The Atlantic GOLD & SILVER CENTRE

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Nobody rings a bell..

Written by David Ford

There is an old saying that nobody rings a bell at market tops. When the market is on a bull run, it is very difficult to know where it will end. The exuberance of participants often pushes prices significantly beyond the realms of the market fundamentals, and much higher than investors wildest dreams. However, one day – without any warning – someone starts to sell. The smartest & fastest investors quickly withdraw and the price reverses sharply. Greed gives way to fear, there is a rush for the exits to lock in paper gains, and the panic selling begins. Even if a market has been rising steadily for years, a violent reversal can take place in a few days, and sometimes even a few hours !

Market bottoms however are somewhat different affairs. After dropping for some time, the rate of decline slows, and prices begin to stabilize around some level. They continue to fluctuate with the general ebb and flow of market news, seasons and sentiment – but a base price begins to form. This is usually when smart money starts accumulating towards the lower band of prices.

The exuberance of the top is long forgotten, and is replaced by more level headed fundamental & value analysis. If enough participants are supporting the price, they will buy up all the sellers have to offer – preventing further falls.

<u>Somebody rings a bell..</u>

If the fundamentalists are correct, then bit by bit various news items appear which support their position. This gradually encourages those who were on the fence to get into the market again. While price movement alone indicates nothing, it does serve to bring attention to a market changing direction and can draw in further participants.

Once in a while, a major piece of news can change peoples perceptions and kick start a market which has been in the accumulation phase.

Which brings us neatly to the Federal Reserve minutes last week, and its effect on precious metals.

<u>What just happened ?</u>

The Federal Reserve decided to leave the benchmark federal funds interest rate unchanged at 0%-0.25%. This is where it has been for most of the last 7 years since 2008.

What's the big deal ?

For several months now, following positive jobs numbers from BLS in the US, and prior guidance from the Federal Reserve, many – indeed most, were expecting interest rates to finally rise. If the US economy were indeed improving, then cheap borrowing rates are no longer justified – in fact they would be dangerous as the economy would overheat.

Due to the expectation of an interest rate rise, this was touted as one of the most important Federal Reserve announcements in years. However the Fed blinked, and despite all the talk and expectation since Janet Yellen took over, they pulled their punch & did not deliver.

Why did they not raise rates ?

Firstly, the Federal Reserve said their own employment data was bad – much worse than the data earlier produced by BLS (which many believe bear little relation to reality due to the various 'adjustments' used)

Secondly, large numbers of Wall Street banks and Hedge Funds are very heavily levered using free money (i.e. borrowing at 0%). A large amount of levered money is invested in the bond markets. If you take away free money then two things start to happen…

a) There will be a lot of selling in the bond markets as funds de-lever, causing yields on treasuries to climb – and the US cannot afford to pay more interest on its debt.
b) Forced selling will cause massive instability and probably several large scale bankruptcies akin to the 2008 collapse – leading to massive bail outs (again)

This would cause rich & powerful people to lose money – and that will not be allowed.

Thirdly, other trading blocks such as Europe, China & especially Japan are still in full easing mode, having followed the Fed's lead. If the Fed starts to tighten, the US Dollar will climb and US Exports will be damaged. This could destroy the already fragile economy.

What happens next ?

Well, the Fed has indicated that it 'might' look at raising rates in a further 6 months time. However since they have been saying such things for several years now, they are beginning to lose credibility. Actions speak louder than words, and when the time came to act they were found wanting.

Many now are beginning to come to the conclusion that rates will never rise (at lease not in any meaningful way for the foreseeable future). Ben Bernanke himself said he did not expect rates to normalize 'in his lifetime' – and it looks like he was correct !

All this significantly raises the prospect of inflation & possibly hyperinflation as the Rest of the World is turning away from US Dollars for trade. The fact that this is GREAT news for precious metals was not lost on us, or the broader market.

The day after the announcement, we posted the following on our Facebook page…

> ***"If you're not buying precious metals after yesterdays FEDERAL RESERVE press release, then you need your head examined !"***

Other factors you should be aware of which pressure prices upwards…

- the pace at which global superpowers continue to debase their money
- increasing conflicts in eastern Europe & the middle east
- the hostile rhetoric of the US towards Russia (and anyone else who disagrees with them)
- the creation of alternative international banking systems not dependent on the US
- sovereign debt issues in Europe and South America
- Japans central bank monetizing everything it can find – including buying stocks

..these are all actions which really spell disaster for the current economic system, and many commentators are worried increasingly about a catastrophic shock reminiscent of 2008.

Below is the reaction of the silver market, the most volatile of precious metals. The price took out the 20 day, 50 day & 100 day moving average in a few days. Even as the US Dollar began to strengthen later in the week, both Gold & Silver stubbornly refused to give up their gains – showing more strength than expected.

Since then we have seen very strong buying in the market, with pullbacks being short lived. All the indications are that this is a major turning point for precious metals. Prices are rising more aggressively than we have seen for several years.

What should you do now ?

We continue to believe that those who dollar-cost-average are the happiest with their purchases. They know they are accumulating some of the most valuable investments in human history and laying a sound foundation for their future financial security. However the temptation to 'time-the-market' is hard to resist. So if you're going to 'buy-the-dips' MAKE SURE YOU DO IT. Most amateur investors get spooked as the price falls, only deciding to buy once the price has started upwards again !

Conclusion

This may be looked at as a major turning point in the market. The strength of the price rally in the last 2 weeks has been astounding. The US Fed has signaled clearly that easy money policy is HERE TO STAY !In short…

Buy precious metals
Buy regularly
Take advantage of price corrections and do not hesitate
Store it away to give yourself a sound financial foundation.

Author David Ford is the founder, owner and President of The Atlantic Gold & Silver Centre. He is experienced in commodities & future trading, banking and insurance. He has been actively investing in gold and silver bullion since 2000.