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Chart Works

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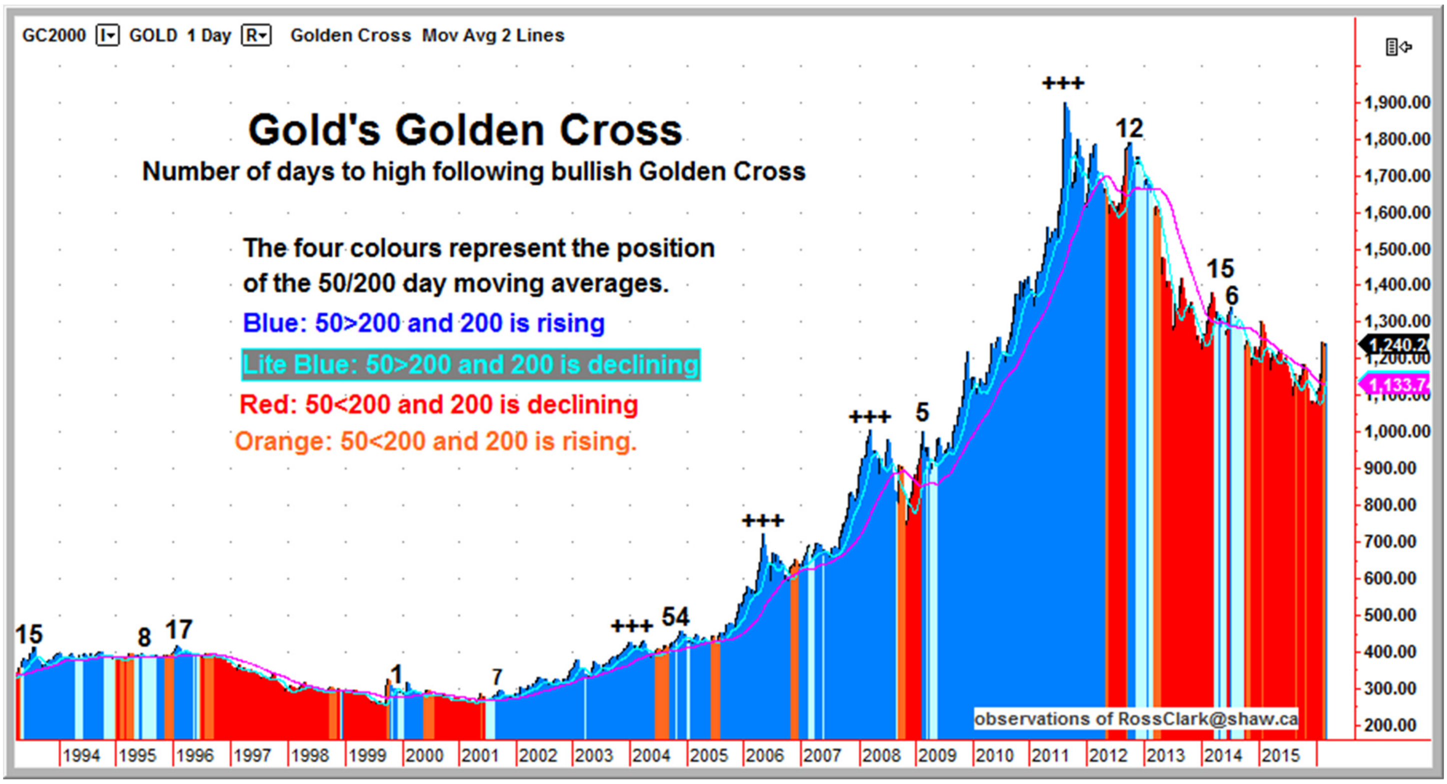
Technical observations of
RossClark@shaw.ca

Golden Cross of 50 and 200-day Averages in Gold
Cautionary COT Data
Overbought Oscillators

We will look for an initial peak in gold this month, possibly spiking up to the 38% or 50% speedlines ($1350 & $1460). For now, we remain bullish as long as closes hold above $1180 (intraday $1170).

The 'Golden Cross' of the 50-day moving average over the 200-day average has been noticed and widely discussed this week. When you delve into the track record of the Cross you will discover that it has a checkered past. While a characteristic of bull markets is that short term averages are above long term averages most of the time, the crossover does not serve very well as an indicator. In the last forty-five years only 38% resulted in rallies that lasted more than two months. In the short-term only 30% of all Crosses managed to rally beyond seventeen trading days before declining by 5% or more.

