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Gold Sector: Momentous Momentum: Momentous Opportunity

As this financial storm completes, one of the most practical investment opportunities could be in gold stocks. And as history shows, once turned, they could outperform most other equity sectors.

There are times when one thinks that the Gold/Silver Ratio "sees all" and "knows all". And for those who have studied it, it "tells all".

Right now, it is saying ***"Hey, get ready to buy the golds!"***.

And as "Gold Hat", the Mexican bandit in *The Treasure of the Sierra Madre*, might have said ***"I don't need no steenkin fundamentals."***

The best way to forecast price is by studying price. Keeping track of supply and demand by using physical units of measure to forecast price has not been reliable. In the magnificent precious metals bull market to 2011, supply-demand analysts claimed that bullion prices were chronically and deliberately suppressed. Same during the decline, but historically gold's real price has declined during every financial bubble.

Gold has been doing what is was supposed to do, which now includes going up in the bust.

In the fall of 2018, our "Accumulate" gold stocks was based upon our "Comfort Indicators" that were turning positive. These included the action between gold stocks and the bullion price, as well as the behavior of gold stocks relative to the S&P. We noted that the Gold/Silver Ratio was not confirming the full opportunity. Thus, the "Accumulate on weakness" rather than a "Buy".

The GDXJ set a double bottom at 25.67 in September and at 25.80 in November, 2018 and the rally made it to the 42 level last July. In noting the upside technical excesses, the advice was to "Take some money off the table". The correction was to 35 and then with the "Everything Bubble" it jumped from 40 to 46 (in one week) in February. Becoming vulnerable to the "Everything Correction".

With this and sudden widespread distress, GDXJ dropped to 19.52 last Friday, bounced to 33 and is now at 25.

All the way along, this writer has wondered about how could the Precious Metals Ratio achieve the opposite to the excess in 2011? Well, we have found out.

To back-track on this, at important highs in the sector we look at the Silver/Gold Ratio. That's because in a rising market silver will outperform gold and when the Weekly RSI was soaring in 2011, we advised that at above 85 the play was getting extended.

Then in a rush it reached 90 in April 2011. The only time that lofty RSI had been achieved was at the climax of the precious metals' mania in January 1980. We noted the danger and concluded that a bear market was possible.

For this dramatic washout to conclude the Silver/Gold Ratio needed to reach the equivalent downside momentum.

At an RSI of 11, it has! And it is worth reviewing the ratio in its usual mode.

Typically, the Gold/Silver Ratio becomes volatile going into a period of financial concern. And then soars with the actual financial crisis. The record can be traced back for some 400 years. Moreover, it has been so consistent that we've called it the "Metallic Credit Spread". In good times credit spreads narrow and the GSR declines. In the bad times spreads widen as the GSR goes up.

And just in this month it has jumped from 92 to 131. Our target with a financial crisis has been "around 115".

And showing typical action in a financial crisis, silver plunged relative to gold and the Weekly RSI has reached about as bad as it gets. Charts follow.

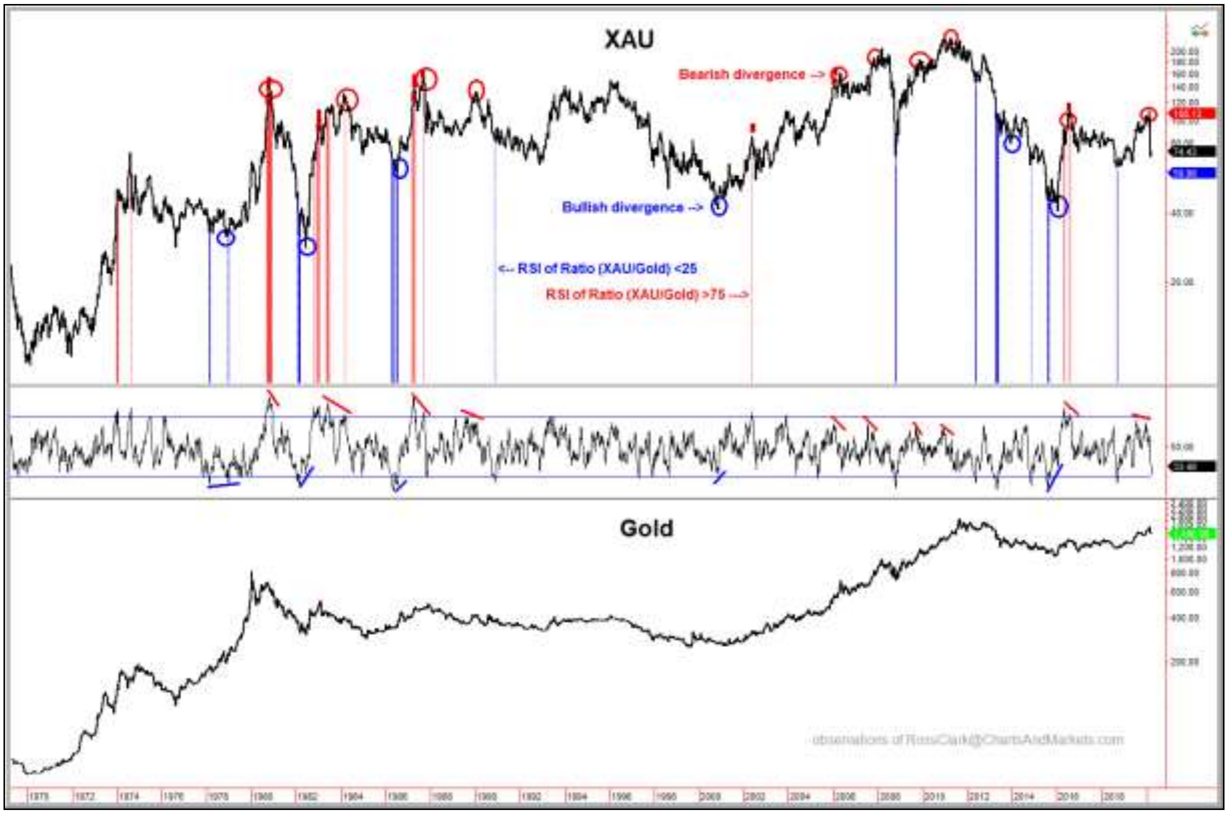
Clearly, this could be setting up the cyclical "Buy" for the golds equivalent to our "Sell" in 2011.

