

Big Profits from the Gold Bull Market

Volume III, Issue 6 / June 2011

3rd Annual Summer Buying Guide

Dear Reader,

What do you suppose is the #1 question I'm asked?

It's not just me; every gold analyst is invariably asked the same thing. It pervades investment articles and TV business shows. It's discussed at conferences and a topic on every attendee's mind. You've wondered it yourself. And if you haven't, I guarantee you'll want to know the answer.

"Is now a good time to buy gold?"

The question might be phrased in different ways – what will happen next... if precious metals will correct further... if they're about to take off... if we're personally buying right now. But underlying them all is a yearning for the answer to the ultimate question: *should I buy now?*

On the one hand, it's not a question that shouldn't be asked. The prudent investor doesn't buy any investment haphazardly, and as a consumer, you shop around for the best price on a car or an insurance product.

On the other hand, it's a question that ultimately can't be answered like our psyche craves. None of us want to buy and watch the price fall further – and yet, no one knows exactly what will happen next (and if they claim to, we'd run the other way).

So what's the solution?

After watching gold and gold stocks every day for six years, I've come to the conclusion there are only two viable methods to deal with the dilemma.

→ **Buy after any big sell-off.**

If you're confident in the long-term outlook for gold and silver, then a correction is nothing but a sale on something you wanted to buy anyway. Even if prices temporarily fall lower, you significantly reduce your risk by buying after big pullbacks. And, of course, increase your ultimate margin when you sell.

Metals Prices				
Resource	Last	1 Month Ago	3 Months Ago	1 Year Ago
Gold	1,543.20	1,545.10	1,431.80	1,222.20
Silver	36.62	43.95	36.13	18.23
Platinum	1,810.00	1,860.00	1,881.00	1,559.00
Palladium	786.00	777.00	779.00	457.00
Copper	4.13	4.25	4.23	3.00
Nickel	10.25	12.15	12.16	9.01
Zinc	1.01	1.16	1.03	0.80

In This Month's Issue...

Click on the link to jump directly to an article.

The #1 Question on Every Gold Investor's Mind

And the two best answers

Buying Opportunity Ahead?

The best times of the year to buy gold and gold stocks

How to Read and Use the Charts

Plus, how to get paid to buy at a lower price

Buy Zones for Gold and Silver

The smallest, biggest, and average summer declines for our two favorite metals

Buy Zones for Gold Stocks

Agnico-Eagle, Alamos, Eldorado, Franco-Nevada, Goldcorp, Kinross, Minefinders, Randgold, Royal Gold, Yamana

Buy Zones for Silver Stocks

Silver Wheaton and Silvercorp, plus a change in recommendation to Pan American Silver

BIG GOLD Portfolio

Portfolio performance and updated recommendations

Here's a practical example. Let's say you bought one tranche every summer of GDX (Market Vectors Gold Miners ETF) – but only after the fund fell at least 12% from its May high, something it's done every year since inception. Here's what your purchases would look like:

Year	May high	Purchase price after 12% pullback*	Ultimate summer Low	Total % decline	Date of low
2007	40.98	36.06	34.49	15.8%	16-Aug
2008	48.72	42.87	34.43	29.3%	11-Aug
2009	44.16	38.86	35.14	20.4%	10-Jul
2010	53.6	47.16	47.09	12.1%	27-Jul
Average	46.86	41.23	37.78	19.4%	4-Aug

*Excludes commissions

Knowing this tells us a similar correction this year would not only be normal but that it's highly likely we'll have the opportunity to snag a good price. And with GDX currently selling at \$56.62, you can see how profitable your position would be from buying only once a year and following one simple rule.

Also notice that the low for this fund never occurred in June, only in July and August (something to keep in mind if you're considering adding this index to your portfolio).

This kind of knowledge gives us power. And we present similar price data below on every stock in our portfolio, plus gold and silver.

→ Buy in Tranches

The second solution for balancing risk and reward is to stagger your purchases. The goal of buying in [tranches](#) is to gain exposure now in case an asset takes off, but also to provide ammunition for further purchases if the price falls lower after your initial order. It's also a reminder to not go "all in" at once.

Having enough tranches comes from regularly contributing to your cash savings, and from taking profits, which we hope some of you were able to take advantage of last month.

Again using our example of GDX above, you can see that buying a second tranche after the first one at 12% off – possible every year but one – would have lowered your cost basis, and in some cases substantially. *Leaving yourself a tranche for the next correction gives you the power to snag a high-quality asset at a bargain price.*

Yes, this strategy can be frustrating when prices are rising and you don't have the exposure you ultimately want, but the point is to not expose yourself to unnecessary risk. A good example is the recent email I received from a new silver buyer when the price was in the high \$40's last month... it was apparent he'd jumped in with both feet, leaving himself no funds for later purchases. If he'd instead bought only one tranche, he'd now have the chance to buy at current levels, lowering his cost basis and leaving him feeling a lot better about his purchases.

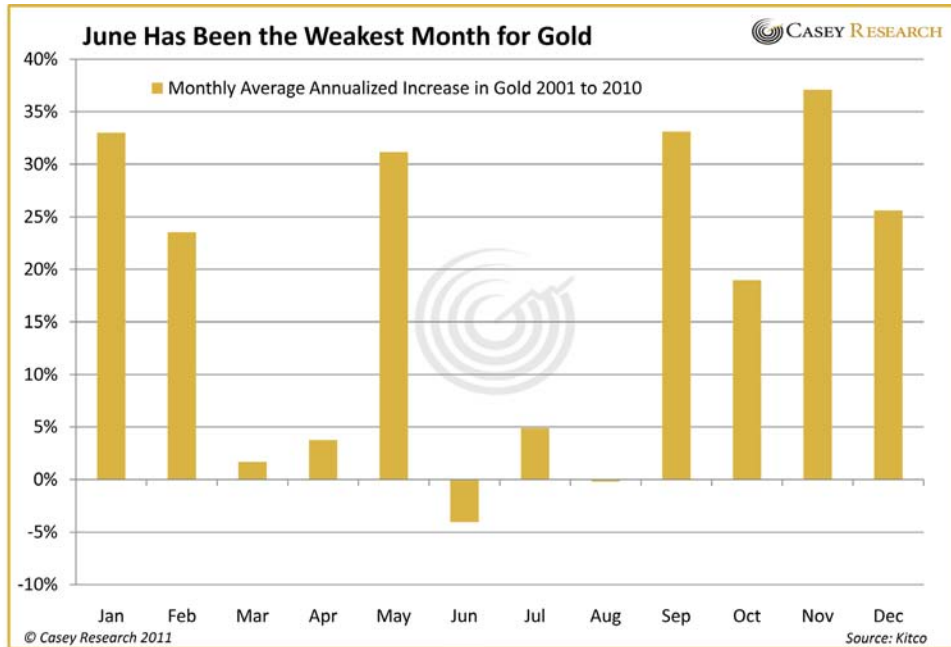
I think you'll be very happy this time next year with buying three tranches over the next three months of a precious metal asset you've got your eye on.

