The Speculators Secrets to Profiting in the Gold Bull Market

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The 1980s were the decade of the speculator - and now, 20 years later, we have such a window of opportunity again. Successful speculators should emerge from the first decade of the 21st century wealthy beyond their wildest dreams. Fortunately, it's a profession open to all. No formal education, credentials, or licenses are required. All training is on the job, and best of all, the apprenticeship is "earn while you learn." It's an appealing job opportunity, but unfortunately one that carries a stigma.

I've been known to talk about a lot of suspiciously asocial concepts: financial crash, depression, hyperinflation, the alternative economy, hoarding. They're all buzz words that arouse vivid images and strong emotions. Perhaps the most powerful word of all, however, is "speculator." It sounds so irresponsible, opportunistic, and dangerous.

Politicians and the media throw the word speculator about so abusively. I suspect few people have ever dared to ask what one really is. In the popular mind a speculator is someone associated with shortages, price hikes, wars, natural disasters, and other calamities. A speculator is simply someone who sees, or anticipates distortions in the marketplace and positions himself to take advantage of them. He can do that because he understands their causes, and their effects.

The Speculator as Hero

Speculation will be the foundation of dynasties in the turbulent years ahead. The original Baron Rothschild knew how to profit from the politically created chaos of the French Revolution era. He became rich and famous by following his own advice to "buy when blood is running in the streets."

That doesn't mean the speculator is predatory; paradoxically, he's a humanitarian. When people are desperate to sell their possessions, he appears with cash - the very thing they want most. When they change their minds and clamor to buy those things back from him during good times, he once again graciously accedes to the desires of the majority. The speculator, like any other worker, tries to give his employers what they want. Value is subjective, and the price at which something voluntarily trades hands is exactly what it's worth at the time; the speculator simply gives value for value. If he wasn't there to buy, perhaps no one would be, and sellers would be really in trouble.

Somehow, speculators have gotten the image of careless gamblers charging about in wild, frenzied activity. It's a totally inaccurate image, at least where successful speculators are concerned. Good speculations are always low-risk speculations. Far from taking risks, speculators only go in for "sure things." They are rational and unemotional if they're successful; the irrational and emotional who like to gamble and take chances don't last long playing the game, and they soon become ex-speculators.

While simplistic, a useful way to view the methodology of the speculator vs. an investor is this:

An investor risks 100% of his money in the hopes of receiving a 10% gain. A speculator risks just 10% in anticipation of earning 100%.

If you are the least bit attentive, the longer-term risk/reward profile for the speculator is in an entirely different league than that of the "conservative" investor.

These days, while the chattering masses are frantically looking for safe harbors against the gathering storm, the speculator is accumulating positions in the quality gold companies. While gold is more in the news than it has been in years, the average investor still views it skeptically, thinking gold investors are somehow goofy.

As you'll read below, that makes this a nearly ideal time to load up, though buying aggressively early last year when few wanted to know about gold was better... a fact that the subscribers to our International Speculator will happily attest.

Investing for income is the kiss of financial death. Why haven't any of the great millionaires of the past taken advantage of the simple gimmick of compound interest to eventually take over the world? (If the Indians had invested their $26 for the sale of Manhattan for a 5% compounded return, their money would be worth $2,790,729,193. today). It isn't because they haven't tried, I'm sure. It's because no investment will give you a *true* 5 percent for even the length of a lifetime. In fact, there's probably nothing that can be relied upon to yield even 3 percent over more than forty or fifty years. You might comment, "What difference does that make? I'm not going to be here that long." But it does make a difference, because it shows the futility of trying to stay ahead in any type of "secure" investment. Everything is a speculation, whether people know it or not; those who settle for a low but "secure" return are penny-wise and pound-foolish in the most profound sense.

When you settle for a "conservative" return, even the slightest miscalculation, bad luck, or government fiat can wipe you out. Taxes will always erode your capital, directly or indirectly. Inflation, for the foreseeable future, is sure to get worse and fluctuate wildly as it does. Banks and insurance companies - the very institutions that have always gotten away with offering low yields because they were so stable - will fail as they always have... especially given the current overvaluation of most U.S. real estate and the underlying loans that are looking increasingly shaky.

The government itself will eventually be replaced and currency will become worthless. And there's no way to truly protect against the risks of war, theft, fraud, and natural disaster. Investing for income - especially in today's climate, when cracks can be seen in the foundations of society itself - is the height of stupidity.

