

Biiwii Commentary

eResearch Corporation is pleased to provide an article and video, courtesy of Biiwii.com, and written by Steve Saville of TSI (link to the Author is provided on the following page).

The article, starting on the next page, is entitled: “**The Myth Of Gold Stock Leverage**”.

Biiwii.com was created in mid-2000 solely as a way to help get the message out about deeply-rooted problems about too much debt and leverage within the financial system. The concerns were confirmed and the message proved justified 3 to 4 years later as the system began to purge these distortions, resulting in a climactic washout extending from October, 2008 to March, 2009.

Along the way, a geek-like interest in technical analysis, a long-time interest in human psychology, and various unique macro market ratio indicators were added to the mix, with the result being a financial market newsletter (and dynamic interim updates), Notes From The Rabbit Hole (NFTRH) that combines these attributes to provide a service that is engaged and successful in all market environments by employing risk management first, and opportunity for speculation second.

But It Is What It Is: You can access Biiwii at its website: www.biiwii.com.

Notes From The Rabbit Hole: You can access NFTRH at its website: www.NFTRH.com

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The Myth Of Gold Stock Leverage

By [Steve Saville](#)

TSI

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A few years ago I wrote [a couple of pieces](#) explaining why gold mining is a crappy business. The main reason is the mal-investment that periodically afflicts the industry due to the boom-bust cycle caused by monetary inflation.

To recap, when the financial/banking system appears to be in trouble and/or economic confidence is on the decline, the perceived value of equities and corporate bonds decreases and the perceived value of gold-related investments increases.

However, gold to the stock and bond markets is like an ant to an elephant, so the aforementioned shift in investment demand results in far more money making its way towards the gold-mining industry than can be used efficiently. Geology exacerbates the difficulty of putting the money to work efficiently, in that gold mines typically are not as scalable as, for example, base-metal mines or oil-sands operations.

In the same way that the mal-investment fostered by the creation of money out of nothing causes entire economies to progress more slowly than they should or go backwards if the inflation rate is rapid enough, the bad investment decisions fostered by the periodic floods of money towards gold mining have made the industry inefficient. That is, just as the busts that follow the central-bank-sponsored economic booms tend to wipe out all or most of the gains made during the booms, the gold-mining industry experiences a boom-bust cycle of its own with even worse results. The difference is that the booms in gold mining roughly coincide with the busts in the broad economy.

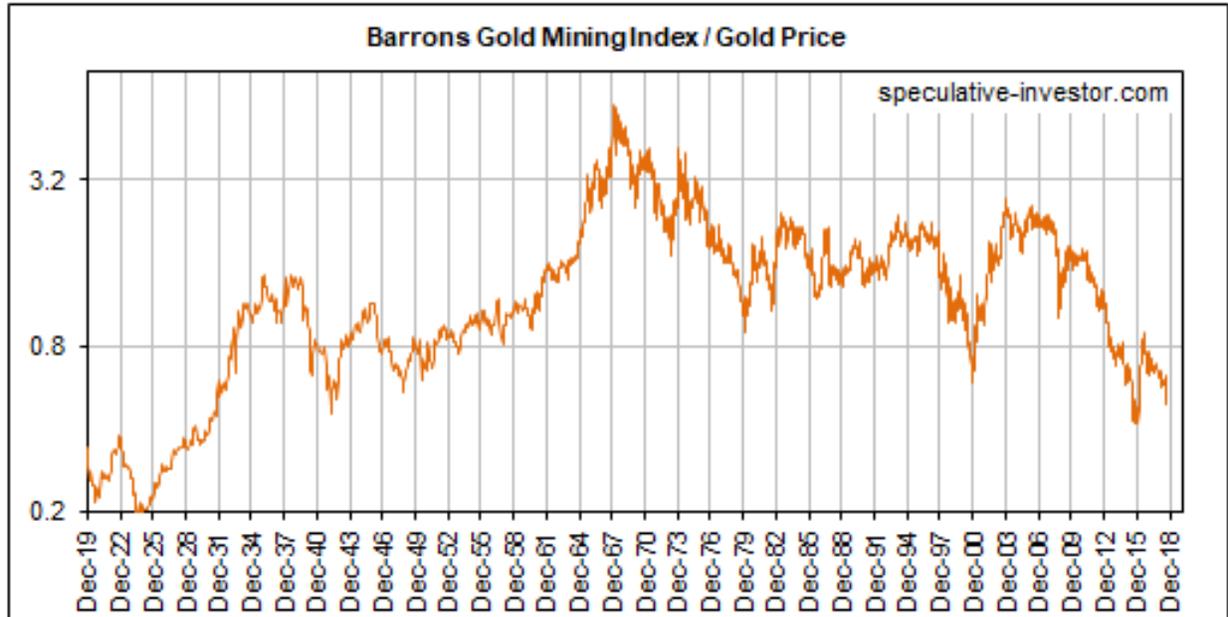
Gold, itself, is not afflicted by the rampant mal-investment that periodically occurs within the gold-mining sector. Regardless of what is happening in the world, an ounce of gold is always an ounce of gold. It is neither efficient nor inefficient; it just is.

A consequence is that gold bullion increases in value relative to gold-mining stocks over the long term. This is evidenced by the fact that the gold-mining sector, as represented on the following chart (on the next page) by the Barrons' Gold Mining Index up to 1996 and the HUI thereafter, has been in a downward trend relative to gold bullion since 1968. 1968!!

Yes, we are talking about a 50-year downward trend in the value of gold-mining stocks relative to gold bullion. For how many more decades will this trend have to continue before analysts stop



referring to gold-mining stocks as leveraged plays on the metal?



There is no reason to expect the above trend to end while the current monetary system is in place. This does not mean that gold-mining stocks should be ignored, as these stocks can generate huge profits for traders who remember to sell when the selling is good. It means that, if you want long-term exposure to gold, then you should own gold, not the stocks of companies that mine gold.

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