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Technical Scoop November 19 2018
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Buffet Equalizers, Fading Long-term Bull, Thanksgiving and Santa Claus Rebound, Nascent Gold Bull

As we move into what we believe will be long and difficult bear market we decided to take a look at how the world's greatest investor has fared. Yes Warren Buffett. The results were quite interesting, even revealing. During the bull markets Mr. Buffett and his firm Berkshire Hathaway fared quite well when compared to the market. But in the high tech/dot.com crash of 2000-2002 and the housing bubble crash of 2007-2009 Mr. Buffett did no better or worse than everyone else. We show comparisons with gold and the S&P 500 and we show how his top six holdings fared.

Stock markets globally did not fare well this past week. The North American indices are becoming entrenched in a bear market as the short and intermediate term trends are now pointed down. The long-term monthly trend is still up but fading. Many individual stocks are in a bear market. Grant you final confirmation awaits once the February lows are taken out. The Canadian Dividend Strategy is designed to allocate to cash in a sustained downtrend and the strategy has begun its allocation to cash. But none of that might stop a Thanksgiving and Santa Claus rebound at this time. Gold and gold stocks, on the other hand, are starting to give strong signals that a nascent bull market is forming. After being a gross underperformer for the past seven years as the stock markets roared to new heights the two might be on the cusp of changing positions.

It was a week of new highs and new lows reflecting the growing volatility and the shift into a bear market. New highs were seen for palladium, natural gas and the US$ Index. But new lows were seen for the TSX Venture Exchange (CDNX), Bitcoin, the Euro, and, silver. But the new lows for the Euro and silver were accompanied with reversals as was the US$ Index. The two former went from down to up while the latter went from up to down. Silver also made an interesting divergence with gold. Bonds rallied on the week as the stock markets wavered. Have yields topped? Hard to say but some long term bonds are giving us interesting buy signals. The recession watch spread (page 19) was largely unchanged on the week but the trend remains to the downside. Our chart of the week (page 33) looks at gold from an inflation adjusted standpoint. It tells us an interesting story that the nominal price does not.

Have a great week!

DC

"Buy the Dips"—slang for purchasing stocks after a decline in prices
—Investopedia

"Don't be afraid to buy the dip"
—Warren Buffett, The "Oracle of Omaha," American business magnate, investor, philanthropist

"We simply attempt to be fearful when others are greedy, and to be greedy only when others are fearful"
—Warren Buffett

One of the most popular phrases you hear when market volatility increases both up and down is "buy the dip." Surprisingly, this is a mantra of famed investor, the "Oracle of Omaha" —Warren Buffett. He also advocates to not time the market. That is odd given that it appears to clash with "buy the dip." But then it is hard to argue with someone who amassed an $87 billion fortune. Buffett is also alleged to have said to buy good companies and hold them forever. However, that is somewhat of a myth as Buffett has sold companies largely because they were no longer good companies. One of his holdings, Coca-Cola (KO-NYSE), seems to have been in his portfolio forever.

Nonetheless, the phrase "buy the dip" is quite common, especially during a year like 2018 that has seen 10%-plus plunges followed by 10%-plus rises. Except unless you sold on the rebound you faced yet another 10%-plus plunge. Still, certain times of buying the dip have paid off. Think October 2002 (high-tech/dot.com bust bottom), March 2009 (housing crisis/Lehman Brothers bottom), August 2011 (EU/Greek crisis bottom), February 2016 (end of quantitative easing bottom), and November 2016 (Trump election panic bottom).

But sometimes it is not such a good idea to "buy the dip." Buying in April 2000 brought you a few months respite before the market went off the cliff in 2001. The markets fell hard following a top in October 2007 finding a bottom in March 2008. A decent rebound followed into May 2008. After that it was lights out and the financial panic of 2008.

Initially, at least, buying the dip in February/April 2018 looked good as the market added roughly 15% after that. The good times lasted until September and then, in a flash, the mini-crash in October 2018 wiped it all out. It was that wipe-out that sent us the signal there is an excellent chance the bull market that started in March 2009 may now be over. Why? Because the October collapse quickly wiped out the gains from April. Final confirmation would come once the market breaks the February 2018 low. A look at the TSX Composite and it did break below the February low as well as taking out the low of 2017. That is a strong signal that new bear market is underway. Since 1900, the average bull market has lasted just over two years. Since 1990, that has increased to 3.3 years (counts any correction of 10%-plus as a bear). Bear markets, on the other hand, have lasted only 1.1 years since 1900. Since 1990, the average has been only 10 months but one of them—the October 2007/March 2009 bear—wiped 54% off the market. However, keep in mind that is just the average.

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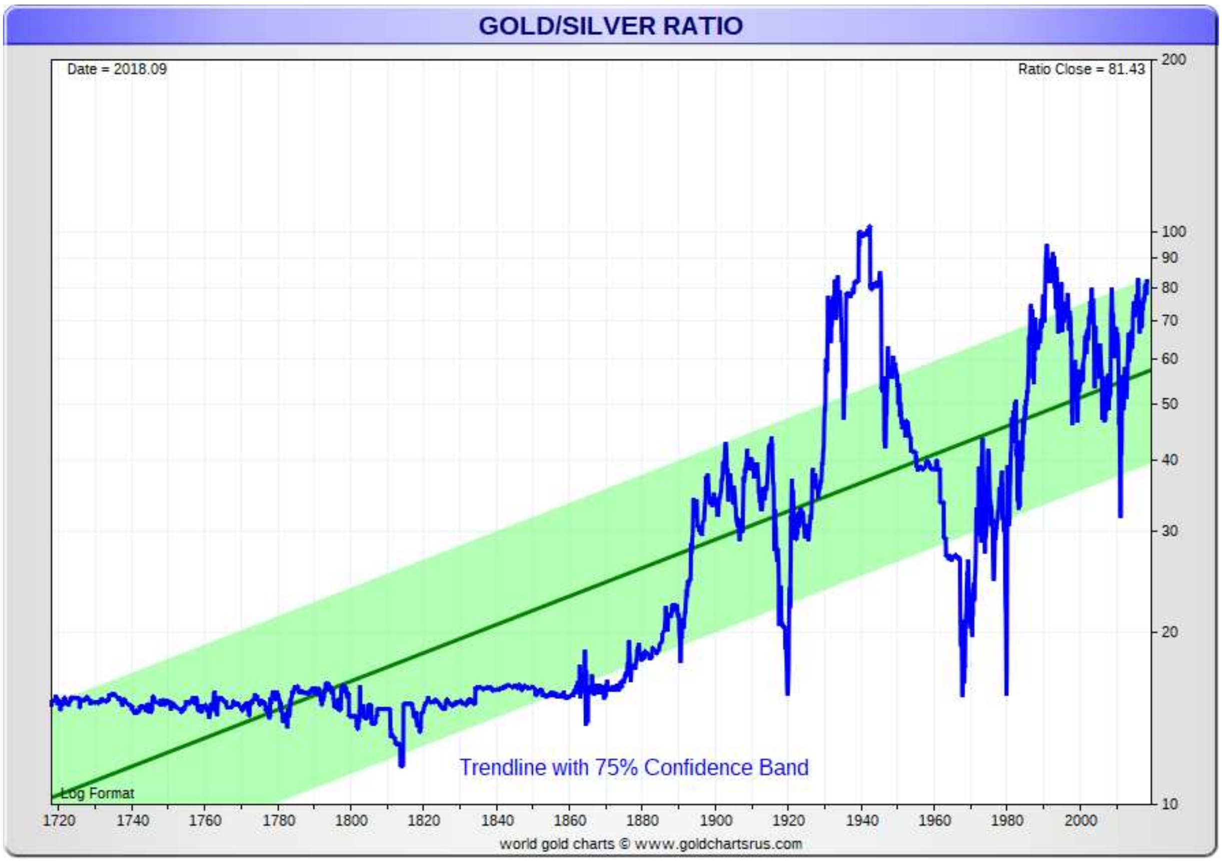
So, how has Warren Buffett fared? Well, pretty good, actually. His holding company Berkshire Hathaway (BRK.A) is up 482% since 2000 and despite a bad 2018 it is still up 10.6% year to date. The S&P 500 has only returned 2.3%. Of his top six holdings, only Apple (AAPL) and Coco-Cola (KO) have exceeded the return of BRK.A. The other four are actually down in 2018 and, in the case of Kraft Heinz (KHC), it is down a whopping 29%. Gold has done well since 2000 but as to 2018—well, it has not done so well. The lesson seems to be to throw 90% of your portfolio into BRK.A and the remaining 10% into gold. Gold is the ultimate hedge against government crises, deflation, inflation, geopolitical uncertainty, and currency devaluation, and has a long history of holding its value because, unlike paper assets, it has no liability.

