

# THE PARTY HASN'T EVEN STARTED YET!

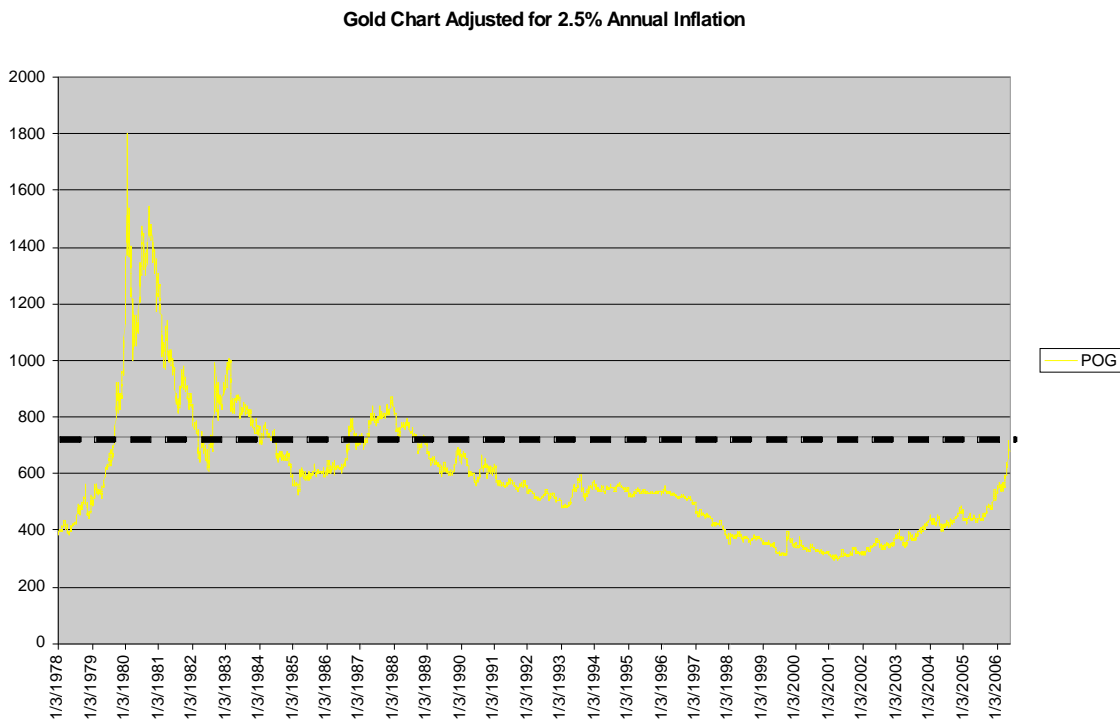
By Adrian Douglas

I wasn't intending to pen an article for the café today but then I saw the headlines on Bloomberg "**Gold Declines in Asia on Speculation Five-Year Rally Has Ended**" with a quote in the news piece as follows "*The consensus is that the bubble has burst,*" Nicholas Chung, a general manager at Tong Yang Futures Trading Co.'s international business team said by phone in Seoul today." This got me so fired up I had to put pen to paper.

I am not sure which consensus Nicholas Chung was referring to whether it is the consensus thinking of the broad market participants or just Nicholas Chung and his dog, but on either count the consensus is wrong.

A party is seldom ever over before the first drinks get served, and in the case of the gold party the invitations to attend are still in the mail!

I have adjusted the gold chart back to 1978 with a very conservative estimate of inflation of 2.5% per annum.



In today's dollars the gold price peak in 1980 would have been in excess of \$1800/oz. When gold fell from this peak (did it fall or was it pushed?) it

languished below today's price of \$657/oz (shown as the dashed line) in inflation adjusted terms for many years. In fact since bottoming after its 1980 blow-off on June 21, 1982 gold has only been above \$657/oz for 1024 trading days. That is approximately 4 years out of 24 years.

Looking at gold in inflation adjusted dollar terms reveals there is no bubble whatsoever, let alone having one big enough to burst! Gold would have to exceed \$1800/oz to match the 1980 peak...and the monetary and financial conditions are orders of magnitudes worse today than back then. I won't bore you with the details but think about 300 trillion dollars of derivatives!

I am stone-cold sober, I have only taken one sip from my first drink and I am looking forward to the party to really get started! If you haven't received your invitation, Mr. Chung, it's not too late to join us. You have hardly missed any action yet!!

Adrian Douglas

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