January 26, 2019

Gold: 32 trading days and counting

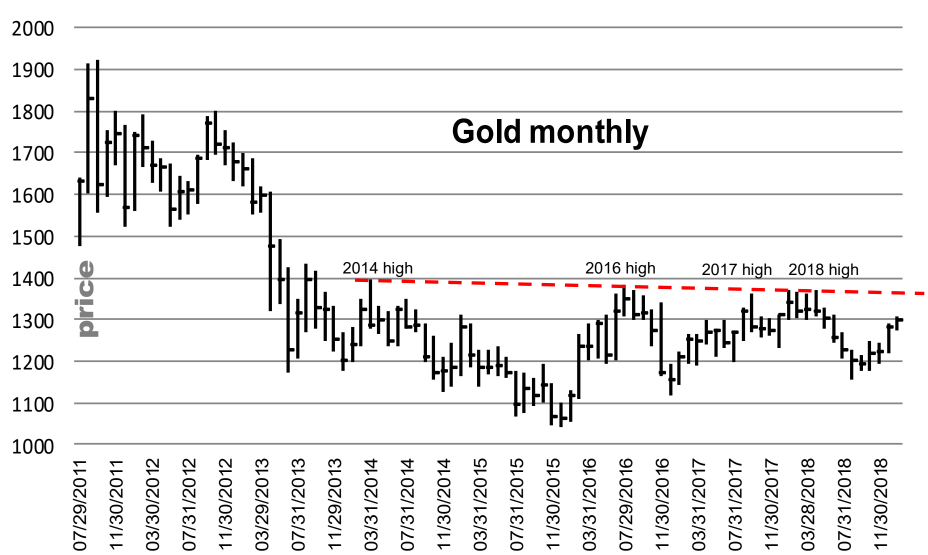
In our December 7th, 2018 report, MSA posted a bold headline. Not only in bold type, but bold in claim.

"Gold will take out 5 years of highs in next 50 trading days"

Gold on December 7th was just above $1240. Thirty-two trading days later was Friday, when February Gold traded up to $1303 in late afternoon electronic trading. (The official settlement was $1298.1, where it was at 1:30 ET.) February 20th will be fifty trading days after that report.

MSA's layered buy signals, based on long-term momentum, are shown on page two.

Momentum is fully thumbs up. But price is what the world watches, albeit lagged to momentum. We expect the red line on this monthly price chart to be taken out quickly. The highest price of the past four years was $1392.6 in 2014. Highs since define a gradual down trending line. The current advance to over $1300 from the August 2018 low of $1161 was a resolute move, but not quick. The move now up to and above the red line will likely be at a very fast rate—the sort that ambushes both chronic gold bears and the many worn-out longs. Asset management committee meetings—to duly consider whether to participate on the long side of gold—will be too late in most cases.



Opportunities for due consideration have already been offered (again, see the structural breakout/buy points on page two). You're either there or you'll have to bid quickly as the red line comes out.

Most price chart watchers will label this a breakout situation as price moves above $1360.

Major evolution in technical research since 1992
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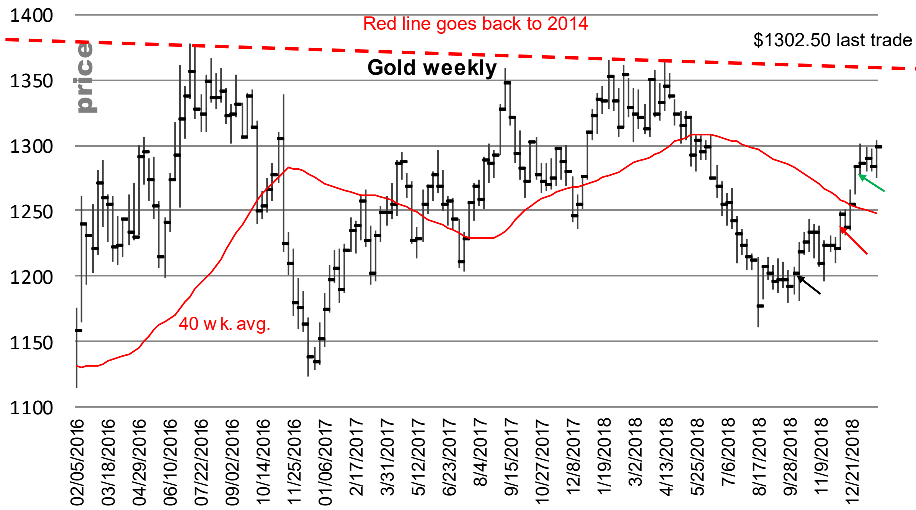
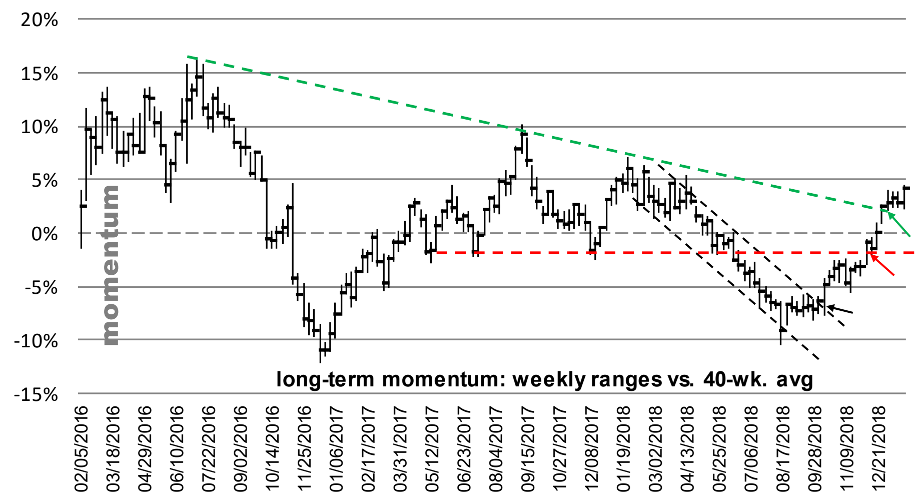
For MSA's history and an introduction to its methodology visit: www.olivermsa.com





