

Is A Gold Bubble Looming?

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eResearch Corporation is pleased to provide a **PINNACLEDIGEST** article entitled:
Is A Gold Bubble Looming?

Bob Weir, CFA
Managing Director, Research Services

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Is A Gold Bubble Looming?

July 18, 2010

Many professionals, market experts and investors think we are nearing the peak of a gold bubble. Our team at Pinnacle strongly disagrees. We are not of the mind that \$5000 or \$6000 gold is around the corner, but we are confident gold is nowhere near critical mass in terms of demand.

Leading estimates account that roughly 0.8% of all global financial assets are invested in gold, gold shares, and gold ETFs. Consider this: Global financial asset allocation in 1932 (closest situation to what we are in now) for gold assets was 20% and in the last gold bull market, in the early 1980s, it was 26%.

The above facts alone, although purely numerical, should serve as an obvious sign there is plenty of room for investment into gold. If you are of the mind that we are in the worst financial crisis since the great depression, be aware of the 1932 gold investment allocation percentage. If you are of the mind we are in the midst of a gold bull market, be aware of the 1980s gold investment allocation percentage. History has a way of repeating itself.

There's only one bubble...

Sovereign debt, or public debt of global government bodies, is the real bubble. For more than a year, our team has been diligently warning of a fallout stemming from massive public debt levels. The United States is at the heart of western debt as it runs dangerously close to a 1:1 GDP to debt ratio. Sovereign debt on a global level has increased dramatically since the financial crash of 2008 (no need to go into Europe's troubles as it has been beaten to death).

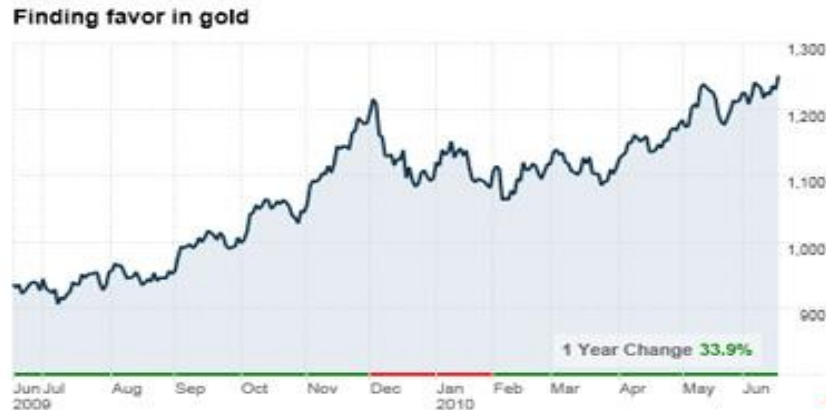
It varies between countries, but sovereign debts on average have expanded by 30% globally in the past two years. Many countries have doubled their debt load from 2007 to 2009 (BIS data).

From 2007 until the present, gold has risen from \$700 per ounce to over \$1200. Gold's value has risen in tandem with the increase in public debt. Government borrowing is the catalyst to gold's rise and will eventually send gold much higher than where it currently trades.

The physical market for gold is showing no signs of slowing down as demand has been rapidly accelerating. The Austrian Mint, which is one of the five largest mints in the world, sold a record, 1.6 million ounces in 2009 compared to only 137,000 in 2007! 2010 should not disappoint as it was reported that in the latter part of April and early May, roughly 250,000 ounces were sold.

Central banks joined the gold buying party in 2009, as they were net buyers of gold for the first time since 1997. India, China and Russia have been the biggest buyers over the past 18 months. Most recently, the Philippines and Kazakhstan have joined the party with big purchases of gold during the first quarter, according to data released by the World Gold Council in mid June.

Gold is up over 30% in 2010 thanks in large part to Central Banks.



Boris Schlossberg, director of currency research at Global Forex Trading, had some comments regarding China's accumulation of gold. He refers to the Chinese as a stealth buyer of gold. China is the world's largest producer of gold and often buys gold from its own mines and does not report those sales publicly. This does not surprise us as China is routinely secretive about where it is investing. Schlossberg went on to state, "Announcing an aggressive gold buying spree is not in China's best interest because, it might push gold prices higher. Also, it could devalue the U.S. dollar, which would subsequently lessen the worth of the country's portfolio of U.S. government bonds." (source: CNN Money)

Demand is coming at gold from all angles as countries continue to fearfully accumulate the precious metal. Our team sees no immediate escape from the strangle hold of domestic and global sovereign debt and therefore sees no reason for gold's price to justifiably fall over the mid-term. We expect it to stabilize and when public debt comes to a head, gold will peak as countries will be forced to devalue their currencies by printing money.

Keep in mind, at some point our debt will begin to shrink and gold will lose its lustre, followed by an aggressive fall but, that day could be a decade away.

The Fight To Stop Deflation

Currently, the Fed's immediate fear is deflation. A deflationary environment is the worst possible outcome for the world economy as it makes the likelihood of paying off debt extremely unreliable. We can't afford deflation as it will cripple many countries' wealth and could send many economies back into a recession, or worse. The last time the threat of deflation was on the horizon (2003), the Fed immediately dropped interest rates to 1%. Well, they don't have that luxury this time around as the lending rate has already been dropped to almost nothing. So, with the US economy on the brink of another stall, we believe the Fed will once again turn the printing press back on as it tries to ignite the US economy one more time. How much will they print? Last time it was over \$2 trillion. If they do that again, expect many countries to shift away from the US dollar as it is nothing more than a faith based currency. Every time the Fed prints more money, global investors lose a little more faith in the dollar.

When faith is lost in the dollar, investors immediately look to other currencies (not many good options out there) and gold, the world's most reliable 'currency' for hundreds of years.

All the best with your investments,