Welcome to Casey Research!

Silver has been on fire over the last three years — substantially outperforming its spotlight-grabbing cousin, gold.

Because we believe this bull run is far from over, we advise investors to always maintain exposure to the precious metals markets. Even if you haven’t yet participated in the run-up of both gold and silver, I’m glad you’re ready to take a look at the investment potential of silver.

The question every investor faces in a bull market is: Do I buy now, anticipating prices will continue higher — and chance getting clobbered if a correction arrives? Or do I wait for a pullback and possibly miss out on big gains? There’s risk either way.

Our goal in this report is to suggest various ways you can invest in silver, while underscoring the importance of patience and discipline. Investors must remain patient to avoid chasing silver, overpaying, and draining their cash. Instead, we recommend that you use temporary price declines to steadily accumulate the best silver stocks and your preferred form of bullion.

Looking back after this bull market has finally run its course, we think gold and silver will have amply rewarded those who bought smart, had meaningful exposure, and stayed the course.
Silver: The Lay of the Land

There is ample data on the silver market to consider, but there are two specific issues regarding supply and demand that are critical to understand.

The first is industrial use. Demand from a number of industries that use silver has been flat or falling. Household demand for silver like cutlery, flatware, and candlesticks hasn’t risen in ten years. Jewelry fabrication is up but a blip. With the shift to digital photography and image storing, use in photographic film processing continues to fall. And yet, total demand from industrial users keeps climbing.

So what’s driving industrial demand?

Since 1999, consumption in electronics has increased 120%. Silver use in solar panels began in 2000, and usage is up 640% since. Silver was first used in biocides (antibacterial agents) in 2002 and, while a small percentage of total silver use, it has grown six-fold.
The point is that not only are the number of uses for silver growing, the demand within each of those applications is rising as well. This is important to keep in mind because, traditionally, the industrial component of silver tends to keep the price soft in a poor economy – and Doug Casey is convinced we’re on the cusp of the Greater Depression.

However, these increasing sources of demand are now more likely to keep a floor under the price in the future. In fact, the Silver Institute forecasts that total industrial use of silver will rise by 36% over the next five years, to 666 million troy ounces/year. That’s a lot of silver, meaning this portion of demand, which is roughly 60% of all fabrication, isn’t letting up anytime soon.

The second issue is mine supply. Silver mine production has been increasing over the past decade, largely due to rising prices, allowing companies to ramp up production and bring more metal to the market. In fact, global mine production is up 33% since 1999. Meanwhile, total demand, as you’ll see in the chart below, is also rising.

So what’s the concern?
In spite of miners digging up more and more silver, production alone can’t meet global demand, and the gap has to be filled by scrap silver coming to market.

And there’s a catch with scrap. While scrap metal comprises about 20% of silver’s total supply, many of these new applications are difficult to reclaim. Some applications contain such small amounts that they’re uneconomic to recapture, such as many biocidal and nanotechnology applications. With others it’ll be a long wait. Solar panels, for example, have a 20- to 30-year life. Still others are waiting on more effective recovery programs; more than half of all silver in cell phones, TVs, computers and other electronics, for instance, still ends up in landfills.

In other words, a growing portion of the silver that’s consumed won’t be returning to the market anytime soon.

And this is occurring at a time when new uses for silver are being found almost every day, particularly in the biocide arena. In fact, it’s difficult to catalog all the growing uses of the metal.

To be clear, scrap will increase with higher prices. In fact, some refineries are expanding their operations to keep up with the increased supply of the metal. It becomes more economical to recover the small amount of silver from printed circuit boards, for example, when the price is twice what it was last year. And manufacturers have an increased incentive to recycle when they can fetch a bigger return on their efforts.

But the bottom line is this: recycling of scrap silver must continue to grow just to keep pace with the increased demand. And with scrap being an unpredictable portion of total supply, we cannot rely on it to always fill any supply gaps.

Last, much of the sudden rise in silver is due to its growing role as a monetary metal as a result of investor fears about the global economy. This isn’t surprising when you look at the debasement of the world’s major
currencies, rising inflation, and the ongoing sovereign debt crises in the EU. Silver is especially gaining “monetary” status in emerging economies, where demand is growing three times faster than the established industrialized countries. And this trend is not an anomaly; silver has been used as money for over 3,000 years, and the word for “money” in many languages is “silver.”

The big picture is clear. Not only are supply and demand forces bullish for silver, but more and more investors are turning to silver for protection against inflation and eroding currencies. Throw in the fact that most governments have no silver reserves and our conclusion is that silver will remain in a bull market well into the future.

Is Now a Good Time to Buy?

“This all sounds good, Jeff,” I can imagine readers saying, “But the price has doubled since last summer... should I really buy at this level?”

