The Atlantic GOLD & SILVER CENTRE

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Five Reasons to Buy Physical Silver in 2014

Written by Kevin D.

With bearish sentiment towards gold and especially silver currently as bad as I've seen it over the last ten years, why am I still bullish on silver in 2014? I've got plenty of reasons, but here are five:

1. **Unprecedented, mathematically unsolvable financial problems continue to plague the global financial system.** In spite of unending rhetoric from governments, central banks, and the mainstream media around the world claiming that a global 'recovery' is well underway, an unvarnished look at US and global economic data provides a sobering dose of economic reality. It reveals such bullish sentiment for what it is; essentially propaganda intended to placate the investing masses! For example, in the US (the supposed 'locomotive' of the global economic engine), the number of unemployed and underemployed workers remain near record highs, food-stamp usage (the modern-day equivalent to Depression-era bread lines) are near record highs, and poor retail sales and consumer confidence in late 2013 all point to a weak economy - in sharp contrast to the liquidity-driven all-time highs recently seen in stock market indices such as the Dow Jones Industrial Average and the S&P 500. The US continues to run massive deficits facilitated by the ultra-low interest rates provided by the Federal Reserve, and deficit spending is still the order of the day for almost every country on earth. Furthermore, global banking sector exposure to derivatives (like those that resulted in the implosion of 'too big to fail' firm AIG during the 2008 Financial Crisis) is even higher today than it was back in 2007! In short, the largest credit bubble in history is still brewing, and the risk of another 2008-like financial crisis over the next several years is not just possible, but quite likely. Another financial crisis will precipitate a flight into 'risk-off' assets like gold and silver.

2. **Silver remains very undervalued from a historical and geological perspective.** The gold-to-silver ratio (GSR) is currently 65:1, meaning gold is currently valued a whopping 65 times higher than an equivalent weight of silver. Supply/demand fundamentals suggest that the GSR is completely out of whack! For most of recorded history, silver traded at a ratio of about 12:1 to gold, meaning that gold purchased about 12 times more 'stuff' than an equivalent weight of silver, because that was the approximate availability of silver relative to gold. Nowadays, the mining industry produces approximately 2,700 tonnes of gold and about 25,000 tonnes of silver annually, meaning that newly-mined silver comes out of the ground at a ratio of only approximately 9:1 to newly-mined gold. Global aboveground stocks are about 748,000 tonnes of silver and 166,000 tonnes of gold, or a ratio of less than 5:1. And finally, reputable bullion sources such as the Royal Canadian Mint, the US Mint, Sprott Asset Management, and GoldMoney report that for retail purchases, investors are now buying an equivalent amount of gold and silver, or buying at a ratio of 1:1! By these metrics, the GSR should eventually revert to at least 20:1 or below, meaning that even if gold's price does not increase over the next 5 years (which I think is extremely unlikely), silver should increase by over 300%! When gold gets expensive (as I expect it will), investors switch their preference to silver and the GSR shrinks, resulting in much greater percentage returns for silver investors.

3. **Inflation is a lot higher than the government reports.** Historically, investors tend to increase their asset allocation to gold, silver, and other commodities during periods of high inflation, because traditional assets such as bonds and cash lose tremendous purchasing power under these conditions. As financial commentators such as Peter Schiff and John Williams have demonstrated conclusively, the Consumer Price Index in most countries dramatically understates true inflation. Most people can inherently sense that their dollars just don't go as far as they did even just a few years ago. After the US left the gold standard in 1971, all currencies around the world became nothing more than scraps of paper (and nowadays just digits in a computer) backed by nothing, and creating more money is now as easy as a banker typing more numbers into a computer. Inflation is caused by an increase in the supply of money, and based on current government policies, inflation is here to stay. Once this fact becomes generally understood, more and more people will seek the safety of gold and silver to protect their savings from inflation.

