THE GLOBAL SPECULATOR

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INTRODUCTION

April 08 has seen more pain for precious metals investors. The gold price continued to correct leading many to ask the obvious question: **How much further do we have to go?** There have been many corrections during this bull market, with the average loss being roughly 50% of the previous gains. As you all know, picking a corrective low is not an exact science but it is helpful in trying to get some indication as to how much more pain we may have to endure. The chart below indicates a 50% correction may take us to the US$790-$800 mark, which happens to coincide nicely with the 300 day moving average (Green). The 300 day MA has been a very reliable support level to date. The gold shares, as we will see later on, have already started to show signs of strength during the recent fall in the gold price, which supports the theory that we are getting somewhat closer to a bottom.

Gold Chart ($US)

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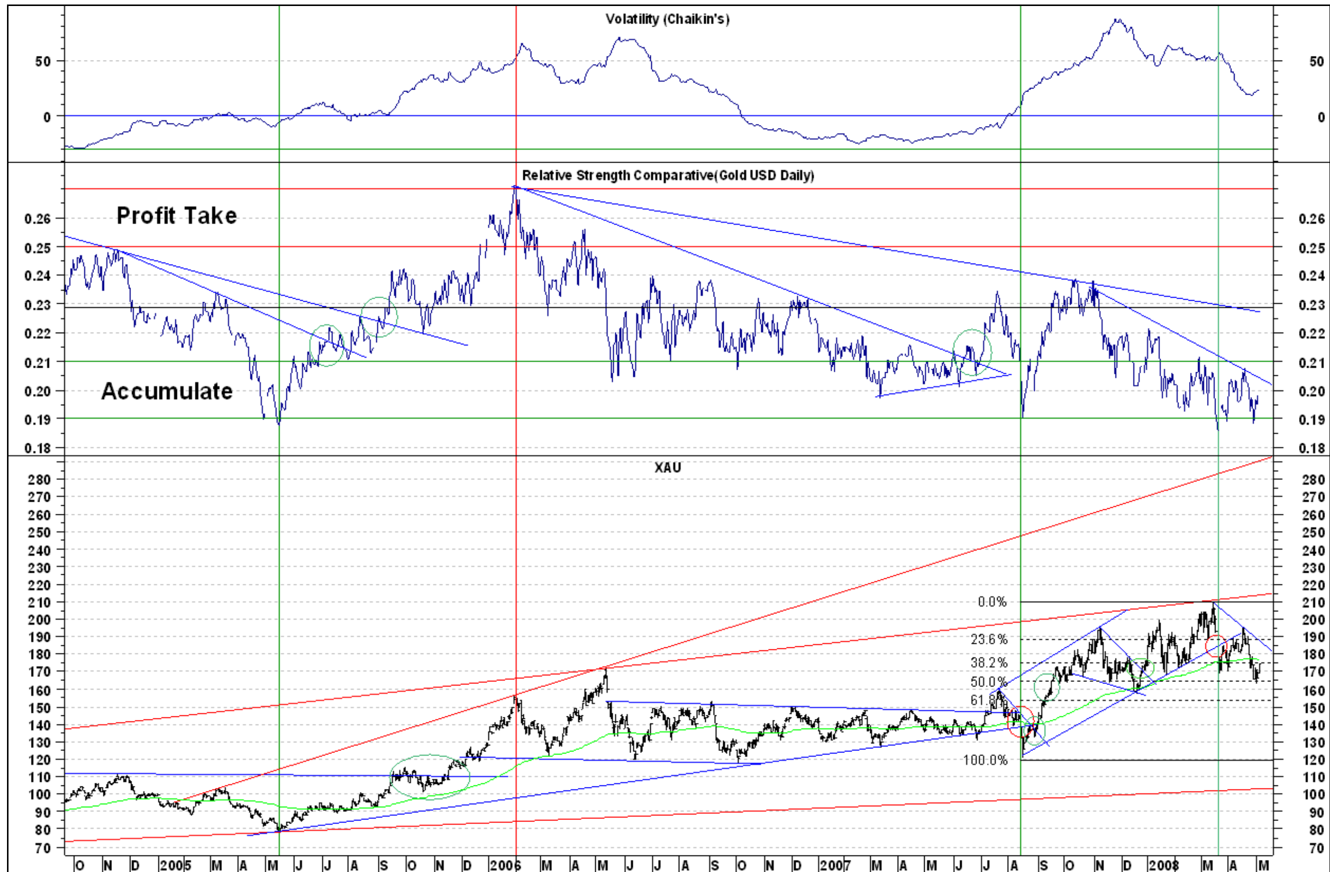
XAU



