



## Zanetti Monday Missive 2023.01.23 Gold Rembrandt

**"Life is never more fun than when you're the underdog competing against the giants."  
~ Ross Perot**

Hello Everyone,

Last week we took a shot at explaining why the “paper” spot price of gold can be so much lower than the price of physical you see at a gold dealer.

We pondered, **“What is the real price?”**

You know I am going to say the "physical price."

But now I will surprise you. What physical price?

If you understand what follows, you will know more than even the most avid of “gold-bugs.”

So, let's get to it.

To understand the true price of physical gold you must first understand the difference between the midgets (us) and the giants (them).

We midgets buy gold by the ounce. We go to a gold dealer. We look over the Eagles, Kruggerands, Maple Leafs, & Kangaroos. We try to get a deal.

We might buy one, two, or a few coins. The dealer then puts our ounces in a plastic sleeve. We put them in our pocket (or purse) and walk out the door. And we hope no one is watching! :>)

“Giants”, on the other hand do not buy gold like we do. Giants buy gold by the tonne. (A tonne is a metric ton vs. the 2000 lb. US ton. There are 32,150.7 troy ounces of gold in a metric tonne.)

Tonnes arrive on pallets. 400 oz. bars are the standard delivery unit. They are delivered in Brinks trucks. These giants might be the uber-wealthy, Arab sheiks, hedge fund managers, banks, central banks, or governments.

# How Much is a Ton of Gold Worth ?



Giants do not pay the same price for gold that midgets do. Here is the surprise. Giants pay more. Probably a lot more.

I know what you are thinking. **“Wait. They are buying in bulk. Bulk is always cheaper than buying in small amounts. There is no way we are getting a better deal than the giants. The world doesn’t work that way!”**

Ahh, but it does in the gold world.

Here’s why.

Let’s imagine you are, Yi Gang, the Governor of the People’s Bank of China. You can “print” as many yuan as you want--- whenever you want. Clearly, you are a giant.

So, Mr. Li Gang, let’s say you see the possibility of war on the horizon. You see a corrupt and failing Chinese banking system. You see civil unrest spreading. The yuan is fragile. Therefore, you want to plus-up your gold reserves. Fast.

You want 100 tonnes delivered. Stat!

Oh, and you also want your purchase done quietly.  
Discretion. No outsiders need to know you are buying gold.  
No reason to panic anyone.

Meanwhile, on the other side of the trade, the sellers certainly don't want it known they are selling. They might have to confess as to how they got it in the first place!  
So, Mr. Yi Gang, where do you get 100 tonnes of gold fast?  
And secretly?

From a mining company? Maybe. But most of that gold is spoken for even before it comes out of the ground.

From a refiner? No. Refiners are just "pass-throughs." They charge a fee for refining someone else's metal.

How about the US Commodities Exchange (COMEX)? Or, the London Metal Exchange (LME)? No way. The whole world would see that. Plus, the Exchanges don't want to empty their vaults any more than they have to.

No. To resource 100 tonnes of gold, you must go to another giant. And since you are Mr. Yi Gang, you have a list of giants who might be interested.

Trusted intermediaries are used. Private phone calls are made.

But this is a hard sell.

After all, if other giants own tonnes of gold, they obviously value it.

So, why might they sell? Well, maybe they want to buy a large parcel of land in New Zealand. Maybe there are some oil discoveries they want to invest in. Who knows?

But, you as Yi Gang, know the sellers probably don't want to deposit the proceeds in a bank for very long. Most giants own gold because they don't trust banks in the first place.

Therefore, you must make a very tempting offer to get other giants to part with some of their tonnes. That means you are going to offer at a price much higher than spot price we midgets see on our computer screens.

But remember, you are the head of the People's Bank of China. So, what is it to you to print up as many yuan as needed to get the gold? To you, these are just digits on a screen.

You say, **“Send them digits! Send them pallets of paper yuan! Just get me my gold!”**

So, what are the giants paying?

I don't know. Giants don't return my calls.

We know this though. In the late 1990's, an information leak occurred at the London Metal Exchange. At the time, ounces of gold were trading for around \$300/oz. 14,000 tonnes of

gold, however, had been traded at the equivalent of \$6000/oz.

Yup, 20 times the spot price.

How can that be? Gold is gold.

True. Sort of.

Think of it this way. Paint is paint.

But if Leonardo da Vinci paints a painting it is worth millions.

If, my business partner, Walt Benson, paints a painting, his mom might buy it. Sorry Walt. :>) (BTW, if I painted a painting, I don't think my mom would be interested.)



Tonnes of gold are Da Vinci & Rembrandt paintings. Ounces of gold are Walt and Greg paintings.

**“So, Greg, are you telling me that I am getting a better deal than the giants when I buy gold? Why would they allow that?”**

Great question.

Giants don't care about ounces. They are crumbs off the table. And if crumbs get sold at a discounted price to keep the quiet-game of gold hoarding going, so be it.

I believe another reason is this. The "ounces game" can be "managed (some say manipulated) via the paper-gold market. As prices are suppressed there, it dampens enthusiasm from the midgets. That keeps attention diverted elsewhere. And that is what the giants want.

So, what is the real price? I believe it is the giant price. And at some point it will behoove the giants to revalue gold to the general public (midgets). Then we will know what prices they have been paying.

Has this been done before? Yes. Many times.

Franklin Delano Roosevelt pulled the gold-revaluation trick in 1934. European central bankers are advocating for a revaluation now. The mechanics of this are worth another missive. But not today. I've blathered on enough for a Monday morning.

Signed, Your If-I'm-Paying-Taxes-To-Live-In-A-Civilized-Society-I-Want-My-Money-Back Financial Advisor,

Greg

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