We've been watching this same chart for months. Back in March it looked like Gold had broken through resistance at $1350 while penetrating the upper median line of the red Andrews pitchfork. This breakout failed pretty quickly and price dropped back into the downward sloping red fork. Resistance at this fork's upper median line contained price for three months before we got another breakout in June. Price tested $1350 again but couldn't push higher. The retreat from $1350 took Gold back to the lower median line extension of the blue Andrews pitchfork. This line had provided support twice and, until last week, it looked like it was going to provide support again.

The break below support isn't the only bearish sign in this chart. MACD has been in bearish mode (both lines below zero) since February 2013 and even with the somewhat positive action this year MACD has remained in bear mode. We also have Stochastics suggesting that price is headed lower. Notice how this indicator has travelled from overbought to oversold in its last few cycles. Price hasn't bottomed until Stochastics became fully oversold and the indicator still has some distance to travel before it becomes oversold again.

Price is already below the 10 and 40 week moving averages so we won't get any support from them. The last low was at $1242.70 and we should get some support there. If that level doesn't hold we are likely heading for a retest of the double-bottom in the $1180 region.

The price of Gold is well managed - some would say manipulated. If it was our job to manage the price of Gold we would try to push the yellow metal below the double-bottom at $1180 in hopes of triggering capitulation selling. Some participants in the Gold market are assuming that $1180 marks the bottom of Gold's decline from the $1950 high. If $1180 breaks these people may assume that Gold's secular bull market is over and sell their holdings.

Look at the chart of Gold's secular bull market to date. Price could drop all the way to the lower trendline and Gold would still be in a secular bull market. Notice how this trendline is coincident with a 61.8% retracement of the bull market. Now we aren't suggesting that price will drop to that level - we just want to emphasize that a break of the double-bottom at $1180 does not mark the end of the secular bull market.

Gold's Secular Bull Market (US Fed data of London P.M. Fix price)
The daily chart of Gold gives us a better look at potential support levels. The regular-Schiff pitchfork shows us that price is currently working mostly sideways with a slight downward bias. Price is sitting on support at the fork’s median line and Friday’s close was above this line. If the median line doesn’t hold we have the prior low around $1243 that could act as support. If $1243 doesn’t hold we will probably revisit the double-bottom ($1180'ish) or even the lower median line of the fork around $1150. Breaking the double-bottom could easily bring in capitulation selling that would take price to the $1150 level very quickly.

COMEX Gold - daily

That’s enough gloom-and-doom about the Gold price - let’s see how the mining stocks are holding up.

Unfortunately this GDXJ chart is not a pretty picture to look at. Last week’s action took price below support on a significant uptick in volume. The mining stocks have been consolidating recently and we were expecting price to break upwards not downwards.
This chart does a good job of showing the power of Andrews pitchforks. The red modified-Schiff pitchfork is clearly showing us support and resistance levels in the downtrend - look at how the upper median line of this fork contained price throughout July and August. The blue Andrews fork is showing us the nascent uptrend in GDXJ - notice how price climbed from the bottom in June up to the median line before pulling back. According to Dr. Andrews we can expect price to reach the median line about 80% of the time. Until last week price was consolidating along the lower median line of the blue fork which is where we would expect price to find support. Now that support has broken, the fork makes the breakdown visually obvious.

GDXJ - Jr. Gold Miners - daily

Here we have a close up of the previous chart. We have added 50 & 200 day moving averages as well as the lower median line extension to the Andrews pitchfork. Notice that price bounced twice off the 200 day moving average - we may have already seen the bottom of this recent price break. Below the 200 day average we have several support levels provided by prior lows. Based on the guidelines for using Andrews pitchforks price is now targeting the lower median line extension which currently sits around $31.35. This line is rising so the price target based on the line is also rising every day. Depending on how long a price decline takes we could get coincident support from a prior low and this lower median line extension (e.g., the intersection of the $34.50 prior low with the median line extension).

The volume action in this chart really confirms that price behavior has changed. Notice how volume was rising along with price from the low in late-May up to the peak in early-July. Then volume declined along with price throughout July and August. This is classic volume behavior in an uptrend - volume rises with price and then declines as price consolidates or pulls back. This behavior changed last week as volume spiked higher while price broke lower.

GDXJ - Jr. Gold Miners - daily (close up)
This weekly chart of GDX makes the recent consolidation period obvious. Many of the mining stocks have similar consolidation patterns. Tim Morge refers to these tight price ranges as energy coils and points out that price is storing energy during these periods. We can't predict which way price will break from these coils but we can assume that the break, when it occurs, will be powerful. Unfortunately in the case of the mining stocks the break has been downwards.

GDX - Gold Miners - weekly

Goldcorp is demonstrating the same pattern with price breaking lower from an energy coil. Price is staying above the 40 week moving average so far. Notice that the uptrend is still intact as long as the prior low isn't taken out - we will still have higher lows and higher highs unless GG drops below $22.68.

GG - Goldcorp - weekly
The HUI is showing the same breakdown from an energy coil. Price dropped below the lower median lines of both the blue Andrews fork and the red regular-Schiff fork. Price is staying above the 40 week moving average so far.

HUI - Gold Bugs Index - weekly

SLW is pulling back to the 40 week moving average and the median line of the red modified-Schiff pitchfork.

SLW - Silver Wheaton - weekly

(visit website for larger charts: www.pitchforkplayground.com)
Last week’s action is not what we were expecting from the precious metals sector. We were assuming that Gold and the mining stocks would start September with a break higher, not lower. The metals have been in beat-down mode for three years now. This cyclical bear market is getting long in the tooth and will end at some point. When it does we’ll be ready to participate. Until then, keep some powder dry.

Bryan

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“I discovered, from the analysis of over 25,000 people, that men who succeed in an outstanding way, seldom do so before the age of forty, and more often they do not strike their real pace until they are well beyond the age of fifty.” ~ Napoleon Hill, Think & Grow Rich