THE REAL VALUE OF GOLD

The Case for Gold

STRATEGIC GOLD

CORPORATION

Purchasing Power:

Gold has once again emerged as the investment of choice for investors seeking safety and protection amid extreme market volatility and economic uncertainty. This bullish outlook for gold is supported by the expectation for ongoing geopolitical risks, a prolonged period of negative to low real interest rates, strong demand growth in emerging markets and the unprecedented degree of monetary easing implemented by central banks globally. Gold's unique attributes and relative scarcity make it a viable store of monetary value. Since it does not represent anyone's liability to produce or pay in the future, it provides distinct benefits to the global monetary system.

As a basic rule, there cannot be un-checked currency creation (printing) without a simultaneous revaluation of something else.

Per the diagram to the right, the fulcrum, the pivot point that investors should focus on is not necessarily the price of gold. Rather, it should be the rising price of real goods and services.

Gold's price appreciation (load) is simply filling the capital reserve void created by the devaluation of global currencies (force).

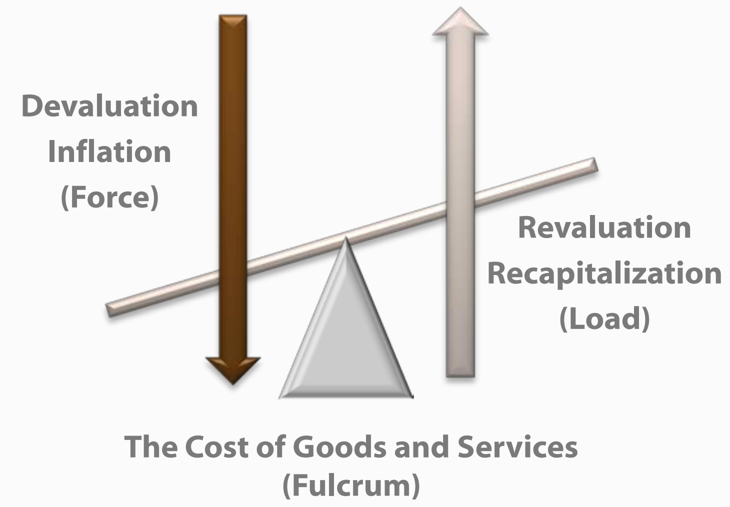
Today we use credit, debt or liability assets as savings. Yet, these claims *denominated* in currency are being devalued in actual base money terms by central banks. Money is being printed to save assets --- ***as they are currently priced***.

Therefore:

Global currencies and gold are both being massively expanded to recapitalize the global monetary and financial system.

However:

- ❖ Currencies are being expanded in **volume** through intervention.
- ❖ Gold is being expanded in **value** by the free market.



Historical Example:

In 1972 the Dow was at 929, by 1982 it had fallen 13% to 812 and during the same period the dollar lost 57% of its value. Therefore, adjusting for inflation the Dow actually dropped from 929 to 350 (in 1972 dollars). This represented a 62% loss of the purchasing power of assets held in the Dow. In the same time period, gold rose from \$44 oz to \$400 oz.

Financialization of the Economy:

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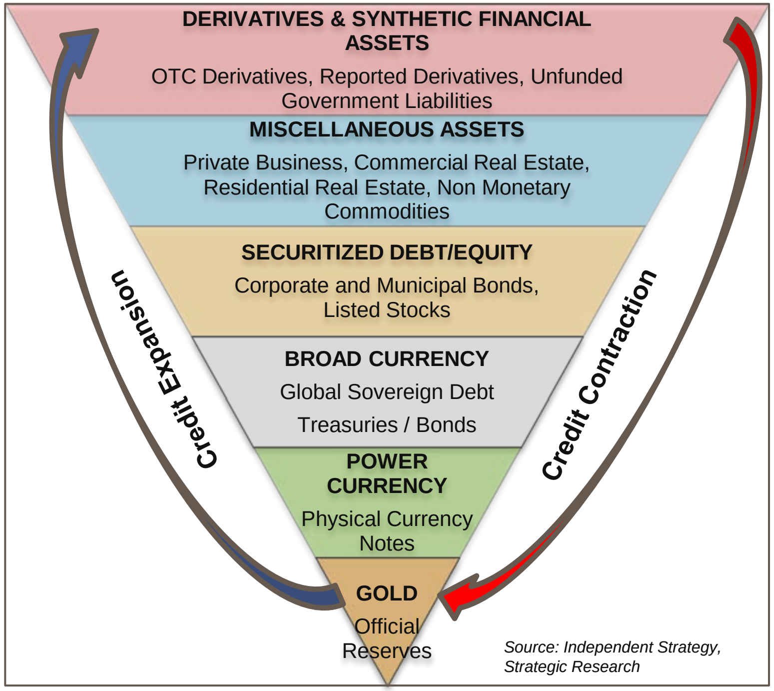


Source: Independent Strategy, Strategic Research

ECONOMIC EXPANSION:

During credit expansion, capital flows up the inverse pyramid. As the private sector becomes more leveraged, credit money is created in many multiples of real money. Each level up essentially represents a derivative of a lower level. Increased risk is tolerated as investors pursue higher yields.

ECONOMIC CONTRACTION:

During credit contraction, capital flows down the inverse pyramid. As higher derivative levels devalue and principle is lost, risk is re-valued and capital moves down the pyramid to safety.

Government intervention (such as TARP, PDCF, TAF, TSLF, ABCPMMFLF ZIRP, QE1, QE2, SMP, EFSF, ESM, and LTRO) by converting multiple levels of synthetic financial aggregates into lower level monetary aggregates has pressed a ***global financial crisis into a global monetary crisis***.

Gold, as money, is no one's liability. It is seen as a store of value and a hedge against global currency debasement and financial instability.

This fact is well illustrated by the graph below that plots Official Reserves of reporting Central Banks (in Billions US$) alongside the price of gold (2004-2012). The correlation is indisputable.

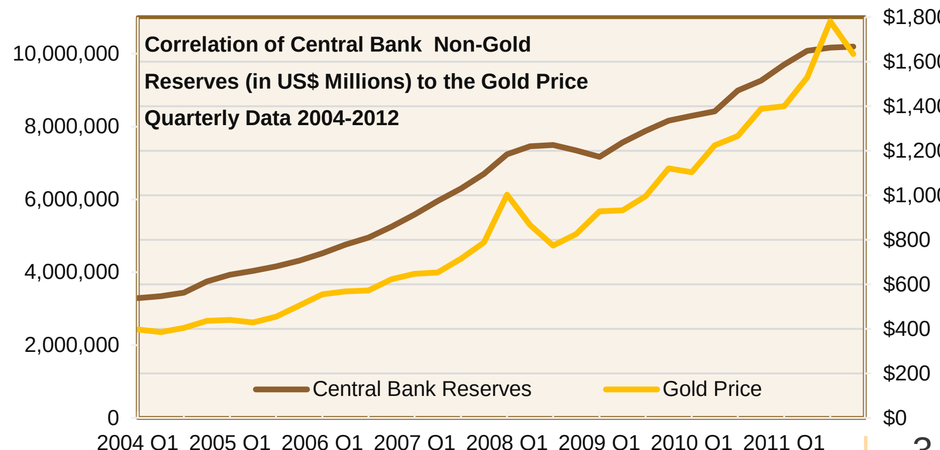
HEAD-WINDS:

In 2011, The FED purchased **61%** of the total net Treasury issuance.

In 2009 foreign purchases of US debt amounted to **6%** of GDP. In 2011, foreign purchases amounted to **0.9%** of GDP.

The Fed is in effect subsidizing U.S. government borrowing and spending via expansion of its own balance sheet and massive purchases of Treasury bonds within an environment of artificially low interest rates.