The Warren Buffett Portfolio (Top Holdings)

	Performance January 1, 2000—present	**Performance January 1, 2018—present**
Apple Inc. (AAPL)	5869.0%	16.1%
American Express Co. (AXP)	190.8%	11.8%
Bank of America Corp (BAC)	52.8%	(4.8)%
Kraft Heinz Co. (KHC)	151.1%	(30.1)%
Coco-Cola Co. (KO)	164.3%	12.3%
Wells Fargo & Co (WFC)	300.3%	(10.2)%
S&P 500	86.2%	2.3%
Gold	322.3%	(6.6)%
Berkshire Hathaway Inc. A (BRK.A)	485.4%	10.4%
Berkshire Hathaway Inc. B (BRK.B)	496.8%	10.2%

Instead of gold, one should hold silver. Buffett has no use for gold. He says it sits around and does nothing. In other words, he doesn't believe gold is useful. Silver, on the other hand, has a myriad of industrial uses. It is used in medicine (bandages, catheters, healing agent for burns), water purification, and electronics—it is the best conductor of electricity so it shows up in computers, cellphones, and cameras, etc. Buffett has invested almost $1 billion in silver. Compared to gold, silver has been a laggard. Since 2000 it has gained 156%, while for 2018 it is down 16.2%.

Buffett may be onto something. The gold/silver ratio is currently at/near historical high levels. Our long-term chart of the ratio shows the current level has only been here a few times in the last century. Historically, the ratio had been observed in nature as around 16:1. The U.S. geological survey put it at around 17.6:1. In 1787, when the U.S. Constitution established gold and silver as legal tender, the ratio proposed by Alexander Hamilton was 15:1. In Roman times, the ratio was set at 12.5:1. The French in 1803 set the ratio at 15.5:1. Throughout the 20th century the ratio has averaged at least 47:1. Today it sits at around 85:1, suggesting that gold is grossly overvalued compared to silver. However, we have no thoughts or illusions that the gold/silver ratio is going to get back to 16:1. Based on gold currently trading just over $1,200, that would suggest a silver price of $75. Silver is currently trading at just over $14.



Source: www.goldchartsrus.com

Buffett's track record since 2000 appears to be quite good when compared to the broader market. But even Buffett goes through ups and downs. In other words, he is not immune to cycles that bring us both bull and bear markets. Berkshire Hathaway's A shares were down 51% during the high-tech/dot.com collapse of 2000-2002 and fell 54% during the 2008 financial crisis. That compares favourably (or unfavourably, depending on how one wishes to view it) with the broader market during those periods. Where Berkshire has outperformed is to the upside since the bottom in March 2009. Given we are now receiving a myriad of sell signals and signs that the market may have topped following a long bull market, Berkshire Hathaway would not be immune to a decline like the broader market. If that is the case, expect Berkshire to fall 30% to 50% over the next year or two along with the market. One would then have to be patient to "buy the dip." But holding silver right now would not be a bad idea as a hedge. This is a dip that should be bought.

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Source: www.stockcharts.com

Bitcoin Watch!

Source: www.coindesk.com

Has the next bubble burst for Bitcoin and the cryptos? As we long suspected, Bitcoin finally broke its trading range and the break was as expected to the downside. We admit we left open the possibility of an upside breakup but if it had occurred, we believe it would have been a head fake. But the break was to the downside, in keeping with a sector that is increasingly under scrutiny, plagued with hacks, scams, and frauds, and the reality is you can't really use it for much despite efforts to expand its use. The most notable uses are in the sin trades—gambling and pornography, two areas that could be open to money laundering.

After trading for what seemed like eons between $6,200 to $6,800, Bitcoin has fallen 13% + in the past week. Others have lost more. We saw Bitcoin Cash (BCH) down over 29% on the week. The result has seen the market cap of all cryptos fall to $184.6 billion this week, down from $212.3 billion the previous week, a drop of

$27.7 billion. Even the number of cryptos listed at Coin Market Cap (www.coinmarketcap.com) has fallen to 2,082, down from 2,093. Oddly, the number of cryptos listed at Dead Coins (www.deadcoins.com) also fell to 935 from 936. How dead coins can disappear is beyond us, but we guess it happens. Even the number of cryptos with a market cap of $1 billion or higher has fallen. It now stands at 14 vs. 15 a week ago. Crypto millionaires are swiftly becoming poor again.

The low on the week was just above $5,200. None of this stopped articles calling for a rebound. They would, however, be safer in calling for lower prices even if they were to get a bounce. The most interesting story we picked up is a lawsuit against Ripple by investors in XRP, currently the second largest crypto by market cap with a market cap of $19.1 billion. The lawsuit is a class action one, see https://www.coindesk.com/combined-class-action-lawsuit-against-ripple-moves-to-federal-court

Based on the triangle that formed before this breakdown, potential targets for Bitcoin could slip down to $3,800. A decline to that level would put Bitcoin down 80% from its all-time high seen in December 2017. Many cryptos have fallen 90% or more or just disappeared. Many on the list at Coin Market Cap, we believe, will also just disappear and take their investors with them. But then, what was expected by something that was started too fast, with apparently little thought that regulators would ever look at it or that the sector would not be a great vehicle for scams, hacks, and money laundering. The most bizarre was the idea that Bitcoin might one day replace the U.S. dollar.

