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Should I sell my silver?

by [Simon Black](#) · [View Comments](#)



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April 26, 2011
Manila, Philippines

[Editor's note: Tim Staermose is filling in for Simon today.]

Silver's rise (in US\$ terms, at least) over the past several weeks has been nothing short of phenomenal. The chart has effectively "gone parabolic," and people I've never met have started to e-mail me (in my capacity as a registered investment advisor) for advice on silver.



It doesn't matter whether it's silver, tech stocks, emerging markets currencies, or pork belly futures... any time these two events coincide (a parabolic chart pattern, and strangers asking me for advice), it sets off ALARM BELLS in my head.

I'm going to go out on a limb and say that right now, the fundamentals for silver DON'T matter. Many of the latest crop of silver "investors" have no clue about the fundamentals.

To try and divine what comes next, it's more useful to use a general framework for understanding financial markets than to look at the supply and demand characteristics of silver. Because, right now, the market is being driven chiefly by investor psychology.

It's a cliché to say it, but ultimately all financial markets are driven by fear and greed. Actually, I'd argue that they're driven almost exclusively by fear. Let me explain...

In the initial stages of a bull market, it's the fear of the unknown that keep the masses out of an asset class. They think to themselves, "Yes. I can see it's cheap. I can see the fundamentals stack up. But what if, blah blah blah. Why is no one buying it? There must be something wrong with it. Best to steer clear."

For those who overcome this initial fear, or skepticism, and do get into the market, once it starts going up and they have a profit, once again their primary, over-riding emotion is fear... fear of losing their profits. Or, even worse. The fear of a profit turning into a loss.

So, what do most of them do? They sell out for a small profit. That's why it is said that bull markets are constantly climbing a "wall of worry." And that's why ALL markets have corrections. Corrections happen when enough people are FEARFUL of losing the gains they've made so far, and start to sell out in large enough numbers to temporarily reverse the trend.

Near the top of a bull market, when most have finally overcome their skepticism, and the savvier participants have taken advantage of one of the numerous corrections to buy into the market, fear again comes to the fore.

For those not in the market yet, even at this late stage, what finally pushes them in is the FEAR OF MISSING OUT.

All their friends and colleagues are cleaning up in the market. How stupid they would look if they don't get a slice of the "easy money" too. And so, they pile in like lambs to the slaughter.

I don't think we're at that point — yet — with silver. But we are at the stage where many people who are already in the market are FEARFUL of losing their profits.

On this basis, as a student of market psychology, I suspect a correction is overdue. Again, I don't claim to have any specific fundamental insight into the silver market. I am speaking from a general standpoint.

So what should you do?

If you own physical silver, the logistics of taking profits on your stash are probably quite complicated. Shipping, and converting a large amount of physical silver to cash temporarily, may not be straightforward.

But there are other ways to soothe your "fear of losing your profits." You can buy temporary insurance against a correction. Or, if don't actually own any silver at the present time, you can speculate on a correction.

Long-term ETF positions are risky, but you may consider a short-term position in the ProShares UltraShort Silver ETF (ZSL on the New York Stock Exchange). This instrument is designed to move TWICE as much as silver bullion, but in the OPPOSITE direction.

For example, if silver falls 5% in a day, this security should GAIN 10%. Of course, it works both ways. If silver keeps on rising, then the price of ZSL will lose twice the amount silver rises by.

During this bull market, silver has already seen one “correction,” during the financial crisis, of more than 60%. That was an anomaly. But, a typical 10% or 20% correction would not be surprising to see at some stage — quite possibly soon.

Any time any market has gone parabolic, it has played out that way. (Indeed, a correction may already be underway as I write. I’ve just checked and I see silver is off by more than 3% in Asian trade).

Just so you know, my own money is where my mouth is. I’ve personally bought some call options on ZSL which will make me a tidy gain if silver suffers even a modest pull-back— I put the trade on early in the day on Monday with silver above \$48.

