

# The Gold Market Big Picture A 35 Year Bull Market and still going!

By Adrian Douglas

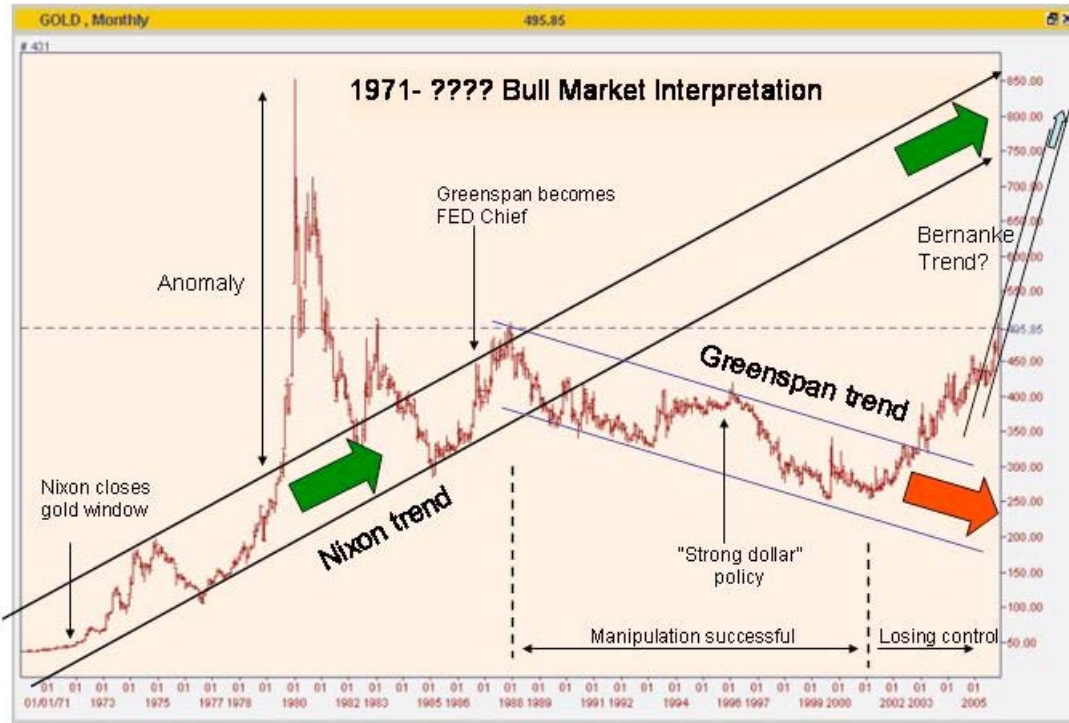
The commonly held view on the gold market is that the closing of the gold window in 1971 by Nixon (in which he cut the last link of the US dollar to gold making the dollar an entirely paper fiat currency with no gold convertibility whatsoever) launched a gold bull market that finished in a last hoorah of a parabolic blow off top in 1981 at an \$873 top and then went into a 20 year bear market. The end of the gold bull is attributed to Paul Volcker raising interest rates to almost 20% to boost the attractiveness of dollar holdings. This is shown in my first graph courtesy of the Bulliondesk.



I consider that this is an incorrect evaluation of the gold trend but probably a very convenient view of history for the gold cartel. Had Volcker re-instated the gold convertibility for the US dollar this would have been a very credible interpretation. The fundamentals of the US dollar would have been radically changed by such a move. But what Volcker did was first of all temporary (interest rates didn't stay at those levels very long) and secondly did not affect the fundamental fact that the dollar had no intrinsic value. We know that a rise of interest rates alone can not

stop the depreciation of an unbacked fiat currency if it is produced in quantities that greatly exceed the growth of GDP. Many Latin American countries have proved it at 30% or even 60% interest rates.

I have used a 35 year gold chart from the bulliondesk to illustrate a bigger picture view of the gold market. My view is that the gold market has been in a bull market since 1971 but has been manipulated out of its price trend.



When Nixon closed the gold window a bull trend in gold started as shown by the channel called the “Nixon Trend”. Investor zeal blew gold out of this trend in 1981. This was an extra trend anomaly. Volcker raised interest rates and gold fell back into the bull trend for another 8 years. How can a Bear market have commenced in 1981 if the price continued in its bull price trend for eight more years? The gold price only exited this price channel to the downside in 1989! Eight years is a very long time and can not be dismissed.

