

THE LONGWAVE ECONOMIC AND FINANCIAL CYCLE  
IAN'S INVESTMENT INSIGHTS



“If you don't know where you are going, any road will get you there.” Lewis Carroll

You might remember, in the January edition of this newsletter I described how I manage my investment account. One of the things I do at the beginning of the year is to set target prices for each of my holdings in my investment portfolio. It is important to monitor, at least on a monthly basis, the price performance of each of these holdings and the overall performance of the portfolio. I made one change in my account in January; I sold one of my holdings at a loss in order to purchase, via a private placement, a position in Ximen Mining Corp. (XIM/V) at \$0.25 per unit. I am very excited about this company, which has two advanced gold properties in southern British Columbia. I will be writing about it in 'Companies that I Like'. Ximen's share price closed at \$0.50 on Friday January 31st, so that's a nice quick price double. Another company that will appear in the "Companies That I Like" on the website is Integra Gold, which is another very good gold story. Overall my portfolio increased in value by 30% in January. That's not a bad start, but I have a way to go to make up for last year's losses. I am, however, determined to achieve the investment performance goals that I have set for 2014.

Goal setting and visualization are fundamental in the process of achieving your investment objectives. This is vital, not only in reaching your wealth goals, but also, in all other goals that you wish to attain during your lifetime. Each of your goals should be recorded in this manner- "During 2014, my investment portfolio will increase in value by 365%." This is a positive statement; there can be no doubt regarding your commitment and resolve. You should read your goals every day. By so doing, they become a force of positive energy.

Let me give you an example of how this strategy has worked for me. In 1999, I had contracted with a privately owned gold/silver company to take it public through an Initial Public Offering. The issue price we had fixed was \$0.50 per share with a half warrant, exercisable at, I believe, \$0.75 during the following 12 months. The total amount that we had agreed to raise was \$3.5 million. Considerable historical amounts of gold and silver had been produced on the company's properties, located in Mexico.

Now, you might remember that gold bullion and gold shares was not the investment of choice in 1999. The price of gold was near \$250.00 (U.S.) per ounce; the stock market was booming and the BreX salting scandal had recently been exposed. Here was I, committing to complete a very large financing at a large introductory price. So my goal was, 'I will raise \$3.5 million for XYZ company by November 30, 1999.' I then outlined a plan of how I was going to achieve my goal. This included contacting gold oriented money managers, my clients – although I didn't have that many at that time – and a relatively large gold producing company headquartered in Toronto. I knew the president of the company very well. I phoned him and told him about the company and why I felt it was something in which his company might have an interest. He promised to send his chief geologist and another geologist on a property visit and would contact me after they had given him their assessment of the junior company's properties.

For this financing to succeed I knew that it was vital that this Toronto company become an investor in the IPO . Every morning, before work, I walked my dog visualizing the president phoning me to tell me that his company would invest in the financing.

About three weeks later, my phone rang and it was the president who said, "Ian, our company will invest in the junior company's IPO. " I thanked him and said: "Would you consider going on the Board of Directors of this junior company? He agreed to be a Director. From that point on it was easy. All I had to do was tell prospective investors that this senior mining company had sent two geologists to the junior company's properties and as a result of that visit the senior company would be investing in the IPO. Moreover, the President of the senior company would be represented on the junior company's Board. Accordingly, a large number of investors subscribed to the IPO; so much so that we were able to increase the offering by an additional \$1 million. At the time this became the largest precious metals IPO completed on the Vancouver Stock Exchange. All this, at a time when investing in precious metals was very much out of favour. That is what goal setting and visualization can do. Used in combination they are a very powerful tool.

Has the Fed induced stock bull market come to an end? Very likely! Why do I think that? Well, economic events appear more ominous today than they were in 2008. The emerging market crisis is evolving into a banking crisis that could be far worse than the banking problems encountered in 2008. The Chinese economy, which is riddled with debt, is slowing and the Fed is tapering, or cutting back on the amount of money it is feeding into the banking system.

