The Starboard Side Report

The week ending August 15, 2014

CHART OF THE WEEK

There is a lot going on above in the Gold Miners ETF chart. However, it is important to grasp it since all of our portfolios have large Precious Metals positions. After cash, it is our largest holding and therefore will have a large bearing on appreciation or depreciation of your account. There are 5 items to take away from the price chart (on the right side of the page) and 1 item to take away on the Positive Volume (P-Vol) which is the green line chart on the bottom.

1. It is showing the September 2012 high and this is highlighted to show the seasonality of gold trading. If this chart went back to Sept 2011, it would show that the all-time top for gold stocks was made then.
2. In early 2013, the 50 day moving average declined below the 200 day, which was a negative indicator. We unfortunately ignored it in favor of gold's longer-term prospects. We did not think that the damage would be as bad as it turned out to be. The crossover was at 46 and this ETF dropped to 20 from there. Cross overs are very important indicators and we will definitely make better use of them going forward to avoid loss.
3. Another September high occurred in 2013 at around 31. That level could very well create resistance this coming September. Keep in mind that this is very short term analysis and it will not deter our belief that gold is still in a major bull market. However, short-term it will be important to better manage the risk in this volatile holding. We can either reduce

exposure or hedge our positions going forward. There are many analysts' that believe gold could go to $1000, which is possible. But, if that were to occur, it would be a downward blip in a longer-term bull market.

4. Very short-term resistance, if broken, would indicate a move up to price of 31.
5. The 50 day crossing over the 200 day moving average. This is very significant because it is developing a separation unlike the cross over in March, which quickly retreated in April. A cross back below the 200 day would be a strong indication that the gold bears would be correct. In our opinion, a continued holding above the 200 day average; especially one with separation between the two averages, would be a strong indication of a new bull leg in gold stocks.
6. This is a chart of the positive volume which indicates institutional investor buying activity. Note how the curve shifts upward from June 2013 and has remained on an up slope while prices moved sideways. This type of long-term demand is a very bullish indicator.

Last week we ended with a quote from Felix Zulauf that is in total agreement with our thinking: "*Cash to buy cheaper later, gold to sell later higher and some high-quality long duration bonds as a trade to sell later*". We are not crazy gold bugs, but want to hold gold to sell later at higher prices so then we can buy stocks at cheaper prices. We do not have a bunker mentality and have no political axe to grind.

This chart is on represents the major large-cap gold stocks, not the metal. Both the major gold companies and the junior gold companies are preforming better than the metal itself, although the metal is also showing signs of making a run to higher prices. The reason gold has underperformed for the past two years is because the majority has believed in what the FED has been doing to stimulate the economy. We strongly believe that stimulus will not work to recover the US economy and we point to consumer trends and the declining government bond yields as proof. When the markets come to the realization that the FED is the emperor without clothes, gold will resume its position as an important store of value.