

Silver Market Update

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Many have been trumpeting a silver breakout over the past week, but while silver has clearly broken out of its Summer triangle, it HAS NOT broken out to clear new highs, although the indications are that it is going to before much longer.

On the 3-year chart for silver we can see how it has advanced steeply following the breakout from its Summer Triangle, and while this action has taken it away from the danger zone and is certainly construed as bullish, it has yet to break out above its early 2008 highs at about \$21, at which it has arrived in a critically overbought state. What does this mean? - it means that it is likely to consolidate/react for a short while to "recharge its batteries" before it blasts through to clear new highs. Of course it could blow through the highs immediately, but that would make it even more overbought so the gains would be unlikely to stick and there would be a risk of it slumping back into pattern.



The strong advance following the breakout from the Triangle is definitely bullish action, and looks like the first upleg of a nascent powerful advance that is expected to take silver probably to the high \$20's before its done. While the advance now needs to be tempered to allow the short-term overbought condition to unwind somewhat, we should note that once silver breaks out to clear new highs the advance is likely to accelerate further and we can expect it to continue higher in an overbought state for many weeks and possibly up to several months. This is because the breakout to new highs will be a MAJOR TECHNICAL EVENT that will draw in many traders who have been waiting on the sidelines to see which way this thing breaks. As made clear in the Gold Market update it is likely that silver's breakout to new highs will synchronize with gold breaking out

upside from its potentially bearish Rising Wedge pattern to accelerate, and Precious Metals stock indices also breaking out to new highs, which will be a development of massive significance for stocks as it will bring thousands of traders piling into this market, so that many PM stocks can be expected to "burn rubber" following such a breakout and you will have as much chance of catching them at a reasonable price as you would of catching up with a dragster once it has taken off. This is why we have been scrambling to bag the best PM stocks on clivemaund.com over the past week or so after earlier being too cautious and are continuing to do so, meaning that a minor short-term pullback is fine by us. Even if we are wrong and the sector breaks down, we have a clearly defined fairly close get out or hedge point, which would be failure of the support line of the Ascending Triangle shown on the 4-year chart for the HUI index in the Gold Market update.

As usual, many of the arguments set out in the Gold Market update, in particular those relating to the broad stockmarket, apply equally to silver, and are not repeated here.