4. **Silver is an industrial precious metal, and is 'backstopped' by growing industrial demand for applications.** Silver is an indispensable commodity and is necessary for more industrial applications than anything else on the planet with the exception of crude oil. Silver is used in electronics, water purification, solar panels, medical applications, windows, glass, batteries, bearings, solder, catalysts, photography, and over 10,000 other applications. Although I believe that it will ultimately be investment demand that defines the future bull market in silver, industrial demand will be yet another wind at silver's back. Investment in the silver mining sector has been slashed dramatically over the past several years due to extremely low prices, which will result in lower supply of mined silver for years to come as old mines deplete without enough new mines coming online to replace that supply. To top it off, the US Geological Survey has reportedly stated that silver will be the first element to go 'extinct' around the year 2020, unless much higher prices for silver result in significantly increased production and recovery through recycling! The modern society of the future will need silver, and lots of it.

5. **The price of silver has been suppressed for decades, but those forces are weakening.** Governments and central banks around the world currently hold thousands of tons of gold in reserve to support the value of their currencies, and for decades have been leasing or outright selling the gold into the market to depress the price as documented extensively by organizations such as GATA. Similarly, since silver was demonetized (removed from coinage) around the world in the 1960's, governments have been selling off their silver into the market, which also severely depressed the price. However, by the early 2000's there were no more significant remaining government silver stockpiles, and the price of silver began to rise. The gigantic five billion ounce silver hoard that the United States owned in the 1950's (the largest pile of silver in the history of the world) is now completely gone; in fact, the US Mint now has to purchase silver on the open market in order to mint Silver Eagle bullion coins! Although the constant downward manipulation of 'paper' silver prices through massive concentrated naked short selling of silver futures contracts continues, demand for physical silver around the world continues to increase as evidenced by large year-over-year increases in silver physical bullion coins sales by respected mints such as the US Mint, Royal Canadian Mint, and the Perth Mint.

On a daily basis, the silver market is extremely volatile and the best approach for most investors is to dollar-cost-average in. Simply decide on a reasonable amount to invest in silver on a monthly basis, and then purchase that amount of silver at the same time each month to eliminate the stress of 'bottom calling' and 'buyer's remorse'. If things go the way I think they will over the next several years, gains for silver investors will be spectacular regardless of where you bought in this bull market!

Contributing author Kevin D. has been investing in gold and silver since 2005. He believes that every investor should hold at least 10% of their assets in physical precious metals stored securely outside of the banking system.

