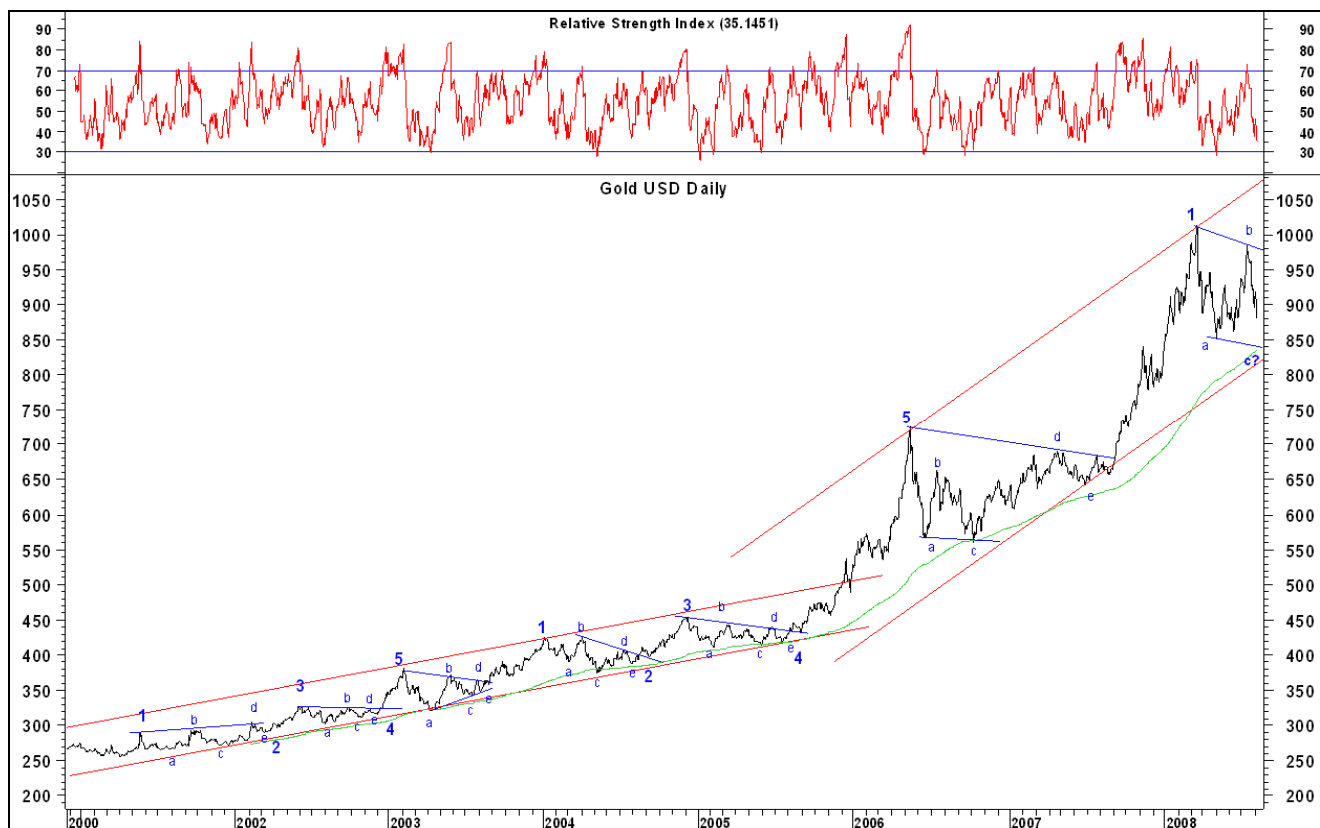


CORRECTIVE LOW: WHAT TO LOOK FOR

The following is an extract from the July 08 Issue of **The Global Speculator** sent to subscribers on the 8th of August 2008.

