

The Gold Speculator



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Ludwig von Mises, luminary of the Austrian School of Economics, and inspiration for *The Gold Speculator* and citizens who value private property and sound money.

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President Truman would call his economic advisors and ask them questions. What happens if I balance the budget? What happens if I raise taxes? The advisors would reply, "Well, on the one hand...But then on the other hand..." Finally Truman got exasperated and declared, "What this country needs is a good one-handed economist!"

Model Conservative Portfolio (MCP)

Start (9-17-99): \$100,000

Last (2-18-11): \$380,285

March Silver: 32.296

March Lumber: 306.00

April Copper: 4.530

SLW (640 shares): 39.19

ANV (1900 shares): 30.24

GG (500 shares to be bought Feb 22)

Mar T-bonds: 119 2/32

Mar DJIA: 12,375



Easy money policies in the US and the EU have created inflation, which is flowing from commodities to producer and consumer prices. Higher food and commodity prices are contributing to popular uprisings and political unrest in northern Africa and several middle eastern countries, which is pushing prudent investors into gold, silver and now high grade copper to hedge against market disruptions. Gold, silver and copper are responding with moves to the upside.

China has tightened (again) to slow its growing inflation; the Fed chief denies inflation exists in the US.

Highlights of this issue:

- COMEX Silver is showing strength
- COMEX Copper is performing well
- Our gold stocks are moving up
- Lumber is at major support
- Buy 500 shares Goldcorp Inc (NYSE:GG) at the market Tuesday

Model Conservative Portfolio

The Model Conservative Portfolio gained 19.4% over the last two weeks, propelled by gains in COMEX Silver and the gold stocks.

Silver

COMEX Silver continues to the upside, reaching a 31-year high of \$32.78/oz this week. There are some powerful forces pushing the price of silver up. First is growing global inflation. Inflation in China caused its central bank to tighten. On Friday, the People's Bank of China hiked reserve ratios by 50 basis points, to nearly 20% effective February 24. This is another in a series of gradual moves by the central bank to curb inflation, which reached 4.9% year-over-year in January along with GDP growth of 9.8%. Inflation in global food prices has contributed largely to popular uprisings in the middle east and elsewhere. Investors around the world hedge against inflation by purchasing gold and silver. Silver, trading at 1/40th the price of gold, is accessible to more investors, and its higher volatility with respect to gold provides higher profit potential (and higher risk). We have seen this play out over the last few months. Gold has seen some steady increases to new highs and the price of silver has gained at an accelerated pace.



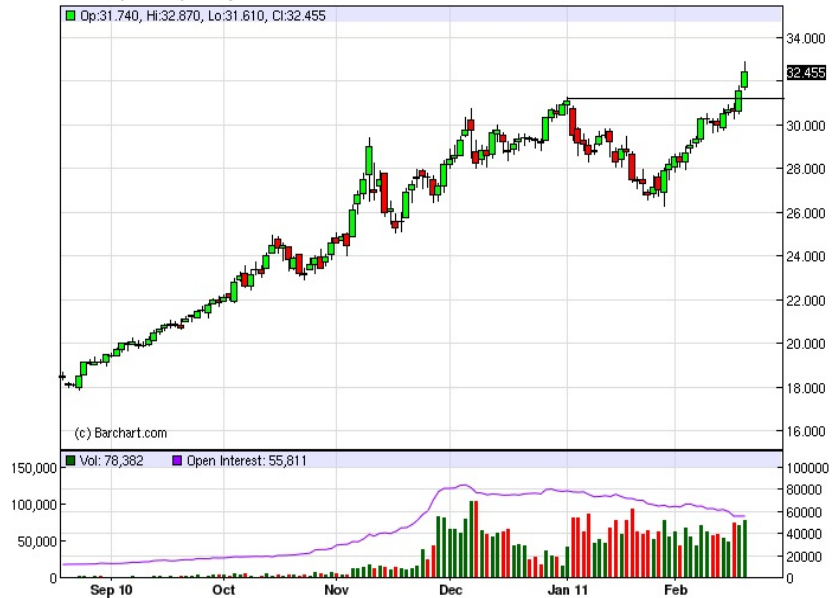
Is the price of silver too high? Some may think so, but the market says no. As my sainted grandmother used to tell me, “There is only one reason that drives the price of a security up—there are more buyers than sellers.” Certainly this has been the case for COMEX silver futures. As one of our subscribers correctly observed in a recent email, a major reason is backwardation in silver futures. The classical condition for futures markets is contango, that is, longer term prices are higher than the current spot market. Oil futures are in contango today, with spot prices converging on a future (higher) price. In comparison, silver futures have been at near zero contango and sometimes display backwardation.

