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For a lucky few, a buying opportunity

Those who are long on memory are taking the opportunity to accumulate.

The relatively small corps of investment managers who preserve old European family fortunes view the present gold market as a buying opportunity, despite the obvious risk of a significant drop in prices in the near term. Essentially, those houses which look for results over a period of years rather than months are convinced that the present price is comparatively cheap.

Of course, the failure of gold to sustain the very modest price gain (to the $501 level on May 11) following the electoral victory of François Mitterrand indicates that portfolio managers' interest in gold is still limited.

What is often missed in market analysis, however, is that the same general market conditions—uncertainty and potential illiquidity—are a sell factor for some investors and a buy factor for others.

For short-term purposes, gold is no better than pork-bellies, and in some senses worse, because price movements often involve political factors beyond the information of most investors. Gold behaves as a commodity in periods of tight credit, i.e. when market participants have little incentive to tie up funds in a nonaccruing investment.

But the likely collapse of the European Monetary System and the great uncertainty to which all currencies are now subject create a new set of circumstances which point to a sharp gold price increase.

Of course, the timing of a new price rise is indeterminate. It could take a year, or three years, for a major price rise to appear. This is immaterial to the Geneva, Amsterdam, Paris, and London banks whose concern is not next year's balance sheet and dividends, but the preservation of fortunes which hail back very far indeed. Those houses with a memory that extends to 1931 are buying gold and think today's price a bargain, no matter whether next month's market will present a greater bargain still. They recall Nathan Rothschild's explanation of how he became wealthy: "I always sold out before the top," or bought before the bottom.

Bank of England adviser Sir George Bolton, one of Britain's canniest financiers, circulated a memorandum in July 1978 which forecast a *run out of all currencies* benefiting gold and equity holdings in the periphery of the old British Commonwealth.

Now he believes the present market validates his prediction. According to his present scenario, the rise in the dollar's value (to DM 2.30 at deadline) merely highlights the dollar's role as a transactions vehicle for all forms of flight capital, rather than the intrinsic wholesomeness of the dollar itself. He points to the spectacular bulge in America's money supply during the first quarter of this year, noting that it came about through short-term inflows into the dollar. The artificiality of the dollar's strength, the likelihood of exchange controls in France and their inevitable spread elsewhere should Mitterrand take that step, and the insolvency of the international markets point to a termination of confidence in all currencies.

In a similar vein, Tucker, Anthony Day gold analyst August F. Arace comments in a May 4 newsletter, "The failure over time of this 'new' experiment in joined conservative fiscal and monetary policy could lead to one of two occurrences . . . the final question is whether or not the U.S. returns to the gold standard by choice or by the pressure of uncontrollable financial events."

The more conservative of the private bankers are already shunning Eurodollar certificates of deposit and bank paper generally in favor of shortest-term treasury bills on the U.S. and Swiss governments and gold. Their criteria that absolute safety must come before all else is perhaps premature—since the flight of large amounts of capital presents the best of all speculative opportunities for substantial gain—but it is far from misplaced.

We have entered a 1931-like period in which anything is possible. The Bank for International Settlements staff, the high command of monetary crisis management, do not know whether the crisis is controllable, i.e. whether the vast interbank Eurodollar market of some $600 billion can be defended in the event of a major national or commercial bank failure. To maintain their own credibility in the process they must even admit that such an eventuality is possible. It is significant, then, that their *own* private fortunes are in gold and treasury bills.

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