

It Don't Mean a Thing If You Ain't Got That Bling

During the last year or so, the precious metals sector has performed poorly after several good years. For me, this has been frustrating because the fundamentals behind precious metals are still very positive.

Gold sits at the center of the precious metals chess board. During the last several years, gold has been rising but its gains have been muted by an accelerating pace of selling by Western central banks and an assortment of price-fixing tactics accomplished in the opaque derivatives markets. This has occurred because a rising gold price always has been synonymous with inflation. Therefore, the central banks that create money out of thin air have ample incentive to suppress the gold price in order to fool the public into thinking that inflation is not a problem...despite the existence of massive deficits that historically had been the trigger point for inflation.

However, if you follow the Yellow Brick Road, you will find mounting evidence that as the Western central banks dispose of their gold in order to paint rosier pictures of their economies, the Eastern central banks have become willing buyers. As this trend continues, there will come a day when buyers are demanding more gold than the sellers are willing and able to part with. This not only will be bullish for the price but will signify a permanent transfer of economic power from West to East, i.e., something I have already alluded to due to the West's aging baby boomer population and politically-driven financial policies that produce massive deficits.

The future scenario for gold can be likened to the global warming phenomenon. Gold grows more valuable with ongoing deficit spending and the resulting expansion of the money supply and debt obligations. This process often is imperceptible to the naked eye, much like a shrinking polar ice cap precipitated by small changes in climatic conditions. Then, one day, the price of gold and the sea level are suddenly higher, signaling imminent danger. This is the tipping point at which gold becomes the financial high ground for investors in much the same way as elevated ground becomes the preferred nesting area for coastal dwellers.

Therefore, we are wise to stick with gold and its extended family, e.g., silver and platinum, as long-term investments, despite the recent period of underperformance.

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