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SILVER'S INCREDIBLE POTENTIAL SURGE!

PORTFOLIO WEALTH GLOBAL

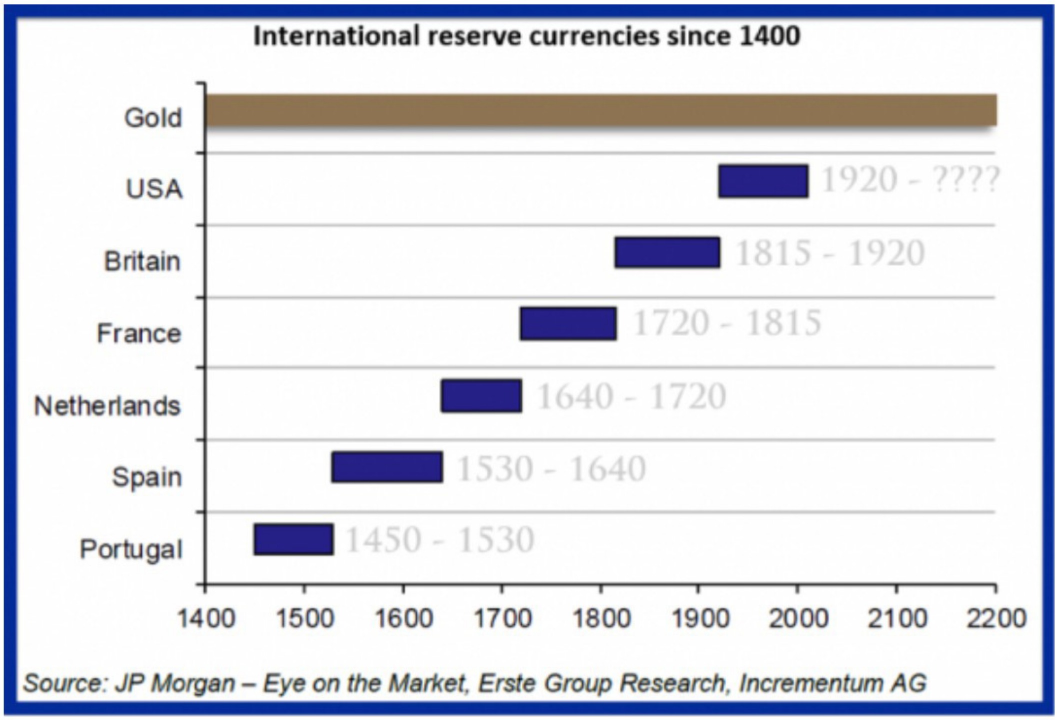
SILVER WILL RISE AGAIN: PROFITING FROM THE PRECIOUS METAL MEAN REVERSION

Precious metals, and especially gold and silver, have done an amazing job of retaining their value over the years. Generation after generation, irrespective of which politicians are in power at the moment, gold and silver have proven themselves time and again as stable stores of value and the ultimate forms of money.

Although archaeologists have discovered caches of gold in Bulgaria dating back 6,000 years and we know that people began to mine silver in 3000 B.C. in modern-day Turkey, the history of precious metals as money started much later than that. Soon afterwards, the Egyptians started using gold for adornment and jewelry.

The first precious metal coins were produced in Lydia, Western Turkey, in 6th-century B.C. These coins were made from electrum, which is an alloy of gold and silver found in the region's rivers. The Greeks had mined for gold throughout the Mediterranean and Middle East regions by 550 B.C., and when the Greeks and Romans were in power, gold and silver were being traded in India for spices and in China for silk.

At the height of the Roman Empire (98-160 A.D.), gold and silver coins reigned as tradable money from Britain to North Africa and Egypt. Interest in gold waned during the Dark Ages, but by 1500 A.D., King Ferdinand of Spain was telling his explorers to "get gold."



