

THE VALUE VIEW GOLD REPORT TRADING THOUGHTS

TRADING THOUGHTS is about timely and profitable buying of precious metals. We do not believe every turn in the market can be called. Our goal is that our recommendations should be profitable. Profits are the goals, not trades. Do not expect all recommendations to be profitable. No system can achieve that lofty goal. Our goal is simply to state whether conditions in the precious metal's market are favorable or not. Current investment strategy is bullish for Gold. Buy signals are issued when appropriate. These signals are generally speaking for day they are issued. If price remains below signal price, buying can be done. Do Not Buy signals are given when market is over bought, and buying is unwise. We are not issuing any sell signals in a bull market. Blue triangles indicate an over bought condition. These would not be good times to buy.

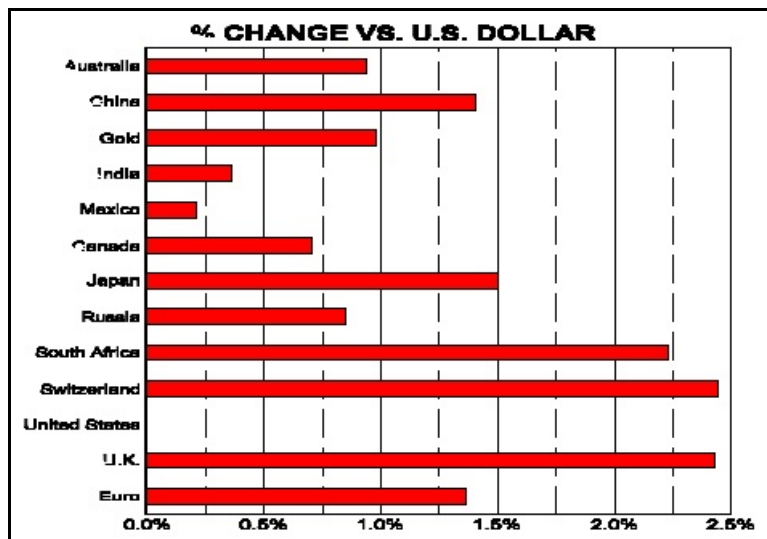
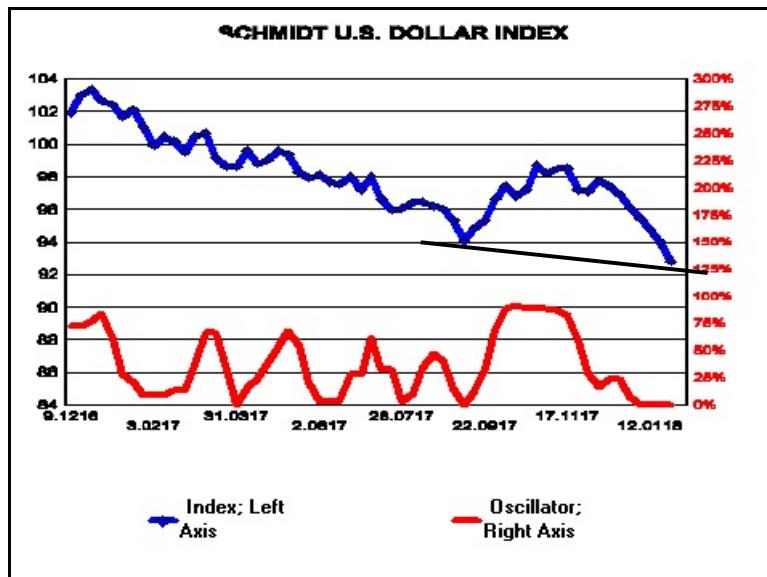
DOLLAR DIVED, But

As is readily apparent in top chart, the dollar has dived, tanked, plunged, etc. But, it is oversold.

If we simply look at trend of dollar from first low in chart to current value, highlighted by line in chart, size of that move has been quite normal. However, the rally from first low into collapse to current value was again an example of market distortions caused by horde of juvenile traders playing in futures.

Rally in that chart was built on Street's misguided view that Federal Reserve unwinding its balance sheet would send U.S. interest rates dramatically higher. Well, that was not the case, and dollar faltered. Additionally, economic fundamentals turned against the dollar. Will discuss below.

