Gold Breaks Out against Stocks

May 13, 2019

Monday saw the gold/stock ratio break decisively above its 2019 downtrend line. The line itself is not that significant, having only been touched on two occasions. However, **the price also managed to clear its 50- and 200-day MAs simultaneously, which is much more impressive.**

Chart 1

Moreover, **the break seems to build on the larger 2012-2018 trend line violation**, indicated in Chart 2 by the dashed line. Note that the long-term KST, in the lower window, triggered a buy signal at about the same time. Finally, if the current short-term picture in Chart 2 is to be believed, then **the current move could turn out to be the right shoulder of a 3-year inverse head-and-shoulders formation.**

Chart 2

Gold Itself is about to Test Mega-Resistance

Chart 3 paints the picture from a longer-term gold perspective using quarterly data. Here, we can see that the technical position is leaning to the bullish side but is nevertheless finely balanced.

The price is right at its 48-quarter MA and below the green resistance trend line, just shy of $1350. The positive Coppock Indicator is arguing for an upside breakout, which is certainly being supported by short-term action in Chart 4.

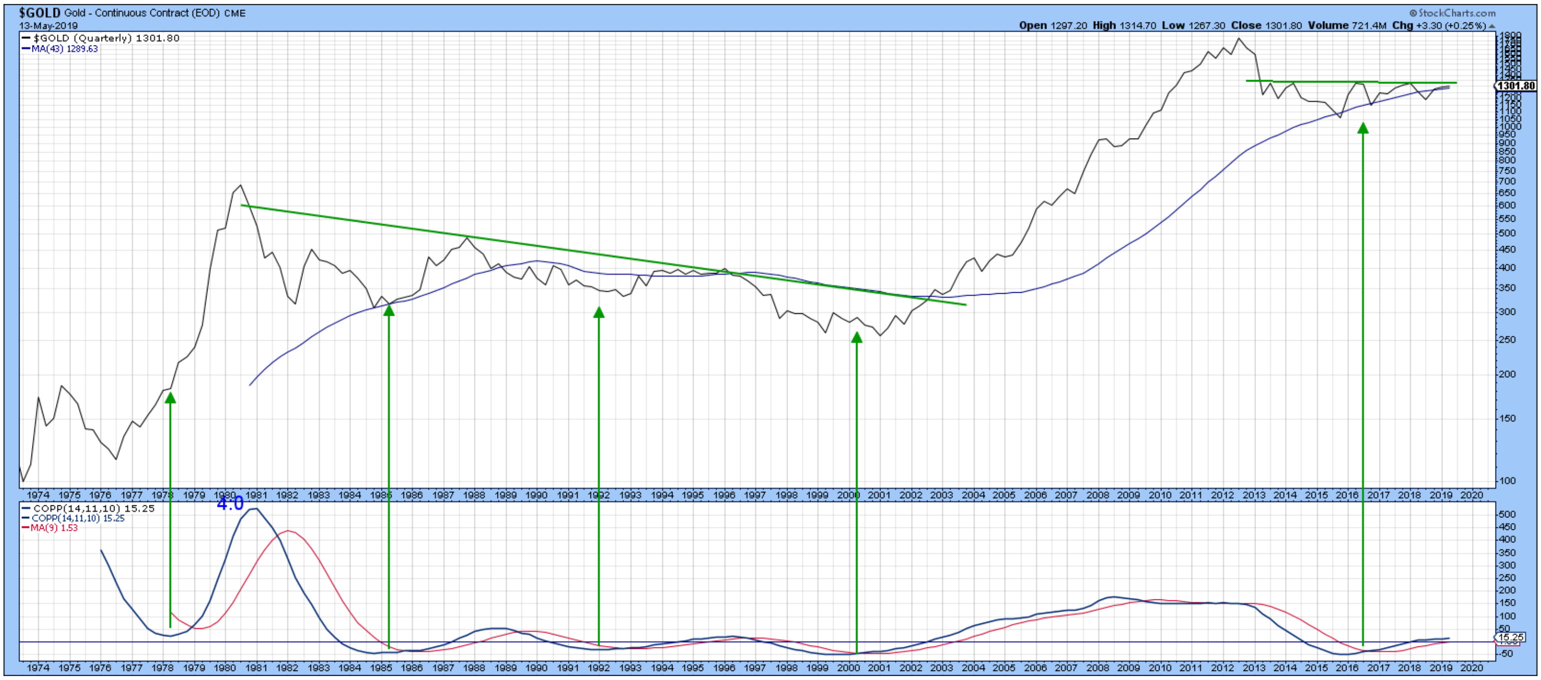

Chart 3

In that respect, this chart shows that the recent head-and-shoulders break turned out to be a whipsaw, the price having broken above the two converging trend lines and the 50-day MA. Note that it never fell below its red 200-day line. Usually, when a price experiences a false downside breakout, it is followed by an above-average move to the upside, as those caught short are forced to unwind those positions. The RSI is in overbought territory, but I am not that concerned, since the KST, in the bottom panel, has just triggered a buy signal. **Markets in the early phase of a bull move usually shrug off overstretched conditions with a sideways consolidation or no correction at all.**

Chart 4

Finally, on the gold price itself, Chart 5 displays the potential consolidation reverse head-and-shoulders in greater detail, where that $1350 resistance level is fairly evident.

