Technical Scoop eCommentary November 14, 2022
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Upward correction, bug talk, CPI catalyst, long recession, Washington music, crypto collapse, chilly warmth

The week was one of a powerful rally for gold and the stock market. Has the market bottomed? For the stock market we believe we are embarking on an upward correction that could take us into the New Year. We will eventually be looking for signs of topping to be followed by another leg down.

Gold and gold stocks had a very good week and that has the gold bugs talking that we are about to embark on a powerful rally. We acknowledge we could but we are a long way from the highs of $2,089. If we truly have made our long-term cycle lows then new highs are a distinct possibility. However, we have a lot of work to do. Irrespective, a good rally is very likely underway that could carry us into the New Year.

The catalyst for all this was the lower than expected CPI numbers that were out this past week. The bond curve is steeply inverted and that continues to suggest we are headed for a potential steep recession. So far there are only a few signs of it. However, layoffs are on the rise in the tech industry. Tech stocks led by the FAANGs took the market to all-time highs. In the Canadian market, for example, Thomson Reuters Corporation, which offers products including software for professionals and is held in the Canadian Conservative Growth Strategy,* recently reported increased revenues, profit and free cash flow, and increased its dividend this year.* But it is no surprise that it is the tech stocks that have been dragging us down. We muse as to whether we could be entering a period we'll call the "long recession".

It was election week and it turned out to be tighter than many expected. Washington gridlock is music to the stock market. Now let's hope all accept the results even if grudgingly.

Cryptos may have had their Lehman Brothers moment this past week with the collapse of exchange FTX. FTX's leader Sam Bankman-Fried has gone down in infamy as maybe the biggest billionaire to pauper ever recorded. The possible demise of the crypto market is the subject of our Chart of the Week (page 11). Once the dust clears we are awaiting the movie.

It's November. The weather isn't great but with the stock market rising it warms us after the distinctly chilly year we've had. Have a great week!

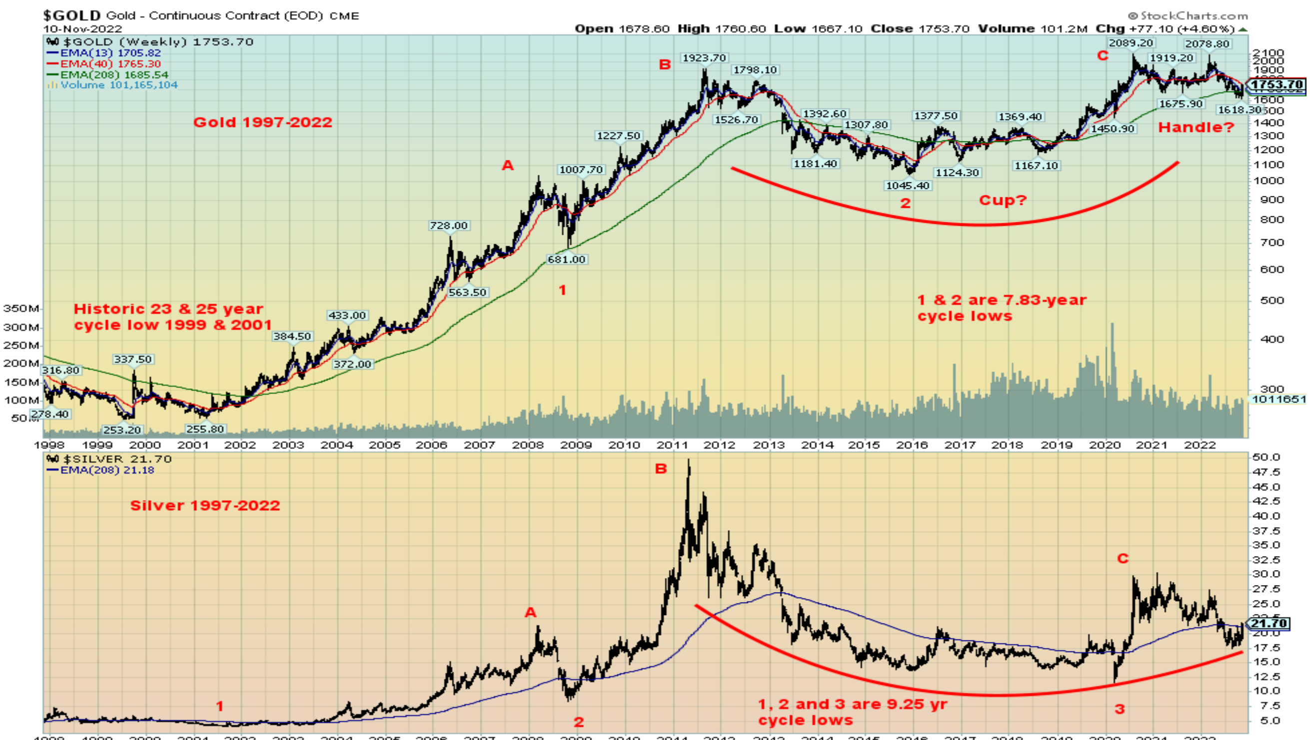
DC

* Reference to the Canadian Conservative Growth Strategy and its investments is added by Margaret Samuel, President, CEO and Portfolio Manager of Enriched Investing Incorporated, who can be reached at 416-203-3028 or msamuel@enrichedinvesting.com

