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Michael J. Kosares, Editor

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SPECIAL REPORT

Alf Field's Last Elliot Wave Update

by Alf Field

Editor's Note: There are three things you need to know about Alf Field. First, his forecasting on the gold market utilizing Elliot Wave Theory has been consistently accurate since his first essay in 2003. Second, he comes to a much different conclusion about gold's future than Robert Prechter, EWT's most famous practitioner. Third, this will be his final essay and for a remarkable and admirable reason which you can discover by reading on. -- Michael J. Kosares

As this is going to be the last of these Updates, it is appropriate to review the reasons for writing this series of articles on Elliott Wave and the gold price. This will involve revealing a lot of personal detail and also unveiling an extremely high forecast for future gold prices.

The first article titled "Elliott Wave and the Gold Price" was published on 25 August, 2003. This article can be reviewed here:

In August 2003 the gold price was in the region of $350 and there were a number of conflicting views about the future direction of the gold price. Robert Prechter, for example, was predicting a move to below $253 and possibly below $200. For a number of reasons I was of the opinion that gold was in the very early stages of a major bull market. My views were thus the opposite of Prechter's and I eventually plucked up the courage to say so.

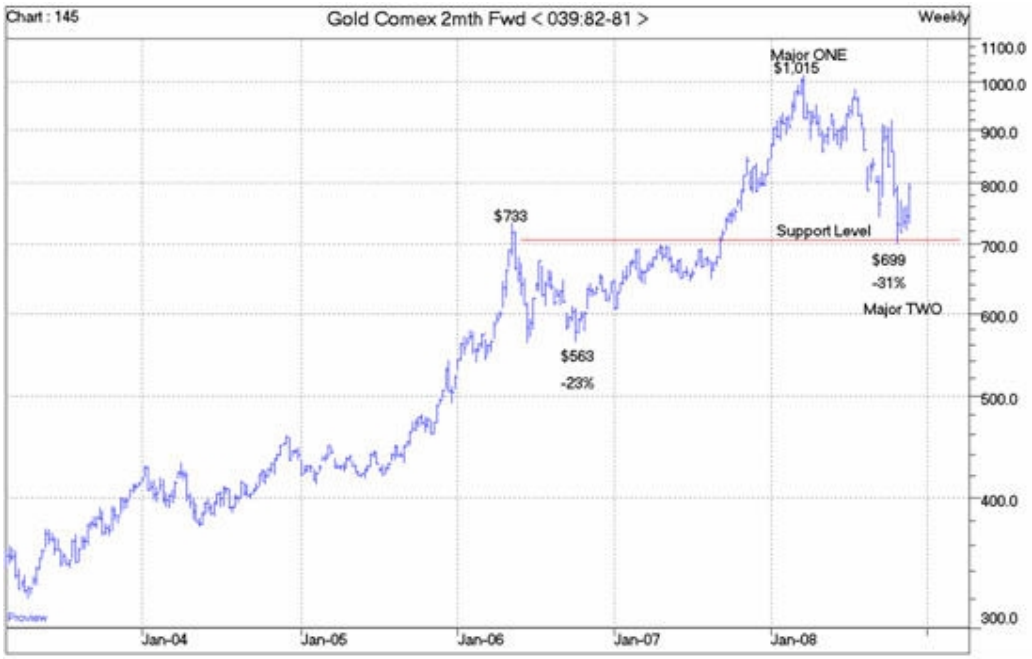
I count Robert Prechter as a friend, so my purpose was not to disparage his views. I was more interested in setting up some parameters or guidelines that would help determine the likely outcome if the gold price exceeded those levels. I concluded that if the gold price dropped below $309, the odds would favour Prechter's view. If it pushed above $382, then my bullish view would probably be favoured.

This was more than just an academic exercise because in 2002 I had made a major change to our family investments, moving some 40% of the capital into gold and silver bullion plus a selection of gold and silver mining shares. If Prechter's view prevailed, our family finances would have taken a serious drubbing.

Another reason for publishing the Updates was to illustrate a major advantage of the EWP, which is the ability

to prepare a template forecast (or "road map") of how the market is likely to unfold in both the long and short term, including the possible terminal prices. The original article produced a template based on the rhythms that had been observed in the early stages of the bull market, based naturally on the assumption that my bullish views would prevail.

The early stages of the bull market revealed corrections of 4%, 8% and 16% at increasing orders of wave magnitude. Those numbers were used in the original template published in that 2003 article, a template that forecast that the first major move upwards could reach $630 after which a correction of the order of 25% to 33% would probably follow. In fact, if the sequence had been extended logically, the larger correction should be double 16%, or 32%, but this was shaved to 25-33%.



