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# Gold for the 21st Century | Episode 5
## Gregor Gregersen, Founder, Silver Bullion Group

**This week on *Gold for the 21st Century*, we welcome Gregor Gregerson, Founder of Silver Bullion Group, into the SmarterMarkets™ studio. David Greely sits down with Gregor to discuss the role of gold and precious metals in protecting wealth, the physical infrastructure and technology required, and why creating and maintaining trust remains the foundation of a functional financial system.**

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**Gregor Gregersen** (00s):
Historically when you are in a stagflation and I do believe that's where we are heading, that's the best time for gold. When growth isn't very good and when inflation is going up, I mean gold is probably one and silver is one of the best things to own.

**Announcer** (15s):
Welcome to SmarterMarkets, a weekly podcast featuring the icons and entrepreneurs of technology, commodities, and finance ranting on the inadequacies of our systems and riffing on ideas for how to solve them. Together we examine the questions: are we facing a crisis of information or a crisis of trust, and will building smarter markets be the antidote?
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**David Greely** (01m 04s):
Welcome back to Gold for the 21st Century on SmarterMarkets. I am Dave Greely, Chief Economist at Abaxx Technologies. Our guest today is Gregor Gregersen, Founder of Silver Bullion Group. We will be discussing the role of gold and precious metals in protecting wealth, the physical infrastructure and technology required, and why creating and maintaining trust remains the foundation of a functional financial system. Hello Gregor, welcome to SmarterMarkets.

**Gregor Gregersen** (01m 33s):
Thank you for having me.

**David Greely** (01:34):
Well, it's a real pleasure to have you here. I am really appreciate this opportunity to talk with you. Clearly many people are now talking about gold and looking to gold and to the precious metals markets broadly to protect their wealth in the current circumstances, you have been building out the infrastructure that's required to protect wealth in this way for over 15 years. So I think it's safe to say you were ahead of the curve on this one. So I wanted to ask you, what sets you down this path? What were you seeing that perhaps others weren't?

**Gregor Gregersen** (02m 10s):
Well, it goes back to 2008. I was Senior Data Architect for Commerzbank and at that time I had already moved to Singapore but I was sent back as an expat in Germany, my own country basically on a special project and that was around the times that Lehman process went bankrupt and so I was in the trading room of a major bank things, the after effects of the 2008 financial crisis and it became very clear to me since the whole system was based on trust and you know, we had one trader in Germany, he was sort of named the dumbest trader in Germany because he sent I think $40 million to Lehman Brothers before he went bankrupt and you know, nobody wanted to become the next demonstrator by sending it to any other bank and you know, that's really how the system was about to collapse.

**Gregor Gregersen** (03m 00s):
And I think not too many people realize how closely we got is falling apart and in my prior life or early career, I used to work with Quants on structural product desks, building derivatives. So I was familiar on how derivatives basically are made up with components from different banks and you know, it's very safe if everything works, but as soon as you take some pieces out, the whole thing

becomes unsound intense. You have got big to fail problem. So seeing all of this and so scratching my head, I saw people going out and buying physical gold and silver and I started use some books about it and by the time I thought, hey, that's not a bad idea, I couldn't get any, I went through 15 banks in the Frankfurt area in Germany and bullion dealers and almost everybody told me, well we are buying back, we are not selling.

**Gregor Gregersen** (03m 47s):
And if they are willing to sell. So buying it back at a huge premium, I mean still I had phoned to $9.50 and people wanted $36 for a bit of silver and that really made me realize that physical gold and silver is all about removing counterparty risk and when you have a crisis, counterparty risk is really a big problem because you might have a hundred ounce of gold somewhere, but it might not be worth anything because your counterparty is dead or because the gold might never have been there. But if you have it, you know under your bed, you know you have it and that was sort of the beginning of it all because I realized we're going to have bigger crisis and for the next crisis I wanted to make sure that we have physical gold and silver available and stored in a safe way and that's really how it all started.

**David Greely** (04m 39s):
And lots of people get involved in precious metals markets as an inflation hedge or portfolio diversification and there are lots of ways to invest in the space, whether it's physical, whether it's futures, whether it's an ETF, your focus on wealth protection and counterparty risk really affects the way that you invest in precious metals by wanting to hold physical as you said and so I am curious, what infrastructure did you have to build in order to be able to hold wealth in this way?

**Gregor Gregersen** (05m 13s):
We did a lot of things differently and I didn't start out this way. It, it was very much a learning journey early on when we started building this, we didn't realize that the system itself wasn't really meant to provide systemic wealth protection. When people own gold oftentimes say just own price exposure and there is no physical gold behind it or say gold might be unallocated, this is a nice word of saying, you know, it's been sold 50 times or even if it is there, there are some issues with it and as we were looking at creating this storage system, we were outsourcing like most companies, international vault, global vault operators were two big issues which I just couldn't live with. One of it was a statement in same contract that if the bullion mysteriously disappears it would not be covered by insurance. So of course then you start wondering what is mysterious disappearance?

