

ChartWorks #1

PUBLISHED BY INSTITUTIONAL ADVISORS

TUESDAY, MAY 30, 2007

Technical observations of RossClark@shaw.ca

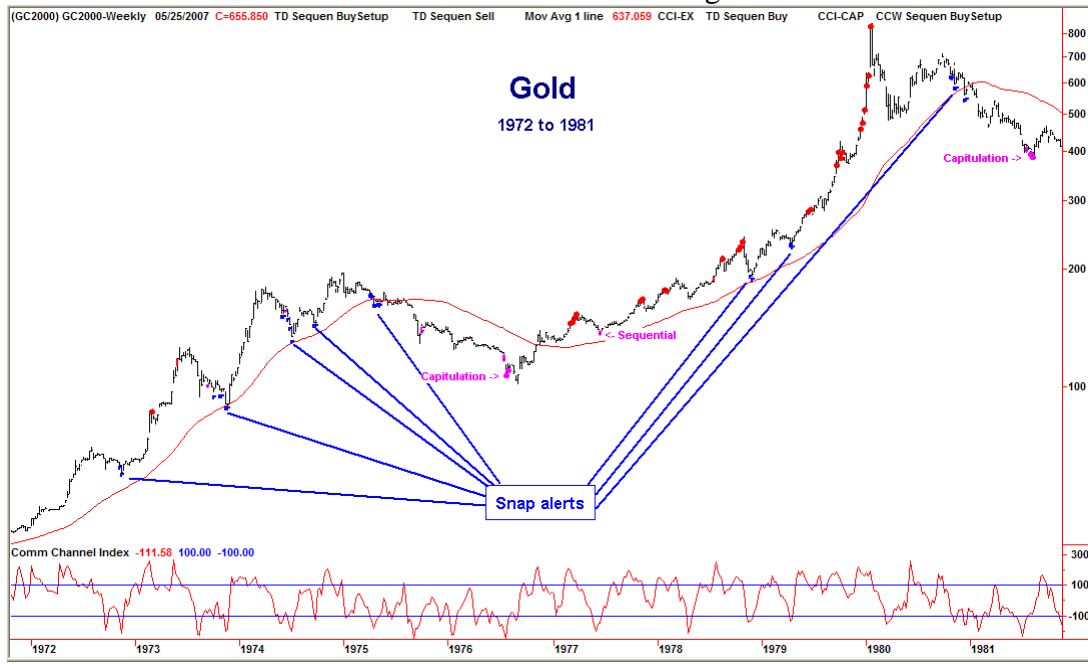
Gold – Updated Technicals

Gold is having a difficult time clearing through resistance since breaking out of the symmetrical triangle in January. The lid at \$690 is proving to be more formidable than expected. Various support levels are evident, but \$635 appears to be the most important.

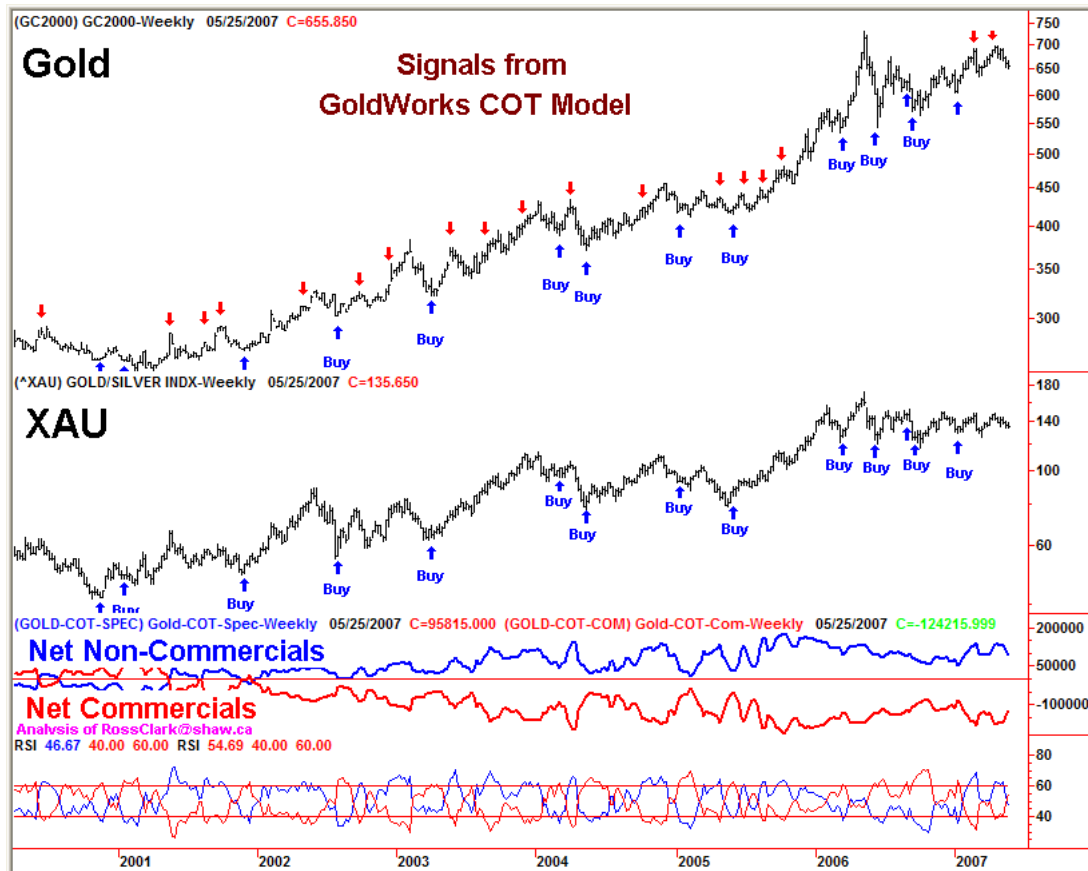
The current decline in the gold bullion price puts the weekly chart into the type of oversold levels seen around ten of the important lows of the bull market of the past six years (blue crosses on following chart). Such oversold readings work well when a market is in a flat or rising trend, but it is not unusual to see the price take a few weeks to form a bottom. (Many of the stocks entered this mode on the daily charts one week earlier and staged a short lived bounce.) Prices should initially be able to retrace 40% to 50% of the decline from \$690.



