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If You Keep Your Money with the Banksters, They are LOL.

A Monday Morning Musing from Mickey the Mercenary Geologist

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O Gold! I still prefer thee unto paper,
Which makes bank credit like a bark of vapour. Lord Byron, 1815.

It was 1:30 am on Thursday March 28 on the West Coast of North America. Still jet-lagged a week following my return from Asia, I awoke after a mere three hours sleep to an epiphany.

The thought evidently coincided with the time that banksters in Cyprus braced for a run on reserves. Their intervening measures to prevent bank failures included severely discounting the value of large investors' deposits and radically limiting cash withdrawals for *peones* to 300 euros a day.

Here's the idea that woke me up: *If you keep your money with the Banksters, they are LOL.*

I must question why any smart person with financial assets in any fiat currency held anywhere in the world would freely choose to keep the majority of that cash in any bank anywhere in the world.

At its very best, a bank is a 10:1 fractional reserve system; i.e., the bank backs 10% of its outstanding loans by the equivalent in paper money. In actuality, the majority of banks are leveraged much more than that. Fractional banking has existed for centuries. In the early 1600s, central governments in Europe began to manipulate money supply and credit in order to regulate banks, restrict bank runs, and prevent bank failures.

In early 1700s, England formed a joint public-private banking monopoly designed to alleviate its national debt. The South Seas Company was a conspiratorial scam involving government accountants, stock promoters, and politicians based on a purported but non-existent trade monopoly in South America. In 1720, the "Bubble Act" was designed to preserve the monopoly by outlawing competition, but it soon resulted in massive bank failures, financial panic, and economic collapse. Henceforth, the term "bubble" refers to any market that goes parabolic over a short period of time.

I know an ex-banker in Albuquerque whose hometown bank failed during the US housing market collapse in 2008. He was ruined but at least his small clients' investments were backed and honored by central government-issued bank insurance, made whole by the keyboard creation of fiat dollars. His creditors were less fortunate, writing off huge sums of bad debt.

The current Cypriot bank crisis and the resulting closure of its stock market for two weeks illustrates that banking remains an inherently risky business, often fueled by speculative credit markets that are subject to collapse.

History has shown us repeatedly that all fiat money systems eventually fail and lead to government default and demise. Even the value of the United States dollar has been rolled back twice in the past 80 years.

In 1933, President Roosevelt devalued the dollar 70% by raising the fixed price of gold from $20.67 to $35.00. His executive order also reneged on the government's promise to redeem paper currency in gold upon demand and made it illegal for citizens to own more than five ounces of bullion.

The Breton Woods Agreement of 1944 made the US dollar the world's reserve currency and it alone was decreed as redeemable in gold and only by other central governments. In 1971, the US defaulted again when Nixon closed the gold-for-dollars option and floated its money on world exchanges. Since then, greenbacks have had no backing except the United States of America's promise to pay.

Since the first baby boomers were born in 1946, American citizens have been taught, cajoled, and perhaps even brainwashed into thinking that the almighty dollar, the world's reserve currency, is a stable fiat money beyond question and reproach. Acceptance of this idea requires a belief that the US government is solvent and will remain so into the future.

But this very same government has gone bankrupt and defaulted on its financial obligations twice during my parents' lifetimes. Why would you think they will not do it again in yours? Is it your faith, belief, or a combination of both?

I kindly remind you what Mark Twain had to say about that: *Faith is believin' what you know ain't so.*

Face the truth folks, your money is not real money unless it is held in physical gold.

Let's look at current facts about the American banking system and how it takes care of your money:

- The central bank (Federal Reserve) creates more dollars (inflation) and devalues the purchasing power of your money every minute of every day to the tune of several percentage points per year. The Fed has been doing this at an exponential rate since the financial crisis of 2008, more than tripling the dollars in circulation.

- Your local bank is paying you a tiny fraction of a percent in interest for the privilege of holding your money in checking, savings, and money market accounts. At current average rates for a $100,000 account, the bank will pay you interest income of about $110 per year, subject to federal taxes up to 39.6%.

- However, the bank doesn't actually hold your money; it lends it out to debtors at much higher interest rates. That's how a bank makes most of its money, or at least it used to.

- The bank also takes in money by charging you fees for its privilege of lending your money to debtors. The charges you incur for check printing, ATM withdrawals, overdraft protection, foreign transactions, wires, and exchange rate spreads have skyrocketed since 2008 and are likely to far exceed the aforementioned interest you earn.

- Banks always have a percentage of loans in which the debtor defaults. These are actually liabilities but are euphemistically called "non-performing assets". If this percentage exceeds cash reserves and liquidity becomes a question, many depositors will try to remove their money quickly before the bank fails. That creates a bank run and the bank will default on its obligation to you.

- At that point the bank is taken over by a federal government agency and placed into receivership. Small depositors' funds up to $250,000 per account are protected by the agency via a bank insurance program and are reimbursed simply by creating more fiat money.

