



GoldStockBull

Investment Strategies

(June 2009, Sample Issue)

Contrarian Investment Newsletter



*"I shall be telling this with a sigh
Somewhere ages and ages hence:
Two roads diverged in a wood, and I-
I took the one less traveled by,
And that has made all the difference."
-Frost*

Jason Hamlin

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Markets Zig Zag Through June Ending Flat

After 8 weeks of gains with barely a pause, stocks finally ran out of steam this month. The S&P 500 flattened out during the first half of June and proceeded to drop from about 950 to 893 in a week. Just when it looked as if the return to the bear market had begun, traders once more found the nerve to buy stocks and pushed the index back up to 930, leaving the future direction hanging in the balance.

I have admittedly been surprised by the duration and strength of the recovery, which I still view as a counter-trend rally within a longer-term bear market for equities. While most investors are convinced that we have seen the bottom, I still expect March lows to be tested and breached within the next 6 months. After all, the U.S. GDP slipped by an annualized 5.7% in the first quarter of 2009, which is reminiscent of the declines witnessed just prior to the Great Depression.

While fundamental conditions such as [worsening unemployment](#) and consumer confidence lead me to believe that we are witnessing nothing more than a dead cat bounce, inflation may actually work to prop up a market that still appears fundamentally over-valued. This is because the devaluation of the dollar acts to support the value of everything, whether it is equities, housing or commodities. While monetary metals stand to benefit the most from inflation, even sick and ailing sectors such as housing should find some price support, in nominal terms, by the devaluing of the U.S. Dollar.

California Wild Card

On the other hand, the economy could be dealt a heavy blow by the fiscal crisis that is about to explode in my home state - California. And before you write off the impact that a single state could have on the economy, consider that California's economy is larger than that of Russia or Brazil, at nearly \$2 Trillion dollars. In fact, if California were its own state, it would have one of the Top 10 largest economies in the world, with some ranking it as high as #4!



The problem facing California is that the state has the \$24 Billion budget gap with no solution on the horizon. If it is unable to meet its debt obligation, it could face a multiple-notch downgrade on top of already having the worst credit rating in the country. The downgrade could create a massive sell off in government bonds and prove devastating as institutions are forced to dump bonds and the resulting panic spreads through the investing community creating an enormous sell off in stocks.

How exactly California's budget issues play out is yet to be seen, but I would not be surprised to see panic selling send the market decidedly lower. The July 1st deadline is upon us and I have yet to hear of any solutions, as the [Federal government has already stated it will not throw California a financial lifeline](#). Within days, [California may begin sending IOUs](#) as payment for its obligations rather than checks. This is a move that other states are likely to follow, compounding the problem.

UK Economy Shrinks Most in 50 Years and Japan Faces Falling Demand

Globally, the situation is not looking much better as both the UK and Japan have recently posted some disappointing economic statistics:

The UK economy shrank by the most in more than half a century in the first three months of the year, according to revised figures which were much weaker than originally estimated.

The 2.4 per cent decline in GDP was sharper than the 1.9 per cent initially calculated, the Office for National Statistics reported, and was greater than the 2.1 per cent fall expected by economists. About half the revision was due to the introduction of new construction sector data and the rest was because of more complete services sector figures showing a sharper decline.

Not since 1958 has the quarter-on-quarter decline in GDP been greater, while the 4.9 per cent drop compared to a year earlier was the largest since records

began in 1948.

In Japan, deteriorating demand has hurt retailers considerably:

“With demand deteriorating, companies are finding it more difficult to sell goods and services and are turning to discounting,” said Azusa Kato, an economist at BNP Paribas in Tokyo.

Some 47 percent of 775 Japanese retailers surveyed by the Nikkei newspaper plan to lower prices in the year ending March 2010 to spur sales, up from 9 percent a year earlier. Aeon, Japan’s second-largest retailer, this week started a discount campaign for confectionary, drinks and mayonnaise.

Consumers, whose spending accounts for more than half of the economy, may delay purchases if they expect goods to get cheaper. That would erode profits and force companies to cut wages, which have already slid for 11 months.