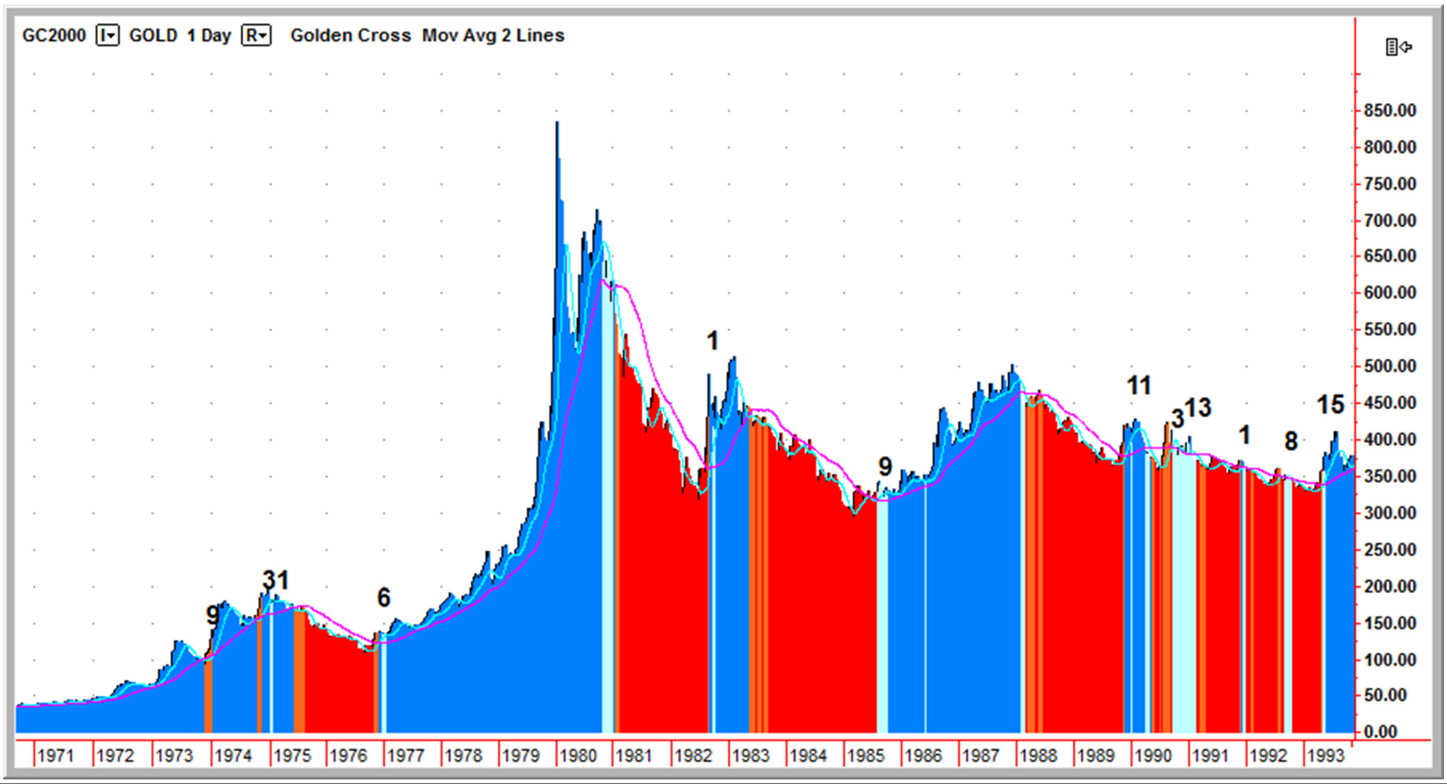


Another point of interest is that **all** of the rallies that started from one-year lows and continued on to higher highs **experienced initial peaks within three weeks of the cross and dropped by 5% or more over a period of up to four weeks**.

