

# Honest Money Gold & Silver Report

## Market Wrap



**Week Ending 7/18/08**

### Introduction

A lot of change occurred last week so there is much to cover. The focus will be on the commodities markets and especially silver and gold. Many charts are included. Charts are always open to interpretation, as beauty is in the eye of the beholder. Adjust the view accordingly.

**First:** the stock market is either in a bull or bear phase. My opinion is that it is in a bear phase. Others entertain different ideas. Only the future will show which is right. I hope it shows I'm wrong.

When in either a bull or bear market, it can either be a cyclical or secular bull or bear. The first is the more commonly occurring. The second is the less frequent but much more powerful. There are also differences within various secular

phases, but we do not have the time to go into them now; perhaps in future reports.

This means we are either in a cyclical or secular bull market; or a cyclical or secular bear market. I believe we are in a secular bear market, and I hope I'm wrong.

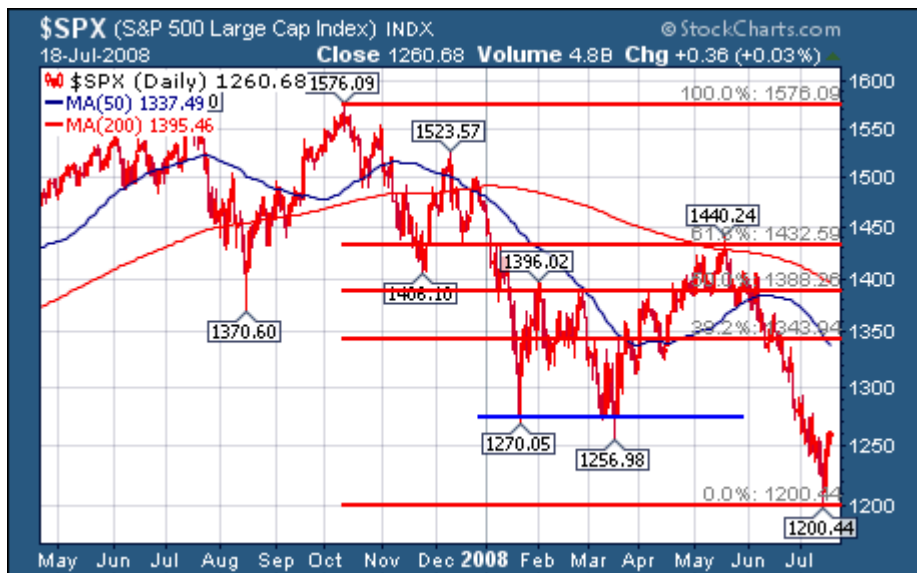
Lastly – it is possible to have a cyclical bull within a secular bear; and a cyclical bear within a secular bull market. We just went through a cyclical bull within the secular bear during the last couple of years.



The first red horizontal support line is being tested. If broken below and held below on a monthly closing basis it will strongly suggest a test of 954 and 775 is a distinct probability. Volume picked up on the decline. CMF shows distribution and lack of buying power approaching the last lows during 2003.

The daily chart below shows that both the 50 and 200 ma's are falling and the 50 is below the 200: this paints a picture of weakness with a lot of underlying technical damage done to the market.

It will take a lot of work to repair this damage. The red horizontal lines show some of the possible upside targets of overhead resistance that reside above. The blue line is the first level to breach.

