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THE BIG SECRET ON WALL STREET

Electronic Gold

- With a Limited Supply, This Store of Value Can Only Go Up in Price
- The Best Performing Asset of the Last Decade

FROM THE DESK OF PORTER STANSBERRY

SPECIAL REPORT

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Electronic Gold

With a Limited Supply, This Store of Value Can Only Go Up in Price

The Best Performing Asset of the Last Decade

William Simon was on a secret mission.

And his famously vituperative boss – President Richard Nixon – had made clear that failure wasn't an option.

Simon, a former Salomon Brothers star bond trader, was no stranger to high-stakes pressure. But in his (inadvertent) role as Nixon's secret agent, failure meant a lot more than a losing trade or a ding to his bonus – because he'd be negotiating with a government that had no problem cutting off people's heads (or other body parts).

But it was far more than that: America's national economic security depended on a clandestine four-day layover Simon would be making in Saudi Arabia, in July 1974.

The story started in the 1960s, when President Lyndon B. Johnson went on a **spending spree**. He radically expanded U.S.-government social programs, including Medicaid and Social Security, and then poured even more cash into the Vietnam War. By the early 1970s, all that spending had created an inflationary firestorm.

Watching from the wings, foreign governments like France and Switzerland got spooked.

As part of the Bretton Woods agreement in 1944 that formalized the U.S. dollar as the global reserve currency, foreign governments holding dollars had the option to redeem the U.S. currency for gold. And as the U.S. dollar lost its value in the wake of LBJ's spending – inflation broke above 2% in 1965 and went up in a nearly straight line to 6% by 1970 – they started cashing out... trading in pallets of dollars for bars of the precious metal.

France was the first mover, announcing its intention to convert its U.S. dollar reserves for gold in 1965. In May 1971, West Germany exited the Bretton Woods exchange agreement. In June Switzerland redeemed $50 million in gold, and withdrew $191 million in gold from the U.S. Treasury.

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On August 15, 1971, LBJ's successor, President Nixon, announced that his administration would "temporarily" halt the convertibility of U.S. currency into gold, in order to "stabilize the dollar."

It didn't work. And – spoiler alert – it wasn't temporary.

Inflation soared from 4.4% in August 1971 to 12% December 1974, as the dollar continued its downward slide. Adding fuel to the inflationary fire, the Organization of Petroleum Exporting Countries (OPEC) – a cartel of Middle Eastern oil producers, led by Saudi Arabia, that at the time accounted for more than half of total global oil production – imposed an oil embargo on the U.S. and its allies for their support of Israel during the Yom Kippur war. The embargo sent oil prices up four-fold, and **caused a crippling oil shortage** and mile-long lines at gas stations around the country.

Without the backing of gold behind its currency, and rocketing oil prices, the U.S. economy went into free-fall. The economy contracted as inflation continued rising… and unleashed the sharpest decline in American living standards since the 1930s.

By July 1974, the stock market was in the midst of a 45% decline, with double-digit inflation and a 5.5% unemployment rate on its way to 9%. The dreaded "stagflation" was in full swing.

That's where William Simon – former bond trader, Uncle Sam bureaucrat, accidental secret agent – came into the picture.

Simon had left his $2-million-a-year job at Salomon Brothers in 1971 when Nixon tapped him to be Treasury Secretary. At the time, Simon didn't know that the position came with certain… extra duties.

At the height of "stagflation," Nixon sent Simon to Europe and the Middle East to press the flesh with the heads of governments.

But a four-day layover in Jeddah, Saudi Arabia, wasn't on the official agenda. There, Simon had a straightforward but definitely not simple task: *create the modern-day petrodollar system*.

You likely won't hear the petrodollar system discussed on Morning Joe. But it's been at the center of both global economics and American foreign policy for the past half century…

Since the U.S. Treasury could no longer back the dollar with gold, Nixon wanted it to be supported by something almost as valuable in the industrialized world: oil. If oil was available from the world's biggest oil producers only in exchange for greenbacks, there would be enormous sustained demand for the U.S. dollar.

