

## April 25, 2012 – Silver is a Better Buy Than Gold

### Silver Is a Better Buy Than Gold

Before the previously promised update on why I favor silver over gold, I'd like to review the last few days in the markets. Silver got hammered right out of the gate on Monday morning (actually Sunday evening), along with other relevant markets like gold and copper. The silver smash followed the usual script of the price first falling sharply on very low volume (HFT-driven) and once the price was put down, more volume came in on the lower price levels. Undoubtedly, the trading was characterized by speculative selling and commercial buying, same as it ever was. There should also be little doubt that the price take down was another deliberate attempt to set off as much speculative selling as possible. There was nothing coincidental about what took place.

My guess is that the commercials were successful (once again) in inducing a fair amount of speculative selling in silver on Monday and this should be reflected in this week's COT report. One thing I will be looking for in Friday's report is if there was an increase in new short selling in the managed money category in the disaggregated version of the COT report. This is the category of the technical funds that follow price patterns, buying on rising prices and selling on falling prices. Going into Monday's sell-off, the technical funds had liquidated enough long contracts to be close to where they were at the extreme COT readings of this past December, but had not yet added enough new short positions to approach where they stood back then. Monday's silver takedown, continued through today, took out the lows back to January and it would be hard for a technical fund to resist going short on this type of price pattern. After the sell-off, I suspect both further long liquidation and new shorting in this category, perhaps enough to mark a bottom. The good news is that we won't have to wait long to see if this activity occurred, at least for Monday's activity.

As always, the intentional silver price smashes are both good news and bad news. The bad is mainly the pain to existing holders and the outrage in seeing the regulators continue to ignore an ongoing price manipulation. The good is the improvement in the market structure and the knowledge that silver will only continue to go lower until the commercials can't induce additional speculative selling. Based upon historical COT readings we are close to an important bottom, but that can only be certain in retrospect. Although it may not feel like it at the moment, silver is structured to rally significantly, perhaps in an explosive manner.

One other bit of good news was that the short position in SLV did not increase in the just-released report for positions held as of April 13. The short position in SLV didn't decline a lot, but by 500,000 shares to just under 11.25 million shares. In terms of shorted shares in relation to total shares outstanding, the percentage is now close to 3.5%. This is down from 8.5% in January and down from over 12% of shares outstanding at last year's peak.

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<http://www.shortsqueeze.com/?symbol=slv&submit=Short+Quote%99>

I'm still convinced that BlackRock, the sponsor of SLV, was instrumental in the sharp reduction of the short position this year, following pressure from many of us. The current short position is less than at any point in the past year, save for the immediately preceding prior report. I am further convinced, seeing how most of the reduction occurred as prices rose early in the year, that the big SLV short that did most of the covering was JPMorgan. Of course, the key is what happens on the next major silver price rally. The two main questions will be does the short position in SLV grow and does JPMorgan's short position on the COMEX grow?

This week, the price of silver has been especially weak relative to gold and industrial metals, like copper. As I write this, we are back to the gold/silver ratio levels last seen at the end of 2011. Since silver's relative price weakness is deliberate in my opinion and unlikely to prevail in the long run, this artificially induced price weakness makes it a particularly good time to consider switching gold positions into silver and applying new cash towards silver, instead of gold.

There is only one basic reason to buy silver instead of gold — you stand to make a much better return on money invested in silver. In essence, that's what investment is all about, namely, finding the best place to put hard-earned investment dollars. No one would deliberately buy any investment asset if another asset offering a better return were available. Of the many thousands of different investment choices available, today I'd like to compare just two of the choices — gold versus silver. As it turns out, I think silver could be the best choice from all the thousands of investment possibilities, but the comparison between silver and gold is instructive because they are so similar.

