

Precious Metal Stock Review



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Christmas Cheers Abound

As most traders close out their books for the year it's looking like gold may be the best performing asset this year but we still have a couple weeks to go. If that happens it should draw quite a bit of positive attention to the sector.

This week brought less volatility than has been the norm as of late. The DOW lost a measly 0.07% but had some large swings. The S&P gained a slim 0.42% as bad news abounded but the big winner in the states was the NASDAQ which logged a 2.08% gain. Up in Canada the TSX gained a solid 4.91% and for once the TSX Venture exchange gained 5%.

It seems like no matter how bad the news gets the happier people are, unless of course you lost your job or all your money in the Madoff Ponzi scheme. I don't think we are quite done on the downside, except for gold and silver, but I do think we will end the year close to flat from here. There is still so much worse news to come that there is no way we will not see another low in my opinion. We may rally from here but it's inevitable that we revisit the lows at some point.

I am bringing you another <http://watch.bnn.ca/trading-day/december-2008/trading-day-december-8-2008/#clip119798> clip from the Canadian financial channel this week but this one is no laughing matter. The 20 minutes is well spent listening to some heavy hitters discuss monetary issues brilliantly. The guests are truly awesome and it's a rare event that such poignant questions are asked let alone answered honestly on financial TV.

Metals review



Gold gained a full 9.08% on the week. The weekly chart is almost exactly the opposite of last week's decline. Gold is holding up very well compared to any other investment but the year is not up yet. The price action is between the 38% and 50% Fibonacci levels. A channel has formed and we are trading in the upper half so that is something to keep an eye on.

RSI is holding pretty well above the 50 line which is bullish but the 67 level is still a wall. RSI turned down late in the week but is not a trending type move which has signalled direction well in the past. The moving averages are moving up finally and the price has moved above all the moving averages on this chart.

MACD looks spectacular and only shot us a slight bearish cross during the recent downturn in price. The momentum remained above 0 which is also very positive. Slow STO is also very bullish at the moment. I would not be entering this market today for short term trading but I am not saying it can't move up.

Everything is very bullish in this chart but the channel has me worried that we could move to the lower end of it. But then again if you consider the potential backwardation and

potential physical delivery issues I certainly don't want to be on the short side. Price can explode on fundamentals at any second as we have seen recently. There is a whiff of delivery shortage in the air and that is akin to a gas filled room being occupied by Lee Iacocca. It's only a matter of time before he sparks up his cigar...and the whole building blows.



Silver clawed up 8.48% on the week. \$10.50 is a wall of resistance. That reminds me. While out Christmas shopping recently I saw one of those robot vacuums which I have always been intrigued and curious about. I bought one and have been enthralled by it all week. It actually does a pretty good job if you block it in a room for a while. Anyhow looking at this chart reminded me of it. Silver keeps bouncing against this wall at \$10.50 and just like our little robot helper senses the wall, retreats and runs along it occasionally bumping it to make sure it's still there until it finds that corner and continues on its path to freedom and cleanliness; and soon riches in silver.

The uptrend line is holding and it looks like we could have a couple more weeks or so below \$10.50. That being said, silver could run to \$12.25 in a heartbeat if \$10.50 and the 50 day moving average are bested. Trading is dangerous right now. If you have physical silver you don't have to worry about daily gyrations. There is a special feeling I get holding real gold and silver, formerly known as money.

RSI hasn't yet been able to cross 55 but is following the uptrend higher and could resolve itself at any time; I expect it to be resolved on the high side. The moving averages are flat to up and it's the 50 day I am watching these days. Silver is really trying hard here. The battle between the bulls and bears is epic, but as I mention later the short position is 99% controlled by only two entities! Just think about that or anything else that is 99% controlled by two people. Do you think they could control prices? They can but not if enough physical silver is taken out of exchange warehouses.

A channel is forming also in silver and the price is dead center right now. MACD remains bullish and the momentum oscillator is healthy as well as it stays above 0 and formed a steeper uptrend recently. Slow STO is also very bullish and close to moving above 80. Time will tell but long and strong is how I am playing this market.



