

ChartWorks

PUBLISHED BY INSTITUTIONAL ADVISORS

September 7, 2009

Technical observations of RossClark@shaw.ca

Gold. . . couldn't be better. We've watched patiently, monitoring the action in anticipation of a breakout, but what if we're wrong?

The making of a 'Perfect Storm' is in place for a large move in gold prices. Over the past months ChartWorks has presented analysis displaying the likely development of the consolidation and final breakout of resistance. We are including updated charts from reports done over the past months.

- **The pattern is right;** a triangle and a Head & Shoulders base with a 17-month time frame and enough depth to provide stored energy to produce a lasting move.
- **The timing is right;** a fully developed Megaphone from March 2008 with similar structure to Feb-Sept 1980, Jan-July 1986, Apr-Oct 1987, Jan-Sept 1994, Jun-Dec 2002 and Jan-Oct 2004.
- **Seasonality is right;** September is one of the strongest months for precious metals.
 - August had a classic 50% to 70% pullback before last week's breakout.
- **The battle at \$1,000;** compares to the Dow of 1966 to 1982, implying the possibility of a \$1,000 rally within a year of a decisive breakout.
- Mining stocks are currently outperforming silver which in turn is outpacing gold. This is exactly what one wants to see in a strong metals move.

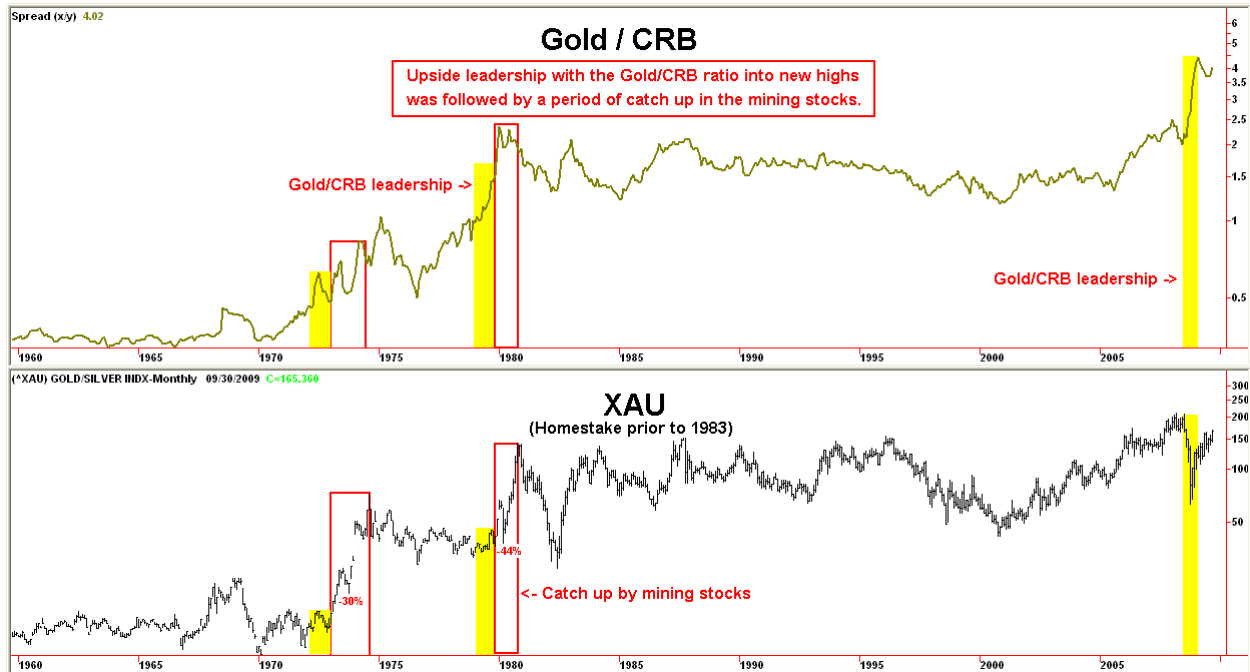
But what if all the best laid plans fail to produce upside action? The daily sentiment index is at an extreme, 89%. So volatility is to be expected. A 50% correction from the breakout at \$968 or a test of the 20-day exponential moving average would be healthy; however on a closing basis prices must breakout at \$968.

