

IF YOU WANT GOOD NEWS, YOU'VE COME TO THE RIGHT PLACE!

By Adrian Douglas

It seems like a lot of gold investors are about ready to jump out of windows. The main reason for this is we are now seeing our first real taste of volatility in this secular bull market. The bull market has had its uplegs and corrections but it has all been quite sedate. We have now experienced something like an inverted barrel roll in an F-16 at MACH 1.0. From our high of \$728 we have seen a 15% pullback in gold. I have previously warned in my MIDAS postings that we would start to see a lot more volatility making many investors reach for the Pepto-Bismol.

In my May 13 article entitled "Where do we go from here" <http://www.lemetropolecafe.com/Pfv1.cfm?pfvID=5399&SearchParam=adrian%20douglas>

I warned that we could well see a pullback into the \$650-\$680 range. We have seen quite a bit more than that. Nonetheless my analysis work suggests quite strongly that this is only a pullback and not a major correction. In a pullback the POG may drop back as far as its 50 DMA but the uptrend of the 50 DMA remains in tact. When a major correction sets in the POG usually corrects all the way back to its 200 DMA AND the 50 DMA will usually change direction and drop to touch the 200 DMA before moving higher again. You can see in the graph below that such major corrections occurred at the beginning of 2004 and at the



beginning of 2005.

I make this distinction because pullbacks are usually short lived. They are often not easily tradeable (although this one most definitely was!) while major corrections are always tradeable if they can be identified correctly and they last for months. My analysis work produces various indicators. One very important one has just bottomed. While not all of the indicators have bottomed I am very comfortable in suggesting that there is a very high probability that the uptrend in the price of gold will resume in the next few days. I see very little possibility that the gold price will go much lower triggering a return to its 200 DMA. My indicators produce a very distinctive signature when an intermediate top is reached. That signature has not been seen yet in this upleg. It is possible that this time a correction will set in without the very distinctive signature being manifested but it is highly improbable. I therefore do not subscribe to the view of some analysts who are making dire predictions of corrections back to the low to mid \$500's.

We have entered phase 2 of this secular bull market. It is transforming from a heifer into a raging bull. While you will see some wild downswings you will experience some exhilarating upswings too. These will be even larger than the downswings.

If you managed to keep your grip over the last couple of weeks you are about ready for the adrenaline rush as we resume the upleg.

Adrian Douglas

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