Commentary
by Steve Henningsen
July, 2011

Monetary Crescendo

FIGURE B3.1.1 Historical Timeline of Dominant International Currencies

Source: Classical Numismatic Group, Inc., http://www.engcoms.com.

The instruments of financial gain and loss have varied over the ages, as have the types of institutions that have expanded mightily only to fail massively. But financial crises follow a rhythm of boom and bust through the ages. Countries, institutions and financial instruments may change across time, but human nature does not.
–Carmen Reinhart & Kenneth Rogoff, This Time is Different

Is this the real life?
Is this just fantasy?
Caught in a landslide
No escape from reality
Open your eyes
Look up to the skies and see…
-Queen, *Bohemian Rhapsody*

When I began writing about currency debasement and its connection to gold (and, henceforth, silver) several years ago, it seemed to be a topic left for conspiracy theorists or fringe financial thinkers – James Grant, Eric Sprott, James Turk, Marc Faber and the folks at Casey Research come to mind. However, lately I have been delighted to notice an increasing number of articles and thought leaders discussing the possibility of the return to a "hard-backed" monetary system, which has helped push it out of the skeptical shadows and back towards the light of conventional monetary theory. Specifically, Lee Quaintance and Paul Brodsky, from QB Asset Management, wrote a series of excellent articles (found here and here if you're reading this online) and there are now several blog sites contributing enlightening information regarding possible monetary changes in the wind. Surprisingly, I even read several articles recently in traditional media – that means newspapers and magazines to you young, internet pups!

"Know the nature of your money.
It is one of life's most important lessons."
–Ralph T. Foster

I guess it helps that most of the developed world is broke; left with a pile of debt accumulated over the past four decades from adhering to an untethered fiat, fractional-reserve-based currency system that allowed them to outgrow their economies' ability to pay. But before I go into where I think this is leading us, I believe it important to review a little monetary history. Like, what is money and how did our financial monetary system develop into this out-of-control paper tiger? Keep in mind that this is a difficult topic (concept?) to explain and I'm sure most would rather go to the dentist, but I believe it is important to obtain at least a basic understanding of the financial system that has been corrupted and used against society over centuries. Let it be known upfront that many of you will probably be confused by the end. It took me a long time to grasp it and I'm only summarizing bits and pieces here. (Much of what I discuss came from the books, *Fiat Paper Money, The History and Evolution of our Currency,* by Ralph T. Foster and *Whatever Happened to Penny Candy,* by Richard J. Maybury.)

When I was a child, I associated money with work. Dad went to "work" and was given "money" in exchange. My brother and sister and I did our chores and we were given an allowance. Except for special occasions, like birthdays or the tooth fairy, the equation to me was work = money. (I also collected various coins, including the much coveted U.S. silver dollar, although I didn't know at the time why it was so special.) This simple equation remained in my head for decades to come, as I gave little thought to the actual words written on the dollar bill, nor the trend that it seemed to buy less with each passing year.

Right here, right now, there is no other place I want to be
Right here, right now, watching the world wake up from history
– Jesus Jones, *Right Here, Right Now*

My interest in reading history began to change my views about what money is, as I had thought of it less as a *transfer device*, than as a store of value (talk about ignorance) to be collected in my bank account. Ancient civilizations traded via barter, while their refined gold and silver were used mostly for jewelry and art, which was measured and valued by weight. However, some began to use them as "money," as evidenced by Sumerian clay tablets, which revealed that as far back as 2400 B.C., official standards existed for the weighing of silver for use as money.

It wasn't until around 640 B.C. in Lydia (now Turkey) that gold began to make its appearance in the shape of a coin. There have been many different items used as a form of money over time (stones, sea shells, cows, beads and even salt) but civilizations have always come back to gold, as it alone possesses all the qualities of good money that Aristotle wrote about:

- Durable: Money must stand the test of time and the elements. It must not fade, corrode, or change through time;
- Portable: Good money needs to hold a high amount of 'worth' relative to its weight and size;
- Divisible: Money should be relatively easy to separate and re-combine without affecting its fundamental characteristics.
- Intrinsically Valuable: This value of money should be independent of any other object and contained in the money itself, starting with rarity.

