

Ian McAvity

From: "Ian McAvity" <imcavity@yahoo.com>
To: "Ian McAvity" <imcavity@yahoo.com>
Sent: Thursday, March 06, 2003 3:40 PM
Attach: AssortedGoldCharts3Mar03.pdf
Subject: Fw: Deliberations E-Chart Update on Gold 4Mar03rev

----- Original Message -----

From: [Ian McAvity](#)
To: [Ian McAvity](#)
Sent: Tuesday, March 04, 2003 11:14 AM
Subject: Fw: Deliberations E-Chart Update on Gold 4Mar03b

The gold shakeout has started to generate some emotion, and to whittle down the recently excessive bullish sentiment. It may be close to completion with the excessive bullish sentiment shaken down...
 Comex open interest soared to a multi-year high with an increase of 95,000 contracts from Oct 31st to Feb 5th, and it's already shrunk by 55,000 with gold falling back. The key point is that the gold price chart hasn't done any major trend damage at all.

Gold shares have been more frustrating after failing to make any viable challenge of the May/June 2002 highs, despite the substantial gains on the metal price. More on this in the chart comments below and on the respective charts.

Yesterday, Royal Gold (RGLD) got creamed for a 35% loss after a Barron's article beat up on its valuation. It is always disconcerting to see a "hot stock" suddenly develop an air pocket. It can reflect on a sector, but I am not convinced RGLD had acquired that degree of consequence within the sector.
 I have watched RGLD almost become a dot.gold stock over the past year, but have stayed away largely because I have felt it was way ahead of itself. Their primary asset is royalties on the Pipeline complex in Nevada, and they have been promoted very aggressively as the next Franco-Nevada. The reasons for my caution are several. Their royalties are not nearly as rich as Franco had on Goldstrike; the Pipeline complex is not as rich as Goldstrike, and they have only recently started to acquire other royalty interests which could work out in time, but I want to see more diversification and a successful track record evolve.
 Franco assembled a 20 year track record of extraordinary success, and was purposefully merged into Newmont by the two smartest guys in the gold business last year. To try to rationalize an RGLD valuation on the basis of the final valuation of Franco pre-merger ignores the super-premium earned by the 20 year track record of extraordinary success by Franco. I don't know the RGLD people, and have a little more than passing familiarity with what they've been doing. Yes, I have been watching it without comment, in part due to excessive internet chat promotion that made me uncomfortable. I will continue to give it a pass as they pursue the Franco business model and assemble a track record, despite being 35% cheaper this week.

I continue to believe that the ongoing decline of the Dollar, for an assortment of reasons, based principally on accumulated trade deficits flooding the world with Dollars at a time when holding excessive dollar positions by foreigners is becoming a less attractive idea, and primary fuel for gold as an alternative. Add in prospective domestic budget deficits heading for the moon, and Fed officials talking about "the printing press" as a solution to combating deflationary forces.

A lot of very angry US patriots did not like my views on the wisdom of a US war in Iraq and bombarded me with hostile email. I'll stay clear of the politics this time due to apparent thin skin on a lot of new, recent readers, but will only suggest that many of my early objections over the past two months of uncertainty seem to have subsequently evolved into the mainstream media.

It boggles my mind that people that agree with me that CPI, Deficit, Money Supply and other economic data emanating from Washington are fudged beyond usefulness; but all of the pro-war rhetoric and loosely circumstantial 'evidence' is accepted blindly. It's a matter of trust... and I don't buy most of it. But that is just this observer's view.

To the Charts: (See the comments on the individual charts... as well.)

The correction by gold shares has quickly come back to eliminate many excesses, but not violate the very attractive bigger picture patterns.

Charts 1 to 4 show the HUI Gold Bugs Index, and a Ratio of its price to 200 Day MA for a momentum profile; then

the broader, big-cap weighted FT Golds Index with an exaggerated view of the Gold price on a non-semi-log scale, and a ratio of Big Cap Gold Shares to Gold... all leading to the same conclusion: Scary shakeout, but no major trend violation.

Let's watch for a little more evidence of basing, but start thinking about assembling a shopping list. I'm NOT in the stock picking business. Use Bob Bishop, Adrian Day or John Doody for that. (It's certainly no time to think of bailing out... Media focus on chatter that maybe the cycle has topped out is wonderful news... contrarily. I was quite uncomfortable hearing gold friendly chat on CNBC a month ago.)

Chart 5 is a scary chart, but also illustrates the degree of correction already behind us. It's a 10 Day moving average of both price and price times volume to reflect money flow in the newly established TSX Gold Index Exchange Traded Fund in Toronto. The reason I won't read more into the big buying rush recently is that I attribute it to still being in a "discovery phase" as investors become aware of its existence. It's based on a basket of the leading Toronto listed Gold Stocks, which means it suffers some bias towards ABX and PDG who have been relatively less popular due to their excessive hedging and poor investor relations. But to be fair, it's actually evolved into a reasonably good index in my view.

