

## RESUMPTION OF THE GENERATIONAL GOLD BULL MARKET?

These past weeks, Gold broke out to the upside after a 4 year correction. I waited until today for confirmation on the monthly chart that this breakout is the real deal and got it. This breakout almost certainly signals the resumption of this “once in a lifetime” Generational Gold Bull Market with the attendant questions “How High” and “When”. While there are never any guarantees when one is trying to predict market direction, there are patterns that repeat and/or reliably play out with high probability. Therefore, there are “pretty safe” bets. However, I do want to caution you that there are a few stages that have to play out before stellar price action manifests. Bottom line, in my opinion this is a good time to buy Gold or Gold Equities and “hold on” for an exciting, sometimes bumpy ride to the top in 6-8 years.

South Africans – no matter when you bought, your “perfect rand hedge” bet is paying off handsomely and should do continue to do so – probably beyond expectation.



First, let us confirm that the bottom is in. Below I try to do a pro – rata comparison of the time and price targets of the 1970 – 1980 Gold Bull Market and the current Gold Bull Market. During the 1970-1980 Gold Bull Market, Gold rose from \$35 to \$195 by end 1974 and then dropped just below the 50% retracement mid 1976, before again commencing its rise. The initial rise took Gold back to the previous peak at \$195 by end 1977. Next followed a consolidation phase lasting 9 months, comprising a bonk against the previous peak at \$195, a dip, bounce through \$195, retest of \$195 and only then the final exponential rise up to \$850 in just 1.2 years. Using this Fractal Pattern, I attempt to create a matching “pro rata” scenario for the current Gold Bull Market. NOTE! A Fractal is a pattern that repeats. However, while Fractal patterns repeat, as shown in the graphs below, they are usually similar in “shape”, but the

price targets and time frames would not be exact. Fractal eg: Every major Bull Market Peak in history that ended in an exponential blow off, eg. Dow in 1929, Gold in 1980, Nasdaq in 2000 etc., has been followed by a 10-15% correction and then a rise to a lower peak, before the market properly crashes.

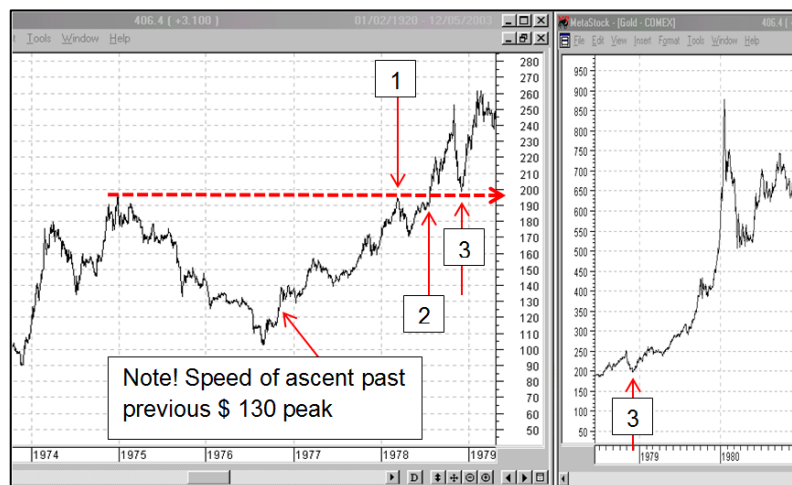
Years Per phase '70-'80	\$ Gold Price	Pro rata 4 Current bull Yrs / Phase	Gold Price	Indicative Year	My Age
0.0	35.0	0.0	255.0		53
4.0	195.0	10.7	1920.0	2011.7	57
1.5	100.0	4.0	931.0	2015.7	63
1.5	195.0	4.0	1920.0	2019.7	67
0.8	195.0	2.1	1920.0	2021.9	71
1.2	850.0	3.2	8800.0+	2025.1	73
9.0		24.1			

At this stage it looks as if the Dec 15 bottom at \$1046 was the sub 50% retracement bottom (the correct pro-rata correction above would be \$931). However, this is an unlikely target as reflected further below. This time around we need to remember that circumstances are very different from 1980, since debt is at unsustainable levels, deficit spending continues unabated, interest rates are negative, the global economy is in a mess, geo politically things are tricky etc. Due to the “Fiat” money explosion, a significantly higher peak is a distinct possibility (\$10 000+?).

