GOLD & ENERGY ADVISOR

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"Will 2005 be the Year for Silver?"

"Silver's been in the doldrums for almost two decades now… even though its supply has been *far* less than demand the entire time!

"Will silver finally break out of its slump this year?"

- **The bullish case for silver in 2005 and beyond**
- **Seven reasons for an explosive market!**
- **Bear-market bounce for the Dollar**

Silver is the Rodney Dangerfield of precious metals. It just gets no respect.

Few prominent investment analysts follow silver… not publicly, anyway. Every time its price perks up, it gets slapped back down again. And all this has happened despite *massively* bullish fundamentals over the last few years.

What's going on?

Some Internet commentators think they have the answer. They mutter darkly about worldwide conspiracies and market manipulators.

Silver would be $100, $200, even higher, they say…if it wasn't for those darn conspirators.

I think these guys are part of the reason silver gets little mainstream attention. Nobody wants to be associated with a loony group like silver bugs, if this is what they're like. And so silver has been ignored…

Which creates a great opportunity for us!

Silver's slump has been deep and long. But every bear market is followed by a bull, whether you're talking about stocks, bonds, precious metals, or any other market.

Silver *will* have its day again…and that day might be very soon.

To explain why, I've decided to devote this issue to…

The Bullish Case for Silver

Unlike gold, silver's value is primarily non-monetary.

Silver has many of the same physical characteristics as gold: high reflectivity, high conductivity, great malleability (it's easily worked), and great ductility (it's easily drawn out into wire). But unlike gold, silver is affordable across a broad variety of industrial uses.

That means silver is a crucial metal in modern technology; its unique characteristics make it irreplaceable in countless applications.

Over 95 percent of the demand for silver comes from three categories: industrial usage, photography, and jewelry/silverware. Silver is used in batteries and ball bearings…soldering and silverware…coins and catalysts…electronics, electroplating, and energy technologies. More uses for silver are discovered every year.

Of the three main categories of demand, industrial usage continues to climb (up an estimated four percent in 2004). Photographic use is on a gentle decline (more on this in a moment), while jewelry/silverware demand tends to fluctuate a bit.

Silver supply comes from mining and scrap recycling. Only about 30 percent of mined silver comes from "primary" silver mines (those for which silver is the main product). Another 30 percent is produced as a byproduct of lead/zinc mining, 26 percent more from copper mines, and 13 percent from gold mines. As for the scrap, it comes from waste: pieces of jewelry, discarded computers and other electronics, photographic film and chemicals, and so on.

The interesting thing about silver is that…

Demand has overwhelmed supply for the past 15 years!

For example, in 2003 (the 2004 numbers aren't in yet), mining supply was 595.6 Moz (million ounces), and scrap recovery added another 191.6 Moz. But demand was 859.2 Moz…for a total *deficit* of 72 Moz.

This number seems high, but it's actually *small* compared to other recent years. Since 1994, the structural deficit has averaged a whopping 144 Moz per year.

Take a look at the chart on the next page. It shows there's been a cumulative deficit of over 1.4 *billion* ounces over the last decade!

THE GOLD AND ENERGY ADVISOR

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But where has all the extra silver come from to meet the deficit? Simple—above-ground stockpiles have been drawn down to fulfill it.

For example, in 1959 the United States Treasury had about 2.1 billion ounces of silver. That stockpile is now gone—in 2002 Congress had to pass a law allowing the Treasury to buy silver on the open market, so it could continue minting its popular Silver Eagle coins.

This is where the conspiracy theorists go astray. They claim silver should have skyrocketed years ago, but hasn't because the major silver users have illegally suppressed the market. (I explained their story back in the April 2004 issue, so I won't go into it here.)

But this ignores a simple fact: the physical demand for silver has been *met* every single year, even though it greatly exceeds supply. There was a tremendous overhang of silver stockpiles: literally billions of ounces. *That's* where the extra silver came from, and that's why the price has been quiet for so many years.