Federal Reserve Has No Credibility and May Finally Get Audited

And for anyone that still places any amount of faith in the Federal Reserve and their continual rosy predictions for the economy, I invite you to take a look at this video showing [how well Mr. Bernanke has predicted economic events over the past several years.](#)

Considering that much of the blame for the boom-bust cycles and current economic meltdown can be left at the heels of the Fed, it is therefore not very surprising that over [245 lawmakers have signed onto Ron Paul's call to audit the Fed.](#)

The feisty congressman from Texas, whose insurgent "Ron Paul Revolution" presidential campaign rankled Republican leaders last year, now has the GOP House leadership on his side -- backing a measure that generated paltry support when he first introduced it 26 years ago.



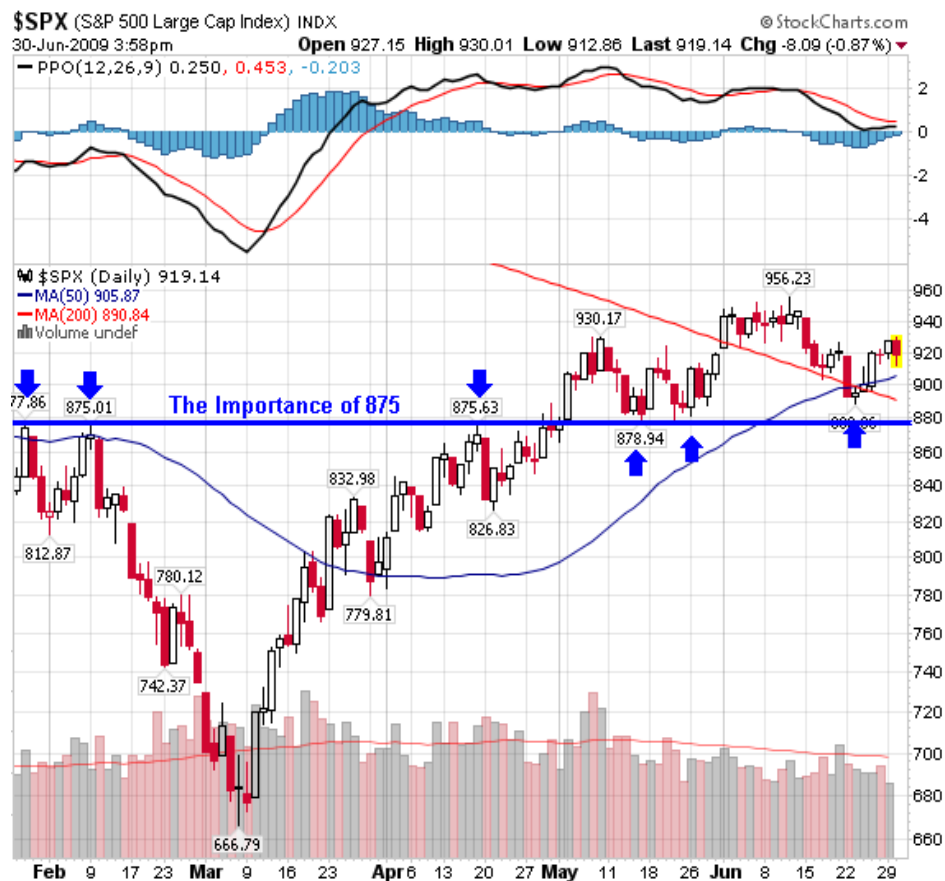
Paul, as of Tuesday, has won 245 co-sponsors to a bill that would require a full-fledged audit of the Federal Reserve by the end of 2010.

I can't overstate how big of a deal this could be. I imagine most of my readers are well informed about the Federal Reserve, the shady conditions under which it was created and just how destructive the institution has been to the people of America. If you haven't yet seen these documentary films, I encourage you to take the time to watch [Zeitgeist: Addendum](#) and/or [Money Masters](#).

The inner working of the Fed makes Madoff's Ponzi scheme seem like child's play.

