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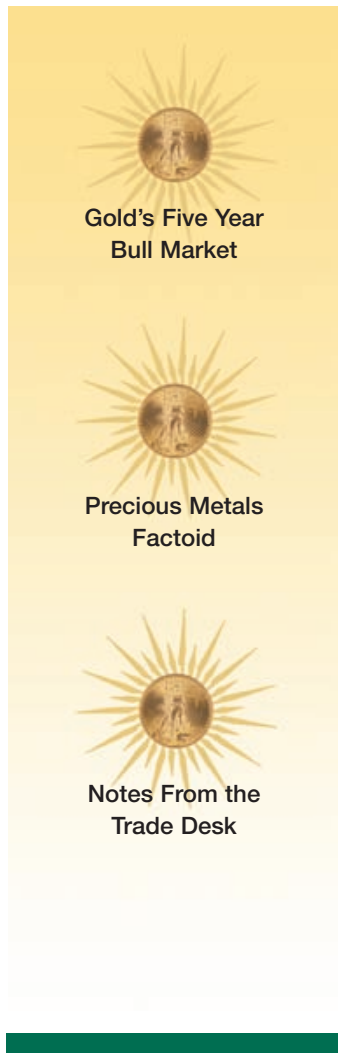
Presents...



Summer 2006

# The Refined Investor<sup>®</sup>

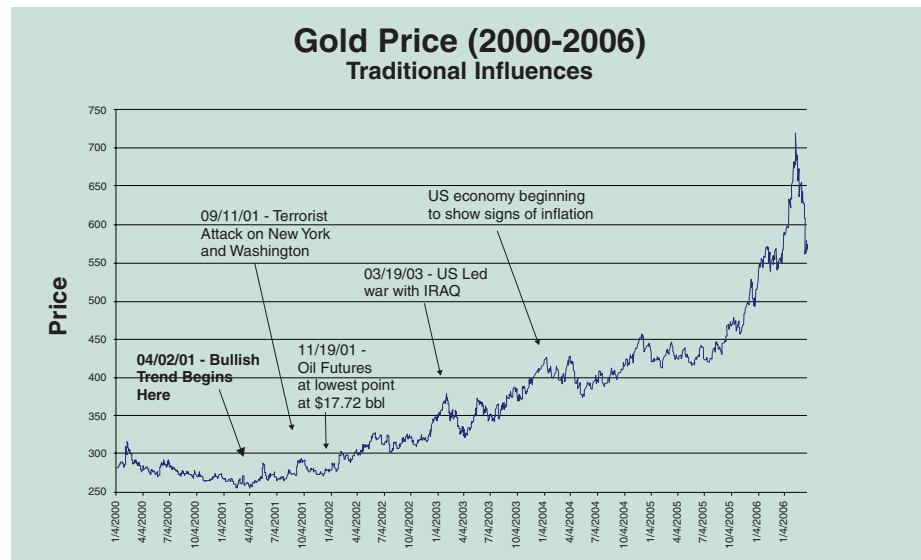
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## Gold's five year bull market and the non-traditional influences that support it.

By Tony J. Anzalone, CFA

In January 1980, the price of gold hit an unprecedented value of \$850/oz. For nearly two decades after that high watermark, the price of gold slowly declined. By April 2nd 2001, priced at \$259.10/oz., gold began what is now recognized as the longest bullish cycle to be recorded in the last 26 years.



Data supplied by: FutureSource by eSignal

Gold has traditionally been a hedge for investors seeking protection against increasing oil prices, political and economic uncertainty, war, and rising inflation. Although these traditional influences continue to benefit the price of gold, other non-traditional influences have also helped gold achieve this landmark price appreciation. Here is a look at some of the non-traditional influences that took place during the last 6 years.

### A Change in Central Bank Attitude

Those of us that remember the gold market during the mid to late 90's may recall the volatility caused by occasional central bank auctions. Just when gold seemed to reach new highs, a central bank would emerge with a fractional sale of its reserves. This unpredictable but reoccurring activity made it clear that the central banks were net sellers of gold. Said differently, the central banks had a deeply rooted aversion to holding gold.

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FidelityTrade Incorporated<sup>®</sup> is a full-service precious metals company specializing in the sales, trading, custody, and delivery of precious metals bullion products for individual, commercial, and institutional clients worldwide.

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This anti-gold sentiment eroded in late 1999 primarily due to two reasons. The first was a dramatic change in how the central banks were going to liquidate gold reserves in the future. Instead of individually dumping gold on the market, the central banks determined that it was in their best interest to coordinate such sales. This belief materialized into a formal arrangement known as the Central Bank Gold Agreement (CBGA) in September of 1999. Here, approximately 14 central banks agreed to cap annual and total sales for a period of five years. Although central bank sales increased by an average of 14% during this five year period, having preset limits on annual and total sales sent a positive signal to the market in general and eliminated the fear of central bank “dumping.” The second reason was anti-gold sentiment switched to an anti-US Dollar sentiment as the greenback clearly stagnated and began losing ground to the Euro. As most central banks held large positions in the US Dollar, retaining gold now became more advantageous.

