The 2020 GOLD Buying Guide

Written by Tom Luongo

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Gold Is the Answer to Chaos

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WITH the world in a period of increasing political and economic instability, people naturally look to protect themselves. And for those who are looking to protect their investments, the main question is, “Should I buy gold?”

My answer is, “Of course.” I’m a big fan of having some amount of gold in your portfolio of assets.

But my reasons for this are somewhat different than other gold commentators.

There is always a bit of fear in buying gold when there is still so much bias against it in the investing world. The bromides of the average financial planner are predictable as they try to dissuade you from protecting yourself.

“Gold has no yield.” You won’t be able to live on the returns on your gold.

“Gold is volatile” is another common distraction as your planner tries to sell you a diversified portfolio of stocks and bonds, both insanely over-valued versus historic norms.

The truth is, they aren’t completely wrong. But the best lies are always wrapped around a nugget of truth. They say these things because gold isn’t what they make money selling you. Moreover, they, like many of us, have been miseducated about how the world works and find safety in doing what everyone else does.

Even asking the question, “Should I buy gold?” sets you on a collision course with dominant monetary ideology. Down the path of the contrarian you are walking.

What they’re fundamentally wrong about is what gold is. People view gold as an investment when it isn’t. Physical gold is no different than cash. It is, ultimately, savings, but not your savings you put in a bank.

Those savings are investments.

Gold is savings you keep in your possession, just like cash in your cupboard.

Savings, I define, as those assets you have that have no counter-party risk. Counter-party risk is very simple. It means that your ownership right in your asset is subject to the whims of another person or organization.

Gold in hand is just a thing. No different in monetary terms than the cookware in your kitchen or the clothes in your closet. If you protect it, no one can take it from you. It exists as its own thing.

Savings accounts in a bank are subject to the solvency of the bank. Your savings, in legal terms, makes you an unsecured creditor of the bank. If the bank fails, your savings could be eaten up in the bankruptcy/reorganization, etc.

Today savings don’t pay much, if any, yield, because the Federal Reserve has interest rates set so low. So, that first argument against gold should fall on deaf ears. Even after raising benchmark rates above 2%, my savings account still pays me just 0.10% APY for ‘on-demand’ savings.

It could be worse. Europeans are being charged interest for the privilege of holding money in the bank.

No bank today in the U.S. will hold gold for you in the form of savings, even though gold has been in a bull market from an annual perspective since the 1930s.

Why is that?

Fractional Reserve Mania

For two reasons. The first is that banks don't make money holding gold. Holding gold is expensive and requires infrastructure. To them, it is better to hold digital dollars on ledgers. This is an outgrowth of legal tender laws which makes the dollar the only form of payment for debts public or private.

And second, because of the scourge of fractional reserve banking.

In a traditional banking model, you deposit your funds in the bank and forego access to it for some time. In this model it wouldn't matter what form the reserves took — gold, dollars, euros, whatever.

The bank invests your money in community or regional projects, which it gets paid interest on and shares a portion of that payment with you in the form of a dividend on your savings.

The bank's job is to assess the quality of those projects and manage the portfolio of loans. If they do it well, both you and the bank profit handsomely.

Today, the closest product that approximates that model are certificates of deposit (CDs). The longer you are willing to forego access to your money, the higher the rate you'll get from the bank for doing so.

But in a fractional reserve banking model, the bank leaves your savings available to you 'on demand' at all times. For every dollar you deposit, the bank lends that money out 10 times, or more. So, if you have $5000 in savings in your bank, you can bet that there is $50,000 in loans supported by your $5000.

The banks get away with this because the demand for that savings is usually low enough that it wouldn't be an issue if you walked in one day and pulled your $5000 out — because of, say, a medical emergency.

So, with on-demand savings there is a kind of 'have your cake and eat it too' dynamic happening. You can get interest and have access to your money at the same time.

But, there's a problem with this model. There are upward of 10 different claims to the same dollar of savings. And the bank is the one trying to make sure, at all times, conditions are such that no one either notices this or cares.

The bank fraudulently created multiple claims to your savings and put them at risk. Moreover, the legal system then defines you, the saver, as the first person to be harmed if the bank can't pay its bills. You have to pay the bank's creditors.

