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EGS Emerging Growth Stocks

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The word's getting out: Gold is Good

Investors Pulled and Pushed to gold as mainstream commentators embrace gold bug truisms

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Last issue, I marked the Five Year anniversary of the Bull Market in Gold and gold Stocks, suggesting how their stellar performance over the major U.S. stock indices was liable to impact people's perception about gold. Well, the most amazing transformation has taken place since then - financial mainstream media commentators have suddenly jumped all over the gold sector. Don't underestimate the importance of this sudden conversion. These commentators have huge influence to reach the masses that are not yet converted; they haven't even heard the story yet. But they will now.

So far the bull market has been driven by the gold bugs themselves and a trickle of converts along the way. For the first time though, I suppose because gold was approaching $500 and outperforming Wall Street for Five years running now, mainstream influential media commentators are converting and talking about gold in very bullish ways.

For example, CNBC's **Larry Kudlow** has *never* been a fan of gold. In fact he *loathes* higher gold prices, considering this a "negative indicator" for the good 'ole American economy and free enterprise system. And while he didn't quite convert the other day when he had **John Hathaway** (**Toqueville Gold Fund)** on a panel to discuss gold and metals, Larry certainly sounded open to suggestion. John calmly listed just a couple of the standard reasons for higher gold prices, reasons gold investors have been familiar with for years, but until very recently, completely foreign to mainstreamers. By the end of the session, Larry and another panelist were asking how to participate! All resistance had fallen!

Or how about CNBC's **Jim Cramer?** Yes, and I do mean, until very recently at least, "*Commodities are DEAD!!*" Cramer. **Pierre Lassonde**'s not the only one calling for gold prices to reach $1,000 these days. Cramer is now *also suggesting gold is on its way to four figures* in his article dated October 10, **The Gold Parachute** in *the New York Magazine* (excerpt posted at www.Goldline.com).

Then there's **Kevin O'Leary**, host of "*Squeezeplay*" on **RobTV**. I listen more for Kevin's non-PC political views (consider him the "*Don Cherry of finance*") more than his financial interests, as he's more focused on the mainstream/large-cap area. He's cagey though and like my previous two examples, he has also *never* shown the slightest interest in gold. However, in just the past few weeks, Kevin must have seen the light. While adverse to specific company risk and trying to evaluate the individual company stocks, (besides bell weather, Newmont) he's suggesting **GLD.NYSE** to his audience, the bullion ETF that trades in New York. He says, that with only 1% in of one's assets into gold, a person should still be worried. But with 5%, people can sleep soundly at night! This really must have put the zap into people, because that same week, I heard numerous individual investors expressing that very sentiment - the strong desire, even a sense of urgency, to own the physical metal.

It's amazing to hear commentators embracing the very same truths that the hard-core gold bugs have been claiming for years. Like the concern over too many U.S. Dollars in foreign hands. Where were these guys all these years, when gold was priced at $255, or $300? The information was around. Nothing really has changed. What's different, is that these things are finally getting noticed and acknowledged.

What's happening is - while these guys don't quite understand why it's happening, like I said in the last Issue, with the gold sector outperforming stocks FIVE YEARS running now, they just can't keep looking the other way any longer. They finally recognize a good thing when they see it and don't want to be left at the station any longer. This is a prime example of one of my favorite truisms of all - three simple words that explain more about how an asset is priced than almost anything else: "*Perception is Everything*." And a sea change in perception about how gold is viewed by the masses is now under way, courtesy of the mainstream media.

Does this mean it's over?

Now that the mainstream is beginning to embrace gold, does this mean the gold bull market is nearing an end? After all, the last big thing, the Internet Bubble, lasted roughly as long as the gold bull market before it collapsed, about five or six years now.

I would suggest, no, for a couple of reasons. For one, commodity bull markets tend to run for 15 to 20 years and I can see no reason for it to be different this time. Especially with what's happening in India and China.

Second, just because financial types have *started* talking about gold, hardly means people are instantly converted and invested. Long standing beliefs formed by the twenty-year bear market in precious metals and commodities in general from 1980 to 2000 will take years to change. The latest generation of investors (especially in the West) has little to no concept of gold as an investment or currency, or of really bad times or currency debasement. These are foreign concepts that only the most open minded and perceptive will catch on to immediately. The process will take some time and none of the signs of a secular bull market top are present quite yet. When we start noticing *How to Get Rick with Gold* seminars being advertised on a daily basis, like we are seeing in the Real Estate sector today, then you'll know that the ultimate top is much closer at hand.

Pull *and* Push

There are actually two things happening to investors with regard to their perception of gold as a financial asset class. They are being *Pulled toward* gold, by its fifth straight year of above average gains, by its relative performance over other asset classes, by breaching the $500 mark, and now by the mainstream financial media, among other things. At the same time, they are being *Pushed away* from more traditional investments, first by very low returns on fixed income investments, secondly, by the growing realization that some pretty serious problems lie ahead. Of course these are hard to imagine given all the goldilocks-economy statistics that have been released lately. But listen to the likes of Alan Greenspan - warning in very plain language that the consequences of doing nothing about the U.S. current account deficits and the looming pension/health care demographic crises will be serious. Then we have the comptroller general of the United States running around the country explaining *"…how the nation's finances are going to hell*." and how the country's business model is "*broken*" in a **USA Today** article dated

November 14 entitled: ***A 'fiscal hurricane' on the horizon'.*** (Link to this is on our site if you haven't read it, you should).

> ""*We face a demographic tsunami*" that "*will never recede*," **David Walker** tells a group of reporters. He runs through a long list of fiscal challenges, led by the imminent retirement of the baby boomers, *whose promised Medicare and Social Security benefits will swamp the federal budget in coming decades*."
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> "To hear Walker, the **nation's top auditor**, tell it, the United States can be likened to *Rome before the fall of the empire*. Its financial condition is "*worse than advertised*," he says. It has a "*broken business model*." It faces deficits in its budget, its balance of payments, its savings — and its leadership."

The difference between what we are now hearing from these people today and past gloom and dommers isn't the message, just the *messengers*. Previous gloom and doomers were selling products; their books, newsletters or gold coins. They were seen as possibly biased toward their bleak views. The new messengers do not have apparent reasons to benefit from raising awareness about these stark scenarios. Not only that, but they are from the "inside" - they know where things are headed. The new messengers carry more weight, this story is gradually getting out and it's spooking people into looking for alternative investments. And gold fits the bill perfectly.

This Issue we update our seasonal strategy by attempting to answer the difficult question: "*Seasonal High, or Perfect Storm*?" And while the best time to buy all the gold stocks was in May through August before the big run-up in the gold price (as this letter clearly started pointing out starting in April) due to high demand, I have been searching for quality juniors searching for gold which *haven't* moved up too much in price and I feature two new ones this issue.

(*Full versions of the December Issue are available for purchase at: www.EmergingGrowthStocks.ca*)

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