

# Precious Metal Stock Review



[www.preciousmetalstockreview.com](http://www.preciousmetalstockreview.com)  
2008

14 September

## Metals review

First I must say that the technical analysis I present each week is just that. Here is the definition by <http://www.investorwords.com/>

### **technical analysis**

#### **Definition**

A [method](#) of evaluating [securities](#) by relying on the [assumption](#) that [market data](#), such as [charts](#) of [price](#), [volume](#), and [open interest](#), can help predict future (usually [short-term](#)) market [trends](#). Unlike [fundamental analysis](#), the [intrinsic value](#) of the [security](#) is not considered. [Technical analysts](#) believe that they can accurately predict the future price of a [stock](#) by looking at its [historical](#) prices and other [trading variables](#). Technical [analysis assumes](#) that market psychology [influences](#) trading in a way that enables predicting when a stock will rise or fall. For that reason, many technical [analysts](#) are also [market timers](#), who believe that technical analysis can be applied just as easily to the market as a whole as to an [individual](#) stock.

The only reason I produce it is to give some indication of where support and resistance lies. I remain constantly bullish on mostly gold and silver prices and have no interest in calling for moves down until fundamentals deteriorate or obvious short term tops are in place. The fundamentals are so strongly bullish that no matter what the charts say I will nearly always in a bullish posture. I rely on fundamentals to catch the big waves since that fits my style which I believe is the way to maximize gains over the long term taking taxes and other factors into consideration.

No technical method of technical analysis I am aware of could have predicted the recent downturn.



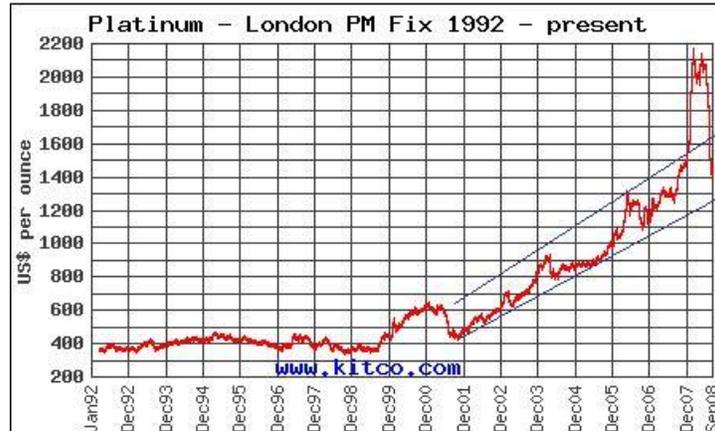
The uptrend from 2001 is still strongly intact and is likely never to be tested. The uptrend from late 2005 is being tested here and now and should hold, otherwise we may see a run to \$700 or even \$650. This would devastate even the most adamant of bulls. Fundamentally and historically the prospect is distant.

By September every year since 2002 the low has been in and sharp moves up have followed. This year should be no different and I expect the moves up to be much more explosive this year considering the unwarranted, engineered declines as of late. I have no reason to believe we will not see a move to near \$1,200 by Christmas. And what a Christmas that will be!

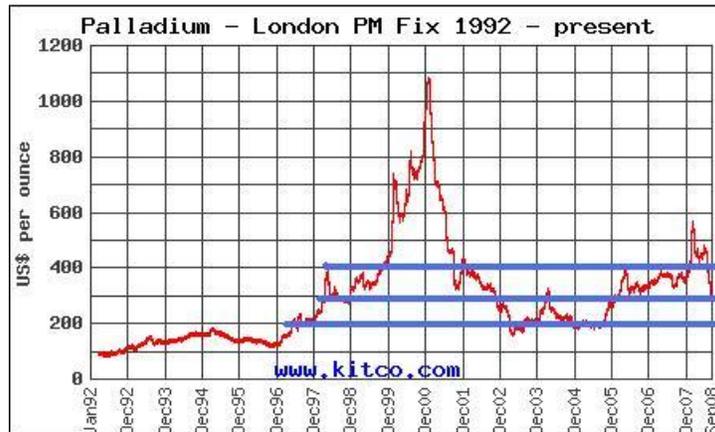


Silver has been much more violent than gold as usual. That bodes very well for the upside. We should see silver outperform gold on the next major upleg beginning now or very shortly. \$10 is a price I never thought we would see again. Alas we are there. Try to accumulate any physical at this price and you will be sorely disappointed at the \$16+ price you will be paying and the weeks to months you will be waiting if you don't get defaulted on.