**Gregor Gregersen** (06m 11s):
And you start wondering at night what, well if it's mysteriously disappears and what now? So that's something that we wanted to change and by the way, the reason I can't go into details why there's this clause, but usually insurance companies or insurance vaulting contracts have an all risk insurance and people think all risk insurance means always covered but it actually means always covered unless excluded and if you don't know your list of exclusions, you really don't know what is your insured for and so all the mysterious disappearance is just the most important exclusion which I wanted to get rid of. The second issue was several or force module, Monroe clause in the contract, which essentially stated said if any government nationalizes ceases or confiscates your gold or silver, you have to identify as a world operator. And so my point of view is I am putting my gold in Singapore, I am aware that I have to follow Singapore law but I don't want to have to follow Burundi law or whichever other country might be.

**Gregor Gregersen** (07m 15s):
And so it says any government law, I couldn't live with that and mysterious disappearance I couldn't live with and the only way of changing that was to build your own vault and so we basically started with this idea, well how do we build a vault and the best way to build a vault is to start talking with the insurance company parts of London in this case and start to look at how do we build a system which the species inspectors, which as insurance security specialist of insurance companies will approve and so being a software engineer, I basically started developing a vault management systems and building some in a way that creates a lot of checks and balances when bullion arrives, it's being split into between three functional groups into nine tickets which are processing a certain way. And that essentially gave a lot of confidence to the species inspectors.

**Gregor Gregersen** (08m 08s):
They gave us very high marks and essentially we managed to get insurance through Loza London, which included mysterious disappearance and then because we said we are only a local company, we are only storing in Singapore, we did not have to have of course Monroe Clause saying any government and so my point is sometimes it's better to be local as a some global and these were two key sort of directions that we took. A third issue was a vault usually only stored on a set of contained basis, which means that if gold is

being deposited, that gold, if it turns out not to be real, it's not the world's problem, so is it's a seller's problem, well he will say I bought it from somewhere else. So it gets very complicated on who's really at fault when says an issue with the gold and sometimes the customer is the one who is going to have to fight his way through trying to get somewhere.

**Gregor Gregersen** (09m 03s):
And I didn't like that system and I said, well why don't we look if we can have a reliable way of non-destructive testing for precious metals and we developed the system back in 2011. By 2016 we felt comfortable enough to guarantee all the goals that we are selling, all goals that's being transferred in which went through this testing system. So now we are essentially guaranteeing that bullion and essentially the buck stops with us. This is an issue, we are the ones which are going to be liable and the system has worked very well for the last 12 years and about months ago I presented the system at the LBMA conference on assigning and refining essentially to analytical labs as the biggest refiners in the industry, which are also very interested in it now. So it works well and the system relies on testing multiple characteristics, electric conductivity, ultrasound, x-ray, spectography, magnetism, density. We do at least three tests if these pass almost impossible for it not to be real gold and so there are ways to essentially make sure and provide certainty and by addressing these three key issues as well as making sure all the bullion is always owned by the client, never know a balance sheet, we can essentially remove most of the counterparty risk, most of the jurisdictional risk and the currency risk, which I think is the three key risks that we are facing in a systemic crisis.

**David Greely** (10m 32s):
Well I would love to dig into a number of the things that you've said. I found them really interesting. First of all I have got to ask about this insurance exclusion of mysterious disappearance because on its face it sounds like if I had auto insurance and my car was stolen, it wouldn't be covered because it mysteriously disappeared. I imagine it's a little more technical than that. What, what do insurance companies mean by mysterious disappearance?

**Gregor Gregersen** (10m 55s):
Well when you are storing gold, let's say there is three sort of main causes for something going missing. One is theft, third party theft, that's it. What people usually think about somebody comes in gun blazing or at night drilling and you know, stealing the gold. So if that happens then what would you do? You will call the police, the police comes, does an investigation, writes a police report, says somebody stole it, it's not recovered, it goes through insurance policy company and say pay it based on the police report. Another case is infidelity. So if that's, let's say an employee or somebody in the company pocketing some of the gold somehow or in some other way appropriating misappropriating set gold and if that can be proven then it's a case of infidelity against that will be a police report, it goes to the insurance, the insurance pays based on the police report.

**Gregor Gregersen** (11m 48s):
But what if we have an inside job or a theft and we don't know what happened or what if we get a shipment of a hundred bars of gold and we don't count it correctly So it's really only 99 but we think it's a hundred. So we are storing it now as a hundred bars of gold and three months later we come and we realize, oh, so only 99 if we goes the police and say, oh we saw we had a hundred but they are only 99, police are going to say, well too bad for you. It's just not much that they can do. There's no way of determining what that all was. So first mysterious disappearance so if we now go to our insurance company and say hey, we thought we had a hundred, we only have 99, could you please replace that one bar is only $140,000.

