THE "YOU MAY NOT KNOW REPORT"

A PUBLICATION OF RETIREMENT LIFESTYLE ADVOCATES

Currency versus Money

By Dennis Tubbergen

Later this month, a revised version of my "Revenue Sourcing" book from last year will be released. The new book has a different title, "Retirement Roadmap", as I believe this title more accurately reflects the content of the book.

Given massive currency creation by the Federal Reserve and other central banks around the world, one of the key concepts to grasp and fully understand when doing your retirement income plan is the difference between money and currency.

I devote an entire chapter in the revised book, "Retirement Roadmap" to the topic.

While the book will be released shortly after this month's "You May Not Know Report" goes to print, I thought a thorough discussion of this topic in this month's newsletter would also be beneficial to readers since the Fed policy of easy money and more money creation is continuing despite evidence of emerging inflation.

No matter what various analysts and prognosticators might say when commenting on current Federal Reserve policy, I am reminded of the words of Voltaire who had this to say about fiat currencies:

"Fiat currency always eventually returns to its intrinsic value; zero,"

Over the years, through a study of currencies and the history of currencies, I have developed a theory that rings true with me. I'll explain it in this month's report, but suffice it to say that many, including many financial professionals use the terms money and currency interchangeably.

This is a mistake.

Currency and money are two very different things.

While money can be currency; currency is not always money.

This is an important differentiation to understand; especially when planning for retirement when it's common to assemble a plan that needs to be effective for 30 years or more.

Here is the basic premise of this month's report:

Currency changes over time; **money** does not change.

I'll prove it to you in this month's report and more importantly, explain how you and your dreams of a comfortable, stress-free retirement may be adversely affected as a result of this money and currency evolution.

As I've already noted, I've studied these money evolutions extensively and have concluded that these evolutions are predictable and lead to equally predictable economic and investing climates.

That's why understanding currency evolutions and understanding where we are in the cycle is so vitally important to a successful retirement plan.

I've dubbed this theory the currency money cycle.

As the cycle progresses, currency moves from something that has real, tangible, intrinsic value to something that has virtually no real value. That's when money and currency evolve into two different things.

Most people, including many financial professionals would describe money as the stuff in their purse or wallet that they use to buy things. The reality is, in today's world, that is NOT money; it's currency.

The difference between currency and money is that money is a good store of value over time. Currency is not.

At times in the past, currency and money have been the same thing but now they're vastly different. That's because we are now nearing the end of the currency-money cycle.

About 90 years ago, in the United States, currency and money were the same thing. Gold, which has real, tangible, intrinsic value circulated in the economy and was used to buy goods and services.

At that time gold was money and currency.

All that changed in 1933.

That's when then President Franklin Roosevelt issued an executive order forcing all American citizens sell their gold. If you were an American citizen, you had to give up your gold and in return get $20 per ounce.

Prior to that gold confiscation event, gold was valued at $20 per ounce; a $20 gold piece contained an ounce of gold.

Money and currency were the same thing.

When President Roosevelt confiscated the gold of American citizens, those citizens got a $20

bill. The paper bill had no intrinsic value and as time passed, the paper bill lost purchasing power.

Here's the important point:

When American citizens were forced to give up their gold, the $20 paper bill and the $20 gold piece bought the exact same amount of goods and services.

Fast forward to today and the $20 paper bill still buys $20 worth of goods and services, but the $20 gold piece has about $2,000 in purchasing power!

See the difference between money and currency?

Gold, or money, has been a good store of value over time. The $20 bill, or the fiat currency has not been a good store of value.

With that background, let's look at the four stages of this currency-money cycle.

CURRENCY-MONEY CYCLE

STAGE ONE

Currency and money are the same thing; gold or gold and silver circulate in the economy and are used to pay for goods and services.

STAGE TWO

Paper bills are issued. At this stage of the currency-money cycle the paper bills can be redeemed for the gold or silver.

STAGE THREE

Paper bills can no longer be redeemed or exchanged for gold or silver at a fixed rate. The paper bills now have no link to gold or silver making the paper bills a fiat currency.

STAGE FOUR

Politicians and policymakers print too much fiat currency and the fiat currency fails.

Let me give you a more current example of this currency-money cycle.

Depending on your age, you may vaguely remember something called a silver certificate.