So, is now a good time to buy? Well, our sector saw a healthy correction in May – but is more coming? Will we get the opportunity to put these two strategies into practice? Let's take a look at some data...

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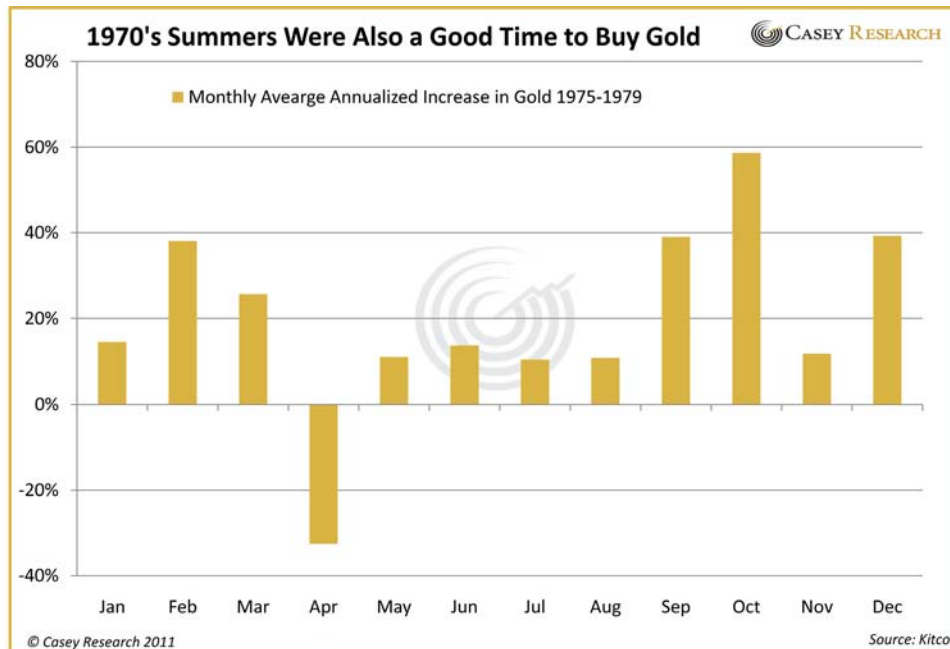
Buying Opportunity Ahead?

Want to venture a guess at the weakest month for the gold price?

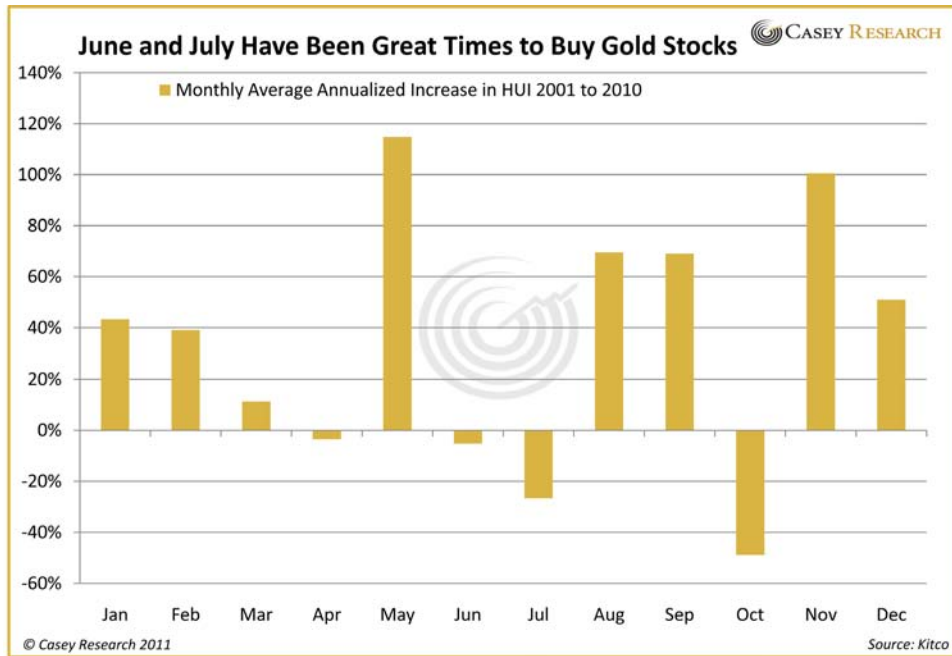


In the current 10-year bull market, June has seen the lowest average return for gold and thus has been one of the best times to buy.

You'll see that in the bull market of the 1970s, summer was also a good time to buy gold.



Here's a look at gold stocks, as measured by the AMEX Gold Bugs Index. Since 2001, June and July have been among the weakest months and thus one of the best times to buy.



In spite of last month's correction, this data signals that *we're just now entering the seasonally weak period*. So don't be surprised if we see further price weakness over the next few months.

Obviously, these are price tendencies and not certainties; there were Junes when gold was up, and some Julys when gold stocks rose, so don't use these charts for trading purposes or in anticipation of an imminent gain. Instead, use these "tendencies" to add to your holdings if they materialize, positioning yourself for the next leg up in the bull market.

What are the odds of a further correction in gold and gold stocks this summer?

→ With only two exceptions since 2001, *every* stock in our portfolio, in *every* summer, has moved lower from its May high, including gold and silver (Yamana and Goldcorp stayed above their May highs in the summer of '05). There's no guarantee this summer won't be the exception, but the track record is hard to ignore.

With that in mind, we've updated our annual Summer Buying Guide to help answer the question of when to buy.

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How to Read and Use the Charts

Our buying guide is based on a simple premise: gold and gold stocks tend to perform well through May and then pull back during the summer. This year, gold peaked on May 4 and silver on April 28 (based on London PM fix pricing). Generally, gold and silver stocks topped in mid-April.

How much do they pull back? For each company, plus gold and silver, we calculated the smallest, average, and biggest retreats from the May high to the summer low (June, July, or August) in each year of our current bull market (2001 through 2010). The result is a chart that displays potential buying zones.

Here's how to read the charts:

1. The first bar is the May 2011 high, our reference point.
2. The second bar shows the asset price if it matched the *smallest* percentage drop from its May high to its summer low in the current bull market. For example, gold's smallest decline has been 2.2%, which, subtracted from this year's May high, gives us a price of \$1,506.74.
3. The third bar shows the price if it equaled the *average* percentage drop from its May high to its summer low. For gold, the average drop over the last ten years is 8.6%, which would take the price to \$1,407.53.
4. The fourth bar shows the price if it reached the *biggest* percentage drop from its May high to its summer low. Gold's largest summer drop was 21.7%; applied to the May high would take it to \$1,205.17.

How to Use the Charts

First, the charts don't give us exact buy points. Rather, they provide a relative sense for when prices might be reaching good entry points.

