

# El oro, una divisa en tiempos de crisis

James Turk  
Fundador de GoldMoney



## Gold & Silver Meeting

"EL ORO Y LA PLATA, ACTIVOS MONETARIOS CON FUTURO"

Madrid, 18 de Junio 2009 presenta a:



# GoldMoney



Gold & Silver Meeting

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# Gold, Silver, Money, Currency and the Banks

**James Turk**

**18 June 2009**

**Madrid, Spain**



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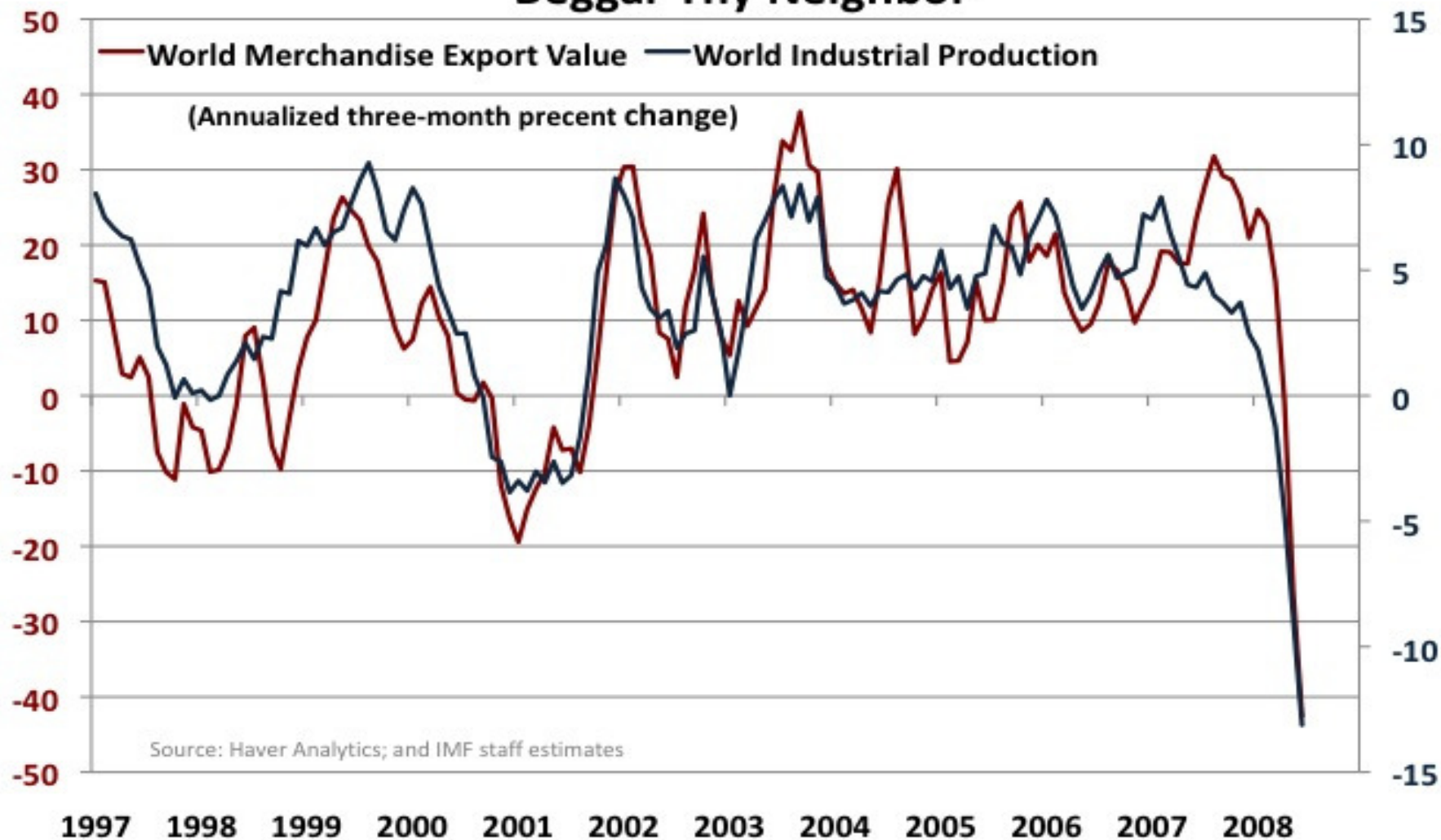
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# Another great depression

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## "Beggar Thy Neighbor"

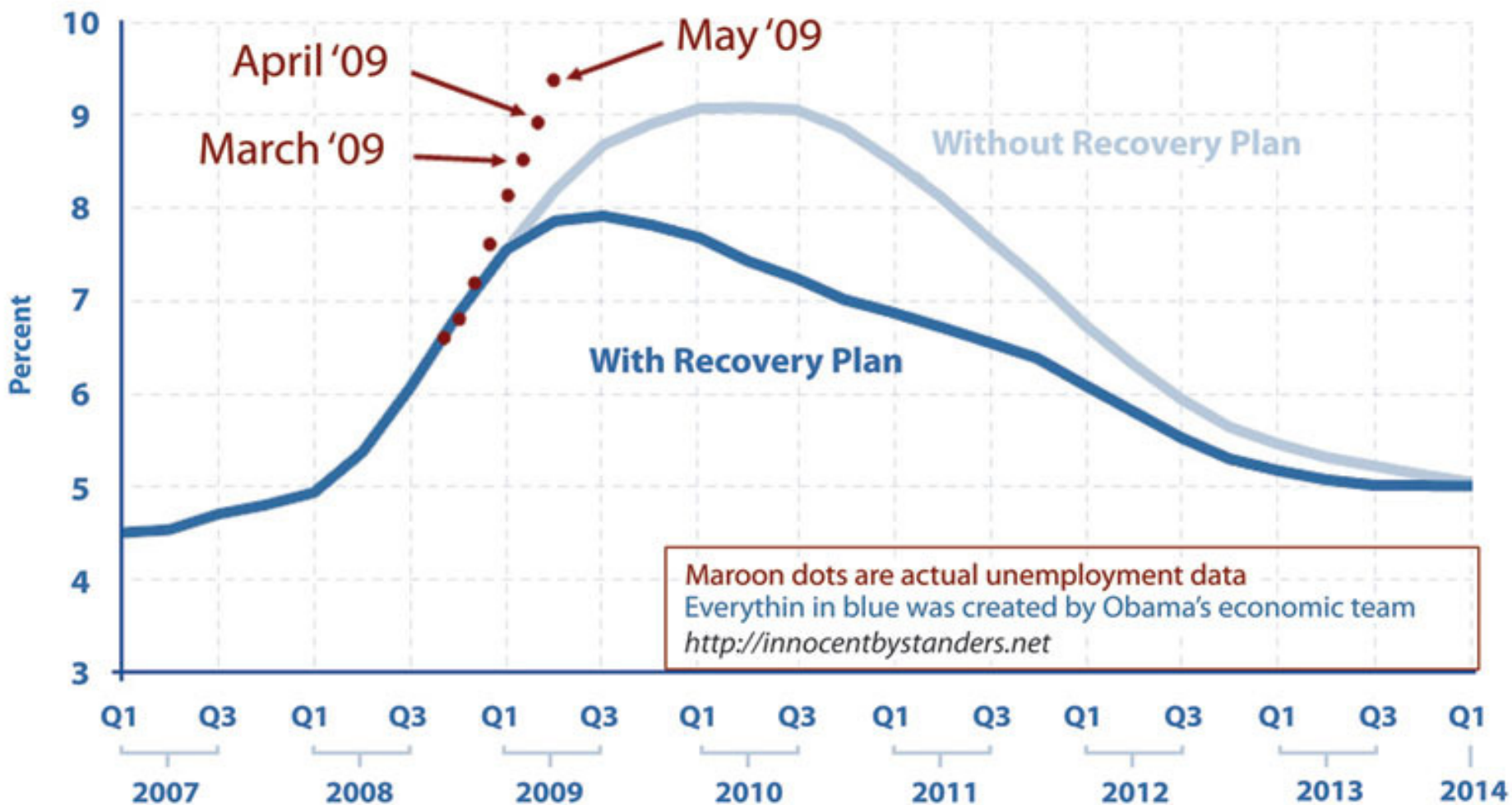




# Another great depression

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### Unemployment Rate With and Without the Recovery Plan





# One of the best performing asset classes

**GoldMoney**

## Gold % Annual Change

	USD	AUD	CAD	CNY	EUR	INR	JPY	CHF	GBP
2001	2.5%	11.3%	8.8%	2.5%	8.1%	5.8%	17.4%	5.0%	5.4%
2002	24.7%	13.5%	23.7%	24.8%	5.9%	24.0%	13.0%	3.9%	12.7%
2003	19.6%	-10.5%	-2.2%	19.5%	-0.5%	13.5%	7.9%	7.0%	7.9%
2004	5.2%	1.4%	-2.0%	5.2%	-2.1%	-0.0%	0.9%	-3.0%	-2.0%
2005	18.2%	25.6%	14.5%	15.2%	35.1%	22.8%	35.7%	36.2%	31.8%
2006	22.8%	14.4%	22.8%	18.8%	10.2%	20.5%	24.0%	13.9%	7.8%
2007	31.4%	18.6%	10.4%	23.0%	17.9%	17.5%	24.7%	21.5%	29.2%
2008	5.8%	32.5%	32.4%	-1.1%	11.9%	30.4%	-14.9%	0.2%	44.3%
Annual Average	16.3%	13.3%	13.6%	13.5%	10.8%	16.8%	13.6%	10.6%	17.1%





# One of the best performing asset classes

**GoldMoney**

## Silver % Annual Change

	USD	AUD	CAD	CNY	EUR	INR	JPY	CHF	GBP
2001	-0.1%	8.5%	6.1%	-0.1%	5.3%	3.1%	14.4%	2.3%	2.7%
2002	4.8%	-4.6%	4.0%	4.9%	-11.0%	4.3%	-5.0%	-12.6%	-5.3%
2003	24.0%	-7.3%	1.4%	23.9%	3.2%	17.7%	11.9%	11.0%	11.9%
2004	14.3%	10.2%	6.5%	14.3%	6.4%	8.6%	9.6%	5.4%	6.5%
2005	29.6%	37.7%	25.5%	26.3%	48.1%	34.6%	48.8%	49.3%	44.4%
2006	45.3%	35.3%	45.3%	40.5%	30.4%	42.6%	46.7%	34.8%	27.5%
2007	15.4%	4.1%	-3.1%	8.0%	3.5%	3.2%	9.5%	6.7%	13.5%
2008	-23.8%	-4.7%	-4.7%	-28.9%	-19.5%	-6.2%	-38.8%	-27.9%	3.8%
Annual Average	13.7%	9.9%	10.1%	11.1%	8.3%	13.5%	12.1%	8.6%	13.1%



**Gold is money**



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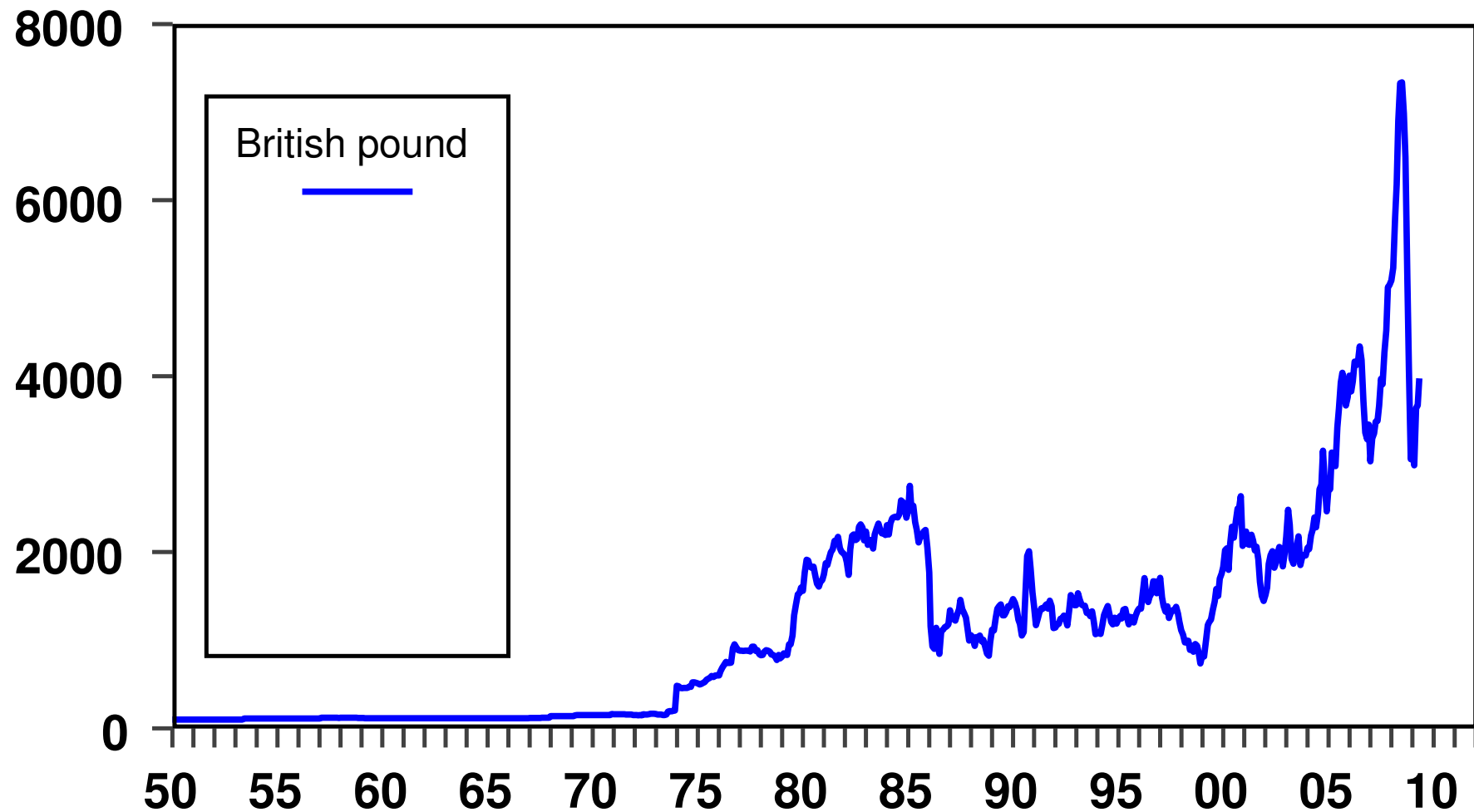
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**GoldMoney**

