

Monday Missive 2021.08.09 The Nixon Shock

"I am not a crook." Richard Nixon

"I have directed Secretary Connolly (Treasury Secretary) to suspend temporarily the convertibility of the dollar into gold..."

Richard Nixon

As you might guess, President Nixon is our topic today. And the month of August was not good to the 37th president. He resigned on August 8th, 1974. So that anniversary passed yesterday. Thus, the first quote above.

The more long-lasting decision, however, occurred three years earlier on August 15, 1971. On that day, Mr. Nixon went on national TV and took the US off the gold standard...temporarily. The 50th anniversary of his "temporary" decision will occur this Sunday. Thus, the second quote above.

President Nixon must have known the gravity of his decision. National TV addresses were rare back then. Oh, and BTW, you can watch his speech on YouTube. He is nervous. Clumsy. Uncomfortable. It's worth the watch.

Internationally, this event is known as the "**Nixon Shock**" and was seen by many foreigners as an abrogation of America's debt. Until then, their American bonds were redeemable in gold. Now they were redeemable in paper.

In his defense, Nixon had no choice. Here is the backdrop.

After World War II, the US possessed 22,000 tons of gold. To the victor go the spoils.

By some estimates 75% of all the gold that *had ever been mined in the history of the world (!)* was safely stored at Ft. Knox, West

Point, and the Denver Mint. With that much gold (and a post-WWII intact industrial base) it was logical for the dollar to be backed by gold. No other currency in the world could compete.

But as the years went by politicians (both Democrats and Republicans) could not control themselves. We printed more currency than we had gold to back it. And soon the world noticed. Foreign governments began redeeming their paper dollars for physical gold.

By August of 1971, our gold reserves were down to 8500 tons --- and the “standing for delivery” notices were accelerating. President Nixon had to “close the gold window” or every ounce of gold would have left our shores and gone back to Europe and Asia.

So, why the history lesson?

Well, besides the 50th “Year of Jubilee” anniversary, the consequences of Mr. Nixon’s decisions have manifested in a way no one could have imagined in 1971.

With no anchor to tether our currency, over spending became easier. It started slowly, but has now spun into crazy land. And, again, both sides are to blame.

The \$1 trillion infrastructure bill being debated now consists primarily of “social infrastructure”. There is even \$110 billion earmarked to destroy “racist roads” I am not making that up.

That bill is certain to pass.

Next, however, comes the big one. A \$3.5 trillion “budget deal” that will push 2021 federal spending to astronomical heights (\$9 trillion?).

So, what does this mean for gold?

Well, after last week's (and this weekend's) beat-down of the gold price, the gold world is now pretty discouraged. Don't be. The price drop was based on algorithms that trade off headlines. And that headline went something like this. ***Fed Might Raise Rates in 2023***. Might? 2023? And that sparked a sell off?

No. Big money sees what is coming and used the headline to push the price down so they could cover their "short" positions and buy cheap. Old tricks. We've seen it a lot before.

Anyway, since this is 70's day in the missive, let's go back to an investing legend---Sir John Templeton. Why is he revered?

From 1965 to 1982, the stock market was moribund. In 1965, the Dow had hit an all-time high of 864. Seems quaint. In 1982, the Dow was at 865. Yup, 17 years, one lousy point up.

Sir John noticed something, however. He saw value in stocks that were surviving the Nixon Shock and the Ford-Carter inflation. The market didn't see it. But he did. Dutifully, almost every month, Sir John went on business TV and calmly said, "Buy stocks. The value is there. You won't be disappointed."

He was saying this as commodities, gold, silver, and energy ripped higher. He was out of step.

Then, in 1982, stocks took off. Gold, silver, oil, and commodities tumbled. Anyone who listened to Sir John became wealthier. Some by a lot.

Today is the reverse. Stocks are at nosebleed levels, but the value is in the hard asset sector. The market just hasn't seen it yet. It will. Big money is positioning there. Another "shock" is coming. Your patience will be rewarded.

Signed, Your How-Come-An-18-Year-Old-Can-Get-\$200,000-In-Student-Loans-But-A-Small-Business-Owner-Can't-Get-A-\$20,000-Line-Of-Credit? Financial Advisor,

Greg

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