Bear markets are always evidenced by lower low prices and lower high prices. This means that the initial March 6th, 2009 low of 6,470 on the Dow will be broken on this move. A typical 50% drop in prices would see the DJIA drop to 5,625. A 0.618 decline would see the Dow fall to the 4,300 area. Whatever the next drop will get people's attention and certainly eradicate a lot of the bullishness, which is so prevalent today.

## Gold

How will the gold shares respond in the face of a crash in the overall stock market, which we believe is inevitable, despite the efforts of the Plunge Protection Team to avert such a happening? Let's be honest we just don't know. We do know that precious metal shares and in particular the junior companies were pounded in the 2008 crash and most have not fully recovered from that drubbing in spite of a record gold price. Unfortunately today much investment in the sector is not undertaken for fundamental reasons, rather money is committed to the sector on a momentum basis. This means that when a general stock market crash occurs the momentum players sell their precious metal shares along with everything else.

During the initial stock market crash of 1929, gold share prices crashed too, but thereafter despite the vicious bear market in the general stock market the price of gold shares advanced with no increase in the gold price, which was fixed at $20.67 until January 1934, when President Roosevelt raised the price to $35 per ounce.

| | Homestake | Mining Dividend | Dome Mines | Dividend |
|---|---|---|---|---|
| Low 1929 | $65 | $7 | $6 | $1 |
| High 1930 | $83 | $8 | $10.375 | $1 |
| High 1931 | $138 | $8.45 | $13.50 | $1 |
| High 1932 | $163 | $10.60 | $12.875 | $1.30 |
| April 3rd, 1933-President Roosevelt orders the confiscation of gold. | | | | |
| High 1933 | $373 | $15 | $39.50 | $1.80 |
| January 1934, President Roosevelt raises Gold Price from $20.67 to $35.00 per ounce. | | | | |
| High 1934 | $430 | $30 | $46.25 | $3.50 |
| High 1935 | $495 | $56 | $44.875 | $4 |
| High 1936 | $544 | $36 | $61.25 | $4 |

Given the propensity of hedge funds and the like to sell everything in a general stock market crash, like 2008, we might take some money off the table in the precious metals sector. We, absolutely, don't advise selling any physical gold and silver, however. In fact you might want to add to these holdings using the money raised in selling some of your precious metals shares.

## Commodities

You can only be bullish on commodity prices if you are bullish on the world economies. We contend that the world economies have entered the 4th Kondratieff winter depression, which means that worldwide demand for commodities will drop precipitously. Commodity prices will reflect this reality, dropping to levels that for the most part, would be considered unimaginable today. Remember, during the Asian crisis in 1998 oil prices dropped to $10 a barrel and 'The Economist' magazine during that time made the argument for $4.00 per barrel. In a Kondratieff winter the whole world, not just Asia, is in economic crisis.