"At the end fiat money returns to its inner value—zero."
—Voltaire, nom de plume de Francois-Marie Arouet, French enlightment writer, historian, philosopher; famous for his wit, and his criticism of Christianity (especially the Roman Catholic Church) and slavery. Voltaire was an advocate of freedom of speech, freedom of religion, and separation of church and state; 1694–1778

"With the exception only of the period of the gold standard, practically all governments of history have used their exclusive power to issue money to defraud and plunder the people."
—Fredrich Von Hayek, Austrian-British economist, legal theorist, philosopher, winner of Nobel Prize in Economics 1974, author of *Road to Serfdom* 1944; 1899–1992

"Everything has its limit—iron ore cannot be educated into gold."
—Mark Twain, pen name of Samuel Langhorne Clemens, American writer, humourist, entrepreneur, publisher, lecturer, greatest books *The Adventures of Tom Sawyer* (1876) and *Adventures of Huckleberry Finn* (1884); 1835–1910



Source: www.stockcharts.com

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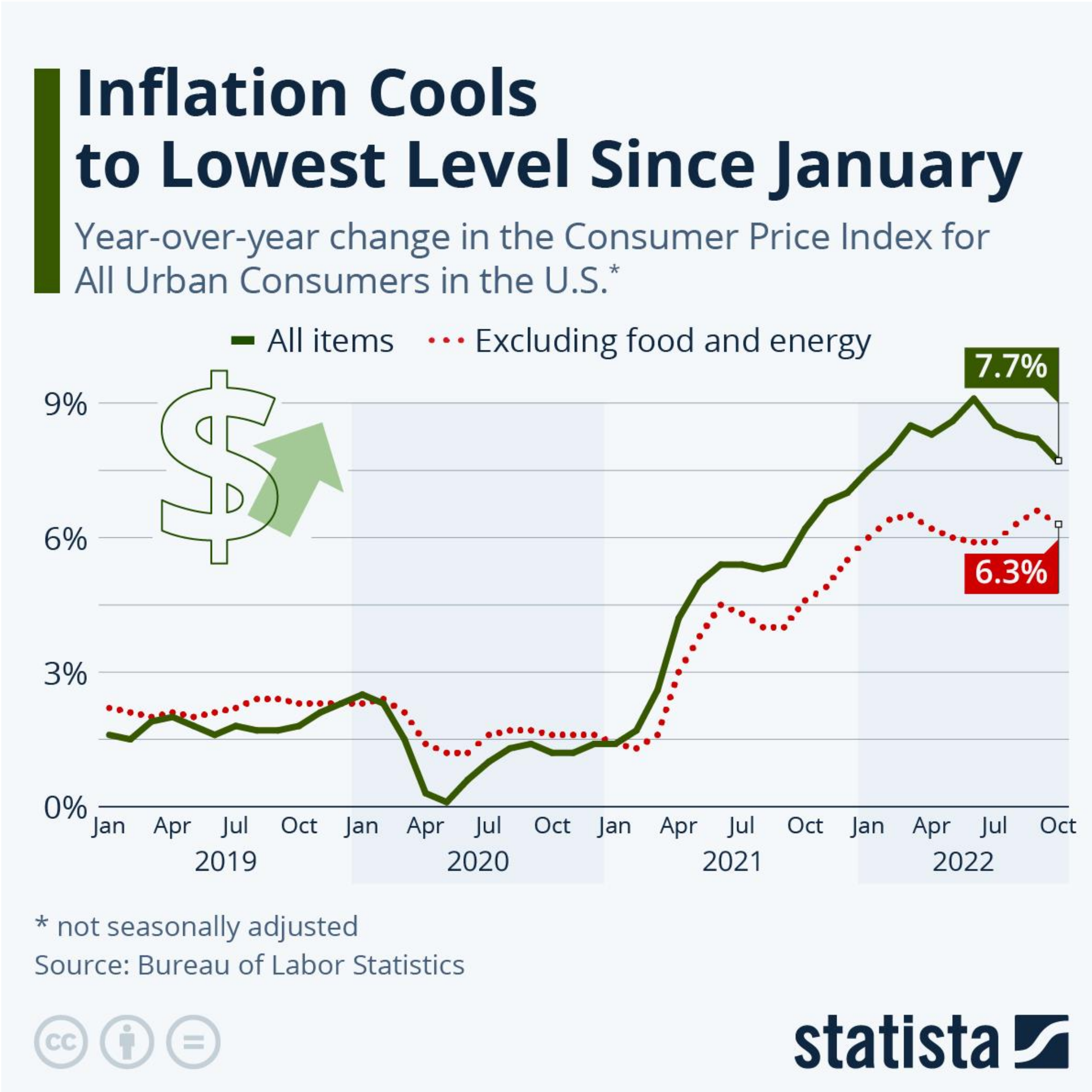
Were you as surprised as we were when we had a $50 up day for gold on Friday, November 4? Then it was followed by a $40 up day on Tuesday, November 8. The Consumer Price Index (CPI) released on Thursday came in better than expected and, just like that, gold was up another $40+. These moves are almost unheard-of for gold. Has something changed? The US$ Index helped as it now appears that the index has topped. We broke one uptrend line, we broke 111 and 110, and now we are busting an even more important trendline just under 109. The downward move was swift. Support is seen next at the 165-day EMA, currently at 106.45. A breakdown under that level and particularly under 104 could send the US$ Index to major long support between 101 and 102. Is the US$ Index in freefall? We are approaching oversold so a bounce could soon get underway. As well we've largely achieved objectives measured from the high.