Up until 1964, silver coins in the United States were made of silver and with a silver certificate, you could claim the silver. The silver certificate contained the words, "Payable to the bearer on demand."

In 1964, a $10 silver certificate could be used to claim ten silver dollars. In other words, the $10 silver certificate and the ten silver dollars had the same purchasing power.

Today their purchasing power is significantly different.

That $10 silver certificate today is worth $10, those 10 silver dollars contains 7.2 ounces of silver and with 7.2 ounces of silver, you have more than a couple hundred dollars of purchasing power.

The silver coins are money; the silver certificate is currency.

See the difference?

At the present time, only fiat currency is used in commerce in every country in the world and there are massive amounts of new fiat currencies being created every day by world central banks.

We are now nearing the end of the predictable currency-money cycle in my view.

By now, you are probably wondering why this cycle repeats itself so predictably?

The answer won't surprise you – it's because the collective behavior of politicians is predictable. Politicians as a group eventually always spend more than the tax revenues they collect.

Let's take a brief look at US history.

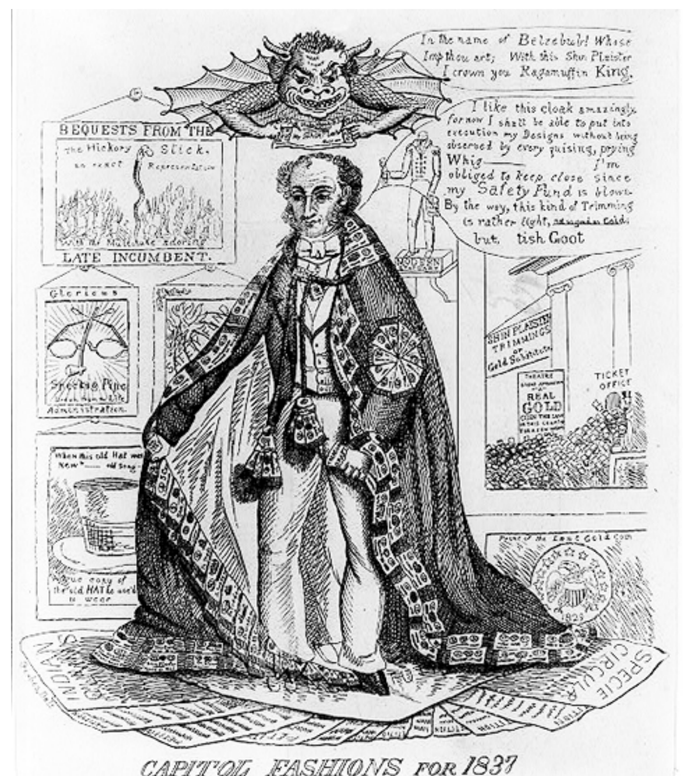
After the War of 1812, the government was deeply in debt and the politician of the day were grappling with how to deal with the massive levels of debt that existed because of the war.

There are only three ways for politicians to deal with deficits and accumulated debt. They can raise taxes, they can cut spending, or they can print currency.

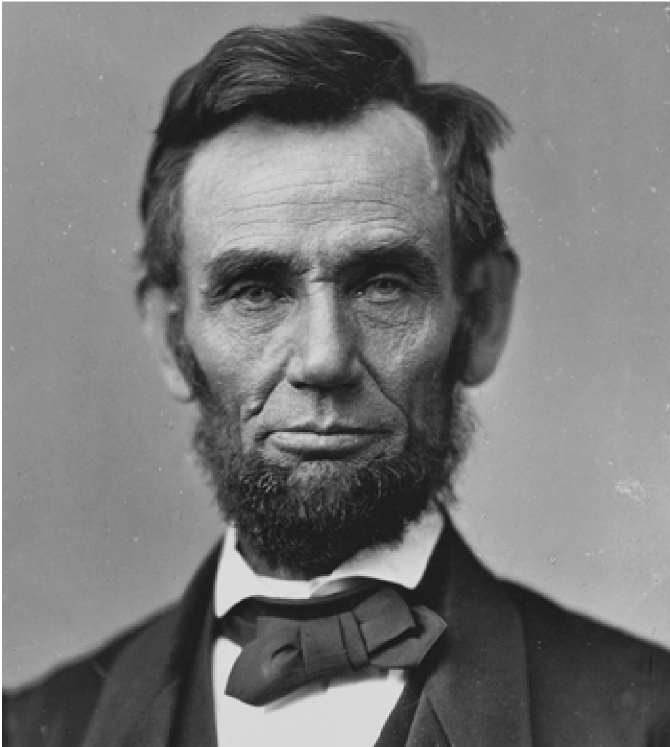
History teaches us that whenever the deficits or the debt get large enough, they always opt for printing currency. Currency printing leads to the illusion of prosperity for a while but eventually, predictably the bust comes. Currency creation leads to boom-and-bust cycles

