ChartWorks

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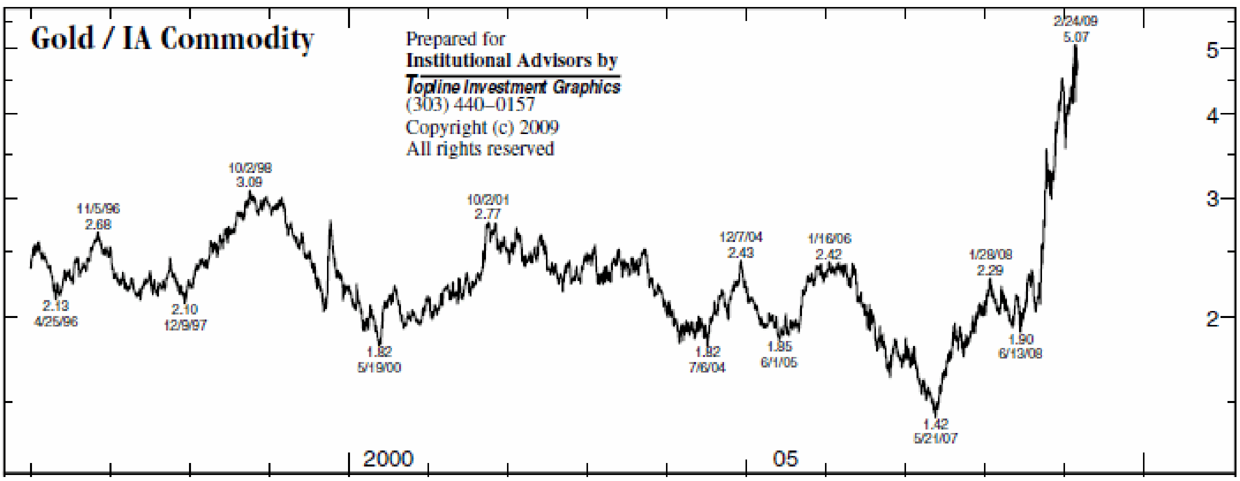
Gold and Related Indices

Gold and related mining shares have a record of being one of the best performing asset classes in a post credit bubble environment. This was particularly evident in the past few months. Not only has gold rallied verses the equity markets and currencies, but also significantly against all commodities since last summer. However, nothing moves in a straight line. A pause appears to be in order.

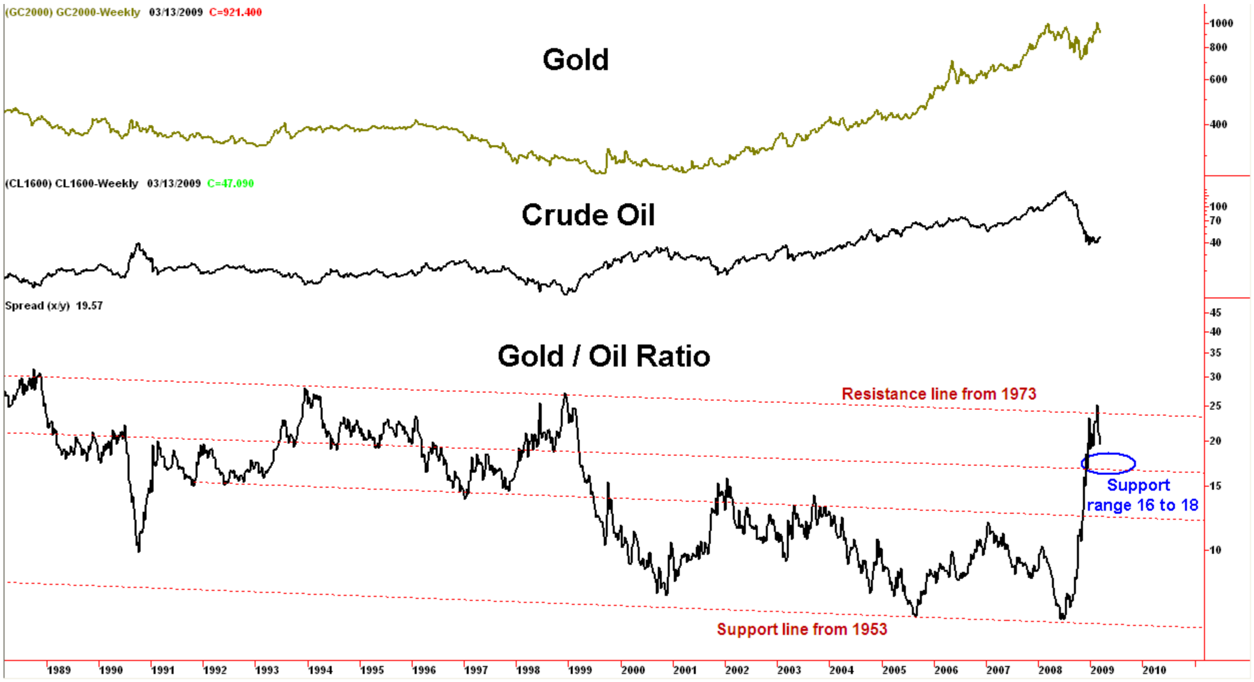
The gold/commodity chart shows the magnitude of the recent move.



