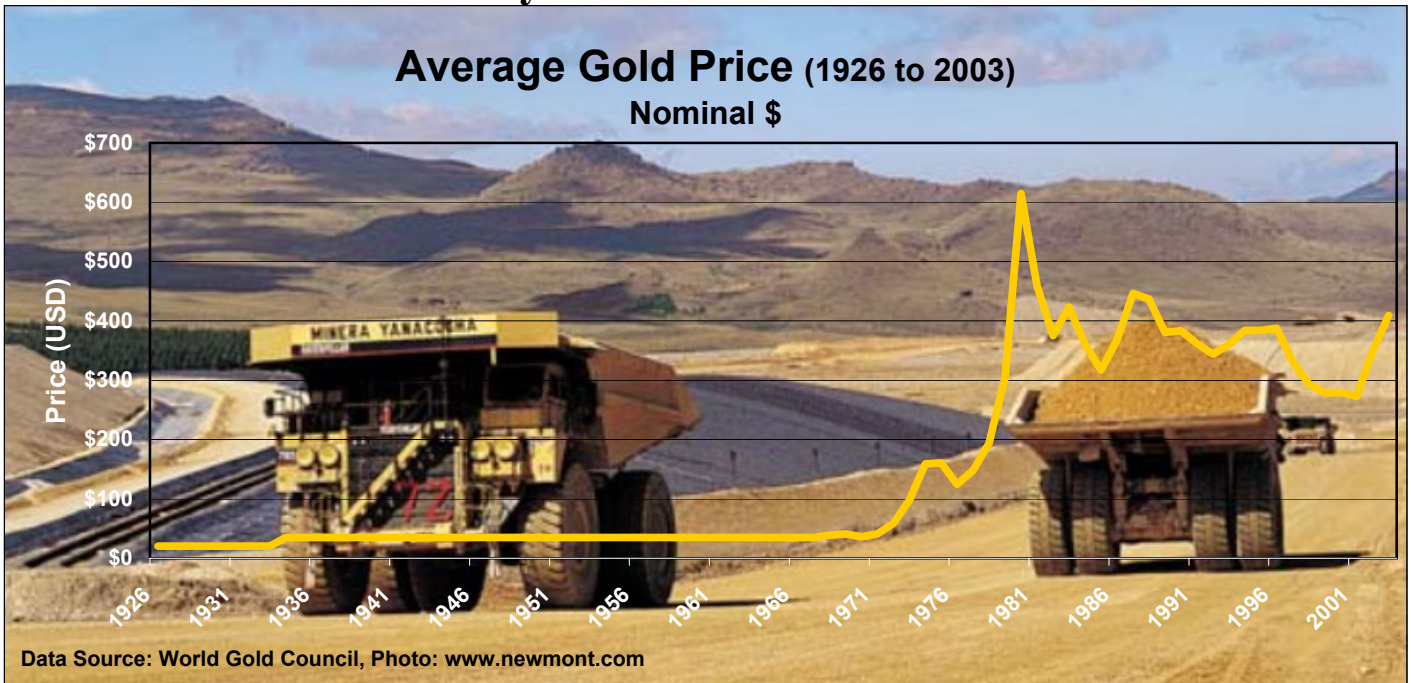


March 2004 Commentary

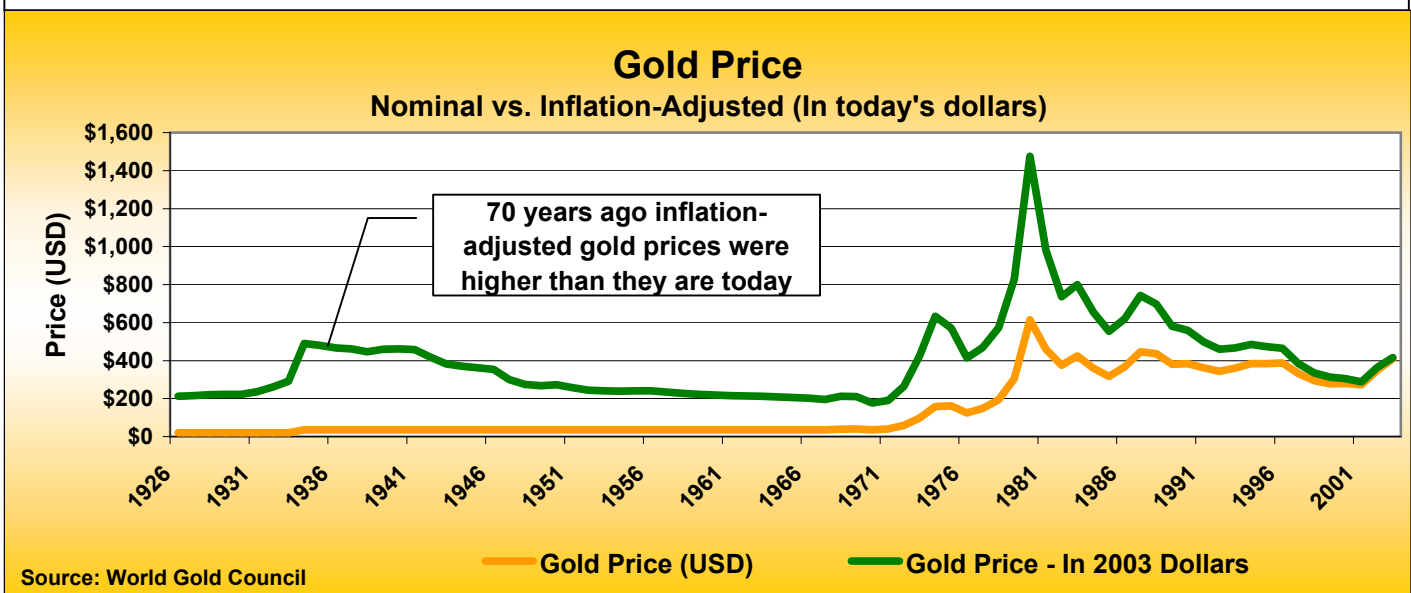


"Dig where the gold is...unless you just need some exercise."

