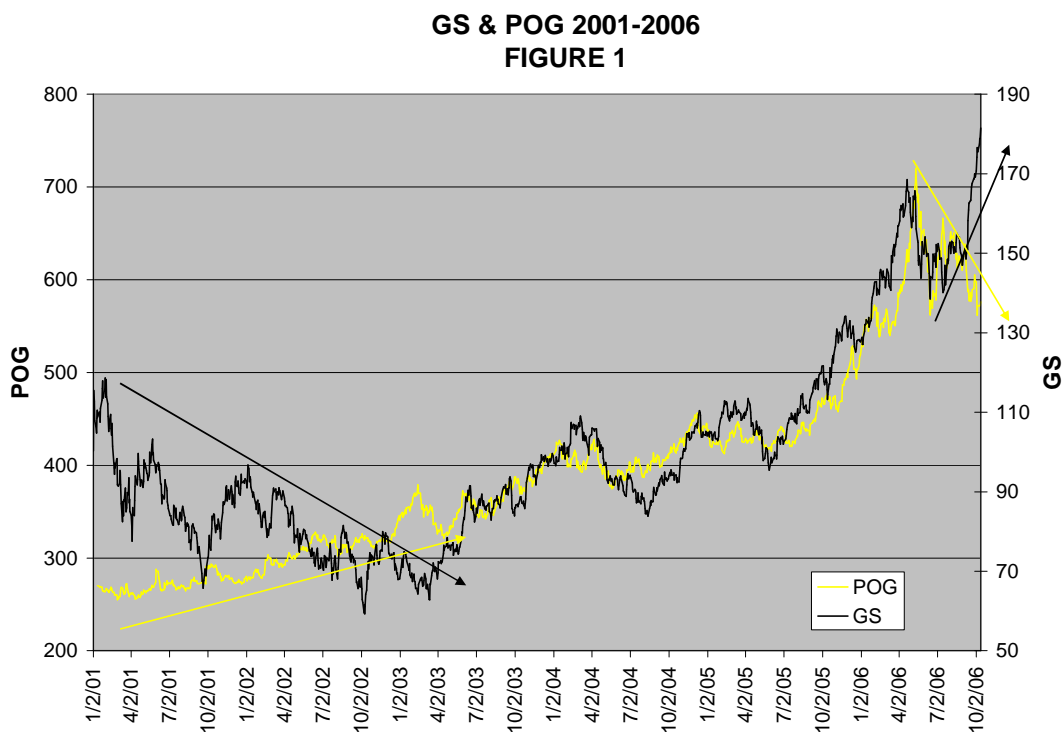


# IS GOLDMAN SACHS SHARE PRICE VARIATION RELATED TO GOLD TRADING?

By Adrian Douglas

I was intrigued by the chart of Goldman Sachs share price and the gold price presented in the MIDAS report of October 10, 2006. At first blush it appeared that the two charts were very similar. I decided to investigate further.

