The Golden Touch-First published by Traders' Journal in December 2008

In the Australian vernacular to "touch" someone is to deceitfully relieve them of their money. Hence when a shopkeeper gives the wrong change (from those days when punters actually used money), the recipient of the lightened load would exclaim "He touched me", or more usually "The b****** touched me!"

Conspiracy Theorists

The exclamatory pronoun as in "What a touch artist" is certainly apt for the global retail Gold selling industry which has managed to inculcate the present neurotic generation with a high degree of paranoia about the value of Gold, and the associated fears of government confiscation and price suppression in Gold markets by "The Cartel", a supposedly sinister alliance of banks, governments and mega traders.

"The Pitch" by these worthies is some variant of:

- Gold is money (no it's not)
- Gold will always retain its value (no, it doesn't)
- Gold will be the only source of purchasing power, come the revolution, when fiat (paper) money becomes valueless as the US Dollar and other global currencies become worthless and the world financial system collapses (in this event there will be no goods and services produced to buy and presumably we are living in a post Armageddon world where barter is the only form of fiscal activity. In which case, there will be no rule of law or police force to protect your civil rights, and the strongest will rule by might alone. Under this scenario the strongest will simply come and take your Gold so you won't have it in any event).
- Gold is truly worth much more than its Comex market price but is systematically suppressed by the cartel backed by the US Federal government, through market manipulation. I have still to hear a rational reason why this should be so, but the most common argument advanced is that a rise in Gold prices would in some way embarrass US government by showing inflation was rising.

Why rising Gold prices should merit this special attention while Oil rose to $149, and other commodities soared to record heights is not addressed. Perhaps that's best as it is an entirely specious supposition.

Now before you assume that Gold bugs are merely a lunatic fringe, let me tell you that the sellers of Gold who prey on the unwary are a highly sophisticated bunch. They host web sites bellowing their prowess as investors and utilise a wide range of marketing strategies with all sorts of spurious theories to support the supposed desirability of Gold as a long term investment. Favourites include valuing Gold in inflation adjusted Dollars.

Another, which has on occasions been adopted by “name” players who should know better, is to assert that there is a correlation between the price of the Dow Jones Equity index and one ounce of Gold. This play was particularly popular when the Dow was near 14,000, but has not been trotted out for a while as the Dow plunged to 7450. On this basis Gold lost half its value between October 2007 and November 2008. Of course this supposed correlation is nonsense at best and fraudulent inducement at worst.

A Short History of Gold

Historically, Gold has been man’s oldest store of wealth. Kings and rulers coveted it. Gold appears in the Bible 417 times. The wealth of great empires was measured in their Gold and Silver. Solomon, the wisest man who ever lived, was likely the world’s greatest collector of Gold which he used plentifully as he built the Lord’s house:

1Ki 6:21 So Solomon overlaid the house within with pure gold: and he made a partition by the chains of gold before the oracle; and he overlaid it with gold.
1Ki 6:22 And the whole house he overlaid with gold, until he had finished all the house: also the whole altar that *was* by the oracle he overlaid with gold.
1Ki 6:28 And he overlaid the cherubims with gold.

Gold, Silver, Bronze and later Copper coins were the earliest form of money. For centuries, Gold was the standard by which all else would be measured. In fact most currencies were pegged to the amount of Gold that their treasury had in store, a convention eventually mandated by the 1944 Bretton Woods Agreement which also established the International Monetary Fund and nominated the US Dollar as the global reserve currency. An adjunct to this system was that many countries pegged their currencies to USD and US fixed the price of Gold at $35 per ounce. This is not ancient history. Many will remember President Nixon’s 1971 decision to eliminate the fixed Gold price.

Today Gold coins issued by an approved issuer under enabling legislation (ie Perth Mint) are legal tender, but you can’t buy the coins at anywhere near the market price of Gold. Today, Perth mint is offering 1/2oz Gold coins for AUS$1135 each. At today’s exchange rate that is US $735 per half ounce, or US$1472 per ounce. Tuesday’s spot price for Gold is US$820.50 per ounce, so buyers are paying a premium to the physical of 80%. And that is what it should be. Gold coins from this source at least are designer products issued by a monopoly provider as legal tender under the Australian Currency Act 1965. Perth Mint is in the business of minting designer coins of limited circulation as collectibles. So we see that the “Gold is Money” mantra is in some cases true (when issued under enabling legislation) but when you try to use it as money, it’s legal face value is only AUD$50, worth US$32.40 today and its bullion value is US$410. Either way buyers of minted Gold coins are taking a huge bath and simply shredding their money.

