Demetri Kofinas:	00:00	Today's episode of Hidden Forces is made possible by listeners like you. For more information about this week's episode or for easy access to related programming, visit our website at hiddenforces.io and subscribe to our free email list. If you listen to the show on your Apple podcast app, remember, you can give us a review. Each review helps more people find the show and join our amazing community. With that, please enjoy this week's episode.
Demetri Kofinas:	00:48	What's up everybody? My guest on this episode of Hidden Forces is Rick Rule, President and CEO of Sprott US Holdings, and Senior Managing Director of Sprott INC, a global alternative asset manager focused on precious metals and real assets, serving 200,000 clients with approximately $12 billion in assets under management worldwide.
Demetri Kofinas:	01:14	After spending most of the last decade in a period of prolonged under-performance, gold has spent the last two years on a tear, up 67% since September 2018. With the exception of a sharp dip during the heights of the COVID-19 outbreak, the rise has been steep and more or less, uninterrupted. My goal with today's episode is to introduce Hidden Forces listeners to this category. Not just to gold, but to the entire natural resource industry. Though admittedly gold is at the very top of that list. To this point, we discuss gold both as a physical commodity, something that needs to be prospected, mined, extracted, refined and stored, and as an investment in the form of bullion, equities and derivatives.
Demetri Kofinas:	02:09	We also spend time in the regular episode discussing gold in philosophical terms. What is it? What is it that gives gold it's value? Is it a hedge? Is it insurance? And if so, insurance against what? And is it possible to even think about gold without thinking about the macro-economy, credit markets and ultimately people's faith in the institution of paper money.
Demetri Kofinas:	02:33	Other topics include the supply and demand side drivers of the gold price, what Rick sees in terms of changing institutional demand for gold, how the mining industry has changed over the last few decades, the relationship of gold to silver and where the silver market is trending, the use of public ledgers and blockchain related technologies in the precious metals industry, and much, much more.
Demetri Kofinas:	02:57	For Hidden Forces listeners who are investors in this space, Rick and team at Sprott have offered to review your natural resource portfolio free of charge, which you can send to them directly at sprottusa.com/rankings.
Demetri Kofinas:	03:14	Given that this is an investment related episode, I want to be absolutely clear that nothing that I say during the course of today's conversation can or should be viewed as financial advice. All opinions expressed by me and my guests are solely are our opinions, and should not be relied upon as the basis for financial decisions.
Demetri Kofinas:	03:35	Lastly, I want to remind everyone that Hidden Forces is listener supported. We don't advertise. If you want to learn more about how to support the show and gain access to our premium overtime feed so you can listen to the second half of my conversation with Rick, download the transcript, or read through the

episode rundown, head over to patreon.com/hiddenforces where you can learn all about it.

Demetri Kofinas:	04:01	With that, please enjoy today's conversation with my guest, Rick Rule.
Demetri Kofinas:	04:11	Rick Rule, welcome to Hidden Forces.
Rick Rule:	04:15	Pleasure to be with you. Thank you.
Demetri Kofinas:	04:16	No, the pleasure is all mine. It's great having you on the program. We're going to talk about a lot today. Obviously, gold is at the very top of that list. But you're someone who is in the natural resource space. You've been in this space for, what I think close to four decades now?
Rick Rule:	04:35	Embarrassingly, yes. If you start young and then live a long time, that's what happens.
Demetri Kofinas:	04:42	Yeah. Why don't you, for those of our listeners who may not be familiar with you or your background, maybe you could give us a sense of how you got started in this space, in the natural resource and commodity business.
Rick Rule:	04:53	I had an interest in natural resources and basic industries from a very young age, really from my teens. I was fascinated by geology, but also interested in forestry and agriculture. The only degree granting institution in North America that had a degree in natural resource finance was the University of British Columbia, at that time. So, I immigrated from the United States to Canada, I believe it was 1970. I've been principally interested in natural resource and precious metals finance and investing ever since. There have been times in my career when I have attempted to do natural resources and other businesses, but I understand resource based businesses and financial services businesses fairly well. So, with very few exceptions, I don't stray outside my area of expertise at all anymore.
Demetri Kofinas:	05:51	What drew you to the industry in the first place? What was it that attracted you to it?
Rick Rule:	05:58	Ironically, as a young man, because I like to be out of doors, I thought that geology, agriculture, forestry, things like that, would take me out of doors. The consequence of my success in the business is I've been confined to a desk almost ever since. I also like the certainty associated with resources. A certainty is an interesting word, because they're extremely cyclical. But one of the things I've learned over the course of my career, is that in cyclical businesses like resources, bear markets, when everything feels bad, are the authors of bull markets, when things are going to be good. Bull markets, when everything is going well, are the authors of bear markets. So, that one realization has served me well in the industry. I guess the third reason is I grew up in Silicon Valley really, San Jose California. I remember hearing fairly early on, 30 or 35 years ago, that the median economic life expectancy of many technological innovations is 18 months, before somebody builds a better one. The idea that by the time I understood a business proposition, that it would be irrelevant, didn't strike me as a good thing. The business cycles associated with things like coal, and paper and power and bricks, have seemed to me to be easier to

