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Issue 31 - Apr 2009



Prosper!

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



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**louisboulanger** now  
Freethinking Investment Strategies

In this Issue:

[The Road to Perdition](#)  
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## The Road to Perdition

We are well down the road to perdition. Nothing, it seems, can stop it now.

*“When you see that trading is done, not by consent, but by compulsion – when you see that in order to produce, you need to obtain permission from men who produce nothing – when you see money flowing to those who deal, not in goods, but in favors – when you see that men get richer by graft and pull than by work, and your laws don’t protect you against them, but protect them against you – when you see corruption being rewarded and honesty becoming a self-sacrifice – you may know that your society is doomed.”*

- Ayn Rand

(1905 – 1982)

Russian-American novelist and philosopher; above quote is from *Atlas Shrugged* (1957)

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*“The economy will be in shambles throughout 2009 and, for that matter, probably well beyond.”*

*“In poker terms, the Treasury and the Fed have gone ‘all in.’ Economic medicine that was previously meted out by the cupful has recently been dispensed by the barrel. These once-unthinkable dosages will almost certainly bring on unwelcome after-effects. Their precise nature is anyone’s guess, though one likely consequence is an onslaught of inflation.”*

- Warren E. Buffett, in his latest annual letter to shareholders of Berkshire Hathaway Inc, 27/2/09

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*“The beneficiaries of the government’s bailout of American International Group Inc. include at least two dozen U.S. and foreign financial institutions that have been paid roughly \$50 billion since the Federal Reserve first extended aid to the insurance giant.*

*Among those institutions are Goldman Sachs Group Inc. and Germany’s Deutsche Bank AG, each of which received roughly \$6 billion in payments between mid-September and December 2008, according to a confidential document and people familiar with the matter.”*

- Wall Street Journal article ‘Top U.S., European Banks Got \$50 Billion in AIG Aid’, by Serena Ng and Carrick Mollenkamp, 7/3/09 - see the article [here](#)

## Beyond Outrageous

Government loans, spending or guarantees to rescue the US financial system total more than US\$11.7 trillion since the international credit crisis began in August 2007 according to data compiled by one of the world’s largest and most trusted financial market information sources, Bloomberg. That was no

misprint: US\$11.7 TRILLION! That's 11.7 million millions or 11,700,000,000,000 US dollars. The mind boggles...

But what's worse, far worse in my view, is that there has been very little transparency. We're even told that the secrecy is all in our own best interest, of course, by arrogant central bankers like Bubblicious Ben Bernanke. If we knew which banks or companies got the money, he says, we might not want to do business with them... You can't make this stuff up!

Apparently, the US Fed is exempt from the law. Even Bloomberg still can't get the information they requested under the Freedom of Information Act in November 2007. They're now suing the Fed and are still getting nowhere fast (the case is "Bloomberg LP v. Board of Governors of the Federal Reserve System, 08-CV-9595, U.S. District Court, Southern District of New York (Manhattan)").

In response to Bloomberg's request, the Fed said the US is facing "an unprecedented crisis" in which "loss in confidence in and between financial institutions can occur with lightning speed and devastating effects." No kidding?! Well, Ben, it's all unfolding anyway. Hey, even hedge fund investors are now turning to gold: [see this article](#).

And let's not forget about what this man thinks:



"We have lent a huge amount of money to the US" said Chinese Premier Wen Jiabao recently (a week or so before the G20 meeting in London on 2 April), referring to the nearly US\$1 trillion in US Treasuries that China has purchased over the last few decades... He added: "We are concerned about the safety of our assets. To be honest, I am definitely a little worried." Uh, oh...

To my knowledge, that was a first. Sure, we'd already heard many similar comments from professors, government advisers and others in China, including members of the Chinese legislature. But never before, as far as I can recall, from Wen himself... and certainly not in public.

Even US lawmakers are now clashing with the Fed over the ongoing and seemingly endless bailout of AIG (the total amount spent so far to keep AIG afloat has reached the staggering figure of US\$180 Billion!). That's after the US government pumped an extra US\$30 billion of taxpayer dollars into AIG

last month, despite the doomed insurer's announcement that it had just made a US\$61.7 billion quarterly loss... a record for any publicly traded American company ever.

Losing that much money, that fast, takes talent! That 'talent', it seems, is being fully funded by future taxpayers through disingenuous activities of secretive central bankers, the Fed clearly leading the pack.

