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Gold Sector
Post-Bubble Bull Market

The point to be emphasized is that all five of the great financial bubbles since the first in 1720 have had much in common. Particularly through the climax and initial liquidity crisis. Quite obviously, the former occurred in January with the NYSE Comp setting its peak with technical excesses against our target of a possible peak in "around January". The "Everything Bubble" then forced the "Everything Collapse".

The next outstanding market phenomenon could be a secular bull market for gold stocks.

The reversal has been typically violent as key items have followed the pattern common to the end of great bubbles.

One has been that gold's real price as deflated by the CPI declined during the final years of the financial mania as gold stocks underperformed the overall market. The real price declined into 2018 and the rise ended the downtrend since the 2011 blow-off. The latest post extends the uptrend and the importance is twofold.

It has been confirming that the overall bubble was completing, and the new rising trend enhances gold mining profitability. Thus, driving a new bull market for gold stocks. The tricky part has been that the financial violence with the "Everything Collapse" takes down the gold stocks. But as we have been noting our technical analysis guides on buying and selling opportunities.

Our advice in July-August was that the rally was outstanding enough to ***"take some money off the table".*** The GDXJ reached 46 in July and sold off to 20 in the middle of March.

It is worth adding that it is the only sector that can be determined to do well during the lengthy post-bubble contractions. Furthermore, all gold sectors, from "Majors" to "Juniors" outperform.

Also providing support to the transition has been that the Gold/Silver Ratio declines with the bubble and goes up with the contraction. Moreover, on each contraction the ratio reaches sensational highs. In the 2008 Crash it reached 93, which compares to104 with the 1990 crisis. In December when it was at 87, we thought that it could soar to "around 115". It reached 131 on March 18.

Other Confirming Items

The real price for base metals goes up during the bubble and then declines. On our example, the GYX/CPI rallied to 160 in January 2018 and has dropped to 115. The significance is that with base metal mining on the decline, it frees up labor and equipment. In 2011, the story was the shortage of tires for the big hauling trucks as well as high energy costs.

Gold's price relative to crude declined from 44 in 2016 to 16 in October 2018. In December it was at 24, setting up the extraordinary rally to 79 a few weeks ago. A huge increase and especially when energy costs are some 30% of mining costs. And then there are the costs of blasting, which also relates to petroleum costs. This as part of consumables including grinding balls also amounts to 30% of costs. And the labor cost is also around 30%.

Natural market forces are already enhancing gold mining profitability.

