Gold Set Up For Big Move This Year – What About Cryptos?

Gold and silver had a sharp run-up in the last two weeks of 2017. However, the abrupt move in gold has been accompanied by a rapid rise in the gold futures open interest on the Comex. Furthermore, based on the last COT report the banks have dramatically increased their net short position and the hedge funds have gotten, once again, extremely net long. I don't like the looks of the COT report right now plus I anticipate a possible brief "relief" rally in the dollar index.

But what about cryptocurrencies? Over the past few weeks the largest and most actively traded cryptocurrencies have been massacred in price. This follows on the heels of the news that the founders of Bitcoin and Litecoin sold 100% of their holdings. Nothing like insider selling as a signal about the value of what was sold…

Phil Kennedy invited me on to his podcast to discuss precious metals, cryptocurrencies and the U.S. dollar. We engage in a friendly (I want to emphasize "friendly") debate on the merits of cryptocurrencies:

The bottom line for me is that gold has been declared a Tier 1 bank asset by the Bank of International Settlements. This means that gold is considered the highest form of bank asset. I believe there's a good chance gold will move toward and over $ 1400 this year. As for a price prediction for the cryptos – it depends on the degree to which the fear of losing money overwhelms the fear of missing out on gains for the momentum-chasing speculators – most of whom are Asian-based. We may be approaching that point of no return:

[Investment Research Dynamics]

[Gold, Bill Miller, and Buffett's Thoughts On Inflation]

Alex here with this week's Macro Musings.

As always, if you come across something cool during the week, shoot me an email at alex@macro-ops.com and I'll share it with the group.

Recent Articles/Videos –

[The Oil Bull Market] – AK provides some color on the oil rebound we've been tracking.

Hedge Fund Letters – Our 10 favorite hedge fund letters for sourcing equity picks.

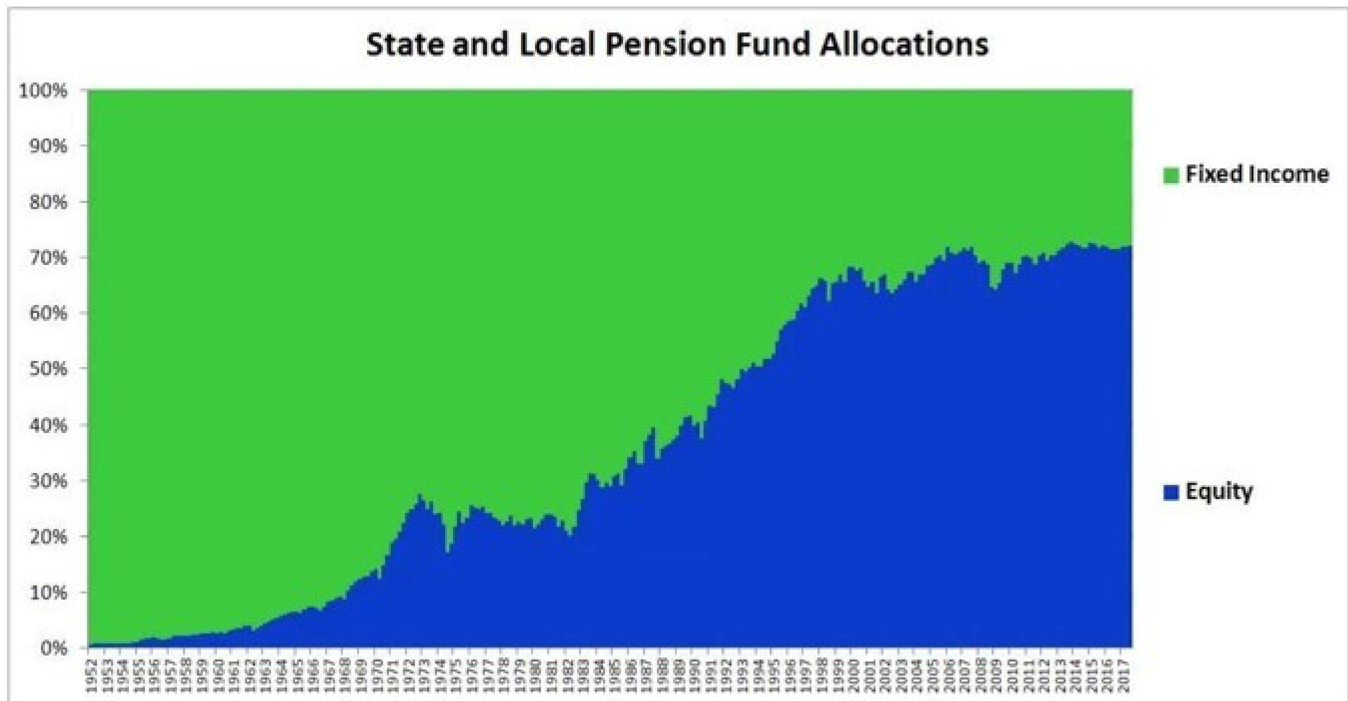
Japanese Equities Awaken – The Nikkei is ripping. We explain why the run is just getting started.

Articles I'm reading –

Pseudonymous blogger, Jesse Livermore, put out a fascinating piece on how to calculate and think about likely expected market returns. Everything Jesse pens is a must-read and this piece is no different. His ability to ruthlessly dissect common assumptions with razor sharp logic is unmatched – I'd love to know who he really is.

Jesse comments on a very important secular shift that I've been tracking and which is partly cause for today's high valuations. And that's the dramatic shift in pension fund weightings in equities. Here's what he writes:

> *Beginning in the early 1950s, pension funds began to shift their allocations out of fixed income and into equities. Today, equities and equity-like "alternatives" represent the primary asset classes through which they generate returns. A 2015 survey of state and local pension funds found that the lowest combined exposure to these asset classes was 61% for the Missouri State Employees Retirement System. The highest was 87% for the Arizona Public Safety Personnel Retirement System. The average exposure was around 70%, which checks with flow of funds data (source: Z.1, L.120, fixed income defined to include cash and equivalents, equity exposure from mutual funds estimated from L.122):*



In the post, Jesse discusses how the average U.S. pension fund is working off assumptions of 7.5% annual returns. These are optimistic expectations for the low interest rate environment we're in, especially when combined with the fact that equity valuations are in the 97th percentile of all valuations in history (so, pretty high).

He then breaks down these assumptions into their various components and finds that even under the most optimistic of scenarios, the pension funds are going to fall a few 100bps short of targeted returns. And that's a big deal…

Read the whole thing, you'll learn something. Here's the link.