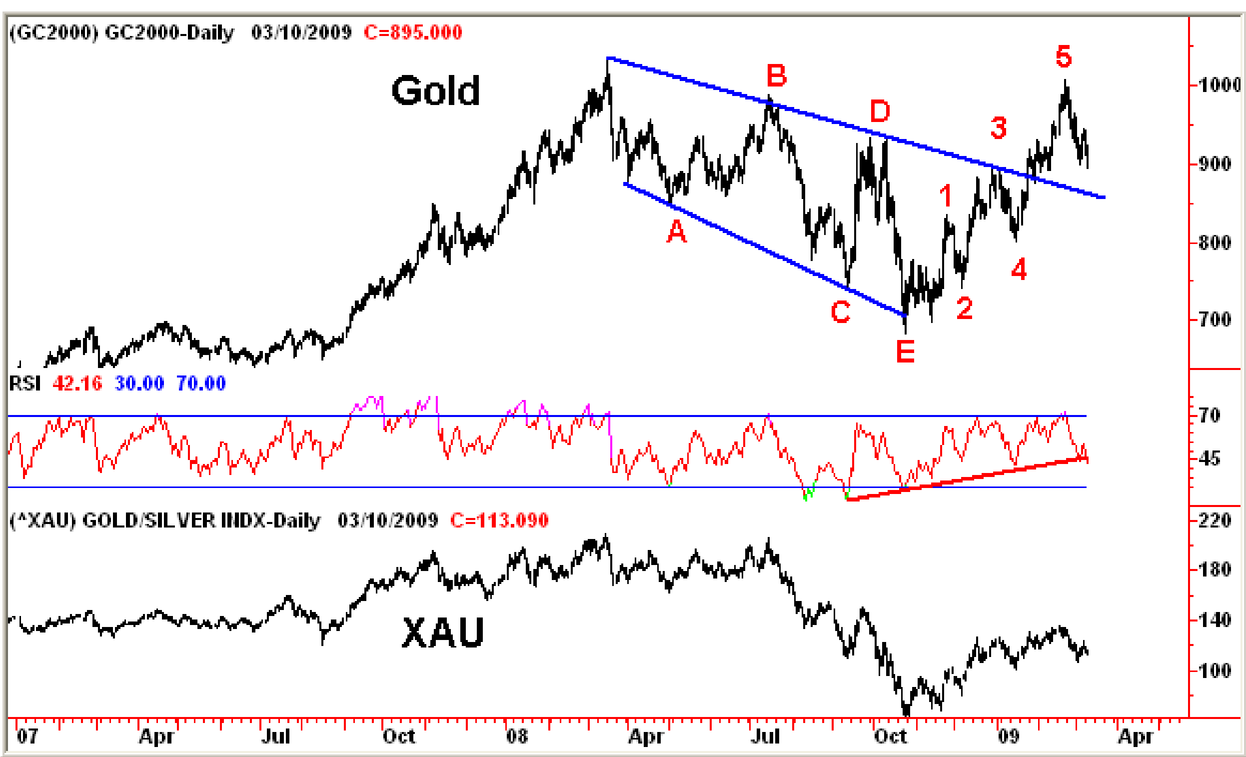
A longer term perspective is available by viewing the following chart of gold and oil. The Gold/Oil ratio has been in a well defined downward sloping channel for over fifty years. The past eight months has seen both sides tested. Last spring the ratio bottomed at the lower support line just under 6.50 and last month it topped at the upper resistance line at 26. The ratio sits at 19.57 as of March 9th and we anticipate support in the 16 to 18 range.

The implosion of last great credit bubble saw two spikes in the ratio, the first over 50 and then 80 in 1932 and 1933. Don't rule out such a possibility in the next few years.

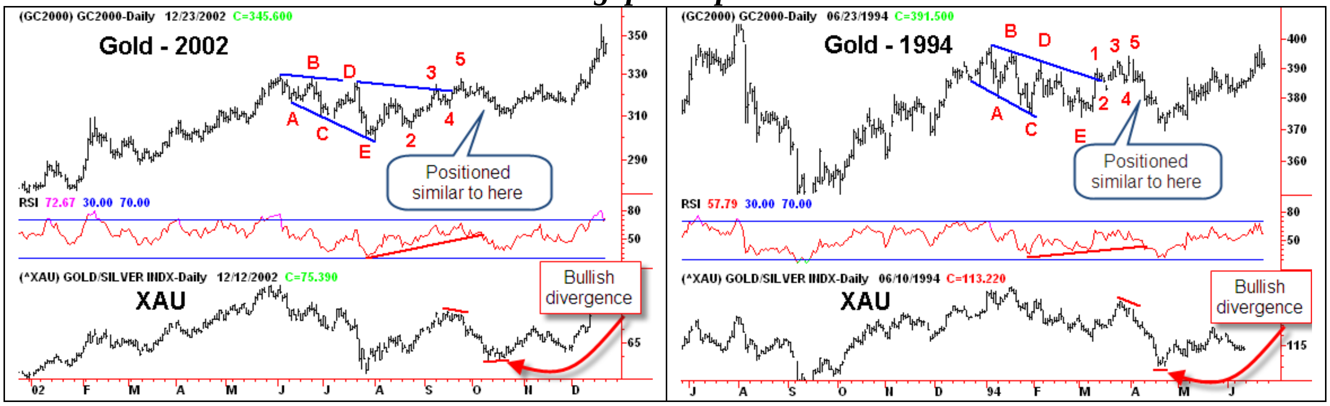
This provides an optimum environment for the gold miners as the operating expenses decline while the value of the bullion moves higher.