**Gregor Gregersen** (12m 33s):
The insurance will have to pay if you have mysterious appearance or would not have to pay if you don't have it and so it takes a lot of trust by the insurance company to give you this kind of policy because currently we have a policy of one and a half billion US dollars, it's Singapore dollars, so that's about 1.2 billion US dollars and so I could lose 1.2 billion US dollars mysteriously in theory make a claim for it and so that is the type of reasons why it's difficult to get this kind of policy and you have to pay a little bit more but most importantly you have to gain the confidence of the species inspectors that you have enough systems in place to make it very unlikely for mistakes to happen.

**David Greely** (13m 18s):
There is a word you, you keep using and that's trust and I think for many people trust is kind of an abstract concept, but in your world it's very practical. There are real implications of when you can't trust someone else, whether it's the counterparty risk, whether it's being able to obtain assurance. How do you think about trust and establishing trust or removing the need for trust in your business?

**Gregor Gregersen** (13m 46s):
To us, trust is everything. So I say you know, building and maintaining trust is the number one goal of a company. Sales are secondary because I see the whole financial system, I see the United States dollar, it's only backed by the whole faith and credit of the United States. If there is no trust, all systems collapse and so what we are trying to build is a system that can, is outside the financial system which can be trusted when trust in the existing system disappears and that's why trust is so important and you cannot ask people to trust you but what you can do is you can build systems which are either so transparent or which put other constraints or checks and balances on you so that as people understand how it works, it starts building trust and so that's why this is so important and oftentimes, you know, you, you have to take some entities like Lloyds of London and the species inspectors to come in to basically certify, verify yes these guys know what they're doing, therefore we are going to willing to take such risk.

**Gregor Gregersen** (14m 51s):
And so that's building trust and that's why when you start a vault and you are trying to convince somebody on the other side of the vault like you are right now, literally to send some money over to our no name company, you need to have a way of establishing the trust and insurance was a very important part of that. But send everything else we do basically is to keep on talking with clients, finding out where the pain points are and developing it and so we have a lot of, let's say paranoid in a good way clients and I myself at the same kind. So we will just go ahead and we will talk yeah and what about this scenario and this scenario and you know, people will tell us how about you should be thinking about this and said, I will say yeah we have thought about this but have you thought about this other issue which could happen?

**Gregor Gregersen** (15m 32s):
And so we kind of geek out on our risk assessments and how to handle it and after 17 years of said, we just sort of live and pre it and play through scenarios of what might be happening and it just has grown and grown. I mean it started off very, very small. Basically it was my own $130,000 by myself to some degree and now we are one of the largest vault in the world with you know, 10,000 ton capacity for silver. So it's about 32% of all production on silver 15 gold worlds and we can expand it to another 25, so up to 40. So I never expected to become this big but it was just sort of a consequence of what I would see as obvious thing to do because to me it seemed obvious that you don't want your gold to mysteriously disappear, so you only have one government that you have to listen to or said it should be tested and other people, companies didn't want to address these issues and to us it just seemed always that we have to.

**David Greely** (16m 34s):
Were there any big moments or insights in this journey of building trust with your clients that have kind of stuck with you? Like something where you are like, oh I hadn't thought about that or that was really important in getting people to be able to trust us?

**Gregor Gregersen** (16m 51s):
I think it was a continuous learning process but it all started because I myself wanted to build a system which was as foolproof as possible. So that was the beginning sort of it. It was never really about making money, it was about finding a system which is going to be resilient and survive that financial Armageddon and as we built that, I think a lot of the key questions that were addressed early on and so it was a matter of sort of improving as we went ahead. I think what I had to learn along the way was to be concise and don't keep on talking about things because I like to talk and I would write 10 pages about a subject and nobody would want to read it. They will realize maybe I will try one and a half pages and people still don't read it and I will just have to try to get it down to one paragraph and ideally make a short video or something. So it, it was a matter of me sort of becoming a bit better at communicating.

**David Greely** (17m 48s):
Well I am glad you are communicating with us today and feel free to talk as much as you like. This is really interesting. The one other piece you had brought up that I wanted to go back into with you was the testing that you talked about to make sure that what's going into the vault is what's, you know, what's been stated and I'm curious how does that work? Is it a sampling of the bars that come in or do you test every bar? Like how scalable is this procedure that you have developed?

**Gregor Gregersen** (18m 15s):
It depends a little bit from the source if we have a transfer from another world, so we have quite a lot of clients essentially which will transferring from another world or sometimes from the home then we test all of the bars. The items that are harder to test are the coins because there is so many of them. You get a 1000 ounce bars that's one up, you know $32,000, quite easy to test but you get 1000 coins and that's a lot more work And we, we have to open the so-called monster boxes which are usual in the industry is just a little strap so

that's not really a seal. So we open it, we test about 30% of the coins and there some ways of testing coins which are quite practical if you run some near a magnet, a rare earth magnet for example solar and gold, they tend to repulse magnets whereas tungsten which will be useful faking of gold for example because of very similar density will attract it.