Simon had to convince the Saudi king to exclusively accept U.S. dollars for payment in crude oil – and to push for the same "dollarization" of the oil trade among other OPEC nations.

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The second key part of the deal would entail Saudi Arabia funneling its dollar profits back into U.S. Treasury bonds – providing a critical source of financing for ballooning U.S. deficits.

In exchange, America would supply Saudi Arabia with advanced weapon systems, and provide a de-facto security guarantee in an implicit military alliance.

Simon left town with his body parts still attached. And it wasn't long before the Saudis started to take only U.S. dollars for oil – and recycling their profits into U.S. Treasuries. By 1977, one out of every five foreign-owned Treasury bonds was held by Saudi Arabia. The rest of OPEC followed Saudi Arabia's lead, further fueling demand for dollars.

The 1970s stagflation officially ended in 1980, when inflation peaked at 14.6%. And thanks in no small part to the global dominance of the U.S. dollar, the American economy – albeit with bumps along the way – thrived: From 1980 through last year, the size of the American economy grew roughly eight-fold (in current U.S. dollar terms), to just over $25 trillion.

But the marriage of convenience that Simon brokered is coming under unprecedented strain. And the pressure on the petrodollar is an underappreciated but vital element of the slow unraveling of the dollar's dominance... fueled by – we've seen this movie before – inflation and the anticipated collapse of a debt bubble.

The Fed Has No Choice – It Must Restart The Money Printer

The last decade of zero-percent-interest-rate policy (ZIRP) has infected the American and global financial system with trillions of dollars in assets that only work at rock-bottom interest rates. That is... the meager rates of return on investments made with free money are no longer sufficient in a higher interest rate (and inflation) environment.

As we wrote on March 15, in **The SVB Crash Was Just The First Domino:**

> *"... regulators spent the last decade safeguarding against every possible downside scenario, except the one that actually happened: trillions of dollars of low-yielding assets running headlong into a sharp rise in interest rates."*

The era of ZIRP filled the global financial system with ticking time bombs, and at today's higher interest rates, the countdown clock has only a few seconds left. Several large dominoes have fallen since our warning two months ago, including Credit Suisse and First Republic Bank. In the U.S. alone, the size of bank failures so far this year has already exceeded total collapses in 2008, when measured by bank assets and after adjusting for inflation:

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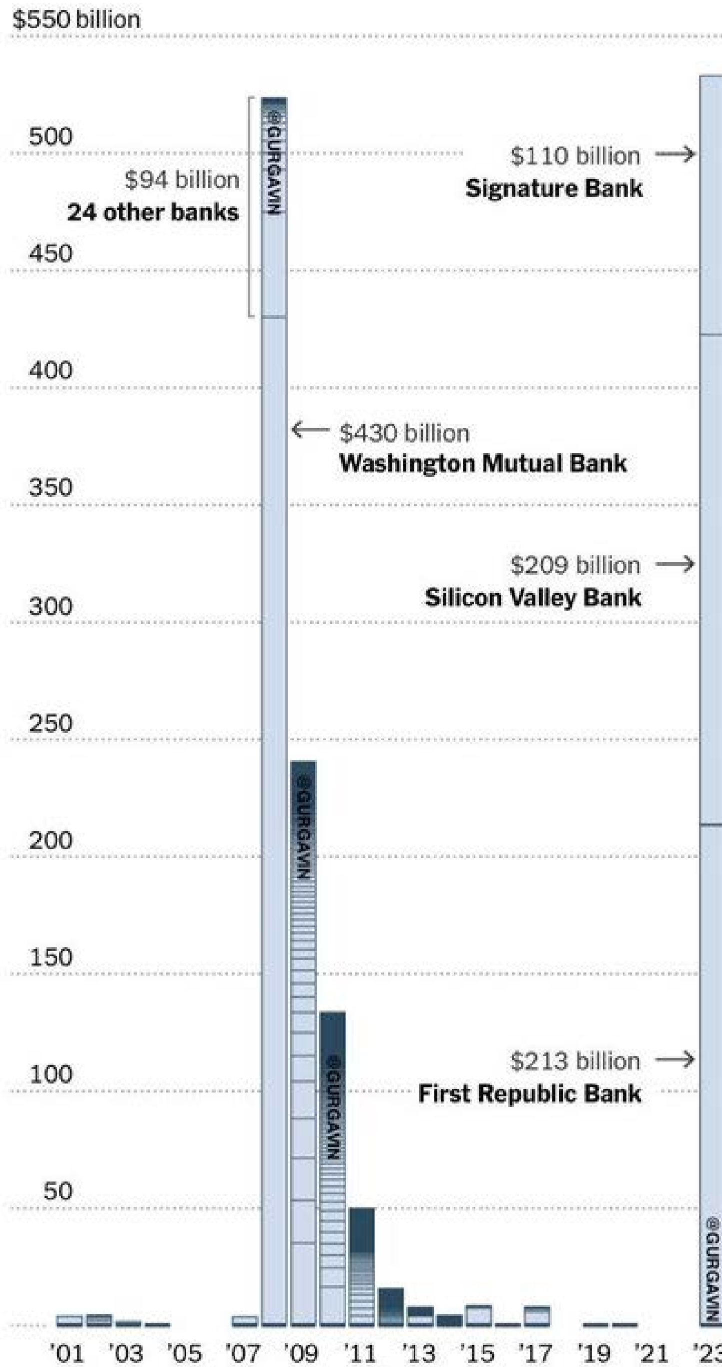

