ALCHEMY FINANCIAL

TURNING PAPER INTO GOLD

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New Year, New Market Risks

By Jonathan Mergott

Happy New Year everyone! I hope everyone had a nice holiday with loved ones, but most importantly, a SAFE holiday. Now that it's over, back to work! And here's what we're "working" on:

After 8 months of rallying $800, a 40% gain in gold, we're finally beginning to correct a bit. We've been holding here with lows around 2600 the last few weeks, but it's also been quiet holiday trading, so I'm not sure YET this "holding" means we're done going lower and gearing up to rally again. We don't look bad as far as gold is concerned, but that's not translating to silver and miners much. If this IS ALL the correction we're going to get, we simply need a bit more time to get an indication buyers are consistently coming in here. Either we see that in the coming weeks, or we continue correcting and flush enough people out to give us the room for a good run higher. **There is two ways to kill bullish sentiment, through big, harsh declines in price, or through boredom, back and forth, quiet consolidation while everyone finds something else to focus on.** One way or the other, I don't think we've quiet gotten to that point yet, but I don't think it will be much longer until we have. **Gold DSI is 47, so not a great indication either way yet. At Alchemy Financial, we are monitoring DSI closely, (which is an added benefit of membership).**

Silver has been plagued by false starts and fake outs as gold has climbed higher. It's always late to start, letting gold breakout and run strongly first, but it makes its move in a BIG way later on. There is nothing unusual about this. 2009, Gold broke to new highs above 1,000/oz while silver struggled at 20/oz until 2010. But when it was silver's turn, it ran hard. 2019, gold broke above the bear market ceiling it was capped at around 1400, while silver continued to struggle at 20. After 2020 though, it ran up to 30, a 150% gain from the covid crash lows, versus gold's 50% gain from 1440 to 2100. So, gold breaking 2100 finally after 4 yrs and silver pushing up a few dollars, then losing it, then snapping back, trapping everyone trying to "buy the breakout" into buying the high then tanking again, is just normal behavior. You need to be very careful analyzing silver. It needs to be looked at in the context of gold rather than by itself. After 8 months of gold running up 800 and silver barely participating, it's much more likely it's not ready to go yet rather than play catch up and rip higher, and that's how its played out the last few months.

Silver is a complete wild card imo. The next run higher could go to 40, 42 or back to 50 and beyond.

$50 is the major magnet level everyone is focused on, and imo, when it is ready to go, I don't see any reason it won't rip straight up there again the way it has in the past.

Miners once again, have done what they always do and already lost most of their gains on just a $200 correction in gold. This is why I keep saying, you can't hold miners long term. They are terrible long-term investments**. The name of the game is to buy them when gold is starting to turn higher, then sell a few months later after pocketing a huge gain, and then "don't sweat the details."** Your biggest enemy here is yourself. Hold physical to mitigate your fomo when you sell.

