The Value of Owning

SILVER

A RESTLESS METAL
Why Invest In Silver

This report begins with several premises.

1. Silver has several attributes important to investors.
2. In our view, investors will do well owning silver in the long run.
3. If investors treat silver as an investment rather than a belief system they will be better off.

In order to fully appreciate the values that silver brings to investors, one needs to understand what makes silver compelling to investors.

At CPM, we sometimes call silver the “schizophrenic metal.” (Sometimes we say it is “Quadrophrenic,” but that is only meaningful to investors of a certain age who liked British rock.) Silver is many things at once. It is a/an:

- Investment
- Financial asset
- Form of quasi-money
- Commodity

Gold is all of these things too, but it is primarily a financial asset and a form of quasi-money. Gold’s supply and demand have less to with determining gold prices than investors buying levels of gold.

Silver shares this characteristic with gold, but it is more of a commodity with greater fabrication and industrial uses than gold. As a result, silver’s commodity nature – its supply and demand trends and conditions – have more to say about silver prices than do those of gold.
Silver is also much more than gold. This multi-faceted nature of silver is one of the factors that make it so attractive to investors. It also is one of the reasons why silver prices are more volatile than gold prices, and the prices of almost all other major commodities. All sorts of factors affect silver prices, including investor attitudes toward the world around them, technological developments that demand more silver in electronics, solar panels, and a range of other factors both internal to the silver market and external in the world around us. (Natural gas prices compete with silver prices for being particularly volatile compared to other commodities, but no one actually buys and stores natural gas as an investment. They do so with silver.) There are other factors that make silver prices more volatile, discussed later, including the relatively small size of the market. Silver is a complement to gold, in many ways, but silver also is much more than gold.

Silver has been used by investors to store value, to protect their assets from a host of threats and risks, to conduct trade, and to make money through capital appreciation since the earliest forms of civilization emerged. Silver has been used as a transactional form of money throughout most of history. Gold had too high of value to be used for daily commerce, but silver was not. In the 1800s, as the United States population expanded westward there was no central bank and no central currency that people could trust. Currencies were issued by state-chartered banks, there was massive counterfeiting, and local currencies issued by local banks. For example currency from Canton, Ohio, might not be accepted in other parts of the country as being legitimate. As a result, much of the currency in circulation, especially in the frontier districts, was Spanish dollars (pieces of eight) and Mexican and U.S. silver coins. That was
not unusual. Much of the currency used in China during its long run of political instability prior to the Communist takeover in 1949 was U.S., Mexican, and Cuban silver coinage. After the Communist takeover, the silver was ordered to be turned in. As recently as the 1990s, old silver melted down from such coinage was still flowing into the Chinese banking system and silver refineries. The bottom line is: Silver was money, and it was of a value and size that made it useful for transactions around the world.

That’s history, but it still applies today. Many silver investors bristle at being called silver investors. They call themselves Silver Stackers, saying they are stacking up silver against the time when in their views they will (not maybe) need to use silver coins and bullion as money to transact daily business such as buying food and fuel. They are in fact investors, in that they are buying silver as a store of value and a way to preserve their wealth. They may not be buying silver expecting capital appreciation, but they see silver’s investment function as a form of capital appreciation and its monetary function as a means for transacting commerce as still relevant today.

They are correct, although today other factors may seem more pertinent to silver by other investors. While Silver Stackers are buying and holding silver against a future economic catastrophe that may not occur, most other silver investors seem interested in the metal as a more traditional investment that offers capital appreciation potential as well as wealth preservation.

See Chart 1 above.
That brings us to the price of silver. Silver prices right now are low, compared to how high they have been during past financial crises, but high compared to where they have been for most of history.

The fact that they are higher than in the past on a long-term basis demonstrates that silver’s value has increased in the minds of investors, banks, and others, reflecting the more treacherous economic and political world we live in today.

Prices being down from past cyclical peaks means that prices, in our opinion, are at pretty good levels to stock up and stack up on silver. Here are three historical price charts. The shorter term chart shows silver prices since 2000. Prices have not fallen below $13.70 in the long decade since the Global Financial Crisis and Great Recession pushed silver almost to $50 per ounce. Putting prices in recent years into perspective: The price has traded at levels roughly three times the average price from the late 1980s until around 2006.

Silver prices have been trading between $15 and $16 for most of the first four months of 2019. While silver has a reputation as a commodity with a volatile price, in reality the volatility of prices has fallen sharply in 2017 and 2018. Silver traded between $16.00 and $18.50 from early 2017 through the first half of 2018. Silver then fell, beginning in July 2018, dropped to an intraday low of $13.86 last November, before recovering to levels above $15 by the start of 2019.

