# Article – A Date With Destiny

A Date With Destiny
By
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I'm going to step back from the manipulation discussion and focus on a different issue instead. That's not to suggest that the resolution of the ongoing manipulation is not the most immediate critical factor influencing the price of silver. Of course, it is. When the manipulation is terminated, we will witness a completely different pricing structure in silver. But even when the price is jolted and set free upon the manipulation's demise, that will not be the end of the silver price saga. It could well be just the beginning.

Last month, I received an unusual email from a long-time reader. What made it unusual was the nature of the contents. This reader had followed my presentation of the facts for several years and had done his homework and had invested in silver accordingly. All with profits, no regrets and future long-term great expectations. Nothing unusual in that. What made his note unusual was that he was asking for advice; not for himself, but for the company he works for.

He works for a very large company, a name you would recognize at once. Obviously, I would not violate his confidence by naming him or his company. But it is among the 15 largest public companies in the US. with a market capitalization of more than $100 billion and he holds an important position. He was concerned for his company in the event of a genuine wholesale silver shortage and sought my advice on how to approach presenting his concerns to the appropriate parties within the company.

My response to him was that he was to be highly commended for his concern for his company, but he had to be very careful to not damage his own reputation and career. It was quite possible that any suggestion by him that his company lay in a good supply of silver to prevent future disruptions in operations might be misconstrued and backfire on him. That said, I found his sentiment noble and agreed to help in any way possible. He answered he would proceed carefully and with a well thought out plan with full disclosure of his personal silver investment position.

Allow me explain why this reader has captured the essence of what will propel silver prices to the heavens, long after the thrust from the end of the manipulation has run its course. This is not a new thought process on my part. In fact, it is a theme I have introduced and written about for more than a decade. There are too many articles to reference them all. Perhaps even more than the manipulation itself, I consider it a signature issue. I'm talking about the coming certain panic among industrial consumers of silver when the shortage hits in full force. I can't tell you when this panic will hit, but I can assure you that it will hit. It is inevitable.

What makes me so certain that the industrial users of silver will panic at some point? That's simple – the physical realities of silver and basic human nature.

The physical reality is that so much silver has been depleted from existing inventories over the past 60 years, that there is less remaining in those world inventories than in hundreds of years. Yes, mine production has grown steadily over those 60 years, but so has industrial consumption and other uses for silver. This has resulted in the dramatic drawdown of inventories, by over 90%. Yes, the world stopped depleting world inventories in the past two or three years. But, in my opinion, it's too late to prevent the coming user panic.

It doesn't matter that world silver inventories have stopped shrinking, for obvious reasons. They are so low now, that it really doesn't matter if they go lower. More importantly, a completely new force has emerged – widespread investment buying. Later, I'll explain why this investment demand is such a special factor, unique to silver. These physical realities have sealed the fate for the coming industrial user panic. Add these physical silver realities to human nature and there must be a user panic at some point.

Let me stop and define what I mean by a silver user panic. The industrial world has become well entrenched in the Â?just-in-timeÂ? inventory management process for more than 30 years. Just-in-time means little or no inventories on hand. Thanks to computers and sophisticated delivery systems, goods of all types are delivered at the very last moment. It is not uncommon for vital components in a finished product to be delivered literally hours before they are used in an assembly line. The incentive behind the just-in-time inventory process is the tremendous savings that result from not spending precious capital on storing raw and finished goods. So powerful are the returns to the bottom line, that it is no wonder that the delivery at the last possible moment process has become universal.

The obvious risk in the just-in-time inventory process is that any unexpected break in the delivery process can cause a great impact. A disruption much greater than in the former old-fashioned and expensive way of doing things, namely, maintaining plenty of inventories of everything to insure smooth production cycles. Any number of factors can disrupt the just-in-time process; labor strikes, weather and natural disasters, shortages of key components or raw materials. With no stored inventories to fall back upon, a scramble begins to fix the break.

Here's where a user panic can set in. If the break in the process is because of a developing shortage of a key component necessary for the finished product, those responsible will expend all efforts to securing that component. No one will simply sit by and watch production assembly lines shut down and their business die for lack of a single component. Moreover, if the needed component or material is one that is needed by many other manufacturers, a fierce competition is likely to break out in which many scramble to secure the material in question. In short, a user panic. Ironically, the attempt to secure extra quantities of the needed material actually intensifies the shortage, as those securing extra quantities are necessarily depriving others, worsening the panic.

Human nature plays a big role. I can tell you from much personal experience, that when a hurricane is set to hit, if you are not fully prepared, it's best to panic early and not later. The mad scramble for food, gas, and other supplies is like clock-work. Anxiety runs high. Price becomes a secondary consideration, securing needed supplies in paramount. I'm not mocking this group behavior, as I'm usually part of the mob seeking supplies. It's just human nature. My point is that those responsible for keeping the production assembly lines open are also human, and when they are faced with a shortage of something that threatens the production lines they are also prone to panic. And just like my advice in a hurricane, if you are going to panic, do it early.

