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LEVERAGED SILVER BULL ETFs for a SILVER ADVANCE MAGNIFIED BY A DOLLAR SMASH...

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The rally in gold and silver predicted in the article IMMINENT DOLLAR SHOCK & EFFECT ON GOLD, SILVER & OIL has begun (today), and here's the thing, there's a good chance that it will be considerably bigger than I was earlier expecting. While I am in agreement with what Adam Hamilton writes in his recent update Absurd Gold Stock Levels, even if it is long, and even if he has been saying this for more than 6-months, this is not the main reason that I think this rally could be big, nor is it because of the astounding if true revelation in ZeroHedge that the Comex Gold Cover Ratio has spiked to an incredible 542 ounces of gold claims per ounce of deliverable gold. No, it is because the dollar looks set to drop suddenly, and hard. We will look at this and the possible reasons for it lower down the page. First let's review the latest charts, and while what is written here applies in good measure to gold of course, we are going to concentrate on silver in this article because it is now very undervalued relative to gold and therefore presents an opportunity to make larger percentage gains.

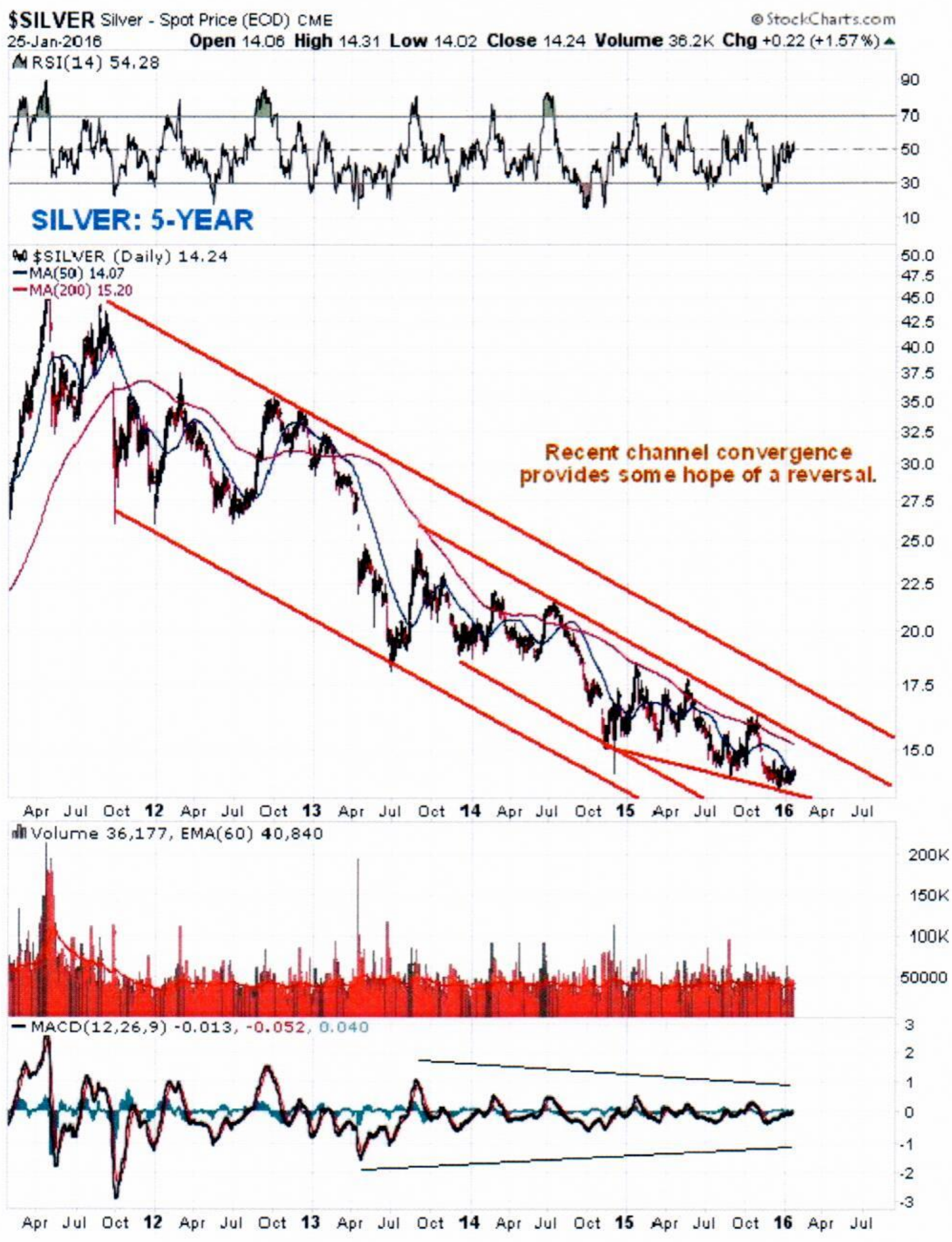
Starting with the 6-month chart for silver we see that it advanced sharply today towards the resistance at the top of its intermediate base pattern, that has been forming for more than 2 months now, and with the 50-day moving average now turning up, there is thought to be a good chance that it will proceed to break out upside from this base pattern soon, perhaps after pausing briefly at the resistance first.

