

The Role of Gold in Your Portfolio

By Greg McCoach

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Gold is the most misunderstood asset class in the financial world.

I remember when I first understood this and how enlightened I felt when I realized the true value of gold in one's possession. I was 23 years old.

Because I was asked to speak at multiple conferences lately, I decided the time was right to explain the true nature and importance of gold in one's portfolio, a concept that most modern investors simply do not understand or grasp.

Based on the responses I received after delivering this talk, it was evident the information I shared definitely struck a chord with those in attendance.

The information presented below is the content of my talk at those conferences.

The first slide in my power point presentation was a quote.

Gold is the currency of monarchs,

Silver is the currency of the educated,

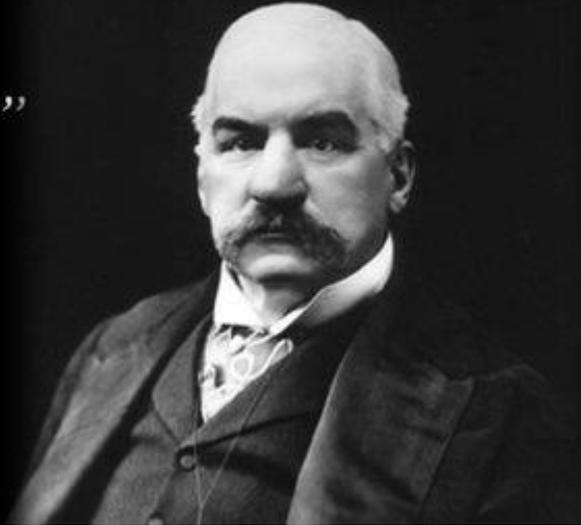
Barter is the currency of the working class,

And Debt is the currency of slaves

Author Unknown

The second slide was this graphic below which was a statement that J.P. Morgan made while testifying before Congress in 1912.

*“Gold is money.
Everything else is credit.”
- J.P. Morgan, 1912*



His actual quote was ***“Money is gold, nothing else.”***

But, having read the full transcript of the dialog during his testimony before the U.S. Congress, I understand why the quote was later modified in an effort to better convey what he was trying to say.

The essence of his testimony is the foundation of why gold is so important to own, especially at a time like now when so much is at stake for so many people who are unawares.

JP Morgan was in my opinion trying to convey the idea (his knowledge) that gold was the money itself and everything else was a “derivative” (derived) from this money. He understood that any currency, any debt, any equity or receipt has counterparty risk. **He understood that in the financial world “promises” were made to be broken.**

They could be outright broken through fraud or default or broken slowly through the debasement of a currency. **He also understood that the longer the chain of promises became, the more likely that one link in the chain would ultimately break rendering all of the links worthless.**

What he was trying to explain is that physical gold in your possession has no counterparty risk. Gold does not “derive” its value from anything or anywhere. Gold is value because it is money itself in the most pure and basic

form. Gold will be THE last man standing so to speak when everything else (paper) falls down around it. **Not only will it still be standing, it will be standing tall because of fear and panic.**

He fully understood this.

I believe if J.P. Morgan were alive today, he would be absolutely frightened by the insane levels of counter party risk that exist in today's financial world. He would see that many of the paper promises within governments and the financial world are already in betrayal mode and soon to be completely broken.

In my view, the ripple-effect of consequences from these betrayals will bring people to their knees as we witness the greatest wealth transfer of all time.

This brings me to another well-known financial man named Alan Greenspan. In this newsletter I recently highlighted Greenspan's article written in 1968 entitled, **"Gold and Economic Freedom."** This was before he turned to the dark side and became Fed Chair.

It is important at this point to quickly review some quotes from what he said in 1968 and what he said just two months ago when again he is no longer Chairman of the Federal Reserve.

First here are the quotes from 1968.

"In the absence of the gold standard, there is no way to protect savings from confiscation through inflation. The financial policy of the welfare state (government) requires that there be no way for the owners of wealth to protect themselves.