Somebody with a lot of time on their hands created this document of Buffett's thoughts on inflation. They combed every article, interview, and letter, in order to aggregate all of the Oracle's hot-takes on the subject. It's 100-pages long, but worth a skim. Here's the link and a snippet:

> *High rates of inflation create a tax on capital that makes much corporate investment unwise – at least if measured by the criterion of a positive real investment return to owners. This "hurdle rate" the return on equity that must be*

achieved by a corporation in order to produce any real return for its individual owners – has increased dramatically in recent years. The average tax-paying investor is now running up a down escalator whose pace has accelerated to the point where his upward progress is nil.

For example, in a world of 12% inflation a business earning 20% on equity (which very few manage consistently to do) and distributing it all to individuals in the 50% bracket is chewing up their real capital, not enhancing it. (Half of the 20% will go for income tax; the remaining 10% leaves the owners of the business with only 98% of the purchasing power they possessed at the start of the year – even though they have not spent a penny of their "earnings"). The investors in this bracket would actually be better off with a combination of stable prices and corporate earnings on equity capital of only a few per cent.

With the turning of the long-term debt cycle and the increasing rise of populist politics around the world, it's odds on that the next secular cycle will be inflationary. It's good to start studying the specific dynamics of inflationary market regimes and this doc isn't a bad place to start. Here's the link.

Also, here's FT's Matt Klein's conspiratorial take on the recent sell-off in crypto (hint: it's to hurt the North Korean regime). Link here.

And finally, here's Horizon Kinetic's 4th quarter portfolio update. Some good stuff in there.

Podcast I'm listening to –

This week I had to go back into the archives of my podcasts rotation because I'd listened to all the new ones. I'm so glad I did because I rediscovered an old (2016) Barry Ritholtz MiB interview with investing legend, Bill Miller. It's one of the

best interviews I've heard in a long time. I actually listened to it twice this week because there's just so many good takeaways in it.

After an incredible 15+ run of consistently beating the market, making him one of the all-time great money managers, Miller took one on the chin in the financial crises and had to temporarily close up shop. But he's back at it again, and doing really well.

I'm a big fan of the way he thinks about investing and markets. He's a former military intelligence specialist, like myself, which shows in the way he approaches things. I'm a regular reader of his funds blog (link here) which is worth checking out. Anyways, here's the link to the episode. Listen to it, it's good.

And side note: I'm thinking about writing a *Lessons from a Trading Great* piece on Miller soon. So if you've got any articles, interviews, books etc… that include him, please shoot them my way. It'd be much appreciated.

Book I'm reading –

This week I took a break from market related books and instead revisited some classics.

I read Helen Keller's *The Story of My Life* which is a fantastically beautiful and inspiring book. I think I last read it in grade school and I'm so glad I came across it again. She was a gifted writer and thinker and her life story really forces you to put your own personal trials into perspective.

It's a short book and definitely worth picking up. She's also the author of one of my favorite quotes, which is "**Life is either a daring adventure or nothing**. Security does not exist in nature, nor do the children of men as a whole experience

it. Avoiding danger is no safer in the long run than exposure."

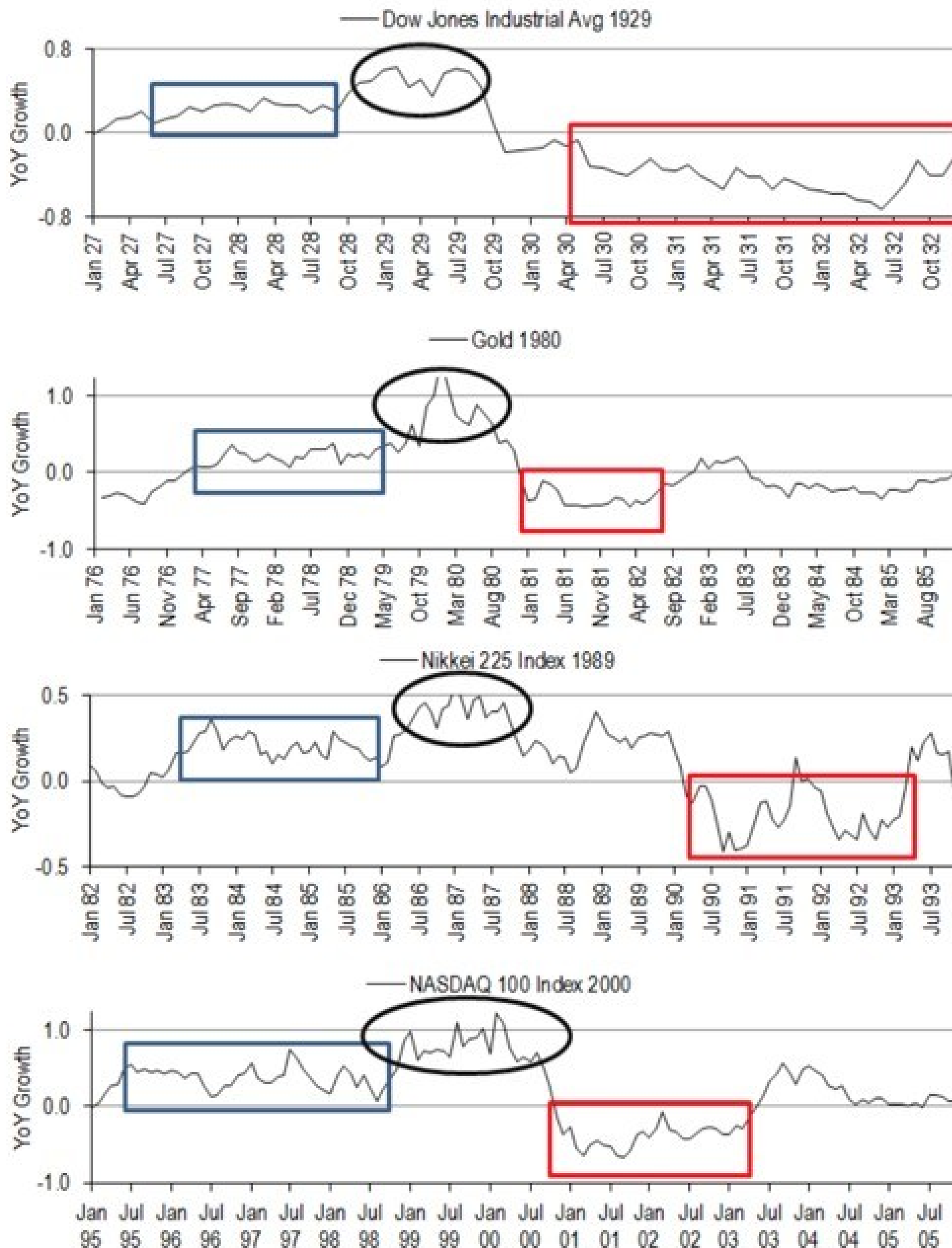
I also read a compilation of Will Durant's essays titled *The Greatest Minds.* Will Durant, and his wife Ariel, are two of my favorite historians. They have a gift for sussing out the major threads that tie history together. They're also skilled writers with the ability to make their words spring to life. If you haven't read the book *The Lessons of History*, you need to. It's one of my all-time favorites.

