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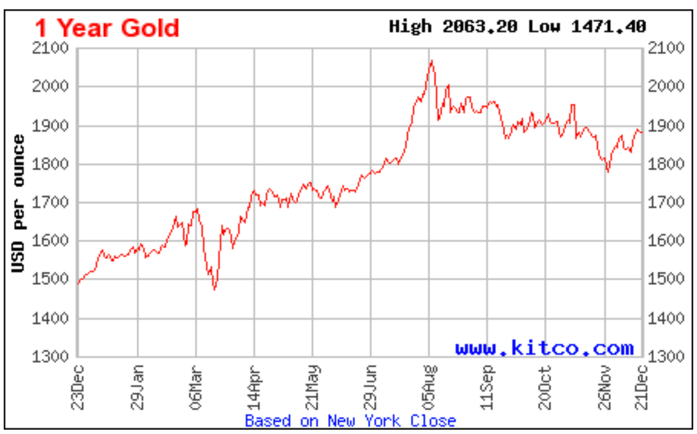
Ready for Round Two

Dear friends,

2020 was a landmark year for gold. Not only did it outshine all currencies, it also did substantially better than financial markets. While U.S. Treasury bonds ended the year with a gain of 3.6% and U.S. stock indices appreciated 15.5%, the yellow metal came in at +24.6%. To investors, that meant two things: a gold holding boosted overall returns and helped reduce portfolio volatility.



Some pundits urge caution going forward. While I agree that the move from roughly $1,500 at the beginning of last year to nearly $2,100 at the beginning of August begged for a correction, I view the current environment as one that should not only benefit gold, but is likely to transport it to much higher levels.

My reasons are simple:

-The nearly five-month period of robust and healthy profit-taking seems to be ending;

-Monetary policy is ridiculously and dangerously permissive;

-Fiscal support packages that were unimaginable in scope just a year ago have been implemented in all major economies, with more to come;

2020 Performance	in percent
Gold	24.6%
U.S. stock indices, average	15.5%
Emerging Markets stocks	14.6%
U.S. corporate bonds	9.7%
Europe, Australia, Far East stocks	5.1%
U.S. Treasury bonds	3.6%
Canadian stocks	2.8%

-The flight out of the U.S. dollar is on; it will take years to push the U.S. currency off its reserve currency pedestal, but the benefits for foreign central banks to increase gold holdings are immediate;

-Geopolitically, the world remains a dangerous place; judging by the Biden team’s distinctly hawkish and pro-military components, the next four years are unlikely to see a reduction in global tensions;

-Gold’s commodity fundamentals remain bright; a $2,000-plus gold price will help producers achieve solid profitability, but it will take years until we see meaningful increases in mine supplies;

-Price pressures will rise; central banks have acknowledged this and, in some cases, announced they are ready to adjust their stated inflation ceiling upward.

Given this backdrop, my advice remains unchanged: hold 15% of your invested assets in physical, segregated gold, in a gold-friendly jurisdiction. My choice of Canada is based on two realities: the country is a gold producer of note and the government is in the business of minting the world’s best-selling gold coin, the Maple Leaf. Interference with private gold ownership is unlikely.

If gold outperforms other asset classes the way I think it will, wait until your bullion holding equates 17.5% of your assets before cutting it back to 15%. Conversely, if gold weakens, bring your holding back to 15% on any weakness. In other words, prepare for the second round of gold’s secular bull market!

Let us know if we can help.

Best regards,

Peter Cavelti