The latest bout of outrage by the Gold conspiracy theorists, insists that there is a critical Gold shortage because Mint prices and EBay prices for Gold coins are near double the price of physical Gold. Ergo, their fractured logic imputes, Gold is worth twice what the market says, and it’s only the great Gold conspiracy that is regressing prices. Sad really.

Rapid appreciation in the Gold price followed its free float, but that is likely to be a mere side note in history as the real consequence of abandoning the discipline and financial rigor imposed by the

Gold Standard was to give central banks and nations' Treasuries untrammeled control over money supply and monetization. The Gold Standard specified how the gold backing would be implemented, including the amount of specie per currency unit. The currency itself was just paper and so has no innate value, but was accepted by traders because it could be redeemed any time for the equivalent specie. A US silver certificate, for example, could be redeemed for an actual piece of silver.

Representative money and the Gold Standard protect citizens from hyperinflation and other abuses of monetary policy, as were seen in some countries during the Great Depression. However, they were not without their problems and critics, and so were partially abandoned via the international adoption of the Bretton Woods System. That system eventually collapsed in 1971, at which time all nations had switched to full fiat money. No less a personage than Former US Federal Reserve Chairman Alan Greenspan once argued, before the advent of monetarism, that "Under the gold standard, a free banking system stands as the protector of an economy's stability and balanced growth… The abandonment of the gold standard made it possible for the welfare statists to use the banking system as a means to an unlimited expansion of credit… In the absence of the gold standard, there is no way to protect savings from confiscation through inflation."

This is important stuff. We are living through the great experiment of unlimited liquidity which a fiat money system allows. With US Federal Reserve's balance sheet hitting $3 trillion today and US Treasury entering record territory in its debt issuance, all to preserve a failed banking system by transferring bad bets and toxic bonds to the public purse, we are front row observers as the banking system has proven that it was unable to delever and stay solvent. The question now is how the public purse will be able to do so any more successfully.

