



How to Protect Wealth from Systemic Risk

A graphic illustration featuring a large, grey, 3D dollar sign (\$) on the left and a single gold bar on the right. The dollar sign has a trail of small black dots behind it, suggesting movement or a path. The gold bar is a standard rectangular bar with some markings on its surface.

or... the emerging importance of **bullion** in
a truly prudent wealth management strategy

Louis Boulanger, CFA, Founder and Director, LB Now Limited
An IMAS Series Afternoon Talk in Singapore on 5 October 2009

“Gold is money and nothing else.”

That’s exactly what J P Morgan himself replied when asked in 1913 by a U.S. congressional subcommittee about the role of gold in the financial system...



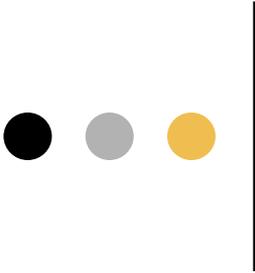
Please note:

- This presentation is about remembering and understanding gold's essential role
- One aspect is subtle; the other is tangible
 1. PUBLIC: maintain fiat money's integrity
 2. PRIVATE: protect wealth (store of value)
 - from fiat currency abuse/debasement
 - from systemic risk of financial meltdown

armed with this knowledge... ultimately:

⇒ you not only protect but also prosper

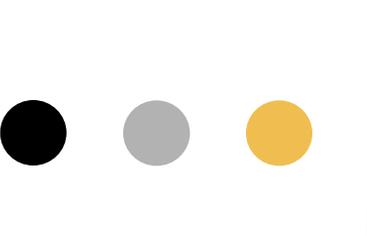




Agenda

- Prudence...
 - ❖ and false beliefs
- Money...
 - ❖ and role of gold
- Debt...
 - ❖ and delusion!
- This Crisis...
 - ⇒ its true nature
 - ⇒ and how to protect (& later... prosper!)





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
 - ❖ Who ever said that to be prudent is to imitate your peers?
 - ❖ Is fiduciary irresponsibility not partly to blame for this crisis?
- The word now seems synonymous with cautiousness
 - ❖ In this sense, prudence means a reluctance to take risks
 - ❖ Such reluctance is prudent only for *unnecessary* risks
 - ❖ But when unreasonably extended or applied based on **false beliefs**, then it becomes reckless and cowardly



False beliefs

- Government guarantees are 'as good as gold'
- Central bankers will continue to do miracles
- Governments can't default on their debt
- Inflation is dead or no longer a worry
- 'We' are in better shape than ...
- 'Our' (fiat) money is sound
- The worst is over (!)



Forgotten aspects of prudence

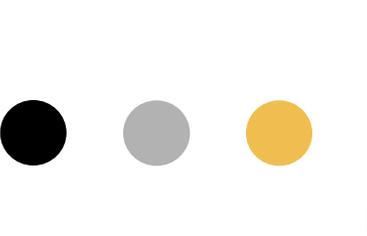
- Caution is not the only or main aspect of prudence
- The following are the other integral parts of prudence according to Scholastic philosophy:
 - ❖ Memoria (accurate memory)
 - ❖ Intelligentia (understanding of first principles)
 - ❖ **Docilitas – the most forgotten one**
 - ❖ Solertia (sizing up 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:

