



Why Silver Is Poised to Hit \$50

Description

In the next few years, you could make triple-digit gains in one of the world's most hated commodities: silver.

You won't get rich quick. But as I'll show you today, higher prices are almost inevitable. And before the run is over, we could see spot rates triple or more.

Let me explain...

The past few years have been hard for resource investors. Since the summer of 2011, spot gold prices are off more than 35% from their peak. And as we have written about a lot here at Fool Canada, gold miners are struggling just to keep the lights on.

But business is down right boomin' compared to the silver space. Since prices peaked in 2011, spot rates are off more than 65%. Small miners are going out of business left and right.

However, this situation has left silver cheap relative to gold. In April 2011, gold traded for 32 times the price of silver. However, as of the close on Monday, the gold-to-silver ratio has passed 67.

That's out of whack with the long-term averages. Historically, an ounce of gold could buy you between 20 and 25 ounces of silver. But as you can see in the chart below, we're not even close to those levels.

[gold/silver](#) and or type unknown

Source: *Index Mundi*.

Based on historical averages and with spot gold prices around US\$1,250 per ounce, the price of silver should be around US\$40 and US\$50 per ounce today. But on Monday, silver closed the last trading session at just US\$17.50 per ounce.

This means that silver is cheap. To return the ratio back to normal, either gold prices will drop or silver

prices will have to rise. And it's far more likely that silver prices will rally.

Why? Silver is useful. The metal has thousands of commercial applications. And once it's used, silver is gone forever. It's just too costly to recycle the tiny bit in each computer or cell phone.

Silver demand is also strong, especially in Asia. For example, **Thomson Reuters** reported India imported more than 175 million ounces last year, up more than 160% from 2012. That's a giant figure when you consider the world's total silver output totaled only 1 billion ounces in 2013.

Some of the world's best investors are also betting big on silver. SEC filings revealed a big uptick of buying activity in a number of silver miners last quarter, including **Pan American Silver Corp.** (TSX: PAA)([NYSE: PAAS](#)) and **Endeavor Silver Corp.** ([TSX: EDR](#))([NYSE: EXK](#)). Because their costs are mostly fixed, these companies serve as leveraged bets on higher metal prices.

Billionaire investor George Soros is also bullish on silver. In a recent SEC filing, the stock shark disclosed a US\$9.1 million stake in **Silver Wheaton Corp.** (TSX: SLW)(NYSE: SLW). This is expected given that the company has more reserves than any other silver miner on Earth.

Needless to say, silver is not for the risk-averse investor. But if you have the conviction to hold on for the long haul, then this trade looks attractive. I recommend adding at least one of these miners to your portfolio today.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

1. NYSE:EXK (Endeavour Silver Corp.)
2. NYSE:PAAS (Pan American Silver)
3. TSX:EDR (Endeavour Silver Corp.)
4. TSX:WPM (Wheaton Precious Metals Corp.)

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