The sharp fall in the gold price in recent weeks approaches what I believe to be the final corrective low in this consolidation pattern before the next surge higher. If we look back over the last 8 years, we can see the gold price has traded in fairly predictable sideways patterns (Waves 2 and 4) as it consolidates after significant waves higher (Waves 1,3 and 5). These consolidations generally form an **abcde** pattern prior to an eventual breakout. The b to c correction leg of these consolidation patterns generally indicates a significant turning point for the precious metals markets just prior to the next wave higher. The chart below gives us a summary of the last 8 years of activity. Fast forwarding to 2008, we can clearly see that we are presently in the process of putting in a **b** to **c** corrective low. Once in place, the stage should be set for some long awaited fireworks. These corrective lows have generally corresponded with an RSI of less than 30 (top section) and a crossing of the 300 day moving average (green line) which is close to US\$835 an ounce.

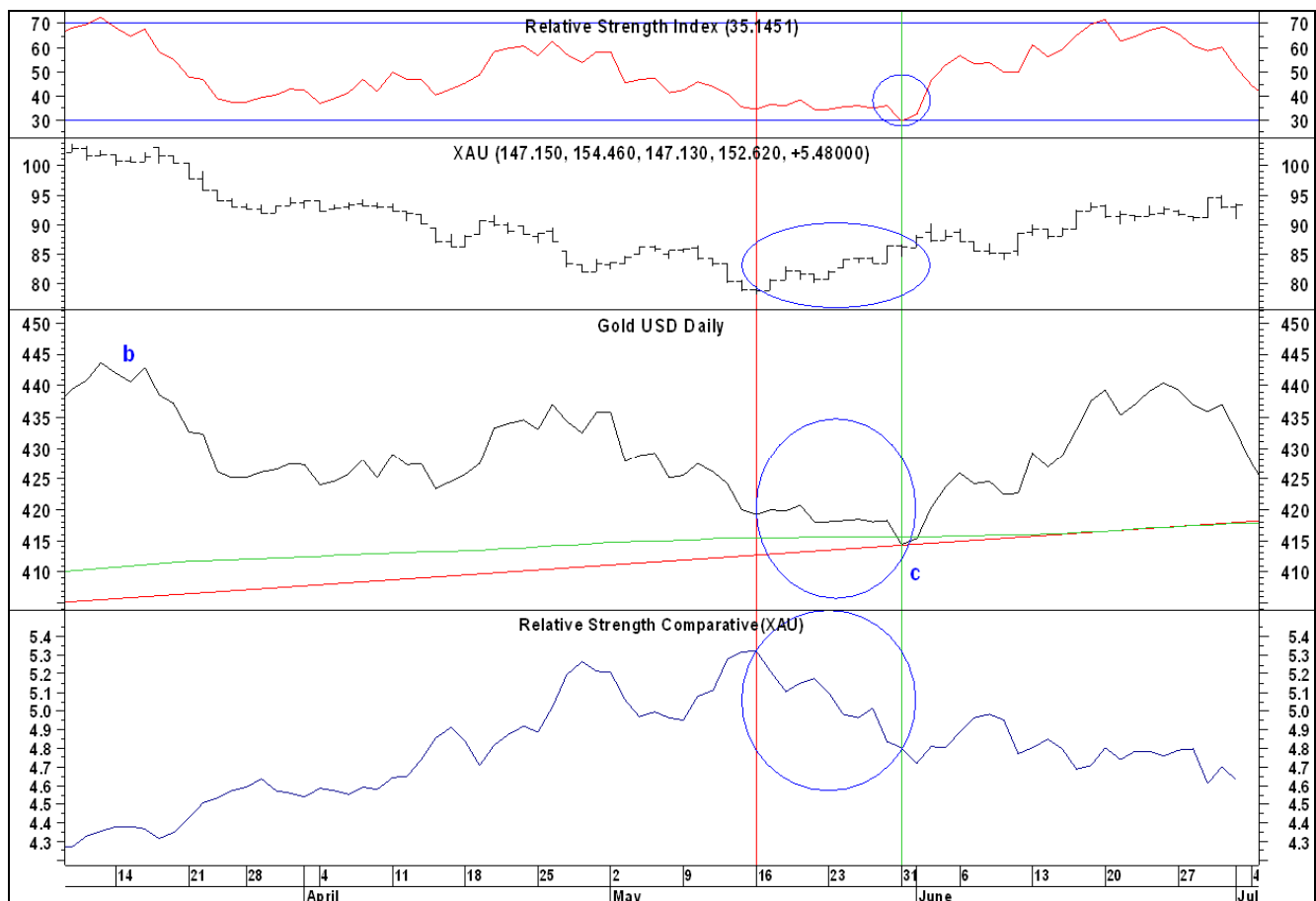
GOLD WAVE ANALYSIS 2000 - 2008



What to look for with the XAU?