This being so we require suitable vehicles to play the expected rally. One is twice leveraged silver bull ETF, AGQ, whose chart is very similar to silver itself. If buying this, place a stop at your own discretion...

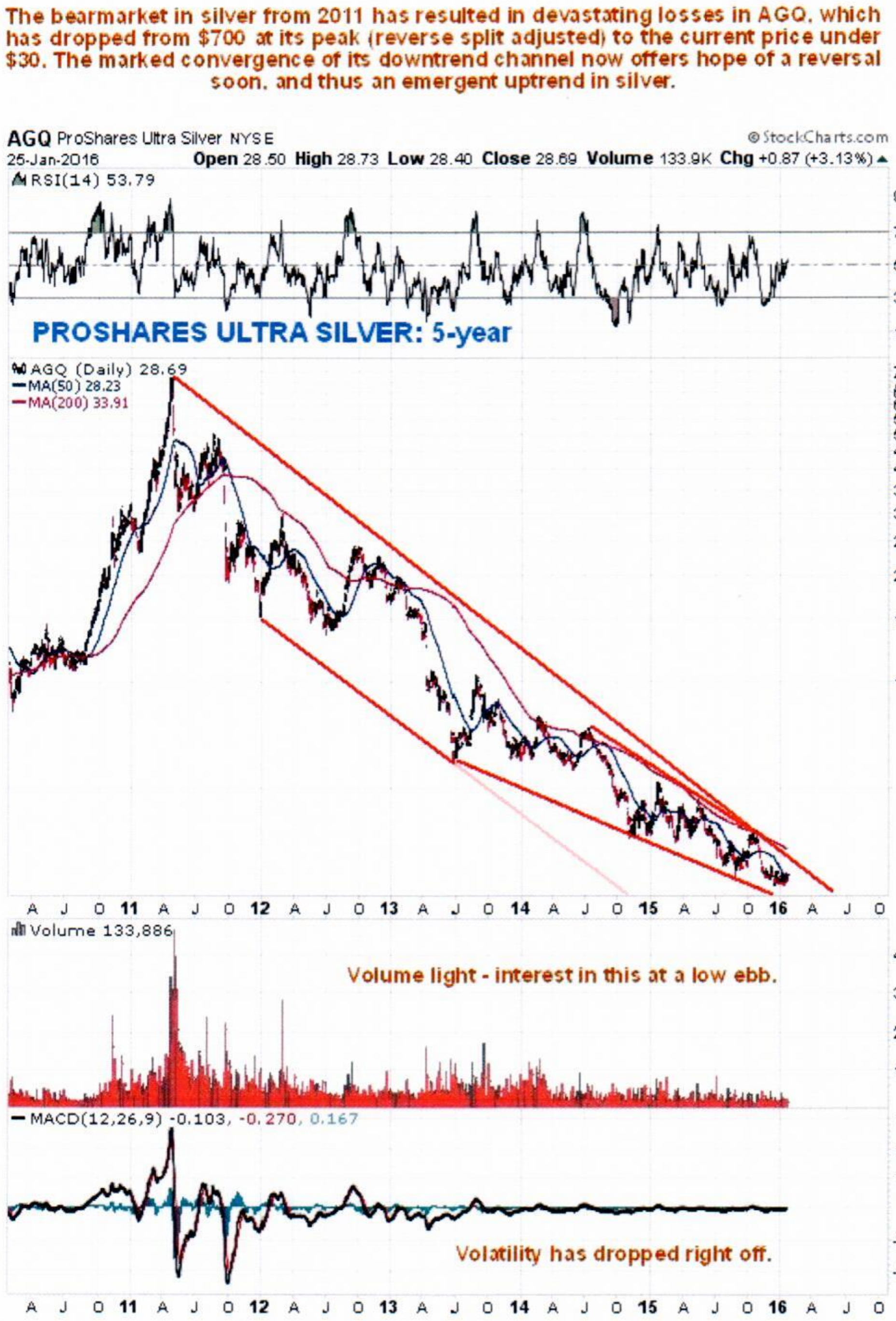
For higher leverage and potentially bigger gains, there is the 3X leveraged silver bull ETF, USLV, whose chart again looks similar to silver, although it is of course leveraged. Again if buying this, place a stop at your own discretion…

