

TRADING THOUGHTS

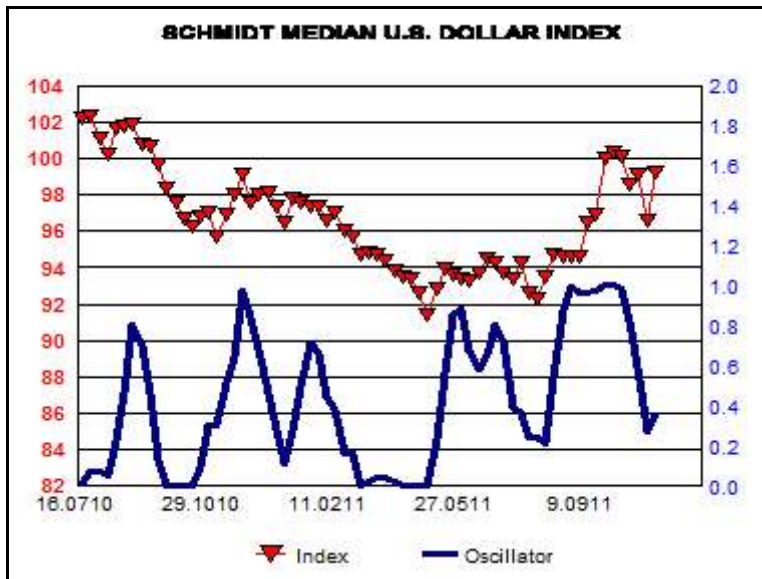
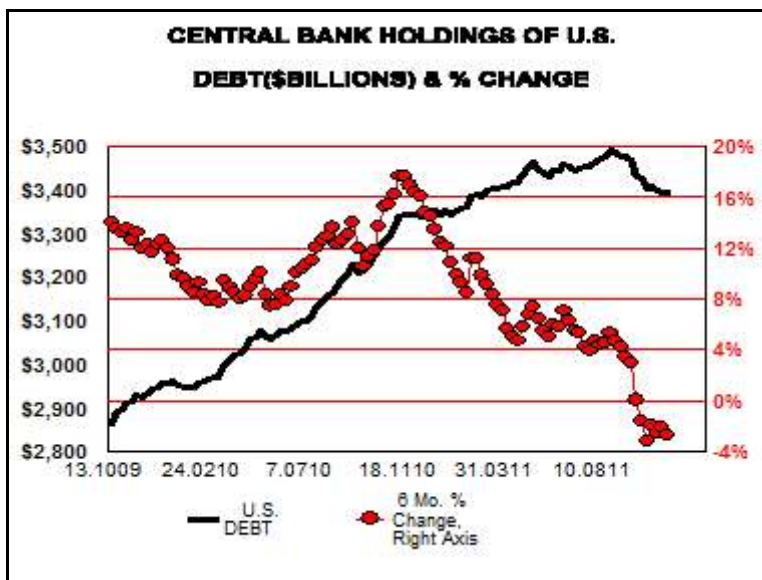
from THE VALUE VIEW GOLD REPORT

TRADING THOUGHTS is about timely and profitable trading 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. Software is deleting legend. Don't know why, but will try to overcome it.**

Greeks vote for the Euro! When the opposition in Greece was given the opportunity to reject the necessary fiscal austerity to remain a viable part of the Euro area, they folded. When faced with the consequences of a referendum in Greece on the Euro, opposition acknowledged the necessity of remaining part of the Euro area.

Poland this past week reaffirmed that country's commitment to the Euro due to the absolute necessity for currency integration. Only bumbling old Keynesian academics believe in the illusion of national monies. The 40 years of economic pain from 1914-1954 was a real and lasting economic lesson to Europeans. Euro is here to stay, and the Keynesians calling for separate currency are simply adding to their record of no wins all losses on ideas.