But all this is changing. As I mentioned, the U.S. stockpile of silver is gone, and other major stockpiles have been used up too. The only two major reserves left are in India (with about 87 Moz, less than a six-week supply for the world), and China.

India isn't expected to sell theirs any time soon. The Indians are famously passionate about precious metals—India is the largest market in the world for silverware and silver jewelry. So large Indian sales seem unlikely.

That leaves China. This nation is actually the only reason why the price of silver hasn't already exploded. The Chinese currency used to be backed with silver, so China had a large amount of the white metal. But the currency is unbacked now, and a few years ago the Chinese started to sell off their metal.

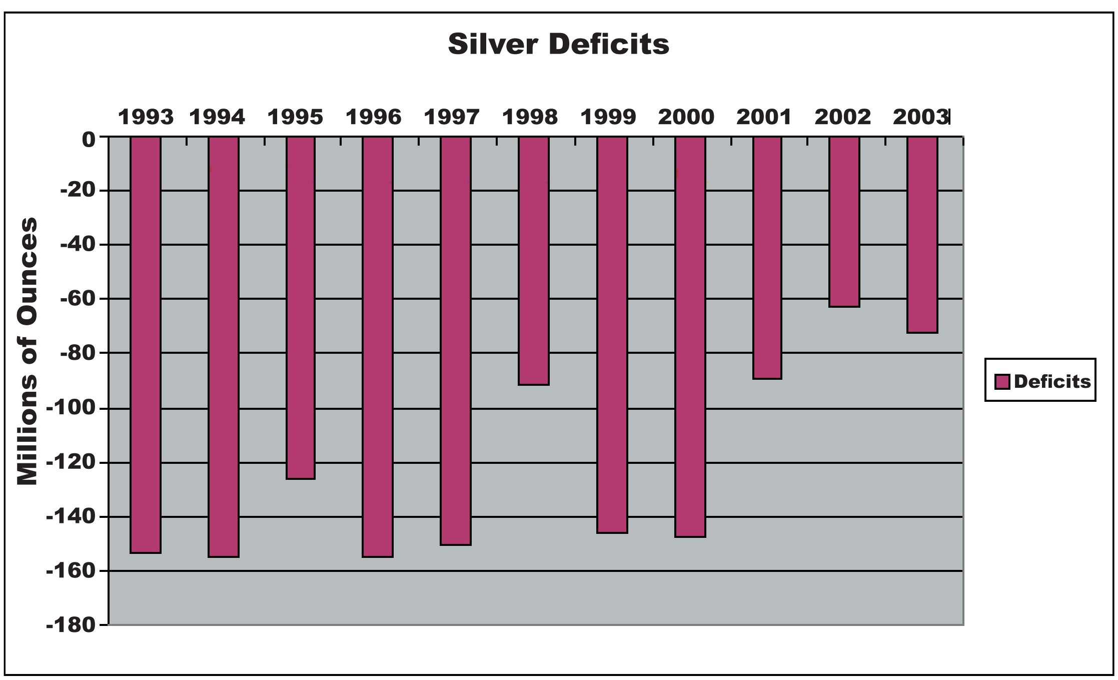
Since 1998, Chinese sales have been substantial, and have been the only thing keeping silver down. During this time, China has sold 300 Moz or so. Without their silver, the price would probably be in the double digits by now.

Of course, they don't have an infinite supply. They'll have to stop selling sooner or later, and…

Many analysts now think the Chinese supply is drying up!

Are they right? Nobody knows for sure except the Chinese themselves, and they aren't telling. Since they don't announce their sales (we have to figure out the amounts by watching the markets), they aren't going to announce the end of their sales either.

