KEYNOTE SPEECH AT SYDNEY GOLD SYMPOSIUM 14-15 NOVEMBER 2011

BY ALF FIELD

THE MOSES PRINCIPLE

The Moses Principle is an irreverent theory based on the question of why Moses spent 40 years traversing the Sinai desert before leading the Israelites to the "promised land".

God was powerful enough to send numerous plagues to devastate the Egyptian economy until Pharaoh allowed the Israelites to leave Egypt. Later God caused the Red Sea to part so that the Israelites crossed on a dry sea bed. When the pursuing Egyptian army and their chariots were in the sea bed, the waters crashed back and drowned them.

If God was powerful enough to do all of these things, why not allow the Israelites to go straight to the "promised land"? Why did Moses spend 40 years traversing the barren desert before leading the Israelites to the "promised land"? Here is the irreverent theory. Every Israelite over middle age when they left Egypt probably died during the ensuing 40 years. The younger people were born in the desert or spent their adult lives in the desert. After 40 years the life experience of the survivors consisted of living in the desert. When they finally got to the "promised land" it appeared to be "flowing with milk and honey" when compared to their prior desert existence.

A total generational change had taken place so that the survivors had no knowledge of anything other than the desert. There was nobody who could remember what Egypt was like. The Moses Principle recognizes the fact that over any 40 year period, a generational change takes place.

What has this got to do with gold? Recently we passed the 40th anniversary of 15 August 1971, the date when the last link between currencies and gold was ended by President Nixon. This launched an era of floating "I owe you nothing" currencies. Money was what any government deemed it to be, generally something that the government could create in unlimited quantities. That system, plus the fractional reserve banking system, launched an era of ever increasing debt and credit. It was an era where debt was desirable and money lost its purchasing power.

Everyone in this room has spent their adult lives living under this system. Most have had no exposure to monetary history or what money really is. The new "Moses" generation will have to re-learn the lessons of monetary history before the world can enter a new era of sound money and stable economic growth. The impact of this generational change will be discussed later.

The 15 August 1971 was an important date for me personally. I had grown up in South Africa and in early 1970 started a funds management company with a good friend of mine. The first 18 months was a struggle as we were buffeted by a vicious bear market. By August 1971 our clients were largely in cash awaiting the end of the bear market or an inspirational idea.

That inspirational idea came on 15 August 1971 when I heard that President Nixon had decreed that the USA would no longer exchange US dollars held by foreign governments for gold at $35 per ounce. Gold had limited downside but appeared to have good potential for substantial gain. Gold shares were deeply depressed after 37 years of a fixed $35 gold price, another "Moses Principle" period. We bought gold shares aggressively. This proved to be an astute move and our funds management business was launched on a successful path.

Having locked ourselves into a big position in gold shares, we needed to have some idea of how the gold price might perform and how high it might rise. We ran into the conundrum that has confounded fundamental analysts since 1971. How do you value something that has no utility value, no earnings or net asset value, does not spoil or corrode and is not used up?

Other commodities such as copper, soya beans and corn etc., are priced using a combination of demand, supply and stocks. If demand exceeds supply, stocks diminish, shortages develop, prices rise and new production comes on stream. Eventually supply exceeds demand, stocks build up, prices decline and marginal producers go out of business. The cycle then repeats itself. Other commodities are produced for consumption while gold is accumulated.

Consequently large stocks of gold exist in official hands as central bank reserves. There are also large stocks of gold in private ownership, in vaults around the world, in homes, buried in gardens, in coins and gold jewelry. New mine production of gold is tiny compared to available stocks. In 1971 official holdings of gold were about 37,000t. Cumulative world gold production throughout history up to 1971 was estimated to be about 90,000t, so investors/hoarders must have owned at least as much as the official holdings. In 1971 world gold production was a mere 1,450t, or less than 2% of the estimated amount of gold held in the world at that time.

The fundamental conclusion was that the owners of the large stocks of gold would determine the future of the gold price. If they became net sellers, the gold price would decline. If they became net buyers, the gold price would rise. There were reasons to believe that they would be net buyers. The world had been launched into an untried experiment where all countries were subject to Government fiat currencies and, in addition, there was a latent group of buyers in the wings. Americans had been prevented by law from holding gold since 1933. With the collapse of the gold exchange standard on 15 August 1971, there was no reason for this prohibition to continue. On 31 December 1974 (another Moses generation period from 1933) the largest and wealthiest nation on Earth allowed its citizens to buy and own gold.