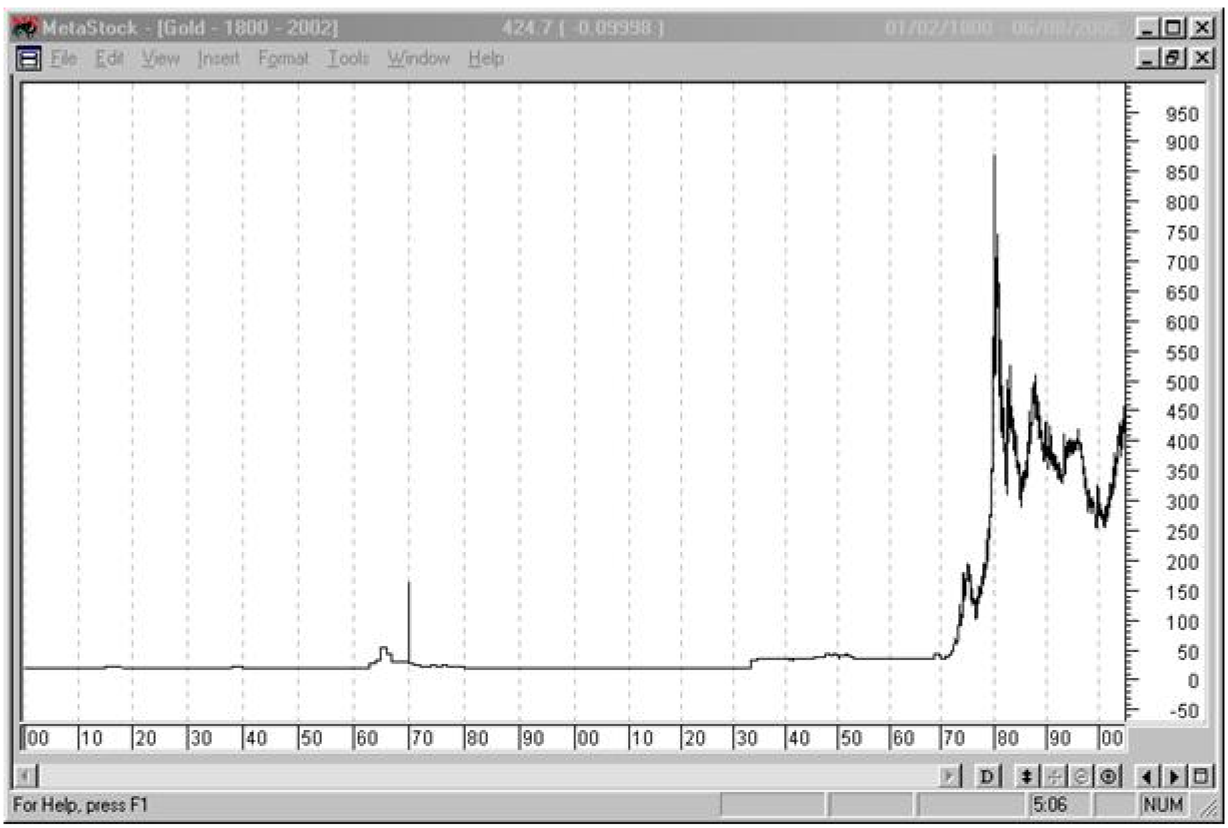
Gold as a Commodity

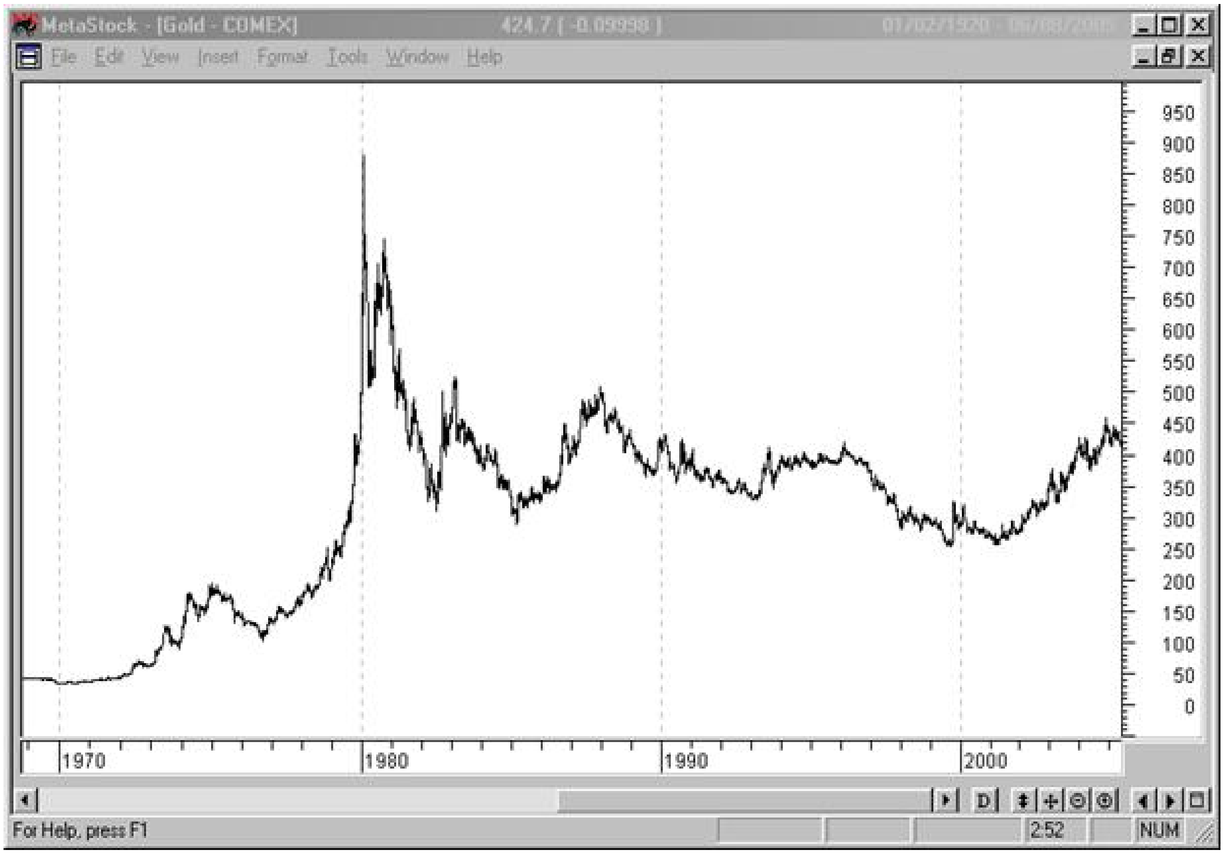
Little annoys the Gold hoarding community so much as the assertion that Gold is now just a commodity and trades as such, albeit a valuable commodity with a price floor linked to ever increasing mining costs.

