www.preciousmetalstockreview.com May 1, 2009

200 Day Moving Average Supports Canada, Resists America

The Dow rose 1.69%, the S&P rose 1.30% and the Nasdaq gained 1.47%. Up in resource rich Canada the TSX fell 0.55% and the junior heavy Venture exchange rose 0.33% and the loser of the week was the TSX Global Gold Index plummeting 7.90% just this past week.

The physical metals held up much better than the equities on balance with Gold dropping 2.91%, silver fell 2.95%, platinum plunged 7.39% and palladium lost the most falling 9.21%. Some weeks can be a bit aggravating and this was one of them. You would have thought the continuous flow of bad news flow would have sent the royal metals higher, but it was not to be. Complacency and investor sentiment continue to rise and it’s approaching levels where hearts get broken. Don’t let yours.

Metals review

The monthly log scale charts of the Dow industrials and S&P 500 shows an incredible bounce. On these charts the next resistance lines are 9,000 and 950 respectively. However, the 200 day moving average will, in my opinion, stall this rally if we can make it that far. As I show later, the Dow and the S&P monthly charts are in stark contrast to the Canadian TSX exchange chart where the 200 day moving average is providing support rather than resistance.

While the indicators are certainly in oversold territory, you can clearly see the recent example of those same indicators staying overbought for over a full year. Technical analysis is still a great thing to consider and look at. The fundamental reasons for US markets to fall continue to mount, while complacency and consumer confidence rises falsely.

Here is this Canadian TSX monthly log scale chart. First, the energy weighting within the TSX is 27.9%. The S&P index on the contrary only has a 10.1% energy weighting. The high energy weighting is the biggest source of strength in the TSX. Also the strong banking foundation in Canada in contrast to the US model has helped the Canadian markets remain strong from a technical point of view.

As you can see the major and very important fact that the 200 day moving average is a line of support rather than resistance for the US markets. I've long advocated that the Canadian markets will both hold up much better and appreciate much better than most other regions.

The CDNX rose 5.45% over the month continuing it’s upward momentum. The index is approaching a resistance line above 1000 on this log scale monthly chart and will likely take some time to overcome that level. All of the indicators are extremely oversold and the fundamentals for many companies within the index, mainly gold and silver companies, remains strong. While many of the companies are in cash preservation mode some are easily receiving financing to continue exploration and development.

The key things to look for in the smaller companies are;

- Good management with a proven track record
- Cash, and an ability to use it frugally
- Ability to raise cash under good terms

- Properties in safe jurisdictions, i.e.. not Venezuela or Pakistan etc...
- Proven resources of preferably over two million ounces in the measured and indicated category
- Room to increase the size of the resource, or a resource open in at least one direction with favourable geology

The S&P Gold Index in Canada was obliterated over the month and fell 17.92%. It's curious that gold held up well losing only 3.27% over the same time frame. Such is life with the shares which provide leverage on both up and down moves.

The thing I see today is that people are about seven or eight years behind. The beginning to a solid portfolio begins with physical gold and silver then moving out into the shares for leverage, or as I like to say icing on the cake. So many are just beginning to accumulate a precious metals portfolio and are moving into the physical metals first. Eventually they will diversify into the stocks but for now it seems the metals are showing much more strength. Although with earnings season for the miners in full swing now, we may see a quick move up in them shortly as most report better cash operating costs.

The HUI is full of major mining companies, many of which will be reporting earnings over the next two weeks. The HUI fell 8.07% on the month and is having a heckuva time staying above 300 for any length of time. 250 is strong support and if we are so blessed as to see that level again I will be a buyer, not a seller.

The 50 day moving average is stalling the index every time lately but will be bested again one day. The indicators are low especially the MACD which is turning up. The RSI is below 50 but very close to regaining that important area.

The XAU was smashed down 10.76% for the month and is having trouble getting above the 50 day moving average and the line at 130 is proving more resistance than support to date. The good news is the 100 day moving average has been good support over the past several months and is moving higher.

The GDX is comprised of smaller producing companies. The Index moved lower by 10.75% in April and is much more volatile than the physical metals themselves. Once the index muscles back above the 50 day moving average it should be off to the races again with the $45 area the next major battle line.

