

## ETFs Cannot Find Silver In A Gold Mine

Whether Elton John and Bernie Taupin realized it or not, you can [find gold in a silver mine](#) even though most silver is produced as a credit to copper and lead/zinc mining and not in dedicated silver mines. But if I ever get into a contest with Sir Elton on “things I know you don’t,” I will lose badly.

The discussion of gold ETFs and gold prices from [earlier in the week](#) cited an analysis of silver ETFs from last [May](#). I noted then silver ETF shares outstanding from funds such as the iShares Silver Trust (SIL) and the ZKB Silver ETF (ZKBSF), amongst others, had a far different relationship to silver bullion prices than did their golden cousins. Specifically, silver ETF investors were willing to be the scale-down buyers of last resort, a role occupied by central banks in the gold market. Some might term this action “accumulation;” some may term it “foolishness.” Regardless, is this still the case?

### High Tolerance For Pain

The answer has to be a resounding, “Yes.” ETF holding of silver peaked last October and have declined a mere 4.5% since then. Silver prices peaked at the end of April 2011, two and one-half years before ETF holding peaked, and have declined 57.9%. A holder of the iShares Silver Trust has lost just about 59% over a period when any fool could have earned more than 43% holding the SPDR S&P 500 Trust (SPY).

Silver Prices And ETF Holdings



We obsess whether we are in a bubble in stocks (Hint: No) and yet the presence of people so willing to engage in money-losing behavior for a long period of time passes with little comment. To me this is like focusing on the vast majority of safe drivers while letting drunken louts, some of whom may be texting on their Apple (AAPL) or Samsung (SSNGY) smartphones, to proceed unmolested.

If we have learned anything, a debatable proposition, it is investors who lose money in foolish enterprises, be they overpriced stocks or overpriced houses, either have to start selling other assets to the detriment of non-fools or they will lack the resources to support sensible investments. The money they lose is a deadweight loss to the market; it is in money heaven, pushing up daisies and singing in the choir eternal.

**The Alpine Error**

I might add this principle applies to central banks, most of whom consider themselves heavenly residents anyway. The Swiss National Bank fancied itself a long-term investor in gold. This was a nice fantasy until they just had to announce a loss on the order of \$10 billion and a cancellation of their dividend to the Swiss government. This is the same SNB seen losing vast sums in recent years trying to prevent the franc from soaring against the euro.

I once recommended the Swiss take that soaring franc and buy euro-denominated stocks on the cheap. No, central banks do not do that; it might threaten their “independence.” They bought gold. They lost money on both euros and gold. They are independent. Wow.