

**Gold Shares Poised to Rally?**

The past two weeks have been dominated by deliberations regarding Iraq at the United Nations. Gold traded to \$390 before US Secretary of State spoke on February 5<sup>th</sup>, and then slid to a low of \$341 after the latest round of discussions on February 14<sup>th</sup>. What seems clear is that the short-term speculative positions that were anticipating an invasion of Iraq immediately have been cleared out.

Proteus Capital Fair Value Indicator				
	Actual 2.14.03	XAU Index		
		Low	Fair Value	High
Gold Price	\$348	62.4	<b>89.8</b>	117.1
XAU	72.18	-13.5%	<b>24.4%</b>	62.3%

We believe that the market is now reflecting the broader economic and political issues: increasing geopolitical instability, the return of the twin deficits – trade and budget – in the U.S., and the movement of capital out of the dollar.

While there has been some good economic news in the headlines, the underlying numbers remain worrisome. Increased industrial production went almost entirely into inventories; Fed Chairman Greenspan’s positive comments about growth in the technology sector were based on data that reflects improvements in technology, not gains in sales, let alone employment; and retail sales were buoyed by increased spending on fuel reflecting the frigid weather in the northeast and rising gasoline prices at the pump.

The international value of gold, adjusting for the trade-weighted value of the dollar against major currencies, is just 4% above its twelve-month average, and 11% above the average of the past decade. Certainly the price is rising for international investors, but the strength of the price rise is largely the result of the accelerating decline in the value of the dollar. There is enormous potential for gold to benefit from asset diversification away from the biggest investment block – dollar-based assets.

Despite the gyrations in the price of bullion, precious metals stocks remain generally quite stable – the benchmark Amex Gold Bugs index of un-hedged producers traded in a narrow range of 132 to 151 – only slightly more volatile than bullion. The XAU index, which includes larger companies that do hedge, declined to 72 at which level it is discounting gold at less than \$300 per ounce. Looked at the other way around, the Proteus Capital Fair Value Indicator points to the XAU at 90 with gold at \$348 – 24% above the current level.

We believe that this disparity reflects several phenomena, including:

- Many institutional investors expect the gold price to decline significantly and think that is the time to buy the stocks. However, we repeat that, based on historic relationships, the stocks are discounting a gold price of \$300 already.

Gold stocks rarely go up while the price of the metal they produce is going down, but the reaction in the stocks to the first sign of a turn in the gold price could be dramatic. Put simply, waiting for the same pullback that everyone else is waiting for is not generally a recipe for successful investing.

- Traditional buyers of gold stocks are already invested – newcomers haven’t generally come into the market yet.
- International investors seeking security and liquidity outside the U.S. financial system are buying bullion – registered shares may not meet their requirements for anonymity or liquidity.

**Contact: Douglas Newby**

**Tel: (646) 879-5970**

This Memorandum does not constitute or form part of an offer of, or invitation to acquire any financial instruments in any company mentioned herein. Proteus is not a registered investment advisor under the Securities Act of 1940. Any investment in any security mentioned herein should be made only after consulting and analysing financial statements and other documentation received directly from the issuer of the security or securities involved. Proteus provides corporate advisory services to clients for which it is paid.



### **Recent Corporate News**

#### **Western Copper Holdings Ltd.** (AMEX : WTZ o TSX : WTC o [www.westerncopper.com](http://www.westerncopper.com))

The company's shares started trading on the American Stock Exchange on February 5, ticker WTZ. The company also announced that it is to seek shareholder approval to change its name to Western Silver Corporation, reflecting the focus on silver and the exploration successes at its 100%-owned Peñasquito project in central Mexico. In the first eight trading days, an average of 52,500 shares have traded on AMEX each day, almost matching the 69,000 average trading volume on the Toronto Stock Exchange over the same period.

For further information, go to: [www.proteuscapital.com/WesternCopper.htm](http://www.proteuscapital.com/WesternCopper.htm).

#### **South American Gold and Copper Company Ltd.** (TSX : SAG o [www.sagc.com](http://www.sagc.com))

Advancing its plans to re-open its 100%-owned Pimenton gold mine in Chile, the company announced that it has hired Mr. Hector A. Araya as Manager of Mine Operations. Mr. Araya was educated at Santiago University, the Camborne School of Mines in the U.K. and Columbus University in the U.S. He has more than thirty years' experience working in underground mining in Chile, including El Salvador; El Indio; and the El Bronce and Fachinal mines of Coeur D'Alene Mines Corp.

For further information, go to: [www.proteuscapital.com/sagc.htm](http://www.proteuscapital.com/sagc.htm).

#### **X-Cal Resources Ltd.** (TSX : XCL o [www.x-cal.com](http://www.x-cal.com))

X-Cal has recommenced drilling at the Sleeper project, initially focusing on an area to the southeast of the original Sleeper pit. We understand that the company intends to publish results from a series of holes, and not on a hole-by-hole basis. We have always considered the area being drilled to be one of the most prospective areas of the 30 square mile Sleeper District. The exploration program is being guided by an impressive team including Larry Kornze (formerly Barrick Gold), Ken Snyder (formerly Franco Nevada) and Win Rowe (formerly Freeport).

For further information, go to: [www.proteuscapital.com/x-cal.htm](http://www.proteuscapital.com/x-cal.htm).