They also provide some perspective. A 10% drop in your favorite company might be cause for concern – but if the average summer drop was, say, 15%, you'll recognize the pullback as normal and might consider buying.

Although gold and silver corrected in May and have since rebounded, we'd wait for another dip before buying. For gold and silver stocks, keep in mind their highs occurred in April, meaning we might consider buying one tranche below their respective smallest drops in price *if* you've set aside sufficient cash for a second tranche. If the general markets tank, a risk we think is real, odds are our sector will temporarily sag (see [last month's issue](#) for our reasons why). However, it's unlikely we'll match the biggest percentage drops this summer, so we think prices near each company's "average" decline are very attractive entry points.

To get the price you want, and to avoid constantly monitoring your stocks, we recommend placing limit orders only and let the market come to you. Remember: *these prices were reached anytime between now and the end of August, so give your bids time to work.*

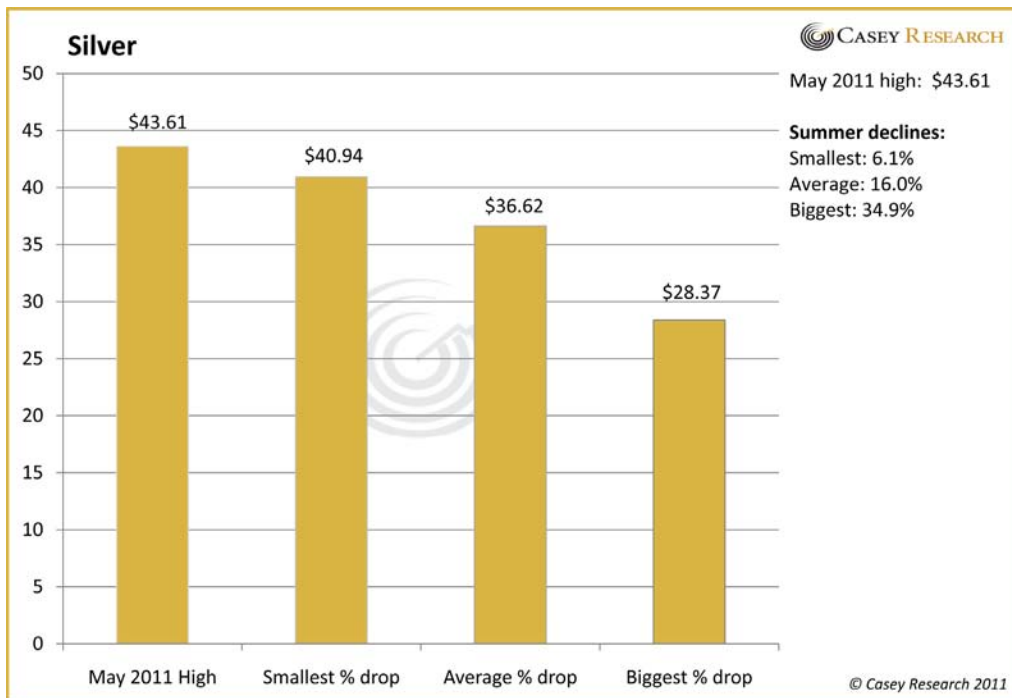
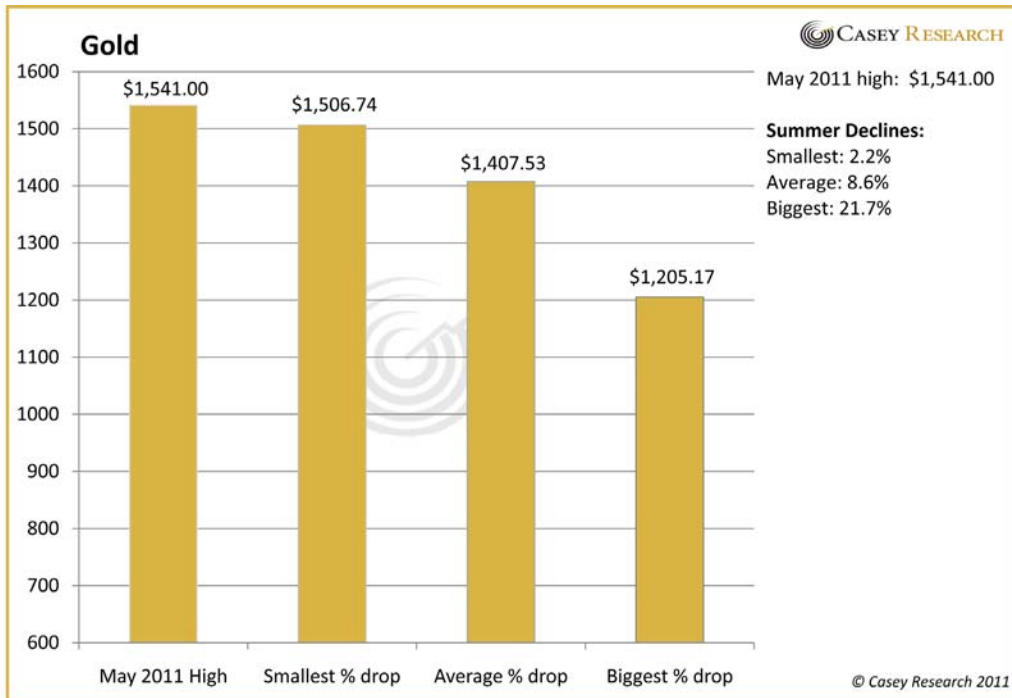
→ Want to get *paid* to buy your favorite stocks? If you're an experienced investor and familiar with options, you might consider selling a put option for each stock you like with a strike price at a price you'd gladly buy. You'd collect a premium, along with the opportunity to buy what you want at the price you want to pay.

[Writing options is not risk-free. If you consider this type of investment, make sure you understand all your risks. See our Special Report, [Short Course in Futures and Options.](#)]

Last, we don't advise exhausting your cash reserves with summer buying. Until the mania is underway, or price inflation becomes rampant, we recommend keeping some Grants and Franklins in your brokerage account.