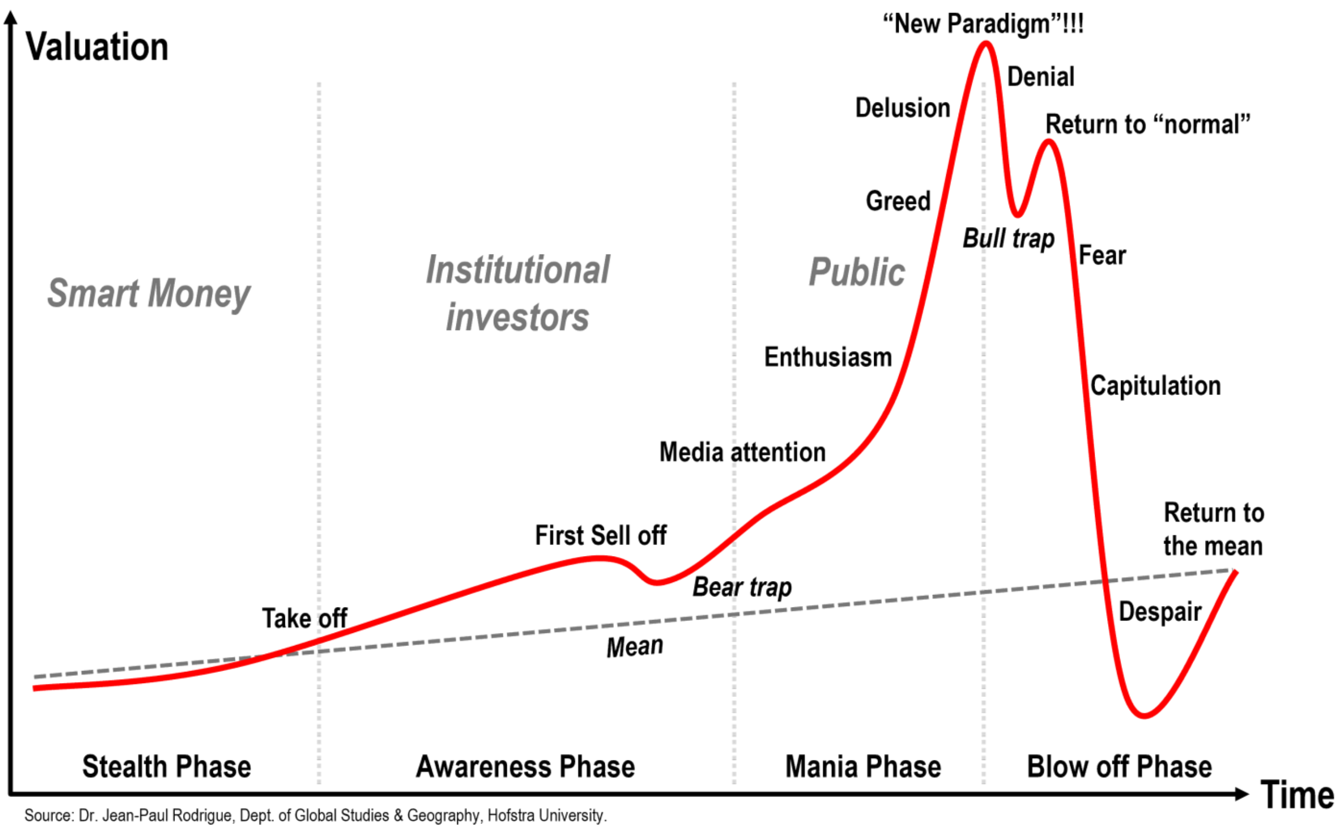
One year ago, on Christmas Eve, I posted my targets for gold, silver and GDX. Countless "gold gurus/experts" (Who constantly prove they don't know very basic stuff about how the market they proclaim to be "experts" in even functions) suddenly all turned bearish ahead of gold FINALLY breaking 2100, after 4 yrs of being wrong predicting that breakout at every turn. **My targets were 2400-2500 on gold, 35 on silver and 50 on GDX. We got 2800 on gold, far more than I expected, 35 on silver exactly, and 44 on GDX fell a little short of my expectations.** (But it DID all mostly come in the 3 mos I expected.) But that's the nature of the first stage of bull markets. (and its also why we weren't buying "GDX" itself then. Everything we bought, FAR outperformed). Big money sees it coming and prepares, and it isn't until the next couple legs higher where the public really piles in, so I expect a much better performance on miners on this next coming run**. But all in all, not a bad job on "predicting the future" considering where we started when I made those calls, which was 2,000 gold, 23 silver and less than 30 on GDX, and also considering how many other "professional" analysts we're expecting 1,800 gold in Jan a few weeks before it launched.**

But what's most important, we nailed all the best performing miners on the NYSE that wiped the floor with GDX and the other ETF performances. **Our top pick was EXK which ran from $1.40 to $5, a 250% gain vs the 70% on GDX.** Our other top picks, like IAG, HL, CDE, NGD, MUX all ran up over 100-200% from March until June, then we bailed in June and cashed out on 100+% return on our entire gold miner portfolio position in a few months. **I got a lot of criticism that I sold too early. I don't think we did.**

From June to now, its been a mixed bag for miners. AG fell back to lows at 4.50. Larger producers like AEM kept chugging along, but in 8 months didn't perform as well as we did in 3 mos. From June onwards, the things that were consistent, and kept moving steadily higher was physical gold, physical silver, royalty companies, and a couple select miners, and hopefully you guessed the right ones. Because the wrong ones, like NEM and AG unwound all their gains quickly. And GDX in general spent 6 months moving from 34 to 44, then 2 months to lose it all again.

