ALSO BY JIM RICKARDS

The Death of Money: The Coming Collapse of the International Monetary System

Currency Wars: The Making of the Next Global Crisis
THE NEW CASE FOR GOLD

James Rickards
To my mother, Sally Rickards, who taught me something more valuable than gold—love
The twelve gates were twelve pearls, each of the gates made from a single pearl; and the street of the city was of pure gold, transparent as glass.

Revelation 21:21
I am pleased to offer this preface to a special edition of The New Case for Gold available only to clients of Advantage Gold. Events have moved quickly in the gold market in the months since I finished writing the book. This preface is a chance to update the text, and dig deeper on reasons for investors to include gold in their portfolios.

As I point out in the book, gold sometimes behaves like a commodity (it is routinely traded on commodities exchanges like COMEX). At other times, gold is considered an investment (it goes “up” or “down” when measured in dollars). Yet, above all, gold is money.

Gold is hard to understand because of this chameleon-like nature. Sometimes it’s a commodity, sometimes it’s an investment, and sometimes it’s money. The fact that gold flips back
and forth among these roles based on the subjective preferences of market participants creates confusion.

Gold’s role as money is a difficult aspect for investors to grasp. Critics attack gold because it has no yield. The reason gold has no yield is because money has no yield. In order to get yield, you have to take risk. So-called money market funds and bank deposits have yield (albeit small), but they are not money. A bank deposit is subject to default by the bank, as we witnessed recently in Greece and Cyprus. A money market fund is subject to collapse of the fund itself, as we saw in 2008. Physical gold does not have these risks—it’s just gold and always will be.

For the gold bashers on TV, and secret gold buyers like China, confusion about gold’s true nature is the perfect cover to spin their stories. The gold bashers want you to invest in stocks. They yell, “Gold has no yield!” (True, but irrelevant for money.) Buyers like China are happy to have a low gold price (for the time being) because they are not done buying. Why would you want the price of gold to go up if you are out to buy thousands of tons of gold? You wouldn’t.

So gold bashers and gold buyers have an alignment of interests in downplaying the role of gold. As a result, everyday investors can’t get a straight story on the pros and cons of gold. That’s why I wrote this book.

Right now, gold is going through one of its chameleon changes. It is acting less like a commodity or investment
and more like money. That’s a big deal because it shows that citizens around the world are starting to lose confidence in other forms of money such as dollars, yuan, yen, euros, and sterling.

That kind of lost confidence starts slowly, then builds rapidly to a crescendo. The end result is panic buying of gold and a price super-spike of the kind we saw in the late 1970s. Then gold moved from $35 per ounce in August 1971 to $800 per ounce in January 1980. That’s a 2,200 percent gain in less than nine years.

We may be looking at the early stages of a similar super-spike that could carry the gold price to $10,000 per ounce or higher. When that happens, there will be an important difference between the new super-spike and what happened in 1980. Back then, you could buy gold at $100, $200, or $500 per ounce and enjoy the ride. In the new super-spike, you may not be able to get any physical gold at all. You’ll be watching the price go up on TV but unable to buy any for yourself.

Gold will be in such short supply that only the central banks, giant hedge funds, and billionaires will be able to get their hands on any. The mint and your local dealer will be sold out. The time to buy physical gold is now, before the price spikes and before supplies dry up.

What’s the evidence for the conclusion that gold is now behaving like money? For one thing, gold price action has
diverged from the price action of other commodities. This divergence first appeared in late 2014 but has become more pronounced in recent months.

Gold observers know that gold measured in dollars is down significantly from its all-time high in 2011. COMEX gold peaked at $1,876 per ounce on September 2, 2011 and recently traded as low as $1,056 per ounce on November 27, 2015: a 44 percent decline in just over four years. Yet in the same time period, broad-based commodities indices have fallen 53 percent.

The contrast between the behavior of gold and commodities is even more extreme when we narrow the time period. From June 20, 2014, to January 15, 2016, the broad-based commodity index fell 63 percent, while gold fell 17 percent. The recent collapse in commodity prices was almost four times greater than the decline in gold prices. And as of this writing, gold has rallied 16 percent since mid-January, while commodities still languish at five-year lows.

