Volume 19 | Issue 1 . April 5, 2013

LONGWAVE group

THE LONGWAVE ECONOMIC AND FINANCIAL CYCLE

IAN'S INVESTMENTMENT INSIGHTS

I recently received this enquiry from a long time reader and former subscriber of the website and I thought that I would answer him publicly, thereby hopefully benefitting all my readers.

Ian

Hope this email finds you well.

Nick Laird of Sharelynx.com has been kind enough to correspond with me as well as Ron Rosen (the rosen report) regarding the future performance of the HUI.

Nick's a K-WAVE "believer"...Ron is more of an Elliott wave purist.

Ron has recently called a bottom (337) to the HUI, (along with Jim Sinclair).

Nick says the HUI will NOT make a SUSTAINABLE move higher unless and until the K-WAVE winter cycle is completed (deflation runs it course), and then the serious money printing (ie, credit expansion) begins again in earnest.

Ron is looking for the next target on HUI to be around 640 by feb 2016.

Nick's position can be found at > http://kingworldnews.com/kingworldnews/KWN_DailyWeb/Entries/2012/12/14_KWN_Friday_Gold_Chart_Mania.html (TOBIN Q CHART)

I attached Ron's recent report for your review.

Am wondering what your thoughts are about all of this. I have maintained my share position (mostly in seniors and intermediates) over the years...seen my paper profits wiped out...now around break-even...consider myself fortunate....my gut says its time to add to positions, but when I listen to Nick, it might be wise to cash out for now.

And somewhere buzzing in my head is what I have read and heard Jim Sinclair say, and with reference to Jesse Livermore....if you think you are invested in the long term bull trend..."sit tight and be right".

I obviously look back and wonder why I didn't cash out close to tops...and by extension, why I didn't buy more at bottoms.

Lots of conflicting thoughts in my mind.

Finally, any thoughts about the Cypriot banking spasm? It feels like things could get VERY ugly sometime soon.

Thank you.

One of the things that I should chastise him for is that I thought the previous **Ian's Investment Insights** clearly stated that it was my view that the price of gold and prices of gold stocks were bottoming and that a renewal of the precious metals bull market was at hand. So, why is he asking me the question that I thought that I had answered for him in that publication? That publication was dated March 1st. and since then, as I write on Friday March 22nd., the price of gold has advanced from $1,575 (U.S.) per ounce to $1,607 (U.S.) and the HUI, Gold Bugs Index has increased in price from $352 to $359. Now I realize that these are not significant price moves, but they are at least positive.

Three weeks since that report was written, I am even more confident that the price bottom has been seen for both the precious metals and the companies that explore for them and produce them. What gives me such confidence in making this pronouncement? I have three reasons for my bullishness. The first is simply my assessment of the price charts, the second is that Cyprus might well signal the death knell of the Euro paper currency system and the third is that several market newsletter writers for whom I have a great deal of respect are also anticipating the end of the correction in precious metals prices.

The ongoing price correction in the precious metals and the precious metals companies' shares has lasted a long time; 18 months to be precise. This has got most people thinking that the bull market in this domain is over. They are wrong. It's the bull markets in paper money and assets valued in paper that are about to encounter the bear's wrath.

The gold price has closed higher each year since 2001and would have to close 2013 above $1,655 (U.S.) per ounce to keep the record intact; I am confidently predicting that it will do that. Why do I write this? It's because I am predicting, that very soon, we will witness a veritable blood bath in the general stock market. Such a catastrophic event will bring a significant amount of buying into the precious metals. In fact, it is entirely possible that this buying panic might well sound the death knell of the precious metals paper markets, and I say good riddance to that.

When I am analyzing price charts, I always look at the three time periods: the daily, weekly and monthly price charts to see whether they are in sync. By that I mean, to determine whether all three periods are in relatively the same condition with respect to overbought or oversold indicators. If the Daily price chart is showing a severe overbought condition, it implies at least in the short term, that a price correction is imminent and such a price correction will likely have a negative impact on weekly prices. For example, at the moment, the daily, weekly and monthly charts of the DJIA and S&P 500 are in overbought territory, whereas the daily, weekly and monthly price charts for the precious metals and precious metals stocks are all oversold.

