

ChartWorks

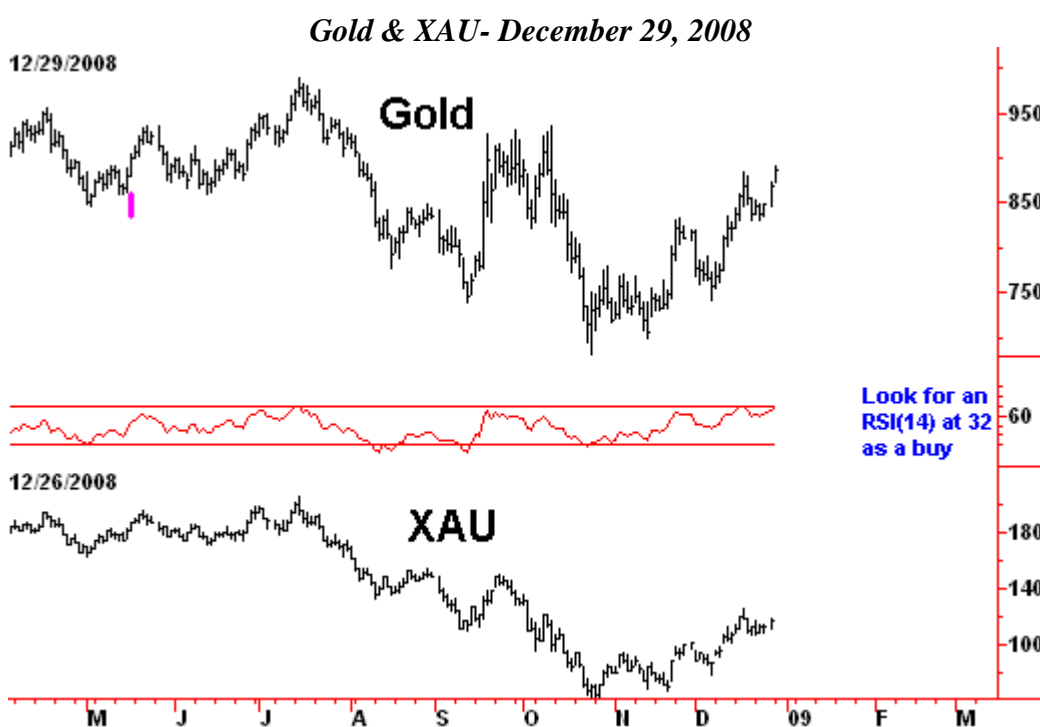
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Technical observations of RossClark@shaw.ca

Gold Price Action at Times of Conflict

The Israeli strikes on Humas over the weekend have brought strength into the gold market. However, investors should be wary. The following report is from July 2006 and outlines the type of market action that has occurred subsequent to times of conflict.



July 26, 2006

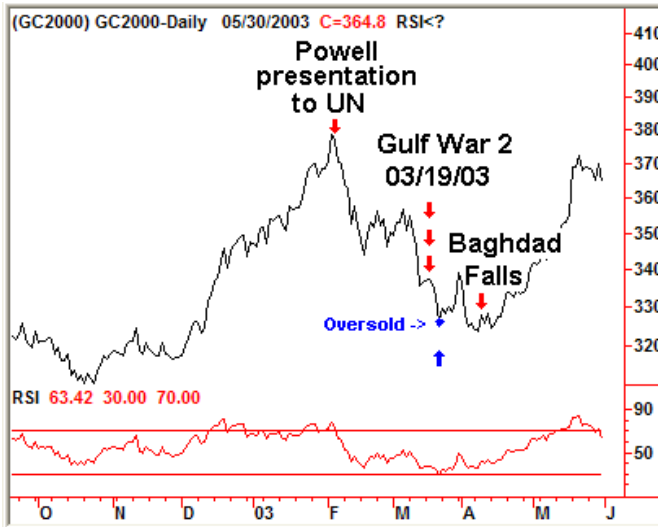
When the sound of gunfire can be heard or becomes imminent the gold market can be anticipated to generate an interim high as previously indecisive traders, sitting on the sidelines, impulsively jump into the market. With the buying power spent, the gold price tends to ease lower until a resolution in the conflict becomes apparent. As traders then exit their long positions the market typically becomes oversold and generates an important low. In most cases this can be identified with an RSI(14) reading below 32.

