www.preciousmetalstockreview.com December 4, 2009

Golden Transgressions

Gold retreated late in the week like a cheating tiger. Gold will apologize over the coming months for it's transgressions. Gold apologizes now for being so volatile and upsetting you just before the weekend, but in the long term it will be there for you...don't worry.

We had a cougar sighting on our street late in the week as well. We live on the edge of town with deep forest a stones throw away. Animals are nothing new, even the odd bear will wander through in the fall, eating fruit and leaving steaming piles on our front yard. But bears are no problem and easy to deal with. A cougar on the other hand, while I'd love to see one, is a beast in and of itself. I've only had the pleasure to see two lynx in my time, far out in the wilderness on my motorcycle.

I try and imagine our little cats as big sometimes. Cats never cease to amaze me with their stealth, agility and prowess. They are one of the most amazing animals in our world. The neighbourhood is well aware of it's presence so there shouldn't be any problems. And as far as we know there is only one around. Unlike Tiger whose got a new cougar surfacing nearly every day with her wild tales. I know, I know, bad joke. Let's get right into this longer that usual letter.

Metals review

Gold finally took a breather late in the week which turned the weekly percentage move to a negative 1.31%. Not too bad, although the ferociousness of the move lower always scares people. It can be volatile, but it's always been worth the angst in the end.

I have to give a huge kudos to Jim Sinclair. For years he's had what he terms angels, which act like magnets to the gold price. Once again they've proved to be reliable areas as one number was $1,224, and the high this week just before the correction was $1,225. He's the most important resource you have access to in these times and I suggest you give his site a daily read as I do.

The extreme overbought readings in all the indicators needed to come down a bit, and still do. RSI shot down to 56 in the blink of an eye and out of overbought territory. The moving averages are far below the price today and remain bullish. I doubt they will have a chance to act as support for at least three to four months.

MACD just showed a sell signal from above 30. Slow STO also showed a sell signal from up in the clouds. Personally, now that the steep uptrend line is broken I think we will see a consolidation type trade between $1,224 and $1,150. Perhaps a triangle formation will form and during that process move the indicators lower before the next big move.

Every big move we've seen in gold this decade had a rest period about half-way through the move. This is it now. We will consolidate and build up some more steam before moving closer to $1,500 before the snow melts. That will be a time to take profits, not now. If $1,500 should fall support lies conveniently below in $25 steps.

With the slow Christmas period quickly approaching I expect the buyers to scale back and perhaps let the shorts keep the price under pressure before they come back in and scoop up a bunch of cheap gold. On the other hand many nations don't celebrate Christmas and that list includes China so maybe we won't really see much of a correction.

Either way we are only about half way through this leg up into all-time high territory on a short term basis. On a long term basis we are not even yet half way to gold's ultimate price and less that 10% of the ultimate high in silver.

Silver's chart is much better than that of gold and the metal actually gained 1.18% for the week. Silver never really took off like gold, and has yet to violate it's nice uptrend line.

The RSI is heading lower and should soon be at 50. $19 is now resistance. $18 is support as is $17.50, which I don't think will be hit. The steeper uptrend is also holding strong and I think it will continue to, especially since the 50 day moving average is so close to it.

All moving averages remain bullish. MACD is about to flash a sell signal. Slow STO is bearish and still quite high.

I think we will see silver outperform in this period of gold consolidation and I also think it will lead gold in the next up-leg. So many commentators have been missing the move as they've been waiting for silver to confirm gold's move by moving above $22. What I am thinking is that once silver hits $22 that will trigger the next major up-leg in gold, but who really knows.

Platinum gained 0.26% for the week. It's uptrend channel is still holding strong. The quick move back to the middle of the channel was just what the doctor ordered.

RSI, MACD and the Slow STO indicators are just blowing off some steam in a perfect, healthy, orderly manner. The moving averages are bullish and in great shape with the 50 day still tracking the lower end of the channel. Good stuff.

Palladium gained a full 2.92% for the week and is teetering on blowing out of the channel and rising even faster. I think the chance that the channel will hold the price back is quite high, but you never know. What I do know is that palladium is in a bull market and will be much higher in the years ahead.

From overbought the RSI is coming back lower, as well as the MACD which looks ready to flash a sell signal. The Slow STO is overbought and now showing us a sell signal. I'd love to see, and expect to see, this indicator come back below 50 over the next week or two and palladium hit the $360 level.

Fundametals Review

The mainstream is finally picking up on the commercial property problems happening right now. Unfortunately it's already too late. Commercial bank-loan defaults hit 3.4% in October, the highest in 16 years. The value of the still relatively low defaults is now up to $4.4 billion. Not pocket change by any means. The research firm expects the rate to peak out in 2011 at 5.3%. The real kicker is that delinquent CMBC loans rose 2.6% in October to total $32.55 billion. This is a big story that is just starting to break.

