The SA Bullion Gold Report

Q4 2010

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Gold Performance to 31 December 2011 (% per annum)

	Quarter*	6 Mth*	1 Yr	2 Yr	3 Yr	5 Yr	10 Yr
Gold in USD	7.9	13.4	29.9	27.3	19.1	22.4	17.8
Gold in ZAR	2.2	-1.1	12.4	7.8	18.0	23.5	16.2

** not annualized for periods of less than 1 year*

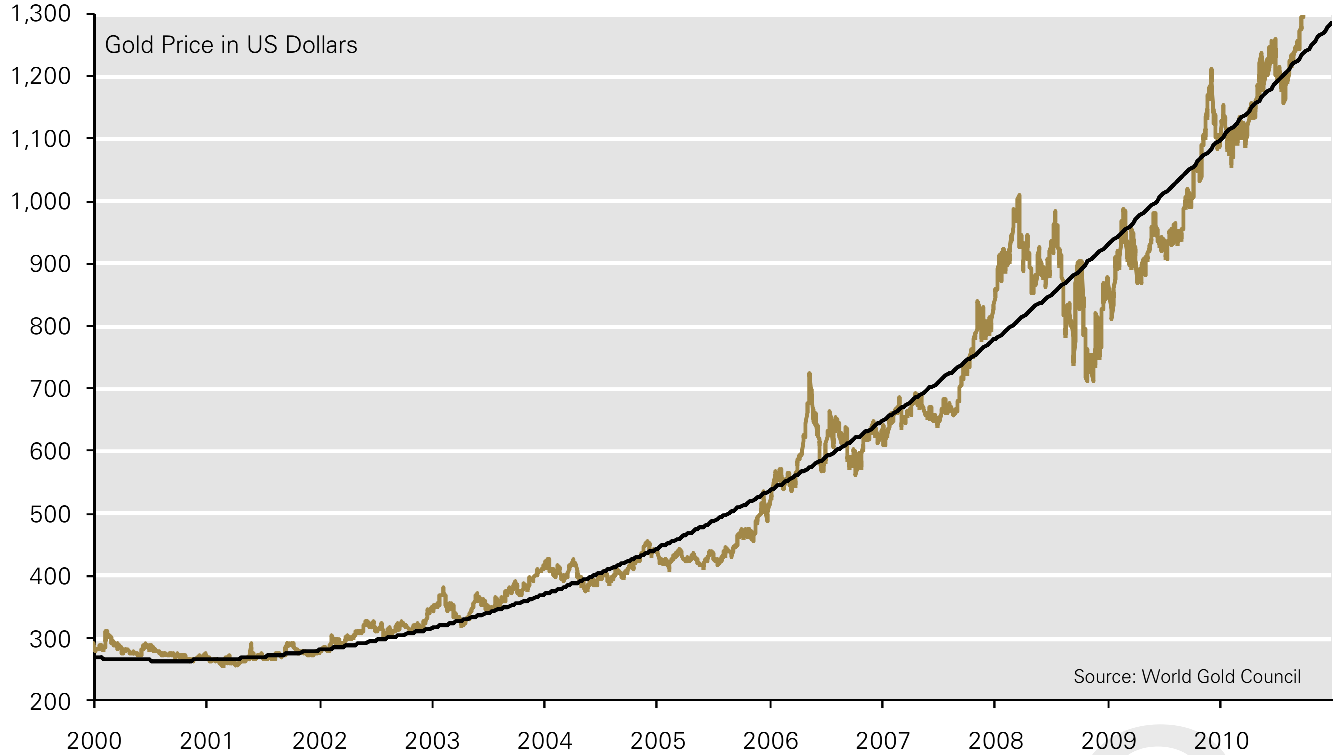
Note 1: 31 Dec 2010 gold prices were $ 1,410.25 and R 9,335.89
Note 2: 31 Sept 2010 gold prices were $ 1,307.00 and R 9,135.89
Note 3: 30 June 2010 gold prices were $ 1,244.00 and R 9,443.92
Note 4: 31 Dec 2000 gold prices were $ 274.45 and R 2,076.21

Gold has certainly delivered impressive returns over the past ten years. Dollar-investors come out with a return of 17.8% per annum whereas Rand-investors pay a slight price for Rand strength and come out with a return of 16.2% per annum.

This ten-year period has been a very good one for South African equity investors, notwithstanding significant bumps and grinds. Yet including income into the return of the FTSE/JSE All Share Index, it only pips gold by the smallest of margins to deliver 17.9% per annum. Over the 3-year and 5-year periods the equity index significantly under-performed gold by delivering 6.5% and 15.2% p.a.

Wearing a global hat, equity investors have suffered a poor trade relative to gold. The annualized performance of the FTSE World Index over 3, 5 and 10 years has been -3.6%, 3.9% and 3.6%. It is no wonder that equity managers generally do not want to hear the gold story!

Of course we at SA Bullion don't advocate gold as a competitor to shares but as a competitor to cash in the bank and as a diversifier to shares. In the comparison with cash, as you would imagine, gold comes out shining. Presently one would be hard-pressed to find a call deposit yielding 4.5% p.a. Certainly, our argument has paid off handsomely over the 2001 to 2010 period.