US$ Index 2021–2022

Source: www.stockcharts.com

The lower-than-expected CPI number was a surprise, although hints were there as the previous three months had seen inflation begin to moderate. The market had expected at least an 8.0% gain year-over-year. Instead, they got 7.7%. A reminder, however, that back in the 1970s inflation rose to 12.3% by 1974 but the 1974–1975 recession lowered it to 4.9% by 1976. Then inflation rose again but this time to 13.3% by 1979. Still, the market reaction was positive with gold and silver up, the US$ Index down, and also stocks and oil up. The Dow Jones put in a 1,200+ point up day on Friday, ranking it as the sixth largest up day ever. The core inflation rate also fell back to 6.3% from 6.6%. Will this moderate the Fed for the December 13–14 FOMC? Many are expecting only a 50 bp hike this time and it may be the last one. But will it? Moderating inflation could be a temporary event.



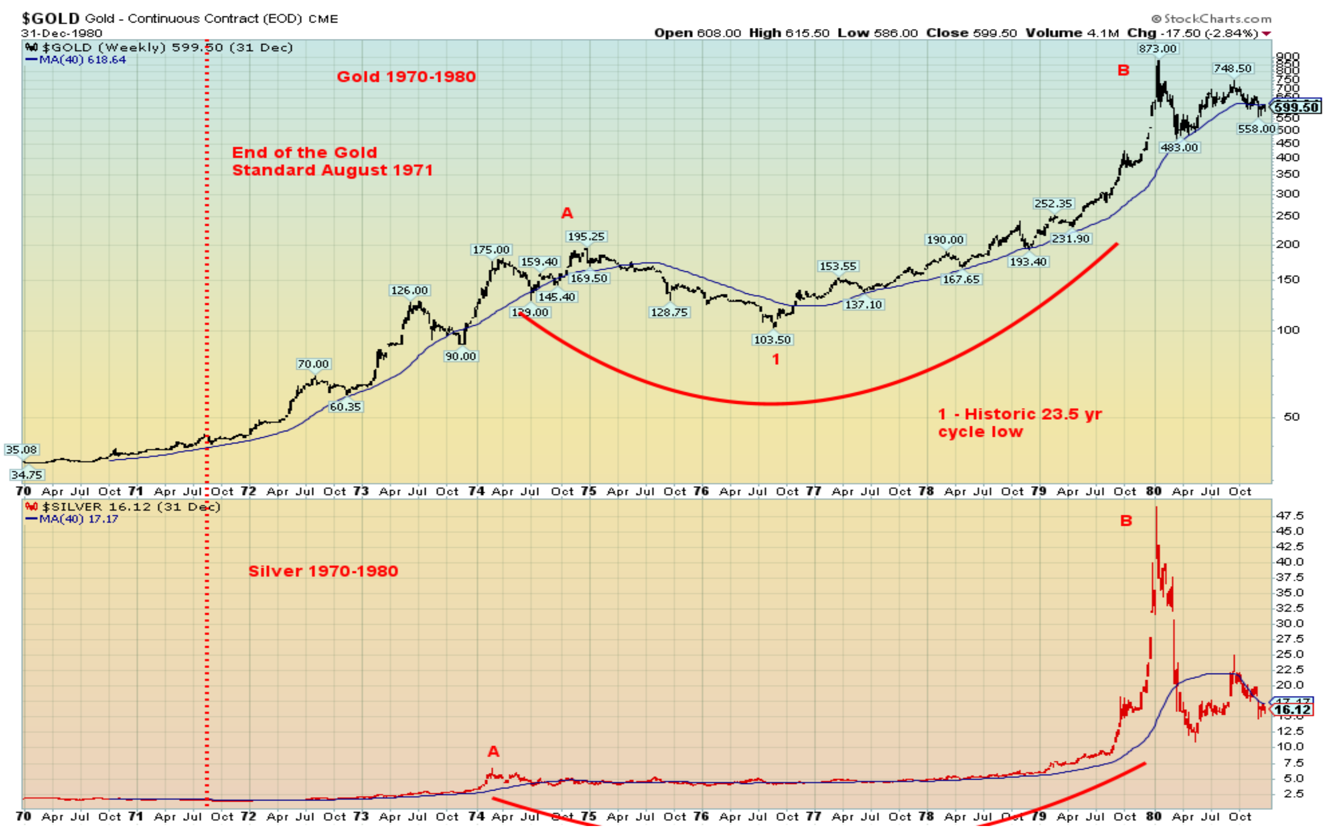
Source: www.statista.com, www.bls.gov

We are reading numerous articles suggesting that gold is close to a powerful bull market. This is not to disagree with them, but first one needs evidence that a more powerful rally is underway. So far, all we have are some incremental steps, albeit some spectacular ones, such as gold breaking out over $1,700 and now over $1,725. Support is now down to $1,700. We expect that level to hold on any pullback. Gold has now cleared

$1,750, another key point to higher prices. However, we would not be surprised at some backing and filling. We should achieve at least a move to $1,800/$1,825 on this move where gold would run into resistance.

