October 30, 2019 – The Last Investment Bargain

We live in a world few would have predicted as little as a decade ago, from political division and social strains to extremes in weather events. Not all the news is bad, of course, but many things are very different than most would have predicted, at least from my personal observation over the last half-century. On the financial scene, Iâ??m hard-pressed to recall many (actually, anyone) accurately predicting the current circumstances of record-high stock markets, record low interest rates and the highest levels of debt amid near record low unemployment.

We live in a world where governments and central banks both issue and buy mind-boggling amounts of debt. Who, for instance, would have predicted ten or more years ago that the US Government would be adding a trillion dollars a year to a total debt of $23 trillion in the tenth year of an economic expansion and with unemployment at 50 year lows? With that backdrop, itâ??s little wonder that world stock, real estate and bond markets are valued higher than ever before.

Global stock market capitalization is said to exceed $70 trillion, with real estate even more than that and with total world debt said to exceed $250 trillion. The fact that the measurement is a trillion dollars (a thousand billion) underscores just how much investment capital is sloshing around. There is so much world investment capital and buying power looking for a home that a new phenomenon, crypto-currencies have grown into a market capitalization in the hundreds of billions of dollars.

In such a world, with valuations and debt issuances at all-time highs, itâ??s natural to seek out possible investment bargains and even, perhaps, something that might serve as a hedge or protection in the event broad markets retreat from record levels, a regularly recurring historical pattern. The first such hedge that springs to mind is gold, the age-old refuge, a hedge and protection sought over the centuries. Certainly, gold is not a hedge I would argue against, particularly if world markets turn ugly. My main concern with gold is not that it canâ??t or wonâ??t move substantially higher if things get sketchy, because I would expect it to do just that, but how much of an investment bargain it might be (yes, I agree that anything that goes up after one buys it was a bargain in hindsight).

Objectively speaking, Iâ??m not aware of many mines that canâ??t produce gold profitably at current prices. At around $1500/oz, gold has only been higher during the two years 2011-2013. More importantly, goldâ??s total current capitalization (worth) is roughly $8.5 trillion, although that admittedly includes much gold not available to the market. But in a world measured in the trillions of dollars, gold is no lightweight. Again, that doesnâ??t mean that gold canâ??t rise meaningfully in price (as I suspect will occur), just that it might not represent a true investment bargain.

The item I am convinced does represent a true investment bargain is silver, often thought of as goldâ??s little brother. Certainly, both metals share a common history dating back thousands of years and every major advance in the price of gold has usually been accompanied by a price advance in silver fully matching and exceeding the move in gold (on a percentage basis, of course, the only basis that matters in the end). For this reason alone, silver would appear a better choice as an investment bargain than gold. But, of course, thereâ??s a lot more favoring silver.

First is the matter of the current price. Even though silver has bested gold in percentage terms on every major rally in the modern era, currently silver is priced more cheaply relative to gold than any time, well, forever. That can be seen in one of the most recognizable price ratios of all â?? the silver/gold price ratio. Currently in the mid-80 to 1 range, meaning the price of an ounce of gold is eighty some odd times more expensive than an ounce of silver, there have been very few times throughout history when silver has been this undervalued relative to gold. If gold and silver prices were plotted over their mutual thousands of years history, silver would have been as undervalued to gold as it now some very small fraction of less than one percent of the time. In other words, silver has rarely been as cheap as it is now compared to gold.

But even more than silverâ??s near-unbelievable current undervaluation relative to gold are the circumstances and reasons for why silver is so cheap. Iâ??ve gotten away from this type of analysis as the years have progressed, gravitating more towards other matters, but the facts are worth a brief review. About a hundred years or so ago, a virtual blip in history, something extremely dramatic occurred in the world of gold and silver, namely, silver was discovered to having near-incredible modern day chemical and electrical properties, so much so that 90% of the silver in existence throughout the world was industrially-consumed.

Whereas prior to the start of World War II, the amount of silver in the world was much more plentiful than was the amount of gold (by a factor of five or ten), the depletion of world silver inventories due to industrial consumption turned upside down the age old physical ratio. As a result, today there is more gold in the world than silver in actual ounces, particularly in practical terms of each metalâ??s true availability. Wait a minute, you should be saying â?? are you telling me that today, when gold is more plentiful than silver at any time in history that silver is now cheaper relative to gold in price than it has ever been? Yes, that is exactly what I am saying.

