SchiffGOLD

WHY BUY GOLD NOW?

A Sober Economic Analysis of the Looming Financial Crisis

THANK YOU...

This report was researched and written by SchiffGold's Precious Metals Specialists, a team of knowledgeable analysts with backgrounds in finance, economics, and business. Of seven Specialists who contributed to this report, three have economic degrees, two have master's degrees, two graduated from Ivy League colleges, and three have degrees in business. They share a deep understanding of Austrian Economics, as well as years of industry experience in precious metal markets. This report builds upon Peter Schiff's economic analysis of the current global economy to determine the intermediate and long-term effects on gold and silver.

Sincerely,

Peter Schiff

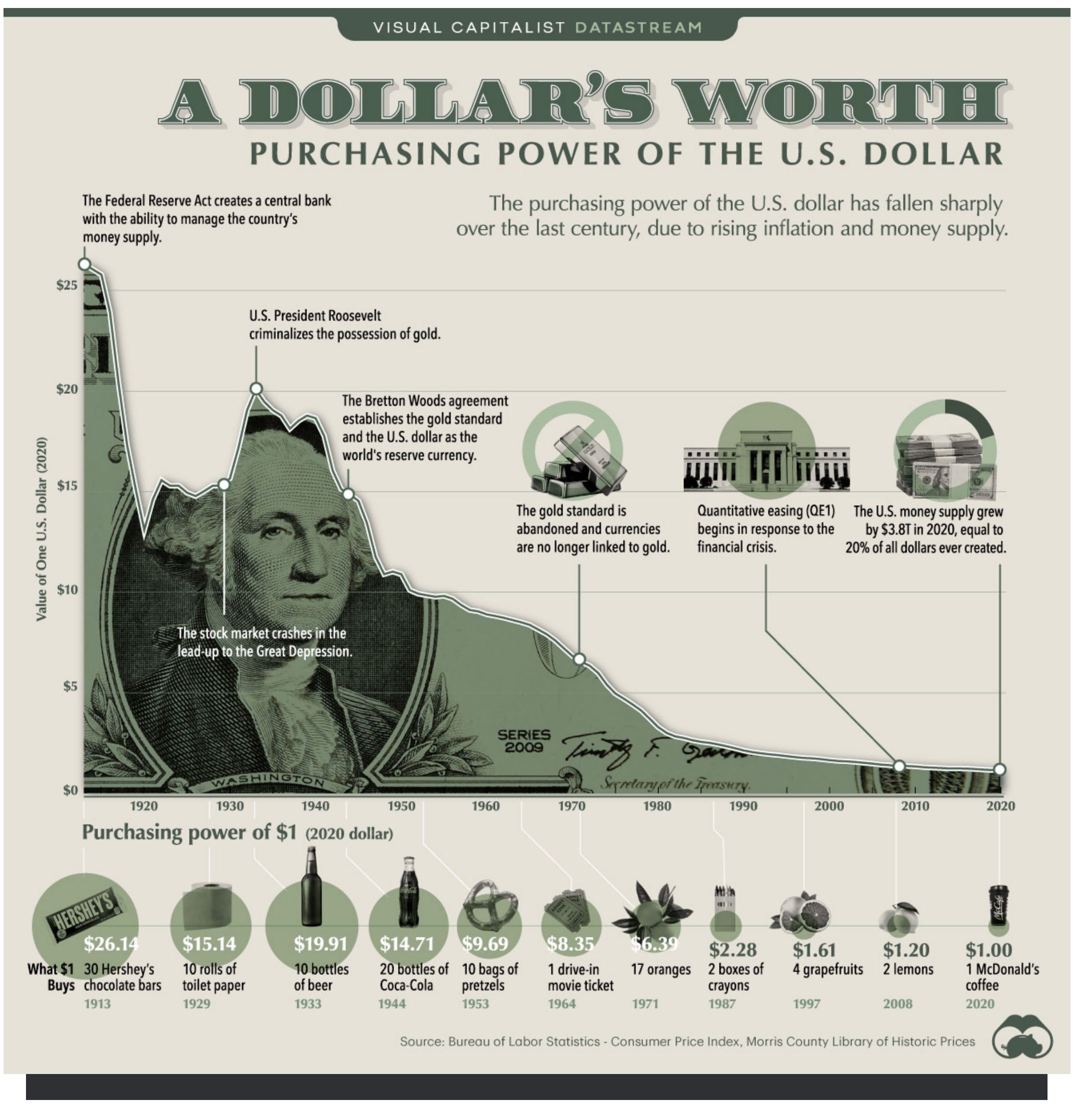
Chairman
SchiffGold

Introduction -
Why Buy Gold?

We see the symptoms of a broken economy all around us. Reckless governments create an ever-increasing debt burden, with neither the means nor the desire to ever repay it. After a 30-year-plus trend of falling interest rates, with negative rates for years in Europe and Japan, price inflation finally caught up with the central bankers in the aftermath of the COVID pandemic. Central banks globally were forced to push rates up, creating an even bigger debt burden for governments, overleveraged corporations, and individuals.

On the plus side, we've seen huge breakthroughs in innovation and technology. These have served to lower the costs of production. This trend should drive a general decline in consumer prices, but they've done just the opposite. Instead of paying less for goods and services, we pay much more.

When we get to the heart of the broken economy, we find a pathology of irredeemable fiat currencies. We are all forced to use money printed on government paper, backed by nothing. These fiat currencies continue to lose value year-over-year-over-year, squeezing families and undermining their ability to save.



Source

As if that weren't enough, recurring boom-and-bust business cycles now plague the world. Engineered primarily by central bank monetary manipulations that distort the economy, each subsequent cycle leaves a terrible swath of economic destruction in its wake. The impacts include bankruptcies, defaults, bailouts, and stomach-wrenching volatility. Losses of 50% or more occur within months, or even weeks. Crashes wipe away speculative gains that looked so good during the boom in the blink of an eye. These aren't just numbers in an account — we are talking about real people's retirement funds, pension plans, inheritances, and life savings!

Despite the chaos produced by each economic crash, the central planners and politicians don't learn the lessons. In fact, they double down on the same policies that precipitated the boom-bust cycle to begin with. This became glaringly clear when the world's central banks predictably responded to the economic chaos caused by government lockdowns during the COVID-19 pandemic by revving up the money printing presses to warp speed.
Each recurring crisis becomes progressively more generalized, more painful, and leaves behind more collateral damage than the one before. More and more capital gets destroyed, while less and less is produced in the subsequent boom.

