ChartWorks

PUBLISHED BY INSTITUTIONAL ADVISORS
August 28th

Technical observations of RossClark@shaw.ca

Gold and Silver – Summary of Various Technical Studies

Trade what you know, not what you wish.

- The rebound rally in silver following the high Silver/Gold ratio in April called for a rebound and 'false breakout' in the 15 to 18 week window. Once in place the high was to occur within one to three trading days.
    - The 'breakout' occurred on Friday, August 21st and within 1 ½ days of the reversal.
    - Look for a 62% retracement to $37.60.

- Summer rallies in gold that start early and make new highs for the year in July top out in 32 to 34 trading days. (Now six times in forty years).
    - This year took 35 days.

- Tops generally occur within three weeks of a weekly Upside Exhaustion alert.
    - This one took 2 ½ weeks and was coupled with a daily reading in GLD on August 22nd.

- The correlation with the T-Bonds of 1998 (and the PEI cycle) called for a high around August 17th
    - Occurred within three trading days of the optimum date.

- Even in the most bullish market (1976 to 1980) gold paused at the upper resistance line in July 1979 using a semi-log chart.
    - This week reached the upper resistance line at $1900.

- Seasonal patterns have shifted this year with a high due now.
    - A six week consolidation/correction is likely.

- The Gold/Oil ratio is at the top of a forty year channel, implying profitability for mining stocks, however the stocks could easily correct by 20% before the next advance get under way.

- The XAU/Gold ratio is bottoming and suggests that the next phase of the bull market in gold will see an improving participation by the mining stocks.

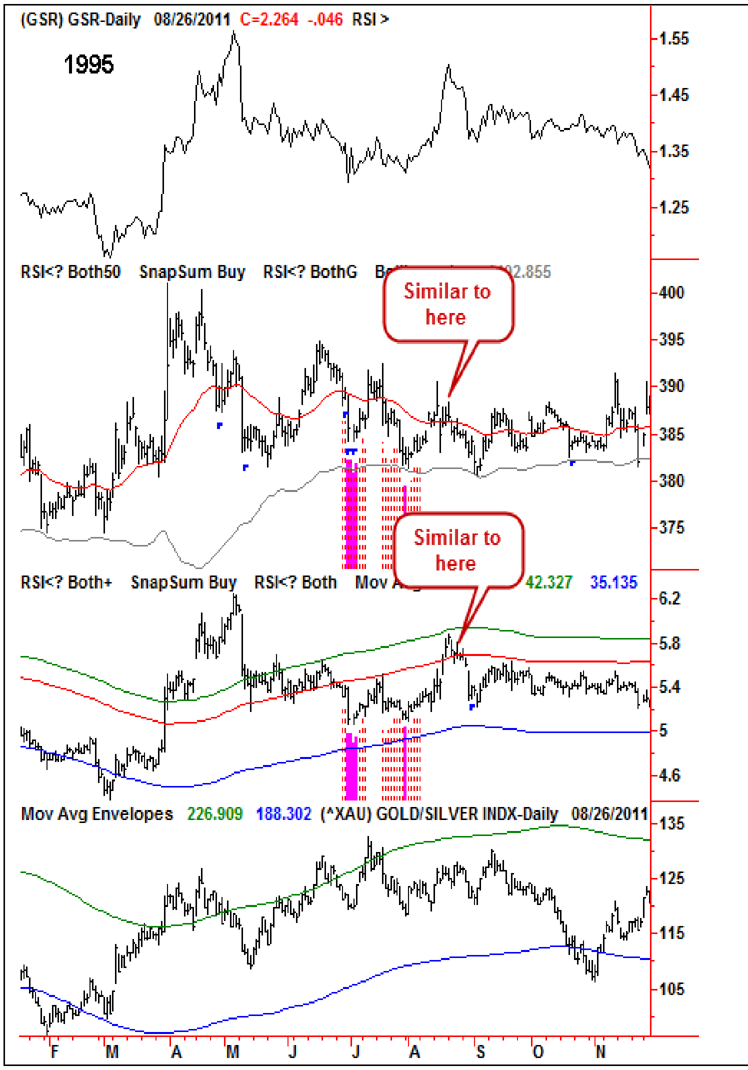
- The Dow/Gold ratio continues in the theme of a secular bear for equities and a bull market for gold.

