Thinking about gold - Podcast Mar 3 2023 thinking notes

Working title: Why Everyone Should Own Gold
Subject: Gold
Theme: Gold is an indispensable asset in your personal savings plan
Contrast: Gold is a “barbarous relic,” an unproductive rock.

Hello Everyone. Welcome to Finance Friday on the ARK-UK Youtube network. This is HardmoneyJim speaking to you today from sunny Coronado California where they like to say “main street meets bare feet” on the local beaches.

[hold up gold Buffalo coin]

Today we’re going to talk about gold – gold as an instrument for some of your savings. Placing some of your savings into gold is a practice I believe everyone can benefit from, although most people ignore it.

Here is a common gold coin called a “buffalo” because it has an American buffalo on one side and a Native American profile on the other. This one is not a rare coin, but one that has probably changed hands many times. It trades at a price a little above its bullion value of about $1840 per Troy ounce today, plus a 3 to 7% coin premium depending on the condition of the coin and the dealer you use.

That price translates to about $59 per gram, a gram being approximately equal to the weight of a cubic centimeter of standard water. There are 1000 grams in a kilogram. When quoting prices for large amounts of gold, dealers and pricing agencies usually use metric tons, which is 1000 kilograms, or 2204.6 pounds, not the 2000 pounds in an English ton.

If you are slightly confused about all those conversion numbers, good! Because I want you to be careful when you buy gold, to know what you are buying, and compare what you buy to a standard price, know the weight conversions, and so forth I track the price of gold in dollars per Troy ounce, a commonly used, readily available quote, and I am careful to translate the units of everything I buy back to that standard.

You can own gold in this form – common coins, or in rare coins that trade at a substantial premium to their metal value because of their rarity, or in bullion form, that is in bars of fine gold of various sizes and weights.

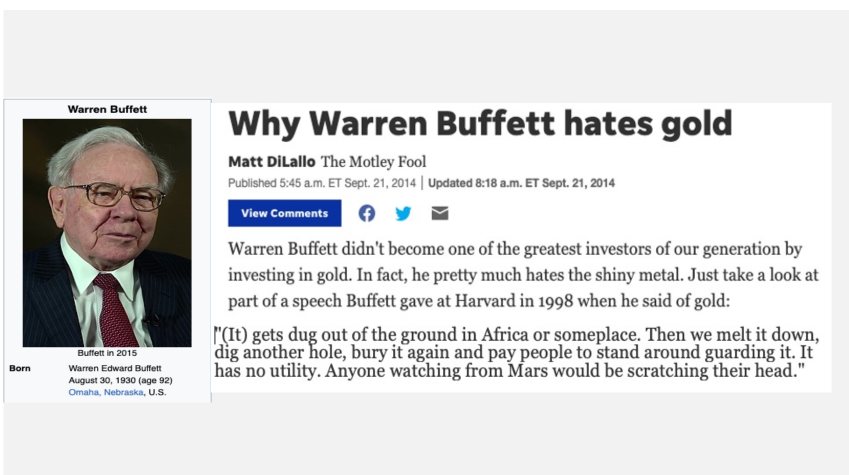
[hold up polymer gold bill]

You can even hold gold in bill form, like this one here. This is a polymer sheet impregnated with a specific amount of pure gold. These kinds of bills are considered legal tender in some states, although they are not widely used in daily commerce. I occasionally leave them as bar tips. People remember it.

[share screen]

I use the pseudonym “HardmoneyJim” for my Substack letters and podcasts, so you will not be surprised that I think everyone should consider owning some gold. Today I want to share with you why I think so.

By the way, I am talking about only gold today. Many of today’s observations could also apply in some ways to silver and other precious metals like platinum and palladium. Gold is my precious metal of choice because it is the purest monetary metal, whereas the others have industrial value as well, which tends to complicate their valuation, in my view .



Warren Buffett

Buffett in 2015

Born Warren Edward Buffett August 30, 1930 (age 92) Omaha, Nebraska, U.S.

Why Warren Buffett hates gold

Matt DiLallo The Motley Fool

Published 5:45 a.m. ET Sept. 21, 2014 | **Updated 8:18 a.m. ET Sept. 21, 2014**

View Comments

Warren Buffett didn't become one of the greatest investors of our generation by investing in gold. In fact, he pretty much hates the shiny metal. Just take a look at part of a speech Buffett gave at Harvard in 1998 when he said of gold:

"(It) gets dug out of the ground in Africa or someplace. Then we melt it down, dig another hole, bury it again and pay people to stand around guarding it. It has no utility. Anyone watching from Mars would be scratching their head."

Now I know many people are skeptical about owning and hoarding physical commodities like gold, including some famous investors like Warren Buffett. Here’s a USA today story from a few years ago. [quote Buffett]

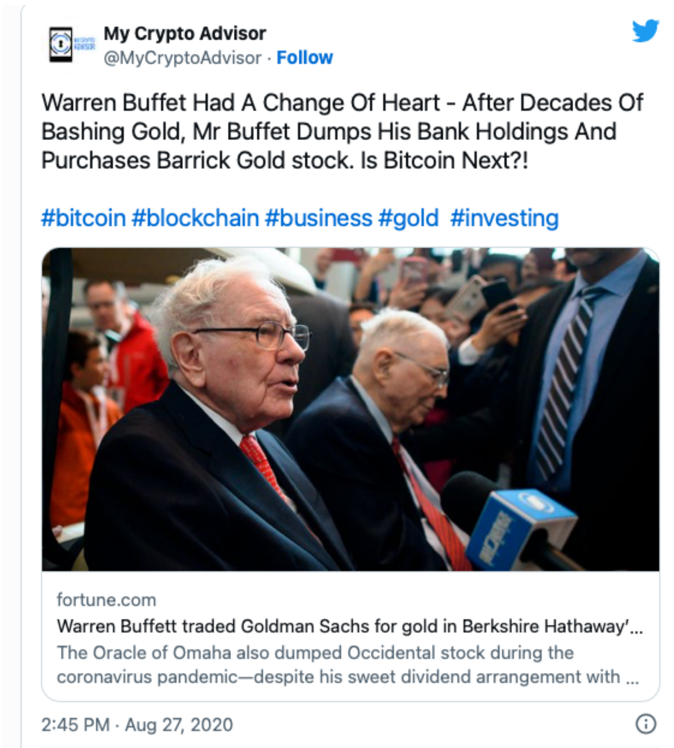
So Warren Buffett allegedly disdains gold, saying it's an unproductive rock, echoing John Maynard Keynes, who called gold a “barbarous relic.” There is just one problem with this attitude. Does Buffett also disdain money? Does he think a dollar bill has “no utility”? The fact is, gold is money, and has been recognized as money, both popularly and legally, for thousands of years. And all money has utility in exchange for other goods and services. The exchange value of gold, and all money for that matter, is powered mostly by voluntary choices in the market, not by government fiat. It's interesting that Buffett chose to ignore these facts in his 1998 remarks.

