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The Refined Investor[®]

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FideliTrade Incorporated[®] 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.

"Gold Is Back!"

This emphatic pronouncement appeared as the lead sentence in a Reuters article published about gold on April 19th, which also stated that "investor interest is at its keenest for 20 years." This assertion simply underscored the announcements made during the preceding month by such venerable financial institutions as Merrill Lynch, Goldman Sachs, Bear Sterns and HSBC Banking Corp, among others, all raising their average gold price projections for year 2002 to \$300 and above, and for year 2003 to \$320 or more.

As the Reuters article explained, "*Behind the political and economic uncertainty fanning gold higher are strong market fundamentals.*" So, what are those fundamentals?

First, to be sure, the events of 9-11, which led the United States to declare war on terrorism, also motivated people throughout the Middle East and Far East regions of the world to seek the safety of owning physical gold on a scale not seen for many years. Moreover, growing concern about the accuracy and legitimacy of financial reporting by all public companies, and increasing public distrust of corporate leadership generally, now has many investors diversifying their portfolios to include gold.

Without question, these two widely reported developments have by themselves significantly increased the demand for gold, and have helped propel the world gold price upward some 20%, from the mid \$250s to over \$320 during the past year. However, it is important to note that there are a number of additional, and perhaps lesser-known fundamental factors strongly influencing the market at present. Acting together, they are providing an additional upward bias to the gold price.

These include:

- 1. The U.S. dollar has begun to weaken after an extended period of strength.** Because gold is priced internationally in terms of the U.S. dollar, a weak dollar (relative to other currencies) renders gold less expensive for the French, the Germans, the Japanese, etc. to acquire gold. Thus, gold demand globally typically rises when the value of the dollar declines.
- 2. A new Japanese banking regulation** now limits the amount of bank deposits insured by the government to \$75,000. This development has further eroded public confidence in Japan's banking system, and has led many Japanese citizens to acquire gold in unprecedented amounts.
- 3. The gold mining industry is curtailing its hedging programs** (the practice of selling future gold production at current prices to lock-in profits), which effectively have increased the gold supply and depressed the gold price. This development removes a significant influence that has been negatively impacting the gold price for the past 12-15 years.
- 4. Corporate consolidation in the mining industry** is accelerating the ongoing shutdown of unprofitable, and marginally profitable mines that has been underway industry-wide due to the low gold price of recent years, thereby further reducing the supply of gold coming into the market.
- 5. An expected strengthening of the U.S. and global economies** will increase the industrial use of gold.
- 6. The current low interest rate environment** effectively decreases the cost to hold gold in one's portfolio, and discourages the widely used practice of borrowing and selling gold in order to invest the proceeds in higher yielding monetary instruments. Said another way, the opportunity to earn an attractive rate of return in another vehicle is minimized. This circumstance encourages gold ownership and

A Message from the Managers

As of this writing, the gold price is up over 20% in the past year. Moreover, financial institutions are raising their gold price forecasts, and perennial gold bears have turned bullish. So, what's going on? After a 20-year bear market, are we now on the threshold of a new bull market for gold? If so, will it last? This issue of *The Refined Investor* gives you the answers, and if you are a gold investor, you will like what you read.

Also, we announced in our last issue that *The Refined Investor* would present a new series on the precious metals industry, providing a fundamental overview of how the industry is organized, who the various players are, and just how the bullion investment bars and coins are produced and marketed. In this issue, we begin with a look at the gold mining sector.

The precious metals markets are in their most active state in twenty years. If you want to talk with us about these developments, or discuss a precious metal investment, we encourage you to give us a call.

Sincerely, Sincerely,

Michael B. Clark *Jonathan E. Potts*
Michael B. Jonathan E.
Clark Potts

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discourages gold sales, which is highly supportive of the gold price.

7. A five-year extension of the 1998 Washington Accord, the agreement to limit gold sales by fifteen of the world's largest central banks, is expected to take effect in 2004. Such a renewal will help to restrict the amount of gold coming into the market through the remainder of the present decade.