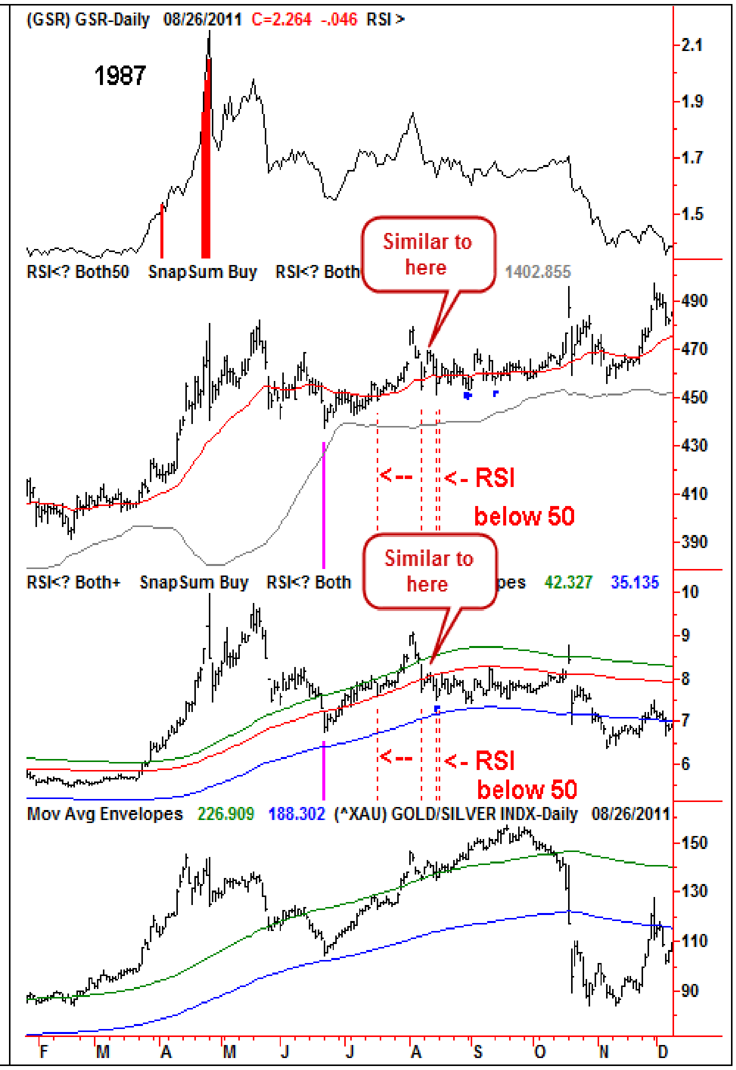
The most bullish scenario would call for a sharp five to nine day correction from $1917. However, if there is a slow erosion of prices, the consolidation/correction could stretch into October.

Action following the last six extremes in the Silver/ Gold Ratio: Rebound highs in silver occur in 15 to 18 weeks, generally on a retest or failed breakout of the upper 7% moving average envelope. The August 26th breakout occurred at week 17, and was followed by a failure. Silver should give back 62% or more of the advance from the June low (*targeting$37.60*).

The following six charts display the action around extremes in the silver/gold ratio


(GSR) GSR-Daily 08/26/2011 C=2.264 -.046 RSI >
2006
Silver/Gold Ratio
RSI<? Both50 SnapSum Buy RSI<? BothG Bollinger low 1402.855
Gold
Not breaking this badly
<-- <- RSI below 50
RSI<? Both+ SnapSum Buy RSI<? Both Mov Avg Envelope
Not breaking this badly
Silver
<-- <- RSI below 50
Mov Avg Envelopes 226.909 188.302 (^XAU) GOLD/SILVER INDX-Daily 08/26/2011
XAU
(GSR) GSR-Daily 08/26/2011 C=2.264 -.046 RSI >
2004
RSI<? Both50 SnapSum Buy RSI<? BothG Bolling
Similar to here
RSI<? Both+ SnapSum Buy RSI<? Both Mov Avg
35.135
Similar to here
Mov Avg Envelopes 226.909 188.302 (^XAU) GOLD/SILVER INDX-Daily 08/26/2011


(GSR) GSR-Daily 08/26/2011 C=2.264 -.046 RSI >
1995
Similar to here
Similar to here
Mov Avg Envelopes 226.909 188.302 (^XAU) GOLD/SILVER INDX-Daily 08/26/2011