Platinum gained 4.94% on the week for a change. There is a slight ascending triangle that has formed giving me an indication that we have seen a bottom. RSI remains below 50 but looks nearly ready to mount an attack on that level and is holding the uptrend line.

The moving averages are mixed with the 20 day moving slightly up and providing resistance at the moment. The 50 day moving average is closely correlated with the resistance line I drew in as is the 100 day moving average.

MACD remains bullish and the momentum oscillator is holding strong above 0. Slow STO is flat and could go either way. I think we have hit a bottom but I don't think we will see a strong move up from here. I would rather see a ranging trade here for several months to build some solid support.



Palladium leaped 7.96% this past week from what looks like a double bottom formation. The downtrend from the November high is intact. The downtrend and bottom support line form a triangle which is very close to being resolved either on the upside or downside. I do not expect to see another lower low.

RSI also made a double bottom recently but still cannot get above 50. The moving averages are all lower but getting very close to the actual price now. Moving averages tend to be strong resistance lines so I think a range trade around here is what we will see before palladium can build enough energy to move above them. I am hearing reports of a tight futures market so who knows.

MACD is holding the uptrend but is below 0. Slow STO is close to moving above 50 but has just turned flat. \$200 then \$225 is strong resistance points which probably will not be broken convincingly for a couple of months.

Fundamentals Review

The economic news was bad all around this week with, as usual, too many big stories to get into here. Job losses are one of these topics not only in mining but throughout the whole economy ranging from carmakers to banks. Over 11% of the workforce will be cut after the New Year by just this one bank totalling over 30,000 job cuts.

It's Friday and yet another bank failure. Two banks failed once the markets closed and everyone headed home for the weekend, I am keeping my eyes on this since it was only one a couple of minutes ago and that may very well change to three soon. Notice most banks on the list linked above are names you have never heard of, that's because they are relatively small and are not so paramount to bailout since they are probably not intimately connected to the inner circle of greed, lies and manipulation but at the same time they depend on that circle for their livelihood. They are only a regional form of the former descriptive words.

The automakers found out they are no longer part of the inner circle this week. It's so strange and plainly wrong that the automakers are getting wrung out to dry over a measly \$14 billion. That is pocket change compared to the \$2 trillion they have doled out lately and to whom, we may never know. At least car companies create real wealth in jobs and production rather than paper artificial derivative wealth which clearly doesn't last.

In an enraging turn of events the Federal Reserve has rejected a freedom of information request as to the recipients of the funds. I don't know who they think they are but the US certainly doesn't behave like a republic anymore. Please read the article, send it to as many people as you can and get mad. That is your money, and they won't tell you how they blew it.

I hate to go off on raving mad tangents but US citizens must open their eyes and do something. You are all taking it royally while smiling and asking for more. Contact your congressman or congresswoman and present the article and your thoughts. The only way for this to end is to put an end to the public company; the Federal Reserve. Sorry about that, I try and stay away from politics as much as I can but enough is enough. I realize it's a long shot and likely won't happen.

Once again one of my favourite billionaires has called most big US banks "bankrupt". Jim Rogers spoke the words at an investment summit this past week. I have said many times that he is a billionaire for a reason and his words must be considered seriously. If you have been reading this free newsletter for any amount of time you know I have been of the same view for quite some time. There is a multitude of ways to play this from shorting individual banks to shorting banking indexes themselves or even using options on the same for that extra bit of leverage. Certain banks are much worse off than others therefore it takes a good amount of analysis to short individual equities. What I will tell you is that I have recently gone short a newly formed major bank that used to be a brokerage. They are reporting earnings next week and I am looking for short term movement lower.

Here's my attempt to be funny this week. Bernard Madoff (pronounced; made off) with the money before FBI agents [arrested](#) him on Thursday. Many friends and people within his network trusted and invested a large portion of their funds with him. The Ponzi scheme will cost investors over \$50 billion dollars. Many investors' lives will be forever changed and lifestyles will come down by a large margin. I hope they are done Christmas shopping already! It's sad but as the saying goes, if it sounds too good to be true, it probably is. I think the victims should apply for TARP funds; it very likely would work since so many were well to do and have connections within the ruling elite.