Anyways, *The Greatest Minds*… like all their work, was great. It's a short and fun read.

Finally, I'm just cracking open *Profits and The Future of American Society* by Jay and David Levy. The son and grandson of Jerome Levy, founder of the Jerome Levy Forecasting Institute. The book was recommended to me by a friend. It covers Levy's economic theory which he called the private enterprise system. I'll share my thoughts on the book, next week when I'm finished.

Chart(s) I'm looking at –

I forget, but I wanna say the chart below is from a report by JPMorgan. It shows that for the current market to truly enter "bubble" territory, as marked by historical instances, we would need to see realized volatility expand along with a continued rally higher. This fits with Granthams "melt-up" thesis and is inline with our current thinking on where things may be headed.



Trade I'm looking at –

I'm keeping a close eye on precious metals/miners. The charts for gold miners are setting up nicely, like this one below of BVN (monthly).

[Gold is an important macro instrument to watch]() because it's

reflective of the fundamental global demand for USD based liquidity. And because of this, it often leads the dollar at key turning points. So if gold is able to make a decisive and sustained break higher from here, then that would be a bearish signal for the dollar. Of course, a lower dollar is positive for gold, which is part of the circular causation mechanism that makes markets so complex.

I'm agnostic at the moment and can see gold, and the dollar, going either way. But it won't be much longer before the market tips its hand. And then I think we'll see the beginnings of what will be a large trend and profitable trade for those paying attention.

Quote I'm pondering —

> *Much of the real world is controlled as much by the "tails" of distributions as by means or averages: by the exceptional, not the mean; by the catastrophe, not the steady drip; by the very rich, not the "middle class." We need to free ourselves from "average" thinking.* ~ Philip Anderson, Nobel Prize recipient in physics

Amen…

If you're not already, be sure to follow us on Twitter: @MacroOps and on Stocktwits: @MacroOps. I post my mindless drivel there daily.

Here's a link to our latest global macro research. And here's another to our updated macro trading strategy and education.

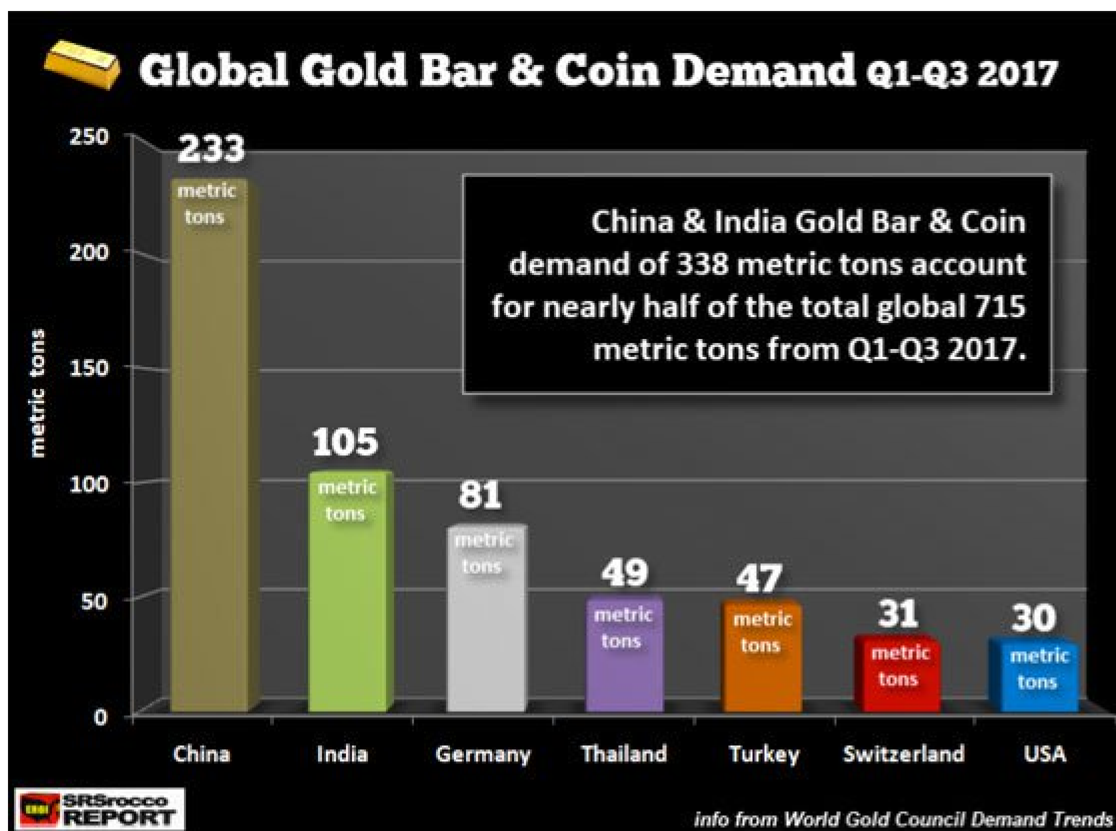
The post Gold, Bill Miller, and Buffett's Thoughts On Inflation appeared first on Macro Ops.