## Crude Oil Prices (Base of 100) January 1950 through May 2009







**Gold is money**



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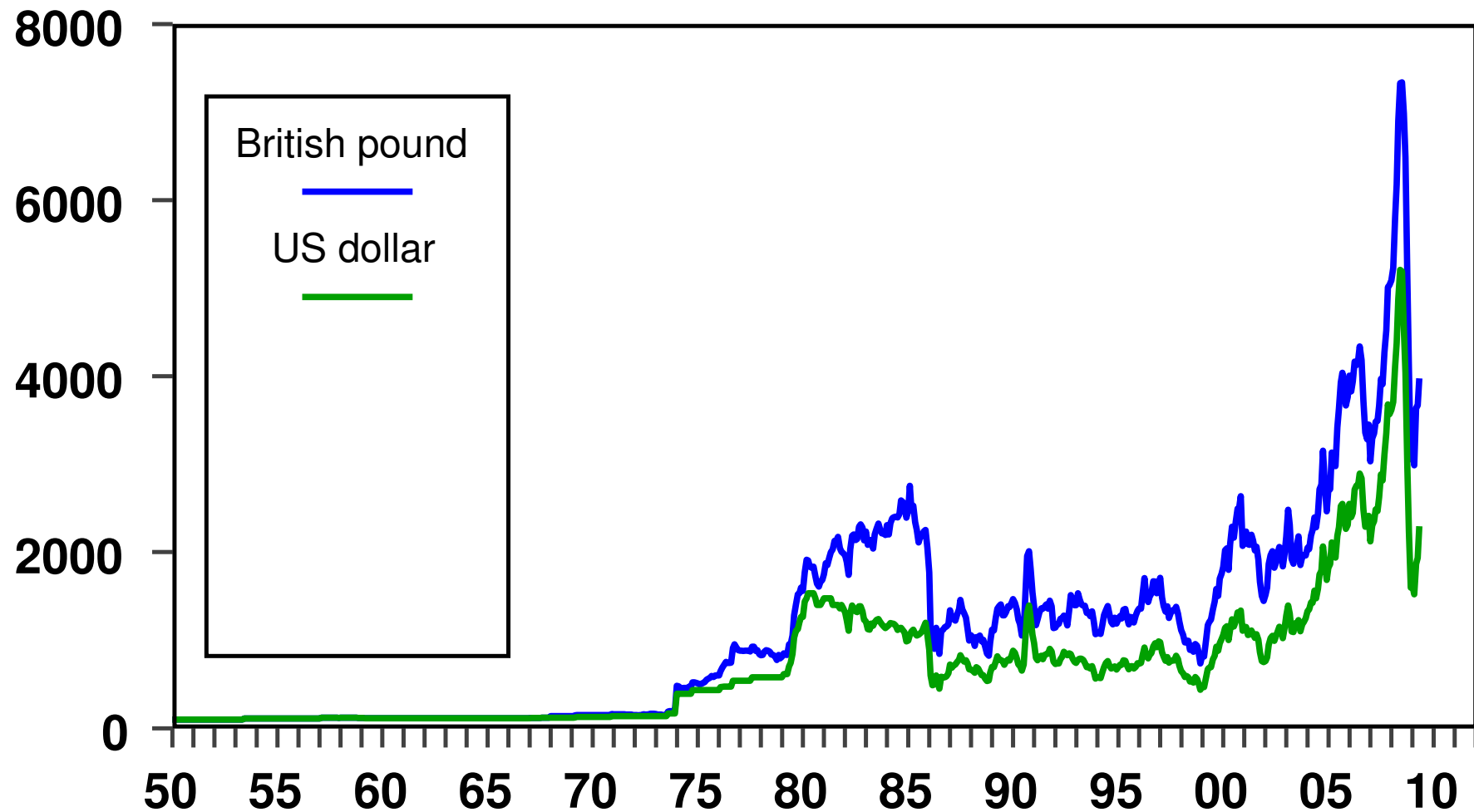
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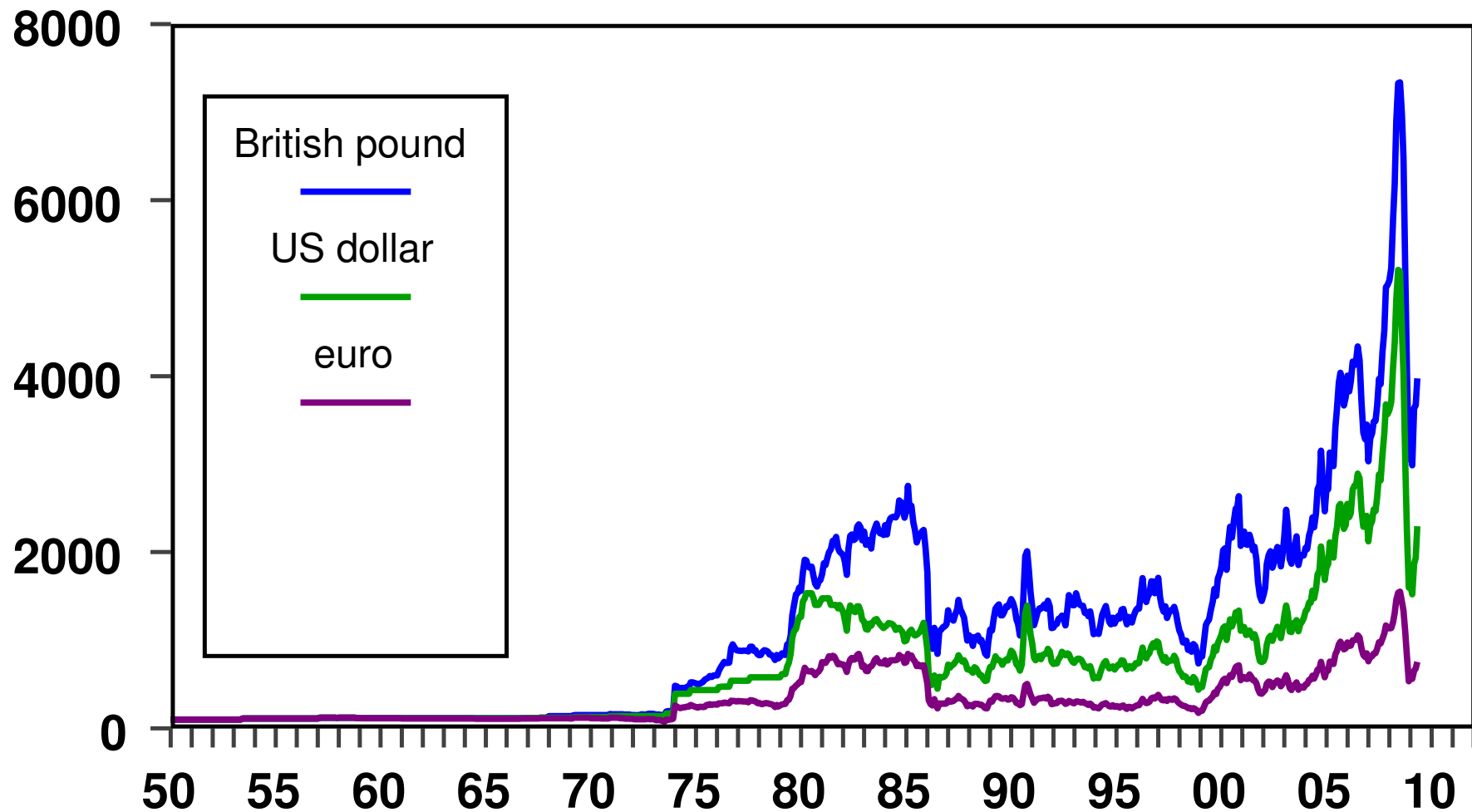
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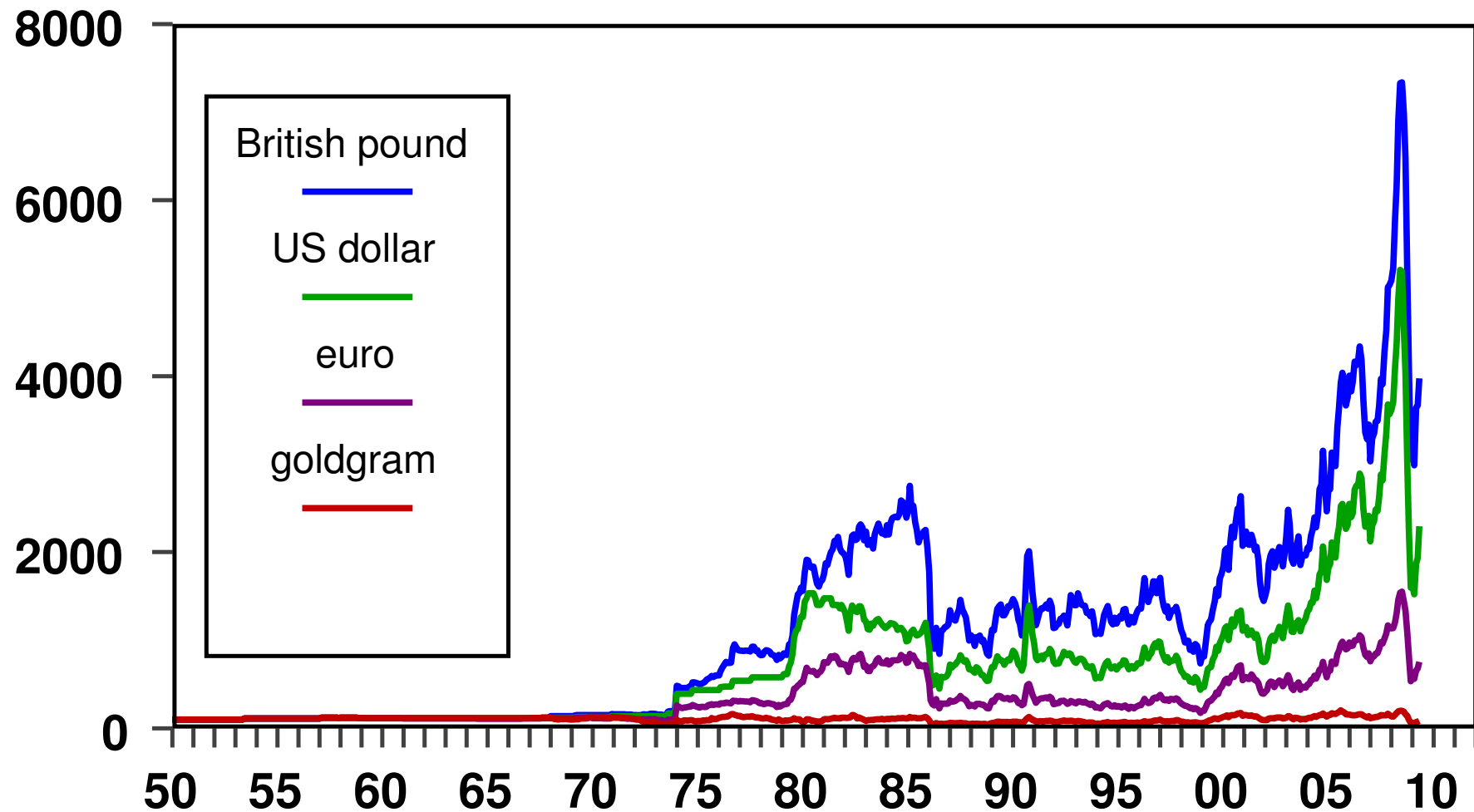
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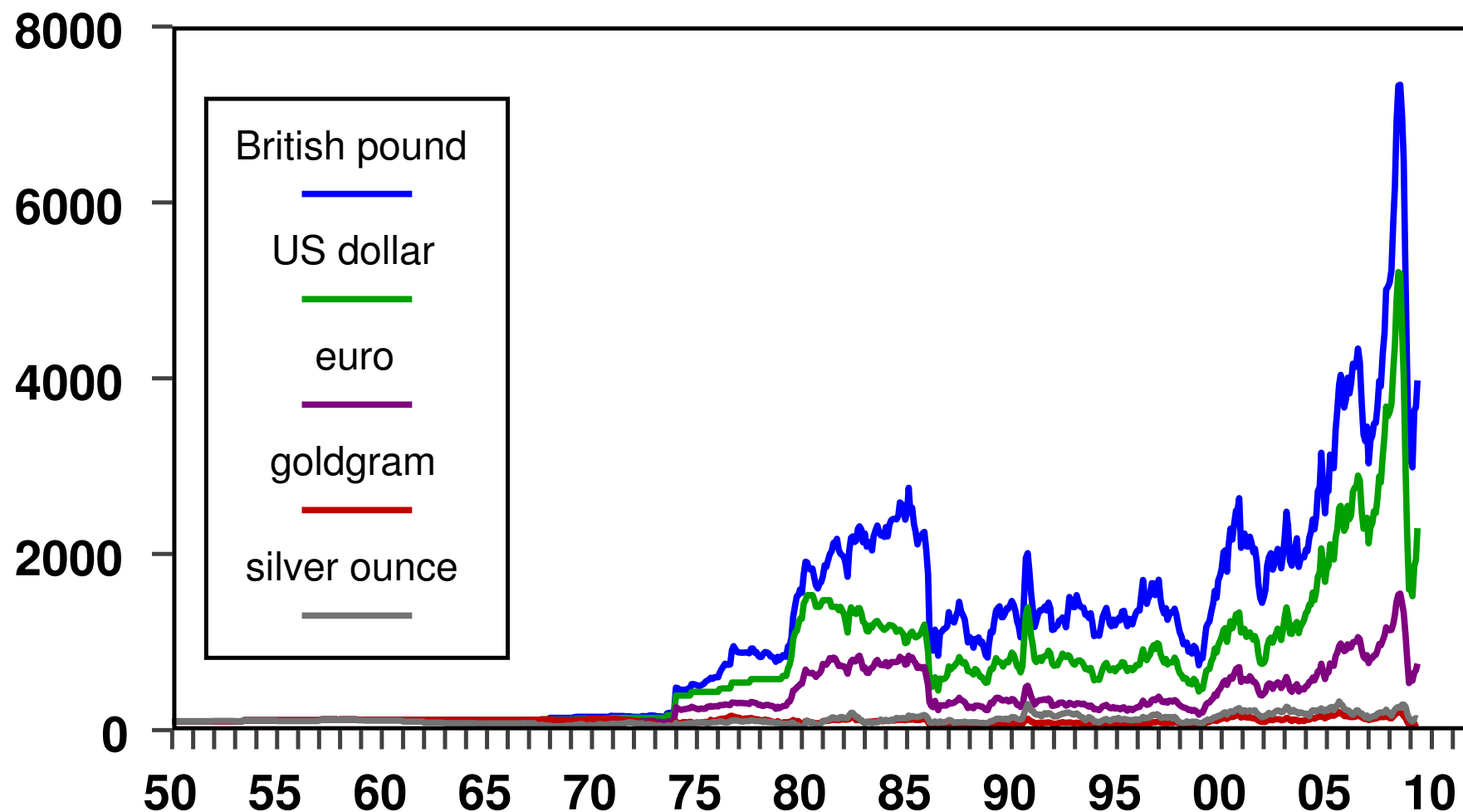


