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The Next Investment Paradigm
The Great Bubble is Over
Gold Will be the Next Big Event

The full disaster that typically follows the early stages of a post-bubble contraction could soon be more widely understood. Not widely understood is that one of the most reliable features of such a melancholy event has been a multi-year, and at times, fabulous bull market for Gold Stocks. This historical review could be of interest to veterans in the Sector as well as to newcomers.

With the prospect of a lengthy bull market ahead for the Sector, it is timely to update our research with a bold statement. Gold's Real Price (GRP) could double that with a proportionate increase in profitability, drive a new bull market for Gold Stocks. Moreover, they could not just go up but could outperform the S&P. Likely for many years and it won't be driven by the "old' mantra about "Dollar Down Gold Up".

Which marks the difference between currency speculation and investing in a naturally thriving industry.

The substantive outlook can only be based upon an extensive review of gold's history – back more than three hundred years to the advent of modern finance in London. By the 1670s, there were enough companies and participants to call it a stock market, John Houghton began publishing London's first market letter in 1692 and the Bank of England was chartered in 1694.

For many decades, the senior currency has been convertible to gold – thus no change in the nominal price, but changes in the real price have been methodical.

And the big observation is that the most spectacular bull markets for the Sector have been enjoyed during the typical post-bubble contractions. What's more – the greatest gold rushes have occurred at Depression bottoms (the table follows) – with gold's real price up and millions of unemployed men being the recipe for discovery. The post-1825 Bubble Depression ran into the 1840s: look up the gold rushes in California and near Melbourne. The next Great Depression ran from 1873 to 1895: look up the Klondike Gold Rush.

Since the advent of Modern Finance in the late 1600s, big events have been straightforward. An important war financed through inflation was accompanied by a "global" boom in commodities. Which in becoming unstable crashes – setting up a bull market in stocks and bonds that becomes a "sure thing" as the public joins the party – culminating in a great financial bubble. The first was the South Sea Bubble that completed in 1720. The example in 1929 was number five and the one that completed in 2022 was number six. Beyond headlining manias, each has recorded the same key characteristics, which include a reliable pattern for gold – for consistency's sake, best reviewed deflated in senior currency terms.

The importance is that when Gold's Real Price goes down it impairs profitability of gold mining. Costs rise relative to the bullion price, and quite the opposite as the real price goes up. Such benefits extend to exploration with the rise enhancing economic valuations for gold properties. In any century, the doubling of the real price over many years has inspired outstanding discoveries resulting in even more outstanding global stock plays.

The key point is that Gold's Real Price did what it should do as the late bubble completed. From overbought with the speculative surge in gold stocks into July 2020 it has declined to lowest with the June posting. During the completion of earlier bubbles, gold stocks underperformed the general stock market. Ironically, Copper's Real Price (CRP) increases during a bubble such that base metal miners become outstanding performers, which was the case in the latest as well as with the 1929 and 1873 Bubbles.

Gold stocks underperforming is one handicap for the sector, the other is that they get hit with the post-bubble liquidity crisis. As bad as it may seem in real time, it sets up a lengthy bull market for the sector. Not just going up, but the action could have the GDXJ outperforming the S&P, such that equity fund managers who would not normally position golds will have to get in – a profound paradigm change.

Obviously accumulating an overweight position in golds could be a "once-in-a-generation" opportunity. Our historical as well as technical approach identifies the likely path and could determine the bottoming process. After all, the bear has prevailed since the measurable euphoria of April 2011.

Gold stocks (HUI) declined from 127 to 58 during the Dot-Com Bubble that completed and plunged as that mania crashed. The low was 36 in November 2000, when the bull market with the commodity boom made it to 520 in April 2008. After being hit down to 150 with that cyclical bear for commodities the HUI soared to the peak of 638 in September 2011.

The Fed's deliberate depreciation has always been evil, but inflating prices for precious metals as well as most other commodities became fully discounted – and continuity of the Fed being reckless assured continuity of trend. However, what happens to Gold Stocks during a Great Bubble was not widely understood.

