



By Brian Truscott
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VANCOUVER (DOW JONES) -- Gold at \$5,500 an ounce?

Sounds far-fetched, but Robert McEwen says a perfect storm is in place for the precious metal to replicate exponential gains seen at least twice in the past century.

"I happen to be bullish on gold," said the ex-chief of Goldcorp Inc. (G.T) and current chairman and CEO of U.S. Gold Corp. (USGL). Understatement to be sure, especially as the market watches McEwen try to take over four junior exploration companies in a bid to create what many say will be another Goldcorp.

But McEwen is adamant that a number of key fundamentals have changed over the past six-odd years to create another gold rush. And the key metric in finding relative value here is this: how many ounces of gold does it take to buy the Dow Jones Index?

For example, the last big gold rush came during the 1970s, he says. In 1966, it took 28 ounces of gold to buy the Dow Jones Index. But in the '70s, gold went from around \$41 an ounce to more than \$840 an ounce by 1980 - a year when one ounce of gold could buy the index.

At the height of dotcom mania in the late 1990s, it took 44 ounces of gold to buy the DJI. These days? It takes about 19 ounces to buy a DJI in the 11,000 range.

McEwen says gold investors should watch this ratio carefully. If, down the road, the gold-to-index ratio moves to 5:1, investors should start thinking about an exit out of gold. If it moves to 2:1, investors should take their money off the table, McEwen says.

If the current level of the DJI is taken into account, that would mean gold at \$5,500 would be a trigger point to sell any holding.

"This will be a mania when this (takes) off," he said. "It will look like the technology boom - going straight up."

His comparison? Between 1970 and the end of 1979, the price of gold moved to 10 times the 1970 spot price. But by early January 1980, gold was up more than 20 times that same spot price.

So why does he think it's happening all over again?

Well, back in 1999, gold production was increasing while the costs to produce it were in decline. At the same time, central banks were selling their gold holdings. The perception was that the gold price would and could plummet with the stroke of a central banker's pen. Besides, who really cared? The U.S. dollar was strong so the wisdom of the day was that investors should pay more attention to the whys and wherefores of the greenback.

And that's why gold languished around \$250, with analysts predicting a sub-\$200 price. Times have changed. At the moment, McEwen says there's declining gold production and costs are increasing. Gold hedging has now stopped and many gold companies have more of the precious metal in their vaults than some central banks.

Central Banks Resume Buying Gold

Not surprisingly, central bankers - Russia, Argentina, China, South Africa and others - are once again buying gold.

More importantly, the gold price now reflects the world's abundant supply of paper; the money supply has grown 8% over the past decade while the supply of gold has only increased 1% during the same time, McEwen says.

"But not a lot of people are seeing this development," McEwen said. "Only 1% of (all equity capital) is invested in gold stocks so 99% aren't even considering this."

Others agree.

"Americans are the last ones to catch on to this idea that gold is money; the rest of the world is already buying it, especially the wealthy interests," said Jay Taylor, editor of J. Taylor's Gold & Technology Stocks and a former investment banker on ING Barings' metals and mining team. "What gold is telling us now is that there is a level of discomfort that is higher than it was a few year ago. When that happens, gold is go-to money."

If this discomfort with paper-based monetary systems continues, the shift to gold should continue. In other words, if there's just a 1% shift in the equity weighting to gold, that would double the market cap of many gold stocks, McEwen says.

This trend is only being underpinned by the recent appearance of exchange-traded funds, or ETFs. These funds have access to bullion and McEwen says about 450 metric tons are now held by ETFs. "If you treat that holding as a central bank holding, then it ranks 14th out of 114 banks that own gold," he said. "This is a serious new source of demand for gold."

That's why the likes of Cambior Inc. (CBJ), Palmarejo Silver & Gold Corp. (PJO.V) and a raft of other mid- and junior-tier gold companies are now being looked at as potential takeover targets as the sector starts to consolidate, with the Barrick Gold Corp./Placer Dome Inc. deal just the start.

Not surprisingly, bullish analysts are now predicting gold will move to \$600 or possibly \$700 an ounce.

But McEwen says even that's too low. He predicts gold will hit \$850 an ounce by the end of 2008 and then move even higher through 2010. "If you were to take the gold price in 1980 and adjust for inflation, an ounce in today's dollars would be \$2,200," McEwen said.

That's why a 10-fold increase in the price of gold today isn't far-fetched, he said.

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