Robert Prechter on

Gold & Silver

A collection of Robert Prechter's recent and historic writings on gold and silver.

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1. Gold Is Still Money

excerpted from At the Crest of the Tidal Wave (Prechter, 1995)

Have you ever traveled abroad and taken a look at the local currency and wondered how the citizens of that country could take seriously what looks like "Monopoly money?" I've got news for you: You're using the same stuff. Monopoly money is the money over which some government has a monopoly. It is the currency of the realm only because the state makes it illegal to use any other type.

Promissory notes issued by a state and declared the only legal tender are always doomed to depreciate to worthlessness because of the natural incentives and forces associated with governments. A state cannot resist a method of confiscating assets, particularly one that is hidden from the view of most voters and subjects. By extension, it is unreasonable to advocate a standard for such notes, which is simply a state's promise that its currency will always be redeemable in a specific amount of something valuable, such as gold. A gold *standard* of this type is only as good as the political promises behind it, reducing its value to no more than that of paper. It could be argued, in fact, that a state-sponsored gold standard is far more dangerous than none at all, as it imbues citizens with a false sense of security. Their long range plans are thus built upon an unreliable promise that the monetary measuring unit will remain stable. Later, when the government's "IOU-something specific" becomes, as Colonel E.C. Harwood put it, "IOU nothing in particular," reliability disappears and the arbitrary reigns. Although the populace tends to retain its confidence in the currency for awhile thereafter, the ultimate result is chaos.

The only sound monetary system is a voluntary one. The free market always chooses the best possible form, or forms, of money. To date, the market's choice throughout the centuries, wherever a free market for money has existed, has been and remains precious metal and currency redeemable in precious metal. This preference will undoubtedly remain until a better form of money is discovered and chosen. Until then, prices for goods and services should be denominated not in state fictions such as dollars or yen or francs, but in specific weights of today's preferred monetary metal, i.e., in grams of gold. Anyone might issue promissory notes as currency, but the acceptance of such paper certificates would then be an individual decision, and risks of loss through imprudence or dishonesty would be borne by only a few individuals by their own conscious choice after considering the risks. Critical to the understanding of the wisdom of such a system is the knowledge that private issuers of paper against gold have every long run incentive to provide a sound product, just as do producers of any product. As a result, risks would be minimal, as the market would provide its own policing. Thievery and imprudence will not disappear among men, but at least such tendencies in a free market for money would not have the potential to be institutionalized, as they are when a state controls the currency. From a macroeconomic viewpoint, occasional losses resulting from dishonesty or imprudence would be extremely limited in scope, as opposed to the nationwide disas-

ters that state controlled paper money has facilitated throughout history, which have in turn had global repercussions. As *Elliott Wave Principle* put it, "That paper is no substitute for gold as a store of value is probably another of nature's laws."

That being said, it is also true, and crucial to wise investing, that markets come in both "bull" and "bear" types. Being a "gold bug" at the wrong time can be very costly in currency terms. For nearly three decades, gold and silver's dollar price trends have confounded the precious metals enthusiasts, who for the entire period have argued that soaring gold and silver prices were "just around the corner" because the Fed's policies "guarantee runaway inflation." Yet today, 29 years after the January 1980 peaks in these metals and despite consistent inflation throughout this time, their combined dollar value (weighting each metal equally) is still 40 percent less than it was then.

It is all well and good to despise fiat money, but it is hardly useful to sit in gold and silver as if no other opportunities exist. In contrast to the one-note approach, which has had an immense opportunity cost since 1980, competent market analysis can help you make many timely and profitable financial decisions in all markets, including gold and silver.

2. A Brief History of Elliott Wave Forecasts for Gold and Silver

excerpted from The Elliott Wave Theorist, Special Report, November 18, 1979

Elliott counts suggest important tops in silver, gold, the major commodity market indexes, and short term interest rates.

Silver

It is difficult to find commodities charted on semilog paper, but in dynamic bull markets they are absolutely necessary for correct Elliott channeling. I transferred the monthly price ranges for silver from an arithmetic chart to semilog paper and found that both the wave count and the channe1 conform to the classic Elliott pattern.

There are some characteristics of this structure that may be of interest to Elliott students:

1. The advance contains two examples of a descending triangle, a fairly uncommon structure.

2. The low at 2 falls below the beginning of wave 1 only because the price of silver was controlled prior to 1967, when the true "market" price would have been below $1.29 per ounce.

3. The correct method of constructing an Elliott trend channel begins with connecting the terminal points of waves 2 and 4. This leaves a good deal of the early part of wave 5 in silver outside the trend channel, but results in a perfect fifth wave target meeting the upper parallel almost exactly.

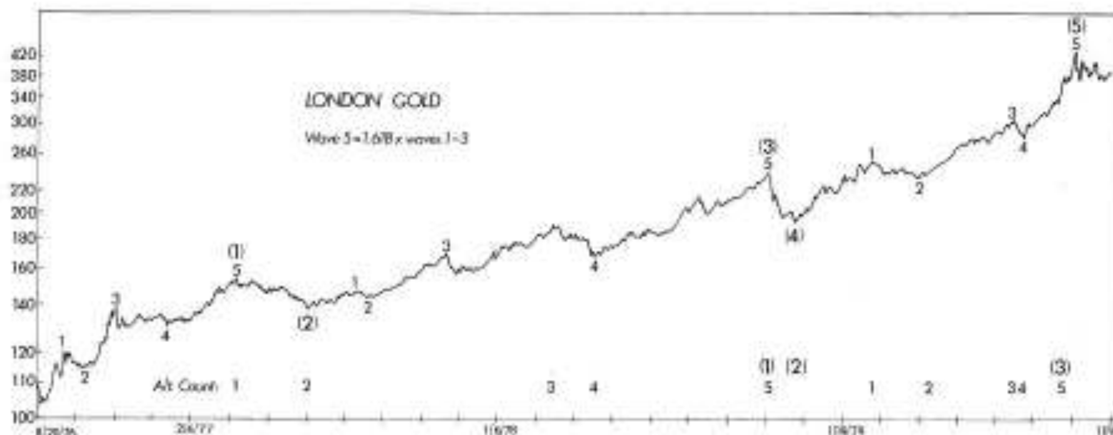
4. Although Elliott did not recognize 9-wave triangles as valid structures, a case can be made for a triangle ending in December 1977 [See Figure 1-44 in *Elliott Wave Principle* — Ed.] It's as if the triangle's fifth wave "extends" into a five-wave triangle itself. Theoretically, since triangles are five waves each of an a-b-c structure and since triangles are corrective substitutes for a-b-c's, why cannot one of the triangle legs be a triangle?

5. Given the concept of a fourth wave ending in December 1977, all the price action would be held within the lower trendline (not shown), while the fifth wave would show a climactic break through the upper trendline.

6. Wave 5 is just over 2.618 times as long as waves 1 through 3, a typical Elliott relationship.

The dramatic series of increases in margin requirements on silver futures contracts has coincided with what appears to be an Elliott wave peak. If my wave count is valid, silver can be expected to drop back to between $4 and $6 some time in the next decade. The Elliott outlook for depression in the latter 80s may go hand in hand with such a price collapse. If the upper trendline is pierced by too great a margin in coming months, however, silver will have to be recounted.

Gold



At least on an intermediate basis, gold appears either to have peaked already or to be on the verge of a final thrust to the upper 400's. The chart above shows two alternative counts. The count marked below the chart pattern shows an extended first wave ending in late 1978 and a simple third wave (both longer and stronger than wave 1) ending at the recent high. A fifth would then be on the verge of developing and a short term blowoff would be expected to begin quite soon. The count marked on the chart pattern itself indicates a completed advance.

If gold has peaked after a five-wave advance from its August 1976 low, wave 5 is then 1.618 times as long as waves 1 through 3, a normal Elliott relationship. Furthermore, the entire rise from the low at $103.50 to the morning fix on October 10 at $437 was an exact 4.236 multiple ($103.50 x 4.236 + $438), where 4.236 is the ratio between second alternate Fibonacci numbers. The closing high the day of the top was $424, a representation of the Fibonacci ratio itself (423.6).

These target ratios, plus an acceptable Elliott count, suggest that the three-year bull market rise in gold is over or nearly so. The downside target for gold is at least $282.50, the low of wave 4.

One all-important question, in Elliott terms, is whether the 1967-68 rise in gold stocks (see silver chart) was actually wave 1 of the long term gold bull market. If the true first wave was masked by the artificial price controls on gold at $35 per ounce, then we are witnessing the peak of the final fifth wave advance in gold from a true low in 1967! Specifically supporting this conclusion is the obvious inability of gold stock indexes to register new highs to anywhere near the extent that gold bullion has risen above its 1974 peak. This lagging action is characteristic of fifth waves, and its occurrence is telling. I might add that the irregular correction from 1974 to 1976 is a formation more characteristic of fourth waves than second waves, strengthening the argument.

Furthermore, the gold bullion rise from 1971 to 1974 was so dynamic that it disrupted normal Fibonacci targets and is unchannelable on semi-log paper. Could this be because the rise was packing in three waves' worth of upside price action, delayed because of government price-fixing, into one? It makes sense to me, especially when we take into account the other charts in this report (notably silver). A normal upside target under this count would be $482, where ($179.50 - $35) 2.618 + $103.50 = $482. The downside risk thereafter would be $103.50, a figure which sounds highly unlikely unless we factor in the Elliott forecast of late '80s depression, which could be deflationary.

The six-year gold cycle, postulated by market analyst and friend Charles Curtopelle, is due to peak out in early 1980, ushering in a three-year period of decline. I have found that, without exception, when the waves and cycles are both in gear, it pays to beware.

By the way, I notice that both silver and gold have advanced approximately 13 times (a Fibonacci multiple) their government-controlled price levels of a decade ago. Spot silver has peaked at $17.60 (London price), just over 13 times $1.29 and gold has so far peaked just under 13 times $35. I should note that one more rally in gold to $480 would equalize their bull market advances.

excerpted from The Elliott Wave Theorist, December 9, 1979

Most Elliott evidence points to the conclusion that this decade's historic rise in gold prices is coming to an end along with the decade itself. In the November 18 Special Report on commodities and inflation, I offered two counts for gold, where "gold appears either to have peaked already or to be on the verge of a final thrust to the upper 400's." As I pointed out, the "normal upside target would be $482, where ($179.50 - $35)2.618 + $103.50 = $482." Now there is further evidence that this target has validity.

In the last regular issue I outlined my thoughts on the triangular formation gold had formed near term, suggesting that the triangle was wave b of and a-b-c correction. This interpretation is still admissible if we count wave c as a failure since it fell only to $372.80, and did not drop below the low of wave a at $367.50 as I expected it to. Since failures in a-b-c corrections are fairly rare, however, I think the "alternate count" shown in the Special Report is the correct one. In this case, our triangle is wave (4) of the advance, a normal position for corrective wave triangles (see text, p. 41). This count also satisfies the rule of alternation (see text, p. 50) in that wave (2) is a simple zigzag while wave (4) is a complex triangle.

