

The background of the slide features a close-up, low-angle shot of gold bars and coins. The bars are stacked and the coins are scattered, creating a sense of depth and texture. The lighting is warm and focused, highlighting the metallic sheen of the gold.

# Why Gold?

Why an allocation to gold may benefit investment portfolios

January 2008

# Arguments for an allocation to gold in a diversified portfolio include:

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1. Gold can find favor as a “safe haven” against inflation or financial crisis.
2. Gold often trades inversely to the U.S. dollar, making it a useful hedge in times of dollar depreciation.
3. Gold can be viewed as an alternative asset class.
4. Gold, and even gold stocks, typically are not closely correlated to either the stock or bond market.

# 1. The Gold Supply is limited

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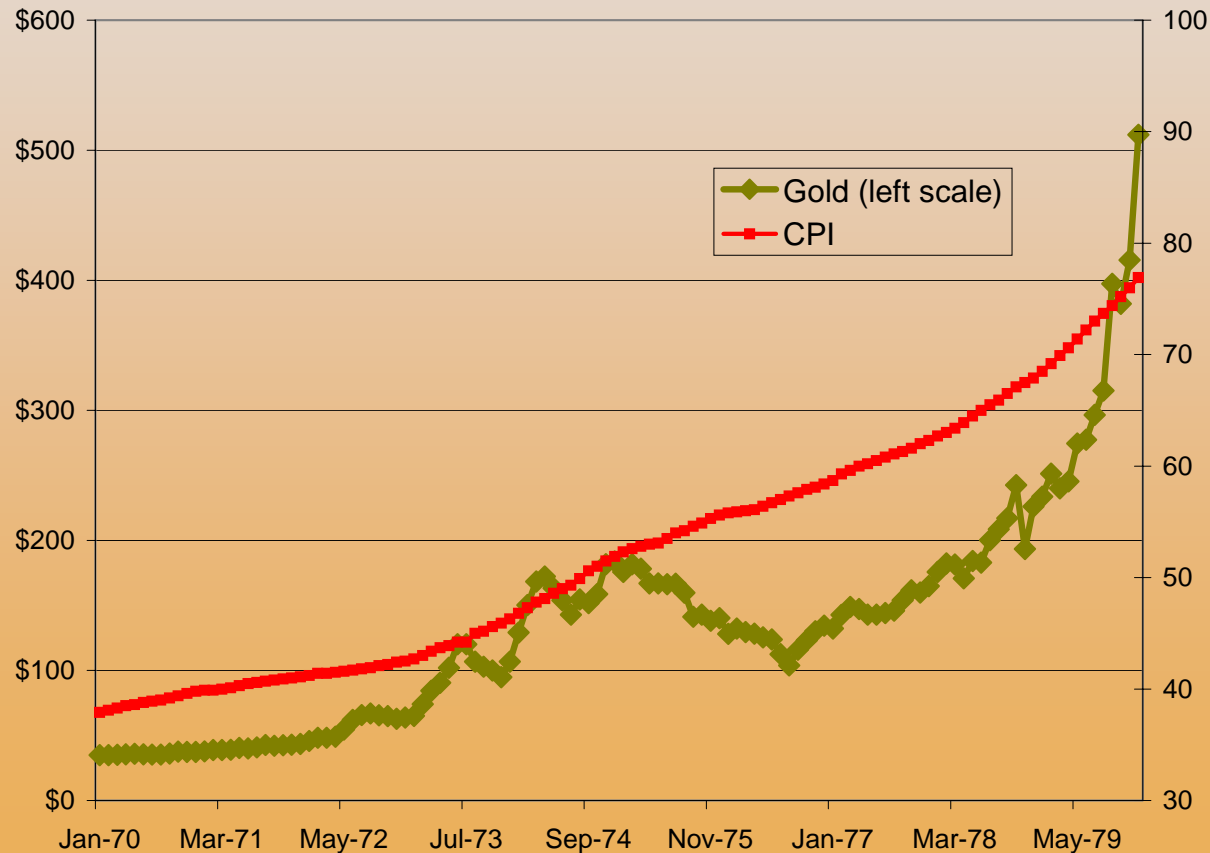


All the gold ever mined would fit into a storage room about 55 feet long, 55 feet tall and 55 feet wide.

