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### The Rebirth of Gold as Money

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The debate over gold's place in a modern investment portfolio has been well covered. Call it the "Pet Rock" versus the "End of Fiat Currency" grudge match. But the facts are not subject to such intense interpretation. For example, the average annual performance of spot gold measured in the world's nine leading fiat currencies has been positive in 17 of the past 19 years (Figure 1).

**Figure 1. Gold's Superior Performance as a Currency (2001 – 2019)**

Year	Average Gold Performance	U.S. Dollar	Euro	Yuan	Rupee	Yen	Pound	CAD	AUD	Swiss Franc
2001	7.51%	2.46%	8.13%	2.45%	5.90%	17.62%	5.25%	8.65%	11.80%	5.32%
2002	16.21%	24.78%	5.76%	24.78%	24.08%	12.64%	12.67%	23.48%	13.85%	3.87%
2003	6.91%	19.37%	-0.21%	19.36%	13.52%	8.04%	7.80%	-1.81%	-11.22%	7.32%
2004	0.49%	5.54%	-2.19%	5.54%	0.54%	0.66%	-1.76%	-2.19%	1.40%	-3.10%
2005	25.91%	17.92%	35.09%	14.98%	22.23%	35.70%	31.44%	14.06%	25.84%	35.97%
2006	17.62%	23.16%	10.51%	19.11%	21.00%	24.32%	8.17%	23.46%	14.61%	14.24%
2007	21.32%	30.98%	18.46%	22.46%	16.64%	22.96%	29.28%	11.40%	17.77%	21.96%
2008	14.70%	5.78%	10.55%	-1.07%	30.62%	-14.10%	43.89%	29.91%	31.59%	-4.90%
2009	17.14%	24.37%	21.09%	24.40%	18.88%	27.38%	12.25%	7.90%	-2.39%	20.40%
2010	24.14%	29.52%	38.88%	25.02%	24.45%	12.75%	34.15%	21.95%	13.66%	16.91%
2011	11.94%	10.06%	13.51%	5.22%	30.74%	4.35%	10.65%	12.53%	9.81%	10.63%
2012	7.46%	7.14%	5.22%	6.04%	10.54%	20.84%	2.31%	4.86%	5.82%	4.39%
2013	-24.39%	-28.04%	-31.13%	-30.15%	-18.76%	-12.42%	-29.45%	-23.13%	-16.30%	-30.09%
2014	5.84%	-1.72%	11.99%	0.79%	0.45%	11.81%	4.48%	7.40%	7.44%	9.92%
2015	-4.62%	-10.42%	-0.25%	-6.38%	-6.16%	-10.15%	-5.27%	6.65%	0.33%	-9.90%
2016	12.07%	8.56%	11.85%	16.13%	11.42%	5.35%	29.57%	5.60%	9.66%	10.46%
2017	6.11%	13.09%	-0.79%	6.03%	6.22%	9.15%	3.23%	5.33%	4.47%	8.24%
2018	3.23%	-1.58%	3.32%	4.04%	7.42%	-4.13%	4.43%	7.04%	9.17%	-0.65%
2019-08-09	17.43%	16.36%	18.87%	19.47%	18.60%	11.99%	22.86%	12.95%	20.65%	15.13%

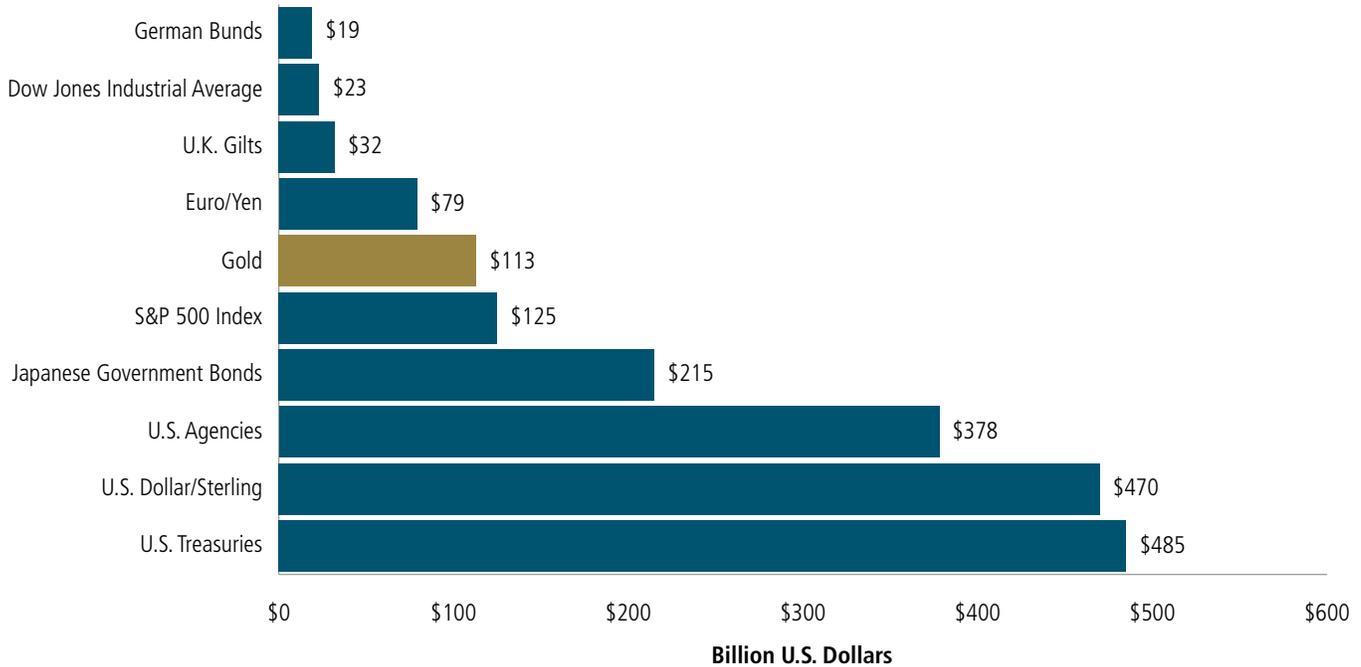
Source: World Gold Council.