(GSR) GSR-Daily 08/26/2011 C=2.264 -.046 RSI >
1987
Similar to here
<-- <- RSI below 50
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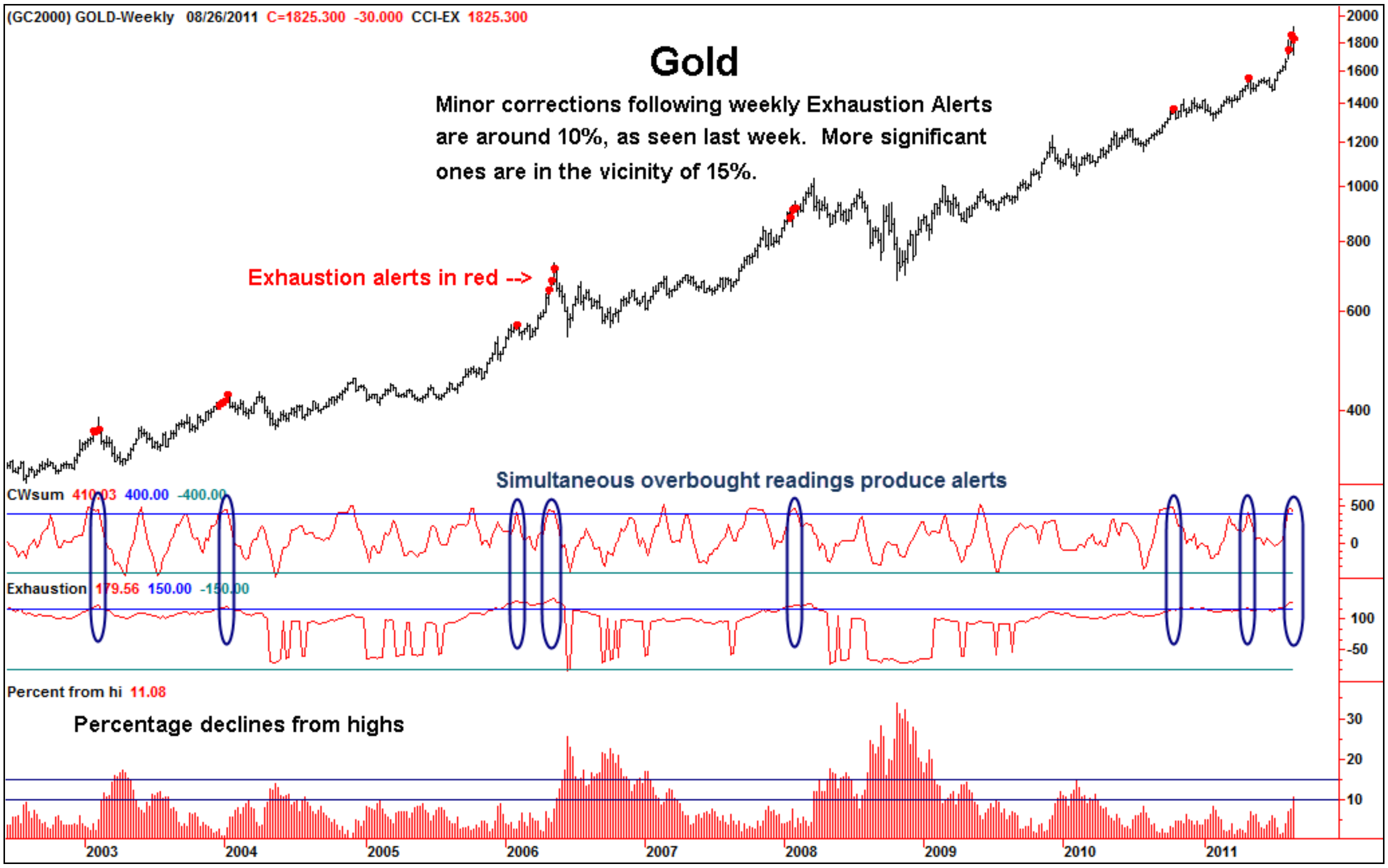
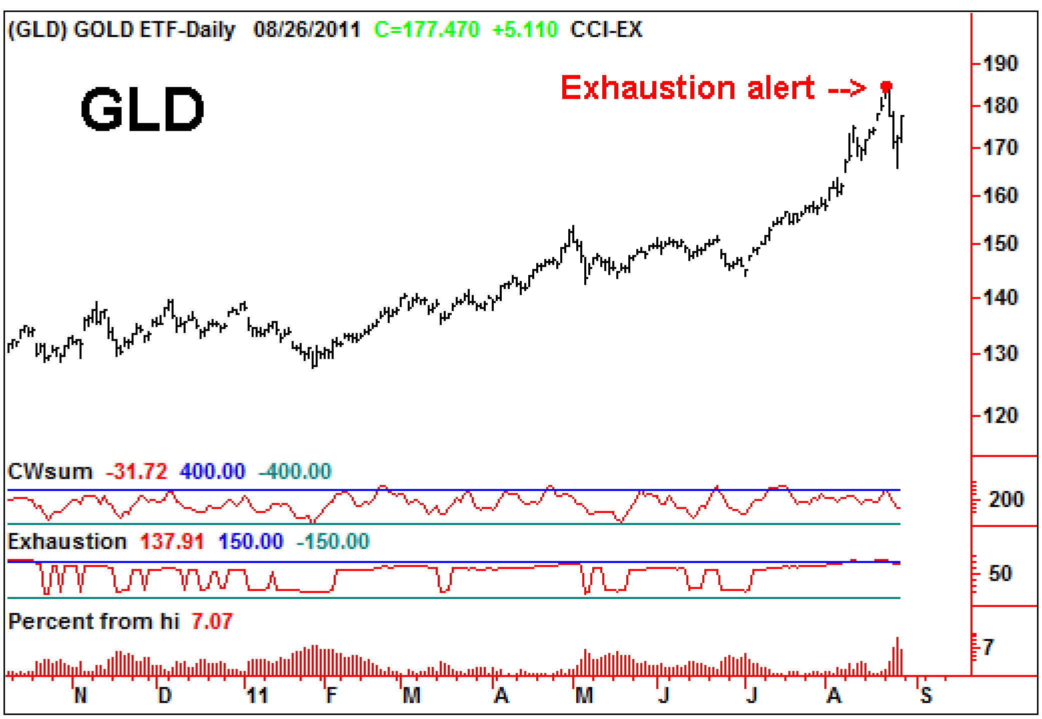
<-- <- RSI below 50
Mov Avg Envelopes 226.909 188.302 (^XAU) GOLD/SILVER INDX-Daily 08/26/2011

Exhaustion Alerts





Our Springboard signal is designed to find the bottom of short lived corrections within rising trends and has done an excellent job in gold. The most recent signal was at $1500 in late June.

Consequences of corrections following July breakouts: Daily Springboards were identified at the lows of August 27, 1971, August 24, 1978 and August 6, 1979. Daily signals did not occur in 1972 and 1993, but weekly signals were present on the two important bottom weeks in 1972 (November 10th & 17th) and three of the four bottom weeks in 1993 (August 27, September 10th & 17th).