Chart 6: The big picture on Gold - huge base resolved on the upside, along with a broken down trend line. Well identified resistance overhead in the \$380/\$400 range; huge support below in the \$325/\$340 range. The resistance area formed over four years; the base formed over five years. I think it might take more than four or five weeks (or months even) to resolve such a range! Patience may be needed (and tested) along the way in the nascent stages of this bull market.

Chart 7 is probably the key. The breakdown of the Dollar from its 1995/2000 uptrend, shown in four stages so far.

With likely increased terrorism activity after the successful arrest of the apparent #3 guy of AlQuaida (however you spell it), it may further pressure the Dollar in this frustrating pre-war period near term. Washington announcing that his notebook computer is a "treasure chest of plans" sounded to me like an announcement that you better do it fast if you're going to, because we're after you. I'm sure that announcement was politically motivated for US consumption without thinking through the message it might be sending. The Philippines Islamic Terrorist incident this morning may be a harbinger of accelerated pressure on the Dollar.

Chart 8 is an historical chart record from 1968 of Gold Shares, Gold and the S&P. I will repeat that in the coming years I do expect to see the gold price cross above the S&P from those huge rounding patterns... but note that I said YEARS - plural. The new gold bugs strike me as awfully impatient, and I fear many will shake themselves out along the way.

Chart 9 shows a ratio of Gold to the S&P Composite Index right back to 1900, which illustrates the dramatic trend reversal of the past few years, as it heads towards crossing the 1:1 line.

This update is a little larger than normal, because I feel it's important to keep the bigger picture, long term historical charts in mind. Much of the sound-bite journalism I'm seeing and hearing is far too busy over-interpreting every short term wiggle and jiggle in my opinion.

Ian McAvity (Email: imcavity@yahoo.com)
 Ian McAvity's Deliberations on World Markets
 PO Box 182, Adelaide Station
 Toronto ON, M5C 2J1, Canada

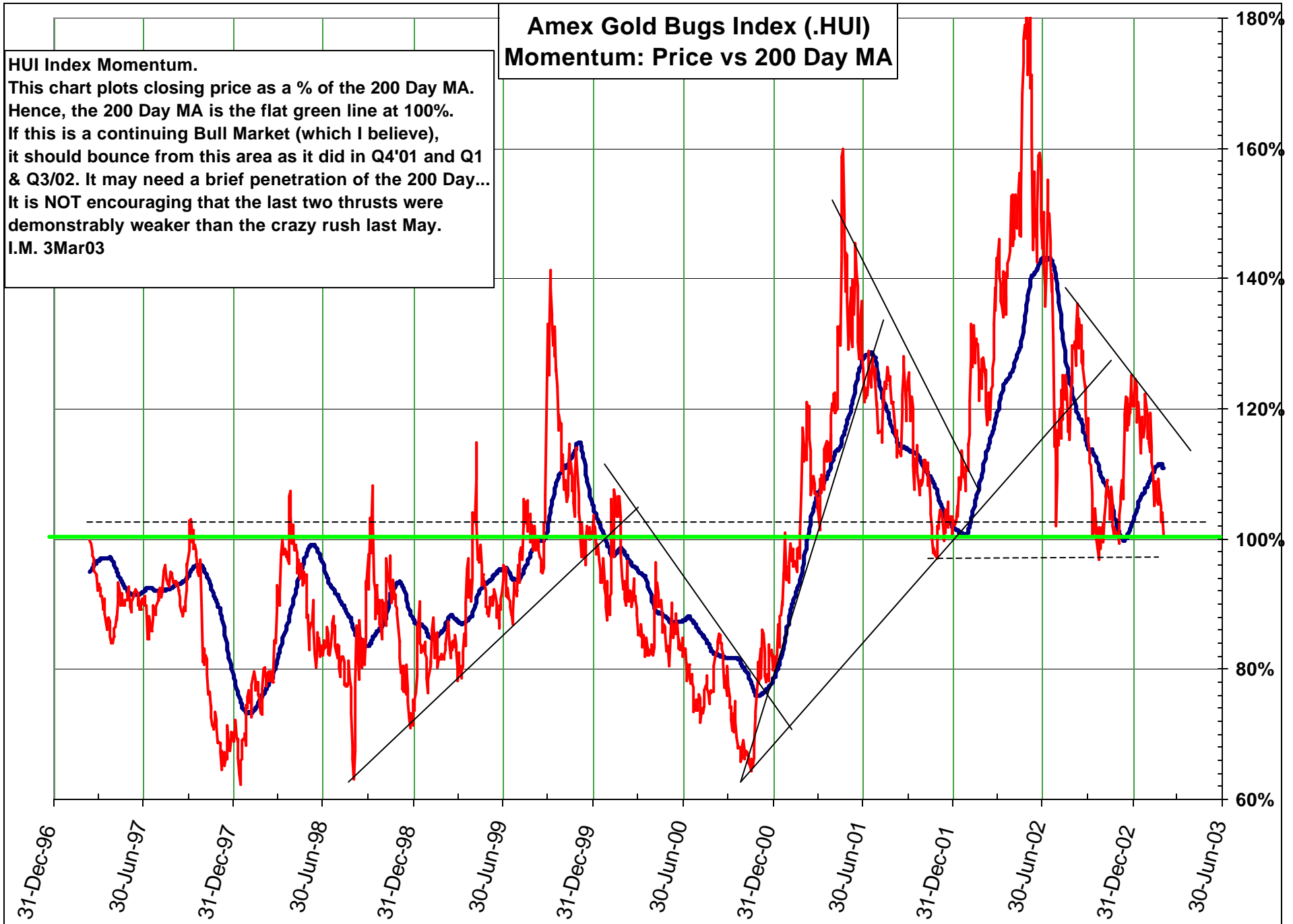
If you are not a paying subscriber, these interim updates are still a free supplement, but they are due to become "subscribers only" within the next month or two.

