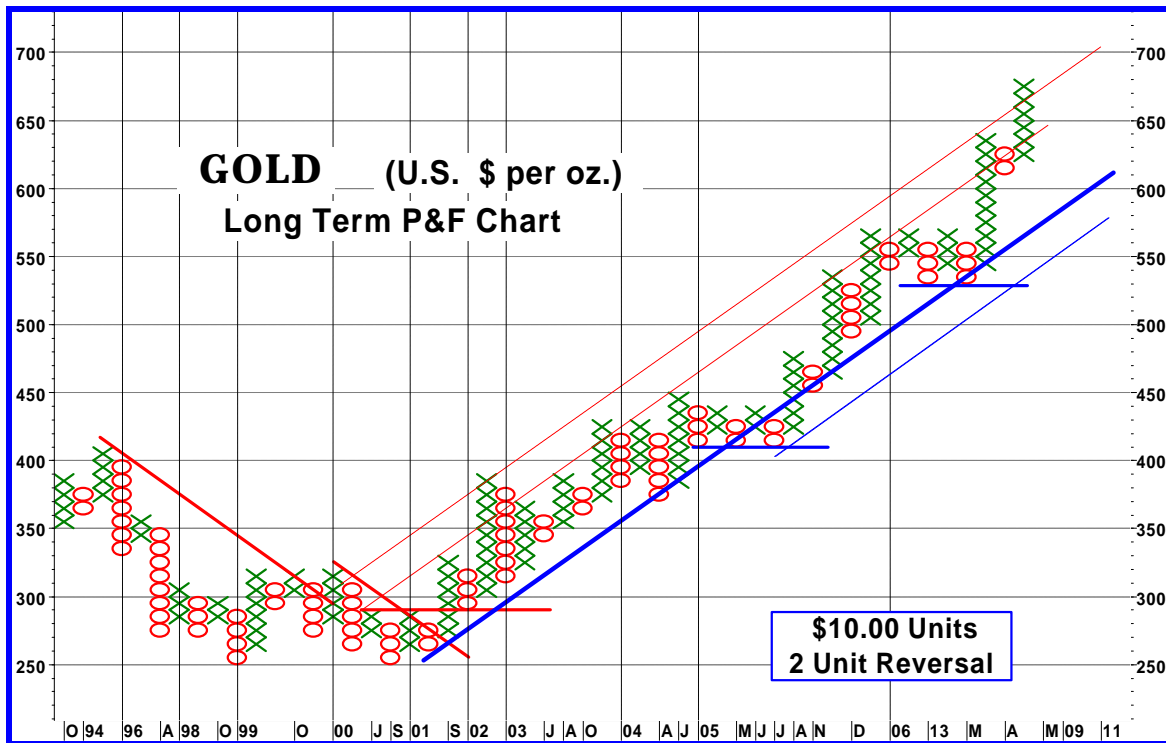


Weekly Commentary

For week ending 05 May 2006

Silver is taking a rest but gold just keeps on moving. Gold stocks are giving a mixed message depending on what you are looking at. Always Interesting.

GOLD



Last shown three weeks ago the long term **P&F** chart has had some additional activity lately and is now just too bullish. Since the bull started in late 2001 with the break out at the \$300 mark it has been trapped within the up trending channel lines bounded by the support up trend line (solid blue line) and the secondary resistance up trend line (the dashed red line). Over the past week the secondary resistance line has been breached for what appears like a just too bullish of a move. Rest is desperately in order to gather strength for a stronger sustained upward move. When we have such well established trends it is always dangerous to break the trend, even on the up side. However, on bar or candlestick charts such upside breaks through a channel trend line is often the precursor to a sharp and severe continuation move. So, I guess I can cover both bases and say "I told you so" no matter which way gold goes. But you want better than that so let's see if I can guess which is the most probable.

