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For Required Non-U.S. Analyst and Conflicts Disclosures, please see page 8.

Trend & Cycle

LARGE-CAP GOLDS: The New BCE/Nortel?

To be clear from the outset: we are not recommending that you buy large-cap golds and sell the small-caps. We are saying to own them all!

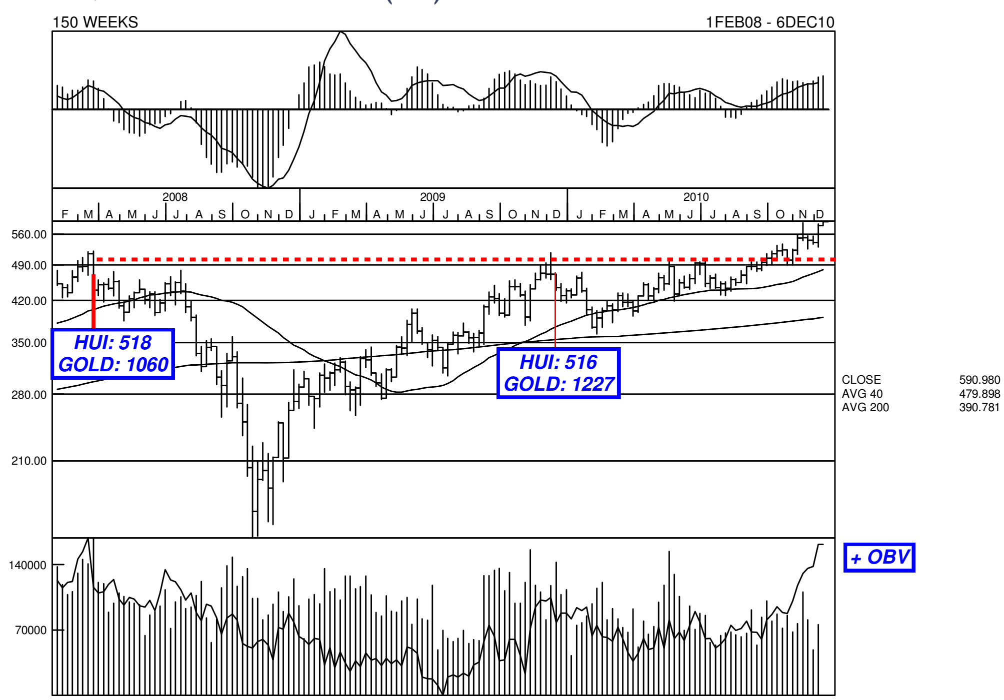
Gold has been in a major bull market for several years now. Some believe that the recent run-up from $1250 to $1425 is the last inhale of a bubble that is about to burst. We disagree. In fact, we would make the case that gold is destined to become the greatest "bubble" of all time, and that the parabolic curve of its price track is still in its infancy.

Consider some recent events: QE II has been christened, competitive devaluations are all the rage, the Euro has shed its erstwhile aura as a reserve currency, commodity prices are soaring, and the new U.S. Congress is earnestly debating the alchemy of reducing deficits while not raising taxes.

Against this tinder-box backdrop, an extremely interesting supply-demand setup has evolved for gold stocks globally, and it has especially challenging implications for money managers indexed to the TSX.

To illustrate the point, we call attention to the Amex Gold Bugs Index (HUI) chart below. In the immortal words of Yogi Berra, "Sometimes you can observe a great deal just by looking."

