REASONS TO OWN GOLD

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1. GOLD IS RETURNING TO ITS TRUE HISTORIC ROLE AS MONEY

The role of gold in society was succinctly summed up by J.P. Morgan in 1912 when the renowned financier stated that "Gold is money and nothing else." Ironically, he made that comment one year before the U.S. Federal Reserve was created. There have been long periods (1980-2000 being one) when this immutable fact was dismissed. The fact remains, however, that every fiat currency system in history has ended in ruins. Our current experiment seems to be headed down the same disastrous path, thus allowing gold to reemerge as a currency once again.

2. THE INEVITABILITY OF A COLLAPSE IN THE U.S. DOLLAR

The U.S. dollar is the world's reserve currency and thus anchors the world's monetary system. Unfortunately, by virtually any measurement we look at, the United States is beyond 'the point of no return' with respect to its financial position. Imbedded federal government debt of nearly $13 trillion, unfunded future liabilities in medicare, social security, etc. well in excess of $50 trillion and a current budget deficit of over 10% of GDP virtually ensures ongoing massive monetary debasement. When the near bankruptcy of the majority of the fifty states in the union is factored in, the situation looks even more dire.

3. OTHER SIGNIFICANT WORLD CURRENCIES OFFER NO REFUGE

The current travails of the European Union are well advertised. The recent pledge of nearly $1 trillion in potential bailout money by Eurozone members and the IMF in the wake of Greece's problems, coupled with the fear of contagion throughout southern Europe, effectively disqualifies the Euro from serious consideration. Great Britain is in such disarray that it doesn't even deserve comment. Japan has a rapidly aging population and embedded government debt that already exceeds 200% of GDP. Even China, that paragon of all things financial and economic, is suspect. As the result of its bank lending spree in 2009, the country is dealing with considerable overcapacity, an emerging inflation issue and a potential bad debt crisis in its banking system.

4. THE DESTRUCTION OF GOVERNMENT BALANCE SHEETS AND THE WIDESPREAD IMPLEMENTATION OF ZERO INTEREST RATE POLICIES MAY ULTIMATELY RESULT IN HYPERINFLATION

As the result of the global financial crisis which enveloped the world between late 2007 and early 2009, the world's governments were forced to step in and bail out the financial sector while propping up overall demand in the face of the collapse in the private sector. This unfortunately occurred as their own revenue streams were under severe pressure due to the issues in the private sector. To combat the massive deficits that inevitably resulted, widespread quantitative easing (i.e. unfettered money printing) was undertaken. That policy is here to stay and the fiscal deficits in many countries have now reached percentages of GDP that have almost always resulted in eventual currency collapse. Thus, the frightening term 'hyperinflation' is now being heard with increasing frequency.

5. THE TRUE IMPACT OF THE MALIGN SIDE OF DERIVATIVES HAS YET TO EXPRESS ITSELF

Remarkably, the notional value of derivatives has continued to grow, both throughout the global financial crisis and during the ensuing recovery period. The fact that derivatives played a major role in the financial meltdown seems to have been conveniently forgotten. Attempts to regulate OTC derivatives, which Congressional committees have been warned are "ticking time bombs" and "financial weapons of mass destruction," surprisingly continue to meet resistance. The fact that many derivatives are essentially worthless but are being carried on the books as 'marked to model' is creating an extremely distorted picture of the health of the financial sector.

6. INVESTMENT DEMAND FOR GOLD IS RAPIDLY ACCELERATING BUT WE'RE ONLY IN THE EARLY STAGES OF THIS PHENOMENON

Despite the fact that gold has been rising steadily for ten years and sophisticated investors are climbing aboard to protect themselves from the ravages of monetary debasement, conventional institutions and the average citizen remain largely unaware of gold's utility. When the next leg of the global financial crisis arrives and stocks and bonds come under severe pressure, investment demand for gold could potentially rise exponentially. To facilitate this demand, new gold investment vehicles are being created including the very well received Sprott Physical Gold Trust (see disclaimer).

7. GROWING RECOGNITION THAT MANY PAPER GOLD PRODUCTS DO NOT HAVE THE GOLD BACKING THAT THEY PURPORT TO HAVE

At the March CFTC hearing with respect to position limits on gold and silver on the Comex, Jeffrey Christian of CPM Metals, advertised on his firm's website as "an expert on precious metals", openly acknowledged that transactions on the London Bullion Market Association (L.B.M.A.) are minimally backed by available physical gold. Given that the L.B.M.A. has long been regarded as the exchange where physical gold is transacted, that qualifies as a remarkable admission. Investors should also have strong reservations about gold ETF's, gold pooled accounts and gold certificates where the gold is unallocated and thus not specifically accounted for.

8. MINE SUPPLY IS NOT ANTICIPATED TO RISE FOR SEVERAL YEARS, IF AT ALL

Despite gold prices surging from a low of $252 per ounce in 1999 to over $1,200 recently, mine production has been eroding for nearly a decade. This suggests that mine supply is insensitive to higher gold prices, a fact confirmed in the 70's when mine supply actually fell as gold made its historic rise from $35 per ounce to $850. Aaron Regent, the head of the world's largest gold company, Barrick Gold, was quoted at a conference in late 2009 lamenting the state of the gold mining business. He went so far as to suggest that global gold production was in terminal decline despite record prices and the Herculean efforts by mining companies to discover new ore bodies in remote areas. He actually alluded to "peak gold" by implying that production has already reached levels that can't be exceeded, an expression that is now commonplace in the oil industry.

