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ChartWorks

January 14, 2012

Technical observations of
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Gold's Parameters

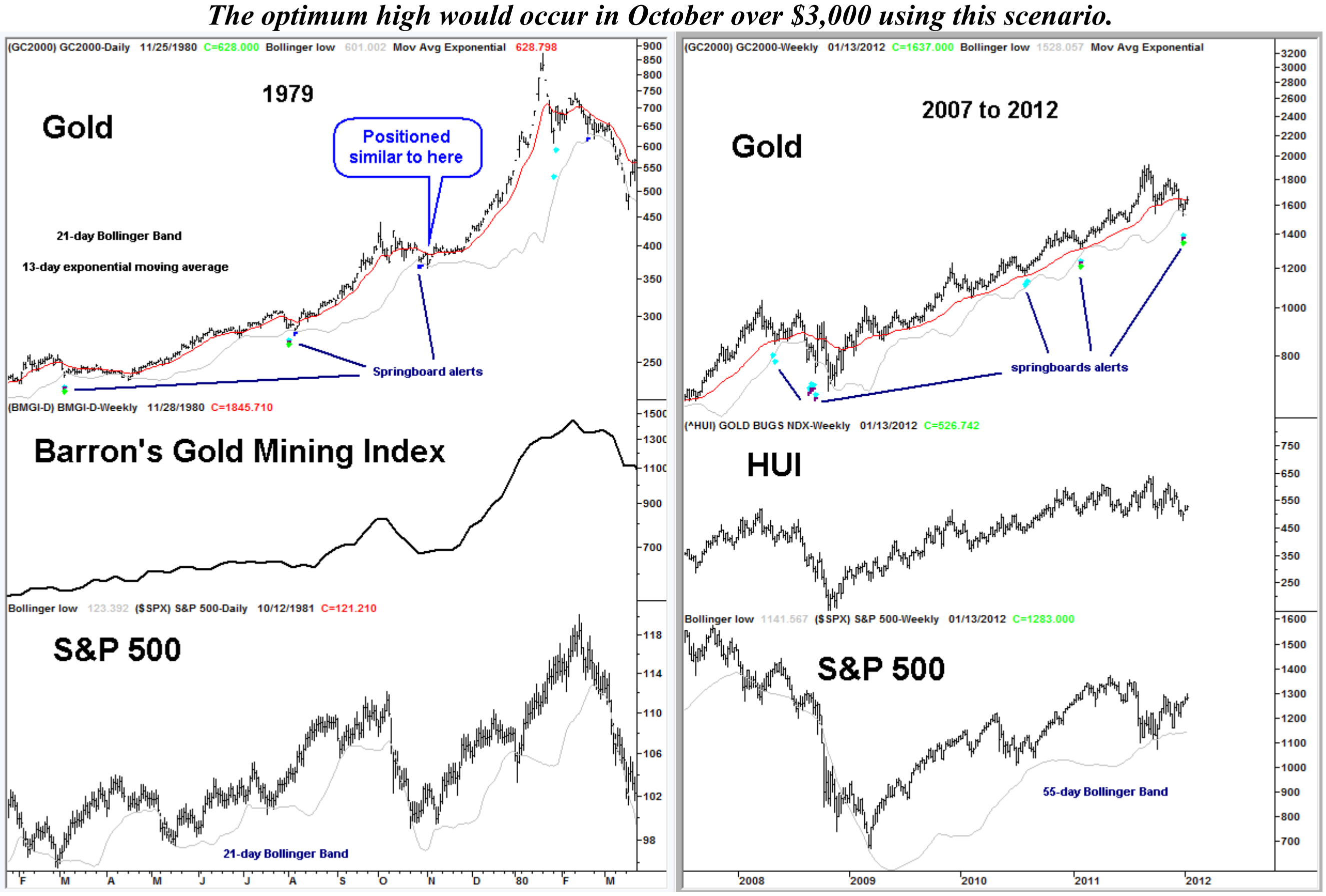
Gold continues to remain boxed into a wide trading range with the low of December 29th versus 15th producing an "isolated low" as seen at both the July 2010 and 2011 bottoms. It was also the best oversold weekly reading in eleven months. The subsequent rally has reached its minimum targeted range of $1650 to $1670 for this bounce with $1720 still possible. Our time windows for interim highs are January 17th to 20th and then the end of February.