A coin's value was determined by how pure it was and its weight. For example, the Roman Empire used the Silver Denarius, which was 940 fine silver (94% silver), from 81- 96 A.D. The Roman government also introduced the concept of inflation. The government wanted to build roads and buildings, but knew it could only tax its citizens so much before they revolted. So they began to clip the edges of the coins in order to mint new coins. An increase in the supply of denarii (inflation) caused their value to go down (law of supply and demand) and their purchasing power declined. The price of most commodities rose steadily, until the people caught on and wouldn't accept "clipped" coins or reduced their value. (Side note: coins were eventually "reeded" – notches cut into the edge of the coin – to prevent this practice.)

Another interesting factoid I learned from Mr. Maybury's book was where the word "dollar" came from. Back in the Middle Ages there was a mint in a place called Joachimthal, in Bohemia (today's Czech Republic) that made a one-ounce silver coin called a Joachimthaler. It was a good, widely accepted coin whose name was eventually shortened to thaler. It got so popular that people began to equate it with one-ounce of silver and instead just asked for a "thaler" when making a purchase. Thaler was changed to daler and eventually came to be a dollar. So technically, a dollar means one ounce of silver.

Enter the Paper Dragon

China invented paper in 105 A.D., but it wasn't until centuries later upon the inventions of fluid ink and block printing that they all came together to create the first paper currency. Beforehand, Chinese merchants grew tired of lugging around commodities (wheat, silk, etc.) and heavy coins for large purchases, so local "money shops" came about and began issuing paper vouchers and promissory notes backed by gold they held. Of course it didn't take long for the government to recognize a good thing to monopolize, so in 1024 the Imperial Sung Treasury prohibited local merchants from issuing currency notes and began issuing their own national paper money. Over the next 600 years, five dynasties had implemented paper money and all five abused the paper press, via printing more paper than it had gold, causing economic catastrophe and eventual collapse. The Chinese people were always left holding worthless pieces of paper.

How the Great Kaan causeth the bark of trees, made into something like paper,
to pass for money over all his country…
–Sir Henry Yule's, *The Book of Ser Marco Polo, The Venetian, Concerning the Kingdoms and Marvels of the East*

For centuries, travelers to the East, including Marco Polo, had brought back tales of the Chinese using paper as money, but no one believed it. For how could a piece of paper be worth anything? Although European goldsmiths had already begun acting like bankers by issuing "receipts," it wasn't until the 16th century that increasing trade with Asia brought about a new class of bankers to handle the paper transactions (drafts, bills of exchange, deposits) and make use of the Chinese innovation of bank money. Eventually, these institutions evolved into licensed banks to store gold and silver and issue receipts (I.O.U.s). The receipts were always convertible to specie (coins or bars), and the fact that each receipt was fully backed by metal and independent of any king, who might have been inclined to debase the metals, made the people feel secure.

The Illusion of Fractional-Reserve Banking.

"Up to this point," wrote a merchant after describing the method of establishing credit, *"one sees that there is as much reality in this as there could well be, nothing being more real than ingots of gold, bars of silver, piastres, ducats, ducatons, and suchlike, but the method of payment in bank, as it is called, has not the same reality. One could, on the contrary, call it a veritable illusion; since for the gold and silver taken to the bank it gives only a line of writing in a book. This line may be transferred to another and this second transfers to a third…and this can go on, so to speak, to infinity."*
–Barbour, *Capitalism in Amsterdam in the 17th Century*

While many extolled the advantages of this new paper system, some merchants were leery of it, as they were distrustful of its abstract nature. They had reason to be skeptical, as there had been banks that had lent money that wasn't backed by metal and thereafter collapsed, when depositors had rushed to convert their paper money to coin only to discover there wasn't enough. (We'll come back to define fractional-reserve banking later, but for now, just envision the bank run from the movie, *It's a Wonderful Life.*)

But these minor banking disturbances were nothing compared to the mayhem that Scottish economist, John Law, brought on France in the 18th century by trying to make "credit tangible." I'm not going into this perfect example of why this new twist on money (treating paper money as debt) mixed with speculative fever never ends well, but Charles Mackay covers it nicely in his great book, *Extraordinary Popular Delusions and the Madness of Crowds*. Needless to say, once you detach paper from its underlying asset, trouble begins.

