

THE LONGWAVE ECONOMIC AND FINANCIAL CYCLE
IAN'S INVESTMENT INSIGHTS



In today's *Globe and Mail*, Saturday August 20, 2011, there's an article by Tom Bradley, a fund manager, entitled "When Fear Rules the Market, It's Time to Buy."

To quote the author, "Nobody knows where the market is headed in the months to come (if you hear someone talking as if they do, excuse yourself so you can do something more useful). But we can be confident that buying securities at below average valuations when investor sentiment is flashing fear will be profitable in the medium term." Well, I don't agree one iota with Mr. Bradley's advice. Naturally, being a fund manager, he's rather obliged to pose a bullish spin on his market outlook.

Investment markets for the most part are governed by irrational fear and greed, however, massive bull markets, such as the ones that ended in 2000 or 1929, the Kondratieff autumn bull markets, reach their climax governed by a mass state of euphoria. The subsequent bear markets that follow reach their conclusion in a state of mass despair. As I see it, fear is manifested by those who refuse to open their mutual fund statements, because they don't want to see how much money they have lost. I don't think that we are anywhere close to that stage in this latest drop in stock prices. I do know that was the case in 2002.

Let's transport ourselves back in time to June 1930, when the Dow was trading at approximately 230 points or about 64 points (22%) below its April 1930 recovery high. That stock market recovery from November 1929 into April 1930 attracted multiple numbers of investors hoping to recover their losses from the September to November 1929, stock market crash. When the downturn resumed, it might be assumed that investors were nervous, but advisors like Mr. Bradley, or the 'experts' of that era, would have been exhorting them to buy stocks for the medium term, because investor 'fears' were a buy signal. Needless to say, the Dow Jones Industrial Average closed 1930 at 165 points or another 30% lower than it was in June 1930. By July 8, 1932 the Dow Jones made its winter bear market low of 41.22 points, which was 89 % below its peak of September 1929. At that time it wasn't fear that gripped the American people, it was despair. It took 25 years for the Dow to reattain its September 1929 high and 20 years for it to regain its 1930 recovery high. So much for the exhortations to buy stocks for the medium term, 20 to 25 years in my book is a very long time, but then I'm 69 years old.

What I'm trying to explain here is that for certain, at least as governed by my work, we are in the winter stock bear market comparable to 1929 to 1932, and the recovery in stock prices March 2009 to May 2011 is akin to the recovery of November 1929 to April 1930 and now what faces us is similar to the post April 1930 recovery high, which is a resumption of the stock bear market with devastating implications.

The recovery in stock prices since the March 2009 low has been impressive, but that has been bolstered, for the most part, by two Federal Reserve quantitative easing initiatives, which have pumped copious amounts of money into the banks. This money has been used, not only, to reignite stock prices, but also to speculate in various other mediums, including commodities.

From its March 6, 2009 low of 6,470 points the Dow recovered into May 2011 reaching 12,876 points, which was essentially a double and less than 10% below its October 2007 high. Now the Dow has resumed its bear market, closing last Friday at 10,818 points or some 16% below its May high. As I have written in previous issues, this is Wave three down, which is the longest and strongest of the Elliott Waves. This almost certainly will take us below the March 2009 low 6,470 points. I am targeting the low to reach about 4,500 points in September 2012. What this means is that the drop is going to occur fast and furious; rather like the October 2007 to March 2009 collapse, which saw the Dow fall by 55%.

