



World Financial Markets Crumble Like a Cookie

This was, bar none, the most exciting week of my career to date. I expect the excitement to mount as the world governments try and coordinate some form of action. Gold traded from \$924 to \$835 on Friday alone. This type of volatility is impossible to predict, leverage will kill you in the gold market. Same goes for silver.

So many retirees are staring into the abyss and likely seriously considering, or being forced to put off the golden years. I feel deeply sad for them, unless they hold physical gold and silver. The financial problems are systemic and have much, much further to go. This problem is bigger than one quadrillion dollars. This is because the notional value of derivatives is larger than 1 quadrillion and once a company fails, notional becomes real value.

Like the golden rule states;

1. Don't panic
2. If you do...be the first to PANIC!!!

If you still don't believe me that this is it, I'd like to say you've been watching too much financial TV, but they are even sounding gloomy lately. Although, they do not talk about the problem. Derivatives.

It will get worse. Consider that nearly all equities will continue to fall, probably not straight down like this past week but what you must decide is which equity class will come back the quickest and the strongest. It has long been my contention that the answer to this question is precious metals.

Although my main focus is precious metals and the stocks in that sector I hope you have taken advantage of the money to be made on the downside, especially in bank and financial stocks. I am by no means advocating going short now, although there do remain opportunities.

I think we are largely due for a bounce and making almost any move a very risky move right now.

There are some major deals in the precious metals sector. I have pounded the table on numerous occasions, it won't get much better than this. But if it does, it does not matter. There will be nothing for sale once these equities move up. Accumulate and hold your position now while you still can.

My belief of gold \$1,200 and silver \$25 by Christmas is stronger than ever. This will bring interest into the shares tremendously. Please don't miss this.

Metals review



Although gold traded very strongly all week the forces that still be made sure there was no real gain by the end of the week. Wildly fluctuating stock indices helped gold trade up strongly, until Friday. Fundamentals are stronger than ever and my \$1,200 by Christmas target may be too low. The world's financial system is unwinding. By most accounts physical gold is trading north of \$1,000 per ounce.

RSi is trending up, but for the paper price to trend up RSi must get above 70. The price bounced off two important Fibonacci levels and looks to have made a double bottom. The spike low could not hold and that is a good sign a bottom is in, but you never can be sure this early. \$920 to \$925 is very significant and is being defended strongly. Once that level is breached \$1,000 will be obtained within a few hours to a week at the most I imagine.

MACD could not muster the strength to get above 15. It must do so to signal a trend. Slow STO is in an uptrend and should stay above 50. Volatility is rampant. Stay away from margin and stick with the obvious posture. Be BULLISH!



Silver was mauled on Friday wiping out all of the week's gains and actually taking the price under \$10 briefly. Physical remains hard to get even at the high premiums commanded. On EBay prices did not change Friday as the paper price was slammed. It is not unusual to see a silver eagle sold for \$20, plus delivery and 100 ounce bars for \$1,800.

RSI confirmed the weakness in the paper price. RSI must get above 45, then 55 to signify enough strength for a trending move. It's hard to believe but technically silver looks weak unless it can regain the uptrend at \$11.

All moving averages are continuing lower. \$12.25 remains strong resistance. Above that \$14 is proving very tough to penetrate. The spike low is a positive sign and hopefully is the bottom. MACD is flat with a slight bearish look. Slow STO is showing signs of bullishness but should get above 50.



Platinum remains weak. Although up nicely this week it technically does not look like a bottom is in. If the price can get above the first green line and break the blue downtrend line that would be a positive signal. But I don't think I can call a bottom until the price moves above \$1,300.

RSI remains in a bearish posture. All moving averages are trending lower. MACD is slightly positive but at very low levels. A move above the green downtrend would be positive but by no means a strong buy signal. Short term players may jump on it and keep a tight stop. Slow STO is bullish but needs to best the green downtrend. It does not matter these days. People are liquidating nearly everything and platinum is amongst the losers.



Palladium had a very constructive week. It traded basically flat except for Fridays spike low. The close was nearly unchanged and that pattern is very indicative of a bottom with a strong move upwards in the near future. \$200 looks to be an area where a strong base will be formed. I want to see it get above the downtrend line and above the green line at \$220 before becoming bullish again.