We are reminded about what happened with gold during the 1970s when it rose to a high of $873 (equivalent to almost $2,600 today). The world was taken off the gold standard in August 1971 by former president Richard Nixon. The U.S.'s gold reserves had fallen from over 20,000 metric tonnes in 1950 to just over 8,000 metric tonnes. This was due to ongoing demands from central banks to convert U.S. dollars that were floating around the world because of the Marshall Plan and the Vietnam War to gold at the Bretton Woods fixed price of $35/ounce. The U.S. feared that their gold stash could soon fall to zero. Effectively the U.S. defaulted. Americans were also now allowed to own gold for the first time since 1934. That set off a stampede and gold rose to $195 by 1974 before a serious correction set in. The correction saw gold's price sliced by almost 50% to a low in 1976. The next phase was soon underway, but it wasn't until 1979 that gold went parabolic. The rise from 1970 was over 2,300%, one of the biggest bubbles in history. That bubble was burst when Fed Chair Paul Volcker hiked interest rates to 20% to battle persistent inflation during the 1970s. Following a long series of ups and downs, gold finally bottomed with the double bottom of 1999 and 2001 near $250.

During the same period silver rose to almost $50 from $1.50 in August 1971. That, however, was due more to the silver squeeze as the Hunt Brothers tried to corner the market. All in all, it was a spectacular period as lines formed around the corner at banks and coin dealers in late 1979 to buy gold.



