

THE GREAT GOLD & SILVER *RUSH OF THE 21ST CENTURY*

BY MIKE MALONEY

ONLINE-ONLY CHAPTER

Just before going to press the decision was made to cut two chapters from the finished book. I moved these chapters to “online-only” status so that I could include some accompanying explanation videos to make them easier to digest. As a side benefit of deleting these two chapters from book the retail price of the print version was reduced by \$10, thereby reaching a much wider audience with this important information. It also means that I can update the data over time to reflect the immense shifts that are taking place in our economy at such a rapid pace.

Please share this with everyone you can. Email it to your friends and family or ask them to go to GGSR21.com to download the latest updated versions. It's *extremely* important for everyone to know about this information.

CHAPTER 3

YOUR PROSPECTING TOOLS

No, I'm not talking about a pickaxe, shovel, gold pan and sluice... You're not going to have to dig or pan for *this* gold. I'm talking about the modern-day tools of specialized knowledge and understanding that are required for successful investing in *any* type of investment... Precious metals are no different.

ARE YOU GETTING THE PICTURE?

In this chapter I'm going to tell you a story... a story of stocks, of gold, of interest rates, and inflation. But, I'm going to tell this story in pictures.

After my *Guide to Investing in Gold & Silver* was published, many readers wrote to say how much they liked it. But a few also said, "Did you have to include all those charts? I don't understand them."

Charts are an important, but sometimes misunderstood, way of seeing and understanding the economic picture. It's the easiest way to see whether something is overvalued or undervalued, in a bubble or a depression, in a parabolic rise of irrational exuberance, or crashing off a cliff. And a well-rendered chart can make everything just *click*.

For those of you who are intimidated by charts, let me apologize in advance because I'm going to be hitting you with a lot of them. I feel they are absolutely invaluable. The information they contain is very important and not that hard

to understand, and the story they tell may just change your life. So, stick with me as I explain in simple terms how charts work... You won't regret it.

A chart is merely a picture of numbers... A picture of data. If a picture is worth a thousand words, then a chart can be worth a million numbers. And as Rod Stewart said: "Every picture tells a story."

We have to start somewhere... so let's go right to the beginning. This is going to seem rather rudimentary, but the horizontal scale at the bottom of a chart is usually time, with the past to the left and the present or future to the right. The vertical scale usually measures the price, quantity, or percentage of something. What you end up with is a picture of how the element in question has changed over time.

THE DOLLAR IS REALLY "IN THE SOUP" NOW

It's a very old saying, but if you're *in the soup*... it means you're in trouble.

In Chapters 1 and 2 we learned the stuff in our wallets isn't money. We learned that shifting from a financial system that used *non-debt-based* money, to using only *debt-based fiat national currencies*, has created a world that is tortured by inflation while drowning in debt.

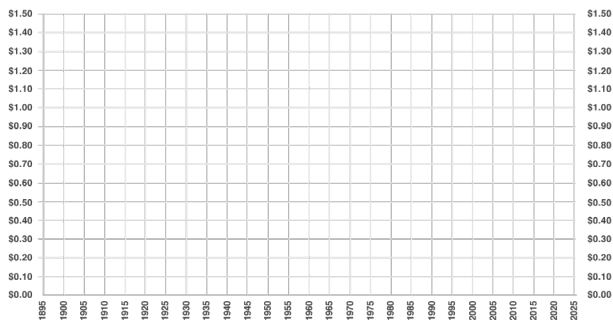
Here is an example of the change in price of an item that is very familiar to us all. The story that this chart tells, of the tragic consequences of abandoning real money, is very clear.

I first started using this chart, to tell the story of inflation, in my stage presentations back in 2010.

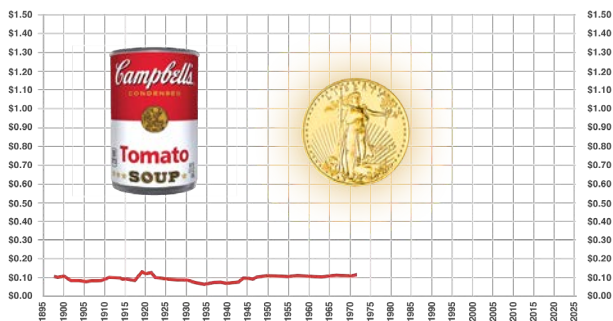
I would start with a blank graph that just had the price scales on the sides and dates on the bottom.

