

## Got Gold Report - Keep Focused on Gold, Silver This Summer

By Gene Arensberg  
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**A**TLANTA ([ResourceInvestor.com](http://ResourceInvestor.com)) -- This week crude oil spiked 8% higher Friday into the high \$130s; Senator Barack Obama cinches the Dem-Nom; an Israeli official says that bombing Iran's nuclear facilities looks inevitable; the U.S. unemployment rate pops half a full percentage point to 5.5%; the buck gets thumped despite Bearded Ben's early-week fireside chat (where he uncharacteristically mentioned the U.S. dollar) and then the U.S. Big Markets received a royal 400-point pasting late week.

Suffice it to say that this week was not conducive or supportive of general investor confidence on Wall Street. The news was, however, supportive for the two most popular precious metals, both of which tested technical support levels and support won the contest.

With Barack Obama now the apparent democratic nominee for president, fear of much higher income and capital gains taxes to come in 2009 showed up in earnest. Tax avoidance selling may escalate and remains one of the headwinds stock markets in the U.S. must deal with between now and at least November.

Long-term profits from capital gains are currently subject to a 15% rake by Uncle Sam. As mentioned before in this report, the fear on the street is that income and capital gains tax rates are going up big if the Dem-Nom actually becomes POTUS (president of the United States). Investment counsellors, fund and portfolio managers and individual investors probably don't fear the tax increase itself as much as they fear the FEAR that kind of thing causes in financial markets.

The markets won't be selling off so much because of the perception that income taxes will be going higher in 2009. That's bad news, but not what money managers fear. They will be selling off because of the perception that other people will be selling because of that. Because of the fear that the markets will go much lower because of it. That fear is the kind that feeds on itself. As it does it could perversely play right into the camp of the future, socialist-leaning tax raisers.

### Got Gold Report on Hiatus

**Scheduling note: The principal author of the Got Gold Report will be traveling extensively over the next six to eight weeks. It's time to take a short hiatus from writing in order to concentrate on that journey. Look for the Got Gold Report to return sometime in August or early September. Hopefully we'll see you then.**

### Keep Focused on the Prize

Meanwhile, keep focused on the big picture and the prize during this best, most powerful secular bull market for precious metals in a generation.

Resource investors have been given one of the best opportunities of our own generation over the past nine months as so many of the promising small resource development and exploration companies have been decimated price wise because of the vacuum of liquidity which has occurred for nearly all speculative issues during the carnage spawned by the sub-prime credit crunch.

Ironically, just when these small, speculative issues should have been buoyed by strongly rising metals prices, the global, credit-market-inspired fears which helped to support the metals themselves took quite a toll on the little guys. That fear sucked enormous amounts of liquidity out of all speculative stocks, but very likely peaked (troughed?) sometime between [January and April](#).

This report continues to believe that some of the now badly beaten up, but nevertheless still promising issues offer tremendous, multi-bagger opportunity for those who have the patience, intestinal fortitude and long-term minded determination to stick with them until liquidity returns to the tiny, very speculative and very thinly traded junior miners and explorers. Although no one can say for sure when liquidity and investor confidence will return to them, it is almost a certainty that it will. [It may already be returning now.](#)

The time to add them is when most everyone that needed to sell already has and their stock prices have been driven to ridiculously low levels. Like now for so many of the companies this report tracks daily on charts.

When confidence does return it can do so quite suddenly in particular issues, often without apparent warning and many times too fast for some investors to take advantage of it well. Consequently, it pays to add them in incremental bites or units AHEAD of when they "make the turn."

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In response to reader feedback, five such companies this report tracks were mentioned in "trade comments" in the technical charts for gold and the HUI on May 25. Links to those charts can be found below and one [here](#). Judging by the action lately, when gold and silver had sold off and were challenging their respective technical support levels, these inexpensive miners and explorers held their ground (some even advanced modestly). There might not be all that much downside left in them this cycle, in other words.

Not that much more downside and probably quite a bit of upside is what we all should be on the lookout for, isn't it? We'll see if that strategy proves right soon enough.

Without getting into the argument of whether or not these small, liquidity-dependent stocks are being sold naked short, some of them are one good news surprise from a [short squeeze rocket launch](#). That can happen anytime, even when a company drilling for one resource accidentally and unexpectedly drills through a couple of wide seams of coal, [for example](#).