Macro Ops

Chinese Physical Gold Demand Surges; Americans Pile Into Stock & Crypto Bubbles

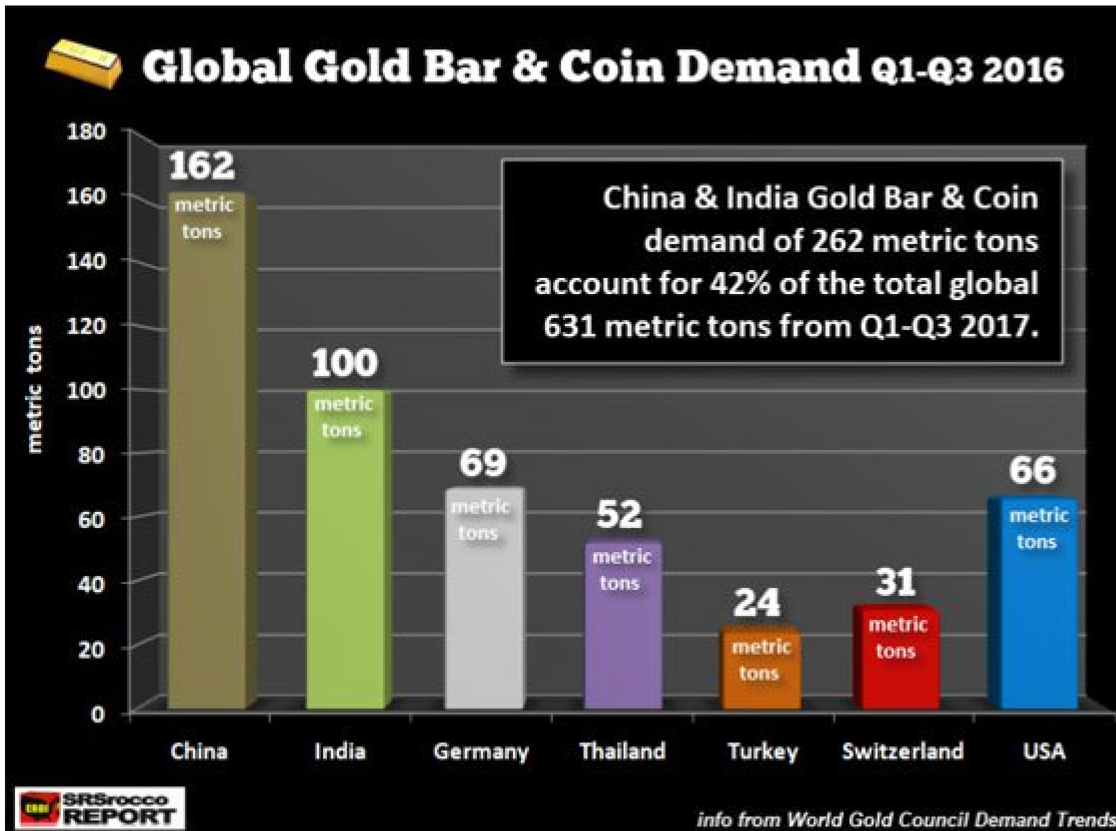
Chinese demand for physical gold investment surged in the first three-quarters of 2017 while Americans ditched the shiny yellow metal for increased bets in the crypto mania and stock market bubble market. Even though China's Hang Seng Stock Market outperformed the Dow Jones Index last year, Chinese citizens purchased the most gold bar and coin products Q1-Q3 2017 since the same period in 2013, when they took advantage of huge gold market price selloff.

According to the World Gold Council, **Chinese gold bar and coin demand increased to 233 metric tons (mt) in the first three-quarters of 2017 compared to 162 mt in the same period last year.** Furthermore, if we include Indian gold bar and coin demand, China and India consumed nearly half of the world's total:



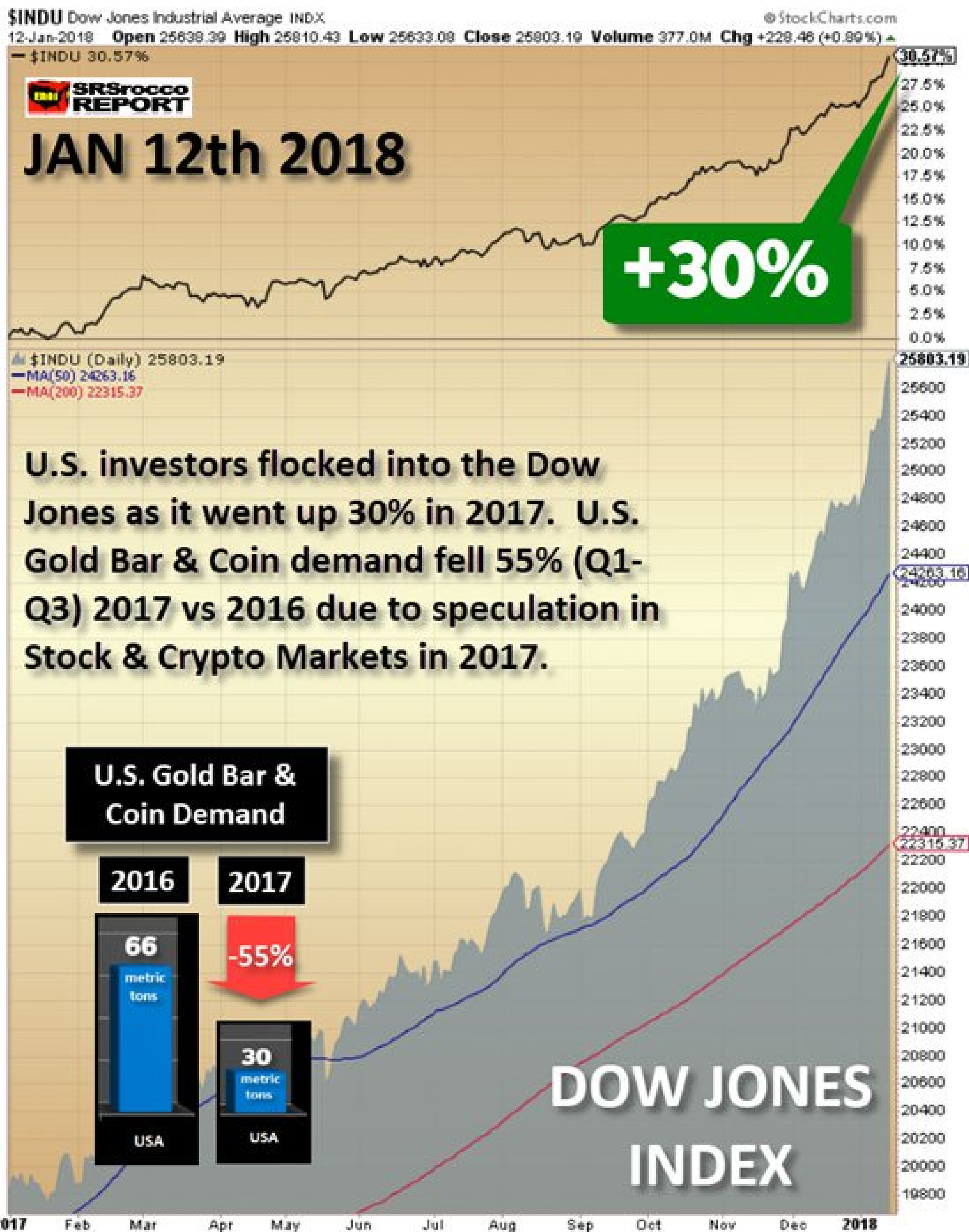
As we can see, China and India consumed 338 mt of gold bar and coin products which accounted for 47% of the total 715 mt Q1-Q3 2017. German gold bar and coin demand of 81 mt took the third highest spot followed by Thailand (49 mt), Turkey (47 mt), Switzerland (31 mt) and the United States (30 mt). Chinese gold bar and coin demand of 233 mt nearly equaled the total demand by German, Thailand, Turkey, Switzerland and the United States of 238 mt.

