

Precious Metal Stock Review



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Like the splinters in my finger, the junior and exploration market has been painful as of late. Almost painful enough for some many to lose faith and sell. I am told the pain is just too much and asked why it hurts so much. There are many reasons, naked short selling being the most aggravating but the coming wave can only be slowed not stopped.

I try constantly to explain that now is the time to put your emotions aside and back up the truck. The simple truth remains. Many junior and exploration companies have much larger resources and are even producing or near producing in some cases. Yet their share prices are lower than when gold and silver were much lower. If you believe we have higher metal prices coming then it is the easiest and most profitable investment you will ever come across.

But the sad truth remains, the real interest will come at a time that the party is nearing the end and so few will have actually made money in this market as they watch their shares drop and pray it's not over. Anyone still own Nortel?

Metals review



Gold ended up doing what I had laid out last week flashing a sell signal by violating support but so far it seems that was just a bear trap setup. The price has moved up above the lower Fibonacci line and is hovering just below the recently broken short term up trend line.

As I outlined in my Thursday update, this time of year has, bull to date, been the best time to enter the gold market. My update was timed with the bear traps formation and I believe that is the low for the next year and honestly I think we are on our way to well above \$1,000 and will never see these levels again. Ever.

The moving averages are postured bullishly as the 50 day just crossed the 100 day which is flat to slightly down.

The RSI is above the short term downtrend line drawn in but needs to get above the 50 mark to signal more strength. MACD is moving down and bearish triggering sell signals which will draw in some bears and trigger the black box trading programs employed by so many hedge funds. Slow STO appears to be turning up and about to cross over bullishy. Its level right now in the past has been where some truly great gains have begun from.

Monday I expect a strong move up, and then we will be off. Let's hope.



Silver must break its short term downtrend line very soon or risk running down to \$17. There are major Fibonacci levels that lie at \$18.06, \$18.89 and \$19.32. They have proved difficult to surpass recently and will be difficult going forward.

The moving averages look good with the 50 day crossing the 100 day which is slightly down. RSI is hovering below 50 and pointing down. MACD is starting to head back up nicely. Slow STO made a bullish crossover from very low levels where prolonged and substantial gains have begun from in the past.



Platinum continued its run down to where it began its huge and swift run up. The reports of a shrinking supply deficit and slowing catalytic demand for autos continues to hurt the precious metal. But the facts are larger and growing economies continue to produce growing automotive demand.

The two horizontal grey lines are areas of support. The first one didn't hold but did cause a pause. The second one is much stronger and I don't expect any runs much below it for any length of time. It may be soon a safe time to re-enter this market on the long side. Amazing how quickly it ran up and then came down just as violently. Volatility remains a part of precious metals investing. But the trend is clearly up and fundamental reasons continue to be bullish.

The moving averages have all rolled over bearishly. RSI below 30 signals an oversold condition, but that can persist. MACD is strongly bearish while the Slow STO actually made a bounce but it must take out the downtrend for any significant move to be signalled. Tough time in platinum right now but on the longer term charts there is strong support just below the price.



Palladium took another tumble this week but is now at a strong support region. The short term downtrend is in place and needs to be taken out soon. The moving averages have rolled over bearishly. RSI is very oversold and must take out the downtrend line. MACD is flattening out and the Slow STO looks to be turning up from a very low level. As platinum goes, palladium goes too.

Fundametals Review

The facts are coming to light as the big cap miners are reporting their second quarter results. Most have shown an increase in costs and lowered outputs. Most recently Goldfields [reported](#) a cash cost increase of 21% while output volume shrank by 14%. Harmony Gold costs

were up 9.2% and output lower by 16.6%. AngloGold costs were up 6% and output down by 13%.

Also [affecting](#) AngloGold's performance was the covering of hedges albeit a far cry from covering all their hedges as they promised. The company lost \$946 million in the quarter after spending nearly \$1 billion on the buybacks. The expensive covering of 3.15 million ounces is significant, but not as significant as the remaining 6.88 million ounces. The company was warned and urged to cover hedges years ago when prices were much lower and more easily covered. The huge losses and dilution to shareholders is a real setback for the company when they should be making fantastic profits in today's precious metals environment.

Goldfields has [mothballed](#) 130,000 ounces of gold production per year over safety concerns. Work will be done to ensure the safety of the closed area where pillars and support columns of ore were being mined. Once they can be mined safely the company does expect to recover the remaining ore.

AngloGold has decided to [purchase](#) a small Brazilian gold project for \$70 million. The project will be bought from a subsidiary of Eldorado Gold and is an all share transaction. The project lies close to their own project Corrego do Sitio which should be producing 100,000 ounces of gold per year by 2011. The company hopes to achieve total production from both project around 200,000 ounces per year. AngloGold remains bullish on Brazil and is looking to further consolidate within the region and become more dominant there as well.