Furthermore, gold's liquidity ranks within the world's top-10 most highly traded assets (Figure 2).

# A Message from the CEO

August 14, 2019

**Figure 2. Gold Ranks Sixth Among Most Liquid Asset Classes of 2018**



Source: WGC, U.S. Global Investors.

Alas, the Pet Rock team has enjoyed one significant advantage, which is that fiat currencies can be created, moved electronically in seconds to settle transactions, and held in accounts as easily as Instagram photos. Until recently, holders of fiat currencies also enjoyed positive rates of interest on their risk-free electronic stashes, a situation which is quickly being converted into an extraordinary form of taxation under the ruse of government-sponsored negative interest rates. Meanwhile, gold has suffered because of its relatively high storage and transaction costs, wide retail customer trading spreads, as well as an inability to use its physical form to settle consumer transactions.

## Gold's Revenge

For the 48 years since the Nixon Shock, in which gold was stripped of its convertibility into U.S. dollars, the marketplaces for fiat currencies have exploded in size. The growth of economies, inflation, global trade, financial markets, derivatives, electronic payment systems and internet commerce have been the major drivers of this growth. Gold was left far behind as a traded asset, although it was still growing rapidly in both value and volume, and despite greatly improved accessibility within financial portfolios through the advent of gold ETFs.

We believe that the nascent digitization of the ledger representing physical gold stored in qualified vaults will be a game changer in this debate.

There are currently many FinTech ventures which have developed products to competently represent certificated physical gold, and there is now a race to establish the leading standard and the volumes required to back them. These technologies range from verification, to trading, to customer dealing platforms and payment cards.

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## The Golden Advantage

Gold is truly the perfect asset to be certified, subdivided, encrypted and utilized through the internet, inside or outside the financial system. Blockchain is, in turn, the perfect engine to provide this encryption. Qualified vaults that offer encrypted storage certificates include government-backed mints and qualified independent vaults (such as Brinks) located in safe jurisdictions such as Canada, Switzerland and Singapore.

Gold is already regulated internationally in an efficient manner, does not serve the purposes of money launderers or criminals and can readily be ESG certified. Gold producers will soon be able to sell their certified bullion output and pay gold dividends to their shareholders completely outside of the banking system, which is attractive to them.

From the perspective of efficiency, the use of digital gold takes the customer experience to an entirely new level. Purchase and sale spreads, storage fees, insurance and transfers from inside the banking system become non-issues. The ease of use and cost of using gold in fractions through modern payment cards will be no different than other currencies. Gold will have the added advantage of minimizing foreign currency fees when travelling or purchasing internationally.

## Looking Ahead

Sooner rather than later, it is likely that large payment-processing or financial players will backstop one or more of these platforms with the result that this entire digital gold infrastructure could light up like a global electrical grid. Gold is a \$7 trillion market, and as such is simply too lucrative a target for the global financial and technology giants to ignore for long. With all the fuss about Facebook's Libra, a preemptive move seems like a no-brainer.

In all likelihood, this roll out would also have the effect of attracting an entirely new, and much larger, constituency to gold. Existing gold investors are mostly senior and wealthy. The largest financial market of all, global consumer household wealth, holds almost no current weighting in gold. The younger population likewise have minimal holdings.

To pose a question: Why would any household or individual safeguard their now non-yielding household and investment cash deposits, denominated in depreciating currencies, within a tremendously levered banking system? In other words, what person chooses reward-free risk, when they have a practical and, frankly, cool alternative for their choice of money?

An enormous transformation of the gold market can occur once digital gold attracts the volumes needed to make it a serious business.

## Sprott Digital Gold Ventures

Sprott has embarked on several new ventures that seek to deliver the next generation of precious metals investing. These projects combine the benefits of digital blockchain technology and the proven advantages of investing in physical precious metals bullion. Please contact the Sprott Team at **888.622.1813** for more information, or email us at [invest@sprott.com](mailto:invest@sprott.com).

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## Technology has Arrived to Transform Gold

Innovation will drive gold adoption by broader investor/user audience



**BARS &  
COINS**

**ETFs**

**DIGITAL**

- Digitization will lower the cost of buying and holding gold and facilitate faster transactions
- Blockchain technology will modernize the supply chain and improve compliance with ESG requirements
- New ventures are bringing gold into the mainstream payment ecosystem

A handwritten signature in black ink that reads "PGA".

Peter Grosskopf, CEO

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**Sprott** is a global alternative asset manager with a defining focus on precious metals and real assets investments. Through our subsidiaries in Canada, the U.S. and Asia, Sprott is dedicated to providing investors with world-class investment strategies that include exchange-listed products, active equity strategies and highly-specialized real asset investments. Our deep sector expertise creates investment and financing solutions unparalleled in the industry.

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