



Ellumination  
April 20, 2006

Have I become a “gold bug”?

June gold futures are trading at approximately \$633 per oz as I write this and the mainstream financial press and the mainstream financial services companies are escalating their rhetoric. They are all saying that gold has entered the “bubble” phase and that it is time to get out. The general message is that only the “gold bugs” would be foolish enough to expect more rises in price from here. Funny thing is that I have never considered myself a “gold bug”, but evidently I am one now and I will accept the label—for now.

By the way, I have always considered the “gold bugs” to be the folks who bought gold through thick and thin during its 20 year bear market. I wasn’t one of them and wish that I had been, at least from 2001 until 2003. It was during 2001 that gold prices really started to make their climb and that trend is still in place today. It would have meant that we could have gotten our clients in on this run earlier. But we didn’t jump on board until 2004. It was at that time that we began to understand that the supply and demand equation for gold and other rare commodities had fundamentally changed. It was no longer a traditional “gold bugs” world in which dedicated buyers stashed away a treasure that no one else seemed to want. The economic awakening of Asia was starting to change everything.

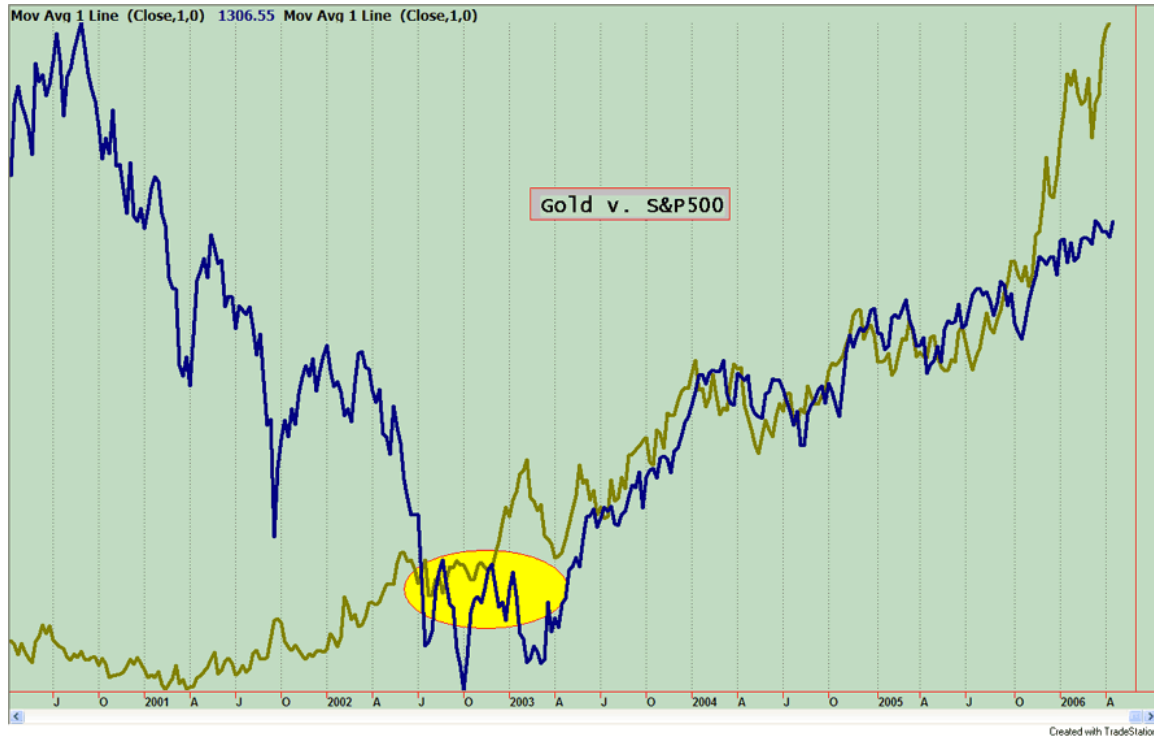
But now I find myself a “gold bug”—as branded by the press—because I do believe that the price of gold has plenty of real reasons to keep rising from here. And we will not be sellers at this point.

I can tell you that the price of gold has been rising faster than we would ever have anticipated. You should also be aware that we may be approaching a point at which the precious metals, including silver, platinum, and palladium all take a breather. It would not surprise me one bit to see gold sell of \$20 to \$30 per oz. in a day at some point in the near future.

We are entering the traditional weak pricing season for gold which tends to run from April to November. It would actually help the longer term bullish case for gold if it did take a breather.

*OK, I just took a break to feed Audrey her breakfast and the June gold futures are down \$18 per oz. How is that for a breather!*

We present you with a chart of Gold v. the S&P 500 which we found on RealMoney.com. You can see that back in 2001 and 2002 we were still suffering the effects of the dot.com bust and 9/11 in the S&P 500, but gold was just beginning to make its run.



They actually moved pretty much in lockstep through 2003 to late 2005. It wasn't until the 4<sup>th</sup> quarter of 2005 that gold started to provide relative out performance to the S&P 500. This paper is not intended to reiterate all the reasons that we think gold will keep going up. We don't have time for that today. It is merely intended to make the observation that we think it will keep going up.

The “fundy-mental” case that we have made several times before has not changed in our opinion. It is probably time to expect a breather, and maybe some increased volatility. To paraphrase a message that I sent to my colleagues at K&A over a week ago:

*I fully expect to see gold challenge the old nominal high of \$850 before this run is over. I am confident that it will reach \$1000. It wouldn't surprise me if it went to \$1500. I could make you a case for \$2200 in the long haul.*

OK, I guess I had better go dust off my “gold bug” wings. Wait a minute; do “gold bugs” have wings?

Paul Krsek  
For K&A Asset Management, LLC