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This May Be the Low

March 12th, 2002

Have the gold mining stocks finally reached their low? We'll only learn the answer to this question in the days and weeks ahead. But the evidence suggests that today marks the low, or at the very least, we are very close to it – just a few days and/or a few points away from it.

The pressure put on the gold stocks the last couple of weeks has been brutal. And the sell-off that we have seen the past few days appears to be a selling climax of sorts. In other words, it feels like a low to me. But let's take a close look at the accompanying charts, which are current through today's close.

The first chart presents the long-term picture of the XAU Index of gold mining stocks. I use the XAU as a proxy for all mining stocks, but the XAU has been under-performing my portfolio of recommended stocks because the XAU includes the big hedgers, Barrick and Placer, neither of which I recommend. Nevertheless, the XAU is still a meaningful indicator of the mining stocks in general.

This chart shows that the XAU is still in an uptrend (marked as #4 on the chart). Therefore, we have reached the level where the XAU should hold. But in the end, we can't foresee the future so we can only wait and see whether or not the uptrend does hold.

Turning to the next chart, we can see the relative value of gold and the XAU. This chart shows how many goldgrams are needed to purchase one XAU.

Generally speaking, when the XAU costs over 10gg, the XAU is expensive relative to gold, and should be sold. Also, when the XAU costs less than 6gg, the XAU is cheap and should be bought. Today the cost on the XAU close was 5.71gg. Yesterday it was 5.60gg. Clearly, by this measure the XAU is very cheap.

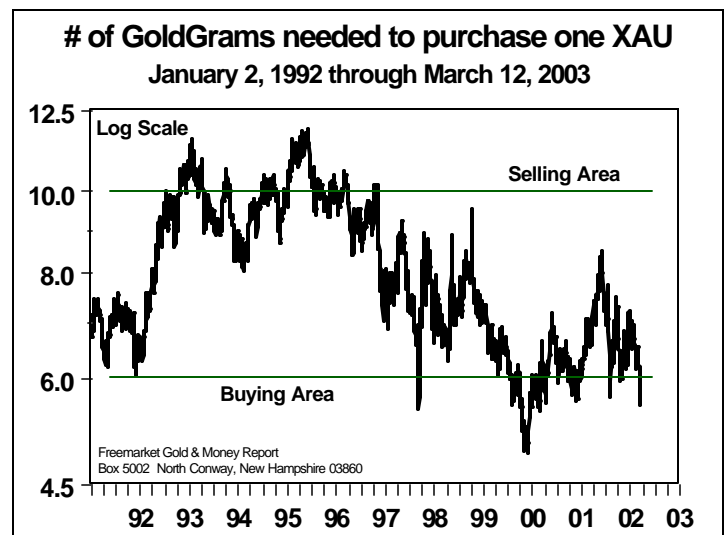
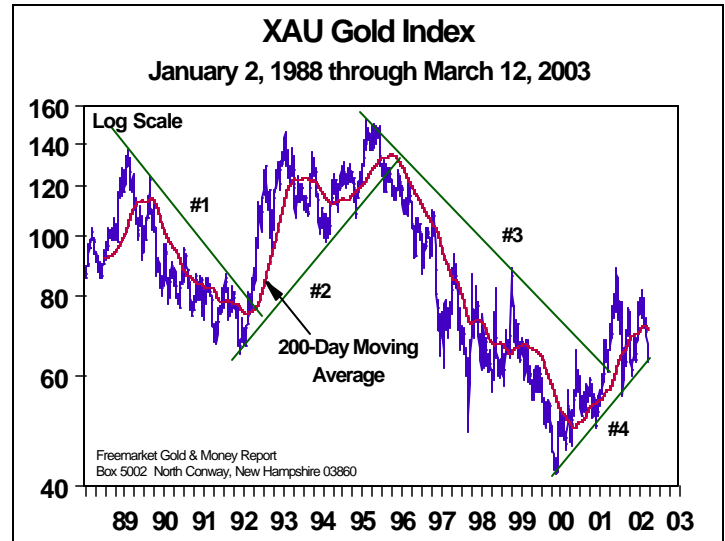
However, we can see that the XAU is not as cheap as it was in October 2000, when I gave my buy signal to get back into the mining stocks. So maybe I'm wrong, and the XAU can get cheaper still. Only time will tell. But this seems like a low, and a safe area to be loading up with mining stocks at what appear to me to be bargain basement prices.

I believe that the mining stocks were hit with the decline in the overall stock market. I see it as a rush for liquidity, where the mining stocks 'baby' was thrown out with the bath water. But again, because we don't know the future, we'll just have to wait and see whether or not this is the bottom.

As I said in the last two letters about the XAU, "this index could fall all the way back into the low 60's and still remain in an uptrend." Now it has indeed met that objective by falling to 62. I didn't think it would happen, but we were prepared just in case it did. Now that the XAU index is down here – if you believe gold is good value, and I do – then keep on buying and accumulating the stocks in my recommended portfolio.

My observations actually lead to a key question about gold. Is the gold price too high and about to head lower? Could the XAU in fact be signaling that the gold price is headed lower?

When it comes to markets, anything can happen, but let me ask this question. With the dollar index at multi-year lows, with



crude oil at multi-year highs, with inflationary pressures in the dollar rebuilding, with US trade deficits over \$40 billion a month, with the federal government debt being increasingly monetized, and the host of other factors that are gold-bullish, and particularly considering that when adjusted for inflation and dollar debasement, gold is much closer to historical lows than highs, should we be bearish about the gold price?

Unless I am missing something drastic, I see no reason to be bearish about gold. To the contrary, the fundamental and technical pictures for gold remain bullish in my view.

Lastly, I'd like to end on a word of caution. These prices in the gold mining stocks may mark the low, but then again, they may not. So don't 'bet the ranch'. But unless I am missing something fundamental about gold and the gold price, today probably marks the low for the mining stocks. ☐