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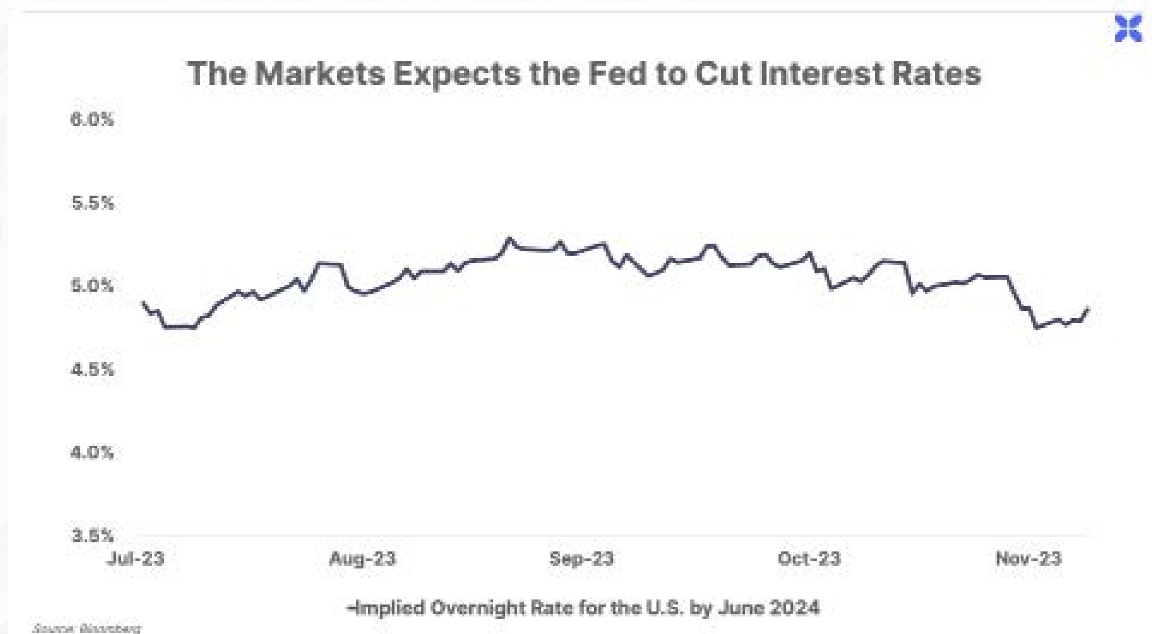
And there's more to come. According to banking expert and Stanford University academic Amit Seru, almost half of America's nearly 5,000 banks have exhausted their capital buffers (i.e., the amount of shareholder capital available to offset losses in bank loan portfolios). As Seru recently warned in an interview:

> *"It's spooky. Thousands of banks are underwater... Let's not pretend that this is just about Silicon Valley Bank and First Republic. A lot of the U.S. banking system is potentially insolvent."*

Unless central banks and policymakers are willing to deal with a major credit crash, all roads lead back to lower interest rates and more money printing.

