

## Notes From the Rabbit Hole ©



Peter Newell's illustration of Alice surrounded by the characters of Wonderland. (1890)

In Lewis Carroll's *Alice's Adventures in Wonderland*, Alice follows a mysterious white rabbit into a rabbit hole to enter 'Wonderland', an absurd and improbable world inhabited by many strange characters.

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### Sentiment Picture Becomes Clearer

This week, as you may know I wrote a piece on the blog that included a measured target for gold of 680: <http://tinyurl.com/c2lcdt>. Now, this *potential* target was nothing new for NFTRH subscribers and regular readers of the blog. But the article appeared on other sites that publish submitted material and was thus subject to scrutiny by their less concentrated readership.

By 'less concentrated' I mean that if you appreciate the way I write about markets, read the blog and especially if you have subscribed to NFTRH, you are a special interest group, a concentrated special interest group that is not interested in dogma, group-think or losing your money while holding the company line. I suspect that most regular readers 'get' that I do not give easy answers (because there are none) or easily digestible analysis bites. You can ask the question 'can this guy [me] be talking about 680 gold, be short the metal and still be bullish?' and easily say 'well, yeh'. Side note: there was a marked increase in commercial short covering and a decrease in speculative longs on the CoT and that is not gold bearish, just FYI.

The article brought in some email feedback, and below are three mails that represent the spectrum. Number 1 is typical of what happens when you publish something bearish about gold. Number 2 realizes that this is noise along the way to where we are going and number 3 is focused on the dollar devaluation story.

- 1) 'You are so full of it, and stupid... bobbing each way is a coward's play... give up forecasting if you don't want to be exposed'

Jack Chan once told me he gauges gold sentiment by the number of death threats he gets from gold bugs after a bearish forecast. I'll take the garden variety insults any time.

- 2) 'Just had to thank you for the great article I just read on gold-eagle, "Tick - tock". It was a great read and I am using it to help others understand where I am in my thinking and what I am learning. I am a middle class, 40 something family man. I have been reading the articles on 321gold and gold-eagle for about the last year, and I credit men like you for the education that will make all the difference in what could be the near future... I am getting a sense that gold and silver could still possibly correct some more so I am watching and waiting before I make my big purchase. Does that sound reasonable to you?'

I remember an elderly gentleman named Don Stott who I used to read at Gold Eagle several years ago. He played a part in my own learning process. I get a lot of feedback from people claiming I am instrumental in their financial education or awakening and I cannot tell you how much this means to me; not to be considered one of the gurus or crystal ball readers (cuz I ain't), but to be considered one touch point in somebody's ongoing education is just such an awesome thing. Lives can be changed by open minds.

- 3) 'I am always happy to read different views but I think you do your readers a disservice by advocating a wait til the 600's approach... I leave you with a link to a fellow editorialist asserting that what has been done so far is WRONG and the only way out of this mess is a radical devaluing of the dollar.'

Always happy to hear from a courteous and grounded gold bug. It happens once in a while. I did not advocate anything however and I did not read the linked 'radical devaluing of the dollar' boilerplate.

In gold, it is business as usual. The metal went too far technically and sentimentally for the current correction not to have come about. Now, as I often write gold is not about price (in nominal dollars), it is about value. **Value. VALUE.** Have I mentioned that gold is about value? Many gold bugs are simply casino patrons of a different orthodoxy. So leaving aside nominal price – and the target of 680, as mentioned in the article is by no means a done deal and I would not advocate trying to think you can *steal* some at that level – it is gold's relation to all the 'hope' assets that is important to our ongoing themes. We will look at some of these later in today's report.

Sentiment is being reset and this has been NFTRH's theme for months now. What needs to happen is that gold bug sentiment should take a hit and broad market and economic sentiment needs to be floated by hope for a while. This will reset the technically unhealthy gold ratios and prepare us for the next leg up in rational, post-casino thinking and the next leg down in the spirits of those who still adhere to the old system and all of its conventions. The process is coming along nicely now.

