Cyprus and Gold: Lighting a Candle in a Dark Room

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By now most people are aware of the events unfolding in Cyprus. The financial world was rocked by the announcement that the "Troika" of the European Central Bank (ECB), International Monetary Fund (IMF), and European Commission (EC) decided to give the tiny island of Cyprus an ultimatum – either pay a 9.9 percent wealth tax on deposits over 100,000 euros, or leave the EU. This tax would be taken directly from bank savings accounts. The expropriated funds would be used to "bail out" troubled Cypriot banks. Those banks will in turn pay off larger European banks to which they owe money. Because some Cyprus banks will fail, some investors stand to lose up to 40 percent of their deposits and many bank employees will lose their jobs.

To describe the events in Cyprus and their relevance to gold, we can start with the analogy of a peaceful, self-satisfied Western investor asleep in a dark room. He has had trouble sleeping lately because he is starting to become more concerned about the safety of his personal wealth. He is unaware that he is sharing his room with three large elephants. They come each night, but remain hidden by the darkness. He awakens for a moment and lights a candle. Suddenly the room is illuminated and he sees the three beasts. The vision terrifies him, so he races to blow out the candle hoping to forget what he saw. Of course, once the light shines on truth it is difficult to return to a state of ignorance. The events in Cyprus had the effect of turning on the lights, if only for a moment, before the financial media and the world's central bankers began a blitzkrieg campaign of denying the truth that was briefly exposed. The Internet captured the picture, and allowed those who understand the dark side of international banking and the fiat Ponzi scheme upon which most of our lives depend to share their knowledge of the three elephants.

So what do these three elephants represent?

The three elephants represent three secrets that are a direct threat to the illusion of the fiat Ponzi scheme. The first elephant represents inflation and loss of purchasing power; the second elephant represents public confidence in the fiat system; the third elephant is the biggest, most dangerous of all to the sleep of ignorance—uncompromised gold bullion ownership, gold bullion to which we hold title.

Those who have benefited most from the modern fiat system know that to maintain the status quo, the first elephant—the truth about inflation and loss of purchasing power—needs to be kept hidden from the public. After all, the more currency that is created through quantitative easing and bailouts, the more that currency loses purchasing power and the more painful inflation becomes. The public is becoming increasingly suspicious—especially if they eat food, heat their homes or send their children to college—that the dollar is buying less each day. Yet official government figures show inflation is at a tame 2 percent. Were they to use the original basket of goods that was used before President Clinton began introducing metrics like hedonic regression and substitution to alter the consumer price index (CPI), the main measure of inflation, as John Williams of ShadowStats.com still does, they would realize that inflation is running at closer to 10 percent, not 2 percent. The fact that the world's major currencies (the U.S. dollar, the euro, the British pound and the yen) have lost 80-90 percent of their purchasing power against gold in the past decade is proof of this. Unbounded currency creation leads to exponential debt that leads to more and more of the taxpayer's money going to pay interest to privately owned banks like the Federal Reserve.

The second elephant, the loss of confidence in the present system, must also be hidden from the public's sight. This why the Troika, along with the financial media, worked overtime to assure the public that Cyprus is an isolated event and there is no need to panic. The two Cypriot banks were depicted as "casino banks" that were over extended. Later in the week, news began to seep out that other troubled banks in Spain, New Zealand and Italy may suffer the same fate. Savvy Russians moved quickly to remove as much money from the branches of the two banks in question, the Cyprus Popular Bank, also known as Laiki, and the Bank of Cyprus, which remained open in London. Cypriots who didn't have this opportunity found accounts frozen and doors locked. Trust and confidence takes a lifetime to build and only a second to lose. Thanks to the ubiquity of the Internet and the in-depth reporting of the gold community, the Austrian economists and the developing world that wait patiently for the U.S. dollar to be replaced with something more equitable and real, a currency with some relationship to gold, the entire world caught a glimpse of this truth.

The third elephant, gold ownership, has a way of magically transforming the way we see money and value. When we own gold we start thinking in terms of ounces rather than fiat dollars or euros. For example, we may find ourselves asking, "How many ounces of gold would I have needed to buy a house 42 years ago and how many would I need today?" The answer to that question is that we would have needed 703 ounces to buy an average home in 1971 and 228 ounces to buy an average home in 2012. Or, for the same amount of gold, we could buy three houses. Considering that the price of a home has risen significantly in dollar terms during that time, this should come as a startling realization. The lens of gold ownership provides a much broader perspective, one that encompasses inflation, loss of purchasing power and even unexpected black swan events, such as bank failures, that most risk assessment models consider unquantifiable.

Therefore, the events of Cyprus were similar to lighting a candle in a dark room and they will make it very difficult for investors to sleep the blissful sleep of ignorance. Knowing that the template used in Cyprus is essentially the same for all uninsured deposits should turn some wealthy investors into insomniacs. Governments around the world have been robbing wealth through inflation and a little known but highly effective policy called "financial repression". Now, they have taken the bold step of expropriating funds directly from savings accounts. This marks the crossing of a sacrosanct red line.

The frightening thing about lying is that it takes a thousand lies to support a single lie and yet truth, once seen, supports itself. This is the significance of the events in Cyprus to gold. What would happen were the Troika to make the same demands on the offshore banks of the Cayman Islands, or even the Turks and Caicos, as they did in Cyprus? First, they would discover billions of dollars they otherwise didn't know about, and second, the Western investors who held money in these accounts would be outraged, just as Russian investors who used Cypriot offshore accounts were.

