

FRIEDBERG & CO. LTD.

U.S. CORRESPONDENT: MOCATTA METALS CORPORATION
CLEARING MEMBER OF LEADING COMMODITY EXCHANGES

A Special Technical Report

C, S *

June 2, 1971

SILVER

N. Y. December 168.00

The major downtrend line that extends from the November 1969 peak to date has yet to be broken. The implications are clear: silver is still in a bear market, a bear market whose end may be far bloodier than what is generally conceded.

The Downtrend Line

Downtrend lines are lines that connect the outstanding tops or rallies of price that follow a downward course. They can be called momentum lines and, indeed, once arrested, one can conclude that the downward course or momentum has been stopped.

There is no magic to these lines; they are simplicity itself. The reason is clear. In a bear market, any rally may be the rally which will begin a new upward course. Generally, it is not until many months later, and in retrospect, that one can identify the rally that began the bull market. When a downtrend line, however, has been penetrated on the upside one automatically perceives of a change in trend. Whether this reversal is legitimate or is just an aberration in a long bear move is a moot question. Other technical and functional tools are immediately brought into the picture to solve the problem. The point is, however, that no bull market can begin without a reversal, and no reversal can be best measured and perceived than by the use of downtrend lines.

Once this axiomatic truth has been stated, one wonders why so many have engaged so much in guessing, crystal ball gazing and sophisticated economic formulations for determining the future course of silver prices when the answer has been as simple as drawing a straight line from the November 1969 top through the September 1970 top to date: a downtrend line that silver has been unable to break and, consequently, a lack of reversal, a continuity of the Bear Market.

The Case For Lower Prices

We have proved that we have not as yet entered a Bull market. (We will be wrong only if the downtrend line is penetrated.) Can this mean low prices ahead? Can it be possible? Our answer is yes.

Again, from a purely technical point of view, support exists at the 152.00 - 154.00 nearest contract basis. This support has proven itself capable of containing three declines: the Summers of 1969 and 1970 and the Winter of 1971. At this writing the nearest contract, June '71, is trading at \$1.61 or roughly 7 - 9 ecnts away from the support zone. This support looks increasingly suspect if one examines the amount of time silver spent in that range as compared to the amount of time it spent on the upper range, while sophisticated traders were selling to the gullible public. In our opinion this support (152.00 - 154.00 basis nearest contract) will be pierced on this fourth attempt and will lead to huge liquidation.

The Potential for Liquidation

The September 1970 top showed a total open interest of approximately 500,000,000 oz. if one adds the Chicago and New York figures. This combined figure stands today at over 600,000,000 oz. or 100,000,000 oz. more of potential liquidation.

It should be noted that until today liquidation has never been complete. Indeed, the stubbornness of the public (best indicated by the odd lot Chicago market) has resisted all previous shakeout attempts. The public has been led to believe in the inevitability of higher silver prices and naturally, the more time passes by, the more stubborn he becomes. Thus, he has switched from the nearest delivery month into the farthest ones without really losing his basic long position. One wonders what will happen to prices when he finally decides to give up and truly liquidate.

The largest concentration of open interest in New York (38%) lies in the July-September months, perhaps an indication of the timing of liquidation.

Strategy

Silver should be sold on any rally or on a stop silver 167.50 basis December 1971 (New York). Stop losses should be placed at 172.50 for the remainder of the week. Next week your stop should be lowered. Contact us if you have any questions. Our intermediate term objective is 146.00 basis December 1971.

Risk

A move above 178 basis December will signal the end of the Bear Market. We prefer not to outguess the downtrend line and do what comes naturally in a Bear Market: Sell.

SILVER COINS FUTURES

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July - 1205

Oct. - 1225

For those brave souls that insist on going long silver, let us suggest an "investment" (or at least an intelligent speculation): U. S. Silver Coins Futures.

This newly created contract consists of \$10,000. face amount of U. S. Silver Coins in the form of half dollars, quarters or dimes contained in ten bags of \$1,000. face value each. Each 1,000. in face amount of U. S. Silver Coins contains approximately 720 fine troy ounces of silver. In essence, then, an investor buying one Silver Coin Futures contract will enjoy a limited downside risk (as the bag cannot fall below its monetary value of \$1,000 no matter how low silver goes) while at the same time he will benefit from a rise in the price of silver to the tune of \$7.20 per bag for each 1¢ per oz. of silver. This is an excellent vehicle for long term investors and cautious speculators.

