

A Golden Loaf

By [The Mogambo Guru](#)

05/22/06 **The Daily Reckoning PRESENTS:** Today, The Mogambo Guru explains the true beauty of gold: buying power. How much gold does it take to buy one loaf of bread? To find out the answer, and other insights on gold, read on...

A Golden Loaf

I chose to start off the lecture by dryly saying, “The big news, to me, is that the dollar has started collapsing. There are so many ugly ramifications of this that I would not even know where to begin. So, let me merely say that the dollar falling is Unalloyed Bad News (UBN), which means that you and your family are all doomed to die horrible financial deaths, screaming in pain and anger, and let it go at that.”

The room erupted in panic and confusion until they finally remembered that I am an idiot, and I obviously don’t know what I am talking about. Then, they all felt better, until Doug Noland, he of the Credit Bubble Bulletin at the PrudentBear.com site, said, “Everyone wants to believe that an orderly decline in the dollar poses few problems.”

Mr. Noland, if I understand him correctly (and the chances of that are pretty slim, given my obvious cognitive limitations and deficits), is slightly less pessimistic than I am about the possibility of an “orderly decline” in the value of the dollar. I am so pessimistic (audience shouts out “How pessimistic, Mogambo?”) that security camera video footage reveals screaming in fear, actual foaming at the mouth, and I seem to have embarrassingly peed in my pants, too, out of the same fear. Now, that’s pessimistic!

Mr. Noland, because he is a real smart and classy guy, doesn’t even mention the dark stain on my pants, but presents, instead, a lot of tightly argued reasons why an “orderly decline” of the dollar seems improbable. I, on the other hand, am The Mogambo! And I am sure, absolutely sure, more sure than anything I have ever been sure of, and in fact, this is probably the single-most thing that I have been the most sure of in my whole horrible, wasted life, and that is that the decline of the dollar will not be “orderly.” It will be abrupt and ugly. A quote that comes to mind, although uttered as a comment on people’s lives, is “Nasty, brutish and short.”

My Infallible Mogambo Reasoning (IMR) is along the lines of: “Suppose I told you that your money would gradually and continuously lose a lot of its value – maybe half, or more. My intuition tells me that you would not be happy.”

I pause to gauge your reaction, which ranges between homicidal anger and paralyzing fear. Exactly so! Then, I go on to say, “But that same intuition tells me that you would be happy, very happy, if I told you that I knew of a way to let you keep all your wealth and you would not lose anything!” Ha! I can see by that smile on your face that I was right!

So, how to achieve this miracle of wealth-preservation? All you have to do is sell all your dollars and dollar-denominated assets today, before the dollar is devalued further! Then, you'd like to stick someone else with the whole loss!

Now you are ready for today's Mogambo Daily Pop Quiz (MDPQ). The question is: "Would you stick around to take your share of financial lumps, of up to half of your net worth (or more), meted out month after month, year after year, in a promised 'orderly decline', or would you sell out now, and not take any lumps at all?"

Hahaha! Me neither! And neither will anybody else! So, it's a trick question! At first, a few will say, "That Stupid Mogambo Moron (SMM) is right, for once in his miserable, pathetic life!" They will rush to the exits to get someplace to dump dollars, and then a few more will rush to get out, as little light bulbs blink "on" above their heads – and then a few more. Finally, more and more and more until it is a stampede!

Hahaha! A stampede! Maybe it will be an "orderly stampede!" Hahahaha! "Orderly decline, orderly stampede! You say to-may-to, and I say to-mah-to!" Hahaha!

If, on the other hand, you answered "yes" to the question, then I am sorry to tell you that you failed the test, but I will not record your failing grade in your permanent record if you write a little paragraph or two explaining what in the world is wrong with you, and then I will have pity on you.

And it is not just the same dreary story about too many prescription drugs, too many over-the-counter drugs, and too many illegal drugs – or even that all these people left in a rude rush to dump dollars and dollar-denominated assets. The more important point is: "Where did they go?" I'll tell you where they went! They went home and quickly scanned the entire course of economic history to find out where all the other people in history went when their economic system started down the toilet, thanks to the same sorry stupid economic sins we have committed today.

