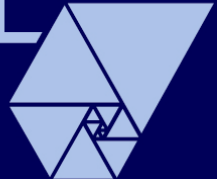


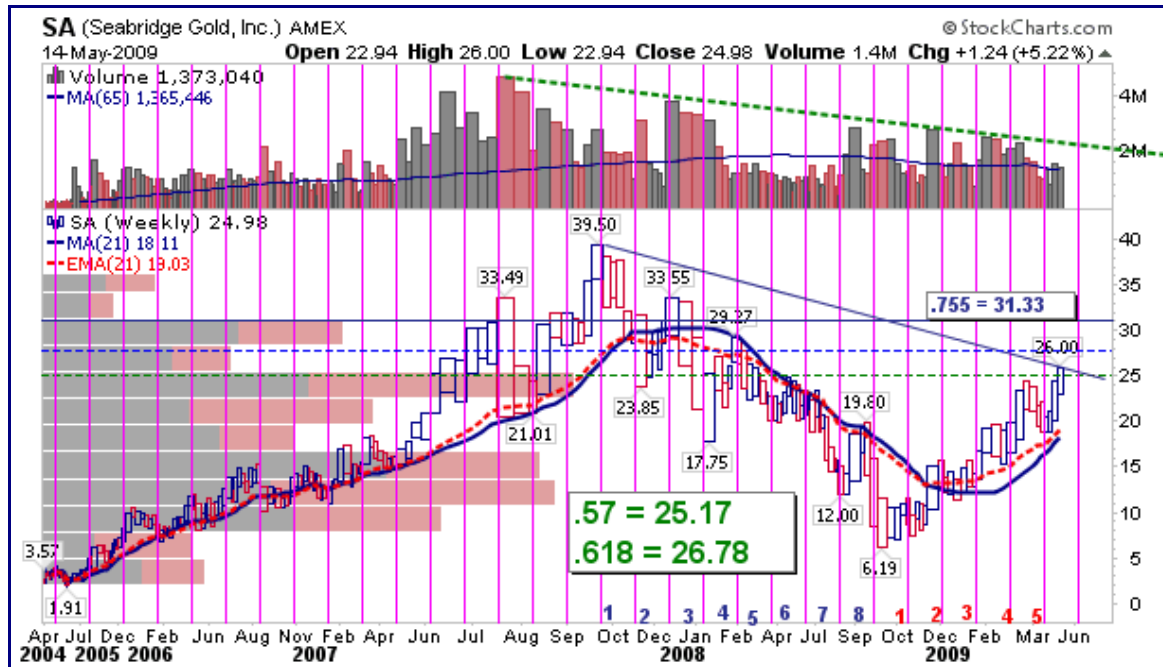
TREND & VALUE



Friday, May 15, 2009

First off this morning I would like to analyze Seabridge Gold (SA) from a proportional perspective. SA is a Canadian exploration / development company. Their business model has been to buy up potential mining assets that nobody else wants and then sell the properties to production companies at inflated prices.

We begin with a long-term equivolume chart:



Since this is an equivolume chart, the horizontal axis measures volume traded, not time elapsed. The series of vertical lines across the chart mark equal amounts of volume traded. Between the 2007 top and the 2008 bottom the chart has eight equal volume intervals. Since the share price rally started last year the chart has progressed five more volume units. (When I drew those lines on stockcharts annotations app they came in perfectly at 8 lines to the bottom from the top and five from the bottom to present. But when I saved the annotations the lines got screwed up. That happens sometimes, not sure what the problem is...) 5/8 equals .625, which is a sequential precursor of ϕ - .618.

25.17 is the .57 (~4/7) price retracement of the bear market. 26.78 is the .618 retracement. The range between these two price points can be considered a zone of probable resistance. The advance so far to 26 makes a .595 retrace, right in the middle of .57/.618 zone. So far this rally's price retracement has been more or less equal to the amount of volume traded during the rally relative to volume during the bear market. The dimension* of Price and the dimension of Volume exhibit here 'proportional parity'.

