

GOLD SHARE DISCONNECT CONTINUES

The disconnection between gold stocks and the price of the metal continues – and is actually increasing. Our analysis of the historic relationship between gold stocks and the bullion price indicates fair value for the XAU at 97.0 based on Friday’s closing gold price of \$368 per ounce – the 95% confidence range is 69 to 125. With the XAU at 77.0, it would have to gain 26% to return to the normal relationship, with the potential to gain 62% to return to the high end of the range. (see: www.proteuscapital.com/Gold Reports/Proteus_Gold_Report_1-16-03.pdf)

Proteus Capital Fair Value Indicator				
	Actual	XAU Index		
		Low	Fair Value	High
Gold Price	\$368	68.8	97.0	125.1
XAU	77.00	-10.6%	25.9%	62.5%

Looked at the other way around, gold shares are currently discounting a gold price of approximately \$315 per ounce. That implies that gold stocks are ignoring the last 20% rise in the gold price.

The chart below shows the gold price adjusted for the trade-weighted value of the dollar (red line) and the unadjusted price (blue line). Note that the international value of gold bottomed earlier than the U.S. dollar price and has been rising steadily since August 1999. Also, the twenty-year down trend that was broken in March 2002 is a better defined channel when changes in the value of the dollar are removed.



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February 3, 2003

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