While noting the overbought action in leading stocks, the key to that call was the spike up in the Silver/Gold Ratio (SGR), as in a boom for both silver outperforms gold. A few decades ago, we noticed that when the "Hunt Brothers" attempted to corner silver blew itself out in January 1980 there were two keys. The SGR peaked a couple weeks before the highs were set, so although still rising silver began to underperform. And wild momentum drove the Weekly RSI on the Silver/Gold Ratio to 90 and then that global mania collapsed.

On the buying frenzy into 2011, the Weekly RSI on the SGR got to 90, which we noted had not been seen since 1980 and that the mania had become "dangerous". Adding that the bear market may not be as severe as following 1980, but until it completes any bear market is dreadful. Another excess was the rise in the GRP became about as overbought as it gets.

Recently, these important items are registering quite the opposite, setting up financial history for another multi-year bull market for the sector. For which the key will be Gold's Real Price going up, much as it did during the post-1929 and post-1873 Bubbles.

On the rally into July 2020, the GRP became as overbought as it gets, making it vulnerable to the final thrust of the financial bubble. It reached a new low with the July post.

The problem with this chart is the CPI entry each month, so a few weeks ago we reviewed that Gold/Commodities could be an ideal proxy for the real price. It is and what's more on our proprietary technical research the Gold/CRB is extremely oversold. Actually without precedent, with the low being set at 5.61 at the first of June, and it has been attempting to turn up. Rising above the 20-Week ema at 6.25 would complete the bottom.

While not as severe as with the recent low, such lows have led the eventual rallies for the sector by up to a few months. Obviously breaking out would anticipate another multi-year bull market for the sector. Not driven by the dollar going down but by the real price going up.

Beyond the typical changes in copper and gold, there are other features that mark the transition from bubble to bust. Best not to run on only one indicator. Real Long Interest Rates turning up (✓), the senior currency turning up (✓) as the Gold/Silver Ratio increases (✓). The more diverse confirmations there are, the better.

The Gold/CRB Chart was introduced in our June 28th *Special Gold/Commodities Trashed*, which concluded *"A multi-year bull market for the Precious Metals Sector could start from a bottom set over the next few months*". Two charts covering two methods in determining technical excesses follow.

The low was 5.62 at the first of June and the bounce made it to 6.31 where it found resistance at the 20-Week ema. This is now at 6.25, with the Gold/CRB at 6.10. As with our work on the DX in the first half of 2021, the bottoming process completes by rising above the 20-Week. With this, we will make the decision about starting to accumulate.

The page covering Gold's Real Price through all six Great Bubbles follows.

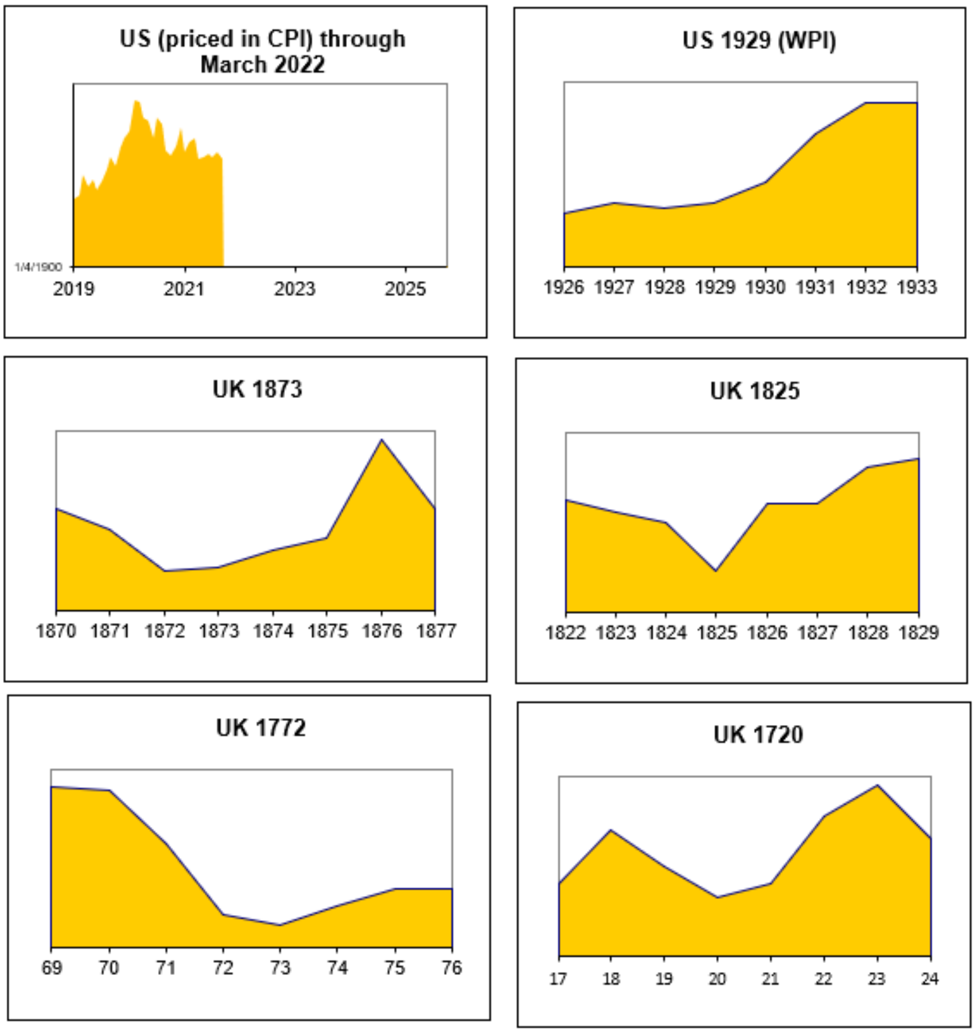
By way of a wrap, our advisory business began when Bob was retained by two huge mining companies that realized that the historical review of prices provided better results than the usual supply-demand analysis. Such numbers can be inaccurate and are always behind key market changes.

