STRONG BUY SIGNALS IN THE SILVER MARKET

The Silver market is witnessing repeat of a strong "Buy" signal this summer, as RIO Professional Investors' Fund continues to hold its Silver position.

As I mentioned in previous reports I repositioned RIO Professional Investors Fund during May this year acquiring additional holdings in physical Silver. This Fund has held positions in Silver since this repositioning pending my predicted upside in the metal. Members may recall the multiple reports which I wrote on Silver such as "Is this the Silver the lining" - e-mail from our central administration office based in Isle of Man on 26 February 2012.

The "buy" signal which I am highlighting below is directly correlatable to what the "big money" traders are doing in the Silver market and historically that's very important.

What is even more important is that this event has only occurred five times in the past 10 years, indeed since the precious metals bull market began, as earlier forecast. Arguably more importantly, had I bought Silver each time it was triggered, money would have been made every time!

Details

The last time this "buy" signal was triggered was in early 2009, and Silver went on to gain over 400% before cooling off in spring 2011.

Whilst on leave in Europe this summer I noticed that this rare but attention-worthy signal came into play, underpinning my "buy" recommendation to members and my repositioning of the Professional Investors Fund, executed during May. History indicates that this trigger is in play once more, with a strong rally in the Silver market likely to come which under pins my new trades set in May on behalf of RIO Professional Investors Fund.

For those interested the signal is based on data from the "Commitment of Traders" report from the Commodity Futures Trading Commission, or the CFTC.

The report which is released weekly is not just on Silver but covers a number of commodities. It clearly portrays the current positions held by the different participants in each commodity. By following these reports, interested parties can see who is buying and who is selling and tracking the flow of money in individual commodities.

Members should note that the participating groups in the commodities markets are divided in two: the commercial hedgers (known simply as the commercials) and the non-commercial traders (or non-commercials).

Who are theCommercials? These include the people who produce and use commodities, like farmers, miners, and utility companies.

Non-commercial traders are the big speculators, like hedge funds and wealthy individual traders, who are in the market purely to make money on changes in commodity prices. The important data are the net positions, which take into account the total number of long and short positions of each of these groups, which are tracked separately.

The important point to note is the positions of commercial traders. These are known in the industry as the "smart money", because they tend to be nearly always right on the big market swings. While they are not perfect, no one is, they are actually producing or consuming the commodities rather than speculating, and hence less likely to make the mistake of buying at high or selling at low prices.

The non-commercial traders, on the other hand, are often called the "dumb money", because they tend to buy at big market tops and sell at big market bottoms. The behaviour of this group at the "extremes" is more reliable and forms the basis of the"buy" signal, which is what is being triggered this summer.

Simply: whenever the net position of non-commercial traders has fallen below a certain level, for example 11,000 contracts to be specific, then Silver has soared.

When this signal appeared during 2003, Silver subsequently rallied 85% in that year. The second time the signal appeared in 2005 again resulted in gains of 113%. The third was during 2007, which sent Silver on another gain, this time 76% in around just six months. During 2009, when it last was seen, it sparked a two-year rally of over 400%.

But what makes the signal so reliable? This is because it takes advantage of one of the most important market indicators available: ***sentiment.***

When the non-commercial traders – the "dumb money" – own a very low net position in Silver, it means the average trader literally doesn't want to own it. They have sold their position or gone "short", meaning there are few positions left to sell. By definition, when there are few positions left to sell, there is little "ammunition" left to push the market lower. This type of extreme negative sentiment historically is almost invariably a sign that a bottom is near.

It is important to note that this is not a short-term trading tool. Prices could go lower still before turning around, but the indications are clear that this is a time to be buying.

This buying signal is important because if Silver were to match the smallest gains we've seen from the signal in the past 10 years, the market could see a return to its recent highs, near $50 per ounce.

For those members invested in the Professional Investor's Fund I positioned a sell order on Silver held by this Fund some time ago at just above $32, I believe that this could well be realised in September if my predictions are correct which the smart money seems to indicate.

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