Under fractional reserve banking, the banks are, at all times, functionally insolvent. They cannot handle everyone taking out their savings at the same time. When that happens, that's called a 'bank run.'

CDs function to assure the bank that a portion of their cash on hand, their reserves, are safe from a bank run. And that is what they are paying you for.

The bank stays in business so long as confidence in its loan portfolio is strong enough to keep people from running in and demanding all their money at once. It truly is a game of confidence.

If that's all we were dealing with, then we'd be in far better shape than we are.

And the problem isn't the dollar per se, the underlying currency doesn't matter. Bank runs happened all the time under a gold standard. In fact, they happened more frequently because of the discipline of gold. The bank couldn't just rush out and print more gold to create the illusion of solvency.

Centralized Bank Runs

But our world is far worse than this. Because today, thanks to the banking system having no mooring in tangible assets, like gold, we are subject to the whims and the mistakes of the Federal Reserve, through the Federal Open Markets Committee (FOMC).

The FOMC sets the costs of borrowing. It sets the interest rate at which it is willing to lend to its member banks. From there, that rate of interest is communicated through the economy as the cost of money.

And the rate you are able to get on your savings is determined by the FOMC. Because the FOMC is the central bank that sets the cost of the U.S. dollar, and the U.S. dollar is the dominant reserve currency in the world, the FOMC, indirectly, sets the cost of money the world over.

If the Fed makes a mistake, which they frequently do, then the entire world suffers.

Moreover, that local bank with your savings can go to the Fed's discount window and borrow the dollars it needs to shore up its reserves — if things get tight.

But the problems with this system are myriad. First, having a lender of last resort like the Fed allows banks to take on bigger risks than they would otherwise. This puts your savings at greater risk of default as the banks take on more leverage.

Second, it introduces the moral hazard that the central bank or the government backing it will then bail out the banks if they get in trouble. This induces the banks to take on even more risk in the pursuit of profit via outright speculation.

Third, the Fed, or any central bank, doesn't have the knowledge to know at what level the true market rate of interest should be. Worse, the Fed does this and the whole world follows. Does it make any sense, for instance, that a common risk premium, interest rate, should be applied to mortgages across the whole United States as a benchmark?

Of course not. Mortgages in Idaho should not be similar in interest to those in upstate New York or a depressed region like southern Ohio. And yet, mortgage rates don't vary much regionally across the U.S. Originally the Fed had 12 districts which all set their lending rates individually.

That was scrapped along the way, as the Fed's mandate also jumped containment from providing the banking system emergency liquidity to its current dual mandate of stable prices and full employment.

This is central planning taken to its ludicrous extreme and it was the source of the insanity that led to Lehman Bros. vaporization in 2008 and the ensuing financial crisis which we still haven't recovered from.

And all of this has built insane levels of counter-party risk into the value of every asset you own, from your house and your car's trade-in value, to the security of your job, to even the gold you may already own.

But here's the thing about gold, and money in general, that is important to remember. Gold roughly retains its purchasing power regardless of what is happening in the world. Yes, at times it is vastly under-valued and at others it is over-valued. But in the long run, an ounce of gold will purchase you a certain amount of basic goods and services to sustain you for a relatively stable period of time (more on this later).

The Golden Rule

Many commenters in the gold space will tell you that gold is a hedge against inflation. Over the long term, I agree with that, as long as nothing comes along to be a better store of value than gold. There are some who believe bitcoin is that thing. I'm unconvinced but very sympathetic to the argument. This is a discussion for a different day, however. Because, right now, gold is still the dominant form the market has confidence in to retain value against the central bank-issued debt-based currencies which make up the world's financial system.

Price inflation is not the primary driver of gold's value. Price inflation is a consequence of a society-wide bank run on the country's central bank.

Gold and silver are the only commodities that trade in the spot foreign exchange markets. They are traded against currencies just like the British pound is traded against the Indian rupee. It's a separate market than the commodity futures markets found in places like Chicago, London, Singapore and Shanghai.

Since they are traded just like currencies, gold much more so than silver, they act solely as currencies in the global market.

Why does one currency move up in exchange rate versus another? Because the current demand exceeds the current supply. If more British pounds are demanded than Indian rupees, holders of rupees sell them to buy pounds and the exchange rate of the rupee versus the pound falls.