But someday they'll run out. That day might already be upon us—overall government sales in 2004 were down an estimated 21 percent (I'll have



Latest prices as GEA goes to press—February 14, 2005

Comex spot contract: silver $7.22, gold $423.50
Nymex spot platinum: $874.00, palladium $183.00
Nymex Light Sweet Crude Oil $47.20

Silver coins			Dealer will buy at this price	Dealer will sell at this price
100 1 oz. silver American Eagles			$830	$930
100 1 oz. common rounds			$720	$800
$1,000 face value US pre-1965 coin bag (circulated)			$4,800	$5,500
$1,000 face value US circulated silver dollar bag (VG or better)			$8,000	$8,900
US Morgan silver dollars		PCGS MS64	$42	$55
		PCGS MS65	$120	$160
		PCGS MS66	$300	$360
Platinum coins				
U.S. Platinum Eagle:		1 oz.	$875	$940
		1/2 oz.	$450	$530
		1/4 oz.	$230	$290
		1/10 oz.	$95	$130
Gold coins				
Australian Kangaroo			$425	$450
British sovereign (Kings)			$98	$125
(Elizabeths)			$100	$125
Canadian Maple Leaf			$425	$460
Credit Suisse 1 oz. gold bar			$420	$460
Mexican 50 peso Centenario			$500	$540
South African Krugerrand			$420	$460
US Gold Eagle:		1 oz.	$433	$460
		1/2 oz.	$210	$240
		1/4 oz.	$108	$130
		1/10 oz.	$44	$52
US $20 double eagle:				
Liberty	Raw	MS60	$500	$570
	NGC	MS63	$750	$850
	NGC	MS64	$1,450	$1,850
	NGC	MS65	$4,150	$4,850
Saint Gaudens	Raw	MS60	$525	$600
	NGC	MS63	$640	$725
	NGC	MS64	$700	$800
	NGC	MS65	$1,100	$1,350

Prices courtesy of Finest Known, Boca Raton, FL. (800) 806-3468.

firmer numbers for you in a later issue). And when they do, silver is going to soar.

I've been eagerly waiting for the above-ground overhang to get used up. Once it's gone, silver will blast upwards—more so than your usual bull market. Here's why…

Seven Reasons why Silver will be Explosive!

Reason #1: Inelastic Demand

Silver is in great demand in industry, but it's mostly used in small quantities: miniscule grains of silver halide spread across a piece of film… tiny droplets of solder on a circuit board…small electrical contacts inside a telephone switch.

This is very bullish for silver!

Why? For most commodities, a rise in price will discourage consumption. The higher cost makes it more expensive to use in industry, and other materials are substituted wherever possible. This reduces demand, and puts downward pressure on the price.

But that's not the case for silver. The white metal is mostly used in such tiny amounts that a rise in price will not greatly affect its cost. A couple of cents added to a disposable camera, or a couple of dollars added to an automobile, will not be worth the time and expense necessary to find alternative materials. So the manufacturers will continue to use silver as before…and industrial demand shouldn't fall by much, even as the price rises.

Small quantities used also means there's …

Reason #2: Little Above-Ground Silver Available

In many applications, it's too expensive to recycle these small amounts of silver. So about two-thirds of the silver used every year is consumed and never recovered.

Fifteen years of structural deficits means a huge amount of silver is *gone*—almost 1.5 billion ounces just in the last decade. Once the Chinese reserve dries up, there'll be no large stockpile left that could be dumped on the market and dampen a price rise.

In 2003, there were only an estimated 671 Moz of silver bullion stocks left above ground. That sounds like a large number, but it's not if you think about it.

First of all, that's less than 40 weeks' worth of consumption. More importantly, just because the silver exists doesn't mean it's available to the market.

A study done by Charles River Associates examined this question. It said a significant amount of the world's silver was in art and religious articles (chalices, gilding, etc.), and this metal would not be available to the market at any price. Of the rest, much of it would require sky-high prices before being available for sale. Even a doubling in price would bring less than half the available silver to market.

This makes perfect sense if you think about it. During the huge run-up to $50 in 1980, people were lining up to sell their silver to dealers. Of course, they only sold the silver they didn't want to keep. The only silver items they kept were the family heirlooms and so on…things too valuable to be melted down at a mere $50 per ounce.

Thanks to inflation, $50 in 1980 is equivalent to $120 today. So heirlooms that couldn't be melted down at $50 silver would probably require at least $120 silver—or more—before coming onto the market today.

So overall, some of the above-ground silver isn't available for use at any price, and a large amount would require much higher prices than today's.