Exhibit 1: AMEX GOLD BUGS INDEX (HUI) – 150 WEEKS



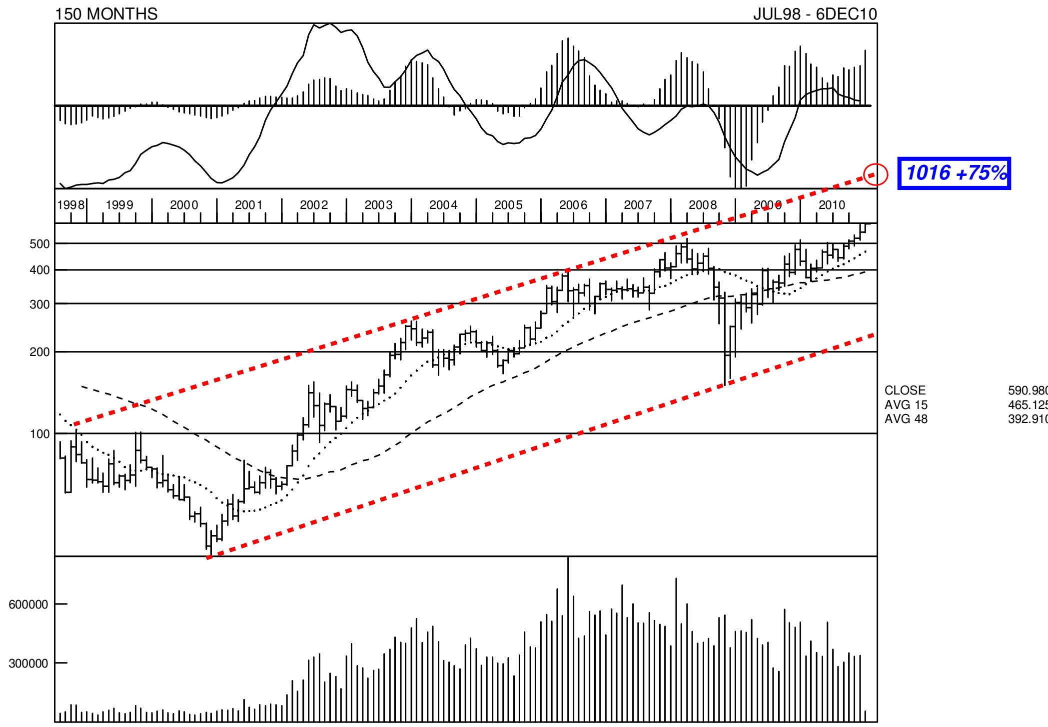
Source: RBC Capital Markets Trend & Cycle

- In recent weeks, the HUI has broken above a three year ceiling surrounding the 518 level. Note that when the HUI first reached 518 in March 2008, gold traded at 1060; and in December 2009 at 516, gold traded at 1227.

- The longer-term technical pattern here is what William O'Neil likes to call a "cup with handle." This pattern is associated with the start of a sustainable uptrend, and it is repeated over and over by individual stocks within the sector.

- How high can this pattern carry prices? See exhibit 2 below

Exhibit 2: AMEX GOLD BUGS INDEX (HUI) – 150 MONTHS



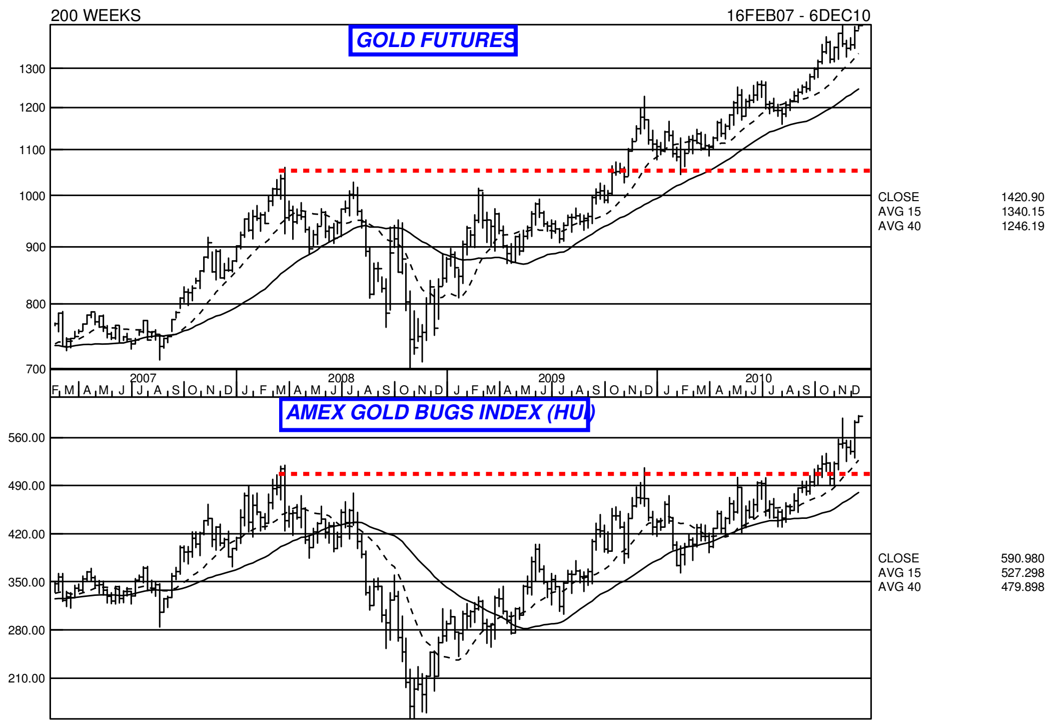
Source: RBC Capital Markets Trend & Cycle

