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Golds: Been Looking For a Buyable Low in October

This target goes back to the Overbought for the Sector set in May when we noted the decline could run to a natural low. Without the current Oversolds the trend might have continued. But the excesses are providing the “Buy”, at the right time. And the advice is to start accumulating to an Overweight position – Golds could outperform the S&P.

Our outlook is not based upon the “Dollar Down, Gold Up” mantra, but upon earnings increasing as mining costs decline relative to the bullion price.

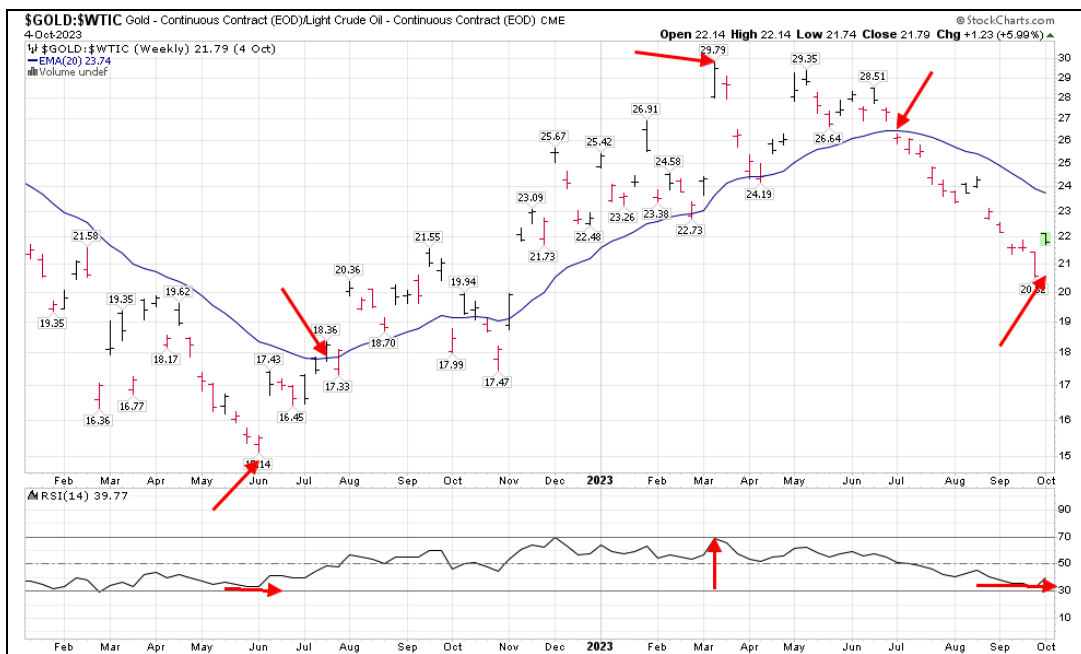
First is the GDXJ chart, with key points emphasized:



Next is GDXJ/CRB, with the latter a proxy for mining costs:



And the third chart plots GDXJ/WTI, as a proxy for energy costs. Some 60% of mining costs relate to energy.



Our main thesis has been that in Post-Bubble Contraction, most asset prices deflate. And as gold is money its purchasing power will go up, as with previous Great Depressions. Such that the Sector that can predictably increase its earnings under generally trying times.

All classes of Gold Stocks will benefit as did Homestake, which could have been accumulated at \$9 in 1930 and 1931. With the Crash into 1932, Homestake was up by 130% to the end of 1932. But the price of gold was still convertible at \$20.67 per ounce. Homestake's earnings were up that much – with no change in gold's price. The real price had gone up, enhancing operating margins.

In those days earnings were paid out by way of dividends. Shareholders were getting \$4 on their \$9 purchase and the stock had soared to \$65 in the mid-1930s. This is when the DJIA was trashed by 87%.

So, this accumulation, ranging from Big Caps to Small Caps, could provide another such opportunity.

The following chart shows the severe selloff in the GDXJ, which is now down to a Sequential Buy.



And the last chart shows that the TSE Venture, representing “Juniors” is oversold, down to a Super Capitulation. It is possible that veteran traders in this sector are waiting for tax-loss selling later in the year, but we would begin accumulating now.



It is one thing to accumulate a very depressed sector, but on top of this the GDXJ could outperform the S&P. And after a couple of quarters of this, the more aggressive equity fund managers will have to get in the play.

In a separate study, we have noted that the great gold rushes have occurred in Post-Bubble Depressions. Those, such as the Klondike as that Great Depression was ending in the late 1800s. Similarly, the California Gold Rush erupted as the 1825 to 1845 Great Depression was ending.

Quite likely most of the surface alluvial gold has been discovered, so the play could be discoveries made by proven exploration techniques.