The evidence is compelling that gold has broken away from its brethren in the commodities indices and is no longer priced as a commodity. It is being priced as money.

Once we think of gold as money, another challenge arises, because it is only possible to price money in terms of other forms of money. This is because the international monetary system today has no anchor.

In a classic gold standard, gold is the anchor and all other
forms of money are benchmarked to gold at some number of currency units per weight of gold. Prior to 1933, the United States stipulated that one ounce of gold was worth $20.67. (It would be more technically correct to say that the dollar was defined as 1/20.67th of an ounce of gold.) After 1933, the dollar was devalued, so that one ounce of gold was worth $35.00 (the dollar was defined as 1/35th of an ounce of gold). This gold anchor lasted until 1971.

Most investors think of the U.S. dollar as an anchor and price all other stocks, bonds, commodities, and currencies in terms of dollars. This is a huge intellectual mistake and will lead to catastrophic investor losses in the near future. In fact, the dollar is just one form of money and is not a true anchor.

The dollar competes with other forms of money (yen, yuan, euros, and gold) for the subjective preferences of investors. But those preferences are volatile, and can suddenly shift from one preferred form of money to another (in a move physicists call a phase transition).

Today, investors around the world are losing confidence in Chinese yuan, Saudi rials, South African rand, Russian rubles, and a long list of other emerging markets currencies. Investor preferences are shifting toward dollars and gold. This accounts for gold’s outperformance of the rest of the commodity complex when measured in dollars. What is interesting is that when the price of gold is measured not in dollars but in rubles, yuan, or rials, the recent percentage
price rise in gold is even more impressive because those currencies have all declined against the dollar.

When you understand that gold is money and competes with other forms of money in a jumble of cross rates with no anchor, you can see that the system is going wobbly. It’s important to take off any blinders to see that the dollar is just one form of money among many, and not necessarily the best for all investors in all circumstances. Gold should play an important part in any allocation among various forms of money.

Looking at dollar cross rates tells us something about confidence in non-dollar currencies. Where should we look for independent evidence of confidence in the dollar itself? The best evidence for declining confidence in dollars comes from the market for physical gold.

Since 2009, Russia has more than doubled its gold reserves from 600 tons to over 1,400 tons. In the same time period, China has more than quadrupled its gold reserves from about 1,000 tons to over 4,000 tons. (Officially China admits to about 1,700 tons, but this figure ignores gold hidden away in state-controlled entities other than the central bank.) Other large buyers include the central banks of Iran, Mexico, Vietnam, Jordan, and the Philippines. Official gold sales by major central banks have mostly ceased since 2010.

Gold is also being repatriated from two major custodians (the Bank of England and the Federal Reserve Bank of New
York) to rightful owners in Germany, Austria, the Netherlands, Venezuela, and elsewhere. Gold vaults in London and New York are being depleted. New non-bank gold vaults are being built as quickly as possible in Zurich, Dubai, Shanghai, and Singapore to hold the gold that is being taken from the hands of the U.S. and UK central banks.

In effect, a new “run on the bank” has started with regard to gold. This resembles the run on Fort Knox in the 1960s and early 1970s. This earlier gold run accelerated after the collapse of the London Gold Pool (a notorious price-fixing scheme) in 1968. U.S. trading partners were unwilling to hold dollars in their reserve positions. They worked furiously to cash in their dollars for gold from Fort Knox.

From 1962 to 1971, U.S. gold reserves fell from 14,269 tons to 9,070 tons, a 36 percent decline. By the spring and summer of 1971, the run on Fort Knox had become a flood. France, Switzerland, and Spain were among the most aggressive in calling for conversion of their dollars into gold. President Nixon had no choice but to shut the gold window in August 1971. If he had not done so, Fort Knox would have been stripped bare of its gold by the mid-1970s.