Federal Reserve Chair Jerome Powell maintains that the Fed has no plans to cut rates any time soon, even if inflation reaches the Fed's 2% target (compared to the current 3.2% annualized rate).

But the market is betting that easy money will return in short order. The chart below shows the recent trading history of the implied Fed Funds rate for December 2023, which shows that traders first started pricing in rate cuts in the wake of the **SVB collapse** in mid-March. The market now expects the Fed to cut interest rates by 50 basis points (or 0.50%), from 5.5% today, to around 5% by June 2024:



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Despite Powell's public commitment to keep rates "higher for longer," the market is telegraphing a clear message: the first round of bank failures kicked off by SVB was not an isolated event; it was just the start. And as the financial fallout continues, the Fed will be forced to slash interest rates to bail out the banking system, by re-inflating their underwater bond and loan portfolios.

We expect similar pressure on foreign central banks, which created the same fundamental problems plaguing the U.S. financial system after a decade of ZIRP – trillions of dollars in capital allocated at rock-bottom yields, which has become impaired in today's higher-interest-rate environment.

That's why all roads lead back to the only solution: the return of cheap credit and money printing.

Bitcoin's 170% rally so far this year, and gold approaching new all-time highs, reflect the market pricing in this inevitability.

Looking beyond financial speculators, foreign central banks also appear to be betting on a future of fiat currency debasement. In 2022, global central banks went on a record gold-buying spree, in what can best be described as the ultimate hedge against their own failed monetary policies.

During previous easy-money eras, including the past decade of ZIRP, the U.S. dollar was able to do a better job of retaining its global purchasing power thanks in part to the petrodollar system – which allowed America to flood the world with excess currency, without suffering the inflationary consequences. Until now.

A Sharp Veer Away From the Petrodollar

William Simon flew out of Saudi Arabia in 1974 with his neck intact, but in 2018, Saudi journalist Jamal Khashoggi wasn't so lucky. **As we explained in the inaugural issue of *The Big Secret on Wall Street***, Khashoggi suffered a gruesome beheading under the supervision of Saudi Arabia's Crown Prince Mohammed bin Salman.

On the 2020 campaign trail, Joe Biden publicly proclaimed that Saudi Arabia should be labeled a "global pariah" for its role in Khashoggi's death... and since then, America's relationship with the Saudis has taken a sharp turn for the worse.

Since last October, Saudi Arabia has rebuffed President Biden's calls for OPEC to increase oil production – and has instead cut production, twice. In February 2023, Saudi Arabian leader Crown Prince Mohammed bin Salman point-blank refused to take a call with Biden.

And the deal that launched the petrodollar era is coming apart at the seams. Earlier this year, *The Wall Street Journal* reported that Saudi Arabia's Energy Minister Prince Abdulaziz bin Salman is "no longer interested in pleasing the U.S." and is pursuing an economic strategy "without U.S. dependence."

The breakdown extends to the oil-for-dollars angle of the deal too. On March 15, *The Wall Street Journal* reported that Saudi Arabia is considering selling oil

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to China for Chinese yuan – not dollars. Meanwhile, in response to the ongoing financial sanctions from Russia's attack on Ukraine, Russia is forging closer ties with China. Earlier this year, the yuan surpassed the U.S. dollar as the most widely used currency for trading in Russia.

China and Russia are working overtime to bring other countries into their sphere of influence. Malaysia became the latest country to join their ranks.

