

As noted in our general commentary for September [under the unit prices on our home page] we had about a 1% rise in the G&M portfolio in terms of its underlying currencies, but after losing approx. 2.5% from the rising New Zealand currency our net result was -1.45%. Please read the commentary on our home page [under the unit prices] where we discuss the problems associated with the rising NZ dollar and our view that eventually the dollar will fall replacing all our losses over the last several months with equivalent gains.

In mid-September we thought we were going to have a great return for the month as gold and silver found support and started rising and we even told some investors we were feeling really positive about the month. However, a big [though temporary] sell off at the end of the month meant virtually no profit from our physical metal positions and reduced profits from our mining company holdings.

As noted in our general commentary on our home page, most of the world's major economies are in line for more bank problems, rising unemployment, falling property values, rising debt levels, etc. so we're maintaining our short positions to protect our portfolios from fallout from these problems, even though our short positions have been drains on our profits for many months now instead of enhancing profits. However, as we can't pick and choose the dates when these problems will manifest themselves in falling markets, we need to hold onto these shorts even though holding them has been costing us.

As I write this on 8 October gold has reached an all-time high of \$1040 an ounce and although there will certainly be some falls from time to time, it's looking more likely that a floor has been put under the price and short term targets of \$1250 or even \$1500 are looking more realistic. As noted previously, there are significant shortages in both gold and silver which have been overcome by central bank selling, but that appears to have mostly stopped so these shortages are now having a positive effect on the prices.

We expect gold and silver to go up in value as the world economic situation continues to deteriorate and investors head for the safety of precious metals and the expected rising profits from most commodities as shortages continue to develop.

There has been an interesting phenomenon in the gold and silver markets lately that we need to discuss. There are, around the world, big bullion banks who store gold which could be called for delivery when future contracts expire. As these bullion banks don't make a lot of money holding the gold in their vaults, they've found they can increase their profits by borrowing gold from governments [who want the extra cash] rather than buying and storing it themselves. They can even sell some of this borrowed gold and silver as long as they maintain cash reserves to buy it back if the demand for their stored gold goes up.

The problem comes when the price of gold goes up above where it was when they borrowed and/or sold it. They then have to buy gold on the open market at a higher price than they borrowed or sold it at. That means a big hit to their bottom line, as well as their reputations.

What we've been seeing through most of September, and before, is rising gold in the Asian and European markets and then plummeting gold/silver during the open hours of the New York market. This is caused by the bullion banks taking out big short positions, which drive the spot price of gold/silver down, so they can buy the physical metal at a lower price. Then after they've done that the demand for gold/silver in the after-hours market pushes the price back up again.

There was always going to come a time when either the shorts the bullion banks were placing in the market would have such a negative effect that the prices of gold and silver would enter a bigish decline OR the demand for gold and silver would push the price up so much that the bullion banks would have to close out their shorts - closing out shorts would mean buying more physical gold or silver. If the demand beat out the bullion banks then gold would continue to go up for some considerable time without all the shorts being a downwards drag on the price.

October's gains could mean that the demand side has won and the bullion banks have lost; or at least for the moment. We have always believed that the demand for gold and silver in the long run, in this stage of the market cycles, would beat out the bullion banks and the governments who want to keep gold down so their currencies are not threatened.

Whether this is the time that demand wins over bullion bank shorts or whether it comes some time in the future, we'll just have to wait, in positive anticipation, to find out.