

A Golden Hand in the House of Cards

Gold—the canary in the coal mine of fiat currencies

Betting against the house is never a good bet—except when the house is in trouble. Over time, the house almost always wins. But if the game expands beyond the ability of the house to cover, all bets are off. In Las Vegas, this never ever happens. In the real world, it does.

In today's financial markets, central banks are the house. Credit is the real currency in today's markets and central banks are its source. And while central banks control the flow of credit, they do not and cannot control where it goes and what is done with it.

Investment Banks—the Achilles Heel of Central Banking

Today's global markets are not free markets. Today's global markets are manipulated by central banks through the issuance of credit; and while the control is ubiquitous as it is all-encompassing; the very ubiquity obscures the mechanism by which central banks distribute the spoils of credit-based markets.

While it is alleged—and might appear—that enterprise and productivity are the major beneficiaries of credit-based economies, they are not. The main beneficiaries are bankers, those closest to the spigots of credit that can leverage personal proximity into extraordinary gain.

Under central banking, entrepreneurs, producers and savers are used by investment banks to float loans and leverage financial assets which produce profits for investment bankers while encumbering entrepreneurs, producers, and savers with debt. It is the central banks that provide the credit needed by investment banks to do so.

When the credit markets unexpectedly collapsed in August, it caused the debt-based financial merry-go-round to come to a halt. Instead of an expanding game of monopoly, it suddenly turned into a game of “hot potato” where no one wanted to be left holding the potato—in this case, asset-backed commercial paper, or ass-paper for short.

Hundreds of billions of dollars worth of asset-backed commercial paper are now clogging the bowels of today's banks; and, the inability of commercial banks to move this questionable debt could not have come at a worse time for central banks.

This is because the success of debt-based central banking has led to a situation where even successful corporations use debt-based paper to operate; and, on a more ominous note, so do the less successful. Fully 71 % of today's corporate debt is rated junk; and, the contraction of capital markets now threatens the continued existence of these junk-rated corporations.

Wall Street has used these corporations' need for capital to issue and repackage debt for yield-hungry markets. Because increasing the money supply by central banks debases the value of previously issued paper-money, producers and savers are forced to invest their paper savings in instruments that yield more than the prevailing rate of debasement, *sic* inflation.

Wall Street has “capitalized” on this demand by offering pension funds, insurance companies, and producers and savers the higher-yielding debt of junk-rated corporations, corporations that would go broke should additional debt not be available, corporations that are even now teetering towards default.

The credit agency Moody's noted: *A backdrop of increasing risk aversion coupled with weakening intrinsic liquidity among low-rated issuers creates the potential for more defaults.* And, on Oct. 23rd, CFO.com reported that corporate bond downgrades to junk status has reached record levels. Contagion is no longer a nine letter word.

Confidence—the Paper Tiger of Global Markets
When Confidence Is Built On Paper
The Paper Had Better Be Good

The packaging of subprime mortgages into CDOs (collateralized debt obligations) sold by Wall Street to yield-hungry insurance companies, pension funds, banks, and high net-worth individuals has dealt a body blow to investor confidence, confidence necessary for Wall Street to peddle its debt-based products to others.

When over a trillion dollars of subprime debt was bundled into CDOs by Wall Street and given AAA ratings and sold to unsuspecting investors, it poisoned the well of central banking—investor confidence. By destroying investor confidence in debt-based assets, credit markets dried up, markets which central banks are pledged to maintain.

Central banks and investment banks have a symbiotic relationship. In such relationships, one party benefits; in this case, it is the investment banks. But when investment banks introduced questionable subprime CDOs into the asset-backed paper market, they crippled the ability of central banks to maintain the markets necessary for investment banks to profit.

This sudden loss of investor confidence has now prevented commercial banks from selling their hundreds of billions of dollars plus inventory of asset-backed commercial paper to now wary investors. \$156 billion of asset-backed commercial paper was issued in March, only \$5 billion was issued in October. This is a collapse, not a contraction.