**Gold and silver are money**

**GoldMoney**

## Crude Oil Prices (Base of 100)

January 1950 through May 2009





## Gold, money & currency



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"EL ORO Y LA PLATA, ACTIVOS MONETARIOS CON FUTURO"

Madrid, 18 de Junio 2009 presenta a:



**GoldMoney**

- **Gold is special because it is different**



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## Gold, money & currency

**GoldMoney**

- **Gold is special because it is different**
  - **accumulated (saved); not consumed**





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## Gold, money & currency

**GoldMoney**

- **Gold is special because it is different**
  - accumulated (saved); not consumed
  - large aboveground stock relative to annual production



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  - large aboveground stock relative to annual production
  - value derives from usefulness



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    - food
    - shelter



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- **Gold is special because it is different**
  - accumulated (saved); not consumed
  - large aboveground stock relative to annual production
  - value derives from usefulness
    - food
    - shelter
    - communication (interaction in society)



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## Gold, money & currency

**GoldMoney**

- **Money is a mental tool that enables economic calculation**





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## Gold, money & currency

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- **Money is a mental tool that enables economic calculation**
  - **unchanged throughout history**



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## Gold, money & currency

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- **Money is a mental tool that enables economic calculation**
  - **unchanged throughout history**
- **Currency is a medium of exchange**



## Gold, money & currency

**GoldMoney**

- **Money is a mental tool that enables economic calculation**
  - **unchanged throughout history**
- **Currency is a medium of exchange**
  - **improves as a result of technological innovations**



## Gold, money & currency



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**GoldMoney**

- **Bank of England established, 1694**



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## Gold, money & currency

**GoldMoney**

- **Bank of England established, 1694**
  - **'invention' of paper currency**



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  - 'invention' of paper currency
  - banknotes circulated current in place of gold/silver coins safely stored in vault





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  - ‘invention’ of paper currency
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  - currency changes from a tangible asset to a bank liability
  - creation of payment risk a/k/a “Herstatt risk”
  - first bank crisis in 1696



## Gold, money & currency



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**GoldMoney**

- **Newton's Gold Standard, 1700-1914**



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  - pound banknote redeemable into gold on demand
  - Bank of England responsible for ensuring redeemability
  - voluntary rules ensure system's automaticity
  - becomes backbone of British empire



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# Gold, money & currency

**GoldMoney**

- **Peel's Bank Act, 1844**



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## Gold, money & currency

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  - **limits quantity of pound banknotes**



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  - **limits quantity of pound banknotes**
  - **unintended consequence is the development of deposit currency**



## Gold, money & currency

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  - **unintended consequence is the development of deposit currency**
  - **payment risk escalates**





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  - new British banking model eventually adopted worldwide



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  - seed for "too big too fail"



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  - new British banking model eventually adopted worldwide
  - seed for "too big too fail"
    - 2 functions within one bank



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## Gold, money & currency

**GoldMoney**

- **Keynesian revolution begins**



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## Gold, money & currency

**GoldMoney**

- **Keynesian revolution begins**
  - **“The gold standard is already a barbarous relic.” J.M. Keynes, 1923**



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## Gold, money & currency

**GoldMoney**

- **Keynesian revolution begins**
  - “The gold standard is already a barbarous relic.” J.M. Keynes, 1923
  - governments chafe at the discipline imposed by the gold standard



## Gold, money & currency

**GoldMoney**

- **Keynesian revolution begins**
  - **"The gold standard is already a barbarous relic." J.M. Keynes, 1923**
  - **governments chafe at the discipline imposed by the gold standard**
  - **governments claim that currency managed by central banks can eliminate the boom/bust cycle**





## Gold, money & currency



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**GoldMoney**

- **Keynesian revolution succeeds**



## Gold, money & currency



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**GoldMoney**

- **Keynesian revolution succeeds**
  - **'Gold Standard' finally disappears 1971**



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## Gold, money & currency

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- **Keynesian revolution succeeds**
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  - **US dollar and other currencies no longer redeemable into gold**



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## Gold, money & currency

GoldMoney

- **Keynesian revolution succeeds**
  - **'Gold Standard' finally disappears 1971**
  - **US dollar and other currencies no longer redeemable into gold**
  - **governments can now create currency without limit**



## Gold, money & currency



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**GoldMoney**

- **Keynesian revolution is ending**



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## Gold, money & currency

**GoldMoney**

- **Keynesian revolution is ending**
  - **when currency can be created without limit, there are consequences**



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- **Keynesian revolution is ending**
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  - **these include inflation, global imbalances and sovereign wealth funds**





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  - **these include inflation, global imbalances and sovereign wealth funds**
  - **"Gold still represents the ultimate form of payment in the world." Alan Greenspan, 1999**



## Gold, money & currency

**GoldMoney**

- **Keynesian revolution is ending**
  - **when currency can be created without limit, there are consequences**
  - **these include inflation, global imbalances and sovereign wealth funds**
  - **“Gold still represents the ultimate form of payment in the world.” Alan Greenspan, 1999**
  - **gold remains the standard by which all things are measured – gold is money**



**Gold is money**



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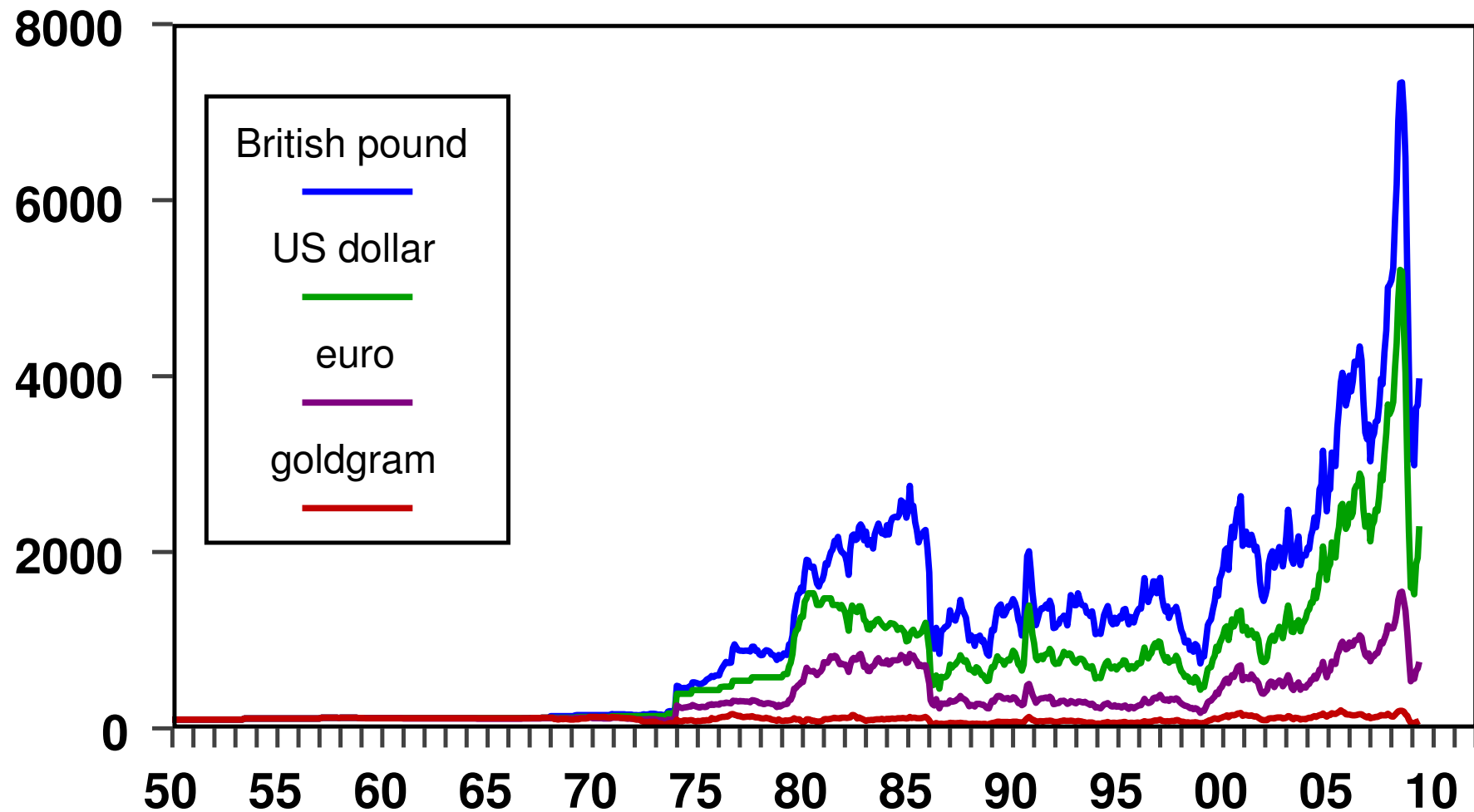
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## Crude Oil Prices (Base of 100) January 1950 through May 2009





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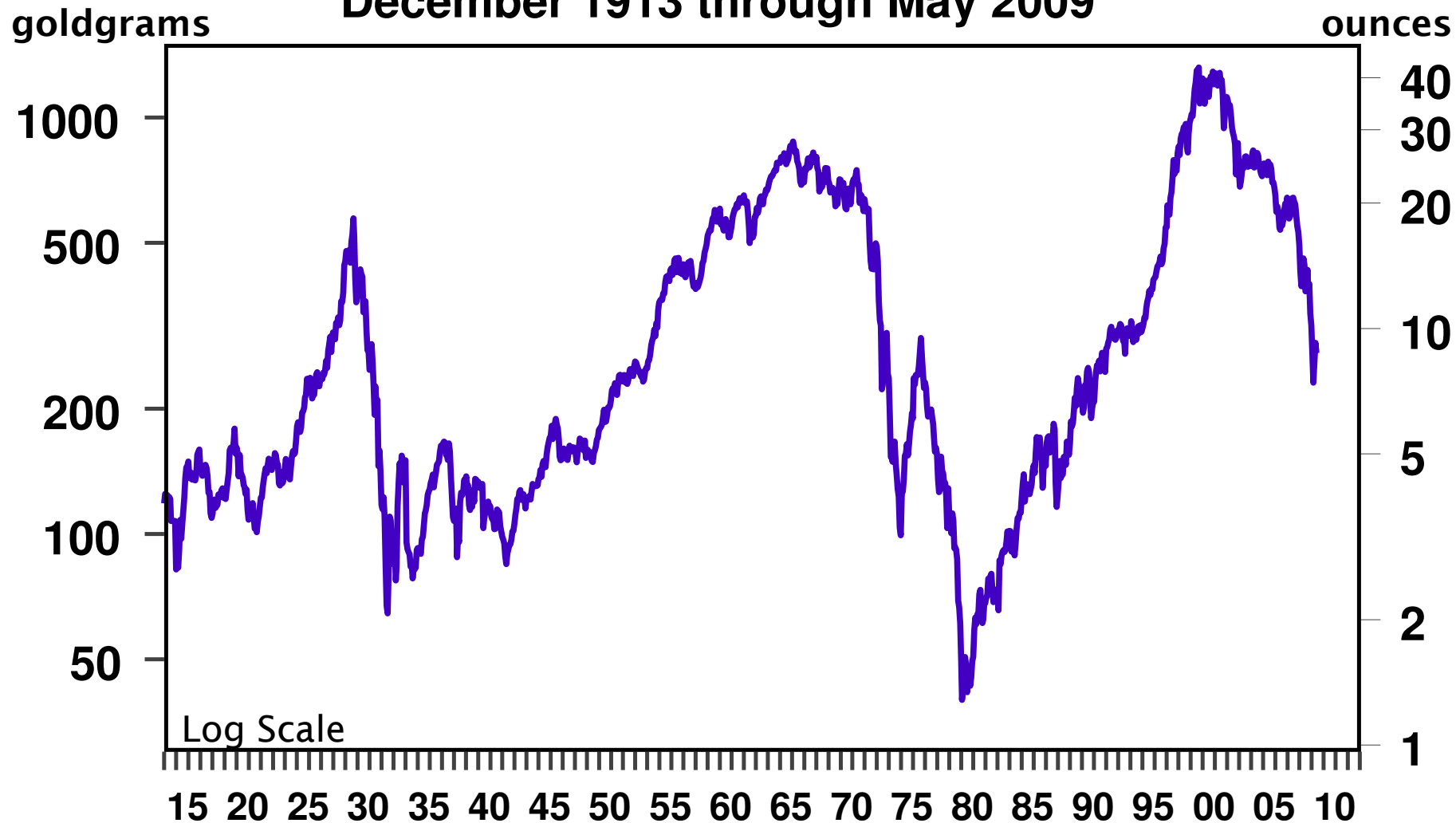