On 7th March 2008, just 10 days before Gold made its historic top at 1033.90 (basis Comex Gold futures, April contract), and with Gold in the throes of an historic blowoff bull market, I warned publicly that Gold was not immune to the cyclical law of markets and that:

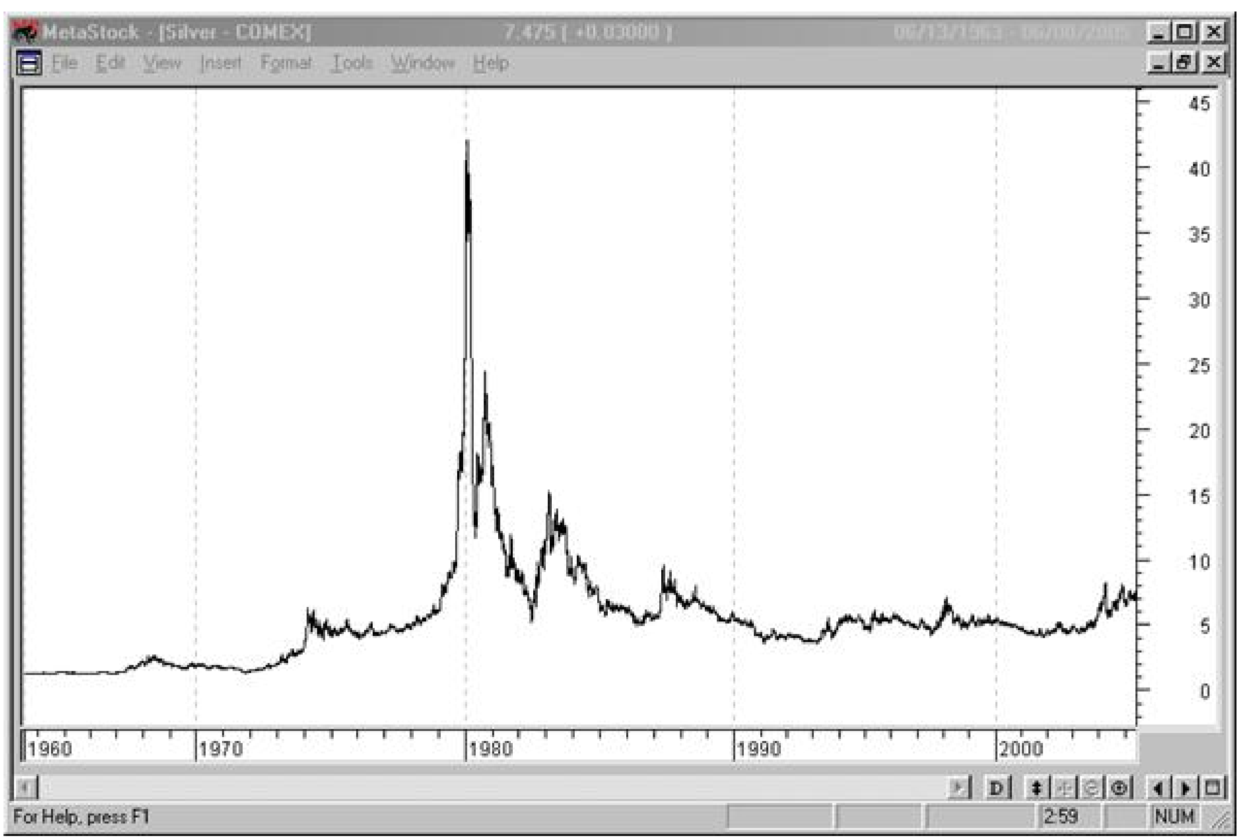
> Here's the News guys: Markets fluctuate.
>
> This is the real risk to holders of gold and silver. Not the fictitious cartel. The market giveth and the market taketh away from the unwary. It is the market itself which is the real cartel!
>
> Just to remind you of what these markets in particular can do, here are some interesting charts on gold. The first chart is a 600 year look at gold prices adjusted to constant1998 dollars.