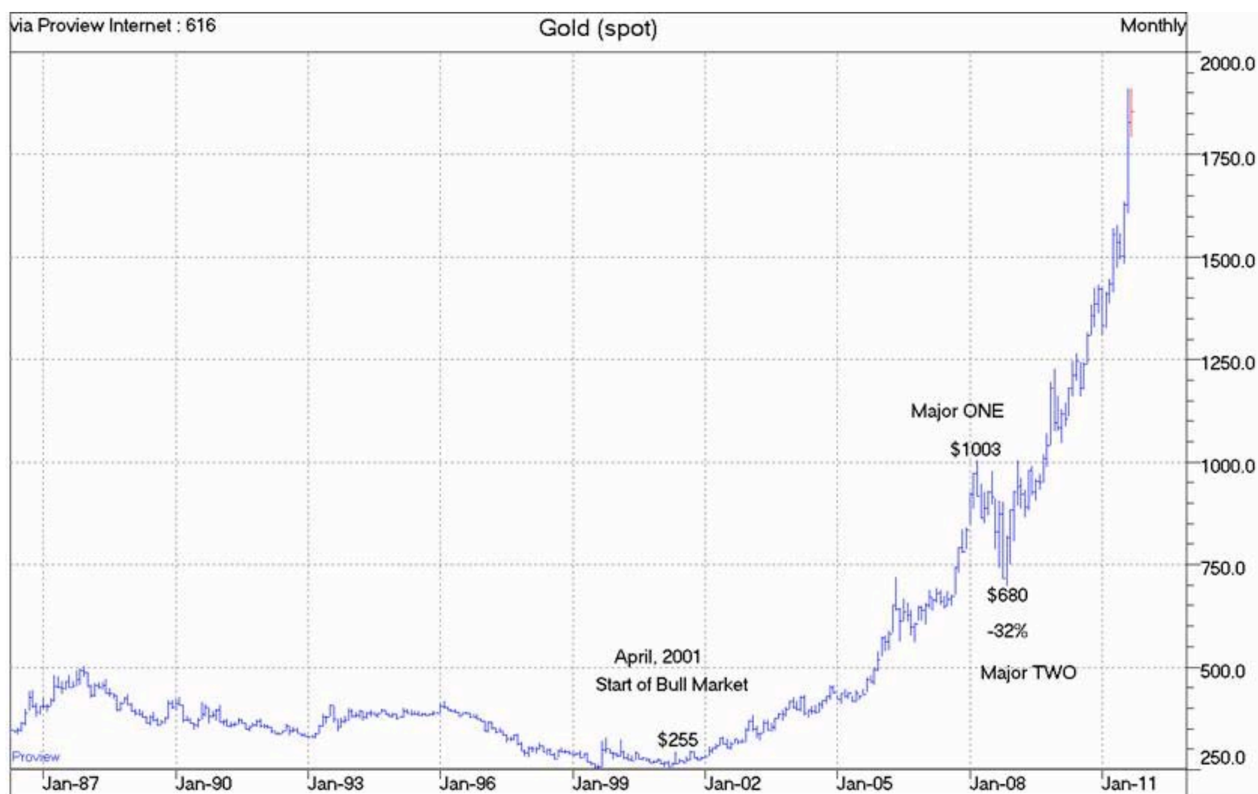
The obvious conclusion was that it was necessary to resort to technical analysis to find a way to predict movements in the gold price. I experimented with a variety of technical systems and then got lucky. I discovered that the Elliott Wave Theory (EW) gave superb results in predicting the gold price. I couldn't get the same great results using EW in other commodities or markets. EW is a complicated system with many difficult rules, but I will try and explain it in simple terms.

The technique is to concentrate on the corrections. In terms of EW, the sequence in a bull market is as follows. The market rises, has a 4% correction, rises, has a 4% correction and rises again. At this point the next correction jumps from 4% to a larger degree of magnitude, say 8%.

The market then repeats the sequence. A rise, a 4% correction, a rise, 4% correction, a rise and another 8% correction. When the market is eventually due a third 8% correction, the magnitude of that correction jumps from 8% to 16%. This sequence is repeated until two 16% corrections have occurred when the size of the next big correction jumps to 32%.

The beauty of EW is that the corrections in gold are remarkably regular and consistent. Early in 2002 I picked up the 4%, 4%, 8% rhythm in the gold market which convinced me that a new bull market had started in gold. Another feature of EW is that once one is confident that these percentages have been established and one has some idea of the approximate size of the up moves, simple arithmetic allows one to calculate a forecast of the future price trend.

Using this method I calculated that the gold price should rise from the $300 ruling in 2002 to at least $750 without having anything worse than two 16% corrections on the way. That was valuable information at that time. Furthermore, from the $750 target a big 32% correction could be expected to about $500. Then the bull market would resume, rising to perhaps $2,500 before another 32% correction occurred. The final up-move would take the gold price to much higher levels, possibly $6,000. Once again, a valuable insight when gold was $300 in 2002.



The gold price actually got to a shade over $1000 in March 2008, a four-fold increase instead of the expected three-fold rise to $750. That was the point at which the 32% correction was due. Over the next seven months the gold price in the spot market declined from $1003 to $680, an exact 32% correction. Using PM gold fixings, the numbers were slightly different. The high was $1011.0 and the low $712.5, making the correction slightly less than 30%, but quite adequate.

The above chart depicts the monthly spot gold prices since the start of the gold bull market in April 2001 when gold was $255. The 32% correction in terms of spot gold is clearly shown. The high at $1003 and the low at $680 established the extremities of the first two major waves of the bull market, shown in the chart as Major ONE and Major TWO. The gold bull market is in the process of working its way upward through Major THREE, often the longest and strongest wave in the bull market. There have been a number of interesting and unusual developments in Major THREE which will be discussed later.