Bottom chart is recent performance of currencies we track. Quite simply, "everything" went up against the dollar through end of last week. Also note oscillator in top chart. Dollar is truly over sold, and Trump's statement on dollar set off a small



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rally in currencies and a sharp sell off of \$Gold. Trump said dollar will be strong over time, in contradiction it seemed with Treasury Secretary. Key words were “over time”. That is what the President of any country should say. **Anyway, the over sold condition is likely to be corrected, and in short-term may cause Gold to correct some of overbought condition.**

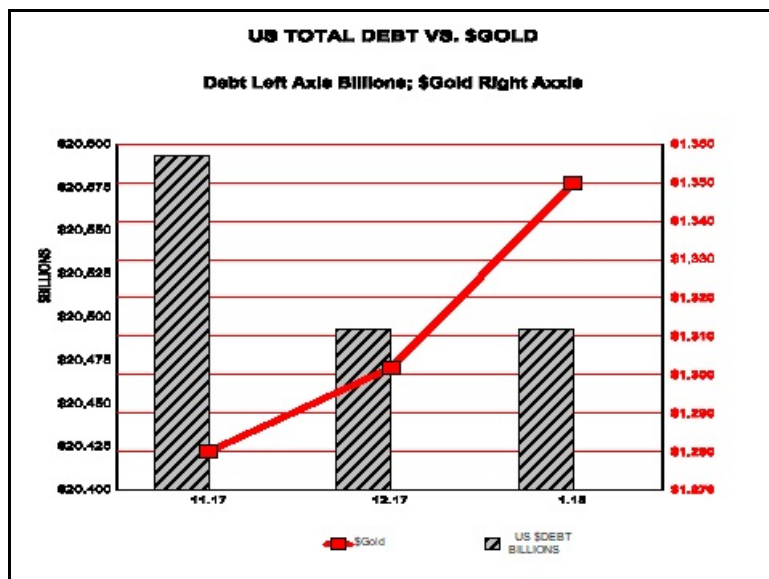
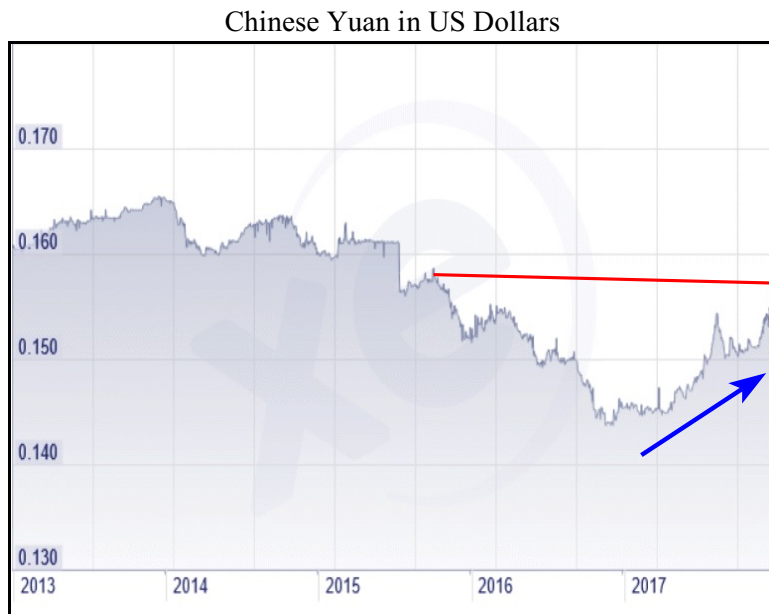
However, fundamentals of dollar are not good. Last week the first reading of U.S. fourth quarter economic performance was released. U.S. consumer spending rose at a 3.8% annual rate, which was fastest growth since 2015. HOWEVER, U.S. cannot produce goods that consumers want. All U.S. seems to produce now is useless social media sites that create nothing that makes life better. As a consequence, goods needed to satisfy that demand are imported. U.S. imports rose at a 13.9% annual rate, expanding the U.S. trade deficit. **Imports are a negative in GDP calculation. That trade deficit is financed by sending boatloads of dollars to foreign countries.** (From marketwatch.com article: [Article Link](#))

U.S. has long had this economic problem, but it has been ignored for several years as juvenile traders distorted currency markets. As U.S. economy expands, demand for goods, t-shirts to cell phones, expands. But, U.S., due to being focused on social networking nonsense, does not produce those goods. As U.S. imports those goods, the ships are filled with dollars and sail back to country of origin. This situation puts long-term pressure of the dollar.