### Here's Real Hope

Real hope comes in the shape of a proposed new bill to amend title 31 of the US Code, to reform the manner in which the Board of Governors of the Federal Reserve System is audited by the Comptroller General of the US and the manner in which such audits are reported. It is sponsored by Dr. Ron Paul, Republican Congressman from Texas (who, you may recall, also ran for President last year).

Momentum continues to build for Dr. Paul's proposed legislation to audit the Fed. The title of his bill is "H.R. 1207: Federal Reserve Transparency Act" and the bill now has 58 cosponsors. It had only 11 when it was introduced at the end of February!

I get a feeling that number will continue to go up as outrage mounts. Senator Sanders from Vermont expressed it well:[see this video](#).

Here's Dr. Paul's full statement introducing the bill, which I believe enunciates the issue very clearly and succinctly:

*"Madam Speaker, I rise to introduce the Federal Reserve Transparency Act. Throughout its nearly 100-year history, the Federal Reserve has presided over the near-complete destruction of the United States dollar. Since 1913 the dollar has lost over 95% of its purchasing power, aided and abetted by the Federal Reserve's loose monetary policy. How long will we as a Congress stand idly by while hard-working Americans see their savings eaten away by inflation? Only big-spending politicians and politically favored bankers benefit from inflation.*

*Serious discussion of proposals to oversee the Federal Reserve is long overdue. I have been a longtime proponent of more effective oversight and auditing of the Fed, but I was far from the first Congressman to advocate these types of proposals. Esteemed former members of the Banking Committee such as Chairmen Wright Patman and Henry B. Gonzales were outspoken critics of the Fed and its lack of transparency.*

*Since its inception, the Federal Reserve has always operated in the shadows, without sufficient scrutiny or oversight of its operations. While the conventional excuse is that this is intended to reduce the Fed's susceptibility to political pressures, the reality is that the Fed acts as a foil for the government. Whenever you question the Fed about the strength of the dollar, they will refer you to the Treasury, and vice versa. The Federal Reserve has, on the one hand, many of the privileges of government agencies, while retaining benefits of private organizations, such as being insulated from Freedom of Information Act requests.*

*The Federal Reserve can enter into agreements with foreign central banks and foreign governments, and the GAO is prohibited from auditing or even seeing these agreements. Why should a government-established agency, whose police force has federal law enforcement powers, and whose notes have legal tender status in this country, be allowed to enter into agreements with foreign powers and foreign banking institutions with no oversight? Particularly when hundreds of billions of dollars of currency swaps have been announced and implemented, the Fed's negotiations with the European Central Bank, the Bank of International Settlements, and other institutions should face increased scrutiny, most especially because of their significant effect on foreign policy. If the State Department were able to do this, it would be characterized as a rogue agency and brought to heel, and if a private individual did this he might face prosecution under the Logan Act, yet the Fed avoids both fates.*

*More importantly, the Fed's funding facilities and its agreements with the Treasury should be reviewed. The Treasury's supplementary financing accounts that fund Fed facilities allow the Treasury to funnel money to Wall Street without GAO or Congressional oversight. Additional funding facilities, such as the Primary Dealer Credit Facility and the Term Securities Lending Facility, allow the Fed to keep financial asset prices artificially inflated and subsidize poorly performing financial firms.*

*The Federal Reserve Transparency Act would eliminate restrictions on GAO audits of the Federal Reserve and open Fed operations to enhanced scrutiny. We hear officials constantly lauding the benefits of transparency and especially bemoaning the opacity of the Fed, its monetary policy, and its funding facilities. By opening all Fed operations to a GAO audit and calling for such an audit to be completed by the end of 2010, the Federal Reserve Transparency Act would achieve much-needed transparency of the Federal Reserve. I urge my colleagues to support this bill."*

I don't know about you, but that seems to me like something that should already be in place if there was good governance. So I say good luck to Dr. Ron Paul and I hope all American readers of this e-letter will ask their representative to support this bill. By the way, it's not your typical bill that goes on and on forever (there's no pork!). It's actually very short, proving once again that legislation does not have to be long to be good. [See the legislation here.](#)

### **Accounting Hocus-pocus**

Crony capitalism continues to be alive and well in the US under President Obama. As if the US federal government's and central bank's undoing of America (the idea; not the country) was not enough, we have Wall Street playing increasingly deceptive hide-and-seek games with their losses to attract yet more suckers into their bear traps...

Earlier this month the presumably still independent US professional accounting standard setter, the Financial Accounting Standards Board (FASB), seems to have finally acquiesced to significant political pressure and effectively threw out the most basic accounting principle of marking assets to market. So, from now on, banks can pretend to be in much better financial shape than they truly are or will be later on.