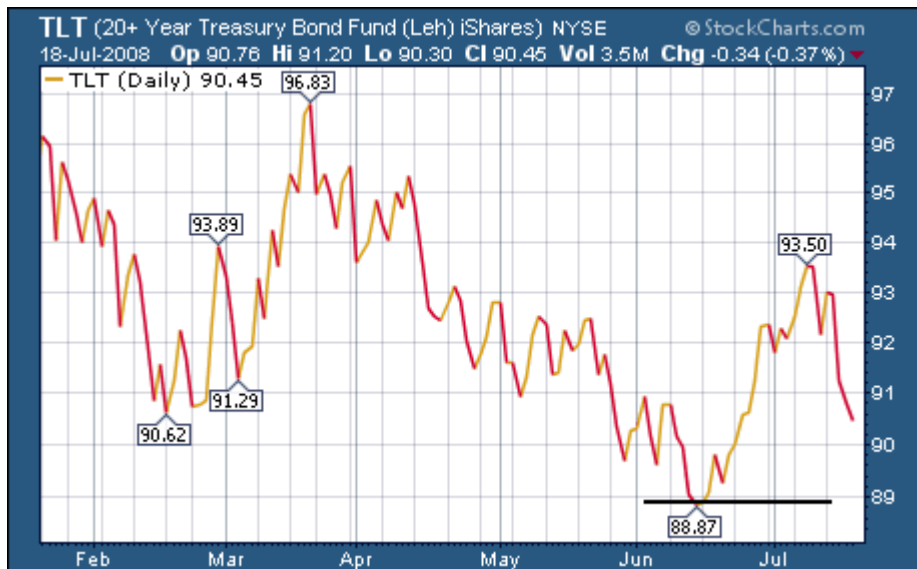


## Bonds

Bond yields are rising, which means bond prices are falling. If the horizontal line marked resistance at 43 gets taken out, the trend for interest rates may well be changing.



The chart below shows bond prices falling. Support at 88.87 better hold.



## Gold

Much discussion has taken place in the media concerning whether the gold bull is alive and well or gasping for its last breaths. I will present what evidence I see and leave it for the reader to decide.

The daily chart below shows that price is approaching significant horizontal support that goes back to April. Will support hold or not is the \$64 dollar question.

If support doesn't hold the gap at 92 will most likely get filled. A test of the 50 ma (89.49) would be standard procedure in a healthy bull market. Histograms are receding towards zero hinting that further downside action may be coming.



The weekly chart of GLD shows gold down about 1% for the week. Horizontal support comes in at around 92.50, which is right where the gap on the daily chart sits. Also, notice that the 34 ma and the bottom diagonal support line “touch” at about 89. Needless, to say: the 88.50 – 92.50 area is significant.

MACD is attempting a positive cross over and histograms have turned slightly positive. RSI may be curling over, however. The inverted hammer may portend a trend change – confirmation is needed, however.



The monthly GLD chart is a chart of a bull market. It rises from the bottom left hand corner and rises relentlessly to the upper right hand corner – a stairway to heaven if you will.

Notice the 20 ema that has never been breached since the bull began – it resides at 79.16. RSI remains over 70. MACD is beginning to converge.

Histograms are receding back towards zero suggesting further downside action may be coming.



It is a bull market until it isn't – as of now it is.

## Silver

The daily chart of SLV shows horizontal support has been broken below. The gap I mentioned in past reports has now been filled, which is good – it provides a more solid base from which to launch the next phase up.

The yellow shaded area represents a support zone. The bottom red horizontal line is significant. If price closes below on a sustained basis then the 50 ma will be tested and perhaps the gap between 165-170.

RSI is headed down and MACD appears about to make a negative cross over. Histograms are receding towards zero; all of which suggests further downside action.



The weekly chart has mixed signals. The yellow shaded area represents support, which is being tested presently. The 50 ma is quite a ways below at 157.60 and is rising. It looks like it will converge with the bottom of the horizontal support zone.

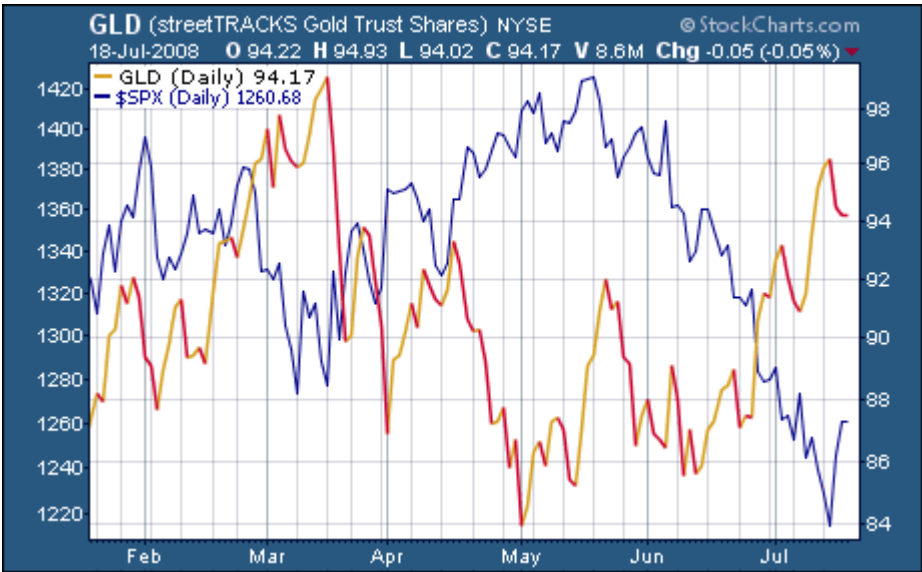
MACD kissed and then got cold feet and backed off – we await the final decision. Histograms have receded back to zero and look as if they may want to go positive. CMF is in a distinct downtrend showing distribution, which I don't like. If it goes negative caution flags rise.