Buffet's remarks were especially interesting and ironic given that his father, Howard Buffett, a stockbroker who served four terms as a US congressman from Nebraska, was by today's standards a true gold bug, and I mean that as a compliment. Howard Buffet was a consistent advocate of sound money, limited government, and responsible spending, all of it regulated by a gold standard. The article referenced in this slide is available on the internet, and I recommend you look it up and read it, as it is a smart, plain-language advocacy for a gold standard that everyone can understand.

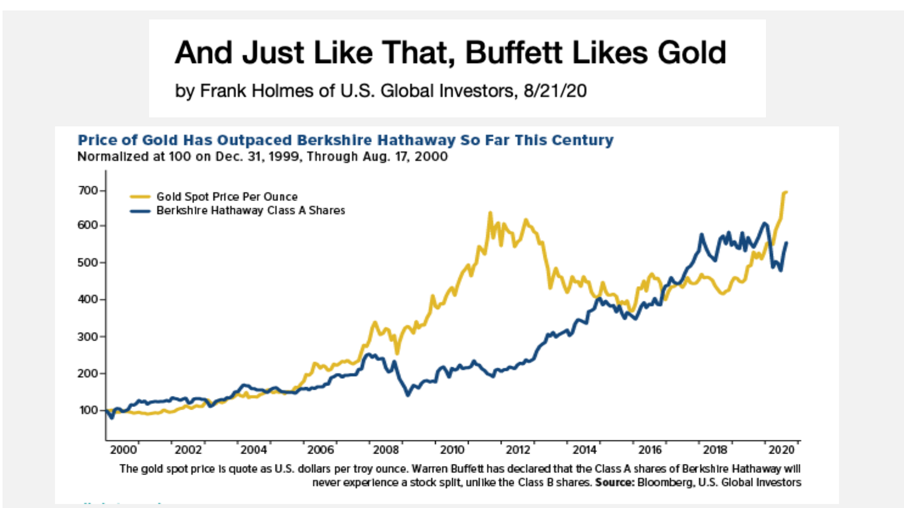
Here is an excerpt from one of Howard Buffett's speeches before Congress:

> "I warn you that politicians of both parties will oppose the restoration of gold, although they may outwardly seemingly favor it, **unless you are willing to surrender your children and your country to galloping inflation, war and slavery** then this cause demands your support. for if human liberty is to survive in America, we must win the battle to restore honest money. There is no more important challenge facing us than this issue -- the restoration of your freedom to secure gold in exchange for the fruits of your labors."
>
> *Source: Congressional records*

So Warren Buffett's 1998 Harvard comments puzzled me. Because Warren Buffett is a brilliant man. It is not possible that he is ignorant of the role of gold as money, especially given his father's reputation as a sound money advocate.



Buffett added to the puzzle in 2020 when he bought a big stake in a large Toronto-based gold mining operation, Barrick Resources. He had to disclose this purchase because of its very large size. Apparently, he hated gold until he loved it. Why did he change his mind about gold?



Maybe it was because he noticed that the price of gold had outperformed the stock price of his own company, Berkshire Hathaway, up to that point of the 21st Century. (To be fair and accurate, in the 30 months since Buffett announced that purchase, BRK/A stock has outperformed gold and has also outperformed Barrick Resources. Both Barrick and gold have been fairly flat in price since then. The point, as we shall see, is that gold can perform quite well either by itself or in a portfolio.)

I said in the last podcast that I think gold is the asset of choice under financial repression. There are other assets that can work well, but gold is perhaps the most neglected, meaning it's the least well-known by the biggest victims of financial repression: normal, ambitious middle-class, aspiring earners and savers. Most people think of houses and stocks as the major buffers to inflation. Very wealthy people understand these are not the only inflation buffers. Inflation harms everyone, but wealthy people are often able to take relative advantage of inflation by placing some of their wealth in gold.

But what about the average saver, or the young people trying to start a savings program under financial repression? Shouldn't they put some savings into gold? My purpose today is to alert the average saver to the benefits of gold as a vehicle for savings for you and your family. Because of its unique characteristics, anyone with savings can put some of their savings into gold.

Today I want to address some basic questions about gold as a savings asset. I want to stay practical today and mostly avoid deep monetary theory, interesting as that is. So here are some the questions before the house today:

- Why should you own gold? That's the biggest question.
- When should you acquire it? Now? Any time?
- In what form should you own it? Bullion, coins, gold mining stocks?
- How much should you own?
- Who should you buy it from?
- When should you sell it, i.e., exchange it for fiat currency?