First, one of our key mantras is this: don’t chase something that’s running higher, and don’t plunk down a wad of money after such a surge.

Next, you absolutely must buy with the big picture in mind. If the long-term outlook indicates there’s a lot more upside, it’s easier to buy knowing the fundamentals are working in your favor. You’ll see a sell-off for what it is – a temporary drop in price within the context of a bigger trend.

I’ve covered the big picture regarding silver supply and demand. Now let’s put the price of silver into context.
Adjusted for inflation, silver reached $111.75 at its 1980 peak. And this assumes you accept the government’s understated measure of inflation (we don’t). In spite of the recent run-up, we’re nowhere near that level. Throw in how much more serious today’s currency issues are and one can argue that silver could reach far higher prices.

Finally, it’s no secret there’s a surge in investment demand for silver. Mints around the world keep running out of product... demand in many countries is through the roof... Eagles and Maple Leafs are out of stock – it’s dizzying to keep up with it all. With so many investors buying metal, are we approaching a peak?

Although the Hunt Brothers’ accumulation of silver contributed to the metal’s ascent in the late 1970s, was this the major reason for silver’s climb? That’s important to ask because maybethat big spike won’t be repeated without a similar catalyst. While no one can answer that question conclusively, I’m skeptical. You can read my take here.
This chart shows the net buying and selling of investors. You’ll notice that while buying has jumped tremendously in recent years, it’s still 36% below the 1980 high. This data includes the ETF products introduced over the past few years. And keep in mind that the global population is roughly 57% greater!

Silver is nowhere near its inflation-adjusted high, and investment demand, while strong, is far below its prior peak. These two factors paint a clear picture about silver’s price potential: there is still a long way up.

There’s no way to know if the price will continue soaring, suddenly sell off, or trade sideways. Knowing this, there’s only one strategy that keeps you in the market, lets you buy when lower prices occur, and works to build your position without worrying about price volatility: accumulate in tranches, otherwise known as dollar cost averaging.

Buy one tranche now, buy another tranche next month, etc., until you have a position sufficient in size to benefit from the bull market.
Silver Bullion Squeeze: Is This Just the Beginning?

To get a handle on the silver bullion market, I turned to Andy Schectman of bullion dealer Miles Franklin, an insider with deep contacts in the industry. You’re welcome to take Andy’s comments with a grain of salt since he sells bullion, but keep in mind that not only does what he see every day ring true with others I’ve spoken to, what he’s convinced is ahead might just compel you to count how many ounces you own...

Jeff Clark: Andy, tell us about your industry contacts and how you get the information you’re privy to.

Andy Schectman: We source our product from three of the largest six primary U.S. mint distributors. Having 20 years of experience with these sources, as well as the dealers in the secondary market, we’re as tied into the industry as anyone.

Jeff: You made some interesting comments to me about supply and premiums. Tell us what you’re hearing and seeing in the bullion market right now.

Andy: I feel as though I’m the boy who cries wolf or that I’ve been beating the same drum for too long. But in reality, it has been my feeling since late 2007 that ultimately this market will be defined less by the price going parabolic – which I think ultimately will happen – and more by a lack of supply. You see occasional reports that state it’s just a lack of refined silver or lack of silver in investable form. But as far as I’m concerned, there is a major supply deficit issue, and it’s getting worse.

Take the U.S. Mint, for example. Right now, as we talk, you can barely get silver Eagles. We’re seeing delivery delays of three to four weeks, and premium hikes of a dollar or more in the last three weeks. Most of the suppliers in the country are reluctant to take large orders on silver Eagles
because they don’t know (a) when they’ll get them, and (b) what the premiums will be when they arrive.

I was talking to the head of Prudential Bache and asked him about silver Eagles. He said, “You know, as soon as the allocations come in, they’re sold out. We can’t keep them in.” This is coming from one of the largest distributors of U.S. Mint products in the country.

And this is all occurring in an environment that has only minimal participation by the masses. Few people in this country have ever even held a gold or silver coin. So, if it’s this difficult to get bullion now, what’s it going to be like when it becomes evident to the masses they need to buy? This is what keeps me up at night.

**Jeff:** What are you seeing in the secondary market? Are investors selling bullion?

**Andy:** There is no secondary market. Absolutely none. Nobody is selling back anything, at least not to us. Think about that: if this was a traditional investment and your portfolio went up 100% in the last year, like silver has, you’d think some investors would take some profits and ride the rest out – but nobody’s selling anything.

This is why I think the lack of supply is the single biggest issue in this market. And in time, I think it will become much more obvious. [Ed. Note: We’re using the term “secondary market” in this instance to mean sellers of bullion and not the scrap market.]

