Myrmikan Performance

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Markets Already Crashing

Until this cycle, the gold price followed general asset prices in nominal terms: when the Fed added liquidity, the gold price increased along with stocks; when the Fed decreased liquidity, the gold price and other asset prices fell. Only those who accepted gold's role as free market money understood that gold was, in fact, trading against asset markets on a real basis.

From 1999 to 2008, for example, gold rose roughly fourfold. Pretty impressive performance, until one remembers that oil ran more than tenfold: gold's real price was actually plunging, and properly so: in a credit bubble, such as in the 2000s, asset prices go up in terms of money, so those holding money (gold) should have losses. Those losses were not obvious because they were only relative—gold's nominal price was also rising—but they were nevertheless real. Gold mining stocks should have figured it out, with margins in gold terms shrinking that whole decade. But gold stocks went up anyway as liquidity sloshed around the market and devalued the real burden of their nominal debts.

The panic of 2008 saw oil crash 80% from peak to trough. Gold fell only 30%. Nominal losses made it feel like holding gold was the wrong trade, even though gold's purchasing power rose substantially. Gold mining margins exploded, but gold mining stocks crashed anyway: debt in nominal terms stressed balance sheets, and overlevered, overexposed equity investors sent some juniors down 90% or more.

Then the Fed started printing, gold's nominal price tripled off the bottom, and did so well before oil and other industrial commodities reacted, boosting real gold mining margins further. There was a brief moment when the stars aligned: *dollar liquidity, the nominal gold price, and the real gold price were all rising simultaneously*. Gold mining stocks loved it, came tearing off the 2008 bottom, and produced a spike high into Autumn 2011.

It was not to last. Gold (in real terms) does not like a credit bubble, and Bernanke managed to save the banks and pump credit back into the system, more credit than before, in fact. Gold's nominal price was sliced in half from the peak; the real price fell even more; the miners were slaughtered.

Gold's nominal price may have traded against the stock market in this episode, but only because gold's price had run too far too fast in the previous. At its nadir, the gold price remained above its 2008 spike top—a lot better than oil's performance. It still took some insight to look through nominal prices and see what was happening on a real basis.

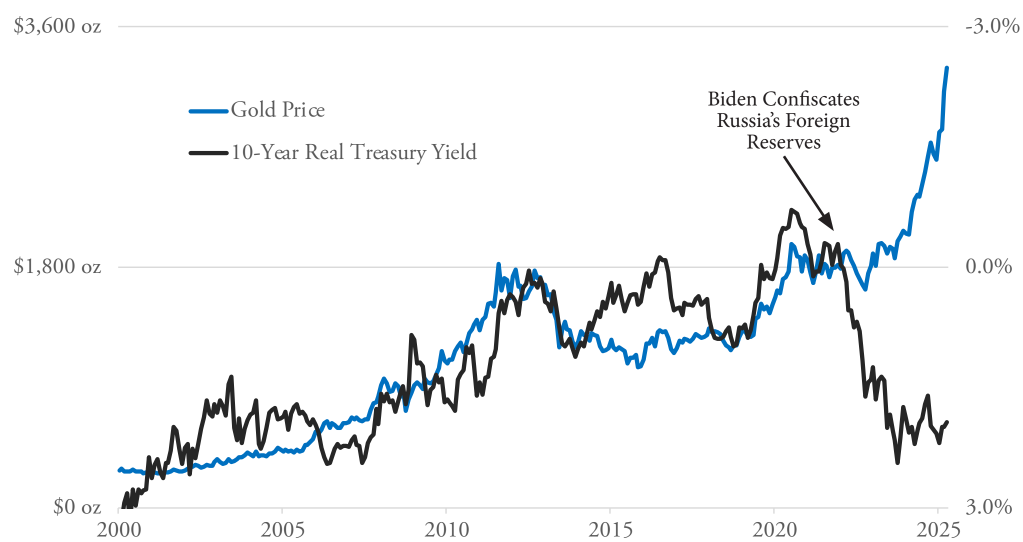
Similar dynamics to the above played out in 2018. Long before COVID hit, the credit cycle was rolling over: In September 2018, the Federal Reserve signaled it was going to raise interest rates three times in 2019. In December, it reduced its projected rate hikes for 2019 to twice. Four weeks later, the number of forecasted hikes was down to zero. In March 2019, the Federal Reserve announced it would end the reduction of its balance sheet by that September. In August, the FOMC reduced the fed funds rate by 0.25 percent. In September, the repo market imploded and the Fed began printing (they called it LE, Liquidity Enhancement, instead of QE, Quantitative Easing). Gold was rising this whole time, having bottomed at $1,183/oz in September of 2018, and reached $1,682 right before the COVID panic, up 42%.