Thus, the fundamentals are in place to bring about a stock bear market of unprecedented proportions. This is being corroborated by technical and cyclical measures as well. From the technical standpoint the most ominous pattern, which was completed on December 31, 2013, is the megaphone or broadening top pattern, called by Dr. Robert McHugh, the 'Jaws of Death'. This pattern has been ongoing for 14 years, since the peak in the DJIA in January 2000. Below is Dr. McHugh's chart of this pattern with his comments taken from his newsletter at the end of January.



Above we show what we believe is the most likely scenario, allowing for the multi-decade Jaws of Death top pattern to reach its upper boundary for completion. It suggests an Ascending Broadening Wedge top pattern is completing now in the Industrials, a pattern that started at the end of October 2011. It is an **a-b-c-d-e** pattern, with wave **d-down** finished, and the final wave **e-up** rally also possibly finished.

The Industrials have essentially reached the upper boundary of the Jaws of Death pattern, the top for Grand Supercycle degree wave **{III}** up. It suggests the Industrials could rally toward 17,000ish at the conclusion of wave **c-up** and **e-up**, but by reaching a high of 16,588.25 on December 31st, 2013, it is close enough for pattern completion. The longer wave **e-up** takes to finish, the higher the Industrials will need to travel to reach the rising upper boundary of the Jaws of Death centuries long topping pattern. The decline since December 31st, 2013 may suggest the pattern is finished and the coming economic ice age has started.

I have been reading Dr. McHugh's newsletter for several years. He is one of the best chart technicians that I have ever followed and his Elliott Wave work is second to none. If you are technically oriented, I encourage you to visit his website, [www.technicalindicatorindex.com](http://www.technicalindicatorindex.com).

Cyclically, the winter bear market should have commenced in January 2000 when the DJIA peaked at 11,750 points. However, the Federal Reserve led by Alan Greenspan would not let that happen. The bear market was prematurely curtailed in October 2002 when DJIA made a low of 7,200 points. From that point, aided and abetted by the Federal Reserve, the Dow rose to a price peak of 14,000 points in October 2007. This was followed by another winter stock bear market, which was halted in March 2009 when the DJIA reached a low of 6,470 points. To avert the fury of the bear the Federal Reserve, then under Ben Bernanke's leadership, resorted to an unprecedented monetary stimulus programme, which effectively reversed the downward spiral in stock prices. With interest rates effectively set at zero and huge monetary stimulus, stock prices again embarked in a joyous bullish march. This likely ended, fittingly, on December 31, 2013, when the Dow reached a price peak which kissed the 'Jaws of Death' pattern at 16,577 points.

On January 31, 2014, the Dow made a low of 15,618 points, which is 960 points lower than the December 31, 2013 price high. That's a lot of price points to lose in just one month. But does it constitute the start of the real winter bear market? We can't be certain, yet, that the bear market has begun in earnest. Price action in the short term (daily prices ) should provide the answer. We should expect a price retracement following this price collapse. Normal retracement is 50% which would take the DJIA back to 15,960 points, or so. Once prices have completed their retracement we will have a better idea whether this is the start of the bear market, or if 1,236 point correction was, just that, a correction in an ongoing stock bull market.

In my opinion, the bear market has started, because the price drop was severe and occurred over a short period of time, particularly after January 21st when the DJIA lost more than 1,000 points in just 11 trading days. We can be sure that the Federal Reserve will do all that it can to keep the stock bull market alive. However, "When the time cycle is up, neither Republican, Democrat, nor our good President Hoover can stem the tide. It is natural law. Action equals reaction in the opposite direction. We see it in the ebb and flow of the tide and we know from the full bloom of summer follows the dead leaves of winter." W. D. Gann, in his 1929 Annual Stock market Forecast, which was published in November 1928 and detailed the 1929 stock market crash and the following economic depression. As I see it, the time cycle is now up and the Federal Reserve will be unable to stem the tide of the horrendous winter stock bear market and the ensuing economic depression.

