www.preciousmetalstockreview.com February 21, 2010

Expect the Expected

Now that we are in the thick of earnings season for miners. I am seeing some excellent profits being reported by the miners, but their share prices are still well below when gold was closer to the $700 range. And don't get me started on the junior and some exploration companies. They remain a terrific value if you can find the right ones.

As more great earning numbers are released we should see some great shorter term profits in the miners and certain indices which track them. I think that will also coincide nicely with the second leg of this move higher by gold, which in turn will only amplify the move in the miners. It's going to be a great spring, starting any day now, if you are in the right stuff!

Metals review

Gold rose 2.38% for the week and moved out of the triangle formation which has been constraining it since December. I'd love to say it's all systems go right now but I have to be very careful what I say with options expiry on gold hitting Tuesday. The expected outcome would be for gold to fall below $1,100 where a significant amount of call options lay.

RSI is moving higher and close to breaking horizontal resistance which would further push the price higher if broken. The moving averages are positive with the exception of the 50 day which is flat and very close to turning back up. Short-term moving averages (not shown) are in great shape and bullish.

The triangle formation has been resolved to the upside as expected, but as I mentioned the options expiry could change that over the very short term.

MACD has broken the downtrend and is showing a buy signal. Slow STO is scratching into overbought territory where it can remain for a long time.

We are either making the start of the big move to near $1,500 now, or very, very close to it. It doesn't matter much to me if we see another quick move lower But the way gold held so strong and over the past week makes me nervous for the very short term. If we do see a sharp move lower it will be the cue that gold is again being manipulated lower for the short term as happen so often.

Silver rose 5% for the week and repaired some technical damage by moving back above the 200 day moving average thankfully. The next hurdle will be just under $17 at horizontal resistance which happens to coincide closely with both the Fibonacci level (not shown) and the 50 day moving average.

RSI has moved up nicely as expected and is about to break above the 50 level. The moving averages are in abysmal shape but some time and strength will bring them back. I understand how so many people want it all, and want it now, but patience is essential to make the big money in markets, especially when it comes to precious metals.

MACD just flashed a buy signal. Slow STO is also bullish with lots of room to run. There should not be any material pause until the $17 level which I imagine will be hit late next week.

Platinum gained 2.15% for the week. Back to normal it seems for platinum as the lower end of the uptrend channel was tested and now the price has moved nicely into the mid-range. As usual there is not much to say about platinum. The new ETF is still to new to say for sure how much it will affect the trading action but so far other than the initial burst of interest it is looking like this one will be an easy one to trade again.

RSI is bullish. The moving averages remain in great shape and the 50 day is very solid support. MACD is about to show a buy signal, but it's quite flat. Slow STO is bullish but has also rolled to flat.

I've said in the past that looking at the textbook trading in both platinum and palladium is typical of a free market in a bull market. When compared to gold and silver it's easy to see how and when they have been "massaged" lower to suppress any thoughts of economic trouble by the general public. Gold has long been called the canary in the coal mine, but gold has been muzzled largely for nearly a decade. The muzzle is beginning to loosen.

Palladium rocketed 5.79% on the week and is in the upper reaches of what has defined normality for over a year now. I'd expect a pullback in the short-term, but the relatively new ETF could very well push prices higher.

RSI has a lot of room to run higher. The moving averages remain positive and the MACD indicator has just flashed a buy signal. Slow STO is also bullish but now moving into overbought ground. I'd say platinum has a better chance of moving higher this week than palladium. But I've been wrong before.

Fundamental Review

There were two big news stories on the week which ended up being no news at all. The first was the IMF's decision to sell the remaining 191.3 tonnes of gold on the open market. After years of false announcements that the IMF was to sell some gold they finally did decide to sell some. This is just milking it as much as they can in another failed attempt to stem the rising golden tide.

The pathetic attempt to scare gold investors by basically saying the market will be flooded with gold is typical and pathetic. The initial reason to sell IMF gold was for cash to lend to other countries. The obvious question is, why would they continually announce they are going to send gold into the open market. The only logical reaction to that news would be a lower gold price, hence less profits to the IMF.

It's reminiscent of the infamous Brown's bottom whereby he announced that England would sell their gold on the open market. Prices fell, and was ultimately the bottom, and beginning of this ongoing secular bull market.

It makes no sense, unless you understand that gold has been held back from exploding to the upside by the big powers that be. But the tide cannot be held back indefinitely, and investors will realize how fragile the current monetary system is. They will flock to gold and George Soros will be proven right. Gold will be the ultimate asset bubble one day.

The second big news was that the Fed has raised discount rates was not news at all in fact. The discount rate is insignificant right now and markets saw it that way. The discount rate is the lending rate the Fed charges banks. However banks have so much cash in reserve that they aren't lending from the fed. It's a fake-out to try and signal some tightening monetary policy, even while Ben Bernanke said it signals no change in the current monetary policy. In truth it's not even worth mentioning, but I felt obligated since there were so many headlines of it.

Gold prices rose in the face of rising interest rate in the 1970's, and it will again now once the top in treasuries is recognized.

What was not in the headlines, but actually is worth mentioning is that in the Euro currency gold hit an all-time high this past week. The Swiss Franc is not far behind, nor is the British Pound.

Coming as no shock to anyone who knows anything about markets is the news that George Soros has nearly doubled his stake in the US gold ETF. He also own options which he could use to increase his holdings in the ETF as well as stakes in several gold miners. It was just three short weeks ago that he said gold was the ultimate asset bubble. To which I agree. I will be the biggest bubble of all-time, but it is a long ways away.

This week saw an expected resumption of biggest losers being crowned. Four banks failed this past week, at the same time as usual, after having taken last weekend off for the long holiday weekend.

