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NEWSLETTER

How do the top 1% stay in the top 1%?

Image by anon / 28th June 2021

I recently came across a very good video on YouTube put together by **“belangp”** titled **“How Much Gold do you Need to Protect Your Wealth?”**. I have included a link to the video below this article if you are interested.

> *“They manage risk better and they cover their bases. In other words they hedge themselves for different outcomes”*

The video basically explains how the world's wealth is distributed among the world's population. The analysis is based on the Credit Suisse global wealth report numbers published in June 2021. Global wealth is split into a pyramid of 4 categories:

- Greater $1m
- Between $100k and $1m
- Between $10k and $100k
- Less $10k

What is amazing is how much wealth is in the top category (45.8% - $191 trillion) and how few people there are in that category (1.1% of population or about 56m adults).

The top 2 categories combined, 12.2% of the global adult population (639m of 5.24b) control a staggering 84.9% of all the global wealth.

Here is a view of the pyramid:

So back to the title of our blog - How do the top 1% stay in the top 1%? The answer is -

"They manage risk better and they cover their bases. In other words they hedge themselves for different outcomes"

The second part of the video explains how the wealthiest people in the world calculate how much gold they would need to stay in the top 1% should fiat currency fail.

I'll let you watch the video on your own, but based on the total global gold (approx 6 billion oz) it would require ***~14oz to stay in the top 1%***. At today's prices (~1800/oz) that's about

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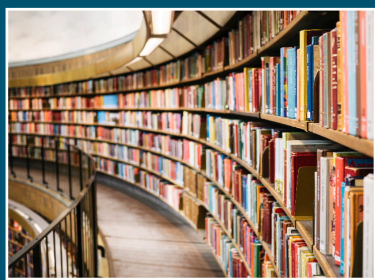

FEAR & GREED INDEX here

Things to look forward in coming additions:

- Our DeFi product
- Our branded swag
- More blogs and educational material

$25200 which will be revalued to $1million should we go back to a gold like or sound money standard. The secret is, the top 1% have taken this hedge for themselves and their partners to ensure that should things change, they are perfectly positioned.

"How much gold do you need to protect your wealth" - Link to YouTube video **here**

This is not advice, all circumstances are different, so individuals should always seek independent financial advice, please ensure you have read our disclosure.

Bitcoin Pizza Day - 22 May ($650 million)

Image by anon / 22nd May 2021

May 22 is an notorious day for Bitcoin, it is the anniversary of the famous pizza transaction.

A chap from the US (Florida) bought two pizzas with Bitcoin. The day has become part of Bitcoin folklore, not because of the transaction, but more the price: the man in question paid 10,000 Bitcoins, at the recent highs in 2021, that is a staggering $650 million for the two pizzas.

On May 22, 2010, Laszlo Hanyecz agreed to pay 10,000 Bitcoins for two delivered Papa John's pizzas using a bitcointalk forum:

"I'll pay 10,000 bitcoins for a couple of pizzas.. like maybe 2 large ones so I have some left over for the next day. I like having left over pizza to nibble on later. You can make the pizza yourself and bring it to my house or order it for me from a delivery place, but what I'm aiming for is getting food delivered in exchange for bitcoins where I don't have to order or prepare it myself, kind of like ordering a 'breakfast platter' at a hotel or something, they just bring you something to eat and you're happy!"

This offer was taken up by a guy in the UK and it is reported that he paid $25 for the pizzas to be delivered. The pizzas have gotten more and more expensive, reached parity with the U.S. dollar after nine months (making the two pizzas worth $10k) and in 2015 - the two pizzas were valued at $2.4 million. A few weeks ago, Bitcoin touched $65k, making the pizzas worth a staggering $650 million.

Hanyecz is reported to have said previously:

"It wasn't like Bitcoins had any value back then, so the idea of trading them for a pizza was incredibly cool,"

I wonder what he'll have to say when we reach the laser eyes target?

The story behind "Bitcoin Pizza Day" - Link to YouTube video **here**

What on earth is Fractional Reserve Banking?

Image by anon / 14th May 2021

The banking system we use today operates on a system known as Fractional Reserve Banking (FRB). Almost all countries use this system and you may be very surprised to find out how it actually works.

WHAT IS IT?

FRB is the system used by the world (from retail banks to the major commercial banks) It's called this because banks hold in reserve only a **fraction** of their deposit liabilities (put simply, it means the bank doesn't actually have your money).

Banks are required to hold a certain proportion of their deposit liabilities in reserve (normally stipulated by central banks). In USA, the reserve requirement is 10%, in France 1% and some have no reserve requirement (Hong Kong). It is normal for banks to hold slightly more than the amount they're required to have in reserve (known as "excess reserve").

A HISTORY OF FRB

FRB grew out of the difficulties encountered by a fragmented and under-regulated banking sector in the nineteenth century. It was a solution to the previous generation of problems. The beginning of all transaction is barter. Things get rather tricky: buying a range of different goods with a single animal is obviously complex and inconvenient, storing wealth is difficult, investing it in new projects even more so, and agreements to deliver later (say, at harvest time) must somehow be formalised.

The solution to barter is therefore ***money***. Precious metal money, silver and gold, speaks for itself: such a weight of gold is worth so much, everyone knows its value, and — at least when compared to animals or bags of coffee — ***it is portable and durable, scarce, with a strictly limited supply and reliable value.***

To ensure the soundness of gold and silver in circulation it became imperative to focus on franking (coin-making). Goldsmiths struck coin, under commercial or state authority, to show that their coins had a certain weight and purity. The label on the coin now spoke for the gold. You now trusted, not the gold, but the goldsmith or his employer.

