

Financial Manipulation? Hedge Fund Operations Are Affecting the Gold Market

By [Mike Swanson](#)

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The price of gold has been kept down by hedge fund redemptions. These redemptions will end in a week and after that a nasty hand that has been holding the price of gold down will be lifted. As we begin this new year news is starting to trickle out demonstrating that hedge funds as a whole have had a horrid performance last year.

According to incoming data nine out of ten hedge funds failed to beat the S&P 500 last year. According to a recent report by Goldman Sachs their average return was 8% while the S&P 500 posted a 13% gain for 2012.

What is worse is that the third worst fund tracked by HSBC was the Paulson Advantage Fund. This fund of 19 billion dollars lost 19% last year due to bets that the European euro crisis would continue and that gold would rise. It is one of the largest holders of the SPDR Gold Trust ETF (NYSE: GLD) and has been forced to meet investor redemptions.

These redemptions have undoubtedly caused selling in GLD in the past few weeks and will probably continue to hold gold prices down for another week. John Paulson also runs a gold fund that gave its investors a negative 25% return last year too. Paulson is not the only hedge fund manager facing big losses being forced to sell to meet investor redemption requests.

Most funds though didn't generate huge losses, their program trading algorithms simply failed to beat the market. Ironically a few funds did beat the market last year by investing in places others wouldn't. Dan Loeb's Third Point hedge fund posted a 21% gain in 2012 by betting big on Yahoo and by buying Greek bonds. Pine River Capital Management also made 30% by holding depressed mortgage securities.



If you are a gold investor I do not think you should worry. Gold prices peaked out in the Fall of 2011 and since then have been consolidating in what I believe is a mere pause in a long-term secular bull market. The price of gold now has resistance at 1800 and support in the 1550-1600 zone. I think it will likely break out above its 1800 resistance level later this year, probably in the summer, and then begin a new bull run.

I know it's easy to get anxious and worried when you see gold just slug around. I want you to know that much of the recent selling from hedge funds will soon be over. That will take one force of selling in gold out of the market. For disclosure purposes I have a position in GLD. We have seen several similar periods of consolidation in this secular gold bull market that have lasted well over a year. This one will come to an end the same way they did - with gold prices reigniting and leaving those that doubt the power of gold behind.

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