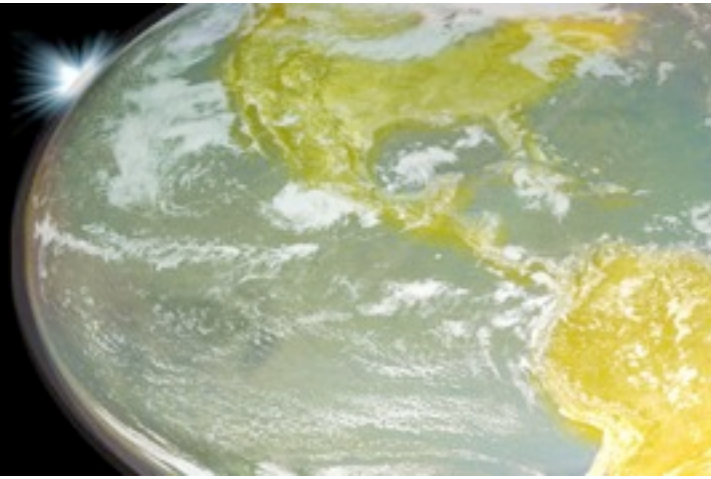


Precious Metal Stock Review



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Where's The Fear?

The week was a doozie seeing the major averages head into low ground and signalling more downward movement as the bear market unfolds. We will see a large rally but when is the real question. I see nothing but complacency and ho hum while the indices move lower. The financial news continues to worsen and the markets are confirming this but the mood is as if it was rising. I suggest people put their eyes back in place and see through the forest.

With the worlds largest insurer reporting on Monday it is rumoured to be in the \$60 billion range. Don't be surprised to see a lower number but still huge in an attempt to surprise the market. I can almost guarantee the market was set up for worse news than is coming. But take heart the news will still be terribly bad. I need to see real fear before I am comfortable calling for a rally and I have seen anything but to date.



The DOW fell 4.11% on the week and the S&P followed falling 4.54% while the Nasdaq dropped 4.40%. In Canada the TSX rose 2.18% on decent bank earnings while the resource heavy Venture exchange fell 3.50% along with the metals.

Metals review



Gold has fallen 5.96% on the week. The rest was needed before mounting another charge into new high territory. Nobody ever said \$1,000 would be easy, but it is soon going to be easy as gold mounts another attempt with renewed confidence and strength. Gold is now back within the long up-trend channel and just holding the steep up-trend line within that channel. If gold breaks the up-trend then it looks very likely that we will revisit our old

friend \$880 that we have visited and had trouble leaving many times recently. Must be a good cook!

Last week I titled the newsletter “Don’t Get Burned” since gold was showing signs of slowing. While this is a better place to enter than last week, I think some more weakness will be shown next week. RSI remains above 50 and flat. The moving averages are in great shape and the 20 day providing some support to the gold price.

MACD flashed us a sell signal late in the week while Slow STO did it early in the week. I think we will see gold move down to the band of support around \$900 this week and if we get lucky enough possibly to \$880. \$880 would be a very good time to begin entering a medium term long trade in my opinion.



Silver fell out of the up-trend channel and ran down 9.52% to a support level at \$13. \$12.40 may be the next stop if the fall cannot be arrested here.

So many people get so excited as prices move up when they should get excited as prices move lower. I would be happy to have the chance to purchase silver at \$11.50 again but I fear I won't get the chance. While gold has been all the talk these days silver is a much better deal and as prices move up will be the investment of choice for the mainstream investors since it will be much more affordable than gold. The gold to silver ratio is now at 71 it's not as cheap as when it was 90 but still a 10 to 15 ratio will be where we ultimately end up.

RSI is at 50 and flat. The moving averages are in good shape but the 20 day has hooked lower with the precipitous fall. MACD flashed a sell and

momentum has also fallen into negative territory. Slow STO is heading lower fast. Silver's vertical ascent had to take a rest just like a mountain climber would. It's almost like climbing Everest. Moving higher and acclimatizing then moving lower, then back up and beyond, then back a bit lower again but the ultimate goal is to make it to the peak which will be \$200 at the very least in the years to come.



