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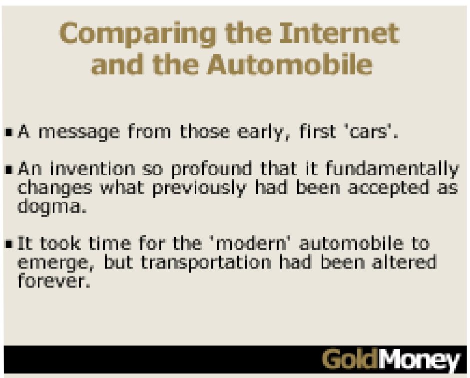
Gold and the Internet: The Future for Gold in Ecommerce

It is both a pleasure and an honor to be at this annual meeting of the Gold Institute, and I would like to sincerely thank everyone at the Gold Institute for their kind invitation.

My topic is “Gold and the Internet”, and I would like to do two things this morning. First, I’m going to make some basic observations about the Internet, and ecommerce in general. And then second, I will discuss what I think could be gold’s role in this tremendous technological revolution that we are witnessing.

To begin, let me ask you to put aside for a moment any notions and ideas you may have about the Internet because the Internet means different things to different people. But there is some common ground on which to begin our discussion this morning, and that is, namely, that the Internet is a very profound invention.

We really don’t know how it will evolve, nor can we yet appreciate the impact it may have on our lives and businesses in the future. But if we agree that it is indeed a profound invention, then we can make some interesting parallels to other important inventions. And the parallel I would like to draw this morning is that the invention of the Internet is at least as profound as the invention of the automobile. Let me explain what I mean.

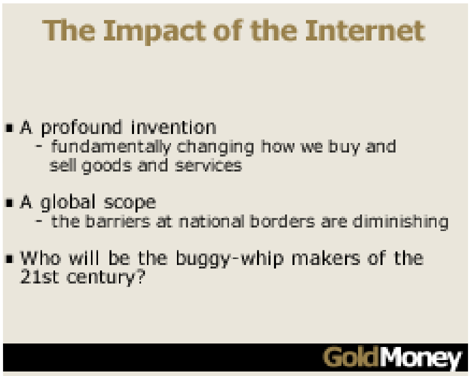


If you look at those first “cars” — and I use the word cars loosely — we see a picture of a buck-board with an engine mounted on the back, and a driver sitting up on top with a stick in his hand trying to drive this new contraption. But this picture says a lot about the nature of the invention. Those early inventors did not realize what they had invented. They did not realize that they had created the means by which transportation would be completely revolutionized. This picture of those early cars has an important message for anyone looking today at the Internet, and it is this:

The invention is so profound that it fundamentally changes what previously had been accepted as dogma.

Let me explain what I mean here because this point is important. Those early automobiles look like buck-boards without horses because that is what those early inventors thought transportation was and what transportation should be. They at first did not realize that what they had invented was so profound — so revolutionary — that all previous notions of transportation would be fundamentally changed. Therefore, those early automobiles began to evolve as the nature of the invention became better understood.

Over a period of several years, those early cars started getting roofs, windows, pneumatic tires and fenders because people began realizing that they no longer had to think of transportation in the same way that it had up to that moment in time. Issues of weight and power and comfort were no longer the constraints that they had been in the horse and buggy days, so soon cars no longer looked like a buggy without a horse. What we can today recognize as a modern automobile began to emerge from the shops and factories of some very creative people, and the rest, as they say, is history.



The automobile has fundamentally changed the way we live, and so too will the Internet. It has the power to fundamentally change our lives in many different ways and in many different areas. It will also fundamentally change the way we do business.

I don't want to get too far afield here because I want to focus on gold, but let me give you an example of what may lay ahead. It now seems clear that we will soon be making our long distance telephone calls over the Internet. Given that Internet access is more and more considered to be a utility — in other words, that it will always be available for your use much like the electricity line that feeds your house — how will the long distance telephone providers adapt to this changing environment? Will they go the way of buggy-whip makers?

Because the global reach of the Internet touches all of us, it is this type of question that each one of us should be asking ourselves. In what ways will the Internet will impact our lives, and more to the point for our discussion here this morning, how will the Internet change business and the way we engage in commerce? And more importantly, what will be the impact of the Internet on the gold industry? It is this question that I will focus on in the balance of my presentation, but before I answer that question, I want to first provide some background information. To do this, I would like to make four observations.

First, it seems clear that the Internet is rapidly changing the way we do business. Though still in its infancy, the Internet has already emerged as a major force in global commerce, and it appears that the Internet will become the epicenter of commerce in the 21st century.

Second, for decades currency crises, such as the recent Asian crisis or the Mexican one before that, are a recurring event. They arise because the currencies of the world's nation-states are managed, and sometimes the managers do a poor job and/or fiddle with the currency for political purposes. The currency crises which result from this mismanagement are harmful to the economy. For example, the Asian currency crisis imposed a tremendous cost on the world economy. But costs from today's currencies are imposed in other ways as well. Matters such as delayed or lost payments, the loss of interest because of 'float', the difficulty of accessing the funds in your bank account when travelling, etc. impose burdens on businesses and consumers (and therefore real and/or opportunity costs).

