

## **THE VALUE VIEW GOLD REPORT**

### **TRADING THOUGHTS**

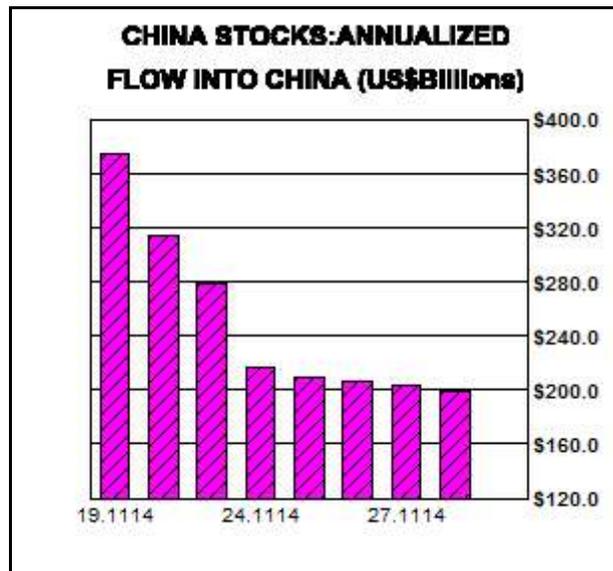
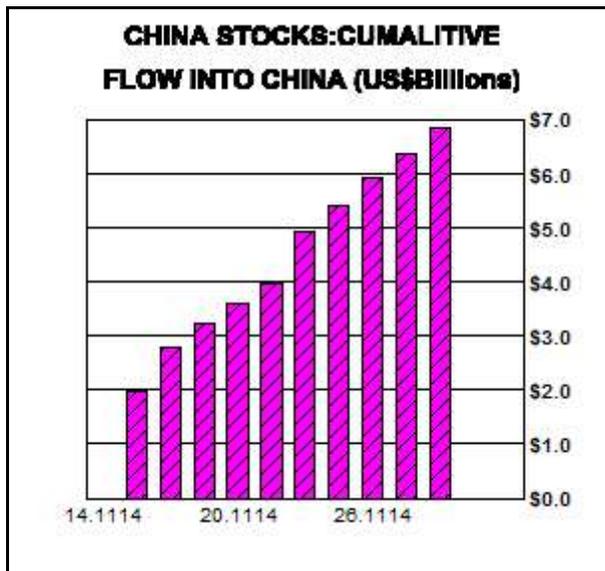
**TRADING THOUGHTS** is about timely and profitable buying of precious metals. We do not believe every turn in the market can be called. Our goal is that our recommendations should be profitable. Profits are the goals, not trades. Do not expect all recommendations to be profitable. No system can achieve that lofty goal. Our goal is simply to state whether conditions in the precious metal's market are favorable or not. Current investment strategy is bullish for Gold. Buy signals are issued when appropriate. These signals are generally speaking for day they are issued. If price remains below signal price, buying can be done. Do Not Buy signals are given when market is over bought, and buying is unwise. We are not issuing any sell signals in a bull market. Blue triangles indicate an over bought condition. These would not be good times to buy.

#### **MONEY MOVING TO CHINA**

**ON 17 November money started moving to China, and the investment world will never be the same.** As we recently wrote in an article for the web, on that date money began to flow in size from the West to the Chinese stock market. Prior to that date only limited flows by institutional investors were allowed. With opening of Shanghai-Hong Kong Stock Connect, money flows into the Chinese stock market are greatly expanded. Up to 13 billion Yuan, or ~\$2.1 billion, can now flow into the Chinese stock market from Western investors on a daily basis. To date that limit has not been a constraint.

Two graphs below are presented on flows to date. Remember in looking at these flows the history is extremely short. On the day this effort is mailed to you, the 30<sup>th</sup>, only 10 trading days will have passed. Chart on the left is the approximate dollar value of the cumulative flows into China's stock market measured in dollars. In those 10 trading days nearly \$7 billion flowed from Western financial markets into the Chinese stock markets. Remember what we have said over time about what happens at the margin. Change in direction or trend is what influences the value of a financial asset over time.