In April, Malaysian Prime Minister Anwar Ibrahim announced that "there is no reason to continue to depend on the U.S. dollar." That same month, Brazilian President Lula da Silva traveled to China, where he signed $50 billion in new cooperation and investment deals. During the trip, he also announced that de-dollarization is a key priority for the Brazilian economy. According to The Financial Times, Lula made the following comments:

> *"Every night I ask myself why all countries have to base their trade on the dollar? Why can't we do trade based on our own currencies? Who was it that decided that the dollar was the currency after the disappearance of the gold standard?"*

This is the largest coordinated push against the U.S. dollar since the formation of the petrodollar system in the 1970s. Economist Gal Luft, director of the Analysis of Global Security think tank in Washington D.C., summed up the risks at play:

> *"The oil market, and by extension the entire global commodities market, is the insurance policy of the status of the dollar as reserve currency… If that block is taken out of the wall, the wall will begin to collapse."*

The bottom line: the U.S. dollar's value is facing a two-pronged attack: first, from the collapse of the ZIRP debt bubble, and second, from a coordinated foreign move away from the petrodollar.

The mainstream financial media is mum on what is arguably the largest coordinated assault on the U.S. dollar since it became the global reserve currency after World War II. This monetary revolution will not be televised.

That's why we believe now is the time to safeguard your wealth from the demise of fiat currencies with the two ultimate stores of value: gold and Bitcoin.

An Insurance Policy Against the Demise of the Dollar

It makes sense for every investor to allocate some portion of their investable net worth into physical gold (coins or bullion) as insurance against fiat-currency debasement and financial instability.

The history of fiat currency is unblemished by success. The following chart shows that the average lifespan for global reserve currencies is roughly 100 years.

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The rise of the U.S. dollar to become the dominant currency in the global economy started soon after World War I. Its position at the top was solidified in 1944 with the Bretton Woods accord, which established the rules of the game for the global monetary system.

But now the U.S. dollar is in the final few innings of being the star pitcher in the global financial system. And let's not forget: the mighty dollar has lost more than 90% of its purchasing power, as measured by the U.S. consumer price index, over the past 80 years.

Gold, on the other hand, has a 5,000-year history of maintaining its value and preserving wealth.

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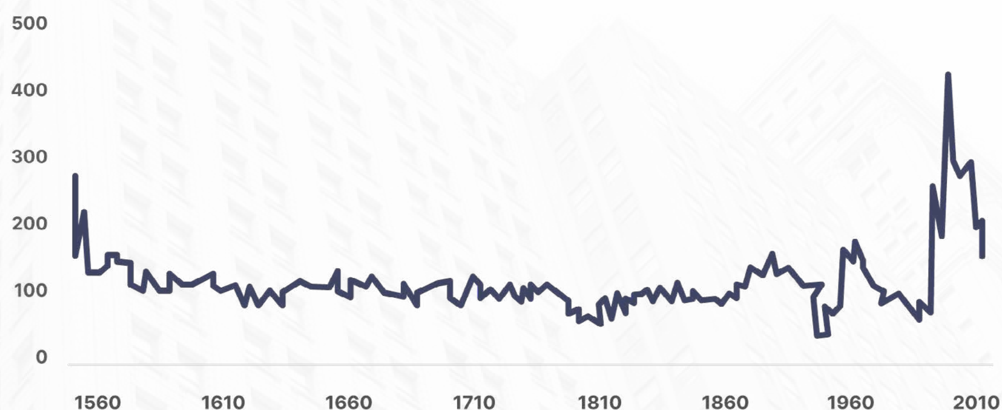

Source: World Gold Council

Holding physical gold will preserve your wealth – but not grow it.

In addition to gold, we also believe investors should have exposure to Bitcoin as an alternative store of value and insurance against fiat-currency debasement.

The Decentralized, Digital Money

Instructions for Buying Bitcoin

We've put together a guide on how to buy Bitcoin for The Big Secret on Wall Street website, which includes detailed instructions for how to buy Bitcoin on Coinbase and how to store your coins in a non-custodial wallet. **View it here**.

Unlike gold, where supply increases based on demand and prices (on average, global gold production increases by about 2% each year) the Bitcoin protocol places a hard cap on supply – ensuring that no more than 21 million coins will ever be created. Today, there are roughly 19.4 million Bitcoins in circulation or held in storage. This means only 8% more Bitcoins can be added into the total global supply pool... forever.

So as demand increases, the only way people can get their hands on more Bitcoin is by paying ever-higher prices.

