www.preciousmetalstockreview.com April 9, 2009

FDIC Call Stress Tests “Sham”, At least Someone is Honest

Another week full of “good” economic news has passed. Preliminary bank earnings floated the stock markets late in the week. Although the specific banks earnings won’t come out for another two weeks the talk is that they will be great. I fail to see how that is possible. It wasn’t long ago that the quarter was looking good, so banks and car companies said, until they reversed coarse, and now they are reversing coarse again. So, let’s see here, three weeks ago, good, two weeks ago, bad, last week, good, I suspect next week will be bad and the trend of weekly changes will continue until actual earnings are released. Then we will have to muddle through the suspect books and fraudulent accounting methods to try and find the real numbers. They don’t make it easy these days.

The Dow was up 0.82% while the S&P rose 1.67% and the Nasdaq lead rising 1.89%. Up in resource heavy, and warmer these days, Canada the TSX rose 1.34% and the TSX Venture exchange fell a slight 0.68%. The TSX gold index dropped a large 5.18% on some slight gold weakness.

Metals review

Gold fell an insignificant 1.62% on the week and technically looks pretty good. The 100 day moving average is supporting the price well here. It looks like a bear tap has been set, but it's too early to know for sure. Weekly changes don't matter much to me. The trend is up and accelerating, and has at few good years of legs left at the very least.

RSI is below 50 and slightly negative. Last time it was this low gold was some $100 lower. The moving averages are mixed with the 100 day being supportive the 20 day crossing below the 50 which has turned flat. If the price cannot hold up here $850 will be next followed by $825 then $800. If gold can however regain $900 then it looks like a move back to $1,000 will occur sooner rather than later, but it will occur eventually, regardless.

Silver fell 3.29% for the week and bounced right off strong support at $12. $12.50 is the point of resistance to overcome now before heading back up to $13.40, then $13.50 and $14. RSI is below 50 and hasn't actually been this low since late last year when the price was under $10. The moving averages are mixed with the 20 day moving lower and crossing bearishly under the 50 day moving average which is now flat. The 100 day moving average is moving up steadily and tracking the long up-trend which began in late October

2008 and is still holding strong. A move to that line at $11.50 would not be bearish, just a great buy point. I don't think we will be so lucky though.

MACD is negative while the Slow STO is turning flat at levels where good things start to happen. Last time we saw this level on the Slow STO silver moved from $8.50 to $14.50 over four months. Not a bad return if I do say so myself. I think we are about to begin such a move again soon.

Platinum rose 2.66% and continues to outperform the rest of the precious metals group. Friday saw a high of $1,220 but could not hold and fell back to just under the important $1,200 to close at $1,195. So close! RSI is rising and not yet showing overbought status. All three moving averages are strongly bullish without a doubt. The trading channel is intact and the price is only near the mid range within it. MACD is positive but far from showing any excessive strength. Slow STO is overbought and turned negative on Friday. This could be a precursor to a pullback to support at $1,115. On the other hand investors are still snapping up the precious metal, especially in Japan. Platinum trades freely unlike gold and behaves much more normally thanks to its unencumbered status.

Palladium fell 1.65% on the week following gold and silver lower. Palladium is not trading much or moving much these days. The price remains above the up-trend line but is now back below resistance at $223. RSI is neutral and above 50. The moving averages are very bullish. It's curious just how quickly the 20 day turned back up and bounced directly off the 50 day moving average.

MACD is positive with the momentum oscillator is moving lower but holding above 0. Slow STO is just below overbought ground and flashed a buy signal Friday. Palladium remains very cheap in my view.

Fundametals Review

The much talked about stress tests on the banks are being touted as potentially showing that the institutions are in better shape than expected. But on the contrary the FDIC who is the backstop to banks and knows a good deal about these institutions is calling the stress tests a "sham" and "open-book, take-home exam". FDIC also says they are: "not a credible way to assess how much additional cash beaten-down banks will need to weather what Wall Street experts predict will be more losses in the coming months."

The stress tests are being performed by both the Treasury and Federal Reserve who have lost all credibility in my eyes. It appears the Federal reserve has now taken it one step further by ordering reporting institutions to not talk about the stress tests in their releases. The results of the stress test are said to be delayed until the reporting season is over on top of it all. All the stress tests will do is say that the banks are in good shape...but need some more money. It's an exercise in futility.

Please see here for this weeks two biggest losers. I love the name of one; "Cape Fear". That was a great movie.

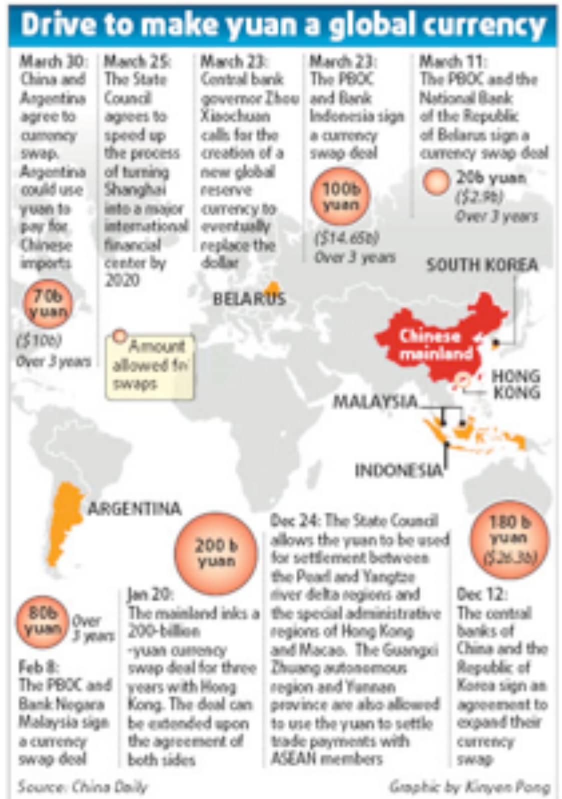
That big pink sign saying "give us our $$$$ back" was seen live for all to see as CEO Llyod Blankfein spoke earlier in the week and as Larry Summers spoke late in the week. The protesters walked up on stage quietly and made it onto live TV getting their message to be seen by millions. Good for them.

