



INTRODUCTION

By James R. Cook

Recently I had to prepare a two page advertisement promoting silver for Forbes Magazine and U.S. News and World Report. I also spent an hour on Howard Ruff's conference call to his subscribers talking about silver. It caused me to review all the bullish aspects of silver. Consequently my enthusiasm for silver reached a new high. As I said on the Ruff interview, I've committed my personal assets to silver because I believe this is an opportunity like no other. I see it as a fortune builder. I think silver offers a way to get filthy rich.

I've been studying finance, reading economics, investing in stock, drilling for oil, digging for gold, putting money in start-up companies, buying krugerrands or silver coins and running a business for most of my life. My book on starting a business made it to the best seller list. My novel predicted and described the economic crisis we are going through.

My library at home is overflowing with books on how to succeed, how to invest and how to get rich. I've studied the lives of Carnegie, Ford, Edison, Sloan, Rockefeller, Giannini, Swift, Ogilvie, Penney, Woolworth, Wannamaker, DuPont, Templeton, Heinz and Hershey to name a few. I've learned how to succeed and how to make money. I've persisted in the face of failure and adversity. I've hung on when nothing worked and fought back my fears a thousand nights. I've stood my ground when the government tried to crush me and outlasted them on faith alone.

Napoleon Hill taught me, “Whatever the mind can conceive and believe it can achieve.” Andrew Carnegie taught me the quality that distinguished him from all others was persistence. Emerson taught me the laws of compensation, “honest service cannot come to loss . . . every stroke shall be repaid. The longer the payment is withheld the better for you; for compound interest on compound interest is the rate and usage of this bank.”

By most standards I have prospered. But that was not my bargain with life. I wanted more, not just to pile it up, but to do some good. Now I believe the opportunity I have waited for is here. The astute silver analyst Butler has laid it out for us in the clearest terms. No one that I have known has ever mastered a subject or presented a money making opportunity as clearly as Ted Butler has with silver.

According to Ted the price of silver has been artificially depressed for years. The price hasn't reflected the true state of available supply or the reality of surging demand. If large banking and investment firms had not built up an inordinately high paper short positions, the price of silver would have been much higher. It was held down while the big boys engineered sell offs that lined their pockets. The game was rigged.

As a result of the low price a lot of silver was used up. Billions of ounces that were once counted in the above ground supply were utilized by industry and are gone forever. The U.S. government once counted as much as five billion ounces in their hoard. Now they have none. In fact they have become one of the world's biggest buyers of silver for use in their coin programs.

Because of Ted Butler's relentless crusading the cat is out of the bag and the silver shenanigans are under the spotlight. Government regulators have held hearings about putting limits on how much silver one firm can be long or short. The impact of these position limits would be profound. Not only would the big banks have to buy back silver to close out their short position they would have to refrain from taking the short side in the future. This would set the price free. Ted Butler has postulated that this single event would send the price much higher. He also claims that it doesn't matter if the government clamps down on the short sellers. A silver shortage will eventually drive up the price. Industrial demand along with soaring investment demand, have squeezed the supply to the point that delays are now being experienced by silver investment funds. One of Ted's themes is that industrial users will begin to panic once they have trouble getting silver. This would send the price up in a hurry. In the meantime more and more investors are pouring into silver as the story gets out.

Other bullish factors include the numerous new industrial uses for silver, the difficulty in ramping up silver mining production, inscrutable Asian demand and the amount of silver that doesn't exist in pool accounts that must be covered someday. Then there's the possibility of inflation, a dollar crisis or an economic panic that causes a stampede into precious metals. It seems clear to me. If silver does what Ted Butler says it will, then fortunes will be made by those who hold the metal. I'm a true believer and I've put my money into silver with the expectation of making a fortune. Now it's a waiting game but I'm “all in.”

PREFACE
By James R. Cook

Exactly thirty years ago Bunker Hunt and his brother Herbert were piling into silver futures. Their steady buying drove the price up 25 times to \$50 an ounce. It all happened in a few months and then silver crashed. Have you ever wondered what provoked the Hunts to begin accumulating silver to that extent? My opinion is that they read the same book I did. That book caused me to start Midwest Silver in 1972, which I changed to Investment Rarities in 1973.

I first read this book entitled, "Silver Profits in the Seventies," in 1972. It was written by the late Jerome Smith, a bright guy who later ran afoul of the IRS and left the country. The book was a powerfully bullish argument for owning silver. I've heard that this book caused the Hunts to move into silver. Ultimately, the government gave them a spanking for trying to corner the silver market and they lost a fortune.

After reading the book, I began to call wealthy individuals on the phone to set up an appointment to tell them about silver. I'd make the visit, pitch them on the future of precious metals and leave a copy of, "Silver Profits in the Seventies." A few agreed to buy bags of silver coins. The bags had a face value of a \$1,000 and I sold them initially for \$1,200. The risk was \$200 a bag. I'd deliver the bags personally. Once I had a flat tire with five bags of coins in my car. Needless to say I was worried opening the trunk alongside the freeway.

Jerome Smith's forecast didn't work out after 1980. Silver didn't do much for 20 years. The low price made it cheap for industry to consume silver. A lot of silver got used up. Investment demand hardly existed. Back then silver analyst, Ted Butler began to puzzle why the price stayed so low in the face of strong demand by industry and a diminished supply. Since his background was in commodity trading he eventually uncovered the truth. The big New York brokers, banks and insurance companies were shorting inordinate amounts of silver. This became a glaring truth to Ted Butler when he studied information put out by the Commodity Futures Trading Commission. Compared to any other commodity silver was totally out of kilter on the short side.

This was but one of the many revelations and discoveries by Mr. Butler. He warned the giant gold mining company, Barrick, in writing that their gold hedge was fool-hardy and would prove disastrous. Recently they suffered horrible dilution in order to raise the billions necessary to close out this money-draining hedge. Butler also predicted the price increase of silver. He scoffed at those who claimed silver would not rise. He also named the large companies that were on the short side. He rallied support for a silver investigation. He forecast a great increase in the investment demand for silver. He argued that exchange traded funds would have a profound impact on silver, calling them a death-star. He and his friend and mentor, Izzy put the Silver Eagle on the map and predicted a shortage that soon came.

Ted Butler issued warnings about silver held at banks and brokerages. He claimed many of these companies were charging storage fees on silver that didn't exist. Eventually Morgan Stanley confessed in court that this was true and claimed that everybody did it. Butler's amazing record spurred increased interest in silver. Astute investors could see he was on the money. A wave of copycats used his material to forecast silver gains. He became widely plagiarized. Nevertheless, he remains the original thinker who pioneered our modern knowledge of the silver market. He

is the reason we are likely to see even greater interest in silver.

Mr. Butler argues that the coming price event in silver will be written about for all time. In effect he is saying the price will rise so high that fortunes will be made. The prices he projects are truly staggering. However, before anyone scoffs at his prediction they need to examine his record. His accuracy and the caution and care with which he dispenses it are truly impressive. His grasp of the subject is without peer. This is somebody to listen to.

Forty years ago Jerome Smith was writing about silver and was recognized as an expert on the subject. Although he was in vogue for a while he eventually faded away. He had it figured wrong. Ted Butler solved the riddles that perplexed Smith. Then he built a powerful case for silver that transcended anything anybody had written previously. His expertise and knowledge towers over any other silver commentator. He will be the star of the coming silver story if it works out anywhere close to the way he's so certain about.

“The fundamentals of silver are so bullish and compelling that I couldn't make them up if I tried.” Theodore Butler

Chapter 1
By Theodore Butler

THE CRITICAL FACTORS

I've spent over 25 years of my business life intensely studying silver. I didn't intentionally plan to become immersed in silver. As a commodity broker and investor, I was looking for my next trading idea. Instead, I stumbled onto a situation that would alter my life. I'm going to distill what I've learned over the past twenty-five years. There are three critical factors in silver. In this article I'm going to write about one of these factors. In future articles, I'll write about the other two. My goal is to convince you to buy silver without delay.

The first critical factor is the short position on the COMEX, the world's leading precious metals futures exchange. I've written about this before and you may be tired of reading about it but this issue is so crucial and so profoundly bullish I must convey the enormity of it to you. Readers may find this issue confusing, particularly those new to silver. No matter how difficult the COMEX short position may be to comprehend, its impact on price, both past and in the future, must be discussed. There is a great incentive to wrap your mind around this silver short position. If you do so, you will come to appreciate why silver is the investment opportunity of your lifetime. If you can't grasp the significance of the short position immediately, you don't have to despair. There are other critical factors that will convince you to buy silver. However, those who have come to comprehend the significance of the COMEX short position would never sell their silver as long as this short position exists. It's that important.

When I first uncovered the unique significance of the silver short position, over 25 years ago, the COMEX (The Commodities Exchange, Inc.) was a private organization, owned by its member traders. Subsequently, it was acquired by the New York Mercantile Exchange, Inc., which eventually went public and was, in turn, acquired by the publicly-owned CME Group, Inc. a couple of years ago. The CME Group is the largest derivatives exchange in the world and I have made numerous accusations of their involvement in the silver manipulation.

I remember distinctly the precise moment that the light bulb went off in my head. I was reading the commodity tables in the Wall Street Journal (back then they published complete volume, price and open interest statistics). I was looking for something about silver that could explain why its price didn't reflect the spectacular supply/demand fundamentals pointed out to me by a client, Izzy Friedman (who would later become my silver mentor). I had been looking, without success, for an explanation why silver was so low in price despite the fact that the world was consuming much more than it was producing. After all, a deficit consumption pattern was the most bullish circumstance possible for a commodity and it made no sense for the price of silver to be low in such a deficit condition. Then it hit me like a ton of bricks.

When looking at the tens of thousands of contracts listed for each commodity, the open interest in silver didn't look out of line with other commodities. But if you stepped back a bit and converted the open interest statistics for all the commodities into the equivalent real world amounts, a completely different picture unfolded. A shocking picture. All I did was multiply the total open interest of each commodity by the contract unit of trade. Each commodity has its own industry standard contract size. In grains and soybeans it is 5000 bushels, in copper 25,000 lbs, in crude oil 1000 barrels, and in silver it is 5000 troy ounces. By converting the open interest of each commodity from number of contracts to the equivalent amounts in real world terms, the light bulb went off in my head. The puzzle of low silver prices was solved.

What I discovered was that the amount of silver committed by both longs and shorts on the COMEX was completely out of line with every other commodity when compared to world production, consumption and world inventories. The amount of silver "bet" on the COMEX was much larger, by orders of magnitude, compared to every other commodity. Thus began my intense involvement in silver which continues to this day. Why did I feel this was such a big deal?

For one thing, futures markets are derivatives. By definition, such transactions are derived from a host market. In the case of physical commodities it's real production, consumption, inventories and cash markets that are the hosts upon which derivatives (futures) are based. As such, the derivatives markets can never be legitimately larger than the host physical markets from which they are derived. Since the economic justification for futures trading is to allow real producers and consumers the opportunity to hedge, or to lay off price risk, it is not possible to hedge more than what is produced or consumed. If the size of the futures market was larger than total world production, as it was in silver, then it was clear that speculation, not legitimate hedging, was the cause.

A commodity futures transaction can only be a speculative or hedging transaction. Speculation is neither good nor bad, but necessary to allow hedging and market liquidity. But the futures markets don't exist for the purpose of allowing people to gamble. Commodity law seeks to insure that speculation does not dominate trading and pricing. It does this by imposing legitimate speculative position limits to prevent speculative dominance. Yet it was clear, then as now, that speculators on the COMEX were dominating the price of silver because of the large size of the speculative position. Even though the COMEX was largely a paper market, the size of its total silver position was so large that it dictated prices worldwide. Further, since the long silver contracts were widely distributed among many different entities, while the short side was dominated by a small number of large New York financial institutions, it was clear the short side was in control of prices.

Since this goes to the heart of commodity law, I did what I thought was the right thing to do, namely, notify the regulators and explain to them the unusual circumstance in silver. All this notification got me was regulatory runaround and an eventual enforcement action by the CFTC against me in an unrelated market, orange juice.

