

## GOLD IS NOT GOING UP

“At Guardian Capital Advisors, LLC, we exist to use our knowledge and expertise to help our clients enhance the buying power of their assets over time.” For those readers who have visited our website these words will be familiar. And when we selected these words we did so because they have special meaning and purpose. Today I want to introduce a concept that illustrates why.

A common topic of discussion these days is gold. One day gold is rising, on another it's falling, but either way someone is offering to buy your gold or wants to sell you gold. But what is gold? Gold is a metal, a precious metal. It exists in limited quantity in the earth, and can only be acquired through work and sweat equity to bring it out of the ground. And at different times in history it has functioned as currency. Gold has existed as a means of exchange for **thousands** of years.

But what is its value? Now that's a tough question. It partly depends on the point in history and the currency it is priced in. For instance, in the United States, one ounce of gold is currently worth 1,389 Federal Reserve Notes (FRNs). At the end of last year it was worth 1,096 FRNs. In the early part of the decade it was worth 253 FRNs. What does this tell us? **For the average person they would look at this as the price of gold is going up. But that would not be correct. In reality, it is the buying power of the FRN that is going down.**

Some people believe gold is in a bubble. That may be true. But here are a couple thoughts contrary to that opinion. First, gold is not “going up” relative to the FRN alone. Gold is “going up” relative to **ALL** currencies, including but not limited to the British Pound, Japanese Yen, and Euro. Second, one would have to believe that paper currencies are “cheap” and poised to increase in buying

power in the future. Could this happen? Sure, if we have outright deflation it could. But considering the Fed is in the process of printing \$600 BILLION more FRNs from now through June 2011, on top of the \$1.2 TRILLION+ they have printed over the past two years, how much faith do you put in that piece of paper called a FRN? After all, we as a nation have had two other pieces of paper that have been used as currency during our 200+ year history. When our nation was founded we used the “Continental.” Here's a picture of it back in 1779.



And then during the Civil War, President Lincoln printed the “Greenback.”



Would you accept these as payment today? Not likely. Would you accept payment in gold? Probably. So what could be the future fate of the FRN? Most likely the same as these others. The only question is the timing. But gold has always been, is, and will be the same for all time – a store of wealth.

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And finally, when investors are in a bubble, they can't see the bubble! For instance, consider the past two in housing and internet stocks. When people were "flipping" shacks in California for hundreds of thousands of FRNs, they did so because they thought they would keep going up. In the late 1990's people kept investing in technology and internet stocks because they thought they would keep going up. They were in a bubble but hardly anyone was talking about being in a bubble. So if they were wrong in both of those prior bubbles, should we really believe they are right regarding gold today? While anything can happen to prices in the short-term, we'll leave it to you to decide dear reader regarding what might happen over the long-term. If you are one of our existing clients, you know our thoughts on this matter.

While we have always offered consulting services to clients and prospective clients, we have developed a niche over the past two years that includes the education on and acquisition of physical precious metals. Should you have a personal interest or need, or know someone who does, please let us know if we may be of service.

At this time of year we wish all our clients and readers Happy Holidays and wishes for a blessed New Year.



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