understand. Not the same as easy, but easier to understand, than other areas, particularly technological related areas.

Demetri Kofinas: 07:33 So when you say they're cyclical, is that because they're so capital intensive?

Rick Rule: 07:37 That's a great observation. That's one of the reasons that they're cyclical. They're also unusually centered around the business cycle. Because commodities, as a consequence of technology, are an increasingly small part of the total cost of a finished product, demand for commodities tends to be fairly insensitive to price. An example would be in platinum right now. It takes $125 worth of platinum in a catalytic converter to enable one to attain the emissions required to sell a $50,000 or $60,000 car. If the price of platinum doubled, it wouldn't change the finished price of the car, so when auto sales go up, as an example, it can impact platinum demand. The price could go up without the fact that the price went up impacting the demand. So, the prices of commodities vary really dramatically. Witness, as an example, crude oil prices over the last 30 years.

Demetri Kofinas: 08:48 That actually raised another question, which is maybe why you find yourself so much indoors. There is the financial side of this industry is very interesting. I wonder, to what degree, as you spend time in the space, your interest shifted to the financial side, and how interesting is that part of the business for you?

Rick Rule: 09:10 I started really on the financial side, rather than on the operating side. While all of the industry is of interest to me, I started my career as a credit analyst, and I was reasonably successful as a credit analyst. But in terms of employing it, necessarily I guess you're employed indoors. You're maybe explaining an instrument to a bank, you're explaining a credit structure or a capital structure to an issuer, you're explaining the efficacy of an investment to an investor. The other thing that happened, is that although very early in my career when I couldn't afford any backup, I did a lot of my own technical work, which is to say, I attempted to do my own geology. I attempted to do my own site visits. It became clear to me as soon as I could afford somebody who was better than I technically, and mercifully that happened fairly quickly, that everyone was served better. There were certain things that I could do that the geologists or the engineers couldn't do. There were certainly things they could do, things that they could see that I couldn't see.

Rick Rule: 10:25 So although I've always enjoyed the site visits, and I've always learned a lot from them, the truth is that the highest and best use of my time is not necessarily on site visits, although I still do them from time to time, principally to learn about the non-technical aspects of a company's culture, whether or not the safety culture is good, whether or not there is a feel of operational efficiency, something as simple of whether or not the labor force is happy, smiling, approachable, proud, those types of things.

Demetri Kofinas: 11:06 It's also interesting because the nature of the natural resources business, depending on the commodity, can be extremely risky, both politically but also in terms of personal, physical safety, depending on where some of these mines are located, including in the case of gold. The focus today is on gold, or that's how I imagine it. But I also am very curious to know not only how and where else

Sprott invests, but also where your interests are, and if there are any exciting prospects for the future of the natural resource industry that you're interested in, maybe water. I know you've talked about uranium before. I'm not sure to what degree it's cyclical. I know that it took a hit with the Fukushima reactor that went offline in 2011 and then the depression of demand be Japan. Maybe you could tell our listeners, to start, what are buckets within the natural resource industry that Sprott invests, and where your own interest area lies.

Rick Rule: 12:10

In the very near term, which is to say the next 12 to 18 months, I think the easiest place to make money will be in precious metals. I believe that's a consequence of the policy response to the COVID-19 virus, and the response to the slowdown the economic recovery that we enjoyed for the ten years prior to the year that we're in. By policy response I mean quantitative easing, artificially low interest rates, debt and deficits. All of these things debase and destabilize various currencies, including the US dollar. Traditionally during periods of time when people are concerned about the purchasing power of their fee at denominated savings, particularly when real interest rates are negative, like they are now. Precious metals have done well and I don't see any alternative for the powers that be, the big thinkers if you will, in their own minds, other than a continuation of fiscal policies that will be good for precious metals. My suspicion is that both the good money and the easy money in the near term, will be made in precious metals.

