Gold is A Middle Finger to the Fed

Episode 56: Featuring Commercial Director of Matterhorn Asset Management, Matt Piepenburg
Hosted by Addison Wiggin.

Addison: February 27th, 2022 will likely go down as a major turning point in the global economic system. That is the day that Western countries levied the strongest sanctions against Russia after the invasion of Ukraine, pushing Russia away from the dollar as their reserve currency. And also having other countries like China and India, beginning to question their own use of the dollar in the reserve currency.

We have been talking about the demise of the dollar for many years because of the fact that it is the reserve currency of the world, but the monetary policy followed by the federal reserve has led to just what we perceive as mismanaging of the currency. So what is the new monetary system that we're moving towards and what role will the dollar play?

And more importantly, this is a question that we've been wanting to ask for a long time. What role will gold play? And also we have, waiting out there in the wings, cryptocurrency. Today we have with us Matt Piepenburg, who is the Commercial Director of Matterhorn Asset Management, a firm founded by my good friend Egon, who's been on the program here a couple times. And first of all, I want to welcome you Matt to the program. Thank you for joining me.

Matt: Glad to be here. I'm looking forward to the conversation.

Addison: Matt, you were a former hedge fund manager and also you're the author of a book that made it to number one in the financial category on Amazon called Rigged to Fail. Tell us a little bit about Rigged to Fail and maybe a little bit about your experience as a hedge fund manager, and then how you made your way to Matterhorn.

Matt: Addison, as we talked before this recording, I love the name of Consilience Finance because I really believe that the understanding of markets so the understanding of life involves not just knowing one arc, but many arcs of the circle. And this program started at Harvard when I was there for grad school, but I was an undergrad interested in philosophy and history and politics. And then when I was in law school, I was very interested in constitutional law. So all these things were not math, science, spreads, yield curves, central bank policies. But they really got me thinking about the bigger picture when I started my first hedge fund, it was during the.com bubble of the late nineties, right out of grad school with a good friend of mine. And that was an experience in and of itself.

We were just lottery ticket winners during that whole ipo.com bacchanalia. And we were lucky to get out before we got burned in 2000 when the markets and the NASDAQ really started to slide, but that experience never left me. And the experience firsthand during the.com bubble. And then the background I had in the humanities and looking at the politics and the human nature and the history of central banks. And then years later, once I was done with hedge fund managing, I was managing director in a CIO for a family office. And so I got to allocate and think about came lots of money to offer a lot of different portfolio managers and asset classes. And during that period, it was a great education. And just talking to some of the best minds from Chicago to London to Frankfurt, back to New York.

And I really got a global view of policy and markets, currencies and really risk assets. And I wrote Rigged to fail after just putting all that together. After about 15, 17 years of seeing it from the inside and the outside, looking at it from an academic perspective, looking at it as an investor, looking at it as a manager, it's just a long history of central bank policy pretty much from FDR on. But going back to 1913 and when the Fed came into fruition, the history of the Fed, the history of boom and bust cycles, the history of monetary policy, it really is extraordinarily rigged in my opinion, and ultimately to fail. When you look at the policies made, the personalities behind them, the psychologies behind them from Larry Summers to Greenspan to Yellen.

I mean, it's a fascinating kind of psychoanalysis of fed thinking, the disconnect between markets and main street, the misallocation of liquidity towards risk asset bubbles, as opposed to the national economy. I think many people confuse and certainly many politicians confuse markets with the economy. They're not the same thing. And just the extraordinary mismanagement of liquidity, primarily from, I'd say 2008 on. But certainly, I call him the patient zero, when Greenspan was a new fed sheriff in town in the late eighties, he really introduced or reintroduced the punch bowl to the markets in a way that hasn't stopped since. Whether it was Bernanke, Yellen or now Powell, and of course, Draghi and others in European and other central banks, this idea that you could solve a debt problem with more debt and then monetize it with money created out of thin air with a mouse flick. If it seems too good, it to be true, it probably is too good to be true. And I think it is.

Matt: And ultimately what it leads to is a dilution of the currency. It leads to a massive wealth disparity and wealth transfer, which we're seeing everywhere. We have the largest wealth disparity in our history, in the US right now, because that inflation in the risk asset classes hasn't spread to the rest of main street. And now actual inflation on the CPI scale is just hurting the middle class and the rest of the economy and the rest of the nation in ways that don't hurt the top 10 or 1% because 84% of the market wealth is held by 10% of American citizens. So it's really this market support hasn't trickled down into main street. I think that's criminally negligent. And for central bankers to claim that there's no know real connection between their policies and sovereign economic health is incredibly disingenuous or naive.

But more importantly, not only has it hurt the economy, hurt our social structure, hurt our policies. It ultimately is rigged to fail because you can't sustain a policy of creating money out of nothing to pay for debt that doesn't have productivity to meet it. 30 trillion in debt against our waning GDP is rig to fail. It's just a question of when. And we've been drinking QE martinis and TARP martinis and operation twist martinis for years. Eventually we're going to have the hangover. We've done a great job of postponing that hangover. We're going to have a hangover. We'll blame it on COVID and we'll blame it now on Putin, but it really is the bathroom mirror of Yellen, Bernanke, Geithner, Paul, all of these guys and Larry Summers too. So I think there is fingers to be pointed and there are consequences to have, and there's a lack of accountability. This is the going from markets into politics, both the Kennedy's idea of profiles encouraged. Taking responsibly for what's right for the new nation, not right for your career, your position, or your post.

Central bankers and politicians have been buying votes by postponing recessions and using printed money to do it. And all that does is leave the next generation with the bill or lead to a reset in which we blame all of these faults on of a pandemic, which has been exaggerated on a war in Ukraine, which could have been avoided in my opinion. So it is rigged to fail. It's just a question of when and how much, how bad and who will take responsibility for it.

Escaping Global Debt Crisis With a GREAT RESET

Addison: Well, part of the reason we began this conversation is you published a report. What role will gold play in the Great Reset as we've been calling it on the Wiggin Sessions. Let's go back before the invasion of Ukraine by Russia, and talk about the World Economic Forum and their idea of what the Great Reset is. The reset of the monetary and banking system, mostly because just like the US, the pension systems and the social programs of Europe have been vastly over-indebted. And as you say, they're “rigged to fail,” there's not really any leeway for them to move. We did an **interview with Christopher Leonard** who wrote a book called **Lords of Easy Money**, which is now out.

