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Disclaimer

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**On ASX Gold Investments
...The Nerds have
the numbers**

Diggers & Drillers
"The world cannot do
without mined minerals.
There are going to be
great opportunities out
there for the strong and
the brave..."
-Mineweb.com, 16 October,
2008



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THE ALLURE OF THE CASINO

Markets all around the world are rallying with the Dow Jones putting on over 25% since the March lows and the Australian All Ordinaries index rallying 20%. Market experts explain how the stock market is a barometer for the future and the signs are there that we are starting to turn the corner economically. Meanwhile, the economic news remains grim with few signs that a recovery is imminent. The underlying point of importance here is decades of economic mismanagement and neglect do not get reversed in the space of a handful of months and regrettably saying it doesn't make it so.

Volatility is not something the average investor tends to stomach easily. I believe it is one of the primary reasons why only perhaps 1 out of every 100 investors own precious metals related investments, despite a strong performance in recent years. The advent of the ETF has, if anything, added to this volatility. With the click of a mouse, investors can buy and sell a claim on the metal at the drop of a hat.

With markets rallying, there are many investors buying into this recovery story and the ones that are sitting on the sidelines are sweating bullets. This is especially the case for retirees who have significant losses to recover and had perhaps pulled their money out in fear of worse to come. The temptation to redeploy the funds and let the chips fall where they may is palpable. The fundamentals look woeful but the market is rising?

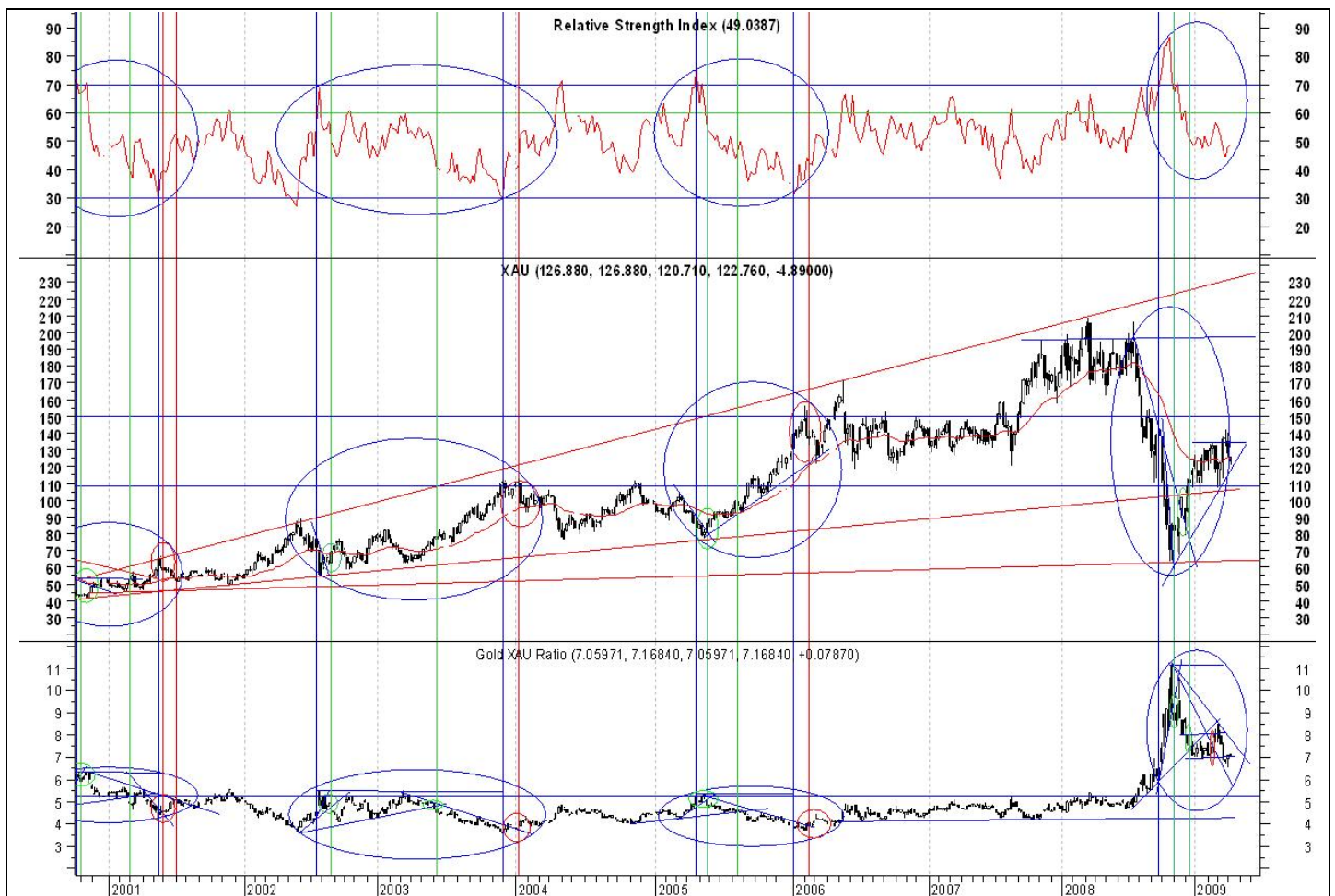
Volatility and a short term investment mentality is a recipe for disaster when investing. It is what leads many of the few western precious metals investors to buy and sell at precisely the wrong time. This invariably leads to ordinary results, turning many off the sector entirely. The more volatile the sector, the harder it is mentally to invest in. This is especially the case if you have insufficient knowledge of what you are investing in and why