As we complete the **b** to **c** movement in the gold price, it pays to monitor the XAU closely for an outperformance in the gold shares versus the metal. Today, I want to revisit the last 2 corrective stages we have experienced and specifically study the **b** to **c** corrective lows for both 2005 and 2006, prior to examining 2008. These moves are normally characterized with an RSI breaking 30 and demonstrative strength in the gold equities. We will use the Gold/XAU ratio to measure this aspect.

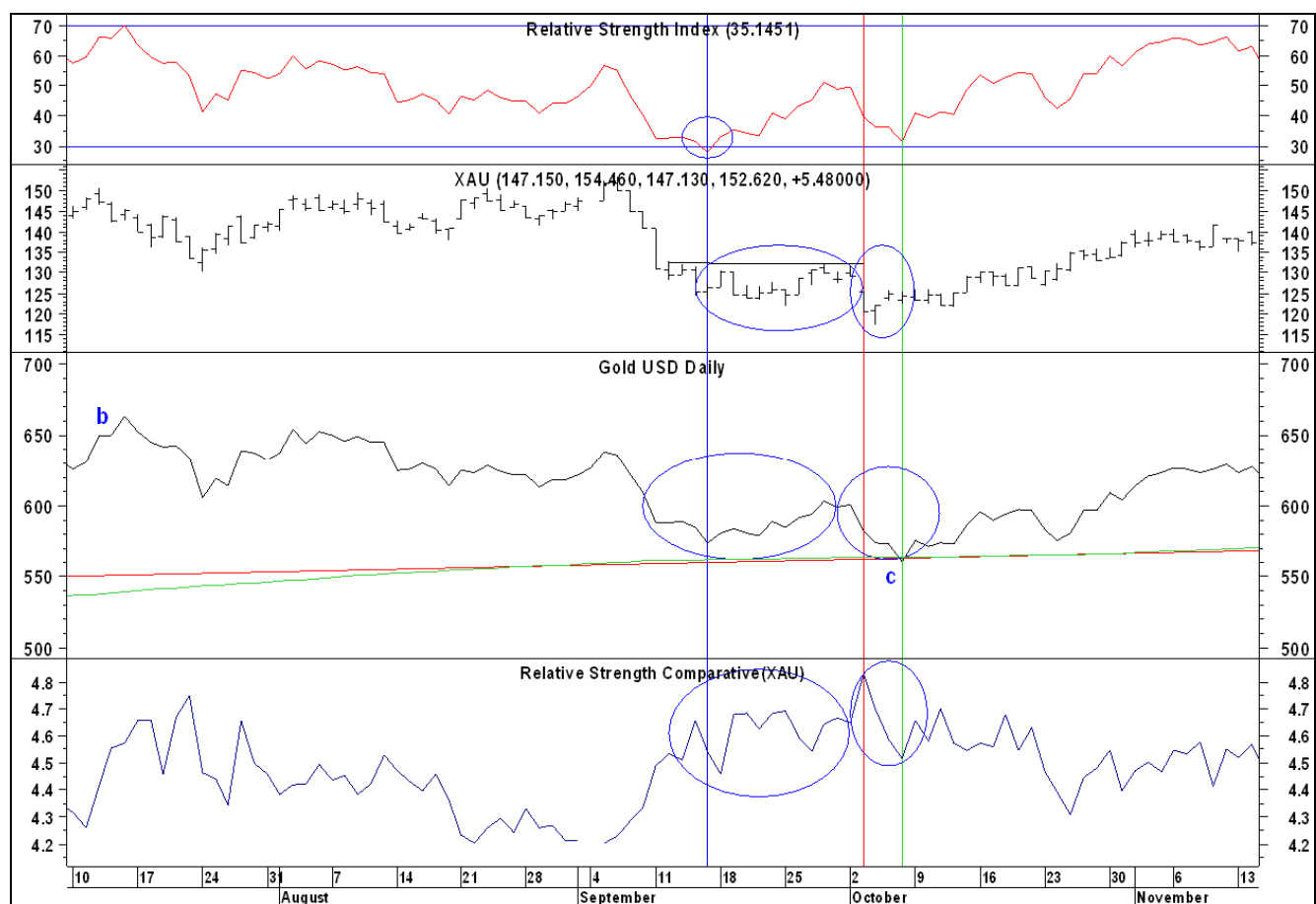
Gold 2005 Corrective Stage (b to c)