Plus, a lot of above-ground stocks are not only unavailable for sale, but actually represent a force pressuring the price *higher*. That's…

Reason #3: Silver Leasing

There's an active market in silver leasing: borrowing metal (at a small rate of interest), to be paid back later.

The biggest borrowers are fabricators. When silver prices are volatile, manufacturers who need silver for their products are likely to borrow the silver they need, rather than buy it. Later, they hope to buy silver on the market at a lower price, and pay back the loan with cheaper silver than they could have bought earlier.

Silver producers are also significant borrowers. In their case, they might need cash (to develop a mine, for example), but have little available. They borrow silver from a bullion bank, and sell it on the open market to get the money they need. Later, as they mine more silver, they can pay back the loans with it.

In 2003, estimated silver leases were at 280 Moz. So silver borrowers owe this much metal to others. When this short position is added to the 671 Moz above ground, only 391 are really free to be sold and used: less than 24 weeks of consumption.

We've gone from billions of ounces available in silver stockpiles, to only having enough for a few weeks!

Maybe that's why there's…

Reason #4: Declining Individual Sales

Sales patterns can be used as a barometer of a market. Towards the end of any bear market, sales will start to taper off—that's what gives the up-and-coming bull his strength.

In silver, we've seen sales by individual holders as high as 221 Moz in 1997. By 2002, this was down to 81. In 2003, it was 43.5. This is a good sign that the bear market has run its course.

Of course, not all individuals are selling; many are silver bulls instead. But some of them are in for a surprise when silver finally leaps up. That's…

Reason #5: Unbacked silver certificates and pool accounts

In this newsletter, I've often recommended you buy physical precious metals, instead of "paper" investments.

For example, many banks and institutions offer silver certificates and other kinds of silver "pool accounts." In these investments, you purchase a percentage of a larger pool of silver. Many investors are attracted to these because the bank holds the silver for you—you never have to touch (or even see) the metal itself, only a paper certificate. Also, there's often no cost for storage, insurance, etc.

But I think many of these investors are in for a shock. If you aren't paying for storage and insurance, you don't really own any silver. The people who sold you this "investment" have to recover their costs somehow—and if it's not from you, they're using the silver to get income from somewhere else. Often this means they've leased out the silver—which in turn implies the silver has been sold (by the lessee) on the open market.

When silver breaks out and leaps upward, these banks and institutions will be in serious trouble. Those that leased the silver from the banks will suddenly owe metal costing a lot more than they expected—and some of them won't be able to pay back their loans. The banks will be faced with defaults on their silver loans—while at the same time, they'll owe silver to their own investors (including you, if you buy into these schemes). Investors who thought they owned silver will instead find out they really own nothing at all...other than a claim to a "pool" of loans, some of which will be in default!

Banks and other institutions will suddenly owe a lot of silver to their investors. I expect a desperate push to buy the metal on the open market…adding even more upwards pressure to the price.

If you must buy "paper" silver, the best way is through an allocated account. You must own specific, numbered bars in inventory, not a piece of a larger pool. (Even then, you're running a risk of institutional leasing, but that's another story.)

What will cause a sudden break-out in silver? One of the main things is…

Reason #6: Public ignorance and apathy about silver

A 1991 study estimated there were 2.6 billion ounces of above-ground silver available to the market. Today, as I said, estimated bullion stocks are a mere 671 Moz. This figure includes COMEX and other exchanges, known government stocks (excluding China), and large dealers.

We've burned through almost two billion ounces of silver since the early 1990s. And another 100 Moz or so vanishes each year. Any commodity which disappears at this rate would, you'd think, be getting lots of attention from investors.

Especially when its price is only about six percent of its inflation-adjusted high…and that high took place when there was a lot *more* of the commodity available than there is today.

Yes, you'd think silver would be a hot investment. But instead it's been ignored—nobody seems to care about it. In 1980, when the futures markets decided (illegally, in my opinion) to smack down the Hunt brothers in the silver market, lots of other silver investors got burned too. Shortly after that, silver leasing started becoming common, artificially increasing the amount of silver dumped on the market. Finally, above-ground stockpiles were drawn down and sold into every price rally. Silver bulls got slapped in the face over and over again…until nobody wanted to play anymore.