As an example of impact of U.S. trade deficit on currency values, let us consider top chart of Chinese Yuan in U.S. dollars. A rising value means Yuan is appreciating and dollar is depreciating. Strong rally has brought Yuan’s value back to that in mid 2016, and not far from five year high in chart.

As U.S. economy expands, imports of goods from China and others will expand, giving those countries more dollars that they may or may not want. Dollar is likely to be under long-term negative pressure from this situation.

Bars in bottom chart are the size of U.S. debt, using left axis in \$Billions,



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while red line is \$Gold using right axis. Bars are flat cause U.S. government cannot pass a budget! Due to failure of U.S. Congress to produce an annual spending plan, the largest government in the world is running on 3 week budgets. U.S. fiscal year began 1 October 2017, and today is end of January.

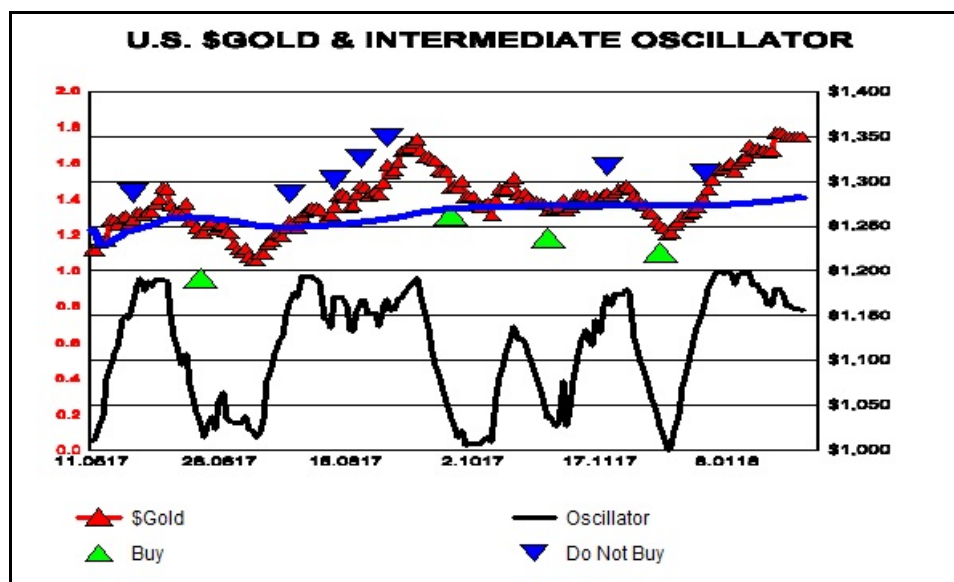
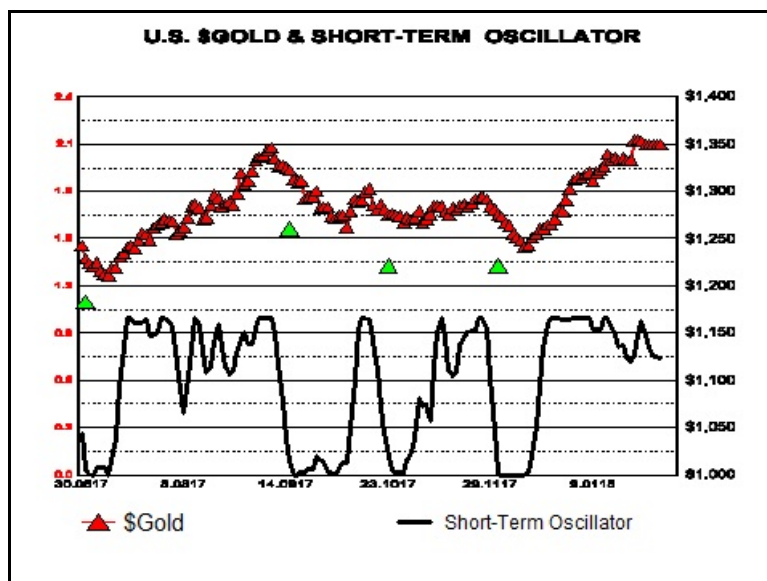
Failure of U.S. government to manage its fiscal affairs is a source of downward pressure on dollar.