Gold Bullion

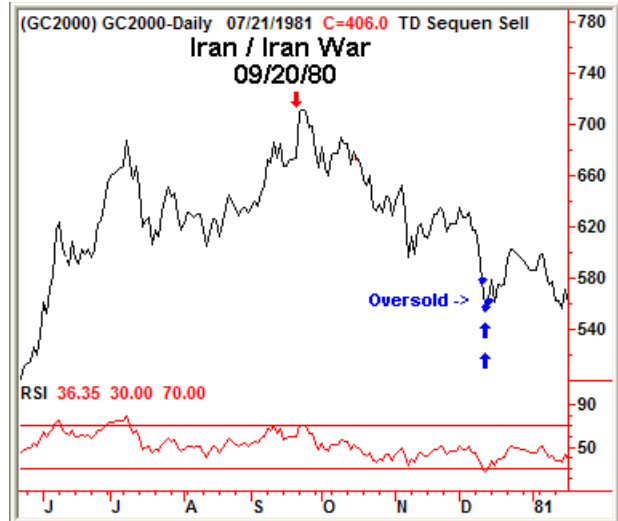
(Charted of July 2006 updated with subsequent buy signal at \$577 on Sept 14/06)



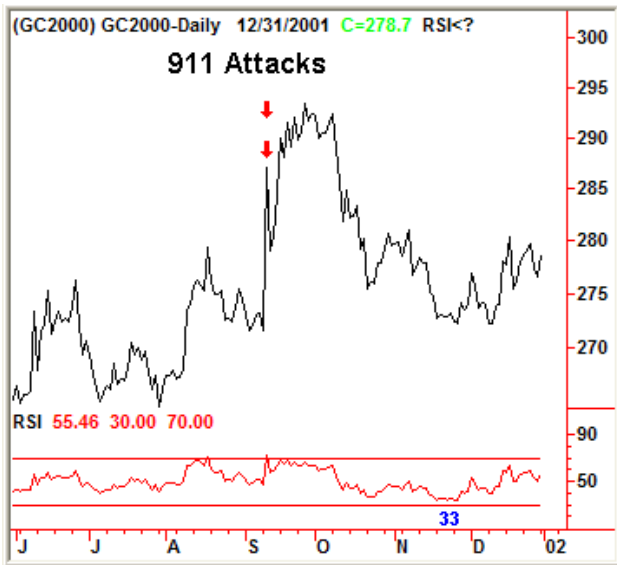
2003



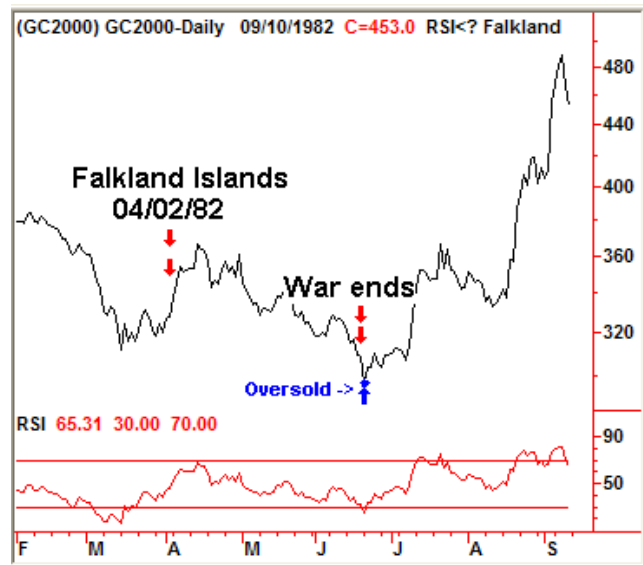
1980



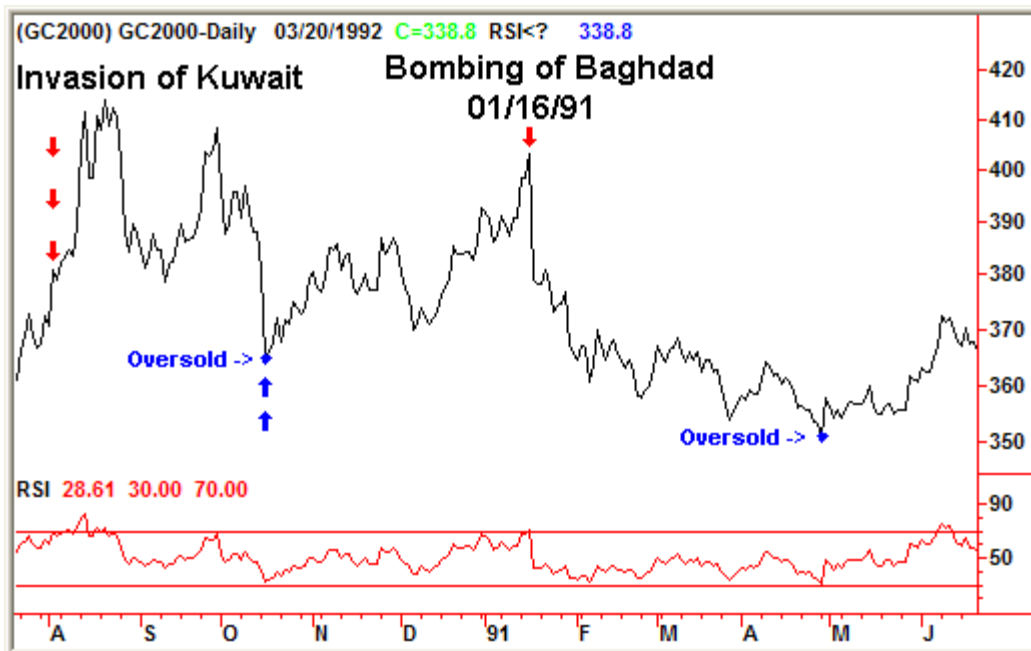
2001



1982



1990-91



XAU Action

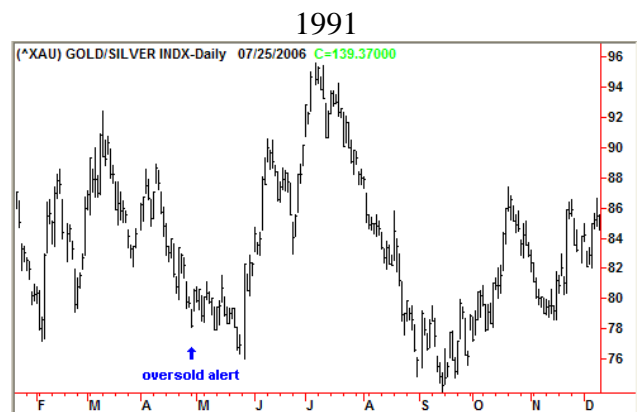
