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Know when to hold-em!
Know when to fold-em!
Know where to set stops!
Know when to run!
Never count your portfolio
Until the sells are done..

As you know my main theme in 2015 was basically three things:

- The major market indexes were in a topping pattern and I pointed this out in numerous charts on the S&P 500. I commented that markets have moved too high and will come down, but without a fight.
- Gold and Gold stocks were in a bottoming process and I was expecting the typical year end weakness (manipulation) would lead to a significant rally to follow.
- The Fed would not raise rates – but would finally do so at year end to save face, they were backed into a corner.

It was a difficult year for investors as **all markets** were either struggling sideways or going down.

I usually do not put out a yearly outlook this early, usually later in February, but as the saying goes, I think this year *'time is of the essence'* and it really is a continuance of what I was predicting in 2015. The January effect *'as goes the first 5 days of January and the month - so does the year'* This is one of the more accurate market barometers. January 2015 was down a month and so ended the year.



Interestingly, reports say the big U.S. stock market sell off on this first trading day of the year is the worst first-day-of-the-year decline since the early 1930s. This is a very bad omen.

In 2015 I commented the bull market ended and 2016 will prove that. Most of the year I was talking about a final head and shoulders top and the right shoulder would take time to form as markets would not go down without a fight.

You can now see this top formation more clearly. In early November markets made a valiant effort to go back to their highs with all the scuttle butt being 'make new highs', but not so. In My November 10th report I also commented that we might see a double top instead of the head and shoulder pattern. You can now see a new clear down trend that started from that early November attempt with lower highs. The 200 day MA has turned down and I pointed out the 'death cross' last year when the 100 day MA crosses the 200. I expect the markets will now test the 1970 support area, it may hold and we bounce back up or perhaps markets will continue down further. **I would then closely be watching the 1860 support.**

Investors poured \$347 billion into exchange-traded funds globally during 2015, fund-manager [BlackRock Inc said on Sunday](#), setting a new record for the industry. BlackRock said its own haul of \$130 billion in new money also set a record in global flows for its iShares ETF business, surpassing the previous annual record set in 2014, when investors added \$103 billion in new money to the funds.

This is another bad sign as the retail money always comes in big at a top and this also supports what I was saying about the big shift to trading that includes ETFs.

Besides an over bought market and over priced market, [margin debt is at record levels](#) And what is more scary when investor cash balances are applied against margin debt, the investor negative credit balance is about double the tech bubble peak and 3 times higher than the 2007 market top.

We have a deflation wave raging across the Globe and the U.S. economy continues to slide despite the Fed mis information ploy. I will have more on the U.S. economy in a more in depth update.

For now I am warning to get out of all Equity Mutual Funds, stick with higher cash levels, Dividend stocks like the Millennium Index and Precious Metals.

I am not saying the markets will crash but we will likely start a Bear Market this year and the odds of a positive return in general equities is tiny compared to the current risk.

The Fed – I have noticed a lot of rhetoric of whether Interest rates will get to 1% or back to 0% first. I am in the camp that rates will be back to zero before they ever get to 1%. In fact we will probably not see ½ %. I will have more in depth update but the biggest issue is the Fed has never raised rates before in an economy this weak, measured by their own padded GDP numbers. I believe the last two times in the 1999 and 2004 cycle, GDP was around the 4% level not the current 2% at best. In fact the Atlanta Fed has 4th qtr GDP pegged at 0.7%, which they just slashed it from 1.3%.

I predict the odds are higher the Fed goes to 0% before 1/2% in 2016. I expect they will either just talk about a rate hike all year or come up with a wonderful idea to lower rates and maybe even go negative.

This brings me to the best part. This reversal will mean an even bigger loss of credibility for the Fed, a drop in the overbought US\$ and a very significant US\$ move in Gold, and I put the odds very high that we see a start of a new bull market in Gold for 2016.

Weekly US\$ Index



The US\$ chart above certainly looks like a topping and roll over pattern is underway. Currently we have a double top, and the US\$ has moved up some this week as this weekly chart only shows prices as of Dec 31 2015. Therefore we might see a triple top or possibly with world markets in retreat and the current flight to safety we might see a blow off top above 100 and in that case probably a head and shoulder top with what we see now being the left shoulder.

Regardless which way the US\$ goes I believe Gold will rally in typical fashion from December lows