Let me pause here for a footnote. As we go along today, I will pause at appropriate times to address some good questions I got from a subscriber named **Tom** because I found that in preparing this material, some answers came to mind that I'd like to share. Also, I must add that what I say today is not investment advice. I hope it is entertaining and interesting, but you should do your own research and / or consult your own investment advisor before making any investment decisions. Also, and I think many of you are aware of this, but let me remind you I sit on the Board of Directors of Monetary Metals and Company, which is involved in gold investing. My words today are not a solicitation for engagement with that company or any company. Anything I say today, I would have said even if I had no affiliation with a gold-based company.

With that out of the way, let's jump in and ask: Why should you own gold?

WHY OWN GOLD?

In my view, gold is close to an ideal long-term investment, which does not mean it's your only investment, but an investment that checks several important boxes. What are the characteristics of an ideal long-term investment? Three features or qualities are most important, in my view. An ideal investment is scarce, permanent, and independent.

These criteria are not my invention. Thanks to investor Anthony Deden for identifying them. You can look him up Tony Deden on the web. I recommend you go and read his wisdom, which is free and well worth it whether you are a seasoned professional or a novice investor. Let's focus on the three characteristics, I'll say a few words about each one.

- Scarcity: True scarcity obviously means unusual and in limited supply. This is a hard attribute to find, especially in a money-making business. For example, you may invest in a business like a restaurant or dry cleaner and be successful because you are the best among your peers, but these services are not scarce. Gold, however, possesses true scarcity. It is naturally beautiful and attractive to hold. It is hard to mine, requiring the expenditure of real resources to get it out of the earth. The total stock of gold only grows at most by 1-2% per year. Over the millennia, gold production has grown roughly in proportion to the growth in world population, so price inflation in terms of gold, when it happens, is very limited. There actually isn't much gold in existence: You could comfortably stack up all the gold in the world on a baseball diamond or a football pitch. Despite this scarcity, it is highly divisible and malleable making it easy to hold and transport. These and the other ideal money characteristics are what make gold, as money, so rare and so scarce.

- Permanence – Gold does not oxidize, corrode, or dissolve. Pure gold does not tarnish. It is among the most durable of all metals. It is nearly impossible to destroy. Except for losses, as from sunken ships, virtually all the gold ever mined, for thousands of years, is still in existence today. Gold is as permanent as any money can be, which means you can expect it to have value long after you are gone or long after any particular political entity that issues fiat money has evaporated into history. This permanent character is a major reason gold has held value in the past and will hold value in the future. You can't say the same about promises to pay or about fiat currencies.

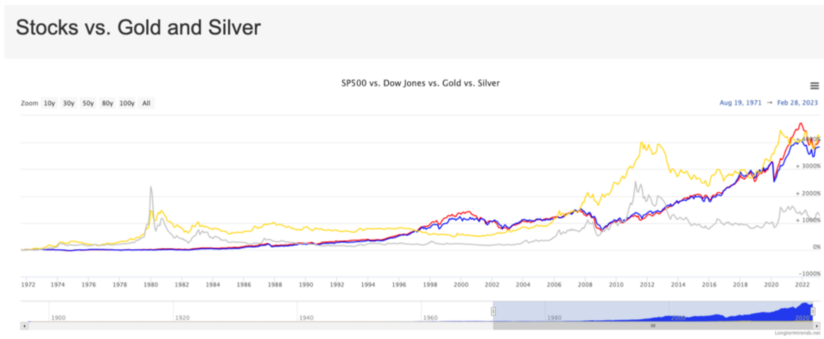
- Independence – Another reason gold has endured over thousands of years and survived hundreds of failed governments is that it represents full and final payment. Gold is the only true money in this sense. It depends on no other counterparty to give it value, because it is universally valued by individuals in the market, all over the world. Gold requires no banks to make a payment. It is payment, in contrast to a bank deposit, which is a "duty or promise to pay." In testifying before Congress in 1912, JP Morgan said, "Gold is money. Everything else is credit." When other forms of payment like bank credit fail, it is still pretty easy to move gold across borders in briefcases and private jets. And when gold changes hands, the transaction is complete, because you are not holding someone's promise to pay. While money can be completely immune to a coercive government, gold is at least independent from the government-regulated financial system, so it keeps a distance from government meddling. Gold is the standard money chosen by the market, by the people, not by any government.

Scarcity, permanence, and independence. As far as I know, there are practically no securities (meaning bonds or stocks or other paper promises) that meet these criteria perfectly, because all securities are based on business prospects, the rule of law, and someone's promise. I don't know of any business you can buy that meets these criteria perfectly, although I am still looking. But gold scores pretty high in my book. When gold is viewed this way, it is surprising to me that a brilliant value investor like Warren Buffett would make the silly remarks he did. I won't speculate further on his reasons, but will I do think Buffett's famous anti-gold comments are typical of the error and the bias against gold.

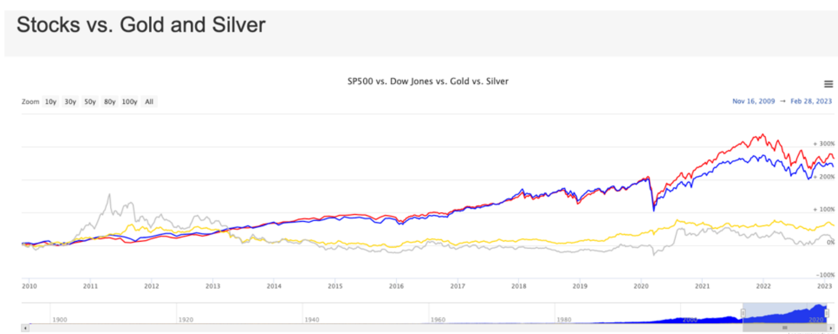
Gold has been recognized as money for thousands of years. It is the only money (silver possibly excepted) that has been universally and voluntarily chosen "by the market" (that is by the masses of people) as standard or reserve money. By "standard" money, I mean a medium of exchange that constitutes full and final payment, discharging all other promises to pay. Today, fiat dollar bills are also full and final payment. They are "legal tender" meaning they discharge all further credit and debts on payment. However, the well-known problem with dollar bills is that the US government produces them by the hundreds of billions at no cost, and the result is inflation, which is the major consequence of fiat money creation.

