GATA: You Lie!

Jeffrey M. Christian
Managing Director
CPM Group
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"Every man has a right to his opinion, but no man has a right to be wrong in his facts."

Bernard Baruch

Why we address these distractions

- **Gold market participants generally ignore the Gold Anti-trust Action Committee (GATA), its lies, and those like it that suck money from gullible gold investors by feeding on fears of conspiracies to control gold prices.**

- **We disagree. These lies are costly to investors, and distract them and others in the broader market from trends and conditions that truly do affect gold prices. Furthermore, sophisticated, legitimate investors view the gold market as being immature and to be avoided because it is populated with purveyors of such ridiculous gibberish.**

- **The final section of this document illustrates how costly such conspiracy theory distractions can be to investors. They should be avoided. They should be countered. People who focus on what really is important to the market and ignore the conspiracy theories regularly outperform those who base their gold trades on these ill-conceived theories.**

Gata's 'Challenge' to Debate CPM

This response to Gata is not unprovoked. It is a direct response to a purported challenge by Gata to me, Jeffrey M. Christian, to debate Gata about its theories. The challenge was publicized as Gata sought contributions, but it never had the ethics or courage to actually deliver the challenge. I heard of it from third parties.

On 24 March 2009, Gata said on its website that it was going to challenge me to a public debate about its gold conspiracy claims. Bill Murphy of Gata also told Bernard Lo of Bloomberg TV he would gladly debate me.

I called Bernard Lo at Bloomberg TV and said I was ready and willing. We never heard from Gata. Bloomberg still is ready and willing. So am I. Where is Gata?

None of Gata's evidence are honest or accurate

Gata said, in a January 31, 2008 advertisement:

"Now there is proof that those gold reserves … are being used for the surreptitious manipulation of the international currency, commodity, equity, and bond markets."

All of GATA's purported evidence is fabricated. None of it stands up to even the most cursory examination or scrutiny. GATA distorts and misrepresents what people say. It lies.

When confronted with the evidence of the degree to which he has distorted various people's comments, Bill Murphy in September 2009 said, 'You can't throw out a bunch of historical facts and words, and expect me to quibble over them.'

Gata's allegations are empty

- **The first section here reviews some of the 'evidence' Gata purports to have collected that central banks attempt to manipulate gold prices.**

- **Gata says this evidence is 'proof' of a conspiracy.**

- **In reality, none of this evidence is accurate. In every instance Gata has distorted what it quotes people as saying and lied about the context in which the comments were made. Even with its lies and distortions, however, Gata does not provide any convincing 'evidence' of efforts to manipulate gold prices.**

- **None of its evidence suggests anything other than an overly active imagination on the part of Gata's marketing team, ever eager to encourage investors to donate money to 'continue the investigation.'**

Gata's Lies

Gata's 6 "Proofs" Are Sick Jokes

Gata's website, 24 March 2009 offered six pieces of 'evidence' for CPM Group to refute.

1) **Minutes of the FOMC meeting in January 1995 about using the Exchange Stabilization Fund to help the Mexican government.**
2) **Fed Chairman Alan Greenspan's testimony to Congress in July 1998.**
3) **Comments by Barrick Gold, made in a filing to the U.S. District Court in New Orleans in February 2003.**
4) **A comment in the 2003 annual report of the Reserve Bank of Australia.**
5) **The comment in a speech given in June 2005 to a conference at the Bank for International Settlements in Basel, Switzerland, by the then head of the bank's monetary and economic department, William S. White.**
6) **The memorandum "recently discovered" in the archives of former Fed Chairman William McChesney Martin relating to efforts to support the dollar in 1961 in ways that would not allow banks and traders overseas to trade against the Fed and weaken the policy effectiveness.**

1. Fed Counsel Comment in 1995

1. Gata's first piece of 'evidence.'

Gata wrote:

> **The minutes of the Federal Open Market Committee meeting of January 1995, which quote the Federal Reserve's general counsel, Virgil Mattingly, as acknowledging that the U.S. government has engaged in "gold swaps." The only purpose we can figure for "gold swaps" is market intervention, the more so insofar as Mattingly, when confronted with his comment years later, indignantly denied making it. But maybe Christian can offer some other explanation.**

1. Fed Counsel Comment in 1995, continued

Actually… In that January 31, 1995 meeting, Fed economists were briefing the FOMC members of the Treasury's use of the Exchange Stabilization Fund to help the Mexican government deal with a currency crisis. Fed Governor Lindsay asked if the way the Treasury planned to use the ESF, lending Mexico's government dollars, was within the legal and regulatory authority as to how the ESF could be used. Fed economist Truman commented that it was, and that the ESF had been used for loans to "at least 31 countries around the world over the last 50 years." Lindsey asked if the sort of loan envisioned for Mexico would fit the ESF guidelines. Legal counsel Mattingly said "It's pretty clear that these ESF operations are authorized… The statute is very broadly worded… it has covered things like the gold swaps and it confers broad authority."