Addison: And he asserted quite effectively that under the Powell Fed, they have the idea that they need to normalize interest rates, but they're unable to do it. Because as soon as they started raising interest rates, they only did a quarter point. It tanked the markets immediately. It spooked everyone. And that's only a quarter point. If they get to normalization his assertion is that they would nuke the economy. And I've been using that phrase over and over again, because I think it is appropriate for the age that we're in. So let's go back before the invasion, just so that we cut that out of it. And let's talk about what the Great Reset is.

Matt: At 30,000 feet, I think you covered some of the broad strokes. In my opinion in the world, if I'm a forum, the IMF has been telegraphing this for years. In 2020, the IMF came up with this brilliant propaganda piece about the need to come up with the new Bretton Woods 2.0 because of the massive amount of debt that came from COVID, we have to restructure. And to me the IMF and the World Economic Forum, this idea of a Bretton Woods 2.0, this idea of a global chapter 11 restructuring debt, coming up with a new central bank digital currency, and slowly replacing the US dollar as the world reserve currency. All of this was, again, this war on COVID hysteria that came out from 2020, we've all been through it.

The idea that we need, basically, a Bretton Woods 2.0, as of this reset. And to understand what Bretton Woods 2.0 is, you need to know what Bretton Woods originally was. And real quickly Bretton Woods, and the original version was in 1944 at the end of one of the worst moments in global history when 85 million people had just died in a major world war, the economies of Europe were ruined. The US came out of that war as the world's greatest creditor and manufacturer relative to say Japan or Berlin or other countries that had just been blitzed. So there was this idea that the world would peg its currency to the US dollar, which was then pegged to gold. And that's was this new reset coming out of World War II, this kind of necessary change coming out of a cataclysmic event like World War II.

In 2020 in the summer, the IMF and the World Economic Forum by proxy as well basis that we're going to need to do that again, due primarily to the war on COVID, but that was incredibly disingenuous. Because prior to COVID, the simple fact was global debt was $300 trillion prior to COVID and global GDP was one third of that.

So there was a massive disconnect between our income and our debt as a world. And the US was certainly no exception, Europe was no exception. So they were basically in my opinion, calling for this new need for a central bank digital currency, we've been pushing that ever since. A new need to restructure debt, to rethink the US dollar as a reserve currency. And blaming that again on this war on a pandemic as if that was the equivalent to a war like the second World War.

Matt: And as someone who has lived in Europe for the last 20 years, and as a European American with my family, I can tell you, there's not a European alive today who doesn't have someone in their family who was in World War II. And you cannot compare World War II to COVID. However, whatever your views on COVID, it's an insult to what really happened in the 1940s here on this side of the Atlantic.

So the idea that the IMF thinks that COVID justifies this new reset, I think is disingenuous. This is a corner they put themselves into for the last 20 years of just extravagant spending, deficit spending. You're right. When you have negative yielding sovereign bonds to the tune of 18, 19 trillion in the last couple years, most of those are European nominal and real yields are negative. Those are defaulting bonds in effect, when you're getting no return for your sovereign bonds. And many of the pension funds and systems here in Europe and in the US are required by law to hold a large amount of sovereign bonds. But those sovereign bonds are not giving you any yield in many ways. And some have argued, like Martin Armstrong and that this war, which is entirely avoidable, in my opinion, in the Ukraine, we won't get into that in this question, but a war is a good excuse to default on bonds that are already defaulting.

So there's so much mess going on in the world financial system. When you look at negative yielding bonds or massively overvalued equities and stocks and countries that are just soaked with so much debt and so little productivity. And in the US case, we've offshored most of our productivity to China in Central America, but primarily to China, which benefited CIOs and stock buybacks, et cetera, but didn't benefit our nation. It's really convenient to blame this on COVID or now a war. This reset is long overdue. It's the hangover that was caused by the drinking at the central banks and at the political levels and the monetary levels. And we'll see how quickly it unfolds. And when we slowly move towards this new blockchain central bank, digital currency system of E-Euro, E-Yen, E-dollar, it'll be very interesting. Very interesting.

Addison: Walk us through that a little bit. What would that look like? Because I've been talking a lot about the Great Reset. I talked to many authors and economists who have different opinions on what it looks like on the other side. Part of the reason that it hasn't really happened is nobody really understands what the mechanisms by which great pension systems would default. What are all these people going to do if we can take advantage of what they believe to be their retirement.

Matt: Well, again, I'm thinking like a lawyer, in bankruptcy, it's a zero-sum game. There are winners and losers. When a credit market gets restructured. It's a zero-sum game. You can't just eradicate debt with the swipe of a hand or a negotiated contract globally or nationally without having some counterparty affected. And this is the big question when you restructure debt or change into a slow new currency system, ultimately, by the way, a central bank digital currency, an E-Dollar, an E-Yen, and E-Euro is ultimately about more control too.

Matt: There's a difference there, not just in terms of the monetary effect or the fiscal effect, or the social or political effect, but it's a form of control. Your E-Dollar, E-Euro can be controlled just like our FX reserves are controlled in Russia. If someone writes something or thinks something or does something that the system doesn't like, then they can freeze that asset very quickly.

It's a form of autocracy. I think another historical pattern is that when the countries are in debt, they have choices. It goes towards more control, more autocracy, or it goes towards war, which is not coincidental which we're seeing right now. COVID was a form of autocracy, FX sanctions against Russia are a form of financial war. This is all the ramifications of years and years of drunk driving by central banks and policymakers from the BIS, European Civil Bank to the Fed. So the question for all of us, I don't know the answer, how orderly it will be. I don't think it will be orderly. I think it'll be very disorderly, preceded by a great deal of panic, probably more expansive monetary policy, probably a little bit more deficit spending, a lot more finger pointed and everyone, but the people that put us here. But I think it will be extremely disorderly and preceded by a lot of continued social unrest, political polarization, and wayward monetary policies.