XAU Gold Ratio

Key Dates	XAU/Gold	XAU	XAU Performance	Gold Price	Gold Performance	Net Position
19/11/2001	0.18	49.46		272.90		
28/05/2002	0.27	88.65	79.24%	325.50	19.27%	59.96%
26/07/2002	0.18	55.73	-37.13%	303.30	-6.82%	-30.31%
08/12/2003	0.28	112.21	101.35%	406.60	34.06%	67.29%
13/05/2005	0.19	78.99	-29.61%	420.70	3.47%	-33.07%
31/01/2006	0.27	154.19	95.20%	570.70	35.65%	59.55%
16/08/2007	0.19	125.99	-18.29%	662.25	16.04%	-34.33%
Current (07/05/08)	**0.20**	**177.33**	**40.74%**	**875.60**	**32.21%**	**8.53%**

The XAU, for the month of April 08, rallied to hit 195 before falling sharply with the gold price and has since steadied to be 177.33 as of the 7th of May. The XAU gold ratio fell sharply to just under 0.19 by late April, but has since rallied with the recent bounce in the gold price. One gets the feeling the gold majors may have some more downside from here with the corrective low in sight. The profit figures from the major miners have been released in recent days and as you would expect they have been impressive. However in light of the strong results, we have seen little positive reaction in the share prices suggesting to me we are not quite there. Having spoken about the corrective falls in the gold price, it is only prudent we discuss the relative falls in the XAU. With 50% pullbacks in the gold price, we have seen the XAU lose about 60% of its gains on average. The high of 210 made in March 08, gives us a rally of 90 from the low made of 120 in August 07. A 60% correction would see 54 of the 90 point rally lost, leaving us roughly at 155 as an indicative bottom. Again, this is not an exact science but it helps us to get a feel for what to expect if history is a useful guide.

OUTLOOK

The two short term scenarios as I see it over the coming weeks and months:

Scenario 1: The XAU will continue to correct with the gold price as both attempt to put in a low over the coming weeks and months. I see 155-160 as a reasonable support range and potential low for the XAU as we continue to build support for a powerful rally in the second half of the year. I support this scenario.

Scenario 2: The general equity markets get caught up in a violent downturn, taking the precious metals sector **temporarily** with it. This could result in the XAU falling down to solid support levels at the 145 - 150 mark. Equity markets remain vulnerable and the risk of this scenario occurring remains. For now, I do not support this scenario.

Intermediate Term Outlook:

Our next intermediate term target is 270 towards the second half of 2008 or early 2009, on a successful break of strong resistance at 210 - 215.

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NORTH AMERICAN SILVER INDEX (NASI)

The NASI, for the month of April 08, performed poorly failing to hold support at 7,500 and closing at 7,282. The Relative Strength Comparative with silver continues to deteriorate indicating the worst may not yet be behind us.

The chart below shows the silver price pulling back, as expected, towards support at US$16.00 after a brief rally which took it back to about US$18.00 before running out of steam. The Relative Strength Comparative with gold (middle section of the chart below) remains flat. I have recently changed my moving averages on the metal charts to 300 day moving averages (from 150), in light of some good articles written recently demonstrating their effectiveness in the bull market thus far. I see silver perhaps falling further over the coming weeks to the US$15 mark before finding support. At this point, it will be interesting to follow the silver equities and see if they start to demonstrate strength as we work our way towards a corrective low.

