



October 2006

Economic Review

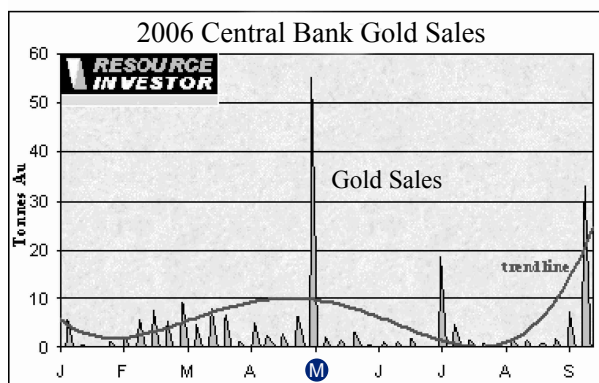
COINCIDENCE, COINCIDENCE ...

It is not a secret and nothing new that the gold (and silver) markets are notoriously rigged, possibly more so than any other market. This fact is well known by the world's leading independent economists and analysts, such as silver analyst Theodore Butler (2006): *"The concentrated net short position of the four largest commercial traders in COMEX gold hold 80 percent of the total dealer net short position. It's just not right that there are four big traders in gold and silver short what thousands of other traders are long. It's manipulation, clear and simple, as you can't have a manipulation without a concentrated position"* or William R. White, Economic Adviser and Head of Monetary and Economic Department at the Bank for International Settlements (2005): *"The intermediate objectives of central bank cooperation are [among others ...] the provision of international credits and joint efforts to influence asset prices (especially gold and foreign exchange)..."*

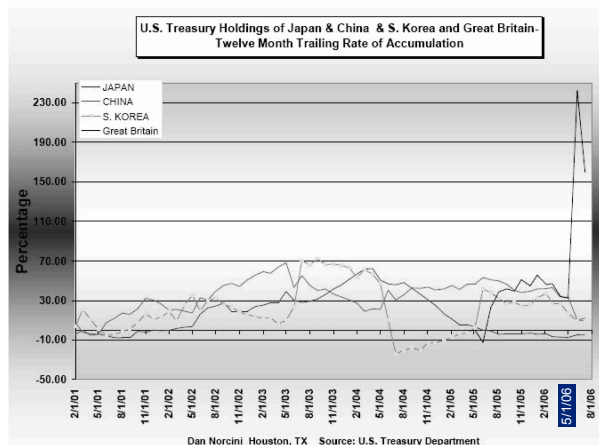


Gold is such an important focus point for the financial elite because of its role as financial barometer. When gold rises, it spells trouble for monetary authorities who have been strenuously liquefying the financial system, the Federal Reserve in particular. Gold exposes inflation, economic weakness and when a system of debts and unsustainable deficit spending is about to unravel. In short, central banks, and the majority of investment banks, don't want gold to rise, and suppress its price as long as they possibly can, via shorting, leasing or outright sale of the metal.

The increasing blatancy with which this is done lately though, particularly nice to see in May of this year, where a weakening dollar and spike in gold to USD 730 was met with massive central bank gold dumping, and with what appears to be panic-purchases of US treasuries by the UK, the US's staunchest ally (in face of waning enthusiasm for the Dollar by Japan, China and Korea), is an indication that the gold cartel is now heavily struggling to maintain control.



What is important to understand for those who are considering to purchase precious metals, or for those who are already holding precious metals, is that these manipulative actions do not address the underlying problems of worsening economic imbalances. They only serve to buy a little more time for the establishment, delay the ultimately inevitable adjustments, and thereby actually make matters worse. As central banks are running out of gold to dump (they have much less left than officially on their books, as a substantial portion has long been leased out), refuse to sell any more (e.g. Germany, Italy), or even emerge on the buying side (e.g. Russia, China), and as global imbalances are escalating rapidly, it is only a matter of time until the risks of a "disorderly" U.S. Dollar Drop and "a sudden unraveling of the record imbalances between surpluses in Asia and deficits in the US" (IMF, September 2006), along with an inevitable and long overdue explosion in precious metals prices, will finally materialise. The later it does, the more forceful will it be.