Whenever U.S. Congress does pass a budget, one thing is certain. Bars in chart bottom of previous page will “shoot up”. Combination of massive spending and tax cuts will create a huge deficit that must be financed by selling debt to gullible investors around the world. To do that, debt must be attractively priced in terms of interest rates and value of dollar.

\$Gold has had a great month or so, rising by more than a hundred dollars from December low. Versus a year ago, up almost 14%. While perhaps not as exciting as the speculative mania in equities, risk of 30-40% drop does not exist with Gold.

\$Gold pushed to an intra day high of roughly \$1,367, easily taking out the popular resistance at \$1,350. ***With prices now in new higher territory, some “consolidation” is taking place. Naturally some have taken profits. A period of resting is needed before Gold can move higher.***

Forces that will carry Gold higher, aside from the problems with dollar discussed above, include a general move by investment funds to commodities, rising risk in stock markets, especially in U.S., and valuation.



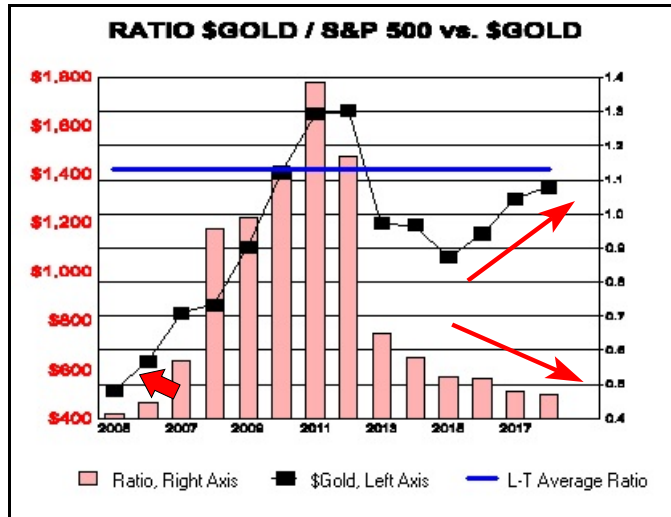
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Analysis of \$Gold / S&P 500 Ratio Data: 1945 - 2017 73 Years

If S&P 500 =	2,858	\$Gold should be:	\$3,229 +141%
If \$Gold =	\$1,342	S&P 500 should be:	1,188 -58%

