

A Case For... Gold – Preserving Wealth in an Age of Uncertainty

Gold—it is unlike all other elements on earth. Virtually indestructible, this precious metal has been the source of countless fables and has mobilized the growth of nations and financial infrastructures worldwide. Human beings have been utilizing gold as both a form of currency and an investment for thousands of years.

As an asset class, gold is unique. Gold is durable and highly liquid, and the economic forces that determine the price of gold are different from the economic forces that determine the price of many other asset classes such as equities, bonds or real estate. A potential safe haven from the uncertainty of economic events, political unrest and high inflation, gold offers investors an attractive opportunity to diversify their portfolios—potentially reducing overall portfolio risk and ultimately preserving portfolio wealth.

AS GOOD AS GOLD: THE ENDURING ARCHETYPE

The history of gold is as old as time itself. With references to gold in the text of Genesis, to the myths of Jason and King Midas and the legend of King Solomon's mines, gold has long been a symbol of wealth, freedom and power. Empires and nations—from Charlemagne to the Spanish conquest of the "New World" and on through to the American frontier movement—all were mobilized by the pursuit of gold or built upon its promise.

Though its first use appears to have been for ornamentation, sculpture or jewelry, gold has been employed most prominently through the ages as a store of financial value—or as currency. From Ancient Egypt to modern day Britain, gold became the standard medium of exchange for trade and the standard measure upon which monetary systems were based.

THE GOLD STANDARD

Eventually, various forms of currency and paper monies emerged and most modern nations adopted a gold standard (i.e., currency could be redeemed in gold). In its most formal sense, the Gold Standard was a financial system established with the aim of stabilizing the global economy. It dictated that a nation could not issue currency in excess of the amount of gold it held in reserve. Great Britain was the first to officially adopt the standard in 1821. The rest of Europe followed in the 1870s and the system remained intact until the end of World War I. Following the war, the US was the only country to keep the gold standard. After the war, other countries were allowed to keep reserves of major currencies instead of gold.

When in 1934, the US devalued the dollar by raising the price of gold to \$35 per ounce, holders of gold around the world sold their holdings to the US. By the end of World War II, US holdings of gold accounted for nearly 65% of official world stocks. At their peak in the 1960s, worldwide official gold stocks accounted for approximately 50% or more of all above-ground gold. Central banks were keeping all of this gold as a result of the fixed dollar price and the dollar's convertibility to gold. Gold, in essence, was still the foundation of the international monetary system. Though there was no direct link between gold holdings and national monetary supplies, gold was still the primary reserve asset. Central banks could convert dollar balances into gold at the official price.

Gradually, however, central banks created more money than was consistent with stable prices and the fixed official gold price became unrealistic. As the pivot of the world financial system, the US was faced with the choice of deflating, devaluing or abandoning the system. In 1971, the US abandoned the system and the dollars held by foreign central banks could no longer be converted to gold. In 1973, the US abandoned the gold standard altogether and gold prices were allowed to float freely.

USES FOR GOLD TODAY

Highly malleable, ductile and impervious to tarnishing, gold is one of the most beautiful and useful elements in the world. It can be hammered into sheets so thin that light can pass through, and a single ounce can be drawn into a wire fifty miles long. Gold's chemical and physical properties make it valuable in a wide array of everyday applications. Though jewelry accounts for about 68% of the annual consumption of gold today, gold is also used in telecommunications, information technology and various industrial applications. Highly conductive, gold is used in the manufacturing of millions of computers each year, as well as millions of televisions, DVDs, video cameras and mobile phones. Additionally, because it is non-toxic and biologically benign, gold has proven to be a valuable tool in the treatment of medical conditions from heart disease and prostate cancer to bacterial diseases and arthritis.¹

SUPPLY & DEMAND

Ever since the gold standard was abandoned, gold prices have been driven by supply and demand. Though it can be found on nearly every continent in the world, relative to many other metals, gold is scarce. In fact, if we were to compress the world's total above-ground stocks of gold into one space, it would amount to a single cube 60x60x60 feet and could fit on a single oil tanker.²