Gold did not rise all alone; the stock market rose 34% from the nadir of it 2018 swoon to the interim top in February 2020. The market judged that Powell was ahead of the deflationary curve: the Fed was adding liquidity faster than the market was removing it, and so asset prices must rise; but, this time, not as fast as gold: despite Powell's efforts, stocks were actually falling in real terms.

Once again, since gold and markets were heading in the same direction, it was not obvious to those looking at nominal prices what was happening, especially heading into March of 2020 when the stock market, commodities, gold, and gold stocks collapsed together—gold looked like just another asset bobbing up and down on the Fed's liquidity.

Powell's COVID printing shock made the summer of 2020 revisit the happy confluence of 2009: liquidity, the nominal gold price, and the real gold price all rose simultaneously. Gold miners spiked just like in 2011. Then credit came roaring back: commodities rallied, the stock market surged in nominal and real terms, and gold mining equity prices began a lengthy retreat (though nothing like the 2013 disaster).

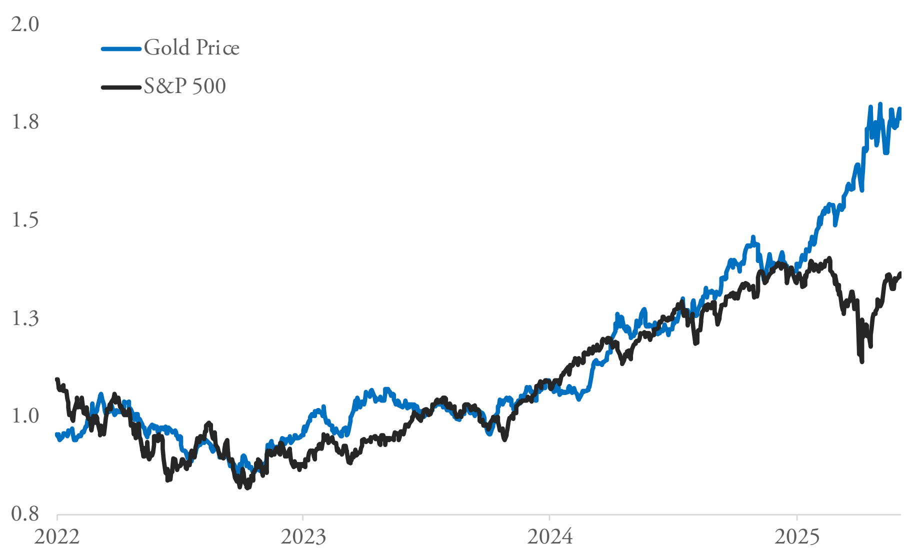
Perhaps this state of affairs could have continued for some time: gold moving in the same direction as other assets in nominal terms, real prices perceptible only in relative pricing; but then the Biden administration confiscated Russia's dollar reserves in February 2022, and the long-term relationship between real interest rates and the gold price ended abruptly, heralding the dollar's demise as the primary international reserve asset.



As discussed in more detail in previous letters, the gold price was positively correlated with nominal rates in the 1970s: rising interest rates devalued the Fed's assets (bonds fall in price when interest rates rise), devaluing its liability (i.e., the dollar), sending the gold price higher. This relationship flipped beginning in the 1980s. As the Eurodollar system put the whole planet on a U.S. dollar debt standard, lower rates meant added liquidity to global financial markets, not high domestic inflation, whereas higher rates created a short-squeeze on dollars, especially abroad: gold's relationship to nominal interest rates became anti-correlated.

We have been writing for years that the end of the U.S. international dollar standard would be preceded by the price of gold reestablishing its positive correlation to nominal rates, reverting to a state in which the gold price cares more about the value of the Fed's bond portfolio than about external demand for dollars to service non-U.S., dollar-denominated debt. The chart above shows that this flip occurred in dramatic fashion when Biden and Blinken confiscated Russia's foreign reserves. It would be too much to say that Biden caused the problem—the root cause being unsustainable deficits—but he certainly accelerated it.

