

Bullish HUI Technicals 3

Over the 6 months since the height of the stock panic in late November, commodities stocks have probably been the best-performing sector. While general stocks slumped to new lower lows in early March, commodities stocks surged. Their [bullish fundamentals](#) drove 50% to 100%+ gains over the S&P 500's exact low-to-low span!

Such powerful performance while fighting a weak tape has understandably done wonders to shift sentiment regarding commodities stocks. After being radically oversold in the stock panic as traders abandoned them for no reason beyond pure irrational fear, capital is returning. And thanks to the stock markets' massive 35.9% rally since March, sentiment in commodities stocks is slowly turning bullish again.

But this newfound commodities-stock enthusiasm has yet to permeate one key sub-sector, the gold stocks. Traditional gold-stock traders, after riding a massive 1331% bull market between November 2000 and March 2008, were hit exceptionally hard by the stock panic. Many investors' wills were totally broken, and they're never coming back to gold stocks. The panic was the ultimate test of *everyone's* financial mettle.

While it's sad to lose these long-time investors, the markets march on and opportunities are great. Let the dead bury the dead. It's encouraging to see the ranks of first-time gold-stock investors and speculators growing, yet this new constituency has a long ways to grow to replace the fallen traditional traders. Meanwhile, outside of the fallen and the rookies, the majority of gold-stock traders wait on the sidelines.

They are too worried to commit capital. Despite massive fiat-currency inflation at [unprecedented levels](#), they fear gold's next big move will be down. And the gold stocks always ultimately follow gold. They watch the flagship HUI gold-stock index's action daily, and worry it isn't behaving quite right. The proverbial wall of worries all bull markets must climb is alive and well in the gold-stock world.

I agree there are certainly days where the HUI's behavior ranges from uninspiring to discouraging. Yet one of the keys to thriving in the markets is not weighing any one day too heavily. Far more important is the trend, the sum of many days' action. Traders mired in day-to-day randomness risk totally losing perspective, which is absolutely necessary in order to successfully ride any trend to big realized profits.

After analyzing the HUI's trends this week, I was so impressed I decided to update this bullish HUI technicals thread of research. It's been just over 2 years since my [previous essay](#). Back then the HUI was languishing in the low-to-mid 300s, much like today. And sentiment was pretty poor and apathetic, just like

today. Yet out of those subtly bullish HUI technicals, this index soon powered 50% higher in a nice upleg.

This first chart offers crucial perspective on the HUI's technical performance since the stock panic. Since gold is the gold stocks' primary driver, I added it in the background for reference. Taken as a whole and not overweighting those inevitable discouraging days in any trend, the HUI's behavior has really been quite impressive. It is climbing on balance over a chaotic period where general stocks mostly struggled.



The gold stocks fared horribly in the heart of the stock panic when fear was the most extreme. Despite the HUI's excellent performance [during past stock bears](#), gold-stock traders didn't have the fortitude to ignore the stock panic. Its unbelievably intense fear spilled everywhere, including into gold. But even relative to the then-prevailing gold prices (low \$700s) in late October and November, the HUI was radically oversold.

We were aggressively buying and recommending gold stocks right then in the heart of the panic, both as long-term investments and short-term speculations. It certainly didn't feel good to buy anything then, as most gold-stock analysts predicted accelerating plunges as far as the eye could see. Yet as a contrarian I knew that such extremely bearish sentiment was an anomaly that couldn't persist for long. We had to fight the crowd as always, which is how the biggest profits are won.

But even beyond the excessive fear, there was a big fundamental reason to buy too. The HUI was driven so low it was back to mid-2003 levels. Yet back in mid-2003, gold was only in the \$350s! It was ludicrous fundamentally for the HUI to be trading as if gold was *less than half* the price it was trading at even in the panic's darkest days. And indeed the gold stocks soon soared out of these radically oversold levels.

The HUI recovered rapidly with gold in late November and December. By the end of 2008, it had already literally *doubled* from its panic low of just 9 weeks earlier. Entering 2009 at 300, hope was starting to return to the embattled gold stocks. But then a peculiar event happened that short-circuited the HUI's meteoric rise and led to great consternation among gold-stock traders that persists to this day.

Despite gold rising on balance in January and February, the HUI was largely flat. By late February gold had surged 12.7% higher in 2009 due to [heavy buying](#) by the GLD gold ETF. Yet the HUI was only up 4.6% over this span, dramatically lagging gold. Traders feared something was structurally wrong with gold stocks, or that they were anticipating a coming [sharp decline](#) in gold on the inevitable stock-market recovery.

