CASTLEMOORE INVESTMENT NEWS

GOLD STOCKS VS GOLD BULLION

By

Robert Sneddon, President,

Some time ago we began purchasing units of bullion for our more conservative and moderate clients. It made me wonder whether our clients or other investors knew that there are some differences between buying gold stocks and buying gold bullion – yes they are not the same thing. In explaining what they are and how they translate into unique opportunities there is also general investing information to pass along. A good place to start would be to understand how the stock market prices any security in the first place.

The stock market is always about economic conditions six months to a year in the future. This may seem to be an odd concept for some investors, especially when we hear about an asset running up in value over a short period of time, like a week or a couple of days. Occasionally, this is simply a re-pricing of an undervalued investment. More public information or new developments can cause undervalued assets to be brought to their true market value. But more often than not when something rises extraordinarily in this way it is really mass psychology at work - a lemming affect.

The old axiom of "buy the rumour, sell the news" is not a time-tested phrase for nothing. If you are an investor who pays attention to individual securities or who watches the market more closely you'll understand this lesson when you've watched a security run up for a few days, particularly following a "news release" or newspaper headline, only to fall back, sometimes even below the break out price. The same can apply to an investment which drops from apparent emotional selling.

If you do not watch things closely, preferring to keep your eyes on other things in your life, these types of events may only can catch your attention as an echo. This may cause you to call your advisor to tell them that you "heard that so and so investment was going through the roof. What do you think about some for my portfolio?" Hopefully, your advisor refocuses you on the *method or technique* that your portfolio is being managed with and that's the end of it.

Gold bullion is valued each day by the world on various exchanges much like oil, grains, unleaded gasoline, or one of my vices, the cocoa bean. All of them are all base, essential or pure physical items. Despite getting often lumped in with the general commodity arena as the list would have you believe, bullion is not a commodity. It's really a currency. Unlike a gold stock, bullion is not surrounded by so many other 'particular' influences. There maybe global issues that effect it, but they tend not to be as sticky or convoluted or specific as those of a gold stock.

When you buy a gold stock today you are making an investment decision

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Gold continued

about the profitability (or progress towards it, in the case of an exploration company) of a company from between six to twelve months out in the future. The product they sell just so happens to be gold. The price of the company stock will move like any other company's will, but with an obvious relationship to the price of its "product", gold. If a company mines gold but can't make a profit doing so what you own at the end of the day is unfulfilled potential. There are many factors to consider when investing in gold stocks compared to investing in straight bullion that need to be assessed such costs per ounce, labour, environmental, or country-risk concerns (political situation for example), and reserve assessments. Ever heard of Bre-X? I guess this would fall into the "Do you have any reserves at all?" category.

Gold stocks will also lead the price of bullion. They will run ahead of gold bullion moving up and correct before the actual asset does. This is part of the "future" aspect of the securities markets. Gold does trade on its future and some emotion, but it tends to revert to its mean or its trend more efficiently. With specific stocks you may get unfavourably surprised by events. You may also find a stock that is undervalued or has a big find and profit nicely. Gold stocks tell better stories.

Investing in gold bullion on the other hand, is an investment decision based on the actual prospects for the price of gold from today onwards. This does not mean that bullion is not for investors with longer term horizons. If you had purchased bullion several years ago as a middle-of-the-road investor you would probably still hold it now. Furthermore, sometimes investing in bullion can lend itself to simpler model construction and management, including buying and selling.

Historically, investing in bullion has meant additional costs to store the physical bars, but today we have someone else do that for a fraction of what are called "carrying costs". Traditionally, you bought some and stuck it in your safety deposit box or another secure place.

Now all the reasons or stories why gold may go up or down weren't discussed here, such as inflation, a US dollar substitute or global crisis, but that wasn't the point. That alone could take up our whole letter and it may just be a bunch of blather anyway. Frankly, at CastleMoore we don't pretend to know the complete reasons why gold – bullion or stocks - moves like it does, we identify the trends and participate according to our clients' individual portfolio objectives.

