ROBERT PRECHTER
The Elliott Wave THEORIST
A publication of Elliott Wave International
www.elliottwave.com

April 2006 issue

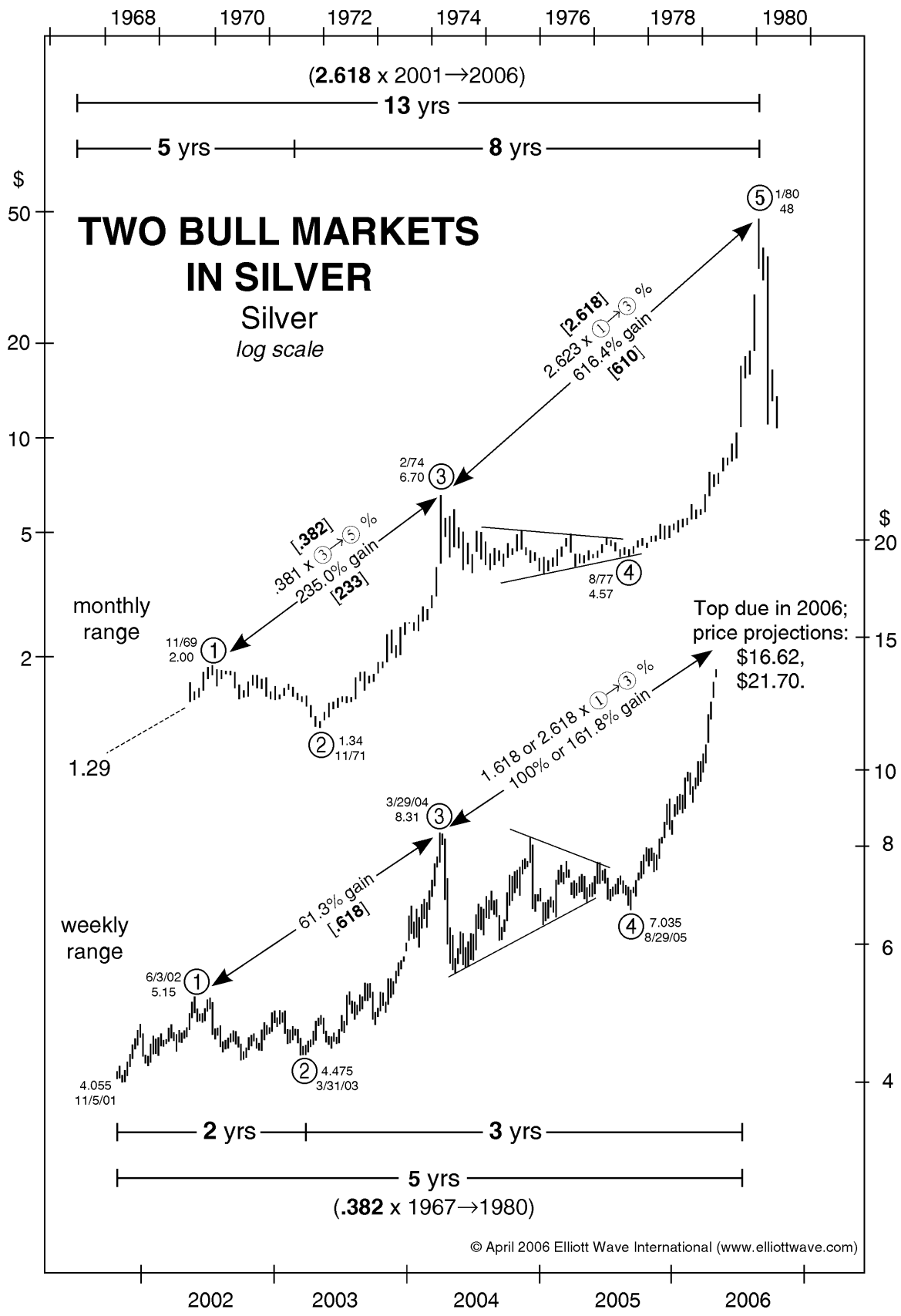
Silver

When silver gets going, it is a fascinating market. The current advance has gone well beyond what I expected, developing into a large five-wave pattern and stretching far into its 5-year cycle, which is due to bottom next year. *The Elliott Wave Financial Forecast* said on December 30, "Despite the strong bearish evidence, if the $9.26 high is exceeded, silver's rise will probably end in a wild spike to significantly higher levels prior to a violent reversal." That "wild spike" has been underway this year, so let's see if we can anticipate levels to which it might carry.

