

View from the Bridge

By Clive Hale

There's gold in them hills

an alternative look at the investment world

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There is something almost sensuous about holding a bar of gold that you just don't get close to when you buy a gold ETF. You no longer even get a certificate to clutch in your little hand and how much physical gold actually backs your investment? Most gold ETFs entitle you to the movement in price of the metal, but not physical delivery. In normal market conditions – if there is such a state I have forgotten what it feels like – this doesn't much matter. Storing and insuring gold is a right pain and having someone else to do it for you, silently in the background, is well worth the basis points an ETF manager will charge you.

But things aren't normal evidenced by the fact that ETFs that do guarantee physical delivery are trading at a premium to the spot price in the same way that gold coins and "small" bars do. We are told that due to efficiencies in the market place gold ETFs don't have to trade at a premium. We were also told to fill our boots with AAA rated mortgage backed securities yielding 8%, precipice bonds that would pay out if a basket of bank shares didn't fall by more than 50% and numerous other snake oil products.

There is a similar question mark over futures trading. Metal exchange stocks are at very low levels and should there be a surge in demand for delivery, prices could go vertical. In fact in a worst case scenario there wouldn't be any price at which paper gold holders could get delivery. But surely I could still sell my ETF and cash in my profits; only if the gold is there to back the price. Think of it like coming off the gold standard!

Could this happen? Watch the silver market for some clues. One of the investment banks is allegedly short silver in size and has been for some time. There is a tenuous relationship between gold and silver (although silver can be much more volatile) and but for the shorts silver should be trading at a much higher price. The spotlight on trading activity in the stock markets seems to be spilling over into the precious metals futures markets and we should soon start to see prices that reflect reality rather than an "inside" position.

There are rumours of bullion dealers in Germany and Austria running out of stock as the good burghers realise that the euro is not even half the currency that they thought it might be and start looking for a new home for their fiat money. As for me I have three gold sovereigns in my pocket so I am off down the pub for a game of spoof! If you have never played spoof it's a bit like investment banking but with beer...

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