### Bottom Line

Repeating from the last Got Gold Report [two weeks ago](#): "When real interest rates remain negative, real inflation is escalating and the very inflationary effects of much higher oil prices have yet to really be felt; when gold production for the major producers is falling (that's right, falling), central bankers are selling less than they are allowed to under the Washington Agreement II; when investors world-wide are trying to preserve their purchasing power in an era of continued reckless, competitive government fiat currency debasement; when investment demand for both gold and silver are strongly on the rise, it is a time for buying gold and silver, not for selling it. This is a gold and silver bull market and it won't end abruptly anytime soon in this report's opinion.

As of today nothing trumps gold and silver for places to store wealth (especially silver during its usual harsh corrections). This report continues to recommend buying/adding on significant to strong dips if possible, but add a reasonable percentage of gold and silver soon to one's investment portfolio if you haven't already done so (preferably into significant to strong pullbacks)."

Please see a little more about silver in the Silver Market Commentary section below.

On to some of the indicators.

**Gold COT Changes.** In the Tuesday 6/3 commitments of traders report (COT) for gold metal the COMEX large commercials (LCs) collective combined net short positions (LCNS) fell a sizable 16,114 contracts or 7.38% from 218,285 to 202,171 contracts net short Tuesday to Tuesday as gold retreated \$26.05 or 2.87% from \$906.15 to \$880.10.

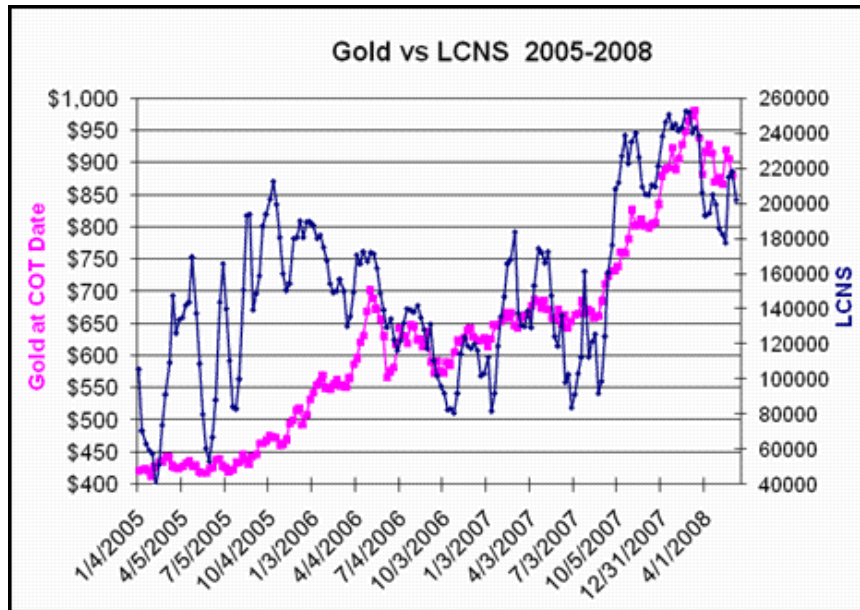
For the calendar week gold turned in a net \$15.54 gain or about 1.8% on the cash market, but not before testing slightly higher support in the middle \$860s Thursday. The last trade on Friday printed \$902.02 on the cash market.

As of Tuesday's COT reporting cutoff, COMEX gold open interest dropped a significant 32,520 to 398,441 contracts open, each covering the future delivery of 100 ounces of gold metal. Interestingly, the open interest fell the prior week by 22,123 contracts, so in the two weeks since the last [Got Gold Report](#) the total open interest on the COMEX has fallen by 54,643 lots or about 12% as gold itself retreated \$39.17 or 4.3% from \$919.27 to \$880.10.

Long-term June 2009 and beyond COMEX forwards added 3,006 to 49,458 lots open, or a still low 12.41% of total open contracts. The June 2009 contract would drop off as the back month in the next report so if we had removed the 13,500 or so June 2009 contracts this week long forwards would have only represented about 9% of the total open. No telltale jump higher for long forwards in other words.