Then I would fade in a picture of a can of Campbell's Tomato Soup, and then a gold coin. Then the data line of the price of the soup would start in 1898 and slowly crawl across the chart to 1971 and stop.

A circle with a slash through it would then engulf the coin and an arrow would point down to 1971, the date when we severed our connection with money (gold) and transitioned to purely fiat currency.



The price would then continue across the screen, but now it would rise in an upward trajectory as the price doubled, and then doubled again, and then doubled again.



That was 2010... look at what's happening today. The beginning of that steep rise in 1971 is not coincidental. Inflation has raged ever since President Nixon ended the Bretton Woods monetary system (the last vestiges of a gold standard) in that year, transitioning the world off of money and onto currency, and nothing tells the story better than this chart.



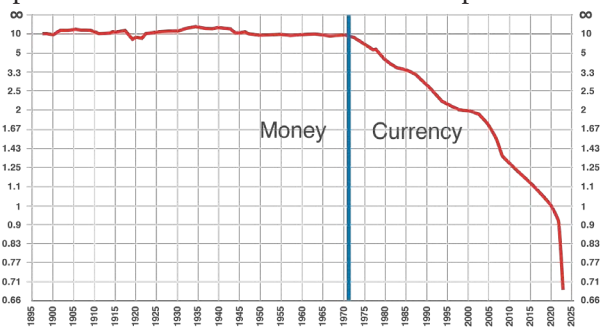
Remember back in chapter 1 where I clearly showed that money stores value, while currency steals value. It occurred to me, while writing this, that the story I was telling with this chart back in 2010 was not the complete story. The true story this chart is telling is that... it was not the can of soup that changed... it was the currency. The can of soup did not go up, the currency went down.

Whenever you purchase something, you are simultaneously selling your currency. In other words, when you buy something, you are offering to sell your currency to someone who is willing to buy your currency from you, and pay for it with something they own, produce, or with a service they can provide to you. Another way of looking at it is whenever you sell something, either an item you already own, or your work, time, labor, talent, or ideas, you are buying currency. If you work for a living, whatever you do, whatever product or service you provide, you are paying that product or service, to someone who owns currency, to buy that currency from them.

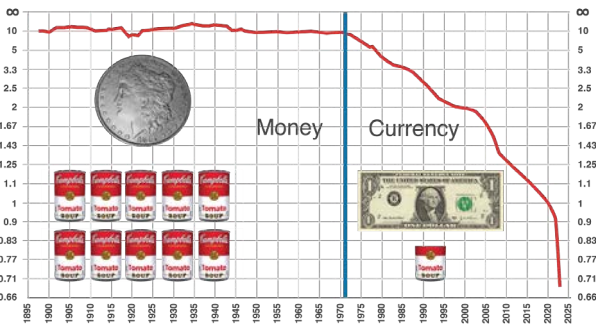
Back when I was showing this chart to audiences, I should have continued the presentation for a few more frames.

I should have faded out the can of soup and the gold coin, then inverted the chart, then drawn a vertical line separating the era of real money from the era of fiat currency.

Then, to reveal the dollar's loss of purchasing power, I should have shown the price of a dollar. What's the dollar's price? Take a look at the price scales on either side of this last soup chart. In this case, measured in soup, on the left side of the chart it's the number of cans of soup one silver dollar was worth... on the right side of the chart it's the amount of soup that a modern, fiat currency, paper dollar is worth.



For the 70 years from 1898 to 1971, \$1 of real money was worth about 10 cans of Campbell's tomato soup. Today, one dollar of fiat currency is only worth 2/3 of a can. The dollar has been diluted,