So maybe selling 50% of our gold portfolio in miners at 100+% profit in June, taking a small 5% hedge on GDX to protect our huge gains and just stepping aside while letting our long term physical and royalty holdings continue to run, wasn't the worst idea after all, huh? But "risk management" and "portfolio weightings and management" is a foreign concept to the trolls on twitter, who are consistently wrong, piling in AFTER a big move higher with FAR too much of their account size, holding for too long and expecting it to be different this time, even though it never is. Insanity is doing the same thing over and over and expecting different results. (But hey, maybe NEXT time it'll be different?)

We DO stand to have a better run on miners next time. This is the classic bull market formula. Chances are, everyone has seen this chart before. We just saw the "stealth/awareness" phase, as smart money positions quietly ahead of a big run. Now that everyone has SEEN a 40% rally to new all-time highs in gold, as we finish the first sell off, we will enter the phase where the public is paying more attention and piling money in. Then eventually, reach the peak euphoria phase that marks a top that is inevitable in all big moves higher, and just like last time, just like this initial launch above 2100, the majority will not be paying attention or be on the right side of the market**. Your job is just to not be part of that majority.**



But we have a MAJOR headwind for PMs and miners here that has nothing to do with either.

The last 50 yrs, the SP-500 has averaged an annual return of about 10% a yr. **Since Nov 2023, we have now gained 45% in the last 13 mos, 4.5x the half a century long annual avg.** Pretty hard to beat a portfolio return of 45% last yr just by buying an index fund of the largest companies in America, and that's why it's a good, simple, and successful strategy to have a good amount parked there and hold for 30 yrs because it works, but 4.5x the avg return is excessive, and a "reversion to the mean" is common sense.

Let me be VERY clear. EVER SINGLE PERSON calling for a market crash, recession, or just generally bearish US stock indicies over the last 17 yrs has been wrong almost EVERY SINGLE DAY! Calling for crashes or recessions or "end of the world/doomsday prophecies" has been a fool's errand.

But boy does it get "clicks!" There is a saying, **"more money is lost preparing for crashes and recessions that never happen than is actually lost in crashes and recessions."** And that's 100% true. Selling out of your 401k is a horribly bad idea. Trying to short SPX will have you stopped out so many times you'll be lucky if it ever turns profitable when its right. **In 17 years, bears on SPX we're right for 6 wks in 2020, for a measly 30% drop if you caught it just perfect, and then we ran up 120% over the next 2 years.** The moral is, you are FAR better off buying drops and crashes and just sitting back and waiting then trying to bet against the market.

Just because selling your retirement account or shorting spx is a bad idea doesn't mean you can't prepare a bit by de-risking, having cash, or even some bonds here. It boggles my mind the mentality on bonds for the last few years. After 2+ years of everyone saying "hikes to 3-3.5% then cutting by the end of the year… ok, maybe 4%, then cuts by end of the year…" Then we get 5.5%, Barrons puts out an issue with a percentage sign "in the clouds" stating rates are here to stay in Dec 2023, **3 days before Powell says "be patient, cuts are coming."** (You can't make this stuff up lol!) Articles on Forbes stating that 60/40, 80/20 portfolio allocations that have worked for nearly half a century, are dead and over now because they didn't work for the last 2 years. The gold crowd, who is always looking for a magic bullet, an "its different this time, we're going to the moon!" that they are never right about, are confidently declaring the multi trillion-dollar bond market as "dead" and that the miniscule in comparison, gold market has taken over as THE safe haven asset. **Gold has been taking market share from bonds as a safe haven for 20+ years, and it has continued and will continue. But the idea bonds are "dead", that asset managers in bonds like Pimco will start piling their trillions into gold is comical. Gold will continue to do well on that front, and bonds may never go back to highs or a 30 yr bull market again, but "dead" is just idiotic.**