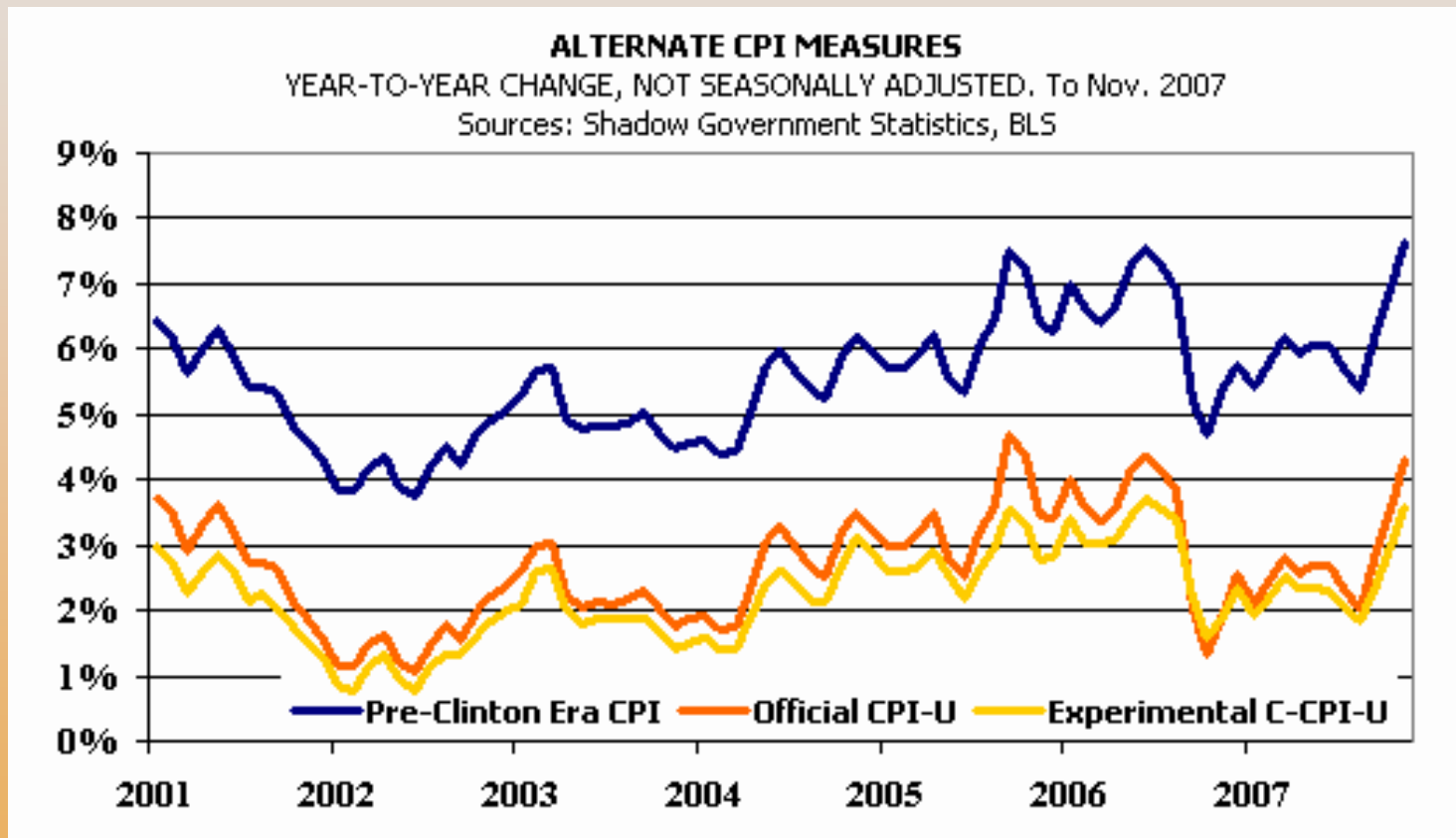
## 2. Gold can serve as a "Safe Haven" in times of crisis

Gold experienced a fierce bull market in the '70s as inflation accelerated

**Gold vs. CPI**



**Inflation appears to be picking up again according to official government figures and anecdotal evidence.**



Source: John Williams' [Shadow Government Statistics](#)

**Gold can provide “insurance” against unforeseen events or financial catastrophe. Gold's value as a safe haven can be illustrated by its behavior during periods of financial turmoil.**