A future crisis is inevitable when economic growth is structurally dependent upon debt expansion.



Source: IMF, LBMA

History and the Gold Price:

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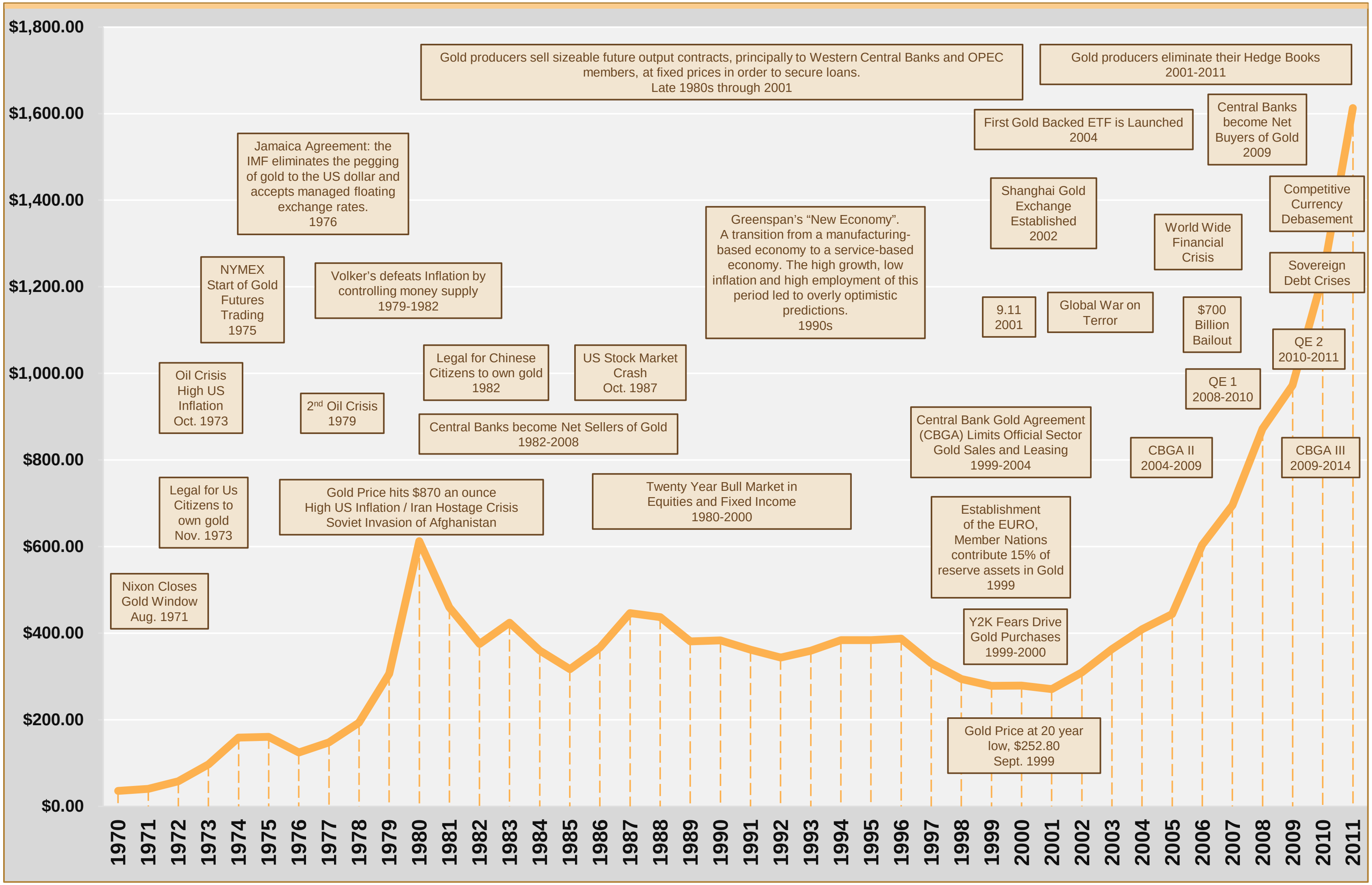


