Special Directions Report –
Does The Recent Price Plunge Spell The End Of The Gold Bull Market?

Friday the 5th April seems a long time ago. Less than 2 weeks ago, US payroll numbers (link) were released, with only 88 thousand people entering the US workforce, an absolutely terrible result which highlighted just how difficult the economic environment is, some 5 years on from the "end" of the Global Financial Crisis (GFC). Worse than that, Labor Force Participation Rates (link) plunged to the lowest levels since 1979.

As might have been expected from such bad news, gold prices rallied to circa USD $1580 an ounce, with many thinking the 'correction' in gold was over.

As such, the quarterly directions report was going to focus on the Japanese economy, and the latest round of YEN money printing the Bank of Japan has announced, the rally in the US Dollar these past 18 months, and why Gold isn't a bubble based on the QBAMCO Gold price.

However, market action over the last few trading days have proven decisively that the correction in gold, which started in late 2011 was most definitely not over, with gold prices since plunging over USD $200, some of sharpest falls in 30 years. Falls were particularly severe both last Friday the 12th and this Monday the 15th April.

The sharp falls have led many to proclaim the end of the gold bull market. For reasons we'll explain, we don't agree!

As such, this special Directions report is going to focus exclusively on the current correction in the precious metals bull market, and highlight why it may well provide one of the great buying opportunities of the entire bull market, especially for those unafraid to 'go against the herd'.

Personally, I'm using this dip below USD $1400 (and below USD $24 for silver) as the perfect opportunity to up my families Self-Managed Super Fund's holding of precious metals. The main reason I set up my Self-Managed Superannuation Fund was so that I could invest a portion of my retirement funds into bullion, and it's a decision that the last few years market movements have vindicated fully, even in light of this current correction.

Should we see prices drift even lower in the next few weeks or months, I'll be buying again, confident that this correction is similar to the other one's we've seen in the last 12 years, all of which have turned out to be great buying opportunities.

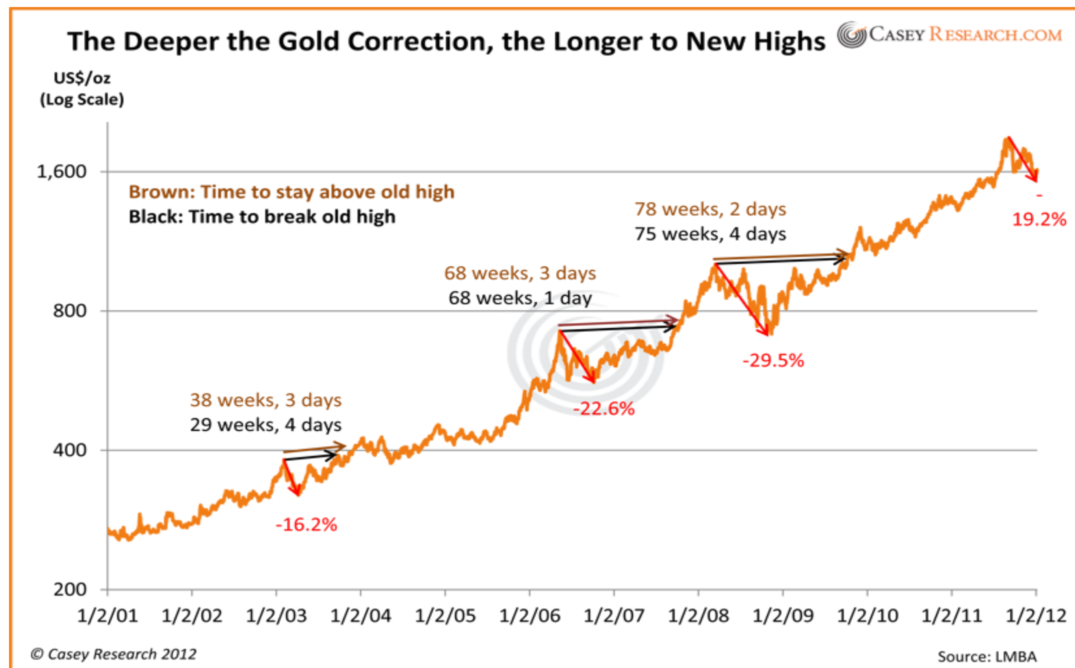
I look forward to hearing any feedback and questions you have. Feel free to email me directly here: jordane@abcbullion.com.au

Regards
Jordan Eliseo
ABC Chief Economist

Putting the Broader Gold Correction in Context

The 18 month correction in precious metal prices had already tested the patience of most 'gold bulls', even before the steep price declines of the last few days. Whilst many who have been 'long gold' for several years endured a correction of circa 30% during the Global Financial Crisis (GFC), that pullback was much shorter in duration.

