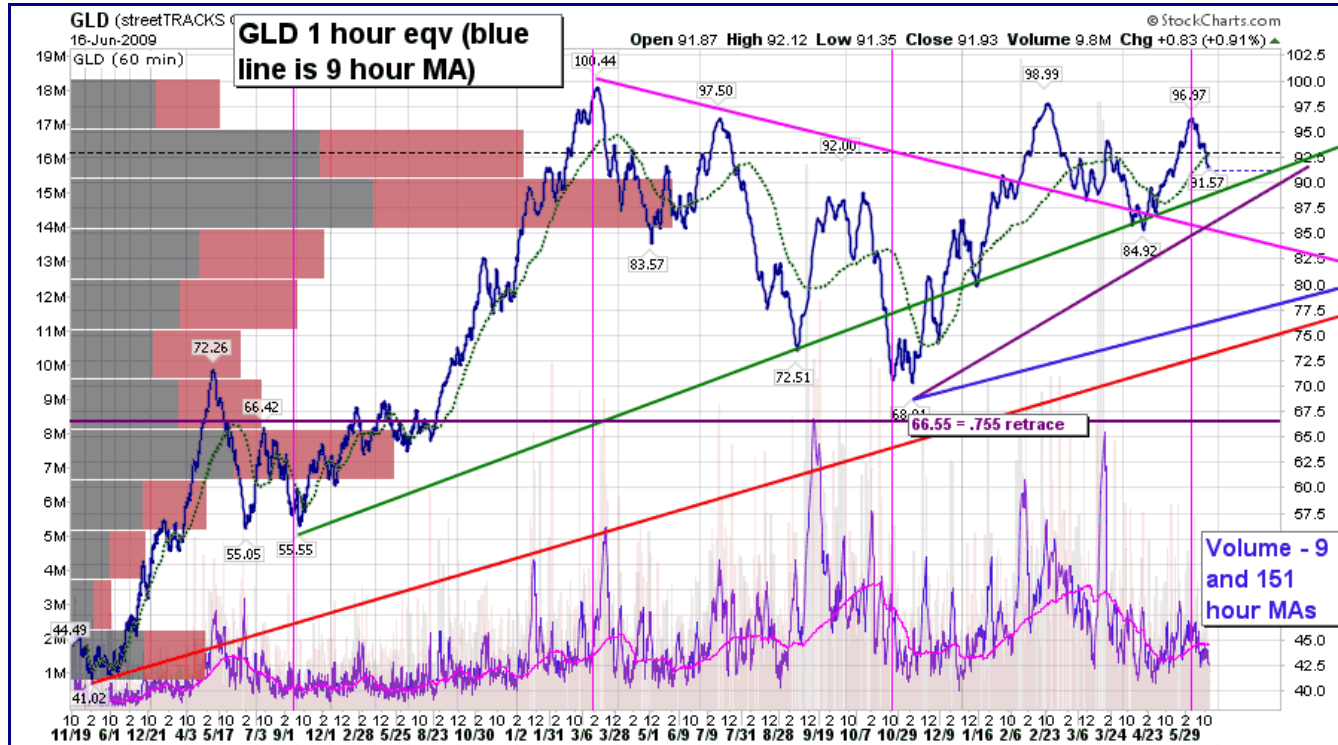


# GOLD!

Equivolume chart of GLD since it started trading in late 2004:



I put a bunch of .755 speedlines measured from the various price ranges on the chart. I am not sure that any of them individually or collectively have any significance for us right now, but I ended up leaving them on the chart anyway. Maybe one of you can better divine their meaning.

Well, actually, the one extending up from the 2006 low at 55.55 might be important right now. I noted on the chart that a .755 retracement of the 55.55 to 100.44 price range comes to 66.55, so the speedline intersecting that price comes up to almost 90 right now. That line proved supportive of the price on the last decline down to 85, so maybe we will see some support around there again.

You'll also notice that I am trotting out the volume by price bars again. A couple months back I was all hopped up on that presumed volume support, thinking that a violation of it would send the price of GLD down to wander in the 'no-man's land' between 85 and 65. That didn't pan out last time, but I still like the logic of it, so it is something to keep in mind if the current weakness persists. But as it stands right now, that big bar extending from the left of the chart has to be considered a major factor in support of the price.

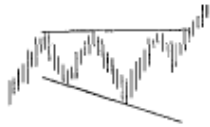
The lack of volume during this latest correction can also be viewed as bullish. As you can see, daily volume has been below the 65 day moving average for a week and a half now.

But you know what? The volume on the rally from 85 to 97 was equally pathetic. Volume on that advance was half that traded during the correction from 99 to 85.

All in all, GLD needs to hold the 90/88 range to keep up appearances. Any rebound from there will have everyone talking about an 'inverse head and shoulders' formation within the big 'inverse head and shoulders' dating back to March of last year.



Broadening Formations,  
Right-Angled and Descending,  
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'Irregardless' of the terminology, the question is whether this is really a bullish pattern or not. I had a look at the [Encyclopedia of Chart Patterns](#) and the current chart of Gold most resembles what they call a 'Right-Angled and Descending Broadening Formation.' That explains the appearance of the left 'shoulder' and the 'head', but not the perceived right 'shoulder'. So I think we can consider Gold's 'left shoulder' as another instance of the same pattern, but on a smaller scale.

The author says this pattern is rare and statistically speaking it can be bullish or bearish. *But is only bullish or bearish after it breaks out.*

Furthermore, a breakout often never occurs at all because the pattern evolves into something different before violating the horizontal resistance line or the descending trendline.

But we have seen patterns similar to this with Gold in the past, most notably in 2002:



Back then the metal consolidated for six months with repeated resistance around 330. When it finally broke that barrier it popped to 390 in the course of two months. The breakout measured twice the range of the consolidation and the move lasted about 1/3 the time spent in the consolidation. So if Gold today were break above 1000 in the near future and to follow the 2002 playbook we would be looking at about \$1600 by maybe the end of the year. (And then fall back to 1000 pretty quickly.)

Come to think of it, this analogy with 2002 has got to be underlying the forecasts some of the more intellectual Goldbugs. I haven't checked the Gold commentary sites in like forever (who needs those now when Cramer and Motley Fool will tell you what Gold is sure to do?!) but I bet this 2002 thing is getting play right now.

It has a convincing air to it, quite frankly. If Gold can hold 900~ in the near future then the chances increase that there is something to it. But as it stands I view the likelihood of a strong break above the former highs in the near future as low. My preferred scenario remains that Gold is in a flat and the price will drop sharply (as low as 666) before pushing to the next level. Am I absolutely certain of this? No. Do I favor it above the 2002 scenario? Yes. Am I willing to change my mind? Yes, but I don't see much reason to yet.

Have a nice morning,

Kyle

<http://trendandvalue.blogspot.com/>

## **Equal-Weight Currency Indexes**

USD: 94.73  
JPY: 88.46  
EUR: 95.06  
GBP: 110.10  
CHF: 92.87  
CAD: 103.81  
AUD: 112.04  
XAU: 101.37  
XAG: 118.79