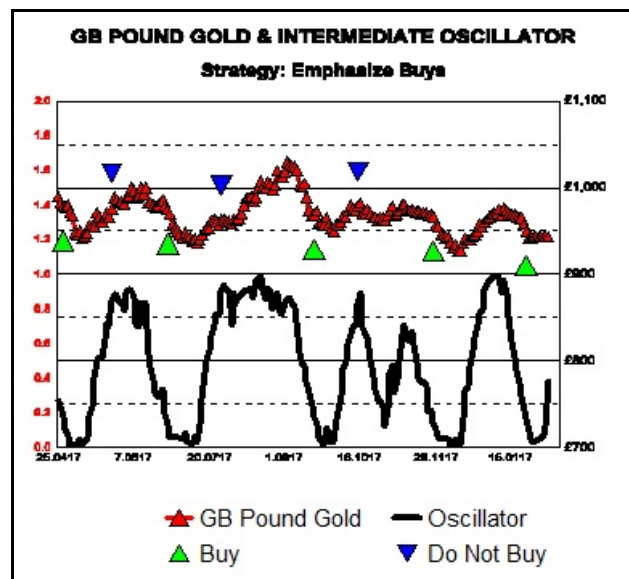
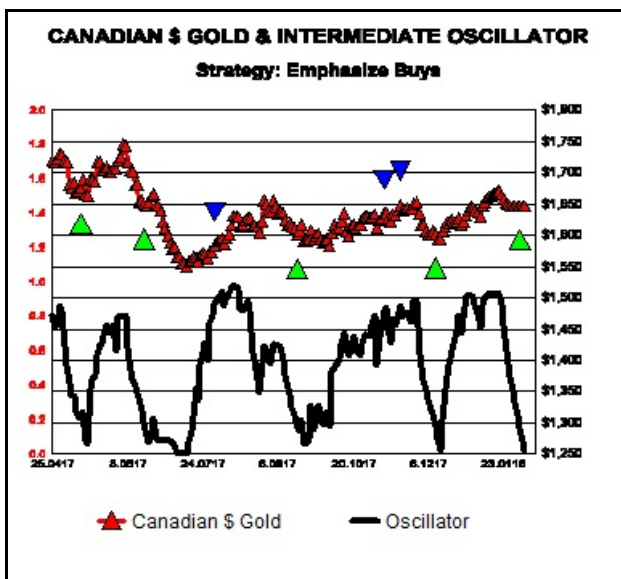
Valuation Interlude: Under valuation of \$Gold relative to S&P 500 has been pushed to an extreme that is now being “resisted”. Markets do not remain at extremes, but do “push back”. As the valuation bars decline, highlighted by arrow, Gold market responded by rising, also highlighted by rising arrow. Fat arrow points to price when last valuation was as depressed as currently is the case. **Just as Gold did not remain at the high valuation in center of chart, it will not remain at low.**



Commodities are gaining investment interest as global economic expansion is now accepted. On a weekly closing basis, both oil and Gold are at 52-week high. Oil prices have been performing better than stocks. That reality is not being ignored by return hungry investment funds.

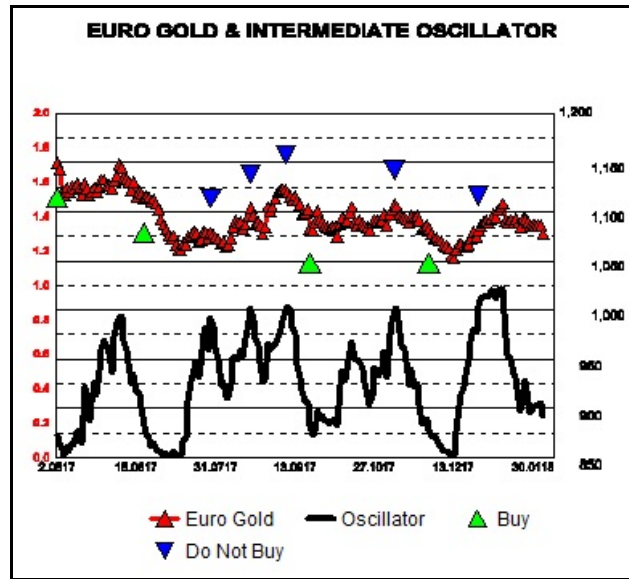
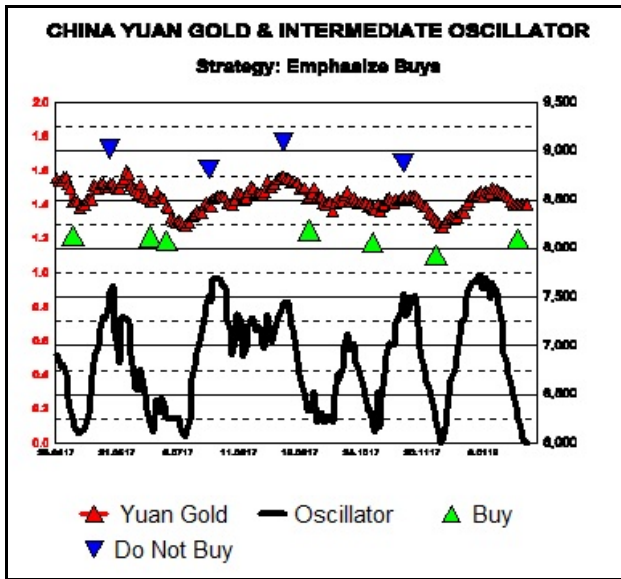
Despite what we hear from cheerleaders on business news shows and read in the media, risk in U.S. stock is rising toward an unstable level. That equity market is now in a parabolic rise, a formation that always fails. Some investors do recognize that situation, and are adding Gold to their portfolio. At this point the real question on U.S. stocks now is not how much more they can rise, but how much downside risk exists.