Rick Rule: 13:19

The next part of what I'm going to say is for me, much more speculative. Which is to say that I believe that COVID or no COVID, we were due for an unwinding of the economic recovery that we had enjoyed from 2009 to 2019. While I'm not an economist, a ten year long economic recovery is, in my experience, one that's very long of tooth. Particularly if you believe, like me, that the recovery was more due artificial stimulus and artificial low interest rates than it was to an increase in productivity, an increase in trade or an increase in individual wealth. The combination of an unwinding of a decade of recovery punctuated by the global economic slowdown engendered by the virus, I think means that we are going to have a period of a softer economy. That isn't to say that we might not have an equities bull market. There seems to be a disconnect between Wall Street and Main Street. My belief is that the real economy worldwide will reset lower for a while. Recessions used to be an expectation, but the big thinkers in the world have tried to make recessions illegal. I don't think the markets care too much about what the big thinkers think.

Rick Rule: 14:39

So my own outlook is for a softer economy for three to four years. If I'm correct, that we will have a softer economy, most of the natural resources sector, most basic materials, will continue weak for a while. The interesting thing about that is that see it ultimately as an opportunity, not a near term opportunity, but commodities have been priced below the total cost of production for some number of years. If that continues, you will balance supply and demand by reducing supply. As you mentioned these businesses are capital intensive. So, starting up that supply when supply tightness begins to come into account, won't be an easy matter. Which is my way of saying, I think that natural resource investors, in the next five years, may very well enjoy two bull markets. The first one, which is underway in precious metals, and the second one, three years from now, four years from now, five years from now, surprisingly strong rebounds. Sort of like the rebound in the year 2000, 2001, across the whole range of industrial commodities.

Demetri Kofinas: 15:59 What sectors have been operating below cost of capital for the last few years that you're referencing?

Rick Rule: 16:06 Certainly uranium, as an example. The International Energy Agency suggests that the fully loaded cost to produce a pound of uranium worldwide, including cost of capital, and importantly adding back prior year write-downs, where companies take them off the balance sheet, is about $60 a pound. So, you make the stuff for $60, and you sell if for $30. You lose $30 a pound, and of course, being miners, you try and make it up on volume. Tough thing to do. The consequence of that is that about half of worldwide uranium production is shut down. It's difficult to restart these mines. When the price of uranium goes up, it will be awhile before there's a supply response.

Rick Rule: 16:51 Probably a more dramatic example is oil and gas. The same agency, International Energy Agency, suggests coincidentally, that the price to produce a barrel of oil is somewhere between $50 and $60 a barrel. Again, not lifting cost, but total cost including cost to capital. So, again, you make this stuff for $60, this time you sell if for $40 or $42. You lose $20, $25 a barrel. At present, you're doing this 83, 84 million times a day. We have seen other circumstances where oil was priced below the cost of production for two or three or four years. It can do that because of stranded capital. So, much money got invested during the good times. But eventually low oil prices mean, as they mean today, much, much, much less sustaining capital investment, and almost no new project investment. That impairs the ability of the industry to respond to developing tightness and an increase in oil prices by increasing production. They can't do it in the near term.

Rick Rule: 18:00 Copper is a little illusory, in the sense that it's very, very capital intensive, and there's a huge difference between cash production cost and total cost, which is to say full cycle expiration, all those things. But it's believed that the incentive price for a new copper mine worldwide, is about $3.50 US cents a pound. So, right now the industry is making copper for $2.80 a pound that would cost them $3.50 a pound to replace. In the last 15 years, as an example, the average head grade, that is to say, the percentage of copper in ores being mined, was around 1%. Today it's about one half of 1%. So, we're setting ourselves up for a circumstance throughout a lot of industrial commodities, agricultural, minerals, base metals, oil and gas, uranium. We're setting ourselves up for real supply shortages as the productive capacity begins to be cannibalized and three years from now, four years from now, five years from now, as we go into a cyclical economic recovery.

Rick Rule: 19:08 There are other commodities that are mis-priced where the market is out of kilter because of politics. My favorite one there is water. Water is believed to be a right. Water is allocated in most of the world politically, rather than via markets. So, you get circumstances as an example, where water is used for such brilliant things as growing rice in the desert, like here in California. Eventually there's going to be an ugly, ugly, ugly reckoning around the lack of capital investment in water and the lack of real markets in water. The only way that you can make really, really, really vast broad mistakes in the world is through politics. I'm afraid here in California that we're making absolutely stupendous mistakes around water, which might be, at least for a while, of advantage economically.

