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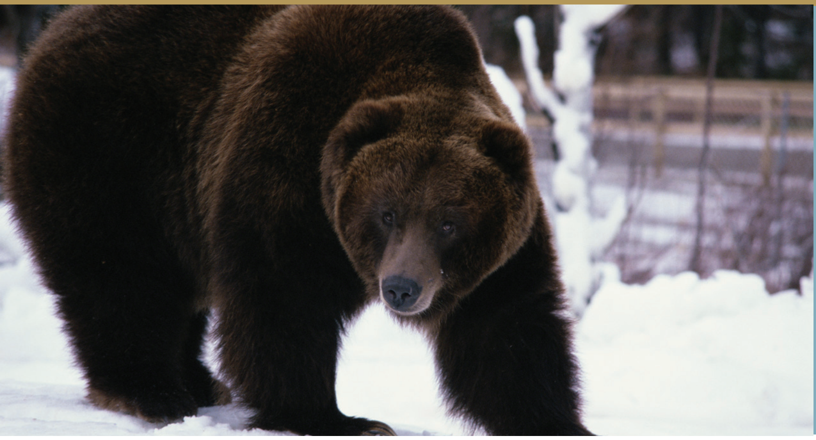
THE LONGWAVE ECONOMIC AND FINANCIAL CYCLE

# ECONOMIC WINTER



## Precious Metals stock prices, where they've been, where they are and where they are going.

Obviously, many of my readers are concerned about the price action of the precious metal stocks and particularly the junior mining issues. For the most part I don't share that concern and that's not because I am blindly following an investment strategy that has worked so well for me in the past, believing that it will continue into the future forever. Of course, it won't do that. No bull market ever does that, as those who are investing in the general stock market will eventually find out to their detriment. However, I am convinced that the gold stock bull market is still relatively young and that's not just wishful thinking.

So allow me to tell you, why I think gold stocks and particularly the junior gold stock prices have been going down these past few months. Then, I'll tell you why I think that they are about to go much higher. After that, I'll discuss my investment strategy with you and what I do to pick winners.

Since my investment accounts are principally devoted to junior gold mining stocks, most of the following comments are related to these issues. Please note that unlike my friend Eric Sprott, I am much more bullish on gold than I am on silver. Why? That's for another Economic Winter issue due later this year.

Why the Gold stock prices have performed so poorly these past few months.

I think that an important reason for this conundrum is that there is currently a worldwide aversion to risk and junior mining stocks have always been equated with high risk. Particularly at this time, since the 'holier than thou' banks control most of the brokerage firms. Banks extol the virtues of investment diversification and what are called 'low-risk' investments. Typically, low risk stock investments are those companies with large market capitalizations often referred to as 'blue chip' companies.

Every broker must complete a new client account form for every client opening an investment account with the brokerage firm. One of the principal questions that must be answered on the form is 'what is the client's risk tolerance level. This is typically broken into four distinct risk tolerance categories, something like:- (1) Capital preservation and income=bonds and preferred shares (2) Balanced= Income and low risk stocks (blue chip companies) (3) Medium risk=above average returns (4) High risk= maximize potential returns.

The client may select one, some or all of these risk categories and apportion his/her selection in each category as a percentage out of 100%. In other words, the client could select 70% in the Capital preservation and income and 30% in the Balanced category. He or she could select an even distribution of 25% in each of the four categories. Whatever, the category selections must add to 100%. Thereafter, the Broker must invest the client's account according to the selected risk tolerance levels.

It doesn't end there. The client's risk selection is scrutinized according to such factors as age and net worth. Older and small net worth clients are generally not deemed eligible for high risk investments. They are frequently encouraged to invest in what are considered the safer categories.

The banks, which as we have already stated, own most of the brokerage industry, are adverse to bad publicity brought about by client investment losses and this applies particularly to losses in what are deemed speculative investments such as ‘penny mining stocks.’ Thus, they tend to ‘encourage’ their stockbrokers to pursue a more recognized conservative investment strategy on behalf of their clients.