1. Fed Counsel Comment in 1995, continued

- **The gold swaps referred to were made with Portugal's central bank *in February 1977*. They were publicly reported at the time. They are the only gold swaps itemized on the Treasury's detailed list of ESF transactions since 1936. That itemized list is available at the Treasury's website, and at CPM Group's website.**
- **Interestingly, Gata did not realize until CPM Group told Bill Murphy in September 2009 that in the Portuguese swaps of 1977, the U.S. Treasury lent dollars to the bank of Portugal and *took in gold* from the Portuguese bank. The Treasury was not lending out gold, but taking it in, as collateral against a dollar loan to Portugal so that it could try to defend its currency in the wake of losing its African colonies, Angola and Mozambique.**
- **These have been the only gold swaps undertaken by the Treasury since at least the 1970s, with the exception of the gold swaps to the U.S. Mint (a Treasury agency) for use as working stocks in its gold coin programs. Those ounces lent to the Mint are repaid as the Mint sells coins, so there never is any Treasury gold lent to the Mint that is not still in the Treasury and Mint's possession.**

2. Greenspan 1998 testimony

2. Gata wrote: "Fed Chairman Alan Greenspan's testimony to Congress in July 1998 acknowledging that central banks lease gold to suppress its price -- not to earn a little money on a supposedly dead asset…."

- **Greenspan actually said that *other* central banks were likely to provide as much liquidity to the gold lending market as the market demanded. He said nothing about doing so to suppress gold prices.**
- **The full quote, including the context in which it was made, is on the following page. Greenspan actually was speaking about his opinion that groups such as bullion banks or trading companies in the gold market do not have the capacity to significantly restrain supplies of physical gold.**

2. The Actual Greenspan Quote in 1998

Potential Application of the CEA to OTC Derivatives

"The vast majority of privately negotiated OTC contracts are settled in cash rather than through delivery. Cash settlement typically is based on a rate or price in a highly liquid market with a very large or virtually unlimited deliverable supply, for example, LIBOR or the spot dollar-yen exchange rate. To be sure, there are a limited number of OTC derivative contracts that apply to nonfinancial underlying assets. There is a significant business in oil-based derivatives, for example. But unlike farm crops, especially near the end of a crop season, private counterparties in oil contracts have virtually no ability to restrict the worldwide supply of this commodity. (Even OPEC has been less than successful over the years.) Nor can private counterparties restrict supplies of gold, another commodity whose derivatives are often traded over-the-counter, *where central banks stand ready to lease gold in increasing quantities should the price rise.*" (Emphasis added.)

Excerpted from:

Testimony of Chairman Alan Greenspan
The regulation of OTC derivatives
Before the Committee on Banking and Financial Services, U.S. House of Representatives
July 24, 1998

3. Barrack's comment

3. Gata wrote: "Barrick Gold's claim, made in U.S. District Court in New Orleans in February 2003, to share the sovereign immunity of central banks against lawsuit, insofar as Barrick was their agent in shorting gold to help control its price."

Actually, Barrick said nothing of the sort. Barrick stated that central banks were immune from Blanchard's claims because foreign central banks have sovereign immunity in such cases before U.S. courts. It added that since the central banks, central participants in Blanchard's unsubstantiated claims of a conspiracy to control prices, cannot be parties to Blanchard's complaint, there was legal precedent in the U.S. judicial system to allow the court to dismiss the complaint against other parties.

4. The Australian Reserve Bank comment

4. Gata wrote: The annual report of the Reserve Bank of Australia for 2003, which asserted that central banks hold gold for intervention in the currency markets.