U.S. and the EU are now mired in a Keynesian Recession. Both have no choice but to deleverage. That term means that spending must be capped, reduced till it is more in line with income. Debt financed spending by governments, the Keynesian path to socialism, is to slowly become part of history. Keynesianism is dead. **The**



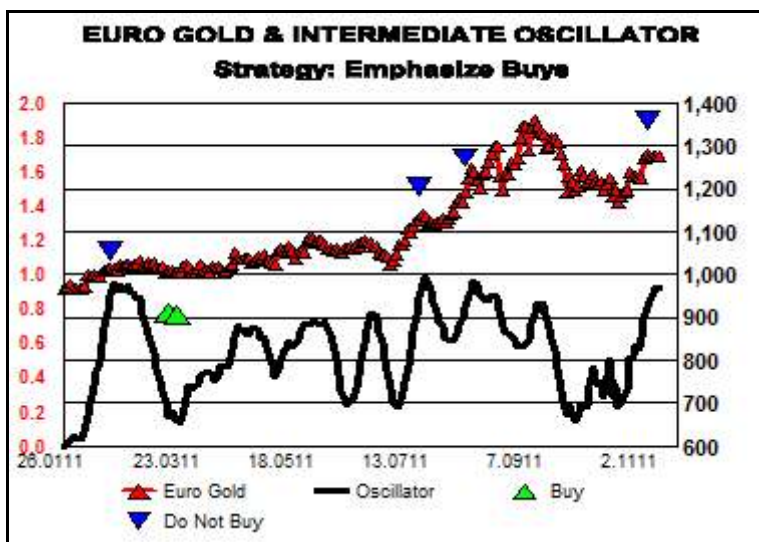
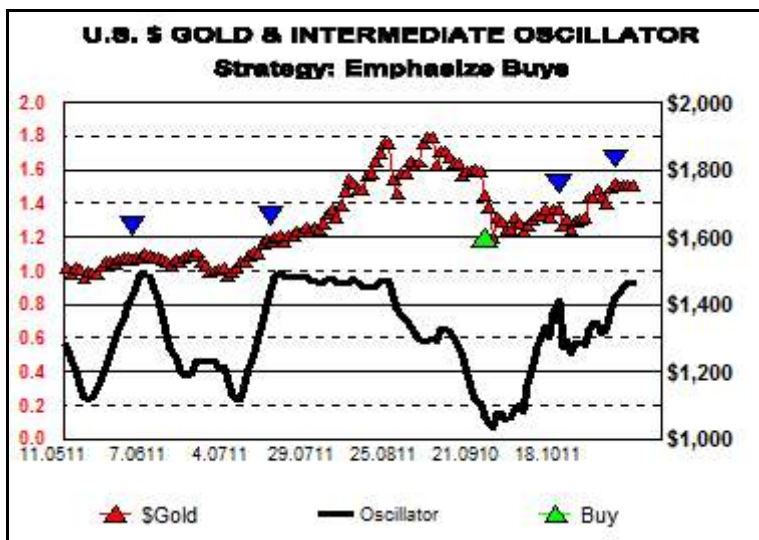
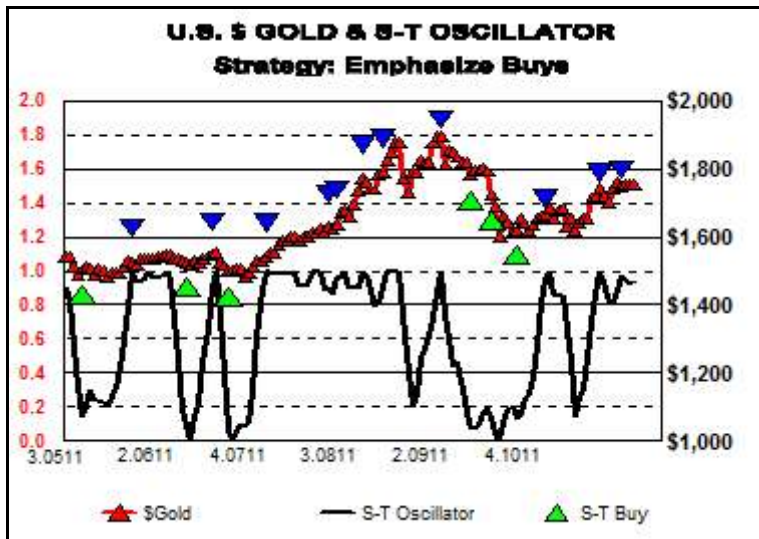
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consequences of that development are deflationary in nature. Greece, et al have kicked off another round of deflationary pressures. Deflationary pressures are different than deflation in that what they will be doing is offsetting monetary inflation on part of central banks.