Whilst gold didn't break too a new high for 78 weeks after the GFC correction, it still ended up rising 4% in USD terms for the 2008 calendar year, as we can see on the chart below.



This current correction, which started in August of 2011 after Gold initially traded above USD $1900, has been more challenging for gold bulls for a couple of key reasons.

The first of these is the duration of the correction, which is now 19 months long, and with prices considerably lower than their previous peak (very different to the GFC where they were back near their previous peak within months). Corrections of such duration are difficult for investors to 'work through', particularly for those who might have first positioned capital, or topped up their investments close to that cyclical peak back in August of 2011.

This is especially so when other, more traditional assets have performed as strongly as they have in the last 18 months, whilst all the while there has been no shortage of monetary stimulus measures announced which one would have reasonably thought should have been catalysts for higher precious metal prices

But, as one can see clearly from the chart above, pull-backs in gold are hardly unexpected nor unlikely. Back in 2006 we saw a drop of over 20%, and of course in 2008 we saw the circa 30% drop mentioned above. We've also had a large number of corrections of between 10 and 15% which help give context to the current falls in price and highlight clearly that dealing with volatility is something any long-term metals investor will need to become accustomed too.

It's also worth remembering that in the last great bull market in the 1970's, there was a huge correction between December 1974 and August of 1976 where gold prices fell nearly 50% (from USD $193 to USD $104).

Like today, many investors were scared out of their positions at the worst possible time in the middle of 1976, only to miss out on the incredible rally from that point to the end of the gold bull market, with precious metals prices rising **nearly 800%** in the period between 1976 and February 1980.

Another reason that this correction has been so difficult for some investors in precious metals is the literal barrage of negative press gold has received in the last few months. Whether it's Soc-Gen, Goldman Sachs, a herd of other investment banks, or even Australia's mainstream media, investors are being bombarded with news headlines suggesting that the 'golden-run' for precious metal investors is over (link).

This has picked up noticeably (and to be fair not unexpectedly) in the last few days.

What's Happened In The Last Week?

The broader context of the last 19 months of precious metal correction, which has also seen a relatively significant USD rally as the YEN, the Euro and Sterling have all suffered significant falls relative to the USD, leads us to what has happened in the last few days in the gold market, and the rout which has seen prices fall as low as USD $1335 (at the time of writing they've recovered somewhat to USD $1375)

The steep declines in gold, which were exceeded on a percentage basis in silver, have been due to a number of factors including

- Goldman Sachs recommending clients 'short' Gold as well as bearish reports from other banks
- Reports that Cyprus will need to sell its Gold to cover its debts
- Technical selling: stops triggered, long liquidation and 'naked short' positions entered

Lets deal with each of these issues in order.

Firstly, the Goldman Sachs report, which recommended that clients go 'short-gold' did indeed send some 'shock waves' through the metals market, and undoubtedly led to many people either throwing in the towel on long positions, or opening up short positions in the hope of profiting form a fall in the gold price. Whilst that has worked for these people over the last few days, it must firstly be said that Goldman's only saw gold falling to the USD $1450 mark by year end (link). If Goldman's were accurate, then you'd think it's time to unwind the short trade, as the profit opportunity has run its course according to their analysis, and considering the price is currently still below USD $1400.

It wasn't only Goldman's though who have become bearish on precious metals. Other banks like Soc-Gen have also come out with negative outlooks for the gold price, in there case predicting a year end price target of USD $1375 per ounce. They even updated that with an even more bearish prognostication in the last few days, stating that they expect Gold to fall to USD $1265 in the next 3 months (link).

Whilst there is no doubt these price predictions do impact the market in the short-term, are they signs the secular bull market is over? How much credence should really be given to what are essentially short-term price predictions? How accurate have Goldman's or Soc-Gen been in the past in predicting the long-term price direction for Gold? The answer: **not very!**

