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SILVER: STUDY AND STRATEGY

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The breakdown in silver has at least resulted in greater clarity, as the time and price possibilities are limited for hitting and turning from its low.

REVIEW: I congratulate those purist technicians who followed nothing but that discipline to stay with a trend until it would be decidedly broken. I sincerely applaud the dedication and loyalty to that discipline.

FUNDAMENTALS

Buyers and Sellers:

China AND Russia's financial measures through this currency war will have dramatically led to permanent changes to the global financial and political background, as new currencies and borders replace old ones.

"The importance of gold as an investment and as a backing to a future currency is being explicitly signalled by the Chinese authorities." The Russians have echoed the decision....quite clearly.

On September 25, 2014, GoldCore reported, "Currency Wars Deepen - Russia, Kazakhstan Buy Very Large 30 Tons Of Gold In August." This continues a string of monthly gold accumulation by the Russians and former Soviet member states, the writer explains - the Chinese and other major Asian players aside.

Meanwhile, Shanghai, the CME and Dubai are getting ready to set up shop in major Asian and Middle Eastern centres, with the view to establishing gold and silver exchanges and hubs. There, the metal's value will be determined by physical transactions, not US paper pricing.

Establishment of these new exchanges is set for this quarter! (I question the origins and motives of this most recent paper manipulation.)

Soon, the dog will again wag the tail.

Dubai is a good example of what is going on in the "real" world. Paper PM prices drop - they buy more.

Reiterating, we have hit a point where Shanghai's trade now exceeds the volume on the COMEX. Exchange centres may imminently become major hubs, too (Singapore, Shanghai, Hong Kong, Dubai).

As the prices of gold and silver will be set by physical trade, the buyers will then take away pricing control from the sellers; the rest of the world is buying. This is not complicated.

Replenishing stocks:

Shanghai's vaults are empty of silver. Curiously, the emptying of the vaults in the US of gold in 2013 occurred during that metal's collapse.

In 2014, gold started with the restocking of severely dwindled supplies in the COMEX and GLD vaults. Silver had no such need to do so, since silver never suffered the abandonment of supplies that gold had.

As a result, there are two possible bullish factors. Firstly, Shanghai's virtually empty vaults suggests that the phase of restocking can occur at any time over there.

Secondly, as these PM depletions will have COINCIDED with their sell-offs, with the 2014 liquidation of the physical silver stock out of the way in Shanghai, silver need no longer act as a laggard to gold, with which it may have already harmonized (in terms of stock depletion relative to prices). (At extremes, standard as well as unconventional PM indicators harmonize.)

Interestingly, while investors in the major international centres (including India) buy for the long-term on price weakness, due to well-publicized future worldwide supply shortages that will govern the silver market for generations, the American silver ETF's (SLV) holdings are at a peak; American Eagle coin sales are booming at all-time highs as well, for the very same reasons. Demand is sustainably global.

(The preceding article does a superb job of highlighting GLD and SLV comparisons, within the context of contradictory relationships between demand/supply and the respective metals.)

Simply, the physical trade-based-pricing system MUST overwhelm the paper-trade-based pricing scheme, like a *tidal wave* washing over a tiny island. It is mathematically impossible that it end any other way.

"U.S. National Debt Surges $1 Trillion In Just 12 Months", and it is such headlines that drive retail investors to be long term holders of silver ETFs and coins, actually accumulating the metal with the price declines, as silver also appeals to retailers who desire the less expensive PM.

Though it pertains to the technical tool of sentiment analysis, I must comment on Mark Hulbert's pre-breakdown report which called for an imminent low, due to extreme bearishness that is associated with bottoms. Sentiment has since worsened (hedge funds), so this too argues for 4th-quarter support.

For those unfamiliar with him, Mark Hulbert's timely market forecasts through these many years (based on his sentiment tools only) included remaining bullish this summer. This is key for appreciating foreign, domestic retail, AND hedge fund demand, as we grapple for a low ahead of a major 2015 wave upward.

So, retail demand spells physical purchases, while the hedge funds' extreme bearishness represents tomorrow's paper repurchases.

The break in silver has improved clarity with respect to statistically strategic, high reward/risk investment probabilities and opportunities, in the context of yield, risk/reward, leverage and risk/tolerance.

TECHNICAL

Sentiment indicators calling for a historic low even before the recent break, support the multiple charts below in forming a major pre-New Year 4th-quarter low (as in 2008), and, necessarily, a violent 2015 reversal.

Regarding the monthly 46-year silver chart below, a few crucial observations may be made.

(1) - The 2011 and 1980 highs do not parallel at $50, because it is a monthly chart (at month-end in 1980, silver had closed about $15 off of its high).

Everyone's favourite all-time-high price measurement adjusts the 1980 peak price to account for inflation. The latter neither contemplates today's true inflation rate, nor the very possible hyperinflation of tomorrow. Still, today's false inflation figure allows for a price ~$150/ounce.

(2) - The next chart "explains" how $150 is likely, according to technical analysis and the rules of Elliott, ironically all such analysis having been made possible by this breakdown.