There are many factors that make silver the perfect candidate for a user panic. The shockingly low level of verifiable historical world inventories, the lowest in centuries, sets the stage for a severe shortage. There is truly very little silver available in a user rush to buy. The fact that the amount of silver used in a typical industrial application is so small, relative to the total cost of the finished product, makes the cost of securing additional quantities of inventory inconsequential. Securing six months or a years worth of silver inventory would be a financial snap for most silver-using companies. Unlike most raw materials, silver is very storable, in that it takes up virtually no space and requires no special holding requirements, relative to other materials. By comparison, where would a user store fuel, in the event of a shortage?

Please remember that I am not just talking about price protection in a silver users panic, I am referring to a true shortage of supply – not enough physical material to go around. If it were merely a matter of protecting against a large price increase, an industrial silver user could buy a listed futures contract or an over the counter derivatives contract. Nice and simple and easy. But in the certain coming silver shortage, such contracts won't be worth the paper they are printed on. In a true shortage, there must be a breakdown in the delivery mechanism. That's always the first thing to go in a shortage. It even has it's own special name. It's called force majeure.

But there is one special factor that insures that the silver industrial users have a date with destiny. That factor, unique to silver, guarantees that the users will panic and attempt to build inventory at some point. The factor is investment demand. How many times have you've seen me refer to silver as being unique among all commodities in that it is both a vital industrial commodity and a age-old basic investment asset? Hundreds of times? Well this unique dual role carries particularly special significance for the silver industrial users. The reason is simple – competition.

Unlike any other industrial commodity, the users face no competition for supplies from broad numbers of investors, except in silver. Sure, a small number of hedge funds and other speculators do buy other industrial commodities from time to time, but generally not in physical form for long-term investment purposes. In silver, more investors than ever are buying it in physical form (including ETFs) than in history. I think this is due to my long-held conviction that more will buy and hold as the real silver story becomes known.

Such investment buying deprives the industrial users to unrestricted access for the very limited amount of silver in existence. That's why it doesn't matter that world silver inventories are no longer shrinking. Because investors are buying physical silver, the effect on inventories is exactly the same – there is less available for the users. Again, this is highly unique to silver. Most importantly, investment demand can ignite in a heartbeat, just like user inventory buying. Supply from production cannot so ignite. This creates the likelihood of a mismatch between supply and demand at any time, that only a high enough price can remedy.

Not only is silver unique to all other industrial commodities, in that it is a primary investment asset as well, it is unique to its age-old companion, gold, in that gold is primarily an investment asset with very little industrial demand. This is a theme that I have endlessly tried to make. This is the critical difference between silver and gold. Not good, not bad, just that they are different in this sense. Gold can go to any high price that anyone claims, for a wide variety of compelling reasons. But gold will never go into a true shortage with the gold industrial users panicking to build inventory. Gold inventories are the highest in history, while silver is at the lowest level in centuries. Not only will silver climb for all the same reasons given for gold's anticipated price rise, silver is destined for a user panic.

While the timing for the coming user panic in unknowable, it is easy to imagine what could set it off. All it will take are delays in normal delivery times in our just-in-time world. Just-in time means today, not tomorrow. At the first hint of delays for getting silver, some users will move to secure additional inventory. That will necessarily cause further delays for other users, resulting in more and more inventory buying. This will set off the mile-long string of firecrackers that I wrote of many years ago. At that point, the panic must burn itself out, at the highest prices imaginable.

The impact on price when the silver industrial users panic and attempt to build inventories is almost beyond comprehension. At least, it's beyond my comprehension. I honestly don't know how a price could be calculated in a shortage situation. I do know that it is not a linear or logical analysis. It involves a large amount of emotion.

In a hurricane panic, with lines of cars and trucks snaked around all the gas stations in the area, I have told myself I would pay any price I could afford, if I were given the chance to fill up. What price would a hundred billion dollar corporation pay for a supply of silver to insure it can continue operations and not lay off employees? What price would it pay to protect its survival as a going concern?

Some may suggest that because we have never have experienced a wholesale shortage in silver, that we never will. That's like claiming an area in a hurricane zone can't be hit because it hasn't been hit yet, or in a long time. Besides, as time has evolved, the evidence of the coming silver shortage has increased, including the tightness witnessed on the retail side for more than a year. The long-term price manipulation has aggravated the coming shortage beyond description.

The email I received from the concerned employee was no fluke. The silver wholesale shortage is dead ahead. The industrial users are completely unaware and have been lulled into a sense of complacency about something they have never experienced. That complacency is about to be shattered. In the coming clash for silver supplies between users fighting for inventory and investors fighting  for positions in which to profit, the only question is how high the price will climb. Think of the highest price you can imagine and it will still be too low. But before you think of those high prices, please make sure you are holding all the silver possible.

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