

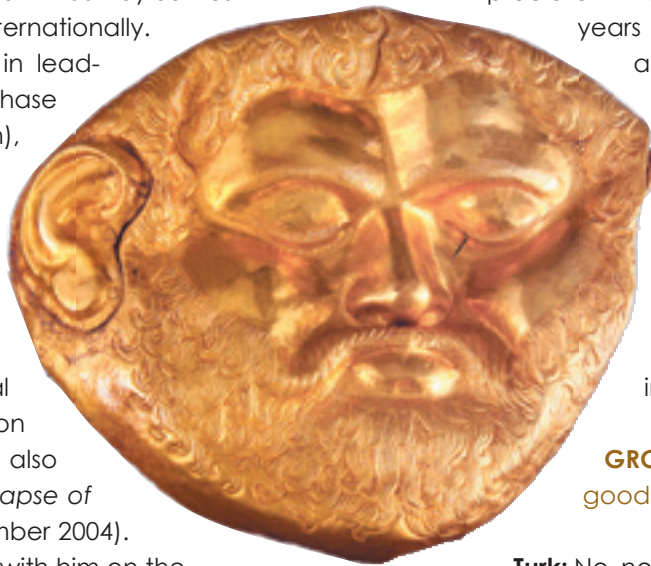
TAPPING A GOLDEN OPPORTUNITY

JAMES TURK, FOUNDER OF GOLDMONEY.COM, EXPLAINS HOW HIS COMPANY SEEKS TO RE-ESTABLISH GOLD'S ROLE AS A CURRENCY ACCESSIBLE TO EVERYONE

GoldMoney is the leading provider of gold transactions via the Internet. It was founded in 2001 by James Turk and is now expanding internationally. Apart from holding positions in leading international banks like Chase Manhattan (now JP Morgan), James Turk was manager of the commodities and precious metal department of the Abu Dhabi Investment Authority (ADIA) between 1983 and 1987. He is the author of two books and several monographs and articles on money and banking. He is also co-author of *The Coming Collapse of the Dollar* (Doubleday, December 2004). We had the chance to speak with him on the sidelines of the Terrapin commodities week in Dubai:

GRC: What is the rationale in today's world to buy gold? Isn't it a "barbarous relic" like John Maynard Keynes once termed it?

Turk: It was the "gold standard" that Keynes called a barbarous relic, not gold. He favored government management of money, and the gold standard exerted a discipline on the money creating process that ran counter to Keynes' thinking that governments should be able to expand or contract the money supply at will. The ongoing debasement of national currencies for several decades I think proves Keynes was wrong because governments only inflate the money supply, which also shows that gold is still useful. Gold has functioned as money over thousands of years, and its buying power has proven remarkably stable over time. In contrast to paper currencies, it cannot be printed at will by spendthrift governments. With an ounce of gold, you could buy a suit in the Middle Ages or in the 19th century as you can do now, but I doubt that you will be able to buy a suit with \$650 10 years from now.



Depending on its cycles, gold sometimes can even appreciate in real terms. For example, a few years ago my wife wanted to buy a new car. I was hesitant as the price of gold relative to financial assets like stocks was low, so we decided to wait. Last year we bought the car for half the price in gold terms compared to what prevailed a few years earlier, while its price in dollar terms has even increased slightly!

GRC: So you would say gold is a good investment?

Turk: No, not at all, gold is a poor investment because it yields nothing, unless you take risks with it by lending it out to earn interest on your loan. But it is great money as gold has proven to be a reliable store of wealth over centuries. Certainly it can also appreciate in real terms from current levels, not only in comparison to paper currencies like the dollar, but also to financial assets. Gold's valuation compared to stocks is currently historically low.

But overall that's not the reason why you should hold gold. It is money you save for future consumption. If you want to generate a rate of return, you can invest in mining companies or undertake leveraged speculations with paper gold contracts like futures and options, but these asset classes come with an entirely different risk structure, like engineering risk, political risk and counterparty risk.

GRC: What was your idea when you founded GoldMoney? What is new that it brings to the table?