This makes Bitcoin the ultimate deflationary currency, allowing your purchasing power to increase in real terms at a faster rate than gold, all else equal.

Bitcoin is much more than just a store of value. It's a decentralized, digital-monetary network that allows seamless monetary transfers around the globe with the click of a button. It's a peer-to-peer transfer mechanism, which means it exists

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outside the scope of governments and central banks, making it arguably the most legitimate international reserve currency.

Bitcoin was first defined in an anonymous whitepaper published on October 31, 2008, in the wake of the Great Financial Crisis. The document laid out the dire need for a globally available, decentralized and non-inflationary currency.

The solution came in the form of the Bitcoin network, which was launched as an open-source software protocol in 2009. Bitcoin registered its first series of transitions at pennies on the dollar, and went on to become the best-performing asset class over the past decade – fueled by the record volumes of global monetary expansion during the last decade:

Bitcoin also offers the advantage of storing a virtually unlimited amount of value on a decentralized public ledger. This reduces the risk of forced search and seizure by criminal elements – including governments, as Bitcoin is not controlled by any government or central authority. It's the high-tech (and much safer) version of burying your money under the old oak tree.

That makes it immune from currency devaluation and eliminates the silent theft of purchasing power through inflation that plagues sovereign currencies.

If the global economic structure collapsed, along with property rights, the social fabric, and the rule of law, anyone sitting on a large pile of physical gold or foreign currency would have a hard time escaping with their wealth intact.

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Bitcoin allows an escape hatch. An individual could transfer millions of dollars of fiat currency into Bitcoin, memorize their unique address on the blockchain, and cross the border with their wealth intact and undetected.

Of course, that's an extreme scenario (for now, anyway). The bottom line is that we don't buy into the view that investors must make a choice between betting on gold or Bitcoin. We believe both offer great benefits for investors.

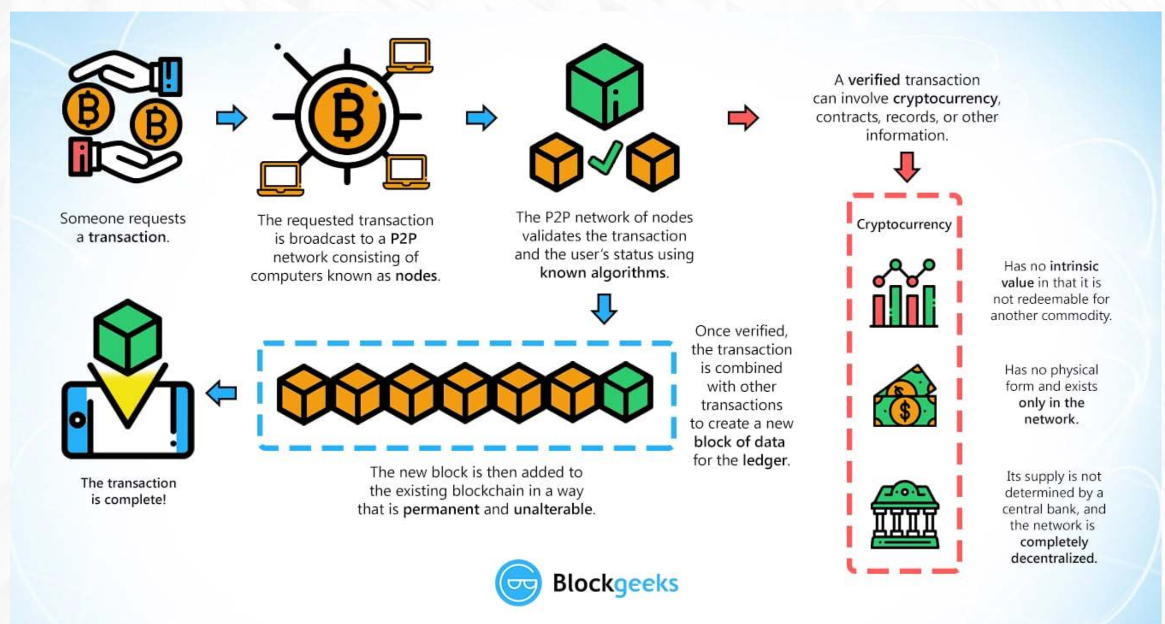
Why Bitcoin Is Like Electronic Gold

Unlike fiat currencies, Bitcoin runs on software – not decrees from central bankers and governments.

