THE BEGINNER'S GUIDE TO SILVER

KATUSA RESEARCH SPECIAL REPORT

KATUSA RESEARCH

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The First City of Capitalism: Silver's Time to Shine

"For the powerful emperor, for the wise king, this lofty mountain of silver could conquer the world."
-King Felipe II 1561.

Powered by an intricate set of 22 dams, 140 mills churned out silver. It was an impressive feat of engineering given the time.

Slaves were forced to carry 25 loads of 100-pound sacks per day.

At an elevation of 13,000 feet, death was a frequent occurrence as pneumonia and respiratory infections were rampant.

Legend says you could build a bridge from Potosi to Madrid with all the silver mined, and one back with bones of miners.

- **The discovery of Cerro Rico (Spanish for "Rich Mountain") turned a tiny Bolivian village into the 4th largest city in the Christian world in 70 years.**

Coined the "first city of capitalism" Potosi was home to the world's richest silver deposit. Over a 200-year period, 1.4 billion ounces of silver was mined from the region.

At its peak in the 17th century, over 150,000 Bolivians, African slaves, and Spanish settlers called Potosi home. At the time, the population of Potosi was larger than London, Milan, or Seville.

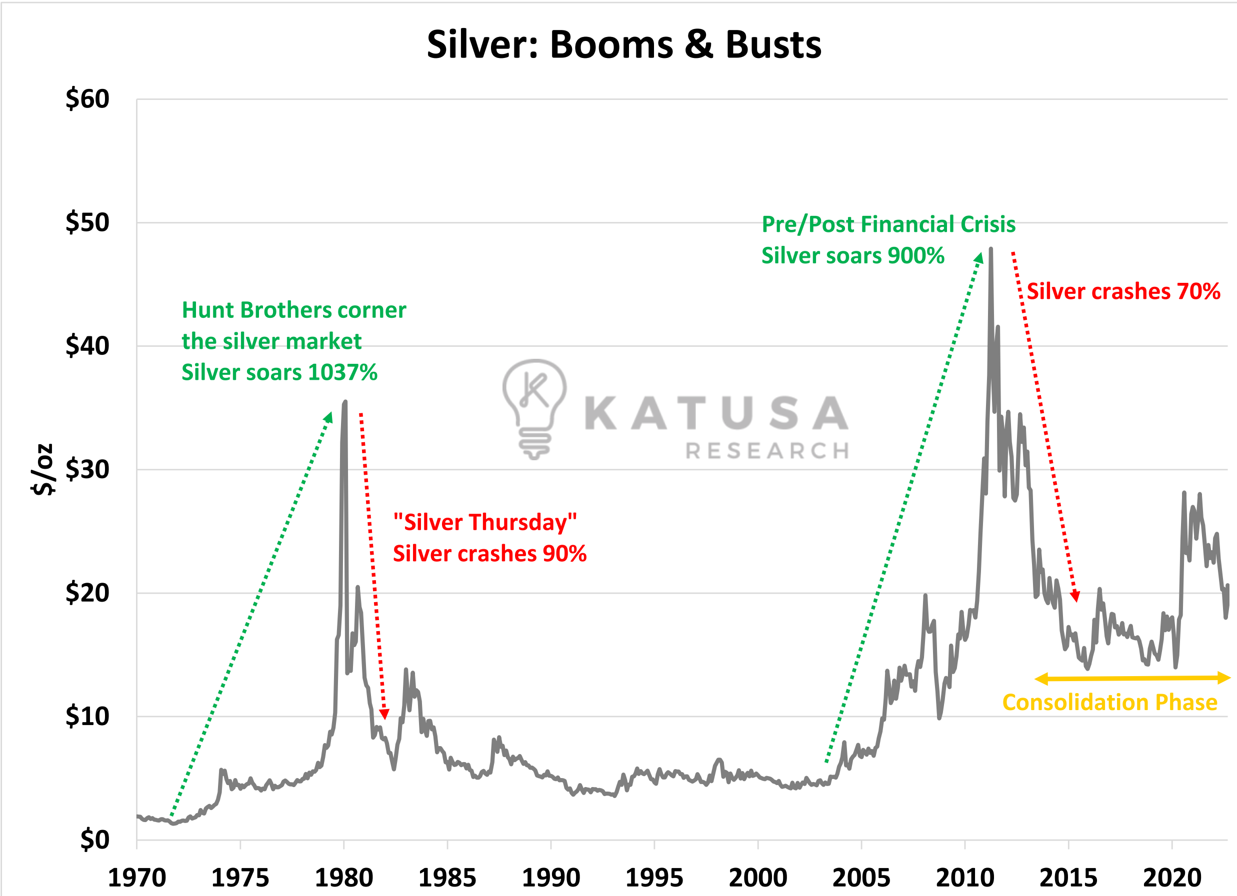
<u>Silver has no shortage of war and fortune making stories.</u>

From the days of the Hunt Brothers cornering the silver market…

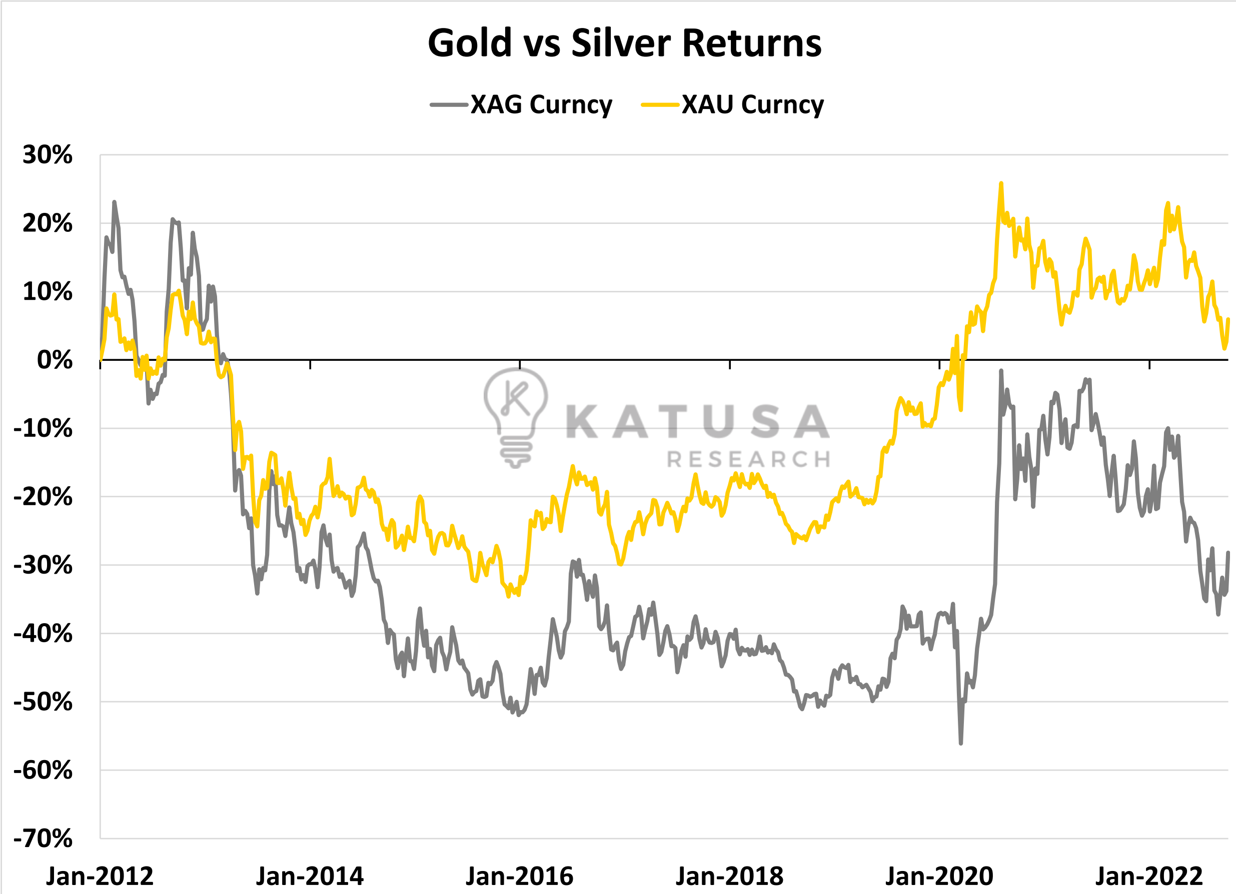
To Warren Buffet buying 112 million ounces of silver calling it "for investment purposes" rather than outright cornering…

To the JP Morgan short position…

The booms and busts of silver have truly been exceptional, putting the testicular fortitude of even strongest silver bugs to the test.



Much to the rage of silver bugs, while gold has steadily grinded higher over the past few years, silver was left behind Over the last 10 years, gold is 6%, while silver is down nearly 30%. From 2012 through 2017, returns were reasonably inline, but the last 5 years the returns have decoupled considerably.



How Do You Invest in Silver?

Physical Silver

One of the main ways to invest in silver is to own high-grade physical silver.

This can take the form of either silver coins or bars which are known as bullion. The word bullion comes from the French word "bouillon" (boiling), based on the melting houses which created the bars and coins from raw material. As the value increases over time, the owners investment grows.

There are several reasons that people do this. For one it serves as a shelter from an economic downturn. The idea is that if currencies fail, precious metals will hold their value and in the most dire of circumstances (think Zombie apocalypse) could even be traded for goods.

Physical silver is purchased from a dealer - usually in the form of a coin or bar.
The main downside to this form of investment is the cost it takes to store the silver. It physically needs to be housed somewhere and security measures may need to be put in place.

When you own silver bullion, there's always the risk that the silver could be stolen or damaged in a disaster. Having the silver stored in a safe deposit box at a bank may add a layer of protection against that, but also comes with additional costs.

Another downside to dealing with physical silver is that dealers charge a fee when they sell and buy the product. So there will be a cost to the transaction. Because of this, people should view buying silver bullion as a long term investment and avoid buying and selling frequently.

Physical Silver ETFs (Exchange Traded Funds)

If someone wants to invest in physical silver but with the option of being able to sell it more quickly and easily, then exchange traded funds may be the best option.

By investing in these funds, you're essentially buying into funds that hold physical silver or silver futures. There are management fees associated with this model, but it makes buying and selling easier.

And it takes away the risk to the investor of having a physical pile of silver they have to safeguard.

If you're someone who is looking at a more short term investment, this is definitely the preferred way to invest as opposed to the long term commitment recommended for physical silver.

Silver Mining Stocks

Another popular way to invest in silver is to invest in a mining company itself. This form of investing exposes an investor to the risks and rewards of a particular company or companies.

If you're going to invest this way, you need to remember your investment is only as good as the company or companies you're investing in. The level of risk and reward increase with this form of investing, so it's important to know who you're investing in. If the mine ends up closing either from a disaster, mismanagement or depleted resources investors will lose. On the other hand, if the company takes off, investors will prosper.

Streaming Companies

Another option is to invest in silver streaming or royalty companies.
A royalty, by the simplest definition, is when a company pays money upfront in exchange for a guaranteed percentage of future revenue or profit.

Unlike a stock investment, it isn't tied to the perceived value of the company but instead, to what it's actually producing.

Closely related, but slightly different from a royalty, is a stream. Like a royalty, a stream involves a company paying money upfront.

Unlike a royalty however, instead of receiving a percentage of the revenue, streams receive a percentage of the actual product produced – in the case of a silver stream, that would be the physical stream produced.

Companies that focus on building portfolios of royalties and streams are called royalty companies. Despite the name, royalty companies can own both royalties and streams in their portfolios.

When it comes to the mining industry, a royalty company often fronts the money for developing and building a mine. Once the mine is built and rocks are coming out of the ground, that's when the royalty company will start making their money back.

In summary:

- A royalty is when the company receives a percentage of revenue or profit.
- A stream is when the company receives a percentage of production.
- Royalty companies can own both royalties and streams.

Silver Producers

Silver is produced in open pit and underground mines.

With open pit mines, heavy machinery is used to literally dig an open pit to access silver near the surface.

Underground mines, as the name suggests involves drilling tunnels underground to access silver.

While occasionally silver nuggets have been discovered, silver is rarely found in a pure form. It is far more common to find it located in deposits of sulfide ores. It is often found alongside other metals like copper and lead and zinc. Because of this, only 28 percent of silver comes from mining that is done with the primary goal of obtaining silver. More often, it is a byproduct from mining done for other metals like lead.

Once the alloys are mined, they go through a refining process to separate them. Which method is used depends on which metal the silver is found located with. If silver is found with ore containing zinc, the most common method is known as Parkes Process. In this process the ore is heated to a melting point and then cooled. A crust of zinc and silver then forms at the top. From there, a distillation process is used to remove the silver from the zinc.

If silver is located with copper ore, the most common practice is to use an electrolytic refining process. An electrolytic process involves using electricity and an electrolyte solution to cause the silver to separate.

The Top Silver Producers

While there are many silver producing countries in the world, Latin America is far and away the largest producers with Mexico at the top of the pack. In 2019 the country produced 6,300 metric tons of silver.

The largest silver producing countries based on 2021 stats are as follows:

1. Mexico
2. Peru

3. China
4. Russia
5. Australia

The Silver Lining

Change may be afoot.

The "anything it takes" economic policy of central banks and governments around the world is shaking things up across the spectrum of investment types.

Since March 23, 2020 silver has been one of the top-performing major commodities, outperforming gold by a significant margin.

