Notes From The Rabbit Hole

***e*Research Corporation** is pleased to provide an article, courtesy of NFTRH.com, and written by Gary Tanashian, with a bio on the Author provided at the end of the article.

The article, starting on the next page, is entitled:
Gold's Kill Zone

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Along the way, a geek-like interest in technical analysis, a long-time interest in human psychology, and various unique macro market ratio indicators were added to the mix, with the result being a financial market newsletter (and dynamic interim updates), Notes From The Rabbit Hole (NFTRH) that combines these attributes to provide a service that is engaged and successful in all market environments by employing risk management first, and opportunity for speculation second.

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Bob Weir, CFA
Director of Research

Gold’s Kill Zone

By **Gary Tanashian** (bio at the end of the article)

August 8, 2018

There is nothing bullish happening on the gold and silver charts. Nothing bullish on the miner Index/ETF charts. Nothing bullish on the HUI/Gold ratio. In other words, when it comes to a segment as volatile and sentiment-dependent as the precious metals, we are in the kill zone.

That can be read a couple of different ways. First, the inflationist gold bugs are getting exterminated as the U.S. dollar first rose and, since, has stubbornly refused to take a pull-back.

But the time to buy the gold sector is pretty reliably when the bugs are dead or at least hiding deep in the woodwork; so deep that you would not even know they are still there. Just as you should have caution when gold bugs are trumpeting loudly, you should be brave when they are in full retreat… or worse, *dead*.

So the ‘Kill Zone’ can also be viewed as an opportunity, like when a target is *“in the kill zone”*; and from the perspective of the following charts and graphics, the sector is in that zone now.

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Gold has dropped persistently and taken out a would-be higher low (to December). It has become oversold with a little bit of positive RSI divergence and ADX showing fully bearish momentum. Why, it is bad out there! The daily chart does not show it, but there is longer-term lateral support just above 1200. Gold's "higher highs, higher lows" uptrend is broken. But, again, we are talking a *"kill zone"* here, not nice and comfy trends like those afforded the stock market. It never was gonna be easy. The gold sector bottoms amid agony, pain, and doubt.

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The level of enthusiasm for U.S. stocks is becoming frenetic and overbought. Is risk high for a bullish stocks/bearish gold view? Oh yeah.

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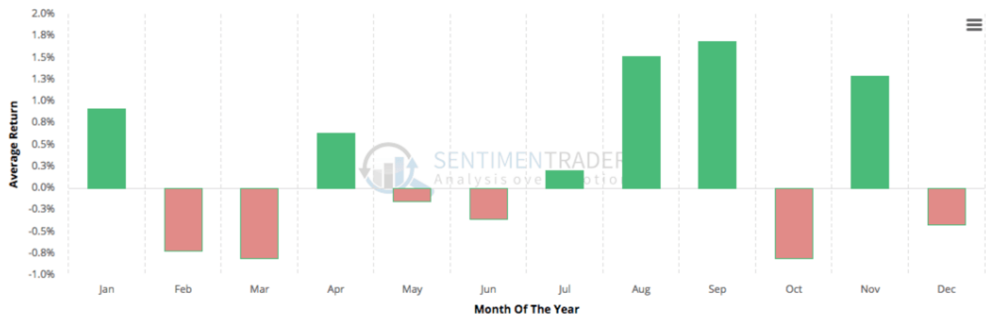
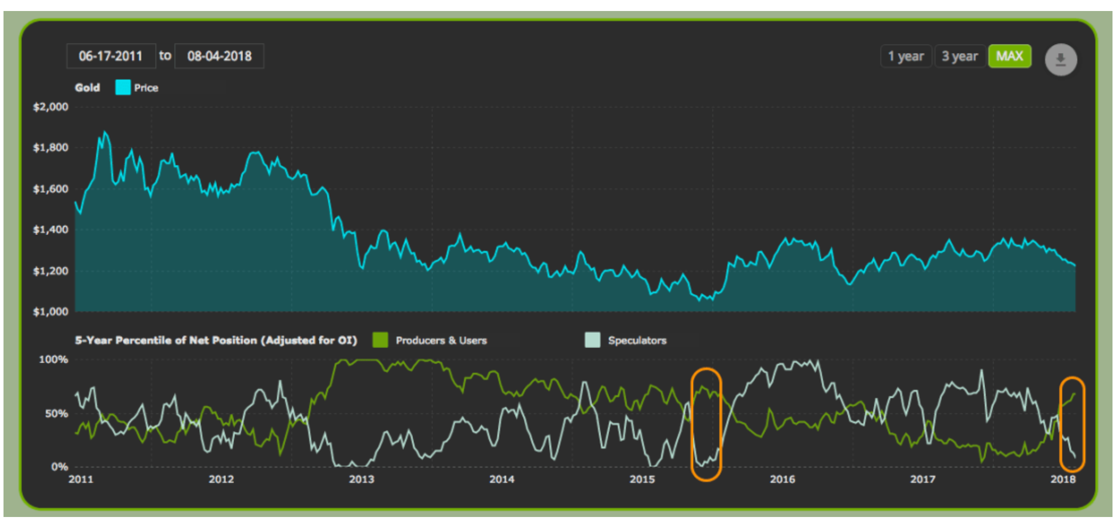
Here is a reminder that gold, on average, bottoms in July and turns up in August, per Sentimentrader's data.



