Why American~~s~~ Holds Gold!

LEARCAPITAL
The Precious Metal Leaders

US Debt and the Case for Gold!

"Gold is Money"

There was a time when Americans bought and owned gold ... a lot of it. They saved it, collected it, and handed it down generation after generation. The Commercial Union Insurance Company which officially owns the wreck of the Titanic and the Lloyds Loss Book shows that millions of pounds of gold went down with the ship. Of course, that was in 1912 and America and the world were still on the Gold Standard. That was the same year that J.P. Morgan, one of the most influential financiers in history told Congress; "Gold is money. Everything else is credit."

Today only about 4% of Americans own physical, investment gold. World banks; however, have been on a precious metals spending spree acquiring an astonishing 1,290 tonnes of gold since the global financial crisis of 2007-2008. With the advent of massive government debt, the housing crisis, run away unemployment, terrorism, devalued currencies, and Europe in financial turmoil ... gold is becoming an important investment item again in the United States as well as around the world.

A quick review of recent history illustrates the tenacity, steadfastness and reliability of this very special metal ... and why it is more important to own it now than ever before.

“Nixon Shock” and the Dawn of the Soft Dollar

As Richard Nixon took office back in 1969, America was a war-weary nation. The costs of the Vietnam War started to hit home and domestic spending surged. America ran deficits for the very first time in the 20th century, and there was tremendous disparity in US trade including imports, exports, capital, and goods and services exchanged with other countries. In 1970, the United States slid into recession and unemployment rose to its highest level in a decade.

Since the end of World War II, the Bretton Woods Economic system had ruled the day and mandated that the United States back every American dollar overseas with gold. But when the Fed started printing money to ease unemployment, gold coverage of the dollar slipped and foreign nations came to collect gold on the US currency that they held. First Switzerland, then France, Italy, and Germany … further depleting US gold reserves. In short, the foreign banks had far more dollars than the US had gold to cover them.

In 1971, the dollar plunged in value against the currencies of Europe creating a full-blown exchange crisis as well as foreign price gouging. In mid-August of that year, President Nixon issued executive order # 11615 or *The Economic Stabilization Act of 1970* that imposed a 90-Day wage freeze, a 10 percent import surcharge, and closed the gold window for good by announcing that the US would no longer redeem currency for gold. “Nixon Shock” is the term used to describe this action which led to the end of the gold standard.

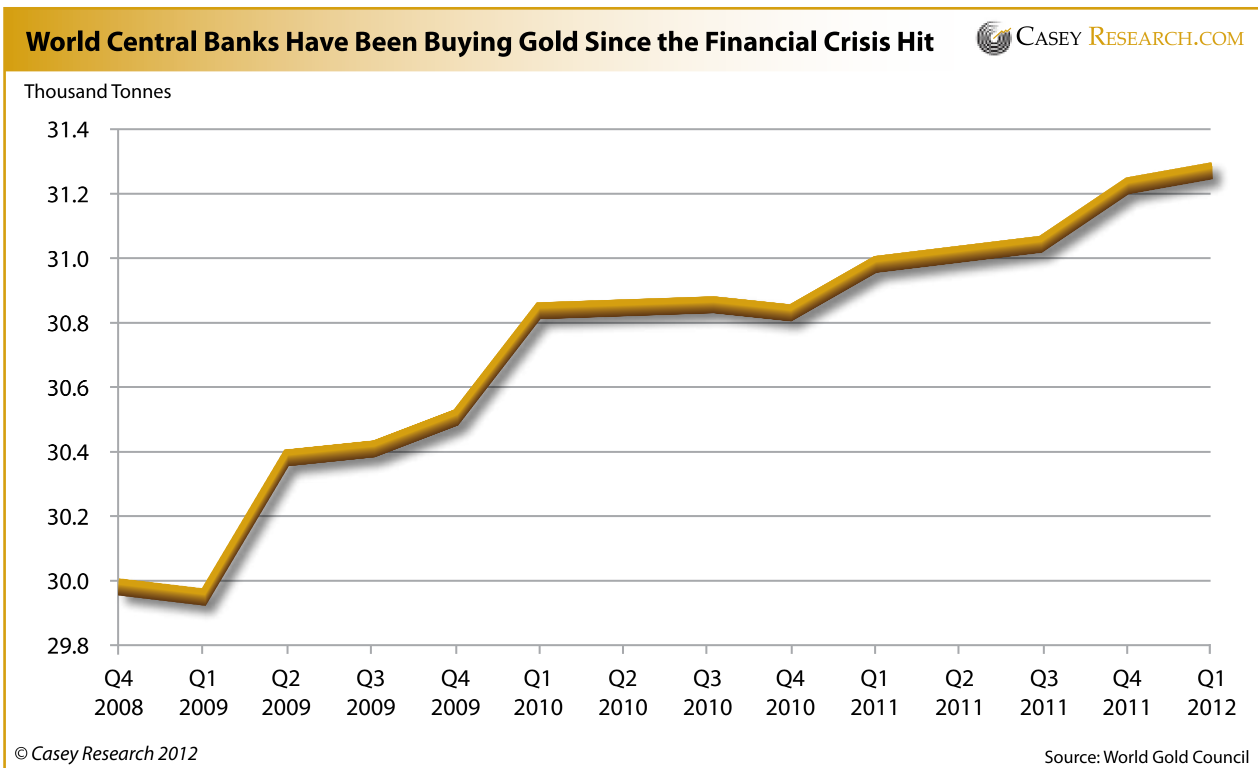
Nixon Shock changed the global economic playing field and resulted in a tide of floating currencies. It unleashed a new world of risk and speculation and a “soft dollar” that still impacts us today. With the end of the gold standard and no remaining link between currency and commodity … the world entered a new era of monetary volatility.