Third, a new currency is needed for the Internet. The world's present currencies do not circulate efficiently on the Internet. Nor do the mechanisms now being developed —for example, systems for credit-card and debit-card payments — adequately deal with the inefficiencies that now exist in ecommerce. Using your Visa card to purchase a book from Amazon.com is in effect not much different from those buck-boards with motors on them. So far people are thinking in terms of what currency has been in the recent past — not what currency could be in the future. The full potential of the Internet's capabilities (i.e., its computing and communications technology) has not yet been tapped to create a new currency for global ecommerce.

The fourth and final point, a common currency is needed for the Internet. In order for electronic commerce to truly flourish, a common currency is required for use within the Internet community for the same reasons and by the same logic that a single currency (i.e., the Euro) is being developed for the European community — namely, a common currency is beneficial to commerce and the community.

Given these observations, let me go back to the questions that I previously posed. How can gold's usefulness be changed in the future, and how can the Internet be the agent for this change?

To answer these questions, let me put on a different hat for a moment. Many of you may know me because of my newsletter or because of my involvement until last year with the Midas Fund. But I am also the founder of an Internet venture named GoldMoney.com, and this name of our company basically says how the Internet can change gold's usefulness in the future. Namely, the Internet can provide the means for gold to circulate as currency in global ecommerce, and this new usefulness for gold is the objective of GoldMoney.com. Enabling gold to circulate as currency in global ecommerce will be our product when we are up and running later this year. We are creating a new money for a changing world. Maybe I should say that we are using an old money — gold — in a new and changing world.

Now, I don't want to get too deeply into how GoldMoney will work, because that is not why we are here this morning. But I do want to explain how we see gold, and I also want to share with you some of our thought processes as we grappled with this concept of the Internet, which is the topic of discussion this morning. And I am hopeful that some of these thoughts may be helpful as each of you also grapple with the Internet in the weeks and months ahead.

We contend that gold is still useful as money. Many people assume that gold has been demonetized and therefore relegated to some marginal role as jewelry. However, while gold no longer circulates as currency, gold nevertheless still is money. There are any number of ways to substantiate this statement, but the best way is to use gold to calculate the price of goods and services. When it is used in this way, it is clear that gold maintains its purchasing power over long periods of time.

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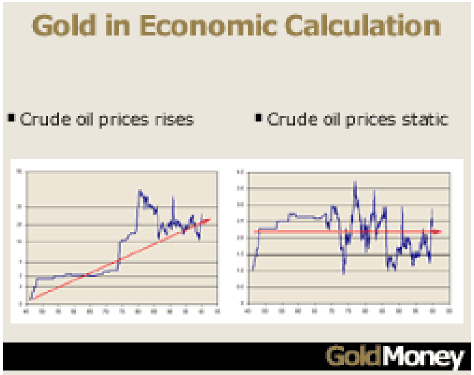
These two charts present the price of crude oil from 1945 to the present. The first one is priced in Dollars. The other shows the price of crude oil in terms of GoldGrams, i.e., which is a gram of gold and the currency of GoldMoney. Note the arrows on these two charts.



In Dollar terms, the price of crude oil has been getting more expensive, and the rising arrow shows the general trend in price. However, when viewed in terms of GoldGrams, a different picture emerges. Note that the arrow is horizontal and that crude oil prices fluctuate within a confined range. This result shows that gold maintains its purchasing power over long periods of time.

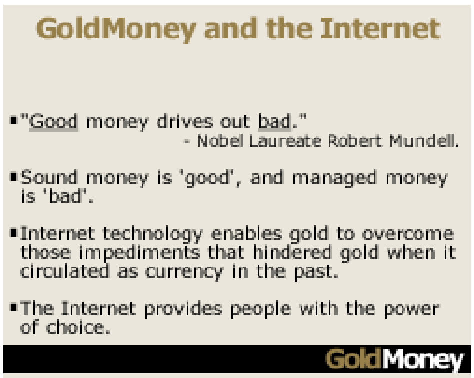
Measuring prices in weights of gold produces interesting and useful results. The following quote thoroughly captures the essence of the above two charts:

"We assume that the currency which is in all our hands is fixed, and that the price of bullion moves; whereas in truth, it is the currency of each nation that moves [i.e., loses purchasing power], and it is bullion which is the more fixed [i.e., maintains purchasing power]."

Would you believe that this insight was from a book published in 1802? The point is that this usefulness observed in 1802 is still very much an attribute of gold today.

People buy gold because of this unique attribute. In other words, they buy gold because gold is — to use the historical term — "sound money". And because gold is sound money and possesses valuable and useful attributes unique to it, people will want to use gold as currency. By enabling gold to circulate as currency, its usefulness will be enhanced. In other words, not only will gold remain as sound money, but GoldMoney provides the means by which gold can once again be used to buy and sell goods and services.

In short, because of its unique attributes, because it is non-national money and because it is not 'managed money' like the fiat currency of today's nation-states, gold is the logical choice of money for global commerce, which is after all its historical role.