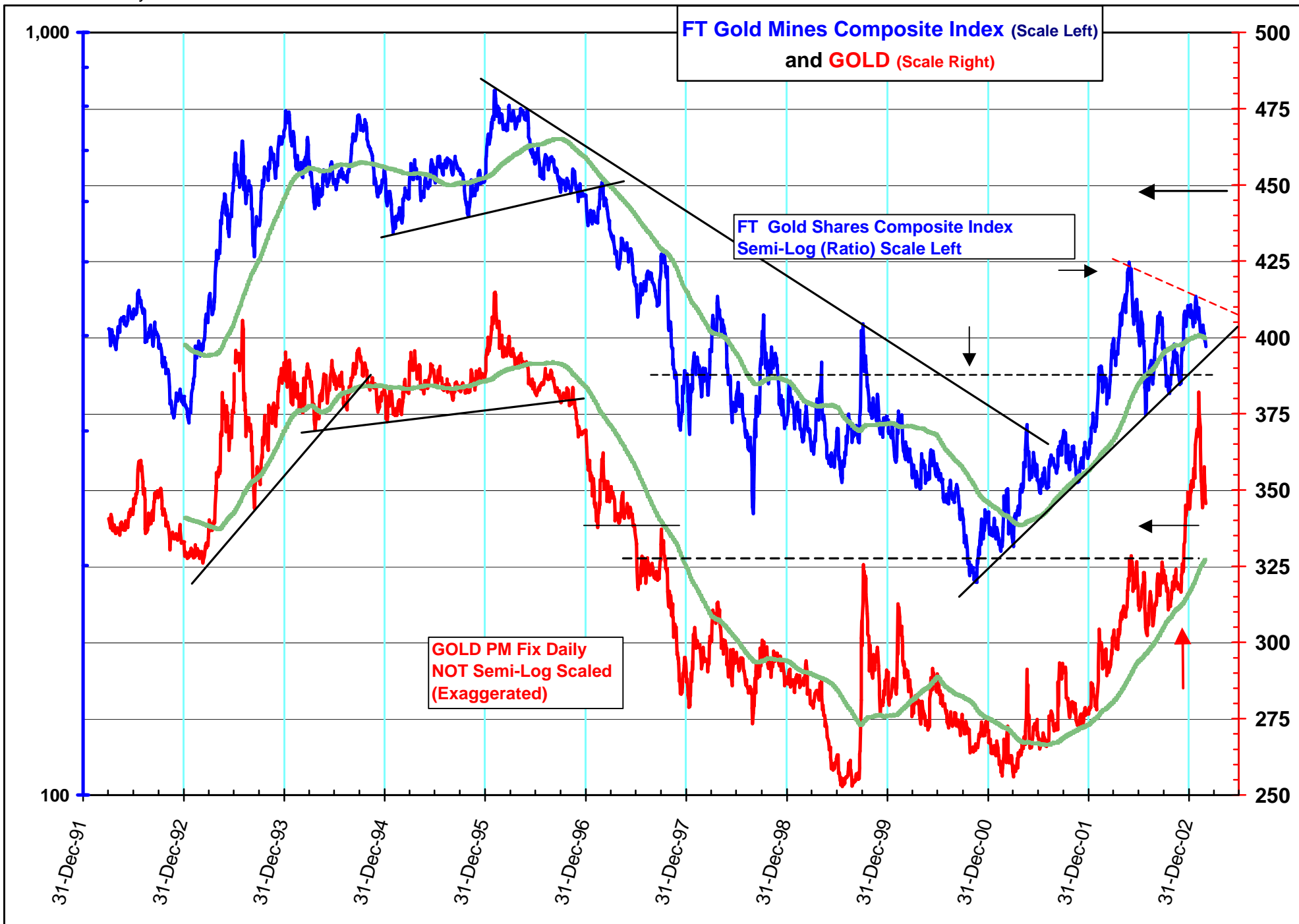
Much of this interim - between issue- commentary has far greater value as a supplement to the 16 page hard copy newsletter.

A four issue trial for US\$49 (once a year only per address), or a fairer trial of 9 issues (half a year) for US\$110 is strongly recommended to assure that you continue to receive these updates in future.

