

GOLD NEWSLETTER ALERT #482

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Gold Versus The Dollar

The age-old battle of gold versus fiat currency continues, and signs are beginning to build that the metal is gaining the upper hand.

The big story for gold over the past couple of weeks has been the metal's descent from its recent highs near \$1,000. It reached those heights on safe haven buying. And, as I expected, it retreated from those peaks as the sun rose again and fears of imminent financial collapse waned once again.

Gold managed to bounce off its lows around \$900 late last week, but was sent back down early this week as stocks rallied, attracting speculative funds from the gold market.

Encouragingly, the metal has bounced back over the last couple of days, even as stocks continued their ascent. This bodes well for the future of this gold rally because, as I'll explain in a moment, the recent buying was based on just the type of demand that we need to create a firm foundation for a bull market.

It wasn't a bad Friday the 13th for gold, as the yellow metal rallied strongly on the New York opening, threatening \$940 at one point, before losing most of those gains. It finished the day at \$929.40 bid, with a gain of \$2.30 (0.25%).

The other precious metals followed, with silver rising \$0.23 (1.78%) to \$13.18, platinum gaining \$4.00 (0.38%) to \$1,055, and palladium adding \$3.00 (1.53%) to \$199.

The gold stocks advanced, albeit tentatively,

with the Gold Bugs Index gaining 3.51 points (1.24%) to 287.54, and the XAU rising 1.78 points (1.48%) to 122.22.

Gold As The Anti-Currency

As I mentioned above, gold rallied a bit over the last two trading sessions for a very important reason -- one divorced from the "scared money" buying that characterized its latest charge toward \$1,000.

You see, the buying over the last couple of days was prompted by two events:

- 1) The announcement yesterday that the Swiss National Bank was selling francs -- intervening to weaken what was once the foremost bastion of safety among currencies. Investors across the world quickly realized that, if the Swiss were devaluing, then most assuredly every other nation will.
- 2) The news today, from the annual news conference with Premier Wen Jiabao, that China's leaders are concerned about the U.S. dollar and the safety of the assets that they have invested in the dollar. Later, Reuters reported that the annual report of the People's Bank of China predicted that "gold might scale a new peak and oil could chalk up big gains in the second half of the year."

Both pieces of news are vitally important anecdotal evidence that the world's currencies -- including even the dollar and the Swiss franc -- are devaluing...and that gold will be the only safe haven.

Even more important: Investors recognized the significance of these anecdotes, and bought gold.

As I've been stressing, this is the only type of demand that can power gold higher over the longer term. Not scared money temporarily spooked into the safe haven of gold. But rather, prudent accumulation of gold as protection from the massive, global fiat money reflation now beginning.

Eventually, this will be the primary driver of gold over the months and years ahead.

Some Company Comments...

Too often, I get caught up in my commentary on the broader investment scene, and don't provide as much insight as I should into the specific companies we're following.

Part of the problem, of course, is that the junior stock sector has provided us with little joy over the last year or so. But that's starting to change, and there are some opportunities that you should know about.

Here are my thoughts on a few of them....

• **Hathor Exploration** (HAT.V; C\$2.13): As I noted in last week's Alert, investors took Hathor out to the woodshed and beat it severely for having the gall to release outstanding, confirmatory results during the PDAC and in the midst of a global stock sell-off.

Of course, investors had set the bar far higher -- only massively mineralized step-out holes would be accepted. And Hathor provided infill holes that only proved up previous zones, along with exploration holes that missed new mineralization in off-trend areas.

Apparently, there were also a number of shorts involved in the stock, and the recent rebound from

C\$1.80 on Wednesday to today's level indicates that they have begun to cover those bets. In other words, I think the lows are behind us, or at least until the next round of results.

I don't think the bar is set quite as high for the next round, but the company will have to start proving that the Roughrider deposit is extending along trend beyond the zones already indicated by drilling. I think they'll do so, and today's levels still represent a buying opportunity.

• **Northern Dynasty Minerals** (NDM.TO; NAK.NYSE-A; C\$5.89) has come back a bit, after experiencing a bit of a spike during last week's PDAC. This is a great long-term play -- a strategic gold asset in a market that wants gold and little else. The share price may drift lower, but it's in a good buying range right now for long-term investors.

• **Keegan Resources** (KGN.TO; C\$2.45) has also settled back a bit, after announcing a new resource estimate of 3.5 million ounces at its Esaase project that far exceeded expectations, and then following up with screen fire assay results indicating that the grade of the deposit could be 28% higher than indicated by previous, standard fire assay results.

Good news on top of good news. And in fact, the company has yet to disappoint the market in any of its news releases since it began exploring the Esaase deposit. Few other writers ever recommended Keegan because it was never cheap compared to its peer group. But they do things the right way, and they get results -- and that's why the company is near the top of the target list in today's M&A market.

I expect the company to continue to deliver, by growing the resource at Esaase and by building a resource at its Asumura project. Any weakness in the share price, such as we're seeing now, should be taken advantage of.

• **Nayarit Gold** (NYG.V; C\$0.60) hasn't experienced any weakness in its share price recently. Far from it -- investors seem to be realizing the significance of the company's achievements at the

Animas/Del Norte discovery zone...and potential new zones...in its Orion district property.

I came to the same conclusions as I met with Nayarit management at the PDAC last week, and went over the maps and results in great detail. The bottom line is this: Nayarit is building a deposit here with outstanding grades and economic potential. It will be developed by them or someone -- the only remaining question is how much dilution

they will have to undergo to finance the remaining exploration.

In my opinion, the value that will be created through near-term exploration will more than compensate for any dilution, and this remains a company on a steep, value-building curve. Under C\$0.60, it's a buy.

— **Brien Lundin**

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