

Hello Everyone,

Remember:

Matter. How tiny your share of it.

Time. How brief and fleeting your allotment of it.

Fate. How small a role you play in it. – Marcus Aurelius, *Meditations*

My wife, Teresa, and I went out to eat to couple of times this weekend. We are probably like you. We had an appetizer. We ordered dessert...and coffee. We tipped a little more. And we hurt for the people who will once again be out of work.

Today's missive has nothing to do with Covid...or our reaction to it. But if you are confused about what is true (and what isn't) with respect to Covid, wait until you a glimpse into the "paper" gold market. :>)

I hope today's transcript will help you see why the gold market doesn't always trade "logically".

Signed, Your Never-Thought-I'd-Miss-Someone-Saying-"Hi-My-Name-Is-Brianna-And-I'll-Be-Your-Server-Today" Financial Advisor,

Greg

KKOB 07.13.2020 Gold Part 6 **Paper Gold**

Bob: So, Greg, on Friday you explained how a tonne of gold trades differently than an ounce of gold. And you also said---- what our listeners see is the "paper" ounce price of gold each day.

Greg: Right. So, to explain this. Bob, let's pretend you are a gold trader at Goldman Sachs. You wear a nice suit to work each day. You have the corner office. And you are really good at your job. You know the gold mining executives ---and the Swiss

refiners. You trade tonnes of gold with a click of a mouse. And you are in competition with the gold traders at Citi Group, Merrill, JP Morgan, and so on.

So, Trader Bob, do you ever take physical delivery of gold to your Manhattan apartment?

Bob: I hope not. I mean in that scenario, *I'm really just trading the price of gold each day.* So, no. I am not going to take delivery of pallets of gold.

Greg: You're exactly right.

Now there is some real physical gold backing those contracts you trade. That gold is held at the commodities exchange. But for the most part, trades settle in cash, and not gold bars.

Now, since hardly anyone takes delivery of real gold, the exchange allows more paper gold to trade than what physically exists in the vaults. It's not a conspiracy. And it's not a fraud. Those are just the rules. And everyone knows the rules.

Anyway, on any given day, you might see 400-500 ounces of paper gold trade for every one ounce of real gold. Now, technically, all 400 of those traders could lay claim to that same one ounce of real gold. But, again, since physical delivery is rare, no one worries about it.

Bob: So, it's a little like a bank. If everyone asked for their deposits back at the same time, the banks never have enough cash for everyone.

Greg: Exactly. And 99.9% of the time, it all works smoothly. However, just as there are occasional runs on banks, sometimes there are runs on gold.

And guess what? That very thing just happened during the Covid panic. In May, there was a run on physical gold. And, there weren't enough gold bars to make good on the contracts. Traders scrambled for days to find the real thing to avoid default. Canadian bank, ScotiaMocatta, in particular, got clobbered. Eventually, they made good, but they then permanently closed their gold desk.

Bob: Wow. You never hear about stuff like that.

Greg: Nope. The gold world is pretty opaque.

Anyway, knowing that, let's play another scenario out. Let's say a super-panic hits the markets. And let's say all 400 of those paper gold guys want delivery.

Bob, if 400 people all say they have rights to that one real ounce, who owns it?

Bob: I don't know. They one who will pay the most?

Greg: Good answer. But, more likely, one of two things would happen.

- The commodities exchange could invoke something called "*force majeure*", whereby even if you wanted real gold they would give you cash instead.

- Or, they could cancel the contracts...and that language is the contracts. Thus, in an emergency, all trades would be declared null and void.

Now if that were to happen, the price of gold you see go across your screen would be (pause for effect) zero(!). Not because gold is worthless, but because the contracts are. Still, people will freak out.

Bob: But that's not the real price. Zero just says the paper market is broken.

Greg: Exactly. But imagine the panic. *"Gold is at zero! How can that be?! I'm ruined!"* Actually, though, it will be the opposite. Once the market reopens...and it will...you will see a vastly higher gold price. Because, only a higher price will start gold "flow" again.

Anyway, I understand that scenario may never happen. But, I also never thought oil prices would go negative.

So, if you own gold, and one day you hear it is at zero, you should go to Ruth's Chris, order a big steak, and a nice glass of wine. You will be very happy once the gold market reopens.

Bob: Steak and wine? Sounds good to me...even at 7:47 in the morning. How do people reach you?

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

By accepting this material, you acknowledge, understand and accept the following:

This material has been prepared at your request by Zanetti Financial, LLC This material is subject to change without

notice. This document is for information and illustrative purposes only. It is not, and should not, be regarded as "investment advice" or as a "recommendation" regarding a course of action, including without limitation as those terms are used in any applicable law or regulation. This information is provided with the understanding that with respect to the material provided herein (i) Zanetti Financial, LLC is not acting in a fiduciary or advisory capacity under any contract with you, or any applicable law or regulation, (ii) that you will make your own independent decision with respect to any course of action in connection herewith, as to whether such course of action is appropriate or proper based on your own judgment and your specific circumstances and objectives, (iii) that you are capable of understanding and assessing the merits of a course of action and evaluating investment risks independently, and (iv) to the extent you are acting with respect to an ERISA plan, you are deemed to represent to Zanetti Financial, LLC that you qualify and shall be treated as an independent fiduciary for purposes of applicable regulation. Zanetti Financial, LLC does not purport to and does not, in any fashion, provide tax, accounting, actuarial, recordkeeping, legal, broker/dealer or any related services. You should consult your advisors with respect to these areas and the material presented herein. You may not rely on the material contained herein. Zanetti Financial, LLC shall not have any liability for any damages of any kind whatsoever relating to this material. No part of this document may be reproduced in any manner, in whole or in part, without the written permission of Zanetti Financial, LLC except for your internal use. This material is being provided to you at no cost and any fees paid by you to Zanetti Financial, LLC are solely for the provision of investment management services pursuant to a written agreement. All of the foregoing statements apply regardless of (i) whether you now currently or may in the future become a client of Zanetti Financial, LLC and (ii) the terms contained in any applicable investment management agreement or similar contract between you and Zanetti Financial, LLC.