



ROCKLINC

*Worth. Investing.*

**“Recession, Re-flation & Restoration”**

**Christian Embassy**

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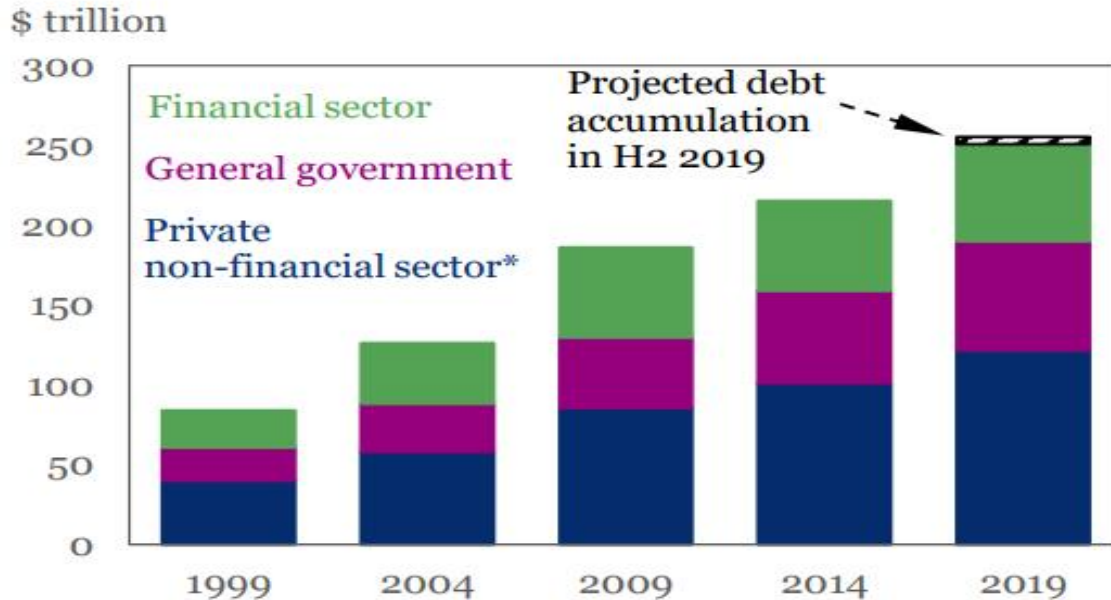
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# Outline of Presentation

- A. Starting Point - Global Balance Sheet - January 1, 2020
- B. Recession - Massive GDP contraction
- C. Re-flation - Avoid Depression at all costs
  - ▶ Policy Response
  - ▶ Unintended Consequences
  - ▶ Investment Strategy
- D. Restoration
  - ▶ Economy
  - ▶ Spiritual - “Finding hope into a world of distress”

# A. Starting Point - January 1, 2020

**Chart 1: Global debt on track to surpass \$255 trillion in 2019**



Source: IIF, BIS, IMF

# Starting Point - US/CDN Debt

1. Over the past 15 years every \$1 in new debt has only added 30 cents in GDP, and that is with interest rates approaching zero.
  2. In 2020 with over \$5 trillion in new debt and trillions in new digital dollars GDP is expected to drop by 5% (annualized).
- ▶ US Debt in 1980 - \$750 billion - interest rates 13%
  - ▶ US Debt in May 2020 - \$27+ trillion - interest rates close to 0%
  - ▶ US Debt/GDP will top 125%
  - ▶ Debt up 36 times in 40 yrs. 9.4% annual growth/year (doubling every 8 years. Will US debt be \$54 trillion in 2028?)
  - ▶ Canadian Federal Debt to go from \$750 billion to \$1 trillion in next 12-18 months.
  - ▶ Some Canadian Provinces are broke! Ontario debt to exceed \$400 billion on a GDP of \$875 billion. BoC must buy their debt at these interest rates.