The Charts

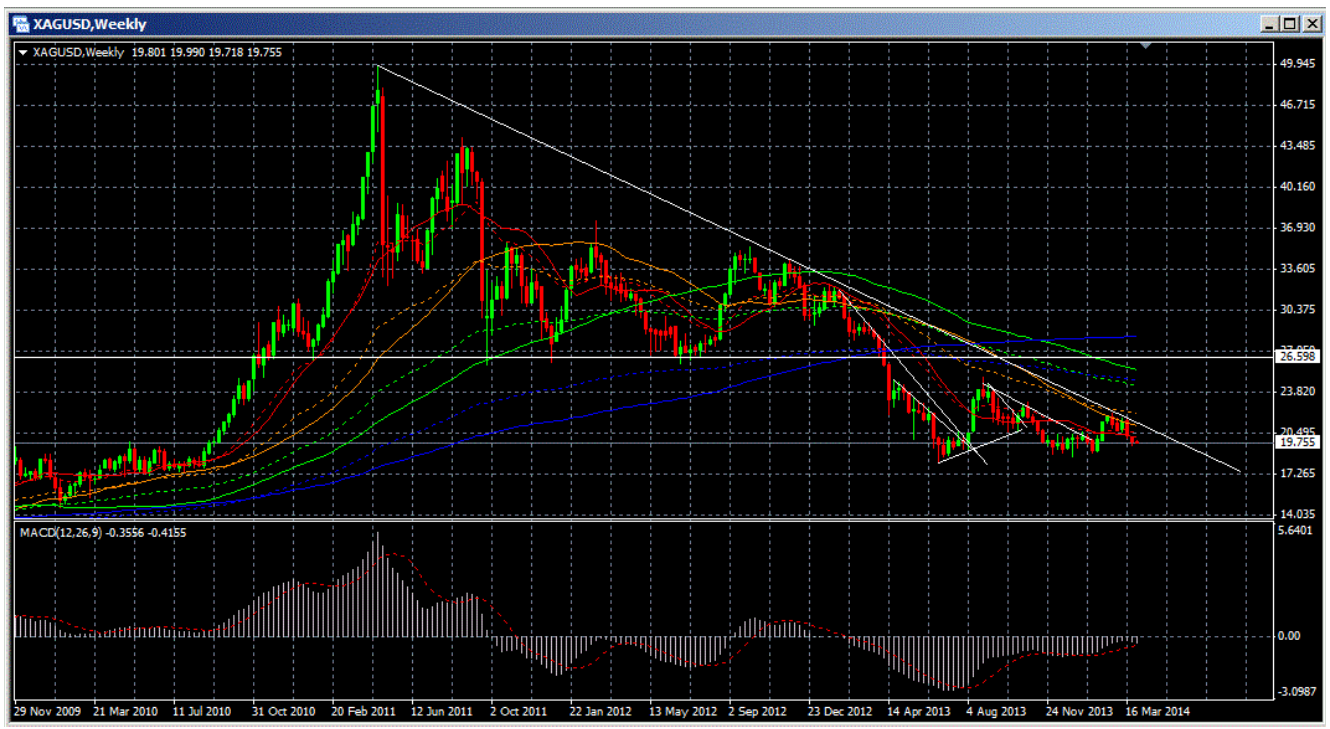
Written by David Ford

There is no question about it, to spot long term trends, you need charts. Fundamental analysis will get you a long way, but given that markets are made up of traders as well as investors, you need to see what traders are seeing, as they significantly impact medium term pricing… and medium term can be as long as 3 years!

So once you have your chart, you also need some reference points, such as moving averages and trend lines. These are not guaranteed to provide you with investment advice, but they do give you some additional markers to help structure the data. Finally, it's not worth focusing on charts of less than one week. There is so much market manipulation and rigging going on, that daily charts now have too much 'noise' in them. If your holding timeline is 5+ years, then weekly charts make sense.

Chart 1 - Silver: 1 Bar = 1 Week

Averages: Solid lines = SMA, Dotted lines = EMA
Red - 20 weeks (equivalent to 100 Day Moving Average)
Orange - 50 weeks (equivalent to 200 Day Moving Average)
Green - 100 weeks
Blue - 200 weeks



Looking at this chart, there are several things that jump out at me:

1) We are on the brink of breaking through the 3 year downtrend line, which started in April 2011, when prices were close to $50.
2) Prices are breaking through the 200 Day MA. This is the traditional Bull/Bear market line.
3) Since June 2013, prices have broken through multiple downtrend lines.
4) Often referred to as 'The Clearest Signal in Technical Analysis'... weekly MACD bullish divergence.

Prices in June 2013 bottomed out around USD $18.70. In December, they retested these lows, but look at the MACD. It made a much higher low. This is called bullish divergence. Prices tell you things are no better (sometimes worse), but the technical indicator is telling a different story. It says that "although prices are as low as before, the move that caused it is much weaker."

Chart 2 - Silver: 1 Bar = 1 Day

Despite my comments above about dailies, a quick check of the daily chart can provide useful corroboration. Last month, in the first week of February, the price suddenly reversed, taking out the 20, 50, 100 AND 200 Day Moving Averages. The only one not to be broken has been the 200 Day Exponential Moving Average, and that is being sorely tested.

Given that gold shows similar, if not greater strength (having taken out ALL of its principal daily averages since January) we can cautiously say that, short of someone re-inventing alchemy, we are at the beginning of a new bull-phase in the metals markets. Whilst we ultimately expect the highs of a few years ago to be re-tested, there are several psychological barriers to overcome on the way.

Last week saw a dip - investors were hurt buying dips on the way down last year, as the price just kept falling. Now, however, is the time to change gears. Gold has truly taken out its 200 Day Moving Average, and is now retesting it. There really is no better time to get in! Even if the signals for silver are not so clear, where gold leads, silver will follow. Buy the dip, ignore the setbacks, and hold on for the ride of your life!

Author David Ford is the founder, owner and President of The Atlantic Gold & Silver Centre. He is experienced in commodities & futures trading, banking and insurance. He has been actively investing in gold and silver bullion since 2000.