What is truly remarkable is how my initial discovery of the significance of the COMEX silver short position has not only endured for 25 years, but has become more critical and visible today. It has led to a continuous stream of compelling evidence of a long term manipulation in the price of silver, culminating in the identification of JPMorgan as the largest concentrated short on the COMEX. Now we await the resolution of this visible and verifiable manipulation, either by regulatory action or a physical shortage.

What does the COMEX silver short position mean to you? It means that as long as it exists, silver is a buy and not a sale. The COMEX silver short position is more important, by far, than economic conditions, currency concerns, inflation or deflation, country debt default, or even production or consumption. First and foremost, the COMEX short position has depressed the price, making silver a fabulous buying opportunity. While it continues to exist, it is the wind at the backs of all silver investors. When the COMEX silver short position ceases to be out of line with all other commodities, particularly its concentrated nature, the sale of silver can be considered. The end of the outrageous COMEX silver short position doesn't necessarily mean that silver must be sold, just that it will no longer be the gigantic support under the price. Buy silver while the short position exists in its current form; consider selling only when it no longer exists.

Chapter 2

A BLAST FROM THE PAST

When you follow silver and think about it as intensively as I do, it's hard not to focus on the day-to-day developments. But it's also important to step back and try to look at things years or even decades ahead. It is easy to get caught up in what's happening now, but true foresight encompasses a much longer time frame. Get the long term right and you don't have to sweat the short term.

For several months or longer, on almost a subconscious level, I have been thinking about the long term in regards to silver and electricity. I first wrote on this topic eight years ago, in just the 14th (of more than 300) article I've written for Investment Rarities
<http://www.investmentrarities.com/06-27-01.html>

Silver has unique properties which makes it superior to any other substance. Importantly, it is the best conductor of electricity. This means that electricity travels faster while less of it is lost with silver as the conductor. If there is one thing that has impacted the world over the past 100 years it is the widespread use of electricity. Copper is the second best conductor of electricity and costs much less than silver. About 750 times more copper is mined than silver and much more of it is used in electrical applications. But when performance is critical, silver is the electrical king.

In my original article, I looked into future applications of silver in solar (photovoltaic), electric or hybrid vehicles and superconductors. In all three applications we have come a long way and hardly any way at all, given the journey ahead. Some recent developments suggest that the pace is about to pick up for the consumption of silver.

Since 2001, the production and proliferation of solar panels and solar-powered devices has been impressive. The future for solar power looks almost limitless. And why not? Solar power is the cleanest and cheapest form of electrical generation once installed. It's the greenest of the green. Installation costs, while still formidable, are declining yearly. Silver plays an important role in collecting and concentrating the electrical current from photovoltaic cells. Another form of solar uses silver back mirrors to concentrates the sunlight.

The production and sale of hybrid vehicles has exploded since 2001, with Toyota's Prius a common sight on the roads. These gas/electrical battery vehicles dramatically extend miles per gallon. When gasoline prices were at their peak, there were waiting lists for these autos. Honda is now introducing an even more affordable version, and many manufacturers will add hybrids or all-electrical vehicles soon. This electrical transmission requires silver to insure performance in batteries, contacts and switches.

China recently embarked on an ambitious long-term plan to become the leader in world production and sales of all-electric vehicles. China has recently emerged as the world's largest producer and consumer of gas-powered vehicles. But China knows the limitation that gasoline-powered vehicles have in its future. They have decided to leapfrog gas and hybrid production to become the leader in all-electric powered vehicles. There should be no doubt that this requires vast quantities of silver.

When I wrote about superconductivity in 2001, the main promise was for electrical transmission. Some studies have shown that as much as a third of all electricity produced is lost in its transmission over high-powered wires (mostly aluminum). No, I'm not suggesting that silver will replace aluminum in high-powered transmission wires. Due to the cost and weight that's not feasible. Besides, there's hardly enough silver available as it is.

However, an announcement just this week, from the new Administration has focused attention on the electrical grid in our country. It is operating on a system that is essentially 100 years old.

It is inefficient and loses too much electricity in transmission. As the world's best conductor of electricity, silver will play an important role in the new technology and devices developed to increase the efficiencies of the grid.

Like China, we will also be producing and using all-electric cars in the near-future. As these vehicles are plugged in to be recharged, tremendous new strains will be placed the electrical grid. Where will the power come from? Only from new power generation and efficiency improvements in current transmission systems. All this requires silver in a wide variety of applications.

There will continue to be dramatic gains in solar power, electric vehicles and electrical transmission. The future will require significant quantities of silver. This will exert a powerful stimulus on silver prices. You should buy silver for its many electrical applications, not the least is the "charge" it can give to your financial well-being.

Chapter 3

THE SILVER INVESTMENT BOOM REVISITED

In January of 2008, I wrote an article that was titled, "The Coming Investment Boom in Silver." The premise of that article was to explain, despite the end of a 60-year deficit in silver in which more silver was consumed than produced, that the price of silver was not likely to suffer. World silver inventories were so depleted by continuous annual deficits for more than half a century that this consumption pattern had to end. At some point production must equal consumption. I opined that a new factor would emerge that would replace the deficit as the primary price factor in silver. That factor was investment demand.

I explained how silver was owned by an incredibly small percentage of investors because the real silver story was unknown. The few who did own silver were holding it to sell at very high price targets. Well, the silver story is still mostly unknown and the silver owned is still very tightly held. (A rash of new publicity about silver investment does promise to bring more into the fold, which is great.) I pointed out that the biggest potential silver investment boost was likely to come from institutional investors, due to the creation of investment vehicles, called Exchange Traded Funds (ETFs). These vehicles enabled large investors to buy physical silver for the first time. And buy they did. From 210 million ounces held in the four largest ETF-type funds at the time of the first article, the collective investment holdings have grown to more than 435 million ounces today. And there is another 25 million ounces in other silver investment vehicles. There is no way to understate the importance of the introduction of the silver ETFs to the investment equation and the price.

What is truly amazing is that prior to the introduction of the first silver ETF, in 2006, there was hardly any silver held at all in such vehicles (save for the Central Fund of Canada, which held a little over 30 million ounces). That's because there was very little investment demand for silver before 2006. Of course, certain big players, like the Hunt Brothers or Warren Buffett appeared as big silver buyers from time to time, but net silver investment demand was an oddity. In fact, there was no net investment demand in silver for the 60 years prior to 2006. What I am saying is

that for the 60 years following WW II, while the world was depleting silver inventories by more than 90% (from 10 billion ounces to 1 billion), there was no net investment demand in silver. This goes a long way to explaining why silver prices were so low for that period. However, from no net investment for half a century, silver investment demand has truly exploded.

There is no precedent for the surge in silver demand that has occurred over the past three or four years. And although the biggest surge has been in the ETF vehicles, the buying binge has not been limited to this type of silver investment. Retail silver investment demand has also gone through the roof, actually resulting in a shortage last fall. The U.S. Mint's Silver Eagle program has gone ballistic, thanks in part to my silver mentor, Izzy Friedman, who strongly advocated Eagles in our articles. Although I expected a silver investment boom, I didn't expect it to be this big. Applying the same thought process now as I did back then, I can't help but conclude that the boom is about to accelerate from here.

A confluence of factors suggest we are at the beginning of a silver investment boom and a price explosion. That's even though more silver has already been bought for investment in the past few years than at any point in history. For one thing, the silver story is just starting to be recognized. The psychology towards silver is changing. I can't count the recent stories singing the praises of silver and how it is a dual industrial and investment metal.

Since that 2008 time, we've witnessed financial upheavals of historic proportions. The flight to safety includes everything that can't go bankrupt overnight. Silver can't go bankrupt overnight or in any other time frame. Today, interest rates are lower than in anyone's memory, punishing savers and encouraging a movement to anything safe that could provide a return. Silver meets that profile. A large portion of people's net worth is now held in cash-equivalents, like U.S. Treasury securities, where short-term yields hover around 0%. Silver would appear to be a logical beneficiary of any switch from such low return accounts.

While I've never been a big believer that silver is money, a friend, Carl Loeb mentioned that he advised some of his acquaintances to consider silver as a substitute for money in the bank. He suggested not thinking of it as an investment to be bought and sold, but as a long term savings plan with no particular price target. Instead of holding money in a savings account, hold a portion in silver instead, with the same long term perspective. True, there is more short-term price risk in silver than in a money market account, but there is a lot more profit potential as well. I find Loeb's views very compelling and shudder to think of the price impact of this approach.

While big institutional money has flowed into the silver ETFs, it has been mainly a certain type of investment money. Up until now, the passive index funds have been the prime purchasers of the ETFs. These are funds that rigidly buy a certain percentage of various commodities to replicate different commodity indexes. The big hedge fund operators, like Paulson, Einhorn and Tudor Jones, have yet to move into silver. They have clearly moved into gold, but not silver. The operative word here is yet. It is only a matter of time before they move into silver. That's because they are too smart not to discover silver. As I have written repeatedly, silver has all the merits of gold, except that it is a vital industrial material and there is much less of it than gold. Anyone who invests in gold will come to appreciate silver. These big fund operators are always

looking for major investment opportunities and they will discover silver. That they have so far not discovered it is bullish beyond words, as their inevitable buying has not yet been reflected in the price. That's coming.

Perhaps the most bullish factor in the growing retail and institutional investment demand for silver is the limited amount of physical material available for purchase. After 60 years of inventory depletion, it is unreal that an investment boom would develop precisely when so little material is available to be purchased. The kicker in silver is not only how little physical material is available for sale, but also how little the dollar value is of what remains, owing to the depressed price. Because the price of silver is so low, the dollar value of all the silver bullion in the world (one billion ounces x \$18) is worth less than 1% of what all the gold bullion is worth (2 billion oz x \$1150). I just don't think that most people, including the big hedge fund managers, realize that just one percent of the value of all the gold bullion is worth more than 100% of the silver bullion in the world. In time, I believe they will make this calculation and react accordingly, by trying to buy silver in big quantities. This should prove explosive to the price of silver.

As always, the investment boom is but one facet of the total silver situation. This investment aspect is long term in nature and will exist in spite of short term movements. It is separate and distinct from the concentrated short position, regulatory developments and the coming industrial user inventory panic. I'm increasingly of the opinion that any one of these factors is likely to set off the others. This would likely cause a history making price event similar to spontaneous combustion. It is imperative to be positioned prior to this event.

Chapter 4

KNOWN FACTS AND SIMPLE MATH

Gold is one of the few assets that can be expected to preserve purchasing power in the future. It would not surprise me in the least were gold to increase in price. It's an asset that is no one else's liability. In a world where everyone else's liabilities are coming into question, gold would seem to offer refuge. Current investment flows confirm that gold is being sought by many. It's hard to argue with the growing number of leading analysts and successful investors who have embraced gold. The case for investing in gold is compelling.

However, I am suggesting that silver will outperform gold. Some easy to comprehend numbers suggest silver will be a better investment. My objective is for you and for me to make the most on our investment capital with the least risk. We want to make the most and conversely, lose the least. The risk/reward metric will be especially relevant when comparing silver and gold performance in the future. As an example, I expect that if gold were to increase to \$1500, that silver would double to \$36 an ounce. If I'm correct, an investment of \$10,000 in either would grow to \$12,500 in gold and \$20,000 for silver. If instead, the price of each fell from current levels, I would expect silver to fall less than gold. I expect an investor will make more in silver than in gold from here on out. What is the simple math that I base this on? It has to do with comparing silver and gold in physical ounces and dollar amounts.

According to the World Gold Council there are thought to be five billion ounces of gold in existence, of which 40%, or two billion ounces, are in bars and bullion coins. This two billion ounce estimate, if anything may be low and the amount of gold bullion may be closer to three billion ounces. However, using the two billion ounce amount means that total dollar value of all the gold bullion in the world equals \$2.4 trillion.