We will be watching closely for new signals.

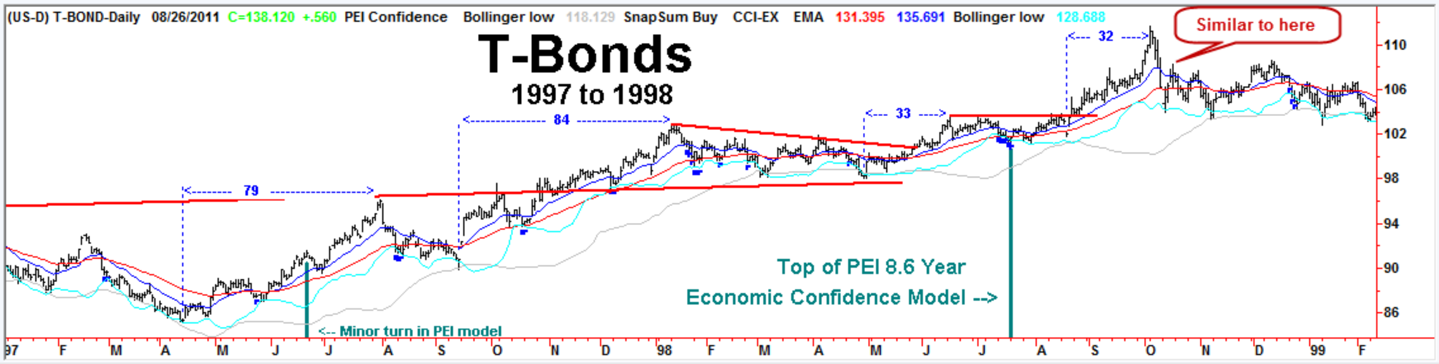
July's that made new highs for the year

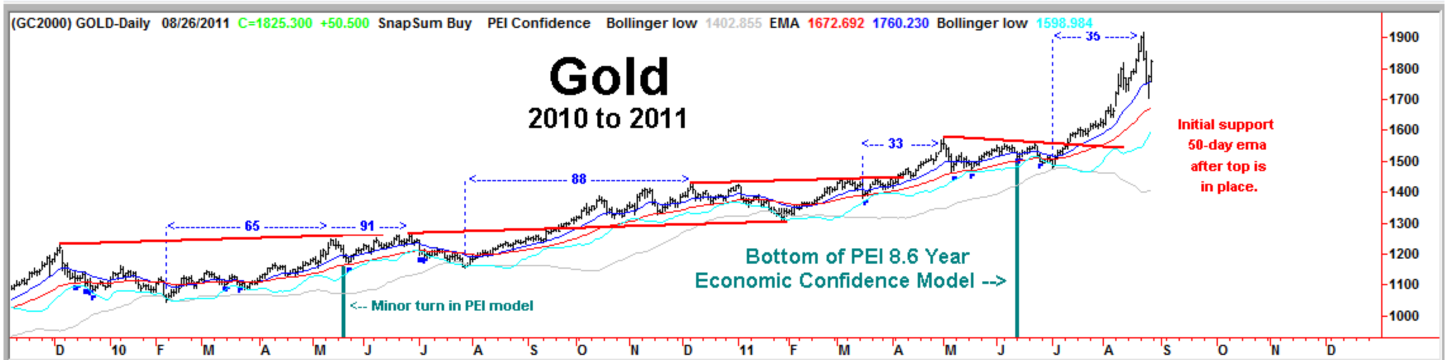
The seasonal pattern in gold is for strength from early August through early October, influenced by the Indian wedding season. However, the seasonal has been running six weeks early. Based upon this shift in pattern we should look for a six week consolidation/correction before the next advance.

Gold – Another Reason to be Looking for an August High

A July interview by Ben Davies regarding the strength in gold this summer, having a similar smell to bonds in 1998, when everyone was on holiday, brought back memories for us. The 1998 peak in bonds occurred two months following the top of the PEI 8.6 year Economic Confidence Model. Our reports at the time recommended sales into the first week of October, calling for an initial break of 12 points and outside possibility of 17 points. By December 1999 the decline had been 22 points.

