

MACRO TIDES



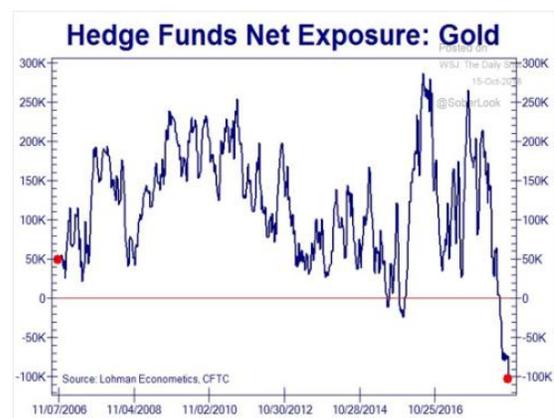
Macro Factors and their impact on Monetary Policy, the Economy, and Financial Markets

Gold and Gold Stocks

Fundamental analysis is not very helpful when analyzing Gold. Contrary to conventional wisdom Gold does not rally based on changes in inflation or changes in interest rates. During the past 40 years Gold has rallied even when inflation was not rising as it did from 2008 until September 2011. During this period Gold rose from \$750 to \$1910 as the Consumer Price Index rose from 2.7% in 2009 to 3.0% in 2011. Gold declined by more than 45% from September 2011 until December 2015 even though the 10-year Treasury yield was basically flat at 2.0%. After the Federal Reserve increased the federal funds rate for the first time since 2008 in December 2015, Gold rallied from \$1050 to \$1375 in August 2016.



Sentiment is especially helpful and one way it can be measured is the positioning in Gold Futures. More often than not, Large Speculators and Hedge Funds use trend following strategies that result in these traders holding a large long position in Gold futures after Gold has been trending higher, and a large short position after Gold has been trending down for months. In other words, they are the most bullish as Gold is nearing a high and most bearish as Gold approaches a trading low. In September 2011 as Gold was cresting above \$1920, Large Speculators and Hedge funds were holding a large long position. After Gold reversed lower they were forced to cut their losses by selling, which pushed the price of Gold lower. In December 2015 as Gold was bottoming near \$1050, Large Speculators and Hedge funds were net short just before Gold rallied to \$1375 in 8 months.



Measuring the relative strength of Gold to the relative strength of the Gold stocks is necessary since the performance of Gold stocks can deviate significantly from Gold. In 2016 Gold rallied by 30% but Gold stocks went up by more than 100%. Conversely, as Gold was dropping by 45% between September 2011

and December 2015 the Gold stocks as measured by the Gold stock ETF GDX lost more than 80% of its value. The relative strength of the Gold stocks can be a 'tell' about Gold. When the Gold stocks are outperforming, Gold is more likely to rally and trend lower if the Gold stocks are underperforming Gold.

A chart for Gold and the Gold stock ETF GDX have been provided so you can reference them as you read my analysis of Gold and the Gold stocks since 2015.

Given the level of volatility in Gold and the Gold stocks incorporating a tactical approach rather than holding a static allocation to Gold in a portfolio could prove beneficial for Advisors and investors.

Weekly Technical Review

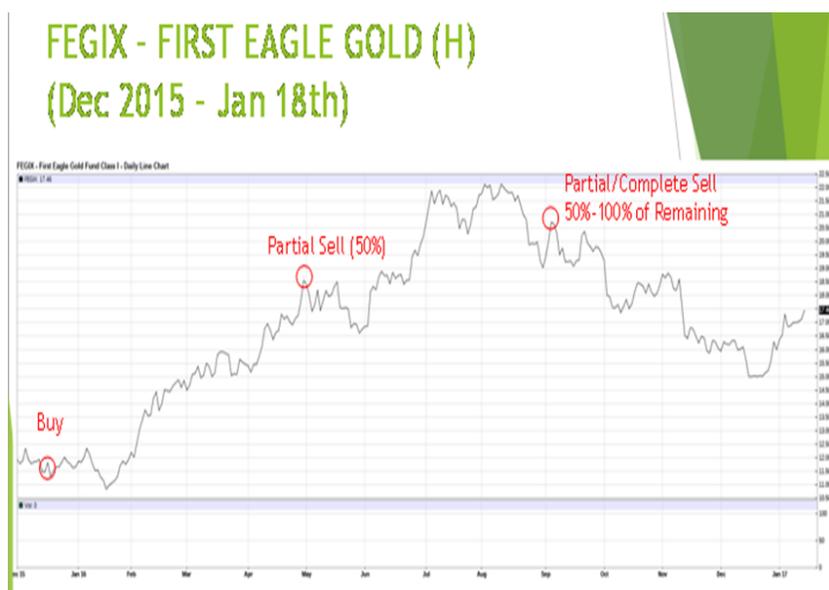
December 30, 2015

Gold and Gold Stocks

It is an intermediate positive that Gold stocks, as measured by the Gold stock index (HUI), have been showing more relative strength compared to Gold since mid-September, when Gold was trading near \$1100. While Gold made a lower low in early December, Gold stocks held above their mid-September price level. This is an important development since Gold stocks have been consistently underperforming since 2011.

