JIM RICKARDS'

STRATEGIC INTELLIGENCE

— Making the Complex Simple —

AMERICA'S SECRET CURRENCY:

GET IN ON THE ULTIMATE OFF-THE-GRID ASSET

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America's Secret Currency:
Get in on the Ultimate Off-the-Grid Asset

Dear Reader,

With the death of paper money, you are going to want to have assets to store your wealth, and to transact business "off-the-grid."

There is a nearly endless list of strategies for playing physical alternative currencies. In fact, in this report, I'll reveal one of the best ways — a little-known secret that offers a relatively safe yet lucrative path to profit from the events I see ahead.

I like this "off-the-grid" asset because it's an inflation hedge, it's portable and it's worth more per ounce than gold. It's the perfect alternative investment asset today!

But it's been an essential part of protecting wealth through crisis for centuries.

A time-tested formula, that I've seen in person…

A Fortune That Lasts

On a cool evening in the fall of 2012, I joined a private dinner in Rome with a small group of the world's wealthiest investors.

We dined at Palazzo Colonna, a private palace that's been owned by one family for thirty-one generations of nine hundred years.

My dinner companions were mainly Europeans, some Asians, and relatively few from the United States. Amid marble, gold, paintings, and palatial architecture, I mused on the meaning of old money compared with the new money crowd that congregated for cocktails near my Connecticut home. These phrases distinguish between old family fortunes like the Rockefellers, Vanderbilts, and Whitneys, and the new fortunes of Greenwich hedge fund mavens and Silicon Valley CEOs.

Implicit in this distinction is that old money has proved they know how to preserve wealth while the jury is still out on new money busy buying yachts, jets, and sharks in formaldehyde.

Still, old money in the United States is perhaps 150 years old, or slightly older for families like the Astors and Biddle.

Yet in Rome I was ensconced in a nine-hundred-year-old fortune still intact.

Here was a family fortune that had survived the Black Death, the Thirty Years' War, the wars of Louis XIV, the Napoleonic Wars, both world wars, the Holocaust, and the cold war. I knew the Colonna family were not unique; there were other families like them throughout Europe who kept a low profile. These families are only too happy to be overlooked by the Forbes 400. That type of wealth and longevity could not be due merely to good luck.

In nine hundred years, too many cards are turned from the deck for luck alone to be sufficient. There had to be a technique. I turned to a striking Italian brunette to my right and asked, "How does a family keep its wealth for so long? It defies the odds. There must be a secret."

She smiled and said, "Of course. It's easy." You just invest in "the things that last."

That included the land at the foot of the Quirinal Hill in the heart of Rome where we sat. It included the paintings on the walls and of course gold.

And another "off the grid" currency that the wealthiest have fled with amid crisis in the middle of the night…

Diamonds.

The cliché from ad campaigns about "forever" rings true.

And crucially, it is no longer just a haven asset for the super wealthy. They are a protection asset for investors with a resale value.

You Can Take It with You

As strategist Yoni Jacobs writes, while investors focus their attention on gold and silver they miss important benefits of diamonds.

Consider these four reasons he lists as to why diamonds are a good investment:

1. **Highest Value per Unit Weight.** Diamonds are the most valuable items in the world. And they are the most portable. A small number of diamonds can make you wealthy. So, this portability is essential to store wealth in case of emergency. Would you rather carry a few diamonds in a small bag or have to carry gold bars?

2. **Diamonds have Industrial use.** Having the highest hardness and heat conductivity of any bulk material, diamonds possess tremendous value for industrial use as it has the highest hardness and heat conductivity of any bulk material. In fact, 80 percent of mined diamonds are used industrially. Many investors think the value of diamonds is only based on demand and speculation. The reality is it serves an important industrial purpose.

3. **Necessary for Global Growth.** With infrastructure projects developing in many emerging countries, roads and highways must be built. Diamonds are used in many tools used for stone cutting, highway building and other technologies. Demand for diamonds used in these ongoing projects will increase, along with higher prices.

4. **Diamonds Have Emotional Value.** The value that diamonds give as gifts is immeasurable. Whether it is for engagement rings, anniversary gifts, and Valentine's Day presents, diamonds will always be a valuable asset and in demand for emotional relationships around the world.

Its portability may be one of the most important things to consider as the world faces turmoil.

In some future crisis, when gold has spiked to $10,000 per ounce, a similar weight of diamonds would take you into the tens of millions range!

It's a way to move massive wealth across borders with minimal risk of detection.

An interesting twenty-first-century take on this millenarian asset is that diamonds … like land, gold or art… are nondigital. They cannot be wiped out by power outages, asset freezes, or cyberbrigades.

Diamonds Versus Gold

The biggest difference between these two investments is that the market for gold is much larger. Gold is a more liquid investment that's easier to assign a price to.

But that is changing as we speak.

In fact, this year, the world's second regulator-approved, exchange tradable diamond commodity will launch.