**Gregor Gregersen** (19m 11s):
So as you run a magnet around it, this device which measures the magnetic attraction and so on, you can pretty quickly get an idea for something wrong. And the trick really of our testing, which is what was an insight to the LBMA refineries and so on, which I didn't realize it was for them, was they usually are used to testing one physical characteristics and they put a lot of work into testing cells. So they would do ultrasound testing for example on a bar using very high end machines and sometimes because either physical items you will find a bit of porosity inside a bar or a little signal where you're not quite sure. And then if you are Walt what you do well the guy there will probably say anything that's not completely clear I just reject and so the refiners will be saying, well that's a perfectly good bar.

**Gregor Gregersen** (20m 01s):
Just because it's got a little mini air bubble in there doesn't mean it's bad, it's according to specification. So what we essentially presented is look, you don't have to rely on one test so much because you can also test electrical conductivity. Silver is the most conductive metal in existence. It's very hard, almost impossible to fake electric conductivity of silver. Gold is also very conductive. Tungsten is three times less conductive than gold so you know, very easy to detect it. It's the solarity which the speed of sounds through a metal for tungsten is quite a bit higher than gold. So again, very easy to find with an ultrasound where the cell inserts magnetism, as I just mentioned x-ray spectography gives you an idea of the surface of the bar, which is good add-on information and the density is the standard test basically and so the trick is if you test two or three things, you don't need each test to be absolutely certain, but the more of the physical test you do, the more certain you are, it's a real bar.

**Gregor Gregersen** (21m 02s):
So we are currently creating an ISO 17025 system on this which will then allow us to essentially train people on how to use it and it's a type of standards that say refiners analytical apps also use and by doing this we are also working with company which might automate some of these processes. So there might be possibilities as it will become an industry standard overall and for us we had to develop it had to be practical as you mentioned, had to be scalable, it also had to be reliable because we guarantee it. So we managed to, you know, achieve all of these things in a practical sort of environment. So it, it works out very, very well.

**David Greely** (21m 47s):
And I feel I have to ask, since you have started doing this testing, have you developed a sense of how much fraudulent gold and silver is in circulation? Is this something that you know, you come across frequently or infrequently?

**Gregor Gregersen** (22m 03s):
So for us, no because a lot of our metals are coming directly from the refiner or from a mint and brands that are being transferred, usually it's also okay we, we have a big, big facility with armed security, auxiliary police and so on. So people just don't tend to bring fake bars for us. So we would rather try with a pawn shop or something like this if they were to try set. So usually if we find something, you know it has to be a pretty good fake and it's probably not intentional. So for that reason we don't encounter a lot of these issues. But there has been the smaller bars, the retail bars, these tend to be more of an issue where in China there were companies that manufactured bars which looked exactly like a PAM bar or a purse minsal of power with a packaging and so on package.

**Gregor Gregersen** (22m 53s):
So people didn't want to open the packaging and I must tell you almost every fake bar counts with a certificate. So don't think the certificate is sort of any kind of guarantee and it usually is packaged so it's harder to sort of test and these bars I usually have a tungsten core, so that's the weight and you know, shaped the mass basically matches. So what we did is we ended up pretty much equipping almost all of the pawn shops and all of the jewelers in Singapore with ECM electrical conductivity machines, testing machines and they can go through a bit of packaging and with that system essentially, you know, we are able see shops were able detect some of these cases. I think your biggest risk of getting fake bullion is if you buy it through eBay or something like this from an unknown person and especially if you buy gold at a discount and nobody will sell you gold a discount most likely it's not serious thing.

**Gregor Gregersen** (23m 48s):
So those are things you have to sort of be aware of. But overall in our business we found very, very little fake cases. I remember one case of a old lady, she had some iron bars and she thought it was platinum was sold to some as platinum 30 years ago. It was sort of a sad case but that wasn't even a fake platinum almost basically just a steel bar which she didn't know. President said we had very few cases, maybe I can tell you a couple stories. We had one set of big 1000 ounce bars being transferred in as part of a big transfer and cease square bars from 1985 made in Poland, which means there was also packed, you know us SR times basically and cease bars had a really high uneven sort of horrors hall sort of bars and we had to put some underwater in order to get contact with the ultrasound and those were really problem to test.

**Gregor Gregersen** (24m 49s):
So we talked with a client and said look, can we just send it before we find I have it melted down and it was coming from another company and so we said look, if it turns out to be a problem you are going to have to pay for the re-melting and for the bar to be real, if the bars are fine we are gonna pay for the re-melting and the bars were fine. So we ended up paying for it but it okay it was a learning way and the client got new bars out of it. So over 12, 15 years we got a lot of sample data and learned essentially you know, how to deal with special cases.

**David Greely** (25m 24s):
And I wanted to ask you about being in Asia, being in Singapore, you know you said when you started this journey you were already living in Singapore, found out along the way that it's much better to operate locally rather than globally. So why did you choose to build the business in Singapore and to remain in Singapore?

