

11 Years and Counting

Do you like numbers? I do. Often I find them fascinating depending on how they interconnect or what they symbolize. Take for instance the following string of numbers:

\$ 273.60
\$ 279.00
\$ 348.20
\$ 416.10
\$ 438.40
\$ 518.90
\$ 638.00
\$ 838.00
\$ 889.00
\$1,096.50
\$1,421.40
\$1,566.80

Can you guess what they represent? They represent the yearly *closing* price of gold bullion for each year over the past eleven years. Who would have thought eleven years ago an *investor* could have scooped up one ounce of gold for as little as \$253 and watch its value increase to over \$1,650 today? This equates to an annualized return of just over 18% and is quite frankly astounding. But is it over? Has the bull market in gold run its course? While no one knows the answer to this question I am happy to throw my two cents in since my purpose for writing these articles is to provide education to both clients and non-clients alike. Personally I believe higher prices are likely over the coming years and in this article I will provide an oversimplified explanation for why I believe this to be the case.

To begin we must study history and review investor behavior. From the historical standpoint the stock market and gold have traditionally had inverse relationships with each other. Take for instance the bull market in gold that began around 1965 and ended in 1980. This was a period of time where gold rose from \$35 per ounce to a high of \$850 per ounce at its peak. During this same time the broad stock market as measured by the Dow Jones Industrial Average (“the market”) languished, and excluding dividends went from a price value of approximately 1,000 to

approximately 850 over the same period of time. Therefore gold was the big winner for that secular cycle. Unfortunately *speculators* have a herd mentality and almost always chase performance. As a result many began buying gold near the peak of that cycle expecting prices to go up forever. Sadly that was not the case. And many clients have shared stories about family members who lost money *speculating* in gold over the ensuing years. But to recap, gold rose from \$35 per ounce to \$850 per ounce during the same time the market went from 1,000 to 850.

This brings us to the next cycle. From 1982 until 2000 the stock market performed wonderfully rising from approximately 850 to over 11,000. Ignoring taxes and transaction expenses this equates to approximately 15% annually per year. How did gold do during this same time? Gold declined from \$850 per ounce to a low of \$253 for an annual *loss* of 6 ½%. *Speculators*, again, bought stocks at record high valuations and shunned gold at record low valuations. *Se la vie*. What caused this herd mentality? Let’s review the bull market in stocks from 1982 to 2000 in its three stages for better comprehension.

Bull markets typically consist of three phases – disbelief, belief, and greed. In 1982 investors never would have thought stocks would continue to rise. After all, *they had gone nowhere for the previous seventeen years*. So as stocks rose from 1982 through 1990 *disbelief* slowly turned into *belief*. Belief continued from 1990 until 1995 when at this time *belief* turned into *greed*. Once the greed stage was reached *speculators* piled in believing prices would go up forever.

So how do those phases relate to gold today? Prices have risen for 11 years and counting and even at this time I rarely find anyone who has invested in gold, let alone has actually bought a physical ounce of gold. This is the type of market I like to consider for investment. If the majority of investors are still in *disbelief* then I feel good that I am still drinking “upstream from the herd.” After all, it is difficult to make money investing the same way as everyone else. It is my belief that this bull market is reaching the end of the disbelief

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stage and will enter the belief stage in the near future.

Since this article is running longer than I originally intended I will wrap up on this note. Having written this article I would not be surprised for Murphy's Law to kick in and gold to decline for the foreseeable future. But whether prices rise or decline from here *I am not claiming gold will go up every year for the foreseeable future nor do I believe that should prices continue to rise that the journey will be anything less than volatile.* But personally I have no trust that the individuals who created the worldwide debt monster that is

ravaging all economies actually have any chance of taming the beast and putting everything back the way they used to be. So for me and my clients I continue to believe the best method to preserve wealth is to invest in select areas where fundamentals are sound, fraud can be exposed, and manipulation, while continuing at present, cannot be maintained forever. Gold should shine in the years to come. Good investing!



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