These risk criteria were developed during the early stages of great autumn stock bull market. They have been continually refined ever since. While they may have been an appropriate measure of risk during the bull market, they are essentially meaningless in a bear market. What might have been considered low risk in a bull market might be very risky in the huge winter bear market. For example, one of the least risky investment criteria that might be selected is ‘Income’. Most investment income is derived from investing in Bonds, which are debt instruments. Considering that we are now enduring an international sovereign debt crisis of extreme proportions, all debt, in my opinion, should be considered High Risk.

Similarly, investing in so called ‘blue chip’ stocks might be rated at worst, Moderate Risk. But in a winter bear market these stocks become very high risk as they were between 1929 and 1932. But investing in gold stocks, including junior gold stocks, during this period was relatively low risk.

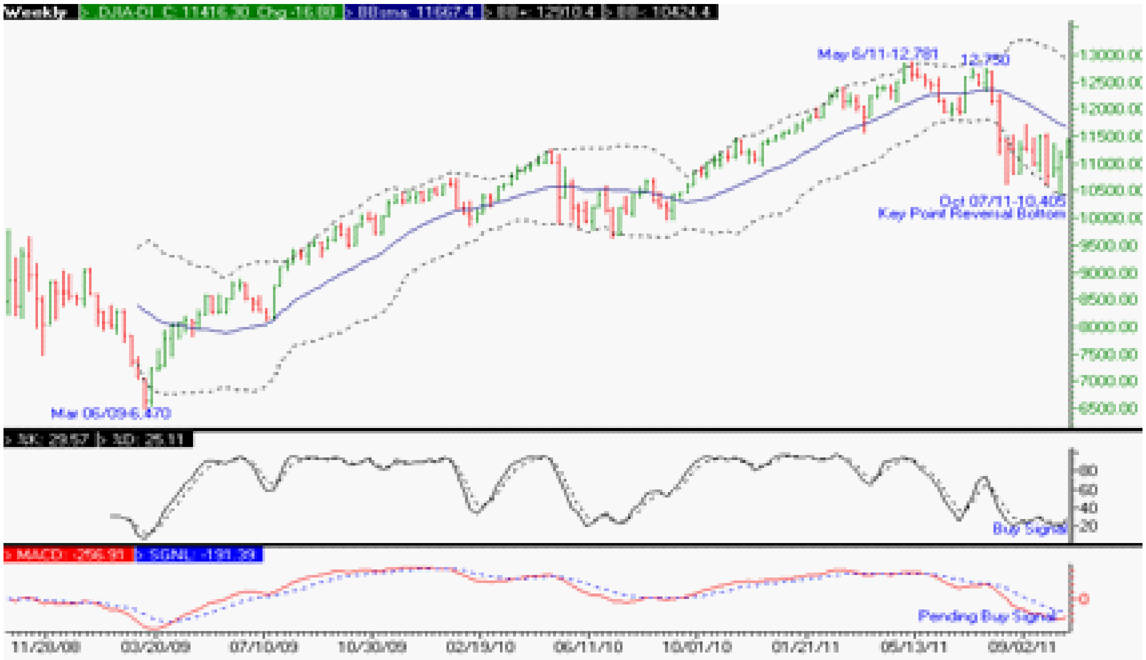
Regardless of the fact that we are now enduring the ravages of the fourth Long Wave winter, the brokerage investment criteria still remain the same and investing in junior precious metals stocks will be accorded the highest risk category on the risk spectrum and accordingly, most investors will be dissuaded from buying these stocks.

Here’s my second reason why these junior precious metals stocks have performed so poorly these last several months. Actually, the answer is very straight forward. They have underperformed because the general stock market has also fared poorly. The junior mining stocks and their senior counterparts are very volatile, much more so than stocks listed in the general stock market. In a falling stock market they fall harder and in a rising market they do better price wise than do other stocks. Let me just show you a couple of charts to clarify this for you. The first chart you will see is a chart of the Dow Jones Industrial Average weekly chart. The second chart depicts the TSE Venture Exchange. I know that the Venture Exchange is not entirely comprised of junior precious metals listings, but overall, mining companies comprise 61% of the market capitalization of all the companies listed on the exchange and all of these companies on the Venture Exchange generally sink and swim together.