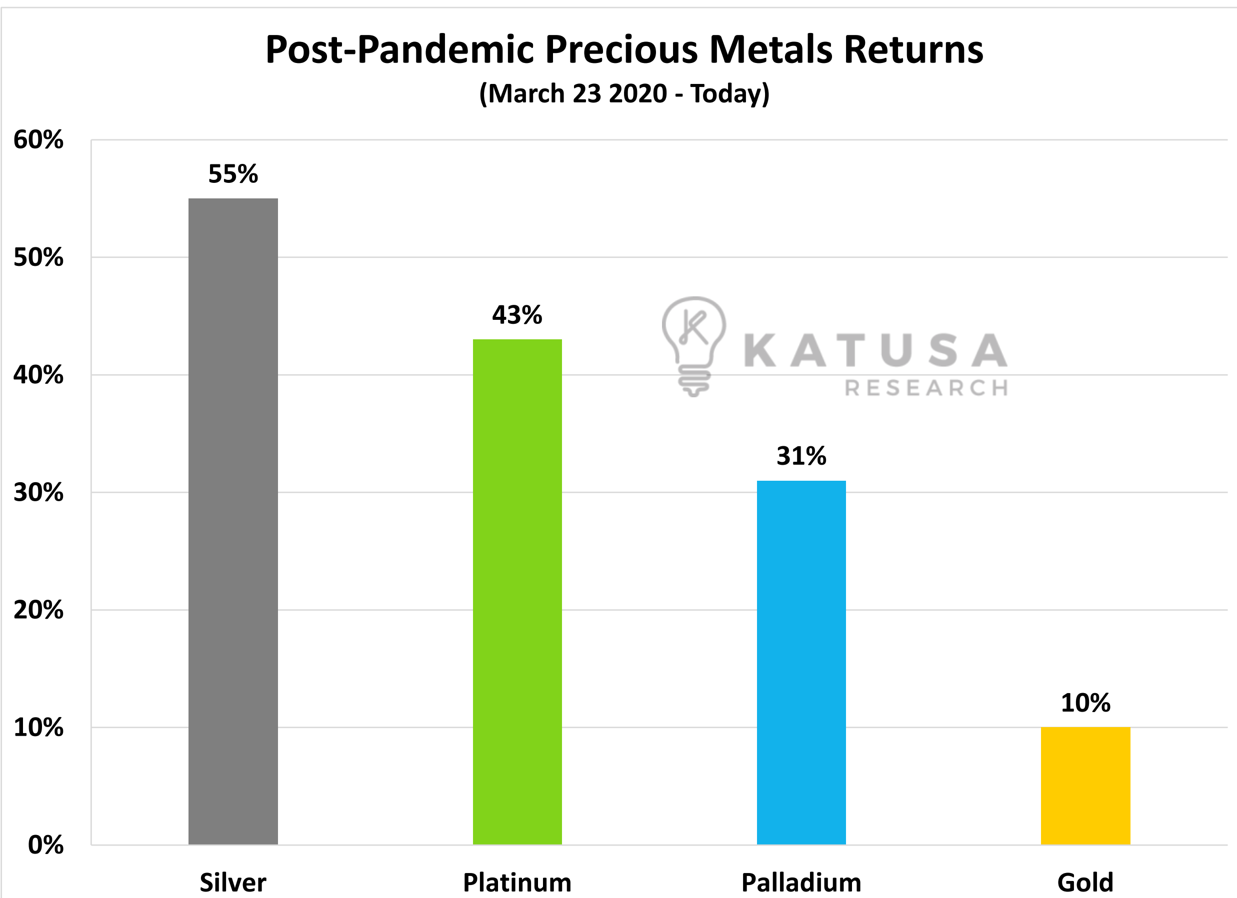


Chart updated Nov 2022

Will Silver Stocks Follow Silver and Take Off?

So far, they haven't.

Below is the returns comparison so far since March 23rd, 2020 (the meltdown lows)… As you can see, even though silver has outperformed gold, silver miners have lagged considerably.

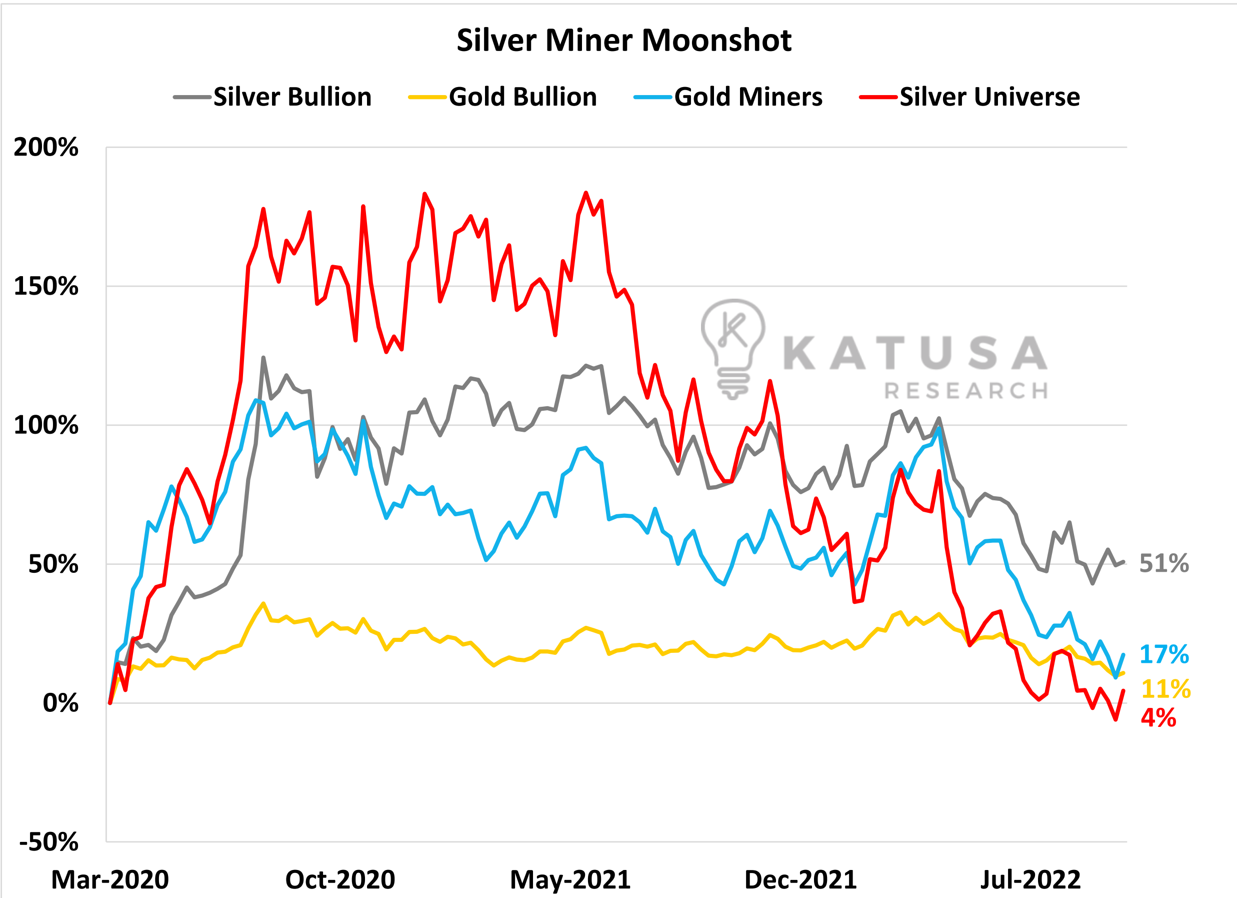


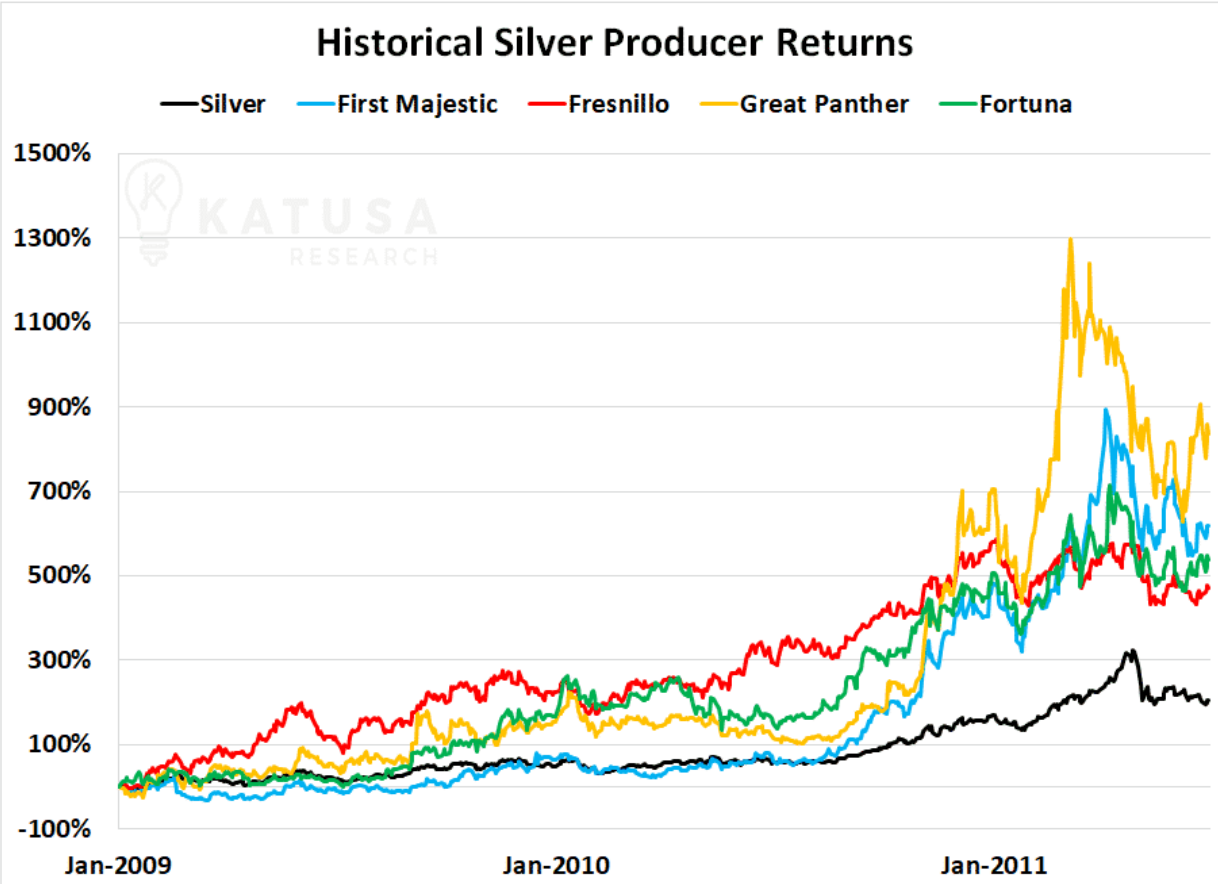
Chart updated Nov 2022

- **However, looking back in history… when silver miners move, they move BIG.**

Below is a chart which shows large silver producers from 2009 to 2011, during the last big run.

You'll see that while silver surged 300%, producers at the time were up 500% or more. Even Fresnillo, the world's largest silver producer was up over 500%.

Many small cap producers were up over 1,000% during the run.



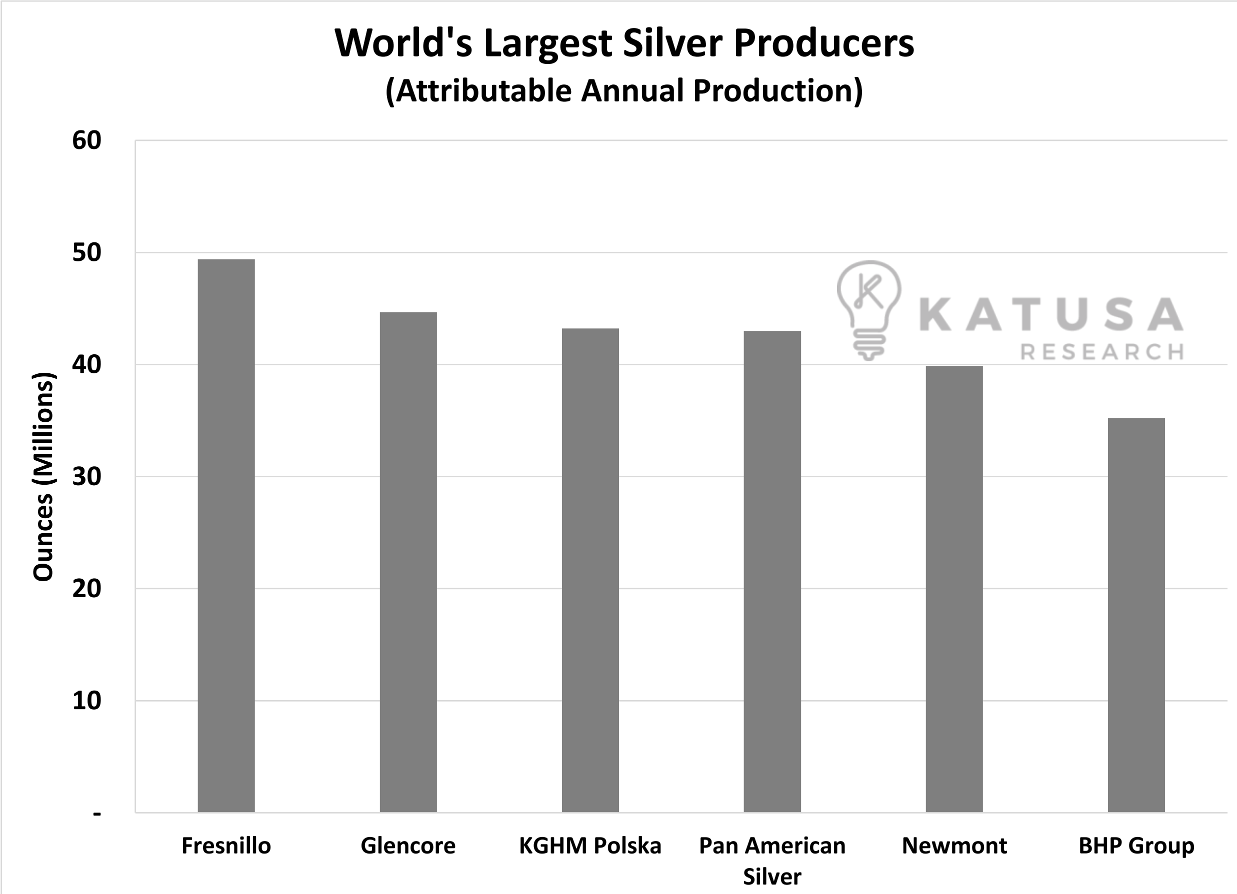
You can see how the right silver stocks can produce mind-boggling leveraged gains over the spot price of silver.

Who are the Largest Silver Producers?

Fresnillo, the pride of the Mexican mining industry is the world's largest silver producer.

The company is solely focused on silver production. As you'll see in the list below, many of the other largest silver miners, are actually gold and base metal producers.

