



GOLD ACTION



November 12th 2005

No. 407

The gold price is ready to surge again against most currencies. In fact, relative to the Euro, the gold price has already moved to a new high. Silver has broken out of its triangular pattern and above the critical \$7.50 level. Platinum is forging ahead to the \$1000 mark and, as expected, palladium is running like a scalded cat. The precious metal markets are where the action is taking place. This performance is not only likely to be stronger than general equity markets but also superior to most currencies, including the dollar. On this note I am looking for a period of dollar strength of about 10% against the leading currencies.

The gold shares are about to break out of their recent minor reactions into a continuation of the long term bull trend. This is the key element of precious metal analysis at this point of time. There are so many analysts calling for a collapse of the gold price back to \$430. Meanwhile my Elliott Wave analysis continues to indicate that moves to \$520, followed by \$620, are the next two bull target levels. I am not looking for any substantial correction until the \$600 area has been attained. This is a hang on and go for the ride market. Not a trading situation.

There is a total misconception that gold shares are for trading. In real life bear markets are for trading as are range bound markets. But bull markets are for investment, and gold shares are in a long term bull market.

Whereas most of the North American stocks have been rising consistently for the past three years the South Africans, due to the strong Rand, have been in huge sideways trading ranges. They are just breaking upside out of these range bound situations and are likely to produce a far superior performance to their North American counterparts for the next phase. Goldfields is a typical example of this picture. It has recently broken upside against the XAU and HUI gold indexes indicating a superior strength for the foreseeable future. The same strength data applies to Harmony and AngloGold. Even Durban Deep has a very bullish chart. It is interesting to listen to the deafening silence of all the DROOY critics since the market low. I am looking for at least \$2 in the short term with a long term target of \$10 for this much maligned stock.

These upside breakouts on the relative strength data indicate that a long period of serious out performance is likely. For the past three years the North American gold stocks have out gunned their South African cousins. But this has changed rather dramatically. The previously strong Rand affected the earnings of the South Africans, but the recent weakening of the Rand and likely continued under strength currency will keep on accelerating not only mine earnings but also share prices as the huge earnings leverage kicks in. In a long term bull market the South Africans can ultimately pay a dividend equal to today's share price. Real bull markets on a weaker Rand produce some huge dividend payouts. This is a fact that needs to be considered when selecting a gold stock portfolio.

At this point of time it is necessary to increase the percentage of South Africans over North Americans and also to be taking positions in the penny stock gold and silver shares as detailed in our sister publication on that subject.

There has been a rally in the Dow. But I find it very strange to listen to the reasons. The oil price fell \$1 so we must push up the Dow by 100 points. Interest rates have increased, leading to a strong dollar and that leads to a strong economy. Inflation will increase but that will lead to stronger earnings. Frankly I find it a whole load of hogwash market spin. Whilst GM posts a huge loss and looks like a case for bankruptcy there is again euphoria for general equities. Meanwhile all the precious metal charts continue to indicate superior performance to equities. Stay with the PM's and their shares and forget about all the Dow hype.



The **ASA** chart is shown with its relative strength against the HUI index. This South African dominated investment trust is clearly breaking upside out of a serious relative strength base in grey. For the past five years it has underperformed the general gold indexes but it is ready to really bounce off this base and produce a superior performance.



Goldfields is shown relative to the XAU index. I have frequently detailed the huge sideways trading pattern that has dominated the share price for the past three years. But the key is the grey relative strength data that clearly indicates an upside break against the North American gold index. This is likely to lead to a very strong performance period for this leading gold producer.