I will save you the trouble of getting up off of your fat, lazy butt to find out, as I share your opinion about getting up off of my fat, lazy butt, and all the time, too. So, I will simply tell you what happened: Those who bought gold and silver preserved all of their wealth as their currency and economy took a dump, and they actually ended up with a fortune in gold. Everybody else did not.

The reason may be contained in a witticism by reader Greg, who opines, "Gold acts as a magnet to draw in excess fiat money."

Or, the answer may be contained in the new tune by Steve Dore, of Boogiewoogie.com, who posted his new tune "Purchase Power" at FMNN.com. It contains this perfectly true universal truth concerning price inflation vis-à-vis gold, in a handy sixteen-bar format:

"It's not the metal that's goin' up, it's the dollar goin' down,
Printing presses print away, but no store of value's found,

Over the years, as paper fails, as it will always do,
Gold endures the test of time, pure wealth, tried and true.”

But no matter what the reason, they made money by accumulating gold, and the guys who made a fortune in gold went on to make bigger fortunes when they traded the gold for stocks, bonds, houses and real estate at the lows of the economic collapse. They again prospered as the market values of all these things eventually went back up in the following decades after the collapse.

If you want to see the advantage of gold in real-life action, then listen to this, from an essay written by Eric N. Young entitled “The Hyperinflation of Germany, July 1922-November 1923”. He writes that in 1923, at roughly the height of the Weimar inflation and the end of Reichmark, “Although a loaf of bread cost \$200 million marks in November 1923, it was possible to purchase an entire city block of prime commercial real estate in downtown Berlin for as little as \$500 US dollars hard currency. The key was to have real money in the form of gold or silver, or currency backed by those metals.”

An entire city block of prime real estate! Thanks to a gold-backed money! Of course, it took a long time (made even longer by World War II, which was, in turn, caused by the German people rebelling against inflation and injustice), but what is an entire city block of commercial real estate in Berlin worth today? Hahaha! A very long time horizon, to be sure, but that’s how it works in real life!

So, from this fabulous bit of information we can generate one Fabulous Mogambo Market-Timing Tip (FMMTT) for those who are in the category of “Hyper-Aggressive Speculator,” and the sub-species “All-Or-Nothing Risk Tolerance.” At this stage of the cycle, the best advice to these people is to liquidate every dollar-denominated asset they have (like cash, houses, stocks and bonds and everything in their retirement accounts), and use the money to buy silver and gold and commodities.

The reason a lot of people don’t do that may be for the same reason quizzical reader Roberta R. wonders about when she writes, “I am writing to you about the paradigm of cashing in gold for fiat (money). I firmly believe in holding hard assets such as gold or silver; but what I have always had a hard time with is the concept of cashing in the gold. As you stated in your editorial, the Reichmark collapsed so far down that it took 87 trillion of them to buy an oz. of Au.

“This is where my brain begins to hurt. Now, I am the proud owner of 87 trillion Reichmarks (FRN’s) and maybe I can buy a couple loaves of bread. So, you cash out something with a real intrinsic value and you get fiat junk. But it just seems to me that you are back to square one the minute you sell.”

She finished with “Working on a headache, Roberta.”

I was happy to tell her that she was exactly right! She was back to square one! That’s the beauty of gold! The answer why is contained in the problem: How much gold does it take to buy one loaf of bread, which costs \$2 a loaf when gold is at \$700 an ounce? Answer: 1/350th of an ounce (You can buy 350 loaves of bread with one ounce of gold).

And then, how much gold does it take to buy a \$200 million loaf of bread when gold is at \$87 trillion per ounce? Answer: 1/435,000th of an ounce! You can buy 435,000 loaves of bread with one ounce of gold! Hahaha! A little tiny flake of your gold ounce ought to do it! Hahaha!

So, Roberta, thanks to gold, your buying power has been preserved. That is the beauty of the stuff! And in this particular example, you actually got wealthier, as bread became over 1,000 times cheaper in terms of gold! But notice that the bread cost 100 million times more, in terms of dollars!

Regards,

The Mogambo Guru
for The Daily Reckoning
May 22, 2006

Mogambo sez: The recent \$22 plunge in gold and \$2 plunge in silver is just the death throes of the scumbags who have engineered the huge short interest in metals futures, and are now being choked to death by it. Every dip like that is Lady Fate smiling on you, letting you buy gold and silver at a temporary bargain! Whee! Lucky you!