If we compare gold bar and coin demand by these countries in the same period last year, we can see some interesting changes:



While the increase in Chinese gold bar and coin demand was the big winner (162 mt to 233 mt), Turkish demand nearly doubled from 24 mt in 2016 to 47 mt this year. However, the biggest loser in the group was in the United States. **U.S. Gold bar and coin demand fell substantially to 30 mt Q1-Q3 2017 from 66 mt during the same period last year.**

As I mentioned at the beginning of the article, Americans shunned gold to make it RICH in the rapidly rising Stock and Crypto Markets. We can see this quite clearly as investors choose to bet on the Dow Jones Index as it surged by 30% last year versus a mere 13.5% for gold:



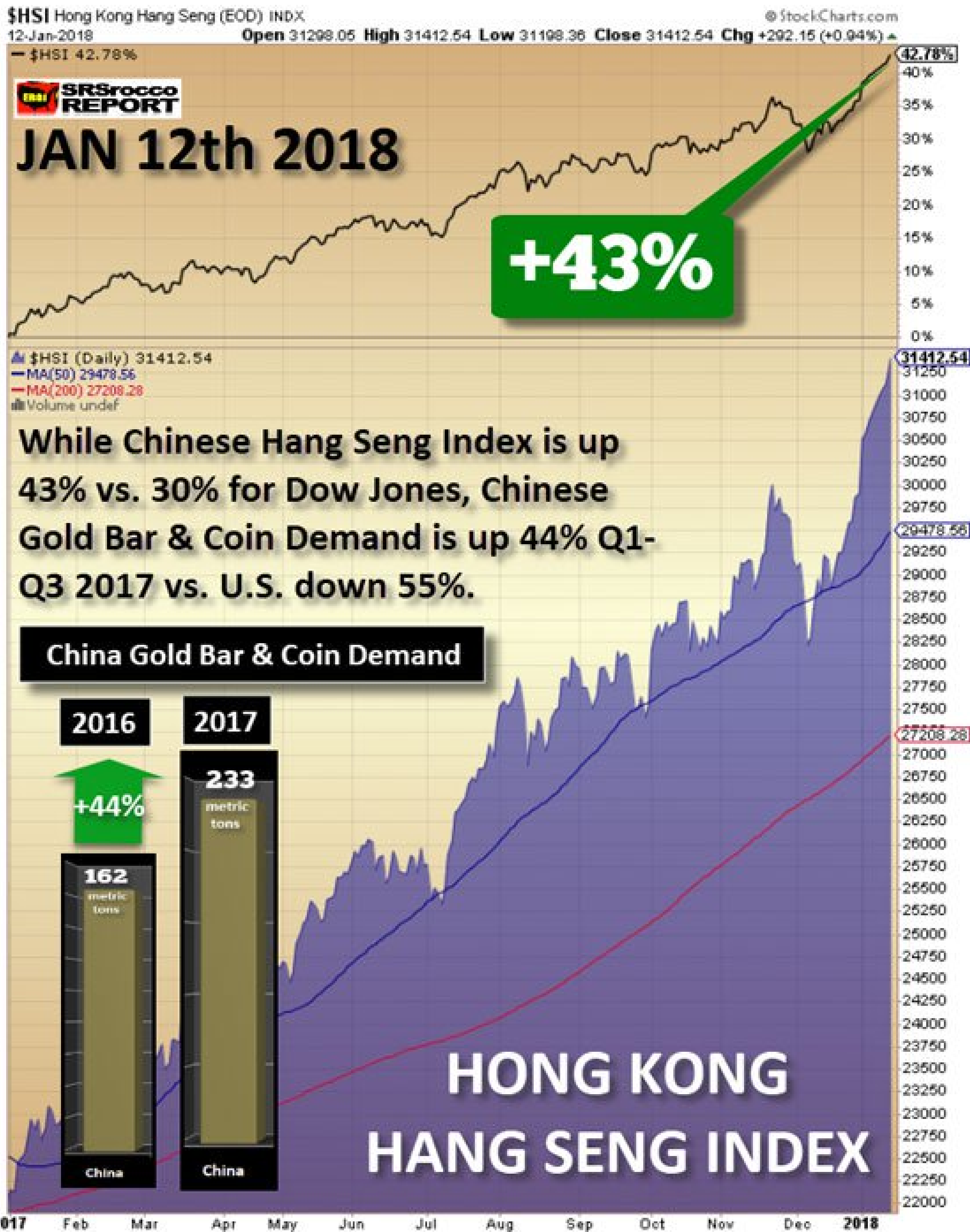
So, as the Dow Jones Index increased nearly 6,000 points, or 30% since the beginning of 2017, U.S. demand for gold bar and coins fell 55% (Q1-Q3 2017). Also, it makes perfect sense that American investors ditched gold for much larger 1,000+% gains in cryptocurrencies.

The stunning performance in the stock and crypto markets has frustrated precious metals investors to no end. Not only do I see this all over the internet, but I also receive a lot of emails and comments on my blog. And, it doesn't help that some

precious metals investors, now turned crypto specialists and aficionados, are only happy discussing assets that make 10-20 baggers. **Forget about old fashion work and taking the time and money to build something real, we have now moved into a new investment strategy that to be successful, one must make 6-7 figure returns by clicking on a mouse.**

All I can say is this… enjoy the Crypto fun while it lasts, because the forces of Gravity will once again bring us back down to earth where making a real living takes a lot of sweat and labor. While some followers sense that I am negative about the cryptocurrencies, I am. However, it is for a good reason. Even though the Blockchain technology offers interesting solutions, the speculative mania is a different story entirely. And, yes.. let's not forget the tremendous amount of fraud and corruption in the crypto markets. If you don't believe me, just wait around a while… LOL.

