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Winter 2008

# The Refined Investor

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## Precious Metals 2007 Annual Review *Performance During Turbulent Times*

By Tony J. Anzalone, CFA

Well, we did it. We can all put the seal on another calendar year. Precious metals markets finished 2007 remarkably well without the impact of a global crisis such as the types that we experience in 2005 and 2006. No devastating hurricane, no rogue nation conducting nuclear tests, or new-armed conflicts between Israel and its neighbors. In that respect, the markets were pretty tame. However, the precious metals group once again posted respectable returns during the backdrop of some significant and extraordinary financial dynamics. During the year, the metals group out performed the equity and bond market benchmarks, and reminds all investors of their benefits as a portfolio diversifier during these turbulent times.

### Technical Highlights

- ▶ Gold closes above \$800.00/oz on November 2nd, a 27 year high.
- ▶ The average monthly price of gold for the month of November was \$91.20 higher than the record high monthly average of 1980.
- ▶ Silver reached a high of \$16.275/oz on November 7th, a 26 year high.
- ▶ Platinum reached an all time high of \$1,551.50/oz on December 26.

### The Historical Influences for Precious Metals

Influence	Beginning of Year	End of Year	Percent Change
Oil	61.05	95.98	57.22%
Dollar (vs. Euro)	1.32	1.46	-10.6%
Inflation (Annualized)	2.54%	3.67%*	1.13%

\*Projected

The fundamental story for the precious metals group in 2007 was the effect oil and the dollar played. Oil found new legs as world economy continued to run at a healthy pace for most of the year. Concerns for supply and production shortfalls provided all that was needed to push oil to new highs. Although this rise has not translated to overall inflation in other goods and services in 2007, ultimately producers of goods and services probably will pass this cost to consumers giving rise to inflation. Gold and Silver price movements have been very sympathetic to oil's in 2007, often moving in tandem to their fellow commodity.

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The dollar experienced a significant decline in 2007. Partly due to a global preference to hold the Euro and partly due to the perception that our own central bank is poised to lower rates in the near term, the dollar reached historical lows in 2007. Gold has benefited from the dollar's decline as it fulfills its historical role as a substitute currency. Central banks around the world have exhibited a preference to hold gold over the dollar as reserve assets in 2007.

Often a key influence to rising gold prices, inflation has not manifested itself in any real way in 2007. Rising 3.67% in 2007, this level is only marginally higher than the long term average of 3.43%. However, the Federal Reserve appears to have a preference for stimulus even at the expense of triggering inflation. This event, should it materialize, may benefit the metals group in 2008.

Although not a primary influence to gold's rise this year, I should talk about the far-reaching impact of the sub-prime mortgage collapse. On July 19th, the sub-prime sector of the mortgage industry imploded after reports of many lenders with high concentrations of these mortgages were experiencing massive defaults. Rating agencies such as Standard & Poor's slashed the credit ratings of the top mortgage bonds; as a result all markets plummeted. Treasury yields fell to historical lows, equities fell significantly, as well as most commodities. By mid August, the worst was over leaving Wall Street shaking its head. The S&P index lost 9.4% during that period. Gold lost a mere 0.7% and started its drive back toward \$800/oz.

By year end, the metals group posted some impressive returns despite all of this.



	Actual Return				Annualized Return		
	1 Month	3 Month	6 Month	1 Year	3 Year	5 Year	10 Year
Gold	6.20	12.82	28.74	31.35	24.10	19.20	7.95
Silver	6.35	7.18	20.78	15.35	29.70	25.40	9.56
Platinum	5.84	9.55	19.50	34.15	21.14	20.39	15.22
Palladium	8.48	7.46	2.63	11.73	26.86	9.71	6.41
S&P 500 Index	-0.86	-3.82	-2.33	3.53	6.61	10.79	4.23
Int'l Equity (EAFE)	-2.25	-1.71	0.48	11.63	17.31	22.08	9.04
10 Year Treasury	0.47	4.25	7.78	6.00	0.59	-0.20	0.16

Looking ahead toward 2008, oil and the dollar should continue to be a major factor in the performance of the precious metals group. If inflation accelerates, that may also push metals prices higher. Finally, the political and economic policy landscape is uncertain as we begin the 2008 political season. In all, the precious metals group looks ready to benefit from the uncertainty ahead.

### Precious Metals Factoid

Silver is more ductile than any element except gold. One ounce of silver can be drawn into 8,000 feet of thin wire. Silver is more malleability than any element except gold. One grain of silver can be made into a sheet one hundred and fifty times thinner than a piece of paper.

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GOLD 912.43 ▲ 9.72 SIL 16.41 ▲ .53 PLAT 1574.00 ▲ 15.60 PALLADIUM 380.80 ▲ 4.50

### Notes from the Trade Desk...

- 2008 Gold & Silver Eagle coins are now available. Call 800-223-1080 to place your order today!!!
- Include precious metals in your IRA. Call FidelityTrade to find out more.