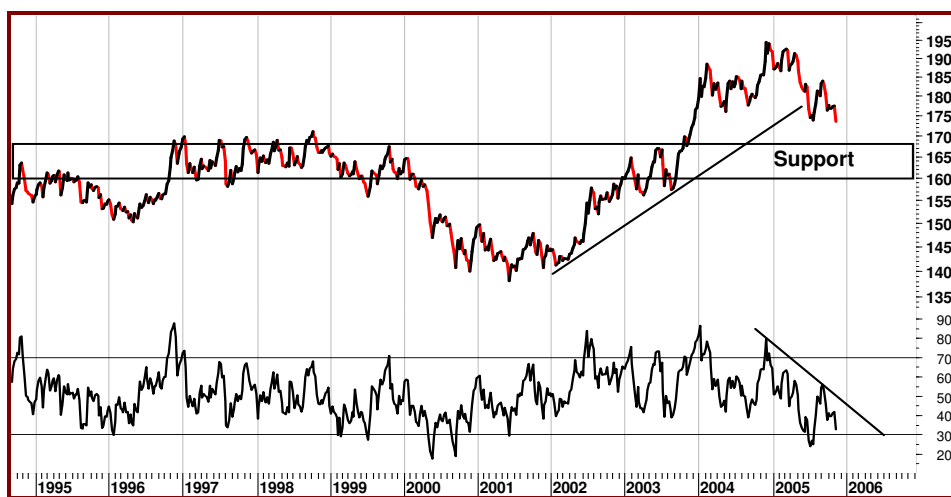


Harmony has also turned the corner and broken a strong downtrend of under performance against the HUI index shown in grey. In fact for the past few months Harmony has already been outperforming the North American gold indexes.

Dr. Clive Roffey
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The **Rand / Dollar** chart has a potential reverse head and shoulders top pattern. Last issue I detailed that a move by the Rand to break under R6.70 will indicate a serious weakening of the currency for the next few months. If the neckline of the head and shoulders pattern is broken it will trigger a weakening currency to R8.20. But in addition there is also huge buy divergence for the Dollar against the Rand. I continue, as I have done since the start of this year to look for the Rand to be one of the world's weakest currencies.



Sterling is showing distinct signs of weakness against the **Dollar**. There is a head and shoulders top pattern and a downside count to 1.65. There is strong support for Sterling at 1.65. In addition the RSI still has further downside to come.

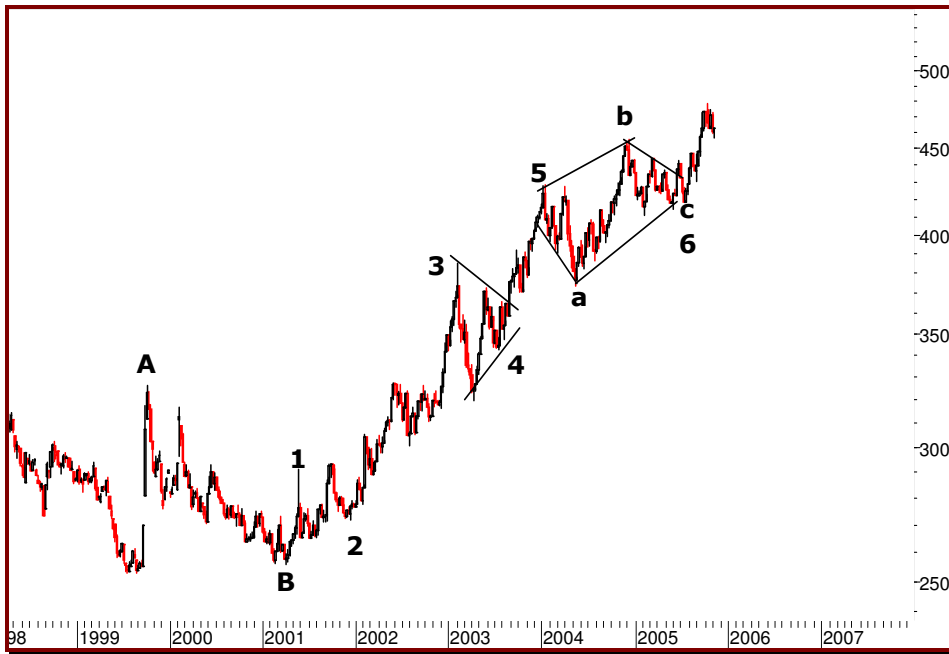
As the following Euro chart also shows, the Dollar is likely to remain strong for some time against most leading currencies.



