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Where I Live—Gold Is Still A Barbarous Relic

Happy days are here again. Silver and gold are once again, in limited supply, available. A month ago you could get little or no silver. And the stock market has regained most of what it lost during the period of time, associated with the coronavirus shutdown. That everything has returned to normal was evident to me last night, as ten neighbors brought their own chairs and drinks, and socially-distanced in my front yard, where the virus was a subject, but the economy had slipped back into obscurity—and gold was never mentioned.

About gold, two things dovetail together, nicely. Before gold was lifted from a Tier 3 Asset (50% Risk Weighting Assessment), to a Tier 1 Asset (100% valued for purposes of banking viability), under Basel III, the central banks had conducted a gold-buying spree, when over 12 months they together purchased more gold than all central bank gold buys over the previous 50 years. That buying, combined with Tier 1 Status, informs the future role for gold in a world economy.

If the economic shutdown shows itself to be something behind us, interesting consequences remain. The havoc and destruction to the economy from the shutdown has only begun to play out, and nobody knows how devastating a future is out there, waiting. But devastating it will be. For those who have been comparing the present economic peril to 1929, the pattern here almost overlays the pattern there. The market, in 1929, first corrected by about one-third, then made its way back almost to where it began, with President Hoover announcing we had gotten through. Over the next couple of years, the stock market fell 90%.

Gold market funds, that I follow, have again doubled gold holdings for their clients. It used to be a 5% gold stake, then 10%—now it's 20%—plus. Concerning the dollar, we are dealing with two conflicting premises: the first being a dollar safe-haven status, and the second, being voiced by economic icons, even Fed bank chiefs, are questioning the dollar's viability as the *singular* world currency. That questioning, especially from central banks, would have been impossible a decade ago. So, is the dollar a safe haven? That is the big economic question, because the question is no longer whether or not gold will play a prominent role—gold is a Tier 1 fact, except, of course, in my front yard.

And still, there is the lunacy of the relationship of silver to gold. Silver is found in the crust layer of the earth's surface, meaning that, over time, most of it has already been mined, and when it is mined, it comes as a derivative of other mining operations. Gold, can be found shallow or deep (Jim Sinclair reported this morning that Tanzanian Royalty Gold was mining at more than 900 meters in depth), but wherever it is found, the amount of gold mined is about 10% of mined silver. Yet somehow, gold is valued at 110/120 times silver.

Just as gold has been portrayed as a barbarous relic, or, as Warren Buffett chooses to call it—a pet rock—silver (though the Constitutional measure for a dollar), has all but been dropped from the lexicon of monetary language. Today, silver is looked upon and priced as an industrial metal—except for one thing—hardly anyone believes that. And what is likely to happen is gold punching above $2000, at the same time the stock market corrects sharply—downward. Those fortunate enough to get out of stocks with some portion of their wealth, will be looking for a new investment. And since they will be new to the world of gold and silver, they will see $2000 gold as expensive. That will herald in the silver rush.

What should be the ratio between gold and silver? 10 to 1? Yes but no. But likely faster than can be imagined, after gold makes a breakout, that ratio could easily fall back to 40 to 1—which would take the price of silver, translated for gold's breakout, X3. Just that prices silver above $100 an ounce.

One more thought: where do we keep this gold and silver during a long upward price ascent? That brings to mind my South African friend, and his skepticism for gold salesmen. Besides hiding your metals where only you and yours know, there is international, institutional storage (I enjoy the descriptions of vaults cut into the rocky alps of Switzerland, impregnable, with guards who could protect the Pope). Then, there is Canada, somewhere you can drive to, and up there, there are facilities that store gold, such as Brinks. But, when it all comes apart, are we to trust the Swiss with our futures, after they already turned over sovereign nation, private banking accounts to the IRS—while they invested their nation's sovereign wealth in Facebook and Amazon? And what about Canada? Justin Trudeau is a boy in a man's world, whose nation owns no gold—will you trust him to protect yours, when the Department of State comes a'callin?

This is one of those times that comes around maybe once in an economic lifetime—when, if you were in the stock market, you have been made whole again. How did that happen? And do you trust a market that lost 1/3 of its value, then shot back up, at a fastest pace, ever—in an economic lockdown with workers subject to stay-at-home orders?

Today, you can still get a monster box, 500 silver American Buffalos, at under $20 an ounce. And that could yet be the price when precious metal dealers open for business, Monday morning—or maybe not?

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