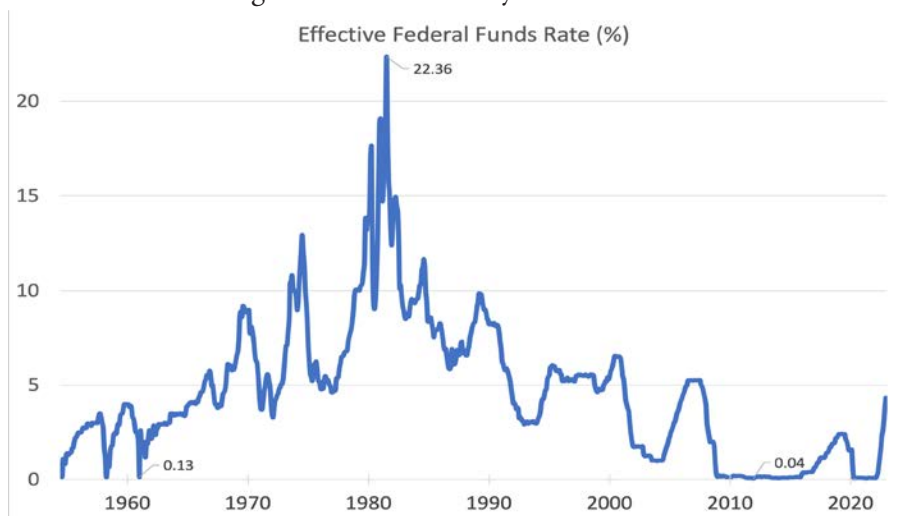


the soup has not. So, the dollar is really “in the soup” now, having lost about 93% of its soup purchasing power since 1971.

The price of a can of soup is now almost 15 times higher than its average price of \$.10 from 1898 to when we left gold in 1971ⁱ, but it wasn't the soup that changed... it was the dollar.

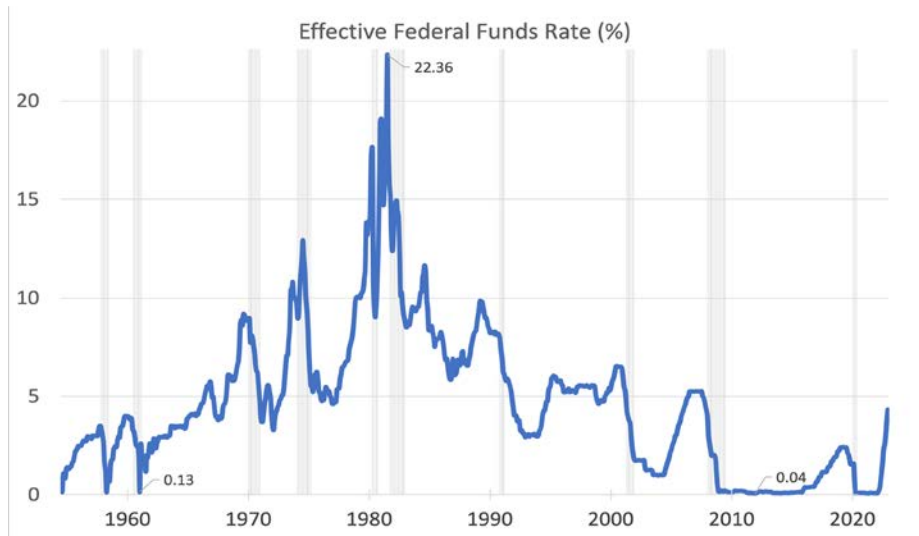
THE RATE ROLLERCOASTER

Now check out a chart of the daily federal funds rate from the mid-1950s to the middle of 2022. The federal funds rate is the bank-to-bank overnight loan rate that cascades down into every facet of the economy. So instead of measuring a price of a tangible product, this chart is measuring the price of the bank-to-bank lending rate of base currency.



What the chart reveals are the wild swings caused by the Federal Reserve: 0.13% in 1954 and 1958, up to 22.36% in 1981, and as low as 0.04% on a day in 2012ⁱⁱ. The highest interest rate is an incredible 559 times the lowest interest rate. Before the Federal Reserve existed, the free market in bonds set interest rates (typically between 3% and 9%), and there were no wild, out-of-control swings like we've seen over the past century.

Now let's add some more information. The gray vertical bars denote recessions, while the spaces between the bars represent economic expansions.



Ah, now this chart is really starting to tell us a story. Armed with this easily scanned information, we can see that the Fed typically overreacts to recessions and turns the economy into a roller coaster. During a recession (shaded area) the Fed slashes interest rates, to spur more loans and therefore more business and consumer debt. The new currency created by the loans and the added transactions spark an economic boom and sometimes an economic bubble. As the economy overheats, the Fed raises rates until they pop the bubble, causing the next recession, then lowers rates again to set the stage for the next boom.

