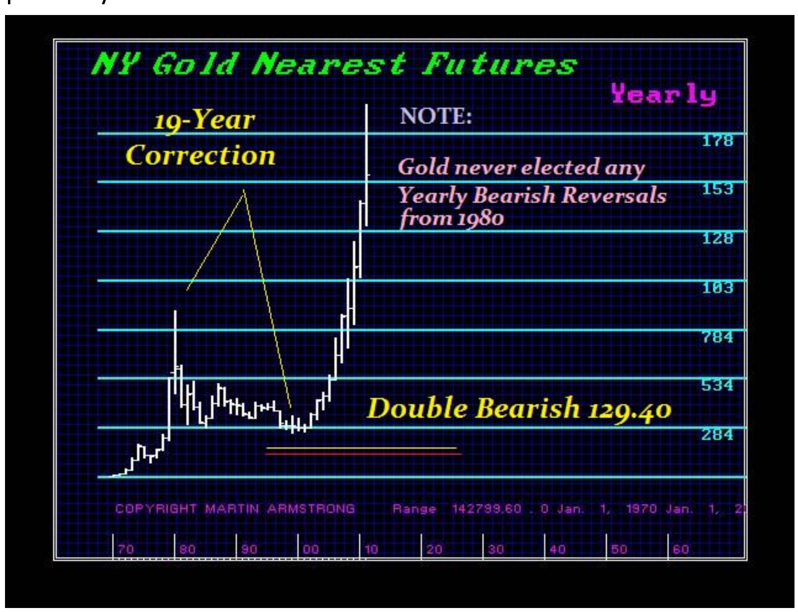
Gold & the Correction

Unfortunately, there are far too many people who are just cheerleaders for gold and not analysts. Gold is no different from any other market. It must pause and regain its strength like a human being must sleep at night to awake with energy and booming with life (after coffee of course). Saying a correction in gold is necessary to build a base for the foundation of the next rally is not

being anti-gold – just realistic. This is what gold has been doing. Even a rally back to the old high that failed to see follow-through is still a sideways-base-building correction phase precisely as the Dow Jones between 1966 and 1985. The Dow rallied testing the 1000 level in 1966 (1001.11), 1968 (994.65), 1973 (1067.20), 1976 (1026.26), and 1983 1296.95. The first three were tests, whereas the 1983 high was at the end of a gradual breakout to the upside. Finally, in 1985 the Dow blasted up and never looked back. This was a 19-Year correction phase largely moving sideways that constructed a firm base and began the foundation for the birth of the Private Wave in which we currently reside.

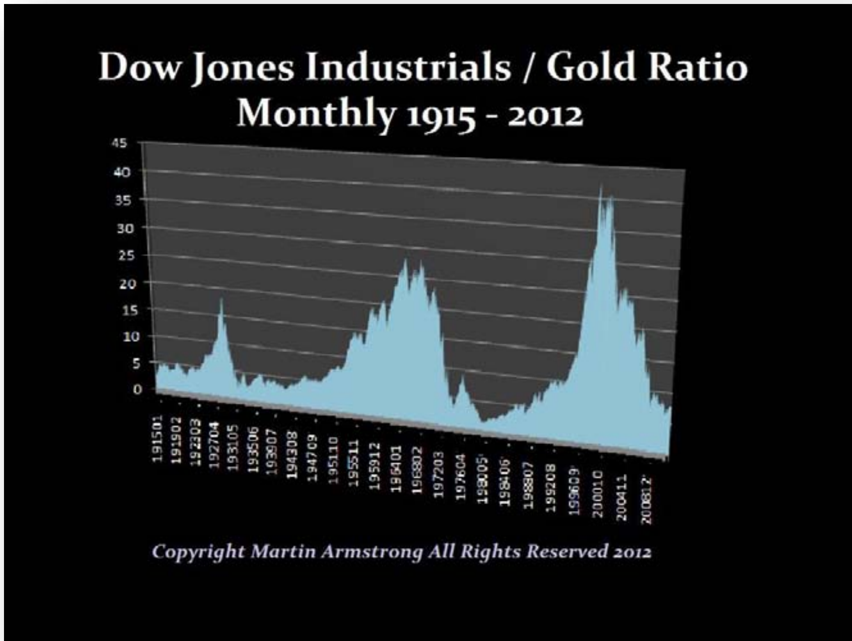
If we look at gold, we see the same pattern of a 19-Year correction phase from the 1980 high. This was a broad correction process that was similar on our model relative to the Dow Jones. The Yearly Bearish Reversal in the Dow from the 1966 high was 521.0. The lowest intraday price came during the Crash of 1974 at 570.01. The Dow stopped about 10% above that reversal and thus never generated a long-term sell signal that would have implied a real bear market. In the case of Gold, the 1985 low was $280.50 whereas the final low came in 1999 at $254.00 (nearest futures). This was substantially above a set of Double Yearly Bearish Reversals at $129.40.

