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Con job in the financial markets continues

The objective is to keep markets elevated so the average citizen will ignore the rot eating away at the foundations

By John Embry

The gold market is witnessing an increasingly intense battle around the US\$1,000-ounce level as the month of October begins. Following a convincing penetration of US\$1,000 to the upside in mid-September, culminating in a London p.m. fix of US\$1,018.50 on Sept. 17, the anti-gold cartel counterattacked. With the G-20 meeting in Pittsburgh looming, massive U.S. Treasury auctions continuing to occur and an important option expiry on COMEX transpiring, gold was driven back below US\$1,000 in truly counter-intuitive action.

Previously, the cartel operated with a modicum of subtlety, but no longer. It is now a sledgehammer approach, further revealing their increasing desperation. Their actions are clearly motivated by the intent to dissuade the average investor from doing the right thing and going to gold and silver as alternatives to paper assets.

They will fail spectacularly because we are now in the terminal stages of yet-another human experiment with pure fiat currency (i.e., paper backed by nothing but the hollow promises of government). Every previous



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example in the history of mankind has ended with paper money totally discredited, and the current effort appears headed in exactly the same direction.

It is actually beyond my comprehension why gold and silver remain off so many investors' radar screens. Since late 2000, both metals are up approximately fourfold, and in the case of gold, the price has posted a higher year-end close for eight consecutive years and seems destined to add a ninth at the end of this year. Considering what has happened to so many other asset classes so far in this decade, gold and silver have represented remarkable refuges for both safety and return.

However, to be fair to the public, the average citizen would never realize this if he read only the mainstream press or listened to establishment commentators on the subject. Recently, Rick Santelli, who is usually a voice of reason on CNBC, went into a negative rant on the yellow metal without uttering a single fact to support his point of view and concluded by saying there were numerous better ways to hedge against inflation than gold without citing a single alternative. In view of CNBC's unflinching optimistic slant on all things eco-

nomie and financial, in conjunction with the uncomfortable reality that gold was just preparing to breach the psychologically important US\$1,000 level to the upside, I think it is fair to say that the timing of Santelli's outburst was not a coincidence.

The alleged mainstream expert on the subject, GFMS Ltd., also leaves itself open to doubt. It recently reported on second-quarter gold demand and emphasized the news that gold demand had fallen in the quarter due to weaker jewelry offtake in India and several other markets. What GFMS failed to acknowledge as a source of demand was that, for the first time in living memory, central banks had collectively accumulated gold during the quarter. Had that source of demand been correctly accounted for, GFMS would have been forced to report that demand had actually risen in the quarter. It explained this away by saying that, because central banks had traditionally supplied gold to the market, it chose to ignore, in this instance, that they had added to demand. As unbelievable as that sounds, it is actually representative of the depths to which many in the mainstream will sink in their attempts to denigrate the true hard money asset in the world.

However, it has been this way ever since the bull market in

gold got underway and I well remember writing articles assailing the views of Andy Smith, Jessica Cross and Kamal Naqvi, to name but three individuals who were relentlessly bearish when gold traded in the US\$300- to US\$400-per-ounce range. These people have justifiably fallen by the wayside only to be replaced by a new group of bearish precious metal hacks. I fully expect their views to be equally discredited as the precious metals bull market marches on.

This will happen because the debasement of paper money is going to accelerate and investment demand for gold and silver is ultimately going to go berserk. One of the great current myths that is being propounded by those in charge is that they are going to magically withdraw, at the appropriate time, the stimulus which is currently preventing the world economy from imploding.

What a bad joke, that is! Tim Geithner, the U.S. Treasury Secretary, may have given the whole ruse away when he said recently that it was important that the authorities publicly discuss the subject of withdrawing the stimulus because it was important in sustaining the confidence of financial markets. Very simply, that's what this is all about. It is a large con job to keep financial markets elevated

so the average citizen will ignore the rot which is eating away at the foundations of the economy and the financial system.

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Jim Sinclair, the brilliant gold trader and a man who early on recognized the true destructive nature of OTC derivatives, has coined an expression for the whole sordid procedure. He calls it Management of Perception Economics or MOPE as an acronym. It is patently designed to mislead the public by producing phony economic statistics to promote the idea that a sustainable economic recovery is underway.

However, many of those who have understood the gravity of the

real situation from the very beginning are not being fooled. Nouriel Roubini is openly expressing concerns about a double-dip recession. William White, the former chief economist of the Bank of International Settlements, warned recently that government actions in the short run might be sowing the seeds for future crises and thought a double-dip recession or a protracted Japanese-style stagflation was almost inevitable.

White distinguished himself in his role at the B.I.S. in the early 2000s by warning of the dangerous imbalances in the global financial system while actually having the temerity to break central banking taboos by criticizing Alan Greenspan's persistent policy of cheap money.

However, it was left to Joseph Stiglitz, the Nobel prize winning economist, to sound the greatest alarm. He wrote, in mid-September, that the banking situation today is worse than it was at the

start of the financial crisis in 2007.

What all of this ensures, in my opinion, is a continuing policy of ridiculous monetary ease around the globe because the prospect of an ugly double-dip recession is anathema to the powers-that-be. Withdrawing any significant amount of stimulus would virtually ensure just such an outcome and the onset of another deflationary period at this point could well prove to be impossible to control. Thus, paper money will continue to be debased and gold and silver are going to look better and better.

This salient fact appears to have finally dawned on **Barrick Gold**, (ABX-TSX, \$39.70), which just took the decisive step to stop the financial hemorrhage caused by its utterly preposterous hedge book. The whole issue of its out-sized hedge position has been contentious since the beginning of the gold bull market in early 2001, if not before. After bragging incessantly in the '90s about how its

premium gold hedging program was a source of enormous strength for the company and made it the world's finest gold entity, it has stood frozen, like a deer caught in the headlights, since 2001, as the rising gold price put a massive hole in its balance sheet.

Now, it has raised some \$4 billion at the cost of considerable dilution to its shareholders to partially deal with the problem and has absorbed a \$5.6 billion write-down to address the accounting side of the issue. This is considerably more than the company has ever earned in its existence and raises the uncomfortable question of what was the real motive for the whole exercise.

In any case, I believe it represents a signal event in the whole gold saga and only reinforces my extremely positive outlook for the yellow metal.

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