

Dec. 16, 2009 – The Silver Eagle Saga

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A remarkable story, still underappreciated by the investment community, has developed over the past two years. It is the story of what has occurred to silver investment demand in general and, more specifically, to Silver Eagles produced by the US Mint. I would make the observation that the growth rate in demand for US Silver Eagles has exceeded all other forms of silver investment.

Since I have written about the general investment boom in silver recently, allow me to quickly summarize what has occurred. Prior to 2006, there was no real silver net investment for many decades (excepting for the Central Fund of Canada and coinage programs). This was due to a variety of reasons, not the least of which was a dismal price record. Until 2006, the average annual silver price was mostly in the mid-single digit range. With the introduction of the first and biggest silver ETF (Exchange Traded Fund) called SLV, and other similar investment vehicles, silver investment demand in this category exploded to 200 million ounces by December 2007. Since then, another 250 million ounces of silver has flowed into these vehicles. From almost nothing to 450 million ounces is quite a turn-around. By my calculations, almost 50% of the world's bullion inventory now resides in these public investment vehicles. Amazingly, this has occurred with scant notice from the general investment world.

Of course, there has also been significant investment demand for silver in forms other than 1000 ounce bars, the standard unit held in the silver ETFs. Tens of millions of ounces of smaller bars and coins have been bought by investors since 2006. Last year, retail demand was so great that shortages persisted, for the first time in history, resulting in record premiums and delayed deliveries. Given my perception that all the silver purchased in the past few years, but especially retail silver, is in very strong hands, it will not come back to the market except at very high prices. Therefore, those retail shortages can re-erupt at any time, given the shallow nature of the supply lines, in my opinion.

One form of retail silver that has experienced extraordinary demand has been the flagship silver bullion coin produced by the US Mint, the American Silver Eagle. I've always been partial to Silver Eagles, probably because of the influence of my good friend and mentor, Israel Friedman. I know many are opposed to paying the higher premiums on Silver Eagles (primarily due to US Mint surcharges), but Izzy and I always felt those premiums wouldn't matter much in the long term. In fact, both of us expect the premiums on these coins to increase in the future, with Izzy's expectations very extreme.

I started writing for Investment Rarities in late 2000, after the Y2K bust. Jim Cook, President of IRI, was looking for a way to revive sales, since much gold

and silver buying evaporated when the world didn't end because of massive computer failures, as expected by many. Since I was partial to silver for supply/demand reasons and because I felt the price was artificially depressed by manipulation, I agreed to help him sell silver. It proved to be a win-win. (In the interest of full-disclosure, I get compensated by IRI for a fixed monthly payment, with no commissions for sales and I am not an employee of IRI. The arrangement has always been informal and by word only, and if you told me in 2000 that I would be writing for them nine years later, I would have bet you otherwise).

I hope this doesn't sound egotistical, but since I started writing for IRI, they have sold a lot of silver. So much so, that it has become their main source of sales, unlike their experience before I started writing for them. They are now the largest retail dealer in silver. Because they freely disseminated my work on the Internet up until recently (I have my own private service now), I believe my writings influenced many who were not clients of IRI to buy silver as well. Nowhere is this more evident than in sales of US Silver Eagles. Since 2000, the amount of Silver Eagles has soared, both on an absolute basis and relative to Gold Eagles. Annual Silver Eagle sales roughly doubled in the nine years I have written for IRI, than in the previous 9 years. Buyers have been and will continue to be rewarded. That's no small accomplishment.

http://www.usmint.gov/mint_programs/american_eagles/index.cfm?action=sales&year=2009

But what has occurred in the past two years in Silver Eagle sales has been truly phenomenal. Sales of Silver Eagles have exploded to double and triple the already high levels that prevailed from 2000 to 2007. Here, I credit my mentor, Izzy Friedman, for this remarkable achievement, not just for his influence on my writings, but for his direct impact on the buyers of Silver Eagles over the past two years.

In December of 2007, Izzy wrote an article on Silver Eagles that single-handedly caused a rush of buying. That buying has persisted to this day. So big was the rush he caused that the US Mint has been unable to cope with it ever since. I realize that I am making a seemingly outrageous statement, namely, that a retired great-grandfather in Miami could turn the silver world on its head by writing a simple article on Silver Eagles. But I ask you to read or reread his article, study the facts and then judge for yourself.

http://www.investmentrarities.com/ted_butler_comentary/12-03-07.html

Here are the facts. Before Izzy's article, the Mint routinely sold around 800,000 Silver Eagles a month. After Izzy's article, the Mint shortly ran out of Silver Eagles completely for the first time in the 23-year history of the Eagle program. After establishing rationing quotas and increasing production capacity, Mint sales of Silver Eagles doubled to 1.6 million coins per month for 2008 and

increased further to 2.4 million coins per month in 2009. How's that for the power of the pen? Since I don't recall anyone else recommending Silver Eagles at that time (or since), I can't see any plausible explanation for the surge in demand for Silver Eagles, other than Izzy's article.

The purpose of this piece is not just to acknowledge what my good friend has accomplished, but to review and update his thinking. Izzy's intent in writing the original article was to stimulate the buying of Silver Eagles to steer investors into a worthwhile investment and to bring pressure on the crooked paper shorts. As he has told me countless times, the shorts are powerless against many regular investors buying Eagles. As remarkable as it may seem, as a result of the increased buying of Silver Eagles, the US Mint is now perhaps the largest fabrication purchaser of silver in the world, at close to 30 million ounces bought annually. This is up from 10 million ounces a year BIA (before Izzy's article).

One of Izzy's key beliefs is that the US Mint will be forced to stop minting Silver Eagles because of the impact their buying will have on the silver supply/demand equation. The shocking amount of silver that the Mint is now buying brings that belief closer to realization. When the Mint does cease the sale of Silver Eagles, Izzy is more convinced than ever that the premiums will soar, rewarding investors tremendously.

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Not only is he convinced that the premiums will explode, but any announcement of a shutdown of Silver Eagle sales will confirm to the world what many readers already know, namely, that there isn't enough silver to go around. Such an announcement coming from the US Government will send shockwaves throughout the investment world, creating a rush to buy silver. Silver Eagle owners will benefit doubly – from the premium explosion and the silver price explosion. As he likes to say, someday a Silver Eagle will be worth more than a Gold Eagle. Nobody is correct about everything, but after 30 years of reflecting on the many things that Izzy has predicted, you don't want to bet against him.

Ted Butler

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