



# Silver Industry Report

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## Topics to be discussed

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1. **Historical Overview**
2. **Influencing Factors of Price**
3. **Silver vs. Gold**
4. **Supply, Demand, S&P Comparison**
5. **Investment Vehicles**
6. **Conclusion**

# Historical Overview

## 100 Year Chart (Not Inflation Adjusted)



## Headlines

- **1979 - 1980**
  - The Hunt Brothers attempted to corner the silver market
  - In 1979 the price jumped from \$6 to \$48.70 per ounce (712%). Inflation adjusted prices were approximately \$107
  - They were estimated to hold one third the entire world supply of silver (other than that held by governments)
  - On January 7, 1980 (Silver Thursday) the COMEX adopted Silver Rule 7 which placed heavy restrictions on the purchase of commodities on margin
  - The price of silver collapsed over 50% in four days
  - The Hunt Brothers were forced to declare bankruptcy in 1988
- **2010 – 2011**
  - Price climbed to \$50 per ounce
  - Due mostly to investor's concern of the global economy
  - As Moody's and S&P downgraded the outlook on US finances, people became afraid of the "financial apocalypse"
  - Price started to drop as the economy started to look healthier

# Influencing Factors of Price

## Large Traders or Investors

- With physical demand estimated at only \$15.2 billion per year, large investors can influence the silver price
- **1979** – Hunt Brothers accumulated over 100 million oz.
- **1997** – Warren Buffett purchased 130 million oz.
- **2006** – iShares launched a silver exchanged-traded fund (SLV) which held 344 million oz. of silver as reserves

## Production

- 70% of silver production comes as a by-product from base metal and gold mines
- Copper (26% of silver mined) is heavily dependent on demand from the housing market
- Mining costs (approx. \$10 per oz.) are very difficult to estimate for silver

## Industrial, Commercial, and Consumer Demand

- Technological Uses
  - Silver's Conductivity makes it integral to the electronics industry for circuits, switches, and solar panels
  - Used in development of film photography
- Medical Uses
  - Antibacterial features means silver is often used in hospitals and even in some bandages
  - Key part of the technology behind X-rays
- Jewelry

## Hedge Against Financial Stress

- Like all precious metals, silver can be used as a hedge against inflation
- Main factor which led to the price spike of 2011

# Silver vs. Gold

## Silver

- Great number of industrial uses
- Inflation adjusted high of \$140 (8.8 x current price)
- Greater growth potential given current high price ratio



## Gold

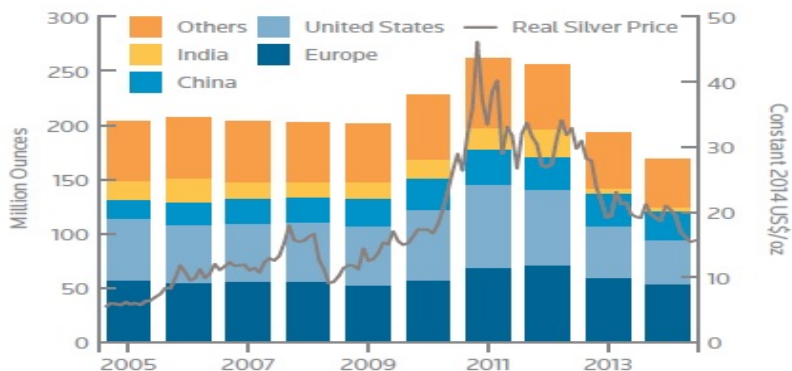
- Limited number of industrial uses
- Inflation adjusted high of \$2,500 (2.1 x current price)



