



**5T Wealth**  
MANAGEMENT  
TIME | TEMPERAMENT | TALENT | TECHNOLOGY | TEAM

## Elimination Newsletter

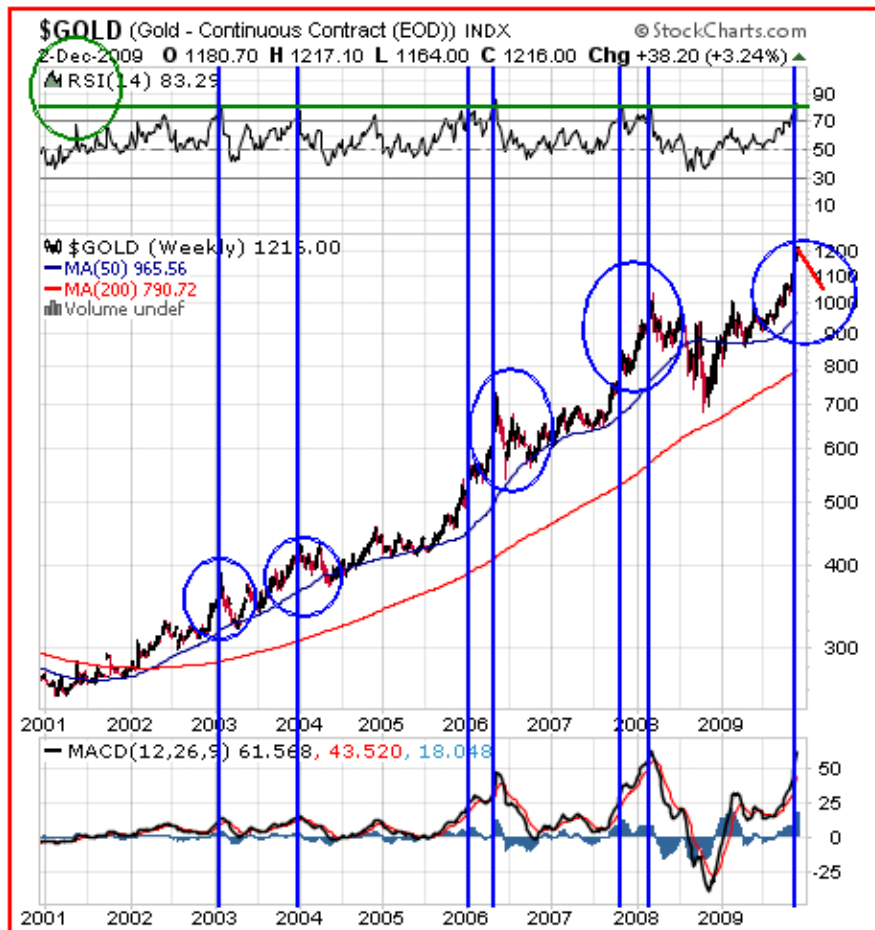
*"Separating fact from fiction since 1998. The antidote to Wall Street."*

### Time for a Pullback in Gold?

December 4, 2009

The financial media is finally getting hysterical about gold. There are reports every day now that gold is going "parabolic". To listen to some of the commentators on CNBC you would think that the upward trend is hyper extended and that gold is ready for a BIG TUMBLE. The truth is that gold is a bit extended and likely to pause, or correct, before moving higher. It is simple to explain why.

There is nothing complicated about the chart below. It is a picture of the eight year bull market for GOLD that started in 2001. All we have done is to mark each time that the RSI (relative strength index) rose to 80 or more. As of the close of the market on Thursday it was at 83.29. You can see that in the top left corner of the chart, where we placed the green circle. The green horizontal line crosses the chart at the 80 RSI level. The blue vertical lines connect the RSI to the weekly bars that represent the rising trend line. You can see for yourself that every time the RSI has exceeded 80 there has been a pull back in the price of GOLD. The size of that pullback has varied, but it has always happened. It should again-right about now. (Most of this letter was drafted Thursday. Friday morning gold is down \$24.)



Several of the past corrections were significant. The 2003 correction was 18% from top to bottom. 2004 was 14%. 2006 was 26%. 2008 was 34%. Those are noteworthy corrections that didn't feel too good. Fortunately this is a trade that we have been on top of and we have felt little of that pain. We have made lots of money trading gold this decade.

A 14% correction would take gold back to \$1045. A 34% correction would take it back to 812.