There are only five major mints – U.S., Canada, South Africa, Austria and Australia. Yes, there is a Chinese Mint and a couple Swiss Mints and some private refiners, but they amount to very little in the overall scheme of things. We’re in a situation where the mints are limiting the selection and raising the premiums, and this is occurring at a time when most people own no bullion. As it becomes more apparent that people want bullion instead of
paper dollars, I think you’ll see premiums go parabolic and supply get even tighter.

**Jeff:** Are you getting a lot of new buyers to the bullion market?

**Andy:** More than ever. One of the interesting things we’re seeing is a lot of younger people dipping a toe in the water, buying little bits of silver here and there. We’re also seeing bigger orders, as well as more frequent phone calls from financial advisers asking us if we can help their clients. So yes, the base is broadening.

**Jeff:** That’s very interesting. So are you seeing more demand for gold or silver right now?

**Andy:** 90% of the new business is in silver. And I think that’s indicative of the state of the economy. People are trying to get into precious metals, but they think gold is too high. I think they’re buying silver because they realize the fundamentals for owning gold also apply to silver. They think the profit potential is better in silver, too. This has actually made the supply for gold better than it is for silver right now, and a lot of that has to do with price.

**Jeff:** Hearing about all this new buying might make some think we’re near a top in the market. Could that be the case?

**Andy:** No, no [chuckles]. I think Richard Russell says it best: “Bull markets die of exhaustion and overparticipation.” Well, we’re nowhere near that point when so few people in this country own gold and silver. Heck, I’m a bullion dealer, and most of my peers don’t own any gold and silver! Yes, you’re seeing more commercials, but there are just as many commercials to buy gold as there are to sell it. I think that’s an indication this market is not exhausted.

Remember that in the year 2000 everyone and his brother had some NASDAQ shares. That’s an example of an exhausted or overparticipated market. We’re nowhere near that.
Jeff: So the take-away message is what?

Andy: First, I think you said it best with your recommendation to “accumulate.” Not only will it smooth out the volatility in price and premiums you pay, it will also give you a bird in the hand. If I’m right about this market, and I really believe I am, it will be defined by lack of availability of refined product. To combat that, just accumulate month in and month out, and be thankful when you’re able to get what you want.

Second, it’s about the number of ounces you own. You want to get as many ounces as you can without being penny wise and pound foolish. Stick with the most recognized products – don’t buy 1,000-ounce bars, for example, because they’re illiquid. You want to maximize your liquidity, and you do that by buying the most common forms of bullion – one-ounce coins, bars, and rounds; 10- and 100-ounce products; and junk silver.

Last, keep in mind that premium and commission are two different animals. Commission is what the dealers make on top of the premium. Premium is what the industry bears. So if the U.S. Mint is selling silver Eagles for $3 over spot to the distributors, that’s before they’re marked up to the public. So even though the “premium” is high, you’re actually going to get most of that back when you sell. [Ed Note: It’s not uncommon for the buyer to recapture most of the premium when they sell, particularly during periods of high demand.]

So, buy gold and silver while it’s available, even if you don’t buy it from me, because if I’m right, getting it at all could soon be your biggest challenge.

Jeff: Thanks for your insights, Andy.

Andy: You’re welcome.
Bullion Chest

We think owning no silver in this bull market would be a mistake. And while ETFs and funds are good investments, your first (and biggest) investment in silver should be in a physical form.

How much physical silver should you have? There’s no right answer, and one size will not fit all. But we do recommend holding more gold than silver, roughly 80/20 or perhaps 70/30.

There are a growing number of options for owning silver bullion, and we cover them below. Our advice is to find what best suits your needs and, as always, diversify.

**One-ounce silver Eagles, Maple Leafs and Philharmonics** – These are our first choice for owning physical silver. All our recommended dealers carry these coins, but check for availability. (Note that the U.S. Mint does not produce a silver Buffalo – if you see one, it’s a “round” and not a U.S. mint product – and South Africa does not make a silver Krugerrand.)

**Silver Bars** – Available in 1, 10, 100, and 1,000 ounces. The larger the bar, the smaller the commission per ounce. In one-ounce products, bars have a lower premium than coins since they’re less expensive to manufacture, though some investors prefer the beauty of a coin. We agree with Andy about 1,000-ounce bars and would only buy if you keep them in a reputable storage facility. This will avoid the need to have your bar assayed prior to a sale to confirm to the buyer its weight and purity.

**Silver Rounds** – Silver rounds lack the cachet of an official coin, primarily because they’re not from a government mint and lack legal tender status. However, the face value of a coin is mostly symbolic, and if you just want metal, they’re just as good. This can be an easily affordable coin-like method of owning silver. And rounds are .9999 silver, while the Eagle is .9993. Look
for dealers that have a guaranteed buy-back program; this gives you a layer of protection if/when you decide to sell.

