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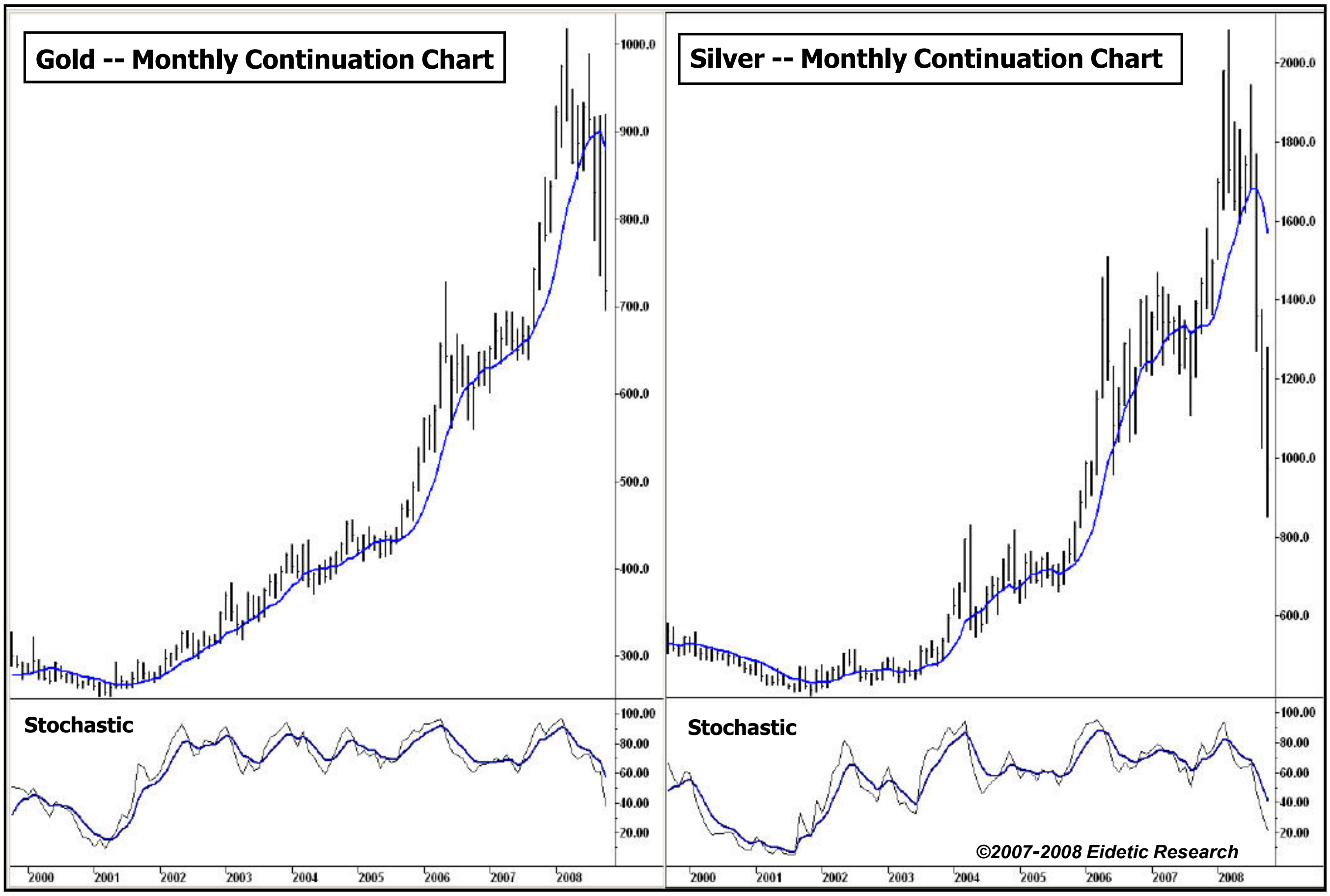
TECHNICAL TRENDS IN PERSPECTIVE™