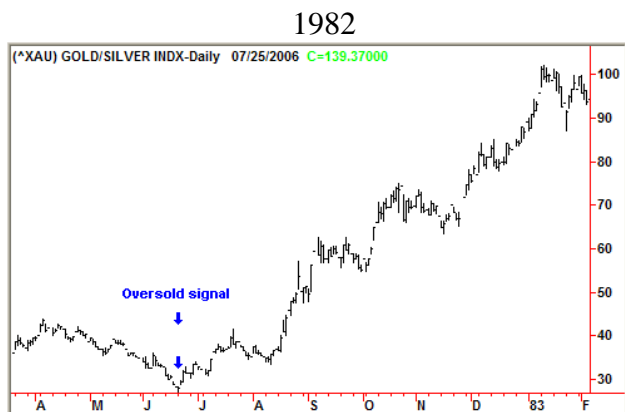
The initial breaks in the XAU were as follows:

| | | |
|---------|----------------|---|
| 1980-88 | Iraq/Iran | -19% |
| 1982 | Falklands | -38% |
| 1990-91 | Kuwait | -20%, then another 21% following bombing of Baghdad |
| 2001 | 911 WTC | -18% |
| 2003 | Gulf War 2 | -22% |
| 2006 | Israel/Lebanon | -subsequently reached -18% |