# The boom – bust cycle

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## Dow Jones Industrials in Gold

December 1913 through May 2009





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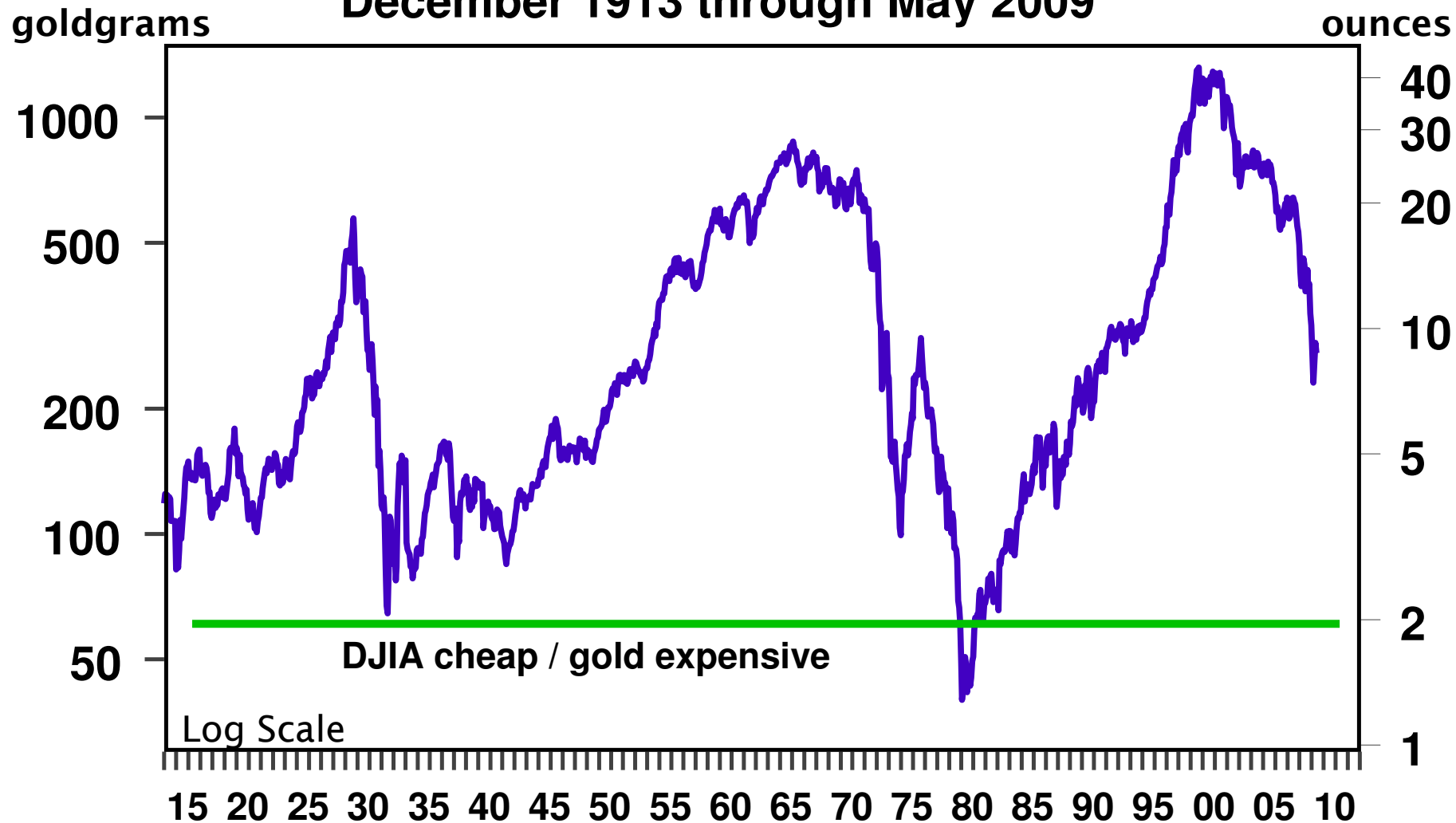


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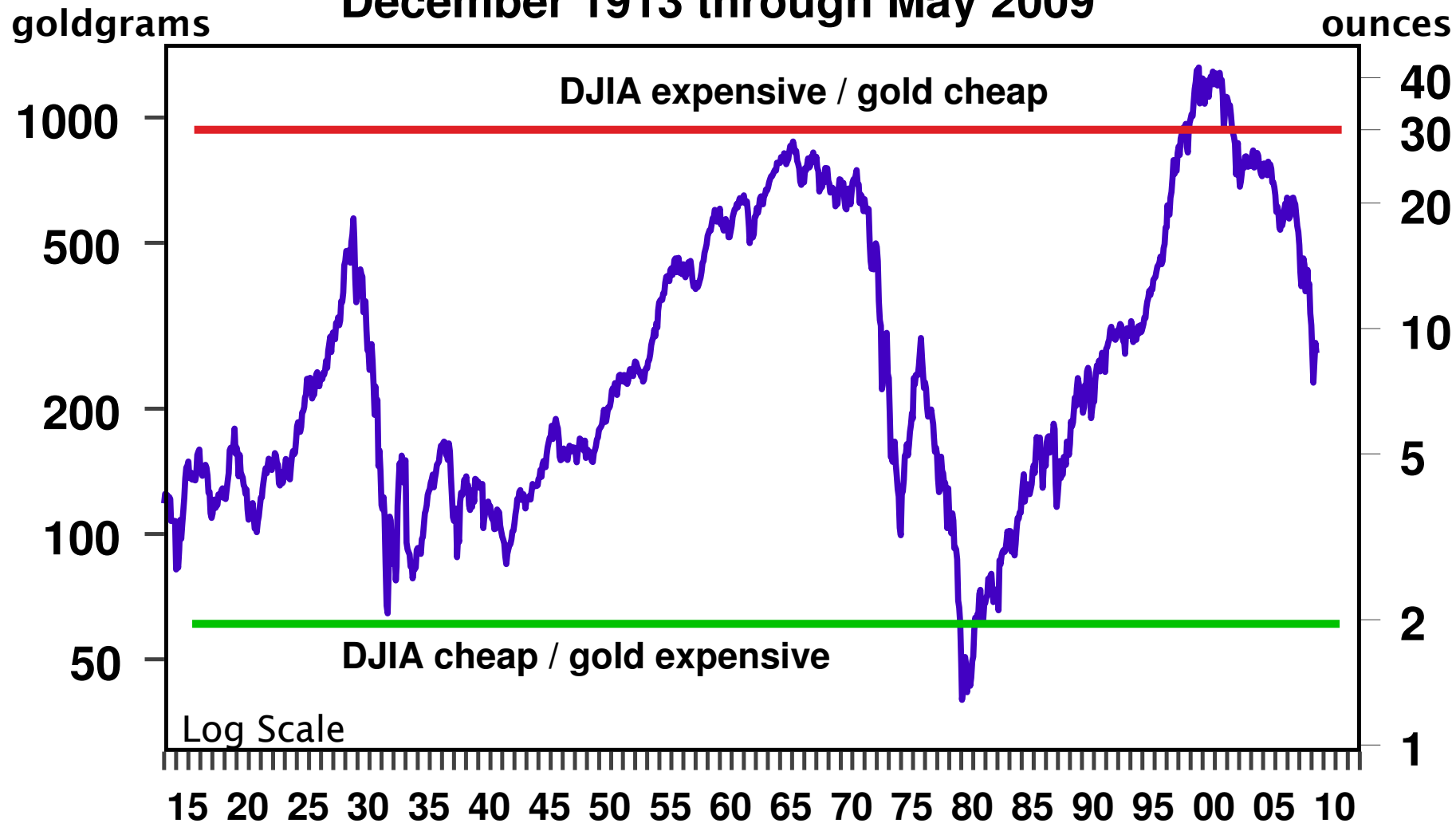


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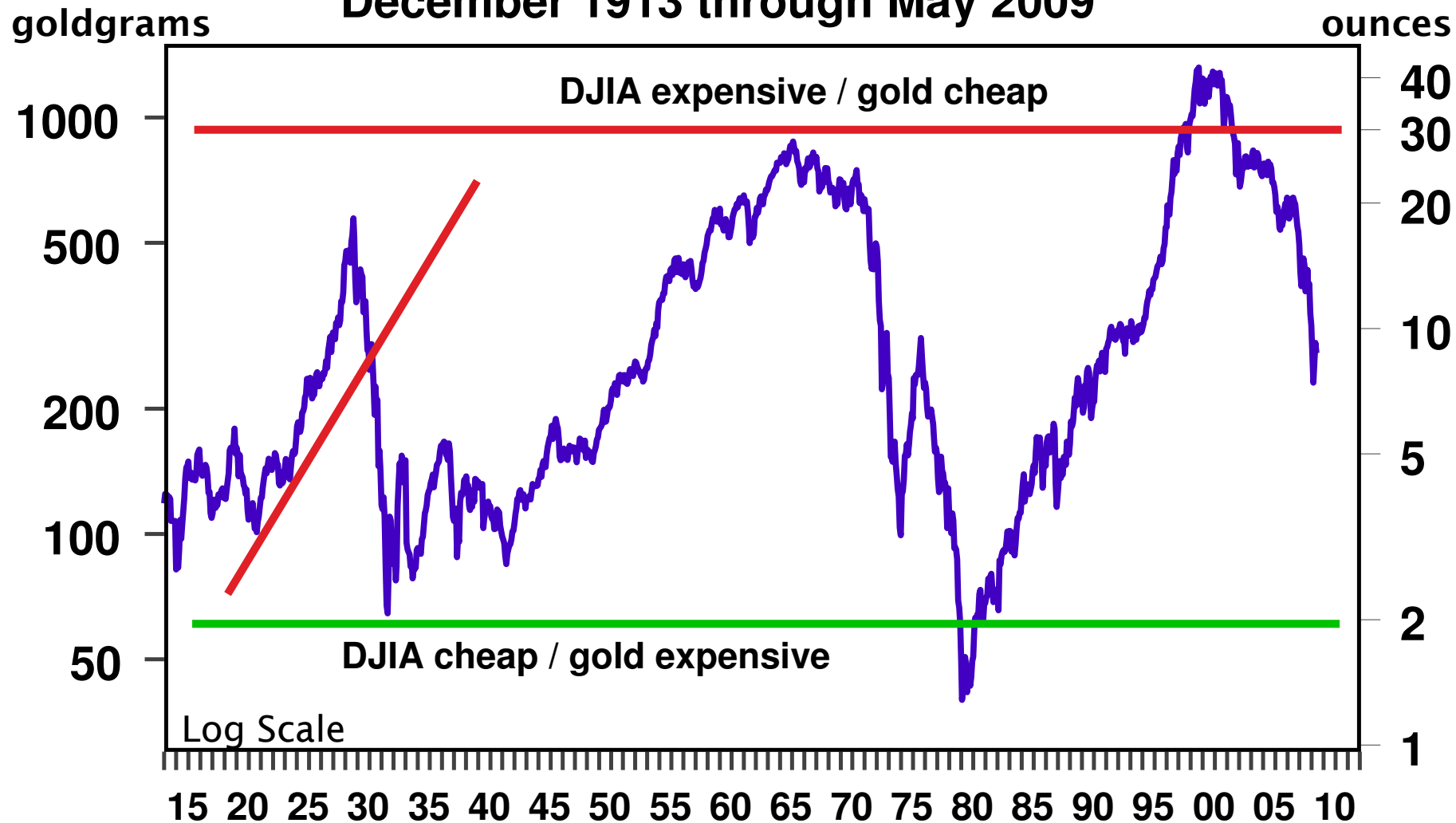