- Setting a reasonable upside target for something moving out to all-time highs can be a very tricky proposition. But in this case, a very clearly-defined channel can be drawn to encompass all the activity over the past decade.

- **The upper boundary of this channel is currently near 1016, some 75% above today's Index level.**

- A big price gap between bullion and the stocks has opened up since Q4 2009. This is illustrated in Exhibit 3 below:

Exhibit 3: GOLD FUTURES/HUI – 200 WEEKS



Source: RBC Capital Markets Trend & Cycle

- From the March 2008 high at 1060, gold has risen some 34% to 1425.

- Meanwhile, the HUI has risen only 13% from 518 to yesterday's close at 590.

The question naturally arises: "Which chart is wrong, bullion or the stocks?" We know that Energy stocks persistently lagged Crude from near 80.00 in 2006 to the final highs at 145.00 in 2008. This is a good question, and we believe the following chart of bullion vs. the HUI can help provide an answer:

Exhibit 4: Gold Bullion vs. Gold Stocks (HUI)

Source: RBC Capital Markets Trend & Cycle

- This chart shows a big triangular compression between the performance of gold and the associated stocks going back nearly 3 years. Only within the past month has this pattern resolved, and it has broken out in favour of the stocks.

- *The size and length of this pattern strongly suggests that a multi-quarter uptrend for the stocks is just getting underway. Historically, when this ratio is rising, both bullion and the stocks are in rally mode.*

- And, for the record, Energy stocks broke *down* in 2007 from a similar triangulating pattern vs. Crude.

If the HUI is destines to rally substantially over the next few quarters as the analysis above suggests, then this will create a significant challenge for managers indexed to the TSX. We know from published reports and anecdotal evidence that, as a pool, Canadian equity managers are substantially underweight the Gold sector: *so there is a real prospect that we could see a replay of the BCE/Nortel scramble of 1998-2000 over the next couple of years.*

The TSX Index weighting for golds is now close to 13%. **In past TSX "bubble history", major group weights have risen into the 25%-30% range before peaking, e.g. Golds/Metals and Energy in 1979-1981, and Tech/Telecom (BCE/Nortel) 1998-2000.**

The following table shows "lay of the land" by market cap, and thereby throws the extent of the emerging liquidity bottleneck into high relief:

Exhibit 5: The Top Ten North American Golds (Market Cap in US$ billions)

Barrick	ABX	53.7	**Eldorado**	ELD	10.3
Goldcorp	G	34.9	**Yamana**	YRI	9.2
Newmont	NEM	30.8	**IAM**	IAG	6.4
Agnico	AEM	24.2	**Osisko**	OSK	6.0
Kinross	K	21.2	**Centerra**	CG	5.1
		Total: 164.8			**Total: 37.0**