And I think what we're going to see this year with the Fed will be very similar to what we saw in 2018, 2019, where they're going to puff their chest and pretend to raise rates or tighten. It's going to send the markets into a tantrum. They're going to pivot immediately. We're going to go into more monetization, more quantitative easing, and we're going to eventually have to, at that point, ask the question, does something bigger have to step in? Do we have to do a global reset? I don't think it's weeks or months away. I think it's in the next few years, we're all speculating on how that plays out or how orderly that will be. I can't imagine it will be orderly on a social level, at a financial level, at a military level, or at a political level. I can't imagine it'll be orderly.

The Ensuing World War Gold

Addison: We did a lot of research while writing **Empire of Debt** and **The Demise of the Dollar**, which are now a decade old. And one of the things we noticed and we detailed was it took two world wars for the pound as the reserve currency of the world backed by gold to seed its way to the dollar through the Bretton Woods exchange rate system. But it took two world wars and a lot of mayhem. And there was a great depression in the middle.

Nobody can really plan this out. All you can do is be aware of the trends that are at play and then plan accordingly. I remember forecasting World War III, which just seems absurd.

Matt: Hopefully, you're wrong.

Addison: Yeah. And then maybe I was right. And it just hasn't happened yet. And then also that the Yuan would likely be the next reserve currency simply because it is the ascendant economy in the same way that the US was an ascendant economy. When the British Pound was a global reserve currency, the next ascendant economy appears to be China. But in the report that I just held up, you identify, or Ronnie identifies several strikes against the Yuan and why it's not ready yet to replace a dollar in any meaningful way. Maybe just talk about that. They had issues with their bond market and their banking system.

Matt: Yeah. Ronnie, who we talked about before Ronnie and Grant Williams are advisors to us at Matterhorn and they're just brilliant. And they see the big picture and they can articulate in a way that's very helpful to all of us. Ronnie said the Chinese are basically the key trading partners for two thirds of the globe. China as an ascendant nation is replacing and in some ways for better, in some ways for worse for the US. The US has done this to ourselves, but China doesn't have the rule of law and due process that the US and the West in general were known for. You still don't trust their bond market. You still couldn't trust the safety of investing there.

And it certainly isn't ready yet to be a world reserve currency. The irony, when I say that, though, is I mock, or we poke fun at China's lack of due process. And the rule of law is what we've just seen with the US dollar and the FX reserves and the sanctions against Russia. That has also diluted the reputation of the US dollar, on so many levels, but it's not that I think the Yuan is going to emerge as the world reserve currency. I'm sure Ronnie would agree. And nor that the dollar will stay that way. I think the process of going towards a central bank digital currency or a new reset is precisely that it's a process. It's not going to happen overnight. It will not be the one. They still have a great deal of debt as well. There's not a lot of trust in their currency or their system for that matter.

Although they have massive amounts of power, certainly trading power and currency power, to replace the Dollar with the Yuan just going from bad to worse, there's going to be some form of reset involved. But I think the process of having gold as a participant in this isn't just because we're obviously gold favored or gold biased. To us gold has been here for 5,000 years to get the last laugh on every debt ridden regime, every system of government that's ever failed in the past. It always reverts back to some form of gold. I don't think, we don't think, and don't expect it to be a one to one gold backing like we had in the past. That's probably not the case, and it's certainly not going to be overnight. But there's been a move since 1971, when we got off the dollar standard in the US, I think the gold coverage for our money supply went from 14% to 8% and globally the FX reserves, the gold coverage went similar to 8% at a bottom in 2015 it bottomed.

But since then central banks and emerging market countries have been buying more and more physical gold. So that bottom in 2015 has gone up by about 50%.

Matt: So there's already a move towards central banks and countries buying more physical gold. Not again, because there's going to be a one to one ratio of currencies to gold, but we think there'll be a linkage. Is not a full backing, but a linkage. And even if you took the base money supply in the US, and you backed that 20% by gold, that would have a massive impact on the gold price, in terms of speculation.

I look at gold as insurance for currencies that are diluted and burning to the ground in real time. But I think this reset, even if it's a central bank digital currency with blockchain technology and very more autocratic. Ronnie, I think would agree and Grant and Egon, I think gold will have a role to play in that when that happens, as that happens. Predicting the date, time, quarter, month, year is a mugs game, in my opinion, because there's so many things that are going to happen in between.

Like I said, I still think the Fed and the ECB are going to play a few more pivots and tricks with money printing and standard repo facility support for bonds, et cetera. There'll be other ways to bring liquidity into this market, despite a massive mismatch in supply and demand for government debt, especially the US Treasury, it's about as unloved as it can be right now for so many reasons. So the Fed has to buy most of it themselves. But I think as this new world order, this reset, this restructuring, this new look at currencies, maybe multipolar in some way, gold will play a role. It's already playing a role right now. Those people were laughing at Russia when they tried to peg the ruble at 5,000 to a gram. I think at the time when Russia did that post Ukraine, that was equivalent to $52 a gram and gold at the time was trading at 68. So everyone was laughing.

Here's Russia trying to anchor its Ruble in gold, but as a result of making that decision, the Ruble's gotten stronger. So there is a sense that currencies need a chaperone, because without a chaperone, they get drunk at the party and they act crazy and they have no value. Russia's doing what we should've been doing years ago, which we should have had some real chaperone to our dollar. Nixon took that chaperone away because re-election time was coming. He needed more money to keep the economy going, having a gold standard got in the way of that. So he got rid of the chaperone, got rid of the gold standard, got himself reelected before Watergate. But it was one man making decisions for his personal power and reelection. No restraint, no humility, just power and psychology. And the net result has been 50 years of a debased currency, extravagant amounts of debt in the US.

And we've ruined ourselves in terms of a reputation for having a strong sovereign bond, a strong economy and a strong currency. And so it is a slow dying dollar. It won't be replaced by the Yuan; it'll probably be replaced by some form of this reset CBDC. But I think that we think it'll be necessary in addition to having some blockchain, to definitely have some form of an anchor in gold, whether that's 20%, 15, 40%, it probably won't be a hundred percent because that would send gold to prices higher than Bitcoin.

Matt: But it's time for a chaperone. After 50 years of drunk driving at every central bank around the world, I think we need a chaperone. And to me, gold is axiomatically obviously the historical choice, not a barbarous relic that sits in the ground and collects a fee.