Like it or not, investors are going to have to become more comfortable with volatility in the future. People are now throwing money back into the market for no other reason than it is rising. It won't take much for that money to exit as conviction is clearly a notable absentee. The good news for the precious metals sector is that the investment public will slowly grow more tolerant of volatility. Volatility over time will become less of a deterrent with strong fundamentals and outperformance playing more of a crucial role. Market participants are also learning that having knowledge in the sectors they invest in is critical. Volatility and a lack of conviction almost guarantee losses over the long term. There are very few sectors which will teach you this lesson more effectively than the precious metals sector. Something I have learned from experience I can assure you!

XAU

The chart below highlights key points in time when the XAU is overbought (RSI 30) and oversold (RSI 70), relative to gold. Once the respective indicators trigger (blue vertical lines), it then becomes a task of following trends in the ratio looking for definitive breaks to signify entry (green vertical lines) and exit (red vertical lines) points. The gold price wave analysis above helps us get our bearings. Right now, with the commencement of a Wave 3 rally, we should expect to see precious metals equities outperform the gold price signaling further strength in the metal.

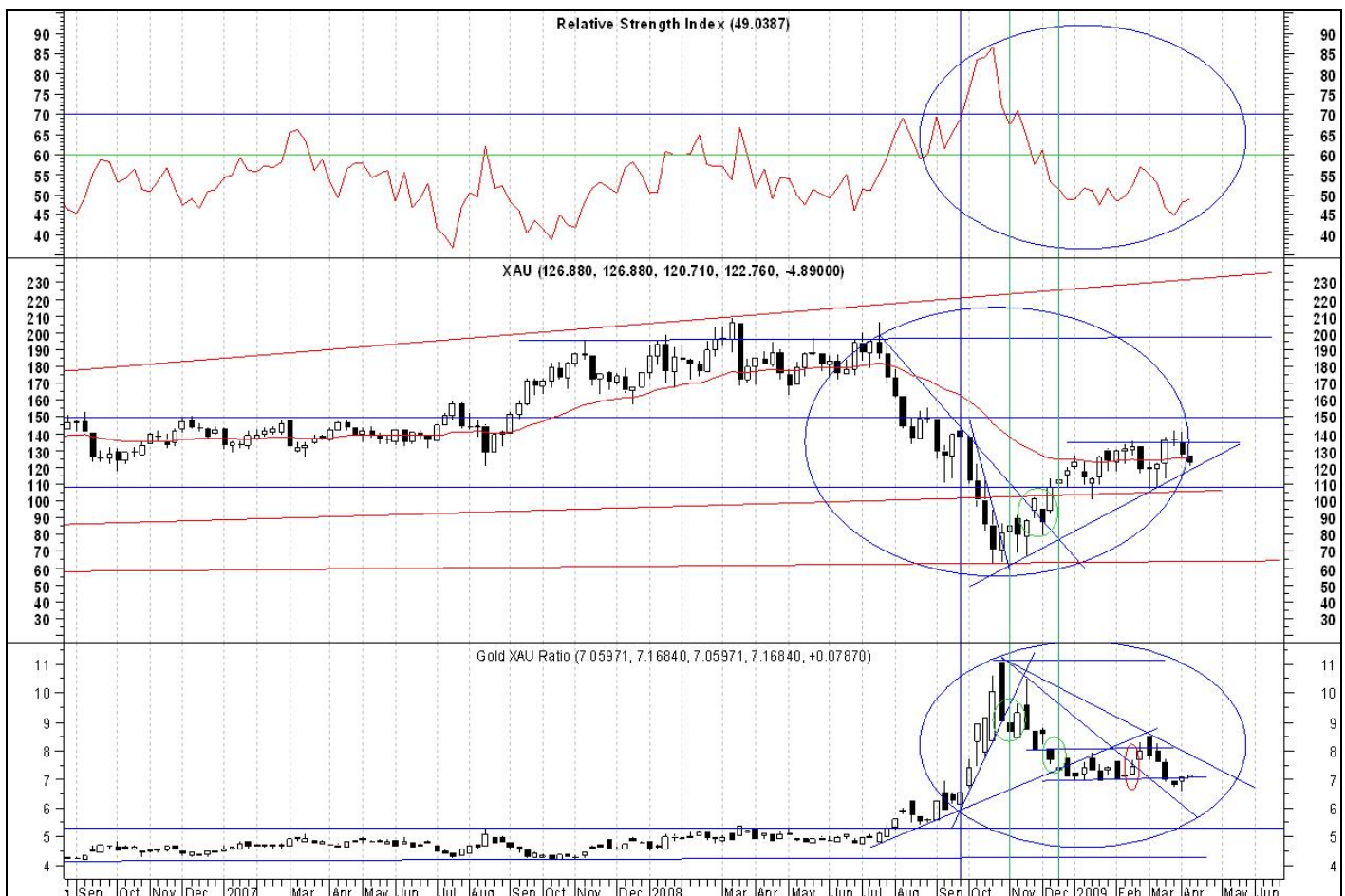
GOLD/XAU LONG TERM PICTURE



GOLD XAU RATIO

Extreme Key Dates	Gold/XAU	XAU	XAU Performance	Gold Price	Gold Performance	Net Position
3/11/2000	6.07	44		265		
25/05/2001	4.56	58	33%	276	4%	29%
02/08/2002	4.82	63	9%	305	11%	-2%
09/01/2004	3.83	111	75%	423	39%	36%
27/05/2005	4.84	84	-26%	418	-1%	-25%
17/02/2006	3.97	139	64%	552	32%	32%
7/11/2008	8.63	85	-39%	735	33%	-72%
Current (15/04/09)	7.17	124	46%	889	21%	25%