Hence, in Gold, we also NEVER elected a Yearly Bearish Reversal. This is why our forecast was correct in both time and price. The Gold low came perfectly in that 19-Year Correction window. These corrections of 19 are fundamentally important events. At the yearly level, once we do not accomplish a Yearly Bearish Reversal at the end of 19 years, this is the signal that we are purely in a consolidation period and not a change in long-term trend. Thus, we said the low was in place in 1999. It is TIME that becomes essential to forecasting. Personal opinion is worthless and technical analysis provides price – but never TIME. Only cyclical analysis can tell us WHEN to buy.



For those who may be skeptical about the 19-Year Correction Cycle and how it works in conjunction with our Reversal System, here is the Nikkei. The current low actually took place in 2008 at 6995. That is 19 years after the 1989 high. Here, unlike the Dow and Gold, we did elect the first Yearly Bearish Reversal. However, we dropped and bounced from the next Yearly Bearish Reversal at 6957. While it is possible that the 19-Year low would hold, the election of the 11543 Reversal took place in 2001. The Nikkei has struggled ever since. If the Nikkei closes below 6957, then we should certainly fall to test the 4038 level. Technical support lies at 4921 and thus this may provide the final low on a Depression Cycle that lasts 23 or 26 years for the final low. That would imply 2013 or 2016 for the final low. Nonetheless, it was the election of the first Yearly Bearish Reversal that signaled the Nikkei was really in trouble long-term.

Fundamental analysis tends to provide lip-service support, but it is far too biased to offer any consistent forecasting ability. This is largely due to the fact that fundamental analysis always tries to focus on a single factor. That is simply never the case. Nonetheless, it is a Western habit of trying to reduce the most complex network down to a single explanation of a cause-and-effect. Consequently, of course there are those who still try to argue that gold is the alternative to the stock market and the dollar based upon that was the battle-cry from the 1980s. They point to the Dow/Gold ratio as if this offers some solid consistent reason to buy gold. When plotted on a monthly closing basis back to 1915, we can see that there have been three major rallies in the Dow where Gold fell sharply – 1929, 1966, and 2000. The 2007 rally was **NOT** the peak on this ratio. This was a significant signal suggesting that gold would rally relative to the Dow in the aftermath.



Furthermore, there has been constant nonsense about China and its impact upon Gold. First there was the gold exchange in China that would trade gold in Yuan and how this was a "real" market and everyone would abandon New York and London for China. Of course that proved to be false. Now there is pricing oil in Yuan rather than dollars with changes in the swift codes that heralds the demise of the dollar so you better buy Gold immediately. This once again will prove to be more hyped-up nonsense. These are all supposed to signal buy now as always. There is never a view that even hints at a slight correction or pause in trend. Every factor is always bullish and never negative or else it is a manipulation. The Gold market in Yuan would only prove to be a derivative allowing the currency to begin to trade. Selling oil in Yuan is just another imaginary fundamental. These are stepping stones along a path where the Yuan will become the leading currency, but not until after 2032. It is critical to understand that China lacks the market depth to be the leading currency at this time. Bribery is widespread and there simply can be no shift to the Yuan even as a reserve currency when there is no debt infrastructure to replace the US Treasury bond market of about $16 trillion.

So while many are just desperate to constantly come up with nonsense as to why Gold will soar like an eagle next week to thousands of dollars, the sad truth is these stories are just more hype. They constantly portray the dollar as the worst of all evils when in fact it is the prettiest of the ugly sisters. I have stated time and again that the US dollar will be the **LAST** to fall – not the first. We must see Europe and then Japan fall before the dollar is crushed. All monetary systems are fiat; so even that fundamental means nothing.

Of course, everything is always a **FRACTAL** based structure. Therefore, to find a major event timing frequency on one level of **TIME** it must also exist on all other levels of **TIME**. Here we have Gold showing there was a 19-Month decline, but Month Bearish Reversals were elected. The 1985 low was 2 x Pi (π).

Currently, if this immediate correction-sideways pattern would end, there remains a possibility that it will do so in March/April 2013. Keep in mind, that the importance of gold is greatly overlooked even by the Goldbugs. It is a commodity that trades globally and is of the **SAME** quality everywhere (jewelry excluded). Even crude oil has different quality and trades differently around the world. Wheat and foodstuffs also vary from continent to continent. Gold is more in the category with the dollar – it is the same animal everywhere. That allows its pricing to reflect a consistent global pattern.

It is the **Sovereign Debt Crisis** that is undermining the world economy and is causing governments everywhere to monitor the gold trade and become both draconian toward anyone with capital and far more aggressive in taxation. Everywhere in the United States, the police are becoming IRS agents handing out tickets and extracting revenue needed from the average working person. These are the trends that will signal the **REAL** bull market in gold ahead. All the other stories are really nonsense. The Yuan is **ONLY** capable of displacing the dollar when the debt collapses. Not before!

We can see here that we have three directional changes in a row during this week. This implies choppy back and forth type of pattern. We see the target for an event will be Friday, September 28th. Volatility will rise next week. Looking at the pattern gold have developed on the daily level, it appears that it has built a base with the sideways movement and this indicates that we may yet push higher to test the key resistance at the 1800 level.