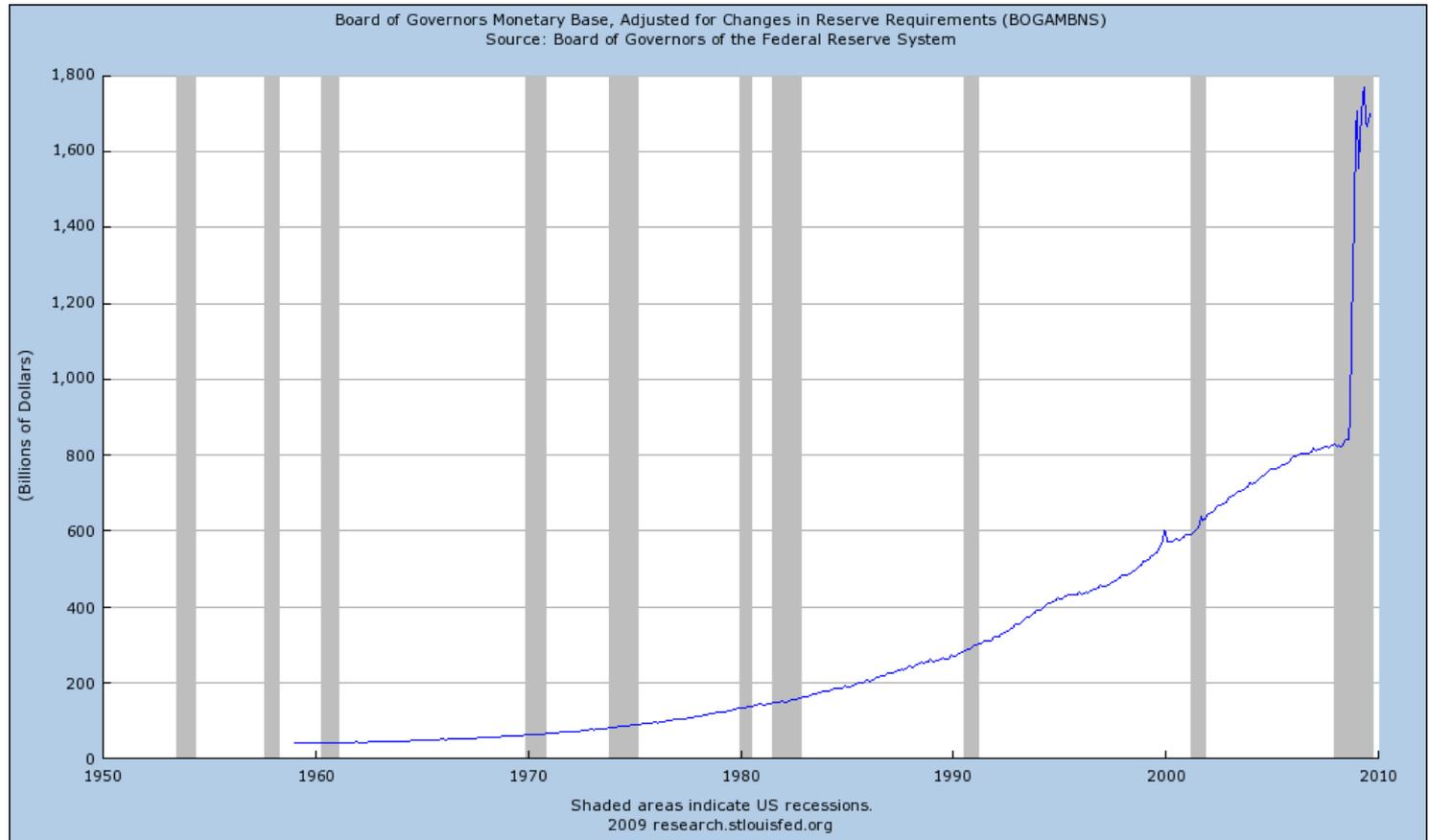
1. as a medium of exchange;
2. as a unit of account; and
3. as a store of value



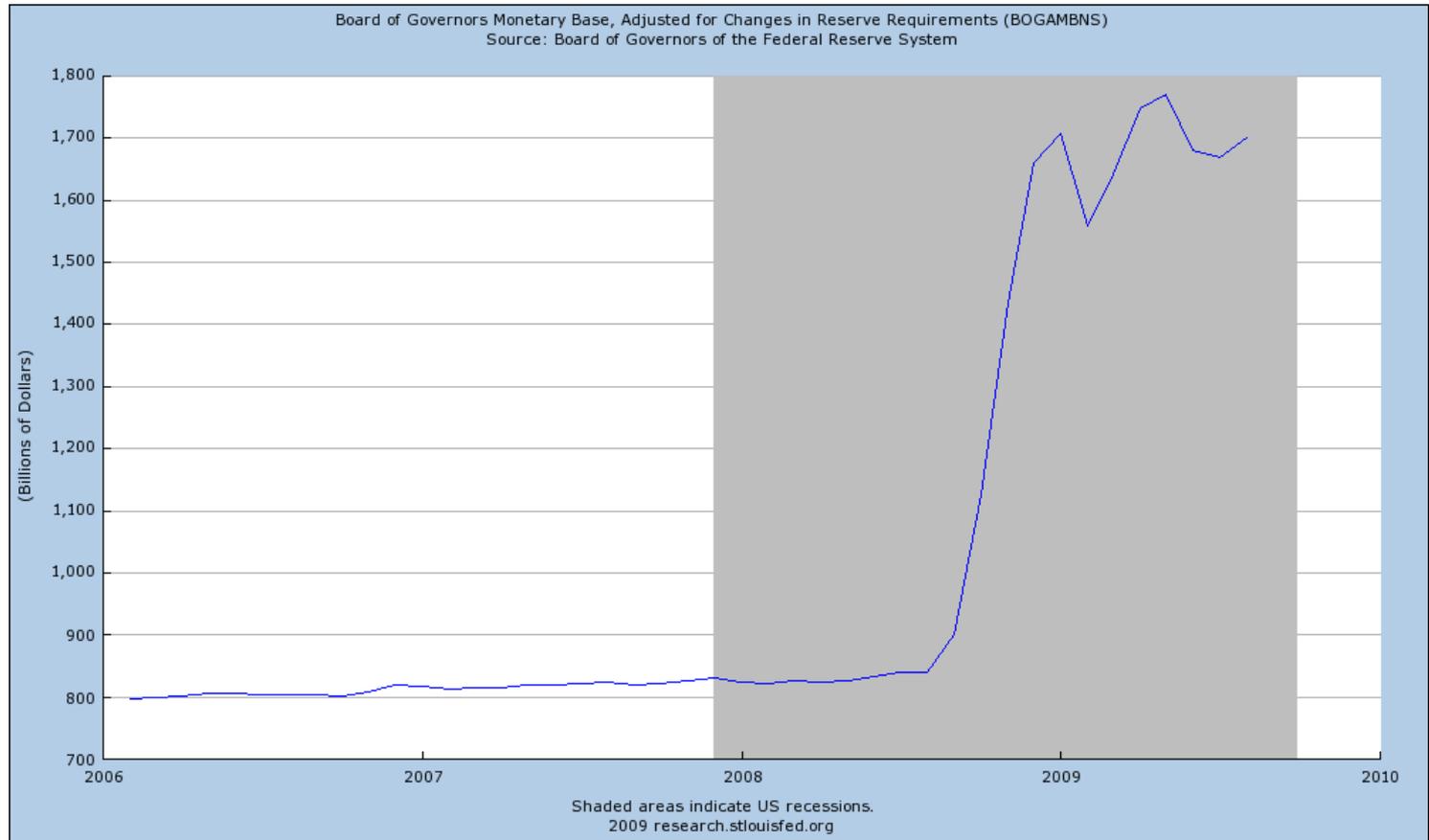
● ● ● Is this 'good' (sound) money?



