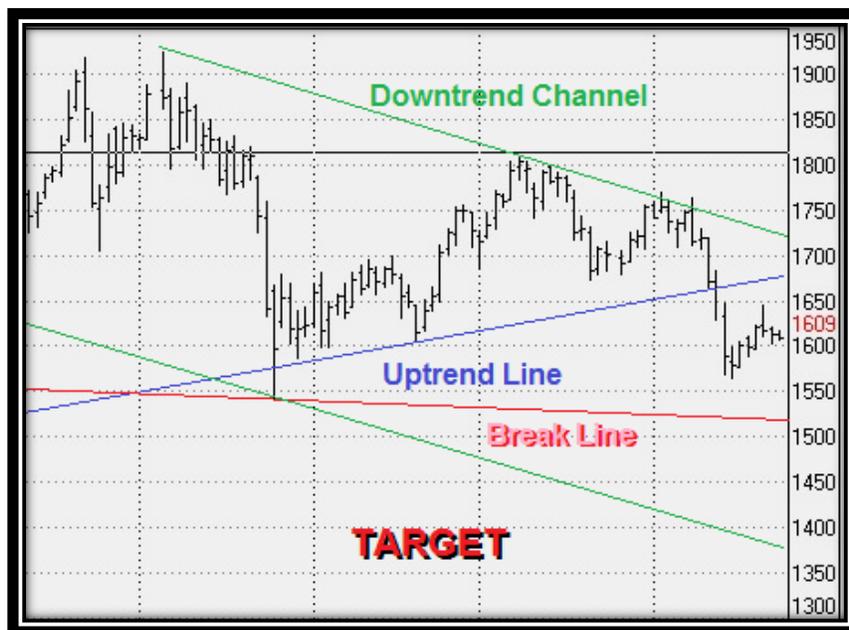


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Answering Your Questions

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GOLD & REVERSALS

Gold elected the Major Weekly Bearish Reversal at 1605 but held the Minor at 1599 before closing at 1600.1. In order to get immediate follow-through on a reversal, you normally have to execute it within just a few ticks. If you elect a Reversal substantially below or above, the market will do one of two things. It will normally move back to the Reversal and test it before resuming the trend. The second option is it will test typically the high of the move for that week.

In the case of Gold, closing about \$5 below the Major yet holding the Minor at 1599, set the stage for a retest first of at least the 1605 level or in this case more likely the high of the where the break began, which took place of the 14th at 1646.30. The reaction rally unfolded into the 21st reaching intraday 1646.0.

Immediate follow-through would be indicated **ONLY** by just electing the Reversal such as 1598.9-1598.0. Our first Monthly Bearish Reversal lies at 1465.70 and the next Weekly Bearish is at 1522.70. The major support begins at 1225 and our year-end number is 1434.

I may be the only long-term bullish analyst who is bearish on gold near-term. It is often hard to explain to people all the nonsense surrounding gold is just that – nonsense. Everything from fiat to the predictions we will head into hyperinflation are just so wrong, yet to say that guarantees 100 emails of pure hate.

Let me explain one more time why there is no inflation **NOW** despite the fact the Fed created almost \$3 trillion of elastic money. When you have almost \$60 trillion in debt, forget the derivatives and the unfunded liabilities, that contraction is far greater than the \$3 trillion the Fed created. At the very least, there is a bare minimum of \$15 trillion that evaporated in the deleveraging in debt on top of all the extreme numbers on derivatives. The efforts of QE1 and QE2 failed to stimulate and they failed to create inflation. We are suffering from **DEFLATION** at this time that is not yet over.

At the most extreme, gold could even collapse back to retest the 1980 high of \$875 if we were to see a Quarterly closing **BELOW** 1113. That would shift the real rally most likely into the 2015-2020 time slot. For those that were at the Conference, we are reaching that point of maximum entropy where everyone who thought of buying has bought, and in the correction is likely to shake the tree.

When will gold rally?
When we see new bond offerings go unsold in the USA. The critical place to watch is Europe and Japan. The details will be provided in the upcoming special reports after we get the closings for 2011.