The overbought/oversold oscillators that I use are the MACDI (Moving Average Convergence Divergence Indicator), the Stochastic and the Relative Strength Indicator.

I also study price action relative to the Bollinger bands. The bands don't indicate when prices are overbought or oversold, but they contain prices and accurately portray trends.

Bullish price charts are indicated by prices making higher highs and higher lows on the corrections; whereas, bearish price charts portray the opposite characteristics, that is, lower price highs and lower price lows. If the price action fails to continue in these veins it usually indicates that a reversal is in the offing. For example, if the price action on a bullish chart turns down before making a new high, it likely indicates that the bullish trend is reversing. Similarly, if during a bearish price trend, prices fail to make new lows and turn to make higher prices, it likely indicates that the bearish trend is reversing. These trend reversals first occur in the short term price monitor, which is in the Daily chart.

Volume 19 | Issue 1 . April 5, 2013

Spot Gold Price - Monthly Chart.
Closing Price end of March 2013-$1599.96 (U.S.)

Source: Thomson Reuters

You can clearly see the higher high prices and the higher low prices for gold all the way until the Key Point Reversal Top at $1,920 (U.S.). Since that peak, the gold price has been moving in a rectangular corrective phase bounded by $1,525 (U.S.) on the bottom and $1,800 (U.S.) on the top. A break below $1,525 (U.S.) would be bearish; although to break the bullish trend of higher highs and higher lows, the price of gold would have to close below $1,300 (U.S.) and I don't think that is going to happen, at least not within the next several years. A break above $1,800 (U.S.) would be very bullish and would signal a move to at least $2,100 (U.S.) per ounce in the intermediate term. I have indicated other key point reversals for you on the chart just to show you how important these are in defining a reversal in trend.

The overbought/oversold oscillators (MACDI, Stochastics, Relative Strength Index) are neutral, but are all are positioned at similar levels to where they were in October 2008 when the price of gold bottomed at $729 (U.S.) per ounce and we can see on the chart what happened to the gold price from October 2008 until September 2011. From these depressed price levels a similar price move is potentially in the cards.

On this monthly chart, the price of gold has held above the mid-Bollinger band from the onset until February 2013 when it broke below the mid-band to almost touch the bottom band. The mid-band is pivotal, if it is penetrated on a closing basis, prices will generally fall to the bottom band if the mid-band is penetrated to the downside. Prices will rise to the upper band if they go through the mid-band to the upside. Prices are now close to the lower band. On the weekly chart prices pierced the mid-band to the downside during the week of December 21, 2012 and have not been able to move through the mid-band since then. They are currently hugging the bottom Bollinger band. On the Daily gold price chart, prices have moved off the bottom Bollinger band and are heading for the mid-band, which is currently priced at $1,559.50 (U.S.). This is important because if gold closes above that price it will suggest a move to the upper band on the Daily chart, which is currently priced at $1,624.10 (U.S.).

On the weekly chart, the MACDI is turning up and is close to giving a buy signal. On the Daily chart, the Relative Strength Index and the Stochastic have registered oversold buy signals and the MACDI is close to doing the same.

There are several people and organizations like GATA which have effectively proven the suppression of the gold price and for that matter, silver price in the futures (paper) market and I concur with their findings. There is absolutely no way that the gold price should be where it is given the huge crisis in the euro and for that matter in all the fiat currencies. The recent events in Cyprus should demonstrate to any reasonably intelligent person that leaving money in a bank is not safe and it can be stolen by the state to render a bankrupt bank solvent. Virtually all banks are in a precarious position due to the massive derivative positions they hold on their books.

“But the real size of derivatives outstanding is well over one quadrillion dollars, and something clearly has our central banks terrified right now. We already know that Bernanke has led the U.S. to significant amounts of QE, and the same is true of euro land. Maybe, they are now looking at what the real cost of the derivatives will be and saying to each other, ‘Nobody can create that much money.’”

“What we may be witnessing now is the fact that central banks can no longer make their depositors whole. They are hitting the wall. This means that money is absolutely going to leave the financial system if indeed the final decision in Cyprus is to extract money from depositor accounts.” Jim Sinclair. That, of course, was the final decision.