Addison: Some of the countries that you're referring to are what we call emerging market countries. And you have an entire list in the report. Their reserves are much smaller than even in the US. To what extent if they are trying to accumulate gold and take a position in whatever the economy looks like after a great reset. To what extent do they exert any influence on the process by which something like this would happen other than being dependent on some kind of blockchain digital currency that was weighted in gold in some way?

Matt: Yeah, I think that's the big mystery too. And Ronnie and I were talking about this with Egon too. How much gold do these central banks really have in emerging markets, developing economies? I mean, how much does China really have? How much does Russia really? How much does the US have? How much does Argentina really have? I don't think there's a true audit. Just like there's ever been a true audit of the central banks in the US and Europe to borrow from Jim Rickards. I think those that have the most gold have the most chips. I've been looking outside the OTC market in the physical gold markets in trying to track as best as we can. And we certainly see it in our private enterprise in Matterhorn who's buying the physical gold, what countries, what people, at what levels. In terms of national purchases of gold it's not clear.

I think there's no coincidence though that China and Russia in particular, even this year, had the highest amount of physical gold purchased ever by central banks. I know Jeff Guthrie over Goldman Sachs has been tracking that he calls it the perfect storm for gold because there's been a trifecta rising demand from ETF gold, physical gold and central bank gold. And I don't think it's a coincidence that China, India, and Russia have been acquiring more and more physical gold in the last few years. Because I think they're chess players and guys like Putin or Yellen are siloed thinkers. They're not consilient thinkers. They're siloed thinkers, they're checkers players. They're looking for the next three years, the next three months to stay elected, to stay popular, to stay liked. Whereas Russia and China and you are used to suffering and they're used to thinking longer term and they've been acquiring gold because they do see an inevitable end of the US dollar or the hegemony there.

They're able to suffer. They're able to be more blunt, American politicians and American voters aren't. I think American voters are capable of suffering and austerity, if they're being told the truth. I think they've been lied to for so many generations, they don't know what to believe left right, or center. But getting back to my point though, I think countries and emerging markets, which have been eating our inflation, because we've been exporting inflations for decades to them and countries like China and Russia that have been relegated as second class for years to our jokes are getting the last laugh and they're getting the last laugh with gold.

Matt: And so they're acquiring more and more of that gold. Because as Rickards said, that he who has the most bars has the most poker chips at the table. And that'll be very interesting to your point when this reset, however, this reset plays out.

What's the negotiating power of the US versus China or India, Russia, depending on their gold reserves. I don't think we can go to a new global currency that isn't backed by something. It can't be just us blockchain. I just can't see that. I could be wrong. But even if that were the case, gold would still rise in the private sector. Because a central bank digital currency is simply another fiat currency. They'll claim it's a fixed amount, but they can play with that. There's only a fixed amount of gold. You can't print it, you can't hack it. You can't put more ones and zeros behind it and refabricate it.

I think physical gold in the biblical sense really is going to be here for a long period. And again, many would say that's a gold bug bias. I would leave this long before I was a principal at a major private gold company. And like I said before this call a lot of people I know when the risk asset markets hedge fund managers, they may not have gold in their portfolios, but they have it in their personal accounts. And there's a reason, they're playing the long game.

Rigging the Price of Gold to Hide Failed Currencies

Addison: When the inflation numbers came out for March, it was compared to 1980 as it was the fastest rate of inflation month over month and year over year that we've seen in 41 years. In 1980, we had the most famous spike in gold in history. And we do see the CRB index rising quickly because of a lot of supply chain disruptions, the war and also massive government printing and issuance of debt globally, it all stands the reason. And yet the gold price is still hovering around 1900 bucks. I was talking to James West a couple weeks ago and he suggested just by his calculations that if it were allowed to float on a free market, it would be something like $60,000, which is per ounce, which would be consistent with what you were just saying that it's higher. It would be higher than what Bitcoin is currently trading at.

So it just brings a question, what's keeping the gold price down with all these geopolitical issues that are going on. And a lot of hand-wringing over inflation. It feels like gold should be taking off.

Matt: Well, it will. And that's not just me trying to, and I'm not a salesman. I'm not a sensationalist. I mean, to me, it's like a Thanksgiving Turkey. If you're not from America and you're a Turkey on a farm and the farmer's feeding you every day, things feel great, but that farmer isn't your friend come November. And I just know that Turkey's going to get his head cut off around Thanksgiving. I know gold is going to take off at some point.

Matt: That doesn't matter to me when I want to have that Turkey. I want to have that in my portfolio. That's not enough for a lot of people who are or worrying about the day to day price moves. I understand that. But the goal is a rising cork in an inflationary market. It'll certainly get the last laugh.

I think to answer your immediate question, what's keeping the price down? The first question is why. Why is the price of gold being manipulated? Because it is being openly manipulated in the over-the-counter markets and the futures markets, the OTC forward contracts, futures contracts, the bullion banks. The question is why ever since we got off the gold standard in '71, the only question on any central banker's mind is where's the gold price. And from Great Britain to the Fed to Europe, there was a consorted overt effort to put a permanent short in the future's market on gold and silver. Last year you saw 400 million ounces on a permanent short by 8 billion banks to keep the price of silver down. The same thing, pre and post Basel with gold to manipulate the gold price.

When you have thousands of long contracts on the OTC market, but eight primary players who have immense unique amounts of leverage. And because they're using forward contracts, only a small group that can use those eight banks can effectively control the price of commodities in general and precious metals in particular. That's an open secret. To me, it's legalized price fixing. To me, from law school, bringing in my lawyer hat, it's a fraud, but it's legalized fraud. Then again, so is money printing. It's counterfeit, but it's legalized counterfeiting. If the federal reserve wants to create money with a mouse click that's legal. If Bernie Madoff did that to keep his fund afloat, that'd be against the law, it'd be criminal. So what certain banks are able to do is rigged in their favor. And the OTC market has rigged the gold price.