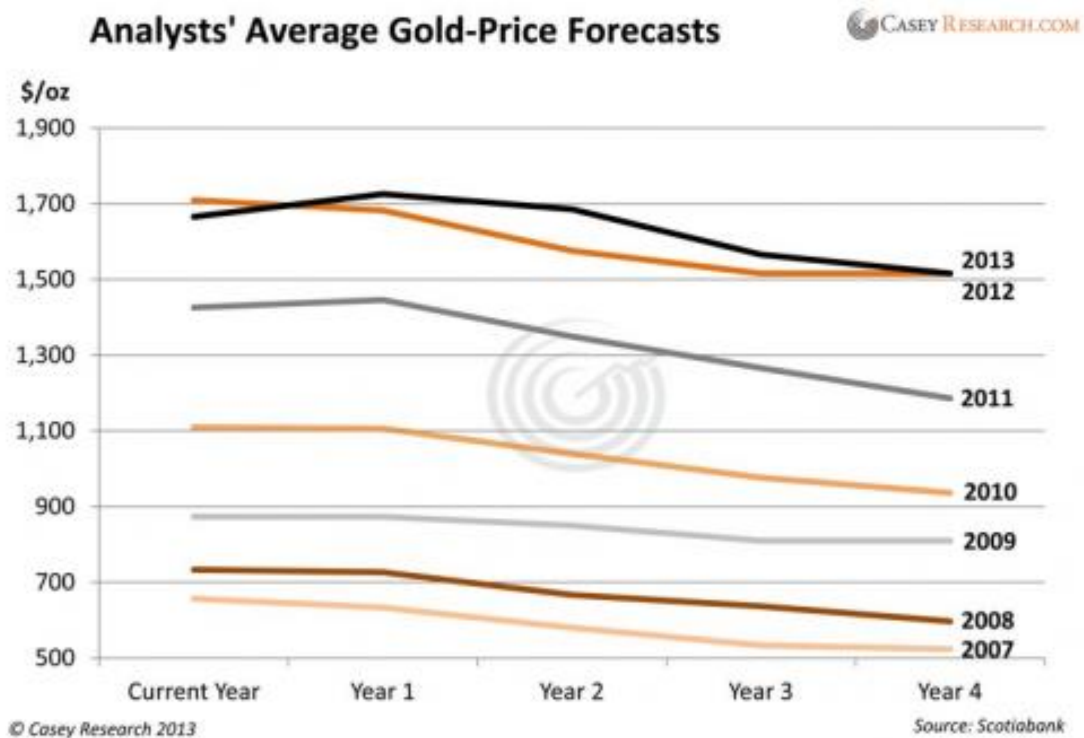
To give a couple of examples, back in October of 2008 (when gold has just finished a circa 30% correction similar in magnitude to today), when gold was trading below $700, Soc-Gen stated they saw gold prices going below $600 in 'that cycle'. Of course, Gold prices are nearly $800 higher today. In early 2009, when gold prices had rallied back above $800, Soc-Gen were telling their clients to 'sell into rallies' (link).

It is incredible (at least to this economist) that to this day, so much credence is given to the prognostications of banks like Soc-Gen and Goldman Sachs as regards their forecasts for gold. For

the entire bull-market, they've been overwhelmingly bearish, and they've been wrong far more often than they've been right. Furthermore, predictions about where gold is likely to trade from one year to the next (or over even shorter term time frames) are one thing, but they are fundamentally different to understanding the secular thesis for wanting to invest in any asset class for the duration of a bull market, especially precious metals.

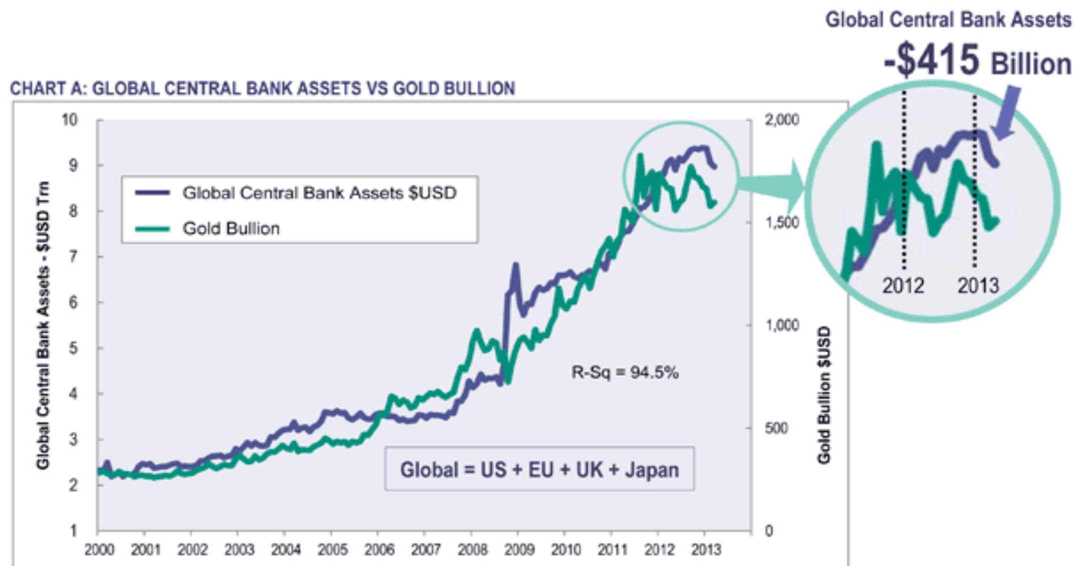
On that note, the phrase an image speaks a thousand words is particularly relevant here, and the following one speaks volumes. It shows analyst expectations for the gold price 5 years out, for every year from 2007 through to 2013.