**Gregor Gregersen** (25m 43s):
I moved to Singapore. So my background is I am originally German. I grew up in Italy at 17, I moved to California, spent 12 years in California, I lost my green card application. I said well Cruces, I am going back to Europe. In Europe, I ended up working in Germany for two years. I paid nearly 80% taxes and I said this, this can't be it, I did two trips around the world, look for a better place. I found Singapore and what convinced me was a book written by the Prime Minister Lee Kuan Yew, which was also the founder of modern Singapore and in this book he basically describes why the laws are in Singapore, the ways they are and now how he really transformed a very poor country into one of the riches countries and said well now and the laws just made so much sense.

**Gregor Gregersen** (26m 28s):
I was just so impressed by it. So I said, well I arrived back in Germany, I went to my employer and said Hey can you open a subsidiary in Singapore because I am moving to Singapore. I said no, we cannot open one while I am moving anyway. So I moved to Singapore and to give you an idea, my 80% taxes, I ended up working for my old employer from Singapore. Singapore said, well if you are earning some money in Germany, we don't care Germany because Germans get taxed on residency. I didn't have to pay German taxes anymore and doing the same thing, working with the same employee, I quite troubled my salary essentially. But then later I had to get a local PR green card equivalent. So that's how I started working for Commerzbank and all of that happened. Well coming back to your question, I think Singapore is the only country have found where I believe the government is doing what's best for the population for the long term in a very pragmatic way and I can talk for hours about it so I won't go too much into why that is.

**Gregor Gregersen** (27m 30s):
But I will tell you the three things that I tell clients why Singapore's a good place to store precious metals and the first one is Singapore is extremely wealthy. Now there is a chart out there by visual catalyst which might show Singapore is being highly indebted but that's a very misleading chart because Singapore is a fully funded pension system and the money in the pension system is lent to the sovereign wealth funds of Singapore. Singapore is two of the 10 biggest sovereign wealth funds in the world and since that money gets invested and for whatever reason the IMF considered such a debt of Singapore and because they have so much money, you know it shows up as them having a lot of cross debt. But you add some net asset and you will find Singapore has a lot of net assets, they have no debt whatsoever on the net basis and it's illegal for them to actually constitutionally to have a budget deficit over four year government period.

**Gregor Gregersen** (28m 22s):
So it's a very, very wealthy country and because there are so wealthy, they don't, they are not going to be in a situation where they would've to nationalize gold because of a currency crisis or some other problem. So it's good to store your place in a place that is wealthy. The second important point is all that wealth is coming from essentially foreign investors or people which trust Singapore

who build the semiconductor factories or other investments in Singapore and keep in mind 20% of all semiconductor manufacturing equipment is coming out of Singapore. 10% of all waivers are coming out of Singapore and that's a huge pharmaceutical production, huge financial center of course and a lot of people don't know said for not wrong, Singapore can refine about 1.5 million barrels of oil per day or something like this. It's about 50% of the Saudi Arabian oil refining capacity. Most of Australia runs on Singapore, refined oil essentially.

**Gregor Gregersen** (29m 23s):
So it's a small little state and people think of it as tourism and finance, but there is really so much more to this country and all of this will go away is Singapore where to start doing things which removes the trust in Singapore essentially was built on trust, was built on confidence leak fund view was summing up Singapore with confidence. If we ever betray the confidence of investors or of people in Singapore, the then we will lose all this wealth because it's based on doing the right thing essentially and then developing the trust for people to invest. And so the government knows that they have to play by the rules and they will play by the rules and they need to remain neutral. And that's also a second good reason why it makes sense to store all long term in Singapore. It's essentially that Switzerland of Asia.

**Gregor Gregersen** (30m 16s):
And the third reason is Singapore is extremely well defended militarily and that's surprising because it's such a small country but it's considered a medium sized military worldwide. Now we have a national draft for about two and a half years, that's an army of about 400,000 so can be called up. It's a military budget of Singapore is around 17 billion US dollars, which is about three times bigger than the Malaysia, which is the next biggest country. And if I'm not wrong, per square kilometers, Singapore is spending about $21 million in defense per year, which is makes it the most highly metalized sort of country in the world. So I did manage to have some discussions with some ministers as well because small countries was easier to, to meet in and you know, so we are saying, essentially said if you don't have a strong defense then when a big country tells you to jump, you can only ask how high, but we don't want to ask how high we want to ask, why do we have to jump and then basically decide to jump or not to jump based on whatever we perceive as being the best interest of Singapore.

**Gregor Gregersen** (31m 26s):
And so regionally, Singapore now is actually considered sort of one of the larger military powers and it gives Singapore a certain amount of independence in this new world. And so it's a bit, a little bit like a porcupine, you know, a little bit like Switzerland is Switzerland is all these mountains and you know, people decided not to mess with them during World War II partially because they were neutral and plain important function but also because they were just very well defended and Singapore is like that in many ways. And so if you store your gold storing a place which is rich, which plays by the rules and has a lot to lose if they don't play by the rules and is well defended and Singapore fulfills all of these boxes.

**David Greely** (32m 07s):
And clearly you know a lot of the current interest in gold is because of a perceived loss of trust in the United States with some of the recent foreign policy moves. And I was curious, when you look out at the gold market now and have conversations with clients and potential clients, what are you thinking about the current environment and what it may mean for precious metals going forward?

