

***Please note:** In the editing process, the following sentence was added to my article without my know ledge: "Now that gold has broken through \$1,000 convincingly, I believe the next stop is \$1,200." The article was written on August 20th, when gold was trading at \$940. At that time, I wrote: "**Over the next month or so, gold should be trading above the \$1,000 mark.**"*

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Gold Will Perform in Any Economic Scenario **Adrian Day**

There's a lot of noise suggesting the U.S. economy has bottomed and the stock market is beginning a new bull move. But that's just what it is: noise and bull. **The one asset that will likely perform well in any scenario, both in the short term and longer term, is gold, and it should be part of a portfolio now for every investor.**

Gold is typically weak during the summer

Summer is traditionally a soft period for gold, with the metal peaking in May and then declining for the next couple of months. Gold recently peaked at \$983, right on schedule, though the decline was modest, bottoming in the low \$900s in early July before recovering to today's \$1000+. Indeed, the action of the past month and a half is strong, with an upward channel of higher peaks and higher lows. The correction is over. Gold stocks also tend to be weak during the summer, but typically lag bullion in this seasonal cycle, with the juniors especially weak through the end of August.

There are reasons for these seasonal patterns: gold itself responds to the various major global holidays, with their associated heavy gift buying, from Ramadan beginning (this year) at the end of August through to the Chinese New Year in February. As for junior gold stocks, with families on vacation in August, retail buying in this sector dries up. This, of course, presents an opportunity.

Why hasn't gold performed better?

I am looking for a stronger-than-usual move starting in the fall, fuelled by the ongoing decline in the dollar and possible central bank accumulation of gold for reserves. Some people are wondering why gold has not already performed better. After all, we're in the midst of a global financial and economic collapse, and an unprecedented monetary expansion, against the background of ongoing geopolitical turmoil. Frankly, there are many unrealistic expectations surrounding gold and widespread misunderstanding of gold's role. Gold is primarily insurance and an asset preserver.

Whether you look over 10 or 50 or 100 years, gold performed that function very well indeed. And since last September, when Lehman went bust and the credit crisis blew wide open, gold has also performed well, moving up and outperforming U.S. stocks and

foreign currencies.

Notwithstanding those caveats about gold's primary role, the metal still has a lot of catch-up to do for the last 30 years of money creation. I fully expect it to move significantly higher in the medium and long term, after a little more back and forth, though at higher levels. The \$1,000 level is the big round number for gold, just as 10,000 was on the Dow, or 100 for the yen; markets frequently take a while to break through those big round numbers. **Now that gold has broken through the \$1,000 barrier convincingly, I believe that the next stop is \$1,200.**

Inflation ahead?

The price depends to some extent on what happens in the broader economy. Clearly, a decline in the dollar will, other things being equal, see the price of gold, and other assets priced in dollars, higher. Beyond that, strength in the economy, inflationary expectations and movement in interest rates, will determine when and how far gold moves.

If we've seen the lows in the U.S. economy and by the end of the year it is clearly recovering, then I am convinced that that recovery will be accompanied by accelerating inflation. In that scenario, both stocks and gold will perform well. Stocks frequently do well in an inflationary climate, at least in nominal terms if not necessarily in real terms.

But such a scenario is unlikely. More likely, is that the U.S. economy will slide backwards and remain very sluggish and U.S. stocks will respond to that. We'll likely see a declining dollar, low interest rates and accelerating inflation—though not imminently, in my view—and that is the ideal environment for gold.

But in either scenario, or indeed in a deflationary collapse, gold should outperform domestic stocks fairly significantly.

*Adrian Day is president of Adrian Day Asset Management, which offers discretionary accounts in gold, resources and global equities. A London native and graduate of the London School of Economics, he has been widely quoted and is a frequent guest on **CNBC**. He also is editor of Adrian Day's Global Analyst and has authored two books on global investing: International Investment Opportunities and Investing Without Borders. For more information, visit www.AdrianDay.com. Readers may obtain his free new report on "Five Top Resource Stocks for the Next Three Years"; email your name and address to info@AdrianDay.com.*

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