

Interview with James Turk (GoldMoney)

James Turk is Founder and Chairman of Goldmoney.com.

He is the author of two books and several monographs and articles on money and banking. He is the co-author of "[The Coming Collapse of the Dollar](#)" (Doubleday, December 2004) and publisher of [Free Gold Money Report](#).

Dear Mr. James Turk,

You are the author of several books, among others 'The Collapse of the Dollar', and your company is safeguarding over US\$1 billion worth of precious metals. Would you be so kind to answer the following questions:

Question 1: Since the end of March GoldMoney has offered precious metal storage in Hong Kong. Is there a demand for this? If yes, how great is the demand?

Turk: The demand has been very good. About 2.5% of the metal within GoldMoney is already being stored in Hong Kong. I expect this amount to grow to more than 10% over time. Many of our customers wanted the opportunity to geographically diversify their precious metal holdings and Hong Kong was a logical choice.

Question 2: Why doesn't GoldMoney offer gold or silver storage in the US? Isn't the US the largest market?

Turk: One of the basic principles that we follow in GoldMoney is to meet the needs of our customers by providing the services and new products they request. They are not asking us to provide storage for them in the US. My guess is that people do not want to store precious metals there because the US government confiscated gold in 1933. If it happened once, it could happen again. So our customers are probably thinking that it is better to store their gold in locations where property rights are better protected.

Question 3: Do you consider it is possible that there are still massive short positions in gold and silver derivatives?

Turk: Yes, I do, and your observation leads to an important point. There is a fundamental difference between physical gold and paper-gold. The former is a tangible asset, and the latter is a financial asset that comes with counterparty risk. When you own paper-gold in any of its forms, including derivatives, you do not own gold. You only own exposure to the gold price, and the value of your asset is dependent upon someone's

promise to make good on their commitment to you. That's what counterparty risk is all about, as the customers of Lehman Brothers found out when it collapsed in 2008.

Basically, there are only two ways to buy physical gold and silver. Either you buy it and store it yourself, or buy it and have someone store it for you, which is of course what we do in GoldMoney. But if you choose this second alternative, you must be sure that the company you use has the same governance procedures and controls that GoldMoney uses. The most important of these is regular independent third-party audits that verify that the weight of gold and silver in the vaults equals the quantity of gold and silver owned by customers. GoldMoney uses two different auditing firms to make these verifications. The auditing firms also confirm other important controls related to governance. These reports are made available to our customers so that they know their precious metals are safe.

My point is that gold and silver are the bedrock assets in your portfolio, so you do not want to take risks with them. Independent third-party audits are necessary to provide the assurances of integrity that your metals are being safeguarded.

Question 4: Can you envisage that the gold and silver price will be once more under pressure?

Turk: Anything is possible when it comes to markets, but the focus should be on value – not price. Though their price may seem high, gold and silver are still relatively undervalued. This result though is not immediately obvious for one simple reason.

While precious metal prices have risen over the past ten years, the purchasing power of national currencies is being eroded at nearly the same rate. Because we look at the price of goods and services mainly in terms of national currency, it is easy to lose sight of how severely national currencies are being debased. But once this erosion of their purchasing power is taken into account, the result shows that gold and silver are basically as good a value as they were earlier this decade.

Question 5: In the US, bank loans are available from the US central bank at almost 0% interest. Is this not a great opportunity for banks and hedge funds to buy precious metals such as gold, silver and platinum with the help of these inexpensive loans?

Turk: It is indeed a great opportunity to buy the precious metals, but there was a lesson learned in the de-leveraging after the Lehman collapse. Gold and silver dropped then because hedge funds and others had borrowed to take leveraged positions. Some of these funds had to sell their metal when the banks asked for the loans to be repaid and in some cases ended up with losses. So having been burned in this way, hedge funds in particular are being more cautious in their use of leverage in gold and silver, but there is also another factor at work here.

There is still a lot of misunderstanding about the precious metals. Gold is considered to be a volatile commodity instead of what it really is – money. Its principal usefulness is that it preserves purchasing power over long periods of time. For example, an ounce of gold today purchases essentially the same amount of crude oil as it has basically anytime over the past 60 years. Few people understand that important point. What’s more, because gold is a tangible asset, it does not have counterparty risk, which is another useful attribute.

Question 6: There is still cheap money available from the central banks. This is a profitable business for a ‘Carry-Trader’. As soon as the central banks increase the interest rates, the carry trades must be closed out (you can already witness this in the financial markets). In your opinion, what effects could rising interest rates have on currencies and precious metal prices?

Turk: One has to distinguish between nominal interest rates and real – or in other words, inflation-adjusted – interest rates. Right now real rates are negative. In other words, if you deposit money in your bank for one year, you lose purchasing power. Though you may have more money when the interest income you earned is credited to your account at the end of the year, it is not enough to offset inflationary pressures and perhaps exchange rate movements that increase the cost of imported goods.

