FUNDAMENTAL REASONS TO OWN GOLD

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1. Alarming Financial Deterioration in the U.S.

In the space of the last several years, the financial situation in the U.S. has experienced a remarkable transformation. The Federal government budget surplus turned into a massive deficit (which if correctly accounted for on an accrual basis would be in the trillions of dollars), the trade and current account deficits have reached levels that have portended currency collapse in virtually every other instance in history, and the debt position of individuals has become so extended that higher interest rates and/or economic recession would be catastrophic. In addition, the financial system is burdened with structured products, derivatives and other financial exotica that are destroying the balance sheets of many major financial institutions.

2. Negative Real Interest Rates in Reserve Currency (U.S. Dollar)

To combat the economic and financial fragility in the U.S., interest rates will be steadily lowered. Using true inflation numbers, real interest rates along the curve are negative. There has been a strong historical relationship between negative real interest rates and stronger gold prices.

3. U.S. Federal Reserve Policies in the Event of Adverse Economic Conditions

Fed chairman Ben Bernanke has been very explicit in suggesting that the U.S. government has a printing press and would be prepared to use it to avert a deflationary spiral. The validity of fiat paper money rests upon the confidence that its supply is limited. Policies approximating 'helicopter money', if ever implemented, would surely destroy that belief.

4. The Resulting Endemic Weakness of the U.S. Dollar

Because of the aforementioned difficulties, the U.S. dollar is both fundamentally and technically weak and could fall precipitously.

5. Global Currency Debasement

However, most other countries are very reluctant to see their currencies apprec ate and will resist the inevitable fall of the dollar.

6. The Onset of the Malign Side of Financial Derivatives

The dramatic increase in the usage of financial derivatives in recent years, many of them over the counter and thus unregulated, has created an unquantifiable risk element in the financial system. With notional values in excess of U.S. $500 trillion, this is a hugely significant issue. It is worth noting that Warren Buffett, one of this generation's most successful investors, refers to derivatives as "weapons of mass financial destruction". An adverse development on this front would dramatically impact confidence in paper money, and threaten widespread bankruptcies in the financial sector.

7. Gold as Money Continues to Gain Credence

Islamic nations have investigated a currency backed by gold (the Gold Dinar), countries such as Russia, which were previously plagued by weak currencies, are talking about fully convertible currencies backed by gold, and a member of the influential Council on Foreign Relations has recently suggested that a privately circulated, digital gold currency may be feasible. All of these initiatives reflect an acknowledgement that the current international monetary system is fundamentally flawed, with too much debt weighing on major currencies.

8. Existence of a Huge and Growing Gap Between MineSupply and Traditional Demand

Gold mine supply in 2006 was 2470 tonnes according to GFMS Ltd. Traditional demand (jewellery, industrial uses, etc.) has exceeded this by a comfortable margin for a number of years, even before the recent upswing of investment demand. Some of the gap has been filled by recycled scrap but central bank gold has been a key source of aboveground supply.

9. Mine Supply Has Not Risen Despite Much Higher Prices

Despite gold prices surging from a low of $252 in 1999 to nearly $800 currently, gold mine production has actually fallen marginally in this period. This indicates that primary gold supply is very insensitive to higher prices. Given that very little exploration was done when prices were low, capital and operating costs are exploding, and many gold-rich countries are becoming increasingly hostile to foreign capital, significant constraints on mine supply are likely to continue.

10. Large Short Positions

To fill the gap between mine supply and traditional demand, central bank gold has been extensively mobilized for many years, primarily through the leasing mechanism that facilitated both producer hedging and financial speculation. Strong evidence suggests that at least 50% of reported central bank gold reserves have entered the market in this process. Central banks are owed this borrowed gold by counterparty bullion banks. Whether the central banks ever get their gold back is immaterial to the case for gold, because the gold is gone and cannot be sold again. However, if the central banks were to demand that their gold be returned, it could trigger an epic short squeeze.

11. The Central Banks are Nearing an Inflection Point When They Will be Reluctant to Provide More Gold to the Market

The central banks have already supplied too much gold via the leasing mechanism, a development somewhat reminiscent of the late 60s and early 70s when central banks sold well over 100 million ounces in an ultimately failed attempt to hold gold in the neighborhood of U.S. $35.00 per oz. A new generation of central bankers appears to have learned nothing from the past. Many observers may have misinterpreted the renewal of the Washington Agreement, permitting European central banks to sell 500 tonnes per year for five years. In the past two Agreement years, signatories

have not filled their quotas by a combined 130 tonnes.

