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Make Like Water and RUN!

Drastic times call for drastic measures. I have made major changes this past week to my portfolio. I am scared, and have taken appropriate actions. Safety first is now the motto I embody.

While Friday saw a nice comeback, all it really did was relieve some pressure on the very oversold levels in the general markets. In my view we have now entered the second wave of the great bear market, right on schedule too, as subscribers know.

On to more trivial, but needed, relief, did anyone else get to play a game of Pac Man at our favourite search engine this week? I noticed the image but had no idea you could actually play until a friend asked if I had.

Very cool!

I gave it a go this morning and I am pleased to say my previously non-existent video game skills are still there.

As embarrassing as this next admission is, I'll say it anyhow.

I didn't even get past the second level on my first and only go at it.

Perhaps my mind was wandering off to writing this letter rather than focusing on evading those ever relentless ghosts....ya that's it!

Let's get right into it.

Metals review

First off I want to talk briefly about on of the most powerful formations in the world of technical analysis. Last weekend I voiced my hope to subscribers that gold would move lower and begin to complete what is termed a "cup and handle" formation.

As we now know, thus far, my wishes have been answered. Below is a chart example of this very powerful formation that usually leads to much higher prices. Gold is now forming the handle.

Gold fell 4.5% for the week and it's actually a great thing.

RSI is moving nicely to support near 40. The moving averages are in proper order, and we may even get a brief test of the 50 day moving average at $1,155. But perhaps not.

MACD is bearish as is the Slow STO indicator which is quickly moving towards oversold.

GLD's volume waned into the close of the week leading me to believe we are very near the low point in this correction, and handle formation period. The next and best buy point will be the break out of the cup and handle formation at $1,226. Even adding some here could be very lucrative, although there is no certainty that the technical pattern will complete as I expect it will.

Silver was mugged this past week and fell 8.65% in it's usual feisty way. Silver is now on a flash sale for those with the goods to step up and buy. It's no different than a sale on that awesome flat screen TV you've been eyeing for months now.

RSI is moving into support at 40, but we could certainly see a quick move below that level to scare out the weaker hands. The moving averages are in good shape and the 100 day acted as support as well as horizontal support and the uptrend line all merging near the $17.50 level.

MACD and Slow STO are bearish with the latter moving quickly into where big upside moves begin.

The silver ETF SLV saw massive downside volume which abated as silver approached the support zone. I don't see lower prices than where we are at this time, but silver is notorious for throwing egg on my face, so be forewarned.

Platinum was absolutely smashed, to put it lightly, as investors clamoured for cash. It fell a whopping $12.5%.

This is what occurred back in 2008. If you are still holding a trading position in platinum I would seriously consider selling out if the 200 day moving average is violated to the downside. If you are holding physical platinum, I would sit tight and wait for your next chance to buy more.

There have been many situations in the past where physical sells for a much higher price than the spot price, or ETF price. Even double in some cases.

But as the economic outlooks begins to once again look shaky, cash is king.

All indicators are bearish.

The ETF PPLT saw huge volume which declined late in the week as we approach the 200 day moving average. These are scary times indeed and trying to catch a falling knife is never a wise idea. This is the epitome of a falling knife.

If I told you Palladium would fall 22.53% in a week and over 11% on just the Friday alone, you would have had me committed, and may yet! But that's what happened. I certainly didn't call it. But as above, cash is king.

All indicators are a mess and heavily bearish. The only glimmer of hope remaining is the 200 day moving average which sits only a few dollars below.

My thoughts from above are echoed here. Don't go long, sell almost everything and hold any physical bullion you've accumulated to date.

The Palladium ETF saw similar volume which was large and diminished as the end of the week neared. I would be very careful entering a long position here, and just wouldn't do it with government money, let alone my own.

Fundamental Review

As we all know by now there are going to be sweeping changes to the financial system in our future. I don't know if they will work or not, but they will certainly not stem the flood of money out of the market which we are experiencing right now.

The markets will likely continue to fall no matter what. Just at a slower speed.

There is no doubt that computer or black box trading accelerated the recent flash crash, but the underlying fundamentals that caused it remain.

Europe is on the brink of the Euro collapsing and for the moment the US dollar is the world safe haven no matter how flawed it itself is. Just because the US dollar is rising now does not at all mean it is a good currency, after all there is still nothing backing it which makes it a fiat currency, and they never last. But for now even China has upped it's buying of US treasuries.

The US is fiscally irresponsible and a much larger problem than what is occurring in Europe at the moment. But right now attention is being paid to Europe. That will change in time, but for now we must take advantage of the situation.

Even the Bank of England's governor, Mervyn King, warns the US faces the same issues as Greece.

The legendary Mark Fisher recently gave a rare and important interview with the big US business channel where he warned the type of crash we saw recently will continue to occur as long as computers continue to run the show.