Gold fell only 3.27% on the month which on the surface is respectable. On this log scale monthly chart all trend-lines are solid and strong. There aren't too many other markets or stocks you can say the same about. The two lines on top denote the neckline of the massive head and shoulders pattern. Certain technicians could use either line as the neck so they are both there for your viewing pleasure. Basically the $1,000 line is the where gold will either blast off or have it's launch cancelled for another day.

The lighting bolts that hit gold this week still have the hair on the back of my neck upright. I don't often publish charts showing intraday movements but this week was among the most blatant weeks that gold was obviously taken down at the same time, to the same degree on two days.

For years now it's been an obvious, disingenuous trend that gold has risen in the east and fallen in the west. Many times at the exact moment the NY markets open. This week the Tuesday and Thursday trading was pretty sick to keep it publishable. Why would the price be taken down the day before and after the FOMC meeting at the exact same time to the exact same degree? I know the answer and so does GATA but not many others are willing to admit it yet.

The other thing I would like you to look at in the chart is the end of the NY trade where no other world markets are yet open. You have to have a pretty big line and either be an institution or have very good connections to trade this thin market. So many times over the course of this bull market the price has traded well all day only to be moved around, usually lower, in the Globex market where volume is low.

So many including one of my unofficial mentors, Bill Murphy, get so aggravated by this type of action. To me its inevitable that gold and silver will continue their bull markets and I am actually grateful for more time to buy at low prices. But so many do take it personally and get upset even some of my subscribers and correspondents want action now. I can't move the market and don't care to. This market is taking it's sweet time moving, whether that be it's decision or it is being forced upon it matters not. Too many want riches now and today. Patience is a virtue and makes life easier and less stressful. Gold and silver will go much, much higher and shake out the many weak hands who jump in as it roars and complain and sell losing money when it contracts. We are years from the blow off top. As the great Jesse Livermore says; Know you're right and sit tight.

That's been my motto for years now and I am sticking to it. Gold has risen on average over 16% a year for the last eight years. Last weekend I had the pleasure of hitting the road on two wheels with a few friends to a friends cabin on the lake. After the day exploring the area, over steak and a few beers I had to ask if anyone knew of an investment that has appreciated at 16% a year over the last eight. Of coarse the dentist among us knew as we talk about such things but nobody else knew. The others kind of looked cockeyed at me when I said physical gold in your hand. The pulp mill worker didn't care much to talk about anything but bikes, the retired cop is broke but the dentist knew and knows where to put his money, the CSI investigator gave me a look only a true investigator could. I am sure he's on the case and will have to see that for himself.

The point is not many people yet are investing in the metals market, but they will. God knows they wish they had already, but that is besides the point. The real moves are yet to come, and no matter what happens day to day I care not, for the trend cannot be affected indefinitely.

Silver was down 4.48% in April but held the support line at $12. The up-trend is intact as well from late 2008. It's only a matter of time before the $14.50 area is taken out and silver begins to soar again. Taking advantage of the low prices to accumulate physical silver is a strategy that can't go wrong over the long term.

Platinum was pretty flat falling only 1.74% in April. This log scale chart shows a clear and steep up-trend holding fast. The $1,300 area is resistance right now and I am looking for a range trade between that number and $1,100 on the lower end before building enough of a base to move higher convincingly. There really isn't much resistance above $1,300 until about $1,900. That's not to say it will not take a while to move up there, rather that it is inevitable once $1,300 is beat.

Palladium showed the most strength among the most precious of metals rising 2% in April. The $220 area is a tough line to crack but it looks like it will fall in the next month or two.

Fundametals Review

I've written far to much to request much more of your time so I will keep this section very short this week.

The stress test results seem to be getting delayed on a daily basis now. They are now set back four days to May 7. I expect more delays next week. I don't know what the hold-up could be if the results are in unless they are massaging figures. Anyhow, many people have looked at the metrics within the test and are, as am I, convinced they are a sham and while they will most assuredly say some banks need additional capital they will be far from the truth and paint an overall rosy picture as swine flu and the auto bankruptcies take centre stage away from the real culprit, banks and financial institutions.

Speaking of the swine flu I don't understand why they called it that since it has absolutely nothing to do with our pink little friends. Why not the Mexican flu, travelling flu, monkey flu, Mayan fever, ruinous flu or a whole host of other possible names. If you think you have a great alternative name for the swine flu email me at warren@preciousmetalstockreview.com. If you can come up with a name I like the most you will win a free month subscription to view my portfolio. I will publish the winner and winning title in next weeks newsletter. And keep your eye out for bargain basement prices on pork and bacon, it will soon be time to fill the freezer at very discounted prices. I love sales! The precious metals are on sale as well so take advantage of that while you can too.