I would like digress at this point to share with you the reasons why I started writing articles on Gold, EW and monetary history. The reason I am standing here today is the direct result of writing those two series of articles published on internet web sites. I am a self-funded retired person managing my own investments. Unlike most people posting articles on the web, I was not trying to sell subscriptions to a newsletter or get people to buy something. Nor was I writing to big note myself. So if I was not after fame, glory or riches, what was my motivation? The following two stories will explain where I was coming from.

These stories are intensely personal. Even close friends and relatives have not heard these stories. They are not meant to infer any self-aggrandizement nor are they an attempt to alter anyone's personal views. The two stories are linked and relate eventually to gold. Together they are the reason why I wrote the articles posted on the web.

The first story starts with an awful event where my son Richard was attacked by a lion. He and his fiancée Rebecca were managing a game lodge in northern Botswana. He took a couple of guests out on an early morning game drive. They followed the tracks of a lioness and three cubs down a dry river bed but lost the trail. When Richard got out of the vehicle to find lion tracks, the lioness launched herself at him from nearby shrubs. The lioness landed with her paws on his shoulders, dislocating one shoulder and driving him to his knees. She then whacked his head with her paws, virtually scalping him and nearly ripping his ear off. She then bit him on the back of the neck. Any person or animal subject to such an attack would almost certainly be dead.

Richard survived this vicious attack as a result of a series of miracles. The first miracle was that the bite on the back of his head had missed the vital arteries, missed the spinal column and had not penetrated the skull. If the lioness' bite had been fractionally deeper, higher, lower or sideways, that would have been the end for Richard.

(In the speech, I skip to the story of the beggar's sign. You can do likewise.)

The second miracle was that the couple in the vehicle reacted instantly. The wife yelled at the husband to get into the driver's seat and drive at the lion, blowing the horn and making a noise. This caused the lioness to back off. Richard was still conscious and managed to get himself into the vehicle. He was able to work the radio to warn Rebecca of what had happened.

The third miracle was that a couple of weeks prior to this event the local team of paramedics had visited the safari lodge to give the staff a lesson on what to do in the event of a lion attack. Rebecca remembered everything that they had said. She reacted with astonishing calm. She

assessed the wounds, called the paramedics by radio, got what she needed from the First Aid cabinet and then stayed with Richard staunching the blood flows until the paramedics arrived.

The fourth miracle was that after being flown to hospital in Gaberones, the capital of Botswana, Richard was allocated a doctor who fully understood how to treat lion injuries. He knew that he could not stitch Richard's head for several days due to the threat of infection. Lions do not use Colgate's tooth paste! Richard was given a full anesthetic on four consecutive days while the doctor cut away the portions that were infected.

Richard required very large amounts of blood. The paramedics had warned Rebecca that she should ensure that Richard was only given blood which was certified HIV negative. There was blood available but none of it came with the necessary certificate. How the vital blood was obtained was another miracle, but that story is too long to discuss now.

When the stitches were removed from Richard's skull, he was still left with a gaping wound at the back of his head. A skin graft from his thigh to the back of his head was required. A visiting plastic surgeon was able to do the necessary graft, but Richard had to later fly to Johannesburg for the surgeon to check that the graft had "taken" and to have the stitches removed.

(Story of the Beggar's Sign begins here.)

When we visited the surgeon he pronounced that the graft had "taken" and that Richard was absolutely OK. All he needed was rest and recuperation to be as good as new. Any parent who has lost a child will understand the anguish and pain that we endured going through this episode. Now our son, brother, and fiancée, whom we thought we were going to lose, had been saved and returned to us.

At last we could relax. Nothing could go wrong now. You can imagine the joy and jubilation in the car as we drove away from the surgeon's rooms. Then I saw a beggar at a traffic light. He was carrying a cardboard sign which read:

"No Money. No Food. Please Help Me. God Bless".

Impulsively I decided that I wanted to buy his sign and hang it on my wall as a memento of this happy day. I had 200 Rand in my wallet, probably more than he made in a month of begging. I called him over, showed him the money and said that I wanted to buy his sign for R200. He simply said "No!" The lights turned green and people were honking behind me, so I gave the R200 to the beggar and drove on, leaving the beggar with his sign.

After dropping Richard and Rebecca with friends I passed the same intersection on the way to my lodgings. The beggar was still there and I was now more determined than ever to buy his sign. I called him over to the car. "I gave you R200 an hour ago, do you remember?" He said that he remembered, clutching his sign protectively to his chest.

"I want to buy your sign for a special reason. Just tell me how much you want for the sign and I will go to the nearest ATM and get the money."

He shook his head and again said “No”, clutching his sign possessively to his chest. “It will only take you five minutes to make another one” I said, but that elicited another vehement “No” from him. The lights had changed and once again people were honking at me. “If you will not sell me your sign, at least tell me why you won’t sell it.” He replied “God gave me this sign!” I drove off with the words “God gave me this sign” reverberating through my brain.

I am an accountant and investment analyst by training. I am used to digging out facts, checking them and drawing conclusions from them. I am skilled at calculating odds and probabilities. The odds of Richard surviving such a terrible lion attack were off the charts. The odds of finding the only beggar in the world who would not sell his sign for any price were also astronomical.