Now before you check my pulse and my medications before committing me to some institution, please hear me out. Of course, there has to be a darn good reason for why I would make such an outrageous statement that there is now more gold in the world than silver despite the fact that silver has never been cheaper. That reason is price manipulation, which I have alleged continuously for 35 years. Iâ??ll spare you the details of the price manipulation today, but such a monumental reason is the only possible explanation for what I would agree is something so hard to believe that most simply donâ??t believe it, at least at first. What did you think, that everyone would be well-versed on all this and silver would still be priced so absurdly cheap?

But wait, thereâ??s more. Not only is silver a certifiable investment bargain and proven hedge against general financial calamity, it is also an undeniable vital component of modern life. Because silver is the best conductor of electricity known to man and the obvious fact that we live in an increasingly electrified world, in addition to being a certifiable investment bargain, it turns out that silver is indispensable to life as we know it. Letâ??s see, the last genuine investment bargain, an effective hedge, always has outperformed gold to the upside and now something we canâ??t live without. Oh, and by the way, in a world where everything seems to be measured in the many trillions of dollars, all of the silver in the world (2 billion oz) is worth around $35 billion or 0.4% of the $8.5 trillion market cap of gold.

Quite simply, if thereâ??s a better and cheaper investment than silver, you should load the boat with whatever that is. If you canâ??t find anything cheaper or better positioned for extremely large price gains (you wonâ??t), load your boat with silver.

Turning to other matters, gold and silver price action for the reporting week ended yesterday was twosided; first higher through Friday and down on Monday and Tuesday. Along with big increases in total open interest, it would appear the managed money traders were buyers and the commercials were sellers through Friday and the opposite occurred Monday and yesterday. The key 50 day moving averages were penetrated to the upside on Friday in both gold and silver (only intraday in gold), but traded below the averages Monday and yesterday on some reduction in total open interest.

Therefore, the question is if the managed money buying last week was sold this week? I donâ??t think so and would expect more than decent managed money buying and commercial selling to be reported in Fridayâ??s new COT report (although I would love to be wrong). Regardless, it does appear that the big commercial shorts, which are still out significant sums in terms of their collective open loss in gold and silver, are beating the managed money traders badly on the sudden rallies and just as sudden selloffs. The beatings that the managed money traders are taking in the short run do matter on a cumulative basis and donâ??t instill much confidence that they will best the commercials in the end, but we shall see in time.

Having completely given up on the regulators (the Justice Department and CFTC) ever doing the right thing in terms of ending the ongoing price manipulation, two things suggest there might be a different outcome to the expected flush out to the downside. One is that JPMorgan is still better positioned to double cross the other commercials than ever and the more I think about it, a double cross of some type must occur at some point, whether that time is now or later.

The other thing is the possible emergence of a silver whale in COMEX silver futures, whether the whale is the same as appeared this summer or if a new whale has surfaced. As I indicated above, there is an extremely limited amount of physical silver available for purchase and whatever is available wonâ??t stay available for long in the face of an emerging whale or two. Based upon how savvy the first whale appeared to be in acquiring silver at depressed prices, a managed money selloff in which the whale buys more canâ??t be ruled out. Considering how many years (35) silver has been manipulated in price, itâ??s foolish to think anyone can precisely time its end. Being positioned is the only real preparation.

In addition to besting the managed money traders on a short term trading basis, the 7 big gold and silver shorts recovered almost all of the increase in open losses they incurred last week on the price decline this week at publication time. The big 7â??s open losses are back to $3.2 billion. Of course, it remains to be seen if the technical funds will slip on the banana peel again and accommodate the commercials by selling as aggressively as they have in the past, including the heavy new short selling needed for the commercials to get off the hook again. Of course, it remains to be seen what JPMorgan and the budding silver whale have in mind.

Ted Butler

October 30, 2019

Silver – $17.75Â Â (200 day ma – $16.03, 50 day ma – $17.88)

Gold – $1492Â Â Â Â Â (200 day ma – $1384, 50 day ma – $1511)

Date Created
2019/10/30