Cheviot Asset Management Limited

Telephone +44 (0)20 7845 6150
Email info@cheviot.co.uk
cheviot.co.uk

Cheviot Asset Management, 90 Long Acre, London, WC2E 9RA

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BEWARE DIVERSIONARY TACTICS REGARDING BULLION OWNERSHIP

This missive is intended to be a direct rebuttal of the recent piece in the Lex Column of the FT (17.6.10) entitled 'Beware the Golden Hoard'. This article was notable in its clear attempt to sway investors towards Gold ETFs and away from actual physical ownership. For some reason Lex decided to try to convince the reader that to question Central Bank or ETF custodial practice or take delivery of real metal is a practice only for the silly and paranoid. Good for them that they are so convinced, although I for one am highly suspicious of their motive in making these comments. Quite apart from the fact that only Gold and Silver in the possession of the investor is the ultimate financial insurance policy, it is also abundantly clear that 'taking delivery' is the best possible way to accelerate the appreciation in the fiat paper value of Precious Metals. Every ounce that is removed from an electronic inventory is the equivalent of one more chair removed from the grand game of Golden Musical Chairs that supports the Fiat Money construct. The quotes from this weedy article that especially caught my eye were the particularly dubious:

> *"It is debatable whether profligate governments and easy money justify gold as a financial investment, but the notion that one can only trust tangible gold is more than a bit ridiculous."*

Regarding the first half of this sentence about the apparent need to justify Gold as a financial investment, I refer to two recent comments by the Emperor of Fiat Government largesse himself, Alan Greenspan, who said on June 18th 2010 (amusingly in the WSJournal - the FT's direct competitor, the day after the Lex piece) :

> *"The U.S. government can create dollars at will to meet any obligation, and it will doubtless continue to do so."*

which taken in context of his public statement of September 2009 that:

> *"the rise in Precious Metals is purely a **monetary** phenomenon and is the indication of the early stage of an endeavour to move away from paper currencies"*

...goes to further illuminate the intellectually flimsy nature of the statements of the Lex column. Bear in mind also that since 2001 and the opening of liquidity and fiat money floodgates post the dot-com crash, Gold has been the best major investment class, bar none. Indeed Gold has closed in higher territory in Dollar terms for ten consecutive years. If you really want to know whether easy money and profligate governments justify Gold as an investment, the evidence, in terms of return, is there in black and white for anyone who bothers to do even the most paper-thin (pun intended) research into the subject.

Regarding the second part of this sentence in the FT article, which implicitly suggests that ETFs are as 'trustworthy' as physical; all I can say is that if this 'journalist' has read the prospectus of a single major Gold ETF and still believes what he says, then his appreciation of the English language is more red-top than broadsheet. I now provide you with some direct quotes from the GLD (World's Biggest) Gold ETF prospectus, and the reader can make their own mind up as to whether these 'instruments' are to be trusted, as per Lex's commentary, to the same degree as delivered Bullion:

> *"Shareholders do not have the protections associated with ownership of shares in an investment company registered under the Investment Company Act of 1940 or the protections afforded by the CEA. The Trust is not registered as an investment company under the Investment Company Act of 1940 and is not required to register under such act. Consequently, Shareholders do not have the regulatory protections provided to investors in investment companies.*
>
> *The Trust may not have adequate sources of recovery if its gold is lost, damaged, stolen or destroyed and recovery may be limited, even **in the event of fraud**, to the market value of the gold at the time the fraud is discovered. Shareholders' recourse against the Trust, the Trustee and the Sponsor, under New York law, the*

Custodian, under English law, and any subcustodians under the law governing their custody operations is limited. The Trust does not insure its gold."

and

"Gold bars may be held by one or more subcustodians appointed by the Custodian, or employed by the subcustodians appointed by the Custodian, until it is transported to the Custodian's London vault premises. Under the Allocated Bullion Account Agreement, except for an obligation on the part of the Custodian to use commercially reasonable efforts to obtain delivery of the Trust's gold bars from any subcustodians appointed by the Custodian, the Custodian is not liable for the acts or omissions of its subcustodians unless the selection of such subcustodians was made negligently or in bad faith. There are expected to be no written contractual arrangements between subcustodians that hold the Trust's gold bars and the Trustee or the Custodian, because traditionally such arrangements are based on the LBMA's rules and on the customs and practices of the London bullion market."

- also from the Lex hit-piece was the statement that 'people who believe...:

'*...that governments are conspiring to distort gold reserves are* ***outright paranoid***'

Of course the truth, unpalatable to the cheerleaders at the FT, is that people who believe that governments and commercial banks conspire to distort Gold reserves are absolutely 100% correct in this conviction. Despite numerous requests for information about Central Bank Gold holdings and records about swapping, loaning and leasing of reserves, all queries, freedom of information included, have been met with a wall of silence and obfuscation in both the UK and the US. Further to that, it was revealed in March in Congressional testimony by the world's foremost 'expert' from the CME group, Jeffrey Christian, that the LBMA operates at best a 100:1 fractional reserve system of Paper to Physical(!) when it purports to be a clearing house for real 'Bullion' trades. This is the real smoking gun of course - note that as per the above, in the GLD prospectus the reassuring LBMA 'customs and practices' are used as the rationale for the lack of formal contractual relationships for the sub-custody of ETF Gold.

Frankly one could carry on picking holes in the Gold and Silver ETF world ad infinitum, and there will be those who show blind faith in the promises of the big commercial banks and Central Banks come what may. One other point though - is it not a monumental conflict of interest that the Primary Custodians of the majority of the world's Precious Metals ETFs are also hugely short in the futures markets of these same metals on their proprietary trading books? More than anything this clear conflict of interest completely fails my 5-yard smell test. The reader is invited to weigh up the evidence for themselves but it is apparent to me as someone who watches this market closely, that one in the hand is worth considerably more than one in either an ETF or a Central Bank inventory sheet, potentially a hundred more...

In light of today's coalition Budget, it is also worth reminding the investor that UK Gold Sovereigns (being a 'Coin of the Realm') are free of CGT, not something that can be said of Exchange Traded Precious Metals.

Ned Naylor-Leyland

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