There is no honest price discovery in the gold market and in the silver market. And frankly in a lot of commodities in general, there's a specific interest in keeping the gold and silver price down because gold is a middle finger and an embarrassment to currencies that are failing. If gold were to go to 4,000 or 5, 6,000 an ounces Powell at the Fed and Biden at the White House would be looking pretty embarrassed. And so it's the same thing in Great Britain. It's the same thing in Europe. They have to keep that shiny gold bar less shiny because it's an insult to failed currencies. And so there's a permanent day to day 24/7 effort to keep those gold prices and silver prices manipulated. It's there's so many examples of it. Anyone in the gold space, it's not a conspiracy theory. It's just an open secret.

The question is now will free market price discovery, post Ukraine, post dollar distrust, post distrust for the West in general, as you're weaponizing FX reserves as you're weaponizing IMF, SDR access. As you're taking countries off the Swiss system, as you're distrusting the US Treasury and the FX reserves, more and more countries are going to do what Russia is doing.

Matt: They're going to be trading bilaterally on their own currencies or in gold or other metals and not in the US dollars. So the US dollar, like the OTC will not have the same strength it did 10 years from now as it did 10 years or 10 minutes ago and that's a global change. As Grant said, what happened in February of 2022 is about as momentous as what happened in August in 1971, there is a sea change now in trust in the dollar, trust in the treasury, trust in global and financial systems, trust in the Swift, trust in the SDR.

And so as that trust falls, you're hitting that fourth turning where you're losing trust in that system. You're going to go to more of these localized exchanges where you're really going to see gold for gas or gold for Rubles or Rubles or Yuan for oil. So that means the petrodollar, the OTC market, the US dollar's worlds of currency all of those things are now thinning in merit, thinning and trust and thinning and hedging in primacy. And again, that's not going to happen overnight, but it's a genie that can't be put back in the bottle. I've joked in other interviews, if my banker or my bank freezes my bank account for no reason other than a political difference. And then we make up a year later and they give me access to my accounts. I'm never going to trust that bank, recommend that bank or use that bank again.

And that's what's basically happening globally with Uncle Sam and the Fed and the US FX reserves and the US dollar. There's just a loss of trust now. And even if there's a resolution in the Ukraine, no one is going to trust FX reserves or US treasuries the same way, especially those nations that are less friendly to the US. And frankly, America hasn't made a lot of friends. And so we still have our NATO Alliance in Europe, but the truth is we're getting squeezed out of our own policies. And I think to get to your point, yes, there's open manipulation in gold and silver there's no way around it. It's a powerful boot to the neck of natural price discovery. It's not insurmountable, but even that OTC market is not going to have nearly the kind of power going forward as it had in the last 50 years.

Addison: And also just the way fiat currencies work. It depends entirely on trust in competence that the currency will hold its value and that the bonds behind it will be worth something 10, 20, 30 years from now. So that seems like the erosion of trust is probably the worst thing that can happen. We've been saying that in The Daily Reckoning for 20-something years, that confidence is the most important thing that the US government can do.

Matt: Absolutely.

Addison: In a way, because Biden stood up in Poland and said, we have to lead this global swarm of moral approbation against Russia. But half the world said, "Well, not so fast." And even Ukraine itself is still piping gas through the country.

Matt: Yeah. That is a great point, Addison. I mean, truthfully, and again, I'm as Americans as they come. I grew up in America. I played baseball in America and went to school in America. I love America. I think it's a great country. I'd certainly rather live there than in China. But what I'm saying is it is the height of hypocrisy to morally grant whether it's green energy or whether it's human rights. Again, let's just call a duck at duck. What we did in Yemen, Afghanistan, Iraq, Syria, are any of those countries better off or worse off since we came in there to spread freedom or spread influence? And so the idea that we're ashamed or shocked at what Putin is doing for his own national interest because at the end of the day, nations have neither permanent friends nor enemies, just interests.

We have done just as much damage to the world in terms of human rights and green energy as anyone else. And yet we're trying to claim moral superiority here. I don't think even Americans are buying that anymore. Despite the woke split in the US and the left-right divide. It's pretty hard for us to, if we have any sense of history, any sense of math, and any sense of politics to call ourselves moral leaders. But that does not mean Putin in China is certainly leading the cause. They're not, there's just a lack of that general in the world right now.

Addison: Can you explain to me what happened in Switzerland? They have since I think it began right in the 2000s, they started selling off their gold reserves. They've sold off sixty percent now. And also in this conflict with Russia and Ukraine, they took the side of Europe.

Matt: Unprecedented.

Addison: They threw out hundreds of years of neutrality.

Matt: Yeah, you're right. In terms of percentages of FX reserves in gold, Switzerland, Portugal, Spain, and Great Britain actually went down rather than up since 2015, they've been selling their gold or removing their gold, which is ironic. Given that 70% of the gold refining in the world comes out of Switzerland. That is your second point, for Egon and I were far more disorienting and discouraging. Although I still think Switzerland as the jurisdiction is the superior jurisdiction for so many reasons. The fact that Switzerland broke its neutrality over the Ukraine issue to us was shocking. And frankly, I think that shows two things. It shows the power still of Western influence over Europe in general, even neutral countries like Switzerland. For Switzerland to fall under that kind of pressure to puff their chest and flex their biceps in front of Putin.

It also, I think, shows the desperation and the weakness of the West though. Because the West knew, A, it couldn't do a hot nuclear war over Ukraine. And the West also realized that financially they weren't as strong as they thought. Certainly, America alone isn't as strong as it thought.

Matt: So it tried immediately with these swift sanctions, these SDR sanctions, these FX reserves freezing. They tried to flex their muscles real quickly and get as many countries on board. And they got Switzerland on board. Although it amazes me when countries like Austria are 80% dependent on natural gas and oil from Russia and Germany and Olaf Scholz are dependent on 40% or 50% for their coal and gas, 35% of their oil. As they're yelling at Putin and squeezing Putin, they're importing his oil and gas and there isn't as much flex as they think there is.

And it reminds me, I was joking with a friend of mine the other day when I remember I was 13 or 14, I was in love with some girl and I was a teenager. And I got into a fight after a baseball game with someone who I knew was going to win the fight. And it goes to my point, you punch once and you think, "Oh man, I shouldn't have done that because I'm about to get clobbered." That was my point earlier. I think we punched as much as we could. You got as many countries behind us, at least on the headlines. And in the first few days, thinking that was going to cause Putin decay, which completely underestimates Putin and Putin's interest, and Switzerland jumped on board on that. And I think it was a mistake.