Will gold reach _____? The calculation of upside targets in gold has become the 'flavour of the day' for analysts. We also have numerous targeted measurements, but it is more important to recognize the character of the market as it moves higher. As we've learned (*the hard way*) bull markets will go much further than you ever expect and conversely, the most widely anticipated moves can quickly turn into heartache when they fail.

We have techniques that have been of value in identifying the end of trends and prefer to let the market show its hand as it reaches the end of a move.

Gold Vs CRB

Gold has been moving up relative to the CRB commodity index for most of this decade and it was only in the second half of last year the senior mining stocks (*as represented by the XAU, HUI and GDX*) fell behind. The decisive move to new highs in the ratio, unconfirmed by the stocks, was similar to the highlighted periods of Apr '72 to Jan '73 and Jan to Sept '79. The catch up on the upside this year has already been impressive, but it still has much more room to go. Be aware that as the mining stocks step their way higher they will likely have their share of sharp corrections similar to Jul-Oct '73 and Feb-Mar '80.



Seasonality

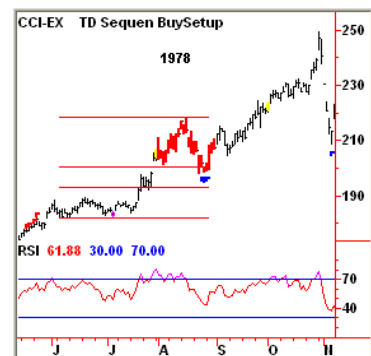
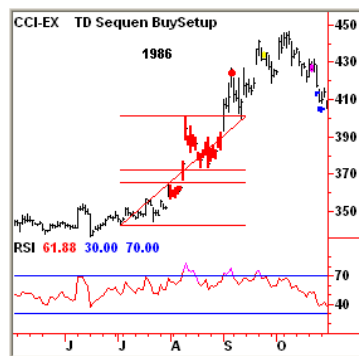
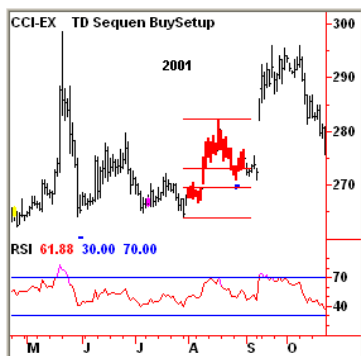
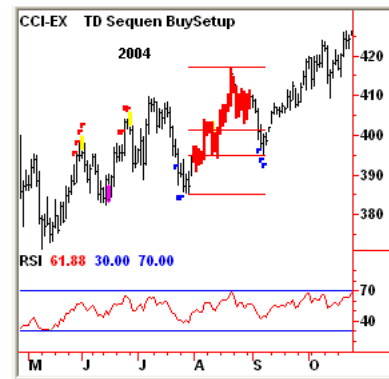
The September – October breakouts have historically continued until there was:

- a bearish divergence with the XAU; 1974, 1977, 1978, 1999, 2001, 2004, 2005
- an upside Exhaustion Alert; 1970, 1976, 1979, 1982, 1986, 1999, 2007
- failure of a breakout; 1980, 1986, 1994
- 2003; up until Jan

None of these factors currently exist.



