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Investor's Digest of Canada

November 2, 2012 Vol. 44, No. 20. Pages 389-412 $6.00

New rules will boost gold

By Nick Barisheff

Over the past 10 years, gold has been a big winner, according to the World Gold Council.

Not only has the metal posted annualized returns of 13.45 per cent over the past 10 years, but it has racked up a return of 16.21 per cent over the past five years.

And although this is an impressive run, the gold bull could snort even more loudly, given the recent decision by the U.S. Federal Reserve to unleash yet another round of quantitative easing.

Indeed, in the midst of this officially sanctioned, open-ended expansion of the greenback, gold, as well as other hard assets, has no choice but to go up.

The Fed's justification for the third round of monetary easing is that it will spark job growth.

But with Japan, China and the Euro zone also now easing up on their money supplies, central planners are willfully destroying the value of their currencies.

For folks invested in stocks, bonds and real estate, the moves by the central banks portend a massive destruction of wealth, for which the simple defence is buying and — holding — physical bullion.

Following the Fed's recent decision, gold told us something many of us had suspected.

Indeed, the Real Dow, which is the Dow Jones Industrial Average divided by the price of gold, actually fell by 0.65 per cent the day the Fed announced its decision.

Although the Dow did manage to go up that day by 1.6 per cent, gold went rose 2.2 per cent.

All told, since August 2000, the Real Dow has quite possibly fallen by 81 per cent — the worst economic performance since the Great Depression of the 1930s.

Besides quantitative easing, there are other market demand forces pushing gold forward.

Let's start with the central banks. Dissatisfied with holding depreciating euros and U.S. dollars, the banks have become net buyers, rather than net sellers, of gold.

Apart from purchases by China and Russia, South Korea, Turkey and the Ukraine have turned to gold as a store of national wealth.

A major financial reform also bodes well for gold prices. In response to the market meltdown of 2008, the International Basel Committee for Bank Supervision has proposed many new capital, leverage and liquidity standards to strengthen the banking sector.

Under the new standards, gold would not only have a 100 per cent weighting, but be considered a free tier one asset for commercial banks.

Currently, gold, which has a 50 per cent weighting, is considered a tier three asset.

At the same time, the new rules propose to raise the capital that banks must set aside to maintain capital adequacy — a potential double win for gold prices.

In sum, the proposed rules would return gold to its historic role in the global monetary system, while flashing a worldwide signal that the metal is a wealth-preserving asset — and a store of value.

Before stating my own long-term price objective for the metal, I'll point out a counterintuitive trend that speaks to the price of gold, along with the principles of uncompromised ownership of physical bullion.

As bullion's popularity rises, more schemes, frauds and leveraged investment products come to light to part investors from what could be their real money.

At the core of all these schemes, often buried in the fine print, is a shaky or non-existent bullion ownership structure.

For any bullion product, be it a fund or bullion itself, it's crucial to demand documentation that legally transfers title to specific physical bars, rather than accept IOUs, paper proxies or derivatives.

All told, history will show that this third round of quantitative easing will be finacialization's last stand.

The important thing to note is that without exception, every fiat currency regime in history has led to hyperinflation followed by the currency's complete collapse.

I believe that a reasonable five-year price objective for physical gold is US$10,000 an ounce.

For a deeper understanding of where gold is going, I'd urge you to pre-order my book, *$10,000 Gold: Why Gold's Inevitable Rise is the Investor's Safe Haven.*

It's available from *Amazon.com*, or, alternatively, from your favorite bookseller.

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