Platinum only fell 0.92% on the week and showed just how much support \$1,050 is. The price remains within the up-trend channel and looks to be quite happy plugging along in it.

RSI hooked up on Friday's \$33 move up off support lines and moving averages. The moving averages are in good shape and showed good support late in the week. MACD is flat and slightly negative and the momentum

oscillator is about to head into positive territory again. Slow STO is about to flash a buy signal from mid range. Platinum remains all the rage in Asia since gold is getting harder to come buy and is seemingly cheaper than gold since it has corrected while gold is near it's highs.



Palladium dropped 10.02% on the week and quickly tested the \$180 support level. I still see \$200 and below as a bargain. The up-trend is holding so far on a closing basis which is what is most important.

RSI fell below the 50 line and could be signalling more weakness to come. The moving averages are mixed right now with the 100 day proving resistance

and the 50 day moving average support. MACD is negative and the oscillator in negative territory as well. Slow STO is heading lower and saying sell.

Fundamentals Review

Ben Bernanke this past week [said](#) a recovery should come “if” banks stabilize. That “if” is huge and a weak attempt to calm investors. Banks have so many troubled assets that even they don’t realize the extent of the losses to come or the capital required to get through this. He has been wrong about predicting this crisis and it’s magnitude all along so why should we believe him now? I don’t think wise or large investors do and that is one reason they are flocking to gold and silver and their equities in spades. If you are reading this, you are one of the very few who get it. Congratulation.

While on the subject of government I will do my Obama rant now. In the hope filled, positive message delivered in the state of the nation [address](#) this week he said;

“You see, the flow of credit is the lifeblood of our economy. The ability to get a loan is how you finance the purchase of everything from a home to a car to a college education; how stores stock their shelves, farms buy equipment, and businesses make payroll.

But credit has stopped flowing the way it should. Too many bad loans from the housing crisis have made their way onto the books of too many banks. With so much debt and so little confidence, these banks are now fearful of lending out any more money to households, to businesses, or to each other. When there is no lending, families can’t afford to buy homes or cars. So businesses are forced to make layoffs. Our economy suffers even more, and credit dries up even further.”

While I agree credit is imperative I wish he would talk about renewing interest in saving money rather than borrowing it. That is a major issue today. You simply can’t live on credit and expect to get ahead in this life. I was taught to save, then buy. I lived most of my life without a credit card, but succumbed a few years back, I pay it off every month and only use it if I have the money. This reminds me of the hilarious Saturday night live clip with Steve Martin, [“Don’t Buy Stuff You Can’t Afford”](#).

Savings in turn would re-capitalize the banks making bailout packages all but extinct. I am oversimplifying this to a large degree but savings would help, and even more importantly the mentality of saving, and putting down a good

percentage on mortgages would have eliminated the mortgage crisis to a large degree. It's all about mindset and Obama is not portraying the right one in this regard in my opinion.

As the saying goes, it has to be denied three times before it can be taken as truth. All week bank nationalization was said not to be an option but Friday the first bank was effectively nationalized as the governments \$24 billion stake was converted to common equity from preferred shares. Commitments to hold up to 36% of common equity all but secure a total nationalization of the bank. The catch is that private investors must provide a matching sum. My thought is the equity will either be raised by a large sovereign wealth fund, or more likely not at all. If not at all the rules will be changed and the government will probably just pony up for the full amount. It think the bluff will be called.

This weeks two biggest losers can be found here and join fourteen other banks to date in 2009.

Billionaire investor George Soros says today's crisis began in the '80s when deregulation started to take hold. He also notes that now is the end of the free market model. The constant need to earn more and more money led to increasingly complex derivatives and instruments based on mathematical models rather than reality.

$$\Pr[T_A < 1, T_B < 1] = \Phi_2(\Phi^{-1}(F_A(1)), \Phi^{-1}(F_B(1)), \gamma)$$

One of the "geniuses" who created these models is David X.Li and a long story about him and his method of creation can be found here. If you don't feel inclined to read the whole story here is the formula he created. Mr. Li is working in China and is refusing to comment on any ramifications of his creation.



