Precious Metal Stock Review

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Don’t Get Burned

The economic collapse continues to deepen with no end in sight, just more spending. In general many stocks remain expensive on a historical basis. Gold and silver are soaring as some investors are waking up to the economic reality of today. More investors every day are realizing gold and silver have been and will be the places to be as the world economy continues to grasp at a bottom.

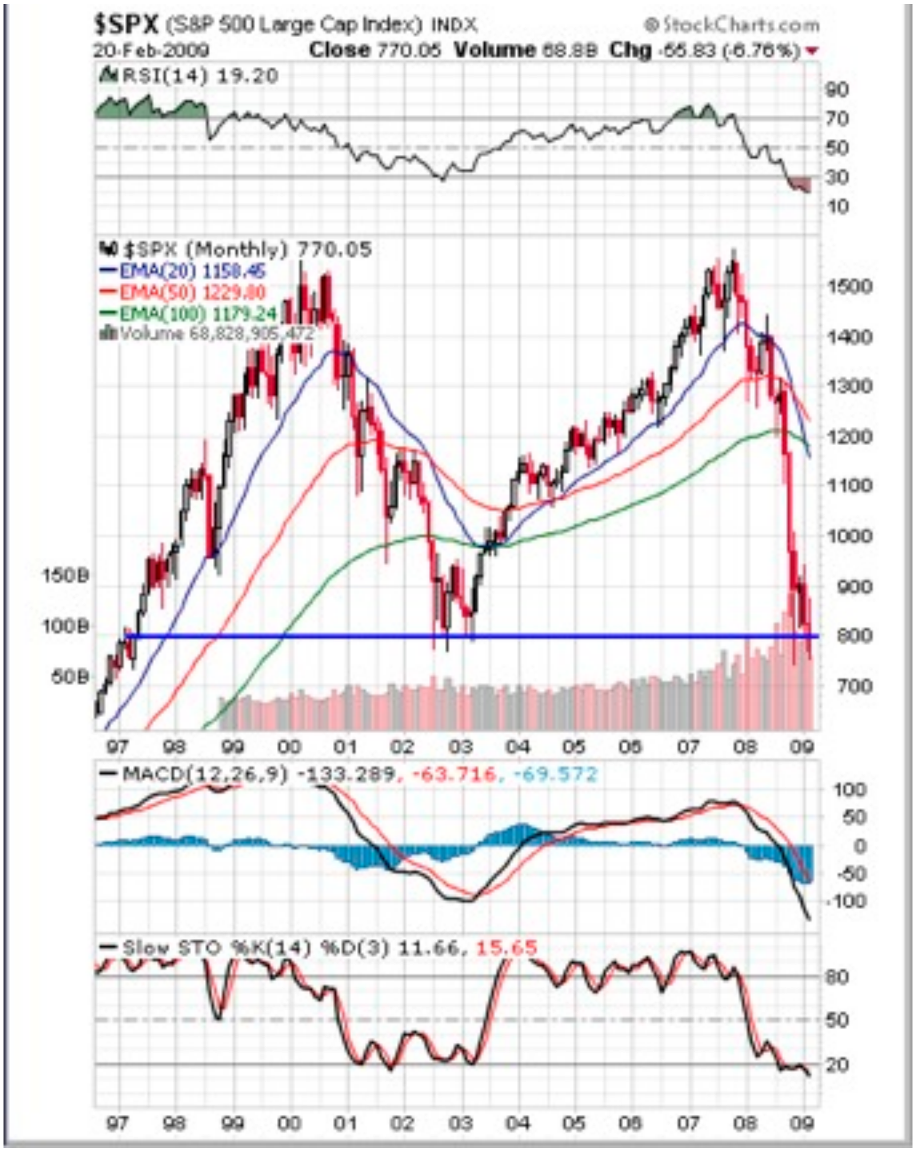
The week saw some major falls in the major averages. The Dow fell 6.17% and the S&P dropped 6.87% while the Nasdaq dropped 6.07%. Up the resources rich Canada the TSX plummeted 8.39% and the small cap bourse Venture exchange held up much better dropping 3.54%. The CDNX is largely made up of junior and exploration companies and with gold and silver soaring the small caps are attracting some bids.

Let’s take a look at a couple major averages on long term charts to see the big picture. As they say, a picture tells a thousand word and these pictures ain’t pretty.

Metals review

The Dow has breached the recent lows and is on it's way to much lower levels unless a miracle appears. The huge volume as of late is evidence that investors are wanting out and getting out. I think we will be seeing a near 1:1 Dow to gold ratio in the years ahead. This is one ugly chart with no support until 7,000 which in all likely hood will be hit this week. You can make money as stocks fall and it is a strategy I urge people to consider.

The shorter term Dow chart is very ugly as well, unless you are short. All the indicators remain bearish. The disconnect between the general market and gold and silver stocks is becoming more apparent every day now. I have preached that while all stock would come down and many have a ways to go you had to figure out what would rebound the quickest. The answer is obvious now by looking at the HUI or XAU indexes. It's not too late since the gold and silver markets are very small and there is a lot of money looking to be put to work somewhere that is working. It is happening and will only accelerate in the future. That said, there are always setback and this may not be the best time over the short term to get in, but over the long term it will not matter much.