Gold: long-term momentum

The 40-wk. avg. is a sister metric to the 200-day avg. and 3-qtr. moving avg. We reference them all.

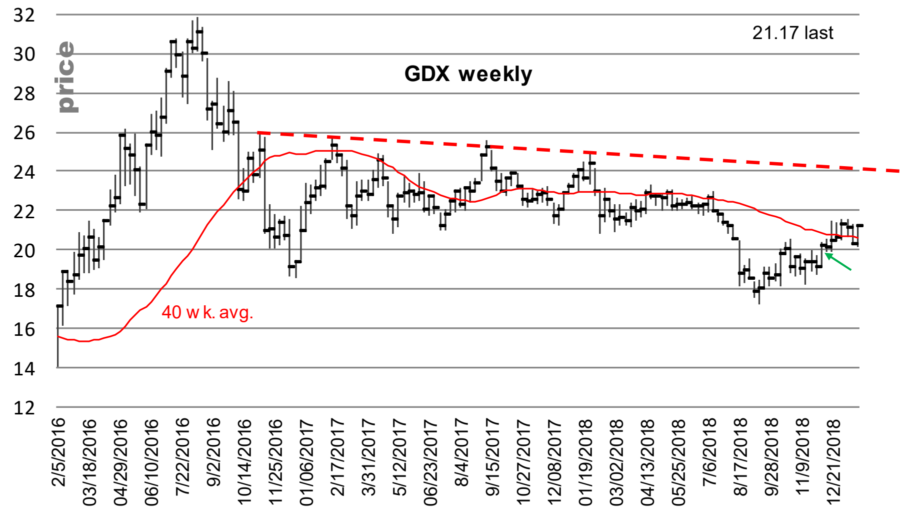
Crossovers of the moving average itself have little significance. Only if there is a definable trend structure at the zero line does the average itself matter. In gold's case this zero line hasn't been a structurally meaningful level for several years.

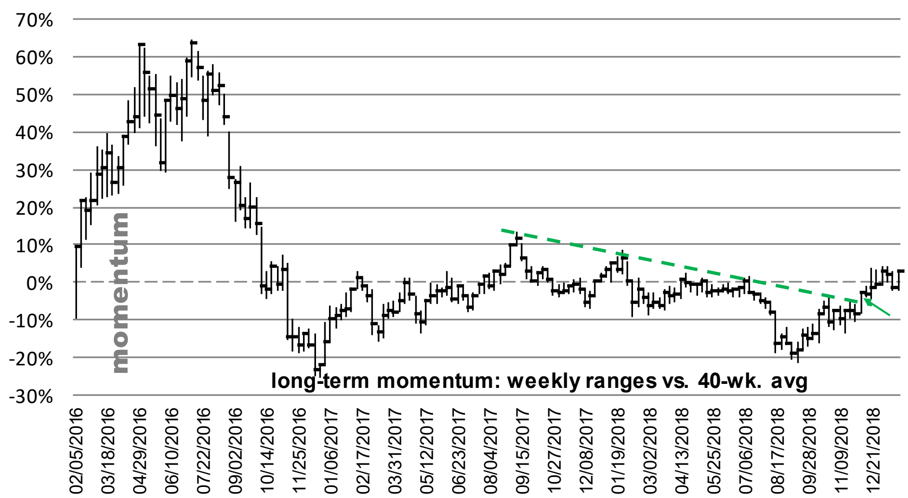
Instead, MSA's first structural breakout buy signal occurred just above $1200 as the momentum parallel downtrend channel that traced back to early 2018 was closed above (black arrows).