# Starting Point - January 1, 2020

- ▶ Record Levels of Sovereign & Personal Debt
- ▶ Liquidity Problems (Repo Market - starting September 2019)
- ▶ Massive Unfunded Liabilities (healthcare & pensions)
- ▶ Lowest Interest Rates in History - including negative rates
- ▶ Devastating Demographics
- ▶ Weakest Corporate Credits in decades due to leverage & buybacks
- ▶ Longest Business Expansion in the Last 100 years
- ▶ 12 Years of Aggressive Money Printing by Global Central Banks
- ▶ Global Balance Sheet - Systemic Weakness & Vulnerable

## B. Recession

**COVID-19 - Exogenous shock on the immune system of a weakened global economy.**

1. Demand Shock
2. Supply Shock
3. Oil Shock - breakdown in OPEC & drop in demand of up to 25 million barrels per day on a base of 100 mbpd!
4. Wealth Shock - financial markets and real estate
5. US Dollar Shortage
6. Government and Corporate Credit Downgrades

# Recession

## Second Quarter 2020

- ▶ US GDP is expected to drop between 30-40%, unemployment is expected to top 20%. Largest moves in modern history.
- ▶ Canadian GDP is expected to drop 25-30%, unemployment is expected to reach 15-20%.

## Full Year 2020

- ▶ GDP expected to drop 5-6% in North American and approximately 3% globally.

**ASIDE:** Worst unemployment in the Great Depression was 28% and averaged closer to 20%.



## C. Re-Flation - avoid a depression at all costs!

- ▶ COVID-19 Policy Response - “flatten curve” via lockdowns
  1. Massive increase in Gov’t spending/deficits to replace lost income, and pay for rising welfare costs.
  2. Unprecedented increase debt (Debt/GDP ratios increase 10-20%).
  3. Enormous increase in money supply (direct monetization) to offset cyclical contraction in bank credit, lack of liquidity throughout financial markets and bankruptcies.
  4. Nationalization - parts of the private sector deemed to be essential in order to ensure critical supply chains survive. (e.g. airlines)

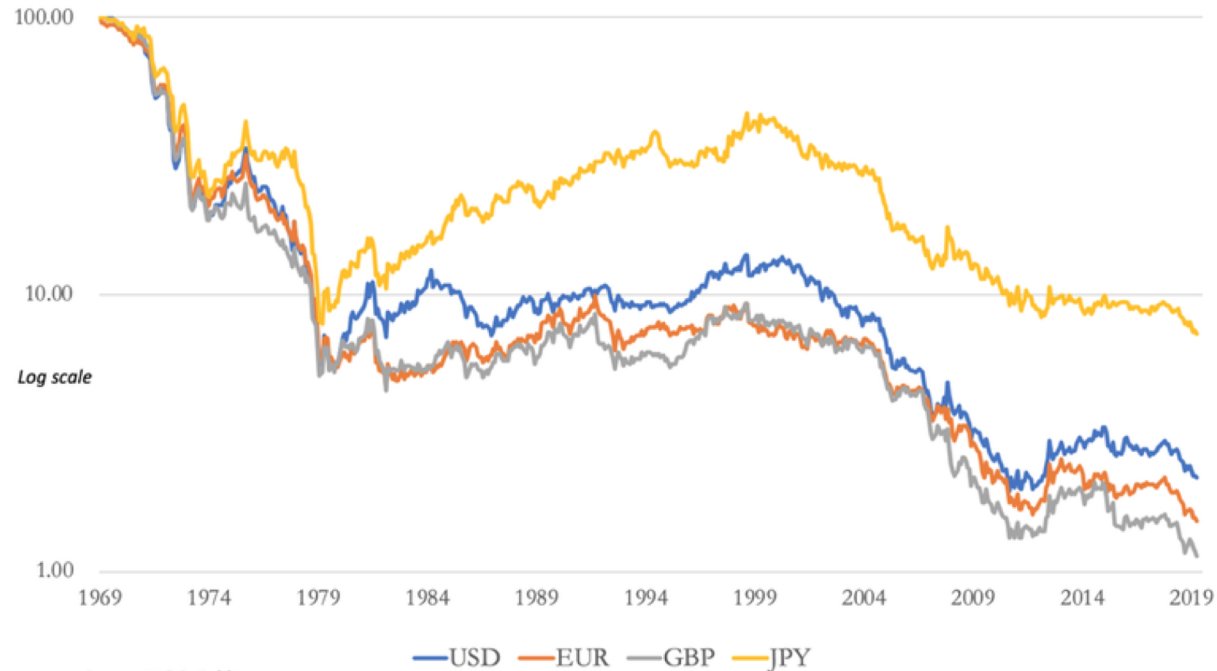
## C. Re-Flation - avoiding a depression

