

Hello Everyone,

*"Art is not what you see, but what you make others see."*

Edgar Degas

How we (normal people) see gold is very different from how the super-wealthy see gold. And today's missive will use Pablo Picasso in an attempt to make that point.

I hope you learn as much from the Picasso-analogy as I did many years ago.

Signed, Your Has-A-50-50-Chance-Of-Hanging-Modern-Art-Upside-Down Financial Advisor,

Greg

## KKOB: 07.10.2020 Gold Part 5 Picasso vs. Greg

**Brandon:** This has been a very interesting series. I knew very little about gold. But I am beginning to understand it is far more complex (and secretive) than I imagined.

When you left off on Monday, you were explaining there were two gold markets...and two gold prices. One market is for the little guys. You called it shrimp-land. That market trades in ounces. Then there is giant-land. That market is for the big guys. They buy gold by the tonne.

**Greg:** Nice summation. And you're right; the price in shrimp-land is different than the price in giant-land. Let me explain.

Back in 1999, something startling was revealed. A tonne of gold traded hands in London for the equivalent of \$6000 an ounce. Now, at the time, the spot price for an ounce of gold was about \$300 an ounce.

So, since gold is gold--- whether by the tonne, or by the ounce--- how come a tonne

was trading for 20 times the ounce price? I mean, why couldn't you just multiply \$300 (the spot price) by 35,000 ounces (the approximate number of ounces in a metric tonne) and pay that amount?

**Brandon:** I don't know. In most things, if you buy in volume you get a discount. I guess not in the gold world.

**Greg:** Right. Well, back then, I was younger and dumber. And I went on some stupid rant about how this made no sense. Fortunately, a man much older and wiser explained it to me.

Here's how he made his point. He said:

*"Greg, I am going to give you \$200. I want you to go to the local art store. Buy some paint and brushes. Buy a canvas and a smock. I then want you to paint a portrait. When you're done, what will your portrait be worth?"*

I replied, *"I don't know. Fifty cents. My mom might buy it."*

He said, *"Right. Now, Greg, I am going to give that same \$200 to Pablo Picasso. He is going to go the same store, buy the same paint, brushes, canvass, and smock. He is going to paint a portrait. When he is done, what will it be worth?"*

I said, *"I don't know. \$1 million?"*

He said, *"Right. Same materials. Totally different price. Greg, an ounce of gold is a Greg. A tonne of gold is a Picasso. Hard to get. Rare. Do you understand now?"*

And I did.

So, on Monday, we pretended the President of China wanted to buy 1000 tonnes of gold. We determined he had to convince another giant to sell it to him. And clearly, gold-giants value gold.

But remember, the President of China has the ability to print as much currency as he wants. To him, he is just wiring electronic digits to another giant's bank account. So, knowing this, does he really care what price he pays?

**Brandon:** No. He just wants his 1000 tonnes. So, if the other giant says, "I want 30 times the going spot price, what does China's President care? He'll think, *"Just get me my gold!"*

**Greg:** Exactly. Now the receiving giant can take those digits and buy castles, or art, or stocks, or farmland, or whatever. So, he or she can win, too.

**Brandon:** So, how do we know what the going price for a tonne is today?

**Greg:** We don't. We're shrimps. We hear rumors and innuendo, but we don't know. The 1999 episode was likely a mistake. And the giants are content to let us accumulate ounces at discounted prices, because to them, ounces are crumbs off the table. A small price to pay for secrecy.

Plus, they know the gold price we see each day is a paper-contract price. They couldn't care less what the paper price is. They don't want paper, they want the real

thing---because they understand the difference between currency and money.

**Brandon:** And, as you said a couple of weeks ago, according to JP Morgan, *“Gold is money. Everything else is credit.”*

**Greg:** Correct. So, on Monday, let’s go back to shrimp-land and explain how the paper gold market works. I believe your listeners will find it eye-opening.

**Brandon:** Sounds good. Until then, how do people reach you?

**Greg:** My number is 250-3754. Or, go to my website at [zanettifinancial.com](http://zanettifinancial.com).

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