Neither was the case though. The real problem the HUI suffered in January and February was sentiment among gold-stock traders. Because the general stock markets were falling relentlessly, traders feared a renewed panic. Never mind that gold-stock earnings and hence stock prices are ultimately driven by gold, stock markets be damned, the stock fear again spilled over into gold stocks. Thus the HUI was torn between following gold higher in early 2009 or selling off with the general stock markets.

Gold became a bit overbought and did indeed correct in late February, *well before* the stock markets bottomed. And the HUI sold off sharply. With this index down 8.8% for the year on March 9th (the day [stocks bottomed](#)) while gold was up 4.5%, traders again assumed something was drastically wrong with this sector. But it was just excessive stock-market fear bleeding into gold stocks, not unlike what we saw in the panic.

In mid-March the HUI surged again as the Fed announced it was monetizing long-term US Treasuries, creating new dollars out of thin air to fund Washington's enormous deficit. By early April, the HUI was up 126.4% since its late October panic low. Meanwhile gold was only up 26.6%, so over that particular span the HUI indeed leveraged gold's gains beautifully. Sentiment was improving, but then another exogenous event crushed it again.

In early April, gold fell sharply on rumblings out of the G20 meeting in London that the IMF would sell some of its massive gold hoard. Gold fell on the rumor, and dragged the HUI down with it. When the dust settled, it was clear the IMF

gold-sale proposal was merely an old one that had been on the table for years. I analyzed this whole episode in the new [Zeal Intelligence](#). Still, it crushed gold-stock sentiment again.

Thus by early May, the HUI was trading dead flat at the same 300 level where it had entered 2009. It is no wonder sentiment was so poor, with former gold-stock traders not interested in coming back in and first-time gold-stock traders slowing to a trickle. Those still interested in this sector had largely assumed a wait-and-see approach. A flat HUI over 4 months where gold rose modestly was not encouraging.

Despite all this, take a look at the HUI's trend in the chart above. Even with all these psychological headwinds, the HUI has been *rising on balance* since early December in a nice orderly uptrend. Its support held strong on 3 separate occasions across 3 different months. Viewed as a whole instead of getting mired down in the pullbacks, the HUI's uptrend has been largely textbook-perfect over the last 5 months!

This reminds me of gold's seemingly hopeless quest from early 2002 to mid-2005 to break above the critical level of 350 euros. For several years, every time gold challenged €350 it promptly failed and fell back down. European investors used this to assert that the gold bull we contrarians were riding in the States was merely a US dollar bear in disguise. Yet they weren't considering the whole counsel of the chart.

Euro gold wasn't hitting new highs, true, but its well-defined secular support in euro terms was [moving up relentlessly](#). Euro gold was basing at *ever-higher lows!* With rising support corralling gold ever tighter under its fabled €350 resistance, it was only a matter of time until €350 fell and the glorious [second stage](#) of gold's bull was ushered in. Of course €350 was soon exceeded and gold has never looked back.

The point of this reminiscence is that traders who do not consider the broader trend risk missing the boat when the big gains come. Since December, the HUI has been consistently carving higher highs and higher lows in a nice orderly uptrend. Other than moving up more slowly than enthusiasts would like, there is nothing wrong technically with the HUI. It is climbing gradually, basing, and will probably eventually break out to the upside just like euro gold and yield massive gains.

And considering the stock markets' extreme behavior over this span, the HUI's conservative uptrend is even more impressive. From early December to early March, the S&P 500 shed 25.6% of its value and once again the [silly depression fears](#) loomed. Then from early March until this week, the S&P 500 soared 35.9% in a mighty rally (just returning to its early December levels this week). Yet

through all this, incredibly chaotic markets, the HUI stoically climbed higher on balance in a nice tight uptrend.

If these aren't bullish HUI technicals, I don't know what are. Despite all the worries out there, gold stocks are carving higher highs and higher lows in a very difficult market environment. Traders sitting on the fence fretting about the gold stocks are already missing out today. And once sentiment inevitably turns, as greed tends to flare up in this sector from time to time, the HUI will rocket out of this strong base.

Because of some of the 2009 episodes mentioned above where the HUI underperformed gold, a lot of traders are worried that something is wrong with the gold stocks. Indeed, if the gold stocks weren't reflecting gold on balance, I would agree. But note in the first chart above that the HUI did indeed follow gold nicely over this span, leveraging its gains considerably. Its day-to-day price swings also mirrored gold's well as usual.

But rather than just eyeballing a chart, there is a more precise way to measure the HUI's progress versus gold's. It is the HUI/Gold Ratio. This HGR is just what it sounds like, dividing the daily HUI close by the daily gold close and charting the result over time. When the HGR rises, the HUI is outperforming gold as it ought to. When the HGR falls, gold is outperforming the HUI (usually because gold isn't falling as fast as the HUI such as during the stock panic). So the HGR trend helps measure gold stocks' health.