GOLD

London - \$40.85

After breaking through the psychologically important \$40.00 level, London gold has been trading narrowly between \$40.60 and \$41.20. Two important developments have occurred over the past two days:

(a) Unus de Jongh, Governor of The South African Reserve Bank, said that South Africa may not need to sell any more Gold to the IMF during 1971 because of the large net capital inflow registered in the first few months of the year, and

(b) Eurodollar rates have shot up to 8½% for one month and 8 1/8% for six months in the London Interbank market.

While on the surface the first development seems bullish for gold, upon closer investigation one finds the reverse to be true. Gold sold to the IMF becomes part of the world's monetary reserves and, as such, if is frozen as far as the marketplace is concerned. If South Africa holds the gold on reserve it then becomes a potential overhang in the market, and thus, is bearish. The second development is bearish too, as it raises the cost of holding gold, a non-producing asset.

Sell gold if it breaks \$40.25 on the downside (basis London spot).

COPPER

C, K * C

N. Y. September - \$48.05

A further boost in London Warehouse Stocks of copper to a record 92,725 tons from 88,425 the week earlier, brought additional selling of copper in both London and New York. Prices have retraced better than 80% of the previous rise to 59.50 basis September under the weight of heavy inventories and the possibility that even if a strike occurs this summer, it may be short lived.

The very steep downtrend line from the April highs is bound to be broken. Perhaps 45.40 will provide the support necessary for such a reversal.

We are inclined to stay out of the market at the moment due to the steepness of the decline. We do not want to be tempted to go long here either as the possibility now exists of a producer's cut in the price which would, psychologically, bring more weakness to the market. Adopt a wait and see attitude.

PLATINUM C,PT* January '72 - \$115.60 per oz.

.01 pt more = .50¢
-10 " " - 5.00
= 50.00

Here is a precious metal that is looking firmer by the day. A long term decline from \$300 per oz. achieved in August 1968 (basis nearest futures) to a recent climactic low of \$94.50 opens the possibility of a bull market build up in this most expensive of precious metals.

The largest hoped for market is in the anti-pollution field, especially in the auto sector where official demand and industry initiative are seeking swiftly to reduce environmental contamination. By year-end the President signed the "clean air bill", including a section on auto emission controls which demands that by (January 1, 1975) Detroit drastically cut emission of hydrocarbons and carbon monoxide and one year later, slash emission of nitrogen oxides. The bill provides for possible one-year extensions of the deadline which the industry is expected to seek and obtain.

One possible means for the industry is the use of platinum catalytic converters to control noxious emissions. The huge potential demand for platinum in this area acts at the same time as its main deterrent. If the auto industry chooses a platinum-based converter, it will need millions of ounces of platinum in excess of current output.

Technically speaking, resistance is evident in the \$120. area. In our opinion prices will push through this area and advance to \$130. (basis January 1972). Stop losses should be placed at \$112. this week and a bit higher next week. Risk in purchasing one contract - if the stop loss is touched - is approximately \$180. Reward, if our objective is met, is approximately \$700. or a ratio of better than 3.5-1. margin required to purchase one contract is \$1,000.

- Contract unit - 50 Troy ounces
- Contract months - January, April, July, October.
- Price fluctuations - Quoted in dollars per ounce.
 - Minimum - Per ounce 5¢
Per contract \$2.50
 - Maximum - Price variations in any one day is limited to \$10. per ounce above or below the previous day's closing price.

Call us at your convenience for further trading information.

Friedberg & Co. Ltd. conducts a brokerage business in commodities futures specializing in metals. Our U. S. correspondent, Mocatta Metals Corporation is a clearing member of leading U. S. commodity exchanges and specialists in silver, copper, platinum, gold and other non-ferrous metals. Through their facilities and through our Swiss correspondents, Julius Baer Co., Switzerland's largest private bankers, we maintain up to the minute information on the world's latest developments that may effect the price structure of metals.

We will be glad to answer questions that you may have concerning further trading and know you can profit through intelligent speculation.

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