Appreciation of some currencies against the dollars has dampened some of the rise that has occurred with



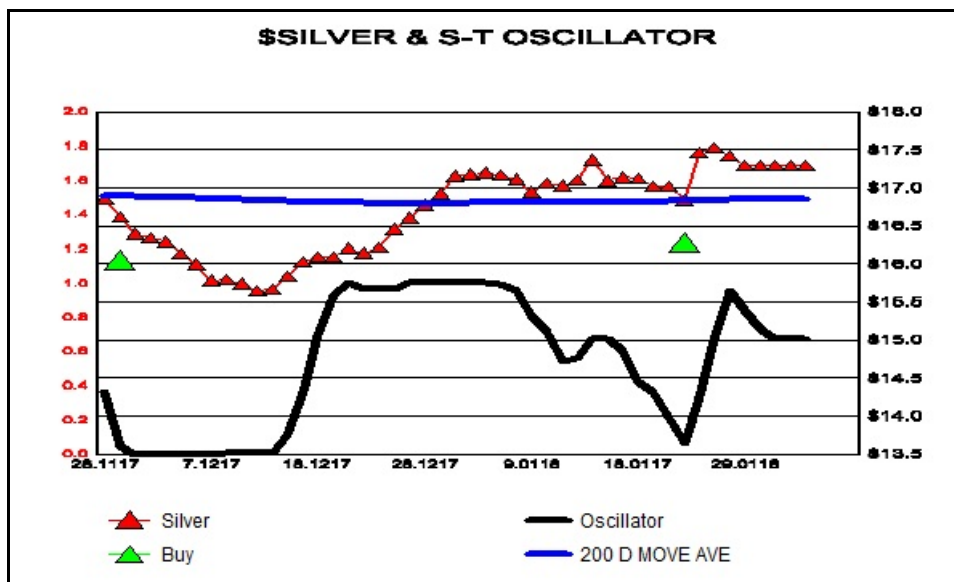
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\$Gold. As can be observed in above charts, several are now oversold with buy signals.

Silver's rise from December low has been rewarding, up about 12%. With collapse of much of the klepto-currency markets, chances of improvement for Silver are higher than they were. Recently a \$530 million theft of fantasy coins was announced in Japan. These "coins" were stolen from a digital wallet, another likely fantasy. How many such losses will investors incur before they return to investing in real assets? You must admit stealing \$530 million of Silver coins would be a tough task. Japanese exchange says it will reimburse investors in YEN. Seems klepto-currencies keep failing and coming back to regular money. Chart below covers period of just before December low till present. Impressive is that 200-day moving average now looks like support, rather than resistance. \$18 is now the magic number, and should not be any major problem. After that, blue sky.