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Silver Chart ($US)

OUTLOOK

The two potential short term scenarios as I see it over the coming weeks:

Scenario 1: The NASI will continue to correct perhaps towards the 6,000 to 6,500 mark as we get into the final wash out of this correction. The silver price will correct and find support around the important US$15.00 mark. I lean towards this scenario.

Scenario 2: If there is a sharp fall in the equity markets, we could see a worse case scenario of a pull back in the NASI down to the longer term support level of 5,000 and the silver price down to $13.50 - $14.50. While a distinct possibility given the present market uncertainty, I don't presently support this scenario.

Intermediate Term Outlook:

The next intermediate term target for the NASI is still 10,500 - 11,000, followed by a longer term target of 13,000 - 15,000 towards the second half of 2008 or early 2009. The next intermediate term target for the silver price is $24.50 to $26.50, again towards the second half of 2008 or early 2009.

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AUSTRALIAN PRODUCERS INDEX (API)

During the month of April 08, the API has fallen to find support at around the 4,600 mark as the index continues to consolidate in a range between 6,000 and 4,600. A look at the Relative Strength Comparative with gold (middle section) shows it starting to stabilize after having fallen steadily since the beginning of March 08. Whilst this could be a sign that the Aussie gold shares are attempting to find a bottom, it is probably a little premature to be making that call.

OUTLOOK

The two short term scenarios as I see it over the coming weeks:

Scenario 1: The API will continue to trade close to the 4,600 support, with the gold shares holding up as the gold price attempts to make its lows. In the event 4,600 fails, we may see a fall somewhat lower down to 4,200. I support this scenario.

Scenario 2: We get a severe pull back with another unexpected event. This could see the index fall to longer term support at 3,000 – 3,500. I don't support this scenario for the time being.

Intermediate Term Outlook:

My intermediate term target continues to be 6,500, with a longer term target of 7,500 towards the second half of 2008 and early 2009.

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 Australian Gold Price	Actual as a % of Theoretical
Jun-07	6.26	2.10	867.9	3.3460%	0.14%	2,760.86	766.64	27.77%
Jul-07	6.03		874.6	0.7720%	0.14%	2,778.20	774.60	27.88%
Aug-07	5.92		895.8	2.4240%	0.14%	2,841.53	826.01	29.07%
Sep-07	6.16	1.90	911.9	1.7973%	0.14%	2,888.51	839.60	29.07%
Oct-07	6.18		939.1	2.9828%	0.14%	2,970.50	851.90	28.68%
Nov-07	6.00		964.7	2.7260%	0.14%	3,047.19	885.91	29.07%
Dec-07	6.33	3.00	982.1	1.8037%	0.14%	3,097.88	951.01	30.70%
Jan -08	6.36		987.9	0.5906%	0.14%	3,111.84	1,034.57	33.25%
Feb -08	6.21		991.0	0.3138%	0.14%	3,117.25	1,038.59	33.31%
Mar-08	6.04	4.20	998.2	0.7265%	0.14%	3,135.53	1,029.02	32.81%

March 08 has seen M3 growth tick up by 0.73%, as credit growth continues to be lack luster in light of higher interest rates. The theoretical price of gold has risen to over A$3,135 an ounce. If we look at the first 9 months of this financial year as a guide, we still get an annualized growth rate in the money supply of 20%. The conclusion of March 08 sees the actual price of gold remain just under 33% of the theoretical value.