In short, Hope '09 moves forward and this past week has confirmed its existence in the major media. The examples are coming in nicely now; President Obama used the word 'hopeful' in summarizing the economy now that they have rigged the interest rates and tax incentives to be more conducive to people getting credit, specifically benefiting that renowned economic engine, the first time home buyers. There was the author/expert interviewed in the Howe Street video I posted on the blog (as part of this post about the bull's red roof, copper <http://tinyurl.com/cd9ozd>), coming right out and using the word hope and getting giddy about the banks and commodities. Then there is the Bloomberg headline *Dollar Gains Most in Two Months on Optimism Worst of US Crisis is Over*.

Here are some alternate headlines.

*Obama hopeful more credit aimed at non-productive ends can do what it failed to do last time, avoid stimulating macro Ponzi scheme*

*Experts hopeful current turnaround predictions to be believed after previous failure to see anything until after the fact*

*Dollar continues higher in weekly bearish flag designed to get as many offside as possible in belief that worst is over*

Yes, sentiment is coming along nicely. There are stories to be manufactured and believed and there are herds to be influenced. While this may be an annoying time to be a financial realist – because after all, hope is going to make an attempt to legitimize itself as it gets the majority offside, it is crucial to have patience and a clear outlook that is not influenced by the manufactured noise.

NFTRH will continue to gauge how well sentiment is coming along for the hopeful as well as for the bears and gold bugs, in the opposite direction. Many of our indicators have made significant strides, as we will see later in the report. In the meantime, we should let things play out and remain confident that we saw this coming, planned for it and are now making plans for what comes next. If I am wrong and the worst truly is over, NFTRH will adjust in due time. But patience is likely to be the most successful commodity over the near term.

## **Stock Market**

The S&P 500, along with most other US and global markets got the Wells Fargo pump this week, the fix of course, having long since been in. Those who would orchestrate and manage hope have brought this broad market to the top of a downward sloping trend line. Can they break it to the upside? Well now, it would anti-climactic to the spirit of a proper sentiment rally if they didn't. But in the meantime, there is plenty of short term resistance for an over bought market.



It would be healthy for the markets to spend some time working off over bought conditions, but what does this rally have to do with 'healthy'? It is all about hope among people who still think that  $1+1=20$  and  $D+D=B$  (debt plus more debt equals a real and sustainable bottom). Technically, the noted support area should hold if the SPX is going to proceed to our target at around the SMA 200 in the coming weeks.

Here is the SPX in ratio to gold with the 38% retrace target still above. Since it would be



healthy for the gold sector to get a legitimate retrace out of the way sooner rather than later, we may look forward to continued outperformance by the stock market in the near term, whether that means strong upside for stocks while gold flounders or whether it is brought on by gold crashing to our worst case levels just under 700 while the stock market merely loses momentum. The ratio does not care how it is attained, it only cares that the previous strong moves are corrected and reset.

## Commodities

The commodity spectrum is a mixed bag of relative high fliers like copper and non-starters like natural gas, with a lot of still pretty bottoming charts scattered around. Now, let's address the elephant in the room before moving on. Yes, I botched Natty again and took small losses on the UNG positions. My trades in oil and gas might be considered comical if I was not writing a newsletter telling you about them. More comical yet, I may try to kick that can again. Or maybe I will just look for good charts and trade the charts for a while, in which case Natty is left alone as it shows no signs of a bottom.

While copper has run up to our target, other things are just getting started. Following are some commodity sector charts that still look constructive as far as bottom making goes. I am not necessarily recommending commodities be bought now, given that I have done more selling than buying. But NFTRH does not operate in a vacuum and should not be your only market analysis source. In the event you have good reason to be buying commodities, I would like you to consider the items that still have good looking bottom patterns in the making as opposed to those that have already blown upward. Remember what happens when the 'hedgies' come into the sector; it rotates like crazy. One manic play to the next. Casino style. Here is the coal ETF.