Simple, straightforward first semester economics.

Now, what causes a run on a country's currency? In recent years, we've seen multiple currency collapses from the Russian ruble in 2014 to the Turkish lira in 2018 to the Ukrainian hryvnia.

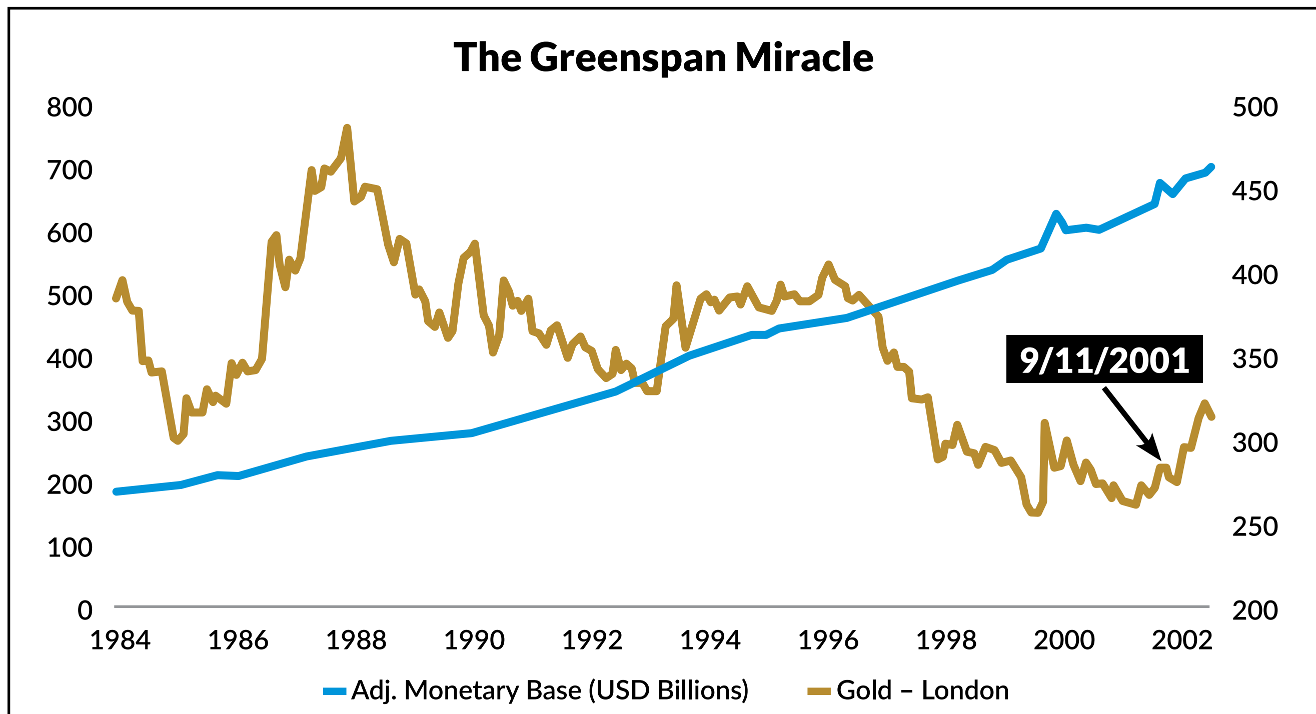
Because gold is savings and not an investment it is, ultimately, a hedge against currency fluctuations.

It is a hedge against government incompetence and the failure of confidence by the people in the government and institutions tasked with safeguard the currency.

Once you make that distinction, philosophically, about what gold is then periods like the bear markets of 1981 to 1999 or 20111 to 2019 make sense. Yes, gold hasn't stopped rising in price since the Great Depression. Yes, it still inflation-proofs your life, as it were, preserving the purchasing power of your savings over the long haul.

But that doesn't mean it isn't subject to changes in attitude by all the people whose view of it you can't control, namely everyone who isn't you. When other currencies offer a better deal in the aggregate, they become over-valued and circulate more freely. And that happens when things are stable, governments are, for the most part, living within their means, the economy is predictable and faith in our leadership is high.

Gold falls during those times. Think back to the 1990s. Alan Greenspan was "The Maestro." The internet was driving down the costs of so many industries through efficiency gains that it allowed Greenspan to inflate the money supply egregiously and yet gold continued to fall in price.