There is no good estimate for how much total silver exists in the world in all forms. That's because so much of the world's silver previously existed in the form of silverware, government stockpiles and coinage. Starting 65 years ago, billions of ounces of this silver was used up by industrial and photographic applications so today there are no good estimates of how much silver remains. This remaining silver is not considered bullion and is extremely dispersed. If higher prices do motivate owners to sell and have their silver melted into bullion, such a mass liquidation will be observable, as occurred in 1980. In the meantime, the amount of actual silver bullion remaining in the world is thought to be no more than one billion ounces, according to most reliable sources. At the current price of \$18, the total dollar value of all the silver bullion in the world equals \$18 billion.

You have two numbers, \$2.4 trillion (\$2,400 billion) for gold and \$18 billion for silver. By division, you can calculate that the dollar value of gold bullion in the world is 133 times larger than the value of silver bullion. Stated differently, the value of the world's silver bullion is only .75% (3/4 of one percent) of the value of the world's gold bullion. If the amount of gold bullion available for investment is 133 times larger than all the silver bullion available for investment, one would think there would be an investment flow into gold approaching 133 times the flow into silver.

What are the actual relative investment flows going into gold and silver? The actual number is around six times. Let me state this clearly. Even though the dollar value of the world's gold bullion is 133 times greater than the dollar value of the world's silver bullion, the dollar value of gold investment flows has been only six times the dollar value of silver investment flows. In some apples-to-apples comparison, such as U.S. Mint Eagle bullion coins sales, the dollar amount spent on gold is only three times the dollar amount spent on silver. If there is not 133 times more money going into gold than into silver, why is the dollar amount of gold 133 times greater than the dollar amount of silver? Is it just investor perception?

One likely explanation is that we mine and produce more silver than gold. While that's technically true, that explanation only serves to prove my point. We mine annually about nine times more silver than gold in physical ounces, and seven and one-half times more silver than gold in dollar terms, but that's a far cry from 133 times. Relative production, either in ounces or dollar terms would suggest gold should be priced roughly eight times the price of silver, not more than 60 times, as is the case currently.

How much of gold or silver annual production is actually available for investment is misunderstood, in my opinion. Virtually all of gold's annual production of 100 million ounces (mine plus recycling) is available for investment purposes (bullion, coins and investment jewelry). That's because very little gold production is used for industrial purposes (less than 10%). At current prices, net investment flows need to run close to \$120 billion annually to

absorb the new and recycled gold being produced. Many would argue, with no disagreement from me, that \$120 billion is nothing in a world where fiat money is being created in much larger amounts.

In silver, mine production and scrap recycling totals about 850 million ounces a year. But industrial, photographic, silverware, jewelry and other applications absorb roughly 750 million ounces of the 850 million ounce total production. This reflects the nature of silver and its wide variety of uses. After silver consumption is subtracted from total production, 100 million ounces is left for bullion investment. At current prices, these 100 million ounces are worth \$1.8 billion. Let's keep it simple and round that up to \$2 billion.

Let's analyze and compare these two new numbers, \$120 billion of new gold available for investment annually versus \$2 billion of new silver. Simple division shows that 60 times more new gold needs to be absorbed as investment than silver in dollar value. Or stated differently, annually there is only 1.6% as much new silver available for investment as there is new gold.

What I'm attempting to convey is how little silver exists or is being produced in dollar terms compared to gold. I'm willing to accept that many hold a personal preference for holding gold. But I doubt that many with that preference have sat down and calculated that there exists 133 times more gold than silver in bullion terms. Or that 60 times more gold than silver is available annually for investment in dollar terms.

The great disconnect here between the dollar value comparisons of gold and silver boils down to one simple explanation – the price of silver is wrong and wrong by a wide margin. Even if the price of silver was to double or triple overnight with gold remaining the same, the great disparity would still remain. I agree with the notion that gold prices may go higher. But that's not the same as suggesting that the gold price is completely wrong. It's different in silver. The price is completely wrong. And silver's mispricing exists for a very specific reason – because silver is manipulated in price.

When you get down to it, only something like a manipulated price could explain the disparities between gold and silver. Let's face it, we are talking about two very similar items known and valued by man for 5000 years. For most of that time, there was much more silver production than there was gold. Over that 5000 years the price of gold reflected its rarity compared to silver. It was priced 16 times higher. Due to industrial consumption over the past 100 years, the world now has less silver than gold. Instead of the new rarity of silver compared to gold being reflected in the price, the opposite has occurred. As silver continues to become rarer relative to gold, the dollar value of gold climbed over silver. If someone has a logical explanation for that, I have yet to hear it.

The only plausible explanation is that the price of silver is artificially depressed. Remarkably, there is specific credible evidence of a silver manipulation in the existence of a concentrated short position held on the world's largest silver market (the COMEX), by the largest silver trader, JPMorgan. The primary commodities regulator, the CFTC, is currently investigating allegations of this silver manipulation and thousands of public comments were just received concerning the COMEX silver manipulation. So far, the CFTC, JPMorgan, and the COMEX

have yet to respond to growing allegations of the silver crime in progress. In time, they surely will be forced to respond.

In the interim, the severe undervaluation of silver presents one of the most attractive investment opportunities in history. This is a theme on which I have expounded for more than ten years. During that time, the price of silver has climbed dramatically, richly rewarding silver investors. Yet, in many ways, silver is more compelling than ever before. This is particularly true for gold investors. Since the price of gold has more than kept pace with silver over the past decade, gold investors have not missed anything by not owning silver. But past performance does not guarantee future returns. The next ten years will likely be much different than the last ten years.

There is a question that existing and prospective gold investors should consider. Given that current investment flows in gold are only six times silver investment flows; do you think the dollar value of gold bullion will continue to be 133 times greater than silver bullion over the next ten years? That doesn't imply that gold need go down in price, but it does imply that silver must go up in price. If you seek the best returns possible with the least amount of risk, silver fits the bill. A review of the facts and some simple number crunching should convince you of silver's coming outperformance.

Chapter 5

THE SILVER CHALLENGE

Recently, Investment Rarities, Inc. has been heavily marketing silver through magazine (Forbes) advertisements and television commercials (Fox and CNBC). This is somewhat unusual, in that most marketing efforts by other companies involve the purchase of gold, not silver. Since IRI first started sponsoring my research nine years ago, most of their marketing has been in silver. As a result of the response to their current marketing campaign, Jim Cook, the president of IRI, asked me if I would address the question of investing in silver for someone brand new to the idea.

It's is always a worthwhile exercise to explain why someone new should invest in silver. My responsibility is to explain a complicated issue in simple terms. I know if I start talking about things like concentrated short selling, manipulation and prospective regulatory developments in the futures market, someone new to the subject is going to move onto something else. So let me get down to basics.

The first and most important reason why someone should seriously consider silver is that silver will make you more money in the long run than anything else of which I'm aware. I admit that's a strong statement, so let's see if I can back it up. When I first started writing for IRI the price of silver ranged between \$4 and \$5 per ounce. Because the price of silver averaged close to \$5 for the decade prior to my association with IRI, in late 2000, it was an investment asset largely neglected. Although there was near universal disdain for silver as an investment, I knew and wrote that the real facts surrounding silver were wildly bullish. Furthermore, I also knew that there was a good explanation as to why the price was so low for so long, in spite of the bullish supply and demand fundamentals. I explained that silver was manipulated in price, mainly due to excessive and uneconomic short selling on the COMEX, the principal world silver exchange.

Those early investors who came to believe that silver was undervalued and took the time to investigate have been richly rewarded. The price of silver has climbed as much as 400% to 500% from earlier in this decade. There are not many assets that have performed as well over the past nine years. Certainly, the stock market and real estate have performed poorly when compared to the price appreciation that silver has recorded since the end of 2000. While no one can turn back the clock and make \$4 silver available again, I think an investment in silver today will yield returns similar to those achieved in the past. That's because the facts in silver today are more bullish than they were 9 years ago.

Years ago, I wrote an article for IRI also titled the same as this one, "The Silver Challenge." The challenge was simple – I'll point out the facts in silver, ask you to investigate those facts, and then I'll challenge you not to invest in silver when you are done investigating. The facts in silver are so compelling that if you do your homework, you will buy it. I have yet to run across anyone who has come back to me after a thorough investigation of the silver facts and chose not to buy silver.

In addition to being a widely-recognized precious metal and store of value for 5,000 years, silver became a vital industrial material in the past century. It's necessary in thousands of modern industrial applications. That's because silver has properties superior to any other material. It's the best conductor of electricity, the best reflector of light, the best heat transfer agent, a necessary reagent in plastic manufacturing and an important photographic chemical. It's used in a variety of medical applications and in energy savings. Due to its unique properties, the world embarked on a silver consumption binge over the past century. So great was this consumption, that silver production couldn't keep pace, and inventories were drawn down to balance supply and demand. By 2006, after 60 continuous years of the world consuming more silver than it produced from mining and recycling, above ground inventories of silver bullion had been depleted to the lowest level in hundreds of years.

In 1940, the world had 10 billion ounces in total silver bullion inventories. The US Government was the largest holder at 6 billion ounces. Today, the US Government holds zero ounces, and there appears to be no more than 1 billion ounces of silver bullion in existence, down more than 90%. The depletion of world silver bullion inventories has been so dramatic that it has created a situation that causes disbelief. There is now less silver bullion in the world than gold bullion. How can gold be more than 60 times the price of silver, if there is more gold bullion in existence than silver bullion? Let me make it easy for you; the price of silver is wrong.

On top of all this for the first time in decades, the net investment flow into silver has exploded. More silver has been bought as an investment over the past three years than was cumulatively bought in the past 60 years. This investment pattern is expected to continue and intensify in the years ahead, as more people around the world learn of the incredible undervaluation of silver.

If you do investigate the facts and confirm the depletion of world silver inventories, you will inevitably be confronted with the question that I was confronted with 25 years ago. With all these incredibly bullish facts about silver, why the heck is it so cheap? The answer is the manipulation of the price due to excessive and concentrated short selling on the COMEX. It

would be an understatement to say I have written extensively on this topic. All past writings are available and only require an investment of your time. The Investment Rarities website archives these articles.

As was true when I first wrote of the silver challenge years ago, silver represents the single best investment available. All you have to do is take some time to investigate the real story and use your common sense. If you do that, and take the appropriate action and invest in silver for the long term, you will be as rewarded even more so than the silver investors in the past.

Chapter 6

UNDERSTANDING SILVER AVAILABILITY

One of the key forces destined to greatly impact the long-term price of silver is future availability. It is also one of the least understood factors in the study of silver. Let me first define what I mean by availability. It is the amount of silver that could be bought freely and openly at or near the current price. By my definition, the available supply is not total above ground inventories, or total production, or total resources in the ground. While these are very important factors in the silver (or any other commodity) market, they have nothing to do with availability. As an analyst who studies these factors closely, I wish to establish that there is a very big difference between total supply and available supply. Great rewards will flow to those who understand and act on that difference.

The amount of available silver is only the amount that can be bought today. While this is true for all commodities, including gold, the difference between available supply and total supply is critically important and unique to silver. There are a number of special things that make the availability of silver more critical than in any other commodity. These special factors are easy to understand and verify.

First, as a consumed commodity, like copper, corn or crude oil, the current production of silver is largely used up. The production is spoken for already, by known demand. That is the purpose of the production of all commodities in the first place. We produce all of them so that they can be utilized and consumed. Therefore, the amount of consumption or utilization automatically reduces the availability of any commodity's total production. In the case of silver, all of the current annual mine production (680 million ounces) is consumed by fabrication utilization. In fact, we must recycle scrap silver to the tune of 200+ million ounces in order to satisfy total fabrication demand. The world has been consuming silver in this manner for 100 years. So, we can make the statement that the entire world mine production of silver is unavailable after normal fabrication demand.

In this circumstance, silver is the same as any consumed commodity. The world consumes the entire 30 billion barrels of oil it produces each year, as well as the 15 million tons of copper it produces, and the 25 billion bushels of corn it grows. Sometimes, we produce a bit more than we consume, and we call this condition a surplus and we witness an increase in world inventories. Sometimes, we consume a bit more than we produce. We call this a deficit condition, and world inventories shrink by the amount we over-consume. But, by and large, the world consistently

consumes what we produce when it comes to commodities. It can be said there is not much available supply after we subtract normal consumption.

