THE SILVERINSTITUTE

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Silver News

An Interview with Shayne McGuire

Shayne McGuire

Shayne McGuire manages the $800 million GBI Gold Fund and is the Head of Global Research at Teacher Retirement System of Texas (TRST), one of the world's largest pension funds. Prior to holding these positions, Mr. McGuire managed a $2 billion European equity portfolio and was ranked among the best Latin American analysts by *Institutional Investor* in 1995 and 1996. He has written two books on gold investing, and his forthcoming book is *The Silver Bull Market: Investing in the Other Gold* (John Wiley & Sons, April, 2013). We talked to Mr. McGuire about his new book and his views on silver. His comments represent personal views and not those of the TRST.

Silver News: Explain why you changed the precious metals mix in the GBI Gold Fund that you manage to accommodate the purchase of silver.

Mr. McGuire: Although the metal exhibits more volatility, silver is more highly correlated with gold than anything else. For example, although silver declined during the 2008 crisis, it outperformed all commodities and equity markets, showing that the market regards it more as a precious metal, like gold (which rose in that year), than an industrial one. Yet, silver has outperformed gold over the last decade in part because of its dual nature, being both a precious metal and also one that has multiple applications in industry and medicine. Although gold remains the dominant metal in our Gold Fund, silver is now a component.

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SN: Who owns silver?

Mr. McGuire: Silver is predominantly an investment held by individuals, particularly high net worth individuals, since most institutions wanting exposure to precious metals simply buy gold. I have never met an individual or institutional investor that only owned silver; most silver owners hold investments in gold, as well. Some people prefer silver because of its dual nature, as it benefits from economic expansion (rising industrial demand for the highly conductive metal) as well as its high correlation with gold, a safe haven investment. Though

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more abundant underground than gold, above ground it is rarer and central banks hold no silver, a supply-demand consideration attractive to some. Others like the fact that it is more accessible to more investors on a per-ounce basis, something that has contributed to pushing its price up faster than gold's price.

SN: In your forthcoming book you discuss how silver is traditionally the "poor man's gold." Why is this the case and is it changing?

Mr. McGuire: What makes the term self-evident is that silver's price per ounce is roughly one-fiftieth that of gold, but there is more to it than that. Silver can be more volatile and has a smaller investor base, a fact that is reflected during significant sell-offs in the metals space. (1980 was a very bad year for silver, less so for gold.) Since the 1960s, when the U.S. Treasury began selling the last of its holdings, governments and central banks have been largely absent from the silver market. Gold is a major holding of central banks, which grants it respectability as a monetary asset. But they have not held silver for decades.

SN: You also say that gold and silver prices have traditionally correlated to each other but that relationship is out of balance, making silver undervalued. Please explain.

Mr. McGuire: For 3,000 years, until the late 19th century, the gold-silver ratio (gold price divided by the silver price) ranged between nine and 16 times, reflecting their physical scarcity relative to one another. Today, that physical scarcity remains within this range and yet the gold-silver ratio is above 50, which shows the higher investment appeal of gold. The surge in this ratio began in the late 19th century, as gold and silver began to trade very differently as bimetallism declined with the rise of the gold (monometallic) standard. Silver was demonetized and its value plunged to a low of 25 cents per ounce during the Great Depression. However, since the early 1970s, the metals once again began trading in a similar way and today silver is far more highly correlated with gold than with copper, a purely industrial metal.

SN: You suggest that silver can be a hedge against inflation, which you believe could rise as the U.S. works its way out of its current debt situation. Discuss your thoughts about this.

Mr. McGuire: Silver historically has been highly sensitive to a rise in inflation. The metal surged during the inflationary 1970s and, with the change in government policy in the depths of the Great Depression, the price of silver tripled in less than two years. During the 1960s, when inflation began to rise due to climbing Vietnam War-related government spending, silver demand surged and higher prices ultimately forced the U.S. Treasury to remove silver from U.S. coinage. Every single case of hyperinflation, fortunately a very rare historical event, was preceded by government deficits that got out of control. Hopefully world leaders will keep budgets under control, but gold and silver are signaling that inflationary risks are present.

SN: Is now a good time for people to buy silver? Are there guidelines for how much investors should hold?

Mr. McGuire: As I discuss in my new book, I believe there are a number of important drivers of silver and I list more than a dozen. Perhaps the most important one is the fact that monetary policy is the only major expansionary tool available to leaders today. Governments are fighting both fiscal battles, as they struggle to reduce deficit-driven spending, and the need to keep sluggish economies growing. Yet, events in Europe have shown the risks presented by austerity, as a number of economies in the region are back in recession and the U.K. economy -- the poster child for the need to rein in spending -- is slowing dramatically. Addressing the world's present dilemma, Bridgewater Associates, the world's most respected hedge fund, famously said: "In the end, governments print money." If we are going into a new wave of monetary expansion, this should benefit silver significantly. Investors in silver need to carefully consider the proper weighting of silver in their total investment portfolio, perhaps with the help of an investment planner.

