

Dear Shareholders,

Most of you have been long term shareholders in the fund and are therefore “battle-hardened” by the wild gyrations in sentiment that afflicts the gold share markets. After all, we all retain exposure to the gold market because we are concerned that the fiat currencies will not survive the mountainous debts that have been built in recent years and fear that the paper currencies will go the way of the Zimbabwe dollar. So, this quarter, as we watch the Yen, the Euro and Sterling all follow the Turkish Lira as it circles the drain, we might have expected that gold would have started to play its role as the ultimate safe-haven for those with savings.

Turkish Lira/US\$-daily July 2021-July 2022



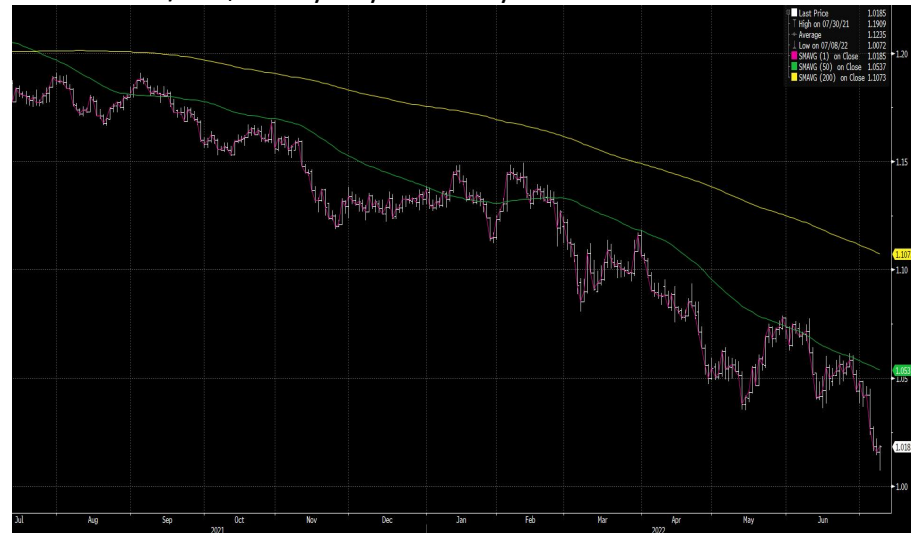
Yen /US\$ -daily July 2021-July 2022



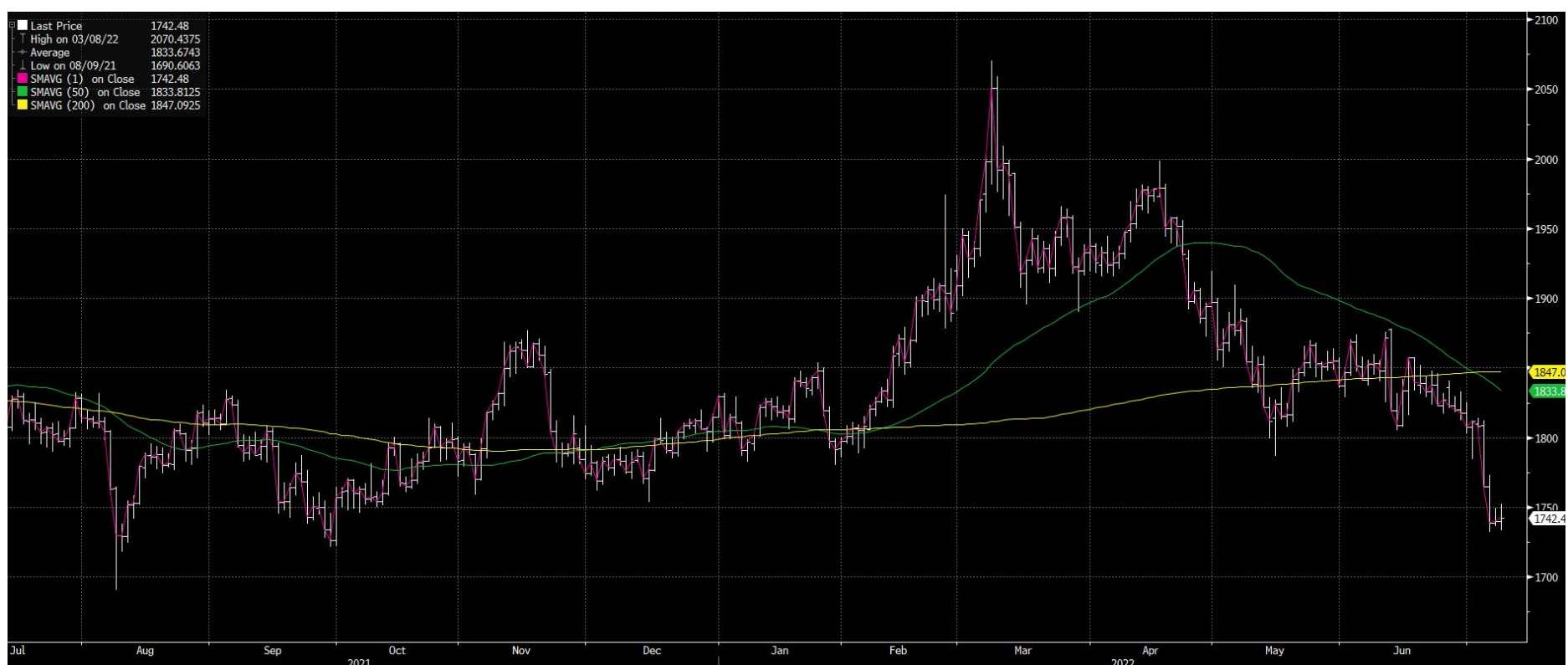
GB Pound/US\$- daily July 2021-July 2022



