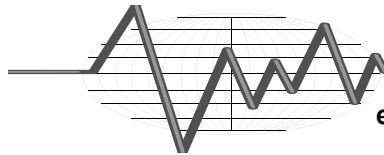


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TECHNICAL TRENDS IN PERSPECTIVE™

Silver: The Importance of \$8.88



In an August 14, 2008 interim report we remarked that the precious metals markets had become a killing field. Our analyses have focused more on gold than silver since we have thought that we had a more coherent perspective on gold. Ongoing developments in the imploding global financial markets have continued to put extreme downward pressure on most commodities markets but the recent divergence in action between gold and silver gives us the opportunity to focus on the latter in this report.

We have long considered ourselves to be in the vanguard of the precious metals bulls. For perspective, our lead chart above, the monthly continuation chart of Comex silver, illustrates an Elliott wave interpretation of market action from the January 1980 all-time high (\$41.50 basis the active March 1980 Comex futures contract) to the November 2001 low at \$4.0150 basis the December 2001 futures. This interpretation was first presented in our December 9, 2003 publication and subsequently at the internationally acclaimed Gold-Eagle.com website in January 2004. Our view then was that the corrective work from the 1980 high had traced out what Neely might call a “double combination”, i.e., an

a-b-c sequence that transitions via an *X*-wave into an *a-b-c-d-e* triangle that concludes the pattern.

A super-cycle bull market is evolving from the 2001 low at point *e*. The extensive base development during the 1987 - 2005 period has provided the fuel for the initial exit move. Staying with wave analysis, let's look at the weekly continuation chart below and examine the structure of price action in silver from the 2001 low at \$4.015 to the May 2006 high at \$15.11.

Gradually higher but mostly lateral trading from late 2001 into mid-2003 consisted of waves 1 and 2 in a 5-wave sequence. The markup to the April 2004 high at \$8.31 featured the first stage of acceleration that comprised wave 3. Extensive high level consolidation from that point through November 2005 established wave 4, a triangle as expected in the fourth swing of a 5-wave total. Completion of the wave 4 triangle resulted in even greater acceleration than occurred in wave 3. Prices reached \$15.11 in May 2006 at which point an aggressive 5-week break took values down to \$9.60, thus retracing almost exactly 50% of the entire four and a half year up move from late 2001. In our opinion, a monthly top



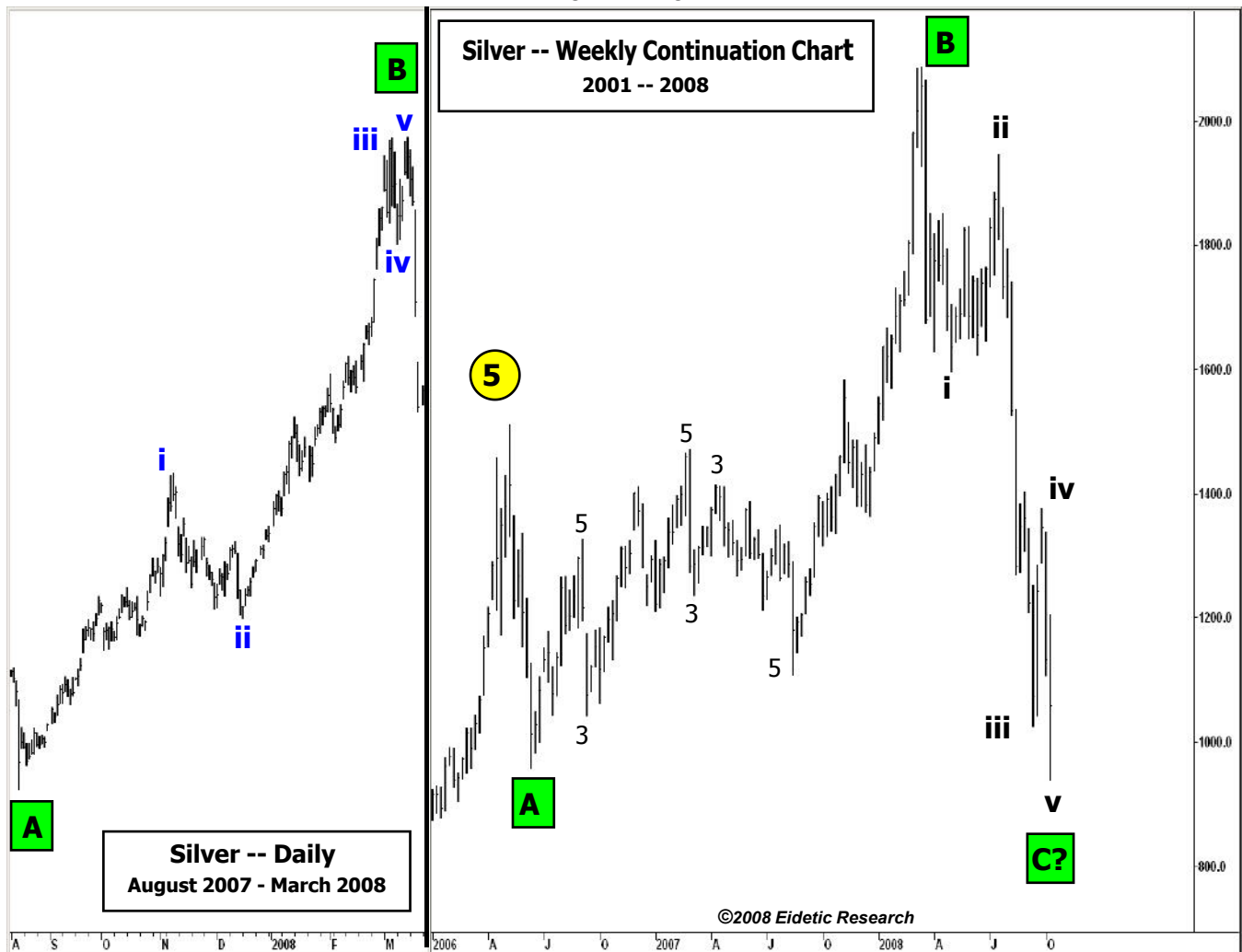
reversal action (not shown) from the May 2006 high, the rapidity of the ensuing collapse, and a downturn in both weekly and monthly momentum indicators (also not shown) corroborate our view that the initial 5-wave sequence - i.e., wave I - in the overall supercycle had terminated.