The second layered buy was when momentum finally broke back above the prior floor that traced back to May 2017. Price was just above $1240 when that signal occurred (red horizontal line and arrows).

The last momentum buy signal occurred five weeks ago as momentum broke out over the three-point downtrend that traces back to the 2016 summer highs. Price was just above $1280 (green line and arrows).

The "corrective" stall action of the past four weeks ended abruptly on Friday with a surge that swept from below the four-week range and then rapidly through the top end of that range—all in a handful of hours. We think the button has been pushed for an accelerated move that carries to and through the red trend line on price and that also takes out the highest price of the past five years (2014, just above $1390).





GDX
(VanEck Vectors Gold Miners ETF)

Eight weeks ago GDX's momentum closed above a three-point downtrend that traced back to September 2017 oscillator highs. Note that before breaking out over that structure, momentum action congested for seven weeks just below the green line. It knew where the structure was. Then it surged through. The close of that breakout momentum week was just above $20.

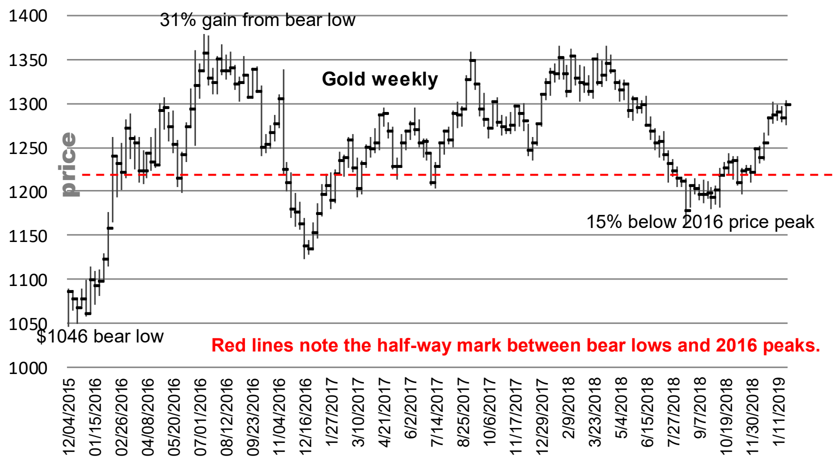
Since then momentum action has held tight—above the major green line.

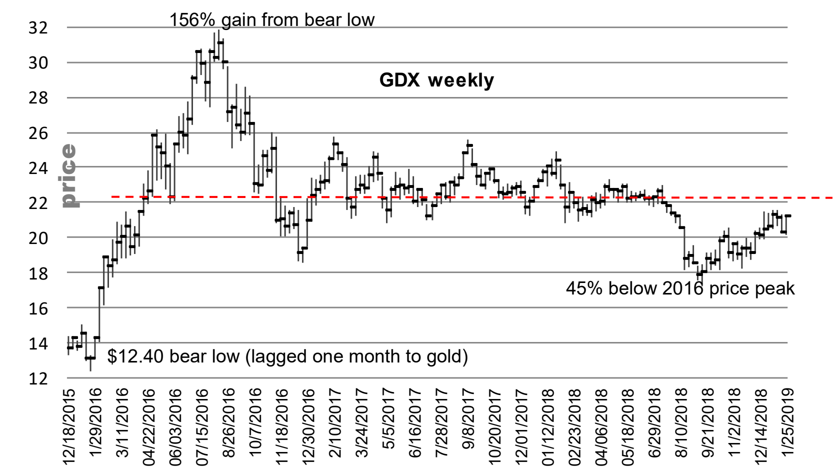
In sum, GDX in its own laggard but steady way has been led upward by gold's upside persistence.

The obvious price chart level that will likely excite most technicians is a move above $24. That's the gradual red downtrend. Momentum argues that level will come out, but price chartists don't realize that.

However, the key number to watch for GDX, rather than the $24+ price chart level, is the last trigger number for gold—the price chart breakout that occurs when gold moves through $1360 and breaks the line that all can see. Regardless of where GDX might be then, one should be adding to gold mining positions, assuming one is not already fully positioned.

Some overarching observations are on the next page.





Gold and the miners

The frustration of gold mining investors is the miners' seemingly endless flip-flop behavior.

And it's true. The miners tend to outperform in the upside and vastly underperform if gold is in a decline or even simply holding in a range.

