

November 23, 2011 – The Long View

### The Long View

With more financial uncertainty in the world than in memory and with short term price volatility going through the roof, it's hard to think about the long term. Modern life is saturated with thoughts of the near term. What's coming next for the economy, with Europe and China, with the coming election? What's the market (any market) going to do this morning or this afternoon? Previously held beliefs are cast asunder as soon as they are widely accepted. Real estate goes from a can't miss investment to looking doubtful for the next decade. Stocks boom for a decade and then go flat for the next. Everything is subject to radical and unforeseen change.

The only problem is that our lives are still measured in the long term. Sure, we should live our lives one day at a time, but we must plan beyond that. In financial terms, starting families, raising and educating children, preparing for retirement and preserving hard-earned wealth are not day to day considerations; we are forced to look ahead. And we must realize that in looking and planning ahead, there is no crystal ball; no guarantee that things will turn out as we expect. All we can do is to make assumptions based upon what we now know and then try to financially position ourselves for what may come. Try to imagine that you are going on a journey for ten or twenty years and will be out of touch for that time. With no short term trading allowed, what assets would you choose to be invested in until your return?

With that in mind, I would ask that you consider an investment in silver as part of your long term investment plan. Why silver? Because it is an asset that can offer spectacular returns and preserve value with low risk. It is a vital resource and essential industrial material, in addition to being a precious metal and accepted investment asset. And because so few investors are truly familiar with the real silver story, it is a near certainty that story will become more appreciated as time evolves. There are long term forces at work suggesting restrictions on the future supply of silver and forces in play propelling demand. On the supply side, silver does share commonalities with other metals. Every metal resource in the world generally becomes more expensive to produce each year. That's due to the growing cost of extraction and because ore grades have declined (the biggest and cheapest deposits have already been found and exploited). The grades for silver oz per ton of ore 150 years ago at the Comstock Lode were hundreds of times richer than grades being discovered today. Simply put, it takes greater effort and expense to extract metals from the earth, to say nothing of environmental and geo-political restrictions.

On the demand side, there are more people in the world every day and those people are striving for a greater standard of living, particularly in emerging markets like China and India. The world population now stands at 7 billion, 750 million more than ten years ago. Over the next ten years, the world will add another 750 million and perhaps a billion people more on top of that over the following decade. Over 20 years, that's the equivalent of the current population of the US times 6. And it's not just population growth, but an expected increase in the standard of living throughout the world. One measure of an increased standard of living includes greater use of electrical appliances and devices of all types, from TV's, refrigerators, washing machines to computers and cell phones. Since silver is the best conductor of electricity it is sure to be in greater and greater demand. Plus silver has other important attributes, like being the best reflector of light, the best transfer agent for heat and important biocide properties, making it indispensable to modern life.

These same facts were in place ten years ago and, as it turned out; silver did perform better than just about every other asset over the past decade. But don't buy silver because it did so well over the past ten years; buy it for the new forces in place in the world. Ten years ago, there was no net investment in silver. It is only in the last five years or so that the world has taken to investing in silver. Over that time, over 600 million ounces of silver have been bought in Exchange Traded Funds (ETFs) alone, with hundreds of millions of additional ounces of silver bought in coins and bars outside the ETFs. Five years in terms of a world investment movement is a very short time frame. In per capita terms, the world only bought one-tenth of an ounce of silver per person. Under no legitimate argument could silver be considered over-owned in world population terms. It would be accurate to suggest that a worldwide movement towards investing in silver is just in its infancy.

Another difference from ten years ago and a new force at work is the amount of investable funds in the world and how much those funds are concentrated. And nervous. There is more world investment capital today than ever before and between the banks and large investment pools, including sovereign wealth and hedge funds; that capital base is more concentrated than ever. Quite literally, we are talking about many trillions of dollars, while all the silver bullion in the world is valued at less than \$35 billion. Amazingly, despite silver's great investment performance over the past 5 and 10 years, it has yet to attract hardly any investment from the big concentrated pools of wealth. Up until now, it has mostly been a diverse group of individual investors which have purchased silver. That silver has done so well without participation from the really big world money players is remarkably bullish. Given the facts about silver, it is only a matter of time before the really big guys wake up and make a move into the metal. Considering how little silver exists to accommodate them, the effect on price when it occurs should be explosive.