In today's economic climate, asset speculation has all but replaced savings. Asset bubbles created by central bank monetary policy encourage it. This is a zero-sum game, putting precious capital into higher-risk/lower-reward scenarios. Yet many people who are trying desperately to save for the long term can't afford to take those risks. As a result, gambling in the stock market casino and waiting to earn a few more percentage points from equities could prove a costly decision in the long run.

Tragically, the chief culprits driving these trends show no signs of reversing course. Instead, central planners and big-spending politicians plow recklessly ahead. It's almost as if they have committed themselves to wholesale economic destruction.

In light of these troubling realities, it is essential to own hard assets.

Hard assets offer protection from the growing risks inherent in the modern financial system. And of the hard assets, physical gold is the most liquid. It is easy to store and trade. You can hold it outside the banking system – hedging your capital against bank bailouts and bail-ins, sovereign government debt default, and currency collapse. Physical gold has no counterparty risk. This means the owner doesn't have to rely on anyone else to redeem or deliver the asset – or to keep it solvent. A bullion coin simply is what it is – a piece of valuable metal desired the world over.

If you have considered the merits of owning gold, but have never taken the first step, or if you already own gold and are considering adding to your holdings, then this report is for you. Read on and you will learn powerful reasons why right now is the best time to invest in physical gold.

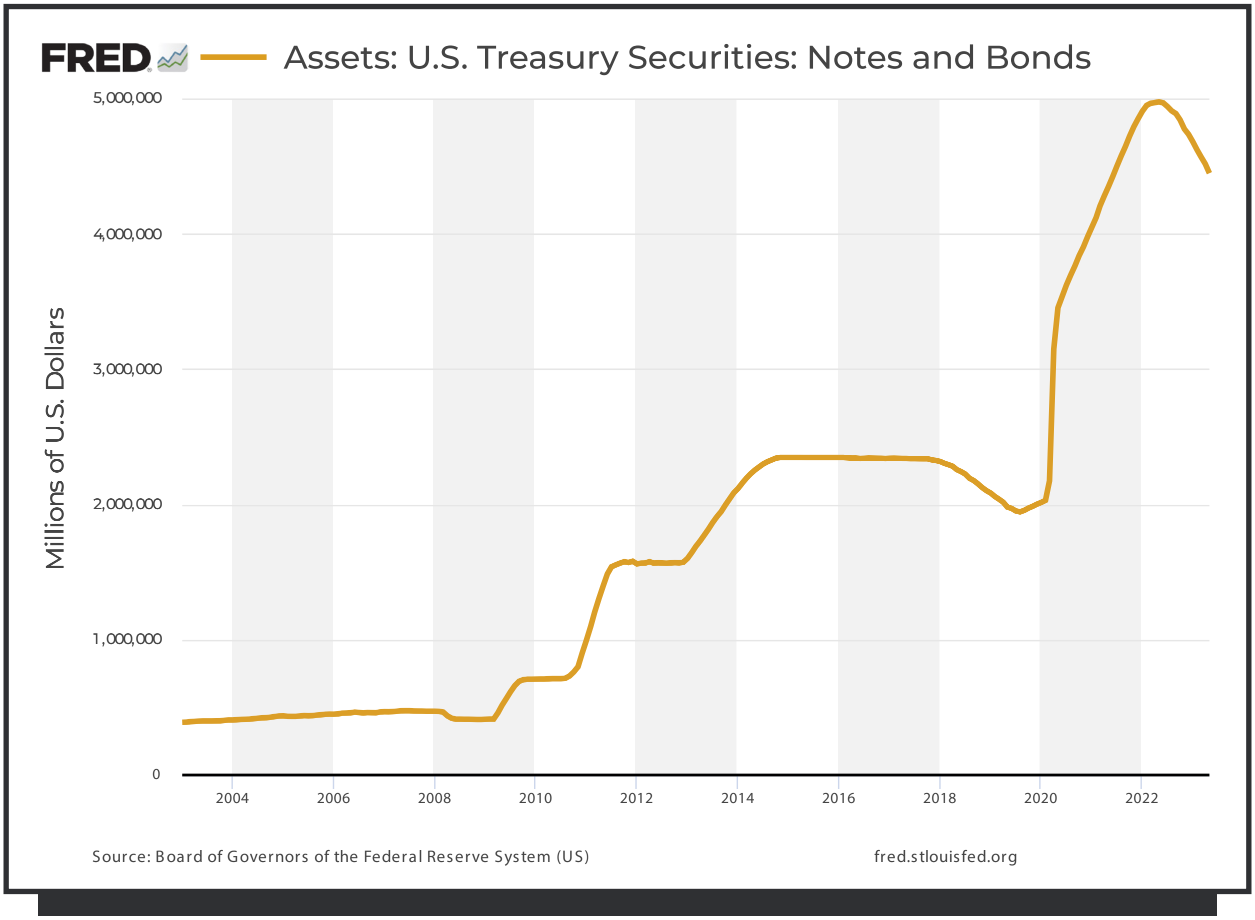
Why Now? Because Right Now Is a Superb Buying Opportunity Before Things Really Go South

When the Federal Reserve first started tightening monetary policy stock markets went into a bear market, but in the spring and summer of 2023, stock markets resumed their climb on the promise that the Fed would beat price inflation and provide more easy money in the future. As a result, many stocks remain overvalued, and a significant crash could be on the horizon. That means there is still an opportunity to take gains in stocks and convert them into gold.

There were already problems before COVID-19 and the deluge of price inflation that followed.

We saw tremors in the markets in the fourth quarter of 2018. As the Federal Reserve moved to normalize interest rates and shrink its balance sheet after nearly a decade of extraordinary monetary policy in the wake of the 2008 financial crisis, stocks fell precipitously and the price of gold rose. In early 2019, the Fed rushed to the market's rescue, ending its rate-hiking policy in what became known as the "Powell Pause." Assured that the easy-money spigot would keep running, stock markets resumed their climb.

But the "Powell Pause" wasn't enough. The Fed cut rates three times in 2019, pivoting back to loose monetary policy even in the midst of what many pundits called a "booming economy." Not only that, it relaunched quantitative easing (When the central bank buys Treasury bonds and mortgage-



backed securities with money created out of thin air), although the central bankers kept insisting it wasn't QE.

That's the dirty little secret. Most people assume the Fed started growing its balance sheet again as an emergency measure in response to the COVID-19 pandemic. But the balance sheet was already back above $4 trillion before the coronavirus pandemic ever gripped the US economy.

In response to the economic contraction caused by government lockdowns to fight COVID, the Federal Reserve took quantitative easing to an unprecedented level. As of 2022, the central bank's balance sheet had grown to nearly $9 trillion as the Fed expanded the money supply at a record pace. The only time that even comes close was during the stagflationary years of the 1970s.