Looking at the above chart, the top section is the RSI with a green vertical line and the blue circle signaling the crossing of the 30 level. The next section down is a look at the XAU with the key period of interest circled in blue. The third section of the chart is the gold price itself with the period of interest again circled and the 300 day moving average in green. The last section is a look at the Gold/XAU ratio representing the performance of the gold shares versus the gold price. The red vertical line is the peak made in the Gold/XAU ratio (in this case about 5.30). Now as far as the Gold/XAU ratio goes, the gold shares generally outperform the metal as the gold price rises which is indicated by a falling ratio. On the flip side when the gold price declines, the metal tends to outperform the shares, which is represented by a rising indicator. Every now and again, usually at key turning points, we will see divergence in the ratio where the shares will outperform the metal as the metal falls or the metal outperforms the

shares as the metal rises. This divergence is significant and generally signals strength and weakness respectively. In the circled regions of the above chart we can see that a corrective **c** low coincides with an RSI 30 breach, a crossing of the 300 day moving average and a modest rise in the XAU. Using the Gold/XAU ratio, we can see confirmation of this as the ratio falls in conjunction with the gold price (blue circled region), indicating the gold shares are outperforming the metal. This is exactly what we want to see happen in order to confirm a turning point has been reached. Occasionally we can get false alarms as in 2006.

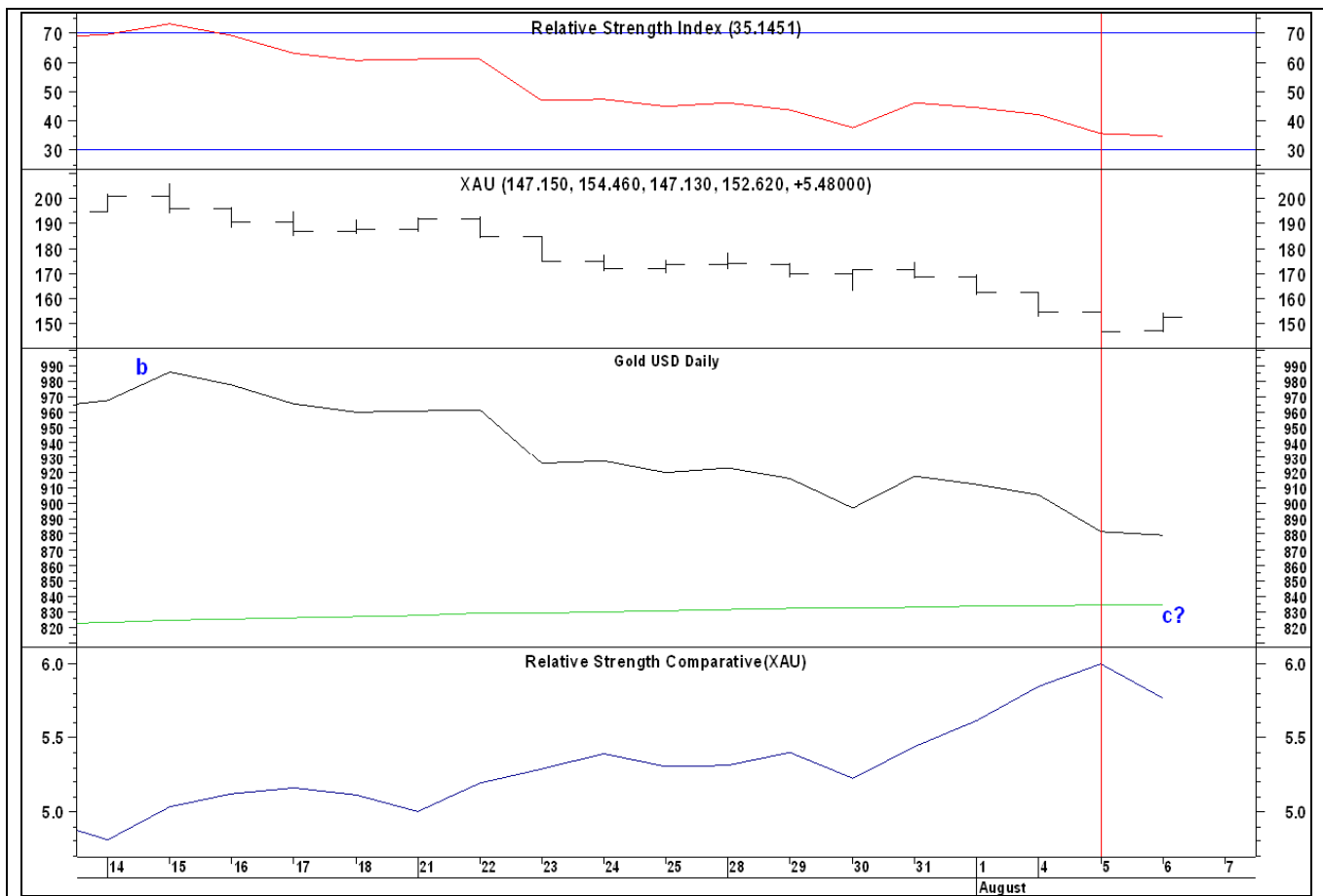
Gold 2006 Corrective Stage (b to c)