IN BREAKING BELOW 2008'S HIGH, BY RULE, THE 2011 PEAK WAS NECESSARILY A WAVE-1, SINCE A THIRD WAVE MAY NOT EVER CROSS A WAVE-1. {Ergo, the next important advance begins a major move, rather than ending one (wave-5 around $60-$75), a doubt that existed due to the chart's form.}

The implication is that Wave-1 of a major 3 has yet to even begin. Mathematically, huge space between price points suggests huge waves (price moves), once they start.

Without showing computations, the numbers illustrate that $150/ounce is a VERY REASONABLE target for Wave-3 by the time it's over, remembering too that that level will only mark a still bigger Wave-1, before an even larger Wave-3 takes silver to $500 by 2025. (Today's Wave-1 is concluding after 13 years.)

(3) - The chart plainly shows a more bearish A-B-C correction than that of gold, which so far has suffered a *common zig-zag,* though gold may yet make a new 4th-quarter low; silver has formed a triple-zig-zag.

According to the rules of Elliott, for silver *(triple a-b-c)* there won't be another wave after this 4th-quarter low; the 46-year chart also allows this down-wave to decline to the popularized $15 area before yearend.

(4) - By connecting the lows of 2004 and 2008, we are approaching that uptrend line as well.

(5) - This monthly stochastic is oversold and diverging bullishly, which suggests a 4th-quarter low too.

The 46-year chart is included to provide the major Wave context for the size of coming moves, while the 15-year silver chart more clearly shows the recent break of the 1980 high.

Monthlies, weeklies and daily (not shown) stochastic are also lining up for a 4th-quarter low. Bottoms followed by divergences precede very bullish moves.

We see the longest term stochastic of the three bottoming. This supports a MAJOR move in 2015, while the 15-year chart helps to more clearly visualize the effect of time on pattern; the technical conclusion again supports a 4th-quarter low ~15, which price is the consensus.

Curiously, a fine summary of the analyses here was published on this same day by another author. Simply, facts are facts. And sometimes, due to their nature, there is only one way of interpreting them.

46-Year silver chart

Please scroll to next page.

15-Year silver chart

PRICE/VOLATILITY/TIME PROBABILITIES

PRICE: The SLV's 3-year weekly chart reflects oversold readings which should improve, even if silver makes a final low in the 4th-quarter. Weekly stochastic support a multi-week rally once the turn begins.

Importantly, there exists a bullish divergence. (Dailies are obviously oversold, so we just focus here on the more meaningful weekly and monthly indicators.)

The 3-year weekly GLD chart (follows SLV chart) illustrates a price chart that presently reflects a triple bottom and reverse shoulder-head-shoulder low. As in 2008, gold may (have) bottom(ed) months ahead of silver's low.

As well, unlike silver, gold still reflects a 5-wave advance in 2014, followed by a 3-legged decline. This *would* imply that gold did indeed bottom. The upshot for silver is that, *in this scenario,* $16 would hold and trade between $16 - $18.50 through yearend, while the GLD would range between $115 - $127.

3-Year weekly SLV chart

Please scroll to next page.

3-Year weekly GLD chart

On the break below $18, put premiums (see VXSLV) skyrocketed to discount price targets that had become traders' fears ($14 - $15 range). Such fears are logically reflected in premiums, since sellers front-run their own (or client) sales.

This also explains why the ultimate buy point will be a minor new low that is un-confirmed by the VXSLV, perhaps in October.

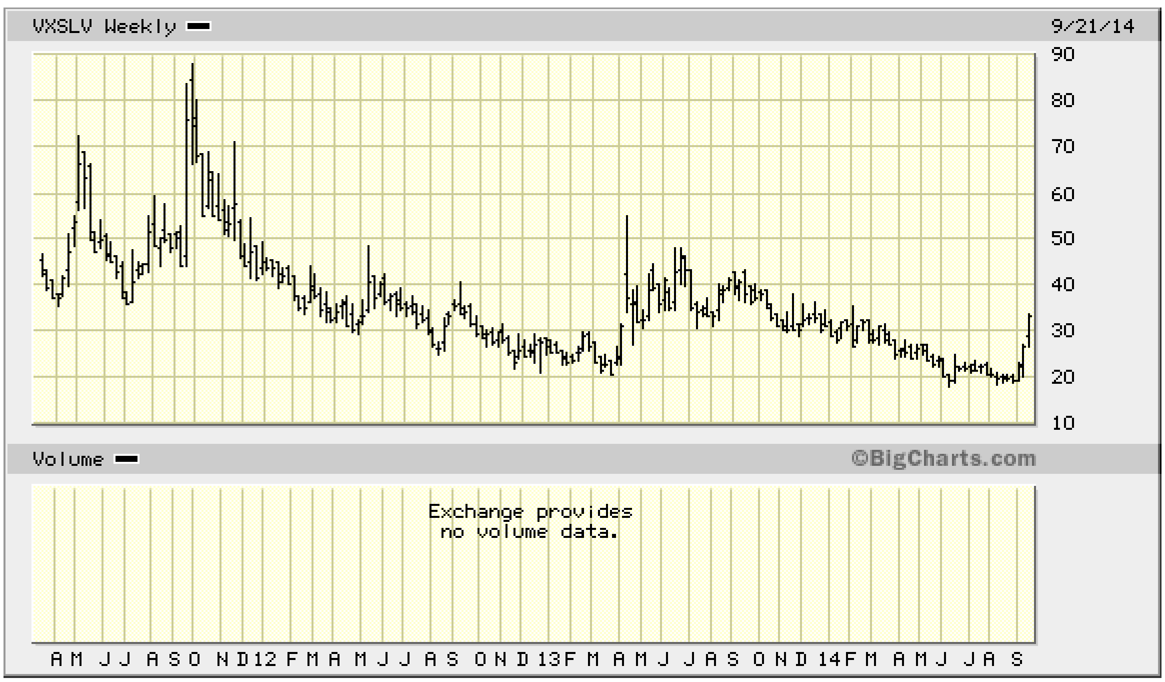
Premiums bottoming before price means that the worst selling pressure preceded the low, leaving nothing to push the underlying security lower. THIS IS LIKELY IN SILVER THIS QUARTER.