Euro/ US\$ - daily July 2021-July 2022

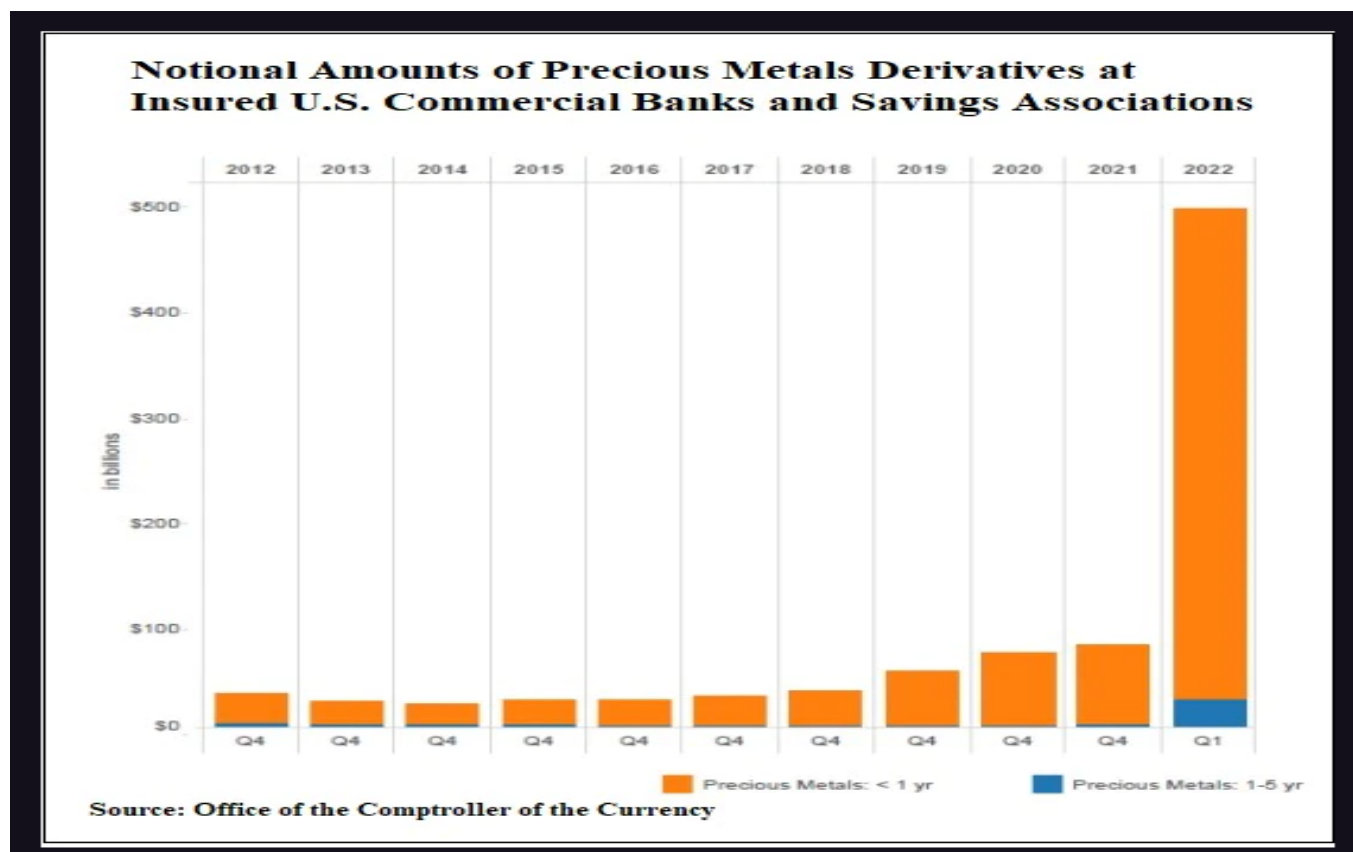


While gold did anticipate the present geo-political and financial tensions that we are now seeing, it is now down against the US Dollar since the start of the year. As we quietly slide into World War III, and sanctions cause energy and grain prices to explode, the gold price tells us there is nothing that should concern us.



As you can see, there have been some days when the gold price has been aggressively sold down and this tends to happen as the European markets are closing and the US markets have just opened. The us markets, essentially COMEX, are futures markets and delivery of gold rarely takes place. This is also the case in the London market where the vast majority of the trade in gold is derivative trading (Loco-London) with very little delivery of metal ever taking place. With the ban on trading in bars from Russian refiners, (Russia is one of the largest producers of gold), this will serve to further drive physical gold trading from London.

There was a recent report from the Office of the Comptroller of the Currency in the US where he is reporting the derivatives positions of the US banks which now (following the change of the BIS rules at the end of 2021) must specify their derivative positions arising from precious metals at the end of each quarter. Previously they avoided specifying by aggregating under FX transactions.



So, the US banks, primarily JP Morgan aided by Citibank and Goldman Sachs have half a trillion dollars of derivative positions based on precious metals. It was Peter Hambro, previously deputy head of the bullion dealers, Mocatta & Goldsmid, and subsequently founder of Peter Hambro