Demetri Kofinas: 20:11 It's interesting, we actually spoke about this in 2012, and I believe at that time, you sited something like 85% of the water used in California was used by 3% of the population, which was the agricultural sector.

Rick Rule: 20:23 You have a good memory. You have a good memory. That's correct.

Demetri Kofinas: 20:26 I don't know if it still is but absolutely. That's a huge factor that we have in general across our economy, where costs are seen as economic externalities and we can't accurately price them. The other thing I was thinking about when you were discussing oil and uranium, but especially with oil, is that these various commodities, some of these are inputs for other commodities. The classic example is silver. Silver is a bi-product of all these other industrial mining operations, but even gold, you need oil and you need water. So, I wonder, how much do these cycles influence each other? To do an accurate or a probalistically accurate projection of where the price of any one particular commodity is going to be, how much is its price influenced or its projections influenced by the price or behavior or cyclicality of its inputs?

Rick Rule: 21:24 Those are certainly issues. Certainly, one of the things that has happened very recently, like in the last three or four months, has been the incredible increase in earnings performances of certain gold companies. Those are gold companies primarily located outside the United States, where the product that they produce, gold, has been going up, but it's been going up also in a relatively strong commodity, while the prices of their inputs, are denominated in Canadian dollars and Australian dollars, as an example. So, their input cost has been falling. But particularly their energy input costs have been falling. All mining is a very energy intensive business, so the incredible decrease that we've seen in oil and natural gas prices has been a real boon to mining companies. So, what you say is true.

Rick Rule: 22:18 Traditionally the largest costs associated with the resource industries have been, well the largest variable cost of course, is exploration, but the real costs are the costs of capital because it's a capital intensive business. Then the so called social costs, social license, rent, tax, those types of things. I could only wish those were cyclical. They only seem to go up.

Demetri Kofinas: 22:44 It seems that, for most other sectors, the endogenous factors dominate, in terms of determining price. But in the cast of gold, it always seems that every conversation about gold is really focuses on exogenous factors that drive the demand, like monetary policy, pandemics, QE, financial crises. I wonder, with respect to gold, to what degree is its price determined by endogenous factors, which I imagine would be pretty much isolated to the supply side. Then how much of it is really exogenous forces that basically lead to conversations, like the one we started this episode with, which are macroeconomic?

Rick Rule: 23:27

In my experience, both are important. Remember that gold is once a consumer good, in the form of eye work in tech jewelry. It's also money. There are circumstances where the industry has done a relatively good job in promoting jewelry demand. Also, there has been a slow motion economic recovery in societies that put a real premium on gold as adornment. I'm thinking India, Pakistan, places like that. But the variable with regards to gold has always been investment demand. I would argue that the investment demand really is a function of two things. It's a function of faith in purchasing power of other savings instruments, and it's a function of real interest rates. If there are very, very high real interest rates, particularly high real interest rates in the world's reserve currency, the US dollar, then the default savings mechanism becomes the US ten year treasury. If we have a circumstance like we have today, where the real return on a ten year treasury, is -1% a year for ten years, which is to say the government solemnly swears to give you back less money in ten years than you gave them, gold does well.

Demetri Kofinas: 24:58

That raises another question for me, and it's something I thought about when I sat down to put together the run down for this episode. I haven't, in the three plus years now that I've been doing Hidden Forces, I haven't covered gold once, not once on the show. Peripherally, but we've never done a single episode dedicated to gold. I'm someone who owns gold. I've invested in gold. I want to be careful when I say I see its value. I think I see its value, or maybe I see what I want to see. So, I'm also, as someone who has sought gold as a form of insurance, I'm also aware of the fact that I didn't always think of it as insurance. There was a time when I thought that it was a hedge against inflation. But I've since revised that perception. I think it would be very interesting to have now a bit of a philosophical discussion about what is gold. How do we measure its value? I'm curious, how would you answer that question? If I ask you, what is gold and how we measure it, what would you say?

Rick Rule: 26:00

First of all, I would praise you for describing it in the same fashion I see, which is to say, as insurance. Yes, it's many things more than that, but it's value is subjective, rather than objective. If you're an Indian national, as an example, the efficacy for gold, it's value to you, will be measured in savings in India as an example, rupia related. Whereas in the United States, it would US dollars related. Different people need to pay different premiums for different amounts of insurance for different reasons, if you follow me. So, the value is subjective.