Source: LBMA, Strategic Gold Research

Average Annual Gold Price 1970-2011

Then and Now:

1980…	Today…
Then, the US was still a creditor to the rest of the world.	Today, the US is the world's largest debtor nation.
Then, the US was still running positive trade balances.	Today, the US "consumer economy" has been running negative trade balances for years.
Then, US stocks were at bargain levels…selling for 5 to 8 times earnings.	Today, stocks are twice as expensive. Stocks at 15x earnings are considered cheap.
Then, US bonds were inexpensive…with yields for US Treasury debt as high as 18%.	Today, long bond yields are nearly six times lower. Now the Fed is purchasing long-term US Treasury and government-sponsored agencies notes, in order to force bond yields lower.
Then, US households had debt of 60% to 70% of their disposable income.	Today, US households have debt of 120% of their disposable income.
Then, the Fed was determined to stifle inflation by allowing interest rates to rise.	Today, the Fed must hold rates at zero temporarily averting high domestic inflation by exporting it to the rest of the world.
Then, the federal government's debt was less than 40% of GDP.	Today the federal government's debt has exceeded 100% of GDP. Payments on that debt are reaching 30% of revenue at an artificially suppressed interest rate.
Then, in inflation adjusted terms, the US government ran a deficit of $197 billion.	Today, the US government's deficit is over $1 trillion.
Then, stocks had been going down for the previous 14 years; bonds had been going down for at least 31 years.	Today, stocks and bonds have been going up, generally, for the last 30 years.
Then, foreigners owned less than 10% of US debt.	Today, foreigners own 49% of US debt. Foreign investors in US Dollar assets have seen significant losses measured in US Dollars and even larger losses measured in their own currencies.
Then, Volcker pursued "Monetarism" to defeat double-digit inflation – targeting the actual supply of money to support its value.	Today, Bernanke is deploying a diametrically opposite strategy: "Quantitative Easing" (QE).
Then, Paul Volcker could squeeze inflation…begin a 3-decade period of rising bonds (with falling interest rates)…and an 18-year bust in the gold market.	Today, interest rates have one way to go: up. Inflation has one way to go: up. The dollar has one way to go: down. Since nominal interest cannot be pushed below zero, QE is the Fed's last and only tool. The gold price is simply reflecting this reality.

Gold Investment Statistics:

Market Fundamentals:

- Virtually all the gold that has ever been mined still exists today. Total Above Ground Gold = 165,000 tonnes.
- Average Annual Mine Supply (15 years) = 2500 tonnes
- Average Annual Demand (15 years) = 4000 tonnes ("scrap" or "recycled" gold programs have reportedly filled the gap.)
- In 2009, Central Banks became net buyers (reversing from one of the largest suppliers to a substantial source of demand.)
- In 2009, privately held investment gold overtook government holdings for the first time.
- In 2009, investment demand exceeded jewelry demand for the first time since 1980.

Investment Flow:

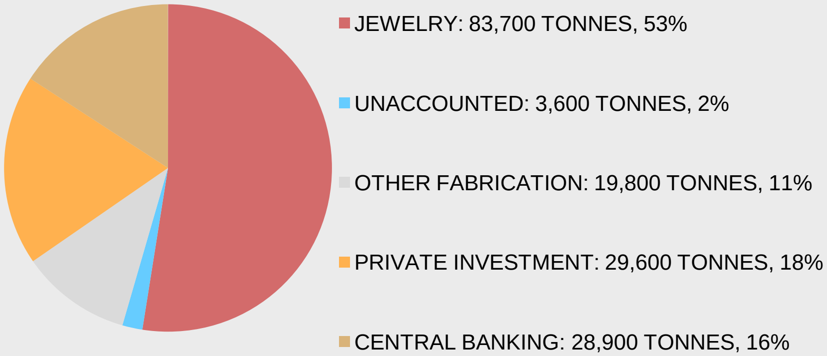
Despite the growth in gold and gold related investments, allocations to gold as a percentage of global assets under management remains very low at roughly 0.4%.