Create a bubble, pop a bubble, create a bubble, pop a bubble. Boom, bust. It's as if the entire nation (and to some extent the rest of the world) are all riding on a bus driving down an icy road with the Federal Reserve at the

wheel, drunk and out of control, swerving from side to side, overcorrecting and under correcting... until finally the bus ends up wrecked in a ditch.

THE ART OF ARTIFICE

Some of the definitions of artifice are; a clever trick or stratagem; a cunning, crafty device or expedient; deceit, deception, fraud, trickery, guile, or skillful misdirection.

Question: Can charts lie?

Answer: Of course they can.

A chart is only as honest as the person who creates it. Everyone has their own bias; everyone has their own point to make... including me. There are a million ways to manipulate data, so don't believe every chart you see. Sometimes, if you look at a chart long enough, it's just like looking somebody straight in the eye. You can tell if it's lying. If it is, it'll be written all over its face. You should always suspect, and always question, any data that is put in front of you.

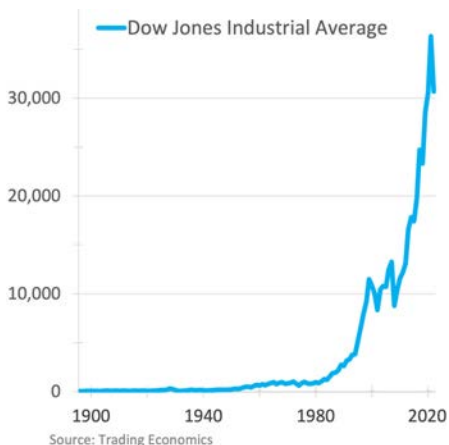
One of the ways someone can skew your perception is by selecting either a linear or logarithmic format, and you need to know the difference. They are both correct, they both present the same data, but they can look very, very different and whoever is presenting them will usually select the format that makes his or her point best. It's a way of creating a false impression without being totally dishonest.

CHARTING A LINEAR COURSE

A linear chart measures the *amount* of change. If the scale on the side increases by the same *amount* with each step in the chart (like 0, 1, 2, 3, 4, 5, 6) and each step also covers the same amount of vertical distance (the rise from 0 to 1 spans 1", and the rise from 5 to 6 also spans 1") then it's linear. It doesn't matter whether you're measuring dollars or donuts... the important thing here is that every step in the chart is the same *amount*.

Here's an example. It's the Dow Jones Industrial Average stock market index.

Here we are measuring the points of the Dow and, as you can see, each step is the same *amount*... 10,000 points. But, because it's a linear chart, it tends to exaggerate the data at the top of the chart and compress the data at the bottom of the chart. In fact, on the linear chart you can't even see the wiggles before 1925 and the stock market bubble and crash of 1929 are a barely discernible bump on the way up to today's peak. If you were going to make the claim that the stock market has gone crazy lately, but without any further supporting evidence, this type of chart would be very alarming to most people and would appear to support your position.

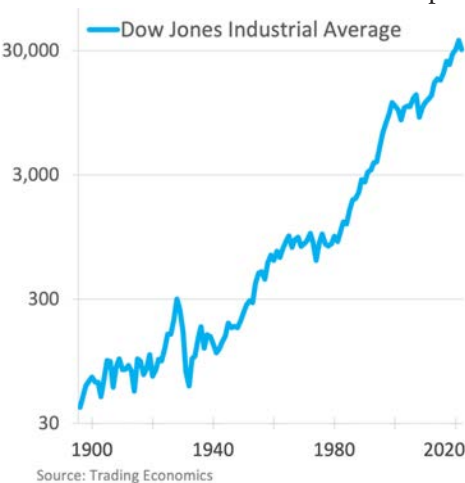


LOGARITHMIC CHARTS

A logarithmic chart, on the other hand, measures the *percentage* of change. If the scale on a chart goes 1, 2, 4, 8, 16, 32, or it goes 1, 10, 100, 1,000, 10,000, and the rise between each step spans the same distance, then it's logarithmic. In the first case each step is times 2, or 100% more. In the second case each step is times 10. In other words, each step is 10 times more of the thing that you are measuring than the last step.

Here is the Dow Jones presented again, but in a logarithmic format.

