

WHERE DO WE GO FROM HERE?

By Adrian Douglas

For sometime I have been giving the Café hints on my proprietary analysis methods for analysis of the gold and silver markets. I use this technique to be able to predict major Intermediate Tops in the market. An intermediate top is a fundamental part of any bull market. A bull market is composed of many uplegs and consolidation periods. The intermediate top is formed when the upleg has run its course and the market has run far too far ahead of itself. Some of the early-to-enter participants take profits leaving the late-to-enter participants nursing some temporary wounds. An intermediate top is NOT the same as having a temporary pull-back of a few down days, which not only leave the upleg trend intact, but actually strengthen it as it offers a new entry point for new participants.

A chart is included below which shows part of what my analysis technique produces. The graph is of "Indicator A" and the gold price from 2001 to the present. Indicator A is one of the outputs from my proprietary algorithms.

The first thing to see is that Indicator A forms a perfectly linear trend. Notice that while the price is currently displaying a strong parabolic tendency, Indicator A doesn't break a sweat.

You can see that the only way we can be ready to see an intermediate top is for Indicator A to reach or breakout the top of the trend channel. The four intermediate tops experienced since 2001 are shown.

What is clear is that recently the Indicator A has been oscillating between the lower resistance line and the 60% of the channel width line. This is what creates the volatility and the down days but keeps the upleg intact.

When Indicator A is at the lower support line it presents a low risk entry point, when it approaches the upper resistance line it is time to tighten up the trailing stops.

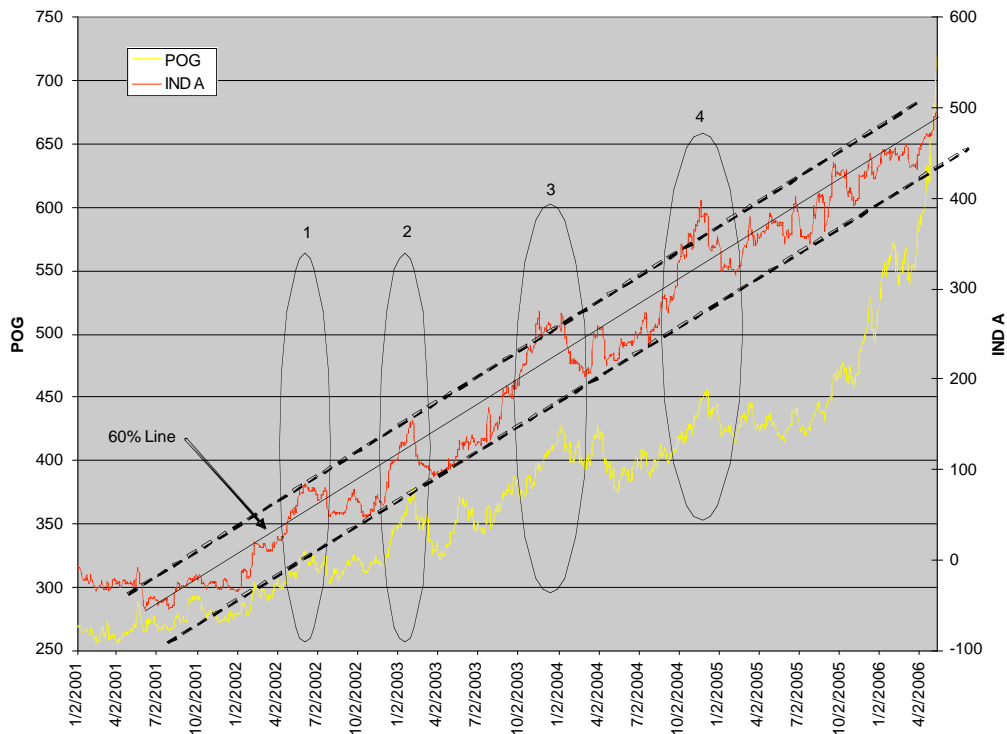
We are currently at the 60% line, which is what I call the "neutral zone". Indicator A could meander back to its lower support line which would mean we might see the gold price pull back to the \$650-\$680 range but still keep the upleg trend intact or we may go on toward the top resistance line and set ourselves up for an intermediate top. The former is the most preferable if we had to choose. Of course, this would bring out the top callers in their droves who will predict \$500 gold, but they would be wrong.

If the 60% line is significantly penetrated then this is highly likely to result in the market gathering further upward momentum and froth and will **eventually** lead to an intermediate top.

When Indicator A approaches the 60% line very sharply it tends to fail and fall back (creating some down days but offering entry points for latecomers). This was the case at POG \$468 and \$560. When the slope is more gentle, as is the case now, the rally usually continues and Indicator A continues toward the top of the channel and an eventual Intermediate Top.

Other indicators I look at suggest that we may carry on up from here, which will, in due course, result in an Intermediate Top.

Whichever outcome occurs from here we are NOT at an Intermediate Top at this juncture.



The ultimate power of this technique is that when Indicator A breaks this upward trend channel significantly to the downside the party is over. That will be the ultimate blow-off top in this market and time to cash in all your chips. The good news is that from other indicators my algorithms produce that is not going to happen anytime soon.

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