Before finishing with the long term **P&F** commentary, just a reminder that the trend has been meeting all my previous projected levels, the last continuation projection being the \$680 level which was met this past week. A vertical "count" from the last consolidation period would give us an additional projection to the \$740 level. I am not much for the vertical counts but it's the only long term projection that I have. My very long term projections are still to the \$1075 level followed by \$1575.

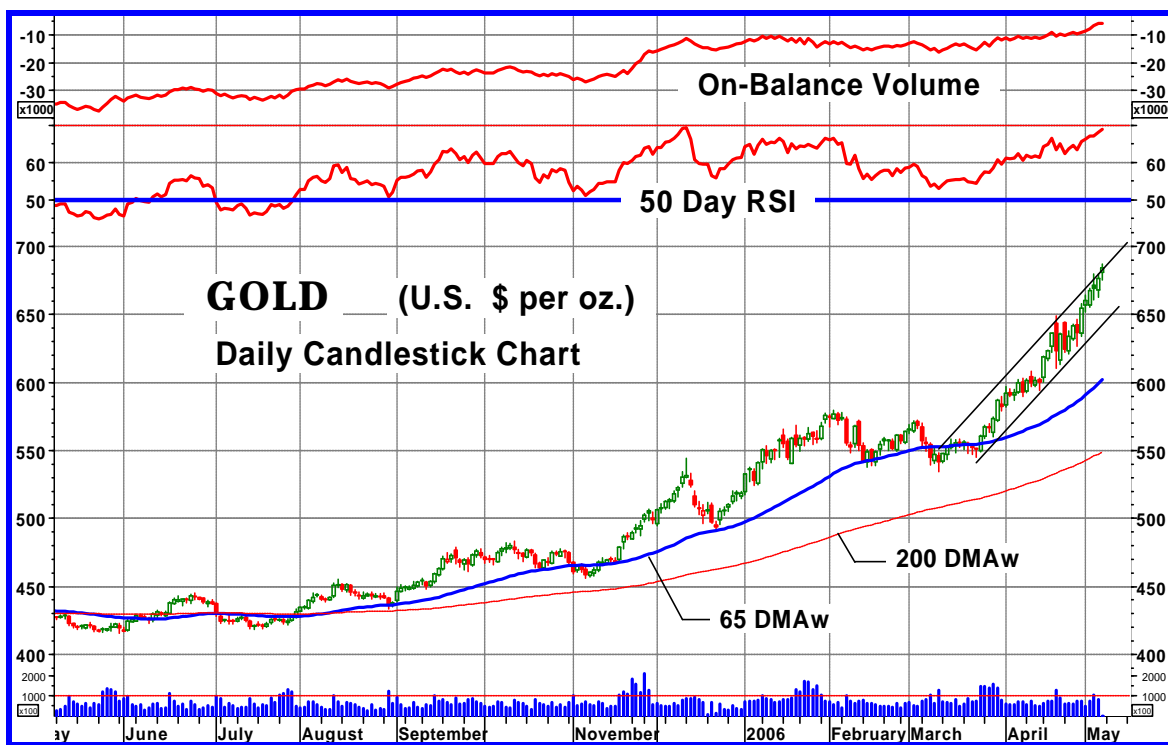
Back in mid-late 1979 gold made a mad dash and broke through its multi-year upper channel line. At the same time the long term momentum indicator was moving into a level it had not seen throughout that earlier bull market. This time around gold has once more made a mad dash through its multi-year upper channel line. The long term momentum is also reaching into levels it has not seen since this bull started. So, what now?

In the previous bull the move came to a temporary halt with the price taking a several week rest and dropping some 17% in the process. It then took off again rising double in price over a two month period, to its all time high of \$875. Now, it would be foolish to assume that history will repeat itself BUT if it did we could expect some still more upside followed by a several week rest period during which time gold will drop some 17% and then see a really, really wild ride to that \$1575 projected level. Beyond that, let's just wait and see.