After crashing in March 2020, the stock market took off again with the winds of financial stimulus in its sails. American stocks set new records in 2020 despite the recession caused by government shutdowns and coronavirus panic.

In fact, the stock market became completely untethered from economic reality. Despite high unemployment, businesses shutting down permanently, surging debt, and dismal economic data, stock prices continued to climb. Political realities didn't matter either. Many people thought the stock market soared because of Donald Trump's policies. But it kept right on climbing after Joe Biden won the 2020 election, even though everybody knew he was going to unwind most of those policies.

The stock market's record climb had nothing to do with Donald Trump or Joe Biden. It was purely a Fed-fueled bubble. As Peter Schiff put it, Wall Street knew it.

> *"Investors knew that despite the change in the White House, there would be no change to Fed policy. They know that the central bank would keep on printing money; they would keep interest rates artificially low, in order to sustain asset bubbles."*

Predictably, the money printing and stimulus fueled a surge in consumer prices. At first, the central bankers at the Fed insisted inflation was "transitory." When it became clear that wasn't the case, the central bank began tentatively tightening monetary policy.

Stocks dipped into a bear market. But as the Fed pushed rates toward 5%, to fight sticky price inflation, market sentiment began to shift. Investors figured the rate hikes were about over and a mild recession would put the final nail in price inflation's coffin.

Why Now? Because Right Now Is a Superb Buying Opportunity Before Things Really Go South

At some point, the bubble will pop and the next crisis will begin in earnest. There will be a recession, but it's highly unlikely it will be short or shallow. As Peter Schiff has pointed out, the bust is generally commensurate with the boom. And we had one heck of a boom. That means we're due for one heck of a bust.

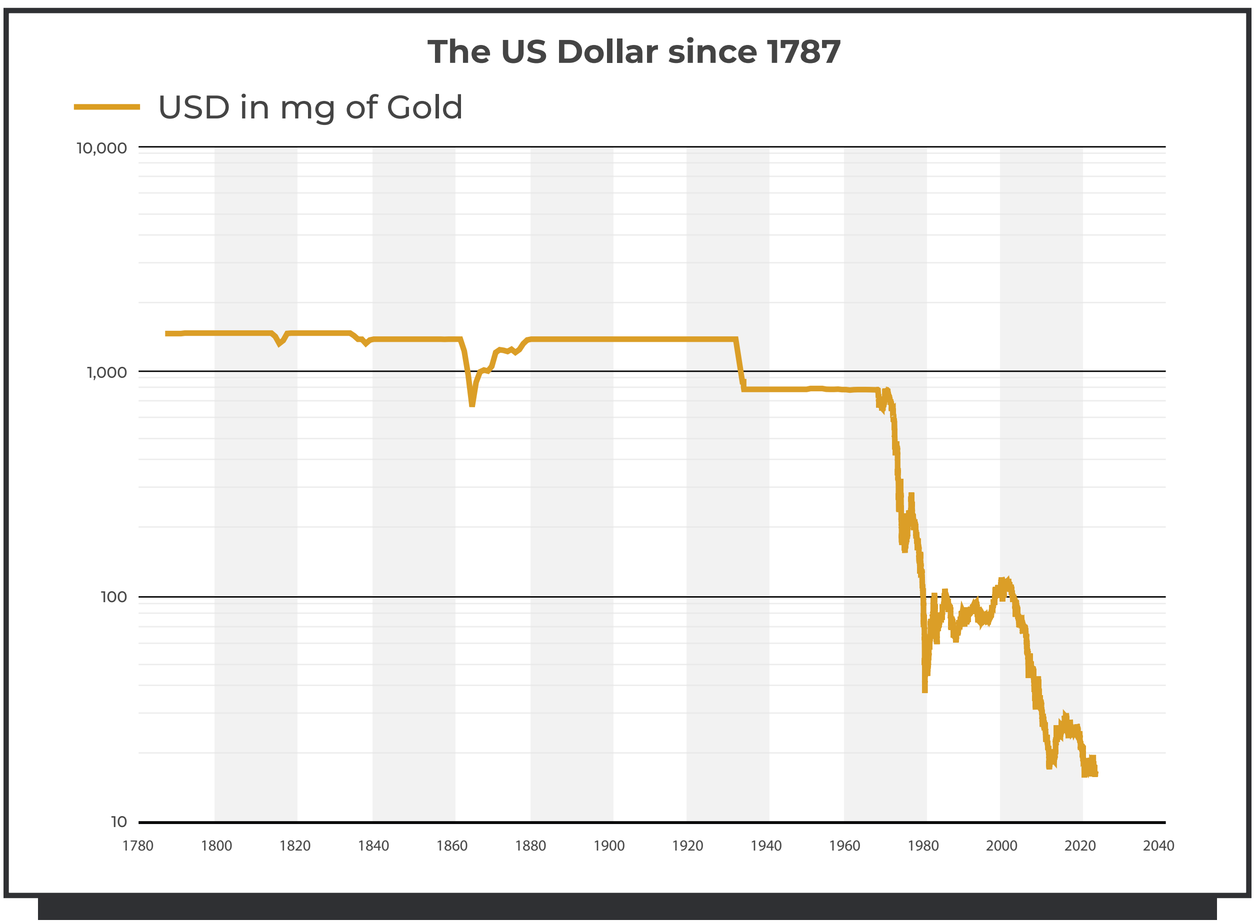
When it arrives, we expect to see a rapid and substantial flight into the safety of gold.

We got a preview of this in the early days of the pandemic as the flight to safe haven pushed the price of gold to a record of over $2,000 an ounce in August 2020. The Fed managed to rescue the market with its unprecedented monetary policy and the gold bull run paused. People generally think the Fed has things under control.

But does it?

As a result, waiting until the bubble pops and the markets go into freefall could prove to be a costly decision in the long run. Just like in Las Vegas, winning is only half the battle – the other half is in knowing when to cash out.

The financial media will vehemently disagree. Basically ignorant of monetary economics, mainstream pundits remain perennially convinced that this time the US markets have reached sustainability. Therefore, gold investment is



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unnecessary. Frankly, it goes even a bit beyond this. Big shots on Wall Street hate gold because it is the only asset that doesn't require their "management." On top of that, it lays bare the market distortions created by their central banker allies.

But however passionately they may believe in the goodness of inflation and the evil of gold, reality always catches up with them – and with all of the investors foolish enough to follow their lead. The good news is that investors wise to this dynamic can increase their profits by buying gold while the mainstream revels in peak mania.

In other words, now is the time to buy gold, while the mainstream still perceives it as a weak, underperforming, and undesirable asset. If you wait until this perception changes, you will pay a substantially higher price as gold starts to gain mainstream favor. We believe this is almost a certainty as the economy's underlying structural problems come to light.