Many investors might find it odd that a "gold" company churns out the most silver, but it's true. Below is a chart which shows the expected top 6 silver producers.



The reason is silver is very plentiful and found in many types of base metal mines. For example, it is very common to have a zinc-lead-silver deposit.

What's Next for Silver?

Silver is useful both at the industrial level and as a store of value, just not to the extent as gold. This has the potential to be a double whammy for prices when things heat up.

In theory, depreciating currencies should help stores of value like silver and gold.

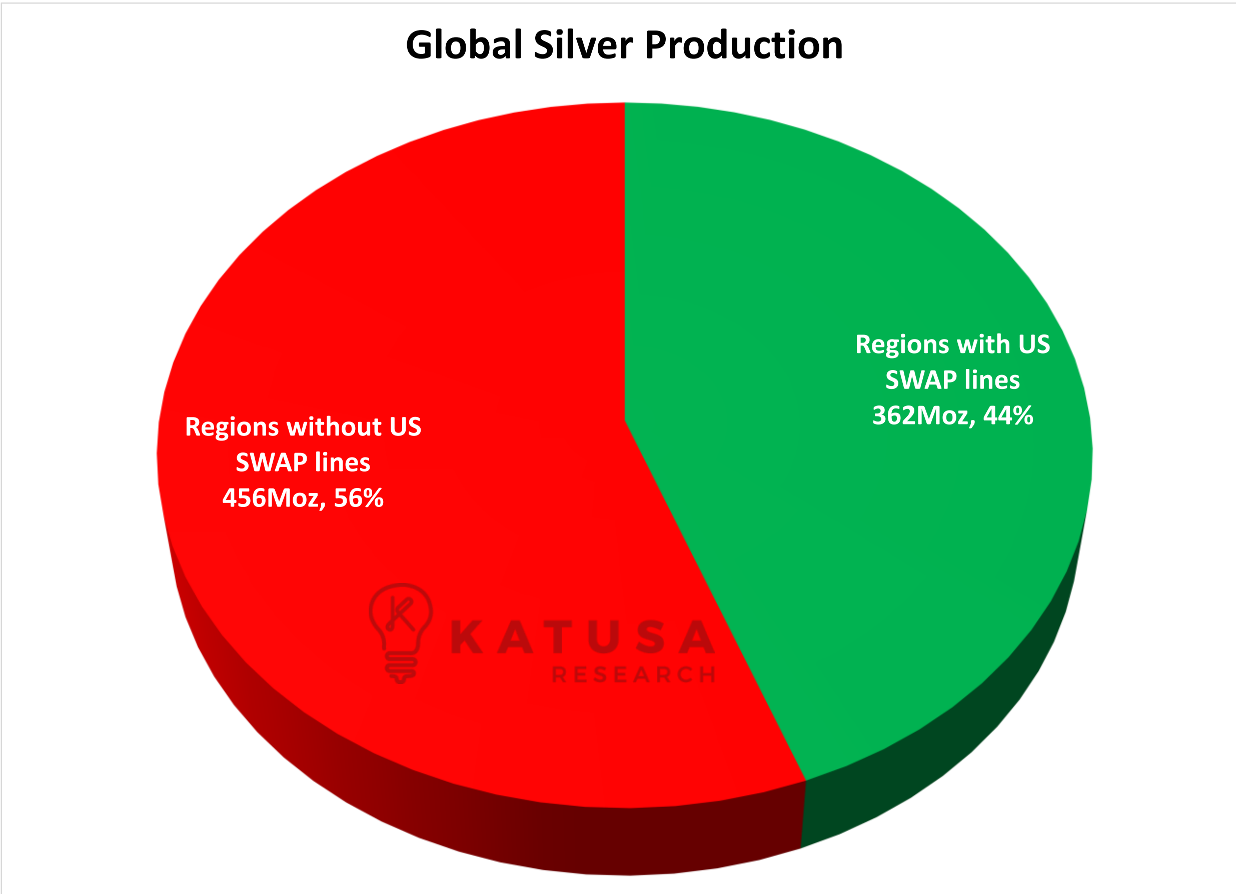
At the same time, the "anything it takes to keep the economy going" approach by the central banks is positive for industrial uses. It's not unreasonable to think that silver could catch a bid. And soar.

As always in natural resource speculations,

- **You need to be invested in the right projects and management teams or you and your investment will be left in the dust.**

Did you know over half of the world's silver production is produced in regions without US-SWAP lines? Yes, over half of the world's silver comes from -SWAP Line Nations.

I believe the US SWAP lines will play a huge role in mine production and company valuation moving forward.



Is Silver on the Brink of a Major Move?

It's a well-known strategy in cycling to win races.

Cyclists ride in a peloton formation to conserve energy by drafting behind lead riders.

The cyclists take turns being in the front and spending most of the energy. But for the riders behind the leaders, the resulting decrease in air resistance – drag – is incredible.

In a race where winners and losers are separated by seconds, this strategy can reduce drag by 5-10%.

Stretch that reduction over hundreds of miles and the amount of energy saved adds up – in a big way. This allows riders to sprint to the front with much more energy.

Right now, it feels very much like gold is leading the precious metals pack at the front of the peloton.

Could silver be conserving its energy looking to make a sprint to the front of the pack?

Let’s Start with Silver 101

Silver (or ‘Argentum’ in Latin) has been a prized metal since antiquity.

Though too brittle to forge swords or armor, its luster and rarity made it a prized medium of exchange.

Powerful empires from Ancient Rome to Imperial Spain couldn’t mine enough of it.

Silver coins became the unit of account in many important currencies: the Greek Drachma; the Roman Denarius, the Islamic Dirham and the Spanish dólar.

Here is a cool side fact for all the silver bugs out there…

It was the Spanish dólar, with its standardized dimensions, that inspired Treasury Secretary Alexander Hamilton to adopt the United States Dollar as the currency of the newly-founded United States of America.

Nowadays, Silver has one thing that gold does not – affordability and abundance.

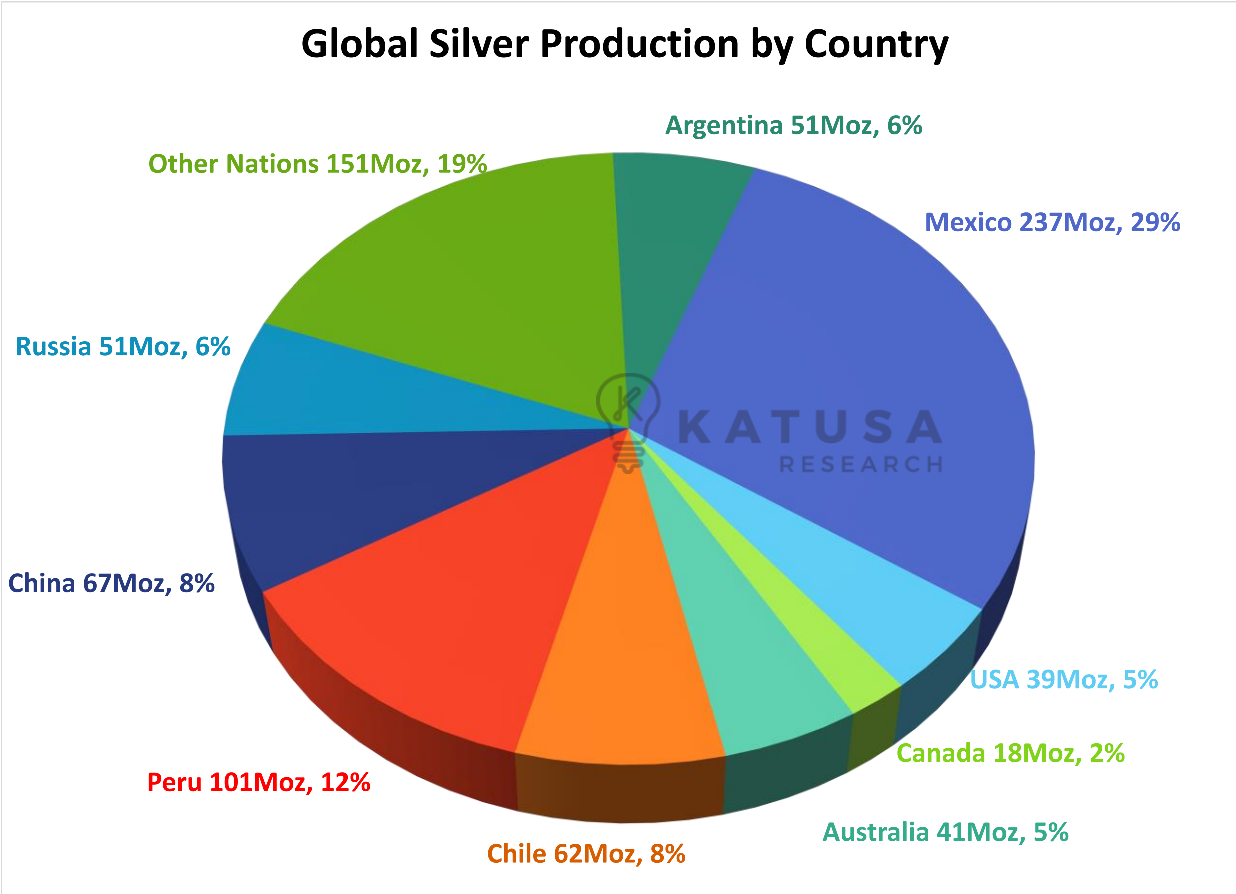
Over 60% of silver is used in industrial applications, with the residual sub 40% used in jewelry and silver bullion. There’s certainly an argument to be made that silver is a base metal that likes to pretend that it’s still precious.

What Are the Largest Silver Producing Countries?

Half of the world’s silver production comes from Latin America, or Silver CAMP: Chile, Argentina, Mexico and Peru.

And let’s not forget Guatemala will become a major producer once my buddy Ross Beaty starts up the Escobal silver mine. It truly is one of the world’s most attractive primary silver mines.

Below is a chart showing global silver production by country.



Normally, production deficits are a positive for prices. However, the fact that 75% of silver's demand is used for industrial and commercial purposes is likely crippling its safe haven demand.

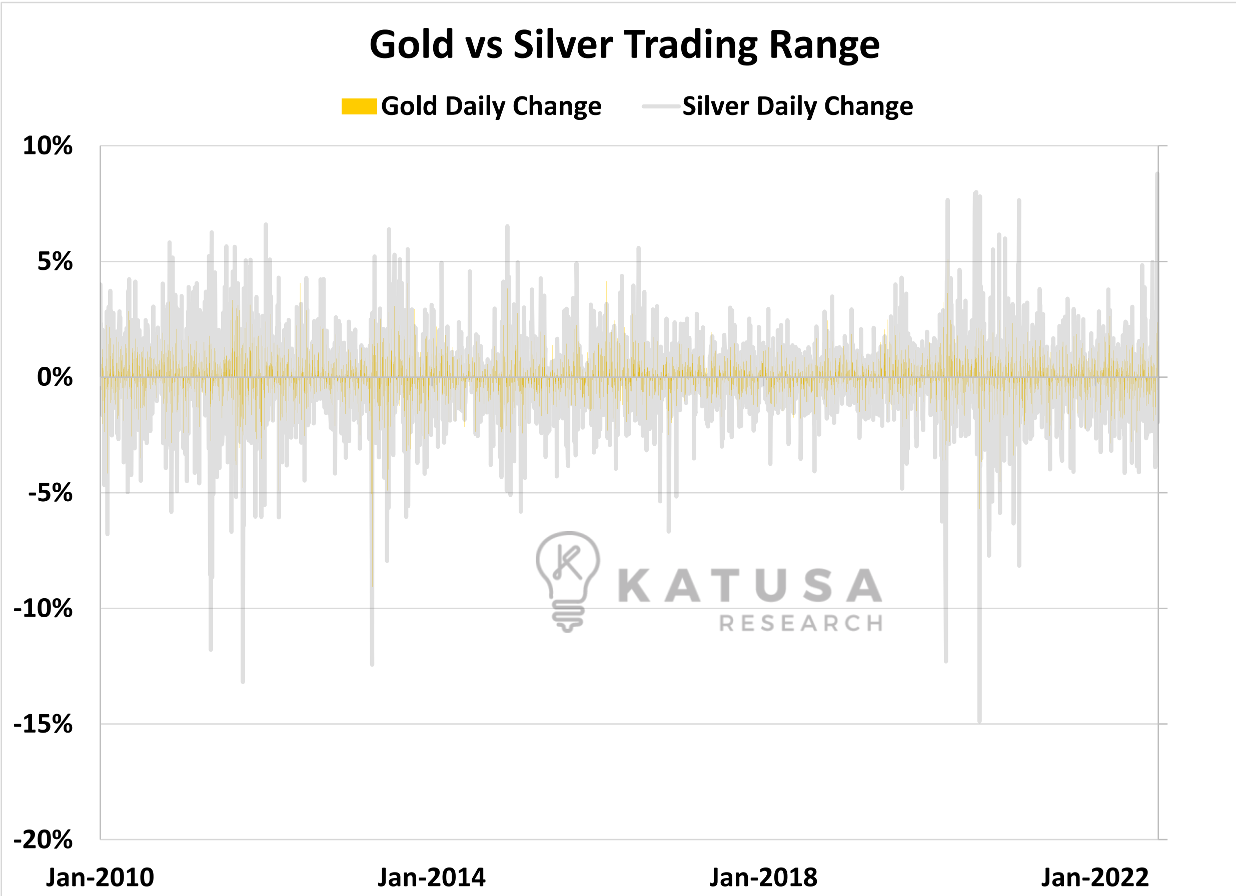
- **This is one of the reasons why silver hasn't been performing as well as gold or US Treasuries to date.**

But there's another reason why most portfolio managers won't put 'silver' in the same breath as US Treasuries, Japanese Govt Bonds, US Dollars and Gold…

That's because, it's simply too volatile to act as a hedge.

For this, we can instead look at the magnitude of daily price changes (both positive and negative) for both assets.

In the next chart, you can see the volatility of how silver prices have much higher daily percentage gains and losses than gold over the last 10 years.



For the mathletes out there, silver's standard deviation of daily price change is 1.9%, relative to gold which has a daily price change standard deviation of 1.1%. This means it is expected over the long term that silver's daily price changes will be considerably more volatile than gold's.