Positioning in Gold futures is also supportive of a rally in Gold. Gold producers have a very low short position, which suggests that they are expecting higher Gold prices. Speculators and Money Managers have a very small long position, which reflects the expectation that Gold is not going to rally in coming months. Speculators and Money Managers are typically trend followers and are usually most bullish near market tops, as they were in September 2011 when Gold was trading above \$1900, and most bearish near market bottoms.

How much of a rally in Gold and Gold stocks is likely given this back drop? I think Gold is poised to rally at least back to its recent high at \$1191 within the next six months. Should it climb above \$1230, a rally to \$1300 is possible. If the Gold Bugs Index (HUI) is able to close above 140, a rally to 180 (May 2015 high) is likely and possibly to 200-210 (January 2015 high). If Gold makes a run at \$1300, HUI could rally to 230-250 (Highs in June-August 2014).



A financial planning firm provided the graph showing when they bought First Eagle Gold in December 2015 and sold the fund in May and September 2016 for their clients per my recommendations.

Gold Stocks

The low on Tuesday December 12 in GDJ was \$21.27 and a 25% position in GDJ was established at \$21.28 on a limit order. Based on the improved positioning in the futures market, I increased this position to 50% today December 18 at \$22.17.

Weekly Technical Review

January 16, 2018

Gold

Although it is certainly possible for Gold to break above the trend line connecting the August 2016 high with the September 2017 peak, the odds favor a test and then a pullback. This suggests selling a portion of the Gold position above \$1344 or using a decline below \$1326 as a stop.

Gold Stocks

When GDJ traded above \$23.84 on Friday January 12, I sold 25% of my position at \$23.91 and another 25% on January 16 at \$24.13.

Junior Gold Stocks

On Friday January 12, Gold exceeded its prior high of \$1225.56 and GDJ traded above its prior high of \$23.84, but GDJ failed to better its prior high of \$35.17. This divergence led to me sell 25% of the GDJ position at \$34.91. On January 16, I sold another 25% of GDJ at \$35.19.



Weekly Technical Review

January 22, 2018

Gold

On January 17 and January 18 Gold closed just above \$1326.00. If Gold does managed to rally above \$1344, selling most of the position may be warranted since sentiment has turned overly bullish and the positioning in the futures market has become far less supportive. (Gold rallied to \$1352 in the following week.)

Gold Stocks

The high on January 2 was \$23.84 which I felt should not be touched again if GDJ was going to rally above \$25.00. On January 18 my stop at \$23.85 was triggered on the remaining portion (50%) of my position. The average sell price was \$23.91. The cost basis on the GDJ position is \$21.73.

Junior Gold Stocks

On January 2, the Junior Gold stock ETF GDXJ traded up to \$35.17 which I felt should not be touched again if GDXJ was going to rally above \$37.00. When Gold pulled back from \$1344 to \$1326 on January 17, GDXJ traded down to \$34.90. On January 18 my stop at \$34.82 was triggered on the remaining portion (50%) of my position. The average sell price was \$34.93 and the cost basis on the GDXJ position was \$32.035.

Macro Tides

March 4, 2018

Gold and Gold stocks

The positioning in Gold futures is still not supportive of an intermediate rally in Gold. If the February employment report on March 9 shows that wage inflation receded from January's level of 2.9%, some of the near term concerns about inflation could diminish which may prove a negative for Gold. Although Gold may test \$1350, the next larger move is likely to be lower. A close below \$1306 could be followed by a quick decline to \$1250. Additional Dollar strength could also weigh on Gold. Gold stocks as measured by the gold stock ETFs GDX and GDXJ have continued to underperform Gold

Weekly Technical Review

April 16, 2018

Gold

On April 11 Gold spiked up to an intra-day high of \$1364.36 before closing at \$1353.03. This is the third attempt since January 25 to push and stay above \$1360. Each attempt has been 'rejected' as strong selling came in to knock Gold down. This reinforces the importance of a close above \$1368 and why it would likely be followed by a quick move toward \$1450. My bias is that Gold is not likely to close over \$1368 and instead will work its way down to test \$1310 in coming weeks. A close below \$1306 would set Gold up for a decline to \$1275 and potentially \$1250.

Jim Welsh

760-710-1956

JimWelsh@SmartPortfolios.com