Rick Rule: 26:52

I have been interested in gold as an investment. I've been philosophically interested in gold for a very long time. Occasionally I ponder Buffet's description of it as a pet rock. The difference of course, is that Buffet ignore 6,000 years of history. He ignores the fact that if you are a Vietnamese person, at the end of the Vietnam War, you were either a prisoner or you had gold to pay to escape. He ignores the experience of the European Jewish diaspora. He ignores a lot. So, I'm occasionally struck by the fact that there are psychological reasons for gold, maybe historical reasons. Why is it valuable? I understand that Aristotle described the reasons why it's money. It has utility. It's pretty. It has a use separate and apart from being money. It's malleable. It's durable. It's divisible. It's constant, all those things. It's wonderful money. Occasionally, I too say, what gives it is value? Is it also a faith based currency?

Rick Rule: 28:18

At the bottom of your question, the only thing that I can say is it has absolute function as money. It's perfectly designed to be money. What gives money value other than utility? Those become interesting questions. My temptation is to say history. Certainly, it can't counterfeited, all those types of things. But behind all that, other than its luster, other than the fact that it does have utility, as an adornment, why is it so efficient, both as a medium of change and as a store of value. That's a very interesting question, one that I don't have an answer for.

Demetri Kofinas: 28:59

You hit on exactly what I was contemplating when I was coming up with these questions, and I actually also thought about whether it's even possible to think about the value of gold or speculate about the price of gold without thinking about the value of or the faith in paper money, in the institution of paper money.

Rick Rule: 29:22

That's right where I was going actually. You and I, denominate gold in US dollars. European people denominate it in euros. As Doug Casey famously says, the dollar is an I owe you nothing. The euro is a who owes you nothing. We have a difficult time denominator by the numerator if you're trying to value something in an instrument that is itself valueless. You have an interesting challenge.

Demetri Kofinas: 29:54

I wonder there, maybe the next appropriate question would be, how would we go about trying to measure. It might be a fool's errand, I acknowledge that. How might we try to go about measuring a population's or a people's faith in the currency of the realm?

Rick Rule: 30:11

I don't know the answer to that. I do suspect anecdotally the increasing fondness that people have for gold is an expression of increasing nervousness. Maybe not about the purchasing power of the dollar, but rather the maintenance of purchasing power of larger term US dollar nominated savings instruments.

Demetri Kofinas: 30:37

Because again, it's been now about eight years because it was July 26 when I last prepared any questions to ask you. If you had asked me then what I would expect to happen to the value of gold in the face of the balance sheet expansion that we've continued to see in the year since that period, I would have been surprised. So, it's an open question for me, what the drivers will be going forward, given the economic circumstances, that we may very well see continued sluggish growth in the US and yet, I think we've got a political setup that has greased the wheels of money printing, so to speak. I wonder in that type of environment, are we describing, because again it gives me pause that a lot of other people feel this way, but are we looking at a stagflationary period? In that world, and the last time we had a situation like that gold... Actually, you'll know better than me, the returns I think were like 30% annualized over ten years, but at the same time, we just got out of a ten year bull market in gold, so I'm curious what you think about that.

Rick Rule: 31:50

I don't think that we have a replay in terms of gold performance of the decade of the 1970s, which of course, the decade of stagflation. Those were my formative economic years, so I remember them well. The reason that I don't think that we have the replay is that we came into that decade with gold price controlled. It had been fixed by fee at $35 an ounce. So, it came into the decade selling for probably a third of what the free market price would have been at that point in time.

Rick Rule: 32:24 But the rest of what you say is reasonably prescient. It's interesting in terms of gold's place in the popular viewpoint that you say that you haven't done an article on gold for eight years. That's because I think, your media product is something you make a living on. You probably thought for some period of time that there simply wasn't enough interest in gold.

Demetri Kofinas: 32:53 Correct.

Rick Rule: 32:54 To do an article on it.

Demetri Kofinas: 32:55 Yeah.

Rick Rule: 32:56 I think that has a lot to do with everything. One of the reasons that bear markets get over-sold and bull markets get over-bought is that people use price action to justify a narrative. Sometimes the price of something goes up because it's going up, and it goes down because it's going down. If you begin to get, as an example, nervous about the economy, and you begin to develop an interest in the narrative around defense mechanisms, including gold, and the price goes up, the fact that it went up, that price action begins to justify the narrative. While, as you suggest, the policy response over the last ten years to the liquidity crisis of 2008 was stimulative, people wanted to believe as a consequence of 2001 and 2008, that the big thinkers of the world, the government, had things under control, that they stick handled or managed the world through difficult circumstances. There was still confidence in the economy.