When we examine the same chart for 2006, the first thing we look for is a break of 30 in the RSI, signaled by the blue vertical line. Just prior to the low being made, we can see from the XAU that there is no significant outperformance in the gold shares, as the gold price fell to make the low. A look at the Gold/XAU ratio confirms this with only a slight outperformance of the shares just prior to the low being made (Slight dip in the index). With the following rally in the gold price up to the end of September, a look to the XAU again shows a flat performance. This is confirmed when we look at the Gold/XAU ratio which continued to rise to an eventual peak of about 4.8 (red vertical line). This divergence was a clear signal that something was up and that the low made in the middle of September was a false low. This was confirmed in early October when the gold price did indeed dip one more time to make the eventual **c** corrective low on the 300 day moving average (green line), which was confirmed by

corresponding strength in the gold shares. A look at the XAU shows the index rally slightly as the gold price dropped, represented by a sharp fall in the Gold/XAU ratio in tandem with the declining gold price.

Gold 2008 Corrective Stage (b to c)



Fast forward to today and we see we are getting closer to perhaps putting in that **b** to **c** low. The first thing we would like to see occur is the RSI breaking 30, which would need a further fall in the gold price to approximately US\$855 an ounce. A drop to the 300 day moving average (in green) is certainly not out of the question either and would be consistent with prior consolidation patterns. The thing to look for will be how the XAU performs as these milestones are met and the gold price puts in a low. If it significantly outperforms the gold price, as indicated by the XAU/Gold ratio, chances are we will have our next significant turning point. As we can see above, the gold shares have already started to outperform the metal slightly in the last couple of trading days with the Gold/XAU ratio dipping marginally. We will continue to monitor this closely over the coming days and weeks.