Never have their predictions changed, always forecasting lower prices into the future. There current predictions might look accurate considering the recent fall, but even a broken clock is right twice a day. Doesn't mean you use it to tell the time!



For those interested in a very timely and accurate riposte to Soc-Gen's latest argument for lower gold prices, we'd encourage all readers to review this excellent piece put together by Sprott Asset Management: link.

As Sprott eloquently highlighted, there is a correlation of nearly 95% between Central Bank Expansion of balance sheets, and a rising gold price.



Considering that between the US and the Bank of Japan alone this year, they will expand their balance sheets by just shy of $2 Trillion this year (incidentally that's the equivalent of 16 years of global gold production at current values) it's hard to see how the gold bull market could truly be over with this kind of balance sheet expansion. This of course doesn't account for potential balance sheet expansion by the ECB, the BoE or any other major central bank, all of which will ultimately prove to be bullish for precious metal prices.

Nothing is certain in life, but betting against gold from here in the face of much more money printing on the way is betting against a relationship with a near perfect correlation!

It's also worth reminding investors that before the GFC, when Money Printing and Quantitative Easing became part of the day to the day economic lexicon, gold prices rallied from circa USD $250 in March 01 to USD $1000.

Clearly if an asset can appreciate in value by 300% without any quantitative easing measures in place, future appreciation won't be solely based on money printing alone. We think continued QE will definitely be a contributor to higher gold prices in the future, but it will not be the only one, and the absence of it wouldn't necessarily spell the end of the gold bull market, nor the potential for significant outperformance vs. more traditional assets.

Therefore, whilst we don't doubt the ability of negative reports about Gold from large asset managers or investment banks to influence prices in the short term we don't think they deserve much credence in terms of understanding the long term thesis for gold investing or the ultimate direction of this bull market.

How About Cyprus Then?

The Cyprus situation isn't quite so cut and dry. Let's face it, if anyone is forced to sell any asset, it will influence prices accordingly. Therefore, if Cyprus is indeed forced to sell its gold, and if this does become a 'template' for other troubled European nations (think Italy, Portugal, Spain, Ireland) then it could lead to some downward pressure on gold prices.

But, and this is an important but, in the medium to long term – it would only strengthen the case for investing in precious metals, as it would mean the physical metal is being held by financially 'stronger-hands' rather than in the hands of weaker nations facing huge financial difficulty.

Secondly, the whole concept of nations being forced to sell their gold pours cold water on the concept of a global economic recovery. If things were really on the improve, and all is due to go smoothly in Europe, why would any of these nations be forced to sell any of their assets?

Even in the event that sovereign nations were forced, or needed to sell their gold, there is a better than even money chance that these sales would occur off market, and it would likely be emerging market developing economies (who historically own very little gold and very high levels of US dollars and treasuries) who buy the gold.

Countries like China, Russia, India, Brazil, the Philippines, and South Korea, who have traditionally run large trade surpluses are now looking to diversify their foreign exchange reserves away from the dollar. Considering the obvious risks to the YEN, GBP and EUR, it's hard not to see how some of this will continue to find it way into gold, as it has the last few years with global central bank bullion purchases (on a net basis) higher than at any point since 1964 (link).

It's curious thing indeed when central bankers are telling us gold isn't money, but they themselves are gobbling it up at an incredible rate, and while gold holdings still constitute 70% plus of foreign exchange reserves for countries like the USA, Italy, Germany, France.

It also makes one wonder, if Gold was a bubble waiting to pop at USD 1900 back in late 2011, why didn't the central banks of the developed west take the time to sell some bullion then, and use it to pay down some of the staggering sovereign debt levels they all have?

Not only aren't they selling Gold, they're repatriating it, with Germany moving all its Gold back from France, as well as a meaningful allocation from New York. Strange moves if the bull market truly was over. You'd think it would just be easier to sell it where it is rather than go to all the trouble and expense of relocating it.

Finally, looking back to Cyprus and other 'troubled' European nations though, how much difference would selling their gold really make in terms of their overall debt position? This table, based on estimated Gold holdings at end 2012 from the World Gold Council, and debt levels from http://www.nationaldebtclocks.org will provide some clarity.