The silver situation is similar to what I am seeing in the junior resource sector. Accumulating at the quoted paper price is very difficult. Any substantial accumulation drives the price up much above your desired purchase price. Even now it is hard to buy any reasonable size without moving the price. Times are about to change very soon.



The Eskom power crisis blew the price through the roof and now that we are back to reality platinum should regain its uptrend. Fundamentals are strong we just need some time to build a base.



Palladium has three strong bands of support marked in this 16 year chart. We are now at the \$300 band of support. Fundamentals call for higher prices so I remain bullish. The price could no doubt with recent events fall to \$200 but I am not betting on it and it would just be an anomaly. Although we came close to the \$200 mark this week I believe it was just a spike low which in time will mark the bottom.

# Fundamentals Review

Ecuador is close to [finalizing](#) revisions on their mining law. The widely anticipated law is purportedly calling for a 3% to 8% royalty based tax dependent on the scale of production. Tougher environmental and exploration regulations are said to be included along with a clause pertaining to legal proceedings which will only be permitted within South America. The bill should be officially published soon giving clarity to investors and companies.

This week the highly respected Don Coxe issued his webcast and had quite candid and true remarks regarding the recent takedown of commodities and rise in the dollar. It was engineered and will not last since the underlying fundamentals point to a lower dollar and much higher commodity prices, especially precious metals. You can listen to his wonderful webcast by Googleing his name or read remarks from the webcast in [this](#) article.

[This](#) story talks about China taking advantage of the major rally in the USD to unload some of their growing hoard. China holds a fifth of their currency reserves in Fannie Mae and Freddie Mac debt. This is a huge number, close to \$400 billion dollars. Other countries such as Russia own a substantial portion of the housing institutions debt as well. No wonder they were effectively nationalized last week.

The pressure put on America was incomprehensible. The ramifications of not bailing out debt holders would have reverberated through every household in America. It will with the current plan but to a lesser, more drawn out, padded degree. The \$5 trillion of mortgages held by the two institutions is now on every Americans financial statement. They will be paying for this for many years to come. It is simply irresponsible, reckless and selfish to indebt ones generation to the point it cannot be paid off. Passing it off to the next generation is disgusting, but that is what has been done.

A good many companies are now extending warrants which were set to expire in the near future. This will hopefully give the companies a chance to have the warrants exercised on the new expiry date giving an injection of funds much needed by many companies today rather than having the warrants expire worthlessly and further damage sentiment in the sector.

Much of the declines have to do with overleveraged funds looking for instant gratification and gains rather than investing for the long term. Stops have been run and triggered a continuous flow all the way down. It's quite simple with enough capital to push markets around; especially the relatively tiny precious metals markets. All you must do is sell into the market until stops are set off creating a cascading effect while the initial seller covers their positions. Once that is over it can be done again and again until the market is oversold and just long term unleveraged players remain.

At the same time this attracts short sellers who follow the short term trend, exaggerating the move. Many of these short term trades were put on by a computer software program which can execute many thousands of transactions every second if the criteria it searches for is met.

Today, Friday, the three major indexes comprised of mining stocks, HUI, XAU and GDX were up more than 10%. Much of this was undoubtedly a short covering mania on very high volume. It looks as if the trend is about to reverse here and resume its long term fundamentally backed bull market.

This is where we are today. I don't see many precious metals holders being anything but long term and having the strong conviction needed, acquired only by a careful review of fundamentals.

While I am shocked by the extent of the manipulation of the markets it simply means I can acquire my favourite stocks at prices much lower than what excited me some time ago. I realize manipulation is a very strong word and it is difficult to prove. My long held contention that GATA is right is unchanged. While the day to day price movements are not necessarily manipulative, a good many are. I implore you to consider the considerable evidence that GATA has amassed and try to disprove it. I have not been able to, nor have any other pundits. Therefore I must consider it true.

