

04/25/2011

Clarification Regarding Silver Comments

by Carl Swenlin

(This is an excerpt from Monday's blog for Decision Point subscribers.)

In my 4/21/2011 blog, Silver Still Soaring, I stated: *"Currently, CEF is selling at a premium of +2.8% (less than the markup on bullion) which shows that there is not the least bit of froth in the precious metals markets."*

What I should have said is, based upon the low premium on CEF, sentiment in precious metals is about neutral and not wildly bullish as we have seen in the recent past.

The silver market is, of course very frothy, based in large part upon the parabolic price rise, and I was prompted to correct my statement by the following comments and links sent to me by James Debevec II, portfolio manager of Absolute Value Fund, LLLP and founder & principal of Absolute Value Capital Management.

Quote:

1. <http://www.minyanville.com/businessmarkets/articles/silver-silver-price-overbought-gold-silver/4/12/2011/id/33909>

2. <http://www.minyanville.com/businessmarkets/articles/silver-silver-high-silver-closing-silver/4/7/2011/id/33830>

3. Take the Sprott fund, which is in such hot demand that buyers this week were paying \$1.22 for every dollar's worth of silver in the portfolio.

4. Silver is trading 82.17% above its 252 MA. This is the 99.5% percentile going back to 1920. The other times were near the 1974 and 1980 tops.

5. Silver is up 412% in the last 625 trading days. This is the 99.75% percentile going back to 1920. All 59 times it has gone that high in that time, silver has dropped at least 85.61%.

6. Silver is trading 15.17% above its 21 MA. This is in the 99.22% percentile going back to 1920. The average drawdown from when it reaches that high is down 64.68%.

7. The 252 MA of gold/silver ratio is 70.21% above the current reading which is in the 99.88% percentile going back to 1920. The indicator's all time readings occurred in 1933/1934 when FDR changed the price of gold overnight. **Since January 1934, the highest this indicator got to was Jan 10, 1980 which was 11 calendar days before the silver peak. The 1980 reading was broken on Wednesday April 20, 2011.**

8. Primary silver mine cash costs remained relatively flat year-on-year, falling by less than 1 percent to \$5.27/oz. from a revised \$5.29/oz. in 2009.

9. Silver performance vs. stocks over a 10 year period is in the 99.7% percentile. The only year it was higher was 1979. Silver peaked on Jan 31, 1980.

10. Commodities are also due to put in a multi-decade high this year.

<http://www.minyanville.com/businessmarkets/articles/asset-class-cpi-data-commodities-inflation/2/18/2011/id/32899>

End Quote.

My thanks to Mr. Debevec for his comments. His comment #3 offers evidence that offsets the evidence of neutral sentiment implied by the low premium on CEF.

Here is a reprint of Thursday's chart to refresh your perspective. As I write this the spot price of silver is \$47.47.