The Importance of 875 on the S&P 500

I don't view technical analysis as panacea, but I don't think it should be ignored either. It is another tool and piece of information to integrate in our total view of the markets and can often be valuable in predicting price movements. Let's take a look at the recent chart for the S&P 500, which I prefer to use over the DJIA as it is a more comprehensive view of the markets.



The 875 level clearly stands out as an important point to monitor. It acted as resistance three times and then turned into support on three separate occasions during 2009. Therefore, I will be watching this level on the downside to determine when it might be a

good time to go short once again. If the S&P 500 falls below 875 for two trading days, we might consider that support has been broken and a free fall back to March lows could be in the cards. We will look to use the inverse ETF ([SDS](#)) should this occur. In the meantime, as much as it is contrary to the fundamentals, we will assume a flat or climbing market.

U.S. Government Finding Fewer Buyers for Bonds

The largest and most dangerous bubble that has yet to burst is the bond market, which is actually much larger than the stock market. I expected to see these statistics sooner, but it appears that bond buyers are drying up. In fact, central bankers had to step in and purchase 67% of the recent auction, about double the average of their participation in the last four sales. In an attempt to keep yields down, the Fed thought it wise to put U.S. citizens and future generations another \$3.3 billion in debt to buy long-dated treasuries this month.

Will foreign investors continue to buy suspect paper from the U.S. Government that is yielding just a few points? With a projected 2009 annual deficit of \$2 TRILLION and a manufacturing base that has largely moved overseas, I don't see how it could continue. There will come a day when it is no longer in China's interest to continue buying U.S. debt and holding U.S. Dollars.

We continue to hold [TBT](#) in the Gold Stock Bull Portfolio and believe the bond bubble will be the next major explosion. The ETF has sold off a bit lately and I believe presents an excellent buying opportunity anywhere under \$50.



Competing Forces In Play

There are two competing forces pushing in opposite directions on the markets. First we have horrific fundamentals, wealth destruction, credit contraction, rising unemployment, falling consumerism, bursting of the real estate bubble, rising foreclosures, on and on. But the push back is coming from an extraordinary effort by the government and Fed to avert a complete collapse and crisis in confidence. They will likely keep the Fed funds rate near zero for the foreseeable future and continue to bailout companies and keep the printing presses running overtime to inject the markets with massive amounts of cash.

As these two forces but heads, the results should be a market that is mostly stagnant and trading within a defined range. The Federal Reserve and Federal government are, in essence, creating the illusion of prosperity and economic recovery with their un-ending series of stimulus plans. This might serve to keep stock prices stable and relatively high, but a true recovery will only come when the country returns to producing and saving, something Americans have all but forgotten how to do.

These competing forces may temper what would otherwise be a much more volatile ride. But at the end of the day, emotions rule the markets. The Fed and U.S. Government are busy filling holes and trying to keep a lid on any number of flash points that could lead the public to pull their cash out of the stock market. So while the major formation may be “L-shaped,” I don’t believe we have seen the bottom and can still foresee several violent moves that should provide very profitable swing trading opportunities. Premium members will continue to receive email alerts as we identify these opportunities.

Manipulated Markets?

Given the mostly bad news and dire economic stats, it is quite amazing that the market has rallied this long and this strongly. With doubts about green shoots, government numbers and the legitimacy of earnings reports, many are claiming manipulation is fueling the rally. The government and “banksters” are certainly awash with liquidity and could be the core force behind the recent rally, sucking in naïve investors with the recovery story. But they could be running out of money, time and options for keeping the stock market pushing ahead. Aubie Baltin in a recent article wrote:

Taking into consideration the fact the nothing ever moves in a straight line for very long, the market rally since the March low has reached, for all intent and purposes, our expected Fibonacci 38% Elliott Wave retrenchment. This rally was due primarily to the most extreme oversold sell-off in my memory and is highly speculative in nature. Almost everything has been rising in an all too uniform fashion. We all know that volume precedes price and yet, in spite of the Government's \$ trillions pouring into Wall Street, volume is decidedly on the low side given the size and duration of this rally.

Any market that is down 150 to 250 points for most of the day and then rallies 200 points in the last half hour on NO news and LOW volume is a MANIPULATED market.