Relationship with PEI T-Bond model from 1998

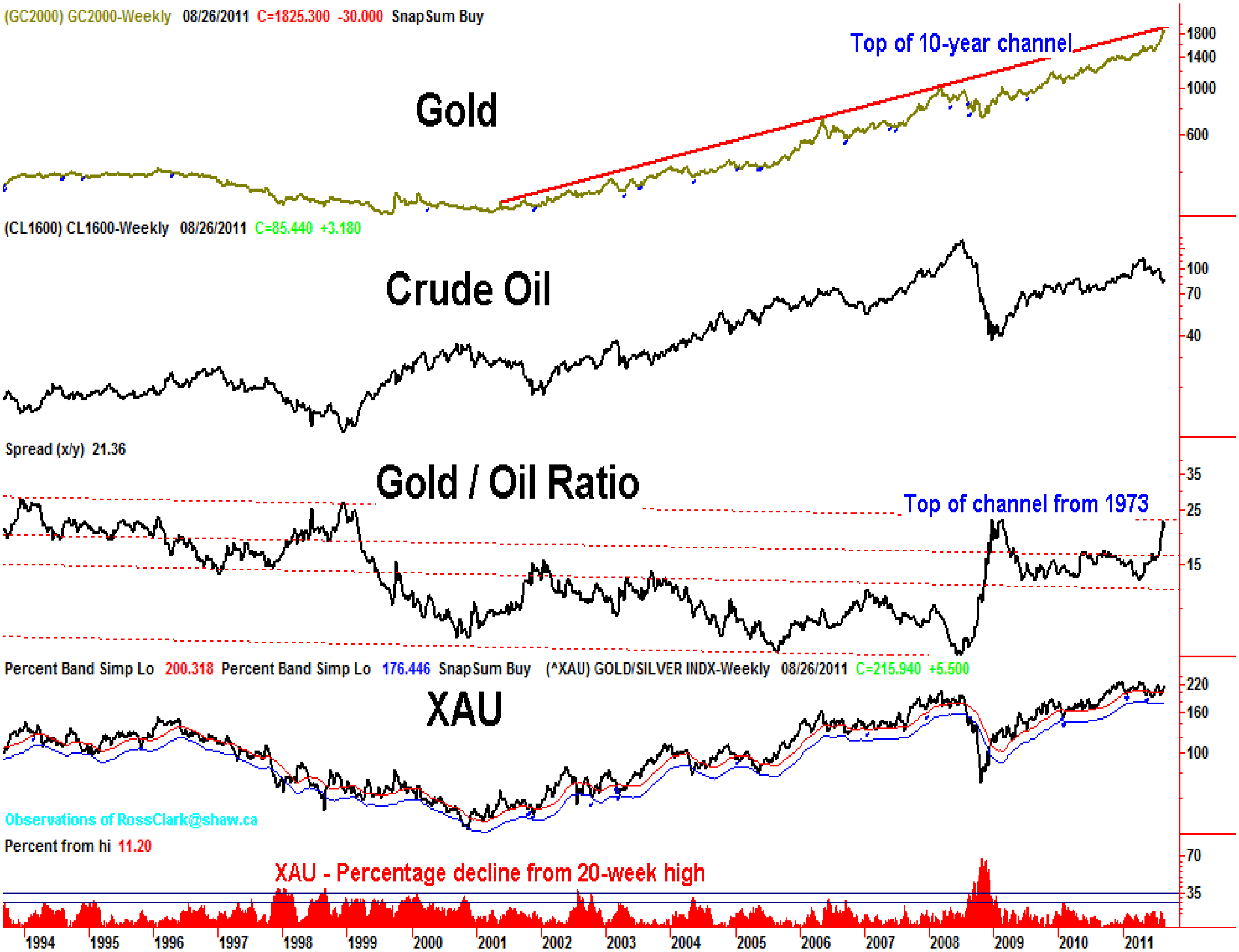




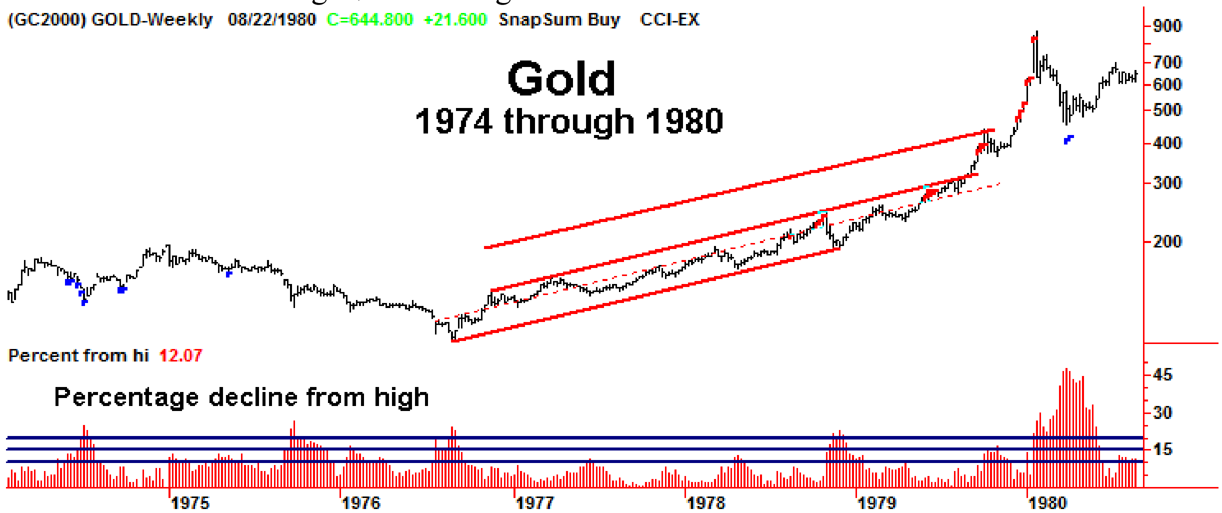
It is now thirteen years later and the 8.6 year cycle has just passed its low point (June 13th) in the next cycle. The price action of the two markets has remarkable similarities. The series of consolidations, pullbacks to breakouts, moving average supports and tests of Bollinger Bands show a high correlation. Our Springboard buy signals (blue crosses) are also well timed on both charts.