Same story with S&P 500. Very ugly and weak and I expect more of the same to come over the short term. I think we will see a major rally as soon as we see some real fear.

Short term this index is close to breaking it's low. Bearish bets may be something to consider.

This very long term chart shuts out the noise and shows the obvious conclusion. Gold remains in a bull market. The RSI has remained above 50 with one brief, recent exception showing just how strong this bull market is. The RSI has been an amazing indicator and has called this bull from near inception on this chart. RSI is still not overbought and as can be seen in times past it has been close to 90 before topping out. I think we are very near seeing that reoccur.

MACD is just now about to show a buy signal, while the Slow STO showed it last month. MACD's momentum oscillator is just now about to cross into positive territory. As the good boys say, GATA be in it to win it. Are you in it?

Gold's 6.37% rise on the week was a great site to behold. We are kitty corner to a new all time high in USD terms although it's been breaking out to new highs in most other major currencies for the past few months with regularity. It may be a premonition to a falling USD in the near future since it looks to be topping out. Once the all time high is passed we should see $1,200 at least in very short order.

Gold blew out of the up trend channel and above strong resistance between $990 and $1,000. Closing the week $2 above the venerable grand mark will give traders something to think about over the weekend. Open interest in the futures pits remains over 200,000 below last year when the price was at these levels meaning there is a lot more room to move up and investors pile into this small market. Let the good times roll. Personally our bearish trading of financial stocks and bullish stance on metals couldn't be going much better at the moment.

RSI is still not in overbought territory on this year chart. The moving averages are in place and trending steeply higher. MACD is bullish with momentum confirming this. Slow STO is up there in the clouds but can remain there and have no adverse effects. I think we may need a week to hold and test the now support between $990 and $1,000 and that would be very constructive. But at the same time you should have been positioned months ago and with the economy how it is traders could push gold to a new all time high bright and early Monday morning. I will be trading the breakout.

Silver matched gold's gains rising 6.35% on the week and showing incredible strength. There is very little resistance until we hit just above $16.

My thoughts that silver is a better investment than gold remains steadfast. I can't wait to see the total silver production for 2008 since it will be sharply lower than 2007 since it is largely a by product of base metal mining which underwent major closures and shut downs in 2008. That figure should really light a fire under the silver prices.

RSI moved into overbought territory. Silver remains within the up-trend channel and the moving averages are in order and heading up nicely. MACD is also heading steadily higher with momentum positive but flat on this chart. Slow STO is up there and showing great strength and staying power. I expect to see continued strength in silver.

Platinum leapt 3.30% on the week and remains very strong. Investment in platinum continues to grow especially since is has corrected in contrast to gold which is breaking out. Price sensitive consumers would rather buy an asset which is seemingly cheap compared to one seemingly expensive. Gold remains cheap in the big picture but expensive now as it tickles with all time high territory.

RSI is strong and not yet into overbought territory. The moving averages are all heading higher now but are not yet in order, but the 20 day is about to cross the 100 day MA which is bullish. $1,050 should prove to be good support now that we are above it. MACD is bullish and momentum positive. Slow STO has hooked down slightly signifying a potential test of the new support level just below.

Palladium was flat on the week rising only 0.02% but remaining right at the 100 day MA. The $210 support line was tested and held. Once the 100 day MA can be bested $227 is the next stop.

RSI is in bull territory and flat. MACD is flat but positive with momentum heading slightly lower. Slow STO just flashed a sell signal.

FundaMetals Review

Governments continued the usual jawboning, with no foreseeable results. More and more bad news for nearly every investment sector and economy worldwide. Banks are on the verge of being nationalized which would likely all but wipe out shareholders. We do indeed live in interesting times.

Only one failed bank this week so far which is a nice change. Please see here for this weeks biggest loser.

I won't go into this week's list of newly discovered Ponzi schemes but one was one targeting the deaf. How low can you get?

It seems the many speeches and appearances by the new president Barrack Obama are being well received. It seems more like he is a rock star than a president. Girls screaming, loud long lasting applause. I am curious to see how long this phenomenon can last. Although the tax cuts going through may prolong it a while. At least until the $65 a month tax savings on average is realized to buy less goods because of high inflation.

While all the new spending is bad and scary this story points out that the actual deficit and obligation of the US including social security and medicare is $65.5 trillion. Accounting for these unfunded programs, which in any other business would be accounted for, the 2008 budget deficit was $5.1 trillion rather than the $455 billion stated by the Congressional Budget Office. The sad reality is that the $65.5 trillion debt exceeds the world GDP. This cannot be sustained without massive monetary stimulus which in turn reduces the purchasing power of the US dollar.