- ▶ COVID-19 Policy Response - “flatten curve” via lockdowns
- 5. Drop in the velocity of money - people at home panicked requires even more money to be printed!
- 6. Risk of **substantial inflation** when economy is opened and if citizens mistrust the value of their money.

**Bottom Line** - Governments are attempting to replace the income produced by the economy/businesses with debt funded by central bank monetization! “Everyone is doing it” - is used to justify the most aggressive expansion of debt and money in history!

# Fiat Currencies vs. Gold

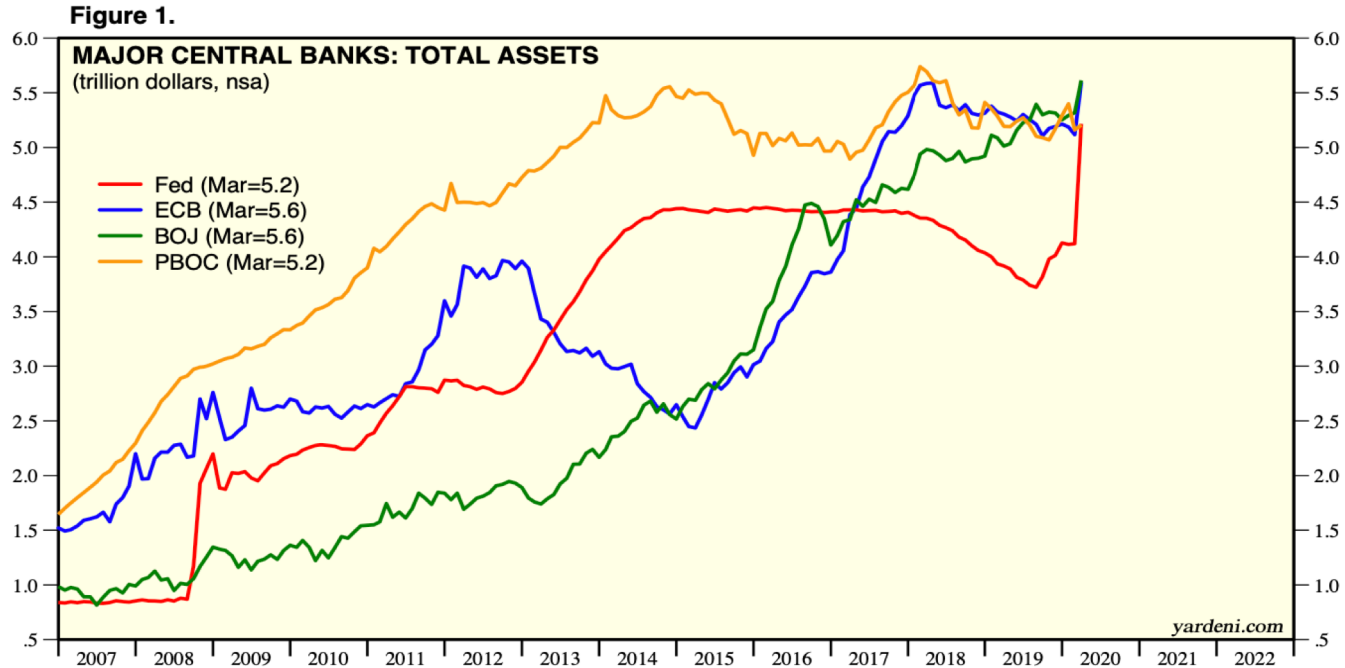
Figure 1. Major currencies priced in gold