I had always felt that I was in control of my life. I make the decisions and do things my way. Richard’s recovery from the lion attack was a situation over which I had no control and when I did try and take control of something and buy the beggar’s sign, I had been rudely rebuffed. The only logical conclusion was that God was giving me a sign that He was in control, not me. It was the most humbling moment of my life. Faith is a gift, but it seems that some people have to be bashed over the head in order to accept that gift.

This unusual story needed to be told in order to fully understand the second strange story that does deal with gold. The link came through the Priest in the London parish where we lived for a few years. He had been asked to request prayers for Richard’s recovery and as a result we got to know him quite well. He is a cricket fanatic. When I heard that he planned to visit Australia to watch the cricket series between Australia and England in late 2002 and early 2003, I invited him to stay with us at our house on the northern beaches for a couple of days after the Sydney cricket test in January 2003.

In due course I picked him up from the city. It is about an hour’s drive to our house, so we had plenty of time to chat. He wanted to know if I had done anything special over the past year. I responded that I had made a dramatic change in our family investments during the year, putting some 40% of our capital into gold, silver and mining shares. He was clearly interested and wanted to know why I had done this. I said that I could see a number of problems developing, especially in America, that would eventually result in a major financial crisis which would threaten to bring down the entire world money and banking system. The authorities would create vast new sums of money in an attempt to prevent this melt-down from happening, resulting ultimately in the destruction of paper currencies. This would require the establishment of a new monetary system and I expected gold to be a major part of the new monetary system.

He then asked a strange question: “How high do you think that the gold price can go?” I tried to dodge the question as I did not want to explain Elliott Waves to him, so I just said that gold would probably rise to extraordinary heights. I explained that the extent of the gold price rise depended on the quantity of new money created to ward off the anticipated crisis. He persisted, wanting to know what “extraordinary heights” meant. He obviously wanted a fixed number.

To mollify him I said that in the 1970’s bull market gold had increased 25-fold from $35 to over $850. If the new gold bull market was of the same order, then starting from a base of $255, the

current bull market could reach somewhere over $6,000 per ounce. He then wanted to know what the current gold price was. When I said it was about $300, he seemed satisfied.

The next morning the two of us went for a jog on the beach. He asked if I believed in prophecy. I said that I had not really thought about it. Given that there were prophets in the Old Testament who seemed to have the word of God and in the New Testament there were people who had the gift of prophecy, well yes, I guess that I probably had to believe in prophecy.

He then told me this remarkable story. In his London Parish there was a lady who did have the gift of prophecy. She had received several prophecies that had related to him which proved to be accurate. As a result he was convinced that she had the true gift of prophecy. There was an occasion when this lady received an unusual prophecy, quite different to anything she had previously experienced. She thought that if the Parish Priest telephoned her, she would know that she had to tell him about it. Indeed he did telephone, so she told him that she had received this very strange prophecy. She had been instructed to write it down and mail it to him. He was to keep it unopened until she called to let him know that it was time to open the envelope.

A few days before he was scheduled to fly to Australia she telephoned him to say that it was time to open the envelope. The prophecy consisted of just one line which read: **"The price of gold will rise to extraordinary heights!"** These were the exact words that I had used the previous day in our conversation in the car. He concluded that this prophecy was meant for me!

I was quite shocked, gob-smacked actually. I would normally have shrugged it off as an interesting story and forgotten about it. After the lion episode and my experience with the beggar, I was more inclined to take it seriously. What did it mean? There was nothing new in it for me, other than being a confirmation from a very strange source that my views were correct.

I felt that there must be a deeper reason for receiving such a strange message. I concluded, somewhat reluctantly, that if I had been given the talent and knowledge to see such a dramatic financial crisis coming down the track, then surely I had a responsibility to warn people about it?

The crisis that was coming had the potential to be the biggest event in the lives of the current generation. It was likely to become the most important factor governing investment decisions when the crisis arrived. So I started trying to alert people to the serious financial and monetary crisis that I could see coming and warn them to buy precious metals as protection.

Talking to friends and fund managers about my views, I ran head first into the Moses Principle. The new generation had not received an education on monetary history, nor what qualities money should have. I was met with glazed eyes and body language that showed no interest in what I was saying. I was talking in many instances to the "new rich" generation. They were the bankers, investment managers, stockbrokers, hedge fund managers and others who were massaging the vast sums of money and credit that had been created since 1971. They were taking their percentage of the funds that flowed through their businesses and were doing very nicely. They didn't want to listen to a grey-haired old fogey spruiking a coming crisis that was going to wreck the gravy train that they were living off. Clearly this method was a failure.

The solution was to publish articles on internet web sites to get my message across. I had to proceed slowly and cautiously, only giving information that people could accept at that time. It was April 2005 before I felt confident that I could write an article titled “The Seven D’s of the Developing Disaster” about the problems that I could see developing, all starting with the letter D, - debt, deficits (budget and trade), the US dollar itself, demographics (baby boomer unfunded entitlements), derivatives, dwellings, deflation (including deleveraging) and destruction, being the long running wars in Iraq and Afghanistan. This article is located at:

http://www.gold-eagle.com/editorials_05/field042805.html

When the financial crisis eventually arrived in 2007, it was sparked by derivatives (credit default obligations - CDO’s) and events in the real estate market (dwellings). The arrival of the crisis allowed me to write more aggressively. By late 2008 there was a much greater awareness of the problems and I felt that I could leave it to others to deal with the ongoing consequences.