While the world seems focused on Greece and EU banks, developments in the top graph on the first page are being ignored. Again, plotted in that chart are the holdings of U.S. government debt by foreign central banks at the Federal Reserve. Liquidation of those holdings continues. In the roughly two years of data shown those holdings rose by almost \$700 billion to their high. Since then they have fallen by almost \$100 billion. That is a significant shift.

As of yet these liquidations have not had a material impact. Reason for that is ongoing issues with Greece, et al and the European banks. Dollars are being hoarded, and a shortage of dollars continues to exist. While source of these liquidations is not known, likely that a significant part are due to the dollar shortage in Europe. That dollar shortage again sent the value of the dollar up, as shown in the second graph on the first page.

MF Global? Week ago the firm MF Global ceased to operate and filed bankruptcy. At that time ~\$600 million of client funds in the commodity subsidiary were “missing”. These accounts represent about 28% of trading activity on the CME, a principal exchange for



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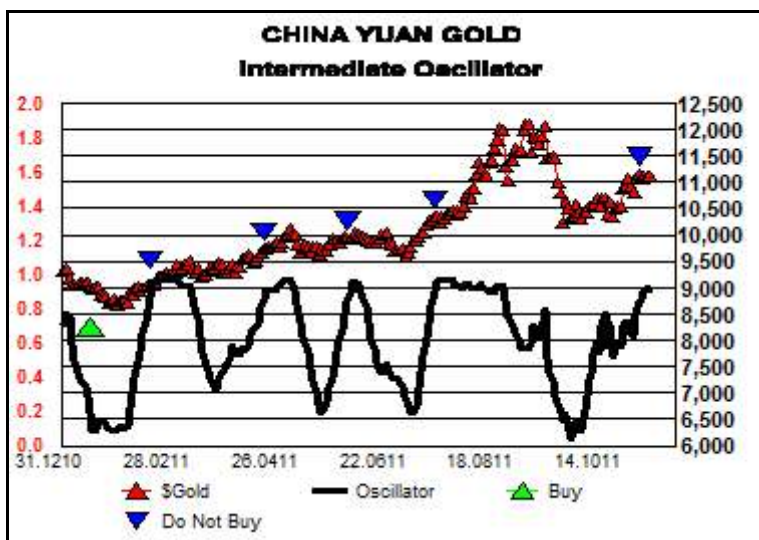
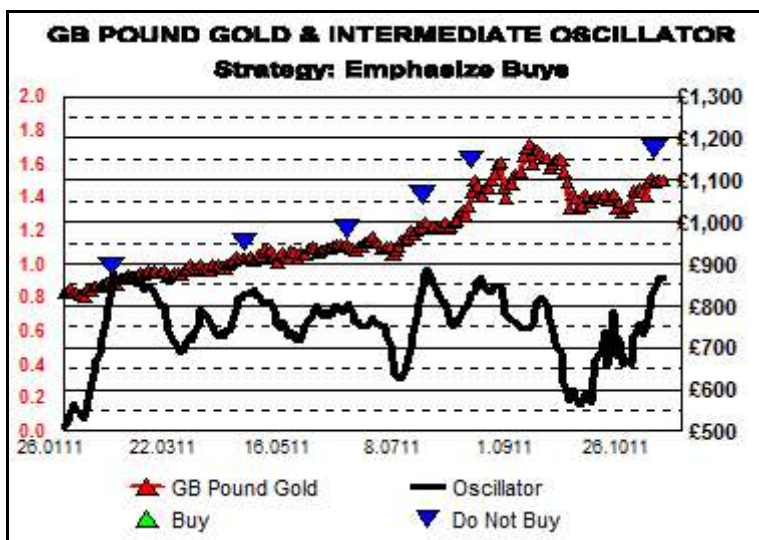
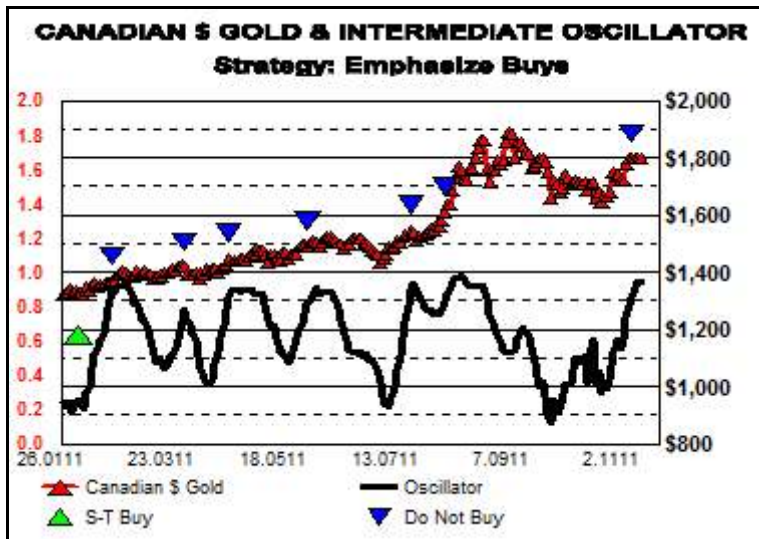
precious metals futures. While news is mixed, trading in these accounts has been essentially frozen for a week. CME has been in process of transferring these accounts to other brokers. Large trading accounts will experience a loss of funds until the accounting is resolved, and 40% of accounts now have inadequate margin.

