

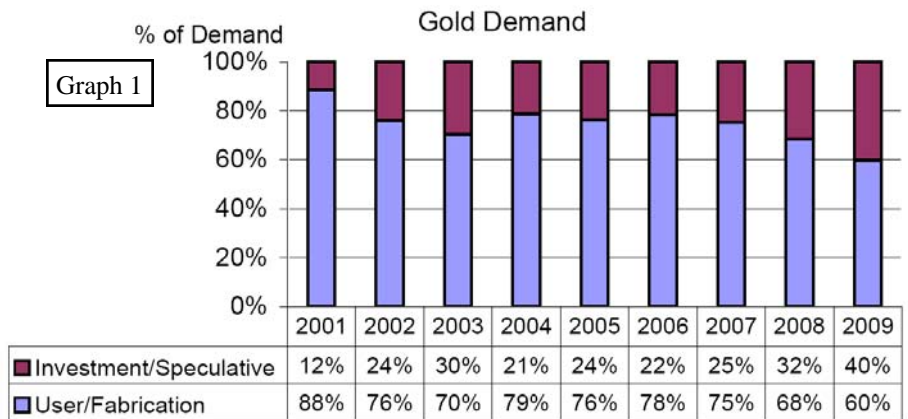


Goodman Financial Corporation Special Research Report

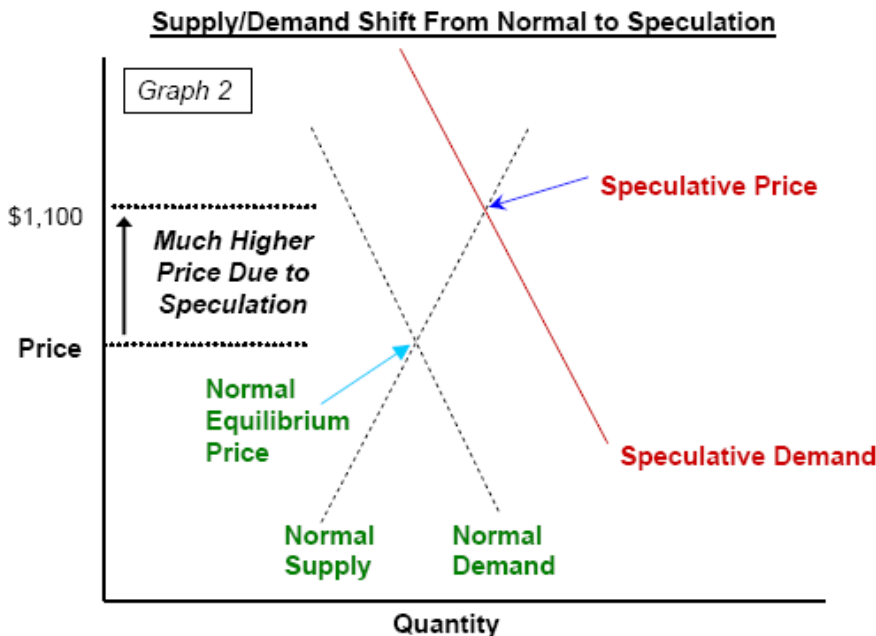
The Gold Bubble: Fear, Speculation, and Collapse

Gold is in the midst of an “asset pricing bubble”. Today’s gold buyers are primarily motivated by a combination of fear and speculation. Current pricing of gold does not reflect a rational relationship between gold’s supply and demand.

The demand for gold is characterized in terms of fabrication and investment. Fabrication or “user” demand represents physical gold utilized in jewelry, industrial, dental and other miscellaneous applications. This physical demand is met through either mining or recycling of gold already in existence. Investment or “speculative” demand is based on those seeking a defensive posture, often from an emotional and unsupported expectations of value. Causes include sensationalized news reports, political agendas, or a view that extreme instability in financial markets will persist long-term. Chart 1 clearly displays a trend of lower fabrication and higher speculative demand during this decade. ***In fact, the speculative demand is estimated to represent about 40% of total demand in 2009 versus 12% in 2001.***



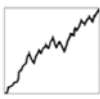
From a price perspective, speculative demand artificially increases the price even though quantity demanded by users is relatively stable. This is illustrated in Graph 2. In essence “users” of gold are not demanding more gold and are not a supporting force in the rising price of gold.



