

Will More Inflation, A Government Debt Crisis & Popping Asset Bubbles Get Gold As High As \$8k?

Wall St for Main St (March 6, 2025)

Host: Jason Burack

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[Jason Burack]

Hi everyone, this is Jason Burack with Wall Street for Main Street. Welcome back for another Wall Street for Main Street podcast interview. Today's special guest is a first-time guest.

The gold price has had a little bit of a correction. It's still a little bit above \$2,900 at \$2,911. The silver price is substantially higher than it's been over the last couple months.

It's still holding up pretty well at \$32.60. Our guest today, who is a first-time guest, is a CFA charterholder and managing partner at Hirschmann Capital, a Puerto Rico-headquartered hedge fund manager that focuses on gold stocks. Brian Hirschmann, thank you for joining me.

[Brian Hirschmann]

Hey Jason, thanks for having me on the show. It's great to be here.

[Jason]

So Brian, we're recording this interview on Thursday, March 6, 2025. The gold price has held up very well under Trump. And before we talk about the gold price, potential gold bull market, I want to get your thoughts on the macro conditions with the global economy.

Do you think it's in a recession? What are your views on the current global economy and asset prices?

[Brian]

Yeah, I think it's a very interesting time. In fact, I think it's the most dangerous time in U.S. financial history. But before I explain why I think that's the case, let's just look at what Warren Buffett's doing, the world's best investor.

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He's raised his cash allocation to an all-time high by far. And at the same time, he's been doing that. Investors' cash allocation is at an all-time low.

So, without me going into details, you can just look at Buffett and realize that we should probably be fearful when others are being greedy, since that's exactly what Buffett is doing. But the reason why this current environment is so dangerous, it's the first time any major economy, the U.S., has had three bubbles, all at the same time. And as I'll explain in a minute, those bubbles will probably all burst at the same time.

And that could happen very soon. But if that does happen, gold should skyrocket.

The first of the three bubbles is in the U.S. equity market. There, if you look at most reliable metrics, they almost all indicate that this is the most overvalued U.S. stock market ever. Price-to-sales, price-to-replacement cost, price-to-gross-value-added, price-to-GDP, price-to-cyclically-adjusted earnings. All indicate that this is an extremely, extremely overvalued market and would probably need to fall more than 50% just to get back to a normal historical valuation. And if, as is likely, we have an inflation crisis, then stock market valuations might need to fall more than, or would fall more than 85% if they return to their low during the last inflation crisis around 1980.

The second dangerous bubble is in the U.S. real estate market, price-to-rent ratios, price-to-income ratios, and home affordability metrics are all worse than they were during the 2000s housing bubble. And to me, that's a good example of the extreme brevity of the financial memory. Investors have forgotten all the lessons from the last housing bubble, even though it was less than two decades ago.

But the biggest and probably most dangerous bubble is in global bonds. In the U.S., for example, we have relatively low long-term interest rates. They've increased in recent years, but are still historically low. And that's despite the fact that U.S. government debt is at levels that have nearly always caused default.

And the consensus is that these three bubbles aren't a problem because the government will always bail out the economy and bail out the market. But I think that couldn't be more wrong.

If the government could always bail out the economy, it would have been discovered 2,000 years ago, not just now. So instead of a bailout, I think during the next crisis, we're likely to have a government debt crisis with very high interest rates and sustained high inflation because the U.S. has this toxic combination of high government budget deficits, high government debt to GDP, elevated inflation, and high borrowing from foreigners. And the deficits and the debt to GDP are a problem because it indicates that government debt is growing faster than the government's ability to pay.

And the high inflation is a problem because it means the government has already started to default through high inflation. And foreign investors are an issue because they're flighty and tough to regulate, and they're more likely to trigger a crisis than domestic investors. In fact, since 1914, there's been 21 instances of countries with a similar combination of characteristics. And all 21 of those countries defaulted within two years, and their median average annual inflation over the subsequent four years was 18%. And none of them was able to avoid sustained high inflation through a recession or some central bank policy. And so, if a government is having a debt crisis, then it loses its ability to bail out the private sector through a direct bailout or through rate cuts.

Because if inflation is already high due to high government debt, and then the central bank lowers rates, that's just going to lead to more inflation. Or if investors are already worried about the government's debt burden, and then the government starts taking on more liabilities by bailing out the private sector and guaranteeing banks and things like that, that's just going to make investors more worried about the

government's liabilities and sell the government's bonds at an even faster rate. So instead, we might get a doom loop, where there's a government debt crisis, which causes a severe private sector recession, which in turn makes the government debt crisis worse.

And that's similar to what's recently happened in Greece and Turkey. And as I alluded to before, it's important to remember that these problems are not just limited to the U.S., they're global. Seven of the world's 10 largest real estate markets are very overvalued, if not bubbles, and higher bond yields could crash those markets just as German real estate has recently crashed due to higher bond yields.

And the bond bubble is also global, because global government debt to GDP is near an all-time high. And the government debt level in many countries is near levels that have almost always led to default. Some of those high-risk countries are Japan, Italy, France, the UK, and Brazil.

And so, it's very easy to see a crisis in one country potentially spreading across the world, and rates have generally been rising since 2020. So maybe we're in the early stages of that global government debt crisis. So, I very much agree with what Jim Rogers has said, that the next crisis should be the worst of our lifetime because of these bubbles and these very high debt levels, but that should be a fantastic opportunity for gold investors.¹

[Jason]

It sounds like you've described a global government bond bear market worse than even the U.S. bond bear market, what, during the 70s, where the government bonds, U.S. Treasuries were called the certificates of confiscation. Sounds like all these problems in the European Union. Then you have Germany also announcing a huge stimulus package to try to turn their economy around.