And this is one of the reasons it's such a great opportunity today. Silver has been off everybody's radar for a long time...and so the price has languished even while such wildly bullish fundamentals have been building and building.

Finally, there are signs this might be changing. Conventional analysts are starting to realize we're entering a long-term bear market for the dollar. Among other things, this means commodities should do very well—and this includes silver. On January 26, the *Wall Street Journal* even ran an article ("Wall Street Says Get Heavy on Metal") recommending gold and silver! This is the first such article I can remember in a *long* time!

Even then, the article didn't mention silver's supply deficit. As long as the media continues to miss this wildly bullish force behind silver, I think we'll have a ground-floor opportunity in the metal.

A tremendous amount of pent-up pressure has built up behind silver's price. When it finally blows…when the public finally wakes up to a 15-year structural deficit, small above-ground supplies, and a voracious demand for the metal…I'm looking for $25 silver, at least.

And the pressure is building more and more, as shown in…

Reason #7: Expanding demand for silver

Every year, more uses are found for silver. So every year, the demand for it increases.

For example, silver's now being used on a large scale in power generation. About 25 percent of the electricity created by American power utilities is wasted every year. (It's burned up as heat in the power-transmission lines.) But silver can solve this problem.

A company called American Superconductor is making wire from tiny silver tubes (only one-sixteenth the size of a human hair). The tubes are bundled into "superconducting" wires with much less electrical resistance—so electricity flowing through them loses very little power.

This technology allows higher capacity in the wires (up to 100 times more than copper wire), and motors and generators that are more efficient and lower in cost. A power plant can serve more electrical customers while producing less electricity, which in turn means a reduction in pollution as well.

And all this relies on silver. The various types of superconducting wire use 375-1000 ounces of silver per mile of wire. So for example, a single transmission line from New York to Los Angeles could use up to 2.4 million ounces of silver. Widespread deployment of this technology would suck tremendous amounts of silver from world markets.

Superconducting wire is only one of the many new applications for silver. Each year, the demand for silver balloons, and the structural deficit continues.

By the way, silver bears point out a large source of silver demand—photography—is decreasing. As digital cameras have grown more popular, it's true the demand for silver-halide photographic film is declining. But a significant part of silver *supply* is from recycled film—so as demand has decreased,

Dollar Update: A Short-Term Bounce

In this newsletter, I've been bearish on the dollar. I think the long-term outlook for the greenback is grim.

But no market ever goes straight up or down. As I write this, we're seeing a bounce in the dollar—maybe even a bear-market rally.

Why? For several reasons. First of all, the dollar has already plummeted, and is due for a bounce. Since its peak, it's down 40% against the euro. It's down even further against other currencies like the New Zealand dollar and the South African rand. Most embarrassingly of all, it's down 25% against the Turkish lira (which is so horribly mismanaged the government just chopped six zeros off the end of it)…and even 124% against the latest version of the Argentine peso (historically a laughingstock among the currencies).

Also, its up-and-coming competitor (the euro) is overvalued and due for a fall. (You might have heard of the "Big Mac" measurement of purchasing power. Since Big Macs are identical all around the world, their prices are used to compare currencies. Right now, a Big Mac in Europe costs 25% more than in the United States, indicating an overvalued currency.) The 12-nation euro zone is ripe for capital outflow: its currency is strong, its economy is troubled, and its interest rates are relatively low (now that Greenspan has been raising ours).

A new law in the U.S. will also (briefly) help the dollar. The American Jobs Creation Act of 2004 gives corporations tax breaks and incentives to bring their money back home, meaning they'll convert foreign profits into dollars. Johnson & Johnson has now announced plans to repatriate $11 billion, Pfizer Inc. plans as much as $38 billion, Schering-Plough Corp. $9.4 billion, Eli Lilly & Co. $8 billion. Other companies will follow suit, giving the dollar a bit of short-term support.