The length of time in the various rallies (blue labels) is uncanny. The rally into May 2nd matched perfectly with the thirty-two day bond rally into June 16, 1998. **The current rally in gold should have topped around August 17th**. It was only 3 ½ days late. As previously noted, a test of the 50-day ema (*currently 1561*) is then expected, with a distinct chance of a test of the breakout line round $1550. The optimum low using the correlation with the T–Bond chart should occur on a kiss of the lower 21-day Bollinger Band (light blue) and possibly the 55-day Bollinger Band (grey) if the consolidation lasts for a month or more.

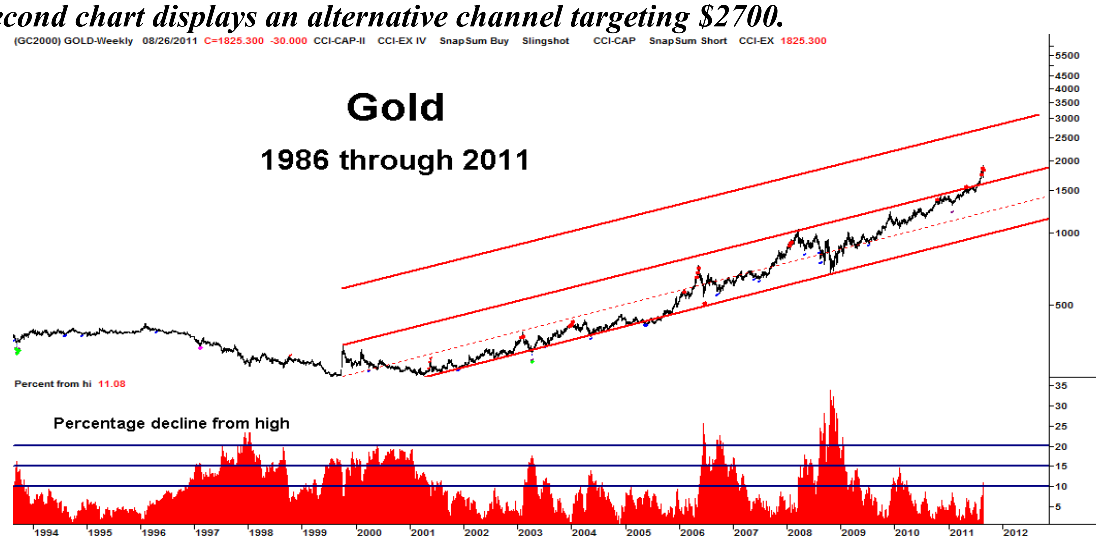
The gold/oil ratio is into resistance around 22:1. Look for the mining stocks to have a 20%+ decline into an attractive buying opportunity in the coming one to three months.



The decade long bull market is taking 3 ½ times longer to evolve as the bull market of 1976 to 1980. A pause here for a number of weeks followed by decisive close through $1900 would take gold out of the methodical uptrend channel and place it into an exponential phase targeting $2900+. This would be similar to the breakout through $310 in August 1979.

