Michael S. (Mickey) Fulp
M.Sc., C.P.G.

MercenaryGeologist.com
contact@mercenarygeologist.com

A Musing on the Market Correction in Gold

A Monday Morning Musing from Mickey the Mercenary Geologist

Contact@MercenaryGeologist.com

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"What, me worry?" - Alfred E. Neuman, 1956

One of the influential media products of my rebellious teen-age youth (along with *007* and *Playboy Magazine*) was the irreverent social commentary provided by *Mad* magazine. After 57 years, *Mad's* figurehead remains a goofy-looking, half-wit, pubescent boy who always maintains a sense of humor while the world collapses around him. His resolute ignorance is manifested via a ubiquitous quotation in every issue's table of contents.

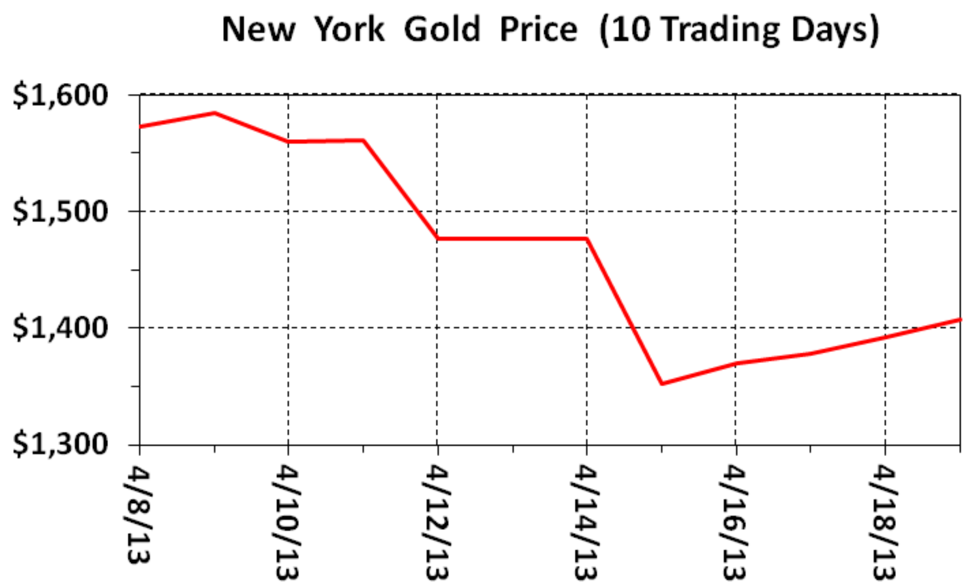
Simply put, I like that butt-ugly kid's attitude.

Alfred E. Neuman's signature phrase sums up exactly how I feel about gold and its recent precipitous price pummeling in US dollars. To me, this two-day event was merely an overdue market correction driven by fear, panic, and greed, and should be viewed as such by intelligent hoarders. Folks, realize the *value* of gold is important and not its daily market price in a depreciating fiat currency.

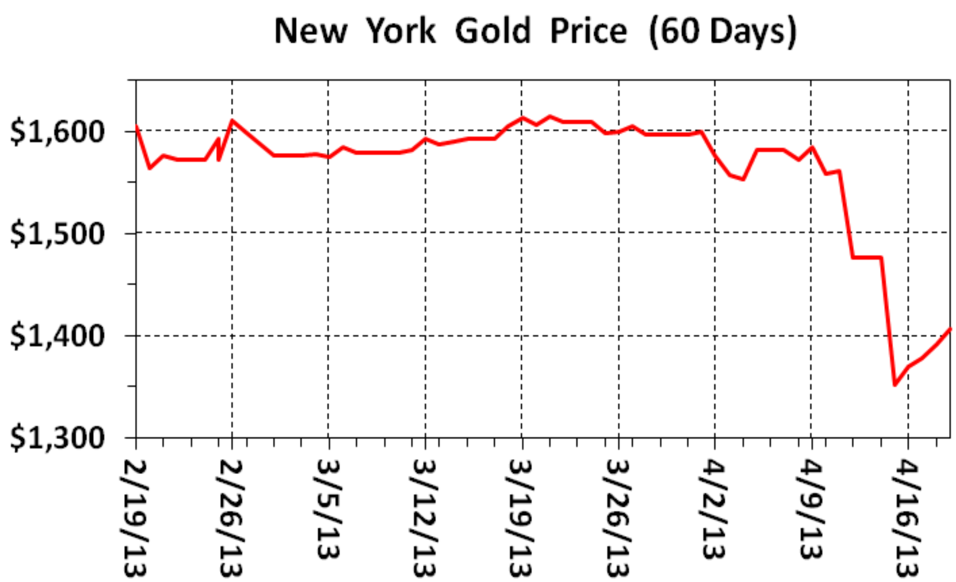
In my opinion, the current gold price presents an irresistible buying opportunity. Hence, I finalized a significant purchase of gold at an attractive per ounce rate on Wednesday April 17. I am privileged to buy from a real-life (not a reality show) gold miner, and I thank him for being my straight-shooting friend for the past 25 years.