Here is a short propaganda video from 1976 which is oddly enough about a swine flu in that era. The year was four years before the peak gold price was achieved in 1980 and it seems reasonable that four years from now we will achieve another peak in the price of gold.

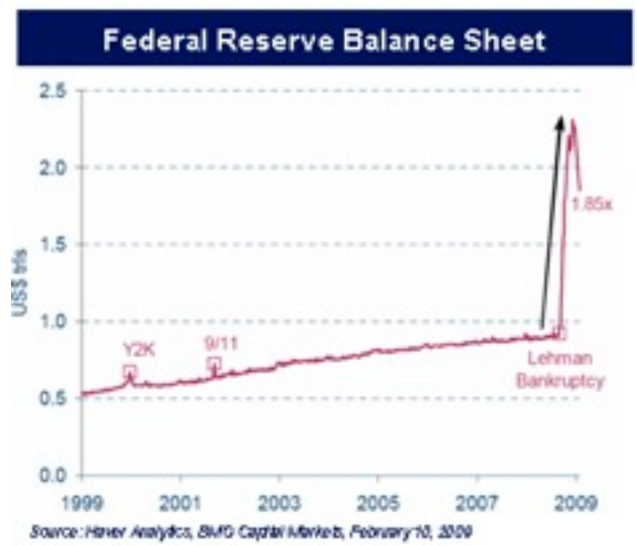
The new head of the world's largest gold miner this week said; "The gold industry needs to replace almost 100 million ounces of reserves per year, and clearly this has not been happening." The exploration sector will once again explode as demand continues to increase and deposits become more and more difficult to find. It's nothing but simple economics 101 where price must rise if demand exceeds supply and vice versa. Gold output fell 1.5% in 2008 with the trend expected to accelerate for the foreseeable future.

One of my favourite investors, Jim Rogers said recently that he is not selling his gold, but is not buying either. He expects prices to come down some if the IMF's plan to sell gold comes to fruition. He thinks if that occurs it will put a floor under the price of gold and he will be looking to increase his position on weakness.

The many miners in Mexico are halting operations to try to stem the spread of the swine flu and while they say it will not effect their output to a material degree the sum will certainly do nothing to increase the already waning supply of gold and silver.

For this weeks long list of biggest losers please see here. Six banks failed on Tuesday and three more on Friday. That's nine this week alone. The failed bank list is unusually not in chronological order this week. Taking a quick count I see as I jaunted out early last week I missed a tonne of failures. 67 banks failed in April 2009 including three on May 1. Most failed last Friday April 24. Unreal.

I ran across this chart of the Federal Reserves balance sheet which shows just how incredibly rapidly liquidity has been increased. It's amazing to see the Y2K and 9/11 periods as only a blip on this chart.



Imagine if this were a chart of the supply of apples in the world. You would obviously and correctly assume that the value of apples will go down as a result of such a huge increase in production. This chart depicting dollars can only have one result. A lowering of the value of dollars. I've said many times that it's not so much that the precious metals will increase in value, rather that the medium they are valued against will decrease in value.

It's all about wealth protection first, then wealth creation. Basically, my premise is the physical metals for the protection part and the equities for the wealth creation. It's a simple premise that takes advantage of today's actions by most major economies. Unfortunately the disinformation so prevalent today has led most investors to miss the obvious and lose a large portion of their hard earned savings. It's not too late. More and more people are flocking to the metals sector on a daily basis.

A curious development in the circulating coin world comprised of pocket change caught my eye this week. Only 3 billion coins have been ordered for all of 2009, down a stunning 70% year over year. This has sparked a hiring freeze and will likely call for an extended shutdown of the mints. The thought that ran across my mind was that perhaps the Federal Reserve realizes that coins will soon be worthless and paper dollars will need to be printed in increasingly larger denominations making the coins pointless to keep producing. Just a though but it's the only one that I can conclude from the story.

In my free, nearly weekly newsletter I include many links 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 see what my portfolio consists of please see here.

Until next week take care and thank you for reading.

Warren Bevan

If you found this information useful, or informative please pass it on to your friends or family. And please take a look at my portfolio here for help deciding where to invest.

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