COMPARING AUSTRALIAN GOLD PRODUCERS

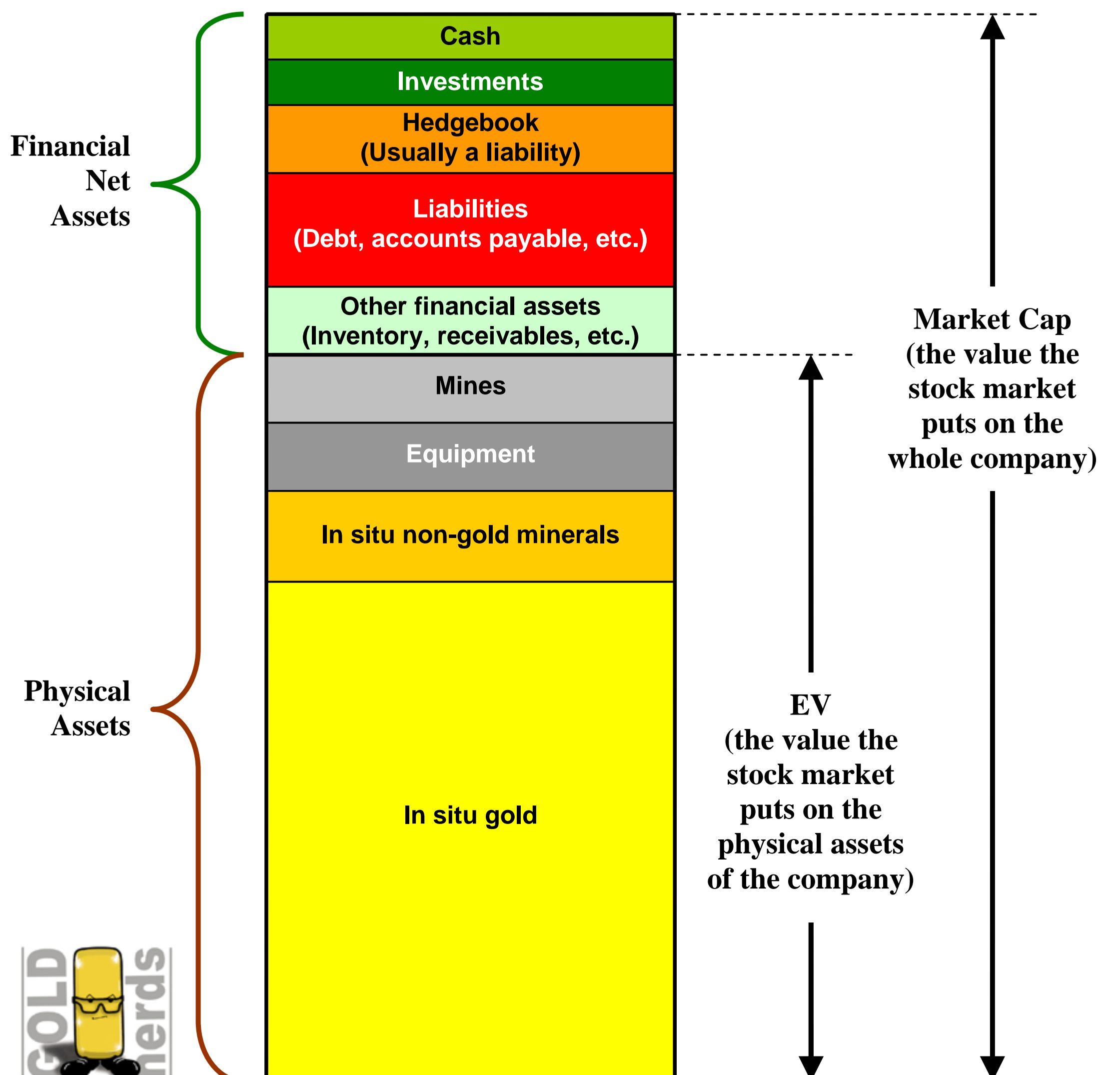
With gold shares broadly depressed at the present time, I thought it might be worth writing a quick piece on Australia's listed gold producers and an alternative approach to reviewing companies you may be interested investing in. We will look at 4 key characteristics when comparing gold producers and finish off by demonstrating this approach with an up to date look at what Australia presently has on offer.

