# Where the Gold Goes

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In typical Swiss fashion, the organization of the market is pragmatic and flexible: no official rules or government laws hinder trade. The few rules which do exist are taken from the London practice. The standard bar specifications are exactly the same. As in London, delivery and payment must be made within two working days. Prices are quoted in U.S. dollars, but clients can also request other currency quotations. The Pool generally relies on the London fixings when basing its quotes. These in turn are not binding upon other dealers in the Zurich market, but most follow it. The Pool quotes a buy/sell spread which is generally a difference of $3 per ounce if market conditions are not volatile.

Most gold contracts are written for actual delivery. In fact, the gold usually does not leave the vaults of one of the Pool members, especially now that the sales tax is abolished. Like London, there are no minimum fluctuations or daily limits on price fluctuations on the Zurich market.

Zurich came to prominence not only as a private conduit for South African gold. The world's other major producer, the Soviet Union, uses Switzerland in the same way. In 1972 its Wozchod Bank was founded in Zurich to conduct Soviet sales to the West. However, it was liquidated in a scandal in March 1985. The bank's top gold trader, a Swiss named Werner Peterhans, was found to have defrauded the bank. These days the Soviets sell gold themselves, either from the Zurich office of the Foreign Trade Bank of the USSR or make direct deals with end-users like Saudi Arabia or Japan. ■

# Gold: First Stage of a Major Bull Market

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signal a major sell-off if it breaks below this price or that trend line, you can bet the gold price will at least test that price or trend line. It might even break below, if that's what it takes to scare off the greatest number of investors.

Gold's bull market will even bankrupt a few of its biggest fans. These are the ones who borrow to invest. The dollar price of gold is volatile when viewed on a day-to-day basis. Neither the hard stuff (bullion coins or bars) nor the paper proxies (gold shares) should be bought on margin. If you pay cash, and take possession of what you buy, you can ride out those stomach-turning sell-offs.

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Remember what gold did in 1976? The price had climbed to almost $200 an ounce on the prospect that U.S. citizens would soon be able to buy gold for the first time since the FDR presidency. But then the quotes headed south, stopping a shade above $100. Not only were margin buyers wiped out, but many non-margin investors were so badly stung in the pocketbook that they swore off gold forever, and missed out on the subsequent move to $850.

There's a lesson here. Not only should an investor avoid borrowing to invest in gold, but he should limit his cash purchases to amounts he can hold with equanimity during those sell offs. And that's a different matter for each individual. An individual with a calm personality can have such confidence in gold that he can coolly put 75% of his investment portfolio in gold-related assets, and watch them temporarily sell off sharply, without panicking.

Another person who has just as much confidence in gold might be of a more volatile nature. Very likely, he'll panic during a sharp price break, even if he started with only 20% of his assets in gold. Maybe he should have put only 10% into gold in the first place, if a small position is the only one he can live with when the inevitable sell-offs occur. The key is "know thyself." Hold as much gold and gold-related investments as you can stick with through thick and thin.

Massive profits lie ahead. But only for those mentally prepared to endure the surprises and indignities the bull will inflict on investors as he tries to shake off the maximum number, in order to continue his climb in lonely glory. ■

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