

Next Gold Upleg Will Likely be Big

By Adrian Douglas

In May 2006 Gold reached a peak of \$720. Since then it has been grinding through a consolidation. The consolidation has been very bullish because it has yielded a series of higher lows and higher highs. But this see-saw action has also been extremely traumatic for the average gold investor because each upleg raised their hopes of a new powerful rally only to see their hopes dashed by yet another pullback that has repeated four times over the last 12 months.

If we examine the consolidation trend we can now see that the coming upleg is likely to break this monotonous see-sawing and will likely be a massive rally.

GOLD OCT 2004-JUNE 2007



Figure 1

In figure 1 we can see that the consolidation has been fairly well contained between the blue support and resistance lines. We can also see that the uplegs have had a very consistent slope taking about two months to rise from the bottom support line to the upper resistance, and this is depicted by the parallel red dotted lines. Despite optimism rising during each of the uplegs it was clear that the ONLY way that gold could hope to make a new high would be for it to blast through the top of this trend channel. This only transpired on the very first rally

marked "1" on the chart. When the top resistance line was encountered which was far below the 25 year high of \$720 what was the inducement for investors to rush in? The answer is "none"! And they didn't! They just yawned.

But as we now await the fifth upleg in this year long consolidation there is an interesting development. Extrapolating from the gold price today with the average slope of the previous uplegs we can predict the upper resistance line will be intercepted at gold \$730/oz. That is a very exciting revelation because WITHOUT gold blasting through the top of its trend channel it will make a new 25 year high. Now what do you think will happen when gold reaches the upper resistance line and gold has just exceeded its previous 25 year high? Do you think investors will yawn, do you think the hedge funds, and mutual funds will be disinterested? Absolutely not! They will have every incentive to rush in and buy and this will provide the buying power that will blast gold through its upper resistance. Once 720/oz of May 2006 is left in the dust, the bulls will have their sights firmly set on the ALL TIME high of \$850. It is very unlikely that the point denoted by "5" will be where traders sell against the "overbought" position as they have in the last four rallies. Those that do will probably live to regret it.

This tantalizing prospect looks like what the war weary gold investors have been waiting for. It will likely be VERY BIG.

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