Not Worth a Continental

The world has continuously shifted between fiat currencies (money established by government decree) and some type of hard-currency standard for centuries. The United States' history is no different, as we have gone back and forth for over 200 years, although we have been on a hard currency system for the majority of time. Governments don't seem to mind the stability that being anchored to a hard-currency brings, until there is a reason to print money – usually revolving around a war. Then they cut loose from the mooring in order to print up the money/debt needed to pay for their spending.

Although each of the 13 colonies issued its own currency, the unifying force of the American Revolution had led some to decide that a new central currency known as the Continental Currency should be issued to help pay for the troops. Unfortunately, it was backed by little metal and Congress kept authorizing new paper, which depreciated the already outstanding issues. By 1780, it was worth little, if anything.

From 1785 to 1861, the U.S. dollar was again backed by gold. But then came the Civil War and the issuance of the first truly fiat money (not backed by anything,) which were really "demand notes," and were referred to as *greenbacks* due to their color. They continued to lose their purchasing power until we went back on a gold standard in 1880 that lasted until WWI. Then it was back on a gold standard in 1926 until The Great Depression, when FDR hoodwinked the American people by confiscating their gold and devaluing the dollar against it afterwards.

Whenever destroyers appear among men, they start by destroying money, for money is men's protection and the base of a moral existence. Destroyers seize gold and leave to its owners a counterfeit pile of paper. This kills all objective standards and delivers men into the arbitrary power of an arbitrary setter of values. Gold was an objective value, an equivalent of wealth produced. Paper is a mortgage on wealth that does not exist, backed by a gun aimed at those who are expected to produce it. Paper is a check drawn by legal looters upon an account which is not theirs: upon the virtue of the victims. Watch for the day when it becomes, marked: 'Account overdrawn.'

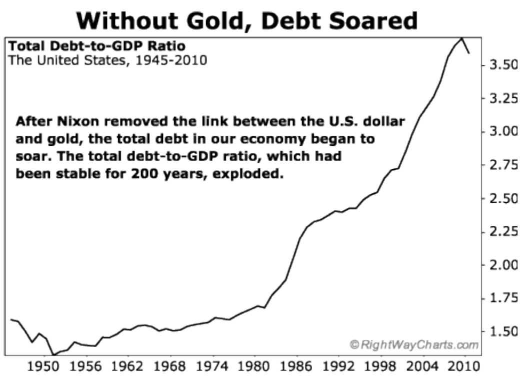
–Francisco D'Anconia, from the book *Atlas Shrugged*, by Ayn Rand

After WWII, The Bretton Woods Accord set the world back on a gold standard for the next 26 years, making the U.S. dollar the world's reserve currency and redeemable for gold. Actually, up until 1960, the paper bill in your pocket was a banknote, called a Silver Certificate – not a Federal Reserve Note – which you could presumably take to the Federal Reserve and redeem for silver. That was until France got wind of us printing more dollars than we had gold in Fort Knox (hey, we had the Vietnam War and expanding entitlement programs to pay for) and began exchanging their dollars for gold. President Nixon stopped the bleed-out of our gold reserves in 1971 by closing the gold window. Overnight, the U.S. dollar lost its hard-currency status and the world had to learn to live on the new debt-based, fiat monetary system, which led to the famous quote from U.S. Treasury Secretary, John Connally: *"The dollar is our currency, but your problem."* Today the paper dollar you carry in your pocket is a Federal Reserve Note, a liability, a true I.O.U. in the sense that it is backed by nothing but the government's authority to tax.

The Debt House that Fiat Currency Helped Build

"The absence of gold as an intrinsic part of our
monetary system today makes our century,
the one that has just passed, unique in several thousand years…"
–Robert Mundell, accepting the Nobel prize in 1999

There is another important component to how we got in today's debt mess. The system of fractional-reserve lending helped countries grow their debts larger than the underlying economy would normally allow through credit (debt) growth. Wikipedia defines this as follows: ***Fractional-reserve banking*** *is a type of banking whereby the bank does not retain all of a customer's deposits within the bank. Funds received by the bank are generally on-loaned to other customers. This means that available funds (called bank reserves) are only a fraction (called the reserve ratio) of the quantity of deposits at the bank. As most bank deposits are treated as money in their own right, fractional reserve banking increases the money supply, and banks are said to create money.*