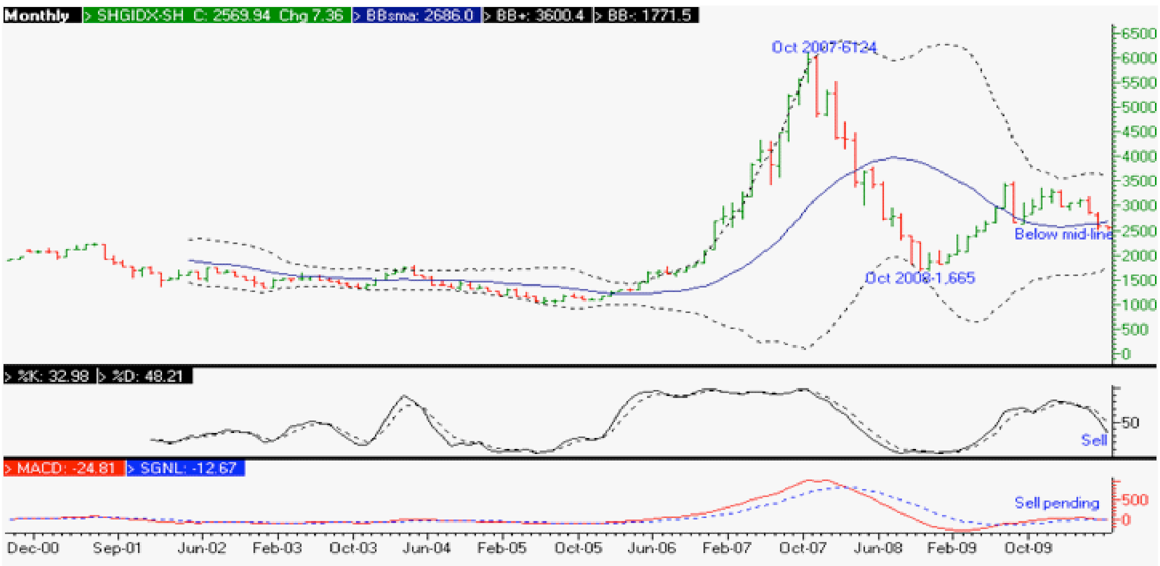
The Shanghai stock exchange index

I hope that you have been paying attention to what is happening in the Chinese stock market. You haven't?  Well let me tell you that this is very important, because many of us have put our faith in China to pull us out of this mess. Well Chinese stock prices are telling us that this won't happen. The index reached a high of 6,089 in October 2007. It has recently closed at 2,622. If that isn't a bear market, we don't know what is. The low in 2009 was 1,665. That price bears (pun intended) watching, because a break below that level would indicate desperate times in the Chinese economy.

June 12th, 2010.

This is the chart edition of Technical Tips. Since we've just been discussing the Shanghai Index, let's see the chart.

Shanghai Index Monthly Chart-Closing price June 11, 2010-2,570



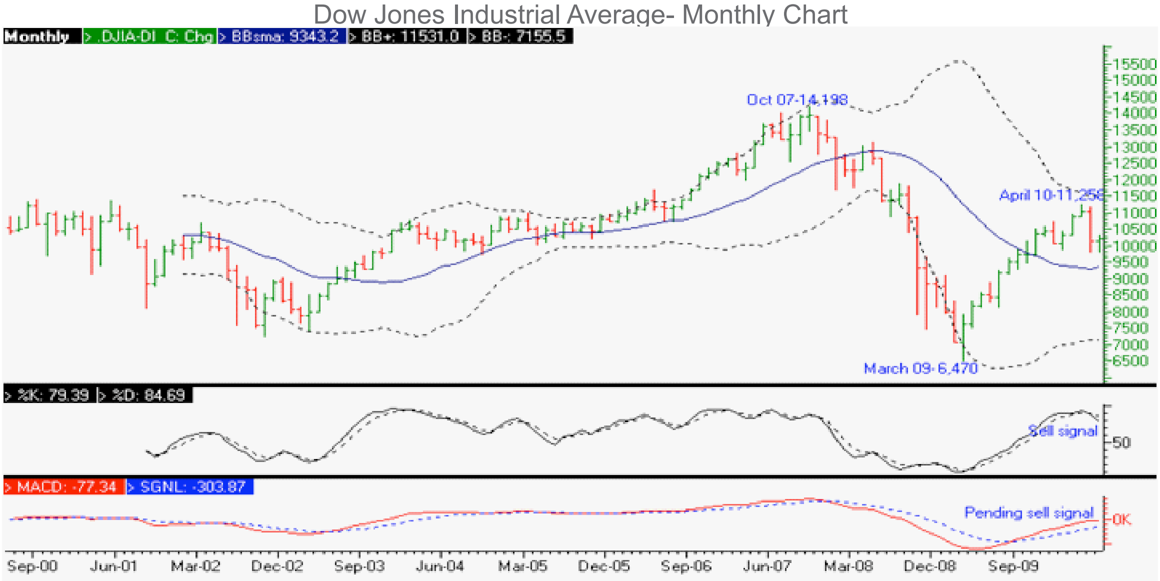

What is of concern is that the prices have dropped below the mid-Bollinger band, which suggests a move to the bottom Bollinger band, which is at 1,771. But further price declines could move the Bollinger band downwards. Stochastics are on a sell and the MACDI is rolling over almost into a sell position. We would, at the very least, expect a test of the low at 1,665.

The Dow Jones Industrial Average-Weekly Close 10,211

We'll introduce our reading of what might be in store for US stocks by quoting one of our favourite chartists Dr. Robert McHugh of technicalindicatorindex.com-""Stocks sit this weekend at the precipice. Conditions are ripe for a waterfall decline. This does not mean that there will be a crash staring over the next few weeks, so please do not go out and short the farm. What we can tell you is the risk of one occurring is higher than normal, that conditions that preceded prior stock market crashes exist right here and now."

