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Stansberry's
Investment Advisory

Secrets of the Silver Market



Stansberry & Associates
Investment Research

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By Porter Stansberry and the S&A research team

Over the past few months, hundreds of people have written us angry letters, and many have said they never want to hear another word from us ever again... all because I've been describing the actions of the Obama administration as "The End of America."

I know, most Americans think I'm absolutely crazy. But I believe we are facing a major monetary crisis.

And the funny thing is, everything I've said would happen is happening. Gold is up from \$700 in December 2008 to around \$1,400 per ounce. Silver has more than doubled too.

You simply can't create money at the rate we have, and service this much debt over the long term.

That's the bad news.

The good news in all of this is we have an easy and predictable way to make a heck of a lot of money.

Yes, you should own some gold and silver (it's definitely not too late)... but I also believe you should buy one silver stock that will prove incredibly lucrative over the next few years.

It has soared more than 500% in the past five years... while most stocks have gotten absolutely crushed.

This company is unique. It doesn't really have any overhead or products for sale... and has fewer than 25 full-time employees.

In short, what this silver company does is provide an incredible service to mining companies. No other company on Earth is like this one. It has ZERO competition.

Before I give you all of the details on this unique business... let me back up a bit and explain why I think silver is such an important asset to own...

Why Silver Now

Lots of people realize the government propped up the banks with its repeated bailouts. But most folks don't understand the real way the government saved the banks. It's not the shares the feds bought (and paid too much for). It's the whole system of paper money.

The government is deliberately kept short-term interest rates super low, so the banks' funding costs almost disappeared. Then, by running a huge budget deficit and spending record amounts of money on domestic programs, the government insured inflation (and longer-term rates) remained high. The banks made money on the spread between short-term rates and long-term rates.

And just to make sure nothing goes wrong, the Fed is promising to buy trillions (yes, that's *trillion*) worth of mortgages, many of which come directly from troubled banks like Citigroup. In short, there's no way these banks can lose.

But of course, there is a real cost. The value of our currency goes down with every new dollar the Fed prints and with every dollar of new deficit spending. But the politicians can all pretend inflation doesn't exist. When it shows up in our economy, they can lay the blame with "speculators" and oil companies...

The government can manipulate the dollar like this because it's not backed by gold. President Nixon "temporarily" cut the tie between the dollar and gold in August 1971. At the time, Nixon promised the dollar won't be devalued – "your dollar will be worth just as much tomorrow as today," he said ...

At the time, \$35 would buy an ounce of gold. Today, it takes around \$1,400. That's a 97.5% decline in purchasing power. It's fascinating how many people believe this won't happen again... despite the fact that we've got runaway deficits, we're trying to fight two overseas wars, we've passed the largest entitlement program in history... and we've propped up every major bank in the United States. I'm not surprised gold is trading at \$1,400. I'm surprised it's not trading for more than \$5,000.

Put simply, if you double the number of dollars in circulation, it costs twice as many of them to buy the same amount of silver or gold. So wealthy investors buy precious metals to hedge against inflation and general chaos in the markets.

Before 1900, the U.S. dollar was pegged to both gold and silver. Back then, one ounce of gold was worth \$20.65, and an ounce of silver was worth \$1.29. And up until 1971, the U.S. dollar was pegged to gold. Silver fell by the wayside because it's less valuable and takes up far more space.

The U.S. central bank still backs about 78% of our currency with gold, so gold is still treated as money. Silver, on the other hand, is usually only used for jewelry and industrial purposes.

Back when gold and silver were both used as money, gold was about 16 times more expensive than silver. As I write, gold trades for about \$1,400 an ounce and silver trades for about \$27 an ounce... a ratio of roughly 50:1.

And as I explained, inflation is about to explode... and when it does, precious metals soar.

Between 1973 and 1980, a period of blistering inflation, the price of gold went up 710%... while silver soared 1,481%. History has shown as inflation increases, more people will turn to silver as a store of wealth. Silver's cheaper than gold, and just as safe. Once this happens, the gold/silver ratio should revert back to its mean of 16. If silver trades at one-sixteenth the price of gold, it would cost \$87.50 an ounce...

Safe Silver: A Far Better Business

We could buy physical silver... But to capture greater gains as panicked investors rush to bullion, I prefer to own silver companies. Silver companies follow the movement of the underlying metal while also providing leverage. If we own silver bullion, we only make the price increase of silver. If we own a silver company, we can earn much, much more.

Silver Wheaton (NYSE: SLW) is the largest silver streamer in the world. A “silver streamer” is essentially a company that purchases the silver byproduct from base-metal miners. Simply put, when a copper miner (or zinc miner or iron miner) extracts ore from his mine, that rock likely includes a lot of minerals other than copper – including silver. The copper miner doesn’t want the hassle of smelting and dealing with the silver from his mine. So a silver streamer, like Silver Wheaton, is there to take it off his hands...