Country	Gold Holdings (tonnes)	USD Value of Gold Holdings	Total Government Debt (USD)	Percentage of Debt Covered by Gold	Gold needed to cover debt (tonnes)
Cyprus	13.90	614,466,875.00	19,896,394,058.00	3.09%	450.08
Italy	2,451.00	108,349,518,750.00	2,642,399,073,000.00	4.10%	59,774.33
Ireland	6.00	265,237,500.00	181,373,944,300.00	0.15%	4,102.90
Portugal	382.50	16,908,890,625.00	244,400,564,000.00	6.92%	5,528.64
Greece	112.00	4,951,100,000.00	482,621,601,700.00	1.03%	10,917.50
Spain	281.60	12,448,480,000.00	814,580,816,000.00	1.53%	18,426.82
Japan	765.20	33,826,622,500.00	11,205,210,664,000.00	0.30%	253,475.71
USA	8,133.00	359,529,431,250.00	16,700,000,000,000.00	2.15%	377,774.64
Totals	12,145.20	536,893,747,500.00	32,290,483,057,058.00		730,450.63

We also decided to put Japan and the USA in there, so people can get a feel for what is happening in the country with the worlds worst government debt to GDP ratio, as well as the current 'mother ship' of the financial system, as it were.

As you can see, highly indebted nations selling their Gold will provide no solution whatsoever to their debt problems. For the most part, selling their gold would barely put a dent in the amount of debt they owe, and considering they are all running deficits today, they'll likely be right back where they started within a year maximum, only this time without any gold up their sleeve.

In the case of the United States, not even the most optimistic budget forecast would argue they'll be less than $360 billion further in debt by the end of 2013. Selling gold won't help them.

You'll also notice the final column, where, as a theoretical exercise, we worked out, based on current prices, just how many ounces of gold these countries would actually need to cover their on-balance sheet debts today. Off balance sheet debts are a whole other (and even more alarming) story.

In total, these countries currently hold just over 12,000 tonnes of gold. To cover their existing debts, they'd need over 730,000 tonnes of gold. That is not a misprint. For reference, 730,000 tonnes is over **4 times** the amount of gold that's been mined in **all of human history**, and equivalent to over **250 years** of global gold production at current rates.

As Ross Norman from Sharps Pixley stated "fat chance that is going to be paid down through the fruits of economic labour", in reference of the United States contribution to this debt debacle.

As such, whilst the threat of forced sales of bullion from indebted nations could cause some further falls in price, and add to short term volatility, in the long run it would be a bullish development, and it won't in any way solve the ongoing and worsening global debt crisis, which has long been a core tenet of the bullish case for precious metals investment.

Technical Selling

This leads to the last major reason for the severe price falls in precious metals over the last few days, which was the extreme volume of paper gold traded, triggering 'stop losses', as well as the liquidation of long positions, all of which began in earnest once the price dropped through USD $1520 last Friday, as well as huge 'naked short' positions which have been entered into the last few days.

So, how did this all play out?

In a report from MKS Capital it was clear that last Friday, a huge gold sell order was placed at the New York open. Reports from elsewhere suggested Merrill Lynch was the 'big player' behind this move, apparently selling over 4 million ounces of paper gold themselves. These orders were far too large for the market to absorb, sending prices sharply lower and below important resistance around USD $1520. This in turn triggered stop loss positions in that region, pushing prices lower and spooking longs into liquidating. Add all this together and you have the perfect recipe to knock gold comfortably below USD $1500 in quick time.

COMEX volumes soared with over 360,000 lots (or 3 times the regular average) of contracts traded on the Friday. If this was irregular, Monday was even more so, with volumes nearly doubling again, with 657,000 lots of June gold contracts traded, for a value of roughly USD $90 Billion on the day alone.

To put that in perspective, in 2 days, according to these reports we saw over 1 million lots of gold traded, with a value of circa $140 billion, or more than the total value of all the gold that will be mined in a **whole year** at todays prices!

As for how unsustainable and incredible a move like this was, I think the following quote from Russell Rhoads, CFA of the CBOE Open Institute sums it up pretty neatly;

"Friday was a 4.88 standard deviation move in the price of gold. For simplicities sake lets call it a five standard deviation move. Statistically, we get a five standard deviation move approximately once every 4,776 years. Currently the two-day price change in GLD is 16.65, which can be converted to over eight standard deviations. I wanted to share what this comes to, but the table I use only goes up to seven standard deviations. Let's just say the sun is expected to burn out first".

For anyone interested in a detailed (if slightly conspiratorial) read into the activity over the last few days, this following piece is highly recommended. The chart on the disappearing inventory of the COMEX is worth the trip all by itself (link).

Despite the potential for speculators on the short side to push prices around in the short term, over the long run they will not be the ultimate determinant of gold and silver prices. These positions simply can't be covered with physical metal, and at some point will need to be unwound.

