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LONGWAVE group

THE LONGWAVE ECONOMIC AND FINANCIAL CYCLE

IAN'S INVESTMENT INSIGHTS

Today a subscriber accused me of killing her, because the gold price has hit $1,570 (U.S.). What did I have to do with the price drop and why would the price collapse kill her?

Like her, I am dying too, but I am dying to buy more gold at lower prices.

What we have here is a liquidity crisis, governments, banks and people are selling anything to raise cash. It's very similar to what happened in 2008, but this time around it's much more serious. The 2008 liquidity crisis came about as a result of Lehman's collapse, which effectively might have led to the failure of many of the largest American banks had they not been bailed out by the U.S. taxpayer. It was a similar situation in Great Britain. But this time around the primary candidates for bankruptcy are sovereign governments.

Alasdair McLeod has written an article entitled Eurozone Government Defaults Looking Certain, which has been posted to the website. In this article, Alasdair suggests that the most likely default countries are France, Italy and Greece. There are rumours that the latter's bankruptcy is imminent. He also suggests that Belgium, Spain, Portugal and Ireland are also likely default candidates. As we have written many times before as soon as one country declares bankruptcy it is followed by several other countries in short order, simply because they have no means of financing their respective debts. During the 1931 to 1933 monetary crisis, almost all countries defaulted by opting off gold. Even the mighty United States, the world's largest creditor nation by a long shot was forced to renege on her promise to exchange her gold for dollars.

So, similar to 2008 we are facing a worldwide liquidity crisis and everything is being sold to raise cash; and that includes gold and silver.

On March 17, 2008, the price of gold reached a record high of $1,011.25 (U.S.) at the London PM fix and from that level the price dropped, in the face of the worldwide liquidity crisis, to a London PM price of $712.50 (U.S.) on October 24, 2008. This equated to a drop of almost 30% in a little more than seven months, during that first stage liquidity crisis.

I have used the London PM price fix, because I place great store in Alf Field's work as an Elliott Wave gold chartist, having first read his bullish gold interpretation in 2003. This why Alf uses the London PM gold price-"For the purposes of this analysis I will use only London PM Gold fixing prices. In the Futures markets the participants with the deepest pockets can control the market because settlement is invariably in cash. Futures' trading is almost always on a highly leveraged basis and the strongest player can push prices around to trigger forced stop loss trades by smaller players. In the gold fixings to be a seller one must actually have physical gold for delivery and the price must be paid in full. The PM fix is the one where time differences allow both European and North American traders to participate. The PM fix is thus the 'real' gold price in my opinion."

In the gold futures market, the chart I show below, because I don't have a London PM gold fix price chart, the correction from the price peak of $1,033.90 (U.S.) in March 2008 to the price low of $681.00 (U.S.) in October 2008 amounted to a 34% correction or about 11% greater than the London PM price correction detailed above. You should know that these prices on the futures chart are the high/low prices rather than the closing prices, and this accounts for a bigger percentage move than the London PM fix.

Comex Gold, Monthly Price chart

In the futures market gold reached a price peak of $1,923.70 (U.S.) in September 2011. In the same month, the price of gold collapsed to a low of $1,535 (U.S.). This equates to a 20% correction. In my opinion, this is not enough of a price decline to correct a major upwards price movement, nor do I think that one month is enough time to correct a gold price surge that has been evident since the $681 (U.S.) price bottom of October 2008.

A similar 34% price correction as experienced during the 2008 credit crisis would take the monthly price as low as $1,270 (U.S.) and in a similar time frame as experienced in 2088 that low would be reached in April 2012.

Now, I am not saying that we have to duplicate both the 2008 percentage loss in all the time that loss took to complete. However, I do think that with the euro's potential imminent demise and the large number of European zombie banks, the selling of liquid assets, obviously that includes gold, is likely to continue. Moreover, there will come a time and probably relatively soon when gold selling will be snapped up by very happy purchasers spending their paper money to buy real money at bargain basement prices; I intend to be one of these contented buyers. After all, what really is it that we are witnessing? Well, if you don't know the answer, then I haven't been doing my job. We are in the midst of experiencing the failure of paper money.

