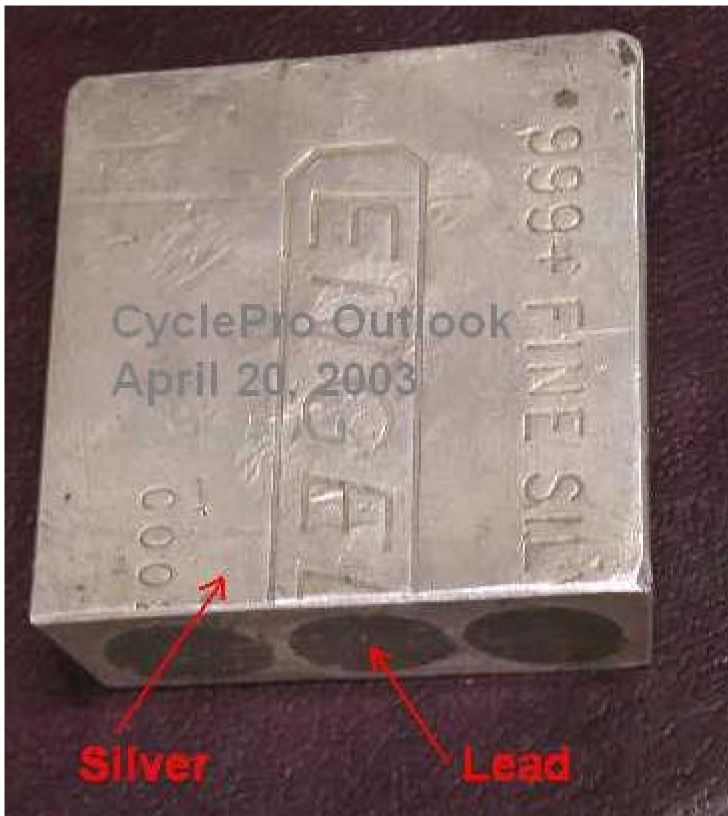
Buying silver bullion - Warning! I do not mean to alarm anyone because the likelihood of this happening to you was quite remote. But the photograph below was taken of a 100 oz silver bar that was cut in half to show how thieves can remove silver content without it being easily detected. As you can see, holes were bored into the bar and replaced with lead. Since silver and lead are very similar on the scientific element tables, the weight and feel of these tainted bars are indetectable. Weight and specific-gravity tests are not sufficient for those of us in the non-scientific world. There are several things you can do to detect the drill-outs: (1) hold the bar between your thumb and first finger at a corner and then rap the bar like you would a tuning fork. The bars containing lead will have more of a thud sound than a nice ringing that you get from a pure bar of silver. (2) Most bar manufacturers make their bars with slightly more than 100 oz -- if you use a small (1/8" or less) drill bit into the top-center of the bar and drill down only 1/4 inch. If there are lead bore holes, then you should see the drill crumbs turn dark as it cuts the lead. Personally, I am reluctant to do this because I fear that the bars would not be as re-sellable... however, several of the major precious metals dealers that I work with in Houston have assured me that a tiny drill hole only 1/4" deep in the center does not affect the resaleability of the bars. The dealers have assured me that the slightly extra silver in each bar is sufficient to keep the bar at its 100 oz weight.



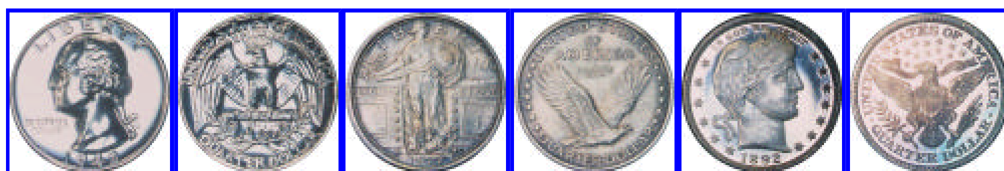
During the 1980's silver bubble when prices went above $50 per oz and one 100 oz bar was worth $5000, apparently thieves were willing to risk getting caught for their monetary reward in performing the drill-outs. As far as I can find, the only bars that were affected were 100 oz Englehard with a serial number that started with P or C. I have not contacted Englehard directly for verification, but apparently all known conterfeits have been removed from the market. However, everyone should be cautious that there may still be a few circulating around that have not yet been detected. Until recently, 100 oz silver bars were not being fabricated, thus all 100 oz bars being traded were leftovers from the 1980s era. Now, Englehard and Johnson & Matthey are fabricating new 100 oz bars. The Englehard bars are almost identical to the old bars. The new Johnson & Matthey bars are poured with rounded sides and corners, so it will be much more difficult to modify by thieves. Thank you to Houston Precious Metals owner John Hendlemeyer for providing the sample of the conterfeit bar for my photograph.

If you are planning to buy a large quantity of 100 oz silver bars and they are of the variety in the photo, then I recommend that you randomly select a few bars and ask your dealer to perform the drill test for you.