Source: www.stockcharts.com

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MARKETS AND TRENDS

			% Gains (Losses)		Trends		
	Close Dec 31/17	Close Nov 16/18	Week	YTD	Daily (Short Term)	Weekly (Intermediate)	Monthly (Long Term)
Stock Market Indices							
S&P 500	2,673.63	2,736.27	(1.6)%	2.3%	down	down (weak)	up (topping)
Dow Jones Industrials	24,719.22	25,413.22	(2.2)%	2.8%	down (weak)	up (weak)	up (topping)
Dow Jones Transports	10,612.29	10,583.60	0.6%	(0.3)%	neutral	down (weak)	up (topping)
NASDAQ	6,903.39	7,247.87	(2.2)%	5.0%	down	down	up (topping)
S&P/TSX Composite	16,209.13	15,155.50	(0.8)%	(6.5)%	down	down	neutral
S&P/TSX Venture (CDNX)	850.72	**624.51 (new lows)**	(4.1)%	(26.6)%	down	down	down
Russell 2000	1,535.51	1,527.53	(1.4)%	(0.5)%	down	down	up (topping)
MSCI World Index	2,046.47	1,810.56	(1.4)%	(11.5)%	down	down	neutral
NYSE Bitcoin Index	14,492.18	**5,553.94 (new lows)**	(12.2)%	(61.7)%	down	down	down
Gold Mining Stock Indices							
Gold Bugs Index (HUI)	192.31	148.56	3.6%	(22.8)%	up (weak)	down	down
TSX Gold Index (TGD)	195.71	165.69	2.3%	(15.3)%	up (weak)	down	down
Fixed Income Yields/Spreads							
U.S. 10-Year Treasury yield	2.40	3.08	(3.5)%	28.3%			
Cdn. 10-Year Bond yield	2.04	2.37	(5.6)%	16.2%			
Recession Watch Spreads							
U.S. 2-year 10-year Treasury spread	0.51	0.27	8.0%	(47.1)%			
Cdn 2-year 10-year CGB spread	0.36	0.15	(11.8)%	(58.3)%			
Currencies							
US$ Index	91.99	**96.33 (new highs)**	(0.4)%	4.7%	up	up	neutral
Canadian $	0.7990	0.7600	0.3%	(4.9)%	down	down	neutral
Euro	120.03	**115.04 (new lows)**	1.5%	(4.2)%	neutral	down	neutral
British Pound	135.04	128.28	(1.1)%	(5.0)%	down	down	down
Japanese Yen	88.76	88.70	0.9%	(0.1)%	neutral	down	down (weak)
(weak							
Precious Metals							
Gold	1,309.30	1,223.00	1.3%	(6.6)%	neutral	down	down (weak)
Silver	17.15	**14.38 (new lows)**	1.7%	(13.2)%	down	down	down
Platinum	938.30	846.60	(1.1)%	(9.8)%	up (weak)	down (weak)	down
Base Metals							
Palladium	1,061.00	**1,154.60 (new highs)**	5.2%	8.8%	up	up	up
Copper	3.30	2.80	4.5%	(15.2)%	up (weak)	down	up (weak)
Energy							
WTI Oil	60.42	**56.68 (new lows)**	(5.8)%	(6.2)%	down	down	up
Natural Gas	2.95	**4.27 (new highs)**	14.8%	44.8%	up	up	up

Source: www.stockcharts.com, **David Chapman**

Note: For an explanation of the trends, see the glossary at the end of this article.
New highs/lows refer to new 52-week highs/lows.

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Source: www.stockcharts.com

We continue to believe that we have entered a new emerging bear market. Markets didn't fare too well this past week. The S&P 500 fell 1.6%, the Dow Jones Industrials (DJI) was off 2.2%, while the NASDAQ fell 2.2%. The Dow Jones Transportations (DJT) surprised with a gain of 0.6%, but that was an exception. The small cap Russell 2000 fell 1.4% and is now down 0.5% on the year. The other indices cling to gains, even as short-term trends are pointed down while intermediate term trends are turning down. Only the long-term monthly trend remains up, but weakening. Here in Canada, the TSX Composite fell 0.8% supported by gains in the materials and golds. The TSX Venture Exchange (CDNX) continued its woes, hitting new 52-week lows and losing 4.1%. Overseas, the London FTSE 100 was off 1.3% as Brexit woes continued, the Paris CAC 40 fell 1.6%, while the German DAX dropped 1.6% and is now down 12.2% on the year. In Asia, China's Shanghai Exchange (SSEC) was a winner, up 3.1% as it continued a recent bounce, but it remains down 19% on the year. Tokyo's Nikkei Dow (TKN) didn't hold up, losing 2.6% and is down 4.8% on the year.

We believe now that the S&P 500 topped on October 3, 2018 at 2,940.91. The index is now down 7% from that high and was at one point down 11.5%. We believe the S&P 500 fell in five waves to the low seen on October 29 at 2,603. The rebound seen since may not be finished but right now that is inconclusive. The question is, is the current pullback merely the b wave of an abc correction or has the B or 2 wave completed and we are now working on wave C or wave 3, depending on how one counts it. Thursday saw a nice reversal in the market and

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we followed through to the upside on Friday, giving us some thoughts that the market has further rally at this point. Resistance is seen at 2,800 to 2,820. Only above 2,900 would we entertain any thoughts of new highs. If, as we suspect, this is a B wave or 2 wave these waves can be tricky. New lows below 2,670 would raise the spectre of new lows below 2,603. We are in a period that often sees seasonal strength, but we are under no illusions, given that a bear market is emerging.

Source: www.stockcharts.com

This is the S&P North American Technology Index. It too appears to have completed five waves to a top in September. As with other indices it has broken below its 200-day MA and, as well, it broke the uptrend line from the February 2016 low. Technology has been a key component in the rise of the S&P 500, so this index breaking down is a sign of deeper trouble.

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Source: www.stockcharts.com

The same can be said for the Semiconductor Index (SOX). It topped in March, months ahead of the Technology Index and the S&P 500. It broke firmly from a clear topping pattern and is also trading below its 200-day MA and under the uptrend line from the February 2016 low. Some further gains are possible here but the story is the same—sell rallies.

Source: www.stockcharts.com

The NASDAQ continues the bear story as it topped in August and then fell sharply in October. The NASDAQ is off 11% from its high, and at one point was down 15% from the August high. Both its short and intermediate term trends are pointed down. The long-term monthly trend is holding up but weakening. But, as we have pointed out, bear markets are not about going straight down. They twist and turn and capitulation usually only comes at the end, one that could take two years to achieve. The green trend line is the uptrend from the February 2016 low and the NASDAQ is one of the few that has not yet broken that uptrend.

