

## Rarity and Scarcity in Silver

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It is something that is hard for me to do, because it is the central factor in the current price of silver, but today I'd like to turn away a bit from the ongoing manipulation and focus on silver in a different way. Since all manipulations must end violently, the silver price suppression will end at some point and it is reasonable to ask what will sustain the price of silver when it is no longer manipulated. I do expect a sudden and dramatic surge in the price of silver as the manipulation ends; but then what? Are the manipulation and the artificially low price it has created the only reasons to buy and hold silver? Would there still be a reason to hold it after the silver manipulation is over and prices are much higher than they are presently?

In addition to leaving out the manipulation (except as the explanation for the current low price), I'm also going to leave out most of the usual factors given for divining the future silver price. Put everything in this category; inflation/deflation, interest rates, credit conditions, government actions, stock markets, everything that could influence silver and all other commodities. I want to focus on the two factors unique and specific to silver, namely, its rarity and scarcity. Taken together, these are the two factors that make silver such a

compelling investment. If there is something you should keep firmly in mind at all times, it is silver's rarity and potential scarcity.

Let me define rarity as the quantity of something that exists, especially when measured in relative terms to comparable items. Most frequently, rarity is relative. For thousands of years, the most comparable items have been gold and silver. Over the span of history, wars have been fought and lands have been conquered in the pursuit of gold and silver. For most of that time, gold and silver were produced and accumulated as money, jewelry and in utensils. Because silver is produced in much greater quantities than gold, for almost all of the history of mankind, there was much more aboveground silver in the world than there was gold. 75 years ago, there was five times more silver bullion in the world than there was gold. This is exactly as it should have been, given the larger relative production of silver compared to gold. Obviously, 75 years ago and for all of recorded history before that, gold was much more rare than silver. But that was then and this is now. Today, silver is much rarer than gold, with aboveground stocks of gold bullion now three times more than silver bullion. In other words, over the past 75 years, silver has swung from being much more plentiful than gold to now being much more rare than gold. What in the world could account for such a dramatic and historical shift?

The short answer is industrial consumption. As a result of the industrial and technological revolutions of the past 100 years, the world began consuming

silver as an industrial material where it had only accumulated it before. Silver is the best conductor of electricity and heat, the best reflector of light, a supreme biocide agent with a whole host of other superlatives that make it indispensable to modern life and industry. Thousands or hundreds of years ago, man had not harnessed electricity, so what did it matter if silver was the best conductor? Today, with I-Pads and other electronic devices, it matters very much that silver is the best electrical conductor. It matters so much, that over the past three-quarters of a century, the world consumed almost all of the silver it had accumulated for thousands of years. In other words, for much of the past 75 years, the world consumed much more than all the new silver being mined and produced and had to dip into the previously accumulated inventories to satisfy the voracious world appetite for a suddenly vital industrial material.

With world silver stockpiles reduced as much as 90% from where they were 75 years ago, inventories couldn't fall much further and prices began to reflect the depleted inventories, rising almost 12 fold at its peak from 10 years ago. At its price peak last year, silver had been the best investment performer over that time. To those who studied the real dynamics behind the scene, silver's rise was no great shock. Now that prices have retreated sharply from the peak levels, I believe a new launch in price lurks ahead. Even though the world is adding silver to inventories (as it is in gold), the previous 90% depletion in world inventories is intact and not about to change radically in the near to medium term future. Simply put, silver got to be rarer than gold over the past 75 years

and that can't change much now. The most remarkable relative inventory turnabout in world history, that of silver becoming rarer than gold for the first time in thousands of years, is still in place. What makes the inventory turnabout a gift to silver investors is that it has yet to be widely recognized. As this easily verified inventory turnabout does seep into the collective mindset of the world's investors, it can be expected to be reflected in the relative pricing of gold and silver.

Remarkably, the historic inventory turnabout in silver and gold has yet to be reflected in the price, despite silver prices climbing sharply over the past ten years. Today, silver is roughly priced relative to gold at the same ratio it was 75 years ago, near 60 to 1. Please think about that for a moment. 75 years ago, there were five ounces of silver in world inventories for every one ounce of gold. Today, there is one ounce of silver bullion for every three ounces of gold; yet the price ratio hasn't changed. In a nutshell, this is the rarity story and opportunity in silver. On a relative rarity basis, silver has swung from being more plentiful than gold to being much rarer, with that inventory swing having no impact on the price. (I think this highlights the severity of the silver price manipulation).

