**Rick Rule: Two Bull Markets, Natural Resources, Precious Metals and Your Portfolio for the Next Decade**

Rick says we must think about investments in terms of probability…

We all see ourselves as truth seekers – but that’s wrong. Our mind seeks information to support our prejudices.

Recency bias is a consequence of this. The experiences in our recent past have more impact on the future than we think.

That’s why a grasp of history is important…

Rick says 1982 to 2022 were the most benign investment years in his life – and maybe ever…

We entered 1982 with very low expectations and low valuations. But we also tamed inflation (for the moment) in the 80’s. We also had consistently lower interest rates. There was a 40-year epoch of American dominance. And there was peace.

Demographics were good too – Baby boomers were in peak earning years. China was urbanizing. Women were entering the workforce. And there was a freeing of world trade.

There was liquidity in the market (much of it artificial)…

And there were great advances of technology.

Rick says this easy time is over. Not that the world will collapse… but because Rick’s a credit analyst, he’s cautious. He’s forecast 17 of the last three recessions.

But today our expectations are very high, not low. The dollar has headwinds too…

Rick says we have higher inflation than we think we do, and that will be true for a while.

Interest rates are rising, not falling…

And the world is increasingly in conflict.

The world has changed. So we must determine the probabilities of our investing in a different way…

Rick specializes in precious metals, natural resources and conventional financial services like banking. Often, because the expectations around are low.

But times are changing, and investor behavior will change too.

Historically, precious metals do well when people are nervous about their buying power in fiat-based currencies.  
  
After 40 benign years, expectations for stocks are pretty high. But Rick says that’s a mistake.

U.S. government treasury debt is at is 33 trillion dollars. It’s a number so big people can’t focus on it… but it gets worse.

Off-balance sheet liabilities (the net present value of entitlements in the U.S.) are at $120 trillion.

That adds up to $150 trillion in debt just at the federal level.

It gets worse. The federal budget should go towards servicing this debt, but it isn’t. We’re borrowing more and increasing the value of off balance sheet liabilities to the tune of $5 trillion a year.

But what makes Rick most nervous about buying power is what he thinks are *negative* real interest rates…

The benchmark savings instrument is 10 year treasuries. Let’s say it pays 5%. Inflation is at 3.2 or 3.3. So real yeild is 1.8.

But CPI is a bad metric. It is adjusted by people with agendas. And it doesn’t include tax…

For the average working American tax spending is larger than food, shelter and transportation combined.  
   
Rick recently did the math on his own account and found his savings are going down at a 7% compounded rate.

So if you buy ten year treasuries yielding 5%, you’re losing 200 basis points a year.  
  
The ten year treasury proposition is now this: the government promises to strip you of 2% every year… and that’s a promise they’re likely to keep.   
  
This lack of real returns is causing carnage in long bonds.

Now big bond investors have had an easy time for 40 years. But Rick suggests that game is over. If you have a lot of bonds, two bad things have happened to you…

Long bond prices have collapsed. That puts a hole in your portfolio if you hold bonds…you’re your institution isn’t going to fund that with current cash, because thet don’t have the current cash to fill it. At the same time, the yield that you’re getting on your instruments is insufficient to fund the need of the institution.

Traditionally, big investors are 60% stocks, 40% bonds. And many will have to rebalance the 40 part. That could get very interesting…

So inflation sensitive instruments should do well compared to the past… because of market share dynamics.

Relative to other savings and investment classes in the U.S., precious metals make up .5% of the pie. But the 40-year mean is 2%. And Rick expects a reversion to the mean.

Gold may not outperform if this happens… but it *will* lose the least.

A reversion to mean could quadruple demand for precious metals in the largest capital markets in the world…  
  
Rick owns gold because he lived through the tough markets of the 1970’s.

He owns a lot of gold, but he doesn’t want to see it spike… because it’s catastrophe insurance. And a speak would mean imminent catastrophe.

But he suspects precious metals will return to mean. And gold will act as an inflation hedge.

If you want to own gold, buy investment grade gold stocks, and if you’re really willing to speculate, buy junior minors.   
  
The probability is in the favor for precious metals due to the current market dynamics.

Next, Rick touches on industrial materials…

On a global basis we have lifted 2 billion people out of poverty since 1980.

8 billion people on earth are getting rapidly more wealth. But whe the poor get spending power, the stuff they want to buy is very commodity intensive.

The wealthy have too much stuff. So they want experiences, or even to downsize.  
  
But when the global poor get money, they buy things like food, shoes, etc. It’s material “stuff.”

That means big demand for all matter of commodities.

Something related is the electrification of everything. A billion people on earth have no access to electricity. That will end in 20 to 30 years. But this takes supply lines and changes of purchasing patterns. That means the use of natural resources is going to change. Demand will grow…

Rick says there’s a risk of a near-term recession. And if demand falls in recession, expect prices to fall. But the long-term demand is very high. And it’s due to the supply side.

Since the 1980s we haven’t invested enough in sustaining natural resources like oil and agricultural needs. We’ve been living off the fat for 40 years.

But things like coal mines and oil derricks are old and past their prime. In the copper industry, there are century-plus old mines. And these are finite resources… but we haven’t invested in finding more.

The sins of the last four decades will come to haunt us even if demand for natural resources stay flat.

America’s biggest copper mine looks to have about five years left before depletion. We need to invest to find a new mine of this size… But we’re not going to. This points to a copper shortage in the next decade.

And copper is just one example. This dynamic is across the whole range of natural resources.

Many politicians think the end of oil will be 2032. But Rick thinks not…   
  
At its peak, the market share of fossil fuels in the world’s total energy mix was 82%.

But in the last 40 years Alternative energies have sopped up $5 trillion dollars of investment. But fossil fuel market share was only reduced by 1%.

We seem to be headed in the direction of Germany. We are not investing in sustaining capital for the oil and gas business. And that reduces our ability to be productive.   
  
It’s like Mexico and Venezuala, too. Both countries have great reserves but don’t invest in extraction, and so can’t get at it. And it’s happening in Russia too… they are seriously under investing in sustaining their natural resources.

President Biden may be the best friendan oil investor has… because his green energy transition is setting up a big supply squeeze in the future.

As oil investment falls, it guarantees that oil prices will be higher for longer.   
  
Rick also thinks taxes and fees on oil will only increase.

Inflation doesn’t help either. Natural resources are capital intensive. And the cost of capital rising makes it more expensive to get them out of the ground.

Added together, we’re looking at a real supply shortage going forwards….  
  
So in summary, precious metals look poised to return to mean, quadrupling their market cap. And materials will only get more expensive.