

“Gold pays off when you need it.”

Portfolio manager Benoit Gervais discusses gold’s current run, the Dow Jones/Gold Ratio, gold’s role in a client’s portfolio and the merits of precious metals funds versus bullion funds.

From the gold coins issued 5,000 years ago by Egyptian Pharaohs, to the pouring of a gold bar today, the precious metal has been seen as a “store of value” in times of trouble. Uncertainty now surrounds the \$12 trillion that governments and central banks have pumped into the global economy since the onset of the recession, and whether so much excess cash flooding through the financial system will trigger a surge in inflation. Historically, investors have been able to protect themselves against inflation and political upheaval by adding gold to their portfolios, and that is something Benoit Gervais, manager of the newly launched Mackenzie Universal Gold Bullion Class, believes investors should be doing now. “We’re not calling for hyperinflation, but you still want to make sure your portfolio is protected,” says Gervais. “That’s why we believe investors should diversify into hard assets like gold. It’s quoted every day, it’s liquid and the price is trending significantly higher.”

The last time gold moved sharply higher was in the run-up to 1980, when inflation, oil-price shocks and the threat of war with Iran, pushed gold to a record \$850 an ounce. It then went into a long bear market, falling to \$256 an ounce in 1999. Following the 9/11 attacks, (perhaps as an indicator of the financial

crisis to come) gold began to rally and traded at a record \$1,140 an ounce in November of this year. In addition to rising on inflation fears, gold is caught in a tightening supply-demand equation. On the one side, gold production is falling, while at the same time, central banks, fearing their massive US-dollar holdings will continue to fall in value, are buying gold. China alone, which holds more than \$1 trillion in US currency, has almost doubled its gold holdings to 1,054 tonnes. Explains Gervais: “Many emerging market countries are saying that with the mess in the American economy, their US dollars are worth less and less. So increasingly, they are turning to gold.”

To take advantage of the growing demand for bullion, and to lower the volatility in their portfolios, Gervais says investors should have at least a 10% weighting in gold. To accomplish this, and avoid the equity risk associated with owning mining stocks, investors can now choose to buy gold bullion and other precious metals directly through Mackenzie Universal Gold Bullion Class, which will hold at least 80% of its assets in gold bullion, or gold certificates. “More and more investors and their advisors are understanding the importance of investing in gold,” says Gervais. “It’s not a trade, it’s insurance.”

To underscore how gold reduces volatility in a portfolio, Gervais uses the Mackenzie Universal



Benoit Gervais

Continued on page 3

Continued from page 1

Precious Metals Fund, which has 74% of its assets invested in gold mining companies, as an example. Although the Universal Precious Metals Fund has been more volatile than gold, it has returned 17.3% compounded annually over the last 10 years (as of October 31), compared to 9.8% for gold (in \$Cdn). But Gervais, who is co-manager of the fund, says when he blends a 10% weighting in the Precious Metals Fund with the MSCI World Index, it actually reduces volatility and increases return. “I know it seems counterintuitive and we found it surprising,” says Gervais. “But volatility came down because gold tends to go up during a major crisis or during inflationary times, and goes down less than other assets in deflationary times. So as an insurance policy, gold pays off when you need it.”

That’s why investors, says Gervais, who want to take some of the risk out of their portfolios, while still owning an asset that will do well in an inflationary environment, should consider investing in gold through Mackenzie Universal Gold Bullion Class. In addition to holding gold, the fund can also hold silver, platinum and palladium to further diversify risk. And as part of his overall portfolio strategy, Gervais will be able to invest a small part of the fund in the shares of gold mining companies, including those in the exploratory phase. “This allows us to take part in the discovery process,” says Gervais. “If it costs \$100 an ounce to find a gold deposit and it’s selling at \$1,000 an ounce, even taking the costs of extraction and processing into account, that’s a pretty good business whether bullion goes up or down.”

In effect, Gervais says investors in Mackenzie Universal Gold Bullion Class, will be inoculating their portfolios against inflation and protecting their purchasing power, at a time when the value of paper currency in many countries is becoming increasingly suspect. “Worldwide, the amount of money in circulation is increasing at a very, very fast pace,” explains Gervais. “That excess cash could trigger inflation and higher interest rates, which may hurt some sectors of the stock market. So it’s important to include gold and other precious metals as part of a diversified portfolio.”

In fact, Gervais believes if you salted away a gold bar today, while inflation erodes the value of other assets

including personal income, you would probably be able to sell the gold in the future at a considerable gain. For example, he says investors who bought gold bullion in 1999 would have almost quintupled their money over the following ten years, when compared to the Dow Jones Industrial Average. “We think the Dow and the stocks that are included in the index are a good measure of what things cost in the world, such as health care and financial products,” says Gervais. “So what we’re saying is, if you owned gold in 1999, you would have far more purchasing power today than ten years ago. And we think you could see a five-fold increase in your purchasing power from here.”

