13th Aug, 2018

The Turkish lira's plunge against the U.S. dollar last week following the Trump Administration's imposition of sanctions has brought the currency down 71% from its five-year high.

Turkey isn't alone in having debased its money to the point that investors no longer trust it. Iran, Venezuela and many other countries have suffered dramatic crises in recent years.

Western countries ranging from Japan and Italy to the EU appear to be on a similar path. Only the United States, whose dollar holds reserve currency status, has thus far appeared to be immune.

However, according to one expert, recent events are making America itself increasingly vulnerable.

"We are seeing evidence of an unfolding sea change in the global monetary policy order," says Ronald-Peter Stoeferle, co-writer of the In Gold We Trust report. "The central question is what will happen to the U.S. dollar if current Goldilocks economics scenarios are called into question?"

Is America also a Turkey?

Stoeferle, a partner at Incrementum AG, has better insight into these trends than most. He's been producing *In Gold We Trust,* one of the sector's most widely read reports, for the past twelve years.
The wealth management expert, whose investment philosophy has been heavily influenced by the Austrian school of economics (about which he wrote a book), operates from his Lichtenstein base, where much of Europe's smart money has long held assets.

His approach differs from that of traditional investment professionals in two key respects: his time frame and global outlook.

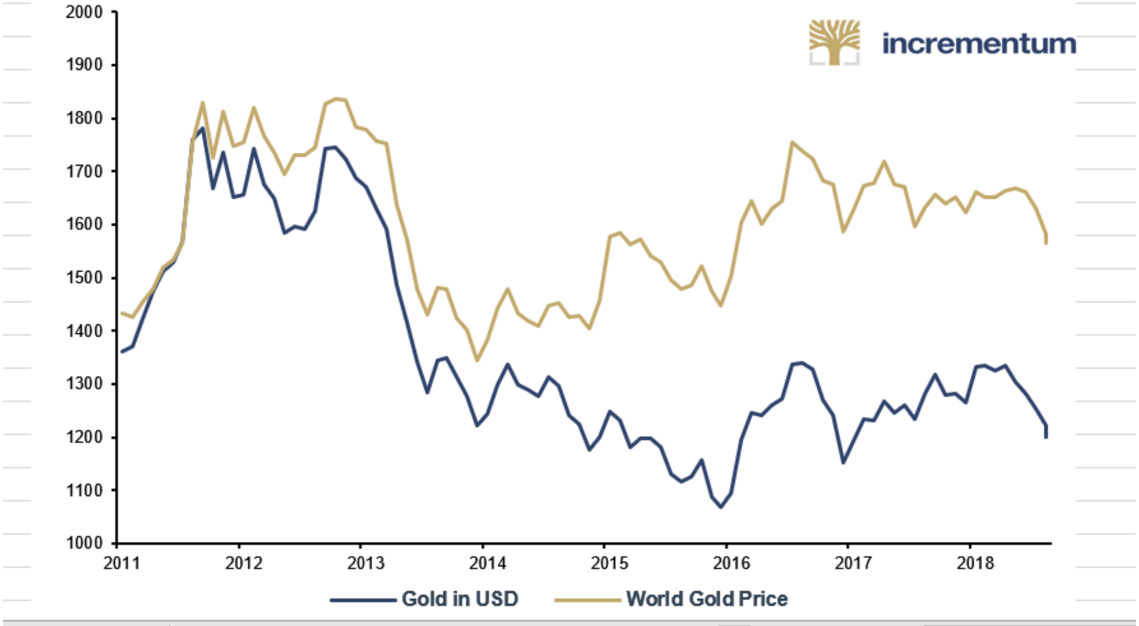
Traditional investment managers fret about the fact that the price of gold is down slightly in U.S. dollar terms during the past few months. Stoeferle, however, notes that the gold price has seen a compounded 10.1% return since the year 2000.