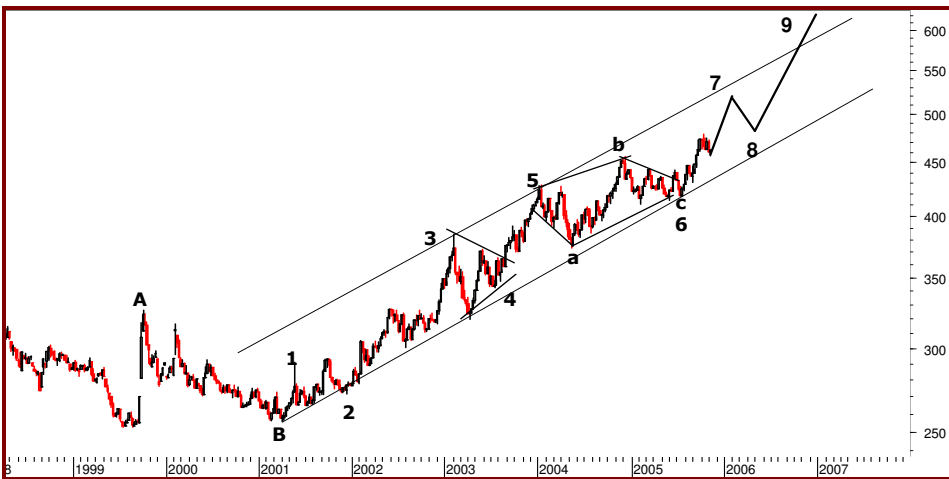
The **Euro / \$** chart has a potential head and shoulders top pattern. The neckline has been broken to the downside and triggered a fall by the Euro to a target count of E1.08.

At this point of time the RSI has not yet confirmed the new recent low and that remains of concern. But the key to this weekly chart is the trend line on the RSI. I do not expect to see any significant Euro strength until this trend line has been broken to the upside. I must remain bullish on the Dollar.

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How can **gold** go up if there is to be a strong **\$?????** I reproduce my Elliott wave analysis of bullion that I first published in 2002 and have continuously updated. We are nowhere near to the top of the current bull run. Out of the diamond pattern at 5-6 the upside count gives \$515. Then there is the long term full count to \$620 that I believe will be achieved next year and signal the top to this bull run that started in 2001. If my Elliott analysis is correct then I will maintain my stand that we will see a strong dollar, weak Rand and strong precious metal prices.

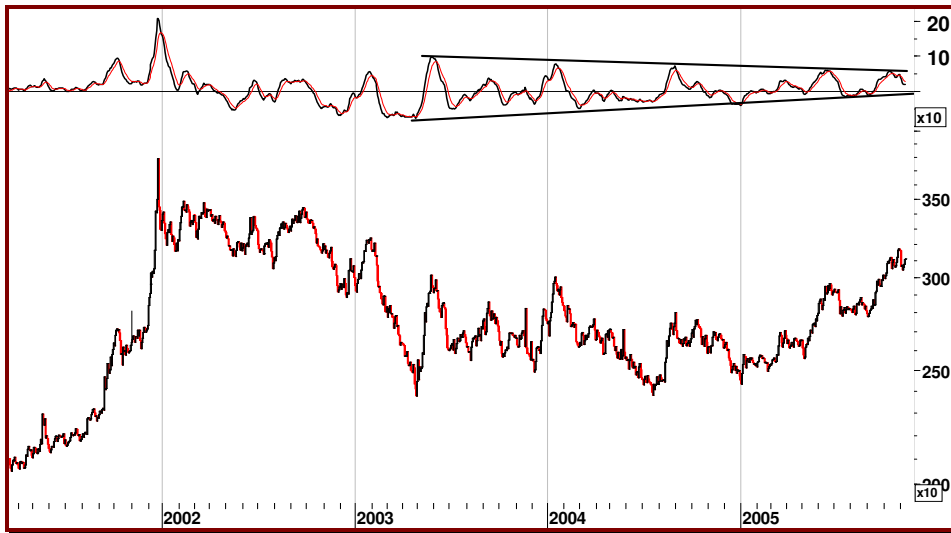


This is my updated Elliott Wave analysis of the **gold price**. I am looking for a run to \$515 around the end of the year followed by a short correction that will constitute the 7-8 move before the final surge into the top at 9. This top should breach \$600 and also push above the top channel line of the trend that started in 2001. This will be a classic blow off signal and end the big bull run for the time being some time late next year.



