Van Eck Precious Metals and Oil Hotline

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During the nearly 20 years that we have been publishing this Hotline, we spent a lot of time trying to convince people that gold was a strong long-term buy. We took a lot of flak for that stance as gold meandered between $250 and $400 an ounce (1992-2002). However, we still hear from some of our long-term subscribers, thanking us for helping them to get into the sector on the ground floor of what has proven to be one of the most powerful bull markets of the modern age. Gold went from $250 an ounce in 2001 to a recent all-time high of $1,911. That was a total gain of 664 percent. As gold has jumped higher in recent years, we have occasionally taken advantage of strength by taking some profits. That strategy has helped us to far outperform the average sector portfolio during the nearly four years since we began officially tracking our performance. It is amazing that the HUI Index has managed to gain only 40 percent since November 2007 - despite a gain of more than $1,000 an ounce in gold during the same period of time!

Most sector investors are not satisfied with owning just the precious metals themselves - whether as coins, bars or via ETFs. They want the traditional leverage that is found in the mining stocks. However, many mining stocks have been a disappointment to the bulls during the past four years. One of the reasons that so many of them have failed to even come close to keeping up with the gains in the gold price is that they experienced huge rallies during the previous decade. The mining companies were also hit with higher costs - especially energy costs. Some of the miners were also held back for a while by the fiscal drag of their forward sales positions. Senior producers such as Barrick Gold had to register huge losses to close those positions out as gold trended higher. The outperformance of gold to the mining stocks during the past three to five years has reprogrammed the mindset of the sector. There was a time not so long ago when most investors and analysts were sure that the best way to participate in the sector bull market was via the mining stocks. Now that those investments have failed to live up to their reputation of offering double or even quadruple leverage to the movements of the gold price, many sector players have decided that the only place to be is in gold (and silver). We believe that situation is due to shift once again during the next phase of the sector bull market. Many of the mining stocks have now largely consolidated their huge gains from the 2000s and are ready to outperform gold.

The latest surge higher in gold convinced us to take a few profits in our sector portfolio. We now have five open slots (out of ten) in the portfolio. When gold shot up onto the area between $1,710 and $1,750 we assumed that the gold futures had been flooded with speculative longs. Amazingly though, the speculators have actually stepped away from the gold market even as the price has moved higher. We cannot recall a similar situation in the history of the current bull market in gold. While we do believe that gold is overextended and in need of some kind of consolidation/correction, we do not believe the metal is in a bubble. Back in March of this year, when gold was still trading near $1,430, we took some time to counter the talk in the media about gold being in a bubble. We pointed out that spot gold was only about six percent above its 200-day moving average and that the price would need to spike up to about $1,780 just to reach the kind of near-term extreme that took place at the spring 2006 top.

With the passage of time, gold has moved up to that price and beyond. The 200-day moving average has also moved higher - putting it near $1,510 on Friday. That means gold would now have to reach $1,995 - just to achieve the same overvalued technical level as 2006 (which preceded a major correction). Right now, gold is about 25 percent above its 200-day moving average. While that is not an historic gap, it still represents a near-term risk. The people that are talking about a one-way trip in gold to the upside during the months and even years ahead are ignoring the obvious facts that have been laid down during the nearly decade long bull market. Gold has been quite volatile of late. The way the price jumped by nearly $60 an ounce yesterday, based on little more than an anemic jobs report, shows that investors are being driven more by emotion than solid analysis. That has us a bit worried in the near-term. However, we plan to buy on weakness.

Spot gold closed on Friday at $1,884.20, up by $57.90(3.2%) from late Thursday afternoon. Spot silver is at $43.25, up by $1.66(4.0%). The HUI Gold BUGS Index closed at 618.03, up by 14.40(2.4%) on the day. The Dollar Index closed at 74.71, up by 0.17(0.2%). The euro closed at $1.4205, down by 0.4%. Our gold and silver sector portfolio (Available to subscribers only) is now up by 72.6% since November 2007. Here is a look at our current top buy candidates and how they performed on Friday. AuRico Gold (AUQ) closed at $12.14, up by $0.35(3.0%), New Gold (NGD) closed at $13.55, up by $0.06(0.5%) and Market Vectors Junior Gold Miners ETF (GDXJ) closed at $38.28, up by $0.99(2.7%). We will talk about the pending merger between AUQ and NXG in Thursday's Hotline. October crude oil closed at $86.45, down by $2.29(2.6%) on the day. Our portfolio of energy stocks (Available to subscribers only) is currently up by 7.9% since we set it up in July 2008. That compares to a decline of 16.9% in the XOI Index during the same period of time. For now, we are also going to keep track of the performance of two ETNs that short gold. While we have not recommended those short investments, a time might come when such a move would be prudent. For now, we want you to follow them so that you can get a feel for how they react to moves in gold. The PowerShares DB Gold Short ETN (DGZ) closed at $11.02, down by $0.37(3.3%) on the day. The PowerShares DB Gold Double Short ETN (DZZ) closed at $4.06, down by $0.26(6.0%). More on Thursday.

Next Hotline will be updated no later than 3:00 P.M. Eastern on Thursday, September 8, 2011