This is what happened after the War of 1812. A lot of paper currency was printed and, as a result, there was a time in the late 1820's and early 1830s when real estate and stocks were booming. It was a classic prosperity illusion boom.

But predictably, the bust followed the boom. Historians refer to this bust as the "Panic of 1837".



CAPITOL FASHIONS FOR 1837



History repeated itself once again in the 1860s when then President Lincoln was deliberating how to fund the Civil War.

President Lincoln and the politicians of the day passed a law to back the US Dollar with gold, silver, and U.S. Government debt.

Paper bills called greenbacks were printed and the new law said that anyone selling goods or services had to accept the new paper bills as payment just like gold and silver. Noncompliance with the law meant severe punishment for the violator.

Predictably, this paper currency creation led to another prosperity illusion boom. The stock market roared and real estate values soared. The stock market darlings of the late 1860's and early 1870's were railroad stocks. They were the 1860's equivalent of tech stocks in the late 1990's.

Predictably, the bust followed the boom as real estate and stock prices crashed and the long depression of 1873 set in.

The current central bank of the United States, the Federal Reserve, was formed in 1913. The Federal Reserve is not a government entity or agency; it is a private group of bankers.

At the time of the founding of the Federal Reserve, the backing of the US dollar by gold was reduced from 100% to 40%.

If you're a math person, you'll quickly calculate that reducing the backing of the US Dollar by gold from 100% to 40%, expanded the currency supply by 250%.

Predictably, the prosperity illusion boom materialized. Historians refer to this boom as the "Roaring Twenties".

As happened previously in U.S. history, the bust predictably set in and asset prices crashed when debt levels built up to an unsustainable level.

There is an important lesson here. Currency creation that takes place because of excessive debt levels leads to a temporary prosperity illusion boom that is always followed by a bust.

That's what happened in 1929 as the Great Depression began.

There are many, many examples of this currency-money cycle historically. It repeats itself time and time again and when the bust sets in it wreaks a great deal of economic havoc in the economy and in the financial markets. And as I write this today, we are at an all-time extreme when it comes to currency creation.

Can the bust be far off?

Looking at more recent US history is also instructive.

After World War II, the US Dollar was linked to gold once again as part of the Bretton Woods Agreement. Any foreign country or entity could exchange their US Dollars for gold at a rate of $35 per ounce.

The ability to redeem US Dollars for gold made the rest of the world feel comfortable holding US Dollars and the US Dollar became the world reserve currency.

Reserve currency status just means that other countries a reserve or inventory US dollars to use in international trade. In 1971, the ability to redeem US Dollars for gold was suspended by President Richard Nixon who blamed international money speculators for the sudden policy change.

Of course, the real reason Nixon suspended the redemptions of US Dollars for gold was that too much currency had been created. US Government spending increased significantly in the 1960's with the advent of Medicare and Medicaid and due to the ongoing conflict in Viet Nam.

To fund this expansion of spending, currency was created.

All this currency creation made foreign investors nervous, and they began to exchange their US dollars for gold as they were entitled to do under the Bretton Woods agreement.

On August 15, 1971, blaming 'international currency speculators', Nixon "temporarily" suspended the redemptions of US Dollars for gold; those redemptions have never resumed.

In 1971, the US Dollar entered the third stage of the currency-money cycle and became a fiat currency. Put another way, in 1971, the US Dollar ceased being money and became only a currency.

The numbers don't lie.

In 1971, gold sold for $35 an ounce.

Today, 50 years later, as I write this, gold is selling for just under $2,000 an ounce. An ounce of gold has not changed one iota since 1971, but the purchasing power of the US Dollar has fallen dramatically.