# Supply, Demand, S&P Comparison

## World Scrap Supply

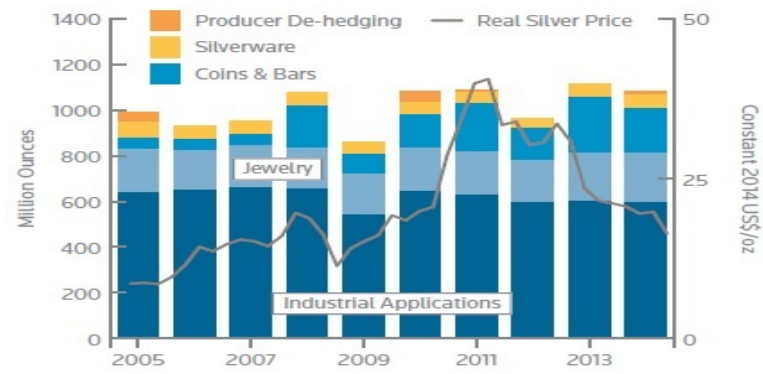
### WORLD SCRAP SUPPLY



Source: GFMS, Thomson Reuters

## World Silver Demand

### WORLD SILVER DEMAND



Source: GFMS, Thomson Reuters

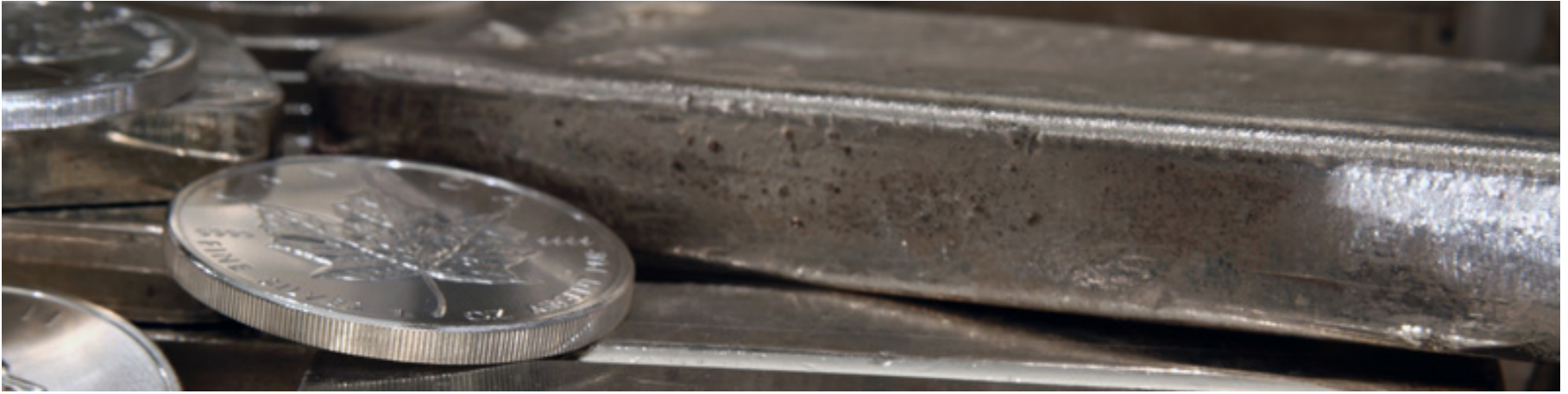
## 100\*Silver/ S&P for 30 Years



## Supply and Demand Insights

- As silver price decrease there is less incentive for businesses and individuals to recycle silver. This decreases the overall supply for usable silver
- Global demand for silver remains high despite decrease in use from film photography
- When silver to S&P 500 ratio is low silver is considered to have more room for growth than the S&P 500

## Physical Silver



## Equities and ETF

### U.S. Equities

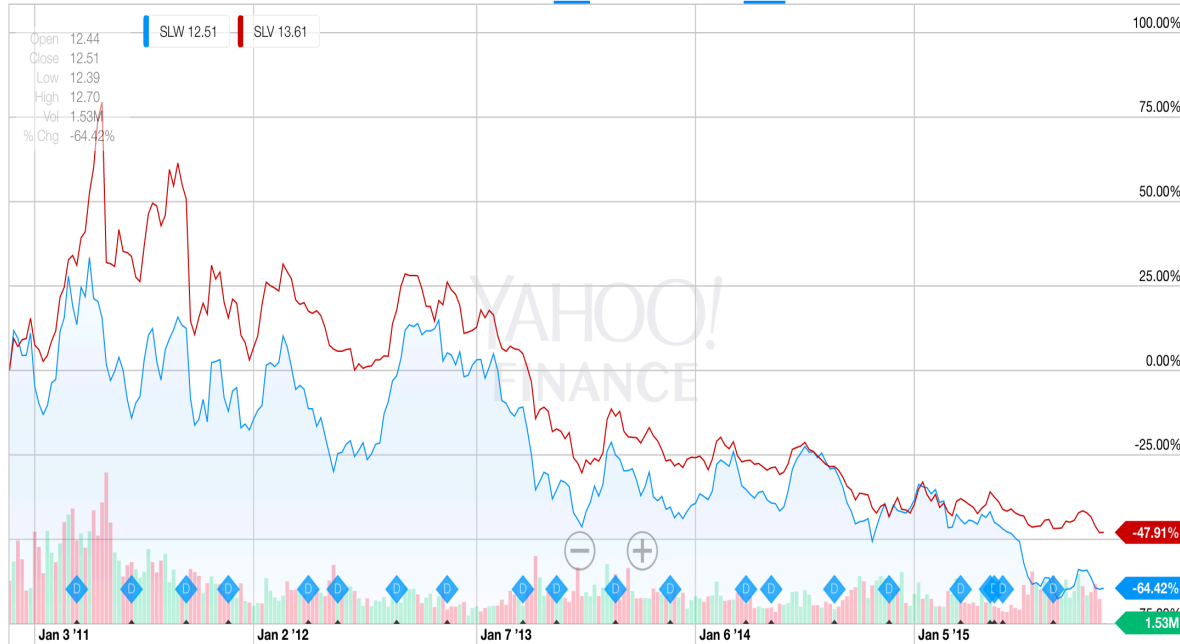
- Silver Wheaton Corp (SLW)
- First Majestic Silver Corp (AG)
- Coeur d'Alene Mines Corporation (CDE)

### ETFs

- Silver Trust (SLV)
- Physical Silver Shares (SIVR)
- Ultra Silver (AGQ)

# Silver Wheaton Corp – Case Study

## Silver Wheaton Corp. (SLW) vs. iShares Silver Trust (SLV)



- Currently trading at \$12.51
- Largest precious metal streaming company in the world
- 60% of its revenue from the sale of silver, 40% from gold
- Pays an average of \$4/oz. for silver and \$400/oz. for gold
- Low-risk because of fixed capital expenditures
- Has contracts with mines in South America, Mexico, Canada, the United States, and Europe
- Analyst Ratings
  - Number of Ratings: 19
  - Average Target Price: \$19.60
  - Average Rating : Overweight (14 buy, 5 hold)
- One of the only silver mining companies still paying a dividend (1.6%)



  
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