Central Banks and Collapsing Currencies

With the stroke of Nixon's pen on that day in August over 40 years ago, the gold standard disappeared from every major world economy. Our current monetary system features fiat money or inconvertible currency that is deemed legal tender by a given government. Since fiat money has no intrinsic value and is not backed by reserves, governments can choose to print more or less, and this directly impacts the rate of exchange. It also blurs the lines of monetary standards and creates a critical value void. We are seeing the ramifications of this in the sovereign debt crisis playing out in Europe where there is a collective currency but no fiscal union.

In a quest for monetary balance and stability, the world's central banks have enacted a dramatic shift in policy since the financial crisis of 2008. Once the biggest sellers of gold to the private marketplace, they are now among the biggest buyers of gold.

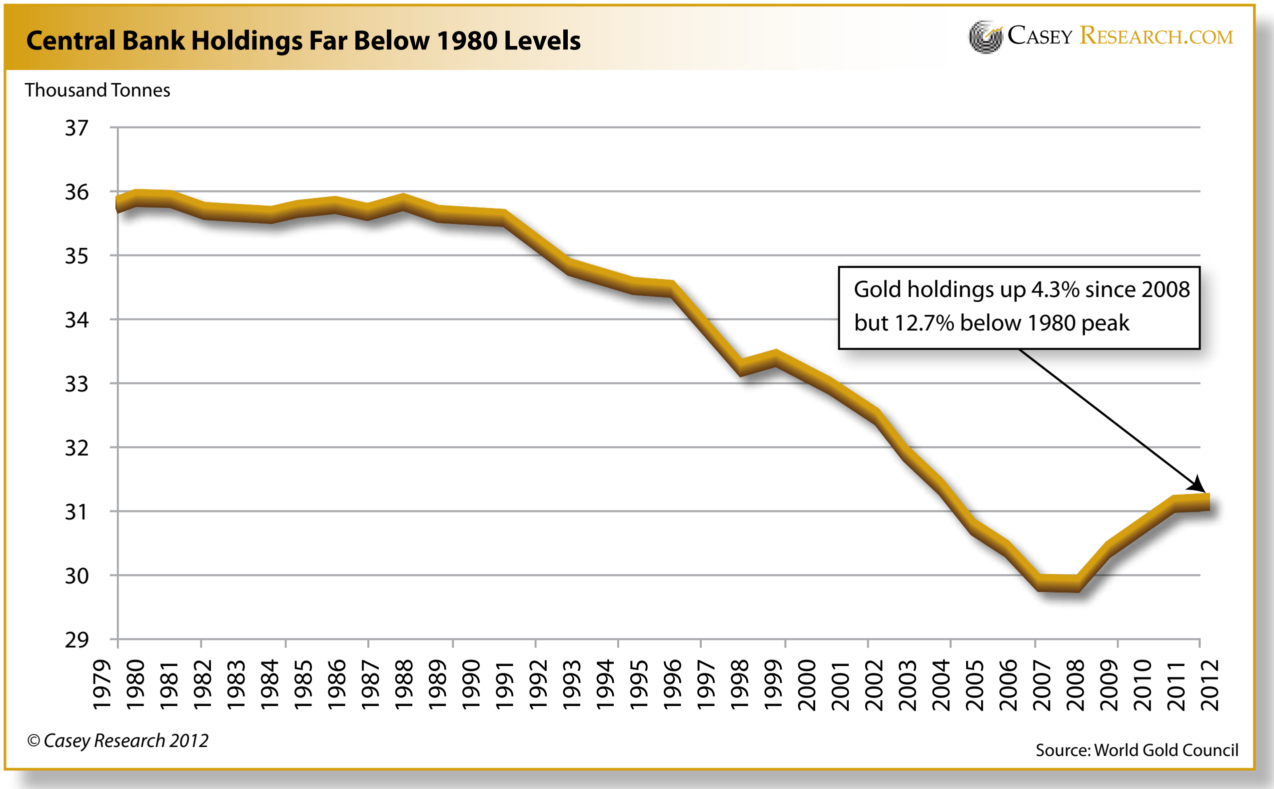
Last year alone, the world's central banks purchased over 455 tonnes of gold, the second increase since 1988 and the largest jump since 1964.



