Mark’s Money Lecture
or, Go for the Gold (and Silver)
Protecting Assets Against Inflation

by Mark A. Voelker

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Northwestern Mutual Life Insurance Company Buys $400 Million in Gold

Northwestern Mutual Makes First Gold Buy in 152 Years (Update)

By Andrew Frye

June 1 (Bloomberg) -- Northwestern Mutual Life Insurance Co., the third-largest U.S. life insurer by 2008 sales, has bought gold for the first time the company’s 152-year history to hedge against further asset declines.

"Gold just seems to make sense; it’s a store of value," Chief Executive Officer Edward Zore said in an interview following his comments at a conference hosted by Standard & Poor’s in Brooklyn. "In the Depression, gold did very, very well."

Northwestern Mutual has accumulated about $400 million in gold, and Zore said the price could double or even rise fivefold if the economy continues to weaken. Gold gained 10 percent last month, the most since November. The commodity has more than tripled since 2000, rising for eight straight years. Gold futures for August delivery slipped $4.80 to $975.50 at 4:03 p.m. in New York.

"The downside risk is limited, but the upside is large," Zore said. "We have stocks in our portfolio that lost 95 percent." Gold "is not going down to $90."

Policyholder-owned Northwestern Mutual, based in Milwaukee, ranks third by 2008 life insurance premiums according to data from the National Association of Insurance Commissioners. The data excludes annuities.

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The Cryonics Time Scale

• We are concerned with preserving financial assets over decades to centuries
• What kind of changes in the value of money itself can be expected over these time scales?
• Do those watching this lecture remember the 1970s?
What is money used for?

• A medium of exchange
• A means of storing value over time
What are the characteristics of something useful as money?

• Widely recognized as valuable
• Uniformly high, but not too high, in value
• Divisible into smaller units
• Physically long lasting
• Stable in value
Things used as money

• Shells
• Cacao beans (pre-Columbian Mexico)
• Tobacco (leaf in colonial Virginia, cigarettes in postwar Germany and in prisons today)
• Pieces of paper with writing on them (first used in China, 600 AD)
• Copper, silver and gold (Greece, China, India, prior to 400 BC)
Some things are better suited to be money than others

- Some things have more of the characteristics of money than others:
- Uniformly high value, stable physically, stable financially, divisible
- Gold and silver are historically the most common forms of money, and arose naturally as the most widely accepted medium in barter exchange
No modern money is commodity based

• All currently used forms of money are either pieces of paper with writing on them, or electronic entries in accounting ledgers
• All modern currencies are created by central banks, and distributed by governments
• All modern currencies are debt instruments (notes or IOUs) which have no historical or inherent value (cannot be used for anything other than as a medium of exchange)
Does our currency have all the characteristics of money?

- Recognized as valuable - YES
- Divisible into smaller units - YES
- Uniform in value - YES
- Physically long lasting - NO
- Stable in value - NO
Is the dollar money?

The dollar has only ONE of the TWO uses of money:
• It IS used as a medium of exchange
• But it IS NOT a long term store of value

Therefore the dollar is **currency**, but not **money**!
The same holds for the pound, euro, yen and all the rest.
Where does the modern dollar come from?

- All US currency is created by the Federal Reserve System, from thin air.
- New money is given to the US Treasury in exchange for US Treasury securities.
- These securities are interest bearing.
- This requires an ever increasing amount of currency, since interest accrues continuously and relentlessly.
US Monetary History

• Constitution specifies that all US money must be gold or silver, paper money is specifically prohibited (Article 1, Section 10)
• Federal Reserve established in 1913
• Federal Reserve created as the US government’s “private bank”
• FDR confiscated domestic gold in 1933
• Nixon removed gold/dollar convertibility entirely (foreign convertibility) in 1971
The Terms of the US Government’s Line of Credit

- Federal Reserve granted a monopoly on money creation
- Collateral: The entire US gold reserve
- Means of payment: Senior lien on the wages and profits of all US economic entities (the Income Tax was also established in 1913)
What is the Federal Reserve?