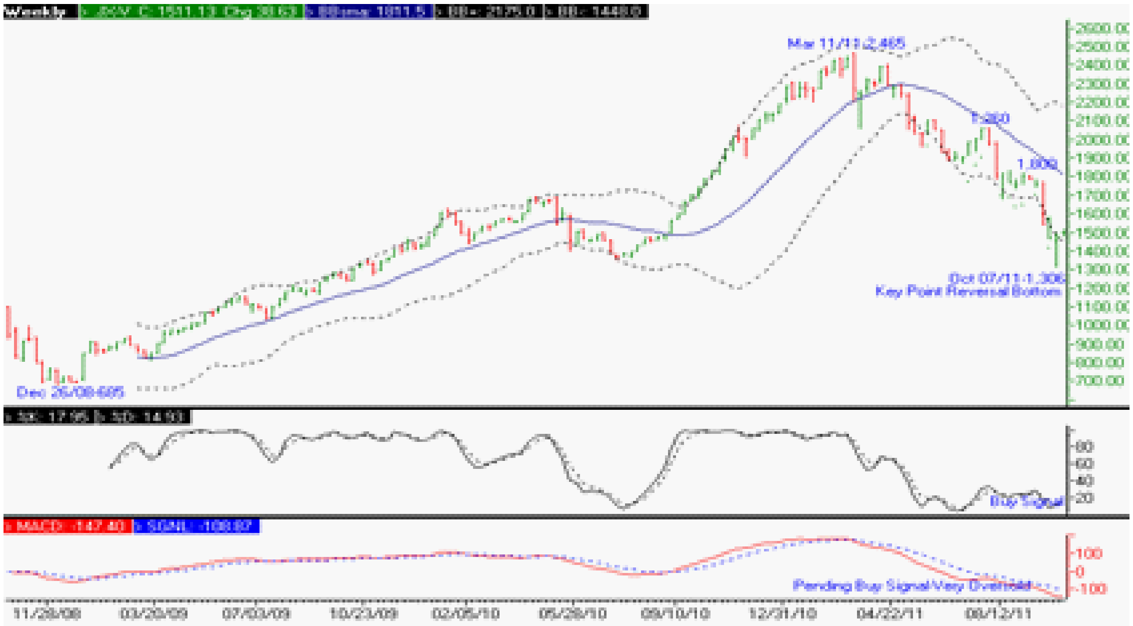
On the chart of the Dow Jones Industrials, you will note that the collapse in stock prices from their October 2007 high of 14,200 points terminated in the week ending March 6, 2009 at an intra-day low of 6,470 points. From that low, prices moved higher into the week of May 6, 2011 and peaked at 12,781 points. From that level, prices declined into the week ending October 7, 2011 reaching a low of 10,405 points. I want you to understand this because we are going to see that the Venture Exchange chart is quite similar and the importance of recognizing this similarity is that both charts have indicated at least on the weekly chart that an important bottom in prices has been made and that portends a multi-week advance in prices for both the general stock market and the small-cap mining stocks.

Before we move on to the Venture Exchange chart let’s just have one last look at the Dow Jones Industrial chart. You know that I, like many market technicians, love key point reversals. They are strong indicators of a reversal in trend. On this chart, we can see a big key point reversal bottom during the week ending October 7, 2011. This indicates that stock prices are more than likely to move higher over the intermediate term, which means several weeks.

Dow Jones Industrial Average, Weekly price chart.




TSX Venture Exchange Weekly chart



The TSX Venture made its low at the end of December 2008 at 685 points. That low was reached more than two months before the Dow bottomed in March 2009. It then rose to a price peak of 2,465 points in the week ended March 11, 2009. (It made a key point reversal top at that time). That price peak was also two months before the peak in the Dow. Of significance, was the overall percentage move in prices, which was 360%. That's significantly greater than the Dow move between March 2009 and May 2011, which was by comparison only 97%. The percentage move down from 2,465 points to 1,306 points was a drop of 48%, whereas the percentage drop in the Dow, which culminated at the same time as the Venture price low in the week of October 7, 2011, was less than 20%. This affirms our observation that price swings in gold stocks in either direction are far more volatile than the price movements experienced by the overall stock markets.