The same is true with existing above ground inventories. Yes, there are, obviously, above ground stocks of silver and all commodities. For instance, my estimate for above-ground world inventories of silver bullion has long been one billion ounces. But there is a big difference in what exists as inventories and what percentage of those existing inventories are actually available for sale at current prices. The percentage that may be for sale is incredibly small. I think I may be overstating the amount if I were to say 5% or 10 % of existing silver inventories may be available over the course of an entire year. On a much shorter time frame, say weeks or months, very little silver inventory is available. That's why there was shorting in the SLV, in my opinion, to the tune of 30 million ounces in the past few weeks. That quantity of silver is just not available in the short term.

So, what makes the question of available supply so special in silver, more so than in any commodity? It's silver's dual role as not only an industrial commodity, but also as a recognizable investment asset. That is the wild card; the special characteristic unique to silver among all commodities. If the amount of production and consumption of copper, or corn, or crude oil is balanced in a given year, the price would most likely remain largely unchanged. That's because these commodities are not considered primary investments. Investors don't regularly buy physical amounts of these commodities in their customary wholesale unit of trade. It's not practical to physically buy 25,000 lbs. of copper, or 5000 bushels of corn, or 1000 barrels of oil in physical form.

The situation is much different in silver. Total mine and scrap production can be in perfect balance in a given year, yet the price can change radically, depending on what happens to physical investment demand. Investors buy physical silver in many forms, including the standard industrial unit of 1000 oz bars. In fact, thanks to the introduction of the various forms of silver exchange traded funds (ETFs) over the past few years, investment in 1000 oz. silver bars is a prevalent form of direct investment demand in silver. Over 400 million ounces of silver are now held in the publicly owned ETFs and similar vehicles. The vast majority of this silver appears to be held by investors for the long term. This silver is not for sale at current prices. Thus, this silver is not available to the market.

Make no mistake - the new silver purchased by investors in the future is in direct competition with the silver needed by industrial consumers. No other industrial commodity (save perhaps platinum or palladium) has this unique profile. It is what sets silver apart. This certain current and future buying competition is the long-term turbo-charger to price for years to come.

Let me introduce an idea and an example that might drive this point home. Available supply is very limited and can only grow slowly in an orderly price environment. Mines and refiners can only supply a very small amount of silver on a daily basis, no more than 2.5 million ounces a day. All that silver is spoken for in ongoing fabrication demand. Those that own inventories don't sell even that amount of real silver on daily basis. Yet, literally overnight, investors can, and do, demand from time to time, tens of millions of ounces. It's rare to have a surge in supply from selling but there can easily be a surge in buying. Therefore, it is only a matter of time

before a collision occurs between almost unlimited investment demand crashing into very limited available supply. The only thing that has prevented that collision from occurring to date is the paper selling tricks of the manipulative shorts.

The example I would use to highlight my point is that recently, Barrick Gold announced the imminent construction of a big gold/silver mine that, when completed in four years, should produce more than 30 million ounces of silver annually. That's a lot of silver for a mine (Pascua-Lama) to produce in a year and that mine will be among the world's largest. But let's put that amount of silver into perspective. Over a two-week period recently, over 30 million ounces of silver was purchased by investors in the big silver ETF, SLV. Not 30 million ounces for a year, four years from now, but 30 million ounces right now. The only reason the price did not explode is because SLV investors were cheated by big short sellers in SLV shares who, because they couldn't supply the real silver as required by the prospectus, sold shares short instead. You may ask if they can do this indefinitely? I assure you that they can't. That crooked game is coming to an end. Count on it.

Chapter 7

A DATE WITH DESTINY

Last month, I received an unusual email from a long-time reader. This reader had followed my presentation of the facts for several years and had invested in silver. Nothing unusual in that. What made his e-mail unusual was that he was asking my advice for the company he works for. They use silver in their operation.

He works for one of the 15 largest public companies in the US, with a market capitalization of more than \$100 billion. He holds an important position. He was concerned for his company in the event of a wholesale silver shortage. He sought my advice on how to present his concerns to the appropriate parties within the company.

I responded that he was to be commended for his concern, but he had to be careful not to damage his career. It was possible that any suggestion to lay in a supply of silver to prevent future disruptions in operations might backfire on him. He said he would proceed carefully with a well thought out plan and disclosure of his personal silver investment.

This reader has captured the essence of what will propel silver prices to the heavens, long after the price thrust from the termination of the manipulation. This is a theme I have written about for more than a decade. I consider it a signature issue. I'm talking about the certain panic among industrial consumers of silver when the shortage hits in full force. I can't tell you when this panic will hit, but I'm certain that it will hit. For me it's inevitable.

What makes me certain that the industrial users of silver will panic at some point? That's simple - the physical realities of silver and basic human nature. So much silver has been depleted from existing world inventories over the past 60 years, that there is less remaining than at any time in hundreds of years. Yes, mine production has grown over those 60 years, but so has industrial consumption and other uses. This has resulted in a dramatic draw down of inventories, by over 90%. Yes, the world has stopped depleting world inventories in the past two or three years. But, it's too late to prevent the coming user panic.

Silver inventories are so low now it doesn't matter that they have stopped shrinking. That's because a completely new force has emerged - widespread investment buying. This investment demand is a special factor, unique to silver. It assures the coming user panic. Over the past 30 years "just-in-time" inventory management has become well entrenched. Just-in-time means little or no inventories on hand. Thanks to computers and sophisticated delivery systems, goods of all types are delivered at the very last moment. It is not uncommon for vital components in a finished product to be delivered literally hours before they are used in an assembly line. The incentive behind the just-in-time inventory process is the tremendous savings in not storing raw and finished goods. So powerful are the returns to the bottom line, that delivery at the last possible moment has become universal.

The risk in the just-in-time inventory process is that any unexpected break in the delivery process can cause a great impact. Any number of factors can disrupt the just-in-time process; labor strikes, weather and natural disasters, shortages of key components or raw materials. With no stored inventories to fall back upon, a scramble begins to fix the break. Here's where a user panic can set in. No one will simply sit by and watch assembly lines shut down and their business die for lack of a single component. Moreover, if the needed component or material is one that is needed by other manufacturers, a fierce competition is likely to break out in a scramble to secure the material in question. In short, a user panic. Ironically, the attempt to secure extra quantities of the needed material actually intensifies the shortage. Those securing extra quantities are depriving others, thus worsening the shortage and panic.

Human nature plays a big role. I can tell you from personal experience in Florida, that when a hurricane is set to hit, if you are not fully prepared, it's best to panic early. The mad scramble for food, gas, and other supplies unfolds like clock-work. Anxiety runs high. Price becomes a secondary consideration, securing needed supplies is paramount. I'm not ridiculing this behavior, as I'm usually part of the mob seeking supplies. It's just human nature. My point is that those responsible for keeping the production lines open are human, and when they are faced with a shortage, they are also prone to panic.

There are many factors that make silver the perfect candidate for a user panic. The shockingly low level of verifiable historical world inventories sets the stage for a severe shortage. There is very little silver available if users rush to buy. The fact that the amount of silver used in a typical industrial application is so small, relative to the total cost of the finished product, makes the cost of securing additional quantities inconsequential. Securing six months or a year's worth of silver inventory would be a snap for most silver-using companies. Unlike most raw materials, silver is quite storable, in that it takes up little space and requires no special holding requirements. By comparison, where would a user store fuel, in the event of a shortage?

Please remember that I am referring to a true shortage of supply - not enough physical material to go around. If it were merely a matter of protecting against a large price increase, an industrial silver user could buy a listed futures contract or an over the counter derivatives contract. That would be nice and simple and easy. But in the coming silver shortage, such contracts won't be worth the paper they are printed on. In a true shortage, there must be a breakdown in the delivery

mechanism. That's always the first thing to go in a shortage. It even has it's own special name. It's called force majeure.

But there is one special factor that insures that the silver industrial users have a date with destiny. That factor, unique to silver, guarantees that the users will panic and attempt to build inventory at some point. The factor is investment demand. How many times have you've seen me refer to silver as being unique among all commodities in that it is both a vital industrial commodity and a age-old basic investment asset? Hundreds of times? Well this unique dual role carries particularly special significance for the silver industrial users. The reason is simple - competition. In silver, more investors than ever are buying it in physical form than at any time in history. More will buy and hold as the real silver story becomes known.

This investment buying deprives the industrial users to unrestricted access of the limited amount of silver in existence. That's why it doesn't matter that world silver inventories are no longer shrinking. Because investors are buying physical silver, the effect on inventories is exactly the same - there is less available for the users. This is highly unique to silver. Most importantly, investment demand can ignite in a heartbeat, just as with user inventory buying. Supply from production cannot begin to keep up. This creates the likelihood of a mismatch between supply and demand that only a high price can remedy.

Silver is unlike all other industrial commodities, because it is also a primary investment asset. It differs from its age-old companion, gold, in that gold is primarily an investment asset with very little industrial demand. This is a theme that I have endlessly tried to make. This is the critical difference between silver and gold. Not good, not bad, just that they are different in this sense. Gold can go to a high price for a wide variety of compelling reasons. But gold will never go into a true shortage with gold industrial users panicking to build inventory. Gold inventories are the highest in history, while silver is at the lowest level in centuries. Not only will silver climb for all the reasons given for gold's anticipated price rise, silver is destined for a user panic.

While the timing for the coming user panic is unknowable, it is easy to imagine what could set it off. All it will take are delays in normal delivery. Just-in time means today, not tomorrow. At the first hint of delays, some users will move to secure additional inventory. That will necessarily cause further delays for other users, resulting in more and more inventory buying. This will set off the mile-long string of firecrackers. At that point, the panic must burn itself out, at the highest prices imaginable.

The impact on price when the silver industrial users panic and attempt to build inventories is almost beyond comprehension. At least, it's beyond my comprehension. I honestly don't know how to calculate price in a shortage. I do know that it is not a linear or logical analysis. It involves a large amount of emotion. In a hurricane, with lines of cars and trucks snaked around the gas stations, I have told myself I would pay any price I could afford. What price would a hundred billion dollar corporation pay for a supply of silver to insure it can continue operations and not lay off employees? What price would it pay to protect its survival as a going concern?

As time has elapsed, the evidence of the coming silver shortage has increased. We've seen tightness on the retail side for more than a year. The long-term price manipulation on the

COMEX has aggravated the coming shortage beyond description. The email I received from the concerned employee was right on. A silver shortage is dead ahead. The industrial users are completely unaware and have been lulled into a sense of complacency. It's something they have never experienced. That complacency is about to be shattered. In the coming clash for silver supplies between users fighting for inventory and investors fighting for positions in which to profit, the only question is how high the price will climb. Think of the highest price you can imagine and it will still be too low. But before you think of those high prices, please make sure you are holding all the silver possible.

Chapter 8

A PRESIDENTIAL BOMBSHELL

I've just learned something about silver that I was vaguely familiar with. It had a big impact on me. When I shared it with my mentor, Izzy Friedman, the person who first got me interested in silver, he called it a bombshell. I was vaguely familiar with the subject because it dates back 44 years, to 1965. I was 18 years old and had just graduated from high school. I was thinking about college, the Vietnam War, cars and girls, though not necessarily in that order. I was definitely not thinking about silver. Izzy hadn't even come to America yet. Even if you are 80 years old, you were only 36 in 1965.

Thanks to a post on the Internet, I had the opportunity to read the speech that President Lyndon Johnson made on July 23, 1965, in which he announced the US Government's plan to remove silver from the coinage. I had not read the speech before. The President said this was the first change in our nation's coinage in 173 years, since the very first Coinage Act of 1792. Here are the pertinent sections.

"Now, all of you know these changes are necessary for a very simple reason--silver is a scarce material. Our uses of silver are growing as our population and our economy grows. The hard fact is that silver consumption is now more than double new silver production each year. So, in the face of this worldwide shortage of silver, and our rapidly growing need for coins, the only really prudent course was to reduce our dependence upon silver for making our coins.

If we had not done so, we would have risked chronic coin shortages in the very near future. Some have asked whether our silver coins will disappear. The answer is very definitely-no. Our present silver coins won't disappear and they won't even become rarities. We estimate that there are now 12 billion--I repeat, more than 12 billion silver dimes and quarters and half dollars that are now outstanding. We will make another billion before we halt production. And they will be used side-by-side with our new coins.