SILVER VOLATILITY: The INTRA-MONTH explosion in the **VXSLV** from under **20** to just below **35** is, I suspect, a sign of things to come for the SLV itself (see 1-year VXSLV chart below).

Whatever the case, it certainly suggests that one ought not wait for a low in prices or volatility separately, to determine the best time for going long, particularly if employing the strategies below.

From here on out, this correction in silver will have occurred largely in terms of time, as opposed to price. **A drop to ~24 at the above-forecasted higher low, in conjunction with a price low that, in my opinion, holds $16, will mark the ideal time to trigger investment.**

Please note the shocking **1 and 4-year charts of the VXSLV** which follow below, respectively.



The STUNNING speed with which silver's numbers can change is evidenced here. However, few are familiar with the VXSLV's significance or its cyclical relationships to price.

Briefly, through the bear market, premiums trended asymmetrically to silver's price. This changed after this summer low, due to the laws of diminishing return and unbound upside. This new cycle's relationship has merely manifested a September aberration.

A new cycle for the VXSLV in itself implies a major new trend ahead.

As indicators and pictures of change, these charts illustrate how fast prices will move. Also, they clearly show how stunning will be the effect on option premiums which, as the 4-year chart above illustrates, is still very far away from meaningful resistance.

TIME: When premiums explode during a hit suffered by prices, the "orthodox" low in prices is when the correction ends in terms of time.

Sure enough, generally sideways action over the coming weeks will take down the VXSLV a bit and, so, with a net-negative change in the price of silver that is accompanied by a HIGHER low in the VXSLV over the same time period, the ideal timing for options and warrants will have presented itself this quarter.

In this scenario, the SLV will not break $16, even if it makes a new low later this quarter, which is unconfirmed by a new VXSLV high.

Finally, as previously reported, the 6-month time cycle became over-popularized and, so, the PMs bottomed a month early this summer.

Consistent with that, I see prices' worst action as soon behind us, ***discounting a higher yearend low,*** which, again, will have brought the combination of time and price into perfect line with what the purchaser of bullish strategies would like to see.

Remember, this week is the quarter-end, and window-dressing is also weighing on prices.

TECHNICAL PROS: Ordinarily, sentiment and accumulation/distribution go hand-in-hand, but not in silver.

Thanks to Asia, the Middle East and the Russians (etc.), PM accumulation has even accelerated with declining prices, while sentiment among the paper-price-influencing hedge funds has imploded.

So, when the trend-following hedge funds reverse course, it could violently catalyze and compound returns (driven by foreigners). It is but a question of time before multi-dollar price moves occur in silver.

TECHNICAL CONS: The trend has not reversed

STRATEGY, TIMING

A major factor in investing in long term options or warrants is the deep concern regarding the very existence of the underlying metal at the custodian. It could be financially disastrous in comparative terms, if settlements became cash-based.

Therefore, warrants that are exercisable into vaulted gold are the only form of acceptable long term leverage. The very long term is stressed for 2 reasons:

Firstly, one may wish to own a strike date that captures the more advanced stages of ascent, when the more pronounced movements historically occur in silver.

Secondly, with premiums at historic lows (though that violently shifted this month to a historically-still-low range), one may seek a long-dated situation that would also enjoy multiple yield-enhancing call writing opportunities.

Simultaneously, one ought contemplate yield-enhancing strategies that do not involve buying stocks at nosebleed levels!

Notes including a capped yield tied to the price of silver is a way of intelligently pursuing returns, while doing so as an opportunist with historical perspective.

The appropriate combination of these strategies depends upon the investor's risk tolerance, as well as the present holdings in his/her portfolio. The more stocks and bonds that one owns, the more such strategies as what are advised here become increasingly appropriate.

Regarding a strategic interpretation of the technical and fundamental analyses taken together, the preferred ratio of capped note to warrant is 3:1. Purchases are advised at new price lows unconfirmed by the VXSLV, ~24. Whether the note or warrant is bought first is unimportant.