Now let us try to measure the power or mass or energy of this flow. In the bottom right chart we have annualized the cumulative flow of money into the Chinese stocks from Western investors. Given the short

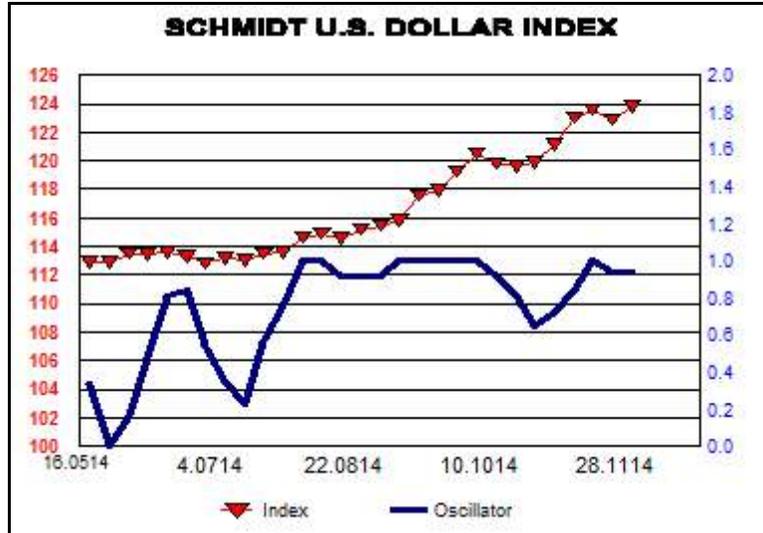


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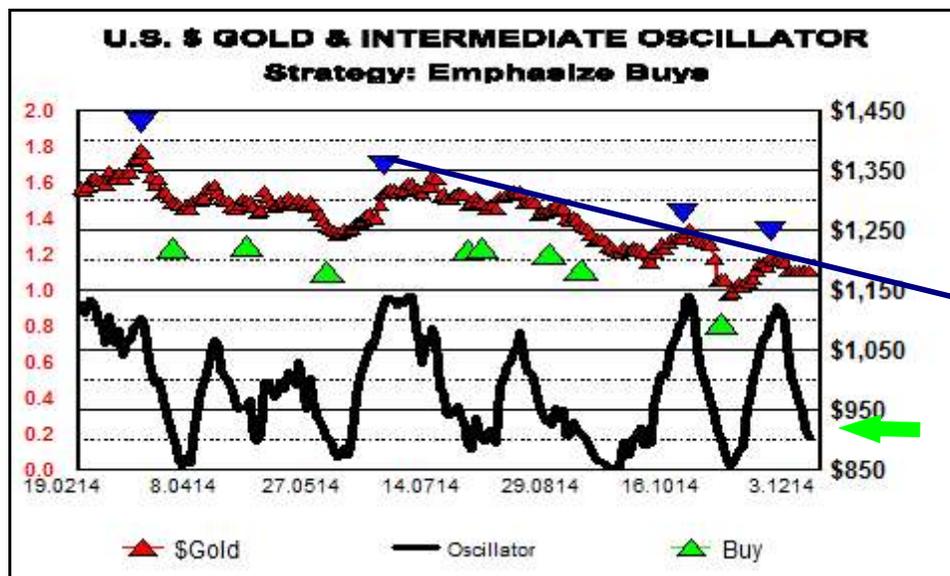
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period of time, this calculation is not of highest quality. Acknowledging that caveat, the annualized flow of money is about \$200 billion. To put that in perspective, that value is about the size of the GDP of the Czech Republic, and larger than GDP of New Zealand or Kuwait.