I thought that the $630 forecast was conservative and that this number would probably have to be adjusted upwards later once the minor waves unfolded. In 2003, with gold in the mid $300's, a forecast of $630 was both courageous and extremely daring. There was no purpose served in taking the exercise beyond that point until after the $630 target had been achieved.

In addition, the 2003 article concluded that if $382 was surpassed, then the gold price would move rapidly to $424 without a serious correction. That did indeed happen, with gold reaching $425 before the anticipated correction occurred. That success encouraged me to write an article updating the original forecast. I did not anticipate that the consequence of that first update would be the production of this Update 23 some five years later.

There was a further undisclosed reason for writing these articles and that was to eventually highlight the massive potential of the gold bull market. I was reluctant to reveal what I really believed in 2003 as it was so

bullish that it would have invited the arrival of the guys with straight jackets and padded cells.

As this will be the last of these Updates, I will reveal my previously unpublished "back of the envelope" calculations in 2003. They were as follows.

> Major ONE - up from $256 to approximately $750 (a Fibonacci 3 times the $255 low);
>
> Major TWO - down from $750 to $500 (a serious decline of 33%);
>
> Major THREE - up from $500 to $2,500 (a Fibonacci 5 times the $500 low);
>
> Major FOUR - down from $2,500 to $2,000 (another serious decline);
>
> Major FIVE - up from $2,000 to $6,000 (also a 3 fold increase, same as ONE)

A case can be made for an 8 fold increase in Major FIVE, which would continue the Fibonacci sequence 3, 5, 8. You can do the maths if you like, but the fact is you can pick your own number for the gain in Major FIVE. Three times the low of $2,000 was actually the conservative expectation, producing a bull market peak target of $6,000.

I would not have invested 40% of the family capital into gold, silver and the corresponding mining shares based solely on my bullish EWP expectations. The following is a quote extracted from "Elliott Wave and the Gold Price" written in 2003 and referenced above:

"I am not a gung ho advocate of the EWP. I discovered not only its strengths but also its weaknesses. I prefer to have fundamentals, technicals and the EWP all in place (if possible) before committing myself to an investment."

As mentioned in this quotation, I prefer to have fundamental and technical analyses in line with the EWP before committing to a position. Obviously I was satisfied with the fundamental and technical outlook for gold when I made the dramatic change in our investment portfolio in 2002.

The technical analysis included the following:

> # 1. The 21 year bear market in precious metals had ended with the multi-decade down trend line being broken on the upside.
>
> # 2. The precious metal markets were oversold with sentiment and emotional indicators sporting extreme negative readings with bullish connotations.
>
> # 3. In the 1970's bull market, gold increased from a low of $35 to a peak of $850, a massive 24.3 times the low price. If the current bull market was to be of the same order, then one could project an ultimate peak of over $6,221 ($256 x 24.3). This matched the $6,000 target determined under the EWP.

The fundamental analysis was the real clincher. I had become convinced that the world, and especially the USA, was heading for a major financial crisis that would be so powerful that it would overwhelm all other

factors. It would become the single most important criteria impacting on investment decisions. Privately I referred to this as the "Big Kahuna" crisis.

I anticipated that the Big Kahuna would give rise to the risk of a systemic meltdown, which would result in the authorities "throwing money at problems", bailing out all the banks and large corporations that got into trouble. This would lead to the destruction of the currency. I wrote about this in more detail in "Seven D's of the developing Disaster" in April, 2005, an article that can be found at:

http://www.freebuck.com/articles/afield/050428afield.htm

The consequence of the systemic meltdown would be a vast increase in newly created money which would result in a massive rise in the gold price of the order that I was anticipating. A further consequence would be the introduction of new national and international monetary systems. Several articles followed in the next few years, culminating in "Crisis Cogitations" which was published just 2 weeks ago at:

http://news.goldseek.com/AlfField/1226560260.php

If you haven't read "Crisis Cogitations", I would urge you to do so in order to better understand the current crisis. Obviously the current financial crisis is the Big Kahuna that I had been anticipating, although I didn't expect it to take five years to emerge.

Reverting back to the situation in 2003, both the technical and fundamental underpinnings for gold seemed to be pretty solid. Consequently I felt confident that the bullish EWP forecasts, both the shorter term and the undisclosed longer term expectation, would work out. There was no purpose served in revealing the potential for the market to reach $6,000. To get there, gold had to get to the $630 target first, which was a sufficiently daring forecast in 2003.