Let's get back into the real world again. Gold has been hitting new highs almost as a daily occurrence. It is far above its positively sloping moving average line with no real reversal to a bear anywhere near. Price momentum, as mentioned earlier, is reaching into levels it has not seen during this bull market. It is into the overbought zone but is not giving any indication of turning around any time soon. Long term volume indicator is also roaring into the up side. Everything is in step, on the up side.

So, as far as the analysis of long term indicators are concerned we are still very much in a BULL market.

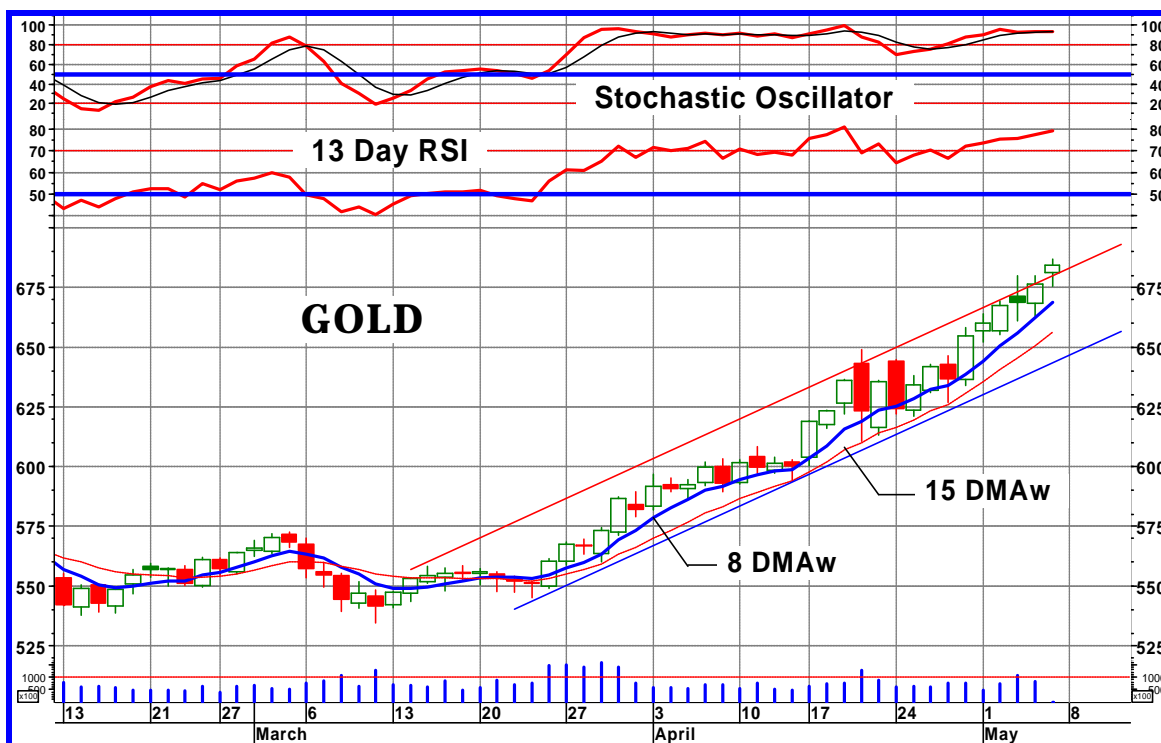
INTERMEDIATE TERM



As one might expect, the recent positive action has moved the price of gold ever higher above its moving average line. The line itself is turning sharply upward. Momentum has now almost touched the 70% level where it hasn't been for quite a while. The trek this time has been slow and steady, not sharp and volatile. In November it took the momentum little more than a month to get from the 50% to the 70% level. This time around the trek has been on for two months. This increase in strength has been more gradual and some might say that it has better potential for longevity. Although the daily volume action continues within normal levels the volume indicator has now moved into new high levels. This by itself is positive although it sure took its time getting there and THAT is not positive. Although more of a short term action, the sharp up trending channel appears to be restraining the upside gold action. A move below the lower channel line might be a signal for a rest period but this will be looked at in more detail in the short term section below.

