Fullermoney Plus
Issue 166
1 Feb 2002

Global Strategy and Investment Trends by David Fuller http://www.fullermoney.com

Could weight of cash fuel a significant advance by gold funds, even if bullion remains within its developing base?

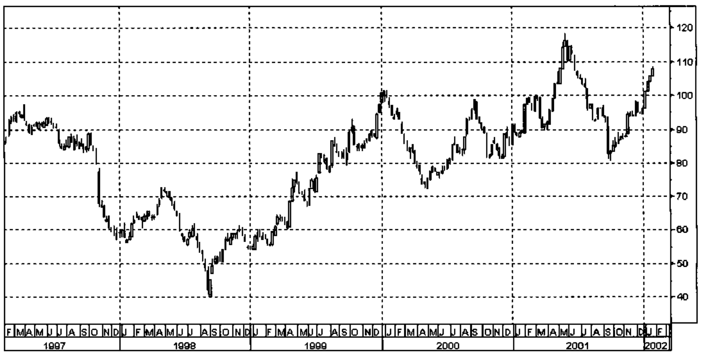
Gold bugs have become an endangered species over the last 20 years. That could be a bullish sign if you are a contrarian thinker who believes that every dog has its day, to coin a phrase. The chart of bullion reproduced in FM212 (25th Jan) shows a developing base formation. However two of the main catalysts for an appreciating gold price - rising inflation and a weak dollar - are not present. OK, deflation is now generally regarded as a greater threat than inflation, the Fed has pumped in record amounts of liquidity and the dollar is pricey, but that is future rather than present jam for gold bulls. I believe the main argument for gold today, is as a comparatively safe store of wealth in uncertain times. In other words, gold looks better to some people because other investments have disappointed. This is a tenuous scaffold for a major advance if you derive comfort, as I do, in suspecting that the world will somehow always muddle through. Gold shares, however, could be much more exciting, primarily because of thin supply. Marginal mines have closed over the last few years or been absorbed by a small group of major producers. There won't be many new gold mining companies floated until bullion eventually legs it back over $500. Just suppose a small percentage of the money which might have been placed in TMT stocks a few years ago, which avoided being vaporised in the NASDAQ over the last two years, was channelled into the few surviving gold share funds. That would produce one heck of a rally. For diversification, I now favour a gold or gold-related hedge against political/economic chaos, of between 5 to 10 percent of one's portfolio. Since neither I nor anyone else knows whether gold bullion will complete its base this year or up to ten years from now, I prefer the shares, especially given potential for a supply squeeze if/when this sector becomes fashionable once again. However, even with charts I have often found individual gold shares to be a minefield, no pun intended. Therefore I prefer a fund, and know two. Merrill Lynch Gold & General Fund is a unit trust, capitalisation £93.9m. Merrill Lynch World Mining Trust plc is an investment trust, traded on the London Stock Exchange and I believe in the US, capitalisation £195.4m. I prefer the latter, which has been in my very inactive self-administered pension fund for years, because I don't like front-end charges and it is currently selling at a discount to Net Asset Value of 17.49 percent. This could narrow if gold shares become popular. However the unit trust is more of a pure gold play, while the investment trust hold a number of other mining shares - see www.mlim.co.uk.

'Baby Steps' is the tactic for trading gold and silver. With price charts showing the yellow and grey metals ranging in probable base development, I have commenced a small-scale trading programme, using my 'Baby Steps' buy-low-sell-high tactic. I use futures, which I trade through a UK spread-betting firm, because although the spreads are larger than brokerage commissions, there is no CGT on profits. So far, I am concentrating on silver, which usually tracks gold but with a high beta. Currently, I am a buyer of silver in the $4.30 to $4.00 range (Mar CMX), and I would be lightening between $4.6 to $4.8. However at some point I may want to hold for an upside breakout, and on evidence of base completion I would probably leverage up and switch to primarily trend running tactics. Potential for a breakout would be indicated by rising lows, creating an ascending triangular pattern on the chart.

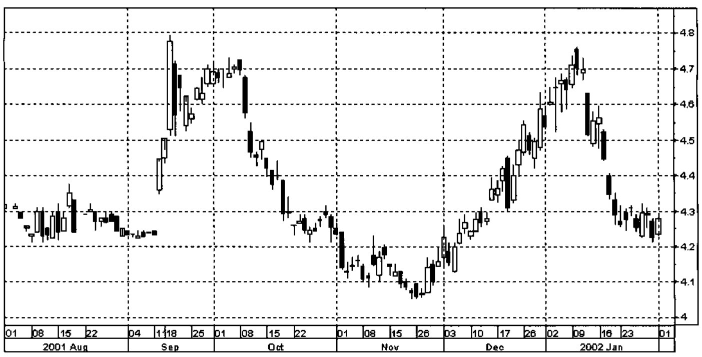
Best regards - David Fuller

Charts supplied by Bloomberg.

Merrill Lynch World Moning Trust: 110.25p (Weekly)



Silver (Mar CMX): $4.28 (Daily)



Fullermoney a division of Stockcube Research Limited Suite 1.21 Plaza 535 Kings Road London SW10 0SZ UK
Website: www.fullermoney.com **_Email:_** research@chartanalysts.com **_Tel:_** +44 (0) 20 7351 5751 **_Fax:_** +44 (0) 20 7352 3185 **_Single Issue Price_** £3