



Investing In Gold



History of Gold

- The Egyptians claimed around 2600 B.C. that gold was “more plentiful than dirt.”
- The Romans extracted gold using a hydraulic mining method everywhere from Spain to Romania.
- Gold coins were in circulation from 1526 until around the 1930s were typically a standard 22k alloy called crown gold.



The Gold Standard

- The Gold Standard
 - 1717: United Kingdom at 1 lb. to 113 grains
 - 1871: Germany at 2790 goldmarks to 1 kg gold
 - 1893: Russia at 31 roubles to 24.0 g gold
 - 1900: United States de jure



Gold Standard in the US

- Lasted from 1901-1932
- Following the British and other European abandonment of the gold standard in 1931, the US followed, even though they owned a majority of the world's gold.



Post WWII

- Returned to a gold standard under the Bretton-Woods Agreements
- Many currencies fixed their exchange rates to the US dollar.
- The US fixed the price of gold at \$35/ ounce.
- The French government exchanged all their dollars for gold, which strained the US economy and helped lead to the US abandoning this gold standard.



Gold Prices in the 20th Century

- U.S. market crash (1929-1932)
 - Gold maintained its real value
- London Stock Exchange collapse (1973-1975)
 - Gold maintained its real value
- Oil Crisis (1973-1974)
 - Gold prices tripled, while global stock markets collapsed.

