Jan Skoyles – Build your own Gold Reserves

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Act as your own Central Bank – Build your own Gold Reserves – Jan Skoyles

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During an exclusive interview for Matterhorn Asset Management / GoldSwitzerland, financial journalist Lars Schall spoke to Jan Skoyles of The Real Asset Company about the lack of transparency in the financial world; why people should pay attention related to the gold reserves of their countries; a certain form of modern bimetallism; and her campaign to Buy Britain's Gold Back.

By Lars Schall

Jan Skoyles was born 1987. She has a First Class Honors Degree in International Business and Economics, from Aston University. Her degree thesis was written on the role of gold in the monetary system. She had an administrative role at Cheviot Asset Management in London. Since September 2011 she is working for The Real Asset Company, where is she is writing on gold and finance on a regular basis. In May 2012 she initiated the campaign "Buy Britain's Gold Back".

May-June 2012: The Matterhorn Interview:

Lars Schall: Jan, how did it come that you have developed an interest in the issue of precious metals?

Jan Skoyles: Before my final year at university I had a summer job at Cheviot Asset Management as an administrative assistant. Here, I met Ned Naylor-Leyland who manages a precious metals fund at Cheviot. His opinions are often sought after in regard to gold and silver markets, by both the precious metals media and the mainstream media. At the time, I was looking for a subject on which to write my dissertation/thesis in my upcoming final year of my International Business and Economics degree. Ned persuaded me to write it on the use of precious metals in the monetary system.

I wrote my dissertation between October 2010 and May 2011, by about the January I knew that this was more than just an academic interest for me; I knew that it was a world I wanted to be involved in. One thing that is important to note is that throughout my economics degree I had felt like nothing ever 'clicked', everything was based on models and ideal situations.

Where were the people? Where were the historical examples of this theory in practice? Writing about precious metals in the monetary system led me to discover the Austrian school of economics and all of a sudden economics made sense to me.

L.S.: One feature of the financial crisis is a lack of transparency. Do you consider this also as a factor of concern in the realm of precious metals?

J.S.: I think of transparency in two areas in regard to precious metals. One, is the lack of transparency in the behaviour of governments and banks in regard to the gold and silver markets. At present, as I am still relatively new to this space, I try not to comment too much on the manipulation of the gold and silver markets. The second, is the lack of transparency in teaching individuals, your average investor or saver, about the importance of understanding money and why you should have some of your investments in gold.

I find it frustrating that every weekend I open the money section which inevitably has a feature on which savings schemes are best or which pension plans are the most secure. On the rare occasion gold is mentioned it is derided as a ‘traditional’ investment and they fail to explain why, instead they clutch at reasons as to why it is no longer safe for today’s investor. Inevitably they use short-term data and they only refer to what happened to the gold price during the Lehman Crash. Rarely do the mainstream media refer to the value of gold and fiat money, they look at the returns on them, rather than the return of them. The other issue is of course that the mainstream does not distinguish between physical and ‘paper’ gold.

L.S.: What signs do you see for a comeback of gold as form of international money?

J.S.: It seems that every week there is a new story about the latest increase in gold demand from a country which so far has resisted the major turmoil of the financial system. For instance, earlier on this month, I wrote an article on the Turkey’s gold demand. This is a country which has had some fairly dire times, economically, in the living history of the majority of their adults. As the financial storm clouds roll closer to the country, and the government try to deal with an increasing current account deficit, more people are turning to gold.

The citizens of Turkey are estimated to hold approximately 5,000 tonnes of gold in their homes. This is more than Germany’s Bundesbank, and over 3,000 tonnes more than their own central bank. These are serious investors. They are even changing the way that they are investing in gold, turning to bars and coins as opposed to the once favoured gold jewellery. Added to this there are reports of huge gold transfers from Turkey to Iran. Of course, earlier in the year Iran, India, Russia and China were reportedly discussing trading in gold, in order to avoid the dollar.

Meanwhile, we see that central banks continue to be net buyers of gold. Of course, not our own central bank or the Federal Reserve. China, in 2011, reportedly increased their gold bar demand by 51%. This is a country which just cannot get enough gold. Not only are gold exports banned, but they still have to import gold to satisfy gold investment demand. John Butler recently wrote that banks were lobbying the BIS to make gold into a tier 1 capital asset. If this were to happen then the demand for gold and the gold price would rocket.

I could go on, there are endless examples of individuals and governments turning to gold. It seems to me that many individuals have always known gold is important but now many governments, who are not as submerged in this financial crisis as those of us in the West are, are also hoarding gold and using it in international trades. I believe they see what is ahead and they know that they dollar cannot retain the confidence which has driven it for this long. They are preparing for a new monetary system.This is a topic which I am extremely interested in and your readers can read plenty of my articles on it on our website.

L.S.: Why do you think the people should pay attention related to the gold reserves of their countries? Isn't the yellow metal pretty much useless as a lot of people would argue?