Mining, a company listed in London mining gold in Russia, when writing for the UK political on-line magazine, Reaction, who drew our attention to the above revelation. You can read his article here: <https://reaction.life/dont-forget-the-golden-rule-whoever-has-the-gold-makes-the-rules/>. There has long been a Central Bank conspiracy to contain the price of gold against the Dollar but as the BRICS countries refine their plans to replace the Dollar in their trade settlements with a currency related to real assets, one wonders for how long the paper gold tail can continue to wag the physical gold dog!

The Federal Reserve is now sailing between Scilla and Charybdis, either it continues to restrict its purchases of debt and increases interest rates bringing on a severe recession, or it relaxes its grip and keeps the economy afloat with renewed monetary easing. With the US Government as the greatest debtor there is no question as to the direction of political pressure! Given the extreme moves in the major currencies against the dollar this year it is difficult to believe that there are not major losses in the financial markets. Germany is now running a trade deficit for the first time in over 30 years and so there must be a real shortage of dollars in the European banks. One way for European Banks to access dollars is to borrow gold from their friendly Central Bank and sell it for dollars. We saw a similar situation in 2008(see chart below) at the time of the Lehman crisis when the gold price suddenly slipped more than 30% against the dollar from \$1,025 /Oz to less than \$700 but then began a long steady progression from \$700 to \$1925 over the next three years as the Federal Reserve bailed out the losses.