- **Enterprise Value per Ounce:** An EV is simply the Market Capitalization of a company (number of outstanding shares multiplied by the current share price) adjusted to eliminate the effect of a company's **Financial Assets** and its **Financial Obligations (Liabilities)**. You **subtract** the **Financial Assets** which would include items such as (not exhaustive):

1. Cash and Cash Equivalents.
2. Accounts Receivables.
3. Inventories (If a producer)
4. Listed and Unlisted Investments where you can readily establish a fair value.
5. Derivatives (Purchased Options and favorable Forward Sales Agreements)
6. Future Income Tax Benefits

And then add the companies Financial Obligations including (not exhaustive):

1. Accounts Payable
2. Interest Bearing Liabilities
3. Deferred Tax Liabilities
4. Derivative Obligations (Unfavorable Forward Sales Agreements and written options contracts)
5. Retirement Obligations



What you are left with is essentially the value the market is attributing to the company's non-financial assets or its projects. To work out an **EV per Ounce** you simply divide the **Enterprise Value** by the total number of ounces the company has attributable to it via its projects**.** This provides a useful number in which to compare what you are paying for the gold assets of different companies.

- **Net Financial Assets (NFA):** This is simply the total financial assets of the company less the financial liabilities. This gives you the Net Financial Assets of the company or the available working capital. To put it another way, this is the number that gets subtracted from the Market Capitalization to arrive at the Enterprise Value of the company. In a capital intensive industry, such as the mining industry, it is critical to keep track of a company's financial position in order to assess its ability to continue to operate going forward.

- **Total Cost per Ounce (TCO):** This takes the company's EV per ounce and adds the company's average cash cost of producing an ounce of gold. It also adds any development costs associated with building new mines divided by the total number of ounces of the company. What results is an indicative number on how much you are paying per ounce of gold when investing in that company. If it comes to more than the spot price, you know you might have a problem and a few prudent questions to the company may be worthwhile.

- **Reserves as a Percentage of the Resource:** When comparing different companies obviously not all the ounces the companies have on their books are going to be mineable. You need to ascertain what % of the companies total resource base could realistically be mined. Reserve is the name given to the classification of a resource which is considered economically feasible to mine (economic studies have conceptually demonstrated the viability). Therefore, the higher the percentage of reserves that make up the total resource, the more you would expect to pay per ounce of gold on an enterprise value per ounce basis.

When you compare the above 4 factors on a line graph and you sort the Australian gold producing companies into the order of highest proportion of reserves to resource to the lowest, you start to get a very interesting overview of the sector. The graph below does exactly that for 23 of Australia's gold producing companies from the fledgling entities all the way up to the larger more established producers. If a company hasn't attained commercial production for a project, we use the forecast cash cost provided by the company to arrive at the relevant TCO.

While the graph below may look a little intimidating at first glance, it is actually quite easy to follow once you understand how to use it. We simply start at the bottom of the chart and look at the pink line which is the **EV per Ounce (EV Resource)** you are paying for each of the above producers. The first thing you will notice is that the companies to the left of the chart have ounces that are valued significantly higher than the companies to the right. If we look to the blue line at the top of the chart we start to get an appreciation as to why that is. The blue line looks at the **percentage of the total resource ounces sitting in the reserve classification (Reserves %)**. As we touched on earlier, the higher this percentage the higher the value that is attributed to the companies overall ounces. This is the primary reason why one company's ounces may trade at a substantial discount or a premium to another's. We have drawn a black line of best fit that passes through the scattering of companies which demonstrates this clear relationship. Now you will notice that some companies have an EV per ounce significantly above the black line and some have an EV per ounce significantly below prompting the question: What are some of the other key factors that might heavily influence a company's EV per ounce?

This brings us to the two other components of the chart. The red line is the **Total Cost per Ounce (TCO)**. As was previously explained, this is the EV per ounce plus the Cash Cost per ounce plus any development costs that remain in order to bring any feasibility study stage projects into production divided by the total number of resource ounces. Obviously the cash cost is the largest component of this calculation and the higher this is the higher the overall TCO. It stands to reason that if a company's cash costs are higher than average this will negatively impact on the EV per ounce you pay for the company's ounces. Generally speaking, the higher the cash costs the lower the EV per ounce and vice versa. All in all, the lower the TCO the more attractive the company is to invest in, everything else being equal.