In August 2003, in parallel with the money/economic articles, I started forecasting the gold price using the Elliott Wave system. Here too I had to proceed slowly. I felt that I could not reveal my longer term forecast for the gold price because it was so bullish that I would be branded as a nut case. When I wrote my final Elliott Wave article in November 2008 I did reveal the full picture, showing that there was a possibility that gold could reach the extraordinary heights of $10,000. At that time gold was in the $750 area. That article can be found at:

http://www.gold-eagle.com/editorials_08/field112408.html

IMPACT OF THE MOSES PRINCIPLE.

It is now time to return to the Moses Principle and its impact on the gold price. Perhaps the most important point is that the modern Moses generation has had very little exposure to monetary history. They do not understand what has caused the current financial crisis. If one does not know what caused the current crisis, one cannot know how to go about fixing it. Central Bankers and Finance Ministers are also part of the Moses generational change. By the late 1990’s the new incumbents had experienced a 20 year bear market in gold and were influenced by Keynesian economics.

They didn’t understand why gold was held in their country’s foreign exchange reserves and resorted to the wholesale selling of this unnecessary “barbarous relic”. Famously Gordon Brown sold two-thirds of Britain’s gold stock near the bear market lows in 2001/2002. Australia sold a similar proportion of its gold. The European Central banks were selling gold but had a joint agreement to restrict their combined sales to 400t per annum. Even conservative Switzerland sold some of its gold reserves.

Originally it seemed that Central bankers were selling gold to protect the integrity and longevity of their paper currencies. Perhaps, with the generational change, they did not know any better. Perhaps it was just the “thing to do” at the time. Despite this central bank selling, the gold price went up! Buying by investors/hoarders had exceeded official selling and a new gold bull market was born. Central bank selling of gold gradually declined. Recently central banks under the

leadership of Russia and Asian nations became net buyers of gold. The GFC has created a much greater awareness in official circles of the role that gold plays as a store of value asset in national reserves.

The distortions that have grown out of the 40 year period since 1971 have reached proportions that demand change. The problem is that the current generation does not understand that the root cause of the GFC is unsound money created at will by governments, combined with a banking system that has enabled the creation of an unsustainable mountain of debt. The modern generation is groping with the problem and gradually working towards understanding that the underlying cause of the crisis is monetary.

The modern generation will have to face some brutal truths as the world deals with the ongoing global financial crisis. The following are the brutal truths that apply to the USA and the world:

THE BRUTAL TRUTHS

1. **The slate needs to be wiped clean and a new sound monetary system introduced.**
2. **That will require the elimination of all debt, deficits, unfunded social entitlements, the US Dollar as Reserve currency, and the big one, the $600 trillion of derivatives.**
3. **To eliminate these problems by default and deflation will cause a banking collapse and untold economic pain, leading to riots and political change.**
4. **Politicians are appointed for relatively short terms and opt for the easy solutions.**
5. **While politicians continue to have the ability to create new money at will, they will do so in order to prevent a melt down on their watch.**
6. **Consequently the odds point to governments wiping the slate clean by generating enough new money to eventually destroy their currencies.**
7. **The new international monetary system is likely to involve precious metals. It will have to be money that people trust and that governments cannot create at will.**

This has happened many times before, dating back nearly 900 years to the first paper money introduced in China. History is full of attempts to use paper or fiat money, all of which ended in the destruction of that money. The last century saw virtually every South American country "wipe the slate clean" and begin again with a new money. Some did it several times. The Romans faced a similar financial crisis and resorted to reducing the silver content of the Denarius, eventually by about 95%, before people refused to accept the Roman coins.

There are two things that are different about the current episode. This is the first time in history that fiat or government issued currency has been in use in every country around the world at the same time. Secondly, we have an electronic money system which is very efficient. It enables new money to be created at a faster rate than ever before.

Every experiment with government issued fiat money has ended with the destruction of that money There is no reason to believe that it will be different this time. The world's 40 year experiment with floating "I owe you nothing" fiat currencies is coming to an end.

I have come out of retirement for this one off, once only, speech to warn that the good ship "***Life As We Know It***" is sinking.

You have the choice of getting into a life boat **now** or going down with the ship. The life boats consist of precious metals and other assets that will survive the coming currency destruction.

It is likely that gold will be the new unit of measurement or standard of value against which the performance of other assets will be judged. The challenge will be to find assets that perform better than gold.

The forecast contained in the "Brutal Facts" segment is not a pleasant one. It is unfortunately the most likely outcome. All that we can do is to "be prepared". It is vital for one's personal financial survival to take action now.

In conclusion, I would like to mention that my son Richard is married to Rebecca and they have a 4 and a half year old daughter with another baby on the way. They live in Sydney and Richard works for a local company organizing tailor made safaris to Africa for small groups. If you have any interest in doing such a trip, you can contact him at:

rfield@epicprivatejourneys.com

Alf Field
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7 November 2011.

