

# John Embry – The Matterhorn Interview-02/2012

written by GoldSwitzerland | February 16, 2012

***“Gold is about the furthest thing from a bubble that I can think of.”***

We are very fortunate to feature my very good friend John Embry in this month's Matterhorn Interview. John who knows more about the gold market than probably anyone I know, talks about the “chicanery” in the gold market and why.

He also explains why he is so bullish about silver, about the possible demise of paper money and much, much more.

Egon von greyerz

## **“The Current Financial System Will Be Totally Destroyed”**

### **THE MATTERHORN INTERVIEW – February 2012**

John Embry, the chief investment strategist at Sprott Asset Management, talks in this exclusive interview about the motives and the means of certain interests to prevent a free gold market; tells the reason why the gold price will remain high; shows the opportunities in silver; and explains: “Gold is about the furthest thing from a bubble that I can think of.”

By Lars Schall



*An industry expert in precious metals, his experience as a portfolio management specialist spans more than 45 years: John Embry, the chief investment strategist at Sprott Asset Management. He began his investment career as a Stock Selection Analyst and Portfolio Manager at Great West Life. Mr. Embry then became a Vice President of Pension Investments for the entire*

*firm. After 23 years with the firm, he became a Partner at United Bond and Share, the investment counseling firm acquired by Royal Bank in 1987. Afterwards he was named Vice-President, Equities and Portfolio Manager at RBC Global Investment Management, a \$33 billion organization where he oversaw \$5 billion in assets, including the Royal Canadian Equity Fund and the Royal Precious Metals Fund. In March 2003 Mr. Embry joined Sprott Asset Management with focus on the Sprott Gold and Precious Minerals Fund and the Sprott Strategic Offshore Gold Fund Ltd. He plays an instrumental role in the corporate and investment policy of the firm.*

**Mr. Embry, the perhaps best report I have ever read on the gold market was "Not Free, Not Fair: The Long-Term Manipulation of the Gold Price," written by Andrew Hepburn and you. (1) I would like to talk with you at the beginning about the findings of that report. First of all, why do you think it is relevant whether the gold price is free or not?**

John Embry: Thank you for the very generous compliment. It is essential that the gold market be free. It functions as the so called "canary in the coal mine" and its price should be allowed to reflect excesses in a pure fiat monetary system. The continued suppression of the gold price was a key factor in the many financial bubbles which have essentially wrecked the monetary system as we know it.

**What has the evidence been that the gold market isn't a free market?**

John Embry: Our report which was written 7 ½ years ago revealed all sorts of chicanery in the gold market and we only used evidence which could be corroborated. Considerable additional evidence has piled up subsequently but two smoking guns are the repetitive counter intuitive price action and evidence of widespread clandestine leasing of western central bank gold.

**Who are the ones that don't like a free gold market and which objectives do they have in mind by preventing a free gold market?**

John Embry: The western governments, their central banks and the allied bullion banks are the culprits. They view gold as a mortal enemy of the fiat currency system. Gold has been real money for centuries and every paper money system in history has ultimately collapsed. This drives them to continuously denigrate and manipulate gold.

**Through which tools is the gold price "managed"?**

John Embry: The worst damage occurs in the so-called paper gold market where derivatives, naked shorting, vicious margin hikes, etc. are employed to fleece the long side who don't have as deep pockets. In addition, the western

central banks have supplied the physical gold necessary to effect the plan through their leasing.

**Recently, I was told by a former chairman of the Federal Reserve, Paul A. Volcker, that to his best knowledge “the U.S. has not intervened in the gold market for more than 40 years.” (2) Do you think Mr. Volcker has the truth on his side?**

John Embry: Mr. Volcker admitted that the U.S. had made a mistake by not intervening at one point in the gold market some 40 years, so to think that nothing has happened subsequently is extremely naïve. Technically he might be correct in the sense that swaps could have been employed and the intervention using U.S. gold could have been conducted by another party. Recently retired Fed Governor Kevin Warsh acknowledged U.S. gold swaps in correspondence with GATA just last year. (3)

**Furthermore, Mr. Volcker seemed to suggest that central banks have some interest in the price of gold because of its effect on the currency markets. (4) What kind of relationship does exist between gold and the currency markets which are much bigger than the gold market?**

John Embry: Very simple. Gold is a currency. Arguably it is the ultimate currency and the central bankers are acutely aware of this fact. Gold's role as currency is once again coming to the fore and the central bankers hate that fact.