Regardless, while the Dow Jones Index jumped by 30% last year, the Chinese Hang Seng market did one better by surging 43%:



Even with their Hang Seng Index up higher than the Dow Jones, Chinese gold bar and coin demand increased by 44% while U.S. physical gold investment demand fell by 55%. Now, some may believe that the increase in Chinese gold and bar and coin purchases were partly due to the Chinese government banning the trading on cryptocurrency exchanges in the country. However, the crypto exchange ban did not take place until the last quarter of 2017. So, the 44% increase in Chinese gold bar and coin demand occurred before the banning of their cryptocurrency exchanges. Because of the crypto exchange ban,

we may see a spike in Chinese gold bar and coin demand during Q4 2017 when the statistics are released.

For whatever reason, Chinese physical gold investment demand increased significantly Q1-Q3 2017 while U.S. demand dropped like a rock. It will be interesting to see how 2018 unfolds and if the extreme leverage in the stock and crypto markets finally unravels. You see, it's not a matter of if, it's only a matter of time. And, while many believe the Dow Jones will continue higher forever, all markets have to correct. However, the next correction may turn out to be one heck of a crash.

Precious Metals News & Analysis – Gold News, Silver News

Gold And The Debt Crack-Up Boom

The stock market has entered the "melt-up" phase that characterizes the final stage of a rampant stock bubble – or any bubble for that matter. The stock market is more overvalued than at any point in history using just about any traditional valuation metric. At this point, the stock market has become a function of money managers chasing price momentum. They are doing nothing more than gambling with other people's money in the hopes that they'll be able to unload their stock purchases at an even higher level on other gamblers.

Pulling back the cloud of propaganda that surrounds economic news reported by official sources (Government, Fed, industry associations and the financial media) reveals an economy that has been heading into recession and a stunning deterioration in the financial condition of the average household.

A study of U.S. households released by Deutsche Bank showed that the median household net worth is lower than it was in 1989. Despite the rise in home values and stocks, over 30% of all households have a negative net worth. A greater share of Americans have more debt than money in the bank than at any point since 1962. Add on to this the fact that overall systemic debt – a record level of auto, student loan, mortgage, corporate and Treasury debt – has reached a record level outright and as a percentage of the GDP.

Silver Doctor's Elijah Johnson invited me on to his podcast to discuss why the U.S. economic system is headed for a trainwreck and why gold will surprise to the upside in 2018:

The latest stock featured in the Mining Stock Journal has doubled in six weeks. It has potential to be a 10-bagger from here. Click on these links if want to learn more about the MINING STOCK JOURNAL or the SHORT SELLER'S JOURNAL

Investment Research Dynamics

2018 Stock Market Bubble vs. Gold & Silver

The U.S. Stock Market is reaching its biggest bubble in history. When the price of the Dow Jones Index only moves in one direction… UP, it is setting up for one heck of a crash. While market corrections aren't fun for investors' portfolios, they are NECESSARY. However, it seems that corrections are no longer allowed to take place because if they did, then the tremendous leverage in the market might turn a normal correction into panic selling and a meltdown on the exchanges.

So, we continue to see the Dow Jones Index hit new record highs, as it moved up 765 points since the beginning of the year. **Now, if we go back to 1981 when the Dow was trading about 800 points, it took five years to double itself by another 800 points. However, the Dow Jones Index just added 765 points in less than two weeks.** It doesn't matter if the (1) point increase in the Dow Jones today is insignificant compared to a (1) point increase in 1981, investors feel rich when the numbers are increasing in a BIG WAY.

This is the same phenomenon taking place in the Bitcoin-Crypto Market. Crypto investors who are used to 10-20 baggers (10-20 times increase) no longer have the patience to invest in a real company that might grow on a 10-25% basis annually. Why the hell put money in a real business that employees a lot of people when you can turn $ 1,000 into $ 50 million in a few weeks?

Unfortunately, the Bitcoin-Crypto Market has destroyed the new Millennials ability even to consider making old fashion sound investments in real capital-intensive companies. Today, the Entrepreneurs rather make money trading Cryptos on their I-Phone, sporting a few thumbs-up Selfies, compared to the previous generation of business people doing deals out of their briefcases.

Regardless, as the stock markets head even higher, it should provide a big **RED WARNING LIGHT** to investors that all is not well. I put together my first YouTube video titled, *THE STOCK MARKET BUBBLE vs. GOLD & SILVER*;

In my video, I show how the Dow Jones Index and certain stocks are truly in bubble territory. I also explain why the gold and silver values compared to the Dow Jones and these stocks are tremendously undervalued. Furthermore, I provide an update on the cost to produce Bitcoin versus Gold.

I plan on putting out 1-2 new videos each week on various

subjects and believe the video platform will be able to explain some difficult concepts and analysis about how Energy and the Falling EROI will impact precious metals, mining, economy, financial system and our future society.

Precious Metals News & Analysis – Gold News, Silver News

Returning to a Gold Standard – Why and How

This article is from Dr. Fraser Murrell via The Daily Coin:

In the 1600s, Sir Isaac Newton presided over a (bi-metal) Gold and Silver Standard, with the flaw being the fix of silver to gold. In the 1900s, John Maynard Keynes "revolutionized" economics, with the result being certain economic collapse. In both cases there was a logical error in the key definition of "price", which is critical to the stability of the economy. This note examines the problem and then goes on to present a workable Gold Standard, which it is argued, is the most stable frame of reference for our economy.

You can read the rest of this here: **Returning to a Gold Standard**

Investment Research Dynamics

Gold Just Finished Its Best Year Since 2011

Metals investors may have missed it given the gloomy sentiment that plagued markets for much of 2017, but *gold just finished its best year since 2011*.

Perhaps in a year like the one just passed, 13% gains are simply not inspiring. U.S. stocks finished about 25% higher for the year, and crypto-currencies including Bitcoin left all other asset classes in the dust. Bitcoin gained roughly 1,400%.

Die hard gold bugs enter 2018 waiting for crypto-bugs and stock bulls to see the value of precious metals. Fortunately, precious metals have served reliably both as an inflation hedge and as a safe haven for most of recorded history. It looks less and less probable investors will get through another 12 months while ignoring both inflation and market risk simultaneously.

While other markets were finishing 2017 strong, the U.S. dollar ended the year with a whimper. The dollar fell 10%, its worst performance in more than a decade.

That weakness has yet to manifest itself as price inflation in consumer goods and services. It has instead shown up in asset prices.

Consumers have yet to feel their dollars getting weaker, which may explain much about why a traditional inflation hedge like gold isn't getting a lot of attention. That may change in the months ahead, particularly if President Donald Trump can add his debt-financed infrastructure spending program to the tax cuts recently passed. Both initiatives represent fiscal stimulus for Main Street, and a shift from Wall Street oriented monetary policy including Quantitative Easing.

