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Global Strategy and Investment Trends by David Fuller http://www.fullermoney.com

Gold and silver are oversold

So much for the war premium - From a low just under $320 at the beginning of December, gold bullion rallied to a high of $389.05 on 5th February, before ending that day with a trend-ending downward dynamic, discussed in the *Audio recordings on www.fullermoney.com. The speed of this reaction (gold fell back to nearly $340 faster than it rose from this level) suggests that the recent high may not be decisively cleared for a number of months. It has caused some commentators to talk of "gold's burst bubble" and to conclude that the bull market, such as it was, is over. Bubble talk at this stage seems absurd to me, considering that gold experienced a 20-year bear market following it's last bubble in January 1980. Could all of gold's rally be retraced as we saw following the upward spike in 1999? Only in the sense that with markets anything is theoretically possible. 1999's 3-week spike was caused by a bear squeeze, marking the cycle's low point, following a very persistent decline over the preceding months. Consequently there was no base formation back in 1999. In technical jargon from The Chart Seminar, I describe that move and the long, ranging retracement that follows, as a "V-bottom with right-hand extension" base formation. Today, gold is underpinned by that base, which commences at $330. I believe the recent high and subsequent reaction to $341 all but define the boundaries for a multi-month consolidation, known at TCS as "the first step above the base". Short-term indicators are currently oversold.

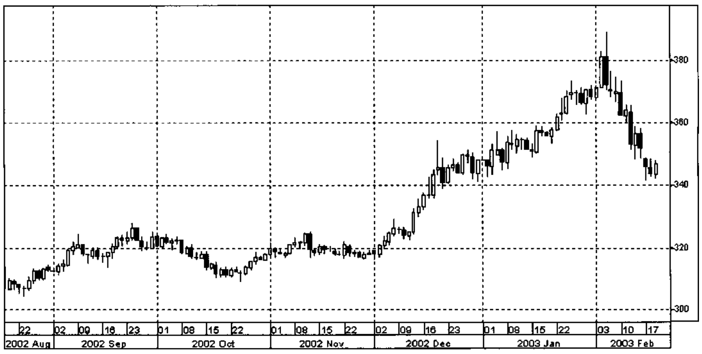
Fundamentally, the war premium, such as it was, has mostly vanished. Gold's recovery, based on its value relative to most other assets, had commenced well before people started to discount a war against Saddam Hussein. A naïve belief that equities would advance in perpetuity, short-lived shakeouts aside, could only end in the exploitation of investors. The same thing is now occurring in bonds and even property. Today, credit creation (the equivalent of printing money) - by the Fed, the BoJ and eventually the ECB - should provide more than enough reason for a secular bull market in gold and its high-beta proxy, silver. Inevitably, it will be punctuated by periodic shakeouts and lengthy ranging phases. Many other commodities will experience strong gains over the next decade or more, even though there is unlikely to be a problem of global inflation for a number of years. The strategy for secular bull markets, which emerge following secular bear markets and are confirmed by long-term uptrends, is to buy on setbacks and lighten somewhat during the stronger rallies.

*Please note: The Audio recordings are a major addition to the Fullermoney service, available to all subscribers at no additional cost.

Best regards - David Fuller

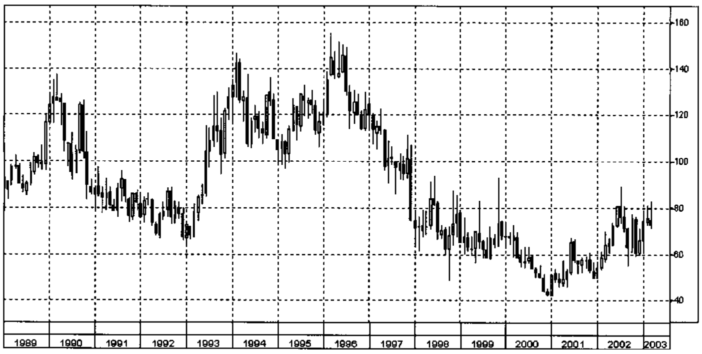
Charts by Bloomberg

Gold Bullion: $346.85 (Daily)



Silver (March CMX): $4.58 (Daily)

Philadelphia Gold & Silver Index (XAU): 72.30 (Monthly)



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