

# Myrmikan Research

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## Gold Measures the Real Value of other Assets

In 2024, it was the bubble trades that did the best: the S&P 500 was up 25% despite rising bond yields; the magnificent seven tech stocks (the top third of the S&P 500) rose by an average of 69%; bitcoin was up 164%, and Michael Saylor's levered bitcoin play, MicroStrategy Incorporated (MSTR), soared 358%. For the more adventurous, the crypto-coin Fartcoin was up 2,031% (to reach an \$840 million valuation), amongst others that had even greater returns.

The hard money trades were soft: gold rose by a comparatively modest 25%, silver less, only 21%; the HUI Goldbugs Mining Index was worse, at 13.3%. Gold investments do not do well in bubbles.

What a difference a year makes. Fartcoin was down 75% in 2025; Bitcoin was down 7%, sending MSTR down 48%. The senior bubbles did better, with the magnificent seven up an average 22%, only slightly better than the S&P 500's 17% return.

Gold, meanwhile, jumped by 65% in 2025, the HUI by 155%. From October 2023, or just over two years, gold has increased in nominal price by 137% (from \$1,819/oz). For those who understand that gold is pure market money, the better perspective is that the dollar has lost 58% of its value. This means that financial instruments priced in dollars have also lost 58% of their value.

The S&P 500, for example, has increased by 59% in nominal terms since October 2023, but it is down 33% in gold terms. Myrmikan published the chart below in June—since then, the S&P500 has cleared the COVID low to the downside.



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Absent massive credit stimulus, what is to stop the S&P 500-to-gold ratio from reaching the 2008 low? Such a move would require gold to trade at \$8,300 per ounce (assuming the S&P 500's current price). To reach the 1979 low would require gold to trade at \$40,000 per ounce. That is not a price prediction—it's just math.

And would monetary intervention even help this time? Vladimir Putin pointed out, correctly:

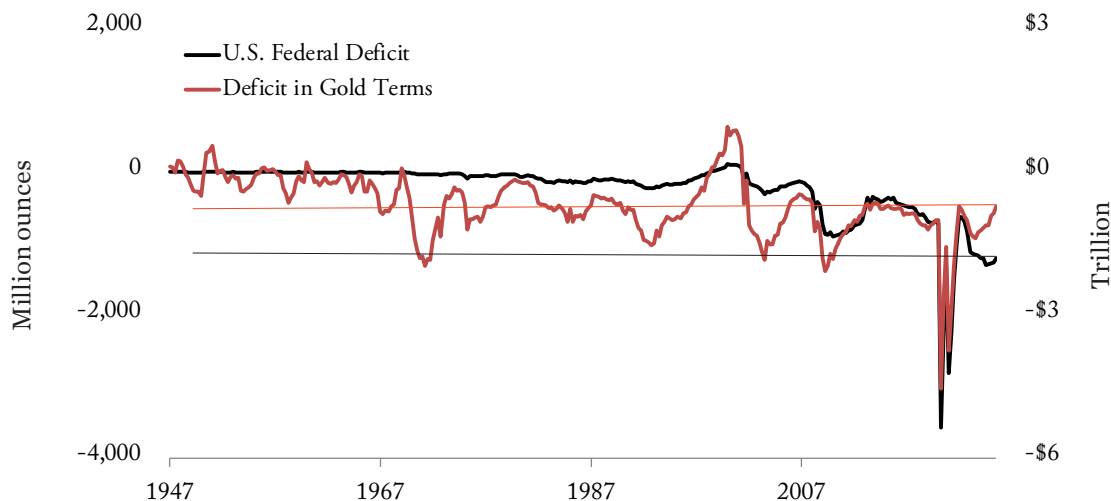
The dollar is the cornerstone of the United States' power. I think everyone understands very well that, no matter how many dollars are printed, they are quickly dispersed all over the world. Inflation in the United States is minimal. It is about 3 or 3.4 per cent, which is, I think, totally acceptable for the U.S. But they won't stop printing. What does the debt of US\$33 trillion tell us about? It is about the issuance.

Nevertheless, it is the main weapon used by the United States to maintain its power across the world. As soon as the political leadership decided to use the U.S. dollar as a political instrument, a blow was dealt to this American power. I don't want to use any unliterary expressions, but this is stupidity and a huge mistake.