Today, the supply of physical gold that is needed to satisfy the buying frenzy is not coming from Fort Knox. The United States has not sold any material amount of gold since 1980. Other central banks have mostly stopped selling also. The last large official sales consisted of four hundred tons of
gold dumped on the market by the IMF in 2010, and a curious sale by Canada of the last of its gold in March 2016. (Approximately one hundred tons of gold controlled by Muammar Gaddafi, the former leader of Libya, mysteriously went missing after Gaddafi was killed in 2011. It is believed to be in NATO custody in trust for the future benefit of the Libyan people, but there is no certainty with regard to its disposition.)

Gold demand today is being satisfied from new mining outputs, refineries that recycle scrap gold (basically jewelry acquired through brokers), some sales by the large bullion banks, and gold ETFs.

The problem is that the buyers are “strong hands” who remove the gold from the floating supply and put it in deep storage for decades to come. The sellers are “weak hands” who depend on the paper gold derivatives markets for hedging and speculative purposes.

The result is that a larger quantity of derivatives is being supported by a shrinking floating supply of actual physical gold. This is the setup for a colossal short squeeze on leveraged gold players. This potential short squeeze is another source of strength for the dollar price of gold in addition to the loss of confidence in other forms of money.

In addition to declining confidence in paper money and the shortage in physical supply, the third vector pushing gold prices higher is the advent of negative interest rates. Normal
positive interest rates result in money being added to your account by the bank periodically. A negative interest rate is imposed by taking money out of a depositor’s account. If you put $100,000 in the bank at a negative interest rate of 1 percent, then a year later, you only have $99,000 in the account.

Negative interest rates are a symptom of deflation. In the above example, you might end up with $99,000 after the interest was deducted from your account. But if deflation is 3 percent, then the remaining $99,000 actually equals about $102,000 in purchasing power measured on the day you made the deposit. In other words, you have less cash but more purchasing power because of deflation.

This is a through-the-looking-glass world, but it’s becoming more common by the day. Europe, Japan, Switzerland, Sweden, and other major economies already have negative interest rates. The U.S. Federal Reserve has discussed it openly as a possibility for the United States.

In this upside-down world, gold has an important role in preserving wealth. Gold is often criticized for having no yield, but a zero yield is higher than a negative yield. In a world of negative interest rates, gold is a “high-yield asset” because you have just as much gold at the end of each period as you did at the beginning.

Of course, the dollar price of the gold may have gone up or down and the purchasing power may have changed. Still, physical gold is at least one way to escape the confiscation of
your wealth through negative interest rates. (Physical cash is another way to avoid negative interest rates, but that is extremely difficult to obtain. Large withdrawals of cash will result in the holder being viewed as a drug dealer, terrorist, or tax evader instead of just an honest citizen trying to preserve wealth.)

Governments are not indifferent to both inflation and deflation. These are not just two sides of the same coin. Governments encourage inflation because it melts away the real burden of government debt. Deflation does the opposite. It makes the real burden of debt higher. Deflation also reduces tax collections because prices and income both tend to go down. As a result, governments have no tolerance for deflation and will do everything possible to prevent it.

The fight against deflation includes money printing, zero (or negative) interest rates, currency wars, and other tricks from the central bank grab bag. But when all else fails (as appears to be the case today), governments can also achieve inflation by devaluing their currencies against gold.

The way to do this is to cause a higher dollar price for gold through either a gold standard (unlikely) or outright gold purchases by the central bank. Don’t expect this tomorrow, but do expect it down the road if deflation gets out of control. The U.S. government actually did this in 1933, and will do it again if circumstances require.

The point is that gold not only does well in inflation, it
does well in deflation. In the early states of deflation, gold is a high-yield asset when other assets have negative yields. In the late stages of deflation, governments will actually force up the price of gold to inflate the price of everything else.

Gold is the true “all weather” asset preserving wealth in both inflation and deflation. There are almost no other assets that work well in both states of the world.

My approach to writing about gold has always been educational in nature. My view has always been that there is no need to “sell” gold. If you provide the facts, individuals are smart enough to realize that gold has a place in their portfolios. Informed investors will buy gold on their own without being sold.

That educational function would not be complete without a word about taxes and retirement. For better or worse, most Americans fund their retirement with 401(k) plans and IRAs. The days of defined benefit plans from large corporations are mostly over.