The long-term 5-year chart for silver reminds us that silver is still "not out of woods" as it remains stuck in a persistent major downtrend. However, there are subtle signs that this downtrend could end sooner rather than later, principally the convergence of the downtrend over the past year, which are backed up by fundamental considerations like increased safe haven buying including increasingly heavy buying of physical, and the drastic reduction in supplies of new silver that will result from the cutbacks in production of base metals, since more than 50% of new silver is produced as a by-product of base metal mining. If it does succeed in breaking out of this downtrend, the rally that follows could be dramatic.

NOT EXACTLY "EDGE OF THE CHAIR STUFF" IS IT?? Looking at this chart you can readily understand why we went elsewhere looking for opportunities. Precious Metals have continued to be depressed over the past 18 months by the strength in the dollar. however, if that were to end, at it looks like it might, this seemingly interminable downtrend could end. Other factors pointing to its ending before much longer are the increasingly heavy demand for physical and the closing down of many base metal mining operations because of low prices, *which account for more than half of new silver coming to market.*



The 5-year chart for AGQ reveals that it has suffered a devastating decline from its highs in 2011 to the present, and this chart also shows a marked convergence of the downtrend from mid-2013, with the price narrowing into the apex of the converging major trendlines, making an upside breakout a growing possibility soon.



The losses suffered by triple leveraged USLV are even worse of course, and we see again a marked convergence of the downtrend, which shows that it is exhausting itself. If it succeeds in breaking out upside from this downtrend, a dramatic rally will be in prospect that will result in large percentage gains for anyone buying around the current price.

The arithmetic 5-year chart for USLV provides a different perspective...

It is kind of fun to look at something like USLV on an arithmetic chart, unless you have been long this for some years, of course. On this chart it looks like it is bumping along the bottom, although the reality is that the "decay factor" will cause it to drop and drop until silver takes a turn for the better, which happily it should do soon, or now. Looking at this chart you can readily appreciate why we usually use log scaled charts.

As mentioned above, we are focusing on silver in this report because it is undervalued relative to gold, and we can see on the following chart that this undervaluation has grown more severe with the passage of time, from the PM sector peak back in 2011, with the convergence over the past year of the channel suggesting that this underperformance may soon be replaced by outperformance. Whatever happens, if gold goes up, silver is going up too, because that's the way it is, and once an uptrend gets going, silver's performance relative to gold will improve with the passage of time.

Now we come to what I consider to be the big potential driver for a major upside breakout by both gold and silver from their long and stubborn downtrends in force from 2011. As far as I know, no-one else has cottoned on to this risk – the risk of a savage C-wave smash in the dollar. Some of you may recall that the dollar index suffered a rather bizarre huge down day early in December. The market appears to have largely forgotten about this now, but I haven't, especially as what happened since looks like a feeble countertrend rally that has had trouble getting back up to the highs, and has been accompanied by extremely weak momentum. This looks like the completing B-wave of an A-B-C downleg, and if it is, a very nasty drop can be expected to occur soon, which could obviously "light a fire" under gold and silver, and would also greatly assist other embattled commodities like copper and oil.

What could cause such a drop? Well, bearing in mind that a lot of the rise in the dollar over the past 18 months has been caused by the Fed jawboning about raising interest rates for what seems like an eternity, and that they have actually raised them by a trifling 0.25% last month, and talked loftily about several more rate rises this year, it is clear that if they don't follow through and "deliver the goods", the market is going to throw a tantrum and probably tank the dollar. Already it is clear to everyone that the rate rise last month was a disaster, and that if they follow through with more, they will end up with a catastrophic situation on their hands. So, while they don't want to lose face and admit that they were wrong, it is must be becoming obvious to them that they will create a much worse mess and end up looking like even bigger idiots if they don't reverse course on this. The market has already figured this out, which is why the dollar is looking shaky, but if they actually bite the bullet soon and do what they know they should and reverse course, or even if they don't but it becomes obvious to all that the market will eventually force them to, then the dollar could tank. This is believed to be what underlies the ominous looking pattern in the dollar, which, if it delivers a big drop as expected, will drive a strong rally in the Precious Metals.

So, let's keep a close eye on the dollar, and in the meantime, we can buy gold and silver ETFs, with stops at personally preferred levels, and the better gold and silver mining stocks too.

End of report.

Note that this article will be filed under ETFs in the Archive.

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