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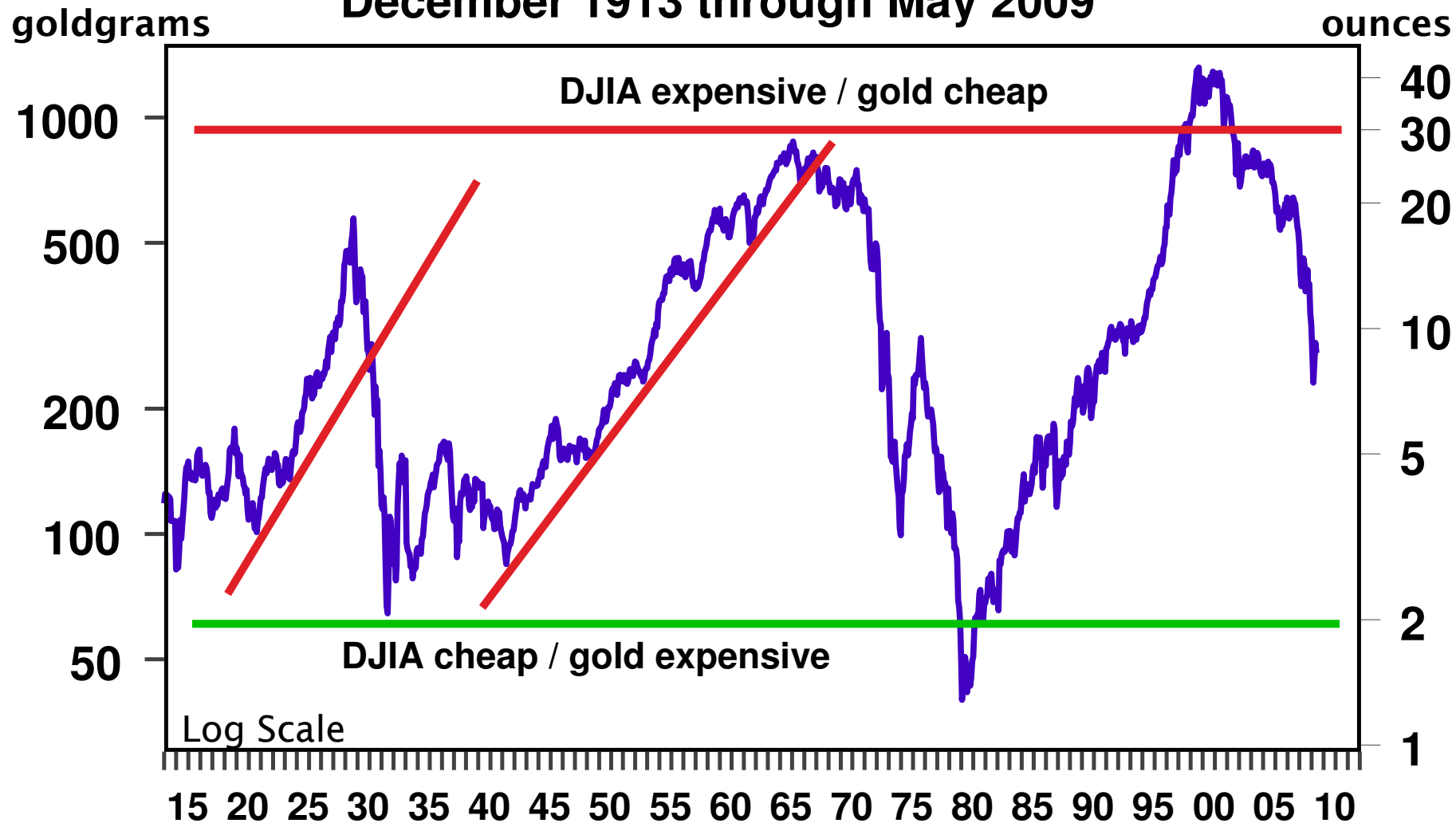


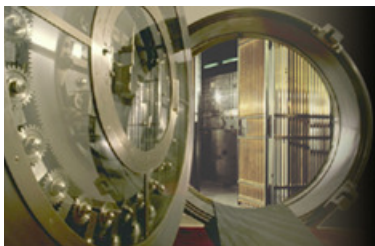
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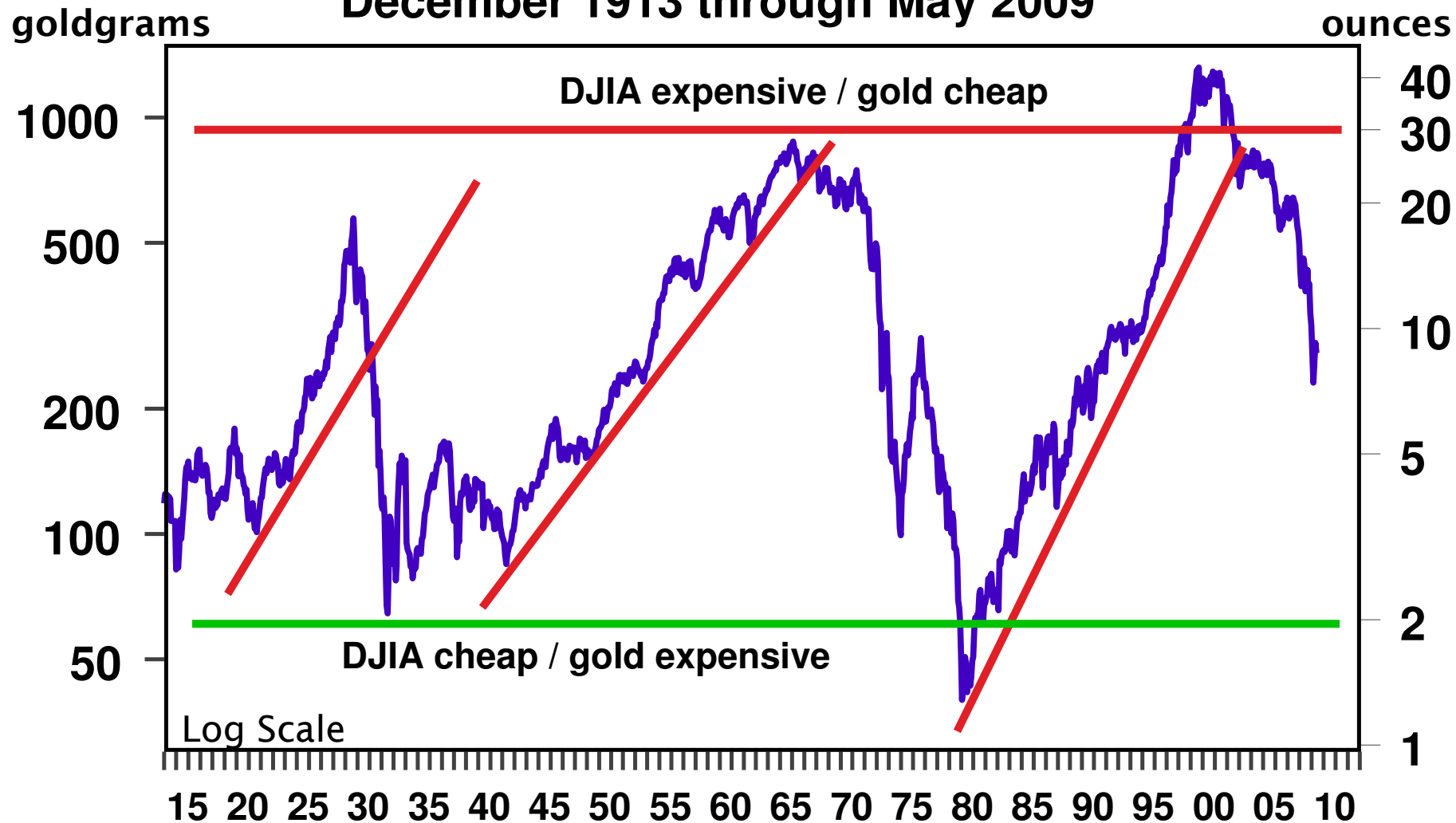


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# Printing dollars



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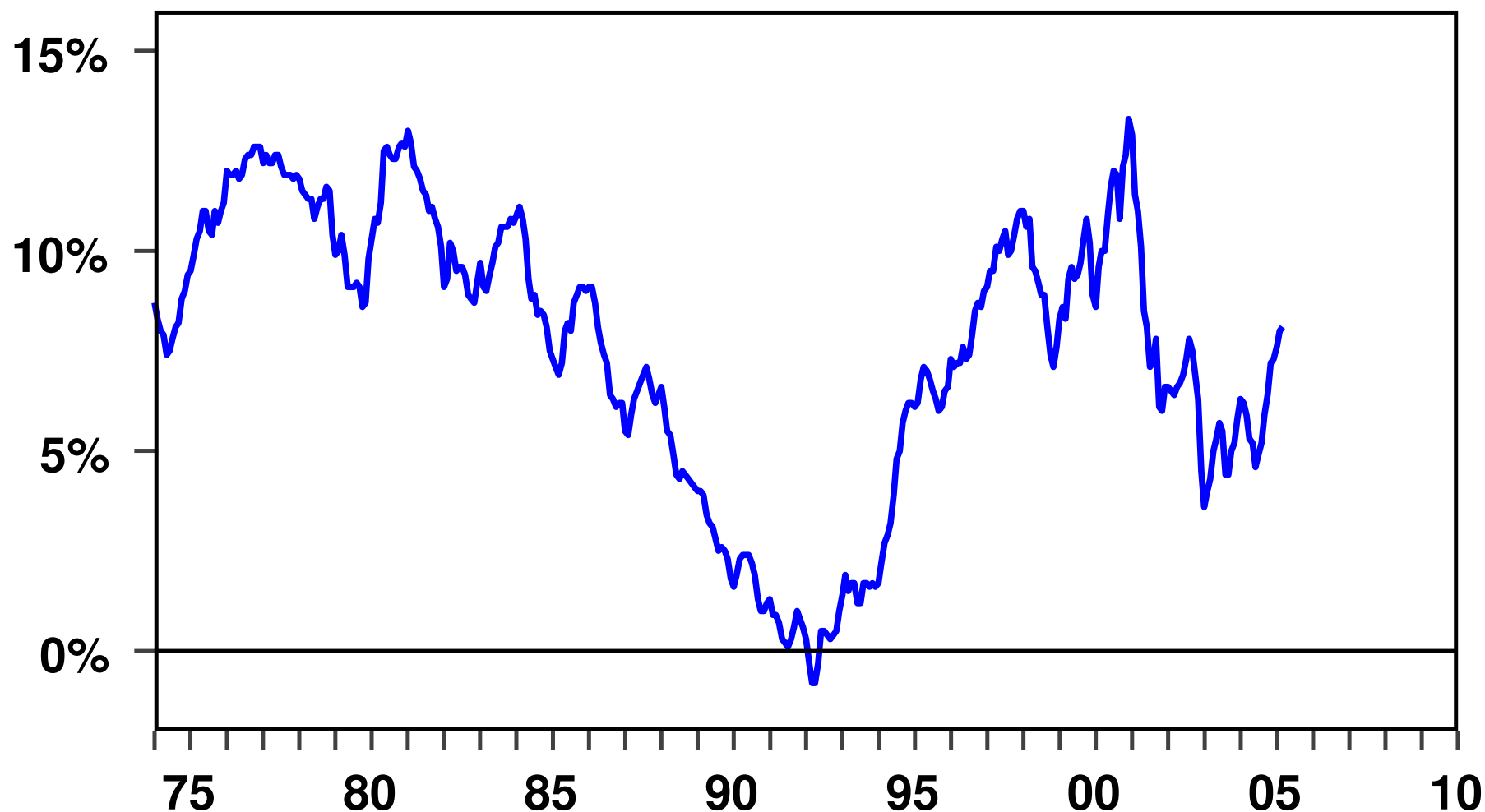
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## Quantity of Money (M3) - Annual Growth Rate January 1975 though May 2009