History is now calling the end of the lengthy bear market for Gold Stocks and is anticipating that the bottom could complete within a couple of months. Once underway it could be a multi-year bull market.


$GOLD:$CRB Gold - Continuous Contract (EOD)/Reuters/Jefferies CRB Index (EOD) CME/INDX
24-Jun-2022
© StockCharts.com
Open 6.17 High 6.20 Low 6.09 Close 6.13 Chg +0.18 (+2.95%)
$GOLD:$CRB (Weekly) 6.13
EMA(20) 6.34
Volume undef
RSI(14) 38.44
CCI(20) -35.23


Gold / CRB
Daily and weekly Capitulation buy alerts coupled with monthly Sequential 9 Buy Setup.
GOLD/TRJEFFCRB

Deflated Price of Gold
During the Dramatic Climax of all Great Financial Manias



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HISTORY OF GOLD RUSHES

GREAT TROUGH	GOLD RUSH DATE	COMMENTS	NEXT FINANCIAL MANIA
1690 – 95	1696	Mining camp of Ouro Preto (***'Steel-Coloured Gold***), Brazil. Some 400,000 Portuguese rushed to what became known as Ouro Preto. Farms were abandoned and 500,000 African slaves that were working in sugar were purchased to work the discoveries.	1720
1740 – 45	1744	Urals ***'The first noteworthy discovery of gold near Ekaterinburg.' 'Considerable quantity of gold'.*** World production peaked 1741-60.	1772
1790 – 95		No rush evident. However, this great depression period was anomalous as the deflated price of gold did not appreciably rise from 1772 to 1795. With this, the average annual world production of gold declined.	1825
1840 – 45	1840 – 41 1849	***'Unprecedently rich placers between the Upper and Stoney Tunguska Rivers. Allowing for the peculiarities of Siberian geography and Russian economic and social life, it acquired something of the momentum of a rush.'*** California – well known. Significant increase in world gold production. Discoveries near Melbourne, Australia prompted an outstanding rush in the 1850s.	1873
1890 – 95	1897	Klondike – well known. Significant increase in world gold production.	1929
1938 – 42		World War II and geologic fortune seems to have constrained any potential 'rushes'. However, world production more than doubled with the improving deflated price of gold.	2007

Although not evident in every century, the great gold rushes occurred close to the trough of a great depression. The driving force seems to be high unemployment with the secular high real price of gold typically found as long post-bubble contraction ends.

Gold's real price as represented by our Gold/Commodities Index set an important low at 143 in May 2007. With this credit contraction it has increased to 405 in June 2010, which is a significant increase and within a pattern that could run for many years.

Perhaps this could eventually prompt another great gold rush.