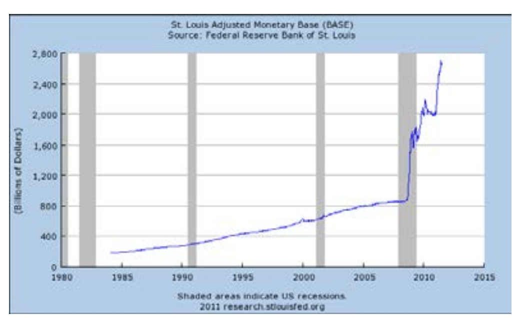


In simple terms, banks lend money into existence by issuing credit that must be paid back in money. It allows banks to create money from thin air, and coupled with the government's ability to borrow without limitation (no longer anchored to gold), helped the U.S. begin its credit boom in the 70s. (See chart.)

The proportions and the nations change, but the question remains the same... How did a US government "govern" a nation of 92 million people with an annual budget of $US 0.7 Billion and a TOTAL (funded and unfunded) debt of $US 2.7 BILLION one hundred years ago? The answer is very simple. For the most part, they didn't. And because they didn't, they didn't indulge in economic make believe. They had no income tax to "fund" them and no central bank to print more money - if necessary.

Today, the US government "GOVERNS" 310 million people with an annual budget of nearly $4,000 Billion and a TOTAL (funded and unfunded) debt approaching $US 100,000 Billion. It takes about 5400 times as many Dollars and about 37000 times more debt to "govern" about 3.35 times as many people as it did a century ago. Why? The answer is equally simple. Today, the US government "governs" everything. It is all pervasive. It has taken over the economy from its people.

At the same time, the present government reassures the governed that the cost involved is not theirs to bear but can be perpetually shifted to future generations if only they will continue to go along with economic make believe. Officially, this is known as the "full faith and credit" of the US government.
– Bill Buckler's newsletter *The Buckaneer Report*



The bottom line is that a monetary system based upon fractional-reserve and credit is unstable, inflationary and eventually falls in on itself, as it must constantly expand or it will collapse through a deflationary cascade of debt defaults. This is why since the credit crisis of 2008, The Federal Reserve has been so fearful of deflation taking over and has increased the U.S. monetary base (bank reserves held at the Fed and currency in circulation) by trillions of dollars almost overnight, in an attempt to stoke the inflationary embers once again. (See chart.)

The Constitutionality of it All

This process of debasing the currency to pay for government deficit spending has been going on for centuries. The Egyptians did it, the Greeks and Romans did it. Countless other nations have done it. Now it's going on all over the world. The process of monetary inflation – and its result, soaring prices – is a simple concept. Adam Smith understood it, as did John Stuart Mills, David Ricardo, and other classical economists.

But, alas, today few people understand the concept. Instead, thanks in large part to the writings of John Maynard Keynes, higher prices are laid at the feet of excessive labor wage demands, greedy corporations, Arab oil sheihs, and the disappearance of anchovies off the coast of Peru. Mon Dieu! The media – woefully ignorant of currency theory – propagandize these stupid explanations, and the public is left totally in the dark as to the real cause."

–Dr. Franz Pick, *The Triumph of Gold*

Article 1, Section 10

U.S. Constitution

No State shall enter into any Treaty, Alliance, or Confederation; grant Letters of Marque and Reprisal; coin Money; emit Bills of Credit; make any Thing but gold and silver Coin a Tender in Payment of Debts; pass any Bill of Attainder, ex post facto Law, or Law impairing the Obligation of Contracts, or grant any Title of Nobility.

If you are still with me, here's where it gets interesting. This past April, I had the pleasure of meeting Dr. Edwin Vieira at a Casey Research Conference. Dr. Vieira holds four degrees from Harvard: A.B. (Harvard College), A.M. and Ph.D. (Harvard Graduate School of Arts and Sciences), and J.D. (Harvard Law School). I only list them to prove he isn't a novice. Also, for more than thirty years he has practiced law with emphasis on constitutional issues. He has written numerous monographs and articles in scholarly journals and lectured throughout the country. His most recent work on money and banking is the two-volume *Pieces of Eight: The Monetary Powers and Disabilities of the United States Constitution* (2002), the most comprehensive study in existence of American monetary law and history viewed from a constitutional perspective.