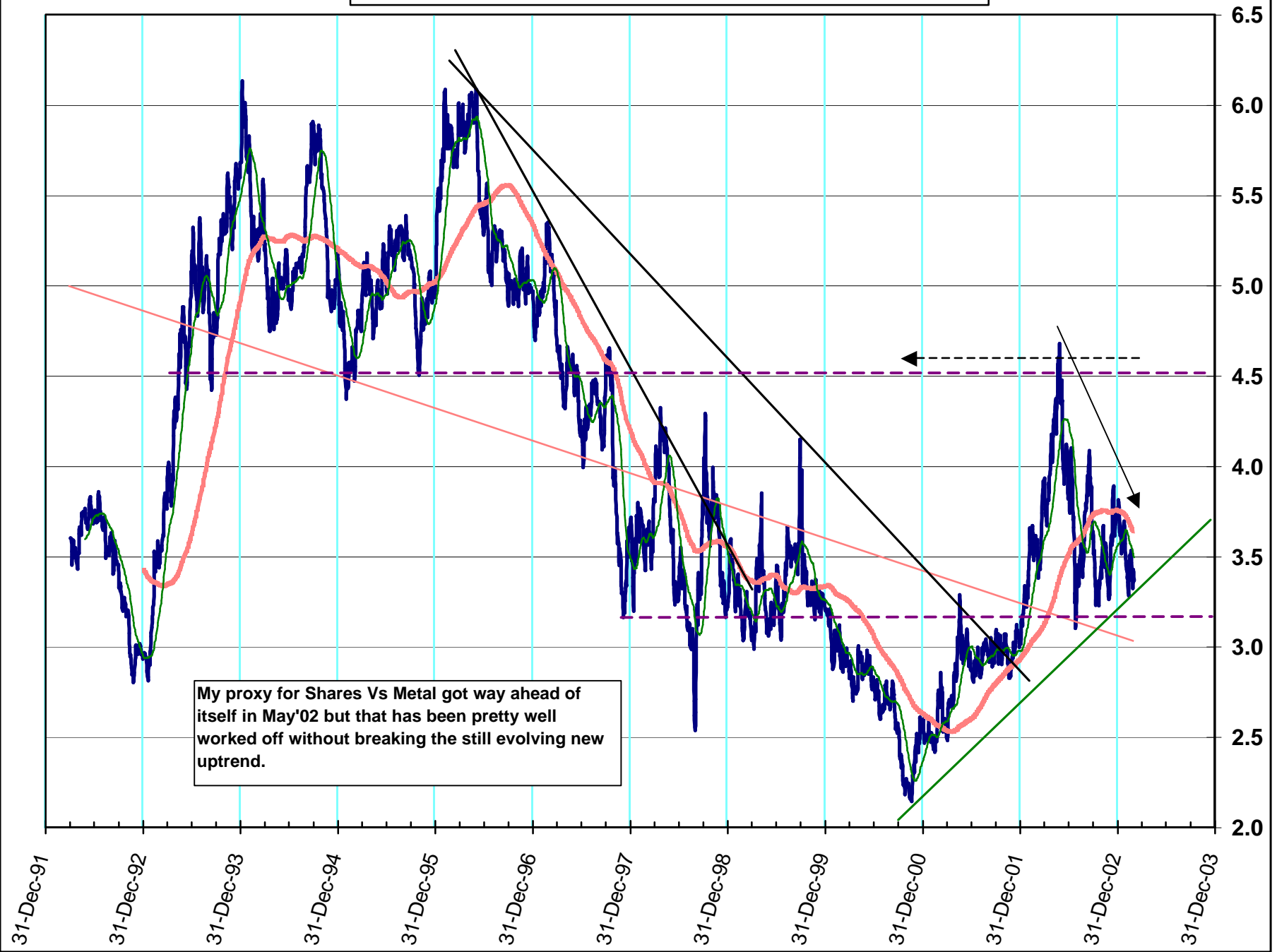
If you mention this update (4-March-03), when sending in your order with a check or money order, I will send along a complimentary copy of the 24 page Forecast Issue with many historical charts, that was mailed in early January. (Sorry, but no credit card payments can be accepted). I.M.