So too is the fact that **the Special K (SPK) is trading right at its 2011-2019 downtrend line**. [You can read about the Special K here.] Most of the time, when this indicator reverses direction, so too does the price of the security it is monitoring. The trick is to determine when the SPK has actually reversed. A trend line break and a move above its red signal line are two useful techniques. The indicator is already above the signal line; **I am expecting the breakout in Chart 3 to power a rally strong enough to cause the SPK to break above its multi-year downtrend line.**

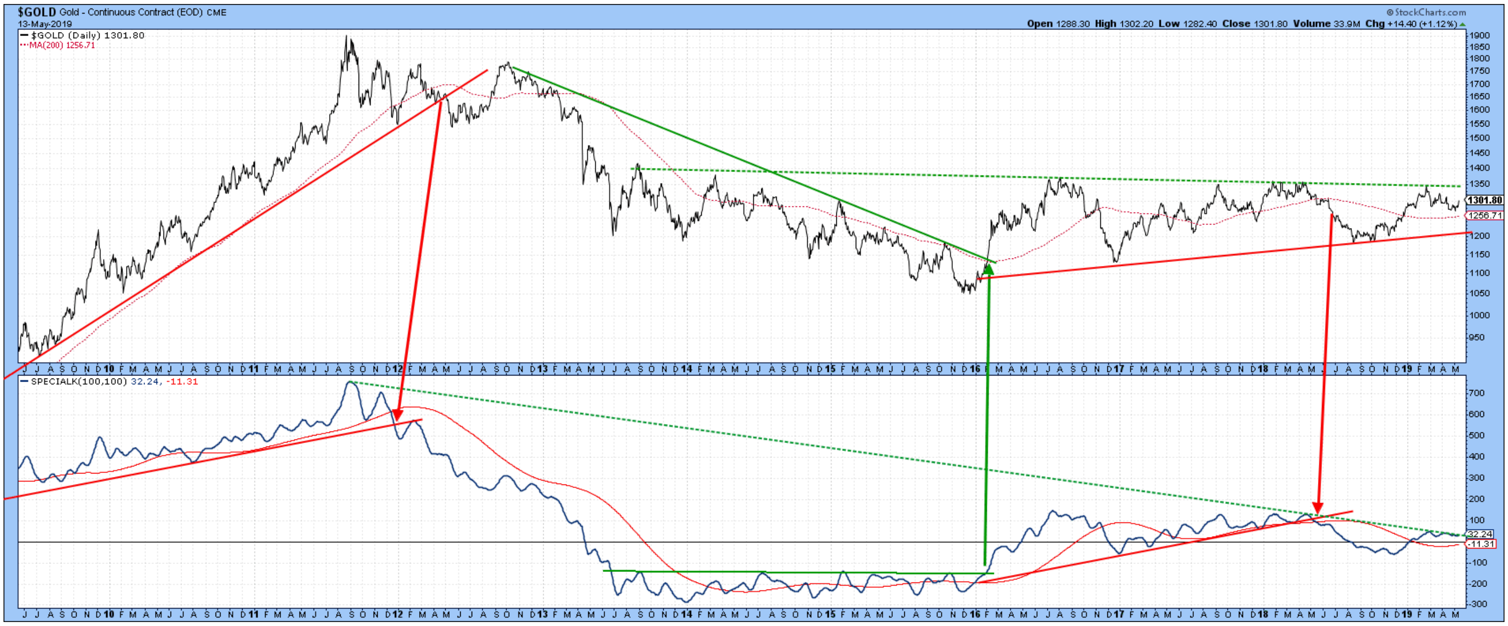

Chart 5

When Gold Beats Stocks, that's usually Bullish for Gold - *and Bearish for Stocks*

Having established the strong probability that the gold price is likely to outperform stocks, at least in the near-term, the question naturally arises as to what this means for the trend of gold and equities in their own right. Chart 6 compares the gold price to the ratio over the last 25 years. The green-shaded areas flag those periods where the ratio was in an extended uptrend. With the benefit of hindsight, I have been able to establish the significant lows and highs. In all situations, the price of the yellow metal rose. In 2008, it experienced a severe correction, but, on balance, this relationship experienced a net gain for that whole period. Apart from that setback, all of the serious declines developed under the context of a declining ratio. With that in mind, **what we need to watch for is a break in the ratio above the 2006-2019 red trend line. If that line is penetrated on the upside in any decisive way, it would suggest a strong advance in the ratio and, by implication, the gold price itself.**

