TECH FOCUS

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GOLD/SILVER RATIO: *A Different Look*

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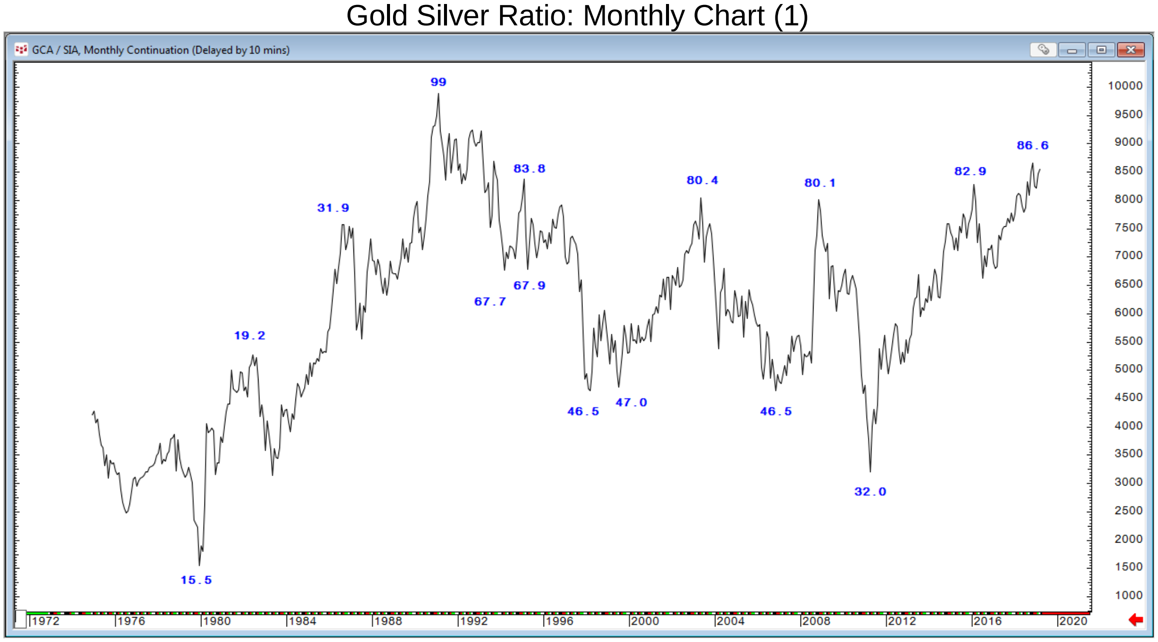
We have had a few enquires on the gold silver ratio over the past couple of years but never really attempted a more in depth technical view on the subject. That will change today. For starters, we found the traditional or most common approach amounted to simply plotting the ratio over time and noting for reference the extreme high and low historical values. A close only monthly chart follows which presents all the history available to us using the gold and silver futures markets.

Gold Silver Ratio: Monthly Chart (1)



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If you follow this ratio and don't see what are known to be the historical milestones (i.e. a ratio of 100 for instance), it's because we are using monthly closing prices. Since the early 1990's, ratios above 80 are eventually followed by an adjustment favoring silver or putting another way, a reduction of the gold premium.

After thinking about it for some time and the experimenting with a few variations, we concluded the following chart presents the same ratio picture but offers a bit more insight

into the relationship. Our second chart which follows plots the ratio and a simple 3-month average of the ratio at month end.

Gold Silver Ratio: Monthly Chart (2)