I can hear the Wall Street banks and big financial institutions already: "What toxic assets?" They're gone, just like that. Poof! Just like magic, a big problem

is being swept away. Yippee! Smoke-and-mirror "profits" are back in vogue. Let's all spend like mad again and get into even more debt. Let the good times roll!!!

Please don't be gullible enough to believe that things are getting better for YOU. They're only getting temporarily better for the BANKSTERS. Lowering accounting standards to that extent is not going to be a good thing for anyone, ultimately. Don't be a victim of this latest scandalous deceit. The rally in the US share market is a bear trap based on fictitious earnings!

To get a real sense of how deceitful this is and downright criminal it has the potential of becoming, you should watch a recent vlog (that's a video blog) of Peter Schiff (President and Chief Global Strategist at Euro Pacific Capital, Inc): [see the vlog here](#). .

Billionaire investor George Soros also warned recently about the danger of watering down mark-to-market accounting rules, saying this creates conditions for prolonging the life of US 'zombie' banks. He also stated that, in his opinion, *"the banking system as a whole is basically insolvent"*. For more on what he said, [go to this article](#).

But, rest assured, there are still some who maintain a strong sense of integrity and that should give us all real hope. Take, for example, Charles Bowsher. He resigned last month as chairman of the Federal Home Loan Bank (FHLB) system's Office of Finance, because he was no longer comfortable with the way the banks value their mortgage securities. Huh? For more on this, please read [this article](#).

When the man in charge of the second largest borrower in the US is willing to lose his job due to his discomfort with the FASB's shift in accounting rules, you can bet that the tragic fallout of all the "market buoying" recent events is only a matter of time. The question now is: if Charles Bowsher can't get comfortable with these banks' financial statements, why should anybody else be? Why indeed.

Of course, back on Wall Street, the 'bankster boys' will cheerfully welcome this change. But it's not as if they needed more help to continue fudging the numbers they report... They are incredibly 'talented' and, of course, have the best advisers money can buy to help them work their way legally around the system. Here's just one example.

Goldman Sachs suffered a painful US\$780 million loss in the month December. But it does not show up on the bank's bottom line for the first quarter of 2009, **NOR** does it show up in the last quarter of 2008! Here's the trick: when the former investment bank became a bank holding company, it switched from a fiscal year ending in November to a fiscal year beginning in January. Voilà! The December losses do not show up in either.

If, like me, you're left scratching your head with this one, then the best thing you can do is dig a little deeper. Read [this article](#) and see how deep the rabbit hole goes... A little discretion is good, when it comes to deciding when to recognize gains and losses in corporate accounts, but clearly too much discretion is not.

## The Not So 'U' S of A

There is a 'silent' revolution going on in the US and it's not happening in the streets, but in the states' legislatures... As many as 33 (that's 33 out of 50!) state legislatures have either passed or introduced bills intended to reaffirm their state's sovereignty as laid out in the Ninth and Tenth Amendments of the US Constitution. If you want to keep up to date with this quiet revolution, please [visit this web page](#).

While the ramifications of these resolutions are still uncertain, one thing seems clear: more and more Americans are now sick and tired of their federal government's usurpation of power not granted to it by the US Constitution. They have had enough of fear based economic terrorism and the underhanded promotion of policies and procedures that bypass public scrutiny and the will of the people.

The Obama administration's recent push for immediate passage of the US\$1 trillion or so deficit spending plan without allowing time for legislators to read the 1,400 page document... may well be the last straw. Hey, even Texas has gotten into the act:

*"I believe that our federal government has become oppressive in its size, its intrusion into the lives of our citizens, and its interference with the affairs of our state. That is why I am here today to express my unwavering support for efforts all across our country to reaffirm the states' rights affirmed by the Tenth Amendment to the U.S. Constitution. I believe that returning to the letter and spirit of the U.S. Constitution...and its essential 10th Amendment...will free our state from undue regulations, and ultimately strengthen our Union." Texas Governor Rick Perry...Austin, Texas...09 April 2009. Source: [governor.state.tx.us](http://governor.state.tx.us).*

Hear hear. Let's hope it's not too late for America. The idea, that is.