In other words, he is an expert on our monetary system. I learned a lot through my discussions with him, but even more from an interview conducted by Casey's Managing Editor, David Galland. I have some excerpts from that interview below with my emphasis added:

> The current U.S. monetary system is not constitutional, as the "official unit of currency is supposed to be the dollar, and I'll tell you exactly what a dollar is – it's 371.25 grains of silver in the form of a coin." That was determined as a historical fact in 1792. Actually the dollar was adopted before the Constitution was even written. It was adopted by the Continental Congress under the Articles of Confederation, the so-called Spanish milled dollar, which was the actual unit that was circulating then, because there had been essentially no coinage under the various colonial regimes in colonial America. So that's the dollar unit.
>
> On the other side, the so-called official paper money side, the Constitution does not provide for official paper money. What it does address are two provisions; the first, dealing with the states, specifically says, "No state shall emit bills of credit." As a word of explanation, bills of credit were the founding fathers' terminology for paper currency…So we look at those two provisions of the Constitution: One explicitly prohibiting the states from emitting bills of credit, because otherwise the states would retain that power. And the other with respect to Congress, where they didn't grant the power, even though the power was proposed to be granted and that proposal was overruled, and so it wasn't granted. Based on that it is clear, I would say, that there is no power in Congress or in the states to issue bills of credit…
>
> …Well, if you look at the Federal Reserve note [he's speaking about the U.S. dollar] you have a number of problems with it: Number one, it's not issued by the Treasury. It's issued by this banking cartel. No Federal Reserve note can come into existence unless one of the 12 regional banks, each of which is a private

> corporation, goes to the Board of Governors with certain assets defined in the statute and asks the Board of Governors to generate Federal Reserve notes. The Board of Governors can't generate Federal Reserve notes on its own, neither can the Treasury. So these things are being generated by a private corporation, and they're not redeemable as a matter of law in the official constitutional silver or gold currency of the country. So they probably have four or five constitutional strikes against them….
>
> …initially Federal Reserve notes were required to be redeemed in gold, and then that was removed in '33 and '34 with the gold seizure. So now we have notes that, as John Exter used to say, are an IOU-Nothing Currency – because with respect to the banks and with respect to the Treasury, they owe you nothing, and if you go into the marketplace, you may be able to get whatever someone will give you for them, but you have no legal right to demand any particular amount of anything. A redeemable currency, by law, is a currency that has a requirement that the issuer redeem it in something that is specified, a certain weight of gold, a certain weight of silver, whatever. So at one time, Federal Reserve notes were redeemable currency…
>
> …If you want to go back to a sound currency system and a sound political system – and by sound political system, I mean one in which the political powers can't manipulate money – then it has to be tied to some free-market commodity, right? Historically the two that have worked have been gold and silver, and that actually is the constitutional standard, so unless we want to change the Constitution, we have to work with that.

I would also recommend people read his article, A Cross of Gold, in which he had this to say:

> This is why America's Founding Fathers, realists all, denominated redeemable paper currency as "bills *of credit*". They knew that such bills' value in gold or silver always depended upon the issuers' credit—that is, ultimately, the issuers' honesty and ability to manage their financial affairs.
>
> A Federal Reserve Note is not a "dollar", but is a mere promise to pay a "dollar", which has been utterly dishonored by both the banks and the Treasury since 1933 (as to gold domestically) and1971 (as to gold internationally), even unto this very day.
>
> …First and foremost, the goal is not constitutional in any event, because every form of "redeemable currency" put out through the Federal Reserve System is, by definition, a governmental "bill of credit", which Congress has no authority to emit, directly or indirectly…
>
> …Which brings this survey to the third plan for monetary reform—the adoption on a State-by-State basis of a new, sound, honest, and constitutional alternative currency consisting of actual gold as an—and ultimately the only—currency officially recognized by the State…. adoption of an alternative gold currency would be an act of *scientific* insight, because it would introduce a currency the objective value of which could always be *verified or falsified* immediately upon inspection. That objective value would be a *fixed weight of gold*. It would be an *objective* value, because an ounce of gold is an ounce of gold is an ounce of gold—everywhere throughout the world, no matter what economic, political, or social conditions prevailed. Under this plan, *a specific weight of gold, and **only** that weight of gold, would become the State's official monetary unit*. Thus, *the holder of the currency himself would not only own but would actually possess the gold, because gold would be the currency*.
>
> …The present economic crisis presents the best opportunity since 1932 for taking the steps necessary and sufficient to free the American people from their thralldom to the Federal Reserve System and the vicious factions behind it. Under the pressure of this crisis, common people are finally awakening to their predicament, and sensing what needs to be done—because, as Samuel Johnson once observed, nothing focuses a man's mind more sharply than his impending hanging. Moreover, this may be the last opportunity of its kind for a long time to come. For if "the financial community" can succeed in jury-rigging some *supra*-national global currency and central bank, the Ponzi scheme of *fiat* currency can probably be kept inflated for another generation, until a final, utterly catastrophic breakdown sweeps across the entire world.

