



# Jeff D. Opdyke's Global Intelligence Letter

## These 3 Types of Collectibles Will Soar Higher in This New Era of High Inflation

Dear *Global Intelligence Letter* subscriber,

I like to think I was a visionary.

The truth is, I was just a 15-year-old who happened to like hockey and who was working at a sports-memorabilia shop in Houston.

The year was 1981.

The owner of the shop had hired me to sort the thousands of cards he'd buy in a given month. But instead of paying me in cash, he paid me in sports cards. Every week, I could choose whatever cards I wanted, up to whatever sum of money I'd earned.

Among the various cards I chose was a "vending box" of the 1979-1980 Topps hockey card set. A vending box contains every card in a set in numerical order. Basically, a complete set in one fell swoop. No need to buy hundreds of individual packs, trying to build a set over time.

I wanted that particular set because I liked Wayne Gretzky and the set included his rookie card, which are almost always the most valuable cards to own.

Well, Gretzky, as you probably know, turned out to be one the greatest players the game has ever known, and his rookie card sells for a ton of money today.

Cards graded 10 on a scale that tops out at 10 have sold for more than \$1 million.

Mine is not graded, though I'd guess that it's somewhere in the 8 to 9 range since it and the rest of the set have never been disturbed since I bought them. So, the card is probably worth somewhere in the \$10,000 to \$50,000 range.

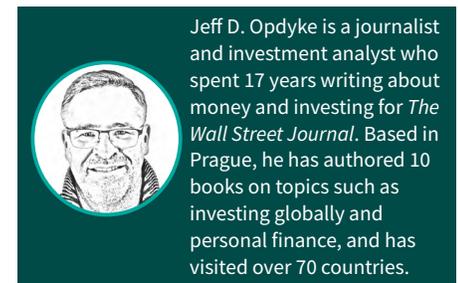
Meaning my 15-year-old self made one helluva trade...turning a couple hours of work into ownership of one of the greatest, most iconic hockey-card sets in the last 50 years.

I still own that set today because, well, as a collector I am loath to sell anything I own.

Part of that is tied to my expectation that what I own will keep rising in value over time. Part of it is my refusal to let go of that

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kid inside me who looks at all those cards and remembers those days when the biggest worry I had was whether the girl I liked in math class liked me too.

Investing in collectibles, then, is a lifelong passion for me. What started with sports cards and other trading cards and stickers has gone on to include music posters from the 1960s, high-end wine, rare coins, comic books, and most recently, whiskies.

Collectibles have been particularly front of mind for me lately because I believe we're on the cusp of a new golden age for these kinds of assets. The reason is inflation.

This year, inflation has soared to 40-year highs. And though the Fed has been (too) aggressively attacking it, the reality is that those efforts are likely to fail and we'll be living with high inflation for years to come.

Inflation is very often a long-tailed phenomenon.

The double-digit inflation of the 1970s actually began in the mid-1960s and ebbed and flowed a bit—at 3x to 5x the average of the first half of the 1960s—before it really began to shoot moonward.

During the 1970s, “coins, stamps, baseball cards, antiquarian books, gemstones, antique furniture and presidential autographs all became popular hedges,” as *Bloomberg* reported earlier this year.

So now, with inflation poised to remain high for years, collectibles are poised to spike higher once again.

That's why for this month's cover story of the *Global Intelligence Letter*, I wanted to do something a little different and introduce you to three high-value collectible categories that I expect to perform well through to the end of this decade and maybe beyond...

### **The Perfect Time to Buy Collectibles**

I recognize here at the outset that a story on collectibles—spending money on what some could deem frivolous—might seem a bit tin-eared in this environment, given that the U.S. and global economies are drunk-stumbling into a recession or possibly worse.

But I don't see it that way.

At a time of significant instability in the stock, bond, and domestic real estate markets, collectibles stand apart because of their history as preservers of wealth in inflationary eras.

My friend Van Simmons is one of America's foremost rare coin experts. He was around for the 1970s-era inflation. His take today:

*What we have started to see now is a move into high-grade, expensive rarities... There are many billionaires who are now stepping into the market.*

*That is where the market usually starts. Smart money moves in and creates some attention. Then others start to follow. I feel like the inflation in the world, not just the U.S., will create a massive flow of funds into all tangibles and collectibles.*

In short, this is precisely the kind of moment when you want to be a buyer of collectibles.

See, when periods of broad economic duress emerge, collectibles are defined by two polar opposite personalities.

On one side are the diamond-hands—the collectors who refuse to part with any piece of their collection because of their attachment to each item and the time and effort required over years or decades to amass them.

The game for them isn't necessarily the value of the collection, but the collection itself. It's a point of pride.

They're not selling, which means prices are not necessarily going to plunge. Quite often, they're actually buyers in these moments because of...

The paper-hands—the collectors who for economic reasons and/or financial stress are compelled to dump all or part of their collections onto the market, often taking whatever price they can get in the moment in order to meet personal financial obligations.

So, in moments like this, there's an opportunity for diamond-hand investors with liquidity to step in and snap up valuable assets, sometimes at bargain prices.

When economies turn deeply south, high-quality collectibles that might have been off the market for years or decades, routinely begin to show up.

I saw that personally during the global financial crisis.

As the world tumbled into the great recession, I was finding fantastic deals on highly graded collectible trading cards from the late 1960s and early 1970s.

And I was able to get my name onto previously-impossible-to-join wine lists because so many long-time buyers were dropping off.

A decade later, I sold my investment-grade wines at auction. Bottles I'd bought for \$150 to \$250 went for \$500 to \$1,500 each. (I still own the trading cards...they've never been up for sale.)

Bad economies breed opportunities. And the breeding ground for opportunities with collectibles is the environment we're in now—an inflationary era that's set to last many years longer than the mainstream financial press would have you believe.

### **Inflation Is Here to Stay**

Proof that inflation will be with us for years arrived earlier this month when, for the first time ever, Uncle Sam's debt burden surpassed \$31 trillion.