Source: www.stockcharts.com

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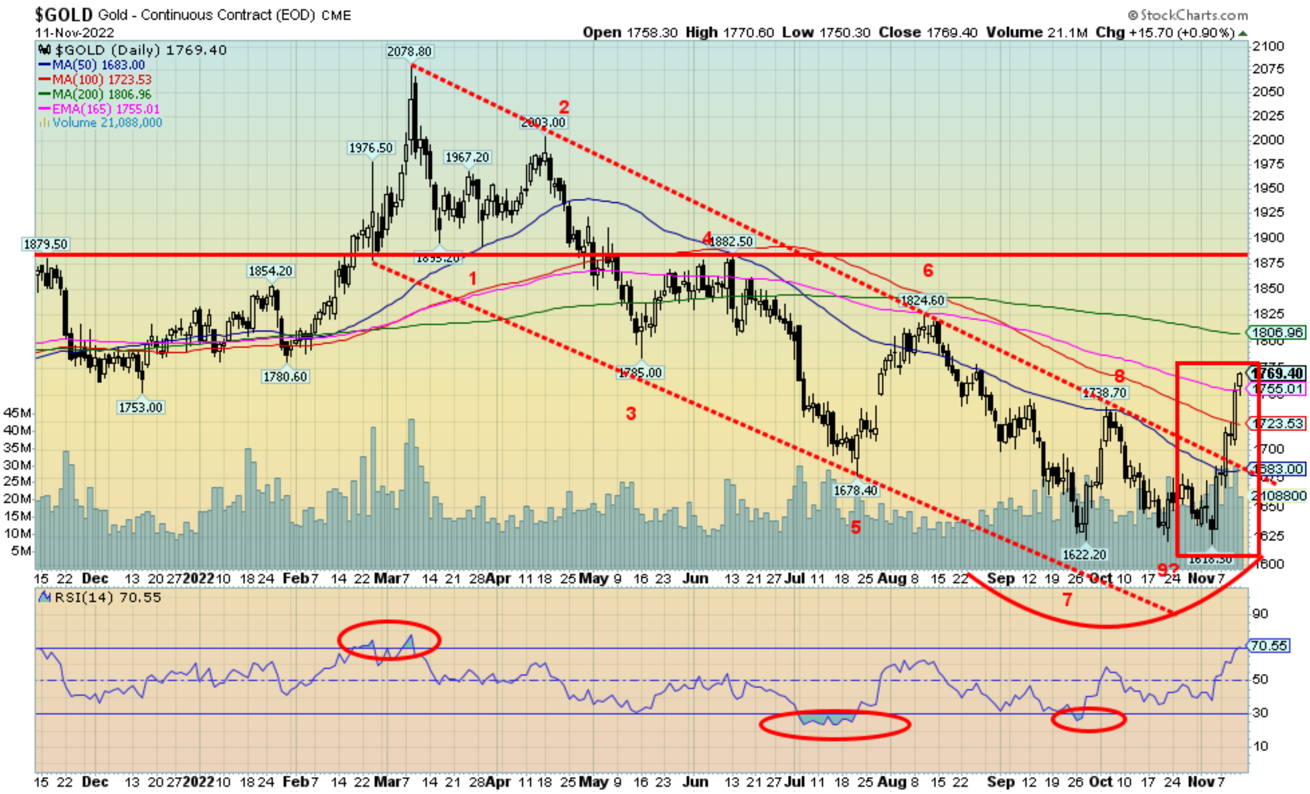
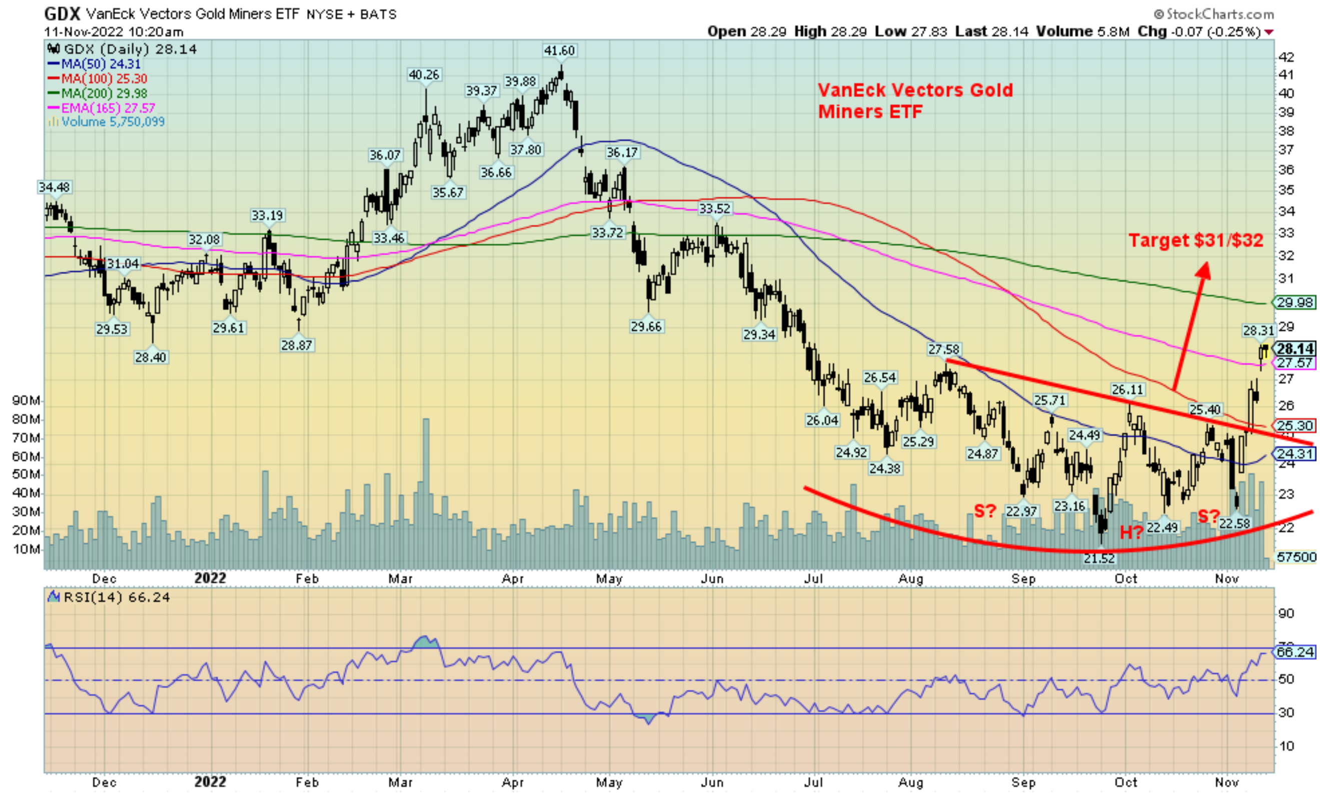
The current situation is somewhat different as the charts show. Two significant tops were seen during the 1970s run, first in 1974 and then in 1980. The 1976 low is our starting point for subsequent cycles that have unfolded. The easiest traceable cycle is the 7.83 cycle (7–9 years) noted by cycles analyst Ray Merriman (www.mmacycles.com). Starting in 1976, significant lows were noted in 1985, 1993, 1999, and 2001, 2008, and again in 2015. Merriman also believes there might be a 23.5-year cycle where its best fit is the low in 1999, but the low in 2001 is also within range. We are currently in the range of both the 7.83-year cycle and the 23.5-year cycle. The question is, has it bottomed? Unfortunately, that can't be confirmed until we see new all-time highs above $2,089. The large cup and handle formation suggests a rise to over $3,000.

Given the strong US$ Index that has prevailed, gold in U.S. dollars has been weak but gold in other currencies has been strong. Gold in Japanese yen saw new all-time highs. Now gold appears to be breaking out. Very quickly gold is up over $130 in only five days. Is this the start of something new, or just a massive short squeeze that will soon peter out?



Source: www.stockcharts.com

The fast move in gold and silver is attracting funds into gold stocks. The TSX Gold Index (TGD) is up 20% from a low on November 3. The Gold Bugs Index (HUI) is up 25%. Our chart below of the VanEck Vectors Gold Miners ETF (GDX) appears to be breaking out of a head and shoulders bottom pattern. The minimum objective is $31/$32. GDX has quickly gained almost 25% since November 3. The question on our mind is, is the rise too fast and is this rally doomed to failure? Daily trends have turned up, but we await the intermediate trend to change to up. Markets are not yet overbought, suggesting we do have room to move higher.