Wrap

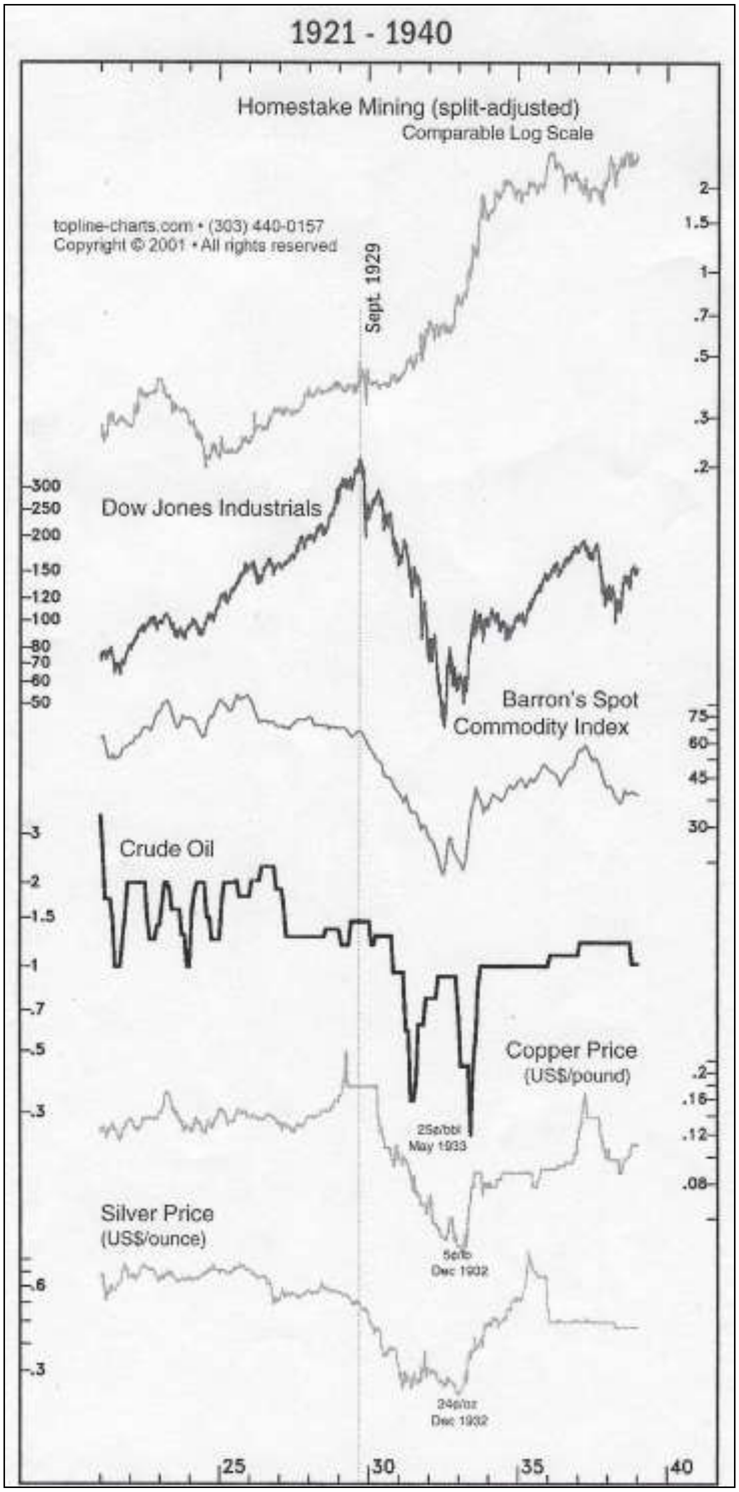
Gold, industrial commodities and silver have been doing what they should do in the early stages of another post-bubble contraction. Important reversals are setting up a lengthy bull market for the gold sector. Our advice has been that dips should be bought.

Momentum on the Silver/Gold ratio became extreme as the bull market for the sector blew out in 2011. The Weekly RSI on silver soared to 90 when we noted the action had become "dangerous". The only time it had been that high was in January 1980—the peak of that mania.

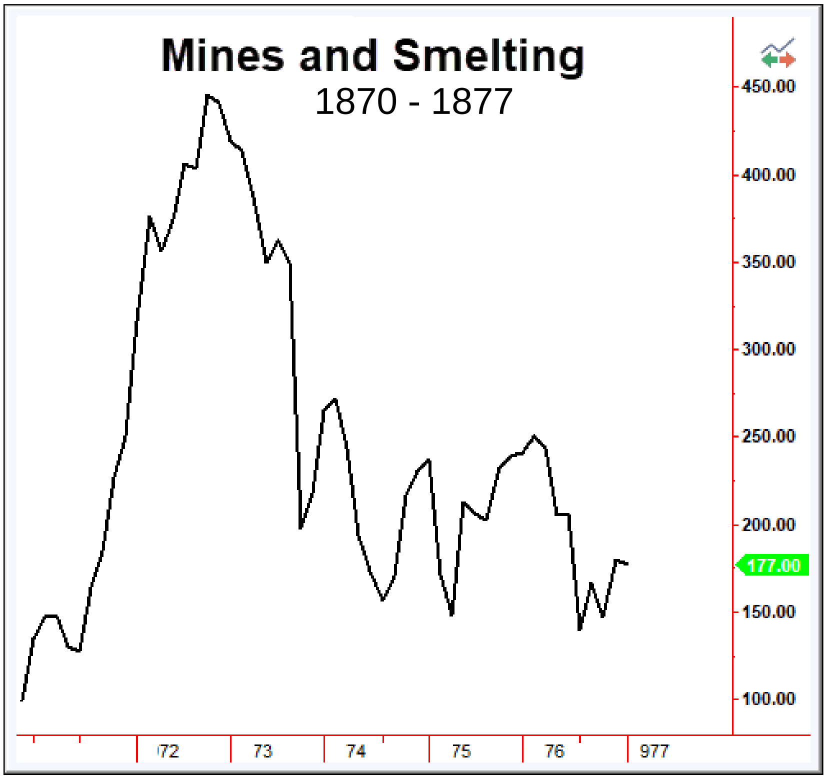
In March, we noted that the Weekly RSI had finally reached the opposite extreme at 11, signaling the end of the long decline. Constituting a "Buy".