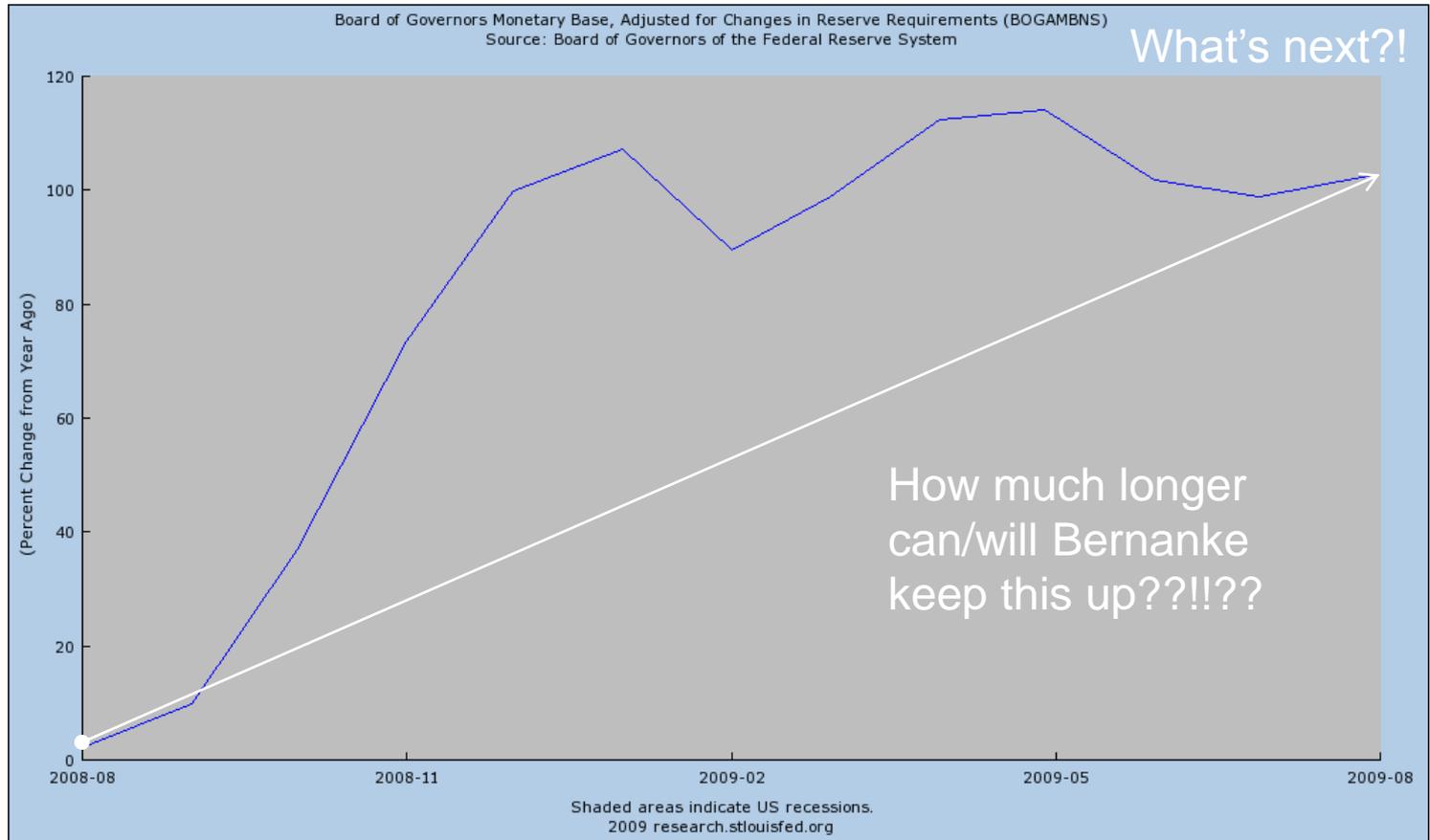
40x as much now than 50yrs ago



Closer look at Bernanke Era...



From 2%pa to 102%pa 'inflation'!



“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 20th Century'

- 1910: the Fed is surreptitiously created
- 1913: the Federal Reserve Act is passed
- 1933: gold possession became illegal in US
- 1971: **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
- What's 'legal tender'?
 - ❖ an offered payment that, by law, cannot be refused in settlement of a debt
- Example of a fiat currency?
 - ❖ 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 is the exorbitant privilege of the Fed!