Nothing yet in the chart suggests that the intermediate term is in danger of ending so I must remain BULLISH based upon such indications.

SHORT TERM



It's almost getting monotonous, this steady up trend. Six weeks now of steady up and up with only a couple of sideways moves to get the juices flowing at the thought of a reversal. A close-up of the trend suggests that possibly the trend is ready for a more accelerated move, having bust out of the channel on the up side. Friday was the first close above the upper channel line. Of course, drawing these lines is an art, not a science, and in art where that upper line should be is based purely upon judgment.

Regardless of the channel, the action remains above the short term moving average line (the 15 DMA) and as long as it does, no reversal of trend can occur. Momentum remains inside its overbought zone and touching extreme levels. It is ready for a correction.

From the short term perspective BULLISH is still the word.

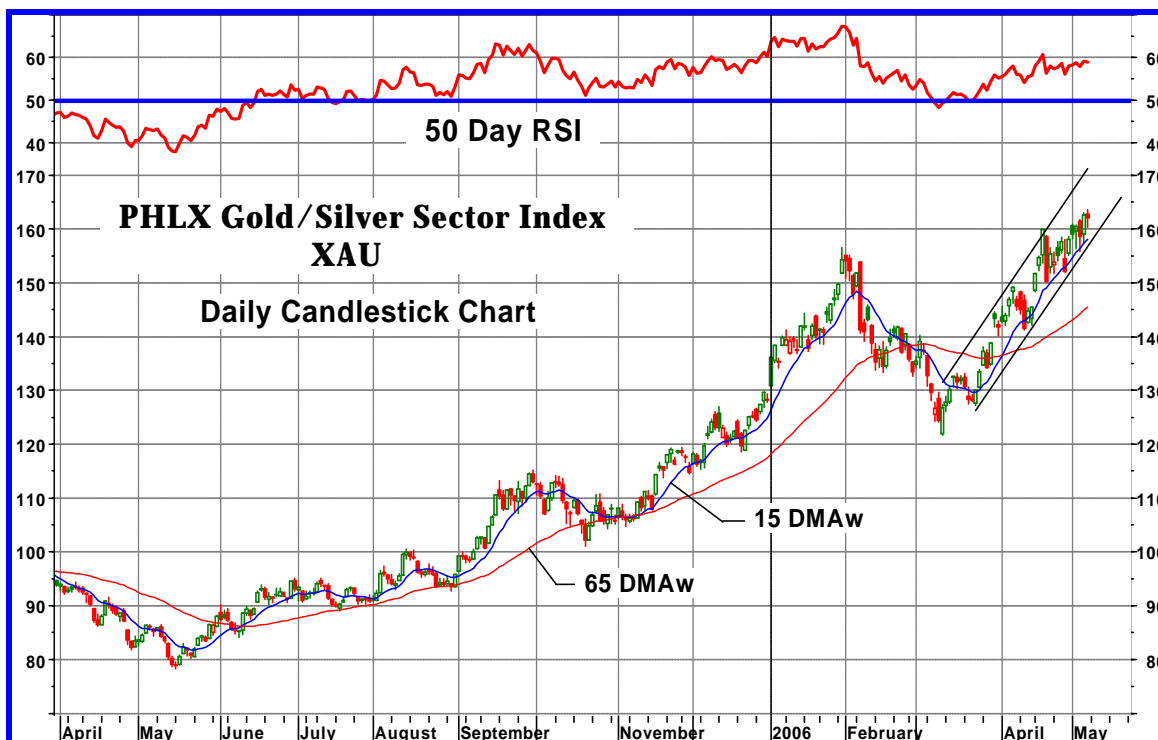
IMMEDIATE TERM

Not shown on the chart but we can draw a more aggressive channel for very short term activity. The upper line would touch the tops of Tuesday the 25th and the top of Wednesday the 3rd. The bottom would be parallel touching the bottom of Thursday the 27th. Again, once we have an established trend or channel then as long as the price stays above the lower trend line all is well.

