Wednesday, July 15, 2009

Thoughts on Kinross Gold, Intel, and Dell

A fairly symmetrical triangle has formed on Kinross Gold (KGC) over the last few months. Those active in Gold Stocks should keep a close eye on how this gets resolved.

I drew the triangle using the two prevailing .755 speedlines, so it comes out a little different than just visually connecting the highs and lows. The triangle comes to an apex on July 31 at a price of 17.88 (dashed line). This should break out (or down) pretty forcefully in the near future. And a general rule of thumb is for a breakout from a triangle to culminate around the date the two lines intersect. So we will keep an eye out for an intermediate top (or bottom) towards the end of the month. The .755 retracements (19.87 and 15.42) look like reasonable initial targets for a move beyond the triangle. From a broader perspective I see big resistance at 22 and big support around 11.

I Know specifying an 11 Dollar range for an 18 Dollar stock isn't very helpful. It would be nice to Know which number will hit first, but the chart itself isn't being very clear about that. On the plus side though, the price of KGC is trading above all the Padovan moving averages, plus the shares are still trading above the big .755 speedline coming down from the top last year. So by my own technical parameters, KGC can be classified as 'bullish' for the time being.

But my macro-outlook has me negative on KGC, the Gold sector in general, and the markets at large. Think of KGC as an example of how the different aspects of my analytical approach are in conflict. There are plenty of other symbols I could have used, but I think the triangle on the first chart portrays the broader situation perfectly.

Moving to the world of computers, I hear that Intel's (INTC) earning's came in better than expected, and the company expects business to improve even more later in the year, because of 'strong demand in Asia.' But the outlook from Dell Computers (DELL) wasn't so rosy. Margins are going to be down, they say.

The divergent performance of these two companies may be related. The Computer Industry keeps making too many computers. That's good for Intel. The Computer Industry keeps making too many computers. That's bad for Dell.

Now the propensity to hoard computer hardware is extremely low due to the obsolescence factor. A lot of products can be warehoused in the anticipation that demand will revive, but computers must be sold quickly. So the deflationary effects of over-production (blame Asia for this if you want, but it is a global phenomenon) likely show up faster in the area of computers than in other sectors. As supply clears the market by any means necessary the effective price of the commodity collapses.

On the retail end companies like Circuit City have already gone out of business, but I haven't heard of any prominent manufacturers of electronics go under. You probably have a lot of Chinese firms producing at less than a profit now using bank loans in place of cash flow. One wonders how large the stockpile of unsold hardware in China is. I can just imagine the vast warehouses of electronics that bankruptcy assessors are going to find someday. So then they call up GDPLiquidators.com and it gets dumped on the market for 1/10 of the list price. But there will be too much of the crap for even the internet clearance stores to handle. Governments might have to step in to support demand.

You Know, in the Thirties they paid farmers to plow their fields under. An analogous intervention in the Computer Industry isn't out of the question.

As for Dell, I think they should use some of that cash they got in the bank to buy out AMD. Not only would that put AMD on solid footing to compete with Intel, but Dell would not have to rely on an external supplier for their processors. One might object that potential Dell customers would rather have Intel chips on the basis of brand recognition, but by rebranding them as 'Dell Processors' they instantly gain brand appeal.

Dell's new slogan could be: *Dell, Inside and Out*.

Dell has about 13 percent market share in the finished computer business. AMD has about 13 percent market share in the processor business.

The model of vertical integration might be due for a revival. Dell is one of the few companies in the world with both the motivation and the capital to attempt something of this magnitude. It is risky, for sure, but both these companies really have no choice but to take some risks at this point.

As for INTC, the stock does not look like a great value right now. It's trading at a forward P/E of 19, using the consensus estimate of .88 a share. Even in the unlikely event that business recovered back to the 2007 level, when the company made 1.20 a share, the forward P/E would come to 14.

If the economy actually does recover there are a lot of cheap stocks out there that will benefit a lot more than INTC. In the absence of a recovery INTC will be trading in the $8 range before you Know it. But it could jump up another buck in the short-term though. Not really sure.

Okay, that's enough for today. I'll be back tomorrow.

Best,

Kyle

Equal-Weight Currency Indexes

USD	93.72
JPY	90.62
EUR	95.68
CHF	92.66
GBP	109.08
CAD	102.79
AUD	111.96
XAU	99.97
XAG	108.60

US Dollar Composite Bullish Percent Index

Weekly	Daily	60 min	15 min	Composite
33.33	0	83.33	33.33	37.50%

SPDR Composite Bullish Percent Index

Weekly	Daily	60 min	15 min	Composite
30	50	10	100	47.50%

Commodity Composite Bullish Percent Index

Weekly	Daily	60 min	15 min	Composite
12.50	87.50	0	87.50	46.88%

General Liquidity Composite

Weekly	Daily	60 min	15 min	Composite
36	76	08	88	52%