

BOB HOYE
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Gold/Commodities Trashed: Also Small Cap Exploration Stocks

We have been using Gold's Real Price, as deflated by the US CPI, for a long time. It goes down in a great bubble such that Gold Stocks are poor performers. But with the post-bubble contraction this price goes up making gold mining more profitable, launching a lengthy bull market for the sector.

Of course, with monthly postings one has to wait to see critical changes. Thus the review of Gold/Commodities, using the CRB, which can be monitored by regular technical research and by our "In House" methods. On Weekly, Daily, or Monthly determinations.

Both methods are at extremes, suggesting a potential trend change, that no matter which method could be very interesting. Moreover, the reversal could anticipate a new and universal bull market in the Precious Metals Sector.

Representing larger cap stocks the GDXJ soared to a technical climax at 139 in April 2011. This was with the last big boom in commodities. And that commodity boom indicated that the great financial bubble could complete around a decade later. The peak for the S&P was in last January, nicely within the time window.

Historically, one would expect the Golds (GDXJ) to underperform the S&P as the bubble completed. Indeed, the last high was set at 64 in July 2020 as the sector became very overbought. This was on many of our measures, which was noted as we advised Investors and Traders to lighten positions.

Also, noting the future problem of the eventual collapse in the bubble.

Underperforming would be bad enough, but Golds would wash out with the failure that ended the bubble. GDXJ has sold off to 34, but is not oversold on the Weekly. Symmetry suggests this index could decline to oversold.

However, as anyone watching "Junior" exploration stocks knows, the decline has been severe. The TSE Venture Index has sold off from the high at 1100 in February 2019 to 647 this week. A stock with a gold discovery that got world attention in 2017 soared from 70 cents to almost \$9 in that otherwise dull year for golds. Often discovery plays selloff to around 1/3rd of the high, and the stock traded between \$2.50 and \$3.50 from 2019 into early this year.

The stock has since plunged to 50 cents this week.

And in talking with some mining brokers, there have been other equivalents, so this important gold sector is a disaster – perhaps as bad as it gets.

Relief will come, not with promotion, but with the end of forced liquidation. And from exhaustion such stocks could start a quiet rise. In such an environment a new story may have a better outlook than old ones. Success could be found in seasoned exploration stocks that in not having been promoted do not have an overhead of offside shareholders.

The first chart shows the Overboughts and Oversolds on the RSI Chart.



Next shows that the Gold/CRB action has registered Downside Capitulations, which is momentum based. Also clocked are Sequential Buys, which is pattern based. Two different methods.



By essentially three different methods, the crash in Gold/CRB is exceptionally oversold and could soon rally.

This will likely lead the rise in Gold's Real Price, as deflated by the CPI, and history shows that in post-bubble contractions, rising real prices drive huge bull markets for gold mining.

And in reviewing the action in the Gold/CRB index from highs or from lows it leads the moves in Gold and Gold Stocks. But with variation from weeks to months – not worth listing the numbers.

However, what is clear now this Index is suggesting that its massive hit is overdone and when it reverses to the uptrend it could signal “Sunshine” ahead for the Gold Sector.

Some Gold Stocks have been relatively unscathed.

For example, it could be time to review Barrick Gold and Franco-Nevada whose monumental growth derived from one outstanding discovery. In a lengthy bull market, there could be some similar world-scale discoveries

Those with experience in exploration stocks could begin accumulating deeply discounted quality stories with sound management and outstanding geologists. FNV started as just such a stock. As Seymour Schulich, one of the founders, later stated that the reason they acquired a property in Nevada was that it would be “nicer to lose money” in a warmer climate than with prospects in Quebec.

A multi-year bull market for the Precious Metals Sector could start from a bottom set over the next few months.

This chart records Gold's Real Price (GRP) declining with all five of the great financial bubbles, and then turning up. Typically the GRP increases through each post-bubble contraction driving an outstanding bull market for Gold Stocks. With the usual business cycle variations the trend has run for around twenty years.

The chart of Gold/Commodities is suggesting the launch could start with the next few months.

