



The Beginners 3½ page Guide to Gold, Money, Inflation, Interest Rates, the Economy and Investment!

*By David Young
Bullion Express Limited, July 2007*

Being a back room person in the business for the last year or so, and faced with the prospect of addressing a breakfast meeting of people who most probably do not share my intense interest in the above subjects, I decided that I should try in my own words to write down what I think I have learnt in recent years about these things for my presentation.

I am a regular reader of people who really do know all about these things and explain them far better than me. Those people include William Buckler (The Privateer), Adam Hamilton (Zeal Intelligence), Bill Bonner (Daily Reckoning), David Galland and Doug Casey (Casey Research), Bill Murphy (Le Metropole Café) and John Rubino (dollarcollapse.com). If you find yourself thoroughly confused by my comments and conclusions, you will find links to their websites on our Bullion Express website.

It is hard to know where to start when introducing the subject of “Gold for Beginners”, so I have presented what I think is the necessary important background information in point, rather than essay form, as it is easier for an aging person such as me to organize my thoughts that way, and hopefully communicate them more effectively to you.

WHO CAN REMEMBER BACK TO 1944?

- That is when the US Dollar became the post WWII de facto global reserve currency under the Bretton Woods Agreement.
- The US dollar was **redeemable for gold** then at US\$35 per ounce.
 - That meant that money and money creation was anchored to something real, with intrinsic value and that acted as an anchor on inflation.
 - Today, there is no currency anywhere in the world that is redeemable for gold. Currencies can be used to buy gold at market price, but that is not the same as the ability to redeem the paper for a fixed quantity of gold. There is no anchor!

WHO CAN REMEMBER BACK TO 1971?

- Well I can. I was 15 at the time and more interested in sports and girls (in that order), than finance and investment.
- In 1971 France’s Charles de Gaul, upset the Bretton Woods apple cart and demanded to **redeem** Frances USD holdings for Gold.
- The US under Nixon defaulted and instead detached the US dollar from gold, closing the “Gold Window” and ushering in a new age of floating currencies, where paper fiat currencies are valued against each other and no real thing.

- This means that since 1971, there has been no foundation or anchor to the monetary system, and nothing to keep global inflation in check.

WHAT IS INFLATION EXACTLY AND WHY DOES IT MATTER?

- Inflation is not the CPI. That is just a measure of some inflationary factors, and not a very good one at that, as the figures used are manipulated to keep it looking low. Like excluding food and fuel. That does not give a true picture does it?
- Inflation in economic terms is ***an increase in the stock of money***.
- Before 1971, money had an anchor, gold. It could not simply be created at will.
- With the anchor removed inflation has run rampant ever since.
 - In 1971 when I was 15 years old, my parents bought a nice home in Kardinya Western Australia. They paid \$24,000. The price of that property now in 2007 is approximately \$600,000. That is an increase in price of 2,300%.
 - But it is still the same house with the same intrinsic value (or maybe a bit less as it is a lot older), the only difference is the price measured in dollars. Those dollars are now worth 2,300% LESS than they were in 1971.
- This inflation or ***increase in the stock of money*** occurs because governments can't stop themselves from creating and/or borrowing money, to pay for their own existence, to get into wars, to spend on vote enhancing programs and to fund their burgeoning bureaucracies.
- The other huge source of the ***increase in the stock of money*** is the credit system itself, where governments, corporations and individuals, borrow more and more money into existence from the banking sector.
- Ever wondered where multi-billion dollar profits the banks make come from? Not from over-the-counter and account fees. Talk about laughing all the way to the bank ☺.

WHAT ARE THE CAUSES AND EFFECTS OF RISING INTEREST RATES?