Dow Jones Industrial Average, Monthly chart, closing price, Friday, August 19, 2011 at 10,818 points

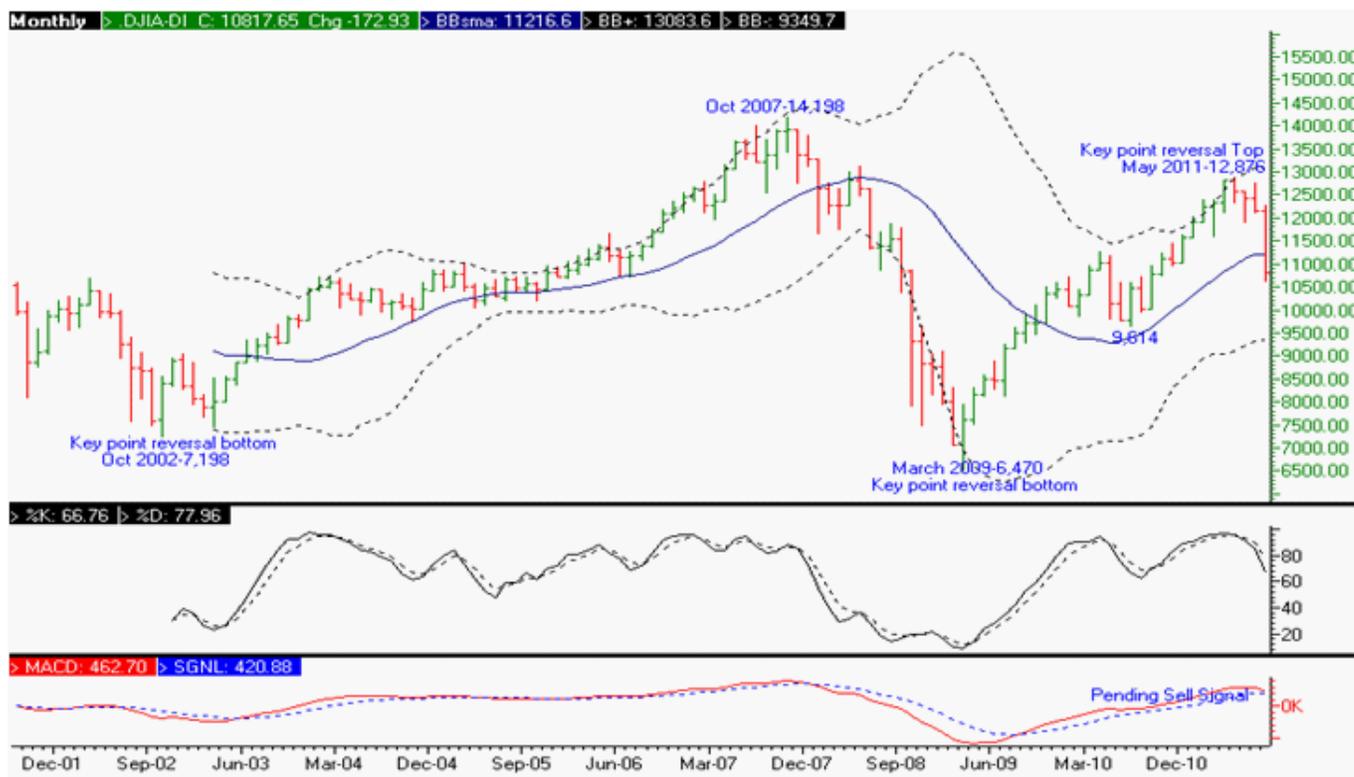


Chart Thomson 1.