The Elliott rule in roughly estimating triangle breakouts is that they tend to travel about the same distance as the widest part of the triangle (see text, p. 44). Thus an approximate target for the fifth wave up would be ($437 - $367.50) + $390 - to - $396, or around the $460 to $466 area, quite near the $482 target computed above from the long-term wave structure and the $455 target computed from the 13x

Fibonacci multiple of the $35 price (see August and September letters). Finally, the upper trend-line of the 10-year trendchannel (see long term chart) will be met by any move to the $475-$500 level, another argument for a peak coming quite soon in the upper $400 area. The downside support target at $282.50 would again become operative if and when we get our fifth wave completed on the upside.

Gold stocks as a group appear to be rallying in a wave "b" of an a-b-c correction. Individual chart patterns show new highs in the South African golds with upside but lagging action in the North American golds. The inability of gold stocks to perform as well overall as they did in the 1972-74 upswing is further evidence that on a major trend basis gold is probably in the process of completing its fifth and final wave. A near term blowoff in gold here could coincide with the expected "test" pullback in the stock market, the expected pullback in the bond market, and a continuation of the current rebound in short term interest rates.

excerpted from Commodities magazine (now Futures), January 1980

Elliott counts suggest bear moves

"Elliott counts suggest important tops in silver, gold, the major commodity market indexes and short-term interest rates," says well-known Elliott wave analyst Robert Prechter in a recent special report of his newsletter, *The Elliott Wave Theorist.*

Prechter's Elliott conclusion coincide with the thinking of several other authors in this issue of *Commodities* and suggest some bear markets ahead.

"If my wave count is valid, silver can be expected to drop back to between $4 and $6 per oz. sometime in the next decade," Prechter says. "The Elliott outlook for depression in the late '80s may go hand in hand with such a price collapse."

Prechter does caution that if the upper trendline on his semilog silver chart is pierced by too great a margin in coming months, he may have to do some recounting.

Prechter's gold charts indicate an upside target of $482 per oz. and a downside target of $282.50, the low of Wave 4.

On interest rates, Prechter points out the charts of both the prime rate and 90-day T-bill yields show channelable five-wave advances with an exhaustion break of the upper trendline on the surge in rates after the Federal Reserve's Oct. 6 actions. The fifth wave in T-bill yields is even subdivided into five clear waves, he says of his charts.

"This count should mark the end of the three-year rise in short-term interest rates," he concludes. "Even if this is only an intermediate top, a normal Elliott pullback based on the five-wave count would bring the prime rate back to 11½% and T-bill yields back to 9%."

The conjunction of five waves on various interest rate charts, according to Prechter, "all seems to point to the same conclusion: The world is about to begin a phase of general deflation."

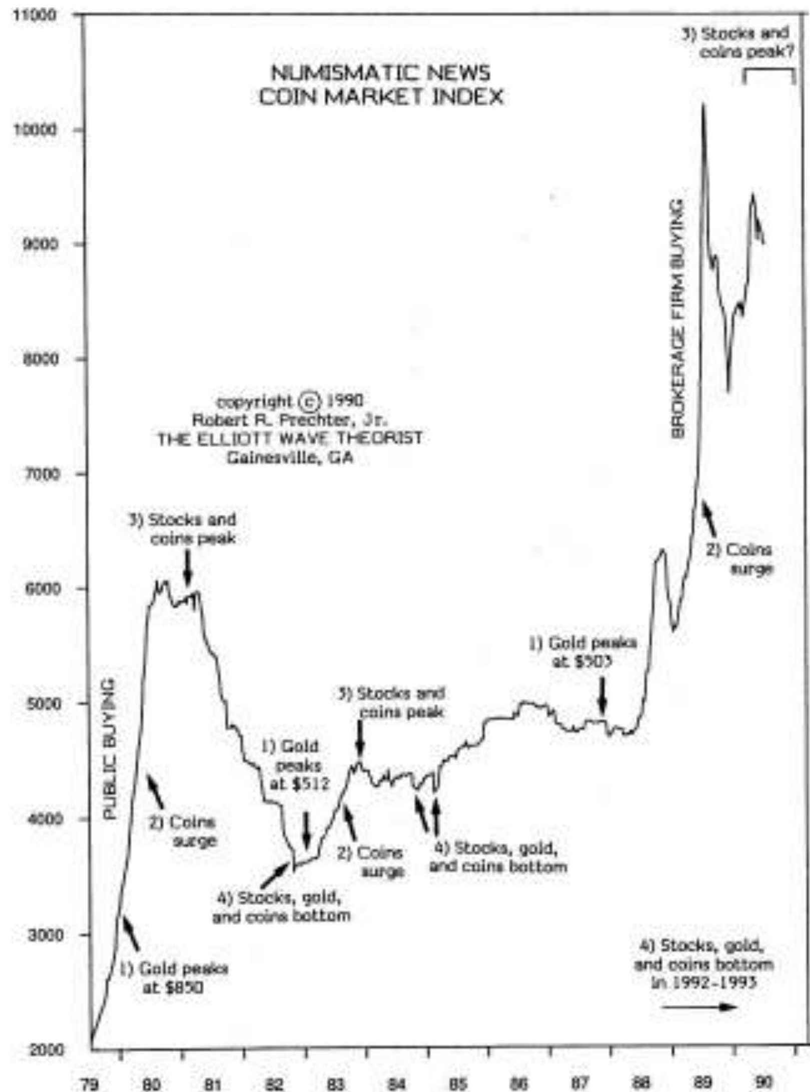
excerpted from The Elliott Wave Theorist, May 28, 1990

Gold & Silver

Gold made another new low for the year last week, while silver did not. This is the first non-confirmation in awhile and could allow for a short term rally. However, the big picture continues to be that of an ongoing bear market. Silver again coyly held within 9¢ of its 1986 low at $4.85 basis London fix. Potential for a rally to $9 remains as long as that level holds. A break of that level will confirm that the second major bear market decline for precious metals is in force, with the target for gold still below $200/oz. I lean toward expecting a breakdown because the 17-month cycle in gold (see chart, March issue) remains "hard down" until October.

Special Section: Collector Coins

Gold and silver's price trends have continued to confound the precious metal bugs, who for the past ten years have continued to argue that $1000 gold and $50 silver are "just around the corner" and that inflation is due to take off again "any time now." It hasn't happened. It isn't likely to do so soon, either, short term rallies notwithstanding.



This chart, constructed from data courtesy of Numismatic News, Iola, WI, supports the case that prices for collector coins are often less a function of the underlying metals prices than of the prevailing psychological environment for standard investments. Coin prices over the past decade have surged powerfully after the peak in gold and silver prices, when the stock market was rising. The sequence in this disinflationary decade, in fact, appears to be as follows:

1. Stocks and gold rise.
2. Gold peaks.
3. Collector coins rise.
4. Stocks and coins peak together.
5. All three markets bottom together.

Thus, collector coin prices enjoy some benefit from rising bullion prices but react much more strongly to an ebullient climate for investment as reflected by a rising stock market. Ironically, those who waited for gold to decline in price ended up paying much more for their coins.

The reason this analysis is so important now is that coins have recently enjoyed a surge in prices beginning after gold peaked in December 1987 and coinciding with the rising trend of the stock market. The coin market is way overbought, and signs of a stock market top are building rapidly. Collector coins, then, have registered or are about to register a major peak in prices.

I have been waiting patiently before issuing this commentary, watching the behavior of both the stock market and the gold bullion market, each of which is related to some aspect of collector coin investment psychology. If the progression depicted in the chart remains true, a joint peak in stocks and coins is

the next event to occur. At this point, I would estimate that collector coins in general (along with stocks) have between zero and eight months left in their major appreciation. Although I hesitate to place wave labels on this type of index, which often peaks when it is moving most vertically, it appears that *coins are in the fifth wave up from the 1982 low*. The risk in this market now due to cyclic forces in commodity prices, inflation/deflation and the economy is tremendous and increasing. If the gold bullion price declines into 1993, then collector coins will receive a "double whammy," and a loss of 50%-90% would not be out of line. Consider that a 75% decline would merely bring coin prices back to where they were when the gold price first achieved $350/oz. in 1979. [*Note*: Coin prices subsequently crashed, to the point that a few years later both major coin magazines stopped keeping their indexes of collector coin prices. — Ed.]

excerpted from The Elliott Wave Theorist, February 26, 1993

Gold should be considered as still in its bear market unless the nearby futures contract moves above $348. *Silver is about to fulfill our long-standing forecast that the bear market would ultimately carry to below $3.50/oz.*

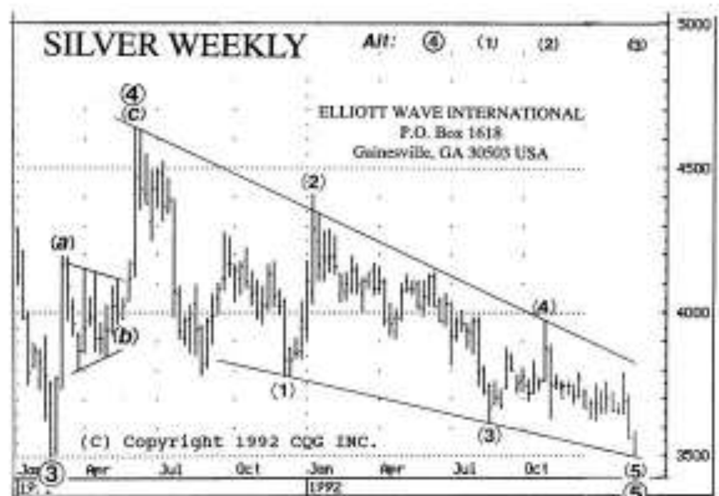
Perspective

The last watershed year for the major markets was 1980. You might be interested to know that EWT, then less than a year old, prepared readers for a major confluence of trend changes at the time, with gold and silver approaching their tops at $850 and $50, short term interest rates at 16% and inflation fears at fever pitch. (See January 1980 *Futures* magazine article on page 7.)

Gold & Silver

Recent weeks have witnessed a surprising flood of bullish predictions for precious metals. Gold stocks have rallied about 25%, retracing a modest Z\c of their declines from June 1991. During February, options-on-futures players loaded up on calls and shunned puts, particularly in silver. So far, however, neither gold nor silver has budged on the upside. In fact, silver fell last week to within Z\x¢ of its bear market low. *Our long-standing forecast that the bear market would eventually carry silver to below $3.50 appears about to be fulfilled.* Gold has remained stagnant, penetrating neither level ($320 or $348) that would signal follow-through in that same direction. The put/call ratio has fallen substantially in gold as well, however, so a continued bearish stance remains reasonable as long as $348 is not exceeded.

While for years EWT has projected a low for gold in "1993-1994," silver has been expected to bottom ideally in May 1993. If silver is finishing off a diagonal triangle from June 1991 as shown in the chart, the target zone for the low of $3.20-$3.49 *will probably be met in March*. If it ended a contracting triangle in June 1992 at 4.15, wave 5 will probably take until May and fall further, to below $3.