That's an impossibly large number that can never be repaid. The world's largest economy cannot grow fast enough, nor can the government tax high enough, to repay such a sum. Ultimately, that will lead to a dollar crisis, though that's some years away yet. For now, the issue is debt servicing.

The massive size of this debt limits the Federal Reserve's capacity to raise interest rates. When the Fed hikes rates, it increases the cost of borrowing for Uncle Sam, just as it increases the cost of borrowing for ordinary businesses and consumers.

Which means pushing rates too high would sow disaster as federal interest payments on the debt spiral out of control.

So, the Fed will have to temper its overly aggressive rate hikes. Which means it's not likely to gain as much control over inflation as it supposes it can. Meaning inflation (a direct result of the Fed's over aggressively dumping of money into the economy over the last 15 years or so, and particularly during the pandemic) is likely to be with us much longer.

My bet is that we see inflationary pressures out to at least the end of the decade.

Inflation readings will ebb and flow, of course, but I expect we will average at least 5% per year for quite a while.

That's a perfect incubator for collectibles.

Investors want to get their money out of cash when inflation hangs around because the dollars they have today will buy fewer goods next week, next month, and next year.

The way to counter that is by owning assets that are either continually in demand regardless of the economy (commodities like wheat and soybeans)...stocks tied to vice and expenses that consumers have to make regardless of how the economy is performing (tobacco, beer, legal weed, basic food, basic clothing, healthcare)... or items that exist in finite supply and have a history of strong demand (collectibles).

I'm not implying that all collectibles will be winners.

Some collectibles are trivial and many have no real, lasting value (Beanie Babies, Hummel figurines, most McDonald's Happy Meal toys).

However, those with a long history of value and a large base of collectors will do well.

I want to tell you about three such categories: wine, coins, and watches.

### **The Grapes of Math**

Years ago, I ghost-wrote a book for one of America's leading wine merchants, Dave Sokolin, the name behind the eponymous Sokolin wine distributorship in New York.

His grandfather started the business in 1934 (New York liquor license #4). And in 1959, his father introduced to America the idea of buying French Bordeaux *en primeur*—"wine futures" that allow buyers to invest in a vintage from a certain vineyard 12 to 18 months before the wine even sees the inside of a bottle.

This style of fine-wine investing has a very long history dating to at least 58 A.D. and possibly back to the third century B.C.

These days, *en primeur* isn't just a Bordeaux thing.

You can find wine futures available among the so-called Super Tuscans of Italy, many of the great vineyards in Spain and Portugal, the high-end California cult Cabernet from Napa and Sonoma Valley, and high-demand Pinot

Noir from Southern California's Santa Barbara County.

The benefit: Access to in-demand wines at a discount to their market price on release, meaning you have the potential to auction the bottled wine for a profit, and very often quite a meaningful profit.

The risk: You invest in a bad vintage that ultimately sees little demand. (Of course, drinking your losses isn't such a horrible downside with wine of this caliber.)

Overall, wine as an investment has produced fine returns.

As of fall 2021, every *en primeur* French vintage since 2013 has risen in value except one year—2018, down about 4%, according to Wine Pro Club. But when you have 2013 up more than 160%, such a small loss is all but invisible.

London-based Liv-ex publishes a variety of indices tracking the world's finest vintages.

Since the economy's bottom in 2020 amid the pandemic, the Liv-ex Fine Wine 100, a benchmark shadowing the price movement of 100 of the most sought-after fine wines on the secondary market, is up about 42%. This year so far, the index is up more than 8% even as stocks and bonds are in a bear market.

Even Bloomberg, one of the most respected purveyors of financial news, tracks a fine-wine index.

It's all indicative of the legitimacy of fine wine as not just a collectible but an asset class in its own right.

Writing that book (*Investing in Liquid Assets*) and talking regularly with Dave, and tasting some of the world's most adored wines, gave me insight into the investment opportunities. So much so that I designed and pretty-much hand-built a climate-controlled wine cellar in a repurposed closet in a house I once owned.

At one point, I had 600 bottles of wine from France, Italy, Spain, and California.

Which gets to a key facet of investing in collectible wine: Not all wine is collectible.

Generally speaking, if you can find it at the supermarket, it's not a wine worth owning. Might be great for drinking...but you're not going to make money off of it for a couple reasons:

1. Investment-grade wine covers a narrow band of names from a narrow band of wine-producing countries, and almost none of those wines end up on supermarket shelves because of price-points north (often way north) of \$100 per bottle.
2. Provenance and climate control. Wine is a living creature that continues to age in the bottle (over decades for the best wines). That aging process is impacted by temperature, light, even motion. There's little chance that supermarkets store the wine properly, and there's no chance you'll be able to prove a wine's provenance—its ownership trail—which is necessary when putting wine up at auction later.

Buying collectible wine from a well-regarded fine-wine merchant is a far better option.

Some of the best online wine merchants for access to *en primeur* opportunities are: [Millesima](#), [Wine.com](#), and [Wally's Wine and Spirits](#) in California. All offer wine futures, though they're almost exclusively French.

To the degree they're available, you want your wine in an original wood case (OWC, in industry jargon). It's easier to store, plus auction buyers love the original case from the winery, so it adds to the value.

I used to source wines directly from the winery, which is how California's high-end wine industry works. Their take on wine futures is the "mailing list."

The greatest Napa names—Harlan Estate, Scarecrow, Screaming Eagle, Colgin, and others—are almost singularly available to buyers on a winery's mailing list, or by visiting the vineyard (assuming visits are possible and that the tasting room still has bottles in stock). That's where the investment gains will be made. On the secondary market, these names command such rich premiums that you will be hard-pressed to eke out any meaningful returns.

I can tell you that moving up those lists to the point you can actually buy the wine can take years, and if you fail to buy for one or two vintages, you will be dropped. However, a tumbling economy can shorten the wait, which

is how I was able to land on so many coveted mailing lists during the global financial crisis.

Whatever option you choose, always keep your receipts and purchase orders to prove provenance.

You also need to consider storage.

If you have a temperature-controlled cellar, you're good to go. If not, you'll want to open an account at a wine-storage facility. They're all over the place these days, including as part of some self-storage facilities where you'd park furniture and other belongings.