In terms of the Venture Exchange Index, the all-time high of 3,266 points was made in April 2007. From that high the market fell to the low of 685 points in December 2009. This is shown on the chart above. The reason I mention that high price is because should the May 2011 peak of 2,465 points be overcome, then 3,266 points becomes the next point of resistance.

What I have attempted to demonstrate is that the precious metal shares including the junior precious metals shares move up and down in tandem with the general stock market. The Dow Jones Industrial Average has been in a corrective phase since May 2011 (The TSE Composite Index has followed in similar fashion).These indices have indicated clear reversal patterns to the upside, both on the weekly charts and very likely on the monthly charts also. Monthly key point reversal bottoms will be indicated by the Dow closing the month of October above 10,913 points and the TSE Composite above 11,624 points. By the way, the Venture Exchange Index must close the month of October above 1,467 points to indicate a monthly key point reversal bottom. When I indicate a close above a certain number of points, I like to see at least 1% to 2% higher than the previous bar close.

I hope that, not only have I answered the question about why the precious metals stock prices have performed so poorly since the Venture Exchange peaked in March 2011, but also the question why I believe the general stock market is about to move significantly higher and that move will be the catalyst for a significantly bigger price move for the junior precious metals mining stocks.

I want to revisit the price volatility apparent in the junior mining stocks. I think that volatility in this sector is very much related to the perception of investment risk. What I mean by this is that as stock prices drift lower as they did between May and October of this year, investors seek security in what are perceived to be low risk investments. Conversely, as stock prices move higher investors become more confident and assume more risk.

It doesn't take much buying or selling volume to move junior mining stocks higher or lower. For the most part, these companies haven't issued huge amounts of shares and in many cases lots of those issued shares are held by investment funds. When the avoidance of risk becomes a prerogative of investors, their selling of 'high risk' junior mining stocks has a significantly negative impact on prices. When risk becomes less of an investor concern due to rising stock prices, more buyers begin to purchase shares in the junior mining sector pushing prices significantly higher.

I have endured the volatility of investing almost exclusively in junior precious metals mining shares since 2000 and the value of my account has appreciated by more than 200 times since then, even though, so far this year, the account value is down about 30%. I am not worried because I am confident that junior mining stock prices are just beginning a significant upside move. Even if prices (measured by the Venture Exchange) only return to their March 2011 highs, that will constitute a 70% gain. However, I am expecting much better than that and I hope that after you have read this, you are as well.

So, what am I doing in anticipation of this large price increase for the junior precious metals companies? For a start, I have sold all my inverse ETFs in anticipation of significant general stock market price increases.

I have begun consolidating my stock holdings solely into companies which have defined assets in the ground.

I am selling most of the companies in my portfolio which don't represent a meaningful holding, by that I mean less than 1.5% of the total portfolio value. I am retaining a few companies within this criterion, like Caza Gold (CZY/V), because it may eventually be a big winner and I am keeping a few companies that are simply not worth selling. My investment philosophy is to buy big on the likely winners and take a small punt on dreams that might win, but in most cases don't. So, my losers are usually not big losers and my winners, hopefully, can overwhelm the losers in allowing me to achieve significant overall capital gains. For the past ten years of my investing life that has been the case. Please note that I am not afraid of selling losing positions. One of the biggest mistakes made by investors is that many of them prefer to hold losers and sell winners. That can be a costly strategy. The losers usually continue to lose more and more, whereas the winners often keep going higher and higher. It is for that reason that I keep holding any stock, provided that I can continue to see a price double within the following ten months.

Currently, in my account there are 24 different stock holdings and all of these positions are in precious metals junior mining companies. 6 of these 24 stocks, 25%, comprise 75% of the total value of the portfolio. This means of course, that I am not afraid of concentrating my portfolio in those stocks, which I believe have the best opportunity to make big price gains.

