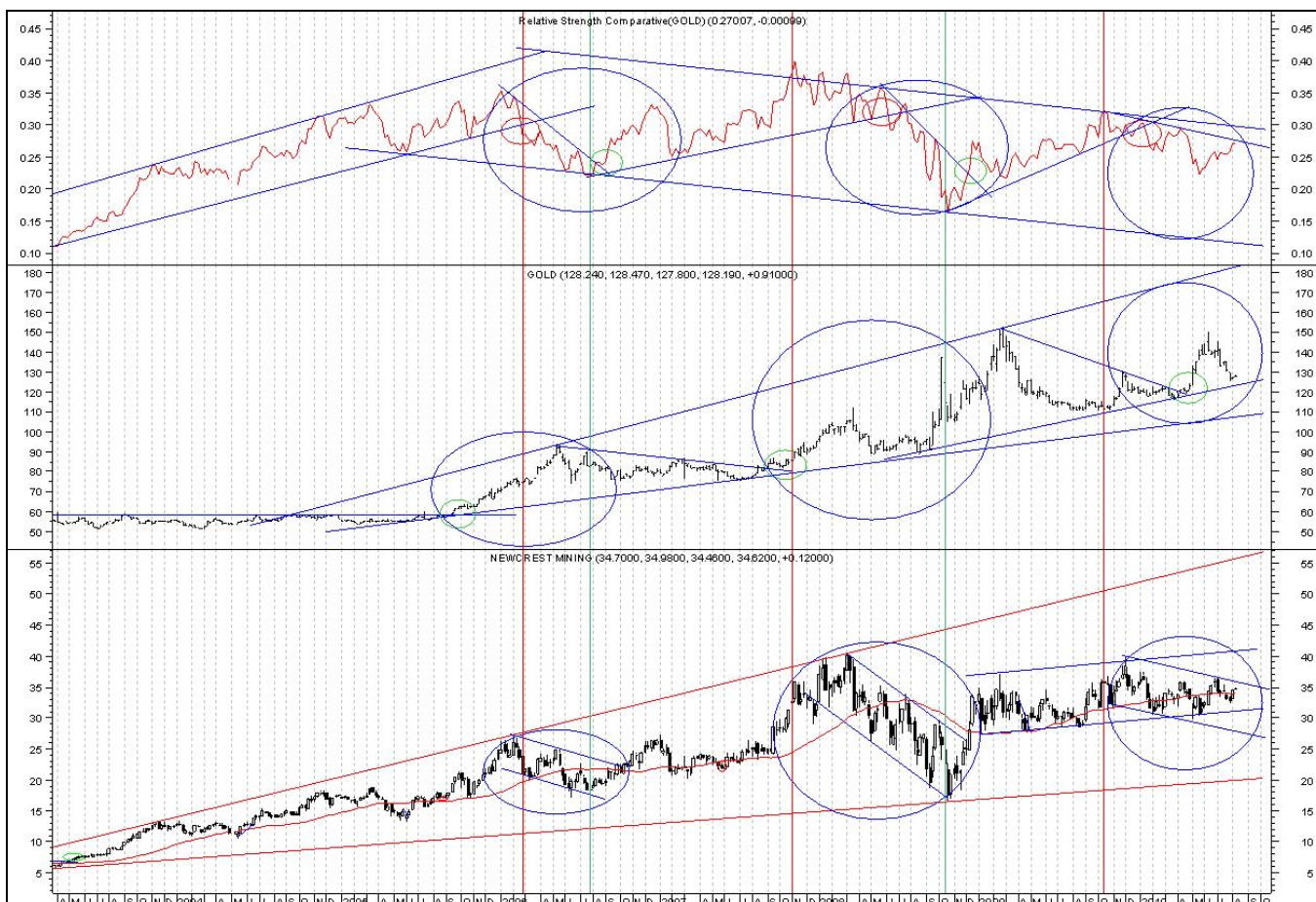


NEWCREST'S RELATIONSHIP WITH THE GOLD PRICE

The relationship between gold stocks and the gold price tend to ebb and flow in fairly predictable phases. These are largely dependent on whether the markets are in an expansionary mode, like in the lead up to the Global Financial Crises, or contracting under deflationary pressures as we have seen off and on in the wash out. Looking at the chart below, we can see the relationship between Newcrest's share price and the Aussie Dollar Gold ETF (which tracks the price of gold). The bottom section of this chart refers to Newcrest's share price, the middle section is the Gold ETF and the top section is the relationship between the two. We can see in the first half of this decade, Newcrest's share price clearly outperformed the price of gold with a solid narrow up trending channel (top section). This eventually broke down in early 2006 (first red vertical line). That is, Newcrest's share price hit an interim high and the Aussie dollar gold price continued trending firmly higher. Come July 2006, Newcrest's share price hit an interim low as the Aussie dollar gold price started to top out (first green vertical line). If we continue to look to the top section of the chart, we can see this was the start of a downward sloping channel which we have been firmly entrenched in ever since. The gold price has matched Newcrest on an overall basis during this period, but we have gone through distinct phases of underperformance and outperformance. Each phase is denoted by the red and subsequent green vertical lines. The red lines signal the topping out of Newcrest shares and the point where the gold price clearly outperforms the gold shares. The green lines signal the ideal entry points into Newcrest shares, as the metal tops out and a new rally commences. Not surprisingly, Newcrest's share price tops out when the market appetite for risk peaks, whilst the Gold ETF simultaneously bottoms on the Aussie dollar strength. When the reverse occurs and the market appetite for risk bottoms, we get our ideal entry point for Newcrest shares and a profit taking opportunity for Aussie dollar gold.

NEWCREST V AUSSIE DOLLAR GOLD PRICE



This brings us to the obvious question. Where are we presently placed in this cycle? As you can see, looking at the top section, we have entered a phase where the gold price in Australian dollars is outperforming Newcrest shares. Unsurprisingly, this has corresponded with a contraction in world equity markets, causing a decline in the Aussie dollar (it has since rallied) whilst allowing the Aussie dollar gold price to trend higher. On the flip side, this has taken the wind out of Newcrest's sails, preventing the share price from progressing in the intermediate term. A strong June quarterly report for the company released recently failed to inspire the market, suggesting to me that significant pressure remains to the downside. I have been taking advantage of the recent rally in the Aussie dollar to top up my trading position in the Gold ETF. When the time is right, I will look to make a partial switch back into Newcrest to take advantage of a new rally in the stock. It is my belief that Newcrest has a bright future, given the well established up trend in the Aussie dollar gold price. If, like me, you are bullish on the gold sector, this strategy can ensure your investment dollars remain in gold regardless of the climate. It optimizes your return by at least partially avoiding equities when markets are shaky, whilst preserving your capital in Aussie dollar gold which appreciates during deleveraging events.

If the above chart is an accurate reflection of where the markets are presently at, I would be predicting the present rally in world equity markets will be temporary along with the rally in the Aussie dollar. This could see the Gold ETF fall back to 122-125, in line with the interim up trend which is in place. At the same time, I would expect Newcrest to continue to struggle to break \$35. As world equity markets fall with the Aussie dollar, the Australian dollar gold price will be a beneficiary. Using history as a guide, Newcrest will fall despite the stronger Aussie dollar gold price, eventually presenting an ideal buying opportunity. It will be interesting to see how things pan out.

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