

GOLD COMMENT

MAJOR RESISTANCE AREAS CLEARED; HIGHER TARGETS IN SIGHT

November 29, 2010

It is unbelievable. Back in 2003 when Gold was trading below \$300, our bullish report on the yellow metal was met with a tepid reaction at best. Today, more than \$1,000 higher, this scepticism continues. What's more, just last week, media outlets outdid themselves with "Gold Bubble" stories carrying truly epic titles: "*Too late for metals?*" "*Why gold is a bad investment*" or "*Gold in a bubble ready to burst.*" An old adage sums it up: "***If it is obvious, it is obviously wrong.***"

Not only does the bull market in Gold and Gold stocks lack bubble-like symptoms, but the Gold sector recently had a multi-year breakout from huge consolidation patterns. This technical event suggests the start of the next faster-paced stage of this decade-long uptrend.

What happened in the last four weeks?

For almost two years the advances in the Gold stocks indices, the XAU and HUI, have been limited by massive resistance areas. Similarly, the price action in big-league Gold stocks such as Newmont Mining or Agnico-Eagle has been constrained in multi-year consolidation patterns.

For the XAU index, the area of resistance extended from 190 to 210 while for the HUI index, the struggle zone consisted of the area between the 490 and 510 levels. The multi-year resistance zones have recently been breached and they turned into equally strong support zones (resistance becomes support). It is going to be extremely difficult for the bears to get back the lost ground.

The implications of this technical event are enormous.

The strength of the rally that followed the breakout is the first indication of the change. Many stocks rallied decisively higher, well above their multi-year resistance areas and away from their 200-day moving averages.

Most importantly, the bullish action in Gold stocks has shown more vigour than the move in Gold itself. In fact, the XAU/Gold and HUI/Gold ratios appear to be on the verge of major breakouts (see charts on the last page). If confirmed, breakouts in those ratios could mean a period of strong performance in Gold stocks in relation to Gold.

Despite many positive signs, the sentiment among gold market timers, as reported by the Hulbert Financial Digest, remains subdued. The average gold timer is still allocating only 40% of his gold portfolio to stocks and Gold itself; the rest is cash. Given that Gold is just shy of its all-time-high and many Gold stocks are near their 52-week highs, the mood is far from bullish.

Investors should view any pullback toward the breakout areas as a buying opportunity. The focus should remain on the early performers with lengthy base formations. While junior stocks have recently attracted lots of attention, senior Golds such as Goldcorp or Barrick Gold appear on the verge of major breakouts. Newmont Mining, which has already had a major breakout, presents the best upside potential.