Nobel Laureate Robert Mundell states that contrary to Gresham's Law — which is that bad money drives out good — the reality of international commerce is that good money drives out bad. For this reason, the Pound Sterling was a world currency for 200 years. And after the Second World War, the Dollar became a world currency not because it was an inferior currency, but rather, because it was, as they used to say back then, 'as good as gold'. By this logic, a sound money — in other words, gold — could carve out a major share of global commerce. And here is where the Internet comes in.

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The Internet provides the means to enable gold to circulate as currency to overcome those impediments that stopped gold from circulating as currency in the past.

GoldMoney is offering a new payment system, and it gives consumers and businesses a choice. And it is an attractive choice, not only because they can transact in a sound money, but because our product — using the computer and communications power available through the Internet — provides access to the many unique attributes of gold. And there is an important message here.

The Internet is a method of empowering people. They can communicate with one another throughout the world at speeds not imaginable only a few years ago. They have access to information in volumes and in scope that dwarf the world's greatest libraries. They can transact globally in a matter of seconds. They can use their computers to transcend national boundaries. In short, the Internet provides individuals with power, and it provides choice. Any product geared to these characteristics thereby makes use of the Internet's greatest potential, and enhances the likelihood of commercial success. If it is useful, people will use it. If the product is better or if the service improves the ways things are now done, it will be used on the Internet. And here GoldMoney is making an important step forward.

GoldMoney offers ease of payment, control of costs, and peace of mind. In other words, compared to existing currencies used in global ecommerce, GoldMoney is easier to use, cheaper to use and trustworthy. GoldMoney offers many unique attributes, none of which are available in existing currency systems. Some of these are:

- Immediate exchange of value (instant, non-repudiable transactions).
- Immediate availability of your money (no clearing problems/delays).
- Global 24/7 access (even through a cell phone).
- A means to avoid costs of currency exchange by using a common currency that transcends national borders (gold is well-suited for this role).
- Eliminates payment risk (no possibility for default on payments).
- High strength encryption, developed and operated on state-of-the-art hardware and software, assures security and privacy of transactions.
- Low transaction fees; pennies per transaction versus US$15-$30 for bank wire transfers and 1%-4% paid by merchants for credit/debit cards.

GoldMoney has received two US patents, and a third patent is pending. These patents acknowledge that we are advancing the "prior art", namely, we are creating a better currency than the currency that now exists. The above attributes confirm this point. In essence, GoldMoney is taking the world's oldest money — gold — and combining it with 21st century technology to enable gold to circulate as currency, and in the process, overcome those obstacles that stopped gold from circulating as currency in the past.

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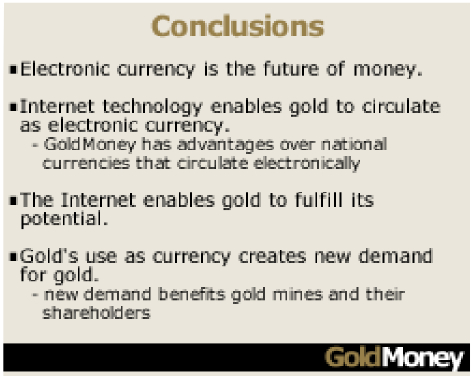
GoldMoney is unique among ecommerce initiatives so far within the gold industry. The initiatives that we have seen are basically electronic mechanisms to sell jewelry, medallions and coins. GoldMoney is much more. Not only does GoldMoney use the Internet to its full potential, GoldMoney also uses those innate characteristics and attributes that make gold a sound money.



Logic suggests that an electronic gold currency will be accepted and widely used as ecommerce develops. Consumers and businesses are turning to the Internet to look for alternatives. GoldMoney uses the full capabilities of the Internet to provide that alternative.

Our vision is to enable gold to be used as currency in each and every way that national currencies are now being used. We even envision using GoldGrams for trading securities. For example, the stock of your company could trade in an international electronic marketplace in terms of GoldGrams, just like it now trades in US Dollars in the States or Canadian Dollars in Canada or Australian Dollars in Australia. Each new application for gold's use as currency will create a new demand for gold, which explains why GoldMoney is important to the gold mining companies. By increasing the demand for gold from this new application as currency, the purchasing power of gold will rise to the benefit of the mines and their shareholders.

Gold is an exceptional product, but its potential is not being fulfilled. Many in the industry believe that by turning gold into jewelry the industry is adequately addressing gold's future. They are incorrect, as experience over the past several years with the declining gold price clearly demonstrates. Gold does not disappear — it does not get consumed — so the gold mining industry must contend with gold's aboveground stock.

The best way to address this obstacle is to enhance gold's role as money. Once gold again circulates as currency, a new usefulness will be given to the aboveground gold stock. It is the aim of GoldMoney to accomplish this objective, and we believe that the Internet is providing the means by which we can achieve it. And that is the concluding message that I would like to leave with you today. Namely, don't fall into the trap of those early automobile inventors who created those horse-buggies with motors. The Internet is opening a whole new world of possibilities.

Ladies and gentlemen, thank you very much.