Gold Rush!!

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It has been a long time in the making, but we're at the end of 2023, and it is looking more and more like the price of an ounce of gold may potentially reach a new all-time high! The chart pattern tells the story *(See Fig. 1)*. Figure 1 is the WEEKLY chart of gold futures that starts on January of 2020 (left) and runs through December 22, 2023 (each vertical bar is one week of price action). You can see that it is teasing to break out above the 2,084 level.

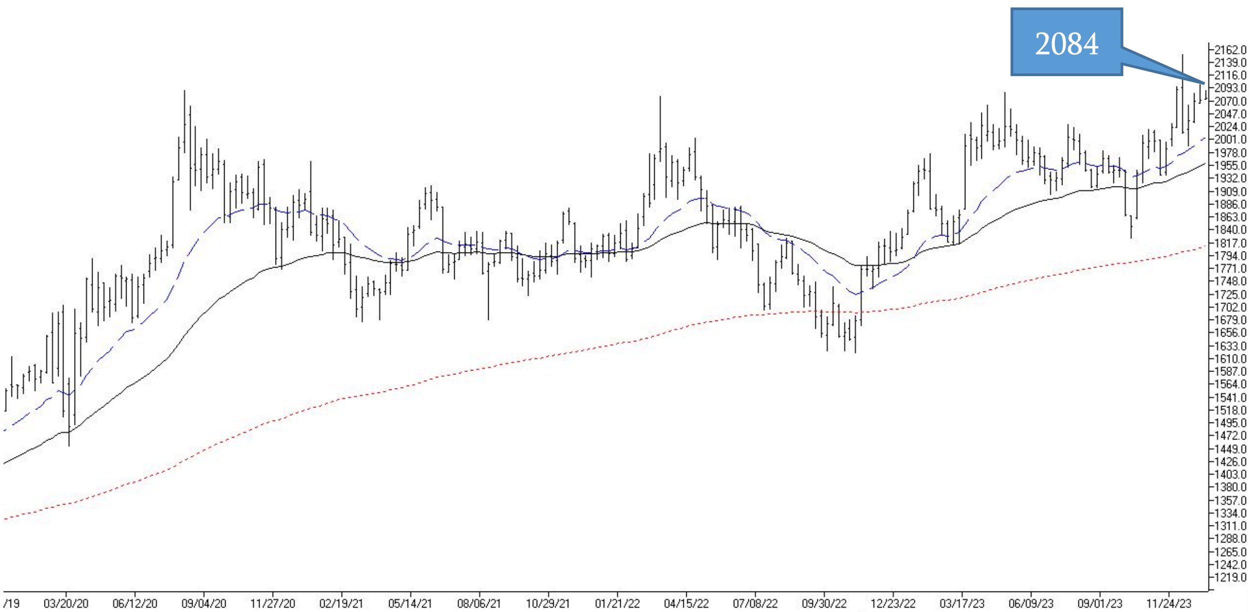

Figure 1: Weekly Gold Futures, Jan. 2020 through Dec. 22, 2023 ***(Source: Refinitiv)***

For a much better perspective over a much longer time span, Figure 2 is the 20-year chart where each vertical bar is one month of price action. The price of gold in the far left corner (January 2004) was $455 an ounce. Today, the February 2024 Gold Futures price sits at about $2,050, less than $40 an ounce below a break-out to new highs. In Figure 2, it is much easier to see (and appreciate) that we had a clear "first leg" of the bull market, traversing from that $455 level in 2004 all the way up to $1,924 an ounce by 2011. But then, we had to endure a major bear market cycle that saw gold drop all the way down to about $1,040 an ounce at the end of 2015 before turning the corner and heading upward again. We made it to about $2,084 for a new all-time high in mid-2020, but the failure to follow through with a more sustainable upward drift created a failed rally. Gold would go on to test this level three more times, once in early 2022, again in May of 2023, and now. Each successive pullback was higher than the one before it, and that is an important progression toward supporting a final break-out. If it occurs now, it may have the benefit of a much more substantial "base-building" period. But again, let's not count the proverbial chickens until they hatch. We look forward to the first quarter of the New Year, as that has traditionally been among the strongest quarters historically for gold performance.

