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Has A Major Correction Begun?

There has been a lot of talk about another financial crisis coming, and it may have been kicked off by Mark Mobius who says it's inevitable because the causes of the previous one haven't yet been resolved.

The main issue is derivatives. They've singlehandedly messed everything else up, but it's confusing. Suffice to say that derivatives are secondary bets on everything that is traded and the they went beyond that to second and third or more derivatives all created with mathematical and scientific equations the likes of which would cause my brain to explode if I tried to understand them.

But that's all part of the game of investing I suppose. The real problem is that when they went bust as they were sure to do, the institutions, basically the derivatives themselves, were bailed out by, in the end, the taxpayer.

Were those doomed financial instruments and bets allowed to fail in the first place we'd be seeing a real recovery right now. But they weren't and worse yet, the derivative market has only grown.

I don't think markets will be allowed to crash, I think the US Dollar will just continue to be devalued. This won't make the Chinese or other large holders of US debt happy.

If US authorities don't come out with a fancy new program to basically prop up markets and treasuries then we may well see another market crash. In fact a stern warning was observed this past week in the US markets as the Europeans struggle with debt issues and the US is threatened with a credit rating review unless the debt limit issue is resolved.

A major breakout failure in US markets is a warning signal and we were out of all our trading positions by the end of that day, before any real damage was taken.

We're still holding our mining position, our dividend stocks and our physical gold and silver but we aren't keen on sitting through a crash with anything but gold, silver and cash so we're watching very keenly.

While many investors have become complacent, we're on edge more than ever as the end of QE2 is approaching at the end of June. When complacency and uncertainty is this high it's a dangerous cocktail and we want to have one foot out the door just in case.

I'm no fan of line graphs at all but my precious metals daily charts will only show in that form today. It's strange as any other symboll input is a bar, even a weekly chart of the precious metals is a bar as it should be.

Since the line graphs don't show much in my opinion, I'll be posting the ETF charts which are showing up in bar form as I like them.

Let's get into the charts right now beginning with the major breakout failure in the S&P 500.

Metals review

The break above the descending channel was bullish on Tuesday but the a massive reversal on Wednesday was a sign to go to cash in our trading positions. Subscribers were alerted to this and we avoided the damage for the rest of the week.

Friday's move below the channel is terribly ugly and we could well see some major moves lower here.

I post this chart daily along with many others to subscribers and we're pretty good at spotting trends and trend changes which keep us in the money or on the sidelines.

The GLD ETF rose 0.35% for the week and remains heading slowly higher and in a large wedge pattern for now. For the better part of 2011 any dip below or to the 21 day moving average has been a superb buy zone. I suggest that as an area to look for entries, just as we saw Thursday for a short time.

Volume was fine and not telling me there is anything drastic about to occur. We should continue higher until we reach the all-time high level where we're likely to encounter some resistance.

Gold looks great here as a slow moving asset which will retain value. Buy it first for it's insurance and protection qualities and it's appreciation qualities second.

Silver fell 4.56% for the week but more importantly seems to be trading within the range I suggested last week. I expect this to persist for some time and suggest trying to buy as close to the 100 day moving average, or even lower if possible when buying physical silver.

As for trading silver I'm steering clear for now.

The SLV volume was pretty week with no indication of a clear trend for the moment. After such violence we've experienced lately a rest or recovery period is due. Like being injured severely you need time to recover, as does silver now.

The PPLT ETF rose 0.71% for the week but closed the week very weak and moving back into the gap area which is bearish. The head and shoulders pattern I mentioned a couple of weeks ago is still in play here and if we move below the cluster of moving averages around $178 then I'd be especially careful trying to trade on the long-side.

Be especially careful with stories floating around inferring an eight fold increase in the platinum surplus due to the tsunamis effect on automobile production. However, the surplus will only be about 5 tonnes when it comes down to it and that's not a large amount in reality.

The PALL ETF rose 3.25% for the week and cleared the 100 day average impressively. Palladium is holding this uptrend and now trying to push through horizontal support just above $78.

Once that level clears we should see the $82 level tested in short order.

I'm much more optimistic on palladium than I've been, now that we are above the 100 day moving average and the volume in the ETF has been steady to strong. Also the gap higher has so far held and it happens to coincide with the downtrend line which began at a peak in mid-February.

Fundamental Review

Just this past week the US Federal Reserve saw their balance sheet hit record highs again as they bought bonds/propped up the bond market once again.

We only saw one bank fail this past week to join this years list of biggest losers. The trend has definitely been lower in 2011 when it comes to failed banks which is something I'm happy to see but I'm not so sure it will continue.

The CFTC recently charged three firms with oil price manipulation. With oil being a huge market when compared to gold and doubly so when compared to silver it seems almost impossible for gold and silver to not have been manipulated at some point in time, if it's not continuing to this day.

I've said many times that my view is that both gold and silver are being held in check at certain times around options expirations, key economic releases, speeches and so forth.

If you look closely you'll see that gold hardly ever rises more than 2% in a single day, yet it remains in one of the most consistent uptrends we've ever seen in anything.

I've said it before and I'll say it again now, I rather enjoy the slow steady move higher as it only prolongs the bull market and gives myself and subscribers and other investors alike a great extended chance to get in on the cheap.

There will be a day that gold will fly and run parabolically and I'll be selling into that, but for now we're still in the orderly rise stage, whether that be a true price or a manipulated action it is what it is and I don't see the need to worry too much about it. But in the end I do side with GATA, just not that manipulation occurs every single day.

There is a spread between the paper price and the physical price and that will grow in time and those who play with the paper price cannot play with the physical price so the choice is obvious in my view to own the physical metals unless you're trading for gains in the short-term.

Debt problems in the EU are especially prevalent these days and in a move that should tell every single investor out there that they should own physical gold the Economic and Monetary Affairs Committee of the European Parliament has approved that gold be allowed to be used as collateral.

When it comes down to it, gold is the ultimate money. It will always get you out of a bind and one day soon will likely back your currency in some way shape or form. Owning physical gold will only help, not hurt you and it's bull market is still far from over no matter what all the top callers say.

The Bank of Tanzania was advised recently to buy physical gold from small scale miners within the country. Unfortunately the recommendation to sell this gold for foreign currency was also floated. I'd rather see them hold the gold which is appreciating against all the worlds fiat currency than see it be sold for a depreciating asset.

It just goes to show the lack of understanding prevalent still today about physical gold.

The state owned Chinese National Gold Group is expecting gold to continue to reach new records for the next three years and the group is looking still to Africa as a major area of investment.

They're back at it down in South Africa with the National Union of Mineworkers looking for a 14% pay raise this year. I expect some strikes soon as the current wage deal ends the end of June. I don't know to many people who work for someone who get a 14% pay increase in a single year.

There were more rumblings of tungsten filled gold bars this past week. There is no doubt in my mind that some of the large gold bars out there are not as they seem but I won't speculate on where they originate. Coins and small well known bars are still my preferred form of investing since they are very hard to fake at this stage of the game, but that may change.

Well, I have to jet. I hope you have a great weekend and a super week ahead, just be careful if you're trying to trade much, or if you need some help seeing the forest through the trees, give us a try.

Until next week take care and thank you for reading.

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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