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
AND
 - ❖ 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...

● ● ● | Fiat (only) 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 1st time in history that NONE of the world's currencies is redeemable in gold (or silver)
- How much longer do you think this can last?
- Fiat money is rapidly being debased
- It's a race to the bottom!



“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*

So...Is gold 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).

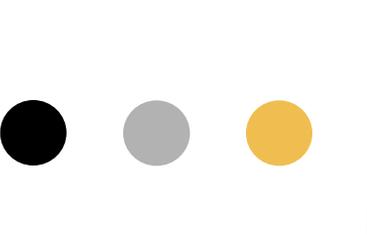
Above quote from his Monetary Reform, 1924, p172



● ● ● | Far from a barbarous relic...

- Gold is one of the world's most misunderstood assets
 - ❖ Powerful governance of its price (esp. since 1971)
 - ❖ Despite this, gold remains valued around the world
 - ❖ Why? Because it's a proven store of value in crises
- “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 paper currencies today
- Gold is nobody's liability (unlike other financial assets)





Debt & Delusion



“Like gold, U.S. dollars have value only to the extent that they are strictly limited in supply. But the U.S. government has a technology, called a printing press (or, today, its electronic equivalent), that allows it to produce as many U.S. dollars as it wishes at essentially no cost.”

- Ben Bernanke

Remarks made on 21 November 2002 before the National Economists Club, Washington, D.C.

Deflation: Making Sure "It" Doesn't Happen Here

Source: <http://www.federalreserve.gov/BOARDDOCS/SPEECHES/2002/20021121/default.htm>

● ● ● | 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

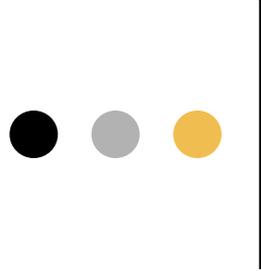


THE EXPECTATIONS GAME

WHAT'S THIS?

A LOAF OF BREAD AND A FISH... DO SOMETHING.





Is it working well?

- IOW are our leaders godlike?
- We sure want to think so
- We are being told it is so
 - ❖ ‘green shoots’...
 - ❖ ‘recession is over’
- So we live in hope it is true
- But let’s look at the facts...



US debt (i.e. US\$) is the key

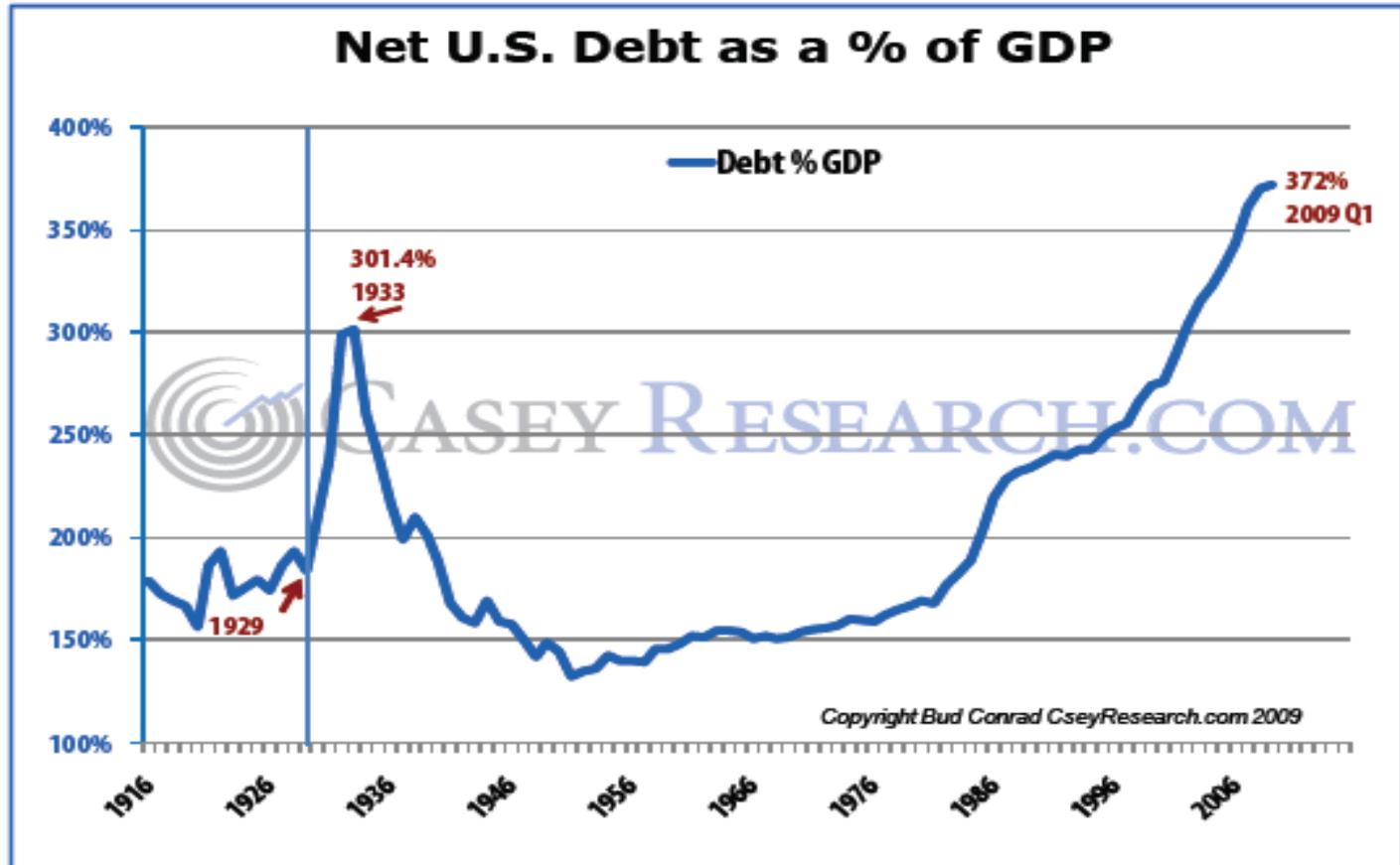
- Since 1961 the US national debt has never gone down
- It took the US government 191 years – from 1791 until 1982 – to run up its first US\$1 trillion in debt
- By the time George W. Bush was inaugurated the US national debt stood at US\$5.7 trillion
- The national debt stood at US\$10.6 trillion on the day Barack Obama took office as President
- Since then Barack Obama has already added another US\$1 trillion in debt (it now stands at US\$11.6 trillion)
- Now US Treasury Secretary Geithner says the US\$12.1 trillion Congressional Limit “could be breached” by Oct '09...



