

Gold is the ultimate protection against the Great Financial Catastrophe

by Egon von Greyerz Switzerland August 24, 2015

What is currently happening in markets should be no surprise to investors who understand sound money and have been following our risk warnings in the last few years.

The world has been living in cloud cuckoo land for so long that unlimited credit at zero percent, hundreds of trillions of dollars of new credit and quadrillions in derivatives were all believed to be real money and assets and part of normality. In the last couple of days we can see how quickly euphoria changes to fear. The Dow went down over 500 points on Friday and started down over 1,000 points on Monday, the biggest one day fall ever. The Plunge Protection Team then managed to buy the Dow back up a loss of a hundred points. But they failed to hold it so the market fell almost 600 points by the close.

Any intervention here will be futile and temporary. Before we see the end of the biggest bubble in world history, the Dow and most markets will have gone down by at least 90%. This is what happens when an asset bubble based on illusionary wealth and fake money implodes. The world will soon find out that the Emperor Really Has No Clothes. China thought that copying the sick Western financial system and increasing borrowings 14 fold over 15 years would make them an economic super power and the biggest economy in the world. Instead China just became a super bubble that is now starting to implode. As a consequence, Emerging Market countries believed that China would stock pile their commodities for ever but are now learning that no trees grow to heaven. But their debts have of course. Japan is a basket case whose economy will sink into Pacific. And the European super structure of socialism and welfare was doomed the day it started. When politicians create megalomaniacal monsters for their own ego, they are guaranteed to go under.

So markets are crashing and currencies tumbling. The next financial disaster will be the biggest of them all which is the bond markets. Before the bond market collapse has finished, there will be over \$100 trillion that will disappear from that market and interest rates will be at least in the high teens and possibly a lot higher.

This brings us back to wealth preservation and insurance against imploding assets and all the risks around the world.

Physical gold will continue to serve as money as it has done for 5,000 years as currencies crumble and assets implode. But it is not just a must to hold physical gold. It is how and where it is held that is absolutely critical.

Let me set out a few of the criteria for owning gold:

1. It must be physical gold. Not paper of any form whether it is ETFs or futures.
2. Gold must be stored outside the banking system in the safest vaults in the world
3. Gold must be stored in countries with sound and stable political systems. Preferably it should not be stored in the investor's country of residence
4. We consider the USA too high risk for storing gold including its neighbour Canada. The US is the most indebted country in the world and its banks have a dangerously high derivative positions of hundreds of trillions of dollars. Also the political system is not gold friendly. For the same reason gold should not be stored through companies based in the US even if the vault is located abroad
5. Switzerland is our number one choice for storing gold because of the very stable and sound political system and the fact that this country has been a democracy for more than 700 years. Also, the Swiss people have a tradition of holding gold and saving in gold. Furthermore, the Swiss refiners produce 60-70% of the gold bars in the world so it is a very important industry with well-established traditions. There are superb gold vaults in the Swiss Alps and in Zurich.
6. Singapore has a sound political system and good modern vaults. But it is a young country with a non-homogenous population and it is not a full democracy. Also there is a strong US influence in banking system and there is a US naval base.
7. It is extremely important that gold is held directly by the investor with personal access to his allocated and numbered gold bars. All counterparty risk must be eliminated whenever possible. Most companies offering gold purchase and vaulting claim that investors have sole ownership. But the gold is held is a sub-account of the company with no direct access to the vault. In our view, this is not acceptable. An investor should not have to go through a counterparty to get to his gold. The warehouse receipt or certificate of ownership must be in the name of the investor with unencumbered access to his gold. This is an extremely important subtlety that most investors don't realise when they buy and store gold. GoldSwitzerland is probably the only full service precious metals company offering this direct access and ownership.
8. The gold must be insured by a major international insurer.

As the world now enters what will be probably be the most volatile period in world history both economically, financially and geopolitically, wealth preservation is absolutely critical. We are going to see wealth destruction that will shock the world. Therefore, physical gold must be held as insurance against these risks. Throughout history gold has always had the role of real money and wealth preservation whenever there has been a crisis in any nation.

Egon von Greyerz

[Click here to view this article and most recent publications](#)

Matterhorn Asset Management AG / GoldSwitzerland

