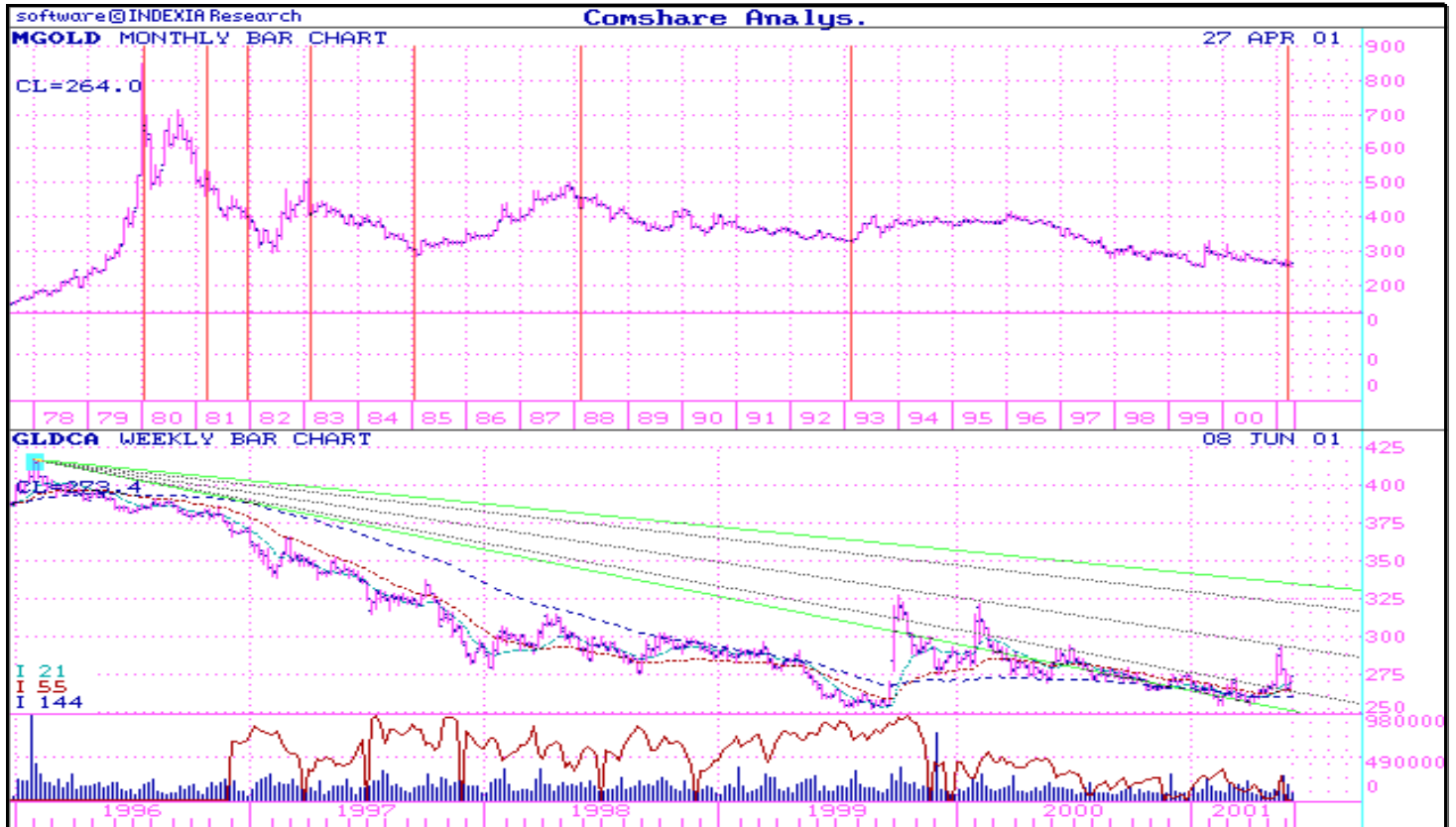




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Why Gold Shares May Boom!

