

# Hedge funds turn to Gold

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Hedge fund investors who made money last year by betting against investment banks are now buying gold as a way of betting against central banks.

The gold bulls include David Einhorn, founder of hedge fund **Greenlight Capital**, who last year came under the spotlight for his short selling of shares in Lehman Brothers, after arguing that the bank did not have enough capital to offset its exposure to falling property prices. Other funds looking at gold include Eton Park and TPG-Axon, investors said.

Their belief in bullion is being expressed even as gold prices have retreated from last month's break above the \$1,000 an ounce level. Spot gold in London closed last Friday at \$939.10, after falling last week to \$900.95 an ounce.

Investors such as Mr Einhorn are turning to gold because they are worried about the response of the US Federal Reserve and other central banks to the global economic crisis. A bet on gold is essentially a bet against all paper currencies.

"The size of the Fed's balance sheet is exploding and the currency is being debased. Our guess is that if the chairman of the Fed is determined to debase the currency, he will succeed," Mr Einhorn wrote in a recent letter to his investors. "Our instinct is that gold will do well either way: deflation will lead to further steps to debase the currency, while inflation speaks for itself."

Mr Einhorn's comments – and the revelation he is buying gold itself – are in line with the views held by other large institutional investors in Europe, according to bankers in London. The head of commodity sales at one major bullion bank told the Financial Times that he had never been so busy dealing in gold for large investors in his life.

**Goldman Sachs, Morgan Stanley and UBS** all forecast the gold price will surge above \$1,000 this year. Peter Munk, chairman of **Barrick Gold**, the world's largest miner of bullion, told investors last week that all countries have embarked on policies that will favour gold. "The only option to governments is to print and print more money," he said. "That will end in tears."

In the past, hedge funds, which depend on absolute returns to earn high fees, had avoided gold because it does not produce any yield and costs money to store and insure. But those issues have become less important as central banks have pushed interest rates to nearly zero, reducing the yields on currencies.