Source: www.stockcharts.com

Apple (AAPL), the trillion-dollar company, is no longer a trillion-dollar company. Today it is a mere $918 billion. In many respects, Apple as the leader of the FAANGs, has held up remarkably well. Warren Buffett wants to buy it on dips. But we like that 4-year MA way down at $142 as a much better entry point. If we are in, as we suspect, an emerging bear market, testing the 4-year MA is quite normal. Many including the indices break the 4-year MA. But outperformers merely test it but don't break it. Apple is currently clinging to the 40-week MA and the uptrend line from the February 2016 low. A break of that level currently near $195 could start the move towards the 4-year MA.

Source: www.stockcharts.com

The woes of the TSX Composite continue. The TSX is down 6.5% on the year and, at one point, was down 12% from its all-time high seen in July. It is trading well below the 200-day MA, a level now that should act as resistance. Further resistance can be seen up to 16,000. We believe in any rebound that should act firmly as resistance. If that was a head and shoulders top, the projection was for a decline to 15,300. The low, so far, is 14,640. A secondary target would have been 14,880. Given that we breeched both of these levels suggests to us that any corrective wave should be limited before we resume the downtrend and new lows below 14,640. At the recent low, the TSX Composite was making new 52-week lows. All of this confirms our thoughts we are in an emerging bear market.

Source: www.stockcharts.com

The TSX Financial Index (FS) is a key component of the TSX Composite. It contains all of the big six banks (BMO, BNS, RY, CM, TD, and NA). That was a pretty broad topping pattern seen on the index throughout 2018. FS topped in January and the rebound rally did not reach that level again. It eventually broke down under the topping pattern. The projection is for a decline to at least 250. Longer term support comes in around 270. New lows below 279 would probably send FS down towards 250. This is not a pretty chart. Only regaining back above 300 might change this scenario.

Source: www.stockcharts.com

If the German economy is supposed to be the leader in the EU, then the German DAX Index is not reflecting that. The index topped back in January 2018 and since then is down about 17%. At one point, it was down about 19%. The woes of Germany's largest bank, Deutsche Bank (DB), are well known. Some even believe it is vulnerable to a Lehman Brothers collapse. We don't believe that will happen as Deutsche Bank is just too important to the German economy and, while it does have huge derivatives, exposure it is not, overall, enough to tip it over. Worries about Italian banks and contagion with other banks in the EU are real, but Italian banks have bigger exposure to Spanish banks. Still, this is an ongoing bear market that has nowhere near run its course. All of the MAs are pointed down. We could argue that the DAX made a huge head and shoulders top. The target is around 10,000. That is still a way off.

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Source: www.stockcharts.com

This is the NYSE bullish percent index. It is not doing well. The NYSE has broken down under its rising trend line from the February 2016 low. The index is around 41% at this stage and nowhere near the lows seen in February 2016. This still has considerable room to move lower, and it probably will.

Source: www.stockcharts.com

The 10-year U.S. Treasury note fell in yield this past week to 3.08%, down from 3.19% the previous week. Is it possible that the Treasury yields have topped? The drop was a surprise and a move lower towards that trend line would take out the previous low of 3.08%. The trend line appears to be around 3.03%, and if that breaks it could suggest that the long rise in yields from September 2017 at 2.05% is over. It would mean that the 10-year falls short of our target of 3.45%. Grant you, this could be a correction to the recent up move and there could remain another good up move in yields. Key is holding that 3.03% level and especially holding above 3%. We’re not sure the rise is over yet, but we’ll be watching that 3% level closely.

Recession Watch Spread

Source: www.stockcharts.com

Our recession watch spread (2 year–10 year) keeps waffling around. This past week it closed at 27 bp, up from 25 bp the previous week. It doesn't change our outlook that the 2–10 spread should continue its inexorable march towards turning negative over the next several months. Signs continue that the U.S. economy could be slowing. This is particularly true in housing starts and sales, a key component of the economy. This past week the Philly Fed reported a lower level at 12.9 for November vs. 22.2 for October, while the NY Empire State Index came in mildly higher for November at 23.3 vs. 21.1 for October. Retail sales were also stronger than expected, but industrial production for October slipped. Capital flows into the U.S. are also sliding and that is not necessarily a good sign. We expect the 2–10 spread to continue to decline over the next several months and we are still targeting sometime in 2019 for the spread to turn negative. The Fed is widely expected to hike the key Fed rate another 25 bp in December. Some believe that the 2–10 spread is not that important anymore because of the long period of Fed interest rate suppression keeping rates at zero (ECB and the BOJ went negative), and now the Fed's period of QT where they are mostly allowing maturities to run off and not replace them. So, the belief is that the Fed interest rate suppression has distorted the 2–10 spread and it is not as meaningful.

Source: www.tradingeconomics.com, www.canada.ca/en/treasury-board-secretariat.com

Here is the Canadian 10-year Government of Canada bond. It plunged (in yield) this week, taking out that low of October 26, 2018 at 2.39% as it closed at 2.37% this past week. The trendline up from the low seen in June 2017 could soon fall. If that's the case, then it would signal a further rally in yields and make owning longer dated bonds attractive at these levels.

Source: www.stockcharts.com

We haven't shown a chart of the iShares 20+ year Treasury Bond ETF (TLT) for sometime. The TLT is price-based, not yield-based (bond prices move inversely to yields) so it gives us a somewhat different perspective. We note that the TLT made a low, then rallied, and then made a slightly lower low before rebounding once again. The TLT appears poised to take out the October 26, 2018 high of 115.04. Once it does, it could be signaling that a low is in. With signs (still somewhat remote) that the U.S. economy could be slowing, the TLT and other longer dated bonds in the U.S. and Canada could become targets for more buying.

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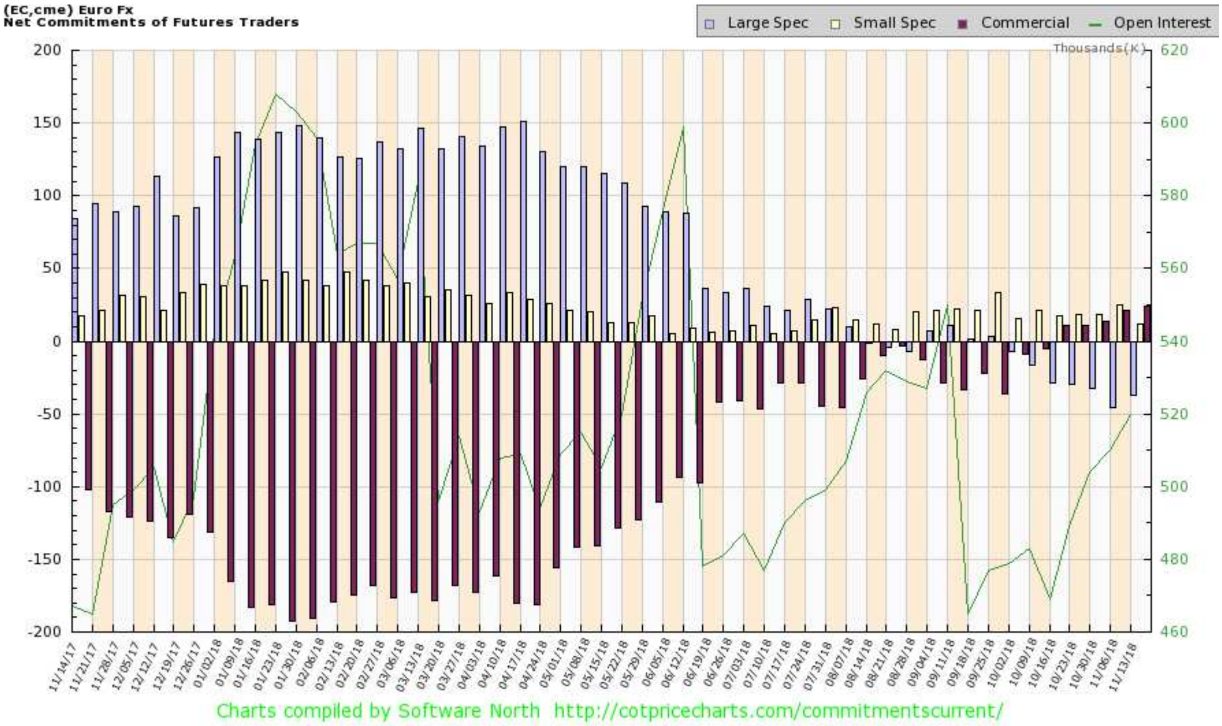
Source: www.stockcharts.com