So let's review the companies that comprise my top six holdings.

## Barkerville Gold Mines (BGM/V)

The company's properties are situated in Central British Columbia. The principal property is adjacent to the historic Barkerville discovery in the 1860s. The company is drilling and finding lots of gold, which is likely the source of the original placer discovery. Barkerville hasn't completed a NI 43-101 resource calculation on the property since the end of 2005. At that time, there were 840,000 compliant ounces. The company is expecting to release a new NI 43-101 calculation this year. The recent drill results have been so good that the company wants to include them in the new calculation. How many ounces will that new calculation contain? Given all the drill holes since 2005 that have to be entered into the pending resource compliant report, we should expect nothing less than double the original 2005 compliant report, or about 1.7 million plus ounces.

Barkerville also owns the QR property about 70 miles south of the huge Barkerville property. The QR mill is situated on the property. The replacement cost of such a mill would likely be in excess of $80 million (CAD). Barkerville purchased it for about $2 million (CAD) in shares. The Mill is producing about 25,000 ounces of gold per annum from the ore processed from the QR Property. Barkerville anticipates that it will soon receive Ministry approval to truck ore from the Bonanza Ledge deposit situated on the Barkerville property. This should increase production at the QR Mill to 50,000 ounces per annum and contribute an annual cash flow of approximately $50 million (U.S.) at a $1,600 (U.S.) gold price.

Barkerville has purchased an additional mill, which it proposes to bring on site adjacent to the Cow Mountain deposit. The company anticipates Ministry approval for production at this mill will be effective before the end of 2013. Once in operation, this mill would add an additional 100,000 ounces to the company's gold production.

Here's another price chart showing a weekly key point reversal bottom at the close on Friday, October 7, 2011. BGM's share price has increased by 46% in the week following that reversal price close, but it appears that there is much further upside left in this move. The next price resistance level should be encountered near $1.70 and thereafter at $1.90. Beyond $1.90, the previous price high at $2.33 should act as resistance to a potential move to $3.50.

Barkerville Gold Mines (BGM/V) Weekly chart. Closing Price 14 Oct 11-$1.33


Colibri Resources (CBI/V)

You should be aware, that if we include the Colibri warrants held in our accounts, my wife and I own in excess of 10% of Colibri's outstanding shares, which number about 49 million. That should make it obvious to you that I have high expectations for this company. Colibri is well managed and has a very strong Board of Directors with capable and varied technical abilities. The company's five properties are situated in Northern Sonora, Mexico in the Sonora megashear, which hosts multiple mines. The Colibri property (same name as the company) is situated about 12 miles from the 12 million ounce La Herradura mine and has very similar geology to this deposit and also to the Noche Buena deposit. The geology is complex. It will take lots of money to understand the geology and create a large deposit on the property. To that end, Colibri has entered into a joint venture with Agnico Eagle, with the latter spending $3million (CAD) on exploration over 36 months to earn a 75% interest.

Another property, of which Colibri owns 100% is the Ramard property and drilling earlier this year has outlined the potential for a significant silver discovery on only a tiny portion of the property.

All five properties include numerous old workings, which is a feature that adds to the potential for an important discovery.

Colibri's share price plunged to a low of $0.115 in the week ending October 7, 2011 and in the following week closed at its high price for the week of $0.19, up $0.085 or 65%.That would be a nice weekly profit for anyone buying at the bottom price. The next resistance to higher prices is the mid-Bollinger price at $0.224 after that there is resistance at $0.24 and then the top Bollinger band currently priced at $0.30.

At a share price of $0.19, Colibri's market capitalization is less than $10 million (CAD). In my opinion it's worth significantly more than that. Drilling on the Ramard property should continue to add silver ounces, which should be the catalyst for much higher prices into the future.

Colibri Resource Corp (CBI/V) Weekly chart -Closing price 14 Oct 11-$0.19


Temex Resource Corp. (TME/V).