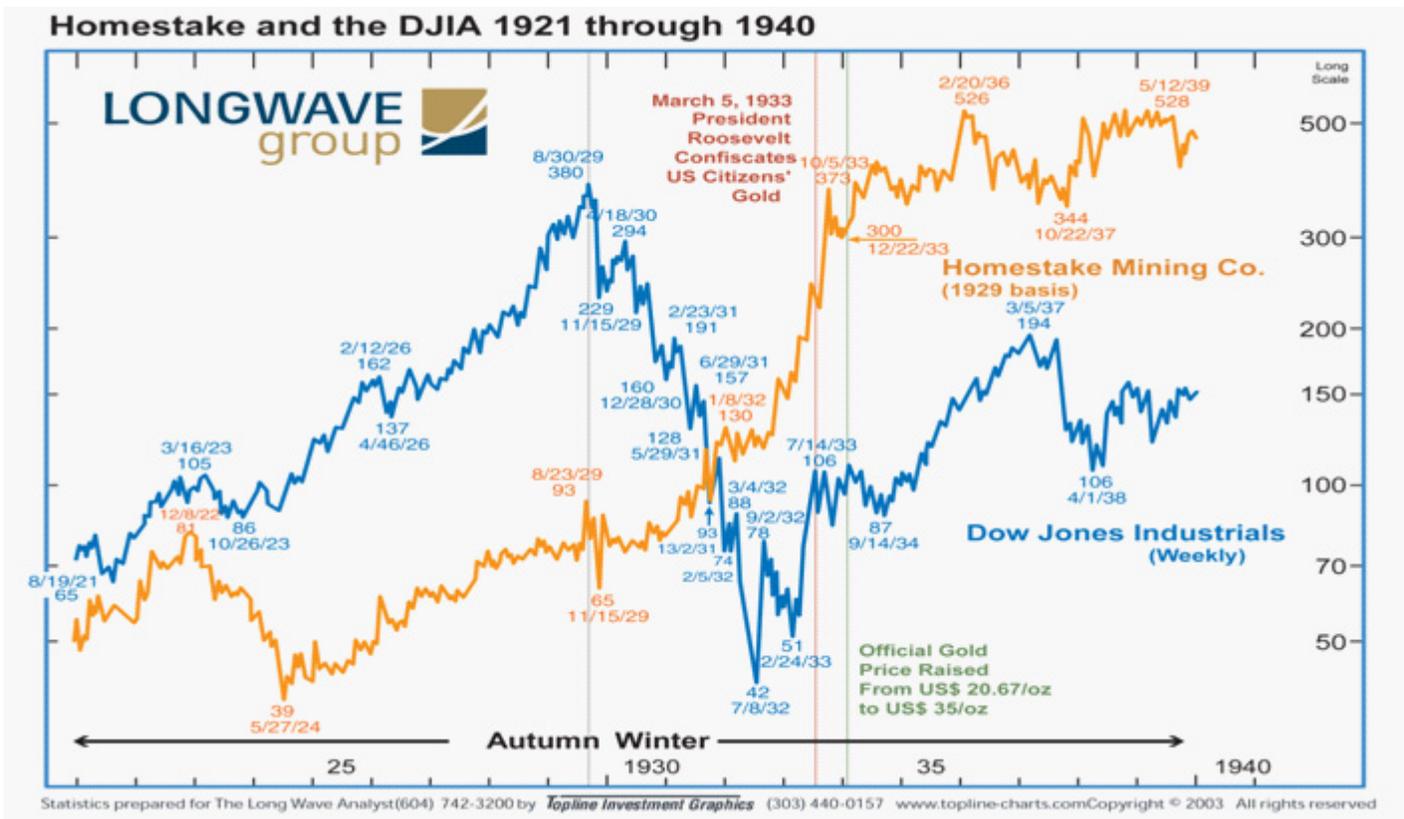
On the monthly chart of the Dow shown above, you can see how key point reversals consistently indicate a reversal in trend. The May 2011 monthly bar indicates a key point reversal to the downside. The MACDI is just rolling over to give a sell signal. If the DJIA closes the month of August below the mid-Bollinger band, which is currently priced at 11,216 points, it would infer a move to the bottom Bollinger band which is currently priced at 9,350 points. There should be support around the low of 10,605 points made on August 9, 2011 and below that 9,700. Resistance above is initially near 11,500 points. A review of the Daily chart (not shown) suggests that there is still room for further downside price action.