Has the US$ Index topped? This past week the US$ Index made new 52-week highs, then reversed and closed lower on the week, off 0.4%. Its counterpart, the euro gained 0.7% after making new 52-week lows, while the Brexit-beaten pound sterling fell 1.1%, the Japanese yen gained 0.8%, while the Canadian dollar was up 0.3%. The US$ was down a small 0.03% with the Chinese yuan. But key here was making a new 52-week high at 97.53, then closing off that high by 1.2%, losing 1.20 points. It was not a key reversal week as the low of the previous week at 95.49 was not breeched. The US$ Index has support down to 95.40 and 95. Below those levels the decline could accelerate. It was interesting to read that Elliot Wave International (www.elliottwave.com) believes the US$ is at the "forefront of a multi-month decline." We don't disagree and have been anticipating that could well happen. Bullish sentiment towards the US$ hit over 90% recently and that is at/near record highs. Key long-term support is at 93.25, but below that level a major bear market in the US$ Index should get underway. The deteriorating political situation in the U.S., along with the U.S./China trade wars, the global tensions with Russia/China, and a slowing U.S. economy are all factors.

Source: www.stockcharts.com

The euro FX made new 52-week lows this past week, and then reversed and closed higher. This is a positive development. It is, of course, the mirror image of the US$ Index because the euro makes up 57.6% of the index. The reversal this past week could constitute a key reversal week as the euro made new 52-week lows, then reversed, putting in an outside week (lower low, higher high) and closed higher. Follow-through is important so we'd like to see further gains this coming week. The first major point resistance to note is the 118.15 high seen in September. Key, of course, is that the euro does not go back down. A move back below 113 would be negative, but possibly only temporary.



	Large Speculators				Commercial				Small Speculators			Open
	#	Long	Short	Bullish	#	Long	Short	Bullish	Long	Short	Bullish	Intrest
10/16/18	205	140,817	170,161	45%	162	239,573	227,660	51%	78295	60,864	56%	469,299
10/23/18	206	149,585	179,889	45%	162	251,035	239,190	51%	79561	61,102	57%	489,829
10/30/18	210	157,691	190,353	45%	159	253,543	238,938	51%	83536	65,479	56%	504,458
11/06/18	197	148,973	195,816	43%	158	261,621	240,069	52%	88908	63,617	58%	510,193
11/13/18	205	161,860	198,879	45%	163	268,439	244,051	52%	79468	66,837	54%	520,240

Source: www.cotpricecharts.com

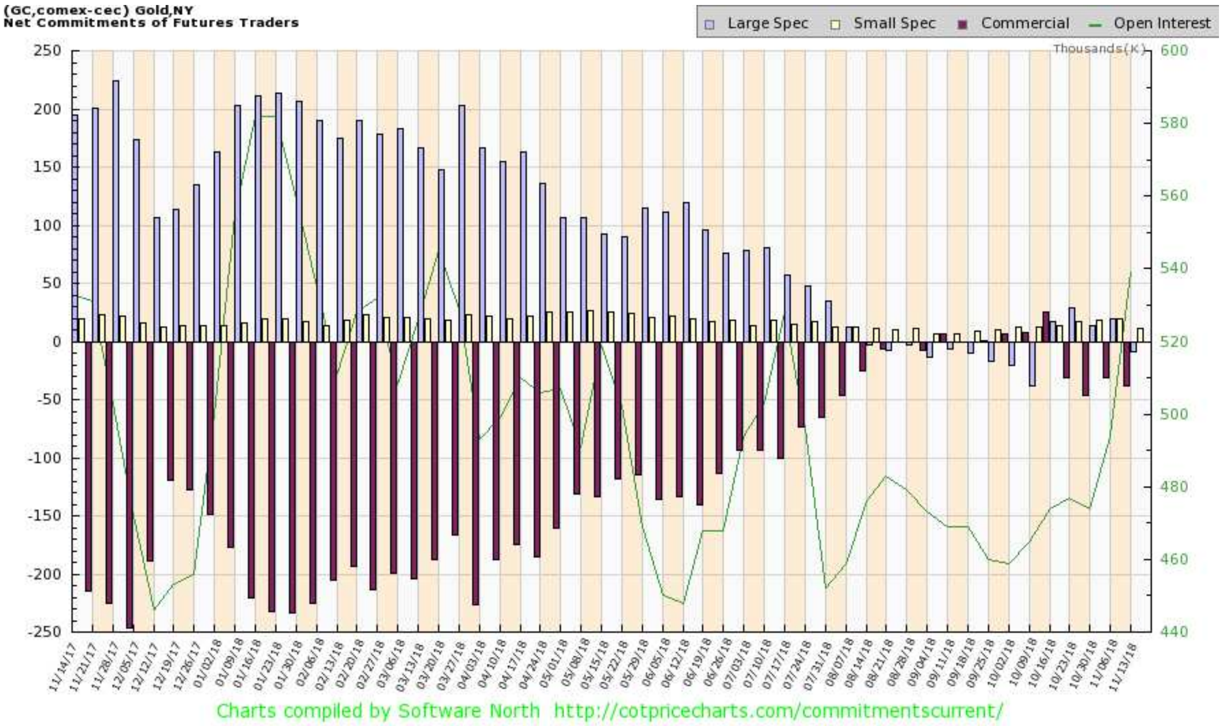
It is interesting to note that the commercial COT for the euro is as bullish as we have ever seen it. This past week the euro commercial COT remained steady at 52%. It is rare to see it over 50%—and surprising given the travails in the euro zone, particularly between Italy and the EU. This bullish report was worth pointing out.