Here's an example that will make the point nicely.

In 1971, the average house in the United States sold for about $25,000. At $35 an ounce, it took about 700 ounces of gold to buy an average house.

For the sake of discussion, let's assume there were two brothers in 1971; one stored $25,000 in US Dollars and the other stored his $25,000 in 700 ounces of gold.

In 1971, $25,000 in US Dollars and 700 ounces of gold had equivalent purchasing power.

Fast forward 50 years.

Today, the brother that stored his $25,000 in US Dollars still has $25,000 but it buys a lot less than it did in 1971.

On the other hand, the brother that stored his wealth in 700 ounces of gold now has just under $1.4 million in purchasing power.

In 1971, both brothers had the same purchasing power.

Today, the brother who stored his wealth in gold has 56 times more purchasing power than the brother who stored his wealth in cash.

The cash is currency, gold is money.

Currency is not a good store of value over time; money is a good store of value over time.

Going back to the house example, in 1971 the 700 ounces of gold could buy one average house.

Today, with the average new home price at about $350,000, the same 700 ounces of gold can buy 4 average houses.

That also nicely illustrates the difference between money and currency.

As I've already noted, this currency-money cycle has repeated itself throughout history time and time again. Far more times than we can cover in this month's report.

Let me give you just a few examples though.

During the Roman Empire more than 2,000 years ago, the Roman currency, the denarius, was originally almost pure silver.

Emperor Nero wanted to expand the money supply and since paper currency wasn't being used in the day, there was only two ways Emperor Nero could do this.

One, he could mine for more silver, that however was a slow process. Instead, Emperor Nero gathered up as many denarii as he could, melted them down and diluted the silver with other worthless metal alloys, creating a quasi-fiat currency.

This was the Roman Empire version of currency creation.

A series of prosperity illusion booms appeared all of which were predictably followed by busts. Eventually, the Denarius became a fiat currency and failed resulting in the ultimate bust and the fall of the Roman Empire.

Weimar Germany after World War I is another example of the predictable economic outcomes of the currency-money cycle.

Germany created currency to fund the war, justifying the currency creation as temporary in order to fund the war. The German politicians of the day rationalized their currency creation by stating that once they won the war, they would stop.

Germany lost the war and was saddled with reparations that the country couldn't afford. The country continued to print currency to pay the reparations.

Ultimately and predictably, a hyperinflation occurred devaluing the German Mark to the point of it being worthless. From 1919 to 1923, the German mark devalued by a factor of 29 billion.

Once the hyperinflation subsided, the deflationary crash predictably occurred creating economic conditions under which a maniac like Adolf Hitler could rise to power.

Another example of this predictable currency-money cycle happened in France in the early 1700's. Ironically, France in the early 1700's looked a lot like the United States today.

France's central banker in the early 1700's was a man by the name of John Law. Law was an interesting character. He was born in Scotland into a goldsmith family. At the age of 14, John started to work as an apprentice in the family goldsmithing business. Law's father passed away when John was 17 and John took the family fortune and began a life of gambling and womanizing in London. Law would today be described as a high roller.

Because of his womanizing in London, Law was challenged to a duel, which he won.

He was arrested for murder.

With some help from some friends in high places, Law was able to escape to France where he began gambling with Duke d 'Orleans, who was the regent of France.

The Duke was ruling the Country of France for King Louis the 15th, who was only seven years old when his father Louis the 14th passed on.

The Duke and John Law struck up a friendship and often talked about the topics of economics.

These conversations led to John Law being appointed the central banker of France.

As France's central banker, Law began to print paper currency that he originally guaranteed would be backed or could be redeemed for coins containing precious metal. (Note the second step in the currency-money cycle outlined above.)

Predictably, this worked really well for a while, creating a prosperity illusion.

However, as more currency was printed, many French citizens became skeptical that the French government could actually back all this paper currency with coins containing precious metals so a run on the bank ensued.

John Law decided to eliminate the link between precious metals and the paper currency.

This is exactly what Richard Nixon did in 1971.

Law created even more paper currency which eventually resulted in hyperinflation and a currency failure. Predictably, deflation and a crash in asset values followed.

The currency-money cycle is very predictable.