Do Central Banks Hoard Silver?

In short, no. Sorry Silver Bugs.

Central banks don't deem it stable or valuable enough to hold as foreign reserves.

Also, the value of reserves per square foot in the vault is massively inefficient compared to gold.

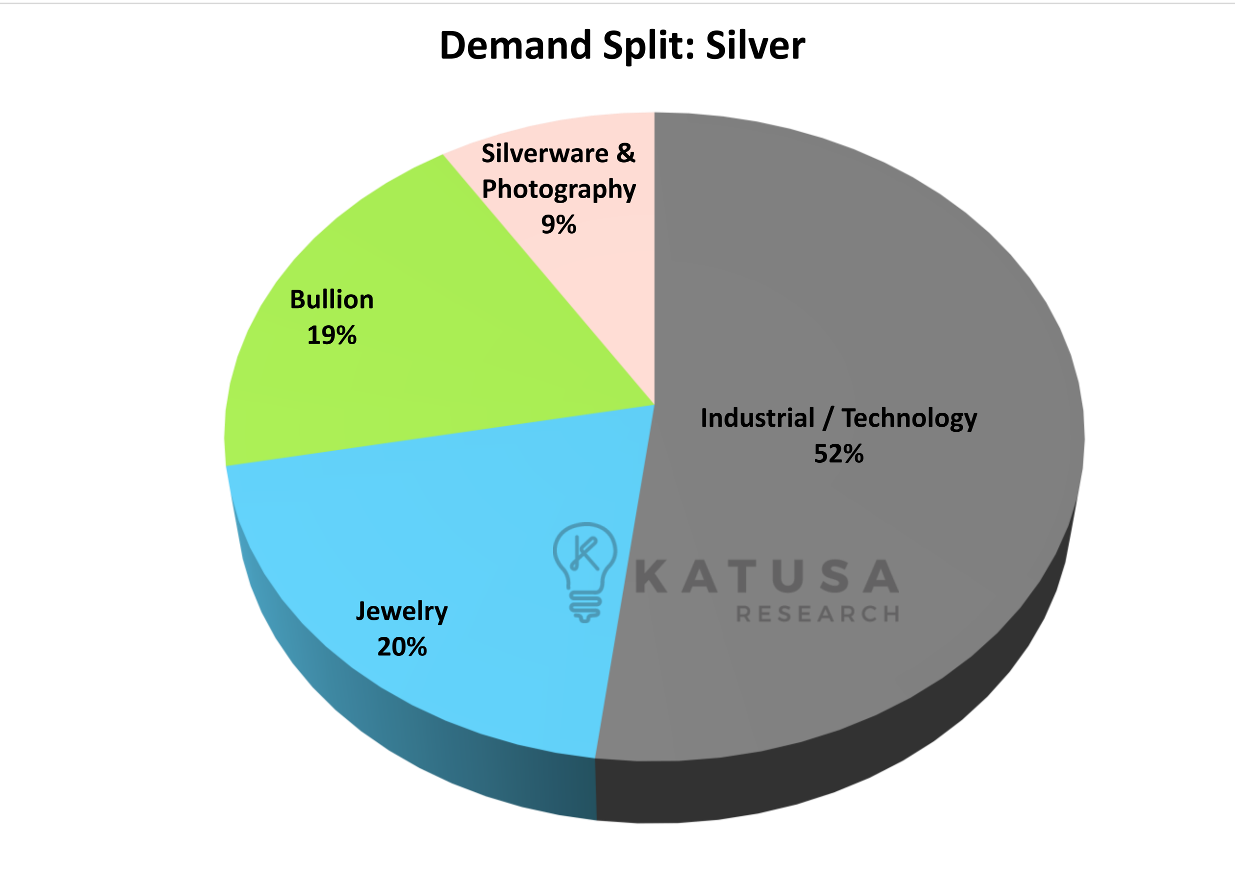
For gold, up to 47% of annual gold demand is for investments – including central bank foreign exchange reserves.

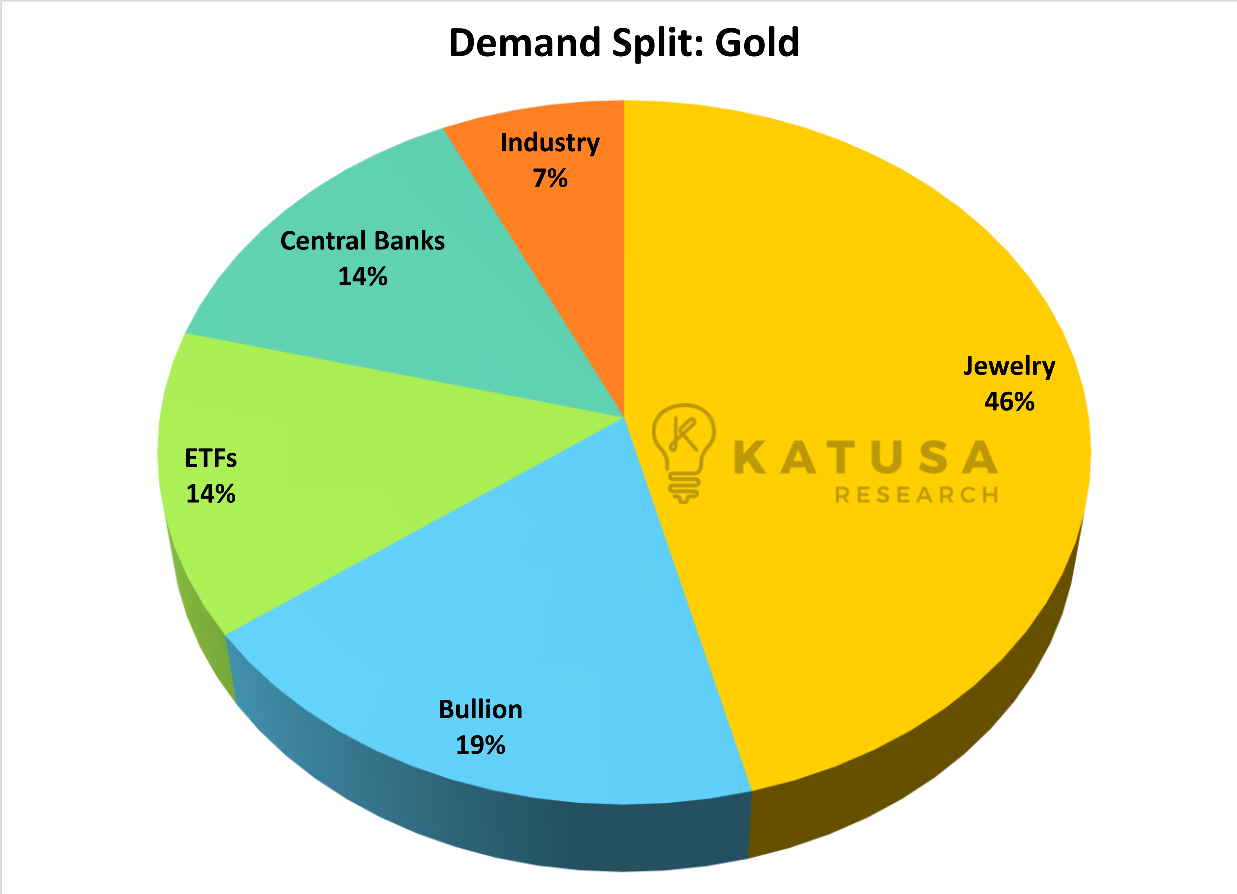
Gold Demand vs. Silver Demand

Gold prices are primarily determined by its demand as an investment (think store of value).

On the other hand, silver prices are as much determined by industrial and commercial users than investors.

It's also worth noting that the investment market for silver is substantially smaller than gold's. In 2019, ~$4.3B worth of silver produced went to investments in physical products or ETFs. This figure was $62.7B for gold produced in 2019.





Which Precious Metal Peaks First?

Looking back at the historical data, it's clear that silver peaks first before gold.

And true to its volatile nature, it does so far more dramatically.

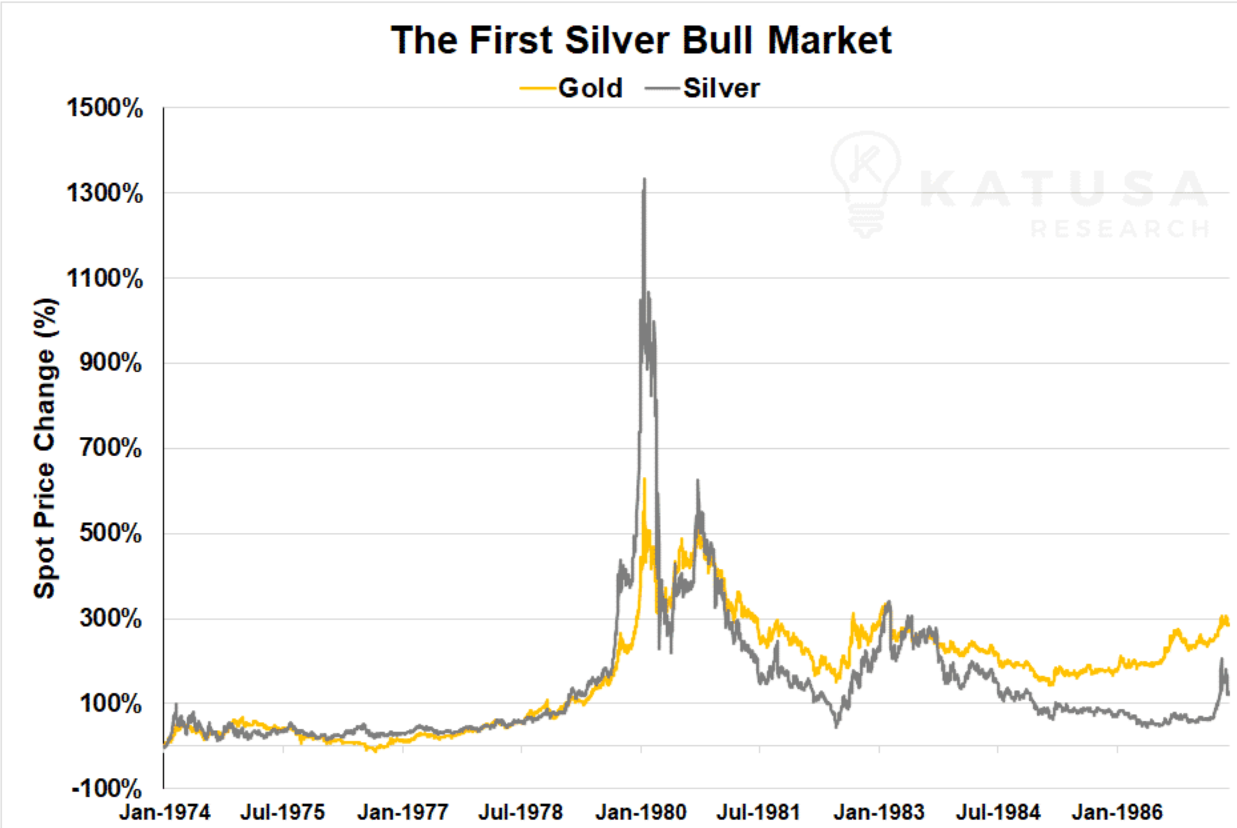
Silver's outstanding performance, relative to gold, can best be seen from January 1974 – May 1987; and most recently from Nov-2010 to April 2013.

But today…

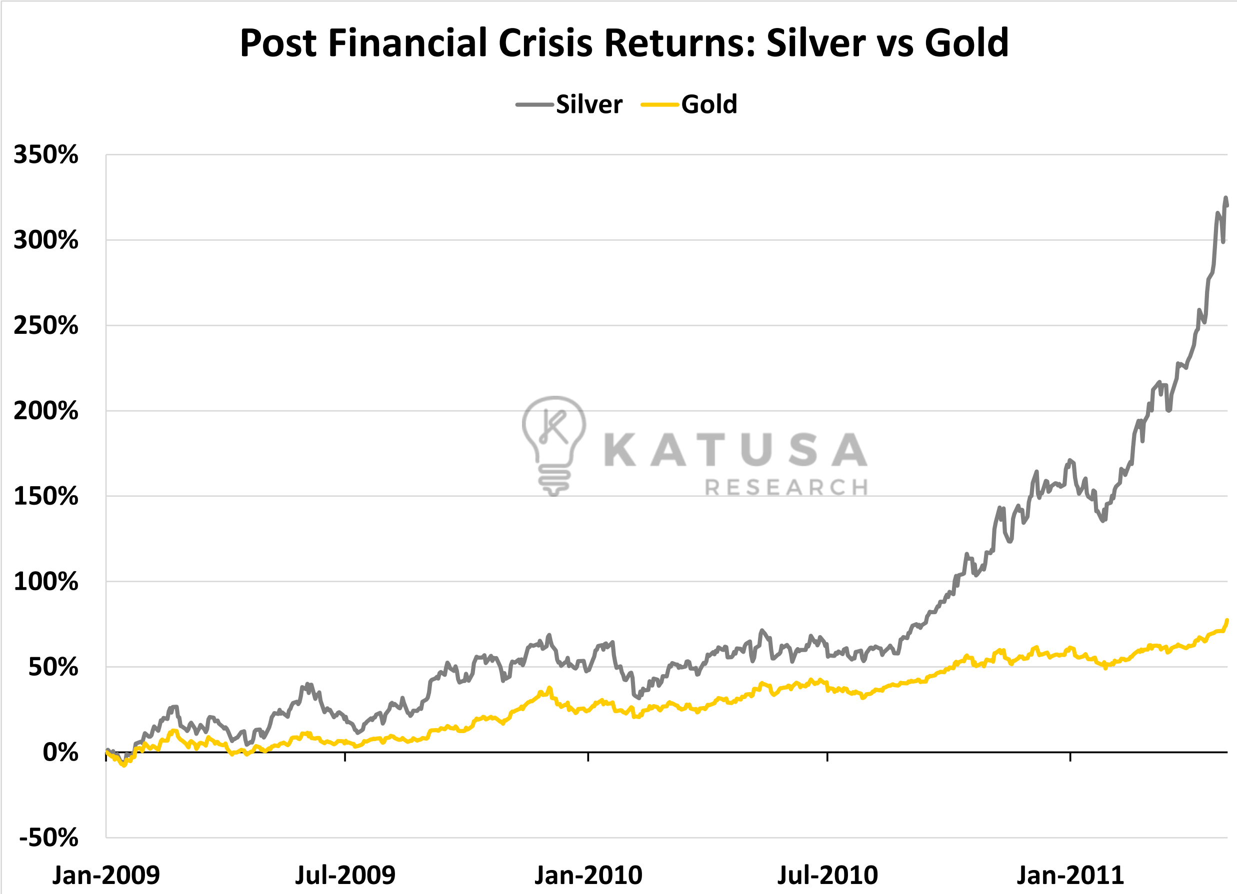
- **The spread between gold and silver prices is widening to levels not seen in 50 years of pricing data.**

If ever there were a time for history to play catch-up, then now's the time.

