

Valentine's Day Massacre

While I try to keep things positive and always give everyone a chance, it seems as if the new president is not changing anything in regard to spending. The freshly passed stimulus and TARP II are no better than what was passed during the Bush administration and in many ways even worse. Transparency is all but impossible to find since they can't even tell us a basic plan on the new TARP spending. Rest assured more stimulus is coming and as I alluded to last week we haven't seen anything yet. You must protect your wealth otherwise lose it.

Physical gold, silver, platinum and palladium are ways to protect that wealth and that must be your first goal. I am sure you are sick and tired of hearing me rant on about this and many of you have protected yourself on the good advice of many. The relatively small group who are into metals and read these sites and articles are the visionaries. How many people do you know who are invested in precious metals yet? I would bet most people feel uncomfortable bringing up the subject at a social gathering even amongst family and friends. This will change. The very small precious metals markets are going to be overrun, more like trampled.

It will only take a minute amount of interest to shoot this market so much higher.

The tale of the tape saw the Dow fall 5.20% closing for the long weekend at 7850.41. Look out below! The S&P fell 4.81% and the NASDAQ lost 3.60%. Up north in resource country the TSX dropped 3.66% and the Venture exchange popped up 1.79%. Once a solid portfolio is built the venture exchange is where the icing on the cake will be found. There are several excellent companies there selling for less than cash on the books still.

Metals review



This longer term chart shows the recent resistance line broken and now acting as strong support. \$925 has been and remains significant. This chart shows clearly the \$965 region as the most important next hurdle followed by the band of strong resistance from \$990 to \$1,000.



Gold gained 3.05% percent in the week and came perilously close to breaking out of the up-trend channel. The price action moved above the \$925 area with conviction and should be able to hold that as support for many reasons one of which is the continued unchecked spending by the US government. Open interest in the futures market remains at very low levels meaning many more investors can come into this market to drive prices up. Also the big days this week didn't see much of an open interest change so shorts were covering and well they should with the recent strength gold has been exhibiting.

RSI is turning down and still can't muster a close above the 70 line. The moving averages are solidly trending up and in order. MACD is bullish but has flattened out at a high level. Slow STO is also flat but bullish above 80. It looks like we may get a test of \$925 and then it is likely we will be moving higher in

step and eventually back into all time territory. Once \$1,000 is broken \$1,200 at a minimum is inevitable.



Silver gained 3.53% on the week and is staying within the steep up-trend channel but looks to be coming into a strong resistance area just below \$14. RSI is poking above 70 which is great to see but may stall since overhead resistance is strong. The moving averages are heading higher and the 50 day is about to make a bullish cross of the 100 day. MACD is bullish and steady but momentum is flat and above zero. Slow STO is moving slightly higher and well above 80 into overbought territory.

I took a quick look at the 1 1/2 year chart and there is no major resistance between \$13.90 or so and \$16. I think we will see a stall here before building up the steam to beat the quite significant resistance at \$13.90 on the

1 1/2 year chart not shown, but the green line represents that resistance level and links to the most recent test of that line.



Platinum rocketed 5.67% last week to above \$1,000, then \$1,050. That is classic bullish action and now the price is testing support at \$1,050. The price is approaching the top of the trading channel. I think platinum needs to take a breather here for a few days before heading higher again. I would love to see it hold above \$1,050 and make that line even more significant.

RSI is heading slightly lower but well above 50 which tells me the general trend is up. All three MA's are heading higher and bullish. The 20 day may very well cross the 100 day MA this week. MACD is bullish and Slow STO just flashed a buy signal on Friday. Quite impressive moves up from the late 2008 bottoms.



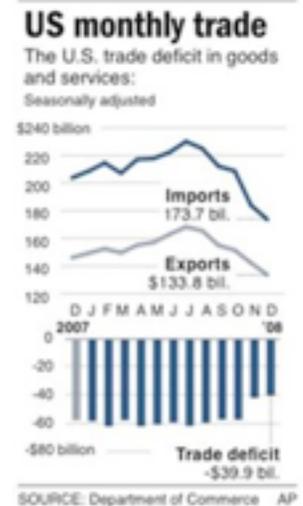
Palladium gained a respectable 1.48% last week and is trying its best to get above the 100 day MA. Investor demand is increasing especially in Japan as precious metals investments become more scarce. The RSI is hanging around just below 70 and is still showing strength but would need to move above the recent peak at 70 to confirm the next leg up. The 20 day MA moved above the 50 this week and will be close to reaching the 100 day MA next week.

