S&P Put In Tentative Bottom

It was another wild week with no real direction in markets and precious metals are breaking down. The S&P 500 index is trying to move higher here as it moved nicely off support at its 200 day moving average but the trading that day was a wild and volatile and in my opinion a bit suspect as to who the buyers were. It had the look and feel of the presidents working group, or the plunge protection team as it's known.

But nonetheless an important area held as support so far.

As for the precious metals it looks like further downside is on the way.

Let's take a look at their charts and see where we are likely to go from here.

Metals review

Please note I'm once again using the ETF charts to represent the precious metals this week.

Gold fell 2.40% for the week after we saw a failed breakout attempt. Gold has traded like this notoriously for the past decade. It sucks in the longs with a breakout signal the fails and gaps lower leaving them with their pants down.

Unfortunately they got me this time as we took a small trading position in gold on Wednesdays breakout day only to wake to Thursday's gap lower.

I should have known better and just held my coins and let others try and trade it but at least we have a long dated option position which gives us plenty of time to recover from this and I have no doubt gold will.

If we're not trading above the $1,600 mark in the normal fall rally then I'll be darned.

Gold is going much much higher.

This is typically a weak time of year for the precious metals with a low being put in over the next month or two typically.

Now we have to look for support levels. With GLD, $145 looks solid but if not then very strong support lies at around $140. I doubt we'll see $140, but I do think we'll see the GLD ETF trade down to $145 to shake out some new weak hands.

As most of you know the GLD ETF trades at 1/10th the value to an actual ounce of gold but does vary slightly due to management fees or the like but the most important thing is the chart, and it will be the exact same as that of gold itself.

The best part about looking at ETF's is the volume since it shows the retail investors mood since they don't normally invest in futures. I find it very useful and right now the price is going lower on heavy volume which means there is some more downside to come.

Silver fell 3.1% late in the week and snapped below support. I'd have to say my previous thoughts that we could test $30 are looking better all the time and it doesn't hurt that the 200 day average lies right there. In the big scheme of things it's no big deal at all. I hardly remember the crash in 2008 when silver fell about 50% from over $20 to $10.

I don't want to sound like a perma-bull with precious metals but they have to go much higher from here. The top will be around the time that the debt crisis and derivative crisis to come unwind and we likely emerge with one or many new currencies in the major developed nations of the world.

Increasing volume as the SLV ETF is falling is pointing to lower prices here, although we may put in a lower low here soon and then move higher to test the downtrend line once again before another push lower towards the $30 area.

I'm not saying the metals are done for the summer, but they do tend to put a low in for the year around July or August so perhaps it's best to step aside for the most part from trying to trade them and just focus on accumulating during the cheapest time of year to do it!

Platinum dropped 4.11% and has further to go. I had to go back with a longer-term weekly chart to show support which looks to be in the $160 region. If that doesn't hold then $150 could be next.

Volume is heavy on this move lower, especially when viewed on the daily chart.

Palladium slipped 1.86% and is just hanging above the 200 day average now. I think we're going to see that level fall soon as volume is heavy as we move lower. We're likely to test the support level just under $72 and possible head closer to $71 in the week ahead.

Fundamental Review

The huge earthshaking news this past week was the revelation that 41% of Belgian's gold has been lent out. They're only receiving a 0.3% rate which I assume to be annual. I don't get why they would lend out their gold for such a small sum.

It's akin to lending out the crown jewels. The chances of them ever getting their gold back are slim to none, and slim just left town. Why they wouldn't "lend" their cash to Greece and get two year bonds that pay 23.72% is beyond me.

Sure you may not get your money back from Greece either, but I think chances are good that they'll be bailed out for a few years to come and that risk is far safer than the risk of loaning out 41% of your gold.

But none of this really matter since where there is smoke there is fire and many other countries including the US are almost certain to have lent out their gold to banks or other powers that be.

I've talked time and time again about the coming major increase in the spread between physical gold and ETF's or futures which are paper gold. I've said that the spread is easily going to approach or surpass 100% and really that is a conservative estimate.

Physical precious metals remains the safest, best and easiest investment today.

I talked with subscribers this past week about the stress free beauty of investing in the physical precious metals and I'll recap in short here.

There is no management risk, no political risk, no weather or natural disaster risk. There are many other redeeming factors investing in the metals but the true beauty is that they are what they are, and nothing else.

Or as the great J.P. Morgan said, and it remains one of my favourite phrases to this day. "Gold is money and nothing else".

It's amazing if you look back at history how many politicians and bankers warned against the use of fiat currencies and the creation of the Federal reserve. Sadly, both are prevalent today and many warnings that do emerge today are hushed or poo-poohed.

Brazil is eyeing a new tax on large mining projects as they overhaul their mining code, which is something you don't have to worry about holding physical precious metals.

Could the same thing happen with governments as they decide to raise taxes on physical gold and silver? Possibly, yes but the increases in nominal gains would outweigh any new taxes I imagine. Further, there is a growing movement by US states to make gold and silver legal tender and in that case no taxes would be able to be applied when you either sold or bought items with your coins.

No matter how much I think about it, I will never know the outcome, but I do know that we'll be far better off with some physical gold and silver than without it.

On the topic of the Greek debt crisis and the others ones being overshadowed for the time being, I have a question for you. Do you think it's the country being bailed out? Or is it the banks who in turn are owned by the behind the scenes powers of this world?

I dare say it's a bailout of the elite, just as we've seen in 2008 in the US and it's continued to this day and is almost sure to continue into the future, although under a new name, not QE.

The large banks were the ones who were bailed out in the end. Don't you think it's amusing how those banks and world powers who have gotten the bailouts actually own the Federal Reserve who is bailing them out!

An article was released to this effect this past week. So now the question is which entity or entities own the derivatives. The problem is they're so complex we'll likely never know how much they own or who exactly owns them.

This derivatives mess is a ball of yarn that can never be untangled. The only way to solve the derivatives crisis is to let those entities fail. Their good parts will be picked up and the bad parts won't. I know I don't own any of the complex derivatives and I bet neither do you or anyone you know, so we should be ok other than a disrupted banking system for a few days or something and that's why I think it's always important to have a few weeks or more of cash on hand just in case.

I don't know what or when anything major will occur, but I like to be safe rather than sorry.

New capital levels are being enforced towards the world biggest banks who play the largest role in global financial stability. This is excellent news and makes me feel much better that they have to hold more cash on hand in case of an emergency. Or at least that's how it should make me feel.

They're now required to hold a paltry 2.5% capital on their balance sheets. That's not much and the way they assemble their balance sheets they can basically make up any number they want.

We only saw one bank fail this week to join this years shortlist of biggest losers.

Indian gold and silver imports rose a massive 222% between April and May with the precious metals total import number at $9 billion for just one month. Many other precious commodities are also being imported at an increasing rate as well as some base metals.

The fact remains for most commodities and especially precious metals that demand is exceeding supply which ALWAYS leads to higher prices.

Citizens in Greece are rushing to cash in their savings for gold. I think it's a bit late really. They must have sen this coming and should have been accumulating gold long ago.

The same issues are in many developed nations including the US so why not get a jump on the rest of the savers and get some metals now!

I work hard every day and am pretty good at what I do, at least I thought so until I saw this guy working. Check this out! Not only is it absolutely amazing, but it's got to be one of the hardest jobs on the plant, and he probably would be lucky to earn $10 a day. Get a load of him casually dodging the falling brick. He's even barefoot!

Until next week take care and thank you for reading.

Warren Bevan

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