The chart below shows the first silver bull market from January 1974 to May 1987. The returns on silver spiked to over double that of gold, with silver hitting $48 / oz. vs $850 / oz. for gold.



After the Global Financial Crisis began to resolve itself in 2008-2009, precious metals began to lift. Silver outperformed gold four-fold over the coming 3 years.



Currently…

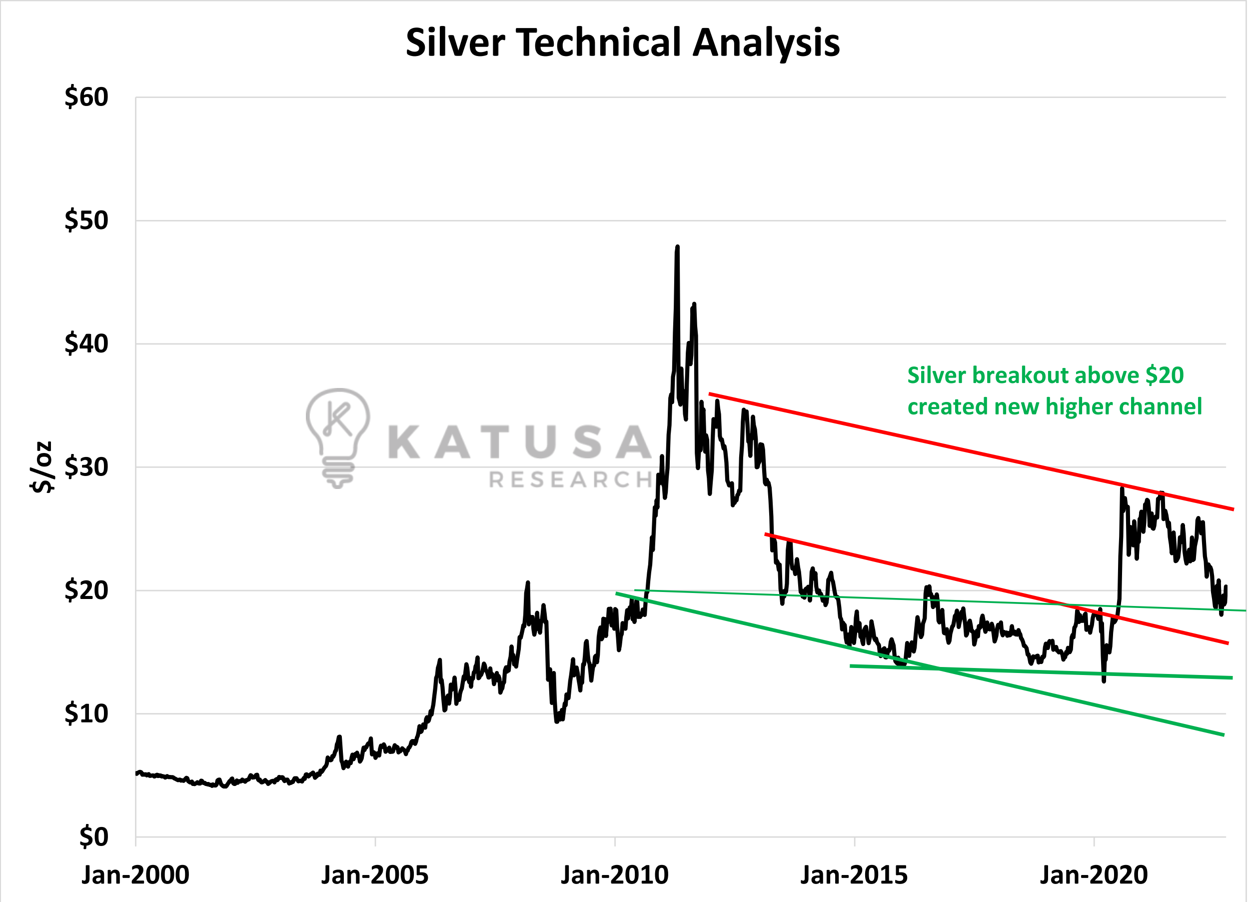
- Year to date, silver is off 14%, and 59% off its record intraday high $49.50 on April 28, 2011.
- Year to date, gold is down 7% while nly 18% off its record intraday high $2063 on August 6, 2020.

Yes, you're reading that correctly. Silver hasn't put in a new high in over a decade, while gold has made new highs.

So if the historical relationships between gold and silver hold, silver has a lot more room to run.

A Look at Silver Technicals

After making its high in 2011, silver has struggled to break above $20 per ounce. It did so with vengeance in June of 2020, trading as high as $29 per ounce. Today it still hovers around the psychological resistance of $20 per ounce, as it consolidates and awaits further catalysts.



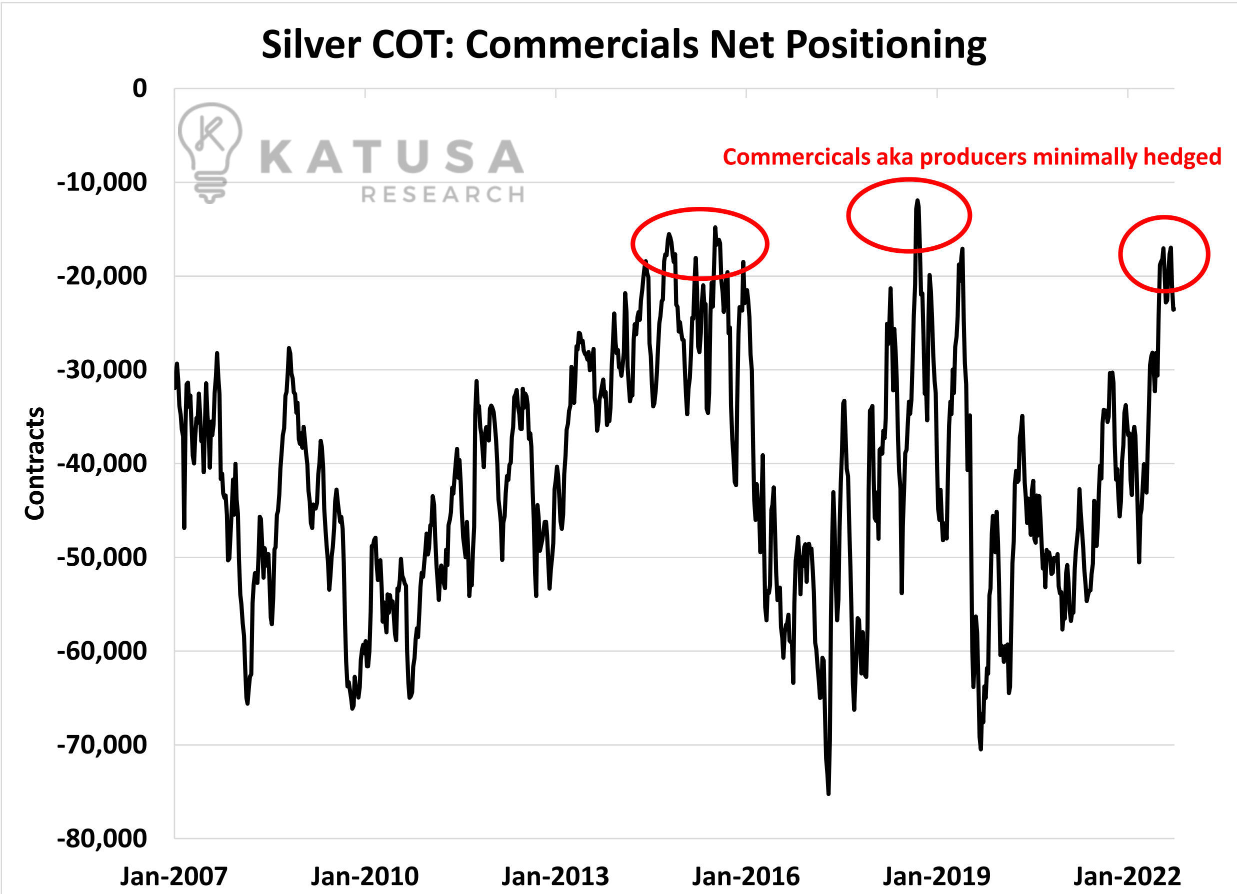
Silver Commitments of Traders

The commitment of traders report, known as COT shows the positioning of producers, hedge funds, money managers and other market participants that have to regularly provide their holdings.

Typically as you can see below, the commercials which are the silver producers and users of the metal are typically "short" meaning they have pre-sold production.

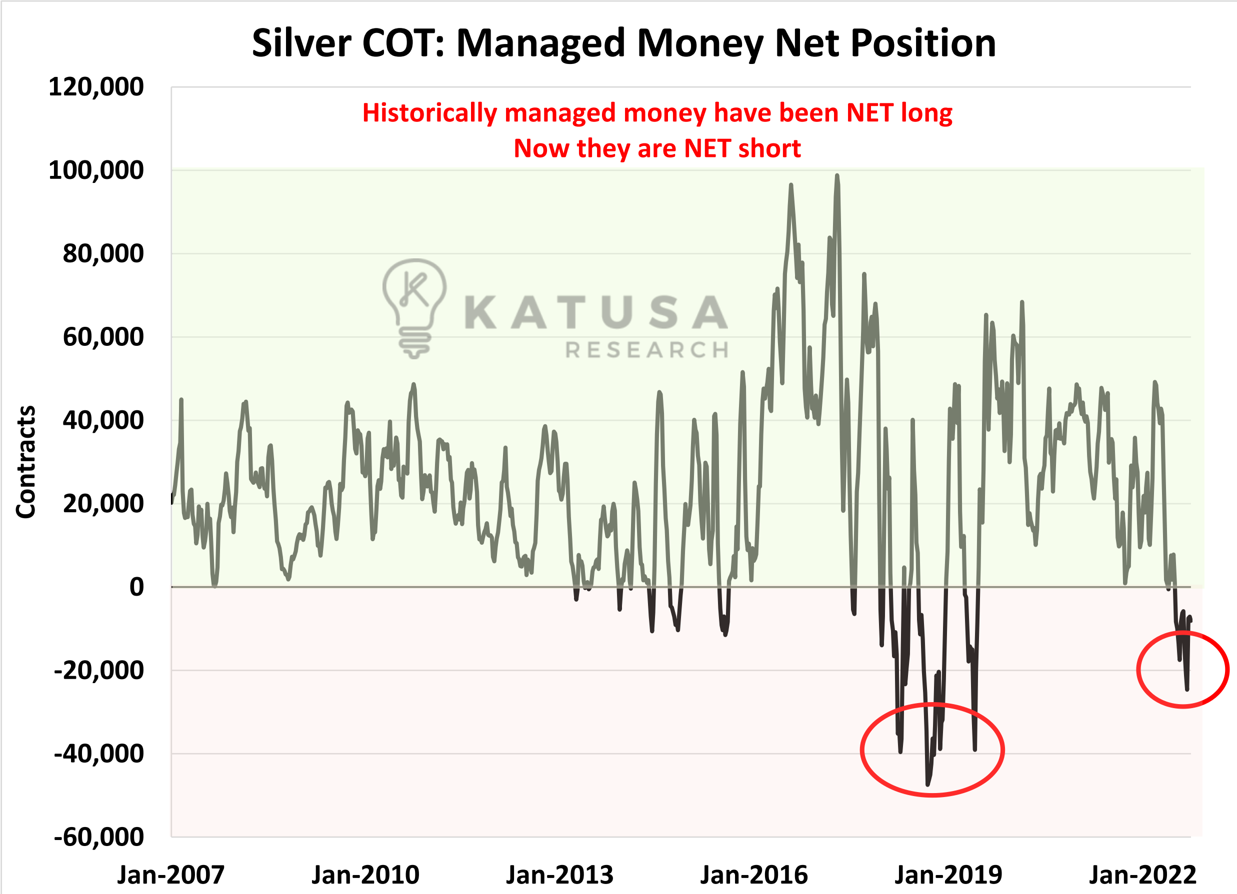
What is very interesting is that right now, these commercials are the "least short" they have been in quite some time, and regularly are more hedged.

That means the commercials don't believe prices are going to go much lower. Or else they would be hedging or preselling more of their production. Reading between the lines, a producer who is less hedged must think that the price is going to go up.



The other side of the coin is the money managers and hedge funds.

Typically the money managed positions are bullish and are long more contracts than they are short. However right now, they are net short by a large margin, which is highly unusual,



Follow the Big Money – Silver Fund Flows

ETFs like the iShares Silver Trust attempt to track the price of silver at a ratio of one unit per ounce of silver.