The shape of the bull market in silver looks familiar, so I decided to plot it against its cousin. Figure 1 shows that the form of silver's rise from 2001 is nearly identical to that of the 1967-1980 bull market. These classic Elliott waves are related by Fibonacci. In terms of time, the former advance covered **13** years, while the current advance should peak in 2006, after **5** years, a **.382** relationship. Each wave 2 divides the entire advance into **.382/.618** Fibonacci proportion. In other words, the markets based for a period of time and then traced out the bulk of the move in **1.618** times the basing time, dividing the former bull market into **5** and **8** years and the current one into **2** and a projected **3** years.

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. 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 $1 \rightarrow 3$ resistance line (see Figure 2), which is what happened at the peak in 1980.

Figure 3 is an update of silver's 5-and 10-year cycles. The 5-year cycle is still due to bottom in 2007 and the 10-year in 2012 (+ or - 1 year). Often when a market goes up late into a cycle, it crashes into the next low. Is such an outcome likely this time? The answer is an unqualified *yes* because of the Elliott wave structure, which clearly shows a nearly completed five-wave impulse (see text, p.31). The triangle in the wave 4 position assures us of this interpretation; in other words, there are no alternate counts at Primary or Cycle degree. The level of the top will be irrelevant to the level of the ultimate decline because the target for the decline is based upon the previous wave structure. Way back in November 1979, two months before the bull market peak at $50/oz., an EWT Special Report predicted the extent of the coming decline on exactly that basis, saying that in the soon-to-begin bear market, "silver can be expected to drop back to between $4 and $6 some time in the next decade." Its final low 11 years later was $3.505. Likewise, after the coming peak in silver, it should fall at least back to the


1968
1970
1972
1974
1976
1978
1980
(2.618 x 2001→2006)
13 yrs
5 yrs
8 yrs
$
50
20
10
5
2
TWO BULL MARKETS
IN SILVER
Silver
log scale
5 1/80
48
[2.618]
2.623 x ① → ③ %
616.4% gain
[610]
2/74
6.70 ③
[.382]
.381 x ③ → ⑤ %
235.0% gain
[233]
8/77
4.57 ④
monthly
range
11/69
2.00 ①
② 1.34
11/71
1.29
Top due in 2006;
price projections:
$16.62,
$21.70.
1.618 or 2.618 x ① → ③ %
100% or 161.8% gain
3/29/04
8.31 ③
61.8% gain
[.618]
weekly
range
④ 7.035
8/29/05
6/3/02
5.15 ①
② 4.475
3/31/03
4.055
11/5/01
2 yrs
3 yrs
5 yrs
(.382 x 1967→1980)
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$
20
15
10
8
6
4
2002
2003
2004
2005
2006

Figure 1

Figure 2

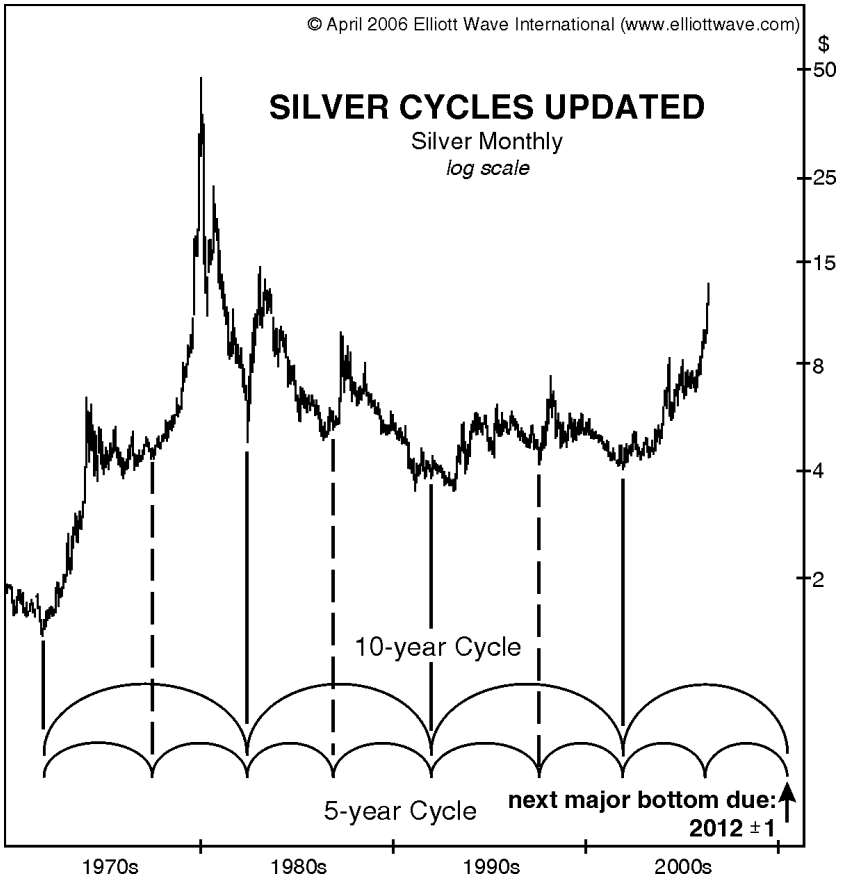

Figure 3

area of wave 4, which is $5.51-$8.31, bottoming in five to seven years. Gold is tracing out a similar form and should likewise fall back at least into the range of its fourth wave triangle, which is $410-$456.