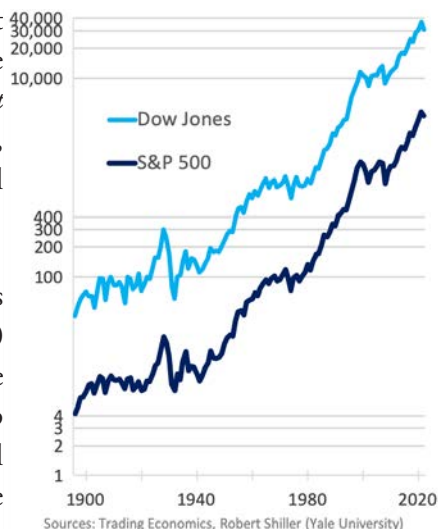
The logarithmic chart really puts things in perspective. Here the 1929 stock market crash is by far the largest event in the chart, dwarfing the dot com/tech bubble crash of 2000 and



the global financial crisis of 2008. In this case the logarithmic chart wins... it is by far the best way to view this data. An investor would have made the same gain going from 100 points to 200 points in the mid 1920s, as he would have going from 10,000 points to 20,000 points in the 2010s. They are both 100% gains, so they take up the same amount of vertical space on this chart.

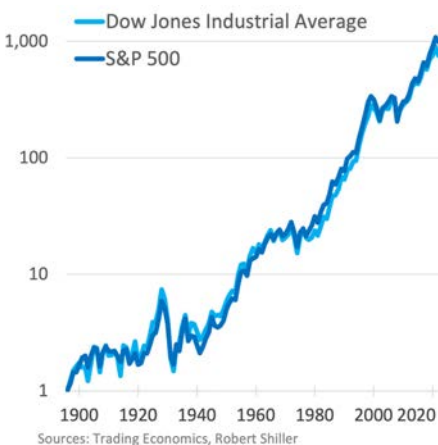
Another form of logarithmic chart that you might see has the scale on the side increasing by the same *numerical amount* with each step (like 0, 1, 2, 3, 4, 5, 6), but the space between each step will compress as the numbers go higher.

Here I have placed both the Dow Jones Industrial Average and the S&P 500 on the same chart. Because the range is so large (from 4.22 on the S&P up to 36,338 for the Dow), to make all the numbers fit, and to prevent the higher numbers from overlapping into a blurred, jumbled up mess at the top of the chart, I have the scale going 1-4, 100-400, 10,000-40,000.



INDEXED CONTEXT

The next chart is both logarithmic and indexed. Indexed charts reveal the percentage change of one, or even many items, from any given point in time. They can be very handy at revealing the relative performance of several different items—that all have different prices—all on the same chart. Like the previous chart, this chart is also the Dow Jones industrial average and the S&P 500. Over this same time



period the S&P 500 (a composite of the stocks of the 500 largest companies in America) went from 4.22 to 4,574, while the Dow (a composite of the 30 of the largest companies in America) went from 40.45 to 36,338 (see the previous chart). This chart indexes both the Dow and the S&P 500 together, at a value of 1, in the year 1896. Again, this chart is both indexed and logarithmic, so we are measuring the percentage change of both items from a given point in time. From 1 to 10 is 10 times, from 10 to 100 is 10 times, and from 100 to 1000 is 10 times. Notice how each 10-fold increase covers the same amount of vertical space in this chart.

Wow... This chart really changed the whole context. Even though the points on the Dow are almost 10 times higher than the points on the S&P 500, this indexed chart reveals that, when it comes to the gains they have both made since 1896, the Dow and the S&P are almost identical! Which brings us to our next subject.

CORRELATION

A *correlation* is a measurement of how alike or different two items are. A correlation of 1 means that they are the same. A correlation of 0 means the two items have no discernible relationship. And a correlation of -1 means that they are the opposite of each other. Every modern spreadsheet includes a correlation function.

Using the data from the above chart I found that over the 122 years from 1896 to 2018 the Dow Jones industrial average and the S&P 500 have had a correlation of an astonishing .9981. That pretty much means that over this long period of time they are 99.8% the same—remarkable, considering that the Dow is made up of only 30 stocks vs. the S&P’s 500. Because of this incredibly high correlation I will be using them pretty much interchangeably throughout the rest of the book, whenever I am referring to the “stock market.”