As always, please don't take this as a knock on gold, which has stood the test of time as a valuable asset in which to invest. This is a question of relative performance — which is likely to perform better compared to one another, silver or gold? There are certain special factors that are unique to silver that suggest it will outperform gold handily in the future just as it has over the past 5 and 10 years. A standout factor is the still little known fact that there is less silver bullion in the world than there is gold bullion. That's right — silver bullion is rarer than gold bullion. Most observers are shocked when they first hear this, given that gold is more than 50 times more expensive than silver, but it is fairly easy to confirm and understand once silver's industrial consumption over the past century is considered.

Historical data show that so many billions of ounces of silver have been consumed by industry over the past 100 years that world silver bullion inventories have declined by 90%, to the point that only one billion ounces remain. Silver is the best conductor of electricity and heat, the best reflector of light and a special biocide and chemical agent required in thousands of industrial applications, more than for any other metal. This has resulted in the situation where the entire world's gold bullion inventory (bars held for investment or monetary purposes) is now worth 150 times more than all the world's silver bullion. The numbers are pretty straight-forward; the 3 billion ounces of gold bullion in the world is worth roughly \$5 trillion at current prices (\$1650) versus the \$32 billion value of the world's 1 billion ounces of silver bullion (at the current \$32 price).

Given the fact that there are three times as many ounces of gold bullion in the world than exists in silver, it is somewhat shocking that the price of silver is less than 2% of the current price of gold. On the relative rarity basis alone and the fact that this information is vastly unknown in the investment world, the current price discrepancy between gold and silver sets the stage for a powerful catch up of silver prices compared to gold. But today I would like to focus on a few special factors, all highly unique to silver, that promise to accelerate silver's coming outperformance compared to gold. Some are reasons I've previously mentioned, one may be new.

First is the simple fact that because so much of silver's current production is consumed industrially where so little of gold's production is industrially consumed, the potential for a physical shortage exists only in silver. There can't be a shortage in something that is not heavily consumed. Since gold is not heavily consumed industrially, a physical shortage is highly unlikely, if not impossible. That's not to say that gold can't climb in price for other reasons, just not because of a rush by industrial users to stockpile inventories in a physical shortage. In silver, such a rush for inventories by industrial consumers is not only very likely, but almost inevitable. That should ignite a price rise in silver never witnessed before.

Along with the likelihood of an industrial shortage developing in silver, the world's central banks and governments own a tremendous amount of gold bullion, over a billion ounces. In silver, the world's central banks have virtually no silver inventories at all. At one point, going back 50 or 100 years, the world's central banks and governments held much more silver than gold, with the United States alone holding billions of ounces of silver. But all that government silver has been long disposed and the collective silver holdings by the world's central banks are non-existent. What this sets up is the possibility that world governments can better manage the price of gold whereas the possibility of dumping physical silver on the market to control prices doesn't exist. If a price fire breaks out in silver, there is no water in world government fire trucks by which to douse it.

Given the wide discrepancy between the price of gold and silver, the price of a single ounce of each has already eliminated many, if not most, of the world's citizens from buying gold. Not many people can afford or has the disposable cash available to pay for an ounce of something that approaches \$2000, even if they felt inclined to do so. A price point of \$30 to \$50 per ounce opens the possibility of purchase to tens and hundreds of millions of people to buy silver. This factor has already been in place for years and explains why so much more silver, relative to gold, has been purchased over the past 5 or 6 years, than at any time before. Higher gold prices should only strengthen this trend.

One of the factors favoring silver over gold is the money mass of each. The bigger a market is, the more difficult it is to change in percentage terms. A smaller market is more likely to double or triple than a much larger market. Because the value of gold bullion in the world is measured in the trillions of dollars, while silver is measured in the low tens of billions of dollars, silver is more likely to advance faster and further. It just takes less money, at the margin, to influence a smaller market than a much larger market.

A particularly unique factor in silver is that it has been the subject of widespread allegations of an ongoing price manipulation to the downside. This is a matter that I initiated some 25 years ago that has involved increasing attention lately. My allegations of a downward silver manipulation center mainly on an excessive concentrated short position on the world's leading silver trading exchange, the COMEX. I have further identified JPMorgan as being the biggest COMEX silver short holder. My allegations have been credible enough and have garnered enough outside support that the main federal regulator, the Commodity Futures Trading Commission (CFTC), is currently conducting a formal investigation by their Enforcement Division into the allegations for the past 3.5 years. This investigation comes after two previous CFTC formal reviews in 2004 and 2008 which found no manipulation existed in silver.