The Wildness of Central Bankers – Who Knows What They'll Do Next?

While central banks were ostensibly established to prevent financial panics and keep the economy stable, they actually introduce the ultimate uncertainty into the system – a group of unpredictable, fallible human beings with the power to make arbitrary decisions that can radically alter the entire economy. The truth is that no one can possibly know or predict what central banks will do next – not even central bankers themselves! The only certainty is that they will always print more money. The last several years provide countless examples of monetary madness wreaking havoc on the markets, along with individual and company balance sheets.

Cyprus and Switzerland provide two examples.

The Cypriot financial crisis in 2012-2013 was part of a domino effect as the 2007-2008 financial crisis in the US spread into the Eurozone. Cypriot banks were simultaneously overleveraged and overexposed to toxic foreign government debt – primarily Greek. The "fix" was a €10 billion bailout by the ECB and IMF. But it came with a heavy price.

The plan required closing down Cyprus' second largest bank and imposing a one-time bank "levy" on all uninsured deposits above €100,000. While it was technically called a "levy," it was nothing more than an outright seizure of funds. The bank's depositors thought their money was safe and secure. It wasn't. They literally saw their savings vanish before their eyes in just a matter of days. Stop and think about what happened. The central bank seized depositors' money with no intention of ever paying it back.

These events didn't happen in some third-world dictatorship. They happened in a modern democratic country located in the Eurozone. What's worse, the government announced the plan during

a bank holiday. Depositors couldn't withdraw their funds even if they wanted to. They were blindsided and paid dearly for placing their faith in the banking system.

The Swiss central bank provided us with another poignant example of monetary madness when it removed the Swiss franc-euro peg.

As late as December 18, 2014, the Swiss National Bank (SNB) publicly maintained its intention to maintain the peg at all costs. Less than a month later, the SNB chairman came out with a surprise announcement.

"The SNB has decided to discontinue the minimum exchange rate of CHF 1.2 per euro with immediate effect and to cease foreign currency purchases associated with enforcing it."

Afterward, the franc spiked. The euro fell. And anyone who had taken the SNB at its word saw their fortunes plummet. Some currency trading firms went bust within hours of the announcement. Others took huge losses and had to fight an uphill battle just to stay in business. Some didn't make it.

Welcome to the central bankers' economy, where investors can go to sleep rich and wake up penniless.

No one knows what kind of disaster central bankers will cook up next or when it will happen. Fortunately, precious metals offer protection against central bank madness. Gold can't be printed and devalued by central bankers, and its value is determined purely by the marketplace, not by the maneuverings of politically connected Ph.D. economists and government officials.

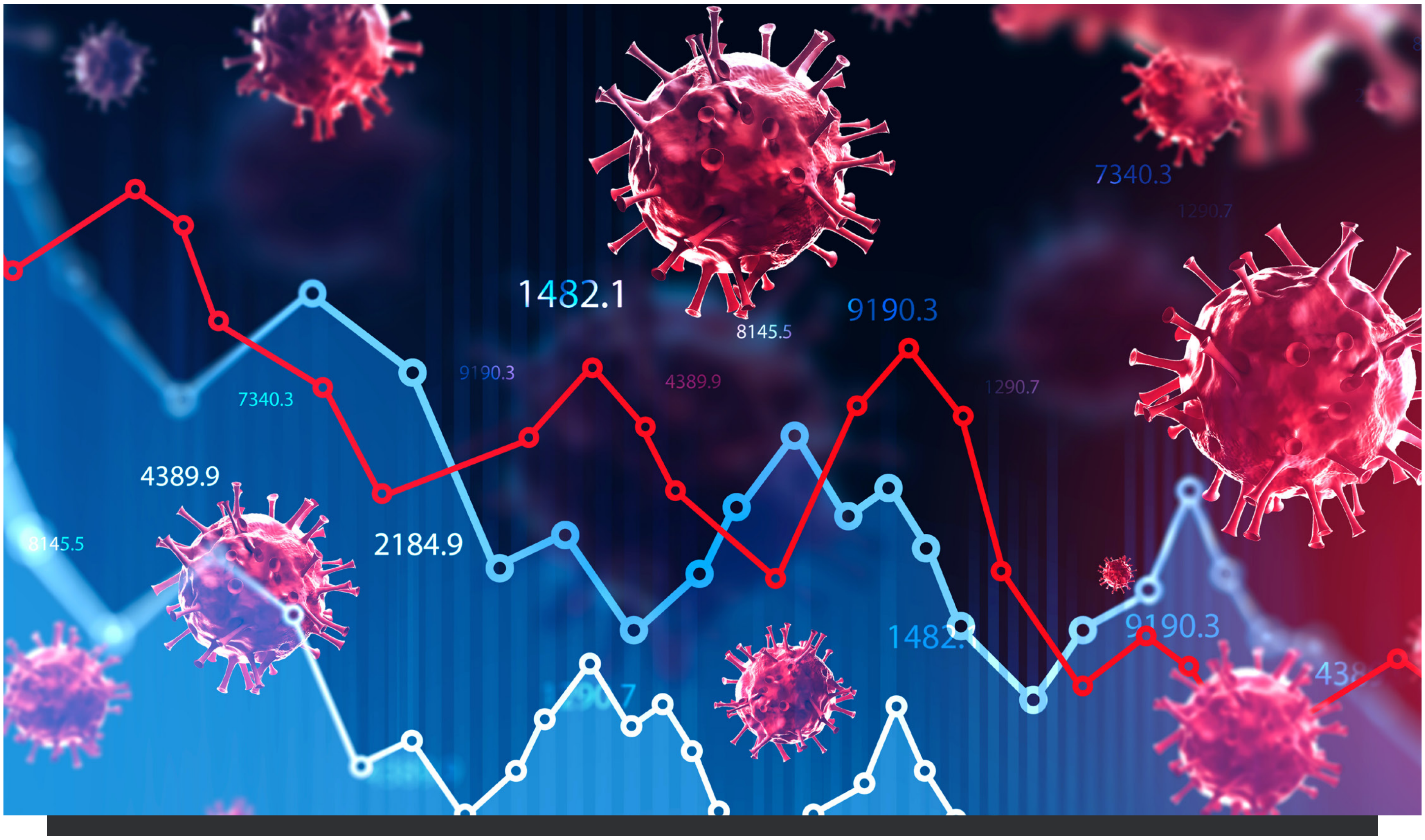
Why Now? The Next Bust Could Be the Mother of All Busts

They call 2008 the "Great Recession." It was certainly bad, but we actually believe the next crisis will be much worse because it will involve sovereign debt defaults and collapsing currencies.

