How to Corner the Gold Market

TSF – March 30, 2010
By Janet Tavakoli

First, let your greed overcome all regard for the stability of the global market, and overcome your aversion to illegal activities. Stay away from people like me, and fly under the radar, because I'd like to see you thrown in jail. Most Washington officials, regulators, and Wall Street managers are probably safe to hang around, especially if you cut them in for a piece of the action or give them vague promises of a future lucrative job.

Next, cultivate relationships—or plant someone—on as many as the gold exchanges as possible in London, New York, Chicago, Hong Kong, Sydney, and Dubai. Get to know key people at one or more of the bullion banks: JPMorgan Chase, UBS AG, ScotiaMocatta, Barclays Bank, and Deutsche Bank AG. Get to know as many mine producers as possible (China has been buying gold mines), and watch the sales of mines, particularly to China. Get to know all of the refiners.

Set up some new offshore corporations, subsidiaries of existing corporations, and a hedge fund or two of your own to engage in some gold trading.

Get to know as many hedge fund buyers as possible, and encourage everyone to buy physical gold. Remove the gold from custodian banks, and stash it in a vault solely under the control of the hedge fund. Use your network of people with net worth of $1 billion or more to get them to buy gold, too. Then work on the "small" investors with only $100 million or more net worth. Keep the key decision making group as small as possible to make it harder for anyone in your group to try to back out.

Pump up the gold story. Get your friends to tell retail investors to buy some gold every month. Get your buddies in the financial business to offer exchange traded gold funds (ETFs) that claim to buy physical gold. This will sound safe to retail ~~suckers~~ investors, but in fact, the ETFs are very risky. This will serve your purpose when you are ready to start a panic. These particular ETFs will allow the "gold" to be commingled with the custodian's gold, and the custodian can lease out the gold. Moreover, the "gold" custodian can give it to a sub custodian that the manager doesn't know. The sub custodian can give it to yet another sub custodian unknown to the original custodian. The manager will never audit the gold, and the gold is not "allocated" to a particular investor. Since this is an "exchange traded" gold fund, investors will probably assume the gold is regulated by the Commodities Futures Trading Commission (CFTC), but it isn't. By the time investors wake up to the probability that there is very little actual gold backing their investment, your plan will be ready to execute.

Locate the naked shorts, the bullion dealers whose short positions are greater than their long positions. After you complete your plan, the naked shorts will have to pay whatever you can squeeze out of them to cover the contracts they have with you.

Now you are ready to execute your plan.*

Step 1: Let everyone in the futures markets know you are buying gold, speculating in gold, and want to take physical delivery. It helps that China openly announced it wants to increase its gold reserves; the market isn't looking too hard at you. At first, act like you're naïve. Buy on margin and pyramid up by reinvesting your profits when you have them. This part is legal, but you don't want to draw too much attention to yourself. Your buddies in the market will distract attention from you by buying gold and putting on straddles (selling the near months and buying in future months). No one will suspect collusion.

Step 2: Get the banks to let you finance your gold. They will lend you most of the value of your gold, especially if you do not argue about the interest rates they charge. Since they are borrowing from the Fed or another Central Bank at nearly zero, they consider the difference they get from you (backed by your gold) as gravy. As the price of gold rises, they will lend you more, and you can add to your gold position.

Be careful with the loans, though. In March, 1980, Paul Volcker was Chairman of the Federal Reserve. As the Hunts tried to corner the silver market, Volcker inadvertently ruined their plans. Volcker raised interest rates to fight inflation and issued a special credit restraint to banks admonishing banks not to provide financing for speculators in gold and silver. Borrowing costs rose, while silver prices dropped. The former billionaires were bankrupted by Volcker's prudence. Fraud is not for sissies. But don't worry too much. No one in Washington is really listening to Paul Volcker today. They just trot him out for a photo-op, and then dilute any "rules" he suggests to render them totally ineffective.