And, this recent gold buying frenzy is not reserved for the world's wealthiest nations. As a matter of fact, some of the most active gold-buying countries include smaller or emerging nations with unstable, even unhealthy economies such as:

Turkey – added over 123 tonnes to its reserves since October 2011
Mexico – purchased over 100 tonnes earlier this year
The Philippines –added 32 tonnes in March, one of their largest monthly purchases ever
Russia – purchased 15.5 tonnes in May bringing its reserves to their highest level since 1993
Thailand – has increased its holdings by over 80% since mid 2010
South Korea – has increased its supply of gold by 180% since 2009

It is clear that gold remains the silent partner of international finance and functions as an unofficial standing reserve to help offset global risk. While the gold holdings of central banks around the world have risen dramatically, they have not yet approached their 1980 levels, so further buying will fuel demand and could drive gold prices even higher.



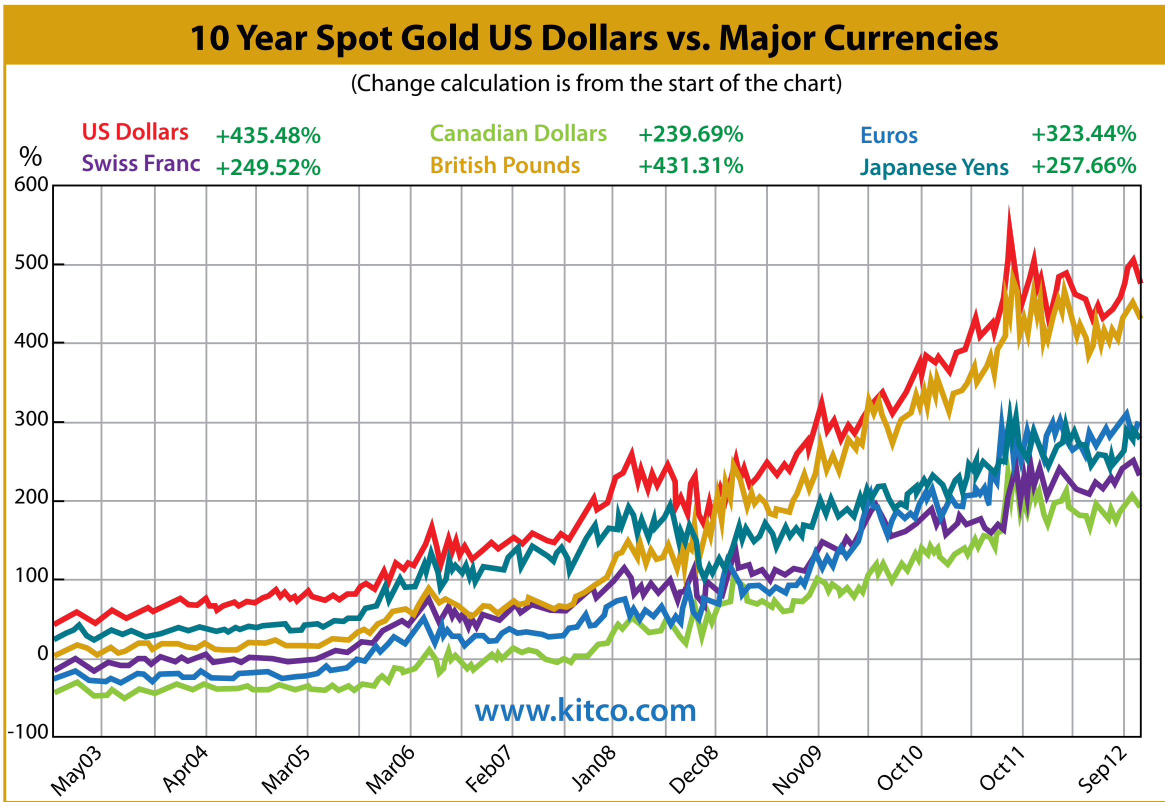
Banks, like any investment body, are looking for a hedge against economic volatility. Their acquisition of gold is a move toward enduring value and security.

