



**A response to Barry's public *Wealth Wire* post titled:**

## **Critical Thinking on Gold, Money, Currencies**

( click above for the article )

***Doug Robertson writes:***

Hi Barry,

You have a good perspective on gold. I appreciate seeing some rational opinions on the subject out there.

Personally I see gold talked about in two different ways. The first is as a **tradable asset** that is followed as a risky commodity that can be used to generate profits (or losses) as it goes up and down.

I have no problem with trading gold in this way, if someone treats gold respectfully, understands the fluctuations and uses good money management techniques it is possible for gold to be a profitable trade.

The second way I see gold being talked about is as some kind of **mythical end of the world hedge**. These conversations often seem to take on a kind of religious fervor. Fire, brimstone, financial apocalypse and the only thing that will safely get you across the river is gold.

The funny and dangerous thing is how people seem to actually believe it is true without ever being critical of the concept.

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If any of these scenarios where gold is the *currency of last resort* are true then we would be going through a truly world shattering financial and sociological meltdown, essentially the end of the world (EOTW) as we know it.

Maybe fire and brimstone would actually appear in this case, I don't know.

Let's think through the idea of **Gold as an actual currency**:

A currency is actually a placeholder, not something of value in itself. The function of a currency is to allow a wide variety of things to have a commonly understandable value.

This effectively allows us to say that a cheeseburger is worth 5 Diet Cokes. It also allows us to transport value from one place to another so we can buy that cheeseburger without actually handing over the 5 Diet Cokes. It needs to be divisible into denominations small enough for daily transactions. Just how many milligrams of gold do I need to pay for that Diet Coke?

It also has to be distributed widely enough among the population for it to be generally accepted as a useful currency. If a small group of people have hoarded gold for the EOTW then it won't be common enough to be a medium of exchange.

Why would I sell you a cow for 6 Oz of gold when I have no idea if the baker down the road would sell me bread for gold? We are all starving! I would rather keep the cow. I know he will give me bread in exchange for meat and until then maybe I can get some milk out of it.

The mythical scenario where gold will be the currency of last resort just doesn't work out. If our society fails that miserably, then **gold will basically be worthless**. The person with a Honda generator, fuel and some canned food is far richer than the person with a pile of gold.

So let's assume that things don't get to the EOTW state.

The argument is that in order to stabilize currencies the world will go back on the **gold standard**. Sorry, this is also a fantasy.

The gold standard was abandoned because fiat currency gave governments a better way to control and stabilize their currencies.

Games were always being played with gold and this led to major breakdowns of international commerce and in many ways significantly contributed to WWI and WWII.

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During the pre-World War era gold was the basis of *unregulated* financial exchange, but the governments at the time figured out ways to manipulate the markets in what was called "**Beggar thy Neighbor**" policies.

They would literally cause runs on their neighboring countries gold to create positions of temporary economic advantage. This was part of the political stress that led to WWI and eventually to WWII.

These same policies were applied by de Gaulle in the post WWII era in an attempt to subvert the economy of the USA and gain an advantage for France on the world stage. At the core of all these efforts was the manipulation of international gold.

**Fiat currency** is a flexible tool for managing the world economies. It can be used well and, as we commonly see, it can be used poorly. Wishing for a return to the gold standard will not make the governments give up the most powerful tool they have in the management of their own economies, nor would it actually improve the world economic situation.

The gold standard had numerous problems that people don't even mention when it is talked about today.

Here is the reality when you see people pitching gold. They are TRADERS who are trying to manipulate other people's emotions with stories of financial apocalypse.

The goal for them is to **use your fear to make money**. Gold prices may continue to go up. This is possible and even in some ways likely, but when people get tired of playing this game the price of gold can and will drop very far, very fast.

You don't want to be the one holding the gold when that happens. You can always tell that you were the sucker *after* the game has been played; it is far harder to see that fact during the game.

Just use a little common sense about this. Reality never seems to end up at the extremes that people predict.

The truth is normally someplace in the middle. **The best hedge for the future is** to understand and use a variety of effective trading strategies, diversify your portfolio and also your approach to the markets.

Always study the world and the markets to gain a better understanding of the trading environment you are in.

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Try to find opportunities in chaotic markets and patience in stable ones. Be a skeptic at all times, but don't stop listening for interesting ideas.

And finally, if anyone EVER says they have the 100%, undeniable proof that the world will end and this trade is the only one that will save you... walk away, even if it glitters like gold.

-Doug

**About Doug Robertson:** I got my start in the trading industry in 1999. A venture capitalist and a small group from the tech industry thought that stock arbitrage would be an easy way to make money. I was the technology guy and math geek who was supposed to make it work.

Amazingly enough, with a little luck and an enormous amount of effort, we actually made it happen. Since that time I have had the opportunity to participate in the development and running of a wide variety of trading strategies.

As a quantitative analyst, trader and software developer I have had the opportunity to explore stocks, options, futures and forex in markets around the world.

Much of my work has been analyzing massive data sets or using ultra fast computers to catch fleeting trades, but after all these years I realized that everything I did came down to a few basic things:

- Find a Tradable Edge
- Understand the Trade
- Execute Your Plan
- and Manage Your Risks

I manage and am actively involved in a community of traders seeking to educate and inform other traders about strategies, tactics, risks and possible opportunities in trading of different asset classes; equities, options, futures and forex.

Thank You,

Doug Robertson

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