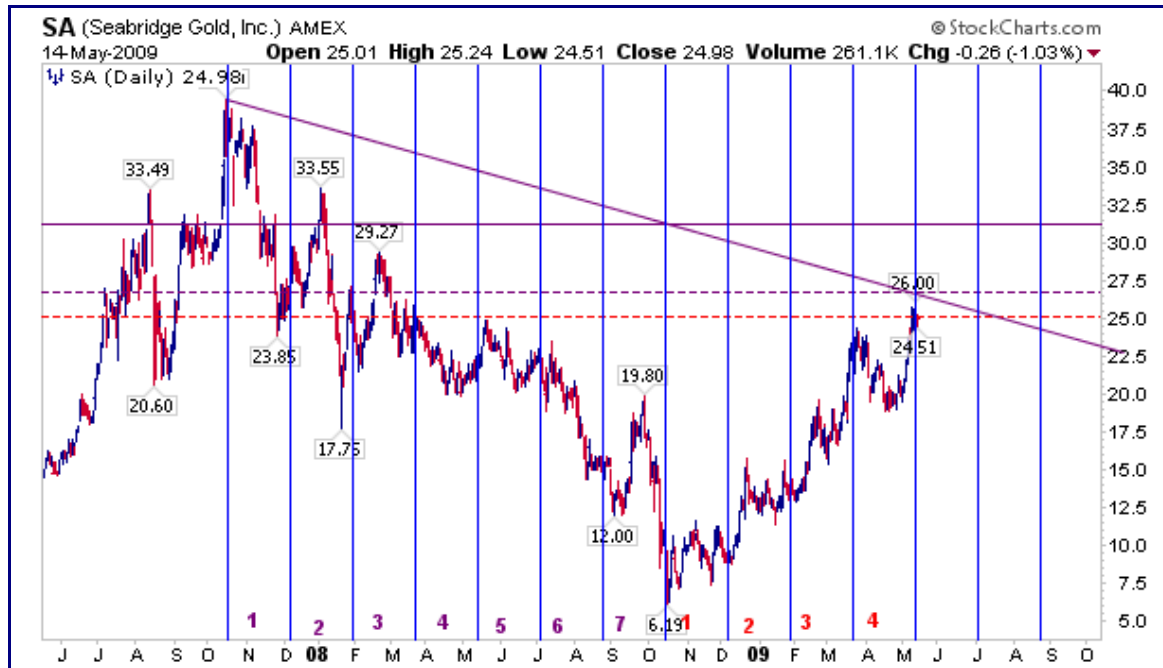
Higher up on the chart we find the .755 price retracement at 31.33. That would be the next target in the event SA breaks above the current resistance zone. However I notice that this week's price bar has met the .755 speedline, not just on the equivolume chart, but also on the time-based chart (next page).

Speaking of the time-based chart, the number of trading days elapsed during this rally from 6.19 has been 4/7 that of the decline. So the time is 4/7 the bear, volume 5/8, and price 3/5. So if we combine all three dimensions into a unified ratio, we see that retracement has so far been about 60 percent as large as the bear market. That is about what one would expect for a bear market rally. Some bear market rallies are smaller, occasionally you see a larger one than this, but 60 percent or so is a popular neighborhood.

One could also consider this the first part of a new bull market, and that may well prove to be the case. But even so, new bull markets most often experience large pullbacks after extending 4/7, 3/5 or 5/8 the previous bear. They often give back half or even 3/4 of the initial advance before finding solid footing again.

Okay, here is the time-based chart that I referred to earlier:

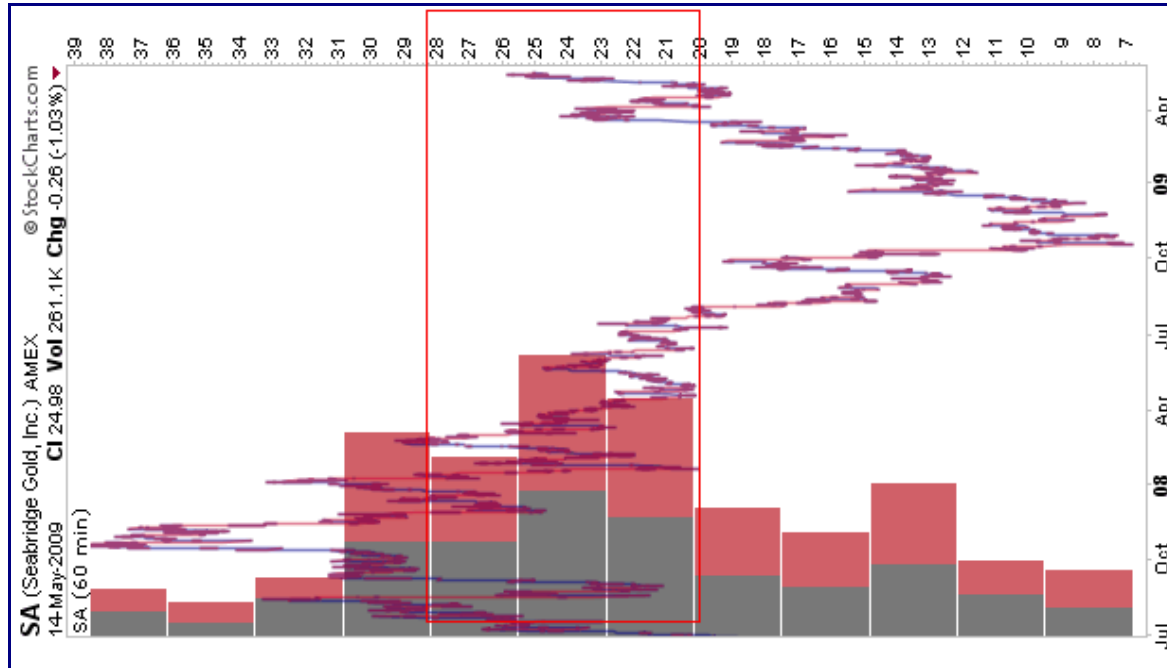
* For simplicity's sake I will use the word 'dimension' in the singular. But technically speaking, Price is actually comprised of two dimensions; the asset itself, and the currency against which it is traded. So the price charts used are actually three dimensional, even though they appear spatially as two dimensional. And I suppose one could argue that Volume is also the intersection of two dimensions – Buyer and Seller. On the otherhand, Time seems to be a primary dimension in itself, though on the most metaphysical level, even Time might be considered the intersection of the two most radical dimensions of all – Man and the World.



Same basic picture as the equivolume graph above. Again notice that the price has entered into the target zone and has met the .755 speedline. Time elapsed has been 4/7 that of the decline thus far. I also see that the price is right in the thick of that head and shoulders distribution area from later 2008. The supply of stock to be offered for sale in this price range should be pretty huge. In my estimation, it would take an incredible move higher in Gold prices from here to justify even moderately higher prices for shares of Seabridge. The only other way for this thing to appreciate more would be a favorable buyout offer. But the company has a market cap now of over \$900 million and as far as I can gather most of its properties are still particularly economical to mine at current Metals prices. Potential suitors in the industry just don't have that kind of cash to drop on assets that may not generate any cash flow for who knows how long, not to mention the capital expenditures required to bring the projects to production.