Let us run with the \$200 billion annual rate of cash flow into China, *admitting the limitations of that number*. In three years that amounts to \$600 billion **and in five years a trillion dollars will have moved into China**. That will change the financial world, and makes AAPL's earnings for the 4<sup>th</sup> quarter of 2014 perhaps the most trivial event in the rest of your lifetime. Many will say, "I am not putting my money in China!" Ok, but a lot of the world's money will do so. You need to simply take advantage of this change in the world as it is being largely ignored.



A Western investor cannot buy Chinese stocks with dollars, pounds, Euros, rupees, etc. Investors must sell their currency and buy Renminbi. So, continuing with our \$200 billion annualized guestimate, in the next year \$200 billion dollars will be sold with the proceeds buying Renminbi with which to buy Chinese equities. Then, in the next year another "\$200 billion". And in the third year another "\$200 billion". For the next few years the selling of dollars to buy Renminbi will be significant. With selling of dollars of this magnitude, whole notion of a secular bull market for the dollar, which is now a popular investment theme on the Street, will be shown to be pure nonsense. No national currency has ever faced this kind of buying, Renminbi, and selling, dollar, of such size.

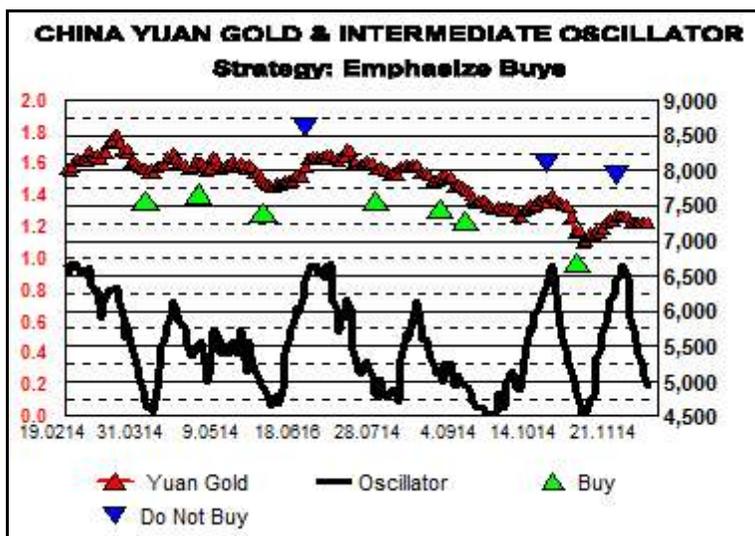
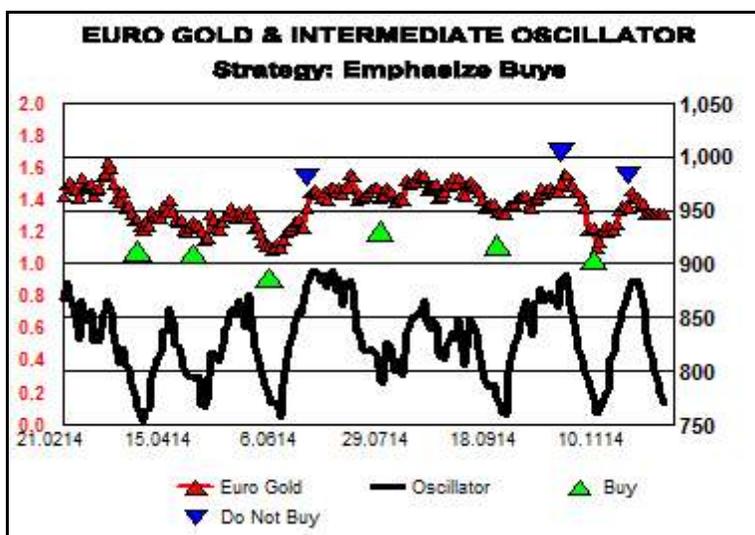
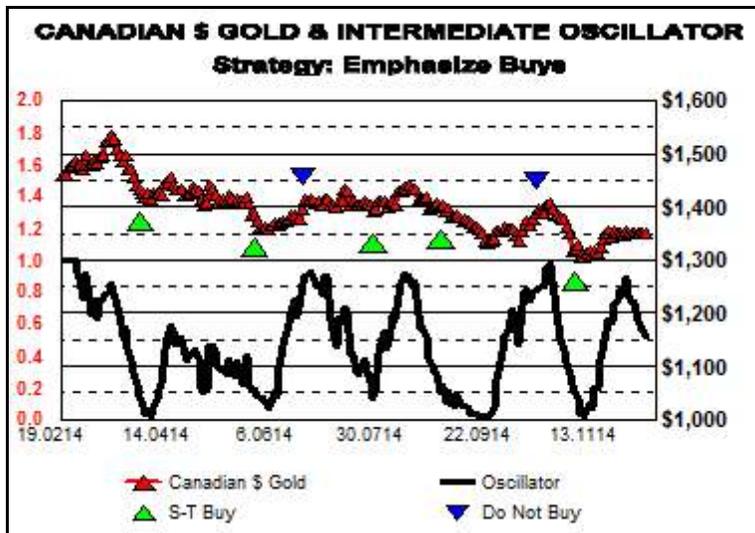