When the link between paper currency and gold or silver is terminated, currency creation begins in earnest. This leads to a series of prosperity illusion bubbles followed by busts.

I believe we are about to experience the end of the currency-money cycle.

Starting after the financial crisis a dozen years ago, the Fed started the "temporary" emergency measure of quantitative easing, which just means they're creating currency out of thin air.

That currency printing has now intensified post-COVID.

The Fed's balance sheet, a proxy for how much currency has been created, now stands at more than $8 trillion! One needs only to go to the Federal Reserve Bank's website and look at their balance sheet to confirm this.

As I write this, a $6 trillion federal budget has been proposed with a nearly $2 trillion deficit. This deficit can only be funded with more currency printing.

Inflation levels as I write this, are rising to real levels not seen in 40 years.

The officially reported inflation rate, the Consumer Price Index, is massaged to make the reported number look more favorable.

You probably inherently know this. Anyone even paying remote attention to consumer prices knows that the inflation rate in 2020 was higher than 1.9%.

We're at the beginning of this reset cycle, inflation is emerging and at a certain point it will move to deflation, and we will see a collapse in stock and real estate prices.

As I discussed in last month's report, looking at the value of stocks and real estate in the context of historical values, has one quickly concluding that values are inflated largely as a result of the Fed's currency creation.

Chart 1 (below), included in last month's report, from the St. Louis Federal Reserve, illustrates housing values in US Dollars.

Since houses are priced in currency, as the currency is devalued, prices rise on a nominal basis. The Case-Shiller Index on Chart 2 (below, top)) shows that house prices are about 1/3rd higher than at the time of the financial crisis and real

Chart 1: *St. Louis Federal Reserve*

estate collapse.

Pricing housing in money, or gold, gives a different perspective.

The gold price chart (Chart 3, below, bottom) from 2006, shows that gold prices ranged from about $500 per ounce to about $700 per ounce during calendar year 2006.

For sake of simplicity, we'll use a price of $600 per ounce.

Taking the Case-Shiller Index at the prior real estate peak and dividing by the price of gold per ounce, one gets a number of .3.

Put another way, the Case-Shiller Index was about 30% of the spot price of gold per ounce.

Fast-forward to 2021. Taking the current value of the Case-Shiller Index and dividing by the price of gold per ounce, one gets a number of about .14.

In other words, the Case-Shiller Index is about 14% of the spot price of gold per ounce.

Measured in currency, housing prices are higher. Measured in money (gold) housing prices are already deflating.

The same analysis can be applied to stocks.

Using the Standard and Poor's 500 as our stock index, we find that in 2007, near the stock mar-

Chart 2: *The Case-Shiller Index*

Chart 3: *Gold Prices, 2006*

ket peak, the S&P 500 Index stood at about 1500.

When we reference the price of gold per ounce in 2007, we see that gold prices in 2007 oscillated between a low of about $600 per ounce to a high of about $840 per ounce. We'll use a mid-point of $720 for our analysis.

In 2007, the S&P 500 value of 1500 was just over twice the average price of gold per ounce of $720.

The ratio was 208% to be more precise.

Today, the S&P 500 stands at about 4,400 and the spot price of gold per ounce stands at about $1835 as I write this.

That's a ratio of 239%. Not much different than the 208% number from 2007.

It's a reasonable argument that stocks, in real terms, have not changed much since time of the financial crisis.

Massive debt levels are deflationary. When using money to value these two asset classes, one concludes that deflation may have already arrived. When measuring these asset classes in currency, one sees that we have had price appreciation.

Reality is that this price appreciation has only occurred in nominal terms rather than real terms.

I expect this trend to continue as the currency creation continues.

If you are not yet using the "Revenue Sourcing™" strategy in your personal, financial situation, I would encourage you to do so.

If you'd like to discuss this approach further, feel free to give our office a call at 1-866-921-3613.

FREE – Essential Reports Group

If you have not yet adopted the two-bucket approach to managing retirement assets, we'd like to invite you to discover more. You can order our Essential Reports group provided at no cost and no further, future obligation.

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If you have questions when downloading the app or would like assistance, feel free to call the office. Our office phone is **1-866-921-3613**. Our office phone is answered 8 to 5 Monday through Thursday and 8 to Noon on Friday.