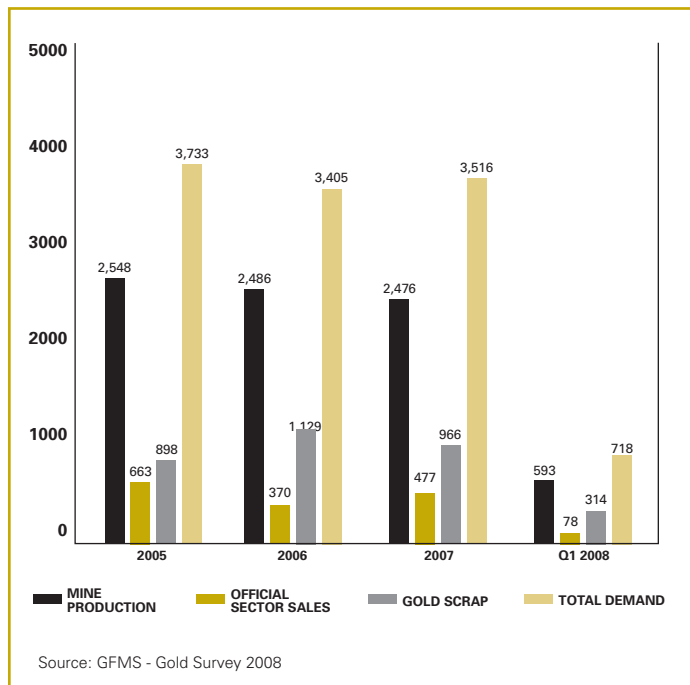
Extracting gold is not easy or inexpensive. At average grades, it takes about five tons of ore to yield even one ounce of gold. New mine supply has remained relatively constant for the past five years and "grass roots" exploration spending has returned to the peak levels seen in 1997. Global demand in 2007 reached 3,547 tons. Scrap supply and central bank sales typically make up the shortfall between mine production and global demand (Figure 2).

Of note in 2007 was the sharp increase in the price of gold, starting in September. Gold prices began the year relatively stable, though after news of the financial crisis struck in August investors rushed to purchase gold, pushing up the price. Supply to the market was constrained, falling 3% below 2006 levels, and thus demand for gold remained constrained as well.

Gold currently accounts for 10% of global foreign exchange reserves, and central bank holdings of gold currently account for about 20% of total above-ground stocks. Some gold opponents may point to the risk that central banks could “dump” their gold reserves back into the market, thus drastically decreasing the price of gold. This fear may stem from the behavior of some central banks during the 1990’s, when central banks engaged in broad selling and lending, and the price of gold fell dramatically.

Today, however, the risk of such central bank sales has lessened. In 1999, certain central banks agreed to abide by the Central Bank Gold Agreement (CBGA), which limited the amount of gold they could sell to 400 tons a year, and also set a limit on the volume of gold loaned to the market. Signatories of the CBGA represent roughly 49% of all official sector gold holdings in the world—this from a mere 15 countries. Additionally, these central banks reaffirmed their confidence in the future of gold as a reserve asset. In 2004, the CBGA was renewed for another five years, this time limiting sales of gold to 500 tons per year. Since CBGA signatories historically have owned large blocks of gold at one time, the agreement has acted as a reassurance for the markets.

