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Bear Market Bounce

Equity markets throughout most of the world rebounded very nicely this past week retracing roughly half the past two weeks of declines. This is how bear markets work, they take two steps down, and one step back up. It's exactly the inverse of a bull market.

The weakness we are once again becoming accustomed to should resume early in the week. While it's no fun, it must be accepted that the primary trend is lower now for equity markets.

By selling some stocks soon, people may take a hit, but not nearly as much as when that equity hits new lows likely at least 50% todays levels and likely closer to 80% by the time it's all said and done. Imagine how many extra shares you could have just by sitting in cash or the like until that day comes.

There will be few assets that protect in the time ahead. They must be found along with possibly shorting stocks or using puts or inverse ETF's also could be a wise and very profitable strategy going into this.

Metals review

Gold was flat falling only 0.02% for the week and staged an impressive halt of the flash crash. When gold falls, it can happen in the blink of an eye.

It does look as if the correction has ended now and a move above the 50 day moving average would confirm this. I expect that to occur in the coming week, but I'm no fortune teller.

The last time the Slow STO indicator was at this level the price then rallied $160 in six weeks. That would be nice!

The GLD ETF saw average volume all week, but nothing is telling in that. As more and more investors opt for real physical gold this indicator will become less and less relevant, but for now I do still watch it.

Silver was quite impressive this past week rising 1.40% and it could now be leading gold, but time will tell on that front. Support held at $17.50 where the 100 and 200 day moving averages are converging.

Overhead resistance is now at $18.39 and $18.50. This pesky $18.50 level has been trouble more times than I care to recall, but one day, someday, it will be but shadows of a nightmare past.

A wedge pattern is shaping up nicely and implies higher prices within a month or so. We need to see the trading range tighten along with the converging lines. I expect to see a week of very tight trading for silver ahead, but it's never predictable.

The SLV ETF saw average volume with it ticking down slightly on decent price strength Friday. Summer heat, and the fact it was a Friday could very likely be the culprit so I am not taking that as a major sign. As well as the reality that investors are beginning to move away from the ETF's except for pure trading purposes.

Platinum rose a nice 1.93% for the week but the most significant event was the re-test of the recent low around $1,490. The more times that level is tested and holds the better. If we get so lucky to see that level tested again it may be a nice area to take on a trading position in the ETF.

I still think we will continue to see a ranging trade between the upper line and lower line for some time to come.

Very weak volume on Friday doesn't tell me the strength is sustainable, but the volume was good early on in the week as the lows were tested which tells me they should hold as good support as we move forward.

Palladium remains much more bullish than it's sister metal, Platinum. Palladium rose a full 7.08% for the week.

A big wedge is holding up nicely. The lower and upper reaches have been tested a few times and are holding very nicely.

This should be resolved within a month and see prices move to at least the $550 level thereafter. I think Palladium will work it's way up to test the downtrend line then back again to the lower end before resolving the pattern with higher prices. A good trading point would be the touch of the lower up-trending line and using the ETF would be the way to do it.

Fundamental Review

The ECB held rates steady at 1% for the fourteenth month running. They, along with their US counterparts remain in a pinch with no real room to ease on the downside, which will only result in further quantitative easing (money printing) as we move further into the depression. At least the Euro has strengthened for now from recent weakness.

There were four biggest losers this past week as the banks failure was announced at the same time as always, right in the middle of a Friday evening steak and beer!

I hate to focus on the work of Robert Prechter again, but he came out this past week saying he expects the Dow to plunge to 1,000 in the face of deflation. He relies heavily on the Elliot Wave Theory to which I do not subscribe. It's just too subject to interpretation and from the work I've done with it, much easier to make the wave counts after the fact, which is no good to me.

I do think we will see another plunge in the markets, which we are in the midst of now, but ultimately I think nominal index prices will soar due to the inevitable devaluation of the currencies they're measured in.

Deflation is not real, although we are seeing some symptoms of it now. In the inflationary eras I've studied they are presaged by what at the time appears to be deflation. That is where we are today.

