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# Golds
# The Next Investment Paradigm: This Month's Action – On Track

The full disaster of 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 financial and economic event is that it sets up a multi-year, and at times, fabulous bull market for Gold Stocks. This review could be of interest to veterans in the Sector as well as to newcomers.

History provides salient points.

It is best to avoid the orthodox notion of playing Gold Stocks off the threat of dollar depreciation, which makes positioning golds as not much more than speculation on foreign exchange conditions. When positioning on the real price one is looking at earnings, which is investing. And profit margins improve as the real price does up – particularly in a post-bubble contraction.

With the prospect of a lengthy bull market ahead for the Sector, it is appropriate to present the research with a bold statement. Gold's Real Price could double, with Gold Stocks outperforming the S&P. Such an outlook can only be based upon an extensive review of gold's history – well, at least back more than three hundred years to the advent of modern finance in London. By the 1670s, there were enough companies and traders to call it a stock market, John Houghton started publishing London's first market letter in 1692 and the Bank of England was chartered in 1694.

Modern finance had arrived.

And the key 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 rising real price enhances profit margins combined with millions of unemployed men providing the recipe for at times frantic exploration. 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, there has been three distinctive events. Each driven by the extended emotions of fear and greed, and what's more they recur. Indeed, cyclical booms and busts were well-documented in Roman Times, including government knee-jerk responses to inflation or deflation. An informative book is Haskell's *The New Deal in Old Rome*.

Over the past 300 years, the basic pattern includes an important war financed through inflation, accompanied by a “global” boom in commodities. Which in becoming unstable crashes – setting up a bull market in stocks and bonds that becomes the next “sure thing” with the public eventually joining in. Culminating in a spectacular financial bubble. The first was the South Sea Bubble that completed in 1720. The 1929 example was number five, making the one that completed in January 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 third event is the Post-Bubble Contraction, with four classic examples lasting for some twenty years.

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, which 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 latest bubble completed. From overbought with the speculative surge in gold stocks into July 2020 it has declined to its lowest with the July 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.

On the July number, Copper’s Real Price has plunged.

Gold stocks underperforming is one handicap for the sector, the other is that they get hit with the initial liquidity crisis that marks the failure of the financial mania. 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 this 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 evil depreciation, with inflating prices for precious metals as well as most other commodities was 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, that the play had become "dangerous". Adding that the bear market may not be as severe as following 1980, but any bear market is dreadful. Another excess was the rise in Gold's Real Price became about as overbought as it gets.

Recently, these key 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. Not to overlook all the way back to 1720.

On the rally into July 2020, the ratio became very overbought, making it vulnerable to the final thrust of the financial bubble, when Precious Metals were likely to underperform. It reached a new low with the July post.

The problem with this chart is the CPI entry each month, so in June we reviewed that Gold/Commodities could be a good proxy for the real price. It is and what's more on our proprietary technical research the Gold/CRB became extremely oversold 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 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. Real Long Interest Rates turning up (✓), the senior currency turning up (✓) as the Gold/Silver Ratio increases (✓). The more diverse confirmations the better.

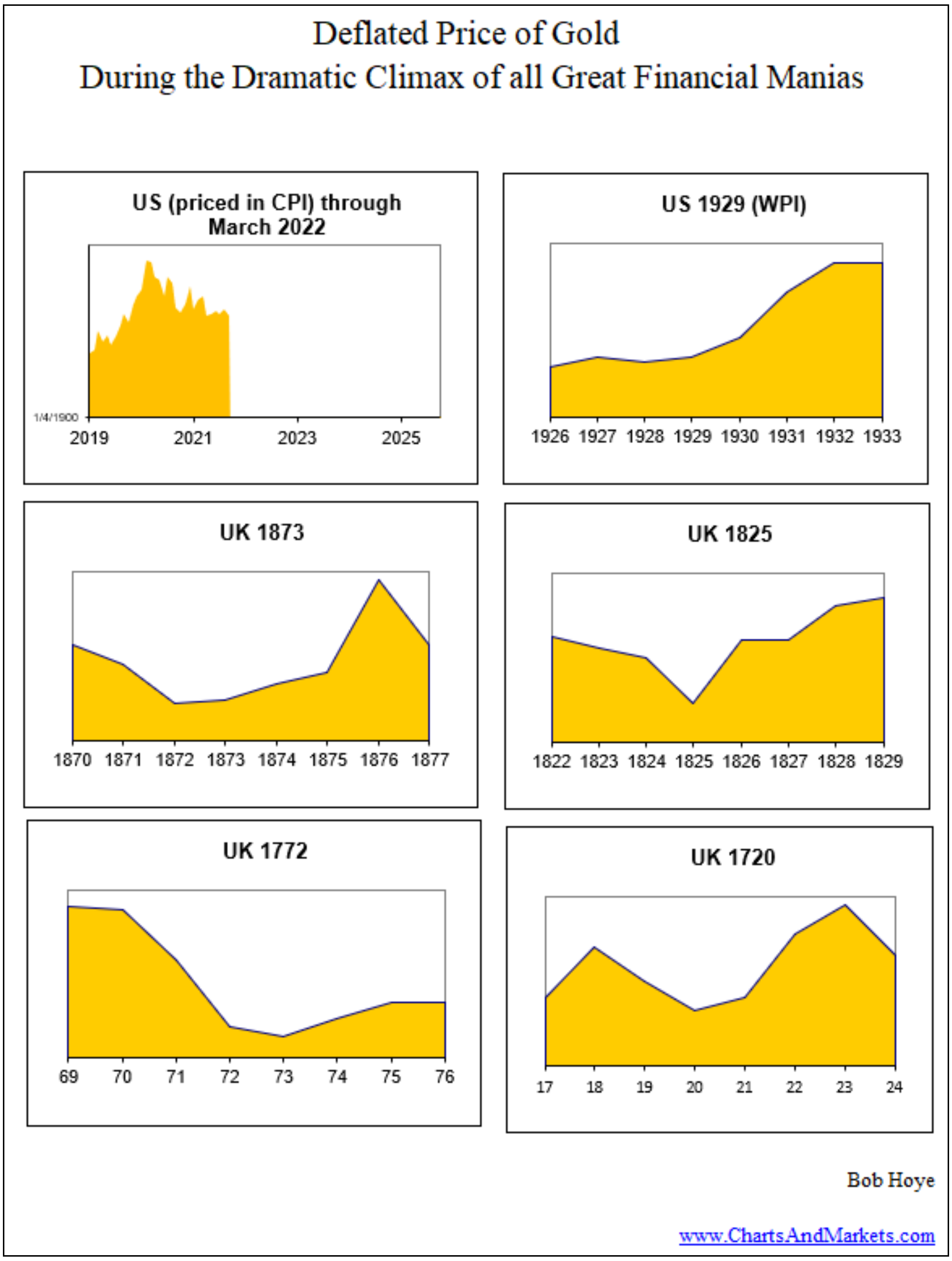
The Gold/CRB Chart was introduced in our June 28th Special *Gold/Commodities Trashed*, which concluded *"A multi-year bull market for the Precious Metals Sector could start from a bottom set over the next few months"*. Two charts covering two methods in determining technical excesses follow.

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 6.20. 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.


$GOLD:$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

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



# Copper's Real Price
# Initial Break On A Multi-Year Decline