Another indication that the low is near is that it is very difficult to obtain shares in quantity from these illegal short sellers. There may be a low offer on a stock but if a substantial order is placed the offer is withdrawn. It is a feat to acquire quantity. The shorts are willing to take the price down, but only on low volume transactions. They know they are beginning to get squeezed and are only willing to expose themselves to so much risk. The time is coming and when it does the movements will be stunning and there will not be a chance to enter the market. It doesn't bother me to see paper losses now because I know I at least have my position, and frankly that is all that I care about. I can, and will wait for what I know is coming.

Another big event which is coming down the pike are legal proceedings against the naked shorts who have taken the prices of the junior resource stocks to below fire sale levels making many companies worth more dead than alive. Most litigation is brought forth in hopes of a settlement. The acts coming should be enough to begin to scare the illegal shorts out and in turn take the prices back up to where they deserve to be. For more on this you must listen to the second hour [here](#) at Financial Sense.

Today we are faced with a choice. You can stay in cash, which could be good depending on which currency you choose. You could buy treasuries, and some countries have good ones but many have a negative real interest rate, meaning inflation outweighs the rate of return. You can invest in the stock market, but which sector will perform? Tech? Maybe. Consumer staples? Decent chance of small stable return especially if the company is international. Auto industry, fat chance! Manufacturing? The point is that nearly all investment sectors are and will continue to hurt as consumers have less discretionary spending at their disposal.

Consider the fundamentals of each sector carefully before investing and you will see the gold and silver fundamentals have never looked better than now...and they are selling as if it's a blowout closing down sale, or even cheaper in some cases of the junior resource stocks.

This sector must be a long term hold and you must have the conviction and strength to handle setbacks such as this one in the bullion, resulting in the shares amplifying the decline.

I was asked this week why the shares of the major miners have come down so much more than the actual bullion. My response was that the leverage to moves in the gold price is found in the shares. Although the leverage has not been seen on the upside they are very apparent on the downside.

How will this change? Bullion MUST rise to much higher levels to see the leverage the shares will provide. The cost of mining and replacing reserves is high and at recent prices miners are not showing the profits many shareholders are expecting. A large contributor to this is the fact that most miners' production is declining and among other factors a major one is the mining of low grade reserves now while the prices are relatively high, otherwise the low grade ore would not be economical.

A large reason miners are low grading is because they lack the conviction that gold and silver will go much higher. Knowing that the precious metals will go much higher in the future it would make sense to me to be high grading now in order to show shareholders how profitable you can be. Low grading will make companies look like geniuses as gold passes \$2,000 an ounce and beyond. I think they have it all backwards.

I cannot stress enough that now is the time to get into the junior resource sector while you still can. Some more downside may be seen but it does not matter a whit, if you are invested for the long term and fully pay for your stocks. Do not use margin and you will be ok. There are no words to describe the rewards you will reap.

It is time to do your due diligence and a great place to start is this week's Denver Gold Forum. [Here](#) you can listen to some of the top major, junior and exploration companies present their case and views. Much was written about Kinross's CEO Tye Burt's comment on the outlook for gold and the stocks. It is a must listen and any other company who catches your eye. Over eighty of the leading companies have archived presentations.

Unfortunately time does not allow me or most others to listen to each one so you must be selective. Enjoy, have a great weekend and put 'er in reverse... it's time to back the truck up!

Warren Bevan

[www.preciousmetalstockreview.com](http://www.preciousmetalstockreview.com)

*If you found this information useful, or informative please pass it on to your friends or family. You can subscribe by visiting [www.preciousmetalstockreview.com](http://www.preciousmetalstockreview.com) and adding your email to the newsletter signup found on the left of every page.*

**Free Service**

*The free weekly newsletter "Precious Metal Stock Review" does not purport to be a financial recommendation service, nor do we profess to be a professional advisement service. Any action taken as a result of reading "Precious Metal Stock Review" is solely the responsibility of the reader. We recommend seeking professional financial advice and performing your own due diligence before acting on any information received through "Precious Metal Stock Review".*

*\*To unsubscribe send an email to [newsletter@preciousmetalstockreview.com](mailto:newsletter@preciousmetalstockreview.com) with "unsubscribe" in the subject line.*