• The Fed is not a government agency
• The Fed is a privately owned banking cartel - a banking trust
• Three classes of shares: A, B and C
• Class A shareholders are the original, large money center banks
• Class B and C shareholders are regional and local banks
Why was the Fed Created?

- Large New York banks wanted to maintain control of the growing US banking industry: squelch competition from new western banks
- Large New York banks wanted to finance growth of the emerging American world empire from a privileged position
- Wilson Administration wanted to borrow to pay for WW1 and US imperial ambitions
- Congress wanted to spend more without increasing taxes: solution: borrow more
What is the Purpose of the Fed, from the Bankers’ Point of View?

• To maintain the flow of Profits to the leading member Banks in the cartel
• To push off significant Losses onto the Public, through the Bailout Mechanism
• To maintain permanent monopoly control over the Commanding Heights of the US imperial economy
How was the Fed sold to the public?

• The Fed was supposed to break the monopolistic control of the “money trust” (large east coast financial interests)
• The Fed was supposed to stop banking crises and panics and bank failures
• The Fed was supposed to provide a more stable value to the dollar
• The Fed was supposed to stop future boom and bust financial cycles
What goes on inside the Fed?

• Roster of shareholders is secret
• The books of the Fed have never been audited
• By law, the Fed cannot be audited by anyone, including Congress
• The Fed, in conjunction with other central banks, “manages” the value of world currencies and of key commodities (gold, silver, oil, etc.)
• The Fed creates and distributes trillions of dollars to US and foreign financial institutions, without approval or oversight of Congress (“Taxation without representation”)
How Currency is Created

The “Mandrake Mechanism”

• The Fed creates new dollars out of nothing, at a computer terminal
• Banks and the Gov’t borrow these new dollars at interest rates set by the Fed
• Banks make loans based on these base “reserves” they borrow from the Fed
• The mandated “reserve ratio” is 10:1
• $10 are created for each $1 borrowed from the Fed
• With no link to finite amounts of gold or silver, there is NO LIMIT to the amount of currency that can be, and is being, created
US Monetary Base

St. Louis Adjusted Monetary Base (AMBNS)
Source: Federal Reserve Bank of St. Louis

Base Money (1919 – November, 2008)

2008 Federal Reserve Bank of St. Louis: research.stlouisfed.org
Bank Borrowing from the Fed 1919-Dec2007
(The S&L Crisis correlates with the $8 billion spike in 1984)
Bank Borrowing from the Fed 1919-Nov 2008

This is the same as the previous graph, except it adds 11 more months. Note the scale change: The only spike you can now see is $800 billion.
Reserve Ratio: “The Face of Inflation”

What’s happening is at least as big as the Depression, only it’s unfolding faster.
Going further into debt (creating more debt-IOU dollars) is adding less and less per new dollar to the GDP. Most new money is going to service the ever increasing debt load across society.
Debt as % of GDP

We have maxed out our collective credit card.

Total U.S. Debt as a % of GDP

1933 = 299.8
2008 Q2 = 356.7
2003 = 306.2

average = 194.9

Getting Out of Debt?

• The Fed is printing new debt-money to pay off (“roll over”) existing debt
• Official Debt (Treasuries) = $11,000 B
• Total Gov’t Debt = $60,000 Billion
• But Gov’t is increasing deficit spending
• New commitments to “backstop” (bail out) failing financial institutions = $12,800 Billion
• Total monetary base, 12 months ago: only $800 billion!
What About “Derivatives”?

Derivatives are bets on the value of other assets, which are designed to roughly cancel out. What if the model used to produce them becomes invalid? How can a debt of, say, 10% of $683,000 billion ever be paid off?