Who would have thought banks would end up holding the hot potato of bad debt? This was certainly not the intent of investment banks or their conjoined twin, central banks. Now, German banks, Japanese insurers, and even US insurance behemoth AIG are reeling from multi-billion dollar losses from their investments in subprime CDOs; and

more dangerously yet, it is rumored that money market funds own perhaps \$300 billion of this rapidly disintegrating subprime debt.

The backlog of questionable debt has now frozen the ability of credit markets to provide additional credit to junk-rated corporations dependent on such financing; and, the daisy-chain of corporate finance is now in danger of collapse. The consequences will be unprecedented.

This crisis, and it is a crisis, coincides with the emergence of another problem central banks have been avoiding for decades—the collapse of confidence in paper money itself.

Paper Money Miracle or Oxymoron

Since 1974, central banks have fought to keep investors confident in the credit-based paper they issue as currency—in reality government-sanctioned funny money. Today, their continued ability to do so is in doubt.

For decades, through a variety of mechanisms, central banks attempted to prove fiat paper money was as good as their previously issued gold-based currencies. And, at first they succeeded. But nothing last forever, especially deception.

In 1973, when the US announced the US dollar was to be no longer backed by gold, all central bankers—even those who believed in gold—suddenly found themselves complicit in a conspiracy to defend their now fiat paper currencies against gold.

Since rising gold prices make obvious the presence of monetary problems, central banks were determined to keep gold prices low and their problems invisible. Their strategy was simple. The central banks would force down the price of gold by secretly selling their gold and depressing its price.

Because of this manipulation, between 1980 and 1999, the price of gold dropped from \$850 to \$250 per ounce. But now, in 2007, gold is back up to \$780 and going higher. The central bank bet on paper money is about to be called; and when it happens, rest assured—the house is going to fold.

We are now at an extraordinary moment in history when the excessive leverage of debt-based paper threatens the credit markets at the same time central banks find themselves for the first time without the ability to defend the value of paper money and the value of credit-based assets upon which their whole system depends.

Betting Against Central Banks A Sure Bet In a Crooked House

The manipulation of gold prices was first noticed in the 1990s by Frank AJ Veneroso, one of the world's top investment strategists. As more gold bullion came onto the market depressing the price of gold, Veneroso believed the central banks were its source.

When queried, central banks denied Veneroso's assertions. Central bank records, in fact, showed their gold reserves to be stable. But Veneroso was right and the central banks were lying. The gold moving onto the markets was indeed coming from central banks via their co-conspirators in capping gold, the investment banks.

Investment banks were borrowing central bank gold at 1 %, selling it thereby depressing gold's price and investing the proceeds in higher yielding government debt; and, as long as the price of gold moved lower, the profits of investment banks increased (see *The Manipulation of the Gold Market*, <http://www.gata.org/node/11>).

The International Monetary Fund was complicit in this deceit as IMF regulations allowed central banks to count gold "swapped" or "loaned" as still being on deposit in their vaults. Veneroso now believes that up to 50 % of gold reserves claimed by central banks have already been sold—a fact that will be instrumental in our collective bet against central banks in their house of cards.

As the collusion between central and investment banks continued, more gold was sold driving its price downward. But in 1999, after almost two decades of decline, the price of gold unexpectedly turned upwards and the investment banks quickly found themselves trapped.

At the time, it was rumored investment bank Goldman Sachs had a 1,000 tonne (metric ton) short position (a speculative position shorting the price of gold) and if gold prices continued to rise, Goldman Sachs would suffer catastrophic losses. What happened next would surprise everyone—everyone except the central banks and the investment bankers who profited.

In May 1999, the head of England's central bank announced the Bank of England would sell 60 % (415 tonnes) of its gold reserves at public auction, a sale which would force down the price of gold at the expense of the English treasury and, of course, to the detriment of the English people.

This public sale of England's gold confirmed the parasitic relationship between bankers and the nations off whose patrimony, productivity, and wealth they profit. Goldman Sachs is the same bank later given \$4 billion by US taxpayers to indemnify the bank against their losses on Mexican bonds.

Today, both England and the US and their respective citizenry are indebted as never before. This is not by accident. It is the result of a banking system in which currency was replaced by credit to benefit private bankers whose interests are protected and overseen by central bankers.