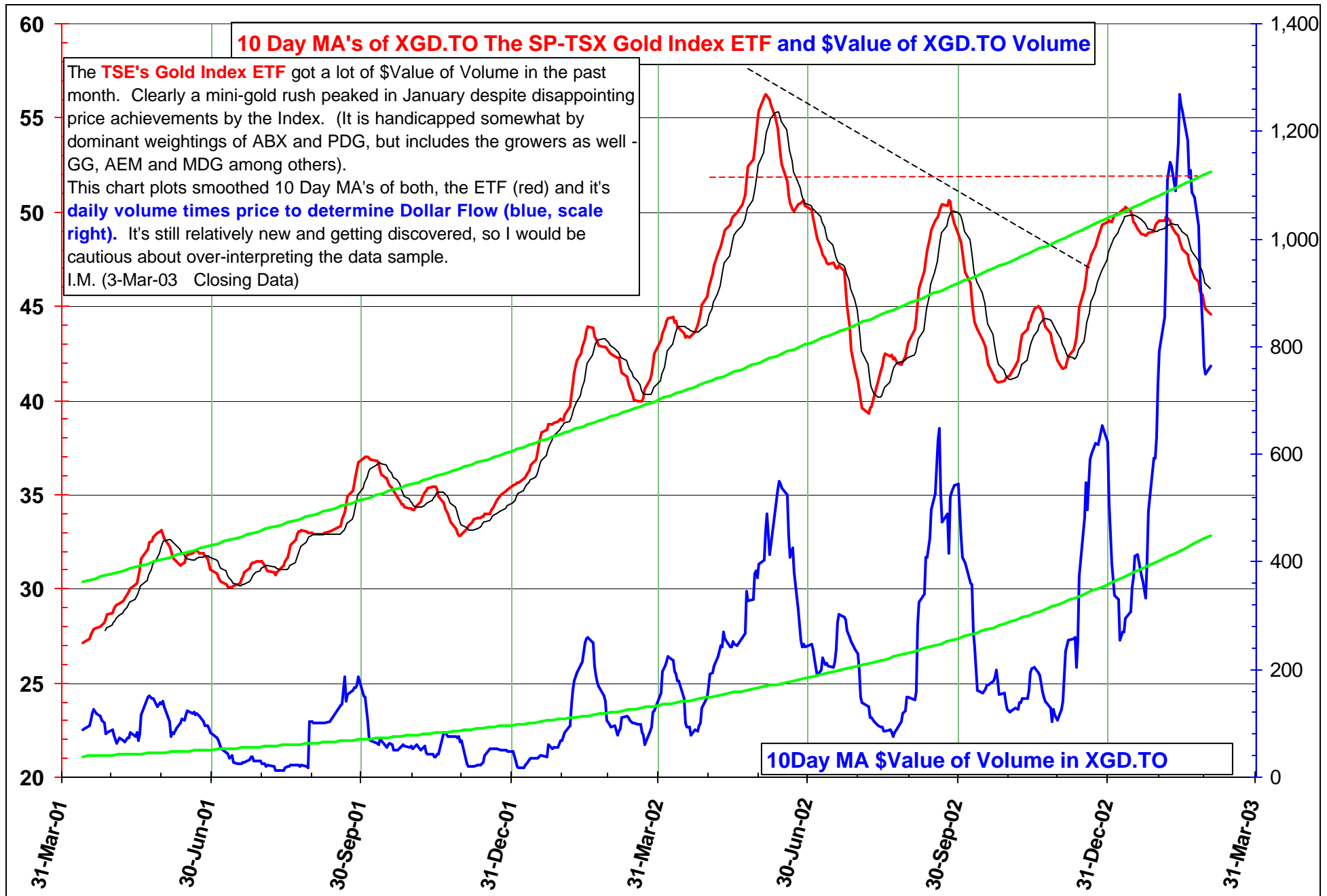




New FT Gold Mines Composite Index Ratio to Gold

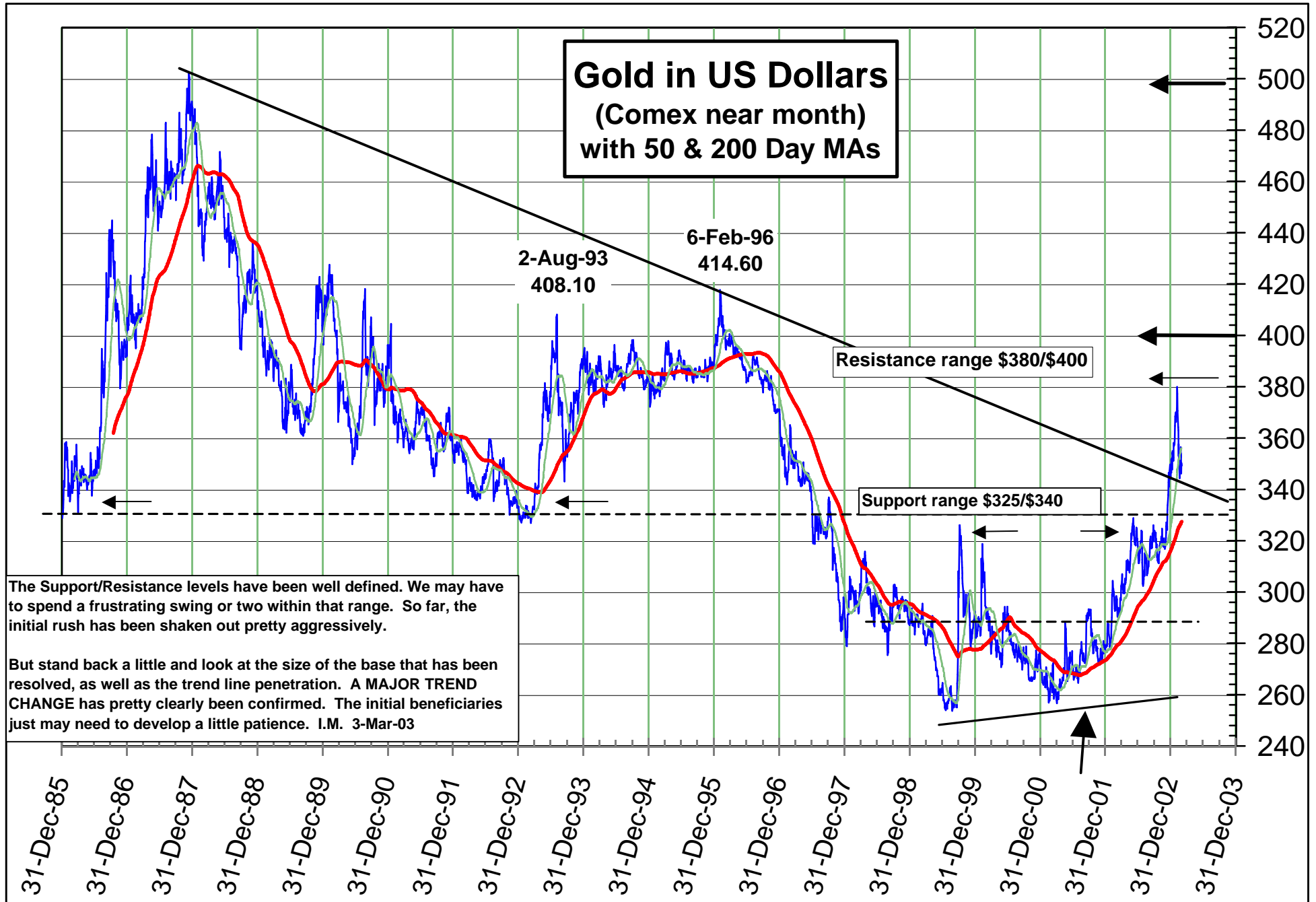


My proxy for Shares Vs Metal got way ahead of itself in May'02 but that has been pretty well worked off without breaking the still evolving new uptrend.



