

Precious Metal Stock Review

Bridging Wealth Protection and Wealth Creation

www.preciousmetalstockreview.com

February 9,

2011

Technical Analysis DOES Work For Gold

In response to two articles recently by much greater and high profile minds than mine I thought I'd put a little piece out showing how technical analysis does work in the Gold market.

It's been my philosophy to KISS.

Keep-It-Simple-Stupid.

I'm talking to myself above, not you nor any of my many loyal and wonderful readers and even more [wonderful subscribers who get my daily thoughts on markets and Gold, Silver or anything else](#) I'm thinking that morning as well as real-time trades.

Let me begin by saying I'm far from perfect and at times forget my KISS mantra. In fact we have been underwater recently in our swing trading portfolio and have just this week righted the weightings and have already made back the losses and look set to continue higher, taking profits along the way.

I know and readily admit that errors are part of investing. It's the ability of being able to be humble enough to recognize those errors and change your mind quickly that I feel makes for a truly great investor trader.

It's just a part of life and especially investing to make errors. Just learn from them.

One of the great minds in investing today, J.S. Kim, wrote a piece titled ["Technical & Fundamental Analysis Fall Woefully Short in Assessing Manipulated Markets"](#)

Alasdair Macleod also wrote an article the day prior titled "[Precious metals and the validity of technical analysis](#)". They are both well worth the read.

I just want to refute both their points that technical analysis doesn't work in Gold. I read and enjoy both men's work as often as I can.

Mr. Kim suggests technical and fundamental analysis is mute in manipulated markets in the short-term.

As for fundamentals, I say demand is increasing for Gold, while supply is not keeping pace with demand growth. That equates to higher prices over the mid to longer term.

I'll show just how wrong he is in a minute on the technical analysis front though.

While there is no doubt Gold is being manipulated, or held lower every chance possible, the fact is also true that large sovereign buyers and fund buyers are waiting in the wings to scoop up cheaper Gold.

More recently they have had less patience and have not waited for large pullbacks, rather they've stepped back in at relatively minor support areas in an attempt to front run the growing list of others who are looking to do the same.

It's been a hot topic lately that the best way to buy Gold is to acquire shares of GLD. What's termed a "basket" of GLD shares consists of 100,000 shares, and in theory can be redeemed for 10,000 ounces of pure Gold.

Whether this is true, practical or only available to the big well connected boys is a topic for another day so let's leave it at that. But for today let's assume this to be correct, that GLD is the best way to acquire physical delivery of Gold.

This is in no way a knock on Mr. Kim as I've enjoyed his writing for years now and agree with many of his thoughts.

First let's take a look at the six month chart of Gold since it's relatively short term.



This is the basic chart I've been showing in my free weekly letters and it was quite easy to spot the rounded top as it was completing and I did mention that and I know many readers took advantage of it.

The recent bottom occurred just below mild horizontal support then broke the very simple basic downtrend line. That would constitute a bottom having been put in. In my opinion.

I mentioned these both in the free and clear to everyone in my weekly letters every weekend.

The fact that the recent bottom was on only mild horizontal support is further evidence of the strong willingness and eagerness of buyers to step in at the first opportune time.

Now this is all well and good and very basic, but not enough for me to call B.S to J.S. Kim!

So let's take a look at another indicator I use and mention every week for free in the weekly letter, the GLD chart.



The GLD chart could have the exact same technical lines drawn in as the Gold chart above, but what I want to focus on is the volume. This may not even be classified as “pure” technical analysis, but for me, I like to see a few things

line up in order to give me confidence to lay my money on the line. And admittedly I did not catch every top or bottom.

It's clear, to me at least, that any large volume days above roughly 25 million shares traded in GLD have marked high or low points within a day or two. In my book, a very accurate indicator.

As long as it works, it works.

Initiating and closing positions once the volume metrics line up, using very short stops would have netted you very nice profits, especially if leverage with options or futures.

I'll follow my "KISS" mantra today and not ramble.

I think I've proven my point as simply as possible.

Volume matters.

Along with simple technical analysis, I seem to have a pretty accurate track record in predicting Gold moves. In fact one most generous comment I received late in 2010 mentioned that this gentleman actually tracked pundits predictions and said I was by far the most accurate.

A most flattering and humbling comment to be sure. And history is no predictor of future success.

Knock on wood!

One last note, you should read Mr. Kim's article linked above. He does bring up many great points and I agree with him everywhere except the fact that you can call bottoms and tops quite easily and accurately even in the manipulated Gold market.

I've modestly supported GATA financially in the past and continue to mention them at times in my writings. I agree with Mr. Kim that not enough writers, analysts and traders take into account the whole picture, even manipulation, which can be easily pushed aside as conspiracy theory stuff.

I do try and take in the whole picture, and I believe that's why I've been so lucky during this precious metal bull market to date.

Have a great end of the week and I'll be back writing this weekend in the weekly letter.

Warren Bevan

In my free, nearly weekly newsletter I include many links and charts 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/> or send an email to warren@preciousmetalstockreview.com with “subscribe” as the subject and receive the newsletter directly in your inbox, links and all. If you would like to subscribe and see what my portfolio consists of please see [here](#).

If you found this information useful, or informative please pass it on to your friends or family.

Free Service

The free weekly newsletter “Precious Metal Stock Review” does not purport to be a financial recommendation service, nor do we profess to be a professional advisement service. Any action taken as a result of reading “Precious Metal Stock Review” is solely the responsibility of the reader. We recommend seeking professional financial advice and performing your own due diligence before acting on any information received through “Precious Metal Stock Review”.

*To unsubscribe send an email to newsletter@preciousmetalstockreview.com with “unsubscribe” in the subject line.