“Gold Is Money and Nothing Else”

The ongoing role of gold in the financial system and prudent money management

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The above quote is what J P Morgan himself said when asked about the role of gold in the financial system.
“In any discussion of the price of gold, the first thing that must be realized is that gold is a POLITICAL metal, meaning its price is ‘governed’.

This is so for the very simple reason that Gold in its historical role as a currency is fundamentally incompatible with the modern worldwide financial system.”

- William A. M. Buckler
Publisher of The Privateer
www.the-privateer.com
Please note:

- This presentation is **not** about:
  - the *price* of gold

- Nor is it about:
  - gold as an *investment*

- It’s about the ROLE of gold…
  - as *money* (store of value)
  - as *measure* (in our madness)
Gold’s essential role

We need to remember or relearn this

1. Gold is (and always has been) Money
   a. It’s what makes fiat money sound
   b. Fiat money alone has no integrity

2. Gold as a reliable Measure of value
   a. Its characteristics make it ideal
   b. $s should be redeemable for gold

Armed with this knowledge…

You can protect wealth from fiat abuse!
Agenda

- Prudence…
  - and false beliefs
- Money…
  - and role of gold
- Debt…
  - and delusion!
- This crisis is… a *monetary* crisis
  - why we need a new monetary regime
  - what to do in the meantime to protect wealth
About prudence

“A prudent man foresees the difficulties ahead and prepares for them; the simpleton goes blindly on and suffers the consequences.”

- Proverbs 22:3
The paradox of prudence

- Prudence defined by man-made laws and court cases IS NOT the same as the virtue itself
- Prudence in investments seems to be judged by how one mitigates risk relative to one’s peers
  - So prudence here implies a reluctance to take certain risks
  - But this would be prudent only if they are unnecessary risks
  - When this is unreasonably extended or applied based on false beliefs, then it’s not prudence but ignorance operating
  - Our industry is riddled with such false beliefs…
False beliefs

- Government guarantees are as good as gold
- Central bankers can and will do miracles
- Governments can’t default on their debt
- Inflation is dead or Deflation is dead
- ‘We’ are in better shape than…
- ‘Our’ (fiat) money is sound
- The worst is over (!)
Forgotten aspects of prudence

- Mitigating risk is not the only aspect of prudence
- The other integral aspects of the virtue for it to manifest (according to Scholastic philosophy) are:
  - Memoria (accurate memory)
  - Intelligentia (understanding of first principles)
  - **Docilitas – the most forgotten one**
  - Solertia (sizing up a situation quickly)
  - Ratio (discursive reasoning)
  - Providentia (foresight)
  - Circumspection (taking all circumstances into account)
Docilitas – let’s remind ourselves

“The kind of open-mindedness which recognizes the true variety of things and situations to be experienced and does not cage itself in any resumption of deceptive knowledge; the ability to make use of the experience and authority of others to make prudent decisions”
The role of gold

“In effect, there is nothing inherently wrong with fiat money, provided we get perfect authority and godlike intelligence for kings.”

- Aristotle
(384 BC - 322 BC)
What is money?

Money is anything that is generally accepted as payment for goods and services and repayment of debts.

The main uses of money are:
1. as a medium of exchange;
2. as a unit of account; and
3. as a store of value
Is this ‘good’ (sound) money?
Money Supply

**M3** = M2 + CD’s > 100,000 + Money Market Accounts for Institutions + Short Term Repo Agreements + EuroDollars

Eurodollar deposits are dollar-denominated deposits held at foreign offices of banks worldwide. The definition of Eurodollar broadened significantly from its inception. It is the best non-conspiratorial reason why the Fed stopped being difficult as more banks engaged in holding US dollar assets.