Gold in Terms of SCB

A year ago, the price of gold in terms of the Stable Currency Benchmark (SCB) (www.stablecurrencybenchmark.com) was significantly lagging the rally in the dollar price. EWT said that gold in dollar terms could still be counted as a bear market rally as long as it stayed below $457. Both of those conditions changed simultaneously (see arrows on Figure 4). Over the past year the gold/SCB ratio began rising sharply, and eight months ago the dollar price took off again with it. The move is still bigger in dollar terms, but this fact no longer has technical significance to the gold picture.

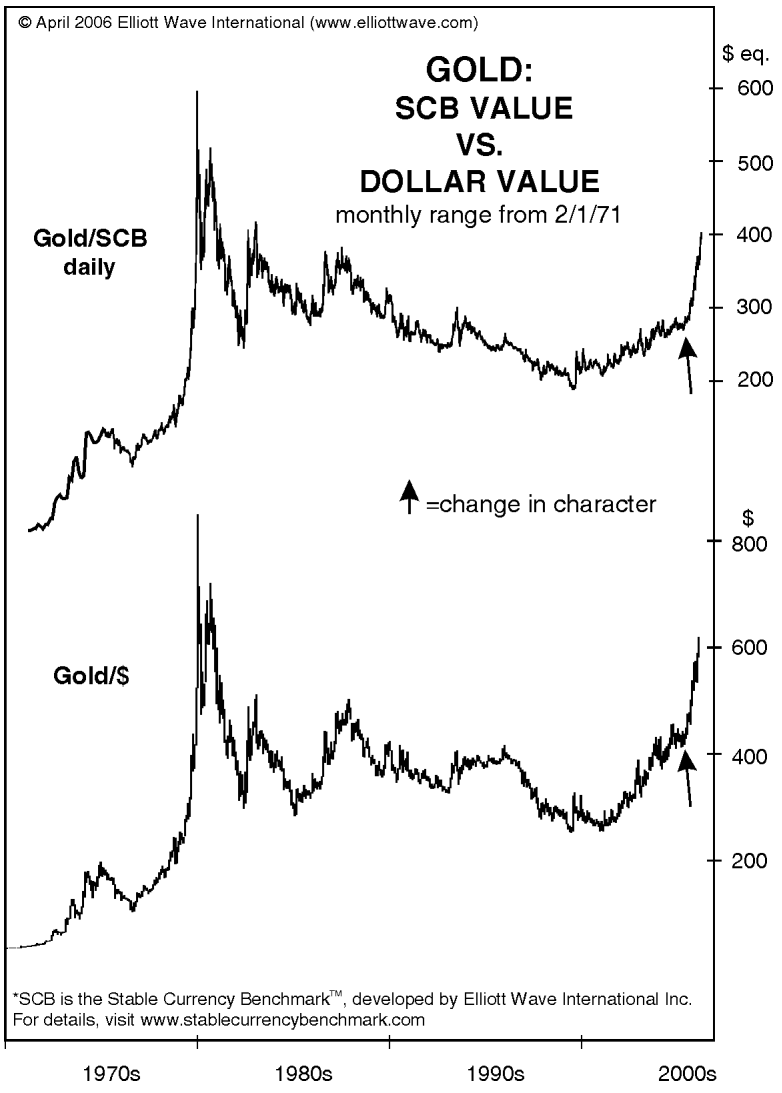

Figure 4

Gold and silver have acted like the stock market in that despite extreme optimism toward gold beginning a year and a half ago in November 2004 (namely, record readings in a sentiment indicator with a 20-year history), the buying continued. In the past decade it seems that no matter how extreme sentiment gets in a market that investors have embraced, it often just keeps going. This environment has made it difficult to do useful analysis incorporating historically reliable sentiment measures. The preceding discussion of silver focuses entirely on Elliott waves and Fibonacci multiples without regard to any other types of indicators. These are our most useful tools when emotion reigns.

In the past 25 years, gold and silver have often peaked months apart. But in January 1980, when emotion was at fever pitch, they peaked on the same day. Given a similar degree of emotion in recent months, I suspect that these metals will peak simultaneously again, for the first time since 1980.

By the way, EWI's book-publishing arm will soon release a volume containing all my real-time analysis on gold and silver during the 1980-2001 bear market. That was a good period for me, so it's a great way to learn how to apply the Wave Principle in the precious metals. We'll let you know when it's out.