Monday will be the first day that accounts being transferred to other brokers will be able to trade their accounts since MF Global failed. Some will now find they have insufficient margin to maintain positions. Others will have positions that are now “old” or out of balance, for lack of a better term. A week of inactivity in a major trading account is a “life time” in today’s world.

While the market impact on Gold and Silver is ambiguous at best, we can say that buying power will be reduced by this event. Hard to imagine a positive impact on the price of Gold and Silver. Some traders may simply back away from these two markets till the “dust settles”.

\$1,600, as can be observed in the top two charts on the previous page, is still the magic number for \$Gold. Problem at this time is \$Gold is now over bought, as indicated in those two charts. In all of the other charts Gold is also over bought.

That \$1,600 level is also observable in the other currencies, €1,150, C\$1,600, ^1,000 and so on. Until this level is seriously tested, and holds, investors should watch, letting



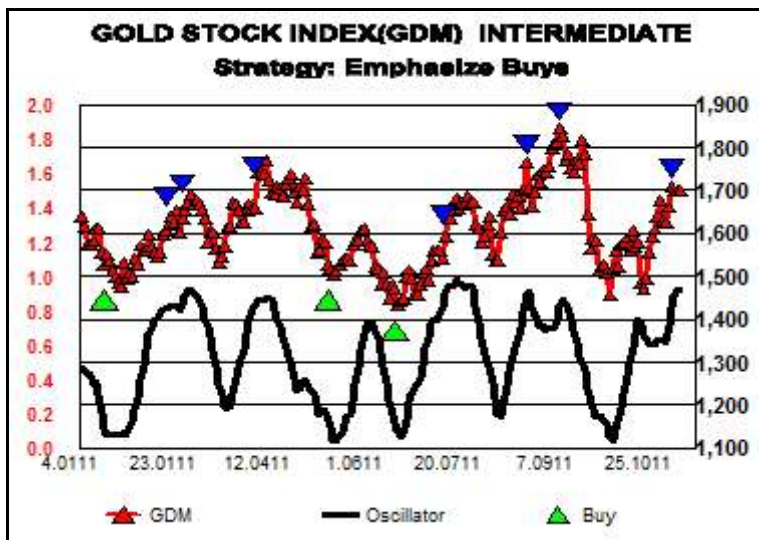
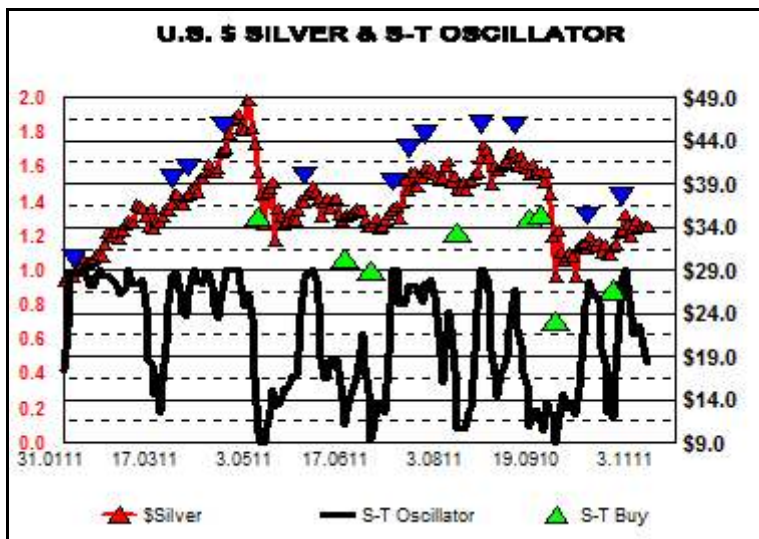
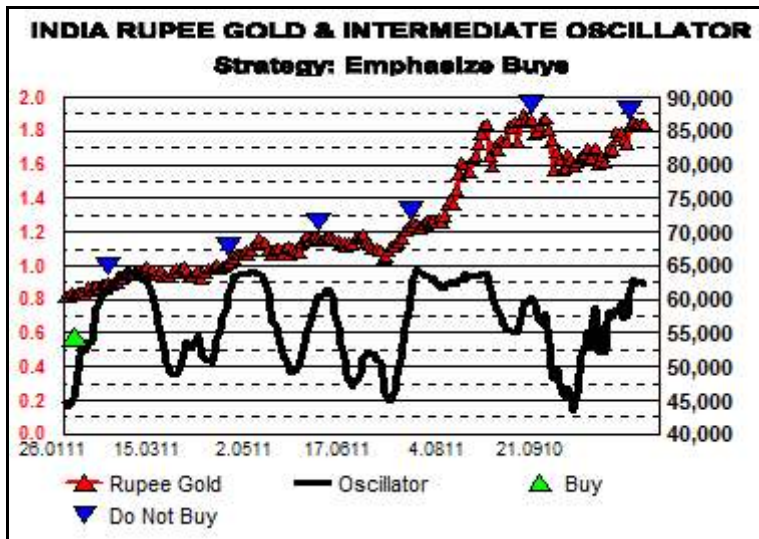
the traders in the futures markets fight the battle. Still do not believe the \$1,600 will hold.

To argue for an immediate move higher one has to expect a major negative event. Greece is going to soon become yesterday's story. In short, without the ability to conjure up a big negative event, Gold market is running out of short-term fuel.

Silver, middle chart, continues developing a serious problem. *Time is now Silver's biggest enemy*. In another week we will start dropping plots from the left side of the graph as we run out of columns on the spread sheet. That high for Silver is slowly fading into history, and fading from the memory of traders and investors. To many, Silver no longer has an exciting story.

Chart has a decidedly negative pattern. Silver has been trading below the 200-day moving average, now \$37, since the last week of September. All of that does not create a picture of a price preparing to skyrocket to a new high. Rather, it is a picture of something with the path of least resistance being down. *We still expect Silver to make an important low in the first quarter of the new year.*

GDM, bottom chart, is the index for the Gold stock ETF. That is a picture created by traders, not investors. Notice how especially good have been the signals from the stochastic oscillator. That happens in a trading market as traders use similar tools. Current signal suggests the index will again retest the 1,450 level. Given



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previous discussion and the next chart, we suspect that test will be a failure.

MVGDXJ, the index for the ETF of junior stocks, is in the top chart. That picture is not pretty. Index has become over bought at a major resistance level, and is churning. Over head supply on index and many of the stocks is large. Not a sandbox in which to play.