These periodic bursts of exaggerated short selling have been unable to end the bull market for the last decade. There's no fundamental reason to think this time will be any different.

A Summary Of The Reasons For The Recent Sharp Price Falls

Without in any way wanting to downplay the importance and severity of the current correction, which could still go on for some time, and might see one last brutal sell off in precious metal prices, the bull market in gold is unlikely to be over. Based on there past history, analyst predictions and reports from companies like Goldman Sachs or Soc-Gen do not provide any compelling evidence of the end of the gold bull market.

The situation in Cyprus, and the potential for it to spread to other countries could have a impact over the short to medium term but would likely prove bullish in the long run, whilst the technical nature of this correction, driven by extreme actions in the paper market is by definition not sustainable.

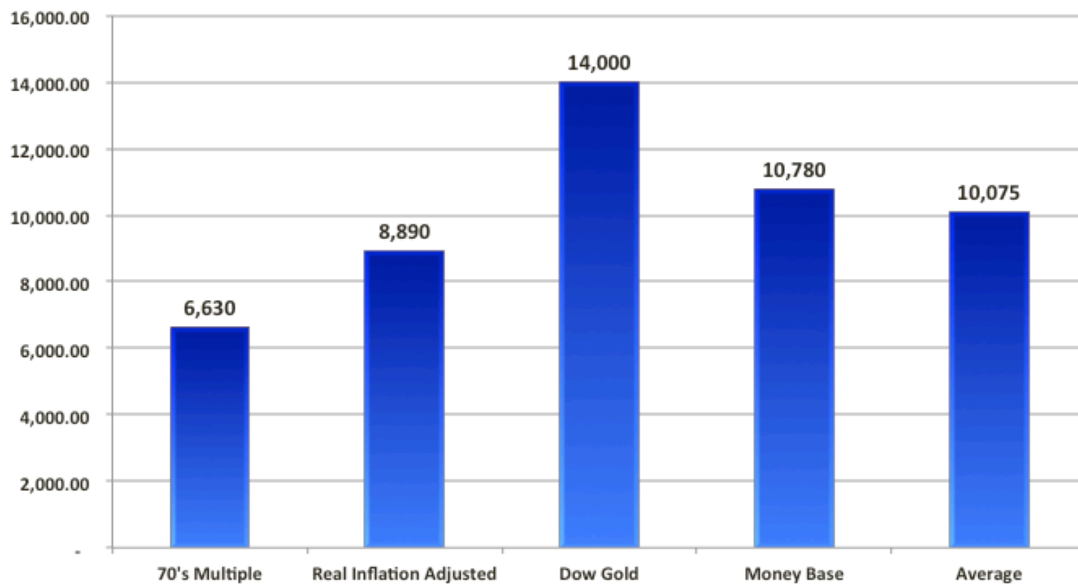
In the long run, it will be the physical market (which is still seeing very strong demand) that determines the long-term price direction of precious metals.

Therefore, whilst the current correction, especially the past week has been painful for investors in metals, none of the reasons commonly quoted for the sell-off are sufficient to believe that the bull market in precious metals is over. What we are undergoing is a painful, but not unanticipated nor unexpected correction in an otherwise healthy secular bull market.

This was something legendary investor Jim Rogers commented on back in July of last year, where he stated it wasn't uncommon for corrections to go down 30 to 40% and that despite his expectation that gold could correct much further (for the record gold was trading in the USD $1650 range at the time), he wasn't selling any of his gold, because as in his words "I suspect gold will be much, much, much higher over the next decade" (link).

We'd encourage all readers and investors to put the current correction into context, and pay more attention to people like Jim Rogers (who is honest about both the short term risk and long term opportunity in precious metals), over and above the words of the perpetually incorrect bank analysts who continually pour scorn on precious metal investment.

Whilst we can't be 100% sure history will repeat, we think this is an opportune time to show a chart we presented at our last seminar on why the bull market isn't over, and what a Gold bubble would really look like.



Considering all of these metrics, which have been reached at previous gold bull market peaks indicate that a proper bubble would be closer somewhere between USD $6,000 and USD $10,000 based on where we are today (i.e. not accounting for the trillions of dollars of money printing we'll see in the years ahead), we still see compelling opportunity in precious metal investing.

With that, we'd like to finish this report with a brief commentary on the real state of the economy, and what precious metal investors should be doing today.

Economic Reality And The 'End' of Quantitative Easing (QE)

Despite the mainstream media constantly telling us that the economy is improving, and that higher stock prices are proof of a recovery, the real economic data highlights that this is simply not accurate. The supposed recovery is also meant to spell the end, or winding down of the Fed's QE3 program, which many are also arguing will be bearish for gold and silver prices in the future.