Investing directly in gold bullion vs. a company that mines it has two distinct qualities: transparency and longevity. We already discussed its transparency. Its longevity is derived from being the oldest continuous currency the planet has ever known.■

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WHAT IS AN INVESTMENT COUNSELLOR?

By

Ken Norquay, CMT and Partner

Most Canadians have their assets managed by one of four types of advisors:

- ✦ **Stock Brokers,** who may be with either a large national bank-owned or smaller regional firm.
- ✦ **Financial Planners**, who mostly offer mutual funds, insurance and GICs;.
- ✦ **Banks**, who offer their own mutual funds, insurance and GICs.
- ✦ **Insurance Company Brokers, w**ho have access to segregated mutual funds annuities and universal life insurance

The common thread amongst these advisors is they are all on what is called the "sell side" the client-advisor relationship.

The sell side just does just that for its clients: it sells investment products to them. The other side of the coin is the "buy" side in which advisors buy investments *for* their clients, sort of like a personal investment shopper. The sell side is most often transaction-orientated. That is, if an advisor sells more products to their client they make more money. There has been a growing trend on the sell side to wrap the complete management of a client's portfolio into one all-inclusive fee to reduce the focus on transaction costs or commissions. This is what the term "wrap account" means.

Investment counsellors are on the buy side of the relationship, charging a fee for their independent advice and discretion. This fee is usually based on the amount of assets under management. They also manage client assets tip to tail making all investment decisions after a thorough initial interview process which culminates in an "investment policy statement". This document out-

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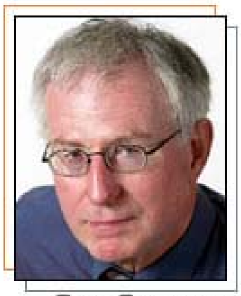

BILL CARRIGAN

ANNOUNCEMENT

Robert Sneddon, President, is pleased to announce that Bill Carrigan, the author of Getting Technical Information Services, business writer for the Toronto Star, instructor for the Canadian Securities Institute and frequent guest of Report On Business TV, has joined **CastleMoore Inc.**

Bill began his career in the capital markets in the early 1980's. He assisted MarketFax Information Service and Southam Communications in the development of technical analysis software. Getting Technical Information Services was formed in 1997 by Bill Carrigan. This market information service has a devote and large following amongst professional advisors who use his timely and reliable information to help them manage their client assets at some of the largest firms in Canada.

CASTLEMOORE MODEL PERFORMANCE

As at **MARCH 31, 2006** our model performance since inception (JULY 1, 2005) for our Class Moderate Portfolio was **13.6%.** This return is for a typical investor who was willing to tolerate a "moderate" degree of risk in order to gain a higher return than offered by treasury bills. The actual return to any client of our firm over the period in question depended on where he or she was on our proprietary risk/return matrix as well the date the account was opened. In providing these complete asset management returns to our clients, we exited the CDN and US markets twice for in favour of cash which paid almost 2%. We remain invested in Japan, Canada, and gold bullion. **Sheldon Liberman**

INVESTMENT COUNSELLOR CONTINUED

lines all the conditions for the management of the clients' investments, including client financial statements, account objectives and time frame, and risk tolerance. The standard fee for this type of arrangement is 1.25% of assets plus trading costs: the client can negotiate commissions with their broker or a discount broker. Unlike on the sell side of things, counsellors do not actually custody or hold the account. Investment counsellors execute transactions through a custodian, such as National Bank. The custodian keeps track of all transactions, produces a monthly account statement and year end tax reporting. This arrangement provides the counsellor with authority to make investment decisions in the investor's account, but unlike on the sell side, does not allow the counsellor to receive funds or securities directly. There is a "wall of protection" that protects the client's investments and allows only the counsellor's advice and trading instructions to filter through.

Why do certain investors seek out investment counsellors? They want unfettered advice that is not tainted by the conflict of interest that plagues the sell side of the investment business. Investment counsellors do not have products to sell or sales quotas to meet.