Rick Rule: 34:13 When you, as an example, lowered interest rates, you at once lowered the cost of capital to corporate America, which helped earnings. At the same time by reducing the amount of interest paid on savings deposits, you increased the attraction of dividend yields. So, we had a disconnect between Wall Street and Main Street, that continues today. Part of that, I think, was due to confidence. If we had something that shakes confidence, and my suspicion is that we are eroding confidence every day, gold becomes more attractive.

Rick Rule: 34:53 But going back a little bit to the reason why you haven't seen fit, despite the fact that you own it, to talk about it, we're still in a circumstance where almost nobody cares. You come out of the agora realm and I populate a very strange community of gold bucks. The truth is that there was a study published a couple years ago, and I believe it was JP Morgan Chase, but I can't remember exactly who it was, a major US investment house at any rate, that suggested the market share of precious metals and precious metal related securities was between one third of one percent and one half of one percent of savings and investment assets in the United States. The three decade mean was somewhere between one and a half and two percent.

Rick Rule: 35:46 So when I'm telling you that I think we have a two year or a three year bull market in gold, I'm not suggesting the circumstance like the agora copywriters used to write about 30 years ago, the collapse of the US dollar and the ascendancy of gold. Gold being the US currency, all that kind of stuff. I'm talking about a reversion to mean. I'm talking about gold's market share going from one half of one percent to two percent. But if it does that, demand for precious metals and precious metals related securities, goes somewhere between three and four times as high in the largest savings and investment market in the world. Ironically, I think if you saw gold at some number like $3,000 an ounce, that despite the fact that most of the price catchup that had to take place would have taken place. In other words, when the price goes up, the absolute attraction of gold is less. The psychological attraction to gold will be higher.

Demetri Kofinas: 36:48 It's a self-reinforcing cycle.

Rick Rule: 36:50 Yeah, yeah.

Demetri Kofinas: 36:51 Of allocation.

Rick Rule: 36:52 That's what happened in the 70s. At the beginning of the decade of the 70s there was an amazing argument for gold because of negative real interest rates, or at least very low real interest rates. At the end of the decade, the US ten year treasury was yielding 15.6. That high interest rate had slowed the economy, so the real interest rate was six, seven percent. At the same time that the incentive to own gold was the lowest, the interest in and the price for gold, were highest. Because the price action of gold, up from $35 an ounce to $850 an ounce, had in and of itself justified the narrative.

Demetri Kofinas: 37:36 That's such a great point. I've seen those numbers as well actually. Further to your point, the impact on the gold price is at the margin. So, it may seem like a small difference going from point five percent or less than point five percent to one point five to two percent, but that could be an enormous difference in price. On top of that I wonder what degree you think we might see institutional buying? I think central bank, we're heading now into the second decade of net purchases by central banks after having been net sellers beginning with some period in the 1990s. I wonder to what degree we might see that type of institutional buy in and what impact would that have on the price? It's kind of a two part question.

Rick Rule: 38:19 I can't speak to the central banks except for I could understand central banks from countries that have a problem with American hegemony in terms of the way they operate their economies in societies. There are some countries that have an absolute incentive away from US dollar holdings, and in favor of gold, as a way to reduce American political control over them. I get that. I can't really speak to central bank purchases.

Rick Rule: 38:47 What I can tell you as a Sprott employee, is that interest in gold among the largest institutional investors in the world, endowments, pension plans, even sovereign wealth funds, is really coming alive. We were engaged, we meaning Sprott, as an institution, for five or six or seven years, in propagandizing global 1,000 investors. Those are the biggest 1,000 investors in the world. Really it was an exercise in the wilderness for some period of time. Now we're taking incoming calls as opposed to making outgoing calls. The interest around big insurance companies big pension plans and big endowments, is very high. You can understand why.