Backwardation occurs when spot prices are higher than prices of longer term contracts. This happens when future demand can not meet expected supply. The market creates a premium for the nearer-in contracts, which erodes over time to match the longer term spot. As of Friday, COMEX depositories held enough registered metal stocks to deliver on 8,680 COMEX contracts (43.4 million ounces), just 6.6% of the 130,601 contracts open as of Thursday. Backwardation is a very bullish condition.

Silver Futures COMEX

SIY00 (Cash)	32.430
SIG11 (Feb '11)	32.495
SIH11 (Mar '11)	32.430
SIJ11 (Apr '11)	32.355
SIK11 (May '11)	32.410
SIN11 (Jul '11)	32.360
SIU11 (Sep '11)	32.335
SIZ11 (Dec '11)	32.300
SIF12 (Jan '12)	31.557

SIH11 - Silver (COMEX) - Daily Candlestick Chart



This is not to say that we will not see some retracing of silver prices next week. Profit taking is a natural response after a sharp run-up. But we are in for the big move and I believe there is much more upside in silver from here.

Silver Wheaton Corp (SLW)

SLW has broken out of a weak head-and-shoulders pattern (Jan-Feb) to the upside, nearing its early January high. Volume confirms the bullish move. The significant item

SLW - Silver Wheaton Corp (NYSE) - Daily Candlestick Chart



SLW (continued)

the recent price action is the gap-up opening on Friday. This is a bullish signal. Another bullish technical indicator is price action of SLW call options. The June 11 call (38 strike) is trading at \$5.05, up \$1.45 at the NYSE Friday close. If the option reflects the future price, we can expect a return to the 40-43 level over the next few months.

Nevada Gold Corp (ANV)



ANV has broken out of November and December resistance levels to new highs. The recent climb has been on increasing volume. We can expect more upside action for ANV. Most gold stocks tend to move with bullion prices, and tend to be more volatile, which benefits the trader. An advantage of gold stocks such as ANV (and FRG) is the lower price per share compared with the price of gold per oz. The speculator can purchase many more shares of the lower priced gold stock to participate in the overall market that is driven by bullion price.

Most speculators will enhance their profit potential by buying stocks on margin. For a listed stock, the speculator puts up 50% cash (and borrows the balance at the margin rate) to purchase the stock. Any gains (or losses) are doubled. The use of margin depends on the risk tolerance and financial position of the speculator.

Aggressive speculators can also leverage a stock position (long or short) by purchasing options on the underlying stock. Typical leverage for options is 100: 1, that is 1 option contract controls 100 shares of the underlying.

Full disclosure: I am long SLW, ANV, GG and EGO call options in my personal account. I trade options and other instruments on a daily basis, more frequently and with higher leverage (i.e. more aggressively) than trading for the Model Conservative Portfolio.

Lumber (continued)

LSH11 - Lumber (CME) - Daily Candlestick Chart



The number of housing starts is a component of the leading economic indicators (LEI). Some economists believe that leading indicators show changes or inflections in the business cycle that point to major trends (booms or busts). Critics are fond of saying that the leading indicators have “successfully predicted six of the last nine recessions.” Notwithstanding, taken in aggregate, the leading indicators can shed some light on relative contributions of its components. The Conference Board Leading Economic Index for the U.S. increased 0.1 percent in January to 112.3 (2004 = 100), following a revised 0.8 percent increase in December, and a 1.1 percent increase in November.