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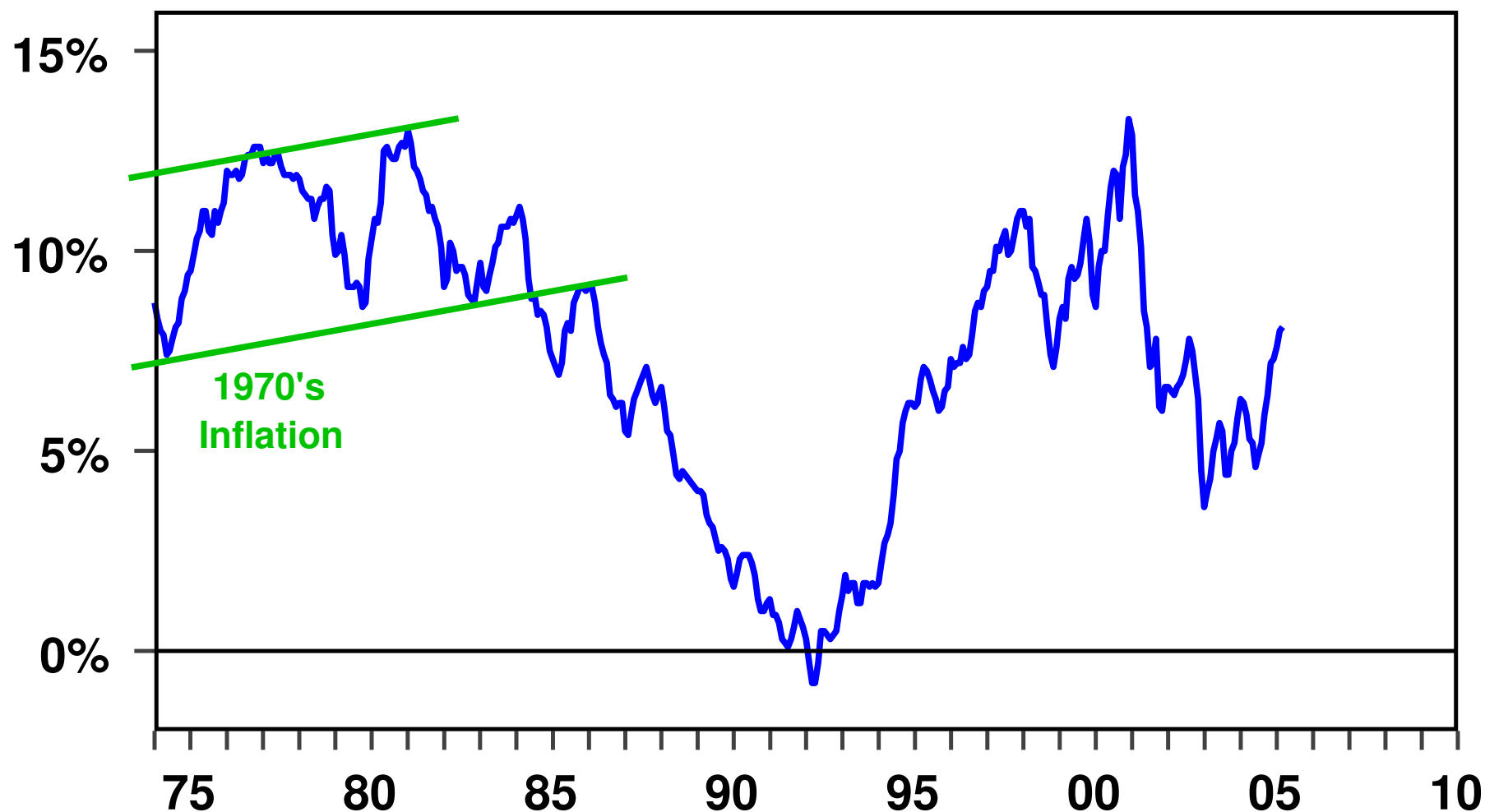
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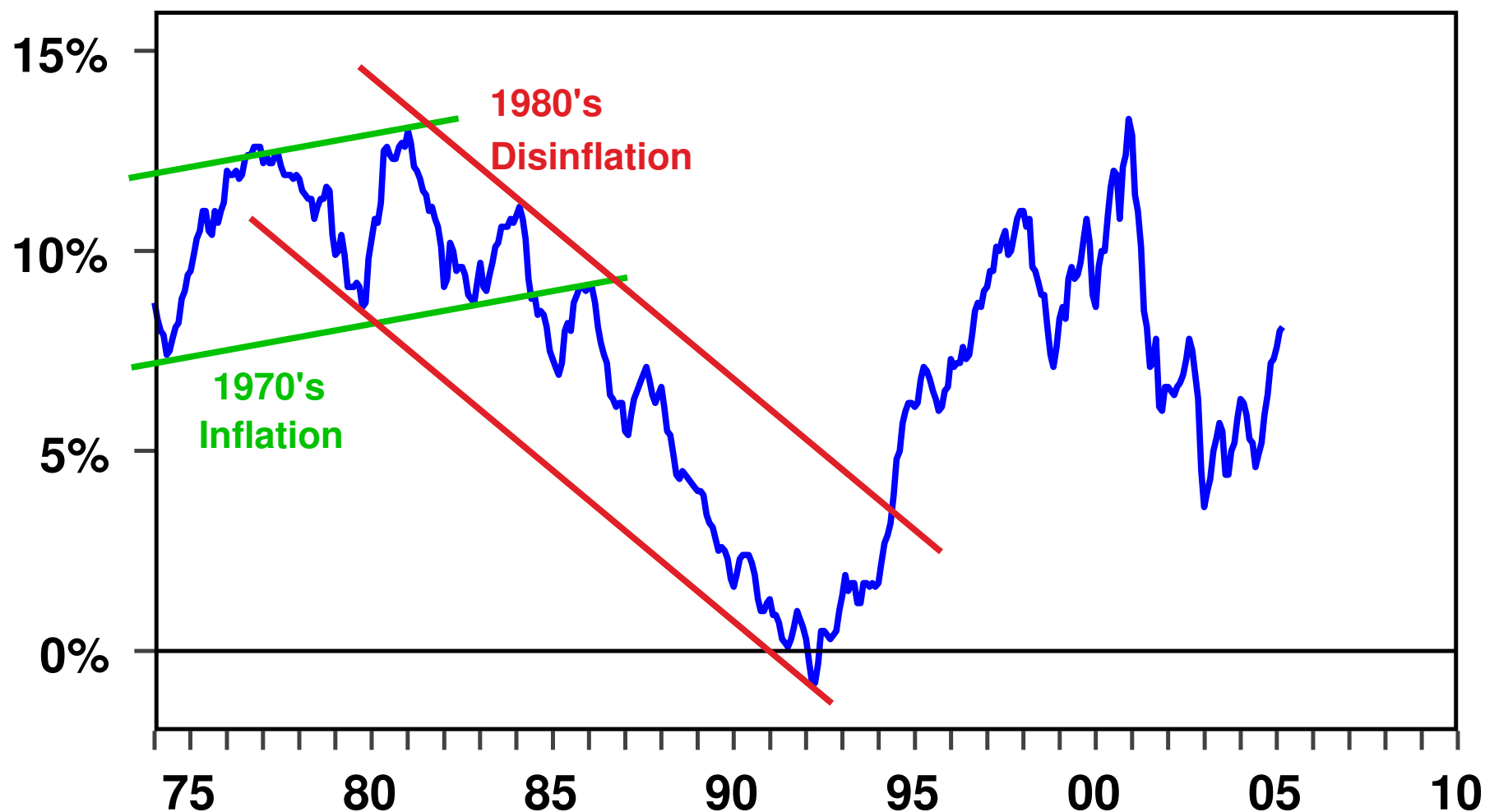
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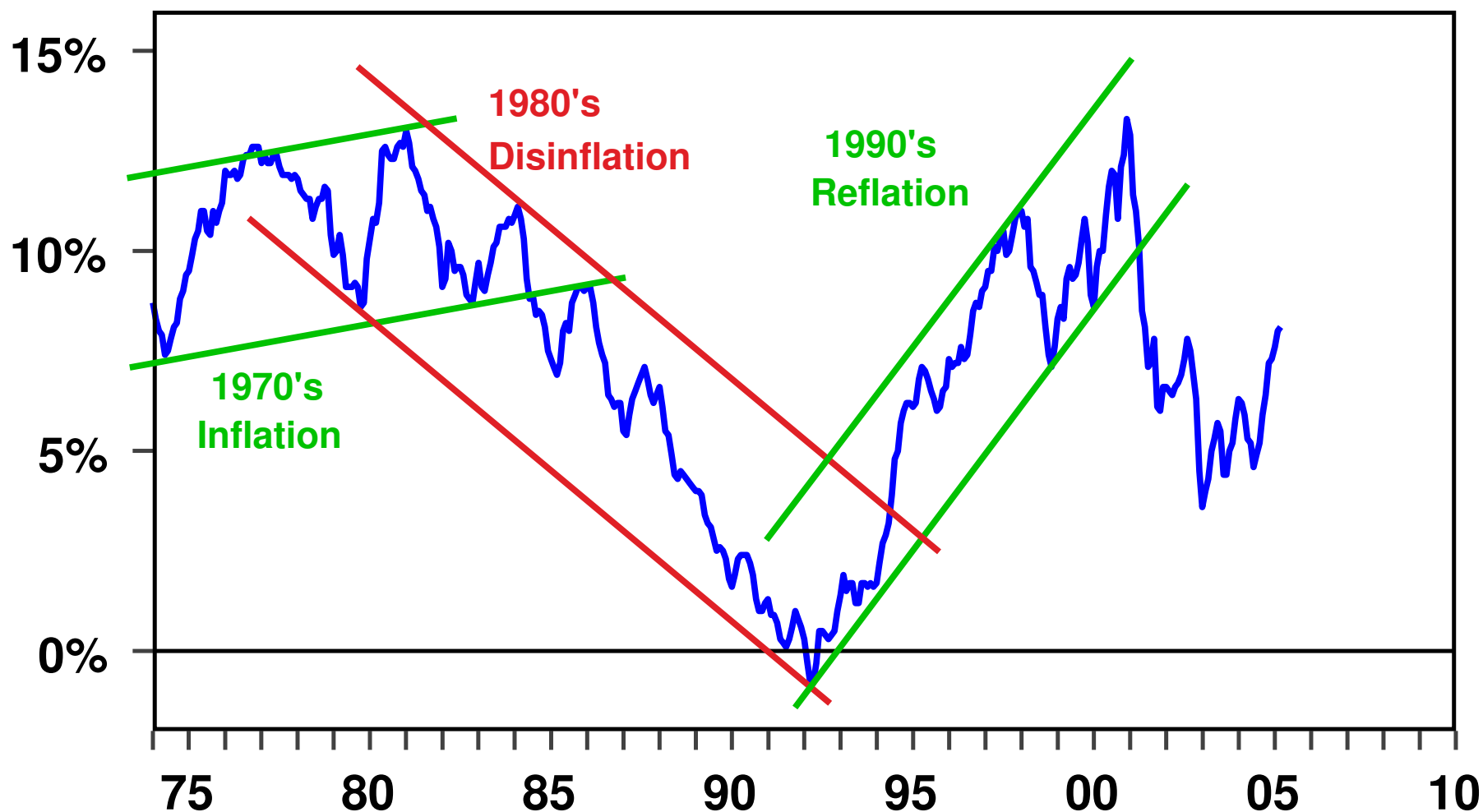
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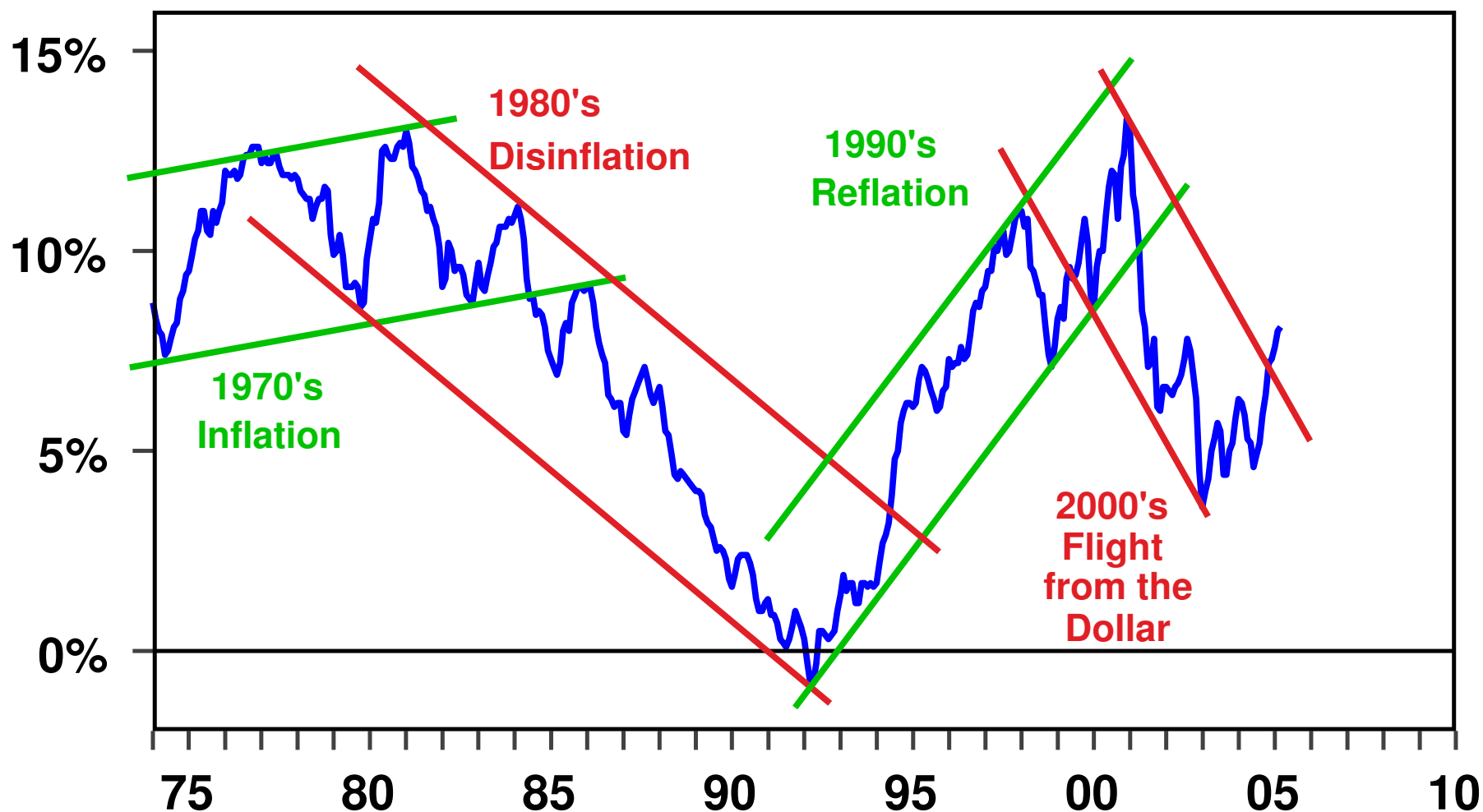
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**GoldMoney**

## Quantity of Money (M3) - Annual Growth Rate January 1975 though May 2009







# Printing dollars



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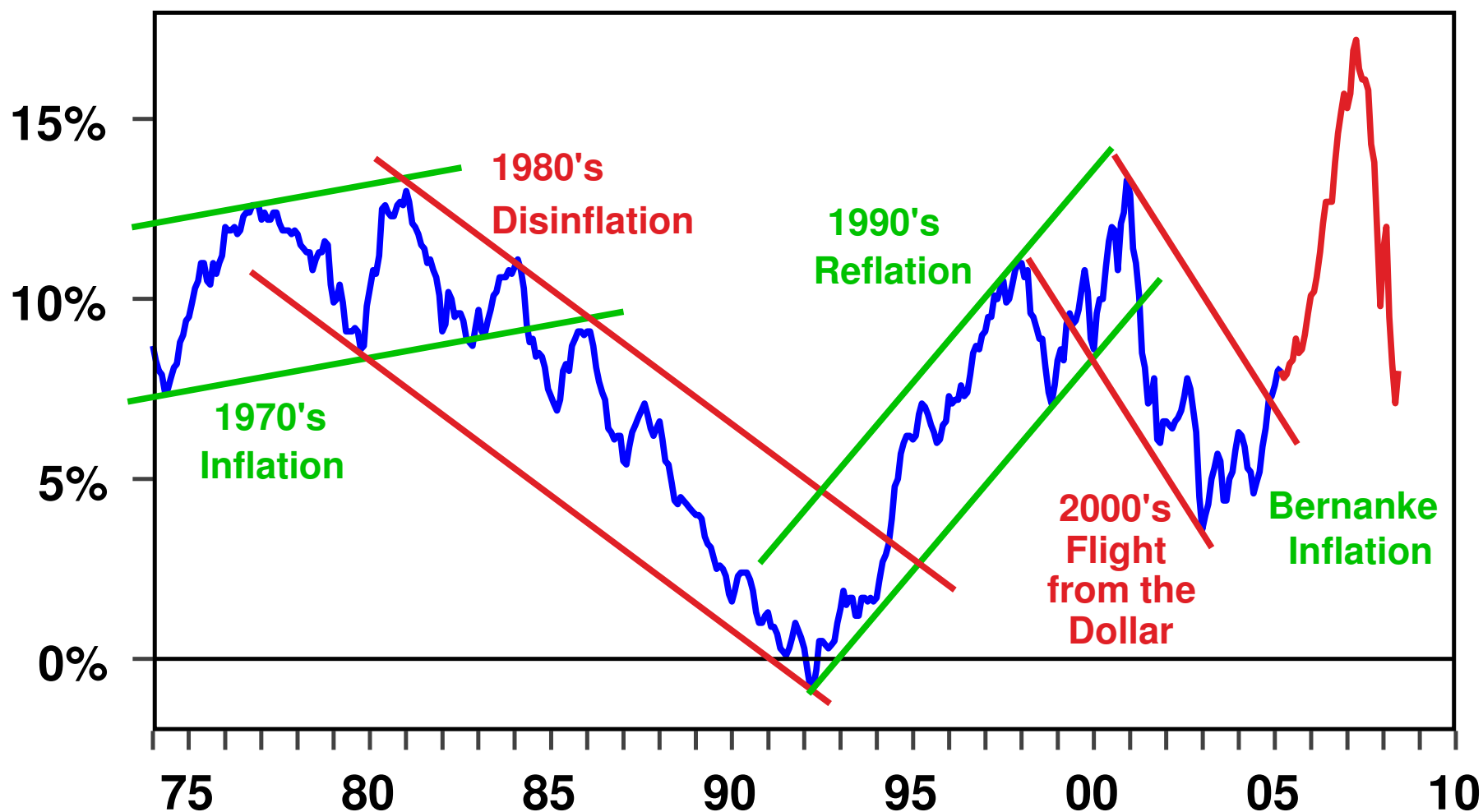
"EL ORO Y LA PLATA, ACTIVOS MONETARIOS CON FUTURO"