China may even announce a quantitative easing soon, the rumors are, in the next six weeks, they're going to announce a quantitative easing program too. So these are all desperate policies from governments and central banks to try to stop what you just described over the last couple of minutes.

[Brian]

Yeah, Jason, I think that's exactly right. I think the government debt levels now are much higher compared to the 1970s. In the 1970s, the U.S. stock market's valuation was far more reasonable, so you didn't have as much risk from that asset bubble.

In the 1970s, valuation of the U.S. real estate market was much lower, so you didn't have the potential impact of that bubble bursting. You had lower corporate debt levels, lower consumer debt levels. Yet, despite all that, we had nasty recessions and stock market valuations got crushed and interest rates got to 16%.

As I'm sure you've had other people on the show mention, even if the Fed had the backbone to hike interest rates to really high levels the way Volcker did, we wouldn't be able to do it now because our

¹ Statements regarding future recessions, government-debt crises, inflation, interest rates, equity valuations, real estate valuations, gold prices, gold mining equities, Fund holdings, or potential Fund outcomes are forward-looking opinions as of the recording date. Actual outcomes may differ materially. Gold mining equities involve substantial risks, including commodity-price risk, financing risk, permitting risk, operational risk, political risk, currency risk, liquidity risk, and the risk of permanent capital loss. Historical market data and comparisons are based on Hirschmann Capital research using sources believed to be reliable. Definitions, time periods, index composition, and methodology can materially affect results.

government debt is so much higher, and doing so would cause an outright government default. So, I think you're exactly right. The current situation makes the 1970s look not dangerous at all.

[Jason]

Do you think the largest macro-themed trade over the last couple of years are these non-G7 central banks? They're not large net buyers of U.S. Treasuries anymore. So, the large net buyers of treasuries in the past over the last couple of decades were China, were Japan, emerging markets.

They accumulated massive amounts of Treasuries in the past, subsidizing these budget deficits from both political parties and Congress, blowing out like a trillion dollars per year budget deficits. Do you think that the macro trade now has transitioned from buying U.S. Treasuries to either not buying them or selling them and then those central banks outside the G7 are now focused on accumulating gold instead?

[Brian]

Yeah, that's a very interesting question. I think as I was listening to recent commentary to prepare for this podcast, I heard a lot of people saying that the gold price is up due to central bank buying and due to Asian consumers buying. I don't think that explanation makes sense, really, because if you look at how much gold central banks have been acquiring, their purchases in 2024 were roughly the same as their purchases in 2023 and 2022.

And the gold price, of course, didn't do much in 2022. So, it doesn't seem like that central bank buying has been the major driver of the gold price. And it's similar with Chinese retail buying.

Their buying in 2024 was less than the average from 2013 to 2023. So, I don't think that's been the major driver of the increase in the gold price in 2024 and in 2025. Instead, I think the more likely explanation is that institutional investors, which include pension funds, sovereign wealth funds, endowments, and hedge funds, they've probably been driving the gold price increase, because after all, they control 70% of global financial assets.

And so usually when we see big moves in asset classes, it's usually driven by institutional investors. And so, I think the question shouldn't be, why is it that they suddenly started buying? I think the more interesting question is, what took these guys so long to start buying?

Because as I mentioned, government debt crisis risk has never been higher. It's the first time in history we have had this triple bubble in the U.S. We have overvalued real estate markets, if not bubbles, across the world, record total debt if we add up consumer, corporate, and government debt.

So, I do think it should be the worst crisis of our lifetime. But we also need to remember that gold is still a relatively small asset class, less than \$20 trillion in capitalization versus more than \$500 trillion in global financial assets. So as these bubbles inevitably break and the debt crisis inevitably begins, a lot of capital will flow into gold.

And since gold is such a small asset class, it's easy to see the gold price going above \$8,000 or something like that, as capital shifts from bonds into gold. ²

² Price targets and asset-price forecasts are subjective opinions as of the recording date, based on assumptions that may prove incorrect. They are not guarantees, are not recommendations to buy or sell any security, commodity, cryptocurrency, option, or other instrument, and should not be relied upon as predictions of actual market outcomes.

[Jason]

That's a good point there about the pension funds, because I remember the largest pension fund in the United States, CalPERS, and they were advertising that they were using extra leverage prior to the pandemic in 2020, that they were going to go buy and borrow money. I think 20% of their assets, they were borrowing debt. They were going to buy more commercial real estate, invest in more private equity, invest in riskier tech stocks.

The stuff they were investing in was risky, and then they have losses on their older U.S. Treasury bonds too. So, the losses there are real. I don't know if they've marked to market all of them yet with the older U.S. Treasury bonds and the commercial real estate and the private equity losses yet.

[Brian]

Yeah, I think these big institutional investors, usually they're managed by somebody that reports to a board, and the board is worried that they're going to get kicked off if the pension fund underperforms, and the manager of the pension fund is worried he's going to get fired if he temporarily underperforms. And so, it creates this pressure to chase these overvalued asset classes. And there's a lot of investors that have that same structure, and so they're subject to the same biases to chase these ridiculously overvalued asset classes to try to keep up with their competitors.

Because after all, they're not paid just for performance, and they want to keep their job. And so, to try to avoid those incentive problems for my fund, we've always had wealthy families as our clients, because a wealthy family, they, of course, can't get fired from managing their own money, so they can be a much more patient client. And that allows us to take a very long-term time horizon and not feel as much pressure to chase these bubbles.

And we can make these very contrarian trades, such as investing in gold mining equities when we have an obvious super bubble in the U.S.