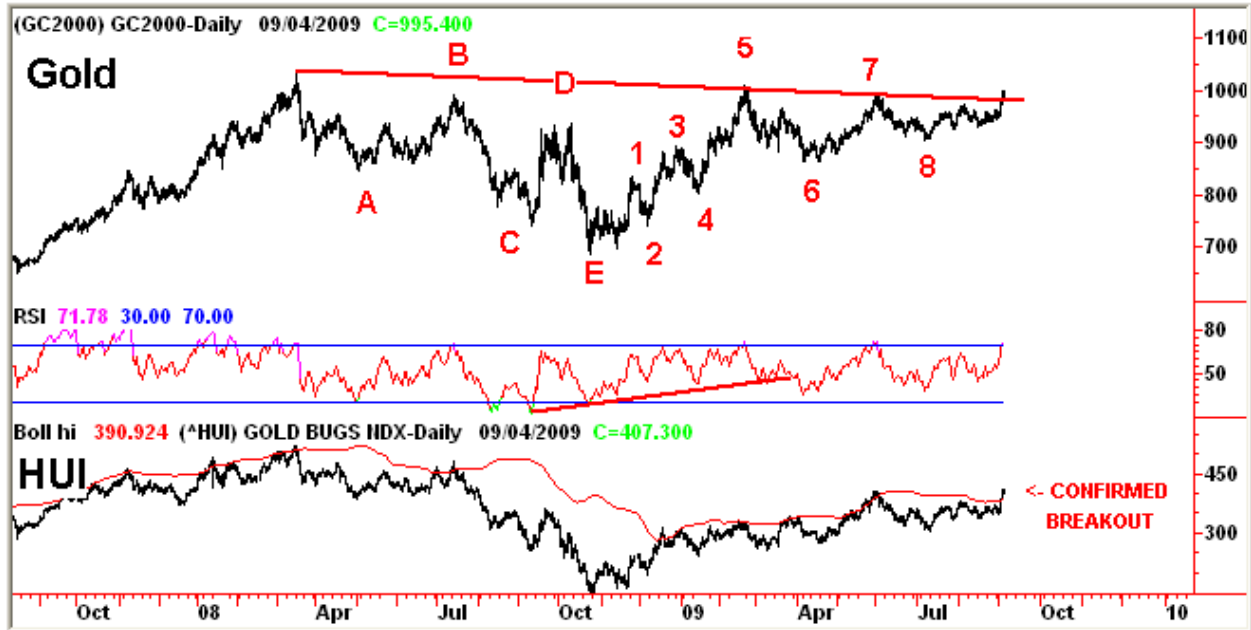
Years like 2009 where gold was strong into early August, corrected the move from the July lows by 50% to 70% and then went on to higher highs



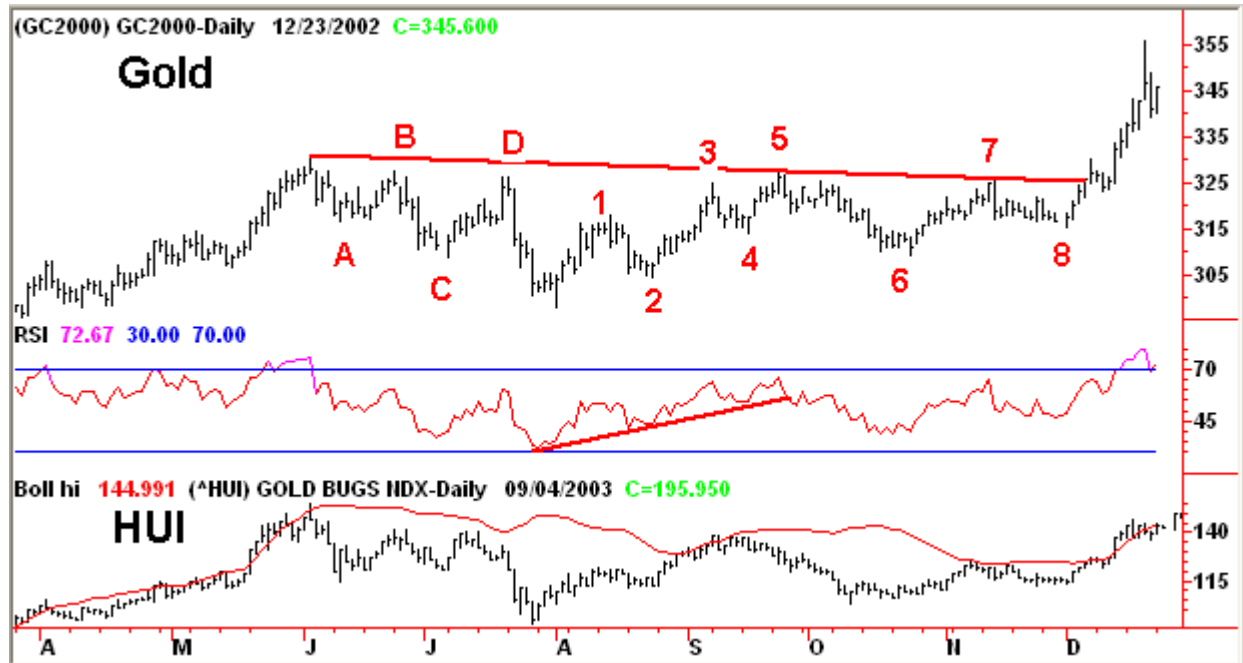
Triangle / Megaphone

Senior mining stocks are confirming the breakout.

