The Gold Wars
A Golden Renaissance
A tribute to Ferdinand Lips (1931 – 2005)

Mining Journal Seminars Speech
Ben Davies CEO Hinde Capital
Ladies and Gentlemen

Before I start, a word of thanks to the organisers, the Mining Journal for inviting me here today. How times have changed. Even up to 2004, gold was considered a contentious subject. To be labelled a 'gold enthusiast' was at best, polite euphemism for you’re an eccentric, at worst barking mad.

Fast forward six years and one senses an acknowledgement of this most mercurial of metals. A growing awareness of gold does not however confer right of comprehension of how the gold market works. A nominal gold price increase in all fiat currencies has merely alerted investors to gold’s potential.

It is no secret that a group of sophisticated investors has long claimed that the price of gold has been artificially depressed. Unfortunately the mainstream financial world has long denigrated such claims as being the work of conspiracy theorists. But I sense a growing shift in attitudes. I stand here before you as one who asserts these claims are
in the main correct. Over the last three years I have grown more unequivocal in my voice. As a fund manager I have experienced at first hand the irregularities that have corrupted the gold market. These irregularities run deeper than just micro distortions of the daily movements in the gold market; they are a symptom of something much bigger - War.

And we are at war. It is not a military war but it is a war just as damaging because it has brought about a loss of freedom, poverty, and an imbalance in wealth. The war I refer to is the Gold War.

{Slide 2- What are Gold Wars?}

So what is a Gold War? It is the long running conflict between governments and gold. Gold as the "currency of first resort", is in a state of permanent competition with fiat, or paper money, created by governments. Gold is in a permanent state of war with governments themselves.

Gold is a vital barometer of the health of a nation's underlying currency. The suppression of the gold price by government allows them to mask the mismanagement of their paper currency. This past century the US government has arguably been the leading culprit of suppression. They have consistently abused their reserve currency status, by printing more and more IOUs. To fund what they need by taxation alone is not possible without civil unrest. This has helped fund not only a coercive welfare system, but has aided the continual funding of armed conflicts around the world.
One can see for oneself the impact of such abuse in the following slide:

{Slide 3- Dollar Purchasing Power Parity Basis 1950 to 2010}

MONETARY POLLUTION

The dollar's purchasing power has been eroded in the post-war period. One dollar can buy you less than one tenth of what it could have in 1950.

The US is not the only culprit. The world has been on a fiat currency system these past 40 years and throughout that time the war on gold has raged, resulting in the unrivalled accumulation of debt this century.

{Slide 4- Global Debt Mountain G10}

GLOBAL DEBT MOUNTAIN

Today’s system of paper money is still very young. It depends solely on the belief that the U.S. dollar is what it is based on the belief that the 1950s cycle after which it is based will be repeated indefinitely.

If one accounts for all the unfunded liabilities of social security, medical care and public pensions, the total debt of the US and UK runs at 800% and over 1000% respectively and the rest of the leading G10 countries exceeds 500%. Ladies and Gentlemen we have surpassed the point at which this is sustainable. Our debt service bill exceeds that which revenue or output can ever hope to attain. We have hit the Keynesian debt end point. So the question is; will the current fiat currency system prevail or will free
market money triumph, ie will gold re-assert itself to its rightful place as International monetary numeraire?

The purpose of this speech is threefold. Firstly to highlight the gold suppression of the past century. Secondly to show how gold suppression has left this most enduring of metals undervalued, and underowned. Thirdly to illustrate that the greatest battle between government’s fiat currency and gold is taking place right now today. We may be witnessing the grand finale. The culmination to the Gold Wars of this modern era.

{Slide 5- Ferdinand Lips - "The Pope of Gold"}

**FERDINAND LIPS (1931 - 2005)**

*Gold Wars, the Pope of Gold*, Karl Otto Fritzsche, former Head of the Bundesbank

He's back but arguably he never left us – on his life's work lives on through the Lips Institute

www.lips-institute.ch

The Context - Ferdinand Lips (1931 - 2005)

By way of context I would like to introduce you to a remarkable man. His name is Ferdinand Lips, ‘the Pope of Gold’ to which this speech is a tribute. I mention his name in the present tense although he tragically passed away in 2005. Fortunately his wisdom survives him in his life's work, which can be found at the Lips Institute set up by his daughter Barbara Lips.

