



MAIN TOPICS

- July saw gold prices drop for the first time since March
- Gold continues to be one of the best performing assets of the decade
- The price of gold is likely to outperform fixed interest instruments
- US stimulus has not helped the economic recovery
- Don't confuse investing with trading

Rand Refinery Weekly Gold Commentary

Tel: (+27) (11) 418 9000
Email: gold@gold.co.za
Website: www.randrefinery.com

10 August, 2010

During July, the price of gold fell 5 percent trading as low as \$1156/oz on July 28. This price drop in July is the first monthly decline since March, and gold fell 6.5 percent from its June 21 record of \$1,266.50. Holdings in the SPDR Gold Trust (GLD), the biggest exchange-traded fund backed by bullion, declined by nearly 3 percent during July from 1320.436 tons as at the end of June, to 1282.279 tons at the end of July.

As the price of gold fell to below \$1180/oz, suddenly, all the bears came out of hibernation. There were reports suggesting the price of gold was going to plunge to \$1100/oz and then to \$900/oz. Most of these bears are the same individuals who did not believe that gold would cross the \$1000/oz never mind the \$1200/oz. And, to suggest that this current bull market is a "bubble about to burst" is clear evidence that they have no understanding of what is going on in this market. Believe it or not, I have seen an analyst maintain that the price of gold is driven by the whims of a few housewives in India! Then, there are those so called "experts" who attribute the rise in the price of gold to "fears of inflation." What inflation are they talking about? With flat to contracting GDP growth in most industrialized countries, if anything, at the moment we are in a deflationary environment. But, inflation is imminent. However, it is still going to take some time before we see this. And, then there are those "students" of economics who fail to see gold as a store of value despite the fact that since 2001 it has risen in "value" between 250% and 400% no matter what part of the world you live in. And, then there are those commentators who repeatedly state that gold is a useless investment because it does not pay any interest.

Gold is likely to outperform bonds during the next few years

According to my calculations if you invest in fixed interest bearing instruments such as bonds and you are lucky to get say 5% per annum, on a compounded basis it would take 15 years to double your money. My mathematics tells me that even though gold does not pay interest, but if it continues to appreciate at its current rate, it would take you less than 5 years to double your money. This tells me that I would ultimately be better off investing in gold than in bonds. At the moment the yields for 10 year UK gilts are paying 3.32%. Australian 10 year paper is paying 5.2%, Switzerland 1.48%, US 2.91%, Germany 2.66% and France 2.95%. Of course there are government bonds that pay more than 5% pa, such as the Greek 10 year bonds that are currently 10.31%, but then you face the possibility of default. I cannot see the price of gold going to zero.

Of course, past performance is no guarantee of future performance, but when you consider the instability of global economies, and the fact that we are in a global currency crisis that is being patched up by the intervention of the major world central banks, burgeoning global sovereign debt, massive budget deficits of most major western governments, all of which influence the price of gold, I cannot see the price of gold plummeting any day soon. The reason for me mentioning this is because, I maintain there are many advisors in the main stream media who comment on gold but who actually don't have a clue about the gold market.

They deal with equities and should not confuse gold shares with gold, the precious metal.

Historically, gold has been an effective preserver of wealth

Also it is important to remain focused on the underlying cause that has been the driving the price of gold higher over the last ten years. One must bear in mind that historically, gold has proven to be a very effective preserver of wealth, especially in times that we are currently experiencing. So, prudent investors diversify some of their assets into gold. Global equities are stalling, yields are low and government monetary stimulus has been a failure, especially in the USA where the government has pumped in some \$13 trillion to give their economy a kick start. But, levels of unemployment remain very high, and looking at the plethora of economic data, things have not improved much over the last three years. Under this scenario, I believe that the bull market has a very long way to go before peaking, and that, corrections of 6% or even 15% should be of no concern to long-term investors. And, for those investors who have not yet diversified some of their assets into gold, these dips should be viewed as buying opportunities.

As I have stated, many times in the past, investing is not the same as trading. Trading is a short-term thing. You enter a position with the expectation of exiting it quickly. That can be anywhere from 30 seconds to 3 months depending on your strategy. Investing is a longer-term process, generally lasting years. In order to trade successfully you need a trading plan. You need to know your entry and exit levels as well as your stop-loss levels. And, you must understand the arithmetic of trading. So when the price of gold drops as we have seen recently, as an investor, I do not see it as a bubble that has burst, but as a pull back in a bull market which is a very normal phenomena in any market.

TECHNICAL ANALYSIS



The price of gold has bounced from its recent lows and looks set to test \$1205 level. If the price of the yellow metal trades above \$1220/oz, then I believe that we have seen the end of the correction which represented a 50% retracement of the move that began in February and ended in July. In the next leg up, we will see new a break through of the previous all time historical high.



About the author: David Levenstein is an independent precious metals market commentator with more than 30 years experience.

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