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Go For The Gold

As the world's athletes gather in beautiful British Columbia for this Olympic Games they are all focused on but one thing, the Gold. As investors we should also be focused on the Gold at the moment. It is nearing the end of it's wedge pattern and will be resolved to the upside within a the next two to three weeks most likely. As I always say buy gold on weakness.

The Chinese recently increased reserve ratios by another 0.5% which is a way of curbing inflation, which they acknowledge they have a problem with at the moment. Some people see this as bad for gold, but those same people have tried to put a negative spin on anything and everything when it comes to gold for the past decade, so I take it with a grain of salt.

Chinese new year is now upon us and that will mean subdued eastern demand. Nearly everything shuts down over there while the populous enjoys some well deserved time off, but it seems Indian buying has picked up recently to pick up the slack. We are soon heading into a seasonally strong period for gold which will coincide nicely with the end of the Chinese New Year.

Metals review

Gold edged up 2.06% for the week and more importantly, back into the wedge formation. At the current rate the wedge should be resolved within three weeks to a month. Personally I think it will coincide with the end of February which has tended to be a weak month for gold historically.

The RSI must get above the 60 level where a horizontal resistance line is drawn in order to confirm any break out of the wedge. The moving averages are mixed right now with the 100 day acting as resistance for now.

MACD is close to breaking the downtrend line which would show strength, and MACD has also just flashed a buy signal. Slow STO is also bullish and dead centre in it's range.

While the reasons for gold to rocket from here are strong I think we still have a couple weeks of this range trade ahead of us. I would not be surprised, and actually I expect a spike lower to test the 200 day moving average before a quick reversal higher which will break the wedge formation to the upside. That will be the signal that the trek to $1,500 has begun.

Silver rose 2.27% for the week. Technically the chart is still an absolute mess with no good news. A bearish flag pattern has formed which would point to a test of the $14 area. I have my doubts about that occurrence, but you just never know with silver. This type of technical damage has been done before only to see the price move up sharply shortly afterwards. I expect silver to lead gold higher, but right now clearing the $16 is it's biggest challenge.

RSI has turned up from the 30 level. The 50 day moving average has pushed below the 100 day which is horrible, but typical of silver. The 200 day moving average coincides with the $16 area which has been a thorny area on many occasions since 2007.

As I look at a longer term chart (not shown) I see that $16 has really only been bested on two occasions for any length of time. Markets tend to take three times to beat a level for good so I'd expect this next time that we get above $16 to be the last. If you ever want to buy physical silver under $16 the window is closing rapidly.

MACD is about to flash a buy signal from a low level and the Slow STO has already flashed a buy signal. If you already own your allotment of physical silver don't sweat this current madness, if you don't enjoy this sale on silver.

Platinum rose 2.44% for the week. I feel like a broken record every week as I talk about Platinum and Palladium. They've both basically held within their uptrend channels for over a year and have seen the 50 day moving average act as support without question during that time.

The recent introduction of the Platinum ETF pushed prices quite high out of the uptrend channel on a temporary basis which had the effect of moving the 50 day moving average up higher than would have otherwise occurred. That is the only reason we saw a penetration of the 50 day recently. That imbalance is now working itself off.

But you'll notice it did not move below the lower reaches of the uptrend channel. Platinum remains one of the easiest and most predictable commodities to trade and the new ETF's give us a great chance to take advantage of that.

RSI is at 50 and flat. The moving averages are all pointing higher still. MACD is turning but has yet to show a buy signal. Slow STO is bullish.

Palladium flew 5% higher for the week. The same can be said of Palladium as Platinum, but this market trades thinner, hence the big gaps at times. Just great action though from Palladium as it moved back into it's channel, tested the low and moved back higher.

RSI is flat at 50 after bouncing off 40 in textbook fashion. The moving averages are very positive. MACD is turning flat, but still showing a sell signal. Slow STO is bullish and mid-range.

Don't look for too much more upside here beyond $440 before we see a move to below $400.

Fundamental Review

If you've been paying attention to anything Tim Geithner has been saying you know that it's usually just to quell the populous before the opposite occurs, in due time. The latest out of his mouth touches on a topic I've mentioned on numerous occasions. He says the US is in no danger of losing their AAA credit rating status now, or ever. Strong words from the man himself.

As I've said at length the ratings agencies are paid shills who never downgraded a company in the first round of the economic meltdown until it was far too late. The agencies are paid by the companies they rate, so would you expect anything less of them. You would never bash your employer publicly and expect to still have a job come Monday, so why would they?

But the most important point to never forget is that no companies credit rating can exceed that of their host country. That means if the US gets downgraded to AA no company based in the US can have a higher credit rating than AA. Plain and simple...unless they change the rules!

It wasn't long ago that the Bank of England (BOE) let out the trial ballon by saying they would suspend their bond purchase program on a trial basis. The BOE said this past week that it is "far too soon" to call a full end to the plan. Economies remain very fragile. While the focus remains on Greece, the fact is that it is a small problem. Many other countries including the UK and US have the same issues, but on a much grander scale. Even within the US, California itself is a much larger issue than the Greek one.