The following charts are gold from 1800 -2002 showing the spike into 1979 when gold reached $850 and change. Even though the spike reduces the rest of the chart to a virtual straight line we can see periodic eruptions as gold breaks from its somnolence to have periodic eruptions of price support. We can also see and marvel at the blow off that is characteristic of many commodity markets; they build, they ignite, they go parabolic and then it is over.





You should look closely at what happens after a blow off in these markets. That is a greater risk to you than any cartel or conspiracy whether you are a long term holder or a shorter term trader. There will be an end game and you need a strategy for that certainty which you may not have considered. The same thing happens in silver. The next chart demonstrates the 1980 squeeze when the Hunt brothers tried to corner this market



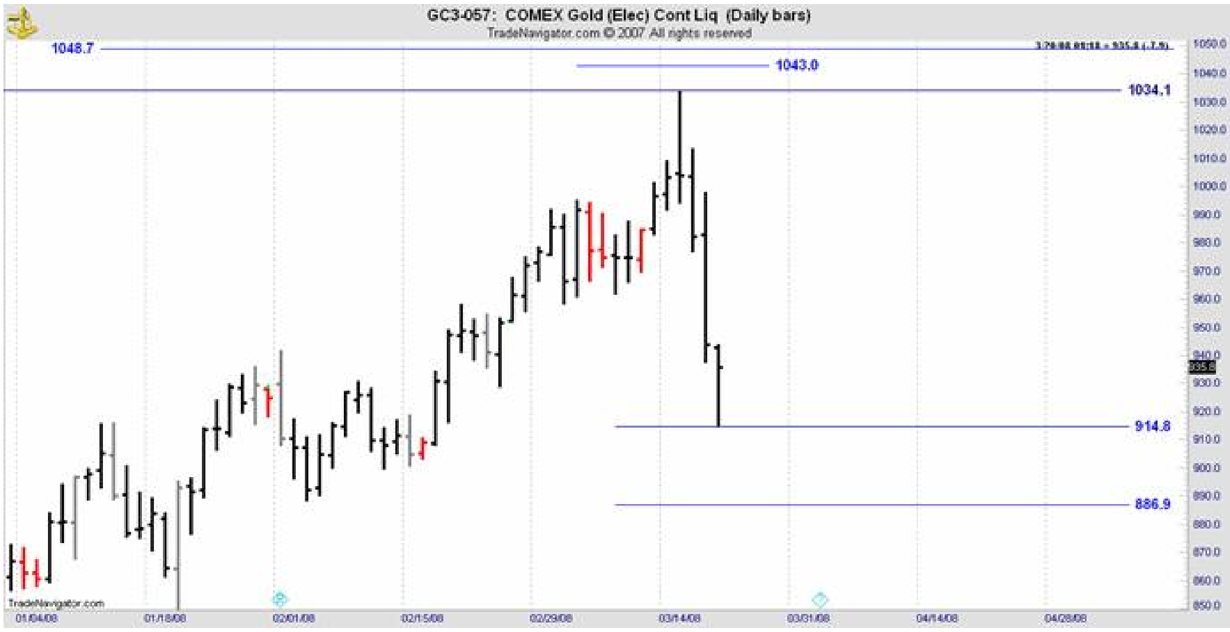
Markets fluctuate, sometimes violently. What are your plans to protect your investment the next time this happens? Oh, it won't happen? This time it's different? It wasn't so long ago we were hearing that story about the housing market and the credit problems.

Gold as a commodity has a stable and predictable supply base. Gold mining and extraction is a long drawn out process. On the demand side, over 70% of gold production is used for the manufacture of jewelry, mainly in India where it is a traditional dowry and wedding gift, and to a smaller extent in China. About 20% of this world's production is used in industry, where it finds demand due to its excellent conductivity and is used extensively in electronics and the automobile industry. Since gold is a noble metal, it is not consumed by industrial processes.