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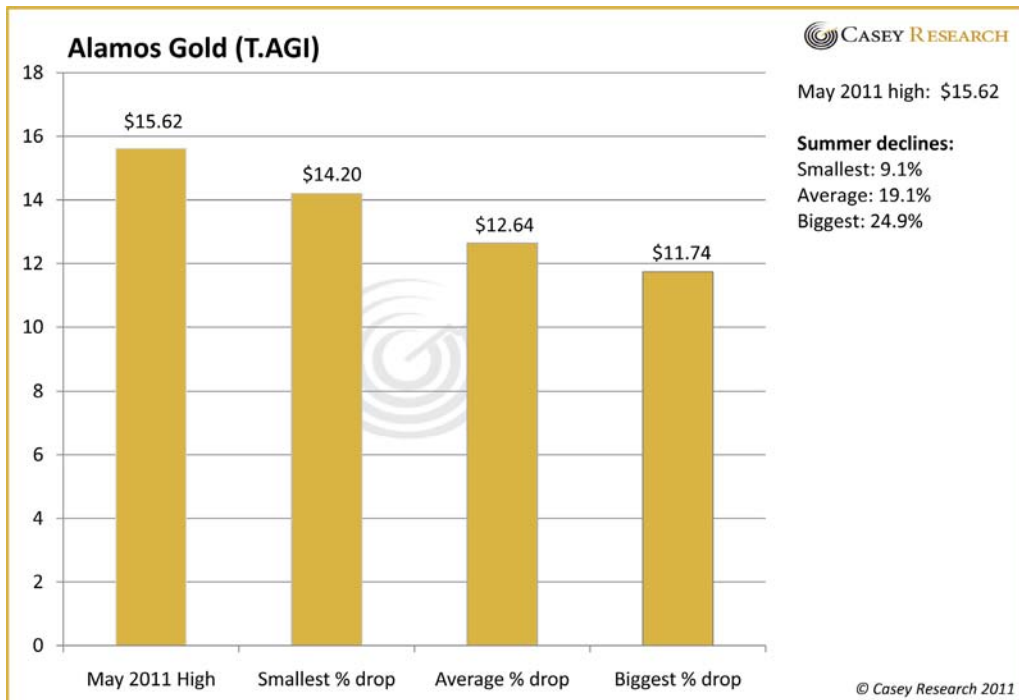
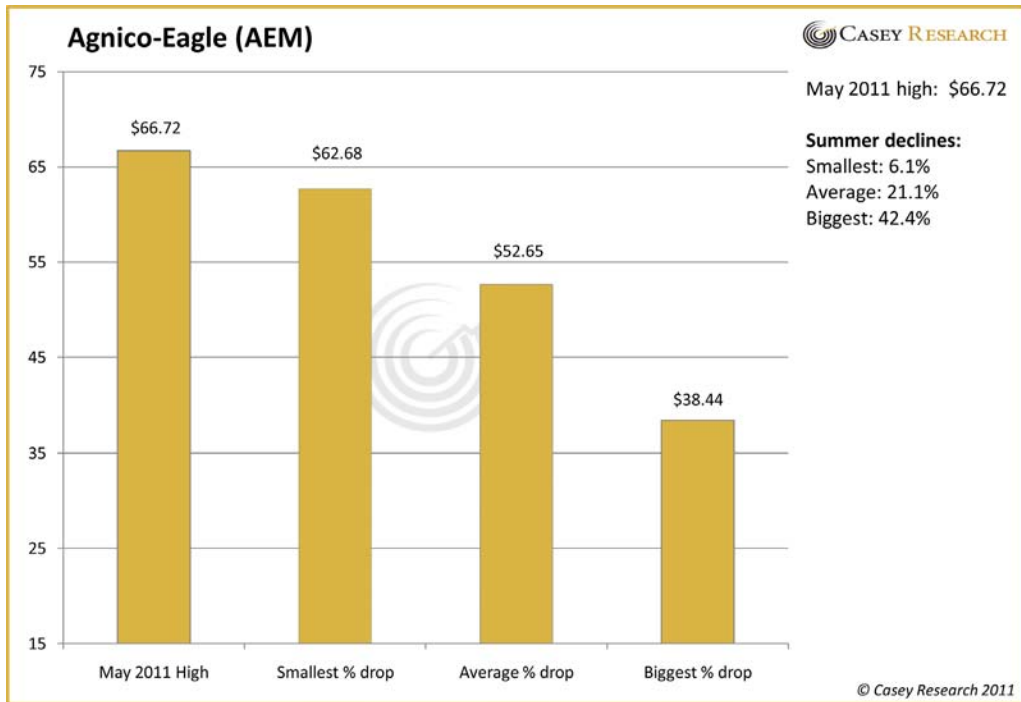
Buy Zones for Gold and Silver

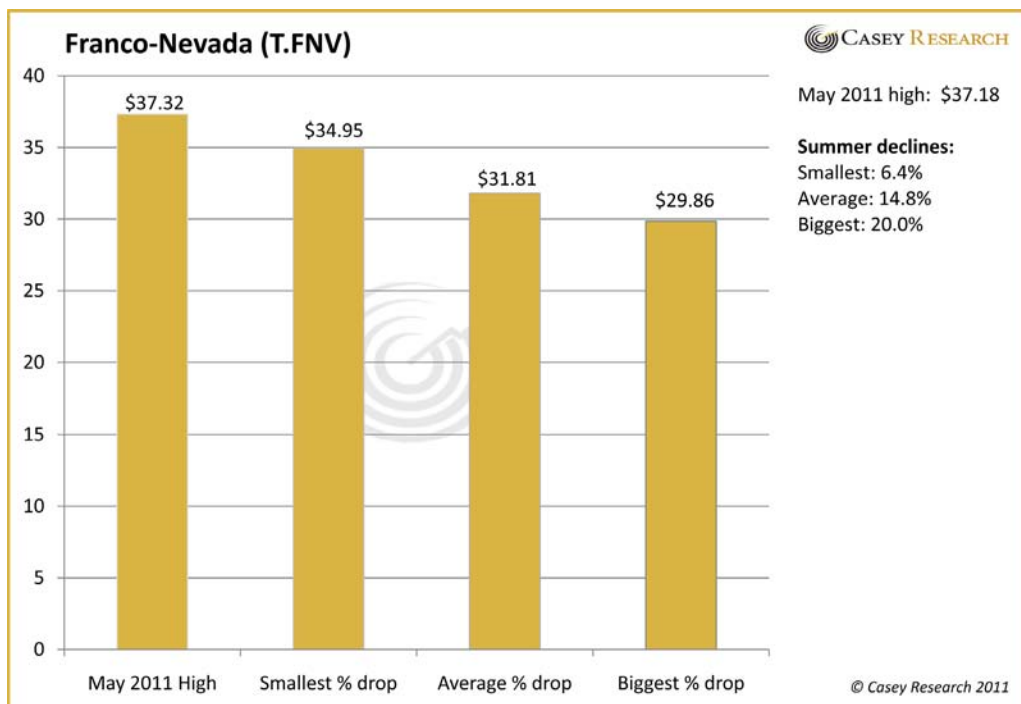
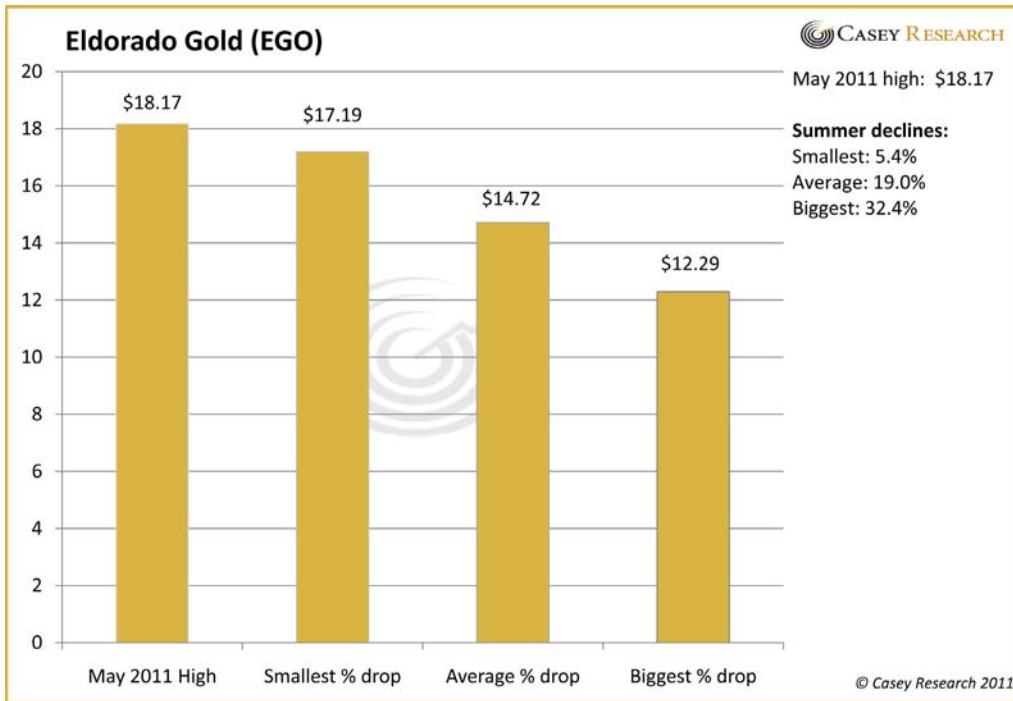