It's a sign of the growing demand for alternatives to cash as a store of wealth.

And it means there are companies online to help you invest in diamonds in a convenient way.

As mentioned, diamonds are difficult to price.

Unlike gold, which is valued based on weight and purity, diamonds are based on four factors…

Carat weigh, color, cut and clarity all impact the value of a stone.

With that in mind, it will take time to learn the ins and outs of what makes a quality diamond.

And much like storing your own gold and other precious metals, you'll have to consider security. And that includes insurance, which costs money.

So before you jump into any purchase of a physical diamond, you'll need to gather professional opinion on the offering.

All that being said, this is an excellent addition to a crisis-proof portfolio.

But, of course, it's just part of the puzzle.

The Rule of Thirds

Back at the dinner table in Rome, my conversation partner had inherited a formula for preserving wealth.

"A third, a third, and a third." She paused, knowing I needed more, and continued, "You keep one third in land, one third in art, and one third in gold."

Her advice followed the first rule of investing — diversification.

Interestingly, like diamonds, art is more valuable than gold by weight.

The most difficult asset to access is art. Investments should be confined to fine art, either paintings, drawings, collage, or sculpture. The art should be museum quality, meaning that the artist either already has some work in a museum or is considered a good candidate for acquisition by curators.

The challenge for museum quality art is how to buy it. A multibillionaire can pay $100 million or more for a well-known Picasso painting, not an option open to most investors. Interestingly, Picasso was highly prolific, producing thousands of small paintings and sketches along with his best-known works. Some of these pieces can be purchased for $10,000 or less.

They're worth a look.

The best way to invest in museum-quality fine art for $1 million or less is through a well-structured, well-curated fine art fund. Not all art funds are created equal. Some are poorly structured with misaligned incentives. Some have inherent conflicts of interest with dealers who sponsor them.

But other art funds are managed conflict-free with good alignment of interests between sponsors and investors, and reasonable fees. These funds may be hard to find, but they're out there.

The land component was harder to grasp at first. History is filled with conquests, looting, and political change. Land can be lost. Nevertheless, good title to land, once established, is durable. There are thousands of Cuban refugees in the Miami vicinity who will show you deeds to properties in formerly wealthy neighborhoods of Havana they took with them when they fled the Communist takeover in 1959. Those homes have been occupied by party officials for the past fifty-seven years; some were destroyed. Yet the refugees still hold title and they, or their descendants, will return someday.

As the United States and Cuba normalize relations, those titles will not be ignored. An early seventeenth-century noble, hearing marauding armies approaching his manor, could remove his paintings from their frames, stow the canvases in a sack, put his gold in a pouch, and ride away with both in tow. Months later he could return to the manor, reclaim possession, stack his gold on a table, and hang his art on the wall.

His wealth would be intact while his neighbors' wealth was perhaps destroyed.

Don't Forget the 10%

Regardless of what other alternative investments you choose, do not skimp on gold.

Gold, in physical form, bullion bars or coins, in nonbank storage is the heart of every portfolio. Ten percent of investible assets is the right allocation. Gold has no yield (it's not supposed to — it's money), yet gold's wealth preservation and insurance properties are nonpareil. Avoid so-called rare and antique gold coins: the numismatic value is nil; they are grossly overpriced. Buy new coins or bars directly from the U.S. Mint or a reputable dealer with low commissions.

Gold is more accessible than most realize. I was once a passenger in a Las Vegas taxi. My driver, Valerie, asked why I was in town. I said I was there for an investment conference. This led to a consultation on wheels. As a former taxi driver, I know there is no more captive audience than a passenger. Valerie asked for investing advice and I made my usual reference to a 10 percent gold allocation. At one point I said to her by rote, "So, if you have a million dollars, put $100,000 in gold; if you have $100,000, put $10,000 into gold, and so on. Ten percent is the right amount." She said, "You must be kidding, I'm fifty and have ten thousand dollars to my name; that's it." I said, "Fine. Buy one gold coin, put it in a safe place, and sit back. That's your insurance.

When the time comes, the government will steal your ten thousand dollars with inflation and taxes, but you'll still have the gold." She said she would do that, but in my experience, savers do not follow through.

The Colonna family remains wealthy after surviving wars, plagues, revolutions, lootings, and the ravages of time. Survival was not all about assets. The Colonnas were deeply involved in Roman politics and the Church. Friends at the Habsburg court proved helpful at crucial junctures. Yet others had friends at court and did not survive nearly so well. The difference between mere money and dynastic wealth is profound. In Palazzo Colonna, you see the difference all around.

Make sure you create a portfolio that can stand the test of time. That means true diversity.

As mentioned in this report, assets once available only to the super rich are now accessible to ordinary investors. Just as you can buy one gold coin as insurance to serve as your 10% allocation, or invest in a fine art fund, you can now even invest in diamonds as a commodity through funds you can find online.

All the best,

Jim Rickards

Editor, *Strategic Intelligence*