

GOLD & PRECIOUS METAL STOCKS



January 27, 2010

PRECIOUS METALS (gold, XAU, gold/silver,)

Today's action in gold suggests a greater likelihood of new short term lows.

As evident in the 1-year daily gold chart (first of three 1-year graphs), wave-c would approximately equal wave-a (typical correction) around \$1,030, which would be closer to the pullback support that I had initially forecast, but which I then replaced with a target of \$1,080, after gold had crossed \$1,200 (thereby having traveled higher than initially anticipated).

However, the action in the Philly Gold & Silver Index (XAU) suggests that the low it made today may have completed its correction and, since it leads gold, it fits that the metal is about to make its final short term bottom.

The XAU's chart indeed reflects a correction in which wave-c will have equaled wave-a, if the correction in that index has indeed ended.

As well, please note that rallying from these levels would leave in-place a bullish divergence in the stochastic. Meanwhile, there is no such bullish divergence in gold, but there would be if the metal put in a new low, I strongly suspect.

As I am sure you are all aware, the stochastic appears at the bottom of each chart, underneath the price chart.



Again regarding the XAU chart at bottom of page 2, please note too that the XAU is testing the early November low and summer support, as well as the apex of the triangle which was completed at the end of August.

What follows is the updated gold/silver ratio chart.

After having identified the October 2009 low, as well as this January's bottom to precision, the anticipated 2010 Wave-3 advance appears to already be well underway, with the breakout having occurred during this correction in the precious metals, despite the trade having been designed to be a low risk means by which to add to gold holdings.



For those with such access, the best risk/reward scenario was with a time/price call spread, though a futures trade was most fortuitous, given the tight stop that the trade provided at prevailing prices, within the context of the low margin requirement.

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