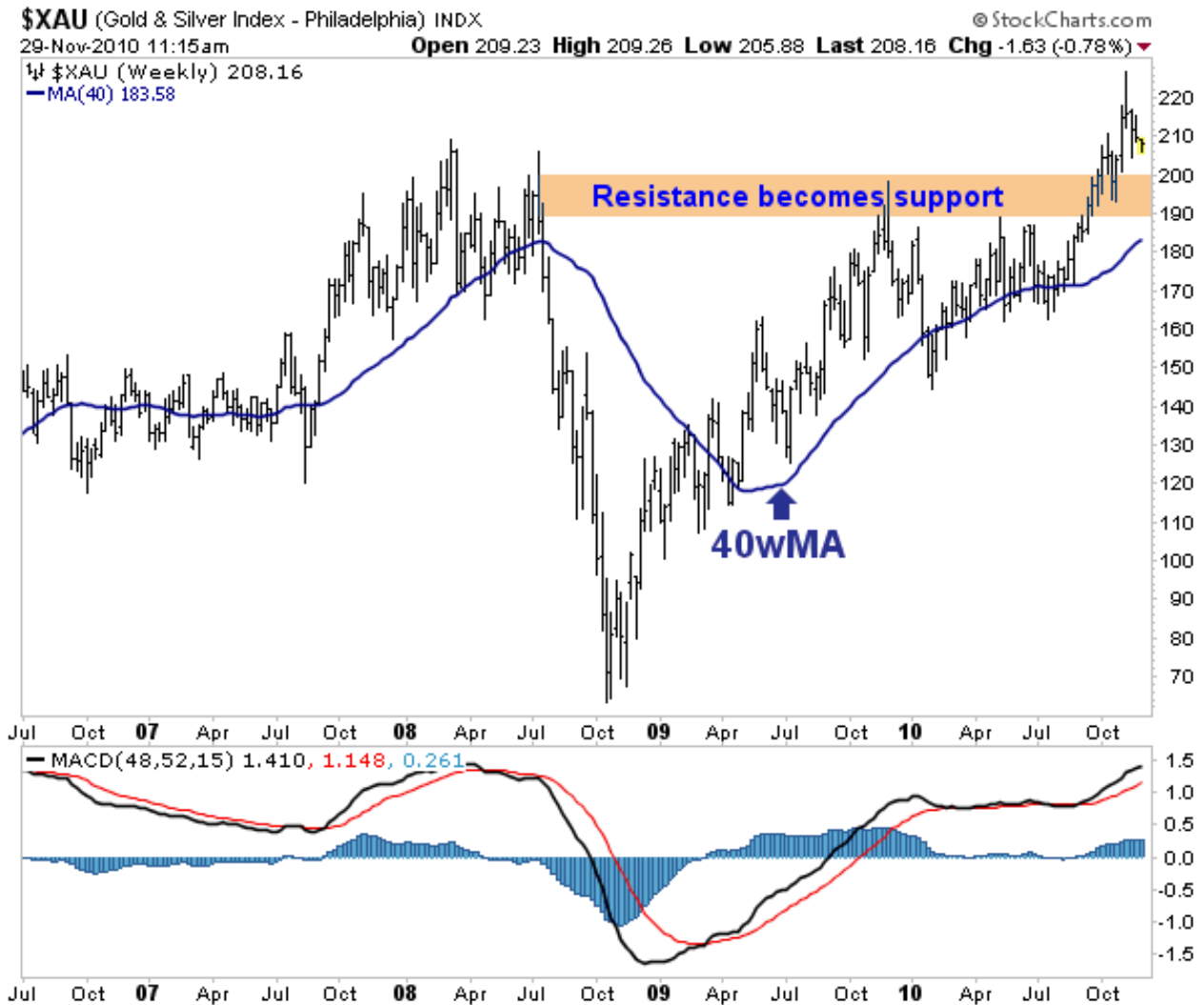
View the current pause as an opportunity to add to your Gold positions. Continue to focus on the stocks that display well-developed base patterns.

Olaf Sztaba



XAU

Weekly chart with the 40-week moving average

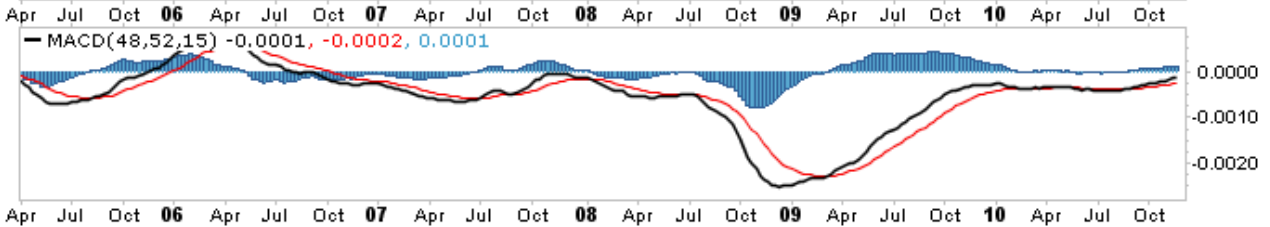


Our last update said that the breach of the 190 level “could spark a torrent of buy orders.” Indeed, a decisive move above the 190 resistance zone has attracted new buyers who lifted the index decisively higher. Not only did the XAU establish a new higher ground but also a new support zone near the 190 level (resistance becomes support). For now, the bulls are clearly in charge of a trend with the 50- and 200-day moving averages rising and providing support if needed.



XAU / Gold

\$XAU:\$GOLD (Gold & Silver Index - Philadelphia/Gold - Continuous Contract (EOD)) INDX/INDX © StockCharts.com
 26-Nov-2010 Open 0.16 High 0.16 Low 0.15 Close 0.15 Chg -0.00 (-1.96%)



HUI / Gold

\$HUI:\$GOLD (Gold Bugs Index - AMEX/Gold - Continuous Contract (EOD)) INDX/INDX © StockCharts.com
 26-Nov-2010 Open 0.40 High 0.41 Low 0.39 Close 0.40 Chg -0.01 (-1.79%)