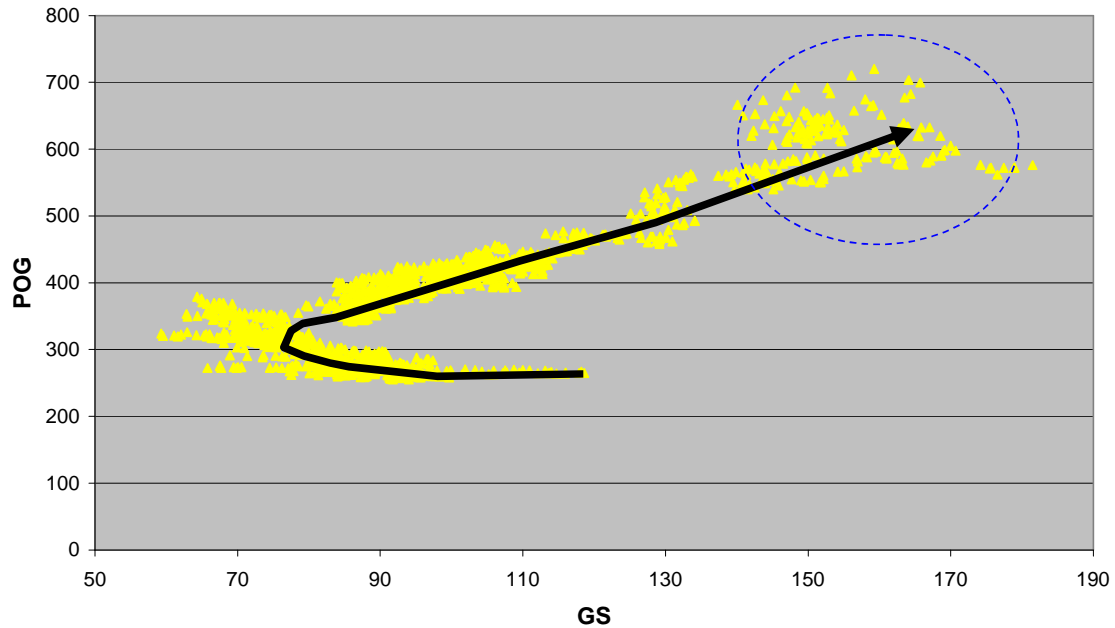
The chart that was presented was only from Oct 2003 to 2006. To properly investigate we must look at the entire bull market to date from 2001 which is shown in figure 1



Now we see that there are two periods where gold and the GS stock price are moving in opposite directions. They do not appear to be correlated.

To investigate further we will cross-plot the POG and the GS data which is shown in Figure 2.

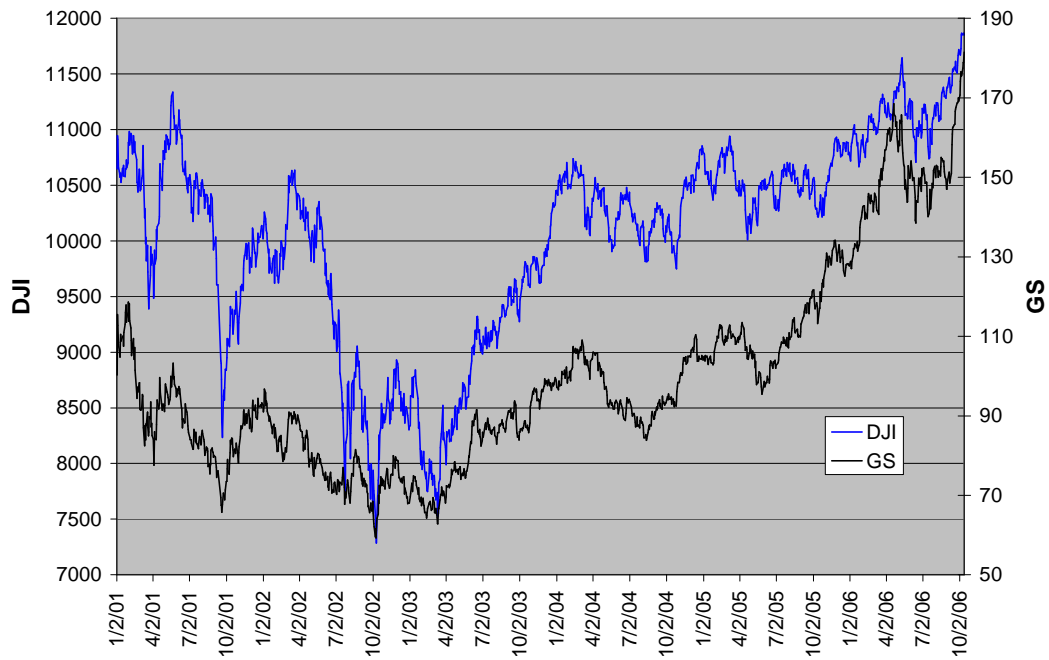
**CROSS-PLOT OF GS vs POG  
FIGURE 2**



It can be seen from Figure 2 that the GS share price and the price of gold are not well correlated. The most recent data plots as a big cloud (shown in the blue circle). The data are not unrelated because there is a discernible trend, but they are NOT correlated.

