

AN UPDATE ON THE GOLD/SILVER RATIO MODEL

In July of 2016, I proposed a Gold/Silver Model for intermediate trading. Let us review that strategy today and see what's its current message is. For review, the idea behind the model, as I proposed a year ago plays like this. I have Gold and Silver data dating back to 1983. The end of the year prices for each are given below. Over that period of time, the Gold to Silver ratio has averaged 66.5

GOLD VS SILVER PRICES 1983-2017							
YEAR	GOLD	SILVER	GOLD/SILV	YEAR	GOLD	SILVER	GOLD/SILV
1983	388.00	9.02	43.02	2001	279.00	4.58	60.93
1984	309.70	6.30	49.20	2002	348.20	4.80	72.53
1985	331.10	5.83	56.83	2003	416.10	5.95	69.90
1986	406.90	5.40	75.35	2004	438.40	7.16	61.23
1987	488.90	6.68	73.17	2005	518.90	8.82	58.83
1988	412.30	6.04	68.28	2006	638.00	12.82	49.77
1989	405.20	5.21	77.80	2007	838.00	14.80	56.63
1990	396.20	4.19	94.51	2008	884.00	11.27	78.46
1991	355.20	3.88	91.48	2009	1096.20	16.82	65.16
1992	333.10	3.67	90.71	2010	1421.40	30.91	45.99
1993	391.90	5.09	77.04	2011	1566.80	27.88	56.21
1994	384.40	4.87	78.87	2012	1675.80	30.17	55.54
1995	388.10	5.16	75.17	2013	1202.30	19.34	62.17
1996	369.20	4.74	77.89	2014	1183.90	15.56	76.06
1997	289.90	5.93	48.86	2015	1060.30	13.77	76.97
1998	289.20	4.99	57.98	2016	1050.00	15.94	72.15
1999	289.60	5.41	53.50	2017	1150.00	15.94	72.16
2000	273.60	4.59	59.67	JUL7	1209.70	15.40	78.55
AVG GOLD/SILVER RATIO = 66.5							

Some metal traders feel that Silver has traditionally attracted more speculative interest than Gold due to its lower cost and is more inclined to get overbought/oversold than its sister metal. But regardless, my original position was regardless for the motivation for the divergence in the two metal prices, one would expect that relationship to work back to a norm over time? My analysis was prompted at the time by the observation a year ago that Gold and Silver which I have with a 0.88 correlation over the last year, weren't exactly in sync at the moment, due to fluctuations centered around the Brexit events.

The trading model I proposed was that given a historical Gold/Silver relationship of 66.5,

1. If the G/S ratio reaches 80, Sell Gold short and Buy Silver
2. If the G/S ratio reached 50, Buy Gold and Sell Silver Short.
3. Hold the above trades until ratio reaches neutrality (66.5), liquidate and sit in cash.

GOLD/SILVER RATIO MODEL TRADING RESULTS

Below are the results of the model dating back over the life of my metal database, 1983-today.

1. Assume you take a \$100,000 position in each side of the Gold & Silver Position.
2. There have nine profitable trades, with the 9th trade still open.
3. At the onset, the ratio was 41.31, dictating, LongGold/ShortSilver
4. 100% of the profit comes from Silver position, and you could argue drop the Gold position, but I view Gold as the position hedge and it successfully offset the one Silver loss in Trade #6.
5. But continuing 4, one could certainly experiment with derivations of initial model for enhanced backtested returns, for example,
6. Model returns would be enhanced considerably, if I reflected money market returns during cash positions

Wayne Whaley's Gold Silver Ratio Trading Model Results 1983-July7, 2017

Trade	Date	Gold	Silver	G/S	Trade	GoldProfit\$	SilverPosition\$	Combined\$
1open	19830103	453.40	10.98	41.31	+/-	0.00	0.00	200000.00
1close	19860401	334.43	5.05	66.26		-24443.53	59652.34	235208.81
2open	19900124	418.76	5.23	80.05	-/+	-24443.53	59652.34	235208.81
2close	19950504	392.13	6.12	64.08		-22148.21	89655.59	267507.38
3open	19961106	377.61	4.70	80.34	-/+	-22148.21	89655.59	267507.38
3close	19970909	304.05	4.71	64.56		-2942.93	91836.86	288893.94
4open	19971210	284.11	5.83	48.69	+/-	-2942.93	91836.86	288893.94
4close	20010809	273.67	4.20	65.17		-2411.35	115520.09	313108.75
5open	20030529	369.57	4.57	80.83	-/+	-2411.35	115520.09	313108.75
5close	20040112	426.67	6.61	64.59		-17561.50	154059.03	336497.53
6open	20060330	588.15	11.90	49.41	+/-	-17561.50	154059.03	336497.53
6close	20080905	797.43	12.25	65.09		26382.94	134208.03	360590.97
7open	20081010	855.04	10.55	81.01	-/+	26382.94	134208.03	360590.97
7close	20090527	953.21	14.84	64.23		12460.05	176672.22	389132.25
8open	20101109	1409.99	28.90	48.79	+/-	12460.05	176672.22	389132.25
8close	20130624	1275.56	19.49	65.46		7477.96	196411.53	403889.50
9open	20150826	1126.95	14.02	80.39	-/+	7477.96	196411.53	403889.50
9	20170707	1209.70	15.40	78.55	open	-1587.02	211230.50	409643.47

I don't consider myself a student of Metal fundamentals, but I would assume this is such a natural approach to metal evaluation that similar has been done by many others. I didn't take the time to research the history of such, and if I broach on anyone else's work, apologies. My intent was to observe that Silver still looks a little cheap, at least relative to Gold.