Source: WGC, Goldmoney

# Central Bank Explosion

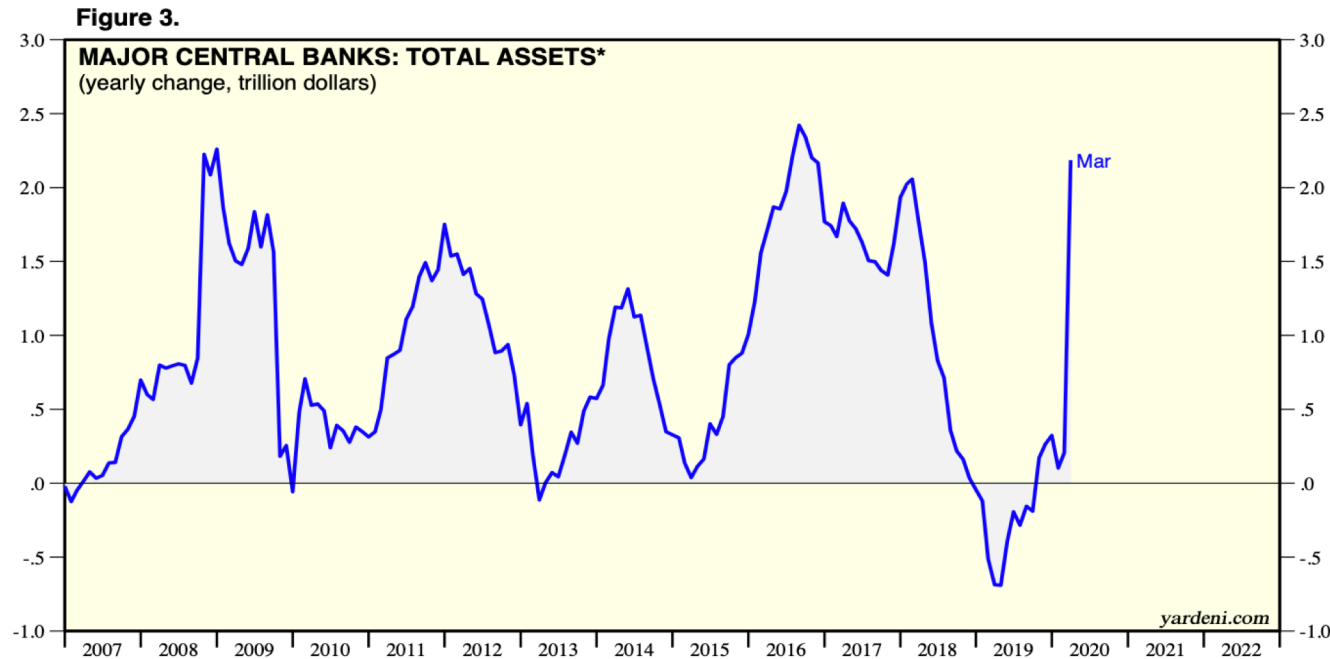
## Total Assets of Major Central Banks



Source: Haver Analytics.