I've always used [All Ways Cool](#), in Santa Rosa, California, but you will find these at various wine dealers online as well.

You can generally have the wine delivered directly from the winery to the storage site, and then later, when you want to sell, directly from the storage facility to the auction house. So, you never even have to handle these wines yourself to profit from them.

As for what wines to own: That's all about what you can afford. Scores of great wines from numerous vintages are worth owning.

The Bordeaux region is plastered with great, relatively affordable vineyards such as Leoville Las Cases, Montrose, Rauzan-Segla, and others. The 2021 wine futures for those wines, the most current vintage available as futures, are in the range of \$200 per bottle. (Note: the wine will be delivered in 2024, which is how futures works: buy now, take delivery later.)

I called Dave Sokolin to ask him his thoughts. He's seeing "a boon. People are not only buying because they're interested in wine, but they know the returns investment-grade wines have seen and they want to be in hard assets now."

The opportunity he sees: Grabbing vintages of so-called First Growth and Second Growth Bordeaux from 1982 to 2010.

Back in 1855, France segmented Bordeaux-region wines into First through Fifth Growth, based on each chateau's reputation among wine buyers at the time, with First being the best. That classification system has remained.

The 1982 to 2010 period in First Growth and Second Growth Bordeaux is known as the Robert Parker Era because of the outsized influence that

Parker, the world's most-respected wine critic, had on Bordeaux. The 2005, 2009, and 2010 vintages, in particular, Parker called the best he's ever tasted.

The 2005 Leoville Las Cases is available through reputable wine merchants for \$350 per bottle. The 2009 is \$340. Both carry a rating of 99 out of 100.

A 2010 Montrose, with a 100 rating from Parker, is \$290 per bottle, about double the 2021 *en primeur*, which has a preliminary rating of 94-96.

"For the moment," Dave says, "that's incredible value, until the market sorts itself out, as it always does. These older vintages have a lot more room to run much higher than their younger counterparts."

How do you know the right names and the right vintages to own?

With names, Dave says, "it's like real estate: Own the A+ properties."

In France, that's those First and Second Growths. You can find a list of those [here](#).

As for which vintages, the wine media report on that each year, so it's not hard to keep up with what's going on and where you should be investing. As for the best vintages in history, you can read up on those [here](#).

With California wines, the best strategy is to join the waiting lists for vineyards such as [Scarecrow](#), [Harlan Estate](#), [Colgin Cellars](#), [Bryant Family](#), [Screaming Eagle](#), [Abreu](#), and [Sloan](#). There are others, but those are good starting points.

Again, the quality of the vintage is important and you will find that to be well-trodden ground in the wine media. Past California Cabernet vintages are ranked [here](#). (Note: Vintages rated 95 and up are widely considered the best.)

### **This Collectible Gained 30% a Year During the Last Inflationary Era**

Turns out pocket change can be worth a lot more than face value. Here, I'm talking about rare and collectible coins. Their history is just as ancient as wine futures, with the first coins having been minted in the first millennium B.C. Shortly thereafter people were collecting them, or at the very least hoarding them.

We know this because of the satchels of coins regularly unearthed all over the world, some still so pristine it's like they were minted yesterday. Just last month, archaeologists in Israel found 44 pure gold coins dating to 7th century Rome and hidden in an ancient wall at what is now a nature reserve.

Collectible coins speak to the era of their birth because of the contemporaneous images depicted on them. As such, they are miniature pieces of art and pocket-sized witnesses to the past. And they have a huge base of collectors globally.

Moreover, coins are increasingly graded and encased in hard-plastic slabs to protect them from mishandling.

The upshot is that they've become their own form of currency, in which collectors/investors will often buy sight-unseen based solely on a specific coin's mint date and grade.

Overall, prices of key rare coins—as tracked by Professional Coin Grading Services (PCGS), the godfather of coin grading—are up nearly 15% in the past year.

Since its inception in 1970, the index is up more than 7,000%, or about 4% per year.

That seems a small gain, but at its peak in 1989, after nearly two decades of inflation-fueled growth, a \$1,000 investment in that index was worth more than \$181,000—a nearly 30% annualized return during the exact moment you wanted your money to be outpacing what was going on in the broader economy.

Narrow that focus to the period from 1970 to the peak of inflation in 1980, that same \$1,000 investment had soared to more than \$40,000...a nearly 45% annualized return.

Which is a primary reason I've been grabbing rare coins for over a decade now. Everything from gold and silver coins used in global trade in the 18th through early 20th centuries, to super-rare coins such as an early 13th century gold dinar from the reign of Genghis Khan and for which only 200 are known to exist.

Today, coins are clearly moving back into vogue, and I won't be surprised to see certain types of coin shoot the moon again.

Curious if I was right about that, I called my go-to coin expert, Van Simmons.

Van has been part of the coin world for half a century. He was one of the founders of coin-grading service PCGS, and he's a founder of David Hall Rare Coins in Southern California, one of the leading coin dealers in America.

I explained to Van my thesis that collectibles are likely to have a good run to the end of the decade because inflation isn't going to abate the way economists think, so we're probably looking at a reboot of the 1970s.

Van's reply: "Your thinking on a reboot of the '70s is spot on in my mind."

He told me that between 1976 and 1980—the meat of America's inflationary era—rare coins increased in value by nearly 1,400%, pretty much across the board, including low-grade coins. Which means high-grade coins performed wildly better.

A so-called Type 3 gold dollar, minted between 1856 to 1889, graded in MS65 was \$440 in 1976 and \$5,250 by 1980, and often as high as \$10,000. (MS stands for Mint State. All graded coins range between MS1 and MS70. Those 65 and above are generally considered investment grade.)

