Flash Report Silver

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"Quantitative approach for asymmetric results"

Silver: investors on a verge of a nerve crisis

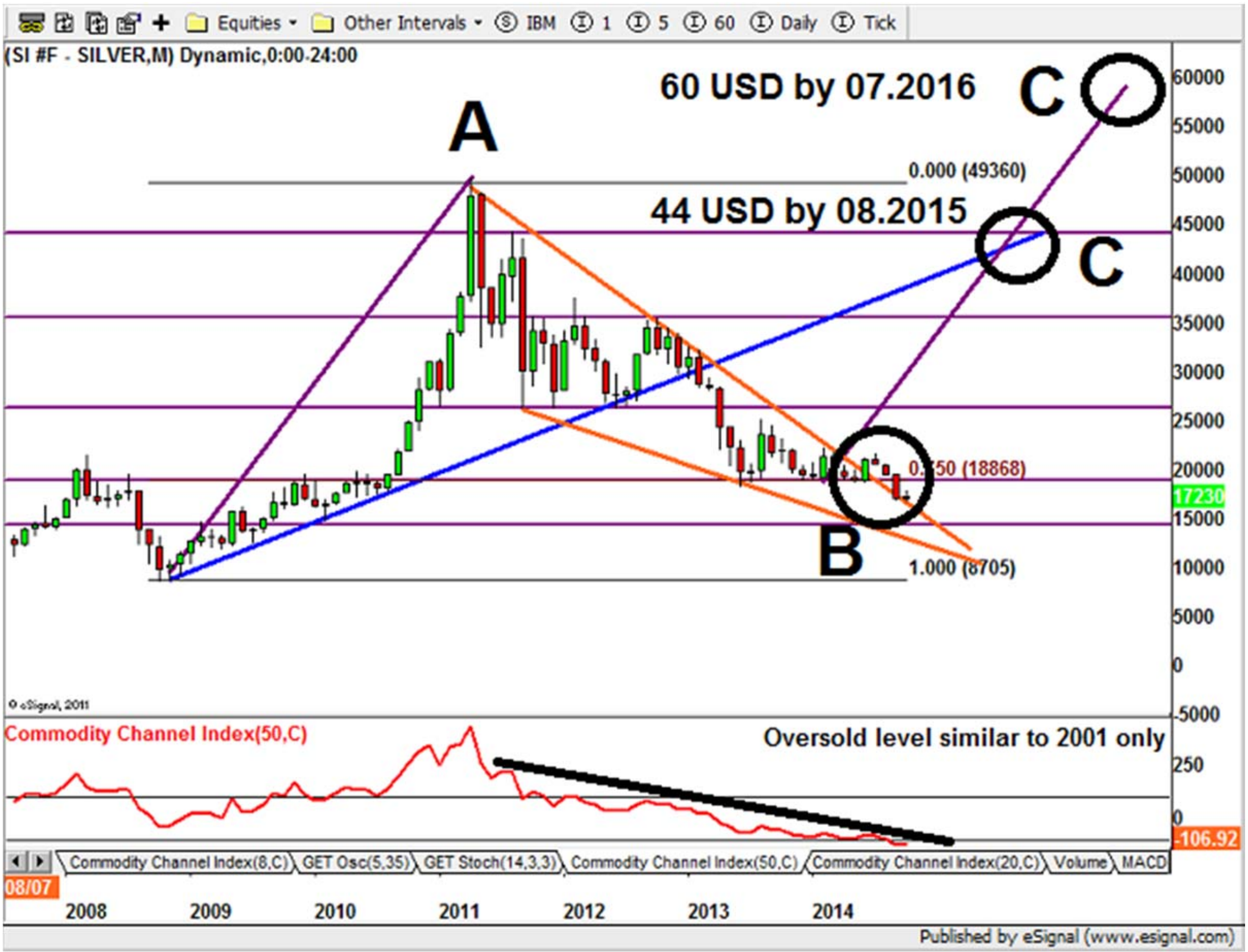


Figure 1: Silver monthly chart

I thought it was time to prepare a brief update on my study on Silver since many investors (even Institutional ones) asked my opinion. Similar to Gold in fact, many investors are concerned on prices of both the precious metals, since their entry price is quite higher than current ones.