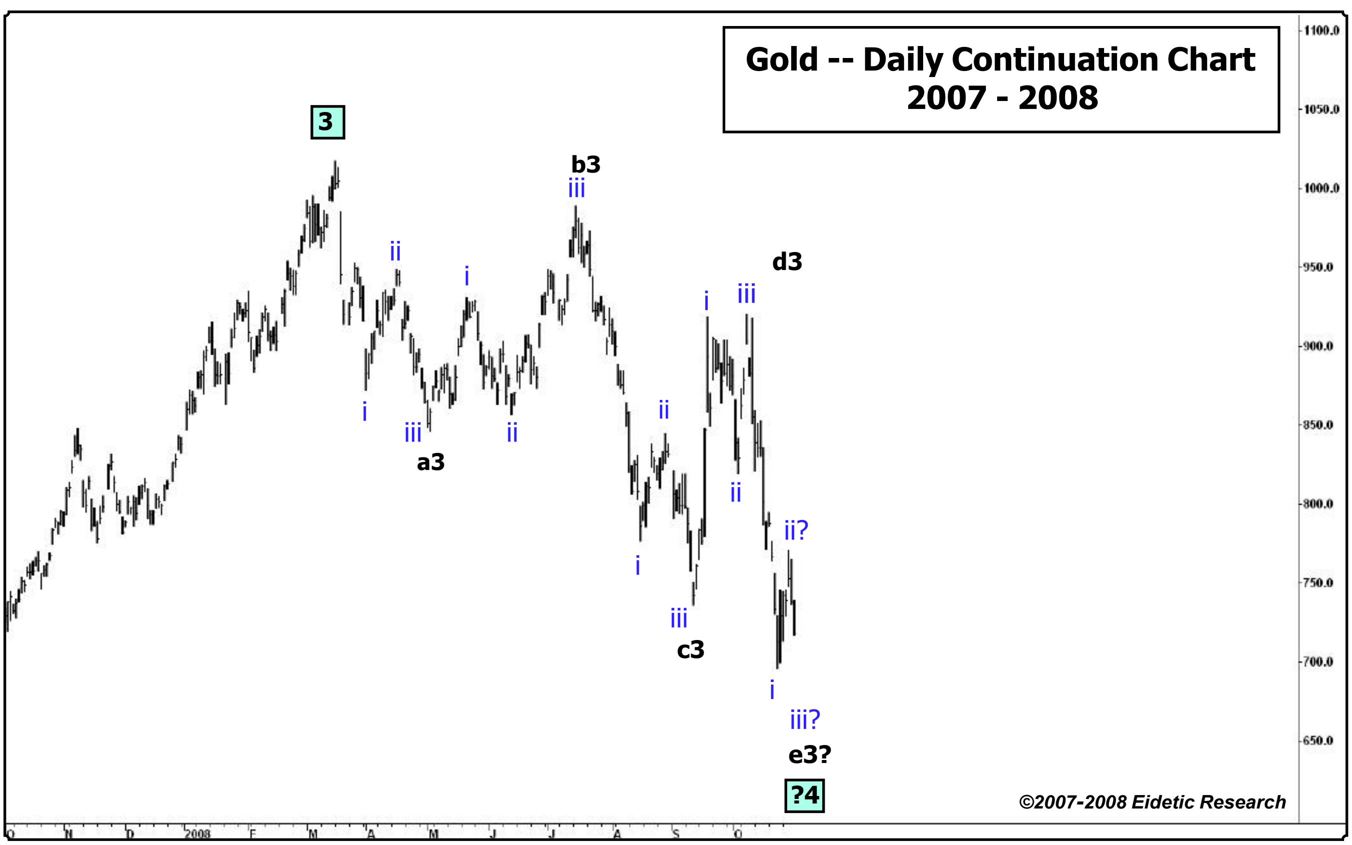
Gold & Silver: In Sync For a Low



Since our last analysis of gold (*Fulfilling Our Reserve Scenario*, October 19, 2008), the market has traded below its September 11, 2008 low at $735.70. In so doing, it now has the structural potential, as has silver albeit of a different configuration, for a completion of the correction that has been unfolding since a March 2008 high just above $1,000. Our interest in this report is the potential for both gold and silver to be near major lows but before we deal with that, let's take a look at long-term price and momentum conditions in both markets.