Source: www.stockcharts.com

Gold was plunging in the early part of the week, threatening to break back under $1,200 (low was $1,197), but then it reversed and closed the week up 1.2%. That still leaves gold down on the year by 6.6%, but the reversal was encouraging. As gold plunged to $1,197 this past week, the bullish sentiment fell to 7%. That's not a record low, but it's close enough. The subsequent rebound carried gold up to $1,226 before settling back. We expect higher prices now this coming week given the bullish reversal. A move above the recent high at $1,246 could target up to $1,295/$1,300 on this next move. Key will be making new highs above $1,246. If this is correct, gold could be in the early stages of our long-awaited intermediate C wave. The benchmark for lows remains December 2015 at $1,045. A strong rally followed, topping in July 2016 at $1,377. That has remained untouched since, although a few attempts were made in 2017 and early 2018. We are moving into a strong seasonal period for gold and that should help. We have noted that we believe we are making an important 34-month cycle low as well, coming as it has roughly three years after the December 2015 low. This is another sign that a strong rally could follow. If we are correct on the C wave, we could carry to $1,500 and even higher on this move, a move that would occur over a period of months. Certainly, the conditions are there and if the US$ Index has topped as we suspect, that will be a major factor in propelling gold prices higher. A move back under $1,200 would be negative and put the scenario described on hold, but it would not negate it.

Source: www.stockcharts.com

We love to see divergences at key times and this past week's divergence between gold and silver may be quite important. As one can see, gold prices have been making higher lows since their August low of $1,167. Silver, on the other hand, made a lower low, first in September at $13.97, and then this past week it made another lower low at $13.86. The fact that silver found no sustained selling on new lows is a sign in itself that an important low may have been made.



	--- Large Speculators ---				------ Commercial ------				-- Small Speculators --			Open
	#	Long	Short	Bullish	#	Long	Short	Bullish	Long	Short	Bullish	Intrest
10/16/18	361	189,200	171,533	52%	106	166,143	198,139	46%	47797	33,468	59%	474,418
10/23/18	371	192,578	163,190	54%	108	163,414	209,934	44%	47890	30,758	61%	477,832
10/30/18	356	168,754	155,560	52%	107	165,857	197,062	46%	48870	30,859	61%	474,941
11/06/18	348	169,141	150,115	53%	110	173,897	212,033	45%	48615	29,505	62%	494,911
11/13/18	351	168,416	177,663	49%	115	201,354	203,177	50%	46932	35,862	57%	539,520

Source: www.cotpricecharts.com

The gold commercial COT jumped nicely this past week to 50%, up from 45% as the commercials appeared to cover on the recent plunge in gold prices. Long open interest leaped by just under 27,000 contracts while short open interest fell by about 9,000 contracts. The jump in longs tells us that there was fresh buying going on during this plunge, a very bullish sign. It wasn't primarily short covering. The large speculators (hedge funds, managed futures, etc.) fell to 49% from 53% as they added roughly 27,000 contracts to their short position. They continue to hold record shorts. This is a very bullish report.

Source: www.stockcharts.com

Silver put in a great reversal this past week, plunging to new 52-week lows, and then reversing and closing higher on the week with a gain of 1.7%. Bullish sentiment had fallen to under 9%, a level from which silver has recovered in the past leading to strong rallies. There is still work to be done, but we wouldn't be surprised at a move this week back towards the previous high of $14.95. Once over $15, further bullish potential exists. The benchmark over the past three years is the $21.23 high seen in July 2016. There is considerable congestion resistance between $15.65 and $18 to $18.50. But once through that zone, a move to new highs could well take place. Only falling back under $14 might put a hold on this scenario. Overall, we believe an important low is in place.

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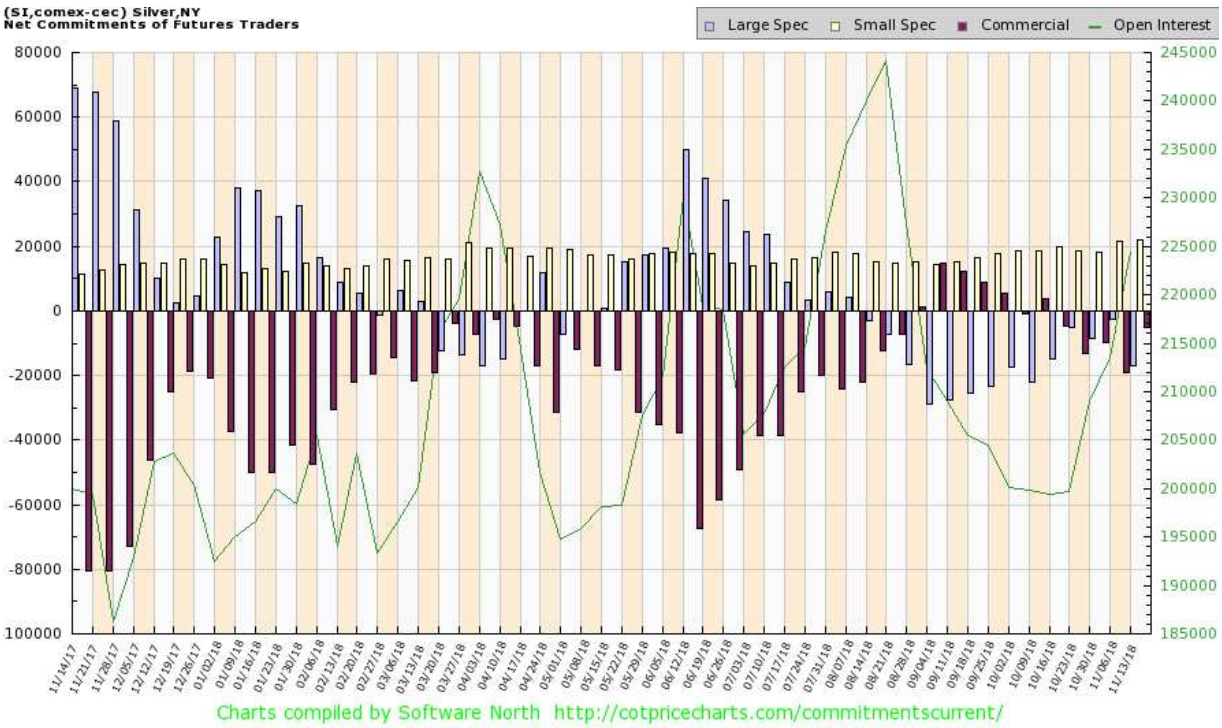

	--- Large Speculators ---				------ Commercial ------				-- Small Speculators --			Open
	#	Long	Short	Bullish	#	Long	Short	Bullish	Long	Short	Bullish	Intrest
10/16/18	219	72,203	87,030	45%	80	77,622	82,446	48%	33920	14,269	70%	199,398
10/23/18	218	75,016	80,195	48%	78	76,579	89,841	46%	32819	14,378	70%	199,746
10/30/18	235	76,053	84,523	47%	79	82,398	92,158	47%	33724	15,494	69%	208,976
11/06/18	223	73,117	75,587	49%	78	78,778	98,069	45%	34204	12,443	73%	213,566
11/13/18	243	74,618	91,763	45%	77	82,163	87,110	49%	36705	14,613	72%	224,346

Source: www.cotpricecharts.com

Given this past week's plunge in silver prices, it was not surprising to discover that the commercials were active in covering their shorts. The commercial COT jumped nicely to 49% from 45% the previous week. Long open interest was up just over 3,000 contracts while short open interest fell about 11,000 contracts. The large speculators COT fell to 45% from 49% as managed futures, in particular, remain with record shorts. This is as about as bullish as it gets.