Gold's CoT, which is in essence a sentiment indicator focused on Large Speculators and Commercial Hedgers, shows an alignment approaching late 2015, which preceded a big upturn in the precious metals complex. This was eventually ruined by the inflationists who touted everybody in while we cautioned the opposite. See: **AMAT Chirps, b2b Ramps, Yellen Hawks and Gold's Fundamentals Erode** (May 30, 2016).

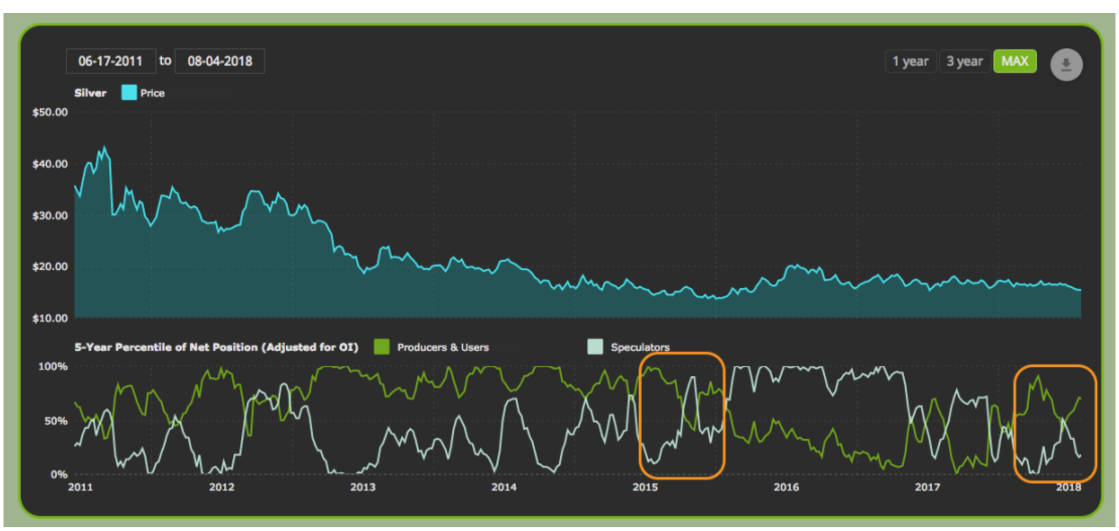
The ill-conceived promotions of 1st half 2016 needed to be closed out and that is what is happening now.



Silver, as well, took out its ‘higher low’ parameter but remains in a long consolidation of the post-2016 mini-hysteria. It is oversold also with a bit of positive divergence (by MACD).

Here is the long-term chart. 2016 was a "too much, too soon" event as silver quickly took over leadership from gold (amid the launch of the inflation trade) that has been getting worked off for seemingly, ever. But, silver, let me introduce you to long-term support.

Silver's CoT is very interesting in that it is mimicking to a degree what it did in 2015, prior to the big up-turn in early 2016. The positioning became extreme early in 2015 as it did back in late 2017. A small rally ensued, which was corrected to new lows before the alignment made a secondary signal at a much less compelling juncture. That appears to be what silver's interplay between Specs and Commercials is doing now… as the price makes new lows. As I said, it is interesting.



Moving on to the miners, let us keep it super simple (i.e. not comprehensive analysis by any means). HUI has eased to the kill zone, which includes support points going all the way back to 2002. Now, support is not a finite or conclusive thing; it is a "would-be" thing. This *would be* support based on historical price activity. But the title of this article is meant to show that things do not usually go easy for the metal that is reviled in the world of complex paper and digital leverage for its heavy, stupid simplicity.

That goes double for its miners when the macro fundamentals are not in order because the miners would leverage gold's standing within the macro. That leverage cuts both ways. Since mid-2016, it has been cutting to the gold bug extermination side.