Gold's reestablished role as the best reserve asset means that its nominal price no longer must travel in the same direction as other asset prices. Gold completely ignored the stock market when it went into its swoon earlier this year, nor did gold soften when the market came roaring back in May.



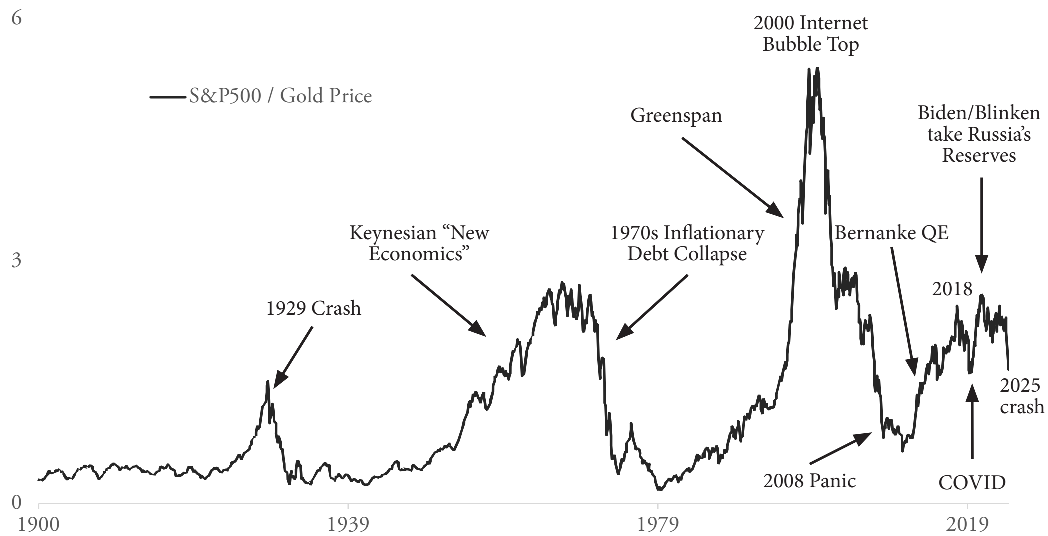
Viewed in the abstract, gold and the S&P500 are just two markets bouncing around: from the beginning of 2025 to the market bottom on April 8, the S&P500 fell 15%, whereas the gold price rose 17%, hardly headline material.

An appreciation of gold's role as market-based, *de facto* money, however, reveals that in real terms the S&P500 had crashed by 26.4%! The May bounce in the stock market, which is now flat year-to-date in nominal terms, is mostly erased in real terms: the S&P500 remains down 21.5% for the year in terms of gold. These bounces are typical for a top.

After the great 1920s credit debauchery, for example, the stock market fell 47.9% from September 3, 1929 to November 13, 1929. It then recovered and was down only 23.0% as late as April 12, 1930, before rolling over and sinking 89.2% in nominal terms. Roosevelt had devalued the dollar from $20.67/oz to $35/oz, meaning the stock market actually fell 93.6% in real terms.

The decline after the 1960s credit excess was even worse. The first break of the stock market, from the peak in 1967 to May 1970 saw a 35% decline in real terms before bouncing to be down only 10% by April 1971. Then the market plunged to make a false bottom, down 89% in December 1974. A swift recovery through August 1976 put the market down 65% from the top, before it made a final bottom on January 21, 1980, down 96.2% in real terms.

The chart below shows that these two great credit orgies were pathetic compared to what Alan Greenspan wrought in the 1990s. That debauchery was such that even though Greenspan then Bernanke kept financial conditions lose after the 2000 peak, the bubble deflated in real terms anyway. It was only in 2008 that Bernanke panicked with his QE-blitz. The stock market sprang off the bottom but with much less vigor than before. It peaked in mid-2018, long before COVID; and the $5 trillion COVID QE barely got the market past its 2018 peak. The QE drug is wearing thin. What will prompt the next dose? How big will it have to be? With how much less effect?



