# FINANCIAL PREPAREDNESS

*"One of life's most painful moments comes when we must admit that we didn't do our homework, that we are not prepared." ~ Merlin Olsen*

Issue #90
October 28, 2022

## Rigged

Today, just like most things that are important (e.g., elections, college admissions, search engine results, etc.), financial markets are rigged. If you're an investor, you need to understand that and go into the game with your eyes wide open. I wrote about how the stock market is rigged in Issue #6. I just read the short (73 pages) book Rigged: Exposing the Largest Financial Fraud in History by Stuart Englert, which is about how the precious metal market is rigged.

Virtually all Americans consider the dollar as money, but it's not--it's a money substitute. Since the 7th Century B.C., people have freely chosen gold and silver as money; there were no legal tender laws that coerced people to use them. The Bible mentions gold or silver over 700 times, and the two metals are the only kind of money mentioned in the U.S. Constitution.

In the U.S., except for the temporary use of fiat currencies during the Revolutionary War and the War Between the States (war is expensive), precious metals were used as money until 1933, when FDR issued an executive order that removed the U.S. from the gold standard (at least domestically; Nixon finished the job—which, because of the Bretton Woods agreement that fixed exchange rates between foreign currencies and the U.S. dollar, also removed *the rest of the world* from the gold standard--in 1971). So precious metals were used as money for about 2,500 years before politicians replaced them with a fiat dollar less than 90 years ago (or 51 years ago). How's that working out?

An aside: Following FDR's executive order, the government turned its sights on silver. In 1934, Congress passed the Silver Purchase Act, which allowed the president to nationalize (i.e., confiscate) domestic silver stocks and mine production. Englert writes, “Two months later, Roosevelt issued an executive order limiting silver ownership, imposing a government-mandated silver price and tax, and requiring non-monetary silver stocks to be delivered to the U.S. Mint....”

What about copper or lead? What about grand pianos or baby clothes? Those last two items are examples of goods that consumers (who *didn't even need or couldn't use* those items) bought with fiat currency during the hyperinflation of Weimar Germany. You see, eventually, *nobody* wants to hold rapidly declining fiat currency, and they will use it to buy literally *anything* to stop their economic loss (until it becomes litter).

Why did the U.S. government abandon the gold standard? As Margaret Thatcher observed, the problem with socialism/statism is that sooner or later (sooner if you wage a lot of wars), you run out of Other People's Money. Fiat currency and a central bank allow politicians to escape from the world of scarcity and finite resources. Alchemists toiled in laboratories for centuries searching for the philosopher's stone, when all that was needed was passage of the Federal Reserve Act of 1913 and FDR's executive order. Humanity lived in poverty and squalor for millennia until (thankfully) brilliant and enlightened politicians extracted us from the muck with their financial alchemy. You really can have it all!

Seriously, politicians know that they're on very shaky ground with their fiat currency, especially since ALL previous fiat currencies have collapsed (taking with them the wealth of the people who held them), and that if people were actually free, they would use precious metals as money instead of fiat currency.

A dollar backed by nothing allows the U.S. government and consumer to live beyond their means, including the ability to finance its military and engage in (expensive) wars overseas. This is doubly true since the dollar has been the world's reserve currency (held by foreign central banks and used in international trade) since WWII. This ability to print dollars and use them to pay for foreign goods is known as America's “exorbitant privilege.” Precious metals pose a threat to that lifestyle, so they must be disparaged, shunned and ignored.

Since FDR's executive order was repealed in 1974, the price of precious metals has served as a canary in the monetary mine. A rising price is a warning to market participants that the government is debasing the currency. The government doesn't want people to receive this warning because that would reduce its seigniorage profit. So it tries to suppress the price in a number of ways.

First, it sells gold on the open market. It claims to hold about 261.5 million troy ounces of gold (about half of it from Americans who were foolish enough to surrender it for dollars in 1933, which FDR promptly devalued by nearly 41%), but that hasn't been audited since 1953. (Think about that: In this era of GAAP, Sarbanes-Oxley, daily updates of mutual fund and ETF holdings online, and the blockchain, the commodity that theoretically backs the dollar hasn't been accounted for in 69 years! After you read about gold leasing below, you'll understand why.)

The U.S. has also pressured its allies (most of whom have depended on the U.S. to help protect them from a Soviet invasion) to sell or at least not buy gold. After the London Gold Pool collapsed in 1968 (because foreign governments suspected that the U.S. was issuing and spending more dollars than it had the gold to back), the Netherlands central bank wanted to exchange some dollars for gold. Paul Volcker (who wrote that "gold was the enemy to me"), who was Treasury undersecretary at the time, met with the head of the Dutch central bank and urged him against the move, telling him, "You are rocking the boat." He replied, "If the boat is rocking because we present $250 million for conversion into gold…then the boat has already perished." He later wrote, "Gold is artificially kept at a far too low price."