Employing Strategies

Time and price scenarios provide excellent guidelines to long term action. In this case, for instance, they implied throughout the past 13 years that one should not buy silver at $50, $25, $15, $8 or $5, or before 1992. However, when the period for opportunity finally arrives, strategy must be employed to gain the optimum advantage.

As an example, the Futures magazine article from 1980 cited above correctly forecasted an approaching peak in gold after 13 years of rise but estimated the upcoming top at $482/oz. (for a total gain of 1377%). In the final weeks of its fling, gold rose an additional 76% before reversing violently, so that forecast was significantly off. The same article forecasted that the next bear market bottom would occur at $*282.50*, a perfect forecast in that the 1985 low of $*284.25* basis London fix (*$281.20* basis futures) has marked the exact low for gold for the past 13 years. Thus, sometimes time and price targets are met perfectly and sometimes they aren't. That means using a bit of strategy as a major trend approaches termination.

One's investment situation determines strategy. *Cash investors, for instance, could average purchases in silver below $3.60.* EWT has suggested that subscribers wishing to be prepared for the worst the depression has to offer take advantage of the approaching bottom by buying bags of "junk" silver coins at low prices. We recommended buying one several months ago near the last low, while waiting for "below $3.50" to buy the rest. That opportunity appears to be imminent. *In fact, with the nearby contract having hit $3.505, let's buy a second bag now*. (Please refer to the October 1992 issue for names and addresses of dealers.) As for futures trading, some people can afford to risk more than others. Certainly *if* silver falls into May, thereby placing both price and time guidelines at an optimum point, EWT will not hesitate to recommend a speculation. That doesn't mean that a futures trader has to miss the turn if it comes earlier; he just has to pay attention to the short term behavior of the market. You can do it on your own or utilize our telephone hotline messages.

Jim Dines (Box 22, Belvedere, CA 94920) has a silver stock average made up of ten issues: Agnico-Eagle, Asarco, Avino, Coeur d'Alene, Equity Silver, Hecla, Industrias Penoles, Northgate, San Andreas and Sunshine Mining. Sunshine, just out of bankruptcy, is the only pure silver play and therefore is probably the most leveraged issue. *You should investigate these issues with your broker and devise a strategy for accumulation.*

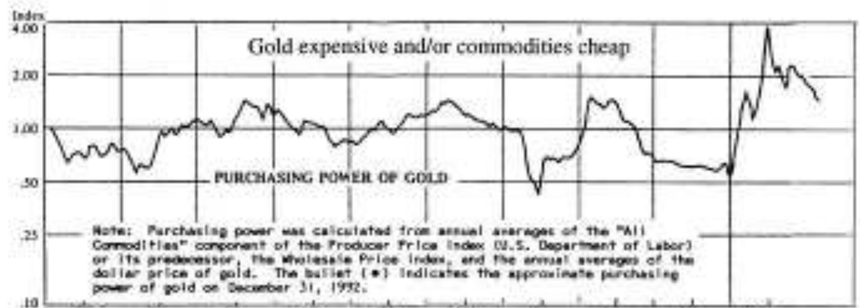
excerpted from The Elliott Wave Theorist, March 26, 1993

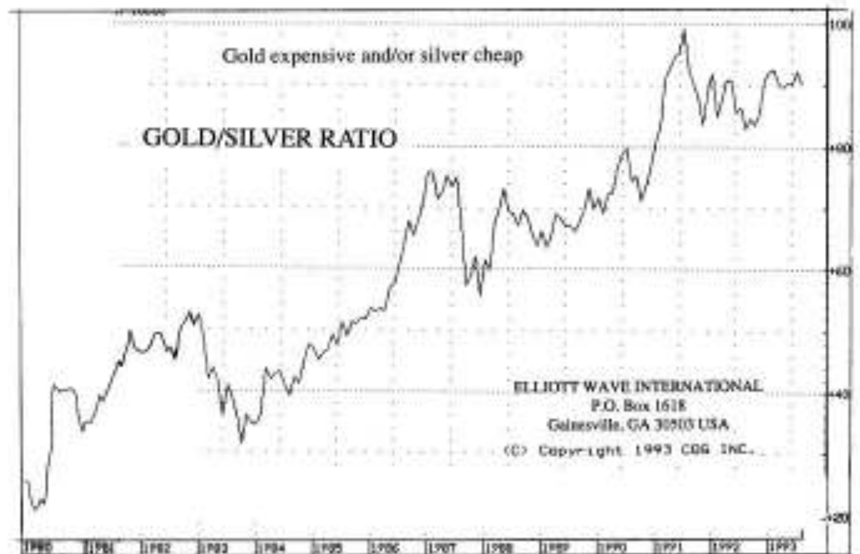
Silver is building a major bottom in its 13-year bear market. Gold may stage a short term rally, but long term, the bear market has more to go.

Gold & Silver

Silver is groping for its final bear market bottom. The wave structure, as shown in the long term chart, has completed all or nearly all of the required subdivisions from the 1980 high thirteen years ago. The final resolution may have occurred in February, as illustrated in the February 26 issue of EWT. The second best count (shown in the "Alt" line on the chart last month) allows for one more new low, which fits the projected bottom for the 9-month cycle, which is still due in May. Regardless, EWT has been suggesting the accumulation of physical silver near recent lows. See the March issue for a list of silver stocks and some trading and investing suggestions.

Gold is a different story. As you can see by the two charts, it remains historically overvalued against a basket of commo dities and against silver, which recently sold for 1/100 of the price of gold, way below its one time "norm" of 1/16. Gold's time cycles are due to bottom later than silver's, in 1994 rather than now. What's more, gold's long term downside target is far lower than today's price, while silver has met its bear market target. For all these reasons, I prefer silver to gold.





One of the most useful services EWT has provided its readers in the past six years has been to keep you out of precious metals and precious metals stocks. Most gold and silver stocks have collapsed 50%-80% over that time. For example, Hecla eroded from 27 to

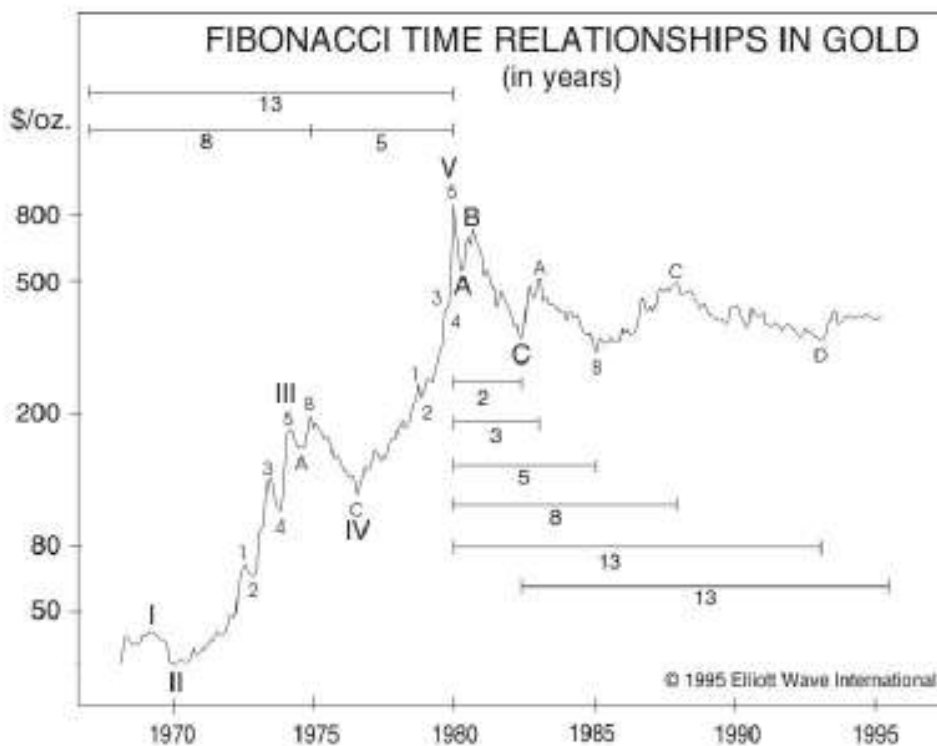
7, Echo Bay Mines from 30 to 4, Sunshine Mining from 10 to 7/16, Coeur D'Alene Mines from 36 to 9 1/2, Vaal Reefs from 15 to 2 5/8 and Winkelhaak from 36 (it was 59 in 1984) to 4 3/4. That's devastation. Gold stocks have been touted ferociously in recent weeks, and small rebounds have taken place. (When the newspaper says they're up "a whopping 25% on average," they mean that a stock that went from 30 to 4 is now at 5.) Nevertheless, there is a strong Elliott wave case that the bear market in gold and gold stocks has not yet ended. In fact, it would be normal for some base building to occur even if these stocks *are* bottoming. Silver and silver stocks appear more attractive, so that is the preferred alternative for those wishing to make an investment in precious metals. [*Note*: Silver bottomed at $3.505 and has not been below that level since. —Ed.]

3. Fibonacci Time Considerations in Gold

excerpted from At the Crest of the Tidal Wave (Prechter, 1995)

Time Considerations

As you can see in Figure 17-12, Fibonacci durations have been evident throughout the period of free market trading in gold. The 13-year advance from 1967 to 1980 subdivides into two periods of 8 and 5 years at the December 31, 1974 peak, which preceded the largest correction of the bull market. Since the bear market began, every major wave has terminated a Fibonacci number of years from the all-time high. From 1980, 2 years later was the low of wave W, 3 years later was the high of wave A, 5 years later was the low of wave B, 8 years later was the high of wave C, and 13 years later was the low of wave D. Wave X has taken its time so that it can last 13 years from the 1982 low.



While wave X is far enough along to suggest that it will terminate in 1995, there is no way to forecast the length of wave Y. It could be as brief as 2 years, matching wave W; it could last 3 years, bottoming

with several investment market cycles in 1998. One attractive termination date for wave Y would be *New Year's Day of 2001 (± a month)*. That way, it will have lasted a fat 5 years from 1995, a lean 21 years from the 1980 peak, and 34 years from the 1967 bottom. Two of gold's biggest turns, in 1974/5 and 1980, came at the cusp of the year, so there is precedent for a turn at that time. [*Note*: Gold registered a low at $255 on February 20, 2001. — Ed.]

4. A Long Term Analysis of Gold Stocks

excerpted from At the Crest of the Tidal Wave (Prechter, 1995)

Perhaps you have heard the idea that gold mining stocks are not only an inflation hedge, but also a deflation hedge. (Translation: gold stocks will never go down.) This thesis is based upon the observation that shares of gold mining companies soared during the 1930s. This fact is misleading absent the knowledge of two pertinent details. First is the fact, as market analyst Ian McAvity has pointed out, that gold stocks barely budged during the 1929-1932 bear market. Homestake's high for 1929 of 11½ and low for 1932 of 13M\, reveal little net gain, while Dome Mines was unchanged for the period. It was during the subsequent bull market that gold stocks soared. Second, it is imperative to know that the Federal government in those years maintained a fixed price for its currency (i.e., its IOUs) at $20.67 per ounce of gold. While the deflation caused all other commodities to collapse in dollar value from 1929 to 1933, the relative value of gold remained flat because its "price" in dollars was fixed. Thus, there was no reason for gold mining stocks to participate in the crash. In January 1934, the government devalued the dollar against gold to $35 per ounce (approximately a 1.618 multiple), and mining companies benefited from the windfall dollar profits despite an environment of extremely low inflation. Even with that benefit, the average gold stock from 1932 to 1936/38 rose no more than the five times in value that the DJIA did! Today, the government does not fix the price of its currency to gold and is unlikely to do so any time soon. Without artificial constraints, gold should fall nearly as much in dollar terms as any other commodity during the coming deflation, and gold stocks are likely to fall even more. An analysis of the long term wave pattern for gold shares confirms this conclusion.