Rick Rule:	39:38	Think about an endowment with a 30 year point of view, that puts 15% of their assets in US tenure treasuries. They are absolutely positively without a doubt guaranteed to lost one percent a year, compounded over ten years. Jim Grant describes that as return free risk.
Demetri Kofinas:	40:02	Yeah, he's great.
Rick Rule:	40:04	Really gold is competing with return free risk, for those investors, and that's not a very tough fight.
Demetri Kofinas:	40:11	Yeah, so that's also interesting. Because you guys are in a position to actually have some proprietary information flow there. When was the last time that you saw this kind of uptick in interest that you can recall?
Rick Rule:	40:25	In terms of the big, big, big allocators, which is to say the big pension funds and big endowments, the last time would have been the 70s. I didn't inhabit a part of the market where I had to access to that information. This is new in my career.
Demetri Kofinas:	40:41	Really? More than let's say 2011?
Rick Rule:	40:44	Absolutely.
Demetri Kofinas:	40:45	That's so interesting. When did that interest begin? When did you begin to notice it?
Rick Rule:	40:50	2019, about a year ago. The truth is we had been selling gold as a diversification tool, selling. We had been attempting to see gold as a diversification tool to these large investors, beginning about 2012. So, we joke internally that we've worked ten years to be overnight successes. We had no response. We're getting a lot of response to that pitch now.
Demetri Kofinas:	41:18	It's like asking the question, how do these institutional investors see gold as a portfolio diversifier? Do they see it taking the place of bonds? Or is it something all its own?
Rick Rule:	41:34	I think they're regarding it as a separate asset class. I actually think that the institutions that I have talked to have a very sober view of it. They're, of course, from my point of view, under-weighted. But they regard it as an insurance class. Or some of them as non-correlated and volatile liquidity.
Demetri Kofinas:	41:58	I also would wonder what sort of institutional infrastructure and policy do these firms have in place or are they already there in a position to have people to handle this kind of in flow? Two, in the mid-2000s, when gold was beginning to hit its stride, and when I say mid-2000s I mean 2004, so during the last bull run, one of the arguments that you heard was the beginning of these ETFs, like GLD and some of these other gold ETFs. I think those were 2004 was JLD and I think the iShares, AU gold trust was 2005, but how important of a role does that play this time around? Since, for the most part, there hasn't been a huge, at least proportional to ownership, creation of new derivatives products in the space, that I'm aware of.

Rick Rule: 42:48

GLD has been enormously helpful, I think, in terms of democratizing gold ownership. Gold has always been easy to buy and sell for those who developed the capacity to do it. But as all of the other aspects of our life become more securitized, the ability to hold gold surrogate products, which is to say ETS and securities accounts, has made them broadly more accessible to many, many people. GLD, remember, started as a retail product, and it was an enormously successful retail product. The very liquidity that it enjoys now, means that it's a great institutional product. If you are somebody like Norges Bank, the Norwegian Sovereign Wealth Fund, and you're responsible for a trillion dollar portfolio, if you want to take a one percent position in something, and I'm not suggesting that they are or are not on gold. I'm just using them to illustrate things. To get on and off a meaningful position if you're managing a trillion dollars is a real chore.

Rick Rule: 43:57

The liquidity associated with the gold futures market has always been fantastic. But for various reasons, futures haven't been considered asset classes by some institutional investors. But certainly, GLD gives the largest investors in the world liquidity that they need to enter and exit seamlessly. It's been enormously important as a facility for the gold market.

Demetri Kofinas: 44:23

So what about gold equities. One, what kind of interest are you seeing in equities? When people talk about investing in gold equities, what do they mean?

Rick Rule: 44:34

That would use up the whole interview.

Demetri Kofinas: 44:37

Well we have time.

Rick Rule: 44:39

Well let's start at the beginning. Gold bull markets, and even recoveries from oversold bottoms, which are much more frequent then gold bull markets, follow fairly predictable patterns over time. Gold moves first. The metal moves before the equities don't anticipate the moving of metal traditionally. We saw that this time. Gold really-

Demetri Kofinas: 45:01

Why is that? Why don't they anticipate the move?

Rick Rule: 45:05

I have my suspicions, but when gold is out of favor, it's normally so deeply out of favor that nobody gives a damn about the equities and they're not anticipating anything. They're just bored to it.

Rick Rule: 45:16

When the metal moves, two things happen. The metal moving begins to stimulate interest in the whole topic. Gold was a forgotten asset class in the last decade. But the second thing that happens is, six months, nine months, after you've seen the move in the commodity price, you see the impact of that move first in the income statement. Higher product prices generally swell margins. Then in the balance sheet, where the generation of cash begins to show up in the balance sheet. Because gold is a cyclical commodity, during periods of time in the gold market when life is rough, which is to say when prices are low, the industry executives become extremely conservative.