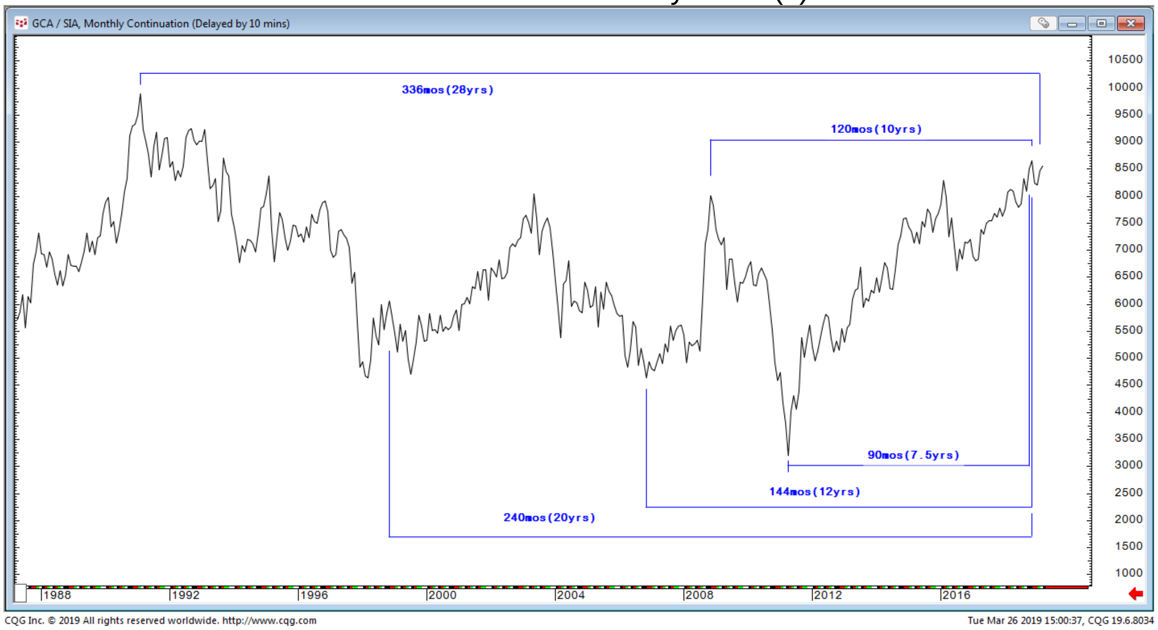
On the chart we have noted 14 observations where the highs and lows on the ratio plot are divided by the 3-month average. The result is the smaller blue numbers. During the 1980s uptrend, these numbers started to diminish well before the peak in the actual ratio. We would note that is also the case today and has been since early 2016. It might be an early warning but it is nevertheless a warning.

As far as peak values on Chart 1, the ratio has varied from roughly 80 to 99. On the second chart immediately above, the peak values are in much closer proximity ranging from 1.29 to 1.42. It is also important to note that the most recent peak value is 1.15 which is telling us that in a longer term context the ratio has lost significant momentum. The oscillator under Chart 2 depicts it differently but since 2008, ***higher*** peak values on the chart have corresponded to ***lower*** oscillator peaks, a classic case of divergence and another warning.

Armed with the foregoing we decided to treat the gold silver ratio technically as we would any of the markets we follow and analyze. That means also devoting attention to the time axis. The first of our 2 time oriented charts follows. It is a monthly.

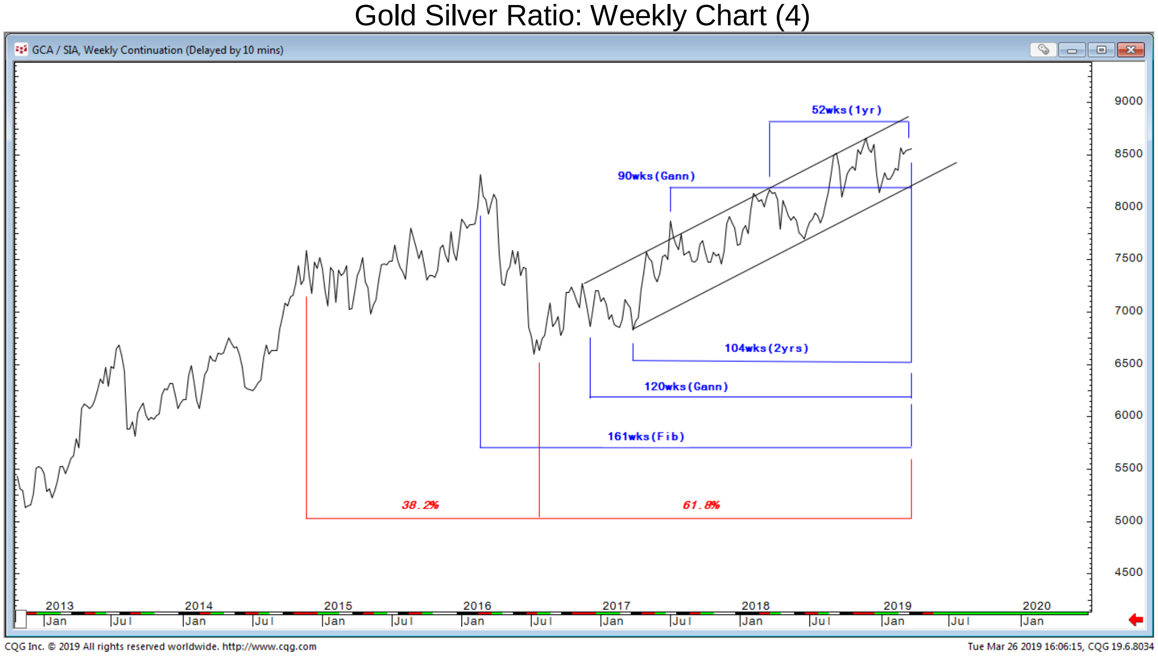
We are illustrating 4 Gann related time factors and one longer term anniversary. The 4 Gann cycles are all fractals or portions of the master 60-year cycle. In 3 of the 4 cases, the origination point of the cycle on the gold silver ratio is either intermediate or major in importance. The anniversary period of 28 years is important but more so because it is an exact anniversary from the all-time high.

