

Update on the secular bull market for precious metals

Gold is nearing completion of its first step above the base. Gold bullion completed its multiyear base formation in December 2002, on the decisive break above \$330 (not shown, see website). Following the surge to \$389, gold commenced a lengthy consolidation by falling back to test support near the upper region of its base, before rebounding. The considerably stronger overall performance of gold share indices suggests that bullion is unlikely to encounter more than temporary resistance near current levels before reaffirming its bull market with a push into the lower to mid-\$400 region. While this implies further US dollar weakness, gold should also appreciate against all other currencies.

Silver has completed its base. Historically, the silver price has often tracked gold, albeit with a higher beta. However it has lagged during the yellow metal's recovery to date, probably because most investors don't recognise a new bull market until it makes headlines. I see no reason why silver should not revert to its former role of outperforming gold on rallies, and underperforming during corrections, over the medium to longer term.

Platinum has led the advance, and is comparatively the most expensive. Consequently it may underperform as investor interest in the precious metals sector increases. However, although platinum has seen an enormous rise since 1999, there is no evidence that the overall advance is ending.

Palladium is the comparative bargain. Its bubble burst after the move over \$1000 in 2001, as automobile manufacturers switched back to using more platinum instead of palladium for emission control. Led by General Motors, they are considering reverting to palladium once again because of the obvious cost advantage. Interestingly, one of the gold funds has bought palladium recently - see my website Comment of the Day for 19th September.

How I'm playing it - I think precious metal shares have run ahead of metal prices recently. Consequently I have lightened positions in the former, while adding to the latter, concentrating on palladium. More readable charts will be posted on my website later today, including gold share indices.

Wednesday's mystery chart on my website. I wanted you to see the chart, well before releasing the name to non-subscribers who also visit my site. Therefore, as mentioned on the Subscriber's Audio recently (ask for a password should you ever wish to listen), it was Merrill Lynch New Energy Technology plc (code MNE LN) - a UK-listed investment trust (closed-end fund), which invests globally in companies that have a significant focus on alternative energy or energy

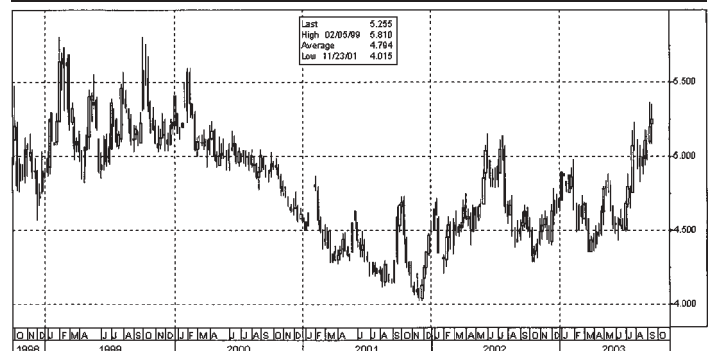
technology. I bought some MNE on Thursday, and not wishing to commit new money to stock markets, financed it by selling a quarter of my position in the Aberdeen New Thai Investment Trust plc, which I still like. Colleague Mark Glowrey drew my attention to MNE by posting its chart on my website on 27th August, when guest editing while I was on holiday.

Subscribers interested in Hollis-Eden Pharmaceuticals, mentioned in FM231 (22/08/03), can hear/view an interesting presentation with slides, given last week, by using this link - <http://www.holliseden.com/webcast.cfm>.

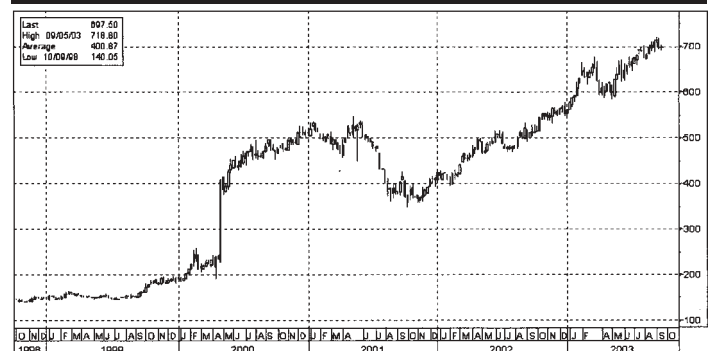
Best regards - David Fuller

Charts by Bloomberg

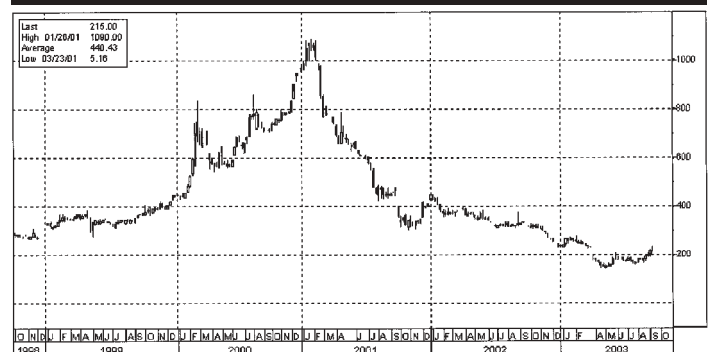
Silver: \$5.255 (Weekly)



Platinum: \$697.50 (Weekly)



Palladium: \$215 (Weekly)



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