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On Friday of last week we had a great example of just how, one, ignorant the U.S. investment community is of global economics, and, two, how universal is the concept of a secular bull market for the U.S. dollar. Oil prices plunged with WTI breaking below \$70. That action caused another rally for the dollar and a sell off of Gold. What is forgotten, or ignored, is that the U.S. is again a major oil producing nation. U.S. oil production is ~9mm barrels a day. That oil production has displaced imports and prevented the export of dollars to pay for imported oil. With new U.S. oil production extremely high cost, these lower prices will cause a fairly rapid collapse in U.S. drilling for shale oil. While the oil will still flow, high decline rate for shale oil production will set in quickly. Where this process will be first seen is in drilling activity. Number of active drilling rigs in the U.S. will fall dramatically in early 2015. Saudi Arabia's strategy of "killing" shale oil will indeed be quite effective. Some politics is also involved in Saudi strategy. Obama regime is seen as friendly to Iran, and continuing to support Iran's nuclear weapons program. Saudi Arabia does not like that.

All of the Gold charts have been extended out through the end of coming week. Reason for doing that is to see what happens to the oscillator if \$Gold price continues at current level, or moves somewhat lower. We have highlighted in \$Gold chart, bottom of previous page, that the oscillator will turn over sold by end of week. That is true for Gold in nearly all currencies. An exception to