Starting with the supposed end of QE3 at some point in late 2013 or early 2014, it pays to remember that of course it was only in December of 2012 that the Fed decided to more than double the amount of money it would print on a monthly basis, to $85 Billion a month.

If the economy really was on the mend, and the Fed can foresee ending the current QE program by the end of 2013, why would they have seen the need to double the program at the end of 2012?

And why would Japan need to have announced a truly extraordinary money printing package in the last month, aiming to print 84 Trillion Yen and use to it to buy Japanese Government Bonds. Relative to the size of the economy, this package dwarves the Fed's current $85 Billion a month plan, which is partly why the YEN has fallen so much against the USD these past few months (link).

The reason for this is that central bankers are acutely aware of just how bad the underlying economy is, and how desperately our economies, which are on life-support, need the constant liquidity injections that money printing provides.
Despite all the stimulus measures they've tried in the past 5 years, and continue to try to this day, there is evidence everywhere that the global economy has deteriorated, not improved since the start of 2013. That should come as no surprise to anyone who has studied economic history, as money printing has a 100% track record of failure.

The evidence of a real economy that continues to deteriorate includes but is most definitely not limited too;

- Japanese Industrial Production falling circa 10% year on year (link)
- US retail sales falling across all sectors in March of this year (link)
- US Consumer confidence plunging to only 59.7, way below economist expectations (link)
- Spanish housing prices dropping nearly 10% year on year in Q4 2012 (link)
- Dutch housing prices falling by similar amounts (-8%) over the past year (link)
- Australian unemployment hitting a 3 year 'high' and likely to worsen across the rest of the year, and the cancellation of multi billion dollar resource projects (link)
- The Cypriot bank deposit confiscation story which dominated markets for weeks (link)
- French consumer spending contracting and the economy likely to contract this year (link)

As the major focus of this report is the current correction in precious metals prices, we won't go into specific detail on each of these newsworthy items (hence why we've added links to those who'd like some more in depth information on each of these issues individually) but suffice to say, if this is the economic 'improvement' central authorities are looking for in order to justify ending QE programs, we'd hate to see what a challenging economic environment looks like.

On top of the deteriorating economic conditions we are seeing, we've got governments who are apparently going to act in a more austere fashion going forward.

Considering the fact that we'd still be in a severe recession globally without the unprecedented deficits being run across the globe (there is not one G-20 country running a surplus today), any attempt at either raising taxes or reducing spending will only serve to take further demand out of the economy, further reducing economic activity and growth.

Governments should never have let their balance sheets get into such a perilous position in the first place, but it's a been a 40 year journey that both sides of politics in most developed nations around the world are equally responsible for. There is no way they can repair their balance sheets (no matter how necessary) without severely hurting growth, corporate profitability and employment, likely causing a recession far worse than that which we suffered through during the GFC.

For this reason, not only are governments unlikely to engage in any genuine attempt at austerity, which we'd define as running a balanced budget, not merely smaller deficits. It's also why central banks are also unlikely to seriously unwind their debt monetization policies. If central banks stop printing money, then it would only leave the private sector to finance government budget deficits. Considering the size of these deficits relative to the anemic GDP growth we're witnessing, any re-direction of capital away from the private sector would also severely restrict the economy.

This was actually made quite clear overnight in a statement from James Bullard, president of the Federal Reserve Bank of St Louis, who stated that not only is the Fed unlikely to end QE anytime soon, but may well be looking to **increase the scope of the QE program** (link).

This is the reality of the world we live in today. Governments can't stop racking up debt, and central banks can't stop printing money. No matter what the mainstream media would have you believe, and no matter what fluctuations in the month to month economic data might indicate, the problems of the ageing population, as well as a multi-decade debt crisis that has engulfed

individuals, businesses and governments around the globe will be with us for many years to come.

The "solution" does not lie in even larger government deficits, more intervention in the market place and central bank monetization. Whilst we can understand why this is the road we are travelling (it is after all the most politically palatable) these policies will only serve to delay the necessary rebalancing our economies must undertake, and make the process even more painful.

For as long as we remain in such a difficult environment, we believe the secular bull market in precious metals is likely to remain in place, no matter the day-to-day or month-to-month volatility, and the occasional deep corrections we will periodically undertake.

So, What's A Precious Metals Investor To Do Today?

Before getting into the final section of this report, we must re-iterate that at ABC we can't give financial advice, so this section specifically, as well as this whole report is only intended as an educational piece. Personally though, I think a correction such as this (as well as the current state of other asset markets) makes it a perfect time for people to be assessing their overall investment portfolio. If you'd like some help with that, we're happy to put you in touch with the right people who both understand precious metals, and can give you specific advice including how to use your superannuation to buy gold. You can request a complimentary appointment by clicking here (link).

