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GOLD & PRECIOUS METAL STOCKS: SPECIAL ISSUE

March 14, 2010

PRECIOUS METALS

In this issue, we look at my technical and fundamental points of view, along with the interpretations upon which they are based, so that each investor may more clearly determine whether he or she agrees, or not.

From December to February, the precious metals (PMs) corrected for 2 months in wave-A, of an A-B-C correction, where wave-b of B has ended, or will end with a very slight new high. I give that new high a 60% - 40% probability.

Pages 2 & 3 illustrate the daily 1-year charts of gold and the Philly Gold & Silver Index (XAU), respectively.

With gold in a powerful, clean and unbroken uptrend, I believe that a wave-C decline would mostly move sideways in the $1,050 - $1,100 area.

Gold's February rally was wave-a, of an a-b-c advance, with wave-b having completed in an "a-b-c flat" correction, which would now support at its 200-day moving average (MA), on the 6-month chart (page 3), according to this interpretation.

Wave-c of "b", then, would commence this week and make a minor new high in the forecasted $1,150 area, before correcting in the larger wave-C, which, as has often been the case in the past, be one of time rather then price, I believe.

However, the Philly Gold & Silver Index (XAU) is another matter.

The XAU rallied to the 165 – 170, as forecast (just shy of 173). If the smaller wave-b of "c" is yet to complete, it would decline to 160, where waves-c and "a" would be about equal, before rallying a final time to the 175-level, or so.

If the XAU were lagging gold, then it would start down the coming week to complete the above.

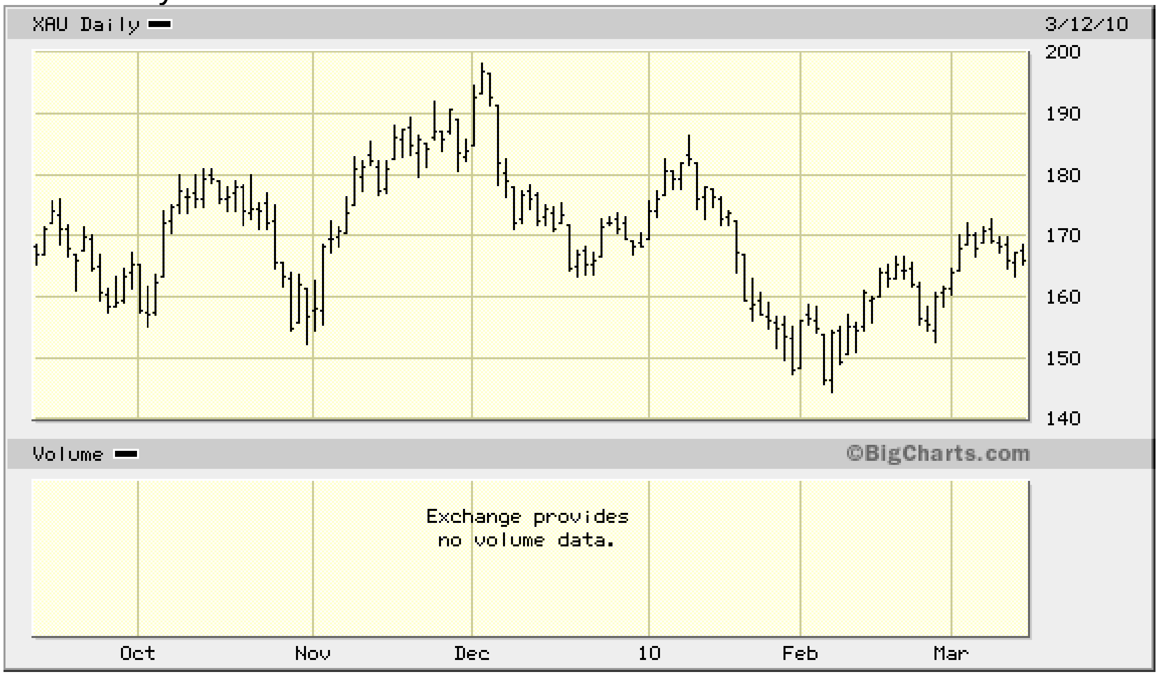
There is a strong (40%?) chance that the highs are already in at the "$1,150 or so" and "165 – 170" areas in gold and the XAU, respectively, as had been previously forecast for these countertrend bounces (within larger countertrend downside corrections).

For those who wish to err on the side of caution, I must say that it is when I look for a "final and very minor move" that I am most prone to error, a symptom of short term forecasting. So, it is worth bearing in mind that decisions about going short are not the same as decisions regarding the liquidation of long positions.

Now, on pages 3 (here) and 4, we take a clear look at 6-months charts, using INO and BigChart services.

These 6-months charts reflect what was discussed on pages 1 & 2.

The 200-day MA in gold (on the 6-month chart) and it's "a-b-c flat" correction, within the larger correction is evident. The XAU's correction in its "rising a-b-c" immediately below is as evident.