Source: CFA Institute



Historical Gold Prices



1883-1999



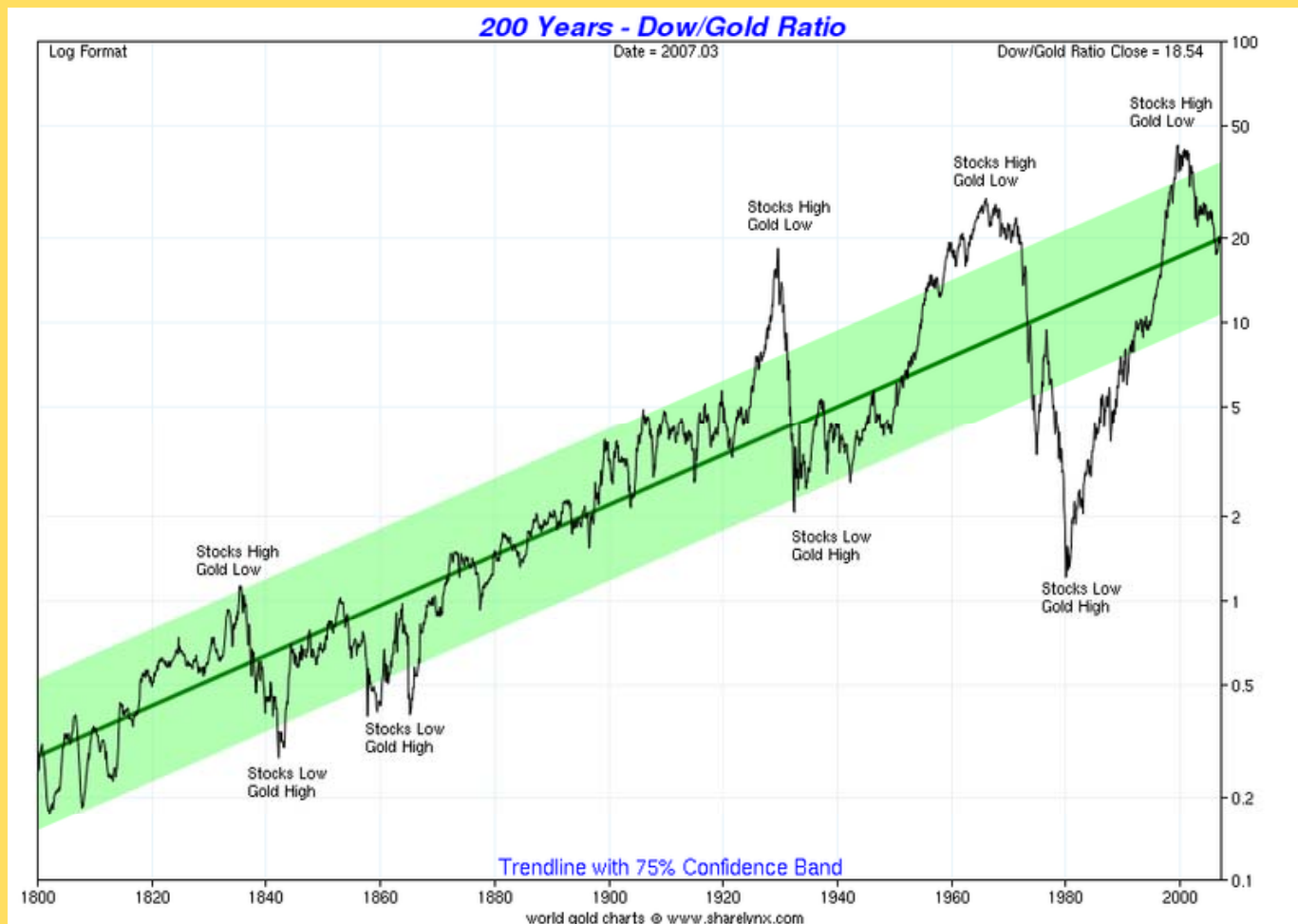
Gold Prices in the 21ST Century

Year	Gold (\$)	HPR	S&P 500	HPR
2000	274.45		1320.28	
2001	276.5	0.75%	1148.08	-13.04%
2002	347.2	25.57%	879.82	-23.37%
2003	416.25	19.89%	1111.92	26.38%
2004	435.6	4.65%	1211.92	8.99%
2005	513	17.77%	1248.29	3.00%
2006	632	23.20%	1418.3	13.62%
2007	833.75	31.92%	1468.36	3.53%
2008	869.75	4.32%	903.25	-38.49%

Source: <http://www.kitco.com/charts/historicalgold.html>



Diversification Benefits



Source: www.ezimages.net/upload/DRISUBS/12-28-07%20Pe



Gold Price Determinants

- Supply :
 - Sources are well identified
 - Reserves can be easily estimated
- The supply of gold keeps slowly increasing with the amount extracted
- Supply is mainly depleted by human actions:
 - Buried gold that is never found
 - Gold used in dentistry

Source: CFA Institute



Gold Price Determinants

- Demand of gold:
 - Carat jewelry
 - Industrial applications
 - Coins
 - Investment

Gold prices are ultimately determined by supply
and

Demand; sounds easy right!

Source: CFA Institute



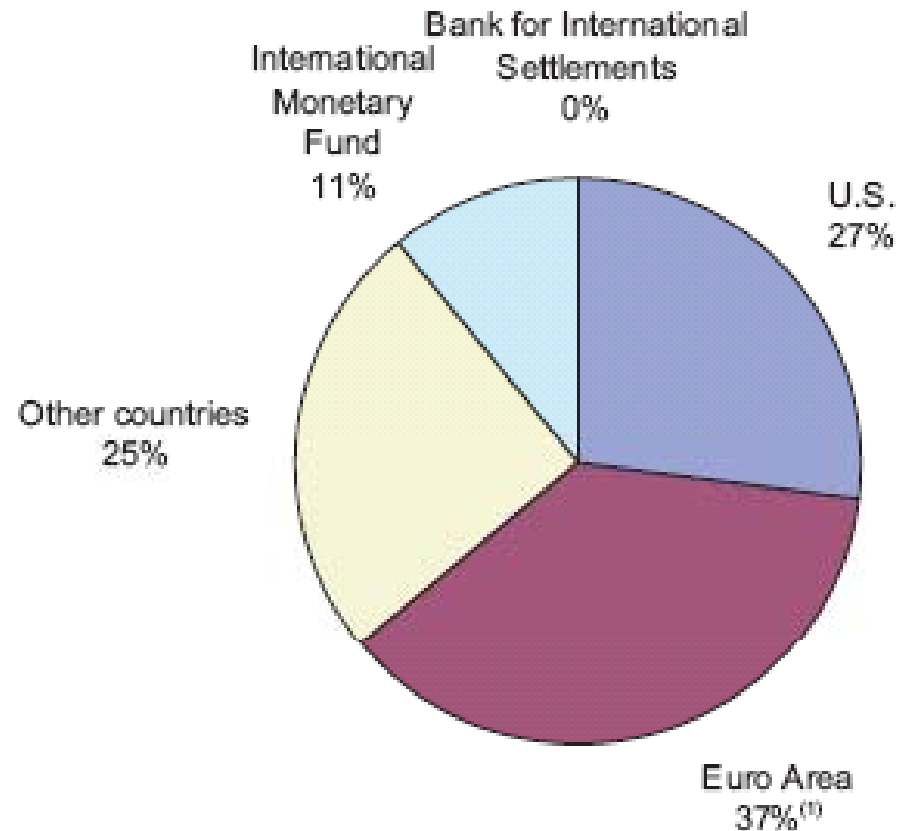
World Gold Supply and Demand, 1998-2007 (tonnes)

