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Invest In Silver

Silver is glittering in India these days. Only the poor in India could have thought of buying silver jewellery for the marriage of their daughters some years back. But these days, driven by the skyrocketing price of gold, Indians—the rich, the middle class and the poor—are buying silver jewellery and investing in silver.

— Silver contracts for May are already at a new high. Indian silver prices did manage to hit a fresh new all time high overnight and that has prompted talk that the US silver market is destined for a near term rise above 40 dollars.

Yet investors who focus on gold and ignore silver could be missing an even better bet. Demand and performance numbers show that silver is beating gold and has been for a while.

The point is that silver tends to be in greater demand relative to gold during economic expansions and bull markets. Gold tends to be in greater demand when concerns rise about economic downturns or geopolitical events. These basic investment tenets describe how stock investors can benefit from monitoring the gold/silver ratio, which is simply a study of the demand for gold relative to the demand for silver.



Silver also has shown a better long-term performance, with three times gold's run in the last 20 years. Specifically, silver has posted gains of around 637% since early 2009 compared with approximately 255% for gold in the same period. Indians are known to spend a substantial part of their income on the purchase of silver, partly as an unavoidable expenditure for weddings and other family celebrations and partly as an investment.

Gold and silver imports by India are set to touch record levels in 2011, according to early data compiled by the World Gold Council (WGC) and the Bombay Bullion Association.

What's more, a shift in who owns silver has contributed to a bottleneck. Stockpiles of silver were for decades largely a part of Commodity Exchange warehouse inventories. COMEX inventories were mostly commercial holdings, with a small portion being held for investment purposes — peaking at around 280 million ounces in the early 1990s, according to a report by Ted Butler.

Then a funny thing happened — after the introduction of silver Exchange Traded Funds (ETFs), there was a profound shift in the location and structure of visible silver inventories. Rather than being a commercial stockpile, investment holdings have overshadowed the conventional use of silver by four to one.

Given the long-term nature of ETF investment holdings and the current silver boom, it's highly unlikely this new floor for silver prices will go anywhere. That skews the chart upward for silver.

Remember, past performance is no guarantee of future results. But a look at just about any time frame over the last few decades shows that silver has outperformed gold. Another annual gain of about 80% may be a bit unrealistic, but if you think precious metals are on the rise, you should bank on silver instead of gold.