To compare the “chart” fractals, I look at both the historic and current charts. Below you see the comparative correction of the weekly Gold Bull Market from end '74 to mid '76. Look at price, bound by the red parallel lines, the drop, the declining flag, the break down out of that flag and the sudden rise through the tip of the flag. After that quick rise Gold price commenced rising from mid '76 to eventually get up to \$850 by end 1980. Are we at a similar low point in the current monthly Bull Market where price also broke down out of the declining flag, before suddenly rising.



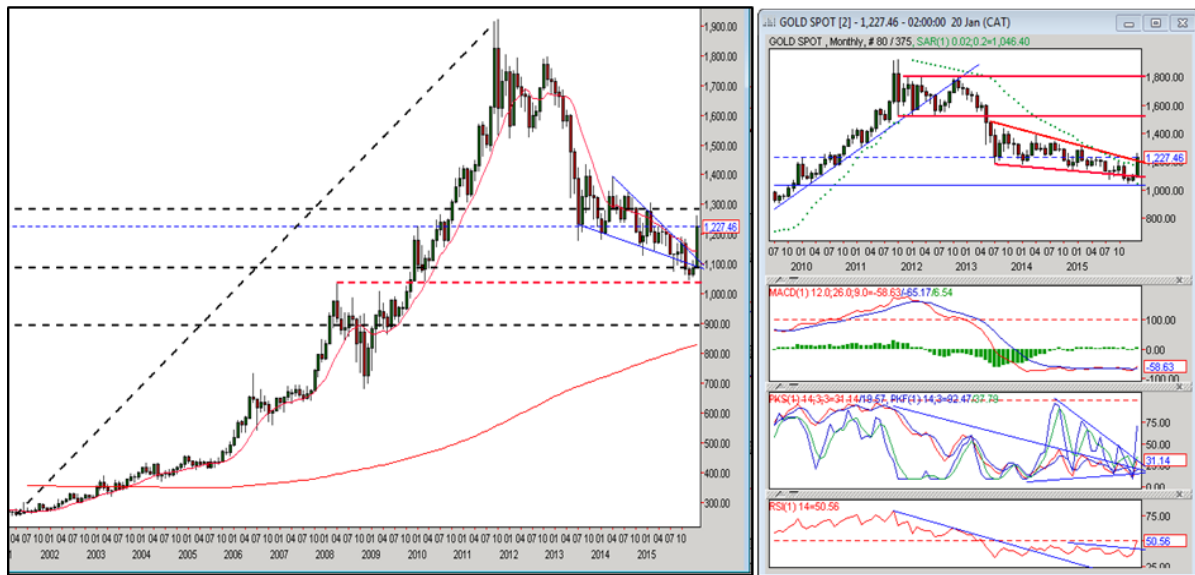
Even if the above is true, we still have a way to go (below). During the 1980 bull, Gold rose progressively back to \$195 (dotted red line) early 1978, was repelled at 1, broke through at 2, retested at 3 before commencing its parabolic rise to \$850 early 1980. The depicted formation is known as a cup and handle, which is a very reliable break-out pattern, with the cup shown from 1974 to 1978 and handle from points 1-3.



If we relate the above cup and handle formation to the current Gold Bull Market, we have a way to go. We need to first break through a few resistance levels, get back to our 2011 peak at \$1920, do the handle of the cup with a drop from \$1920, a rise through \$1920 and a retest of \$1920 from above before we are off to the races.

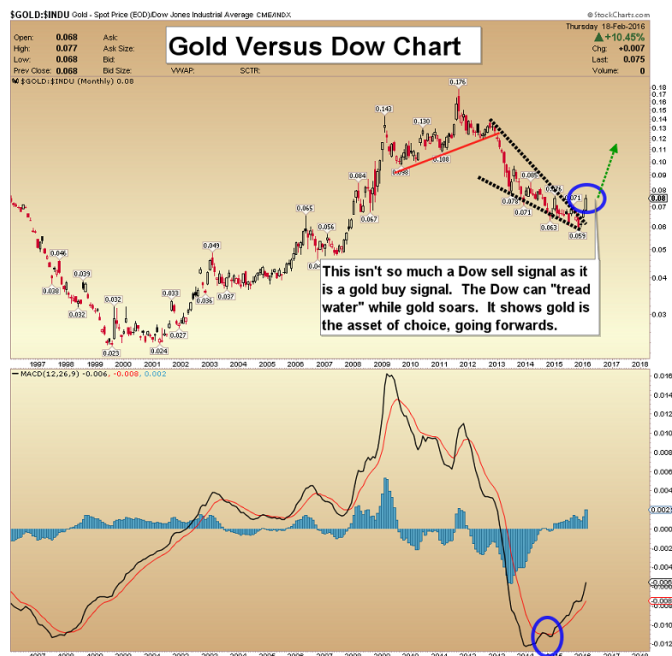
Below left. It would appear from these charts that the bottom is in. We did our break just below the 50% retracement to \$1046, stayed above the red dashed line of the 2008 peak at \$1035 and have quickly broken through the tip of the declining flag and above resistances at \$1180 and \$1225, which is very bullish. Below right. The fact that the monthly Parabolic SAR (green dots) has been broken is very bullish. MACD