### The Best Collectible Gold Coins to Invest in Today

- Type One gold dollar (1849-1854)
- Type Three gold dollar (1856-1889)
- \$2.5 Liberty Head gold (1940-1907)
- \$2.5 Indian Head gold (1908-1929)
- \$3 Indian Princess gold (1854-1889)
- \$5 Liberty Head gold (1839-1908)
- \$10 Liberty Head gold, one of the most collectible coins in the world. (1838 to 1907)
- \$10 Indian Head, again one of the most popular coins and designed by Augustus Saint-Gaudens, one of the most renowned coin makers. (1907 to 1933)
- \$20 Liberty, hugely popular. (1850 to 1907)
- \$20 Saint-Gaudens, by far one of the most famous coins in the world. (1907 to 1933)

Van says that in the decade prior to the current inflationary cycle, MS65 coins “have been very oversold. They are very cheap and extremely collectible.”

He shared with me a list of gold coins where he sees opportunity today, which you can see in the box on page 6.

On silver coins, Van added that:

*Nice 18th and 19th century silver coins are one of my favorites, including Liberty Seated half-dimes, dimes, quarters, half dollars, and dollars (from around 1838 to 1891), Barber dimes, quarters, and half dollars (from 1892 to 1916), and early Bust silver dollars and half dollars. In high grades, these early Bust coins are very collectible but can also get expensive.*

These coins Van highlighted will range in price from under \$500 for a Barber dime in MS65 to roughly \$5,000 for a \$10 Indian Head gold coin.

Regardless of which coins you buy, if you focus your spending on higher-grade coins, you should see nice gains as inflation continues to propel the rare coin market. (Just before COVID, \$10 Indian Heads in MS65 were routinely selling at auction for about \$2,500, while MS65 Barber dimes were regularly in the \$250 range, which demonstrates the price movement we’ve begun to see.)

Buy these coins from reputable dealers such as [David Hall Rare Coins](#), or through reputable auction houses such as [Heritage Auctions](#). Do not buy coins on eBay, where prices are always marked up. (Note: I get no benefit from mentioning these services. I’m just highlighting services I trust and use personally.)

### **Time Really Is Money**

Over the summer, Bloomberg ran a story with this headline: *The Crypto Collapse Has Flooded the Market With Rolex and Patek*.

Turns out the cryptocurrency downturn in the first half of the year has seen crypto traders on the wrong end of the bear market begin dumping the collectible watches they’d been grabbing during the bull market (which goes back to my point about diamond-hands and paper-hands).

The result is an increasing supply of some of the most sought-after watches and a decline in prices for hard-to-get-Patek Philippe and Rolex

models. The supply of trophy watches such as the Rolex Daytona or Patek Nautilus 5711A “is now much larger,” according to Chrono24, an online seller of new, used, and vintage collectible watches.

That’s not to say prices have been declining across the board.

From early 2020, just before the pandemic, through the first half of 2022, watch prices on Chrono24 are up 76% on average, which just means that even though some models have been falling in price, the truly collectible models have been rising at such a pace that they skew the returns upward for the entire watch category.

Knight Frank, a global real estate firm focused on the high-dollar crowd, tracks a basket of luxury goods and reports that in 2021 the watch component led that basket with a 16% return.

To give you an example of how watches can move longer term, one of the versions of the Omega Speedmaster 105 that today fetches \$12,000 to \$15,000, was about \$4,000 in 2008—a 3x to nearly 4x increase in less than 15 years. At the higher end, that’s a return of almost 10% a year, better than stocks historically but absent the crazy volatility.

Unlike wine and coins, watches require a deeper pocket to get started.

You’ll need between \$2,000 and \$5,000 to grab a high-quality, investment-grade watch.

At that level, you’re looking at some of the lower-end Rolexes, like a fairly basic Datejust 36.

Step up to between \$5,000 and \$10,000 and you can find desirable Patek Philippe and Jaeger-LeCoultre models, among others.

What’s key in those last two paragraphs is the notion of brand. Just because a watch is fashioned from gold or platinum and bejeweled with diamonds and rubies or whatnot does not imply that it’s an investment-grade watch. Brand is crucial.

The brands that have historically held their value well, or more commonly have increased in value regularly are: Rolex, Patek Philippe, and Audemars Piguet.

Also on the list are some of the watches from Omega, Cartier, Vacheron Constantin, Jaeger-

LeCoultre, and low-production manufacturers including F.P. Journe and Philippe Dufour.

That's not to say those are the only brands that will stand out as long-term winners. Those are just some of the classic names with near-eternal demand. There are, of course, many other brands with a collectible profile.

Indeed, Swatch, the Swiss watchmaker of often-whimsical watches, has some collectible demand depending on the model.

The MoonSwatch—Swatch's partnership with Omega's famous Speedmaster—is seeing increasing demand. It's also seeing an increasing number of listings because of the state of the economy, which means prices once averaging about \$2,000 have retreated to the \$550 range, a nice entry for a classic mashup of two famous watch brands.

However, the OG watch on which the MoonSwatch is based, the Speedmaster, continues to see average prices rise to more than \$7,000 from just over \$5,000 before COVID.

That underscores the fact that starting off with the most sought-after brands is the safer approach because when it comes time to take profits at auction, these brands are going to find the largest number of interested buyers.

Where to look these days for opportunities in collectible, investment-grade watches?

Well, the most-bought watch brands on Chrono24 offers a good idea on where to focus your early investing. Those brands: Rolex (41.45% of all purchases), Omega (9.13%), Patek Philippe (7.1%), Audemars Piguet (5%), and Breitling (3.58%).

Classic icons to consider at the moment include the Breitling Navitimer, Cartier Santos, Jaeger-LeCoultre Reverso, and TAG Heuer Monaco.

Dress watches are also taking on a new shine, including the A. Lange & Söhne 1815, Patek Philippe Calatrava, and the Vacheron Constantin Fiftysix.

## The Wrap Up

Perhaps the biggest note I can offer here is that these are markets where patience is a necessity. Unlike stocks or crypto that can move 100% in days or weeks, collectibles such as wine,

watches, and rare coins don't surge in value in that way. They move higher over time, meaning a few years or more. So, this is an area for patient investors who want to put away real, tangible, hard assets that have a long history of upward price growth over time.