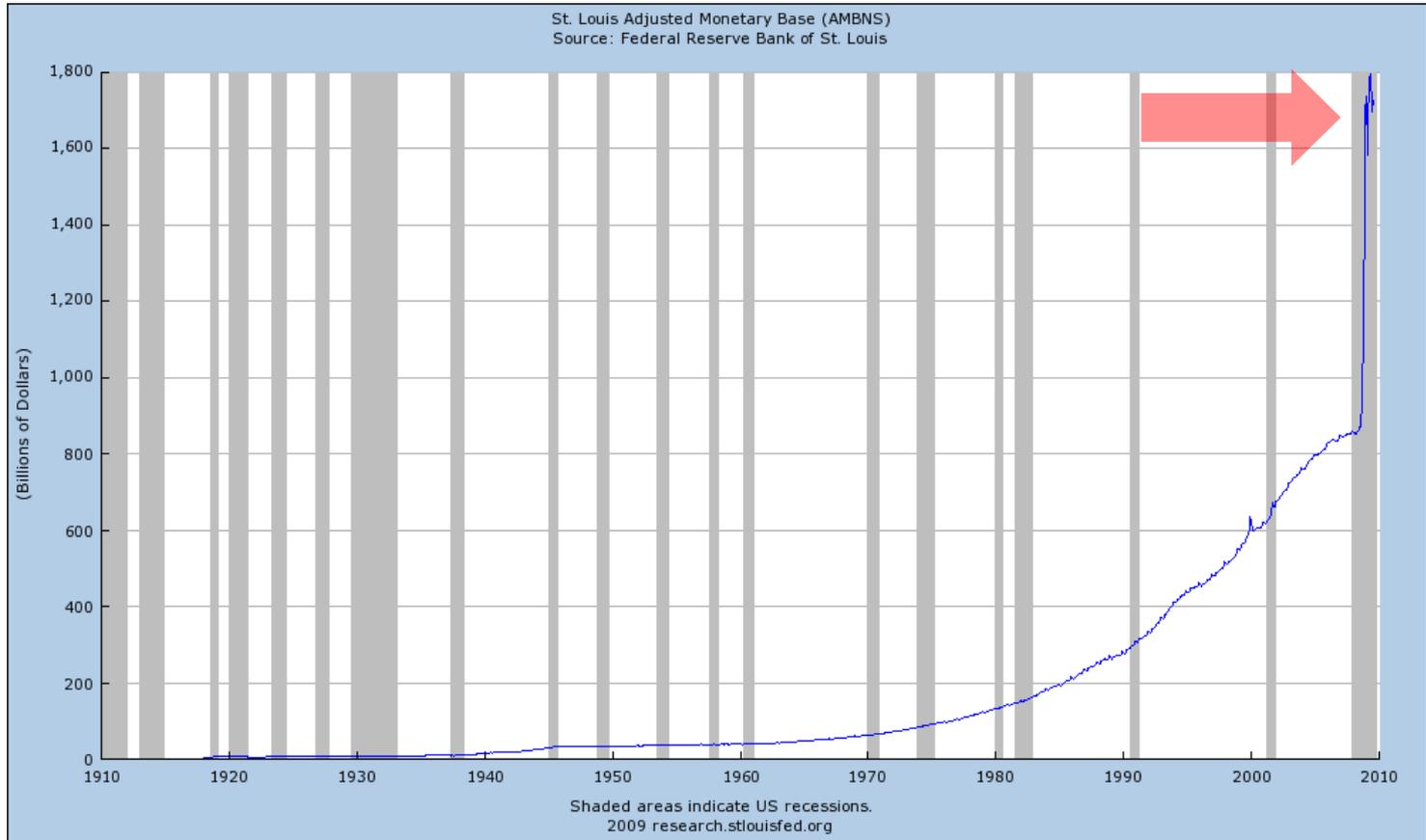
A young child with blonde hair in a ponytail, wearing a pink long-sleeved shirt with a butterfly, white pants, and pink patterned shoes, stands on a paved street. The child has a pink pacifier in their mouth and is holding a white sign with a red and blue decorative border. The sign contains the text: "I'm Already \$38,375 In Debt and I Only Own A Dollhouse Thank You Mr President". In the background, the lower legs and feet of several other people are visible, including a person in blue jeans and a person in khaki shorts.