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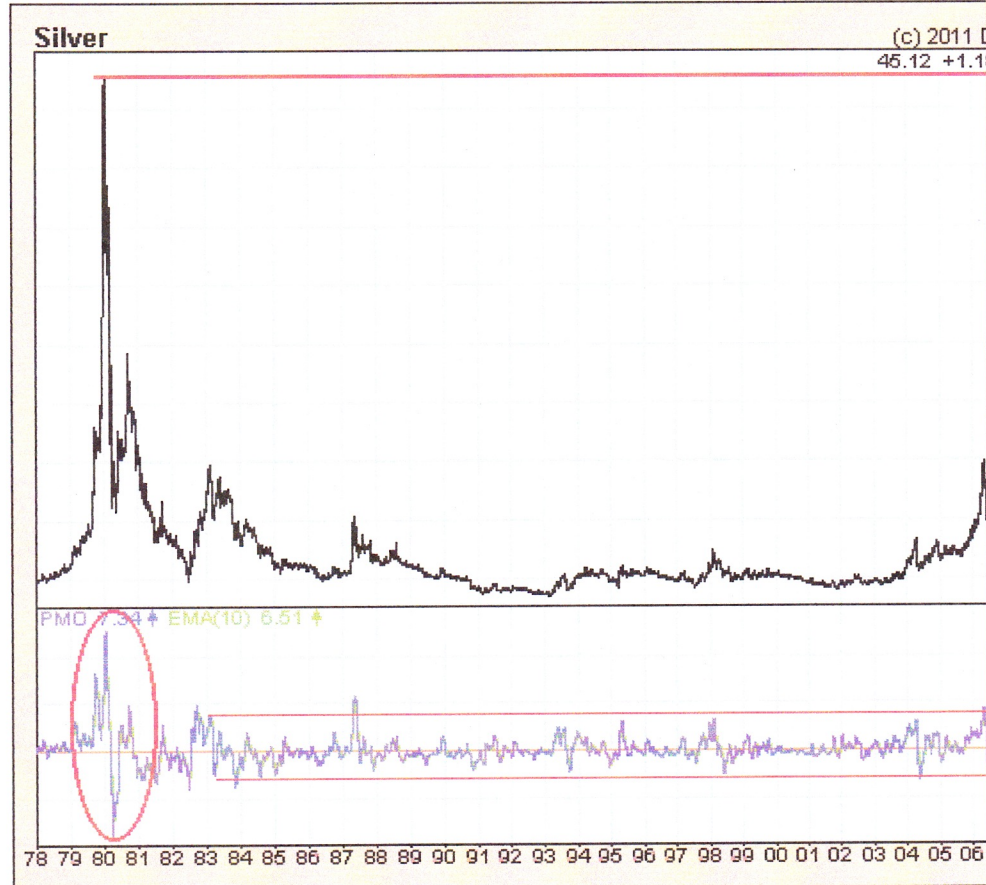
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End Quote.

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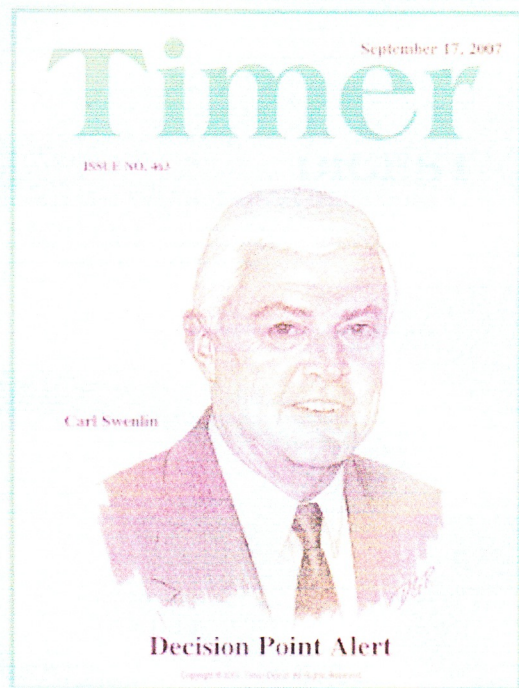


Bottom Line: I will repeat my comments from my last article. As a technician, looking at a parabolic up move heading toward long-term resistance gives me heartburn, and we can observe that silver is prone to some extreme volatility. Parabolic and/or vertical advances are extremely dangerous. There is simply no way to know when they will end, but they usually end badly, with vertical declines as steep and speedy as the ascent.

However, there are reasons to believe that fundamental and technical conditions exist that will continue to be positive for precious metals. We could hope that, once silver reaches resistance, there will be a nice correction to provide an opportunity for those who missed the boat to get on board. For those who bought at much lower prices, from a long-term point of view I see no reason to be concerned about any pullbacks. The kind of extreme financial crisis that precious metal advocates have long predicted is now actually upon us.

Technical analysis is a windsock, not a crystal ball.

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BIO: Carl Swenlin is a self-taught technical analyst, who has been involved in market analysis since 1981. A pioneer in the creation of online technical resources, he is president and founder of DecisionPoint.com, a premier technical analysis website specializing in stock market indicators, charting, and focused research reports. Mr. Swenlin is a Member of the Market Technicians Association.