**M2** = M1 + Savings Deposits + CD’s < 100,000 + Money Market Accounts for Individuals

**MZM = M2 without the Certificates of Deposits but with ALL Money Market Funds including Institutional and Brokerage**

**M0 or Monetary Base**
Currency and Coins in Circulation and in Federal Reserve Banks

Note: The Monetary Base is the sum of currency in circulation outside Federal Reserve Banks and the U.S. Treasury and deposits of depository financial institutions at Federal Reserve Banks. The Adjusted Monetary Base equals the Monetary Base and the reserve adjustment magnitude (RAM). AMB is an index that measures the effects on a central bank’s balance sheet of its open market operations, discount window lending, sterilized foreign exchange market intervention, and changes in statutory reserve requirements. Such an index is important because the long-run path of a monetary economy’s price level is primarily determined by the path of the central bank’s balance sheet, adjusted for the effects of changes in statutory reserve requirements.
There’s more and more of it…
No matter how you measure it…
“If the American people ever allow private banks to control the issuance of their currencies, first by inflation then by deflation, the banks and corporations that will grow up around them will deprive the people of all their prosperity until their children will wake up homeless on the continent their fathers conquered.”

- Thomas Jefferson  
(1743 - 1826)  
One of America’s Founding Fathers;  
3rd President of its United States (1801-09)
Well, guess what?

It’s already happened!

I call it the ‘Monetary Tragedy of the 20\textsuperscript{th} Century’

- 1910: the Fed is surreptitiously created
- 1913: the Federal Reserve Act is passed
- 1933: gold possession became illegal in US
- 1971: \textbf{END of gold exchange standard} set in 1944 in Bretton Woods (President Nixon unilaterally declares US dollars owned by foreign states are no longer redeemable in gold, as was intended by the BW system)
“Up until August 15, 1971, there has never in history been an era when no paper currency was linked to Gold. In all other eras of history, people could always escape to other currencies, whose Gold backing remained intact. But, since 1971, there is NO escape because NO paper currency has any link to Gold.”

“The global paper currency system is very young. It depends for its continued functioning on the BELIEF that the debt upon which it is based will, someday, be repaid.”

- William A. M. Buckler
Publisher of The Privateer
www.the-privateer.com
Fiat money has no intrinsic value

- What’s ‘fiat’ money?
  - money declared by a government to be legal tender (i.e. bank notes or paper money)

- What’s ‘legal tender’?
  - an offered payment that, by law, cannot be refused in settlement of a debt

- Example of fiat money?
  - Federal Reserve Note (also known as US dollar or $)
Can you spot the differences?

Before 1913, bills were labelled along the lines of “Silver Certificate - This certifies that there has been deposited in the Treasury of the United States of America One Silver Dollar payable to the bearer upon demand”.

After the institution of the Federal Reserve, currency was moved to unbacked notes that bore the phrase “Federal Reserve Note - This Note is Legal Tender for all debts, public and private” that relied simply upon the Federal Reserve saying they had value.
No longer states that this is a certificate (silver or gold)
It’s now merely a note (i.e. debt) issued by the central bank

Here that legal tender privilege

Used to be backed by something tangible, like gold/silver (i.e. used to mean something)
Now, it’s backed by nothing and no longer redeemable in anything but another one like it!
Irredeemable currencies

Without the ability to redeem fiat money (i.e. any paper currency) at fixed weights in gold, paper money as a result is only as good as:

- the ability of the issuing state to pay its debts
- the belief that holders of that money (or any financial asset denominated in that currency) have in its value being preserved by the state

⇒ It’s all a confidence game! (with central bankers as croupiers)
The confidence game can only last as long as all players are happy to play...
“We can forgive a child who is afraid of the dark; the real tragedy of life is when men are afraid of the light.”

- Plato
(c. 428 BC - c. 348 BC)
Classical Greek philosopher and mathematician; his mentor was Socrates and Aristotle his student.
Is gold really a barbarous relic?

- No, but some have famously suggested so:

  "In truth, the gold **standard** is already a barbarous relic."

- John Maynard Keynes
  (1883 – 1946)
  British economist whose ideas had a major impact on modern economic and political theory.
  He was a key figure behind the 20th Century global monetary system post WWII (i.e. Bretton Woods).
  Above quote from his Monetary Reform, 1924, p172
“Gold still represents the ultimate form of payment in the world. Fiat money, in extremis, is accepted by nobody. Gold is always accepted.”