The Federal Reserve swallowed up all of the malinvestments of the 2008 financial crisis and plastered them on its balance sheet, expanding it to a historically unprecedented size.

When then-Fed Chair Ben Bernanke launched quantitative easing in '08, he insisted the Fed was not monetizing debt. He said the difference between debt monetization and the Fed's policy was that the central bank was not providing a permanent source of financing. He said the assets would only remain on the Fed's balance sheet temporarily. He assured Congress that once the crisis was over, the Federal Reserve would sell the assets it bought during the emergency. The Fed did start to shrink its balance sheet in 2017, but it didn't last long. When Jerome Powell announced the end of quantitative tightening in 2018, almost all of the mortgages and Treasurys that the Fed purchased as part of its three rounds of quantitative easing during the Great Recession remained on its balance sheet.

And then came the COVID-19 pandemic. The Fed doubled down on the craziness of 2008 with what some have called QE infinity. In the process, the central bank pushed its balance sheet from a massive $4 trillion to an even more massive $9 trillion in less than 18 months.



Why Now? The Next Bust Could Be the Mother of All Busts

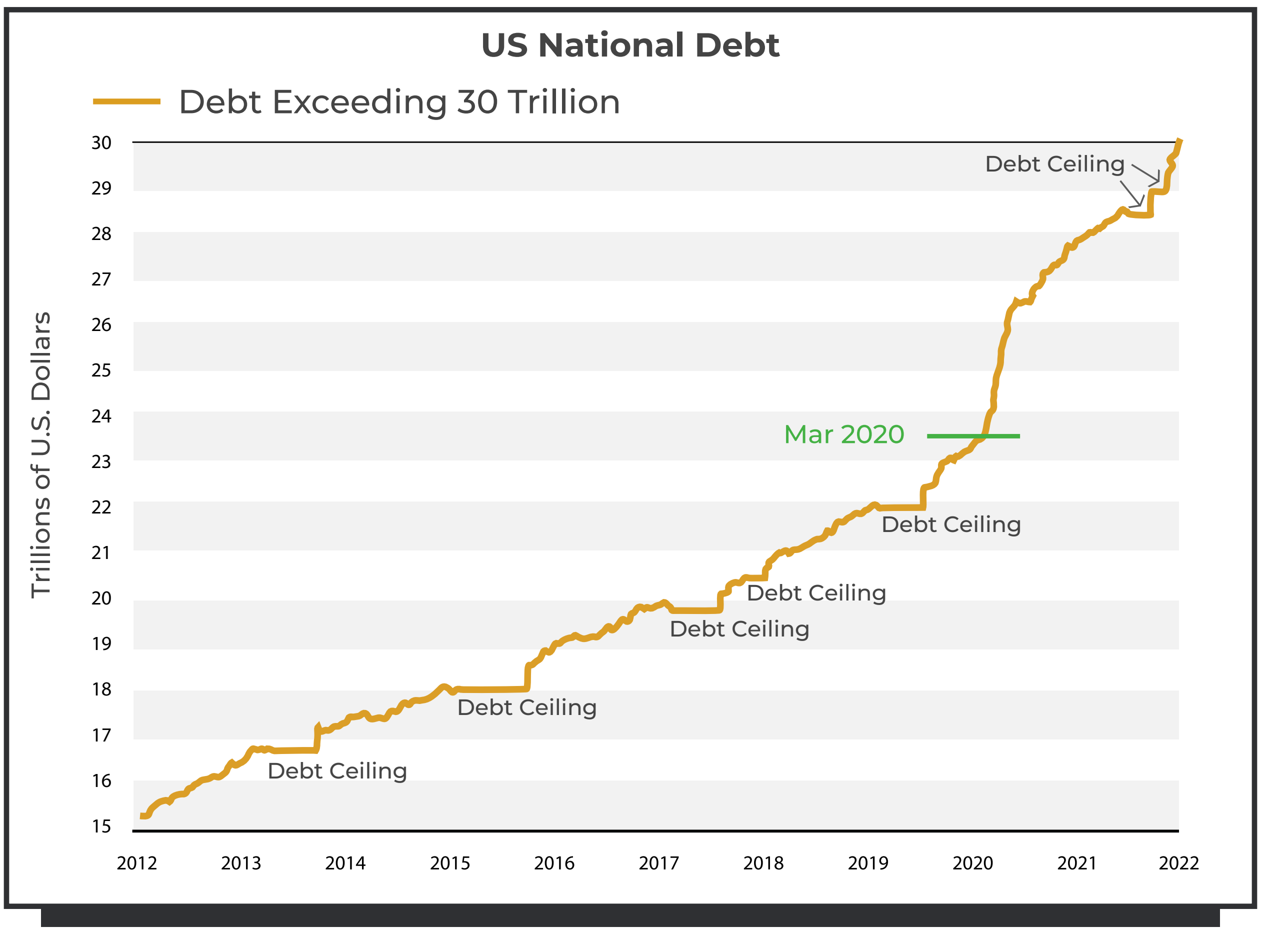
When any central bank loads up the asset side of its balance sheet with illiquid, undesirable assets and trillions in government bonds, it endangers its own solvency, along with the credibility of its currency. The dollar still functions as the world's reserve currency, so when the Federal Reserve flirts with bankruptcy and default, it takes the entire world one step closer to the mother of all economic busts.

In every cycle, a percentage of distorted capital from the preceding boom phase lives on. This ensures further distortion in the next phase. Any asset class with a rising price becomes a target for the contagion of easy money flowing from the central bank.

The cumulative effect of this decades-long merry-go-round means every subsequent crisis is deeper than the previous and comes with more destructive baggage.

The market for government debt serves as a prime example. US Treasurys have been in a three-decade bull market. In other words, interest rates have been on a downward trajectory for over 30 years. This is clearly unsustainable. We've seen falling bond prices and rising rates as the Fed has tightened monetary policy. Eventually, Treasurys will reach a tipping point, and the consequences will no doubt be much graver than the end of the housing or dot-com bubbles.

Meanwhile, the federal government has run up a record level of debt. The US Treasury must sell



US Treasury Dept.

more and more bonds to service the debt. The pace of borrowing accelerated in response to the pandemic.

The US government ran a $1.38 trillion budget deficit in fiscal 2022 despite a winddown of COVID programs and government receipts at near-record levels. At some point, the supply of Treasurys will begin to outstrip demand. That could mean rising interest rates no matter what the Fed does.
Imagine what will happen when interest rates start rising again, against a backdrop of the most government debt on record in history!