GOLD/XAU INTERMEDIATE TERM



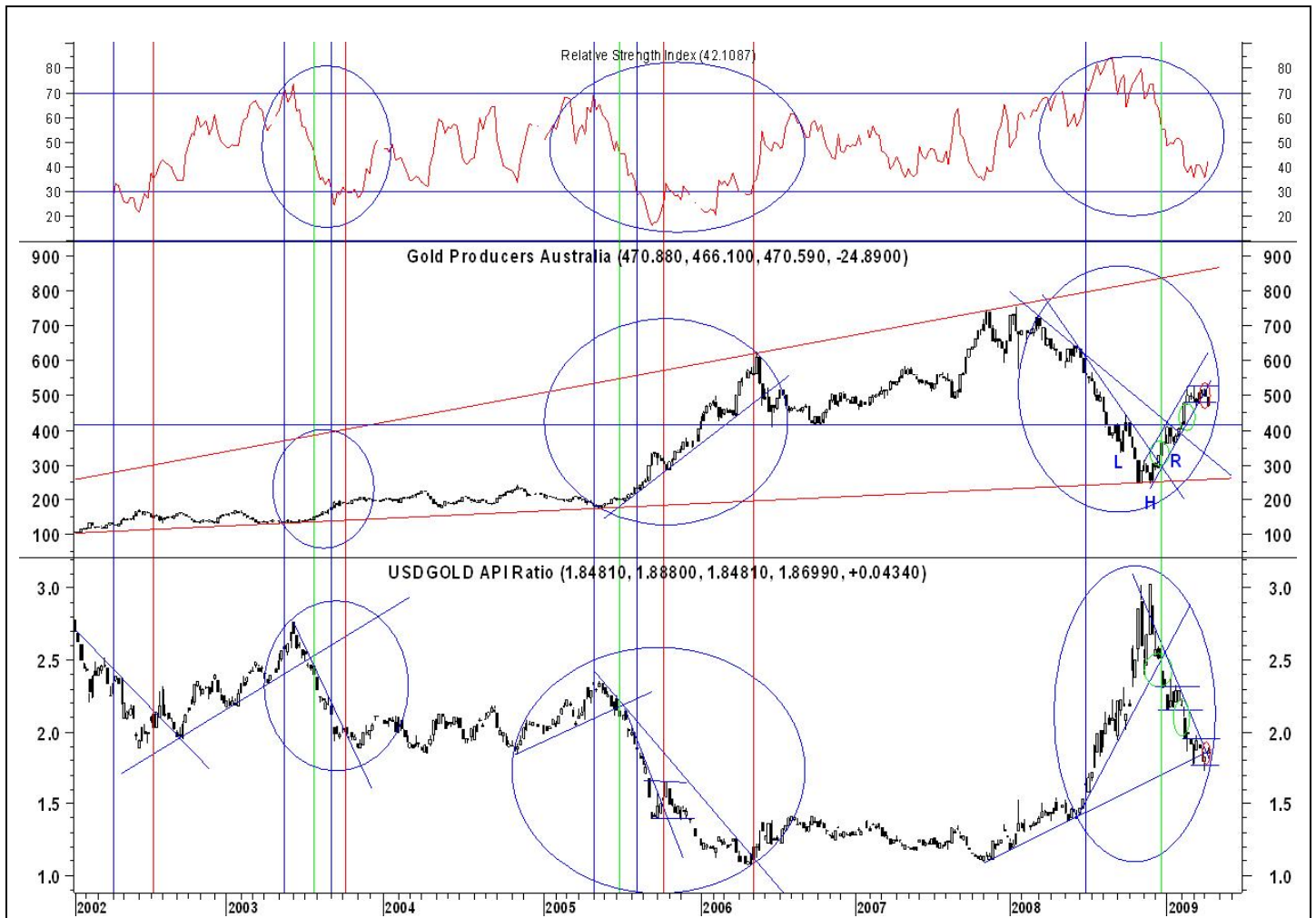
COMMENTARY

The Gold/XAU ratio, after briefly breaking the support at 6.95, continues to consolidate around the 7 mark. A look at the XAU chart itself (middle section) shows a very solid triangle consolidation pattern with resistance at 138. A clear break through 138 would signal the commencement of a strong rally. Over the next few weeks it will be interesting to follow the Gold/XAU ratio, especially if the gold price does in fact fall down towards US\$850. If the gold shares continue to outperform during this time and hold say 7.50 - 8.00, I would be taking this as a bullish signal that the fall will be short term in nature and not the start of something more prolonged. On the other hand, if the gold shares underperform and we break 8 on the Gold/XAU ratio, we may be looking at something more drawn out.