The monthly continuation charts above show both gold and silver with 9-month moving averages in blue (approximate proxy for the popular 200-day and/or 40-week long-term moving averages) as well as their 14-period stochastic indicators. First, both markets are below their respective moving averages which are declining. The condition where prices are below a declining moving average is generally considered by objective technical analysts as defining a long-term downtrend condition. Second, the respective stochastic indicators are declining and at levels (58 in gold and 42 in silver) that are typically too high to imply prospects for a sustained price advance. Third, as of the end of October, gold put in the 3 largest back-to-back monthly ranges in its history (although none of the ranges was as large as the record range made in 1980) and finished near the low of the combined range while silver collapsed 52% during the same time period. The three conditions consisting of price position relative to a declining long-term moving average, a deteriorating momentum index that is well above levels usually associated with a downtrend extreme, and outright price action featuring high volatility weakness make a strong case in favor of further price vulnerability. While respecting those conditions and acknowledging the prospect for a continuation of ongoing weakness, our major market premise with resepect to gold (based on classic technical analysis that was detailed in our June 23, 2008 report) is that the market is pulling back to the long-term historic resistance that was established in 1980. That plus our assessment of the overall wave structure in both gold and silver still leads us to anticipate an impending period of price consolidation that could result in an intermediate-term low.

Part of our October 18 analysis focused on the unfolding gold price action after its March high which we considered the top of a third wave. The daily chart below minimally updates that interpretation. As you can see, the market has completed 4 swings (labeled *a3, b3, c3, d3*) and a fifth, *e3*, is underway. Our previous conclusion was that the corrective swings were a triangular fourth wave. Note that the four completed swings further subdivide into 3-swings (annotated *i, ii, iii* in blue). For us, the wave structure where 4 consecutive swings all break down into "threes" makes a very strong case that market action is indeed establishing a triangle. Given that structure, it is very difficult for us to conclude otherwise and to justify any other interpretation. Therefore, in our opinion, the only thing lacking to confirm pattern completion and therefore the end of wave 4 is to see a 3-subswing structure in the ongoing *e3*