The other thing that you must keep in mind about gold is that it is a political metal. By that I mean that governments, and, in particular, the U.S. government, don't like it, because the gold price is seen as a measure against their fiat currencies; the higher the price of gold the less confidence there is in paper money, especially paper dollars.

The U.S. dollar is the world reserve currency and the U.S. government is determined to keep the dollar tied to that extraordinary monetary privilege. To that end, the U.S. has consistently made war on a rising gold price. I am convinced that they are continuing the war, in spite of the fact that the price of gold has increased by more than six fold since 2001. The war is easy to wage in the paper (futures) market. Eventually, however, the futures gold market will be seen for what it is, a fix. Once that happens the dollar war against gold will be lost and the gold price will move freely to significantly higher prices.

A good example of this is the 1971 to 1980 gold bull market, when gold rose from $35.00 (U.S.) per ounce to $850.00 (U.S.) per ounce. The $35.00 (U.S.) per ounce fixed price was set in 1934 and was set free by President Nixon in August 1971. Towards the latter stages of the $35.00 (U.S.) fixed price, several attempts were made to hold the price at this level, because demand for gold was forcing the price above $35.00 (U.S.). When the demand tide could no longer be contained the gold price surged, increasing by more than 24 times in the space of less than nine years.

I write this for two reasons; firstly, this price manipulation in the markets makes it difficult to read gold price charts and secondly, to re-introduce you to Alf Field's work. Alf presented a study at the Sydney conference in November, which he entitled "The 'Moses' generation and the future of gold." You can read the entire presentation here- http://www.longwavegroup.com/publications/related_articles/2011/_pdf/111121_gw_misc_01.pdf. I encourage you to read it all, because I think after having read it you will understand Alf a little bit and sense his belief in a higher being. I think this belief is reflected in the accuracy of his predictions.

In his Elliott Wave count, Alf is not sure that we have made a full down wave correction in the gold price. He suggests that $1,511 (U.S.) is a possible target as are $1,478 (U.S.) and even $1,416 (U.S.), but he can live with the September low of $1,531 (U.S.). If the gold price can break above $1,767 (U.S.) and hold above that price and move to higher prices he believes that Intermediate Wave 111 of Major Wave Three will be underway with a price target for the move being around $4,500 (U.S.) per ounce.

As much as I have confidence in Alf's work I must say that gold at $4.500 (U.S.) per ounce is a frightening proposition.

I have been asked to comment on the Barkerville financing. I am confident that the underwriters will raise at least $20 million (CAD) and we should see that closing very soon. It's dilution, but unfortunately necessary, because the company was running out of money. The biggest problem was not receiving the B.C. Government permit to mine Bonanza Ledge until a couple of weeks ago. That permit had been expected as early as June 2011 and would have made all the difference to production at the QR Mill.

The resignation of the PCGold President, Kevin Keough was, I think, instigated by the Board, which was looking for the CEO to take the company beyond the exploration stage and into production. Obviously, the company will not want to raise money with the stock priced at these depressed levels. It does, however, have $3 million (CAD) in the treasury, which would be enough to see it through 2012.

In our Outlook for 2012, I shall be highlighting my best junior picks for the year. These will include my gold in the ground favourites like Barkervile, Freegold Ventures, Northern Freegold, PCGold, Temex and Terraco, which by the way just completed a super deal for the company and raised $5 million (CAD) without diluting us shareholders. I will mention some other companies also.

Yesterday, I brought some 1 ounce gold maple leafs from my local gold merchant, Border Gold, and had to pay better than $1,700 (CAD) per ounce. You can buy Temex for about $15.00 (U.S.) per ounce of gold in the ground. I wish you a Happy Christmas and a healthy and prosperous New Year.

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p.s. Did you know, if the gold futures price ends this month above $1422, it will be the 11th year in succession that the price of gold has closed higher than the preceding year. Now that is a bull market!

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