Even though the stock markets began crashing in March of 2000, it wasn't until after 9/11 that the bear market in gold, which lasted an entire generation, began to end. Greenspan responded to the attack with lowering interest rates aggressively and that finally sparked a change in the sentiment surrounding gold.

At the time, I believed in gold as an 'inflation hedge.' I bought that argument because it was, like many explanations, simple, easy-to-understand and wrong. It left out why the government inflated. It left out that printing money in a panic situation is not prudent societal management.

And once the prices for basic goods and services began rising — education, energy, food and health care — then people woke up to the mismanagement of the economy. Then they started questioning the orthodoxy.

A lot of people lost a lot of wealth in Greenspan's tech bubble. And when his only response was to lower interest rates that's when a critical mass of people began bidding up the price of gold.

This percolated for a few years, as the price rose from $300 to $550. Greenspan's cheap money created a housing bubble so vast that when it popped in 2008 gold was at $1000 an ounce. The fallout from that crisis as central banks printed money to bail out the banks sent gold to its all-time high at $1,911 in September 2011.

And it was only when the central banks banded together to fix the markets by coordinating their bailouts that gold's bull market finally ended.

So, if you just stick with the, frankly, adolescent view that gold is an only hedge against inflation, then bear markets will make no sense to you whatsoever. They will make you angry and dispirited in your misunderstanding of what's actually happening.

I know, I've been there.

My job is to tell you the truth, the whole, ugly, unvarnished truth. To do otherwise would be to be no different than the punter on CNBC and *The Wall Street Journal*, telling you and your financial planner to stay within the system.

This report exists now because we are entering a new period of growth for gold. The bear market that existed since 2011 is over. And if you want to profit from it then the time is now to understand what's happening and why.

And, most importantly, to dispense with miseducation about gold, no matter how well intentioned, and give you a guide to what's coming and how to make the most of it.

Where Do We Go From Here?

You know as well as I do that no matter how cheap money gets, there comes a point where you simply cannot take on more debt. It doesn't matter if the bank offers you a mortgage at 3.5% or new car at 0% interest, $4,000 under MSRP for seven years, you can't afford the payment.

Well, imagine that on a global scale.

And what's been happening is the gradual dawning of investors, politicians and money managers around the world that the people have figured this out as well. These shock elections are no longer outliers, but the norm. And that means change, radical change is in the wind.

For now, the people in charge resist this change. Brexit delayed by three years. RussiaGate keeping Trump occupied, if not hemmed into a presidency that looks an awful lot like George W. Bush's, and the Italian deep state forcing apart the populist coalition in Italy.

But these moments of pushback are just that, moments. They aren't the trend. People are angry. They can see the broken promises, the failed programs, the rising costs of basic services, the false narratives from the true fake news organizations and they are doing something about it.

So, think about all of this taken in context. A world saturated with debt, populated with angry people who control the levers of power in the most important countries in the world, are dissatisfied with the competence and corruption of the institutions which are supposed to work for them is fueling a complete realignment of global political alliances.

The flow of capital around the world, therefore, is changing and during that period of change chaos is the dominant state of being.

This is why gold is now just beginning a new generational bull market. These are the same conditions, only amplified, that propelled it through the first decade of this century. A cataclysmic event, 9/11, sparked a revolt in spirit rejecting government efficacy. This culminated in a financial crisis in 2008 that forced the central banks to come together to 'save' the world economy in 2011.

And for a few years, the people believed it. But, now they don't.

Conditions today are orders of magnitude more fragile than they were then. And gold went through a grinding bear market biding its time, just like it did between the dot-com bubble and 9/11.

But that time is over.

Here is the yearly chart of gold. Note the big line of resistance around $1,400 per ounce. Gold breaking above $1,400 and holding it through the end of second quarter and to the time of this report is incredibly impressive.