And after a 45% gain in SPX this year, we have a bond market with the highest rates in 17 years, after a brutal 2+ yr decline, now with the Fed cutting rates and sentiment in bonds on the floor. DSI for bonds has been below 20 for over a month, and never too much higher than that in the previous months either. After such a historical gain in stocks, with the most attractive rates in bonds in 17 yrs, and sentiment in the floor and ripe for a decent rally, (not to mention big money building massive positions in TLT, the largest trades ever in its 20 year history over the last 1.5yrs, building up some massive long positions, just like they did with gold ahead of it breaking 2100) And the alternative safe haven asset so many are convinced has taken over for bonds completely, still up 30% here from 1 yr ago, (so not exactly a great place to buy here). You better believe this is looking like a fairly attractive place for billions of dollars to park a bit of money here to derisk a bit and lock in a guaranteed return with some upside potential as well. These massive buys aren't allocating here in a size of this magnitude because they expect a 5% gain. Just saying.

But we've seen how this can go. And how quickly it can go once it begins. It seems the world has already conveniently forgotten about that inverted yield curve we had for 2 yrs, that recently uninverted as the fed began cutting. And a complete lack rememberance of history, as everyone celebrates a "goldilocks" situation where the economy is still strong while rates get cut, as if we didn't see the exact same thing twice before in the last 17 yrs preceding 2 very big panics.

Again, don't sell out of your 401ks, but a bit of cash, a bit of a hedge like bonds or t-bills, and being careful not to buy too much too quickly and get caught in the drop is just a prudent move here.

In 2016, after a significant rally in the previous years and a consolidation for a year afterwards, SPX tanked down to the 200 week moving avg early in the year, a drop of about 15%.

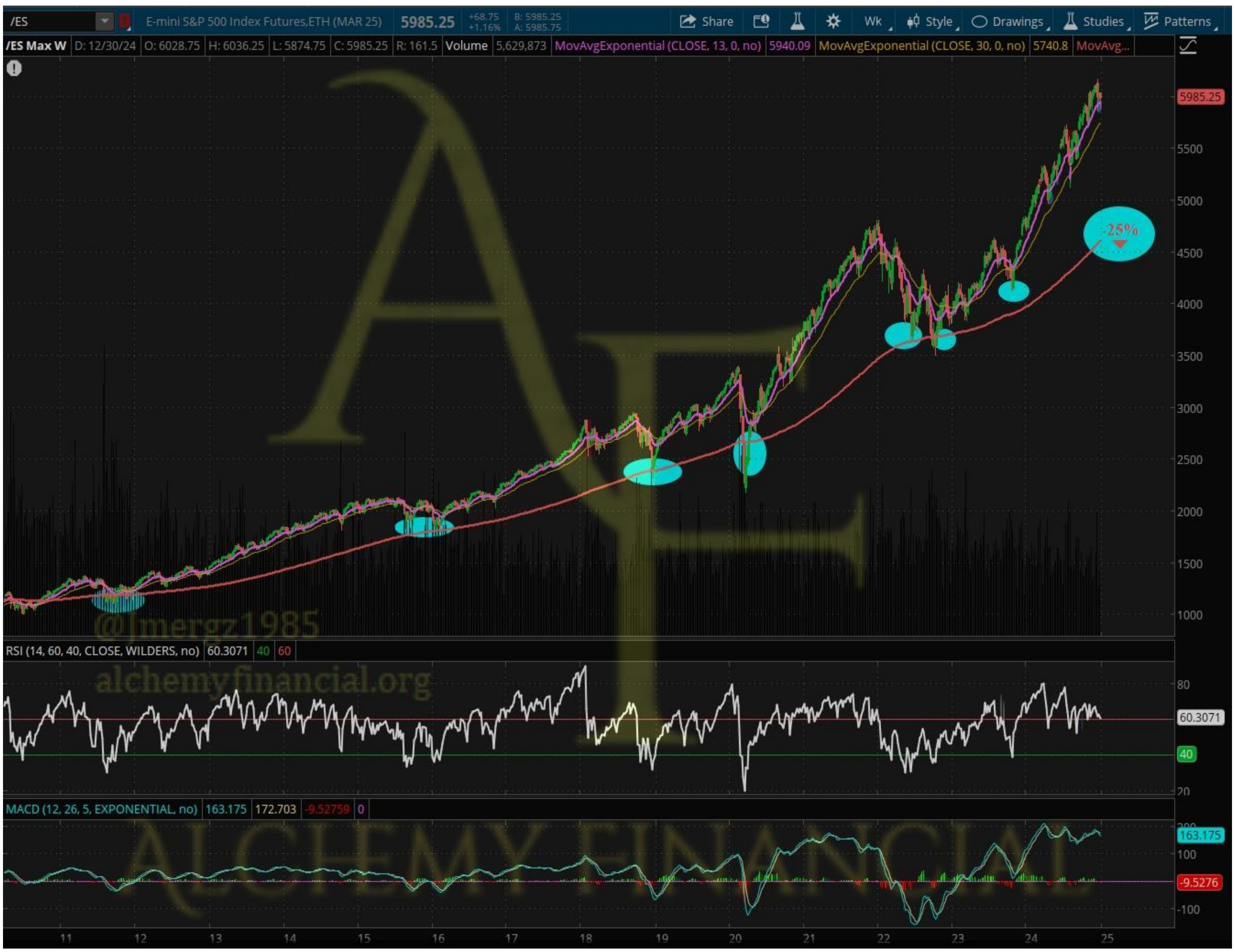
From 2016 to 2018, SPX gained a massive 55%, moving parabolically into the end of the yr in 2017 then tanked 12% in Jan 2018 very quickly. At the peak, it was 25% above the 200 week moving average.