One reason to own this gold is the same reason you keep a **cash reserve** in your pocket or in your safe or under your mattress. You are quite rationally hoarding some cash for the proverbial rainy day. If you are going to hoard some money, why not hoard something that will retain its exchange value over a long period of time? And gold does exactly that, over a long period.

Another reason to hoard some gold: It is a **good diversifier of price risk**, because its exchange value is not well correlated with other assets. In other words, its price in dollars zigs when the price of other investments zags. Here is a good example:



This chart compares the long term price in dollars of gold (yellow) the Dow Jones Industrial Average (blue) the S&P500 (red) and silver (grey or silver). The stock performance does not include dividends, which is appropriate, because gold in your pocket or a safe cannot earn interest. I chose what I thought was an appropriate starting point – August 1971, when the USA severed its last ties to gold as money. Over a long period, gold priced in dollars has performed similarly to stocks. But notice its price is not closely correlated to stocks. It often zigs when stocks zag. For example, from 1971 to 1996 – a mostly inflationary period – gold outperformed stocks. From 1997 to the financial crash, stocks outperformed. For a few years after the crash, gold vastly outperformed; you could say it got ahead of itself for a while.



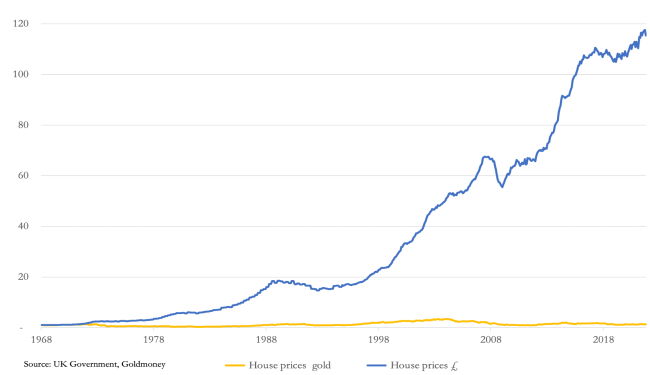
But now look at the recent past, the last 15 years, post financial crash. Stocks have vastly outperformed gold. In fact, passive stock investing has outperformed almost anything else you could do. I suspect this recent outperformance is biasing the decisions of many investors today, who think stocks are always destined to outperform just because that is what has happened in their personal investing career. If that is what you are thinking, maybe you are right, but I think it would benefit you to look at the longer-term record and ask yourself why you think what has happened in the last 15 years should continue for the next 15 or more years.

Now you know I have advocated gold as a way to save under inflation. But please beware, if your definition of inflation is an increase in the consumer price index, you might be disappointed in gold. The gold price does not go up or down in perfect correlation with the CPI.

Gold can't read the CPI, which is a pretty arbitrary measure of price increases. There are a myriad of factors, not the least of which is that the gold market might be anticipating all the manifestations of inflation, not just the timing of the increase in consumer prices. Also, gold competes with other investments for investors' money. If investors decide to sell stocks to put on even a small gold position, that can affect the gold price significantly.

I personally do not try to anticipate the gold price in dollars over any short or intermediate period. Instead, I tend to judge other assets in terms of gold. I have occasionally traded gold for other assets I thought were valuable, but have never sold gold for cash because I thought its price was "too high." To me, gold is a permanent, or near-permanent, savings vehicle. So I can imagine a condition under which I would sell some gold to buy something else, but that would be a rare case.

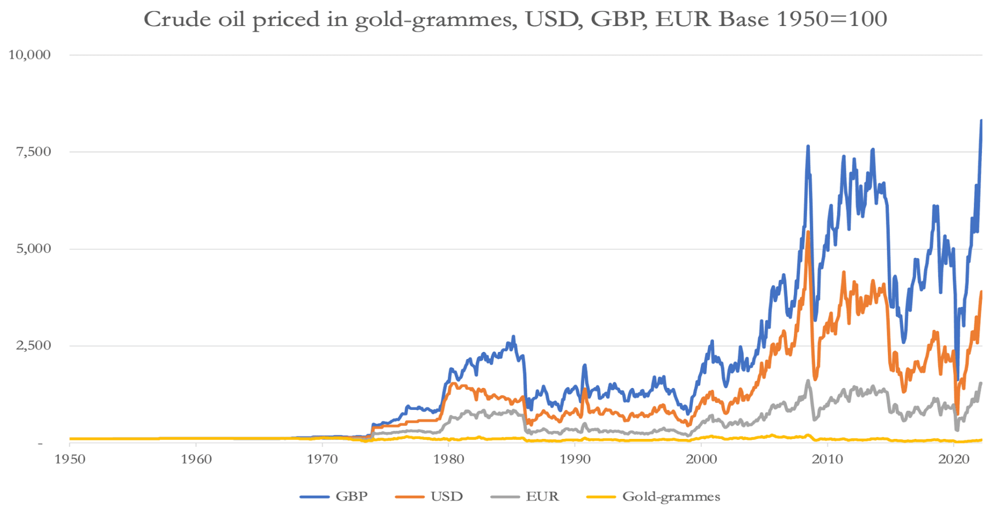
Figure 1. London house prices in sterling and gold: 1968 = 1



Here is what I mean when I say gold holds its value versus other assets over a long period of time. The chart, which I found in an excellent essay by [Alistair MacLeod] from the Cobden Centre, shows the [price of a house in London] from 1968 to the present. The blue line is the average price in GBP. The yellow line – that very flat, steady line – is the average house priced in units of gold.

