

## **How Bad Can it Get?**

By Scott Silva

Editor, [The Gold Speculator](#)

7-24-12

### **How Bad Can It Get?**

Well, that's the question that the central planners need to answer, but not one seems ready to admit the fact that the US economy is slowing down further despite the rosy outlook of presidential re-election cast of characters, which includes most of the media. Those stubborn facts remain: unemployment is climbing, not declining; consumer sales are down; corporate capital expenditure (CAPEX) is down; energy prices are headed up; food prices are headed up; real wages are down; housing prices are still down; real interest rates are negative; national debt is growing; and GDP is slowing.

So what's the bad news? The bad news is we are hurdling toward the fiscal cliff, Thelma and Louise-style, with POTUS and Big Ben Bernanke holding hands in their blue '66 Thunderbird convertible as it plummets to the canyon floor below. The sad fact is there is a leadership vacuum in Washington, which prevents rational bipartisan decision-making regarding deficit reduction and spending priorities. If the debt limit fiasco of last August is any measure of dysfunction by the Federal government, then stand by for the real fireworks display as the Super Committee cuts kick in, the Bush tax cuts expire (for every taxpayer), and the Obama tax takes hold.

Each one of these Federal bipartisan compromise measures will decimate jobs and grind growth to a standstill. A recent study concludes that the automatic spending cuts mandated in the Budget Control Act of 2011 affecting defense and non-defense discretionary spending in just the first year of implementation will reduce the nation's GDP by \$215 billion; decrease personal earnings of the workforce by \$109.4 billion and cost the U.S. economy 2.14 million jobs.

That's no way to stimulate the economy, which is exactly what Fed Chairman Bernanke told House and Senate Finance Committees last week. The Chairman's remarks painted a pretty gloomy picture for US economic growth, and he repeatedly pointed to fiscal policy (outside his control) as a major culprit. The markets were hoping he would announce the start of QE3, but Big Ben could only reiterate that the "Fed stands ready to act...when conditions require..." Oh well, Ben and boys will have another chance to make the big announcement when the FOMC meets again Jul 29-Aug 1. Chances are the Wisemen will offer nothing earthshaking after their regular pow-wow.

The markets are searching for a reason to climb, but the threat of extended recession in the US, deepening recession in Europe and a slowdown in China all work against any sustained move. Sideways motion seems to be the trend. Something has to change before investors decide to pour capital into risk-on asset classes. Many are happy to stay in Treasuries and precious metals until there is some light ahead, which is why stocks have taken such a beating this year, and prices of T-Bonds and gold are maintaining their prices.

What are the technical indicators telling us about gold now? We can use technical pattern analysis and the more complete Ichimoku Kinko Hyo indicators to examine trading decisions for gold.

Gold has formed a symmetric triangle pattern evident on the daily basis chart. Symmetric triangle patterns typically form during a trend as a continuation pattern. The pattern contains at least two lower highs and two higher lows. When these points are connected, the lines converge as they are extended and the symmetrical triangle takes shape. The pattern shape appears as a contracting wedge, wide at the beginning and narrowing over time.



Symmetrical triangles can mark important trend reversals. They can also mark a continuation of the current trend. Whether signaling a continuation or a reversal, the direction of the next major move can only be determined after a valid breakout. A “breakout” of the pattern occurs when the closing price is above or below the narrowing pattern lines. Therefore, the breakout can be to the upside or the downside. Determining a valid breakout can be challenging; price action can return to the breakout point creating a false breakout. Increased trading volume concurrent to the breakout is a reliable confirmation indicator. Other useful confirming indicators include proof of a 3% move above the pattern line and the time-based rule, such as a sustained move over three days.

To determine the price target for a breakout from a symmetric triangle pattern, we can either measure the widest distance of the symmetrical triangle pattern and apply it to the breakout point, or we can draw a trend line parallel to the pattern's trend line that slopes (up or down) in the direction of the break. The extension of this line will mark a potential breakout price target.

Today, price action is between the pattern lines whose breakout values are 1612 on the upside and 1559 on the downside. If price action slides sideways from here, the breakout values converge, creating more opportunity for a breakout without a substantial change in price. For example, if we project sideways movement to August 16<sup>th</sup>, then the breakout values narrow to 1598 and 1571. The depth of the triangle sets the price increment at 72 points.

The Ichimoku Kinko Hyo indicators confirm these support and resistance values of the symmetric triangle pattern above. The cloud or moku is the shaded area on the Ichimoku indicators chart below. The cloud depicts support and resistance levels and can be projected forward. For gold, the projected cloud is narrowing. Also, the projected cloud top is flat, which

portend sideways movement. The support and resistance levels for the projected cloud out at August 17<sup>th</sup> are 1598 and 1590.



The Ichimoku indicators tell us more about price gold than the triangle pattern. Ichimoku, the “one look equilibrium chart”, gives us not only support and resistance, but trends, momentum, and trend reversals in a single, coherent view of its five price-related indicators. Professional traders use Ichimoku indicators to trade currencies, futures, stocks and bonds successfully by tapping into to strong trends. There are well established rules for trading using Ichimoku Kinko Hyo, which we use at [The Gold Speculator](#). Right now these indicators signal “hold” for those that own gold. These same indicators will tell us when the time is right to “Buy” or “Sell” to take full advantage of the new intermediate trend for gold.

So no matter how bad the economy gets, we can stay ahead of the pack by trading hard assets, such as gold.

Responsible citizens and prudent investors protect themselves and their wealth against the ambitions of over-reaching government authority and debasement of the currency by owning gold. Gold is honest money. Investors from around the world benefit from timely market analysis on gold and silver and portfolio recommendations contained in [The Gold Speculator](#) investment newsletter, which is based on the principles of free markets, private property, sound money and Austrian School economics.

The question for you to consider is how are you going to protect yourself from the vagaries of the fiat money and economic uncertainty? We publish *The Gold Speculator* to help people make better decisions about their money. Our Model Conservative Portfolio has outperformed the DJIA and the S&P 500 by more than 3:1 over the last several years. [Follow @TheGoldSpec](#) Subscribe at our web site [www.thegoldspeculatorllc.com](http://www.thegoldspeculatorllc.com) with credit card or PayPal (\$300/yr) or by sending your check for \$290 (\$10 cash discount) The Gold Speculator, 614 Nashua St. #142 Milford, NH 03055

[www.thegoldspeculatorllc.com](http://www.thegoldspeculatorllc.com)  
[editor@thegoldspeculatorllc.com](mailto:editor@thegoldspeculatorllc.com)