A few words of clarification. Because silver is a vital industrial commodity, in order to appreciate the rarity and scarcity discussion, I am talking about silver in standard industrial form, namely, in 1000 oz bars and not in the form of

jewelry and small coins and bars. More so in silver than in gold, the standard industrial grade matters because silver is much more of an industrial material than gold. Since gold is more of a pure investment material than is silver, the form of gold held for investment purposes matters little. Effectively, a gold coin is just as good as a gold bar for investment purposes. In silver, industrial users don't buy coins or small bars, they buy and use 1000 oz bars. In addition, because the world's silver Exchange Traded Funds (ETFs) all deal in 1000 oz bars, this augments the importance of measuring how much silver is in the form of 1000 oz bars. There is roughly 1 to 1.25 billion oz of silver in the world in 1000 oz bars, compared to 3 to 3.3 billion oz of gold in all bullion equivalent form. Because there is three times the amount of gold than there is in silver and because gold is almost 60 times the price of silver, that means you must multiply the price ratio by 3 to get a dollar total comparison. In dollar terms, that's over \$5 trillion (\$5000 billion) in gold compared to \$30 billion in silver. For every one dollar in silver, there are 150 dollars in gold. I don't think more than one of every 5 million people in the world knows that silver is so mispriced and undervalued relative to gold, even though more gold exists than silver.

My premise is simple □ the relative price of silver and gold does not reflect the radical change in their relative inventories over the past 75 years. Silver, effectively, is more rare than gold, yet gold sells for almost 60 times the price of silver. Over time, that circumstance should not continue and the easiest way for it to change is for the price of silver to rise more sharply than expected. The

rarity of silver is a great reason for the purchase of silver or for switching gold positions into silver. Throw in the inevitable return of silver scarcity and the result creates an investment opportunity for the ages.

## Scarcity

If rarity measures the amount of something in existence relative to other comparable items, I would define scarcity as the amount of an item available or not, relative to its own immediate demand. The scarcer an item may be at any time is, therefore, a measure of relative shortage. A rare item does not automatically mean that item will be scarce or capable of being in a shortage. For instance, while more plentiful than silver, gold is also a rare commodity in that there is relatively little of it in existence. But because gold is not widely consumed industrially, it is unlikely to ever be considered scarce or in a shortage. That doesn't mean that gold won't go higher in price for other reasons, just that it won't go higher because of industrial demand or scarcity. It's very different in silver because of silver's industrial demand base.

In fact, if it was the voracious world industrial appetite over the past 75 years that accounts for the rarity of silver; that same industrial appetite has now set the stage for silver being in scarcity. As long as there were still inventories available to be consumed, the long term silver consumption deficit did not

result in a shortage of silver. But that changed about a year and a half ago, when silver became both rare and scarce. At the price highs of near \$50 in April 2011, there wasn't enough physical silver to go around for the very first time in world history. That was when investment demand, combined with industrial demand, overwhelmed all available silver supply. Only the last minute manipulative price smash of May 2011 was able to cool off investment demand and avert an all-out silver shortage. While the manipulation was successful, the stage has been set for a repeat of silver scarcity.

This is where the importance of silver in the form of 1000 oz bars comes into play. Not only are these 1000 oz bars the unit of trade by the silver industrial users, they are also the form in which the world's silver ETFs accumulate silver. In any scarcity or shortage, the first tip off to those who depend on silver to run their operations is a delay in delivery. Delivery delays make industrial users very nervous and when delays occur, there is always one unified response by some users – buy extra to compensate for any additional delays. Like many things, what may be a normal and reasonable reaction on an individual basis, turns unintentionally into a collective mess when many individual silver users all try to buy extra material, thereby exacerbating the shortage. Now, for the first time we have many large silver ETFs in place that will also start to buy aggressively as investors are attracted to silver prices moving higher. This is what we were at the cusp of in April 2011, an industrial user's inventory buying panic coupled with a strong investment surge. It is no wonder the prices were

smacked down so intentionally at the time, because we were on the verge of a melt up in silver. For all intents, we still are on the verge of that.

I had been writing about a pending shortage in silver for much of the last ten to fifteen years, based upon verifiable data that indicated industrial consumption was about to be joined by strong silver investment demand against a backdrop of depleted inventories. For all of that time, there were many who claimed a silver shortage was impossible. Yet, in April 2011, there wasn't enough silver to go around. Oh, there was plenty of paper silver available, in the form of COMEX and SLV short sales; just not enough real silver. For real silver, we hit the wall in April 2011. Those expecting such a scarcity of silver were not surprised. Those denying a silver shortage was even remotely possible generally looked away from anything confirming the scarcity.

The significance of the silver scarcity or shortage in April 2011 is that all the facts of the previous 75 years predicted not when but that the shortage had to occur. Additionally, now that we have observed that a silver shortage can occur, the fact that it did occur means it is more likely to recur. Just like silver will remain more rare than gold for any of our lifetimes, it is also likely to remain scarce and prone to shortage. It is astounding that the world has allowed silver to be so mispriced to gold given silver's relative rarity; even more remarkable is that silver's scarcity has been overlooked as well. Rarest of all is the rare item that is also scarce.



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Yes, there are evil and manipulative pricing forces at play in silver; then again, the qualities of rarity and scarcity will defeat those forces in time. Those who bucked the conventional wisdom of five and ten years ago and purchased silver ended up with a spectacular investment. With both rarity present and scarcity soon to be in play again, in many ways silver does look more promising than ever.

(Editorial note □ I had planned including another article with this one, but it was so different in nature that I'll put it up sometime tomorrow).

Ted Butler

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Silver - \$27.80

Gold - \$1606