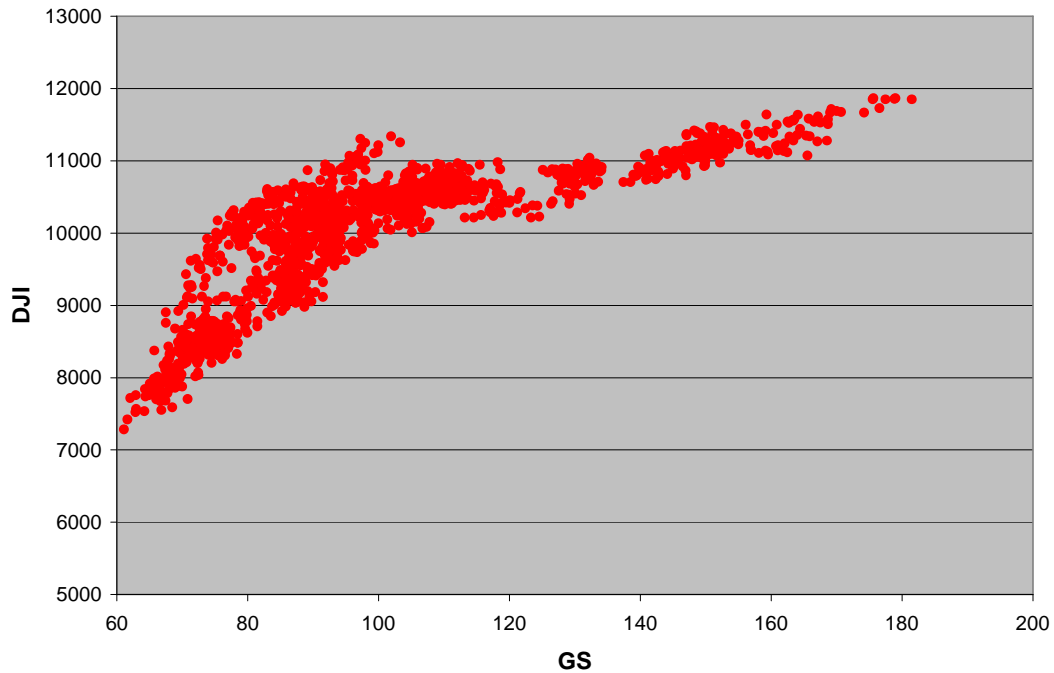
In figure 3 I have plotted the Dow Jones Industrial Average (DJI) with GS share price.

**GS & DJI 2001-2006**  
**FIGURE 3**



It can be seen from figure 3 that the DOW and the GS share price follow each other very well throughout the period 2001-2006. In figure 4 the two are cross-plotted.

**CROSSPLOT OF DOW JONES IND VS GS**  
**FIGURE 4**



This demonstrates a very high correlation between the DOW and the GS stock price.

If the GS share price were correlated strongly to gold it would have been surprising because Goldman is making gross profits of 30-60B\$ per year. The profits that could be made by shorting gold would not make a big impact on such large profits and nit has to be the profits which drive the stock price. Also I would have expected a negative correlation such that GS share price and the gold price would be moving in opposite directions. Furthermore, if GS share price was driven by the price of gold then we would certainly expect the share price of Cabal partner in crime, JPM to be driven by gold trading profits too. In figure 5 JPM and the POG are cross-plotted. It can be seen that there is no correlation between them.