FIGURE 2: GOLD SUPPLY & DEMAND FUNDAMENTALS



GOLD THROUGH THE CENTURIES

- 3000 BC** — The Sumer civilization of southern Iraq uses gold to create a wide range of jewelry, often using sophisticated and varied styles still worn today.
- 1500 BC** — The immense gold-bearing regions of Nubia make Egypt a wealthy nation, as gold becomes the recognized standard medium of exchange for international trade.
- 1091 BC** — Little squares of gold are legalized in China as a form of money.
- 560 BC** — The first coins made purely from gold are minted in Lydia, a kingdom of Asia Minor.
- 344 BC** — Alexander the Great crosses the Hellespont with 40,000 men, beginning one of the most extraordinary campaigns in military history and seizing vast quantities of gold from the Persian Empire.
- 58 BC** — After a victorious campaign in Gaul, Julius Caesar brings back enough gold to give 200 coins to each of his soldiers and repay all of Rome’s debts.
- 742 – 814 AD** — Charlemagne overruns the Avars and plunders their vast quantities of gold, making it possible for him to take control over much of Western Europe.
- 1284 AD** — Venice introduces the gold Ducat, which soon becomes the most popular coin in the world and remains so for more than five centuries.
- 1511 AD** — King Ferdinand of Spain says to explorers, “Get gold, humanely if you can, but all hazards, get gold,” launching massive expeditions to the newly discovered lands of the Western Hemisphere.
- 1717 AD** — Isaac Newton, Master of the London Mint, sets the price of gold that lasts for 200 years.
- 1848 AD** — The California gold rush begins when James Marshall finds specks of gold in the water at John Sutter’s sawmill near the junction of the American and Sacramento Rivers.
- 1886 AD** — George Harrison, while digging stones to build a house, discovers gold in South Africa.
- 1900 AD** — The US adopts the gold standard for its currency.
- 1933 AD** — President Franklin D. Roosevelt bans the export of gold, halts the convertibility of dollar bills into gold, orders US citizens to hand in all the gold they possess and establishes a daily price for gold.
- 1944 AD** — The Bretton Woods agreement sets an international gold exchange standard and creates two new international organizations, the International Monetary Fund (IMF) and the World Bank. The new standard sets par values for currencies in terms of gold and obligates member countries to convert foreign official holdings of their currencies into gold at these par values.
- 1971 AD** — On August 15, U.S. terminates all gold sales or purchases, thereby ending conversion of foreign officially held dollars into gold; in December, under the Smithsonian Agreement signed in Washington, U.S. devalues the dollar by raising the official dollar price of gold to \$38 per fine troy ounce. Two years later, the US Dollar is removed from gold standard, and gold prices are allowed to float free.
- 1974 AD** — On December 31, US government ends its ban on individual ownership of gold.
- 1980 AD** — Gold reaches intra-day historic high price of \$870 on January 21 in New York.
- 1997 AD** — Congress passes Taxpayer Relief Act, allowing US Individual Retirement Account holders to buy gold bullion coins and bars for their accounts as long as they are of a fineness equal to, or exceeding, 99.5% percent gold.
- 1999 AD** — 15 large central banks sign the Central Bank Gold Agreement (CBGA), limiting their combined gold sales to 400 tons per year
- 2004 AD** — Central banks renew the 5-year CBGA, limiting their gold sales to 500 tons per year

WHY INVEST IN GOLD BULLION?

WEALTH PRESERVATION

Unlike paper, gold is an imperishable asset. And unlike equities or bonds, the value of which is dependent on the issuer's ability to pay in the future, gold bullion—a pure form of gold—does not depend on anyone else's ability to pay.

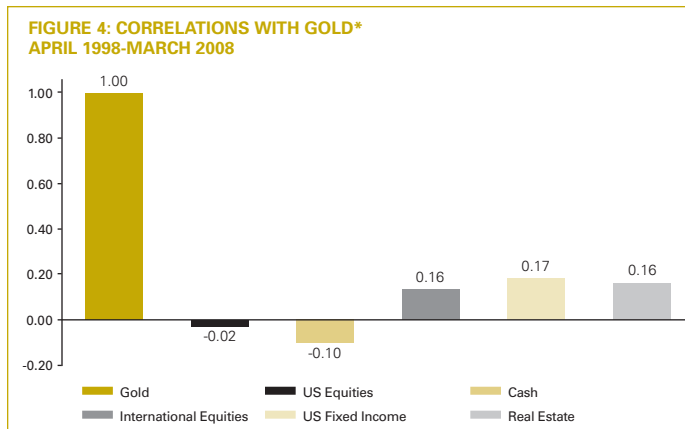
Over time, gold has tended to maintain its purchasing power, especially during periods of economic or political upheaval. It has often been quoted that "With an ounce of gold a man could buy a fine suit of clothes in the time of Shakespeare, in that of Beethoven and Jefferson, in the Depression of the 1930s." In fact, analysis suggests that the real value of gold may fluctuate in the short term, but that it has consistently returned to its historic purchasing power parity with respect to other commodities over the very long term.³ Consequently, over a long period of time, gold may be an effective tool for preserving wealth.

During periods of economic and political instability, when the value of many other assets may have fallen dramatically, gold has commonly remained a store of value.

DIVERSIFICATION

Every investor knows that markets cycle over time (Figure 3). These cycles of performance are unpredictable, making timing the market a risk-laden undertaking. Given this performance volatility, investors should diversify among a variety of different asset classes in order to protect their portfolios against the short-term risks of being absent from top-performing asset classes or of being too heavily concentrated in the lowest performers. It is prudent practice to build portfolios that are well-diversified.

By building a broadly diversified portfolio that holds a wide range of asset classes—including gold—investors can pursue better downside protection against short term underperformance risks, and potentially take advantage of the best performers during any given time period.



