

## MARKET COMMENTARY

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### The Smart Money Series: Paul Tudor Jones – The Great Liquidity Race & Gold

As part of the *The Smart Money Series*, a look at what the world's most successful institutional money managers & hedge funds are doing, *Anomalous Investments* ("AI") highlights some selective excerpts from the October 15<sup>th</sup> letter of legendary investor, Paul Tudor Jones and his Tudor Investment Corporation. Its market outlook and macro perspective was entitled *The Great Liquidity Race: Wall of Money Climbs Wall of Worry*.

#### *General Comments*

- The forceful policy response to avert depression tail risks posed by the financial crisis has likely unleashed a wave of liquidity which is probably greater than that of 2001-2003.
- Tudor's job is to identify the best performing assets of this "Great Liquidity Race". At present, those assets are gold, emerging market equities denominated in local currencies, and commodity related stocks.

#### *View on US Dollar*

- The US dollar will continue its path lower as global flows seek high yielding assets and sovereign reserve managers diversify their growing US dollar-based reserves. Reserve accumulation and diversification trends will be persistent and mutually reinforcing with the direction of the dollar.

#### *View on Gold*

- During times of overt monetization, hyperinflation, or when questions arise about the stability of the banking system, gold prevails as a more reliable store of value. Gold has an economic value even in the worst of times.
- Compared to the long-run average, gold appears to be cheap. Gold's value should increase as its scarcity relative to printed currencies increases.
- On the demand side, much of the recent move to record prices in gold reflects continued strong investment demand for physical gold in the face of heightened macro uncertainty and unprecedented, globally-coordinated monetary stimulus. The historical drivers of investment demand for gold seem to have simultaneously come together in 2009 and, in Tudor's opinion, will continue to stimulate high levels of demand on a sustained basis going forward.

#### *Gold Price Outlook*

- Tudor's proprietary econometric model, which evaluates the impacts of inflation, M2 growth, and real rates on the price of gold, suggests – under the baseline macro scenario – that gold is 20% undervalued over the next 24 months.

- In Tudor's opinion, the scope for increased investment demand over the coming years is much stronger than the potential for new supply. As a result, incremental new demand must buy gold from current holders. With a macro backdrop that suggests gold is undervalued, the transfer of gold from current holders to its new owners will likely not occur at, or near, current prices.

### Summary & Implications

The views of Tudor Investment Corporation are similar to those heard recently from other prominent hedge fund managers and institutional money managers such as John Paulson of Paulson & Co., and David Einhorn of Greenlight Capital.

In this environment, investments in liquid gold securities and exchange-traded funds are, and will continue to be, in high demand. A review of SEC filings by *Anomalous Investments* of several prominent money managers shows that the following equities are the most popular amongst the bullish managers:

- SPDR Gold Trust (GLD)
- I Shares COMEX Gold Trust (IAU)
- Power Shares DB Gold Fund (DGL)
- Central Fund of Canada (CEF)

Additionally, in the gold mining equities, prominent hedge fund managers including Paulson and Einhorn, have invested in the following:

- Market Vectors Gold Miners ETF (GDX)
- Kinross Gold (KGC)

Finally, because the investable gold sector is relatively small, and because there is a scarcity of quality, liquid, gold mining companies, some are even willing to venture into Africa-focused miners including the following:

- AngloGold Ashanti (AU)
- Gold Fields (GFI)
- Harmony Gold (HMY)

In summary, in *The Great Liquidity Race*, the smart money is clearly increasingly bullish on the prospects for gold.

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Disclosure: The author owns shares in GLD, CEF and DGL.