initially developed and described by legendary Canadian miner, Pierre Lassonde, who was formerly CEO of Newmont Mining and is presently CEO and Chairman of Franco Nevada, the largest gold streaming company.

Making this choice would be difficult if such insurance were expensive. But, the amazing thing is that for a variety of reasons this debasement insurance in incredibly cheap compared to the protection it provides.

As one of my investing mentors likes to say "it is the perfect "two'fer". It works well because you are buying value which will work, and if serious debasement occurs it is going to work incredibly well. I strongly suggest that all investors seriously evaluate their level of commitment to this form of insurance because it is not going to remain this cheap for much longer.

I am available to discuss this further at any time. Please do not hesitate to call me or drop me an email.

Thanks for your patience and support.

Best,

Larry

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ADDENDUM:

I thought the following information was useful, but it did not fit naturally anywhere in the letter.

Below I have inserted two quotes that were brought to my attention by Luke Gromen.

I believe they both speak well to our current conditions.

They are followed by a chart which shows the ratio of the gold price to the Dow Jones Industrial Average.

(see following page)

The first is from Lacy Hunt who until recently has been a large proponent of deflation:

Pre-conditions for hyperinflation laid out in 1q19 by Lacy Hunt appear to have begun being satisfied

The process would be something like this: The Treasury would issue zero maturity and zero interest rate liabilities to the Fed, who in turn, would increase the Treasury's balances at the Federal Reserve Banks. The Treasury, in turn, could spend these deposits directly to pay for programs, personnel, etc. Thus, the Fed, which is part of the government, would be funding its parent with a worthless IOU. In historical cases of money printing, the countries were not the reserve currency of the world, as the U.S. is today. Thus, the entire global system could be destabilized in very short order if this were to occur.

There would be no real increase in services or money since very little time would lapse before people realized increasing inflation was not increasing real purchasing power. If the government responded by issuing more central bank legal tender, the inflationary process would become self-perpetuating, and as was the case in numerous historical instances this would lead to hyper-inflation. Moreover, the central bank would have no capability of reducing the money supply. All they could offer would be the zero maturity, zero interest liabilities of the government, but there would be no buyers. This would mean that hyper-inflation would be difficult to stop.

Source: Lacy Hunt, 1Q19 Hoisington Management Letter
https://hoisingtonmgt.com/pdf/HIM2019Q1NP.pdf

The second is by William White a well-respected economist.

I am going to tell a less pleasant story…That is that we get an assumed slowdown or a global recession. … I suspect, in that situation, you could look forward to a period of financial repression…Efforts would be made to ensure that, somehow, you were forced to buy government bonds or maintain liquidity ratios. … I mention this in passing, but in countries that started off with a very bad fiscal situation, there is a lot of history that indicates that a slowdown, when a country faces a very bad fiscal situation, leads to still more recourse to the central bank and so people, ordinary people and traders, seeing the writing on the wall that central bank financing will eventually lead to inflation. Everybody says: 'I am out of here.' There is a currency collapse and hyperinflation. We have seen it many times in history in the worst of the worst-case scenarios.

William White, OECD (former chief economist of BIS), October 16, 2016
http://www.lbma.org.uk/assets/events/Conference%202016/Speeches/Keynote%20Speech%20-%20White.pdf

Finally, this chart of the Dow/Gold ratio over the past 120 years is instructive:

I could see a situation where this ratio approaches 1 again. Whether the Dow were at 10, 20 or 30 thousand all of these figures lead to a gold price that is multiples of today's price.