So, when they tout about inflation or *"Chindian love"* or other rationalizations to drive gold stocks up, the proof is laid out above that it is time to be cautious. Right now we are simply noting that sentiment and even some technical ducks are in a row and we watch for some moves out ahead that could shift the Macrocosm to a more favorable alignment.

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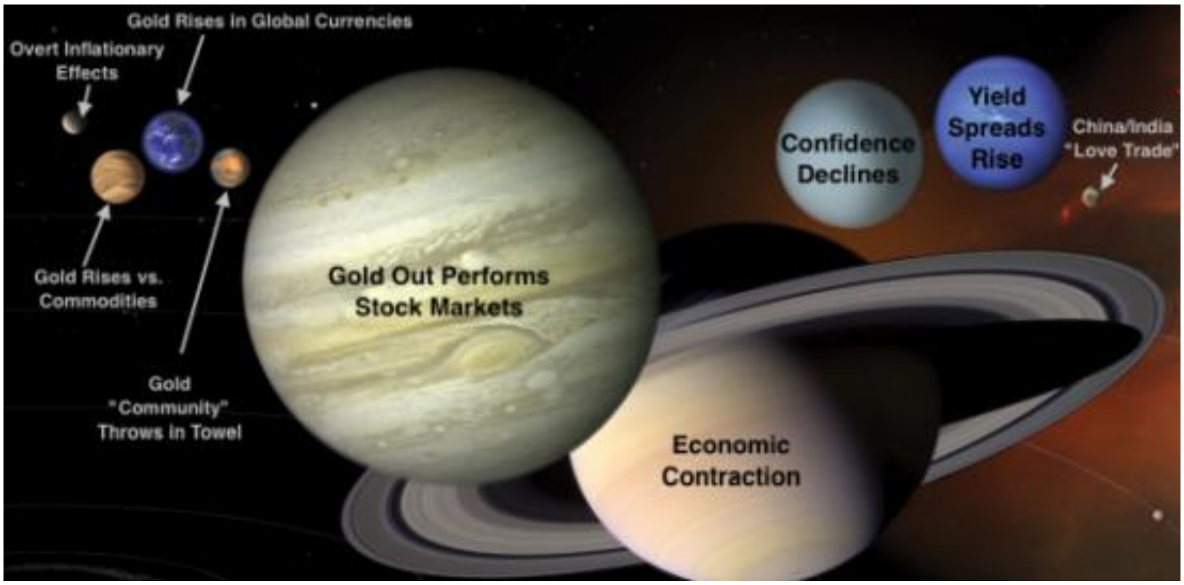
The bigger the planet, the more important to the precious metals' case (*"yield spreads rise"* is actually yield curves steepening).



Bottom Line

- Extremes are being reached in stock market optimism vs. gold's 'do nothing' defensive nature.
- The seasonal pattern for gold is positive.
- Commitments of Traders alignments are positive for gold and *"interesting"* for silver.
- The sector and macro fundamentals are, at this snapshot in time, very negative.
- The sector is technically oversold and at long-term support.
- Risk vs. Reward players should be at the ready.

Personally, I am slowly tucking away quality exploration and junior miner situations (we chart 'em each week in **NFTRH**). This requires thinking like a predator, not a victim and a longer-term view. So, the work is arduous and patience and perspective have been Things 1 & 2 because we would-be gold bugs are certainly not being positively reinforced by the herd right now.

At this moment in time the bullets are still flying – or should I say the Raid is still spraying – across the macro. Why, it is like *Combat* out there. That should one day be fleshed out as having been a big opportunity for those able to get outside the herd. Meanwhile, take heed of the parameters above. We are in the kill zone, but it is possible for it to extend longer and/or deeper than one might think.

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See **ABOUT THE AUTHOR** on the following page

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A unique financial market service

ABOUT THE AUTHOR

Gary Tanashian is a financial market analyst, writer, and editor. He provides "Accurate financial market analysis and commentary focused on unbiased reality as opposed to preconceived assumptions."

As a long-time participant in financial media (published at leading outlets like SeekingAlpha, Investing.com, and many more), Gary has learned how to communicate with people about often-complex material. He knows that it requires hard work, but he believes that there is no other way in order to provide the highest quality service to the public.

Gary is the owner of Biiwii.com (launched in 2004) and, later, NFTRH.com (launched in 2014).

Biiwii is a financial website that got it RIGHT in the run up to 2008, unlike many in the financial services industry.

He is the owner and publisher of the weekly premium financial market report Notes From The Rabbit Hole, which was launched in September, 2008.

Notes From The Rabbit Hole is a premium newsletter service (including detailed in-week updates) for people who care more about financial market realities than having their preconceived notions reinforced. http://nftrh.com/nftrh-premium/

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