As for the risks...well, the biggest risk is illiquidity and a need to immediately raise cash. You won't likely be able to sell any of these assets at market prices in a hurry. Buyers will force a haircut on you because they know you're trying to exit quickly.

At auction, however, you will obtain fair prices, though that process could take a few weeks or a couple months to play out.

There's also the risk of forgeries. That includes wine. This is a primary reason I suggest you stick to reputable dealers and auction houses, and avoid peer-to-peer marketplaces like eBay where forgeries are too common (there was even a book written about it—*Fake: Forgery, Lies, & eBay*).

Even at that, you're not necessarily guaranteed to avoid high-quality forgeries, though the risk is far smaller.

The other risk factors with collectibles are that you overpay for something in your eagerness to own it, or you buy at the top before the market turns south.

The best way to avoid overpaying is to set a maximum price you're willing to offer for an asset based on an expectation of what a legitimate future price might be, and then stick to that maximum.

As for avoiding buying at the top...you'll know we're near the peak when even the mainstream press is raving about the returns people are seeing by selling their collectible wines, coins, and watches. When those headlines appear, put your assets up for auction and sell into the hype.

Until then, use some of your spare cash to build a collection of high-quality collectibles. They're likely to reward you with strong investment returns as inflation continues to play out over the remainder of the decade.

Plus, they're a very enjoyable way to preserve and grow your wealth.

# Why Our Gold Miners ETF Will Rebound Strongly When the Fed Is Forced to Back Down

I'm focusing this month's portfolio review on gold, and specifically our position in **iShares MSCI Global Gold Miners ETF** (symbol: RING). We're down about 25% since moving into that trade in March 2021. However, the primary asset involved in that trade—gold—is down only 3% over that same period...basically flat even as stocks and bonds have cratered.

How is it, then, that gold can be down so inconsequentially, yet RING is down about 7x gold's decline? The culprit, as with pretty much every asset these days, is the Federal Reserve and its approach to tackling inflation by hiking interest rates at a lunatic pace.

I won't rehash the flaws in the Fed's inflation strategy since I spelled them out earlier in this month's cover story. I'll just note that the Fed's mismanagement of the economy has engineered the strongest dollar we've seen in a generation.

A strong dollar weakens gold, and miners fall more than the raw gold price since they are a leveraged play on gold. By that I mean, these companies produce millions of ounces of gold. As the prices they achieve for that gold ebb and flow, even by relatively small percentages, the income that miners earn swings more dramatically because the metal's price movements are amplified by those millions of ounces. That's why gold mining stocks are more volatile than the price of gold itself (though they also benefit more when prices rise).

A strong dollar would seem, then, to augur poorly for gold and gold miners. That strength, however, is fundamentally temporary because America's excessive debts place a ceiling on how high the Fed can hike. Where that ceiling is, we're going to find out together. But the Fed will halt the hikes at some point and it will have to reverse course. That's guaranteed.

The "when" is where the debate happens, though personally, I am not so worried about the "when." I simply want to be positioned for the win once the "when" arrives. And being in RING—an exchange-traded fund comprised of the world's leading gold-mining companies—means we are positioned for that.

See, gold and the dollar are on opposite ends of a see-saw. As one rises, the other declines... which has been happening. Gold is down while the dollar is up. But flip the situation...

As I noted, the Fed at some point logically has to stop with its rate-hike binge, otherwise it destroys the U.S. economy for sure, and it imposes huge additional costs on Uncle Sam as he's forced to issue more and more debt just to make interest payments on the existing debt.

Meaning the Fed could well spark a debilitating debt crisis for America if it remains so focused on battling 1970s-style inflation that it fails to see the risks of the 1930s-style, Depression-era calamity it's fostering.

I don't give the Federal Reserve much credit for anything. Still, I don't think the Fed is so blind that it can't see the risks it's baking into this particular cake.

The moment the Fed announces it has stopped or is reversing course, the dollar is going to fall. Gold will then rise because the markets know full well that inflation remains a long-tailed problem. That expectation of ongoing inflation will flow through the gold market because, as I noted in the cover story, savers and investors want to hold hard assets that help them offset the decaying value of their fiat currency.

That, in turns, flows through the gold miners. Aside from energy costs, their operational expenses are largely fixed. The result is that rising gold prices create windfall profits that tumble to the bottom line, unaffected by anything other than increased tax and royalty payments.

As such, RING is a counterbalance to the dollar, which is why I am happy to have it in the portfolio. Right now, it's down because the dollar is up. But as the dollar reverses course, we're going to see RING begin to rise. I won't guess at when that reversal takes place. I am only going to say that the reversal is assured.

Trees do not grow to the sky...nor does the dollar.

# The Collapse of the British Pound Is a Warning for America

It is the most calamitous start to a premiership in living memory. Within a single month of taking over from Boris Johnson, Britain's new prime minister, Liz Truss, managed to crash the pound to its lowest level on record: £1 = \$1.03.

In the ensuing financial chaos, at least \$340 billion was wiped from the combined value of Britain's stock and bond markets. More than 40% of mortgage products were pulled from the market amid fears that interest rates would have to shoot higher.

And after initially refusing to act, the Bank of England was forced to intervene, pledging to spend 65 billion pounds to stabilize the markets.

The apparent cause of all this chaos was a so-called mini-budget announced by Truss and her new chancellor, Kwasi Kwarteng, that included big new spending commitments and sweeping tax cuts for Britain's top earners.

But step back and this mini-budget, and the market reaction to it, are part of a broader trend we're seeing play out across the world.

From Britain to the U.S. and beyond, politicians and policymakers are increasingly making dangerous bets that the fundamental rules of finance no longer apply to them.

Now, the markets are starting to call those bets...as Truss just discovered in Britain. And that should serve as a cautionary tale for America.

## The Slow Decline of Sterling

Before World War II, the British pound, or sterling, was the primary medium of global trade...highlighting Britain's status as the leading economic power of the time.

With Europe in ruins after the war, the U.S. dollar replaced the pound as the global trade currency, though the pound remained more valuable on a nominal basis than the dollar. One pound has always been worth more than one dollar, a source of some national pride in Britain.