Canada, on the other hand, raised their interest rates recently and I expect that to continue, although perhaps not in consecutive meetings. In fact, Canada's recent job creation figures were fives times what economists projected. Unbelievably this puts the country back to levels seen before the initial crash of 2008.

I've long said that Canada depends on the US heavily, but that Canada will turn to whomever demands their exports etc. Canada has, is and will do very fine.

On the other hand, new university graduates in the UK are being told to expect 70 applicants for every job. It's being suggested they flip burgers or stack shelves for the time being.

The situation must be similar in the US as well, although government jobs are picking up some of the private sectors slack.

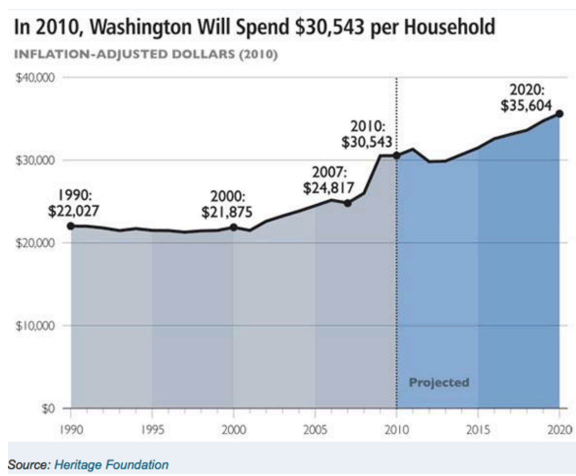
Pardon my french, but how in the hell are they expected to pay off their likely massive student loans with a minimum wage job. I'd expect some kind of government bailout or pardon. It will costs the taxpayer yet again.

It's so disheartening to me, and I'm sure much more-so to those new graduates. I know if I were in their situation I'd be looking to leave the country and find work elsewhere. Even if it weren't for as much as they could receive in the UK, at least they could hone their skills.

China said they will not use the "nuclear" option of dumping US treasuries and buying gold. But we know they are buying gold, just slowly as to not disrupt the price too quickly. I don't have the latest figures on their buying of treasuries right off hand, but last time I looked they had slowed markedly while their trade surplus with the US had stayed high or even grown.

Sure as night follows day, the US promptly labelled China as not one who manipulates their currency. What can you do other than laugh, and protect yourself. It's more and more like the 'ol kindergarten days every day.

I wish I could show you just one graph, chart or picture which sums up all the problems the US has, but I can't. This one graph though, does do a decent job. It is unsustainable and foolhardy to embark on a spending path such as this chart represents. Spending must be cut, hard times must be endured, and it has to start from the highest levels of government who must, for once, lead by example.



Burkina Faso is expecting precious metals output to rise 60% to 20 tonnes in 2010. There are currently only six gold mines operating and they expect another five to be online within five years. Some of the world's largest miners operate in the country and there will be more as the area is very under-explored and so far, full of precious metals.

As was inevitable, Australia backed down from their so called "super tax" which was so ridiculous and unrealistic that those who proposed it should not be allowed out of the house let alone into a position of public office. A new agreement is being negotiated and while there will be increases to miners taxes, it still not clear or final just how this will be structured.

The IMF's gold holdings fell by 15.23 tonnes in May 2010 while the Russian's saw an increase of 22.46 tonnes. Interesting indeed.

Meanwhile, the recently caught Russian spies were traded with the US in a 10 for 4 trade of convicted spies. I don't get why the US only got 4 spies released. Perhaps that's all they have incarcerated over there. Pretty amazing though that the Russian spies were released so quickly and with no real repercussions at all other than a few crappy prison meals...and then of course the food they'd be subjected to on the flight home!

Here is John Embry's latest piece which is, as usual, a must read.

The oil spill still weighs heavily on my mind and I urge you to educate yourself and view as many videos etc of the destruction. Here is a good starter showing oil running down the streets of Louisiana inland, after a rain. God help us all and especially those near the gulf.

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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