

Investors take a big shine to silver

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By **Matt Krantz**, USA TODAY

Investors may be fixated on oil prices, but precious metals — especially silver — are where the real action is.



Kennecott Utah CopperSilver ingot produced in the Kennecott Utah Copper Refinery as a by-product of copper ore from the Bingham Canyon Mine.

Canyon Mine. [Enlarge](#)

By Kennecott Utah Copper

Silver ingot produced in the Kennecott Utah Copper Refinery as a by-product of copper ore from the Bingham Canyon Mine.

Silver is on a tear as cash pours into what is known as "poor man's gold" because, by weight, it seems more affordable.

Fueled by concern about strife in the Middle East, the safe-haven appeal of silver helped push its price up 1.5% Monday to \$35.86 an ounce — which flirted with its highest level in 31 years, Bloomberg data say. Gold, by comparison, rose 0.4% to \$1,434.50 an ounce.

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Gold might be at record highs, but silver's outperformance over bullion has been a long time in the making. The price of silver is up 113% since the end of 2009. Gold's gain that same period was just 31%.

Now, though, some professionals see this divergence as evidence the metal mania is reaching a crescendo.

"When the locomotive is going, you don't want to jump in front of the track, but it looks like (silver) is setting up for a huge correction," says Jeffrey Sherman, commodities portfolio manager at DoubleLine Capital. "Silver is massively ahead of itself."

Investors might be wise to spot a huge warning sign from the run-up in silver because of the:

•**Degree of divergence between gold and silver.** The price of silver has been

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skyrocketing relative to gold since 2008, and the gap in gains is the highest it's been since at least 1984, Sherman says. Some of the uptick may be due to increased demand for silver by factories and manufacturers for electrical uses, Sherman says. A more likely explanation is how silver is targeted by individual investors as a way to pile on to the precious metal rally, he says.

•**Historical foreshadowing.** When the price increases of silver and gold diverge widely like this and investors are using silver as an inflation hedge, it hasn't always worked, says Ken Winans of Winans International.

For instance, during the most recent energy price jump in 2008, silver lost 25% of its value that year.

•**The silver market is small compared with gold.** Annual silver production is worth about \$27 billion, a quarter of the value of gold production and about the size of one large producer's U.S. stock, says Tom Winmill of the Midas fund. Being a small market makes silver susceptible to short-term price swings, he says.

Even so, it's inflation fear and expanding U.S. debts that are truly driving silver prices, Winmill says. "Precious metals are not near a bubble," says Jeffrey Nichols, economic adviser to Rosland Capital. "There are fundamental reasons for gold and silver to be strong today and stronger tomorrow."

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