Email: imcavity@yahoo.com

Deliberations Research Inc., PO Box 182 Adelaide Station, Toronto, ON M5C 2J1, Canada



Email: imcavity@yahoo.com

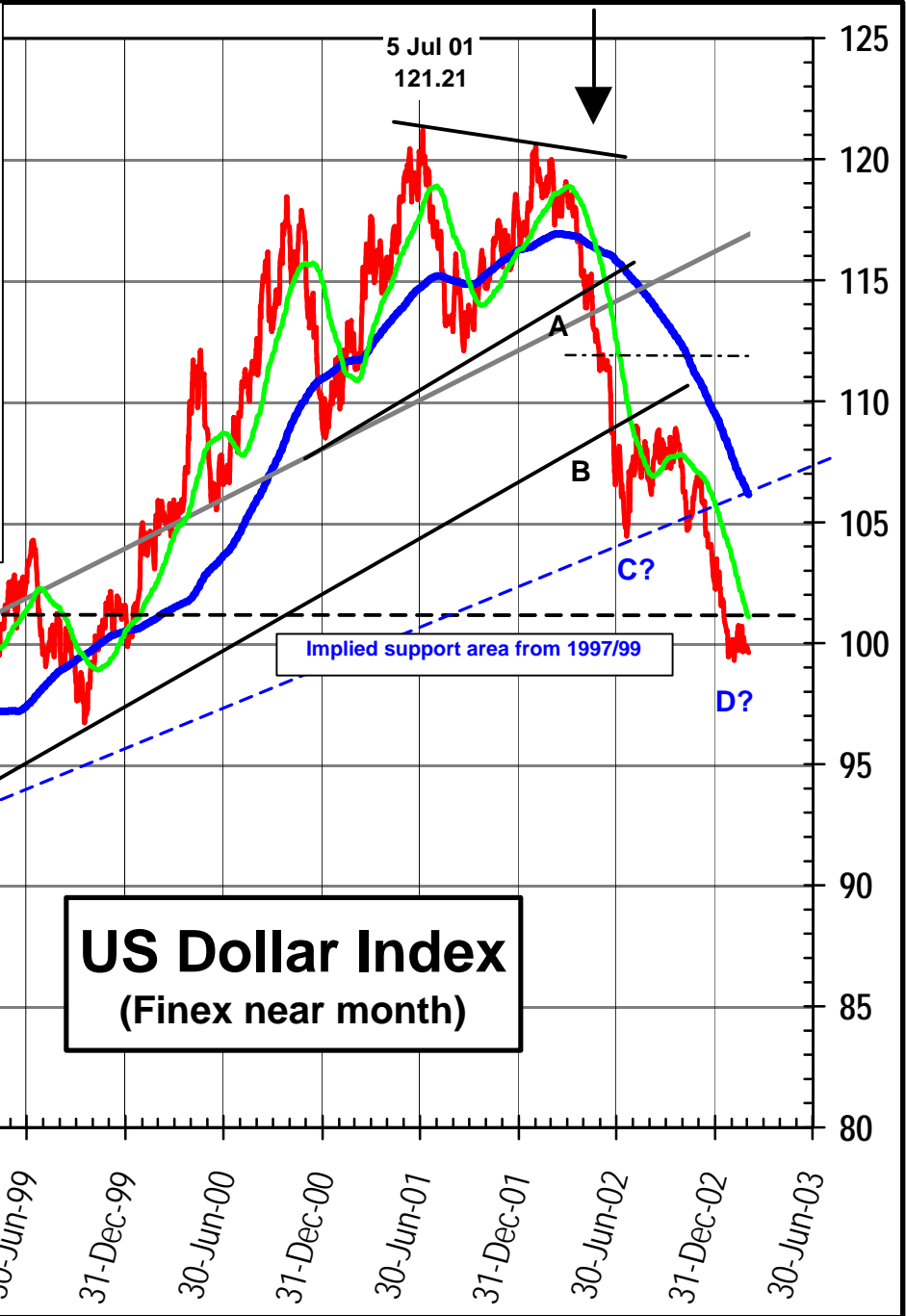
Deliberations Research Inc., PO Box 182 Adelaide Station, Toronto, ON M5C 2J1, Canada

