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Are These Silver CEOs Insane or Just Buggy-Brained?

A Monday Morning Musing from Mickey the Mercenary Geologist

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You know their story as well as I.

Hard-core silver bugs *believe* that the so-called "poor man's gold" is still money. And some are apparently near-religious in their convictions that the United States of America should return to the bi-metallic monetary system that was established in 1792 and officially done away with in 1900.

The US was on a defacto silver standard for eleven years starting in1933 when Roosevelt devalued the dollar by 70% and made ownership of gold bullion illegal. In 1944, the Bretton Woods Agreement established the American dollar as the world's reserve currency backed by gold and ended that silver relationship.

Monetary silver's finality in the US of A occurred from 1964 to 1970 with a series of Congressional Acts that ended the redemption of silver certificates, first for silver coins then for bullion, and ceased the minting of silver coinage.

Once its value as money was extinct, silver became predominantly an industrial metal and has been exactly that over most of the last 50 years. 70% of new silver is a by-product of base metal or gold mining and production is largely dependent on the prices of these primary metals. 60% of the silver mined every year is now consumed by industrial applications with 40% used for jewelry, silverware, coins, and metals.

Although silver functions mainly as an industrial metal, it is strongly tied to the price of gold and is generally more volatile during upside and downside moves of the yellow metal. In times of financial distress and economic calamity, silver tends to behave more like a precious metal with widespread hoarding and speculation trickling down from the gold market.

Silver aficionados are adamant that the gold to silver price ratio should be less than 20:1. Their argument is based on the silver content in the Earth's crust at about 16 or 17 times that of gold and the ratio of silver to gold mined per year is around 9:1.

Accordingly, they claim it is not a matter of "if" but "when" the price ratio will revert to its *normal* level of 16:1. Because this ratio has not happened since 1884, the silver promoters cry "market manipulation". They apparently don't savvy that 16:1 was a product of government manipulation.

In my opinion, this is an illogical idea that ignores historical precedence for gold and silver values.

It is indeed true that over the 228-year history of American money, the gold to silver ratio was less than 20 for 97 of those years. That is 42% of the time but let's take a closer look at the facts:

- 93 of those years occurred when the price ratio of gold and silver was fixed by fiat at 15:1 (1792-1833) and then 16:1 (1834-1884).

Outside of this 93-year period when gold and silver prices were government-controlled, annual gold to silver ratios of 20:1 or less occurred only over four other years. These anomalous ratios were mostly caused by extraordinary government interventions designed to either boost or reign in the price of silver.

- In 1890, Congress, in a disastrous attempt to raise the price of silver, required that the US Treasury purchase domestic silver bullion, mint coins, and issue redeemable paper certificates. This Act led directly to the Panic of 1893.

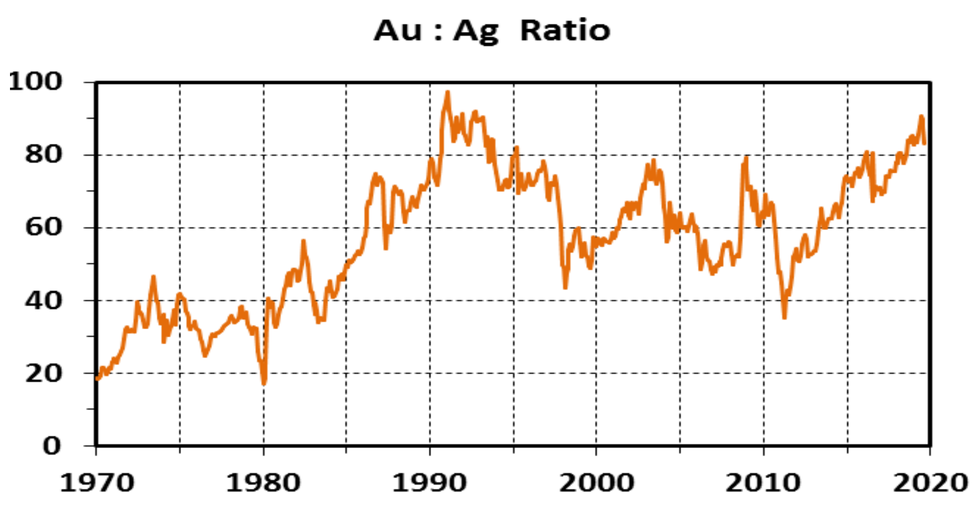
- With gold at a fixed price and huge debts from World War I piling up, a brief surge in the silver price occurred in 1919 but was unsustainable.