Silver Wheaton will swoop in and make a deal up front for the silver. It’s a good deal for the base-metal miner because he gets guaranteed income for his silver. And it’s a great deal for Silver Wheaton because it gets a guaranteed supply of silver without the hassles and risks of actually mining it.

Silver Wheaton has 18 long-term agreements with eight mining companies, including Barrick, Goldcorp, Glencore Mining, and Lundin Mining. In total, Silver Wheaton’s dozen and a half streaming agreements produced about 17 million ounces of silver equivalent in 2009. Over time, other mines already covered by agreements with Silver Wheaton will be built, and the company expects production to hit 40 million silver ounces by 2013.

To understand exactly how these deals work, let’s look at Silver Wheaton’s agreement at the Luismin mine. In October 2004, Silver Wheaton bought the silver stream from the Luismin Mine, about 100 miles northeast of Mazatlan on Mexico’s Pacific coast. Luismin is actually several mines operated by the base-metal miner Wheaton River in the rich Occidental silver and gold district in the Sierra Madre mountains.

To acquire rights to the silver, Silver Wheaton paid Wheaton River \$36.7 million and 108 million shares up front. In addition, Silver Wheaton agreed to pay its customary \$3.90 per ounce of silver. In return, Wheaton River agreed to turn over to Silver Wheaton 120 million ounces of silver over 25 years.

In the end, Silver Wheaton paid \$4.20 per ounce of silver from Luismin... for 25 years. Silver Wheaton’s risk is the price of silver will average less than \$4.20 over that period. Since the companies signed the deal, Luismin Mine has produced 29.2 million ounces of silver for gross sales of \$335 million. The company collected an average sale price of a little less than \$11.50 an ounce (slightly above silver’s average price during that time, \$11.03 an ounce). So Silver Wheaton made \$7.30 per ounce in operating profit over those four years.

Silver Wheaton’s flagship deal is an agreement with Goldcorp for 25% of the silver produced at the Peñasquito mine... for the life of the mine. This is the largest silver deposit in the world. Even a 25% stake ranks among the planet’s top 20 silver deposits.

Silver Wheaton’s fundamentals are nearly perfect... This company has negligible debt, almost 860 million ounces of silver reserves, a more than 50% operating margin, and a secure cash flow from mines in seven countries. In the first quarter, the company netted more than \$7 per ounce of silver.

Silver Wheaton’s strategy has paid off so far... but its results will get even better as the price of silver rises...



Silver Wheaton's costs are fixed, so any increase in the silver price goes straight to its net profit. If you look at Silver Wheaton's share price compared to its earnings, you'll see a direct relationship to the price of silver. In other words, as the silver price goes up, people will pay more for the stock.

When silver is \$6 per ounce, the market will only pay about six times Silver Wheaton's earnings. Its earnings start to evaporate when silver falls below that. However, the market will pay about 23 times earnings when silver is around \$10 per ounce and around 39 times earnings when silver cracks the \$14-per-ounce ceiling.

That means a rise in the silver price gives your investment "juice."

Say we buy shares when they trade for \$6.50 and silver goes for \$10 per ounce. When the silver price hits to \$14 per ounce, history says the stock should race up to \$10.80. So while silver rose 40%, *our stock jumped 66%*. That's leverage and that's why we want to own Silver Wheaton at times, like today, when silver is poised to race higher.

Of course, the leverage works both ways, so there are periods when Silver Wheaton shares are cheap relative to the metal. We can figure out the fair value for those shares, based on Silver Wheaton's silver reserves and the price of silver bullion. That way we'll know when Silver Wheaton's share price is below market value. The table below tells us how much to pay for its shares, based on the price of silver.

Fair Value of Silver Wheaton Shares by Silver Price

Silver Price	Share Price
\$32.00	\$62.16
\$31.00	\$59.39
\$30.00	\$56.62
\$29.00	\$53.85
\$28.00	\$51.09
\$27.00	\$48.32
\$26.00	\$45.55
\$25.00	\$42.78
\$24.00	\$40.01
\$23.00	\$37.24
\$22.00	\$34.48
\$21.00	\$31.71
\$20.00	\$28.94
\$19.00	\$26.17
\$18.00	\$23.40
\$17.00	\$20.64

Today, silver sells for about \$27.50 per ounce, and Silver Wheaton shares are roughly \$36. Our fair-value calculation says at the current silver price, Silver Wheaton should be closer to \$48.32. That means we can buy shares well below fair value right now.

Recommendation: Buy Silver Wheaton (NYSE: SLW) shares when they are below the fair value compared to silver. Use a 50% trailing stop.

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