The loss which America has sustained since the peace, from the pestilent effects of paper money on the necessary confidence between man and man, on the necessary confidence in the public councils, on the industry and morals of the people, and on the character of republican government, constitutes an enormous debt against the States chargeable with this unadvised measure…

–James Madison, architect of U.S. Constitution

I realize most of you are probably lost by now or have a splitting headache. What Dr. Vieira is saying is that the current monetary system is unconstitutional, that the Supreme Court justices did not have the guts to stop it when they had the chance, that the Federal Reserve is an illegal cartel and that the current monetary system is in a state of collapse, as all Ponzi schemes eventually come to. He also believes that the solution resides with the states, as they have the power to put forth an alternative currency. Before you laugh this off, Utah recently passed the "Utah Legal Tender Act," allowing gold and silver to be used to pay taxes, and several other states already have bills underway in an attempt to push gold and silver back into the currency spotlight.

These thoughts were also echoed by a blogger that goes by the name FOFOA recently:

> "...Our dollar has had a usage period that corresponds with the society that interacts with it. Yes, just like people, currencies travel through seasons of life. Even gold currencies, in both metal and paper form have their "time of use". Search the history books and we find that all "OFFICIAL" moneys have at one time come and gone with the human society that created them. Fortunately, raw gold has the ability to be melted so it may flow into the next nation's accounts as "their new money".
>
> This ebb and flow of all currencies can be described as their "timeline". We could argue and debate the finer points, but it seems that all currencies age mostly from their debt build up. In a very simple way of seeing it, once a currency must be forcefully manipulated to maintain its value, it is entering the winter of its years. At this stage the quality of manipulation and debt service become the foremost determinant of how markets value said money. Suddenly, the entire society values their currency wealth on the strength and power of the state's ability to control, not on the actual value of the money itself."

Return to a Gold Standard?

"Betting against gold is the same as betting on governments. He who bets on governments and government money bets against 6,000 years of recorded human history."
–Charles de Gaulle

I'm no financial expert, but I am smart enough to know that you can't keep printing money when it has no backing.
–South Carolina Republican Representative Mac Toole, May 10, 2011

So after flip-flopping back and forth between a fiat and asset-backed monetary standard over the past two centuries, is it that much of a stretch to imagine going back on a gold standard or something similar? Skeptics seem to argue that a fixed monetary system doesn't have the flexibility needed in today's fast-paced global markets. But isn't that just the point? I'm not stating that a hard-money system is without its problems. However, I would guess that if we had had politicians handcuffed to some type of hard-money-based system over the past 40 years, then we wouldn't have this massive global debt problem that exists today. Remaining anchored to gold would have forced the U.S., and other countries, to live within their means and put forth true *real* growth, as opposed to the *nominal*, credit-induced growth mirage we've experienced over the past 30 years.

'Cause you gotta blame someone
For your own confusion
But I'm on guard this time
Against your final solution
–Lunatic Fringe, *Red Rider*

I obviously don't know how this is going to play out. What I am fairly certain of is that the credit-based system of the past 40 years is dead and will be replaced with something else; probably within the next five years. The governments of the western world are running scared, as they know that the only way out of this debt trap is to inflate via depreciating their currencies. The problem is that Europe, Japan, the United States and Great Britain can't all do it at the same time, so there is an unspoken race to depreciate. The governments of the eastern world are aware of this, which is why China, India, Russia and others are in a race of their own to accumulate gold and other tangible commodities as fast as they can. Ironically, China is replaying their history, as they had switched back to a hard-money system (based upon silver) in the 16th century, just as Europe had begun experimenting with a paper-based, fiat system.