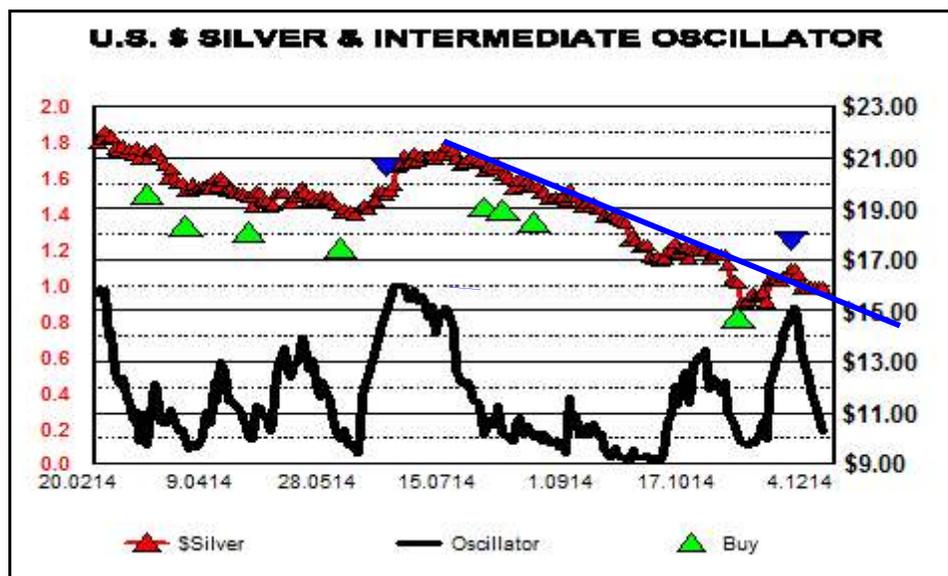
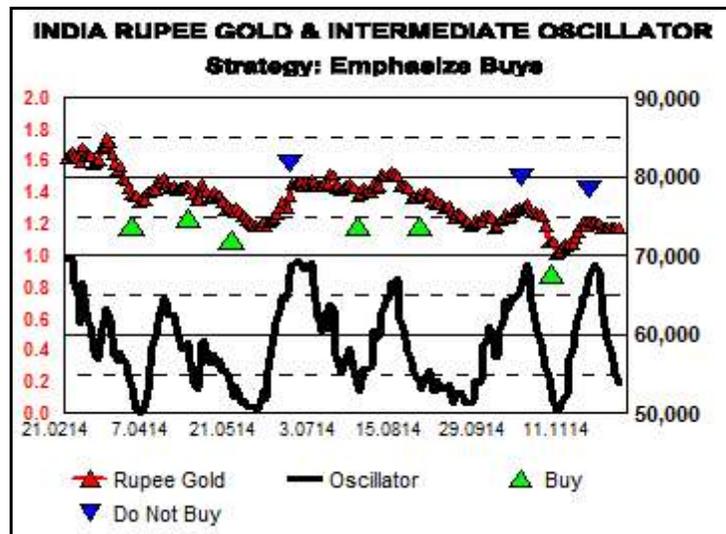
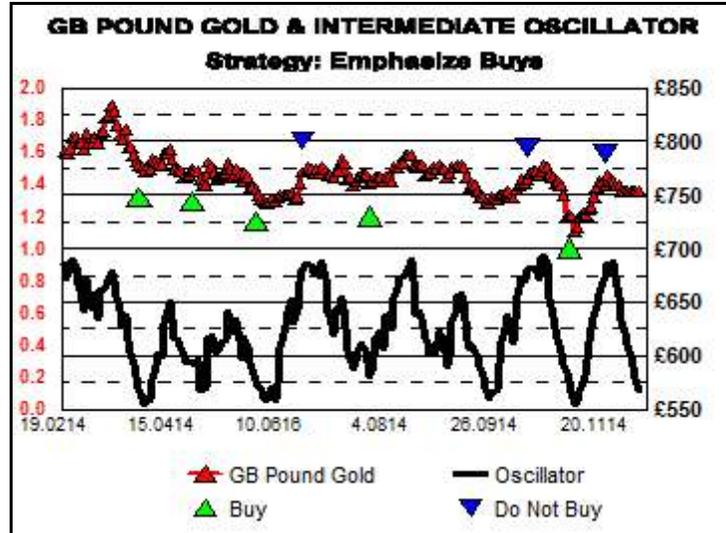
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this is Canadian \$Gold. Due to the continued selling of Canadian dollars the currency depreciation is supporting price of Gold in that currency. We will advise on all buy signals as they develop.