Chart 6

Chart 7 compares the S&P Composite with the ratio, but this time it's the stock/gold relationship. A rising ratio therefore reflects period of superior performance by stocks and vice versa. Once again, green-shaded areas have been plotted with the benefit of hindsight to reflect extended uptrends in this relationship. **As you can see, the stock market rallies most of the time, but periods of vulnerability developed in the unshaded areas,** the second-half decline in 1998 being an exception. Last month's rally in the ratio fell short of the January 2018 high, so I was unable to extend the green shading. To be sure, there have been many periods when the stock/gold ratio has been in a trading range (or actually falling) and stocks have shrugged it off. However, **if the two (red) bull market trend lines are violated, that would present a real headwind for US equities.**

Chart 7

Gold Leads Commodities

Lastly, Chart 8 compares the price of gold to the CRB Composite. The green-shaded areas flag the lead times between when the gold price crossed above its 12-month MA and the CRB Composite followed suit. In other words, they show that **gold leads commodities**.

The fuchsia-colored arrows indicate some of the strong commodity rallies that have followed from this type of setup. Right now, commodities are in a declining trend and we need to respect that.

However, **if the price of gold rallies above that $1350 area, that would imply higher prices for the yellow metal and, by implication, for the CRB Composite as well.**

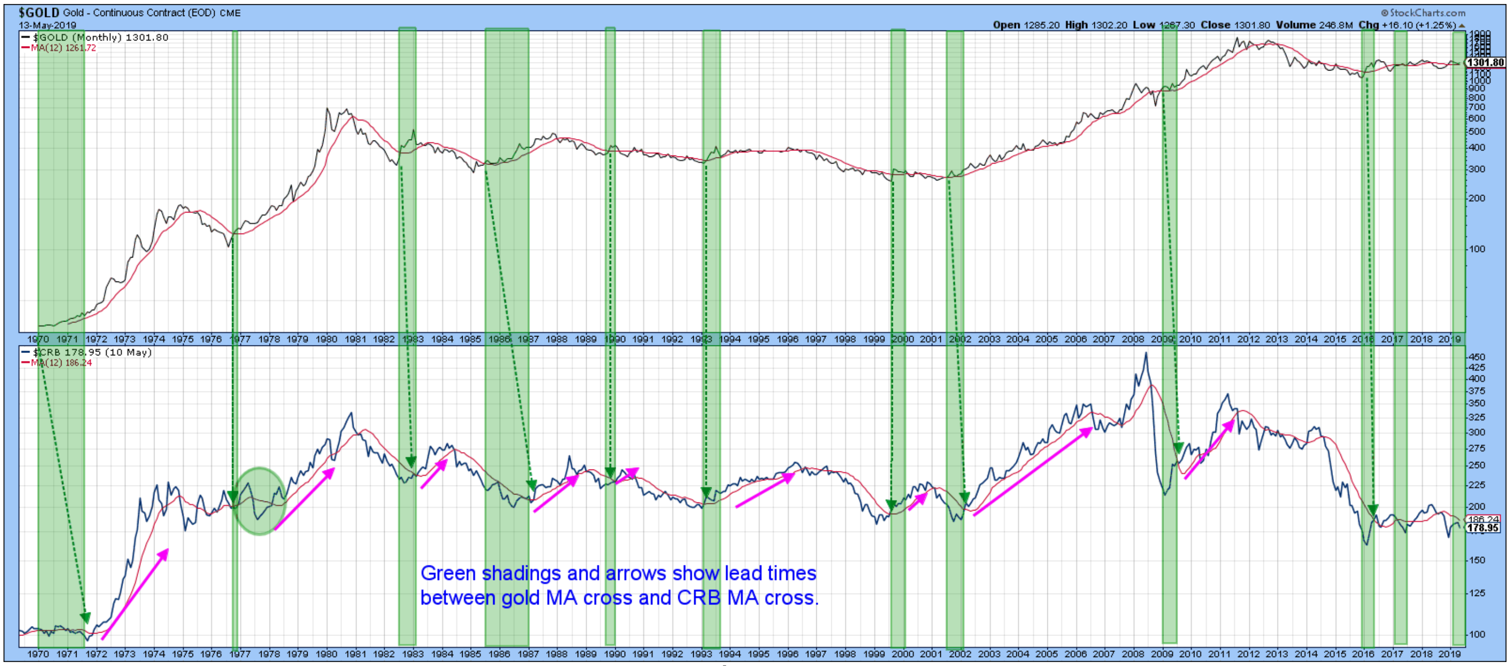

Chart 8

Good luck and good charting
Martin J. Pring

The views expressed in this article are those of the author and do not necessarily reflect the position or opinion of Pring Turner Capital Group of Walnut Creek or its affiliates.

About the author: Martin Pring, one of the most prominent names in the industry, is a master technical analyst, an educator extraordinaire, and an award-winning author of numerous books on Technical Analysis, including *Technical Analysis Explained* and *Introduction to Technical Analysis*.
As a leader in the global investment community and a highly sought-after speaker worldwide, Martin's articles have been featured in *Barrons*, and he has been quoted in *The Wall Street Journal*, *International Herald Tribune*, *The New York Post* and more.