This chart supports my argument from last time that you should own a home as way to preserve savings over the long term. Over this period, the fiat money price of a house in London went way up, up over 120 times, preserving the purchasing power of GBP if you eventually traded your house for fiat currency. That's great, but it wasn't much more than good preservation of real value. Despite the big numbers, the house was not a huge return on investment. The house, priced in an inflation-resistant asset, gold, was as steady and as flat as a pancake. In units of gold, the average house price went up only 29%. To be clear what this means: In 1960, you could have bought gold instead of a house, and if you then exchanged it today for fiat, you would have increased your fiat money almost as much as you did by owning the house. Of course, the two assets are not perfectly comparable. You got to live in the house but you also had to maintain it, and it was not a liquid asset. On the other hand, you didn't have to do anything with the gold but remember where you put it. No risk of storm damage, for example.

Figure 2. Energy price volatility is in fiat currencies, not oil nor gold



Source: James Turk, Goldmoney

Here is another example of the steadiness of gold's purchasing power. This is from an investor named James Turk who is very knowledgeable on gold. (Turk is worth looking up and he's very worth reading.) The chart shows the price of oil in GBP (blue) USD (orange), Euros (grey) and gold (yellow). Notice the price of oil in gold is quite flat, and fairly predictable. Within a reasonable range, too small to show on this chart, a barrel of oil today trades for the same quantity of gold it traded for 60 or 70 years ago, fluctuating roughly around a gram of gold, and it doesn't fluctuate wildly in gold money while in fiat the oil price is quite volatile and inflated. In other words, gold held its value quite well compared to houses or oil as well as many other commodities.

This would be a good time to pause and address a question from **Tom** after our last podcast. Tom asked about what happens when the value of your house becomes a very large portion of your net worth. Isn't it too risky, he asked, to have so much in a house whose value is tied to a particular location, in a particular market, with all those unique risks? Well, I think yes, depending on individual circumstances, that could be a valid concern.

Owning some gold addresses Tom's concern. If you put some of your real estate wealth into gold, you will likely maintain the value of that wealth while avoiding the market risks and business risks of real estate and stocks. But you also have more liquidity: you can monetize all or part of your gold any time. You can't do that with an expensive house, your choice is to hold it or sell it unless you want to borrow against it. So Tom, owning gold can help address your concern about diversification away from your personal real estate, without buying more stocks or bonds. I bring it up because relatively few investors today think about gold as a portfolio diversifier. They mostly think of diversification as tradeoffs between traditional modern assets like stocks, bonds, real estate, and cash. Gold is considered an exotic asset by many, but it is one of the oldest investment assets in existence. So, I recommend you add gold to your list of possible investment and savings assets.

I want to pause here and recommend a book for anyone who is serious about the history of gold, to learn how it provided a very stable currency over a very long period of time, and how well gold adapted itself to the industrial age and an era of rapid technological progress. *The Golden Constant* by the late Roy Jastram is a fascinating historical study of the price of gold over a 450-year period. Jastram's meticulous data shows that gold provided remarkably stable prices for most of the developed world. The book is only available in hardcover, unfortunately, but it's worth having.

Anyway, as an interim summary, there are two good reasons to own gold any time: first, it holds its value over time, and second, it is a good risk diversifier versus stocks, bonds, and real estate.

WHY BUY GOLD NOW?

But now I will add one more controversial reason to own gold, one that you can take or leave. I think now is a time in history when gold might be more important and more valuable than at most other times. In other words, I think there are some persuasive reasons to own gold *now.*

In other podcasts, I have mentioned one of these reasons. If, as I believe, we are in a period of long-term financial repression, gold should hold its value well. Safe financial assets like Treasury notes will likely earn a negative real rate of return, meaning their principal and interest will not keep up with price increases because repressive government policy is designed to encourage inflation and suppress interest rates. Gold by itself pays no interest, but as we've seen its price keeps up with inflation over time. When real interest rates are negative, they no longer compete with gold.

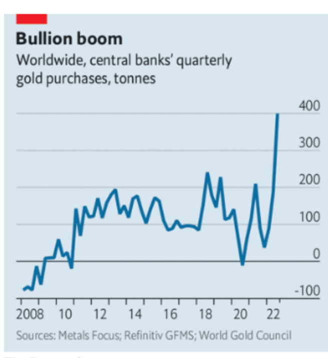
There's another related reason, which is that the dollar may be in the early stages of being replaced as the world's reserve currency. I believe this is a very slow process and it is not as if the dollar will be completely replaced in my lifetime, I don't think that. But let me tick off just a few bullet points illustrating the movement by many national monetary authorities to start using some standard money other than the dollar to settle international trade.

'Colossal' central bank buying drives gold demand to decade high

Fallout from US sanctions on Russia helped fuel 18 per cent leap in purchases last year

A gold smelter in Sydney, Australia. Central bank purchases of gold hit 417 tonnes in the final three months of 2022, roughly 12 times higher than the same quarter in 2021 © David Gray/Bloomberg

First, central banks around the world are buying gold in very large amounts. You've seen this for a number of years, and in the last year it is being noticed by the mainstream financial media such as *The Financial Times*, *The Economist*, and *Bloomberg News*.



Now central banks are furiously buying gold again (see chart). In the third quarter alone 400 tonnes moved into their reserves. That has pushed the total from January to September to 670 tonnes, a pace unseen since the Bullion Market debacle. In May Turkey snapped up almost 20 tonnes in one go. India and Qatar are also ravenous. The metal now makes up two-thirds of Uzbekistan's reserves, months after it planned to reduce gold to under half. Kazakhstan is also doubling down.

Central banks are doing this to diversify their reserves, as protection against losses of purchasing power of the fiat-based sovereign securities they hold, which are mostly US Treasurys.

The deterioration of the dollar is not just the result of inflation. In addition to inflation, the abuse of the dollar as a reserve currency is causing some countries to revolt against it. Let's look at some indicators of this trend.

- The increasing use of US financial sanctions, which consists of denying some governments access to our banks and therefore to dollars, has not worked. Financial sanctions did not bring the downfall of the heavily sanctioned governments of Cuba, North Korea, Iran, Venezuela, or Russia. Those dictators are all still there. Sanctions have not worked.