[Jason]

Now, you brought up Warren Buffett earlier. I would argue that if Warren Buffett were objectively looking at some of these gold mining companies with the profit margins or free cash flow growth, these look like contrarian value plays now, especially with the profit margins and improving in the free cash flow, as long as the gold price doesn't crash. How long have you been covering these gold stocks?

And are these some of the best profit margins and free cash flow you've seen from the gold and silver miners?

[Brian]

Yeah, so my fund has been focused on gold miners since it launched more than a decade ago. And we've outperformed the GDX, GDXJ, gold, and global equities.³ And I agree with you that the producing gold mines look very attractive right now.

³ This performance comparison refers to the period from October 1, 2014, through March 5, 2025. Fund returns are presented net of applicable Fund fees and expenses, including any performance allocation, and include reinvestment of dividends and other earnings. Benchmark and market comparisons use the benchmarks, ETFs, indices, or commodity-price series identified in the Complete Returns PDF, which

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One sector I'm very focused on right now is developers. And in general, my fund tends to focus more on small gold mining companies, since there's less competition there. And it's better to be competing against retail investors that might not even speak to management than it is to be competing with large hedge funds who might focus more on large companies like Barrick and Newmont.

But the developers, as I'm sure most of your listeners know, developers are companies that are not yet producing gold, but planning to do so by building a mine soon. And as you know, Jason, when gold increases, the value of a gold producer tends to grow faster than the gold price, because production costs are relatively fixed. For example, if gold rises 10% and a mine has a 10% profit margin, then its profits will double if its costs stay the same.

And that's a little bit of an oversimplification, but that's basically how a gold miner's operating leverage works. But developers usually tend to appreciate even more than producers, because they also have construction costs that make their profits even more sensitive to changes in gold prices, because they also must raise capital to fund mine construction, and that becomes easier to do when gold prices increase. And so, for that reason, for example, from 1979 to 1980, developers and explorers increased 2,300%, whereas gold only increased 160%, and producers only increased around 290%.⁴

And incredibly, despite the big increase in gold prices that you mentioned, since 2021, gold prices have increased around 30% after adjusting for inflation. The TSX developers are down around 30%. And so, they've dramatically underperformed gold, and they've underperformed producers, which are up around 10% over that period.

And I think that underperformance is almost certain to reverse. And when I look at these companies, I'm finding many trading at tiny fractions of net asset value. And there's been many times in the past where we've invested in developers when they're trading at big discounts to net asset value, which means the present value of their future cash flows.

And then we've sold them when they went into production and were trading close to their intrinsic value, close to their net asset value. And Atlantic Gold in Canada and Capricorn Metals in Australia would be two examples. And I expect that to happen with a lot of our current portfolio if they aren't acquired before they go into production.

And I think the developers on the TSX, they also look very attractive relative to producers. For example, the largest components of the GDX are trading for around \$300 per ounce and are trading for smaller discounts to net asset value. Whereas you can find a lot of TSX developers that are trading for around \$25 per ounce.

may include GDX, GDXJ, gold, and a global-equities benchmark. These benchmarks and market instruments are materially different from the Fund's concentrated private-fund strategy. Indices and commodity-price series do not reflect Fund fees or expenses, and investors generally cannot invest directly in an index or commodity-price series. Past performance is not indicative of future results. Please review the [Complete Returns PDF](#) for full net-of-fee performance, benchmark information, and methodology.

⁴ Historical market data and comparisons are based on Hirschmann Capital research using sources believed to be reliable. Definitions, index composition, time periods, and methodology can materially affect results. Historical performance of asset classes, sectors, indices, or securities is not indicative of future results and should not be interpreted as Fund performance.

And I think the TSX also looks attractive relative to ASX developers who are probably trading for double the enterprise value to resource ounce multiple. So, I'll be astonished if the gold developers don't perform well over the next few years.

[Jason]

You said that the valuations for the Australian gold producers are substantially higher than the Canadian ones?

[Brian]

Yeah, that's exactly right. I think some of that is justified. The permitting process in Western Australia is generally much easier and much faster.

And there's been tremendous tailwinds for Australian miners in recent years due to the depreciation of the Australian dollar. But I think the valuation discrepancy has probably gone too far. And right now, I think for a long-term investor, the TSX offers better value.

And one thing I've often heard you talk about on this show, Jason, is that investors are very interested in the U.S. equity bubble right now. They've been chasing the U.S. equity bubble and they've been chasing cryptocurrencies. And that's probably been more of a problem in North America than it is in Australia.

So maybe that's part of the reason for the valuation discrepancy, is that the investors that would have otherwise been investing in TSX developers are buying cryptocurrencies or something like that. But I think that's a tremendous opportunity for a long-term investor, because as those bubbles in cryptocurrencies and U.S. equities inevitably burst, a lot of that capital could come rushing back into developers. And those bubbles are gigantic.

U.S. equities have a market cap of around \$60 trillion, and cryptocurrencies have a market cap of around \$4 trillion, although I should probably check that since the market cap fluctuates so much month to month. But the developers' market capitalization is less than \$30 billion. So, we don't need a big shift from those bubbles to have a huge increase in developers' valuations.

[Jason]

Okay. So basically, if I could summarize what you just said over the last couple of minutes, you think that if there's a sizable correction, let's say in the NASDAQ 100, the major tech stocks, the Mag 7 or some of these other, the stuff focused on artificial intelligence or quantum computing, data centers, crypto, if those things crash, let's say 20, 30, 40% or more, then the capital will leave those stocks, and then it will go into safer stuff, maybe dividend stocks, more defensive stuff, and then gold and gold stocks too?