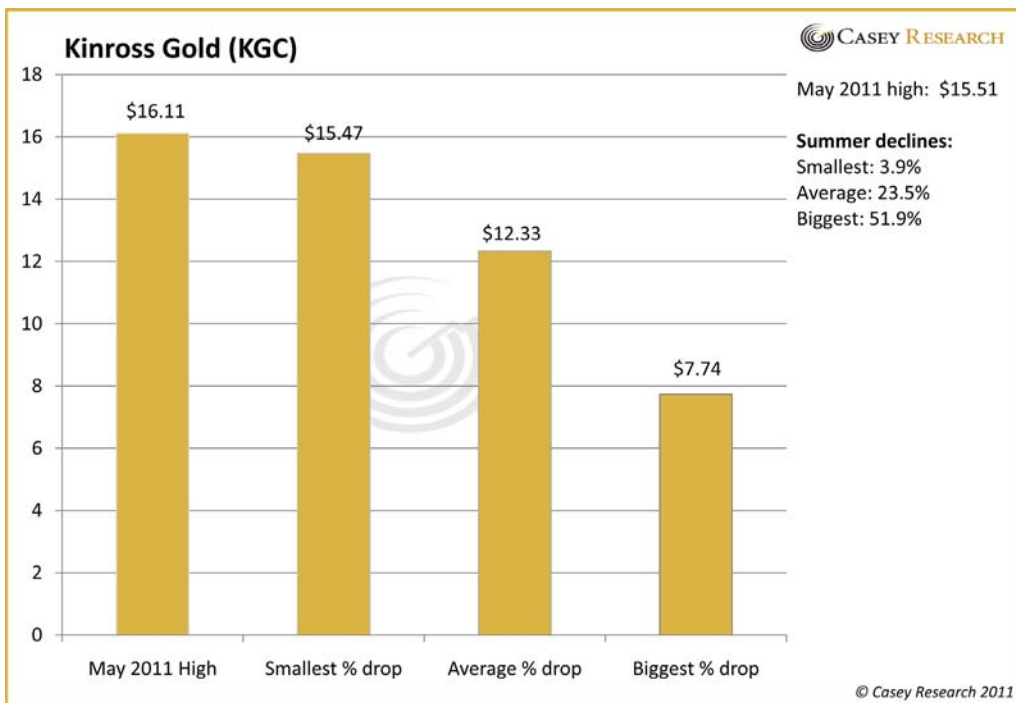
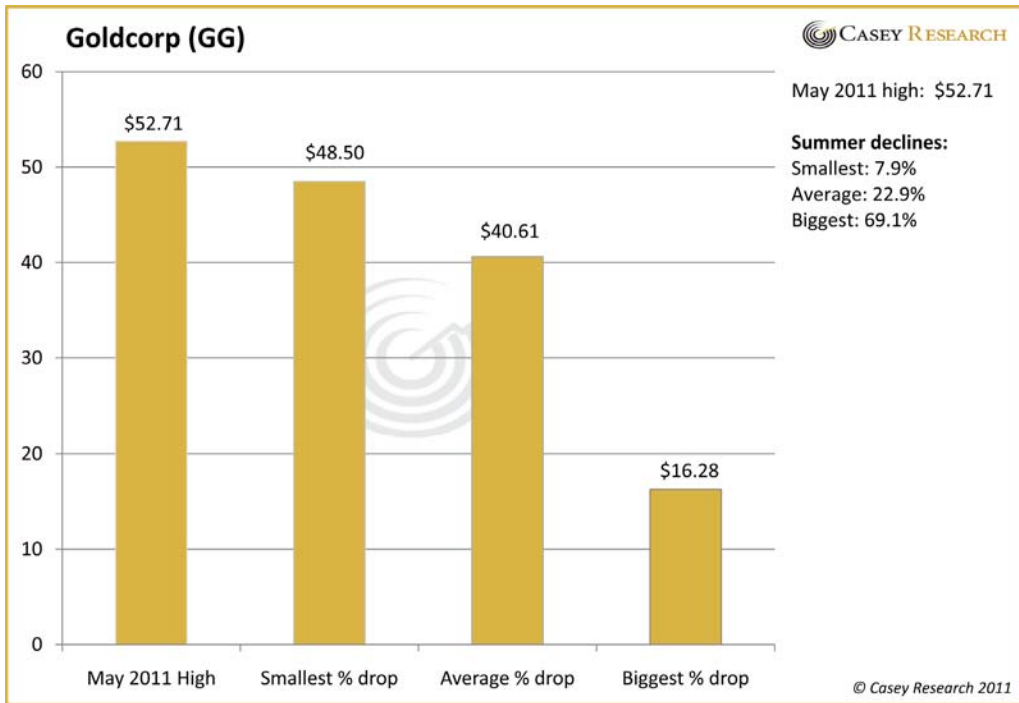
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Buy Zones for Gold Stocks