This story highlights some points talked about here for the past many months. Gold miners in particular are having no problems raising cash from private investors rather than going to the banks. Most capital raisings have been massively oversubscribed which is VERY bullish. We've seen gold touch the all too important $1,000 mark on Friday on it's way to new all time nominal highs. As they say, follow the money. It's going into mining stocks and the physical metals. These markets are very tiny in comparison to others and the moves will be spectacular. At the bottom of the article is a handy list of companies who have raised cash and the amounts.

With all this new money there are only a few things that miners will be spending upon. Development, exploration and takeovers. Takeovers have been happening and many companies are not thrilled with the valuations being offered and several have been rejected and not gone through. It's only a matter of time before better offers come in and take the small junior and exploration sector back into high ground and into all time high territory. Too many of these stocks are literally selling for pennies on the dollar. A large position can be accumulated with relatively little capital and a ten bagger is very likely if not more in many of these companies. For help finding these companies please see here.

Many gold miners reported earnings and results were mixed. Low silver and base metal prices hurt some and increased the cost of production. Also one time charges hurt many companies. Next quarter should see much better profits. A high gold price will help and the purest gold miners out there will reap the greatest benefit. Hedging programs also hurt some companies and while most are winding down their hedging programs some still remain and some companies are even initiating new hedging programs which seems absurd to me. Costs to produce gold have largely run up with the price rise of gold but is now beginning to outpace any production cost increases so I expect the miners to continue to outperform the price of gold going forward.

On the physical metals front investors in Europe and North America bought 148.5 tonnes in 2008 up 811% over 2007 numbers. Most have paid large premiums to acquire the metal unless they have taken delivery of a futures contract. For help doing that please contact me at postmaster@preciousmetalstockreview.com.

South African are snapping up gold and view it as the ultimate store of wealth. It is said that as the markets fell a large number of investors moved from stocks to gold coins. They expect more strength and say investors have not missed the boat in gold yet, I agree.

Last week I brought an article to your attention highlighting the increased investment demand for platinum out of Japan. This week in India demand for platinum is surging as the gold price rises. It makes sense ,even though gold and platinum prices are very similar, that the price sensitive Indian market goes to platinum since it has been much higher and is in the midst of a correction rather than gold being on the cusp of new all time highs in the USD.

I had the pleasure to talk with the famed investor and world traveller Jim Rogers a couple weeks back and his take on the high premiums is that dealers bought so much gold and silver near the highs and were simply unwilling to sell them at a loss recently. With silver we will have to wait but now that gold is nearing the highs I will be curious to see if premiums can come down. I don't fully agree with Jim Rogers on that thought since most dealers don't have huge inventories but deal very quickly and in many cases don't actually have the metal but get it after you pay for it, then get it and send it to the customer. But we shall soon see.

The former Fed chief Paul Volcker gave a great speech this week, it is short and to the point and can be found here. A couple quotes are worth noting. Talking about banks he says; "It's interesting that what I'm arguing for looks more like the Canadian system than the American system,"

Mr. Volcker also says; "This is not an ordinary recession. I have never, in my lifetime, seen a financial problem of this sort. It has the makings of something much more serious than an ordinary recession where you go down for a while and then you bounce up and it's partly a monetary – but a self-correcting – phenomenon. The ordinary recession does not bring into question the stability and the solidity of the whole financial system."

Here is an article which says gold is exhibiting all the classic signs of being in a structural bull market and will likely be the next mania which I strongly agree with. I don't know where this guys was eight years ago, but it was much less obvious then. The fact is that gold has been mentioned more this week in the media than any other week bull to date. I even heard Mr. Cramer rant on about how gold is such a good investment, Ya 200% ago it was. Today it is still a good deal as the price will likely rise ten fold still. But we are breaking out and I am always leery about buying during a breakout.

We will see gold rise at least $200 from here, but we are very likely to see the bull come back to these levels or lower and buck as many weak hands as it can. I personally load up when gold is the last thing you hear about, except someone telling you they lost their shirt in the downturn and they will never touch it again or something to that effect. I will trade the move up and down, but rest assured my physical holdings are staying with me for at least a few more years as far as I can tell.

In a couple of underreported stories Russia admitted they have been, are, and will continue to buy physical gold.

The US gold ETF added 43.13 tonnes this week and passed the 1,000 tonnes threshold a few days before gold touched $1,000 again.

A great video this week saw traders roaring in support for Rick Santelli's disdain for recent housing relief plans whereby responsible people who pay their mortgages would in effect pay the delinquent mortgages. Please see this link for the short but entertaining video which echoes my thoughts to a large degree. http://www.cnbc.com/id/15840232?video=1039849853

Glen Beck used a chart to show how the US dollar is being debased. The video can be found here http://www.foxnews.com/video2/video08.html?maven_referralObject=3479955&maven_refer.

I wish I had something funny to bring your way this week, but there is nothing I am finding funny in the economy today. Maybe I am losing my sense of humour. Anyhow I'll try and cheer up for next week and make us all laugh.

In my free, nearly weekly newsletter I include many links 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/ and receive the newsletter directly in your mailbox links and all.

Until next week take care and thank you for reading.

Warren Bevan

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