If you haven't seen the brand-new documentary on socionomics by award winning film-maker David Moore, go to www.socionomics.net/films/history to stream it for free.

A POSSIBLE NEW WAVE VARIATION

Researchers continually find new life forms to add to their lists of known creatures. For instance, in January 2006, biologists discovered 27 previously unknown species of spiders, centipedes, and scorpion-like creatures in caves beneath two national parks in California. In contrast, Elliotticians have made only a few rare finds to add to the wave structures that R.N. Elliott first described 70 years ago.

Working alone and without the benefit of modern technology, Elliott pored over graphs of stock prices and catalogued the main species of patterns and described how they link to each other. It is a testament to Elliott's genius that his descriptions survive essentially unaltered today. The fundamental patterns that he discerned in his study of market prices—impulse, diagonal triangle, (horizontal) triangle, zigzag and flat—describe all subsequent price action. After all this time, only two slight variations on Elliott's foundational descriptions have been worth noting and classifying. These are the barrier triangle (see April 2005 EWT), which actually condenses the catalogue, and the diagonal triangle type 2 (see EWP, pp. 40-41).

Russian Forex analyst Dmitry Voznuy began corresponding with EWI last year about what may prove to be another variation. We are pleased to present the following guest article as part of this month's EWT.

The Skewed Triangle

by Dmitry Voznuy, Principal Analyst of Alpari Ltd., Moscow, and Dave Allman of Elliott Wave International

For currency traders who are familiar with wave analysis, it is no secret that the Forex market spends up to 65% of its time in corrections. For many of us, these are the most difficult periods to analyze. Several years of studying and trading the Forex markets led to the identification of a structure that looks like a common Elliott wave pattern, but has its own traits. By consensus, we are calling this new variation a skewed triangle; this article will explain it in detail. To understand how the skewed triangle fits into the pantheon of corrective wave patterns, let's first review three other forms, as described by A.J. Frost and Robert Prechter in their 1978 book, *Elliott Wave Principle*.

A *triple three* is an array of linked wave corrections of simpler types, including zigzags, flats and triangles. Reaction waves (labeled X) are typically zigzags. This pattern is shown schematically in Figure 1.

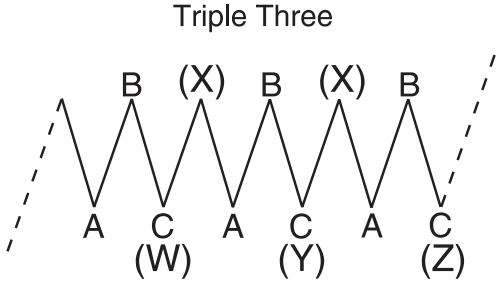

Figure 1

The triple three subdivides 3-3-3-3-3 and is labeled (W)-(X)-(Y)-(X)-(Z). In *"Nature's Law"* (1946), Elliott indicated that the entire formation "could slant *against* the larger trend;" that is, rather than being a sideways movement, it could move opposite the previous trend.

A *triple zigzag*, shown schematically in Figure 2, is a particular case of a triple three. Each of its corrective waves is a zigzag. Reaction waves are typically also zigzags.

A triple zigzag also subdivides 3-3-3-3-3 and is labeled (W)-(X)-(Y)-(X)-(Z). It always slants against the trend.

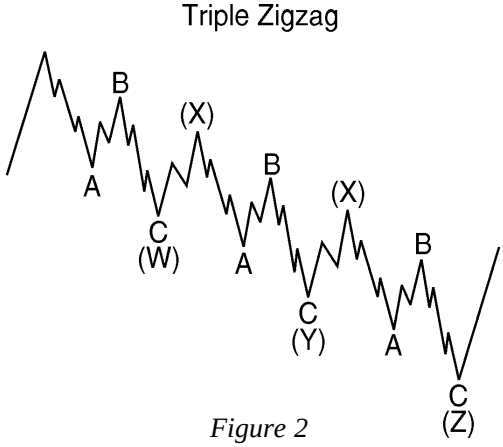

Figure 2

(Horizontal) triangles, shown schematically in Figure 3, have their own distinct labeling and features. A triangle consists of five zigzags bound by specifically trending lines. Triangles also subdivide 3-3-3-3-3, but because they constitute a single form, they are labeled A-B-C-D-E.

A triangle's unique characteristics make it easier to analyze and predict. Unlike the triple three and the triple zigzag, triangles are found only in a certain location in the pattern of one larger degree, i.e., as the next-to-last wave in the pattern, which means that it appears in one of these positions:

- wave 4 of an impulse
- wave B of a zigzag
- wave X in a double combination
- the second wave X in a triple combination
- the final wave in a double or triple three

Further, triangles never occur alone in these positions:

- wave W of a double three
- waves W, Y and the first wave X in a triple combination
- waves A or B of a triangle
- the second wave of an impulse
- anywhere within a diagonal triangle, type 1 or 2

These aspects of triangles are important to those who analyze financial markets using the Wave Principle. We'll revisit them shortly.

