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I'm Sick And Can't Think Of A Mildly Clever Title This Week...Sorry!

Initially I'd planned to do a shorter weekly letter this week which would consist of only a charts section and no fundamentals. This is due to my painful battle with strep throat which I am now winning, but it has drained me and I simply don't have the energy to expend on a normal letter.

Perhaps I should have taken a day off, but I'm glad I didn't. Now that it's the weekend though, I need to rest.

However, I've somehow managed to make this one as long, if not into the longer than normal realm, while still skipping out on the fundamental section.

Funny how that works!

I've been talking to subscribers this past week about the powerful move we've seen in US indices as of late and the recent pattern formed in the S&P which is a rarity. It's the swiss steps pattern as shown below.

I recall Dan Norcini first bringing this pattern to my attention over at Jim Sinclair's website. This pattern occurred in Gold at that time. It's a very rare accumulation pattern.

Buyers are not waiting for large corrections, they are buying on small dips, then pushing prices up to the next steps level.

The steps are quite similar in duration and scale as you can see. The major difference between this S&P pattern and Gold's is that Gold's buyers were real. There is no telling whether the buyers of the S&P are governments themselves or true investors.

But it doesn't really matter, the trend is higher no matter who's pushing it up so we have to follow it.

My thinking right now, as subscribers already know, is that we will see another couple of steps before we consolidate or correct around 1,300. I've talked many times openly and in the subscriber section about round number resistance.

I'm sure many of you recall I talked about the cup and handle formation in the S&P on November 30th just before we broke out. The article was titled "Cups That Runneth Over" if you would like to review it.

Perusing the article myself I see that my Gold target for the cup and handle was around $1,400 and we did exactly that so far. Now we are resting and building up steam, but more on that in a bit.

The target I mentioned was for an S&P around the 1,420 area, but over, or undershoots are totally possible, that is just a level where taking profits is very warranted.

The S&P has run over 100 points in under two months in incredibly orderly fashion. It's almost spooky!

On the way to the target above 1,400 though, a correction is needed and I think there will be no better place for it than the 1,300 level.

We've had an extremely fortunate first two weeks of the year with our short to mid-term swing trading portfolio up right about 20%. I think we'll be taking profits next week and calling it a year!

No, just kidding, but we do have to book profits soon and regroup in anticipation of another great buy point. Unless of course we continue to march higher in which case we'll sit anxiously on our hand and continue to enjoy the ride.

Our physical portfolios are being smashed and I couldn't be any happier about it. Some people approach me these days as if I should be upset or grumpy. Far from it. It's setting up a stellar buying opportunity in the mining stocks which we've been semi-patiently waiting for and is now finally upon us.

Hopefully the coming Chinese New Year will really give up the spike lows we are hoping for.

Let's move into our favourite charts.

Metals review

Gold slid 0.67% for the week even while calls from high atop the media mountain were screaming down loudly on the large dollar figure corrections.

You don't hear them yelling like that when a $14 stock is down $0.30. That's really all that happened with Gold. Don't let the pundits scare you, put it in perspective and look at it in percentage terms and also ignore most intraday moves.

I try and keep my charts clean and simple generally and people really appreciate that. This weeks is a bit of a weird one, in fact I don't think I've ever drawn one quite like it.

It looks like we are putting in a rounded top here. The first three tops were higher highs, but now we have a lower high in place.

The price always dropped to the lower trend-line from the peak then came up before dropping once again before heading back to make a new high, or a lower high as in the previous move.

To me it looks like we may see one more move above $1,400, then a big fall below the trend-line which is around $1,360. I don't normally like to look at charts this way, but it does seem to be lining up. The pattern has been repeating regularly and is mid-pattern now. It would correspond perfectly to the Chinese New Year which begins in two weeks, early in February.

When I lived in Taiwan, years ago, I was astounded at how literally everything but the convenience stores shut down for most of the two weeks. Not that the Chinese can't be buying Gold during that time through agents or whatnot, but it usually is a weak time of year for Gold anyhow.

Ideally I'd be happiest if Gold corrected to the $1,250 level over the next month or so. And this would be BULLISH, not BEARISH.

It would scare me far more if we continued to power higher now as it would tell me we are fast approaching the blow-off top.

I'm not ready for that yet!

So there you have it. That's what I think will happen with Gold over the next little while. I went out on a limb a bit more than usual today in voicing my most inner thoughts. I hope I'm right.