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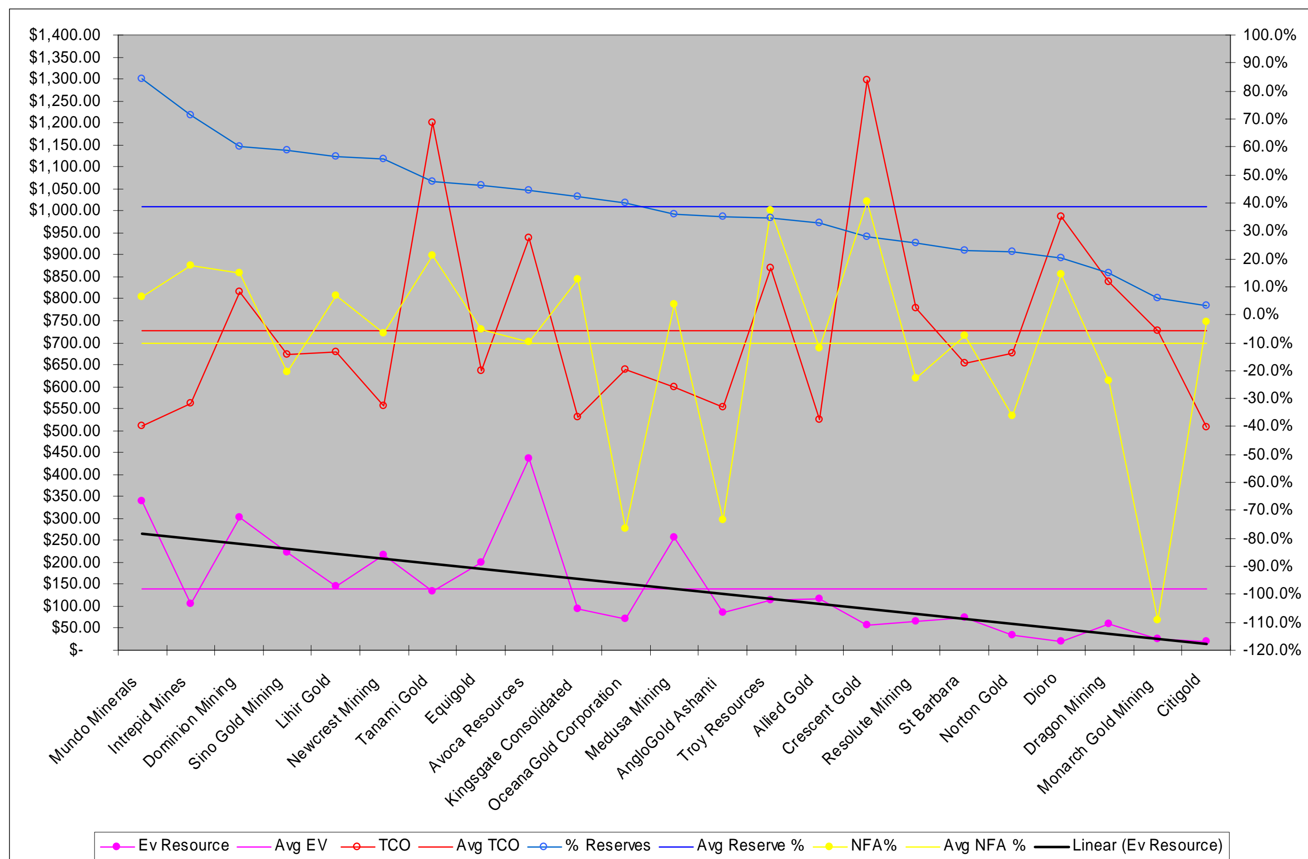
AUSTRALIAN GOLD PRODUCERS COMPARISON



DATA SOURCE: GOLDNERDS FORTNIGHLY UPDATE (6TH MAY 2008)