From an asset allocation point of view, which has different rules from technical analysis, let me remind the reader that I exited any precious metal holdings on May 2013 and since then there hasn't been any indication on re-entering, not even a 5% stake. Again, based on my asset allocation rules, and evolutions can be seen at the following link: http://www.francescomaggioni.com/asset.php).

On Figure 1 you can observe how prices of Silver continued their behaviour, moving very closely to my March 2014 studies and trendlines.

The general structure is to me, still valid and I still confirm the bullish targets you can read directly in the chart on Figure 1. However for a more comprehensive view on Silver I suggest you to read my March report here attached at the end, since in that instance I also wrote about the possibility of a prolonged weakness which potentially can bring prices to go back to much lower levels.

The reason why this update now is that finally there has been a some sort of bullish reaction and precisely during last June. During that month Silver registered a strong bullish movement which resulted in the breaking of the long hated resistance, the orange trendline. As I wrote in the March report: "*Operating signals of possible long entries are set at the breaking of the current resistance which is the orange trendline*"

However after the violation of such important resistance, Silver continued then its descent to lower prices. Very often you will notice that after breaking a resistance, the instrument tends to go back to it and test it again, this time as a support: in this case since the trendline is negatively inclined the test can happen only to lower prices: so right now it does not worry me the current weakness, just yet.

It is true that the upward movement could be only a bull trap within a well established downward trend: it is just to early to call it one way or another.

Personally I merely note that since June 2013 Silver moved sideways, breaking a strong price and time relationship that started from the April 2011 highs to June 2013. A subsequent breaking happened exactly 12 months later, on June 2014 when prices violated the orange trendline.
Right now it is too early to judge with high conviction whether this has been a trend inversion or simply a retracement within a bearish trend.

To the silver bears it is worth noting that breaking downward the 20 dollars threshold brought Silver in a complicated horizontal channel between 14 and 19 dollars. Looking back on the price action it can be noted that last time when Silver entered this area it meant a prolonged hold, basically two entire years of sideways movement before exiting on the upside.

So for those who are bullish on precious metals I can suggest to check the prices from time to time, but it is not necessarily to do it very often, I am afraid (I hope to be proved wrong).

Lastly a very important note: something that has to be check together with prices is also the CCI 50 periods here presented below the chart on Figure 1: in fact a true bullish inversion can only happen when also the CCI will break the bearish trendline. Only this violation will give a strong validation on any price movement: just note how the June 2014 limited upward movement did not result in the violation of the bearish trendline on the CCI.

Following: March 2014 report.

March 2014 Report

Silver: not yet a Silver rush, but maybe soon

Figure 2: Silver monthly chart

The above is the monthly chart of Silver. Similar to Gold, it has been not a darling for most of investors who kept it until recently, wasting a chance to make a remarkable profit in 2011.

However there are some technical aspects of this long term chart that may pose some valuable arguments for those who are strong believers for a comeback. As always these are projections and my intention is to **provide with a masterplan, but also to offer a plan B** so that I try to keep as little as possible unwanted surprises.

From the price action of this precious metal you can see that after a considerable upward movement, Silver retraced quite substantially, more than the 61.8% level which is the maximum retracement of typical wave 4.

Therefore the overall movement started in 2008 can only be labelled, as of today, a corrective ABC movement where the first leg up was wave A, the bearish (current) movement is wave B and probably (but not surely!) the next wave will be a bullish one. What are the likely targets for the next wave C?

