

GOLD MINING SHARES BULL MARKET PATTERN

By Adrian Douglas

The HUI has displayed a very distinct pattern so far in its bull market to date. Take a look at the graph of the HUI from January 2000, shown below.



There have been three major uplegs shown in green. After each upleg the HUI trades sideways in a consolidation pattern which can be broadly characterized by a box. The top of the box is set by the highest point reached in the preceding upleg. What has happened in the first two consolidations is that the HUI only breaks-out from the box after challenging the top of the box resistance (defined as coming within 3% of the top of the box) three times. The initial peak is numbered 1, and the consecutive challenges are 2, 3 and 4. Break-out is the 4th attempt which is successful.

You will notice that these consolidations have become longer. The first in 2001 lasted 258 days, the second in 2002 lasted 420 days, the current consolidation

has lasted 720 days. This sideways grinding demoralizes the equity investors and the longer it lasts the more demoralized they feel. From a contrarian point of view this is likely why each upleg is also progressively bigger. Now what is interesting is that in the current consolidation we have challenged the top resistance line on three occasions and the last attempt labeled #4 has broken out to 259.96 as of Friday Dec 16, 2005. This is above the Dec 1, 2003 high of 255.59 which defines the top resistance.

If this pattern is to continue then the HUI is likely to display a very strong and prolonged upleg from here. If the increasing magnitude of each upleg also continues we could possibly see HUI 410 before the next consolidation.

No one holds a crystal ball of the future. All we can do is look for clues in past data and try to use this along with fundamentals to make projections. Many analysts have turned bearish to neutral on the mining sector recently. Gold has moved into uncharted territories because it has not remained this long above \$500 for over 24 years. Yet despite some bullish long term predictions appearing in the press everyone, in the short term, is trying to find reasons why gold must correct to the mid 400's. This I would take as short term bullish and may support what my analysis of the HUI patterns is telling me.

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