The actual amount of new investment into gold since 2000 amounts to about $250 billion.

Although this number may seem large, consider that over $100 trillion of new capital flowed into global financial assets over the same period, so gold's share of global investment flows remains quite low.

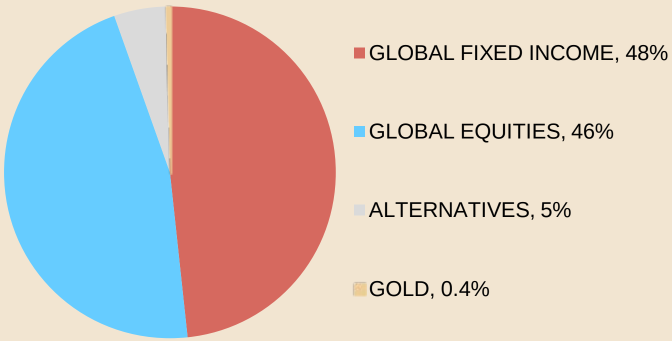
Considering gold's marginal share of investment flow, can it be truly considered to be in a bubble?

ABOVE GROUND GOLD



Source: World Gold Council

GLOBAL ASSETS UNDER MANAGEMENT



Source: World Gold Council

Diversification:

The concept of diversification is simple: *don't put all your money in the same place*. Instead, invest in a wide variety of asset classes that are unlikely to perform in tandem with each other in order to reduce the risk of a single investment having too much influence in eroding the value of the portfolio overall. Gold offers investors an attractive opportunity to diversify their portfolios.

Preservation of Purchasing Power

Inflation: Market cycles come and go, but over the long term, gold retains its purchasing power. Gold's value, in terms of the real goods and services that it can buy, has remained remarkably stable for centuries. In contrast, the purchasing power of many currencies has generally declined, due for the most part to the rising price of goods and services. Hence investors often rely on gold to counter the effects of inflation.

Currency debasement: Gold is employed as a hedge against fluctuations in currencies, particularly the US dollar. If the world's main trading currency appreciates, the dollar gold price generally falls. On the other hand, a fall in the dollar relative to the other main currencies produces a rise in the gold price. For this reason, gold has consistently proved to be one of the most effective assets in protecting against dollar weakness.

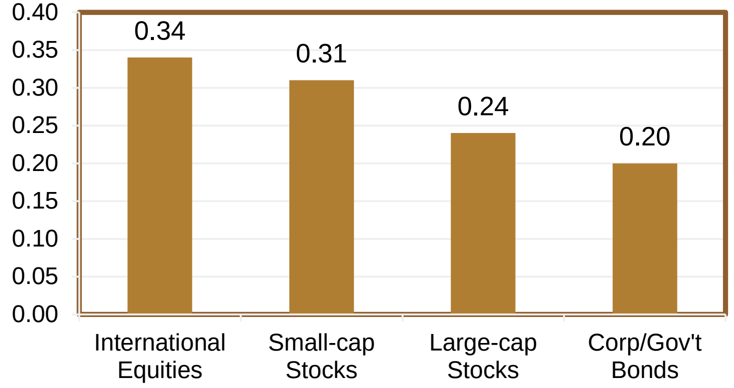
Low Correlation

As an asset class, gold is unique. 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.

Gold's ability to serve as a diversifier is due to its low-to-negative correlation with stocks, bonds and other assets. For example, the price of a stock depends on the earnings and growth potential of the company it represents. Likewise, the price of a bond depends on its safety, its yield, and the yields of competing fixed income investments. The price of gold depends on different factors including the supply and demand for gold, the status of the U.S. dollar, the state of inflation and interest rates.