In addition to the channel described above we have the very short term moving average line (8 DMAw) which is basically sitting on top of the lower channel line just mentioned. This is an unusually long trend where the very short term moving average line has remained positive. It just can't continue for long but go with it as long as it continues. The Stochastic Oscillator is butting up against a 100% line. Just too strong. The only next move must be down, at least on the SO.

As always, "a trend in motion remains ----", so the immediate term must be assumed to continue to the up side. A move below the very short term moving average line would be the signal that a change in direction might be taking place. The line itself turning down would just about confirm so.

NORTH AMERICAN GOLD INDICES



Subscribers can see a long term chart of the XAU in the Merv's Gold Index Page. Although the almost 300% move in the Index from its low in 2000 sounds good to some, it is mild compare to the average "quality" gold stock as represented by the Merv's Qual-Gold Index. That Index gained about 570% in the same time period.

The major Indices moved higher during the week with the S&P/TSX Gold Index gaining 4.6% while the AMEX Gold BUGS Index gained only 0.3%. The XAU gained 2.4% on the week. The good showing by the S&P/TSX Index was probably due to the heavily weighted Barrick performance (Barrick was up 12.2%).

Looking at the XAU chart we have a similar short term up trending channel that we see in gold. The major difference being that gold is at the top of its channel while the XAU is at its bottom. Gold has moved significantly above its late January high while the XAU is barely above its high. This under performance by a major Index is a little troubling. Too often I have found that the performance of the stocks is a leading indicator of what to expect from gold. With a weaker performance in the Index this might be telling us that gold just might be ready to relax for a while. Let's hope that it is the XAU that strengthens and not gold weakening.

MERV'S PRECIOUS METALS INDICES

We're starting to see weakness creeping into the actions of the gold stocks. The Merv's Indices are showing that the average gold stocks have had a good run and now may be taking a rest. Four of the seven Merv's Indices had losing weeks. Despite this showing the Indices are still rated primarily as BULLISH. Only the silver Index is having some problem maintaining such rating.

MERV'S GOLD & SILVER 160 INDEX

The average stock in the overall universe of 160 stocks gained 1.1% on the week. As we see from checking with the sector Indices (Qual, Spec & Gamb) the gains were in the more speculative stocks and losses were in the quality. With the Index well above its intermediate and long term moving average lines and with momentum in both cases well inside their overbought zones the Index remains very BULLISH but with a cautionary note that it

can't go on like this forever. A rest period is in order and may not be far away with momentum coming down to a more sustainable level.

With the small weekly gain in the Index it is not at all surprising that the number of advancing issues and the number of declining issues were just about equal with 49% of the overall universe in each case. There also continues to be a slow shift in the overall ratings moving towards the bearish but not yet there. The intermediate term rating stands at 74% bullish (down from 78% last week) while the long term rating stands at 88% unchanged from last week.

There were 3 stocks in my arbitrary category of stocks that made moves during the week of 30% or more, up or down. All three were gainers. The best was BacTech Mining, a new entry into the universe, with a weekly gain of 77.3%. It gained 47% the previous week, which was what caught my eye for its inclusion into the Index.

MERV'S QUAL-GOLD INDEX

This is where we are seeing the real weakness in the stocks, the quality gold and silver stocks seem to be losing their luster for now. The Qual-Gold Index was down 0.2% on the week, not much but still a negative. The weakness is being seen by the action of the intermediate and long term momentum indicators. Both seem to be slowing their pace with the intermediate term momentum not able to reach its level of earlier in the year. There is still no real problem as long as the Index is still well above its moving average lines but it pays to be prepared.