RSI is trending up but must regain 45, then 50 to help signal a bottom. All moving averages are trending lower still. The spike low circled in green is a very positive indication. MACD is trending up but must get above -18 to show bullishness. Slow STO turned up slightly but has a long way to go before it can best the important 50 mark.

Fundamentals Review

Here are some of the stories which were engineered to help the situation. None of which did.

Cash auctions were doubled to \$900 billion. Further steps are being considered. An important tidbit from the story; *“Assets on the Fed's balance sheet expanded \$285 billion last week to \$1.498 trillion, the biggest one-week increase ever, according to JPMorgan Chase & Co.”*

This opening paragraph says it all, and will be repeated over and over again in the years to come. *“Banks, hedge funds and other sellers of protection on Lehman Brothers are facing losses of 91.375 percent of the insurance they sold, after an auction was held on Friday to determine the value of the credit default swaps.”*

Central banks around the world including Canada, US, Britain, the EU, Sweden and Switzerland cut interest rates by 0.5% in an unprecedented move. China also cut rates by 0.27% to try to stem falling markets worldwide.

The Italian prime minister mentioned that political leader talked about closing world financial market while new market rules are written. How long that would take is unclear, but new regulations and rules are coming one way or another. Also mentioned was a new form of the Bretton Woods agreement which links the dollar to gold.

Even for leaders to talk about a new Bretton Woods agreement is farfetched but it plays right into what Mr. Jim Sinclair has been saying for a long time. His site is excellent and so far ahead of the trend. Although it can be chilling, please spend some time reading and preparing for the future by visiting his site here <http://www.jsmineset.com/>.

If it feels like the government is bailing out everything these days, add another one to the list. Government will help ensure funding needs for student loans. What will they stop at? Every time you hear the words government funded, replace “government” with “taxpayer”. How does the truth make you feel?

If you are having a hard time understanding the basic philosophy of what is happening, and most importantly why, I recommend reading this excellent article. There are more problems to come which are much more complicated but this article points out the basic derivative problem created by geeks who create models that do not work in the real world.

While all markets were getting slammed the TSX in Canada was affected the most on the day after the Canadian banking institutions were found be the worlds soundest. Sweden, Luxembourg and Australian institutions followed, but nothing mattered this week.

What will next week bring? I wish I could tell you. Option expiry is next week and often times the trend reverses to make many options worthless and giving the writers of them profits. But anything goes next week. As the saying goes, selling begets selling. Fear rules.

Another Friday, another bank failure. This time it was aptly called Main Street Bank, located in Michigan. Every day this week there were more measure taken to help "Main Street". Then to have the bank of the same name collapse is more than ironic in my opinion.

Meridian Bank has also [failed](#). Are you protected? Do you have cash at home? It can happen to any bank near you, small or large. Don't take the chance.

Not counting the brokerage or mortgage firms that have failed this year there have been 15 bank [failures](#). A vast majority have failed after the markets closed on Friday. There have been 41 Fridays this year, giving us a 37% chance a bank fails each and every Friday. That number would be higher counting the last six months since failures have been more heavily weighted to that time frame.

South African gold production [slumped](#) 23.2% in August year over year. Strikes and the Eskom power crisis were sited. Eskom still can only supply 90% to 95% power to mines.

Chinese gold production rose 3.43% through the first eight months to 173.32 tonnes. I have said before that the black market production is quite large in China and the total will never be fully known. My mind wonders how much of the official and black market gold will actually leave China. They would be wise to buy and hoard as much as possible.

Central banks seem to be in a mood to hoard gold. Lease rates [jumped](#) to 2.68%. This is the lending rate charged to borrowers of gold who in turn sell it into the market and hope to make a profit. When lease rates rise sharply the expected flow of gold onto the market is diminished. Gold usually heads much higher after lease rates jump since the consensus is that less gold will be for sale.

[Here](#) is an excellent history of gold trading in China. Since 2002 the Chinese have been able to conduct trading in gold. The freedom is becoming wider and more encouraged every year. In 2004 gold futures trading was introduced. Even the poor typically save up to 30% of their income and many like to convert it into gold or silver as a means of wealth preservation. It is much easier to do now and is causing a huge wave of demand that will only get larger.