Source: Zephyr StyleADVISOR, State Street Global Advisors Strategy & Research. Gold: London PM Fixing; US Equities: S&P 500 Index; Cash: Citigroup 3-Month T-Bill Index; International Equities: MSCI EAFE Index; US Fixed Income: Lehman Brothers Aggregate Bond Index; Real Estate: Dow Jones Wilshire REIT Index.

RISK MANAGEMENT

Statistical analysis shows that the price movements in gold bullion tend not to move in tandem with those of traditional asset classes, such as equities and real estate. Historically, gold has shown statistically insignificant correlation with equities and other conventional asset classes (Figure 4). Although the aim of diversification is to hold a wide array of assets that perform differently from one another under various market conditions, studies have suggested that equity markets tend to become more closely correlated during periods of market turbulence. Conversely, commodities tend to become less correlated with major asset classes during such periods.⁴

Additionally, a 2003 study concluded that not only was gold negatively or insignificantly correlated with major asset classes, but that there was no statistically significant correlation between returns on gold and changes in macroeconomic variables such as GDP and interest rates.⁵ In sum, including gold in a portfolio potentially lowers overall risk without necessarily decreasing returns. It may reduce the likelihood of large losses during any period, including during periods of market volatility.

FIGURE 3: ASSET CLASSES MOVE IN AND OUT OF FAVOR UNPREDICTABLY

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008 YTD
GOLD	28.59%	31.69%	8.95%	30.46%	15.13%	32.94%	8.06%	37.58%	37.05%	33.36%	28.58%	27.30%	31.04%	12.35%	25.57%	39.17%	33.16%	17.77%	35.97%	31.92%	11.96%
US EQUITIES	17.48%	14.53%	7.92%	23.84%	7.62%	17.64%	4.24%	18.48%	22.96%	19.66%	20.33%	21.04%	11.63%	8.42%	10.27%	36.18%	20.70%	14.02%	26.86%	11.63%	2.17%
CASH	16.61%	10.80%	-3.10%	16.00%	7.40%	15.14%	2.66%	12.24%	6.36%	9.68%	8.67%	4.74%	5.96%	4.09%	3.58%	28.68%	10.88%	13.82%	23.20%	6.96%	2.14%
US FIXED INCOME	7.88%	8.63%	-3.69%	12.50%	3.62%	10.08%	1.32%	11.55%	5.25%	5.25%	5.06%	0.85%	-5.94%	1.28%	1.71%	19.89%	4.65%	4.91%	15.79%	5.49%	0.17%
INTERNATIONAL EQUITIES	6.76%	2.72%	-23.20%	5.75%	-5.71%	9.75%	-2.17%	5.76%	3.61%	2.06%	-0.83%	-0.83%	-9.11%	-11.88%	-15.66%	4.11%	4.34%	3.00%	4.76%	4.74%	-8.82%
REAL ESTATE	-15.69%	-2.23%	-23.44%	-8.56%	-11.85%	3.09%	-2.92%	0.98%	-4.59%	-21.41%	-17.01%	-2.58%	-13.96%	-21.21%	-22.10%	1.07%	1.24%	2.43%	4.33%	-17.55%	-9.44%

Source: Zephyr StyleADVISOR, SSgA Strategy & Research as of March 31, 2008. Gold: London PM Fixing; US Equities: S&P 500 Index; Cash: Citigroup 3-Month T-Bill Index; US Fixed Income: Lehman Brothers Aggregate Bond Index; International Equities: MSCI EAFE Index; Real Estate: Dow Jones Wilshire REIT Index.

ATTRACTIVE ALTERNATIVE ASSET

As equity markets have grown more volatile, many investors have increased their allocation to alternative investments, in attempts to stabilize and enhance portfolio performance. But many of these alternative assets may be both expensive and risky.

As compared to other alternatives, gold bullion may offer investors a greater diversification benefit, lower risk and higher liquidity.⁶

CONCLUSION: GOLD DOESN'T LOSE ITS LUSTER

A transcendent store of value, gold is accepted the world over and has proven to be an effective wealth preservation tool. Most importantly, due to its lack of correlations with all traditional asset classes as well as with major economic variables, gold is a proven asset diversifier.

When used in the construction of diversified portfolios, gold potentially helps reduce overall risk and may ultimately help protect investor wealth.