Note in Figure 3 that the orthodox triangle trendlines, connecting points A and C, and B and D, never both point up or down. Thus, when the defining lines slant in different directions, the resulting

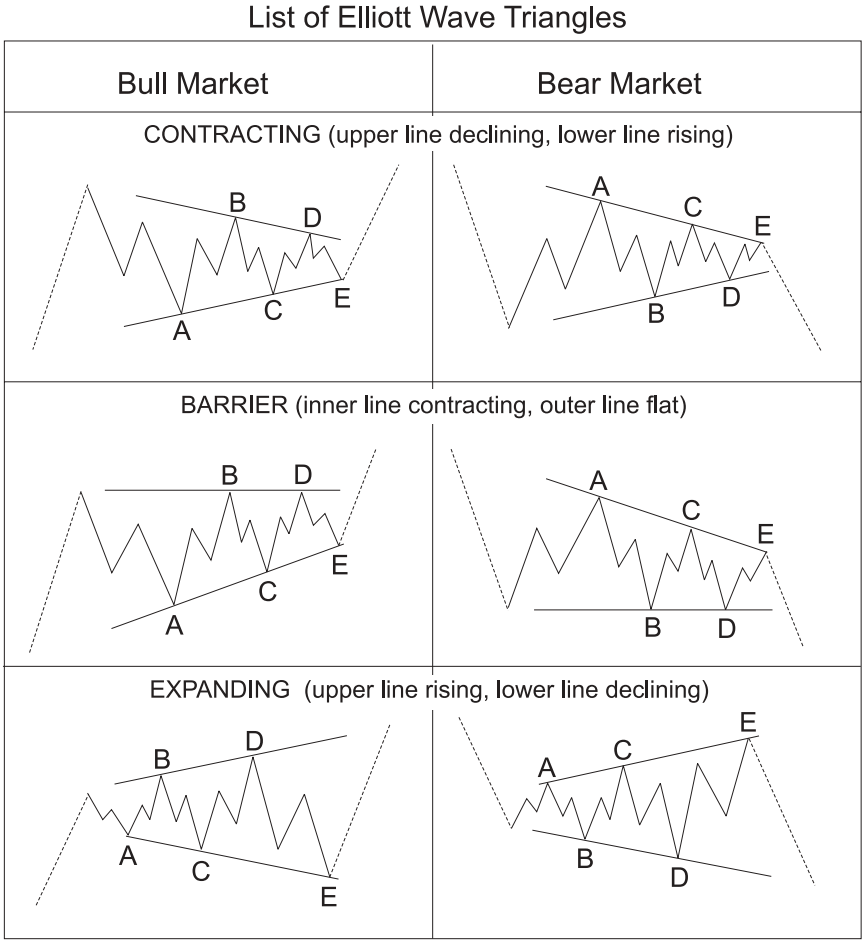

Figure 3

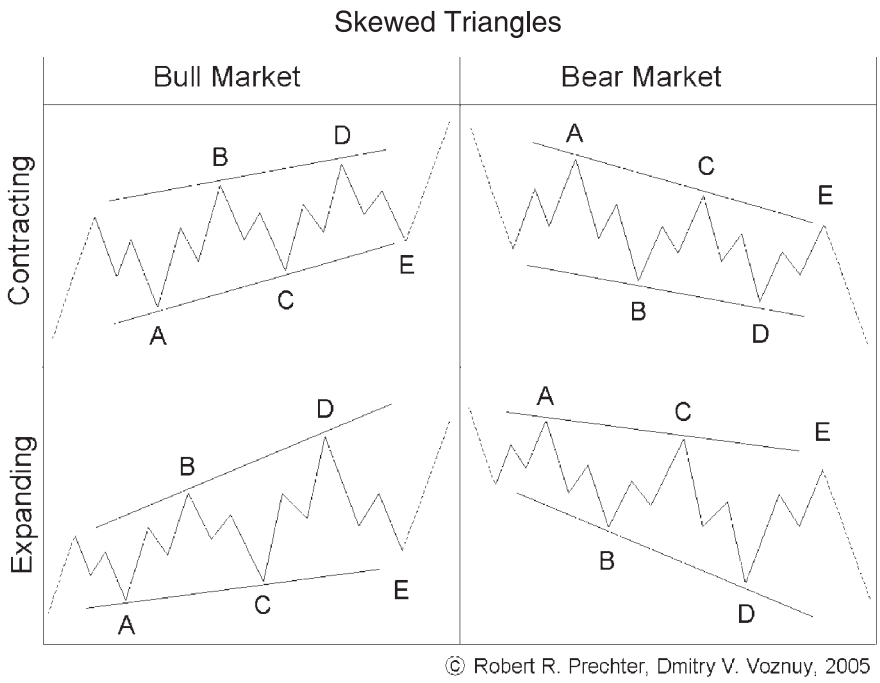

Figure 4

pattern is a typical triangle. When the defining lines of these corrections are horizontal or slant *together and against* the main trend of larger degree, the resulting pattern is a triple zigzag or triple three.