The Fed began the current easing cycle on September 17, 2024. Since then, the federal funds effective rate has decreased by 1.69%, from 5.33% to 3.64%. During this same time period, the 10-year Treasury yield has increased by 0.51%, from 3.63% to 4.14%. Long rates are not supposed to rise when the Fed is cutting short rates. Perhaps the market is concerned about the Fed's recent announcement that it will start printing \$40 billion per month and, even more so, that other countries will not absorb that monetary flow.

The U.S. Treasury bond complex has ruled the world since the 1960s. As Putin understands, the U.S. can print money and export the resulting inflation because other countries hoard Treasuries as reserves. If this mechanism breaks, and it appears to be teetering, then the full weight of debasement will hit the U.S.

The market is already tearing up Congress's credit card. The chart below shows that the market allowed increasingly large deficits in gold terms until 2022 and Biden's weaponization of the dollar. Whereas the nominal deficit remains at crisis levels, the gold-denominated deficit has returned to the post-1967 normal range (though we doubt the market will continue to allow even those levels, which means that the nominal deficit must be cut (unlikely) or gold must continue to rise).



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Let us pause here to examine our claim that prices are better considered in terms of gold than in dollars. Previous letters explain why gold makes such good money, and it is easy to accept the proposition that the gold price has cut the S&P 500 by a third—financial figures are abstract by their nature, and, as the chart above shows, viewing the S&P 500 in terms of gold makes it make sense: we see the huge bubbles and crashes right where we expect and also see that these crashes are not merely bumps in the road to financial Nirvana (as your broker will tell you) but the terminations of credit bubbles that return prices to historical levels. Note that viewing the stock market through the lens of Bitcoin or Apple stock would not make that chart make more sense, but would instead make it absurd, which demonstrates that these instruments have low monetary attributes.

Similarly, gold makes the chart of the U.S. federal deficit make more sense. In what world would the market advance a profligate spender with declining economic power exponentially more capital? The gold view shows that the market is, in fact, reducing the amount of capital it will allow the federal government to borrow.

Commodity prices also make more sense when viewed in gold terms: Since Nixon severed the dollar's official link to gold, the rolling twelve-month volatility of oil prices in terms of dollars has been 60%. Pricing oil in terms of copper over this period reduces 12-month price volatility of oil to 48%. Pricing oil in gold reduces volatility further to only 41%. Those who value oil in terms of gold—be they prospectors, developers, investors, consumers, and so on—will over time be surprised in the market to a lesser extent than those who value oil in terms of copper or dollars or bitcoin or anything else, giving them an advantage

But what about cars? or soap? or steak? David Collum writes in his entertaining and interesting year-in-review:

Now let's look at gold in the short term, which will likely piss off the most libertarian gold bugs. The new leg in the rising price of gold has everybody denominating the price of other assets in gold. The rallying cry is that "gold is money, it is the dollar that changes!" That is simply not true in the short term. Everything I buy is denominated in dollars, not gold. Gold has doubled in 15 months benchmarked to the US dollar; is that all dollar depreciation? Not a chance. The prices of goods and services in the short term much more tightly track the dollar than gold, at least for the time being. If the price of gold collapses 50% next year—a decidedly deflationary event for the dollar benchmarked to gold—will the cost of my dollar-denominated groceries drop by half? If you wish to make a case for buying or selling gold, have a ball. But in case you hadn't noticed, gold is far too volatile to use as a benchmark to measure the value of other assets. It's a cute parlor trick, but the intrinsic volatility of gold makes it a chart crime when used as a benchmark for goods and assets.

We've already shown that gold is not volatile at all when used to measure assets: pricing assets and commodities in terms of gold *reduces* volatility, which is practical confirmation of Carl Menger's theoretical deduction that gold should behave as the best money. We'll admit, of course, that it makes less sense to look at retail prices through the gold lens: the value of bread is not jumping up and down by large percentages each week; the value of bread did not get cut in half over the past eighteen months.

But this observation in no way detracts from the thesis that gold is the best money and that market participants who use gold as a unit of account will have an advantage

over those that do not. What Professor Collum senses but does not directly identify are the effects of long supply chains.