Ferdii’s mission was to teach the world about ‘sound money’ - the economic basis for a peaceful, and stable world. He believed money, gold, and human freedom are inextricably linked. Freedom can be achieved only by a return to the gold standard. His book ‘Gold Wars’ is his weapon. It is now being translated into several languages including Arabic.

Yes, Arabic. A man of Jewish faith who partook in constructive dialogue with the Islamic world. We have already witnessed in recent months the Malaysian state of Kelantan reintroducing the gold dinar and silver dirhams, as an alternative currency to the fiat Malaysian Ringgit.
Gold Wars provides one of the best insights into the real state of the gold market. It provides corroborated evidence of how, throughout history, government has sought to nullify the actions of gold, via suppression and propaganda. It describes how after a series of denatured (flawed) gold standards gold was eventually cast aside. Unfortunately for government gold will always be the free markets preferred store of value. The lesson of history is that paper currencies that are not redeemable in gold or silver ultimately tend towards their intrinsic value - zero.

Lips was born in Switzerland, and although his professional roots were in banking, he was a polymath steeped in the traditions of men like Johann Wolfgang Von Goethe and Wilhelm Röpke. He became a leading gold expert, with deep ties to the mining industry. In fact in finding a subject matter for today, I thought it rather fitting that the main impetus for his book arose from the support of key South African miners. Ferdinand had been on the board of various African gold mining companies, and was in fact instrumental in the Randgold revolution. No doubt the companies speaking here today aspire to be the next generation of Randgolds. I think they can be.

{Side 6 – Gold Wars Section}

Ferdinand believed that, and I quote:

"The Gold Standard of the 19th century is the highest monetary achievement of the civilised world."2

It is not widely known that the 19th century was a period of prosperity and economic growth without inflation. The world’s major currencies remained very stable over this long period. A stability missing in the 20th and 21st century. Back then, what we regard now as the “classic” gold standard worked simply like this:
Classic Gold Standard (Ferdinand Lips)

The basic rule of the classic gold standard was a price fixed for gold, i.e., each currency was convertible into gold at a specified rate. The currencies were backed by gold and redeemable in gold on demand. A nation's monetary reserves consisted only of gold. On an international level, importing and exporting gold was unrestricted. All balance of payments deficits were settled in gold. (Balance of payments are the sum of all transactions between the domestic economy and the rest of the world.) Gold thus had a disciplining influence on a national economy. It limited public spending. It provided citizens a currency that maintained its value and was internationally recognised. In such a system, if a balance of payments deficit develops because domestic prices go up, gold automatically flows out of the country. This leaves less gold available for internal money circulation, and prices will thus come under control or decline. Exports become competitive again, and the balance of payments reverses. If, on the other hand, a country has a balance of payments surplus, gold will flow in and allow the economy to expand. Upward revaluations or devaluations were unthinkable. The system maintained its stability automatically. This is one reason why politicians do not like gold. Gold forces them to balance their budget.

The period of the classic gold standard is generally held as being from 1815, post the Napoleonic Wars, to 1914, when governments came off the gold standard due to the need to print money to finance the First World War.

Gold Wars of the 20th and 21st Centuries

{Slide 7 – Gold Wars of 20th and 21st Centuries}
Turning to the 20th century, when we examine historical records, it’s clear that at many times of economic and financial crises the US government (and indeed other governments) has sought to manipulate the gold price to preserve the dollar's status as the reserve currency.

The 7 most notable examples documented in history are (I will highlight a few of them):

1. The abandonment of the classic gold standard in 1914. It took place under the guise that all countries would return to a gold standard at the cessation of the First World War. The War paved the way for the newly and undemocratically appointed Federal Reserve Bank to print money out of thin air.