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Monthly Gold: (MGOLD) The Fibonacci sequence shown can be used to identify other points such as the second high in late 1980. If the distance between the 2nd and 3rd points is added to the 1980 top it comes close to the second peak. Other distances shown can be applied elsewhere.

Gold Index: (GLDCA) Fibonacci and "Speed Lines" as shown are very useful in drawing lines of resistance when trend lines are difficult to draw. The centre Fibonacci line has proved to be very important recently.

The Fundamental Outlook:

Gold is priced in \$US terms and it is the potential weakness in the \$US that may inspire world interest in gold. The US has experienced a technology boom and consequently a sharemarket bubble which has subsequently imploded. All booms result in excesses. The US was the epicentre of the tech boom because it had the major companies at the forefront of technology. Overseas funds flowed into America because it had the strongest sharemarket, supported by the best technology stocks. America also had the best managed economy and was performing more strongly than Japan or Europe. A strong economy and strong sharemarket are a powerful attraction for overseas investors. As this combination led to more investment in America, it also fueled a rise in the currency. A strong currency rewards overseas investors by giving them capital appreciation on their US currency holdings. This, combined with a strong stockmarket is an even more powerful attraction to overseas investors.

As such a trend becomes established, momentum begins to be built into the market and a "buy on the dips" mentality prevails. Trends eventually go beyond reasonable limits however, as momentum "investing" or more precisely, speculation, takes over from fundamentals in driving the market. The late comers are buying the hype and past performance and ignore fundamentals as they continue to be rewarded while the market remains on an upward trajectory. Eventually however, the fundamentals must again come into play and the markets will reverse.

\$US Overvalued:

The situation at this time is, the \$US is overvalued and is poised to fall if it is seen to lack growth in its economy compared to Europe or elsewhere. America is running an escalating trade deficit and its overvalued currency makes it difficult for its exporters. On the other side of the equation, the strong \$US makes imports cheap

and US domestic oriented industry also finds it difficult to compete. The trade deficit fell as the US economy slowed however it may begin to rise again as the economy recovers and consumers their spending, sucking in more imports.

The European economy lags the US economy and the slowdown that emanated from America is still affecting Europe. The Euro has consequently been weak however once this phase passes Europe may be the new growth area of the world economy. The low Euro has made Europe much more internationally competitive than the US and overseas investors should eventually act on these improved fundamentals. One of the negatives often cited is Europe's reluctance to drop interest rates to stimulate its economy, but the low Euro is stimulatory by itself and if the world economy resumes its growth, Europe obviously stands to gain.

With America uncompetitive and Europe very competitive, overseas investors should eventually favour Europe over the US. If this becomes a trend, the \$US should fall and this is a favourable scenario for gold as the weaker \$US will result in higher import prices leading to inflation.

Americans may begin buying gold and gold shares as protection against a falling currency. They will also begin buying other currencies as well as overseas bonds and shares. All such investments will help maintain a weaker \$US and as gold is priced in \$US it will be free to rise without the constraint of a strong currency. We need only to look at the \$A gold price to realise what happens to gold prices in the relevant currency when that currency is weak.

Japan is now experiencing a weak currency, resulting in strong precious metal prices in Yen terms. This should encourage buying by Japanese citizens. Asian currencies generally may need to follow the Yen down to remain competitive thus stimulating

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demand for precious metals in the region. Gold has been the traditional store of value for Asians. SE Asian economies are under threat from China which is encroaching on their markets. This also exerts a downward influence on their currencies. With interest rates at very low levels, there is less incentive to take on currency risk by investing in US bonds, making gold a viable alternative in the current uncertain economic environment.

Japan's banking system is shaky and the government continues to lower the limits on deposit insurance which inspires the search for safer havens. Escalating business failures in Japan could lead to the collapse of financial institutions, making bank deposits vulnerable.