All consumer goods begin as raw commodities that are formed into semi-finished goods of ever greater value as they pass through intermediate producers on their way to the consumer. The more advanced an economy, the longer the supply chains. Each link in a supply chain has ongoing, repeating transactions with its suppliers and customers that are generally covered by contracts of varying lengths denominated in dollar terms, which inhibits the effects of monetary shocks through the system: manufacturers of intermediate goods never know for sure whether price increases of their inputs reflect temporary supply disruptions—that they can and should absorb through managing existing inventory—or permanent monetary debasement that requires them to raise prices, and companies are always reluctant to raise prices, which jeopardizes sales volumes until the new economic situation becomes clear.

The *Wall Street Journal* provided a case study in a recent article titled: “Why a \$500 Steak Dinner Only Yields a \$25 Profit.” For a \$500 dinner bill for four at Chicago’s Kindling, the food and alcohol costs \$190, the labor \$175, \$110 is spent on rent, insurance, and other fixed costs, leaving \$25 profit. The most volatile of these is the food: “Kindling’s steak costs are up about 40% this year alone.” The rent is presumably fixed over some time period, and the labor presumably lives in housing that also has a fixed cost measured in years, not hours. Even the steak price will lag monetary conditions: cattle is raised on ranches, the construction capital for which has already been expended in a previous price regime, and even the variable costs, such as the feed, is supplied through fixed-cost contracts over varying lengths. The feed also is grown and harvested by fixed capital previously expended. Whereas gold responds immediately to changing monetary conditions, it can take months or years for these changes to work their way fully through supply chains.

This is why gold appears volatile in terms of retail prices—gold is the first to move and retail prices are the last. This monetary artifact was, in fact, first noted with wonderment by European visitors to America during the Greenback period of the 1860s, when supply chains were much shorter. It is also worth noting that as inflation accelerates, intermediate producers do start changing prices more rapidly: mining executives tell us (as do local builders) that since COVID, pricing indications by suppliers are subject to ever shorter terms. In countries with very high rates of inflation, dynamic pricing even reaches the end consumer, at grocery stores, for example. CNBC reports that this feature is now entering U.S. stores: “Electronic shelf labels, digital screens that display the price of an item, are replacing traditional paper price tags in grocery stores across America.... Walmart, the largest U.S. retailer, has said it plans to roll out electronic shelf labels to 2,300 stores by 2026. The company said the technology allows employees to update shelf prices using a mobile app, reducing a price change that typically takes an associate two days to a matter of minutes.”<sup>1</sup> Computers will be able to update prices in seconds. Everything will be subject to Uber-style “surge pricing,” except that prices will never go back quite to where they were.

Given that gold always moves first and other prices follow, we do expect commodity prices and later retail prices to converge toward gold. It is not obvious how to profit from that insight. Unlike with gold, one can hoard only so much soap and frozen steak. Cars are wasting assets. It is not cheap or convenient to take possession of and store large amounts of copper or tin. Buying futures in such commodities introduces finance costs and counterparty risk. Nor is buying industrial commodity producers an

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1 <https://www.cnbc.com/2025/10/03/electronic-shelf-labels-are-taking-over-us-grocery-stores.html>

obvious move since such operations also use industrial commodities as inputs, which complicates the effects that higher prices have on margins, making returns uneven.

More importantly, while we are confident that industrial commodity and retail prices will follow gold's lead higher, we are skeptical that such increases will be to the same magnitude. In previous cycles, Fed printing catalyzed commodities to increase more than gold by reducing long-term rates to usher in an economic boom (which also pressured gold mining margins). This is, no doubt, why large investors remain reluctant to buy gold mining shares—the history is too clear: they already missed the surge, and now costs will creep higher and end the boom.

The increase in the 10-year yield in the face of a decreasing fed funds rate suggests otherwise, that the Fed is neutered, that there will be no credit bubble this time, only debasement. Commodities will rise, but gold will go up faster, just as in the 1970s: from mid-1971 to early 1980, the gold price increased by 25 times whereas the copper price increased by only 2.4 times, lead by 4.3 times, tin by 4.8 times, nickel by 2.2 times, and zinc by 2.4 times (only oil kept pace, increasing 22 times). These were big increases: tripling a price over ten years yields an annual inflation rate of 12%. But the effects of debasement were nevertheless muted by demand destruction.