We intend to monitor this situation very closely and may take action to cut back on the GOLD holdings, or hedge them temporarily as we get through the corrective phase that may be at hand.

If a correction should get underway, does that mean the bull market in gold is over? We do not believe so. Any correction should be the pause that refreshes and sets the stage for the move that finally takes us to our intermediate term upside target. We have said in our last few newsletters that our target for GOLD during this move is \$1386. That is still a reasonable target that was somewhat confirmed today by Goldman Sachs (GS). It is quite conceivable that we are being conservative targeting \$1386.

Here is an excerpt from GS commodities research update on Thursday, December 3, 2009:

**We therefore raise our gold price forecasts to \$1200/oz, \$1260/oz, and \$1350/oz on a 3-, 6-, and 12-month horizon, respectively, with a 2010 average price forecast of \$1265/oz and a 2011 average price forecast of \$1425/oz."**

We believe that GOLD's move upward is far from done. In the very short term it has moved faster and more furiously than even we anticipated. It has therefore gotten to an "overbought" condition that has to be alleviated.

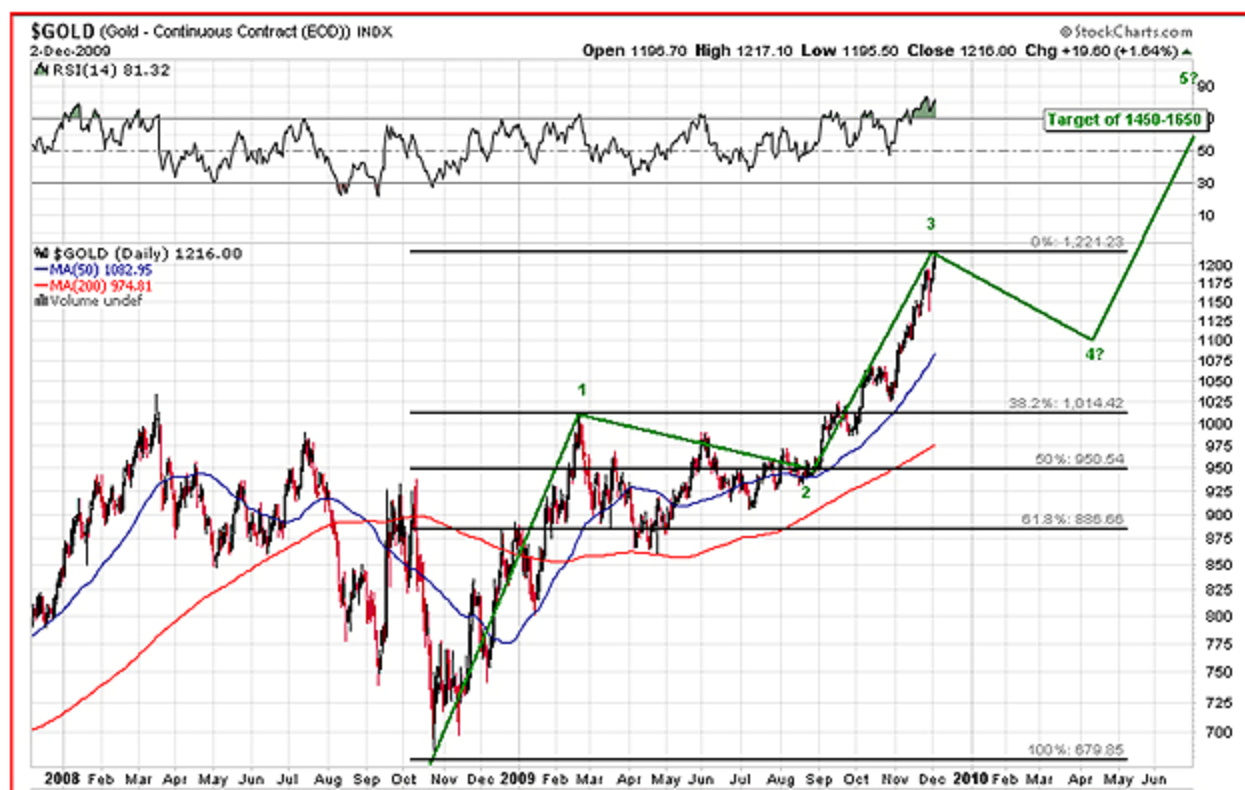
We offer up a second chart that focuses on more recent price movement for GOLD. This one focuses on 2008, 2009 and a projection into 2010. GOLD has moved from \$679 in October of 2008 to a recent high of \$1221. It didn't get there in a straight line. From February 2009 through August 2009 it corrected, before taking off again. If it corrects again there is no precise way of determining how deep the correction might be. But we can look to two methods of technical analysis for hints.