XAU



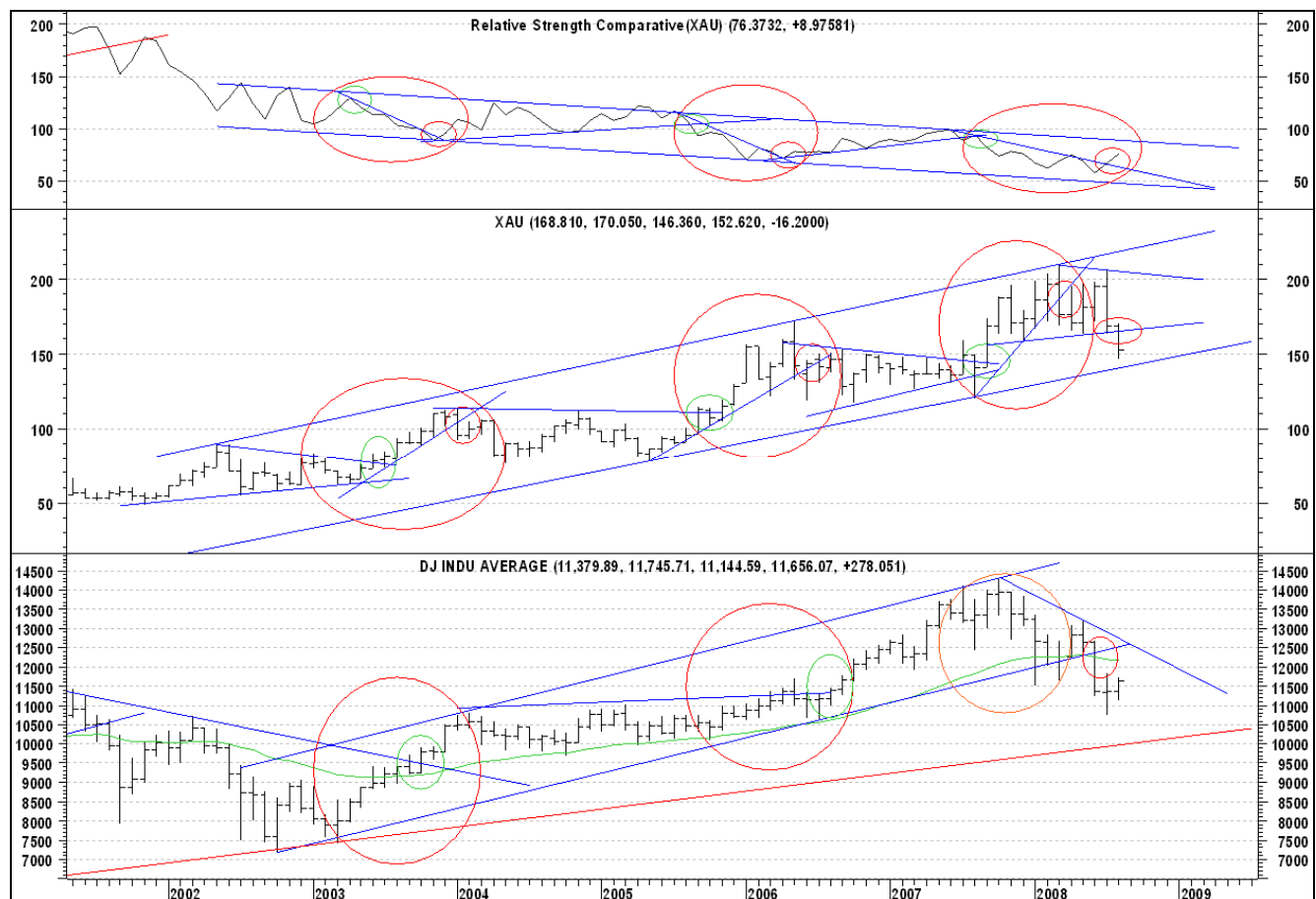
XAU GOLD RATIO

Key Dates	XAU/Gold	XAU	XAU Performance	Gold Price	Gold Performance	Net Position
19/11/2001	0.18	49.46		272.90		
28/05/2002	0.27	88.65	79.24%	325.50	19.27%	59.96%
26/07/2002	0.18	55.73	-37.13%	303.30	-6.82%	-30.31%
08/12/2003	0.28	112.21	101.35%	406.60	34.06%	67.29%
13/05/2005	0.19	78.99	-29.61%	420.70	3.47%	-33.07%
31/01/2006	0.27	154.19	95.20%	570.70	35.65%	59.55%
16/08/2007	0.19	125.99	-18.29%	662.25	16.04%	-34.33%
Current (07/08/08)	0.17	151.14	19.96%	871.50	31.6%	-11.64%