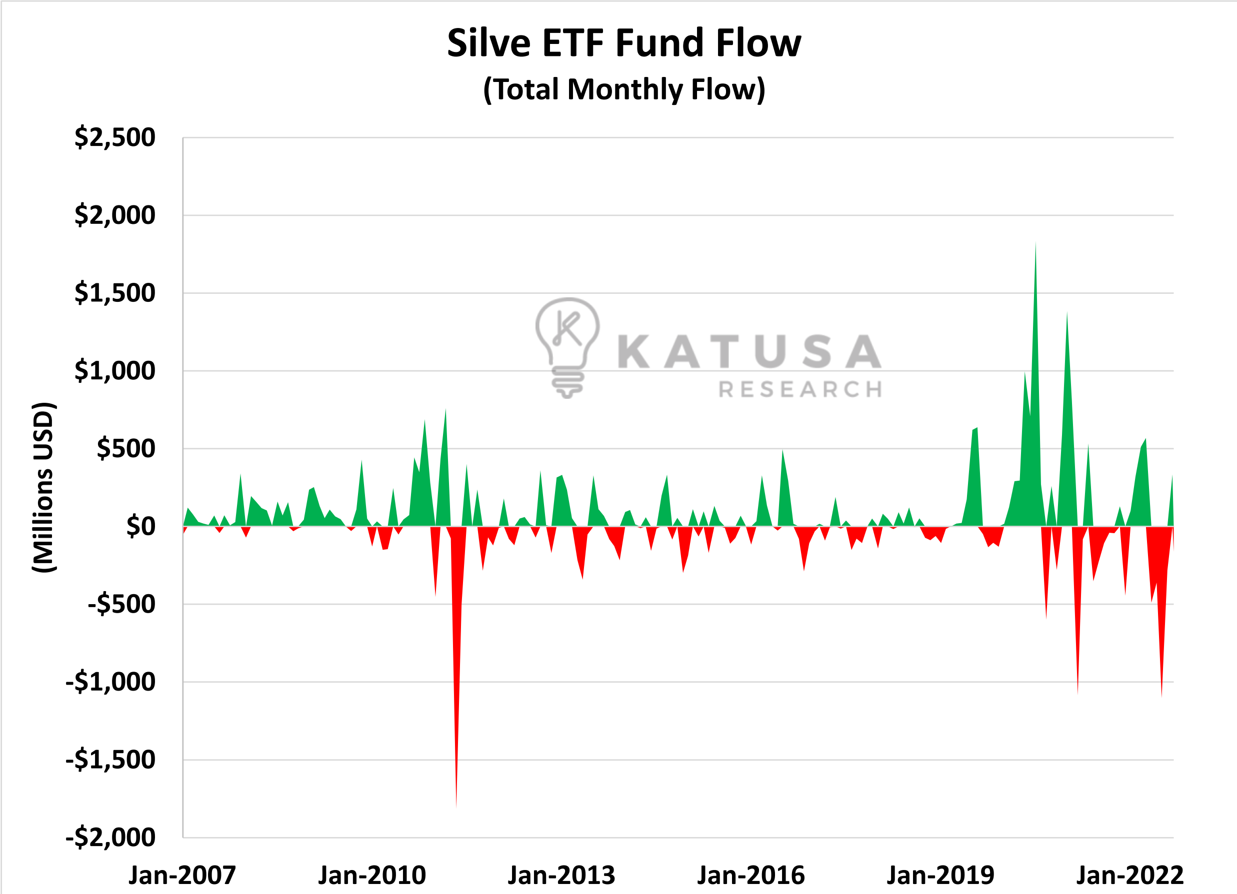
Commodity-based ETFs are not as simple as you might think. These funds are traded on an exchange, separately from spot and futures markets.

For an ETF to track the price of silver, the fund and its market makers must issue or redeem blocks of shares in exchange for bullion. By necessity, the funds are open-ended.

When an ETF adds silver bullion, it is typically doing so in anticipation of having to issue additional blocks of shares to keep up with market demand.

This is so that its unit (share) price doesn't exceed the price of silver.

Below is a chart which shows the flow of funds for silver ETFs.



How to Invest in Silver

You can invest in silver bullion or silver ETFs, and if it takes off, perhaps you could double your money. But I think the best way to get exposure to a silver slingshot move is through the miners.

- **When the price of silver rises, the Net Asset Value (NAV) of many producers can soar dramatically.**

Share prices are determined off a company's NAV, so as the NAV appreciates, the share price is likely to rise as well.

As central banks and governments around the world continuously pour money into their economies, stores of value and beneficiary industries can deliver major portfolio gains.

Silver has no shortage of war and fortune making stories…

From the days of the Hunt Brothers cornering the silver market… to Warren Buffet buying 112 million ounces of silver calling it "for investment purposes" rather than outright cornering…

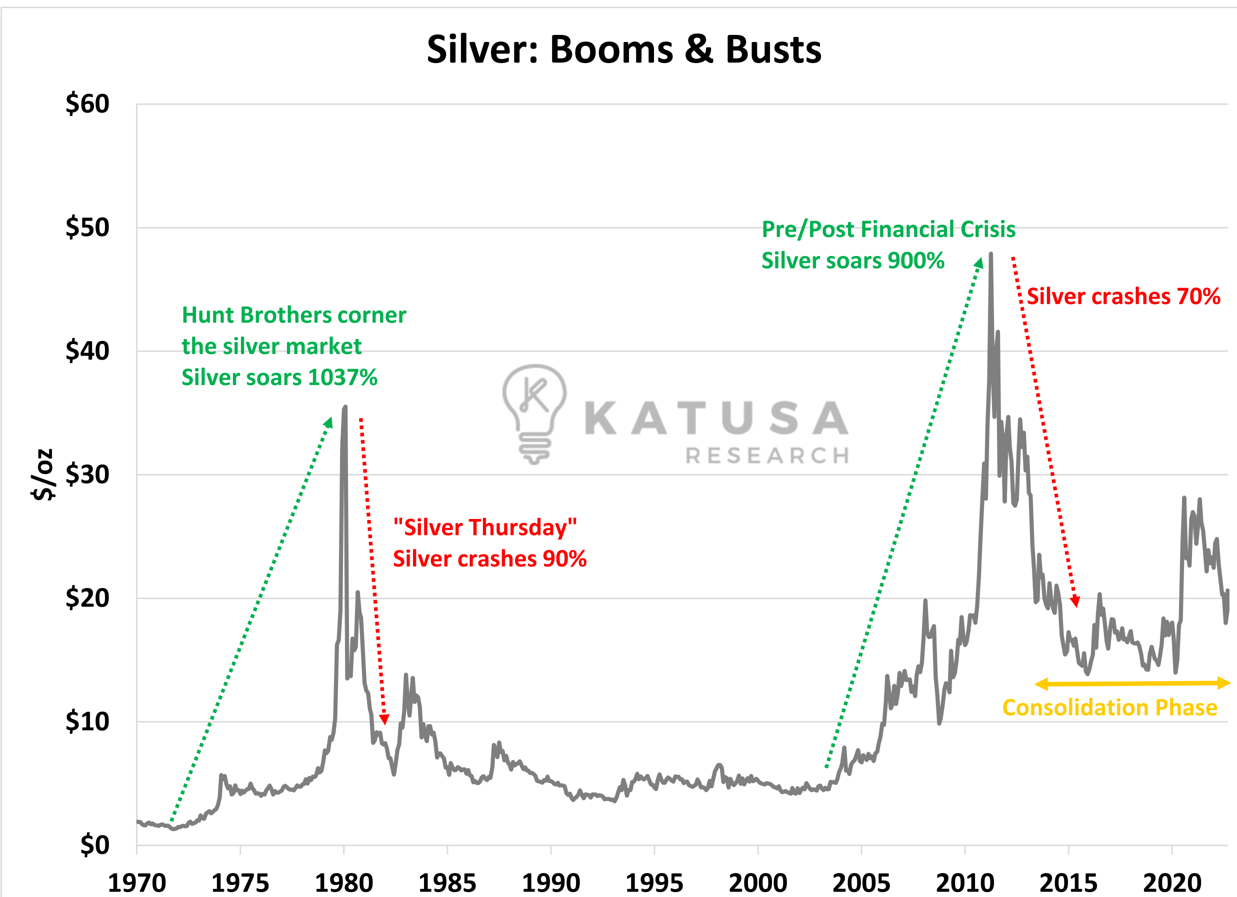
To the JP Morgan short position…

The booms and busts of silver have been truly exceptional, putting the testicular fortitude of even the strongest silver bugs to the test.

I like silver just like any other resource investor… but I like gold more.

When silver Booms, it moves fast and swift. But when it Busts and there's no bid, it collapses just as hard…

I always buy my metals during Echo's, which I've talked about in the past.



The "Wall Street Establishment"

Just like the GameStop squeeze that's been grabbing all the headlines the last few weeks, this attempt to 'liberate' the silver markets isn't about fundamentals, profitability, or arbitrage.

It's about sticking it to Wall Street.

Few dislike the suits more than me. I'm born and raised in East Vancouver of Dalmatian heritage. I come from an amazing family that had a lot of love and little else financially. I was lucky, I had tough older brothers that paved the way for me in a neighborhood of majority immigrants (like my parents) where literally it was dog eat dog world. Suits were only worn at weddings and funerals where I grew up.

Ironically, most suits (and in a large part their trust fund children) are evolving into Champagne Socialists which I equally dislike.

You know the type…

They went to university (most likely were part of a frat to feel cool), pretend to care about society and the environment but drive Ford Raptors to pretend to be masculine because they lost their masculinity long ago.

As they're nothing more than eunuchs parading around as modern corporate citizens. Wow did I just say that? Hell yeah.

Where I come from, you do what's right. Regardless of if it makes you popular or not.

And I'm cheering for the retail crew. I've been taking on the suits for years—and kicking ass.

And this time, I don't see the WSB, social media, and Robinhood succeeding on the silver shorts for the following reasons (and I published this previously to my paying subscribers):

- No one is betting against them.
- They lack the capital to bring the commodity futures market to heel.
- The asset managers who operate silver-backed exchange-traded products (ETPs) are already way ahead of them and can change the rules legally on them.

- Unlike GameStop and other companies, silver actually has a strong long-term outlook.

Silver Mining Stocks

One of the easiest ways for traders to play the #silversqueeze is to target the silver miners, most of which have secondary listings on the NYSE or NASDAQ.

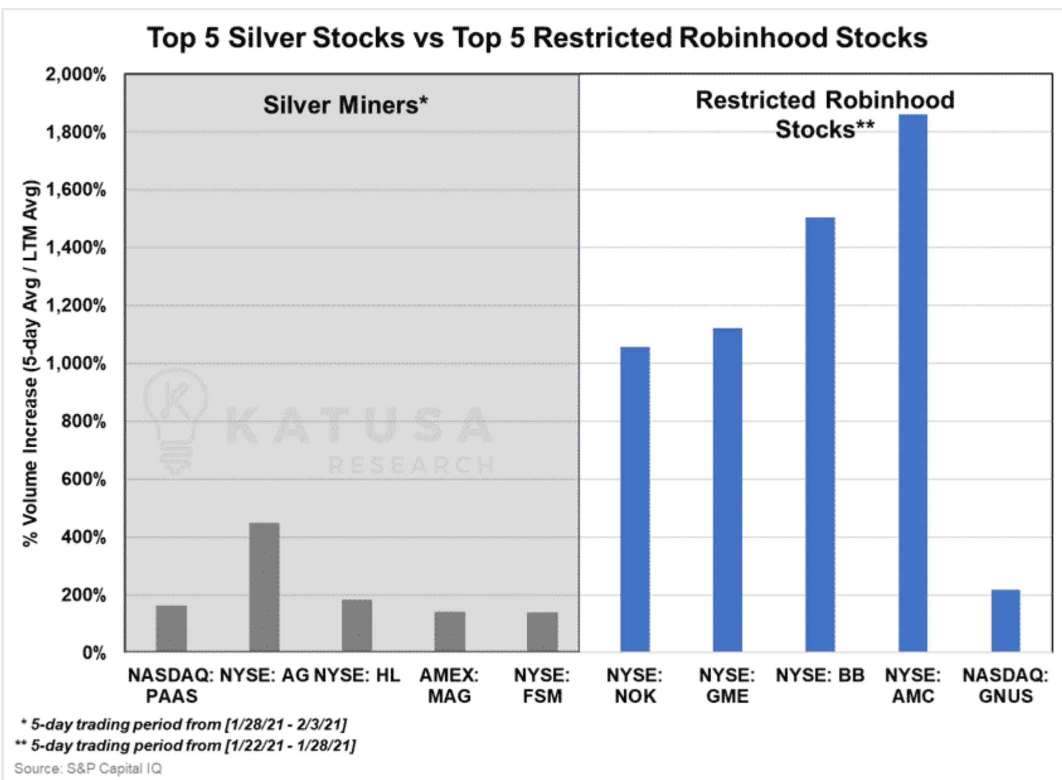
These stocks have seen heavy trading action during the "Silver short squeeze" reddit craze: **some stocks gained as much as 28%…**

Only to immediately fall back 20% the following day after the #silversqueeze started losing steam, essentially giving up the gains.

But there are a few reasons why what happened to stocks like GameStop and AMC Entertainment won't happen to silver miners.

The chart below compares the surge in trading volumes of the five largest silver miners against the five largest companies targeted by WSB.

You can see that is not nearly as much volume going into silver miners.



Second, other than **First Majestic Silver** there weren't any major institutional short positions in silver miners to squeeze.

As the table below shows, short interest, or percent of shares sold short, in the major silver miners was actually quite low when compared to WSB darlings like GameStop or AMC.

Ticker	Name	Short Interest
NASDAQ: PAAS	Pan American Silver	2.92%
NYSE: HL	Hecla Mining	3.12%
AMEX: MAG	Mag Silver	3.12%
NYSE: FSM	Fortuna Silver	5.19%
NYSE: AG	First Majestic Silver	8.15%
NYSE: AMC	AMC Entertainment	19%
NYSE: GME	GameStop	19%

Lack of short interest means, of course, no short squeeze. Which would take away one of WSB's supposed driving forces behind a major share price runup.

Get to Know the Silver Futures Market: Barriers to Entry

Silver prices surged to an 8-year high of over $30/oz in the summer of 2020.

While many would be quick to attribute this to WSB and the retail crowd shifting their focus from stocks to commodity futures, this was simply not the case.

The very next day, silver plummeted as professional traders started taking profits and the CME raised the maintenance margins on its standard silver contracts by 17.9%.

The Wall Street pros had effectively crowded out novice retail traders by stirring up price action to overbought levels and driving up volatility.

The posters on WSB appeared to capitulate, warning their followers to stop trading silver futures.

Unlike buying stocks, trading in commodity futures poses much higher barriers of entry to the retail trading crowd.

For silver products traded on the CME, these barriers include:

- High initial margins and maintenance margins – $15,000 for standard silver futures, for physical delivery of 5,000 oz.

- The complexity of the instruments being traded and their high degree of leverage to the underlying commodity. At $30/oz. the standard contract stipulates the delivery of 5,000 oz. of physical silver of at least 99.5% purity. As a buyer, unless you offset this contract by selling an equivalent futures contract at a forward month, you’re on the hook for $150,000.

- Market access is more complicated – futures can’t be traded at all on Robinhood, and they can’t be traded commission-free on most other brokerages.