John Capozzi

Gold prices have had plenty of exercise over the last century. Beginning the 20th century at \$20.67, gold stayed at that level until January, 1934, when a Presidential Proclamation made the dollar convertible to gold at new price of \$35/oz. This price level was maintained until 1968 when gold prices began to float. Central banks continued to transact among themselves at the official price, but the private sector was free to buy and sell gold at any price. Gold prices initially rose and only fluctuated modestly around the official price. Then in 1971, gold was no longer pegged to the U.S. dollar. Gold prices rose 400% over the next four years. After a brief pause, the price of gold rose dramatically in 1979 and 1980, reaching a record of \$870/oz. in 1980, coinciding with the massive increase in oil prices over those same years (as discussed in last month's Commentary). Over the next 20 years the price of gold declined, falling below \$300/oz. in 2001. In recent months gold has regained some of its luster, again crossing \$400/oz.

The chart below depicts the price of gold and an inflation adjusted price of gold (in today's dollars). Adjusting the price of gold for inflation provides for a better comparison of prices over time. For example, today's price of gold (roughly \$400/oz.) is lower than the price levels seen in the late 1930s. This means that gold prices have not kept pace with inflation over the last 70 years. The graph also shows that the real price of gold has doubled since 1971. On the other hand gold has lost more than 75% of its real value since its 1980 price peak.



Inflation-Adjusted Growth of \$1 (1926 to 2003)



Source: World Gold Council, Photo: www.newmont.com

Gold As An Investment

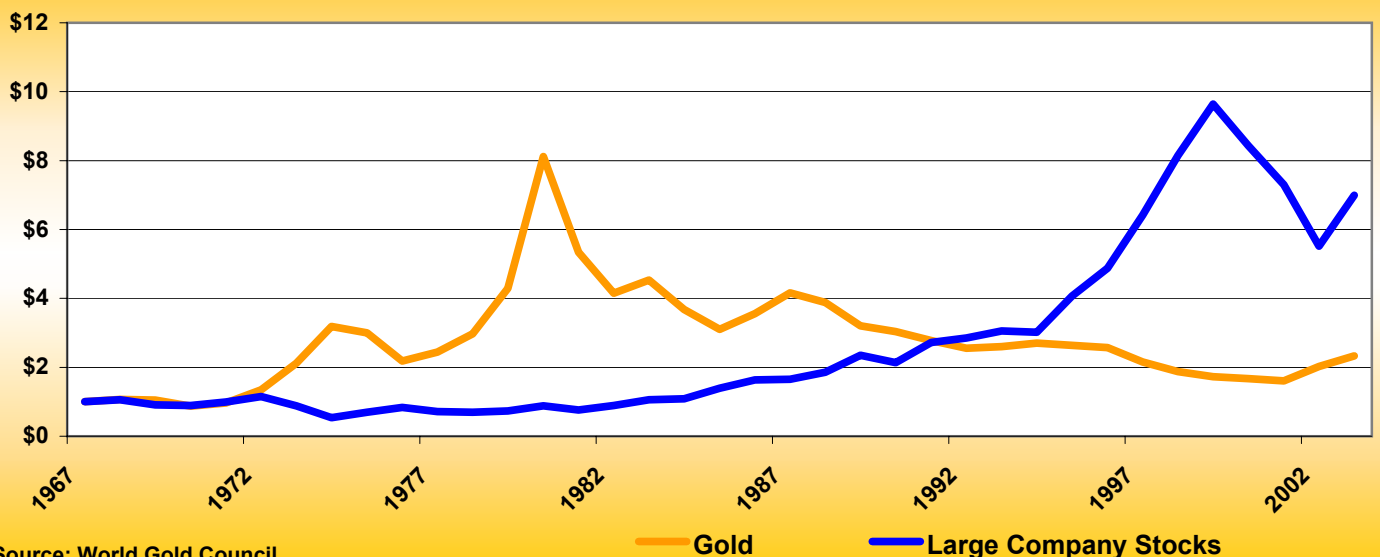
Over the last three years the price of gold has risen more than 50% from its lows. The rapid price increase has caused excitement among speculators and prompted investors to consider the merits of gold as an investment. While gold certainly adds additional diversification to a portfolio (i.e., its price movements are uncorrelated with other major assets classes such as stocks, bonds, cash, and real estate), the long-term performance of gold as an investment is poor.

Since 1926 \$1.00 invested in gold is now worth \$1.90 after inflation (see chart above). This increase equates to a real return of only 0.8% per year. While this does outpace the return on cash (U.S. Treasury Bills), whose real return was 0.6% per year, the performance of gold underperformed both bonds and stocks. U.S. Government Bonds produced a real return of 2.2% since 1926 and large company common stocks (S&P 500 Index) delivered a 7.2% annual inflation-adjusted return. A \$1.00 investment in stocks would be worth \$219.44 today (see chart above). Over the long run, investing in gold has not delivered very impressive returns.

Over shorter periods of time, gold can certainly perform very well. Since 1968, gold actually outpaced the real returns on stocks until 1992 (see chart below). Lately, a weaker US dollar has led to higher gold prices. The challenge facing gold investors is knowing just when the precious metal will deliver outsized returns.

"Recommend to your children virtue; that alone can make them happy, not gold." Ludwig van Beethoven

Inflation-Adjusted Growth of \$1 (1968 to 2003)



Source: World Gold Council

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