Gold Can Be a Powerful Diversifier

Monthly return of gold as compared to other asset classes over the 20 year period ending 12/31/11



Source: FactSet, 12/31/11

Higher Returns / Less Volatility

As the chart above indicates, a portfolio with exposure to gold may generate higher returns with less volatility over time than a portfolio without exposure to gold. Gold is significantly less volatile than most commodities and many equity indices. It tends to behave more like a currency.

Assets with low volatility will help to reduce overall risk in a portfolio, adding a beneficial effect on expected returns. Gold also helps to manage risk more effectively by protecting against infrequent or unlikely but consequential negative events, often referred to as "tail risks".

Alternative Asset Benefits:

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Differentiation: As an asset class, gold is unique. Diversified portfolios which contain non-traditional or alternative assets such as private equity, hedge funds, real estate and commodities can be enhanced by adding an allocation to gold since gold produces benefits that differentiate it from other alternative investments.

Risk Management: Gold can improve portfolio risk-adjusted returns and reduce Value at Risk (VAR), even within an alternative asset portfolio. In other words, gold acts as a cost-effective form of protection that does not affect and sometimes benefits long-term expected returns while effectively reducing risk.

Liquidity: The gold market is deep and easily accessible, allowing investors to add a liquid asset to their portfolio at low cost. Given that gold is heavily traded in physical form, investors can remove credit risk. Additionally, because physical gold is not a liability, it is not subject to company risk or counterparty risk.

PORTFOLIO CHARACTERISTICS OF VARIOUS REAL ASSETS

Real Asset	Diversification Benefits	Risk	Liquidity	Management Costs / Holding Cost
Precious Metals	Very High	Low	High	Low
Timber / Forestry	High	Moderate	Low	High
Commodities	High	High	High	Low
Art & Collectibles	High	High	Very Low	High
Hedge Funds	Varies	Varies	Low	High
Private Equity (buy ins/outs)	Moderate	High	Low	High

Source: UBS

CHARACTERISTICS OF INFLATION HEDGING INVESTMENTS

	Gold	Commodities	Timber	Direct Energy	Real Estate
Correlation To Inflation	High	High	Medium	Medium	Medium
Correlation To Inflation Expectations	High	High	Low	Medium	Low
Diversification From Stocks And Bonds	Excellent	Excellent	Good	Good	Good
Volatility	Medium	High	Medium	High	Medium

Source: The Handbook of Inflation Hedging Investments

ADDITIONAL RESOURCES:

Strategic Asset Allocation and Commodities, Ibbotson Associates

Can Precious Metals Make Your Portfolio Shine, CFA Institute

The Real Value of Gold, Alliance Bernstein

The Elements of Investing in Real Assets, Cohen & Steers

Gold: alternative investment – foundation asset, World Gold Council

The Impact of Inflation and Deflation on the Case for Gold, Oxford Economics

Gold Investment Options:

