

Precious Metals Anomaly

One of the disappointments in 2004 was the poor performance of precious metals stocks despite an across-the-board rise in bullion prices. During the course of the year, gold bullion recorded a 5.2% gain, platinum bullion notched a 6.5% gain and silver bullion topped all with a 14.4% gain, yet the broad index of precious metals stocks (HUI) declined by 12.1%. Since the precious metals sector has been an important component in our attempt to hedge against the risk of a collapsing US Dollar, this anomaly weighed negatively on portfolio performance.

Although I still believe strongly in the positive fundamentals of precious metals and the merits of investing in the precious metals sector while the US Dollar is in a prolonged downtrend, the presence of this anomaly has me looking at alternative strategies to better defend against the US Dollar's chronic weakness.

On the other hand, precious metals stocks enjoyed quite a run from 2001 thru 2003. The broad precious metals index (HUI) was up 55.5% in 2001, up another 123.2% in 2002 and up another 65.3% in 2003! So, after a 3-year launch into orbit, perhaps it simply was time for re-entry and splash down prior to the next mission. Time will tell.

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