- **Actually, central banks hold all of their monetary reserves, including foreign currencies, gold, positions in the International Monetary Fund, and Special Drawing Rights, primarily to “intervene” in currency markets. That is in fact the purpose of monetary reserves, and the mandate to central banks from their governments.**

- **The Reserve Bank of Australia, for its part, held 7.9 million ounces of gold from 1980 until 1996. It sold most of that, taking its reserves to 2.6 million ounces, in the first half of 1997. The sale had no effect on prices, although the July 1997 announcement that the gold had been sold six months earlier led banks and speculators to sell gold, lowering the price for a day or two at the start of the five-year bear market in gold, from 1997 into 2002.**

5. The BIS comment

5. Gata quoted: William White, former economist at the Bank for International Settlements, from a 2005 speech to academics on the role of international cooperation, as saying that the purpose of central bank cooperation was "the provision of international credits and joint efforts to influence asset prices (especially gold and foreign exchange) in circumstances where this might be thought useful."

William White did say that. He was referring to the central bank gold pool which *in the early and middle 1960s* sought to keep gold prices in the private market at or near the official dollar gold price of $35 per ounce, at which gold was convertible to U.S. dollars, and nothing more recent than that.

Besides, would one want central banks and national treasuries, the sole issuers of currencies, to not be concerned or engaged in their currency markets? Should the entire supply side of the market abrogate its responsibilities to the product it produces?

6. William McChesney Martin's 1961 memo

6. **Gata wrote: "The memorandum recently discovered in the archive of former Fed Chairman William McChesney Martin detailing a scheme for the U.S. government to rig the currency and gold markets surreptitiously and to obfuscate, falsify, or withdraw government publications so the scheme would not be discovered."**

McChesney Martin did not say anything about any 'schemes,' 'rigging the currency and gold markets,' or falsifying government publications. He said that for monetary policy to be effective short-term interventions needed to be executed anonymously and kept secret from market participants for a short time, a period of weeks or a couple of months.

The comments were in a memo on 5 April 1961, when the dollar was under severe downward pressure. The memo discussed ways the Federal Reserve System could assist the Treasury in supporting the dollar at that time. The memo was confidential *at that time*. It was declassified decades ago, and have been available to anyone who wished to read them at the Missouri Historical Society. The St. Louis Fed discovered these papers years ago and put them on its website.

Oh, but there is more…

Gata also lies about Comex and others…

From "Midas" Commentary
by Bill Murphy
LeMetropoleCafe.com
Friday, December 12, 2008

> I received a call this morning from a commodities broker who told me that the Comex is alerting various futures firms about the potential of a squeeze on the December contract and is advising the $840 December shorts to exit their positions. That is the remaining open position.

Gata's lies about Comex

The CFTC was notified of Bill Murphy's website posting. It contacted the Comex, which confirmed to the CFTC that it had not made any such a warning.

And the lies keep coming…

In September 2009 GATA said that …. Had confirmed that the Fed was involved in gold swaps, in a letter responding to a GATA query.

As the full quote on the next page shows, the Fed official was referring to swaps. The Fed’s letter never once mentioned gold swaps. It is public knowledge that the Fed has a series of currency swap facilities it had executed during the financial crisis of late 2008 and early 2009 with numerous central banks around the world. The Fed made a public announcement of each and every one of those swap facilities as they were established.

What the Fed really said…

In a letter dated 17 September and signed by Federal Reserve Board member Kevin M. Warsh, it was stated:

"In connection with your appeal, I have confirmed that the information withheld under Exemption 4 consists of confidential commercial or financial information relating to the operations of the Federal Reserve Banks that was obtained within the meaning of Exemption 4. This includes information relating to swap arrangements with foreign banks on behalf of the Federal Reserve System and is not the type of information that is customarily disclosed to the public. This information was properly withheld from you."

The key here is that the Fed letter is referring to swaps, not gold swaps. The Fed is on record as undertaking currency swaps. It also is on record as having not engaged in gold swaps. Even the swap with Portugal in 1977, in which the U.S. government took in Portuguese gold and lent dollars to the Portuguese government, was undertaken by the Treasury, and not by the Federal Reserve System.

Distractions… Cost Money

Distractions Cost Money

Investors who have unrealistic price expectations will make poorer investment decisions than those who understand the mechanics of financial markets and invest accordingly. It does not matter whether the unrealistic opinions are based on the talking heads of business television, conspiracy theories, or other beliefs that are not grounded in basic economics and market fundamentals, the resulting is a loss of potential profits.