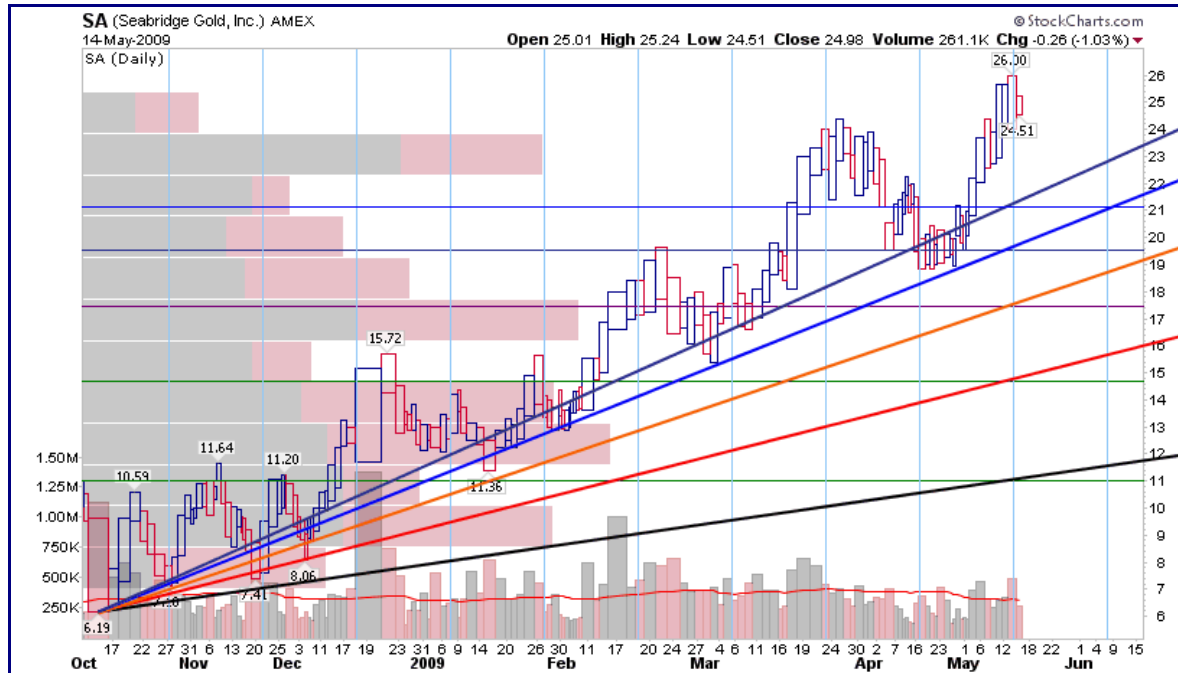
They talk about Gold Stocks being 'call options' on higher Gold prices. SA is a perfect example of this optionality. But the problem is that there may be plenty enough people to buy shares of the options at 20 or 25 bucks a piece, but taken as whole the option does not have much marketability as billion Dollar unit, at least not in the present environment. My sources indicate that the management has been fishing for a buyer for a couple years now without luck. And the way I see it, if one of the bigger buyers didn't jump at it when the company was for the taking at, say, \$300 million, I'm not sure what hope there is for a buyer to come along now with an extra billion to fork over.

Investors who bought into the 'option' that is Seabridge a year or 18 months ago may be wanting to get their money back about now, particularly as the share price has reentered the zone where so much trading took place back when. Here is chart of SA since it first broke 20 in the middle of 2007. I have laid it on its



side to highlight the price by volume bars. The large bars in the 20 to 30 range indicate the potential for significant resistance. The distribution of volume also indicates that another drop below 20 would be devastatingly bearish.

Finally, we take a closer look at SA since the low last Autumn.



If a reaction ensues immediately, we should look for initially strong support at around \$20. 20 looks doable even without a major breakdown in Bullion prices. But if sentiment turns negative toward the Metals Complex, even if temporary, then I will be eying 15ish as the next potential support. If Gold ever violates 850 then there is a high probability of SA dropping still lower. 11 or 12 comes to mind.

Even if Gold stays strong, it appears that much of the 'options premium' potential is already priced into SA, so there is a chance that it might start to underperform other Gold companies pretty soon, whether Gold prices go up or not. This makes me think that a short position in Seabridge could be a decent way to hedge long positions in other Gold Stocks that you may be more fundamentally attracted to.

In summary, I think that SA is the best short selling opportunity in the Gold sector that I have run across thus far. The question is whether to cover at ~20 or gamble on a really big score. That depends on your outlook for Gold, I guess. I still think that Gold can correct substantially from here, though I respect the possibility that I might just be utterly wrong about that.

SA could advance a little bit more still and that would not disrupt the outlook presented here. Gold can still move up to 955 in the short-term I think, so if you short SA now, you may want to keep some cash ready to add to the position in the event the price pops up once more. Like most of the trades I have mentioned recently, a short sell of SA sounds pretty risky. I won't argue, but just point out that there is nothing wrong with risky trades, that's what risk management is for. Adjust your position size to the risk. Pretty simple.

A subscriber asked me to examine Financial Stocks again, and I was hoping to include a section on that subject in this morning's issue, but it is already five in the morning and I don't think I could do it justice in the little time left available to me. So Financials are at the top of the agenda for the next report. If there are any individual banks or whatever that you would like my opinion of, let me know and I'll be happy to take a look.

Have a nice weekend.

Best,

Kyle Ledbetter Lucas

Equal-Weight Currency Indexes

USD: 98.32

JPY: 93.60

EUR: 95.85

GBP: 103.91

CHF: 94.28

CAD: 102.84

AUD: 108.65

XAU: 103.59

XAG: 120.19