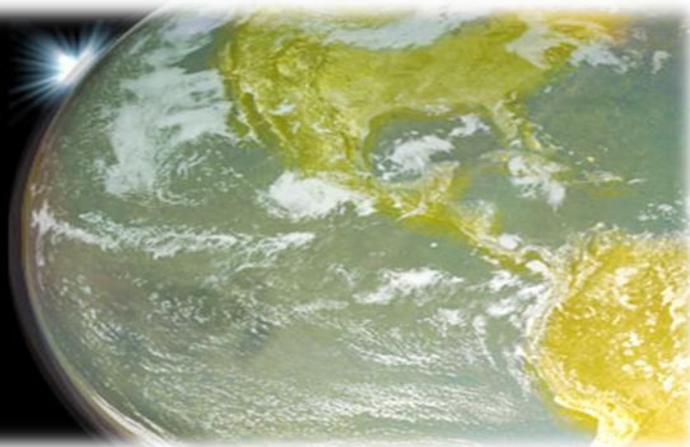


Precious Metal Stock Review



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History Unfolds As Life Goes On As Usual

Metals review

All in all it was a spectacularly bad week for the free markets as we know them. They don't seem to be free as they plunged justifiably, only to be propped up by central banks to actually, in most cases, post a gain on this historic week. I feel very privileged to be witnessing this crisis unfold in real time. This period will be studied for many years to come.

Gold and silver were huge beneficiaries of the fear gripping the markets today. But if you dig a bit deeper into the open interest numbers it is quite clear that short covering was the prime motive to the rises. Shorts were scared out not by a rush of buying but by the crumbling of markets. That means people are still not running to the safety of precious metals and that the real fireworks on the upside are still to come.

The public still does not get it. The actions taken recently and under consideration now are inflationary to a degree the west has not experienced. While the governments throw good money after bad to save the financials they are creating another problem whereby hedge funds who play trends are going to get squeezed by the unfair halting of shorting. This viscous circle can only end in mass inflation and eventually panic into gold and silver. Where the line will be drawn on who to save and who to let fail is yet to be seen. If the Paulson plan is approved I fear for Americans, who will be herded into socialism and not even know it. Many feel it is already there, I am in that camp.

While the thought of protecting yourself and prepping for survival has yet to grip the populous, some are prepared or can see what is very likely coming. I urge you to have some food, water, possibly firearms and physical metal stored nearby in case this nightmare sees the light of day. I am not promoting scaremongering but it's certainly better to be safe than sorry.



Now that gold has risen back to some sort of reality we can use a shorter term chart again. The psychologically important number of \$900 was tested and bested briefly this week unbelievably. The \$850 level was seen as an area of support after the spike up. Gold must stay above \$850 or risk falling to \$825. I expect to see some sort of base building above \$850 and below \$900 this week, but with the financial crisis in full swing we could see anything on the upside as evidenced this week.

Open interest in the futures market this week showed no huge increase and that means much of the rally was short covering. This is very bullish as the big money is covering shorts and now should begin to reposition for a move to the upside.

In this day and age a solid and safe portfolio must consist of some physical metal.

Short term RSI got back above 50 in quick fashion and is looking good having bested the downtrend and recent peak just below 50. Gold is close to getting back above all three moving averages and is strongly above the recently begun steep uptrend line, and clearly broke the downtrend which took it from above \$975 to below \$750. The action is extremely strong and bullish.

MACD rocketed up and is strongly bullish at this stage. Slow STO is bullish as well having bested the recent peak around 70.



There is some strong resistance in the \$13.50 region in silver which coincides with the 25 day moving average. Silver must get above the downtrend line just above \$13 to show more bullish signals. \$14 will be a major hurdle since the first Fibonacci line lays there and strong chart resistance.

Physical silver shortages remain reported daily and are finally helping to push the artificially low price back up to reality.

RSI jumped one peak and now is close to breaking another milestone at 50 not seen since early August. If the RSI can get back above 50 that will be strongly bullish and should trigger more buy signals. The 25 day moving average is posing some resistance here and the other two MA's are a long ways above. MACD is bullish and a buy signal was triggered as it moved above the recent peak. Slow STO is also bullish and triggered a buy signal as it moved above the recent peak.



Platinum continued to move down with no real sign of stopping yet. Volatility was the game for this precious metal this week.

RSI is moving up but must get above the recent peak at 45 to signal potential bottom and trigger new buy signals. The moving averages are all heading lower and the 25 day MA is matching nearly perfectly the downtrend drawn in by me. MACD is ugly and very low. It must get above the recent peak at -75 to show a bottom potential. Slow STO is also ugly and has a long way to go although it looks to have made a bullish crossover on Friday.

Platinum is a dangerous place to put money today in the short term, although longer term investors may be looking for spots to begin picking away at it.



Palladium looks to be forming a bearish flag pattern similar to the one formed and confirmed in August. I have no reason to believe that the price will not move lower here. Fundamentals remain strong but the negative sentiment and technicals are driving this metal down hard.

The RSI must get above the recent peak at 40 for there to be any chance of a bottom having been put in. The moving averages are all ugly and relatively far off. This does not bode well. MACD must surpass the recent peak near -20 to form a potential bottom. RSI also must pass 50 to show potential strength moving back into this market.

Fundamentals Review

This past week was simply unprecedented and chilling. The house of cards America is built on is swaying badly and will surely crumble with any breeze.

The crisis is deepening and instead of getting into it too much I am simply posting some recent headlines which tell the story.

