Precious Metal Stock Review
Bridging Wealth Protection and Wealth Creation

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It's Only Halftime

This weeks letter is slightly shorter than normal to make up for last weeks long one. And of course it's party season and the last thing most people want to do is work! So let's get right into it. It's all good and there really is nothing to worry about this holiday season. Hopefully this will help to make this a more relaxing and enjoyable holiday season for you.

Metals review

While gold only fell 4.06% for the week, the big dollar move drew headlines. The mainstream is once again declaring gold as risky, but as I show below, this is healthy and quite normal.

The fact is, gold went up unsustainably. Neither gold nor any other commodity, stock or market can move up like that for long, even in the blow-off top that occurs just before a bubble pops. Gold needed to correct and blow off some steam, as they say.

The RSI quickly came down and is now at 42. Generally, bull markets see this indicator staying above 40. Perhaps a short burst below that level can happen, but if it stays below 40 for long, then that is a troublesome signal.

The uptrend is still intact and now around the $1,080 level. The moving averages are still bullish and the 50 day is both very near the price and right at the 50% Fibonacci retracement level.

MACD is still bearish but in positive territory and the Slow STO is now at a level where good things begin. Whether we see a range trade here, or see gold shoot back up quickly is up in the air, but it really doesn't matter. Gold will continue higher when it wants to.

Now let's address the scared investors out there. I drew in above the Fibonacci levels which are generally very good, accurate levels to watch. We are now seeing a 50% retracement. While not that much fun, it's healthy and normal. Look below at just two examples of gold breaking out in both 2005 and 2007. Gold moved up and retraced back to about the 50% level before moving back up explosively.

A mid breakout correction always happens and only marks about the halfway point in the total breakout move. That puts us near $1,500 before the snow melt. Although the new buyers, mainly Central Banks and Hedge Funds, participating in this market may make the future less predictable than in the past. But that should be a good thing since the pressure should be mainly on the upside.


$GOLD (Gold - Continuous Contract (EOD)) INDX
1-Aug-2008 Op 922.90 Hi 926.00 Lo 910.30 Cl 917.50 Chg -5.20 (-0.56%)
RSI(14) 45.15
$GOLD (Daily) 917.50
MACD(12,26,9) 0.202, 6.014, -5.812
Slow STO %K(14) %D(3) 17.03, 17.16


$GOLD (Gold - Continuous Contract (EOD)) INDX
1-Aug-2006 Op 636.22 Hi 648.63 Lo 630.83 Cl 647.72 Chg +10.21 (+1.60%)
RSI(14) 59.01
$GOLD (Daily) 647.72
MACD(12,26,9) 4.891, 4.464, 0.427
Slow STO %K(14) %D(3) 50.46, 44.10

Silver fell a volatile 7.27% on the week. Both horizontal support and the uptrend line helped stem the fall at the $17 level. The RSI moved below 40 to where it now resides at 38. This is something to watch but nothing to yet be concerned about.

All moving averages are positive but the price is now below the 50 day. On the downside I don't think we will see the price lower than the 100 day moving average at $16.50, but even that would be a stretch. I think we can consolidate and then move higher from here at the $17 level, at least that's what I'd like to see.

MACD is about to move into negative territory and remains bearish. Slow STO is hooking up and about to shoot a buy signal from below the 20 level. On this chart the last time the Slow STO was at this level we saw a quick move of about $3, so look for a big move to test the $20 early in the new year at the latest.

Platinum fell only 1.81% for the week. The uptrend channel is still holding and we simply saw a nice, needed move into the middle of that channel. Whether we move to test the lower end of it, trade sideways or move higher from here I do not know. But I do know platinum is moving consistently higher over time.

RSI flattened out and is at 49. The moving averages are all positive with the 50 day still tracking the lower reaches of the uptrend channel. MACD is on a sell signal but still in positive territory. Slow STO is now under 20 and should soon flatten out before showing us another buy signal. As with gold and silver, this level on the Slow STO always precedes major moves higher.

Palladium fell 4.52% on the week as expected and back into it's uptrend channel. It got a little carried away on the upside temporarily but is now behaving more normally.