ADDENDUM: Update of the Elliott Wave Gold Analysis

I promised that I would reveal some interesting things about the EW moves in gold since the $681 low in October 2008. That low was the start of the Major THREE wave. In Major ONE I mentioned that the corrections were 4%, 8%, 16% and then 32%.

We know that Major THREE will likely be longer and stronger than the prior Major ONE up wave. It is logical to expect that the corrections in major THREE will be a larger percentage than those experienced in Major ONE. This is how the first Intermediate wave of Major THREE developed in terms of London PM Fixings:

Intermediate Wave I in London PM Fixings

	Period	Prices	Change	%
1.	Oct 08 to Feb 09	$712.5 to $989.0	+ $276.5	+38.8%
2.	Feb 09 to Apl 09	$989.0 to $870.5	-$118.5	-12.0%
3.	Apl 09 to Dec 09	$870.5 to $1212.5	+$342.0	+39.3%
4.	Dec 09 to Feb 10	$1212.5 to $1058.0	-$154.5	-12.7%
5.	Feb 10 to Jun 2011	$1058.0 to $1549.0	+$491.0	+46.4%

These are typical of the beautifully consistent sizes of EW waves in gold. There are two up waves of about 39% and two corrections of about 12%. Several things can be determined from these numbers. In February 2010 it was possible to pencil in a target for wave 5 of $1470, being a 39% rise from the wave 4 low of $1058. The 12% corrections are larger than the 8% for the equivalent waves in Major ONE, which was expected. One can deduce that the correction to follow wave 5 will be one degree larger than 12%, possibly double this figure. The target for wave 5 of $1470 was exceeded mainly because this became an extended wave. It reached a high of $1549 for a gain of 46.4%. The chart below depicts these waves in London PM fixings:

Extended waves are simply waves that subdivide into an additional 5 waves. It happens mainly to 5th waves and generally makes life difficult for EW analysts. Difficult yes, but not impossible.. The analysis of the first extension, the extension of wave 5, is set out below:

Wave 5 of Intermediate Wave I – based on London PM fixings.

(1)	**1058 to 1261**	**+$203**	**+19.2%**
(2)	**1261 to 1157**	**-$104**	**- 8.2%**
(3)	**1157 to 1421**	**+$264**	**+22.8%**
(4)	**1421 to 1319**	**-$102**	**- 7.2%**
(5)	**1319 to 1549**	**+$230**	**+17.5%**
Wave 5	**1058 to 1549**	**+$491**	**+46.4%**

NOTE: From the $1319 start of wave (5) above, the target price was $1319 + 19.2%, the same gain as wave (1), giving a target of $1572. The high price for gold in wave (5) in the spot market was $1576 on a day (2 May 2011) when the UK had a public holiday and there was no London PM fix available. Thus the gain for wave (5) was stunted in terms of PM fixes. This is not satisfactory and it became necessary to revert to analysing the waves in spot gold prices to get accurate readings. This was also required in order to pick up the minor waves in the final two extensions which were explosive in nature.

To illustrate how to analyse gold using EW through this difficult period, it is best to work through the time line as it actually happened. As noted above, the expectation was that following the completion of the extended wave 5, a correction one degree larger than 12% would occur from the peak of wave (5) at $1576.

Gold had a minor correction to $1478 in the spot market and then started a sharp upward move. When gold went to a new high above $1576 the probability of the big 24% (give or take 3%) correction occurring at that time receded. The stronger probability was that a new 5th wave extension was underway. This was the first of the explosive series of extensions in gold. It became an historic sequence of four 5th wave extensions in declining orders of magnitude.

At the end of each extended wave, the spectre of the bigger correction (21% to 27%) came into focus. With each new high, the bigger correction was delayed and a new extended wave was born. At $1814, after three 5th wave extensions, the probability that $1814 was THE high was about 80%. Another extension at an even smaller degree was accorded only a 15% probability. The remaining 5% covered the possibility that the wave count was wrong and that a completely different outcome was evolving.