In an age of increasing concerns about market volatility and political upheaval, at a time when the largest segment of the US population is approaching a potentially prolonged and expensive retirement, the preservation of wealth is paramount. A virtually indestructible asset, gold offers investors a potential, tangible hedge against unpredictability. Since time immemorial, from the ancient Sumerian civilizations to the present day, gold has shaped the evolution of humanity in our quest for freedom, sustainability and wealth. As it has been for thousands of years, so it remains today; gold, as a store of value, is universal and enduring.

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 - 2 [Gold Digest: History of Gold Page, Gold-Eagle](#). September 2004. www.gold-eagle.com.10m/gold-eagle/history-gold.html
 - 3-4 Jastram, Roy. [The Golden Constant: The English and American Experience 1560-1976](#). New York, New York: John Wiley & Sons, 1977.
 - 5 Lawrence, Colin. [Why is Gold Different from Other Assets? An Empirical Investigation](#). London, United Kingdom: World Gold Council, 2003.
 - 6 Bienkowski, Nik. "A Golden Rule in Risk Management." *Jassa*, Issue 3: Spring 2003. Bernstein, Peter L. *The Power of Gold: The History of an Obsession*. New York: John Wiley & Sons, 2000.
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than statements of historical fact) included in this document that address activities, events or developments that will or may occur in the future, including such matters as changes in commodity prices and market conditions (for gold and the Shares), the Trust's operations, the Sponsor's plans and references to the Trust's future success and other similar matters are forward-looking statements. Investors are cautioned that these statements are only projections. Actual events or results may differ materially. These statements are based upon certain assumptions and analyses the Sponsor made based on its perception of historical trends, current conditions and expected future developments, as well as other factors believed appropriate in the circumstances. Whether or not actual results and developments will conform to the Sponsor's expectations and predictions, however, is subject to a number of risks and uncertainties, including, but not limited to fluctuations in the price of gold; reductions in the amount of gold represented by each Share due to the payment of Trust expenses and the impact of the termination of the fee reduction under the Trust Indenture; purchasing activity in the gold market associated with the purchase of Baskets from the Trust; the lack of experience of the Sponsor and its management in operating an investment vehicle such as the Trust; unanticipated operational or trading problems; the lack of protections associated with ownership of shares in an investment company registered under the Investment Company Act of 1940 or the protections afforded by the Commodity Exchange Act of 1936; the lack of a market for the Shares; the level of support from the World Gold Council; competition from other methods of investing in gold; the impact of large-scale distress sales of gold in times of crisis; the impact of substantial sales of gold by the official sector; the effect of a widening of interest rate differentials between the cost of money and the cost of gold; the loss, damage, theft or restrictions on access to the Trust's gold; the lack of adequate sources of recovery if the Trust's gold is lost, damaged, stolen or destroyed, including a lack of insurance; the failure of gold bullion allocated to the Trust to meet the London Good Delivery Standards; the failure of sub-custodians to exercise due care in the safekeeping of the Trust's gold; the limited ability of the Trustee and the Custodian to take legal action against sub-custodians; the insolvency of the Custodian; the Trust's obligation to reimburse the Purchaser and the Market Agent for certain liabilities in the event the Sponsor fails to indemnify them; competing claims over ownership of intellectual property rights related to the Trust; and other factors identified in the "Risk Factors" section of the Prospectus filed with the SEC and in other filings made by the Trust from time to time with the SEC. Consequently, all the forward-looking statements made in this material are qualified by these cautionary statements, and there can be no assurance that the actual results or developments the Sponsor or Marketing Agent anticipates will be realized or, even if substantially realized, that they will result in the expected consequences to, or have the expected effects on, the Trust's operations or the value of the Shares. Neither the Sponsor, Marketing Agent nor any other person assumes responsibility for the accuracy or completeness of the forward-looking statements. Neither the Trust, Marketing Agent nor the Sponsor is under a duty to update any of the forward-looking statements to conform such statements to actual results or to reflect a change in the Sponsor's or Marketing Agent's expectation or projections. The value of the Shares relates directly to the value of the gold held by the Trust (less Trust expenses) and fluctuations in the price of gold could materially adversely affect an investment in the Shares.

Investors should be aware that there is no assurance that gold will maintain its long-term value in terms of purchasing power in the future. In the event that the price of gold declines, the Sponsor expects the value of an investment in the Shares to similarly decline.

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