

"Raining gold bugs" - should we take a contrarian view?

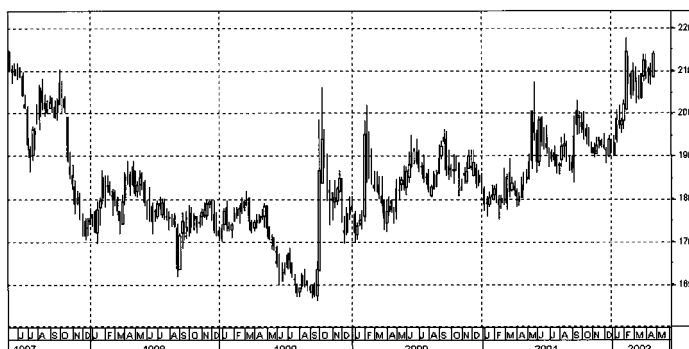
The chart action appears far from climactic - A contact of mine in Asia, who is a very experienced analyst/investor and spotted the gold share revival in its early stages, has taken fright recently. He says gold bug websites are sprouting like mushrooms in the night; some of the shares have rocketed - especially the South African mines; the price of gold call options for June (which no one wanted in early December when bullion languished around \$275) have risen between 300 and 700 percent.

Presumably the Commitment of Traders Index, showing increased selling by professionals, reflects a similar view - see *FM214* for the COT Index chart. As someone who remains bullish of gold and is also a trader, I do not want to dismiss a bearish opinion lightly, especially from a worldly source. However, I want to view any possible overbought condition in context. Gold bullion, shown here in sterling, has appreciated against all currencies this year but it is hardly a runaway bull trend, especially as the recovery follows a 21-year bear market. The Dow/Gold Ratio has declined from 36 to 32 in the last month, but remains way above its highs at the end of two previous super-cycle bull markets for stocks - 1929 and 1966, when it reached 18 and 28, respectively, before reverting back to the historic mean near 5 - also in *FM214*. Gold's recovery this year has been orderly, with gains consolidated along the way. Bullion shows no evidence of the 3 trend-ending characteristics taught at The Chart Seminar. South African gold shares have soared but much of that is due to the rand's slump last year. The world's two largest gold mines - Newmont Mining and Barrick Gold - are still ranging in long-term base formations, and have small capitalisations relative to most constituents of major indices. Many base metal shares have seen far bigger recoveries. Anyone who has monitored stock markets over the last 3 years is an expert on what bubbles look like. Gold has been

the reverse, until recently. I'm building up positions in the bigger gold mining companies, preferably on easing, suspecting that a long-term cyclical recovery is underway.

Best regards - David Fuller

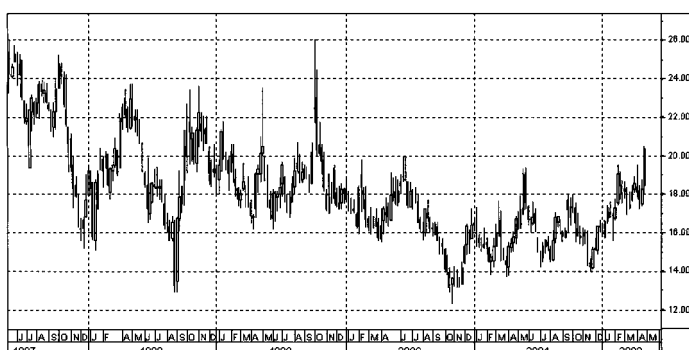
Gold Bullion In Sterling: £213.90 (Weekly)



Newmont Mining Corp: \$29.99 (Weekly)



Barrick Gold Corp: \$20.36 (Weekly)



Charts supplied by Bloomberg.

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