

Global Analyst

In this Bulletin, we update developments in the gold market following the mid-month crash, as well as look at developments in specific gold companies we follow, with several recommendations.

GOLD RALLIES WHILE STOCKS MOSTLY CHEAP

In our last Bulletin, 16th April, we discussed the reasons why the gold had collapsed, put the drop in perspective, and outlined why the bull market was far from over. Since then, gold has rallied 8%, retracing virtually 50% of the drop. The next week or two will tell us whether this is just a “dead cat bounce”, though, notwithstanding the possibility of a near-term pullback, I think not.

The rebound has been quite powerful, with two main drivers. First, there was short-covering, to be expected any time a market experiences any such dramatic short-term decline. Second, however, was the response in the physical market. Around the world, buying of physical gold shot up as the decline unleashed a rush into the buying of bars and coins, creating a bifurcation in the gold sector, with paper gold collapsing (withdrawals from GLD continue, 10 days after the collapse) while the physical market is very strong (certainly in terms of volume). One could see this as positive, as the new weak hands that had jumped on the gold bandwagon have been replaced by stronger hands who understand gold.

Physical market sees rush of buyers

The huge two-day drop (Friday and Monday, 12th and 16th) was in the paper market, set off with the massive Friday 400-tonne sale in the COMEX futures markets, following by selling of the gold trust ETF (which we discussed last time). In all, on just Friday and Monday, 1 million contracts were sold, volume without precedent, exceeding annual gold production.

But the response in the physical market was remarkable. On Wednesday, there were record coin purchases by dealers from the U.S. Mint. Many dealers are reporting buying rushes, as are banks that sell gold bars. Some (including in Switzerland and the Middle East) are notifying customers of delays in filling buy orders. Reuters reports customers waiting up to three hours in lines in Tokyo, with similar experiences in China and Hong Kong, while premiums have risen in India and elsewhere. Not only did the sharply lower

price provide a second chance to buyers who missed out earlier, but it seems as though the machinations in the paper market spurred a turn to gold itself.

Rational for gold remains powerful

As we discussed last time, the fundamentals for gold remain positive; nothing has really changed (except the price). Japan's National Bank intends to double its money supply, while other banks around the world remain in an "accommodative" stance. The Fed is unlikely to scale back in any meaningful manner given the very weak employment situation, as well as government financing requirements. What ends a gold bull market? Likely sharply higher interest rates and monetary contraction (think Volker). We are so far from such a scenario as to be laughable.

What will set off a strong second major leg to this gold market? A decline in the dollar would, though it is not an absolute precondition to a higher gold price. A renewed expansion on the European Central Bank's balance sheet—actions not words—would certainly do so, especially since such action would likely come when a major country, Spain, Italy or even France, required assistance.

After a sharp drop, it is not unexpected to see shorts cover (in any market) and if that was all there was, it could be short-lived. But the physical buying certainly indicates that there was no widespread capitulation. We cannot know how long the correction may last or when the next major leg up will start. It may have already ended; the next week or two will tell us that. Indeed, if one marks the onset of this correction from September 2011, the all-time peak, then this correction has lasted as long as the famous mid-cycle correction during the 1970s bull market. How long the correction will last is unknowable, however, so one looks at the fact that fundamentals remain strong and are unlikely to change meaningfully in the near future. So gold is inexpensive and should be purchased, as should quality gold stocks, such as the three below which have recently had positive developments.

Advancing projects and building companies

Midland Exploration (MD, Toronto, 0.95—1.03) is our other favorite Quebec exploration company. It continues to have positive news at many projects, none overwhelmingly significant by themselves, but together demonstrating the validity of the prospect-generator model and bringing increased potential to Midland. The j-v with North American Palladium discovered two new gold-bearing structures on LaFlame, and has resumed drilling. With partner Osisko, Midland is drilling several prospective targets on the Casault property. Agnico-Eagle continues to drill Midland's Maritime-Cadillac property; new underground drilling on its adjacent Lapa mine property will extend onto Midland's property, an interesting development.

With 20 properties and partners like Agnico-Eagle and JOGMEC, Midland, with over \$5 million in the bank, is well positioned for an active year and news flow, with assays pending from two drill programs. Midland, down 25% in the last few weeks, is a strong buy here, though volume is thin.

UPCOMING SEMINARS There are three upcoming seminars at which I'll be speaking, each quite different. First up, May 13th to 14th, is the [New York Metals and Minerals](#) conference, with analysts and company heads, including silver guru Jeff Christian and always popular Rick Rule. The special keynote speaker will be Dr. Ron Paul, a member of Ronald Reagan's gold commission and long-time gold stock investor. To register click on the link above or call (800) 831-8300. Then comes the ever-popular [Freedom Fest](#), July 10th to 13th, "the world's largest gathering of free minds", with Steve Forbes, Jim Rogers, Art Laffer, John Stossel, Sen. Rand Paul, and many many more. Always intellectually stimulating, informative and entertaining. The theme this year: "Are we Rome?", held appropriate at Caesar's Palace, Las Vegas. For more information, click the link above.

And next, I'm happy to announce the return of the always valuable and popular seminar in aid of "**The Friends for Autism Foundation**", this year held in Los Angeles, August 10th and 11th. Speakers include many not often heard on the "circuit" including Bert Dohman, Richard Maybury, Jim Powell and Mark Skousen, as well as host Martin Truax. With lots of time for discussion, questions and speaker interaction, this should be a valuable conference. The \$299 fee includes all meals including dinner. For reservations, call Genny at 678-360-3691.

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