On Sunday 16 March 2008, the Danielcode chart posted for members nominated the exact high for Comex Gold, accurate to 2 ticks. Not points; ticks! This is the report to members from that edition:

We got the $1027 level easily enough and this is the chart posted for subscribers on the Danielcode website at 6:00PM Sunday 16th March US ET (that is 11AM Monday 17th in New Zealand; all subscriber charts used in this article were posted and available to subscribers within a few hours of this time.)

There were a number of Daniel sequence levels above this market at the close Friday. You can see the juxtaposition of the mid blue target at 1033.30 and the weekly target in dark blue at 1034.10. Note also the downside targets of 934 and 914.80. The chart below shows what happened:



Monday's high was 1033.90 just 2 ticks from the weekly Daniel number and Thursday's low at the time of writing was 915.00 just 2 ticks from the second downside target. What are the odds of these numbers being generated and published to my website before the trading week began? You may ask why 1034 was the final DC number and not one of the earlier numbers in the sequence. Our 4 hour gold chart made that abundantly clear.

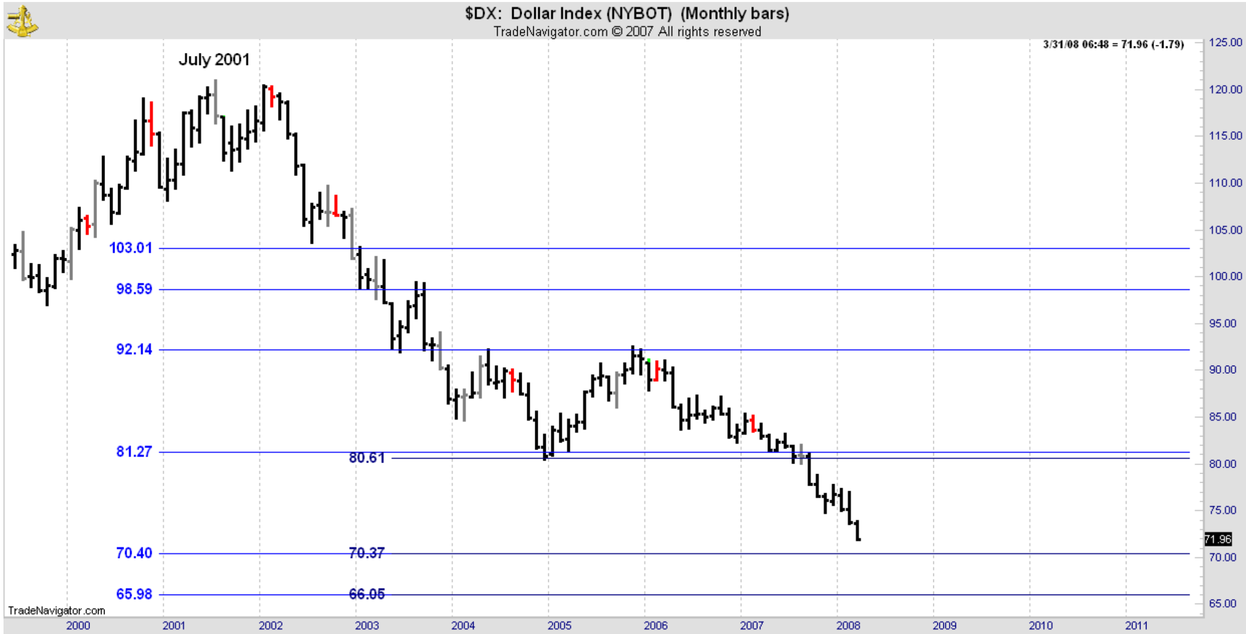
Correlations and Anti Trades

I give you this brief resume of the Danielcode's performance in calling the March top to show you that we know something about this business. To my knowledge the Daniel sequence was alone in calling the March high, and it came in an unusual way. One of the most important but little understood trading indicators is "D2" or derived data. What this means is that data from one market sets us up for the trade in another market. D2 derived data is doubly important as a market timing tool because it is less obvious than linear analysis and so produces more of the "surprise" factor, and because of the linkage to the other market we either get two highly correlated trades for the price of one or, better still, we get anti trades where we are long one market and short the other. This is the best of both worlds.