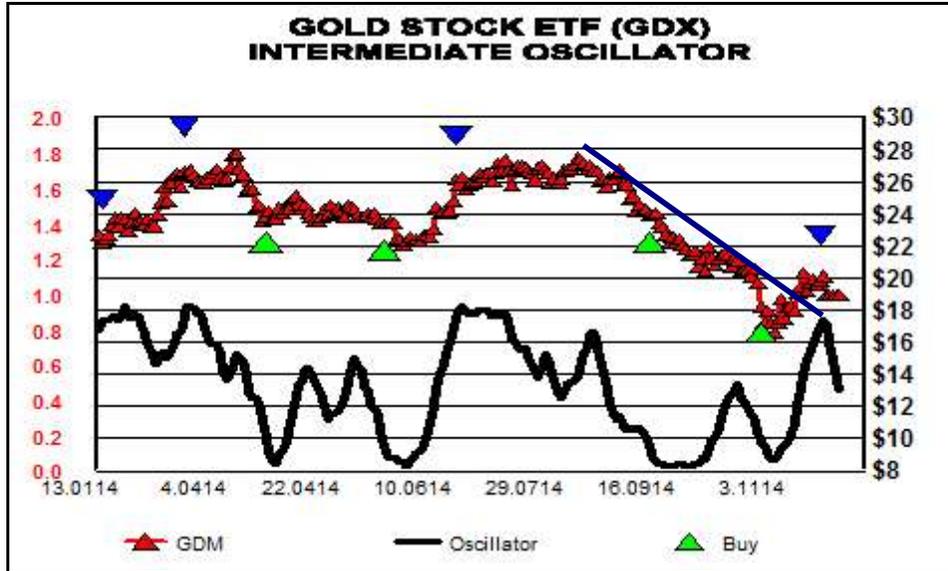
We note also that \$Gold in that chart is attempting to walk through the down trend in which \$Gold has been moving. Last low for \$Gold, and Silver, were driven by year end selling that occurs in October-November in the U.S. Tax losses are taken and weak positions are sold in order to not show them on year end financial statements to investors. That activity usually marks a major low in the price of an asset. That situation certainly seems the case this year. And remember, the world is not going to sell all its Gold and buy AAPL stock. Simply will not happen.

**Silver** is clearly walking through the down trend line drawn in the chart below. Note that oscillator for Silver will also be over sold by the end of the coming week. A buy signal is coming, but that requires both price and time considerations to create it.



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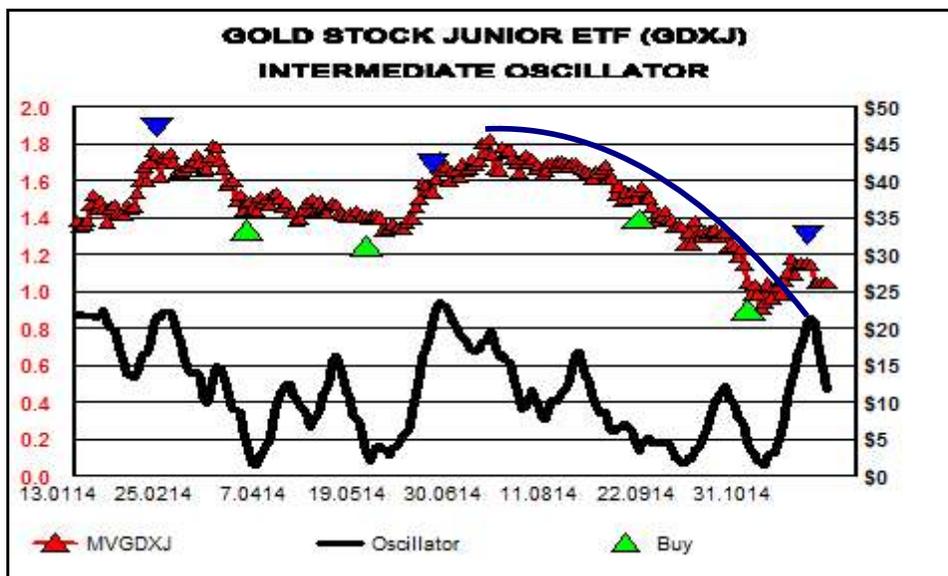
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Top chart is for the GDX, ETF of larger miners, while the chart for the GDXJ, ETF for the smaller miners, can be found at the bottom.

In both cases the recent lows were created by year end selling for tax and window dressing purposes as normally happens in October/November in stocks groups that have been weak or perceived in negative terms. Such year end sell offs have traditionally been the end of a bear move in stocks that have been weak.

Also note that both ETFs have walked through the dominant down trend formation. Neither is close to being oversold as the previous selling was so severe. Both of the ETFs are acting as if the bottom is now finally in place.