Fiscal stimulus programs should contribute to more weakness in the dollar, as deficits and borrowing increase. Yes, the Republican led Congress could insist on spending reductions elsewhere to compensate for tax reduction and infrastructure spending, but only the most naive would consider that a genuine likelihood.

If the dollar loses another 10% in the year ahead, metals ought to be significant beneficiaries – even if most aren't paying attention to that possibility.

The recent strength in precious metals may be signaling that price inflation is on the way.

The Federal Reserve has been raising the Fed funds rate for more than two years, thus far with very little impact on bond yields and interest rates on consumer loans. When dealing with markets as centrally planned as ours are, anything is possible… in the short term.

Yet, in our view, the most likely alternative to inflation as a driving force in markets over the coming months is asset deflation. If investors aren't talking about rip roaring asset markets at this time next year, they may be talking about bubbles popping instead. There are certainly a number of bubbly markets, and a near total disregard for risk. That is a potent combination.

Either way, don't expect the metals markets to go unnoticed in 2018.

Gold and Silver: "Perfect Hedges" Against a Recession? Hardly.

Get an eye-opening insight into the timing of four separate silver crashes

By Elliott Wave International

No one likes them, and financial authorities do everything they can to avoid them…

…but economic recessions do happen, nonetheless.

The official definition of a recession is a period of economic decline marked by a fall in GDP in two successive quarters.

So, how should investors protect themselves in such a scenario?

Well, as you may know, many investors believe precious metals are the perfect hedge against an economic downturn. They believe that, unlike stocks, gold and silver either maintain their value or go up in price during a recession or even a depression.

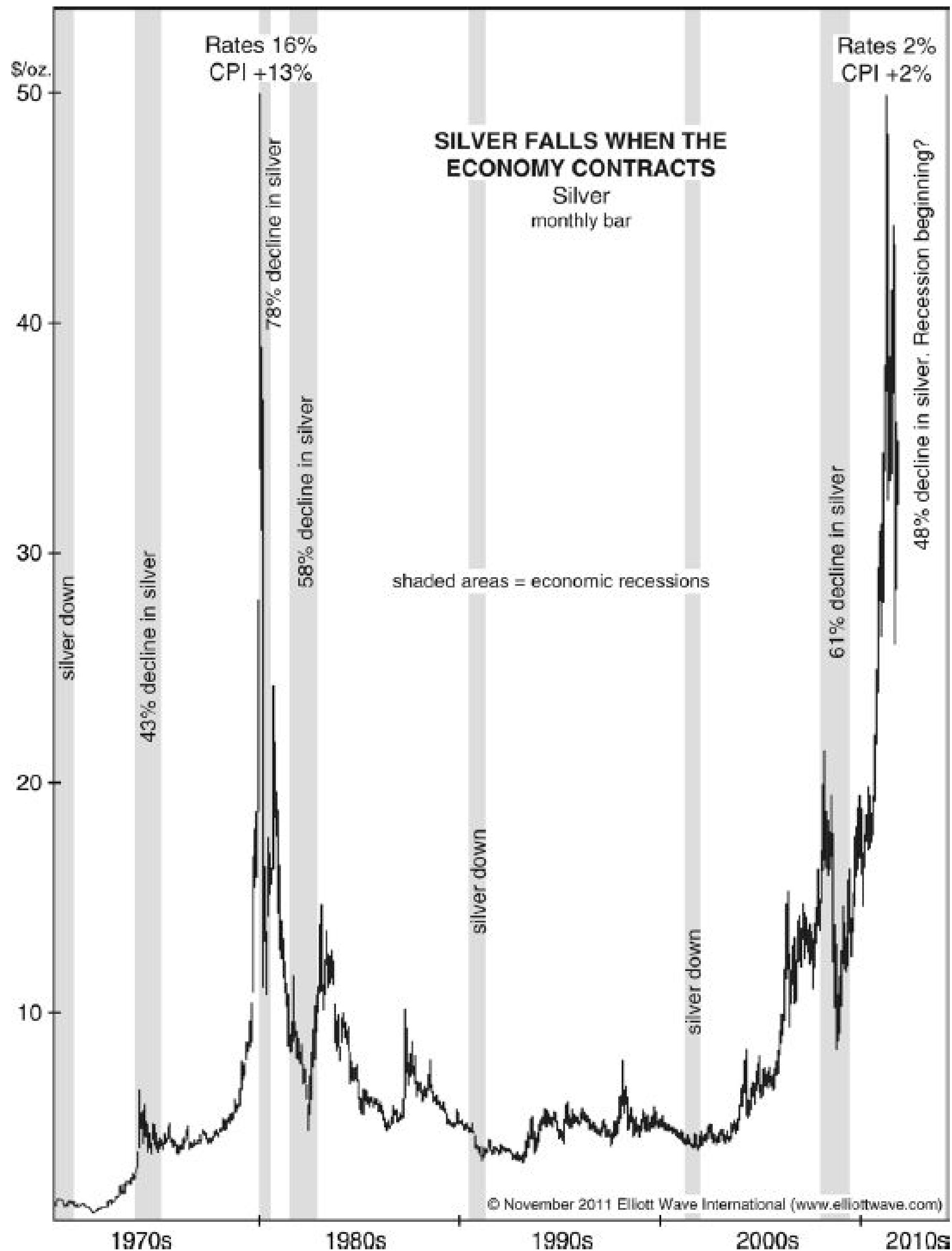
But you might be surprised to learn what the historical evidence says about this widely held belief.

Let's start with gold. Our *Elliott Wave Theorist* has been sharing market observations with subscribers since 1979. Once, it noted:

> The first thing to point out is that gold did not make a nickel of U.S. money for anyone in any of the recessions and depressions from 1792, when the gold-based dollar was adopted, through 1969, a period of 177 years…
>
> In 1970, things changed dramatically. Investors lost interest in stocks and preferred owning gold instead, for a period of ten years. The same change occurred again in 2001 … but recession had nothing to do with either of these periods of explosive price gain in the precious metals.

During the 1970s, and following 2001, **gold's biggest price gains came as the economy was expanding**, not shrinking. Why? Because when the economy grows, liquidity becomes available and must go somewhere — and it goes into everything, from stocks to real estate, including investments like gold.