- The latest round of sanctions, which was supposed to destroy the ruble and wreck the Russian economy, has failed. Russia has circumvented these sanctions pretty easily, by negotiating bilateral trade deals with various countries that allow their trading partners to use rubles for trade. Russia has started using its gold reserves as a way to settle trade imbalances. Russia has to accept a discounted price for their oil, but at least they are not shut out of the market, and their trading partners (e.g. China) get oil at a discount to the world price.

- The Gulf Cooperation Council, a common market of middle-eastern oil producers, is gradually turning its back on the dollar as payment for oil and gas. The GCC is concerned that foreign reserves held in western fiat currencies can be rendered valueless overnight, as happened with Russia. I would also argue that climate change policies in the West send a message that for the GCC the future of their oil trade is not with the western countries. There is also the problem of inflation in the dollar, which means the surpluses stored in the form of sovereign Western bonds decline in value, whereas their oil is increasing in value. Why should oil producers trade oil for a depreciating asset, like dollar-based investments? For long-term, growing, stable trade relationships, they must turn to the Russians, the Chinese, the Indians, and other emerging market nations.

- China has recently signed a 27-year supply agreement with Qatar for its gas. By contrast, President Biden attempted to secure an agreement with Saudi Arabia for additional oil output, and left with nothing.

- Trade between China and Russia is increasing. Russia runs a big trade surplus because of oil exports. China badly needs oil. The surplus between the two is held in a gold differential account at the PBOC, the Chinese central bank. (These surpluses were previously held dollar-denominated investments, presumably US treasuries)

- The Chinese have opened the Shanghai Gold Exchange where they sell gold to their citizens. The exchange was established in 2002. Since then they have sold 23,000 tons of gold to the Chinese public (worth $1.5 billion at today's prices) plus an unknown amount in international sales. According to investor Simon Hunt, a few months ago Saudi Arabia sold oil to China for RMB. Then they took the RMB and converted it to gold on the Shanghai Gold exchange. So Saudi Arabia has sold oil to China for gold instead of dollars

- Ghana just announced that it will export gold in return for oil. “One of the largest gold mining countries, we are in the top 10 in the world but we have not accumulated gold to build our reserves,” the Vice President said recently, “So we ask the simple question, why don’t we use that gold to pay for oil, sell the oil in Cedis (home currency) and then you don’t need to look for the scarce foreign exchange to buy oil, which always leads to depreciation on the currency.” So what, you say, it’s Ghana? OK, I agree, it is a small example, but the idea may spread.

- Then there is the prospect of an expanding war in Ukraine and possibly Taiwan. Wars are always funded by inflation, and political instability increases gold demand.

- All of these factors point in the direction of a gradual move away from the dollar to settle international trade. Gold is one obvious substitute.

Let’s quickly review the fundamental reason these countries might prefer dealing in gold as opposed to dollars. Practically everyone values gold, so it is a viable commodity money to use in exchange. In addition, unlike the dollar, gold doesn’t know politics. Gold doesn’t impose sanctions. Gold doesn’t have any tanks or airplanes or central authority. Gold is simply accepted by billions of people worldwide as something valuable, and its characteristics are near-perfect as a medium of exchange. So as soon as a government embraces it and says it will recognize gold as money, it almost instantly catches on.

Using a fiat currency like the dollar as a tool of sanction only works to a limited extent because you will eventually run out of economic power. I’ll offer a historical example illustrating why gold cannot be used to coerce other governments in that way. 180 years ago, during the Crimean War, from 1854-1856, Britain, France, and Russia fought horrible battles in what is now called Ukraine. Hundreds of thousands died, on both sides. Yet throughout it all, the British Treasury kept paying its debts to the Russian Tsarist government, and Russia kept paying interest to British citizens who owned Russian debt. It was unthinkable for these governments to renege on these obligations even while their soldiers were slaughtering each other.

There were good reasons for this. In 1854, the international reserve currency was gold. If gold is the reserve currency, and no single nation can issue the reserve currency, all nations must bow to gold. Governments were dependent on the banks, and banks were dependent on their gold depositors, who were the individual owners of gold supplying the reserves. Failure of a sovereign government to pay its debts would result in a run on the gold deposits in the banks, for fear the bank would go bust. Remember, bank reserves in those days were controlled by the depositors of gold in banks, not by governments. Unlike today’s money, the reserve currency (gold) was not created by banks, and it did not even need a banking system to be recognized as money. Gold was then, and still is, independent of the banking system. The monetary authority was the market itself, not the government.

Today, all fiat money and all fiat currencies are the product of pure credit creation, increasingly controlled by sovereign governments. Today, governments *authorize* their banks to create money. Government, not the market, is the monetary authority. With government permission, a bank creates a ledger entry that is used as money. That means the government can wipe out that ledger if it wants to, for any political purpose. Money today is the made-up liability of a bank that exists because the government says it can. So it's easy for the government to tell the bank: nullify that liability, nullify that money. Just cross it out. It's merely a ledger entry.

This is a key point: *It is the current system of credit creation based on fiat reserve money that permits nations to weaponize their banking systems*. Without government control over money creation and money transfer, this would not be possible.

Under a gold standard, with the economic power of the reserve currency dispersed among millions of depositors (i.e. gold owners), it was nearly impossible for any government to renege on debts without severe consequences. It is no accident that the large, terribly destructive wars of the 20th Century occurred only in an age of fiat money. The great wars of the 20th Century wouldn't have been possible if gold had been in charge of war financing. Ironically, our enemies and even some friendly trading partners are starting to look toward gold once again. This is certainly not a gold standard, but it is a nod in that direction.