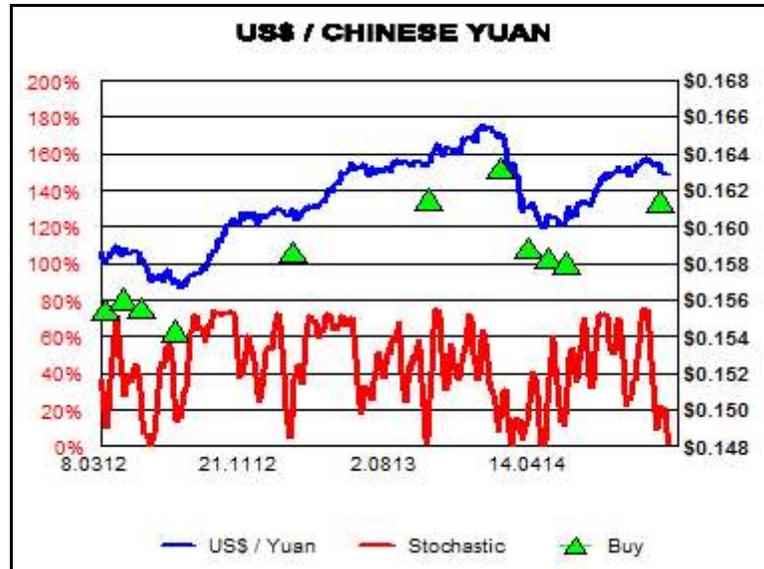


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### Chinese Renminbi

Few are as bullish on the Chinese Renminbi as we are because few have taken the time to really look at it. In chart to the right is shown recent buy signal that occurred. Oscillator has again turned down, and is extremely over sold. This development is part of the widespread bullish dollar view that now permeates the investment community. That oscillator suggests that another buy signal is likely to occur soon. Investors should use this opportunity to add to or initiate positions in the Chinese Renminbi.



**Oil price:** Not too long ago we responded to a question from a reader on oil. At that time we said it should go into the low \$70s. Apparently, we were too optimistic. Remember that we must consider two parameters, price and time. Oil in the \$60s area probably satisfies most of the price conditions. However, time remains to be satisfied. Sometime after perhaps June of next year may be time to look seriously at oil.



**Diamonds:** We have never commented on diamonds. Reason for that is no shortage of diamonds has existed in modern times. However, we have read several articles in recent times that a shortage may indeed be coming in the years ahead. This may be an area of future investment interest to some.

Policy announcements from *meetings of the FOMC* will be released on 17 December and 30 January. We expect nothing of substance to be said, but many will be watching for hints of when *interest rate normalization* may begin.

Your Eternal Optimist;  
Ned W. Schmidt, CFA

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Publication Schedule: Next *Trading Thoughts*: 30 December Next Monthly: 15 December

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VALUATION						
	US\$ GOLD	US\$ GOLD %	US\$ / CHINESE YUAN	CHINESE YUAN %	US\$ SILVER	US\$ SILVER %
CURRENT	\$1,169		\$0.1629		\$15.60	
Long-Term Target	\$1,971	<b>69%</b>	\$0.3330	104%	\$32.65	<b>109%</b>
Fair Value	\$928	-21%			\$15.40	-1%
Daily Oscillator	0%				0%	
Signal Oscillator	52%				55%	
Probability of BULL Trend	3%		99%		4%	
Bear Market Low	\$1,132	7 Nov 2013			\$15.00	7 Nov 2014
% Change From Low	3%				4%	
Speculative Trader Ratio *	1.8 [2.1]				1.3 [1.4]	
200 Day MA London PM Current - Value	\$1,269 -\$100				\$19.02 -\$3.44	
42-Week High London PM Current - Value	\$1,385 -\$217	Using because it	42-week will occur	high before 52- week high.	\$21.85 -\$6.27	

\*Ratio of large speculator longs to shorts from weekly CFTC report on traders.

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