*"Men are so simple and so much inclined to obey immediate needs, that a deceiver will never lack victims for his deceptions."*

*- Machiavelli  
(1469 – 1527)  
Italian philosopher, writer and politician; famous for his book The Prince*

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## **Gold Wars and the Burden of Debt**

*"Civilization can only revive when there shall come into being in a number of*

*individuals a new tone of mind independent of the one prevalent among the crowd and in opposition to it. A new public opinion must be created privately and unobtrusively. The existing one is maintained by the press, by propaganda, by organization, and by financial influences which are at its disposal. The unnatural way of spreading ideas must be opposed by the natural one, which goes from man to man and relies solely on the truth of the thoughts and the hearer's receptiveness of new truth."*

- Albert Schweitzer  
(1875 – 1965)

*German-French theologian, musician, philosopher, and physician; winner of the 1952 Nobel Peace Prize in 1953 for his philosophy of "Reverence for Life"*

*"One would be forgiven for concluding that the assumed benefits of financial innovation are not all they were cracked up to be...The damage from this turn in the credit cycle -- in terms of lost wealth, lost homes, and blemished credit histories -- is likely to be long-lasting."*

- Federal Reserve Chairman Ben Bernanke, Bloomberg, 17 April 2009

How bad is it, really? Well according to Paul Volcker: "None of us has seen a decline in economic activity at the rate of speed seen late last year". "It's hard to see that we're going to have a very rapid recovery," he said, "We are in a Great Recession, for sure." Hummm...

That's what he said recently in a speech at Vanderbilt University. It's worth noting, I'd say, since he was the guy who managed to slay the inflation beast in 1980 (he had Bernanke's job then, you see; he was the US Federal Reserve chairman from 1979 to 1987 and did a hell of a good job too).

### Tall Paul Is Back in Action

Also known as 'Tall Paul' – hey, he's 2m tall! – Volcker is nobody's fool. In fact, he's back in action in a most critical and new role advising the US President. He is the 1st Chair of the President's Economic Recovery Advisory Board (PERAB), a new panel of non-governmental experts from business, labour, academia and elsewhere that Obama created on February 6, 2009. So that's one more reason to pay attention to what he's saying these days, I'd say.

Volcker said that the Fed's authority is probably going to be reviewed. US lawmakers from both political parties have expressed concern in recent months that the US central bank has overstepped its authority. Here are some of things he said in that speech he gave on 18 April at the Vanderbilt Owen Graduate School of Management:

*"I don't think the political system will tolerate the degree of activity that the Federal Reserve, in conjunction with the Treasury, has taken."*

*"I think for better or for worse we are at a point where the Federal Reserve Act, after all that has been happening in the last year or more, is going to be reviewed."*

Alleluia! But let's hope that it's going to be for the better and not the worse... The role of the Fed should be reduced and not increased, as a supervisor and regulator AND its secretive operations should end. Ultimately, I think the Fed itself should end! Vive la révolution!!

But, OK, let's not stir things too much and give the big guy the benefit of the doubt, for now, and see what he's capable of coming up with. [See the 81yr old in action](#) (his whole speech, around 30 minutes).

After all, Volcker was one of the few members of the Nixon administration who argued that dismantling the Bretton Woods exchange rate system in 1971 – effectively removing gold as the guarantor of the US dollar's value and replacing it with “the full faith and credit” of the US government – was a bad idea.

Now, almost 40 years later, it looks like the powers that be are openly discussing not just the US dollar's role as global reserve currency, but the role of the Fed itself as set forth by the Federal Reserve Act of 1913. That's got to be a good thing, right? Well, we'll be watching you and judging you by your actions, not words, Mr Volcker... just in case.

### All Along the Watchtower

The Jimi Hendrix song ‘All Along the Watchtower’ opens with the following lyrics: *“There must be some kind of way out of here, said the joker to the thief, there's too much confusion, I can't get no relief... so let us not talk falsely now, the hour is getting late.”* How apropos even in today's USA! With residential real estate values 20% below their peak, and equity portfolios cut in half, the lyrics may even have a more poignant meaning today than they did amid the purple haze and draft dodging four decades ago.

Dr. Richebächer, of [The Richebächer Letter](#) fame, was an outspoken critic of the Federal Reserve throughout his 40-year career as a credit and currency analyst. So much so, that it was Volcker himself who once said: *“Sometimes I think it's the role of the chairman of the Federal Reserve to prove Kurt Richebächer wrong.”*

Many of Richebächer's critics, including Volcker, cautiously dismissed his work as gloom and doom... and yet he was right on so many levels. The good Dr is no longer with us, but The Richebächer Letter has a new dean: Rob Parenteau, CFA. I've been an avid reader of The Richebächer Letter since 2006 and can only encourage anyone wanting robust independent economic analysis of currencies and credit markets to also subscribe. For more information on this source, please visit: [www.richebacher.com](http://www.richebacher.com).

