The Greater Asian Hedge Fund

May 10, 2013

To Our Partners,

The Greater Asian Hedge Fund lost 7.2% in April bringing cumulative performance for the first four months of 2013 to -9.3%. Large losses in gold and precious metals offset minor gains in non-commodity oriented equities. That is the bad news. The good news is we've researched what happened carefully and now believe we have developed trading strategies that should permit us to regain profitability over time. Ultimately, we expect prices of physical gold and silver that are far higher than exist today. We have used recent weakness to add to our physical gold holdings (800kg) and may look to make further increases if prices persist at stupidly undervalued levels.

The takedown of gold in April was an eight standard deviation event. The reason I note this is statistically eight standard deviation events simply don't occur. The crash in 1987 in the US equity market and the similar crash in Hong Kong in 1997 were 3-4 standard deviation events. In over three decades of investing in markets I've witnessed major moves in various asset classes but nothing remotely close to eight standard deviations.

So the crash in the paper gold market last month was not only financially painful but extraordinary. Something this unusual bears scrutiny. I've spent a great deal of effort piecing the story together so we can manage our risks better and develop more profitable trading strategies.

In April, your Fund as well as other large holders of gold were victims of a massive criminal conspiracy. The conspirators were the major banks (aka Banksters) and the Federal Reserve System of the USA, another institution we believe to be entirely corrupt. The same Banksters who rigged LIBOR and created financial products designed to fail so they could loot their customers (Muppets) had a private meeting with President Obama on or about April 10. Fourteen of the world's biggest banks got together with the President privately to discuss something important. Insofar as I know no public transcript has ever been made available. In the immediate aftermath of this meeting gold got slammed on April 12 and April 15. It has since rebounded from it's worst levels but remains suppressed below 1500. On the day of the crash an order to sell short 400 tons of gold suddenly appeared on the COMEX. This is an enormous amount of gold and is totally unprecedented. The market panicked as hedge funds joined the party to slam a market that could now go only in one direction. Goldman Sachs reportedly entered the order but they don't own 400 tons of deliverable gold bullion. To put things in perspective, the COMEX reported the total eligible gold in all their warehouses around this time to be only about 6.1 million ounces (190 tons). So who could enter such an order? Who could get access if needed to this quantity of eligible gold? Who has sufficient financial backing to take on this magnitude of risk? The only entity in my judgment that ticks all these boxes is the Federal Reserve. The Fed can digitally create as much money as it wants and doesn't need to be concerned with risk (it's not their money).

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The Fed has a strong self-interest in suppressing gold so it can continue it's money-printing QE agenda without adverse consequences. Meanwhile, the Banksters and the COMEX itself have enormous paper obligations to deliver gold that they can't possibly meet. The canary in the mine was ABN AMRO, a major Euro bullion dealer, defaulting on its contracts earlier in April. ABN AMRO sent a circular to its customers in early April that gold contracts with the bank could only be settled in future in cash. Don't ask for gold-we don't have it. But rather than default why wouldn't the Dutch bank simply borrow bullion from other major players like JP Morgan? Well, it turns out JP Morgan et al were running out of gold as well (see link to JPM). So ABN AMRO was forced to default because gold was simply unavailable in the system (it also suggests that major CBs like the Fed may lack eligible deliverable gold).

So far so good. Let's orchestrate a smash of gold so we don't all have to default like ABN AMRO. Being Banksters however it's not enough to simply avert default. Default is no big deal because we're TBTF anyway and the Fed will simply bail us out again. No, every crisis to Banksters is a profit opportunity. The Banksters had already begun looting the gold ETPs and now turned to this practice in earnest. Gold ETPs are exchange-traded products that typically are backed by gold bullion. Institutions and the public are sold these products on the storyline of getting exposure to gold without the hassle of actual ownership-shipping costs, storage, insurance, etc. Like most Wall Street products that sound good, these ETPs are neither good nor sound. The reason for this lies in the mechanics of their operation. Gold ETPs were created by Banksters for their benefit not investors (surprise!). Only certain major banks can actually transact with the Trustee who is itself a Bankster, who then instructs a fellow Bankster who's Custodian of the actual bullion to release actual gold in exchange for shares being redeemed.

Permit me to walk you through an example. The Spyder gold trust (symbol GLD) is the largest ETP in the world (see GLD attachment). It trades on the NYSE and is widely owned by institutional and retail investors. Only 15 major Banksters are authorized to deal with fellow Banksters BNY Mellon (Trustee) and HSBC (Custodian). When Banksters want to get at the gold physically backing GLD they must present shares in minimum lots of 100,000 (currently 14m USD). The Trustee is not authorized to even talk with anyone else. The price at which transactions take place is determined by the London Fix, which as the name implies is fixed by five of these same Banksters (it's all one Crime Family). So the same people who rigged LIBOR also get to rig the price at which gold can be looted from these products. In practice what typically happens is COMEX futures are shorted into the Fix (and GLD as well) and pressure continues in NY time so that GLD shares can be acquired by Banksters below this level and the discounted GLD shares are then presented for redemption to Trustee BNY Mellon. The shares are cancelled and HSBC London receives instructions to release gold to the Banksters. The Banksters reap their arbitrage profits and then profit again as they sell this gold at typically higher prices subsequently to a queue of Asian buyers. This is profitable but it is also essential because without the ability to extract gold from ETPs the manipulation would fail. The increased demand at suppressed prices would quickly result in a bifurcated market in which the physical market traded at a significant premium to the paper COMEX market. The COMEX would be forced to go the route of ABN AMRO in that event and declare force majeure. All paper contracts would be required to settle in cash at the manipulated paper price and the COMEX would rapidly cease gold trading as the players all leave the rigged casino.

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Attached are charts showing the looting of the gold in all ETPs as well as GLD itself. If current trends persist ETPs such as GLD which are clearly in liquidation will soon no longer be able to provide a supply of gold to continue this scam. The scandal will finish at this point later this year. I would expect massive defaults on paper gold to ensue and a major resetting of the physical gold price upwards. Fasten your seat belts. The ride may be bumpy but the destination should be worth the trip.

Sincerely yours,

Bill

William S. Kaye

P.S. I've also included links/attachments to articles I find interesting for your reading pleasure. Enjoy.