But when the defining lines slant *with* the larger trend, a different pattern arises, which we are calling a *skewed triangle.* Skewed triangles, illustrated in Figure 4, occur frequently in the Forex markets, and perhaps the form should be included in the Elliott wave catalogue.

While we initially discussed other options, we ultimately decided that the skewed triangle was not a brand new structure but instead belonged in the class of corrective wave, or horizontal, triangles, of which it sports several features and characteristics. This decision is in keeping with the advice often given to first-year medical school students: "The unusual presentation of a common disease is generally more likely than the usual presentation of an uncommon disease." Or, as is the case in most of the world, "If you hear hooves, think horse, not zebra."

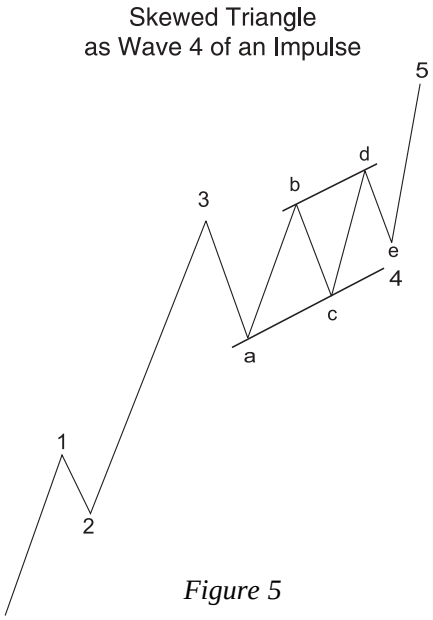

Figure 5

A skewed triangle is a combination of overlapping wave corrections of simpler types, including various types of zigzags, flats and triangles. Zigzags (simple or double) appear to be the most common. The skewed triangle's labeling is the same as the labeling of other triangles. Unlike all other corrections (except the rare "running flat"), trendlines of this pattern always slope in the *same* direction as the trend of larger degree. As with triangles, both contracting and expanding skewed triangles exist. Figure 5 illustrates a skewed triangle as wave 4 of a typical impulse wave, its most common position.

As with the running flat, the countertrend effort of the normal corrective process is apparently overwhelmed by the force of the larger trend. Otherwise, the characteristics of skewed triangles coincide with the characteristics of other corrective triangles. Their position in the pattern of the larger degree is the same as well.