\$225 is the next resistance line and is quite significant but not as much as the 100 day MA. MACD is still strong and above 0 but the momentum oscillator is flat. Slow STO is in overbought territory but very bullish at the moment.

Fundamentals Review

On the face this past weeks trade deficit climbing to only \$39.9 billion, the lowest in six years, is a great sign. But exports fell nearly in tandem with imports meaning we are producing less which is a dire warning to the economic outlook for jobs in the future. Also a major reason imports fell was due to the drop in oil not necessarily from a proportionate drop in spending.

The federal budget deficit grew by \$83.8 last month alone. As hard as it is to believe in 2008 the US treasury ran a surplus of \$89 billion over the first four fiscal months. So far this fiscal year individual income taxes are down 70% and corporate taxes down 95% compared to last year.



While this next suggestion will do nothing but put the US in depth further I suggest they spring for the phone call to our good friends down in New Zealand. They should talk and learn about how when the economy was bad there they lowered taxes several times, in turn increasing the inflows to government with astounding efficiency and size. Eventually in a news conference officials were asked when they were going to lower taxes again, they replied proudly that it will not be soon since they can hardly spend the dollars coming in as it is.

Four banks failed this Friday after all markets closed for the long weekend in the US. Please see [here](#) for this weeks biggest losers!

Mervyn King is telling those who still don't get it that the UK is in a deep recession. This will cause them to create money and pump it into the economy as well as cut interest rates. We all know this is happening already there and in many other countries around the world. The problem is you can't create money. You can create currency. Money has to be something tangible whether it be seashells or gold and silver, but a piece of paper with a number stamped on it is as far from money as you can get. As I glance down at a few gold and silver coins on my desk I imagine the sweat and work involved in extracting, refining and processing these beautiful pieces. They are real wealth.

The bank expects a 0% interest rate policy by March followed by quantitative easing, or in English, money printing. To see today's results of this policy stance see Zimbabwe, and pray the policies change.

Following up on Mervyn King's thoughts was a close advisor and confidant to Gordon Brown who [admitted](#) that this economic crisis is the worst in over 100 years. Slowly what we already know is becoming publicly known and accepted. Next thing you know these people will be telling you they predicted it. A key sentence from the article has Mr. Balls say this is "becoming" the most serious global recession. In many eyes this is already on the verge of depression. We have a ways to go and he eludes to the fact that this will still be felt in fifteen years. Events are moving fast and accelerating, banks are losing cash faster and faster. It's like they are treating flesh eating disease with a band-aid instead of removing a limb. Soon it will be too late and the patients core will be infected causing death.

Tony, a dear reader and former emergency physiann sent me this. He mentioned his learned quick reactions to situations and ability to recognize and diagnose pattern and symptoms quickly. I am sure he has saved many lives because of this skill. In last weeks newsletter I posted a chart which prompted him to send me these slides in

Ventricular Tachycardia

Ventricular Tachycardia is a malignant rhythm disturbance of the human heart

Ventricular Tachycardia is ***the final common pathway to death*** for those who die of heart attacks
– *unless cardioverted successfully.*

Ventricular Tachycardia on the electrocardiogram (EKG)



which he compares the mentioned chart to medical charts.

Is this the prelude to the death of the American patient having a heart attack? Or will all the new stimulus spending shock the patient back to life for a while?

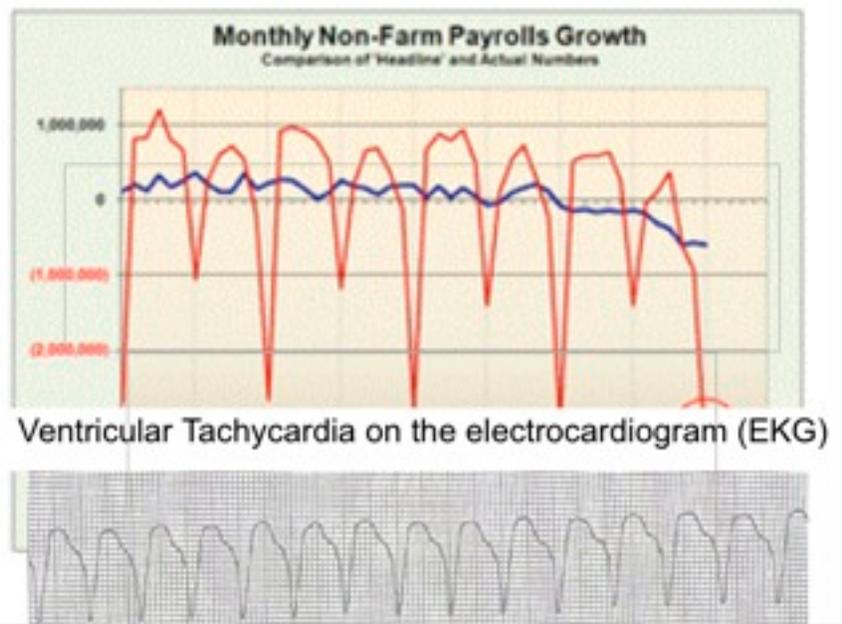
I've mentioned several times the fact that the US may not keep its AAA ratings forever and once that rating is lost every company within the US cannot exceed the rating of the country as a whole. [This](#) story further reinforces my views on this and must be considered seriously. The downhill slope is getting steeper, fast.