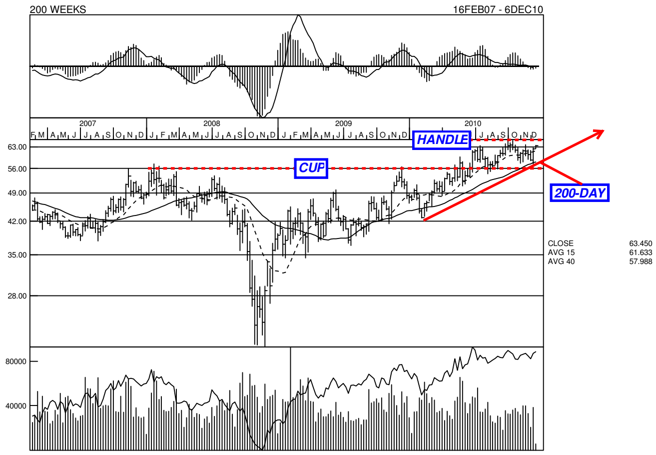
Source: RBC Capital Markets Trend & Cycle

- RBCCM's fundamental coverage of North American golds includes some 30 names representing an aggregate capitalization of approximately $253 billion. This is less than the current value of APPLE Inc. ($291 billion).

- The table above shows that the top 5 names account for 64% ($165 billion) of the sector total, and the next 5 names account for 15% ($37 billion).

- If, as we believe is highly probable, the price of gold continues to trend higher over the months and quarters ahead, then it seems inescapable that substantial upside pressure would be exerted on the stocks. Under these conditions, the large-caps would have to become significant players for reasons of liquidity alone.

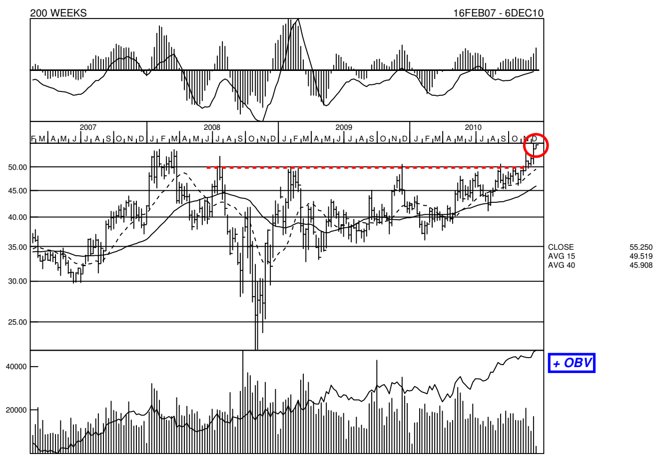
Exhibit 6: NEWMONT MINING



Source: RBC Capital Markets Trend & Cycle

- NEM is a picture-perfect example of the "cup with handle" pattern described at the outset in Exhibit 1.
- Note that the past 6 months' trading forms a consolidation (handle) on top of the Q1 2008-Q2 2010 price ceiling (cup).
- <u>The most recent rally originated 5 trading days ago from support right at the 200-day</u>, and the start of a new up-leg would be confirmed on a close above the recent high at 65.50.

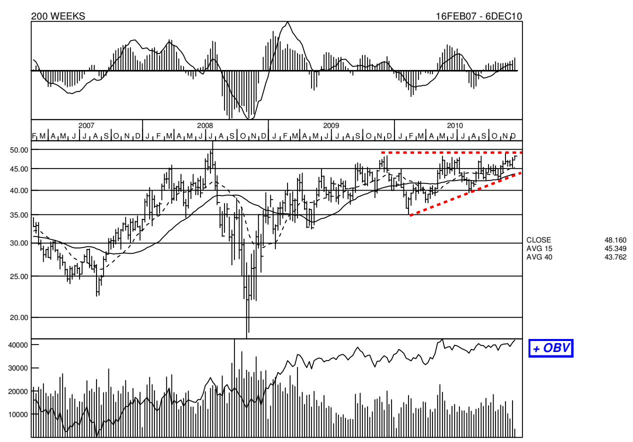
Exhibit 7: BARRICK GOLD



Source: RBC Capital Markets Trend & Cycle

- ABX has essentially the same pattern as NEM above.
- The major difference is that it is just now breaking above resistance near the Q1 2008 highs, and has not formed a "handle."
- Note that On-Balance-Volume (bottom panel) shows net accumulation since mid-2007; <u>the daily chart (not illustrated) shows a persistently strong OBV since the March 2010 lows.</u>