Of course, nominal values don't really matter in currency terms. What matters is the long-term trends. Currencies move in relation to each other in sweeping arcs over time. And in this regard, the pound has been struggling badly for a while.

Around the time of the global financial crisis, the exchange rate had been trending up for Britain, reaching £1 = \$2. Since that high, the pound has collapsed amid a series of currency shocks. First, the global financial crisis saw investors rush out of other currencies and into the dollar, since it was considered a safe-haven asset as the world's reserve currency. This saw the pound-dollar exchange rate reset in the £1 = \$1.40 ~ \$1.70 range.

Next came Brexit. Britain's vote to leave the world's largest single-market in 2016 stunned global investors. Almost instantly, the pound dropped to the £1 = \$1.20 ~ \$1.40 range, where it remained until very recently.

Like virtually every other major currency, the pound has been sliding against the dollar in recent months due to the actions of the Federal Reserve. This year, the Fed has been hiking interest rates faster than any other major central bank. This has encouraged traders to move money out of the pound and other currencies and into the dollar, where they can collect higher interest rates.

Since the start of this year, then, the pound has been steadily declining against the dollar, dropping below its previous support level in the \$1.20 range. Then came Liz Truss's mini-budget...

## What Just Happened to the Pound?

In Ernest Hemingway's 1926 novel *The Sun Also Rises*, the character Mike Campbell is asked how he went bankrupt. He replies, "Two ways ... Gradually and then suddenly." So, it goes too with markets and currencies.

As the pound was sliding against the dollar this summer, Britain's ruling Conservative

Party was locked in a bitter leadership election. Boris Johnson had been forced from office by members of his own party after a scandal-filled period in government. The choice for his successor came down to two senior members of Johnson's cabinet: Chancellor Rishi Sunak and Foreign Secretary Liz Truss. The winner would succeed Johnson as U.K. prime minister.

Sunak presented himself as the candidate of fiscal responsibility. He offered a dour, if sensible economic plan...one that prioritized tackling inflation and providing payments to help British families pay for skyrocketing energy bills.

Truss had a different vision. She also promised energy payments, but insisted taxes in Britain were too high and were choking off growth. She wanted to make wholesale tax cuts.

Sunak was the preferred candidate of his party's lawmakers. He's well-informed on policy and liked by independent voters...presenting a better leadership figure than Truss, a droll libertarian ideologue who is widely disliked outside the party. But the final decision on who would be leader lay in the hands of grassroots party members, not with the lawmakers. That was a problem for Sunak.

There's an axiom in British politics, where parliamentarians can oust their leader almost at will: "He who wields the knife never wears the crown." Sunak had led the charge to oust Johnson, his former boss. A large portion of the party membership seemed unable to forgive him. Truss won 57% of the vote and became PM.

After navigating a period of national mourning with the passing of Queen Elizabeth II, Truss and her team immediately launched a mini-budget to deliver on her election promises. (The U.K. government budget is usually announced in the spring, which is why the media termed Truss's new fiscal plan a mini-budget.)

This mini-budget initially promised to cancel a planned rise in corporation tax, cut the basic rate of income tax from 20% to 19% from April 2023, abolish the top 45% tax rate for high earners, eliminate caps on bankers' bonuses, and reduce stamp duty (a tax paid on the purchase of property), among other measures.

Combined, the measures represented the largest tax cuts in 50 years totaling £45 billion.

What was missing from this plan was a clear pathway for the U.K. to pay for these cuts. The mini-budget did not include commensurate decreases in public spending. Indeed, the plan also featured significant new spending measures, such as large energy subsidies.

Typically, government budgets in the U.K. are independently assessed by the Office for Budget Responsibility (OBR), which is akin to the Congressional Budget Office in the U.S. Yet, for this budget, Truss and her team refused to publish the analysis.

So, in the absence of any funding clarity, the assumption was that the government would have to borrow massively to pay for the plan. Moreover, there were serious concerns about the government's policy of rolling out massive tax cuts—thereby pushing lots more money into the economy—at a time when inflation in the U.K. is at around 10%.

The inescapable conclusion was that the plan would explode the deficit and worsen inflation.

As the markets digested this, investors lost confidence in the U.K. government. The pound plunged. Rating agencies Fitch and Standard & Poor's both downgraded their outlook for U.K. debt. And the Bank of England was forced to intervene by pledging to spend billions on bonds. Even then, it wasn't until Truss completed a humiliating climbdown and promised not to go ahead with scrapping the top 45% income tax rate that the pound stabilized.

As I write this, the pound is trading in the £1 = \$1.10 range. But there may well be more instability ahead...

### **Working at Cross-Purposes**

Fitch cited two factors when it downgraded U.K. debt: the lack of independent budget forecasts and an apparent clash with the central bank's inflation-fighting strategy. The first was a naïve mistake by a novice prime minister and her ill-prepared economic team. The second is a dangerous trend that's playing out across the world.

In virtually every major economy, central banks are desperately battling to contain inflation by raising interest rates. Higher interest rates increase the cost of borrowing and offer savers a greater return on their cash.

This removes money from the economy by encouraging businesses and consumers to save more and spend less, thereby lowering demand and depressing prices.

Yet, while central banks are hiking rates, governments in the U.S., U.K., and elsewhere are continuing to dump vast sums of money into their economies. This began in earnest with the COVID stimulus payments, but has since continued in the form of new infrastructure programs, college loan bailouts, energy subsidies to cover rising oil and gas costs due to the Ukraine war, and other, similar measures.

Setting aside the individual merits of these policies, together they represent a dangerous alchemy of competing agendas...something that requires a very careful balancing act. Across the Western world, governments are trying to walk this tightrope.

In the U.S., the Fed is hiking rates at the fastest pace in a generation, pushing them from the 0% to 0.25% range at the start of this year all the way to the 3% to 3.25% range today. And yet, as the Fed works to cool the economy, the Biden Administration has launched both a \$1 trillion infrastructure bill and the \$750 billion Inflation Reduction Act this year alone. The Fed is fighting the fire in the front of the house, while the government opens the gas valves in the kitchen.