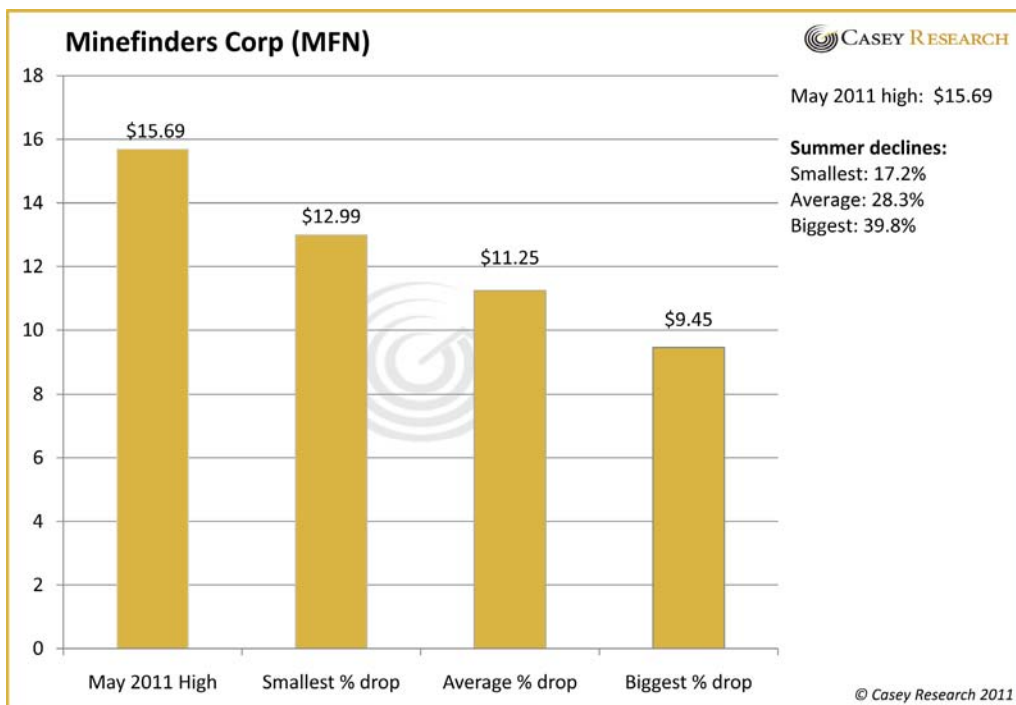
[All symbols and stock prices are U.S., except for Alamos and Franco-Nevada. Note that figures are calculated from the second decimal point, meaning the prices listed in the bars are precise, while the percentages listed are only to the first decimal point.]



