

How I See It (Part II): Precious Metals (Gold & Silver)

One of the main reasons for the parabolic (straight up) move in the Dow Jones Industrial Averages has been an assumption that the Federal Reserve will cut interest rates in early 2007. However, as each day goes by, and Federal Reserve officials address the media, it is becoming apparent that a rate cut could be put on hold for quite some time. In fact, there is some concern starting to develop that a rate increase could be in the offing. Why? The simple answer is inflation. Although oil has gone lower over the past few months, foodstuffs such as orange juice, corn, and soy have moved higher. In addition, there seems to be pressure from increasing wages. All in all, inflation is not dead, but is very much on the Fed's radar screen. The way to slow inflation is not by lowering rates, but raising them. Historically, when inflation becomes a concern, the most favored investments have been gold, followed by silver. I believe it's no different this time.

A few weeks ago, the United Arab Emirates announced they might start dealing for oil in euros rather than dollars. China, Russia, and several other countries have suggested that they're looking to diversify their currency holdings away from the dollar, to such things as euros, and gold. This type of international action will not only have a positive affect on gold and silver, but will also have a negative affect on the dollar, as more dollars are sold, and less dollars are bought. Currently, the dollar has shown signs of strength. The consensus is that this is only a pause in the downward trend. Historically, as the dollar falls, gold, followed by silver, rises. I believe it's no different this time.

Therefore, it would appear that whether it's individual securities, or the hard metals themselves, gold and silver's brightest days are ahead of them.

Till next time,

Bill

Next: The third strategy from start to finish.

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