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Gold Stocks: New: Long Term Investment

Old Meme: Dollar Down Gold Up: Essentially Speculation In Foreign Exchange

For many institutions gold stocks are not on the menu. This could change with the sector outperforming the S&P eventually bringing in more aggressive fund managers. This sector is seen as a relatively small capitalization and then there is the financial establishment's native hostility for gold. Also, outside the pale are the goldbugs promoting them to take advantage of dollar depreciation.

Further, for some participants it's "getting even" with the "barbarism" of radical central bankers. Indeed, generations of central bankers at the Fed have ardently believed that gold convertibility limits the Fed's ability to "manage" the economy. More practical researchers understand that a gold standard provides a sound basis for all of finance. Yet others consider that it would be a good thing to have an implacable means of constraining central bank recklessness.

Especially evident with the unprecedented "Lockdowns" and reckless monetary hype by undisciplined authoritarians.

However, financial history is on a path to a lengthy bull market for the sector and it is based upon a stream of increasing earnings – making the sector an investment – nicely bypassing the "Old" dollar depreciation mantra. Covered below under "New Meme", based upon increasing earnings.

The main point of this review is to outline that more than sixty years of positioning gold stocks has been based upon dollar depreciation. And it is worth noting that one of today's dollars has lost almost 90 percent of the purchasing power that it had in 1964. Altogether, since 1913, one of the worst records in the senior currency since the 1500s. An earlier example destroyed the magnificent culture of Rome in the inflationary Third Century.

Chronic inflation is the lamentable result of interventionist central banking, and its dismissal is straightforward. In the early 1900s the original promoters boasted that the Fed could end recessions. Regrettably, the notion, although still appealing, has never worked. Back in the day, "they" knew that recessions followed a financial crisis and the Fed as "Lender of Last Resort" would prevent the crisis and, "presto", no more recessions. In any field of science, only one failure would defeat the theory, but there have been eighteen cyclical recessions since 1914 when the Fed began its operations.

Intrusive central banking is nothing more than bureaucratic ritual, regrettably incapable of self-criticism.

In 1964, I had left the field as a geologist and was working as a mining analyst in the research department of Canada's premier investment dealer. CPI inflation was approaching 1% and was a concern in the financial media and I arranged an appointment with the head of the Bond Department. My question was about the effect inflation would have on the price of a bond as well as upon the coupon. His response was that inflation would impair returns but advised that "Inflation only afflicted lesser countries in Europe or South America".

He noted that both Canada and the US had integrity and would not suffer chronic inflation. Further, Government of Canada bonds that were trading at a little over 5 percent should soon decline in yield. Instead, the yield soared with that inflation to 19 percent in 1981.

A highly esteemed investment dealer could not imagine that government would become so corrupt.

Who got it right in the mid-1960s?

Well, the goldbugs, of which James Dines was an early leader and enjoyed a remarkable career in the financial markets. The theme being that golds were bought because the dollar was going down eventually became widely popular and the last bull market on that theme became technically excessive in 2011. Lately, there are too many pundits going on about the dollar crashing and gold going to $10,000, or even more fanciful numbers.

Practical Theme: New Bull Market For Golds: On Earnings: Which Is Investing

Painfully, the old mantra about buying golds prevailed through the bear market since 2011. And such positioning is essentially a speculation in foreign exchange markets, and it has prevailed as the orthodox convention. Ironically so, because the sector is likely in the early stages of a fabulous bull market, propelled by the real price rising which translates to rising earnings – making the sector an investment. Of course, this would improve valuations of gold exploration properties, in yet another Post-Bubble Contraction.

Since 1720, there have been five such contractions and typically costs of mining declined relative to the bullion price. For example, in 1930 Homestake was trading at $9.00 and at the end of 1932 the stock had gained some 130% and the earnings were up by about that amount. But gold was still priced at $20.67 per ounce. The stock soared to $65 in the mid-1930s and was paying an annual dividend of 4 dollars a share.

To 1933, accomplished with no change in the dollar price of gold, then Roosevelt devalued the dollar to $35, exaggerating the natural rise in the real price.

As the current contraction worsens the careful money will go to the most liquid items, namely short-dated US Treasuries and gold. The first provides a bid for the dollar and the second provides one for gold. Also, one of the characteristics of a contraction has been a firming senior currency. There may not be much change in gold's nominal price.

Gold/CRB is a better proxy for profitability than the CPI, which limitation is that it is posted monthly. Our introduction of the former was published last June and it called for

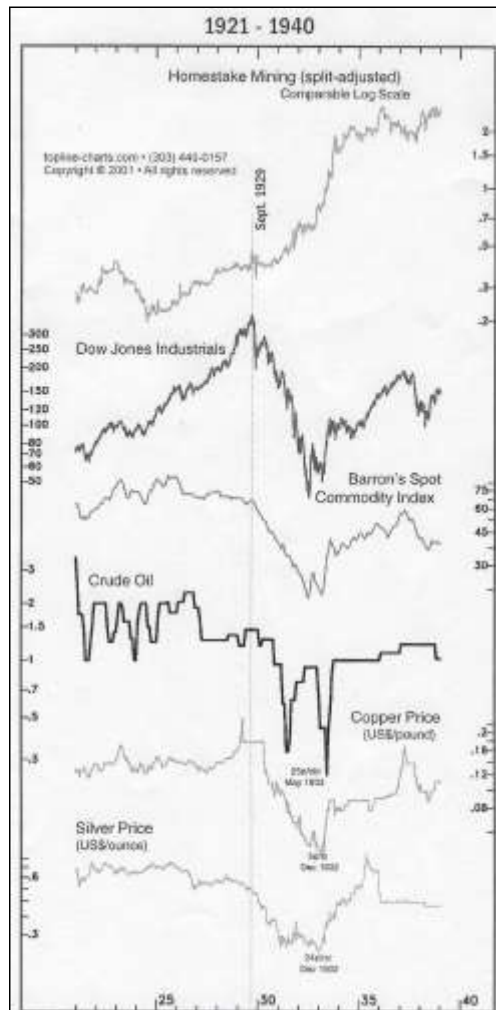
low in the Golds in October-November. The GDXJ set lows at 26 in late September and 27 in early November and the high has been 41, two weeks ago.

The following chart shows the GDXJ underperforming the S&P during the Bubble and what could be the early stages of outperforming.

The next chart, Gold/CRB, shows the relative decline in the proxy for earnings. Of importance is the Five-Month Basing Pattern that was successfully completed as the indicator rose above the 20-Week ema. This has been a reliable pattern in setting up what could be a multi-year trend. This proxy for relative costs puts gold up some 25 percent above the base.

Energy amounts to some 60 percent of mining costs and crude oil is a practical measure. The Gold/WTI proxy is up more than 50 percent from the base. Some mines may be connected to electrical power, but they do use a lot of petroleum products for blasting and hauling ore.

The last chart covers the interplay between key items during the completion of the 1929 Bubble.



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