# Central Bank Explosion - yearly change

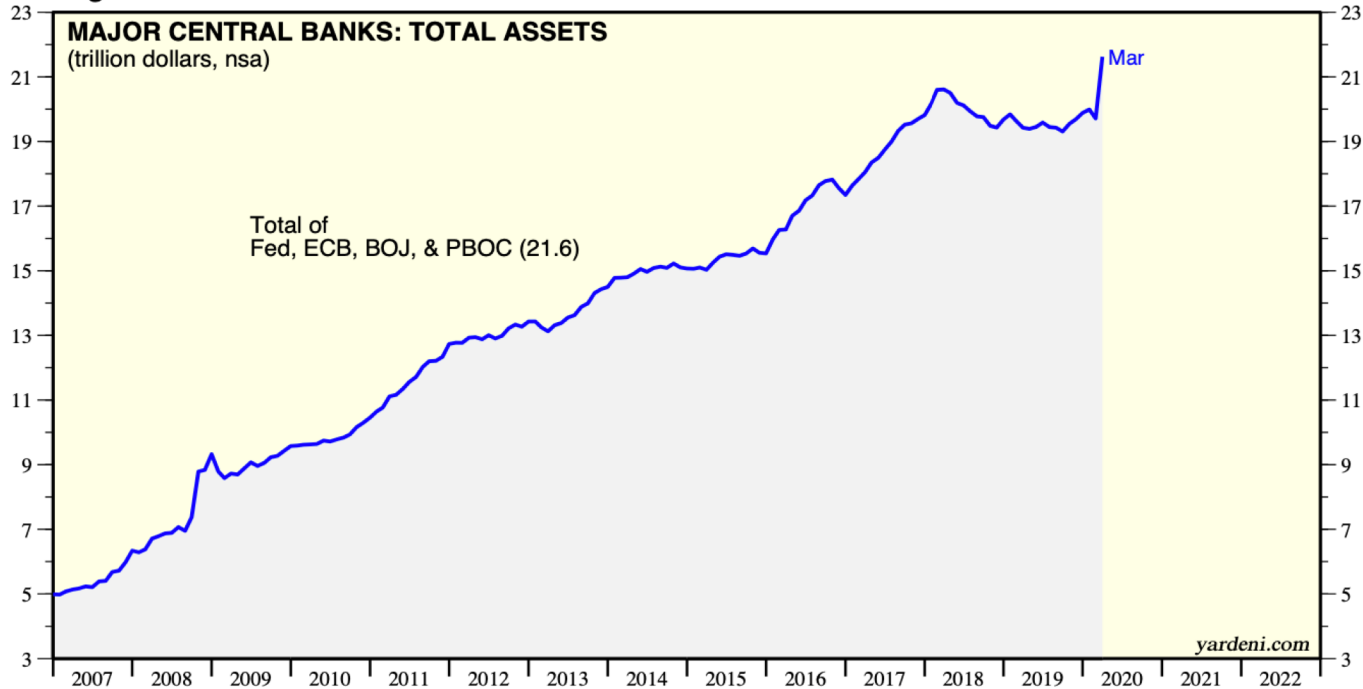
## Total Assets of Major Central Banks



\* Total of Fed, ECB, BOJ.  
Source: Haver Analytics.

# Central Bank Explosion - cumulative

Figure 2.



Source: Haver Analytics.

# Unintended Consequences

A. Universal Stay at Home order is the “most devastating economic and social decision in modern history”.

1. Socially dangerous. Loss of work = loss of dignity (de-humanizing).
2. Increase in suicides, alcohol and drug abuse and domestic violence.
3. Underfunding of defined benefit pensions grows and the value of retirement savings decrease.
4. Record bankruptcies - small to medium businesses! Large companies are bailed out and zombie businesses propped up.
5. Breeds a culture of distrust between citizens.
6. Government overreach/power grab - trading liberties for “perceived safety” - worst trade we can make!

# Unintended Consequences

## B. Exposed the weakness of globalization

1. Vulnerable supply chains - too much dependence on untrustworthy countries. Nations need to be as self-sufficient as possible in essential areas. We cannot blindly trust governments.
2. Larger rupture in relations between China & US. Greater need for free trade not managed or unfair trade.
3. Open borders without controls expose countries up to added risks - i.e. quick transmission of diseases.
4. Exposed dishonest/bought and paid for NGOs - WHO (World Health Organization). The larger the organization the more likely it will be ideologically driven and a threat to liberties & truth (e.g. UN)
5. Political Unions are all about power and control not the welfare of citizens - e.g. COVID-19 has put the European Union face-to-face with all its weaknesses.



# Unintended Consequences

## C. Expansion of the State - stealth expropriation of wealth

1. Managed low interest rates for as long as central bankers can pull it off - steals from savers, reward debtors (governments are the largest debtors).
2. Printing money steals through inflation, it undermines financial accountability and stewardship and it is an addictive opiate, its need grows exponentially.
3. The Excessive Deficits/Debt - rob from the future, facilitate greed in the present and will **permanently lower economic growth**.
4. Trojan Horse for the introduction of the Universal Income Benefit and the use of Modern Monetary Theory - economic socialism/arbitrary gov't redistribution.
5. Feeds hubris. BoC Governor - Stephen Poloz "No one ever accuses firemen of using too much water." Really? The Central Bankers contributed to the fire. They don't have unlimited "digital money" to use without undermining the value of money.
6. Debt restructuring is inevitable. We are at the end of a debt super cycle.