Some counsellors take this "hired gun" approach a step further by working with the client's accountant, tax lawyer or financial planner. If clients have a good relationship with their accountant or seek out a pure financial planner, they end up surrounding themselves with professionals hired to perform distinct and isolated tasks. In the long run, everyone benefits, most importantly the client, from focused advice.

The famous market strategist Bernard Baruch (1870-1965) had this to say about Investment Counsellors:

> *My advice to investors (who cannot give full time to a study of investments) is to seek out some trusted investment counsellor. The emergence of this new profession of disinterested investment analysts, who have no allegiances and whose job is to judge a security on its merits, is one of the most constructive and healthy developments of the last century."*

If you have not dealt with a counselor or would like to know more, contact us or the Ontario Securities Commission for more information – it may be the best call you make for your wealth management.

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INCOME TACKS

By

Sheldon Liberman
Portfolio Manager

It's tax season again, and if you're like most taxpayers, one of the following is true:

1. You're done your taxes early to be done with it and are now reveling in the fate of those who fit one of the descriptions below; or **2.** You're reading this column three weeks after you've received it, because after all, with taxes due, who has time to read newsletters?; or **3.** As you're reading this newsletter, you are reminded that you have taxes due and you exclaim {insert imaginative interjection here}; or **4.** You say out loud, "D-uh! What are taxes?"

If you fall into category 3 or category 4, I would suggest that reading a newsletter is not your top priority at the moment, but for those who have the time…

Taxes play an important role in investment decisions, though often the observed behaviour would seem to contradict that point.

We contribute to RRSPs and the like because, given the time value of money, it's better to pay a dollar in taxes sometime in the future than to pay that same dollar today.

We often chose to buy stocks over bonds because dividends and capital gains are taxed more favourably than is straight interest, and often we choose to put money towards our mortgage rather than into an investment portfolio because increases in equity in our homes, whether by paying down the mortgage, market revaluation, or the sale of a home for gain generates no tax consequence at all.

Stocks that have declined during the year will often sell off in mid-to-late December, as investors generate tax losses to offset gains realized throughout the year. This is generally a highly recommended strategy; even if you wish to hold on to the security in question, you can replace it with something similar (for instance, swap one bank or gold company for another), or buy an option on the security you've just sold.

Portfolio managers as well are often affected by December sell offs, since we may hold in our portfolios securities that are artificially depressed, thereby reducing performance numbers right at the time least availing: year end.

I generally smile politely while cringing silently when someone tells me that he or she is unwilling to sell a particular stock because he/she has lost money on it and is waiting for it to go back up before selling.

Uh…why?

Tax consequence (and hedging) aside, the only stocks you would want in your portfolio are the ones you think will outperform the ones you exclude. Does that clunker of your really make the grade?

Taxes considered, isn't it better to take the loss and still be able to deploy the cash received more effectively?

Another point of hesitancy to sell pertains to stocks that have given you substantial gain and one you are loathe to sell for fear of the tax sting when you do. There are, of course, ways of dealing with them as well, but—what do you know?—we're out of space. Telephone number conveniently provided below.

<u>Some of the best things ever said about taxes;</u>

Death and taxes may be certain, but we don't have to die every year. (Unknown)

The art of taxation consists in so plucking the goose as to obtain the largest amount of feathers with the least amount of hissing. (Jean Baptiste Colbert)

There is a difference between a tax collector and a taxidermist -- the taxidermist leaves the hide. (Mortimer Caplan, former director of the IRS)

The United States is the only country where it takes more brains to figure your tax than to earn the money to pay it. (Edward J. Gurney)

Income Tax has made more liars out of the American people than Golf. (Will Rogers)

Governments last as long as the undertaxed can defend themselves against the overtaxed
(Bernard Berenson)

If Patrick Henry thought that taxation without representation was bad, he should see how bad it is with representation. (Farmer's Almanac)

A fine is a tax for doing wrong. A tax is a fine for doing well. (Unknown) ■

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