This is precisely why the Fed can't ever exit from extraordinary monetary policy in the long run. It has to keep buying bonds with money created out of thin air to monetize all of Uncle Sam's borrowing. If it stops, interest rates will spike and the US government won't be able to sustain its borrowing and spending. But if it doesn't stop, it runs the risk of pushing the US into hyperinflation and ultimately crashing the dollar.

Even after the Fed pushed rates up beginning late in 2015, interest rates remained at abnormally low levels. And when the pandemic gripped America, the Fed quickly went back to zero percent interest rates as the government ramped up its borrowing. It will almost certainly repeat this pattern when the next big recession hits.
Even as the pandemic fades into memory, there is no end in sight to the spending. The deficits shrank in 2023 as pandemic programs ended, but the US government continues to blow through nearly half-a-trillion dollars every month.

Think about it -- which popular programs do you think politicians in Washington will cut to service these Treasury notes? Medicare? Social Security? Defense? More likely, it will continue the current path – also popular among all other developed

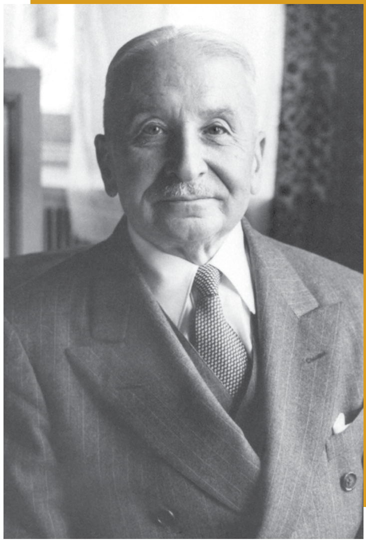
nations – of taking out ever more debt to pay back the existing debt. If you do that with a credit card, you know where you'll end up – bankruptcy.

The same goes for governments.

A number of municipalities have already declared bankruptcy, including Stockton, California; San Bernardino, California; Harrisburg, Pennsylvania; Jefferson County, Alabama; Central Fall, Rhode Island; and Detroit, Michigan. Now, whole states – including Connecticut, New Jersey, and Illinois – are teetering on the brink of insolvency. Next will be the federal government itself.

Renowned Austrian economist Ludwig von Mises understood the dangers we face today. His words are both instructive and prophetic.

"There is no means of avoiding the final collapse of a boom brought about by credit expansion. The alternative is only whether the crisis should come sooner as a result of a voluntary abandonment of further credit expansion, or later as a final and total catastrophe of the currency system involved."



Ludwig von Mises

Austrian School economist, historian, logician, and sociologist.

Source

Despite Peter Schiff and others repeatedly warning that further central bank interventions will only serve to postpone the day of reckoning a little longer – and make it much more painful when it comes – central bankers around the world refuse to listen. They continue to intervene in unprecedented ways. Politicians continue to kick the can down the road. Eventually, they will run out of road.

Now we find the fundamental problems much worse. The debt is bigger; the risk is greater; and the consequences are direr. Unfortunately, if you own paper currency, you are a creditor holding this bad debt. That puts you at grave risk when it eventually defaults.

Why Now? The So-Called Economic Recovery Is a Ticking Time Bomb

Most people assume the economy recovered after COVID-19. But there can be no true economic recovery unless we address the fundamental problems outlined so far in this report in a meaningful, honest way. To this date, this hasn't even begun to happen. That means any so-called "recovery" will prove illusory.

In fact, the so-called post-2008 crisis recovery was a shell game. Donald Trump and many pundits called it the greatest economy in the history of America, but the reality never lived up to the hype. GDP growth in the Trump era was comparable to GDP growth in the Obama era – and it was tepid at best. And the Fed's easy money policy with its low interest rates drove what little economic growth we've seen. Federal Reserve policy wasn't a millstone wrapped around the economy's neck. It was a hydraulic jack propping it up.

As we've already discussed, the economy was showing cracks in 2019, forcing the Fed to do an about-face on monetary tightening. Then the pandemic provided just the cover the central bank needed to inject a massive dose of monetary stimulus into the system. This gave us a temporary reprieve but it also exacerbated the problems – adding more debt and more easy money to the system.

Central bankers are masters of deception. The way they engineered a phony recovery prior to the pandemic was masterful work on their part. By shifting everyone's focus to peripheral metrics, like CPI numbers, unemployment, and housing starts, they've taken the focus away from the real issues: ever-expanding debt, asset bubbles, and the

artificial boom-bust cycle.

Keynesian economic theory is the Kool-Aid of choice for central bankers. They favor active Keynesian top-down policies as they attempt to engineer a perpetual boom.

Booms create a wealth effect: nominal asset prices rise, and everyone feels richer when they look at their ballooning portfolios and growing bank account deposits. When reality inconveniently interrupts this effect, the prescribed response is to re-stimulate the economy and attempt to kick off another boom period through another round of aggressive money printing and spending. However, to call this re-engineered boom phase a "recovery" is deliberately misleading.

Ultimately, when the central bank floods the market with more currency, it simply inflates new bubbles and sets up the next collapse. This was true of the boom preceding 2007-2008, and it's all the more true now. Though many Americans continue to enjoy the peak of the latest wealth effect bubble that they blew up even bigger in response to the pandemic, there will be a time soon when they will have to pay the piper.

Eventually Gold Owners Will Be Unwilling to Accept Dollars for Gold at Any Price

Imagine if the dire predictions described above come to pass. What will happen to the gold market? As the dollar starts to collapse, a rush of people will begin trading their rapidly depreciating paper dollars for as much gold as they can buy. As the situation deteriorates, gold owners will demand ever-higher prices. Eventually, no dollar amount will be high enough to entice somebody to give up what will become the only reliable form of money: precious metals.

Think 1920s Weimar Republic.

The Weimar Republic's currency was more valuable as a children's toy than a means of exchange thanks to hyperinflation in the early 1920's.