Driven by increasing real prices for gold, the post-bubble contractions have been accompanied by gold stocks outperforming the overall stock market – for a long time. In a post-bubble contraction overall liquidity disappears, as seen since January. As gold's real price goes up it enhances gold mining profitability, which increases production. Which in turn begins to restore real liquidity to distressed global credit markets.

Resulting in a bull market driven by improving earnings for miners and valuations for exploration companies.

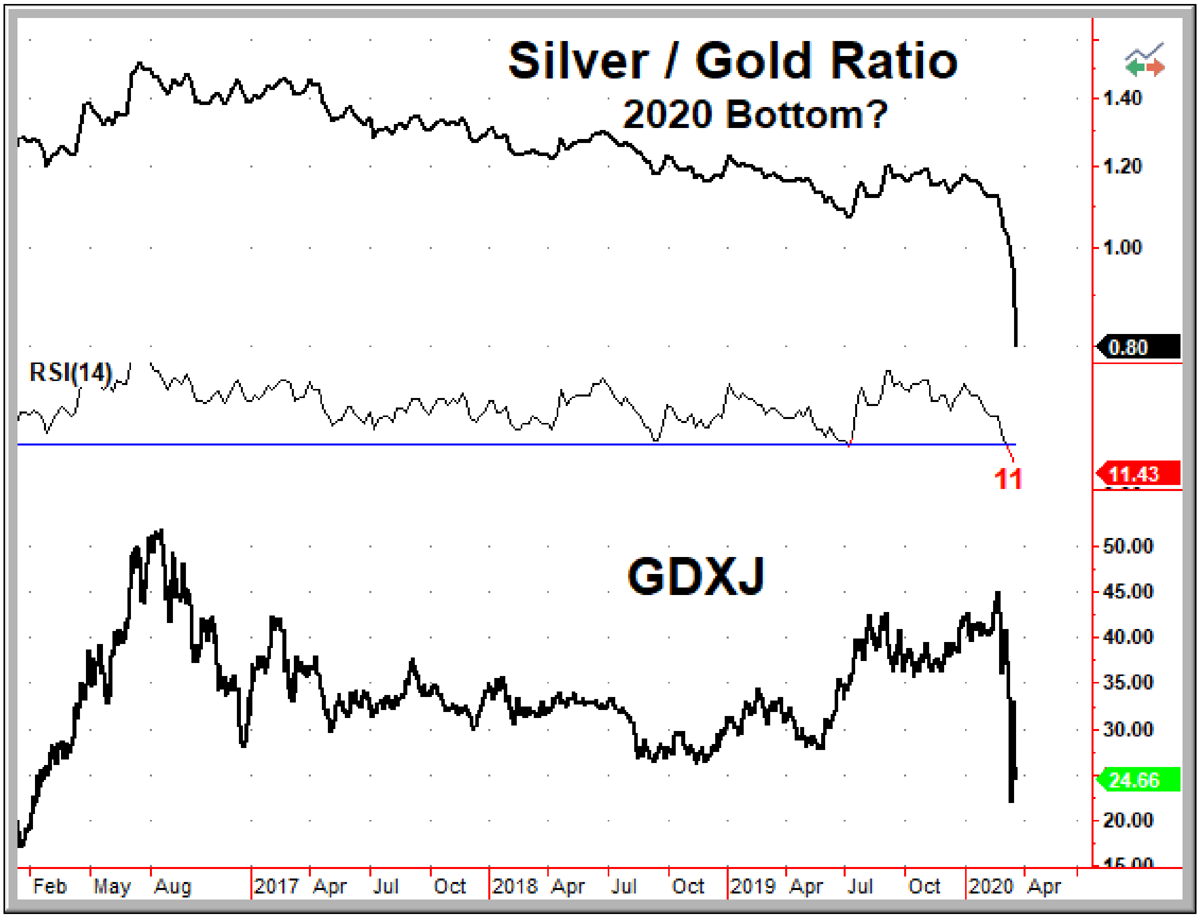
As with any collapse, the entry could be daunting. And our *ChartWorks* has some reliable technical analysis that can minimize the risk of trying to catch a falling knife – even a gold one.

Gold Stocks: Buys and Sells



RSI: Now at 11

Opposite to 2011 Top



RSI: Reached 90