That's not to say this strategy can't work. It can, at least for a while, but it requires that the market trusts in your ability to ensure the house doesn't burn down entirely (i.e. the market remains willing to buy your debt).

That's the lesson that Truss forgot...

### **Confidence Woman**

The pound stabilized somewhat after Truss announced that she would scrap plans to get rid of the 45% income tax rate for top earners. However, that only eliminated £2 billion from the £45 billion tax-cut package. In reality, the market was pausing...to see what she did next.

Truss had vowed to press ahead with the rest of the mini-budget. Kwarteng, Truss's chancellor, was set to publish plans on Nov. 23 explaining how the government intended to pay for these tax cuts, alongside the independent OBR analysis of the budget. Then he bought forward that announcement to Oct. 31 in an effort to

appease the markets. That wasn't enough, however.

The markets remained deeply skeptical. To try and restore confidence, Truss had to fire Kwarteng, who was only chancellor for six weeks, and promise to roll back a big portion of the mini-budget. The full details have yet to be announced, but she will have to provide a compelling economic case for her new plan to restore some confidence and credibility, or the pound will start plummeting again.

Of course, there's also a chance it may not get that far. There is speculation that Truss will ultimately have to resign. Her own lawmakers are in open revolt as public backlash against the mini-budget grows and support for her party collapses in voter polls.

There is a warning in this for politicians everywhere. The bond markets, where governments go to borrow to fund their lavish spending, don't have an ideology beyond making a profit. And they are growing increasingly concerned about the debt levels in all major Western nations. In late September, the 10-year U.S. Treasury yield—the benchmark for global debt markets—rose to its highest level since October 2008. A few weeks later, the U.S. national debt passed \$31 trillion for the first time.

Debt doesn't matter until it does. You have the confidence of the markets until you don't. By releasing a plan that lacked economic logic or independent forecasting, the U.K. lost credibility, and the market reacted accordingly, treating it like it would an emerging-market economy.

The U.K. was the first major Western economy to experience this loss of confidence over debt concerns. But with inflation and national debts rising across the world, it won't be the last. What just happened in Britain could happen in the U.S.

That's why I believe it's never been more important to hold some of your wealth outside of the dollar and other major Western currencies. Own gold, gold miners, bitcoin, traditional non-dollar safe-haven currencies like the Swiss franc, and widely held collectibles with a long history of preserving wealth such as rare coins. They'll help protect your wealth when the debt crisis begins.

# Intel Updates

## ■ Bitcoin for Big Macs: McDonald's starts accepting crypto as payment in this small Swiss city.

Fast-food giant McDonald's is now accepting crypto as payment in Lugano, an Italian-speaking city in Switzerland with a population of about 63,000. Visitors to McDonald's in Lugano can now pay for their Happy Meals with bitcoin or Tether, a crypto stablecoin that tracks the U.S. dollar on a 1:1 basis.

The initiative is part of a memorandum of understanding that the city signed with Tether in March this year. Called "Plan B," the project saw Tether create two crypto funds for the city—the first a \$105 million fund to serve as an investment pool for crypto startups, and the second a \$3 million fund to encourage local businesses to adopt crypto payment systems.

Under the project, the crypto payment solutions will be rolled out to about 200 shops and businesses in the area. Lugano residents will also be able to pay their tuition fees, taxes, and parking tickets in crypto.

Of course, this is a small pilot scheme, but eventually I envision crypto payments systems like these becoming commonplace across the world.

This project in Lugano could prove significant in this regard since it will allow big multinationals like McDonald's to test out these systems in a small, controlled way, and give them firsthand data on how much easier, faster, and cheaper crypto payment solutions can be.

## ■ Ethereum hailed as "the new foundation of the internet."

The world's #2 crypto has been all over the mainstream media in recent weeks due to the successful completion of the Merge, a major step forward in the so-called Ethereum 2.0 upgrade project.

As I outlined in [last month's issue](#), the Merge moved Ethereum to a new system for validating transactions that uses 99% less electricity. This is a vital step toward vastly increasing the speed and lowering the cost of the Ethereum blockchain network.

According to David Shuttleworth, an economist at prominent blockchain firm ConsenSys, with the Merge now completed, this places Ethereum in a position for mass adoption and will enable the blockchain to become "the new foundation of the internet."

There is still work to be done before this happens, including further upgrades planned for next year to boost network speeds. But the success of the Merge proves that the Ethereum network has the technical capability to support the new Web3 economy based on crypto tech.

Even before the Merge, Ethereum had surpassed traditional financial networks in terms of transaction value and volume. Data shows that Ethereum settled more than \$11.6 trillion worth of transactions last year—more than Visa Inc. and nearly three times the value settled by bitcoin. It also processed 4.5x the number of transactions of Visa in 2021, and it's on track to best Visa again this year, despite the crypto downturn.

## ■ America's oldest bank will start offering bitcoin and Ethereum to customers.

The Bank of New York Mellon recently received regulatory approval to offer cryptocurrencies to select customers...meaning it is set to become the first mainstream bank in the U.S. to hold cryptos for clients alongside traditional investment products such as stocks, bonds, and commodities.

Approval for the plan was issued by the regulators in New York earlier in October, and BNY Mellon was expected to begin holding cryptocurrencies on behalf of customers as early as this week. The move comes after a BNY Mellon survey found that 41% of institutional investors had crypto in their portfolios.

This move by BNY Mellon, America's oldest bank, is another huge milestone in the integration of crypto into the traditional ecosystem...providing further evidence that crypto is here to stay.

Speaking on the move, Robin Vince, CEO and president of the bank, said "BNY Mellon has the scale to reimagine financial markets through blockchain technology and digital assets. We are excited to help drive the financial industry forward as we begin the next chapter in our innovation journey."

## ■ U.S. safe-deposit boxes may not be so secure anymore.

A recent ruling in the U.S. has prompted concerns among people like me who like to keep some of their assets in safe-deposit boxes. In March 2021, FBI agents raided 1,400 safe-deposit boxes at the Beverly Hills branch of a company called US Private Vaults. The agents seized \$86 million in cash and other assets.