Gold has proven to be a constant through explosive world cycles and events. Central banks know all too well that gold cannot be manipulated or devalued by any government, fund or monetary body. The once gold-backed dollar which had been the world's reserve currency since WWII has seen its leadership role start to change.

When America divorced itself from gold in 1971 and embarked on a monetary policy of an un-backed paper currency, the dollar lost its edge and the global movement to gold began.

The International Gold Grab

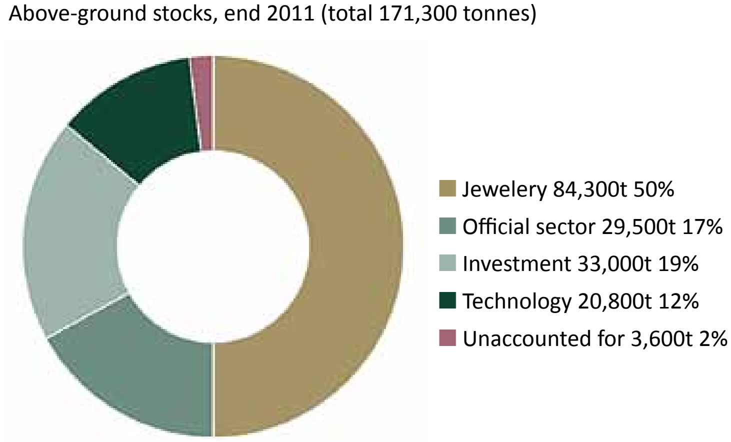
The central banks of emerging nations in Asia, Africa, the Middle East and South America are the latest to embark on an "International Gold Grab." Nations such as Bangladesh, Sri Lanka, Kazakhstan, Belarus, Venezuela, Columbia, Argentina, Mongolia, Malta, and Mauritius all consider gold to be a critical reserve asset. As a matter of fact, in the past ten years gold has risen against all currencies including the Euro where it has increased over 161%!



The global gold grab is not limited to foreign governments. There is increasing consumer demand for gold around the world as well with East Asia, India and the Middle East accounting for a 65% increase in consumption. Demand in these regions is as much driven by cultural attributes as it is by economic strategy.

Jewelry, for instance, represents the majority of current gold demand. It is being fueled by consumption in India where that country's appetite for rings, necklaces, bracelets, earrings, charms and gold adorned jewelry is legendary. The role of gold in India is both highly social and deeply personal. It is not only a sign of wealth and status but it is an integral part of their daily worship and marriage ceremonies.

Above-ground stocks, end 2011 (total 171,300 tonnes)



Source: Thomson Reuters GFMS
Note: Totals may not sum due to independent rounding

Chinese citizens are also on a gold buying binge. The Chinese bought an estimated 490 tonnes of gol in 2011 which is double the amount they acquired in 2010. For Chinese consumers, gold ownership seems to be purely economically motivated. With the decline in their trade surplus, unstable world markets, weak property values at home, and the volatility of the European crisis … the Chinese are turning to gold for a monetary refuge and an inflation hedge.