The XAU, for the month of July 08, rallied to hit 206 before slumping back to be 151 in early August 08. The XAU gold ratio again challenged the strong resistance at 0.21 but failed in its attempts to break out and has since fallen to challenge lows not seen since the beginning of this bull market back in 2000. The silver lining in this, if there is one, is that we are faced with an opportunity just as big and hopefully just as lucrative as that confronting precious metals investors back in 2000, despite the gold price, in nominal terms, being marginally below record levels.

If we return to our monthly chart of the Dow Jones versus the XAU below, we can see the consolidation triangle has broken down and we are close to long term support at about 140, which I expect will hold over the coming days and weeks as we hit the long awaited turning point. If we look at the top section of this chart, we can see the XAU has underperformed the Dow Jones briefly. I am expecting this to change dramatically over the short term, once the low has been locked in.

DOW JONES VS XAU (MONTHLY)



OUTLOOK

The two short term scenarios as I see it over the coming days and weeks:

Scenario 1: The XAU will start to outperform the gold price as we find a low for gold anywhere in the range of US\$835 (300 day moving average) to US\$855. Once this low is in place, I expect the XAU to rally strongly which will mark the long awaited next stage of this bull market. I support this scenario.

Scenario 2: The Dow Jones gets caught up in a violent downturn as it makes its way to 10,000, which drags the precious metals markets with it. There has been significant evidence of late that the precious metals market has detached itself from the mainstream markets and has resumed its familiar inverse correlation. For this reason, I don't support this scenario.

Intermediate Term Outlook:

Our next intermediate term target is 270 towards the end of 2008 or early 2009, on a successful break of strong resistance at initially 200 followed by 210 - 220.

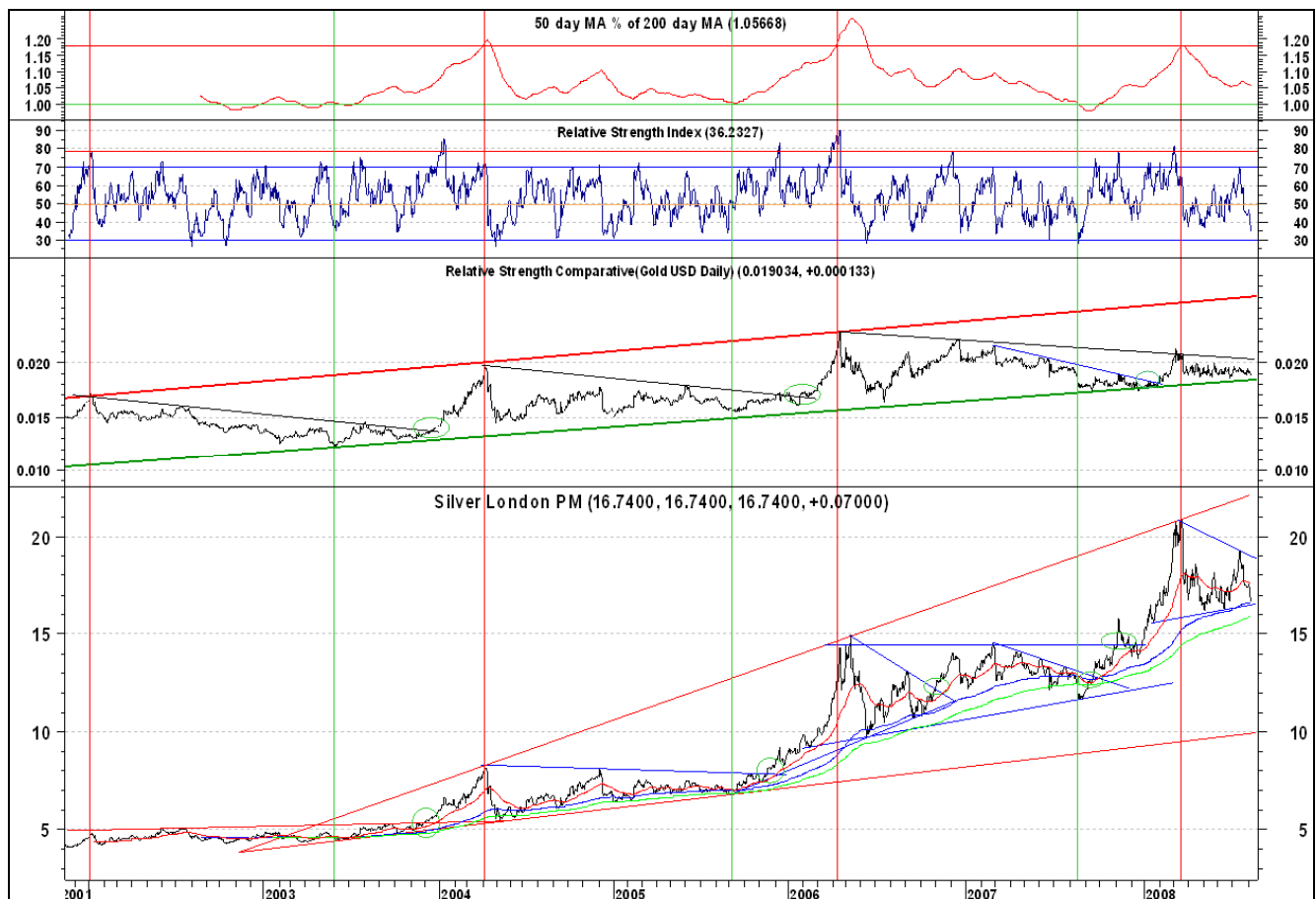
NORTH AMERICAN SILVER INDEX (NASI)