So to sum up this point on why it might be compelling to buy some gold at this particular time, I think it is because as countries use their fiat currency privileges to deal with unpayable debts and try to impose their power on other countries, many trading partners, both enemies and friends, will distance themselves from the dollar in favor of an independent reserve currency, that is likely to be gold, and as this happens the demand and therefore the value of gold will grow.

CAN GOLD BE OUTLAWED?

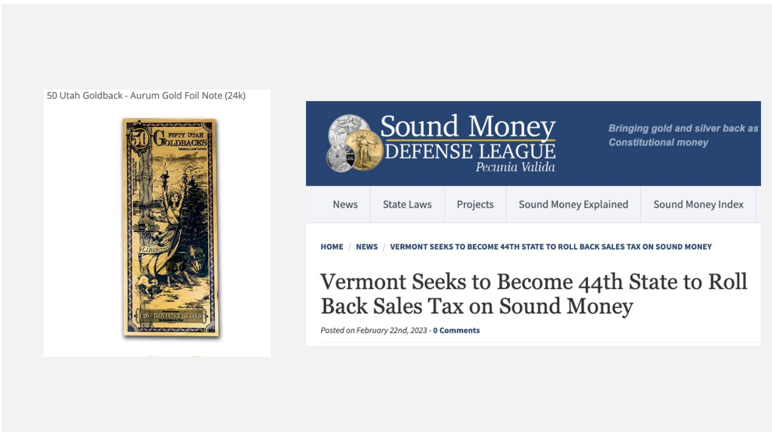
Now on that last point of political control, I want to address a potential objection to owning gold, namely the risk that gold could be confiscated or outlawed by our government. After all, this happened in 1933, so why couldn't it happen again? I do not say this cannot happen again, it could, but I want to tell you why I think it is unlikely to happen.

Let's briefly go through the history of gold confiscation and re-legalization in the USA.

1933: FDR by executive order made citizens surrender their gold (except for a small amount) for $20.67 per ounce.
1934 – Congress passed the Gold Reserve Act requiring the Fed to give all its gold to the Treasury. The act fixed the value of gold held by foreign banks at $35 per ounce, but US private citizens couldn't own it legally.
1971 – Nixon by executive order said the US would no longer convert foreign dollars to gold. this was the final severance of the gold standard
1974 – Congress restored American citizens' right to own gold, and Gerald Ford rescinded the 1933 executive order.

1977 – Congress removed the President’s authority to regulate gold under any circumstance except declared war.
1985 – Gold Bullion Coin Act allowed the US Mint to make and sell gold coins.

So there is a history and strong legal precedent for restoring gold ownership, and it would take a very oppressive government to take it away. And it would be an admission of complete fiat money failure. It would be very, very unpopular or worse. And by law, it would have to be in a time of declared war.

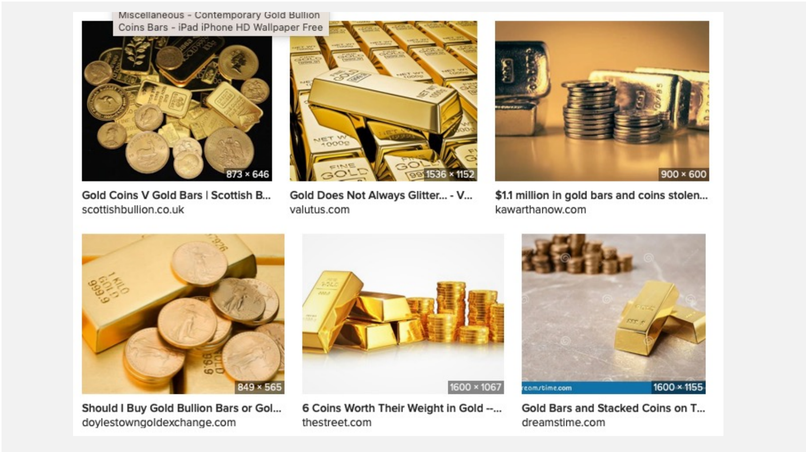


In addition, in recent years, most of the states have been gradually adopting laws encouraging the ownership of gold. For example, 43 states have removed sales taxes on gold coins and bullion. Some states like Utah have said that gold certificates like the Utah Goldback pictured on the left are legal tender under state law. Just a few days ago, the Wyoming state legislature considered a bill that would have required the state Treasurer to own and invest gold. That measure was defeated by a 55-45 margin, but I suspect the issue will come up again, and it is remarkable it was even considered.

The point is that there is political momentum to recognize gold in commerce, momentum which is percolating up from the grassroots at the state level.

[pause for comments]

HOW TO SAVE WITH GOLD



OK so if you're still with me up to this point, maybe you'd like to know how to channel some of your savings into gold. There are many ways. Let's now do a quick flyover of the main options.

First, there is jewelry. If you are married or engaged, it's highly likely you already have a small investment in gold on your ring finger. Then there are gold watches and other jewelry that tend to appreciate in market value. My wife loves to shop estate sales for objects like these.

There is bullion, or just the refined metal, usually in the form of gold bars, certified by a mint or a reputable refinery as .999 pure. Bars come in various sizes and weights, from less than an ounce up to a kilogram.

There are basic coins, newly minted or already circulated, that trade at their bullion price plus a premium depending on their condition. The buffalo coin I showed you at the beginning is such an example.

Then there are the true collector coins, including ancient coins and relics, which get much or most of their value from antiquity. A warning here. Saving collectibles requires much more than just knowledge of gold, but some people really love numismatics and so forth. It can be a great hobby or even a profession. Personally, I mostly invest in the coins trading closest to bullion value because I do not wish to become an expert in collectibles.

Those are the main physical forms of owning gold. If you do buy physical gold, you can store modest amounts at home in a safe place. If your holdings become significant, invest in a good safe and conceal it. You could also use a safety deposit box. No one outside a trusted partner needs to know you own gold.