The last component that can have a significant impact on a company's valuation is its financial position. The yellow line in the graph is simply the company's **Net Financial Assets divided by its Market Capitalization (NFA%)** giving you a percentage. Generally speaking, the higher this % the more financially secure the company is. A negative % results when a company has more liabilities and financial obligations than it has financial assets. Whilst your average industrial company can get away with a highly geared balance sheet provided they have reliable cash flow, this generally spells trouble in the unpredictable and capital intensive world of gold mining. I have seen evidence of this in the negative share price performance of companies that become stretched financially. What results is countless capital raisings which dilutes shareholder value and depresses a share price. Alternatively, borrowing excessively from financial institutions leads to unwanted gold price hedging requirements and strict debt covenants which can at any time spell the end of a company that struggles to meet its commitments.

In summary, the above indicators become very useful when scanning across potential investment opportunities. In the above graph there are horizontal averages for each of the categories we have discussed to give you an indicative benchmark as to what is normal. When scanning for companies that may be potential investment opportunities, you start with the EV per ounce and look for companies that sit significantly below the black line. That is, the company is trading at an EV per ounce that appears to be below what it should be, given the compilation of its reserves and resources. The next step is to scan up and look at the TCO and NFA for the relevant companies to ensure they are within or better than the averages (horizontal lines). If they appear to be at satisfactory levels, you may have found an

appropriate investment candidate worthy of further research. If, on the other hand, they fail miserably in any of the other components, you may have your explanation as to why the ounces are comparatively cheap.

Some Other things to Consider

- Note that companies towards the right of the graph with low reserve to resource ratios provide the investor with plenty of upside potential, assuming they can cheaply convert their resources to reserves with further exploration and feasibility study work. That being said, it is important these companies are financially secure (strong NFA) and have plenty of cash to fund this ongoing development.

- If a company has a high TCO, which generally implies a high cash cost, it may be worth investigating to see if this has been an ongoing problem or whether the higher costs are caused by a temporary event or phase that the company is working through. In the event of the latter, it may be worth investing in the company so you can take advantage of the re-rating of the share price once the issues have been overcome.

- Once you invest in a gold producer the above work doesn't simply end there. Monitoring the information needs to be done on an ongoing basis to ensure the company doesn't become overvalued or the financial status of the company doesn't start deteriorating. Remember, many mining companies have a fantastic ability to paint their company in the best possible light when it comes to quarterly reporting or asking shareholders for more money. This is yet another reason why it is important to do independent due diligence and not be blind sided.

It is outside the scope of this article for me to analyze each of the individual companies above, but I encourage you the reader to do so and become more familiar with these interrelating factors.