THE AXIS OF EVIL

Another way that someone can create a false impression with a chart is by playing with the scale on either one of the axes. For example, if someone zooms in on the timescale so that the chart only covers a short period of time (a day, an hour, a minute, a few seconds) then a little drop from 100 to 99.99 can look very dramatic. It can make a 0.01% drop look like something is falling off a cliff. I see this tactic being used all the time. I'll be reading an article and the commentator will say "such and such stock cratered today on the news that..." and they include a chart that shows a sudden, dramatic drop. Then I'll create my own chart, but covering a little longer time period, and I find that I can't even see the price drop they're talking about.

TIPPING THE SCALES IN THEIR FAVOR

By the same token, always make sure you look very carefully at the quantity scale. This is usually the scale on the side, and measures the number of something, or dollars, or percentage change. If the scale on the chart starts on the bottom at 99 and goes to 100 at the top, then a tiny little 1% change will fill the entire chart and look very dramatic. If the chart starts at zero on the bottom and goes to 100 at the top, then that same 1% change won't even be visible.

Another way data can be manipulated to skew your perception is by introducing a second scale in either the horizontal or vertical axes... Or both.

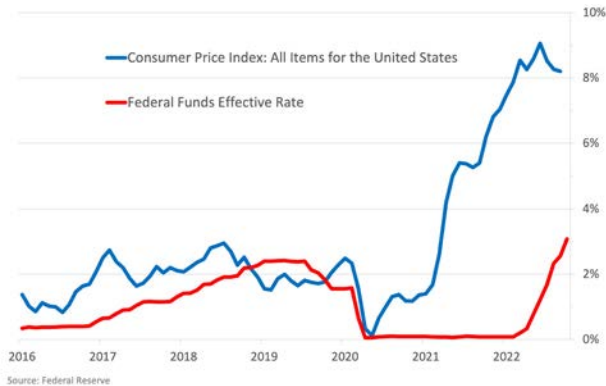
Here we have the Consumer Price Index (CPI (which I have always



called the CPLie)) and the federal funds rate. If you were trying to make the argument that the Fed is getting tough on inflation, this graph would support your claim... But it's a lie. The chart makes it look like the federal funds rate

has risen to exceed the rate of inflation, which is supposed to stop inflation... Or so they say. But notice that the scale for the CPI (left) ranges from 0% all the way up to 10%, while the scale for the federal funds rate ranges from 0% to only 3.2%.

Here's the truth. It's the same data, but with only one percentage scale, which puts both the CPI and federal funds rate on an equal footing.



As you can see, even though the Fed is raising interest rates at the fastest pace since WW II, they've got a long way to go before they actually get ahead of inflation. If the economy was healthy, and if our national debt was lower, the Fed would be able to continue raising rates until they really are above inflation. But as you will see you in upcoming chapters, the economy is very, very sick. The Fed will continue raising rates until they break something, and then... watch out.

While charts may not always properly reflect reality, they are highly useful ways of presenting data when they're done honestly. But I am very often amazed at how some people will use these legitimate methods of presenting data as tricks. Things are bad enough out there. There's actually no need to be alarmist or exaggerate the facts.

Sometimes it's honest, sometimes it's deceptive, so it's up to you to be a detective.

Now that you've got the picture and you're a master chart reader... let's move on to one of the most valuable tools in your new investor tool kit.

DON'T TELL ME THE PRICE... WHAT'S THE VALUE?

Price means nothing... Value is everything.

Though the concept may sound strange at first, this is another essential lesson that will help you decode the true nature of the financial world. It goes like this: Even though the price of something may be rising, its value could be dropping at the same time.

What? Excuse me?

A *price* is just a measurement we use to agree on how many units of currency a product, service, or an asset will trade hands for. But the *value* of that same item is what you can buy with the proceeds if you sell it. If an investment doubles in price, but the cost of living (groceries, gasoline, and such) quadruples over the same period of time, then even though your investment doubled in price, its value actually fell by half.

Let me ask you something... let's say that if, over a 20-year time period, your house doubled in price... has the value doubled as well? Well, it all depends on what you're measuring it against. If you're measuring it against other real estate the answer is absolutely not, because if you sell your house, it's a sure bet that you can't buy two similar homes with the proceeds... you can only buy one. So, even though its price doubled, measured against real estate, its *value* stayed the same.