Because of Thanksgiving last week we had no failed banks. This week made up for last as we have six biggest losers to add to the list. It still baffles me that they have to wait until everything is closed on Friday until they announce the failures. It's obvious why it's done, and another symptom of the broken system.

One thing to keep an eye on is large funds and their exposure to stocks. Recently 11 funds were surveyed and they have continued to increase cash reserves. The average for September was 1.6%, rising to 1.9% in October and now rising again to 2.7% in November. It's still a low number but something to watch for to perhaps tip us off to a coming crash. But for now the markets still looks strong in general. One manager said; *"When you see an asset class rise 60 percent from its bottom, you have to reassess. There isn't a lot of conviction that we will see another year of huge returns"*.

Over in Germany, the Chancellor, Angela Merkel sees the reality and is alarmed at the worsening credit crisis. That's a far cry from the everything's getting better crowd on this side of the pond. The Bundesbank sees that another $90 billion euros are likely to be written down by banks over the coming year.

Seeing this large bank attempt to raise over $19 billion in order to pay the $45 billion they owe from the TARP program is also something we must watch. Generally companies don't like to issue shares at low prices, especially if they think their shares will continue to rise. Basically companies want to maximize things and sell at the top, not the bottom or middle. So we'll see over the next while if others are also raising cash or going public to spread the risk.

The ECB (European Central Bank) kept their interest rates unchanged at 1% this past week but signalled that they will soon begin unwinding their crisis support. They reiterated that this is not a signal of rising interest rates to come. Australia remains the only major economy raising their interest rates. I think Canada will begin to follow by mid 2010, but we'll se how the commercial real estate crisis plays out.

I a posting the whole blog post from Jesse's Café Américain since it's so important.

"This report below comes from John Cheney.

We would not conclude that you cannot get gold from the Comex in the exercise of your futures contract. "Cash settled" is nothing new, and we ourselves have done this in the past. But we have been speaking with other traders and funds, and some are spotting a trend.

Comex is putting forward the offer of paper in the form of money or ETF positions aggressively, and it is the much easier alternative. Delivery of physical gold from the Comex is no longer as straightforward or even as semi-convenient as it had been in the past. In fact, it is difficult, and one must be persistent and wait long periods of time. At least, this is what we hear.

We would like to know if there has been a recent independent audit of the Comex stores, with a clean sheet of bar numbers and the status of same. From what we hear it is a mess, as bad or worse as the recent scandal in Canada and the 'missing bullion.'

"Some months ago a chap described changes in the comex rules for futures contract deliveries. Therein it was described that the EFP, exchange for physical, rules were amended to allow for delivery of GLD shares in lieu of bullion.

Well take a look at something new, at least for me, in Monday's comex preliminary volume and open interest report. On page 3 of the attachment, notice that in addition to futures contracts listed under the EFP category, <u>a new category is listed: "Delivery Cash Settled" = 2866 december gold contracts. Just so happens 2866 was exactly the number of delivery notices issued on FND as reported in the Nov 27</u> vol and op int report.

Conclusion: guess you can no longer get bullion via using comex contracts. This apparently is the next step in the evolution of gold trading."
The conclusion we reach for now is that if one is counting on the ability to receive delivery of physical gold from the Comex for whatever

> purposes, then don't. You will wait and fight and stand in queue to obtain the goods from the Enron nation.
>
> But one principle we have learned over the years is never to attribute to bad intents what can be attributed to human error and mismanagement."

I've talked about the physical market being the straw to break the camels back in the past along with many other commentators whom are much wiser than I. It's simple, paper can be issued easily and without limit, physical gold cannot. If you want to achieve your goal of higher prices you have to take delivery or ensure that your investment of choice takes physical allocated delivery 100%.

Australia has overcome the US to become once again the worlds seconds largest gold producer in H1 2009 and are looking good to finish the year off with that title. They produced 112 tonnes in H1 2009 beating the US with 105 tonnes. I expect Australia to remain in that place for many years to come as they promote mining and have a nice chunk of gold reserves to develop. Also the US's NIMBY (not in my back yard) policy will only lead to falling production. Shouldn't the US be trying to get back to it's roots of when times were actually good and produce something...anything, stop just consuming.

A study was just released whereby Canadians were generally supportive of mining. But what makes me a proud Canadian is the fact that 96% of those surveyed understood that mining was important to the economy. No country or it's citizens are perfect, but it's important to have an understanding of just what makes the country tick and allows it to enjoy the current standard of living and mining will become increasingly important in the years ahead..