2007-2009



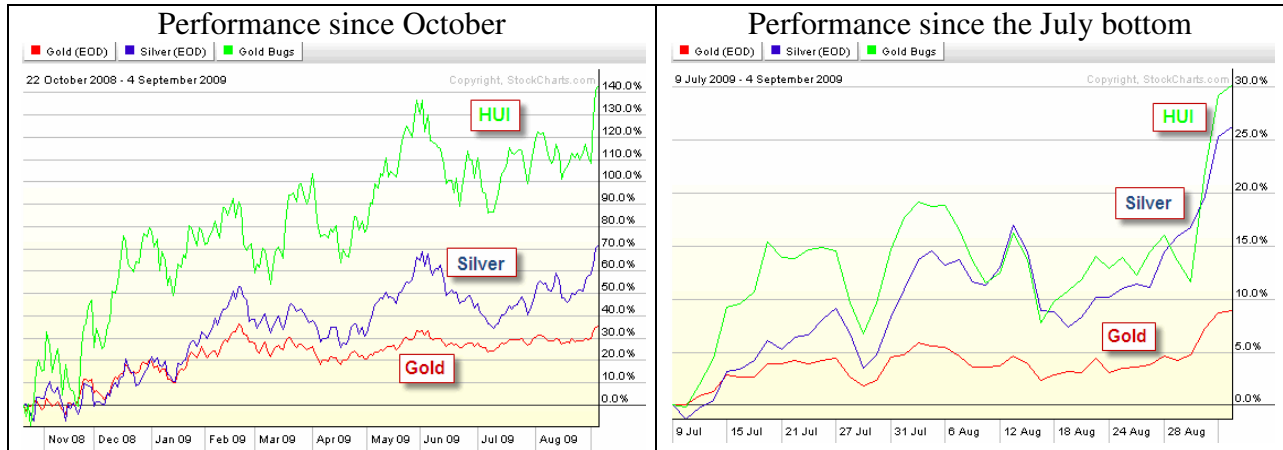
2002



The Battle at 1,000 projects resistance in the low \$1,100's and then at \$2,000.



Mining stocks are outperforming silver. Silver is outperforming gold.



Silver/Gold

The Silver/Gold ratio is approaching overbought territory. In the strongest of years the RSI(14) managed to record levels in the mid-high 80's (1974, 1979, 1980, 1987, 1988, 2003, 2004, 2006 & 2008). In many other years the RSI of the ratio topped in the 70's and was followed by a downside correction in the silver price of 12% to 15%. If other technical measurements become excessive then we will use this analysis to assist in determining the depth of the break.



The opinions in this report are solely those of the author. The information herein was obtained from various sources; however we do not guarantee its accuracy or completeness. This research report is prepared for general circulation and is circulated for general information only. It does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may receive this report. Investors should seek financial advice regarding the appropriateness of investing in any securities or investment strategies discussed or recommended in this report and should understand that statements regarding future prospects may not be realized.

Investors should note that income from such securities, if any, may fluctuate and that each security's price or value may rise or fall. Accordingly, investors may receive back less than originally invested. Past performance is not necessarily a guide to future performance. Neither the information nor any opinion expressed constitutes an offer to buy or sell any securities or options or futures contracts. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related investment mentioned in this report. In addition, investors in securities such as ADRs, whose values are influenced by the currency of the underlying security, effectively assume currency risk. Moreover, from time to time, members of the Institutional Advisors team may be long or short positions discussed in our publications.

BOB HOYE, INSTITUTIONAL ADVISORS
EMAIL bobhoye@institutionaladvisors.com
WEBSITE www.institutionaladvisors.com