I think it was a mistake for Switzerland's reputation. We need neutral assets and we need neutral jurisdictions that are not politicized. So much is political and so much of that politicization is based on money and flows and influence and Switzerland buckled. I was surprised, Egon was surprised. We didn't see that coming. Still a better jurisdiction than Canada or Latin America or Eastern Europe to hold gold. But it wasn't what we expected.

Addison: I mean, the erosion of neutrality began back with the UBS decision when they agreed to hand over records to the IRS, that was in 2007 or something.

Matt: Unprecedented.

Addison: They threw out hundreds of years of neutrality.

Matt: Yeah. All of those, I mean with FATCA and this whole idea there's a dollar translated anywhere. In some way, and this goes to maybe we get into the Bitcoin conversation too, how much autonomy or anonymity is safe and good, and how much is nefarious and bad. And clearly there can be good things about pure autonomy and pure anonymity, but that can also be a funnel for bad actors, bad actions and things like that. But I think ultimately and my bias and my leaning is there has to be certain places. You need basic anti-money laundering policies and know your client policies. But I think there should be jurisdictions where the West doesn't have influence over financial policies or banking policies. And with FATCA and UBS that's slowly eroding too which might explain why Bitcoin became so popular.

Matt: Because people in groups were looking for a truly unique anonymous and non-politicized currency, which is why Bitcoin has been so popular. One of the many reasons it's been so popular.

Bitcoin and Blockchain Are Great, But Gold Will Always Be a Superior Assett

Addison: What is your opinion on Bitcoin and just into non central bank digital currencies. I remember right about the time that you were running a hedge fund in the tech rec, we were writing about how a lot of brick and mortar companies were attaching a.com at the end and then suddenly a stock price would rise but there was nothing behind it. But a lot of the technology that was developed during that time, email, for example, and the stuff that led to who you and I talking by Zoom and a lot of the infrastructure of the digital world was all developed through technologies that were built during that.com bubble. My view with blockchain is that's going to be the residue that's left over after I think there's something like 1600 cryptocurrencies right now. A lot of those are fraudulent and a lot more are just objects of speculation, just like what happened in the tech boom. That's just my generalized opinion about cryptocurrencies, but at the same time we're going to be left with blockchain and likely a complete revolution in the monetary system as much as going to paper did in the first place when we went from coins and pence back in England.

It was much more usable. And I think that's what we're going to get from blockchain too. Let's just reign that back into specifically something like Bitcoin, which has been engineered to have a limited supply and therefore a stability moving forward to 2030. I mean, you could make the argument that Bitcoin is the legitimate digital currency that's not connected to some kind of central bank and that it stands apart from Ethereum and the rest of them because of the guidance that was put in place to begin with. So I don't know what your opinions are on that. Because a lot of people will call it digital gold.

Matt: Look, I think people expect someone who's a principal at a private gold operation out of Zurich to just be anti-blockchain or anti-Bitcoin. And this I don't think it has to be a zero-sum conversation. I know Ronnie at Incrementum deals in both physical, and precious metals and in cryptos, in Bitcoin, in particular. Ultimately, no, I'm not a Bitcoin fan. And I don't mean to be evangelical about that, because I think that can be very touchy for people that have made fortunes off of Bitcoin, and don't get me wrong. I wish I had bought more Bitcoin. Believe me, I do just for... And we have a lot of clients who did and then converted that Bitcoin into gold and I think that's very telling. And that's one thing I'll say I have a lot of respect for the philosophy or the thinking behind the concept of Bitcoin.

Matt: And I certainly have a lot of respect for the technology and blockchain, it's phenomenal. You can't deny that. And I think Bitcoin can make fortunes and it can make you wealthier certainly than gold or silver ever could, but can also make you broke overnight. And there's risks there that I don't think exist with silver and gold. But the first thing I think though, is ultimately, I don't see Bitcoin as a store of value. Because it moves at 20, 30% flings in an afternoon of trading. Some people say that's just consolidation. It'll find its room. It'll find its place. It'll carve itself out just like you had automobiles. They had millions of automobile companies that consolidated under four. You had railroads that consolidated under four. You have cryptos it'll consolidate down to four. But I think as a store of value or as an alternative currency, it just hasn't done that.

I think truthfully Bitcoin is the speculative asset of all times of all times. It's less of a Ponzi scheme than it is a pyramid scheme. At some point, whatever that number is, it'll hit maximum value and there's not much more that can be done with it. I know Keith Wiener over at monetary metals is written really brilliantly about Bitcoin as a pyramid scheme as opposed to a Ponzi scheme. And that would take more intelligence in time than I have to give it. But I don't want to poopoo Bitcoin to be positive about gold. I don't think it's necessary. I think there are political reasons that make me question Bitcoin survivability longer term that don't exist necessarily with gold. People say, well, Bitcoin doesn't produce income. It doesn't have dividends. Well, that's true of gold too. There's no dividing their income for gold.

The thing that I'm noticing too, though, is one thing that bothers me is where Bitcoin's head office. Who really just created to soak up some of the inflation away from the gold price. I think that's a conspiracy theory that I have no evidence for. But I would like to really know, where is its head office, who are its board directors, and what's really behind it? Why? It's a mysterious beast. I certainly went through the.com bubble. I made undue amounts of money on IPOs. I had no idea what they were, but I knew it was a bubble. It was a bubble. As soon as I got off restriction, I took my capital gains and ran with it. And I see the same when with a lot of Bitcoin investors who made millions and then as soon as they think they got enough, they get out and they go by gold because they really don't see the long-term survivability of Bitcoin, and I could be wrong.

If Bitcoin does well, it won't hurt my feelings and it certainly won't make me rethink gold. But I do think politically for Bitcoin to be successful, that would be an absolute threat to the US dollar in the same way gold is at some point. And you're seeing that with Mnuchin and Yellen already puffing their chest for the ethical concerns about Bitcoin, about its anonymity, about what is it being used for trades, drugs, prostitution, human trafficking, or arms trades, et cetera. So we have to be very concerned morally about Bitcoin. And then there's the green energy thing and the amount of electricity it takes to mine Bitcoin, we're very concerned. So you're already seeing pressure legislatively in the US to squeeze Bitcoin. And you certainly see it in China, will Bitcoin survive in a world of sovereign currencies where Bitcoin is a threat to them?

