

Silver Is the Place to Be

There have been some large daily swings in silver lately, and in today's global market that's a good sign. Of course, it's tempting to buy only in a pullback, but the way indicators are skewing, it looks like they're about to trigger a gold-silver ratio of 12 to 14 and expectations can be made for another acceleration in the declining gold-silver ratio.

That means silver producers and explorers would really start moving, sending their share prices into orbit. This would cause the price of silver to explode. The price could start moving up dollars at a time, instead of just cents, quite similar to the movement in the late 1970s and early 1980s.

The difference is that this time it won't be the manipulation of two brothers named Hunt but rather a growing group of individuals.

Even if you feel it's a bit early to jump on board, we're confident that this is the real thing and it's easier to suffer in the short term rather than be left wondering whether you missed the signs as silver vaults higher and higher.

Numbers Speak

If you need some numbers to back up this prediction, start with the fact that on March 12, silver futures for May delivery climbed 23.2 cents, or 1.2 percent, to \$19.995 an ounce.

Or these numbers: Despite the phenomenal increase in mine production since 1800, every year since 1942 the world has demanded more silver than has been produced. Therefore, silver has experienced a phenomenal 63-year-long supply/demand deficit as of year-end 2004 and it continues to grow.

The long-term supply/demand fundamentals for silver (and other commodities) still look favorable. There is no evidence of a massive surplus developing in silver. Even if the overall fundamentals of other commodities turn negative, due to a severe slowdown in the world economy, silver (along with gold) enjoys the unique characteristic of flight-to-safety buying in bad economic times.

So much silver has been consumed industrially in the past 28 years (since 1980), that it has drawn down existing inventories, because mine production wasn't sufficient to meet demand. Add to that the fact that miners today face rising energy costs and expensive environmental controls and prohibitions and the supply/demand see-saw points to a surge in silver's price.

Could the Dollar Become "Worthless"?

Silver once equalled "money." Then along came "fiat" money--basically IOU's from the government that it would redeem the paper notes for "something" of value at some time. Well, the dollar is plummeting and the world is noticing.

As Judy Shelton wrote in The Wall Street Journal recently: "When the United States broke up the Bretton Woods international monetary system on Aug. 15, 1971, it marked the official end of an era when the dollar was literally "as good as gold." President Nixon's announcement -- that the U.S. would no longer permit foreign central banks to redeem U.S. dollars for gold at the established fixed rate -- shocked Japan and Europe, our main overseas trade partners.

"It was the repudiation of a formal agreement hammered out some 27 years earlier at Bretton Woods, N.H., and signed by delegates from 29 participating nations. The whole purpose of the agreement -- which was initiated by the U.S. -- was to establish a stable, post-World War II monetary foundation so that free trade could flourish. Never again would nations shortsightedly cheapen their currencies to obtain an unfair advantage; the nightmare of economic warfare leading to military warfare would be ended.

"Today, our trade partners are no longer shocked. They have come to expect domestically focused monetary policy from America. But they are deeply concerned by the demise of the once-dependable dollar and deeply impacted by the economic distortions caused by skewed exchange rates."

Panic Can Create Demand

In the past decade, the price of silver has been practically flat, with a few spikes, because monetary demand has been absent. Strong, sustained silver moves occur when many people decide suddenly they want silver be-

cause it is money. Today, when stocks, currencies, bonds, and other paper assets have begun to disappoint investors, investor attitudes are shifting. What begins as a trickle ends as a tidal wave when the panic peaks. When the public loses faith in the U.S. dollar, silver, far more volatile than gold, will benefit most.

Some History

Because of their long history as the basis of wealth and because much of the glories and horrors of the history of mankind can be traced to the finding, hoarding, exploiting, stealing and fascination with silver and gold, it's wise to understand the background of these precious metals, especially now that the world is "flat" and economics, for good or bad, is globalized.

Gold/Silver Ratio

In the last several centuries, the ratio of silver's value to gold's has averaged out to the 16:1 area, in which about 16 ounces of silver equals one gold ounce.

There have been extremes in the market as in every other market. (Salt was once so rare and essential, the Romans paid their soldiers with it, hence the word "salary.")

At one extreme was the London market ratio of a mere 6:1 in the first quarter of 1551. Silver has never again been so highly valued compared with gold. That ratio was driven by the newly discovered Spanish gold pouring into Europe. Both gold and silver made the nasty and arduous trip to the New World profitable and the Spanish naturally focused on the more valuable gold. But so much gold came, relative to silver, that silver became relatively more valuable. But like all extremes, this one was short-lived. Later that same year, the ratio doubled to 12:1.

The other recorded historical extremes are more recent. It reached to more than 100 to 1 in the early 1940s, but the metals markets were not freely functioning during the war. On the afternoon of February 28, 1991, the ratio reached 100.35:1. At that rate, silver was amazingly lowly valued against gold. This extreme proved equally untenable, and silver began to gain on gold in the next few years. On February 28, 1998, the ratio stood at 40.92:1. But the normal ratio for most of the past few centuries has been in the range of 14 to 16:1.

Silver Ratio Is Strengthening Today

Since late last year silver has been rising faster than gold. So far in 2008, gold has risen 16.8%. For the same first two months silver is up 34.2%. Gold ended February at \$972.88, silver at \$19.82. The ratio between the two is 49.09 to one. A few weeks ago it was in the low 50s. Two years ago the ratio was even better for silver, at only 46.50:1. We can expect to see continue to see silver strengthen relative to gold. You should own both, as they are traditional and wise trading partners.