- Alan Greenspan
In a speech to the US Senate Banking Committee in May 1999
Fiat money is dying

- I know… your mind is repelled by this assertion!
- BUT IT’S THE TRUTH (which can set you free)
- That’s why you need to **rethink** your **ASSET MIX**
- This is the 1\textsuperscript{st} time in history that NONE of the world’s currencies is redeemable in gold (or silver)
- Cause & effect in economics can be separated by decades, as was clearly the case with this crisis
Far from a barbarous relic...

- Gold is one of the world’s most misunderstood assets
  - Powerful ‘governors’ of its price (esp. since 1971)
  - Despite this, gold remains valued around the world
  - Why? Because it’s real and used as ‘stateless’ money

- “Gold is money and nothing else” *J P Morgan, 1913*
  - It cannot be debased by creating it ‘out of thin air’ by government fiat – like all currencies today

- Gold is nobody’s liability (unlike other financial assets)
Gold is special and unique

- The **only** commodity produced for **accumulation**
- The entire aboveground gold stock is about 160,000 tonnes (8,000 cubic meters)
- Gold’s supply is its **aboveground** stock
  - This is crucial to understand the true role of gold
  - Amount of gold mined each year only increases aboveground stock year after year by about 1-2% p.a.
  - A gram of gold mined today is no different from a gram of gold mined by the Romans two-thousand years ago
Debt & Delusion

“The development and behaviour of bond markets lie at the heart of the thesis about debt and delusion.”

“Who really owns the bonds?”
“What exactly do we own?”

- Peter Warburton
Author of Debt & Delusion - Central Bank Follies that Threaten Disaster, WorldMetaView Press, 1999, pp142-149
The expectations game

- There is an expectation that our leaders will know what to do when the time comes
- Our leaders encourage us to have this belief
- We end up expecting the impossible from them
- Yet our leaders continue to encourage this
- We find ourselves no longer able to see our own folly/insanity/false beliefs/delusion
THE EXPECTATIONS GAME

What's this?

A loaf of bread and a fish... do something.
Is it working well?

- IOW are our leaders godlike?
- We seem to want to think so
- We are being told it is so
  - ‘green shoots’…
  - ‘recession is over’
- We live in HOPE it is true
- **But let’s look at some facts…**
- Are we being deceived?
- Can we handle the truth?
- Do we choose to live in denial?
- Have we lost our minds?
- Have we broken from reality?
- Are we psychotic??
US debt (i.e. US$) is the key

- Since 1961 the US national debt has never gone down
- It took the US government 191 years – from 1791 until 1982 – to run up its first US$1 trillion in debt
- By the time George W. Bush was inaugurated the US national debt stood at US$5.7 trillion
- The national debt stood at US$10.6 trillion on the day Barack Obama took office as President
- Since then Barack Obama has already added nearly US$2 trillion in debt (it now stands at US$12.3 trillion!)
- The US Congressional Limit (92nd revision) is a JOKE!
Make that $39,854 now… and growing!
The Fed is also out of control
Fiat abuse → gold price incr.
The bigger picture of US debt

**U.S. Debt Grew Steadily But Stopped Abruptly in 2009**

- **Federal Government**
- **Foreign**
- **Domestic Financial Sectors**
- **State and Local Governments**
- **Business Total**
- **Households Consumer Credit**
- **Households Home Mortgage**

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*Source: Federal Reserve Z1, D3*

- Federal debt grew
- All other debt declined for the first time

Q3 09

$ Bilions

- $0
- $10,000
- $20,000
- $30,000
- $40,000
- $50,000
- $60,000

$ Billions

- 1976
- 1981
- 1986
- 1991
- 1996
- 2001
- 2006
About this crisis...

“We cannot solve our problems with the same thinking we used when we created them.”

-Albert Einstein
(1879 – 1955)
A man who should know…
"WHO COULD HAVE FORESEEN THAT MIXING GASOLINE AND MATCHES WOULD RESULT IN FIRE?"
The true nature of this crisis

- It’s not a credit crisis
- It’s not a housing crisis
- It’s not a banking crisis
- It’s not a financial crisis

The above are all symptoms/manifestations of...