Gold's Calendar Year Prices and Performance

Year End Prices

	Gold in USD/oz	Gold in ZAR/oz
31 Dec 2001	276.50	3304.18
31 Dec 2002	347.20	2992.69
31 Dec 2003	416.25	2739.65
31 Dec 2004	435.60	2477.48
31 Dec 2005	513.00	3243.19
31 Dec 2006	632.00	4437.90
31 Dec 2007	833.75	5678.25
31 Dec 2008	869.75	8040.84
31 Dec 2009	1085.25	8307.59
31 Dec 2010	1410.25	9335.85

Note 1: The above prices are LBMA Afternoon Fix prices

Calendar Year Performance (%)

	Gold in USD	Gold in ZAR
31 Dec 2001	0.7	59.1
31 Dec 2002	25.6	-9.4
31 Dec 2003	19.9	-8.5
31 Dec 2004	4.6	-9.6
31 Dec 2005	17.8	30.9
31 Dec 2006	23.2	36.8
31 Dec 2007	32.0	27.9
31 Dec 2008	4.3	41.6
31 Dec 2009	24.8	3.3
31 Dec 2010	29.9	12.4

Note 1: Returns are based on LBMA Afternoon Fix prices

When casting an eye over the tables above it is immediately apparent that gold in Dollars advanced throughout the period without misstep, whereas in Rand the price retreated in 2002, 2003 and 2004. There is a simple explanation for this variance, and it has its roots in the same explanation as to why gold in Rand massively outperformed gold in Dollar in 2001. I'm sure you guessed it! In 2001 the Rand collapsed and in the following three years it massively outperformed.

The 2008 to 2010 period is similar to the 2001 to 2004 period even though we don't see the dreaded minus sign this time. That is, the Rand collapsed in the first year (in fact it halved against the Dollar in 2008!) then in the following years it massively strengthened against the Dollar. The reasons for the two collapses are ostensibly quite different – the first being despondency with the Zimbabwe situation and President Mbeki's missteps regarding HIV/AIDS and the 'Arms Deal'; and the second being a flight to safety at the height of the 'Financial Crisis'. In fact, the reasons are very similar – that is, foreign portfolio outflows (or 'capital flight' through the Financial Account of the Balance of Payments). Readers of our previous quarterly report will recall that we have serious concerns regarding Rand-risk attributable to potential "hot money" outflow.

Recent Performance and Technical View

As at 31 December gold prices per ounce were $1410.25 and R9335.85 (LBMA Afternoon Fixes). The comparative prices at the end of the previous quarter were $1307.00 and R9,135.89.

At time of writing prices were approximately $1370 and R9,406. Over the quarter we witnessed a strong advancement in the Dollar price of gold and simultaneous to this we saw a strengthening of the Rand by approximately 5% against the Dollar. This caused the Rand gold performance to be blunted to a figure of 2.2%.

This quarter we will spare you the lengthy explanations, but in summary we would say that technical indicators would seem to be foretelling a period of consolidation ahead in Dollar-gold, prior to the next big move up which we anticipate in the April to June period. We would expect the consolidation range to be $1,160 to $1,410 with good support at the 55-day Bollinger Band at $1,324.

Having made these bold predictions we must offer our caveats. Over short periods of time our confidence in making gold price predictions is low. Over the long term however, we see very strong drivers of gold strength.

The Long Term Fundamental Picture

Crucial to understanding gold is understanding the US Dollar. And crucial to understanding the US Dollar is understanding the US macro-economic picture. We therefore offer the following:

The US finds itself in a classic 'liquidity trap' – as we predicted in 2008 that it would. Low interest rates and trillions of Dollars in asset purchases are not stimulating borrowing or lending because aggregate demand is lacking. Demand is suffering because real incomes are under pressure, debt levels have become burdensome and because the private sector is not creating jobs.

There are sensible solutions for the US, such as committed investment in infrastructure, focus on innovation and competitiveness, cut-back on foreign wars, increase in taxes for the rich, dis-incentivization of Wall Street finance and fiscal responsibility.

The path that the US has adopted, and that it will follow, is not the sensible one but the expedient one. It involves trade barriers, war and demonization, low tax rates, increased social spending, trillion-Dollar budget deficits as far into the future as the eye can see, and quantitative easing to support asset prices. This means the foreseeable future of the US is one of very low interest rates, accelerating inflation, structurally high unemployment and **currency depreciation.**

Precisely a year ago, in our Fourth Quarter 2009 report, we wrote extensively on our reflation view. We said then that we think the reflation intentions of the authorities would work and that the US Dollar would pay the price. We think that we may see a Dollar rally this quarter but in the longer term the Dollar will suffer and gold will benefit from that suffering.

Dollar-weakness does not necessarily imply Rand-strength. The next crisis (and we think that there is a reasonable probability of a stockmarket collapse early this year) is again likely to cause a 'flight to safety' and concomitant pain for the Rand.

Both currencies can witness a simultaneous erosion of their internal values as evidenced in the longer run by inflation.

Conclusion and In-Closing

Gold is in a strong bull market whilst currencies (i.e. cash in the bank) have every likelihood of delivering abysmal returns well into the future. We believe that some diversification makes a lot of sense in these troubled times – and what better way is there to get that diversification than through gold?

SA Bullion has been proud to receive extensive coverage in the 31 December 2010 edition of Money Marketing and highly values the exposure in this leading publication for professional financial advisors. A further source of pride has been an approach to us by Jeff Nichols - a leading U.S. authority on gold and precious metals.

Lastly, and perhaps most importantly, we are delighted to have secured yet more favourable terms for our clients in that we are now able to procure Krugerrands from Rand Refinery, the agent of the South African Reserve Bank, for a premium of just 3%.

Best wishes for a successful 2011!