Figure 17-14 shows the sixty-year Elliott wave history of the Toronto Stock Exchange Gold Mines Index. This is a thrilling chart. Look at the beautifully formed contracting triangle that took place from January 1936 to November 29, 1963. This can be none other than a fourth wave according to the rules of the Wave Principle. By its size, it is unquestionably of Supercycle degree, so is labeled wave (IV). From the triangle's termination in 1963 commenced an excellent five-wave impulse, labeled I-II-III-IV-V. Each advance in turn sports a five-wave subdivision.

Wave IV was either a contracting triangle or a zigzag. Either way, wave V is tracing out a diagonal triangle, which is an overlapping five-wave structure that takes a wedge shape. Within this pattern, wave 4 is probably complete. The last thing remaining is one rise to a new all-time high. Such a rise will complete waves 5, V and (V). Diagonal triangles portend major, violent reversals.

Notice how perfectly this pattern and outlook fit those for gold. Both charts show a low in 1982 followed by a recovery. While gold has gone sideways in a triangle, gold stocks have achieved new highs on each upward thrust. The current outlook for gold calls for one last rally to the $450-$500 area, then a

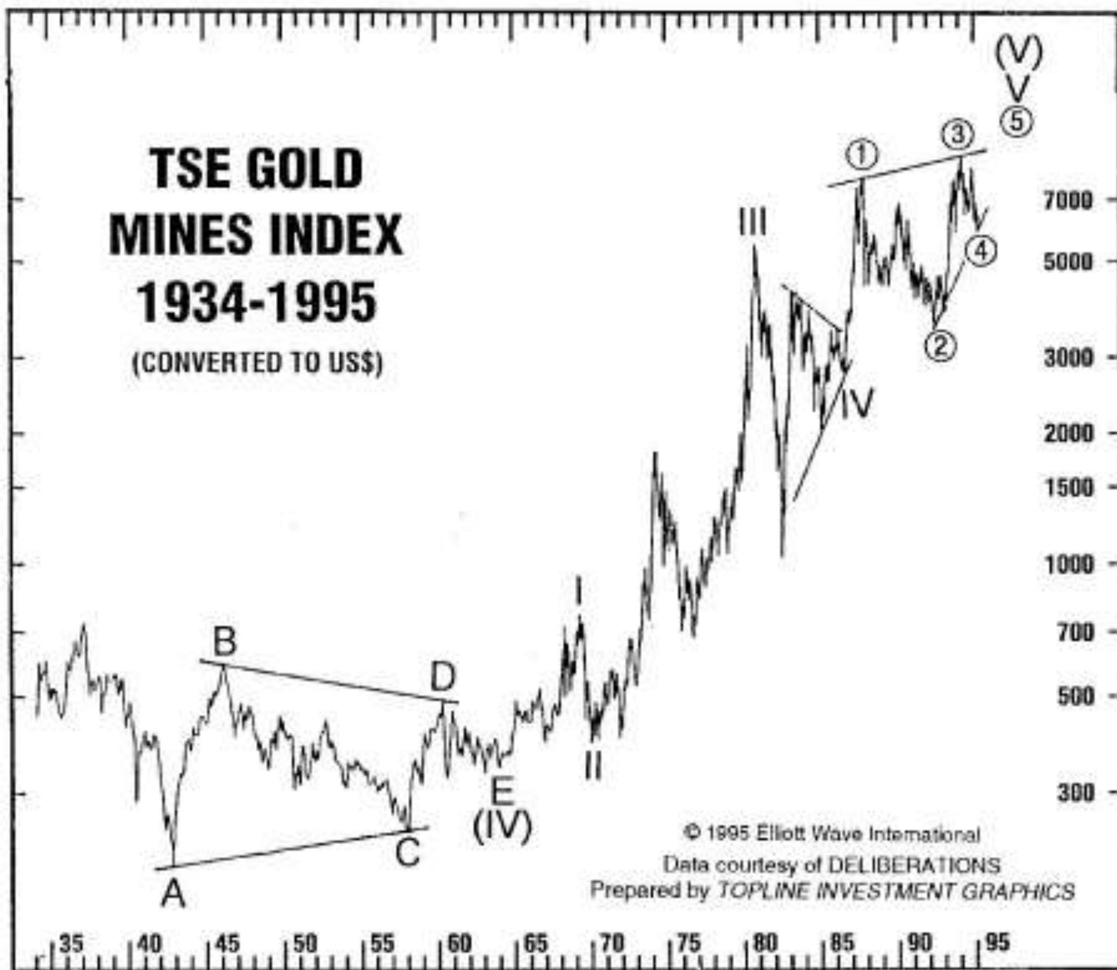


Figure 17-14

deep decline of over 75%. The current outlook for the TSE Gold Mines Index calls for one last rally to a new all-time high, then the biggest collapse in its history. If gold's triangle ends in 1995, it will have been a Fibonacci 13 years long. If the stock index were to peak in 1997, its wave (V) will have been a Fibonacci 34 years long. The ideal scenario, then, is for a peak in gold in 1995 ±1 year followed by a peak in mining stocks in 1997 ±1 year. (1996 is likely.)

How low will the TSE Gold Mines Index fall? Support, as with so many markets discussed in this book, is the span of the preceding fourth wave of one lesser degree, which in this case is wave (IV). Wave (IV) covered a range from 205 to 735. This target range portends a decline of at least 90% and possibly as much as 98% for the TSE Gold Mines Index. Favored for a target is the low for wave E of the triangle, which occurred at 344.60, although whenever the index gets below 735, it should be scrutinized closely for signs of a bottom.

This analysis answers the question, "Can we find refuge from the coming deflation by investing in gold stocks?" The answer is no. These equities should experience the same kind of intense deflation that occurred from 1980 to 1982. Look what the TSE gold stocks did in those two short years: They fell 81%. Is a drop of 90%-plus over a longer period of time so unrealistic?

5. The Valuation of Gold Stocks Relative to Gold

excerpted from At the Crest of the Tidal Wave (Prechter, 1995)

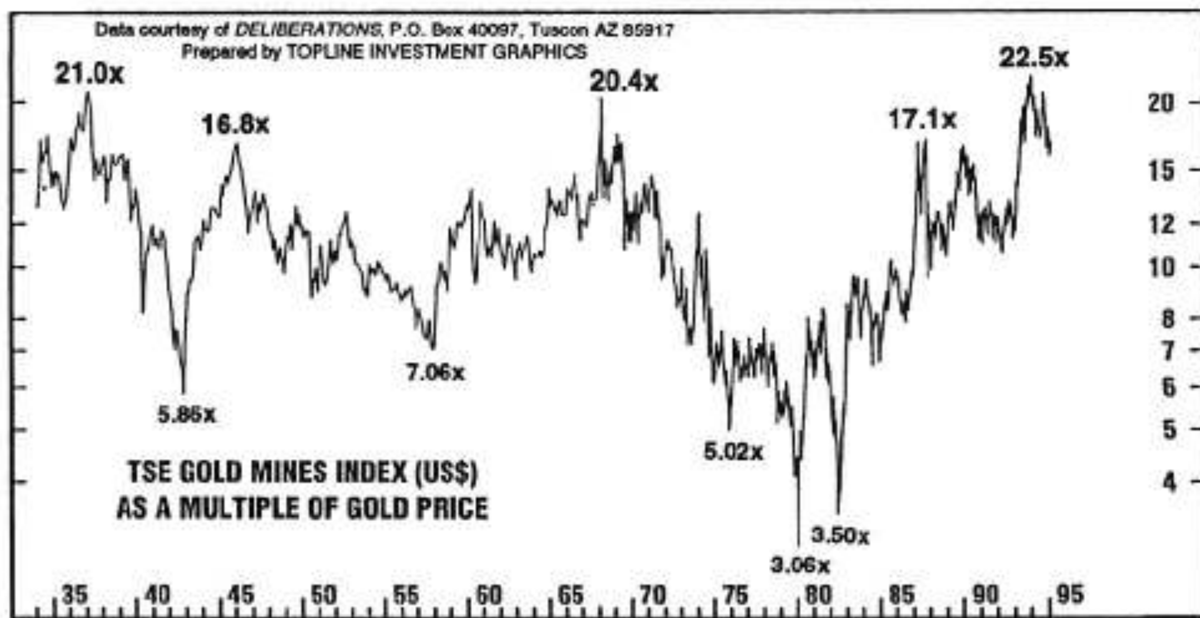


Figure 17-15

Take a look at Figure 17-15, which depicts the value of Canadian (and by extension, North American) gold stocks relative to gold bullion. First, notice that gold stocks recently registered their highest relative valuation of the entire century, in January 1994. As previously shown, gold itself is expensive relative to commodities and silver, so if gold stocks are at a record valuation relative to gold, then how expensive are gold stocks? The answer is: very.

Now observe that the high and low relative valuations of the TSE Gold Mines Index have always occurred within a few months of major tops and bottoms in the stock market. Gold stock valuation peaked in January 1937; the DJIA peaked in March 1937. Gold stock valuation peaked in January 1946; the DJIA peaked in May 1946. Gold stock valuation peaked in March 1968; the DJIA+Value Line peaked in December 1968. Important stock market lows have corresponded with lows in gold stock valuation as well. The DJIA bottomed in April 1942; gold stock valuation bottomed in October 1942. Gold stock valuation bottomed in June 1982; the DJIA bottomed in August 1982 (in inflation-adjusted terms). This confluence

of trends indicates that gold stocks are not purchased solely in a reflection of the relative attractiveness of gold. They are traditionally added to portfolios during common stock bull markets, to the point that they become highly overvalued relative to the price of bullion.

From the 1982 low, gold stock valuation has continued to move in tandem with the DJIA. It soared to a peak in 1987 and crashed, then recovered and pulled back into 1990, all just as the Dow did. It has since followed the continuing rise of wave 5 in the DJIA. If the DJIA peaks in 1995 as Chapter 4 suggests, then the relative valuation of gold stocks should reach a final high in 1995, plus or minus a year. The all-time high valuation of January 1994 may stand, though it is more likely to be exceeded as part of the psychological peaking process in gold's 13-year triangle. Either way, the ultimate high in gold stock prices will undoubtedly, and to "disaster-hedged" investors ironically, occur within months of the final high in the Dow Jones Industrial Average.

