

How to Trade Gold Stocks

By Mike Ser

1) Key criteria in choosing Gold Equities to trade

- Liquid (Volume at least 500k per day)
- Volatile trading patterns
- Not heavily diluted in the # of outstanding shares (50 -150 million ideal)
- Solid Fundamentals that gold companies must have include:
 - o Experienced management team
 - o Well financed
 - o Possess good properties producing decent ounces of gold
 - o Operating in politically stable country

2) Trading Strategies

a) Buy on rumour, Sell on news

- If a gold company is expecting good results (rumours circulating around or leak of info) on a drilling project then buy the stock before they release the results. Look at the dates of the release of drill results. Don't buy the stock on the day of the release of these results as the good results may already be priced into the stock. Traders will do some profit taking on the stock that day or a few days after. There will be unusual circumstances where the drill results are much better than expected and the stock will continue to rise further before settling down.

b) Look for gold stocks that are unhedged

- These stocks will tend to move up and down according to the price of gold. One way to play these stocks is to look at the support and resistance level of the gold price. If the gold price is meeting resistance then these gold stocks may not have much short-term upside potential.

c) Find out who the underwriters and promoters of the gold stock (Private placements)

- Research and find out which brokerage house(s) have done the private placements for these gold companies. This will help you see if these houses are buying or selling and assist you in your decision making. Take note of when, what price and when these private placements are exercisable as you may see an onslaught of shares being dumped onto the open market. Even if the stock is doing well, the stock rise may be halted or slowed down by people dumping their shares.

d) Institutional Buying / Selling (Time & Sales screen)

- Look to get into a gold stock if you see lots of reputable institutional buying. These buyers tend to be longer term holders of these stocks and aren't looking for quick flips. Also, this applies for lots of institutional selling.
- e) Gold Bull Market trading mentality (Buy Low, Sell High)
 - Buy on pullbacks of solid, high quality gold companies
 - Sell on strength or do a trailing stop on the rapid runups in the stock price
- f) Don't try to catch falling knives
 - Since gold stocks are very volatile, don't try to buy stocks while they are dropping. Wait for the stocks to stabilize and begin moving upwards to buy.
- g) Best time to buy gold stocks
 - In general, the best time to start accumulating gold stocks are in Oct to Jan. You should look to begin liquidating your gold positions or short the gold stocks in March.
 - It has been observed by experts that it is best to buy gold stocks on weakness on Monday and sell them on strength on Friday.
 - Between July and September, gold stocks generally have very little volume and therefore don't present very good trading opportunities. This also applies to the broad market.

4) What to Avoid

- a) Exploration penny gold stocks
 - Try to stay away from penny exploration gold stocks with minimal daily volume. The bid/ask spread is usually quite high and you will find that they will tie up your cash for a longer period of time. Also, there is a risk of these companies being delisted from the exchange. The only exception to this is if you have done your due diligence, plan to hold 6 months to a year and set aside only a few dollars for these plays.
- b) Avoid overtrading
 - Try to avoid overtrading in gold stocks as the commissions will hurt your bottom line. Buy gold stocks at a good price and add to your position as they move up. Once they have reached your target, sell some of your position and let the rest ride. But remember to take profits along the way as gold stocks tend to be very volatile.
- c) Avoid buying stocks based on a good article

- Don't buy a specific gold stock because there was a good article written about it. The stock will have already gone up by the time when you are ready to buy the stock. If you like the stock, try to buy it when the gold stock pulls back.