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EMERGING GROWTH STOCKS
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Gold: The financial Story of the Century

But what will drive the next phase of the gold bull market?

Next month marks the five-year anniversary of the Bull Market in Gold Stocks. I remember the very bottom well, after mulling over what was wrong with the gold sector for many months, finally timidly nibbling on Franco Nevada in December of 2000. It was both the smartest and dumbest thing I may have ever done. Smart enough timing, given this was just about the precise turning point after a 20-year decline. Dumb, for being timid about it.

The bull market began for the most basic fundamental of reasons. Sub-$300 prices were unsustainable because it was getting too close to the average cost of production. Lack of incentive to find and mine the metal would eventually severely restrict supply.

The crash of the US Dollar Index starting in early 2002 kicked off another phase of the bull market, driving gold to new multi year highs again by the end of 2004.

Lately, gold is decoupling from the Dollar and is rising in all currencies. The long term price chart is telling us a new phase of the bull market has begun when it broke through $450 in September to reach new successive 17-Year highs (the HUI Index has yet to confirm this new phase, but I believe it will, and soon enough).

"..a mere five years ago, Gold was considered the laughing stock of the financial community."

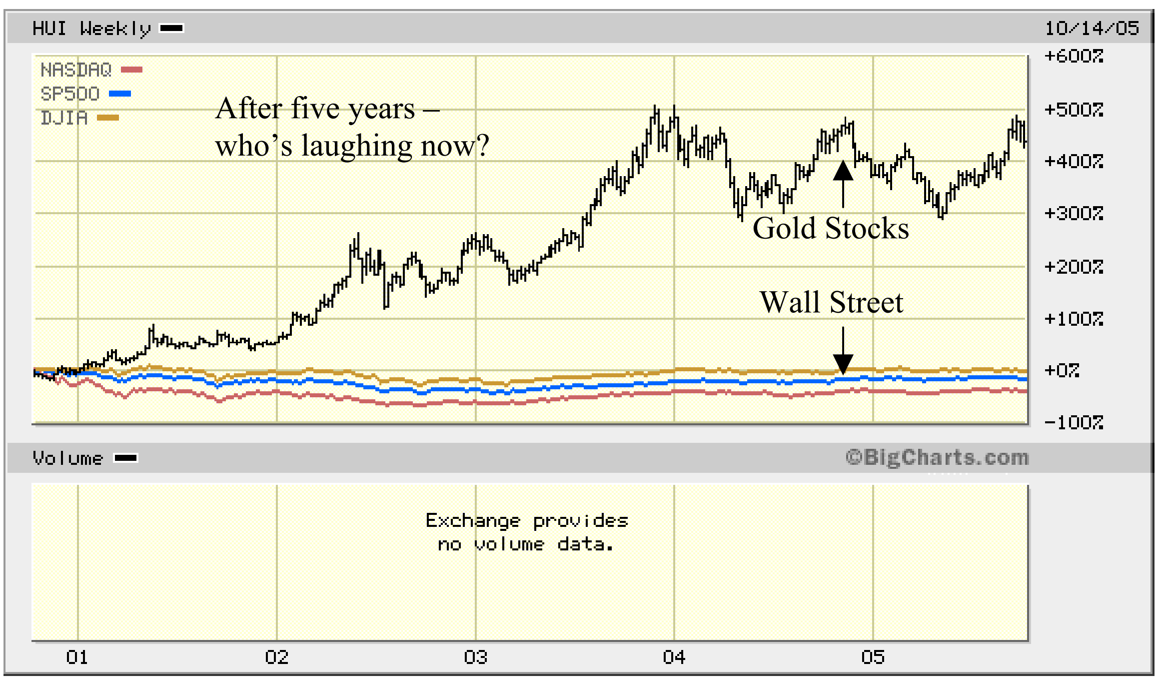
But what is driving this new wave of buying? Any bull market requires an increasingly larger circle of buyers to relieve earlier participants of their positions. Well, steady demand for jewellery for one, growing 16% in the first half of 2005. Jewellery demand sets the underlying base price range for gold, making up close to 80% of annual global demand. But the big price swings over time are caused by changes in *Investment* demand. And that demand is growing at triple digit rates.

Why this sudden acceptance? After all, it was a mere five years ago that Gold was considered the laughing stock of the financial community. Attitudes beliefs and perception, even when wrong, are very slow to change. My belief is that the average person, who never previously considered gold as an investment, is just recently beginning to come to grips with some of the serious problems that lie ahead (concerns outlined in our previous Issue for instance).

Given enough information over long enough time, eventually, the ugly reality begins to sink in. That, extremely poor relative returns for a fifth consecutive year now and people's emotions, are what I believe are instrumental in driving the gold markets today and should continue to do so for some time to come.

Gold Stocks vs. Wall Street - who's laughing now?

Soon, mutual fund companies, brokers, insurance companies and the like, are going to start publishing their one, three and five year performance histories as folks begin preparing for another round of retirement savings contribution and tax return deadlines. Middle class Americans who have been afraid to look at their statement all year, but who have been faithfully stashing their retirement savings into mutual funds, which reflect the U.S. Stock Markets - are in for a big shock. After FIVE consecutive years now - funds reflecting Wall Street are *still showing NEGATIVE returns.*



The Dow appears to have roughly broken even. Funds mirroring the broader S&P 500 definitely had negative returns, while investments reflecting the NASDAQ experienced what appear to be double-digit Negative returns.

It gets worse. From those poor returns, subtract another 2% for inflation over five years, or another 10%. And then to add insult to injury, fund holders are charged another 2% "MRI" fees per year over five years. ANOTHER 10% - gone.

Now, overlay those horrible returns for a *fifth year running* - against shares of quality Gold mining stocks over the same period. The results are truly shocking. Over the same period, senior undhedged gold stocks are not up by double-digits, but a shocking 400% to 500%! That's an average of something like +80% every year!

The next phase of the gold bull market which I believe is just getting under way, will be driven by this kind of information over long enough time combined with the resulting raw emotions of envy, greed, fear and anger at how people have been betrayed by Wall Street.

The stigma is gone

One might question, in this Internet age of instant information - why did it take so long to sink in? Sure the information may be available. Beliefs change slowly, denial is an extremely stubborn trait! Also groupthink is important here - nobody wants to be part of a *"fringe group"* that the gold bugs were perceived as before. But now that the financial news networks are talking up gold on a daily basis, the sector has lost the stigma that was once attached to it. Indeed, the fools are increasingly looking more like the ones who have continued to have faith in a recovery on Wall Street.

Faced with a topping housing market, a gradual recognition of the Debt Bubble, along with the growing recognition of Gold as a stellar investment performer by mainstream financial media, folks will turn to the one financial asset investors can trust so far this century. That is, Gold and Gold stocks.

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