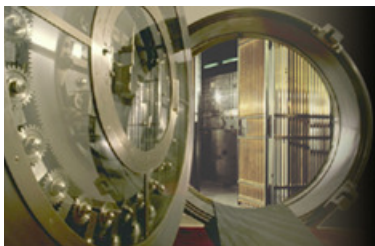
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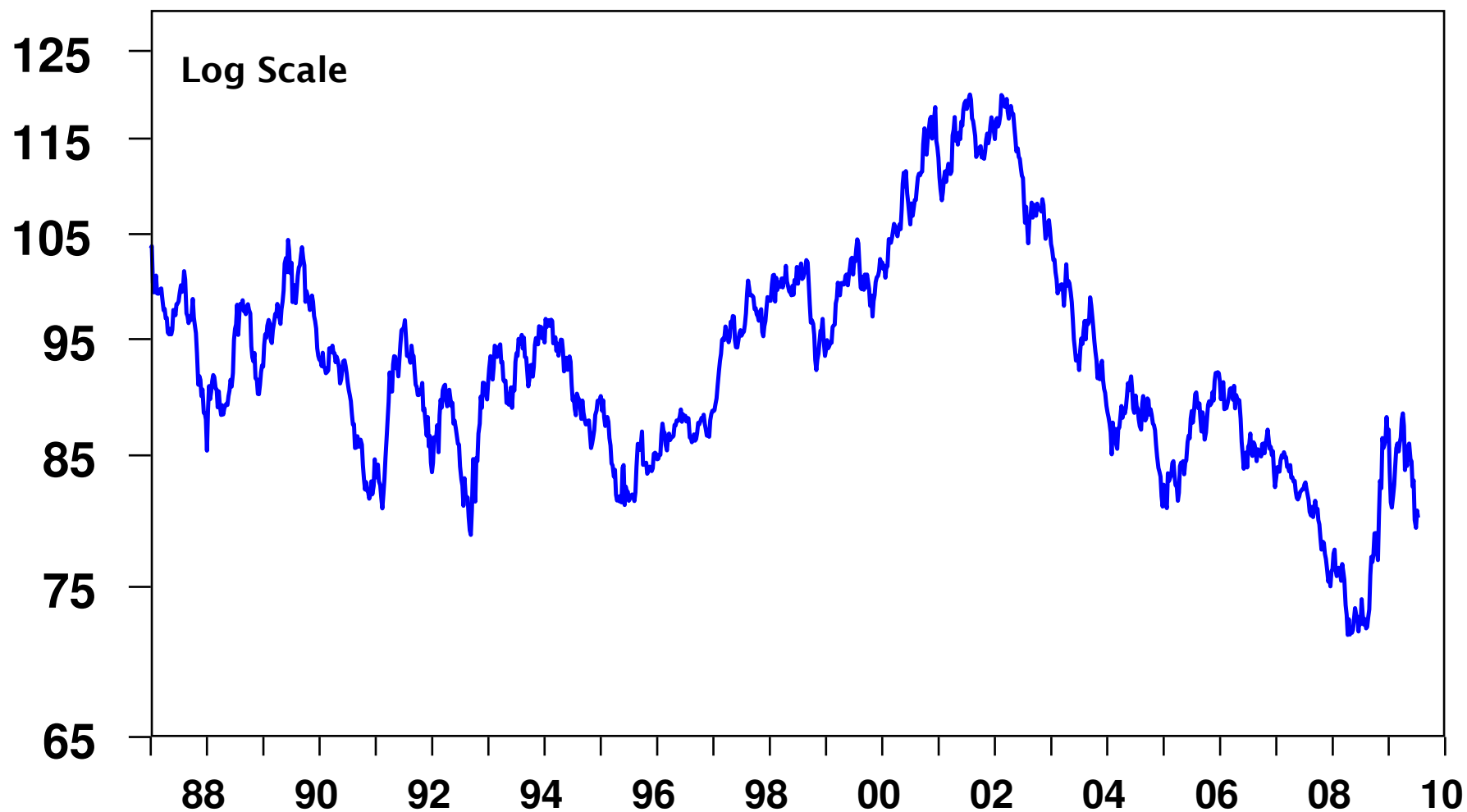
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# The dollar's bear market rally