If you own in real size, consider a bonded depository for some of it. These facilities are insured and very safe, but will charge you around .5% of the value of your gold per year. I'll just mention that at monetary metals, we store clients' gold for free because both our clients and we earn interest on the gold, and this interest pays for the storage and insurance.

You can also invest in gold in paper form, i.e., you can buy listed securities. You can buy an ETF that represents a specific amount of gold per share. Symbol GLD is the best known. This is a convenient way to accumulate gold that I have used in the past. For example, you buy the ETF when you have money available, locking in the price of gold at that time. Then, at your convenience, you call up the gold dealer and tell him the quantity of gold you want, and to pay for it all you do is sell your ETF, which exactly tracks the price of gold. So once you buy the ETF, you have no price risk when it's time to buy the physical gold.

You can buy gold mining stocks as well. If you do, exercise caution and do a lot of research here. Many gold mining companies are not well-run. It is a tough business. To reduce risk in a single company, you can consider buying any of the many funds that invest in gold mining, both ETFs and mutual funds. If you buy individual stocks, at least get a second opinion by a reputable advisor. I like Fred Hickey and Bill Fleckenstein. Both are easily found online, and both have a lot of experience in this space. You can also get some basic advice from some writers on Seeking Alpha, but read and evaluate them carefully. If you get into gold investing at this level, you will eventually find your own trusted expert.

Home > Stock Ideas > Quick Picks & Lists

Precious Metals Royalty And Streaming Companies: The January Report

Feb. 09, 2023 9:50 PM ET | ABBRF, ABRA:CA, ABX:CA... | 14 Comments | 18 Likes

There is one more very interesting way to invest in gold, and that is through a royalty company. There are a number of these trading on the stock exchanges. This writer on Seeking Alpha follows them for you. Royalty companies act as financiers to the mining industry. For a fixed upfront price, they buy a percentage of the mineral output of a specific mine or group of mines. As the mineral is mined, they get paid right off the top, before any expenses, and pass the returns on to shareholders in the royalty trust. As the price of the mineral (gold or silver or whatever) rises, the royalties go up. Most royalty agreements cover all the minerals from that ground, so you get an option on further value down the road if other discoveries are made. There are virtually no expenses in running this kind of business, you just collect the sale value of the mineral, so it is a pure play on the mineral price. I think it is an excellent way, low-stress way to invest for the very long term. You need to be careful about the price at which you buy, however, as the share prices for these companies might imply a very big premium to the current metal price, so beware.

So in pattern, here is what you might do if you want to start saving in gold.
Set aside a little of your monthly savings until you have enough to buy a little gold
To begin, stick with items that are close to bullion value like bullion or common coins.
For example, with less than $4000 today you could buy a four ½- ounce gold coins from a reputable dealer, or two one-ounce coins. As you accumulate savings, keep adding on a regular

basis to your gold holdings. This should be part of your real savings, not a little piggy bank you break whenever you get an itch to take a vacation or go to Las Vegas.

As your savings grow, you can consider alternative ways to invest and alternate storage methods, which I described here. There is lots of information online readily available on vendors, storage services, funds, ETFs and so on.

How much of your savings should be in gold? Not all your savings. Start with 10%, then add as and when you feel more comfortable.

Personally, I own physical gold in several forms, much of it in a secure, bonded depository. I also own paper gold in the form of ETFs, royalty companies and gold mining stocks. That is just me, and my program is not your program. There are many roads to successful saving.
I want to close with some wise words from a wise investor in gold. This is probably my best answer to a question by our curious reader Tom, who said he might be uncomfortable with the risks of owning and storing a high-value item like gold. Yes, you do have to deal with the inconvenience of secure storage, but there are risks to owning anything that is valuable. A good question is, what about the risks you do NOT take by owning gold, risks that are present in nearly every other kind of investment asset? This point hearkens back to the scarcity, permanence and independence of gold.

> "What makes gold compelling are the risks we do not take by owning it."
>
> -Michael Weeks, Edelweiss Holdings

"The reason we own gold as a reserve asset is rooted in something more fundamental. What makes gold compelling are the risks we don't take by owning it. No forecasting or guesswork is required. The risks we don't take owning gold could fill volumes. With gold, there is no duration risk, credit risk, or liquidity risk. The metal is not moved by financial instability nor threatened by national insolvency or chaos in foreign exchange markets. There are no margin calls and no refinancing risk. There is no risk of technological obsolescence, depletion, depreciation or decay, nor does it require cheap energy, cheap credit or cheap trade to remain viable. It doesn't care about your national energy policy or who you buy your gas from or how many pipelines are running. You don't have to keep the lights on or even keep it warm. There are no financial accounts to pore over, no balance sheet to blow up, no cash flows to dwindle, no stale inventory and no margin pressures in difficult times. There are no key man or supplier risks, no competitive risks, no management to squander its future. It does not depend on the character, skill or enthusiasm of anyone. It doesn't require the faith or good will of others. It doesn't require you to trust anyone at all. The absence of unwanted risks is the center of our investment approach. The principle applies to our choice of gold reserves as well as the business participations that we hold. Both parts are brought together by seeking to avoid the risks that aren't worth taking, and, by extension, having the freedom to choose the risks worth embracing. We play the long game but are keenly interested in the kind of opportunity that makes sense through our own prism of what is valuable and worth possessing."

I could not have said it better. And finally, this is from another well-known gold investor:

> "[In] helping people think about an investment decision, there are three choices. Buy it, sell it, and the third, which is so often overlooked. Do nothing. If you own gold as a liquidity reserve or a store of value, you have the luxury of being able to do nothing in periods of great upheaval."
>
> -James Aitken, Aitken Advisors

So I say, at a minimum buy some physical gold, then do nothing with it. Remember where it is, but forget you have it. Live without it. Most people will not do this, but I believe many will someday wish they had.

[Thanks, let's have questions]

Bonus for readers: Anthony Deden on investing and gold

https://edelweissjournal.com/pdfs/EdelweissJournal-017.pdf

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