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LONGWAVE group

THE LONGWAVE ECONOMIC AND FINANCIAL CYCLE

IAN'S INVESTMENTMENT INSIGHTS

The previous issue of 'Economic Winter' was, I hope, viewed as an 'Economic Winter' combined with an 'Ian's Investment Insights'.

If it wasn't, that's my fault for not making you understand it that way. Anyway, this newsletter is devoted exclusively to my 'Investment Insights'.

These are difficult times in the securities' markets, because there is so much volatility, which makes it very hard to define a trend over the intermediate term. By intermediate, I mean using the weekly charts to extrapolate price movements for the next 15 to 25 weeks, or so. Much of that volatility might be caused by intervention in the stock markets. You know where I stand on this! I strongly believe that the U.S. stock market is propped up by the machinations of the 'Plunge Protection Team.' "…Markets are chock full of International and domestic government intervention at this time, be it direct purchases of securities through Wall Street surrogates, or manipulative news announcements, etc., and in the short run this can have the effect of creating multiple price path scenarios." Robert McHugh, newsletter@technicalindicatorindex.com, November 5, 2011.

I am a subscriber to Dr.McHugh's work, which is based on the Elliott Wave principle. The highest probability that Dr.McHugh sees for the U.S. stock market is for stocks to decline this coming week with downside targets for the Dow being close to the 11,000 level and 1,150 points for the S & P. He sees an important 'turn date' for November 11th. So, whatever the markets are doing into that date they should reverse price direction about then. I want you to follow what he wrote next, because it is very important-"This highest probability scenario sees that large degree wave 1-down of the next major Bear Market started at the May 2, 2011 high and produced a five wave decline that bottomed on October 4, 2011, a five month 2,471 point decline that included a summer crash for its wave iii-down component wave. From the October 4th. lows, a three and a half week powerful rally took place that consisted of three subwaves. The time was brief, too brief in relation to the time wave **1**-down took, so that it is out of proportion to consider it all of the recovery retracement wave, labeled minor degree **2**-up. However, (This is where I particularly want you to take note), the percent retracement of the rally was 76 percent, quite high, and the power behind it is sufficient to be all of the retracement, so it is price proportional with the wave **1**-down move. If this is the case, large degree wave **3**-down started on October 27th. and should last six months or so, and include several plunges along the way, and very likely a crash at some point. That is because it should fall further and harder than wave **1**-down did from May to October 2011. It could be a 4,000 point decline if wave **3**-down is 1.618 of wave **1**-down, a typical relationship measure. Wave threes are typically the most dramatic. If the time for the wave **2**-up rally in October was longer, had lasted two months or so, instead of 3.5 weeks, we would have nearly complete confidence wave **3**-down started with the 600 point two day plunge from October 28th."

