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Gold Stocks: Accumulate

Fortunately, there is a methodical way to call for the end of the bear market in the Gold Sector and identify that a multi-year bull market is likely. More specifically, the good times could follow a liquidity problem discovered in the Fall. Moreover, within the long bull market there could be some fabulous rallies for the sector, with even more outstanding ones with some world-scale discoveries.

Summer jobs working in the field for “Juniors” helped pay my way through geology and I’ve long had an interest in the sector.

The bullish outlook is not based upon the now very orthodox opinion that the Fed will trash the dollar and gold will go to \$10,000. That “1970s Inflation” was at last back flourished through the Summer. Enthusiasts got in, but for the wrong reason. “Inflation”.

History records that the gold stocks underperform the S&P during a bubble, and then outperform during the typical post-bubble contraction. With this our comments through the Summer were that as the bubble deflated “inflationists” would have to sell. And they did, setting up the buying opportunity. With the “Juniors” suffering the greatest loss of liquidity in decades.

An interesting observation is that the conventional positioning of gold stocks is based upon the dollar going down, making this a speculation upon foreign exchange fluctuations. And positioning upon an improving stream of earnings defines investing.

One of the four main characteristics of a bubble has been gold’s real price going down, which has been the case. The importance is that mine profitability rests upon the real price, Earnings go up as cost go down

relative to gold. Just think of the cost of energy, which for running the machinery or blasting the rock amounts to some 60% of costs.

The problem with this is that the chart is posted monthly. A more practical proxy is to use commodities, and the Gold/CRB Index became exceptionally oversold on the plunge into early June. Since then, it has formed a base that will successfully complete as the Index rises above the 20-Week ema. This seems to be happening and the method has been successful, for example, with the base formed in the US dollar on every important bottom.



As this has yet to be formed in the GDXJ, the advice is to begin accumulating gold stocks. This can be done through ETFs, options or individual stocks.

For those who like the small caps we have made a list. The last such list amounted to five and was made in late 1995. The big discovery was made by Arequipa Resources that in 1996 was taken over by Barrick for \$1.1 billion. The stock went literally “pennies” to something like \$30.

For those interested the following is a list of small caps ranging from exploration plays to depressed pre-production or even producers. These are speculations and some in our research team may be long.

G-T , BSR -T , CSG-V, DEX-V, HAR – V , HSTR – V , HIGH -V, SBB-T, RIO-V, PGM-V, RK-V, SMD-V

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