If an inflationary period were looming, as in the late 1960s, the current high ratio would be irrelevant. A soaring precious metals market would overpower the drop in gold stocks' relative valuation so that gold stocks would still rise, as they did from 1968 to 1980. However, with so many charts pointing to deflation and to a fall in the price of gold, this scenario appears unlikely. A drop in the value of gold stocks relative to gold should prove to have a devastating effect on the prices of those stocks.

6. The Dow in Real Money (Gold) Has Crashed to a New Low

excerpted from The Elliott Wave Theorist, March 14, 2008

Figure 1 updates our ongoing Dow/gold chart, the one that shows the trends of the stock market priced in ounces of gold, i.e. real money. The "Year 2000" edition of *At the Crest of the Tidal Wave* included a long-term bearish forecast for this chart, and unlike our outlook for the nominal Dow, this one has been on track the whole decade. As the chart shows, in recent months the real value of U.S. stock shares has plummeted for the fifth time since 1999, reaching another new low. It is now down a stunning 72 percent in fewer than nine years. Had we been smart enough to short the S&P and go long gold simultaneously to simulate a short sale in real money, we could be retired by now.

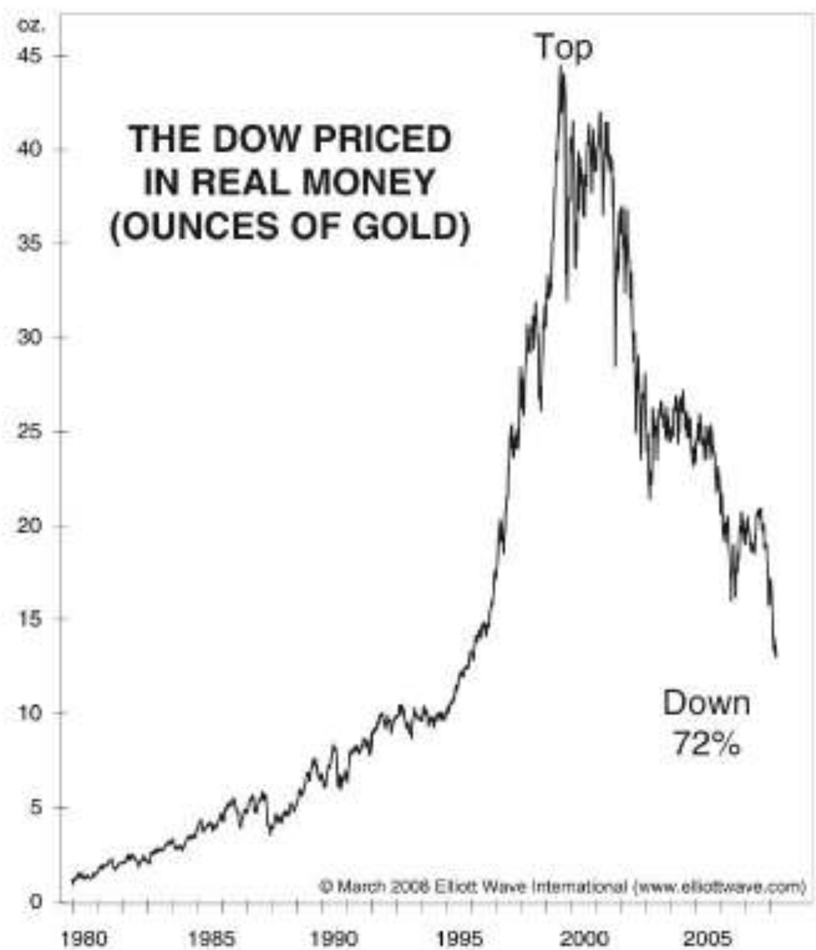


Figure 1

Trying to call the nominal Dow, on the other hand, has been a frustrating exercise. One day it will do what the ratio in Figure 1 has been doing. At the moment, our super-aggressive short sale issued at the peak in July 2007 is ahead 250 S&P points. But the market has yet to confirm the final top with a serious price smash, so I am not yet presuming we will keep these gains.

If the nominal Dow had been priced in honest money since its January 2000 top, it would be selling today at 3400. And the bears would have been properly rewarded for having the guts to go against the historically large one-way crowd that was bullish in 1999-2000. Thanks to the Federal Reserve System, however, no one who would normally be succeeding is being rewarded. Bulls think their stocks are hold-

ing up, but they are crashing in value. Short sellers should be rich by now, but they aren't, thanks to the banking system's raging credit engine, which has allowed leveraged investors to keep nominal stock prices up even as values collapse. Even people who don't care about the stock market, the poor schlubs who are simply savers, are losing purchasing power with every passing month. So dollar-credit creation from nothing robs from almost everyone. The primary winners in the U.S. fiat-money-monopoly scheme are Congress and the President, who can spend money without collecting it. That's why they created the Fed in the first place. Bankers also gain, because they have the legal privilege of draining off a percentage of the population's production every year. Ironically, even these institutions get hurt in the end.

Will this situation change? Will deflation bring the whole house of cards to ruin? I think so.

7. Does Gold Always Go Up in Recessions and Depressions?

excerpted from The Elliott Wave Theorist, March 14, 2008

I have often read, "Gold always goes up in recessions and depressions." Is it true? Should you own gold because you think the economy is tanking? Whenever we hear some claim like this, we always do the same thing: We look at the data.

The first thing to point out is that gold did not make a nickel of U.S. money for anyone in any of the recessions and depressions from 1792, when the gold-based dollar was adopted, through 1969, a period of 177 years. Well, to be precise, there was a change in the valuation in 1900, when Congress changed the dollar's value from 24.75 grains of gold, the amount established in 1792, to 23.22 grains, a devaluation of just six percent total over 108 years. The government did raise the fixed price from $20.67/oz. to $35/ oz. in 1934, but that action occurred during an economic *expansion*, not during the Depression. In 1968, gold finally began trading away from the government's fixed price. Even then, it slipped to a lower price of $34.95 on January 16 and 19, 1970. So the idea that gold always goes up in recessions and depressions is already shown to be wrong. It did not go up in terms of dollars in any of the (estimated) 35 recessions or three depressions during that period.

What almost always does happen during economic contractions is that the value of whatever people use as *money* goes up as prices for goods and services fall. When gold is used as money, its value in terms of goods and services goes up. But gold can't go up in dollar terms when gold and dollars are equated. So no one "makes money" holding gold under these conditions. It is a fine point: What tends to go up relative to goods and services during economic contractions is *money*, and when gold is officially money, that's how it behaves. What we want to know is how gold behaves in recessions and depressions when it is *not* officially accepted as money.

Many gold bugs say that because gold was a good investment during the Great Depression, it is a "deflation hedge." EWT addressed this topic in *At the Crest* (p.357) and *Conquer the Crash* (pp. 208-209). At the time, government fixed gold's price, so it didn't go up or down relative to dollars. Gold was a haven during that time, the same as the dollar was, since they were equated by law. But gold served as a haven because its price was fixed while everything else was crashing in price during the period of deflation. Gold bugs like to claim that gold would have gone up during that period had it not been fixed, but the crashing dollar prices for all other things suggest that in a free market gold, too, would have fallen. It would have fallen, however, from a *higher level* given the inflation of 1914-1929 following the creation of the Fed. So gold became worth more in dollar terms than it was in 1913, which is why it began flowing out of the country. In 1934, the government finally recognized the new reality by raising gold's fixed price. Since 1970, markets have been in a large version of 1914-1930, except that gold has been allowed to float, so we can clearly see its inflation-related, pre-depression gains.

Observe that gold's price remained the same for a Fibonacci 21 years after the Fed was created in 1913; it was revalued in 1934. Then it held *that* value for 35 (a Fibonacci 34 + 1) years, through 1969. So aside from the revaluation of 1934, the inability to make money holding gold during recessions, depressions, or any time at all save for the day of the revaluation in 1934 held fast for 56 (a Fibonacci 55 + 1) years following the creation of the Fed. So even after Congress created the central bank, no one made money holding gold in a recession or depression for two generations.

In 1970, things changed dramatically. Investors lost interest in stocks and preferred owning gold instead, for a period of ten years. The same change occurred again in 2001, and so far it has lasted seven years. But, as we will see, recession had nothing to do with either of these periods of explosive price gain in the precious metals.

The period of time one chooses to collect data can make a huge difference to the outcome of a statistical study. If we were to show the entire track record from 1792, gold would show almost no movement on average during economic contractions. If we were to take only 1969 to the present, it would show much more fluctuation. To give a fairly balanced picture, combining some history with the entire modern, wild-gold era, I asked Dave Allman to compile statistics beginning at the end of World War II. This is what most economists do, because they believe "modern finance" began at that time and that things have been "normal" since then. It's also when many data series begin. So our study fits the norm that most economists use. It also provides results entirely from the Fed era, making it relevant to current structural conditions.

Table 1 (see next page) shows the performance of gold during the 11 officially recognized recessions beginning in 1945. Although one could make a case for different start times, we took the 15th of the starting month and the 15th of the ending month as times to record the price of gold. The results speak for themselves. Even though it is accepted throughout most of the gold-bug community that gold rises in bad economic times, Table 1 shows that such is not the case.

The only reason that the average gain for gold shows a positive number at all is that gold rose significantly during one of these recessions, that of 11/73-3/75. The average gain for all ten of the other recessions is 0.16 percent, almost exactly zero. The median for all 11 recessions is also zero. If we omit the five recessions during which the price of gold was fixed, the median gain is 3.09 percent.

Thanks to the one big rise, gold gained 8.8 percent per recession on average. But could you have realized any such gain? The answer is no, because the transaction costs even in the most liquid gold investments are at least two percent per trade, or four percent round trip. With these transaction costs included, gold gained 4.8 percent on average. The accompanying tables show returns with and without transaction costs (based on a $100,000 investment) in case you wish to see performance during these periods for someone who was simply holding the investment.

