



3 Reasons to Buy Silver, Not Gold

Description

Throughout history, whenever investors wanted protection for their portfolios, they turned to gold. Since gold tends to do well during major world events that cause stocks to sell off, this is a logical choice. Many investors have a permanent gold position in their portfolio just for that very reason. It serves as a nice insurance policy.

The other reason many investors load up on gold is because they just don't trust the fiat money system. Even though the U.S. Federal Reserve has reduced its quantitative easing program over the past few months, the fact remains that it continues to create currency at an alarming pace.

According to certain investors, all this new currency in the economy is bound to decrease the value of existing currency. As a side effect, it will also inflate the prices of all sorts of different asset classes, from government bonds to stocks. After all, money created isn't much good if it isn't used to invest.

Even though the U.S. Fed has been providing liquidity to the market for the better part of five years, inflation numbers are still fairly tepid. Sure, the price of food and other commodities has gone up, but technology continues to get cheaper. These factors have largely cancelled themselves out, leading to modest growth without much inflation.

Precious metal bulls believe inflation will become a serious problem in the future. With this in mind, here's why silver is the metal to buy this trend, not gold.

1. Industrial uses

There are essentially two practical uses for gold. It either sits in a vault somewhere as a store of value, or it gets made into jewelry. Silver has many more uses.

Silver is a great electrical and thermal conductor, making it the perfect metal to use in an industry that is likely to experience huge growth in the future: solar energy. Silver is also in most of the electronic devices we currently use on a daily basis, such as automobiles and even water purification systems. Investors are starting to use it again as a store of value, but this is largely related to the retail crowd.

Silver is the best of both worlds — it's still viewed as a store of value, but also has many industrial uses.

2. Silver and gold price spread

Throughout history, silver has traditionally been mined at approximately 10 times the rate of gold, and gets used up in a short period of time. For most of the past half century, the price of gold has traded at between 40 and 60 times the price of silver.

At this point, one ounce of gold trades at about 66 times the same amount of silver. Patient investors can get in now and look for upside as the ratio returns to normal.

3. Exchange-traded products

Since investors are often nervous about investing in silver exchange-traded products that don't hold the actual metal, funds are being forced to buy large amounts of silver as money flows in.

These days, precious metals aren't attracting much new capital, but should recover if we experience a significant stock market slowdown. If you're a long-term bull on silver, this could be a good entry point. As investor money flows into silver funds, so will demand for the actual metal.

Investors looking for silver exposure should just buy the largest producers, like **Silver Wheaton** (TSX: SLW)(NYSE: SLW), [which mined more than 33 million ounces of silver in 2013](#). The company remains consistently profitable, has reasonable debt levels, and even pays investors a 1.3% dividend.

Investors looking for a better yield would probably prefer **Pan American Silver** (TSX: PAA)(NASDAQ: PAAS) and its 3.9% dividend. Pan American also trades at right around its book value, has virtually no debt, and is sitting on \$400 million in cash. The company is a terrific place to sit and wait for silver prices to recover.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:PAAS (Pan American Silver)
2. TSX:WPM (Wheaton Precious Metals Corp.)

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