Silver has outperformed gold so far this year. Several times gold has tried to make a comeback as the chart shows. It is presently trying once again.



Gold and the S&P have moved in almost inverse mirror images of one another.



# GDX

The daily chart of the GDX shows a much more severe correction underway as compared to physical gold and silver. Upper horizontal support was sliced through and price is testing both lower horizontal and diagonal support.

Notice the 50 ma is very near as well (46.29), as is the gap at 44 – 45. RSI shows negative divergence: when price made a new high from early July (50) to later in July near 52, RSI did not confirm and make a new high – it made a lower high.



MACD is pinching closer together and may be setting up for a negative cross over. Histograms are receding back towards zero, which suggests further downside. CMF is still positive but lower and warrants watching.

The weekly chart shows what may be a head and shoulders formation. I have shown this chart several times in past reports. Until the neckline is broken it is not a confirmed formation. The CMF indicator shows serious distribution and selling. Buying pressure is drying up and selling pressure is building.



The monthly chart shows a bull market in full bloom – the chart rises from the bottom left hand corner to the upper right hand corner in a series of higher highs and higher lows. Until that pattern is broken, it is what it is, which is a bull market.

The 34 ma has acted as good support all through the bull. It presently resides at 40.53. The 34 ma, horizontal support, and diagonal support are converging. An intermediate term low is in the process of forming. It does not yet appear to have been made. Later this summer/fall is the more likely time.



The precious metal stocks are much weaker than physical and that most likely will continue until an intermediate term bottom is put in and the next phase up begins in earnest. If and when that occurs I suspect that the pm stocks will outperform physical. It is possible that such does not occur, however, because of the overall trend in the stock market (secular bear), which could overpower the cyclical bull market in pm stocks. I believe that physical gold and silver are in

secular bull markets, but I'm not yet convinced that pm stocks are, although they are in a cyclical bull market. This is just my opinion and could be way off base; there are plenty of others who do not agree with this view – Caveat Emptor.

## Commodities

Commodities are undergoing a correction that is long overdue. They have been in a long and powerful bull market that had become overextended. Corrections are needed to burn off overbought conditions and to build support from which the next move up can occur that is sustainable because of the base so constructed.

Supernovas may look spectacular while they last, but that's the problem: they don't last, as they burn out and crash. Bull markets must rise in a stair step fashion of higher highs and higher lows with backing and filling for support.



On the daily chart above horizontal support has been breached and the 50 ma is being tested. Histograms are extending and MACD is under a negative cross over. RSI is falling and appears headed to test the 30 level.

The weekly chart shows a serious negative divergence in the RSI indicator. When price moved from 575 to new highs above 600, RSI did not confirm and made a much lower high. This suggests there is more downside action to come.

MACD is about to make a negative cross over and the histograms are receding back to zero. The 50 ma is it at 501.40 and it would not be unusual or out of keeping for it to be tested.



The monthly chart shows a strong bull market in place. Once again, it rises from the bottom left hand corner of the chart to the upper right hand corner. The 13 ma has acted as solid support throughout the bull market. Presently, it resides at approximately 500.

RSI has been falling but is still in overbought territory above 70 (71.02). MACD is still very strong and has not yet turned. The histograms are in overbought territory and appear to have flattened out, suggesting that a move down may be coming.



## Summary

The markets are extremely complicated right now, and will likely remain that way for quite some time (years). The reasons are legion, but they all hinge on the fact that our monetary system uses unconstitutional paper fiat debt money. This has caused untold imbalances and distortions within all markets and asset classes.

There is not enough time or space to go into them all. Suffice it to say that what is transpiring has to do with debt cycles; and that this particular secular debt cycle may be the last one the existing system experiences, as it may destroy the entire system through hyperinflation if not corrected in a timely fashion.

The time is not too late – it never is. The human Spirit can never be defeated when it wills to change. All that is needed is the will – the way will appear.

**Good luck. Good trading. Good health, and that's a wrap.**



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**About the author:** Douglas V. Gnazzo writes for numerous websites and his work appears both here and abroad. Just recently he was honored by being chosen as a Foundation Scholar for the Foundation for the Advancement of Monetary Education (FAME).

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