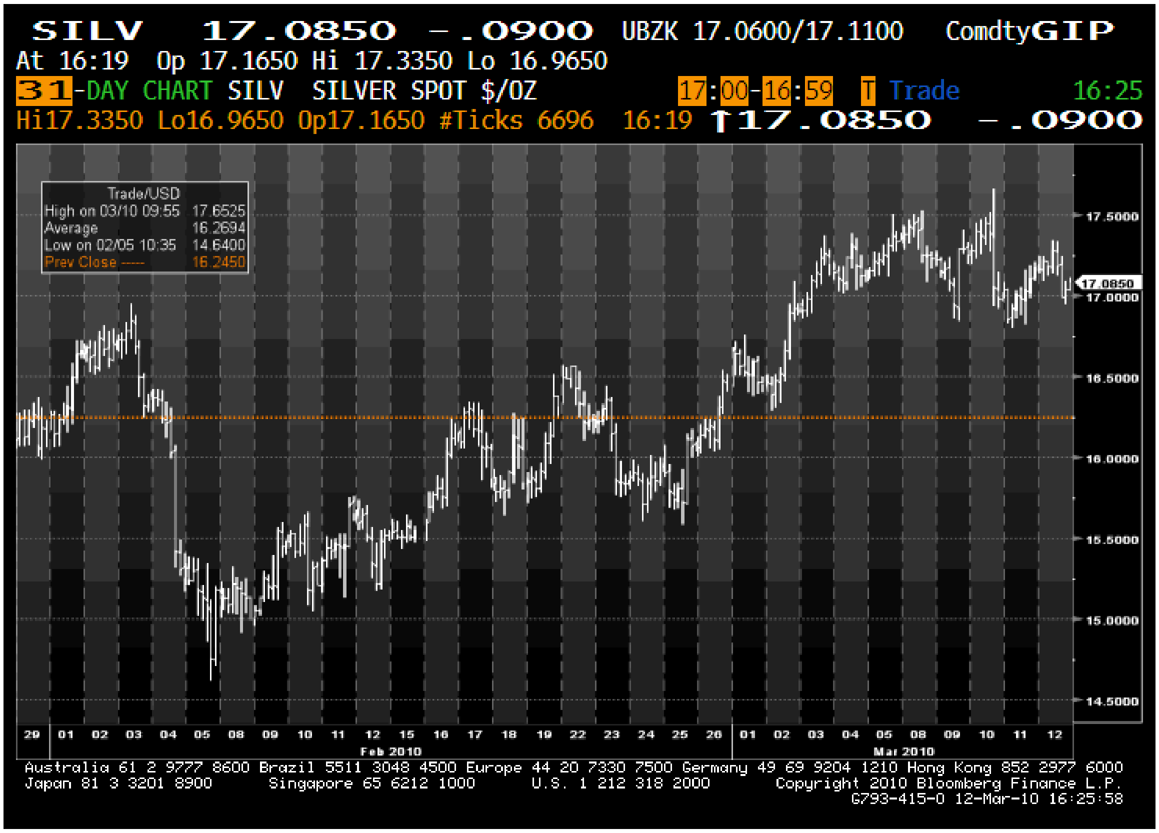


31-day charts follow, which provide closer looks at the short term.

The 31-day gold charts offers a closer look at the above contemplated “a-b-c flat” correction, while the 31-day XAU below offers a glance at the “rising a-b-c” correction discussed at the top of page 4.

The next page contains the 31-day silver chart, which I have included to illustrate the similarity between it and the XAU.

Of course, the comparison is even more striking on charts of greater duration. It would be consistent with the interpretations here of gold and the XAU if silver were to now rally toward $17.50, without exceeding it. (See next page.)



In this issue, then, we have examined my interpretations, so that readers may more easily and clearly be able to determine whether she/he agrees my own conclusions.

http://www.sidklein.com/press/Gold%20Excerpts%20January%202009%20(2).pdf

To further assist in that effort, the gold and precious metals link from my site appears above. The document covers the period from when I identified the higher low at $280 in 2002, through to the end of 2008.

The linked document reflects an unsurpassed track record this decade in the PMs. How often was SKGS correct the first crack, and, separately, how often did the second effort to pinpoint an extreme fail, when the first call was insufficient?

SUMMARY

The 2010 upside correction in the Dollar is merely a negative correction in the Yen, Euro and others (as previously analyzed). The money supply will continue to expand shy of 10%, while gold's availability expands by about 1% per year.

The theme for me has always been and remains the fact that a massive transfer of wealth and power is underway, from West to East. China and India will continue to buy gold, and then name their political and financial prices to the decadent West, though not in that order.

So, gold is money, and the gold stocks will have exploded, in my view, after the initial major correction in the stock markets, as per the 1930's experience.

The XAU has too closely mirrored the stock market recently for me to be unconcerned about a final decline in the XAU to the 120 – 140 area.

Final minor near term moves up in gold and the XAU would be consistent with another 17 days of advance (or so) in the broader market. Of course, one should not correlate markets, as a general rule.

STRATEGY

Remain 100% long gold, within the context of SKGS' asset allocation model, which concludes the monthly reports.

Wait to be 100% long the XAU, in deference to the interpretation of, and concern about a wave-C decline in its price chart.

CONCLUSION

I have presented my views, so that investors may play the play, not the player.

In support, the link on page 6 illustrates to the reader a consistent application of methodology, while being an assist is assessing the mathematical probabilities of success, of the strategic decisions made by him or her.

Sid Klein