The megaphone pattern in bullion continues to develop along the style of 2002 and 1994. Last week's $40 rally opportunity for nimble traders has come and gone. We should now look for a decline below the breakout line before a more lasting base is established. As noted last week, a bullish divergence verses the stocks (*i.e. a lower low in gold combined with a higher low in the related indices*) would identify such a low. An RSI(14) reading in the low 30's would add to the conviction that a bottom is in the making.



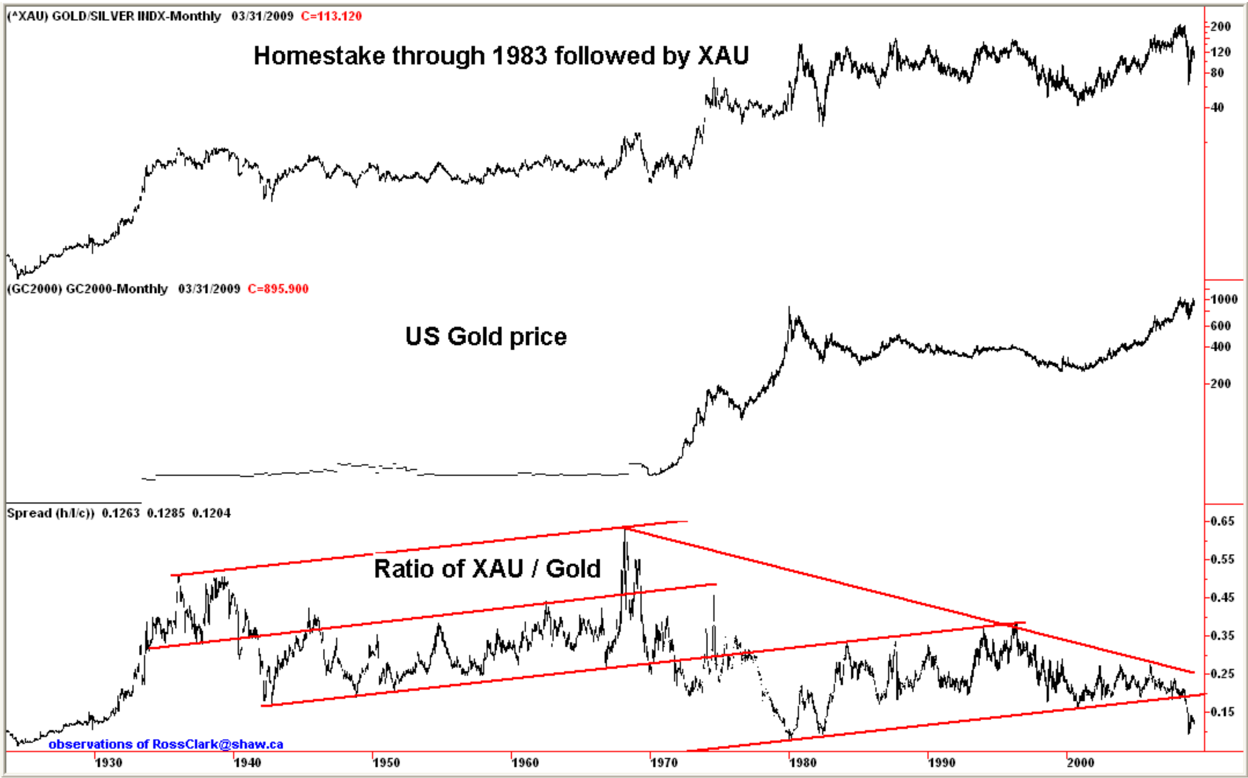
Previous megaphone patterns in Gold



Economic Confidence Model

The 8.6 year Economic Confidence Model peaked February 2007 with the credit spreads. Over a decade ago we discovered that the 8.6 year cycle and its 1/8th subsets exerted a reliable force in the gold market. Strength is generally seen in the month leading up to the date and weakness occurs in the ensuing weeks. In the past twenty years there were only four times that it failed to rally ahead of the date and one that failed to see a period of weakness afterwards. The action is particularly pronounced in the mining stocks. The next date in the model is April 19, 2009 so any deep correction this month should be looked at as a buying opportunity.

The XAU, HUI and TSX Gold Mining indices have doubled from the October 2008 lows. However, the ratios relative to bullion show that there is still plenty of room to appreciate. The XAU/Gold (*currently 0.12*) shows resistance 60% above here around 0.20.



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