

ChartWorks

PUBLISHED BY INSTITUTIONAL ADVISORS

MONDAY, DECEMBER 29, 2008

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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

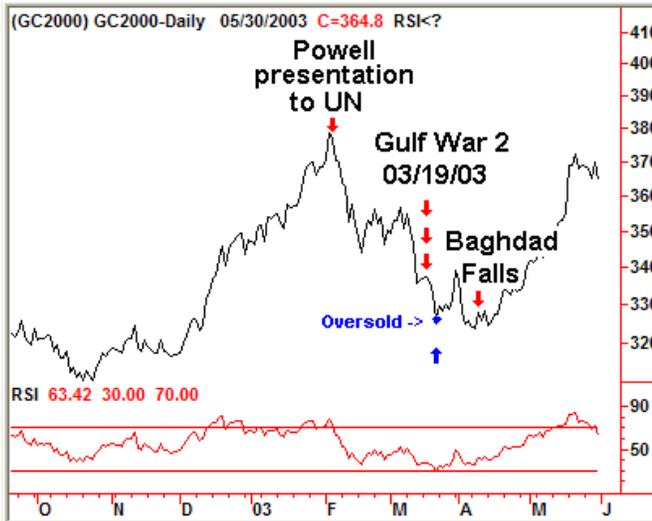
When the sound of gunfire can be heard or becomes imminent the gold market can be anticipated to generate an interim high as previously indecisive traders, sitting on the sidelines, impulsively jump into the market. With the buying power spent, the gold price tends to ease lower until a resolution in 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

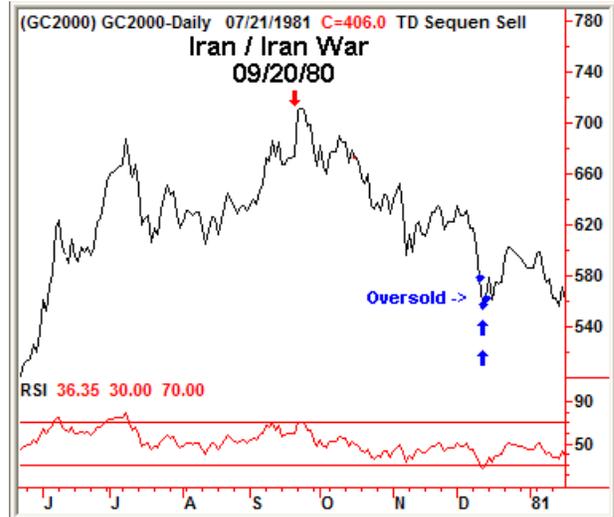
(Charted of July 2006 updated with subsequent buy signal at \$577 on Sept 14/06)