Since the life of a silver coin is about 25 years, we expect our traditional silver coins to be with us in large numbers for a long, long time.

If anybody has any idea of hoarding our silver coins, let me say this. Treasury has a lot of silver on hand, and it can be, and it will be used to keep the price of silver in line with its value in our

present silver coin. There will be no profit in holding them out of circulation for the value of their silver content.”

President Johnson and his economic team at the Treasury Department were eventually proven remarkably correct but also incorrect. They were correct that the demand for silver would soon deplete US inventories. They were dead wrong in their expectation that the US Government could hold down silver prices and prevent investors from making a profit. In just a few years, most silver coins were removed from circulation. In less than 15 years, the price of silver rose from \$1.29 (at the time of the President’s speech) to more than \$50 in early-1980.

In 1959, six years prior to the speech, the US Treasury Department held approximately 2.1 billion ounces in silver bullion inventories plus 1.3 billion ounces in circulating coinage, for a total of 3.4 billion ounces. By 1971, through a combination of bullion sales and new coinage, the Treasury held only 170 million ounces of silver bullion. Most silver coins were removed by investors from circulation, and eventually melted into bullion. Over this 12-year period, more than 3.2 billion ounces of silver were transferred from the US Government to the private sector. Around 94% of what the government controlled was gone.

1959 would also be the last year that the US Government was a buyer of silver, until 2001, when it began buying silver for its coin programs. In 1959, when the US Government held 3.4 billion ounces of silver, the US population was approximately 180 million. That means the Government held almost 19 ounces of silver, for every man, woman and child in the nation. Today it holds none. This also means that the US Government can never be a physical silver seller again unless it buys silver first.

Here’s a statistic that is stunning and troublesome at the same time. In 1959, there were about 5 billion ounces of silver physically held on US soil. This includes the 3.4 billion of government holdings plus privately held silver. That includes hundreds of millions of ounces of silver objects that would be melted in the early 1980’s. Today there are no more than 300 million ounces held on US soil, including all the 118 million ounces in COMEX-approved warehouses. The 400 million ounces in ETFs are held outside the US. If my numbers are accurate (as I believe them to be), the amount of physical silver held on US soil is down 94% in 50 years.

In 1959, there were about 9 billion ounces of silver bullion-equivalent in the world (half of that in the US. With a world population of 3 billion, there was a per-capita amount of 3 ounces for each of the world’s citizens. Today, 50 years later, there is a per capita amount of silver of 0.15 of an ounce remaining (1 billion ounces divided by 6.8 billion population). That is not a misprint. The per-capita amount of silver bullion in the world has declined by 95% over the past 50 years. By way of comparison, the per-capita amount of gold bullion equivalent in the world has remained remarkably stable at around three-quarters of an ounce per person, for more than 100 years. In 1900, there were around 1 billion ounces of gold versus a world population of 1.5 billion. In 1959, there were about 2.3 billion ounces of gold against a world population of 3 billion. Today there are roughly 5 billion gold ounces and 6.8 billion people.

I make these comparisons with gold to provide a legitimate perspective. Gold and silver are the perfect items to compare. I make the comparison to show how undervalued silver is, not that

gold is overvalued. In spite of evidence of manipulation, gold has done what it has been expected to do - it has kept pace with inflation, money and population growth. That's proven by its price increase over the past 50 years. Since 1959, gold has increased in price more than 25-fold (\$35 to \$900). It's a much different story in silver. Yes, silver has increased in price by more than 15-fold in 50 years (\$.90 to \$14), but that's only half the story. The other half is that 90% of the silver in the world has been vaporized over that time or put into forms that may not be recoverable, no matter what the price. Nevertheless, the price of gold rose from 30 times the price of silver to 60 times today. Only two reasons can account for this - a manipulation in silver and a global unawareness of these facts. I guarantee you that both reasons will be terminated in time.

Chapter 9

MONEY FOR NOTHING

On September 24, a Federal Judge in New York heard final oral arguments in the class-action settlement between Morgan Stanley and 22,000 of their clients involving costs associated with the storage of precious metals. The parties have agreed to settlement terms. Morgan Stanley will pay several million dollars and promises to revise their precious metals storage processes. However, there is no admission of any wrongdoing. Unfortunately, the class-action participants will receive very little and it will be, basically, business as usual as far as Morgan Stanley's precious metals storage practices are concerned. All that's left is for a final approval by the judge.

The issue specifically concerns whether Morgan Stanley and many other large financial organizations who claim to hold and store silver for their customers, actually possess the silver. This case came into existence as a direct result of a number of articles I wrote several years ago. I admit to a high level of satisfaction that the case confirmed a major contention of mine, in spite of doubts by many when I first wrote about it. (When I wrote the original articles, I did not use the name Morgan Stanley, and had no idea a legal case would be brought that involved them).

I have long maintained and written that there are two types of silver when it comes to professional storage, real silver and paper silver; cold hard metal versus imaginary or make-believe silver. I claimed that investors could be making a mistake in assuming that the metal held for them actually existed. I warned that free storage was a certain tip-off that no real metal existed, but even the payment of storage charges did not prove that real metal existed.

I offered a simple solution for any investor with stored silver to determine if the real metal existed or not. Most stored silver is in 1000-ounce bars, and they are always identified with serial numbers and a specific weight. If an investor was concerned, all he or she had to do was request the serial numbers and specific weights of the bars they owned.

A reader, who held silver in 1000 oz bars, requested Morgan Stanley provide him with the serial numbers and weights of his bars, on which he had paid storage and insurance fees for many years. He was given the run-around and not the serial numbers and weights. I am aware of this through e-mail exchanges with him. I told him that the only plausible reason they wouldn't give

him the information was because the bars did not exist. He contacted a lawyer and that ultimately resulted in the class-action settlement, after years of legal wrangling.

This, obviously, is a concern for those who buy quantities of silver that they can't reasonably store at home, or in a safe-deposit box, and must use a storage program. A \$100,000 worth of gold weighs 10 pounds and platinum weighs around 5 lbs. These are weights easily handled personally by most people. With silver, \$100,000 worth weighs around 500 pounds, a weight not easily handled.

Safe storage is more of an issue unique to silver than any other precious metal. While Morgan Stanley issued statements that it was storing all types of precious metals, the largest single amount was silver. It was a client's inquiry about his 1000 oz bars that precipitated the class-action suit. Logic would dictate that this is also the case with hundreds of other worldwide financial institutions that claim to store precious metals for their clients.

I found it appalling that Morgan Stanley would claim to store silver that didn't exist and even have the chutzpah to charge for the storage. That would appear to be a clear case of fraud. I am even more appalled that the judge in the case, or any government regulator, would look the other way. The important lesson here is not that Morgan Stanley got caught with its hand in the cookie jar, but what silver investors can learn from this episode.

If you have an investment in 1000 oz silver bars which are stored for you and you don't have serial numbers and specific weights, you don't own real silver. If you have a pool account you don't own real silver. If you have any account where you don't have the clear ability to demand delivery at anytime with no additional fabrication charges, you don't own real silver. Period. If the dealer you bought the silver from stores it for you, and it is not an independent storage facility that is holding it in your name, you are taking great risks.

If you have paid full value for your stored silver, including storage and insurance fees, and don't have the serial numbers and weights on your 1000-ounce bars, you must rectify that circumstance immediately. By not actually buying and storing the real metal to back the customers' purchase, financial firms can greatly enhance their bottom line profits through the free use of the customers' funds. Morgan Stanley's actions were not in any way unique in this practice. In fact, in the court documents summarizing the proposed settlement, one of Morgan Stanley's defenses was that they were not doing anything unusual by charging storage on metal that didn't exist, as this is a widespread industry practice.

On a purely financial basis, the institution is given cash by the client and does not have to return it until the client sells his silver, which may not be for years or decades. For the entire time the client does not sell, the firm has full use of his money on a zero cost of funds basis. Those firms who charged, and still charge, storage and insurance fees for the non-existent silver rake in even more from the client. Honest dealings aside, this is a very cash-flow positive business for these institutions. Even if silver doubles or triples in price, there is no margin call to the selling institution, as clients don't issue margin calls. As long as clients don't sell on a net basis, the issuing institution still doesn't experience negative cash flow. In our short-term world, that is all

that matters. If you or I arranged to do what hundreds of world financial institutions have done, we would quickly be put in jail, as it is fraud, pure and simple.

Due to its bulk, silver is often stored in large quantities and dollar amounts. Because the unbacked silver storage accounts have been in existence for decades, the amount of non-existent silver is very large. I would conservatively estimate that at least a billion ounces of this silver is on the books (although I feel the true amount is much larger).

I prefer to deal in documented facts and figures, and not to guess what the total amount might be, but there are no reporting requirements or clearinghouse data available. Were it not for the class-action settlement involving Morgan Stanley, I'm sure many would deny this situation existed at all. Fortunately, because of this case, no one can deny the practice of unbacked silver certificates exists.

Had the actual silver been purchased, as it should have been, when the clients deposited funds to pay for the metal, that would have been reflected in the price. In addition to deceiving the client, they short-circuited the normal supply and demand function of the free market. This was an unfair restraint of trade and the free market. To those who would say this is no big deal, ask yourself this – would you knowingly do business with a stock or bond broker who never actually bought what you instructed them to buy, but just treated your investment as a bookie and bet you were wrong? Would securities and banking regulators look the other way?

This is a short position, pure and simple. The firms and banks that have sold silver to clients without immediately going out and buying the real silver that the clients paid for are short the metal. That means the issuers are liable and responsible for any price rise in silver over the price to the client. For small and medium sized firms, this is a huge risk.

This is a short position separate and distinct from the short positions on the COMEX or from forward selling/leasing. This puts the combined short position for silver in the billions of ounces. To suggest this unbacked short position is somehow hedged (just as some contend, the forward selling/leasing position is somehow hedged) is nonsense. The documented commercial long position on the COMEX is so small that it couldn't cover even one medium-sized issuer of unbacked silver certificates.

It is important to remember that this incredibly large, additional short position unique to silver has the same price effects that all large short positions have in any item. First, comes the artificial price-depressing impact it has when it is created, then comes the artificial price-enhancing effect when it is eventually closed out. What that means to investors is this – the price-depressing phase of short sales of unbacked silver storage programs is behind us. This is one more reason why silver is still so cheap. That's good news because what could be better than buying a high-quality asset at a big discount to its real value?

Furthermore, the price-enhancing impact is still to come. The banks and firms that issued these unbacked silver certificates haven't panicked and rushed to buy back silver to limit their liability and exposure. So far, their individual losses are manageable, and I'm sure they still believe silver will go down in price in the future and the problem will go away. While it's true that these large

institutions have a higher tolerance for financial pain than most, it's also true when they do panic, they panic big. I believe they will panic at \$30 or \$50 or higher.

I am sure that eventually we will read about the great losses some institutions have suffered from very high silver prices because they sold silver to clients that they never actually purchased. People will scratch their heads and ask how those firms could do something so foolish, just like many today question how big firms could offer mortgages to borrowers of poor quality. The few who are aware of these facts in advance are afforded the opportunity to take advantage of the coming silver price explosion. This storage fiasco is another one of many factors we have pointed out about silver that has proven to be correct. We are just as certain that the price of silver must multiply many times over. Don't let this once-in-a-lifetime opportunity pass you by.

(Editors note: This is another case where Ted Butler hit the ball out of the park. He's the only person to ever write about phony storage. As a result, he was dismissed as a crank by numerous stockbrokers employed by the big firms. People have doubted most of his primary arguments about silver, but he has been right. When he talks about manipulation and short selling, there is every reason to believe it's true. If his price predictions prove to be accurate, silver will be a fortune builder.)

Chapter 10

THE REAL DEAL

If you make the decision to buy silver, then make sure you buy or hold real silver in the right form. Make sure you have the real deal and not a pure paper substitute. The greatest risk possible to silver investors is not the price of silver, but in holding the wrong form of silver and suddenly discovering that silver doesn't exist. Investors in such non-existent silver face the very real risk of a total loss, even if silver soars in price. While you must allow for short-term prices to fluctuate, there should be no allowance for holding silver in the wrong form.