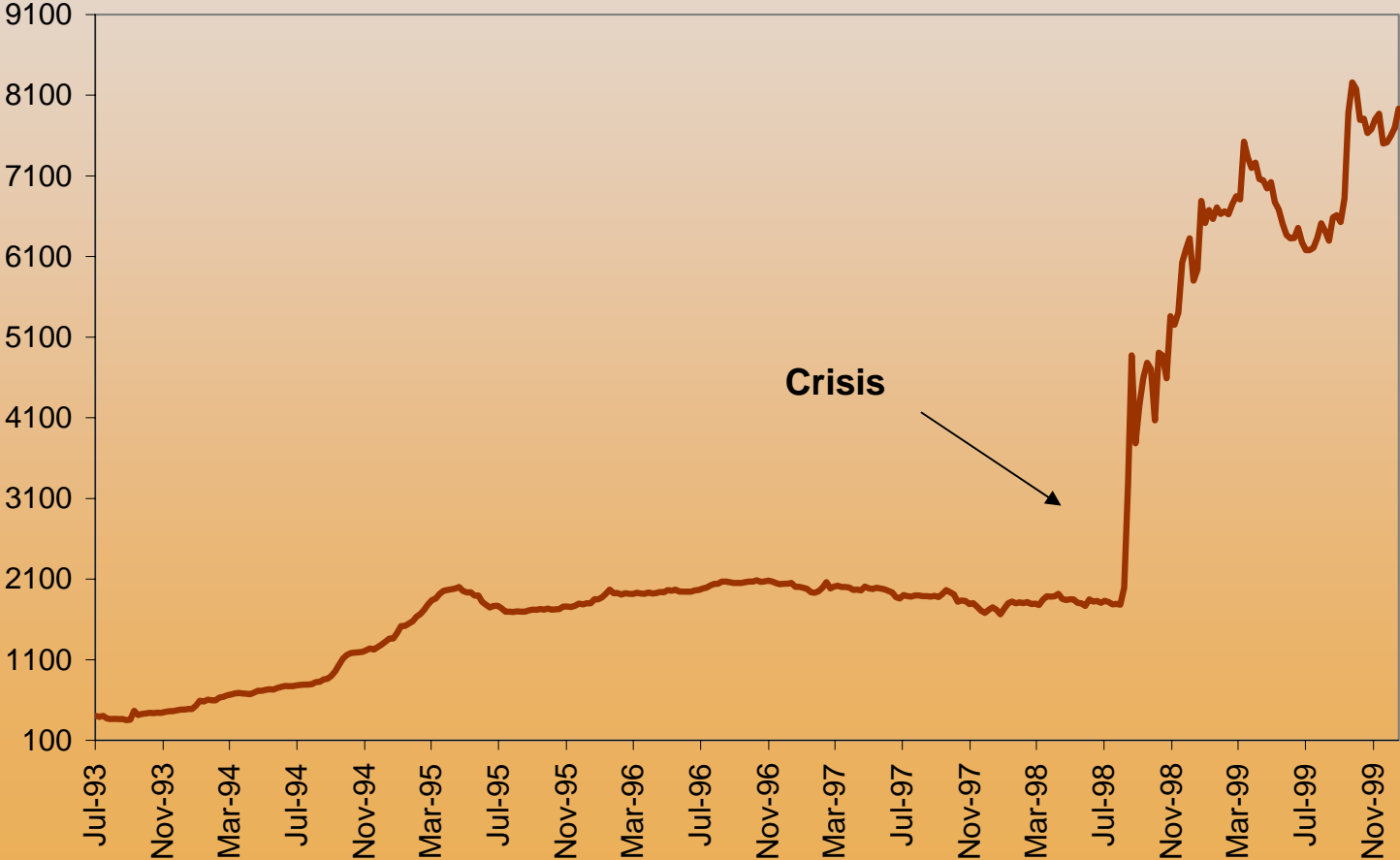


## Asian Crisis (represented by Thai experience)

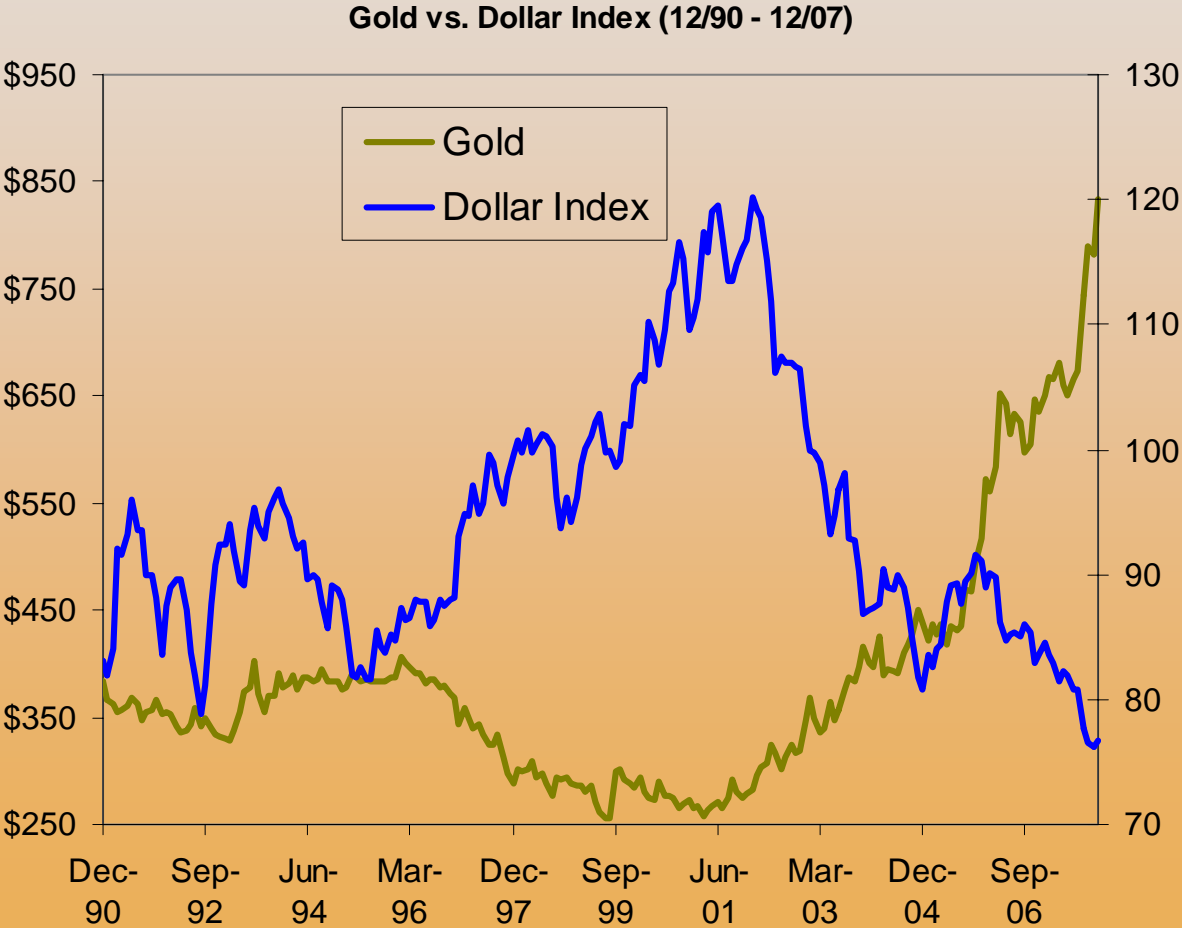


# Russian Crisis

## Gold in Russian Rubles



# 3. Trading inversely to the dollar, gold