

Nov. 2, 2009 – The Silver Challenge

(Here's an article I just wrote for Investment Rarities that will be mailed to their clients in the next week or two. It's geared to those newer to silver than subscribers, but I thought it might be of value to you as well.)

The Silver Challenge

Recently, Investment Rarities, Inc. has been heavily marketing an investment in silver through magazine (Forbes) advertisements and television commercials. To my knowledge, this is somewhat unusual, in that most similar marketing efforts by other companies involve the purchase of gold, not silver. Since IRI first started sponsoring my research nine years ago, most of their marketing thrust has been silver-oriented. As a result of the response to their current marketing campaign, Jim Cook, the president of IRI, asked me if I would address the question of investing in silver from the perspective of someone brand new to the issue.

This is always a worthwhile exercise, as it forces me to ratchet back from the micro- details that typically consume my analysis. It's a good thing to be asked to explain why someone new should invest in silver, and my responsibility, as I see it, is to explain a very complicated issue in simple terms. For those already well-versed with the real silver story, I'm expected to answer detailed and well-thought out questions. But, I know if I start talking about things like concentrated short selling and manipulation and prospective regulatory developments in the futures market, someone new to the subject is going to scratch his or her head and move onto something else. I know that would be my reaction if I were in their place. So let me get down to basics.

The first and most important reason why someone new to silver should seriously consider it as an investment, in my opinion, is because silver will make you more money in the long run than anything else of which I'm aware. I admit that's a pretty strong statement, so let's see if I can back it up. The only legitimate way to back such a statement is by looking at the past record and by considering the current facts and future prospects.

When I first started writing for IRI, nine years ago, the price of silver ranged between \$4 and \$5 per ounce for several years. In fact, because the price of silver averaged close to \$5 for the decade prior to my association with IRI, in late 2000, it was an investment asset largely neglected. Although there was near universal disdain for silver as an investment, I knew and wrote that the real facts surrounding silver were wildly bullish. Furthermore, I also knew that there was a good explanation as to why the price was so low for so long, in spite of the bullish supply/demand fundamentals. That explanation was because silver was manipulated in price, mainly due to excessive and uneconomic short selling on the COMEX, the principal world silver exchange.

Those early investors who came to believe, like me, that silver was undervalued and took the time to investigate and then invest, have been richly rewarded. While volatile, the price of silver has climbed as much as 400% to 500% from the lows earlier in this decade. There are not many assets that have performed as well over the past nine years, especially when you include only assets that could be invested in easily. Certainly, the stock market and real estate have proven to be dismal failures when compared to the price appreciation that silver has recorded since the end of 2000.

While no one can turn back the clock and make \$4 silver available again, I think an investment in silver today will yield returns similar to those achieved by the investors fortunate to have acted years ago. That's because the facts in silver today are more bullish than they were 9 years ago. I will outline some of those facts in a moment, but first I would like to make it interesting.

Years ago, I wrote an article for IRI also titled like this one, "The Silver Challenge." The challenge was simple: I'll point out the facts in silver, as I see them, ask you to investigate those facts, and then I'll challenge you not to invest in silver when you are done investigating. Obviously, I believe that the facts in silver are so compelling that if you do your homework, you will buy it. I will tell you that I have yet to run across anyone who has ever come back to me after a thorough investigation of the silver facts and chose not to buy silver.

Here are the facts. In addition to being a widely-recognized precious metal and store of value for 5,000 years, silver became a vital industrial material in the past century, necessary in thousands of modern applications. That's because silver has properties superior to any other material, such as, being the best conductor of electricity, the best reflector of light, the best heat transfer agent, an important photographic chemical, and being used in a wide variety of medical applications. Due to these unique properties, the world embarked on a silver consumption binge over the past century. So great was this consumption appetite, that silver production couldn't keep pace with consumption, and inventories were drawn down to balance the supply/demand equation. By 2006, after 60 continuous years of the world consuming more silver than it produced by mining and recycling, above ground inventories of silver bullion had been depleted to the lowest levels in hundreds of years.

In 1940, the world had 10 billion ounces in total silver bullion inventories, with the US Government the largest single holder at 6 billion ounces. Today, the US Government holds zero ounces, and there appears to be no more than 1 billion ounces of silver bullion in existence, down more than 90%. The depletion of world silver bullion inventories has been so dramatic that it has created a situation that when first learned, causes disbelief. There is now less silver bullion in the world than gold bullion. The disbelief is caused by the question, how can gold be more than 60 times the price of silver, if there is more gold bullion in existence than silver bullion? That's a very intelligent question. Let me make it easy for you — if you are pressed for time in taking my silver challenge, confine your investigation to that one question. You will discover the fact is correct; it's the price of silver that is wrong.

If you have more time, please also investigate the fact that, for the first time in decades, the net investment flow into silver has exploded. More silver has been bought as an investment over the past three years than was cumulatively bought in the past 60 years. This investment pattern is expected to continue and intensify in the years ahead, as more people around the world learn of the incredible facts and undervaluation of silver.

If you do investigate the facts and confirm the depletion of world silver inventories, its rarity compared to gold and the burgeoning investment demand, just for starters, you will inevitably be confronted with the simple question that I was originally confronted and challenged with 25 years ago. That question is, with all these incredibly bullish facts in silver, why the heck is it so cheap? I think I can save you the many years of my own personal investigation and study by pointing you to the manipulation of the price due to excessive and concentrated short selling on the COMEX. It would be an understatement to say I have written extensively on this topic. All past writings are available and only require an investment of your time.

As was true when I first wrote of the silver challenge years ago, silver represents the single best investment available. All you have to do is take some time to investigate the real story and use your common sense. If you do that, and take the appropriate action and invest in silver for the long term, you will be as rewarded in the years to come, as were the silver investors who did so in the past.

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