STARBOARD
ASSET MANAGEMENT

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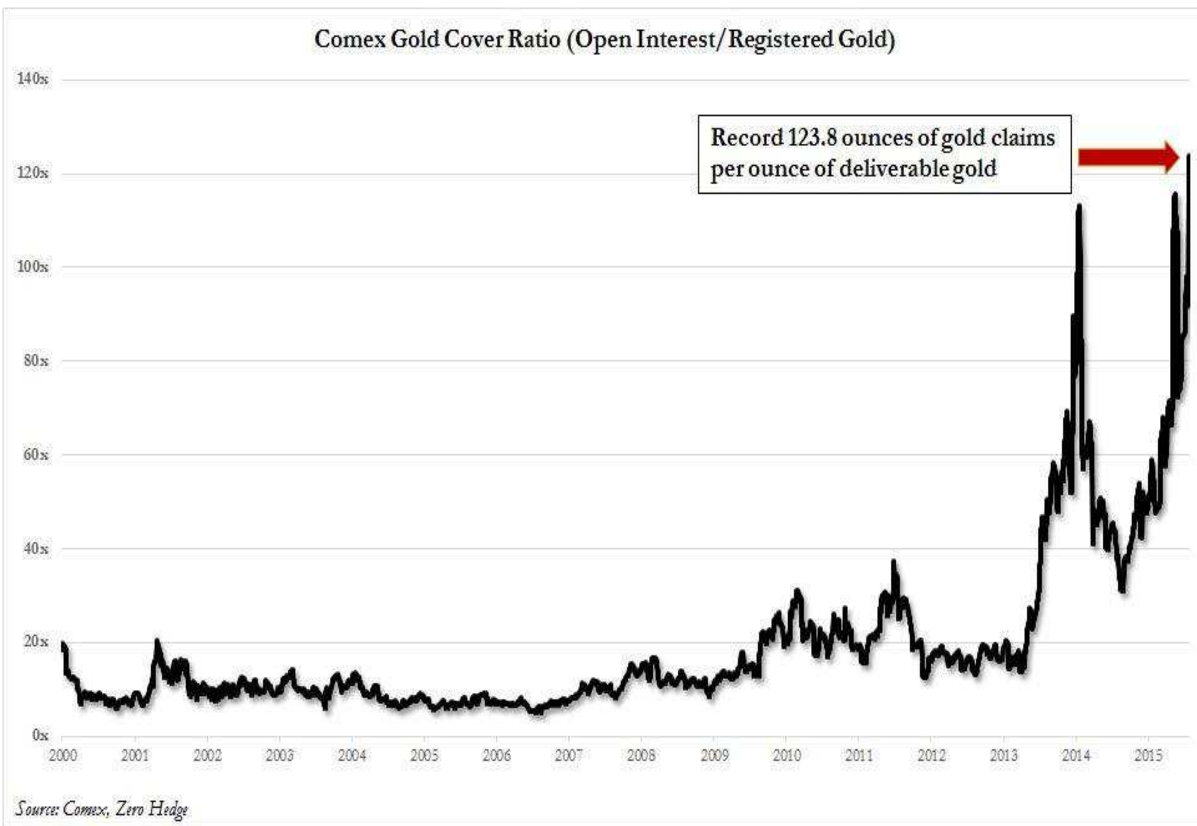
Starboard Weekly Report Ending August 7, 2015

## Chart of the Week




This week's chart from Zero Hedge reveals exactly what is causing the depressed price of gold.

**TECHNICAL**

Gold has two distinct markets: the Commodity Metal Exchange futures market (CME) and the physical market. Each one has shown a different supply demand characteristic. Physical gold has been in demand, while CME prices have been plummeting due to naked short paper sales on the commodity exchange. The paper sellers contract to sell short gold that they do not own in order to profit by plummeting prices. Then stop orders get touched off by other traders creating a source to cover the short. Any contracts not covered then present a problem due to dwindling supply (noted in the chart above). This chart shows the trend by comparing the actual amount of gold available in physical supply versus the amount being shorted in the market by naked short speculators. The spike in early 2014 was caused by one of the *too big to fail banks*, JP Morgan, who is backed by FDIC Insurance. The recent seller is unknown, but speculation is that a similar institution to Morgan could be the perpetrator. They are playing a very risky game because if forced to cover outstanding contracts, they would have to rush into the physical market to cover what could turn into heavy losses. Another take away from this chart is the increase in heavy shorting that started in 2014 versus a much more normal long short trading in 2000 to 2013. This chart looks like a concerted effort to control the price of gold, which is very much in line with what the Central Banks want to see happen. In this country are we doing, more covertly, what we criticize the Chinese for doing directly; i.e., expending government influence over markets?

**FUNDAMENTAL**

Last Friday, the US Mint sold 170,000 ounces of gold coins in a matter of hours. This was the fifth largest demand ever for coins. India imports of gold are up 61% from the previous year, with their total demand at 96 tons. The fundamentals of gold are solid but the lower price is being caused by paper speculation. When this short term speculation ends, gold will be in a strong position to rebound. Until then, it is destined to find a bottom from which a rally can start. The stock market has topped and as the ensuing bear market commences, gold should be in speculative demand as an uncorrelated asset. I remain a long term bull and the paper speculators have not changed my resolve.

**ASIDE**

"If you don't own gold, you know neither history nor economics" Ray Dalio

Mr. Dalio, along with several other hedge fund and money managers, has not wavered in the belief that every portfolio should have gold as politician insurance.