Any number of events could trigger this kind of cascading default. And history shows it often happens without warning or announcement. As James Rickards points out in The Death of Money:

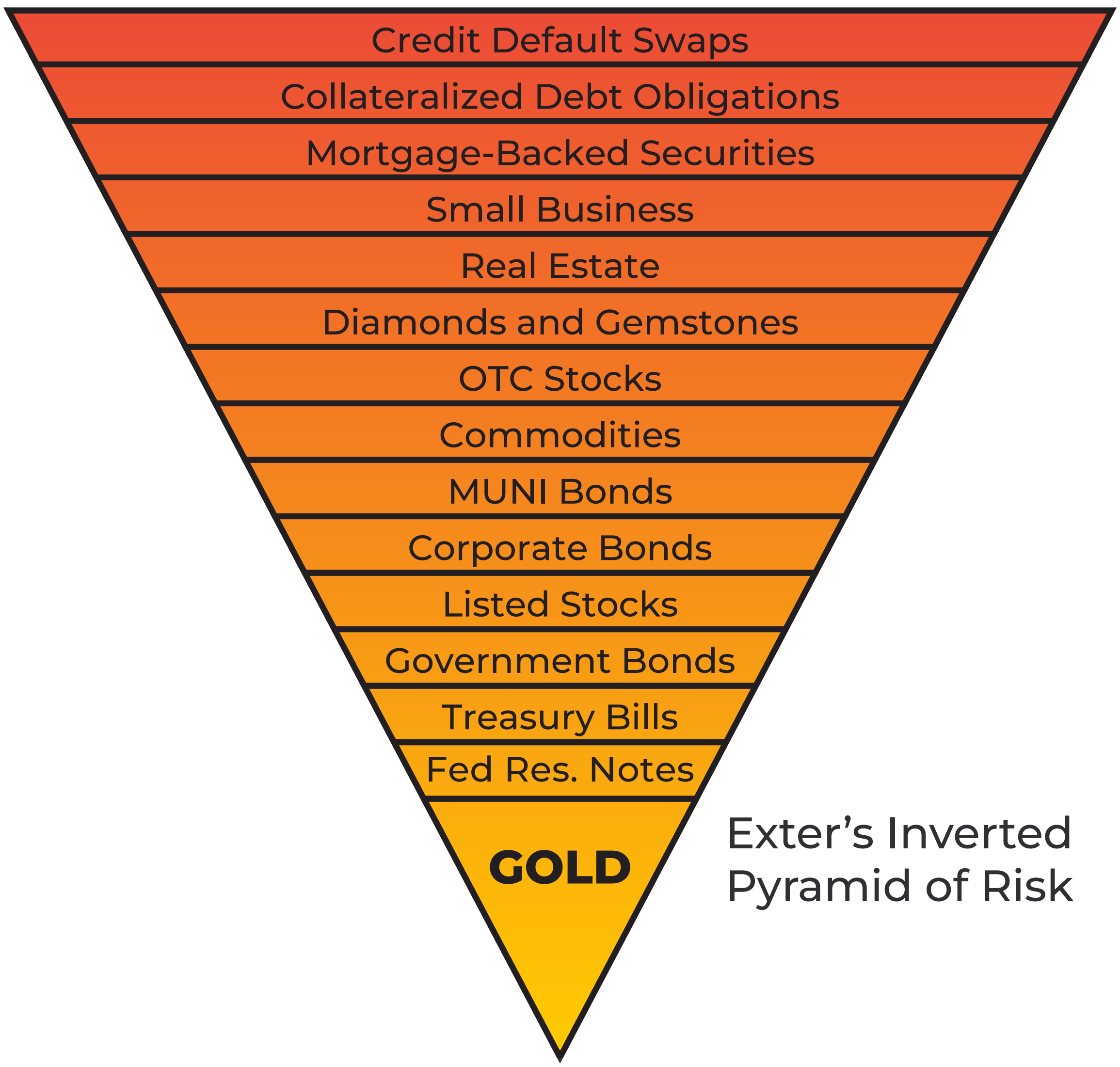
"The International Monetary System has collapsed three times in the past century – in 1914, 1939, and 1971. Each collapse was followed by a tumultuous period."

How the Gold Market Functions Normally Compared to Periods of Financial Crisis

The vast majority of investors still don't believe any grave problems exist in the economy. Sure, they recognize the problems caused by the COVID-19 pandemic. They view price inflation as an issue. But they all expect a quick bounce-back and believe the Fed basically has things under control. Since there's fundamentally nothing to worry about, the market settles normally most of the time. However, this is an illusion. We are not in a normal economy at all. When the distortive and destructive effects of central bankers begin to manifest themselves in earnest, the increased demand for gold will be swift and strong. And once the mainstream realizes what is happening, the collapse will accelerate rapidly.

In our debt-based system, it only takes a couple of key companies or countries to default in order to start the domino falling. When it happens, we'll see a scramble for an asset with no counterparty or third-party risk -- physical gold.

As Exter's famous inverse pyramid of risk shows, during periods of crisis, capital moves further and further down the chart. As things deteriorate, capital flies away from high-risk, low-liquidity assets, into low-risk, high-liquidity assets. Gold sits at the narrow base of the pyramid because it represents the only liquid asset not simultaneously someone else's liability – and because it is much scarcer than the other asset classes. When a liquidity crisis erupts, this pyramid collapses as investors sell the higher order assets to rush to safety. As you can see, there are a lot of paper assets that will be chasing a limited pool of hard assets.



Exter's Inverted Pyramid of Risk

Conclusion - Buy Gold Now

The Right Asset.
For the Right Reasons. Right Now.

For most of human history, gold served as the cornerstone of every household's wealth. It was never a "trade" or a "play."

It was money.

People saved it.

While legal tender laws and other pernicious legislation have effectively pushed gold out of circulation, it has never stopped performing its function as a store of value. And it continues to do so today, evidenced by people's desire to own it, even as its price has climbed some 535% since 2000. In fact, the world's central banks still hold large amounts of gold as their ultimate reserves – and many continue to stockpile the yellow metal.

In today's world, the printed pieces of paper we call money represent someone else's liability. Each Federal Reserve note carries the counterparty risk inherent in insolvent central banks and bankrupt governments. Gold offers security and protection for your precious capital against the instability and destruction brought on by interventionist monetary policy. Gold is not an empty promise to pay something in the future.

Gold is gold. Gold is money. An ounce is an ounce. You either own it or you don't.

In light of this pure and simple reality, it doesn't pay to get distracted by daily price movements or to obsess over trying to time the market just right. You might think you'll sell and get big-dollar profits when gold rises to $5000, but this is dead-end thinking.

No, the economic problems we face today are much more serious and systemic, and the dollar sits at the very heart of them all. You cannot overestimate the devastation of the looming global monetary crisis and the ensuing economic collapse it will bring with it. As a result, it's no overstatement to say that buying gold might be the single most important financial decision of this generation.

During normal market conditions, Peter Schiff recommends putting 5-10% of your capital into physical precious metals, and maintaining that allocation as your portfolio grows. But these aren't normal market conditions. In fact, we haven't experienced "normal" for some time. Because of this, a higher allocation may be more suitable for you.

Right now is a great opportunity to take out the best financial insurance policy available: physical gold delivered to your door or stored in a high-security domestic or international vault.

Appendix - Signs That the FIAT System is Coming to an End

Government bonds represent promises to pay out currency at a future date. Central bankers have become some of the largest buyers of government bonds. The more they buy, the closer we come to the monetary system's unraveling.