I was buying Temex shares last week and will continue to buy more shares this coming week (17th. October). In my opinion, it is one of the most undervalued gold exploration companies that I know about because the company has a compliant gold resource of 1.2 million ounces in one of the safest mining jurisdictions in the world, Ontario, Canada and it is adding to that resource. We can expect a new NI 43-101 resource to be announced before the end of this year. Let's assume that the current gold resource is increased by 30% in this coming report that would add another 360,000 to the existing total, making a new gold resource of 1.56 million ounces. Those ounces should receive a value of at least $100 (U.S.) per ounce. If you divide the total by the 125 million shares that Temex has outstanding it gives Temex $1.25 per share value.

Temex is also building high grade gold ounces on its 60% owned (40% Goldcorp) Whitney property. This property is near Timmins and the Hallnor mine on the property was the highest producing mine in the Timmins camp. If we conservatively add $0.10 to Temex's share price for this property we can conclude that Temex shares are worth $1.35.

Temex's share price made a low of $0.17 in the week ending May 28, 2010 and 17 weeks later hit the high of $0.48, shown on the chart. The share price dropped to $0.17 in the week ending the October 7, 2011. As we have said in our fundamental comments about the company (shown above), we think a fair price for the shares is $1.35. What will move Temex's shares to such a value? Perhaps, it will be when the new NI 43-101 is released. En route to higher prices Temex's share price will encounter resistance initially at $0.32, then at $0.36 and $0.42 and then the double top at $0.48 should act as more important resistance. The share price reached a high of $0.98 in November 2007.

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Temex Resources (TME/V) Weekly chart-Closing price 14 Oct 2011 $0.22


PC Gold Inc. (PKL/V).

Like Temex, I am also buying more shares in PCGold and for the same reason. I think the shares are very undervalued. Let's do the math. PCGold has a compliant resource of 1.2 million ounces of gold at the old Pickle Crow mine in Northern Ontario, Canada. If we give these ounces a conservative value of $100 (U.S.) per ounce they have a total value of $120 million (U.S.). PCGold has 67 million shares outstanding, which divided into the value of the gold in the ground gives an implied share value of $1.80.

PCGold has five drills working on the property, so we can feel very confident that those gold ounces in the ground are going to grow.

With the addition of new management personnel, PCGold is working towards putting the Pickle Crow mine back into production.

PCGold's share price was $0.40 in March 2009 and dropped to that level again in the week ended October 7, 2011. During that week PCGold's share price registered a key point reversal bottom: that should begin the process of significant intermediate price gains. The likely price resistance levels are displayed on the above chart. Remember that the mid and upper Bollinger bands act as resistance levels; the mid –Bollinger band is currently valued at $0.633 and the upper band is at $0.81.

On the monthly chart (not shown), the share price of PCGold would make a monthly key point reversal bottom if the share price was to close the month of October above $0.455.

PCGold (PKL/V) Weekly chart-Closing price 14 Oct 2011 $0.52


## Golden Goliath Resources (GNG/V)

I have been invested in Golden Goliath since the company's IPO in October 2000. I was the lead broker for the IPO. After sending their chief geologist down to the Golden Goliath properties, Agnico Eagle purchased shares in the IPO and Sean Boyd, then President, agreed to become a director of the company. His director's position is now held by Marc Legault, who is Agnico Eagle's Vice President, New Projects.

Many investors may have become disillusioned by the apparent lack of exploration success that Golden Goliath has experienced these past 11 years. I think part of the problem relates to the sheer size of the property package. It is, in fact, a district situated in Uruachic in the Sierra Madre Mountains in the state of Chihuahua, Mexico. For the past few years the company has been concentrating exploration on the Las Bolas property and with considerable success I might add, so much so, that Agnico Eagle has approached Golden Goliath to undertake a joint venture agreement on the property. I anticipate that both companies will sign a definitive joint venture agreement shortly.

Once that agreement is concluded, Golden Goliath will be free to undertake 100 percent of its exploration efforts on the adjacent Nopalera property. The most exciting feature of this property is that it lies adjacent to the Fresnillo property, which is rumoured to already host in excess of 20 million ounces of gold. The Geology on both properties is considered to be very similar. Having completed surface exploration work on the property, Golden Goliath will soon commence drilling the defined targets.

