Gold/Silver Ratio

***e*Research Corporation** is pleased to provide a weekly commentary, authored by Tom McClellan, entitled "The McClellan Chart-In-Focus", which is a free technical analysis article published each week.

In this article, Mr. McClellan looks at the historic relationship between gold prices and silver prices and notes that, where the gold/silver ratio now stands, is often the point of an impending break-out.

The article is reproduced below, beginning on the next page, or you can use this link to go to the article directly:

https://www.mcoscillator.com/learning_center/weekly_chart/gold_silver_ratio/

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Bob Weir, CFA
Director of Research

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The McClellan Chart-In-Focus

by Tom McClellan (bio at end)

Gold/Silver Ratio

The ratio of gold prices versus silver prices is now up to the type of high reading that, in the past two decades, has marked an important low for both gold and silver prices.

The value of anything is always and, in every case, a ratio. Most often the units are expressed as dollars per ounce, dollars per bushel, dollars per share, etc. But, expressing the price of an ounce of gold as being equivalent to 80 ounces of silver is perfectly legitimate. We can understand the implications of the dollar price of something being expensive or cheap; it takes a little bit more energy to apply that same principle to such a comparison of the two precious metals' prices, but it is still valid.

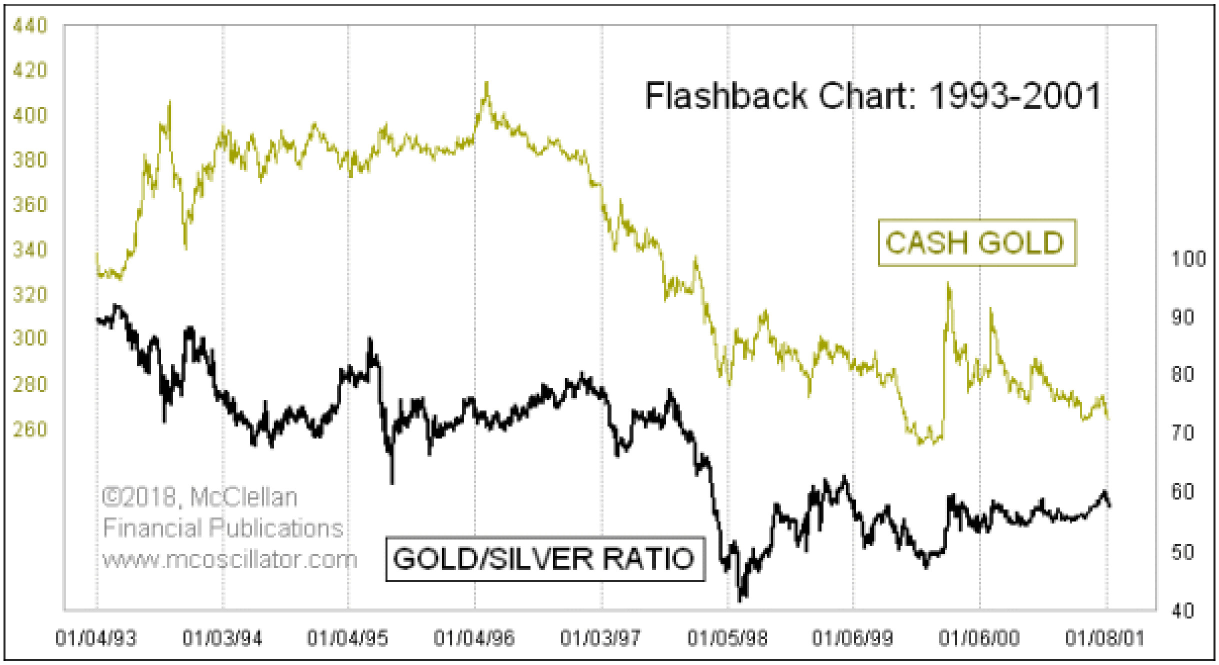
A high ratio like this says that gold is expensive relative to silver. But, turning that around, it says that silver is cheap relative to gold. And there is information in that cheapness of silver.

Silver is actually the more speculative metal versus gold. I like to say that gold is the dog, and silver is the tail, wagging around a whole lot more wildly. When this ratio gets up to around 80 or above, it means that speculative fervor is at a minimum. Usually that means a bottom for gold (and silver) prices. But sometimes it can mark a point where both are poised for a big break-out move, as was the case back in 2003.

The period from late 2014 to the present has seen this ratio stay between 65 and 85. This is the quietest range it has seen in years, implying that something big is brewing. The 8-year cycle says that it should be a big move upward.

One curious point about this ratio is that it has not always worked this way. There was a period in the late 1990s when it worked entirely backwards from what I described above.

Here is a chart from that period:



From late 1996 to 2000, the gold/silver ratio showed a positive correlation to gold prices. This was a weird exception to its normal behavior, and one big reason was that the Bank of England was involved in a big sale of its gold reserves. It did not have any silver reserves to sell off, just gold. So the price of gold got driven down, irrespective of the speculative fervor or lack of fervor for precious metals then. Price is a messenger of the balance between supply and demand. So as with the Fed's 3 different QE problems, if you stomp all over the messenger, you can count on getting a screwy message.

I bring this up as important history for the understanding of how this indicator has behaved under different supply-demand conditions. We are not now in a period when major world central banks are interfering in the gold or silver markets, and so we can reasonably expect that normal indicator rules of behavior should apply. That should mean an up-move is coming for these precious metals' prices.

Tom McClellan, Editor,

The McClellan Market Report

BW: Information on Tom McClellan and *The McClellan Market Report* and *The Daily Edition* is provided on the following page.

ABOUT THE AUTHOR

Tom McClellan

Tom McClellan has done extensive analytical spreadsheet development for the stock and commodities markets, including the synthesizing of the four-year Presidential Cycle Pattern. He has fine-tuned the rules for inter-relationships between financial markets to provide leading indications for important market and economic data.

Tom is a graduate of the U.S. Military Academy at West Point, where he studied aerospace engineering, and he served as an Army helicopter pilot for 11 years. He began his own study of market technical analysis while still in the Army, and discovered ways to expand the use of certain indicators to forecast future market turning points.

Tom views the movements of prices in the financial market through the eyes of an engineer, which allows him to focus on what the data really say rather than interpreting events according to the same "conventional wisdom" used by other analysts.

In 1993, he left the Army to join his father in pursuing a new career doing this type of analysis. Tom and his Father spent the next two years refining their analysis techniques and laying groundwork.

In April 1995 they launched their newsletter, The McClellan Market Report, an 8-page report covering the stock, bond, and gold markets, which is published twice a month. They utilize the unique indicators they have developed to present their view of the market's structure as well as their forecasts for future trend direction and the timing of turning points.

A Daily Edition was added in February 1998 to give subscribers daily updates on their indicators and also provide market position indications for stocks, bonds, and gold. Their subscribers range from individual investors to professional fund managers. Tom serves as editor of both publications, and runs the newsletter business from its location in Lakewood, WA.

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