Moving on, and at the risk of stating the very obvious, there are essentially three choices any investor can make today. They can sit and do nothing, they can 'throw in the towel' and sell, or they can buy.

At times like this, where price falls have been swift and severe, it's understandable why people are nervous, and might want to seek the relative safety of cash. But anyone that does that today will be selling gold and silver much cheaper than its been in a couple of years, and will be 'buying' cash so to speak with interest rates at 50 years lows.

Considering the amount of debt in the global economy, not only is it unlikely in the extreme that interest rates will rise in any meaningful way in the future (providing a more attractive return on cash), but they could fall even further.

If that wasn't bad enough, if a report in the Sydney Morning Herald on the 17th April is anything to go by, it mightn't be long before direct money printing hits Australian shores as well, with Professor Ross Garnaut arguing the RBA might need to 'go Swiss' and directly cap the dollar, like the Swiss did when they acted to cap the appreciation of the Swiss Franc versus the Euro. If that happens, RBA money printing a potentially lower AUD will likely lead to much higher levels of domestic inflation in Australia (link).

I'm also personally not convinced at all that more traditional assets will prove more attractive destinations for investment in the years ahead, so for this reason I won't be selling any of my metal at all, especially at these prices.

The next option is to sit and do nothing, holding onto the existing bullion holdings that one has. Considering the potential for gold not only to rebound from this current pull-back, but go many multiples higher, investors who choose to do this could be richly rewarded for maintaining the faith in the years ahead, and simply staying put.

This leaves the final option, which is to accumulate more gold, treating the current correction as a buying opportunity. This is certainly what thousands of our clients are choosing to do, with our phones literally ringing off the hook, our email orders running at record highs, and lines literally out the doors and into the elevators in our offices.

When this rout started, I was actually returning from Santiago, Chile. My hunch was that the fall in price would make us very busy, and that circa 80-90% of the business would be people buying. I was wrong!

I checked with our finance department to confirm my own hunch, and they informed me that actually, its' comfortably north of 98%! That is not a misprint. For every 100 people trading in physical right now, at a minimum 98 of them are buying/not selling. A strange end to a bull market I'd think you'd agree.

This activity in the physical market is also occurring in Asia, with managing director of GoldSilver Central Brian Lan stating "people are actually buying everything, gold bars, gold coins". There is scramble for physical in Japan and China (link).

I've also spoken to a number of our distributors and other members of the physical bullion industry and they are all witnessing the same thing these last few days. The overwhelming majority of the activity is on the buy side, highlighting clearly that those who believe in owning and holding physical gold aren't overly concerned by a 'price correction' driven by unsustainable activity in the paper gold market, and instead are treating this as an incredible buying opportunity to pick up the real thing.

Many of our clients have obviously studied their economic and monetary history, as well as the history of the precious metal bull market of the 1970s. If they are rewarded like investors who bought near the bottom of the 1974-1976 correction, then they will potentially enjoy returns of many hundreds of percentage points in the year ahead.

I'm putting myself in this camp by buying more metals during this correction, confident that whilst I might lose a little paper value in the short-term if this correction deepens, I'm now holding more of an asset that has extremely attractive and in my opinion extremely likely upside potential.

On that front, I'll leave you with a quote from one of my favorite commentators, Marc Faber, who has this to say earlier this week; ***"I love the markets. I love the fact that gold is finally breaking down. That will offer an excellent buying opportunity. I would just like to make one comment. At the moment, a lot of people are knocking gold down. But if we look at the records, we are now down 21% from the September 2011 high. Apple is down 39% from last year's high. At the same time, the S&P is at about not even up 1% from the peak in October 2007. Over the same period of time, even after today's correction gold is up 100%. The S&P is up 2% over the March 2000 high. Gold is up 442%. So I am happy we have a sell-off that will lead to a major low. It could be at $1400, it could be today at $1300, but I think that the bull market in gold is not completed."***

We trust this report has helped put the recent activity in the gold and silver markets into some context, and provide a rationale as to why the bull-market in precious metals isn't over.

As discussed earlier, we'd love to hear from you with any comments and questions you have, and of course if you are interested in a 1 to 1 meeting, then please feel free to get in contact.

Regards,

Jordan Eliseo
ABC Bullion Chief Economist

Disclaimer: this publication contains general advice only and does not consider any particular persons investment objectives, financial situation or needs. Accordingly, no recommendation (expressed or implied) or other information should be acted on without the appropriateness of that information having regard to those factors. You should assess whether the advice is appropriate to your individual financial circumstances before making an investment decision. You can either assess the advice yourself or seek the help of a financial planner. Performance is historical, performance may vary, past performance is not necessarily indicative of future performance.