What does all this mean for our gold stocks? Well, we really only have the 1929 to 1932 winter bear market to act as our guide and we know that gold stocks performed exceptionally well during and beyond that bear market. I have shown this table before, but it's worth repeating simply because it demonstrates the huge price moves made by gold shares during the deflationary depression. It's important to remind ourselves that a significant price increase in gold shares occurred when the price of gold was fixed at \$20.67 (U.S.) per ounce. President Roosevelt increased the price to \$35.00 (U.S.) per ounce in January 1934. Of course, today the price of gold is unfixed and has been rising for the past ten years in the face of a growing paper money crisis. This crisis will undoubtedly escalate, driving the price of gold substantially higher. Under these circumstances the prices of gold shares should rise accordingly.

New York Stock Exchange Prices-Homestake Mining Company and Dome Mines 1929-1936.

	Homestake Mining	Dome Mines
November 1929 Low Price	\$65	\$6
1930 High Price	\$83	\$10.375
1931 High Price	\$138	\$13.50
1932 High Price	\$163	\$12.875
1933 High Price	\$373	\$39.50
Jan 1934 US gold price increased from \$20.67 per ounce to \$35.00		
1934 High Price	\$430	\$46.25
1935 High Price	\$495	\$44.875
1936 High Price	\$544	\$61.50

Gold shares crashed with all stocks into the November 1929 low, but thereafter increased in value versus the horrifying decline in the general stock market.



HUI Gold Bugs Index Weekly Chart. Closing level 581.29 Friday, August 19, 2011.



Chart-Thomson 1.

Meanwhile, a review of the HUI Gold bugs Index chart is bullish and projects that the prices of gold shares have farther to go on the upside. This suggests that the price of gold will also continue to rise. The Weekly chart MACDI has given a buy signal from oversold levels. The index is currently priced at minor resistance at 588.00; a weekly close above that level would project a move to the old high at 609.22, which should offer resistance to a further advance. Breaking through the old high could see the HUI Index reach the 650 point level. Junior gold shares should emulate the moves of their senior counterparts.

I promised that I would tell you why we (I, my wife and our company) hold fairly large positions of the following companies, so briefly, here are my reasons.

Colibri Resources (CBI/V)

We (see above) own approximately 8.5% of the issued shares of the company and have warrants to purchase almost another 4 million shares of the company at \$0.35 (CAD) until April 2013.

The company has four properties in the State of Sonora in Northern Mexico, situated within the prolific Sonora megashear belt, which hosts several past and current producing mines, including La Herradura, which is jointly owned by Newmont Mining and Fresnillo. Colibri's property is about 12 miles southeast of La Herradura and has recently been joint-ventured by Agnico Eagle. Obviously, Agnico Eagle sees the potential for the Colibri property.

The company has recently completed drilling on its Ramard property with significant success outlining a silver, lead zinc resource. The discovery is open in all directions and encompasses a very small area on the highly prospective property.

The Leon property is adjacent to Creston Moly's molybdenum discovery, which is slated to be mined. Colibri geologists believe that the Leon property hosts the lion's share of molybdenum and the molybdenum on Creston Moly's property sheared off the main zone, present on the Leon property.

The company recently acquired the Evelyn property in a lottery. The company asserts that the property could host a large gold deposit.

All these properties have multiple old workings, which enhances the likelihood of Colibri making significant discoveries on each and every one of them. The discovery on the Remard property is already indicating the potential for a very large open pit mine.

This company has an outstanding Board of Directors. I met with them recently in Vancouver and was very impressed. Agnico Eagle is represented on the board by Roger Doucet, who is the Director of Exploration for Agnico Eagle in Mexico. Agnico Eagle owns just under 20% of the Colibri shares as does Sprott Asset Management.

The company is currently trading at a paltry market cap of about \$12.5 million (CAD) and has about \$3 million (CAD) in the bank.

Long Wave Analytics has been hired by Colibri to act as the company's public relations advisor.

Freegold Ventures (FVI/T)

The company owns three properties in Alaska, a mining friendly state.

