

Precious Metal Stock Review

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Cups That Runneth Over

As much as I do enjoy some time off there's nothing like getting back to work either, since it's something I love to do. So over the weekend I got into one of my favourite books, and ran over some historical charts which highlighted one of my favourite patterns. I figured I should share a few examples with you.

The pattern is termed the cup and handle. My, and likely your day, is filled with cups and handles. From morning coffee to a lunchtime Chia to an afternoon green tea to an after dinner tasty Guinness, or some other tasty treat.

But in this case I'll be talking about cups full of money.

To begin with, [Ivestopedia has a good definition](#);

A pattern on bar charts resembling a cup with a handle. The cup is in the shape of a "U" and the handle has a slight downward drift. The right-hand side of the pattern has low trading volume. It can be as short as seven weeks and as long as 65 weeks.

As the stock comes up to test the old highs, the stock will incur selling pressure by the people who bought at or near the old high. This selling pressure will make the stock price trade sideways with a tendency towards a downtrend for four days to four weeks... then it takes off.

Technical analysis is definitely a science, but also I view it as very subjective and almost a form of art since nothing is ever exactly the same or written in stone.

Chart patterns only have to fit the definition in a loose sense in general, although volume is a very important and key breakouts must always occur with strong volume or they will have a high probability of failure.

Also, cup and handle patterns are continuation patterns which means they continue along the primary trend once the consolidation is finished and the pattern is formed during this consolidation.



The chart above of Gold is a weekly chart which means each candle represents a weeks moves. Ideally we'd like to see the left rim of the cup higher than the right, but we take what we can get.

There is no volume on this chart so I took a look at the GLD chart volume and it was good. Volume was low on the left cup coming into the low of the cup and higher moving back up where the right side of the cup was formed. It was below average in the handle also.

So far the only issue with this one on a technical basis is that the right side is higher than the left. This isn't the end of the world but it's something to at least be aware of. Now let's see the chart post cup and handle as it moved out of the pattern.

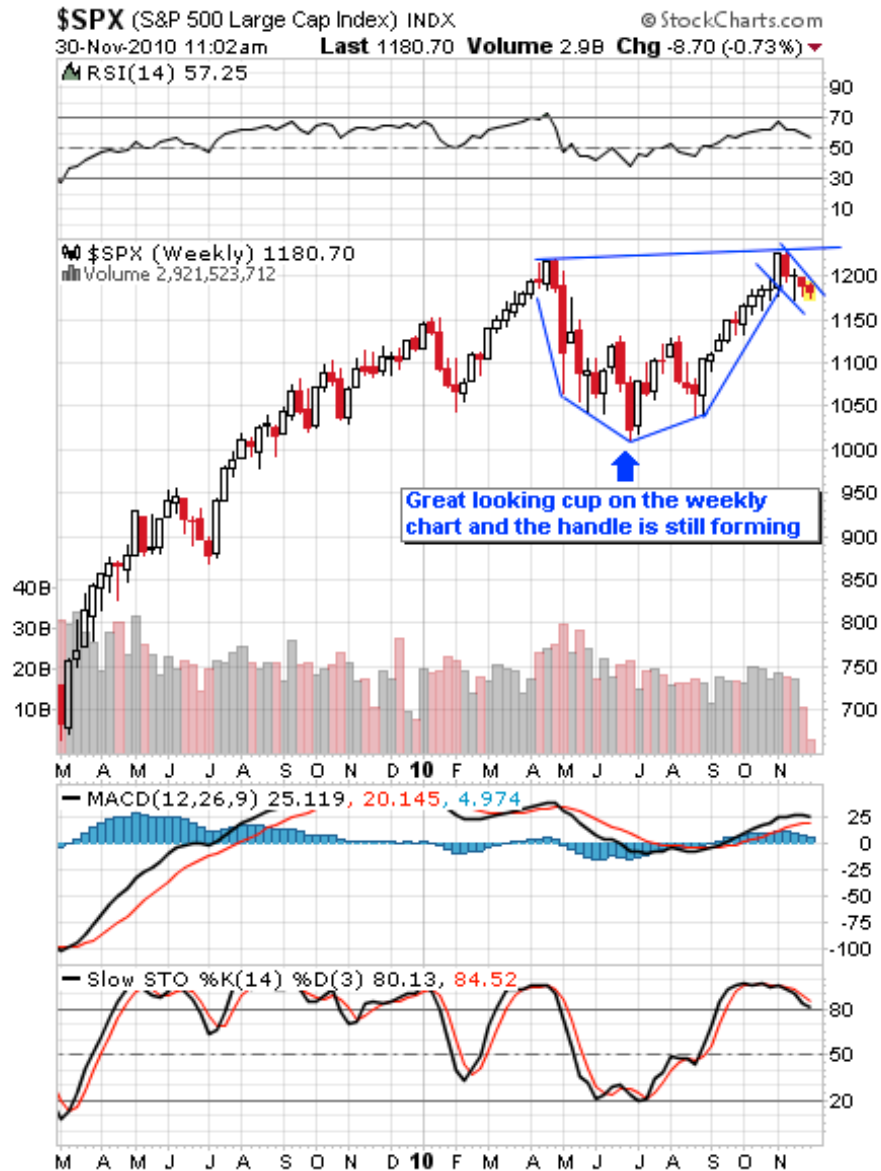


In this case The odd cup and handle pattern did indeed work out as if it were perfect. The move so far has been over \$200 an ounce which is great.

Now let's look at potential targets. In theory you measure the distance from the right peak to the cup low. In this case it's roughly \$200. So in theory we could have seen the end of this continuation pattern for Gold and now need to rest and consolidate and build another pattern, perhaps even another cup and handle.

We all know how easy it is to look at hindsight and say, see I told you so, or I should have done such and such.

Let's take one example today in real-time and watch it play out over the next little while. Full disclosure, [myself and subscribers](#) have already begun to amass positions to take advantage of this potentially powerful move heading into the end of this year. And once a breakout occurs we will be adding more.



The S&P has a superb looking cup and handle which is textbook except that the right rim is slightly higher than the left.

A target for this pattern would be over 200 S&P points higher.

But in reality target are only targets. Their something you shoot at, but sometimes miss. Often a stock will have powerful underlying fundamentals such as earnings growth, increasing margins or even a breakthrough product which pushes the stock past targets and higher for an undetermined amount of time.

This next chart is a textbook example of a bullish cup and handle pattern followed by a chart that just kept going and going even to today. It's from William J. O'neil's must have book, "How To Make Money In Stocks"



As you can easily see, targets were thrown out of the window with this stock as it moved from the \$35 area to \$140 before everything it crashed in 2008. (chart in log-scale...google it)

Let's take a look at this stocks chart including all of 2008 and up to today.



In under 5 years this stocks went from \$30 to now over \$400. It's easy to see in hindsight but these are the types of opportunities we try and identify early.

It's also prudent to note the power of a simple uptrend or downtrend. You just need a ruler and you can easily identify major trends and generally steer clear of any major trouble coming.

I've talked many times in the past about the high probability of a rising stock market even as the economy crumbled around it simply due to the fact

that the US dollar is being devalued. Although the US dollar chart doesn't look half bad at the moment.

Just because the market continues higher does not mean the purchasing power is increasing. That's why Gold and Silver account for such a large portion of my portfolio at this time.

Our investment philosophy remains the same. Hold large percentages of physical Gold and Silver mainly, while actively managing and trading another portion in anything from mining stocks to mining indexes, to general equities and their indexes or even ETF's. We are not limited from making money on the downside either as we enjoy the leverage options afford us at times as well.

Until next time take care and thank you for reading.

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](#).

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