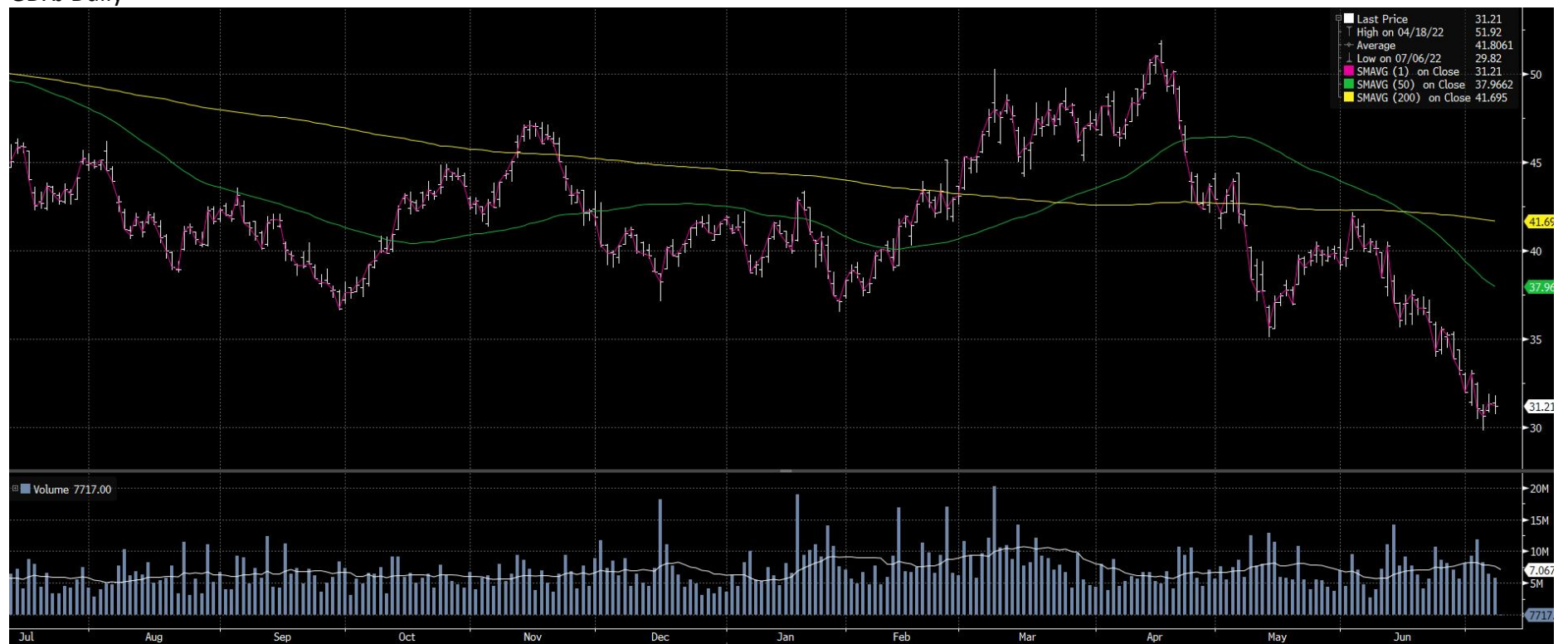
Gold vs US\$ Monthly 2002-2022



I have mentioned it before, but I will point out again that the above pattern is considered by technical analysts as an extremely positive one. This “cup and handle” should lead to a very strong rally as soon as the handle is complete. However, “the cup” took nine years to form so we should not be too surprised if this “handle” takes a little longer to complete.