*“To be sure,” Mr. Parenteau writes, “the larger theme we believe will dominate consumer attitude is the need to reduce leverage, which will require a higher savings rate than households previously achieved.”*

He then makes a key point: *“The American consumer's contribution to any future recovery is likely to be muted, regardless of the fiscal and monetary stimulus coming from Washington. Stock investors using the regular playbook and running into companies that rely on consumer spending should make sure their long-run earnings expectations reflect this new trend.”*

Got that? In other words, real-world rules don't change when it comes to the consequence of human actions, but the way in which you play the game may need to change if you want to continue to prosper.

### Gold Wars Ongoing

*"Gold at its 1981 all-time high of \$850.00 is dirt cheap in 2009. The best analogy I can give you is to buy a new 2009 Mercedes Benz at 1981 prices. Do you know of anyone who would turn down an offer like that? I don't. Gold is the epitome of value and investing in true value is the only way to protect your future. Gold is going to become money and all the Geithners and Bernankes in the world will not be able to stop that train. If you want to store your wealth, you had better buy gold while it's cheap."*

- Richard Russell, 19 April 2009

Russell began publishing *Dow Theory Letters* in 1958; it's the oldest investment letter by one person in the business; for more, visit [ww2.dowtheoryletters.com](http://ww2.dowtheoryletters.com)

The gold standard served as a restraint on the ability of governments to defraud their citizens through monetary inflation. With the destruction of the gold standard, beginning in 1914 with the outbreak of World War I, people everywhere have seen the purchasing power of their currency diminish through monetary inflation. Not a single currency has maintained its purchasing power of 1914. There is a reason for this: not one currency is redeemable on demand in gold.

Gary North (he is the author of *Mises on Money* and has a website, [www.garynorth.com](http://www.garynorth.com)) has written a riveting report (113 pages) on the true nature of the economic/monetary warfare going on and you can download it free of charge here: [www.GaryNorth.com/GoldWars.pdf](http://www.GaryNorth.com/GoldWars.pdf). There is a war going on and if you own gold you are under assault, he says. The politicians and central bankers who are conducting this war against you are determined to see that you lose money on your investment.

The reason why you are under assault, he says, is because you have demonstrated by your purchase of gold or a gold-related investment that you do not trust the monetary policies of your nation's central bank. If you are an American, for example, this means you do not trust the monetary policies of the Federal Reserve System. In other words, you are protesting not with your vote but with your money.

In doing so, North argues, you have taken a step that confirms your lack of trust in the government and its central bank and, if you think the government and the central bank will sit quietly, while millions of people everywhere buy gold as a way to hedge against government and central bank policies, he says that you are terminally naive! So there you have it.

Just in case you thought that to prosper under the rising and all encompassing deceit was going to be like a walk in the park, I'm glad you now know it won't be. Why? Because you won't be affected by the vagaries of the wildly manipulated gold price from day to day and, instead, will (or at least should) feel secure in the knowledge that this is all a game, a confidence game of

sorts... [Here's a good article on the nature of that game.](#)

### **Physical vs. Paper Gold**

But, I'm warning you ONCE AGAIN: when I say gold, I mean physical gold – i.e. gold bars in the vault or gold coins in your hands. This is a very important distinction to make. Anything else is just another derivative, and thus subject to counterparty risks just like any other financial asset.

Recently, the gold exchange-traded fund (ETF), as represented by the ticker GLD, has become a very popular investment vehicle for those looking to invest in gold, especially institutional investors. This ETF is now purported to hold well over 1,000 tons of gold, having reportedly bought as much as 220 tons in January alone. At this rate, GLD is effectively buying all the gold that is being produced at any given time... and that's just one ETF!

Being a gold bullion dealer myself now, I know the difficulties involved in actually taking physical delivery of gold. To buy physical gold in that quantity in that short a timeframe would be a significant market-moving event. Did GLD really buy that much physical gold? Furthermore, is all that gold tucked away in some vault? Maybe it is... or maybe it isn't.

You see, GLD is a complex legal structure, with the Bank of New York as the trustee, and HSBC Holdings as the custodian, and a chain of sub-custodians and sub-sub-custodians, many of which are banks that are known to actively lease gold. If any of the numerous counterparties were to default, it could be very difficult for GLD to actually get the gold it is purported to own.