Now, I don't believe that gold will go back to being a medium of exchange. (You won't be carrying gold/silver coins to shop at Target.) Instead, I can see it continuing to be used as a store of wealth/value and then, when you are ready to purchase something, you will need to convert it into a local currency. It will be interesting to see how a new system develops in the years to come and in what manner gold (or some other combination of commodities) plays a part. Until then, we shall maintain our large positions in gold and silver bullion as a hedge against politicians and their proclivity to print money.

Portfolio Happenings!

"Inflation is the senility of democracies."
– Sylvia Townsend Warner

"You should be scared. I am scared. You can't not be scared. You can't look at what happened in the run-up to 2008 and see how it is not going to repeat itself, given what we have done."
–Neil Barofsky (former TARP Fund Inspector General)

Mr. Barofsky, like me, recognizes that when you don't fix the root cause of a problem, it comes back to bite you again. However, the markets only care about the here and now, and right now the debt-produced liquidity stream being pumped into the financial system by the Federal Reserve is keeping the markets happy and oblivious to the underlying risks. This stops at the end of June, which should then make things more interesting.

"I believe that we are solely responsible for our choices, and we have to accept the consequences of every deed, word, and thought throughout our lifetime."
–Elisabeth Kubler-Ross

While the performances of the stock markets were relatively flat this quarter, our portfolios got whacked, good and hard. This was mainly attributed to our heavy weighting in gold/silver bullion and precious metals equities markets, as Central Fund of Canada lost 9% and some of our mining positions had double-digit losses. Our underweighting in bonds didn't help either, as yields surprisingly dropped, and both of our stocks related to geo-thermal energy got clobbered. As a matter of fact, not much went right, although I should give some credit to the managers of Hussman Growth and Pimco All Asset, All Authority Funds, as they did post positive quarters.

Our relative performance this quarter does not concern me, however, as the risks that are causing my cautious stance still exist. Likewise, my faith in the ability of gold/silver as a store of value has not diminished and I expect their prices to begin to go higher into the end of the year – although they may certainly fall more beforehand. Hopefully, my condensed historical review of hard vs. fiat based currency systems has helped explain why we have allocated so much of our portfolios to gold and silver over the years. Yes, their price volatility may make us (me) feel foolish from time to time – like this quarter – but their importance to maintaining our wealth has never been greater.

I wake up in the mornin' at 6 'o clock
You say there may be rain but the sun is hot
I wish I had some time just to kill today
And I wish I had a dime for every bill I got to pay
Some days you lose, you win, and the water's as high as the times roll in
So I jump back into where I learned to swim
Try to keep my head above it the best I can
That's why

Here I am
Just waitin' for the storm to pass me by
And that's the sound of sunshine
Comin' down
Michael Franti & Spearhead, *The Sound of Sunshine*

This time period feels like that of 2006 to 2007 to me, when we sat back cautiously, while watching the stock markets march higher past us. I made the promise to myself that I would never "sugarcoat" things for clients and have kept true to this over the years. I realize that much of what I discuss is heavy in nature, but I do truly believe we will come out of this down the road for the better – at least for future generations. That doesn't mean I don't get down at times myself – after all, I am human. Lately, when I need a lift I have been listening to Michael Franti's song above.

So in closing, let me just remind you not to get caught up in all that's going on around you, allowing it to paralyze you. Remember to enjoy life, as it is fragile, and as Michael sings in another of his songs, *I won't let another moment slip away*.

From the tops of the buildings to the streets below
Between the Wall Street banks and the empty homes
Between the lines of the people standing all in a row
There's a crack in the gutter where a flower grows
Reminding me that everything is possible
Yeah, reminding me that nothing is impossible
You gotta live for the one that you love you know
You gotta love for the life that you live you know
Singing hey, hey, hey
No matter how life is today
There's just one thing that I got to say
I won't let another moment slip away
Michael Franti & Spearhead, *Hey, Hey, Hey*