

Silver – Aggressive Collapse No Surprise: downside target levels

In a June 1, 2011 analysis at metalaugmentor.com we presented a daily silver continuation chart that reflected a downtrend that started at the April 25, 2011 high of \$49.82 basis the nearby Comex futures. Two alternative scenarios were included with regard to prospective future price action. Later on we narrowed on a single scenario and that has pretty much come to pass. The chart below is posted through September 23 and it reflects the market's current position in the ongoing downtrend.

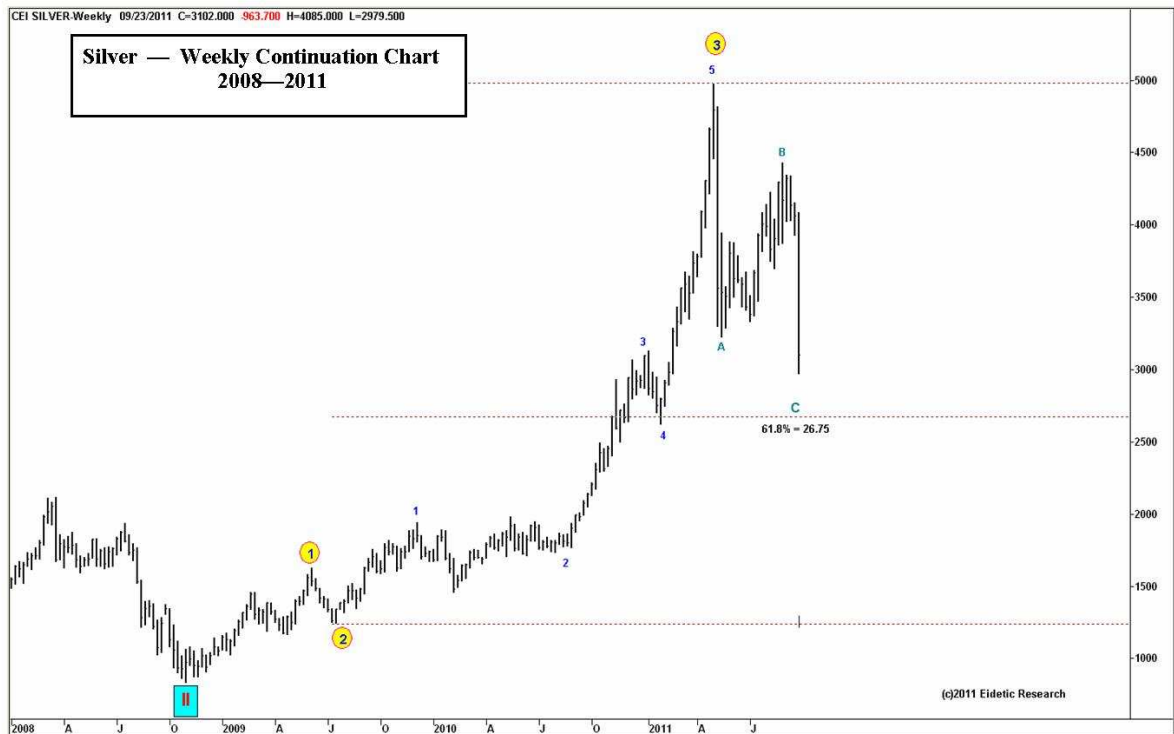


As you can see the April decline to point A marked the first down leg in a larger pattern to come. The key point in our analysis of the market in June was that the decline from the high appeared to have 5 subswings (labeled i – v). A correction that has 5 subswings in its first leg is almost never a completed move. Rather, it usually implies that there will be a countertrend recovery and then another decline that will also have 5 subswings and terminate below point A. Market action established the countertrend recovery – to point B, which was marginally above a 61.8% retracement level of leg A – and prices have sold off to establish leg C.

We consider the initial quick decline from point B as being the first of 5 subswings within the ongoing down leg, thus it is labeled i. A subsequent bounce represents subswing ii, also labeled, and the current aggressive collapse is subswing iii. Once it runs its course, we anticipate a bounce or lateral consolidation to occur that will establish subswing iv and then one more decline that will carry below whatever downside extreme is reached in subswing iii. If that occurs, market action since the April high will be a textbook 3-swing correction, also known in wave analysis as a zigzag.

Where might leg C terminate? In classic technical analysis, one often expects an A-B-C sequence to have price symmetry in swings A and C – the “swing rule”. If we apply that expectation to the ongoing price structure, we see that swing A dropped from \$49.82 to \$32.29, a distance of \$17.53. Therefore, if we subtract \$17.53 from point B at \$44.275 we get a swing rule target at \$26.745.

An unrelated chart shown below presents one of several potential wave interpretations of the price advance that took values to their April 2011 high. There appears to be a fairly obvious 5-swing sequence (annotated in blue 1 – 5) within the larger swing that we have labeled as 3, *circled*. Note that a Fibonacci-related 61.8% retracement of that larger swing is at \$26.75 (shown and annotated). Since that potential retracement level coincides with the above swing rule target, our thought is that the current A-B-C corrective structure could well find a terminal low in the \$26.75 area.



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