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February 23, 2003
For markets of February 24th

INDICATIVE LEASE RATES Based on 30 day maturities

CLOSES

APR GOLD 351.80
MAR SILVER 4.665
APR PLAT 659.00

GOLD .00/.50%
SILVER .00/.50%
PLAT 8.00/15.00%

MARKET COMMENTARY

GENERAL COMMENTS:

It was a mixed week for the precious metals, with gold beginning to consolidate in the low \$350's after it's tumultuous decline from \$390 to \$345 in the previous week. It would appear that much of the "war premium" has now disappeared and the gold price seems stable and durable at or near these prices. **Historically, rallies due to fear and geopolitical tension tend to fade** primarily due to the speculative excesses seen, but **price advances in gold based upon bullish macroeconomic fundamentals are far more desirable**. And, last week, economic news underpinned the gold market with the release of the PPI, showing the highest rate of inflation in 13 years. Factor in the burgeoning trade deficit, the growing governmental deficits in the USA, and the continuing death spiral of the USD, the probability (or should we call it certainty?) of higher inflation and investors will continue to seek the historic solution of buying gold not only for its prospects for continued appreciation but as a means of capital preservation in an economic environment where almost all other investment venues continue to look quite unfavorable.

While this commentary recently warned of the dangers inherent in the market when gold was rocketing skyward solely based upon speculative fever, the current gold price demonstrates a much more favorable risk/reward profile, and both investors and speculators should be looking to establish long positions. I would estimate that downside in gold will probably be limited to \$10 to \$15 from current levels, even if global geopolitical tensions completely subside, which seems incredibly unlikely. The low \$340's should contain any decline in price, as strong physical buying by commercial/industrial concerns should be seen. The risks are now decidedly on the upside, and short positions in gold should be avoided like the plague. Gold was down 40 cents for the week. Specific recommendations for this market are listed below.

I thought the silver market quite interesting last week, up 13 cents, as rumors abounded, and as one major Bullion Bank was extremely active on the exchange. In a recent press release, a major gold producer who currently has a rather large hedge position in silver, announced that they will be repurchasing their previously sold forward position in this market. In their words, "for a group of contracts, totaling 21 million ounces, we intend to "financially settle" (emphasis added) these contracts". This was enough to embolden the speculators and frighten the shorts in the market and prices rallied to contest the 200-day moving average at about \$4.65.

One major Bullion Bank was extremely active last week in “selling the spread”, meaning that they were buying the front months of silver as they simultaneously sold the back months. This trade is also termed a “cash and carry” trade, as the trader sometimes PAYS for the silver coming due in the short term only to deliver it in the future months. This strategy also has two intended or unintended responses from the internals of the marketplace. One, as the contango (the difference between the spot and the future price) is pressured, lease rates rise. Silver lease rates went from about .4% to well over 1% last week. **To the untrained eye in the market, such a rise is seen as very bullish and encourages speculative buying.** Secondly, speculative interest is also rekindled in the hope that the Bullion Bank will indeed take delivery of millions of ounces of silver in the coming delivery month, applying upward pressure to the market.

I continue to view silver as a trading market, where you buy the dips and sell the rallies. There is no hard evidence to suggest that we are in a long-term secular bull market and the eternal predictions of a “moonshot” upward move are based solely upon hope and irrationality. Until this market can prove it’s worthiness, our basic strategy of buying (or selling out-of-money put options) near the lows, and selling near the highs will rule our actions. Purchases near the low to mid \$4.50’s now seem to be the right level, with sales roughly in the \$4.80’s. To convince yourself of the merits of this strategy, just peruse a price chart of the last few years. It would take a few closes above the \$5.15 price level, along with other bullish exogenous influences, to get me long term friendly to this market.

The platinum market was down by \$16 last week as long speculative concerns were the major sellers. Platinum was also sold rather aggressively in the Far East as the Yen rallied, forcing the Yen/platinum price lower. Previously, this commentary was recommending very small short positions in this market and I still see the possibilities of a continuing decline, especially if the Yen remains somewhat strong. But, this is a counter-trend and somewhat dangerous trade and should only be entered in small amounts by those speculators who have rather high risk/reward profiles. It is, of course, safer just to wait to buy this market after it falls.

Palladium was down \$3.50 for the week, just bumping along the \$250 price level, completely oblivious to the goings-on in the other precious metals. This market, unlike the other precious metals, is strictly a matter of actual buyers and sellers; strictly a matter of the inherent economic fundamentals and the price is not influenced by any speculative activity. With commodity prices on the rise, with the industrial metals such as copper and nickel very strong, I remain quite confident in this market and continue to recommend it as a relatively low-risk, long-term, trade for some larger accounts.

The World Gold Council recently released the news that India, the world’s largest demand center for gold, imported 31% less gold in 2002 over 2001. Total imports were on the order of 410 tons, about half of what was demanded from world markets just several years ago. The decline in demand is blamed upon the high price of gold and its accompanying volatility. While such statistics are, on their face, quite negative, there is some reason for optimism. Please note that total sales of gold in India remained rather constant at about 700+ tons/annum in 2002 BUT that internal sales of gold of an estimated 322 tons (a natural occurrence when prices rise and investors book profits) filled in the deficit between external supply and internal demand. Now, please understand that **it is a market truism that such large amounts of gold sold into the market only occurs as prices enter new highs, and tend to fall back in size if the market consolidates.** All in all, I find this fundamental news somewhat encouraging, rather than the bleak, bearish tone that a cursory examination would entail. After all, even with sharply higher gold prices last year, Indian consumers bought just about as much as they did the year before, just less was from the outside world.