can hedge dollar depreciation

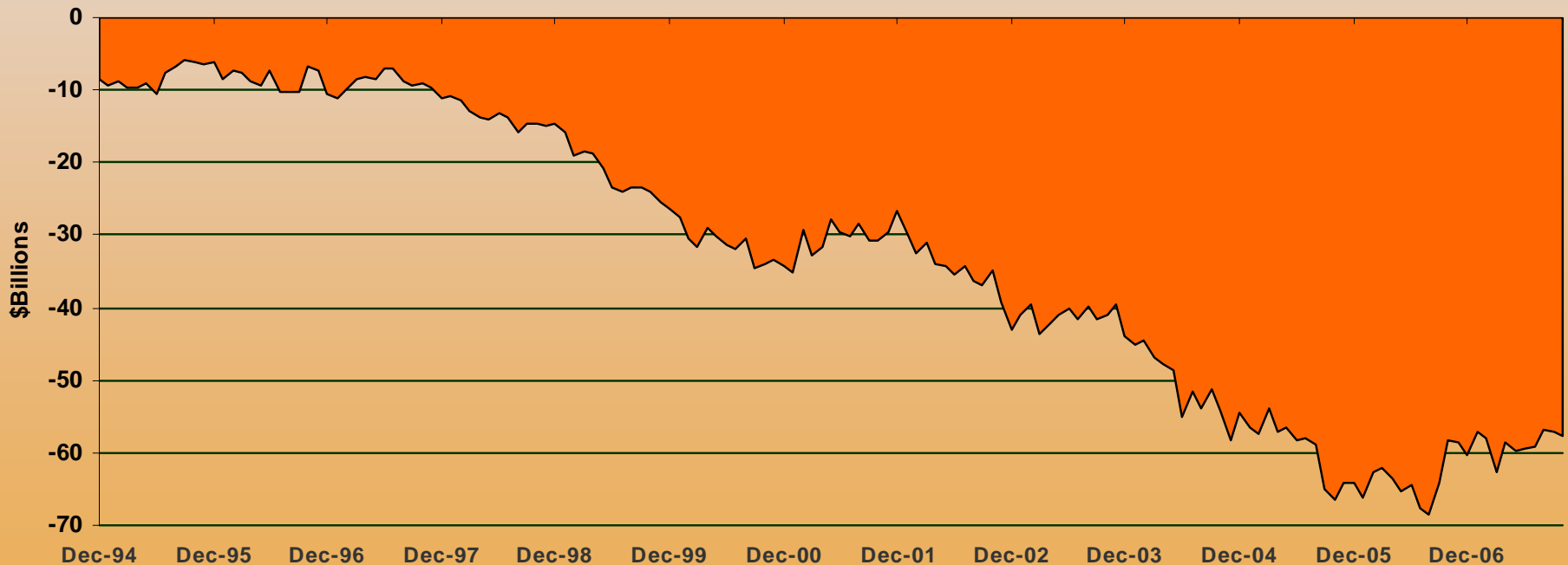


In our view, there are a number of threats to dollar stability. These include:

Record trade deficits - which typically weaken currencies...