The NASI, for the month of July 08, has broken lower yet again as the precious metals sector has come under fire. The Relative Strength Comparative with silver continues to trend lower which is bearish for the short term. Like with the XAU, I would expect the NASI to find a definitive low in the coming days and weeks before rallying sharply.

The chart below shows the silver price continuing to consolidate in a triangle with resistance at US\$19.00 and support at US\$16.50. We have since broken the support of this formation with the next likely target being the 300 day moving average which is presently at US\$16.00. The Relative Strength Comparative with gold (middle section of the chart below) remains on support. The RSI is within striking distance of 30 which does indicate that our low is quite close. A drop down to the 300 day moving average at US\$16.00 would assist in achieving our RSI objective.

Silver Chart (\$US)



OUTLOOK

The two potential short term scenarios as I see it over the coming days and weeks:

Scenario 1: The NASI will find support at 5,000 – 5,500, before rebounding strongly once the corrective low is in place. The silver price will find a corrective low in the \$15.00 - \$16.00 range. I support this scenario.

Scenario 2: The Dow Jones gets caught up in a violent downturn as it makes its way to 10,000, which drags the precious metals markets with it. Like I mentioned earlier, there has been significant evidence of late that the precious metals market is starting to detach itself from the mainstream markets and has resumed its familiar inverse correlation. For this reason I don't support this scenario.

Intermediate Term Outlook:

The next intermediate term target for the NASI is still 10,500 - 11,000, followed by a longer term target of 13,000 - 15,000 towards the end of 2008 or early 2009. The next intermediate term target for the silver price is \$24.50 to \$26.50, again towards late 2008 or early 2009.

CLOSING COMMENTS

Well I don't need to tell you that it has been an incredibly rough journey for precious metal investors of late. If you are reading this, it is probably safe to assume that you have held steadfast and like me have strong convictions that this bull market in precious metals has much, much further to run. Those that have read my work on a regular basis know that I am not a writer that gets bullish lightly, but I am firmly of the opinion that the next monthly review I write will see us in much better times. The gold price is nearing an important turning point and I have discussed in detail what we need to see happen in order to have confidence that this turning point has been achieved. Hang in there and I hope to be writing in much better times 4 weeks from now. For anyone interested I write a free newsletter on the precious metals market which you can sign up for at The Global Speculator website below. Past issues of the newsletter may also be accessed.

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