Matt: It's hard to say. I do think it's a lot easier for a young kid in India or young kid in Texas who wants to get access to Bitcoin than it is for him to buy a bar of gold in Switzerland or to transact business that way. And so, again, I think Bitcoin is ultimately comparing a Yankees pitcher to a Manchester United free kick. They're totally different fields of play. They're totally different athletes. They are not even apples to oranges or apples to tangerines. I think Bitcoin's a speculative asset with a brilliant story and a brilliant distrust of Fed currencies or central bank fiat currencies.

As an alternative currency, I don't think it'll last. I think its narrative is strong. I think it's momentum is strong, but I've seen this before and I could be wrong, but to your point, the.com everything, the crypto everything, I think there's going to be more pain ahead after some euphoria. And I wouldn't want to insure the bulk of my worth in that coin. That said, I wish I had bought more, because I could have converted that to gold faster. And I think it is a bubble and I could be wrong. I'm not embarrassed to say that, but I wouldn't try to trust it as much as I trust a bar of gold or silver.

Addison: Well, a lot of the discussion around the legislation that you refer to, and even the president was talking about opening a commission to study the E-Dollar we'll call it. I think they've already actually agreed to study it. If there is an E-Dollar, a lot of the Bitcoin people have been saying at the Bitcoin 2022 conference in Miami a couple weeks ago, they were like, "Oh, regulation, bring it on because that'll bring both trust in the system and also stability to prices for not just Bitcoin, but other cryptocurrencies." How do you see regulation in that market playing out? I mean, does the Fed just come in and say like, China did say you can't use Bitcoin as a currency anymore?

Matt: It's a highly sensitive political and social issue given the popularity of Bitcoin, it got more popular maybe than they expected. I think for them to do what China did and just cut the head off of it by legislative fiat which created a great deal of unrest and more distrust for the big brother government. I don't know how they put that genie back on the bottle again, either. It's the same thing. It's gotten to a point now where it would be... Again, I'm just speculating how that would play out. I can't see a scenario where they simply just outlaw it or seize it or break it. Then again, if we go into a more autocratic, disorderly reset, that would just be one more victim on the table. I think they'll suck the blockchain out of Bitcoin and use that for their digital central bank currencies.

But they'll neuter Bitcoin in a slow gradual way. And once Bitcoin gets to a maximum price, it's the last buyer, then you're just sellers. And then it's all downhill from there, like a.com stock. And every crisis is a liquidity crisis. And if there's no more buyers for it or if they make it more difficult to transact and it'll be a slow unwind of that crypto.

Matt: And I can't imagine they could allow that to happen overnight like they've done in China and elsewhere, that would be very unAmerican. Until they can find a narrative that floats that's believable enough that there's enough human trafficking or enough illegal arms through Bitcoin. That's clearly the most nefarious thing that ever happened since tobacco, it'll be very difficult to do. So the short answer is I really don't know.

I just don't see it as a store of value as a currency, an alternative currency, or as a means of exchange, it's going to stick. I just don't. It's like an IPO in the nineties, how long will it be worth this a month, a year, two years? I don't know. I just don't trust it enough. And despite the manipulation of the gold market and despite the OTC market, gold is going to be a winner no matter how this thing plays out, this reset. Orderly, disorderly crypto blockchain or not, gold is definitely in terms of pure price... Again, we're just measuring it in terms of dollars or Euro or Yuan, I measure it in terms of grams or ounces. I still think gold as a price is going to see astronomical moves. And like I said, Goldman's already predicted 2,500 gold. I think it's going to be much higher this year. But whether it's this year or the beginning of next year or late next year, I don't really care. I just trust it. And I just don't feel the same about Bitcoin or crypto in general. I do admire it. I do admire blockchain and I'm certainly happy for the people that are holding it. Who've made a lot of money, but I've talked to too many who've converted that Bitcoin into gold for a reason. And I think everyone I know who's made money on Bitcoin will admit it's a trade. It's a trade. That's what it is. It's not a currency. And Sailor and others will totally disagree with me. And like I said, I'm, I'm certainly proud of them for coming up with an alternative to the US dollar period and making money off of it in the short term.

How To Manage Risk and Thrive Through A Global Monetary Reset

Addison: Let me ask you this. We primarily talk through our emails, through our published newsletters, through our conferences like this. We primarily talk to people who have made enough money in their lives that they're worried about it. And there's a lot of things to be worried about with your money right now. What do you recommend to an individual investor who is trying to either make a little bit, and maybe speculative in Bitcoin, or if they want to preserve their wealth? I know you recommend gold, but what's the best way of getting started if you are really just trying to understand these big changes and something big in momentos like the Great Reset. How is that going to impact people on an individual level if they're not plugged into some investment firm or something?

Matt: So I would certainly stay away from a stock bond portfolio. You need to allocate into other asset classes, currencies, commodities, agricultural real estate, luxury real estate. Now to someone who's making 50,000 a year and I get it luxury real estate isn't an option. You can't go out and buy some Malibu beachfront property and hope that it's an inflation hedge or that it has a resale value. So it's different for different strokes. But the first thing is to get out of harm's way. This asset bubble could peak another 20% or can you crash tomorrow? I'd much rather be out an hour or a day too soon than a minute too late on this. And I've been saying this for four years. I'm still trading certain sectors, but not bulk sector equities or bulk sector credits. You've got to get into real estate. You've got to get into ag land. You've got to get in commodities.

Again, everyone is blaming the commodity price surge this year on Putin or COVID, or on Putin in particular. But commodities were up as a class 27% last year, commodities rising because it's a new era of dollars debasing and in currencies tanking and equities being overvalued. So I think commodity, real estate, precious metals, obviously. Just because, and again, this goes back to history. There was a book that came out by Andrew Dickson White in 1912, a year before the Fed came into fruition. And he was a founder of Cornell university. It was an unknown book from an unknown academic. And he was writing about France in the 1780s. They did exactly what we're doing now. Necker was the Bernanke of the time. It was print. These things called Assignor which are the same thing as QE one, they had Assignor one, Assignor two and for years markets went up, war debts went away.