Gold Silver Ratio: Monthly Chart (3)



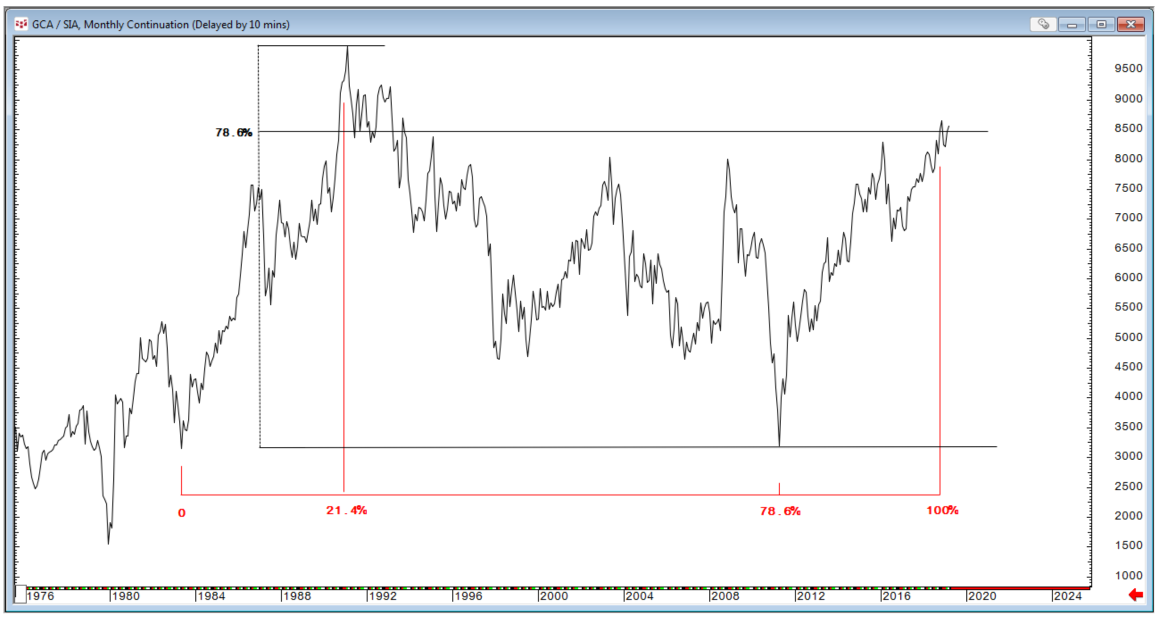
The intervals on the monthly chart terminate in a fairly tight cluster which implies a potential turn in the ratio is near or conceivably has occurred. The shorter term weekly chart which follows may be considered a fine tuning of the larger time considerations on the monthly. The intervals below are a mix of yearly anniversaries and Gann cycles from previous market turns. Additionally, we illustrate a Fibonacci golden section which is coincident. The one year anniversary is due the week of March 18. The other 4 are ideally due the week of March 25. We do not want to imply that this will be precise nor that it will necessarily result in a turn. We do think that attention should be elevated during the balance of March for evidence of a turn.

Gold Silver Ratio: Weekly Chart (4)



One may also note on the weekly chart above that activity has channeled very well since 2017. The ratio of late is sitting at the mid-channel area under the previous peak high and also a sizeable distance from the channel's upper boundary. Breaking under the channel would be a strong confirmation of a turn.

Our last chart today, a monthly, is perhaps the most important. It represents a potential squaring of ***price*** and ***time*** using the Fibonacci 78.6% ratio (the square root of the Fibonacci Golden ratio of 61.8%). On the ***price*** axis, the recent peak in the gold silver ratio reached and has recently marginally exceeded the 78.6% retracement of the decline from February 1991 to the low in April 2011. At the same on the ***time*** axis, the recent high potentially completed a Fibonacci 78.6% section wherein the 78.6% mark coincided with the April 2011 low and the 21.4% mark (100-78.6) just missed by 2 months being coincident with the all-time high in the ratio.



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We think the foregoing charts present the case for a potential high in the gold silver ratio. While March would be an ideal time, it may require weeks before necessary confirmation materializes. A monthly close under 82 would be a first step. Exiting the channel through the lower boundary on the weekly chart (Chart 4 above) would be a very strong confirmation.