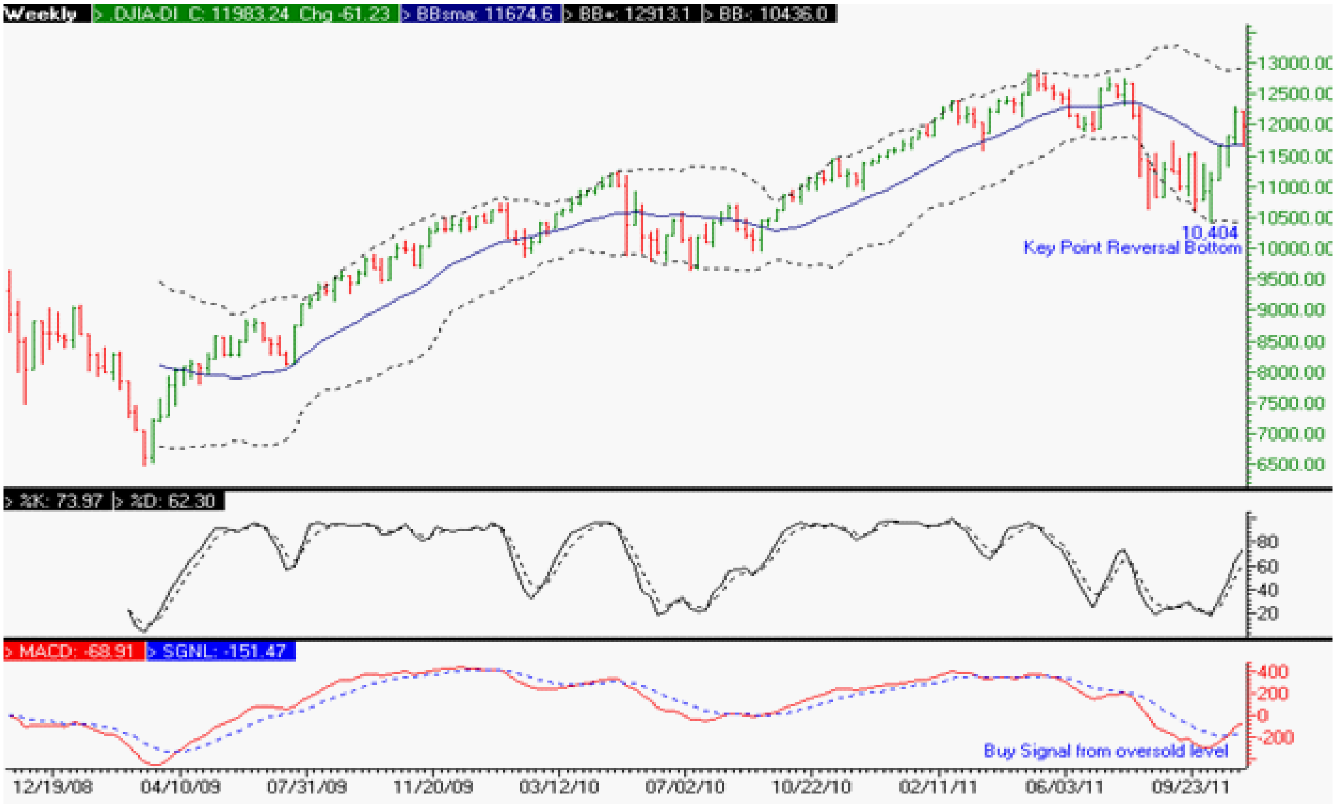
In the latest Elliott Wave Financial Forecast, published on November 4, 2011, which is a publication of Robert Prechter's Elliott Wave International, the authors Steve Hochberg and Pete Kendall have no misgivings that wave **3**-down has started following the price peak on October 27th. I quote from this publication-"Last month's issue (early October 2011) made this statement: 'In wave (2), stocks will undergo their largest upward retracement since the May 2 highs.' The rally to 12,284.30 on October 27th. fulfills this forecast…Wave (2) was quick in time, lasting only 3.5 weeks, but price retraced 73% of wave (1) on a closing basis and the 5 wave down, 3 up wave structure since the May top sports the Right Look, so we consider waves (1) and (2) complete."

The only difference between these two Elliott Wave theorists is that Dr. McHugh is not convinced by the very short time period expended by the wave (2) rally, whereas Steve Hockberg and Pete Kendall have no qualms about the short duration. All are in agreement that the market points gained are more than sufficient to complete a high for wave (2).

This creates a dilemma for me. I have long been an Elliott Wave enthusiast. I am in full agreement that the number of points gained in the 3.5 week rally are more than sufficient to complete the Wave (2) rally, but Like Dr. McHugh, I feel that the very short period of time expended on the rally was insufficient, particularly when compared to the 5 months that Wave 1 down took to complete.

Also, the key point reversal bottom on the weekly Dow chart, which I am showing you again in this 'Insights' is a very reliable indicator of trend change over the intermediate term.

Dow Jones Industrial Average, Weekly Chart – Closing Level 11,983 points – on Friday November 3, 2011



Looking at this chart, I am just not comfortable in projecting a new leg down in equity prices. Firstly, because the DJIA has moved through the mid-Bollinger band and that would lead to expectations that the index would now move to at least kiss the upper Bollinger band, which is currently at 12,913 points. I know it doesn't always happen like that, but it does happen far more often than not. Secondly, the buy signal given by the MACDI is still in its early days and is still below the 0 line. Once again, that's not a 100% reliable indicator that stock prices will move significantly higher, but they generally do from such oversold levels.