GoldMoney

## US Dollar Index - Weekly January 2, 1987 through June 12, 2009





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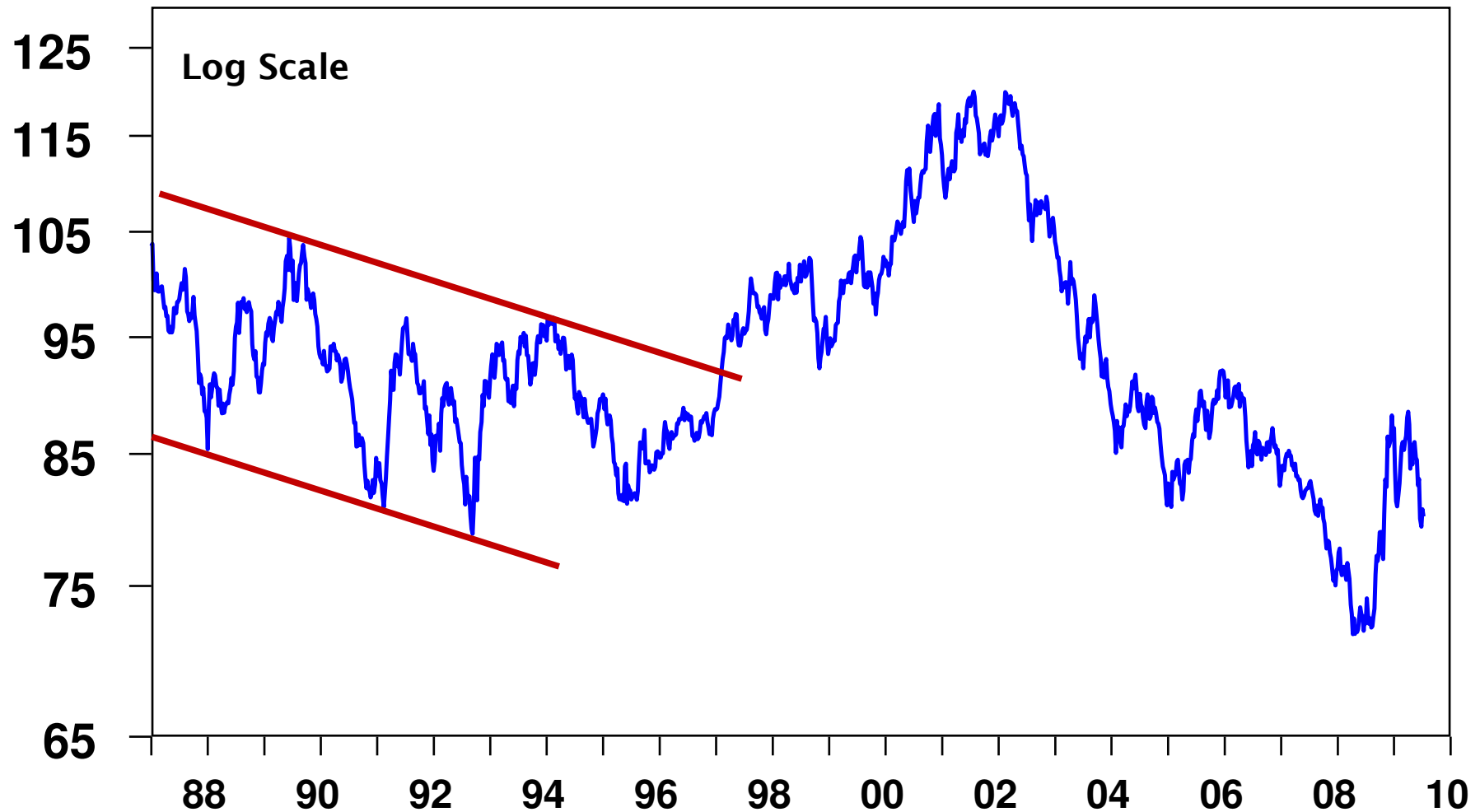
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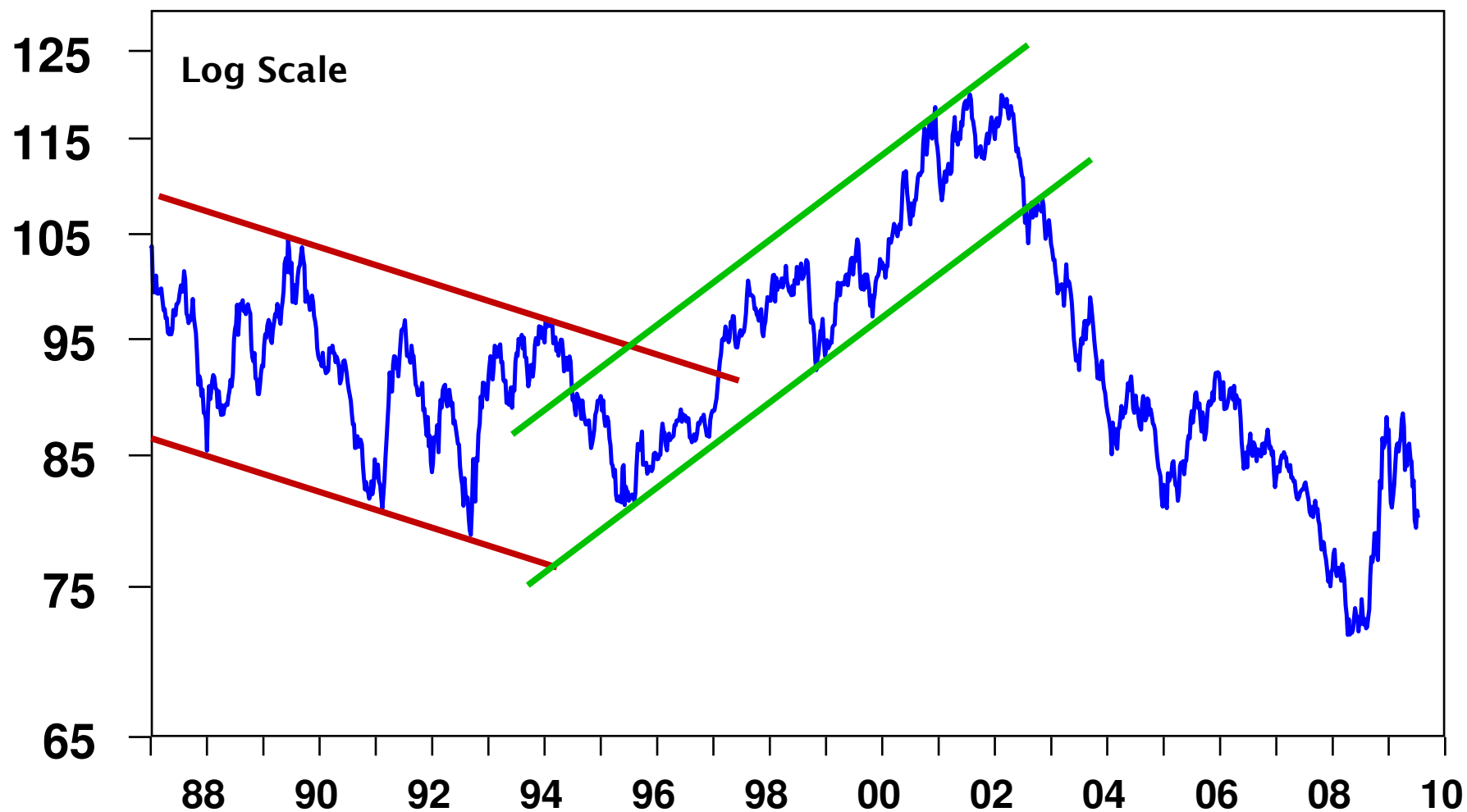
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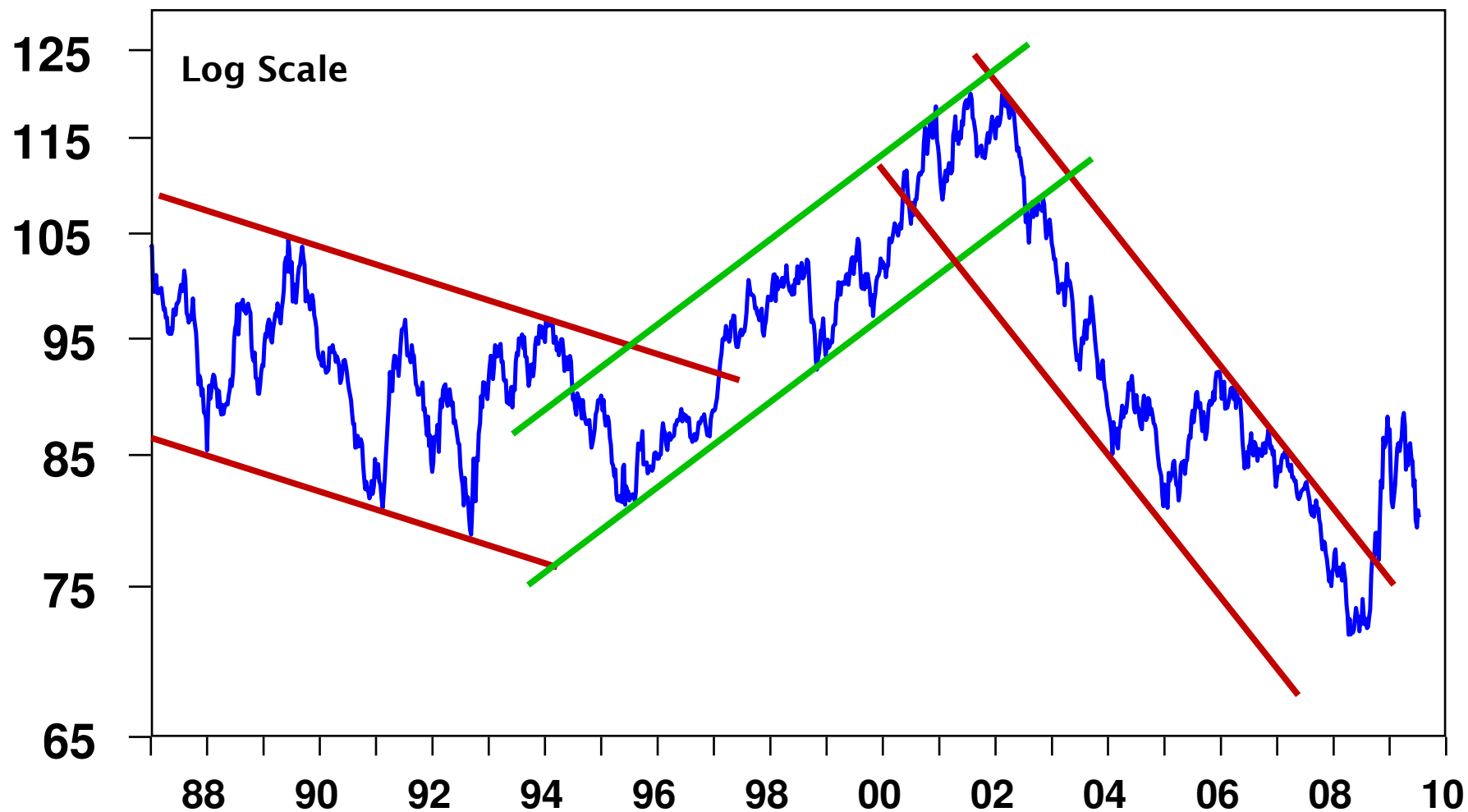
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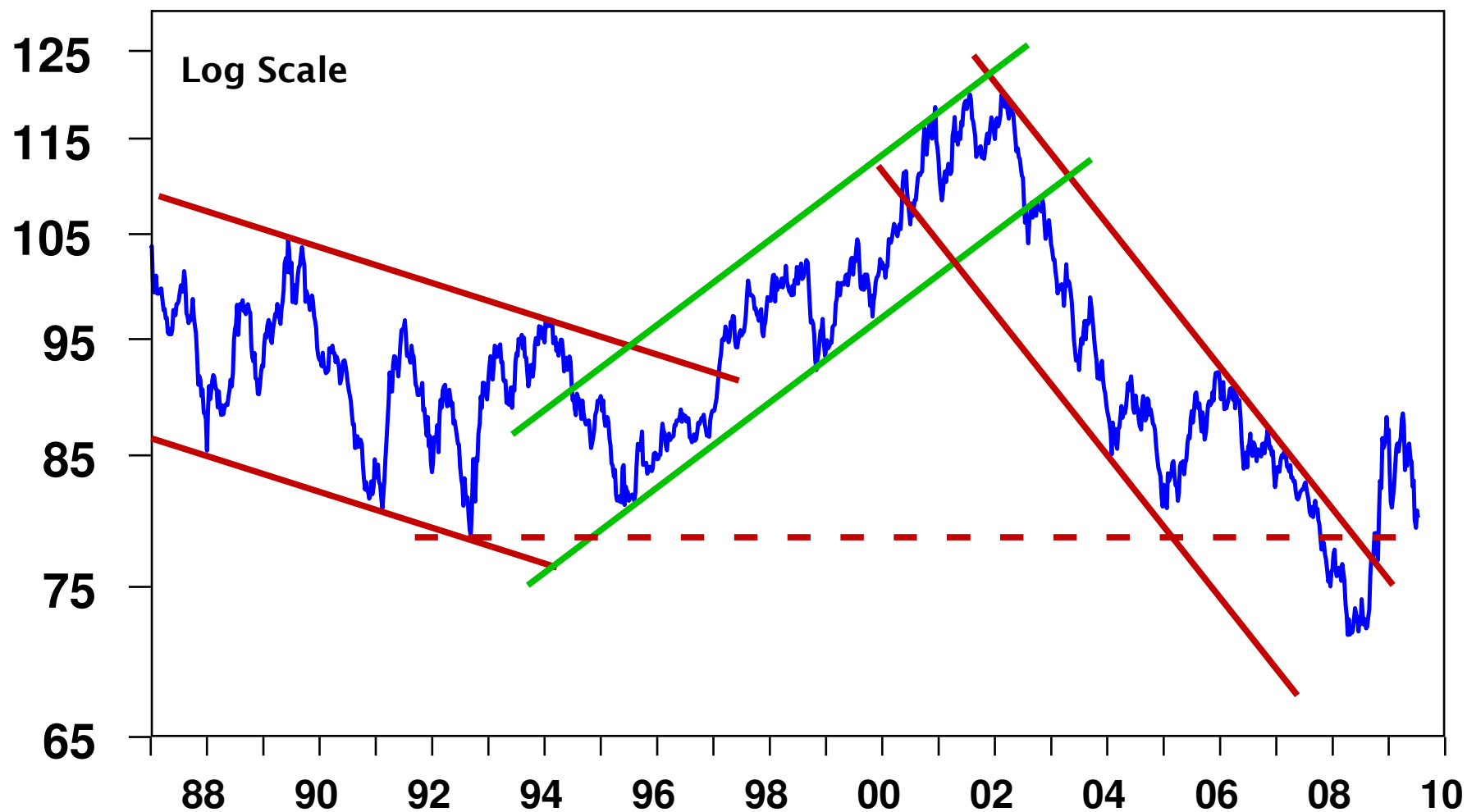
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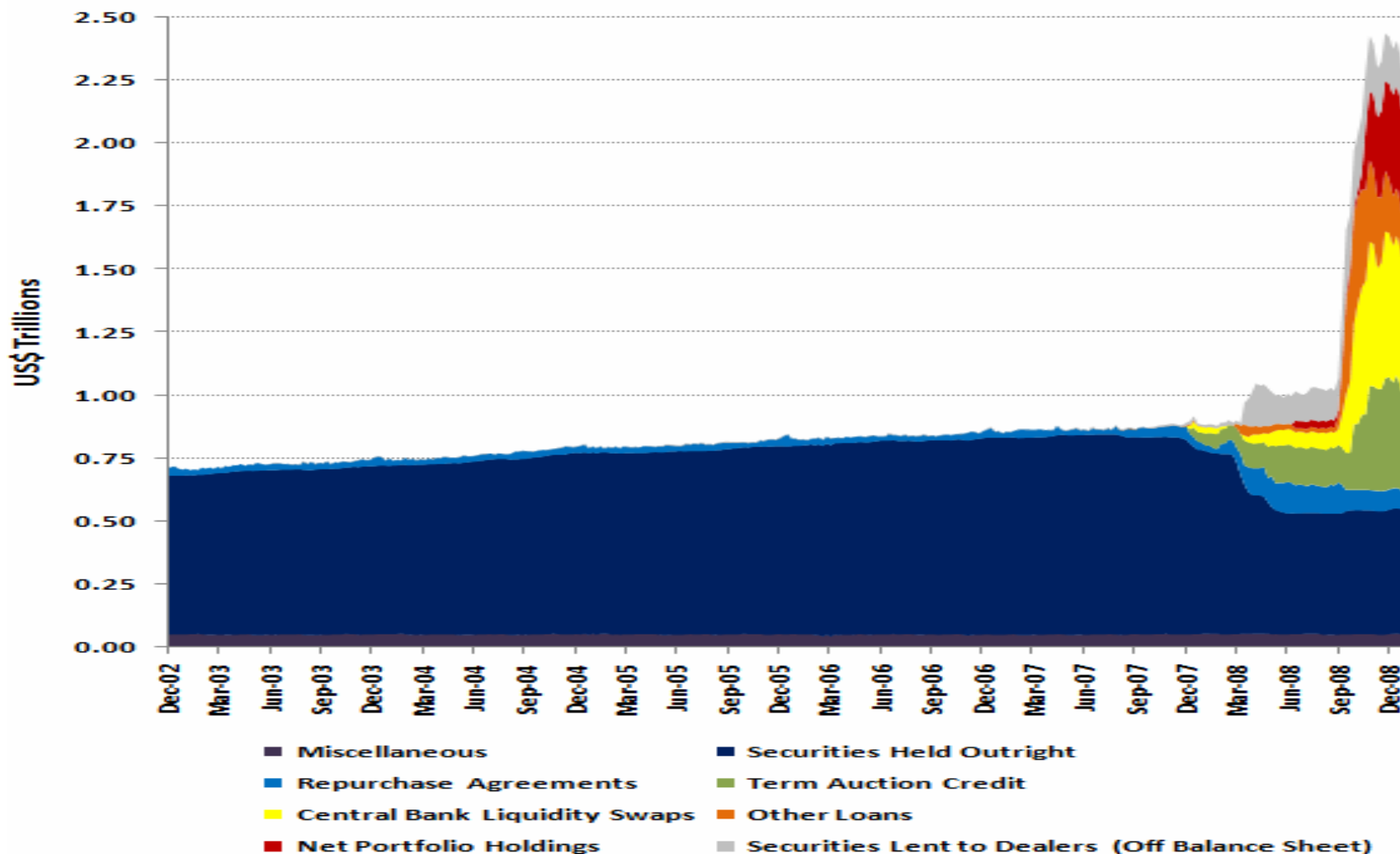


# Federal Reserve assets surge

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## Composition of U.S. Federal Reserve Assets

(Source: Federal Reserve)







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**“The U.S. government has a technology, called a printing press (or, today, its electronic equivalent), that allows it to produce as many U.S. dollars as it wishes at essentially no cost.”**

**Federal Reserve Chairman Ben Bernanke**



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**On the cusp of hyperinflation**

**GoldMoney**

# 1) Gold rising in all currencies



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**On the cusp of hyperinflation**

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- 1) Gold rising in all currencies**
- 2) Crude oil/commodities rising**



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# On the cusp of hyperinflation

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- 1) Gold rising in all currencies**
- 2) Crude oil/commodities rising**
- 3) Negative real interest rates**



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## On the cusp of hyperinflation

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- 3) Negative real interest rates**
- 4) Blind faith in Federal Reserve management**



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- 4) Blind faith in Federal Reserve management**
- 5) T-bonds and stock market diverged & now stocks/yields are rising**
- 6) Runaway US government spending**





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## The impact on banks

**GoldMoney**

**1) Reduce leverage means lower earnings and return on capital**



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## The impact on banks

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- 1) Reduce leverage means lower earnings and return on capital**
- 2) Deteriorating economy means more bad loans**



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## The impact on banks

**GoldMoney**

- 1) Reduce leverage means lower earnings and return on capital**
- 2) Deteriorating economy means more bad loans**
- 3) Lend long – borrow short means unprofitable assets**



## The impact on banks

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- 4) Dollar assets funded by non-dollar liabilities means margin pressures**



## The impact on banks

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- 1) Reduce leverage means lower earnings and return on capital**
- 2) Deteriorating economy means more bad loans**
- 3) Lend long – borrow short means unprofitable assets**
- 4) Dollar assets funded by non-dollar liabilities means margin pressures**
- 5) "Too big to fail" is a failure**



**“Too big to fail”**



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**“To continue to be effective,  
government’s regulatory role must  
increasingly be focused on  
assuring that adequate risk  
management systems are in place  
in the private sector.”**

**Alan Greenspan, 2000**



**“Too big to fail”**



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**Alan Greenspan, 2000**

**Not enough when the system  
itself is inherently risky !**





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# My proposed 3-step solution

**GoldMoney**

## 1) Separate functions



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## My proposed 3-step solution

**GoldMoney**

### 1) Separate functions

- put lending and payment in different institutions



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## My proposed 3-step solution

**GoldMoney**

### 1) Separate functions

- put lending and payment in different institutions
- banks of credit & banks of commerce



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## My proposed 3-step solution

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### 1) Separate functions

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### 2) Give depositors a choice



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### 1) Separate functions

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### 2) Give depositors a choice

- no risk deposits, no free checking



## My proposed 3-step solution

**GoldMoney**

### 1) Separate functions

- put lending and payment in different institutions
- banks of credit & banks of commerce

### 2) Give depositors a choice

- no risk deposits, no free checking

### 3) Greater disclosure of fractional reserve risks



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**One proposed solution**

**GoldMoney**

**“Our finances will never be brought into order until Congress is compelled to do so. Making our money redeemable in gold will create this compulsion.”**

**Rep. Howard Buffett, father of Wall Street legend Warren Buffett, May 4, 1948**





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**[jamesturk@goldmoney.com](mailto:jamesturk@goldmoney.com)**

**[www.goldmoney.com](http://www.goldmoney.com)**

**Muchas gracias**

**Thank you very much**



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