A "market correction" in the high-risk commodities space is generally defined by speculators as a10% to 30% drop in price followed by a strong rebound. Indeed that is what gold has done repeatedly over 10-day, 60-day, one-year, and two-year periods.

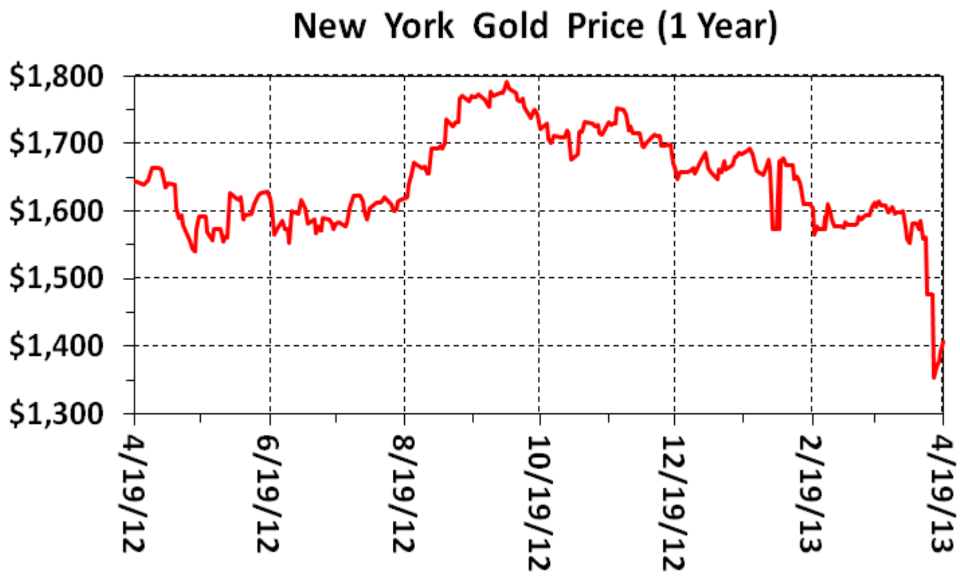
- Firstly, the past 10 trading days illustrate that gold lost 13% of its value in two days from New York close on April 11 thru close on April 15 ($1561 to $1353 per ounce). It gained back 3% by April 19 for an overall correction of 10%:



- Secondly, the 60-day chart shows gold hit a high of $1615 and a pre-correction low of $1554 with a total loss of 13% over this time period:

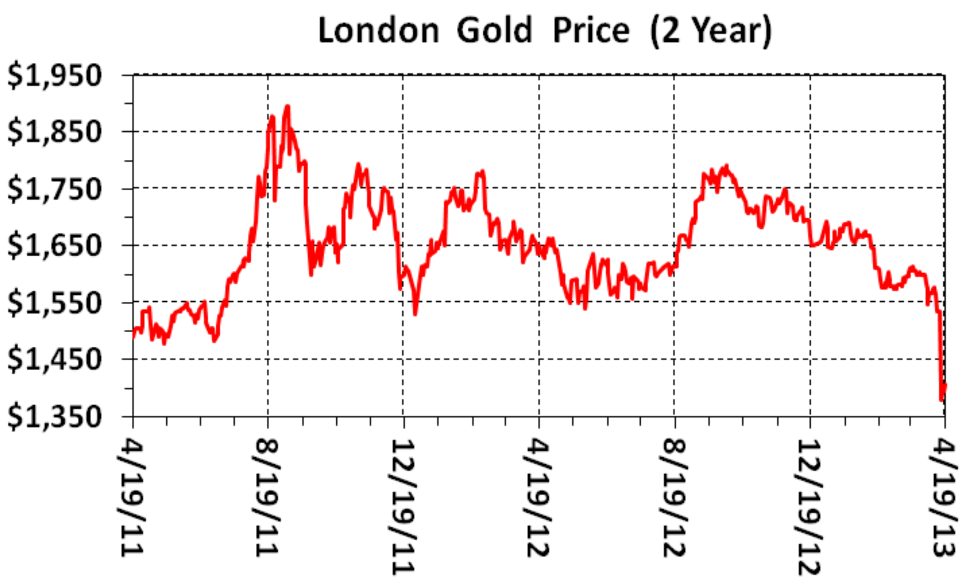


- Next, let’s examine the one-year chart to understand why a correction was foreshadowed and in fact, overdue. Note the range-bound nature of gold over most of this period, its repeated bounces off the $1550-1570 level, and most importantly, the lower and lower highs since early October:



Finally, the two-year chart shows a range-bound price from $1480 to $1550 for the initial two months. This was followed by gold's break-out and exponential rise during the mid to late summer of 2011. It reached all-time highs of $1895 at London close and $1911 during New York intraday on September 5, 2011.

