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June 21, 2006
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GOLDEN OPPORTUNITIES

Gold and the other metals fell sharply this month. But considering they'd risen so far and fast this year, it wasn't a surprise. It's basically a normal bump in the road and despite this decline, gold's still looking good.

SIMILARITIES TO THE 1970s...

We've often discussed the reasons why gold is headed higher and why this bull market will likely last for years to come. Basically, there are six major factors driving this bull market.

Briefly these are: 1. too much spending, 2. too much money is being produced, 3. inflation, 4. the weak U.S. dollar, 5. international tensions and 6. China's growth and ongoing demand for commodities, which is coinciding with a new upmove in the 200 year commodity cycle.

The last big bull market in gold was in the 1970s and it lasted 12 years. In recent years, we've seen many similarities to the 1970s, suggesting this rise could also be similar.

In the 1970s, for instance, there was big spending on guns and butter as the Vietnam war dragged on. Deficits were large, and inflation, oil and gold were soaring. The dollar was dropping and the president was unpopular.

Today there's even bigger spending as the war on terror continues. Deficits are huge, and oil and gold have been soaring, inflation is picking up, the dollar is declining and the president is also unpopular.

...BUT MORE COMPLEX TODAY...

But there are also differences in today's world compared to the 1970s. These differences suggest the current gold rise could be even bigger than the bull market of the 1970s, and they provide even more fuel for gold's bull market.

Most important, there are nearly 50% more people in today's global economy who weren't there in the 1970s. Aside from China, there's also India and the former Soviet countries. Taken together, this comes to about three billion people.

In the 1970s, these countries were either very poor or closed societies, or both, but that's not the case now.

China's economy has been growing by about 10% annually for the past 15 years, while India's annual growth has been more than 6% since the 1990s. In the most recent quarter, India's economy grew more than 9%. Oil demand in China and India has doubled in the past 10 years and it's expected to double again over the next eight years. So these two countries alone represent a lot of ongoing demand for many items.

Plus, China and India have historically been interested in gold. India accounts for 23% of consumer gold sales and its gold consumption is expected to rise 33% this year, and China has made it easy for national gold buyers. People in these countries are big savers and if some of these savings keep moving into gold, it'll provide a very strong boost.

When you consider that these and other countries are also adding gold to their reserves, it marks a huge difference in current and future demand for gold compared to the 1970s.

... AND THERE'S MORE

Another difference this time around is that no country wants a strong currency, in order to compete in the global marketplace. The end result is that gold is now rising around the world, hitting records and attracting attention, reinforcing that investors worldwide are putting more faith in gold.

Yet another difference compared to the 1970s is global warming and changing weather patterns, which will continue to be a big force affecting the commodity markets. Last year's hurricane season pushed oil up to record highs. With the new hurricane season just starting, it's expected to be similar and this could keep upward pressure on oil, other commodities, inflation and gold.

Adding these factors to the big six, you can see why this bull market in gold has the potential to be more powerful and bigger than the great bull market of the 1970s. So the next question is, how high could gold go in the years ahead?

HOW HIGH IS HIGH?

We're looking at \$850, the 1980 high, as the next upside target (see **Chart 1**, which shows gold since 1967). Once that level is broken, gold will be in new uncharted territory, but we can make some reasonable assumptions...

Simply adjusting for inflation, gold would have to reach \$2,000 to equal the \$850 high in 1980. But since there are major differences now, it's not unreasonable to assume that gold will eventually go higher than \$2,000.

Another way of looking at it is in percentage terms. In the 1970s, gold rose 2300% in 12 years, from \$35 to \$850. So far, it's only risen 189% in the current five year bull market, from \$250 to \$722. But if this bull market ends up rising 2300% like the one in the 1970s did, then gold would eventually get to \$6,000. As wild as this may seem, remember that \$6,000 in the future will not be worth the same as \$6,000 today.

Considering the mega trend change in the Dow Industrials to gold ratio, it also reinforces that these high figures may not be as wild as they sound (see **Chart 2**, which shows the ratio since 1901). Over the past six years, this ratio has been declining, meaning gold has been stronger than the Dow, and the ratio between the two is currently at 18.78 (Dow 11099 ÷ gold \$591= 18.78). Once these mega trends are in motion, they tend to last for years and at major lows the ratio has historically dropped to between 1 and 3.

These are just estimates, but let's say the Dow eventually drops to 7000, which is near the level it was at just a few years ago and not quite a 50% correction of the 1980-90s bull market rise. A ratio of 3 would mean gold at \$2,300, and if the ratio were to fall to 2, then gold would eventually hit \$3,500. But if the ratio dropped to 1 like it did in 1980, 7000 on the Dow would also mean \$7,000 for gold.

INGREDIENTS IN PLACE

Obviously, we don't know how this will ultimately end up. But we do know that the ingredients are in place for a 1970s type performance, or better, for gold. Don't forget, gold was a dead market for over 20 years from 1980 to 2001. Commodities dropped about 80% in real terms and since these markets fell for such a long time, there was little exploration for new metals deposits. That too supports the fundamentals for a long lasting and strong bull market in gold, especially once the public joins the party.

But also don't forget that no market goes straight up or down. There will be setbacks and steep corrections along the way and we're currently in one of those periods. These are normal. The gold bull market of the 1970s, for example, was interrupted by a decline that lasted 1½ years before it resumed its stellar rise.

Most important, this is a major, mega trend and it's going to take time, so don't get discouraged or impatient. As long as this major bull market stays in force, plan to stay on board and we think you'll be glad you did.

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