Precious Metal Stock Review

Bridging Wealth Protection and Wealth Creation

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All Talk, No Walk

The only walking done this week was by Martha Coakley as she exited stage left, embarrassed and shocked. Everyone else ran out of every market and most commodities as the political talk raged on. The overreaction to nothing gives investors in the know a superb opportunity to buy cheaply.

This too shall pass, and I think it will pass much quicker than most pundits would have you believe, at least on the precious metals front. The three major markets in the US saw their 50 day moving averages violated to the downside late in the week. And that is significant.

I am not yet ready to call for an all out bear move lower as we saw in 2008 and 2009, but it's getting closer. The 100 day moving averages will likely be tested this week, but chances are quite strong that the levels will hold, and push the indices up higher as intervention is implemented. After all, we can't have the markets go down. The US is in a recovery, right?

On the other hand the TSX up in Canada did see the 100 day moving average violated. This is mainly due to the commodity heavy weighting, but also due to the fact that the Northern government doesn't interfere with markets as our Southern brethren do. Could the TSX be leading the US markets and telling us something? Perhaps, but only time will answer that question.

Any way you slice it, the week will be an exciting one.

Metals review

Gold lost only 3.38% for the week in a healthy corrective way, but the gold bashers see this tiny move as the end of the bull market and are parading their views anywhere they can. It's happened before, and it will happen again. The fundamentals have not changed for gold.

This is a 1 year chart and and gives a better picture of exactly where we are and where we came from.

I was a bit optimistic in only thinking a correction to the $1,100 would occur. I should have known better since the major support lies $25 below that level at $1,075. That area must hold or else we will see a move to $1,050 and more likely $1,025.

RSI is at a critical juncture. It can fall below the red line marking the 40 level, but not for long, or else many more sellers will surface. The moving averages are in good shape although the 50 day is now flat and the price of gold below it. Gold is testing the 100 day and must not go, or stay below it for long. I don't expect gold to stay around here much longer. It should begin to move higher again and take it's time between the Fibonacci levels.

MACD is bearish and in negative territory and the Slow STO is approaching oversold levels on cue. Good things always happen from here in the Slow STO indicator and it never stays down here for long.

Silver fell a huge 7.64% on the week. That's the way she goes with that volatile metal. But it's really just another cheap opportunity to buy. Silver will be well into the triple digits in a few years and this correction will be but a distant memory.

Silver will still lead gold higher in my view. RSI is flirting with the important 40 area. The moving averages are pointing higher except the 50 day which is flat. The 100 day has broken down and the price now slightly below it. Whether that will last I don't know. It seems that silver is leading gold up and down by a day or two.

The uptrend line has been violated and a quick move to $16.25 is quite likely. This is all very damaging technically, but we've seen this drill many times over the past decade where technically important levels are violated, attracting more selling, only to see a quick reversal in the opposite direction.

In fact we just saw that on the upside as the upper Fibonacci levels were bested and attracted lots of eager buyers, only to slap them with quick losses as the price of gold and silver fell hard and fast.

To be frank, don't sweat this stuff, if you have yet to, or are looking to add to physical metals or their underlying equities then this is a great chance. As always happens, many investors won't take this opportunity and will regret it in a few weeks. The same old story.

MACD is negative as is the Slow STO which has some room to run before moving into oversold ground. The gold to silver ratio took a hike up and is now at 64.3 which means you can trade that 1 oz of gold in and get 64 oz of silver. That's a great deal, but it could get even better over the next week or two.

Platinum came back down into it's uptrend channel this past week by falling 3.23%. While the new ETF affected the price tremendously initially, everything got hit last week regardless. Personally I am happy to see it back in it's channel.

RSI is heading lower, and fast. The moving averages are still bullish and the price would have to fall $64 before hitting that. The 50 day moving average has acted as a solid floor for really the past year, but definitely since August and I don't expect that to change.

MACD has just flashed a sell signal and the Slow STO is also bearish. I think there is more downside this week. Nothing goes straight up but this chart moves nicely from lower left to upper right and is just what I like to see. Ignore the short term fluctuations and focus on the longer term trends.

Palladium fell 2.15% for the week but is still way up there. While it has come off about $50 it is still very high and above it gap breakout from the first of the new year.

RSI is just coming out of extremely overbought territory finally. The moving averages are all positive. I would like the price to come down to the 50 day moving average before resuming it's uptrend. MACD is about to flash a sell signal from the nosebleed section. Slow STO has already flashed a sell signal and looks ripe to continue to much lower levels.

Fundamental Review

The big news for the week was the big political victory which many saw a a sign against Obama. To me it doesn't matter much which party is in office or has control since it is the corporatocracy which controls it all, and always. But Obama did come out swinging.

We've all reacted too quickly at times I'm sure, and that's what the current administration did this past week. Rather than waiting for the weekend to pass, letting tempers and emotions calm, they announced sweeping new regulations which will regulate banks trading abilities, and limit the size of the institutions.

It's just talk, even Barney Frank said it would likely take 3 to 5 years. And the contents of this potential bill will be changed and modified countless times. Remember even Ron Paul didn't vote for his own bill recently since it was nothing like the bill he introduced prior to the vote.

There is no plan. It's like saying I want to go to the moon one day. While I may one day make it, the details and twists and turns in my personal life, financial life, technological advances to make it possible on a civilian basis, and everything else in between and under the moon have more variables than you or I could count in a lifetime.