After World War II and during the Cold War, a number of foreign countries moved at least part of their gold reserves to the U.S. for safekeeping. After years of speculation that the U.S. had sold or loaned out this gold (to suppress the price), a number of countries asked for their gold back. In the case of Germany, they were told that it would take *seven years*. Since 2012, Austria, Belgium, Germany, the Netherlands, Hungary, Poland, Turkey and Venezuela have repatriated all or part of their gold. There must be something rotten in Denmark.

The International Monetary Fund (which the U.S. government controls) also claims to hold about 90.5 million ounces of gold. The IMF created its Special Drawing Rights (SDR) currency (a basket of the world's major fiat currencies) as an alternative to gold, since "the only alternative to holding dollars was to demand gold from the U.S. and risk a monetary crisis" (since the U.S. didn't have the gold). Originally the value of each SDR was equal to 0.8867 grams of gold, but that scheme was abandoned in 1973. Englert notes that "Between 1970 and 1980 [when inflation was raging], the U.S. and IMF sold more than 2,300 tons of gold."

At a 1999 IMF meeting, 15 European central banks adopted the Washington Gold Agreement (later called the Central Bank Gold Agreement), which was renewed in 2004, 2009, and 2014 and expanded to include six other central banks. Englert writes, "Under the agreement, European central banks and the IMF sold some 4,000 tons of gold, about

12% of world reserves."

Second, the U.S. government lends gold (at a low interest rate) to investment banks such as J.P. Morgan (the fate of which is intertwined with that of central banks), with the understanding (and encouragement) that these banks will sell it short and use the proceeds to buy higher-yielding investments (perhaps U.S. Treasury bonds?). Englert writes, "By leasing and swapping physical metal, banks can generate an enormous supply of 'paper gold.' This imaginary metal is traded in futures, options and forwards contracts in the precious metals markets."

According to a telegram released by Wikileaks in recent years from the U.S. Embassy in London to the U.S. Secretary of State in 1974, "Each of the [London gold] dealers expressed the belief that the futures market would be of significant proportion and physical trading would be minuscule by comparison." Also expressed in the cable "was the expectation that large volume futures dealing would create a highly volatile market. In turn, the volatile price movements would diminish the initial demand for physical holdings and most likely negate long-term hoarding by U.S. citizens."


In 1998, Alan Greenspan told Congress that "central banks stand ready to lease gold in increasing quantities should the price rise....It is not possible to corner a market for financial futures where the underlying asset...is in essentially unlimited supply." Englert writes, "During his testimony, Greenspan opposed regulation of financial derivatives, which allows traders to bet on the future price of gold and silver without possessing or exchanging any metal....Since most gold and silver contracts... are settled in cash rather than metal, derivatives are the primary means to suppress prices. The unregulated financial devices—and their accompanying make-believe metal—are traded in such large quantities that they dwarf the physical gold and silver market....More imaginary gold and silver is traded in a few days than is mined in an entire year." During a CFTC hearing in 2010, one expert said that precious metals "trade in the multiples of a hundred times the underlying physical [metal]...."

Englert writes, "Another participant in the gold leasing and swapping business is the Bank of International Settlements (BIS). Known as the central bank of central banks, the BIS has facilitated gold leases and swaps for decades." A 1983 article in *Harper's* revealed that "When the dollar came under attack in the 1960s, massive swaps of money and gold were arranged at the BIS for the defense of the U.S. currency."

After the Fed started dropping dollars from helicopters and the federal government began spending like drunken sailors during the Great Financial Crisis, the price of gold exploded from $681 per ounce in October 2008 to $1,923.70 three years later.  Something had to be done to silence the shrieking canary.  Enter fraud.  Englert writes, "Since 2014, more than a dozen precious metals traders have been charged with fraud and conspiracy.  Most worked for some of the top investment banks, including Bear Stearns, Deutsche Bank, JPMorgan, Merrill Lynch...and UBS.  Four pleaded guilty, three were convicted and one was acquitted.  Others await trial."

In 2017, "former Deutsche Bank metals trader David Liew pleaded guilty to manipulating gold, silver, platinum and palladium futures contracts between 2009 and 2012....Liew admitted to conspiring with other metal traders and using an illegal tactic called spoofing [which] involves placing buy or sell orders with intent to cancel them before completing the transactions.  The goal is to manipulate prices....[In 2020, two] former Deutsche Bank traders...were convicted of wire fraud after Liew testified the men taught him how to spoof precious metal prices."

"Former JPMorgan trader John Edmonds pleaded guilty [in 2018] to spoofing precious metals futures between 2009 and 2015.  [He] reportedly learned illegal trading practices from his co-workers and used them with the knowledge and consent of supervisors."  In 2019, "federal prosecutors described JPMorgan's precious metals trading operations as a criminal enterprise and charged three of its traders under RICO." The Assistant Attorney General said that "The defendants and others allegedly engaged in a massive, multiyear scheme to manipulate the market for precious metals futures contracts and defraud market participants."