2. The world duly returned to gold backed currencies at the Genoa Accord of 1922. The US, however, decided in favour of a dangerous surrogate, a gold exchange standard under which just the US dollar and British pound were backed as gold; the rest of the world pegged to the pound. What everybody should have known is these two currencies had grown in circulation and purchasing power had been lost. A re-fixing at pre-war gold pricing sowed the seeds for the credit machine and the inflationary boom of the ‘Roaring Twenties’.

As Jacques Rueff, economic advisor to France's President, De Gaulle and an antagonist of the US gold fixing at $35 said in the 1971:

"It is well known and had been demonstrated repeatedly that this (new) gold exchange standard was in large part responsible for the great depression of the 1930s."³

3. This engine of inflation came to an end with the 'crack up' of the boom and the start of the Great Depression of the early 1930s. President Franklin Roosevelt blamed the rigidity of the gold standard for the crisis, rather than the surge of paper money beforehand. His response was to confiscate gold from US citizens in 1933, who were hoarding it ahead of an anticipated devaluation of the US dollar. This was carried out under the guise of the Trading with the Enemy Act. Sound familiar? Think UK, think Icelandic banks. By 1934 Roosevelt devalued the US dollar by raising the gold price from $20.67 to $35 a troy ounce. (US citizens at home were not allowed ownership until 1975, when President Ford declared it legal again.)

A Boston professor wrote at the time:

"The Statute of 1869 pledging the nation's faith always to pay national debts in standard gold is repealed and the pledges made under it repudiated: we're off the gold standard: many think we're off the ethical standard."
4. The world appeared to have learned nothing from history. And perhaps deliberately so. At the end of the Second World War, under the Bretton Woods agreement of 1944, the US dollar was made the world’s reserve currency, which was redeemable in gold at US$35 per troy ounce. Other world currencies were then fixed to the value of the US dollar. This ‘denatured’ gold standard was again flawed. It was entirely dependent on the US to exercise sufficient discipline to maintain the value of the US dollar at this price. It didn’t.

{Slide 8 - The London Gold Pool 1960 - 1968}

5. The collapse of the London Gold Pool and the Bretton Woods system in the late 1960s and early 1970s served notice to the US lack of fiscal restraint. In 1960 the US and eight European central banks pooled their gold resources to suppress the gold price. Initially successful at keeping the $35 gold fix, it too was to fail. The embargo on South Africa’s right to export gold was then the US’s last ditch attempt at maintaining the US$35 gold fix. It too was short lived.

{Slide 9 - The Two-Tier Gold market 1968}
By 1968, the famous ‘two-tier’ price system was established. The authorities allowed the existence of a free market gold price, but not one considered part of the monetary system. This was in the vain hope that pressure on the gold price would subside. It was not to be. This free market gold price flourished rising to US$44 a troy ounce.

In the words of James Dines, author of The Invisible Crash

"This left gold as the unquestioned financial master of the world, and the world’s ultimate money to those who could see.... an undisputable victory of gold over the monetary authorities, central bankers, economists and politicians."

A credible witness at this time was the Federal Reserve banker, John Exter. Years later he recounted to Ferdinand Lips:

"..from the very beginning the Fed violated the discipline of the gold standard by buying paper assets (read printing money)." and Kennedy tried "various 'thumb in the dyke' attempts to retain the $35.00 gold price."

This was his polite way of saying government suppression was used to keep the gold price down.

6. During the stagflation of the late 1970s, the US Treasury and the IMF sold approximately 1,200 tonnes of gold from 1976 to 1980. In 1978, the IMF took further action to demonetize gold. In the second amendment of the Articles of Agreement of the IMF, gold was removed as a means of inter-nation settlement. None of these actions succeeded in lowering the price of gold.

The US had quietly printed dollars to fund the Korean and Vietnamese Wars. This had not gone unnoticed by some. President De Gaulle of France insisted the US paid for all trade in gold rather than with increasingly worthless dollars. At that time each was interchangeable as payment. Nixon refused and the gold window closed - the biggest testament in history to gold's true worth. Gold was now no longer legal tender.