[Brian]

Yeah, I think that's definitely possible, but there's lots of ways we can win with these investments. For example, the senior gold mining companies might look at the incredible valuations of developers, and so we could see an increase in acquisitions, and that'll help valuations there. These companies could go into production, and then their market caps will increase, and maybe they'll be included in the GDX, and that will result in a huge increase in valuation.

They could merge, and that might help with valuations by increasing liquidity or leading to more index inclusion. You could have the gold price increase due to the bursting of all those bubbles, and that'll lead to a change in sentiment in the sector. So definitely, what you said is correct, that if those bubbles start to

break, that could lead to capital flowing back to the developers and a big improvement in miners, in developers' valuations, but I don't want to make it sound like that's the only way that's going to happen.

[Jason]

Well, I think what we're starting to see, and you mentioned Barrick Gold and Newmont Mining, the max charts for those guys, it shows gross mismanagement for the last couple decades of both of those companies. They've drastically underperformed metals prices, Barrick Gold and Newmont Mining with bad acquisitions, and they've had just huge problems with cost control. I mean, look at how much the costs are up for Newmont Mining and Barrick Gold just in the last four or five years.

I think Newmont Mining, their costs were \$1,100 or \$1,200 an ounce in 2020 or 2021, and they're up around \$1,600. That's a substantial increase. Now, if they could keep the cost flat, maybe for 12, 18, 24 months, where it doesn't go up too much, they could make good profit margins and free cash flow, but you expect then that these mid-tier gold miners will start doing acquisitions if the assets are cheap, like you said earlier?

[Brian]

Yes, exactly. I think so. And I agree with you, the costs have been increasing, and I think we'll continue to see those costs increase because over time, the price of labor goes up, and the price of equipment goes up, and the price of steel goes up over the very long term.

[Jason]

The major cost issue also, Brian, is ore grades. I mean, because the ore grades, to maintain the ore grades, you either have to find a higher-cost mine that's out in the middle of nowhere, or the ore grades collapse every, I don't know, 7 to 10 years.

[Brian]

Yeah, definitely. I guess I'll comment on ore grades, and then we can come back to your question about the acquisitions. But yeah, by ore grades, what we mean there is just the grams of gold per ton of ore, which is the rock that is mined and processed.

And as the cliché goes, grade is king, because when you have a higher-grade mine, it's more revenue per ton, it's lower processing cost per ounce, it's generally a lower cost of production. You can build a less expensive, smaller mill, and if your estimate of gold in the ground is incorrect, there's usually less of an impact when it's a high-grade mine. And as you said, in general, grades have been declining, and part of that is simply because the higher quality, the higher-grade deposits are mined first, and then as gold prices increase over time, that makes these low-grade deposits that previously weren't profitable, they become profitable at higher prices.

And it's kind of similar, maybe it's similar to what you saw in the oil sector, Jason, where companies are now forced to explore and produce gold in very difficult places like the Arctic and the oil sands and the deep water that are very high cost. But I think the important point is that low-grade deposits are oftentimes now an opportunity, because I often see the market overpaying for high-grade deposits and neglecting these lower-grade deposits, because a lot of those problems that I mentioned are very manageable at high gold prices. Yes, a low-grade developer may expect to have lower margins than a

high-grade developer, but those margins may still be incredible at \$3,000 gold and even better at \$4,000 gold or \$5,000 gold.

And we can buy low-grade deposits often for \$10 an ounce, and in a few years, if valuations normalize and gold prices improve because the crisis inevitably happens, then those companies might be trading for \$500 per ounce, so huge upside.⁵ And I think more importantly that the risk for those sorts of investments is often very low for a long-term investor, because the margins are good at current prices, they're very undervalued at current prices, and every day we're getting closer to the inevitable bursting of these bubbles and the inevitable spike in the gold price.

But as far as acquisitions, yeah, I think the seniors essentially have three options for what they can do with their cash. They could reinvest in existing mines, they can make acquisitions, or they could return cash to shareholders through share repurchases. And right now, because developers are more undervalued than seniors, and I agree that seniors are undervalued, but I think developers are even more undervalued, that means that seniors can probably earn higher returns on investment, higher returns on capital by making acquisitions than they can by buying back their own stock. And, I think because developers' valuations are so low, that also makes them attractive relative to reinvesting cash in seniors' own projects, although, of course, every deposit is different and every deposit has different exploration and expansion potential.

But in general, I think the way I put it in a recent letter is to paraphrase T. Boone Pickens, it's now better to look for gold on the floor of the TSX than it is to look for gold in the ground. So, I do expect a lot more acquisitions, which should lead to higher valuations for developers.

For example, Agnico Eagle, which is a company I know you follow very closely, Jason, they acquired O3 Mining in December, which was a company that we were a large shareholder of, and they did that at a 70% premium, but the transaction should still be very beneficial to them due to the low valuations of developers.

[Jason]

And I think that was a smart acquisition long term for Agnico Eagle because that land package, the junior that you owned, it was right next to the Canadian Malartic mine. So they don't have to go and build out the infrastructure far away from an existing mine. So it's kind of a brownfields exploration for them.

It's like the land package right nearby.

[Brian]

Yes, exactly. They don't have to build any additional processing capacity and their processing costs per ounce for their pre-existing deposits will decline. And so tremendous synergy.

⁵ This statement was an unscripted, valuation-based opinion as of the recording date. It was based on the manager's subjective estimate of intrinsic value for certain portfolio holdings and should not be interpreted as a target return, expected return, guarantee, or official projection of individual securities, portfolio holdings, or Fund outcomes. The assumptions underlying this statement may prove incorrect. Actual Fund results may be materially lower and investors may lose all or a substantial portion of their investment. The statement does not account for all fees, expenses, taxes, liquidity constraints, changes in portfolio holdings, changes in commodity prices, financing risk, permitting risk, operational risk, political risk, currency risk, or other risks described in the Fund's private offering memorandum.