Last week I pondered the question of where the ETF's get their bullion. Good luck finding out. This week the living legendary prophet Jim Sinclair posted [this](#). He is initiating some research into the matter. It's simply unfeasible to believe the ETF's hold physical gold that is nobody else's liability. But if you believe they are legit, call me I have a bridge for sale.

This past week alone the SPDR gold shares (notice they are called shares) added 118.69 tonnes of apparently physical gold. Just to put that massive number in perspective, and also show how small the gold sector really is, the 118 tonne figure is higher than the yearly production of all countries but South Africa, US and Australia. Now, we could add China to that list and last years numbers are not all in but the trend has been a general decrease in production with few exceptions.

Do you understand what I just said? In one week the US ETF alone added more than all but four countries yearly production total! Demand is HUGE supply is not. Please make sure in all your power that you own physical bullion, not a paper structured product likely actually on loan from another entity. Remember gold and silver are finite. Dollars are infinite.

Russia's largest lender [doubled](#) their precious metals accounts in 2008. A ten kilo gold coin only spent two days in their vaults! Not sure if this was the



coin but it sure is pretty and would make a great valentine's day gift. The one bank sold 55 tonnes of precious metals throughout the year. In the Ruble you would have seen a 58% in gold since just October 2008! Even in the USD it's around 30%. The [shares](#) have by in large done even better and are a must after a solid weighting of physical bullion.



Indians are [calling](#) for government intervention to bring the price of gold down. The high prices are making gold all but unavailable to a vast majority of India's population. Maybe they should buy some silver instead.

Black Economic Empowerment (BEE) deals in South Africa are under [threat](#) since the economic crisis is hurting everyone including potential BEE investors. South African mining companies are required to be owned by BEE partners by 15% in 2009 and 26% in 2014. The rules may have to change to allow more time for BEE groups to recover and raise capital to invest with.

We knew the South African gold output number for 2008 would be lower but it fell a [whopping](#) 17.6% while total mineral production fell 10.7%. Eskom, the power generation company is still rationing power to between 90% and 95%.

Some good news from South Africa for once in that the new royalty regime will be [postponed](#) by a year to help companies through this tough time. Hopefully fewer jobs will be lost and mine expansion and development can continue. This is mainly affecting the platinum group metals sector since the platinum and palladium prices have been the hardest hit.

[This](#) article talks about the incredible shortage of platinum reported by dealers in Japan. The economic downturn and lack of faith in the government are reasons cited for the demand. Palladium coins are also being sought after platinum coins cannot be acquired. The largest Japanese bullion dealer reports a sales increase up 430% over the past 12 months.

The 300 man strong [strike](#) affecting the massive refiner Penoles is ongoing. Only the silver portions of the refinery is being affected as 900 other workers agreed to wage negotiations. Stockpiles are sufficient to meet customer need for and undetermined amount of time since during this economic time demand is uncertain.

The Documentary "House of Cards" aired Thursday and was a great and must watch look into the housing turmoil which was the spark that set off the fire we are now engulfed in. You may be able to find the video on the internet

or you can see <http://www.msnbc.msn.com/id/29163182/> for some scheduling details. It is two hours with commercials but a must see to get the blood boiling. Speaking of hot blooded this <http://crooksandliars.com/susie-madrak/bush-sec-holdovers-cite-executive-pri> video is also a must see and very short. I can't believe these types of people can attain such a high position and gives me no faith in the US government.

Maybe if we got some of what Joaquin Phoenix was on when interviewed on Letterman we could let all this stuff slip. Sometimes it seems I live my life on the internet and inevitably I stumble across some pretty weird stuff. This clip is one of them but is really quite funny watching Dave Letterman make the best out of an uncomfortable situation. <http://www.youtube.com/watch?v=ExCg3eLA5gU>

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Until next week take care, enjoy the long weekend and thank you for reading.

Warren Bevan

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