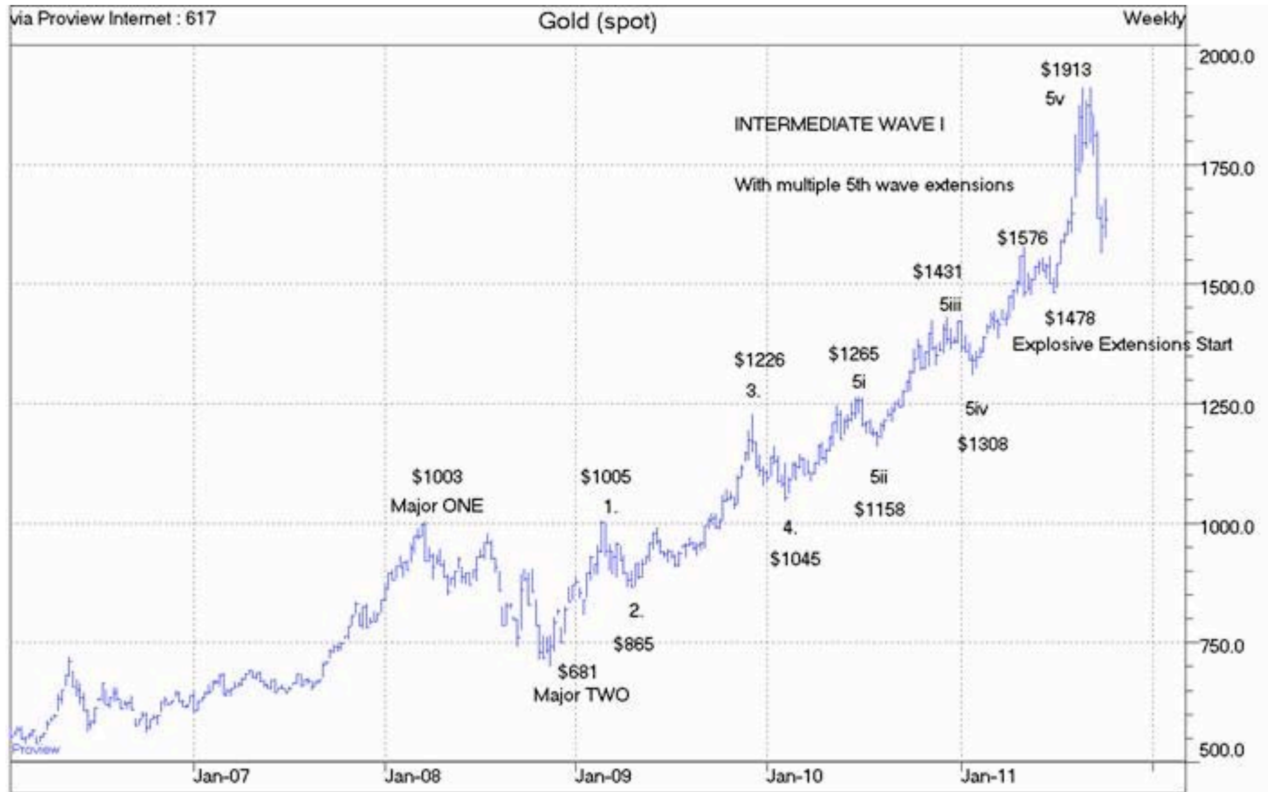
From $1814 gold had a minor correction to $1723, then blasted through $1814 to new all time high prices. The odds of a fourth 5th wave extension at the smallest degree changed from a meagre 15% to a 90% certainty. The wave count at this smallest degree helped to determine in real time that at a price over $1910 gold was in serious danger of an important top, with the bigger correction certain to follow.

Analysis of Intermediate Wave I including four 5th wave extensions:

Spot gold prices

Wave 1	1	681	1005	$323	+47.6%
Wave 2	2	1005	865	-$140	-13.9%
Wave 3	3	865	1226	+$361	+41.7%
Wave 4	4	1226	1044	-$182	-14.8%
Wave 5	5	1044	1912	+$868	+83.1%
Intermediate 1		681	1913	+$1232	+180.9%
Extension of Wave 5	(1)	1044	1265	+$221	+21.2%
	(2)	1265	1157	-$108	-8.5%
	(3)	1157	1431	+$274	+23.7%
	(4)	1431	1308	-$123	-8.6%
	(5)	1308	1913	+$605	+46.3%
Extension of Wave (5)	i	1308	1445	+$137	+10.5%
	ii	1445	1381	-$64	-4.4%
	iii	1381	1575	+$194	+14.0%
	iv	1575	1478	-$97	-6.2%
	v	1478	1913	+$435	+29.4%
Extension of Wave v	(i)	1478	1610	+$132	+8.9%
	(ii)	1610	1580	-$30	-1.9%
	(iii)	1580	1814	+$234	+14.8%
	(iv)	1814	1723	-$91	-5.0%
	(v)	1723	1913	+$190	+11.0%
Extension of Wave (v)	[i]	1723	1795	+$72	+4.2%
	[ii]	1795	1779	-$16	-0.9%
	[iii]	1779	1878	+$99	+5.6%
	[iv]	1878	1837	-$41	-2.2%
	[v]	1837	1913	+$76	+4.1%

