

Richard Russell's Thoughts on Gold & Silver

LEGENDARY INVESTOR AND FORECASTER RICHARD RUSSELL WEIGHS IN WITH HIS GOLD & SILVER FORECAST FOR 2007 AND BEYOND.

Today we email Richard Russell's thoughts on gold and silver, taken from his February 1, 2007 Remarks, which come with a subscription to Russell's Dow Theory Letters, \$250 a year.

Russell deals primarily with the stock market, but he became a gold bull in 2000, the timing of which illustrates Russell's insight into the precious metals markets. He was also a gold bull in 1970s. For more about Russell's Dow Theory Letters, visit www.dowtheoryletters.com.

February 1, 2007 -- Volatility in almost every area of the markets remains low, yet I feel an undertone of excitement. The excitement comes from the extremes that the world's markets have reached. China's stock market is rocketing higher as are most of the markets of Asia. Hong Kong and Singapore are "to the moon, Alice."

Something is happening, I can feel it. The world of economics and financials is shaking. I can sense the tremors. And I can sense the "excitement vibrations" particularly in the universe of precious metals -- gold, silver, platinum.

The following is mainly for new subscribers, but for you veteran subscribers, I think you'll find today's site of interest. Below we see a weekly chart of the Dow, and what is so interesting is that over the last nine weeks there has been so little actual movement in the Dow. What's going on? Too early to tell, but one thing is clear -- so far, there's very little "give" in the market. Will the Dow blow out of this tight structure, or will this strange action continue?

Money is sloshing around the planet at a frantic rate. Where's it coming from? Is it the central banks? Is it mainly Japan, which is still literally "giving money away"? Is it a case of extreme credit creation? Could it be the derivatives? Is it all of these? Is the fiat money system simply out of control? Questions, questions, and who's to answer?

In the meantime, the action of real, intrinsic money has become increasingly exciting. Below we see a P&F chart of GLD, an ETF proxy for gold. We see the large accumulation pattern that has formed since the May 2006 top. Now note those three Xs or tops which have appeared at the 64 level. Yesterday GLD closed at 64.83, just 17 cents below 65. If GLD hits the 65 box, this would be an important breakout for gold. It would also represent an important "buy signal." Note -- After I wrote this, GLD today did rally to fill the 65 box. The P&F "count" is now 70 or 700 for gold.

None of this action has been lost on silver. The P&F chart below shows SLV, the silver trust, which has also built a powerful base. Silver turned near-term bullish when the latest vertical row of Xs bettered the preceding row of Xs at the 132 box. A second and more powerful bullish signal will come if SLV can rally to the 142 box. That would put silver in line to attack its high at the 152 box. I see both gold and silver as "buys" here. If you already own both, this is a good time to add to your holdings.

The chart below tracks the ratio of silver to gold. Gold outperformed silver all during 2004 and most of 2005. But in October of 2005 the situation changed. Since October, 2005, silver has been stronger than gold. How long this new trend will last, obviously, no one knows. But it does certainly heighten the attractiveness of silver.

What about gold stocks? If you don't own any gold shares, here's my advice. Below we see a three-year chart of GDX, which is an Exchange Traded Fund, holding a large list of both blue chip plus speculative gold shares. I like GDX, and I have a position in GDX. Currently, GDX is in a massive triangle pattern. In other words, it's still in a consolidation formation. I'd jump the gun and buy GDX here, and add to my position on an upside breakout of the triangle at a price of roughly 41.50. As subscribers know, holding the actual precious metals is the safest position, but the leverage is in owning the stocks. If you must make a choice between the metals and the stocks, I would pick the metals. But if you are able, I would own both.

Question -- Russell, are you favoring the world of precious metals over common stocks at this time?

Answer -- Yes. In my opinion, stocks are "over-owned" and "over-loved" at this time. Conversely, gold and silver are under-owned and under-valued at this time. As a percentage of the holding in the portfolios of the mutual funds and hedge funds, the precious metals and gold and silver stocks don't even exist. This, gold and silver are under-owned as well.

As of today's close, one share of the Dow will buy 19.12 ounces of gold. That's down from a ratio of 43.8 set in July of 1999 -- a decline of 56%. As this ratio declines, I believe it will draw increasing attention to gold. I expect this ratio to sink to 5 or less in the years ahead. In other words, real intrinsic money, gold, is slowly gaining strength compared with financials, which are valued in terms of fiat money.

