

GOLD COMMENT

A "PAINFUL" CONSOLIDATION SHOULD END SOON

July 5, 2007

(Weekly chart with the 40-week moving average)



For the last year and a half, the gold sector has been consolidating within a lengthy horizontal pattern. During this pause, the HUI index settled roughly between 275 and 360. Every advance toward the upper boundary of the range was followed by a decline toward the 275 level. From a technical perspective, this horizontal action (the direct result of an impressive rally out of May 2005 lows) is a very healthy and beneficial effort.

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So why are so many investors getting impatient and disappointed with the recent movements in the Gold sector?

It could be the lack of uniform action among individual metal stocks. Even though some stocks have already had multi-year breakouts, others are still "locked" in their consolidation patterns, testing investors' patience.

There is also the sentiment factor. Rallies and declines in Gold and Gold stocks very often trigger swift turns in sentiment readings. In other areas of the market, participants need months of positive action in order to turn excessively bullish or vice versa. In contrast, the sentiment toward Golds changes literally on a dime, creating extreme volatility, unbearable for many. The recent surge in bearishness is an example of a typical overreaction to an otherwise orderly decline.

Not only did the HUI index **not** reach the lower boundary of its recent consolidation pattern at 275 but "proved" the validity of higher support around the 320 level. The index has also strengthened in relation to Gold, which is usually the harbinger of a rally.

The recent successful test of the support at 320 and low expectations toward Gold stocks suggest that the HUI index may stage another attempt to break through the 360 resistance and, if successful, complete its one-and-a-half-year consolidation plateau.

We continue to favour a selective approach to the gold sector with a focus on the "upside leadership" stocks. Please consult our BUY&SELL list for individual names in the sector.

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