Sharp Drop in Interest Rates May be Inflationary:

Alan Greenspan has lowered interest rates in America at one of the fastest rates in history in an attempt to revive the economy and appears determined to succeed. His success will result in Americans spending more, assisted by the recovery in perceived wealth via higher share prices. If consumers go on a buying binge, at some point the trade deficit may prompt a severe decline in the \$US which would lead to imported inflation as overseas goods rise in price and local manufacturers attempt to return to reasonable profits after being squeezed by imports for some time. This could lead to a surge in the gold price and lead to an eventual tightening in monetary policy. This is why gold shares may boom but it is also why they may eventually enter a long bear market—something to remain aware of. Gold shares are not a long term investment but they promise to be a very rewarding medium term trading situation.

Scarcity of Resources, Lack of Infrastructure:

The Tech boom resulted in the diversion of capital that has in previous booms been directed into the necessary expansion of production capacity in a diverse range of industries. A marked downturn occurred in mineral and oil exploration which could eventually result in production of some base metals falling below demand. If we experience another economic boom, the demand for commodities may outstrip supply, resulting in higher prices. OPEC appears to be well aware of not only their limited ability to meet any surge in demand from an oil well production point of view, but also the shortage of tanker capacity to ship oil as well as low refining capacity in the US. This lack of infrastructure almost guarantees we will experience much higher energy prices in the next boom before this situation is resolved. High oil prices are a significant contributor to inflation. The medium term outlook for oil could be for further weakness as it has lagged other commodities. A

fall in oil prices stimulates the economy and if this occurs when the economy is already on the mend, this will add to inflationary expectations.

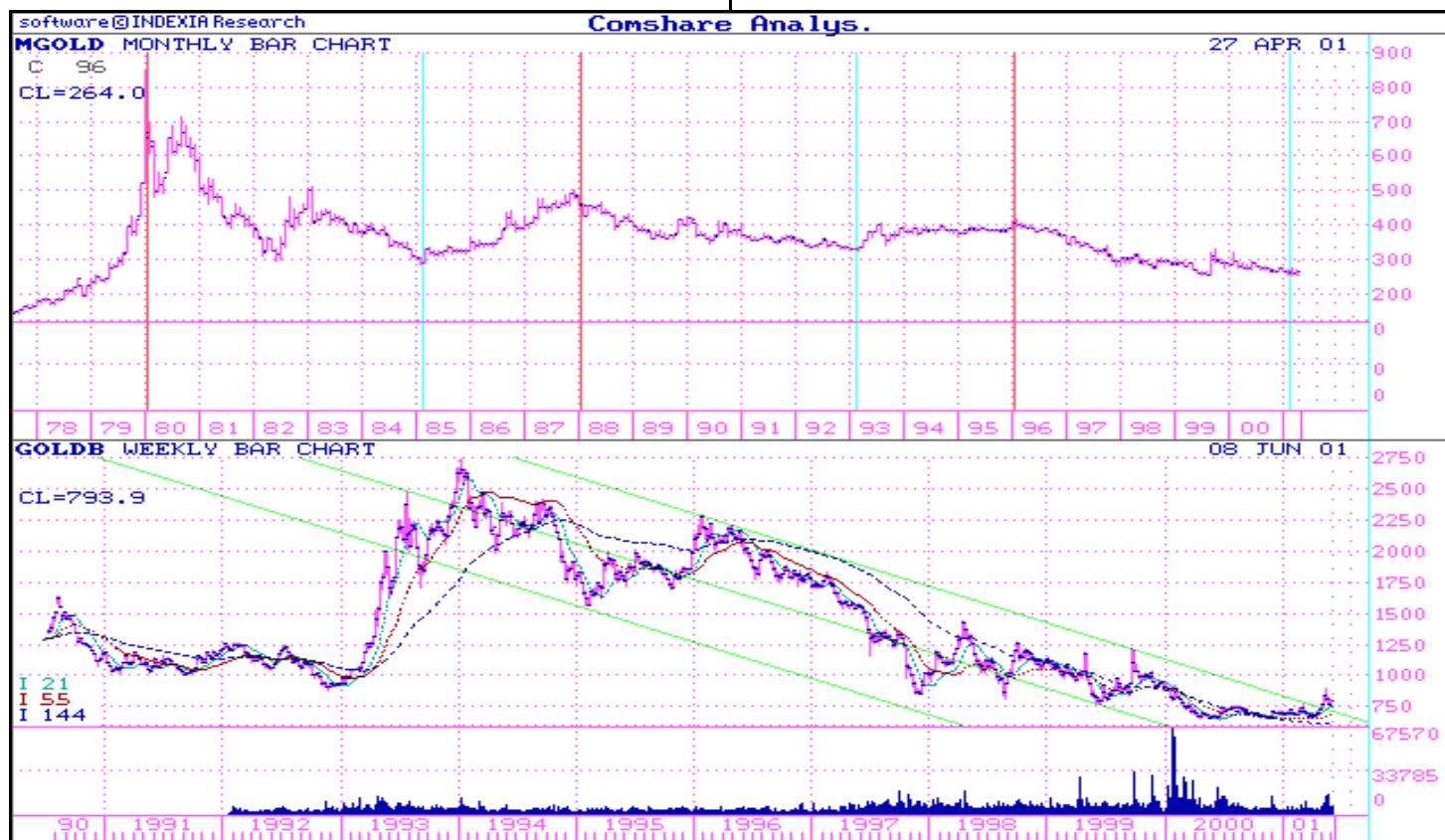
Technical Reasons why Gold May Rise Strongly:

The Fibonacci sequence from the Major high in 1980 shows that all points have proved to be relevant except for the one in late 1981. This suggests an important low has been reached. There is also strong evidence of an 8 year cycle in gold and this is shown on the chart on page 2. Note that there are two series of 8 year cycles superimposed on this chart. The first series starts from the 1980 high and identifies important highs. The second series starts in 1985 and identifies important lows.

The lower chart on page 1 shows how gold has penetrated the lower Fibonacci line but has met resistance on the middle line. A rise above the recent high of \$293.50 would confirm higher levels. The moving averages used here are the 21 week, 55 week and 144 week. A cluster on these moving averages suggests a large move. The last cluster occurred in 1996 and preceded the fall to \$253 in 1999. Gold has formed a large double bottom with the second bottom higher than the first—an indication of strength. The minimum projection off this base is \$365 and the maximum \$402.50. This potential rise of \$112.50—\$150 is much larger than the \$83 rise in 1993 therefore we could logically expect a commensurately larger rise in the Gold index should gold perform as anticipated.

The lower chart on page 2 shows that the Gold Index has broken its downtrend and is correcting back to the breakout point which is a common technical feature. The trendline should act as support. A cluster has also formed on this index. The cluster in 1993 confirmed a potentially strong rise. The Elliott Wave position of the Gold Index is as follows: The Gold Index completed a major W2 target in 1993 and the recent low was a major correction low off this wave. As there are 3 waves up in a bull market, there is a third wave to go. We are now at the beginning of this third wave. The target for this final wave is around 3900. With the index now at 794, the potential upside is almost 400%. This is a good reason to expect an imminent gold boom.

The 8 year cycle on gold suggests it may rally for up to 3 years however it appears, judging by the 1993 experience that a gold share boom may last only around 12—18 months. The gold price could have a strong advance and then trade sideways as it did last time but of course all markets are different and we may need to adjust our expectations to suit current conditions.



Monthly Gold: (MGOLD) Long term charts such as this are necessary to give us an idea as to what is likely to happen now.

Gold index: (GOLDB) A good base has formed. This gives the potential rise a lot of power.