We have often shown you "Fibonacci retracement" patterns in Ellumination. The "Fibonacci retracements" of the move from October 2009 to the recent high are illustrated by the black horizontal lines on the chart below. A 38.2% retracement could take GOLD all the way back to 1014. It is hard for us to imagine that any correction would run deeper than that.

Sentiment toward GOLD has shifted dramatically in the past year and we suspect that any dip in price will be mitigated by buyers anxious to get in. That may support the price more than during past corrections. Gold is being recognized as an alternative currency. Central bankers are buyers, not sellers. That is a dramatic change in attitude toward GOLD.

We have rarely referred to "Elliott Wave" analysis in our newsletters, but we bring it to your attention now. Elliott Wave analysis is extremely complex in practice but very simple in theory. The basic concept is that markets move up in 5 distinct waves then they retreat in a 3 wave cycle. One of the things that makes Elliott theory complex is that every major wave can be dissected into several minor wave cycles. Sometimes it all gets to be too much-even for us. But our chart outlines what could be 5 very simple waves. If our wave count is correct we may be coming to the top of wave 3 UP. That would be followed by

wave 4 down, which would be followed by a final 5th wave up. We now estimate that our projected wave 5, of this intermediate term cycle, could take GOLD to \$1650.



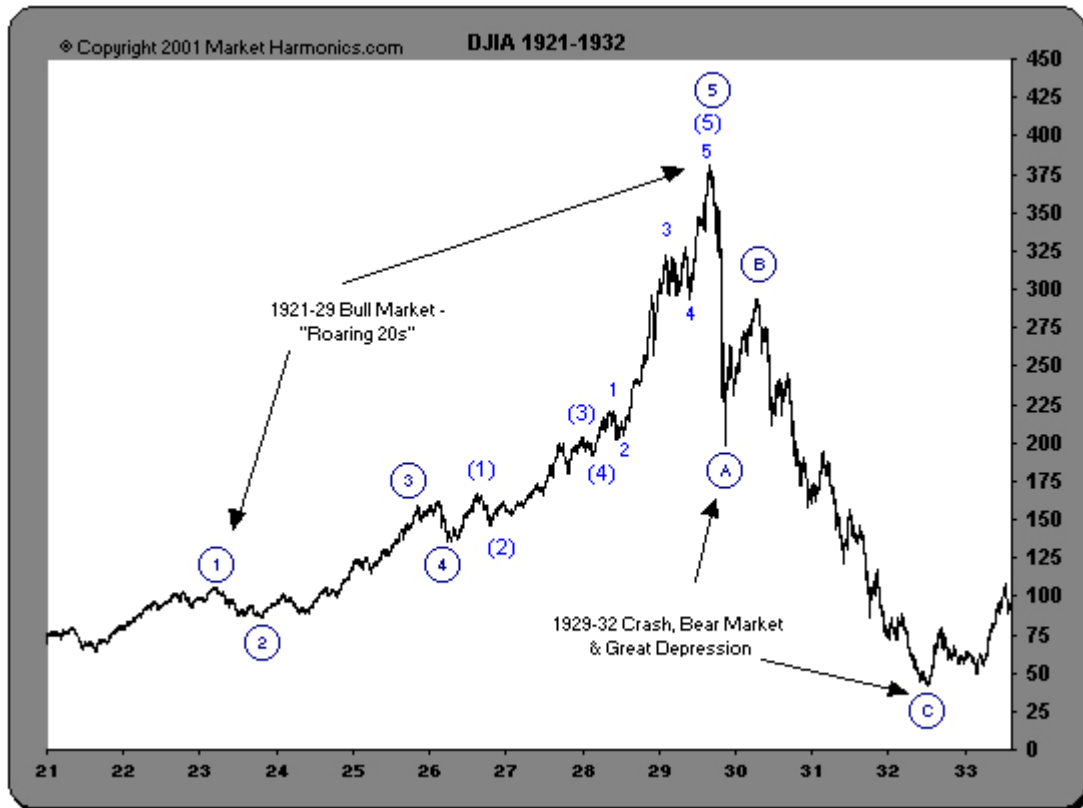
If you are interested in learning the basics about Elliott Wave here is a primer. The Market Harmonics website offers this introduction to Elliott:

***"Elliott Wave Analysis was developed by Ralph Nelson Elliott in the early 1930's, following what remains the most devastating market decline in U.S. history - the Crash of 1929.***

***An accountant by profession, Elliott had a successful career as financial consultant to numerous railroad companies, a booming sector when he began his professional life just before the turn of the 20th Century. Elliott had a passion for Latin America (his boyhood home in Texas exposed him to nearby Mexico and its culture) wrote and spoke Spanish fluently, and spent much of his professional life working for firms in Mexico, Central America and Cuba. He was considered an expert in business planning, and his services were in very high demand. Such was his reputation that Elliott caught the eye of the U.S. State Department, which sent him to Nicaragua as an economic consultant, where he helped reorganize the country's finances. It's said that one of his greatest talents in business was a shrewd eye for detail.***

***Elliott's main discovery was that market behavior could be identified and measured through a repeating eight wave sequence, consisting of 5 waves that he called 'impulsive,' followed by a 3-wave 'corrective' sequence. Impulse waves are labeled numerically 1 through 5, corrective waves are labeled A, B and C, as per the following example, which is the bull market of the 1920's, followed by the Crash of 1929-32."***

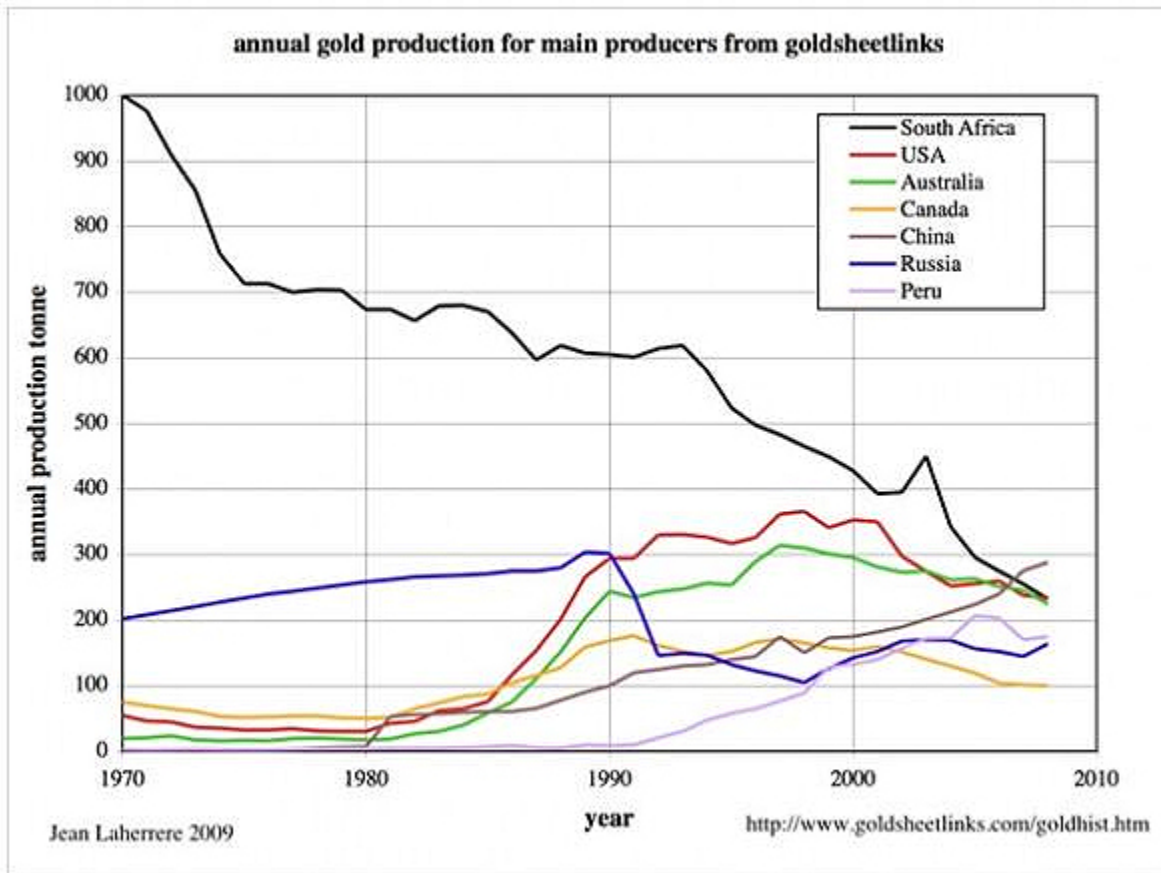
In this illustration one thing is clear. Wave 5 is the blow off top. If our current count on gold is accurate we aren't even there yet. We are completing wave 3; about to experience corrective wave 4; which will set us up for the crescendo wave 5.