For Gold, the US Dollar Index (DX) is the anti trade. DX rules Gold although the degree of reciprocity or impetus in the anti trade varies with key price levels.

In this instance, we knew with a high degree of probability that the next important Danielcode support level for DX would be very near 70.40. In fact the comment and chart below were published to a wide and critical audience primarily in US in early March.

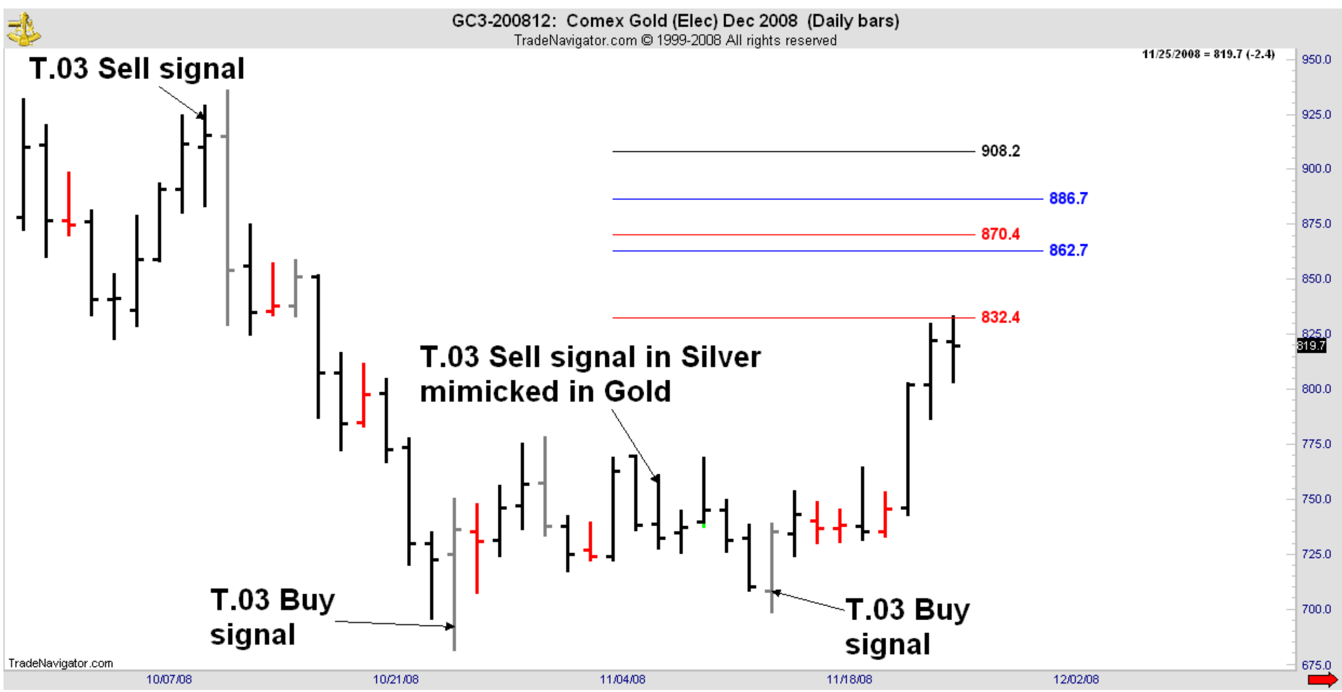
The US Dollar index continues to dive towards 70c where there are 2 degrees of Daniel number sequence support.



So when DX made a precise hit on its Danielcode target on 17th March 2008, and the same day Gold achieved its long awaited DC number at 1034.1 and recoiled violently, we had no hesitation in calling at least an intermediate top in Gold and simultaneously at least an intermediate low in DX. Both calls have proved to be prescient with DX now up 36 weeks and 27% from its March lows and Gold diving 34% from its March highs into its late October low.