Ataman Ozyildirim, economist at The Conference Board commented on the report, “With January’s slight increase, following two large gains, the U.S. LEI is still pointing to economic expansion in the coming months. Falling housing permits and weakening labor market indicators were barely offset by the continued positive contributions of the financial components. The LEI remains on a rising trend, with its growth rate picking up in recent months. However, current economic conditions, as measured by the coincident economic index, while improving slowly, remain weak.”

In the January LEI report, six of the 10 indicators comprising the measure made positive contributions, led by the interest-rate spread. Other up-ticks included the index of supplier deliveries, stock prices, the index of consumer expectations, manufacturers’ new orders for nondefense capital goods, and manufacturers’ new orders for consumer goods and materials. The largest negative contribution came from building permits. Other down-ticks included average weekly initial claims for unemployment-insurance benefits, average weekly manufacturing hours and the real money supply.

COMEX Copper

HGJ11 - High Grade Copper (COMEX) - Daily Candlestick Chart



COMEX April 11 Copper broke above previous January resistance levels and made new highs in the last two weeks on strong volume. We see gap-up openings January 27 and February 14, the latter reaching a high of 4.6325. We also see a doji and a spinning top candlesticks the last two days of the trading week. These indicate selling pressure is weak, and point to a potential reversal in the next sessions. The close above 4.46 is also significant as it marks January resistance (now support).

This week's Commitment of Traders report for copper remains bullish (up a point from last week to 66%) as large speculators maintain their long positions on somewhat lower open interest of 159,000 contracts.

Copper prices have maintained upside strength despite the fact that China, the world's largest copper consumer, has raised borrowing costs to slow inflation three times since mid-October. Copper has climbed 17 percent in the same period.

Copper also gained as the dollar fell for the fourth straight day against a basket of major currencies, showing that investors view High Grade Copper as an alternative investment. Which brings us to the classic hedge commodity, gold.

Gold

GCJ11 - Gold (COMEX) - Daily Candlestick Chart



Above the chart for COMEX April 11 Gold. It is not difficult to see the strong up-swing beginning in late January. Friday, April gold broke through October resistance to close at \$1388.60/oz. Continued political unrest in the Mideast, and the recognition of inflation at the producer and consumer levels here, in China and parts of the EU have brought in the buyers. The next resistance levels are 1398 and 1406 with support at 1375 or so.

Large speculators are long, with bullish sentiment up a point to 80% in this week's Commitment of Traders report. Open interest is also up slightly at 473, 345 contracts. This means most professional and institutional traders are net buyers of gold.

Gold stocks are moving up along with the metal. One that looks attractive is Goldcorp Inc (NYSE: GG). The chart shows a breakout about earlier resistance and excellent

GG - Goldcorp Inc. (NYSE) - Daily Candlestick Chart



relative strength. Gold stocks typically are more volatile than the metal and therefore have higher potential for gains (and losses). Goldcorp has gained steadily on moderate volume over the last month or so. The chart shows good potential for continued strength to the upside over the next few months. Therefore, we will add Goldcorp Inc. (GG) to the Model Conservative Portfolio.

Model Conservative Portfolio (MCP) recommendation

Buy 500 shares of Goldcorp, Inc. (NYSE: GG) at the market at the open Tuesday (Wand Strasse observes Washington's Birthday, February 21st).

We are long 1900 shares of Allied Nevada Gold (ANV) and 640 shares of Silver Wheaton Corp. (SLW). We are also long 1 contract Mar 11 lumber, 2 contracts March 11 silver and 1 contract COMEX April 11 copper.

Hold long all positions, and buy 500 shares of GG at the market Tuesday.

Scott Silva
Managing Director
The Gold Speculator