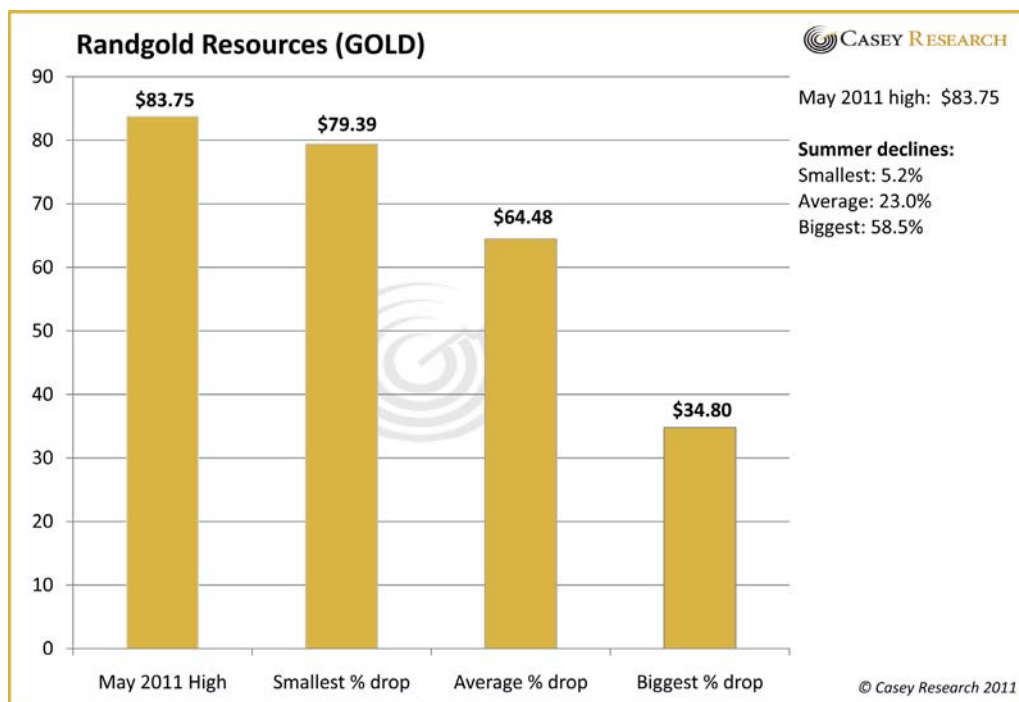




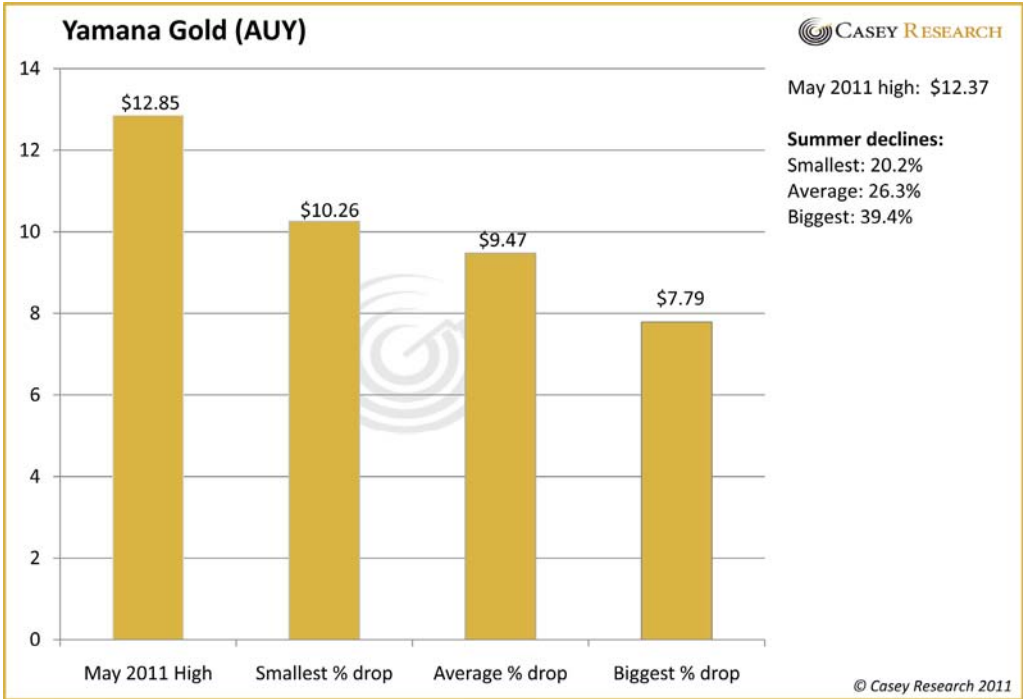
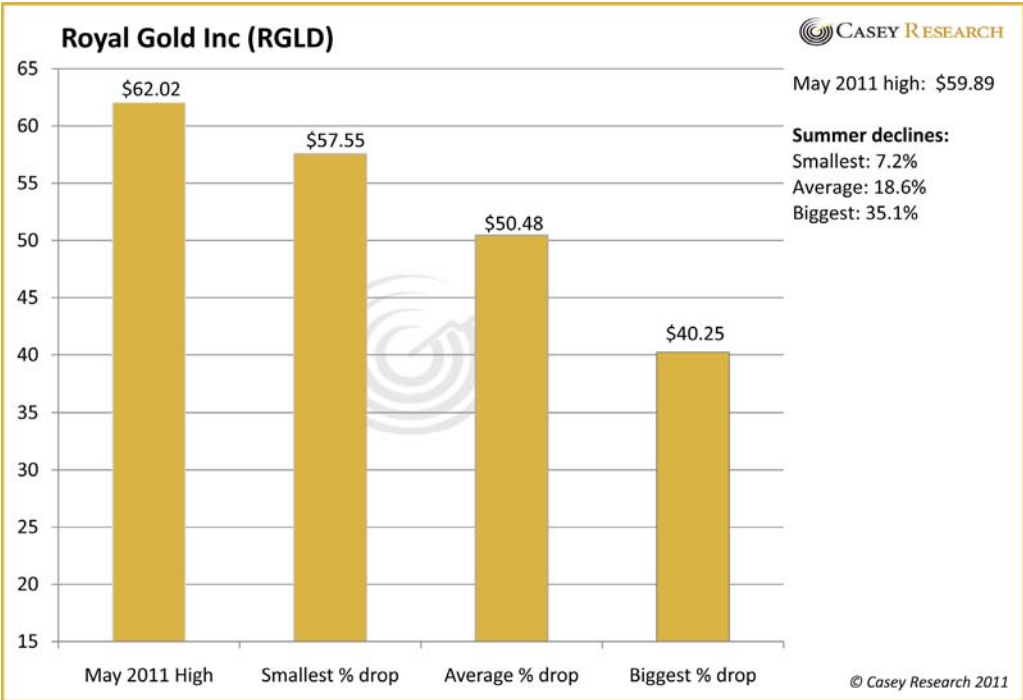
We're leaving Kinross on Hold because there's no urgency to buy the stock; company-changing production growth won't kick in until late next year and early 2013. We're including the chart, though, because we know many readers hold the stock. If you don't own KGC, we'd be interested in picking up shares if it fell near or below its average decline, a price it hasn't seen since the 2008 selloff and a true bargain.



We're returning Minefinders to a Buy. If you were able to take profits last month, look to redeploy some of those funds back into the stock this summer. We'd advise buying one tranche below its smallest summer decline, and a second at or below its average.

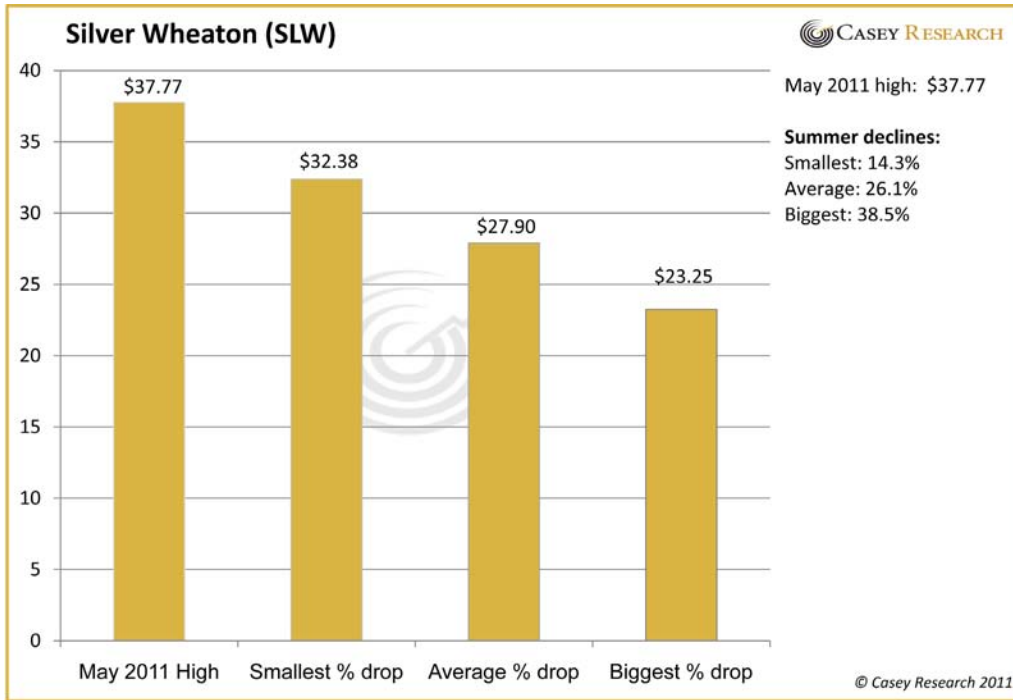


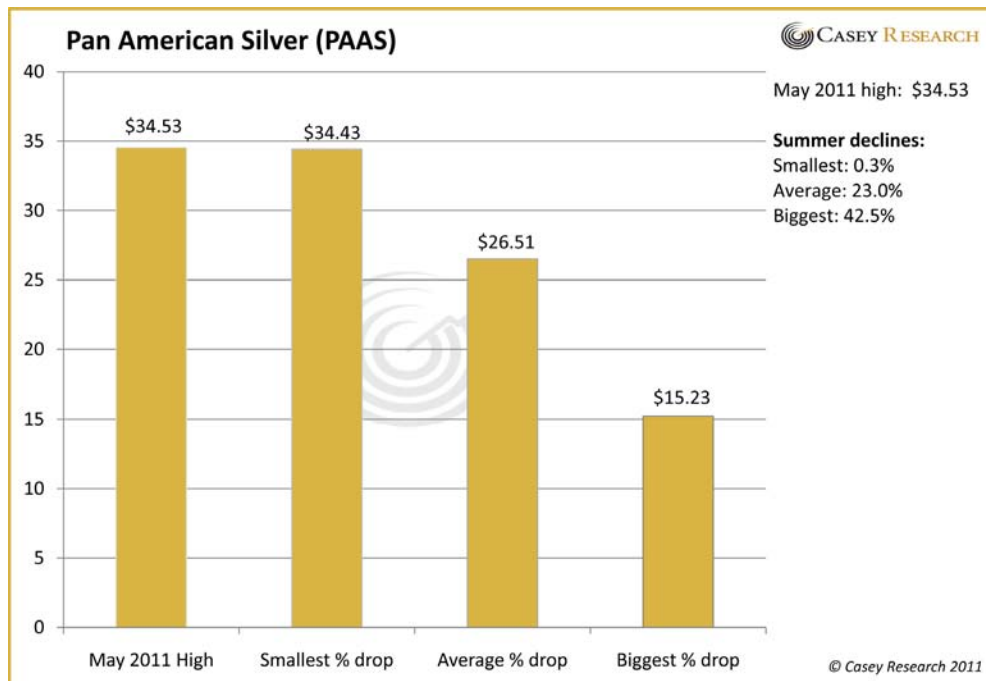
We're returning Randgold to a Buy, as the situation in Côte d'Ivoire, though not perfect, is slowly returning to normal. Further, management recently increased the dividend, a positive sign about their financial standing; and the CEO announced they plan to hit one million ounces of annual production [by 2014](#), more than double last year's total. For GOLD, we'd shoot for a tranche at or below \$70.