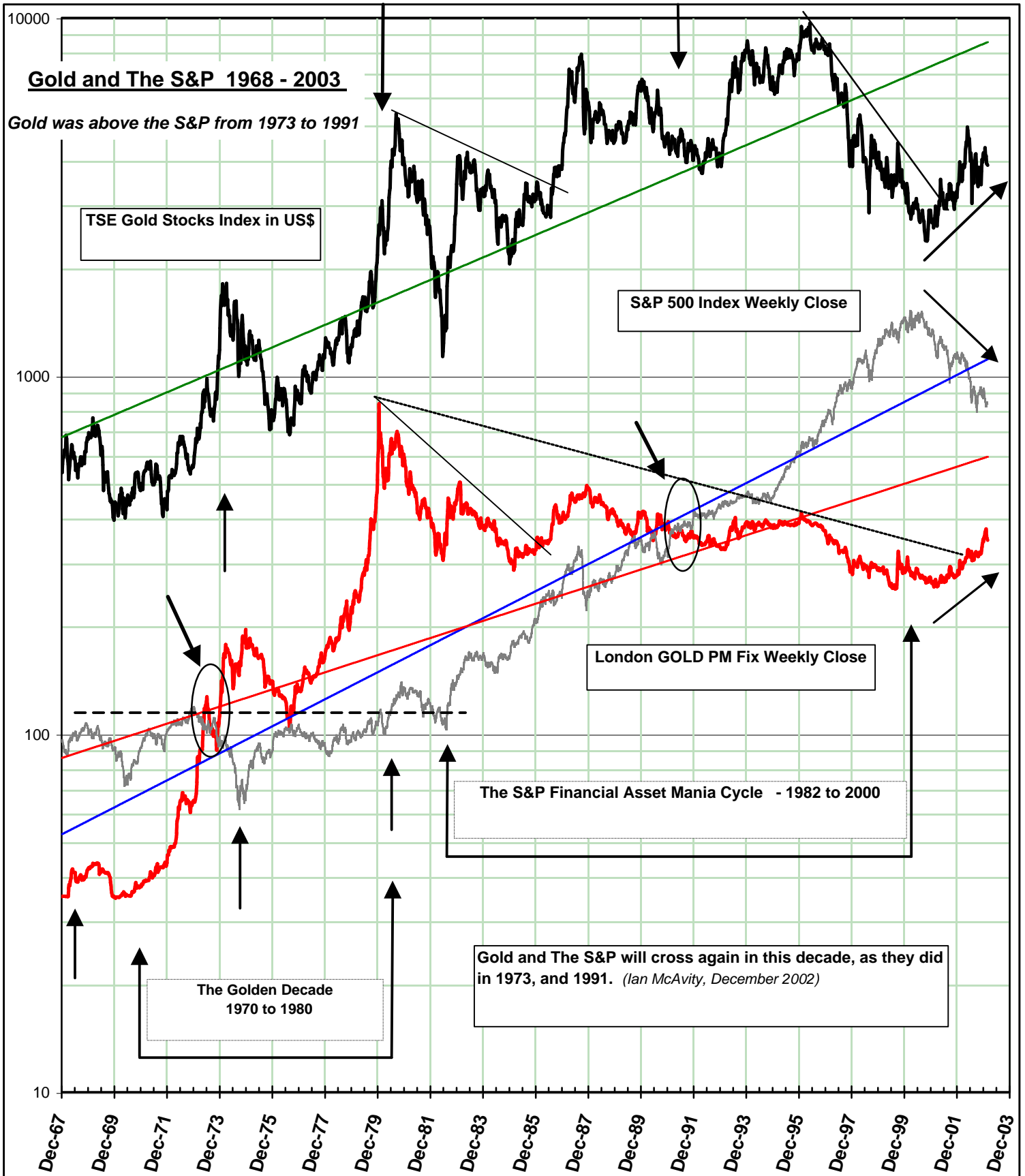
The breakdown of the Dollar trend from its early 1995 low is implied by the Arrow, which flags the two heavy trend lines (A & B) being penetrated, as well as the steep acceleration down by the 50 Day MA (Green) below the 200 Day MA (Blue). That is my belief. The Dollar has broken its major trend from 1995. The rebound from 105 (C?) was a relief bounce, working off a short term oversold condition, which is the same risk now raised by the recent low at D.