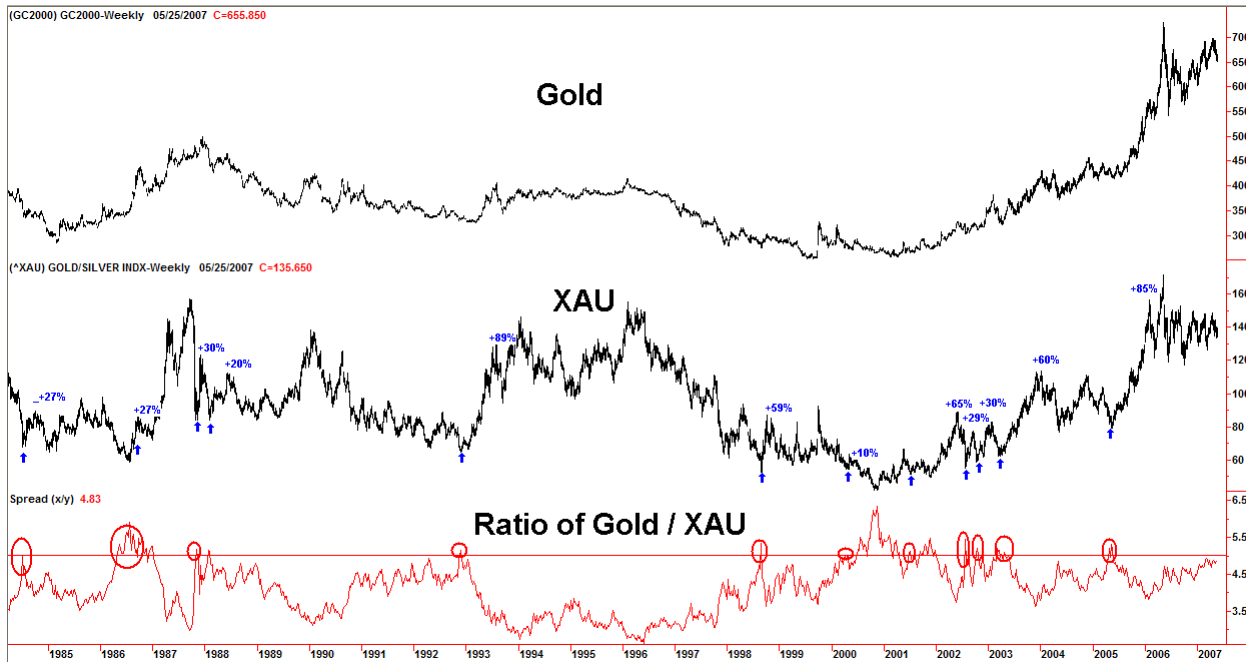
Oversold alerts from 1972 through 1981



We monitor the Commitment of Traders report in gold, tracking the net position of commercials and speculators. By plotting the relative strength of the data it is possible to identify points when the market is susceptible to a reversal. While not all reversals are concurrent with extreme readings in the oscillator, most lows in price are coupled with a significant reduction in both commercial shorts and speculative longs. As of Friday's release of data the readings (*commercials down 23m and speculators down 18m*) are starting to turn friendlier, but well off the levels needed to generate an outright buy signal.



Some of the best upside moves in the gold and silver mining stocks (*as represented by the XAU*) have occurred once the stocks become undervalued related to the bullion. Since 1969, a weekly close of the Gold/XAU ratio over 5 has been a good measure of such an undervalued point. A confirmation of the reversal occurs once the ratio moves back below 5. Daily readings provide a quicker signal, but can be subject to more chatter prior to the upside reversal in the stocks. On Tuesday March 13th the ratio made a daily close of 5.05, dropped to 4.96 the following day and we saw the XAU consequently rally 15% in the next four weeks. As of May 25th the ratio sits at 4.83; close to generating a new signal, but not quite into buy mode.