## U.S. Trade Balance

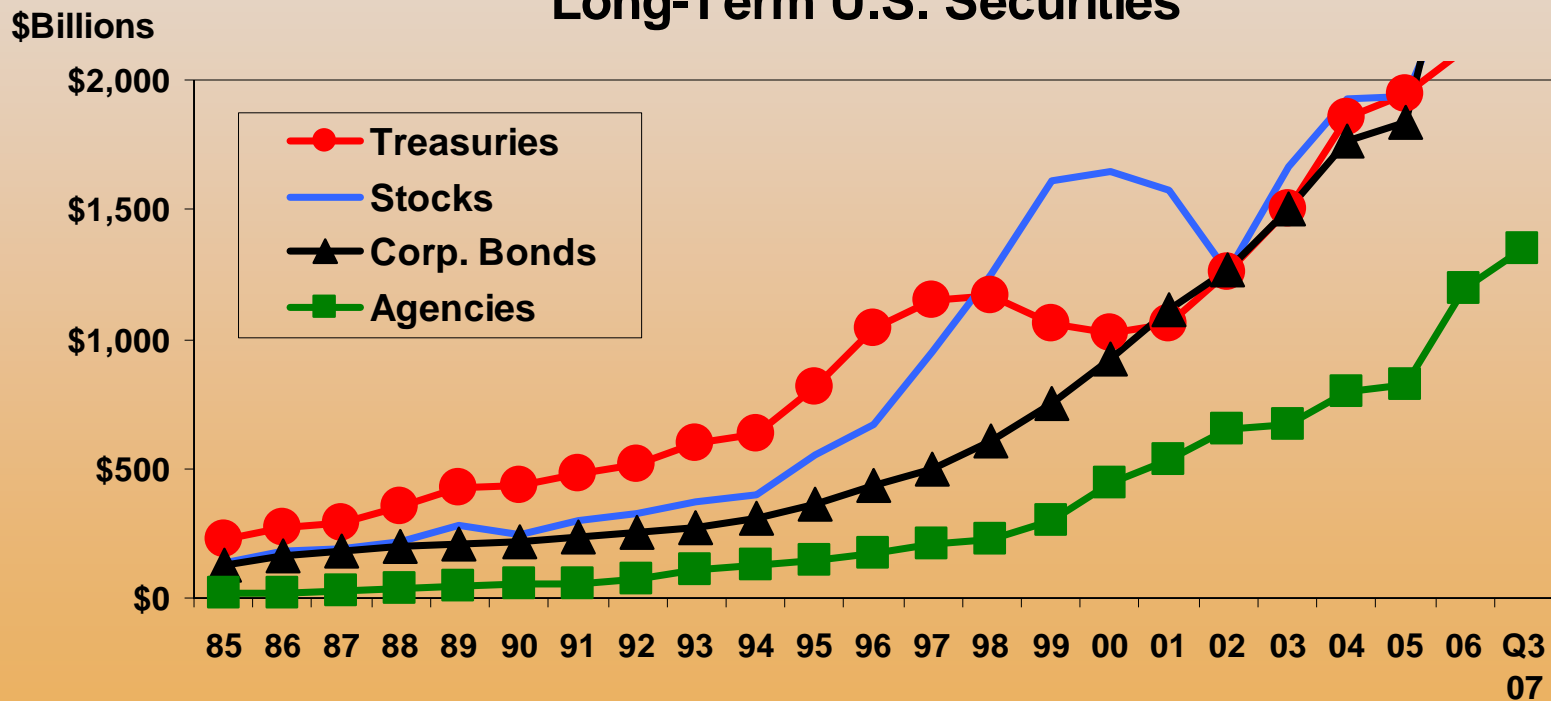
Monthly, Dec. '94 - Oct. '07



And the risk that foreigners choose to hold fewer dollars (i.e. sell dollar denominated investments, putting pressure on the U.S. currency).

*Foreign investors, including central banks, have been heavy buyers of U.S. Treasuries.*

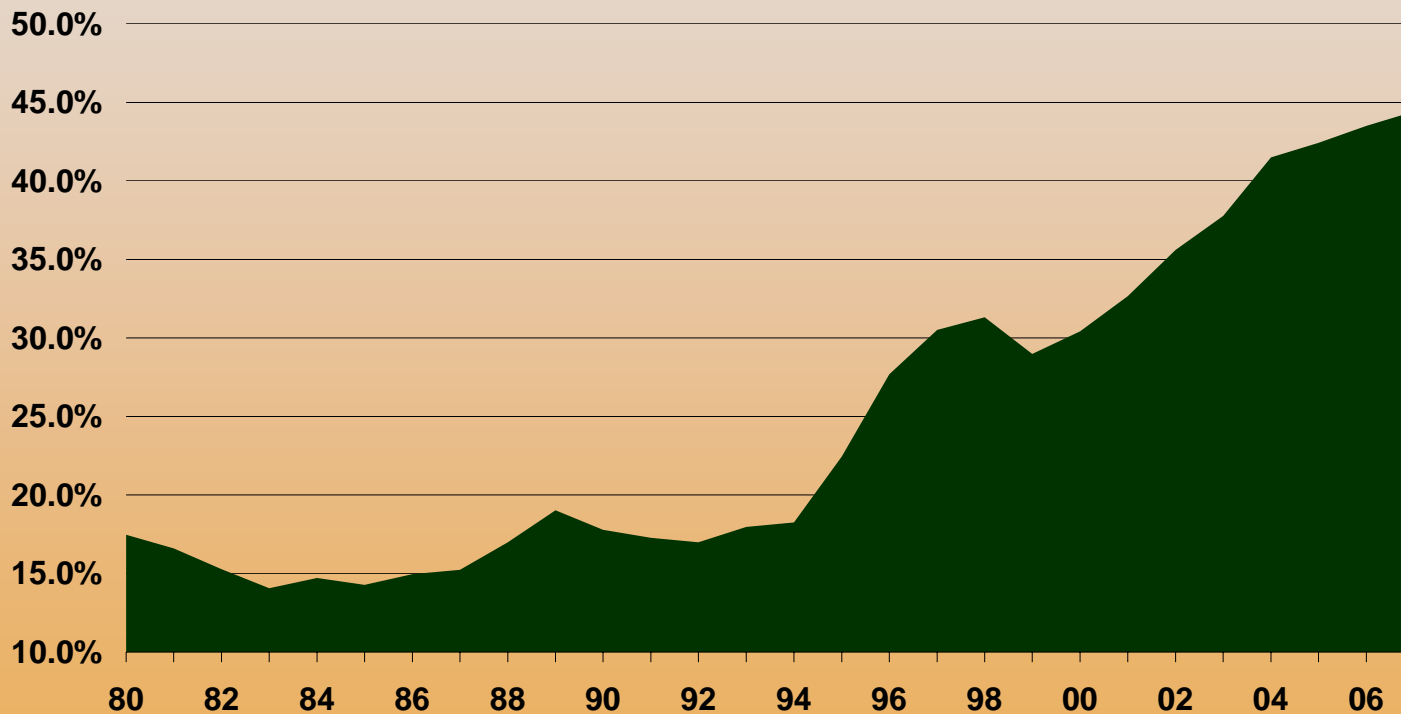
### Foreign Holdings of Long-Term U.S. Securities