It's becoming more and more difficult to trust someone with your money these days. At least it happened in the US since in Canada he would in all likelihood still be a free man. On that subject, not that the US's SEC is anything to write home about, [here](#) is an excellent fairly short documentary detailing the lack of investor protection the regulators provide up in Canada. They ought to be put in jail, to keep it kind.

In a bid to skirt governmental regulation and oversight the Federal Reserve is considering [issuing](#) debt. It must be a joke or reads like one anyhow. The private institution which creates the money, at whatever rate they deem appropriate, for the US wants to issue bonds and/or treasuries. Their balance sheet has grown from under \$900 billion to over \$2 trillion just since August. The article is a must read. The Chinese will be happy to know that we do indeed live in interesting times.

A recent [report](#) states that safe haven investment for gold and silver will continue to grow as the financial crisis deepens and it becomes more apparent just how far up the creek we are. It's a nice short read. The physical shortage and demand is also highlighted in [this](#) great article. If you can get physical you should. Three month treasuries are actually returning a negative rate now! In essence you are paying interest on a treasury bill.

I won't say much about the potential of a Comex default other than to quote a paragraph from [this](#) article.

"Traders have been hearing talk that the gold market could face a potential squeeze at the end of this year if market participants with futures position on New York's Comex exchange decide not to roll over their positions, because of concerns about counterparty risk and opt for physical delivery instead. But dealers dismissed the threat of a squeeze, pointing out that Comex gold stocks stand at 8.5m ounces, well above the five-year average of almost 6m ounces."

I will also quote GATA's Bill Murphy from Friday December 12th who runs the wonderful <http://www.lemetropolecafe.com/> where you can get a free two week subscription (I have no financial relation, incentive or connection). He says;

"I received a call this morning from a commodities broker who told me that the Comex is alerting various futures firms about the potential of a squeeze on the December contract"

and is advising the \$840 December shorts to exit their positions. That is the remaining open position.

There have been 12,636 notices of delivery. The shorts have until December 31 to make delivery. Normally they deliver early to take in cash and earn the interest. They must be delaying. As I understand the situation, that represents about 40 percent of the gold available at the Comex, and of course someone could enter the scene late, buy February gold, and then spread into December, which would stun the shorts.

My broker friend said his back office said this sort of alert is highly unusual and that the concern is real, not only for gold, but for other commodities too, like copper and palladium, as there is a good deal of talk of taking deliveries there too. But gold is the one for which the advice to cover went out.

This is an extremely productive development and could spur the price of gold up quickly as word spreads. As we all know, buying Comex gold and silver (the cheapest way to buy precious metals) makes all the sense in the world in this financial environment."

We all know that Asia by far outpaces US physical gold demand but now it seems that they are even outpacing us in [futures](#) trading. Asia imports 60% of physical demand. The total futures trading in Asia was 49.8 million contracts compared to only 34.3 million contracts in the US. I wonder if China's central bank was participating in the buying in an attempt to boost their proportionately small gold reserve.

Highlighting geopolitical risk this week is the [pending](#) denial of the country's largest gold deposit. The deposit ranks as one of the ten largest gold deposits worldwide. In strange and circumspect circumstances Columbia's auditor general sent a letter to the environment minister recommending they deny the permit since the deposit is in an environmentally sensitive area. Didn't they know that already?

In the sometimes risky and violent Indonesia officials [agreed](#) to pass a bill on December 16th to enable mining companies to more easily exploit the mineral wealth there. The largest issue under the new law is that companies will have to turn concentrate or product into actual metal in Indonesia. This may be more costly but labour is cheap there and they do not have to do it themselves, it can be contracted out to existing or new smelters. This will add to the amount of revenue remaining within Indonesia. That is good as long as the wealth is spread properly and evenly which is possible but unlikely.

Once again the subject of congress having veto power over mining projects is being talked about. This same [story](#) comes out once in a while and there is no chance it will happen. If it was passed investors and companies would pack up and leave. The tax ramifications would simply not be acceptable. Don't worry it's all a show, just like talk of IMF sales.