And I think that acquisition made a lot of sense. And in fact, we've invested in another developer that is in a similar situation: it's next to a larger producing mine that has a lot of excess processing capacity. And so, it would make a lot of sense for the producing mine to acquire the developer because there's tremendous synergy between the deposit that doesn't yet have a processing mill and the mill that has a lot of excess capacity.

[Jason]

Now, the other major problem with Barrick Gold and Newmont Mining, because they're producing so much gold, approximately 5 million ounces per year gold and an insane amount of copper per year, they have to replace those reserves to maintain their growth. So that's a very difficult challenge for them.

[Brian]

Yeah, definitely. That'll get easier at higher gold prices. But that's another thing that'll lead them to make acquisitions.

But when we value these companies, we're not assuming that they produce gold forever. We're assuming they have a finite mine life.

And even when we do that, I think the developers look incredibly undervalued.

[Jason]

I think the more efficient companies are the mid-tier gold miners. So like your Alamos Golds, Lundin Gold, some of the others. I'm just surprised there hasn't been more aggressive activity on mergers and acquisitions.

Maybe they're still negotiating some of these deals?

[Brian]

Yeah, sometimes it takes time. I think, as maybe other people have mentioned on the show, there was a bad bear market from 2012 to 2014. And a lot of mining executives were criticized for making acquisitions prior to that period.

And so there may still be some hesitation. And so, it's hard to predict the exact timing. But I think the valuations for developers are so compelling that it's just a matter of time before we see either increased stock prices or more acquisitions.

Either way, it should be a good outcome for people investing in that subsector.

[Jason]

I want to ask you about geopolitical risk now. Do you think that Argentina now is pro-mining? And are there any specific countries now, recently in the last six to 12 months, you think with elections, maybe Mexico or Ecuador, where you wouldn't invest into a potential mine there?

[Brian]

Yeah, we generally don't invest in those jurisdictions for a couple of reasons. One is the political risk. I'd like to stay away from countries that have a history of nationalizing assets.

Because I do think, as I said, we're headed for the worst bear market of our lifetimes, very likely. And so, we're probably going to see governments, it's very possible that governments will become more aggressive about nationalizing and seizing assets.

[Jason]

Well, didn't that already happen with Barrick Gold, right? And Mali?

[Brian]

Yes, yes, that's exactly right. They're having problems there. The bubbles haven't even started to burst yet.

And part of the motivation for that, and I don't have any investments in West Africa, so I'm not an expert. But yeah, part of the motivation for that was that the governments were very short on cash. And that's only going to become more of a problem for governments across the world.

And so, we're able to find very undervalued companies in safer jurisdictions that don't have a history of nationalization. And in many of these emerging market countries, the currencies are very undervalued. And inevitably those currencies are going to appreciate, and that's going to increase the cost of operating a gold mine there and squeeze their margins.

So that's another thing we dislike. And then there's other countries where the gold mining industry is a very big employer. And so, as the gold price increases, you're probably going to see a lot of labor inflation, and that's going to cause a lot of cost inflation.

And as a result, their profits probably won't increase as much as they would in other jurisdictions where the gold mining industry isn't such a big employer in the mining sector. So those are some of the reasons we've stayed away from some of those higher-risk countries and we're finding good opportunities in lower-risk jurisdictions. And I think we do have one permitting play where we've hired so many attorneys and so many consultants, and I think that's going to work out very well, but usually we're not trying to outperform by choosing the jurisdictions where permitting is going to improve or avoiding the jurisdictions where permitting is going to get more difficult.

Oftentimes, that depends on elections, and so it's very difficult to forecast.

[Jason]

Okay. So you already disclosed that you think that Australia, Canada, and then you think the U.S. is going to, with Trump and a Republican-controlled Congress, will become more pro-mining too?

[Brian]

Well, in the U.S., we don't have any investments right now, and so I'm not an expert on what's going on with the permitting in all the individual states, but yeah, I'd say I think we're in very safe countries and we're not in places like West Africa and South America. And I think in places like Western Australia, as I mentioned earlier, the permitting process is generally very fast and I'm not expecting that to get significantly worse.

[Jason]

So I invest in royalty companies. I bought Wheaton Precious Metals over a decade ago when it was 12 to \$15 a share. I was accumulating shares back then.

I'm a big investor, as many people know in Sandstorm Gold. I think it has a lot of good long-term prospects. Why do you prefer gold mining stocks to gold and silver royalty companies?

[Brian]

Yeah. So, I agree with you that they're very good businesses. They have tremendous diversification because they have royalties on many different properties.

They have very high margins. They don't have as much operating risk because they're not operating mines. As you've talked about on the show before, they benefit from mine life upside as the mines that they have royalties on, as their mine life increases due to higher gold prices or due to exploration success, then the royalty companies will benefit from that.

And the royalty companies, of course, have much less financing risk than the developers. One minor problem with them is that a company like Franco-Nevada only gets 65% of its revenue from gold. And I don't want to invest in oil and gas going into the mother of all financial crises.

But I think, as we were talking about before the recording started, the bigger problem is valuation. Franco-Nevada is trading for around 45 times earnings compared to a lot of developers trading for less than 1x earnings. I think the crisis we're headed for, we're likely to have double-digit interest rates and thus Franco's multiple is not going to continue to be 45.

It'll probably be much lower. Whereas developers, their multiples should be much higher because their margins will improve dramatically and they'll move from development into production. And so, one of the many reasons I'm confident we're going to continue to outperform the GDX is that the GDX holds a lot of these more expensive royalty companies, whereas my fund owns a lot of these developers trading at much lower valuations.⁶

[Jason]

Yeah, especially if you pick out juniors that got bought by a mid-tier gold miner or a senior one like Agnico Eagle, like you talked about earlier in the interview.