Trendlines give important indication not only for what concern **price targets, but also for time targets**. In fact some of the possible targets are the one layed out by the dark blue trendline, which gives in fact both time and price targets. A double top around 44 usd could materialize by August 2015. Note that at current prices, a double top would exactly be the 61.8% of Fibonacci Extension of previous wave A. As you can see that time and price target is also the juncture of both the dark blue and the purple trendline. The purple trendline is a copy and paste of the previous wave A movement, as you can check in figure 1.

The purple line goes even higher, and from the current Silver price level of 20.34 usd a 100% Fibonacci extension of previous wave A is at 60 usd by July 2016. The safer assumption is that if a new bullish movement could materialize possible targets are the dark blue line right now which makes a strong resistance since it has been violated as a support, and once (and if) that resistance will be violated, then the next targets would be the ones around the purple line.

Maybe the next movement will be a short term upward one, and not a new outright bullish movement which is possible. In fact the long term indicator below the chart, the **CCI 50 period is in a strong oversold position**, and has been there only twice in 13 years, last time was in fact in the year 2001.

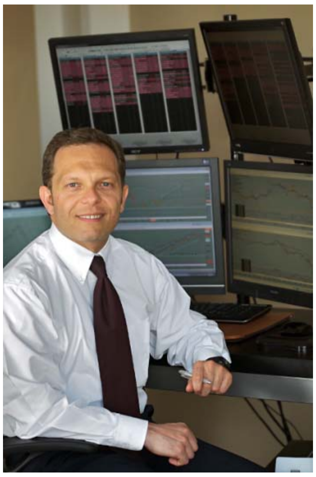
So there is some consistency of targets from different indicators. However **bear in mind that these are only possible outcomes, not all outcomes.**

Operating signals of possible long entries are set at the breaking of the current resistance which is the orange trendline. As you can see it did perfectly its job in containing any upward impulse for 6 months in a row in 2013, so breaking it will actually mean something important. Violation should mean at the same time the breaking of February candle's high at 22,18 usd.

Very likely with the breaking of such resistance will be also the breaking of another resistance, the one present on the long term indicator, shown below the chart. In fact the CCI 50 periods is in a strong oversold but there is no current sign of inversion. Such sign will materialize with the breaking of the current resistance.

Another important fact is that the current December 2013 low is a higher low compared to the June 2013 one, stating that on a shorter time frame, Silver may have started since then a bullish wave 3 or C. Lots of clues directing the attention for soon-to-come bullish movement.

Let's take a look at a possible plan B scenario: since the April 2011 high Silver is inserted in a strong bearish structure and therefore it is important to consider each bounce as a mere relief rally and not an inversion. If the current low at 18.18 usd will be broken more weakness must be expected with possible targets at 15 usd first and below 9 usd afterwards.



Mr. Maggioni has been working in the financial markets for the last 15 years covering different roles and working in tier 1 consulting companies and banks worldwide.

In recent years his studies have been focused on the psycho-emotional aspects of trading and how those aspects have an impact on traders' behavior.
Before starting this venture, he was head of a hedge fund desk at HSBC Private Bank in Monaco and before that he was employed at Credit Suisse Asset Management (CSAM) in Zurich covering the in-house single manager hedge funds.

Most of his experience in hedge funds was gained while working in a Swiss family office where he was in charge of the research and analysis as well as due diligence for US and European hedge funds. He also performed quantitative analysis and portfolio construction for several funds advised by the family office.

Prior to that he worked as an external consultant for KPMG Financial Services in the Milan office. In 2002 he has been hired by Ernst & Young LLP, San Francisco as auditor for hedge funds, auditing large single funds and fund of funds. In 2000 he joined Ernst & Young in Milan as an auditor for mid-sized companies.

Mr. Maggioni holds an MBA from IUM and a Portfolio Management degree from the University of Chicago GSB.

Useful Links:

European Central Bank:	www.ecb.int
Bank for International Settlements:	www.bis.org
International Monetary Fund:	www.imf.org
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US CFTC	www.cftc.gov