Dillon Gage Is On the Go with Release of New Mobile App

Users Can Access Precious Metals Information From Anywhere

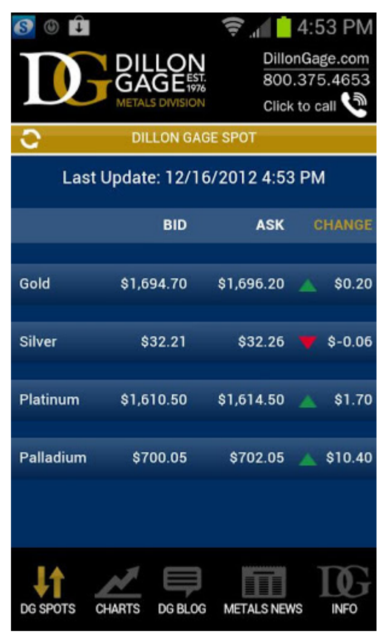
Dillon Gage Metals has just made it easier to access precious metals information while on the go with the release of its free, new mobile application. The app, which can be downloaded from iTunes and Google Play, is compatible with Android, iPhone, iPod Touch and is optimized for iPhone 5.

Through the app, users can access spot quotes, as well as current and historical data, for silver, gold, platinum and palladium. The historical data tab displays pricing information for various time frames, from five-days to five-years. This feature allows users to analyze trends and assess timing for future trades. Additionally, market news for the precious metals complex is available from Dillon Gage's blog, which provides insights from the Dallas-based company's experts.

"On a daily basis we find people need to have market quotes and data at their fingertips. This application fills that need," says Terry Hanlon, President of Dillon Gage Metals.

The new 6.8 MB app requires iOS 4.3 or later. To download the free application, visit the iTunes store or Google Play.

Dillon Gage is a member of The Silver Institute.



DILLON GAGE

Dillon Gage's new precious metals mobile app allows users to access spot quotes, historical data and other information.

Silver ETF Introduced at Hong Kong Stock Exchange

ETF Securities on November 28 began offering three new precious metals exchange-traded funds (ETFs) on the Hong Kong stock exchange. The ETFs are: Physical Silver ETF, Physical Gold ETF, and Physical Platinum ETF. They track London benchmarks.

According to Fred Jheon, Managing Director and Head of Asia Pacific at ETF Securities, the firm is the first ETF provider to offer a suite of precious metal products to the Hong Kong exchange that are backed by the physical metals. The HK exchange currently has three other instruments that track gold, including GLD, the world's largest gold tracker.

"We are pleased to welcome ETF Securities and their three commodity ETFs to the Hong Kong ETF market," said Calvin Tai, Head of Trading at HKEx in a public statement. "The introduction of the first ETFs on silver and platinum will further enrich our product offerings in precious metals. These three new ETFs are also in line with our corporate strategy to diversify by adding asset classes to our equities and equities-related products."

The stock codes for these new ETFs are: ETFS Physical Silver ETF (3117), ETFS Physical Gold ETF (2830), and ETFS Physical Platinum ETF (3119). HSBC will hold the bullion in their vaults and meet 'good delivery standards' set by either the London Bullion Market Association (LBMA) or the London Platinum and Palladium Market (LPPM), according to ETF Securities officials.

The annual expense ratios for these new ETFs are 0.39 percent for the gold ETF, 0.5 percent for silver and 0.6 percent for platinum.

BMO Launches Physical Silver Deposit Program

Following its Gold Deposit Program in September 2011, BMO Financial Group has opened its Vaulted Physical Silver Deposit Program.

The program is backed on an ounce-for-ounce basis with physical bullion at all times and will not hold or use unallocated bullion, certificates, ETFs or any other financial instrument that represents encumbered bullion, according to company officials.

The Silver Deposit Program rules require that all bullion is separated and identifiable and held at an approved vault in Canada, that it cannot be used for any purpose, and that it is segregated from other BMO assets. There are no storage fees but withdrawal and delivery fees may be levied. Customers may take physical delivery of a minimum 100 ounces.

Silver Demand Forecast to Hit Record in 2014: Silver Institute Report

Silver industrial demand will rise an estimated 6 percent to a record high in 2014, and will account for an estimated 57 percent of total silver fabrication that year, according to The Outlook for Silver Industrial Demand, a free report released by the Silver Institute.

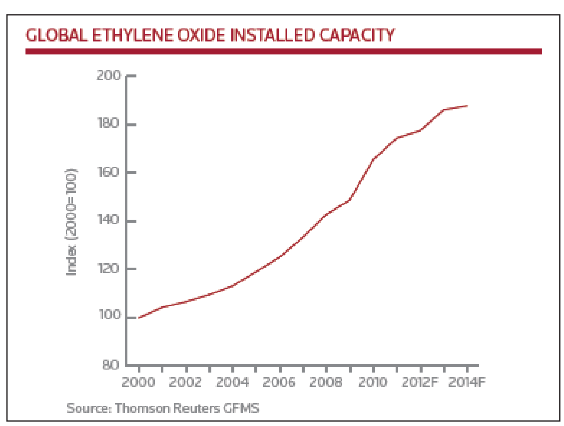
An overall improving economy, growth in the automobile industry and recovery in the housing and construction industries are primary reasons for the forecasted increase in demand, according to Thomson Reuters GFMS, which produced the report for the Silver Institute.