Procedure for a study can affect results. During the month of January 1980, gold soared, registered a major top and then dropped hard. This also happens to be the month a recession started. If we had used January 1 as the recession's start date, gold would have shown a gain for that recession. On the other hand, if we had used January 21 as a start date, it would have shown an even bigger loss, and the average gain for gold after transaction costs in Table 1 for all 11 recessions would have come out to about zero. The event itself tells us which date more properly expresses the relationship between gold and the economy. Gold soared over 700 percent during the final 3½ years of a 5-year expansion and peaked the very month

Note: Tables below are referenced in Chapters 7-11

BEHAVIOR OF THREE KEY MARKETS DURING RECESSIONS

GOLD

Recession Start (15th of month)	Recession End (15th of month)	Length in Months	Start Value	End Value	Capital Gain/Loss	Income	Total Return	Total Return w/ 2008 Transaction Costs
Feb 1945	Oct 1945	8	35	35	0.00%	0.00%	**0.00%**	**-4.00%**
Nov 1948	Oct 1949	11	35	35	0.00%	0.00%	**0.00%**	**-4.00%**
Jul 1953	May 1954	10	35	35	0.00%	0.00%	**0.00%**	**-4.00%**
Aug 1957	Apr 1958	8	35	35	0.00%	0.00%	**0.00%**	**-4.00%**
Apr 1960	Feb 1961	10	35	35	0.00%	0.00%	**0.00%**	**-4.00%**
Dec 1969	Nov 1970	11	35.35	37.95	7.36%	0.00%	**7.36%**	**3.36%**
Nov 1973	Mar 1975	16	91.5	178.25	94.81%	0.00%	**94.81%**	**90.81%**
Jan 1980	Jul 1980	6	684	619.5	-9.43%	0.00%	**-9.43%**	**-13.43%**
Jul 1981	Nov 1982	16	412.25	403.25	-2.18%	0.00%	**-2.18%**	**-6.18%**
Jul 1990	Mar 1991	8	363.6	366	0.66%	0.00%	**0.66%**	**-3.34%**
Mar 2001	Nov 2001	8	260.9	275.6	5.63%	0.00%	**5.63%**	**1.63%**
	Average:	10.18182				**Average:**	**8.80%**	**4.80%**
© March 2008 Elliottwave International						**Median:**	**0.00%**	**-4.00%**

DJIA

Recession Start (15th of month)	Recession End (15th of month)	Length in Months	Start Value	End Value	Capital Gain/Loss	Income	Total Return	Total Return w/ 2008 Transaction Costs
Feb 1945	Oct 1945	8	158.2	185.5	17.26%	2.55%	**19.80%**	**19.78%**
Nov 1948	Oct 1949	11	176	186.4	5.91%	5.86%	**11.77%**	**11.75%**
Jul 1953	May 1954	10	268.7	322.5	20.02%	4.22%	**24.24%**	**24.22%**
Aug 1957	Apr 1958	8	487.3	447.5	-8.17%	3.03%	**-5.13%**	**-5.15%**
Apr 1960	Feb 1961	10	630.1	648.8	2.97%	2.93%	**5.90%**	**5.88%**
Dec 1969	Nov 1970	11	784	759.7	-3.10%	3.85%	**0.75%**	**0.73%**
Nov 1973	Mar 1975	16	874.5	773.4	-11.56%	7.03%	**-4.53%**	**-4.55%**
Jan 1980	Jul 1980	6	868.6	901.5	3.79%	2.96%	**6.75%**	**6.73%**
Jul 1981	Nov 1982	16	954.1	1021.4	7.05%	8.20%	**15.25%**	**15.23%**
Jul 1990	Mar 1991	8	2980.2	2948.5	-1.06%	2.47%	**1.40%**	**1.38%**
Mar 2001	Nov 2001	8	10031.3	9872.4	-1.58%	1.21%	**-0.37%**	**-0.39%**
	Average:	10.18182				**Average:**	**6.89%**	**6.87%**
© March 2008 Elliottwave International						**Median:**	**5.90%**	**5.88%**

T-NOTES

Recession Start (15th of month)	Recession End (15th of month)	Length in Months	Start Value	End Value	Capital Gain/Loss	Income	Total Return	Total Return w/ 2008 Transaction Costs
Feb 1945	Oct 1945	8	100	102.7167	2.72%	1.29%	**4.01%**	**3.87%**
Nov 1948	Oct 1949	11	100	103.8969	3.90%	1.98%	**5.88%**	**5.74%**
Jul 1953	May 1954	10	100	104.4658	4.47%	2.43%	**6.90%**	**6.76%**
Aug 1957	Apr 1958	8	100	110.036	10.04%	2.57%	**12.61%**	**12.47%**
Apr 1960	Feb 1961	10	100	103.8428	3.84%	3.54%	**7.38%**	**7.24%**
Dec 1969	Nov 1970	11	100	104.1723	4.17%	7.00%	**11.17%**	**11.03%**
Nov 1973	Mar 1975	16	100	95.45263	-4.55%	9.02%	**4.47%**	**4.33%**
Jan 1980	Jul 1980	6	100	102.879	2.88%	5.33%	**8.21%**	**8.07%**
Jul 1981	Nov 1982	16	100	119.0004	19.00%	18.76%	**37.76%**	**37.62%**
Jul 1990	Mar 1991	8	100	102.1924	2.19%	5.62%	**7.82%**	**7.68%**
Mar 2001	Nov 2001	8	100	100.1729	0.17%	3.19%	**3.36%**	**3.22%**
	Average:	10.18182				**Average:**	**9.96%**	**9.82%**
© March 2008 Elliottwave International						**Median:**	**7.38%**	**7.24%**

Note: Tables below are referenced in Chapters 7-11

BEHAVIOR OF THREE KEY MARKETS DURING EXPANSIONS

Table

GOLD Expansion Start (15th of month)	Expansion End (15th of month)	Length in Months	Start Value	End Value	Capital Gain/Loss	Income	Total Return	Total Return w/ 2008 Transaction Costs
Oct 1945	Nov 1948	37	35	35	0.00%	0.00%	**0.00%**	**-4.00%**
Oct 1949	Jul 1953	45	35	35	0.00%	0.00%	**0.00%**	**-4.00%**
May 1954	Aug 1957	39	35	35	0.00%	0.00%	**0.00%**	**-4.00%**
Apr 1958	Apr 1960	24	35	35	0.00%	0.00%	**0.00%**	**-4.00%**
Feb 1961	Dec 1969	106	35	35.35	1.00%	0.00%	**1.00%**	**-3.00%**
Nov 1970	Nov 1973	36	37.95	91.5	141.11%	0.00%	**141.11%**	**137.11%**
Mar 1975	Jan 1980	58	178.25	684	283.73%	0.00%	**283.73%**	**279.73%**
Jul 1980	Jul 1981	12	619.5	412.25	-33.45%	0.00%	**-33.45%**	**-37.45%**
Nov 1982	Jul 1990	92	403.25	363.6	-9.83%	0.00%	**-9.83%**	**-13.83%**
Mar 1991	Mar 2001	120	366	260.9	-28.72%	0.00%	**-28.72%**	**-32.72%**
Nov 2001	est. Mar 2008	est. 76	275.6	996.5	261.57%	0.00%	**261.57%**	**257.57%**
	Average:	59				**Average:**	**55.95%**	**51.95%**
© March 2008 Elliottwave International						**Median:**	**0.00%**	**-4.00%**

Table

DJIA (15th of month)	(15th of month)	Length in Months	Start Value	End Value	Capital Gain/Loss	Dividend Income	Total Return	Total Return w/ 2008 Transaction Costs
Oct 1945	Nov 1948	37	185.5	176	-5.12%	10.93%	**5.80%**	**5.78%**
Oct 1949	Jul 1953	45	186.4	268.7	44.15%	13.27%	**57.42%**	**57.40%**
May 1954	Aug 1957	39	322.5	487.3	51.10%	11.52%	**62.62%**	**62.60%**
Apr 1958	Apr 1960	24	447.5	630.1	40.80%	7.09%	**47.89%**	**47.87%**
Feb 1961	Dec 1969	106	648.8	784	20.84%	31.26%	**52.10%**	**52.08%**
Nov 1970	Nov 1973	36	759.7	874.5	15.11%	10.63%	**25.74%**	**25.72%**
Mar 1975	Jan 1980	58	773.4	868.6	12.31%	17.13%	**29.44%**	**29.42%**
Jul 1980	Jul 1981	12	901.5	954.1	5.83%	3.54%	**9.37%**	**9.35%**
Nov 1982	Jul 1990	92	1021.4	2980.2	191.78%	27.13%	**218.91%**	**218.89%**
Mar 1991	Mar 2001	120	2948.5	10031.3	240.22%	35.41%	**275.63%**	**275.61%**
Nov 2001	est. Mar 2008	est. 76	9872.4	12146.4	23.03%	22.40%	**45.44%**	**45.42%**
	Average:	59				**Average:**	**75.49%**	**75.47%**
© March 2008 Elliottwave International						**Median:**	**47.89%**	**47.87%**

Table

T-NOTES (15th of month)	(15th of month)	Length in Months	Start Value	End Value	Capital Gain/Loss	Interest Income	Total Return	Total Return w/ 2008 Transaction Costs
Oct 1945	Nov 1948	37	100	96.54861	**-3.45%**	**5.02%**	**1.56%**	**1.42%**
Oct 1949	Jul 1953	45	100	93.07405	**-6.93%**	**6.37%**	**-0.55%**	**-0.69%**
May 1954	Aug 1957	39	100	91.252	**-8.75%**	**7.73%**	**-1.02%**	**-1.16%**
Apr 1958	Apr 1960	24	100	89.18044	**-10.82%**	**5.28%**	**-5.53%**	**-5.67%**
Feb 1961	Dec 1969	106	100	95.73933	**-4.26%**	**33.12%**	**28.86%**	**28.72%**
Nov 1970	Nov 1973	36	100	101.3203	**1.32%**	**21.02%**	**22.34%**	**22.20%**
Mar 1975	Jan 1980	58	100	87.634	**-12.37%**	**36.21%**	**23.84%**	**23.70%**
Jul 1980	Jul 1981	12	100	80.43564	**-19.56%**	**10.17%**	**-9.40%**	**-9.54%**
Nov 1982	Jul 1990	92	100	104.5759	**4.58%**	**81.65%**	**86.23%**	**86.09%**
Mar 1991	Mar 2001	120	100	100.0213	**0.02%**	**80.97%**	**80.99%**	**80.85%**
Nov 2001	est. Mar 2008	est. 76	100	104.2168	**4.22%**	**30.11%**	**34.33%**	**34.19%**
	Average:	59				**Average:**	**23.79%**	**23.65%**
© March 2008 Elliottwave International						**Median:**	**22.34%**	**22.20%**

that the recession started. Obviously the correct way to view these changes is that the turns in gold and the economy were concurrent: When the expansion ended, so did the rise in gold. It would be silly to claim victory for the bullish-recession theory because gold rose for the first three weeks of a six-month recession and lost value for the rest of it. Given the extreme drama of the final weeks of rise and reversal, our choice of start date can in this one case skew the results of the study, but our choice of the 15th seems to have pretty well captured the essence of things even at that dramatic juncture.

8. Gold Against the Stock Market

excerpted from The Elliott Wave Theorist, March 14, 2008

Of course, it is one thing to say what gold did during recessions, but the more useful question is, "What did it do compared to other investments?" We have already noted that during recessions gold has done better on average since 1970 than previously, thanks to its behavior during a single recession. But how has gold done *compared to the stock market?* The answer is that since 1945 stock prices have held up during recessions as well as gold. Table 2 (see page 23) shows that the average total return in the Dow during recessions since World War II is nearly as good as that for gold. When modern transaction costs are taken into account for both markets, the Dow actually beats gold during recessions since 1945. The median for the Dow is much higher than that for gold, which means that the probability for a gain in the Dow during any particular recession is higher than that for a gain in gold; in other words, stock gains in recessions are more reliable.