There’s a company offering silver rounds at just $1.50/ounce over the spot price (minimum 50 coins). That’s about a third of the current premium for Eagles and Maple Leafs. Shipping and insurance are free, and they have a guaranteed buyback program for their products. All of the details are available to BIG GOLD subscribers, in the April 2011 issue.

**Junk Silver** – “Junk silver” refers to circulated, pre-1965 U.S. coins that contain 90% silver, and are bought in worn, nicked, and scratched condition. Junk silver usually comes in bags of $1,000 face value in any combination of dimes, quarters, and half-dollars. A $1,000 face value bag of junk silver weighs about 65 pounds, and at $35 silver would run $26,526.

Junk silver is one of the cheapest ways to buy silver, currently about the same premium as bars. The disadvantage is that it’s bulky to store and expensive to ship. If you go this route, make sure you use the coins (if you ever do) based on their silver content and not their face value. Some dealers will sell a $100 face value bag.

**Pool Silver** – Looking for a way around high premiums? Buy into a pool account now and take physical delivery when premiums drop (below 10% for silver coins). A pool account is simply where you agree to “pool” your holdings with those of others. You have no claim on a specific piece of metal, but you have a claim on the metal the company controls, similar to having money on deposit in a savings account at a bank.

The advantage is that you pay no storage fee and have plenty of liquidity if/when you sell back to the pool company. If you someday sell your pool holdings, you’d end up paying no storage or fabrication fees, regardless of how long you held them.
Kitco has a good program, though they require a $25 transaction fee for pool orders below $2,500. Check the unallocated storage programs at both the Perth Mint and EverBank as well.

**Rare or Numismatic Silver Coins** – We don’t recommend entering the numismatic world unless you are, or are willing to become, a knowledgeable coin collector. That said, we devoted an entire issue of BIG GOLD to numismatics, which will be available to you if you [choose to subscribe](#).

**Commemoratives or Medallions** – We don’t buy these because the premium is higher and almost never recouped when they are sold. This includes “proof sets.” Unless the premium is at or below a comparable bullion coin, we’d pass. A current exception: the premium on the silver Canadian Olympic coin is lower than the Maple Leaf at most dealers, so this is something we’d buy.

**Silver Certificates** – A precious metal certificate is basically a claim you have on metal held by a third party, and is thus only as good as the underlying storage facility. Tops in our book is the Perth Mint Certificate. Stored in Australia, you can denominate your certificate in any combination of gold, silver, or platinum. A PMC is especially attractive for the large silver holder, and you instantly internationalize your assets. We covered PMCs in an earlier article in BIG GOLD, in May 2009 — [available to all subscribers](#).

Also, check out EverBank’s Metals Select Account. They have lower minimums than the Perth Mint, and their fees for allocated storage are smaller, too.

**Silver in an IRA** – You can put physical silver (and gold) in your IRA or ISP. We’ve written on the topic before, and though our article discusses gold, the same issues apply to silver. BIG GOLD subscribers can see [How Do I Put Gold In My IRA?](#) in the January 2009 issue of BIG GOLD.

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**Effective June 10, 2011,** we are removing Kitco as a recommended dealer from our list of approved vendors. The company is under investigation by tax authorities in Quebec regarding allegations it participated in tax fraud. Kitco vigorously denies the accusation, and we don’t know if the charges are accurate or not, but it is our company policy to not recommend a dealer undergoing any formal investigation. We thus recommend bullion purchases be made from other sources until the matter is resolved one way or the other.
Choosing a Bullion Dealer

Trust is key when buying bullion. You want to get what you ordered and deal with a company that stands behind its product. And you don’t want to be hounded with follow-up calls hyping “special offers.” Establishing a solid relationship with a dealer is especially important in an environment of short supply and rising premiums.

We’ve put together a list of dealers that we’ve worked with over the years — people whom we like and trust and who have always met our expectations. As a subscriber, you’ll find them listed in the April 2011 edition of BIG GOLD.

I’d like to invite you to try an absolutely risk-free subscription to BIG GOLD. Every month you’ll find the same kind of easy-to-read, in-depth information you’ve read in this report. And you’ll find recommendations on the very best gold and silver stocks, ETFs, mutual funds, and all the ways you can own physical silver and gold — always balancing the least risk with the best possible returns.

You’ll have complete access to the BIG GOLD portfolio (currently 23 companies, funds, and ETFs), all back issues of BIG GOLD, and the vast library of articles and research for which Casey Research is known.

A full year of BIG GOLD costs just $79. Try it for 3 months, and if it’s not what you had in mind, cancel for a 100% refund.

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