[Citing Grave Financial Threats, Officials Ready Massive Rescue](#)

[Central Banks Offer Extra Funds to Calm Money Markets](#)

[Treasury Seeks Asset-Buying Power Unchecked by Courts](#)

[Paulson Says Several Countries May Adopt Bank Rescue Plans](#)

[Stagflation fears likely to resume](#)

[THE BAILOUT TAB THAT KEEPS GROWING](#)

[Banking crisis crosses Atlantic](#)

[A day of reckoning for U.S. authorities](#)

[U.S. on edge as bank crisis transforms Wall Street](#)

[Cost of rescue better than alternative: Paulson](#)

[Shares soar as U.S. plans to expunge bad debt](#)

[Central banks pour \\$180-billion into markets](#)

Every headline is inflationary and does not bode well for investors. Have you got your gold and silver yet?

There are so many big stories this week but perhaps the most important is [this](#) one where they talk about the SEC enforcing the already illegal naked short selling. I have talked extensively about this in the past and for those who are just now becoming interested or want to know more I have and still do suggest the “Crime of the Century” radio series at <http://www.financialsense.com/fsn/main.html>.

This subject will be covered here as things develop and the lawsuits begin. Not that it’s funny or anything but as the big brokerages are going bankrupt and others are being decimated while blaming the monster they created of naked short selling...well to us mining investors it sure is funny, it’s just a shame that only the big money mouths get listened to. I have made a killing in shorting these institutions in my trading account and truly had a good laugh as I

covered this week. Now I wait for the last laugh as my mining shares and bullion holdings run to the moon.

The SEC, after “enforcing” naked short selling, have [decided](#) it best to ban it all together whether it be the legal, or illegal variety. Some 799 companies are now protected from short selling until October 2nd and possibly for longer. I wonder if the shares on the long list will rise during this period. Seems like easy money to me. The real question I have other than why not round it up to 800 companies is why it includes stocks which are not down or even seemingly unrelated to the “banks, insurance companies, and securities firms” which they say are included in the list. I will not go into detail and won’t post the companies and related charts which I am talking about but the list can be found [here](#) and a quick browse will identify multiple targets.

According to [GFMS](#), contrary to their estimates, gold producer’s de-hedged 255 tonnes in the first half of 2008. At the end of June global hedging contracts were at a loss of \$9.9 billion. Shareholders should be furious at the erosion of their wealth and earnings misses as a result. And again GFMS calls for a slowing of de-hedging by producers. And once again I say nay.

A [demand](#) story out of Dubai where assets under management in the gold ETF increased by 10% during the July to August period. That’s quite impressive considering the price fluctuation from the high \$900’s to the mid \$700’s. It just helps prove that many regions increase demand as prices fall both providing support and taking bullion off the market when it’s cheap. So much of the world gets the gold and silver story. Many of these countries are doing very well and are big savers relative to income.

Unfortunately many in the west have been duped as to the value and significance the precious metals have played as a monetary metal instead of just something worn around the neck, although that will do in a pinch. Shares are fine and dandy but every investor must have a percentage of their wealth and investments in PHYSICAL bullion. It’s more a measure of insurance rather than investment but history has proven this cautious fact is prudent. We are close to writing history in this manner whereby bullion becomes more important than any other form of insurance as we have seen with the demise of AIG this week.

Also mentioned in the above story is the fact that many in the Middle Eastern countries are simply allocating so much to gold and silver and buying monthly. This strategy has been long proposed by the likes of James Turk, Jim Puplava and others. It has worked great to date and as the metals become even more volatile in the future it will surely pay off again.

Again, physical is king in so many countries and is proven in [this](#) article. In India the gold ETF holdings rose by 13.97% from the previous month to a total of 5.712 tonnes. This number is dwarfed by the physical import of 700 tonnes of physical bullion.

[This](#) story tells about investors and gold holders rushing to trade in their gold during the massive run up in prices this week. While they are usually quite smart on buying dips, I must think they are a bit early in their selling now, amidst the turmoil and crisis.

With the paper prices of precious metals being artificially lowered and manipulated down the result is that demand is soaring while supply continues to tighten. The costs of mining continue to rise while the price is not keeping pace. According to GFMS production costs rose 27% in the first half of 2008. Gold and silver must rise to encourage and increase in supply and continued exploration activities. [This](#) company is shutting two mines as costs have soared. They are looking for alternatives but unlike banks, brokers and financials they are getting a blank stare from government officials.

Another large [miner](#) is closing a non core mine due to the lower gold price. While not a huge producing mine, it still adds to the big scheme of things and will reduce gold supply this year.

The historic Sunshine Mine in Idaho has had to cease operations. Along with some other factors cited the press release said: "Production through the end of August totalled approximately 354,000 ounces of silver, which is substantially less than management's expectations and less than what is required for self-sustaining operations. This, combined with volatility as it relates to precious metals stocks, ultimately prevented the company from obtaining the financing required to continue operations at the current level,". Once again total world silver supply will be affected.

Avocet Mining [bought](#) back their remaining hedge position for a cool \$10 million this past week. The company is now fully exposed to the gold price.

Gold demand continues to expand in new areas. Venezuela is [planning](#) to buy 15 tonnes of gold a year to create investment products for their populous including gold coins.

As I wrap up here, Asia is about to open and I am eager to see how they will start the week off before New York opens in the morning. It will be another very interesting and historic week for world market, I guarantee it. Let's hope some buying shows up in the precious metals this week. Have a great week and enjoy the show!

Warren Bevan

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