Mike Pitts of South Carolina has taken a small step for man by introducing legislation that would implement a replacement of the current fiat US dollar by gold and silver coins within the state. While it's a stretch, it could happen. That would not mean that everyone would have to physically carry around the metal though, it would just mean the bills would be convertible into the physical metal, or backed by gold and silver. It was not that long ago that the US dollar was backed by physical gold, 1971 in fact.

The following quote from the representative sums up the potential failure of the US dollar nicely. So many things in life are taken for granted that should not be, including the framework of our economy or monetary system.

> *"The Germans felt their system wouldn't collapse, but it took a wheelbarrow of money to buy a loaf of bread in the 1930s," he said. "The Soviet Union didn't think their system would collapse, but it did. Ours is capable of collapsing also."*

Opponents say that gold and silver's value fluctuates too much which brings me to what Mr. Jim Sinclair has been saying for years. He says that gold will rise and ultimately stay there, perhaps being locked into a trading range of $100 on the upside and downside.

Our currencies can be backed by gold and silver, the prices of them just have to be changed much higher. The reckless abandon of loose monetary policy begun by having the ability to print as many dollars as wanted will not last. Money must be backed by something or else the greed of man will win the day every time.

The big gold news this past week was that pension funds have begun to invest in gold since they now view it as a "safe long-term investment". The gold market is tiny when talking about pension funds and the like. There is no way gold will not skyrocket once these firm begin investing in earnest, and they have begun.

JS Kim nailed it again with his great article on the IMF gold sales irrelevancy. Basically it comes down to the fact that the Comex is physically unable to deliver any significant amount of physical gold. They can issue a lot of paper saying they have the gold, but in reality they do not.

The article goes on to say that a central bank looking to acquire gold would be much better off trying to buy it from the IMF, than through a futures contract that could never delivery 200 tonnes of physical and would only results in a default, which in turn would send ripples through the whole financial world and cause gold to soar hundreds of percentage points likely overnight and making then impossible to acquire physical gold of any real quantity.

That is essentially the reason I continuously advocate taking physical delivery of precious metals rather than a paper derivative form of it. It's simple economics 101, supply demand stuff. Take away real supply, while adding to real demand. That is how price increases, which is one of the reasons to invest in anything, let alone precious metals. The other big reason being safety or wealth protection.

The fight is now heating up in South Africa over the proposed power increase over three years which would entail a 35% increase per years. The Chamber of Mines warns that the South African economy cannot handle such a rate raise. Higher cost mines would be closed and costs to everyone increased.

Currently the average electrical cost to mines makes up 11% of their budget and that would increased to 20% after the three year period. The uncertainty and expense are a couple reasons why I am very weary about South African miners.

India has apparently retained their role as the world's largest consumer of gold. It's getting close though with India demanding 480 tonnes in 2009 followed by China at 461.9 tonnes. Both numbers pale in comparison to India's massive 2008 demand of 712.6 tonnes.

In an interesting turn of events, the world's largest gold miner has decided to spin out 25% of their African properties into a new company which will be controlled by the world's largest miner. The main reason is to create a company that is a growth story unlike themselves, who have a hard time just replacing mined metals on a yearly basis. The junior and good exploration companies are where the next gold rush will occur and this company is just positioning themselves in that space now.

Relating to the world’s largest gold miner who had to raise over $5 billion in 2009 diluting shareholders massively, in order to close out their hedge book. The world's hedge book was reduced by 8 million oz in 2009, 4 million oz in Q4 as the large miners scrambled. The world’s total hedges are now said to be 7.9 million oz. It’s about time, and a far cry from the 53.5 million oz in 2006 which were hedged.

Two of Peru’s gold mines, and one silver mine are dealing with a workers strike which has halted production. Workers are demanding to be paid a portion of the miners profits and are demanding to see the books from 2006 to 2009. Peruvian law states that 8% of profits must be shared with employees, so they may have a case after all.

I’ve mentioned the campaign to educate Americans of the dangers of the large institutional banks when compared to local Credit Union styled banks. There are a plethora of reasons why to keep you money in your community. One more reason would be the declaration by one of the largest of them all.

> *"Effective April 1, 2010, we reserve the right to require (7) days advance notice before permitting a withdrawal from all checking accounts. While we do not currently exercise this right and have not exercised it in the past, we are required by law to notify you of this change,"*

April 1 is not that far away, but it’s plenty of time to deal with the hassle of moving money and accounts around. I know I wouldn’t feel safe if my bank issued that statement, and as they say, if they weren’t required by law to tell you, they likely wouldn’t have! While the company tried to say it was an error that should have only been sent to customers in Texas, the fact is that most customers received it and could well be subject to it. Either way, why bother dealing with the machine?

We’ve talked before about the inclination of Central Banks to buy gold these days. The World Gold Counsel's CEO says; *"There may be a few countries (selling gold to cover budget deficits) but overall they will be net buyers. And the reason they are net buyers is because they are reconsidering their reserves policies and will be buying gold to protect their national interests,"*

This beg the question.

Have you protected your national interests?

The now famous Matt Taibbi, made so from his scathing Rolling Stone article in 2009, has issued another lengthy, gritty and typically foul mouthed article. It outlines nicely the many forms of cons used by bankers against the American taxpayer. Good bedtime reading.

On a lighter note, as long as you don't live in Venezuela, this article talks briefly and shows a short video about Hugo Chavez strolling around town expropriating buildings. What a nut!

I hope you are getting to catch some of the Olympics which have been fantastic to date. Until next week take care and if the metals take a hit as expected, don't sweat it.

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

If you found this information useful, or informative please pass it on to your friends or family.

Free Service