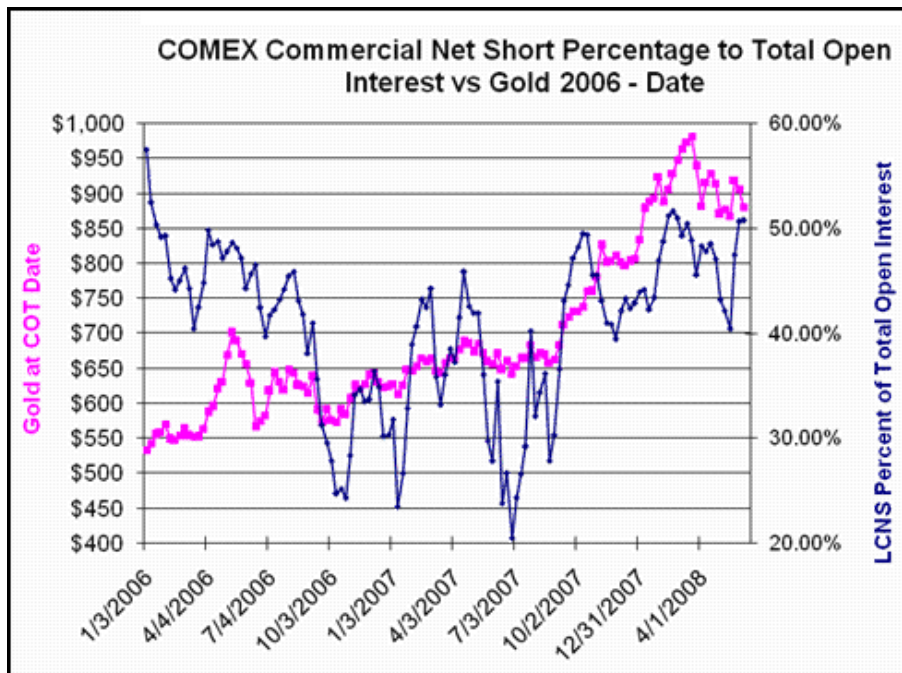
Gold versus the commercial net short positions as of the Tuesday COT cutoff:

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Source for data [CFTC](#) for COT, [cash market](#) for gold.

The chart below compares the COMEX commercial net short position with the total open interest. As of Tuesday, 6/3, the LCNS percent to total open interest held about steady at 50.74% of all open contracts despite the large drop in total open interest.



Source for data [CFTC](#) for COT, [cash market](#) for gold.

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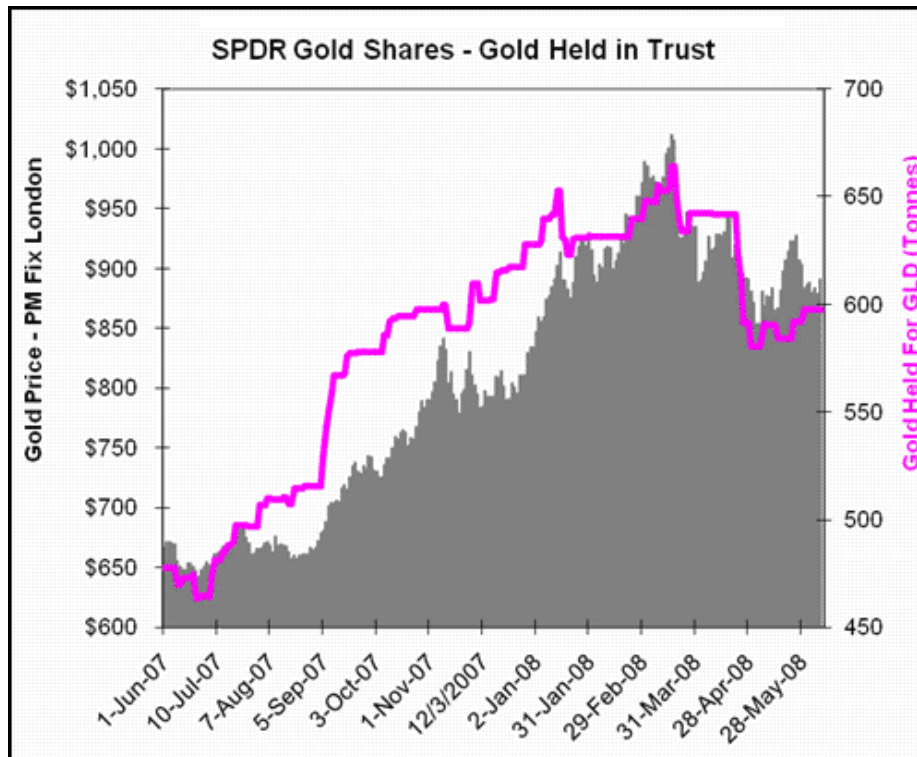
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**Gold ETFs.** Over the past week gold holdings at SPDR Gold Shares, the largest gold exchange traded fund [NYSE:GLD], reported a very small maintenance reduction of 0.18 to 597.55 tonnes having added 6.13 tonnes the week prior. As of Friday's figures that's equal to \$17.1 billion U.S. dollars worth of gold bars held by a custodian in London for the trust.