A Chinese company is attempting to buy out an Australian base metals and gold explorer. Both companies are for the buyout but it will ultimately fall into the hands of the Australian government who has blocked mergers like this in the past. Relations remain strained, but that can change.

The Chinese head of the supervisory committee was cited as saying that China should increase their gold reserves. This is the same old story that we hear nearly weekly, but I put it in for the many new readers. They recommend that the reservers increase to 6,000 tonnes in three to five years and up to 10,000 tonnes in 10 years. That's a far cry from their current 1,054 tonnes reserve holding. The world only produces between 2,000 and 2,500 tonnes of gold per year so if this recommendation were to be followed the price of gold would have people digging holes in their backyards looking for nuggets or buried treasures.

An interesting article came out of the UK this past week echoing many of my thoughts. The line that really caught my eye was; *So far, China has just 1.7pc of its reserves in gold, or 34m troy ounces. I was told by a top Chinese official that they are buying on the dips so as not to crowd out the market, which means of course that gold cannot "crash" unless you think China itself is going to crash — or stop building reserves"* Now that we have seen the first real correction in this move higher we will get a much clearer picture as to whether, and at what level the so called Chinese put will be at. I have a feeling it will be right around here.

South Africa's power provider, Eskom, now says they may revise their ridiculous increased tariff proposal. They originally wanted 45% a year increase over the next three years which would be about a 200% increase by the end of the term after just this year increasing tariffs by 31%. It's an outrage in a country who's seeing their great mines fall from glory partly due to the very high costs associated. Word is that a low 30% increase per year could be feasible, but when will it end?

The Shanghai gold exchange is planning to allow palladium to trade there early in 2010. This is said to be mainly because palladium is used in catalytic converters in automobiles. China is producing more and more cars and will continue down that road for many years to come. As with silver, palladium is used in applications, unlike gold. Both markets are much smaller than the already small gold market making investments in those metals very attracting on a fundamental basis.

The world's largest miner says they have completely closed out their hedges after raising $5.1 billion over the past few months. It's a bit complicated but they had two types of hedges, floating and fixed. The fixed, taking the company at their word, have all been closed. But the company admits that their floating hedges have not been. However they say that no activity in the market is required to close this obligation, which right now is marked to $700 million, but they say $0.7 billion to make it appear smaller. Basically the hedges will be cash settled. The company also has $100 million in silver hedges remanning that will surely grow close to $1 billion by the time they raise cash and cover them.

On the topic of hedges global de-hedging rose to 3.18 million oz gold in Q3. That's a far cry from only 980,000 oz in Q2. Still though 11.5 million oz remains hedged globally. Two companies which includes the company referred to above accounted for 85% of the de-hedging. The report does not see much new hedging going on as should be expected. This has helped the gold price rise over the quarter.

An article in a mainstream Canadian news organization says that other items than gold can hedge against a weak dollar. They cite silver, platinum, palladium and copper as possible investments. One person recommends ETF's and a couple big miners. It boggles my mind just how far ahead of the curve we are still. But stories like this only reinforce to me just how much further we have left in this secular bull market.

I am sure you all know just how anti ETF I am for the most part, and my view holds that the smaller junior and exploration companies will be outperforming the majors as time moves on. They even are now for a good many. A few stocks I own are up triple digit percentages in the last two weeks.

I recently stuck my neck out and posted a link to the old "Loose Change" documentary and expected a mass exodus of subscribers. The opposite has been true so far. Thanks for that! I've had many emails thanking me for that and lots of people saying they'd seen it and tried to get people to watch it to no avail, and had felt like "the nut on the street" for a while.

It made me laugh out loud when some said they finally got some to watch it and you could see by their expression that they were reconsidering all they thought they knew as the movie progressed. While I don't focus on that stuff it's still interesting and a good watch at the very least. But so many people are ignorant and want nothing to do with those "conspiracy nuts". In reality most of it is factually based, but sometimes the truth is stretched no doubt.

Anyhow, the point is that it won't hurt to look into alternative views. That's largely how I got involved in precious metals so early in the first place. Even still, gold is viewed as an alternative out of he box investment, and heaven forbid you actually own some physical. What kind of nut would do that? Just because the mainstream talking heads say something, doesn't mean it's true. Thank you for all the kind words and amusing stories. The truth will set you free!

This weeks cracker comes from NY, where employees at the big "bank" that everyone loves to hate are arming themselves in fear of a much deserved populous uprising against the bank. Maybe if they reverted back to kindergarden and remembered them simple, all important lessons; don't cheat steal or lie, they wouldn't be in this situation. It all seemed so simple back then.

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Until next week take care and thank you for reading.

Warren Bevan

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