Figure 2: Monthly Gold Futures, 2004 through 2023 ***(Source: Refinitiv)***

Market technicians often speak of a "three-legged bull market" cycle. The first leg is usually of good duration and is the transitional leg from a former major bear market cycle. The first leg is also referred to as the cycle of "disbelief" because the broad public is generally very skeptical of the underlying assets. The process of building an upward pattern often starts with the larger institutions, endowment funds, and large retirement fund accounts doing most of the heavy lifting as they build their long-term positions. The second leg follows the first major "correction." The second leg is typically the longest and strongest move of the entire cycle. It is also called the "Belief Stage," the one where the large institutions may continue to build their long-term positions, but where they could also be joined by some shrewd (but committed) smaller investors. A second leg often doubles the move of the first leg (or more) but also takes as long or longer to do so.

Somewhere ahead may come another major correction, but that generally clears the way for the final move in the full cycle, the third leg. This can be short in duration but also has the potential to be the largest move. Third legs often end in near vertical price action because it historically not only brings in the greatest number of market participants, but also may bring in the most speculative and high risk-taking players as well. Now the small investor, the speculators, and the big institutions are all on board. It is this third leg where investors have historically done well, **but only for those who have the discipline and good sense to get out** at some point before the party ends.

Looking at Figure 2 once again, you can see that gold is developing nicely along this route. There is a clear first leg followed by a major correction, and then the second leg is well on its way to development. Can we see $15,000 an ounce gold at some point? There is a recent article written by author/investor Jim Rickards of *The Daily Reckoning* on that very question. Here is how he calculates the math on that. For gold to go from $1,000 to $2,000 an ounce, it has to double, or go up 100%. That could take years. To go from $2,000 an ounce to $3,000 an ounce, it only has to go up 50%. From $3,000 to $4,000 requires a 33% lift; to $5,000 another 25%, and so on. $14,000 to $15,000 is only a 7.1% increase which, quite frankly, could be done in a few trading sessions. Of course, no one can predict the markets with any certainty. So there you have it. *[https://dailyreckoning.com/15000-gold/]*

The good news is that here at the beginning of 2024, gold has established a firm upward trend that, knock on wood, appears to have more room to run. Silver? Although silver is part of the precious metals complex, for reasons unknown, it remains locked in a price correction that has been going on for over a decade. See Figure 3, the 20-year chart of Silver Futures.

Figure 3: Silver Futures (Monthly), 2004 to Present ***(Source: Refinitiv)***

Silver rallied right along with gold between 2001 and 2011. It also "corrected" between 2011 and 2015, but that is where the two metals parted company. Gold went higher, silver stayed flat. There was a solid bump higher in 2020 that took silver from the mid-teens to the high-$20s range, but a break-out failed in 2021, and there's been no meaningful thrust upward since. Historically, there has always been a ratio, or "range," of silver to gold. Way back in the 1900s, it was assumed to be about a 15X ratio; that is, it took about 15 ounces of silver to equal one ounce of gold. By the latter half of the 20th century, it was more like about 40X, or 40 ounces of silver to one ounce of gold. Today? We are currently at a ratio of 82X, which is just about off the charts. It would not be a surprise to me at all if, somewhere in the not-too-distant future, silver moves upward to somewhat close that historic gap.

State Street Global Advisors did a "Gold Impact Survey" in September 2023, and the results found that only about 20% of U.S. investors have any gold investments in their portfolios, with Millennials holding a higher percentage than Boomers *(Source: https://www.ssga.com/us/en/intermediary/etfs/insights/gold-etf-impact-study-2023)*. For stock investors who are wondering about the wisdom (or lack thereof) of investing in the precious metals mining companies, I have another more interesting statistic for you. If you were to compare the size of only <u>the **two** largest publicly traded companies</u> (they are both technology companies) to the size of the <u>top 85 companies</u> in North America that mine precious metals, the two technology companies have a stock market value that is <u>in excess of 18,000 times greater than the miners</u>!!! I did the math. *(Source: https://companiesmarketcap.com/gold-*

mining/largest-gold-mining-companies-by-market-cap/#google vignette). Lastly, just to illustrate how out-of-favor precious metals investing is, just tune into the financial news channels at any time during the day and count how many times you hear them talk about precious metals, gold, silver, or any of the miners. I can save you the time - it is almost never.

There is just a complete lack of interest, despite the fact that I believe we are literally knocking at the door of a price breakout. That level of complacency could reap potential rewards in favor or those already invested in the miners should the masses redirect their attention somewhere ahead. If at some point soon we see a major breakout of gold to new all-time highs, it is possible that such an event could finally start to capture just a little more interest from the speculating community that, at present, seems to be totally fixated on technology. I have been saying for a long time that the precious metals complex isn't quite big enough to let everyone in at the same time without a likely price movement upward. We shall see.

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