

Market Timing Report



by

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GOLD UPDATE

Is the music about to stop for Gold?

For months now the stories about trade deficits, budget deficits and TARP rescue funds have been growing by the week and for weeks now we have been hearing how President Obama has planned on adding another \$850 billion to the already incredulous rescue funds to carry out his policies. And yet the institutions and hedge funds have been like rabbits frozen in the headlights. Too frightened to jump to the left or to the right as whatever they have touched in the last 12 months has crumbled. Many commodities in the last year have tumbled by 50-75% and the indices have shed about 45%, so they have sought the shelter of Treasuries. This in turn caused Treasuries to be the best performing market in 2008 with Gold coming in second returning around 5% thanks to a year end rally from the end of October lows. Gold has continued its rally into January and with some good volume, to the point where we are now approaching the downtrend line from the March 2008 high through the July high and it currently resides around \$916, so the big question is can it break out from here or are we heading down the slippery slope again?

First, we must stand back and look at the long-term quarterly chart and examine the indicators. The indicators are slow to react but they give us the important signals. The MACD is starting to roll over from extreme levels but have not moved through the moving average yet. The RSI has dropped from 89 to 81 and still showing incredible strength.



The Wilder Parabolic Indicator is showing weakness and it will require a break up through \$1,005 to reverse this downtrend. Interestingly the Stochastic peaked 3 months ahead of the March 2008 top at 88 and

has now slipped back to 62. As many of you know, I like to do a lot of cycle work which basically involves measuring time between key high or low points to identify if there are any patterns. Below is a monthly chart with a 96-month Cycle I discovered in Gold about 9 months ago. It shows significant lows in February 1985, March 1993, March 2001 and the next Cycle is due March 2009. Given their consistency over the last 24 years, I have to consider that there is a high probability.



These Cycles are generally caused by certain planets aligning which is what gives them their regularity.

Next we need to consider the Weekly chart. Firstly, I have put the 34-week DT Oscillator and this is showing that Gold is at its most overbought since March 2008 with a maximum reading of 100. Whilst it can flatline for a while in a strongly rising market, it has picked peaks very successfully in the past.



I have labelled on here the Elliott Wave count which clearly shows a double zig zag pattern which is interspersed by the X wave. If we measure the first A, B, C pattern which bottomed exactly at the 38.2% retracement level of \$735 and project it off the X wave peak it projects almost exactly to the 50% retracement level of the entire Bull

market at \$642. The one bullish factor we are seeing though is the V shaped bottom, so we should be alert to breakouts in either direction. The descending trendline from the March 2008 high would be breached at around \$920 currently and a breakout would be defined as holding for 3 days above this line. On the downside, if we have a breach of the \$840 ascending line, we would have confirmation of the C wave down.