Englert writes that in 2020, "the Department of Justice announced a $920 million out-of-court settlement with JPMorgan after [it] admitted its traders manipulated precious metals and U.S. Treasury markets between 2008 and 2016....Fines and legal settlements totaling more than $1.1 billion have been collected from Barclays, Bear Stearns, Deutsche Bank, HSBC, JPMorgan, Merrill Lynch, Morgan Stanley, Mitsubishi, Scotiabank and UBS since 2014."  Is it just a coincidence that most (if not all) of these prosecutions seem to have occurred during the Trump administration?  Now that he is out of office, has the fraud resumed (maybe with a cut for "the Big Guy")?

A final tactic used to suppress precious metals prices is telling stories, which the lapdog financial media eagerly disseminates and amplifies without asking any real questions. When the Fed does this, it's called "jawboning."  The Fed prefers this because it allows them to move prices without actually doing anything.  They talk about what they're supposedly going to do in the future—taper bond purchases, keep raising interest rates to stop inflation, etc.  The media run stories about how Powell is the next Paul Volcker.  Uhhuh, sure.

The problem with suppressing the price of precious metals is that they have been accepted around the world as money for thousands of years and are therefore highly desired by billions of people, especially when they're available at artificially low prices. They have high intrinsic value (which is why they're called "precious"). They can't be destroyed or defaulted on. They are no one else's liability. They don't depend on a politician's promise, the accuracy of a financial statement or any entity remaining solvent. They offer privacy and are fairly easy to transport. They have many industrial uses. They are beautiful (even used in jewelry) and have heft in your hand. They are as simple as you can get and have stood the test of time. No legal tender law needs to inform you that they're money because you know intuitively.

Yes, it's possible to suppress precious metals prices, just like it's possible to hold a large inflatable ball underwater—for a time and with great effort. But eventually, the ball will pop up out of the water. Eventually, the truth outs itself.

I think a lot of investors realize (or suspect) what's going to happen to the dollar. They buy precious metals and hold them for some time but are often disappointed by their performance even as the Fed prints oceans of currency to buy massive amounts of bonds.

But I think the real payoff from precious metals won't be incremental over time, but will come suddenly, almost all at once, just like the collapse of the dollar and the federal government. The return will be asymmetric and (mostly) unexpected, like a Black Swan event. You know that eventually, the ball is going to explode out of the water—you just don't know when, or how high it will go. At that point, all hell will be breaking loose, and the last thing that the government, Fed and banks will be worried about or have time for is suppressing the price of precious metals. Just ask Credit Suisse (the second largest Swiss bank), which may be on the verge of collapse.

## What You Should Be Doing Now

Documentary to watch: "Letter From Masanjia" on Amazon Prime Video. Brutal.

Book to read: Who Gets In and Why: A Year Inside College Admissions by Jeffrey Selingo. Fascinating. It's primarily about money and the school's priorities.

I just finished reading Radical Nation by Sean Spicer. He quotes from the final column of *Washington Post* columnist Steven Pearlstein, retiring after 33 years with the newspaper: "Welcome, fellow Americans, to the era of the free lunch. To hear it from liberal economists, progressive activists and Democratic politicians, there is no longer any limit to how much money government can borrow and spend and print....Worries about debt and inflation are just so Twentieth Century....We have entered a magical world where borrowing is costless, spending pays for itself, stocks only rise and the dollar never falls."

My favorite part of the book was where Spicer describes how during Biden's first press conference, PBS reporter Yamiche Alcindor attributed the Mexican border crisis to "the perception of you that got you elected as a moral, decent man," which is "why a lot of immigrants are coming to this country and entrusting you with unaccompanied minors." Spicer writes that Biden picked up the premise and ran with it: "Well, look, I guess I should be flattered [that] people are coming because I'm the nice guy. That's the reason it's happening, that I'm a decent man or however it's phrased, that's why they're coming, because they know Biden's a good guy." Kim Jong-un, take note: This is how a professional runs a press conference. I encourage you to read more about Biden's morals in this book.

Ω

I would love to hear from you! I thrive on feedback from readers. If you have any comments, suggestions, insight/wisdom, or you'd like to share a link to a great article, please email me.

Generally, I don't have time to answer questions about your specific situation, but if you have a general question that I think other readers also have, let me know and I will provide an answer in a future issue.

Feel free to forward this to a friend. If you would like to subscribe (it's free!) or unsubscribe, email me with either "subscribe" or "unsubscribe" in the subject line.

## Disclaimer

*The content of this newsletter is intended to be and should be used for informational/educational purposes only. You should not assume that it is accurate or that following my recommendations will produce a positive result for you. You should either do your own research and analysis, or hire a qualified professional who is aware of the facts and circumstances of your individual situation.*

*Financial Preparedness LLC is not a registered investment advisor. I am not an attorney, accountant, doctor, nutritionist or psychologist. I am not YOUR financial planner or investment advisor, and you are not my client.*

*Investments carry risk, are not guaranteed, and do fluctuate in value, and you can lose your entire investment. Past performance is not indicative of future performance. You should not invest in something you don't understand, or put all of your eggs in one basket.*

*Before starting a new diet or exercise regimen, you should consult with a doctor, nutritionist, dietician, or personal trainer.*