The current situation:

The chart below depicts the Comex Gold price on a weekly basis. In February 2006, in Update IV, the $630 target was increased to $768 as a result of intervening market action. A couple of months later the gold price exceeded $630 and moved to $733 in May 2006. From that point a 23% correction to $563 occurred.

Confusion reigned because a relatively minor correction had been anticipated, to be followed by a rise to $768. Thereafter the long awaited 25% to 33% correction was scheduled to occur. Instead, the decline measured 23% and the obvious conclusion was that this was the long awaited 25% to 33% correction, albeit slightly stunted. Quite possibly I was overly influenced by my previously unpublished rough target of $750 followed by a decline to $500. The actual outcome of a peak of $733 and a correction to $563 was remarkably close to my rough estimate and seemed to adequately fit the requirement for the end of Major ONE and the corrective wave Major TWO. In coming to this conclusion I glossed over the fact that the correction to $563 was an obvious triangle, and triangles are almost always 4th waves, yet I was calling it a 2nd wave, Major TWO. I also glossed over the fact that the correction was below the 25% to 33% magnitude required.

I mentioned previously that the early corrections were 4%, 8% and 16% at increasing orders of magnitude. If one were to be pedantic, one would say that the next level of correction should be 32%. Looking at the chart below, the correction from $1015 to $699 is 31%! It sticks out like a sore thumb. Surely this is exactly the 32% correction that we should have been anticipating for Major TWO?

Assuming that the $699 low on 23 October 2008 turns out to be the actual low point of the correction, and that remains to be proven, then we can conclude that we have seen the low point for Major TWO. That will allow us to update my original "back of the envelope" template to much higher levels, as follows:

Major ONE - up from $256 to $1,015 (actually 4 times the $255 low);
Major TWO - down from $1015 to $699, say $700 (a decline of 31%);
Major THREE - up from $700 to $3,500 (a Fibonacci 5 times the $500 low);
Major FOUR - down from $3,500 to $2,500 (a 29% decline);
Major FIVE - up from $2,500 to $10,000 (also a 4 fold increase, same as ONE)

Once again, you can pick your number for the gain in FIVE and multiply it by $2,500. The numbers become astronomical and can really only be possible in a runaway inflationary environment, something which many thinking people are suggesting has become a possibility as a result of the actions taken during the current crisis.

Concentrating on the $3,500 target for Major THREE, which is a five fold increase from the low point of about $700, there is a case advanced in "Crisis Cogitations" for a five fold increase in money and prices in order to arrive at a "Less Hard" economic landing. In the USA, total debt recently exceeded $50 trillion and this is unsustainable given an economy with a GDP of only $14 trillion. The suggestion is that the debt level will reduce through bankruptcies to say $35 trillion while the new money created to save the situation will push up the nominal GDP to $70 trillion. A $35 trillion debt level is manageable with a GDP of $70 trillion.

It requires a five fold increase in prices to achieve the above result. Gold has retained its purchasing power over the centuries and will no doubt continue to do so in the current environment. Consequently gold will almost certainly increase five fold (or more) if the level of prices in the USA increases five fold.

In "Crisis Cogitations" it is acknowledged that the current credit/debt deflation could get out of hand and result in a serious deflationary depression. There is debate as to how gold will react in a deflationary environment, but the fact is that in a serious depression bankruptcies will be rife and price levels will decline. This may result in cash and Government bonds performing better than gold, but this is not certain. Gold cannot go bankrupt and is thus an asset that people can hold with confidence in a deflationary depression. It is possible that demand for a "safe haven" investment may be large enough to cause the metal to perform better than cash or Government Bonds.

The odds, however, strongly favour an inflationary outcome. Given a strong will and the ability to create any amount of new money via the electronic money machine, it seems a foregone conclusion that runaway inflation will be the end result. If Mugabe could do it in Zimbabwe, there seems little doubt that Ben Bernanke and his associates in other countries will have no trouble in doing it too.

Why quit writing these reports?

I have noticed from the emails that I receive that many people are using these reports to guide their trading activities in gold. I have had no objection to this in the past, but feel that it would be foolish to trade gold in the circumstances of the Big Kahuna crisis that we are living though at the moment. It has become a question of individual financial survival in an environment where things are happening more rapidly and with increasing violence. I feel very strongly that it is time to quietly hold onto one's gold insurance and not attempt to trade it. I do not wish to provide interim levels that may cause people to be encouraged to trade their gold to skim a

few extra fiat dollars or other currencies, but lose their gold as a result.

So it is Good Bye, Good Luck and God Bless,

Alf Field
25 November 2008
Comments to: ajfield@attglobal.net

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Previous commentary by Alf Field at GoldSeek

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