The apparent target of the raid was the company itself. US Private Vaults actively solicited criminal customers and after the raid, pleaded guilty to conspiracy to launder drug money. However, the case has raised questions since the items seized from the boxes belonged to clients, not the company.

Four hundred clients of the company filed a class-action lawsuit claiming that their items still had not been returned and that agents misled a judge to get the warrant. According to court filings, none of the people who owned the boxes have been charged after almost five years of investigations. However, District Court Judge R. Gary Klausner found no impropriety in the way the FBI got or executed the warrants for the raid. Lawyers for the plaintiffs said they plan to appeal.

The FBI has said it has established a simple procedure to return safeguarded contents to box holders. Still, I have to say the case gives me pause.

I don't like the idea of the FBI having the power to raid entire safe-deposit facilities because the owners of the business or some of its customers may have engaged in criminal behavior. And I am even less enamored by the idea of having to prove to the government that the contents of my safe-deposit box are legitimately mine, after the fact. (Imagine if you'd inherited some gold coins from a parent or grandparent. How could you prove legitimate ownership of those?)

To me, this seems like another example of federal government overreach and a good reason to keep some assets overseas...out of the reach of Uncle Sam. There are legitimate, fully legal sites you can use like [UltraVault](#) and [BullionStar](#), both in Singapore. (I use BullionStar to hold silver coins that I own.) With each, you can store assets such as currency, precious metals, jewelry, heirlooms, documents, and

the like...and know that they are beyond U.S. shores.

## ■ These gamified travel apps offer rewards if you check them daily.

Travel booking companies know that most of us check prices on multiple websites before reserving flights and accommodations. So, competition to drive us to these websites is fierce...not to mention hugely expensive for the companies involved, who have to pay referral fees to Google.

That's why a number of travel companies are launching gamified apps...and they're willing to pay you for using them.

Apps from travel booking company [Hopper](#) and the hotel chain [IHG](#) are rolling out in-app games with rewards.

For instance, Hopper's new features, which are already widely available, include a Daily Gift that gives users a reward simply for opening the app each day.

After opening the day for seven consecutive days, users can earn \$10 in Carrot Cash, the in-app currency. This can be used to help pay for flights, hotels, and car rentals.

According to Hopper, customers have thus far redeemed \$50 million in these and similar rewards.

You have to use these apps quite frequently to gain significant discounts, but if you enjoy playing app-based games anyway, they can be an easy way to pick up some travel vouchers. And you can expect this model to spread to other sectors of the online economy.

This in-app reward model is already hugely popular in Asia, where ecommerce apps commonly feature games that offer discounts, cashback, and more.

## ■ Use this rule of thumb to determine how much you should spend on car insurance.

The cost of car insurance has been rising in recent months, and inflation is only partly to blame. As more people return to the office post-COVID, roads are busier and accident numbers are increasing, which means insurance premiums are rising again too.

According to data from S&P Global Market Intelligence, car insurance premiums are up

more than 8% on average compared to one year ago. Bankrate now puts the average cost of car insurance in the U.S. at \$1,771. And premiums are further expected to rise by as much as 10% in 2023.

Fortunately, there are ways you can save on these costs. Many of us buy too much insurance for our car because we overestimate its worth. If you're driving an older vehicle, here's an easy way to figure out if you've got too much coverage.

Take the cost of your annual insurance and multiply it by 10. If the figure totals more than the Kelley Blue Book value of the car, then you should reduce your insurance, by waiving comprehensive or collision coverage, for instance, assuming your state doesn't require that. If it is required, then consider raising your deductible or opting for lesser coverage.

Also, don't forget to shop around. The American Automobile Association recommends that you get at least three quotes before every renewal.

### ■Google unveils a new way to scrub your phone number and address from the internet.

If you were ever part of a data breach, or if you ever posted your information online (while selling something secondhand, for instance), strangers may be able to find key pieces of your personal data, like your phone number and address, with a quick Google search.

Previously, you could ask Google to remove this information by contacting the company. But this month, the company unveiled a new method of scrubbing this data from its searches.

With the new "Results about you" tool, you can request the removal of search results that contain your personal phone number, home address, or email address, right from the Google app. The "Results about you" tab is also available on Google's search results on web. For the moment, this service is only available in the U.S.

Here's how it works: In the app or on Google's Chrome browser, click on the three dots next to a search result. There you will find the "Results about you" option. In that window, scroll to the bottom and select "remove result." Next you will need to fill out a form. It will take a few days to process the request.

Now, to be clear, removing these results doesn't scrub your contact information from the web overall, only from Google's searches. But it's a good start. And starting early next year, Google says you'll be able to opt into alerts that will let you know when new results with your contact information appear in its searches, so you can more quickly request their removal.

### ■Cut these covert sugar sources out of your diet if you want to prevent premature aging.

Sugar is a key factor in premature aging. Excess sugar levels in the bloodstream can combine with proteins to create compounds called AGEs, or advanced glycation end-products.

AGEs not only cause high blood pressure and heart disease, but can actually stiffen your blood cells and organs. They also damage collagen and can lead to skin wrinkling and sagging. That means, if you want to delay the visible onset of aging, you should cut as much sugar as possible from your diet.

Most sugar sources are obvious—candy, sodas, cereals with colorful characters on the box—but a few fly under the radar. Among the most prominent covert sources are salad dressings and nutrition and energy bars.

Many store-bought salad dressings are filled with unhealthy ingredients like saturated fats and added sugars. It seems counterintuitive, but be especially wary of ones that sport "low fat" or "fat-free" labels. Often when companies remove fat, they add sugar in its place to ensure the products still taste good. And it's a similar tale with nutrition and energy bars. These products can come loaded with sugars.

To figure out if an option is healthy or not, you often have to decode the nutrition labels. That's typically a frustrating experience, so here's a hack to help you out: Add up the total grams of protein and fiber. If that number is higher than the total grams of sugar, it's probably a pretty healthy choice.

Thanks for reading, and here's to living richer.



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