AUSTRALIAN PRODUCERS INDEX (API)

The Australian Gold Producers Index has a consistent format to that of the XAU. The relative strength comparison is with a USD gold price instead of an Australian dollar gold price. This is because Australian gold shares tend to be influenced more by the USD gold price.

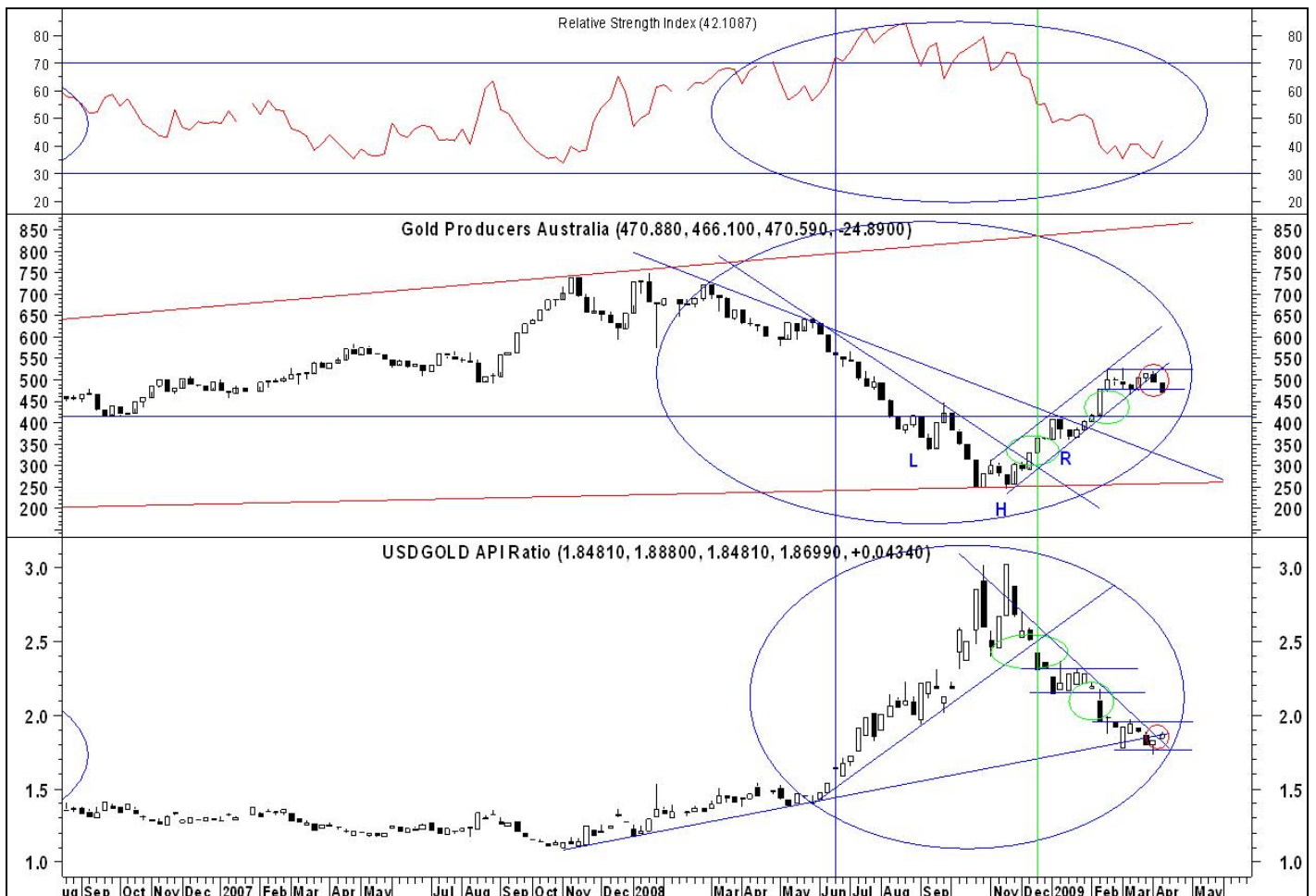
GOLD (USD)/API LONG TERM PICTURE



GOLD (USD) API RATIO

Extreme Key Dates	Gold/API	API	API Performance	Gold Price	Gold Performance	Net Position
25/07/2003	2.39	152		363		
10/10/2003	1.98	188	24%	372	9%	15%
08/07/2005	2.14	198	5%	424	14%	-9%
05/05/2006	1.20	564	185%	678	60%	125%
19/12/2008	2.30	363	-36%	836	23%	-59%
Current (09/04/09)	1.87	471	30%	880	5%	25%

GOLD (USD)/API INTERMEDIATE TERM



COMMENTARY

The Gold/API ratio (bottom section) has stopped falling and started to consolidate over the last 4 weeks, which has signaled a halt in proceedings to our strong rally in the API index. Both trends have temporarily broken down (red circles) but remain in consolidation patterns. At this stage, I have been impressed with the way certain Aussie gold stocks have performed despite the severe drop in the Aussie dollar gold price. The return of confidence to the mainstream markets has seen a strong rally in the Aussie dollar, which has seen gold priced in Aussie dollars fall 20% from as high as A\$1,500/oz down to as low as A\$1,200/oz.