The RSI is flat at 50. The moving averages are positive with the 50 day having steepened with the recent move up out of the channel. There is support from both the 50 day moving average and horizontal resistance at $345. The uptrend line within the channel may just hold though and possibly form a new, steeper uptrend channel. Time will tell, but this metal is very bullish and still cheap. Not too many years ago both platinum and palladium traded in near lock step at much higher prices.

MACD is on a sell signal but still positive. Slow STO still has room to run before it gets into solid buy ground. On a short term basis we are likely to see a further pullback where buying would be better advised.

Fundametals Review

One of our fearless, paid shill, ratings agencies came out this week and warned that “the US and UK must prove they can whittle down their ballooning deficits to avoid threats to their triple-A-credit ratings”. I’ve said before that no company within a country can have a rating greater than the country. If the US or UK were to be downgraded, every company holding a top rating would follow suit. Unless they changed the rules that is. Countries such as Canada, France and Germany escaped that tongue lashing.

However, the ratings agency said there is no immediate threat to US and UK rating, but say in a worst case scenario by 2013 the countries could see a downgrade. That year is important to keep in mind since the ratings agencies maintained top ratings on companies recently who were bankrupt until it was public knowledge and then they scrambled to downgrade the companies. Their ratings are all but worthless in my view, but the 2013 number may say that big things will happen in that year, but won’t be acknowledged until later by these companies.

As expected warning are coming loud and clear over a potential exodus of bankers from London if the so called “supertax” is imposed. The tax is said to be 50% on earnings above $150,000 Euros. Maybe they should exodus to China. Read on to find out why.

Obama’s decided to extend the TARP program until October 2010. They also pledged to use no more than $550 billion of the total $700 billion program. Do you believe them?

Across the pond the Bank of England decided to leave interest rates unchanged at 0.5% this past week as well as leaving their asset purchase program at $325 billion. No changes are said to be considered until February 2010 at the earliest. The bank said they see the economy coming out of the recession now.

There were three biggest losers this past week at the same place, at the same time, that be late Friday after all the traders are working on their second round. Please see this link for the latest list of failed banks.

Jim Rogers said lately that whether the world economic situation improves or gets worse commodities are still a great place to be invested. As in happening now governments around the world are printing money. Historically when this occurs commodity prices rise. Corrections such as we now have in the precious metals are nothing but chances to buy. The way to have been making money in precious metals through this new century has been to buy on weakness and sell on strength. That has not changed, but is one of the most difficult challenges investors face. Jim is pounding the table on silver and palladium as the best precious metals investments at this point int time.

Paul Volcker said that holdings of US dollars have reached "uncomfortable levels" at central banks around the world. That short simple warning says it all. Us small guys must get out of it before the big Central Banks begin to dump it in earnest. What to exchange it for is simple in my view. Hard assets, with physical nearby gold and silver being at the top of that list.

The US Mint ended sales of the Buffalo gold coins after having their inventory depleted. They do not plan to produce any more this year. Even while they were not offered for sale until mid-October the total sales still beat out both 2008 and 2007. Interestingly, fractional gold eagle sales were launched Thursday and in just one day eclipsed the 2008 total. That's not too surprising since as much as they'd produce would be taken up by dealers to be sold to the public. But still, it shows how eager and anxious investors and dealer are.

Soon enough platinum coins will not be available from the US mint. As of December 3, 7,207 of an allotted 8,000 one ounce platinum coins have been sold. It's as of yet unclear when the next coins will be struck and sold, if at all.

South Africa's woes continue as mining output for October dropped 8.5% year over year. Gold production fell 5.8% and platinum group metals production dropped a huge 19.3%. Other production falls were copper, diamonds and chrome while two metals, nickel and iron-ore, saw production rise.

Sri Lank is said to be open to buying more IMF gold. Good for them, I don't blame them.

This week's "good one" is China's execution of a trader who embezzled millions. That would be a sure way to deter fraud in America!

Happy Hanukah to those who celebrate it. Things will really start to slow down for North American markets from now until the new year. Enjoy the rest and vacation if you indeed take one.

In my free, nearly weekly newsletter I include many links and charts 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 subscribe and see what my portfolio consists of please see here.

Until next week take care and thank you for reading.

Warren Bevan

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