It was also announced that sales of jewelry and watches in Germany fell by 7% in 2002 over the previous year. Perhaps this has more to do with the general economic trend in that country rather than a secular decline in demand. After all, these products are still luxuries, and their public

demand is naturally curtailed in a poor economic environment. I really don't think that this means very much at all.

Of much greater long-term benefit to the gold market is the continuing liberalization in many countries, allowing investors and speculators greater access to the marketplace and new venues for trading and hedging. We have recently seen China begin to deregulate its gold market, allowing industrial buyers and sellers to deal directly on a new exchange. And, some bullion products are now beginning to be sold to individual investors. Demand in that nation has been in the 200 tons/annum range and some analysts are hopeful that it may reach 500 tons/annum in the near future. Now, news has emerged that after years of years of petitioning the government, India has finally changed their laws and has now allowed futures trading in the precious metals. This alteration will most certainly beneficially raise the demand for gold as jewelry manufacturers and retailers can now hedge their inventories, and perhaps even lock in future purchases of gold. Investors will also benefit as they can now buy gold directly, as an investment vehicle, without the associated higher costs of buying jewelry. Its really quite simple, kids always want to play in the new sandbox and investors/speculators are not at all different. Just remember the famous quip in the movie, Field of Dreams....."If you build it, they will come".

There is also news that the South African government will soon legalize the ownership of gold, in all of its forms, for the public. Heretofore, I believe that citizens of South Africa were restricted to only owning gold in coin form, and these coins were rather expensive and somewhat unavailable easily. With gold firmly entrenched in the mind of the average South African, it is likely that gold demand in that country will greatly increase. All such market liberalizations are very beneficial to the market long-term as they "legitimize" and expand the investment market for gold. History has shown us that jewelry demand can NEVER effectively raise the gold price as such demand is highly elastic, meaning that demand tails off as prices rise. We need the global investor to force gold prices higher and the more countries that allow such activities, the better the market can be.

On to the Commitment of Traders reports, both futures and options, as of Feb. 14th,

GOLD

| Long Speculative | Short Speculative | Long Commercial | Short Commercial |
|------------------|-------------------|-----------------|------------------|
| 70,305 | 29,716 | 93,165 | 180,620 |
| -20,414 | -2,316 | +10,582 | -9,357 |
| | Small Long Spec | | Small Short Spec |
| | 84,081 | | 37,215 |
| | +2,179 | | +4,020 |

In a shortened reporting period, open interest declined by 7,800 as large speculative funds continued to exit the market, forcing prices into the low \$350's. Commercials were noted buyers of futures and options as, for the first time in a while, physical demand re-emerged in this market lending a very healthy tone and providing a substantial "floor" to the gold market. **I must remark that I am amazed at the resilience and the resolute behavior of the speculative longs in this market, as they have remained in their long positions even as gold plummeted some \$40 from the recent highs.** The only explanation possible is that we are seeing a new breed of investor in this market, one who is not in the market for the short-term quick buck, but has entered this market for the long term, and will not be shaken out easily on price declines. As such, this logically infers a continuing bull market. Another positive influence is the activity of the commercials, who were ardent buyers in the low \$350's. Please remember that the activities of this group can be taken as a proxy, more or less, for the activities and demand in the physical marketplace.

Using historical criteria, the gold market would seem to still be overbought as speculative longs outnumber spec shorts by about a three to one ratio and are NET long about 100,000 contracts, or 10 Million ounces. But, as all markets are more about psychology than fundamentals, perhaps

it is no longer fair to use historical criteria as the new gold investor is indeed behaving quite differently than he did in the past. But, as a warning, there is still the potential for an abrupt and violent decline in the price should a major change in investor psychology take place. There is still some "war premium" intrinsic in the price.

SILVER

| Long Speculative | Short Speculative | Long Commercial | Short Commercial |
|------------------|-------------------|-----------------|------------------|
| 30,782 | 10,537 | 25,336 | 76,179 |
| -5,988 | +3,058 | +3,079 | -6,850 |

As silver declined to the low \$4.50's, large speculators were major sellers while the commercials were gleeful buyers. Again, the large speculators were completely wrong this market and were sellers near the bottom as we are now trading some 15 cents higher, just a few days later. **This market continues to exhibit its historical mandate that the successful trader MUST trade alongside the commercials, and against the large and small speculators.** This market seems rather easy, buy the dips and sell the rallies, just like the commercials.

If you think as silver as a market that has been, and is currently, just a trading range, it is easy to understand that professional interests and physical buying only emerges near the bottom of the trading range, against technical support. Speculative interests are sometimes buyers, and sometimes very heavy buyers, near the top of the range, hoping against hope that the silver market will awaken from its ancient slumber and skyrocket. Meanwhile, professional traders will always use hard, cold logic and will shun emotional decisions. They will trade the market for what it has been, for what it is currently, and not what it could become. Guess who wins?

GOLD RECOMMENDATIONS:

(positions and recommendations are available to clients and subscribers only)

SILVER RECOMMENDATIONS:

(positions and recommendations are available to clients and subscribers only)

PLATINUM RECOMMENDATIONS:

(positions and recommendations are available to clients and subscribers only)

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