- Liabilities are absolved and the bankrupt bank's remaining assets are sold at discounted prices. Partial returns of capital are distributed to its first-in-line creditors. Most of the creditors however, are left only with bad debts to write-off against their taxes.

Despite their many flaws and shortcomings, banks are a necessary evil within our modern-day system of business. As a law-abiding citizen, you are required by the government to use a bank to move any significant sum of fiat currency from one entity to another. Transfers of funds can include not only *the old in-out* (re: Alex from A Clockwork Orange, 1962) but also the *over, under, sideways,* and *down* (Yardbirds, 1966).

If you are still reading this rant, I assume that you accept the above as more or less correct. Or perhaps you just got a chuckle out of my reference to the early to mid-1960s when US government debt was about $300 billion. Federal debt is now 56 times that figure, at well over $16.8 trillion and growing rapidly. Note this astronomical number does not include unfunded future liabilities such as pensions and health care for the old folks at home. Yikes!

The simple fact is that by keeping your money in a bank, you are losing wealth each and every day.

I have no *faith* and refuse to use the word *believe* (**Mercenary Musing, December 28, 2009**). Therefore, logic demands that I question the viability and longevity of our current monetary system and beg the following questions of you:

- Should you not keep only enough fiat money within the world's banking system to carry on your daily requirements for personal and business affairs and nothing more?

- Should you not buy more gold with those constantly depreciating dollars that you remove from said banking system?

- Should you not hold your excess, discretionary, and/or emergency fiat dollars in your personal possession at all times, the same as you do with your physical gold bullion?

I'm just sayin': If all your money is stored by the Banksters, then I surmise that they are occasionally LOL while sipping Dom Perignon and being serviced by $1000 per hour hookers in their bullet-proof

Lincoln limousines at your expense. After all, much of those multi-tens-of-millions-of-dollars in annual bonuses ought to be expensed to avoid onerous government taxes, no?

If you have your fiat currency in your physical possession, the Banksters can only devalue it and that's exactly what they are doing now. But the bank and/or the government cannot confiscate your gold or your money that you physically hold without engaging you directly.

Unless of course, you are already dead. When that happens, the government confiscates a significant portion from rich people's heirs in another scheme called the estate tax, levied for the privilege of dying. After all, life is a death sentence.

Because of periodic wars and central bank interventions, US baby boomers and subsequent generations have never witnessed a long financial collapse. However, my long-gone grandparents lived thru en masse bank failures and an entire generation struggled to make ends meet during the decade-long Great Depression. Colored by that experience, many folks abandoned banks altogether and kept their paper money and illegal gold coins stuffed in mattresses or hidden in old coffee cans under the crawl space.

I remember that my Granny Alexander used to put her change in a piggy bank every day. Periodically she would roll the coins up and take them to the bank for exchange into paper money. Those paper dollars were then taken home and stashed away in her secret place, ready and waiting for a rainy day.

At her urging when ten and eleven years old, my brother and I collected pennies of different years and mints in little blue books. I still have that collection of pennies, some of which are worth way more than a pretty penny now. Rest assured this book is not stored by a bank in a safety deposit box that I do not own, to which I am afforded access for only 35 hours in any 168-hour week, and in which the government upon a whim can order the bank to open and confiscate its contents.

My parents' generation lived thru the 1930s and savvies bad financial times. These old folks are not only likely to own gold but also have a considerable stash of cash in the cookie jar, a home safe, or another hiding place with easy access at their leisure or in a monetary emergency. In my opinion, that's not a bad idea.

We came pretty darn close to a monetary emergency when the banks crashed in 2008. A bank run in the US likely would involve the invoking of martial law, the shut-down of ATM machines, lengthy bank holidays, long waits in queues upon re-opening, and severe limitations on personal withdrawal amounts.

That sounds a lot like the past month in Cyprus to me.

In the 42 years after remaining vestiges of the gold standard were dissolved, numerous countries have defaulted on their currencies and debts, leaving their suddenly poor ordinary citizens to suffer the consequences. Meanwhile, their Banksters merely re-organized and promulgated perpetual paper pyramid schemes again.

Rest assured it will happen in the good ol' US of A once again; we just do not know when.

Please do your own due diligence and research before seriously considering my maniacal musings, radical raves, libertarian literalisms, or inane ideas.

Don't let the Banksters' have the last laugh on you. Buy more gold and mattresses.

Ciao for now,

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Mickey worked for junior explorers, major mining companies, private companies, and investors as a consulting economic geologist for over 20 years, specializing in geological mapping, property evaluation, and business development. In addition to Mickey's professional credentials and experience, he is high-altitude proficient, and is bilingual in English and Spanish. From 2003 to 2006, he made four outcrop ore discoveries in Peru, Nevada, Chile, and British Columbia.

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