I highly recommend a read of this article. Here are the first two stunning paragraphs;

> **This view that we are coming off a bear market that was overdone seems off base as well, in our view: Yes, the 57% peak-to-trough slide in the S&P 500 was larger than any other decline since the 1937-42 bear. But then again, reported earnings plunged 82% so perhaps it can be argued that to this day, the market has still not reflected that reality. As for the duration, this bear market lasted 17 months (if in fact, March 9th was the bottom) versus an average of 20 (not to mention the 62 months from 1937-42, and the 37-month bear that began in 1946).**

As an aside, look at the chart. As of March, the trailing P/E on reported earnings was 100x, more than twice as expensive as the market was at the peak of the tech bubble, and the most pricey it has ever been!

As a new world reserve currency is being talked about everywhere these days, China is now allowing five major trading cities to use the Yuan as a trade settlement vehicle. While this is just a trial it is one more step down the path of riding the USD of it's international reserve and trade status. The handy chart outlines the timeline and events of this path to date.



The US budget deficit in March alone rose to $192.3 billion as spending increased to $321.2 billion and revenue decreased 28% to only $129 billion. The sad part is that the worst is yet to come as the commercial real estate debacle starts to heat up this spring. The even sadder part is that almost half the governments increased expenditures in the month were injected into the nationalized mortgage underwriters.

China is projecting only a 2.8% gold production increase in 2009 taking the expected total to 290 tonnes. In 2008 production was at 282 tonnes and gold reserves increased 700 tonnes to roughly 5334 tonnes. Profit in 2008 from gold production was $1.82 billion US indicating just how small a market gold is. It won't take a large amount of money to move the metals much, much higher.

China is also being touted as the place to be for miners these days. Cheap access to capital is cited as a major reason. Some of my reasons for investing in certain miners who operate in China are cheap operating costs, including; labour, infrastructure and permitting and the fact that China likes to fast track mines to get people employed. Once people get employed the community rallies behind the company and that sort of good will cannot be bought. Mines are usually in rural locations where jobs are needed badly. I also enjoy the vast untapped resources available to mine, or to be discovered.

While most mining stocks and more specifically gold and silver stocks remain extremely cheap they have performed very well over the last six months. This story outlines the worlds 100 hottest mining stocks. While not all precious metals companies the average gain is a whopping 367%...in just six months. That sounds about right for me personally but the companies still remain far from their highs. There is so much opportunity even today after such a rise that there is just no other place to park some cash for a few more years at least. Russian stocks have been hardest hit one being up over 600% over the time frame.

UAE gold sales rose by 17% in 2008 and investment demand rose by 38%.

The gold import ban in Vietnam has caused price there to be slightly higher than the rest of the world. This is prompting locals to call for a halt to the ban. Citizens are holding their gold in these uncertain times as insurance which is exacerbating the gold shortage in Vietnam. Jewellers are the main group being hurt by this since they have a hard time getting gold, let alone getting it a a reasonable price.

Acquisitions by majors is a big theme these days and now the second largest gold producer is saying openly they are looking for accretive acquisitions with their strong balance sheet. This article outlines 20 acquisition targets and also lists the value per ounce of gold the company is currently trading for. There are some cheap companies out there. Some of which I hold and also think will be bought out in the not too distant future.

Smart fund managers continue to migrate over to the gold camp. Quantitative easing is a serious concern to those who understand it and they are positioning their portfolios accordingly. Physical gold and silver and the shares are and will be the prime beneficiary of these views which are becoming more predominant every week.

One very savvy investment firm, and a favourite of mine, who has been bullish on precious metals since the beginning has recently made a spade of investments in precious metals companies . They are taking great advantage of the cheap opportunities available to those with free cash to invest. I suggest you follow their lead

The Central Fund of Canada which holds physical gold and silver raised a record $230 million this past week. It shows how strong investor appetite for physical metals is.

The extraordinary demand for gold is a constant and growing phenomenon. This article has testimonials by the worlds largest mints stating that demand has never been so strong. There is no sign of a demand slowdown and even though mints are running at full capacity they cannot meet demand.   In any other market that scenario would be driving prices sharply higher to balance the market.

Thanks to Robert H. For this video. While not offensive intentionally, today's world of text messaging and acronym's resulted in a banning of a personalized license plate. Please see here for a good clean laugh...unless you have a dirty mind! http://snackfeed.com/videos/detail/5e9e8542-7670-102c-8c08-00304897c9c6

In my free, nearly weekly newsletter I include many links which cannot always be viewed through sites which publish my work. If you are having difficulties viewing them please sign up in the left margin for free at http://www.preciousmetalstockreview.com/ or send an email to warren@preciousmetalstockreview.com with "subscribe" as the subject and receive the newsletter directly in your inbox, links and all. If you would like to see what my portfolio consists of please see here.

Until next week take care and thank you for reading.

Warren Bevan

If you found this information useful, or informative please pass it on to your friends or family. And please take a look at my portfolio here for help deciding where to invest.

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