12. Increasing Likelihood of Central Bank Gold Purchases

The Russian and Far Eastern central banks have been accumulating enormous quantities of U.S. dollars in their reserves and have stated their intentions to lessen that exposure by diversifying into other currencies. Gold, which is regaining its status as a currency, comprises a very low percentage of their reserves currently and is an obvious candidate for inclusion.

13. Investment Demand for Gold is Accelerating

When the public finally recognizes the inflation that will most assuredly accompany the the exploding international monetary creation, they will seek an alternative to paper currencies and financial assets and this will create an enormous investment demand for gold. This phenomenon is already well underway in gold friendly areas like India and the Middle East, but is only in nascent stages in the Western world. To facilitate this demand, a number of new vehicles like the Central Gold Trust and Gold Exchange Traded Funds (ETFs) have been created. The most popular ETF, the streetTRACKS Gold Shares, now owns over 600 tonnes of gold.

14. The China Factor

Despite rising prices, gold demand from China is increasing substantially. Recent figures from the World Gold Council show that third quarter 2007 demand rose 25% in tonnage terms, despite a 9% increase in prices. With China in a major economic boom, rising prosperity in a country with an affinity for gold augurs well for future demand.

15. Sovereign Wealth Funds May Purchase Gold

A recent Financial Times article suggested that sovereign wealth funds have started to purchase commodities, particularly gold, as a hedge against U.S. dollar weakness. The sponsors of these funds have significant dollar exposure. One estimate pegs the amount of sovereign wealth fund money to be invested globally at $3 trillion. If a fraction of this were invested in gold it would be sufficient to send gold soaring.

16. Strains in International Monetary Order Increasingly Obvious

The U.S. has long acted as the world's consumer of last resort. To facilitate this, it has borrowed extensively from the rest of the world. Many nations reinvest their surplus dollars into U.S. assets, thereby keeping the U.S. dollar strong. This virtuous cycle is being threatened by current dollar weakness, as holders such as China are worried that they are consistently losing money from their U.S. investments. One senior Chinese official recently suggested that his country would diversify into "stronger currencies". Presumably gold would be considered.

17. Rising Geopolitical Tensions

The increasing probability of a long conflict in Iraq, deteriorating conditions in general in the Middle East, the nuclear ambitions of Iran and North Korea, unfolding problems in Pakistan and the ongoing terrorist threat posed by Al Quaeda are among many geopolitical issues that could make investors very uncomfortable. A fearful public has a tendency to gravitate towards gold.

18. Large Increases in Outstanding Gold Derivatives Despite a Major Reduction in Producer Hedging

Producer hedging has been sharply curtailed in response to several corporate blow-ups caused by excessive hedging. In addition, underperformance by the stocks of heavily hedged producers, rising gold prices and materially lower contangos (forward premiums) have reduced the incentive to hedge. So instead of producers supplying additional gold to the market through the hedging mechanism, the reverse is now happening. Despite this, gold derivatives, as reported by the Bank for International Settlements (B.I.S.), have continued to rise, reaching $640 billion in December 2006 versus $334 billion one year earlier. This suggests either a major legitimate bet against the secular trend of the gold price or the possibility of nefarious activity (i.e. price suppression) in the gold market. Other than the central banks and their bullion bank allies, it is difficult to imagine which parties are taking the short side of the gold market.

19. Increasing Acceptance that the Gold Market Has Been Suppressed

Very recently, analysts at Citigroup acknowledged that central banks have been acting to artificially depress the gold price. More and more members of the financial establishment are finally admitting that gold has been subjected to heavy price management by the official sector. As this acceptance spreads, investment demand for gold may accelerate based on the realization that gold has long been artificially low.

20. Gold is Remarkably Cheap in the Context of Oil and Platinum Prices

Since gold began to trade (allegedly) freely in 1971, one ounce has on average bought 15-17 barrels of oil. That relationship would justify a gold price in the neighbourhood of $1500 per ounce today. With a strong probability that high oil prices may be here to stay, gold looks very undervalued. In the same vein, for many years, gold and platinum traded at similar prices per ounce, with gold often commanding a premium in times of financial stress. Platinum is currently trading in excess of $1500 per ounce.

Summary: Limited Size of Total Gold Market Provides Tremendous Leverage

All the physical gold in existence is worth less than U.S. $4 trillion and the capitalization of all publicly traded gold companies is approximately $200 billion. When the foregoing fundamentals encourage a strong flow of capital towards gold and gold equities, the trillions upon trillions worth of paper money will propel both to unfathomably high levels. Gold is undervalued, under-owned and under-appreciated. It is most assuredly not well understood by most investors. At the beginning of the 1970s, when gold was about to undertake its historic move from U.S. $35 per oz to over U.S. $800 per oz in the succeeding 10 years, the same observations would have been valid. The only difference this time is that the fundamentals for gold are actually better.

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