Their system of credit and debt by which they profit, however, is in danger as never before. It is now possible to take it back.

A MODEST PROPOSAL
A GOLDEN HAND IN THE HOUSE OF CARDS
THE ACHILLES HEEL OF PAPER MONEY IS PHYSICAL GOLD

The strategy is simple: Buy physical gold.

This simple yet effective strategy is, in fact, subsidized by the central banks. For twenty-five years, central banks have sold gold—in truth, our gold—to cap the price of gold. This is a form of price control.

It is also a price subsidy—a subsidy as real as China keeping pork prices low in Guangzhou or Saudi Arabia ensuring gasoline is cheaper in Riyadh than in London. The current price of gold along with tortillas in Mexico, pork in China and gasoline in Saudi Arabia is subsidized. Consequently, physical gold is currently for sale at well below fair market prices.

Since gold production from mining falls short of annual demand by 60 %, the price of gold would be far higher if central banks had not been selling gold into the market for years. **Today's low price of gold is an opportunity to buy gold at central bank subsidized prices—a situation that will not last.**

Veneroso believes central banks sold 10,000–15,000 tons, equal to 320,000,000 to 500,000,000 ounces of gold over the last 20 years. Just imagine how high the price of gold would be if the central banks had not sold this staggering amount.

Today's \$800/oz. gold is a bargain—as is \$2,000/oz. or \$3,000 oz. gold—a bargain that exists only because central banks literally sold thousands of tons of our gold onto the market in their attempts to prove gold a poorer alternative to debt-based paper currencies.

Over a year ago, Veneroso estimated *central banks had less than three years supply left to cap gold's price*. He also predicted the central banks would capitulate before then, keeping what little gold they had left. When this happens, **the central bank subsidy of gold will end and the price of gold will skyrocket.**

Why Physical Gold?

Physical gold is the 2nd Achilles heel of central banks (their 1st is investment banks). The strength of central banking is their access to paper money. They print trillions of “dollars” *sic* coupons masquerading as money every year; and they use this unending supply to indemnify investment banks as they together battle the now relentless and upward price of gold.

The weakness of central banks is their dwindling supply of physical gold. Their supply of paper money is infinite. Their supply of physical gold is not. To increase our odds, we should be careful as to where we bet. The table where physical gold is traded is by far our best choice.

This is not to say we should sell our junior gold stocks, exit our bear funds or sell our gold and silver options. Indeed, keep and add to these investments as their time is at hand.

I am suggesting, however, that future investments should also be allocated towards buying physical gold—for this is where central and investment banks are the most vulnerable to gold's rise.

Those who speculate in the gold and silver pits at COMEX (commodities futures market) know all too well the battle between shorts and longs resembles a teeter-totter. Positions build on both sides until someone decides to get off (usually a long), prices then fall with shorts buying back their positions on the way down and profiting handsomely in the process—further capping the rise of gold or silver as they do so.

I suggest we instead collectively migrate to another table, a table where the odds are more in our favor. After all, we are playing a game where odds do matter, and there are more preferable venues than tables where the house has an unlimited supply of credit and our fellow players have an unseemly smug look on their faces as they glance at their hands.

Unlike COMEX, TOCOM, and other paper-based derivative exchanges, the only way central banks can fight a rise in the price of physical gold is to actually sell physical gold into the market.

Central banks have done this for over twenty years thereby diminishing the national treasuries which they purport to represent. *It is our gold, however and for a limited time we can still buy it back at prices subsidized by central banks.*

GOLD BULLION SALE

ONLY A FEW TONS LEFT
AT SUBSIDIZED LOW PRICES
SALE ENDS SOON
BUY NOW!!!

By purchasing physical gold and taking delivery or storing it, you will be striking a blow for free markets; and, perhaps a more sustainable way of living and doing business will emerge. Begin by buying a coin or two, then a ten ounce or perhaps a kilo bar. Any contribution will serve us all—and the cause of liberty and freedom.

For those interested, I wholeheartedly recommend the threads and articles found at www.lemetropole.com, the watering hole of Bill Murphy and the gang at GATA