[Brian]

Yes, definitely. Acquisition is one way to exit, or if they go into production, that's another way to exit. Also, there's higher gold prices or just higher valuations.

When you buy low-risk businesses at very attractive prices, there should be a lot of ways to win.

[Jason]

⁶ Statements regarding future relative performance, including potential Fund outperformance of any index, ETF, sector, or benchmark, are forward-looking opinions as of the recording date and are not guarantees or official projections of Fund performance. Actual results may differ materially, and investors may lose all or a substantial portion of their investment.

Now, do you think that the copper price matters for bringing on more gold supply, or do you think that we're still going to see an increase in the gold supply, even if the copper price is suffering?

[Brian]

I think, first, I would say gold supply, as you probably know, it's very different from oil because all the gold that has ever been mined is still in existence. It doesn't get used up in airplanes or cars the way that oil does. And so, the amount of gold that's produced each year, it doesn't have much influence on the price.

So, we don't have to worry too much about gold supply affecting the gold price. But copper, I'm personally not a copper bull since I'm a super bear on China. And China, of course, still accounts for a huge portion of global copper demand.

And so I try to avoid projects that have a lot of exposure to copper. It doesn't make much sense to me to invest in a mine that has one commodity that is very pro-cyclical, copper, and then another commodity that is very counter-cyclical, gold. I think since this is the most dangerous time in financial history, we want just exposure to the more counter-cyclical commodity.

But regardless of what happens with copper, I don't think the gold supply, the gold mine production will have a huge impact on the gold price.

[Jason]

Well, the reason I bring this up is because even though we're at this relatively high gold price at \$2,900, most of the potential gold mines, the gold is a byproduct. So, it's like a copper mine with gold, silver, maybe platinum group metals byproduct. Those are a lot of the projects that the senior gold and silver miners are looking at, the mid-tier ones.

You've just heard what the CEOs of Barrick Gold, Kinross Gold, Newmont Mining, even talk about how potentially they want to start diversifying into copper because they don't see just an enormous pure gold mine. It's just not as available as it used to be in the past.

[Brian]

Yeah, and that's one of the nice things. Since my fund is nimbler, we're always able to find those pure gold mines and get the exposure to the commodity we want to have, since copper has very different characteristics. It's Dr. Copper. It's very pro-cyclical. And silver, of course, is influenced tremendously by industrial demand. So, it may also perform very differently from gold.

And so fortunately, that's a problem for Newmont and Barrick, but that's not a problem that my fund has.

[Jason]

Yeah, pretty important. Freeport-McMoRan Copper, the average person doesn't know this. I think they're the third or fourth largest gold producer in the world, and it's all byproducts.

So they're an enormous copper miner, but they produce an insane amount of gold, and they don't really get any credit for it on their valuation.

[Brian]

Yeah, and maybe if your sole goal was to be as diversified as possible, that might make sense. But I think, given the macro outlook I gave earlier, focusing on gold is the more attractive trade for my fund right now.

[Jason]

Well, I agree. I'm just talking about, from a geology perspective, is that if they're going to grow the gold mine supply, I mean, most of the projects they're looking at, Brian, these large senior and mid-tier companies, they all have a huge amount of copper, and the gold or silver is a byproduct.

[Brian]

Interesting, interesting.

[Jason]

Yeah, I mean, this is the issue here with a lot of the open pit mining, is that you're dealing with a lot of gold and silver byproduct from a copper or base metal miner or polymetallic.

[Brian]

Right, right.

[Jason]

Yeah, so I mean, the royalty company kind of sorts through that. So they're getting funding to the copper miner, the base metal miner, and then they're just getting the precious metal exposure. So that's one way.

But you're targeting it differently than the royalty and streaming companies, because you're looking at the mines that don't have as much copper production then.

[Brian]

Yes, exactly. In fact, we may have one investment out of 15 right now that gets maybe 5% from copper, and the rest are almost entirely gold companies. I think that makes sense for the reasons I mentioned before.

Gold is very different from copper, and so that's where we want to invest.

[Jason]

What are your views on silver prices, silver mining, platinum group metals? Are you avoiding, say, silver and platinum and palladium right now?

[Brian]

Yeah, there's a couple reasons why my fund is always focused on gold and not as much on silver. One, I think you don't find as much silver in safe jurisdictions with overvalued currencies. We want overvalued currencies because then that means as the currency depreciates, the cost of operating the mine will get lower.

For example, Australia as a safe jurisdiction doesn't have much silver. They have some, but they don't have much. You tend to see silver more in places like Mexico and Peru, as you know, which I think are higher-risk jurisdictions.

The other problem is it's tough to find pure silver deposits. They usually occur with things like lead and zinc. Similar to what we were just discussing with copper, those are more pro-cyclical commodities, and we would prefer just the exposure to gold.

I don't want to get hurt because the China bubble bursts and lead and zinc get crushed for that reason. The bigger problem, I think, is the way I value gold, it's as a financial investment because that's what gold is overwhelmingly used for. Very little gold is used for industrial purposes, and so that works well.

If I was trying to value silver, then it would get much more complicated because silver, it's used as a financial investment, but it's also used as an industrial commodity. I couldn't use the same methodology, and so I would have much less confidence about what the intrinsic value, the fair value of silver would be. I've stayed away.

Given how silver has performed since my fund launched, I'm glad that that's been the case.

[Jason]

You just mentioned the China bubble bursting. You're not in the camp where you think that China is going to do a currency devaluation, restart quantitative easing, and they're going to juice their economy and that's going to restart growth?