The Austrian school of economics holds that credit levels must rise at an accelerating pace in order to maintain a credit bubble. The bubble is induced because artificially low rates deceive businessmen into thinking that more capital exists than really does. Guided by the low rates, they design and then implement a flurry of projects to exploit this capital: this is the boom, which politicians and the public crave. When it transpires that the capital was only imaginary—that the interest rate signal was defective—there is a mad scramble for resources as failure looms. Interest rates spike as businesses bid for capital. Valuations crash. This is the bust.

It has been a curious feature of the past three years—and a challenge to the Austrian model—that rates have been able to move higher without crashing markets. These pages have opined that various financial structures have merely delayed the crash: in the mid-2000s, around 35% of mortgage applications were adjustable rate, whereas currently 92% of mortgages are fixed rate, insulating consumers. Ever more of the economy has been swallowed by private equity and private credit funds which, unlike hedge funds, lock up their investors for at least a decade, suppressing the mechanism for sudden panic. Corporate executives figured out that they could use the easy money not to overinvest in capital—the typical rent-seeking response—but to buy back shares of their companies instead, juicing the value of their options. And then the large jump in retail prices has had the effect of reducing the debt loads on large companies in real terms, making default less likely.

But perhaps the main reason why asset markets have failed to crash in nominal terms is because they are already crashing in real terms. This is the trick that policy makers figured out in the 1970s: stocks went down in real terms even more than they did after the 1929 crash, but there were no jarring stories of sudden poverty, no bodies flying out of Wall Street towers—from beginning to end, the nominal stock market decline was only 11%. Over fourteen years, wealth was slowly and stealthy confiscated from the former class of asset holders.

This does not mean that stocks will not or cannot crash. Recall the Asia crisis of the late 1990s during which stocks plunged in nominal price while currencies also crashed, a great way to get poor fast. Americans cannot imagine such an outcome. For over a century, global financial instability has sent capital into the U.S., meaning market declines were softened by a rising currency. But the criminal mismanagement of the American Empire in general and the Federal Reserve in particular has degraded the mighty dollar as financial ballast.

Gold is still cheap. At $3,300/oz, gold comprises just 13% of the Fed's assets, the same level as in 1971. As discussed in previous letters, the market demands one-third backing in normal times, assuming that the bank's other assets are sound. These are not normal times, and the Fed's other assets are not sound.

Gold is cheap, and the gold miners are cheaper still. As yet we have only two of the three conditions necessary for a mania: a rising nominal gold price and a rising real gold price. If the Fed panics and increases dollar liquidity, we should see at least a redux of 2016 and 2020 gold mining stock returns; now that nominal prices are starting to reveal real values, and the ongoing devaluation of the dollar is obvious to everyone, the performance will likely be better.

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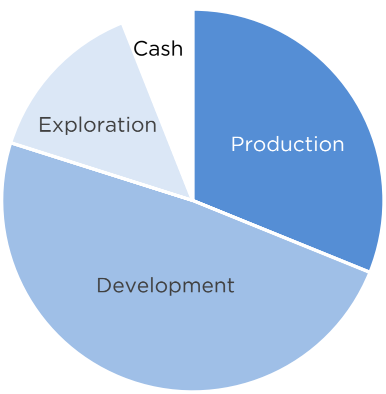
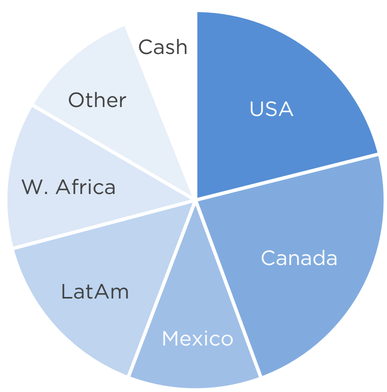
INVESTMENT PURPOSE

Myrmikan Gold Fund is designed to provide insurance against a global credit collapse through speculations in the equity of operationally levered gold mining companies. Any investment should be considered a premium, the value of which decays over time until and unless the insured event occurs. Investors should be prepared to lose substantially all of their investment should the insured event not occur. Please see the Confidential Offering Memorandum for additional details.