While things are really beginning to slow down for the Christmas break festivities there were still some announced job cuts, cut backs and the like in the mining industry. Remember

silver is mostly a by-product of base metals. [Here](#) is the first article followed by a [huge](#) cut to a workforce. A company being [liquidated](#). A Russian mine [holding](#) off on commissioning until world metal prices rise. Another mine is temporarily [shutting](#) down until markets stabilize and rise.

I ran across a blog (which I lost the link to) this week which seems genuine and details the major issues run into when trying to convert a paper silver certificate to physical silver. The tale is a sad reality and highlights the importance of holding physical metal, not a paper certificate. There have been too many problems with anything but physical including being charged for metal storage but finding out your metal is not even being stored! The problems with anything but physical bullion have not even started. Soon the news will be overwhelming on the subject but it will be far too late to acquire any by then. It may be too late already for any size to be bought other than taking delivery of a futures contract.

I tried to order some physical silver this week at a major Canadian bank who happens to be one of the largest metals dealers in the world and they said they have no silver of any kind. They also said they would sell me a silver certificate, and a small storage fee. Needless to say I didn't fall for this ploy to fill their empty silver vault with my money. This all brings up another thought; maybe they have the metal but are unwilling to sell at today's prices knowing what is coming in the months and years ahead.

This brings me to another point regarding the much talked about backwardation in the gold futures market. Backwardation is simply the opposite of contango which means futures contract prices are higher the farther out you go. So backwardation means the front month is more expensive than the next month all the way down the line giving the furthest contract out the lowest price. This signifies that gold is wanted right now.

While the backwardation is close it is not fully in force yet with the June month still above the May contract. But I think it is coming. The only reason backwardation could exist in gold is if participants don't believe they will be able to get gold in future months and they want it now. Antal Fekete has written some academic articles this past week which outline what he believes is about to happen. Here is his [first](#), [second](#) and [third](#) articles for your viewing pleasure.

The short position in silver now is 99% controlled by TWO institutions. This is manipulative. Such a huge position has no other motive.

A major drilling company with their finger on the pulse of exploration this week [said](#) they expected slower business next year. They say base metals exploration will be very weak while they are uncertain about gold.

I love Australia and especially the wonderful people who populate it and the recent [handouts](#) make me want to relocate there even more. Many citizens are receiving \$1,000 per child. What a great Christmas that would be! The cost is said to be in the \$8 billion range, and I would say well worth it for all the goodwill that gift will bring.

In closing I would love to mention gold's performance in relation to, well anything else, but I will hold off and try not to jinx us. Until then enjoy this busy but festive time of year.

At this joyous time of year it's a bit more joyous in Whistler BC, Canada as the new peak to peak gondola opens. It's truly a feat of engineering, and two cabins have glass bottoms! In my younger days I had the privilege to ski and live amongst those wonderful snow filled mountains and make some great friends along the way so here's a shout out to all my old ski buddies. I wish that gondola was around when I was. It took forever to ski out and then upload onto the other mountain whenever you wanted to pull a switch. But then again there were far fewer skiers on the mountains then, leaving me with days and days of powder stashes after a snow dump. Ahhh, those were the days!

As I finish up this week's newsletter early Saturday morning while listening to some classic Christmas music, Elvis is on now, it's not the night before Christmas but; "when all through the house, Not a creature was stirring, not even a mouse;" just a couple cats and a dog. So I'll sign off before the rest of the family awakens and maybe snuggle back into bed with my better half. Take time to enjoy yourselves this Christmas season. Enjoy your time, family and may peace be with you.

And to all those who wrote in to sympathize with my PC problems thank you. For the record I was overwhelmed with excellent MAC reviews, not one bad. Not one person wrote in to tell me to stay with a PC, except one gentleman saying the Linux platform is excellent. I am waiting for MacWorld to happen in early January in case they produce a new product before sending in my order. Thanks.

I have no fun videos or anything for you this week but I would be remiss to not share my favourite Christmas song with you http://www.youtube.com/watch?v=vQqrt0nM_vw. Enjoy and take the snowman's advice!

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