Gold And Silver Rebound But Prepare For More Pain

By TRANG HO, INVESTOR'S BUSINESS DAILY
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The biggest gold ETF rallied Tuesday, rising 2% after plunging13% the previous two sessions. Thinkstock View Enlarged Image

The gold and silver bulls regained some strength as the dollar weakened Tuesday after suffering a slaughter that hammered prices nearly 14% over the two prior sessions.

Despite hovering at oversold levels, which warrants a bounce, market watchers see overwhelming reasons why the gold bugs should prepare for more carnage ahead.

Spot gold prices bounced 0.88% to $1,366 an ounce.

SPDR Gold Shares (GLD), tracking a 10th of an ounce of bullion, on the stock market today added 0.85% to 132.43.

Market Vectors Gold Miners ETF (GDX) fell 0.66% on the day to 28.83 after gapping up nearly 4% at the open.

"The most recent ETF holdings showed acceleration in the liquidation of (long positions), which points to a broad-based sell-off extending beyond the futures markets with potentially more room to go," Goldman Sachs analysts wrote in a client note Tuesday.

They recommend investors sell short gold to profit from falling prices. Investors should close the position if gold rises back above $1,400 an ounce, they say.

The primary trend for owning gold the past five years — easing central bank money policies debasing currencies — has reversed in their opinion.

"The shift in gold represents a more confident economic environment where there is a flicker of light at the end of the tunnel to this period of easy money," Goldman Sachs' analysts wrote.

Bearish sentiment hasn't reached extreme levels typically seen at bottoms, suggesting there's more downside potential, says Ron DeLegge, editor of ETFGuide.com.

"Gold prices have a lot of technical damage. This makes gold susceptible to more panic selling," he said in an email. "Remember: gold, unlike equities, has no circuit breakers to protect investors or traders from massive daily declines. What we've witnessed thus far in the gold market is not even close to capitulation."

After bouncing higher, gold will likely fall all the way down to $1,000 an ounce as deflation storms the global economy this year, forecasts David Hunter, chief market strategist at KCCI Ltd., a brokerage firm in Jersey City, N.J. Commodities and the stock market will soon follow gold's path, he believes.

"The global economy is massively overleveraged and policymakers have not done nearly enough to avoid the debt implosion that is inevitable in the next downturn," he said in an email. "Weakness in Europe, China and Japan, along with signs that U.S. activity is slowing again are indications that we are nearing another downturn.

"The deflationary forces in China, Europe and Japan are far outsizing the stimulus efforts," he added.

Victor Sperandeo, CEO of EAM Partners and Alpha Financial Technologies in Grapevine, Texas, concurs that the world is going into a recession and the U.S. faces a "double-dip" recession.

"It never really recovered and this caused all commodities to decline." Quantitative easing around the world isn't stimulating the economies because higher tax rates are offsetting the growth, Sperandeo contends.

Gold broke critical price support at $1,480 an ounce and if it can't break back above this level, "odds will grow further that gold's super bull cycle is dead," Ned Davis Research commodities strategists wrote in a client note Tuesday.

"Too much fundamental evidence exists that says gold should be acting better," they wrote. "Real rates remain low, and the direction in real rates is no longer rising.

"Central planners continue to print fiat money in response to sluggish growth," the Davis strategists added. "And the lack of will, and options, in dealing with excessive debt loads keeps the 'gold as an alternative currency' play on the table."

Gold isn't behaving like a "safe haven" asset despite all of these fundamental reasons owing to worries over deflation driven by moderate readings in the producer price index and consumer price index, says Tom Winmill, portfolio manager of Midas . His mutual fund specializes in buying precious metals, natural resources and their producers.

The sell-off Friday and Monday was purely based on panic selling based on investor sentiment rather than fundamentals, and gold should snap back and slowly rise over the next few weeks, he believes. Winmill recommends investors "hang tight" because "values are better than ever."

"I suspect that value players like the Chinese government are very happy to buy at these depressed prices," Don Vandenbord, a portfolio manager at Camarda Wealth Advisory Group in Fleming Island, Fla., with $250 million assets under management, said in an email.

PowerShares DB U.S. Dollar Index Bullish (UUP), measuring the greenback against a basket of major foreign currencies, fell 0.85% to 22.22. It broke below the key 50-day moving average for the first time in two months. It landed just a hair above long-term support at its 200-day moving average.

Silver Prices

Silver prices jumped 2.47% to 23.35 an ounce.

IShares Silver Trust (SLV) climbed 2.26% to 22.59. It's collapsed 53% from its record high of 48.35 from April 2011.

Global X Silver Miners ETF (SIL) jumped 1% to 14.22, but remained near a three-year low.

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