I have visited the Golden Goliath properties twice and the most striking feature of most of these properties is the amount of mining that was undertaken by both Spanish and Mexican miners. There are substantial underground workings on many of the properties. I have been down several of them. All that gold and silver was found without the benefits of modern exploration equipment and technology, so you can confidentially deduce that there many more ounces yet to be discovered through modern exploration methods.

Agnico Eagle owns more than 8% and Sprott Asset Management owns slightly less than 20% of Golden Goliath's shares… a strong endorsement by two highly respected, but diverse institutions.  exploration methods.

Golden Goliath's share price made a low of $0.18 in the week of October 7, 2011 and the following week the share price rose to a high of $0.50 without any apparent news. The share price closed that week at $0.275. The spike high in the week of January 21, 2011 may be attributable to a buy recommendation in the 'Dines Newsletter'.  Stochastics have just given a buy signal and the MACDI has not yet confirmed the stochastic buy, but is flattening out from very oversold levels. Thus, we can expect a multi-week rally in the GNG share price facing some resistance at just below $0.40 and thereafter around the $0.50 price level.

Golden Goliath Resources (GNG) Weekly chart- Closing price 14 Oct 2011 $0.275


Freegold Ventures (FVL/T)

Khristina Walcott, the current company president, has done a wonderful job in rescuing Freegold Ventures from a large debt position accumulated by the previous management. That rescue was effected with the loss of just one prospective property, but all the properties held by the company in Alaska have been retained and these properties are highly prospective, particularly the Golden Summit and Vinasale properties, which combined, host a compliant (NI-43-101) resource in excess of 2 million ounces. The company expects to have an updated resource calculation for both properties soon.

The Golden Summit property is located less than 5 miles from Kinross's 330,000 per annum Fort Knox mine.  Freegold Ventures has already identified multiple bulk mineable zones similar in size and grade to those being mined at Fort Knox. In addition to these bulk mineable zones, the company has discovered numerous gold veins and sheer zones grading in excess of 1 oz. per ton over significant widths.

Access to the Vinasale property is by helicopter from McGrath 26 kilometres to the North of the property. Helicopter borne exploration is expensive. In March 2011, the company completed a NI 43-101 inferred resource of 1,331,000 ounces of gold grading 1.11 g/t using a cutoff value of 0.5 g/t. A revised compliant resource is expected before the end of 2011.

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The company's third property in Alaska is referred to as the Rob project. It is a high gold project that has received considerably less exploration attention than Golden Summit and Vinasale. Mineralization at Rob exhibits many of the same geological and geochemical characteristics of the 5.6 million ounces of gold at the Pogo mine which is situated 20 miles west of the Rob property.

Freegold Ventures (FVL/T) Weekly chart-Closing price 14 Oct 2011-$0.70


The MACDI gave a buy signal in early September this year and the share price responded by moving higher to $0.89, but from that level Freegold's share price has been correcting, negating the earlier MACDI buy signal. Stochastics continue on their sell signal initiated in the last week of September. There is price support at the double bottom of $0.60 and thereafter, at the bottom Bollinger band currently priced at $0.54. On the upside, there is resistance at $0.70 and thereafter, at the double top at $0.89. Beyond that price level, there appears to be limited resistance until the high at $ 1.35. I draw your attention to the pinching Bollinger bands over a significant period of time evident on this chart. This occurrence is almost always conducive to a big price breakout to the upside, as it was with Freegold's share price.

The world is in terrible shape; overwhelming debt is threatening to destroy the economies and the banking systems of most of the industrialized nations, Europe is merely the first entity facing this firestorm; China's economy is slowing and she too faces a debt reckoning, which could lead to massive social unrest. Yet, in the midst of all this seemingly insurmountable turmoil, there appears to be a little light as evidenced by the reversals in stock prices. This won't last for long, perhaps a few weeks at best, because there is no solution to the worldwide debt problem, but we can make a little hay while the sun shines by buying shares in some very undervalued junior precious metals companies.