- The Great Global Monetary Crisis
The true nature of the problem

- You can’t solve a problem with more of the same
  - the problem can’t also be the solution!
- The true cause is the fiat money system itself
  - it’s a financial bubble machine!
- The problem is that there is NO MEASURE
- Money should once again be redeemable for a fixed unit of weight of gold
  - after all, that’s how it used to be (but we forgot!)
Greenspan (him again…)  

"Under the gold standard, a free banking system stands as the protector of an economy's stability and balanced growth… The abandonment of the gold standard made it possible for the welfare statists to use the banking system as a means to an unlimited expansion of credit… In the absence of the gold standard, there is no way to protect savings from confiscation through inflation."

About the gold standard

The gold standard is a monetary system in which a region's common media of exchange are paper notes that are normally freely convertible into pre-set, fixed quantities of gold.

The gold standard is not currently used by any government, having been replaced completely by fiat currency, and private currencies backed by gold are rare.

This has never happened before in human history...

There is currently no measure for our money’s worth!!!
Money is dying!

- Monetary reform
- Asset protection
That was only a decade?... seemed much, much longer.
We need Bretton Woods ‘III’

- What do I mean ‘III’?
- BW ‘I’ died in 1971 (with Nixon’s default)
- BW ‘II’ has been in place ever since (38yrs)
- What’s BW ‘II’?
  - The Great Delusion of Money as Debt!
- What will BW ‘III’ look like?
  - That depends on who wins the gold war…
All fiat currencies are going down

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<td>22.80%</td>
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$1000 Invested
Since Jan. 2000

- USD: $3,800.51
- AUD: $2,762.55
- CAD: $2,752.58
- CNY: $3,132.70
- EUR: $2,658.25
- INR: $4,053.66
- JPY: $3,467.00
- NZD: $2,730.63
- CHF: $2,454.28
- GBP: $3,810.14
It’s a race to the bottom…

- Fiat currencies (in which all financial securities are denominated) are rapidly losing value
- There is no exception; only increasing volatility in exchange rates
- Managing currency risk now requires more than just simply hedging strategies
- If fiat money is dying, what can you do?
  ➤ Diversify away from fiat currencies!
“It's not whether you're right or wrong that's important, but how much money you make when you're right and how much you lose when you're wrong.”

-Warren Buffett
(1930 - )
American investor
How to protect your wealth?

➤ Don’t invest all your assets

➤ Buy some ‘insurance’ too

➤ IOW take some *money* ‘off the table’
  ❖ instead of investing 100% invest only (100-X)%

➤ How much should X be depends on your beliefs:
  ❖ if complete faith in central bankers: X = 0%
  ❖ if less faith in central bankers: 0% < X ≤ 100%

What you need protection from is FIAT ABUSE!
You should own some bullion

- **NOT** ETFs (that’s not bullion; it’s paper gold)
- **NOT** shares (that’s not bullion; it’s equity)
- Bullion can only be the physical metal itself

But remember:
- Bullion IS **NOT** an investment… IT’S MONEY
- Owning it buying economic freedom insurance

But… if you insist in seeing it as an investment…

👉 Take a look at its performance in past 10 years!
Gold & Silver Take Triple Crown – Rest of Field Lame
Returns of Major Asset Classes in the Past Decade

Gold
S&P
U.S. High Grade Corporate Bonds (FBNDX)
U.S. Treasuries
Real Estate (Case-Shiller Housing Index Composite-20)
Silver

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Want to know more?
Suggested books to read

- *Gold Wars*, by Ferdinand Lips, 2001
- *Debt & Delusion*, by Peter Warburton, 1999
- *Petrodollar Warfare*, by William R. Clark, 2005
- *The Case Against the Fed*, by Murray N. Rothbard, Ludwig von Mises Institute, 1994
- *The Creature from Jekyll Island*, by G. Edward Griffin, American Media, 1994
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- www.goldstandardinstitute.com
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Freethinking Investment Strategies

Any questions?

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