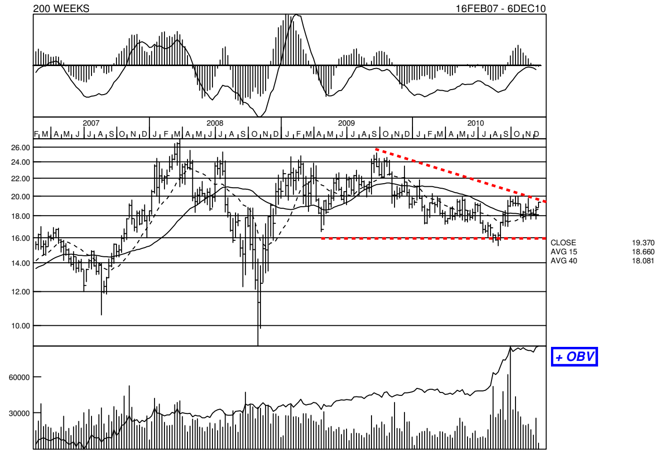
Exhibit 8: GOLDCORP



Source: RBC Capital Markets Trend & Cycle

- G is lagging both NEM and ABX with respect to the mid-2008 and Q2 2009 highs.
- On-Balance-Volume has also been lagging, and has been essentially flat since May.

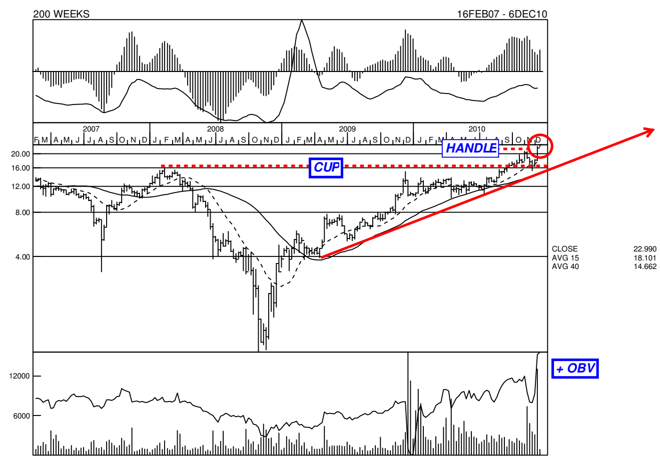
Exhibit 9: KINROSS



Source: RBC Capital Markets Trend & Cycle

- K is the major laggard among the 5 biggest names.
- Note that a close above 20.00 would clearly break the downward-triangulating pattern that has built up over the past year.
- On-Balance-Volume has been net-positive since 2007, and has begun to move up sharply since June-July 2010.

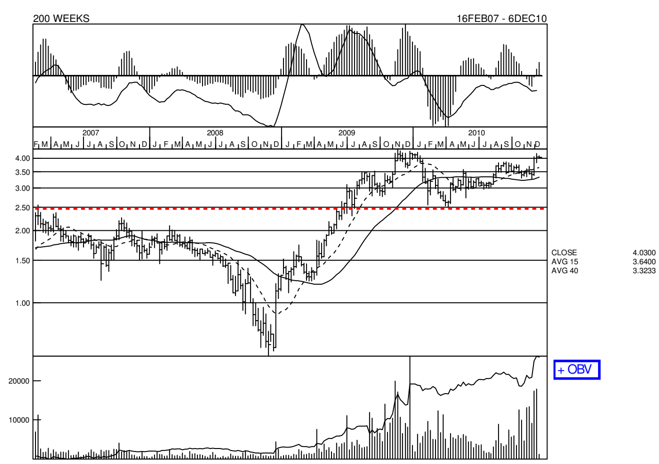
Exhibit 10: CENTERRA GOLD



Source: RBC Capital Markets Trend & Cycle

- CG has the best "cup with handle" pattern among the 5 to 10bn market cap group.
- CG also shows the most aggressively positive On-Balance-Volume accumulation since the mid-November lows.

Exhibit 11: LAKESHORE GOLD



Source: RBC Capital Markets Trend & Cycle

- LSG (1.5bn) has the best overall technical setup in RBCCM's fundamental coverage universe within the 1bn-5bn range.
- Note the significant volume expansion over the past 3 weeks since the stock began to rally from near its 200-day (40-wk) average.

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