Buyers and sellers of gold have created an artificial demand. They are exchanging existing gold and driving up gold prices without regard to the user demand for gold. This is analogous to what occurred with oil prices in 2008 (recall \$145 per barrel oil).

As financial and economic conditions improve, we anticipate a price collapse of gold as speculative demand diminishes.

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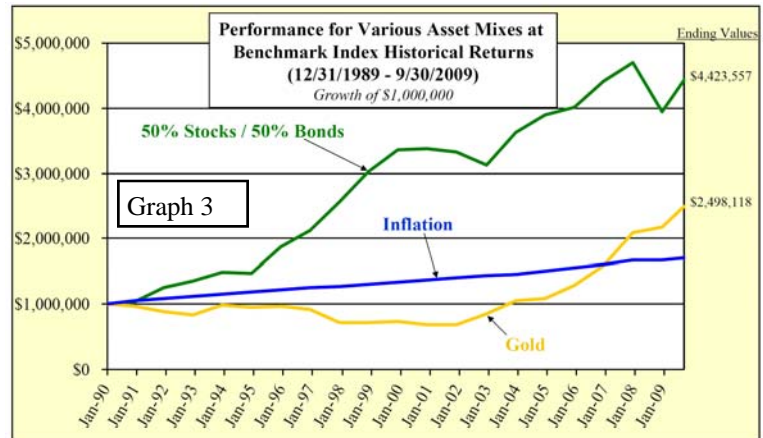
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Gold as a Hedge

A hedge is a position established in one market to offset an undesirable risk exposure in another market. Some view gold as an inflation hedge. This conclusion is not merited by trends over the last 20 years. Only recently has gold caught and surpassed inflation for the 20 year period. It has yet to catch up to a portfolio mix of bonds and stocks held over the same time period that included two sharp equity market downturns. See the Graph 3 to the right.

Viewed from a 30-year perspective, gold failed to keep pace with inflation. In 1980, gold hit a then-record \$873 an ounce which would be \$2,287 in today's dollars, according to the U.S. Labor Department's inflation calculations and Bloomberg (10/19/09). Gold has not proven itself to be an effective inflation hedge over extended time periods.



This chart shows the hypothetical growth of \$1,000,000 invested at 12/31/1989 in sample asset mixes/portfolios. Where applicable, interest and dividends are assumed to be reinvested. The equity performance is represented by the S&P 500 Index. The Bond performance is represented by the Barclays Capital U.S. Intermediate Government/Credit Bond Index. Gold's performance through 1994 is represented by the World Gold Council, and by Kitco.com (gold price findings of the London Bullion Market Association) thereafter. Inflation represents the Consumer Price Index for All Urban Consumers. Please note that an investor cannot directly invest in a market index without some cost and that past performance is no guarantee of future results.

Gold As An Investment

Investment decisions are supported by a “comprehensive” assessment of an investor’s circumstances and financial market expectations, whereas, speculative decisions are supported by “isolated” investor actions and a narrow financial market focus. The previous sections described speculative transactions and hedging. Investment decisions *require* an analysis and comprehensive evaluation of numerous factors including other portfolio holdings along with an understanding of an investor’s financial goals and objectives. Unlike many other types of investments, gold does not pay interest or dividends. Gold returns are restricted to price appreciation, and gold offers less liquidity than equities or other securities. For investors willing to accept the speculative risks of owning gold, a small percentage portfolio allocation may be appropriate. This would be done to enhance asset class diversification.

Conclusion

Supply and demand fundamentals do not support gold’s pricing and gold has a poor track record of success as an inflation hedge. Fear and speculation are responsible for gold’s elevated price level. Gold’s current pricing is not justified and owning gold now is not for the risk adverse.

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