Rick Rule:	46:02	That's important too, because in the beginning of a gold bull market, they don't do any stupid things with the inbound cash. Later on, they can be counted on to make dumb acquisitions, to make dumb investment decisions. When the income increases too much and the free cash increases too much, the encouragement to be stupid becomes overwhelming and they do become stupid. But in the circumstance that we're in right now, margins increase, cash increases, the balance sheet increases, and the willingness to do something stupid after a bear market is fairly low. So, there's this wonderful virtuous circle in the near term.
Rick Rule:	46:40	Always the biggest and the best, the most liquid, move first. The gold community itself has had their faith in themselves challenged in the bear market. Even gold books, rather than going immediately for leverage, go to the finest, the biggest, the best, the most liquid equities, the guys with the most operating margin and the best balance sheets.
Demetri Kofinas:	47:04	What are we talking about there? Large cap minors for example?
Rick Rule:	47:07	Yeah, the BearX, the Numonts, the Francos, the Wheatons, guys with very, very, very stout operating margins, stout balance sheets. New York Stock Exchange listings, lots of liquidity. What happens after that is a couple things. The valuation discrepancies between the best of the best and the rest begin to get extreme with all of the money concentrated in the top of the sector. The trading liquidity in the share prices escalate there but they get stuck down below. Two things happen. The early equity investors who came in to the best of the best begin to look for relative value down the quality trail. At the same time, the value arbitrage begins to happen, which is to say that the best of the best enjoy a lower cost of capital and they begin to look at doing takeovers with people who have unequal cost of capital. So, the equity rally begins to democratize.
Demetri Kofinas:	48:06	So you're saying capital goes directly into some of the juniors and then also some of the majors by the juniors in M&A deals?
Rick Rule:	48:12	Correct, correct.
Demetri Kofinas:	48:14	Where are we in that cycle?
Rick Rule:	48:15	Very early on. We've seen decent M&A, but most of the M&A has been horizontal M&A, which is to say people merging for strategic reasons or merging to get scale. My suspicion is we've got another 18 months of very stout merger and acquisition markets in gold.
Demetri Kofinas:	48:33	What have we seen in gold equities? Has there been a move at all? Is it very, very early?
Rick Rule:	48:38	If I'm right about the direction of the gold price, and I think I am, then we're fairly early on. My friend, Ross Beady, has said we're in the third or fourth inning of a game that's likely to go extra innings. Certainly, the last six month, well really I guess the last nine months, you could say we've been in an equities bull market. But all the move at the beginning was concentrated on the great big

guys. The last three months, we've seen a much broader base and a much more explosive move.

Rick Rule: 49:05 What's interesting this time is that in prior recoveries, gold would go from the ultra large caps to the large caps to the mid-caps to the juniors and then to the hyper juniors, the $50 million market cap explorers. Just in the last 60 days, we've seen an explosion in the hyper juniors, a really speculative explosion. I don't know if this is Robin Hood money coming in, I don't know what it is. I've never seen a market that has democratized gone from institutional to retail punter as fast as this market has. That makes me a little nervous about a meaningful pullback in the near term.

Demetri Kofinas: 49:50 That's very interesting. You mean in equities or also in the price of bullion.

Rick Rule: 49:53 In the equities. I think bullion has a real friend in Congress and the executive.

Demetri Kofinas: 50:00 Really? That's interesting. I want to pick your brain more on that Rick, as well as what we're seeing at equities.

Demetri Kofinas: 50:06 But we're going to move the second part of this conversation into the subscriber overtime. For anyone who is new to the program, Hidden Forces is listener supported. If you want to access the rest of this conversation as well as the transcripts and rundowns to each episode, head over to patreon.com/hiddenforces. There's also a link in the summary page to this episode with instructions on how to connect the overtime fee to your phone so that you can continue to listen to these extra discussions, just like you listen to the regular podcast.

Demetri Kofinas: 50:40 Rick, stick around. We're going to move the second half of this conversation into the overtime.

Rick Rule: 50:45 Great.

Demetri Kofinas: 50:47 Today's episode of Hidden Forces was recorded in New York City. For more information about this week's episode, or if you want easy access to related programming, visit our website at hiddenforces.io and subscribe to our free email list. If you want access to overtime segments, episode transcripts and show rundowns full of links and detailed information related to each and every episode, check out our premium subscription, available through the Hidden Forces website, or through our Patreon page at patreon.com/hiddenforces. Today's episode was produced by me, and edited by Stylianos Nicolaou. For more episodes, you can check out our website at hiddenforces.io. Join the conversation at Facebook, Twitter and Instagram at Hidden Forces pod or send me an email. As always, thanks for listening. We'll see you next week.