- Does anyone remember the late 1970's? That is when market interest rates skyrocketed into double digits. That is also the time that gold soared to US\$850 in January 1980, which would be around \$2,500 today in inflation adjusted dollars. These two things, soaring interest rates and gold, occurred in lock step! Why was this?
 - Market interest rates are set by lenders. The interest rate is a measure of risk. The riskier the deal, the higher the interest rate.
 - The risk in lending money increases in line with inflation as the lender gets repaid in less valuable dollars, so he compensates by increasing the interest rate.
 - Reserve Banks set base interest rates, and the world over, they have been steadily increasing base rates over the last year or two to contain inflation and defend their currencies. Even Japan, after a decade of recession and negative real rates are moving their rates up!
 - The US stands alone in stark contrast to the rest of the world. They have been standing firm on base interest rates, for fear of creating a total meltdown in the US property and mortgage markets and stalling their consumer spending based economy. That is causing a precipitous slide in the US dollar against other currencies and gold.
- The net result of all this is that:
 - Market interest rates are rising world wide, putting pressure on borrowers; and
 - The US dollar is crashing before our eyes, reducing the value of the billions of US dollars held as reserves by other countries and investors with US denominated investments.
 - This is leading to an initial flight from the US dollar by private and corporate investors, who simply cannot afford to watch their investments shrink. Those investors will be looking for safety, and safety lies in gold and silver. This process can already be seen in the growth of Exchange Traded (gold and silver) Funds (ETF's) holding hundreds of tons of bullion already.

- They will also be looking for profitable investments, and if gold and silver are on the rise through safe haven buying, you can bet that gold and silver stocks will be rising too, and historically a lot faster than the metal itself, as the producers become more profitable and become the target of refugee investors from conventional stocks.
- Once that begins, the pressure will be on governments and reserve banks world wide to start dumping their US dollars and the rout will begin.
- The stage is set, and we believe that very challenging times lay ahead.

Do you have any GOLD or SILVER?

WHAT DOES THAT MEAN TO YOU AS AN INVESTOR?

- It means that there are now all sorts of “financial” investment products, which are based on money and credit and their leveraged derivatives which have no intrinsic value at all, just a price, but are traded in financial markets.
- You have only to look at the “sub prime” mortgage meltdown occurring in the US right now.
 - CDO’s (Collateralized Debt Obligations) are made up of dubious “low doc” loans that are packaged up and sold at leverage to the financial markets.
 - The real borrowers at the bottom of this derivative heap are defaulting under rising market interest rates and the value of the underlying leveraged assets is dropping fast in the absence of new buyers, because the easy and cheap credit has dried up.
 - The lenders are now at risk as well as the borrowers.
 - Ratings agencies are falling over themselves to re-categorize these former AAA rated investments. It is all falling in a heap!
 - Check out the news, and that melt down is now affecting investment houses including major retirement funds in Australia who have invested in US hedge funds that hold these “CDO investments”. This is just the tip of the iceberg!
- Is the risk involved in this type of investment worth it?
- What is the point of saving paper money, if it loses its value so easily?
- Isn’t it better to save and invest in things with intrinsic value?

Do you have any GOLD or SILVER?

REAL INVESTORS NEED REAL INVESTMENTS IN REAL STUFF!

- Firstly investors need to have some real investments.
 - ✓ Shares in companies that either mine or manufacture real things.
 - ✓ Companies that produce real economic goods that have an intrinsic value.
 - ✓ Companies that create real wealth, pay people, contribute to the community, help to grow the real economy and cause a rise in real living standards.
- Secondly, investors need a store of value for their savings that will not depreciate and cannot be destroyed.

Do you have any GOLD or SILVER?

We are several years into a confirmed secular bull market in precious metals that commenced in 2002. The “true believers” are already in. They have invested into these sectors years ago. They wait patiently for these events to unfold and perform a sort of Noah like role, trying to bring these important matters to the attention of others before it is too late.

Do you have any GOLD or SILVER?

If you don’t have any gold and silver or shares in the companies that find it, mine it produce it or sell it, we can help ☺

To contact David Young and to find out more about Bullion Express, please go to:

www.bullionexpress.com

BULLION EXPRESS LIMITED

Bullion Express provides clients with two options of doing business with us:

- ✓ Firstly, we are able to act as your agent to purchase physical bullion from the Perth Mint and have it delivered to you; and
- ✓ Secondly, we are able to help you to invest into quality gold and silver stocks and/or allocated or unallocated bullion from the Perth Mint using a tax effective and secure corporate structure.