Bullion dealer in the US are telling all that so far this year is the strongest wave of demand they have ever seen for precious metals. Some important notes from the veteran dealers interviewed are that they are seeing more institutional demand rather than the small investors of times past. The pace is perhaps double last years and it was very busy last year. The high price is not deterring investors, today's price will look cheap in a couple of years. One of the many reasons I

like silver more than gold is that it is and will become increasingly more affordable to most investors as the gold price rises.

All the [talk](#) of gold being in a bubble is bunk. It has rarely been mentioned in the media, my barber hasn't told me to buy some and we haven't seen any real spike in price yet. Like I say every week, follow the money. Big money is going into gold and silver and their related [equities](#).

Australia [produced](#) 12% less gold in 2008 than in 2007. 219 tonnes were produced notching a two decade low. This is a trend seen in most countries this year lowering overall supply as demand is increasing.

German investors [invested](#) \$21 billion into gold during the second half of 2008. The heaviest investment was into the ETC (exchange traded commodity) in the region. That ETC is redeemable into physical gold. 120 investors redeemed gold during the second half of 2008 totalling 480 kg compared to only two investors in the first half of 2008.

In Dubai the long talked about ETF is set to [launch](#). According to the World Gold Council Dubai and several Middle Eastern nations are set to become even larger [trading centres](#) for the metal. Large miners are looking into the region for funding and receiving it. Investments in the region are up by 38% in the fourth quarter 2008 compared to the same in 2007. Some countries experienced huge, up to 300%, increases while other only saw a 2% increase.

I've talked about the post offices in India selling gold coins and expanding after great success. They are [expanding](#) to a further 20 post offices in the southern state of Kerala.

Another gold Ponzi scheme [surfaced](#) this past week. Unless you hold your gold you can never be 100% sure it's there or yours. As gold and silver become more mainstream investments more schemes will be uncovered. Crime follows the money and this sector will be highly targeted over the next few years.

Jim Cramer talks about some gold scams going on today [here](#) and it's short and worth a read.

The World Gold Council says gold is the [favoured](#) investment this year. A flight to safety and less appetite for risk are the main reasons cited.

While the lower cost inputs of miners has yet to be fully realized it should become more apparent during next quarters results, making the gold equities severely undervalued according to [this](#) article and I concur. The majors are selling as if gold was trading in the \$685 range making them underpriced by at least 35%.

The Frasier Institute just released their annual [survey](#) and expect many exploration companies to go bust but gold exploration companies should be able to weather the storm since it is performing so well compared to other metals. Gold exploration accounts for 38.71% of the average companies exploration budget dwarfing any other metal. I am sure silver would be up there as well but it is rare to find a pure silver mine and it is usually a by product of lead and zinc which are floundering. That makes silver more scares and a great investment. Top exploration jurisdiction include Quebec, Wyoming and much of Canada. Some jurisdictions to veer away from include Venezuela, Kyrgyzstan, Zimbabwe, Indonesia and the Democratic Republic of Congo.

According to the VM Group global hedging has now [fallen](#) from the peak in 2001 of 102.8 million ounces to 15.5 million ounces. In 2008 11.1 million ounces were de-hedged. The group is also predicting sales under the central bank gold agreement to fall below 200 tonnes this year down from the maximum of 500 tonnes allowed.

GATA is needing donations again and I will match the next \$300 donated so if you feel charitable and would like a tax deductible cause to help out please see [here](#) for more information.

In my free, nearly weekly newsletter I include many links which cannot always be viewed through sites which publish my work. If you are having difficulties viewing them please sign up in the left margin for free at <http://www.preciousmetalstockreview.com/> and receive the newsletter directly in your mailbox links and all.

Until next week take care and thank you for reading.

Warren Bevan

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