Economic depressions are always deflationary, because they are caused by a credit collapse. This leads to a significant contraction in the economy. For example, between October 1929 and April 1933, U.S. money supply fell by 28%, consumer prices dropped by 30% and the economy, as measured by GDP, contracted by 45%.

Many very smart people such as Robert Prechter and Harry Dent are of the opinion that the price of gold recedes, like the prices of all commodities, during a deflationary depression, which they believe, as I do, is imminent. In a recent interview published in The Gold Report, Harry Dent was asked the question, "Gold likes it when Governments print money, and governments are doing just that. Yet, gold has been flat for 18 months. You predict it might fall further. His answer was "Around \$700 (U.S.) an ounce is a certainty in gold by 2015 to 2016 and \$250 (U.S.) per ounce is a possibility well down the line by 2020-2023. Governments are fighting deflation. If government stimulus fails, we will have deflation, not inflation. Our point was proven when the U.S. escalated with QE3 and QE3 forever, then Japan went off the reservation with three times its stimulus, yet inflation dropped. Holy smokes! That wasn't supposed to happen. It was proof that they were actually fighting deflation and losing the war."

Well, all I can retort to that, is, "Harry you're absolutely wrong and I am going prove this to you."

As I have already written, deflation is caused by a debt bubble collapse and such a collapse has always occurred at the onset of the long wave winter. This collapse creates havoc with both creditors and debtors. The creditors go bankrupt because the debtors can't repay them. The debtors can't repay what they have borrowed because the economy collapses, like it did between 1929 and 1933 (U.S. GDP -45%). Between 1929 and 1933 10,000 U.S. banks failed and corporate and personal bankruptcies soared.

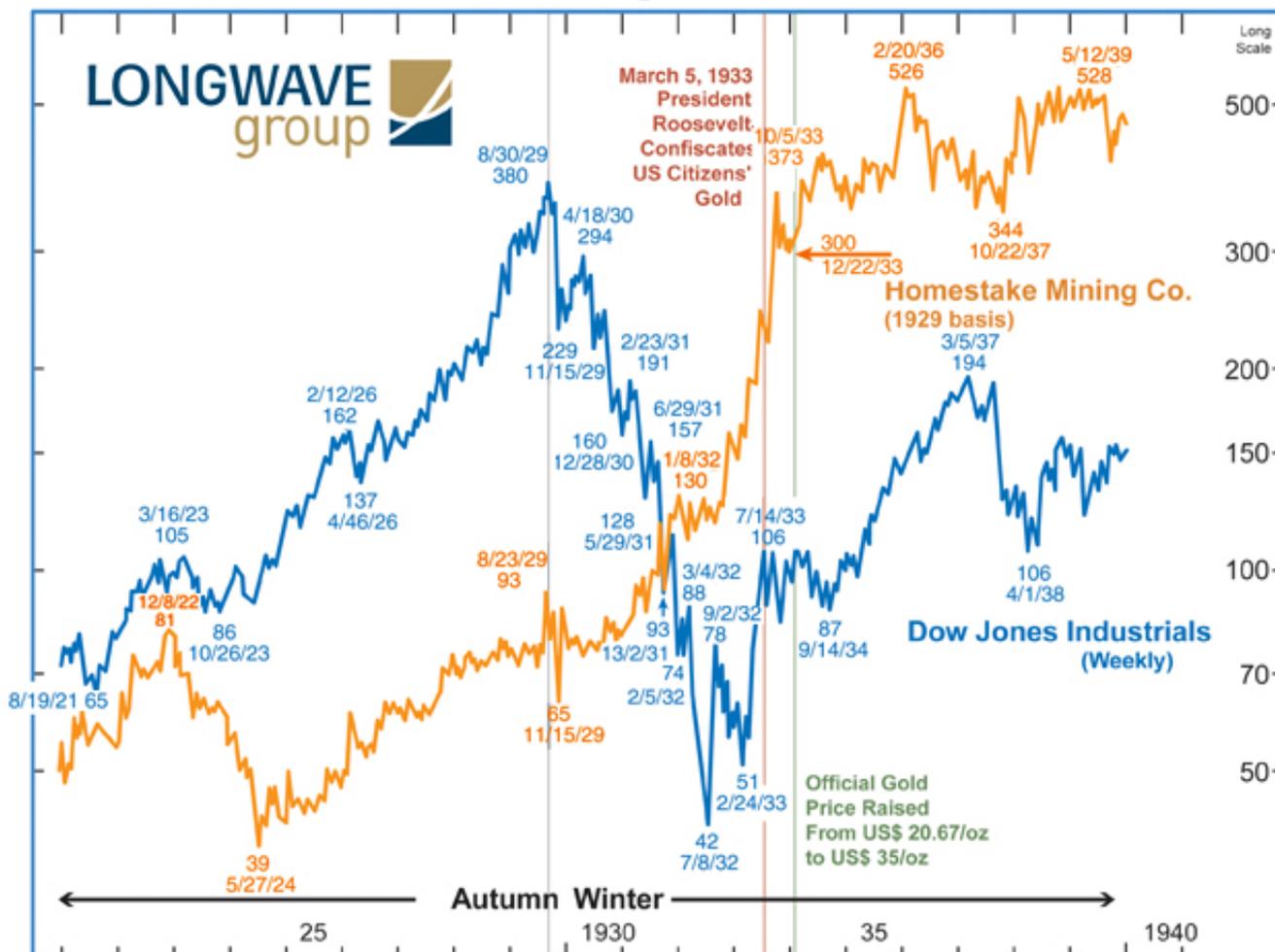
During the U.S. banking collapse of the early 1930s, the U.S. paper dollar could be exchanged for gold at \$20.67 (U.S.) per ounce at any bank. As the crisis deepened, not only U.S. citizens but also foreigners, were swapping their paper dollars for U.S. gold at a frantic pace. So much so that in late 1932, just before he was about to leave office, President Hoover's secretary of the treasury told the President that the U.S. treasury was running out of gold to back the dollar.