This is the shabby secret of the welfare statist's tirades against gold. Deficit spending is simply a hidden scheme for the confiscation of wealth. Gold stands in the way of this insidious process. It stands as a protector of property rights. If one grasps this, one has no difficulty in understanding the statist's antagonism toward the gold standard."

Now, his most recent quotes just two months ago.

"The risk of inflation is beginning to rise...Significant increases in inflation will ultimately increase the price of gold,"

“Investment in gold now is insurance. It’s not for short-term gain, but for long-term protection.”

“Today, going back on to the gold standard would be perceived as an act of desperation. But if the gold standard were in place today, we would not have reached the situation in which we now find ourselves.”

“We would never have reached this position of extreme indebtedness were we on the gold standard, because the gold standard is a way of ensuring that fiscal policy never gets out of line.”

*“There is a widespread view that the 19th Century gold standard didn’t work. I think that’s like wearing the wrong size shoes and saying the shoes are uncomfortable!” he said. **“It wasn’t the gold standard that failed; it was politics.”***

Below is the chart of the purchasing power of the U.S. Dollar since the inception of the Federal Reserve. At the time an ounce of gold could buy a quality man’s suit and accommodations (ties, shirt, belt, shoes).

Today an ounce of gold can still buy a quality man’s suit and all the trimmings.

What this tells us is that gold, not the dollar, has held its purchasing power over this 100 year period. Since 2013, as you can guess, it’s only getting worse for the dollar and better for gold.

Purchasing Power of the US Dollar 1913-2013



Source: Merk Investments, Bureau of Labor Statistics
Calculation based on consumer price index; August 1913 = 100%. Data as of August 2013.

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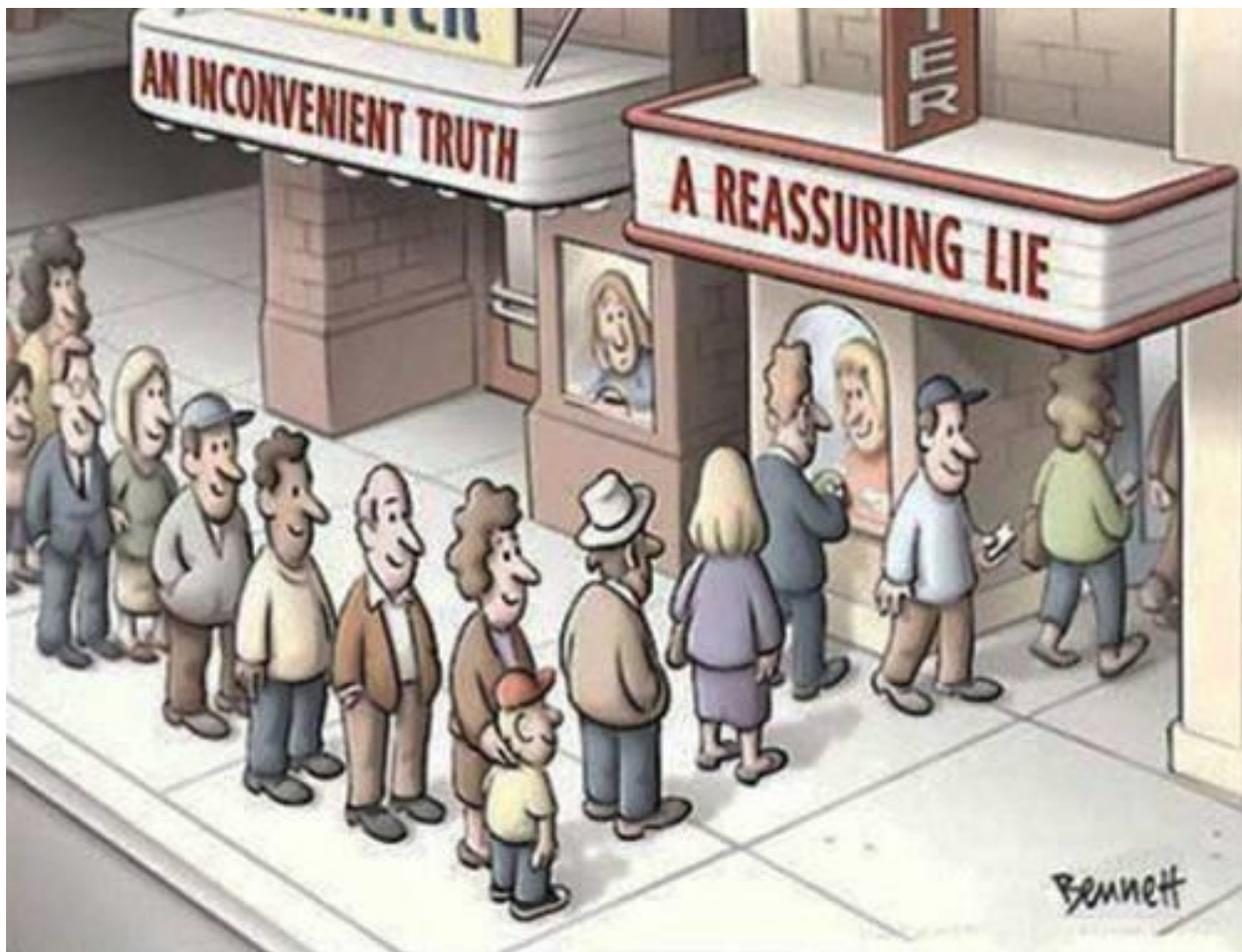
So now you should understand **WHY** out of control government hates gold. It's because a rising gold price exposes government fraud and corruption for all to see. But modern man and woman (in general terms) don't want to look or see this truth for some reason.

