

PHASES & CYCLES[®]

THE XAU INDEX IS ON THE VERGE OF A MULTI-YEAR BREAKOUT.

In our "Conversation with Gold" (April 7, 2008) we said that a consolidation period should give way to a full-fledged rally.

The last four weeks have confirmed our forecast. The strong upside action has silenced the bears and surprised many pundits (again!). The rising price of Gold and the fears of market collapse have added fuel to already bullish fires.

On the sentiment side, the bullish setup is in tune with our bullish ears. The latest market jitters scared off investors to the point of capitulation. In the meantime, Gold stocks have quietly continued to march up. There have been few front-page headlines about the Gold sector revival apart from the hysteria about a so-called "bubble" in commodities and precious metals. The latest data shows that Gold and Gold stocks continue to be ignored by the investment public and money managers.

The Gold sector has shown the most stamina of all sectors during the last four weeks as shown by the XAU index (see chart on the next page). The uplift placed the index above its rising 40-week moving average and near the upper boundary of its one-year consolidation pattern. A decisive breakout above this level would cement the recovery and provide a strong stimulus for the investors in "the waiting room."

In the past, we pointed out the selective nature of the Gold sector. The stocks that withstood the January sell-off, as predicted, were the best performers. Agnico-Eagle (AEM), Barrick Gold (ABX), Goldcorp (G) and Great Basin Gold (GBG) etc. are all on our list Recommended Stocks.

As the advance accelerates, we anticipate that more and more Gold stocks will join the rally – especially some forgotten juniors. This should help the entire sector to advance in a more unified fashion and bring more buyers into the market.

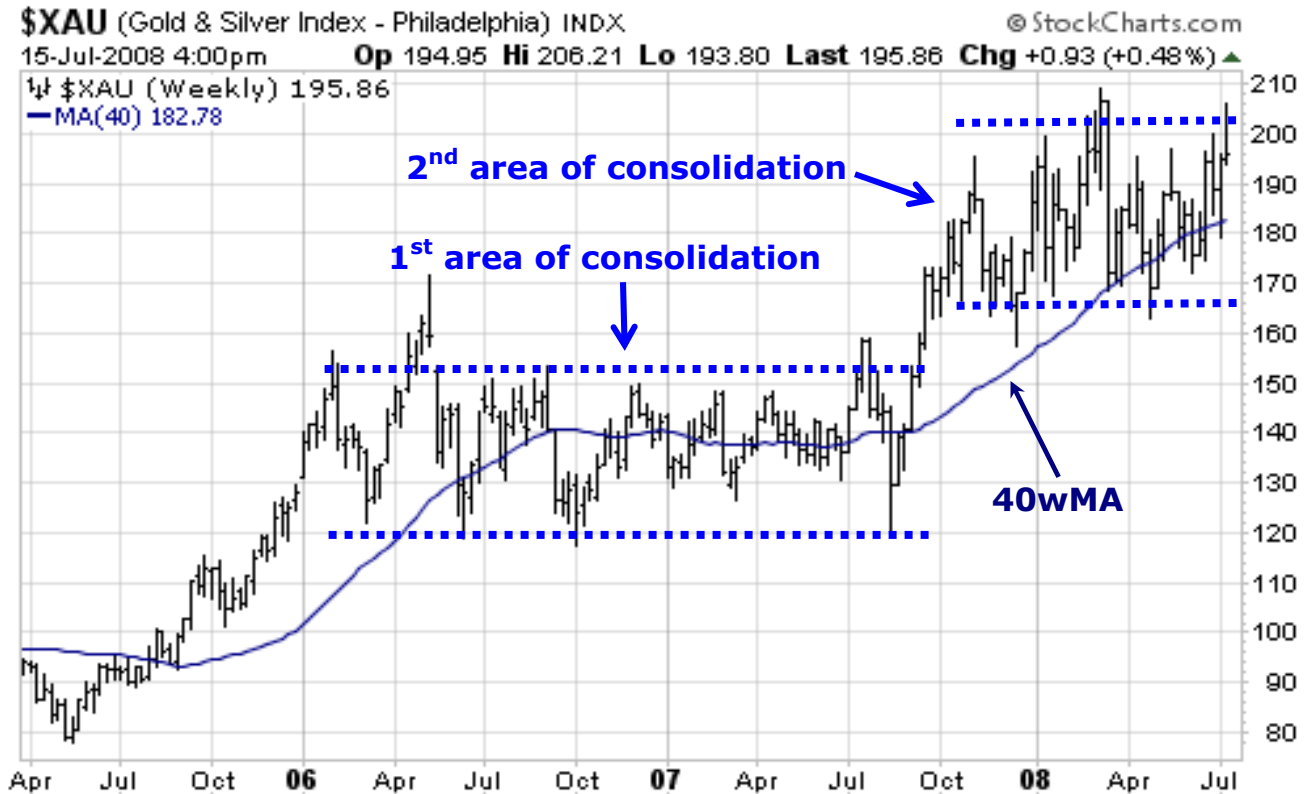
One of the biggest disappointments for investors in the last few years was the mediocre behavior of Gold stocks in relation to Gold itself. This is most likely to change. A recent multi-year breakout in big-league stocks such as Barrick Gold (ABX) or Goldcorp (G) is the first harbinger of such a change. For better results, we continue to keep our focus on the leaders.

Technically and cyclically, Gold stocks are ready to take a leading role. The current strength in big-cap Gold stocks should shift toward the juniors later this year.

Focus on the early leaders of the advance and use any pullbacks as buying opportunities.

XAU INDEX

(Weekly chart with the 40-week moving average)



The price action from early 2006 to the present has been in the form of a “Duplex Horizontal” (see dashed lines) – a bullish technical pattern that usually leads to higher prices. The pattern consists of a horizontal trading range between 120 and 150 (1st area of consolidation), and then a higher trading range mostly between 170 and 205 (2nd area of consolidation).

A decisive rise above 210 will signal a breakout from this bullish pattern and a move toward significantly higher targets.

The 170 level should provide strong support.

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