By the end of 2018, SPX regained all its losses reaching just shy of 3,000, then tanked down 20% to test the 200 week mov avg from Oct to Dec 2018. **In Oct 2018 before it tanked, it was 22% above the 200 week mov avg after a 50% gain in 3 years.**

Over the course of 2019, SPX rallied from 2300 to 3400, a gain of about 45%. By February 2020, **SPX had deviated 22% above the 200 week mov avg AGAIN,** just ahead of a 30% crash due to the covid pandemic.

Over the next 2 years, SPX gained 120% from the 2020 crash lows and once again, in January of 2022, found itself now 30% above the 200 week mov avg early into the year, and once again, that was the high and we moved down 20% to retest that 200wk mov avg.

Since 2022 lows, we have rallied 70%. 45% since Nov 1 2023. And once AGAIN, we are 25% above the 200 week mov avg, after ripping into the end of the year. **This is one of the biggest deviations on price of the SPX vs the 200 week mov avg that we have ever seen, after a gain of 4.5x the historical annual norm. A "reversion to the mean" is an obvious assumption here, and SPX rarely does those in a calm and organized manner. To retest the 200 week here, would be a 25% drop and unwind 70% of our gains for 2024.**



Similar annual gain, similar price deviation from the 200 week mov avg, similar time of the year that we have tended to have the "reversion".

I'd be careful here and **have some dry powder to tank advantage of a panic if we get one.** 10% cash here can make a significant add at down 25%, but isn't hurting too much if you are only "90% in spx" if we were to gain another 45%. That would be 40.5% vs 45% all in. Nothing to cry over. And as far as gold stocks are concerned, history has shown these situations can give us incredibly low prices and fantastic buys that don't come along very often.

We're geared up and ready either way here at Alchemy Financial. We expect to nail the best performing miners again on the next rally and we expect it to be better than the last. And if we're REALLY lucky, it might be a once or twice in a lifetime buying opportunity. If you want to know what we're doing, its only available at alchemyfinancial.org.

-Jonathan Mergott