The last significant sector of the International Gold Grab is increasing worldwide use of gold in technology. In 2011 the technology sector consumed 20,800 tonnes of gold or 12% of total demand. Gold has electronic, industrial, dental, imaging, therapeutic, and medical applications. It is a highly conductive metal that resists corrosion, and it is currently being tested in new diagnostic applications, water purification systems, and clean air technologies across the globe. So, gold is not only a metal that is precious, rare, beautiful, valuable and durable … but also highly useful to mankind.

The Eternal Standard

It is easy to forget that owning gold is not a privilege that we have always had. Within three years of gold's detachment from the dollar back in 1971, the inflation rate soared, markets fell 46%, and gold quadrupled in price. By 1975 President Ford had again legalized private ownership (of more than $100 worth) of gold and American citizens were allowed to actively own and invest in the coveted precious metal again.

It's quite astounding when one considers that this rich commodity that is so readily available to us today in all of its various forms: coins, bars and ingots … has been restricted by the US government twice in recent history. That is perhaps the best testament of the power and enduring legacy of gold.

Gold has served mankind from early civilization, through the Industrial Age, the Machine Age, the Atomic Age, the Information Age, and into the Age of Big Data and Globalization. Through world wars, depressions, recessions, economic contractions, financial expansions, fiscal cliffs and monetary mountains … gold has remained the world's measure of wealth, worth and sound value.

At Lear Capital we make owning gold as simple as a phone call.

Our representatives are standing by help you diversify, protect, and secure your future with the enduring investment of gold.

Give us a call: 1-800-957-4653

REFERENCES:

Bordo, Michael D. [2008] "The Concise Encyclopedia of Economics: Gold Standard." Library of Economics and Liberty. Retrieved on October 23, 2012 from http://www.econlib.org/library/Enc/GoldStandard.html

Chang, Gordon. [January 29, 2012] "Why Are the Chinese Buying Record Quantities of Gold?" Forbes. Retrieved on October 25, 2012 from http://www.forbes.com/sites/gordonchang/2012/01/29/why-are-the-chinese-buying-record-quantities-of-gold/

Clark, Jeff. [July 13, 2012] "Does Central-Bank Gold –Buying Signal the Top is Near?" Financial Sense. Retrieved on October 24, 2012 from http://www.financialsense.com/contributors/jeff-clark/does-central-bank-gold-buying-signal-the-top-is-near

Commodity Online. "Uses of Gold in Science and Technology," 2012. Web 25 October 2012. http://www.commodityonline.com/news/uses-of-gold-in-science-and-technology-44928-3-44929.html

Eberhardt, Doug. [July 15, 2009] "Gold/Euro Connection: Another Nail in the USD Coffin?" Seeking Alpha. Retrieved on October 25, 2012 from http://seekingalpha.com/article/148868-gold-euro-connection-another-nail-in-the-usd-coffin

Lowenstein, Roger. [August 04, 2011] "The Nixon Shock." Bloomberg Businessweek. Retrieved on October 23, 2012 from http://www.businessweek.com/magazine/the-nixon-shock-08042011.html

Phillips, Julian. [September 5, 2012] "Is Central Bank Buying Just a Driving Force Behind Gold or Much More?" Financial Sense. Retrieved on October 25, 2012 from http://www.financialsense.com/contributors/julian-phillips/is-central-bank-buying-just-a-driving-force-behind-gold-or-much-more

Roseman, Eric. [March 11, 2011] "Chinese Gold Demand Could Double Your Profits." The Sovereign Investor. Retrieved on October 23, 2012 from http://sovereign-investor.com/2011/03/11/chinese-gold-demand-could-double-your-profits/

World Gold Council. "Demand and Supply," 2012. Web 23 October 2012. http://www.gold.org/investment/why_how_and_where/why_invest/demand_and_supply/

For those looking to diversify their portfolio,
Lear Capital can provide the assistance you require.
You may contact a representative at LearCapital.com anytime from 9:00am to 6:00pm PST
at 1.800.576.9355 or by fax at 310.571.0194.

We invite any suggestions and feedback on our products and services.

LEARCAPITAL

CORPORATE ADDRESS
Lear Capital, Inc
1990 S. Bundy Dr., Ste 600
Los Angeles, CA 90025

A Lear Capital Publication