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May, 2024

Gold Sector: The Early Stages of a Multi-Year Bull Run

Long and Great Bull markets for Golds typically follow a Great Financial Bubble.

Using previous examples, the bull market could be long, global and at times euphoric. History shows that some have run for two decades, culminating in the discovery of a storied alluvial deposits. Such as the last great rush for gold at the surface – the Klondike – which was a form of madness driven by the long rise Gold's Real Price. The Depression naturally featured high unemployment that was suffered virtually around the world.

Typically, an individual prospector made the discovery and if big enough larger companies got involved. Whatever, all the “easy stuff” with significant amounts of gold at the surface have been found. What's more virtually the whole surface of the land mass has been explored.

The Klondike discovery was made in 1896 and about a 100,000 of those eager to make their fortune made the long and difficult trip. All the easy and productive showings were discovered and worked out by 1899. Enterprising merchants providing goods and services likely made and kept the most money.

As deflated by the CPI, Gold's Real Price trends down in the final phase of a Great Financial Bubble. Starting with the South Sea Bubble in 1720, the 1929 extravaganza was number five. Ours is number six. And typically, as the real price increased it enhanced profit margins for gold miners. Significantly and for some 20 years, making growth in the sector outstanding. Which contrasted to generally depressed business conditions.

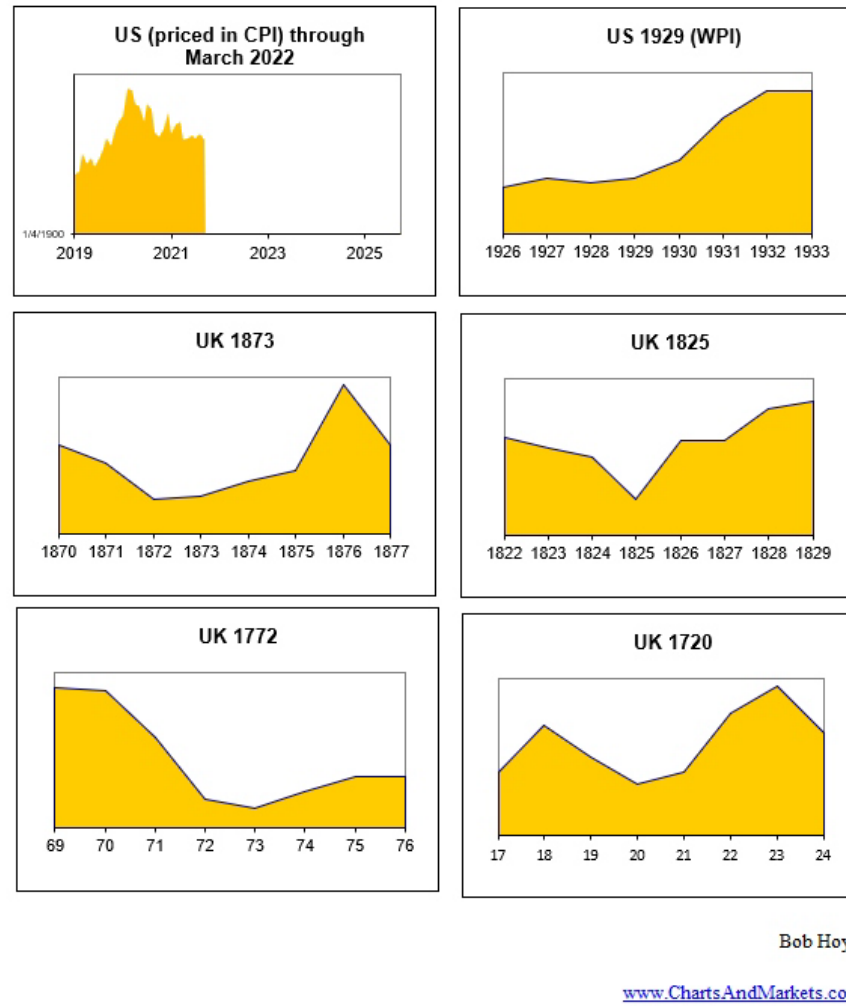
The typical increase on annual averages has been 1.7 times, so let's look for a double.

Increasing gold production has been Mother Nature's way of restoring liquidity to the system when the collapse of over-specified “paper” is destroying apparent liquidity.

Eventually each Great Financial Bubble climaxed in a fury of speculation that included swarms of newcomers to the stock market. Four out of five were followed by a Great Depression, with the first description as such made by British economists in 1884. That key bubble completed in 1873 and the Depression lasted to 1895.