**Gregor Gregersen** (32m 35s):
Precious metals are going to play a very, very important role going forward because of course you are familiar with Ray Dalio and there is this ideas to create empires and reserve currencies essentially tend to sort of grow and wane at some point and I think as reserve currencies all based on trust and as we having this all in trust in similar states as you mentioned rightly so people are asking themselves what's going to come next? And the reason why in China right now, why I mean in Beijing is because I want to try and understand China better and see whether China can be such new reserve currency. This is the Kuan can do that and I think China is extremely resilient. I am quite impressed by the country but at the same time I don't think they want to become SYNEX reserve currency because they want to keep the capital controls up for a number of different reasons.

**Gregor Gregersen** (33m 33s):
And so China probably is not going to become an reserve currency in the next 5 to 10 years and doesn't want to be so euro, I don't think it makes sense since the Japanese yen doesn't make any sense, which means that there isn't much left out there as on gold and if you look at central banks have been buying quite a lot of gold, most of the big European countries like Germany as far as the United States, 70% of the assets are in gold now Turkey is a hundred percent of the assets in gold and countries like China have been increasing the

gold holdings by a lot more than people realize. I purchase of the sell back of gold here in China, I happened to be at a, at a local bank branch, somebody was selling back a pretty substantial amount of gold. It was about three kilos and they were doing CI density tests, which is very curious to see and it was also of public, which was also interesting because I think in the west you would want to lose it behind closed doors but it was very visible.

**Gregor Gregersen** (34m 32s):
But the interesting point is its the gold price in in China is 3% above the spot price in most of the west and China has essentially been paying more for gold and encouraging a small number 18 to be exact companies which are licensed by the strongly gold exchange to import gold into China, allowing them to make an arbitrage profits. They basically buy gold outside of China physical say sometimes through other countries, bring them back into China and say on two 3% sort of profit all of, and that's not very traceable the way it's happening. So I have it on account of America, liable sources said says at least four times more gold that has been flowing into Chinas and is officially accepted internationally and so say Chinese for a long time now has been stacking up on gold as they have been reducing the US dollar holdings by about 23% over the last two years.

**Gregor Gregersen** (35m 35s):
And they're also not allowing for exports of gold. If you are a manufacturer of Drury in Singapore for example, and you want to get Drury manufactured in China, you have to send in 50 kilos of scrap gold to get 50 kilos of Drury back out. You are not going to get 51 kilos, that one kilos not coming out. So China is like a black hole of gold flowing in and if you look at all of this geopolitically, it makes a lot of sense because if ever the time comes that the US dollar is going to go into a chronic crisis, then you want to have some assets that everybody believes it's valuable and in a crisis gold is going to be some asset. But at the same time, because the price of gold is really determined in the future markets and it's not set dependent really on physical supply and demand, if you keep on buying this gold this way, you can basically accumulate large amounts of gold without too many people knowing necessarily.

**Gregor Gregersen** (36m 35s):
And so I see all of that as sort of a preparation for the possibility of a financial war and I would argue you probably are already in a financial war, but if we extrapolate on what China could do, and let's remember that the United States right now is really sort of annoying. China Chinese champions have been attacked, Huawei is a good example, BYD, other companies. Whereas the United States has all see restrictions about semiconductor equipment. And it's not just US equipment, I mean companies in Holland, right are being forced not to export goods to China. So China, so of course we resent that like embargo and then certainly of course we have got the tariffs, which lately have sort of been increasing but have been around for a while. And I think every time you create these tariffs and you put additional embargoes and so on, the cost of retaliation for China becomes lower and lower.

**Gregor Gregersen** (37m 31s):
If you increase your tariffs now from 140% to 280, well who cares it's already sort of impractical to trade now and so as the cost of retaliation is going down and if you look at what China could do to one degree as was in the media recently, they could start selling US bonds. But I think there is some much more drastic things that China could do. If China were to say I am not going to allow Chinese companies from accepting US dollars, then you will create a massive shock to the system because everybody trading with China now would have to sell the US dollars. And keep in mind exports to the United States for China is only 13%, 87% goes to other players. But if these other players all have to sell the US dollars to trade with China, then such can be a massive, you know, financial attack on the United States.

**Gregor Gregersen** (38m 26s):
And I would imagine that the way the United States would retaliate would be to say well we are going to sanction every Chinese company who just accept your dollars and then you have a stop of trade and that throws a nuclear sort of trading scenario which could happen if these things really get out of hand. And in a scenario like this, how do you start again? And that's a very interesting book, I don't know if you read it, currency was by Jim Richards, which sort of directed quite a bit of my thinking as a built to reserve facility and in this book he was playing financial warfare games for the Pentagon and he was actually playing China and it is also similar situation which was being created, the one we just described and the way he ended up quote unquote winning was by putting the Chinese called in Switzerland in his game enforcing everybody or telling everybody, if you want to trade with China, you are going to gonna have to put your gold into Switzerland as well.

