

THE SILVER SUMMIT (UK) – 9TH NOVEMBER 2006
NED NAYLOR-LEYLAND, SMITH & WILLIAMSON, London

SILVER – AN INVESTMENT MANAGER’S PERSPECTIVE:

Firstly, congratulations on the timing of your interest in silver, this is a good low-risk entry-point in terms of the long term Precious Metals Bull market.

What do I look for in an Investment for my clients?

Like all Investment Managers I primarily look for value (buy low sell high) and growth potential in the investments I look at. Silver comes up smelling of roses in this respect as the fundamentals are compelling. For example, the Chinese are currently using 1/90th of the silver per person in comparison to what we consume in the west.

Alongside this requirement to buy low and sell high I also require PROTECTION for my clients. When I say ‘Protection’ I mean protection against the asymmetric risks that lie under the surface of the geopolitical and geo-economic background. I will briefly highlight some areas that concern me in this respect, things which all lead me to seek monetary protection for my clients:

1. Monetary and Price Inflation.
2. The \$330 Trillion Global Derivative market
3. Twin US Deficits
4. The bubble in consumer credit and housing (UK housing divided by average income is more than 4 standard deviations above its mean)
5. GSEs in the US not filing financial statements
6. Central Bank Gold Swapping and Leasing
7. War
8. High Energy Prices
9. US State of National Emergency
10. Intervention by the Working Group on Financial Markets and Investor complacency

AND

11. Kakistocratic Government (Government by the least qualified and /or most unprincipled citizens) !!

Seemingly these issues don’t overly concern the mainstream investment community however personally I like Silver as an investment because it straddles both the Monetary Protection story and Growth potential.

If the Asian growth story continues one is well placed to benefit but also if macro stresses manifest as they appear likely to, the investor is placed in a ‘flight to safety’ asset class.

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SILVER'S USES BY METALLIC CHARACTERISTIC:

As is often stated, more patents are filed annually for silver than all the other metals combined. Food for thought.

Highest Electrical & Thermal Conductivity

- Switches and Contacts
- Superconductors
- Photovoltaics
- Car window heating elements
- RFID tags
- Military electronics/satellites
- Brazing and Solder alloys (Growth area due to the Non Hazardous Waste Directive)
- New Zinc/Silver batteries for laptops etc

Highest Optical Reflectivity

Aluminium and Rhodium are slowly eating into silver's dominance in this area

- Photography
- X-Rays
- Mirrors
- Office Windows (for reflecting sunlight)

Medical/Germicidal Usage

Silver has PERMANENT germicidal qualities, hence why for example the London Underground are looking at replacing handrails with a nano-silver coated material to stop the spread of germs – this application can be extended to public loos, kitchen surfaces etc

The germicidal nature of silver is something we are reconnecting with – before 1940s silver was one of the only known anti-bacterial medicines. Silver is not patentable by big pharma....draw your own conclusions.

'Born with a silver spoon in his mouth' is a reference to health rather than wealth and the frontiersmen of the US used to keep water and milk for longer by putting silver dollars in the storage containers.

- Water Treatment (Swiss municipal buildings use colloidal silver filters and chlorine in swimming pools can also be replaced with silver)
- Wood Treatment (Huge potential here, replacing use of arsenic in stopping mould and rot)
- Plasters/Catheters/Antibiotics
- 'B.O' Bashing textiles (!)
- White Goods (linings for fridges, dishwashers etc – see Siemens)

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Strategic and Critical Usage

The Military and Industry rely greatly on the supply of silver for the critical parts of many products (Examples – each missile uses 1 kilo of silver in the back-up battery alone) – which are then consumed and removed from the market.

For this reason silver is extremely Price Inelastic (it can take very significantly higher prices without being replaced by users) and for this very reason we come across the **Silver Users Association** (there is no users association in ANY other commodity) who have for nearly a century controlled the physical market in order to secure cheap silver for its members (GE/Dow/Dupont/Tiffany etc). The SUA recently opposed the launch of the BGI Silver ETF because

“A sudden enormous purchase of silver would be a severe strain on the markets liquidity”

- the good news is that the ETF **was** approved and in fact just applied for another 150million ounces of physical, so the SUA must be reeling by now thanks to even more extreme illiquidity in physical

Having covered the main body of silver usage (except as money and jewellery) let us now briefly focus in on some extra fundamental arguments:

FUNDAMENTALS

- There has been a continuous 30 year supply gap that is now at the point of exhausting remaining above-ground stockpiles.
- This gap cannot be easily filled due to the fact that that 90% of silver is mined as a by-product and there are no easily-available stockpiles to feed a shortage
- Stockpiles that were at around 3billion ounces in 1980 are now somewhere between 150 and 400 million ounces.
- There is an oversized short position on Futures exchanges (over a year of global production held in hands of only 4 shorts)
- The m/cap of physical silver (above ground) is 0.5% of Gold. Unlike Gold, Silver is absolutely critical to the continued growth of technology and consumerism, as well as being, like Gold, money.

To reiterate, Silver provides the investor with a natural straddle – the outstanding growth potential that silver shows in terms of fundamentals but also a hedge against the big-picture instability and imbalances that loom dangerously in the background.

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