### Producer De-Hedging

In mid-2001, mining companies, who typically sell futures to hedge their output,

found that there was no need to protect their revenues from falling prices. This environment prompted the gold producers to reduce their short positions thus sending another positive signal that higher gold prices were possible.

### New Investment Vehicles

Demand for gold also changed significantly during this period because of the creation of new investment alternatives. No change could be more significant than the introduction of the new gold exchange traded funds (Gold ETF's) in 2003. Exchange traded funds featuring gold are securitized products listed on various stock exchanges and collateralized with gold. By the end of 2005, 383 tonnes of gold were held by five ETF's and similar vehicles. Because of the introduction of these products, new demand for physical gold was created, further promoting price increases during this period.

### Managed Futures and Hedge Funds

These two speculative groups have been around for decades so their involvement with gold is nothing new. However, what is noteworthy is the significant change in their net open positions of gold held on

the Commodity Exchange in New York. Specifically, these speculators went from a short position of -6,285 to a long of 101,786 contracts or a change of 10.8 million ounces by the end of 2005. Clearly these professional investors were a positive influence for gold.

### Booming Far and Middle East Economies

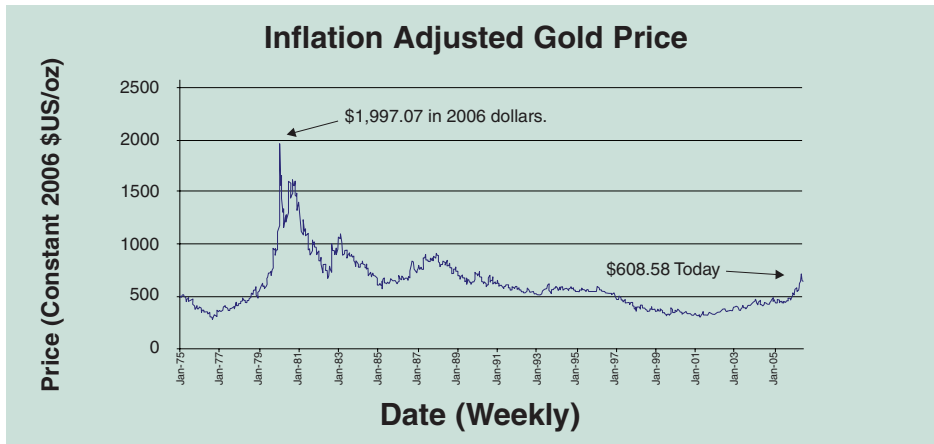
These two regions contributed to an explosion of industrial demand for the precious metals group. Along with silver, gold benefited from a 38.5% increase in electronics manufacturing during this period, resulting in 272.5 tonnes of gold consumed.

These factors are examples of non-traditional events that, when added to the traditional factors, helped drive gold to levels we have not seen since 1980.

### The Comparative Value of Gold

With gold reaching its most recent high of \$732.00/oz, much has been written that remind us just how close we were to the all time peak of \$850/oz established in January, 1980. In a numerical sense this is true, but in terms of real value, we still have a long way to go. Just as \$100 used to buy so much more 26 years ago than it does today, \$850 also would be worth far less today than 26 years ago. The reason for the loss of purchasing power is due to the effects of inflation. Because of inflation, you can't directly compare the recent highs established in 2006 to prices established in 1980. To get a sense of the true value of \$850 as it compares to today, we have redrawn the daily gold price chart to include the effects of inflation. The adjacent chart displays the price of gold adjusted by the average annual inflation rate of 3.34% experienced during the period. Using this rate to reverse the effects of inflation, \$850 in 1980 dollars would equal \$1,997.10 in 2006. Thus the inflation adjusted gold chart indicates that we are still \$1,388.50 away from the all time high in real terms.

## The Comparative Value of \$850 Gold



Average Annual Inflation 3.34%  
Data Supplied by: FutureSource by eSignal

## Precious Metals Factoid

The American Buffalo Gold coins are the first .9999 fine 24-karat gold coins ever struck by the US Mint. These coins were released in June, 2006 and are available at FidelityTrade Incorporated.

FidelityTrade Incorporated  
3601 N. Market Street  
Wilmington, DE 19802

Toll Free: 800-223-1080  
Tel: 302-762-6200  
Fax: 302-762-7570  
www.fidelitytrade.com

GOLD 613.50 ▲ 27.10 SIL 10.92 ▲ .50 PLAT 1241.70 ▲ 41.00 PALLADIUM 263.10 ▲ 6.90

## Notes from the Trade Desk...

- Pay 1/2 price on commission until September 1, 2006. Customers who purchase metal in FidelityTrade's Bulk Custody and Individual Custody programs will pay 1/2 the normal commission on all buy orders over \$10,000. Normal commission will be charged on all liquidations.
- FidelityTrade website has been updated. We now have a Refined Investor archive that dates back to the "Summer 2002". Please visit our site and let us know what you think.