

## **MARKET UPDATE**

### **BULLISH MOVE IN GOLDS DELAYED BUT CLEARLY IN SIGHT**

**October 12, 2006**

The recent weakness in the gold sector has been disappointing and nerve-wracking for investors awaiting a seasonal rally. Some analysts have brought up the prospect of a lengthy decline or even a bear market, pointing to many stocks that are on the verge of a breakdown. These negative settings have created a condition we haven't seen for a while – that is, FEAR. The comeback of this “bear-killing” element is not the only comforting evidence of the “corrective” nature of the latest sell-off.

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Between May 2005 and May 2006 the gold sector experienced a sharp rally during which the HUI doubled (A-B). This "explosion" of demand for Golds triggered a correction which retraced about one-half of the entire move (C). The proximity of an important support zone around 260-275 and a technical phenomena -- "ceiling becomes floor" -- suggest the correction may have run its course and support should come in close to the current levels (please see chart above).

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From the inception of this bull market, Gold has been trading within a well-defined rising trend channel. In December 2005 Gold had a breakout above the upper line of this channel (A). As a result, the yellow metal rallied away from this line until it reached a high of \$725 in May, 2006 (B). Since then, Gold has been pulling back toward the upper line of the channel, currently around \$550 (C), creating a bullish formation called a "symmetrical triangle" (please see chart above). Since this continuation pattern usually resolves in the direction of the trend preceding the formation of a triangle, we expect the next move to be upwards.

***The recent declines have created a lot of confusion and disappointment for market participants -- the first harbinger of better days. Technically, Gold and Gold stocks still remain within a bullish framework. A resolution should come shortly.***