7. The signs of another gold war were not to be observed, perhaps until the mid 1990s. A war which continues to this day. Excessive gold leasing and gold sales by central banks has led to the build up of a large physical short position in the private sector. Independent work shows official statistics grossly underestimate the true nature of this supply imbalance. Put simply, there are more paper claims on gold than there’s physical metal to deliver. It is highly likely that central banks have intervened from time to time to prevent a gold derivatives crisis, which would threaten the stability of the financial system. Indeed Gordon Brown’s gold sales were likely another weapon to
suppress the gold market. Time precludes us entering into the details of this evidence – for it is vast.

Although notably in 1999, Eddie George, the then Governor of the Bank of England described to the CEO of Lonmin Plc the grave condition of the financial markets:

“We looked into the abyss if the gold price rose further. A further rise would have taken down one or several trading houses, which might have taken down all the rest in their wake. Therefore the central banks had to quell the gold price, manage it. It was very difficult to get the gold price under the control but we have now succeeded. The US Fed was very active in getting the gold price down. So was the U.K.”

On hearing this statement it begs the question - If there is so much historical evidence of gold manipulation, why is there not more concern about current activities? Surely it is right that this once unspoken taboo receives proper exposure. The growing weight of evidence demands it.

{Slide 10 – Gold is Undervalued Section}

The Gold Anti-Trust Action Committee, (GATA) formed in January 1999 has accumulated much of this evidence. They were for a long time the lone voice who publicly asserted that gold manipulation and suppression was still underway in the 1990s, and that it continues to this day. They are not alone now; Sprott Asset Management in Canada, and we at Hinde Capital are part of a growing body of independents who believe their broad assertions are correct.

Not only has there been a surge of gold derivative activity in the LBMA OTC market, but the behaviour of leading bullion banks on the short side in the paper Comex gold
market has been extraordinary. The Commodity and Futures Trading Commission has undertaken hearings into potential Comex manipulation by these banks. Examining evidence from the 1995 FOMC transcripts, all this trading activity points towards an active scheme involving potentially the US Exchange Stabilization Fund (ESF), the Federal Reserve, and certain member bullion banks.

We at Hinde contend along with others that we are at inflection point, much as we were in the late 1960s and early 70s. As gold rose rapidly in price then, so will it continue to do so today. But although gold in real terms (adjusted for inflation) is rising, it is only doing so very slowly. Gold is still extremely undervalued, especially in the context of money and credit. The nominal price rises are not excessive when placed in this context.

**Gold is Undervalued:**

I am going to show you a selection of slides from your handout demonstrating how gold is undervalued.

{Slide 11 - Gold in ‘Real’ Dollars is Still Undervalued}

{Slide 12 - Gold is Undervalued in Currency Terms}
Commodities are Undervalued Relative to US Equities

Gold is Undervalued versus US Equities

Gold is Undervalued versus US Equities on a total return basis

Gold is Undervalued But Outperforming All Asset Classes

Gold is Underowned

Hopefully I have shown to you that gold is undervalued, and now will illustrate arguably more importantly how underowned it is.
Gold is Underowned:

{Slide 18 - Most Central Banks Hold Little Gold}

Look how little percentage wise the emerging or emergent economies own relative to their currency reserves.

{Slide 19 - Most Central Banks Now Love Gold}

But my how this is changing. Central Banks have turned net buyers. And it’s all driven by the rising stars.
Ironically as fast as they try to accumulate gold, their currency reserves keep amassing due to export growth.

The defining moment perhaps of this bull market – the Chinese are actively encouraging a more open precious market in their country both within the private sector and at the individual level.
We believe, along with yuan liberalisation they are paving the way for a more dramatic currency reform where in conjunction with other emergent nations they can create a new reserve currency to compete with the US dollar.
China and India have a huge affinity for gold and yet ownership is still low by Western standards due to lower living standards.

Investment gold (inclusive of miners) stands at approx. 0.8% of global assets.
Put this number in an historical context and it is staggering how little investment there is in gold to this day.

![Gold Investment Historically Minute](image1)

Big demand, underowned and no supply, and worse, falling gold grades.

