

GOLD & GOLD STOCKS: UP AND AWAY

February 6, 2007

GOLD

(Daily chart with the 50- and 200-day moving averages)



GOLD: In our last Market Update we expected a quick pullback toward the \$600 level for the yellow metal and then a resumption of the uptrend toward our next target of \$720. Favourable sentiment readings, seasonal factors and a bullish technical setup were cited.

The recent recovery toward the \$650 major resistance was marked by caution and hesitation among investors – necessary ingredients for a full-fledged rally. However, as soon as the advance resumes, and Gold moves higher and away from the \$650 mark, expect the rally to accelerate. The technical picture reaffirms the underlying solidity, since Gold is trading comfortably above its 50- and 200-day moving averages and both are trending upwards. In addition, the MACD is above the zero line and moving higher.

The only short-term risk associated with Gold is a potential pullback toward the \$640-\$650 support zone. However, we wouldn't count on any major setback at this stage of the bull market.

If history is any guide, the final up-leg of this cyclical bull market in Gold should take the form of a violent, vertical move. Watch for Gold to move decisively higher in 2007.

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HUI

(Weekly chart with the 40-week moving average)



GOLD STOCKS: Since the completion a short-term pullback, the HUI index has been moving toward the 360 level and the upper boundary of a one-year consolidation pattern. A breakout above this level would confirm the start of the next major up-leg.

Despite the fact that the main gold index is still technically immobilized, numerous individual stocks have already had powerful breakouts from lengthy consolidation patterns and are heading toward significantly higher targets - see our previous report "Metals – technical all stars" for some of our favourites.

The bull market in Golds has entered its most profitable phase. Therefore, setbacks should be aggressively used as buying opportunities.

Focus on early leaders of the current advance.

**Olaf Sztaba
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