The Golden Summit property is situated 32 kilometers northeast of Fairbanks and is accessed by the Steese highway. The huge Fort Knox mine owned by Kinross is 5 miles south of Golden Summit. Current NI 43-101 resources on the property are 174,000 gold indicated resources grading 0.65 grams and 524,000 gold inferred resources with the same grade. "Wait a minute," I hear you say "aren't those grades uneconomic?" Well actually they aren't, Kinross is effectively producing gold with a similar grade at a cash cost of about \$500 (U.S.) per ounce at the Fort Knox mine.

The company has recently completed 27 drill holes with a goal of increasing the resource to 1 million ounces.

During 2010, Freegold Ventures significantly expanded its land position on the Golden Summit property, which includes 80 documented gold occurrences. The property hosts some of the highest grade past-producers in the district, such as Cleary Hill which produced 281,000 ounces of gold at an average grade of 1.3 ounces/ton, Hi Yu, which produced 110,000 ounces grading 1.6 ounces per ton and American Eagle which produced 60,000 ounces of gold grading 1.6 ounces/ton.

The property has significant upside discovery potential and already hosts a mineable resource.

Vinasale Gold Project is situated 650 kms northwest of Anchorage and is 25 kms south of McGrath. The company has signed a Mineral Exploration Agreement with the Doyon Native Corporation and has an option to lease 100% of the property.

Geology on the 100,000 acre property is similar to Donlin Creek (33 million ounces Gold).

The property currently hosts a 1.3 million ounce gold resource at an average grade of 1.11 g/t.

The programme outlined by the company for the 2011 exploration season is 1. To conduct ground geophysics. 2. Identify new areas for expansion. 3. Conduct a 5,000 meter drill programme with a goal of expanding the resource.

Rob Project is situated about 35 km west of the Sumitomo owned Pogo mine (5.6 million ounces of gold). Freegold Ventures owns 100% of the property through long term lease. The gold system is intrusive and is similar to Pogo. There are at least six separate prospects on the property. Drilling in 2007 and 2008 intersected high grade veins. The property is relatively early stage and will take a back seat in terms of exploration to the highly prospective Golden Summit and Vinisale projects.

Freegold Ventures is managed by Kristina Walcott, for whom I have the highest regard; she has done an admirable job leading the company through a very difficult debt position. The company's VP Exploration and Development is Alvin Jackson, who I consider to be very competent in his field.

So with about 2 million ounces of gold in the ground on Golden Summit and Vinasale, Freegold Ventures is trading for only \$15 (U.S.) per ounce of gold in the ground; now that's cheap.

Golden Goliath (GNG/V)

You can read why I like Golden Goliath under the Companies That I Like. One of the things that I always find exciting about any precious metals property is when there has been past production from the property. Well, many of the Golden Goliath properties have produced copious amounts of previous gold and silver extraction. We know that the old timers didn't find anything like all of the gold and silver on the property; they weren't privy to modern methods of exploration; nor could they extract metals much below the water table. For the most part, at least in Mexico, they were pick and shovel miners.

Agnico Eagle has recognized the significant size potential of GNG's Las Bolas property, by offering to earn in on the property. This means that Agnico will be conducting further exploration on the property. This has allowed Golden Goliath to focus its exploration on Nopalera, which lies adjacent to the Las Bolas. Paul Sorbara, GNG's President and head of exploration and his seasoned exploration crew are convinced that Nopalera is a look alike to the Fresnillo property, which is contiguous to Nopalera. Some of GNG's most senior exploration geologists have worked on that property and are very familiar with it. Fresnillo reports about 9 million ounces of gold on the property, but rumour has it that there are upwards of 40 million ounces. We'll watch with interest developments on both Las Bolas and Nopalera.

By the way the GNG properties have been entirely surrounded by Penoles, one the largest Mexican mining companies. Why would Penoles want to do that?

