GOLD NEWSLETTER ALERT #658

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Blood In The Streets

History shows that the greatest profit opportunities occur during times when it takes courage to buy.

This is one such time — and perhaps the greatest profit opportunity in gold since August 2008

Last week, I began my Alert with the following warning:

"Make no mistake: These are dangerous times. It's one thing to predict the downfall of the European Union; it's another to live and invest during the resulting turmoil."

I went on to summarize the current situation and the stakes we face. I noted that the sell-off across all investment markets, but most especially the precious metals, was a delayed reaction to the election of socialist candidate Francois Hollande in France and the fractured election results in Greece.

I noted that European Union citizens outside of Germany were rejecting the very notion of austerity, and that the result would be "massive monetary reflation -- money printing to a degree not yet seen during this global financial crisis."

Finally, I closed that Alert by saying "the days ahead could see wild volatility, and I warn you against acting aggressively until we see a clear indication that the worst is over."

The intervening days have proven this warning to be prophetic. Today especially, as we've seen another across-the-board sell-off in all asset classes...but with the precious metals being particularly singled out for punishment.

At last check, gold was off $19.70 (1.25%) at $1,560.70 bid. This is bad, but the metal had sold as low as $1,554 before recouping some of the lost ground.

Silver was down $0.60 (2.08%) to $28.29, platinum fell $24.00 (1.64%) to $1,437 and palladium got nailed for a $10.00 (1.67%) loss to $590.

The gold stocks followed the metals lower, with the Gold Bugs Index dropping 11.75 points (2.91%) to 392.55, and the XAU shedding 3.77 points (2.49%) to 147.48.

The selling has continued because the situation in Europe has gotten worse...and China has joined the developing story.

In Europe, the continued failure of Greece to form a coalition government following their elections, and the apparent rise to power of far-left and socialist parties determined to default on the nation's austerity agreement with the European Union, have cast into doubt the very survival of that union.

In China, the government over the weekend announced another easing of banking reserve requirements, their third such easing since last November, signaling their concern over slowing growth in the Middle Kingdom. Contrary to past monetary easing, the market took this move as a bearish indication of more trouble ahead.

The near-term result of these events is more market turmoil -- a mass exodus from any and all risk assets, including gold and silver. The margin clerks have been in charge, and margin-call related selling is helping to send the metals lower.

Here's the most important point: In last week's initial sell-off, gold fell through its 300-day moving average. As you know, the 300 DMA is the longstanding support line that I watch most closely. (Most people watch the 200-day moving average.)

As I noted in our last Alert, the only previous time that gold had fallen through that support in the long history of this bull market was during the credit crisis of 2008.

This is telling me that the current situation is of a similar type and magnitude to that crisis. In short, we are seeing a liquidity vacuum in which assets of all stripes -- except the U.S. dollar -- are being sold.

From a practical standpoint, and using the fall of 2008 as a guide, we can expect continued extreme volatility in gold and the rest of the metals complex. However, those volatile days in 2008 ended up carving out an extreme low for gold, and the resulting recovery marked one of the greater profit opportunities in gold's recent history.

So let's take a look at the comparisons between then and now.

Before last week's big drop, the 300-day moving average for gold stood at $1,632.51 on a spot basis. So the metal fell through that support line very decisively.

Looking back at my records, the last time gold violated that moving average was in mid-August 2008. My records back then were based on the London PM fix, and I show that the London PM fix on 8/15/08 was $786.50, or 4.4% below the 300-day MA, which at that time was $822.85.

Gold broke back above that moving average a few days later, on 8/22/08, and remained above it until last week's big fall. (In the closing days of 2011, it seemed to touch the 300 DMA and bounce right back.)

Extrapolating the 2008 violation of the 300 DMA to today (remembering, of course that the past is no guarantee of the future and that history tends to rhyme rather than repeat, etc.), would imply a low this time of around $1,560.

In fact, we saw gold hit that mark today.

What This Means To You...

The lesson to take here is that these types of corrections in gold have been very rare... and have turned out to be exceedingly profitable.

From that low of $786 during the credit crisis of 2008, for example, gold soared to a high of $1,920 in less than three years -- a gain of 144%.

IF...and granted this is a big "if"...gold performs similarly this time around, it implies a gold price of $2,295 at the next interim high.

The question to ask yourself is this: Does the current correction mark the end of the gold bull market, or just one more dip on the long-term trend?

Also: Does the current economic environment argue for lower gold prices, or higher?

The answers, in my opinion, are the latter options in both cases. Consider that the rebound in 2008 came as the greater fundamental story for gold -- i.e., a global monetary reflation in reaction to the deflationary effects of the crisis -- regained hold as the driving factor for gold and commodities in general.

I fully expect a similar story to emerge this time around.

At this very moment, we are seeing the slow-motion collapse of the European economic alliance, coincident with a slowing of the recovery in the U.S. The chances of another broad-scale monetary reflation in both Europe and the U.S. have grown enormously over the past couple of weeks, and I expect further evidence to emerge.

There's no doubt that we can expect great volatility for gold and commodities in general over the next few weeks. And I warned last week against aggressive buying until there was a clear and obvious indication that the worst was over.

But we rarely get such a clear indication of a bottom, and today's action has all the earmarks of an exhaustive sell-off. In short, I get the feeling that a remarkable opportunity emerged.

So while prudence continues to demand caution, I recommend picking up some obvious bargains at the current levels. Such bargains include **Ethos Capital** (ECC.V; C$0.70), **Keegan Resources** (KGN; KGN.TO; US$2.77), **Millrock Resources** (MRO.V; C$.20), **Prophecy Platinum** (NKL.V; C$2.05) and **Riverstone Resources** (RVS.V; C$0.36).

In closing, let me reiterate that it takes courage to buy in times like these. And your courage will be tested in the volatile days ahead. But it is precisely during such times that the greatest investment opportunities emerge.

This is one of those times.

— Brien Lundin

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