"Overall, industrial offtake in 2014 will account for some 57 percent of total silver fabrication, its highest contribution in our 25-year data series, against a still noteworthy 54 percent share in 2011," the report stated.

During 2012 through 2014 some silver industrial markets will outperform, including silver used in the production of ethylene oxide, a chemical used in the manufacture of products such as polyester. Silver oxide is employed as a catalyst to produce ethylene oxide.

Geographically, China has seen growing demand for silver, accounting for 8 percent of global demand in 2000 and last year contributing to 18 percent. United States demand will remain high, enhancing its position as a leading manufacturer of high-end silver materials.

The report highlighted the use of silver in products that had not existed in prior years, such as smartphones and tablets. While each item uses a small amount of silver, their cumulative effect could be substantial over time. "It is worth noting that some products did not exist until just a few years ago, so although their individual silver content is modest, they nonetheless represent silver demand that simply did not exist before," the report noted. "Furthermore, there are many uses of silver which may be considered niche or novel now, such as in biocides, printed inks and superconductors. Should such markets, however, achieve a greater commercial role, they may come to cumulatively account for an increasingly important share of industrial fabrication. Overall, therefore, the development of 'novel' silver uses will, albeit modestly, add to the growth we expect to see in many established applications, resulting in healthy gains for silver industrial demand going forward."



The demand for silver oxide, used in the production of ethylene oxide, is expected to rise through 2014.

China is World's Second Largest Silver Fabricator

Poised to Become Second Largest Producer, Report Says

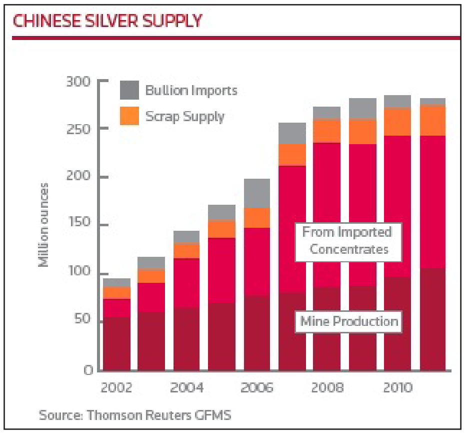
China today is the world's leading market for both physical investment and paper trading of silver futures and other similar products, and is the second largest silver fabricator today, according to a report from Thomson Reuters GFMS that was commissioned by the Silver Institute.

Investment demand from Chinese silver investors has jumped in recent years, making China the world's biggest market for both physical investment and paper trading of silver futures and other similar contracts, the report noted. In fact, during the first full year after the liberalization of the Chinese silver investment market in 2009, net demand for silver bars and coins doubled to 9.8 million ounces (Moz). In 2011, the figure soared to 17.0 Moz, accounting for 8 percent of global net purchases of silver bars and coins. Total silver demand in China has grown by over 100 million ounces in the past ten years alone to a record 170.7 million ounces, due to a strong manufacturing sector and robust investment in infrastructure. These factors were bolstered by the liberalization of the Chinese silver market starting in 2000, according to *The Chinese Silver Market*. By the end of 2011 China had become the world's second largest silver fabricator, accounting for 17 percent of global fabrication. Overall silver fabrication demand has grown from 67.1 million ounces to 159.5 million ounces during the period 2002-2011, a rise of 137 percent.

Much of the industrial demand for silver comes from the electrical and electronics sectors, including personal electronic products such as smartphones, tablets, notebooks and TVs. In 2011, the electrical and electronics sectors' silver demand rose to 40 million ounces from 17.1 million ounces in 2010.

China's jewelry market is growing as well, over 200 percent to 54.4 million ounces from 2002 to 2011. Further growth is expected in coming years as ongoing urbanization should lead to the expansion of retail jewelry outlets in larger cities.

China is now second to India in silverware fabrication.



On the supply side, Chinese mine production has almost doubled over the last decade, assisted by the base metals mining sector, leading to a sharp rise in silver produced as a by-product. China's mine production of silver now accounts for 14 percent of global supply, and it is likely to be recorded as the second largest silver producing country in 2012.

China's interest in silver shows no sign of slowing down, the report noted. "In spite of a rapid development in the Chinese silver market, both silver demand and supply are expected to achieve even further growth in coming years."

For a copy of *The Chinese Silver Market* click here.

Bath Tub Sports Silver Ion Circulation Components

American Standard Brands has introduced its **Archive Freestanding Premium Air Bath**, which features silver ions molded directly into the water circulation components to keep them from building up germs.

The US$9,000 bath tub matches the company's Archive product line and is made from acrylic with fiberglass reinforcement. It also includes air jets designed for back and foot massage. The tub has an optional chromatherapy LED lighting system.

AMERICAN STANDARD

This bath tub relies on silver ions in the circulation components to keep germs from building up.

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