Source: www.stockcharts.com

The gains don't stop with gold. Oil prices are threatening to break out over $90 with China once again easing COVID restrictions. WTI oil appears to also be forming a head and shoulders bottom pattern. Its minimum objective is $114/$115. But first we have to firmly breakout over $94. The stock market has put on impressive gains as well. This fits with our thoughts that we are starting a potential B wave to the upside that could carry us into 2023 before we see a top. A top in January would not surprise us, but we could also extend out until May with a correction in between. Note the five waves down pattern for the S&P 500. The low in October is either our intermediate wave 1 down or more likely the low for intermediate wave A of a larger ABC pattern.

We are also showing a chart of the ratio of the Russell 2000 (small cap) ETF and the SPDR S&P 500 ETF. The large rounding bottom suggests we could break out to the upside in favour of small cap stocks. This would be a positive development for the stock market and support the case for the rebound rally that appears to be underway.

Our recession bond spreads continue to widen to levels we've rarely seen. Bonds rallied this past week on news of the lower-than-expected CPI. Bonds rallying (yields falling, as prices move inversely to yields) also helped gold. The closely watched 2-year–10-year spread widened to negative 51 bp. But even more interesting was that the 3-month–10-year spread widened to negative 46 bp, the highest level seen since the short-lived but very steep 2020 pandemic recession. A recession is coming and it may already be underway. Although from an employment standpoint we are not yet seeing that. However, we are well aware of the layoffs underway in the tech industry and, with the collapse of the cryptos, layoffs will be underway there as well. There will be a lot of IT specialists looking for work. Our expectations on the recession are that what we could be in for is a long recession lasting potentially for years through the rest of the decade.

Historically, there was the infamous long depression that lasted from 1873–1879. It was interrupted in the 1880s during the period known as the Gilded Age. Officially, the Gilded Age lasted through the long depression from 1870–1900. The period saw a huge widening in inequality as the rich got richer and everyone else stagnated, with most living in poverty. Stock markets stagnated during the 1870s, but during the 1880s a huge rally was seen. The era was also known as the Railway Age. Overall, the long depression lasted from 1873–1896.

Source: www.stockcharts.com

Commodities also perked up this past week. Copper broke out last Friday on huge volume, suggesting something was up. Copper is up 13.5% from November 3. Other key CRB metal components are aluminum, up 19% and nickel, up 14%. Of the other metals, platinum gained about 12%, palladium was up 12%, and silver leaped 10.5%. Copper has cleared $3.80, suggesting a low is in. With copper breaking higher, it confirms our thoughts on commodities that they could do well during this period, primarily because of shortages.

Is this the start of a new paradigm for gold? Naturally, we can’t say that with any certainty. There is a lot of work to be done. Yes, the gold bulls are excited, probably overly-excited. But until we see new highs above $2,089, we can’t say with certainty that our 7.83-year cycle low and 23.5-year cycle low are in. The current period is 23 years from the 1999 low and 7 years from the 2015 low. We are in the period for our lows but that period could extend to 2024 and still be valid. Since a potential good rally is in progress, we’ll be optimistic.

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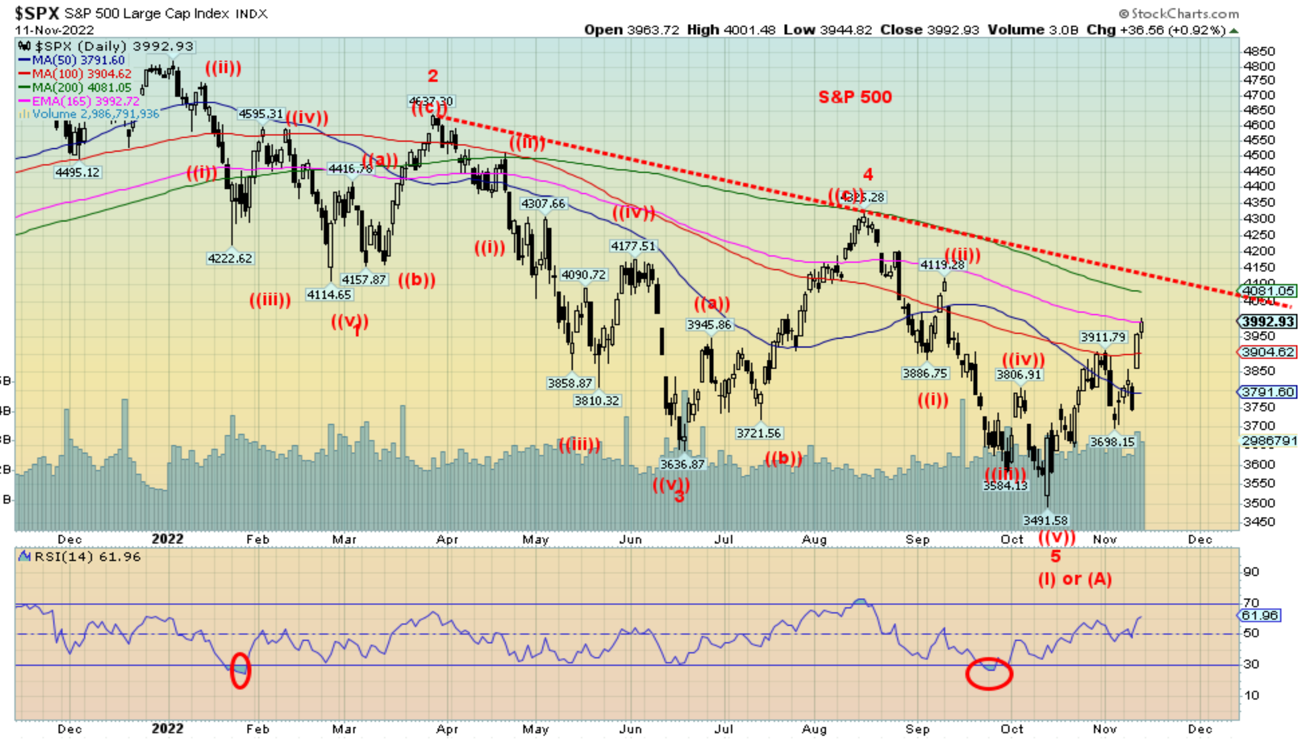

