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A decade of gaining 18% a year — some 'relic'

The lows of this manufactured correction will be the lowest prices we will see in 2011; take advantage of this opportunity

By John Embry

The past year proved to be another excellent one for those investors who were heavily committed to the gold and silver sector. Gold chalked up its 10th consecutive annual gain, rising over 29 per cent to a record Comex closing high of \$1,421.40 per ounce. This is not to be sneezed at because very few markets ever achieve an unbroken 10-year streak of higher closes. That this occurred in the face of constant market intervention by the anti-gold cartel amid a welter of negative mainstream commentary makes it all the more remarkable.

However, silver left gold in the dust in 2010, rocketing ahead by over 83 per cent to close at a post-Hunt high (achieved in 1980 when the Hunt brothers attempted a market corner) of just under \$31 per ounce. Perhaps even more impressive are the 10-year annualized returns for the two metals with gold averaging 18.4 per cent (measured in U.S. dollars) over the period while silver clocked in at 24.3 per cent per annum.

When one considers that, during the same decade, stock returns were disappointing, real estate in many markets was devastated and numerous debt instruments were in danger of default, this can only be construed



John Embry

as truly spectacular relative performance.

Yet, most investors didn't participate. Gold was viewed as "a barbarous relic" by virtually everyone at the outset of the bull market in 2001 and only true contrarians, who closely studied the true fundamentals, climbed aboard at the beginning. As the bull market proceeded, more professionals took note and such hedge fund luminaries as John Paulson, David Einhorn and George Soros aggressively positioned their accounts.

However, we are still a long way from broad public participation because most people still remain totally unaware of what is unfolding. This, in the majority of instances, isn't their fault. They are subject to unrelenting negative propaganda from the establishment and most investment advisors keep their clients away from gold and silver because it is "too risky."

A classic example of the above was an egregiously awful article on the subject that appeared in the Dec. 11th edition of the Toronto *Globe and Mail*. Entitled *The Case Against Gold* and written by some gold neophyte named David Berman, it had to rank with the worst and most misleading articles that I have ever had the misfortune to read on gold. It included nearly every

discredited argument that has been trotted out by the anti-gold crowd over the past decade. Amongst the drivel included were

1.) The mistaken idea that jewelry demand is at all relevant when gold is re-establishing itself in its historical role as money.

2.) The misguided suggestion that gold supply is going to rise because of large increases in mine production.

3.) The old canard that central banks stand ready to flood the market with their vast reserves (we've already seen that act, it's over).

4.) The popularity of gold ETFs which could lead to massive selling if gold enthusiasm waned (I wouldn't worry about that given the amount of paper gold that is in these vehicles).

5.) The underperformance of gold stocks in relation to bullion (only true if you confine your analysis to the seniors) indicating that investors questioned the sustainability of the gold bull market.

Everyone of these inferences is simply wrong and I find it beyond disappointing that a paper which is regarded by many as Canada's finest would sink to publishing such rubbish. However, what I find most reprehensible is the blatantly obvious attempt by the author to once again mislead the public. What chance does the little guy, who is already being battered from pillar to post by the economic contraction and the accompa-

nying financial turmoil, have with respect to his investments when one of our leading newspapers publishes material like this?

To buttress their argument, in the article they quoted a Canadian investment manager by the name of Tim McElvaine who said, "I'm as confused as the next guy about what's going to happen with currencies and whether Ben Bernanke is right or wrong. But I'm not sure a whole bunch of yellow stuff in a warehouse is going to do much." Forgive me if I'm wrong, but I don't believe I have ever heard a single utterance on the subject of gold from this gentleman before. Perhaps it would have been more beneficial to the reader to quote someone who has been dead right on the subject over the past 10 years.

**"Gold is money. Everything else is credit."
— J.P. Morgan**

At this point, I feel it is absolutely necessary to once again reiterate a point that seems to elude many observers. Gold is very simply money, a reality that gets lost at times when fiat paper currency enjoys a brief period of ascendancy. The great financier J.P. Morgan captured this in a famous quote to the U.S. Congress in 1912 (ironically, exactly one year before the U.S. Federal Reserve was cre-

ated) when he stated, "Gold is money. Everything else is credit."

Gold and silver are constants. Their current appreciation relates primarily to the debasement of the currencies in which they are quoted, a debasement incidentally which is rapidly accelerating.

Thus the idea they are in a bubble is beyond preposterous unless one honestly believes that the authorities can and will rein in the pace of money creation throughout the world. The simple truth is that they can't in our debt-logged universe unless they are prepared to accept a deflationary crash that will make the 1930's look like child's play.

I believe the U.S. situation is instructive. At this juncture, what economic recovery there is owes its existence solely to massive government stimulus with budget deficits measured in the trillions and a ridiculous monetary policy based on zero-based interest rates. It is interesting to note that even in the face of improved economic growth statistics, the Federal Reserve is insistent that it can't relent on its extreme monetary stimulus.

Perhaps, the condition of state and municipal finances is telling the true story. In many cases, if these public entities were compa-

nies, they would have long since been declared bankrupt. That this saga has unfolded when their cost of borrowing was negligible and they were the recipients of considerable federal aid is even more unnerving. That begs the question of what happens when interest rates truly reflect the risk in buying and holding their paper and federal grants run out.

At this point the focus has momentarily shifted to the travails of the periphery countries in the European Union but it won't be long before it returns to America.

I firmly believe that the states and municipalities won't be allowed to fail and default en masse and that massive amounts of federal funding will ultimately be forthcoming. This development, in conjunction with the huge existing federal deficit, will dramatically raise the U.S. Treasury's requirement for funds.

Unfortunately, this will be occurring at a time when foreign buyers, who are already stuffed with U.S. debt instruments, are becoming increasingly reluctant to buy anymore.

I totally agree with that mindset because in a situation where the U.S. dollar remains extremely vulnerable and U.S. interest rates have nowhere to go but up, any-

body holding let alone buying U.S. bonds must possess a financial death wish.

A final consideration is the perilous condition of the U.S. banking system, which aside from holding huge amounts of bad loans which are no longer valued reflecting their true worth but are rather "marked to fantasy," is saddled with trillions of dollars of derivatives, a meaningful amount of which are essentially worthless. Without ongoing unlimited liquidity, the banking system would undoubtedly collapse.

QE to Infinity

In my mind, all of the foregoing virtually guarantees what Jim Sinclair, the true dean of the gold experts, has brilliantly termed "quantitative easing to infinity." We've seen QE1 and QE2, get ready for QE3 and most probably many more, all of which will be wildly bullish for gold and silver prices as we move forward.

Fortunately, for those not already positioned or those desirous of adding to their holdings, the anti-gold cartel unleashed a vicious paper-driven attack on both gold and silver as the New Year opened. I believe strongly that the lows resulting

from this manufactured correction will be the lowest prices we will see in 2011, and thus it is essential that investors take advantage of this opportunity.

In closing, I would like to quote Bill Buckler, the publisher of *The Privateer* in Australia and a man who understands the true nature of money as well as any individual I have ever encountered. He has also been absolutely right on gold and silver from the onset of the bull market. In a recent publication he stated:

"We have ALWAYS advocated a private holding of physical gold (with silver a close second for different reasons). These are not "investments," they are the only absolutely foolproof means of financially insuring oneself against ANY eventuality whatsoever. In a world in which honest money does not exist, the need to own some is acute." Well said, Bill, no one could state the case more succinctly.

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