Step 3: Book up all of the space at gold refiners, so that no one else can do it. Buy as many gold mines as possible, and do not hedge (sell gold forward). Since the price of gold is going up, persuade other mines to keep as much of new production as possible off the market, while you execute your plan to push up prices. Keep the part about your attempt to manipulate gold prices a secret. You won't be 100% successful with all the mines, but you don't have to be, and very bit helps. Besides, if these other mines insist on hedging (by selling gold forward), your plan may drive them into bankruptcy, and then you can buy them cheap.

Step 4: Create credit derivatives contracts that give you the option to ask for your pay-off in gold. Make the reference credit the United States or the United Kingdom and create extra triggers like credit downgrades or other events that make it easier for you to demand payment in gold. The steps you use here to manipulate the gold market can be adapted to the credit derivatives market, so even if you can't trigger the event, you can make the spreads move in your favor and demand collateral in gold. Hide the credit default swap contract from the eyes of the clearing exchanges by embedding them in a securitization, a credit-linked note, or a sovereign fund product. The ~~suckers~~ investors that invest in these products never read the documentation, so when you trigger the event, they won't realize they are caught in a short squeeze—scrambling for your gold at the high prices you set—until it is too late.

Step 5: Pick the future month to make your big move. You will go long gold futures and demand physical delivery. Your buddies will all go long, too. Mix it up a little by buying some straddles to make it appear you are just a regular speculator, and throw everyone off the scent. Balance your straddle so it is relatively neutral, and the initial long position continues to apply pressure. When the long side of your straddle becomes due, demand physical delivery (this will be before your other long position) to keep up the pressure.

Step 6: Secretly and habitually start making some large early purchases in non-U.S. markets. That way, when the U.S. markets open, gold should follow the upward trend. Create chaos by doing as many as the following as possible in the shortest time possible. Move any remaining gold you have in trading depositories to private storage. Get some banks to issue research reports on how the bullion banks don't have enough gold to cover their massive short positions, and talk about the tight gold supplies. Trigger some of those credit default swaps. Inform the ~~suckers~~ investors in non-allocated "paper" gold ETF's just how stupid it is to give their money to a "manager" that doesn't audit the gold, insure the gold, prevent leasing of the gold, allocate the gold, or otherwise prove the gold is backing the fund.

Step 7: The bullion banks and dealers that have over-hedged their physical gold with short positions will now be squeezed and have to make margin calls. You and all of your speculator friends will look bad, so now is the time to use a ruse. Offer to cancel some of your forward contracts in exchange for early delivery of gold. This will temporarily relieve the bullion dealers' pain on their short positions, and give you control over even more of the gold supply.

Step 8: You and you friends have pinched off the gold supply and control most of the free gold supply having locked it up in your own vaults and warehouses. You are all long a lot of futures contracts, and you will all demand physical delivery. You now have the naked shorts exactly where you want them.

Step 9: Rely on bankruptcy and bailouts to get what you want. Normally, you would be afraid that you would never get paid, because your demands would bankrupt the naked shorts. But the naked shorts are likely to be unwary hedge funds or other sophisticated investors, and no one cares if you bankrupt them. Other naked shorts are likely to be the bullion banks, and they are all being bailed out by the Central Banks who will lend them what little gold they have left and then beg the IMF for whatever they have. In lieu of that, you can set a very high cash price and take cash. In the gold feeding frenzy you have created, you can gradually unload some of your physical gold. If you managed to bankrupt any gold mines, circle back and see if you can scoop them up for a song.

China is a wild card. If it is not part of your scheme and decides to lend its gold, it could dampen your profits or even upset your short squeeze. But China may not want to help out your victims. Why should they? If China buys enough gold mines and increases its reserves enough, it may be in its interest to befriend you. Your combined ownership will have made the futures markets irrelevant. Together you will not only have cornered the gold market, *you will have cornered gold*.

* The Hunt Brothers used a similar earlier strategy in an attempt to corner the silver market in 1979-80 as recounted by Stephen Fay in *The Great Silver Bubble* (Coronet, 1982).

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