To illustrate: beef is a commodity, and viewed in the abstract a ranch may appear to be a safe haven from the ravishes of inflation: they can't print more cattle. Initially, customers like Kindling will suffer some margin compression to keep their customers and perhaps hope for price relief (not knowing if the higher prices reflect a temporary supply shock or debasement), allowing the rancher to increase his prices to cover the rising costs of his own inputs. But with only 5% gross margins on each meal, Kindling can suffer food and alcohol price increases of only 13% (after the 40% last year) before there is no margin left. The restaurant has to raise prices. That's fine if the Fed's printing has engendered a new bubble, and Kindling's customers can pay the higher prices. But if general price increases are the effects of debasement, the prices simply masking the country getting poorer, then Kindling can't survive: the higher prices end up lowering sales volume to an extent that the fixed capital expense allocated across a declining number of meals makes the restaurant lose money on each meal. The restaurant closes; the rancher loses a customer. The rancher suffers the same fate: he must raise prices to cover rising input costs but finds that increasing prices loses customers. These same dynamics apply to copper and steel and lumber and tin.

This is why industrial commodities did not keep up with gold in the 1970s, preserving gold mining margins. We think similar dynamics are at play again, with two major outliers: oil and silver.

Oil is a major input in every industrial activity. In the 1970s, the U.S. had become dependent on oil imports from the Middle East, which produced nearly 60% of global crude oil in the early 1970s. Political instability in the region sent the oil price rocketing higher, which is why oil's price increase was able to match that of gold.

Today, OPEC produces less than a third of global crude oil. Two of the three major geopolitical poles, Russia and the U.S., have their own supply. Only China is vulnerable to supply shocks, from which it is already suffering from the overthrow of Maduro and potential instability in Iran.

The Trump administration is encouraging oil development in all but hostile countries in an effort to lower the price and bankrupt Russia. The administration is also fast-tracking the redevelopment of nuclear energy (as are other countries), which, combined with the partial electrification of transportation, will pressure oil prices in the future. Oil producers that believe in this threat are incentivized to pump

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more now, before these potential infrastructure investments become a reality and structurally shift the demand for oil lower, lowering the current price even further.

China is spearheading these developments, given its dependence on imported oil: the country already has 59 operating nuclear plants and has another 37 under construction. China is also deploying massive solar arrays in its deserts for national security reasons, and solar panels consume enormous amounts of silver.

Given the Trump administration's increasingly aggressive foreign policy dedicated towards capturing resources for aligned countries, global manufacturers are losing trust in contracts for future delivery and are aggressively stockpiling resources. Silver is particularly affected since for most industrial uses silver forms but a small component, yet it is not easily substituted, making demand inelastic. Silver supply is also inelastic as most mine supply is produced as a by-product to other metals—such as lead, zinc, copper, and gold—and a rising silver price does not prompt a zinc mine to expand its operations (especially since many of these mines have already sold their silver revenue to royalty companies). There are no good estimates as to how many tea sets remain available to be melted, but the limited number of smelters constrains this supply as well.

Myrmikan's core investment thesis is that as a matter of economic law, commodities increase against gold in a credit boom, pressuring gold mining margins, and fall against gold in a credit bust, expanding gold mining margins. Rising interest rates and the waning of the dollar as the international reserve currency are credit negative and, therefore, gold mining positive. The accidental oil/silver story adds to the thesis: A glut of oil in the West (at the expense of the East) and accelerating efforts to substitute away from oil will keep mining costs contained even as gold moves higher. This is not to say that oil and other commodity prices will not rally in nominal terms—we think they will—only that gold will continue to outpace them.

Gold stocks soared in 2025. As discussed in other letters, returns that large usually come at the beginning of a bull market, as prices lurch up from the abyss, and at the end, when greed matures into a mania. We think it's clear that the former condition applies. The Fed has lost its leverage. Credit will continue to decay. The deficit will not be reduced in nominal terms. The dollar cannot recover its former glory. Gold will trade higher, though with increasing volatility. Gold miners will not see significant margin compression. We think 2025 was the start of a multi-year bull market.



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