I’ll have much more to say on silver, and other precious metals, in future missives, as we see how events unfold.

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Showing 12 commentsSort by Newest first ▾[Subscribe by email](#)[Subscribe by RSS](#)**5150** 1 week ago

I would also like to thank Sovereign Man for his observations on the Philippines. I think optimistically that there is much room for growth here, our problem only are most of our grandstanding elite politicians who wouldn't be fit for work in a Macdonalds in the US (which some of their kind try to do when there). Oh they steal a lot too but they are in denial about it; even they themselves don't believe they are stealing (that's God's work for you!). In order for some people to prosper here they had to go to the underground economy. Tax laws here are porous and have lots of loopholes (gov't incompetence here sometimes work in favor of the people). But if you basically keep to yourself and don't flaunt what you have, government will leave you alone.

One thing is not to buy agricultural property here if your a foreigner; there are still constitutional restrictions on foreigners owning land here; you can own a condo though under the law); a long-term lease agreement of between 5 to 50 years will suffice. And here agricultural land is like silver, if you don't possess it, you don't own it. Some other guy (your local trustee/tenant) will use the land and may exclude you from its fruits to your disadvantage. Live on it, utilize it, and your ok.

Like

Reply

**5150** 1 week ago

If you are in the Philippines where do you sell your silver at a fair price?

I know of a place in Manila but the problem is they will buy below spot (I try to understand that the buyer wants a bit of profit before he resells

the same to the the melters in Apalit, Pampanga).

Silver market here still has way to go before they catch up with global trends. People here are also oblivious to the signs due to the distractions. Silver here is still cheap, but I see fewer and fewer coins (silver here is mostly kept in junk silver form, mostly by people old enough to remember our own little Weimar moment during the War) on the market now.

Like Reply



offshoreguy 1 week ago

I think the long-term trend in silver is very bullish. There will be substantial corrections however before we reach the market peak. One way to turn gold and silver from a sterile investment into a productive one is by trading on the ratio. You can swap your silver into gold. When there is a correction in silver and gold prices, and the ratio again rises, you can swap your gold back into silver. The end result is more ounces of silver.

For example, 2000 ounces of silver can be swapped at an effective ratio of around 35 right now. That would give you about 57 ounces of gold. When there is a correction and the ratio rises to perhaps 56, you can swap the 57 ounces of gold into silver and end up with 3192 ounces. A gain of 1192 ounces.

This example does not take into consideration capital gains taxes.

Like Reply



Hullevad 2 weeks ago

I have a suspicion that the silver "raptors" are shorting the silver miners. As the have naked puts that goes all the way to 2015 they want to grab mining stocks at a great discount to get covered in the long run!

Like Reply



Pmartin008 2 weeks ago

Tim,

Nice piece. I'd like to know how you are a registered investment advisor in the Philippines. I am an RIA myself here in the US, but I am looking to internationalize my advisory practice. I'm a totally new member to SovereignMan.com, so I don't really know my way around the site yet. But I would appreciate if you could respond.

Thanks,
Peter

1 person liked this. Like Reply



Staermo 1 week ago [in reply to Pmartin008](#)

Sorry for any confusion caused. It is in Hong Kong that I am licensed with the Securities and Futures Commission to give investment advice on Equities, and Derivatives. I am not active in the financial advisory business in the Philippines, nor the United States -- which another poster enquired about.

[Like](#) [Reply](#)**Gainsmore** 2 weeks ago

I think you mean a PUT option don't You? You are betting that silver will fall in value so you will 'put' the higher price on someone else when you execute your option.... and get the difference between the lower price and the strike price of the option- right? A call option is when you are long. In the end it's all paper and having physical is good to have.

[Like](#) [Reply](#)**Staermo** 2 weeks ago [in reply to Gainsmore](#)

No. ZSL is structured to RISE as silver falls. Thus I am betting ZSL will RISE in price, and have hence bought CALLS.

