

Hello Everyone,

“Extremes to the right and to the left of any political dispute are always wrong.”

Dwight D. Eisenhower

We live in an age of extremes. Finance is no different. I expect those extremes to magnify as we head into the second half of 2020. With that said, extremes don't last. They are too exhausting.

Today's missive will start down the path of the "extremes" of the gold markets. There is a "paper gold" market that is defined by an "extreme" number of gold contracts. Contracts trade in ounces. Then there is an "extreme" physical gold market. That market trades gold by the metric tonne. (And, yes, they spell it that way.)

Physical tonnes vs. paper contract ounces. Extremes.

I hope you find the next few missives edifying.

Signed, Your Misses-The-Old-Normal Financial Advisor,

Greg

KKOB 07.06.2020 Gold Part 4 Giants vs. Shrimps

Brandon: So, Greg, so far we have determined that gold is not currency, it is money. Money is a store of value. Currency isn't. We also determined that gold is not wealth. Gold is proxy for wealth.

Greg: Right. So today we are going to go down a big rabbit hole. And if you grasp what I am about to outline, you will understand why gold can trade in such a paradoxical way.

First, there are two gold markets. One market is for the shrimps. Us. We're the little guys. We buy gold by the ounce. Or, we may buy shares of gold, or precious metals mutual funds, or even gold mining companies.

That's shrimp-land. And, every day on your computer screen, you see the shrimp-land price.

Meanwhile, there is another market----and another price. This is the land of the giants. In giant-land, gold does not trade by the ounce; it trades by the tonne. (And, to my readers, yes, it's spelled this way.) In giant-land, you don't get statements saying you own this many shares, you get gold delivered to your vaults on pallets.

So, knowing this, can you see how gold in shrimp-land could operate much differently from gold in giant-land?

Brandon: Sure. I can easily imagine buying shares of gold stock--or picking up some ounces at one of those gold & silver places on Menaul Boulevard. But, I can't imagine buying a tonne. By the way, how many ounces are in a tonne?

Greg: There are just over 35,000 ounces in a metric tonne. But a metric tonne is slightly different than what we call a ton. So, to make things easy, if you rounded gold up to \$2000/ounce, a metric tonne of gold would cost \$64.3 million dollars.

But, now I am going to throw a curve ball at you. If you think you can gather up \$64 million and go by a tonne of gold, you probably believe in unicorns. Nope. You will pay much more.

And to make my point, let's pretend you are the President of China.

Brandon: I'm not sure I want to be the President of China. Things aren't going that well for him. But, I'll play along.

Greg: OK. Good. So, Mr. President, let's say you see all this money printing that is going on. You believe currencies are going to be devalued. Therefore, you want China to have a large stash of gold to mitigate any losses caused by the drop in currencies.

Let's say you want to buy 1000 tonnes. Mr. President, where do you get it? How do you resource 1000 tonnes of pure gold?

Brandon: I don't know. I guess I could get some from what is mined each year.

Greg: You could. But there is only so much mined each year--- and much of that is spoken for years in advance. You could try the global commodities exchanges. But, they trade thousands of tonnes of **paper (!) gold** each day. In reality, they hold very little physical gold...especially in relation to their paper contracts that fly across the globe each day.

If you said you wanted to take delivery of 1000 tonnes from them, they would laugh at you. I'll explain the paper-gold market ---and how it works--- later in this series. Anyway, they don't have 1000 tonnes of gold available to send to you.

Therefore, Mr. President, to get your 1000 tonnes, you must go to other giants and convince them to sell.

Brandon: Before you go on. Who are these other giants?

Greg: Great question. A giant could be another government. It could be an uber-wealthy Arab prince, or an old line European family. Maybe even a large international bank that holds gold for its own account.

Just know, these giants have probably held gold for decades...maybe even centuries. They are very secretive about it ---and they clearly value it.

Brandon: So, you're telling me I'm going to have to pay a lot more for my tonnes.

Greg: Correct. You're going to pay through the nose. And you won't care. I'll explain in detail on Friday.

Brandon: I can't wait. How do people reach you?

Greg: My number is 250-3754. Or, go to my website at zanettifinacial.com

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