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Source: www.stockcharts.com

The TSX Gold Index (TGD) tested the breakout line of the small head and shoulders this past week, and then reversed, moving sharply higher. The TGD gained 2.3% on the week while the U.S-based Gold Bugs Index (HUI) jumped 3.6%. The TGD now appears to be poised for higher levels and the recent high of 175 should fall on this move. There is considerable resistance up to 178, but we were buoyed by the TGD bouncing off breakout trendline support and finding some stability just under the turning up 50-day MA. This has been a miserable sector this year, but, as we have seen in the past, fortunes can change suddenly. Yesterday's dog becomes today's star. Numerous individual gold mining shares are seeing buoyant prices for the first time in a while. But there remains considerable work to do. New highs above 175 could target 195 in the next up move.

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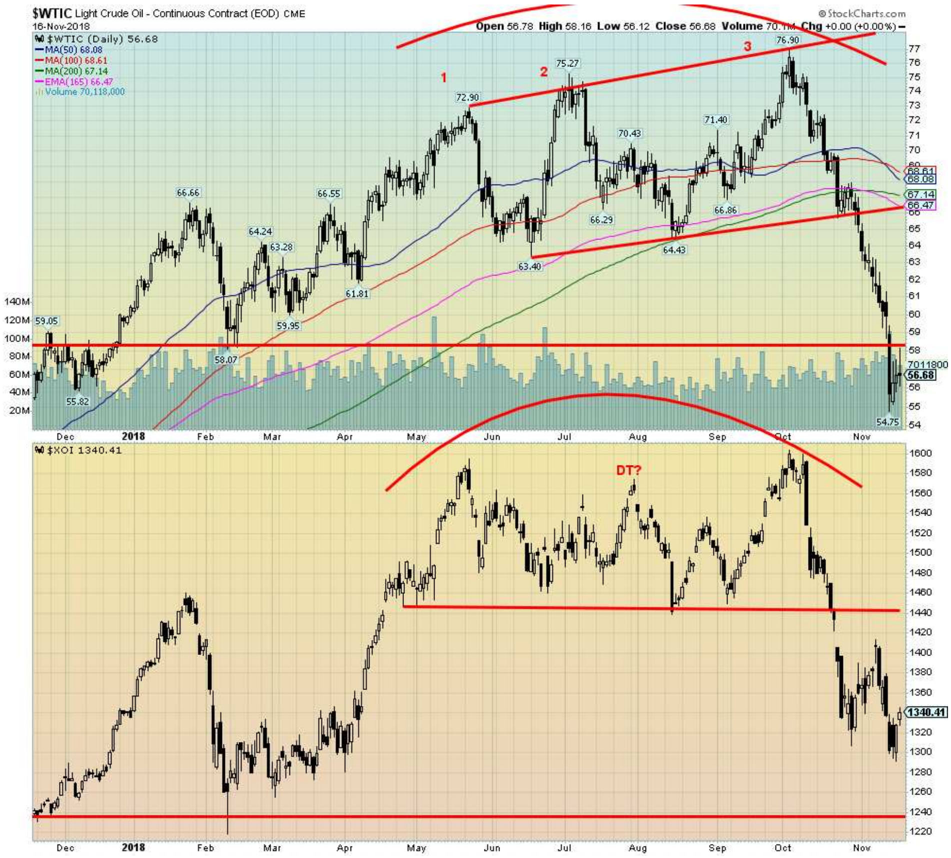


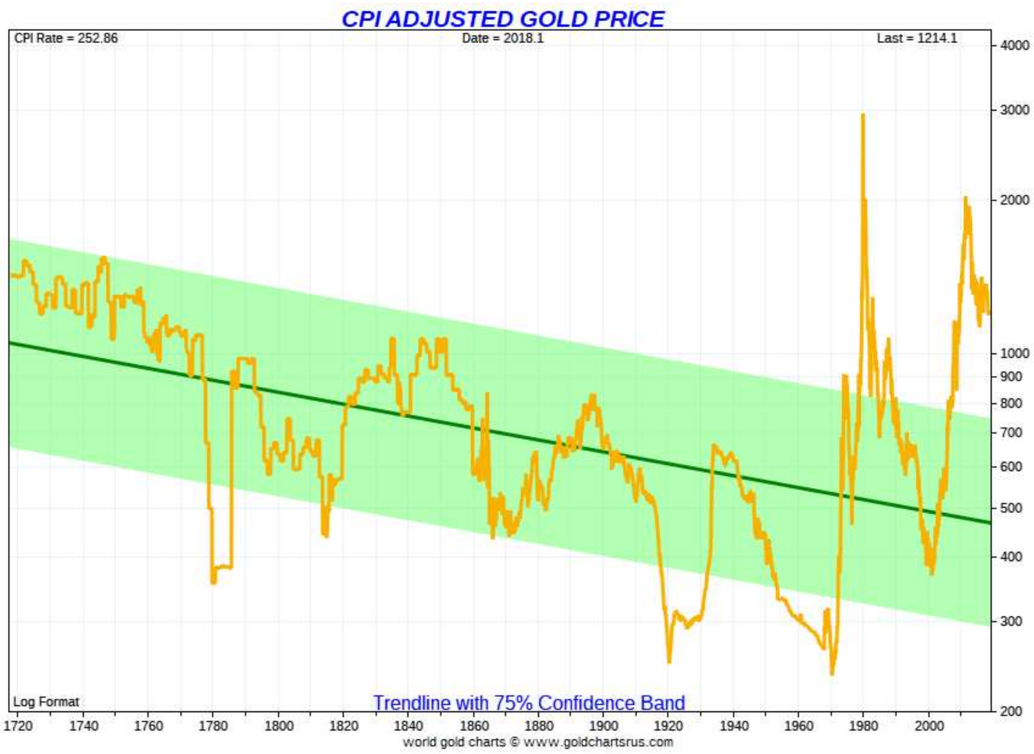
Source: www.stockcharts.com

In the early part of the year the energy sector was a star. Not any more. From being up nicely on the year, WTI oil prices have plunged in almost unprecedented fashion. Reminds one of the 2008 crash that saw WTI oil collapse from $147 to $33 in a matter of months. It was one of more spectacular crashes we have witnessed. Sure, this isn't as spectacular, but the pain is just the same—maybe worse because the sector never really recovered from that earlier crash. But the reality is, WTI oil is down 27% from the highs and is posting new 52-week lows. We had pegged a potential target of $52.50, and the low so far is $54.75. There might be a bit more downside here before we find a better footing for rebound rally. Surprisingly, the Philadelphia Oil & Gas Index (XOI) is down only 16% from its highs, so maybe it's a divergence. Then again, natural gas has been soaring to new 52-week highs so that has helped keep the stocks somewhat afloat. But beware. Natural gas prices looked they spiked this past week, and then reversed to the downside. They may have topped. But with lower WTI oil prices, drivers are relieved as the price of gas at the pump has plummeted as well. WTI oil is probably due for a bounce here. But there is considerable resistance overhead. Getting back to $66 might be a struggle.

