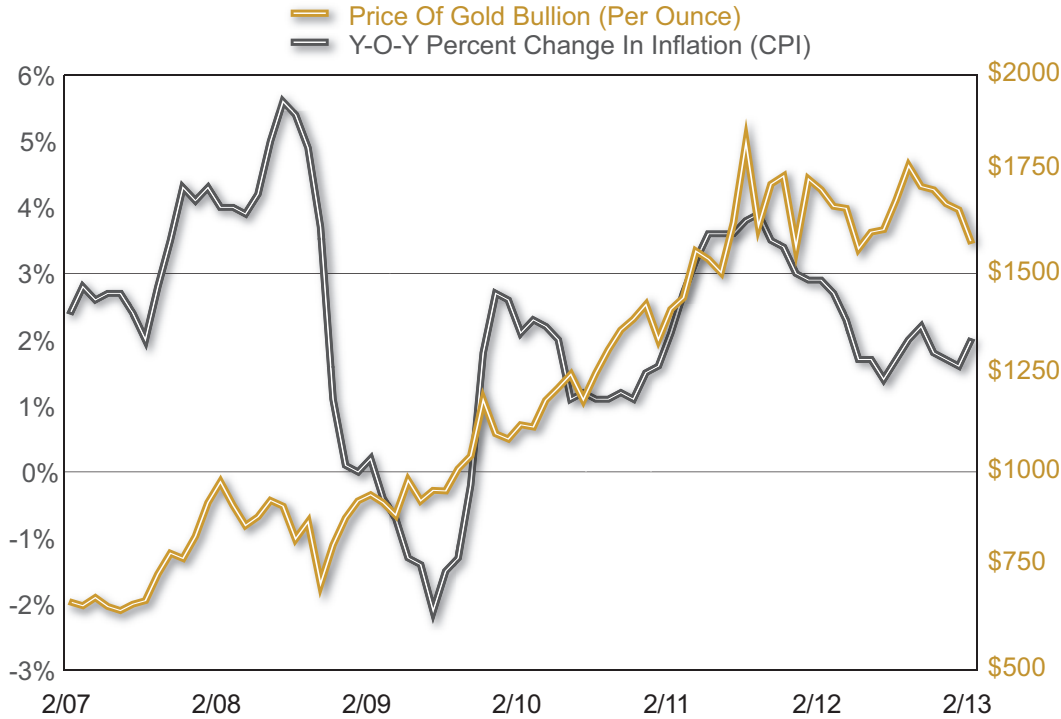


# Is A Gold Rally Waiting On Inflation?

## Price Of Gold Bullion vs. Y-O-Y Percent Change In Inflation



Source: Bloomberg

### View from the Observation Deck

1. Gold bullion (COMEX futures) has been in rally mode since it closed at \$253.00 per ounce on 8/25/99. It peaked at \$1,888.70 per ounce on 8/22/11.
2. Since the peak on 8/22/11, the price of gold bullion has declined by approximately 15.5% (as of 3/28/13). Inflation, as measured by the Consumer Price Index, fell from 3.8% (8/11) to 2.0% (2/13).
3. A combination of the European Union debt crisis and the tempering of growth in China helped cool the demand for commodities in 2012, while increasing the demand for dollar-denominated assets.
4. The U.S. Dollar Index (DXY), which tracks the value of the U.S. dollar versus a basket of major world currencies, was up approximately 12.0% from 8/22/11 through 3/28/13, according to Bloomberg.
5. Data shows that money flows into mutual funds have overwhelmingly favored income-oriented investment vehicles, including dividend-paying stocks. Gold bullion is not an income-producing asset.
6. Despite the aggressive stimulus efforts by the Federal Reserve, and to a lesser extent other central bankers around the globe, inflation has remained relatively modest to date. But how long will that last?
7. Because that answer is difficult to gauge, we believe that a 2-5% buy and hold allocation to gold mining stocks, which are selling at relatively cheap valuations historically speaking, is worth consideration.
8. Here are the Philadelphia Gold and Silver Index's annual earnings from 2008-2014 (Source: Bloomberg): \$5.40 (2008); \$6.12 (2009); \$10.84 (2010); \$14.57 (2011); \$9.31 (2012); \$10.27 Est. (2013); and \$12.58 Est. (2014).

*This chart is for illustrative purposes only and not indicative of any actual investment. The illustration excludes the effects of taxes and brokerage commissions or other expenses incurred when investing. Investors cannot invest directly in an index. The Philadelphia Gold and Silver Index is a capitalization-weighted index comprised of the leading companies involved in the mining of gold and silver.*