As we've pointed out for the past few months, this consolidation can resolve in a number of ways. When comparing the rally from $253 in 2001 there are four direct fractal correlations of interest. The following charts display the most recent parts of the patterns.

The bottom line is that:

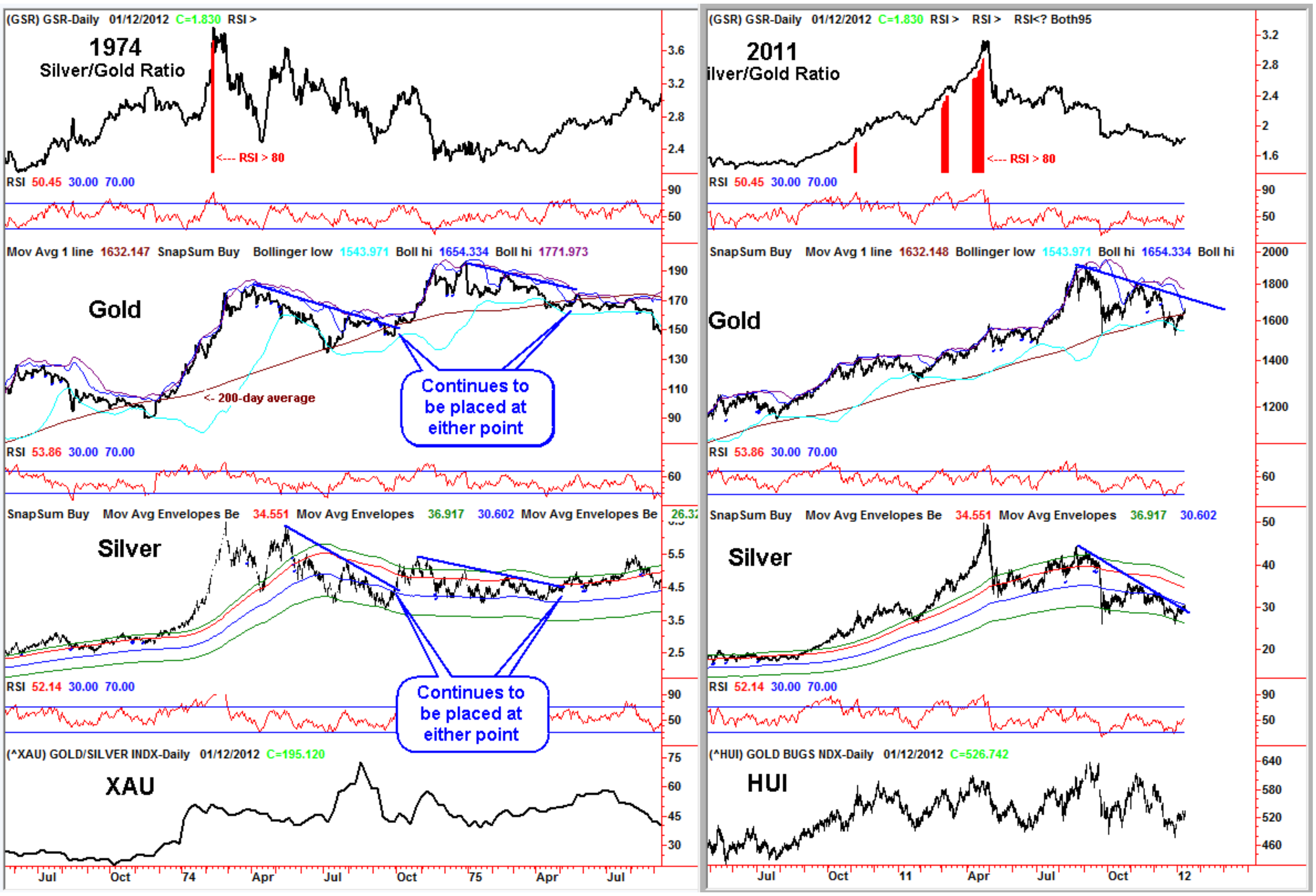
1. in order for the intermediate trend to remain bullish the corrections of the next few weeks cannot give up more that 62% of the rally from $1523 (key support = $1577).
2. if the resistance line from August 23rd is taken out there is a strong likelihood that prices will test the all-time highs by the end of February. There is an outside possibility that $2155 can be achieved.