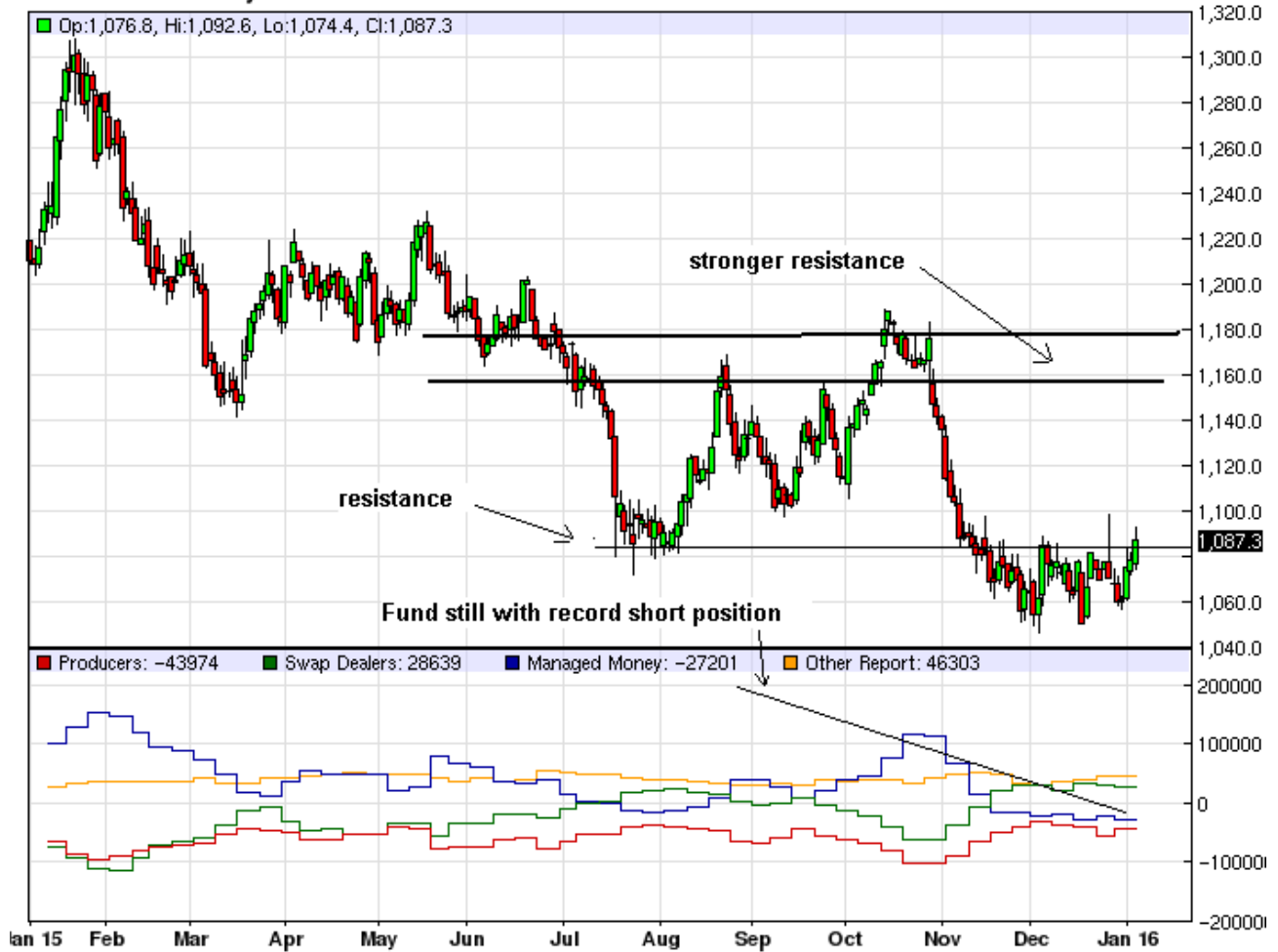
I pointed out in my December 6th issue that there was year end weakness in 8 of the past years with a rally starting in December/January in 7 of those years. I expected we would see another significant rally this year off a very over sold position. All those talking about Gold \$1,000 and \$950 and lower will be proven wrong.

The rally I have been predicting is already under way as Gold has moved up \$28 from this year from \$1060 to currently \$1088. It is hard to see on the chart next page but we also got a doji morning star reversal pattern. We had the down red candle and then on Dec 31st, the doji candle and the 1st trading day of 2016, the reversal with the long green candle.

It looks like we are breaking above the first resistance level around \$1085, if we can clear that with a decent move to \$1100, it would mean a probable test of the \$1150 resistance area. That is a much stronger resistance area and I doubt we would clear that level easy without further base building on the chart. Perhaps we end up with the inverted head and shoulders bottom.

The other important factor is Funds or Managed Money is still at a record short levels so that means lots of short covering to fuel a further rally.

GCG16 - Gold - Daily Nearest Candlestick Chart



Many Gold stocks have started to move, but the rally is not broad based yet, I think the break to \$1100 might be the what is needed for a stronger move with the stocks. This means we still have an opportunity to add some more great bargains and that is what I plan to do over the next few weeks.



The Gold Bugs Index has very strong support around 105 and has built a strong 6 month base. I am

looking for a break to 125 above the downward trend line. We would then need to see a move above 140, a higher high to start some confirmation that a new Bull market has begun.

I have never seen a better opportunity in my lifetime to buy some Gold Stock Call Options, especially the long dated ones, say out one year to January 2017. The premiums are low and possible gains could be huge. These are some I like and will add to the Speculations part of the newsletter.

New Gold NGD US\$2.37 C\$3.34

I like the Cdn \$4.00 April Call at \$0.22

On the US side you could go out to January 2017 one full year and buy the Jan US\$3.50 Call for about \$0.35

Kinross K C\$2.64 KGC US\$1.87

I like the January 2017 US\$2.50 Call for Kinross, it is about US\$0.32

On the Cdn side the Kinross January 2017 \$4.00 Call at about C\$0.22

Goldcorp G C\$16.87 GG US\$11.97 I also like the Goldcorp long dated Calls

The US side the January \$10 Call is about \$2.00 in the money so at US\$3.00 has only a \$1.00 premium.

Or the January 2017 \$14 Call for about US\$1.80

On the Canadian side January 2017 C\$17 Call for about \$3.00

For a short term move the April \$15 Call for about \$2.70. Goldcorp is currently C\$16.87 so it is \$1.87 in the money so the premium is less than \$1.00

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