Remember, it took real interest rates of nearly 7% in the early 1980s to break the back of gold’s bull market back then. It is highly unlikely that any central bank will raise real interest rates to those levels again. Central bankers think they can jumpstart moribund economies by keeping interest rates low, but all they are doing is destroying the purchasing power of national currencies.

Question 7: Greece is already in turmoil. The country is completely bankrupt and can no longer settle its debts. Once again, the rescue package will only serve to save the banks that are sitting on numerous Greek loans. Other EU countries are facing similar issues. Do you share my opinion? How can a sensible resolution be reached?

Turk: Yes, I agree. These bailouts are principally helping the banks that own all of the bad paper. But it does nothing to solve the underlying problems.

Many countries throughout the world are in basically the same bad financial condition as Greece, including large countries like the US and Japan. The UK, Spain and Portugal are other countries that are over-indebted. Many governments have been living beyond their means for decades, and need to tighten their belt. Politicians and central bankers refuse to see the ‘writing on the wall’. The only sensible solution is to tie national currencies to gold, but that is not likely to happen.

We cannot rely on central bankers anymore to make the right decisions. That conclusion is just as true in Europe as the United States as well as countries pretty much everywhere. Therefore, the sensible solution is that each of us has to become our own central banker by holding physical gold in reserve for a rainy day. As bad as the economy has been, my expectation is that conditions will worsen before they get better.

Question 8: Recently in your article on www.goldseiten.de ‘Gold: more important than ever before’, you pointed to the endless money printing by central banks. The proportion of government debt is a known quantity. In your opinion when will the barrel of government debt overflow?

Turk: It already has overflowed in Iceland, Dubai, Latvia and Greece. Other countries will soon follow. It’s hard to predict which one will be next, but maybe Hungary, or maybe the UK. The US is not far behind. It is important to note that the leading Chinese bond-rating agency recently downgraded US government debt. Why US and UK debt is still considered by many people to be rated triple-A is beyond me.

Either some of the countless promises made by these governments will be broken, or their currencies will eventually collapse. So regardless of the outcome, anyone relying on government promises is going to be disappointed and will undoubtedly lose purchasing power by holding these national currencies.

Question 9: From the 1st January 2012, in the US it will no longer be permitted to make transactions in coins anonymously. For transactions with a value of more than 600 USD, it will be obligatory to file an ‘Internal Revenue Service 1099 Form’. Is the US preparing for another gold and silver prohibition? What are your thoughts on this?

Turk: It is impossible to predict what politicians may do, but my ‘rule of thumb’ is very simple. Always plan for the worst, so assume that there could be another prohibition. It is important to note that GoldMoney is based on the island of Jersey in the Channel Islands. We follow the law there, and are not under US jurisdiction. So GoldMoney would not be affected by a US prohibition.

Question 10: What do you think is the likelihood that the US will enforce confiscation for gold as happened in 1933? And to come back to question 2, did GoldMoney perhaps rule out US storage as a precautionary measure?

Turk: Storage in the US has been ruled out because our customers haven’t asked for it. As for confiscation, it looks like the US government this time around won’t be happy just with taking gold. I expect the introduction of even tougher capital controls than those already imposed. These will give the US government even greater power over the money in US banks. Basically, the US does not act like a friendly place to hold money, so everyone should think twice about how much wealth, if any, they want to hold there.

Question 11: What is the current relationship between purchases and sales of precious metals with GoldMoney? Are there more buyers or sellers? And which precious metal is most popular?

Turk: There are definitely more buyers than sellers, which explains why the total amount of customer assets within GoldMoney continues to grow. But we do get some customers selling, for example, when they need some national currency. So they tap their precious metal savings and wire the proceeds to their bank account. Depending on the bank they use and the country where they are located, the proceeds from their sale can often arrive the same day.

We also have some customers who regularly trade the precious metals, hoping to benefit from price fluctuations. GoldMoney is one of the few economical ways for people to trade physical metal.

Question 12: Why is it so complex to open a Holding with GoldMoney? Can this not be made simpler?

Turk: Opening a Holding is no different than opening a bank account. Even though GoldMoney is not a bank, we must follow the same rules that govern banks. So we need to confirm the identity of our customers and for large transactions, the source of funds to comply with government anti-money laundering regulations.

Most of us continue to use the same bank account opened many years or even decades ago. So we don't have first-hand experience of how much government red-tape is involved today in opening a new bank account.

Importantly, we continue to make improvements of all sorts to GoldMoney, and while opening a Holding has already been made much easier, you can expect that there will be more enhancements in the future. Our aim is to make sure our customers have assurances of integrity that their metals are safe and that their experience with GoldMoney meets in all respects their expectations, including convenience.

Mr. Turk, I thank you for your answers.

Dieter Sordon (www.krisenfrei.de)

Turk: Thank you for the opportunity to speak with you.

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