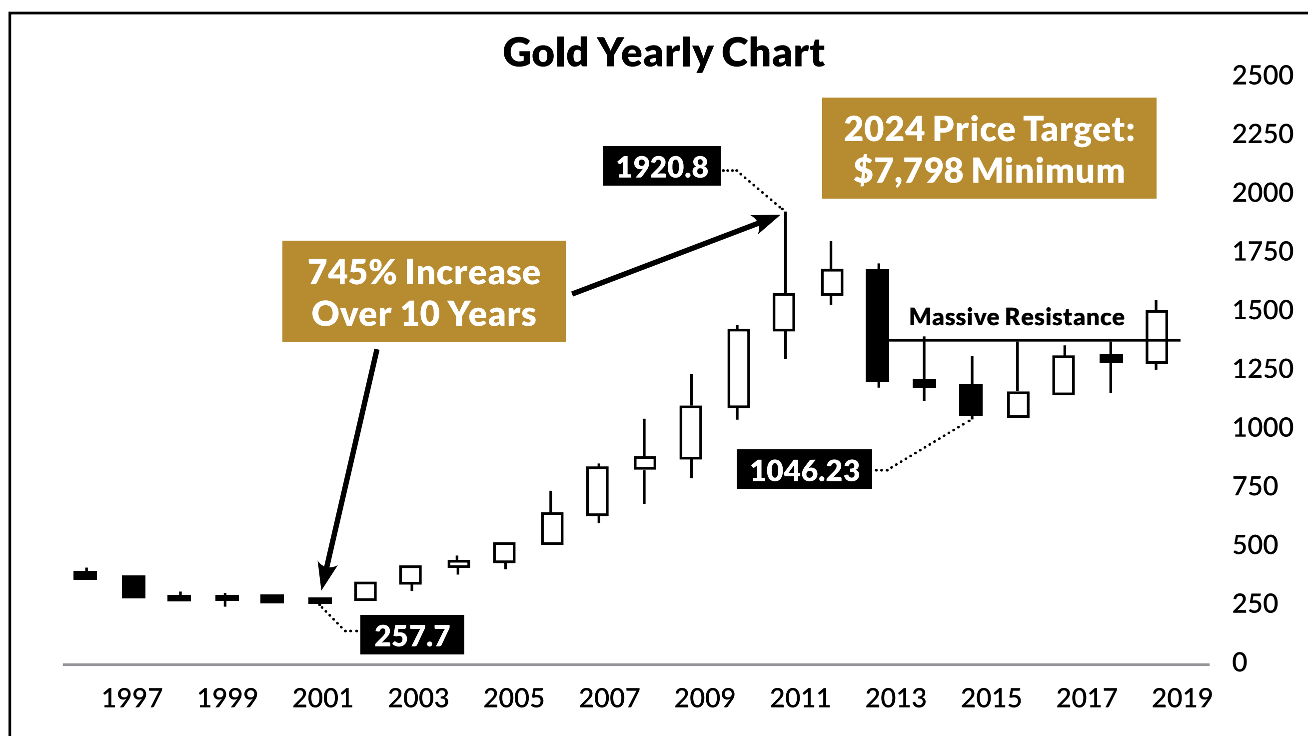
The $1,375 to $1,400 area stood as resistance to gold's price for more than five years, until June. And in June, first on fears of a conflagration between the U.S. and Iran and later over a sharp shift in Federal Reserve and European Central Bank policy sent gold through that level and rallying toward the $1,550 area.

I don't want to over-excite your greed circuit but if gold performs, like it did from 2001 to 2011 then we are looking at a sevenfold increase off the bottom. If this gold bull market bottomed in 2015, then that puts the $7,500 per ounce area as a good minimum target for this bull market by the end of Trump's (likely) second term.

It could, depending on the level of breakdown, go much, much higher than that. But that's not a scenario even the most hardened gold bug should desire. Because along with that price is a collapse of society to a level that your gold holdings will provide you with cold comfort from.

The Fed reversed its policy of reversing the policies put in under Ben Bernanke in a matter of weeks to end 2018. The Fed went from raising rates in December to opening up the possibility of a new round of Quantitative Easing in January. It was the most stunning reversal in central bank policy I've seen in 20 years of market watching. Even Greenspan's response to 9/11 wasn't that dramatic, since it was expected.

And gold noticed.



Now the Federal Reserve Chairman Jerome Powell is banning Regional Fed governors from speaking in public. Its carefully crafted communications policy is in shambles. The global economy is on the verge of recession and major changes are coming to the structure of Europe's financial system.