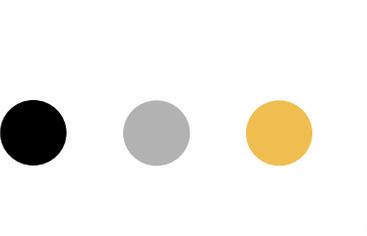
**I'm Already
\$38,375 In
Debt and I
Only Own A
Dollhouse**
Thank You Mr President

● ● ● It's a lot worse than in 1929!



We're in uncharted waters!





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...



THANK GOD
I'M OUT OF
THERE...

© 2009
CAGLE CARTOONS.COM
ADAM
ZYGLIS
THE BUFFALO NEWS

● ● ● | 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 (too much debt) with more of the same (more debt)
 - ❖ the problem can't also be the solution!
- The true cause is the fiat money system itself
 - ❖ it's a financial bubble machine!
- **The nature of the problem is one of 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!)

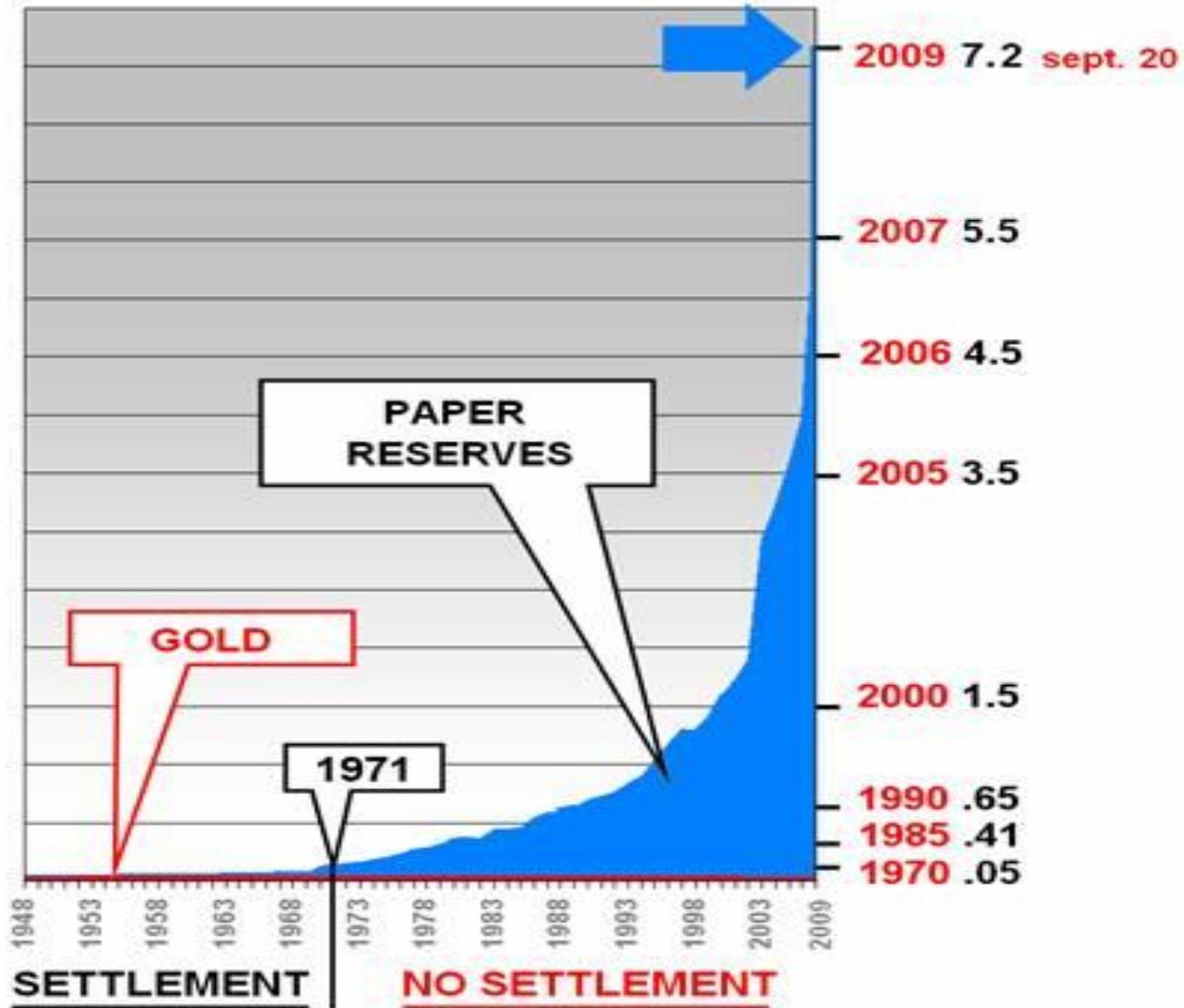


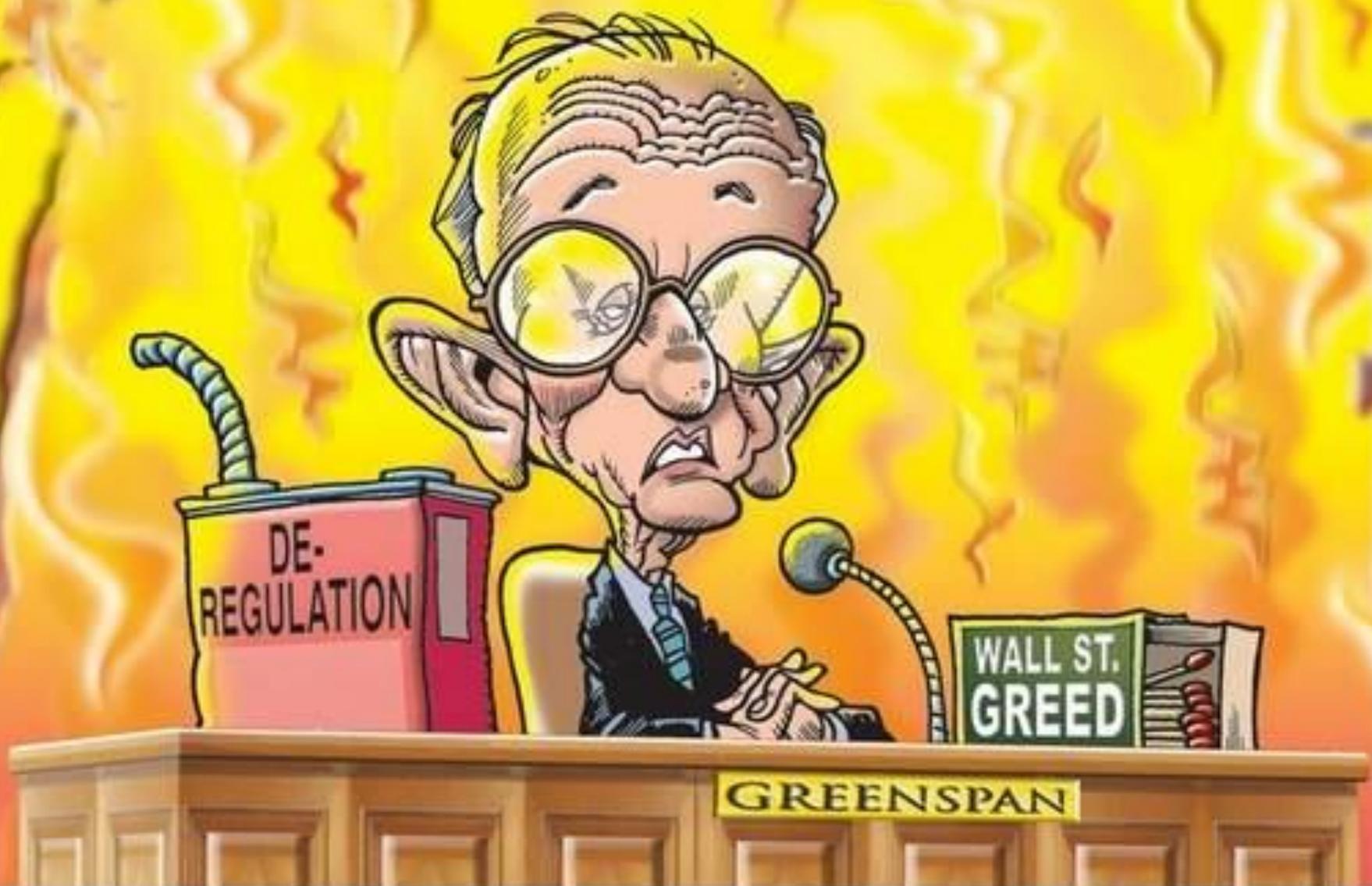
PAPER RESERVES IN CENTRAL BANKS

Gold at constant price of \$35 dlls./oz.

1948 - 2009

Trillions of dollars





"WHO COULD HAVE FORESEEN THAT MIXING GASOLINE AND MATCHES WOULD RESULT IN FIRE?"

● ● ● | 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.”

Source: ‘Gold and Economic Freedom’, 1966



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 **no real measure** for our fiat money's worth!!!



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...





Money is dying!