So, what we have to watch for here is whether the DJIA on a closing basis retreats back below the mid-Bollinger band, currently at 11,675 points. In that event, we could be reasonably confident that the DJIA would fall back to the bottom Bollinger band, which is currently at the 10,436 point level.

On the Daily chart of the DJIA (not shown) the index is currently above the mid-Bollinger band, which is at 11,736 points. A Daily closing break below that level would suggest that the Dow would test the bottom Bollinger band at 11,228 points.

Regardless, we must all act very defensively with respect to investing at this time. To that end, as I have already discussed with you, I have been selling any stocks that I own that are pure exploration plays, even though these sale prices, for the most part, are below what I have paid for them. However, I have been putting the proceeds into companies that do have compliant precious metals assets in the ground.

As I see it, most of these companies are getting very little credit for these ounces in the ground. In some cases their share prices are valuing their gold at about $20.00 (U.S.) per ounce. This includes companies that I own, such as **Freegold Ventures**, **Northern Freegold, Temex**, and **PCGold**. Some other companies are trading a little higher, like **Terraco** which is trading for about $35.00 (U.S.) per gold in the ground ounces. Sooner or later, that gold in the ground will be valued much higher, perhaps better than $100.00 (U.S.) per ounce.

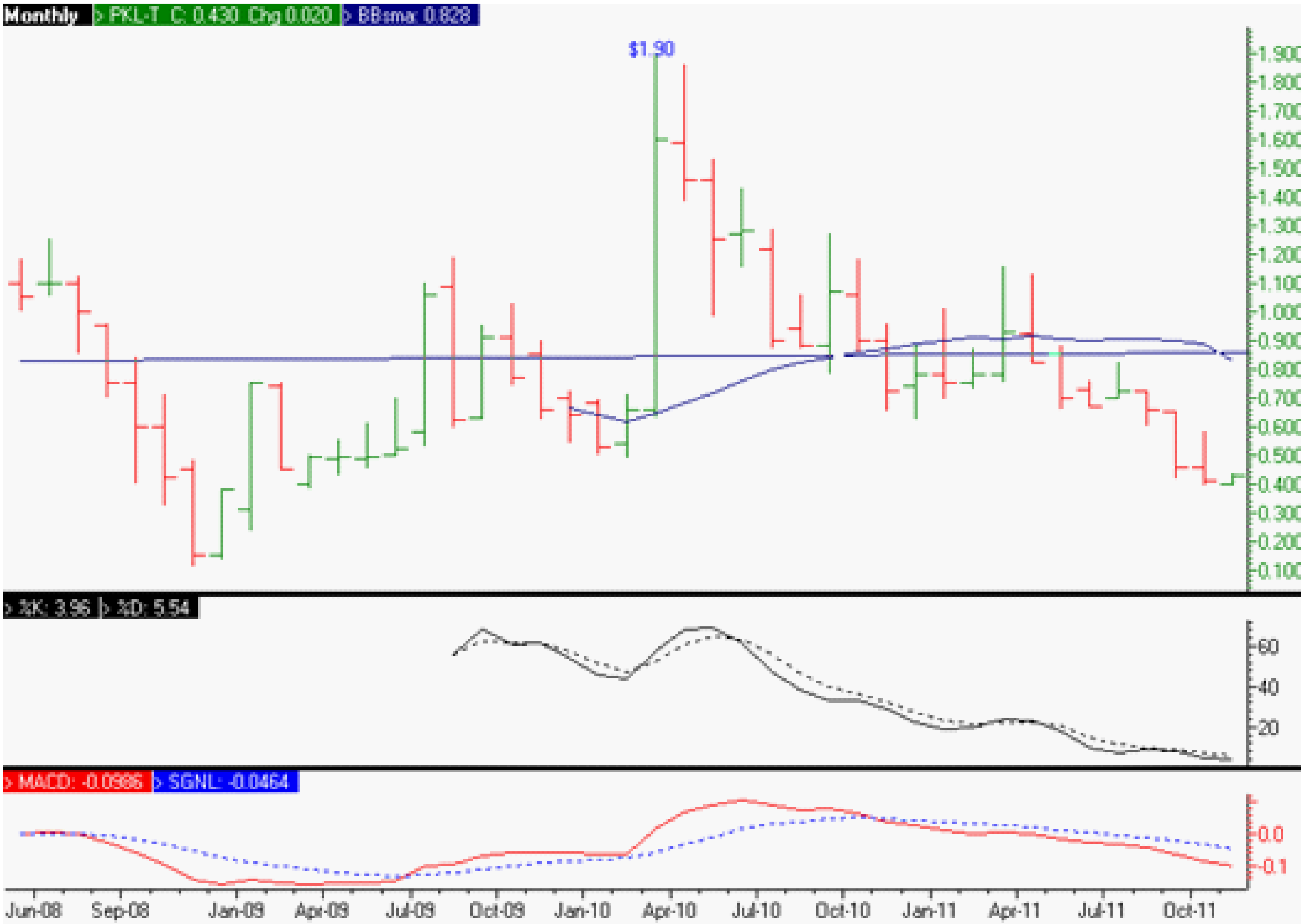
You must remember that 'All Gold in the Ground is not Created Equal.' By that I mean that there are several important factors to weigh, when making deposit comparisons; these include-Grade, Jurisdiction, Accessibility and Infrastructure. My favourite jurisdiction for mining is Canada, particularly Ontario and Quebec. So, much of the proceeds from my sales have been directed to adding to my positions in **Temex** and **PCGold**. I am also buying **Terraco** shares, because I want to own more. You know what my top six holdings are and I am happy to own shares in all these companies, because they all have definable assets in the ground.