**Are gold swap arrangements between central banks a) important for the “management“ of the gold price, and b) do they represent a means of intervention in the gold market?**

John Embry: They are most certainly important because it allows central bankers to technically tell the truth because it is always another central bank that is utilizing the swapped gold to intervene in the market. It is a subterfuge.

**Do you think the Western central banks have as much gold as they claim they have?**

John Embry: I strongly suspect that they have materially less than they try to represent. The IMF permits a one line entry on their balance sheets which aggregates physical gold with gold receivables. That's ridiculous and it is done to deceive analysts. For example, if the Americans had the 8,161 tonnes that they say they have, they would be delighted to submit to an outside audit and shut their detractors up. However, they stonewall all requests.

**With its “QE to infinity” program: would you say the Fed has exposed itself in a way as a hardcore goldbug entity?**

John Embry: I believe they are fully aware of the extent to which they are debasing their money. We, the public, have to be the hardcore gold bugs to protect our wealth from their depredations.

**It seems as if more and more gold is moving towards certain central banks and not away from them. Is this a solid assurance that the gold price will remain high?**

John Embry: I believe so. The eastern central banks (China, Russia, et al) have accumulated a lot of dollars and realize they are at risk. Ergo, they buy gold. At the same time, I think the western central banks have run their inventories down to levels beyond which they won't go. Thus, I think central banks collective gold buying will have a salutary impact on the price going forward.

**In the event of another market meltdown, which seems rather likely, do you expect a sell-off in gold?**

John Embry: There could be a minor sell-off just because there are so many algorithyms influencing the market. It would be short lived because big money in the world now knows they need gold for protection.

**Gold is in a bull market for ten years now. So an increasing number of people say it is in a bubble. Why would you say, in Gershwin's words, “it ain't necessarily so”?**

John Embry: Gold's price is directly related to the constant debasement of the currencies in which it is denominated. The creation of new paper money is dwarfing the amount of gold available. Gold is about the furthest thing from a bubble that I can think of.

**What do you think in particular about Warren Buffett's constant “Gold is in a bubble, I go for stocks” talk? Does he serve here as an influential opinion maker in a specific role because he gets a lot of public attention? In other words: is he a fool or does he only act like a fool? (5)**

John Embry: Warren Buffet sold out a long time ago. It's too bad because he was a great stock picker once. Now he owns insurance companies, Wells Fargo and was a buyer of Goldman Sachs and G.E. in the global financial crisis. He is a member of the American establishment and has a lot to lose. He should

have listened to his father Howard Buffett who was a U.S. Congressman and a true "hard money" advocate.

**In your view, gold will gain in importance as a monetary asset in the years ahead, likely regaining an official role in the world's financial system. Why do you think so?**

John Embry: I think that the current financial system, as we know it, will be totally destroyed, probably sooner rather than later. The next system will require gold backing to have any legitimacy. This has happened many times in history.

**The mining stocks both in gold and silver seem to me extremely undervalued. Do you agree?**

John Embry: They are indeed, and they are being heavily manipulated by the same entities active in suppressing the gold price. In addition, many nefarious hedge funds now are active on the short side. The U.S. financial scene has become a total cesspool.

**Are there key levels in the XAU and HUI that one should pay attention to as starting points of a mining stock rally?**

John Embry: I tend to pay more attention to the HUI because it is the pure gold index. When the HUI takes out the 555 level with gusto, I think we are away to the races. However, this level is being aggressively defended by the bad guys. A higher gold price (through \$2000 per oz.) will rectify this issue.

**Why are you at Sprott Asset MGMT so very bullish related to silver?**

John Embry: We think the supply-demand equation is ultimately better than even that of gold. New industrial and medical uses are exploding and because silver is "poor man's gold," investment demand for silver will go crazy when gold gets priced out of the average citizen's capacity to buy. Given the small size of the market and very limited inventory, the price should go ballistic.