Actual transaction costs used to be much higher for the stock market, and we could have figured the results on that basis, but doing so would counter the purpose of the present study, which is to determine the past as a guide to future investment decisions. We don't care to know how people investing on these dates would have done in the past but rather we care how we would likely do today, based on historical figures, if we were to own various investments during recessions. Therefore we use current transaction costs across the board under the assumption that stock-transaction costs are not likely to return to past levels. One might counter that the transaction costs for gold are overstated because in the modern world an investor can purchase gold through a futures contract, which has a lower commission. That is true, but a futures contract also loses value to offset the rate of interest, and given that the average recession in our study lasted over ten months and that the average interest rate was four percent, the holding cost of a futures contract, plus the commission, would be almost exactly equal to the conservative four-percent estimate we use for the cost of a two-way gold transaction. As markets become even more sophisticated and trading gold within a secure vault becomes a matter of clicking on a mouse, costs of transfer might fall dramatically. Regardless, both columns are there for your evaluation.

Even here, one cannot generalize that "the Dow beats gold in recessions." Table 2 does not include the two economic contractions of the 1930s, when stock prices got pummeled. Had we included them, stocks would have underperformed gold on a price basis but about matched it on an after-transaction-costs basis.

9. The Best Investment During Recessions

excerpted from The Elliott Wave Theorist, March 14, 2008

The most important question, however, is not whether the Dow beat gold or vice versa but whether making either investment would have better than taking no risk at all. Table 3 (see page 23) shows that ten-year Treasury notes beat both gold and the Dow during recessions since 1945, *and they did so far more reliably*. T-notes provided a capital gain in ten of the 11 recessions, and of course they provided interest income during all of them. And the transaction costs are low. The average total return in T-notes per recession is a full 10 percent, beating both stocks and gold. The average total return after transaction costs is 9.82 percent, beating the Dow's 6.87 percent and gold's 4.80 percent. If you compound these figures over 11 recessions, the difference is substantial. It is far greater when we include the major declines in stock prices during the economic contractions of the 1930s and figure in the transaction costs of buying and selling gold.

So if you want to make money *reliably and safely* during recessions and depressions, you should own bonds whose issuers will remain fully reliable debtors throughout the contraction. Of course, as *Conquer the Crash* makes abundantly clear, finding such bonds in *this* depression, which will be the deepest in 300 years, will not be easy. CTC forecast that in this depression most bonds will go down and many will go to zero. This process has already begun. This time around, you have to follow the suggestions in that book to make your debt investment work.

10. What is the Economy Usually Doing When Gold Goes Up?

excerpted from The Elliott Wave Theorist, March 14, 2008

If gold isn't going up when the economy is contracting, when is it going up? Table 4 (see page 24) answers the question: *All the huge gains in gold have come while the economy was expanding*. This is true of the three most dramatic gold gains of the past century:

(1) Congress changed the official price of gold from $20.67 to $35 per ounce in 1934, during an economic expansion. The gain against the dollar was 69 percent.

(2) The entire bull market from 1970 to 1980 occurred during an economic expansion, aside from $2.60 worth of gain in the 1970 recession and $87 worth of gain during the recession of 11/73 to 3/75. In other words, of the $815 per ounce that gold rose from 1970 to 1980, $725 worth of it came while the economy was expanding.

(3) The entire bull market from 2001 to the present occurred during an economic expansion, aside from the first eight months, when gold edged up $22. In other words, of the $748 per ounce that gold has risen since February 2001, $726 worth of it has come while the economy was expanding.

Even lesser rises in gold, such as the two big rallies during the 1980s, came during economic expansions. So the biggest gains in gold, *by far*, have occurred while the economy was in *expansion, not contraction.*

Why is such the case? Simple: During expansions, liquidity is available, and it has to go somewhere. Sometimes it goes into stocks, sometimes it goes into gold, and sometimes it goes into both. During times of extreme credit inflation, such as we have experienced over the past three decades, the moves in these markets during economic expansions are likewise extreme. When recession hits, liquidity dries up, and investors stop buying. During *depressions*, they sell assets with a vengeance.

Of course, we socionomists do not believe in the external causality of investment price movements. Recessions and expansions do not make investment prices move up and down. Fluctuations in social mood propel the economy, liquidity and movements in investment prices. So the only reason we bother with studies like this is to de-bunk various commonly held views of financial causality. Now we know: The idea that gold reliably rises during recessions and depressions is wrong; in fact, like most such passionately accepted lore, it's backwards.

11. Is Gold Better Than Stocks During Expansions?

excerpted from The Elliott Wave Theorist, March 14, 2008

Here we return to our former question: Even though gold tends to rise during economic expansions, is it the right choice? Table 5 (see page 24) reveals that in fact the stock market has beaten the gold market during economic expansions. So even if an investor had bought strictly on the basis of divine knowledge of when economic expansions would occur, he would not have done well to have chosen gold. Stocks have done much better.

Of course, bonds tend to do relatively poorly during economic expansions, as Table 6 (see page 24) shows. The main reason is that interest rates tend to rise during expansions, which makes bond prices fall. There are exceptions to this guideline, but generally speaking, almost every investment outperforms bonds during economic expansions.

12. So What's Next for Gold?

excerpted from The Elliott Wave Theorist, March 14, 2008

I turned bullish on gold on the bottom day in February 2001, but I did not stay bullish. Now you can see one reason why. I was so sure that the depression was imminent that I saw no reason to be excited about gold. The long, six-year economic recovery, however, coincided with a second huge bubble, which manifested in a mania for housing and in soaring commodities, including gold.

Today the economic expansion is hanging on by a thread. Some data suggest that the economy is already in recession, but they have yet to meet requirements for an official pronouncement. If the relationship shown here holds true, and if gold behaves as it did in 1980, it should peak concurrently with the economy.

The above analysis is useful for perspective, but it does not pertain to the underlying reasons for advances and declines in gold. In some economic expansions, gold goes down, and in others it soars. So there is no *causal* relationship between the two. Not only that, but to benefit from its relationship to the economy one would have to have some method of predicting the economy. We have a method, as described in Chapter 16 of *The Wave Principle of Human Social Behavior*, but why use it only to have to deal with the uncertainty of gold's behavior with respect to trends in the economy? The time to own gold is when fear of inflation is waxing and its price is not fixed. That's when it beats all other investments. To anticipate such times, you need a method tied to sentiment in the gold market. In our view, the best way to forecast gold is with reference to its own dynamics. If you want to know how you can learn something about the craft, you might want to study *How To Forecast Gold & Silver Using the Wave Principle* (http://www.elliottwave.com/wave/gsb). But this book is only for serious market students who want to learn to do it themselves.

13. Elliott Waves in the Silver Market

excerpted from The Elliott Wave Theorist, March 14, 2008

Let's apply the Wave Principle to the silver market. The April 18, 2006 issue of EWT predicted an imminent top in silver, with a price projection of $21.70 and a backup projection of $16.61:

> In 1980, silver peaked just beyond the line that connects the tops of waves 1 and 3. Silver's rise in 1967-1980 created a neat Fibonacci price tapestry. Wave 3 peaked very close to a 233% gain from the top of wave 1, and wave 5 peaked very close to a 610% gain from the top of wave 3, a 2.618 relationship, achieving approximately a 34x multiple for the rise from the low of wave 2.

Figure 2

> In the current bull market, wave 3 peaked almost exactly at a 61.8% gain from the top of wave 1. If wave 5 soars to the same 2.618 relative percentage gain as the former wave 5, it will peak near $21.70, achieving approximately a 5x multiple for the rise from the low of wave 2, which is a Fibonacci .146 relationship to the same part of the former bull market. Observe that the first two peaks (in 2002 and 2004) occurred slightly beyond Fibonacci numbers: $**5** and $**8**. Likewise this projection would bring wave 5 slightly beyond $**21**. A repeat of these aspects of the wildest silver market ever, though, seems a lot to expect. A 100 percent gain (1.618 x .618) to near $16.61 would bring the price just beyond the 1→3 resistance line (see Figure 2), which is what happened at the peak in 1980.

Silver topped 2½ weeks later and fell 37 percent. But the peak price just above $15 did not match either of the price projections. Though silver corrected for over a year, 2006 proved not to be the final top. I had labeled wave 4 as a triangle, clearly the best labeling even in retrospect. But wave 4 was a zigzag, and the peak in 2006 was only the top of wave (3) of 5. The price projection of $21.70, however, is looking very good. The high so far is $21.32, and once again the wave structure appears nearly terminal while market sentiment is extreme. As shown in Figure 2, silver has met its resistance line on arithmetic scale, and bulls outnumber bears so lopsidedly that the 21-day average of daily readings has reached 91 percent and the 10-day average 95 percent, while the peak daily reading hit an amazing 98 percent. The wave count is nearly satisfied, although ideally it should end after one more new high to complete wave 5 of (5) of 5. A slight new high would give this top the same profile as that of 2006.

If this analysis of silver is accurate and silver does peak this year and begin a bear market, gold is likely to go down with it. As we have already seen, gold tends to perform less well during economic contractions, so the economy is likely to peak along with gold. This conclusion fits our long-standing observation that silver is an excellent predictor of recessions: When it goes down substantially, recession follows. Despite the recent torrent of bad news, the economy has yet to go into recession. So all this analysis fits our view: The economy is on its last legs, and the precious metals are nearing a top right along with it.

Figure 3 shows how this five-wave bull market in silver fits into the larger picture: It is wave C of an A-B-C counter-trend rally. This chart also updates our silver cycles from two years ago. They have continued to work, as the 5-year cycle coincided with the low in August 2007, and the 10-year cycle still points to a low in 2012 (+ or - a year). This is also a projected year for a major low in the stock market. So everything still points to a deflationary collapse bottoming about four years from now.

Figure 3

14. Dow Makes Another New Low in Real Money (Gold)

excerpted from The Elliott Wave Theorist, April 18, 2009

Years ago, Franklin Sanders advocated pricing financial markets in terms of gold. The financial world would be a better place if everyone adopted his suggestion.

Figure 4 is the latest update of our Dow/gold chart. As we have said before, this is the picture of the Dow that would be published in The Wall Street Journal and Barron's if we were on an honest-money standard.

The bear market has been much worse than anyone knows. If the world were on the same monetary system as in 1929-1932, everyone would be able to see that the Dow's current bear market has already come close to matching the famous 89 percent collapse of those years.

Dow 8000 is an illusion, conjured with cheap fiat money. In coming years, we will find out if this fiat money can stay cheap and keep nominal stock prices up. As explained in the next section, I don't think it can. In the meantime, if stocks continue to rally in wave 2 and gold falls, this index could sport a significant rally.