These are the periods in history where monetary systems fail and are reorganized. Confidence is a fickle thing. And those assets without counter-party risk are the ones that stand to gain the most during this chaotic period.

Buying gold now is the right course of action. After an eight-year bear market its value is deeply depressed relative to the sheer amount of money that has been pumped into the system. It is now just beginning to anticipate what's to come.

How to Get Started With Gold

My recommendation is to start with physical gold, which you can buy from a number of online retailers who have good prices, great service and sterling reputations. You want to have an amount that will cover six to nine months of basic living expenses, at a minimum. These are the expenses that get you back and forth to work, keep you fed, the lights on, the kids in school, etc.

Depending on your local cost of living that could be a substantial amount of gold. If you have the ability to move from a high-cost locality to a lower-cost one, consider it. Your savings go farther in places like where I live than in California. In fact, it's part of the reason why I live where I do.

A period this chaotic will require you to up your savings rate while decreasing your exposure to counter-party risk. Hold minimal balances in your savings accounts and get out of debt.

Properly deployed your savings will preserve your wealth while everyone else is stuck grinding away at debt, paying a steep price for their lack of preparation.

Inflation is coming because the central banks will fight deflation with everything they have. But real inflation, of the type that destroys societies, only happens when confidence in leadership fails. And the time is coming where faith in the Fed to manage the world economy will crack.

And that's when you want to hold gold.

Physical Gold

Buying physical gold is simple, in general. Get the most metal for your money. But to start out with I recommend one-ounce coins from your local mint. For me, being an American, that means U.S. Gold Eagles.

They shouldn't cost your much more than 3% to 5% over the spot price and you will be able to sell them during an emergency for 3% to 5% below the current spot price. Once you have a few of those, then branch out into other coins for pure metal content, buying whatever's 'on sale' at your favorite vendor. It that's British sovereigns, great? Mexican pesos? Fantastic.

I would shy away from numismatic coins for protection purposes. These are speculations, not insurance policies. The only recommendation I will make to you is the following. If you are willing to pay a little extra per ounce up front you can consider coins from foreign mints of the current year.

Coins like Australian Kangaroos and Chinese Pandas change their design every year and they are of limited 'print runs.' So, they have the best chance of rising in price as collectibles. But don't buy them with that in mind. Buy them because you 1) like them, and 2) are betting on much higher gold prices and the couple extra dollars today will be worth hundreds in a few years.

Also, buying the 'fractional' coins — fractions of an ounce — come with higher prices per ounce because the cost of minting the coin is a fixed price and that is simply added to the metal cost. So, the minting premium for a quarter-ounce coin will be higher on it than a one-ounce coin.

But that also means you'll get it back when you sell. Moreover, fractionals are far less popular than one-ounce coins and therefore the print runs are smaller, raising the odds of price appreciation over time.

Stocks and Exchange-Traded Funds (ETFs)

If, for whatever reason, you don't want to hold physical gold then buying physical ETF's like the **Sprott Physical Gold and Silver Trust (NYSE: CEF)** is a good choice. It holds nothing but physical gold and silver and a small amount of cash against the share price. This is in stark contrast to the **SPDR Gold Trust ETF (NYSE: GLD)** which holds a mix of physical gold and gold futures contracts. I, frankly, don't trust GLD.

There are also gold holding or warehousing services out there. I don't vouch for any of them publicly. You will have to do your own due diligence on them as this is a very personal business and trusting the agent is a very big deal. But I do recommend having your physical gold savings stored in different political jurisdictions in case the political situation in your home country becomes unacceptable to you, so this is something you need to consider carefully.

Lastly, there are mining stocks. These are investments with counter-party risks, just like CEF, GLD and any warehousing agent. They are also very difficult to assess well. You can simply punt buying either of the major ETF's out there. The **SPDR Gold Mining ETF (NYSE: GDX)** covers the major producers, while the **SPDR Gold Mining Juniors ETF (NYSE: GDXJ)** covers the smaller producers.

Building a diversified gold strategy is about balancing wealth protection with liquidity to react to changes in the market. Each of these options serves a slightly different need within that spectrum. I can't tell you what the optimal ratios of these things are, because every person's situation and tolerance is different. But this guide should help you sit down with your financial professional to map out a strategy that works best for you.