

KKOB 06.26.2020 Gold Part 2. What Good Is It?

Bob: So, Greg, we are doing the deep dive into gold. And there are those who say, *“Gold doesn’t do anything for you. It’s just a shiny, yellow metal.”* Meanwhile, others say, *“Gold has had value since Egyptian times. And, 20 years from now it will be worth more than paper dollars.”* So, who is right?

Greg: They both are. Gold opponents are correct. Gold is a soft, shiny, yellow, metal. It doesn’t move a truck or a train. You can’t eat it. You can’t communicate with it. It is not used much in industry. And it’s used in only trace amounts in technology.

It’s used in jewelry. But, besides that, it really just sits there.

So, with all that negative baggage, why do people all over the globe value it? And, why have they valued it for thousands of years?

Bob: I don’t know. I will say this though. If you put a gold coin in someone’s hand, they act kind of funny. It’s kind of warm to the touch. They’ll stare at it. Stroke it. They’ll even joke and put it in their pocket and say, *“See you, later.”*

Greg: Right. Maybe it’s part of our DNA. Who knows?

I believe this though; everything was put on the planet for a reason; and gold makes good money. But before I go on, we need to differentiate between money and currency.

We tend to conflate the two, but there is a big difference.

To be a good currency, a currency must have certain attributes:

- It must be portable...that’s why cows are good barter, but not good currency.

- Currency must be divisible...meaning you can make change. Again, cows don't fit that requirement.
- A good currency is fungible. This is a funny word, but important. Fungible means is interchangeable. For example, if I lent you \$10, I don't care if you pay me back with the exact same \$10 bill, or two five-dollar bills. \$10 is \$10. Cows aren't fungible.
- Finally, a good currency is durable. A paper dollar can last for years--- and coins can last for centuries.

Bob: OK. I get that. So, the US dollar is a good currency. It's portable. I can get change. Every dollar looks and behaves the same as any other dollar. And I can wash it in my jeans, and it won't deteriorate.

Greg: Exactly. The dollar is a wonderful currency. And yet, it is horrible money. Oh, and the same goes for euros, yen, pesos, yuan, and any other currency out there.

So, what makes something good money?

Well, it must have currency's attributes, but it must add one more thing. It must retain its value over time.

And, this is why gold stands out:

- Like currency, it's portable. You can put an awful lot of wealth in your pocket with just a few gold coins.
- It's divisible. You can divide gold any way you want.
- It's fungible. Gold is gold.
- It's durable. You can drop gold to the bottom of the ocean and pull it up 500 years later and it is still gold. Try that with copper, steel, or paper money.
- And finally, gold retains its value over time. Gold was valuable to pharaoh--- and it's valuable to kings and presidents today.

Meanwhile, paper dollars have lost over 98% of their spending power over the past 100 years. Every paper currency in the history of the world has eventually gone to its intrinsic value of zero. No exceptions.

Bob: But isn't gold just valuable because we ascribe value to it? I mean, if we all decided it was just worthless, wouldn't it be worthless?

Greg: Yes. But that is true of anything. We could say that about dollars now. It's just paper. There is no intrinsic value to it. We could say the same of diamonds. It's just a hard rock.

But humanity needs something beyond currency to flourish. And, over the centuries, and by consensus, we've arrived at gold. This is why in 1912, JP Morgan said, "*Gold is money. Everything else is credit.*"

Bob: I wouldn't argue money with JP Morgan. How do people reach you?

Greg: My number is 250-3754. Or, go to my website at zanettifinancial.com.