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Why investors like silver more than gold

By **Myra P. Saefong**, MarketWatch



APMEX.com

SAN FRANCISCO (MarketWatch) — Investors have taken a big interest in silver lately and their infatuation looks set to continue this year, despite gold's advance.

True, both metals haven't done very well most recently, posting losses in five out of the last six sessions, but a big-picture view on prices and exchange-traded funds shows just how much silver's turning heads.

[In August](#), gold futures climbed more than 6% and since the end of June, they are up about 12%. Those figures pale in comparison to the 20% increase in silver futures for last month and quarter to date.

Silver's also set for the first quarterly gain since the third quarter of last year.

"Given the outperformance in silver over gold, we can assume that there are factors in play other than traditional safe-haven demand," said Tom Lydon, editor and publisher of ETFtrends.com.

Silver exchange-traded funds were the best performing ETFs in August, Lydon said [in a report this week](#), noting that they were bolstered by bargain-hunting speculators as well as by escalating geopolitical tensions surrounding Syria.

The physical-silver-backed iShares Silver Trust (NAR:SLV) saw net fund inflows of \$88.2 million last month as of Aug. 30, according to IndexUniverse. That compares with gold-backed SPDR Gold Trust's (NAR:GLD) fund outflows of \$227 million as well as outflows of \$15.9 billion among U.S. equity funds and \$6.66 billion among U.S. fixed-income funds, IndexUniverse data show.

"Psychologically, the slow money likely sees SLV as more attractive than GLD for the simple fact that it hasn't been talked about for the past half decade," said Adam Koos, president of Libertas Wealth

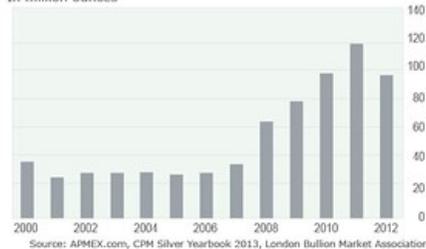
Management Group. "People like new and exciting, and gold might be [psychologically] becoming old hat to some," he said. "It also goes without saying that the price per share is cheaper when buying SLV."

Broad demand

But demand for silver is broader than that.

Physical silver investment demand

In million ounces



“For investors, silver is much more of an industrial material than gold and accordingly has potential double benefits from both industrial and investment demand,” said Michael Haynes, chief executive officer at online precious-metals dealer APMEX Inc.

The U.S. Mint said sales of its American Eagle silver bullion coins remain “brisk.” They’re up about 45% year to date, compared with the same period last year, according to spokesman Michael White.

The Mint sold a total of nearly 39 million of those one-ounce coins in 2011, which was its record for a single calendar year. So far in 2013, the Mint accepted orders for more than 33 million coins. At the current demand pace, the Mint will set a new record for sales this year, White said.



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Silver’s much more affordable than gold for individual investors, and their interest is in holding physical silver, according to Edmund Moy, chief strategist at gold-backed IRA provider Morgan Gold.

Moy pointed out that while he was director of the U.S. Mint, from 2006 to early 2011, sales of the number of ounces of American Eagle silver bullion coins outpaced sales of American Eagle gold bullion coins.

The ratio of silver ounces to gold ounces, based on U.S. Mint sales, has been roughly 48 to 1 this year, he said. In July, it was 87 to 1 and in August, it was 315 to 1.

“When gold prices start to go beyond the reach of small investors, they resort to silver,” Moy said.

The silver market tends to be highly volatile and it is much smaller than the market for gold.

“The higher volatility attracts momentum investors who favor [ETFs] to take advantage of the price without the burdens of holding the physical silver,” said Moy. “That’s the primary driver behind the growth of silver ETFs. With volatility, you have the potential for greater gains but also greater losses.”

Shares of the iShares Silver Trust have climbed about 18% for the quarter so far.

Demand for silver also shows in the climb among total overall silver holdings in ETFs physically backed by the metal.

“The notable elastic measurable demand increases have been reflected by new all-time highs in total ETF holdings,” said Mike McGlone, director of research at ETF Securities U.S.

He said total ETF silver holdings ended August at 645 million ounces, a record high and up from around 582 million ounces at the end of 2012.

Global silver mine production totaled 787 million ounces in 2012, according to [data from The Silver Institute](#).

And “while silver prices can be more volatile, they are anchored around industrial use, which gives it some non-sentimental stability,” said Moy.

About half of all silver mined, compared with about 12% of all gold production, goes to industrial uses, he said.

On that front, silver, which is a major component in the auto, chemical, electronics and solar industries, has been doing well.

Auto producers are experiencing [their best year since 2007](#), and the solar photovoltaic industry is “experiencing a boom,” said ETFtrends.com’s Lydon. And the “improving economy is also bolstering consumer spending and demand for everything including electronics.”

Outlook

For now, silver prices are poised for a loss of roughly 23% for 2013, and they’re set for a volatile final quarter of the year.

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Thomas Winmill, Midas Fund

“Gains for silver depend half on the economy because of its industrial uses and consumption, and half on gold prices as a little brother store of value,” said Thomas Winmill, portfolio manager of the Midas Fund (MFD:MID SX).

He expects silver to “outperform gold through the end of the year.”

Of course, silver will be moving based on much of the same factors that influence gold.

Near term, silver’s likely to see some “whipsaw action” based on daily talk of Federal Reserve stimulus tapering, the U.S. debt ceiling and Syria, according to Christopher Blasi, president of Neptune Global Holdings.

He expects prices to end the year at around \$25 an ounce. Silver futures [settled Thursday](#) at \$23.26 an ounce.

Beyond this year, Winmill expects silver to underperform gold in 2014.

“Underperformance, we believe, will occur due to a leveling of gold prices, increased inventories of silver and a slowing global economy,” said Winmill.