You know that I never buy a stock unless I can see the potential for a share price double within ten months. So, I want to show you the monthly charts of **Temex** and **PCGold** to show you why I have been adding significantly to my positions in these two companies.

The chart below is the Monthly chart of **PCGold**. The line drawn horizontally across the chart is at the $0.86 (CAD) price level, which is double the closing price of **PCGold** last Friday November 4, 2011. The high price for **PCGold** was $1.90 (CAD) in the month of March 2010. The highest price that gold attained during that month was $1,115 (U.S.) per ounce or 36% below its current price. **PCGold** at $0.43 (CAD) is trading 77% below that March 2010 high. There are 43 monthly price bars on this chart, 20 or almost half of the bars at some stage during the month shown on the chart were priced above $0.86 (CAD). Furthermore, **PKL**'s share price is the same as it was in March 2009. However, the company has come a long way since then. It has recently outlined a compliant resource of 1.2 million ounces of gold. It has 5 drills operating on the property, so you just know that those ounces are going to keep growing.

Management has hired people with the expertise to put the mine back into production. How difficult do you think it will be for **PCGold**'s share price to double from here within the next ten months? Since the company's gold in the ground is only being valued at about $20.00 (U.S.) per ounce, its share price could increase five-fold to reflect $100.00 (U.S.) per ounce value to the company's current deposit.

PCGold, (PKL/T) Monthly Chart



Temex Resources (TME/V). Closing price Friday November 4, 2011 – $0.225 (CAD).

Temex Resources's story is very similar to that of PCGold. The company has a compliant resource of 1.2 million ounces of gold in Ontario and will shortly issue a revised NI 43-101, which should add significantly to the current resource. I have assumed a 30% increase which will take the new resource to about 1.56 million ounces. **Temex's** market cap is about $30 million (CAD). If we divide that by the assumed 1.56 million ounces in the ground we see that Temex is currently trading at less than $20.00 (U.S.) per ounce in the ground. That's cheap! Even if we divide its current market cap by the existing compliant resource of 1.2 million ounces, the company's shares are trading for $25.00 (U.S.) per ounce in the ground and that's cheap, too. Furthermore, **Temex**'s share price does not even begin to reflect the gold ounces that the company is building on its 60% owned (Goldcorp 40%) Whitney property in Timmins, Ontario. So, like **PCGold**, **Temex's** shares should be valued at about $100 (U.S.) per ounce of gold in the ground, which is about 5 times its current share price.

On the chart below I have placed a horizontal line at $0.46 (CAD), which is double **Temex**'s current share price. Looking above the line one can see that **Temex**'s shares have traded above $0.46 (CAD) more often than they have traded below that value. Hence, I don't see any reason why I should not get the price double that I am looking for within the next ten months. How about you?