Silver prices are at an interesting place right now. They are both “low” and high, depending on one’s perspective. There are people who continually lament how “low” silver prices are. Some think the price should be
around $20. Some are perma-bulls who think silver should be $50, $100, or higher. For the foreseeable future, the reality is that silver’s supply and demand fundamentals likely preclude prices from ever rising to some of the outrageously high levels the perma-bulls have been predicting for decades and staying there. Silver prices can, do, and will in the future rise sharply, but not to unrealistic levels some would have us believe.

**Still, buying today around $15 and taking profits at $45 or $50 within a decade would yield a handsome return.** The key is to take your profits when prices are high. Historically, you could buy the silver back at a lower price after the financial scare has passed. It has happened over and over, and only a foolish person would think the next time is likely to be different. Investors buy low and sell high, and then repeat the cycle. They may hold some of the metal aside as a stacker would, but they also tend to lock in profits and then start buying again when prices fall.

Other silver market observers point out that while silver prices are down sharply from their peaks of 1980 and 2011, they still are high at present compared to silver prices throughout most of history. This is important because it suggests that silver continues to perform many functions for investors. Yes, silver prices are down from those peaks achieved during times of historically enormous economic, political, and financial market turmoil. But they have remained far above the levels typical of silver in less chaotic times.

**Even when adjusted for inflation, today’s “low” silver prices remain roughly double what they were throughout the 1990s and early 2000s.**

*See Chart 3 to the right.*
Silver In An Investment Portfolio

Silver makes sense as a stand-alone investment. However, it makes even more sense as part of a diversified portfolio of investments.

Adding silver to a portfolio of stocks and bonds helps smooth out the ups and downs of an investor’s total wealth. With some portion of one’s portfolio in silver, as with gold, one could reduce the month-to-month and year-to-year fluctuations of one’s wealth, by smoothing out overall returns through diversifying the basket of assets in which you store your wealth and seek to profit.

Studies of how much silver historically might have been the optimal proportion of one’s portfolio yields a surprising, if not shocking, result. Between 2016 and now, CPM updated our studies of gold and silver’s optimal role in a diversified portfolio that had been conducted in the early 1980s. The old rubric, developed from the early 1980s work, was that having gold or silver as 5% - 10% of one’s portfolio gave you the best risk:reward ratio for your

Adding silver to a portfolio may help smooth out the ups and downs.
overall portfolio’s return. That was based on the experience from 1968 through 1980, the period during which gold and silver prices were truly unbound from U.S. Treasury price management for silver and fixed prices for gold.

Updated studies showed that taking a longer term period of review, from 1968 through 2018, the historical results are even more pro-precious metals. The benefits of having silver in one’s portfolio continues up to around 25% of one’s portfolio. Up to that level, the increases in overall historical returns have been greater than the increases in overall portfolio volatility or risk. The optimal level for silver appears still to be around 5% - 10%: That is the proportion of silver in a portfolio of stocks, U.S. Treasury bills, and silver that gives one the lowest increase in risks compared to the increase in overall portfolio returns.

*In other words: Having 5% - 10% of one’s portfolio in silver historically has optimized the return of one’s portfolio relative to the risk or volatility of one’s wealth over time.* Having up to 25% of one’s portfolio in silver yields better returns with smaller increases in risk, based on historical data.

See Chart 4 and 5 below.
Silver Price Volatility

The fact that silver prices are far more volatile than those of gold and many other commodities was mentioned at the beginning of this report. In fact, the title refers to silver as a restless metal, a homage to author and professor Dr. Roy Jastram’s book on silver prices, *Silver: The Restless Metal*.

The reality is that silver prices are more volatile than those of gold. Some people call silver high-octane gold: In bull markets silver tends to out-perform gold, and many investors like silver because it gives them out-sized returns when the metals are running.

There are many reasons for silver’s greater price volatility. The fact that many investors buy, hold, use, and sell silver as a form of money contributes to this restlessness. So, too, does the small size of the silver market. The value of silver trading is a small fraction of the value of gold, and almost incalculably small compared to the size of financial markets such as stocks, bonds, and foreign exchange trading.

Another difference between silver and gold is that some investors are much more willing to sell silver when they think prices are going to fall than they are willing to sell gold. When investors are bearish on precious metals they tend to buy less gold, but they have demonstrated a willingness to sell some of their silver, in the 1970s and again from 1990 through 2005. This two-way flow of investor holdings contributes to silver’s greater price volatility. So, too, does the greater role industrial, jewelry, and other fabricated uses of silver. Silver is both a financial asset and an industrial metal used in a wide range of manufactured products.

One of the interesting aspects of silver right now is that the volatility of its prices has fallen to very low levels as of 2017 - 2019. The last time silver prices were as calm as they have been over the past two years was in 2000 - 2003, before the bull market that started around 2005 and took silver to nearly $50 in April 2011.

*See Chart 6 below.*
Where Silver Is At Present?