Moves from one-year lows that continued to a new high after correcting from the initial peak

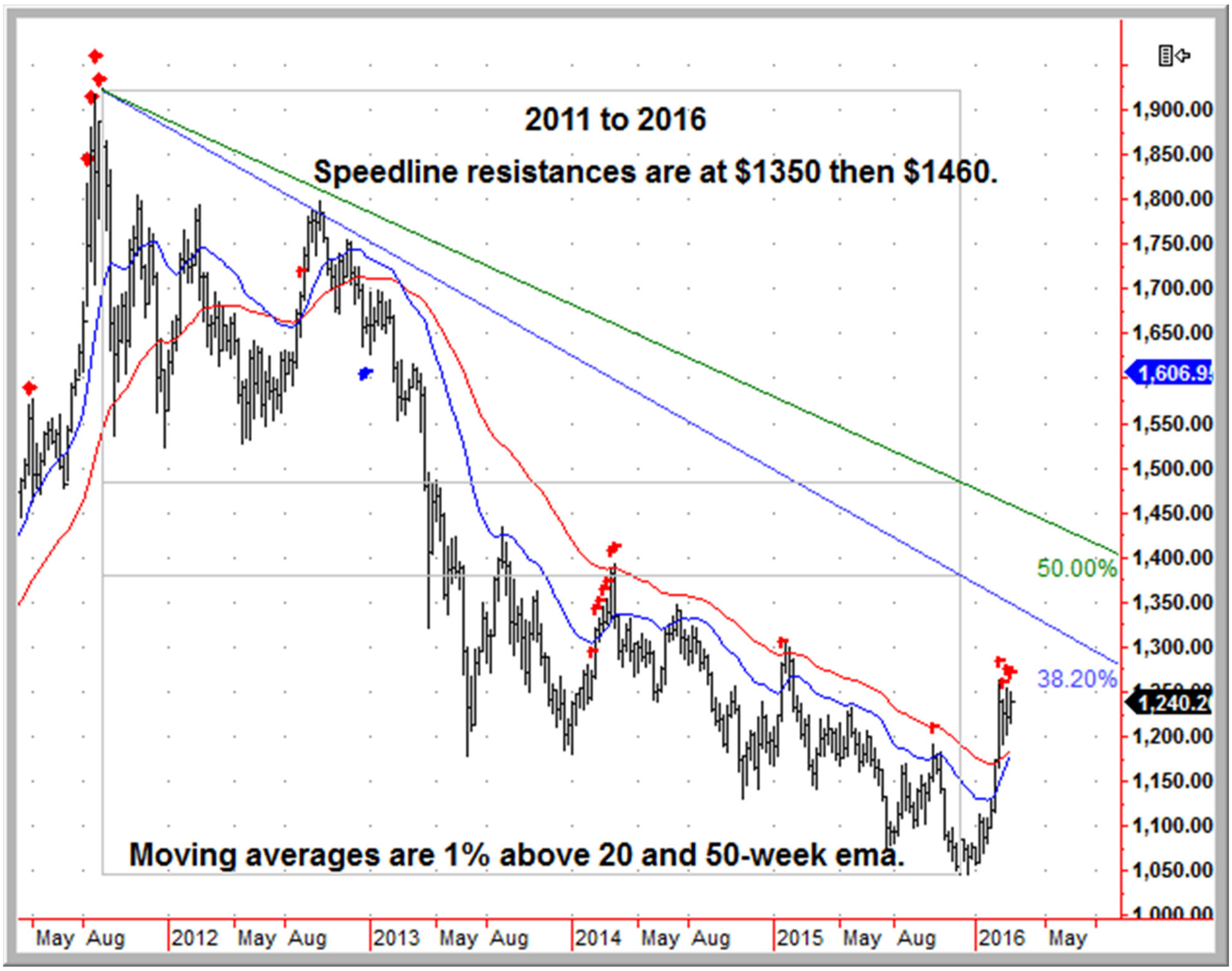
Year	Days to initial peak	Percentage drop	Days in drop
1976	6	9%	19
1982	1	22%	15
1985	9	9%	21
1990	11	7%	14
1993	15	6%	11
2001	7	5%	6
2009	5	14%	39
2016	2 and counting		

1971-1993



The COT data and our oscillators also warrant concern in the near term. The net position of commercial shorts and speculative longs are approaching levels seen at the October high, but still shy of a year ago. The levels of the RSI and cross of the Bollinger Bands are also cautionary flags. This is reminiscent of the midpoint of the rally off the 1993 bottom, prior to approaching resistance at the 38% speedline.

A pause at the 38% speedline would need to hold at a 38% correction from the December low to remain constructive. However, any test of the 50% speedline should be followed by a hard drop to the 50-week simple moving average in the following months.



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BOB HOYE, INSTITUTIONAL ADVISORS
EMAIL bhoye.institutionaladvisors@telus.net
WEBSITE www.institutionaladvisors.com