Turk: The initial idea came to me when I was still working in banking and witnessed the collapse of Germany's Her-

statt Bank in 1974 because of the huge losses it incurred in foreign exchange trading. I thought it would be good to re-establish gold's role as a currency accessible to everyone and enable them to benefit from its advantages, namely the fact that it is no one's liability and does not have any counterparty risk. At that time of course, the technology in the form of the Internet and personal computers was not available yet. It took quite a while, but once the technology was there, I founded GoldMoney. With GoldMoney you are not depositing gold, and accepting a liability for your money as you would with a bank. Rather, you own the gold we store for you, and we have a strong governance procedure to ensure that your gold is safe. For every gram of gold owned by our customers, there is a gram of gold stored in the vault in London. GoldMoney is not a gold certificate like many banks are issuing, which is only backed by the credit of the bank, and for which there is often no gold in their vault. But besides being a way to save with gold, GoldMoney also offers the opportunity to make payments in gold between GoldMoney account holders at lower costs than normal bank transactions. For example, the maximum payment fee in GoldMoney is about \$2, which is only a fraction of the cost of bank wire transfers, plus payments in GoldMoney are conveniently online and immediate.

GRC: How is GoldMoney's position in the market, and do you have any expansion plans in the Gulf?

Turk: Currently we have 30,000 accounts, and we are storing about \$200 million worth of gold and silver owned by our customers, which makes us by far the largest provider in the field. In addition, contrary to others, we are managed by a fully regulated trust company with corresponding audit and compliance. About two-thirds of our customers come from the US and Canada. In Europe we have a strong presence in the UK, and currently we are expanding in Asia. Hopefully, by next year we will also enable our customers to begin storing gold in Dubai. I also see a lot of potential in the business with migrant remittances. Our largest margin is about 3 percent even when buying small amounts of gold, like 50 dollars. Thus we are cheaper than the banking system. At the same time, we are offering a much more cost effective way to buy gold than purchasing jewellery, for example, which is a favorite way of saving by many people in the sub-continent. We have views about eventually expanding in India as well.



JAMES TURK: 'GOLD HAS PROVEN TO BE A RELIABLE STORE OF WEALTH OVER CENTURIES'



GRC: What would be the advantage of storing the gold in places other than London?

Turk: It is all about diversification because diversification reduces risk. People want to have their gold in places that have different political risks. It is well known that gold holdings by individuals were illegal in the US between 1933 and 1975. Gold possession was declared illegal, the gold cover clause of the US dollar was broken, and the dollar was devalued, which means the gold price was deliberately raised from \$20.67 to \$35. This sudden 69 percent devaluation of the dollar enabled the US government in the New Deal era to pursue its revolutionary policy of economic stimulation by monetary debasement. People are concerned about government actions like this, and thus, today an American would rather store his or her gold in Switzerland, while a Frenchman might prefer the US as he deems Switzerland too close to the French taxman.

GRC: If you recall your old times as head of commodities and precious metal trading at ADIA, what has changed in the business in the Gulf since then?

Turk: Gold has always had a big allure in this region, and Dubai already served as a gold trading hub to India at that time. What has changed certainly is the building activity. The cities are much bigger with extensive real estate development and that is a difference like night and day. Another change is the rapid development of tourism, but the role of gold in the region hasn't changed that much. It is still valued highly as a key component of portfolios. Who knows, maybe even the governments in the region will discover its virtue. Gold has retained its purchasing power in comparison to oil over the last 60 years, while the dollar clearly has not.

With other GCC countries now reviewing their currency pegs to the dollar as Kuwait has done, they should be thinking about defining their currencies as a weight of gold rather than some basket of constantly inflating fiat national currencies. Linking to gold would bring a level of price stability to the region not available from linking to any basket of currencies.



Photo courtesy: Deutsche Bank



Gulf Research Center

Knowledge for All

Based in Dubai, UAE, the Gulf Research Center (GRC) began its activity in 2000 as a privately-funded, non-partisan think tank, education provider, and consultancy specializing in the Gulf region.

The GRC produces recognized research from a Gulf perspective, redressing the current imbalance in Gulf area studies, where regional opinions and interests are underrepresented.

The GRC believes that the Gulf Cooperation Council has transcended the initial reasons for its establishment, to become a fundamental right of its citizens in the development of the region. The GRC seeks to further this belief by being an institution of distinction and innovative research that advances different aspects of development to ultimately benefit the people of the region.

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