This leads us to where silver is at present. Investors were net sellers of silver in those years 2000 – 2004, continuing a long period of dishoarding that began in 1990. Within a couple of years investors as a group flipped over to being net buyers of silver, as they grew increasingly concerned about the economic and financial stability of the world, their country, and their own banks. Political risks were rising, including increased competitive tensions between the U.S. government and China, increased belligerence between the U.S. government and Russia, and a combination of wars in Afghanistan and Iraq that were destabilizing international politics and leading to the steady increase in oil prices from around $10 a barrel at the turn of the decade ultimately to around $143 per barrel in 2008.

In this environment investors increased the amounts of silver they were buying and stacking up. As global economic, political and financial conditions worsened they bought more and more silver, driving the price from around $5 per ounce to nearly $50 in six short years.

Since 2012 investors have reduced the amount of silver they are buying on a net basis. Prices consequently have fallen back to around $15 per ounce.

Chart 6 (next page) shows that in some ways the reduction in silver investment demand and prices from 2012 into 2019 are similar to investment demand and price patterns in the late 1980s, which led to a 15 year period of low silver prices and net investor selling.

However, we are not in the 1980s.

There are far more differences today contrasted to the late 1980s than there are similarities. First, the financial, economic, and political imbalances that drive investors to stock up on gold and silver are far worse and worrisome than they were back then. In the late 1980s the U.S. government was racking up annual budget deficits around $350 billion, and had total federal debt around $4 trillion. Now total U.S. government debt is more than $30 trillion and the U.S. is adding more than $1 trillion to its debt load every year.

It is not just the U.S. government that is astoundingly more profligate now than it was then. Debt loads have risen with most governments around the world, with large and medium sized corporations, and with consumers. Pensions were under funded then. They are so much more underfunded today that private pension fund managers admit they have no idea how to catch up.
International, as well as domestic, political cooperation is gone, compared to what existed in the late 1980s. International competition has increased. The amount of U.S. dollars floating around the world is a multiple of what it was then. Corporations are moving from employing people to buying computers across industries, from manufacturing to legal firms and institutional investment shops.

In short, those factors that drive investors to buy silver are far more worrisome now than they were in the late 1980s. One should expect investors to be more interested in silver in the next few years than they were in the 1990s and early 2000s. But there is another set of factors that are positive for silver. Financial markets have liberalized and globalized. And they have gone electronic. The amount of information available to investors about silver and other investment opportunities has exploded. Investors can read as much as they desire about silver on the internet, even as they find they need to develop a greater capacity to discern good information and analysis from bad and biased information.

Investors are better informed than they were in the late 1980s, and they have better access to physical silver investments than they did in the late 1980s.

Investors will weigh the pros and cons of holding some of their wealth in silver and make their own decisions. As they have in the past, they most likely will come to the conclusion that there is a time to buy more silver, to move more money out of stocks and bonds into silver and gold. Given the economic and political issues facing the world and investors today, they are not likely to wait 15 years to start buying more silver.

See Chart 7 below.

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**Silver Market Balance–Net Changes In Inventories**


![Silver Market Balance–Net Changes In Inventories](chart)

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7 Silver Market Balance–Net Changes In Inventories
CPM Group LLC

CPM Group is a fundamentally based commodities research shop. We develop our own proprietary estimates of gold, silver, platinum, and palladium supply and demand on a global basis, drawing on every resource we can find, including our own extensive list of contacts involved in precious metals around the world. We have been doing this sort of research and analysis since the 1970s, far longer than anyone else in the business. We also undertake research in specialty metals, base metals, energy and agricultural commodities. We are known for our basic fundamental research, a wide range of financially oriented consulting services, and our expertise in using financial derivatives to structure financing for producers, refiners, industrial users, and investors interested in either hedging or investing in commodities.

Our investment philosophy is simple: We are value investors who base our decisions on what to buy, sell, hold, or avoid on the fundamentals of each asset, and the macro-economic, financial and political environmental factors that we expect will affect that asset’s value. We have concerns, expressed in this report and elsewhere, about long-term imbalances in government deficit spending, public and private debt, and a wide range of other economic and political factors. We don’t expect the world’s financial system to collapse, however. That is not the way the world tends to work. More likely economic outcomes in the real world lie between the extremes of cataclysmic collapses and nirvana. We advise our clients – and practice what we preach – to have some of their wealth in gold and silver as an insurance policy against a catastrophic failure, but we also advise them to invest other portions of their money in precious metals and other assets based on the assumption that that sort of failure does not occur. We focus on investing based on likely scenarios, but with an eye always open to outlying events that take the world’s markets by surprise. We have watched investors who were so worried about a collapse that they missed some of the largest stock and bond market rallies of all times over the past 30 years, while watching their safe haven assets fluctuate eight-fold in value up and down, and then up and down again. We prefer our clients to buy and sell precious metals and other assets based on cyclical and other developments, while also maintaining that long-term insurance policy in case the levee breaks.
For more information on precious metals investing and on specific gold, silver, platinum, and palladium investment products, please contact:

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