Clearly, there is no risk of a total loss to those holding real silver in their own personal possession. That's what makes such silver the very best form of investment silver, and is precisely why investors hold it in that form. The warnings do not apply to that form of silver. The only warning to these investors is that they may not own enough silver.

Not everyone can hold silver in their personal possession. They must have it stored for them, due to the large amounts being owned, or because it is held in retirement accounts. Just as the giant financial institutions are growing wary of who is on the other side of their transactions (counterparty risk), so should private investors who have to store their silver. Counterparty risk is a new term for many investors, but it reflects an age-old concern, namely, the soundness of whoever holds your money or assets, and your ability to draw on your assets without delay or restriction.

The bad news for financial institutions, and silver investors with silver not properly stored, is the difficulty in determining the true financial condition of their counterparties. It seems you can't rely on the independent rating agencies (or bond insurers) any longer. If there is a problem, it's

too late when you hear about it. If your counterparty goes bankrupt, you go to the back of the line for unsecured creditors at bankruptcy court.

One of the great attractions of silver and gold, and other unencumbered hard assets is that they are immune from counterparty risk when held in your personal possession or in the right form of storage. They are no one else's liability. As financial conditions worsen, the immunity to counterparty risk grows more important. Unfortunately, for too many silver investors, they are holding silver that does not exist. They are holding a piece of paper, in the form of a certificate or pool account or electronic read-out, that states that they own silver, but they don't own real silver. The great irony, and coming heartbreak, for these investors is that, by not holding stored silver in the right form, they have converted an asset that is no one's liability into an asset that is most definitely someone else's liability. It is an alchemy of the worst sort; the creation of a counterparty risk where none existed.

Investors can spare themselves potential disaster and avoid counterparty risk for professionally stored silver by taking a few simple precautions. First, make sure your silver is stored at an institution whose name you recognize or can easily research. Second, make sure your silver is stored in a facility separate from the dealer or source you bought the silver from. In other words, don't let your dealer hold your silver. Third, make sure you have the serial numbers and specific weights of every 1000 oz bar stored for you (the most popular form of stored silver). Lastly, it is important that you have the ability to withdraw the specific bars you own on your demand.

I've written about this issue previously. Invariably, I will get questions about this dealer or that storage arrangement. Please don't ask me. I just listed the simple, common sense precautions you should take. These precautions should be easy to understand and follow.

A year ago, I took the unusual step of highlighting two well-known purveyors of what I believe is non-existent silver storage, the unallocated certificates of the Perth Mint and the pool accounts of Kitco. I was careful to write in a non-destructive manner, as it was not my intention to bring harm to these organizations, but rather help them avoid future problems.

<http://www.butlerresearch.com/buyer beware.html>

While I would suggest you read the entire article, here are some excerpts:

“In the typical pool account or certificate program, the buyer incurs a very small sales charge and zero storage charges. Your common sense should tell you that this is only possible if there is no real silver being purchased. Zero storage charges equals zero real silver. So the trade-off for the buyer is that no real silver exists. There may be statements given by the issuer that there is real silver backing the pool or certificate account, but no specific proof. Further, there is usually a provision that the buyer can get real silver if he is willing to pay an additional charge. While this sounds reassuring, this should further prove to the buyer that no real silver backs a pool or an unallocated certificate account.

What about looking at these transactions from the issuers' perspective? What's in it for them? Well, certainly not sales commissions or storage fees. But these are for-profit organizations. They are in business to make money. How do they make money or even cover costs, if they don't charge storage fees? They make it on the float, or the use of the buyers' money. That's the

only way they can make money. The issuer puts the buyers' money at interest or into the business. Since no actual metal backs up these pools, the financial strength of the issuer becomes a factor. In other words, it is not real metal that backs up these accounts, but the financial security of the issuers themselves. Make no mistake – these pool and unallocated certificate accounts are unsecured obligations of the issuing entity.”

Without a doubt, the largest amount of non-existent silver is held in large bank and financial institution certificate programs, especially European banks. I am convinced that these certificates represent much more than a billion ounces of silver. While I have reiterated this statement over the years, validation finally came in the past year when Morgan Stanley agreed to settle a class action suit alleging them charging storage fees for non-existent silver and other precious metals. The suit originated as a result of an investor taking legal action after reading my articles on the matter.

I raise this issue to make several points. First, that the practice of banks and giant financial institutions issuing certificates on silver that doesn't exist actually takes place. I'm sure many doubted that this went on, until the Morgan Stanley case (in which they admitted it was common industry practice.) Also, seeing how badly they misjudged the mortgage and credit markets, it is not as difficult to imagine large institutions agreeing to sell vast quantities of silver they didn't own.

Second, as I have long maintained, these unbacked silver certificates are true and naked short sales, exposing the banks to large losses as silver rises in price. These short sales are separate and distinct from the historically large concentrated short position on the COMEX. Already, the rise in the price of silver from the sub-\$5 level, has cost the issuing banks many billions of open losses. And, while these losses may appear small next to the tens and hundreds of billions being lost on mortgages and credit derivatives, the silver certificate losses are spread among fewer banks than the credit fiasco, and the silver losses now far outweigh the long term profits the banks generated on the utility value of the silver buyers' deposits.

Third, the principal buyers of these bank silver certificates are predominantly large and sophisticated investors, particularly in Europe, the Middle East and Asia, mainly because large transactions were customarily handled through known financial institutions. In a very real sense, there was no alternative to buying real silver and getting serial numbers, or avoiding VAT taxes, but now there is.

That these unbacked silver certificates are true short sales adds a profoundly bullish prop to long-term silver prices, especially now that large foreign investors have the means and growing knowledge to insist that their silver investments be backed by real silver. The evidence of real silver are the serial numbers, either in ETFs or held in a direct ownership storage program.

Let me be clear, not all issuers of unbacked silver certificates or accounts will default or renege on their silver obligations. But some will, thereby devastating their investors. More importantly, all issuers of unbacked silver certificates are cheating their silver investors by preventing the true price impact those purchases would have in the silver market. In this regard, issuers of unbacked

silver certificates, no matter how large or respectable they appear, are no more legitimate than the “bucket shops” of the past, or the boiler rooms of today.

As time rolls by, more of these large and sophisticated foreign investors will insist on serial numbers, because they know it will enhance the value of their investment and increase the safety of their holdings. The purchase of real silver will naturally have a more powerful impact on price than will a purchase of fake silver that a counterparty issuer only pretends to exist. Just by insisting on serial numbers we get a bigger price. That’s a strong motivation for switching from unbacked silver certificates to a form that includes serial numbers.

While I have intentionally tried to deliver this message as a warning, so that innocent silver investors can avoid a nasty potential surprise, there is an almost unspoken upside if enough investors follow my advice. Because I am convinced there are more than a billion ounces of silver tied up in unbacked silver certificates and storage schemes, if only a small percentage of those investors, say 5% or 10%, switch to storage programs holding real silver with serial numbers, the impact on the price of silver could be profound. All other things being equal, such an amount of switching could cause a doubling in the price of silver.

One thing should stand out to every objective observer. So much silver has been pre-sold by those who don’t have it, including from the big COMEX short sellers to all those entities that have issued unbacked certificates and pool accounts, it has created a special situation unique to silver. Yes, there is very large combined short position in gold, but nowhere near the levels in silver, where more silver is sold short than actually exists in the world. This will invariably drive prices to unbelievable heights.

Self-preservation and common sense are two very powerful human instincts, no matter how large or sophisticated an investor may be. Those instincts will continue to motivate investors in the future, and there will be increasing demand for stored silver with serial numbers. Throw in the awesome profit potential and you have summed up the silver investment story. It is important to buy and hold silver. It is just as important to buy and hold the right form of silver.

Chapter 11

IZZY’S INSIGHTS: THE BEST IS YET TO COME

By Israel Friedman

(Israel Friedman is a friend and mentor to Theodore Butler. He has followed silver for many decades. He has written articles for us in the past. Investment Rarities does not necessarily endorse these views.)

In my best dreams I didn’t believe that you, the silver investor, would make me so happy that you bought almost twenty million US Silver Eagles in 2008. That almost doubled the record of the previous best year ever. I wrote many articles in which I said silver eagles are the most promising investment and I congratulate you in agreeing with my belief.

Nothing has changed from last year. Silver Eagles are still the most promising investment for two reasons. One, the day will come when the Mint will stop minting these coins and they will have a numismatic value. Two, when silver prices will be in the sky with a shortage situation, the demand for one ounce Silver Eagles will be tremendous. Why? Because the price of silver will be so high that people won't be able to afford to buy 100 or 1000 ounces of silver. One ounce of silver will be of real substance.

The prices lately are artificial, produced by the one or two big short sellers. As long they can satisfy the market with physical silver, they will be able to control prices with their paper short sales. But watch out when they will lose control and then you will become rich by holding silver. This loss of control can happen on any day with no prior notice. Don't think you can predict it. Just prepare and be ready for it.

Already we have started 2009 with big sales of U.S. Eagles and I hope you will clean up like in 2008 when there were sell-outs and the Mint had to allocate supplies every week. Even though the Mint has increased their production capacity, the demand has continued to exceed supply.

The forces in the market that control silver cannot control the interest that you, the smart investor, has in buying Silver Eagles. There is a tremendous pressure on the short sellers to supply silver for the production of Silver Eagles. It is no joke when 20 million ounces of silver get taken off the market by one force in a year. I hope you clean out everything the Mint produces in 2009 as you did last year.

I can tell you that the real silver value is increasing by the day, but is not reflected in price. If you speak about value, look at the price of gold at over \$900 and silver only \$12. Take into consideration supply and demand. Do you think silver prices reflect true value? In my opinion, no. I see the true value of silver at close to the value of gold or maybe more.

Ask yourself where are the profits more promising, gold or silver? I'd say silver. It's not that far away when silver will be past gold prices, Then you will make a fortune. I know that many think that is crazy, but I ask you to think of this. Not to sound immodest, I don't know of anyone who wrote that Silver Eagles would go to a big premium. Look what happened. I was right with the Silver Eagles. I will be right about the silver gold price as well. I read where many people say the premiums on Silver Eagles (and other forms of retail silver) must fall. But I ask these people to be honest and say whether they predicted premiums on Eagles would rise? Then why should we listen to them now? Mr. Butler told me that when I first wrote about Silver Eagles more than a year ago, he received an e-mail from a well-known silver guru saying I was all wet. Only when I take a shower.

I have an intellectual question that I ask myself with no clear answer. In what range the price will silver and gold cross? I can see two scenarios. In deflation, they will cross in the hundreds and in inflation, they will cross in the thousands. I stress to you don't play the ratios on a leveraged basis as the prices are controlled on the COMEX.

In this moment we must have patience and strength and know that the time is working for us. Silver was always intended as a long term investment and that is no different today. Things seem

to move faster for us, but families grow and age at the same pace as always. Keep that pace in tune with your silver investments. In my opinion, today's prices for the long-term investors are the best ever to clean out the reserves of the shorts. Once they are cleared away, then the express road will be open for higher prices.

I am happy to see the tremendous interest in silver and congratulate my friend Mr. Butler who is doing a fantastic job by writing weekly. His work on the silver manipulation is truly heroic. Don't forget that the futures market is a casino and that you will be much better off buying real silver, like eagles and bullion bars.

Probably most are asking when the explosion in prices will come? The only answer I have is when the shortage will come. With all the forces that Mr. Butler has brought against the manipulators, it is amazing they still don't run. That's because they have connections and no choice because they will lose so much. Theirs will be no minor retreat. Shortage will mean total defeat.

We see lately some signs that they are struggling. They have not had the power to increase the total visible stocks of silver much over the past 3 months. Up until then we were growing at 15 to 20 million ounces a month and now the growth seems flat. This is a very good sign that their troubles can come any moment.

