DJC

THE DAILY JOURNAL OF COMMERCE, PORTLAND, OREGON

WEDNESDAY
March 9, 2013
www.djcOregon.com

The contrarian path is coming into view

Amid shifts in global gold storage and movement, investors should consider exchange-traded funds

FINANCIAL FOCUS

Robert Smith

"All truth passes through three stages. First, it is ridiculed. Second, it is violently opposed. Third, it is accepted as being self-evident." – *Arthur Schopenhauer*

Ben Bernanke recently defended his policy of money creation as critical to "promoting a stronger economic recovery." Furthermore, according to the Fed chief, "inflation is currently subdued, and inflation expectations appear well anchored."

So, it's "steady as she goes" and pedal to the metal in terms of printing more money.

This is brought to you by the same man who said there was no housing bubble in 2006 and then compounded his error in 2007 by stating that subprime mortgage defaults wouldn't be a problem.

The fact of the matter is that the Fed is usually wrong. According to John A. Allison, president and CEO of the Cato Institute and retired chairman and CEO of BB&T Bank, "the Fed has a 100 percent error rate in predicting and reacting to important economic turns."

If the Fed isn't a good indicator of future economic turns, what is? It's the market. And global market movement is telling us that inflation and political instability lie ahead.

An important story that has received little attention is global gold storage and movement. This tells an interesting tale, one that the powers that be don't want you to know. Germany recently announced that it is going to repatriate part of its gold holdings from New York and Paris to Frankfurt.

During the Cold War much of Germany's gold was stored at the Federal Reserve Bank of New York. This made good sense with Soviet tanks on the country's border. However, times have changed. Germany and Russia are more closely allied than ever before and cooperate on many business and natural resources ventures.

Meanwhile, political dysfunction and fiscal irresponsibility in the United States make some sort of financial panic and authoritarian government more likely. Historically, what is it that authoritarian governments do? They confiscate assets. I posit that Germany is moving its gold out of the United States because it fears confiscation.

There is precedent for this. Franklin D. Roosevelt confiscated gold from the American people in 1933. If a government will seize gold from its own people, it's axiomatic that it will take it from foreigners if circumstances warrant.

This global scramble for physical possession of gold is not unique to the United States. It is impacting central banks of many developed nations whose economies are struggling and have chosen to follow Bernanke down the money printing path. The Bank of England is experiencing a run on its reserves as Venezuela, Azerbaijan, The Netherlands and China all bring gold home.

What are the implications for investors? As stated in previous columns, gold is now money. There is a growing awareness that gold is the one currency that profligate governments cannot debase.

According to hedge fund manager James Rickards, "What we are witnessing is the re-monetization of gold for the first time since 1973, when the IMF officially demonetized it."

The long-term ramifications of this for the price of gold are staggering. With government repatriation programs already under way, the stage is being set for the recognition of gold as the ultimate money.

This would only be happening if the markets – infinitely more efficient information gathering mechanisms than Bernanke or the Fed – sense significant inflationary pressures and the political instability this brings in its wake.

We have been saying since 2008 that the next economic cycle will be a stagflationary one. How long must joblessness remain at 8 percent for folks to accept that stagnation is already here and that significant inflation is on the way?

With the remonitization of gold, markets are shouting at the top of their lungs that the Fed chairman's credibility is zero. Investors should take heed and protect themselves through the purchase of exchange-traded funds like Sprott Physical Gold Trust, SPDR Gold Trust and iShares Gold Trust. These are all invested in real physical gold.

And good luck in getting the truth from the government. I keep thinking of Mark Twain's famous quote: "There are three kinds of lies: lies, damned lies and statistics."

Robert Smith is president of Peregrine Private Capital Corp. Contact him by calling 503-241-4949 or visiting www.peregrineprivatecapital.com.