The same is true of silver prices during economic expansions. Our November 2011 *Elliott Wave Theorist* showed this chart and said:



Silver has an even more pronounced relationship to economic cycles than gold does. The chart shows the history of silver prices and economic conditions going back 40 years. … Notice that **all of silver's strong price gains came during economic expansions.** Then observe that all seven recessions since 1970 have coincided with falling silver prices. Finally, note that all four crashes in silver—those of 1973, 1980, 1982 and 2008—came during recessions.

Bottom line: It's a myth that gold and silver are ideal hedges against economic downturns.

Another pervasive Wall Street myth is that the markets are random, and therefore unpredictable. From observing market behavior for almost 40 years — and not just the U.S. markets, but global trends, as well — we can tell you from experience that all liquid markets, including precious metals, are, in fact patterned. Their prices follow the Elliott wave model.

Here at Elliott Wave International, we help traders and investors see what's **really** driving financial markets. To learn more, please continue reading below.

The 10 Most Dangerous Investment Myths BUSTED

Learn why you should think independently rather than relying on misleading investment commentary and advice that passes as common wisdom — like the myth that gold and silver are good hedges against a recession.

This free 33-page ebook takes the 10 most dangerous investment myths head on and exposes the truth about each in a way every investor can understand.

Get the 33-page Market Myths Exposed eBook for FREE

*This article was syndicated by Elliott Wave International and was originally published under the headline **Gold and Silver: "Perfect Hedges" Against a Recession? Hardly.**. EWI is the world's largest market forecasting firm. Its staff of full-time analysts led by Chartered Market Technician Robert Prechter provides 24-hour-a-day market analysis to institutional and private investors around the world.*

A Collapsing Dollar Will Trigger The Next Big Move In Gold And Silver

When you see that men get richer by graft and by pull than by work, and your laws don't protect you against them, but protect them against you—when you see corruption being rewarded and honesty becoming a self-sacrifice—you may know that your society is doomed. – from "Atlas Shrugged"

Sorry MAGA-enthusiastics, it's all a lie. The tax legislation just passed will lead to higher Government spending deficits, a near-parabolic acceleration in Government debt issuance and a possible collapse of the dollar. The U.S. is in systemic collapse. Perhaps the biggest manifestation of this is the grand money-grab by the elitists enabled by blatant political corruption.

Alasdair Macleod published an essay that I highly recommend reading as you gather together your thoughts heading into 2018. 2018 will possibly see the next stage in the collapse of the dollar. I disagree with Alasdair's attributing the control over the formation and implementation of economic and geopolitical policy to Trump. Notwithstanding this disagreement, I believe Aladair's analysis of monetary events unfolding during 2018 deserves careful perusal. This includes his delineation of the rise in the petro-yuan as a precursor to the demise of the dollar, an acceleration of dollar-derived price inflation and an escalation in the price of gold.

> **The general public in the West is hardly conscious of these developments, only being vaguely aware that more and more products seem to be imported from China. They are certainly not aware that America has already lost its position as the world's policeman, the guarantor of economic freedom and**

> **democracy, or whatever other clichés are peddled by the media. And only this week, President Trump in releasing his National Security Document, and pledging "America would reassert its great advantages on the world stage", showed the American establishment is similar to a latter-day Don Quixote, unaware of the extent of change in the world and the loss of its power.**
>
> **Like a monetary embodiment of Cervantes' tilter at windmills, the world's reserve currency is rapidly becoming an anachronism. And for China to realise her true destiny, it must dispense with dollars, and if in the process it crushes them, then so be it.**

You can read the rest of Macleod's brilliant essay here: [2018 Could Be The Year For Gold](#)

Contrary to the views expressed by recent crypto-currency proselytizers, I believe that if gold heads higher in the next year then silver will soar.

[Investment Research Dynamics](#)

[Is Gold Ready To Move Higher?](#)

The simple answer to that question is: who knows, eventually it will. I like to look at the [Commitment of Traders](#) report for signals. I think the COT offers better information than looking at charts, although I like to use my COT analysis in conjunction with charts. My fund partner keeps a database of COT gold and silver data going back to May 2005. Over this time, there's been a strong correlation between the direction of gold, the net long position of the hedge funds, the net short position of the banks and the total open interest in

gold (silver) futures.

Over this time period (Since May 2005), the total open interest in Comex gold futures has averaged 429k contracts. The hedge fund net long position in gold futures has averaged 142.8k and the bank net short position has averaged 168.1k contracts. Since 2015, we've had two price cycles starting with the low in December 2015. At the December 2015 low in gold, the hedge fund net long position was 9,750k contracts and the bank net short was 2.9k contracts. The December hedge fund net long was an extraordinary low net long position and the bank net short was extraordinarily low. This makes sense given that mid-December marked the bottom of the nearly 6-year bear cycle within the secular gold bull market.

If we go back July 2016, the open interest in Comex gold has declined 206k contracts – a staggering 26 million ozs – 737 tonnes (25% worth of gold produced annually).   The Comex banks were short an eye-popping 340k contracts – 34 million ounces, or 964 tonnes of paper gold. This represents an undeniably enormous effort by the Fed via the Comex banks to cap the price of gold.

As of the last COT report (Dec 12th, the hedge fund net long was 107k and the bank net short was 119k. The overall open interest was 446k, about 20k contracts above the average open interest since May 2005. In a "horsehoes and handgrenades" context, we should have seen the bottom a week ago.

The open interest report thru Tuesday (Dec 19th) showed 446k open interest. Assuming most of that drop in o/i was decline in the hedge fund net long and bank net short, we should start to head higher, but don't expect this happen continuously, in parabolic crypto-coin fashion. The gold bubble is yet to occur.   I can't promise that gold will move higher from here. The best we can do is assess probabilities based on historical data relationships as they apply currently.

I want to mention briefly that Dennis Gartman has exited the long position in gold in his theoretical portfolio. Gartman's market calls have a spectacular track record as a reliable contrarian indicator. I kid you not. This would suggest that the gold market is at or near a bottom.

Back in the September, I advised my **Mining Stock Journal** subscribers that I suspected the coming sell-off in gold – manipulated sell-off, of course – would take gold down to mid-$ 1240 area. It hit $ 1241 on December 12th. Sometimes the coin does indeed land on "heads" when I call "heads." I also discussed the hedge we were implementing on our mining stock portfolio and provided details on the my opinion of best way for subscribers to hedge a junior portfolio. The hedge easily saved us at least 7% (700 basis points) of performance this quarter.

The stock I presented in the last issue (Dec 14th) is up 12% and it's still highly undervalued, especially given that it will start producing in late 2018. You can learn more about this stock and subscription details using this link: **Mining Stock Journal**.

Investment Research Dynamics