

Precious Metals Update

Market Observations

The emotions of the investor community in April were intense and resulted in interim price exhaustions for gold and silver. With the bottoming of the **US Dollar Index (DX)** this has been reversed during the last few trading days.

A common feature of bullion bull markets is that silver outperforms gold. A good indicator for price exhaustions in silver is the **RSI of the silver to gold ratio (SGR)** (not the gold silver ratio!). Past examples which recorded major exhaustion events in the SGR can be found in Feb '74, Sep '79, Jan '80, Apr '87, Apr '04, Apr '06 and May '08. In each of these events the RSI of the ratio reached a level of **87** or higher and the exhaustions were followed by immediate and steep corrections in silver relative to gold.

This time around, the RSI of the SGR was pushed to **92** by the end of April. Similar to the past examples, a violent correction in silver followed this week. Past retracements in silver which took out 50-60% of the prior price moves would suggest an interim bottom for silver between US\$ 27-30 USD before the next leg up starts.

This weeks' knock-off in silver and gold has been intensified after Eric Sprott announced on Monday that he sold approximately US\$ 34 million worth of his Sprott Physical Silver Trust and then on Wednesday, according to the Wall Street Journal and Bloomberg TV, George Soros sold his large position in SPDR Gold Trust (GLD).

Commodities have broken major resistances and started to slump into downtrends. This does not come without surprise as the DX turned up recently after sentiment on the Dollar reached a five year low in April. In a fiat money-based system, the FED needs the speculators to bid up prices and to depreciate the Dollar. When the DX reverses and becomes chronically stronger the market can quickly change its character and in many examples of the past a cyclical bear market in commodities followed.

Our Strategy and Outlook for Precious Metal Stocks

Although we timely trimmed our silver equity exposure, our portfolio was negatively affected by the recent volatility and some of our stocks were hit hard as liquidity diminished. We have currently 27% in net cash in the fund and are looking for optimum purchases once the RSI readings in gold and silver reach our target levels. This could be within the next 3 to 6 weeks.

It is noteworthy that when asset prices (incl. commodities) go up the purchasing price of money goes down and during the bust the purchasing power of money goes up. Gold is the ultimate money.

US TED spreads have been widening gradually since last October, reflecting our negative long-term view on the credit and lending markets.

With the roll-over in commodity markets the **real price** or purchasing power of gold (e.g. Gold/oil, Gold/CRB, Gold/Rogers) is likely to go up. This reflects **improving profit margins** for gold producers and enhanced valuations for gold deposits. This trend can last for many years, however, for the near-term gold stocks are likely to correlate tightly with the US stock market until the improved underlying profitability of the sector is being discounted in higher equity prices. We anticipate that similar to 2009 and 2010 precious metal stocks will continue to outperform the metals in the long run.

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Florian Siegfried, CEO