- ⇒ No need to Δ SAA
- ⇒ Just need to Δ Money
 - ⇒ in the interim: bullion
 - ⇒ ultimately: gold standard

All fiat currencies are going down

Gold Price % Annual Change										
	USD	AUD	CAD	CNY	EUR	INR	JPY	NZD	CHF	GBP
2000	-5.66%	10.56%	-2.19%	-5.80%	0.68%	1.24%	5.61%	11.64%	-4.68%	2.06%
2001	2.50%	11.30%	8.80%	2.50%	8.10%	5.80%	17.40%	9.10%	5.00%	5.40%
2002	24.70%	13.50%	23.70%	24.80%	5.90%	24.00%	13.00%	-0.96%	3.90%	12.70%
2003	19.60%	-10.50%	-2.20%	19.50%	-0.50%	13.50%	7.90%	-4.50%	7.00%	7.90%
2004	5.20%	1.40%	-2.00%	5.20%	-2.10%	0.00%	0.90%	-4.07%	-3.00%	-2.00%
2005	18.20%	25.60%	14.50%	15.20%	35.10%	22.80%	35.70%	24.45%	36.20%	31.80%
2006	22.80%	14.40%	22.80%	18.80%	10.20%	20.50%	24.00%	19.39%	13.90%	7.80%
2007	31.40%	18.60%	10.40%	23.00%	17.90%	17.50%	24.70%	20.53%	21.50%	29.20%
2008	5.80%	32.50%	32.40%	-1.10%	11.90%	30.40%	-14.90%	39.27%	0.20%	44.30%
Average	13.84%	13.04%	11.80%	11.34%	9.69%	15.08%	12.70%	12.76%	8.89%	15.46%



● ● ● | It's a race to the bottom...

- Fiat currencies (in which financial securities are all denominated) are rapidly losing value
- There is **no exception**; there are only timing differences and increasing currency volatility
- Managing currency risk now requires more than just simply hedging strategies/tactics
- So...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 financial assets
- Buy some financial 'insurance' as well
- I.E. take some of your **money** 'off the table'
 - ❖ instead of investing 100% invest only $(100-X)\%$
- How much X is depends on your beliefs:
 - ❖ if total/blind faith in central bankers: $X=0\%$
 - ❖ if less faith in central bankers: $0\% \leq X \leq 100\%$
- What you need 'protection' from is FIAT abuse!



Systemic risk protection

- Historically, there has never been any better asset to own than gold and/or silver bullion
 - ❖ during a systemic crisis
 - ❖ during financial meltdown
 - ❖ during a monetary crisis
- What is bullion?
 - ❖ pure precious metal in physical form (bar, coin)
 - ❖ valued as money based on its mass (oz, kg) and purity (99.9%) rather than by a face value



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
- Bullion is the only 'X' factor in this crisis

But remember:

- ➡ Bullion IS NOT an investment... IT'S MONEY
- ➡ Owning it is a (protest) vote of no confidence



How much bullion?

- Investment/Bullion split
 - no need to change investment strategy (SAA)
 - only need to decide % not to keep investing
 - bullion stores value until 'sound' money returns
- 1. Don't believe 'money is dying': 100/0 split
- 2. Concerned about the situation: 80/20 split
- 3. Dead certain 'money is dying': 50/50 split





Ownership of gold



“Ownership of gold is not about lust: it is about liberty of the individual.

The gold standard is not a ‘game’: it is the embodiment of the timeless principle “pacta sunt servanda” (promises are made to be kept).”

*-Professor Antal E. Fekete
(1932 -)*

Renowned mathematician and one of today’s foremost monetary scientists

www.professorfekete.com

● ● ● | Back to Aristotle...

- 5 reasons why gold is money:
 - ❖ Durable
 - ❖ Divisible
 - ❖ Consistent
 - ❖ Convenient
 - ❖ Have value in and of itself
- Given today's fiat abuse, need to add 6th one:
 - ❖ Can't be created out of thin air!



About the gold 'price' ...

- Remember that it is “governed”
- Because it is the ‘canary in the coal mine’
- Imagine for a moment the US\$ still being defined as (and redeemable for) 1/35th of a troy ounce of gold (as per Bretton Woods)...
- It's not and so... since 1971 there has been no settlement at all of international debts
- Imagine the gold price when fiat money dies...



The Dow/Gold ratio





| 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
- The Theory of Money and Credit, by Ludwig von Mises, Liberty Fund, 1981 (translation of 1924-34)



Suggested websites/sources

- www.gold.org
- www.bmginc.ca
- www.lbma.org.uk
- www.leap2020.eu
- www.richebacher.com
- www.shadowstats.com
- www.the-privateer.com
- www.globalresearch.ca
- www.professorfekete.com
- www.emergingtrendsreport.com



Register for my newsletter...



Prosper! Dear Prudence, Won't You Open Up Your Eyes...
Investment Insights from Louis Boulanger



Louis Boulanger CFA
Office: +64 9 528 3586
Mobile: +64 275 665 095

louisboulanger^{now}
Freethinking Investment Strategies

Simply send me an email OR go to my web page:
www.lbnow.co.nz





louisboulanger^{now}
Freethinking Investment Strategies

Thank You.
Any questions?



Louis Boulanger, CFA
Founder & Director,
Louis Boulanger Now Ltd
tel: +64 9 528 3586
mob: +64 275 665 095
louis@lbnnow.co.nz
www.lbnnow.co.nz



BMG BullionBars
Authorized Dealer