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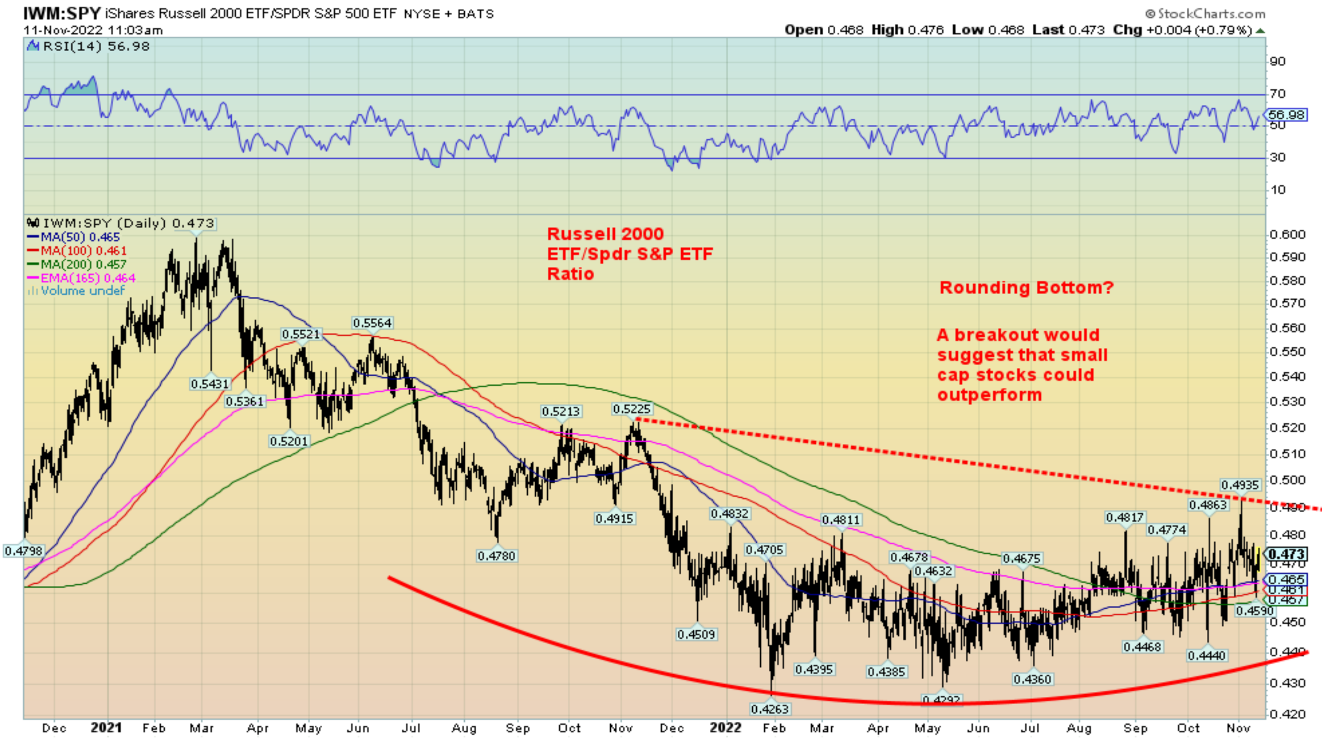

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Chart of the Week

The Rise and Fall of Crypto?

Market Cap of All Cryptos 2013–2022

Source: www.coinmarketcap.com

Is this the death knell for crypto? The fall, to say the least, has been spectacular. The market cap of all cryptos peaked at $2.9 trillion and now it is less than $0.9 trillion—a decline, so far, of about 71%. Bitcoin, the granddaddy of all cryptos, has fallen 75%. The latest cause for the collapse is the demise of FTX, the large cryptocurrency exchange that was being purchased by Binance, another exchange, before revelations of serious capital impairment came to light. FTX has now declared bankruptcy—from $32 billion to zip. Some describe it as the Lehman Brothers moment for the cryptos. The head, Sam Bankman-Fried, became yet another crypto king who has fallen from grace. In a single day, Bankman-Fried is reputed to have lost some $15 billion, yet supposedly he remained a billionaire at the end of the day. Grant you, a chastened one.