The 2001 to 2012 rally is running at one-third the pace of the 1976-1980 bull market.
The optimum high would occur in October over $3,000 using this scenario.



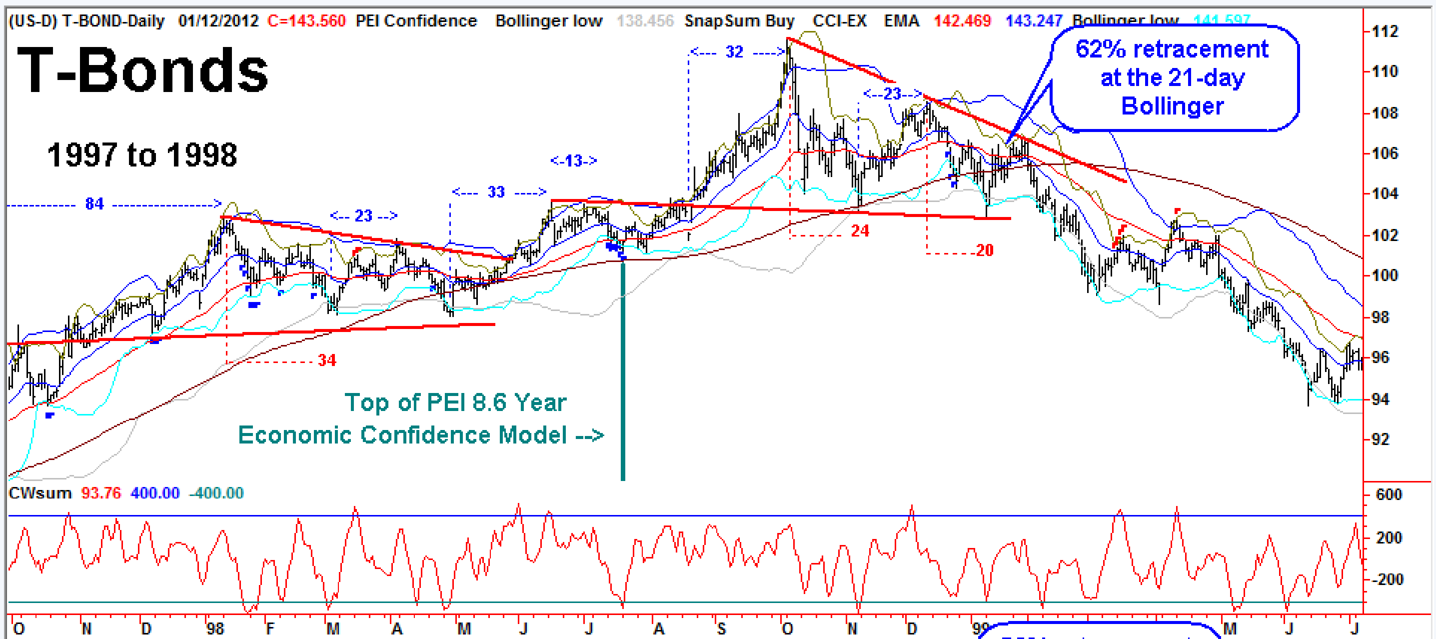
The 2002 period starts with an expanding megaphone (*not displayed*), then a contracting triangle into early 2003 and a 30% rally into January 2004 and compares well with 2008 through August 2011. Holding at $1600 and then breaking out of the resistance line from August 23rd would call for a rally back to $1920 with targets on the mining indices at the 50-day Bollinger Bands (*currently: HUI 613, GDX 63.45, XAU 215 and XGD.TO 24.40*).