Investors have not been returning to the market in any significant numbers and so this rally is basically Wall Streeters trading among themselves, taking greater and greater risks in the process (thinking government will bail them out should they fail). They have been trying to convince the people that we have started new bull markets and that the economy will be growing at 4% by the end of the year as Obama and his Goebbles-like cohorts, Geitner and Bernanke etc. have assured us.

Even CNBC analysts point to the market manipulation being perpetuated by Fed in [this video](#). "The markets are not free markets."

Inflation: The Next Major Crisis

"Like gold, U.S. dollars have value only to the extent that they are strictly limited in supply. But the U.S. government has a technology, called a printing press (or, today, its electronic equivalent), that allows it to produce as many U.S. dollars as it wishes at essentially no cost. By increasing the number of U.S. dollars in circulation, or even by credibly threatening to do so, the U.S. government can also reduce the value of a dollar in terms of goods and services, which is equivalent to raising the prices in dollars of those goods and services. We conclude that, under a paper-money system, a determined government can always generate higher spending and hence positive inflation."

Dr. Bernanke. November 21, 2002

The dollar rally hit a double top, failed to reach 90 and has since given back 50% of the gains it had racked up since July of last year. We have been calling this action for quite some time and never expected the dollar rally to last. It has found support at 80 and is consolidating around this level. We might get a few more weeks or months of flat line in the dollar, but I completely expect the USD to fall back to 2008 lows and drop below 70 at some point before the end of the year. This will help to ignite the fire under gold prices.



Foreign governments and central banks are poised to stop buying dollars and may even look to sell dollars in the near future. This will set off a panic which I believe will lead to a precipitous drop in the dollar. China has already begun buying gold and calling for a new world reserve currency. And they seem determined to see this happen, as they just [renewed calls for a new reserve currency](#) yet again this week.

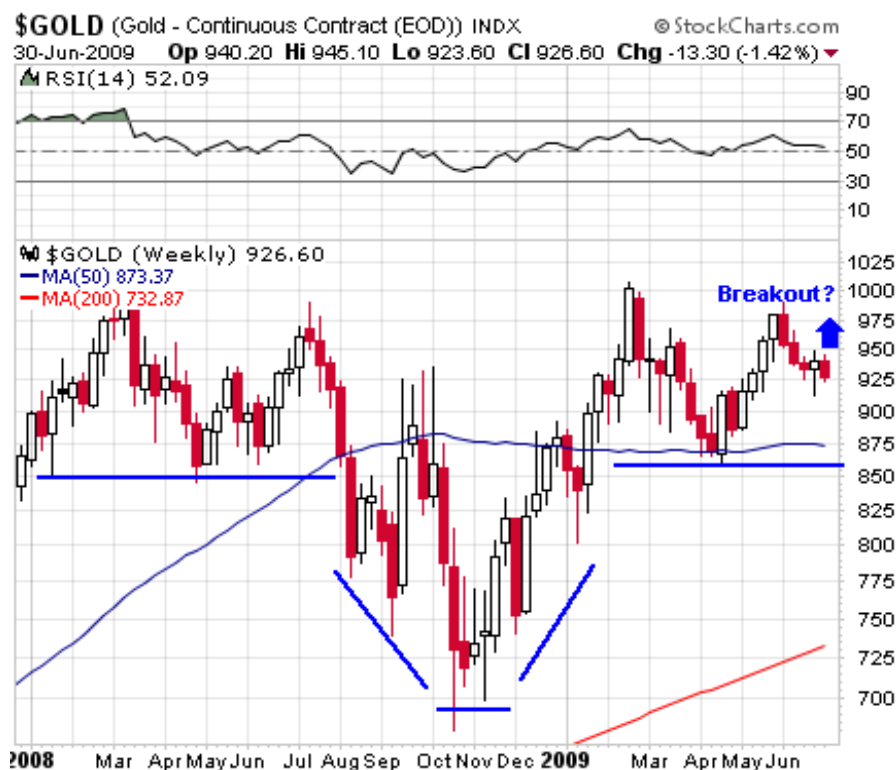
Russian President Dmitry Medvedev, Chinese President Hu Jintao, Indian Prime Minister Manmohan Singh and Brazilian President Luiz Inacio Lula da Silva called for a “more diversified” monetary system to reduce dependency on the greenback at a June 16 meeting in the Russian city of Yekaterinburg. In May, China and Brazil began studying a proposal to move away from the dollar and use yuan and reais to settle trade instead.