The May - June 2006 break, having retraced 50% of the preceding advance, may appear to have satisfied the technical requirements for a completed correction. However, our view is that a 2 month retracement is hardly sufficient to correct/consolidate a 4 and a half year uptrend. One of the reasons that we have been reticent about the silver market (as contrasted with our more straightforward commitment to gold) is that we did not see technical action following the May 2006 high that put us at ease about expecting the market to be able to move higher and, should it do that, to hold higher ground.

The weekly silver chart below considers that the May-June 2006 fifty percent retracement break was only part of a more elaborate pattern that more fully consolidates the 2001 - 2006 advance.

As you can see from the weekly chart below right, we have considered price action from point 5 as follows: the May - June 2006 break is a 3-swing wave A; the June 2006 - March 2008 advance, annotated A - B, is a large 3-swing move that consists of an initial 5-3-5 up sequence from point A, followed by a 3-3-5 down sequence, and terminates with an extended 5-swing up sequence (annotated in blue *i-ii-iii-iv-v* that is shown in more detail in the daily chart below left); and the concluding leg of the pattern is a 5-swing down move from point B to a low-to-date on October 10, 2008 at \$9.40.

In Elliott wave jargon, the entire pattern from the 2006 high to date is a potential "irregular flat" that has a 3-swing A-wave, a 3-swing B-wave that tops above the high of the preceding up sequence (i.e., point 5), an a 5-swing C-wave that undercuts the A-wave low. Notably the C-wave shows an extended leg in its third swing. Typically, when a 5-swing sequence features an extended third leg its first and fifth legs are approximately symmetrical; often its second and fourth legs are also approximately equal. In this case leg *Ci* began at \$20.86 and finished at \$15.98 for a distance of \$4.88. Leg *Cii* began at \$13.98 and finished at \$19.465 for a distance of \$3.48; Leg *Civ* began at \$10.27 and finished at \$13.755 for a