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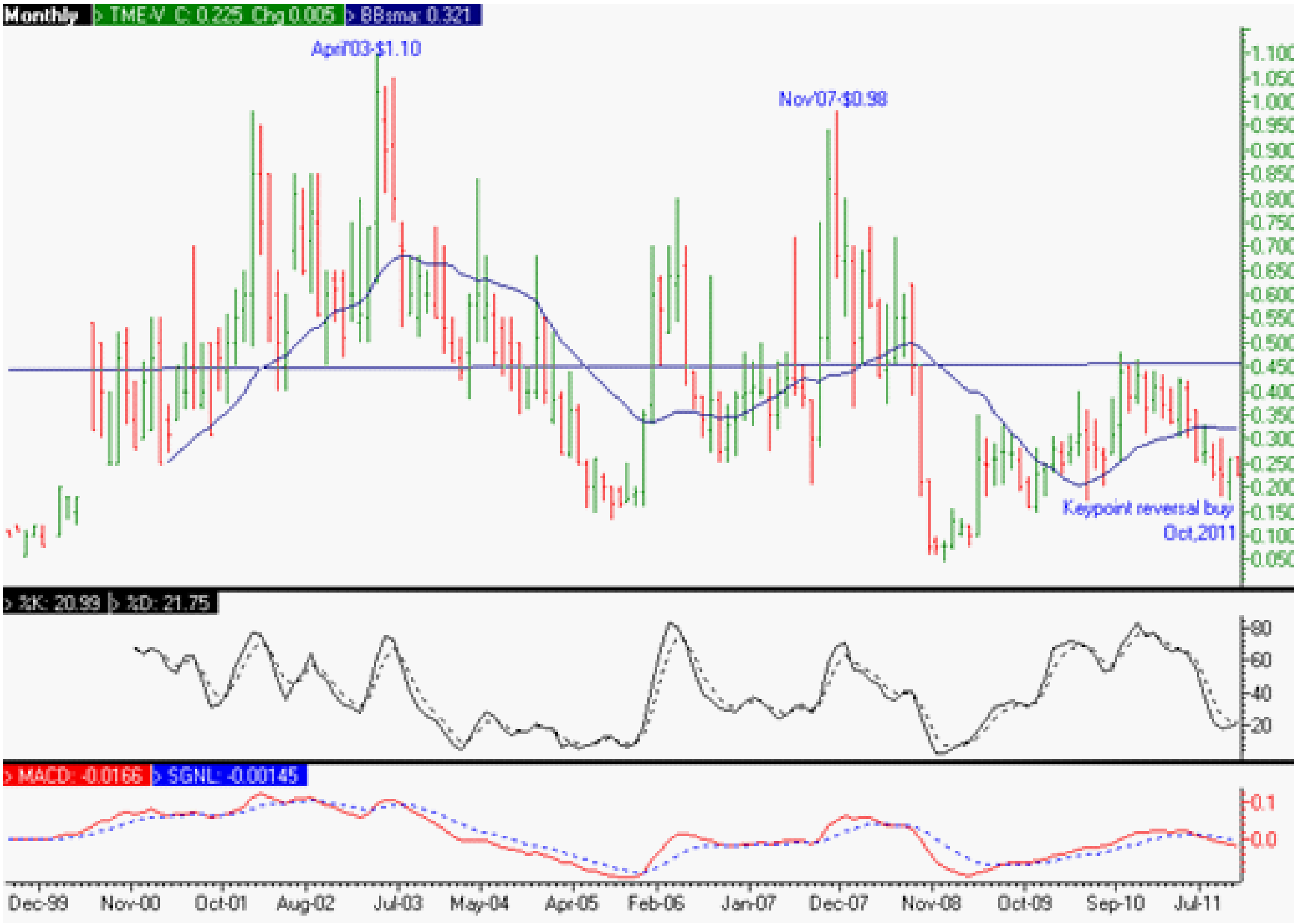
Temex Resources (TME/V), Monthly Chart



Just be patient, the price of gold will continue to rise in the face of the collapse of fiat currencies. Also, the value of gold in the ground will rise and at this time, you can buy these assets as cheap as they have been in a very long while. I love that opportunity.

All charts courtesy of Thomson Reuters

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