After raising rates not long ago, Australia decided to shock the markets and held rates steady this past time. They are taking it very slowly and see their economy as still very fragile. The Australian Finance Minister says that more stimulus is still needed, although less than last year. He is worried about the long-term debt accumulated thus far in the crisis. These words of caution are coming from one of the strongest economies in the world. The situation is far more fragile in most of the G7 countries.

I realize that I focus on macroeconomic issues in part every week, but the reality is that as much as it bothers me, it doesn't bother me. By holding real assets and their related equities I've sheltered myself to a large degree from the pervasive greed and the systemic broken model of fiat currencies.

Unbelievably there are no failed banks this Friday. It is indeed a rare occurrence which tends to coincide with holiday weekends, one of which is now upon us. I suppose even FDIC employees need a break sometimes.

The title of this article is a bit misleading in my view. It's titled "Uncertainty About Another Gold Boom" and talks about the annual rate of gold production. They say the world needs to discover 115 million ounces per annum in order to keep current production stable. Shouldn't the title then be "Another Gold Boom Certain"?

It's impossible to find that much gold every year since gold is a finite resource on our earth. However, there is much more gold than widely acknowledged, but it is uneconomic to extract since it's found in minute quantities. With the ongoing gold boom and coming major rise in price some of that gold will become economic.

There has been talk of peak gold over the past few years, and it is inevitable, but this milestone will be extended as prices rise and low-grade ore becomes feasible, as well as new more efficient mining and recovery techniques evolve.

The article also talks about the rise in exploration costs and gives one example of a company who in 1980 could find an oz of gold for $10 while today it costs them $52. My question is why invest in them then. I know of companies who are finding gold in the ground for as low as $5/oz. Now that's bang for the bit!

The world's second largest mining companies CEO says to watch out for a rising gold price in 2010. He expects it to possibly trade up to $1,350. Mr. O'Brien has a firm grasp of why as well. *"We will see continued support for the gold price. . . . No country can print more of it (unlike money), so no country can dilute the value of gold."* It's nice to take the simple view sometimes to help get through these corrections. It really is as simple as he says. Money is being created and backed by nothing. Gold has been money for thousands of years and remains money, although that concept is not taught or touted often anymore.

It remains my view that once this small correction passes we will resume the second leg of this move higher and take out $1,500 before we see a meaningful correction. No matter what you are told, this is not a meaningful correction. When gold corrects 20% or more, that is meaningful.

The sovereign wealth fund in China (CIC) has disclosed their US equity stakes this past week. Some of their largest holdings are in Gold ETF's and the miners themselves, as well as diversified miners. They do hold some US financial equities which have been in the past and remain basically backed by the US government which means there is next to no risk of a default. By and large they are buying "stuff". I've said it before and will again; follow the money.

On the same topic China just ordered managers of it's currency reserves to withdraw from risky dollar assets. They are putting reserves into guaranteed debt instruments such as US treasuries. At least that is what they are saying.

Treasuries are now in a huge bubble and this could be the pin to finally pop it. This information was leaked, and likely done on purpose as the Chinese continue their campaign of disinformation by saying one thing and doing another. Smart cookies they are!

This also brings up the question of whether they will be dumping certain US financial equities which should be viewed as risky even though they are basically guaranteed, but in the US dollar only, which will soon enough regain it's primary trend lower.

In 2009 a record $329 billion of corporate debt was defaulted upon worldwide. This figure is up 17% over 2008 and dwarfs any other period.

Last week we had George Soros talking gold as the ultimate bubble, and it certainly will be one day. This week news comes that John Paulson's new Gold fund has had limited interest thus far. Doesn't sound like people are lining up to get gold to me.

Before Paulson became so famous after making out huge on the sub-prime crisis investors pooh-poohed his ideas of betting on a decline in home values saying he was no housing expert. He is now facing the same criticism over gold. If you take an honest look at the issues in the world today I don't see how you would want to invest in anything other than commodities, gold and silver being at the top of that list.

This is a great must watch video on one aspect of the corruption taking place in the aftermath of the sub-prime crisis. As the saying goes; it's not what you know, it's who you know.

I had to laugh watching the opening ceremonies of the Olympics as Israel and Iran were introduced back to back. I wonder if the Olympic organizers considered just how fragile the relationship is between those two countries. In any regard I am looking forward to seeing the awesome scenery and events take place in my former stomping ground. I know Vancouver very well, and Whistler much better and there is nothing like seeing your old backyard showcased on such a magnificent stage.

To end on a kind of funny note, at least if you don't live in the US, this video is a classic example of the promises made and broken by Obama within his first year in office. If you are American I'm sorry. But by buying physical precious metals you are in effect telling the system where to go.

Please enjoy your long weekend if you are in North America and Happy Chinese New Year to those in Asia.

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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