In short, you cannot simply open an account with a $1,400 balance and start day trading silver futures.

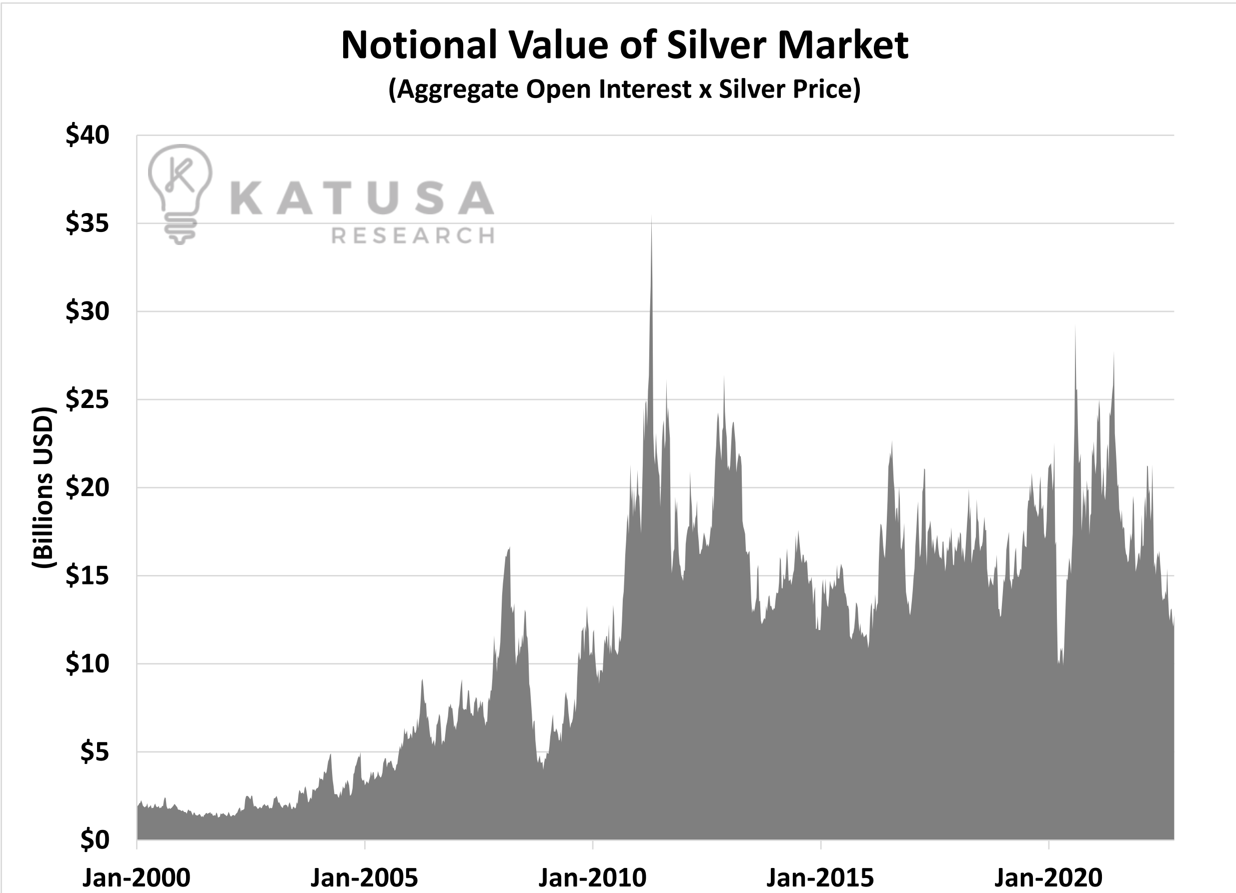
Even the micro silver contracts have an initial margin requirement of $3,080 and a contract size of 1000 oz.

These financial instruments are outside the reach of investors who don’t have at least $100,000 allocated to trade exclusively in futures.

In fact, the CFTC doesn’t require exchanges to report positions held by individual traders because the dollar value of these positions makes up such a small proportion of the futures market.

The next chart shows the notional value of all the open futures contracts for silver on the Chicago Mercantile Exchange for the last 20 years. The current notional value of the silver market is $12 billion.

- **In other words, it's the total value of the silver currently being traded on the CME.**



Note that the notional value of the futures market does not reflect the dollar value of the futures.

This is because most traders who are long (buyers) never take physical delivery of the metal but instead offset their positions by selling next month's contract.

Those who are short (sellers) will avoid having to deliver the silver by buying next month's contract.

Since producers and merchants are currently on the short side of the trade, it's the hedge funds who are going long and driving the recent surge in silver futures prices.

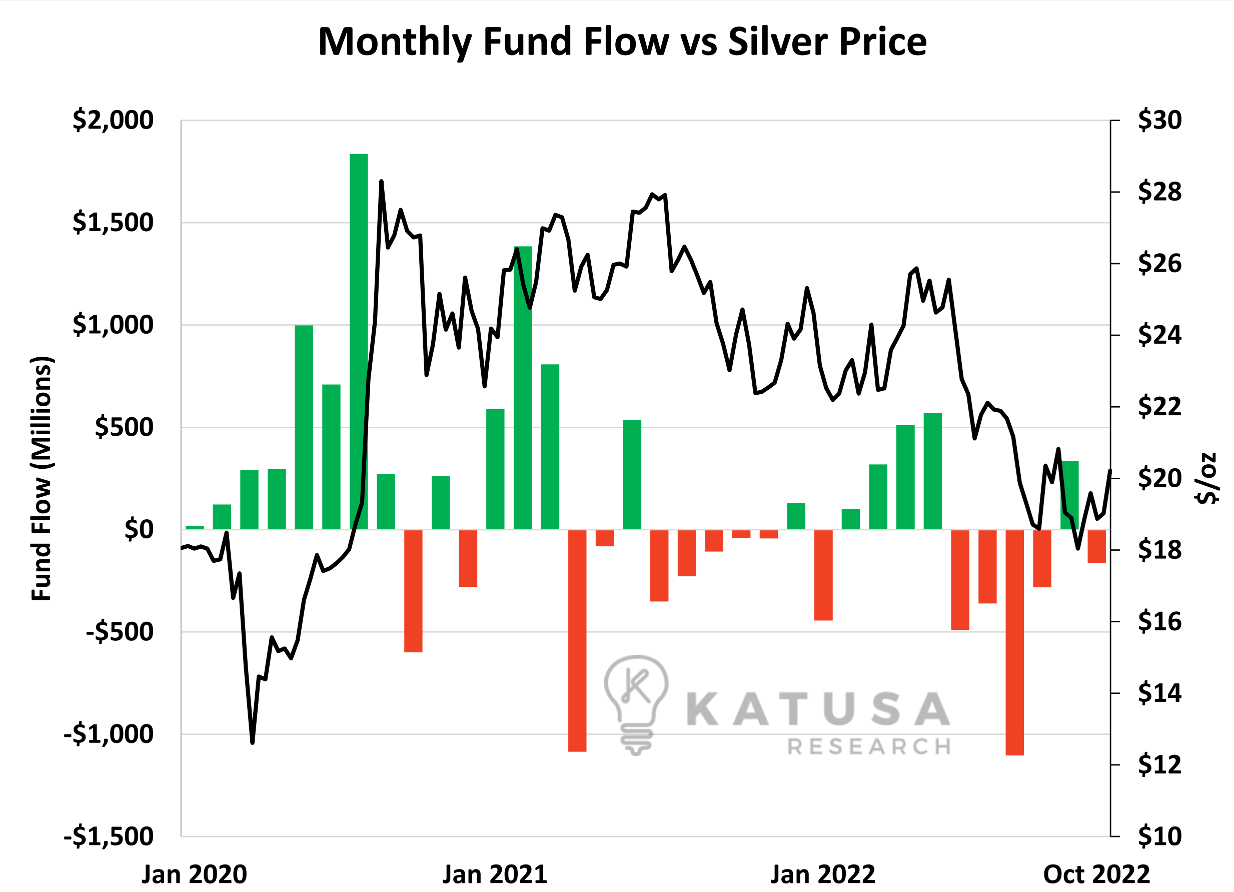
With the value of the silver being traded on the CME and inventories worth $40 billion, retail investors would barely move the needle.

This part of the battle takes place on a front that Main Street can barely even step foot into, let alone hope to win.

The reason that silver can make big moves really fast is because the market cap is tiny, on a global perspective. Below is a chart which compares the silver market to other market segments and well known companies.

Because of this massive demand for silver, and with the mainstream crowd (and a whole new millennial generation) waking up to the fact that silver can be a real asset, there's a big appetite to put money into passive funds.

Silver has seen a barrage of selling pressure over the past few months with nearly $1 billion in net selling earlier this summer. This is an integral part of the bottoming process.



Silver Linings Playbook

Hedge funds aren't going to get squeezed. And asset managers who run these ETPs like BlackRock or Sprott will be just fine. That is, unless the ringleaders on WSB can somehow find a way to control the silver bullion market.

<u>Where are they going to find the hundreds of billions of dollars to do that?</u>

Furthermore, it looks like asset managers are well ahead of the curve.

Over a week before WSB decided to shift its attention to #silversqueeze, the guys at BlackRock, Sprott, and Aberdeen Standard, to name a few, had the foresight to add almost $600mm to their silver ETP holdings.

This was the largest weekly inflow reported in the last six months.

To put this in further perspective, on Jan 20th, SLV reported \$500mm in daily inflows – the highest BlackRock reported in seven years.

This was two days before the NYSE halted trading on GameStop Corp and the phrase "short squeeze" became ingrained in everyone's consciousness.

Nobody dislikes the short funds more than I do.

I've openly talked about and taken on some large short funds in the past.

- **But to truly cripple the shorts in the silver sector, over 200 million ounces will need to be purchased for the synthetic derivative and paper contracts to be exposed.**

That's over \$6 billion in new silver demand purchased and requested for delivery—and that's very different from increasing the market cap of a company by \$6B.

To purchase the silver and cripple the synthetic market manipulators, \$6B in actual silver purchases demanding delivery would be required to come in from outside sources.

That's a big buy ticket and very different than bringing in a couple hundred million dollars of buying volume to take GME from a \$1B market cap to \$22B market cap.

Don't Forget Junk Silver…

In addition, unlike in the equity markets, even if WSB were successful with their silver purchases you can expect millions of ounces of "junk silver" to come off the shelves and hit the market.

That includes anything and everything from coins to silverware, which would require new funds to absorb the new supply.

And while many online bullion dealers are reportedly overwhelmed trying to keep up with the surge in retail demand, their supplies represent a tiny fraction of the bullion supply that goes through the LME and CME.

On top of that, market-ready stockpiles of silver, the kind stocked by wholesalers, are 3 times the average daily futures volume.

Silver Can Do It All

Remember, silver isn't just a precious metal – it's primarily an industrial metal.

In the last 10 years, the value of annual silver production has been worth anywhere from $16 billion to $36 billion – according to Metals Focus.

Nearly 60% of annual global silver consumption goes towards industrial fabrication and similar uses.

And less than 20% of demand is made up by investment products like bars and coins.

So, even if there's a shortage of silver coins and bullion, there's still plenty of silver in other forms going around.

There's no doubt that retail investors, in their latest insurgent efforts, are driving up the share prices of silver ETPs and silver miners.

But they aren't the ones driving up bullion prices.

- **I still think we're just in the early stages of an upcoming silver bull market.**

That was the case even before all of these short squeeze shenanigans, and my thesis remains unchanged.

Cartel Conspiracy and the Silver "Massacre"

Superior in luster, value, and perception, gold is the king of metals.

Silver has always played second fiddle to its big brother.

The "gentleman's metal" has a natural tendency to go under the radar compared to gold.

And it's also likely why it's been the target of many more conspiracies, both real and imagined.

From the days of the Hunt Brothers cornering the silver market to the JP Morgan and "cartel" shorts, there's no shortage of silver conspiracy theories.

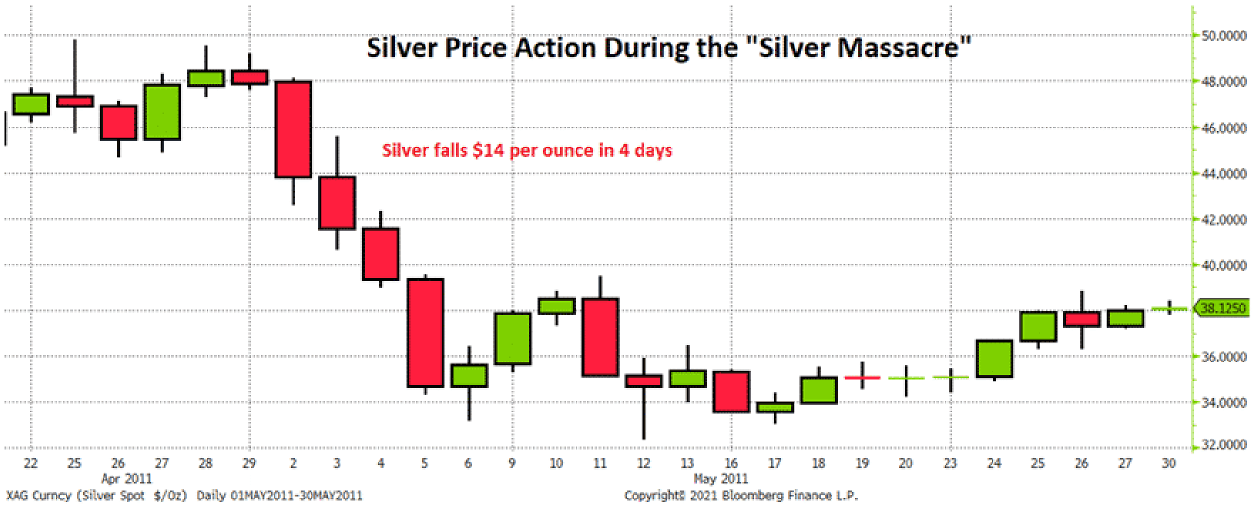
But perhaps none are more famous than the "Silver Massacre" of early May 2011.

In 2011, the price of silver was flirting at $50 per ounce and was nearly 20% higher in the dealer market. (Gotta love those bullion dealer premiums, they make stockbroker fees look moderate).