If there is no market for government debt outside the central bank, it follows that the underlying asset is becoming less and less liquid. That means it's less marketable. This implies the Treasury is in danger of illiquidity and insolvency. If the central bank continues to buy bonds to keep the Treasury afloat, this can become a vicious cycle that leads to hyperinflation.

In Japan, this is already occurring. The Bank of Japan's 2014 stimulus package included language that allowed the bank to buy up to 100% of the bonds at new issuances. Japan is much closer to the end of its system than most people realize.

The US isn't far behind. During the various QE programs in response to the Great Recession, the Federal Reserve purchased as much as 90% of the Treasury Department's issuance at auction. It averaged around 60-70% of the total market.

As the QE programs wound down, the Federal Reserve owned around 13-14% of all outstanding Treasury debt and around 18% of all mortgage-backed securities (MBS). The Fed expanded its balance sheet by over $3 trillion after the 2008 crisis.

And in response to the coronavirus pandemic, the central bank took quantitative easing to new heights. The Fed bought $1.56 trillion in Treasuries in March and April 2020 alone. During that same time period, the US Treasury issued $1.56 trillion in bonds. In other words, the Fed effectively monetized 100% of the new federal debt accumulated in March and April of that year. The central bank's balance sheet ballooned to over $7 trillion.

Monitoring how much government debt the central bank accumulates is a good indicator of how close we are to a currency crisis.

In 2008, the central bankers claimed these bond purchases were temporary emergency measures. They said they would eventually shed them from the balance sheet once it rescued the economy. The Fed did shed some of its bond holdings during its short-lived tightening run, but most of those bonds were still on the central bank's balance sheet when it responded to the new emergency presented by COVID-19.

In effect, the Fed monetized the US debt during the Great Recession. And it doubled down on debt monetization during the coronavirus pandemic.

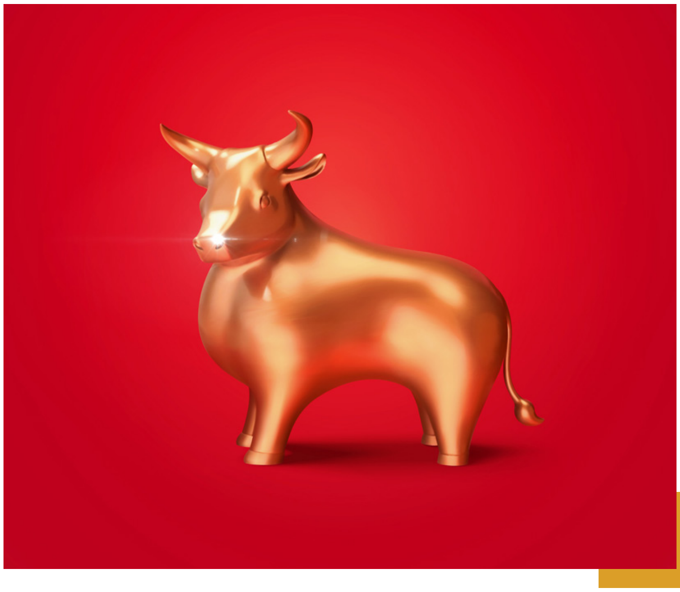
Appendix - Signs That the FIAT System is Coming to an End

Long-Term Interest Rates Go to Zero: The Illiquid Central Bank

Illiquidity, and its closely related cousin insolvency (total liabilities > total assets), can creep into a bank long before it comes under selling pressure. Consider the following statement by famous economist Melchior Palyi of the University of Chicago:

> *"A liquid structure never liquidates; only the illiquid one comes under the pressure of liquidation. 'Perfect liquidity' means that, for any length of time, all financial obligations are fulfilled without net liquidation of capital. A liquid society has adjusted its obligations to the flow of its income, both in amounts and in maturity dates, so that forced sales should not occur."*

Illiquidity can arise from a number of different factors, but a typical cause is borrowing short to lend long. This is a classic duration mismatch, meaning the revenue generated from long-term assets is used to service short-term debts.



This works only for a time. Once the spread compresses – and it always must – the bank comes under liquidation pressure, as the revenue from the long end of the curve is no longer sufficient to pay the short end. A close look at the balance sheet of the Federal Reserve during QE3 in 2014 revealed that the average duration of its assets falls in the range of 108 months, or 9 years. This is a much longer maturity timeline than the Fed has historically had for its assets.

Considering that nearly all of the Fed's liabilities are short-term, this poses a significant problem, especially in a higher interest rate environment, or if longer-term yields fall. In other words, the Fed could have a big problem on its hands with no exit strategy. Daniel Oliver Jr., President of the Committee for Monetary Research and Education, put it succinctly:

> *"The enormous maturity mismatch between the Federal Reserve's assets, which are now mostly long term, and its liabilities, which are all current liabilities, promises large losses when interest rates finally rise."*

Through this strategy, the Federal Reserve has put itself, along with the entire global monetary system, on a dangerous trajectory. Monitoring long-term yields offers a good gauge as to how close we are coming to the Fed's day of reckoning.

Appendix - Signs That the FIAT System is Coming to an End

A Growing Stocks-to-Flow Ratio in Gold Market

There is no commodity on earth like gold. Yet despite the seemingly infinite number of commentators pontificating about it, gold remains one of the most misunderstood markets. The majority of pundits fail to take into account gold's unique stocks-to-flow ratio. This compares current above-ground inventories of the metal (stocks) to the amount of new metal brought into the market annually (flow).

This ratio demonstrates that the demand for gold has been historically consistent, and continues to be so. The gold market absorbs decades of additional annual production without any problem. Compared to the total above-ground supply, annual production represents only a proverbial drop in the bucket.

Since gold is only saved and not consumed – unlike, say, oil or grain – newly produced metal from mines does not drive dramatic swings in price.

The gold price is more likely to be determined by the volume of buyers and sellers in the market. The demand for gold to hoard for the future is called reservation demand. As the dollar continues to decline along with other fiat currencies, reservation demand should increase. Because gold's stocks-to-flow ratio is so high, this preference for hoarding over selling by existing gold owners will likely have a dramatic effect on price levels.

This is alreadystarting to happen now!

Many investors aren't aware that hoarding isn't some far-off, future phenomenon. It's already happening today. There are a growing number of people buying physical gold with no intention of selling it for dollars, or any other broken currency for that matter. Foreseeing what's to come, they are wisely storing the metal for the long term. They understand the fundamental problems of the economy, and they are taking the appropriate and available steps to protect and preserve their capital. As more and more of these fundamental buyers come to market, more and more gold will be taken off the market. This is a strong bullish signal for gold in the years to come.