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Money Management
for Your Retirement

April 20, 2007 – When to Own Gold

Investing in gold is a bit like surfing the big waves off the coast of Half Moon Bay, California - a historic site for providing some of the biggest waves on the planet. Most of the time the ocean is calm but occasionally the right conditions come together to create really big waves. When this happens in gold, investors need to be ready to paddle out to catch one and ride it to shore. As you might have guessed, investing in the yellow metal can be wildly volatile.

Fun gold facts:

- A golf ball sized piece of gold is worth $21,541 at ($670/oz).
- The value of all the gold in the world at $670/oz is $3.1 Trillion dollars. U.S. debt is $8 trillion.
- All the gold ever mined - about 151,000 tonnes - could fit in a 62.3 ft cube.
- The U.S. holds the largest government supply at 8139 tonnes or 5.3% of the world's gold.

There isn't all that much to go around. Strong upward moves in recent years have many investors discussing what the upward potential is of the commodity in future years. Obviously strong moves upward generally mean there is a chance of stronger moves downward.

What are the right conditions for investing in this highly volatile commodity? Historically, the large sustained moves in the price of gold have been driven by increasing worldwide inflation, particularly in the U.S., and a plunging U.S. dollar. Gold tends to do well when recessionary conditions are present. Since gold generally does well in recessions, it is said to have a negative beta to stocks…meaning when stocks go down, gold goes up. * Some even say gold provides "insurance benefits" for a portfolio.

A study by an investment company, found four factors that have historically helped decide when to own gold.

1) When the rate of inflation is higher than six months earlier.
2) Long-term Treasury bond yields are lower than six months earlier.
3) NAPM Purchasing Managers Index is below 50.
4) The price of gold/XAU (Philadelphia Gold/Silver Index) > 4.0.

As you may have guessed, having all of these things line up is rare but powerful. In the few instances when all four items have aligned, gold has soared at an annualized rate of +123%*. By comparison, when all four of these factors where not present, gold has plunged at an annualized rate of -53%*.

So where are we today?

1) Inflation is higher than six months ago – check.
2) Treasury bond yields are higher and trending higher – bad for gold prices.
3) NAPM has been hovering around 49-52 for the past four months and trending lower – check.
4) Gold price/XAU = $670/$141 = 4.8 – check.

Therefore, according to the study, three of the four factors are in place for a rise in gold…if the above relationships hold true in the future. This leads me to believe the conditions are good but not ideal to own the precious metal. Obviously, there is no sure thing in investing. When deciding on how to play a particular sector, look at the "preponderance of the evidence" to help get comfortable before taking any positions. Once the decision has been made to enter into a position, the next decision is the size of the position. It is generally advisable to take smaller positions in higher volatility investments… 2-10% depending on risk tolerance and investment time horizon.

* Past performance is not indicative of future results. In no way is this an example or illustration of what gold will do in the future.

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There are risks involved with investing, including possible loss of principal. Call me if you have any questions or would like to discuss this further.

Because shares of the Gold Trust are created to reflect the price of gold held by the Trust, the market price of the shares will be as unpredictable at the price of gold has historically been. Additionally, shares of the Gold Trust are bought and sold at market price (not NAV). Brokerage commissions will reduce returns.

Shares of the Gold Trust are created to reflect, at any given time, the market price of gold owned by the trust at the time less the trust's expenses and liabilities. The price received upon sale of the shares, which trade at market price, may be more or less than the value of the gold represented by them. If an investor sells the shares at a time when no active market for them exists, such lack of an active market will most likely adversely affect the price received for the shares. For more complete discussion of the risk factors relative to the Gold Trust, carefully read the prospectus.

Following an investment in the share of the Gold Trust, several factors may have the effect of causing a decline in the prices of gold and a corresponding decline in the price of the shares. Among them: (i) Large sales by the official sector. A significant portion of the aggregate world gold holdings is owned by governments, central banks and related institutions. If one or more of these institutions decides to sell in amounts large enough to cause a decline in world gold prices, the price of the shares will be adversely affected. (ii) A significant increase in gold hedging activity by gold producers. Should there be an increase in the level of hedge activity of gold producing companies, it could cause a decline in world gold prices, adversely affecting the price of the shares. (iii) A significant change in the attitude of speculators and investors towards gold. Should the speculative community take a negative view towards gold, it could cause a decline in world gold prices, negatively impacting the price of shares.

The amount of gold represented by shares of the Gold Trust will decrease over the life of the trust due to sales necessary to pay the sponsor's fee and trust expenses. Without increase in the price of gold sufficient to compensate for that decrease, the price of the shares will also decline, and investors will lose money on their investment. The Gold Trust will have limited duration. The liquidation of the trust may occur at a time when the disposition of the trust's gold will result in losses to investors.

Investment firms will take advantage of the differences between the NAV and the trading price of the Gold Trust shares through arbitrage opportunities; they cannot guarantee that they will do so. They cannot guarantee an active trading market for the shares, which may result in losses on your investment at the time of the dispositions of your shares. The value of the shares of the Gold Trust will be adversely affected if gold owned by the trust is lost or damaged in circumstances in which the trust is not in a position to recover the corresponding loss. The Gold Trust is a passive investment vehicle. This means that the value of your shares may be adversely affected by trust losses than, if the trust had been actively managed, might have been possible to avoid.

The Gold Trust shares are not deposits or other obligations of or guaranteed and are not insured by the Federal Deposit Insurance Corporation or any other governmental agency.

Not FDIC Insured – Have no bank guarantee – May lose value

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