Source: Federal Reserve Z-1

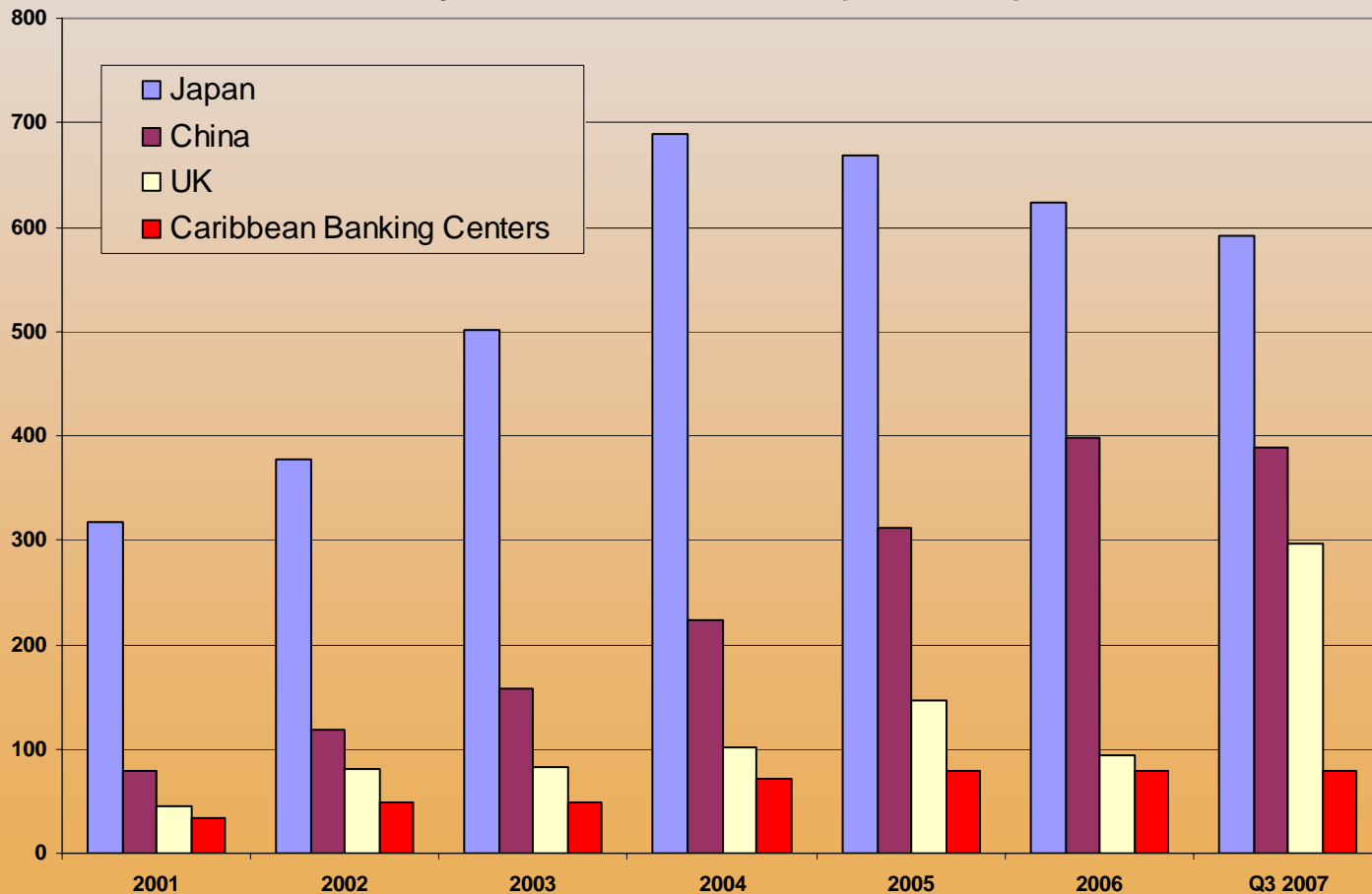
# Foreigners are big holders of U.S. debt. Is this enthusiasm sustainable?