Gold holdings for the U.K. equivalent to GLD, [LyxOR Gold Bullion Securities Limited](#), reported a small maintenance reduction of 0.18 to 113.54 tonnes of gold held. Barclay's [iShares COMEX Gold Trust](#) [AMEX:IAU] gold holdings also reported a very small maintenance reduction of 0.02 to 61.23 tonnes of gold held for its investors.

For the week ending Friday, 6/6 all of the gold ETFs sponsored by the [World Gold Council](#) showed a collective decrease of 10.3 tonnes from their gold holdings to 749.97 tonnes worth \$21.5 billion. The decrease was primarily attributable to a relatively large reduction in the Australian version of Gold Bullion Securities from 20.91 to 10.83 tonnes of gold held.

Since the last Got Gold Report [two weeks ago](#), as gold tested slightly higher support in the \$860s and as high as the \$920s, gold holdings at GLD have inched upward meaning there has been a little more buying pressure than selling pressure on balance as gold high-consolidates its September-March surge.



Source for data [SPDR Gold Trust](#).

**Silver ETF:** Metal holdings for Barclay's [iShares Silver Trust](#) [AMEX:SLV], the U.S. silver ETF, showed a small maintenance reduction of 2.56 to 5,987.01 tonnes of silver metal held for its investors over the past week.

Since the last Got Gold Report [two weeks ago](#), silver metal once again tested its technical support in the \$16.40s after pulling back from just over \$18. For the calendar week just concluded the white metal recorded a gain of \$0.65 or 3.9% on the [cash market](#) with a Friday last trade of \$17.526.

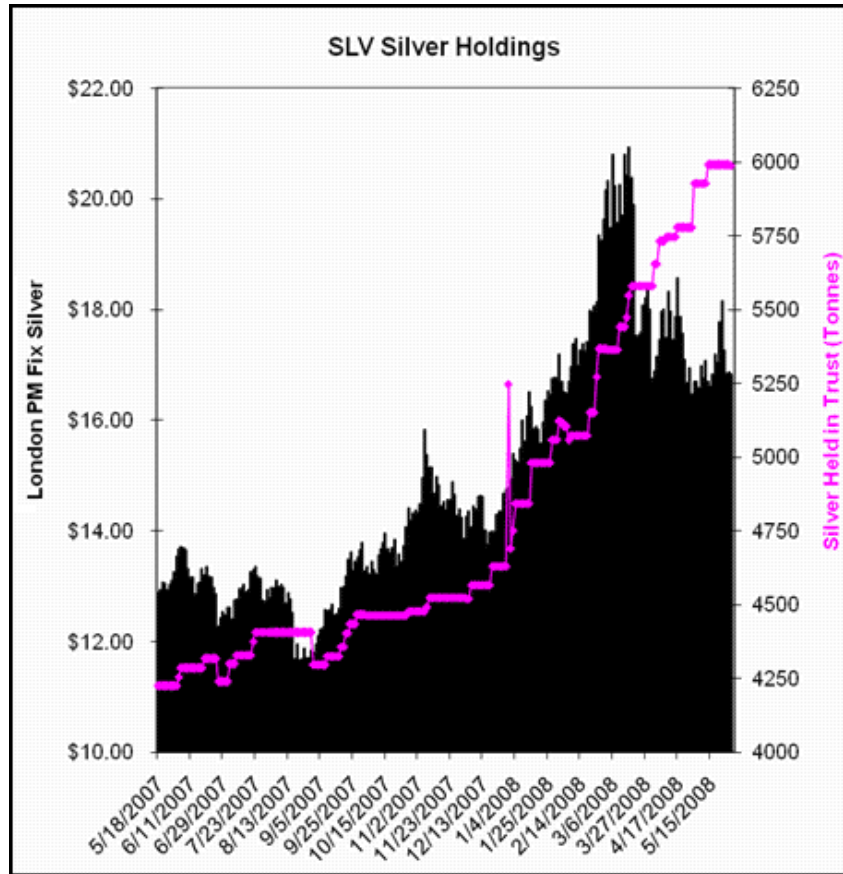
There certainly seems to be staunch support for silver in the \$16.50 region presently.

