High Desert Investment Advisors
Albuquerque New Mexico
Voice - 505-797-2644 or 505-469-3467
Fax - 505-797-1901

Serving Your Personal Investment Needs Since 2003

INVESTMENT LETTER - GOLD

September 22, 2011

WHAT IS HAPPENING TO THE PRICE OF GOLD??

Summary:
There will be a lot more volatility in the price of gold in the coming weeks.
For traders of gold, now would be a good time to sell.
Wait for the bottom to occur and then repurchase.
Once the value of the US Dollar reaches the top of this run (it is going up now) and begins to decline, it will be time to buy gold again.
If you want to hold your position, you should use the 10 month moving average to guide you as to the stop loss, and repurchase points.
10 month moving average – today = $1,500. Sell when the price of gold is below the 10 month, end-of-month, moving average

****

Because there has been a lot of interest in gold and in gold mining companies, it seems appropriate to spend some time discussing these investments.

As I have said before, this is a commodity that is very difficult to manage as an investment. It truly is a trading vehicle and not an investment vehicle (unless you want to buy gold, the metal, and place it in your vault, to await the day when gold becomes the only viable currency other than barter! – Not that I am suggesting this is likely…).

To participate in the gold market, we have recommended the use of a mutual fund for that purpose – The Permanent Portfolio (PRPFX). This is a fund that contains 20% gold, 5% silver, Swiss Franc assets, energy resources, US Treasury Bonds, corporate bonds, and other NYSE stock investments. The fund has shown a steady growth and a very low level of volatility, balancing off the risk of gold and silver, with the support of cash, Treasury Bonds, SF currency exposure, and natural resources. Over the past 10 years, this portfolio has generated over 11% compounded return. During the worst period of 2008-2009, this fund was down about 20%. Since early 2009, it has gained 60% and is about 33% above its 2007 high value. **This is a fund that a long term investor can continue to hold even when the price of gold becomes volatile and at high risk for losses.**

The issue of price volatility, makes gold - the metal commodity - a less attractive investment, particularly for portfolios that have a need to achieve predictable, long term, asset returns.

Over the last 2 ½ months, the price of gold has gone from about $1,500 per ounce to a high of about $1,900 per ounce. In January, 2010, the price of gold was $1,100 per ounce. Whenever this kind of growth occurs, the market becomes very overbought, and probability develops a strong bias for losing much of the gains that have occurred. Today, the price of gold is back at about $1,767 and we are likely to see perhaps another 250 points more on the downside. The price risk is probably down to about $1,500 per ounce, today.

The target 38% retracement is to $1,400 per ounce.

The primary moving force for the price of gold is the value of the US Dollar. The price correlation is quite high between the two. As the value of the currency goes up the price of gold decreases. Gold has value as a surrogate currency; but there is very little value attributed to the price of gold for uses in jewelry or in manufacturing processes. What this means is that there is no useful fundamental model for determining the future value of gold; the only useful model employs technical analysis. Thus, for our purposes, that is what we have. We model the US Dollar, from a technical standpoint, and we analyze the gold chart from a technical basis, using both to predict the forward value of gold.

Sincerely,

Dick Brackett
High Desert Investment Advisors