Table 19: Amounts outstanding of over-the-counter (OTC) derivatives

By risk category and instrument

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<tbody>
<tr>
<td>Total contracts</td>
<td>370,178</td>
<td>414,845</td>
<td>516,407</td>
<td>595,341</td>
<td>683,725</td>
<td>9,949</td>
<td>9,691</td>
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<td>Foreign exchange contracts</td>
<td>38,127</td>
<td>40,271</td>
<td>48,645</td>
<td>56,238</td>
<td>62,983</td>
<td>1,136</td>
<td>1,264</td>
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<td>Forwards and forex swaps</td>
<td>19,407</td>
<td>19,882</td>
<td>24,530</td>
<td>29,144</td>
<td>31,966</td>
<td>436</td>
<td>463</td>
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<td>Currency swaps</td>
<td>9,696</td>
<td>10,792</td>
<td>12,312</td>
<td>14,347</td>
<td>16,307</td>
<td>535</td>
<td>601</td>
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<td>Options</td>
<td>9,024</td>
<td>9,597</td>
<td>11,804</td>
<td>12,748</td>
<td>14,710</td>
<td>165</td>
<td>191</td>
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<td>Interest rate contracts</td>
<td>262,526</td>
<td>291,582</td>
<td>347,312</td>
<td>393,138</td>
<td>458,304</td>
<td>5,445</td>
<td>4,824</td>
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<td>Forward rate agreements</td>
<td>18,117</td>
<td>18,668</td>
<td>22,809</td>
<td>26,599</td>
<td>39,370</td>
<td>25</td>
<td>32</td>
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<td>Interest rate swaps</td>
<td>207,588</td>
<td>229,693</td>
<td>272,216</td>
<td>309,588</td>
<td>356,772</td>
<td>4,840</td>
<td>4,163</td>
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<tr>
<td>Options</td>
<td>36,821</td>
<td>43,221</td>
<td>52,288</td>
<td>56,951</td>
<td>62,162</td>
<td>580</td>
<td>637</td>
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Source: Bank of International Settlement Dec 2008 Report
Total Debt in $ TRILLIONS

The only way we can pay this down is with new currency.

- Direct US obligations = $11 Trillion
- Soc Sec + Medicare = $50 Trillion
- Bail out Big Corps = $12.8 Trillion
- Pay off bad Derivatives = some fraction of $700 Trillion
- Monetary base 1 yr ago: $0.8 Trillion

What happens when we try to pay this down by printing new money?
Here is what will happen:

Historical example: Germany, 5 years 01Jan1919-30Nov1923
How can we save (ourselves)?

• Know the difference between money and currency
• Currency is paper or electronic IOUs
• Currency evaporates as time goes by, sometimes slowly, sometimes quickly
• Saving currency is like trying to save dry ice on a warm summer day
• Money is gold or silver
• Gold and silver do not evaporate
• Save money, not currency
Resources - Books

• The Creature from Jekyll Island, by G. Edward Griffin (1994)
• Crash Proof, by Peter D Schiff (2007)
• The Economics of Inflation, by Constantino Bresciani-Turrino (1931)
Resources - Internet

• DollarCollapse.com - current articles
• GoldSilver.com - good intro videos
• GoldMoney.com - how to save money
• EuroPacific Capital - stocks and bonds
• Campaign for Liberty - political action
• Mises.org - real economics
• DeepCapture.com - corruption in the financial markets
“With all thy getting, get understanding.”

-- Proverbs 4:7
Federal Reserve Note

Looks a lot like something people used to be able to exchange for money at the US Treasury. People currently use it as a medium of exchange. **Not a dollar.**
Silver Certificate

Could at one time be exchanged for money at the US Treasury.

“This certifies that there is on deposit in the Treasury of The United States of America ONE DOLLAR IN SILVER payable to the bearer on demand”. A contract, signed, countersigned and dated, between the bearer and the United States Government.

A claim check for a dollar, but still…. Not a dollar.
A Dollar

Money. Must be earned. Cannot be printed up and handed out as a political favor. Accept no substitutions.