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Mine production	2,574	2,602	2,618	2,645	2,618	2,621	2,493	2,548	2,486	2,476
Official sector sales	363	477	479	520	547	620	479	663	370	481
Old gold scrap	1,108	620	619	749	872	985	878	897	1,126	956
Net producer hedging	97	506	(15)	(151)	(412)	(289)	(438)	(92)	(410)	(446)
Total reported supply¹	4,143	4,205	3,701	3,763	3,625	3,937	3,412	4,016	3,572	3,467
Gold fabrication in carat jewellery	3,169	3,139	3,204	3,008	2,660	2,482	2,613	2,708	2,284	2,401
Gold fabrication in electronics	226	247	283	197	206	233	262	281	308	311
Gold fabrication in other industrial & decorative applications	103	99	99	97	83	81	84	88	91	92
Gold fabrication in dentistry	64	66	69	69	69	67	68	62	61	58
Retail investment	261	359	166	357	339	292	339	386	401	402
Investment in Exchange Traded Funds and related products ²	0	0	0	0	3	39	133	208	260	251
Total identifiable demand¹	3,824	3,911	3,821	3,727	3,389	3,194	3,498	3,733	3,405	3,515
Supply less demand³	319	294	(120)	36	265	743	(86)	283	167	(48)



Official Sector Gold

The following chart shows the reported gold holdings in the official sector at December 31, 2007.



(1) The Euro Area at the end of 2007 comprised the following countries: Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, The Netherlands, Portugal, Slovenia, and Spain, plus the European Central Bank.

Source: IMF, International Financial Statistics, April 2008.



Analyst Estimates

UBS slashed its estimates to \$700/ounce

“The revised UBS commodity price outlook reflects an extended recessionary scenario with base metal prices in both 2009/2010 that are mostly below the marginal industry costs and current spot prices.”

“UBS believes gold will remain under pressure in 2009 from a combination of slowing demand for jewelry and disinvestment as inflation slows”

--December 2008

HSBC Fund Returns to
Buying Gold to Hedge

Against Inflation

“Gold is the best
supported of all
commodities”

“People are buying in
anticipation of inflation”

--November 2008



Peter Schiff

- President of Euro-Pacific Capital
- In Aug. 2006 he said “I see a real financial crisis coming for the United States,” with respect to the housing bubble
- In 2007 he said that it would spill over into the credit markets
- Long-term bull on gold and believes that the dollar rally was “phony”
- Believes that efforts by central banks to fight the credit crunch will devalue currency and lead to higher commodity prices
- Sees a great opportunity for the long-term in gold



Analyst Estimates



Bloomberg survey of 21 analysts in December 2008

Source: <http://seekingalpha.com/article/110717-consensus-gold-estimates>



Gold-linked Investments

- Include:
 - Gold bullion
 - Coins
 - Bonds
 - Mining Equity
 - Futures
 - Options on gold/mining equity/bonds



Gold-linked Investment Vehicles

- Gold Bullion ETF (GLD)
- Mining Equity
 - Mining Equity Mutual Funds
 - Mining ETFs



Mining Equity Exposure

- Equities:
 - Barrick Gold (ABX)
 - Jaguar Mining (JAG)
 - Minefinders (MFN)
- [Mutual Funds](#)
- ETFs
 - Market Vectors Gold Miners ETF (GDX)

Gold Bullion ETF

As of January 9,
2008:

Tons: 787.60

Ounces:
25,322,281

Value \$21.5B

Expense Ratio:
0.40%





Gold ETF

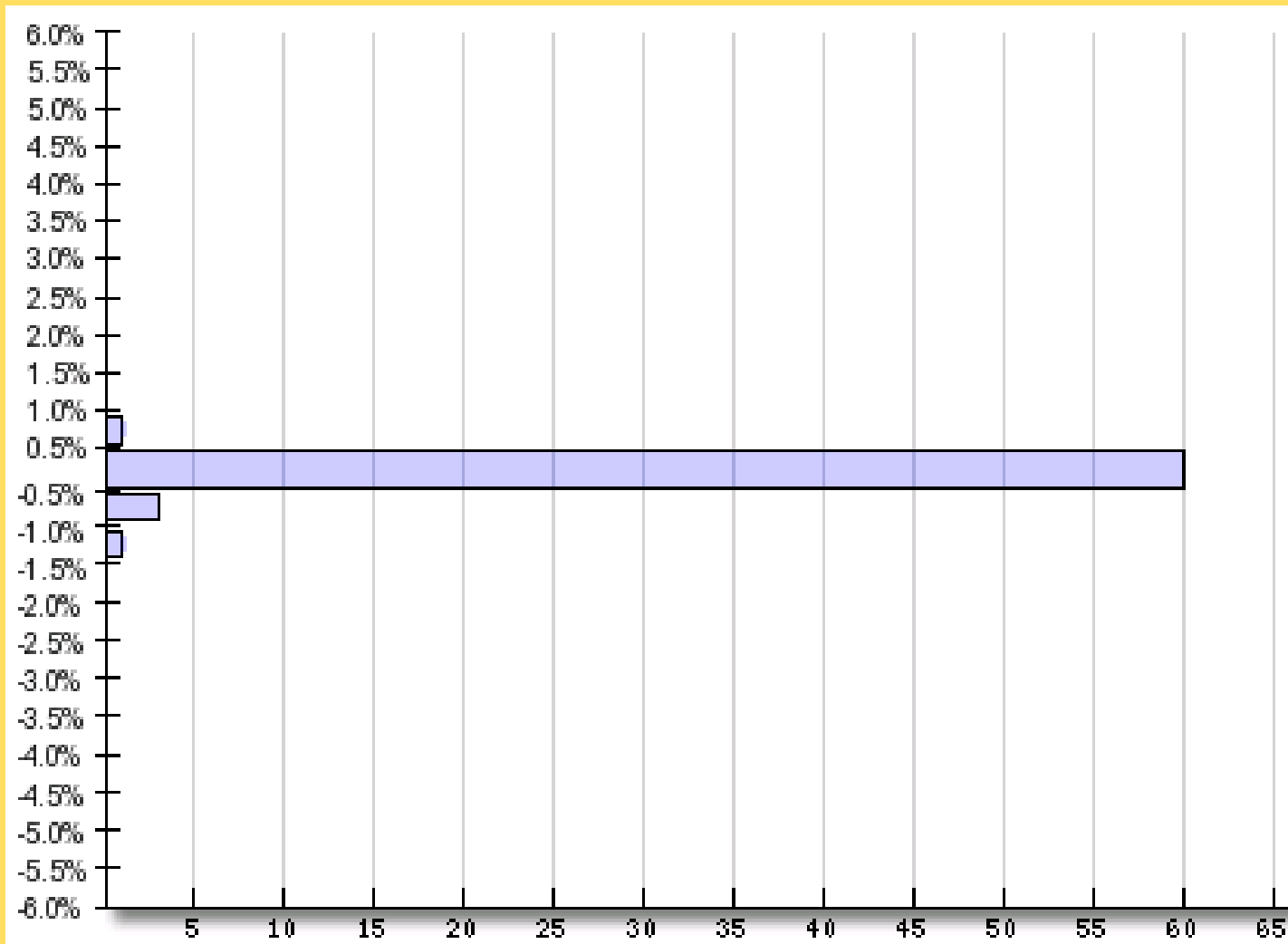
Performance as of 12/31/08

GLD Share Price at Close

Cumulative All figures are to month end [12/31/2008] unless otherwise indicated ** Year to date begins December 31 2007 Gold Spot Price taken as at 16.30 (NYT) note the price may differ from the London PM fix of the same day.	Trust	Gold Spot Price (Mid Point)
**Year to date December 31 2008 (updated between 9.15pm and 9.45pm UK)	+5.13%	+3.58%
1 month	+7.25%	+5.33%
3 months	+1.66%	-1.77%
6 months	-5.31%	-6.62%
1 year	+5.13%	+3.58%
Since inception (to month end)	+93.28%	+94.46%



Gold ETF Premium/Discount Oct.-Dec. 08





GLD ETF Risk Factors

Risk Factors:

- Global gold supply and demand, which is influenced by such factors as forward selling by gold producers, purchases made by gold producers to unwind gold hedge positions, central bank purchases and sales, and production and cost levels in major gold-producing countries such as South Africa, the United States and Australia;
- Global or regional political, economic or financial events and situations;
- Investors' expectations with respect to the rate of inflation;
- Currency exchange rates;
- Interest rates; and
- Investment and trading activities of hedge funds and commodity funds.

Source: GLD



Gold ETF Tax Treatment

- GLD is taxed as a collectible.
- The long-term capital gains tax is 28%.



Questions

QuickTime™ and a
decompressor
are needed to see this picture.