Gold and silver, now more than ever, are the best insurance money can buy, and investors who have not yet positioned themselves in this market should view May's price spike as a warning that major adjustments are imminent. The recent price suppression/correction is a potential last chance to enter at historically rock-bottom and deeply central-bank subsidised prices.

Finally, due to many queries from readers on this issue, we would also like to emphasise again that we do NOT recommend any form of paper-gold offered by banks, as these schemes usually do not have precious metals backing and are therefore subject to the risk of default. We DO recommend mining shares/funds, physical bullion coins and bars, and bullion funds that are fully backed, fully allocated, held in independently audited vaults segregated from the relevant custodian's assets and are not subject to leasing under any circumstances.

YOU THINK YOU ARE, BUT YOU AREN'T !

We all know about DIVERSIFICATION and sensibly ensure that our portfolios incorporate this key risk reduction strategy. However, many investors try but fail to achieve real diversification.

Diversification means that different assets are used in a portfolio. However, look in the dictionary and you will also find the key words “non correlating”. In short that means you don't just hold different assets, but also different asset classes which don't rise and fall at the same time.

Certainly, different stocks will in the short term rise and fall at different times depending on the company's prospects or the prevailing view of the market. However, if something of global significance happens you can forget “non correlation”.

Take May of this year when fears over inflation drove the US NASDAQ index down by around 12%. It did not matter if you were in Italian Industrials, Brazilian Banks, Taiwanese Technology or Australian Alcohols, your stocks headed south. Worse still, markets which looked far better value lost much more with Emerging Markets down by around 20% and India losing nearly 36%.

To diversify you must:

1. Hold assets which do not correlate;
2. Allocate to areas with real potential to produce good returns; and
3. Find the very best managers in those areas.

In this way you not only reduce risk, but achieve REAL diversification, which provides the potential for optimal growth levels. Failure to incorporate all three items above will probably result in Di-worse-ification!

Investment Focus

FIRST GOLD BACKED ETF IN ASIA – Singapore has once again beaten Hong Kong to the punch by listing the first gold backed Exchange Traded Fund (ETF) in Asia on the Singapore Exchange.

The fund is designed to track the price of gold and trades just like any other listed security.

The ETF is sponsored by the World Gold Council and was first listed in November 2004. The ETF is also listed on the New York, London, Australia, Johannesburg, Mexico and Euronext stock exchanges. Since launch, the ETF has raised over US\$7 billion and attracted many new investors to gold and other precious metals.

Please contact us if you would like any recommendations or advice on investing in precious metals or alternatively register for our next Investment Forum below.

BRIDGEWATER FORUMS – NOVEMBER 2006

**Venue - Bridgewater Conference Centre
1902 Cheung Kong Center, 2 Queen's Road Central**

**Saturday 25 November 2006, 2.00pm to 3.00pm; and
Tuesday 28 November 2006, 6.30pm to 7.30pm**

INSIGHTS FROM GOLD AND PRECIOUS METALS INVESTMENT WORLD 2006

Mr Martin Hennecke of Bridgewater Limited recently attended the Gold and Precious Metals Investment World 2006 conference in Hong Kong, which attracted some of the world's leading fund managers, economists and mining industry executives.

Martin will be sharing his insights from the conference, including:

- Current global economic and geopolitical developments and their implications for precious metals - will the bull market continue or has the bubble burst?
- Analysis of various ways to invest in gold and precious metals, including unit trusts, bullion, Exchange Traded Funds and structured products.
- A comparative review of investment opportunities in gold and silver.

Please register your attendance by e-mailing forum@bridge-water.com, calling us on 2525 3639 or faxing a copy of this page, with your details below, to our office on 2525 3679. All information received by us is private and confidential.

Please register me for your November 2006 Investment Forum on (please tick) : Saturday 25 November 2006, 2.00pm to 3.00pm
 Tuesday 28 November 2006, 6.30pm to 7.30pm

Name: _____ Phone: _____ E-Mail: _____

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