Every Bitcoin transaction is digitally encrypted onto a decentralized network, known as the blockchain. The blockchain is essentially a public ledger, maintained through a network of thousands of "nodes." At each node, high-powered computers – known as miners – keep track of every Bitcoin transaction. These miners compile real-time Bitcoin transactions into data blocks.

When a given data block fills up, the miner adds it to the pre-existing block series. This process forms a chain of continuous transaction blocks, hence the name "blockchain."

Here's a diagram showing how individual transactions get added to the Bitcoin blockchain:



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Blockchain is a revolutionary application of computer science, cryptography, and technology.

The Bitcoin blockchain is a global, autonomous, anonymous, and self-regulating network that acts as the ultimate reserve currency for the digital age.

It's the global network's version of gold: an immutable and timeless form of fixed value. But, unlike gold, Bitcoin's fixed value isn't correlated to increases to industrial productivity. Instead, it's tied to the far more rapid productivity gains of computers.

How is that possible?

Well, in exchange for lending their computing power to the Bitcoin network, Bitcoin miners are rewarded with entries into a lottery for each data block they create. That's the incentive inherent in the system. Just like gold miners were rewarded in an unpredictable way for their mining, Bitcoin miners are eligible – but not guaranteed – to receive a Bitcoin for each block they process. This is the fundamental "proof of work" that creates the intrinsic value of a Bitcoin.

When the Bitcoin price goes up, more miners can afford to mine. When the Bitcoin price goes down, fewer miners can afford to mine. However, the number of coins awarded in each lottery remains the same – no matter how many different miners are in the lottery.

In this way, it's similar to gold mining: your efforts aren't guaranteed to pay off and, the more people that are trying to produce "gold," the lower the average return for all miners.

This system creates economic incentives to mine more coins when they're "dear" and to stop mining when they're "cheap." Over time, this helps to cement Bitcoin's intrinsic value to its cost of production – which is exactly how the gold price works, too.

So, why are we so sure that Bitcoin's price will move higher?

Over time, the number of coins awarded in each lottery declines. It's called a "halving." One happens about every four years, to match the growing productivity of computer power. The next halving is coming in April 2024.

What this means is – just like gold became progressively more scarce (and thus more difficult to mine) at about the same rate of improvements to industrial technologies – Bitcoin will become scarcer, and more difficult to mine, at about the same rate of the improvement of digital technologies.

As a result, existing Bitcoin will increase in value, because the "proof of work" that underlies the value of each coin will be progressively more valuable relative to paper currencies – just like an ounce of gold held its value over the past 500 years.

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In this way, Bitcoin mimics the gold standard. Gold mining has become progressively more difficult and expensive over time, as the industrial revolution and new discoveries eliminated many sources of gold. Today, as computing power increases dramatically through time according to Moore's Law, Bitcoin is designed to become progressively more difficult to mine. Thus, Bitcoin is designed to match increases in computer power, in the same way that the Earth's natural geology caused gold's relative scarcity.

Bitcoin's productivity curve isn't predicated by industrial (mining) technologies, but instead by advances in digital technologies. Bitcoin is a currency that's designed to be stable relative to developments in computing. And that means its value has soared relative to other currencies.

It's Bitcoin's relative stability compared to computing power that makes Bitcoin the ultimate candidate for global reserve currency. It is a neutral asset that exists outside the realm of sovereign governments and banking cartels. It's a form of money that, like gold, has evolved from technology and from the desire of people to have a safe store of value that's easy to store, easy to transport, easy to divide, and will never lose its intrinsic value.

Bitcoin is the people's money. And more people are using it each day.

Action to Take: For the latest updates on our open positions, please visit our live portfolio **here.**

If you need help buying Bitcoin, check out our *How to Buy Bitcoin Guide*.

Given Bitcoin's extreme volatility, we are assigning this recommendation with a risk rating of 4.

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