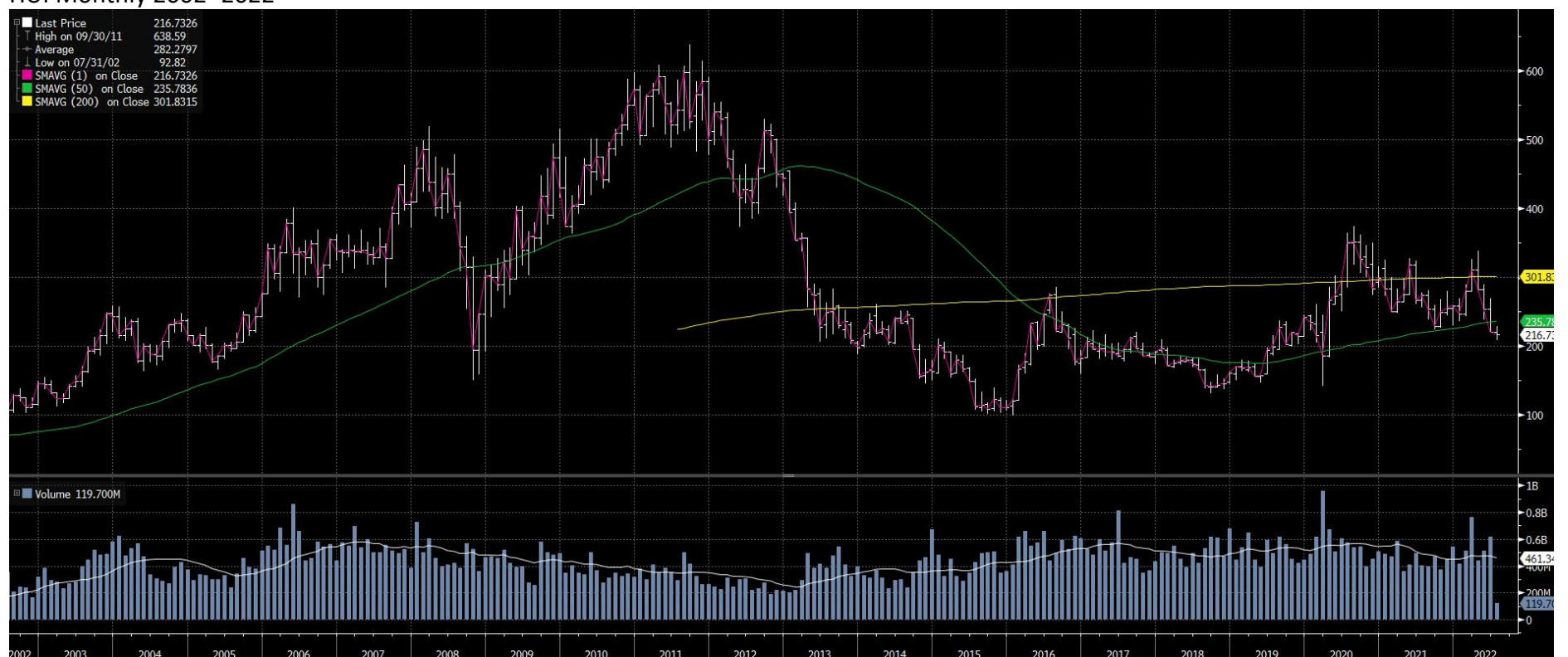
Although the gold price has retreated 15% from its recent highs, this retreat, perhaps because it was so unexpected, has caused panic amongst gold stock investors. Gold mining is still profitable at \$1700/ Oz , despite the impact of rising costs, but this quarter investors have been selling across the board, with even the royalty companies, whose margins are not affected by cost increases, succumbing to the sell-off. Inevitably, the junior miners and the explorers have been hardest hit. The ETF of the junior miners, the GDXJ, shows the full horror of the recent slide. From \$55 to \$30 in one quarter!

GDXJ Daily



The following chart of the wild gyrations of the gold stocks over the lifetime of the Phoenix Gold Fund shows that even this steep fall is not unique.

HUI Monthly 2002 -2022



As a result of the sudden slide in gold equities it was a horrible quarter for the Phoenix Gold Fund yet again. Phoenix lost 35.8% from the end of March to end June, in line with the 35% decline in the HUI Index. Given that many of the free warrants that we hold became worthless, this is a little surprising because there were virtually no stocks that showed gains during the quarter and a few that decidedly crashed. Despite this carnage, I remain very confident that the US Dollar will follow the Yen, The Euro, and Sterling in the race to the bottom and the only way of measuring the depreciation of the dollar is gold. I was delighted to read last week that Bob Hoye of Institutional Advisors, a student of financial markets who has been at it longer even than I have, has also turned bullish on gold and gold stocks suggesting that he expects a rally to begin any time, to rally strongly for 4 to 6 weeks before retesting its lows and commencing a prolonged period of strongly rising gold stocks while the great financial bubble created over the last decade continues to deflate. Anyone interested in reading Bob Hoye's readings of the gold and gold share markets can access his comments at <http://www.321gold.com/editorials/hoye/hoye070422.pdf> and his technical analyst's reading at <http://www.321gold.com/editorials/hoye/hoye071222.pdf>

I myself jumped the gun somewhat and subscribed more money to our fund at the end of May, only to find June the worst month of all, down 19%! A bad start but I would urge all of you with spare funds to invest to consider buying the outstanding values that are now offered by the gold stocks.

Yours sincerely
David Crichton Watt

