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Gold Prices Dive With Stock Market: Reasons To Buy

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Gold prices dropped sharply along with global stock markets Friday as the dollar strengthened. Analysts cited several technical and fundamental reasons to buy now.

Spot gold prices skidded 1.09% to $1,723.60 an ounce, a six-week low. **PowerShares DB U.S. Dollar Index Bullish** (UUP), tracking the greenback against a batch of major currencies, rose 0.35% to 21.81.

"I would look for support now at the 200-day moving average that currently stands at about $1,668.16 an ounce (for the December gold contract)," said Janice Dorn, co-founder of Jtrader.us. "If it holds there, it has a good chance of resuming the uptrend."

Kitco's weekly gold survey found that a majority of market participants expect prices to fall further next week. Bullion dealers, investment banks, futures traders, money managers and technical-chart analysts are bearish in the short term, noting that October is seasonally the weakest month for the yellow metal.

Guild Investment Management told clients this week that it remains bullish on gold and bearish on the dollar because of the Federal Reserve's quantitative easing and pledge to keep interest rates near zero through mid-2015.

"International bond investors could again shun U.S. bonds. This decline in the dollar's value will be accelerated as the dollar gradually loses its status as World Reserve Currency," Monty Guild, the firm's founder, wrote. "If reserve currency status is lost, the dollar will fall very rapidly and the U.S. standard of living will fall."

Central banks in Russia, Turkey, Ukraine and the Kyrgyz Republic bought gold in the third quarter, according to the World Gold Council's third-quarter report released Thursday. Turkey raised gold capital requirements for commercial banks to 30% as a proportion of their portfolios.

The price of gold could reach $1,950 an ounce by year's end, said Tom Winmill, portfolio manager of Midas Perpetual Portfolio and Midas Fund .

"We expect gold to show further volatility, but rising steadily after the election due to the political impasse arising from the fiscal cliff," said Winmill.

In addition, "moderate consumer inflation expectations support the Fed's easing policies. This may be long-term supportive of gold," Winmill said.

SPDR Gold Shares (GLD), tracking a 10th of an ounce of bullion, fell 1.19% to 166.79 in nearly double average volume. It broke below its 50-day moving average for the first time in two months. The ETF may be forming a handle in a long cup base that started forming seven months ago. It has a potential 174.17 buy point.

Market Vectors Gold Miners ETF (GDX) fell as much as 0.60% intraday and rebounded off its 50-day line. It's currently ahead 0.2% at 51.63 in above-average volume. It's formed a bullish cup-with-handle base with a potential 55.35 buy point.

Trading Central, which offers trade recommendations to institutional traders, sent out a client note to buy **Direxion Daily Gold Miners Bull 3x Shares** (NUGT) and take profits on **Direxion Daily Gold Miners Bear 3x Shares** (DUST). These are triple-leveraged versions of GDX.

"On a relative basis against the S&P 500, the Direxion Daily Gold Miners Bull 3x Shares is facing a key support and looks set for a rebound," Trader Central wrote. "The ETF remains above a strong support area set at 14.60. Also, the 50-day moving average is rising and provides upward momentum. Finally, the RSI (relative strength index) is supported by a rising trend line. A further upside is expected in coming days."

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