In fact, China looks ready to give the green light to some of its provinces to settle international trade in yuan. [See full article here.](#)

Ultimately, I believe the world will start to move away from the dollar as the reserve currency as the Fed continues to use everything in their arsenal to avoid another Depression, even if it means crushing the dollar. Thus, we will continue searching for undervalued companies within the sectors that stand to benefit most from a declining dollar – precious metals, energy and agriculture.

Gold Declines and Consolidates in June

The \$1,000 mark continues to prove elusive for gold, as the yellow metal stalled around \$980 and corrected down to around \$920 during June. It has been rangebound over the last few weeks, consolidating in the \$920-\$940 range. But the chart looks very bullish to me (inverse head and shoulders) and could signal a breakout is imminent.



While the price could break in either direction out of this consolidation phase, I expect a drop in the dollar will be the impetus for pushing gold through the \$1,000 level and to much higher prices. As I am writing this gold is up \$15 to \$941. One more day of gains will push the gold price out of its consolidation range and could signal the next major upleg.

What we will continue to do at Gold Stock Bull is research and uncover the miners that are undervalued and stand to benefit most from the rising price of gold. We have been using our research methodology to analyze resources vs. market cap, management background, blue sky potential, drills results, economic feasibility and a number of other factors that we believe are crucial to a successful mining company. While some of the major miners should offer 2-4X leverage to the rising gold price, the mid-tier and juniors miners that we track often produce returns of 10X or greater than that of the underlying metal. This will remain our area of focus, as we believe it will generate the most value and greatest returns for premium members.

And while timing the market is no easy task, we have found success in swing trading, buying the dips and taking profits after steep run ups. You stand to do very well by simply buying and holding gold stocks for a number of years, but we have been consistently beating the buy and hold approach for our members and will continue looking for the appropriate times to trade in and out of positions. Even with the recent correction in gold, the Gold Stock Bull Portfolio is still up 107% since the start of the year and we believe the gains are about to explode even higher, as gold finally pierces through the psychologically important \$1,000 level and finally holds the line. I believe we are in for some very profitable months ahead!

Energy Stocks Mirror Broader Market

Energy shares peaked around the first of June, declined and then regained some territory towards the end of June. They mirrored the movements of the broader market and also face competing forces that should serve to keep prices mostly rangebound. Supplies and reserves are declining, but so is demand. As time moves on, I believe the drop off in supply will be greater than the drop off in demand and prices will trend higher once again.

There is also the potential that the market could hold the line or continue to rally, which would prove bullish for energy, but as already discussed, I think the market rally is out of steam. The next few months should see the market trend lower and I am therefore not currently holding any positions in oil companies. Oil is hovering around \$70/barrel and I believe is overbought in the short-term.

The only gas that I am interested in at the moment is natural gas. Business can slow, people can drive less, but those relying on natural gas to heat their homes provide steady demand. Furthermore, natural gas is finding more and more clean-energy applications every month as state and local governments shift their fleets to natural gas powered vehicles.

The price of natural gas has been walloped over the past year, but has found support, is tightening and putting in a series of higher lows. UNG, which tracks the near-active

NYMEX contract price of natural gas, last made a new low April 29 at \$12.69. Since then support has tended to form at slightly higher levels with nearly the entire month of June finding support forming at or just under \$14.00.



Normally the month of September (which coincides with the peak of hurricane season) is one of the most likely months to look for a reversal higher and many NatGas veterans probably expect that this year will see a similar rally event come September. We saw major reversals higher which began in September in 2007, 2006 and 2004 as examples.