Bankman-Fried joins a long list of crypto kings who have fallen from grace, including Aiden Pleterski, Do Kwon, Changpeng Zhao, and Gerry Cotten. There have been others. They are still trying to find Cotten. Bankman-Fried, however, may be the granddaddy of all crypto kings as his empire is alleged to have lost $32 billion almost overnight. Bankman-Fried is under investigation from securities regulators and apparently the FBI is being called in. But it is not just crypto kings who have fallen. Well-known investment firms have taken a beating from having invested in crypto. Amongst them are two giant Canadian pension funds: Quebec's Caisse de Dépôt and the Ontario Teacher's Pension Plan. Apparently, not even conservative pension funds were able to resist the allure of crypto, although their investment in cryptos is small when one considers the size of their assets under management (AUM).

It is mind-boggling to discover that at Coin Market Cap (www.coinmarketcap.com) some 21,718 different cryptos are listed, trading on 524 exchanges. Given what has occurred, the question begs why?

That huge head and shoulders top suggests that the market cap of cryptos could fall to zero. While that might be an overstatement (surely there will be a few survivors and the technology behind cryptos, Blockchain, is not in question), there is clearly a cleansing going on, regulators continue to circle, and an investment in crypto is a dangerous thing to your net worth. Can it save politicians who say crypto is the answer to inflation? We wonder. There are rumours that the funds are flowing out of crypto into gold. At least gold is real. When the dust clears, we expect there will be numerous cryptos, crypto kings, and crypto exchanges that just disappear. Like Bankman-Fried and FTX. Bizarrely, there are others who are apparently willing to invest in FTX to help bail them out. At least it's not the Fed (and the taxpayer) coming to their rescue. As to Gerry Cotten, he died in 2018, taking the passcodes of QuadrigaCX with him to his grave. That left investors out by at least $250 million. Welcome to the world of crypto. Proof-positive that what goes up comes down even faster. Kind of like tulips (tulipmania, 1634–1637).

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Markets & Trends

% Gains (Losses) **Trends**

	Close Dec 31/21	Close Nov 11/22	Week	YTD	Daily (Short Term)	Weekly (Intermediate)	Monthly (Long Term)
Stock Market Indices							
`S&P 500	4,766.18	3,992.98	5.9%	(16.2)%	up	down (weak)	neutral
Dow Jones Industrials	36,333.30	33,747.86	4.2%	(7.1)%	up	up (weak)	up
Dow Jones Transport	16,478.26	14,554.55	8.0%	(11.7)%	up	neutral	up (weak)
NASDAQ	15,644.97	11,323.33	8.1%	(27.6)%	up	down	down (weak)
S&P/TSX Composite	21,222.84	20,111.51	3.4%	(5.2)%	up	neutral	upl
S&P/TSX Venture (CDNX)	939.18	599.81	1.0%	(36.1)%	neutral	down	down
S&P 600	1,401.71	1,232.18	5.2%	(12.1)%	neutral	neutral	up (weak)
MSCI World Index	2,354.17	1,910.80	8.0%	(18.8)%	up	down (weak)	down
Bitcoin	47,907.71	**16,891.23 (new lows)**	(19.5)%	(64.7)%	down	down	down (weak)
Gold Mining Stock **Indices**							
Gold Bugs Index (HUI)	258.87	224.94	13.0%	(13.1)%	up	down (weak)	down
TSX Gold Index (TGD)	292.16	266.64	11.7%	(8.7)%	up	down (weak)	down
%							
U.S. 10-Year Treasury Bond yield	1.52%	3.83%	(8.2)%	152.0%			
Cdn. 10-Year Bond CGB yield	1.43%	3.15%	(10.3)%	120.3%			
Recession Watch Spreads							
U.S. 2-year 10-year Treasury spread	0.79%	**(0.51)% (new lows)**	(4.1)%	(164.6)%			
Cdn 2-year 10-year CGB spread	0.48%	**(0.68)% (new lows)**	(7.9)%	(241.7)%			
Currencies							
US$ Index	95.59	106.16	(4.2)%	11.1%	down	up (weak)	up
Canadian $	.7905	0.7551	1.7%	(4.5)%	Up	down	down
Euro	113.74	103.58	4.0%	(8.9)%	up	down (weak)	down
Swiss Franc	109.77	106.28	5.6%	(3.2)%	up	neutral	down
British Pound	135.45	118.39	4.0%	(12.6)%	up	down	down
Japanese Yen	86.85	72.13	5.7%	(17.0)%	up	down	down
Precious Metals							
Gold	1,828.60	1,769.40	5.5%	(3.2)%	up	down (weak)	neutral
Silver	23.35	21.67	4.3%	(7.2)%	up	neutral	neutral
Platinum	966.20	1,038.10	8.1%	7.4%	up	up	up (weak)
Base Metals							
Palladium	1,912.10	2,026.50	10.2%	6.0%	down (weak)	down	neutral
Copper	4.46	3.91	6.1%	(12.3)%	up	down (weak)	neutral
Energy							
WTI Oil	75.21	88.96	(3.9)%	18.3%	up	down	up
Nat Gas	3.73	5.88	(8.1)%	57.6%	down	down (weak)	up

Source: www.stockcharts.com

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 and, in some cases, all-time highs.

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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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