## Foreign Holdings of U.S. Treasuries as a % of Total, 1980 - Q3 2007



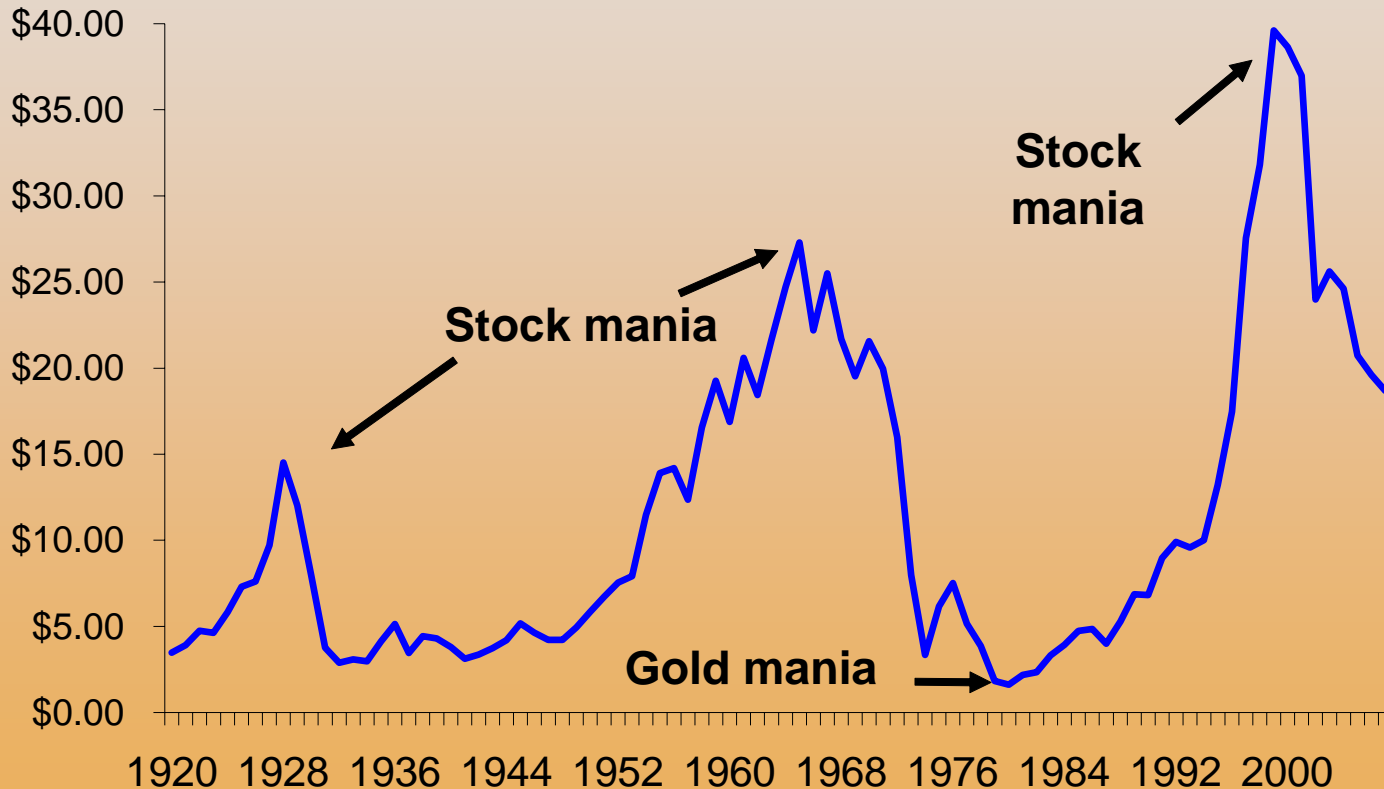
# Have some of the biggest buyers of U.S. Treasuries had enough? Will hedge funds (Caribbean Banking Centers) continue to be reliable buyers?

Holdings of US Treasuries  
by Selected Countries (\$ billions)



## 4. Gold can serve as an alternative to overvalued assets

**Dow Jones Industrials divided by Gold Price**  
1920 - Q3 2007



# But is the gold bull market already over?

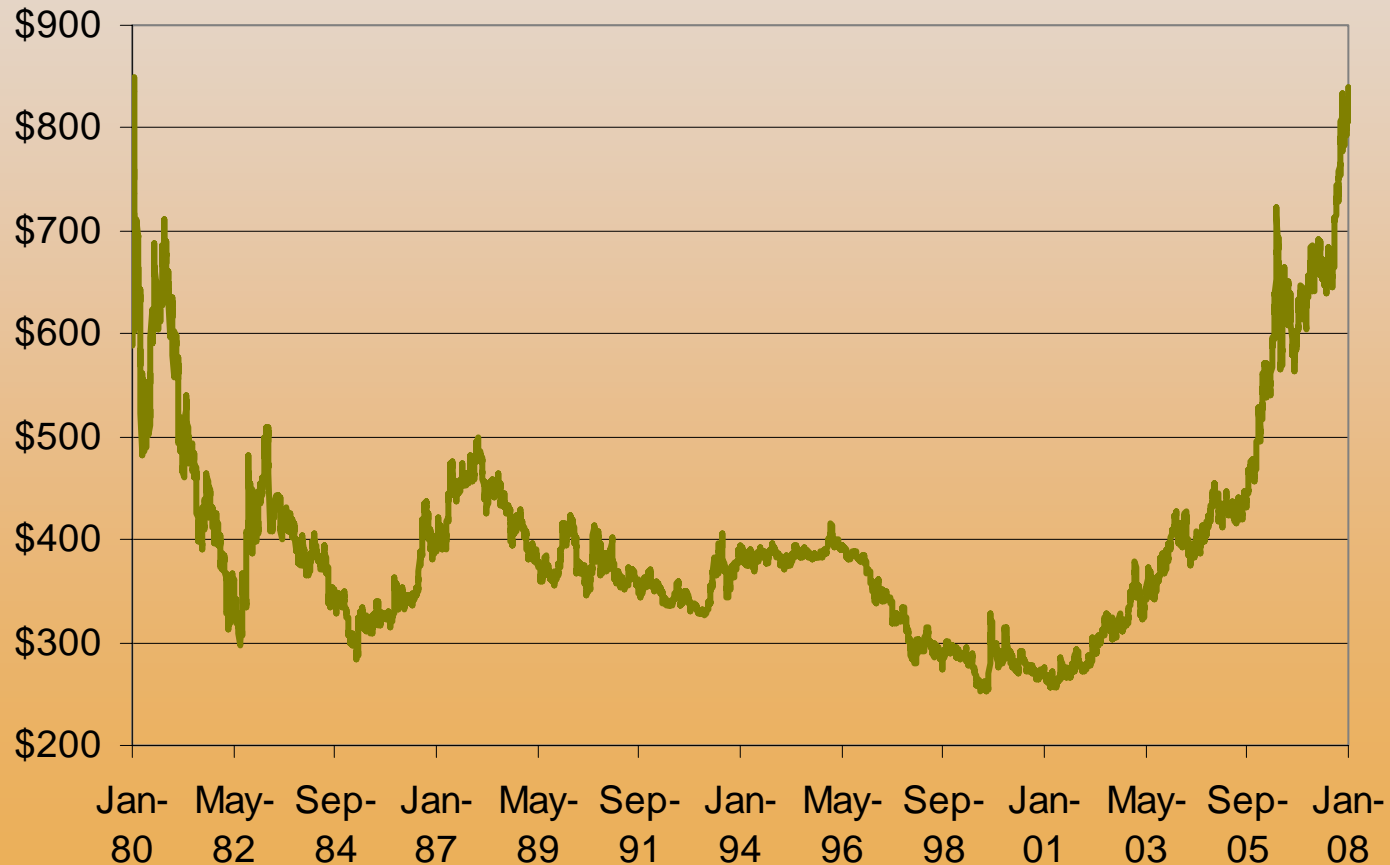
After peaking near \$455 in December 2004, the spot gold price fell to \$417 in May 2005. Did the December peak mark the end of the bull market in gold?