Individual uranium stock charts look constructive and we continue to watch direct spot uranium play U.to, which would indicate improved sector sentiment with a break of the trend line.



Platinum's little brother could be interesting.



There are many other constructive charts in the sector and I would be happy to give a brief opinion if asked to look at any charts. Of course, any chart viewing I do will be through the lens of the bottom feeder that I am.

## Interest Rates

Since a primary aspect of the US government's stimulus plan is to get long term interest rates down, it is helpful to check their progress. T-bills, in the top section of the chart remain in demand relative to those bargains that the government is floating on the long end.

Short rates are grinding lower, which shows that somebody remains in alert mode. Why do I feel it could be our large foreign creditors seeking relative safety from the US government's inflationary policies while average folks are *encouraged* ("Summers is a liar" in the words of an NFTRH subscriber who has all the credentials you could ask for and knows of what he speaks) by the likes of Larry Summers to view US Treasuries as sound investments?

The middle class has been screwed in so many ways and now it will be duped to pick up the chronic inflator's debt on the long end. If the populace had the proper financial education, there would be revolution. In general however, the populace does not understand this stuff and as my financial advisor/brother in law once told me, "most of my clients don't know the difference between a stock and a bond." They really should figure it out, because they are right in the cross hairs of the next inflation cycle.



## US Dollar

The weekly bear flag on the USD was mentioned earlier in the report. Let's take a look at it. This specimen is coming along nicely with MACD still triggered down from over bought levels. I threw the fork in there because, well, I haven't used one in a while and they are kind of fun. They also can help define support levels not readily apparent by other methods. Sure enough the dollar flags up the lower tine. The target remains around the daily SMA 200, currently at 81.64.



## Gold Stocks



The gold miners remain in correction/consolidation mode as the stock market puffs out its plumage. Supports are noted and those who had selling to do did so as recommended. Those who wanted to buy in for fundamental reasons are doing so or are planning to do so at support levels. The gold stocks, in short, are biding time and working off the excess.

### Caution Indicators

GSR hugs support at the SMA 200 after retracing 50% of the hellish rise into the October panic. It could bottom any time as it resides above the moving average cluster, but risk to the positively correlated asset world would be red lining down at support around 64.