[Brian]

I think all of their macro imbalances that have been causing their economy to slow, such as too much investment in construction, in infrastructure, in industrial equipment, and too small of a consumption share of their economy, it doesn't seem like any of those have been corrected. Their real estate bubble, it's gotten a bit smaller, but it's still gigantic. The price to rent and price to income ratios there are still insane.

The external environment isn't going to get better since the developed world may soon be having a lot of economic problems, and that's going to spill over to China. For all those reasons, I'm not a bull on China. Their debt is still out of control, and so they have slowed, but it doesn't seem like any of the fundamental problems, the real estate bubble, the excessive debt, the excessive overinvestment, the small consumer sector, none of those have been fixed, and so I'm not bullish on China.

[Jason]

Yeah. If they devalue their currency and announce quantitative easing, I'm wondering what they're going to spend the funds on. Whether they're going to build data centers and artificial intelligence and try to compete with the U.S. military and the big tech companies.

I'm not sure where they'd even spend. If they announced trillions of dollars in stimulus, where would they even spend it? Because they've already, as you pointed out, built all these ginormous amounts of luxury apartments, luxury condos.

They've built out pretty much tier two, tier three, tier four cities all over the place. Can't really build that much more.

[Brian]

Yeah, exactly. When you've already built so much high-speed rail that you have more high-speed rail than the rest of the world combined, then building another high-speed rail probably isn't going to add much to GDP and probably isn't going to improve productivity very much. It's probably just going to sit empty.

And so just as you said, that strategy of trying to juice the economy by building excessive amounts of infrastructure and housing, there's diminishing marginal returns and it doesn't seem like it's working well anymore.

[Jason]

Yeah. I don't know what type of bailouts, student loan debt bailouts, or maybe they just subsidize people with government jobs or something. I don't know what they do at this point, what the funds would even be used for.

As we wrap up here, Brian, you did mention an \$8,000 gold call. My listeners are going to be shocked at that number because normally that's a sensational newsletter headline to sell newsletters. How do you think we get there to \$5,000 or \$8,000 gold with your target?

What type of inflation are we looking at? Are these serious sovereign debt defaults in an emerging market or a G7 country? Then how would you expect, then, we would get to a much higher gold price?

[Brian]

Yeah, I'd say gold's valuation, it's affected by three main things, inflation, interest rates, and defaults. And by defaults, I mean concern about defaults, which would also include risk aversion. And inflation and the concern about defaults are much more important than interest rates.

And that's probably why we've seen gold do well recently, despite the increase in yields. And the inflation expectations have a very big impact on the gold price because, as you know, inflation reduces the value of fixed payments, such as bond coupons, far in the future. But gold does not depend on coupon payments in the future, and therefore its value doesn't decline the way it does for bonds when inflation increases.

Thus, when you have an inflation crisis, investors tend to shift from bonds to gold. And since the world's debt is about 20 times the value of the world's gold, we don't need a big shift of investors from bonds to gold to cause a huge increase in the gold price. And that's what happened in the 1970s.

We had high inflation, and investors shifted from other asset classes to gold, and the gold price skyrocketed. And recently, we've had a tick-up in concern about inflation, and that's something that's helped the gold price. And then higher defaults, of course, and higher risk aversion, that's bad for corporate bonds and equities.

But gold, as the cliché goes, it's the one asset that's nobody's liability and is immune from default, which is why gold did well during the European debt crisis a decade ago. That's also why gold has benefited from recent concern about sanctions on Russia, because the sanctions on Russia were similar to the U.S. selectively defaulting on Russia. And then the third thing, rising real interest rates, that does make gold less attractive relative to bank deposits, but the effect of interest rates is much smaller than the effect of inflation, which is why gold did well in the 1970s, even though interest rates were often rising.

And it's why gold did poorly in the 80s and 90s, even though rates were often falling. Now, recently, as I mentioned, inflation expectations have ticked up, but they're still historically low. Investors are expecting only around 2.5% annual inflation over the next five years. So, this big surge in inflation that we've had since 2021 hasn't had a huge impact on inflation expectations. And so, gold's valuation has increased, but it hasn't increased dramatically. In the 1970s, in contrast, gold rose dramatically because inflation expectations increased far more than they've increased in recent years, and investors shifted to gold from bonds and other asset classes.

For example, from 1974 to 1980, five-year inflation expectations, they went from around 4% to around 7.5% per year, and gold rose 370%. And right now, gold's valuation is similar to its valuation at the start of the 1970s bull run, and it's slightly above its 50-year average. But I think as these bubbles burst, we're going to get a huge increase in defaults, a huge increase in risk aversion, a huge increase in inflation, and that should cause gold to soar.

And if gold's valuation returns to its peak during 1980, then gold should go to more than \$8,000. And there's reasons to think that, as we discussed earlier in the show, that the next crisis should be worse than the 1970s one. So, the gold can certainly go higher than \$8,000.

But that's how I'm getting to that price. I'm looking at its peak valuation in 1980.

[Jason]

That would be a very difficult world with gold at \$8,000. I can imagine what the real inflation rate would be. Governments would be taxing countries that have a lot of gold mines.

I don't know if they'd want to confiscate the gold mine necessarily and nationalize it, but they certainly would want to raise royalty taxes or other types of taxes on the gold miner, too, so there might be shortages of supply.

[Brian]

Yes, yes, definitely. And hopefully by that time, I'm sure valuations for U.S. equities and foreign equities will be much lower. And so hopefully we will have sold all our gold mines by the time governments start seizing them.

