

GOLD COMMENT

GOLDS TAKE EXTRA TIME TO BUILD BASES FOR FUTURE ADVANCES

DON'T LET THE SUMMER DOLDRUMS DRAW YOUR ATTENTION AWAY FROM THE LONGER-TERM PICTURE

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One month ago, we noted the correction that arrived in early June had been a welcome development, given the strength of the rally that preceded it. The main objective of this pullback was to narrow the gap between stock prices and their 200-day moving averages and build bases from which the next rally could be launched.

Indeed, the Gold sector has spent the month of June correcting and consolidating. It has been rather a bland affair with the majority of stocks drifting toward their support levels and/or 200-day moving averages. The positive is that the XAU and HUI indices remain above their 200-day moving averages which, in both cases, have turned up.

The pullback in Golds has coincided with a deepening correction in the general market. This synchronized decline has caused the resurgence of media commentary that the bear market has resumed. Growing disinterest in the market, however, has usually been an indicator of an advance "around the corner."

This build-up of pessimism should reach its zenith just in time for a year-end rally. The first indication of such a move would be lasting stabilization in large cap Gold stocks such as Barrick Gold or Newmont Mining. It should be followed by a decisive up-move above the 50-day

moving average, strong enough to turn this average up.

Unfortunately, slow, corrective periods, similar to the current one, cause investors to become lethargic. The buyers back off and lock into a "wait and see" mode while others abandon the sector entirely. This approach pays no attention to the fact that weak and boring periods are often the best time to accumulate future leaders. In the end, the stocks that hold best during a correction usually lead the next advance.

In fact, a significant number of Gold stocks have been developing bullish, multi-month formations which, if realized, could result in noticeable up-moves. For example, Gammon Gold has been working on a large inverse head-and-shoulder formation, and the charts of Alamos Gold and Royal Gold show large trading ranges, to name just a few. Watch for upcoming stock reports for more ideas.

The bland behaviour of Gold stocks during the summer months should not draw your attention away from the larger, more bullish picture. The current consolidation (the longer the better) is part of a base-building process which usually results in a major move at a later date.



XAU

Daily chart with 50- and 200-day moving averages



HUI

Daily chart with 50- and 200-day moving averages