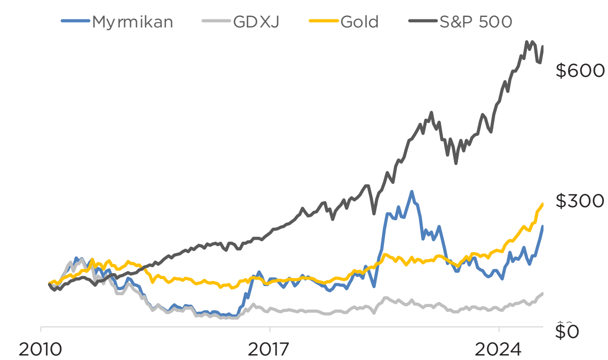
ANNUALIZED:	3-YEAR	5-YEAR	ITD	ALPHA	(ANNUAL)	BETA	SHARPE	POSITIONS	LARGEST	TOP 10
Myrmikan	16.8%	18.3%	5.8%	Benchmark			0.3	32	7.5%	52.7%
GDXJ	27.4%	14.5%	-1.6%	0.9	10.8%	1.0		82	6.7%	41.2%
S&P 500	15.4%	15.8%	12.8%	0.3	3.0%	0.9		505	6.8%	35.8%

PORTFOLIO HOLDINGS





NET RETURN OF $100



	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	YTD	ITD
2010				-0.3%	-2.5%	-2.2%	-0.1%	9.5%	14.7%	7.1%	4.5%	11.8%	49.3%	49.3%
2011	-6.7%	16.2%	-4.6%	3.9%	-8.5%	-6.4%	9.2%	5.5%	-21.9%	10.5%	-1.9%	-12.7%	-21.6%	17.1%
2012	11.6%	2.3%	-13.8%	-6.7%	-15.8%	-2.1%	1.5%	6.4%	18.9%	-3.8%	-9.8%	-2.3%	-16.7%	-2.8%
2013	-3.7%	-19.2%	-0.7%	-24.5%	-8.6%	-21.2%	11.9%	13.8%	-14.1%	-5.1%	-14.1%	-3.4%	-63.8%	-64.8%
2014	25.6%	17.9%	-12.3%	-2.9%	-11.6%	27.5%	-4.6%	0.6%	-21.3%	-21.2%	6.5%	-2.2%	-11.6%	-68.9%
2015	14.4%	-2.6%	-15.9%	21.2%	0.5%	-7.2%	-19.6%	5.6%	-2.6%	9.3%	-12.8%	-2.4%	-18.5%	-74.6%
2016	1.9%	74.8%	9.1%	57.2%	-11.8%	36.6%	27.6%	-4.6%	12.6%	-8.4%	-16.0%	0.2%	289.4%	-1.1%
2017	13.0%	1.3%	-0.1%	-4.2%	-8.9%	-6.0%	10.2%	12.3%	-4.4%	-12.2%	6.3%	8.1%	11.9%	10.7%
2018	8.9%	-6.2%	3.4%	-3.7%	-3.1%	-3.9%	-4.0%	-4.1%	-1.3%	-7.1%	-4.3%	5.8%	-19.1%	-10.4%
2019	10.5%	-0.2%	-1.9%	0.3%	-7.3%	13.2%	9.3%	14.1%	-5.6%	1.6%	-7.2%	24.7%	58.2%	41.7%
2020	-5.7%	-14.6%	-17.4%	38.5%	23.5%	12.8%	26.5%	15.0%	0.1%	-3.5%	-0.4%	11.0%	99.6%	182.8%
2021	-8.6%	-0.2%	6.0%	7.9%	8.1%	-8.3%	-2.1%	-10.2%	-20.0%	10.8%	-5.5%	3.1%	-21.4%	122.1%
2022	-8.0%	6.0%	8.8%	-11.2%	-13.0%	-18.4%	5.1%	-8.9%	-8.4%	0.0%	16.0%	-0.2%	-32.2%	50.5%
2023	8.6%	-10.6%	10.1%	0.9%	-14.3%	-3.4%	-2.2%	-6.9%	-4.2%	2.3%	10.9%	-0.1%	-11.8%	32.8%
2024	-7.6%	-8.2%	25.0%	7.2%	15.8%	-12.1%	5.9%	-3.0%	6.4%	11.3%	-13.3%	-9.6%	10.1%	46.2%
2025	14.0%	0.2%	11.2%	11.8%	13.9%								61.6%	67.0%