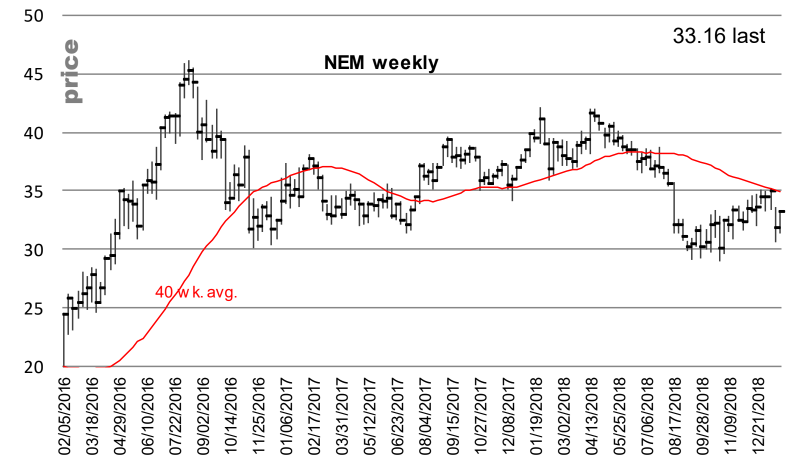
We've labelled a few of the stark percentage differences in the more important up and down moves of the past three years.

We've also plotted a red horizontal through the half-way mark between the bear lows and the 2016 surge highs for both markets. Those lines are not structurally important in terms of trend, just informative as to the relative action of both gold and its miners.

Gold has spent about eighteen weeks below the red line since its mid-2016 highs, while GDX has spent nearly fifty weeks below its halfway mark. And GDX is still below it. Disappointed gold bugs.

Picture the gold/silver mining sector as an exclusive club in which gold bug investors trade among each other. There are few outsiders. They trade among each other, swapping yesterday's favorite for a hopeful new one. All the time chatting among themselves about fundamentals of this miner vs. that one, ore samples from some new project, and so on. But alas, that's not really what drives any sector into a major trend. What the miners need is quite simple. They need the investor preference shift that's now clearly underway to become more formidable. Namely, those smart folks who are exiting the stock markets of the developed world need to not just shift their nervous capital into government bonds and to some extent into gold, but also to miners. The sector needs new and large investors who aren't chronic gold bugs.

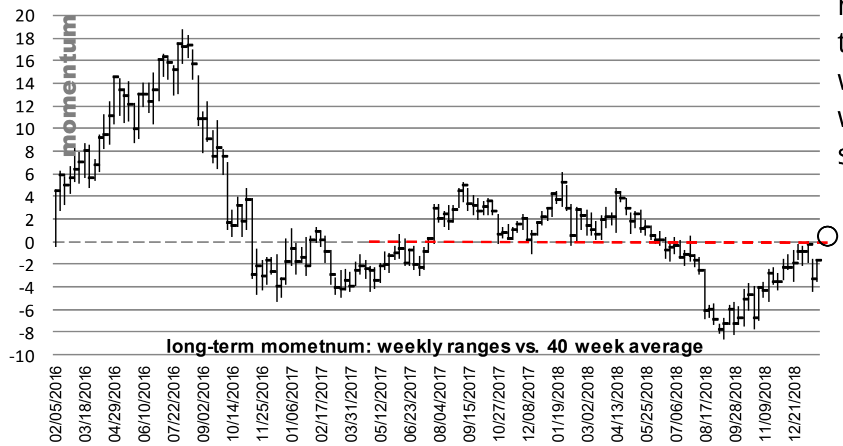
MSA argues that the flow of rightly nervous capital from developed market stocks is underway. It moved into T-Bonds, as we expected several months ago, and also clearly into gold. Name the commodity that has risen consistently during the S&P500's collapse from its September highs. Gold! Furthermore, the shift into gold is far more resolute than the move into "safe" U.S. government bonds. The S&P500 has rallied sharply in recent weeks, but gold hasn't flinched (though T-Bonds did hard). Gold only stalled in a tight fist of ink just below the highs of four weeks ago. And Friday's action tells us that congestion process is over, to be followed by a sharper advance. Once gold's action electrifies the price chart watchers of the world—as it moves above $1360—**expect GDX and the miners to suddenly grow a backbone**. Overnight! That's how major sector explosions have always occurred. Not with select lovers of that sector bidding it up, but with massive outside flows joining in. **As gold moves through $1360, expect miners to vastly outperform gold and probably any asset class sector on the planet.**



Newmont Mining has merged with **GoldCorp** and now is the world's largest gold producer by output.

MSA defines the zero line/40-wk. avg. as the pivotal **trend-defining structure**. Red horizontal line through multiple weekly closing lows from mid-2017 to mid-2018. Recent rally high bumped that. That downward action reinforces our view that the zero line is pivotal.

Close any week going forward over the zero line/40-wk. avg. and assume upside has been earned. That long-term average this coming week is **34.64**. Dropping each week by .20. Adjust accordingly. Close a week over that average and this trend shifts to positive.



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