is pointing up, RSI is looking promising and, more important, both the slow and fast Stochastic (PKS) have broken above their respective declining resistance lines.

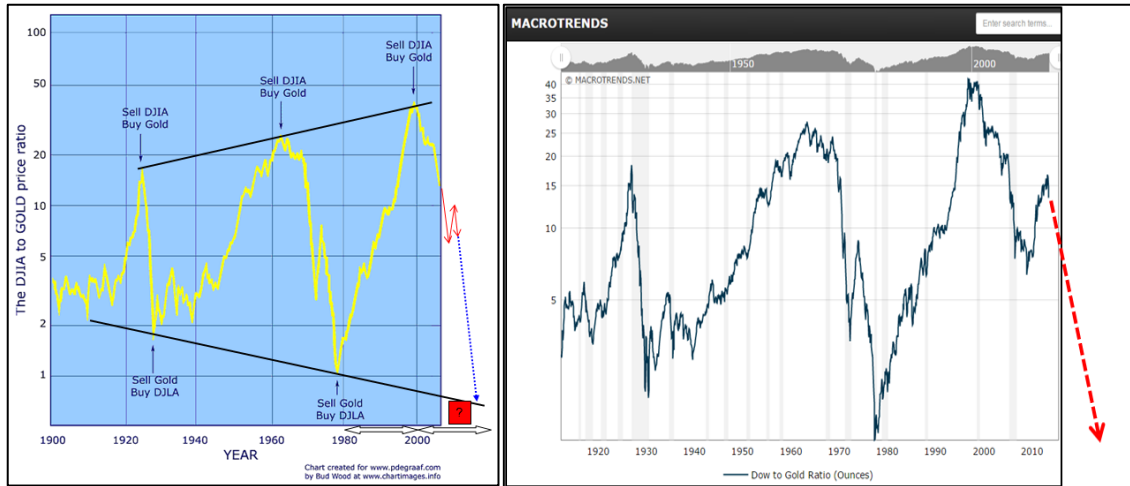


Another revelation that the bottom is in, is from this Gold:Dow ratio chart from this excellent article from Morris Hubbartt that shows Gold breaking out to the upside. MACD implies that Gold looks set to outperform the DOW for the foreseeable future.

<http://www.gold-eagle.com/article/gold-stocks-top-or-bull-flag>



Looking at the reverse of this chart as the DOW:GOLD ratio below, I show a chart I found and projected on in 2007. Beside it I show the latest chart. Note! This implies the recent peak in the DOW/S&P was not a real peak (inflation adjusted it was not).



Remember, these are high probability plays, not guarantees. If the DOW Gold ratio goes back down to say 1:1, will that be with the DOW at \$10 000 and Gold at \$10 000 or with the DOW at \$3 000 and Gold at \$3 000. Worse still, if the ratio goes down to say 0.5:1.0 as implied on the left will that be with the DOW at \$5 000 and Gold at \$10 000. While we play these games and the future looks very promising, only time will tell.

FYI Morris' chart showing Silver breaking to the upside.



Final Note! Stock markets are not as healthy as they would have us believe as the recent rise was on the backs of the big 5 Facebook, Amazon, Google Netflix et al, or the big 10 and most of the rest of the stocks performed dismally.

<http://davidstockmanscontracorner.com/the-next-big-short-jeff-bezos-brobdingnagian-bubble/>

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## **Eelco Lodewijks**

**Eelco Robert Lodewijks** was born in South Africa. He has a BSc Civil Engineering from University of Cape Town and a MBA from UCT. Mr. Lodewijks lectures Advanced Excel and Advanced Financial Modelling in Excel on the international circuit (including Hong Kong, Singapore, Brunei, Malaysia, Dubai, Kuwait, RSA, Mauritius, Zambia, Nigeria, Uganda, Tanzania and Zimbabwe). His early career was spent in construction site management on large multi-million Dollar projects, both in South Africa and the Middle East, where-after he did his MBA.