So far the Western financial matrix has been successful in sustaining the illusion of safety and security in their banks through something gold investor extraordinaire Jim Sinclair calls "management of perceptive economics" (MOPE). This is the propaganda campaign that started on August 15, 1971, the day President Nixon removed the world's reserve currency, the U.S. dollar, from its final international peg to gold. As investor perception had to be managed to create confidence in unbacked fiat currency, gold had to be equally disparaged. This is one reason so many wealthy Western investors, funds and even central banks are so dangerously under-invested in gold.

The campaign has been effective for the past four decades and investors have been almost entirely convinced they have nothing to worry about. After all, every financial crisis has been met by an avalanche of new currency creation and a barrage of happy talk about green shoots of recovery, resolution and, of course, the perpetually rising DOW.

Yet Cyprus is a wake-up call that may be what Mr. Sinclair referred to as "the biggest mistake made by the IMF and the ECB in their history." To date, the gold market has been an orderly one, thanks to the leverage of the paper gold market and the largest accumulators, the Eastern central banks and wealthy developing-country investors, who wish to continue accumulating at bargain basement prices. Panic tends to make for disorderly markets and the wealthy are just as capable of herd mentality as anyone else. When the realization dawns that physical gold, gold to which one holds title, gold that is stored in a vault outside the grasp of the banking system—the ultimate form of wealth protection—is in extremely limited supply, there will be a stampede to obtain it.

Cyprus is a small country of less than a million inhabitants. Apart from its broken banking system, Cyprus in some ways is in better shape than many of the larger European Union members, such as Greece and Spain, which have unemployment in the double digits. Cyprus currently has an unemployment rate of 12 percent. Its debt-to-GDP, at 85 percent, is considerably lower than that of the United States at over 100 percent. Some feel Cyprus was singled out for a daylight robbery test run on personal bank accounts because of its close relationship with Russia, a key geopolitical competitor to the EU. Whatever the motivation, the plan has backfired spectacularly.

Last Friday Nigel Farage, leader of the UK Independence Party, underlined this message in an interview with RT News network, stating that the turn of events in Cyprus leads to one conclusion: "Don't invest in the Eurozone! Do not invest anywhere in Eurozone. You've got to be mad to do so, because it's now run by people who don't respect democracy, who don't respect the rule of law, who don't respect the basic principles upon which Western civilization is supposed to be based."

Cyprus was not the first domino in the long line that is poised to topple the entire Western banking system. Iceland was. When Iceland was given a similar ultimatum to pay the European banks or risk retribution, it held a national referendum and decided instead to throw some of the bankers out of the country and incarcerate the rest. The move freed them from the Eurozone's oppressive grip overnight. Within two years the Icelandic economy was well on its way to full recovery.

Fortunately, this story was easy to bury, because the Iceland domino fell backwards and did not affect the chain. Iceland was not a member of the EU, but Cyprus is. If Cyprus were to leave the Union over this dispute, other countries like Greece could follow suit. Why wouldn't they? The money Greece is borrowing to remain in the EU is not going to the Greek people who suffer 25 percent unemployment and escalating business failures due to lack of access to credit. It is going to the German and French banks.

Confidence, like truth, doesn't disappear; it just finds more stable ground. Gold has been the bedrock of the world's economy for thousands of years, maintaining purchasing power better than any other asset class. Re-allocating wealth to gold restores confidence in money, and storing gold in a secure, LMBA-protected vault is the most effective way of regaining confidence in money at a time when bankers are so desperate they will threaten broad daylight thievery. We encourage readers to act on this lesson from the events of Cyprus and re-allocate assets to gold. This simple move is like buying the ultimate wealth protection insurance policy against black swan events, currency devaluation and now, robber bankers.

In my new book, *$10,000 Gold: Why Gold's Inevitable Rise is the Investor's Safe Haven,* published by John Wiley and Sons and to be released in May, I discuss the long-term and irreversible trends that will lead to $10,000 gold. The book looks more deeply at the issues discussed above. It also describes how investors can protect their wealth through precious metals ownership, just as many in the developing nations have been doing methodically for the past decade.

Each week BMG presents a free newsletter called the BullionBuzz that is a compilation of articles, charts and videos that follow the developing trends that will lead to $10,000 gold. The articles in this week's Buzz include the following:

Market Watch: Dijsselbloem shocker is U.S.'s template, too
http://www.bmgbullion.com/document/5091

CBC News: Cyprus bailout could cost big investors 40%
http://www.bmgbullion.com/document/5092

Reuters: INSIGHT-Money fled Cyprus as president fumbled bailout
http://www.bmgbullion.com/document/5093

RT News: "Euro is a house of cards waiting to topple'-Nigel Farage
http://www.bmgbullion.com/document/5094

$10,000 Gold: Why Gold's Inevitable Rise is the Investor's Safe Haven
http://www.10000goldthebook.com

Innovative Gold Fund Stems Corrosive Tide of Financial Repression
http://www.bmgbullion.com/document/5095

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Widely recognized as international bullion expert, Nick has written numerous articles on bullion and current market trends, which have been published on various news and business websites. Nick has appeared on BNN, CBC, CNBC and Sun Media, and has been interviewed for countless articles by leading business publications across North America, Europe and Asia. His first book $10,000 Gold: Why Gold's Inevitable Rise is the Investors Safe Haven, will be published in the Spring of 2013. Every investor who seeks the safety of sound money will benefit from Nick's insights into the portfolio-preserving power of gold.
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