What will the powerful shorts do before they give up? They will go to the government like crybabies and ask the Mint to stop producing Eagles and the government will give in. Then those who hold Eagles will profit tremendously. Many people are concerned with confiscation, but that is not my big worry. I can tell you for sure one thing. Any confiscation, should it come, will come long after the Mint has stopped producing Silver Eagles. And Eagles will be the last form of silver ever confiscated. Today the Silver Eagles are selling at a premium of 30% or so, and I will not be surprised that the premium can go to 100% and much higher. After all, premiums hit over 70% this past year with no wholesale silver shortage and with the Mint still producing. What will the premium be when a wholesale shortage comes and the Mint says no coins any more?

All the available physical silver in the world is moving out of the big shorts' control and into the control of the long-term investor. Once this shift is complete, you will be in control and you and your children will set the price of silver.

Chapter 12

THE HUMBLE APPROACH

By James R. Cook

In 1982 a close friend passed away. He owned a company that sold energy saving products. His family came to me and asked if I'd buy the business from them. After a brief investigation, I paid them \$200,000 for the company. After a year, I could see that my acquisition was going nowhere fast. The new company was losing money. I began to worry about the \$500,000 inventory loan at the bank that we had assumed.

I put a two-inch ad in the business section of the newspaper offering the business for sale. Right away we had a nibble. Two young guys called and wanted a meeting. They both had newly minted MBAs and, apparently, one of them had just inherited a million dollars. As we discussed the company for sale, I could see they were overconfident and opinionated. Almost immediately they knew more than me. After a few days of investigating, they went for the deal. On the day of closing they gave me \$200,000 and, best of all, they went to the bank and wrote out a check that paid off the loan. I was overjoyed.

We had a brief meeting and I gave them some advice on running their new company. They almost sneered in my face. They weren't interested in learning anything from me. They assured me they knew exactly how to run things. I'd never seen two more arrogant, self-assured individuals. As they went out the door, I could tell they were giggling inside at my stupidity for selling them such a plum. Eleven months later they filed bankruptcy.

Their arrogant pride proved fatal to the business they bought. They failed because their egos were out of control. In fact, they probably never would have bought the business if they weren't so cocksure. I cite this example to illustrate how easily a lack of humility can ruin you. C. S. Lewis wrote that pride was the greatest sin. Perhaps that's true, but, without a doubt, pride is the greatest danger in your financial affairs.

We all have some degree of ego. Usually, success in life causes our pride to swell. Financial statements and egos often grow apace. However, too much self-importance inevitably meets with a painful leveling experience. Pride cometh before a fall. This certainly applies to investing where the humble approach works best. One dangerous aspect of a large ego is that the person who has it can't recognize it in themselves. Only years later do they come to realize they once were overly prideful.

Futures trading in silver offers a classic example of pridefulness. It's a known fact that 90% of amateurs or small traders lose money in futures. They are up against big trading firms, dealers and banks. Nevertheless, they keep trying. It can only be ego that makes them think they can outsmart the rest of the market. High leverage means they are up against the big boys, on a shoestring. That's mighty egotistical. One West Coast firm had thousands of margin calls in the most recent silver downturn. Their clients lost a lot of money. Hopefully, they gained enough humility that they won't try it again.

You are bordering on arrogance when you think you can beat the futures market. Furthermore, you have to be pretty egotistical to think you can pick a few junior silver stocks and hit a home run. The world is full of large egos who are trying to make a big score in stocks. Unfortunately, only one mining company in a hundred that has a silver claim will ever prove out. Other types of silver investments, such as SLV funds, undermine your patience. You think you're smart enough to time your way to big profits, but premature selling will invariably limit your gains. These funds are too easy to sell, and a small gain inevitably proves too tempting.

Owning physical silver is a more modest, conservative and humble way to go. Fortunately, this humble approach offers the greatest opportunity for gains and the least risk. By purchasing actual physical silver, and taking it into your possession, you put yourself in the best position to

capitalize on a rise in the silver price. By owning it outright, you are far more likely to continue holding for the time period necessary to maximize profits. Too much ego drives the other silver investments where so many investors think they can beat the odds or repeal human nature. Humility is your greatest asset in money making and pride your greatest enemy. Use the humble approach with silver and give yourself the best chance to prosper.

Chapter 13

Silver Review and Outlook

Theodore Butler's Speech at Cambridge House Phoenix Silver Summit 2010 February 4, 2010

First, I'd like to thank all of you for coming here today, and to Joe Martin and Howard Fitch for organizing such a great event. It's an honor to have been invited. This is the second conference I've attended here in Phoenix and I'd like to thank again those who have been instrumental in what I do, namely, Jim Cook from Investment Rarities, Izzy Friedman, my long-time friend and mentor and my wife Mila, who is here today with our son Ross.

In deciding on what to speak about today, I re-read my speech from last year. In that speech, I talked of silver's past, present and future. I'd like to recap and summarize the past and present sections and then update and revise what the future holds for silver. One thing that hasn't changed, however, is my expectation that silver will be among the very best of investments in the future, much as it has been for the past decade.

Last year, I observed silver's past, or the time period covering thousands of years up until about 5 years ago. I tried to describe how silver was always a highly desired precious metal, valued for its beauty and value in jewelry and ornaments and as money, much like its fellow precious metal gold. And, starting 100 to 150 years ago, how silver evolved into a vital and strategic industrial commodity. This transformation of silver into a modern industrial material was predicated upon its physical and chemical properties. These properties included it being the best conductor of electricity, the best transfer agent of heat, the best reflector of light, the most efficient photographic chemical and the most versatile biocide. In fact, silver is used in more industrial applications than any other metal.

Because of the wide range of uses in which silver is the preferred ingredient, it began to be industrially consumed in prodigious quantities. So great was the industrial consumption of silver, that the world used more, starting around the beginning of World War II, than it could produce from mining and recycling. That over-consumption mandated that previously produced silver, in the form of world inventories, be consumed, in addition to mining and recycling. The net result was that over 60 or 70 years, the above ground inventories of silver were depleted by 90% or more. In other words, we have only 10% in world silver bullion inventories of what we had back 70 years ago. We had 10 billion ounces of silver bullion inventories then; now we have 1 billion ounces remaining.

At the same time, gold inventories grew dramatically over the past 70 years, as gold's industrial consumption did not develop like silver's did, mainly because gold was and is one of the most

expensive materials in the world. It's not that gold didn't have its own special physical and chemical properties; it's just that you don't use an expensive material unless you have no other choice. The bottom line, silver's inventories were used up; gold's inventories grew.

The net result of this was one of the most incredible situations ever witnessed in world history, namely, that a comparable commodity that was rarer than another commodity could be much cheaper than the more plentiful commodity. In above ground bullion inventories, gold is more plentiful than silver, yet silver is less than 1.5% the price of gold. Common sense should tell you that such a relationship is absurd and cannot last indefinitely. Investment sense should also tell you that price relationship is absurd and unlikely to last, creating the best reason to buy underpriced silver.

Finally, despite the ease by which these relative gold/silver world inventory statistics can be verified, less than one-tenth of one percent of the world's citizens are aware of the fact that silver is rarer than gold. I would guess that a good percent of those who do know, are in this room today.

In the silver presentation section last year, I highlighted how the 60 year deficit consumption pattern had finally come to an end several years ago. Many were disappointed when I first reported that we stopped consuming more silver than we produced and they assumed this meant the end to why silver should be bought. But the ending of the silver deficit had to come at some point, as it could only continue as long as there were sufficient inventories to draw down. Since so much of the world's silver inventories had already been depleted, over 90%, it was only a matter of time before no more could be easily consumed. The amazing thing was how much inventory depletion had occurred, before the price started to climb several years ago.

I also commented on how the ending of the structural silver deficit coincided with net investment coming into silver for the first time in many decades. The timing of these two separate developments is amazing beyond description. For silver investors, it was like a flawless passing of a baton in an Olympic relay race. Actually, it was even more remarkable than that. That net investment demand started to emerge, only after available world inventories had been depleted to the lowest levels in hundreds of years, is another one of those things that I couldn't make up if I tried.

Last year, I talked about how the metal ETFs, GLD in gold and SLV in silver had radically altered the investment landscape, by enabling those entities who were previously excluded from buying metals to do so in practical terms. I commented that I couldn't understand why there was so much hostility in the precious metals community about the validity of the metal ETFs, aside from the shorting of shares topic. I have long advocated the ownership of physical silver over paper silver, and if someone has a choice between buying 500 ounces of real silver in hand, instead of 500 shares of SLV, he or she should choose the metal in hand. But if the choice is between buying 500 shares of SLV or no silver at all, then please buy the SLV. The more than 450 million ounces bought in the various ETF's over the past 4 years have been a wonderful addition to the silver investment equation. While many still moan about the metal ETF's, in my opinion, the silver manipulation would have lasted another 10 years if the ETF's never came into being.

Turning to the part of last year's speech where I talked about silver's future, I asked those present to play along with me and imagine that there was a giant African Bush Elephant in this room and how we were all pretending it didn't exist. I likened the giant elephant to the silver manipulation, in that both were so obvious that it was incredible how they could be ignored. I was particularly critical of those in the silver business; the miners, the analysts and the regulators for pretending the manipulation did not exist.

I reserved my harshest criticism for the primary silver regulator, the Commodity Futures Trading Commission, the CFTC. I chastised the Commission for opening their third silver investigation in five years based upon my allegations, instead of just answering my simple question. How can one or two U.S. banks hold 25% of the world production of any commodity short (or long) and that not be manipulation? A year later, that question has not been addressed by the Commission or anyone else.

Over the past year, a lot has changed in silver. First, we had a great year of price appreciation, following a rotten 2008. And I finally got around to starting my own private newsletter, something I had postponed for many years. I'm sure there are several subscribers present, so let me thank you personally for your support. But the most important development over the past year was the nomination and swearing in of a new chairman at the CFTC, Gary Gensler. Let me speak bluntly, his appointment promises to impact the silver manipulation more than any other recent development. Last year at this time, he had been nominated by President Obama, but it would not be until almost June until he was confirmed by the Senate and sworn into office.

I have been unabashed in my praise for Chairman Gensler since the time he assumed office. I have called him the greatest chairman in CFTC history. Because of that praise, I have encountered perhaps the strongest disagreement from those who follow metals, people like you. Perhaps by a margin of 100 to 1, or even 500 to 1, my opinion of Gensler has been rejected. I understand that disagreement. Yes, he was a partner of Goldman Sachs, the dreaded "vampire squid" of the financial world. Yes, he was a participant in the deregulation of 2000, which added greatly to the financial crises of the past couple of years. Yes, he is an "insider," with connections and access to those in power.

The real irony is that the disagreement that I face in my opinion of Gensler is largely a result of my own creation. If there has been a more outspoken and consistent critic of the CFTC, over the past decade, than me, then I am unaware of who that might be. I have asked many of you to join with me in my criticisms and allegations and you have done so. This outpouring of public response is what has been responsible for the three silver investigations to date and the recent announcement of a special public meeting on precious metals and position limits by the CFTC. I understand that my dramatic shift in opinion has been too abrupt and radical for most. But I have to call them as I see them.

I have acknowledged from the start that I could be wrong in my judgment of Chairman Gensler, and I will admit that I was wrong if it comes to that. My real fear is not about being wrong in judging him, but rather that no one, not even Gensler, might be able to deal with the problem of

the silver manipulation because it is so entrenched. I would like to explain briefly why I hold him in such high regard.

I have been complaining about the manipulation in silver for 25 years, a decade before I even started writing about it on the internet. Back in the 1980's, there was no internet for most of us. That was so long ago, that I still had my hair back then. From the beginning, I raised the specific issue of position limits and the excessive speculation on the short side by commercial interests. I have copies of correspondence from the COMEX, the Chicago Board of Trade and the CFTC that are so old, that soon my wife may bring them to the "Antiques Road Show" for appraisal. For 25 years, the regulators have dismissed and brushed aside my concerns about position limits and the short side concentration in silver. Still I persisted. I'm not patting myself on the back, it was just a simple case that I knew I was right.