An investor who expects the international financial system to collapse and prices thus to sky-rocket may buy and hold metal, regardless of price trends, market conditions, and changes in the underlying economic environment.

In contrast, an investor who buys a metal based on a fundamental and economic analysis that suggests prices will rise for a time, to a reasonable level, and who then sells that metal or modifies his or her investment portfolio according to the changed market conditions should be expected to outperform the person whose investment decisions are based on inaccurate assumptions.

There are a number of strategies to allow investors to continue holding their precious metals while profiting from shifts and shorter term trends in markets. These apply to holdings of physical metal, futures, exchange traded funds, and mining equities.

CPM Group advises investors on how to manage their portfolios.

Two Hypothetical Silver Investors

Investors distracted by misinformation and unrealistic expectations will make investment decisions that are not optimal.

To understand this, consider two hypothetical investors. Both decide to buy silver in January 2007, having witnessed the sharp increase and volatile silver price moves from 2004 onward.

One reads that a conspiracy is keeping prices low, and that when this conspiracy collapses, after controlling silver prices for decades, silver prices will sky-rocket. Accordingly, he buys silver and holds it, waiting for $100, $200, or higher silver prices.

The other investor reads mainstream silver analyses that suggest silver could rise to $20 - $25 on spikes, maybe even higher briefly, but that prices are likely to be between $9 and $20 for much of the coming decade. Accordingly, she also buys silver, but she uses put options to capitalize gains whenever silver prices spike higher – over $15 -- locking in profits repeatedly, lowering her *effective net purchase price*, and protecting her assets from inevitable repeated declines in prices.

The Put Option Hedges Investor Would Have Bought and Sold

Two Investors Of Silver: Methodology of Hypothetical Investment Strategy		
Investor Bought Physical Silver, and Hedged Price Increases with Put Options.		
January 2007 to 18 September 2009		
When silver prices rose above $15 per ounce, the investor would seek to lock in her profits and protect against prices falling back by purchasing out-of-the-money put options. When prices fell back sharply, she would sell the options back, locking in a profit and reducing her ***effective net acquisition price*** . In this model, she would have bought and sold puts 4 times from the start of 2007 through 18 Sept. 2009.		
Date	**Action**	**Premium Paid or Received**
		per troy ounce
7 November 2007	**Bought $12.25 May 2008 put**	**-$0.05**
30 November 2007	**Sold that put**	**$0.22**
18 March 2008	**Bought $15.00 June 2008 put**	**-$0.04**
8 April 2008	**Sold that put**	**$0.13**
11 July 2008	**Bought $15.50 Dec. 2008 put**	**-$0.34**
11 November 2008	**sold that put**	**$6.70**
10 June 2009	**Bought $12.25 Dec. 2009 put**	**-$0.71**
23 July 2009	**Sold that put**	**$0.60**
Cumulative profit on hedges		**$6.51**
CPM Group, 20 September 2009		

Long Silver Investment with Put Option Hedges

Daily Silver Prices

Through 16 September 2009

Long Silver Investment with Put Option Hedges

Two Investors Of Silver: Hypothetical Returns of Two Strategies			
Per Troy Ounce			
		Buy and Hold	Buy and Hold, Hedging with Options
		Investor One	Investor Two
Investment Inception	3 January 2007	$12.67	$12.67
Cumulative profit on hedges			$6.51
Effective Net Acquisition Cost, Adjusted for Hedge Profits		NA	$6.16
End of the Period	18 September 2009	$17.04	$17.04
Profit to Date, 18 September 2009		$4.37	$10.88
Silver Profit, Cumulative Percentage		34.5%	176.5%
Compounded Annual Return on Investment to Date		11.4%	44.8%
Notes: Hypothetical models developed by CPM Group, 20 September 2009, using historical market data in a rear-looking model.			
Total commissions and clearing, exchange processing, and NFA fees on puts are $3.50 per 5,000 ounce contract, round turn.			
$3.50 per contract divided by 5,000 ounces per contract means that the puts cost $0.0007 per ounce in commissions and fees.			
CPM Group			
20 September 2009			

Auditor Emptor (Listener Beware)

- Challenge your own assumptions.
- Question the authority of those from whom you are taking advice.
- Read for comprehension, not confirmation.
- Invest based on what you know, not what you believe.