Now, just to be very clear on this, I'm not saying that it's a fraud. It's a structure whose purpose is to legitimately **track the price of gold**, that's all. That said, in my opinion, an ETF is not a substitute for owning physical gold. It defeats one of the main reasons to own gold during these times; namely, the fact that gold is nobody else's liability. This is not the case with GLD.

GLD, like other ETFs, is essentially a creditor, whose assets are somebody else's promise. In my opinion, owning physical gold bullion is very different from owning a lease-receivable. Why take the risk? Don't settle for a paper asset when considering gold. In this environment, counterparty risk lurks around every corner. Buy the real thing: GOLD, not GLD.

An investment in GLD may well track the price of gold for you for a while, but don't think you own the gold. You actually don't own any gold; read the fine print. Worse, you may one day be forced to redeem your investment and will only receive in exchange US dollars at whatever price gold is then, even if this turns out to be before the true price of gold is finally revealed...

### **Bullion Markets**

Bullion markets are significant and have been so for many years. An excellent independent source of information on these can be [found here](#). According to the International Financial Services London (IFSL), the only independent organisation representing the whole UK financial services industry:

*"London is by far the largest global centre for over-the-counter (OTC) trading*

*of gold and silver. Gold and silver trading has posted record activity since the start of the credit crisis. The traditional “safe-haven” appeal of precious metals has attracted many investors to this asset class. Gold turnover increased 58% in 2008 to a record US\$20.2 trillion. Silver trading increased 39% during the year to a record US\$2.6 trillion.”*

[Here are some snippets of information taken from the above report:](#)

IFSL estimates that the market value of above-ground gold stocks totalled over US\$4.5 trillion at the end of 2008; the value of above-ground stocks of silver totalled only US\$10.8 billion (less than 1% of gold's stocks!).

The London Bullion Market Association (LBMA)'s clearing statistics provide an indicator of the trend in market turnover (most wholesale bullion trades are cleared through London, not all of them). The average daily volume of gold and silver cleared at LBMA in November 2008 was 18.3 million ounces (worth US\$13.9bn) and 107.6 million ounces (US\$1.1bn) respectively.

Reported volumes significantly understate actual volume of London market turnover which is probably three to five times the reported turnover because transactions are increasingly netted out and cleared without appearing in the statistics. Because most gold is traded through London, LBMA clearing figures represent the result of worldwide gold trading.

It is estimated that around three-quarters of gold and a half of silver transactions originate from outside the UK.

[The IFSL report also includes interesting information on the broader ‘paper bullion’ trading that also takes place on exchanges in the form of futures and options, as well as securities backed by bullion \(i.e. ETFs and ETCs\). Here are a few interesting snippets of information on that:](#)

Turnover of futures and options trading increased more than 80% in 2008 to reach a record US\$5.1 trillion (!), which was up ten-fold on the value traded six years earlier.

Exchange traded securities like ETFs and ETCs have had a major impact on the market, representing 59% of identifiable gold investment and 20% of total demand in the first three quarters of 2008.

This makes, according to IFSL, ETFs the sixth largest gold “holding”, behind central banks of UK, Germany, France and Italy, and the IMF (Hummm, it's interesting that the report's authors do not mention the US here... maybe that's because in the US the gold is owned by the Treasury, for the people?).

[Here are some more statistics or numbers provided in the report that are interesting to know when thinking of the supply of bullion:](#)

The total volume of identifiable above-ground gold at the end of 2008 was around 163,000 tonnes or 5.2bn ounces.

Mine production accounted for over two-thirds of the gold supply in 2007. Old gold scrap generated a further 27%, with net central bank sales making up the

remainder.

In 2007, China overtook South Africa (now 2nd) to become the world's largest gold producer, closely followed by Australia and the US.

Gold is the third largest component of official international monetary reserves after the US dollar and the euro.

Silver's above ground supply is only about one quarter of the above ground supply of gold as most silver is used for industrial purposes.

The largest silver mining country is Mexico with 14% of the total, followed by China 12%, Chile 9% and Australia 9%.

Around three-quarters of silver is now mined as a co-product from copper, lead, zinc, gold, or poly-metallic deposits, which is why changes in these other industries have a significant impact on silver production.