[Like](#) [Reply](#)**Ralphus Lucius** 2 weeks ago

Excellent analysis. I have been accumulating physical silver for about three years - buying when it was dirt cheap and everyone else was scared away. Of course, the temptation is always there to book profits. I do believe it is possible to see a 20% correction, maybe more. In fact, I hope so. I'd like to buy more.

Short term, it's anybody's guess. But long-term, I have no doubt we will see some extraordinary gains in the months ahead. I think we are only midway on the uptrend.

The reason is simple - and it is all a result of an increasingly weak dollar. Even if Bernanke raises rates tomorrow - which I doubt - silver is still a great long-term bet. The massive debt behemoth is so incredibly large that it is unthinkable any change to turn it around will happen soon, if ever. The dollar will continue to weaken. That it is weak against the highly damaged Euro tells me that we're in for much inflation and continued dollar weakness for years to come.

One interesting note: Mining equities have not kept pace with rising silver and gold prices the past two weeks. I did, in fact, sell all of my mining stocks and locked in profits when I began to see this trend early last week. Glad I did. All but two of them have been on the downward trend. I am not sure what this weakness is - but I am guessing it is anticipating the end of QE2 - which has helped equities keep pace with inflation. Higher production costs may also be coming into play. Trading remains relatively light - which is worrisome, so I would tread carefully with equities right now. I am anticipating a major correction in this area as well.

Even if we get to \$35 silver - just consider where silver was one year ago. Believe me, the fun is just beginning.

I would, by the way, be careful with China. In spite of the IMF's pronouncement that China will surpass the USA economy in 2016, remember that China is highly overbought and over-invested. China is a bubble that will bust and bust badly. Look at the real numbers, and ignore the China boosters. And remember, who funds much of the IMF? Our lovely Fed! As Ayn Rand classically said, "check your assumptions".

1 person liked this. [Like](#) [Reply](#)**Staermo** 2 weeks ago [in reply to Ralphus Lucius](#)

Agree on China. All booms bust, the only question is when. On silver, I'm no expert. It just looked frothy to me in the near term. Did you know the Sprott physical silver ETF was selling for as much as a 23% premium to spot silver last week?!

Longer term, who knows? I tend to think silver will be more valuable than the US dollar, though...

Like Reply



R. 2 weeks ago

For those who have too much money, or just like high risk/high reward games - You can go long/short gold and silver at Oanda using 50:1 leverage. At current prices, \$46 would allow you (at least in theory) to speculate on 50 ounces of silver.

Like Reply



R. 2 weeks ago

Actually, ZSL ultimately goes to ZERO, no matter what silver does. It's a very risky investment for anyone who is not a day trader. So, if you are anxious, here are your options, each carrying it's own risks and strengths:

- 1) Don't do anything and stop following the silver price for a few weeks or months.
- 2) Sell your silver for cash and buy back later (if you are lucky).
- 3) Buy puts - similar to ZSL, but better risk/reward ratio.
- 4) If you are very conservative - sell silver and buy gold, which is much less volatile.

You're welcome. ;)

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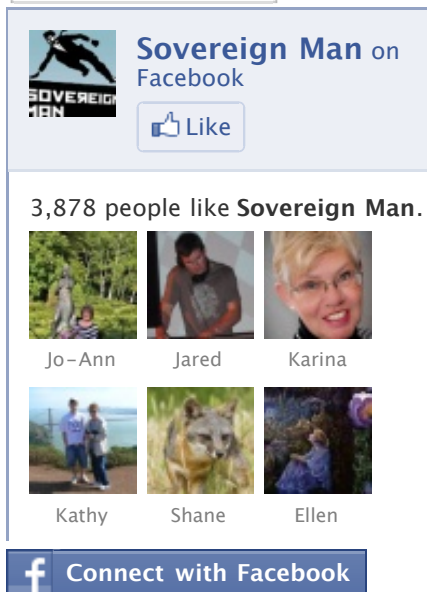
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