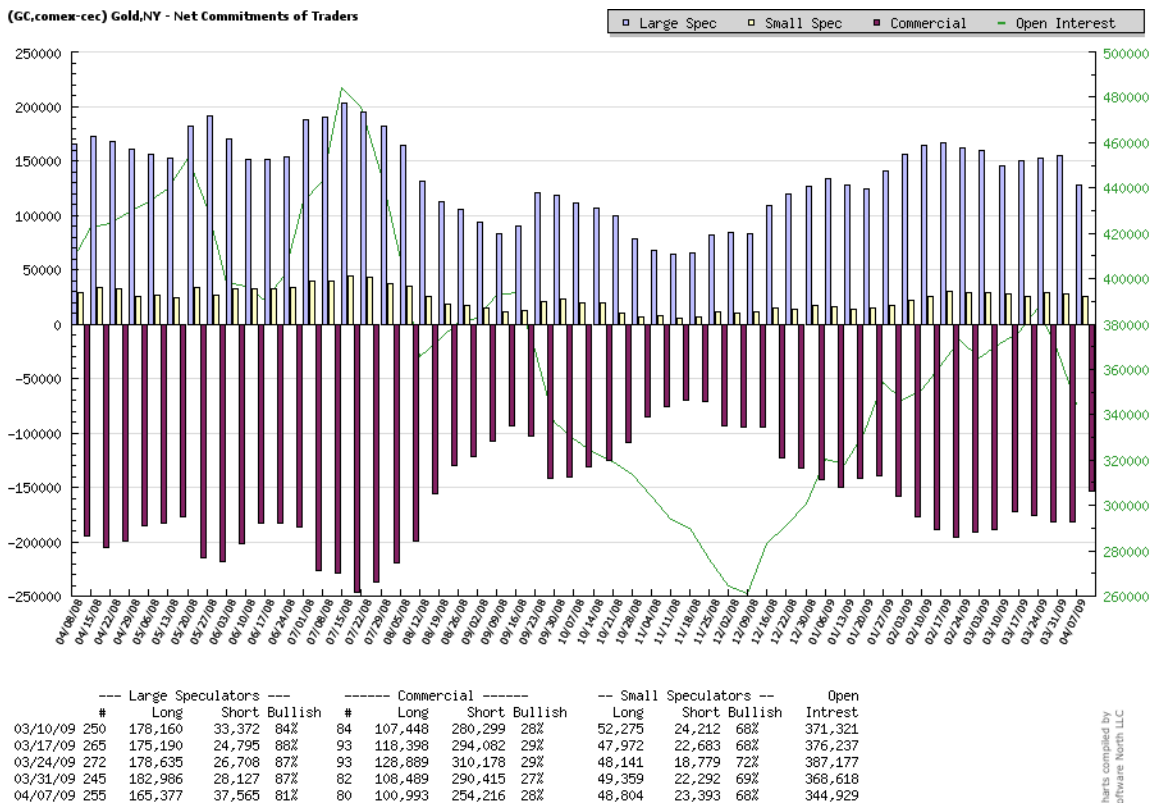
VIX meanwhile, has been gotten under control by the bulls. It is also entering a support zone. The bulls will celebrate this breakdown, but NFTRH will sit by gauging sentiment.



## Wrap Up

Things make sense. In fact, rarely has the market had so many indicators so unified in their message. Generally, it is short term bullish for the stuff that is positively correlated to the economy, and short term bearish for the real counter-cyclicals like gold and bearish positions. Soon I expect this process to be complete and the roles to be reversed once again. If events and/or technical indicators demand such, NFTRH will consider alternative scenarios. But to this point the markets are in concert with the plan we have had all along so I see no reason to reconsider now.

Meanwhile, here is a look at the CoT graph for gold. Positions are easing toward the bullish direction and open interest is declining again. This may put a lid on any gold downside, but again, CoT is not a very good timing tool.



## Portfolio Notes *(portfolio notes edited for NFTRH sample editions)*

The capital preservation portfolio took a loss on [REDACTED], a profit on [REDACTED] and resides at 75% cash and t-bill/short term treasury equivalents. Gold miners are [REDACTED] with gold explorers [REDACTED] (increased) and [REDACTED] among others. Silver and gold explorer [REDACTED] remains. [REDACTED] remains, but the unnamed court case lottery ticket was sold as the 60%+ bird in hand won out.

The speculation portfolio is really speculatin' with the new shorts on gold and silver, [REDACTED] and [REDACTED]. I do not recommend this for most people. It is probably a more sound strategy to keep a high cash level and await opportunities to buy the sector if interested. The tolerance on [REDACTED] was shown on the blog and is roughly a small distance from the point where gold would negate the short term breakdown from its neckline just above 890. [REDACTED] too will be watched closely for risk management. Cash is at 26% and gold stocks are [REDACTED] (increased), [REDACTED] with [REDACTED] and [REDACTED] among other gold explorers. Silver producer [REDACTED] and Silver-gold explorer [REDACTED] are held. Positive correlators are down to [REDACTED] and [REDACTED]. But as noted above, some new opportunities will be evaluated during Hope 09, as I get a feel for the market's short term. Finally, the profit in hand was realized in the court case speculation in this account as well.

### **Final Thought**

This is a time to keep it simple. Let's not get too complicated nor get caught up in the noise of the moment. Gold is an anchor of sanity in a financial system gone mad. There are short term goings on and then the bigger picture. The bigger picture is where real success and failure will be measured.

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