While individuals like Mr. Fisher rarely come on TV and are unknown to most investors, they are the ones who we need to listen to.

The most sick and underreported confirmation that things have to change came in a report where four of the largest US banks were identified as achieving a perfect quarter. That means their trading business made money on every single day in Q1 2010!!!

I mean, come on! If I could only go a week with such a record I'd be sipping Mai Tai's on a beach in Fiji in no time.

It's blatant, in your face waving of money. They could not be any more obviously running a rigged game. If I were running such a rigged game, I'd take a few losses just to paint a pretty picture, but these guys have no regard for you and I in any way shape or form. I couldn't write a more unbelievable tale, but this is real and non-fiction.

I'm sure you've heard the audio from the S&P pits during the recent flash crash but if you haven't, here it is. It still gives me chills for the duration every time I listen to it.

Eight banks are being investigated now as to whether they "duped" the ratings agencies in regards to the value of mortgage securities. I am 99% sure they are guilty, but also 99% sure there will be no admission of guilt and at the most a small fine paid by these companies.

I was busy with subscriber updates last weekend so I didn't get the chance to write this free letter. The week before I was off trying to enjoy Cuba's humidity. Unfortunately even with my highly honed sun dodging abilities, I got burned the first day quite bad. While I still did enjoy some scuba diving and an excursion into Havana, the vast majority of the trip was spent sipping mojito's, reading and relaxing under cover of shirt and umbrella, and the odd evening cigar by the pool.

I missed the flash crash all together and didn't really find out about it until the week's trading had completed. Always happens when I take off.

The last letter I published was May 1, 2010 where I neglected to list the weeks biggest losers, of which there were seven. Since April 30, there have been 16 bank closures with only one coming this past week. You can see if it was a bank near you at this link.

I've talked topically about the gold sector in Zimbabwe which would be soon set to pick up. While the country still has inherent issues, the gold sector is set to double last years output. This is still a very small amount though. Up to about 8 tonnes are expected this year compared to 4.9 tonnes last year.

I've always advocated buying physical metal for the metal content, not the perceived historical value. Numismatic/historical coins simply offer the broker a larger spread and stick the investor with a major deficit to overcome right off the get go. This article explains in simple terms just what I have said over and over again. Don't fall for the flashy charts or sales pitches no matter who's face or name is attached to it. Buy for the metal.

Unless of course you are into very rare and historically significant coins and really know your way around the coin world, stick with the basics. For those who do know the coin world then this sale of a 1794 silver dollar, thought to be the first minted, will surely make your mouth water. It sold recently for an astonishing $7.8 million US dollars.

South African gold output continued to wane, falling 12.7% in March year over year.

Also hurting the bottom line in South Africa is the strong Rand currency. The stars just never seem to align down in South Africa and I just can't bear to invest in a miner down there still to this day.

Another article touting British Columbia's potential for minerals came out, but warned about the red tape. As prices rise, governments will be wanting more and more of the pie. This is being seen right now in Australia and could literally impact the bottom line of some of the world's largest miners by nearly 25%! Even the most stable areas are getting greedier and greedier.

The uncertainty of investing in mining companies themselves sometimes drives me nuts and makes me want to increase my bullion holdings and forget about all but the best companies all together.

A low profile billionaire has been and is investing heavily in gold and the gold sector. Thomas Kaplan and his firm are searching in 17 countries for gold deposits as well as investing in smaller junior and exploration companies.

Mr. Kaplan won't disclose exactly how much physical gold he own but his combined stake in gold is almost $2 billion. A very heavy bet to say the least.

Echoing my thoughts Mr. Kaplan says; *"You've got a perfect storm with no apparent solution," he said. "If the world does well, gold will be fine. If the world doesn't do well, gold will also do fine ... but a lot of other things could collapse."*

Mr. Kaplan also gives us this great tidbit to which I couldn't agree more; *"I wouldn't even say we're in a bull market yet."* It's true. Gold has risen so orderly to date that there is no hint whatsoever of a bubble.

The now famous John Paulson released their Q1 portfolio. Among additions were several mining companies, more specifically, gold miners. The gold ETF GLD, remains his largest position at 16.22% of the portfolio.

A gold vending machine was recently installed in Abu Dhabi. There are some other ones in Europe which are almost a year old now which did not make the mainstream news at their inauguration. The installation of this machine in the Middle East prompted some US business channels to tout their views that this must mean gold is in a bubble. I have only one question for you. How many people do you know who own a gold coin?

I am quite nervous at this moment with the second wave of the bear market which began in 2008 likely underway. The physical stuff held up very well in that period while even the best gold or silver stocks were hammered.

To finish off, I offer you this short video report of Chinese gold demand. I don't see anything close to that type of scene anywhere in the Americas yet.

Thank you for bearing with me this week. Have a great week ahead.

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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