**CROSS-PLOT OF JPM SHARE PRICE VS POG  
FIGURE 5**

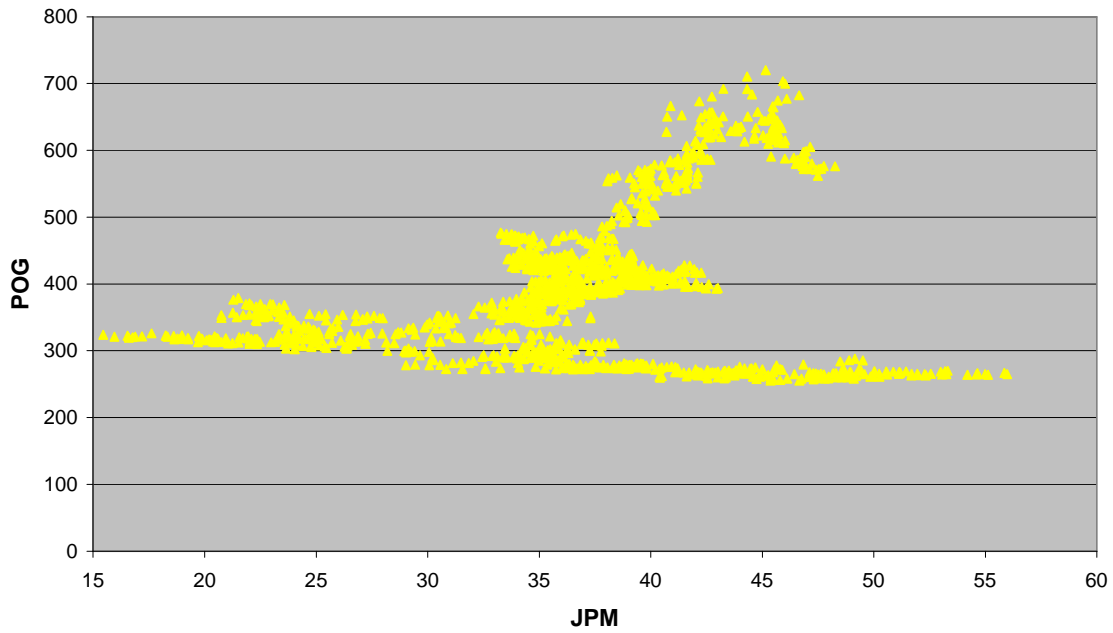
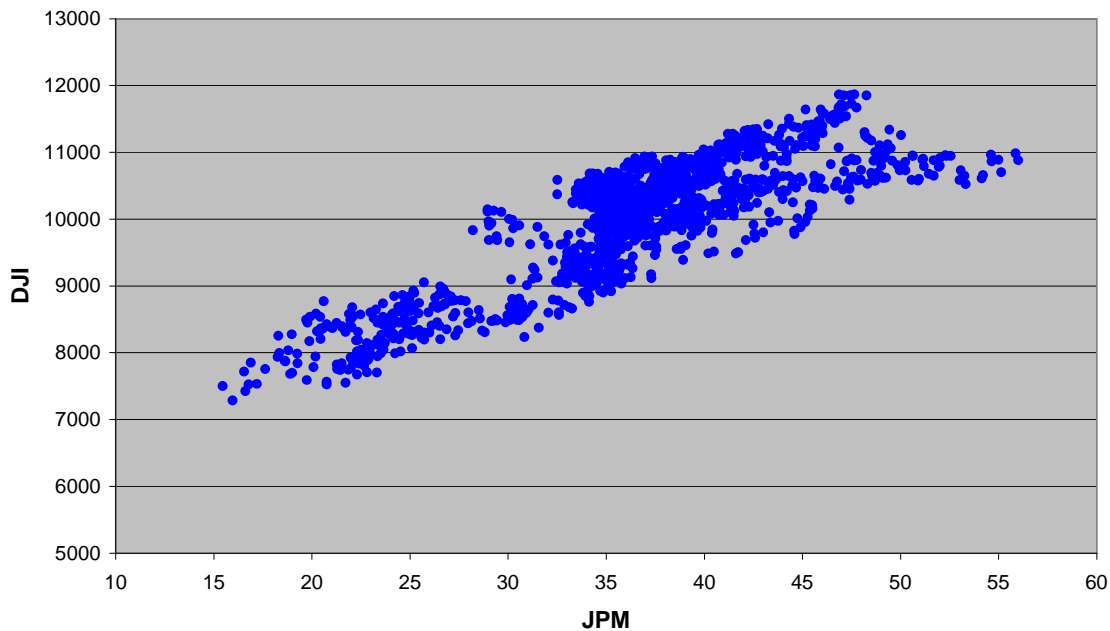


Figure 6 shows a cross-plot of JPM versus the DJI. These are highly correlated which is not a big surprise because JPM is one of the 30 components of the DJI (GS is not a component of the DOW).