8. Economists are now discussing the resurgence of inflation as a possibility. Perhaps no single factor can more readily drive the gold price higher than rising wholesale and consumer costs.

Not since the early 1980s has the gold market experienced such a cocktail of so many bullish fundamental factors. In fact, this rare confluence of developments is now being regularly cited in the financial media as the backdrop for the new bull market in gold. Indeed, for prudent investors seeking the security of **portfolio diversification and capital preservation** during our time of growing uncertainty, gold now offers the ideal means by which to achieve these very objectives.

The Precious Metals Industry

At the request of our readers, **The Refined Investor** begins in this issue a five part series of articles intended to provide a general overview on how the precious metals industry works. In this issue we review how it all begins...

Part I: The Mining Industry --

Whether a silver spoon, a platinum wedding ring, or an American Eagle gold bullion coin, the rare and precious metals these items contain originate deep in the heart of Mother Earth. The bright shiny stuff we purchase for adornment, practical daily use, or for investment, first exists as minute and widely dispersed particles of raw ore, often deeply embedded in the most remote and inhospitable locations on our planet. Precious metals mining companies start the process. They expend the enormous amounts of time, expertise and funding required to explore, discover, extract, and deliver the precious metals ore to the refineries that render it useful for manufacturing, minting and fabricating the vast array of products that society wants and needs.

Mining companies are multi-faceted enterprises that combine a broad spectrum of managerial and engineering talent and skill with significant amounts of capital to develop and operate a successful mining project. The hurdles they must surmount are formidable. Among other things, they need first to locate lucrative bodies of ore, conduct exhaustive engineering studies of the area to be mined, negotiate and overcome many political and environmental obstacles, and finally obtain adequate project financing, all before they begin to dig or excavate. A new mine can take as long as 5 to 7 years just to bring on line. Once operational, many companies will often process the gold, silver, or other precious metal ore to a partially purified state, commonly 70-85% pure, producing what are known as "doré" bars. These bars are commonly sold and shipped to a refining company, which refines them into highly refined form of precious metal used in manufacturing or for investment.

Precious metals are "precious" in part because they are rare. Consider that a mining company must extract, on average, three tons of raw ore to produce one ounce of pure gold, and ten tons of raw ore for one ounce of pure platinum. By their nature, the operations required to achieve such feats can be enormously demanding on the environment where they occur. In recent years, the mining industry in most regions of the world has become acutely sensitive to important environmental considerations, and companies now routinely go to great extremes to ensure the habitats in which they operate are fully protected and naturally restored.

Precious metals are used in tens of thousands of ways both in products and processes, throughout our global economy today, from oil refining and pace makers to cell phones and film. Few people today realize that we could not begin to enjoy the high quality and innumerable conveniences of modern life that we do today, were it not for the availability of precious metals. While Mother Earth produces them, the mining industry delivers them.

NEXT: The Refining Sector



SIL 4.83 ▲ 0.22 GOLD 317.90 ▲ 5.00 PLAT 560 ▲ 2.10 SIL 4.83 ▲ 0.22 GOLD

Notes from Our Trade Desk... GOLD 317.90 ▲ 5.00 PLAT 560

- For your convenience, FideliTrade can now deliver monthly holding statements to you via e-mail. Please fill out and return the appropriate section of your bill to initiate this service.
- When you buy \$1,000 or more through FideliTrade's Group Ownership Service from now until 9/30/02, we will waive the commission on your purchase. Through our Group Ownership Service, you enjoy the benefits of bulk purchasing power and the convenience of secure safekeeping.
- Call and ask about the beautiful gold Mexican Peso coin. This gold coin is the only gold coin FideliTrade offers that weighs more than one ounce. The coin depicts the Winged Angel of Victory soaring above the ancient mountains of Mexico on the obverse and the Eagle and Serpent on the Cactus (the Nat'l symbol of Mexico) on the reverse. To place an order or to inquire about other products, call us at 800-223-1080.

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