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"I may disapprove of what you say, but I will defend to the death your right to say it." --Voltaire

BUSINESS & FINANCE

The Golden Hedge - Part 1

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Often considered only as an inflation hedge, gold may prove to be the best deflationary hedge that paper money can buy.

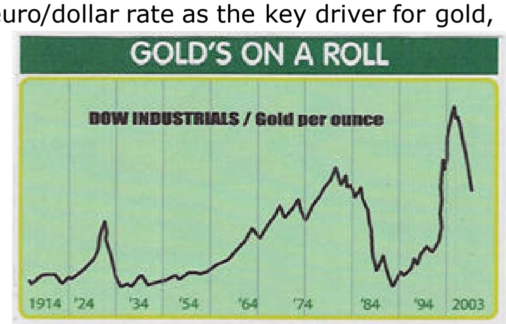
Put some in your portfolio.

(Editor's note: Ms. Bylund is an ongoing Contributing Editor to the Las Vegas Tribune on issues dealing with Small Business, Barter, and the 'New Economy.' If you missed any of the previous installments they may be found in the 'archives' section of Las Vegas Tribune Online at http://www.lasvegastribune.com/)

In recent weeks Gold hit new 16-year highs, with the next big target of $455 in sight say traders. A persistently weak dollar is leading to predictions of new peaks in the coming days. The precious metal has jumped 13% since early September as the US currency has steadily declined, making dollar-denominated gold cheaper for those buyers in other currencies.

Analysts continue to see the euro/dollar rate as the key driver for gold, but some say prices could ease a little as profit takers sell on the back of recent gains. The markets are also watching for any signs of intervention from the Bank of Japan, which has voiced concerns about dollar-yen levels.

GOLD'S ON A ROLL



Dates	Gold Spot % of change	Ave Annual Inflation	Change from Last Period
Aug 76 to Sept 80	541	9.8	UP
Sept 80 to June 82	-52	8.6	DOWN
June 80 to Jan 83	57	1.6	DOWN
Jan 83 to Feb 85	-42	4.0	UP
Feb 85 to Nov 87	71	3.0	DOWN
Nov 87 to Feb 93	-33	4.1	UP
Feb 93 to Jan 96	23	2.7	DOWN
Jan 96 to Aug 99	-37	2.2	DOWN
Aug 99 to present	46	2.6	UP

Some players are predicting added volatility ahead of the year-end as speculative exposure on the New York gold market remains high. Silver and platinum followed gold higher, but palladium lost ground.

Time to Sell? Consider This...

In mid-2002, gold was trading around 320 an ounce - that was $320 dollars, AND it was 320 euros. Since then things have changed. Gold has soared by $130 in the last two and a half years, to $450 dollars. Judging by that run, you might think that gold's run is done - that's there's no room left to run.

You'd be mistaken. I'd like to strongly suggest that gold's bull market hasn't even really begun. While gold has soared to $450 dollars in the last two and a half years, in terms of euros gold is only up by 20 euros, to 340 euros - barely any move at all. Since gold hasn't really moved in terms of euros, or Australian dollars, or even South Africa's rand, it's incorrect to say that it's a true bull market in gold. In a true bull market in gold, gold rises against all currencies. We're not there yet.

Gold's Glory Days

During the past century, there have been three major bull markets in gold. The conditions for those have been either a deflationary or inflationary environment where there's major stress to the financial system. All of the above are present today, thus we're convinced that we are entering the fourth major gold bull market.

We are not fully into the major bull market in gold yet. This has been a bear market in the dollar up till now. Gold hasn't been soaring - it's been the dollar that has been crashing! Gold's bull market is in the very early stages. So consider the gold bull market "in full force" once gold hits new highs in all the currencies we've mentioned.

Often Overlooked

The reason why many investors tend to overlook gold is simple: They think about all the "gold bugs," who held on to plummeting gold stocks in the late 1990s, and they don't want to make the same mistake. True, the gold bugs were dead wrong to hold on to gold stocks in 1996-2000 because the NASDAQ was the better deal. But you'll be dead wrong not to have gold stocks for the next 10 years. Precious metals, in general were widely scorned in recent years, but are showing sings of returning to their historical role as vital investment hedges. During the past year, precious metal stocks have been among the market’s best performers and one of the very few places where you could have earned a decent return.

Gold is a unique asset class that doesn't appear as a liability on a balance sheet. Even paper money is a liability of the government that issues it. Gold is priced in dollars and as the dollar declines, which it has done daily for the past 18 months, gold’s value rises. It would be a serious mistake to write off this performance as a fluke or bear market rally. Precious metals have begun a powerful up trend. Moreover, downside risk in precious metals and most precious metal stocks is minimal, and while we wouldn't bet the house on precious metal stocks, a portfolio weighting between 4 and 12 percent is reasonable. In fact, there's a much more pronounced relationship between weak dollar/ strong gold prices than to high inflation/strong gold prices. Gold has registered big rallies in period of declining inflation as well as in period of rising inflation.

INSERT GRAPH HERE

The graph, "Gold's On a Roll" depicts a very interesting relationship between financial assets and gold. It's simply the Dow Jones Industrial Average divided by the price of gold. The current economy is a lot like the economy we've lived in for most of the past 50 years. The implications for precious metals could be staggering. Gold has already outperformed 2002-03, and this performance is likely to continue. The prior three gold bull markets lasted many years, so if gold bottomed in 2001 this phenomenon will take the better part of the next decade to play out. Keep in mind that it's impossible to get the timing of these events precisely right. Keep a reasonable exposure to gold and other precious metals and precious metal stocks, which have provided both superior absolute and relative performance during the past two years... but don't go hog wild.

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