Greenspan took over as FED Chairman in 1987. Gold threatened to again blast out to the upside from the Nixon Trend in the same year when the stock market crashed and the dollar again became under international pressure due to excessive US deficits (sound familiar?). At this point gold commenced a new downward trend. This is very strange considering the dollar was weak. As we know from the M3 historical data Greenspan was not restraining the printing of dollars. So the anomalous downtrend of gold must have been due to increasing the supply surreptiously to the market place. GATA has documented, with stacks

of evidence, that there was definitely manipulation of the gold price as early as 1995 but I suspect that it started around 1987 because the downtrend is inexplicable otherwise. In fact gold seemed to have been well “under control” from 1989 to 1994 as it bumped along the bottom of its “Greenspan Trend” channel in a lifeless fashion. But gold suddenly developed a strong rising trend in 1994 and looked like it would threaten to blast out of the Greenspan downtrend. About this time, in 1995, Robert Rubin came up with the famous “Strong Dollar Policy” which GATA has shown was nothing more than a scheme to dump Central Bank gold on the market, encouraging mining companies to sell forward, and talking up the virtues of the dollar. This saved the day again for the FED and gold continued to grind lower once more. But in 2001 the gold price picked up and in 2003 it blasted out of the Greenspan downtrend never to look back. When gold hit \$425 in 2004, however, gold witnessed a big correction; Gold \$425 and then Gold \$450 levels were very strongly defended by the gold Cartel. Why these levels? This was exactly the nominal price of gold when Greenspan took office! Gold was threatening to show which one was the real maestro! And, of course, it was gold that won. The final level for gold to breach was also very significant. The psychologically important \$500 level. But it was more than psychological to traders. It was psychological to Greenspan. \$500 gold was the highest price level the yellow metal had EVER achieved during Sir Alan’s tenure. Gold has won that battle too!

So during the 18 years of the Greenspan FED gold has, on average, gone nowhere. It is slightly higher than when he took office. Greenspan has told Ron Paul in House Banking testimony that the FED is acting as if it were on a gold standard. This is a very strange assertion in view of the massive quantities of M3 that Greenspan has brought into existence. It appears to me that the Greenspan FED used manipulation of the gold price to support the fiat dollar and to achieve his goal of price stability. In doing so he artificially brought gold outside of the Nixon Trend. Greenspan arrogantly thought he had achieved a new paradigm where an unbacked worthless paper currency could be made to appear to have intrinsic value as if it were backed by gold. He may have bent the gold market’s will but he DID NOT break it.

And now his tenure is over and gold has beaten even his best laid plans; we have a new pretender to the throne. Ben Bernanke doesn’t even try to hide his views on deliberately creating inflation. Gold is now racing up in a new trend that is headed to **at least** rejoin the Nixon Trend. Considering though the chronically deteriorating state of the US economy and the huge deficits and imbalances the trend is likely to carve out a new and much steeper channel than the 35 year Nixon Trend.

Even if Ben Bernanke finds a new religion, Greenspan has left him the legacy of a world wide Central Banking system that has dishoarded all the gold that it can or might ever want to. In fact, the Central Banks are now looking to buy gold instead of dishoarding more. The wily old fox Greenspan armed with 16,000 tons of yellow metal was a tough adversary for gold. He managed to bend the gold market, to distort the price discovery mechanism, but he could not break it. Gold

was victorious in the end. The far less shrewd Bernanke, armed with only several thousand tons of pulp will find that gold will take no prisoners.

Gold started a well established bull market 35 years ago when the dollar convertibility was ended for foreign holders by President Nixon. Nothing has been done fundamentally to end that bull market trend. Apart from the brief period of the 1981 blow off top, demand for gold has continued to rise over time. This is NOT consistent with a true bear market. In a Bear market the demand for something must continue to decline. Manipulation of the apparent gold supply has created an extra-trend anomaly to the downside in an otherwise Bull market. For the 1981 to 2001 period to have been truly a Bear Market, investor demand should have waned. It didn't. It has been rising but has been more than matched by non-profit-maximizing manipulative supply. It can not even be called "dishoarding" because a large part of the extra supply is "loaned" to the market place. In a true Bear Market the market participants sell like crazy anything that is dropping in price. It is symptomatic of something that has fallen out of favor. It must be sold at any price and "good riddance" because if it is not sold now the future price will be worse. If something is "loaned" to the market to be sold this is entirely **inconsistent** with Bear Market sentiment. This suggests that the lender expects the future to be higher and he wants it back in the future because it is likely to be worth MORE not worth less. This is a BULL market sentiment. The fact that lending of this nature occurred throughout the 1981-2001 period means that the period was NOT a Bear Market but an artificially induced extra trend anomaly in a Bull Market.

The reasons to own gold are the same today as they were 35 years ago. The only thing of any significance that has happened is that the Central Banks have been kind enough to allow smart investors to unload their worthless fiat in exchange for 16,000 tons of extra gold at bargain basement prices.

Under this interpretation of the gold market the fundamentals of an unbacked fiat monetary system are fully accounted for and the "management" of the gold market is clearly visible.

The implications for investors of this new interpretation of where the gold bull is headed are earth-shattering.

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