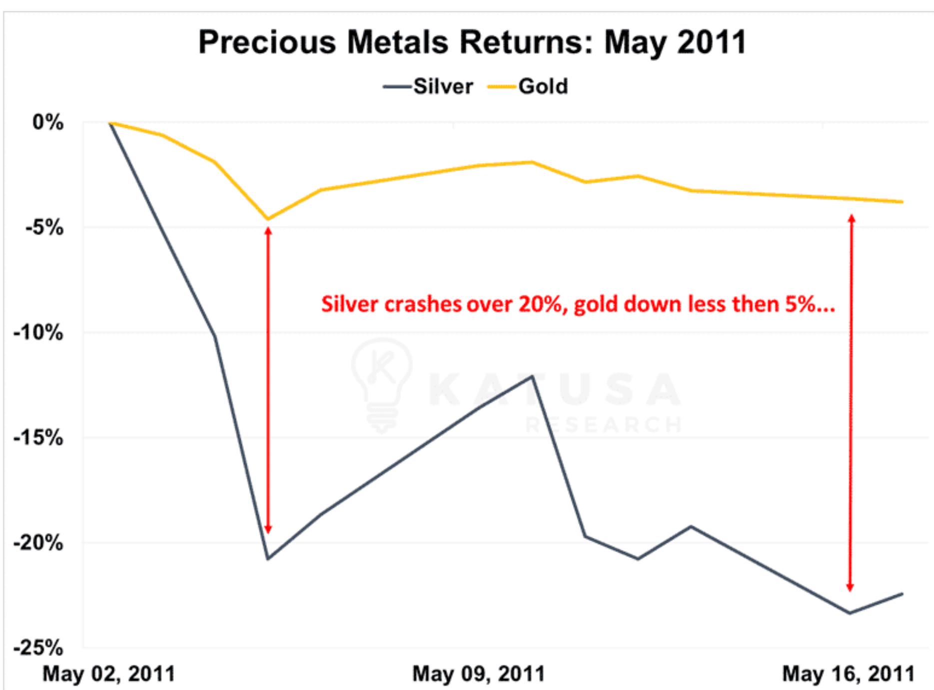
It seemed like it was finally silver's time to shine.

Then, mysteriously, silver began to fall hard in Asia unexpectedly.

Silver crashed nearly $14 per ounce over 4 days, down nearly 25%…



During the same time frame gold dropped 5% at its lowest point.



Was there suddenly no use for silver as an industrial metal? No.

Did mined supply just become infinite? No.

So, what happened?

The Silver Cartel

For years, many in the silver markets have spoken of the existence of a "cartel" in the silver markets keeping prices low.

In simple terms, a cartel is formed when multiple companies in the same industry decide to collaborate to control the price of a product or service they sell.

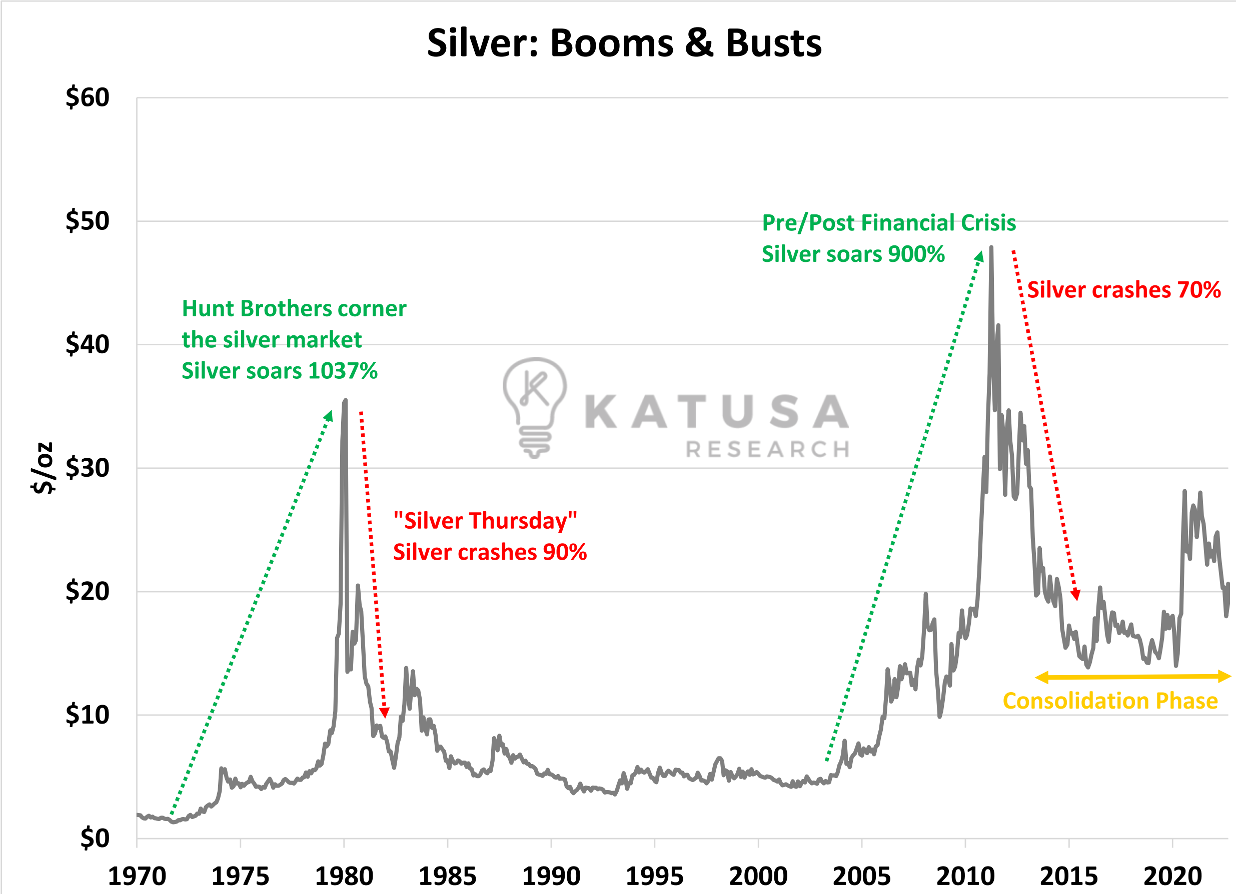
- **In other words, cartels are price fixers.**

Some of the most notable modern-day cartels include OPEC for oil and De Beers for the diamond industry at its prime.

And in silver, such price manipulation is reminiscent of the Hunt Brothers' attempt to corner the silver market in 1979.

For those of you who need a quick refresher…

Back in 1979, the Hunt Brothers bought up so much silver that they drove the price up to an all-time high of $49.45 per ounce (around $160 when adjusted for inflation in today's dollars).



And it took COMEX changing the rules on the Hunt brothers that caught them on margin and blew them up.

By adjusting their margin purchasing rules for commodities, the Hunt Brothers' stranglehold over the silver supply was broken and they lost a fortune.

- **At their peak, the brothers were estimated to control a third of the entire global retail supply of silver.**

While the actual existence of a current silver cartel is still a subject of debate, it's said that there's no fire without smoke.

And boy has there been a lot of smoke on this topic.

So much so, in fact, that the CFTC issued a formal statement on the subject denying the existence of such a cartel in 2004. And later conducted a five-year investigation into the matter in 2008.

The investigation turned up nothing of importance, given that many believers in the silver cartel think that the U.S. Treasury and Federal Reserve are members of the cartel. Thus, the results of the investigation came as no surprise to them.

So, you may be asking yourself, “Does Marin Katusa think there is a cartel?”

I don’t. I know many of the “so-called Cartel” members and it comes down to this one thing: Cost of Capital.

These trading desks at JP Morgan and Goldman Sachs have access to capital and at such low cost to borrow that capital… that the silver market and their heavy retail players are absolute easy prey for the Wallstreet scalpers.

That’s all it is. Cost of capital.

Theirs is a lot lower than mine and yours, thus they can do things to the market in size that you and I can’t.

But there is a new Cartel of sorts in town…

Rewinding the Silver Massacre of 2011

Going back to May 2011…

Legend has it that the silver cartel was going to be in serious trouble with their uncovered, or “naked”, short positions if silver surpassed $50 per ounce.

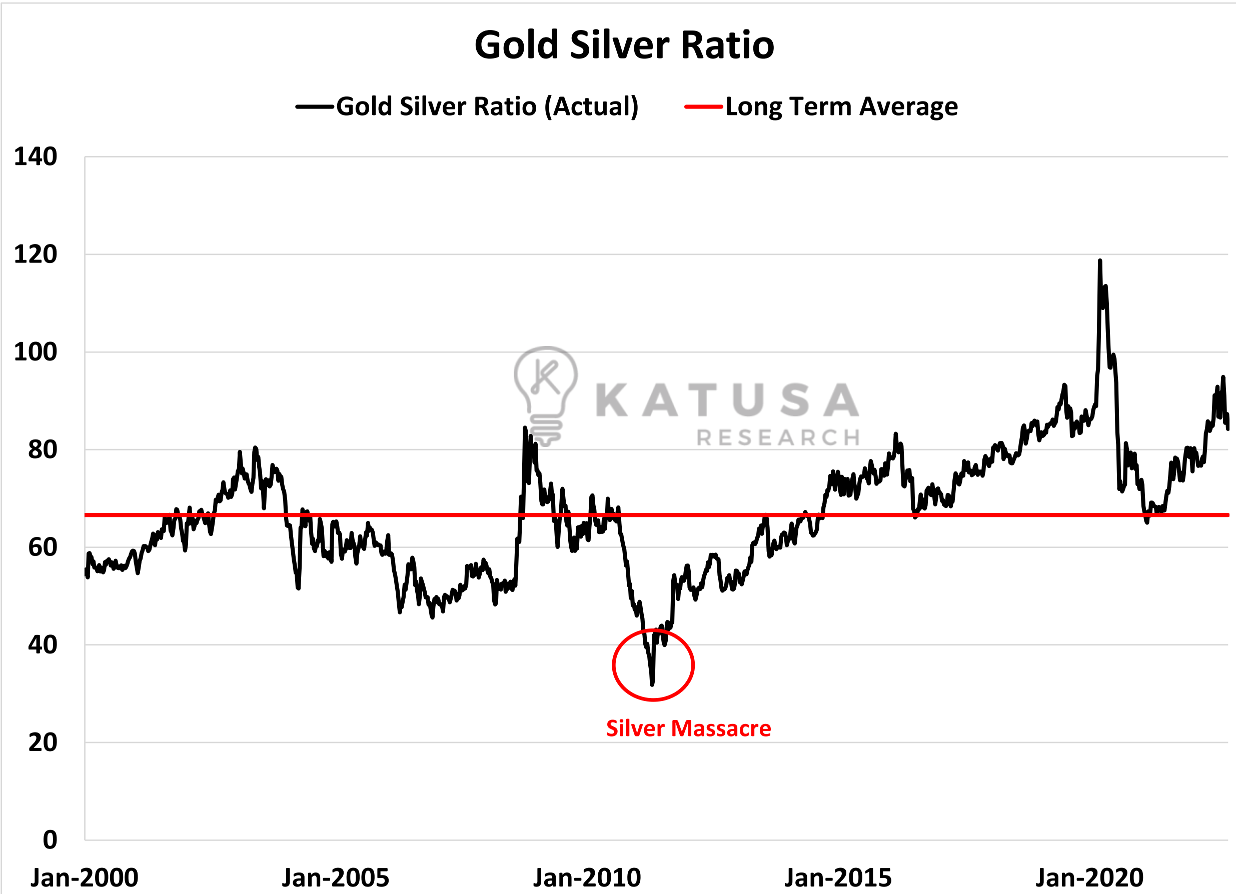
- **So, they flooded the market with hundreds of millions more “paper” ounces of shorted silver.**

Paper ounces, as opposed to physical ounces, are derivative instruments theoretically backed by actual physical silver.

While they are in most cases, such as with Sprott’s Physical Silver Trust (PSLV), actual regulatory enforcement can be spotty, leading to the well-known phenomenon of naked short selling.

In the end, silver never did break $50 per ounce and has since traded lower and lower over the past decade. Much to the chagrin of the silver bugs, the gold-silver ratio climbed steadily for over a decade, meaning that gold prices were going up faster than silver prices.

Today, the gold-silver ratio is still 50% higher than it was back in May 2011:



However, there's one major difference between then and now…

The Katusa Focus: Investing in Silver Stocks Like an "Alligator"

I've refined my approach over the years and while I will take the occasional "punt" on a small cap silver stock.

And I use "The Way of the Alligator" to guide my investing style.

If you've never heard of it before, the basics are this: Alligators don't need to eat all the time. They sit and wait for months, patiently, until the right time to strike and feed.

You can learn all about the alligator investor style right here.

But my main focus is to find assets that have:

- Had a lot of money spent on the project advancing the asset (read: OPM-Other People's Money)
- With incredible upside potential in lower risk jurisdictions in the previous cycle and left for dead.

How do I go about finding the best assets and management teams?

Let's break it down with a recent project my team and I have done.

My goal is to identify single producing projects that are:

- Not owned by majors.
- Located in **+SWAP** line nations.
- Potential to produce at least 100,000 ounces per year

There are over 700 producing gold mines in the world.

After running the criteria through my database, I came up with a list of 89 potential mines.

I then eliminated the following:

- Low-grade projects.
- Projects with short mine lives (less than 8 years with no exploration potential to increase the mine life).
- High-cost mines (cash costs of more than $800 per ounce; general rule of thumb – if cash costs are $800, all-in sustaining costs are ~$1,200 per ounce).

From the remaining list, qualitative digging was performed on each project.

- Who would it be a good fit for?
- Does mining the deposit require a unique skill set which discourages many potential suitors?
- Are there any potential synergies with mines operating nearby?
- Is there some low-hanging fruit to be plucked which creates additional value for the buyer?

For the gambling trader, this simply isn't exciting enough.

That group would rather place bets on super high risk plays in hopes of mansions, Ferraris and women who will take their gold and hang out on their leased boats.

And the management teams of those companies are more than happy to take your money. You can subscribe to most of the other newsletter writers for those stock pics.

The criteria I’ve outlined has helped me identify more winners than losers. And I’m able to place very large bets on the outcome. Because I know there will be liquidity and an exit point.

-Katusa Research

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