This phase of the gold bull market was driven by anticipation and announcement of a second round of quantitative easing (QE2) by the US Federal Reserve. Extreme volatility carried on thru the winter and early spring of 2012 with four significant market corrections and repeated bounces off the $1480 and then $1550 levels:



There can be no argument that gold capitulated on Friday April 12 and Monday April 15; the technical damage to its chart is obvious. Several factors during the second week of April resulted in a confluence of catalysts that combined to push gold's downward momentum below its previous two-year lows in the $1480s in mid-April, mid-May, and early July of 2011. They included:

- Announcement that the Chilean government would uphold an appeal and suspend environmental approval of Barrick Gold's multi-billion dollar Pascua-Lama project.

- A Goldman Sachs research report that set a lower target price for gold and recommended shorting the market.

- European Central Bank head honcho Draghi who reported that the EU would force Cyprus to liquidate its gold holdings of 14 tonnes (only about 436,000 ounces) as a condition for bank bail-outs. This led to fear that other bad-debt nations in Europe (the PIIGS) would be forced to do the same.

- Massive selling of paper gold, reportedly 470 tonnes (14.6 million ounces) executed thru Merrill Lynch, upon New York Comex openings on Friday and Monday.

- Margin calls and automated sales repeatedly generated when the price dropped below stop-loss sell markers.

Regardless of how it was spun by the media, this drop was not so unusual. We have seen corrections of similar magnitudes over the past two years. The real difference in this instance was the low starting price and relative weakness of gold ($1561) when the correction occurred. Thus the two-year technical chart broke down.

This particular correction was a paper gold phenomenon and was not driven by any selling of physical gold. Panic in the futures and options markets with resulting margin calls and automated stop-loss selling combined with ETF redemptions are what initiated and exacerbated the meltdown. In fact, gold's price drop has stimulated physical demand so much that bullion shortages are occurring and are accompanied by with the usual spike in price premiums.

Folks, gold is a traded commodity and it's all about supply and demand.

To me, this is reminiscent of the repeated runs on guns and ammo and the shortages and price spikes that occurred when Obama was elected and re-elected. Or when he starts another Chicago-style political rant about gun control following a massacre pulled off by a disgruntled American patriot nutcase, a pimply-faced geek with violent video-game addictions, or 20-something terrorists with unpronounceable names acting in the name of Allah.

Is it not ironic that his homeland of Chicago, where all guns must be registered, located in the State of Illinois, which is the only one of the 50 without a concealed-carry permit process, led the nation's cities in murders in 2012?

But I digress.

I have little doubt that the gold market downturn was an orchestrated and manipulated event by powerful market gamers. Numerous analysts, pundits, and outraged gold bugs have pointed out various aspects of the price drop to support this idea. Many of them have called foul, and some of the more rabid ones have called for an investigation by regulatory authorities.

My answer is simple: Get over it; act accordingly.

Accept the fact that all markets are controlled and on occasion, manipulated by big-moneyed Banksters. We should learn to live with and profit from their actions. This dive in the US$ gold price has gifted the savvy individual with a gold-buying opportunity not seen for the past two years.

With no intent to denigrate their concerted and legitimate efforts, I trust that those who have yelled the longest and loudest about gold market manipulation, e.g., the well-known GATA guys, have a significant percentage of their net assets in physical gold held in their physical possessions. So like Alfred E. Neuman, we should all just say: *What, me worry?*

Esta tiempo a comprar oro, mis amigos.

Note that I own gold and my opinions are biased by holding a significant portion of my net wealth in this very precious metal. I am not qualified to lend financial advice. Please do your own due diligence before making any speculating, investing, or safe haven decision regarding your personal finances and monetary assets.

Ciao for now,

Mickey Fulp
Mercenary Geologist

Acknowledgement: Michelle Lopez is the editor of **MercenaryGeologist.com.** Gold price data was obtained from Kitco.com.

The **Mercenary Geologist Michael S. "Mickey" Fulp** is a Certified Professional Geologist with a B.Sc. Earth Sciences with honor from the University of Tulsa, and M.Sc. Geology from the University of New Mexico. Mickey has 35 years experience as an exploration geologist and analyst searching for economic deposits of base and precious metals, industrial minerals, uranium, coal, oil and gas, and water in North and South America, Europe, and Asia.

Mickey worked for junior explorers, major mining companies, private companies, and investors as a consulting economic geologist for over 20 years, specializing in geological mapping, property evaluation, and business development. In addition to Mickey's professional credentials and experience, he is high-altitude proficient, and is bilingual in English and Spanish. From 2003 to 2006, he made four outcrop ore discoveries in Peru, Nevada, Chile, and British Columbia.

Mickey is well-known and highly respected throughout the mining and exploration community due to his ongoing work as an analyst, writer, and speaker.

Contact: **Contact@MercenaryGeologist.com**

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