Pretty interesting stuff, eh? One of the most interesting aspects of this information, in my view, is the point one can make about the "stocks-to-flow" ratio of gold and how different it is to that of silver and why this is a fact that reinforces the concept that gold is not only money but also a currency. One recent contributor to LeMetropoleCafé.com, Jake Towne, recently wrote this on that aspect of bullion markets:

*"You see, the aboveground stock of gold valued at about US\$4,100 billion is equivalent to roughly 5.2 billion troy ounces of gold, but the annual mine production is only 0.087 billion. The aboveground stock of silver valued at US\$10 billion is estimated at roughly 1.0 billion troy ounces of silver and the annual mine production of silver is about 0.671 billion.*

*So the annual "stocks-to-flow" ratio of gold is 60, meaning that there is the equivalent of about 60 years of production aboveground for every year of production. In contrast, for silver the ratio is about 1.5, which is much closer to typical commodities which all lie around one year of production in aboveground stocks for every year of production.*

*Gold is not just another commodity; mankind will never achieve perfection in all things, but nature's "metal of the sun" is as close to perfect money as mankind is going to get.*

*So, the equivalent of the entire aboveground stock of gold is exchanged every 269 trading days while the equivalent of the entire aboveground stock of silver is exchanged every 9 trading days at the LBMA.*

*I interpret all of the preceding information to mean that gold has never stopped being used as both money and a currency, even in the last 38 years of floating fiat exchange rates. Silver is money as well, but is not traded in high enough volumes, in dollar terms since the price per ounce is too low, to be considered a currency."*

**[Interest in Gold Growing](#)**

I'm certainly not alone in thinking that owning gold is a good idea. In fact, even an official of Singapore's sovereign wealth fund recently recommended gold: [see the article here](#).

And more and more interest seems to be developing in the media on the metal and its price. Even GATA ([www.gata.org](http://www.gata.org)) – a committee advocating free markets in the monetary metals and undertaking litigation against illegal collusion to control the price and supply of gold and related financial securities – and its main story about the suppression of the gold price are making headlines!

Here are two 'extreme' examples: the first is an article that appeared in The Times online on 28 March ([see article](#)) and the second is an interview by Russia Today's television network with Adrian Douglas, one of GATA's directors, on the gold price suppression scheme ([see interview](#)).

I've mentioned his articles in the past and now you can even see and hear Ambrose Evans-Pritchard, international business editor of The Telegraph in London, as he talks about gold with Robert Miller of Telegraph TV, [here](#). He says gold has decoupled from commodities, has regained its position as an international currency, and likely will continue to do well as central banks strive to avert debt deflation.

And if that's not enough for you, here are a few more interviews you can read or watch of well known, educated and connected people, either speaking favourably on gold as an asset to own in these troubled times or on how these times are financially speaking so deeply troubled that you should be thinking of buying gold if you have not yet done so:

[Jim Rogers with Barrons.com](#).

[Peter Schiff](#).

[Bill Black on the Bill Moyers Journal](#):

Hey, there's a whole bunch of like-minded people and they're now referred to by the 'Muppets' on the likes of CNBC and FOX, as Bill Murphy (Le Patron at [LeMetropoleCafe.com](http://LeMetropoleCafe.com)) likes to call them, as The Doomsayers! Here are some of them in full action:



Source: [www.businessinsider.com](http://www.businessinsider.com)

There's even a website that scored them all on a 1-100 scale to help you know which ones have the scariest views!! The slide show is well worth the watch. Jim Rogers's 'doom factor' was 88, Peter Schiff (that's him on the right)'s was 90, Marc Faber's score was 93 and Bill Bonner's was 97! Gee... I wonder what my score would be...

Hell, even Stiglitz (Nobel Prize-winning economist Joseph Stiglitz) is saying 'run for the hills', effectively! In an [interview](#), he not only expressed concern about the links between White House advisers and Wall Street, he was also critical of Obama's economic rescue programs because the programs have been designed to help Wall Street rather than create a viable financial system. Well, Duh! ...

### The Burden of Debt

*"The supporters of the naïve inflationist view of history are consistent when they infer from their – of course, utterly fallacious and contradictory – tenets that credit expansion is the economic panacea. But those who do not deny that credit expansion brings about the boom that is the indispensable condition of the depression disagree with their own doctrine in fighting the proposals to curb credit expansion."*

- Ludwig von Mises  
(1881 – 1973)

*Austrian economist, philosopher and author; the above quote is taken from his 1949 magnum opus, Human Action (930 pages... available for free here: [www.mises.org/resources/3250](http://www.mises.org/resources/3250))*

In the March 2009 issue of The Richebächer Letter, Rob Parenteau takes an in-depth look at and even demystifies private deleveraging – the reduction of private debt levels. He notes that recent research by fixed interest strategists at Credit Suisse suggests too many investors are excessively worried about private debt levels. Likewise, he notes that policymakers are urgently pursuing unusual measures to encourage banks to revive loan growth.