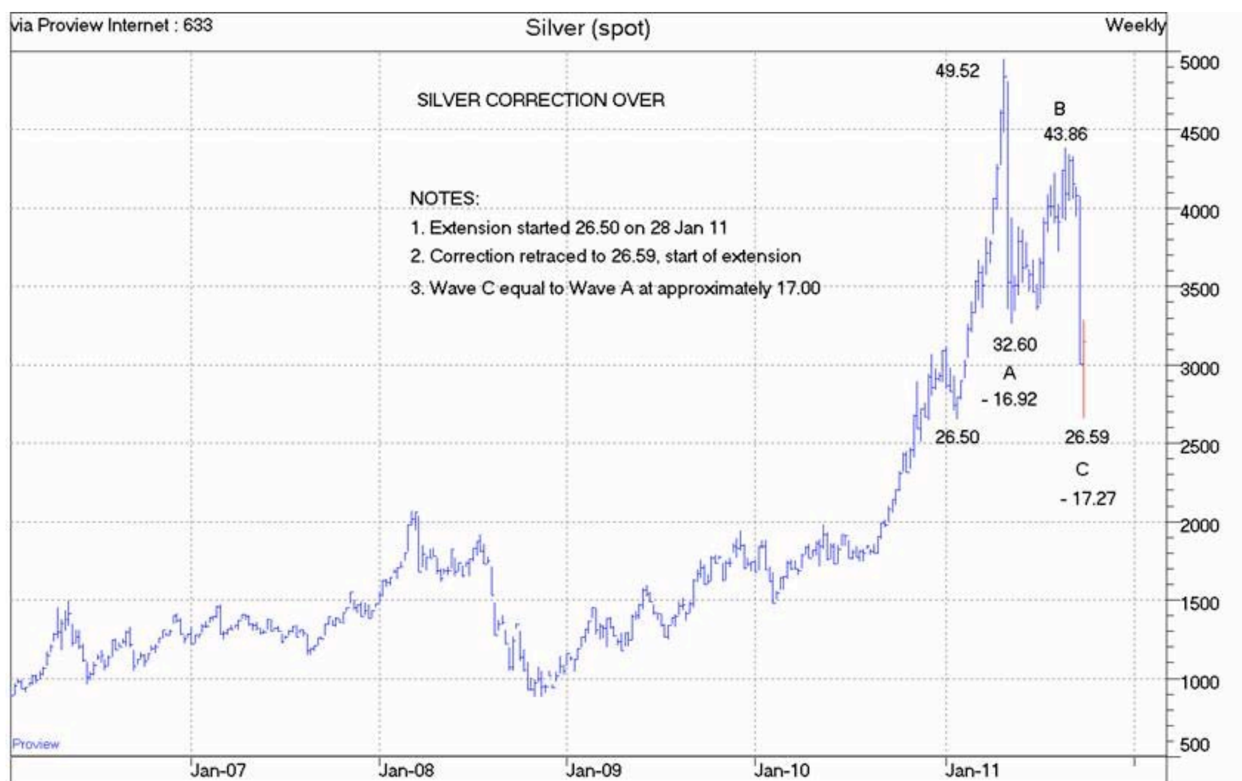
Note that the corrections in each successive extension are significantly smaller than the size of the corrections that ruled in the immediately prior or higher degree extension. In most instances they are about half the size of the corrections in the prior extensions, thus confirming they are extensions at smaller degrees of magnitude. The danger target of $1910 was calculated by adding 4% to the wave [iv] low of $1837, a similar gain to wave [i].



Both charts updated to 7 October 2011 and illustrate the wave counts described.

We can now consider the possible magnitude of the current correction from the $1913 top. The correction will be one degree larger than the prior corrections, 12% in PM fixes and 14% in spot gold, an average of 13%. That compares with 8% in Major ONE. Both 8 and 13 are Fibonacci numbers, so it may be that the next correction could be 21%, the next Fibonacci number.

In Major ONE, the corrections tended to double when they moved up a degree in magnitude, so one must consider 26%, double 13%, as a possibility. A 21% correction from the peak of $1913 gives a target of $1511. A 26% correction would target $1416. There is one further possible target and that is $1478, the point at which the explosive extensions commenced. The price of an item will often retrace the full amount of the explosive extension. There was a recent example in silver of such a full retracement of the explosive extension, see the chart below:



This analysis was prepared on 27 September 2011, the day after spot silver reached a low price of $26.59. The start of the extension was at $26.50 on 28 January 2011. A mere 3 months later, at the end of April, silver topped at $49.50, a very obvious explosive advance. Silver then traced out an A-B-C correction where the A and C waves were declines of similar size at $17 each, a typical EW relationship. At that low point of $26.59 on 26 Sept 2011 – the silver price had exactly retraced the full gain achieved in the explosive extension. The conclusion was that there was at least an 80% probability that the silver correction had bottomed at $26.59.

If gold retraces the exact gain achieved during the explosive advance from $1478 to $1913, which occurred in just seven weeks, it will represent a decline of 22.8%. That is nicely within the above anticipated range of 21% to 26% for the current decline in gold. There is a possibility that

the spike drop to $1531 on 26 September marked the low point of the correction in gold. The midpoint of the correction from $1576 to $1478 is $1527, close to $1531. If $1531 was the low, it was a decline of 20%. This is slightly below expectations, but it still qualifies as one degree larger than 13%. At the date of writing (7 Nov 2011), gold has recovered to $1767, which is a 61.8% retracement of the loss from $1913 to $1531 (-$382), a typical size for this type of recovery. That leaves open the possibility (40% probability?) that gold will have another dip to test the target areas mentioned. The higher the price goes above $1767, the greater the probability that the low was in at $1531.

Once this correction has been completed, Intermediate Wave III of Major THREE will be underway. This should be the largest and strongest wave in the entire gold bull market. The target for this wave should be around $4,500 with only two 13% corrections on the way.

Alf Field

7 November 2011

The word seems to be spreading.

A protester on Wall Street. Be careful what you wish for.