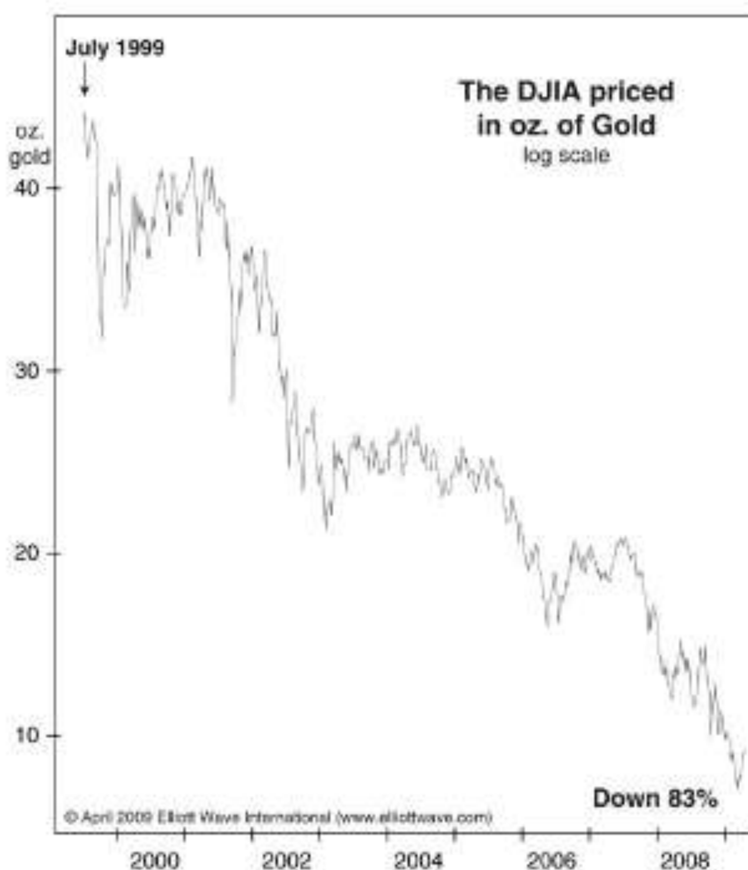


Figure 4

15. Monetary Policy: The Future Has Been Fully Mortgaged

excerpted from The Elliott Wave Theorist, April 18, 2009

Readers sometimes ask if I am serious about the Dow eventually falling below 1000. People can understand that the Dow can fall in terms of gold, but they are so convinced about coming hyperinflation that they consider the idea of the nominal Dow in triple digits to be simply out of touch with reality.

The primary reason I believe the Dow is going to fall that far is its Elliott wave structure, which calls for it. But I can also see a monetary reason for this event. The tremendous inflation of the past 76 years has occurred primarily by way of instruments of *credit*, not banknotes. Credit can implode. The only monetary outcome that will make sense of the Elliott wave structure is for the market value of dollar-denominated credit to shrink by over 90 percent. Given the eroded state of capital goods in the U.S. and the depletion of manufacturing capacity, it is not hard to see why all these IOUs have a deteriorating basis of repayment. The future has already been fully mortgaged; it's time to pay. But there is no money to pay, only more IOUs, which cannot be paid, either. So the credit supply (after a brief respite) will continue to shrink, which means that *wealth*, and therefore purchasing power, will disappear along with it. In the broadest sense, this change will constitute a collapse in the "money supply." Such a monetary background would be consistent with the Dow falling below 1000 in nominal terms. It is one of the reasons that *Conquer the Crash* is subtitled *How to Survive and Prosper in a* ***Deflationary*** *Depression*. To be sure, the central bank does have the capacity to print banknotes. But I expect that the final implosion in credit value will be so swift that the authorities will not act in time to counter it. They will continue to try to maintain the fictions of full face value for IOUs until they fail spectacularly to keep up the scam. Then they will start to scramble, but it will be too late.

16. Some Perspective on Gold and Silver

excerpted from The Elliott Wave Theorist, April 18, 2009

Figure 5 shows a new way to look at the past 40 years' history of precious metals prices. Instead of plotting gold and silver separately, I wanted to show how an investor would have fared putting an equal amount of money into gold and silver since 1967, when they emerged from a fixed-price environment and played catch-up to decades of monetary inflation. Our new Gold Plus Silver Index (GPSI) shows this experience. It begins with the value of one ounce of gold at the price of $35/oz., which the government maintained from 1934 until the late 1960s, and adds the equal value of approximately 27 ounces of silver at $1.29/oz., the price that held sway throughout most of those same decades.

Figure 5

Incidentally, the price ratio between these metals at the start was about 1:27. It narrowed to 1:17 at the 1980 peak and is now 1:70. Silver bulls have continually called for this ratio to narrow, but those betting on a narrowing of the spread have lost money for a long, long time. They also use the large spread as an argument for silver soaring, but it can be used just as easily to call for gold falling. In my view, this ratio will not narrow significantly until the depression ends, when the industrial value of silver will be at its lowest.

This plot shows that, *so far* at least, an equal investment in these precious metals has never exceeded its peak value of 29 years ago. The big bull market, the one that mattered, is still on record as being that of 1967-1980.

The structure of that five-wave bull market on our GPSI is exceptionally fine, holding within a nearly parallel trend channel and ending on a throw-over and a gap, which is just what we should expect, per the discussions of channels in the March 2009 issue. Observe also that prices rallied to test both the upper and the lower lines of the channel in the ensuing bear market, precisely as described last month as being normal market behavior relating to impulse-wave channels. *At the Crest of the Tidal Wave* predicted an end to the bear market in gold to occur near New Year's Day of 2001, which was reasonably well fulfilled with the bottom in February 2001. In the GPSI, the bear market beginning in 1980 formed a clear triple zigzag, ending in April 2001.

Nevertheless, I have been somewhat conflicted about that forecast. If the bear market ended for good at that time, then gold, according to a guideline for retracements (see *Elliott Wave Principle*, pp. 64-66), ideally should have entered the territory of the bull market's wave 4, which by a margin of $60 it failed to do. It did enter this zone in terms of many other currencies, however, and maybe that feat was sufficient to satisfy the guideline. Given silver's far larger retracement, I wondered if this combined index would show a drop into that area, but even here the low in 2001 fails—though by a slim margin—to enter the territory of wave 4. This event leaves open the possibility that the low in 2001 is only part of a larger bear market, with the ensuing rally being a countertrend structure. While we can debate about gold, this interpretation certainly fits the labeling for the silver market, where the 2008 high at $21.40 is *far* below the 1980 high of $50.

Silver's waves have been clear as a bell all the way through. On the big picture in silver, the 1993 low is probably wave A and the 2008 high wave B, all within a larger bear market. Gold, on the other hand, failed to make a new low in 2001and then made a new all-time high in 2008, painting an uncertain picture and allowing gold to be in a new bull market. Our combined index, in which prices are still below their 1980 highs, is compatible with the A-B count in silver. I have placed a "triple zigzag" count on the rally, which is compatible with this conclusion. But I must also point out that the slope and persistence of the 2001-2008 advance is more akin to that of an impulse wave than a corrective wave, since a corrective wave would normally be either sluggish or a mad rush to a spike top.

Some writers have recently claimed that gold and silver rallied during the "deflation" of 2001-2008, thereby justifying claims that gold and silver should go up during deflation. But the rally in gold and silver reflected an environment of massive credit *inflation*, which held sway for most of that period, generating rallies also in real estate (2001-2005), stocks (2002-2007) and commodities (into 2008). The metals rallies extended past the time of the peak in credit inflation because of investors' conviction that metals prices would continue to soar if other markets fell. So, for a few months, people withdrew money

from stocks and real estate and put it into gold and silver. Shortly after these markets topped, the final remaining inflation-related mania ended in the oil market in July 2008. Then silver, platinum and oil quickly caught up on the downside with all the other markets, doing exactly what they should do during deflation: *go down*. If you examine a chart of the S&P, you will see that all these inflation-hedge markets peaked while stocks were still trying to hold up. Then they crashed in the summer and fall, right along with the Dow and S&P.

Today, commodity bulls are talking less about silver, platinum and oil, preferring to focus on the one metal that is holding near its all-time high. This is essentially the same thing that happened on financial television when it took to showing NASDAQ prices in early 2000 and the Arithmetic Value Line Index in 2004-2007, i.e. whatever stock index was still making new highs. Narrowing your focus only to bullish components of a market is not a smart practice. It takes your eyes off other balls, which may be heading at 90 mph toward your nose. Getting beaned with fastballs of platinum, silver and plastic, however, has not kept commodity bulls from looking skyward at gold.

One might also try to downplay the lagging performance of the Gold Plus Silver Index by saying that silver is weighing it down. But more properly, gold is holding it up. Currently gold is off only 15 percent from its 2008 high, whereas silver is off 44 percent, oil 66 percent, platinum 48 percent and uranium 70 percent. Obviously, gold is the only component of the precious commodities complex that is holding up.

One might wish to offer philosophical arguments about why gold is holding up, such as that it is real money or that it is a hedge against bad times. But none of these arguments is necessary. Gold is holding up relative to similar markets for a very good reason: *It went up less than the others did*. It is certainly notable that gold rose 300 percent from 1999 to 2008, but look what related markets did: silver rose 430 percent, platinum 577 percent; oil 1300 percent; and uranium 1744 percent. If gold had rallied as much as the others on average, it would have fallen just as hard along with them to achieve its current value. In other words, gold today is priced about where it would be if it had had as spectacular a round trip as the others did.

Being a gold bug in the late 1960s and early 1970s was a brilliant—and staunchly contrary—stance. Pioneers such as Col. E.C. Harwood, James Dines, Harry Browne and Richard Russell were bulls then, and their prescience paid off in one of the most dramatic bull markets ever. My dad took Harwood's advice in those early days and at the dawn of 1972 convinced me to buy South African gold stocks. I bought them over Merrill Lynch's *written* objections, which demonstrates the extent of the contrariness of that investment stance. It was a great investment.

Since 1980, metals and mining stocks have provided cyclical thrills on and off, but they have disappointed bulls who based long-term positions on the persistence of inflation. As explained many times, credit inflation—as opposed to currency printing—is not necessarily bullish for gold and silver in the long run, and market prices have reflected this fact.

On a long term basis, it is no exaggeration to say that since January 21, 1980, there has been no worse investment than silver, which is still 76 percent below its dollar value on that day. Even our combined index of gold plus silver is only 58 percent of its value at that time. I am well aware that gold is the only true money and that during deflation money is desirable. But the main money that people desire during deflation is that which can pay off their debts, and in today's world, that means dollars, euros, yen, pounds

and francs. Perhaps a desire for gold is beginning to accompany the scramble for dollars that has been developing during this deflation. I am very sympathetic to this idea. But as yet the case is unproven.

One reason I have not recommended an all-out commitment to gold and silver is that I thought we had some better money-making opportunities, for example being short the stock market. I also believe that gold will have a difficult time bucking the massive monetary deflation that wave **c** in stocks has been ushering in. And cycles, if they continue their rhythms of recent decades, still point to a low in silver in 2012. In other words, I think there is a better buying opportunity coming up. So far, this has not been a bad stance, as gold currently sells for the same dollar price it reached just over 29 years ago, while silver is 76 percent cheaper. Proponents have remained bullish throughout this time, and 29 years is a long time to wait to get rich. It will take a lifetime to make up the opportunity cost of holding these metals while every other investment took off, including bonds, which also paid interest. Nevertheless, as *Conquer the Crash* said, a moderate position in gold is desirable because it is money, and it's always good to have money. At some point, we will want *only* money. But I still think that day lies in the future, nearer to the end of the deflationary crash.