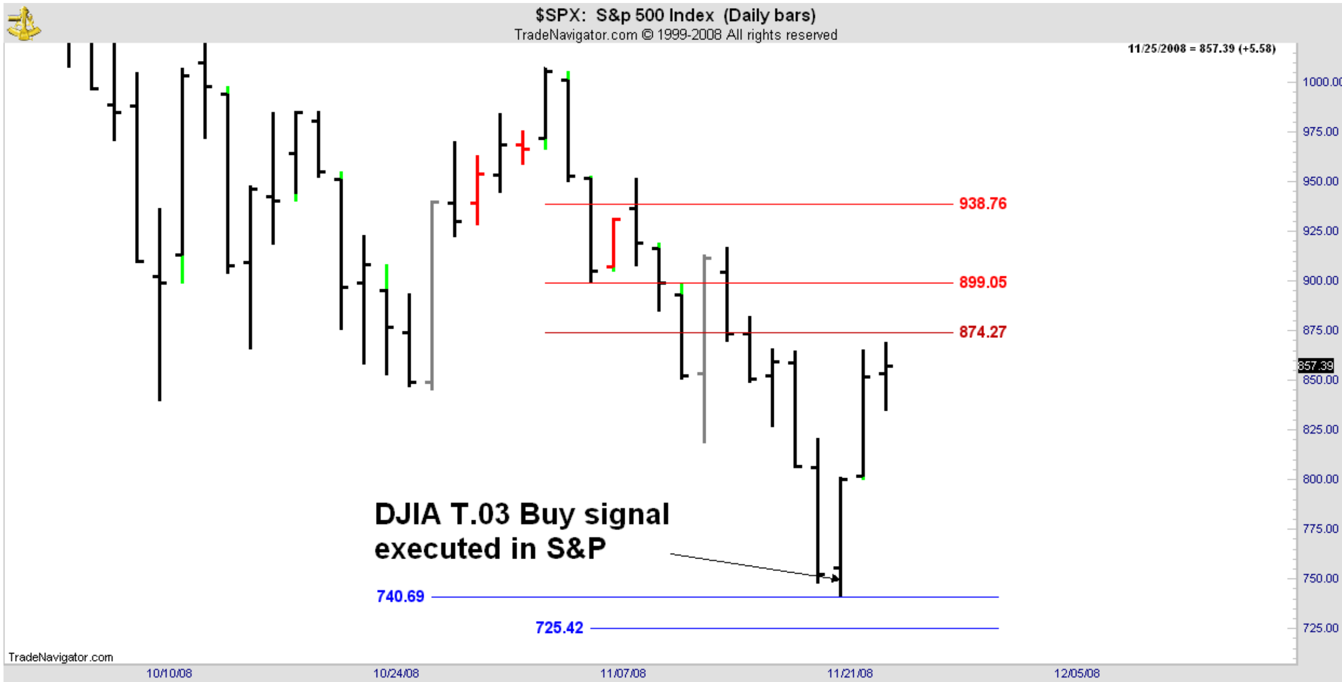
As a tradeable commodity, Gold is the premiere trading market. Comex Gold reacts precisely to the Daniel number sequence and on the daily chart every turn this year has been made within 3 points of a pre measured Daniel number sequence. Despite the cries of calumny from the conspiracy theorists, Comex Gold is the most rational market in the commodity stable. It is not affected by weather events or shipping strikes and it trades in an entirely orderly manner.

Here are just the latest calls on Gold from the Danielcode T.03 indicator. Further details on these trades are available on the free videos at the DC website.



You see in the above chart the toggle effect of a valid trade in Silver being executed in Gold.

In highly correlated markets, D2 data setups are invaluable. To show that this technique is valid in all markets, the chart below shows Friday 21st November's T.03 Buy signal posted for DC members 2 hours after the close of US markets on Thursday. In this case the signal was made in the Dow Jones Index where it was equally effective but why miss this classic setup in S&P. The DC target was 740.69. Friday's low for turn was 741.02. Neat enough?



I trust that this article has awakened your interest in trading Gold and Silver. They are marvelous, highly liquid traders' markets.

The fact that the "Cartel" regularly uses the Danielcode numbers for their habitual takedowns and less common market boosts, adds piquancy to the sauce. But I will leave you to ponder upon those interesting possibilities.

Pro 18:15 The heart of the prudent getteth knowledge; and the ear of the wise seeketh knowledge.
Solomon

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"The fox knows many things, but the hedgehog knows one big thing. A Hedgehog Concept is not a goal, intention or strategy to be the best. It is an understanding of what you can be best at. The distinction is absolutely crucial".
Isaiah Berlin, The Hedgehog and the Fox