I continue to like Chesapeake Energy ([CHK](#)) as I feel they are best in class and undervalued by the market. We traded CHK twice in the past few months for quick gains of 25% and 10%. The price has since retreated and is looking attractive again under \$20. I think we will see \$20 become support and a bounce off this level in the near

future. As the spring has tightened on natural gas, a break could come in either direction so it is wise to use a tight stop limit on any trades.



This chart shows how undervalued natural gas is relative to the only true stable currency – gold. The ratio of gold to natural has climbed above 250. This is level not seen since 1995. Either gold needs to fall, natural gas prices need to rise or some combination of both. Either way, I believe it is very bullish for natural gas. Let's take a look at the ratio chart, courtesy of Gene Arensberg.



Next we have the chart for Chesapeake, which shows the breakdown through its short-term bottom trend channel and support found at \$19. Technical indicators suggest a strong move to the upside could be in the cards for CHK.



Clean Energy Stock Update

Shares in solar, wind, geothermal and other clean energy companies have performed very well over the past few months, but have mostly mirrored the larger market during June and look to be topy. I am still bullish in the long-term on clean energy companies, but think we might get a deeper market correction that will drag down clean energy shares. At some point, we will look to re-enter positions, but I am out of the sector for the moment.



If the market powers higher into the Summer months and shows no signs of slowing, we might jump back in with select clean energy plays or our favorite clean energy ETF – [PBW](#). For now, we want to take a wait and see approach as the market rally is finally showing signs of stalling. Let's take a look at the chart for PBW.



Clean energy shares have nearly doubled over the past few months, but have run into resistance and look to be topping out. I expect a correction to around the \$8 level, but if it consolidates around \$10 for a while, it could regain the legs necessary to push higher along with another market rally. However, technical indicators have turned bearish.

Nuclear energy is another semi-clean energy that we believe is headed much higher over the next few years. In the long term, uranium miners should produce some incredible profits as the increasing demand for energy and relatively low production levels push prices higher.



We have added Strathmore Minerals ([STHJF](#)) to the portfolio at \$0.42 and it quickly shot up to \$0.50 within days. It was suggested that short term traders take profits at this level, but we decided to hold STHJF. It has since given back those gains and is hovering around \$0.41.

The Strathmore chart below is from the Canadian exchange so the pricing is different, but it gives you a feel for the profit potential should shares return to recent highs. It also shows that while some consolidation is forming at current levels, the stock is very volatile and could move dramatically in either direction. This is why we have a stop limit set at \$0.38 (on STHJF), which is approximately 10% below our entry level and will serve to limit any potential losses on Strathmore. However, if we get a bounce from current levels, the stock price could easily triple before returning to its last major support range around \$1.50.



Gold Stock Bull Portfolio

(GSB Portfolio Omitted for Sample Issue)

Overview

We are 80% invested at the moment, with 50% of our portfolio in precious metals, 20% shorting bonds, 10% in nuclear energy and the remaining 20% in cash. As always, subscribers will receive email alerts throughout the month whenever we buy, sell or make any adjustments to the portfolio.

June Trade Summary

We booked a 10% profit on (omitted), booked a 6% loss on (omitted), added (omitted), (omitted) and (omitted) to the portfolio during June. Since our purchases, (omitted) is up 4%, (omitted) is up 16% and (omitted) is up 4%. (omitted) was added as a new target position at \$19.

Overall, the GSB Portfolio traded down slightly during June and is now **up 107%** for the year and we are expecting very profitable months ahead as the dollar continues to weaken.

(June Trades Omitted for Sample Issue)

Top 10 Precious Metals Stocks

The Top 10 list is broken into major producers, junior producers, explorers and a wild card pick. They are subject to change as news breaks and we learn more about each company. The investment risk and potential return will generally increase as you move from the top of the list to the bottom. We don't always hold all or any of these companies in the GSB Portfolio. It all depends on the timing and the our outlook on the markets. However, we believe that over the next several years, this list of companies will significantly outperform their peers.

Major Producers

Omitted for sample issue

Junior Producers

Omitted for sample issue

Explorers

Omitted for sample issue

Wildcard Pick

Omitted for sample issue

Cheers,

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