As for the ratings and advances and declines, the advancers declined and the decliners advanced during the past week while the bullish ratings continued to move lower. There were 57% advancers, down from last week's 63%, and there were 43% decliners, up from 37% last week. As for ratings, the intermediate bullish rating dropped to 80% from 85% and the long term rating dropped from 92% to 83%. Neither of these are yet anything to get panicky about but it may not necessarily be the time to be throwing more money into the stocks.

MERV'S SPEC-GOLD INDEX

The weekly gain in the Spec-Gold Index was almost exactly that of the average universe stock, at 1.2%. The trend continues positive with the Index still some distance above its moving averages. Neither of its two basic momentum indicators, the intermediate and the long term ones, are showing any signs of weakness but both are well into their overbought zones so a rest period is to be expected ahead.

This is one Index where we had an improvement in the advance decline numbers with 60% advancing (versus 50% last week) and 37% declining (50% last week). As for the ratings, the advance and decline numbers did not help. The intermediate term bullish rating dropped from 88% to 85% while the long term rating dropped from 95% to 92%. These are still very good ratings but it is the direction that worries me, and the direction is towards lower bullish values.

MERV'S GAMB-GOLD INDEX

This is where the real action was during the week with two of the three over 30% gainers being in the Index. The Index was ahead 4.5% on the week. The Index is up over 130% this year alone, i.e. an average gain of 30 stocks since the end of last Dec. Even the spectacular Spec-Silver Index can't beat that. The Index continues to move well above its moving average lines and momentum for both time periods, intermediate and long term. Maybe things are just too good here so be on guard for surprises.

As terrific as things sound when just looking at the Index they start to show signs of decline when you look at the breadth figures. 50% of the stocks advanced this week versus 53% last week, while 47% declined versus only 43% last week. The numbers are going in the wrong direction. As for the ratings, the intermediate term is at a bullish 75%, down from 82% last week and the long term is at 97%, up from 92% last week. Stick with the group but keep in mind of the possibility of a further decline in the group. The group was so bullish it had only one way to go.

SILVER

Since hitting new highs a little over two weeks ago and then plunging straight down for a couple of days silver has not been able to recover despite a two week rally. Volume action continues on the up side with the volume indicator reaching new highs but the price of silver just hasn't been able to follow volume. It just might be that silver got too over extended with all the publicity that it was the new wonder metal, at least for speculators. Despite the weakness silver is still above its intermediate and long term moving average lines and momentum in both periods is still in the positive zone so all is not yet lost.

MERV'S QUAL-SILVER INDEX

The Qual-Silver Index looks like the weakest of the Merv's Indices. We see a definite topping action in the Index with a 5.4% down side close on the week. The close took the Index below its intermediate term moving average line with the line itself showing a definite turning towards the down side. Both time period momentum indicators have turned down and have broken below their overbought line for a reversal of strength warning. This may be a precursor to what we are expecting from the other Indices in weeks to come.

Looking at the breadth of the Index activity, 70% of the component stocks declined on the week as against only 30% advancing, the worst breadth figures for some time. On the ratings front the intermediate term is now rated as a neutral with no bullish or bearish over 50% rating. Last week it was still 70% bullish. On the long term the bullish rating dropped from a 100% level to a 75% level. Not all that encouraging here.

MERV'S SPEC-SILVER INDEX

The Spec-Silver Index, which had a gain of 8.1% last week turned that around for a loss of 1.8% this week. Although the Index is just coming off an all time high its momentum indicators had topped out some time back. The intermediate term momentum has been tracing a lower high, lower low scenario since about the middle of February. The long term momentum has been moving sideways during this period but with a negative bias. The turn seems to be upon us so watch out below. These are the stocks that made spectacular gains since the bottom last May so these are the stocks that can afford to drop the furthest and fastest. If you own any of these stocks I would watch the individual stock technical ratings for a warning that things may have turned.

Well that's it for this week.

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