**For your physical silver ETF you want to re-acquire physical silver in a big way. Do you think you could be pioneers (for other fund managers) in direct engagement with mines through direct and forward transactions, instead of going to the Comex? You certainly don't want to "whoop" the silver price by your own buying, correct?**

John Embry: I think that is a potential avenue particularly when the supply-demand equation gets progressively tighter in the future.

**Is the silver market also subject of surreptitious interventions?**

John Embry: Without question. In many ways it may be worse because it is a smaller market and J.P. Morgan Chase's activities have been egregious. The fact that the CFTC has been investigating this for nearly four years without resolution is one of the great jokes of all time.

**What is your information: to which extent the US silver ETFs are short and how many stocks of those have been used for covering future short contracts?**

John Embry: I believe that they are but I can't provide any information on the extent. When the very same organizations that have manipulated the market for years act as custodians for the ETF's, it would be wise to be wary.

**One highly interesting issue for me personally is the point in time when the Middle East countries will no longer sell their oil and natural gas for paper money. When do you think they will be paid for it with precious metals?**

John Embry: I suspect this whole phenomenon could occur very quickly. When confidence in paper money is lost and I think we are rapidly approaching that moment, something like that would undoubtedly come to pass.

**How do you think about the conflict around Iran viewed from a perspective of the petrodollar?**

John Embry: The whole Iranian issue is very disturbing and I think the U.S 's motives might have more to do with the petrodollar than Iran's nuclear ambitions.

**One final question. IF the financial system goes under, one can expect massive supply shortfalls and disruptions in goods and services, particularly in the energy sector. Would you recommend to our readers to take precautions for such a scenario instead of hoping for the best outcome of the global financial crisis?**

John Embry: Unfortunately yes. I am a great believer in cognitive dissonance. Most individuals don't want to face the truth, particularly if it is very unpleasant. Those that do not suffer from this condition should take precautions because the world situation is presently very dangerous.

**Thank you very much for taking your time, Mr. Embry!**

**SOURCES:**

(1) John Embry / Andrew Hepburn: "Not Free, Not Fair: The Long-Term Manipulation of the Gold Price", published by Sprott Asset Management in August 2004 under:

[http://www.sprott.com/Docs/SpecialReports/08\\_2004\\_NotFreeNotFair.pdf](http://www.sprott.com/Docs/SpecialReports/08_2004_NotFreeNotFair.pdf).

(2) See Rob Kirby: "Manifest Destiny Derailed: Treason from Within", published at Goldseek on January 31, 2012 under:

<http://news.goldseek.com/GoldSeek/1328037291.php>.

(3) Compare <http://www.gata.org/files/GATAFedResponse-09-17-2009.pdf>.

The relevant passage of Mr. Warsh's letter to GATA said:

*"In connection with your appeal, I have confirmed that the information withheld under Exemption 4" – that's Exemption 4 of the Freedom of Information Act – "consists of confidential commercial or financial information relating to the operations of the Federal Reserve Banks that was obtained within the meaning of Exemption 4. This includes information relating to swap arrangements with foreign banks on behalf of the Federal Reserve System and is not the type of information that is customarily disclosed to the public. This information was properly withheld from you."*

(4) See Rob Kirby: "Manifest Destiny Derailed: Treason from Within," Footnote 2.

(5) Compare for example in this context what Marshall Auerback has said in an interview about the suppression of the silver price:

"It's in contrast to the gold suppression, which is a central-bank orchestrated scheme. You've got a situation now where it seems to be being done amongst the banking community, but I have no doubt that it has being done with official encouragement, explicit or implicit. To give you an example, 10 years ago Warren Buffet bought a silver position, and he liquidated it a few months later. The story I heard from one of his dealers was that he basically told them, "Boys, it's not politically correct to speculate in silver." Now who told him that I don't actually know; I suspect it came from government sources. More interesting to me is that he had had a significant position, and it was liquidated with a great degree of ease with a loss at time when it wasn't easy to do. This suggests that there was an external agency involved. I have no doubt that there is some degree of government involvement as well, but the primary agents are the investment banks, the commercial banks here."

See: <http://resourceclips.com/2011/04/05/marshall-auerback-on-silver/>.

*Matterhorn Asset Management is dedicated to wealth preservation through safe and secure silver and gold storage in Switzerland. Protect your gold in the world's safest vaults. To become a client, [click here](#).*