**Gold Price (1/00 - 12/07)**



**Or is gold's recent performance a minor setback in what will ultimately be viewed as a long bull market?**

**Gold Price (1/80-12/07)**



# Some bullish trends for gold

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While financial assets flourished, gold was in a 20-year bear market. These trends seem to have reversed.

Maturity of gold mines coupled with lack of exploration has constrained supply.

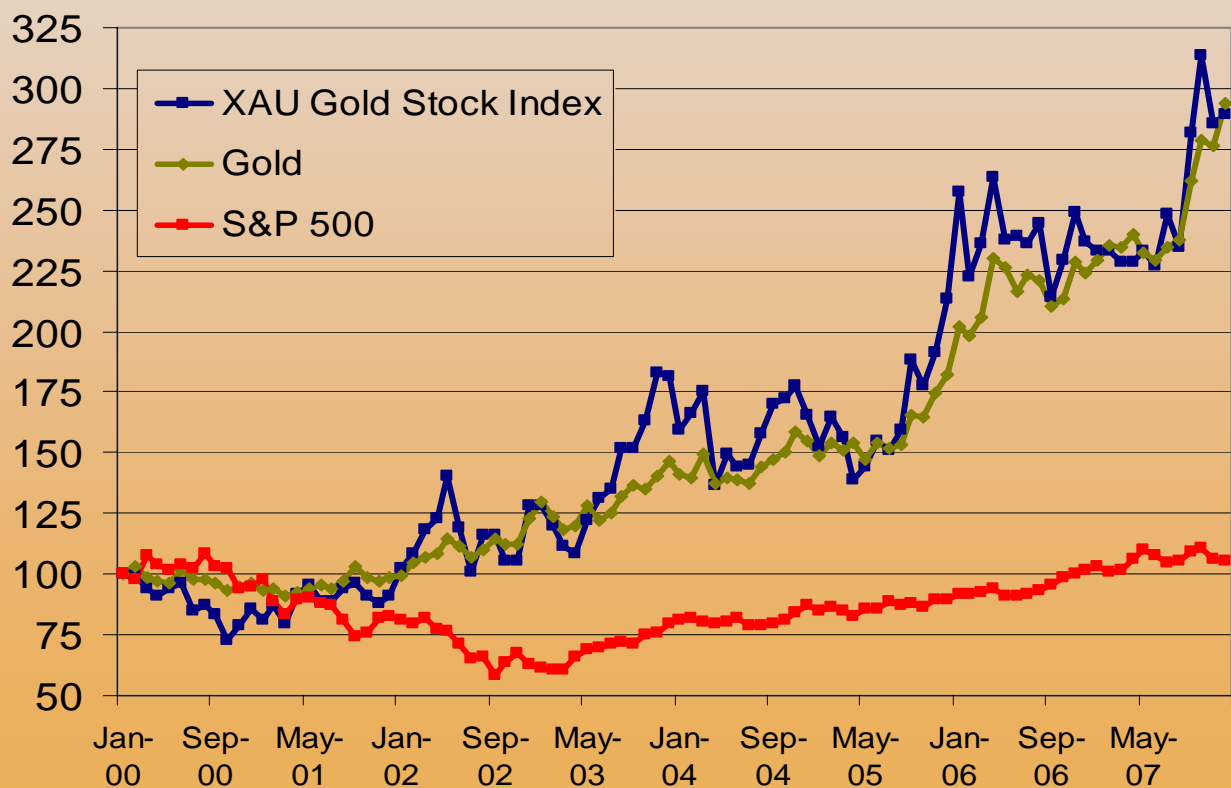
Asia, a traditional buyer of gold, is becoming more economically powerful.

Gold accounts for an historically small amount of central bank reserves. There are signs this relationship may change. (Japanese Finance Minister Sadakazu suggested in Jan. 2004 that official reserves should include more gold. Japan's Prime Minister in March 2005 suggested that reserves should be diversified).

Bonds offer less competition to gold with real U.S. interest rates negative.

## 5. What about gold stocks?

While gold stocks are not perfectly correlated with gold, the correlation is closer than the relationship between gold stocks and the general stock market.



All series indexed to 100 as of Jan. 31, 2000

# While gold bulls and bears will argue about the nature of gold, certainly gold is not just another commodity:

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“Gold will remain an important element of global monetary reserves.”

Wim Duisenberg, speaking for the 15 European central banks, Sept. 25, 1999

“Gold still represents the ultimate form of payment in the world... Fiat money in extremes is accepted by nobody. Gold is always accepted.”

Alan Greenspan, speaking to the House Banking Committee, May 20, 1999