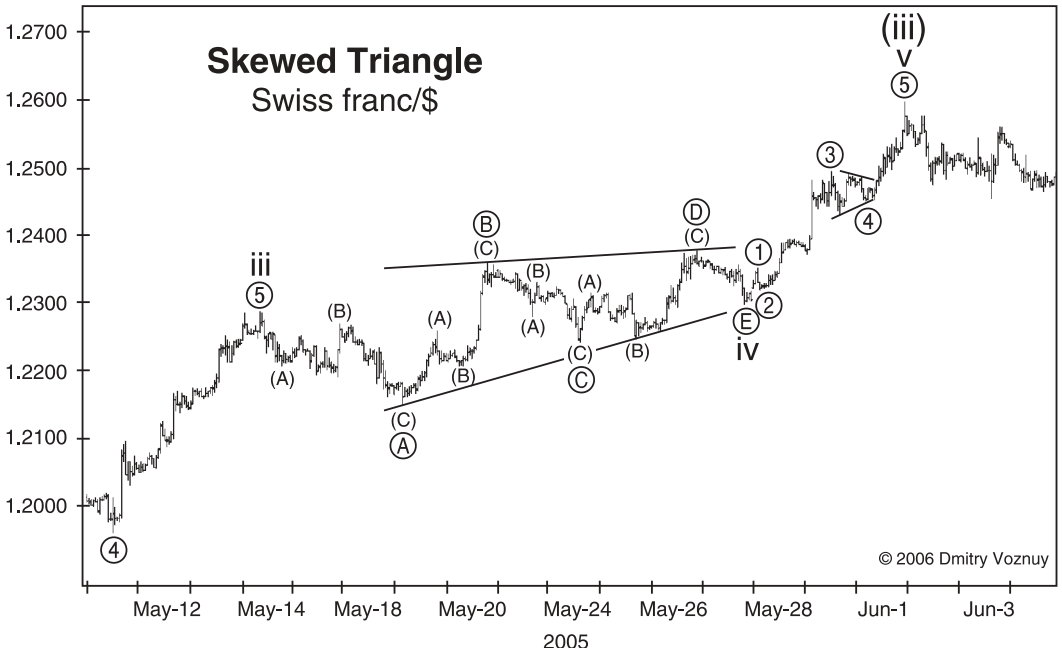

Figure 6. Skewed triangle *as wave* ***iv*** *of an impulse*

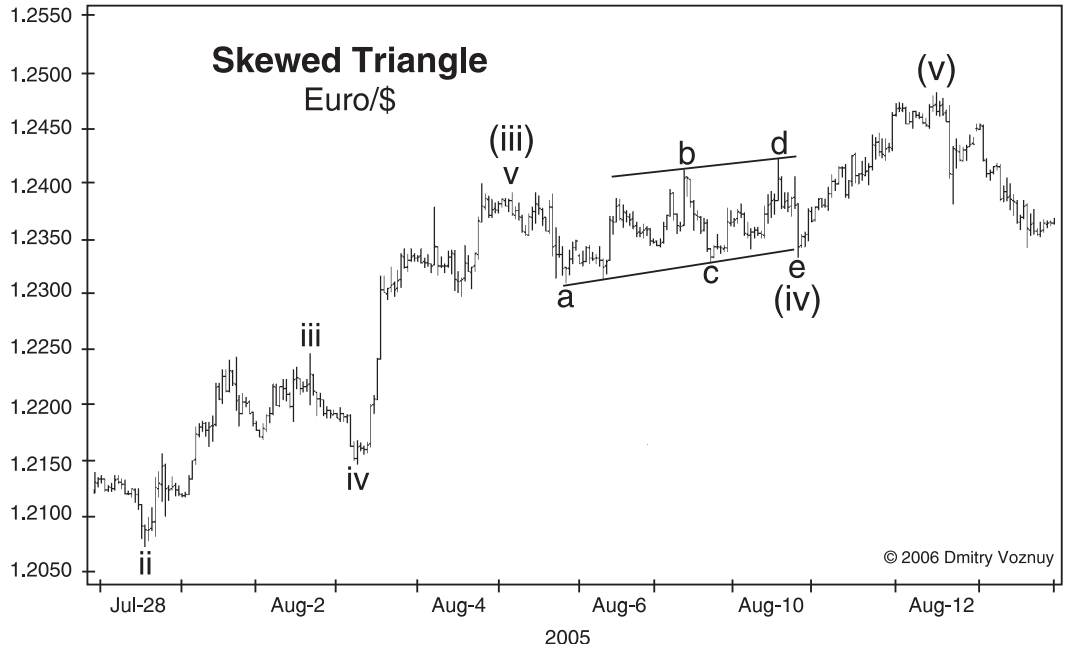

Figure 7. Skewed triangle *as wave* ***(iv)*** *of an impulse*

Numerous examples of skewed triangles appear in Forex markets. At least 75% of them occur as fourth waves, and most of the rest are B waves. In a few instances, skewed triangles occur in the position of wave X of a double zigzag.

The presence of skewed triangles as wave 4, B or X corresponds to three of the five possible locations for triangles. Equally important, we have not found skewed triangles in the positions where triangles should *not* be found. Moreover, when a skewed triangle occurs as a fourth wave, the price thrust that follows it tends to cover at minimum the distance equal to the height of the skewed triangle,