AUSTRALIAN THEORETICAL PRICE OF GOLD UPDATE

Date	10 Year BB Interest Rates	Headline CPI	M3 Aggregate Money Supply	Rate of Australian M3 Change	Gold Production Av Annual Increase (1.73%)	Australian Theoretical Gold Price	Actual Gold Price (AUD)	Actual as a % of Theoretical
Jun-08	6.45	4.50	1,032.9	2.79%	0.14%	3,231.06	969.36	30%
Jul-08	6.23		1,051.0	1.75%	0.14%	3,283.16	976.02	30%
Aug-08	5.75		1,065.9	1.42%	0.14%	3,325.10	967.25	29%
Sep-08	5.40	5.00	1,090.1	2.27%	0.14%	3,395.94	1,111.11	33%
Oct-08	5.18		1,107.0	1.55%	0.14%	3,443.83	1,107.62	32%
Nov-08	4.58		1,124.9	1.67%	0.14%	3,496.52	1,250.77	36%
Dec-08	3.99	3.70	1,130.0	0.45%	0.14%	3,507.48	1,247.49	36%
Jan-09	4.10		1,140.1	0.89%	0.14%	3,533.92	1,445.98	41%
Feb-09	4.40		1,152.8	1.11%	0.14%	3,568.34	1,490.18	42%

5 Year Performance Snapshot

	2008/09*	2007/08	2006/07	2005/06	2004/05
Actual Gold	54%	26%	16%	18%	8%
Theoretical Gold	10%	17%	14%	16%	6%
M3 Growth	11%	19%	16%	17%	8%
CPI	3.7%	4.5%	2%	4%	2.5%

* This financial year so far.

COMMENTARY

M3 growth for 2008/09 is at an annualized rate of 16.5% as at the end of February 09. The theoretical gold price sits at A\$3,568/oz, with the actual 42% of the theoretical. As mentioned earlier, the gold price in Australian dollars has since experienced a sharp fall which has been a function of the rising Aussie dollar. There are many conflicting reports on how Australia's economy will fair over the coming 12-18 months.