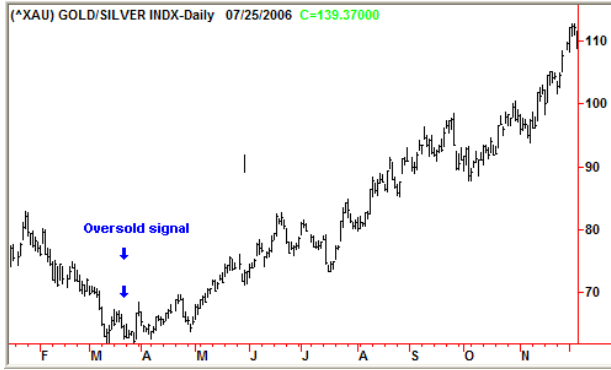
Once the RSI generated an oversold reading in the gold bullion the mining stocks managed to turn the corner. (The 1980 Iraq/Iran war was the only example that failed to produce a multi-month rally.)

| Oversold | XAU | Subsequent Low | Max Exposure | Months of rally | High | Max Potential |
|----------|--------|----------------|--------------|-------------------|------------------|---------------|
| 12/10/80 | 112.90 | 110.28 | 2.3% | 1 | 123.16 | 9% |
| 06/21/82 | 28.17 | 28.17 | Nil | 8 | 112.75 | 262% |
| 04/29/91 | 78.17 | 76.74 | 1.8% | 3 | 95.58 | 22% |
| 11/19/01 | 49.46 | 49.46 | Nil | 6 | 89.03 | 80% |
| 03/21/03 | 63.15 | 62.21 | 1.4% | 8 | 112.75 | 79% |
| 09/14/06 | 125.54 | 120.61 | 4% | 4 then 13 more | 149.95 206.37 | 19% 64% |

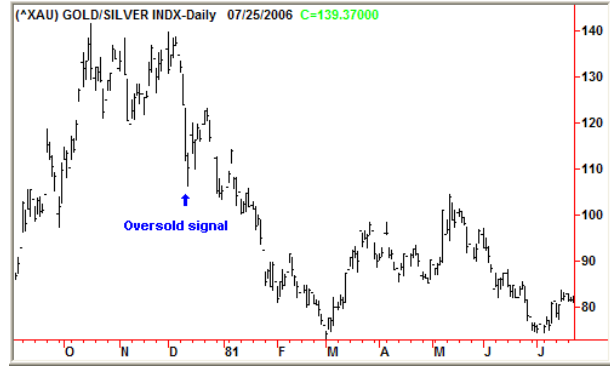
XAU



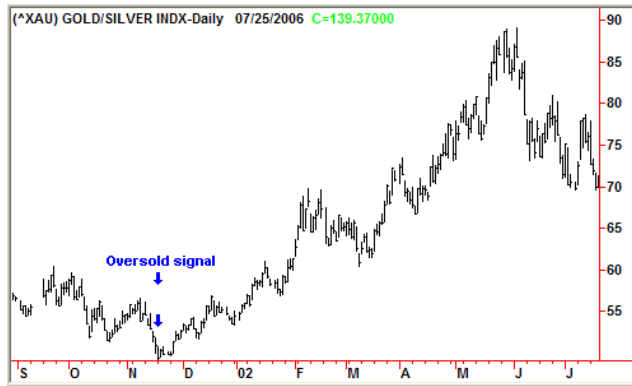
2003



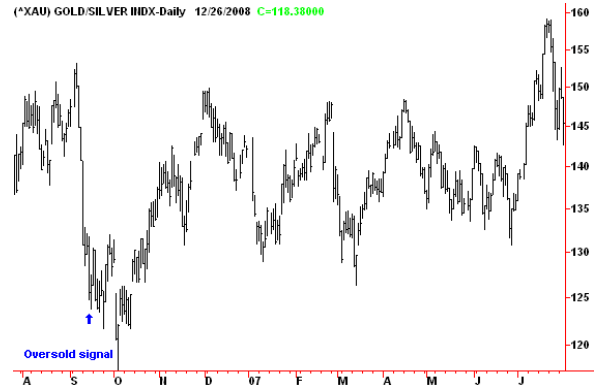
1980



2001



2006



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