![Gold Underowned and Falling Supply, Reserve Grade](image2)
Again I hope I have demonstrated how underowned gold is. Couple this with the increase in demand and one can begin to imagine what a fight certain governments have on their hands with gold.

The Final Battle

There appears to have been a series of recent actions that suggest to us this increased demand is putting undue distress on establishment shorts.

Whereas the London Gold Pool of the 1960s was an overt attempt to maintain a fixed price of gold, these recent events suggest that possibly central bankers and some 'gold price managers' are working harder than ever to covertly fix an ostensibly free price.
The London Gold Pool AM and PM fix of the 2000s has been used to consistently limit the rise in the gold price this past decade. So successful has this suppression been that if one were to buy at the PM fix and sell at the AM fix the next day everyday for the last 9 years, one would have made $1,400. A handsome return. Adrian Douglas of Market Force Analysis and GATA member has provided extensive empirical evidence of this subterfuge. The price anomalies defy all expected probabilities.

So where are we now? Are we at a failure point for the shorts?
“The failure of the 1968 London Gold Pool to suppress gold saw an appreciation of the gold price from $35 to $850 per ounce. A similar percentage today would carry gold to almost $30,000 per ounce. This is not a price forecast but an indication that when free market forces have been frustrated by market manipulation for a very long time, the equilibrium price can be many multiples of the suppressed price, and the rise is typically rapid when the suppression is overcome.”10 & 11

Conclusion

So let's put this all in context.

Our whole monetary and financial system rests solely on the mutual acceptance or faith in paper money to act as a medium of exchange with regard to payment for goods and services. This faith is no fragile concept. Even under the greatest provocation of the medium’s validity, the value of having a common money is so great that individuals will stick to this faith.

There is no doubt that the individuals (savers) are beginning to lose faith in our current monetary system. The unquestionable belief in fiat/paper money is wavering as it looks less like a store of value. The synchronicity of problems across the world, however, mean that most currencies are being printed at an accelerating rate. So in such circumstances what currency does one turn to? The universal currency - gold. What we are witnessing today is the incremental return of gold to monetary status, as dictated by the people; ie what is coined the 'free market'. As such, its value is increasing.

The manipulation of the gold price continues to this day. It appears certain central banks and monetary bodies are unwilling to allow the gold price to repudiate their excessively loose monetary policies. Well today I assert that the day of reckoning is nigh. The faith in government is being severely undermined. The Western authorities are losing the battle to keep back gold. Gold should be a lot higher in price to reflect the entire world’s money printing, and had it not been for untoward behaviour it surely would have been by now.

Ferdinand Lips wrote to show us all the significant role gold plays within a liberal social system in guaranteeing the preservation of our greatest possession - the freedom of mankind. He fought a long battle, and I believe his work will help us all win the war. This speech could have been a tribute to many. It just so happened that Ferdinand Lips was the first who made me really sit up and take note. My skill as a fund manager is to translate his philosophy into a viable vehicle that both protects investors’ purchasing power and even attain capital appreciation. These two concepts are not mutually exclusive.
Hinde Gold Fund, we believe is a unique investment.

Crucially the bedrock of the Fund is bullion stored in allocated form held in the Swiss private banking sector. This protects our assets from the risks associated with the highly leveraged investment banks. We have done our utmost to limit our exposure to systemic financial risk, in a professional and audited manner.
Hinde Gold Fund aims to outperform the gold price, while smoothing any downside volatility. So far so good.
And this has in large part been down to our most marvellous golden secret.

Ferdinand Lips wrote and spoke to show us all the significant role gold plays within a liberal social system in guaranteeing the preservation of our greatest possession - the freedom of mankind.

Ladies and Gentlemen, I leave you with his formidable and no doubt prophetic words:

"My view is the that the gold standard would not only end all currency wars but also all military wars. World history proves that there is a close relationship between war and peace. It is also evident that there is a close relationship between monetary systems and ethics and morals....I implore you to put the gold standard back on the agenda."

I personally look forward to this Golden Renaissance.

Here endeth the lesson!
References

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