The important point here is that the matter of silver being artificially manipulated to the downside is being considered at the highest levels possible. While I have no doubt that gold is also manipulated in price at times by the same methodologies as are deployed in silver, the intensity of the manipulation in silver is much greater. The proof of that is in the fact that silver falls under continuous investigation by the regulators, while there have been no formal investigations in gold or any continuous investigations of manipulation in any other commodity.

Whether the regulators ever formally find that silver has been manipulated is unknowable; but it is at least possible, given that they are investigating. If the CFTC did find that silver had been manipulated to the downside in price, few would argue that would be wildly bullish to the price. But even if the regulators can't stand up to the likes of a JPMorgan for political or other reasons, so much attention has been drawn to the allegations that it is likely that the manipulators will continue to beat a steady retreat from the price suppression as they have over the past few years. The important point here is that the alleged downward manipulation is highly unique to silver and any disruption of that manipulation would be highly unique to the price of silver and not gold. It goes without saying that would cause silver prices to rise disproportionately to any rise in gold prices.

While much has been written about China's accumulation of gold for monetary purposes, the real wildcard may be that country's accumulation of silver. In fact, it makes more sense for China to accumulate silver when measured against what it has done to date with other critical industrial materials. China has done nothing but build resource stockpiles and resource production capabilities for years, including petroleum, metals and foodstuffs. It would be out of place for China not to stockpile silver. I'm not suggesting China won't continue to amass gold; I'm suggesting that the impact on the price of silver will be much greater given how little silver exists relative to gold for accumulation. Remember, this is about relative price performance and the China card would seem to favor silver.

There is one special factor that promises to send silver to greater price heights relative to gold that I'll call the "Billionaire's Syndrome." One of the things missing in silver for some time is the lack of single big buyer to emerge, despite the impressive price run up. Up until now, silver has climbed and fallen in price without the presence of Mr. Big. This has not always been the case. In the late-1970's, the Hunt Brothers almost single-handedly drove silver prices to the sky. Later, in the late 1990's Warren Buffett bought enough silver to cause the price to double until he backed off. In both cases, the amount of silver purchased was around 100 million ounces.

Today, there is less silver bullion in the world than existed at the times of the last big purchases by the Hunts and Buffett. That suggests that the purchase of 100 million ounces would have a greater price impact than previously. True, silver is a lot more expensive than it was at the times those big purchases were made, but it is also true that there is a lot more money available in the world than there was then. Certainly, there is a heck of a lot more billionaires in the world today than there has ever been before. 100 million ounces of silver would cost a bit more than \$3 billion. That's a large amount of money in some ways; not so much in other ways. This is all about relativity.

Three billion dollars worth of gold would amount to less than 2 million ounces. That might have some impact on the price of gold, but with 3 billion ounces of gold bullion in existence, such a purchase would represent less than one-tenth of one percent of the world's gold bullion. A \$3 billion purchase of silver (100 million ounces) would approximate ten percent of the entire world's silver bullion inventory. This is not rocket science — buying ten percent of something is going to have a lot more impact on price than the purchase of one-tenth of one percent of something else. Besides, the only reason to make such an investment would be to make as much money as possible.

Billionaires are also interested in making money; some might argue that is their primary purpose in life. Given the realities in silver and in the world, it would appear that it is only a matter of time before one of the world's many billionaires decides to test how much silver is really available. The miracle is that it hasn't occurred to date. Since silver is a world commodity, it can be purchased by anyone in the world and shipped to any country in the world. The only question in my mind is if a billionaire will get the opportunity to test the silver market before any other factor above kicks in first. In any event, it seems highly likely that one or more of these factors will be felt in time and will be reflected in the price of silver to come.

Ted Butler

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Silver – \$30.45

Gold – \$1637

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