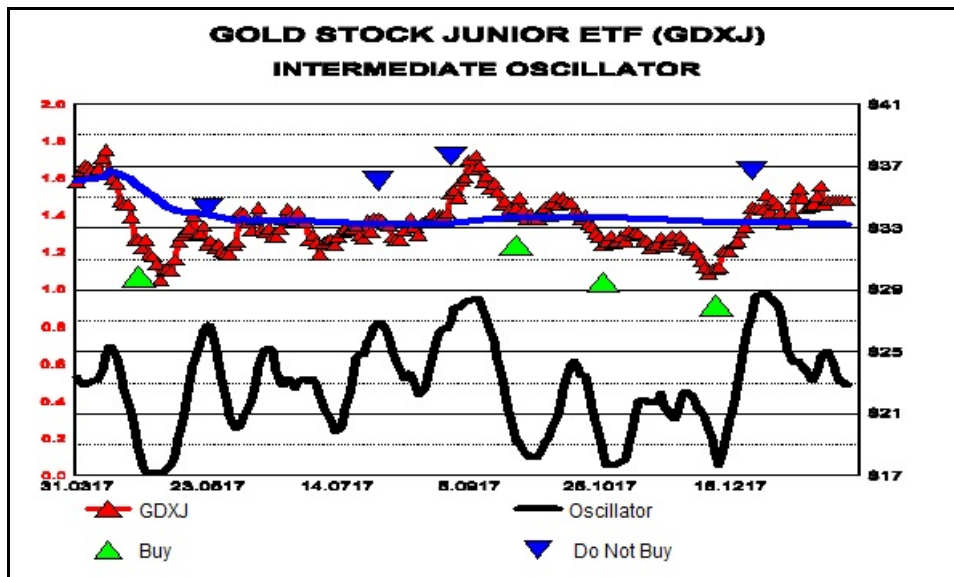
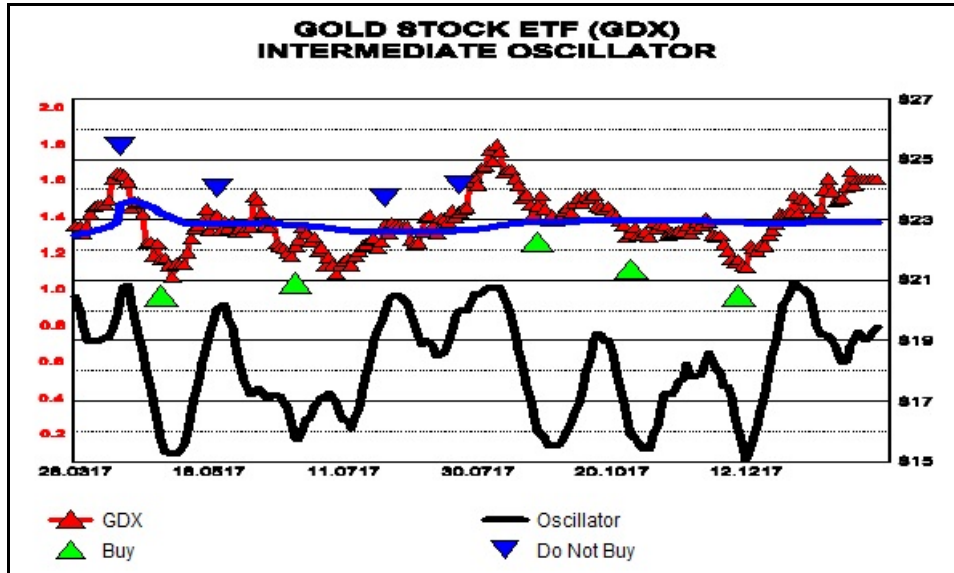


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GDX ETF is in top chart and GDXJ ETF is in bottom chart.

IN both charts prices seem be reluctant to move up and past the last highs in charts. For GDX, top chart, price of \$16 would clear that hurdle. For GDXJ that price is roughly \$38. When \$Gold again breaks through \$1,360 both ETFs should be dragged through those respective highs.



Your Eternal Optimist,
Ned

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Publication Schedule: Next *Trading Thoughts*: 30 February Next Monthly: 15 February

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VALUATION						
	US\$ GOLD	US\$ GOLD %	US\$ / CHINESE YUAN	CHINESE YUAN %	US\$ SILVER	US\$ SILVER %
CURRENT	\$1,342		\$0.1578		\$17.20	
Long-Term Target	\$2,087	56%	\$0.3330	111%	\$36.25	111%
Fair Value	\$983	-27%			\$17.10	-1%
S-T Oscillator	62%				66%	
Signal Oscillator	68%				52%	
Probability of BULL Trend	90%		73%		90%	
Bear Market Low	\$1,047	17 Dec 15	\$0.1444	Dec 16	\$13.55	14 Dec 15
% Change From Low	28%		9%		27%	
Days From Low	776 days				49 days	
Market Low Test	\$1,123	15 Dec 16			\$15.50	12 Dec 17
% Change From Test of Low	20%				11%	
Speculative Trader Ratio *	3.4 +				1.6 +	
200 Day MA Current - Value	\$1,280 + \$62				\$16.84 + \$0.36	

*Ratio of large speculator longs to shorts from weekly CFTC report on traders.

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