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INVESTMENT	ADVANTAGES	DISADVANTAGES
ETFs **Mutual Funds**	▪ Exchange traded ▪ Prices are widely quoted ▪ Highly liquid investment ▪ Relatively cost efficient way to track the price of gold	▪ Paper proxy for gold ▪ Limited track record ▪ Not necessarily 100% backed by gold ▪ Gold weight backing each unit declines with the management fee ▪ May include other collateral besides gold ▪ May not accurately track the price of gold ▪ Brokerage fees/ premiums
Futures/Options	▪ Exchange Traded ▪ Deep and liquid market ▪ Investors need much less money to participate even on a large scale. '*Margined exposure'* ▪ Ability to sell short	▪ Artificial volatility & automatic instability ▪ Credit Risk / Default Risk ▪ Predicting and calculating a correct value is not straightforward ▪ Futures contain a built-in price differential which can obscure their value ▪ The *Stop Loss* can work against the investor (profoundly) ▪ Dwindling physical inventories backing this market
Mining Stocks	▪ Security that trades on an exchange ▪ Prices are widely quoted ▪ Highly liquid investment ▪ May yield dividends	▪ Share price volatility / Shareholder sentiment ▪ Industry/Exploration Risk ▪ Corporate Governance / Management Risk ▪ Geopolitical Risk / Currency Risk ▪ Limited transparency into bullion reserve base
Pooled Accounts	▪ Easily accessible ▪ Cost advantages	▪ Unallocated gold assigns substantial unsecured credit to the account provider and places the investor at material credit risk
Physical Bullion	▪ Investor retains full ownership of assets ▪ No Counterparty / Default Risk ▪ Tangible Asset with intrinsic value	▪ Requires secure storage ▪ Broker/Dealer premiums ▪ Fabrication and Transportation costs ▪ Discounted sales prices ▪ Liquidity may be problematic ▪ Uninsured

Structuring the Portfolio:

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ASSET ALLOCATION:

Gold has an important role to play in stabilizing the value of a portfolio, even where the conservative assumption of a modest negative real annual return is made. Studies suggest anywhere from 5-10% direct and indirect allocation to the asset class. The optimal allocation rises in a more inflationary long-run scenario, as well as in a scenario featuring weaker growth and low inflation.

IMPLEMENTATION DECISION:

The implementation decision depends on what the client wishes to accomplish with a gold position. Investors have the ability to allocate and diversify their portfolios across style, sectors and geographies: between asset categories and within asset categories.

	Liquidity	Low Cost	Direct Gold Ownership	Counterparty Risk
Gold ETFs	Yes	Yes	No	Yes
Futures and Options	Yes	Yes	No	Yes
Gold Mining Stocks	Yes	Yes	No	Yes
Coins/Jewelry	No	No	Yes	No
Strategic Gold	Yes	Yes	Yes	No

Financial Claims On Gold:

Financial claims on gold provide diversification and protection against inflation, as well as direct exposure to the asset class. Over the past ten years, a growing number of paper-gold derivative instruments have been created while simultaneously, an ever increasing amount of physical gold has been taken out of the market. These conditions are similar to a short squeeze on a stock. The Gold Market is susceptible to a similar type of squeeze as the metal gravitates to investors who have little intention of lending or selling it at current prices, and traditional sources of supply (central banks and hedging producers) step back from the market as providers of liquidity. Holders of paper-based instruments that derive value merely from tracking the gold price may not realize expected gains in the event of such a squeeze.

Financial Claims On Gold Production:

Gold-producing companies' shares allow returns through profitable operations, as well as gold price appreciation, but they also add the risks associated with those operations. These risks include the uncertainty and cost of mineral exploration and acquisitions and the uncertainties and unexpected problems and delays in developing mines. In addition, the business of precious metals mining is subject to numerous risks that could adversely impact such companies. So too, the securities of gold companies, which are often more speculative in nature, tend to be more volatile in price.

Physical Gold: Direct investment in physical gold provides inflation and tail risk protection, but it has storage and high transaction costs, is relatively illiquid, and is subject to loss (uninsurable). As such, it has its own set of risks that financial assets do not. Many private investors who set out with the intention of buying bullion have ultimately been frustrated to find that what ought to be a simple and cost-effective transaction is rarely either. Most reach the unsatisfactory conclusion that there is no simple way for them to purchase, hold, manage and sell physical bullion with ease, security and at fair prices.

Strategic Gold Clear Title Accounts:

Strategic Gold Corporation delivers transparency, ease of transaction and substantial price advantages to you by giving you the ability to purchase and sell gold at the Spot Market Price in the Primary Bullion Market. This unique account structure delivers a cost-effective and secure way for investors to directly own investment grade gold and silver with the same convenience, accessibility and liquidity as a financial security.