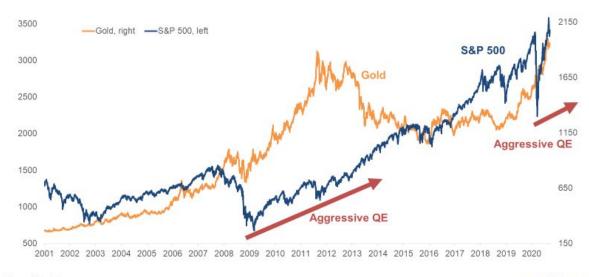


## The Gold Bubble: Trading Like a Risk-On Financial Asset

When I debate gold bugs, I have to eliminate a lot of my charts about the debt and financial asset bubbles. The culprit of course is unprecedented debt and a bubble with nearly unlimited quantitative easing. The gold bugs conveniently leave out gold.

So, I pull out the gold chart and ask, "Is this not in a bubble?"

## Gold Mostly Risk-On and Bubbled Like Stocks, Except Stronger In QE



Source: Yahoo! Finance

Gold bubbled 7.6 times from its low in 2001 to its peak in late 2011. It followed its usual index, the metals of the Commodities Research Bureau (CRB). Silver peaked earlier in April, and then gold followed in September. I called the top in silver as it was testing its last all-time high back at the CRB peak in 1980. Now, gold has rallied with stocks to as high as \$2,063.

The most noticeable trend with regard to gold is that it responds more strongly to large infusions of QE and even anticipates them, as I note in this chart. Hence, gold tends to rally when it sees an economic downturn, until deflation starts to threaten. It rallied into June 2008 while stocks were falling. But when Lehman Brothers started to fail, the gold bugs started smelling deflation, and then gold crashed 33% and silver 50%. Gold also rallied 5% into early April while stocks were crashing, but then it fell 12.5% from April 10 to 18.

Gold correlates most long term with inflation, and, hence, it is an excellent inflationary hedge. But I continue to warn that it is not a deflationary hedge. The next economic crisis should be deeper than 2008–2009 recession, and deflation will clearly be the theme once debt starts deleveraging. My forecast is for gold to retest its low of \$1,050 in late 2015 and likely go just a bit lower. My target range is \$950–\$1,050. Gold will hold up a lot better than the rest of the CRB commodities, even other metals like silver. The CRB fell by 70% at its low. I see an 80% drop. In comparison, gold will be down more like 50%. So, gold will do the best among commodities and metals assets.

Gold still looks like it has strength, now that it has broken the strong resistance at \$1,800. The next strong resistance comes from a trend line through its 1980 and 2011 highs at around \$2,200. That's my target and will likely be the high for gold for a long time. If it does break convincingly above that, then I don't have any targets, there is no resistance, and the central bankers are likely printing even more ungodly amounts of money.

In this case, the Fed would be joining in more strongly for the dollar to continue to fall, as it did in the last round.

## Harry

Got a question or comment? You can reach us at info@hsdent.com.