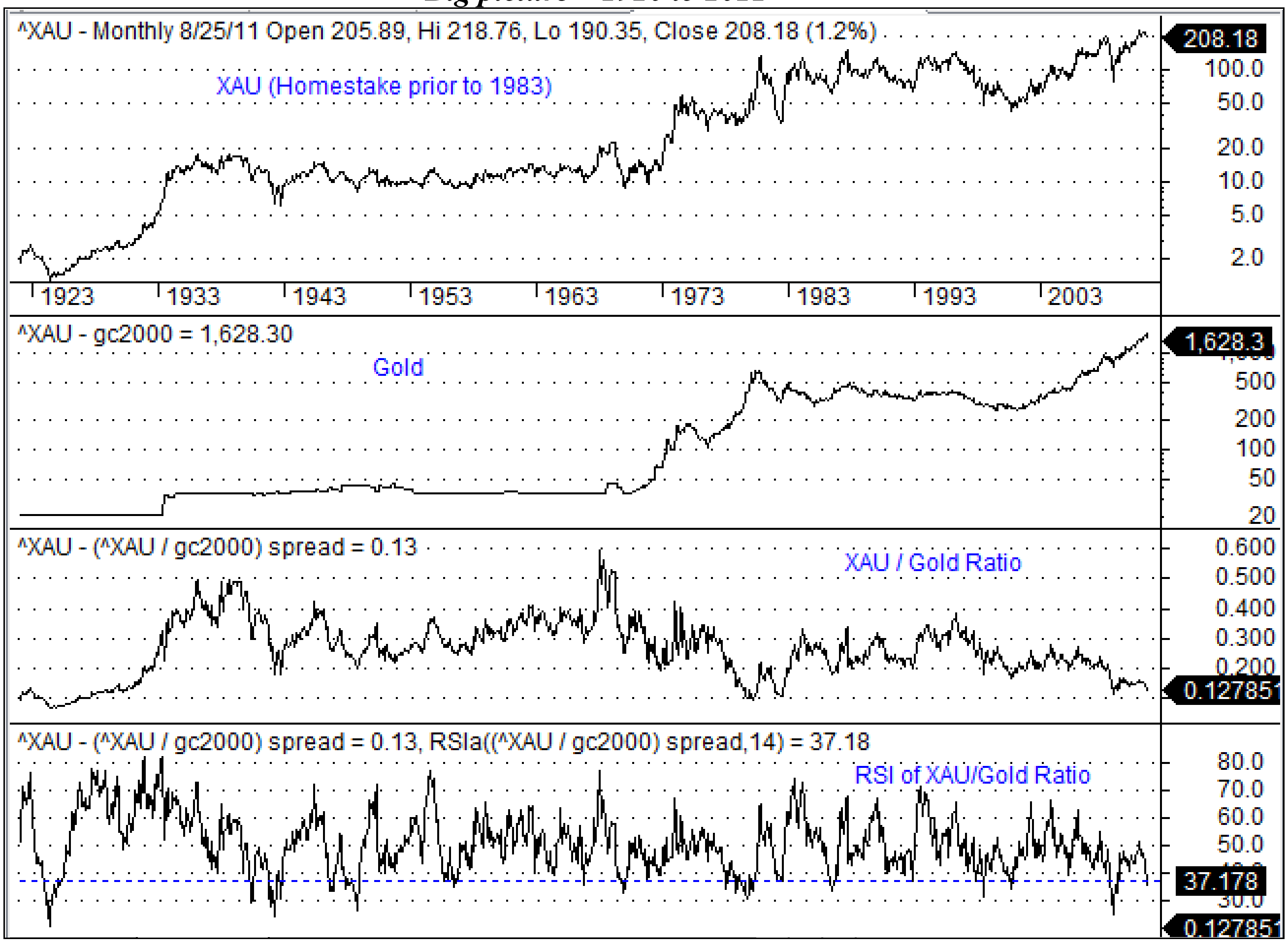


The second chart displays an alternative channel targeting $2700.

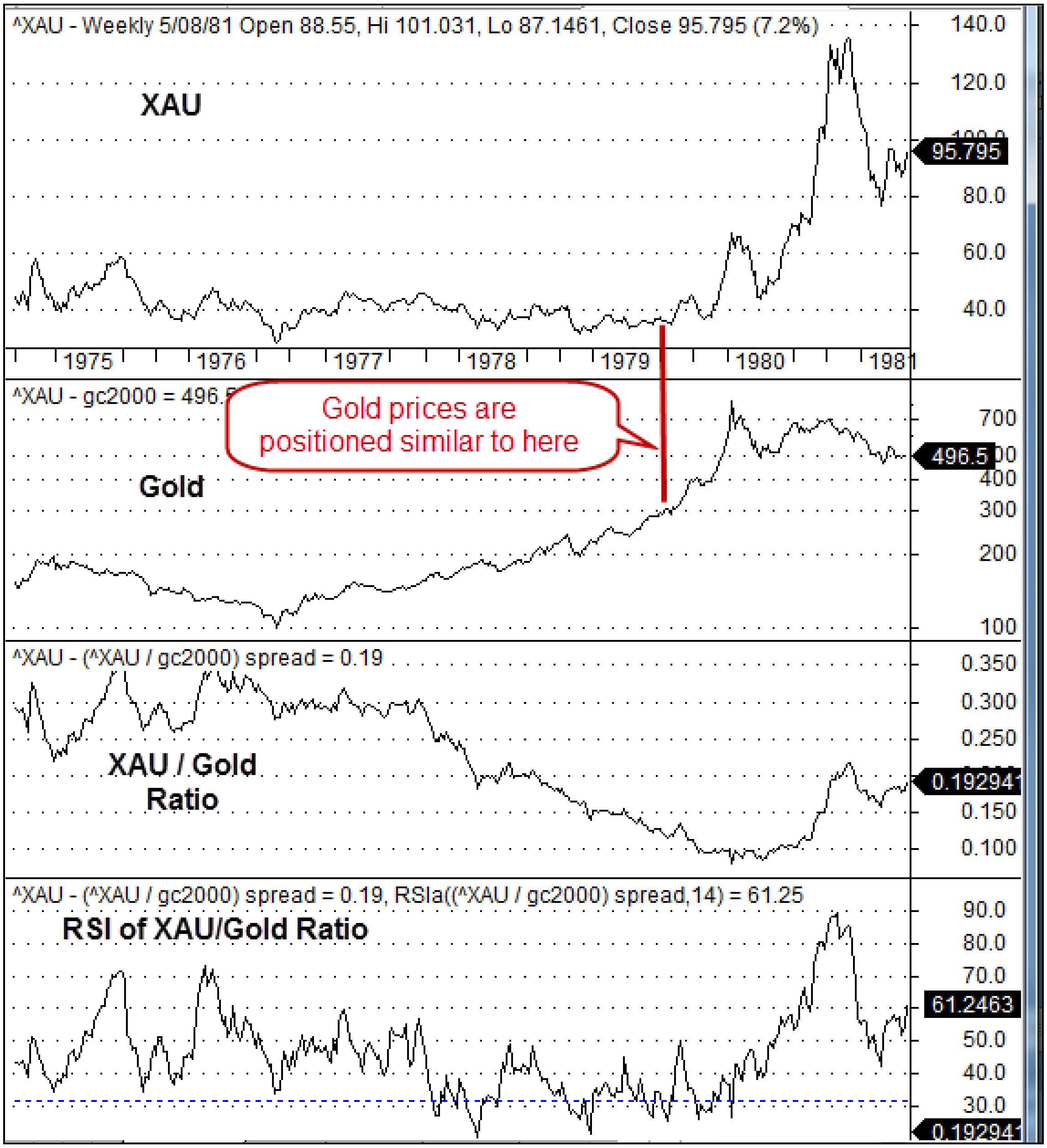


Mining stocks have under performed bullion for a number of years and the current ratio of XAU/Gold is close to the lows of the past three decades. This is similar to the bull markets of 1971 to 1975 ($35 to $200 in bullion) and 1976 to 1980 ($100 to $850 in bullion). When the monthly RSI drops below 38, as it did in July, it generally takes one to three months for the XAU to complete a base from which to advance.

