



GOLD COMMENT

THE HOLDING PATTERN SHOULD GIVE WAY TO A RALLY

February 2, 2010

We said repeatedly in our previous Gold Comments that one of the main characteristics of the bull market is its ability to camouflage. We also noted that corrections in gold stocks could be quite challenging for many investors. Indeed, the gold sector was hit hard. However, such sharp and vicious corrections are not unusual events in this sector and during bull markets.

The priority of the correction that arrived in early December was to close big gaps between major Gold stock indices and their 200-day moving averages. Gold indices and individual stocks have naturally pulled back toward their 200-day moving averages.

In the short-term, Gold and Gold stocks has reached oversold levels with technical indicators at prior low levels. Following a brief base-building period, the Gold sector should undergo an initial recovery effort. This undertaking should ideally be followed by a retest of the previous lows and more base-building before this market is ready to begin another major up-leg.

To confirm the end of the correction phase, Gold and Gold stocks would need to climb back above their 50-day moving averages and then turn them up.

Having said that, adequate stop-loss levels must be applied to all positions.

On that note, the recent violations of the 200-day moving average among some prominent names such as Barrick Gold and Goldcorp (Golds), suggest caution.

This negative event is being toned down by the fact that in most of these cases, the 200-day moving average remains flat and the stocks have just arrived near their primary support levels. Bulls should watch for signs of stabilization near current levels, followed by a recovery rally.

Weekly charts provide a good way of assessing the longer-term picture of the Gold sector. Viewed through this lens, both the XAU and HUI indices are still in good shape. Major trend lines are intact, and both indices continue to trend strongly above their respective 200-day moving averages – an important indicator of market health.

Following a multi-month buying marathon, Gold and Gold stocks entered 2010 tired out. Therefore, the current market "hangover" is a normal and anticipated sequel to the muscular rally that preceded it.

The first rewards of a pullback are becoming clearly visible – bullish fever is giving the way to confusion and doubt.

Many gold stocks have arrived at their rising 200-day moving averages – major support levels and baselines from which further advances should take place. In the past, these levels provided an excellent buying opportunity.

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