We are convinced that a crash is approaching and like W. D. Gann who forecast the 1929 stock market crash, we confidently predict that those in power will not be able to forestall such a happening- "This year occurs in a cycle which shows the ending of the bull market and the beginning of a prolonged bear campaign….when the decline sets in it must be in proportion to the advance….When the time cycle is up, neither Republican, Democrat, nor our good President Hoover can stem the tide…It is natural law. Action equals action in the opposite direction." W. D. Gann, The Outlook for 1929, published November 1928

Dow Jones Industrial Average- Monthly Chart




This bear market in stocks is following the great Autumn stock bull market of 1982-2000. The previous Kondratieff winter bear market, which saw the Dow lose 90% of its value between 1929 and 1932, followed the third autumn stock bull market of the roaring ‘20s.
The rally from the initial low in March 2009 is akin to the first rally in the 1929-1932 bear market. That rally was precipitated by a massive infusion of money by the Federal Reserve and a steep cut in interest rates, which saw stocks regain almost 50% of their losses into April 1930. But then the bear market resumed in earnest, much as we expect this bear market to do the same, now. The key number to keep in mind is the March 2009 low of 6,470. If this is broken we should anticipate that the Dow will fall, at the very least to 5,500 point area.

Let us remind you of the following points all made by W. D. Gann
The decline must be in proportion to the advance. The Big bull market of 1982 -2000 was 2.5 times bigger the 1921-1929 bull market, which was followed by a bear market that lost 90%.

No one can reverse the tide of the bear market. Markets are governed by natural law.

In the short term the Dow is still advancing, resistance to this move is at 10,475. We will advise if the weekly chart turns bullish.

Gold-Weekly closing $1,230.20
We have been advocating buying gold since 1999, because we knew through our work on the Kondratieff cycle that the entire financial system would collapse under a huge burden of debt. We have been right, but the collapse is still in its early stages, as governments around the world take on even more debt in an effort to restart their respective economies. We can confidently predict that none of them will be successful and that the debt crisis will shortly resume in earnest. That resumption will bring more buyers into gold as it takes on the role of money of last resort.

The short term gold chart has given a sell signal. There is support at $1,214 and if that price is broken, the price of gold could fall to $1,180. Below that $1,150 should give support. Lower prices simply offer better buying opportunities.

Double Short ETFs
Richard Russell in a recent Dow Theory Letters quoted a professional subscriber on these very volatile instruments and why they should be avoided as substitute shorting vehicles.

Volume 3 | Issue 1 . June 13, 2010

"In a nutshell, the reason for this is that these instruments seek to match 2 times the daily inverse of the Dow or S & P. For this to happen, the fund manager for the ETF has to rebalance his exposure every single day. Here is an example:

Assuming a starting price for DXD (2X short the Dow Industrials) of 100 (and, hypothetically, the Dow for simplicity's sake). Now imagine a day where the Dow falls 10%( I know that's an unrealistically big day but stay with me.) At the start of the day, the fund had a leverage ratio of negative 200%, achieved presumably by a short position in Dow stocks equal to 2 times the fund's net asset value, in order to track 2x the inverse of the Dow. At the end of the day, the price of DXD is 120 (as expected, a 20% gain). However the value of the fund's short position has only gone from $200 to $220. At the end of the day, the manager will need to short another $20 worth of stocks to rebalance, so that the following day's price performance of DXD will again track 2x the inverse of the Dow.

Perhaps you can already see what is coming. The next day, assume the Dow goes from 90 back to 100. This is an 11.1% gain. The price of DXD will fall 22.2% from its prior close of 120 and end the day at 93.36!!!So we had two days of whipsaw, where the market did a big fat nothing but the guy who bought DXD is down over 6.5%. Compare this to the guy who shorted $200 worth of Dow stocks and sat still. On day one he ends the day with a $20 gain on paper. On day 2 he can buy the stocks back at the same price he sold them. So he experienced exactly what he expected. His net worth is unchanged over a two-day period where the market is unchanged. Not so with the fellow who purchased the DXD."

DXD-US 2x inverse the DJIA


This is illustrated in the weekly chart of the DXD shown above. DXD traded at $111.09 when the Dow hit a low of 7,882 in the week ending October 08, 2008. The Dow low in the week ending March 06, 2009 was 6,470, which was 18% below the Oct 2008 low, but the DXD traded at $90.86 or 18% below the price recorded in October 2008.

**Written By: Ian Gordon**