

## What goes up must come down

There is a sense of inevitability in that headline. Over the last 12 months we have seen a very big recovery in many of the stocks we are invested in the resources sector, from gold and silver to copper and energy, both the large cap stocks and the juniors, and of course the physical metal prices as well, gold, silver, copper etc. So when prices have risen so much we should **expect** a pull back. The unnerving thing is that these downdrafts can very quickly wipe 10% or 15% off your portfolio and then you might begin to worry that we are in for a repeat of 2008. Our take, along with many analysts who's views we respect, is that this is what is called "a healthy correction ( and one that may be should have happened last year) in an ongoing uptrend. I personally believe that it is "game on" again for the commodities sector, but as we all know by now, to be a resources investor you need strong nerves at times.

These pullbacks are buying opportunities, allowing us to buy more of our favourite stocks at lower prices. If you have cash on the sidelines it is probably best to wait a little longer before committing as prices may go lower. If you have no extra cash I think it best to hold on, and have confidence that your investments have more value than the market is currently recognising. That it easier to do for some stocks than it is for others, but our recent experience should tell us that in the resources sector the market hopelessly undervalued most stocks which presented the best buying opportunity we will possibly ever see. In particular the junior sector saw the biggest mispricing and although it is uncomfortable to deal with at the time, that mispricing spells opportunity and I believe that there are lots of bargains still to be had in the junior sector.

When we see negative comments in the media by so-called experts we tend to believe them, but by now your experience should remind you that often they are simply completely wrong. As advisers we have had to battle against "the prevailing mainstream view" for most of the time over the last 9 years. We don't see into the future any more than you do. Nevertheless we have a Big Picture View which we draw our investment conclusions from. This view says that the Commodities Sector is in a Mega Cycle ( part 2 ) and Precious Metals are going much higher and that focusing our investments in these areas is likely to be the most profitable sector for the next 5 years.

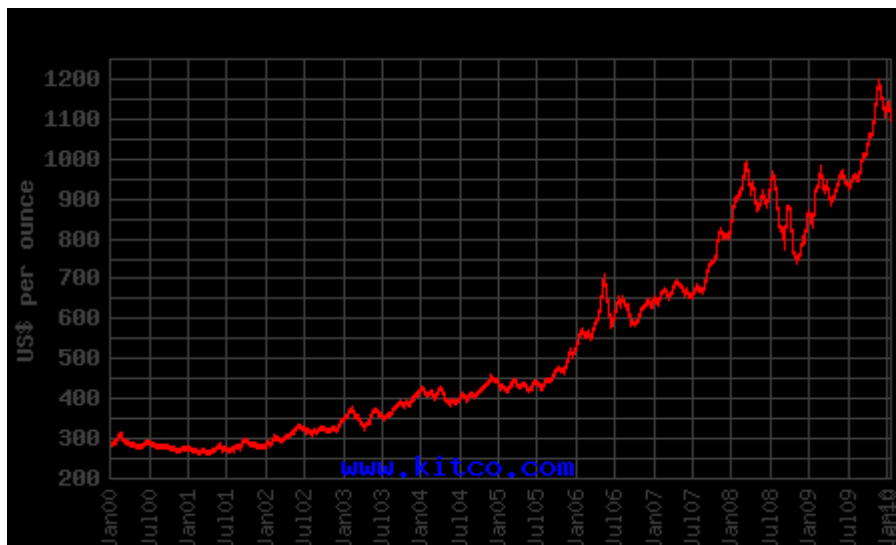
We now being told by some institutions that Gold has peaked. Credit Suisse recently have announced the end of the gold bull market and that the gold price is headed far south. I suspect their credentials on gold forecasting over the last 9 years of this bull market are laughable. I wonder what they will be saying when gold reaches U\$1,500 an ounce, which is what we expect before 2010 is over. You have to make your own mind up on this and invest accordingly.

I have asked Elaine to provide a brief resume of how we have got to this point in gold and commodities. We sometimes need a reminder.

Roger

## Current Market January 2010

Below is the gold chart from 2000 – 2010 where you can see that gold does not move up in a straight line, but you can certainly see the ‘trend is up’. We believe that this trend is still intact and that gold will certainly move higher. We have read and listened to many comments on the price of gold for 2010 some at \$1300 and some at \$2000. We will not know how high gold will go until it happens. When gold made a new high of \$550 an ounce in 2005 and subsequently ‘fell’ back to \$500 an ounce the headline news was ‘Gold Has Peaked’. We issued a Newsletter stating that we felt that **‘gold was cheap’** and that you should **‘back up the truck and buy more’**. This is a line that I quote from Roger’s newsletter because gold was indeed cheap at \$500 and I am sure that \$1100 will also look cheap.



Some five months later in May 2006, after ‘gold had peaked’ gold reached a new high of \$730 an ounce. Gold did not reach another new high until September 2007 (some 16 months later) when it finally reached the 1980 high of \$850 an ounce. Again gold fell back before the end of the year, but by March 2008 gold had reached another new high of \$1,032. I am sure you will see a similar pattern of over the last few months when gold reached a new high of \$1,227 and subsequently fell back to \$1,086. Between March 2008 and January 2010 gold has only increased by \$54. In our opinion gold will be going higher over the next few months, but may consolidate a little lower from here before doing so

I am sure you all remember the doom and gloom of 2008 and early 2009 when headlines stated that ‘Cheap Oil was Here To Stay’ when oil was \$30 a barrel, that copper was going lower and would stay there when copper was \$1.40. Some 12 – 15 months later copper is \$3.34 and oil is \$74. If you believe that China will shut up shop and not continue to use commodities then you may feel that

prices will not go higher. Again headline news stated that China's growth would fall to 6% in 2009 (if the UK grew at 6% we would be shouting from the rooftops, but of course we are now out of recession with the last quarter growth at 0.1%!!). China grew at over 9% in 2009 and grew at over 10% in the last quarter. China is controlling the growth of its economy so that it does not get overheated, they are, and I am sure will remain to be one of the main consumers of commodities for many years to come.

Going back to the markets it is a testing time when you see your portfolios lose value, some have lost more than others, but generally you may have seen 15% - 20% come off the value over the last two weeks. Over the last 12 months most client portfolios have risen sharply in value and the natural sequence is for there to be a consolidation before moving higher.

Gold, silver and the resource shares may go a little lower from here. We are being presented with a low risk buying opportunity and one which we intend to make use of. So for now 'don't panic', the good times are still ahead.

Elaine