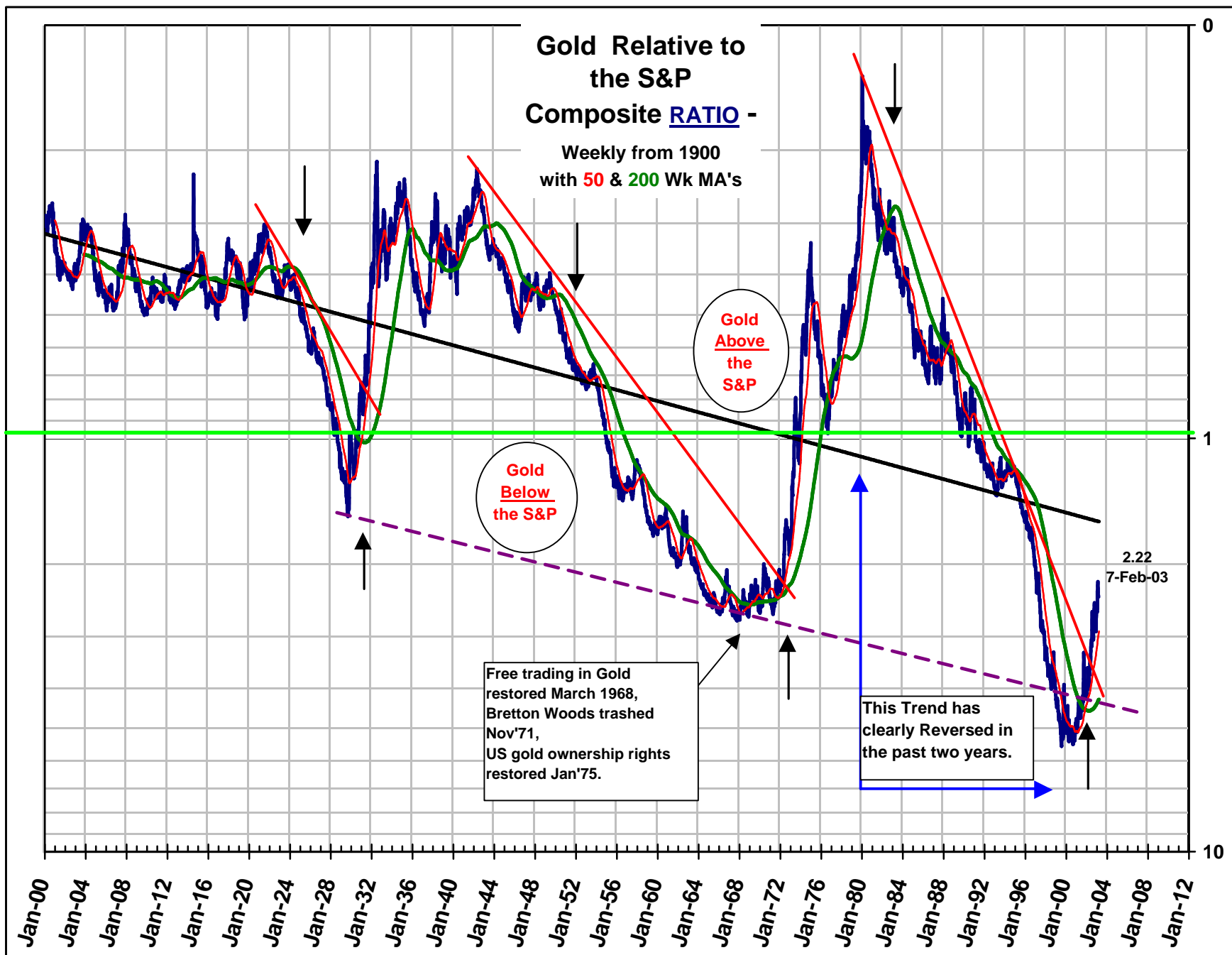
1997/99 spent a lot of time chopping around the 101/102 level which may proffer a lot of support, and could be argued to have been the halfway point for the Dollar Bull market. Optimistic holdouts could still argue that maybe this is just a correction within an ongoing bull trend rather than a new bear reversing the 7 year bull market. *(I really don't buy this argument...)*

But it may explain the absence of panic so far as the Index plunged from 120 to 100. I suspect more emotion may show up if, as and when it goes below 100, as I expect over the course of 2003. Iraq war uncertainties and accelerating global anti-Americanism don't favor the Dollar. An OPEC shift to pricing oil in Euro or a basket of other currencies won't help either.

I.M. 3-Mar-03







Email: imcavity@yahoo.com

Deliberations Research Inc., PO Box 182 Adelaide Station, Toronto, ON M5C 2J1, Canada