“As money flees the financial system, one of the top items being purchased will be physical gold. Right now the gold market is engaged in an enormous fight between physical bullion and paper”. Jim Sinclair

“There’s absolutely no question that when it is confirmed that the depositors’ loss of money is not a tax, not a new way of making things whole, but in fact, a disaster in which the global banking system is actually mired, you will have a move toward physical gold greater than anyone on this planet now believes is possible. (Certainly not everyone, I for one believe this will happen). We will witness the beginning of a level of fear and panic not seen in this world since 1929 (The onset of the third Long Wave winter)”- Jim Sinclair. It is my belief that the fear and panic will be much greater than what was experienced after 1929, simply because the financial and economic problems are significantly greater today than they were then.

I understand that for most investors making an investment when things appear the bleakest is very difficult, similarly, most investors have the most confidence to buy when prices have been rising for a long time. This is the herd instinct; we, as investors are much more comfortable in doing what everyone else is doing. At price tops or bottoms, this leads to a very damaging investment decision. The charts are telling us that we are at precisely at that point now. Stocks are at a high price and precious metals are at a low price. You should buy precious metals and their associated stocks and sell the stocks associated in the general stock market. The herd doesn’t like the precious metals but loves stocks in the general stock market- courage mon ami.

To that end, I continue to recommend that you purchase gold in the ground junior company shares whose prices have been decimated by the herd, which has no understanding of the precious metals markets.

I repeat, you can buy companies such as Temex (TME/V), Terraco TEN/V, Freegold Ventures (FVL/T) and Orex (REX/V). Orex is planning to spin out its 1 million gold ounce Swedish property into a new company and Orex shareholders will receive shares in the new company; so if you buy now you’ll own two companies for the price of one. You can buy these companies for only a few dollars per ounce of gold that they own in the ground. Where else can you buy gold for about ten (U.S.) dollars per ounce?

Yesterday, I visited two of the several properties which Alliance Mining (ALM/V) owns here in central Arizona, near Prescott. Travis Snider, a company director, kindly guided me. The first property which we visited was Silver Crown. This property has been worked on and off into the 1960s. The adit which we entered ran for about 150 yards into the hillside. Production of high grade gold, silver and copper was extracted from a large vein about six feet across. According to Travis there were six levels – totaling about 1,000 feet from top to bottom – mining the same vein structure. About 150 feet from the entrance to the same adit we were able to locate the same vein at surface, which had been high graded. Travis pointed out that the vein continued for about a mile. The Silver Crown property will likely contain a large gold/silver/copper deposit. The company plans to drill on the property, once sufficient financing has been obtained.

The second property, which we had tough time locating, was the Gold Beetle No.1. We didn't go down the adit, however, Travis told me that two consulting geologists had rated this the pick of the Alliance Arizona properties, which they determined contained high grade gold. From my unprofessional perspective I rated Silver Crown the better of the two and Travis agreed with me.

I consider Alliance Mining shares to be very underpriced given its property portfolio here in Arizona, all of which have been mined in the past and the Uruachic properties in Mexico. I have participated in the current financing and own about 14% of the outstanding shares in the company.

If you like silver then I believe that Andean Gold (AAU/V) is very undervalued considering its 20 million ounce silver deposit in Peru, which also contains a good gold credit. This deposit is likely to grow significantly larger. The company has a strong Peruvian ownership. I own slightly less than 10% of the company's outstanding shares.

A junior gold producing company which I think has bottomed here is Timmins Gold (TMM/T). It is mining about 100,000 ounces of gold per year in Mexico.

Agnico Eagle (AEM/T) a senior gold producer also appears to have bottomed and looks very good on the charts, as does Goldcorp (G/T).
For silver buffs, Endeavour Silver (EDR/T) looks very good on the charts and management has done a great job in growing this company.

The day of reckoning is at hand for the general stock market. Two analysts who I respect have both picked April 10th. for the stock market to peak. We shall see. As for gold and silver and the company shares associated with these precious metals, we are convinced that a price low is already in place.

Written by: Ian A. Gordon

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