The first chart shows gold stocks underperforming the S&P during the culminating years of our Great Bubble. The low for GDXJ/S&P was set in July 2018, and the outperformance so far is just the start.

The next chart shows the action through the last classic Great Bubble. That was in 1929 and we first used this chart in 2001. The outperformance of gold stocks as represented by Homestake is obvious.

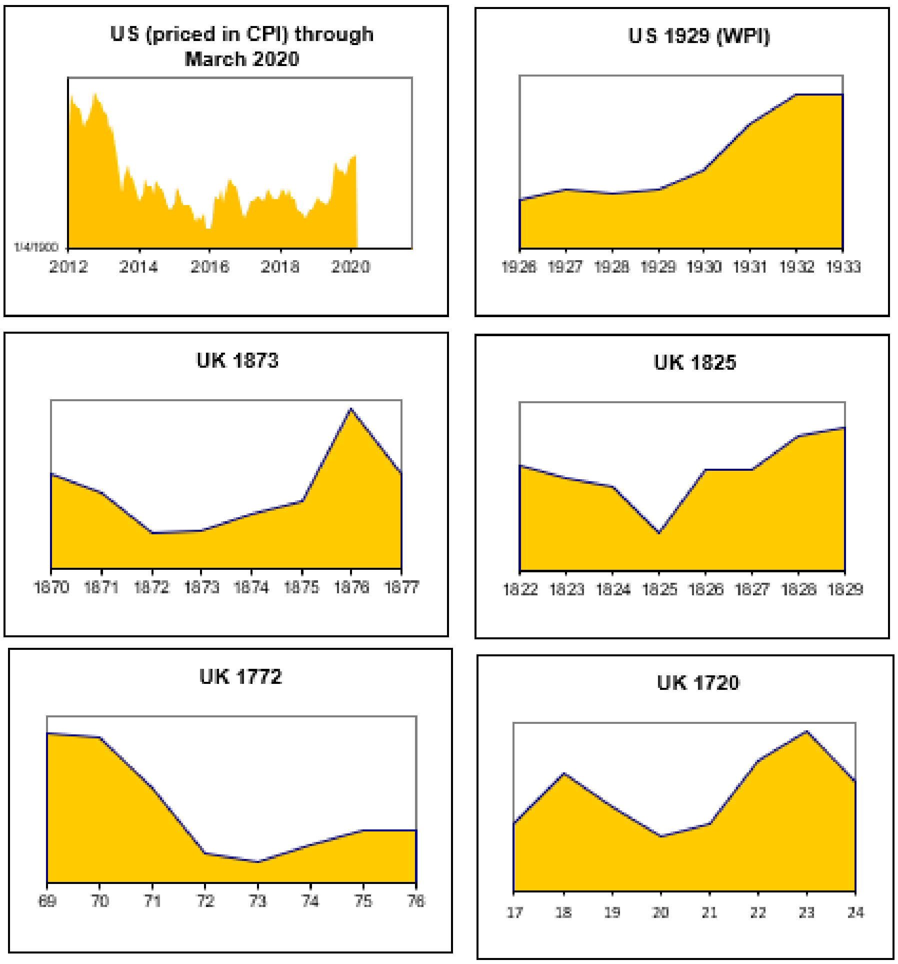


Our third chart shows the action in Base Metal Miners through the 1873 Bubble and lengthy contraction. A long bear market, which also prevailed in the Post-1929 Contraction.



A lengthy bull market for the sector will include exploration stocks. Of course, the culmination could be when some young promoters start touting that old property in New Mexico. The one with so many drill holes in it that when the wind blows the right way it whistles.

Deflated Price of Gold
During the Dramatic Climax of all Great Financial Manias



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