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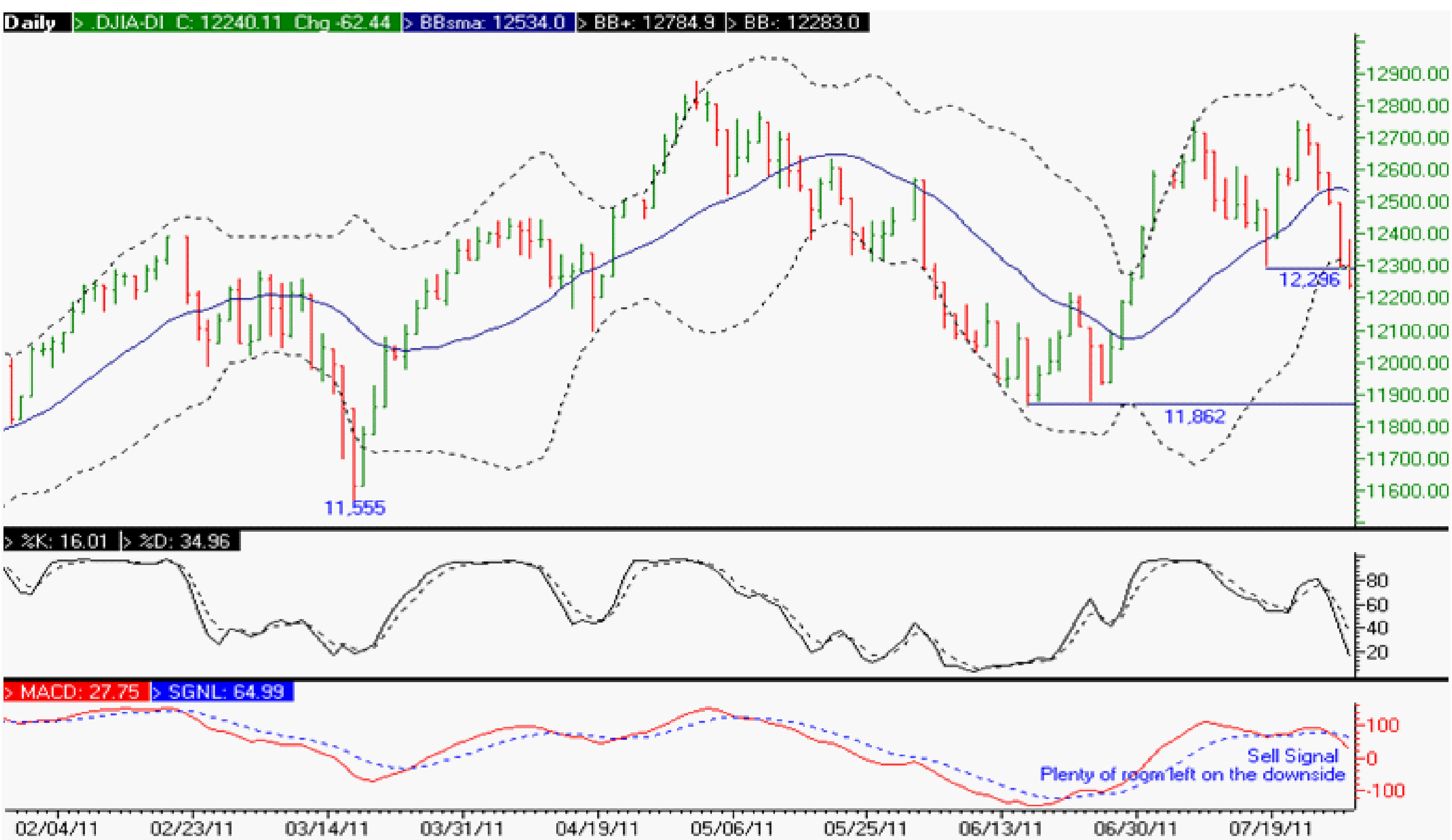
THE LONGWAVE ECONOMIC AND FINANCIAL CYCLE

IAN'S INVESTMENTMENT INSIGHTS

The question of the utmost importance at this time is "Are U.S. stocks at the beginning of the huge Wave 3 decline?"

We are now of the opinion that this is indeed the situation. In an earlier 'Insights' we had surmised that the DJIA would likely make a double top around its May high of 12,876 points. That could still happen if a wave of misplaced euphoria were to erupt on the basis of a debt ceiling deal. But the charts suggest that this is not going to happen.

Dow Jones Industrial Average Daily Chart, Closing level of 12,240 points on July 28, 2011.



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On the Daily point chart the DJIA closed below the little double bottom at 12,286, which suggests at least a move to the double bottom at around 11,862. A move below that price could take the DJIA down to the low shown on the chart at 11,555 points.

On the weekly chart (not shown), there is support around 11,900 points and thereafter at the lower Bollinger band which is near 11,550, which is the same point level which we have identified on the monthly chart. The 11,550 level should therefore offer major resistance to the projected downward move.

If we are correct in our thinking and Elliott Wave 3 down in the general U.S. stock market has begun, then we are in for a frightening drop in stock prices. Wave 3 is typically the longest and strongest of the Elliott Wave moves. If Wave 1 was the drop from 14,200 points from October 2007 to the March 2007 bottom at 6,470 points and the Wave 2 recovery was to the May 2011 high at 12,876 points, then Wave 3 is destined to take us significantly below the Wave 1 low at 6,470 points. On the monthly chart, there's support at about 11,000 points and below that around 9,600 points. Below that, we don't see any recognizable support until the March low at 6,470 points.

The projected downward move in stock prices would be negated by a weekly close above the May high DJIA level of 12,876, before that level is reached there is resistance at 12,750.

I think it's time to buy some of the Short ETFs that I have listed in previous 'Insights.' You should also consider buying puts on the Spiders and Diamonds (Consult your investment advisor). This Wave 3 low is projected to culminate around September 2012.

So let's talk about gold and the gold shares. The price of gold looks like it could get up to around $1,686 on this move, but it's very overbought, that's to be expected in big bull markets, nevertheless we would expect a correction to the uptrend is in the offing with $1,580 (U.S.) acting as first support and $1,515 (U.S.) – the mid-point level on the weekly Bollinger band – acting as secondary support. If it gets down there buy more because the world debt crisis is getting worse by the day and paper money is failing.

The HUI Gold Bugs Index gave a weekly key point reversal sell on the close this Friday, July 29th., which doesn't auger well for gold stock prices in the coming weeks, perhaps their prices are retreating in sync with the general stock market price retreat – on shades of 2008, maybe!

Anyway, the HUI closed this Friday below the mid-Bollinger band and as you know this suggests that prices will move to the bottom band, it doesn't always happen that way, but if it does, the bottom band is now at 483 points, that's about 10% below the current level.

As you can see, I started to write this 'Insight' the weekend before I left for the U.K. to attend the GATA Conference August 4th.-6th. I had wanted to include in this letter the reasons why I held large positions in Colibri, Freegold Ventures, Golden Goliath and Northern Freegold. I have been writing about these companies in this letter, but I think it's important to send this out to you before those letters are complete, because things are beginning to unravel very quickly. The European debt market is going 'no bid' and although the U.S. received a new debt ceiling limit, that country is essentially bankrupt, but does have access to the printing press, whereas countries stuck in the Euro enjoy no such privilege. As I stated elsewhere in this letter it's looking a lot like 2008. In that year everything was sold off, including gold, because when the margin clerk makes the call no investment is sacrosanct.

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