On an inflation adjusted basis (*using US CPI data*) the model of the deflated Dow Industrials from the 1950's through 2000 compared to gold of 1970 to 2007 points to a stepped up gold market into the next decade.

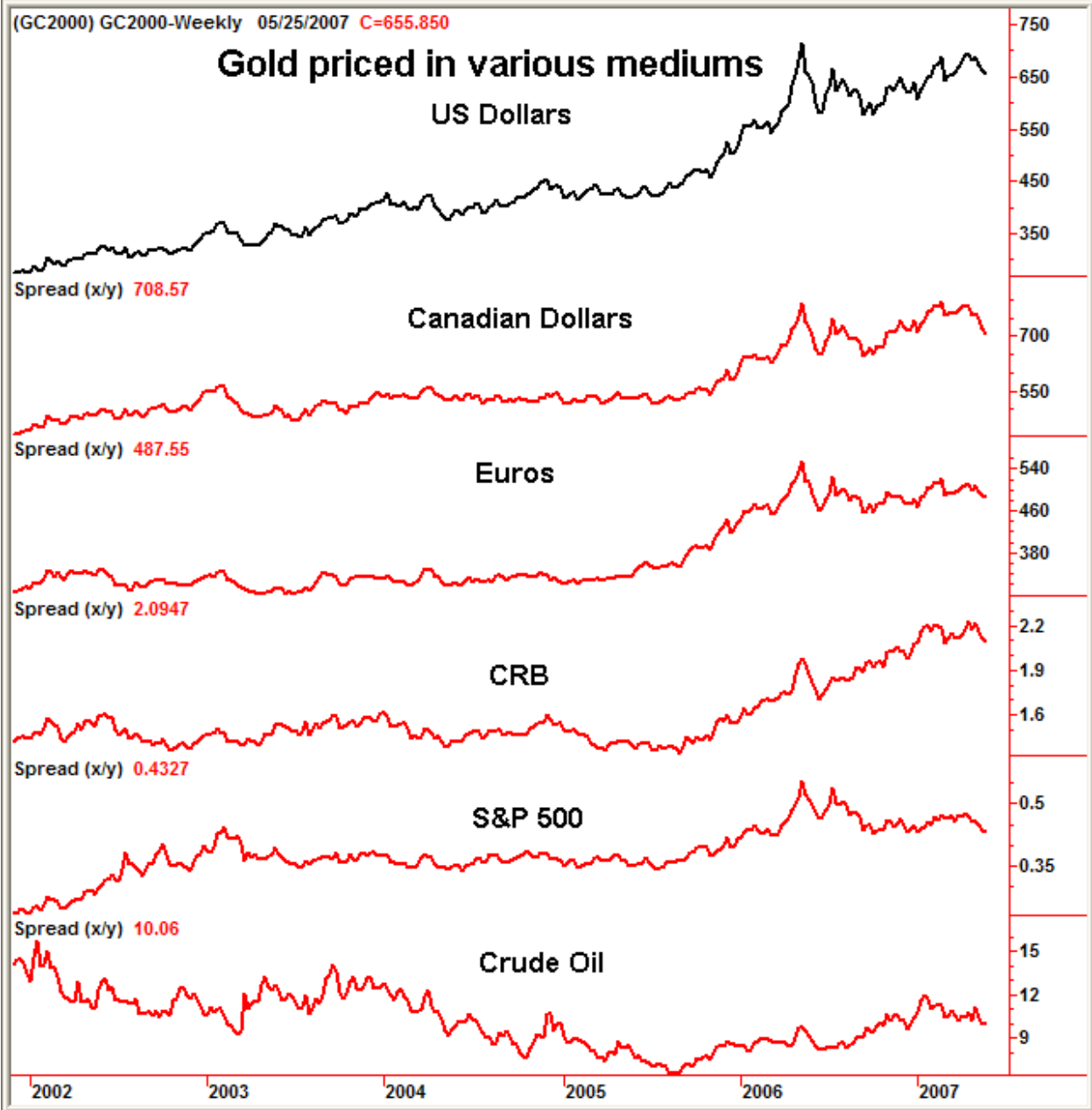


There are various means of measuring gold prices versus other commodities. When gold is adjusted by the original CRB Index (known as the CCI) we see a well defined triangle over the past two decades. Support is clearly evident at 1.2 and a move through 1.75 would be considered a major breakout.

While mining stocks benefit from increased metals prices they are also hurt by increasing operating costs. Note how well the XAU correlates with the Gold/CCI ratio. Any breakout in the ratio would be a boon for gold stocks.



Bullion has given up ground against most measures in the past few weeks and it will take a move through the Aprils highs to put it back on solid ground.



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