Then, something remarkable happened last year. The new chairman of the CFTC started speaking about position limits and excessive speculation and concentration; not in silver specifically, but in energy. But Chairman Gensler did not limit the issues to energy; he included all commodities of finite supply. For the first time in 25 years, the top commodity regulator started to speak consistently and clearly on the very same issues that I had written about for a quarter of century. Not for one minute am I suggesting that Chairman Gensler raised the issues of position limits and concentration because of anything I may have written. I'm not that self-centered. He raised them for the simple reason that they are the most important regulatory issues of all, regardless of the commodity in question.

Still, Chairman Gensler's clear words in countless speeches and interviews on position limits and concentration were both unnerving and exhilarating to me. Here was a guy saying exactly what I had said for 25 years. Not just any guy, but the nation's top commodity regulator. Let me relate a true story. Last summer, I had the CFTC's open hearings on energy position limits hooked up on my computer with the volume kind of loud. Gensler was speaking and I didn't want to miss a word. My wife happened to pass by in the next room and overheard Chairman Gensler talking about position limits and concentration. I try to shield Mila from the many details of my work, as one silver nut in a household is plenty. Still, she is aware of what can upset me. Knowing that people copying my work with no acknowledgment is upsetting to me she innocently asked me if the guy on the computer wasn't plagiarizing my stuff. I assured her that the guy was the chairman of the CFTC and he could plagiarize me until the cows came home.

This isn't about Chairman Gensler saying the right thing because he is saying what I want to hear. This is about him saying the right thing, period. The issues of position limits and concentration are the most important issues of all. Manipulation is the Commission's number one concern. You can't have a manipulation without a concentrated position. You can't have a concentration with valid position limits, including legitimate hedging exemptions to those position limits. Therefore, you can't have a manipulation if you have legitimate and enforced position limits. This is at the core of the intent of commodity law. The reason we have a manipulation in silver is because we don't have proper and enforced position limits.

I can't guarantee to you that Gary Gensler will persuade the Commission to institute legitimate position limits in silver, including cracking down on the concentrated short position of the big

U.S. commercial banks. I can guarantee you that if the CFTC instituted common sense speculative position limits and exemptions to silver; the manipulation would end at that precise moment. I can tell you that Gensler has brought us, intentionally or not, to the brink of the silver resolution. So has the President of the United States. In his speech two weeks ago, President Obama pledged to curtail the proprietary and speculative trading by banks backed up by the government. Former Federal Reserve Chairman Paul Volcker said the same thing two days ago. I would assume that would apply to JPMorgan and their speculative and manipulative short position in silver.

This is my point. Legitimate and honest rules and fairness in silver would free the price of silver. Nothing could be simpler; if the regulators do the right thing and enforce the intent of commodity law the silver manipulation will end. But what if the regulators and Gary Gensler don't enforce the intent of law, then what? The simple answer is that it will not matter for anything except the timing.

The silver manipulation will end regardless of what anyone, including Chairman Gensler, does or says. It will end because the coming certain physical shortage guarantees that it will end. That is the backstop in the event Chairman Gensler can't or doesn't implement legitimate position limits in silver. The inevitable moment when the world's tens of thousands and perhaps hundreds of thousands, of industrial fabrication users begin to experience delays in their real silver deliveries, the silver manipulation will crumble. Why? Because the manipulators can sell unlimited quantities of paper silver contracts short to contain and depress the price, but they can't pull real silver out of thin air to satisfy users' demands if the real silver doesn't exist.

Already we are seeing delays in the shipments of silver to various silver-related ETF's and in COMEX deliveries. These investment-type delays are tolerated because what does it matter if an investor has to wait a while for his silver. That's not a critical, life or death concern. But when the delays spread to users, then it becomes a life or death situation; the potential life or death of a company needing silver as a key component. User delays will trigger user inventory buying panic.

So, if the coming silver shortage will spell the end of the manipulation regardless, then why should I obsess with what Chairman Gensler and the CFTC might do to end it? The answer is simple. It has to do with integrity. If the CFTC waits to address the silver problem until after the physical shortage hits, it will rain shame and disgrace on the Commission for not acting sooner. We need more disgrace brought upon the important regulatory institutions of this country, like we need holes in our heads. Silver will explode in price no matter what the Commission does. But only by getting ahead of this issue can Chairman Gensler hope to salvage integrity for his agency and our markets. For his and our sakes, I hope he does the right thing.

Thank you for your time.

(Obviously, this speech was prepared before the vicious smackdown of the past two days. As painful and infuriating as the intentional sell-off has been, it is greatly improving the market structure. This is a clean-out of dramatic importance. I am still of the belief that this sell-off has been created because the silver manipulation is closer than ever before to being resolved. Sent from Phoenix)

Chapter 14

TEN THOUSAND REASONS TO BUY SILVER

We want you to own silver, the miraculous metal. If you read carefully about the thousands of uses for this indispensable metal, perhaps you will see the wisdom in buying it. Look at the seemingly infinite uses of this strategic metal. Both rechargeable and disposable batteries are manufactured with silver alloys. Billions of silver oxide-zinc batteries are supplied to world markets yearly, including miniature sized batteries for watches, cameras, and small electronic devices and larger batteries for tools and TV cameras.

Steel bearings electroplated with high purity silver have great fatigue strength and load carrying capacity for use in hi-tech and heavy-duty applications. Silver coated bearings provide superior performance and safety for jet engines.

Silver solder facilitates the joining of materials and produces smooth, leak-tight and corrosion-resistant joints. Silver brazing alloys are used in air-conditioning, refrigeration, power distribution, automobiles and aerospace. Silver's unique combination of properties are of the first importance for plumbers, appliance manufacturers, electronics and a host of manufacturing industries.

Chemical reactions can be significantly increased by adding elements that do not enter into the reaction, and silver is one of those elements. Approximately 700 tons of silver are in continuous use in the world's chemical industry for the production of plastics. Silver is essential for producing a class of plastics which included adhesives, laminating resins for construction, plywood, particle board, finishes for paper and electronic equipment, textiles, surface coatings that resist heat and scratches, dinnerware, buttons, casings for appliances, handles and knobs, packaging materials, automotive parts, thermal and electrical insulating materials, toys, and the list goes on.

Silver has properties that make it unique and irreplaceable for industry. No other element combines strength with a softness that allows it to be formed and stretched. Nothing conducts electricity as well or is malleable, fatigue resistant or corrosion resistant. Nothing else has such high-tensile strength, is wear resistant, has such a long functional life or is as light sensitive. Silver endures extreme temperatures, conducts heat, reflects light, provides catalytic action, is bactericidal and reduces friction. It alloys and has chemical stability. Due to its unique properties, there is no substitute for silver.

Silver, the miracle metal, is necessary for producing soft plastics used in polyester textiles for all types of clothing and specialty fabrics. It's used for molded items such as insulating handles for stoves, key tops for computers, electrical control knobs, appliance components, and Mylar tape which make up 100% of all audio, VCR, and other types of recording tapes. It's also used to produce antifreeze coolant for automobiles and cleaning solvents.

Silver is a recognized powerful oxidizer. Metallurgists have long known the unique affinity of silver with oxygen. Molten silver will hold ten times its volume in oxygen. The oxidizing power of silver has worldwide application in numerous industries.

Silver is used in bullion, commemorative and proof coins around the world. It has wide usage in silverware, jewelry and the decorative arts.

Silver is the best electrical conductor of all metals and is used in conductors, switches, contacts and fuses. Ordinary household wall switches, and virtually all switch contacts, use silver because it does not corrode, or cause overheating and fires. The use of silver for motor control switches is universal.

In the home, all electrical appliances, timers, thermostats and sump pumps use silver contacts. A typical washing machine requires 16 silver contacts to control its electric motor, pump, and gear clutch. A fully-equipped automobile may have over 40 silver-tipped switches to start the engine, activate power steering, brakes, windows, mirrors, locks and other electrical accessories.

Silver relays are used in washing machines, dryers, automobile accessories, vacuum cleaners, electric drills, elevators, escalators, machine tools, and so on up to railway locomotives, marine diesel engines and oil-well drilling motors whose performance is required to be flawless. For circuit breakers, silver combines the highest heat conductivity and the highest electrical conductivity of all metals, with almost unlimited performance.

Silver is also widely used in electronics, including silk-screened circuit paths, membrane switches, electrically heated automobile windows, and conductive adhesives. Every time a home owner turns on a microwave oven, dishwasher, clothes washer, or television set, the action activates a switch with silver contacts that completes the required electrical circuit. The majority of the keyboards of desk-top and lap-top computers use silver membrane switches. These are found behind the buttons of control panels for cable television, telephones, microwave ovens, learning toys and the keyboards of typewriters and computers. Due to their reliability and wide use, the silver-contact membrane switch market in the U.S. is a multi-billion industry.

The silver we urge you to own is truly indispensable to a modern society. A new electronic application for "smart tags" promises to use significant quantities of silver. From grocery items to pre-paid toll gismos, Radio Frequency Identification or RFID devices are coming on in a big way. Not only are these tiny 'smart tags' fast replacing bar codes at the checkout counter, but they're being used to prevent shoplifting, trigger warehouse inventory counts and will soon make an appearance imbedded in credit cards and passports. Although the amount of silver used in each smart tag is miniscule, tens of millions of throwaway tags are expected to be produced in coming years and the applications appear virtually endless. Silver makes a perfect antenna because it is highly conductive and malleable.

Another important use of silver is for printed circuit boards (PCBs) that use silver for connecting paths of electronic circuitry and are essential to the electronics that control the operation of aircraft, automobile engines, electrical appliances, security systems, telecommunication networks, mobile telephones and television receivers.

The use of silvered windshields in General Motor's all purpose vehicles reflects away some 70% of the solar energy that would otherwise enter the car, reducing the load on air conditioners in summer. Every automobile produced in America has a silver-ceramic line fired into the rear window. The heat generated by these conductive paths clears the rear window of frost and ice.

The ease of electroplating silver accounts for its widespread use in coating. Silver plating is used in a wide variety of applications from Christmas tree ornaments to cutlery and hollowware. Silver possesses working qualities similar to gold but enjoys greater reflectivity and can achieve the most brilliant polish of any metal.

This unique optical reflectivity, and its property of being virtually 100% reflective after polishing, allows it to be used in mirrors and in coatings for glass, cellophane or metals. Everyone is accustomed to silvered mirrors. What is new is invisible silver, a transparent coating of silver on double pane thermal windows. This coating not only rejects the hot summer sun, but also reflects inward internal house heat. A new double layer of silver on glass is sweeping the window market, as it reflects away almost 95% of the hot rays of the sun, creating a new level of household energy savings. Over 250 million square feet of silver-coated glass is used for domestic windows in the U.S. yearly, and much more for silver coated polyester sheet for retrofitting windows.

Silver has a variety of uses in pharmaceuticals. In fact, silver sulfadiazine is the most powerful compound for burn treatment. It is used world-wide. In another application catheters impregnated with silver sulfadiazine eliminate bacteria. In a world concerned with the spreading of virus and disease, silver is increasingly being tapped for its bactericidal properties and used in treatments for conditions ranging from severe burns to Legionnaires Disease.

One out of every seven pairs of prescription eyeglasses sold in the U.S. incorporates silver. Silver halide crystals, melted into glass can change the light transmission from 96% to 22% in less than 60 seconds and block at least 97% of the sun's ultraviolet rays.

The photographic process is based on the presence of silver halide crystals suspended on an unexposed film. Silver-based photography has superior definition and low cost. It's the biggest user of silver. The use of silver worldwide in X-rays consumes millions of ounces more.

Silver paste is used in 90% of all solar cells. Sunlight striking silicon cells generates electrons, which the silver conductors collect to become a useful electric current. In the collection of solar energy, silver is the best reflector of thermal energy (after gold).

Silver is employed as a bactericide and algacide in an ever increasing number of water purification systems. Silver ions have been used to purify drinking and swimming pool water for generations. New research into silver compounds is providing physicians with powerful, clinically effective treatments against which bacteria cannot develop resistance. Silver ions in house frames help resist mold and mildew, something that has plagued the building industry for decades.

Every year brings new, widespread applications for silver. Meanwhile, there is less and less silver. Call Investment Rarities now at 1-800-328-1860 and begin to etc. etc.