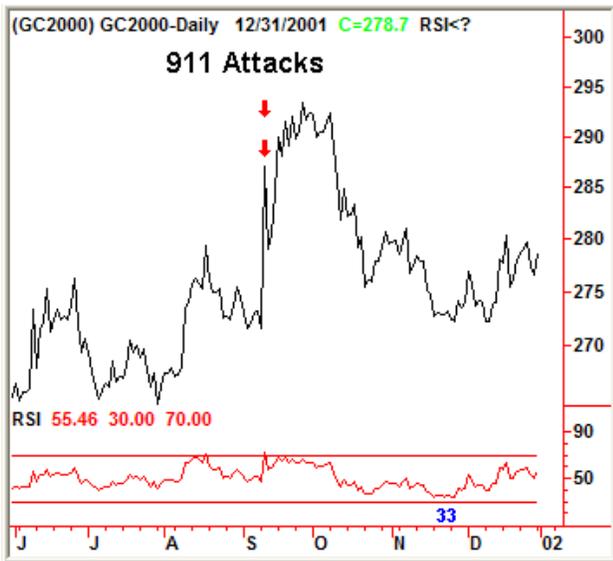
2003



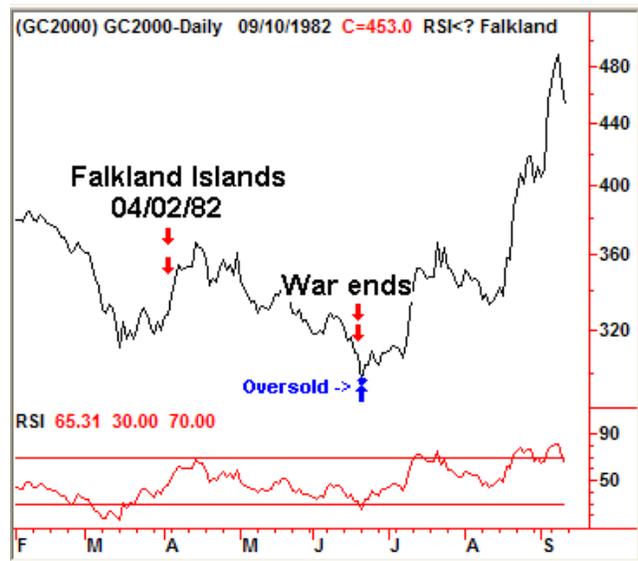
1980



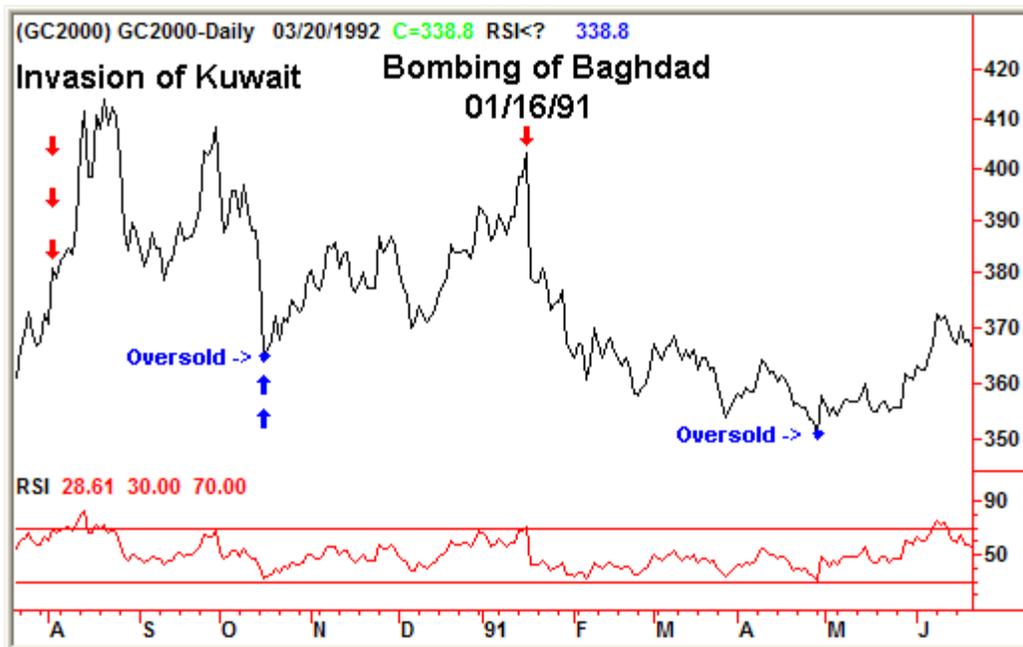
2001



1982



1990-91



XAU Action

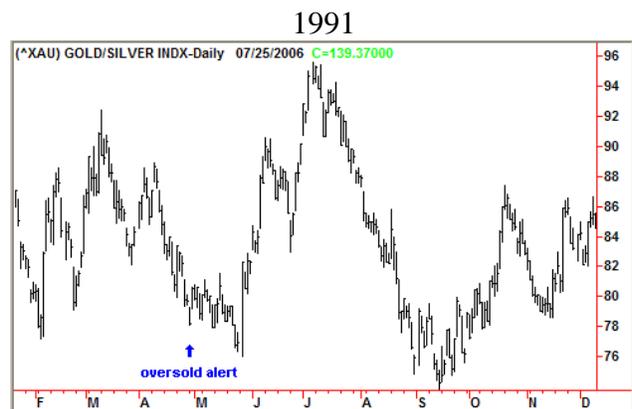
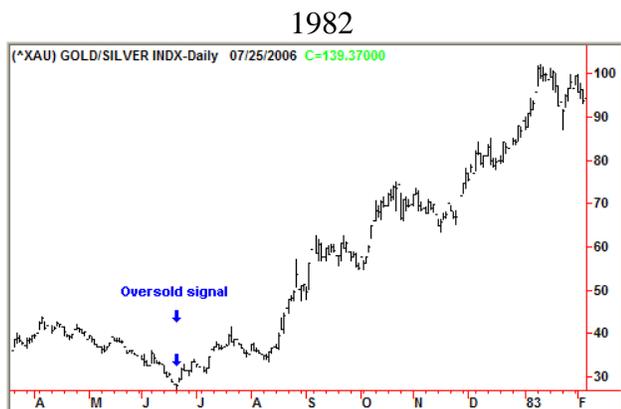
The initial breaks in the XAU were as follows:

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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