Something I have found both frustrating and almost comical of late are the interviews on Australian TV with economists regarding the intermediate term outlook for the Australian economy and the state of our banking system. Most will concede that Australia's unemployment rate has further to rise over the coming 12-18 months. At the same time, they are impressed with the lending standards of Australian banks and put them a cut above the rest on the world's banks. They highlight our comparatively stable housing market as a primary reason why the economy is unlikely to experience the same severity of recession as in the UK and the US. I want to spend a couple of paragraphs pointing out some obvious flaws in this logic. It is important to note that the global recession, which has already impacted heavily on both the UK and the US, has led the recession here in Australia by about 12 months. The financial sectors in the UK and in the US (the epicenter of this crisis) are proportionately larger than in Australia hence the lag we have seen. Just to repeat, Australian Economists concede that the worst of the unemployment is still ahead of Australia which I agree with 100%. Now let me put this question to you:

What comes first, unemployment or the fall in house prices and the consequential distress on financial institutions and the Australian economy?

I would have thought the answer to this question was fairly obvious. The ultimate test for the Australian financial system and the economy will be the expected higher unemployment. To me it seems a little premature to be patting ourselves on the back for a job well done while the full effect of this recession is yet to be realized. Unemployment is still under 5% and heading higher at break neck speed. Recessions in Australia over the past 40 years have typically seen unemployment rates peak at 10% (twice what they are today). There is little evidence available to suggest that the present recession won't rival anything we have experienced historically.

What is the true state of Australia's banks and their historical lending standards? I remember talking to a property valuation professional 5 years ago in Brisbane who came over to do a valuation on a property we were renting at the time which had been sold. I immediately detected an air of complacency as he went about his business and asked him what his thoughts were on the sale price. I'll never forget the response. He looked at me, laughed and said words to this effect: **"Our job has become virtually irrelevant these days as the banks approve loans regardless of what we say anyway. What I do is just a formality with little consequence."** The point I want to make very clear is that there is no question lending standards in Australia have been soft. Australia has some of the most expensive property in the western world and our average debt to gross wages ratio puts most western nations to shame. Sound lending practices? The reality is the Australian government and the banks are scrambling to do everything in their power to secure the financial system and support property prices knowing full well what lies ahead.

The following steps have been taken thus far:

- Australian bank deposits have been guaranteed by the government.
- The first home owner's grant has been raised yet again, encouraging first homeowners to buy at a point in time where job security is at its lowest and property prices are hanging by a very thin thread.
- The major banks have announced a 12 months mortgage relief plan for homeowners that become unemployed. The big 4 banks are also considering a similar reprieve for other types of loans. This will come in very handy for those that were encouraged to take advantage of the first home owner's grant only to find they no longer have a job! What happens after 12 months?

Expect more government intervention and policy on the run as rising unemployment puts increasing pressure on property prices, the banks and the Australian economy in general. Make no mistake, this is just the beginning and no amount of government intervention is going to make a scrap of "positive" difference. Government intervention is sending the wrong message to people and worsening the situation. If our economists can't see or acknowledge this, what hope do our policy makers have (in all fairness to them)? Bad economics is what lies at the root of this global recession and until we acknowledge this, we are doomed to repeat the mistakes of the past.

CLOSING COMMENTS

The gold price has corrected over the last month but still looks technically sound. The fundamentals are as good as they have ever been, which should give investors the conviction to see past any short term volatility. If you find yourself questioning your investment in precious metals, I encourage you to do some more homework on the subject. If you are finding yourself falling into the temptation of having a look at the beaten banking and industrial sectors given their impressive rebound, I would urge you to think carefully. The rules of engagement in the present market are quite simple. Invest your money in the asset classes and companies that make fundamental sense despite the global recession. Get a solid grounding of the fundamentals. You will find these investments will be the only ones you will feel compelled to hold and add to during times of increasing volatility and the associated spin that comes with it.

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