At the Money Show in Las Vegas, shortly after my talk, a gentleman came up to me and said, Greg, I love my wife, she's a really wonderful gal that's been with me for over 45 years, **but she would rather hear a beautiful lie, than hear an ugly truth.**

This in my view is a most unfortunate situation around the world where so many people are drinking the cool-aid and can't see what is right in front of their faces.

They simply do not want to know the truth.

Is it the madness of crowds? Is it the inability of the people to understand large financial numbers?



I don't have those answers, but it is super clear to me that something is already underway (broken promises in the financial world) behind the scenes as I write this. Gold is quickly closing in on \$1,300 and appears like it could be in break-out mode.

But in the last several months, every time we close in on \$1,300, we get slammed to the downside. This is an indication to me that the battle lines are drawn between a corrupt and criminal government that can't allow the price of gold to rise, and a free market economic super volcano that is getting ready to blow.

What is going on that we the public can't yet see?

I would bet it will have something to do with terrible financial counter-party risk (betrayal and broken promises) that suddenly can't be contained.

Remember, the only time gold really takes off is when the governments and their central banks lose control. The upward spikes we've seen in the precious metals markets the past 19 years have been related to an increasingly troubled financial world. **Gold reacts to the upside as it should and welfare statisticians try to contain it to keep the perception that "all is well."**

Thus, managing appearances and perceptions becomes the political art of failing economies. Reality is masked while inaccurate perceptions are constantly projected.

Jim Sinclair

But smart people know something is wrong. They may not fully understand what is going on, but they can feel it. I have had many conversations with people in recent years where they sense and feel something is horribly wrong.

I am often asked what I think will be the cause of such an event. I answer that I don't have a crystal ball and the timing can only be a guess, but here are the most likely culprits (black swans) that could bring the financial system to its knees and send gold soaring.

But before you read this you must be able to grasp just how crazy a trillion is!

In terms of seconds, a million years is roughly 12 days. A billion seconds is 32 years and a trillion seconds is 32,000 years! And a quadrillion is 1,000 trillion!