Source: www.stockcharts.com

With the Canadian heavy-oil benchmark Western Canadian Select trading at US$13.46 when WTI oil is above US$55, it only makes sense that the Canadian energy stocks have taken a beating. The TSX Energy Index (TEN) has been making new 52-week lows almost daily of late. The TEN is down about 26% from its highs in May 2018. Ultimately, it may trade even lower. As a rather prescient article in this weekend's *Globe and Mail* points out, "The plummeting price of Canadian heavy crude oil has been a source of rising anxiety in Calgary and misery for investors in the energy sector. But it is more than that. As the downturn deepens, it's becoming a cause of worry for the entire domestic economy, and, for government finances that haven't fully recovered yet from the oil crash of 2014–2016."(https://www.theglobeandmail.com/business/article-alberta-oil-price-collapse-raises-fears-of-economic-contagion/). It is easy to blame the inability to get pipelines built but then there are courts, provincial jurisdictions, First Nations, environmentalists, and more, so the roadblocks are many. This chart may give way to a bounce, but the reality is the TEN is in a downtrend with no sign of a bottom.

Chart of the Week

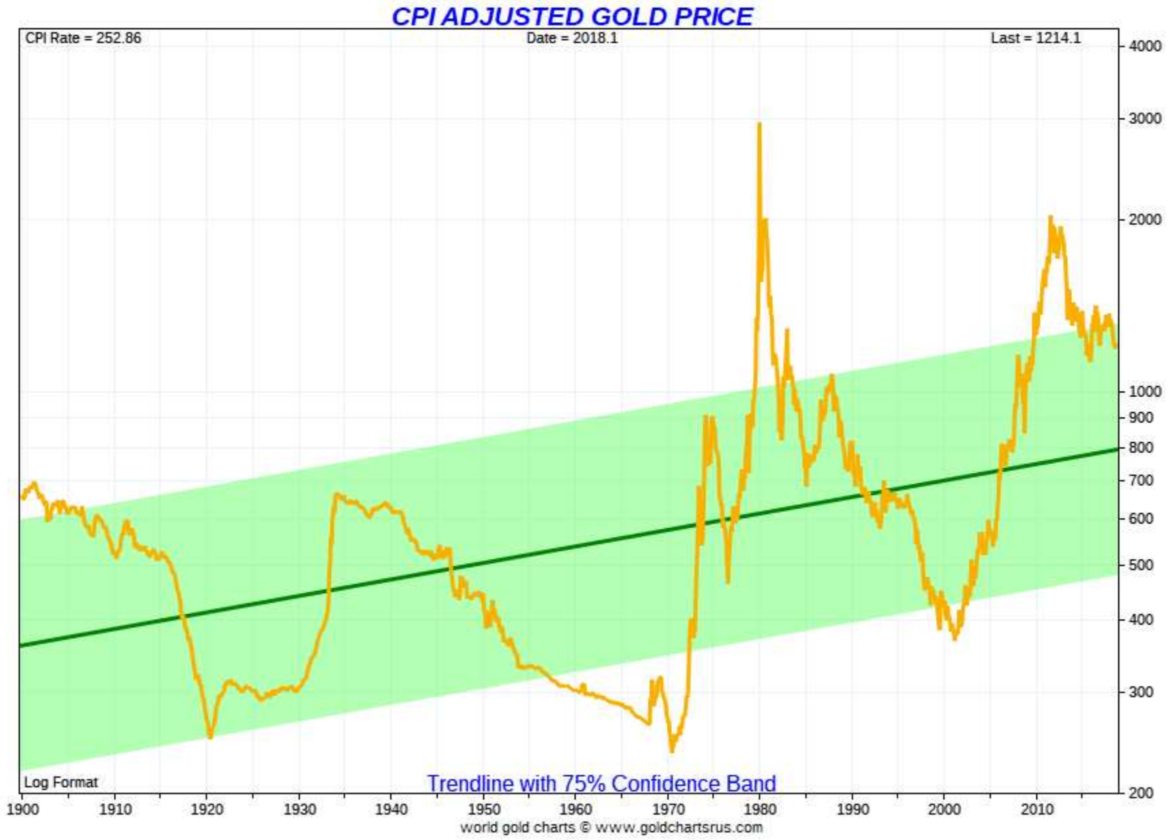


Source: www.goldchartsrus.com

A few weeks ago, we looked at the stock market in inflation-adjusted terms. Here are gold prices in inflation adjusted terms, dating back to 1720. For years, gold prices on an inflation-adjusted basis moved lower. The reason was simple. Until the outbreak of the First World War in 1914 there existed what was known as the classical Gold Standard. Its prime period was from 1870. As a result, gold prices were primarily fixed. Periods of deflation and inflation negatively or positively influenced the purchasing power of gold, even as its price was fixed. In those early years any increase in the price of gold was small. That ended in 1934 with the Gold Reserve Act that revalued the price of gold to $35 up from $20.67, a 70% increase. At the same time, it devalued the U.S. dollar.

The Bretton Woods system came into being in 1945 following the end of WW2. The U.S. dollar was at the center of the system and currencies were fixed but adjustable to the U.S. dollar, with the U.S. dollar convertible into gold at $35/ounce. The inter-war period 1914–1945 was chaotic for currencies and gold so there was huge incentive to bring some stability to currencies. Unlike the classical Gold Standard period, capital controls were permitted to allow countries to stimulate their economies without suffering financial penalties.

The Bretton Woods system didn't last long and began to break down in the 1960s. In August 1971, the U.S. under Richard Nixon ended the gold standard and set gold free trade in the market. The period of fixed exchange rates came to an end in 1973. Since then, gold has been rising in inflation-adjusted terms. It peaked in 1980 near $3,000/ounce in inflation-adjusted terms. Gold today has not come close since although it hit just over $1,900 in 2011. The chart of the CPI-adjusted gold price from 1900 on looks different than the 300-year chart above.



Source: www.goldchartsrus.com

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GLOSSARY

Trends

Daily – Short-term trend (For swing traders)
Weekly – Intermediate-term trend (For long-term trend followers)
Monthly – Long-term secular trend (For long-term trend followers)
Up – The trend is up.
Down – The trend is down
Neutral – Indicators are mostly neutral. A trend change might be in the offing.
Weak – The trend is still up or down but it is weakening. It is also a sign that the trend might change.
Topping – Indicators are suggesting that while the trend remains up there are considerable signs that suggest that the market is topping.
Bottoming – Indicators are suggesting that while the trend is down there are considerable signs that suggest that the market is bottoming.

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