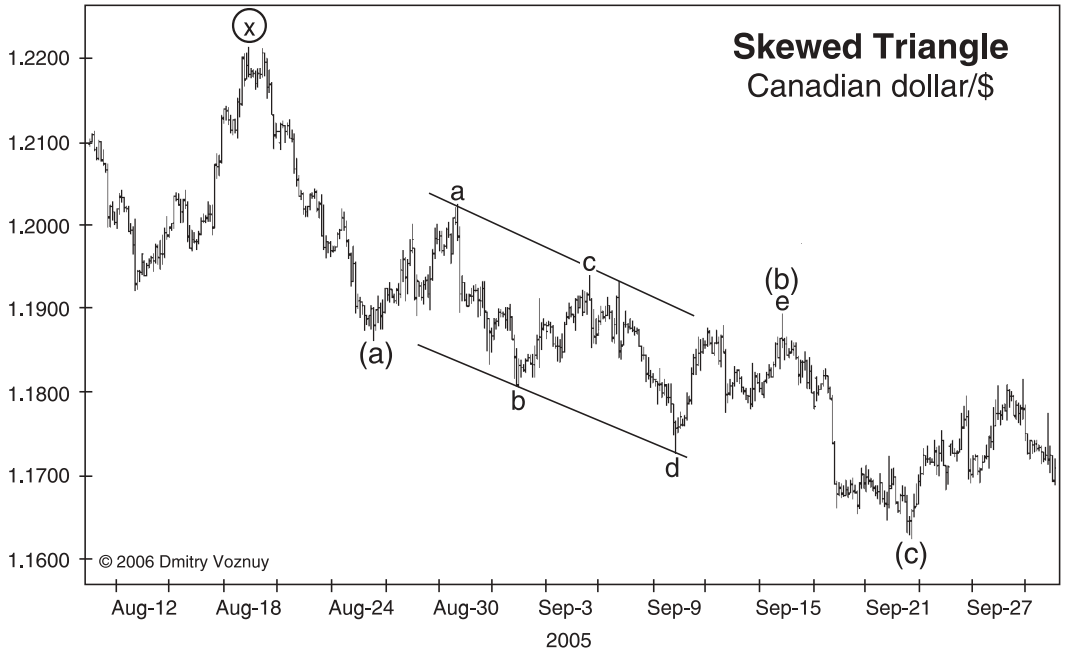

Figure 8. Skewed triangle *as wave **(b)** of a zigzag.*

which is the case with triangles; less often it is 62% or 78% of that measure. We noted a further interesting feature: when a skewed triangle occurs as wave four, it more closely resembles a classic triangle shape. These facts argue further that a skewed triangle is a variation of, or substitute for, a triangle.

When a skewed triangle is wave B of a zigzag or wave X of a double zigzag, the subsequent price movement is more or less a Fibonacci multiple of the first wave of the larger pattern (A or W). Even in these cases, the subsequent price action covers a minimum of 62% of the height of the skewed triangle.

Besides these guidelines, the following traits apply:

As with other triangles, the skewed triangle effects a net retracement (beginning to end) of the wave it is correcting.

Within the triangle:

- Wave B is less than or equal to twice the length of wave A.
- Wave D is less than or equal to twice the length of wave B.
- Wave E does not exceed the end of wave C. (In a contracting triangle, wave E cannot exceed the end of wave C *and* is shorter than wave C.)

Why are we saying that the skewed triangle *might* be a variation? Consider the running flat. Fundamentally, it's still a flat correction. Yet, something "funny" occurs in the translation of social mood into action, where, for a variety of possible reasons, human thought may not translate precisely into actions that determine price. The July 2005 *Elliott Wave Theorist* discussed this consideration:

> From a theoretical standpoint, we must be careful not to confuse Elliott waves with their measures, which are as a thermometer is to heat. A thermometer is not designed to gauge rapid short-term fluctuations in air temperature, and neither is an index of 30 stocks constructed so as to be able to record every short-term fluctuation in social mood. While we fully believe that the listed rules govern Elliott waves as a collective mental phenomenon, recordings of actions that Elliott waves induce — such as buying and selling certain lists of stocks — may not perfectly reflect those waves. Therefore recordings of such actions could deviate from a perfect expression of the rules simply because of the imperfection of the chosen gauge. That being said, I have found that the Dow Jones Industrial Average has followed Elliott's rules impeccably at Minor degree and above and usually at lesser degrees as well.

Thus far, we have found the skewed triangle only in Forex markets. Although these markets are generally quite liquid, as a rule they do not reflect social mood in the aggregate as well as stock indexes. We initially considered skewed triangles in a couple of individual stocks and commodities, but upon closer inspection, these structures were best labeled in another way.

Why might skewed triangles be more prevalent in Forex markets? Currency markets are unique in that they have no single benchmark. They are commonly expressed and traded as an invertible ratio depending on one's country of origin. The Japanese see the dollar in terms of yen; a U.S. resident sees the yen in terms of dollars. In contrast, the unquestioned benchmark for an individual equity, stock index or commodity market is its home currency, never the other way around. Perhaps the lack of a consistent benchmark affects the expression of Elliott wave forms.

We hope that this newly proposed expression of the triangle will become a useful addition to the Elliott wave catalog, not only in theory but also in practice. We look forward to other practitioners of Elliott wave analysis identifying skewed triangles in their own work. For our edification and to help build the evidence for this pattern's efficacy, we would appreciate having Elliotticians send other examples of the skewed triangle that they find. You can contact Dmitry Voznuy at www.alpari-idc.com or for Dmitry@yahoo.com and Dave Allman at davea@elliottwave.com.

Acknowledgment: We would like to thank Robert Prechter for his edits and suggestions.

THE ELLIOTT WAVE THEORIST is published by Elliott Wave International, Inc. Mailing address: P.O. Box 1618, Gainesville, Georgia 30503, U.S.A. Phone: 770-536-0309.

EWT is published irregularly, one or more times per month. All contents are written by Robert Prechter. Correspondence is welcome, but volume of mail often precludes a reply. For best results, send concise e-mail to one of the addresses listed on the bulletin board of our website (**www.elliottwave.com**).

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