- Current Account Deficit of the United States Government - **\$20 Trillion and growing rapidly – can never be paid off**
- Unfunded Liabilities (Promises to Pay) of the United States Government- **\$104 Trillion – no possible way these obligations can be met**
- Pension Fund Unfunded Liabilities just in the United States - \$4 trillion and getting worse – **meaning a lot of broken promises are on the way.**
- Combined deficits of other world governments - **\$39.7 Trillion and growing rapidly – no ability to pay – promises must be broken**
- Estimated combined derivative liability – **Exceeds \$1.4 Quadrillion – Insane Counter-Party Risks – that is 1,400 TRILLION!!! How did this happen? Our world is completely detached from reality!**
- A massive credit event that seizes the world financial system – credit is what makes the world turn. When the credit wheel stops the engine of the world comes to a grinding halt.

- World War III
- Terrorist detonation of nuclear bomb in a big city
- Act of Mother Nature
- Financial Bubbles popping
- 2008 Financial Crisis just the leading edge of the hurricane – 2008 is coming again but will be much worse, the trailing edge when most of the damage is done
- Corrupt and criminal nature of governments
- Division of the people worldwide - seemingly no solution to bring people together
- Beware of Bail-ins versus Bail-outs - banks will come after depositor's monies when they get in trouble
- On and on it goes....

The truth is if I had to pick the two most likely candidates, it would be derivative implosion (broken promises that can't possibly be paid and ripple through the system causing massive defaults— no potential for any further bailouts) and or a major world credit event that causes severe and debilitating disruptions worldwide.

The Only Solution I Can See

First, a quote from Richard Maybury on this point.

*“No one can fix the federal government. Its unfunded liabilities, which are the monies it does not have, to pay all the obligations politicians have incurred, is \$104 trillion! **That is \$874,000 per tax payer. An average family of four is on the hook for \$3.5 million over and above present taxes.***

This situation is hopeless, entirely hopeless.

The only thing to do is stand aside and let the federal government go ahead and commit economic suicide. Do not get in the way.

Then make a fresh start.

For investors, it is crucially important to keep in mind that the government is not the country. When government kills itself, the country will endure. The homes, cars, furniture, factories, roads, offices, airports, computers, ranches, purple

mountain majesties and amber waves of grain will not vanish. Nor will the population.

*But flows of money will shift, causing **ownership** of the assets to change.*

The trick is to be on the receiving end of the transfers, not the losing end.”

What is the Solution?

- Leverage the quality precious metals mining shares for big gains
- Use your profits to buy physical gold, silver, platinum, palladium
- Don't use safety deposit boxes at banks
- Store your own metal and protect it against fire and theft
- Never tell anyone you own metal other than a trusted loved one
- Use a bullion dealer who will help you be discreet
- Hope for the best, prepare for the worst
- Live life to the fullest and make the most (joy) out of every day

Ultimately, and I think J.P. Morgan would agree, GOLD is the FINAL SOLUTION for those who wish to be on the receiving end of the transfer.

And when I say gold, I mean all the precious metals but particularly gold and silver.

I believe the irrational insanity that we are witnessing in paper currencies and markets is all going to come undone as the economic realities of what we have created finally catch up with our inability to see the truth and act upon it.

The physical gold market is a tiny market. If you took all the physical gold that exists (above ground) and melted that gold into a giant cube, the cube would only measure 20 yards x 20 yards x 20 yards. That's it! This is why they call it precious metals.

And it is why the gold price will go to levels that most people simply cannot understand.

When the reality sets in and the panic ensues, gold will be the last man standing.



Greg McCoach is President and CEO of AmeriGold (www.amerigold.com) and editor of The Mining Speculator, a widely followed newsletter on the precious metals junior mining shares. Greg has been writing his newsletter for over 17 years and is a popular speaker at conferences throughout the U.S. and Canada. The comments in this talk were from a presentation he recently delivered at the Las Vegas Money Show and Vancouver Resource conference.

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