Investors need to keep focused on the longer-term fundamentals for the white metal, nearly all of which remain extraordinarily bullish and nearly all of which continue to improve with time.

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We still have yet to see ANY significant negative money flow from the silver ETF in 2008. Part of the reason for that is that silver is still so darn cheap compared to its more popular yellow cousin. With an ongoing shortage of some small physical silver products on the street, especially for small rounds, 10-ounce and 100-ounce bars (which cannot be had in quantity at anything close to a reasonable premium when silver is trading in the \$16.50 to \$18.00 range), one has to wonder how much longer that will be the case – how much longer silver will remain cheap relative to gold.

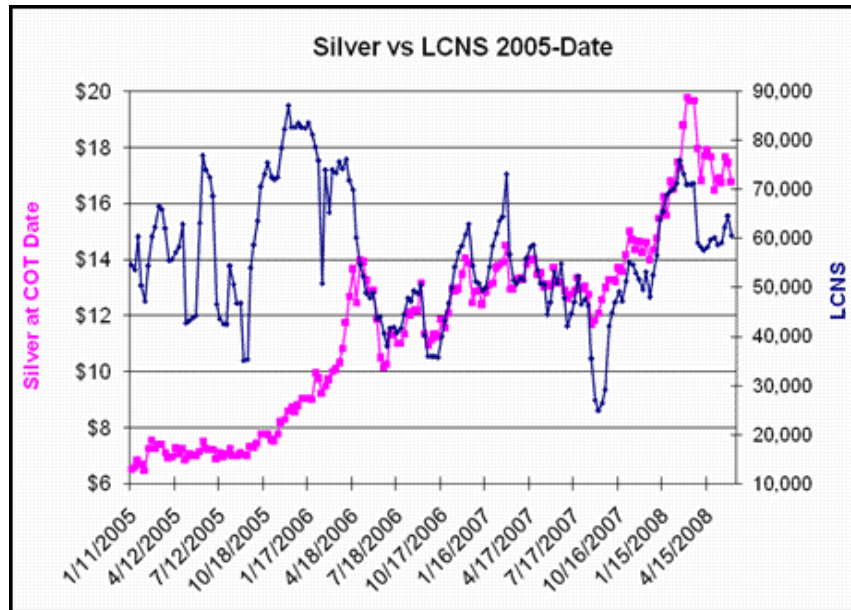


Source for data [Barclay's iShares Silver Trust](#).

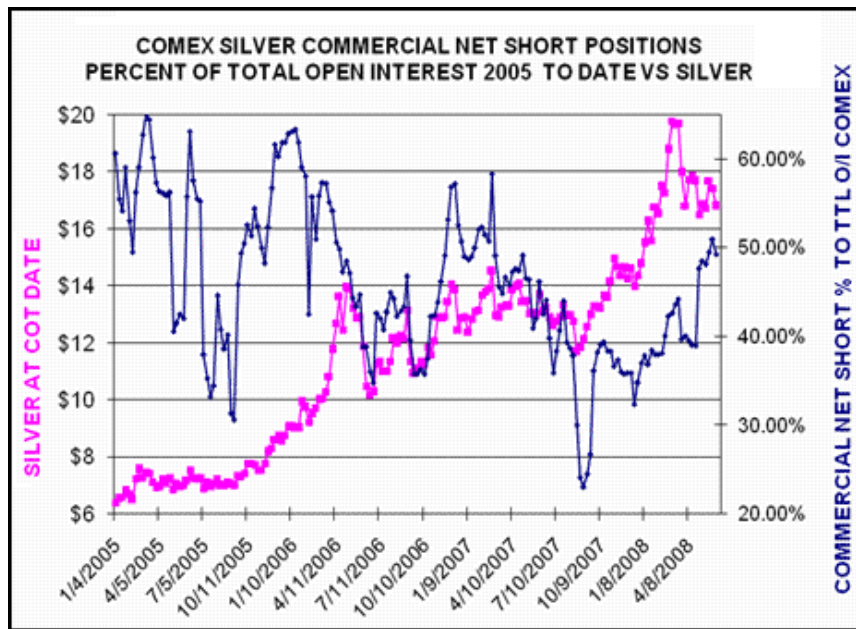
**Silver COT:** As silver fell \$0.64 or 3.67% COT reporting Tuesday to Tuesday (from \$17.42 to \$16.78 on the cash market) the large commercial COMEX silver traders (LCs) decreased their collective net short positioning (LCNS) by 3,896 (6.03%) to 60,665 contracts of net short exposure, as the total open interest on the COMEX edged 3,383 contracts lower (3.03%) to 123,200 COMEX 5,000-ounce contracts.

