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Stocks and real estate have continued to be beneficiaries of the Federal Reserve System's monetary policy (crank up the printing presses and print more dollars). Please refer back to my Winter Newsletter for a detailed discussion of the "Bernanke Bubble". Since January 1st, the US stock market (as measured by the S&P 500) is up 6.93%* and the real estate market (as measured by IYR) is up 5.07%**. Your portfolio includes both various stocks and real estate holdings, so continue to enjoy the ride with equities and real estate.

Germany recently repatriated 300 of the 1500 tons of gold it currently stores with the Federal Reserve System and all 374 of the tons they store in France. This is not the first time one of our allies has demanded that we give them back their Gold. In the late 1960's, as a consequence of the Vietnam war, spending and inflation ramped up in the US. As a result, the world began to lose faith that the United States would be able to cut it's budget and reverse its trade deficit (sound familiar?). Charles DeGaulle traded $150 million US dollars for an equivalent amount of US gold held in Fort Knox. Spain did the same thing with $60 million US dollars, and a number of other nations soon followed suit. In August of 1971, to stop the run on Fort Knox, President Nixon ended the practice of allowing anyone being able to trade dollars for gold***. At that time, Gold was at $38 / ounce; today Gold is around $1,600 / ounce, while the dollar has lost roughly 30% of it's value.

Another fact to consider is that China bought 95 tons of gold in December and India bought 100 tons of gold in January****. Russia has also been loading up on the precious metal. Do these countries know something we don't?

Most people buy Gold and Silver with the expectation that they will make a quick fortune on it. So when they see their gold and silver holdings losing value, as they have over the past several months, panic sets in. They begin to question why their financial advisor invested a portion of their portfolio in "dead money". One of the things that makes wealthy people wealthy is that they utilize hedging strategies to protect their wealth, savings, and investments from unforeseen events. Owning gold and silver is an example of a hedging strategy designed to protect your wealth from economic events such as inflation (remember the double digit rates of the 1970's) or a stock market collapse (such as the tech stock collapse of 2000-2002 and the financial crisis in 2008) where the stock market lost a combined 90% of its value. Just as you insure your house, your car and your life, we will always own gold and silver in your portfolio because they serve as "financial catastrophe" insurance. Typically, 5-10% of your total portfolio will be in gold (IAU), silver (SLV), and one or more of the mining positions, such as USAA precious metals (USAGX), Hecla Mining (HL - silver mine), or Gold Miners Index (GDX).

John Buetow

* Historical Quotes. S&P close of 1462.42 on 1/2/13 and a close of 1563.77 on 3/26/2013
** Historical Quotes. IYR close of 65.72 on 1/2/2013 and a close of 69.05 on 3/26/2013.
*** Growth Stock Wire. January 26, 2013
**** S&A Digest. February 23, 2013