Missing from either of these discussions, he says, *"is the realization offered by Ludwig von Mises in the opening quote: The credit excesses of the boom are a key element in the eventual onset of depressed economic conditions."* As Mises indicates, the cure for a high private debt load is unlikely to be the issuance of MORE private debt...

Parenteau points out that *"Q3 2008 reported the first episode of household debt reduction since 1952, when the Federal Reserve first began tracking household debt. Without falling into semantics, it is hard to imagine why households would net pay down debt unless they, or their creditors, perceived a prior condition of excessive leverage."*

Deleveraging, he writes, *"has never occurred in the household sector in over a half a century, and has occurred only twice in the nonfinancial business sector."* So, he argues, for many investors and especially those leaning heavily on quantitative approaches, the low historical frequency of private debt reduction would be sufficient reason to ignore this possibility. Hummm... Sounds like a perfect recipe to me for a Black Swan to eventually emerge as a result of this prevailing 'oblivious' attitude...

Professor Antal E. Fekete's paper 'IRON LAW OF THE BURDEN OF DEBT', dated 5 March 2009, ([see the article here](#)) is also well worth reading if this subject interests you. He ends his piece with this beauty: "The supply of fools in the world is very large indeed, but it is not infinite as the Big Fix cowboys in Washington assume. It takes more than starting an avalanche of bailout bonds to defeat the Iron Law of the Burden of Debt."

### The Final Word...

To be sure, this has been a lengthy Issue of *Prosper!* But I make no apology for it, as it has been a long time since the previous Issue... So, consider it a Double-Issue and it won't be so bad!

OK, so whose words of wisdom should end this latest missive of mine? I can think of no better victim than John Maynard Keynes. After all, most economists (and politicians) are Keynesians today, not so much for what he did say, but for how it was interpreted, even distorted. Indeed, Keynes is often viewed as an economist who tolerated and supported inflation as an unfortunate by-product of economic prosperity.

Yet this excerpt, from [The Economic Consequences of the Peace](#), a book he wrote just at the end of World War I, makes clear how fully he understood inflation's potential to destroy the fabric of society. Let it be known by at least all readers of this e-letter, so ye all shall continue to *Prosper!*

*"Lenin is said to have declared that the best way to destroy the capitalist system was to debauch the currency. By a continuing process of inflation, governments can confiscate, secretly and unobserved, an important part of the wealth of their citizens. By this method they not only confiscate, but they confiscate arbitrarily; and, while the process impoverishes many, it actually enriches some. The sight of this arbitrary rearrangement of riches strikes not only at security but [also] at confidence in the equity of the existing distribution of wealth.*

*Those to whom the system brings windfalls, beyond their deserts and even beyond their expectations or desires, become "profiteers," who are the object of the hatred of the bourgeoisie, whom the inflationism has impoverished, not less than of the proletariat. As the inflation proceeds and the real value of the currency fluctuates wildly from month to month, all permanent relations between debtors and creditors, which form the ultimate foundation of capitalism, become so utterly disordered as to be almost meaningless; and the process of wealth-getting degenerates into a gamble and a lottery.*

*Lenin was certainly right. There is no subtler, no surer means of overturning the existing basis of society than to debauch the currency. The process engages all the hidden forces of economic law on the side of destruction, and does it in a manner which not one man in a million is able to diagnose."*

*- John Maynard Keynes  
(1883 – 1946)*

*British economist whose ideas have had a major impact on modern economic and political theory; some, of course, like me, would say a far too great and distorted impact...*

Your freethinking investment strategist, now not only a happy owner of gold and silver bullion but also a very happy authorized bullion dealer for BMG BullionBars in Toronto – see [www.bullionbars.ca](http://www.bullionbars.ca) for more information.

Louis Boulanger, CFA  
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#### **Disclosure and Disclaimer Statement:**

I am not a disinterested party. I personally own gold and silver bullion and invest in a commodity index fund. I also began in February 2009 as a sales representative for BMG BullionBars. One of my objectives in writing articles such as this is to interest potential investors in the subject of monetary reform to the point where you may be encouraged to conduct your own further diligent research. Neither the information nor the opinions expressed should be construed as a solicitation to buy or sell any security, currency or commodity. Investors are recommended to obtain the advice of a qualified investment advisor before entering into any transactions. I have neither been paid nor received any other inducement to write this article.

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