Why Silver Offers Investors More Than 50% Upside

Description

Want to lock in a solid long-term investment opportunity with upside potential in excess of 67%? Then look no further than one of the most beaten-down precious metals, silver.

Unlike gold, silver has a wide range of industrial applications with one of the fastest growing being its use in the production of solar cells. In 2013, industrial demand for silver outstripped supply and is expected to do so again in 2014 and 2015.

But the thesis for investing in silver is far simpler than attempting to forecast the impact of supply or demand. There is one simple leading indicator already giving investors the green light to now take the plunge, the gold-to-silver ratio.

This ratio measures the correlation between gold and silver prices by expressing how many ounces of silver are required to buy one ounce of gold. While gold appears stuck in rut, silver prices have continued to plunge, plumbing new depths, to now be $17.25 per ounce, the lowest point in four years. The gold to silver ratio has widened considerably over the last five years, going from 58 ounces of silver to buy once ounce of gold in 2009, to now requiring 70 ounces of silver to buy one ounce of gold. This indicates just how out of kilter precious metals prices are compared to historical averages.

Over the last 100 years, the ratio has averaged 47 ounces of silver to one ounce of gold, while hitting a low of 17 ounces of silver at the height of the 1980 precious metals bull market to a high as 90 ounces of silver at the depths of the 1990 to 1991 recession. Even at the height of the gold bull market in early September 2011, only 44 ounces of silver were required to buy one ounce of gold.

Clearly, one of two things can happen to address this disconnect, gold can fall further in relation to silver or silver will appreciate at a far greater rate than gold in order to close the gap. I believe it is the second that is more likely, with growing industrial demand and supply shortages set to push silver prices higher.

If the ratio rebounded to the 100-year average, with gold now trading at $1,215 an ounce silver should be trading at $26 per ounce, which represents 50% upside over its current price of $17.25 per ounce. Should the ratio narrow to where it was at the height of the last gold bull market, then there is 65%

upside on offer and I believe it could narrow even further because of those supply-side constraints mentioned earlier.

Some of the world's largest and smartest money managers have already caught on to this making big bets on a rebound in silver prices through investments in primary silver miners. This includes the world's second-largest primary silver miner **Pan American Silver Corp.** (TSX: PAA)(Nasdaq: PAAS), with Wall Street money managers John Hussman, George Soros, and Ray Dalio in on the game.

They have also taken a particular liking to precious metals streamer **Silver Wheaton Corp.** (TSX: SLW)(NYSE: SLW). This is no surprise. Its low-cost operating structure endows it with better margins than the silver miners while still giving investors leveraged exposure to the price of silver.

Obviously, Wall Street insiders see an impressive rally ahead and this is no surprise given the distinct disconnect between silver and gold prices, making now the time for bargain-hungry investors to invest.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

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

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