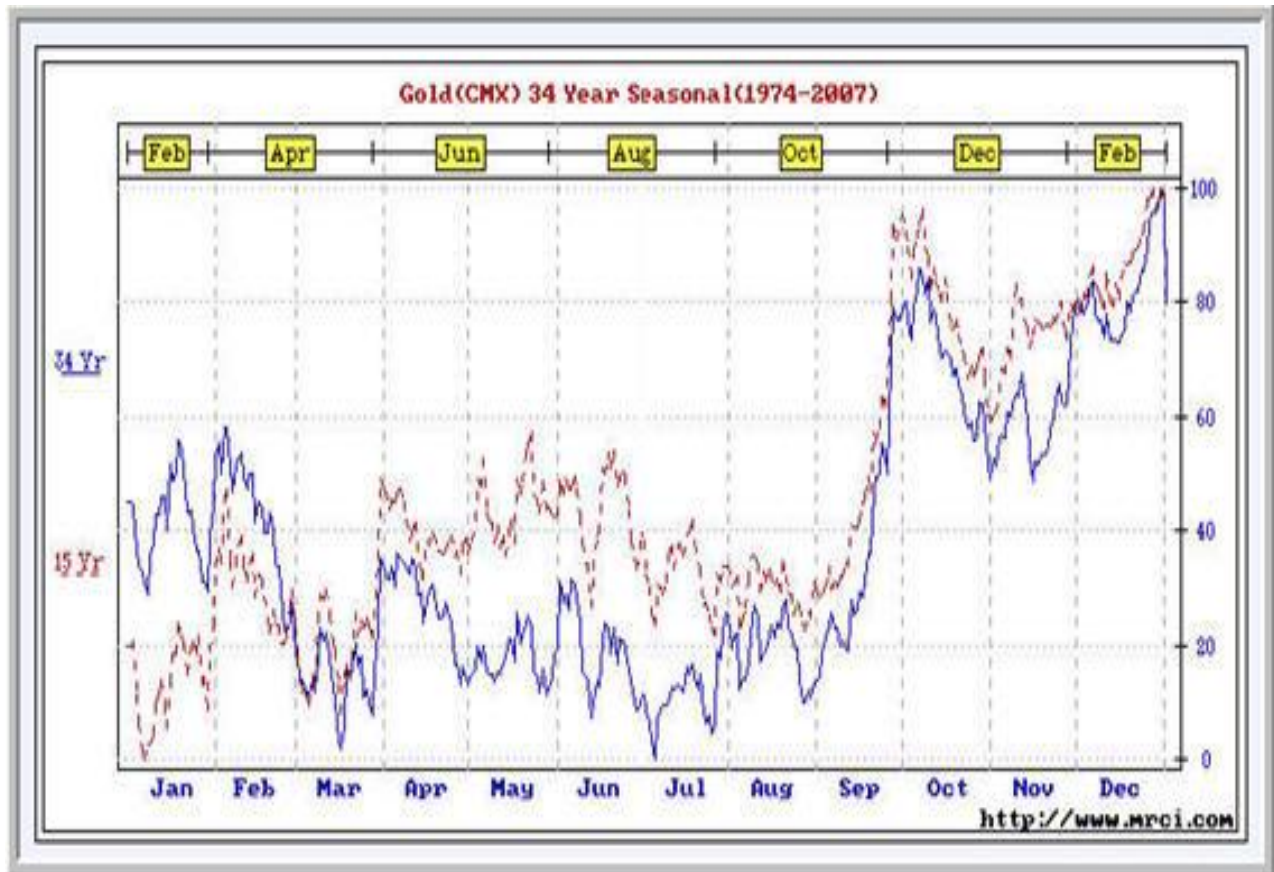
Either way, even if Gold were to break out now, it will retrace into March to give investors a second bite at the cherry. So aside from the 96-month Cycle due in March and the DT Oscillator showing us as

overbought on a weekly basis, what other evidence is there? Below is a chart showing key COT data over the last 5 years at important highs and lows. This clearly demonstrates that when the Commercials (large market makers) had SHORTS of around 200,000, the market fell substantially.



However, when the period of TIME is too short to accumulate enough SHORTS, such as in October, when the level was only 139,000 it still fell by \$250 in 3 weeks. Currently we are above that level at 157,000 so investors should be alert and continually monitor the weekly figures. I will be keeping you informed of these figures in the coming weeks.

One further piece of evidence we should consider is the seasonal factor. Below is a chart sent to me by a reader which shows the average rise and fall of Gold over the last 34 years. This clearly demonstrates that Gold normally peaks in early February and falls away into the middle of March.



Gold soared on Friday by \$46 at its high point in what is typical of a wave 5 in a commodity. It stopped precisely at the 88.6% retracement of \$903. This would be a good area for it to top, though it should have some follow through Monday to test the falling trendline from March in the next day or two.

If we now move down to the short-term wave count in the chart on the next page, we can see that the Stochastic has reached levels associated with previous peaks and whilst the bulls are all chomping at the bit, I would urge caution here. Those that are already long should raise STOPS to the overnight lows of \$889 and run with it to