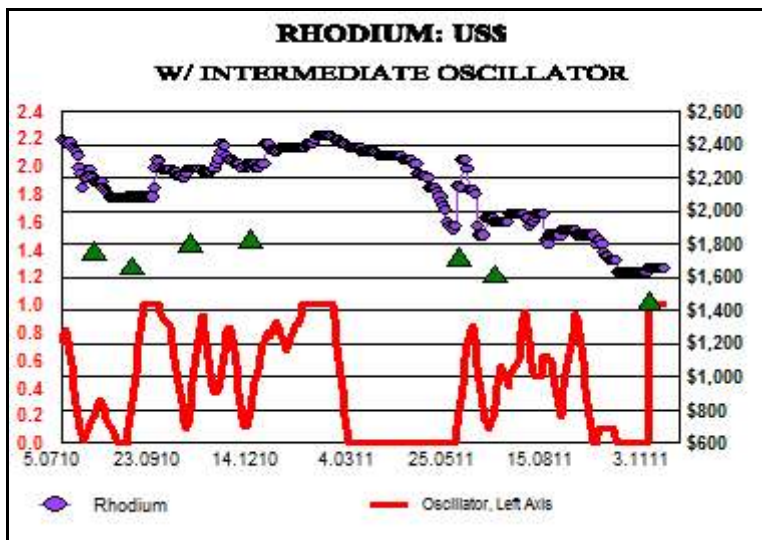
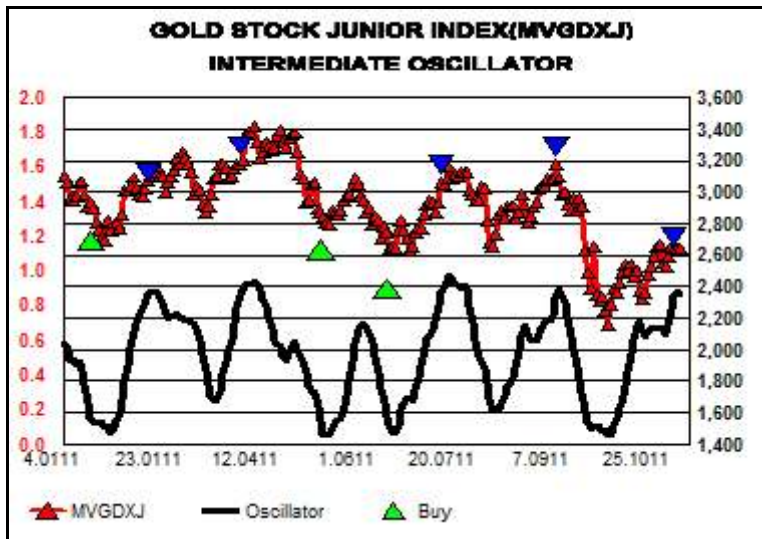
Chinese Renminbi continues each week to make some inroads into mainstream investing. In Asia, the Renminbi is the currency of choice. It has become a favored investment by many.

While we compare the Renminbi's future to that of the Japanese yen from 1955-1990, we note that this past week again made an all time high against the dollar. Over the past ~56 years the compound return on the Japanese yen versus the dollar has been ~3% per year. Yes, that is not real exciting, but consider the circumstances. Japan has been in a recession for 20 years! Japan has been printing and spending money like a drunken sailor. All one had to do was put that paper money in your drawer. No trading. No watching talking heads on television. No subscribing to news letters. Oops, did I say that? Chinese Renminbi is going to be a structural win like the Japanese yen from 1955-1990.

Your Eternal Optimist;
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US\$GOLD & US\$SILVER VALUATION						
Source: www.valueviewgoldreport.com						
	US\$ GOLD	US\$ GOLD %	US\$ / CHINESE YUAN	CHINESE YUAN %	US\$ SILVER	US\$ SILVER %
CURRENT	\$1,776		\$0.1573		\$34.60	
Probability of Bear Market	36%		0%		99%	
SELL TARGET	\$1,970	11%	\$0.5000	218%	\$35.50	3%
LONG- TERM TARGET	\$1,842	4%	\$0.3330	112%	\$33.00	-5%
FAIR VALUE	\$867	-51%			\$15.60	-55%
ACTION	Hold Gold, but risk is high.		Buy Chinese Yuan		Near sale price	

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