One thing that didn't exist ten years ago is the growing unease over government and total world debt, as is evident in the current European crisis. For the first time in living memory, sovereign debt in the developed nations has come to be questioned and shunned. This is not going to go away or be resolved easily. Considering how fiscal and monetary affairs are being conducted in the US and elsewhere, it is not hard to imagine the distrust of paper growing. All paper obligations share one commonality; they are dependent on someone else's promise or liability. A distrust of paper is a distrust of someone else's promise or ability to pay. Such distrust can easily spread to others' promises or ability to pay, especially in our interconnected world. The only escape route at that point is to switch to assets not dependent on someone else's promise or ability to pay. Silver is not the only asset that is not someone else's liability, but it certainly is a premier example of such an asset, along with gold. The kicker with silver is that it should do great even without any rush from paper assets. That's certainly a comfort in the imaginary scenario of being away for ten years with the current state of the world being what it is.

Paradoxically, the growing distrust for European sovereign debt is occurring at the same time there has been a rush in the US and elsewhere to deposit money in government paper obligations and insured bank accounts. Given volatile stock markets, a troubled real estate market and broad economic malaise, people are voting for safety, despite historically low returns on deposits. Investors are flooding the banks with deposits that earn little or no interest. Money is piling up on the sidelines like never before. In due course, it will seek better investment returns than the near zero returns currently offered on insured deposits. Surely, silver will attract some of this sideline money piling up.

Due to high unemployment and the housing bust, there is a new austerity in place for a large segment of the population, while at the very upper end of the income/wealth scale luxury purchases are soaring. I've certainly never observed such circumstances before. On top of it all, the political process seems dysfunctional, with greater disagreement and open hostility than ever before, creating additional anxiety. These are some strange and uneasy times. In such times, there should be a movement to safe assets and silver would appear to qualify.

In such an environment like we have currently, it is harder to take the long view; yet we have little choice. The fact is that the unsettled conditions create a great time to invest in silver for the long haul. Either we'll come out of this economic mess and all the money currently flooding into the banks will find its way to productive use including increased economic activity and increased industrial demand for silver; or we'll slide into further paper distrust which could set off a buying panic in silver as an asset that is no one else's liability. In either outcome, it's hard to see how silver won't be the place to be.

Admittedly, this is a darker view of the world than I held ten years ago, but conditions would seem to dictate a toning down of economic expectations. But it's not a darker view that I hold for silver. In fact, the outlook for silver looks better than ever. In addition to the tremendously larger pile of investment money that should try to find its way into silver, there have been important regulatory changes afoot that promise to powerfully impact the price. There will certainly be closure to the current CFTC investigation of wrongdoing in the silver market before long. The manipulation to the downside in silver has garnered many times the awareness that it did a decade ago and there are fewer counterarguments being offered to explain it away. Confirming that point, for the first time in my memory a silver mining executive has spoken out forcefully about the silver manipulation. For more than two decades, I have largely run into a brick wall trying to convince the mining community of the long term silver manipulation. Here's a big tip of the hat to Keith Neumeier, CEO of First Majestic Silver Corp., for articulating the real silver story eloquently. <http://news.silverseek.com/SilverSeek/1321980348.php>

The manipulation, which I liken to financial terrorism, takes on a regular pattern. There's a group of around 20 commercials on the COMEX, including JPMorgan, that know how to suddenly rig prices lower (usually in the middle of the night or at some other thinly traded time). Knowing that this will scare some people into selling and keep others from buying, this small group of commercials then sits back and waits to buy what they can scare others into selling. The proof of this is that government data consistently reveals that these commercials are always the big buyers on any sharp sell-off in silver. No exceptions. Some might call this just good luck on the part of these commercials. I call it manipulation and financial terrorism.

The most ironic thing is that most silver and gold investors originally bought precious metals as protection against exactly the type of financial crisis we are going through now. In other words, the price of gold and silver should be soaring based upon current conditions. Instead, the manipulation and financial terrorism is so pronounced that the crooked commercials on the COMEX have managed to convince the market that financial crises involving a flight from paper assets is somehow bad for precious metals. That's preposterous and you should not be fooled by their crooked games. The proof is that these commercial crooks are buying hand over fist on the contrived sell-offs. So should you

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Silver -\$31.60

Gold – \$1683

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