	EUR	USD	GBP	AUD	CAD	CNY	JPY	CHF	INR	Average
2001	8.10%	2.50%	5.40%	11.30%	8.80%	2.50%	17.40%	5.00%	5.80%	**7.42%**
2002	5.90%	24.70%	12.70%	13.50%	23.70%	24.80%	13.00%	3.90%	24.00%	**16.24%**
2003	-0.50%	19.60%	7.90%	-10.50%	-2.20%	19.50%	7.90%	7.00%	13.50%	**6.91%**
2004	-2.10%	5.20%	-2.00%	1.40%	-2.00%	5.20%	0.90%	-3.00%	0.90%	**0.50%**
2005	35.10%	18.20%	31.80%	25.60%	14.50%	15.20%	35.70%	36.20%	22.80%	**26.12%**
2006	10.20%	22.80%	7.80%	14.40%	22.80%	18.80%	24.00%	13.90%	20.58%	**17.24%**
2007	18.80%	31.40%	29.70%	18.10%	11.50%	22.90%	23.40%	22.10%	17.40%	**21.70%**
2008	11.00%	5.80%	43.70%	33.00%	31.10%	-1.00%	-14.00%	-0.30%	30.50%	**15.53%**
2009	20.50%	23.90%	12.10%	-3.60%	5.90%	24.00%	27.10%	20.30%	18.40%	**16.51%**
2010	39.20%	29.80%	36.30%	15.10%	24.30%	25.30%	13.90%	17.40%	25.30%	**25.18%**
2011	12.70%	10.20%	9.20%	8.80%	11.90%	3.30%	3.90%	10.20%	30.40%	**11.18%**
2012	6.80%	7.00%	2.20%	5.40%	4.30%	6.20%	20.70%	4.20%	10.30%	**7.46%**
2013	-31.20%	-23.20%	-28.80%	-18.50%	-23.30%	-30.30%	-12.80%	-30.20%	-19.00%	**-24.14%**
2014	12.10%	-1.50%	5.00%	7.70%	7.90%	1.20%	12.30%	9.90%	0.80%	**6.16%**
2015	-0.30%	-10.40%	-5.20%	0.40%	7.50%	-6.20%	-10.10%	-9.90%	-5.90%	**-3.75%**
2016	12.04%	8.50%	29.70%	10.10%	5.50%	16.50%	5.40%	10.40%	11.50%	**12.27%**
2017	-1.02%	13.64%	3.23%	4.64%	6.35%	6.42%	8.92%	8.13%	6.42%	6.30%
2018 ytd	**-2.20%**	**-7.30%**	**-1.60%**	**-0.60%**	**-2.90%**	**-2.30%**	**-2.60%**	**-5.30%**	**0.30%**	**-2.72%**
Average	**8.62%**	**10.05%**	**11.06%**	**7.57%**	**8.65%**	**8.45%**	**9.72%**	**6.66%**	**11.89%**	**9.23%**

Similarly, rather than restricting his outlook to the gold price in U.S. dollar terms, Stoeferle and Mark Valek, his co-writer, look at it in local currency terms.

By this measure—what he calls "the world gold price"—the yellow metal is floating near its all-time highs. This suggests that the U.S. dollar is currently significantly overvalued relative to gold and that it could one day face some of the same challenges that have already hit other countries.

More bluntly, as Peter Schiff, head of Euro Pacific Capital, likes to joke, the real question investors should be asking is whether America is also a Turkey.



Foreign central banks increasingly want gold

That said, Stoeferle monitors many of the traditional sources of concern about the stability of the U.S. currency that the hedging community does. These include the country's pervasive asset bubbles, rising debts, falling productivity and the increasing encroachment of government into the economy.

Indeed, *In Gold We Trust* has become so influential that much of the information it contained in its earlier years has now become conventional wisdom in the gold community.
Stoeferle continues to add value by tracking existing trends and identifying new developments. One of the most important of these is the rising percentage of gold reserves held by the world's central banks, particularly Russia, India and China.

This year's report also discusses the impact the unloading of the Federal Reserve's balance sheet will have on the economy, which Stoeferle believes analysts are drastically underestimating. He also provides a convincing case about gold's outperformance during times of inflation, deflation and recession.

Turkish gold investors preserved their wealth

Stoeferle's longer-term outlook also meshes well with that of physical gold and jewelry buyers, many of whom (unlike traders in the "paper gold" market) tend to keep their holdings for life. (You don't rent a wedding ring).

Thinking about gold in generational terms changes everything. For example, a typical investor wouldn’t alter his trading scenario much if there was a 3% chance of a systemic implosion in a particular year.

But those who think in generational terms know that they are almost guaranteed to deal with such an event at some point.

Investors in Turkey who had seen previous currency collapses and took precautions by holding gold outside the country were thus able to hedge a good part of their wealth.

The question now is whether Americans will face similar threats.