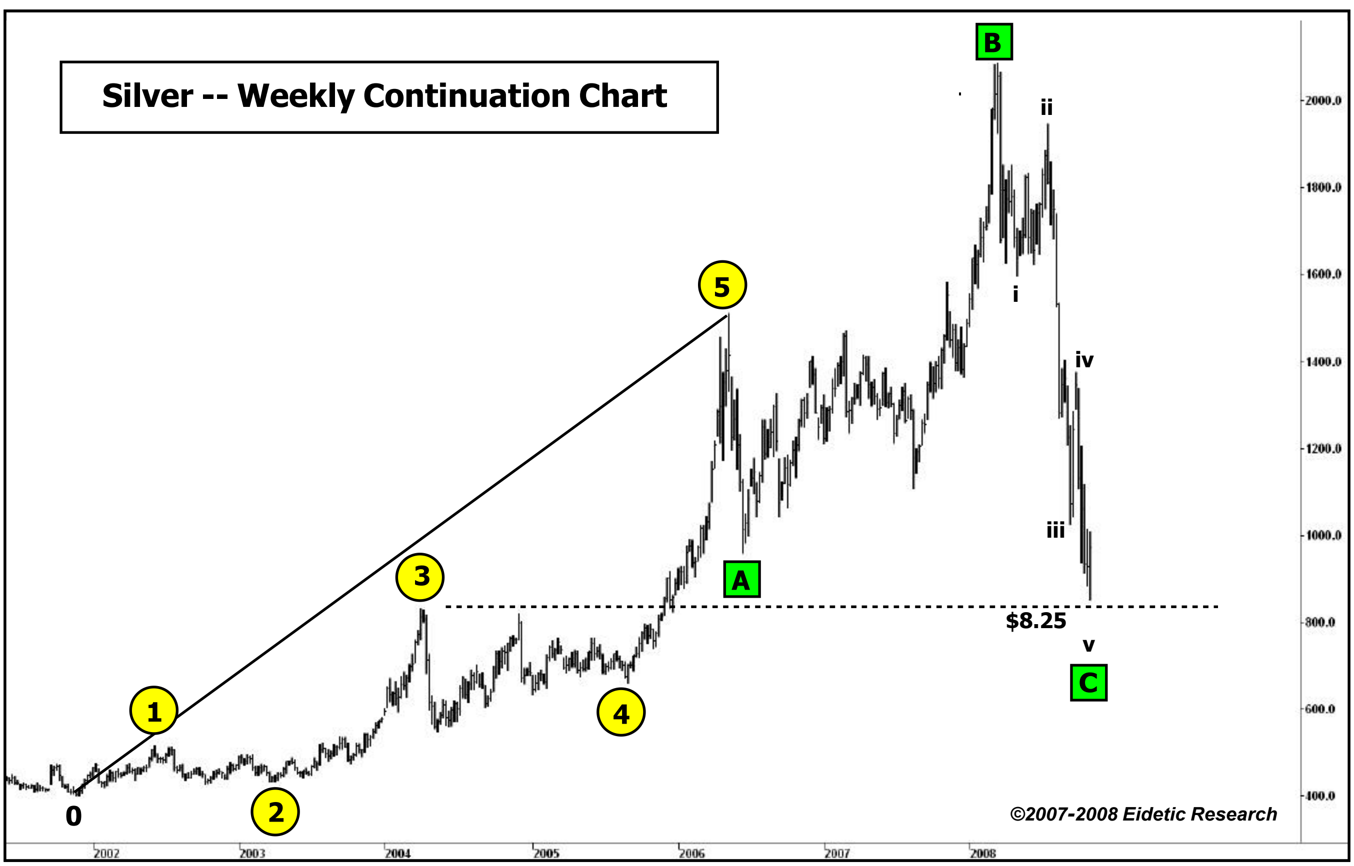


swing. To date, price action appears to have made swings *i* and *ii* leaving one more sub-swing down to a new low below the October 23, 2008 low at $696.60 basis the official day session. Note that prices have traded as low as $681.00 basis Comex October gold during the October 24 after hours electronic session.

However, as we noted in our last analysis triangle patterns are often confusing to interpret and their final swings are often traps that can extend beyond or truncate short of anticipated terminal points. In that perspective we offer the following possible scenarios for swing *iii* in e3: It could terminate around $660 where subswing *iii* in swing *e3* would equal in distance 50% of the entire distance covered in subswing *i*. It could be what wave analysis calls a “failure” and terminate above $696 .60. In that case, we would look for a low around $719 or around $703 which are, respectively, 61,8% and 78.6% retracements of the recent bounce from $696.60. Note that the October 31 official session low was $717.50. Note also that the former scenario causes us to revise a conclusing remark in our last analysis that stated, “Our downside threshold at which we would become generally defensive about long-side exposure is $690.” Thus, our downside “abandonment” threshold now becomes $649.50.

Regarding silver, our October 12, 2008 publication made a case for price action since the May 2006 high (labeled and circled *5*) as being corrective -- an irregular *A-B-C* “flat” -- as annotated on the weekly continuation chart below. Price behavior since then has not nullified our interpretation. As we see it, silver is in the late stages of its 5-swing *C* wave with the low to date being $8.53 which was traded on October 28. If that level wasn’t the trend extreme, what might be? A 61.8% retracement of the 2001 - 2006 five wave advance falls at $8.25 (horizontal dotted line on chart below).

In summary, long-term price and momentum conditions in both gold and silver still paint a bleak



picture as regards an end to current extreme downside price action let alone a return to the uptrend conditions that prevailed during 2001 - 2008. Nonetheless, our reliance on classical technical analysis plus our own brand of the wave interpretation of price action suggests that both markets could be in the terminal stages of the decline that has derived a significant part of its impetus from the ongoing collapse of the global capital markets. While both precious metals may not be immune to further related pressure from that segment, our focus now is on near-term price action that would suggest that they are establishing downside extremes. Underlying levels discussed above, if achieved, would warrant that traders focus on factors that would imply abated selling pressure. Whether or not those levels are reached, overhead threshold levels that we would watch are at $7.71 basis spot month Comex gold (point *ii?* in swing *e3* on page 2) and $11.18 basis spot month Comex silver (point *iv* in wave *C* on page 3). Price recovery above those levels, in our opinion, would bolster the case that intermediate-term lows have been made.

Charts constructed with Omega Research SuperCharts and Equis MetaStock
Data Source: Commodity Systems Inc.