But of all the precious metal charts **Silver** remains my favorite. The upside count out of this powerful base is at least \$12 before we even start to be concerned about the long term bull market. This is a 50% potential move and I look for a similar move on gold. Focus on the long term data, or at least to the end of next year. This next leg is when all the doubters enter the market and drive prices as though there was no tomorrow. Meanwhile investors already in the market make the profits.

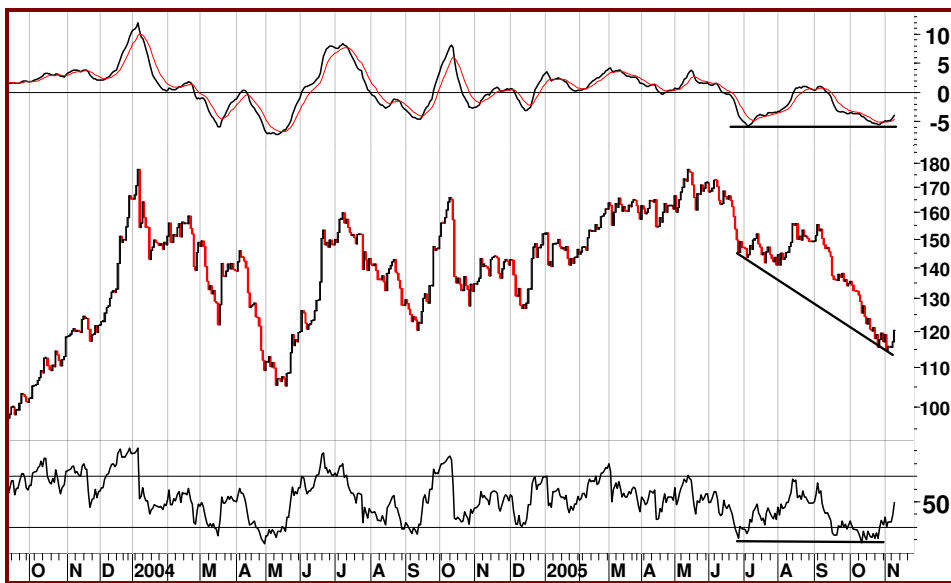
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The **Rand price of gold** is starting to accelerate. It is shown with its long term MACD. The point to note is the triangular pattern on the MACD. An upside break in the long term picture will lead to an explosion in the Rand price of gold. Watch this data.



Copper is showing the first real signs of weakness for a long time. The MACD is refusing to confirm the recent highs and signaling a downside reaction period. There is strong support at 39 and this would also constitute a pullback to the main support line of the trading channel. I am expecting a short term period of weakness in the copper price.



However **nickel** is a different matter. I would switch out of copper contracts into nickel. There are two major buy divergences on the price data related to the MACD and RSI oscillators. This implies that the recent strong downside price reaction is ready for a trend reversal. I like nickel.

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How many times over the past nine months have I detailed that the price of **Palladium** was ready for a serious upside bull run and likely to out perform the price of platinum? This is happening and this minor precious metal remains a major bull market contender.



The **Rand price of Platinum** price has been inside a flat top triangle for the past three years. It has just broken upside. This infers a rising dollar metal price coupled with a falling Rand. There are no signs of any sell divergence on the RSI. This remains a very bullish picture for both the Rand price of platinum and the mining stocks.



The **Gold price in Euros** has already broken to new highs out of the triangular pattern that I have so often detailed in past issues. There are no signs of an MACD sell divergences. This remains a very bullish picture.

The bottom line is for a continued bull run in bullion against all currencies and for the South Africans to out perform the rest of the gold market.

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Hecla continues to be a laggard but also a serious buying opportunity for PM portfolios. It has mapped out a flat top broadening pattern over the past year and I am looking for strong upside bounce off this base.



Angloplatinum has been detailed on numerous occasions as a powerful stock with great upside potential. It has performed admirably. This performance is especially marked against the HUI index in grey and looks likely to continue.



Even **DROOY** has broken out of the long term downtrend in relative strength against the HUI index. For the past three years it has dramatically underperformed but this has been altering over the past few months as the relative strength chart moves gradually sideways out of the trend to give a performance at least equal to the HUI.

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