Tuesday, January 10, 2012

Could It Happen ?

So I walk into the grocery store to pick up a few things for dinner. As usual, I always start in the produce department. The broccoli looked fresh with its glistening pure antioxidant blue green beads shouting nutritional promises of health and vitality. I tossed a large banded bunch into my cart and proceeded to make my way down the adjacent aisles and then to the checkout stand. As I took my place in line, I observed the bright LED sign protruding up above the tabloids and candy – a sign that has become as commonplace as those in front of gas stations barking the price of fuel. It read, ***"Today's Dollar Surcharge is 24%".*** Oh well, it's a little better than yesterday's 26 percent, I thought, so maybe things are getting better.

As I waited for the lady in front of me who was frantically fumbling through her purse, presumably looking for her cell phone, my thoughts wandered back to how it all started. It wasn't long ago that the choices were simply "cash or credit card". Now virtually every retail purchase requires customers to choose from among three options:

1. Pay with Dollars
2. Pay with Credit Card
3. Pay with Super "G" Credits

Unable to find her cell phone, the lady reluctantly chose option 1 on the touch screen, "pay with dollars". I listened as the clerk announced that her $85.30 purchase came up to $105.77 with the Dollar Surcharge. I could see the lady cursing under her breath, in obvious self admonishment for misplacing her cell phone.

It was back in October of 2012 when the wheels began to come off. After nearly two years of political bashing and wrangling, the Republican party finally self destructed amid its desperate efforts to find a worthy challenger to Barrack Obama in the upcoming presidential election. The Democratic engineered "occupy" movement had effectively created a war of the classes resulting in anyone with a steady job and a relatively secure financial position being automatically labeled as a member of that capitalistic evil-rich class. Obama's reelection was a virtual shoo-in.

The national debt was approaching $16 Trillion with no signs of abating. The stock market rally that began in December of 2011 abruptly reversed course in the spring of 2012. Gold resumed its upward march and by June, it had reached a breakout high of $2500 an ounce. Exchange Traded Funds, otherwise known as ETF's had become popular investment vehicles during the last decade. They offered the diversification of a traditional mutual fund but traded like a stock. One such fund was called the SPDR Gold Fund, symbol GLD.

ETF's were designed to track the market price of a typical basket of investment choices. There were ETF's that focused on specific sectors or industries. There were ETF's that tracked prices of Treasuries, commodities, and precious metals. But in the summer of 2012, there would be a drastic turn of events that would that would send the world's financial markets into a turbulent tailspin.

The Euro had already fallen over 30 percent from its dollar exchange rate at the beginning of the year from $1.30 to $.95 by June. During the first half of 2012, China continued to manipulate its currency by purchasing dollars in the open market in order to maintain their trade advantage. This, along with the declining Euro, sent the dollar to unprecedented highs. Then on July 2, 2012, two days before our celebrated independence day, the Chinese Economic Minister made a shocking announcement. China would be suspending all future dollar purchases and would no longer be a buyer of U.S. Treasuries. To make matters worse, they began liquidating their existing Treasury holdings which had the immediate effect of depressing their prices thereby causing interest rates to spike violently upward.

As the summer unwound into Autumn, interest rates on 10-Year Treasuries bloated to over 8% from just under 2% at the beginning of the year. Gold prices moved inversely to interest rates and on November 7, the day after the reelection of Barrack Obama, Gold closed at $3500 an ounce. Paper currencies around the world were in free fall.

The SPDR Gold Fund which, like all ETF's, was designed to ***track*** the actual price of gold bullion. Consequently, the fund would purchase gold bullion on the open market and its share price reflected actual gold held in storage by the fund. Fearing further collapse not only in the dollar, but all paper currencies, demand surged for gold, and so did demand for the shares of GLD. As more and more depreciating currencies poured into the SPDR Gold Fund, the fund was forced to bid up gold prices in its efforts to purchase sufficient quantities in order to meet its reserve requirements as required by its charter. The total market capitalization of GLD at the beginning of 2012 was $85 Billion. By December 1, it hit the $1 Trillion mark. Gold was now over $4000 an ounce.

What began as a vehicle to ***track*** the price of gold became the instrument that would actually ***make*** the market. As Barrack Obama began his second term as President of the United States, the Republican party miraculously held onto its majority in the House of Representatives. The political gridlock that began in 2011 worsened, rendering congress totally ineffective and virtually hamstrung. By the end of 2013, inflation was running at 20% and interest rates on 10-year Treasuries were at 15%.

By law, the United States dollar is legal tender for the purchase of all goods and services. That didn't change and it is still true today. Once, the SPDR Gold Fund reached $2

Trillion in assets, the government finally succeeded in shutting off the spigot, freezing the fund's ability to sell any more shares. By then, however, several other gold based ETF's had emerged and prospered to the point that over half of all ETF and mutual fund wealth in the United States was now in the hands of the Gold ETF's.

Meanwhile, Smart Phone technology continued to develop as did the applications, or "Apps", that they run. By 2014, Google's Android operating system had mushroomed into a virtual monopoly, which gave them de-facto control of smart phones and their Apps. Google had already accomplished everything they could in the world of search. They correctly read the writing on the wall that online advertising , their chief source of revenue, would stagnate right along with the general economy.

And then when nobody was looking, Google, the King of Search, did the unthinkable. They ventured into the financial arena with the launch of a private fund that would track the value of all the combined Gold Exchange Traded Funds. The Super "G" fund, as it was appropriately named, would now accept dollar deposits and back them with shares of Super "G" Gold Credits. The credits were accessible only from your Smart Phone. Apps were developed that allowed users to use Super "G" Gold Credits with participating merchants. The merchant list continued to grow as competition was fierce for customers. Super "G" Credits were now as good as Gold.

The young lady offered a weary smile as she finished bagging my groceries. I touched Option 3 on the screen and proceeded to pass my cell phone across the scanner. "Thank you for using Super G", said the automated voice of the scanner.

"Your welcome", said my smart phone.