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Buy Zones For Silver Stocks





CHANGE IN RECOMMENDATION: HOLD. As we went to press, the outcome of the election in Peru was finalized, with leftist candidate Ollanta Humala getting the victory. This definitely increases the risk to Pan American Silver, as 28% of current production and 43% of Reserves comes from the country. Humala campaigned on the promise to share the mineral wealth with the Peruvian people “without frightening investors,” but his victory speech in Spanish was full of new state enterprises, taxes, and handouts, not a good sign. What appears most likely is a windfall profits tax, something PAAS could survive, but until we see what he actually proposes it’s important to take a more prudent approach and not buy more shares at this point. We’re including the chart since the data could be useful for those of you that own the stock and since it’s possible we could buy again later. Keep in mind, however, that if things get ugly in Peru we may be forced to sell, especially if there were problems with Navidad in Argentina getting permitted. We’ll have more to say on the portfolio page when management issues a press release.

→ I hope this year’s Guide will help answer the question of when to buy, and as a result, increase your profit margin so that when the day comes to sell at much higher prices, you’re smiling widely at your brokerage account.

Jeff Clark, Senior Editor

P.S. We expect many *International Speculator* picks to hit bargain prices this summer – and in turn bring us mouth-watering gains over the next 12 months. If you want the opportunity to see a double in some of your stock holdings within one year, try the best letter in the industry for mining speculation, [Casey’s International Speculator](#).

BIG GOLD PORTFOLIO

Security	Symbol (CN)	Rec Date	Rec Price	Close 6/3/11	Market Cap (M)	Change Since Rec	30-Day Change	Current Rec
Metals Funds								
SPDR Gold Trust	GLD	4/20/2007	\$68.70	\$150.22	\$60,680	118.7%	-1.4%	Accumulate on dips
iShares Silver Trust	SLV	3/18/2008	\$19.38	\$35.34	\$17,300	82.4%	-24.6%	Accumulate on dips
Central Fund of CN	CEF (T.CEF.A)	1/19/2008	\$12.83	\$21.17	\$5,050	65.0%	-13.8%	Accumulate on dips
ETFs Physical Swiss Gold Shares	SGOL	4/15/2010	\$115.83	\$153.14	\$1,603	32.2%	-1.4%	Accumulate on dips
ETFs Physical Silver Shares	SIVR	5/14/2010	\$19.25	\$36.03	\$897	87.2%	-24.6%	Accumulate on dips
"Accumulate" means don't buy all at once; stagger your purchases by adding on any significant dip in price.								
Large Producers								
Barrick	ABX (T.ABX)	3/20/2008	\$42.00	\$45.83	\$45,800	9.1%	-10.2%	Close Position
Agnico-Eagle	AEM (T.AEM)	10/23/2007	\$52.95	\$65.27	\$11,030	23.3%	-6.2%	Buy 1 tranche at or <\$60
Goldcorp	GG (T.G)	3/10/2011	\$45.86	\$49.10	\$39,220	7.1%	-12.1%	TP/Buy 1 tranche at or <\$46
Kinross	KGC (T.K)	4/20/2007	\$14.04	\$15.90	\$18,060	13.2%	0.4%	HOLD
Yamana	AUY (T.YRI)	4/18/2008	\$14.49	\$12.63	\$9,410	-12.8%	-0.6%	Buy1 tranche at or <\$10
Pan American Silver	PAAS (T.PAA)	4/5/2011	\$32.93	\$32.44	\$3,500	-1.5%	-1.5%	HOLD
We were officially filled on May 5, the first close below \$33.								
Mid-Tier Producers								
Randgold	GOLD (LSE:RSS)	12/21/2007	\$35.65	\$81.02	\$7,380	127.3%	-6.4%	Buy 1 tranche at or <\$70
Eldorado	EGO (T:ELD)	12/15/2009	\$11.84	\$14.86	\$8,150	25.5%	-20.2%	Buy 1 tranche at or <\$14
Small Producers								
Alamos Gold	AGIGF (T.AGI)	12/15/2010	\$17.25	\$15.19	\$1,772	-11.9%	-4.3%	Buy 1 tranche at or <C\$13
Minefinders	MFN (T.MFL)	7/23/2007	\$12.03	\$12.78	\$1,030	6.2%	-23.7%	Buy 1 tranche at or <\$11
Silvercorp	SVM (T.SVM)	10/15/2009	\$4.89	\$10.20	\$1,780	108.6%	-39.1%	Buy 1 tranche at or <\$9
Royalties/Streams								
Franco-Nevada	NNFF.PK (T.FNV)	2/10/2011	\$35.80	\$37.30	\$4,735	4.2%	0.0%	Buy 1 tranche at or <C\$34
We were officially filled on May 5, the first close below \$36								
Royal Gold	RGLD (T.RGL)	10/23/2007	\$31.67	\$60.04	\$3,320	90%	-1.5%	Buy 1 tranche at or <\$55
Silver Wheaton	SLW (T.SLW)	3/18/2008	\$17.62	\$35.17	\$12,420	99.6%	-13.4%	Buy 1 tranche at or <\$30
Gold Stock Funds								
Market Vectors Gold Miners ETF	GDX	8/13/2010	\$54.60	\$56.49	\$7,220	3.5%	-9.2%	Accumulate on dips
Tocqueville Gold Fund	TGLDX	11/12/2010	\$84.55	\$83.94	\$2,860	-0.7%	-7.3%	Accumulate on dips
US Global Gold	USERX	5/19/2008	\$17.27	\$17.39	\$289	0.7%	-10.4%	Accumulate on dips
US Global World Precious Minerals	UNWPX	8/14/2009	\$13.71	\$19.62	\$764	43.1%	-10.7%	Accumulate on dips
Metals funds should be viewed as long-term holdings. Accumulate on dips.								

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