J.S.: Gold reserves are kept by a country for the following reasons:

– The treasure chest argument – the need to have it for emergencies
– It is ultimately money, history shows this
– It is the ultimate store of value
– There is no default risk
– It cannot be printed

As Alastair Macleod discussed in a recent speech, we really don't have any idea what is happening to the gold which is kept in reserve. But, for the reasons given above, we should pay far, far more attention!

The efforts it takes for there to be an audit of these accounts, as you know, is huge. People should be asking why life is made so difficult for those who just want to check that the gold is where it should be. What's so irritating is that companies, such as The Real Asset Co, work very hard to show people that the gold is where we say it is, and because it is the clients' we won't sell it. We couldn't even if we wanted to – it is not our gold, it is the client's. And yet, it seems to be ok when central banks can take liberties with other countries' gold.

It's interesting that so many people argue that gold is useless, and yet they seem to spend half their working lives feeling the need to defend it so adamantly. If it was so useless then people wouldn't feel the need to fight against it so much! I can see, from their point of view, why perhaps most of the time it can be seen as 'useless', it does sit in a vault, you can't play with it, you can't show it off, it doesn't pay dividends. But unlike the useful assets, it does retain its value. And whilst it can be seen as useless for the majority of the time, when it's not it is indispensable.

L.S.: Is gold in our days only tied to the ''fear factor''? And do you think that the value of the U.S. dollar is still very important for the demand for precious metals, or are there other factors part of a wise calculation as

well?

J.S.: Perhaps in the West the majority of gold demand is driven by the fear factor. However, I disagree for many other countries. For instance India's citizens have long been high accumulators of the yellow metal alongside China and the Arab nations. The US dollar is to some extent the main driving factor, in that we have a dollar based trading system. However, the dollar is just one of many fiat currencies, which are all, along with the dollar, being continuously debased.

It is important to also remember that as emerging nations become creditor nations they, in the early days, have a fairly simplistic approach to managing their reserves, they think in traditional bounded terms and opt for T-bills, Euros, Yen etc. But as they become more sophisticated they become more aware of their systemic importance, and diversify into real assets, such as gold. They all become increasingly aware of the tricks of the dollar managers; something which we are seeing significantly with China. The Arab exporters have been aware of this game for decades now and after exchanging their oil for petro dollars have quickly sold out of this paper and looked for tangible assets, especially gold bullion. The Arab nations have long understood the game, and the Chinese and Russian look like they get it now too.

L.S.: Why do think that a form of modern bimetallism could actually work in the international monetary system alongside the current fiat system?

J.S.: I suspect this question has come from my BSc dissertation…

L.S.: Yes.

J.S.: …in which I concluded that a gradual move towards a sound currency could be achieved through bimetallism. I proposed gold be used as a settlement currency by large companies (in fact, we are now seeing this with countries) and silver coins be issued (as proposed by Hugo Salinas-Price) as a means of reducing inflation within a currency system. These could both work within fiat environments.

By encouraging individuals and corporations to trade with gold as a settlement currency, whilst introducing silver coins into the hands of the population, there would be minimum disruption to the financial system. The proposed introduction of silver coins, as per the above, relies on the government's cooperation; therefore this overall proposal will work alongside the current system.

Using gold as a settlement currency would be entirely down to consumer choice and preference. Fiat currency would remain in circulation and therefore citizens would have the power to choose their medium of exchange – this in and of itself solves the issue of the current monopoly over the issuance of money.

Fekete (2000, cited Lips, 2001, p58-61) believes bimetallism has shown greater stability than any other monetary standard used throughout history.

It only became volatile when governments began to create policies which gave them greater control of the monetary order.

L.S.: Do you support an independent audit of the gold reserve of the United States? And if so, why?

J.S.: I support an independent audit of the gold reserve of the United States. It seems to me that if you keep anything on behalf of others, whether it be citizens or other countries, you would carry out regular audits. As Dr Ron Paul says, you would think that if someone were questioning where the gold was, then they would be keen to prove its existence. It seems strange that the Federal Reserve is not concerned about how this looks.

The recent Republican party nominations show that the debate around a gold-backed dollar is gaining steam, and let's be honest it is not an impossible scenario given the loss in confidence the fiat dollar is currently experiencing. If this were to happen then it is important to know how much gold is there in Fort Knox.

L.S.: What is your take related to the various repatriation campaigns with regards to sovereign gold stocks that are located in foreign countries?

J.S.: I fully support these campaigns, mainly because I think they are playing an important role in making more people aware of gold's important role in international monetary systems. The world's economy is rapidly changing and I think it is important for all governments to take stock of their reserves and assess the importance of them. As we have discussed above the majority of the Western governments do not seem to be as 'hot' on gold as the emerging economies are. In order to prepare for new monetary systems, which we suspect will be based on gold, a country's gold reserves need to be within the nation.

L.S.: My friend Alasdair Macleod contributed this question to our interview: The Bank of England operates sight accounts for other central banks. Can the bank confirm the ratio of gold actually held to sight liabilities?

The reason I ask this is that the Bundesbank has confirmed that some of its gold is in London, and if it is held in a sight account, it might have been sold. Moreover, the extent that uncovered gold is held in these sight accounts is a liability for UK taxpayers.