Targets for the upside of this move in GOLD are all over the place. We are seeing targets as high as \$5000 per ounce. We don't consider that to be out of the question. But we do not have confidence in projecting that target at this point. We can tell you that we are confident that GOLD will get to the \$1350-\$1450 level. When it does it is conceivable we will extend our target to \$1650. When it gets there we will take into consideration all that is happening on the charts and around us and make a judgment about what should come next.

Think this all sounds like hocus pocus? Don't. This has been our single most successful trade of the decade.

Total GOLD production is in decline at a time when demand is rising and attitudes toward GOLD are changing. We expect the bull market to continue for quite some time.



All the best,

*Paul*

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5T WEALTH MANAGEMENT manages accounts with various histories and investment objectives. Various accounts may be managed differently from time to time.

Krsek makes frequent reference to the model portfolios called Hatteras, Mendocino, Halifax, Bonavista, Fresnel and The New World. During 2005 Paul Krsek was appointed Chief Investment Officer of 5T WEALTH MANAGEMENT, and as such is responsible to make all trading and management decisions for all client accounts which are being managed according to a specific portfolio model. A description of each of our models can be found on our website at <http://www.kaassets.com/choices.htm>.

Not all accounts managed by 5T WEALTH MANAGEMENT are "modeled" accounts. We strongly urge our clients to understand which model, if any, are being used to manage their accounts.

As of July 3, 2007 Lee O'Dwyer joined 5T WEALTH MANAGEMENT as a portfolio manager. Paul Krsek and Lee O'Dwyer frequently discuss investment ideas, model portfolio strategies and the investment policies of 5T WEALTH MANAGEMENT. But when it comes to the implementation of those policies Krsek is primarily responsible to manage the accounts that fit into each model portfolio description. He generally makes all final investment and trading decisions relative to those accounts that are considered to be "modeled." However, in Krsek's absence O'Dwyer does have the authority to trade all client accounts. He has been actively trading accounts in the various models since joining 5T WEALTH MANAGEMENT.

From time to time 5T WEALTH MANAGEMENT receives requests from clients to purchase securities that are not included in the model portfolio to which they are assigned. Effective May 24, 2006, 5T WEALTH MANAGEMENT has encouraged clients to hold such securities in a separate account for the client. Because 5T WEALTH MANAGEMENT is a "fee only" registered investment advisor" it charges its normal management fee for monitoring such securities in the separate accounts in which they are held.

5T WEALTH MANAGEMENT makes every effort to exclude securities that are 'requested by the client' from the modeled portfolio accounts.

The investment objectives of various accounts and models may be substantially different from one another. Therefore topics or investments mentioned in E-illumination may or may not apply to specific managed accounts and/or models.

Trades or adjustments to accounts mentioned in ELLUMINATION may or may not happen in every account managed by portfolio managers at 5T WEALTH MANAGEMENT.

If you are not satisfied with the investment results in your account it is your responsibility to inform Krsek or O'Dwyer and to discuss possible changes that can be made to the account to accommodate and satisfy your needs.

The assets held in managed accounts at 5T WEALTH MANAGEMENT may include stocks, bonds, cash, commodities, foreign exchange or mutual funds or exchange traded funds (ETF's), money market accounts or limited partnerships that represent the same. They are subject to market fluctuation and the potential for losses. The assets are not insured. The value and income produced by these investment products may fluctuate, so that an investor may get back less than they initially invested.

The portfolio managers at 5T WEALTH MANAGEMENT do not guarantee results.

Past performance should not be considered an indicator of potential future performance. If you do not consider yourself suitable, either emotionally or financially, to experience volatility and/or losses in financial markets, you should not invest.

From time to time Krsek lists the simple annual returns of the six model accounts in this newsletter. These accounts are "models" and do not represent the actual results accruing to individual accounts. Simple annual return does not represent "time weighted return" as reported individually to clients in their quarterly reports prepared using Centerpiece.

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