- In 1967 and 1968, Congress allowed the price of silver to float freely after five years of price suppression and failed attempts to prevent hoarding and melting of coins. These were the last two years when silver bank notes issued in various tranches from 1878 to 1957 were redeemable in bullion. Silver bounced above $2.00 and the gold-silver ratio dropped precipitously during this period.

In addition to the yearly ratios, monthly gold to silver ratios were less than 20 in the first half of 1970. Note this was when the dollar was collapsing and the official $35 per ounce gold price was no longer working. It was a year prior to Nixon's first in a series of three executive orders that ended Bretton Woods, the gold standard, and floated the dollar against other world currencies.

During the failed attempt by the Hunt Brothers to seize control of the world silver market in early 1980, the gold to silver ratio was less than 20 for two months.

Here's our chart of monthly average gold-silver ratios since 1970:



We are now three months shy of a 50-year record of freely-floating gold and silver prices; the mean gold-silver ratio is 56.9 and the median is 58.6.

Note that both of these statistical measures are somewhat skewed to the low side because we have chosen to include abnormally low values during 1970 and the first half of 1971. This 1.5 year period illustrates conditions prior to the beginning of US executive actions to abandon the gold standard.

When the price of silver spiked to its all-time high in April and May of 2011 before quickly cratering, the monthly gold-silver ratio briefly fell below 40 for the first time in nearly 28 years. Folks, that's more than twice the previous low established during the Hunt Brothers' debacle.

Certainly the current gold -silver ratio in the mid-80s is highly anomalous, and I would expect it to drop going forward.

But based on the nearly 50-year record, I suggest that the gold to silver price metric has entered a completely different paradigm post-global economic crisis of 2008-2009. The case can be made that we have seen the last of abnormally low gold to silver ratios in the mid- to upper teens, 20s, 30s, and perhaps the 40s.

Some CEOs of struggling silver miners with obviously vested interests have repeatedly forecast prices of $50, $100, $175, and even $300 or $1000 for an ounce of silver over the past three years. I don't need to name names because if you don't already know who these people are, little due diligence is required.

Let's explore the ramifications of outrageously high silver prices predicted by the aforementioned CEOs. In the table below, we have listed various silver prices, the range of gold to silver ratios over the past eight years, and the resulting gold price.

We have ignored predictions of $300 and $1000 per ounce for silver and can speculate this particular CEO was in some altered state of mind when he suggested them.

Ag Price	$20	$50	$100	$175
Au : Ag	**Au Price**			
50	$1,000	$2,500	$5,000	$8,750
60	$1,200	$3,000	$6,000	$10,500
70	$1,400	$3,500	$7,000	$12,250
80	$1,600	$4,000	$8,000	$14,000
90	$1,800	$4,500	$9,000	$15,750

There is no doubt that a $20 silver price is reasonable and seems likely occur in the near term. But I think the higher predictions go from improbable to ridiculous to ludicrous.

So folks, here's the really bad news:

Were gold to reach $2500, $5000, or $10,000 per ounce in the foreseeable future implies that the economic system is on the verge of collapse, the US dollar is in hyperinflation mode and/or is no longer the world's reserve currency, and resource and/or religious wars are raging across the planet.

These buggy-brained or perhaps certifiably insane silver CEOs should be careful what they wish for. I trust each has a bug-out bag by the door, and lots of gold, guns, gas, and goods stashed wherever he/she/it plans on staging a last heroic stand as the world regresses to survivalist lifestyles.

The good news is that a $100, $175, $300, or $1000 per ounce silver price in my lifetime (or yours) is about as probable as this:

Ciao for now,

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Acknowledgment: Lukas Smith is the research assistant for **MercenaryGeologist.com**.

The **Mercenary Geologist Michael S. "Mickey" Fulp** is a Certified Professional Geologist with a B.Sc. in Earth Sciences with honor from the University of Tulsa, and M.Sc. in Geology from the University of New Mexico. Mickey has 40 years of experience as an exploration geologist and analyst searching for economic deposits of base and precious metals, industrial minerals, uranium, coal, oil and gas, and water in North and South America, Europe, and Asia.

Mickey worked for junior explorers, major mining companies, private companies, and investors as a consulting economic geologist for over 20 years, specializing in geological mapping, property evaluation, and business development. In addition to Mickey's professional credentials and experience, he is high-altitude proficient, and is bilingual in English and Spanish. From 2003 to 2006, he made four outcrop ore discoveries in Peru, Nevada, Chile, and British Columbia.

Mickey is well-known and highly respected throughout the mining and exploration community due to his ongoing work as an analyst, writer, and speaker.

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