J.S.: I am interested to find out more about the gold which BofE actually holds, but just to remind you that isn't something which I have said to know anything about. Our Buy Britain's Gold Back campaign is basically about getting everyone to stop relying on the central bank and act as their own central banks – build their own gold reserves. Having said that Alasdair's question and his recent presentations have caused me to think some more about the accounting for gold in the Bank of England. So watch this space!

L.S.: Could you explain to the layman the fatal policy of "Brown's Bottom," please?

J.S.: Between 1999 and 2002 Gordon Brown sold 395 tonnes of the UK's gold reserves, nearly half of the total gold reserves. The average price achieved in the sales was $275.60 per ounce. This was a twenty year low, after a prolonged bear market. However, since then the gold price has climbed to extraordinary new highs, it hasn't looked back. This period is now referred to as 'Brown's Bottom'.

The gold sales were telegraphed to the market alerting them to the fact that huge volumes of gold would be offered, allowing front running to occur. The gold was sold in a series of 17 auctions. The manner in which the sales were carried out implies that the UK Treasury did not work hard to get the best price.

It was widely believed that the gold sale was in support of the budding euro and that the proceeds would be used to purchase new euros. However, according to some in the gold world, Brown's moves were slightly more political than he originally implied.

L.S.: Do you think this was also done to put a downward pressure on the price of gold?

J.S.: In Jesse's Café Americain, back in 2010, it was suggested that Brown sold the gold in order to bailout mega banking empire Rothschild and also AIG.

They wrote, "There is also a credible speculation that the sale was designed to benefit a few of the London based bullion banks which were heavily short the precious metals, and were looking for a push down in price and a boost in supply to cover their positions and avoid a default. The unlikely names mentioned were AIG, which was trading heavily in precious metals, and the House of Rothschild. The terms of the bailout was that once their positions were covered, they were to leave the LBMA, the largest physical bullion market in the world."

I think the above is a credible explanation. However I think sheer lack of intellect and understanding or the importance of gold may also have been the reason for the manner in which the gold sales were carried out. We have seen quite clearly in the last decade or so, how fixated politicians and economists are on the belief that we are in a new age of economic understanding; that we don't need the old fashioned approaches, we've got these brand new currencies and financial markets, we can run huge deficits, we can print money. They clearly misunderstand, or refuse to understand, how money works.

L.S.: You have initiated the campaign "Buy Britain's Gold Back." Please let us know more about it.

J.S.: Buy Britain's Gold Back is a campaign to get savers to individually buy back the gold which Gordon Brown sold, but for themselves, for their own reserves, to protect their wealth. Gordon Brown sold 395 tonnes of gold, between all the income tax payers in the UK, this would just be 13.3g each of gold. At current (at the time of writing) gold prices, this is less than £500.

Gordon Brown selling the gold is something which the majority of UK citizens still remember, in fact it surprises me how many remember. When people recall the gold sales, they don't necessarily know about the significance of the sales – i.e. the low gold price, front running the market, the importance of gold reserves for a country etc. There is just something inside them that tells them that he has sold some of our 'family jewels' and this was wrong. People know that it is important to have gold.

So, following on from that, we began to ask, if people know it's important for a country to have gold, then why do not they not realise that it is important for an individual to have gold? Buy Britain's Gold Back is a straightforward initiative we launched to get people to start acting as their own central bank.

L.S.: How do you envision the gold standard of individuals, which is part of your campaign?

J.S.: The gold standard can be read in many ways, we see it as a means to which individuals can insure their wealth by investing in gold.I don't believe that any national government will enforce a return to the gold standard; I think it will happen over time and by choice – as it has done in the past.

An individual's gold standard is the means by which individuals can opt out of saving and spending in fiat money, be it pounds, euros or dollars and instead choose gold.

The next stage is of course when they are able to 'spend' their gold using gold backed current accounts. We don't expect this to be too far in the future. There is little reason for this to not be possible, gold is money after all. If many countries are now using gold as medium of exchange in international transactions then why shouldn't individuals in peer to peer transactions?

I can see the gold standard evolving slowly through companies and individuals, rather than governments. The more companies are required to use gold when trading with certain countries, the more individuals may then be required to operate in gold also.

L.S.: How should people deal with the high volatility in precious metals that will increase over the next few years?

J.S.: First of all, volatility is part and parcel of investing in precious metals, particularly silver investment.

One thing to make sure is that one invests in allocated precious metals, without leverage. Investing with leverage means that you have greater exposure to price movements and therefore experience the volatility to a greater degree. We recommend owning bullion without leverage as it means the volatility will affect your P&L less. We recommend a strategy in which you dollar cost average into bullion each month, on a fully back basis. That way you achieve a lower APU.

The other factor to bear in mind is that volatility in the gold/silver price is just the volatility in the currency in which you are quoting the price. The value of the gold will remain the same, as it has done for thousands of years.

Below is a recently conducted interview by Max Keiser with Jan Skoyles:
Fhe Jan Skoyles intrerview starts at the 13th minute into this May 29, 2012 Keiser report.