# Investment Strategy

1. Keep a cash reserve - hold in USD/gold.
2. Significant exposure to precious metals (monetary substitutes). They are undervalued and under owned. No counterparty risk.
3. Minimal exposure to leveraged financials (Banks and Life Insurance Firms). European and Chinese Banks are largely insolvent today.
4. Own assets that protect purchasing power from monetary folly (e.g. hard assets, essential businesses, core infrastructure & technology companies - all with pristine balance sheets).
5. Minimal exposure to consumer discretionary businesses. The consumer is hemorrhaging and will focus their spending on consumer staples/essentials.

# Investment Strategy

6. **Nibble** on companies that have been hammered in the early liquidation and are too inexpensive to pass up.
7. We maintain a “hit list” of companies we are ready to add to client portfolios at the right prices.
8. **Patience!** Wait for the fat pitch.

We are in **early innings** of this game! Policy response to COVID-19 has been devastating to the long-term health of our economy on every level. It will take time to absorb the impact of the misguided public policy decisions and ascertain their real effects on businesses and citizens.

## D. Restoration - Economy

1. Protect private property ...collateralize currency, stop Gov't growth - cut off their flow of funds.
2. Protect our tax base - our national defense & social programs require a vibrant and free economy. Small and medium sized businesses are the heart of economy, they have been severely damaged! Lift regulations & lower taxes on small business.
3. Put in place safeguards to restore personal liberties & freedoms including protecting the right of assembly, religious freedom and free speech. The Canadian government is doing the exact opposite.
4. Hold government accountable for their decisions and to the law of the land. The State is not absolute.
5. Promote self-sufficiency which is only possible with strong family units. Need a healthy skepticism of “experts” that know what is best for us!

# Restoration - Economy

6. Develop an exit strategy from the global monetary debasement arising from the economic effects of the COVID-19 and decades of monetary folly
7. Formulate a **detailed protocol** to help us exit the current lock down prudently and swiftly! Prepare now for the next time a virus like this appears. We cannot allow another lock down of the economy again.
8. We must safeguard our liberties now including our right to privacy and travel. Surveillance technologies to monitor citizens are fraught with risks and cannot be trusted in the hands of governments without serious legal protections. We must prevent a future assault on capital, that is, coerced government redistribution of wealth.
9. Practice cleanliness, community ethics and standards consistent with science and not driven by ideology.

# Restoration - Economy

10. Encourage front line charities to help in the care for the sick and needy. Government cannot do it all! Give communities the power to make decisions at the local level where they have better knowledge of the real conditions.
11. Truth telling. Listening to all views, not shutting down discourse or subsidizing “State controlled” media. The experts and main stream media have made many mistakes! The bought and paid for media provides cover for politicians. Canadian government has not been transparent with data, modeling or containment exit strategy!
12. Reinvigorate the Nation State and push back against Globalism and its abuse of power. Competing States creates checks and balances and safeguards to our liberty

# Restoration - Spiritual

## Finding HOPE into a world of Distress

Christians historically have led in times of widespread diseases and have risked their own lives and died treating sick people.

### Examples:

1. Plague of Cyprian 250-270 AD
2. Black Plague (Italy - 1348 - Catherine of Siena), (Zurich - 1519 Ulrich Zwingli), (Wittenburg - 1527 - Martin Luther), (Geneva - 1542 John Calvin)
3. Smallpox - Princeton NJ, 1758 - Jonathan Edwards
4. Cholera - London UK, 1854 - Charles Spurgeon
5. Coronavirus - 2020 - New York City - Samaritan's Purse

# Restoration - Why do Christians Get Involved?

## Three Key Reasons

1. All human beings made in the image of God and life is a sacred gift from God to be protected and cherished.
2. Christians are being obedient to their Lord by living out the two great commandments (Matthew 22:36-40) and following Jesus' example in healing the sick and caring for the needy.
3. They hold their own lives loosely because they know that their Lord holds them sovereignly and tightly - "The eternal God is your dwelling place, and underneath are the everlasting arms..." (Deut. 33:27a)



