

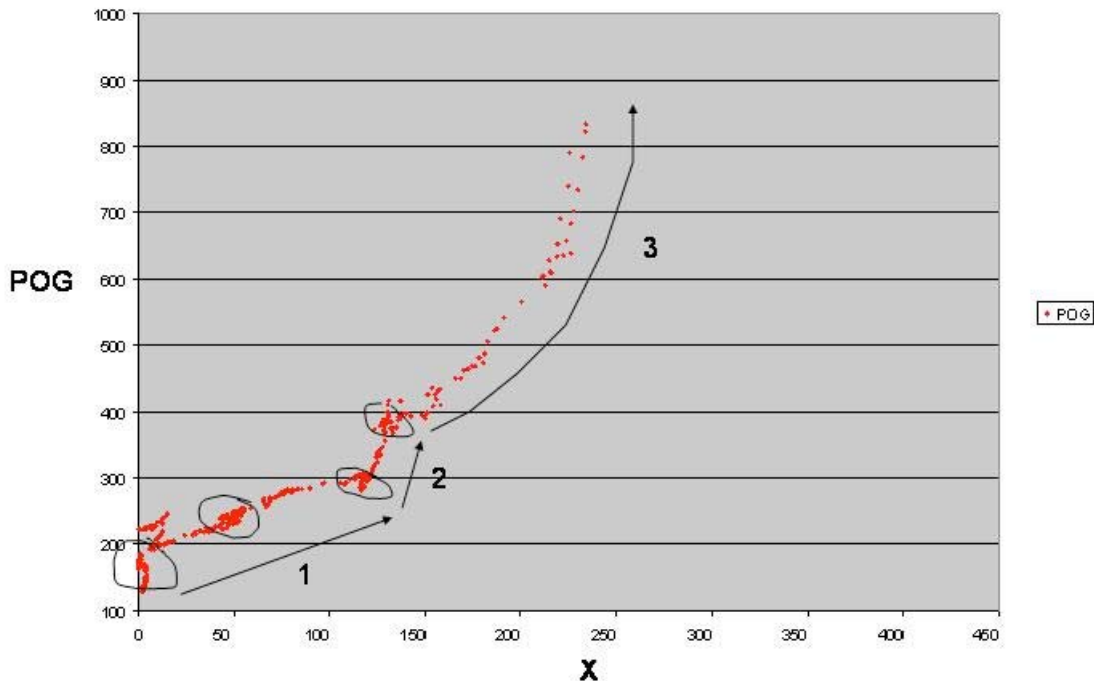
The Gold Cartel Is Overpowered

By Adrian Douglas

I recently invented a very powerful and novel analysis technique for commodity markets. I am still developing this method and preparing to patent it. I can not reveal the details of the approach for obvious reasons but I want to share the following with the Café because I think it has stunning implications with respect to the transformation that is occurring in the gold market.

I have derived an indicator from market data that behaves in a very similar fashion to the gold price itself. I have developed a way of using this to determine the turning points of the market. We will call this indicator “variable X” for this essay. I have applied this method to the gold data from 1975 to 1980 when the last great gold bull occurred. I have constructed a crossplot of the price of gold (POG) to variable X.

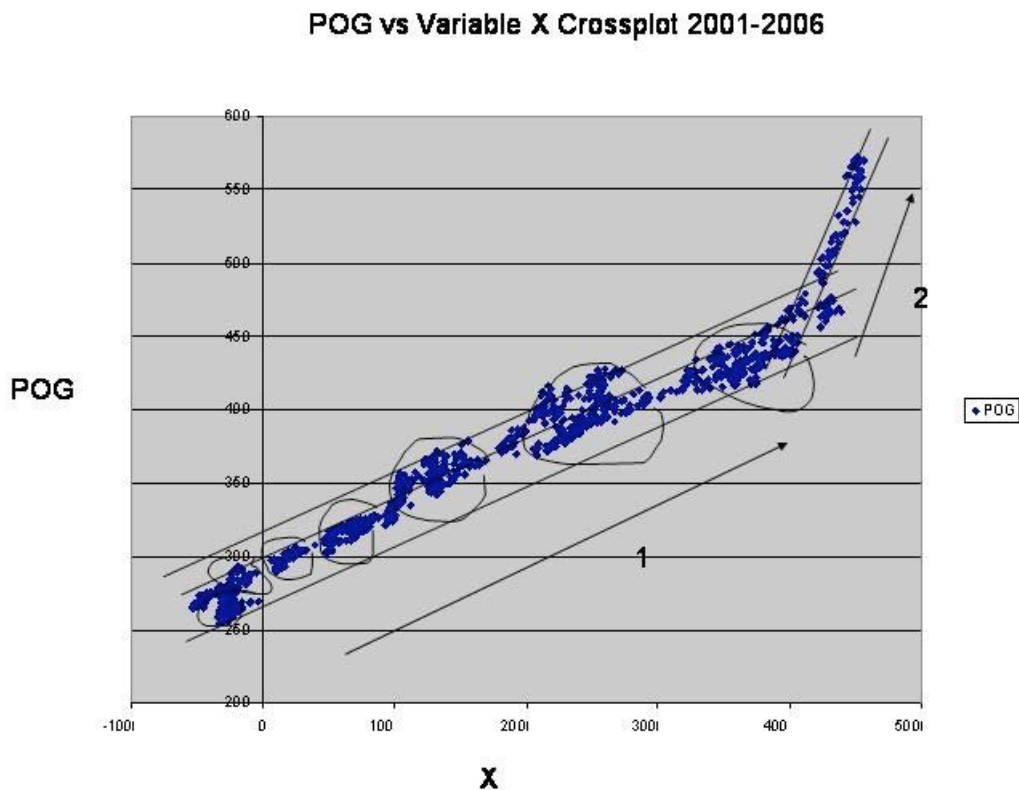
POG vs Variable X Crossplot 1975-1980



What is clear is that there are three phases to the bull market labeled 1,2, and 3. These are not necessarily the same as the three phases that are conventionally referred to by analysts. Periods 1 & 2 are linear and period 3 is parabolic.

I have circled clusters of points. These identify where the market levels were defended by the commercials. These occurred at POG \$150-\$200, \$250, \$300, and \$400. In Phase 1 the market rises gently and the commercials try to defend against the rise. In phase 2 the commercials realize they are doomed and try to get long and encourage the speculators to go short. When this has run its course and as many speculators as possible are on the wrong side of the market the market enters phase 3 and goes parabolic.

Now look at the crossplot of POG against variable X for our current bull.



We can see the linear phase 1 and some really intense defense of the market by the Cartel at \$250-\$300, \$325, \$350, \$375-\$425, \$425-\$450. The intensity of the defense has waned since \$450. The Cartel is on the retreat and they realize they are doomed. Notice the distinct change in slope denoting phase2. The Cartel is trying to switch position with the speculators. To try to get them to go short while they go long. We see this in the fact that Open Interest has recently been fairly

static. We also saw Goldman Sachs two days ago advise all their clients to sell gold. We heard from Barclays that gold will plummet to perhaps \$300/oz. All this is propaganda to try to get the speculators to switch position with them. Once that has gone as far as it can be pushed the gold market will take off in parabolic fashion because when the speculators realize they are off-side they will buy to cover in a short squeeze panic.

This analysis clearly indicates the character of the gold market has radically changed. This is why so many investors will miss out on the big gains because they are still playing by the old market structure rules and technical indicators that have worked so well for 4 years but no longer are applicable. It also indicates the Cartel strangle hold on the gold market has been lost.

The weeks and months ahead will bear witness to some legendary gains for those who are fully invested.

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