

SILVER LEADS THE WAY

1-3-2011

By Scott Silva

Editor, *The Gold Speculator*

SIY00 - Silver (COMEX) - Daily Continuation Candlestick Chart



2011 is starting off with a bang for the precious metals. Price action for gold and silver continues to confirm massive breakout moves to the upside. Above we have the 1 year chart of Silver showing two ascending triangles since the clear breakout in September 2010.

\$HUI - Gold Bugs Ndx (INDEX) - Monthly Candlestick Chart



This 1 year ascending triangle is the tip end of a larger 2½ year ascending triangle in the HUI in exactly the same way that has recently occurred in silver. If we look at the larger triangle, then the breakout is, at this point, marginal, and I would normally wait until it was clearer on the charts. However, the 1 year triangle now has a clear breakout, and this predicts that the breakout from the larger triangle is valid. We must also keep in mind that most of the other broad gold charts are showing very similar patterns.

Notice that, like many of the other precious metals instruments, the HUI made an important bottom in late August. From that point, the advance has been dramatic, and this is confirmation that the speculative end of the precious metals market has caught on fire.

The old timers used to put a great emphasis on volume. Supposedly, volume confirmed a move. That is, high volume on an advance predicted a further advance. High volume on a decline predicted a further decline. And the reverse was true for low volume.

As much sense as this made, I did not find it to be true in my trading. A good example would be Black Monday. It was a day of enormous volume to the downside. By the theory, this should have been a strong (further) sell signal, and the stock market should have plunged further. However, exactly the opposite happened. Stocks bottomed on the day after Black Monday. The DJI went from 1700 ultimately to 14,200.

This is not to say that volume does not matter. I think that Edwards and Magee have it right. Volume has characteristic ways of behaving. However, the conclusion of the old timers, that volume confirms a move, is not always correct. In my experience, it is not volume which confirms a move. It is price. This is another reason why it is important to keep in mind the fallacy of the fair price.

When a stock or commodity, etc. moves sharply higher, this violates the idea of the fair price in the minds of most traders. Since late August, silver has moved up from \$18 to \$30. There is, therefore, a sense in their minds that silver is too high. The result, therefore, is that volume is reduced (because these potential buyers back off). *Therefore, a normal take-off move does not occur on particularly high volume, and the most important thing about the move is how much price move you can get for the volume.* There are too many times when volume means just the opposite of what the old timers said. For example, near a stock market top you will get the exact opposite situation whereby stocks are making only slow progress, but it is on heavy volume. This is not a bullish sign; it is a bearish sign. It shows that people are not committing the fallacy of the fair price and are not scared away by the “high” prices (because prices are advancing less rapidly than they did during the major part of the advance). The unknown element here turns out to be the looming bearish force which causes the coming bear trend, and the high volume and low rate of advance is the first sign of that force.

So my principle is that *price confirms price*. The thing you want to see for any important move is a sharp explosion to the up side, particularly out of a base (such as is now occurring in silver). The major exception here is that sharp up moves sometimes occur in commodities (or, rarely, in individual stocks) when they form spike tops. But spike tops are very specialized events, and they give tip-offs. The spike top in gold on Jan. 21, 1980 was a one-day reversal on

the bar chart and a gravestone doji on the candlestick chart. In the clear majority of cases, one should follow strength (and short weakness). Buy stocks which are hitting new highs. Go short stocks which are hitting new lows. This is the idea of being in gold and silver at the present time, and it is the idea behind each of my investment recommendations, which are available to subscribers of *The Gold Speculator* investment newsletter.

Is gold the true store of value in uncertain times? Will the impending flood of inflation destroy my financial house? How can I protect my wealth with gold and precious metals? These are the type of questions addressed in issues of *The Gold Speculator*. Subscriptions are available for \$300/year at www.thegoldspeculatorllc.com, or for \$290 (\$10 cash discount) by sending your check to The Gold Speculator, 614 Nashua St. #142, Milford, NH 03055.

Thank you for your interest.