Finally, there's the contrarian angle. Nobody wants the dollar right now, and everybody is expecting the euro to surge even higher. When all the members of the herd are stampeding the same way, that's usually a good clue to run in the opposite direction.

So I'm expecting a stumble in the euro and a corresponding bear-market pop in the dollar—anywhere from 10 to 20 percent. That will also mean short-term weakness in gold—a good time to accumulate more before gold takes its next leg up!

supply has tightened along with it!

In any case, the structural deficit remains enormous, and speaks for itself. The silver market is creaking at the seams, and a price explosion is coming. Will the dam finally burst in 2005? I can't wait to find out!

What's the best way to invest in silver?

One of the most common questions I receive from metals investors is: ***what is the best way to own and hold silver?*** I've already recommended you avoid silver certificates and unallocated pool accounts. Instead, a great way to invest is through United States government-issued Silver American Eagles.

Obverse *Reverse*

American Silver Eagles

Since 1794, when the United States Mint first struck legal tender Silver Dollars, the classic one ounce Silver Dollar has been instrumental in the monetary freedom, liberty and growth of our great country. Today, this long-standing tradition in monetary freedom continues with the Silver American Eagles, first minted in 1986.

Minted from .999 pure fine silver, the Silver American Eagles are highly regarded worldwide as the most recognizable form of legal tender, private silver on the market today. Available to investors in twenty-coin U.S. Mint tubes for easy storage, the Silver American Eagles are also a much more easily divisible and highly portable form of silver wealth compared to 1,000 ounce bullion bars, or even the so-called "fractional junk" silver coins.

The "fractionals" would be pre-1965 U.S. coins like the dimes, quarters and half dollars, which contained amounts of silver much less than one full ounce. At 60 pounds per bag, fractional silver coins get awfully heavy and extremely bulky in a hurry. To transport these coins would require bags and bags of very heavy coins, compared to the efficiency of Silver American Eagles in U.S. Mint tubes.

Besides, since "fractionals" have not been minted with 90% silver content since 1964, most people don't even recall their actual silver content any more. Not so with the Silver American Eagles, which are almost universally known to contain one ounce of .999 pure fine silver, which is stamped right on the coin's reverse.

The Silver American Eagles have been lawfully deemed by the United States Congress as eligible for inclusion in personal IRA accounts. Year after year, American investors are heeding this rare, but practical, piece of Congressional investment wisdom by acquiring more and more Silver American Eagles via their personal IRA accounts.

If you are interested in purchasing Silver American Eagles for your personal purposes, or through your IRA account, I highly recommend Mike Fuljenz's Universal Coin & Bullion as your source. I have personally known Mike for over 20 years, and have seen his reputation and regard around the industry grow with each passing year. He has received at least 23 Numismatic Literary Guild (NLG) awards that I know of for his books, media appearances and articles on all things numismatic.

Most recently, he received the NLG Award for his newsletter, which was voted Best Dealer Publication for 2004. Forgetting the awards and recognition for a moment, I can tell you first-hand, Mike is quite simply a stand-up guy, and a great guy to know if you have any interest in United States coins.

To introduce Mike to you, I have made special arrangements for you to purchase up to 200 one ounce Silver American Eagles per household at his typical dealer cost of only $1.55 over spot per coin, plus shipping. For example, with silver spot at $6.75 on the date of your purchase, you would pay $8.30 per coin, plus shipping. This is a great benefit!

If you are interested in meeting Mike and his great team, call them today Toll Free at (800) 459-2646 and tell them I recommended you give them a call. If you do, with your order, he'll also send you a copy of the Diamond Anniversary issue of his newsletter, voted Best Dealer Publication in the entire rare coin industry, ABSOLUTELY FREE!

By the way, one final recommendation on your Silver Eagles. Make sure you store them securely in a safe deposit box. With today's poker craze going on, we have heard tales of teenagers "raiding the old cookie jar" for ante money. Trust me! The Silver Eagles are very expensive poker chips. So, store yours safely. You'll be glad you did.