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When we compare the commercial net short position to the total COMEX open interest we find that the large, well funded and presumably well informed commercial trader's net short positioning represents 49.24% of all open COMEX contracts.



Source for base data [CFTC](#) for LCNS, London Silver Fix for silver from [LBMA](#) until 2-26-08 then cash market. As of COT cutoff Tuesday 6-3-2008

**Silver Market Commentary.**

The commentary about silver in the last Got Gold Report two weeks ago is still on point for today and probably will be for the duration of the summer. Rather than repeat it, new readers can access it [here](#).

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Silver is the cheapest of the popular precious metals and this report believes it has tremendous upside potential with limited downside risk at current pricing in the \$17 neighbourhood. Silver probably has something like \$3.00 of potential go-to-Hades downside in order to retest previous overwhelming support in the \$14 region, but it has upside potential of a multiple of today's pricing just to challenge its former 1980 nominal un-inflation-adjusted peak near \$50.00. If true, that alone is a risk-reward ratio of about 1:11. (\$3 of downside versus \$33 of upside).

Gold has already eclipsed its 1980 nominal peak near \$850, but silver hasn't. Yet. All the data this report looks at suggests that it will, we just can't say when that will occur.

Anyone should like those odds, but what about if we adjust for inflation? Using just the [government's measure of inflation](#), a dollar today buys about 40% of what it would in 1980. Goods and services which cost \$100 today cost about \$40 in 1980 in other words. The other side of that silver coin is that goods and services that cost \$100 in 1980 cost about \$250 today. (The conversion factor for 1980 dollars to 2007 dollars is presently about 2.52).

In order for silver to just equal its silver-mania-driven peak real purchasing power in 1980, the metal would have to trade near \$126.00 today. If silver manages to do a repeat of its peak real purchasing power and does trade up to \$126, then that represents a risk-reward ratio of 1:36! (\$3 of potential downside if this report is right, and \$109 of potential upside).

Doesn't that sound like an interesting play for a reasonable portion of one's investing ammunition? With each tick lower those odds improve too. However, that may not be the entire story.

Why should we believe that 1980's \$50 peak is all there is for a top on silver metal? Remember in 1980 there were still large government stockpiles of silver metal in the world measured in the billions of ounces which do not exist today. In 1980 there was no online electronic trading and it was considerably more difficult to actually invest in metals. (In 1980 the hot new thing for businesses to have was a fax machine.) In 1980 there were considerably fewer people with stock brokerage accounts. Back then there was no such thing as a commodity exchange traded fund and there was no silver ETF. In 1980 there were literally billions fewer people in the world and hundreds of millions less people able to afford any amount of silver.

Today \$126 represents an important and distant upside target for silver metal. However, we can say that silver has been there once before in real purchasing power terms. As it becomes more and more popular and more people become interested in owning it that target could end up just being a milestone on its way even higher. Possibly much higher.

If a modern popular run on silver gets underway today, (some think it has already begun), many more people globally using much more capital have immediate access to the market today electronically. So, it would not be surprising at all if silver were to establish a new all-time purchasing power peak in real terms sometime in the next decade, but for now let's use \$126 as a justifiable upside target.

Please see the [1-year silver graph](#) and the [2-year weekly version](#) for this report's technical and expanded market commentary on the graphs themselves.

**Gold Charts.** Please see the [1-year daily](#) chart for gold and the [2-year weekly version](#) for context as well as this report's technical and market commentary on the charts themselves.

**Gold Indexes.** Please see the [9-month daily](#) HUI chart and the [3-year weekly HUI chart](#) for context and this report's commentary on the graphs themselves.

**HUI:Gold Ratio.** Please see the [one-year daily HUI/Gold ratio chart](#) and the [2-year weekly HUI/Gold](#) version for context and this report's commentary on the graphs themselves.

**U.S. Dollar.** Please see the [1-year daily USD chart](#) and the [2-year weekly USD](#) version for this report's technical and market commentary on the charts themselves.

That's it for this offering of the Got Gold Report. Until next time, probably in late August, as always, MIND YOUR STOPS.

*The above contains opinion and commentary of the author. Each person should study the issues carefully and, as always, make their own informed decisions. Disclosure: The author currently holds a long position in iShares Silver Trust and holds various long positions in mining and exploration companies.*

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