Anglo American has [increased](#) their stake in Anglo Platinum to 77.8% over the past six months. The company has also spent \$1.4 billion on acquisitions over the same period. Rumours of a takeover are rampant and the company does not deny the fact only saying they continue to watch the share price.

A few conflicting stories this week regarding the future platinum supply. One analyst believes the market will experience a large over [supply](#) as new mines come on stream through 2015 and demand slow as the global economy slows. Then another [report](#) touting my beliefs that while demand may slow in some developed countries the BRIC (Brazil, Russia, China, India) countries and other developing nations demand will far outweigh the slowdown in some. To date this year Russian and Chinese auto production is up 14% and 15% respectively.

A point I make is that the power problems in South Africa, where most new mines will be coming on stream will hamper the development and make new mines more expensive to run or possible economically unfeasible. New industrial applications for the metal are also being developed which should create further demand for platinum. The market is expected to remain in a deficit situation through at least 2009 with a shortfall of 467,000 ounces this year and a 300,000 ounces deficit in 2009.

Eskom, South Africa's troubled power producer has [appointed](#) a new chairperson who is intimately familiar with the issues and needs of miners in the country. Bobby Godsell is the former CEO of AngloGold Ashanti, the world's third largest gold producer. Critics are angry over the appointment of a white person to the job as it did not reflect the agenda of black

empowerment set out in the country. Time will tell but I think it's a good thing to have someone so familiar with all the issues running the show now.

Namibia's mining is under the threat of a [blackout](#) in the coming weeks. Being so close to South Africa and largely electrified by Eskom's Koeberg Nuclear Station with one generator out of commission is the major issue at hand.

Barrick Gold, the world's largest gold producer, has [sold](#) some non-core royalties to Royal Gold in exchange for \$150 million in cash and a reduction of royalties payable to Royal Gold on Barrick's Cortez property. The reduction of royalties on the property has made the project much more economically viable. Cortez is on track to be a million ounce low-cost producer.

Expect more investment demand for gold when another ETF is [launched](#) in Dubai in the fourth quarter of this year. No major markets will be missed after this issue. The ETF is quickly becoming the most convenient investment vehicle for gold worldwide. Personally I do not like the ETF since it is always settled in cash and if for some reason physical gold is needed, it will not be supplied. Another factor which makes me wonder is that as farfetched as some may believe, if a country tried to confiscate gold as the US has done, much of it would be readily available through the ETF.

If you are considering investing in this vehicle I suggest you ask yourself why you are investing in gold to begin with, what you preferred outcome is, and read the ETF's prospectus very carefully. Personally I like Mr. Turk's service [goldmoney](#) which stores gold for you and it can be redeemed in nearly any currency as well as the physical bullion. But that is just my opinion and receive no compensation or have any affiliation with his service.

The CBOE is [creating](#) a new volatility index tied to the gold ETF GLD. The same metrics as the popular VIX index will be used on the options of GLD to determine the value of the new index, GVX. GVX will be a tradable index.

Investors are nervously [fleeing](#) Russian markets after an anti-trust probe was launched against Evraz Holding and Rospadsky Coal. The move is seen as a possible entree to nationalization, higher taxes or royalties if the charges can be proven with or without sound merit. Russia remains a difficult investment environment especially for producers. Exploration may be a safer bet, before the actual income stream begins with the onset of production. I have made some great gains on Russian companies but have pulled out, well actually been bought out before production began. In that particular case I felt taking the cash was better than the shares of the soon to be Russian producer. I still feel there is a lot of potential in Russia for exploration success but am quite nervous investing in producing assets. Just my opinion.

Saving the best for last I now want to talk a bit a bit the recent [takeover](#) offer by Goldcorp for Gold Eagle mines. Just recently Agnico Eagle mines acquired a large stake in Gold Eagle. Goldcorp operates basically as a neighbour to Gold Eagle and wanted to secure the gold belt in that region. Goldcorp moved very quickly even though Gold Eagle has no proven

economic resources. It shows how confident Goldcorp is in their resource model of their neighbouring Red Lake property.

The large miners are looking to replace their mined reserves and have only one place to go. There are many takeover offers to come as the big miners must replace the metals they mine. There simply is no other way to fully replace reserves than to takeover a junior or exploration company. I believe our time is very near as the two major catalysts have almost happened. Gold will be above \$1,000 in the near future and the coming wave of takeovers is on the horizon.

As I wrap this up tonight before heading out to the local summer festival for the headline concert I refresh my memory with [this](#) video of tonight's band. I expect to see a bit more grey on their heads tonight, but hey I love the classics and they are about as classic as you can get! Have a great weekend and long weekend if you're in BC, Canada, Eh!

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