This puts most Americans in the position of being their own wealth advisers, a role for which they may not be well prepared. (People have money because they work hard and are creative and prudent. But, having money does not mean that one knows anything about money. Earning money and managing money are separate skills.)

Over 99 percent of all 401(k) and IRA assets are in digital securities such as stocks, bonds, ETFs, and mutual funds.
Less than 1 percent are in hard assets such as gold, silver, fine art, or real estate.

Digital securities can easily be wiped out by cyber attacks which can be political or criminal in nature. Hard assets are not vulnerable to cyber attacks.

Most investors assume they are “diversified” if they own, say, one hundred different stocks, bonds, ETFs, and mutual funds. In fact, they are not diversified at all because in panics and liquidity crises, all of those assets may exhibit correlated behavior. Various stocks and bonds may be uncorrelated when conditions are calm but be highly correlated in liquidity crises. This is called “conditional correlation” and it can wipe out your wealth in a panic.

With gold and other hard assets you have true diversification.

Physical gold held in an IRA offers some additional advantages compared to other forms of gold ownership.

U.S. law imposes minimum fineness and quality requirements for gold held in an IRA. Only investment-grade gold and silver American Eagles or metals with a purity of .999 or better are permitted for IRA storage. The depositories inspect all the metals that arrive at their facilities to make sure that they fit the IRS requirements for IRA storage. This minimizes the risk of getting something that isn’t pure or is damaged in any way. This also minimizes the risk of getting
anything fake or of low quality (the depositories inspect the metals before they are accepted for IRA accounts).

The IRA depositories are not banks; they are independent of the banking system. The Delaware Depository or Brink’s are the most common destinations for IRA precious metals. Insurance is provided by Lloyd’s of London and not the FDIC. These are private facilities that have nothing to do with the federal government. The next time the banking system is in distress, these private gold vaults holding your IRA gold will not be directly impacted.

The cost of storage for IRA physical gold held in private vaults is minimal (a couple hundred dollars per year with insurance) and all the metals are fully allocated to the account holder.

Gold held in an IRA is the physical property of the client. The client statements list each individual coin or bar held in the account including the year that each coin was minted. Client statements include the entire holdings inventory listed at the spot market valuation of the metals per ounce.

Gold in an IRA offers the added advantage of being available for an “in-kind” distribution. This means that the gold can be stored at the depository, sold inside the IRA, or taken out in physical form in kind as a distribution. When an in-kind distribution takes place, the gold is physically shipped from the depository to the account holder’s home. The client
can select the exact items that they wish to receive from their account.

Holding precious metals in the IRA is inexpensive compared to other forms of asset management. There are no management fees, no AUM fees, and no profit sharing. The cost is a flat fee based on the value of the account and ranges from $175 to $300 annually.

Finally, gold in an IRA not only serves you well during your years of saving and investment, it also serves you well in your retirement by offering the chance for lower tax rates if you do finally sell it.

All things considered, gold offers protection against inflation, deflation, and some forms of taxation. There’s no other asset like it.

I hope you enjoy learning more about gold’s role as the oldest and best form of money in *The New Case for Gold*.

James Rickards
Thank you for taking the time to read Jim’s secret chapter!

I do hope you found it informative. If you would like to learn even more about how to put metals into your IRA, 401K or other Qualified plan we would love to speak with you. As a special bonus, should you decide to make that important next step and protect your retirement with physical gold, Advantage Gold will cover all of your set up fees for a limited time, so please call now.

We wish you all the best! - Adam Baratta

Get Started with No Set Up Fees!
CALL NOW – (888) 725-5044

Why Choose Advantage Gold?

Advantage Gold has the highest of customer satisfaction ratings according to Trustlink, the Better Business Bureau’s (BBB) authenticated review site, Trustpilot, and independent review sites. Because we specialize in the IRA, we take pride in catering to investors, not coin collectors, who are looking to protect their portfolio with physical precious metals. We have our own “In-House” IRA department that handles all of the processing and paperwork. Our pledge is to educate and guide you through the whole process from start to finish. Education, understanding, and comfort are the most important aspects of making sound financial decisions and our talented and trained precious metals experts will guide you every step of the way. Call (888) 725-5044.