A reassuring [statement](#) came out of China this week. They reiterated to Australia that their demand for commodities will be unfettered during this financial downturn. This all but guarantees that Australia's economy which is heavily dependent on commodities will weather the downturn in strong fashion.

[This](#) is a great short video of Jurg Kiener. He thinks we will see a default of Comex contracts in the near future. This will double the price of gold in very short order. Since the gold market is so small it can, and has, move violently and sustainably to the upside.

The US mint has given up trying to keep up with demand seemingly and has halted production of the quarter and half ounce gold eagle coins for the rest of the year. They state the gold and silver demand to be unprecedented.

The Perth Mint in Australia has doubled output on the back of strong demand. The mint produces 10% of investor bullion products worldwide. The mint says demand has surged and the thought is how to protect your wealth more than how to grow it.

But if you look at the facts from the US mints website you can clearly see demand is by no means unprecedented. This blog compiled the numbers and provided this handy, easy to read column.

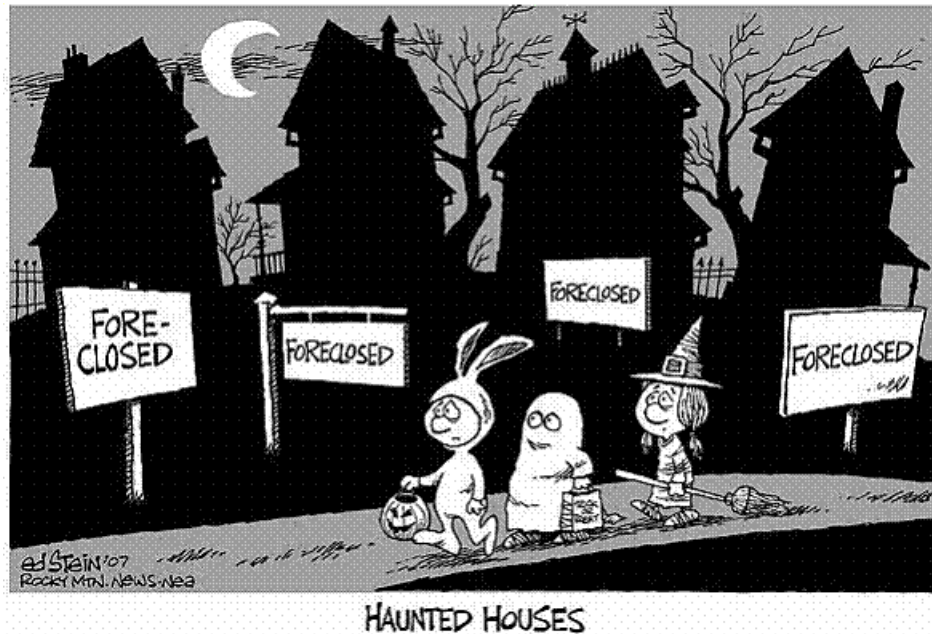
American Gold Eagle Bullion Sales (ounces)

1986	1,787,750
1987	1,253,000
1988	851,000
1989	839,000
1990	715,000
1991	472,000
1992	638,600
1993	796,000
1994	559,500
1995	600,500
1996	729,500
1997	1,317,000
1998	1,839,500
1999	2,055,500
2000	164,500
2001	325,000
2002	315,000
2003	484,500
2004	536,000
2005	449,000
2006	261,000
2007	198,500
2008	492,000*

*through October 2008

The possible reasons the mint is not producing more is that they cannot source more bullion, or more likely they do not want to sell physical bullion at these prices, or very likely at all. Many reports have been issued this week regarding banks and large bullions dealers simply not selling their bullion. This may be due to the fact that the world's financial system is literally crumbling and physical bullion may be one of the only remaining sources of wealth. Things, or commodities, are much safer than cash today. But still cash is used as a means of exchange. This may change.

I leave you with a funny, but sad one for kids this year, from a friend whose name is a synonym for very wealthy. It's titled; Halloween is going to SUCK this year!



As finish this up very late this week I wish a Happy Thanksgiving to my Canadian friends. More measures are planned this week to prop up markets, and the DOW is up nearly 600 points as I post this. Gold is only down \$10 now. We still live in interesting times.

Warren Bevan

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