The Dow Jones Gold Ratio, which has tracked the relationship between the price of gold and the Dow over the last 100 years, supports Gervais’s bullish outlook on bullion. The ratio is based on how many ounces of gold it would take to figuratively “buy” the Dow at any given time. For example, if the Dow was trading at 1,000 and gold was trading at \$1,000 an ounce, it would take one ounce of gold to purchase the index on a 1-to-1 ratio. Or, if the Dow was at 6,000 and gold was at \$3,000 an ounce, it would be trading on a 1-to-2 ratio. In real terms, in July 1999, at the height of the dot-com bubble, gold was trading at \$256 an ounce and it took 44 ounces to buy the Dow, pegging the Dow Jones Gold Ratio at 1-to-44. By November of this year, the ratio had shifted to almost 1-to-9, as gold climbed to record levels while the Dow continued to trade well below its all-time high.

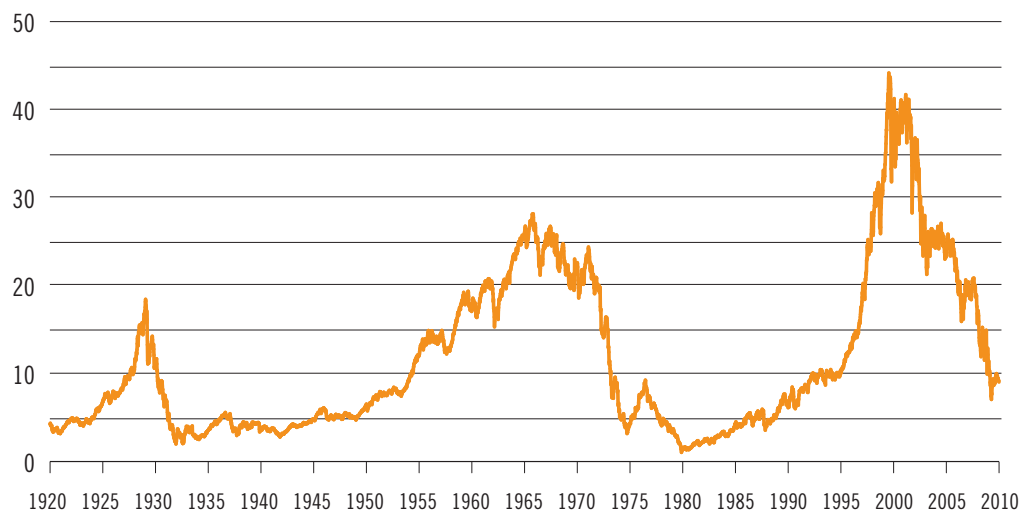
“There have been three times in the last 100 years when gold and the Dow traded on a 1-to-1 ratio,” says Gervais. “So if we go back to a 1-to-1 or 1-to-2 ratio, gold could be trading over \$6,000 an ounce.”



The Dow Jones Gold Ratio is also suggesting higher prices are coming at a time when gold production, which peaked at 2,600 tonnes in 2001, is slowing. This is an important fact to note, says Gervais, who likes to draw a parallel between the price of gold and Picasso's paintings. There are a finite number of Picassos in the world, and when buyers have lots of money during inflationary periods, they will bid the price up. The same holds true for a scarce commodity like gold – in fact, all the gold ever produced (approx. 146,056 tonnes) could fit into two Olympic-sized swimming pools, and it's getting harder to add to that amount. "Because there is only so much gold around, as demand continues to rise, so will the price," says Gervais: "That's why, in inflationary times, we believe investors should own gold in their portfolios."



Ratio of Dow Jones Average/Gold Commodity Index, 1920-2009



If gold does surge higher, how will gold-mining stocks fare? Gervais says, even though Mackenzie Universal Precious Metals Fund has outperformed gold by a considerable margin over the last ten years, he believes gold bullion could take the lead if central banks are forced to sharply raise interest rates to fight inflation. Explains Gervais: "If we get strong inflation, multiples will compress and equities could take a time-out, while bullion keeps on going higher."

Fund checklist

Name: Mackenzie Universal Gold Bullion Class

Holdings: A minimum of 80% and up to 100% gold; may also hold some silver, platinum, palladium or precious metals equities.

Currency: Ability to actively hedge currency

Performance, Mackenzie Universal Precious Metals Fund, as of Nov. 30, 2009: 1 yr. 111.2%, 3 yrs. -0.4%, 5 yrs. 11.9%, 10 yrs. 19.5%