**CROSS-PLOT OF DOW JONES IND VS JPM**  
**FIGURE 6**



I would conclude that there appears to be no correlation between the share price of Goldman Sachs and the price of gold. They are not totally unrelated but that doesn't mean much. After all we can show that nearly all the people who die in road accidents the day after Thanksgiving have eaten turkey the day before. There is a relationship but we know that eating turkey did not cause the road accidents.

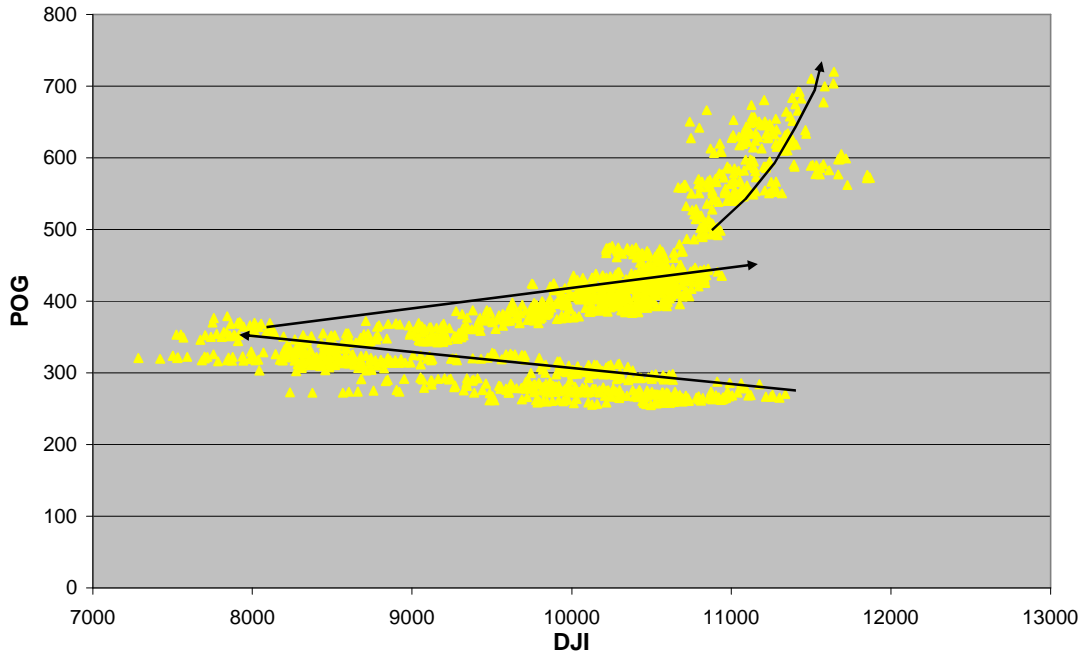
What can be seen in figure 4 is that the correlation is flattening between the GS share price and the DOW. GS share price has recently been gaining much faster than the DOW. This is not too surprising when they are key members of the PPT/Counterparty risk management group and they know what will happen BEFORE it happens. Their profits have been ballooning in a period of shrinking number of IPO's and declining interest rates. These are typically very difficult times for an investment bank, but GS keeps knocking them out the park from "trading profits". Nudge, nudge, wink, wink, say no more!

I will leave you with one final cross-plot. Gold has been found over a long period of time to be anti-correlated with general equities. When people are interested in buying general equities they are not interested in buying gold and vice versa.

In figure 7 the POG and the DJI are cross-plotted from 2001-2006. From 2001 to the end of 2002 as the DOW fell gold was rising. Then from 2003 to 2005 gold has continued to rise but the DOW has risen also. Since the end of 2005 gold has continued to rise and the DOW has lost steam and despite recent new highs

has not delivered stellar gains. It looks like the relationship is likely to revert to the typical anti-correlation where the DOW will fall and gold will continue to rise.

**CROSS-PLOT OF DJI AND POG 2001-2006**  
**FIGURE 7**



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