It's the same with these "new regulations", but the simple mention of them have sent shivers through the markets. It's amazing how the political talk machine can spin things. The legendary Jim Sinclair has been and is so right in all respects and most recently when talking about MOPE (Management Of Economic Perspective). It's perverse and sick that that is nearly the only topic mentioned on financial TV now. Ignore this and see the forest through the trees.

Even if it were to be written then passed as is, there would be many loopholes to be exploited. A recent credit card bill was passed limiting interest rate increases. But it would not come into effect for six months. That is plenty of time for the card issuers to break their contract and raise rates prior to the regulations commencement date. This great documentary outlines that scandal in much greater detail.

The political pandering over Ben Bernanke's re-appointment has really heated up with two senators saying they will not vote for his second term. It's all just noise to distract from the big picture of a worsening economy and deteriorating US dollar, although the dollar saw a strong rally into the end of the week. It will be short lived. The major trend remains down.

There are a lot of things that really peeve me off these days but seeing this fact that the big bailed-out insurer was told to change 1,000 parts of their regulatory filings, over their four attempts, takes the cake. I mean, really now. The Federal Reserve, who told them to change details, isn't even a part of the US government! It makes it even worse that the redactions were to hide details of their bailout payments to banks. We know the big one who is constantly under fire these days and are so politically connected. It's even worse that it was taxpayer dollars being spent and there were no negotiations at all, the full 100% value was paid, even when it was worth far less.

Going right along with this fraud was the SEC who allowed them to withhold the data until 2018. Where is the outrage?

Going a few levels deeper you can look into the large commercial banks derivative holdings. These derivatives are what caused this problem in the first place and what all these bailouts were for. Most, if not all of these derivatives trade in no market, or don't trade at all. Therefore they have a value that is mark to make believe. You can't value something unless you try to sell it or see something similar being sold.

The top five commercial banks hold a combined total of $185,372,459,000,000. That's Trillion, with a capital T. As if that weren't farce enough, their assets only total to $5,497,716,000,000. That is a major discrepancy which only amounts to about 2.7% of the total amount of derivatives. It won't take much of an event to turn things horribly wrong.

Holding physical gold and silver you don't have to worry about this daily spin and blatant deception.

This past week saw five banks join the growing list of biggest losers. All five failures were announced while everyone was on their third cocktail on Friday evening, as usual. Following the norm, nothing will be mentioned about it this coming week.

A while back I mentioned the Russian intention to diversify into Canadian dollars. They have now begun this operation and are buying both the Canadian dollar and Canadian securities. This is significant in that other central banks may be looking to follow suit as well as it shows the confidence bid under the Canadian dollar. I've advocated long and hard that the Canuck currency is a good place to park some cash or invest in equities in the currency.

Australia says they are going to revamp their taxes on mining operations. This hit some big players rather hard on top of the other pandering out of the US which turned the bad week into an horrific week. The details are yet to be released but speculation is that the current royalty tax structure will be replaced with a steep 40% national resource rent tax.

Even the Mad Mad Cramer is picking gold as a top investing theme for 2010. Don't let that scare you, we are still years from the top in precious metals, but there will be bumps along the way as there have been in the past.

The traditionally very cautious, if not outright bearish, World Gold Council (WGC), finally after a major ten year bull market in gold, says that gold prices won't see a drop in 2010. Perhaps this interview is so bullish because it's with India's WGC representative, or perhaps it's more representative of a tide change within the organization now that a more bullish and realistic Chairman, Ian Telfer, is onboard. At any rate, the one question and answer appended below say it all.

> ***Do you see gold prices falling? If so, by when?***
>
> *Given the circumstances or the environment we are in, we do not see a drop in the price. At least not in 2010, may be in 2011. Given the recovery of the global economy, for it to come back to the pre-2006-2007 levels after a three-year run will take time. Most of the countries have also given stimulus packages which is nothing more than printing more money, leading to inflation as it happened in the past and consumers will hedge in gold. That's why we see no reason for prices coming down.*

China continued their move into Africa by giving Tanzania, a country dear to my investing heart, $180 million in a low cost loan. This is part of their commitment to lend up to $10 billion in low cost loans to the generally impoverished continent. Tanzania is Africa's second largest economy and is highly amenable to mining investment both politically and geologically.

Isn't that a better way to grow ties and relations than basically invading countries to keep the peace, or search for terror suspects? First of all, it's much cheaper, second of all it increases goodwill tremendously with both politicians and the public. It's obvious which country will be the winner in terms of global supremacy in the years ahead.

This quote by a Chinese Foreign Minister sums up their public approach well; *"Let us deepen the new and strategic Sino-African cooperation through reinforcing our cooperation which should be characterized by equality and mutual respect on the political front, a win-win economic cooperation and reciprocal cultural exchanges,"*

From what I know of the situation it is far better than the current and previously covert moves into "poor or developing countries". See the great books, which are non-fiction, by John Perkins for a much more in-depth and fascinating account of past and current exploits by developed countries. This article outlines China's African strategy and sounds very amenable to both parties. Whether it can be believed or not will be revealed in time, but I think it will turn out more good than bad.

It seems that it's nearly every week that another hurdle appears in South Africa. This past week saw about 11 members of the National Mineworkers Association (NUM) held hostage underground at a platinum mine. They were held hostage by fellow miners who are members of another union, Association of Mineworkers and Construction Union (AMCU). The situation was resolved peacefully by police. The hostage takers were demanding to be employed permanently.

To finish off the week, here is a really nicely done video that should give you something to think about if your money's parked in one of the big banks.

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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