The blue HGR line shows how radically oversold the HUI was relative to gold during the stock panic. At worst, the HUI approached 0.20x the price of gold in late October. Unbelievably gold stocks had briefly fallen to April 2001 levels relative to gold, not long after the massive gold-stock bull started! This very chart led us to aggressively buy and recommend gold stocks during the heart of the stock panic.

In late November and December, the HUI rallied so fast that it far outperformed gold as reflected in the fast-rising HGR. But after peaking just above 0.34x in mid-December, the HGR largely flatlined. In other words, the gold stocks were merely pacing gold's gains instead of leveraging them as they ought to. This was the beginning of a long HGR consolidation (shaded dark blue above) that lasted until April.

It was definitely discouraging that the HUI wasn't rising faster than gold in 2009. These lackluster relative gains were another major brick for the wall of worries. If the HUI couldn't leverage gold's exciting run back up to \$1000 in February, would the gold stocks ever leverage gold again? What was wrong with them? Of course their problem was the fear bleeding over from the very weak general stock markets ahead of their major March low.

With the HGR largely hovering between 0.32x and 0.34x, it was clear the HUI's performance was substandard. Gold stocks are vastly more risky than owning gold itself, so if they are not amplifying gold's gains at all then it is wiser to simply hold gold. The myriad of operational and geopolitical risks individual miners face, which can crush them, are actually bullish for gold itself since they reduce its mined supply.

But once again, some perspective is in order. Like the whole €350 resistance episode taught, it is best to consider a trend as a whole rather than lose ourselves in a fraction of the overall price action. Note above that the HGR, since late November, has actually been climbing on balance. We've seen higher highs and higher lows. While not as pretty and well-defined as the HUI technicals themselves, there is no doubt this is an uptrend. Despite perceptions, the gold stocks *are* gradually making up lost ground relative to gold!

And they have a long way to go yet. For 5 whole years before last autumn's stock panic, the HGR carved a tight secular average of 0.511x. This is as good of estimate for [fair value of gold stocks](#) as you can get. At \$910 gold, an HGR of 0.51x implies a HUI level of 465. This is almost 40% higher than where the HUI was trading this week! I fully expect this HGR gap to close, the HUI will rise to reflect prevailing gold prices.

And it has already started. The HUI is the red line in the chart above. And the yellow line is a hypothetical HUI at the historical average 0.51x HGR. The gap between the actual HUI and where gold suggested it should be was massive

during the stock panic, the HUI traded at only 41% of its gold-implied level! Yet since then, this gap has gradually closed. This week the HUI was trading at 72% of its gold-implied level.

With the HGR in an uptrend and the gap between today's HUI and the historical-HGR-implied HUI closing, the HUI's technicals relative to gold are also bullish. Unfortunately most gold-stock traders today don't see this because they are too busy losing the forest for whatever particular tree happens to be worrying them at the time. But the charts don't lie, the HUI's technical behavior in an absolute sense and relative to gold is definitely bullish on balance.

You may be reading this and thinking, "Man! I wish I had bought gold stocks during the stock panic." The bad news is that opportunity is long gone. The good news is that the anomaly the panic wrought is only about half undone so far. You can still buy gold stocks today and catch the second half of the HUI's reversion back to more normal levels relative to gold. And if gold rises farther as the massive fiat-dollar inflation makes virtually inevitable, or greed again erupts in gold stocks, all the better. The HUI's gains going forward will be *much* bigger.

Our [Zeal Intelligence](#) newsletter subscribers received this critical information over 6 months ago right in the heart of the panic. Despite writing these [free essays](#), we naturally preserve the best and most actionable results of our research for our subscribers who fund our work. [Join us now](#) to see what we are trading today and why! Then perhaps 6 months from now you could be sitting on big profits too and marveling at the value of elite research from hardcore students of the markets and lifelong speculators.

The bottom line is the HUI technicals today are definitely bullish. This index itself has been rising on balance in a nice uptrend since the panic abated, despite the wildly chaotic general stock markets. And the HUI is even gradually regaining ground relative to gold. This technical perspective reveals the overwhelmingly apathetic-to-bearish sentiment plaguing gold stocks today is totally without merit.

While all commodities stocks are continuing to recover from their brutally anomalous lows driven by the stock panic, gold stocks' march back to normalcy is certainly among the slowest. Far from being a problem, this is a great opportunity. It is giving traders ample time to add exposure to a sector likely to soar once sentiment shifts towards bullishness. And with gold moving higher, this catalytic spark grows more likely all the time.

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actual stock and options trading based on all the lessons we have learned in our market research. Please consider joining us each month for tactical trading details and more in our premium Zeal Intelligence service at ...

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