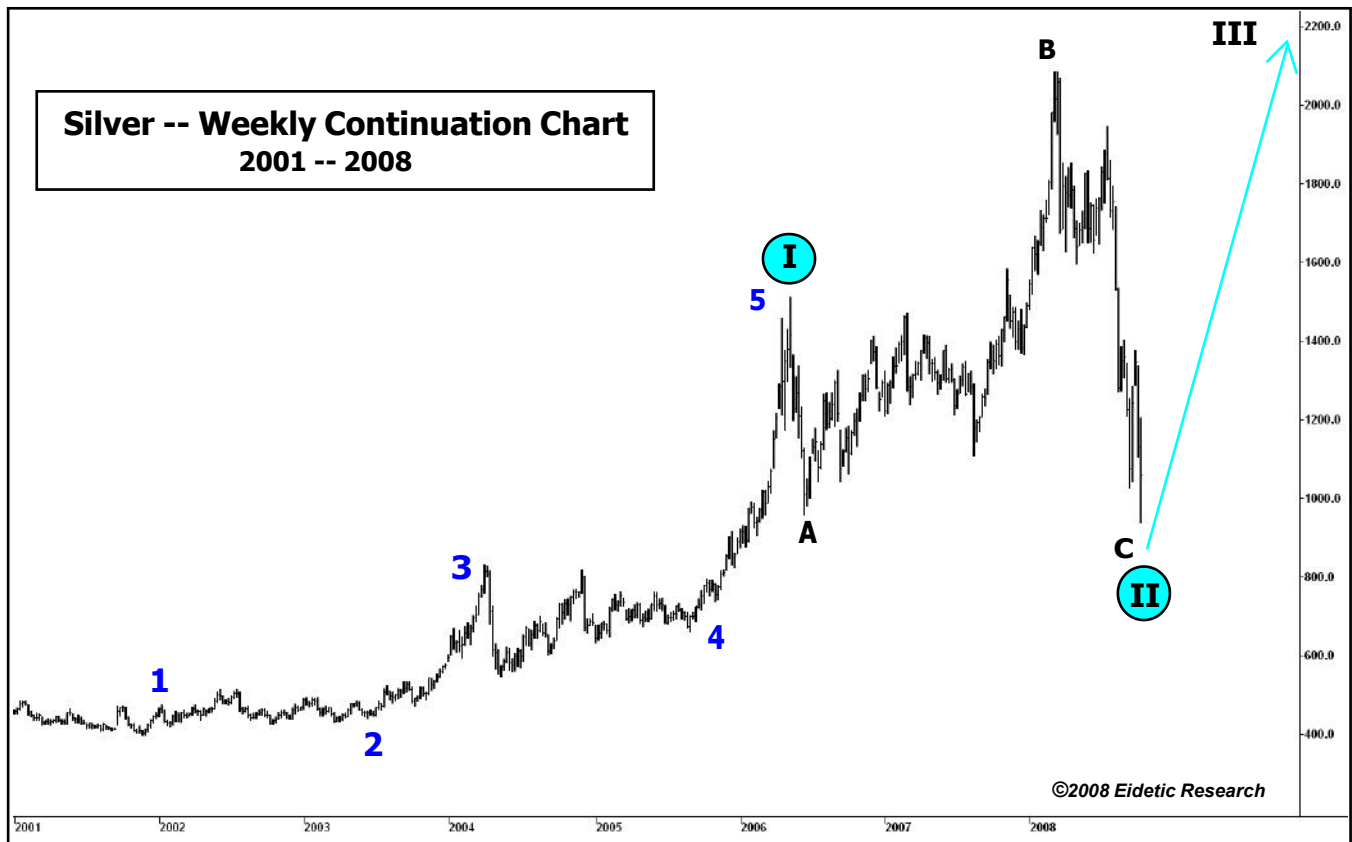
distance of \$3.485 so the market shows symmetry in legs *ii* and *iv*. If leg *Cv*, now underway from \$13.755, were to equal the distance in leg *Ci*, it would reach \$8.875.

In summary, the wholesale liquidation of financial instruments on a global basis has left no market unscathed. Recent selling pressure seen in silver, while extreme, has not yet generated market behavior that is atypical in the context of a long-term uptrend wave analysis. The October 10, 2008

break below \$10.27, basis the active spot month, has established a 5-swing down sequence that we believe is a prerequisite for a terminal move in a pattern that has spanned 28 months to date. Therefore, we are looking for near-term price behavior that would be a cue to long side entry. That could occur anywhere between a current price near \$10.30 and an anticipated extreme low around \$8.87 basis the active December Comex futures.

In normal conditions, we think that the gold market's September 2008 low at \$735.70 basis the spot October futures would be the corrective low after the March 2008 high and that the relatively weak silver market should be in a bottoming process now. These are not normal times. Therefore, given that we have a reserve scenario in gold that entails another pullback to the \$729 area (the September 2008 low was \$735.70 basis the spot month futures), in that event a more probable low for silver would be between \$8.87 and \$8.25 basis the December futures.

The below weekly silver continuation chart shows our preferred overall wave interpretation following the 2001 low. Large wave I of V is complete and corrective large wave II is setting the stage for the next large wave III to the upside which has potential beyond \$21.00.



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