9. CENTRAL BANKS ARE NEARING AN INFLECTION POINT WHERE THEY WILL NO LONGER BE IN A POSITION TO SUPPLY THE GOLD NECESSARY TO KEEP THE MARKET IN EQUILIBRIUM

The western central banks, who have supplied massive quantities of gold to the market over the past fifteen years, both

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to meet burgeoning demand and to suppress the price, are running dangerously short. Their activities were reminiscent of the late 60's when central banks expended over 100 million ounces in an ultimately failed attempt to hold gold at $35 per ounce. We believe that this time they disposed of far more gold and did so clandestinely, employing swaps, leases and opaque accounting. This era's central bankers have obviously learned nothing from the past but are clearly considerably more desperate due to the dramatically worse situation on the financial and economic fronts. It is telling that the annual selling quotas under the European Central Bank Agreement are 400 tonnes per annum and the banks, after meeting their past quotas for years, are selling nothing.

10. INCREASING LIKELIHOOD OF ACCELERATING PURCHASES OF GOLD BY EASTERN CENTRAL BANKS

The enormous concentration of U.S. dollars in the reserves of a number of Asian central banks in conjunction with low gold exposure virtually ensures that they will be more aggressive purchasers of gold in the future. Russia and China have already revealed their intentions and India may have stolen a march on everyone when it announced late last year that it had purchased 200 tonnes of the well advertised IMF sale. What appears to be a huge swing from collective heavy selling by the central bank community to net accumulation is going to have an extremely salutary impact on the gold price.

11. INCREASING SKEPTICISM ABOUT U.S. GOLD RESERVES

The U.S. has long been the world's largest gold holder with a current reported position of 8,133 tonnes (over $300 billion worth). However, there have been recurrent rumors that the U.S. has mobilized an unknown portion of their gold reserves via swaps to facilitate leasing, a key component in the gold price suppression scheme. The absence of any outside audit of the reserves since the 1950's and the Fed's current intransigence towards being subjected to an audit only heighten suspicions that the U.S. does not have nearly as much gold as they claim.

12. LARGE SHORT POSITIONS

Despite dramatic de-hedging by the gold producers, whose original excessive hedging was ostensibly the reason for the proliferation of gold derivatives, the notional value of OTC gold derivatives still remains elevated. This suggests either a major legitimate bet against the secular trend of the gold price or ongoing nefarious activity (i.e. price suppression by the usual suspects). The existence of large concentrated short positions on the Comex held by a few bullion banks makes it reasonable to assume that it is the latter. If the longs were to ever to call for delivery, the shorts' position would be extremely problematic due to the increasing physical shortage of gold.

13. INCREASING RECOGNITION OF THE FACT THAT THE GOLD PRICE HAS BEEN SERIOUSLY SUPPRESSED

More and more members of the financial establishment have been forced to concede that gold has been subjected to constant price management by western governments, their central banks and their bullion bank surrogates. The increasingly egregious activities in this area are forcing any thoughtful person to acknowledge what is occurring. The work of the Gold Anti-Trust Action Committee (GATA), which has been remarkably accurate over the past ten years, is finally receiving belated acknowledgment following years of being studiously ignored. The extent of the suppression has been so great that it virtually guarantees a far greater upward explosion in the gold price than would otherwise have occurred.

14. THE SUPPRESSION IS EVIDENT IN THE CONTINUING EXTREME UNDERVALUATION OF GOLD

Measured by any number of metrics (gold price in relation to the staggering amount of money and credit that has been created over the past several decades, gold's extreme undervaluation relative to platinum, the gold producers' pathetic returns on capital at the current price, etc.), gold is far behind where we believe it should be. If gold had merely kept up with the reported rate of U.S. inflation since its peak price in 1980, it would presently be trading in excess of $2,300 per ounce.

15. THE RELATIVELY SMALL SIZE OF THE GOLD MARKET

In the past, gold's small market footprint has actually been a negative because it more easily facilitated the price suppression activity. This is about to change, however, as gold becomes the asset of choice for more and more investors for all the aforementioned reasons. All the gold mined since the beginning of time is worth less than $6 trillion currently and the total capitalization of all the world's gold stocks barely exceeds that of Walmart. This pales in comparison to the amount of paper money that could seek refuge in the world's eternal money.

16. GOLD IS IN AN ESTABLISHED POWERFUL BULL MARKET

Gold is in the tenth year of a powerful bull market since it double bottomed at just over $250 per ounce in early 2001. It is most definitely a stealth bull market as the sentiment remains remarkably subdued, a fact illustrated by an extensive worldwide poll conducted by Commodities Online in the spring of 2010 that revealed that 93% of the respondents expected the gold price to fall. Gold has been climbing a classic "wall of worry", a climb made steeper by the stout resistance of the anti-gold cartel and the constant negative propaganda emanating from its mainstream apologists.

17. GOLD HAS ENDURED

Gold is indestructible, possesses a high value-to-weight ratio (which makes it easy to store and transport), is not anyone's liability, can be easily hidden (which has been a considerable attribute in the past) and, most importantly, has provided protection against the destruction of wealth for centuries.

CONCLUSION

The fundamentals for gold are impeccable, the long term technical picture is exceptional and gold remains very inexpensive when compared to almost every other alternative. I expect gold to trade at several multiples of the current price before this bull market breathes its last breath.

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