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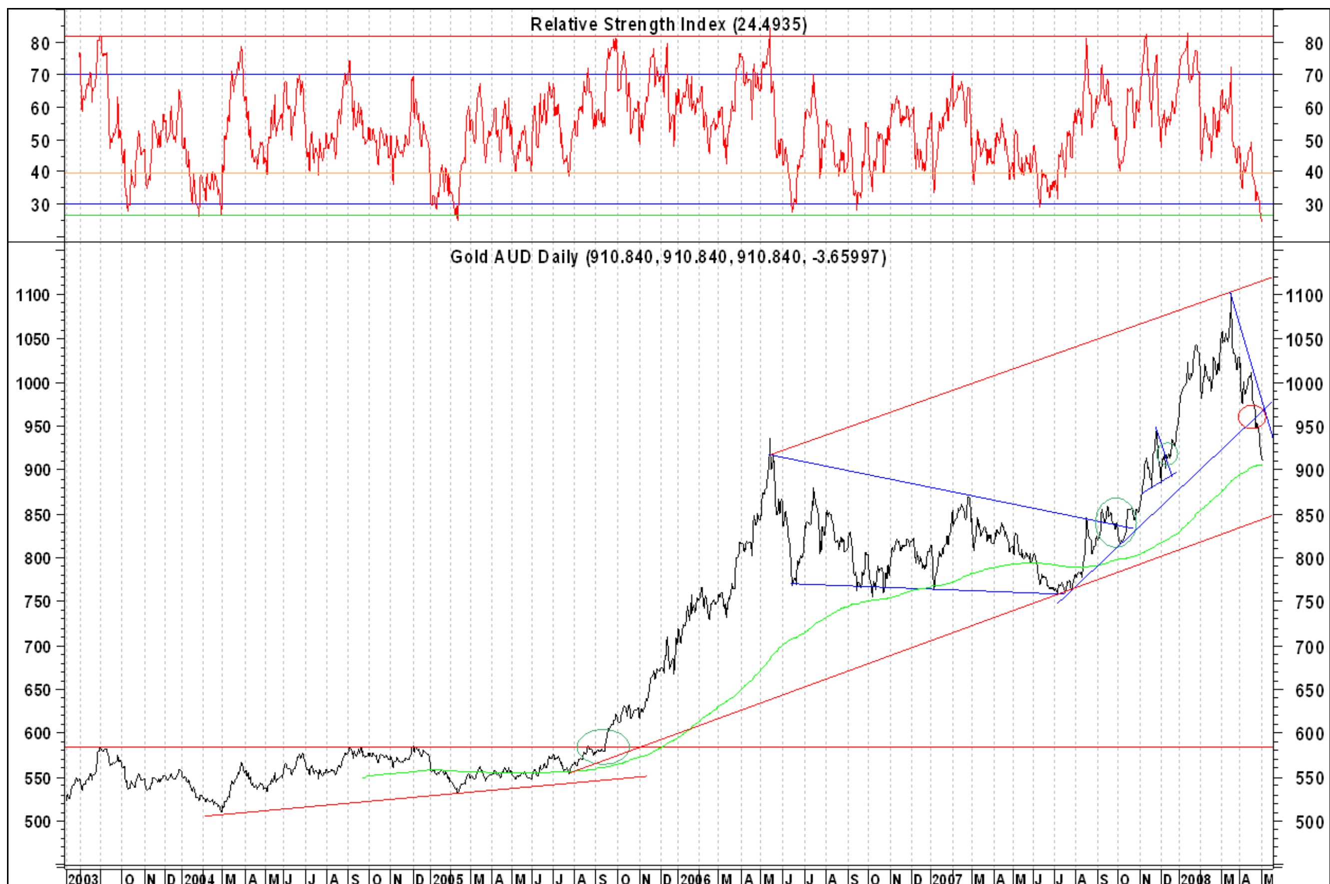
AUSTRALIAN GOLD PRICE



CLOSING COMMENTS

As the gold sector presently looks to find a low and begin yet another climb up to new highs, many have been left wondering what on earth happened to the junior sector over the last 12-18 months. The lack luster performance of the juniors was reminiscent of the 2001/02 rally in the gold sector, where only the majors had any meaningful movement. Interestingly enough, 2001/02 was also a period of significant market uncertainty as the Dow Jones lost over 30% in the wake of the Technology bubble bursting. What followed in 2003/04 was a powerful display in the junior sector which made some impressive gains as the general market found some stability and investor confidence returned. Whilst 2007/08 has certainly been very different in many respects to 2001/02, the mood of the markets has been very similar and investor sentiment has consequently been poor. It is my belief that we may see a repeat of 2003/04 in 2008/09 as many of the loose sellers in these mining juniors have been cleared out, leaving the shares in primarily tighter hands. This clean out has been necessary when you consider the vast number of placements that occurred in the period of 2004-2007 leading up to the shake out. Valuations are attractive yet again and the stage is set for an explosive move. Where 2003 – 2006 saw most junior gold mining companies participate in the upward move, I get the feeling it will be primarily the quality companies that will be the beneficiaries this time around. That is, the entities which have substance and therefore a demonstrable exposure to higher metal prices going forward. Having been burned by many mining juniors over the last 18 months, I just can't see investors blindly investing with the same bravado they did previously. This makes prudent due diligence essential if you want to isolate the most appropriate candidates to buy.

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