

Silver's Miner Miracle

I always have had a hard time dealing with silver. Yes, it is a precious metal and if you give its adherents half a chance, they will chase you down the street ranting about the gold/silver ratio back in King Solomon's day, maybe with a cedar of Lebanon thrown in for good measure. Yes, it is an industrial metal, but it has lost much of its long-time principal industrial use, photography. And yes, investors like it because Ben "Whale of Prints" Bernanke cannot make more of it on a whim.

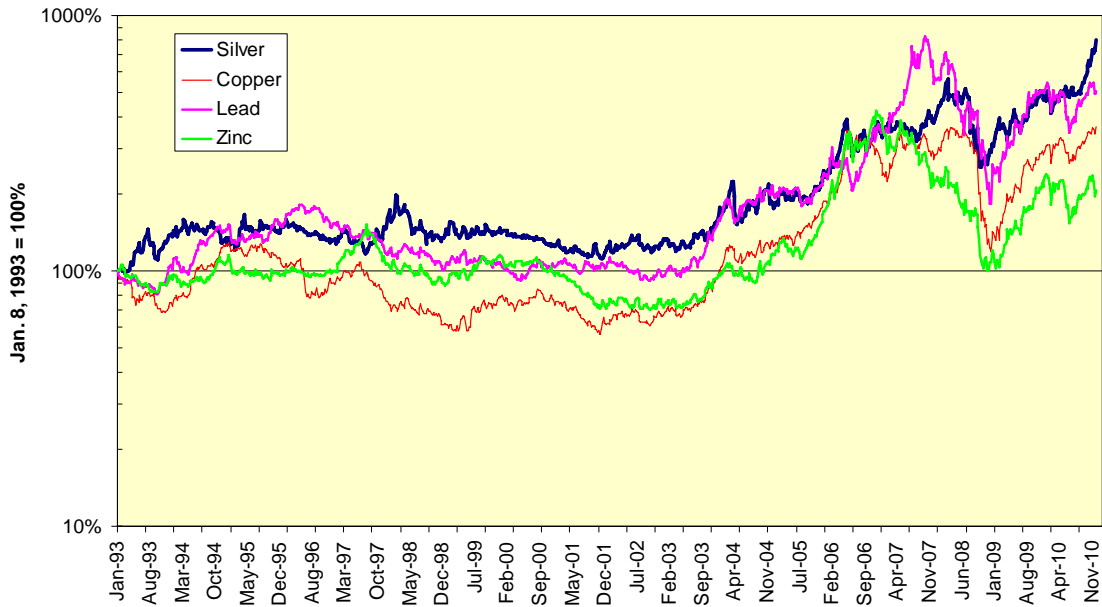
Its long-term chart in 1983 dollars per ounce is starting to look like it may add a second prominent feature to its post-World War II chart; the constant-dollar price for silver has increased at a 2.3% average annual rate since Harry Truman was roaming the White House.

More Than One Brief Shining Moment?



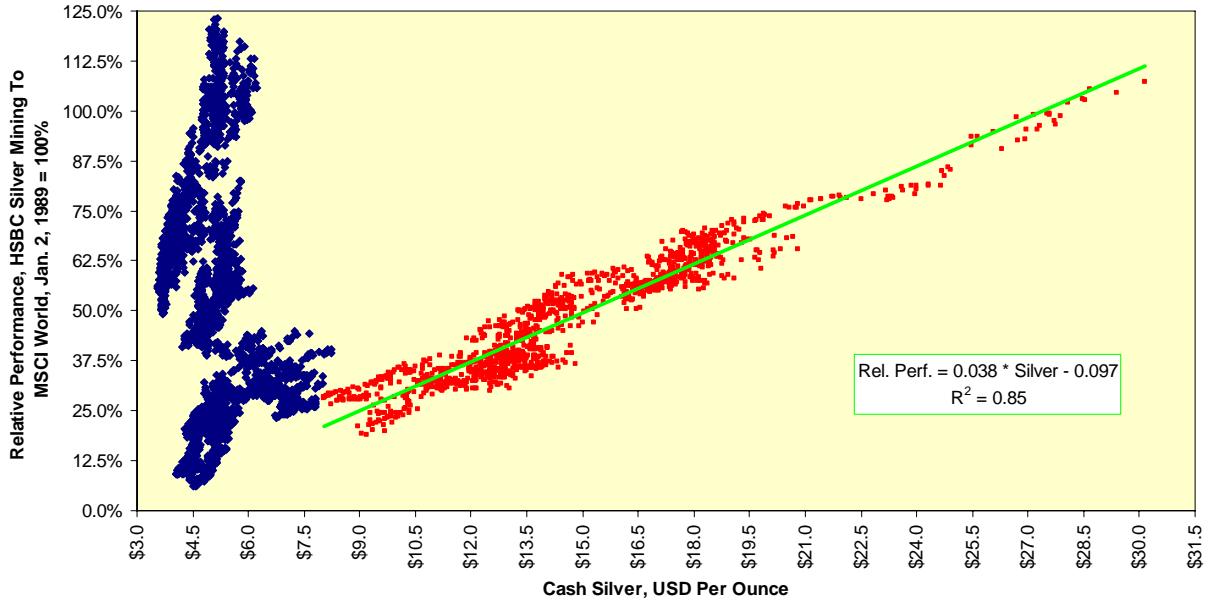
If we hone in a little closer on the time scale and compare silver to its joint products (most silver is produced in conjunction with copper or lead & zinc mining) we see silver is finally outpacing its much more prosaic cousin, lead. This can be attributed to the demand created for silver as a hoarding investment for ETFs such as the iShares Silver Trust. If a marketing crew can glamorize a lead ETF, they can work for me at any price.

Silver Has Stood Up Better Than Its Joint Products



The extent to which silver has become an investment product driven by a wall of money can be seen in the relative performance of the HSBC global silver mining index to the MSCI World index since 1989. Prior to November 2005, the relationship was completely random; since November 2005, the silver miners' relative performance has turned into a linear function of silver prices.

A Linear Relationship Began In November 2005



Interestingly, neither HSBC nor the Solactive Global Silver Miners index discloses a list of its members. U.S. silver miners include Couer d'Alene Mines, Golden Minerals and Hecla Mining. The list of Canadian miners is much longer and includes Bear Creek Mining, ECU Silver Mining and Endeavour Silver.

Silver's fate going forward seems to be in the hands of the central banks. If they keep making paper worthless, they will succeed in making precious metals more valuable. A glance back at the long-term chart above suggests silver is not that much of a store of value during times of economic growth cum low inflation. It did work during the Nixon-Ford-Carter Era of Mismanagement. That it is working today should be an embarrassment to anyone in a position of authority.

