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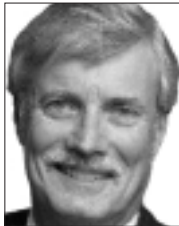
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Own gold, the metal, not a paper promise

The gold price went on a rampage in February with the pivotal US\$1,000-per-ounce price being breached momentarily before the inevitable orchestrated correction set in. The fact that gold failed a year ago at the very same level and that US\$1,000 represents such a significant psychological level virtually guarantees that a considerable battle will occur before gold moves inexorably on to record highs in U.S. dollars.

Gold's sharp rise of over 40 per cent from the late October 2008 lows has led some observers to term it a bubble. For example, a former senior economist at failed Bear Stearns recently opined that there are additional asset categories still to implode, citing race horses, fine antiques, paintings and gold.

In my opinion, to lump gold in with these other items and to even suggest it is a bubble shows a distinct misunderstanding of gold's historical role as hard money. In reality, gold isn't really rising, but rather the currencies in which it is denominated are in various stages of collapse. While gold may be just challenging all-time highs in U.S. dollars, it is very comfortably into record-high territory with respect to the euro, the British pound, the Canadian loonie and the Australian dollar. It is virtually exploding against the currencies of numerous smaller countries that are at risk of sovereign default due to a combination of excessive debt and eco-



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nom ic implosion. There is scarcely a country in Eastern Europe which doesn't fall into this category currently.

However, what I find particularly offensive about the suggestion that gold is currently in a bubble phase is what immediately preceded the current run-up. Gold had staged a steady advance in September through early October last year, a move which justifiably reflected the deteriorating economic and financial conditions throughout the world. Then suddenly, in a two-week period beginning on Oct. 10, it mysteriously collapsed by 20 per cent, falling from US\$900 an ounce to a London closing low of US\$712.50 on Oct. 24.

Over three months later, in late January 2009, a senior British government minister, Paul Myners, revealed that on Oct. 10, England came very close to a complete banking collapse after major depositors attempted to withdraw massive quantities of money. The British treasury was apparently preparing for a bank closure with all electronic transfers and cash withdrawals being prohibited when frantic behind the scenes activity averted what would have been seen as a true financial catastrophe.

Lord Myners was subsequently criticized for being irresponsible in revealing this, but given the apparent gravity of the situation, should it have come as a surprise that the anti-gold cartel undertook draconian action with re-

spect to the gold price? This behavior is almost axiomatic when there is a distinct possibility that things may spiral out of control in the financial sphere.

In the absence of this vicious assault on gold, the present totally justified rise would look much less extreme and would certainly silence those attempting to denigrate gold as being in a bubble phase.

A brewing area of controversy in the gold and silver sector pertains to the true status of the exchange-traded funds, which are attracting more and more money. I must admit to having been skeptical about them from the very beginning due to their sponsorship, which in many instances was by the very same firms and organizations that I believed to be active in the gold-suppression scheme.

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It always struck me as a little odd that entities with a vested interest in a lower gold price would create vehicles to facilitate easier acquisition of precious metals by the investing public.

This skepticism was amplified when several legal minds I respect claimed that on close reading of the prospectuses there were sufficient loopholes available such that the ETF's might not have as much physical gold backing them

as was generally thought. I firmly believe that one holds gold and silver bullion as an insurance policy against things going seriously wrong in the system, and the last thing anyone wants to discover is that, when you really need it, it isn't actually there.

However, what really piqued my curiosity recently was the vast amount of money flowing into these funds, which was then allegedly being utilized to purchase gold and silver. Given the widely acknowledged existing tightness in the physical market, the falling mine supply, no appreciable change in the inventories on recognized exchanges and no apparent acceleration in central-bank gold dispositions, the obvious question that has to be addressed is Where is the metal coming from?

In the absence of a satisfactory answer, I remain very suspicious and would suggest that investors confine themselves to actual physical bullion or paper vehicles where there are frequent audits verifying the precious metal backing.

While on holidays recently, I had the pleasure of reading a fascinating book entitled *Lords of Finance* by Liaquat Ahamad, a veteran hedge-fund manager and Brookings Institute trustee. In what was described by the *New York Times* reviewer as "a grand sweeping narrative of immense scope and power," Mr. Ahamad attempted to lay the blame for the 1929 stock-market crash and the subsequent Great Depression on the powerful central bankers of that era, Montegu Norman of

Great Britain, Benjamin Strong of the U.S., Emile Moreau of France and Hjalmar Schacht of Germany.

I thought he made an interesting case, but to be fair, the central bankers of that generation were wrestling with some severe impediments: the German reparations following the First World War, the Allied war debts to the U.S., which provided significant funding to the Europeans before entering the war in 1917, and the existence of the gold standard, which was suffering from an extremely unequal distribution of the actual gold (the U.S. had most of it, and France, due to an undervalued currency, was accumulating a significant proportion of the remainder). While serious mistakes were made, it struck me that these were sincere gentlemen striving to do the right thing.

What fascinated me the most while reading the book was comparing that era's central bankers with today's cast of characters on the central-bank scene. Could

anyone possibly have done a worse job of setting the stage for today's unfolding economic and financial disaster than the vaunted Alan Greenspan, who reigned as "The Maestro" at the U.S. Fed from 1987 to 2005?

This is a man whose primary modus operandi was throwing money at any crisis and then denying that the resultant asset bubbles needed controlling until they burst. This is a man who resolutely resisted the regulation of over-the-counter derivatives, which I believe are the true lynchpin of today's epic financial tragedy. This is a man who actively aided and abetted the entire mortgage scam with soothing words about financial innovation and is widely believed to have been an active participant in the gold-price-suppression scheme, which was undertaken to obscure the profligacy of his monetary policy.

The noted financial author Bill Bonner perhaps best summed up Mr. Greenspan's legacy when he recently observed that "no man

bears more responsibility for the present worldwide financial crisis and coming depression than Alan Greenspan."

He was succeeded by Ben Bernanke, whose true forte seems to be creating money out of thin air to compensate for the intractable problems created by his predecessor. I don't mean to pick exclusively on U.S. central bankers because their European and Asian counterparts have been little better.

The head of the European Central Bank, Jean-Claude Trichet, insisted on tightening monetary policy when it was clear to all and sundry that the current economic collapse was already well underway. The Japanese central bankers have printed money hand over fist for years to accommodate the American profligacy while simultaneously suppressing the yen. These actions facilitated the carry trade, the current unwinding of which is unduly strengthening the yen and helping to crater the Japanese economy.

In my opinion, when looked at

collectively, the current crop of central bankers look positively Lilliputian in comparison to their predecessors in the '20s and '30s. The idea that the new breed, fore-armed with the knowledge of the errors committed by the previous generation, will now introduce policies that overcome their monumental mistakes to date seems a bit far-fetched.

I believe that gold and silver remain obvious antidotes to the ongoing financial distress and currency debasement, but one of the problems in the short term in the gold market is that fact that central banks still own too much of it, although considerably less than they would have you believe. The truest words ever spoken were that central banks shouldn't own any, but rather the public should own it all to protect themselves from the predations of those very same bankers.

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