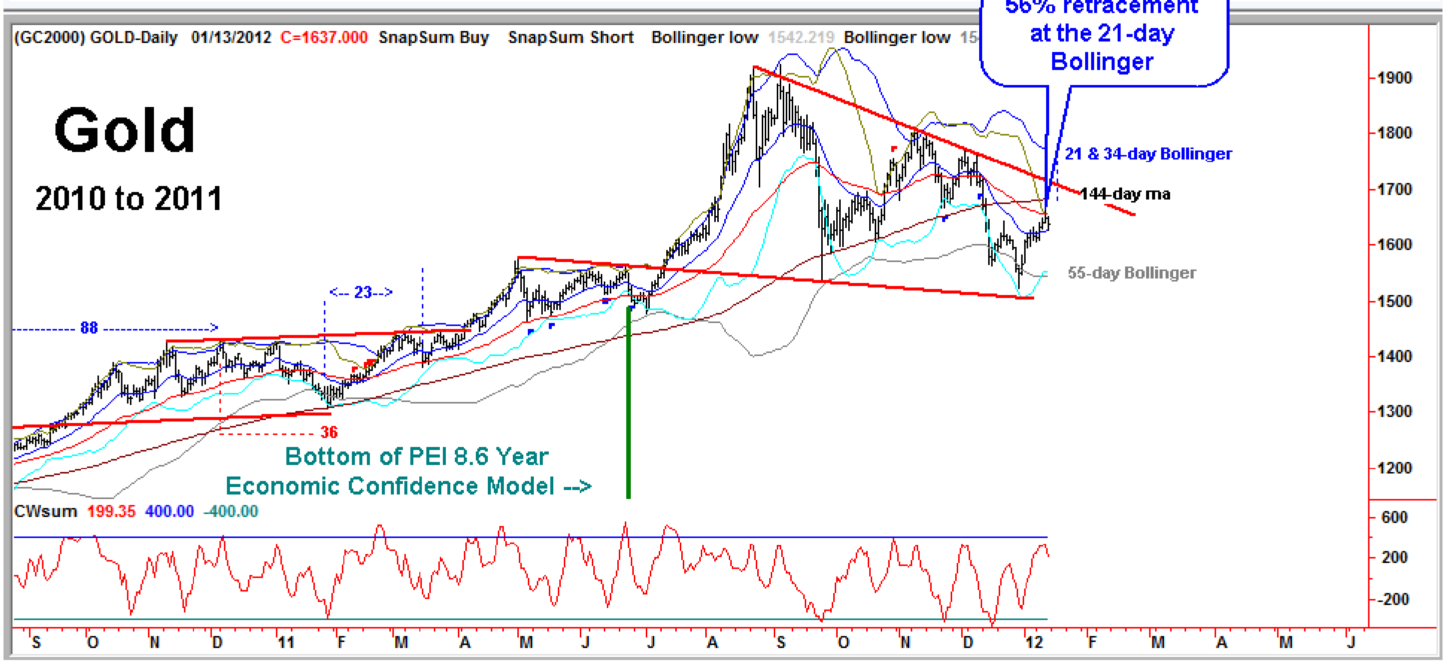
The 1970 to 1975 run from $35 to $196 offers two parallels. The September 1974 positioning projects a new high with $2155 offering the best target (based upon the bull market achieving three times the height of the 27-year consolidation below $730). The May 1975 positioning suggests that the top is already in place, the resistance line cannot be penetrated and a significant decline unfolds eventually giving back 38% to 55% of the rally from the 2008 low of $680 or the 2001 low $253.



The final correlation compares the placement of gold related to the June 2011 bottom in the PEI 8.6-year Economic Confidence Model and the July 1998 top in T-Bonds at the peak of the previous 8.6-year cycle.

Like the May 1975 gold market, this shows an inability to exceed the resistance line over the next few weeks and a prolonged decline. In both the 1975 gold and 1998 T-Bond examples the subsequent low offered a phenomenal opportunity to establish positions for move that stair-stepped back to new highs.





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