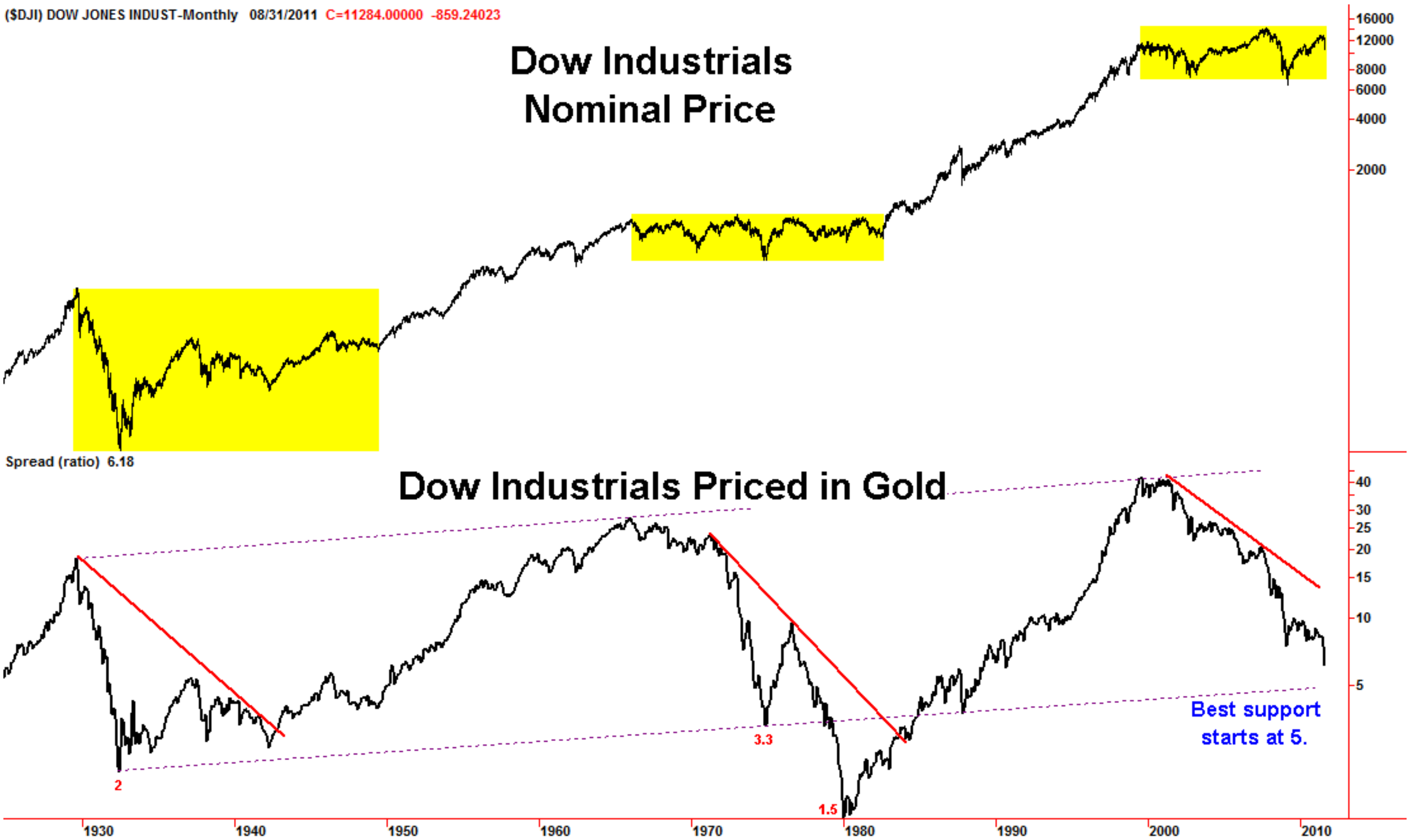
Big picture – 1920 to 2011



If gold is positioned similar to July-August 1979 then we can anticipate a consolidation to be followed by a good participation in the mining stocks on the next move in gold.



Gold is still not expensive when related to the broad equity markets. The secular bear in equities started in 2000. Look for it to continue, with the Dow/Gold ratio (*currently 6.1:1*) eventually finding its bottom no higher than 5:1, but easily capable of moving to test the 1974 low of 3.3:1, the 1932 low of 2:1 or even the 1979 low of 1.5:1.



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BOB HOYE, INSTITUTIONAL ADVISORS

EMAIL **bobhoye@institutionaladvisors.com**

WEBSITE www.institutionaladvisors.com