Like I have told you before, in the investment business you must be patient and wait for good things to happen. What would happen to the GNG share price, if Agnico Eagle over the next two years or so put together a resource of 100 plus million ounces of silver and 3 million ounces of gold at Las Bolas and at the same time GNG started to develop a potentially multi-million ounce gold deposit on Nopalera, neither of which is beyond the realm of possibility? I leave that to your imagination.

Northern Freegold (FVL/V)

Why is Northern Freegold's share price so cheap? Here's a company that is well recommended by the Doug Casey group and by James West of the Midas newsletter (a very smart man in my opinion) and highlighted in Dundee Capital Markets-'Focus on the Juniors, 2011.' Moreover, the company's property of merit is in the hot Yukon play. Regardless, the action in the share price has been anemic. But I own lots of shares and to demonstrate my confidence in the company I have acquired another 100,000 shares through the company's recently completed \$8 million (CAD) plus private placement.

Let's talk about that private placement for a minute. With the completion of that financing Northern Freegold has a healthy \$8 million (CAD) in cash in the bank. That's a lot on money and considering that the company's operating expenses are, like most juniors, relatively small, it enables the company to make serious inroads by adding metal ounces to its key property in the Yukon, Freegold Mountain.

Freegold is a term for alluvial gold and the streams and run-offs from Freegold Mountain have yielded and continue to produce significant amounts of Placer gold.

In that sense, Northern Freegold reminds me very much of another of my favourite investment companies, Barkerville Gold. Both companies are exploring for the source of the alluvial gold, which led to historic discoveries and gold rushes in the 1800s. But the comparison ends there, because Barkerville's discovery and Northern Freegold's discovery are geologically, very different.

Northern Freegold's Freegold Mountain property is large, 64 square miles, and is one of the few Yukon properties that is road accessible. The property hosts 20 mineralized zones, but only five of these have been drilled, which amounts to a scant 2% of the total land area.

The main area of exploration has been concentrated on the Nucleus, which is a porphyry-style deposit (large tonnage, low grade, multi-metal). The project hosts disseminated low grade mineralization, interspersed with high grade veins.

Nucleus hosts a NI 43-101 discovery that is open in all directions:

Indicated 1.1 million ounces of gold at 0.7g/t

1.4 million ounces of silver at 0.9gm/t

67.8 million lbs of copper at 0.06%

The inferred resource adds another 0.6 million ounces of gold.

The Revenue deposit has the potential to host another 1.1 million ounces of gold.

The Tinta deposit is a polymetallic (gold, silver lead, zinc, copper) vein has been tracked for over 1,000 meters within a mineralized shear zone that stretches over 3,500 meters. This deposit contains a small resource of 70,000 ounces of gold, 1.8 million ounces of silver, 7.4 million lbs of copper, 22 million lbs of lead and 38.3 million lbs of zinc. The system is open along strike and to depth.

Northern Freegold also owns the Burro Creek gold and silver property in Arizona with a small gold and silver resource identified on just 300 meters.

Management is led by Sue Craig, a geologist with over 20 years of experience, which includes formerly holding the position of land and environmental manager for NovaGold, in which position Sue was responsible for obtaining the permitting for the Galore Creek property.

Bill Harris is Chairman and COO. He is a founder of the company and has worked in prospecting and exploration in the Yukon, following in his father's footsteps. He's a delightful man and someone whose stories of the Yukon I'd love to hear.

Greg Johnson is a board member and co-founder of NovaGold and currently President and CEO of South American Silver.

- Following the recently completed financing, Northern Freegold will have a little more than 100 million shares outstanding, meaning that it is trading at a tiny \$30 million (CAD) market cap. That's too cheap for 2 million gold ounces in the ground and with a potential for "a monster in the making." James West, Midas Letter, Tuesday February 24, 2009.

Written By: Ian Gordon

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Ian A. Gordon, The Long Wave Analyst, www.longwavegroup.com

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