Courtesy of JP Morgan – Eye on the Market, Erste Group Research, Incrementum AG

From the 1400s onward, gold has been a reserve currency in many nations throughout the world. In the U.S., precious metal madness took hold when the gold rush brought 300,000 people to California with a pickaxe, pan, and a dream.

Also in the United States, precious metals made their mark when the Gold Standard Act was passed in 1900. This law established gold as the tangible asset backing paper money, and history shows that being on the gold standard had a stabilizing effect on U.S. consumer prices:

U.S. CONSUMER PRICES WERE MOST STABLE ON THE GOLD STANDARD

ANNUAL CPI FOR DIFFERENT PERIODS

	AVERAGE	STANDARD DEVIATION	MINIMUM	MAXIMUM
1789-1996	1.38	5.70	-17.06	22.45
1789-1859	-0.10	5.88	-17.06	18.23
1879-1913	-0.02	1.98	-4.74	4.53
1914-1996	3.33	5.13	-11.47	16.29
1914-1941	1.40	7.16	-11.47	16.29
1946-1996	4.25	3.26	-1.25	13.62

Note: Figures are taken from a Federal Reserve Bank of St. Louis report published in 1998.
Sources: Bureau of Labor Statistics, Federal Reserve Bank of St. Louis, U.S. Global Investors

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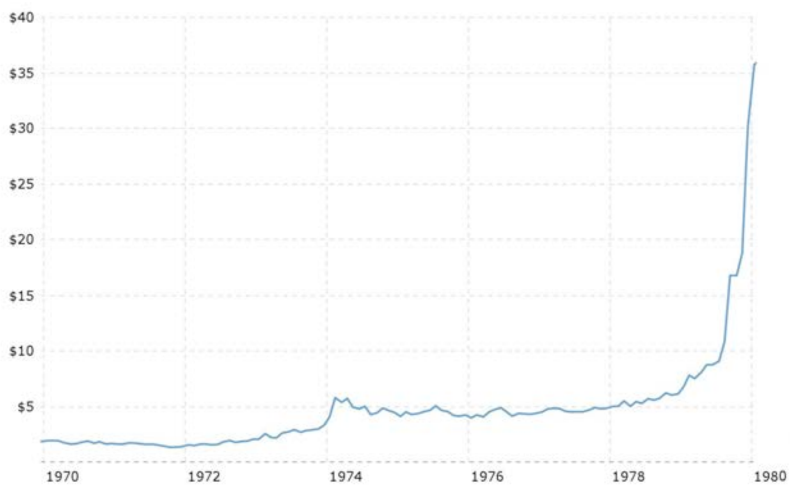
In 1933, with the U.S. Government feeling the weight of the Great Depression, President Franklin D. Roosevelt forced large-scale gold owners to sell their gold to the government at a reduced price. Soon afterwards, under Federal Government ownership, the price of gold was raised substantially by decree. Years later, in 1975, the U.S. Government finally lifted its prohibitions on individual ownership and trading of gold.

It was in 1944 that the Bretton Woods Conference established an international monetary system and a fixed exchange rate in gold for major currencies. Furthermore, member countries were now required to guarantee convertibility of their currencies to gold.

Everything changed, however, on August 15, 1971, when the U.S. Government took the nation off of the gold standard. Hailed by the president at that time as the "greatest monetary agreement in the history of the world," the United States (and eventually all major world powers) would operate on a 100% fiat currency reserve and faith-based monetary system.

As a result, the price (in U.S. dollar terms) of both gold and silver would stagnate for a year, but then the long, painful bear market in blue-chip stocks began in 1973 and only became worse throughout the 1970s, making precious metals shine in comparison. Silver had a dazzling bull run that looks like a plane taxiing down a runway and then taking off for the clouds:



Courtesy of macrotrends.net

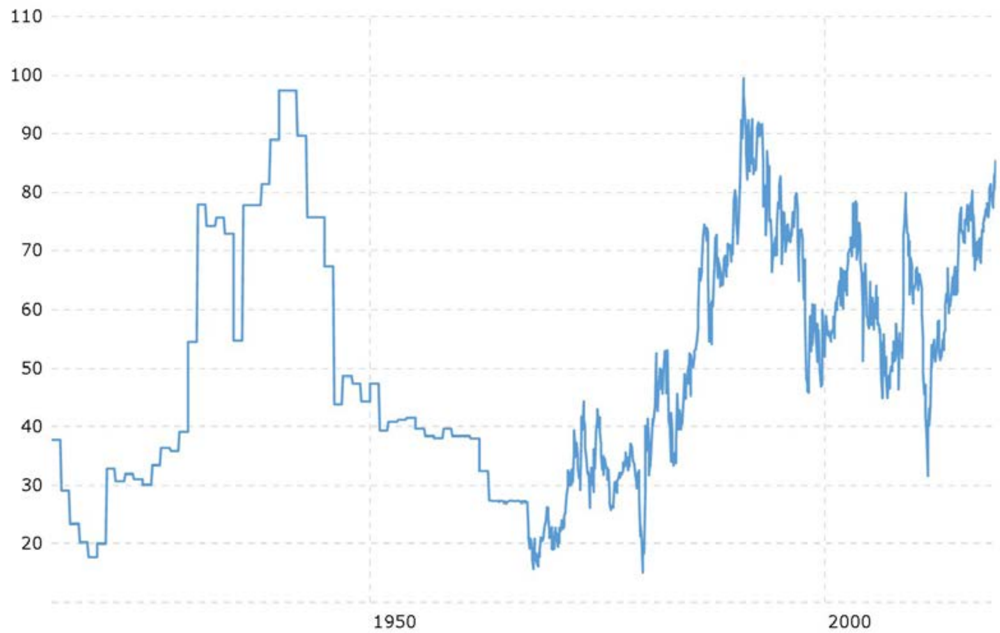
By 1980, silver reached the mid-$30s and gold surpassed $870 an ounce, notching all-time highs and rewarding patient investors handsomely. This all occurred during a stressful period for the stock market and the U.S. economy, which was experiencing a crippling stagflation period at the time.

The 2000s were equally heady times for precious metal investors. While the major stock market indices swooned under the bursting of the Dotcom bubble and then again during the Great Recession, gold climbed above $1,200 an ounce for the first time while silver easily shattered all previous records:

It was a nearly 1,000% return on investment for patient silver stackers – not too shabby. And while it might seem that silver and gold rise and fall perfectly in tandem or that silver merely mirrors the price action of its more popular counterpart, a look at the gold-to-silver ratio will dispel that myth.

Courtesy of macrotrends.net

With a historical mean at around 50 and the current reading in the mid-80s, the gold-to-silver ratio is at a rare and extreme level. A measure of how many ounces of silver it would take to equal the price of an ounce of gold, the gold-to-silver ratio doesn't stay above 80 for very long:



Courtesy of macrotrends.net

Readings this high in the gold-to-silver ratio have only happened a handful of times since the U.S. took its currency off of the gold standard in 1971. And when it did happen, mean reversion always kicked in, first taking the ratio back to the historical norm and then the pendulum would inevitably swing in the other direction as investors rediscovered the true value of silver.

Because the gold-to-silver ratio is so far out of whack, the next big bull market in precious metals is likely to be led by silver and the move will be colossal. The room to the upside in the gold-to-silver ratio is limited, while there's plenty of room to the downside. Seasoned precious metal investors are watching and waiting for an inevitable catalyst to drive silver prices much higher.

When the catalyst does happen – which could be a stock market correction or a U.S. dollar crash, for example – as I see it, this could take the gold-to-silver ratio back to 80-to-1. History shows that when reversals happen, and especially when they've been a long time in the making, they're extremely sharp and breathtaking to witness.

But there's no need to just witness it: the next bull run could be a real wealth builder for you if you're positioned early and have a plan for your investments. If you choose to take a position, know that you're in good company – and with six millennia of history behind it, you'll be investing in an asset class with value you can count on.

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