Tudor Jones on Gold<?xml:namespace prefix = o ns = "urn:schemas-microsoft-com:office:office" />

Today, I ran across an interesting take on gold by Paul Tudor Jones, the renowned hedge fund manager. I've followed Mr. Jones for decades and I have a very high opinion of him. It is rare when you run across a detailed opinion by him, so I thought I'd share it with you. I'm referring to Mr. Jones' Third Quarter letter, dated Oct 15, to the investors in his almost $12 billion hedge fund. I found it on the NY Times website, so I assume it's O.K. to reference it here – http://www.scribd.com/doc/21753600/Tudor-Third-Quarter-Letter

Gold investors should be interested in Mr. Jones's presentation, which starts in detail on page 14. He joins a very distinguished number of successful and well-known hedge fund managers, including John Paulson and David Einhorn, who have voiced bullish opinions on gold recently. Mr. Jones lays out a compelling case for the long term investment merits of gold. While I urge you to read the letter for yourself, please allow me to summarize Jones' findings.

The main points supporting his gold bullishness revolve around the accommodative monetary stance by world governments, the relative value of gold compared to other assets and against historical money supply levels, and the great amount of potential investment demand by professional money managers and non-G-7 central banks. He also mentioned that western central banks had ceased being net sellers of gold and the powerful impact of physical investment demand, particularly in the ETFs, most prominently the GLD.

I believe that Jones made a convincing argument for gold. Although it was not mentioned once by him, I found he made an even more compelling case for an investment in silver. Let me explain my reasoning. Almost everything that Mr. Jones wrote about gold could also be said of silver. Those things include the amount of potential investment demand and the ease of buying physical metal, thanks to the creation of the ETFs, as well as the current under-weighting in investment portfolios. Certainly, if gold is undervalued relative to other investment assets, then given silver's undervaluation to gold, silver is even more undervalued to those other assets. If investors are just awakening to the merits of gold, then they are still in a deep slumber about silver. If growing money supply is going to impact gold, then what the heck is it going to do to silver, a market less than one percent of the size of the gold market? These are both precious metals with a shared 5,000 year history and as such, have more similarities than differences. My only point is which one will show the better long term investment returns. In the end, that's all that matters. I have to go with silver, the one rarer in available inventories and priced at 1.5% of the gold price.

Of course, there are differences between gold and silver. The chief difference is that gold is an official monetary asset, while silver is not. Gold may be bought by non-western central banks in the future to increase the mix of their official reserves, as Mr. Jones predicts. It is also possible, of course, that gold sales could resume from the western central banks. It is unlikely that any central bank would ever buy silver, but big silver sales are impossible, since so little silver is officially owned. I think the impossibility of big official silver sales is decidedly in silver's favor.

As Mr. Jones pointed out, gold is not consumed; it is accumulated and saved and held as an investment. Silver is not only saved and held as an investment, like gold, it is also consumed industrially. Because of this consumption, there is less silver bullion inventory remaining than gold. Maybe one in a million know this fact. More will know in time.

But it's not just that there is less silver bullion in the world than gold, or that there are no large central bank holdings of silver. Because of the industrial consumption of silver, and the demand from investors in direct competition with that industrial consumption, it is certain we will witness a silver industrial user buying panic at some point. A similar industrial user buying panic is not something that will ever occur in gold, not because gold is inferior, but because gold in not largely consumed industrially. If there is one fact that argues in favor of silver, it is this industrial consumption reality.

I want to thank Mr. Jones, a man I have admired from afar for decades, for his thoughts. Although it may not have been his intent, I also wish to thank him for making a persuasive case for buying silver, without mentioning it once.

Ted Butler

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