The following records the pattern for the Real Price through every Great Bubble:

Deflated Price of Gold During the Dramatic Climax of all Great Financial Manias



Worth repeating is that the play in the Gold Sector continues out for some twenty years to the end of the Depression. When the sensational rushes brewed up. One example was made at Sutter's Mill, on the American River just inland from San Francisco. That was in 1849 and the excited "prospectors" were eventually called "Forty-Niners". That Great Depression bottomed in 1844-1845.

That population rush sped up California becoming a state in 1850.

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HISTORY OF GOLD RUSHES

GREAT TROUGH	GOLD RUSH DATE	COMMENTS	NEXT FINANCIAL MANIA
1690 – 95	1696	Mining camp of Ouro Preto (<i>'Steel-Coloured Gold'</i>), Brazil. Some 400,000 Portuguese rushed to what became known as Ouro Preto. Farms were abandoned and 500,000 African slaves that were working in sugar were purchased to work the discoveries.	1720
1740 – 45	1744	Urals <i>'The first noteworthy discovery of gold near Ekaterinburg.'</i> <i>'Considerable quantity of gold'</i> . World production peaked 1741-60.	1772
1790 – 95		No rush evident. However, this great depression period was anomalous as the deflated price of gold did not appreciably rise from 1772 to 1795. With this, the average annual world production of gold declined.	1825
1840 – 45	1840 – 41	<i>'Unprecedentedly rich placers between the Upper and Stoney Tunguska Rivers. Allowing for the peculiarities of Siberian geography and Russian economic and social life, it acquired something of the momentum of a rush.'</i>	
	1849	California – well known. Significant increase in world gold production. Discoveries near Melbourne, Australia prompted an outstanding rush in the 1850s.	1873
1890 – 95	1897	Klondike – well known. Significant increase in world gold production.	1929
1938 – 42		World War II and geologic fortune seems to have constrained any potential 'rushes'. However, world production more than doubled with the improving deflated price of gold.	2007

Although not evident in every century, the great gold rushes occurred close to the trough of a great depression. The driving force seems to be high unemployment with the secular high real price of gold typically found as long post-bubble contraction ends.

Gold's real price as represented by our Gold/Commodities Index set an important low at 143 in May 2007. With this credit contraction it has increased to 405 in June 2010, which is a significant increase and within a pattern that could run for many years.

Perhaps this could eventually prompt another great gold rush.

All the great rushes involved alluvial gold at the surface which literally enabled gold to be obtained with very little in the way of tools. These started with a gold pan. The next stage included a shovel and pickaxe, then sluice boxes. As noted above, the Klondike Gold Rush began in 1896 and was essentially exhausted by 1899. Eventually mining grew to include the large dredges with Yukon Consolidated Gold Corporation Dredge No. 4 operating from 1923 to 1966.

In South Africa the Witwatersrand Rush started in 1896 and by 1899 the nature of the system required huge mining equipment when the region was producing more than 20 percent of total world production.

With that Great Depression ending in 1895, even the remoteness of South Africa did not deter eager prospectors.

An illustrative method is to deflate gold by a commodity index. Gold/CRB is convenient as the CRB is a reasonable proxy for mining costs. And as costs decline relative to the bullion price, profit margins increase, and Gold Miner's earnings begin a long rise – driving their stock prices up. Which contrasts with the hard times suffered by most of commerce and industry.



Our “Buy” on the Sector was last October and gains in the Sector have been worthwhile.

Through the bottoming process veteran traders like to accumulate small cap Golds. In 1996 we made a list of five, one of which was Arequipa which soared to \$30. The approach takes patience, and we have made the following list:

ARIS MINING CORPORATION ^D	4.42
BLUESTONE RESOURCES INC ^D	0.230
COSIGO RESOURCES LTD ^D	0.045
CALIBRE MINING CORPORATION ^D	1.28
ALMADEX MINERALS LTD. ^D	0.265
AUGUSTA GOLD CORP ^D	0.79
HARFANG EXPLORATION INC ^D	0.130
HIGHGOLD MINING INC ^D	0.335
HELIOSTAR METALS LTD ^D	0.265
LIBERTY GOLD CORP ^D	0.290
LUMINA GOLD CORP ^D	0.370
RIO2 LIMITED ^D	0.385
ROCKHAVEN RESOURCES LTD ^D	0.065
STRATEGIC METALS LTD ^D	0.195

The bull market for the Golds could run for years with some outstanding rallies for companies from Majors to Juniors.

