

Hello Everyone,

**Exams test your memory, life tests your learning; others will test your patience.** *Fennel Hudson, Author and avid fisherman*

Today's missive starts with a test...really only a pop quiz about gold, money, and currency. Bob, did well. I suspect you will, too.

Then, we will pivot to scams. What did President Reagan used to say? **"Trust but verify."** The same holds true with gold. Oh, and the biggest gold scams are in the land of the gold-giants...those who buy gold by the tonne.

And yes, I know that seems paradoxical, because we all tend to conflate wealth with intelligence. But, being rich doesn't always make you smart. But you knew that. :>)

Signed, Your-Afraid-To-Sneeze-Or-Cough-In-Public Financial Advisor,

Greg

## **KKOB 07.17.2020 Gold Part 7 Review & Scams**

**Bob:** So, Greg, you've spent the past few weeks going over the gold markets. And there is a lot to digest. So, today, you want to do a quick review before we move on, right?

**Greg:** Right. So, Bob, think of this as your mid-term pop quiz. Ready?

**Bob:** I guess. But I never much liked it when teachers gave pop quizzes...especially on Fridays.

**Greg:** I know. It's kind of rotten. But that's how I roll. So, ready? First question: Are money and currency the same?

**Bob:** No. Currency is important. It is how we conduct trade. But, currency does not hold its value. For something to be

considered money, it must maintain its value over time.

**Greg:** Ding! Correct. That's why gold is money---- and dollars, yen, euros, and pesos are currency.

Next question. True or false. Wealth and money are the same?

**Bob:** False. Money is what enables you to acquire wealth. Wealth might be productive land, or ownership in a company that makes products people want, or even a great idea that will change the world.

**Greg:** Ding again! And remember, in and of itself, gold is a shiny, yellow metal. Still, for thousands of years, has been considered money. Thus, *gold is as a proxy for wealth.* It's *what gold will get you* that matters.

Next question. Are all gold markets the same?

**Bob:** No. There is a paper-gold market where *gold contracts* are traded. Those contracts are denominated in 100 troy ounces per contract. Meanwhile, there is a physical gold market that trades by the metric tonne.

**Greg:** Outstanding. Rarely are paper contracts redeemed for real gold. Thus, exponentially more paper gold trades than real gold to back it up.

Meanwhile, gold by the tonne is almost always delivered to the buyer's vault. The paper price of gold does not equate proportionately to the tonne price. A tonne

of gold is rare---hard to get---so it is priced far higher than a paper-gold price.

**Bob:** But we don't know the tonne price. That is a pretty secretive world. I can't imagine that guys who buy gold by the tonne want their transactions made public.

**Greg:** Exactly. And, now here is something that will surprise you. It is those super wealthy entities who must be very wary of scams. For example, just last month in China, 83 tonnes of gold were determined to be fraudulent. A struggling Chinese gold mining company took some tungsten bars and overlaid a thin layer of gold and copper alloy to make the tungsten look like real gold. They then used that "gold collateral" to get billions in loans from Chinese banks.

We've seen the same thing both here and in Europe. Tungsten bars coated with a thin layer of gold and stamped as real...with serial numbers and official looking seals.

**Bob:** why tungsten? I mean why not use iron, or copper, or steel?

**Greg:** Great question. Do you remember the *Periodic Table of Elements* that hung on the wall in your high school science class? Well, on that chart, a few spots before gold is tungsten. And the atomic weight of tungsten is only about 7% lighter than gold. So, a tungsten bar will feel "weight-wise" about the same a real gold bar.

Just coat the tungsten bar with gold and voila (!)...only a pro will know by feel if

it's fake. You'd have to drill it (or use some special X-Ray machine) to be sure.

**Bob:** So, how much does tungsten cost?

**Greg:** Let's say this. An ounce of gold is going for over \$1800. In China, you can produce a tungsten wedding ring for under \$5.

**Bob:** So, in this case, the little guy has an advantage. It would be lot of work to make a tungsten-gold coin. And, you wouldn't make much profit even if you could pull it off. Meanwhile, counterfeiting the 400 ounce gold bars that comprise tonnes makes sense.

**Greg:** Exactly. Meanwhile, when the scams are revealed, it's hilarious to see someone pull the gold coating off a tungsten bar. It looks like aluminum foil.

**Bob:** Gold is a very strange world. Oh, and, I got a 100 on my quiz. How do people reach you?

**Greg:** Yes, you did. My number is 250-3754. Or go to my website at [zanettifinancial.com](http://zanettifinancial.com).

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