**Gregor Gregersen** (39m 19s):
And it's being held by a neutral party, which you can all trust and it's physical gold, which means apolitical. You don't accept the Yuan, I don't accept the US dollar, but we can all at least accept that's say gold is valuable and with that system we kind of restart the trade and as we are looking sort of at the future, I, I think that there are geopolitical considerations that it makes sense to have gold ready to act as a backup for the US dollar and C1 and everything else when things really come to a head and you will have to find some jurisdictions so that everyone can agree on is reliable and these jurisdictions, you know, are places like Singapore, Switzerland and so on and so in many ways I think that gold is going to be a fallback when things go really bad and it's just that over the years it's sort gone from trying to protect against the financial system, it collapse to now going to, you might have geopolitical sort of financial warfare coming as well, but again it comes back to those same thing. Gold is going to be there, it's going to have value

**David Greely** (40m 31s):
And if you going to have gold be a much more prominent piece of the financial system. We have talked about the hard infrastructure such as vaults that need to be built, trust that needs to be built. I'm curious also about the financial technology piece of it because we have all become so accustomed to a very electronic digitized financial system. You began your career as a software engineer working in banks. Have you been thinking about what financial technology needs to be brought into the gold market in order to help it assume more of a mainstream piece of our financial system?

**Gregor Gregersen** (41m 10s):
A lot and worked on them a lot myself. So I never stopped being a software engineer, so spent almost half my time on software systems and almost all systems are building house. I would say. Let's talk about two pro categories. There is the idea of a tokenization, which of course has been altered in the past. We ourselves have created such a token, quite a sophisticated one. We spent four years on this. Unfortunately what we realized is that regulators don't like it. And at least in Singapore it came to a point where laws were changing in a ways that it became a regulated financial product and that basically took away the value of it because the idea was to have a token that you can freely send to different entities. So it's not a technological problem. There has been something like 150 different gold tokens out there called Paxos and gold Tether sort of some of the ones out there.

**Gregor Gregersen** (42m 08s):
So problem really is a how do you monetize it because if you think about stable coins, stable coins are a great way of making money because you are ultimately having something that's a US dollar, which is a depreciating asset. It falls in purchasing power every year and to make up for it, if you hold it at a bank, they have to pay your interest. If you issue of such stable coins, then basically you get interest for free and you make a ton of money. But if you are holding gold and you are tokenized gold, you don't get interest on gold and you have to pay insurance and storage and other fees. So you actually have expenses and so you have to go to the crypto users or entities that want to use it and you have to change a storage fee and these people are used to getting things for free so they don't want to pay a storage fee.

**Gregor Gregersen** (42m 52s):
So monetization's a big problem, but a huge issue really is if you have gold token out there, which is freely transferrable regulators. It was SEC before in the case of Paxos, it was MAS to some degree with us as well, which said we want to have a strong implementation of what's called the travel rule, which basically means whenever there's a transfer from one entity to another, we want to know which entities are, and if you go to a Blockchain or Bitcoin, it's not how it works. And that's essentially where at this point at least I think if a truly sort of sizable gold token is freely tradable and it becomes viable sort of alternative to payment system to sizing estates, dollar, a lot of countries and entities going to have an issue with it. So politically it's just not something that can be done. It's nothing to do with technological restrictions or so on, it's just monetization issues and sociopolitical landscape, which doesn't allow it right now and regulatory wise.

**Gregor Gregersen** (43m 58s):
But the other side so is on technologies having to do with gold is how to make use of gold and so some ways which I don't like, one of it is leasing of gold. So oftentimes when you buy a savings account in gold or some other sort of gold product, it tends to be an IOU. You don't own set gold, it's something which is develop on a balance sheet at a different entity and you have an IU to set and set entity can choose to monetize, set gold in many ways. One way is to lease it out to another company or to use it as inventory. So we basically financing as a company for it. In some cases you can lease it out to a gold mine, which is going build gold miner, which builds a gold miner, says in 10 years I am going to give you back the gold, hopefully. Is the problem with that approach is it's no longer a systemic wealth protection if something goes wrong, you don't have your gold, so you cannot get money or interest out of gold without

increasing risk. And so there's quite a bit of leasing out there. I made it a point to never do any kind of leasing and make it impossible for us to do because gold is never held on our balance sheet always in the name of the client. Another things that tends to happen a lot are repo transactions. So the big large for bullion banks, HSBC, UBS, ICBC standard and JP Morgan together, they formed a London precious metal clearing Limited and essentially says, is sort of say clearing house, which processes something over 50 billion US dollars of gold transactions per day.

**Gregor Gregersen** (45m 48s):
Almost also physicals going through this entity and they say like to do repo transactions. So repo transaction means that your entity needs to borrow some money and the bank says, okay, I will buy you gold right now and you can buy it back at a higher price later, but I might don't have that gold anymore and we might be getting some different gold. And of course they can use that gold for all kind of other purposes, including unallocated storage in through one. And you end up having a construct ultimately where that gold gets income by 20 to 50 times. So again, that's something I don't like, but the one thing which I think is going to change the way gold is viewed is collateralization. And collateralization basically means that, let's say that we are doing it at sovereign level right now. Let's say your account like Argentina and let's say you so in debt isn't set good because you defaulted in the past.

