

To Trust, or not to Trust, The Banks are in Question!

By [The Mogambo Guru](#)

12/19/05 Gold's rise have some investors dancing in the street, singing the yellow metal's praises – while others, who don't hold physical gold bullion are banging their head against the wall.

Things are getting so weird that even my Extreme Mogambo Paranoia (EMP) seems oddly inadequate. For example, gold is going bananas! Several people asked me what this could possibly mean, but as usual, I have no idea.

I do know that there are a hell of a lot of people sitting on some big, big, big positions on the short side of gold (and mining shares), and these hapless chumps are getting crushed, I mean freaking crushed, with gold is soaring like this. The statistic that keeps pounding, pounding, pounding in my Tiny Little Mogambo Brain (TLMB) is that there is, reportedly, a short position in gold, measured in umpteen jillions of ounces, that is 78 times as big as all the gold in the whole damned world! That means that one guy has some gold, and 78 guys think that they own some gold, but they don't. All they have is a slip of paper that says, "I owe you gold," and signed by somebody. Somebody who does not, obviously, have any gold to give!

What I am confessing is that that people who sent money to The Mogambo Gold Depository (actually a shoebox in the back of my closet) and think that they have some gold, just because I promised that I would store gold for them, are screwed. I always meant to go out and get some gold like I said I would, but one thing led to another, and then there was that drunken brawl at Paula's Passion Pit of Prancing Princesses that I take full responsibility for, and am still paying for all the damages. So, don't get me wrong, but the gold you thought I was storing for you...sorry. Bummer, huh?

Fortunately, I have taken the wise precaution of wording the deposit contract to mimic the Comex rules, and now, since I am on the hook to lose a lot of money, I can merely cancel their stupid contracts and give them their original money back! Without interest! Hell, I might just keep the money for myself to make up for my looming losses from the lawsuits that will soon be filed. It's the American Way!

Gold Bullion : Celebrating Prematurely

But the point is that people who erroneously think they have gold safely stored away someplace, and who have not seen the 60 Minutes show where they expose this dirty little Mogambo scam of mine, are all out dancing in the streets, thinking they are rich, rich, rich, and they're buying drinks for everybody. They're all laughing and having fun. And every time gold goes up by another few bucks, everybody is even happier and they start having even more fun!

So, in a strange yin-yang thing, you can bet that this rise in gold has lots and lots of other people (namely the people who are short all that gold, and the central banks who lent all that gold to bullion banks, who sold it long ago at prices far below this, and are now net short in gold) are in a real panic. Now all those shorts are rushing about in desperation and panic, including elected officials, banks, bullion banks, central banks and especially the Federal Reserve, which is also nervous about all that gold belonging to the United States that has been lent out to guys who can't pay it back! Yow!

The only guys who are NOT rushing around in panic are the guys who have taken possession of physical gold bullion. They know exactly where their gold is, and we have enough firepower to keep it, too. One of these days real soon, there will be lots and lots of guys who will ring our doorbells ("ding dong!"), who will say things like, "Please please, please, please, please, please, please sell me some of your gold!" and who also want to buy it at absurdly high prices. If you are buying gold right now, then one day that will be your doorbell ringing, and you can decide for yourself if you will sell them a little of your gold for some big, big money, or chase them off with a mighty shotgun blast and your laughter ringing in their ears.

But this is not about how I let off a few warning shots at a neighbor's kid who was acting a little too suspicious to suit me, but about how this is just the weird, scary stuff that always happens at the end of long, credit-fueled booms, especially ones where the government is the major buyer of goods and services, like now. In short, there are a lot of desperate rats trapped in a lot of corners, and they are ferociously lashing out in fear and panic, which is, if you have seen any horror movies at all involving rats, a very bad situation, indeed.

Gold Bullion: The Bank Itself Owns the Gold

I bring this up because a guy who likes to be an "anonymous source" reports, "If a bank has physical possession of some gold which it owes you as its creditor, the bank itself is the current owner of the gold." An interesting thing to consider! On the other hand, if the gold you deposited at the bank has your name on it as the owner, then you have what is known as "allocated gold." But if all you have is a deposit slip showing that some ounces of gold were deposited, then you have, unfortunately, unallocated gold. He goes on to say, "Unallocated gold is the most widely traded form of gold in the world. While this gold remains unallocated to you, the regulator considers it part of a bank's liquid reserve." He figures that 99% of gold deposits are in unallocated form, and therefore all the deposited gold is, in effect, in a big commingled pile in the basement of the bank.

Another way of looking at this stunning fact is, "This makes unallocated gold an attractive way for the bank to maintain its regulated liquidity, because you have paid for your gold, and the bank is free to use your money, while it is also able to add your unallocated gold holding to its own reserve."

Being stunned to speechlessness at the revelation, I nevertheless raise the Bony Pointing Finger Of The Mogambo (BPFOTM), and tap on your computer screen so that you pay special attention to where he says that the bank uses your gold as part of its reserves! If you are not impressed by the use of the exclamation point, or if you are not likewise impressed and horrified by the actual

words, then I know that 1) you are still young and trustful, and 2) I also know that you don't realize that bank's reserves are the assets that the bank can legally use to offset its own losses. My mighty Mogambo Super Brain (MMSB) detects a sudden disturbance in the fabric of the cosmos, as you you are saying to yourself, "The banks can protect themselves and their owners by confiscating and selling the assets of the depositors? Yow!" Yow indeed, young grasshopper!

So, your unallocated gold could, and would, be sold if the bank were in need of cash. If the bank went bankrupt and insolvent, then you would be put in the line with all the other creditors, and you would divvy up what is left, if anything, after the bondholders have been paid and the secured creditors have been paid and lots, and lots of other people have been paid and the furniture has been repossessed. Hahaha! Trust the banks? Hahaha!

Regards,

The Mogambo Guru
for The Daily Reckoning