It is easy to become nervous when share prices correct to the downside, but they will correct and give back some of their gains, generally 50%. Let's see what I mean on the daily chart (short term, each bar is the price action for a day) of the Dow Jones Industrial Average. The move from the low of 10,405 points on October 4 ,2011 to the high of 11,647 points on October 14, 2011 was 1,242 points, so a 50% retracement of that move would drop the Dow back to 11,026 points. The Dow could make a higher high, in which case the 50% retracement would move higher, too. The key number to watch is the low of 10,405 points. If that low is taken out on a closing basis by better than 1% it negates the bullish intermediate term outlook for the stock market.

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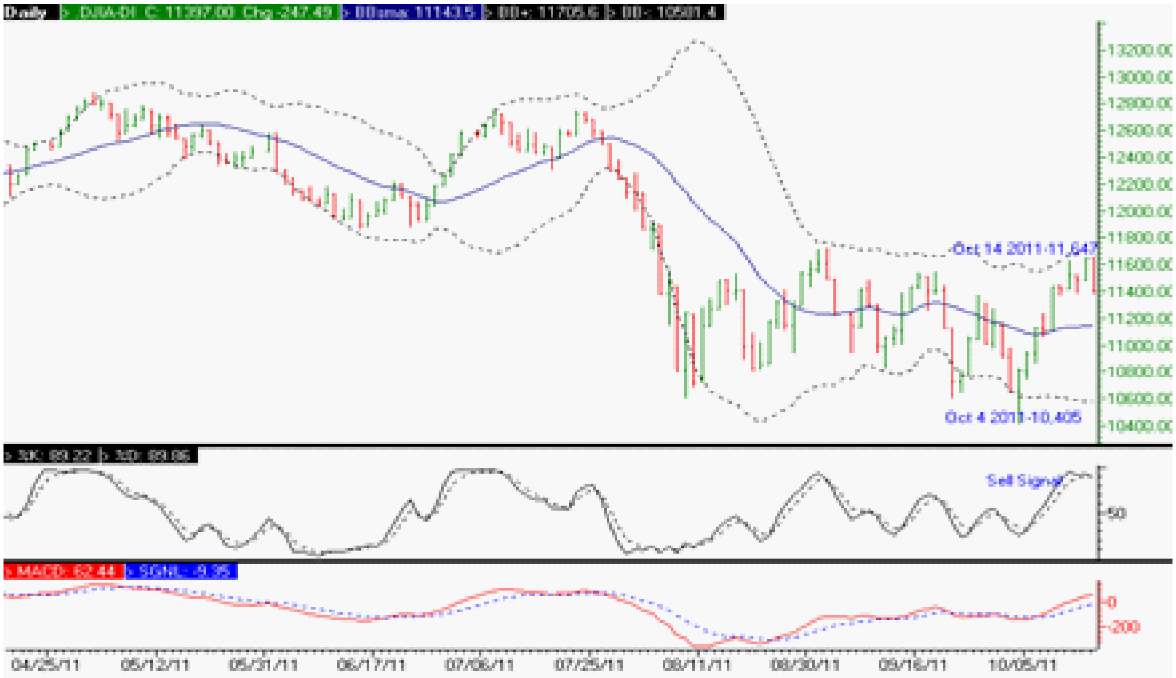
Dow Jones Industrial Average, Daily chart




The following are the low prices recently completed for the venture exchange and the precious metals stocks that we have highlighted in this issue. Any break of about 3% on a closing basis below these price levels negates the bullish outlook.

TSE Venture Exchange- 1,306 points.
Barkerville Gold-$0.91
Colibri Resources-$0.115
PCGold Inc.- $0.40
Temex Resources-$0.17
Golden Goliath-$0.18
Freegold Ventures-$0.60

Will I sell if these price levels are broken to the downside? Probably not, because these companies will be trading at ridiculously low market caps relative to their assets.

Charts courtesy of Thomson Reuters

**Written By: Ian Gordon**



**"Those who cannot remember the past are condemned to repeat it". Santayana**