If you invest for income, you're handing over responsibility for your future to others. You don't know what they're doing with your money, you can't know how intelligently they're going to conduct themselves in the future, and you don't even really know how sound their capital position is. That's a bad enough set of fundamentals for a madcap gamble, but in return for a simple yield, it's absurd.

What, then, to do? What is the method to overcome this madness? The only answer I know of is to lay a solid financial foundation, and then gather up your cash and your courage and learn the art of speculation.

Below you find some general rules of successful speculation, in summary. Decide for yourself how they match up with the opportunities present in gold and other resource stocks today.

The Practice of Speculation

There's no certain way to gauge the proper time to enter a market, but there are certain rules that will likely be just as good in the future as they have in the past because they're based on human nature, and that hasn't changed much over the thousands of years.

I've listed five signals that should be present before you enter a market. You may never find a situation where they're all there, but the more that are, the more the odds are tilted in your favor. The five rules are equally applicable whether you're buying or selling (with obvious adjustments), but I've skewed them toward the buyer. Since the long-term bias in the years ahead is going to be toward higher prices in the resource stocks, most of the time you're going to be buying more aggressively than you'll be selling.

1. A Climactic Bottom

People tend to get carried away with greed after an investment has treated them well and by fear when the market's been bad. The same herd instinct that causes a crowd to gather when someone stares up in the sky, or causes a stampede if someone yells "Fire!" in a crowded theater, causes markets to overrun themselves at both major tops and bottoms. Price moves typically become very radical and unpredictable at the point where a market is searching for either a top or bottom after a panic. If you can keep your head (easier said than done), those conditions present - or at least foreshadow - the ideal time to buy or sell.

"Blood in the streets" selling climaxes aren't the only time to buy, and manic blow-offs aren't the only time to sell, but they're certainly the best times. In 2000 was a classic speculative opportunity in the better resource stocks... even gold company executives didn't want to know about gold. Climactic bottoms, in particular, are often followed by a period of exhaustion which can give you a chance to appraise the market coolly.

2. Period of Accumulation

After a climactic bottom, a market becomes exhausted. With prices low, a lot of money has either been wiped out or has left the market. Like an athlete after defeat, the marketplace takes a while to recuperate.

It takes a sharp - and lucky - trader to catch a market that turns on a dime and heads the other way. It's more prudent to let it plateau, stabilize, and establish a new equilibrium level before buying. The gold shares, which had a decent run in the mid-90s, have only just started to come alive again... but, as pointed out earlier, the mainstream punter is still looking elsewhere. The plateau is often characterized by a "low volume" of trading.

3. Relatively Low Volume

Low volume, with few buyers or sellers, means few people are really interested in what's going on; a good speculator looks where nobody else does, to afford a better chance of finding bargains. When there's a high volume of trading, it's a sign that a lot of people are paying close attention, and that can lead to radical swings for purely psychological reasons. Successful speculators never allow themselves to be rushed or panicked, and a low-volume market offers leisure to make up one's mind. Today, most gold shares still trade at a volume that is just a fraction of their mainstream counterparts.

4. Historically Low Prices

Nothing is eternal in the markets. What seems like a "high" price one year may turn out to be a "low" price the next; it's all very relative. Speculators who get the bargains are patient.

The bottom of a bear market comes about cyclically, with years or even decades between peaks. Smart buyers sit tight until the odds are loaded in their favor. Only amateurs, pathological losers, and bank trust departments are in the market all the time.

Commodities can be considered "cheap" when they are selling for less than production costs and close to historical lows in real (after inflation) terms while there's a prospect of higher inflation. In inflation-adjusted terms, gold is currently selling at less than half the high it reached in 1980.

There are plenty of exceptions around all the time. But successful speculators play a waiting game; blood isn't in the streets every day.

5. Pessimism in the Market

After a long bear market, the stock or commodity has established a "poor track record" and is perceived as a "bad investment," with no future. That is the view that most mainstream investors currently have of gold after it's long bear market... using terms such as "archaic" to describe the stuff. That is, of course, usually the best time to buy.

Buying when no one else is interested in an investment is hard on the nerves, but rewarding.

If it were easy, everyone would be a professional speculator - and that obviously wouldn't do. And, don't forget, as the gold market - and especially the leveraged gold stocks - take off toward the moon, there will come a time when everyone is saying to buy... which is when you should be heading for the exits. I will be.

Of course, this is meant to be a quick summary. It's not easy to lay down hard and fast rules for successful speculation. There are plenty of others I could repeat here, but the important point is to adopt a bias towards speculation. Done right, which today means building positions in the quality gold stocks, can result in returns that will surprise even you on the upside in the months and years just ahead.

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