WELCOME TO STOCK-HOME

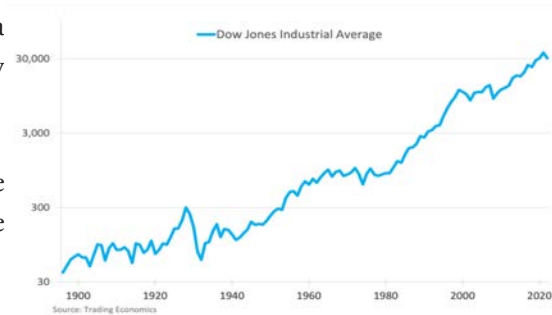
But, if the stock market quadrupled over that same time period, then measured against stocks, even though your home doubled in price it actually lost half of its value. In other words, if at the beginning of that 20-year time period you sold your home and bought stocks... by the end of that time period you could sell your stocks and buy two homes with the proceeds.

From owning one home, to owning two homes... that's a 100% gain in true wealth by switching asset classes at the appropriate time. The illusory gains

in the price of your home over that same time... was nothing more than an artifact of the currency losing its purchasing power.

JONESING FOR GOLD

Once again, here is a logarithmic chart of the Dow Jones Industrial Average.



And here is a chart of the price of gold over the same period of time.



But again, we are using dollars (or points of the Dow index, which is created using dollar value of the underlying stocks), so they're showing you the price, not the value.

Now we're going to take a look at the value of the stock market relative to gold, by removing the dollar from the equation. We accomplish this by dividing these assets into each other. They're known as ratio charts.

GOLD IN RATIO

Now here is a chart of the Dow Jones Industrial Average priced, not in points, but in ounces of gold. We do this by taking the points on the Dow Jones each day and dividing that by the price of an ounce



of gold that day. In other words, it's how many ounces of gold it takes to purchase one share of the Dow.

This chart is a perfect picture of true *value*. The story it tells is that when the line goes up toward the top of the chart stocks are overvalued and gold is undervalued (time to sell stocks and buy gold.) When the line falls toward the bottom of the chart gold is overvalued and stocks are undervalued (time to sell gold and buy stocks). It also tells me that a fair balance between gold and the stock market seems to be roughly when the points of the Dow are about 4 times the price of an ounce of gold.

During the roaring '20s the stock market started off at fair value compared to gold, then went into a bubble in 1929, peaking at a value of 18 ounces of gold (stocks expensive, gold cheap). Then the stock market crashed to a value of just 2 ounces of gold in 1932 (stocks cheap, gold expensive.) Then the Dow began the long climb from 1932 to 1966, when it topped out at 1000 points. Gold was \$35 per ounce, so the value of the Dow was 28.5 ounces of gold. The Dow then zigzagged sideways bumping its head on 1000 points from 1966 to 1982. On August 15 of 1971, President Richard Nixon ended the Bretton Woods monetary system, which had fixed the price of gold at \$35 per ounce, and gold became free trading. Even though the stock market was going sideways throughout the '70s, gold went from \$35 an ounce to a high of \$872. Coincidentally, the Dow was at 872 points on the same day, for a Dow/gold ratio of 1. That is what caused the line to fall all the way from 28 down to 1 (gold was in a bubble and stocks were severely undervalued). Then the stock market went into the insane tech/dotcom bubble, bringing the Dow/gold ratio to a breath away from 45 ounces in 1999 (stocks were insanely overvalued and "to the moon" expensive, while gold was cheaper than dirt.) As you can see (at the writing of this book), the value of stocks compared to gold is about the same as it was in 1929, just before the crash. (Don't forget that you can go to GGSr21.com for the latest updates on these charts.)

When you're measuring *value*, instead of price, you can clearly see which assets are way too expensive, and which are a dirt-cheap bargain.

This is probably the single most important thing that an investor needs to consider. I cannot stress how important it is to fully understand this dynamic. In fact, it's so important that I devoted an entire chapter to it in my first book, *Guide to Investing in Gold and Silver*, and I am soon releasing another book on the subject. I call it ***WealthCycles***, and it's all about perceiving true value.

Nowadays people know the price of everything and the value of nothing.

- OSCAR WILDE

Like Rod said, “Every picture tells a story. Don't it?”

Next: ►

Chapter 4 is also “online-only” content.

[Click here to read it now](#)

ENDNOTES

- i <https://politicalcalculations.blogspot.com/search/label/soup> - Plus author's own extensive survey.
- ii <https://fred.stlouisfed.org/series/FEDFUNDS>