The natural result was to separate the label from the metal, creating paper money, an innovation which dates to the seventeenth century in Europe and to the seventh century in China. Transactions were made with these notes, representing a promise to pay. Laws increasingly required them to be treated as money.

BANKS COME OF AGE

With the creation of notes, banks now entered everyday and most major transactions. Instead of taking coins to a vendor, a purchaser took money to the bank. When the time came to pay someone, he had the bank move money from his account to the other person's (actually, no money is moved; the bank debits one account and credits another). The advantage for merchants, and eventually for ordinary consumers is that the bank guarantees the transactions. However this separation of metal and its transaction value created two problems.

> 1) Issuing authorities were often smaller than trading areas. In the Italian renaissance, merchants kept enormous tables for converting city-state currencies into each other, meaning ***buying things from a few miles away might require several conversions***. This costs time and money, so the solution was to implement larger and larger common currencies, replacing smaller regional and city-sized issuers with first gold-backed and then fiat modern state currencies.
>
> 2) The start of fractional reserve banking. ***Accept gold as a deposit, write a receipt or note for it, and lend the same value of gold again to someone else***. Initially this worked well but once the label and the metal were separate, goldsmiths, and later banks, were subject to an obvious temptation. Lend the same gold twice — issue two sets of receipts, banknotes, for one deposit — and you could make twice the profit, while financing twice the economic growth. This is only an issue if the holders of the notes for that gold both came and asked you for it at the same time

When too many customers simultaneously wanted their gold the result was a run on the bank. Reserves were emptied, it went out of business and its remaining banknotes had to wait a century to become collectors' items. Savers and investors relying on the bank were ruined along with it, through no fault of their own and with obvious negative effects on the economy.

"In replacing cash with credit, banking had replaced certainty with instability"

There are 2 solutions to this problem:

1) ***Impose 1:1 reserve requirements***

2) Create a ***pile of banknotes so large that a run was nearly impossible***. This would be best in the form of a single currency, based on the reserves of a single bank and issued by this bank (Central banking)

THE GUARANTOR

These central banks would act as guarantor of value to the consumer and guarantor of solvency to the banks. All that was required was for them to follow the rules the central bank for their deposits to be backed. As long as there was not a run on every bank at the same time, central banks could stabilise FRB. The first modern central bank was the Bank of England (1694). The gold standard was abandoned during the first world war - rather than entitling the bearer to a certain sum of gold it entitled them to a certain proportion of the economic product of the issuing nation. Its value was backed only by government say-so and there was no choice but to accept it, and only it, as payment.

"Fiat currency (from Latin fiat, "act") had arrived"

Returning to a gold standard would leave the banking system inflexible and the economy undercapitalised. This is when we get a new problem, inflation - the new equivalent to a run on the bank was ***hyperinflation (which destroys the value of money by making too much of it)***. If there was to be fiat currency, it must be managed and this became the role of central banks. They created physical money (coins and banknotes) - either according to government plans or according to their own methods of economic planning. Spending money into existence, *buying economically nonviable assets (such as mortgage-backed securities during the subprime crisis) and both backing* and *managing commercial banks through interest rates became the business of central banks.*

When you borrow money from a bank, they're not spending multiples of gold deposits.

"They're lending out ten times their dollar reserves, which in turn are backed by the central bank. If called on, will print the necessary banknotes or call the necessary deposits into existence"

BANKS BECOME ORIGINATOR

FRB might sounds like an unstable system, opaque and confusing, with no real value at bottom However, it is actually a very clever system for creating money to cover real economic value. Banks were once intermediaries (would offer to guarantee that your money was good, and their guarantee was as good as gold). But today they create money, and commercial banks create significantly more than central banks.

Central banks print money or spend it into existence to manage the economy, increasing the money supply to stimulate economies in recession. However ***97% of the money supply is in***

bank deposits, and this money is overwhelmingly ***created by commercial banks*** which create money by issuing debt. (When a bank gives a loan, it simply creates the money it lends. It doesn't transfer the loan into the lendee's account — it writes a given sum into its internal ledger under that lendee's name. The money, which is to say, the bank's word that the money exists, has been created as a debt to one of its customers) - be sure to what the video linked below this article.

There are massive dangers in creating money without reference to value; inflation continues to be a real risk, but it is less dangerous to most of us than a banking system that cannot lend money to two businesses at once because there isn't enough gold. The money created by banks finances the creation of real value.

But the lesson is simple:

"Don't save currency (fiat), save in something that has value"

Prof. Werner brilliantly explains how the banking system and financial sector really work - Link to YouTube video **here**

Check out our strategy

https://www.momentum-analytics.io/rational-active-allocation-index

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New

A look into the future of fund management

https://www.momentum-analytics.io/momentum-analyticsio-defi

Imagine buying BTC below $200, investing in ETH at startup, mining crypto 5 years ago, investing in Coinbase pre listing and setting up a crypto fund in 2019 before the $65k run up. These are only a few of our achievements to date, but here's another bold prediction:

"***Our DeFi product will be the fund management norm in the future"***

For more information and links to our fund on the ETH blockexplorer, select the button below:

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