# Restoration - Spiritual

1. There is no such thing as a maverick/chance virus.
  - ▶ The whole universe is under the sovereign control of God.
  - ▶ Isaiah 45:6(b)-7; “I am the Lord, and there is no other. I form light and create darkness, I make well-being and create calamity, I am the Lord who does all these things.”
  - ▶ God allows viruses and sickness and ultimately death because of sin and mankind’s rebellion against Him in the Garden of Eden.
  - ▶ God has placed a curse on all of creation. Romans 8:20-22; “the creation was subjected to futility...the whole creation has been groaning...”

# Restoration - Spiritual

2. What is the purpose of COVID-19 or other viruses or sicknesses or natural calamities from God's perspective?
  - ▶ They should drive us to God. They show us our weakness and our dependence on God. We do not determine the length of our days, God does. Each one of us is going to die. Our next breath is in God's hands!
  - ▶ God does not owe us anything but justice! But given our sin, justice would condemn each one of us before a Holy God. We are law breakers.
3. Is there hope for us in a world of despair and panic? Yes!
  - ▶ Our hope is found in the gospel of Jesus Christ. The gospel tells us that God in grace sent His one and only Son into the world and that he took on human nature. In His humanity He lived an obedient life, upholding the law of God to perfection.

# Restoration - Spiritual

- ▶ Jesus also came to take the punishment we deserve as sinners. He came to die in our place. The Bible tells us that the “just one died for the unjust”, that Jesus died “once for all”, that He redeemed us from the curse of the law by becoming a curse for us, and that He bore the wrath of a God on the cross! In short, Jesus died a “substitutionary” death for us! But it did not end there! Jesus was then raised to life, conquering death through the resurrection and overcoming the curse of Eden!
- 4. How do we gain all the benefits of Jesus’ sacrifice?
  - ▶ Repent - turn from our sin and turn to Jesus.
  - ▶ Faith - place all our trust/confidence in Jesus Christ and his finished work. It is a free gift!

“Believe in the Lord Jesus Christ and you will be saved” Acts 16:31

## John 17:3

“And this is eternal life, that they know you, the only true God, and Jesus Christ whom you have sent.”

## John 3:16

“For God so loved the world, that he gave his only Son, that whoever believes in him should not perish but have eternal life.”

# Appendix A

## Resources

- ▶ **Economics in One Lesson** - by Henry Hazlitt
- ▶ **When Money Dies** - by Adam Ferguson
- ▶ **The Book that Made your World** - by Vishal Mangalwadi
- ▶ **Christ from Beginning to End** - by Trent Hunter and Stephen Wellum
- ▶ **The New Case for Gold** - by James Rickards

# Appendix B - Zwingli's Black Plague Poem

Contracted Black Plague  
Verses 1-4

Help me, O Lord,  
My strength and rock;  
Lo, at the door  
I hear death's knock.

Uplift thine arm,  
Once pierced for me,  
That conquered death.  
And set me free.

Yet, if thy voice,  
In life's midday.  
Recalls my soul,  
Then I obey.

In faith and hope  
Earth I resign.  
Secure of heaven.  
For I am Thine.

On Death Bed  
Verses 5-8

My pains increase;  
Haste to console;  
For fear and woe  
Seize body and soul.

Death is at hand.  
My senses fail.  
My tongue is dumb;  
Now, Christ, prevail.

Lo! Satan strains  
To snatch his prey;  
I feel his grasp;  
Must I give way?

He harms me not,  
I fear no loss,  
For here I lie  
Beneath thy cross.

Recovery  
Verses 9-12

My God! My Lord!  
Healed by the hand.  
Upon the earth  
Once more I stand.

Let sin no more  
Rule over me;  
My mouth shall sing  
Alone to thee.

Though now delayed,  
My hour will come.  
Involved, perchance.  
In deeper gloom.

But, let it come;  
With joy I'll rise,  
And bear my yoke  
Straight to the skies.



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