Upon assuming office in March 1933, President Roosevelt issued an executive order commanding all U.S. citizens to turn in their gold and gold certificates. Failure to do so was subject to fines and imprisonment for up to 10 years. From that point until 1973, U.S. citizens were forbidden to own gold.

During this chaotic period, the rush to own physical gold was also accompanied by a strong desire to own the shares of gold companies; not only the producers, but the exploration companies as well. As I have outlined in previous writings, virtually all that remained of capital following the 1929 stock market crash was invested in gold and gold mining companies. There were major gold discoveries made throughout the world during the 1930s and this could not have happened without investment capital. According to the U.S. Bureau of Mines, there were 9,000 operating gold mines in the U.S. by 1940.

The following chart depicts the huge influx of investor money into gold stocks in the face of the winter stock bear market when the DJIA lost 90% of its value from September 1929 until July 1932. The price of gold was fixed at \$20.67 (U.S.) per ounce until January 1934 when it was raised to \$35.00 (U.S.). The share price of Homestake Mining increased by better than 400% before this increase in the gold price.

### Homestake and the DJIA 1921 through 1940



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One could argue that gold stocks are currently positioned as they were in September 1929 relative to the general stock market, after all the DJIA has recently reached a record price high just as it did in September 1929.

I trust that the evidence that I have presented above refutes any notion that the price of gold falls during a deflationary depression. To the contrary, the prices of gold and gold shares rise dramatically in such a devastating scenario. Indeed, during times like these, capital flees from paper into gold, the ultimate safe money refuge.

Are you prepared? The day of reckoning is at hand and the flight from paper money and paper assets is about to become a panic. In the ensuing maelstrom, all capital will seek the refuge of gold and the companies that produce the metal and explore for it, just as it did during the deflationary depression of the 1930s.

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