Euphoria, speculation, fortunes were made. It lasted for years until people started to warn, this is going to blow. Now the 1780s in France, their currency wasn't the world reserve currency. So we've been able to do this for longer than Necker and the national assembly in France. But what Andrew Dickson White was saying from Cornell in 1912 is what is actually happening right now under Bernanke, Geithner, Yale and Paul, et cetera. We are just doing the exact same thing. Printing to get out of debt, increasing more debt, using more printed money to pay for that debt. It ended in Napoleon coming in to take over. And that's the same thing that's happening here. We're ending in more autocracy. The point I'm making is what happened in the 1780s in France is going to happen in the US.

This is the question of when. And so there's so much overvaluation and credits and equities that to have a portfolio of pride credits and equities is highly risky. If you go to cash, you run the risk of cash getting eaten away by inflation right now. So that's why I would say commodities, precious metals or real estate. Dirt ag land or luxury real estate that are cash buyers that you can flip or that'll hold their own in a real draw down. But inflation is here and the Fed.... And I'm telling you right now, The Fed will print more money again. They're puffing their chest. You've got guys like Powell now. You've got Bridgewater, Goldman Sachs, you've got Neil Kashkari. You've got Lael Brainard, all of these former dubs now suddenly becoming hawkish saying, we got to be more Volcker like and raise rates.

Matt: The Fed can't raise rates. They simply can't. Because Volcker was in 1980 looking at 900 billion in national debt. Well, by 2022, we have 30 trillion in national debt. We can't raise rates. The fed will say they will. So they'll have something to cut when the markets crash. The reason the fed is puffing their chest right now, folks, is because they know the market's going to crash. They want to raise rates 25 bits here and there. So they have anything, something to cut when there's the next crash. And that crash is coming probably sooner than later. I can't time it. No one can. But you want to be ahead of that curve by not being loaded up in credits and equities that are correlated, they're going to tank together.

And this time it'll be like 2018, they tried to raise rates all throughout the year. They're selling rather than buying treasuries, markets will tank. They will panic like they did in December of 2018, the Fed will then pivot like they did in January and February and March of 2019 by pausing the rate hikes and then unlimited QE file. But as that happens, we're going to have more inflation. The reason we're going to have more inflation, I'll say this again. I'll say it because everybody in my hedge fund space knows this. They won't say it out loud and the Fed will never say it, the Fed wants inflation. The Fed wants inflation because it's an easy way to inflate the way out of debt. No matter where rates go, inflation will always be higher. They want negative real yields to inflate the way out of debt. Some people say that if they let the markets tank that'll be deflationary, but the Fed isn't about fighting inflation. The Fed was never about inflation fighting. They say that, but the Fed is not even federal.

Remember it's a banker's bank and it will support the markets. And the other reason it'll support the markets longer term is because a hundred, the mass majority of our consumer spending it leads to GDP comes from a rising market. It's not almost like our market is too big to fail, but it will fail when rates go up. And the Fed is pushing it for a failure. Now it will crash. They will probably print again. They'll definitely use the SRA repo facility to support the bond markets. My point is though inflation is here to stay. It's eating away at any year of your gains. It's eating away your yields. And so when you go to your question, what asset class do you want to have? You want not just tips, but also something that can fight persistent inflation, not inflation in asset class prices, inflation in terms of money supply and the purchasing power of your currency, your dollar, your Yen, your Peso, your Yuan. Again, I think commodities as a class, you could break those down, certainly precious metals.

And I'd say that whether I had an interest in Matterhorn asset management or not, I would say that to my clients then I'd say it again now. You have to have some form of physical precious metals. If you can't afford physical grams or ounces or bars of gold, yes, ETFs are an option. But ETFs have a lot of operational risks, that's not the question. But it's some way to play that space. And many people make it highly liquid until it isn't. But I would recommend if you can, absolutely physical gold and silver, 80/20 ratio.

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Matt: I would recommend massive allocations to commodities, which have volatility that you have to have the stomach for. I would get out of that 64, 70, 30 junk bond, corporate treasury growth on the credit side and growth value and emerging market and European market equities. They're all highly correlated, highly dangerous. You have to think defensively. And again, going to 30, 40% cash prior to a meltdown, which no one could time, is getting eaten away with inflation. So it's a really hard time for investors right now. It's a really hard time.

Addison: All right, Matt, thank you.

Matt: Yeah. I enjoy talking with you. Hope it was helpful to you. All right.

Addison: Thanks. Bye now.

Matt: Take care. Bye, bye.

Meet your host, Addison Wiggin

The Wiggin Sessions, conceived during the COVID-19 pandemic and tornado warning in Baltimore, Maryland. Addison started interviewing key thinkers on Politics, Science, Economics, Philosophy and History to find out how their ideas impact financial markets and our financial lives. Key thinkers include Jim Rickards, Bill Bonner, George Gilder, James Altucher and over 50 others.

In 2020, he launched a new project called ***Consilience***, which is an enlightenment era term that means "the unity of knowledge". He is the co-author of the New York Times best-selling books ***Financial Reckoning Day*** and ***Empire of Debt***, as well as ***The Demise of the Dollar*** and ***The Little Book of the Shrinking Dollar***. Addison is the writer and executive producer of the documentary ***I.O.U.S.A.***, an expose of the national debt, shortlisted for an Academy Award in 2008.

Matt Piepenburg

Matt Piepenburg began his finance career as a transactional attorney before launching his first hedge fund during the NASDAQ bubble of 1999-2001.
Thereafter, he began investing his own and other HNW family funds into alternative investment vehicles while operating as a General Counsel, CIO and later Managing Director of a single and multi-family office. Matthew worked closely as well with Morgan Stanley's hedge fund platform in building a multi-strat/multi-manager fund to better manage risk in a market backdrop of extreme central bank intervention/support. The conviction that precious metals provide the most reliable and longer-term protection against potential systemic risk led Matt to join MAM.
The author of the Amazon #1 Release, ***Rigged to Fail***, Matt is fluent in French, German and English; he is a graduate of Brown (BA), Harvard (MA) and the University of Michigan (JD). His widely respected reports on macro conditions and the changing behavior of risk assets are published regularly at **SignalsMatter.com**