[Jason]

And the other important point Brian brought up about gold not having counterparty risk. So, if you have your gold stored at a different vault company, if you own like gold futures contracts or the GLD, which has shady prospectus, that is not counterparty risk-free. So, the bullion banks like Morgan Stanley and some of these other bullion banks that have stored gold supposedly in custodian gold for their customers, they've gotten fined because they sold gold or silver that was supposed to be stored and they were charging their customers fees and our listeners can go look it up.

So what you mean by no counterparty risk, you mean actually owning the metal then, right?

[Brian]

Well, I think the way I think about that is our gold mines, they produce physical gold. They don't produce the GLD ETF and the fund doesn't have any direct investments in gold ETFs. We just have the investments in the gold mining equities.

And probably if things are getting so bad that JP Morgan and HSBC, the custodians have gone bankrupt and the ETF market is not functioning, if things are that bad, then gold is probably above \$8,000 and U.S. equity valuations are probably more than 50% lower than they are now. And so, by that point, we would have probably been selling our gold mining equities and moving into more conventional sectors. And so that's why I'm not too worried about that.

We don't have exposure to the ETFs and we'll probably be exiting this sector by the time things got so bad that the ETF market isn't working, if that ever happens.

[Jason]

Yeah. And to add to your points there, I don't think the banks will default that way. I mean, they might cash settle.

There were some shortages in 2011 when a lot of people were asking for their metal and the exchanges and the bullion banks just cash settled. I think people were giving cash on their futures contracts. So instead of taking delivery of the metal, they were just told, here's a cash settlement premium.

It's technically default. People didn't get their metal, but the banks didn't go bankrupt. And this is the issue with government bailouts and fiat currencies and the large banks like JP Morgan.

They get the beneficiary of being backstopped by the government and all these accounting rules changes. It's happened before with the banks, unfortunately.

[Brian]

Yeah, exactly. I'm not aware of any major ETF instances where they stopped working. And so, I think in the most likely scenario, it continues to work fine.

[Jason]

But it's always good. Well, look at the London Metals Exchange. I mean, there was a full default on the nickel market, and no one went bankrupt from it.

I mean, look at all the rules changes. That was just in the last couple of years.

[Brian]

Right. Yeah, I'm not that familiar with that since the amount of gold that's controlled by the LBMA is relatively small compared to world supply. But yeah, I think the counterparty risk isn't a major concern for us.

[Jason]

And the whole stuff I just described in the last minute or two with the banks and the accounting rules changes and the balance, that's the whole reason people should want gold, silver, gold stock exposure here is we're tired of all this stuff. We don't get a vote in any of this stuff. And the people in power in these governments or the bankers, they just get bailouts.

So that's why I see gold and silver in a long-term bull market.

[Brian]

Yeah, exactly. I think that's kind of my main point here: for the last 45 years, it's been nothing but bailouts. Every time there's been a recession, every time there's been a bear market, and people have very much become accustomed to that.

But now we're getting to the point where bailouts aren't possible anymore because government finances are at the breaking point. And instead of a bailout, we're likely to get this terrible crisis. And so, it's going to be very different from the last recession, from prior recessions.

And so that's why, as you said, Jason, I think exposure to gold is essential.⁷

[Jason]

Yeah, I think the best-case scenario is more currency debasement. I call it stagflation tax light. I think that's the best-case scenario is more stagflation going forward from a lot of these governments.

[Brian]

Right.

[Jason]

Well, Brian, I really enjoyed our discussion today. Do you have a newsletter out for my listeners if they want to follow your work?

[Brian]

I send out regular email updates that listeners can sign up for on my website. I also manage a hedge fund that's outperformed global equities and the GDX.⁸ And we have very good incentive alignment. I'm the second largest investor, no management fees, only a performance allocation above a 6% hurdle rate, so I have the same fee structure as Warren Buffett's hedge fund.⁹

⁷ Statements regarding exposure to gold, silver, gold stocks, ETFs, cash, or other assets are general market commentary as of the recording date and do not constitute individualized investment advice or a recommendation that any investor buy, sell, or hold any investment.

⁸ This performance comparison refers to the period from October 1, 2014, through March 5, 2025. Fund returns are presented net of applicable Fund fees and expenses, including any performance allocation, and include reinvestment of dividends and other earnings. Benchmark and market comparisons use the benchmarks, ETFs, indices, or commodity-price series identified in the Complete Returns PDF, which may include GDX, GDXJ, gold, and a global-equities benchmark. These benchmarks and market instruments are materially different from the Fund's concentrated private-fund strategy. Indices and commodity-price series do not reflect Fund fees or expenses, and investors generally cannot invest directly in an index or commodity-price series. Past performance is not indicative of future results. Please review the [Complete Returns PDF](#) for full net-of-fee performance, benchmark information, and methodology.

⁹ This statement refers generally to the Fund's Class A terms. The Fund offers multiple classes of interests with different performance-allocation terms. Class A interests are subject to a 25% performance allocation above a 6% annualized threshold, while Class B interests are subject to a different S&P 500-based threshold and performance-allocation structure. Please review the Fund's private offering memorandum and limited partnership agreement for complete fee and allocation terms.

Hirschmann Capital

The hedge fund is also very tax efficient, generally only long-term capital gains.¹⁰ And you can find out more at hcapital.llc. And I'm also on Twitter at HCapitalLLC. And yeah, thank you very much for having me, Jason.

This was a lot of fun.

[Jason]

And my listeners are going to love this, so hopefully you'll want to come back.

[Brian]

Perfect.

¹⁰ References to tax efficiency are general and historical only and should not be construed as tax advice or a guarantee of future after-tax results. Tax consequences vary by investor and may be affected by changes in law, investor status, investment timing, portfolio turnover, allocations, and other factors. Investors should consult their own tax advisers regarding the tax consequences of an investment in the Fund.

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