www.preciousmetalstockreview.com January 16, 2010

No Double Dipping...Yet

This weeks letter is abbreviated since most things were mentioned in the update to subscribers, and quite frankly that long update burnt me out. To be sure the major indices are still a buy, but there is more and more talk that a double-dip recession coming soon and I agree. While the charts still say buy, I'd be careful.

Even on the big US business network a trader mentioned that he though the market would continue higher because of ongoing government intervention. It's great to hear those words spoken on primetime, but they are rarely ever followed up on.

Metals review

After a wild week gold actually ended slightly lower, off 0.56%. It was a great start to the week, but then sellers appeared. There were however epic battles in the trading pits from the reports I received. This week we'll call it a draw between bulls and bears.

Last week I mentioned I thought the price could correct quickly to the $1,100 area and it still could. But what I am almost assured of is that the Fibonacci levels will pose some resistance for at least a couple more weeks, as they did this past week.

It matters not though, gold will be much higher in the years ahead so this minor, but healthy, lull is really what one should hope for. If this didn't happen it would be in the speculative phase and time to begin selling. It's still buying time.

An uptrend has developed in the RSI but is in danger of being broken early in the week. The moving averages are in fantastic shape as usual. The 50 day is the major support area. While not exact, it is a good rough entry area. MACD is bullish. Slow STO is about to show a buy signal but from just under overbought leaving me to think the move up will be short if it occurs.

Silver fell only 0.38% in a trading range that was less than $1 the entire week. It's still outperforming gold by staying above and around the upper Fibonacci levels. The silver action has been fantastic and my view remains steadfast that silver will lead gold out of the gate on the second leg of this breakout. I would be more than surprised if silver doesn't breach $25 and likely higher by spring.

The simple uptrend line and Fibonacci levels are all you really need to consider on this chart at the moment. Nice and simple. RSI is hooking lower from healthy levels. The moving averages remain in great shape and as with gold the 50 day is a rough buy area.

MACD is bullish and has lots of room to go higher. Slow STO is bullish but in overbought ground. I still think we will see gold and silver flail around these levels before doing anything fun next month sometime.

The new ETF trading helped push platinum prices higher by 1.62% on the week. As I mentioned last week the new ETF"s represent a change in fundamentals for both metals. So far the price of Platinum has surpassed the upper reaches of it's uptrend channel. What I don't know is how the ETF will effect Platinum's trading, but what I do know is that Platinum will be higher in the months and years ahead.

RSI is flirting with overbought and flat. The moving averages are all very bullish. The 50 day moving average has been tracking the lower end of the uptrend channel for the past year but, because of recent strength, it has shot up to near the midpoint in the channel.

MACD is bullish and quite high while the Slow STO indicator is in overbought ground and flat. I wouldn't be betting against Platinum right now even with the indicators so overbought. It's almost too bad now that the fundamentals have changed. It's been so nice and predictable the past year. I will take a few more weeks or a month to get a clearer picture of Platinum's future. Until then be careful.

Palladium rocketed 5.71% for the past week as investors flocked to it's new ETF. I don't know what will occur this coming week but I would not want to be short right now even with indicators so overbought.

RSI is sky high, but can stay there as we are seeing. The moving averages are all positive with the 50 day moving well above the lower reaches of the channel. MACD is higher than at any point on this six month chart. Slow STO is showing another buy signal but from overbought ground. Wild stuff that really cannot be analysed this early into the new ETF game.

Fundamental Review

The World Economic Forum warns that a continuation of deteriorating government finances could turn into a full-fledged debt crisis. This tops their list of threats facing the world in 2010. In the G20 debt levels have risen from 78% in 2007 to 118% today. Those numbers are simply not sustainable.

If you or I were to have that much debt the only way out would be to make more, or spend less. Both are not in the vocabulary of G20 governments in general. As Obama the great says, he wants to spend his way out of this. How could a big part of the problem be a solution to the problem? Yes, I too am shaking my head right now.

It's hard to fathom that a bank could go bust. But once again three have, and become this weeks biggest losers. Banks originally had a fail-proof model. They took deposits and paid a nominal interest rate. They then lent the deposits for a greater interest rate reaping a profit.

Once fractional reserve banking was created they were then allowed to loan more than they actually held on deposit. It gets much more complicated than that, but I won't bore you. Fractional could easily be replaced with the word greedy. If banks were to have stuck with their original model there would never have been a bank fail in all of history, unless they were robbed.

Look for the dollar to continue lower especially since the Chinese have said recently that it has hit bottom. They have an uncanny ability to say the opposite of what is about to occur. Their track record is nearly flawless.

Just by pure coincidence I suppose, that same day the Chinese announced they are now requiring banks to increase their reserve ratio by 50 basis points, or half a percent. That will force the USD lower, and increase China's currency.

Coming as no real surprise to me is the fact that investor demand rose above jewellery demand in 2009, the first time in three decades. Investors bought a stunning 1,820 tonnes while jewellery demand was down 23% to

1,687 tonnes. Global mine supply rose 6% to 2,553 tonnes which is a six year high, but baffles me. All the preliminary reports I read, mainly from major companies CEO's or the like predicted a decline in production this year. The statisticians who are mentioned in this article have been bearish the whole decade so please take their figures and more-so their predictions with a grain of salt.

Scrap sales were up a record 26% to 1,541 tonnes. When we see scrap sales, where much of the increase comes from these cash for gold companies, diminish to almost zero we will know we are near the top of this bull market.

While gold has definitely done great the past decade, and investor are really starting to get onto the idea, tell me how many people you know who own a gold or silver coin. I have some subscribers who've been with me for years and they have yet to buy any physical metal, they just like to play the stocks!

The new platinum (PPLT) and palladium (PALL) ETF's were off to a smashing success during their first week of trading seeing 414,000 shares and 295,000 respectively trade hands. Not too bad. I haven't yet got to their prospectuses, that's for next week. This week kept me quite busy preparing the latest subscriber update.

A fantastic interview with Howard Zinn who wrote "A Peoples History of the United States" is really worth watching but the opening minute is most hard hitting. The quote read from his book is as follows; "If democracy were to be given any meaning, if it were to go beyond the limits of capitalism and nationalism, this would not come-if history were any guide-from the top. It would come through citizens movements, educating, organizing, agitating, striking, boycotting, demonstrating, threatening those in power with disruption of the stability they needed."

Powerful stuff, and even more-so when combined with the imagery in the interview. There will be uprisings in the US. The people must take back their country. Even the simple act of buying physical metal sends a signal to those in power who crave a calm, abiding populous. I urge you to demonstrate one way or another if you are unhappy with your government.

If you're not angry yet, check out this short video of the all expenses paid trip to Copenhagen paid by the US taxpayer. And what do the attendees say? Nothing. They refuse to talk about it!

Enjoy your long weekend and I'll see you here next week.

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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