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# Gold Stocks Outperform Bullion: Hugely

In the 1960s the advice to position gold stocks against potentially serious depreciation of the dollar was unorthodox. And from time to time, it was the right call. However, such a view now has become orthodox and as far as opportunity goes – inadequate. The right call now requires a full understanding of how gold and gold stocks behave through the climax and crash of yet another great financial bubble. Unorthodox now is to look at the history of gold's price through all five previous bubbles. That with the senior currency being convertible at a fixed price from the early 1700s to 1926 requires using the price deflated by the CPI.

And the 300 years tells the story that with the climax of a great bubble Gold's Real Price goes down. And gold stocks underperform and then get trashed on the initial phase of the contraction. Both have happened which is setting up a lengthy bull market for the sector. Golds will not just go up but could outperform the S&P for many years. Indeed, fund managers who would not normally position golds, will have to own them.

There are other items that distinguish the transition to post-bubble contraction. After rising, copper's real price goes down (✓). Real long interest rates turn up (✓) as the senior currency firms (✓). The contraction is now undeniable.

However, Gold's Real Price has yet to turn up. But a proxy, Gold/CRB, has decisively reversed to rising in a pattern that leads to a lengthy rise.

This pattern starts with a severe oversold followed by a five-month base, successfully completing as the Gold/CRB rises above its 20-Week ema. That was at 6.11 in early November. Breaking above 6.45 would set the uptrend and in reaching 6.80 it has. The gain from 6.11 has been 11 percent.

And the trend could be associated with rising earnings for gold miners as costs remain low relative to whatever the bullion price is. Even stronger has been a similar pattern for Gold/Crude. The point being that mining costs include about 60 percent for energy. By extension such numbers also enhance valuations for gold exploration prospects.

The gain for Gold/Crude has been from 19 to 25.5 or 34 percent.

In the final analysis, the reason this works is because gold is money. In a boom it loses purchasing power and in the subsequent contraction, it gains purchasing power.

Beyond this is the mechanism whereby in a contraction the careful money goes to the most liquid items. Namely shorter than one-year US Treasury notes and gold. So, in the face of financial distress, there will be a bid for T-Bills, the dollar and gold.

The bid for the dollar and gold at the same time suggests that rallies for gold in dollar terms will be limited. That with a lengthy and at times fabulous moves for all classes of gold shares as the place to be. Indeed, in 1931 Homestake could be accumulated at $9 and by the end of 1932 when the price of gold was still at $20.67 Homestake's earnings were up by some 130% and so was the stock price. Costs of production had plunged with the Depression.

Homestake soared to $35 and in those days earnings were dividended out. And the $9 purchase was getting $4 per share in dividends.

And that is how the Gold Sector does so well in a post-bubble contraction.

The orthodox buying of the sector based upon the dollar going down is essentially a speculation in foreign exchange fluctuations. A method now past its shelf life.

More constructive is positioning the sector based upon a stream of increasing earnings, which is investing.

Accumulate the golds from "Majors" to "Juniors".


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