I'm not calling a top by any means, it's just what I see and how I am interpreting the Gold chart today, that could change tomorrow!

If we do correct hard from here, my physical metals position will only increase, as will my stash of miners. So should yours. Buy right and sit tight. Buy the lows until the major tend changes.

The GLD ETF saw large volume on the day lower Friday and almost as large on Thursdays move. The slight up days early in the week were very weak. Conviction in this ETF is on the downside for now.

Silver dropped 1.18% for the week. Last weeks low, I said at the time, could have qualified for a test of the 50 day moving average since technical analysis is not an exacting art-form. It looked like a good call early in the week, but we saw a true, perfect test of the 50 day average Friday as price spiked below it intra-day to spook out as many speculators as possible only to reverse back and close the day above that level, which is really the most important signal.

Heavy Horizontal resistance is also here and now at $28, where price touched Friday.

I'd like to see a test of the $25 support level personally, and really if that fell, the longstanding resistance level, now support, at $18.50 would be next.

That would actually make me very happy to see.

If such a strong important level at $18.50 were tested and held then that would be very, very nice. Not only would I load up on much more physical silver, it would also show me this market is still very far from the blow off where prices will be three digits, and it’s not out of the realm of possibility to see four digits silver!

I’m in this for the long haul with physical positions, and I trade with a small portion of funds.

And really, after last years gain of more than 80%, a correction of 30% to 40% would not be at all far fetched or bearish. Wouldn’t you agree?

We can’t always have our cake and eat it too, but when we do, perhaps it’s time to reconsider positions.

The SLV ETF volume was as would be expected, which is low during the early weeks moves higher and quite heavy, but not extreme, during the later days fall.

Platinum shot up a nice 4.63% for the week and is now comfortably above the new support level at $1,780. The Platinum group metals are monsters in the markets!

Platinum looks ready to continue higher from here and is not at all overbought. There's not much else to say, unlike with Gold and Silver above.

The PPLT ETF saw solid volume all week which kept creeping higher as price escalated. This tells me price should continue in an uptrend as more and more buyers are entering the market.

Palladium jumped 7.34% for the week and appears as if it's ready to continue higher now after clearing resistance at $800. What an amazing run it's had since September moving from $500 to now $800!

Until the uptrend is broken the only thing to do is buy the dips.

The PALL ETF volume was higher on the down days and lighter on the up days. Thats' been the case generally for the past two weeks. It could be telling us a drop is on the way, but as I said until certain technical levels are broken the trend remains strongly higher.

I'm not saying that initiating a new position here is warranted, that should be done near support levels.

Since there's no fundamental section today I may as well show a couple extra charts which really tell the whole story anyhow.

The CCI is the Reuters CRB index which tracks a basket of commodities. As we all know commodities are on fire and food inflation is one of the hot topics for 2011, and I dare say is affecting you now, and will much more in the near future.

I read an article not long ago where the two cola giants are planning to raise prices by 50% in the near term. And thats only basically sugar water. Sugar is on the rise though.

The point is that this commodity index is now back above 2008 levels and into new all-time highs.

Anytime somebody tells you inflation is not a problem, show them this chart. You may not feel the effects right away, but they do trickle through the system fast enough.

Unless you don't eat, drink, move, or really do anything, commodities are a major part of your life from the minute we wake up until we go to bed, and even while we sleep, power still runs through our homes, alarm clocks....and what do you think that bed your sleeping on was made from?

We cannot do anything without using commodities other than run naked through the forest, but that only lasts a short time until we get hungry again.

Dr. Copper has broken into all-time highs as well. We all know the US is not building much, and the Dr usually tells the tale of the US economy. Not so fast anymore, as there are many other areas who are now huge and growing and building at astonishing rates.

They are picking up the US's slack and the increase in copper prices is also a tale of too many dollars sloshing around increasing the prices of goods.

Copper is no longer a metric on just the US, if it were it would be down substantially.

Monday January 17th is Martin Luther King day in the US and markets are closed as a result. While I'd rather markets be open it will give us some much needed time to catch up on some administrative duties which are usually not nearly as fun as watching markets all day, but must be done nonetheless!

We'll be back Tuesday with our regular daily updates and live trades, if any, for subscribers if you are one, if not, see you back in this space next weekend.

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

Warren Bevan

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.

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