**Gregor Gregersen** (46m 47s):
So if you want to borrow in US dollars, let's say people want to have 10% interest from you and, but you do have some gold and the idea will be, well why don't you store your gold in a jurisdiction, let's say Singapore, where you can take lenders trust the jurisdiction and we make contract a standardized contract whereby lenders will lend, let's say Argentina puts a billion dollars lenders over linked to lend $800 million on it. And because it's not held in Argentina, it's held in Singapore and the rules are very clear and people trust that the rules will be followed. Cylinders are saying, okay, I can give it a loan of 5%. So now Argentina managed to reduce the cost of funds from 10 to 5%. So it makes a lot of sense for Argentina to store so gold it makes sense for cylinders because it's become a very low risk sort of deal now.

**Gregor Gregersen** (47m 52s):
So gold basically reduces the cost of funds and that's a win-win for everybody. I think right now, strangely enough, that's not happening and the reason it's not happening is because the big bullion banks which will be able to have the money to lose these kind of things, to make a lot more money doing report transactions. And so I see a big market opportunity insists and we ourselves, we created a peer-to-peer lending system among our clients to be able to do this. And we created setback about 10 years ago. We did 23,000 loans so far about a billion dollars' worth of transactions was a period of time and we never had a default and we never had a default because we required 200% worth of collateral for silver, 160% for gold. And if the collateral ever falls to 110%, we liquidate it to make sure the lender gets the money.

**Gregor Gregersen** (48m 43s):
And if the borrower doesn't return funds on time, we have a sweep of fund, which actually my personal money, which is shared to sort of give a short term loan to the person who's not paying on time to make sure the counterparty gets the money on time and charge a small late fee, which then grows the Reaper fund and with the system again, 23,000 loans, we never had a default. It worked very well and I think we should take something like this and we should just scale it up to our sovereign kind of level. And I think that can make gold a lot more usable in some ways. So, so I think that's sort of what I am sort of engaged right now to sort of tie and work on in bringing the system and scaling it up to levels which make all more practical and more interesting to hold in certain jurisdictions.

**David Greely** (49m 34s):
First I want to thank you for a fantastic conversation. This learning so much here before I let you go, I wanted to ask, I think many people can kind of paint the picture of if there is a large crisis, the need to turn and make gold and precious metals more central to the financial system. I wanted to get your thoughts because I think there is also, is there a more gradual approach? Do you think that even absent a large crisis like you described before, that we will see gold and precious metals taking more of a larger role in our financial system, and what do you think that role should be or will be in the future?

**Gregor Gregersen** (50m 14s):
It definitely will be. I think there is no way of stopping it. Now to give an idea, when COVID happened, our sales sort of went through the roof, but interestingly enough, after COVID finished even two or three years later into the state, our sales increased by about 300%. A lot of people had sort of a reality check, you know, this, people tend to sort of assume tomorrow is gonna be the same as yesterday and COVID I think showed a lot of people that might not be the case. So see, demand for gold went up and it stayed a lot higher than it was

pre-COVID. And now with the terrorists, again, we are seeing a 200% increase in sales and I do believe that the world is just not gonna be the same, you know, post tariff stresses and that's going to be a lot more people interested in physical gold and physical silver.

**Gregor Gregersen** (51m 09s):
And of course this gold going up so much. You know, we also have those events that we've got some momentum players coming in and you have the shorter term sort of cycling of as asset going up and down. But I think we also have a, a much bigger sort of cycle whereby gold is becoming, again a limelight sort of product. Also, historically, when you are in a stagflation, and I do believe that's where we're heading, it sets the best time for gold. But when growth isn't very good and when inflation is going up, I mean gold is probably one and silver is one of the best things to own. And last time we are on a stagflationary period, I will say the seventies, by the time we went in into 1981 or so, something like 8% of all US assets were stored in some kind of gold or silver asset.

**Gregor Gregersen** (51m 56s):
I think right now, or at least last year, we are at 0.5%. So we got a 16 times of increase to go back to where we were back in 1981 or so. And so I think as more people sort of drink the Kool-Aid, it's the wrong pill, you know, so sort of start to realize that it just makes so much sense to have a little bit of gold or a little bit of physical silver stacked away, whether it's under your bed, whether it's in another jurisdiction, but you know, you need to have something which just in case, just in case the system goes belly up. And as people, as uncertainty grows, you know, I think more and more people are realizing certain, and so I think we are in a long term sort of cycle of gold and silver is becoming more and more popular.

**David Greely** (52m 43s):
Thanks again to Gregor Gregersen, founder of Silver Bullion Group. We hope you enjoyed the episode. We will be back next week with another episode of Gold for the 21st Century. We hope you will join us.

**Announcer** (52m 45s):
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