Silver bullion takes up a lot more physical space than gold bullion. If you have limited vault space available and you want to hold some silver, then I recommend 100 oz bars. They are uniform size, stack easily, and the weight is manageable. 50 oz bars are good too, but they are not freely traded as the 100 oz bars. Also available are bulk bags of 90% U.S. silver coins. These were minted prior to 1964 for dimes, quarters, and half dollars. From 1965 to present, the coins are sandwiched with various alloys, none of which contains

any silver (although 1965 coins hold a small amount, about 40%, but overall too bulky to consider for investment purposes). The 90% silver bags are normally sold in bags of $500 or $1000 face value. This means a $1000 bag contains either 2000 half-dollars, 4000 quarters, or 10,000 dimes. $1000 of face value for any of these coins contains about 722 oz of silver. The size of these coins was specifically designed to maintain a "monetary value" of $1.28/oz of silver but this was back in the days when the U.S. government openly maintained a market price of less than $1.28/oz. When spot silver prices moved above $1.28, people tended to hoard the coins and melt them down to get more value. Since 1964, the U.S. government no longer tries to maintain any specific price for silver since there is no longer any monetary value in our circulated coins. If you have sufficient storage space available, then 90% silver coins is the best silver value -- currently $1000 bags sell for around $3400 per bag with about $100 extra premium for half dollars. 100 oz bars normally will carry a slightly higher premium above spot silver prices, but 100 oz bars are much easier to store. The one additional side benefit to the coins is that if you ever get desperate enough, you can still spend the coins because they will still work in vending machines and are accepted by merchants. Silver bars, however, will normally be traded with dealers, but silver bars are the most liquid and almost anyone world-wide will accept standard silver bars.

One of the methods that less-reputable dealers use in dealing with 90% silver bags is to use more of the older coins. For example with quarters, the vast majority of the coins will be Washington-head (1932-present) coins, but you might get a few of the older Standing Liberty (1916-1930) or Barber (1892-1916) coins. These quarters are so old, that they are usually worn down to the point that the minting date is no longer visible. If these coins had a mint date, they would likely have collector value, so if they are in your bag chances are that they have no collector value. These well-worn coins contain much less silver than less-worn coins. When you buy bagged coins, take a random scan to make sure that you do not have a large quantity of these older coins, although a few dozen per bag is considered normal... while it may sound as though the older coins might be worth more for collectors, without a mint date they are essentially worth no more than their silver content, and it does not matter if the coin was originally minted in 1964 or 1864.



Click each image to enlarge.

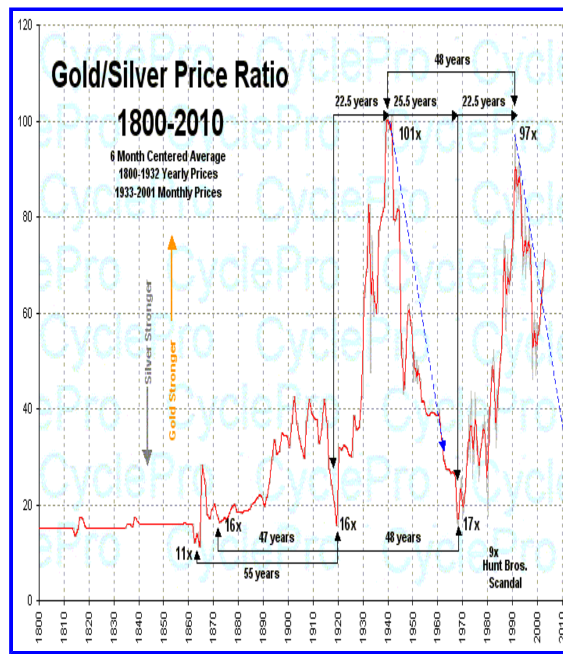
Until silver prices move substantially higher, I do not anticipate that thieves will have any incentive to counterfeit silver bars. But if/when prices move much higher, please be cautious of each new silver bullion purchase.

Silver/Gold Bullion Strategy As a Silver/Gold bull, my long term plan is to keep silver and gold bullion in storage vaults for at least another 5-8 years, possibly longer. But during this time it is possible to gain additional value

(and compound your investment) by trading when the price ratios are to your advantage. For example, right now gold is about $325 and silver $4.50. The gold/silver ratio is 72.2 which means it now takes 72 oz of silver to purchase one oz of gold. Over time, the price ratio between gold and silver changes and oscillates. When the gold/silver ratio moves higher sell gold and buy silver -- when the ratio moves lower, buy gold and sell silver. The idea is to always keep silver or gold (or both), you simply move the bulk of your holding from one metal to the other, but always holding something. This way, if/when price moves much higher, both metals will participate. As we saw during the 2002 gold mini-bubble, gold tends to move first, but silver will soon follow. Silver should be thought of as the "poor man's gold". Right now, the ratio favors buying silver. One important caveat for this strategy, when trading one metal for the other make sure the dealers premium costs or commisions make the whole trade worthwhile.

For example: assume gold is at $325 and there is a $5 premium to buy a Krugerand coin and no premium when selling -- thus, buying costs $330 and selling you would only get $325. For silver assume $4.50/oz with a $0.30 premium for 100 oz bars to buy and zero premium to sell. Thus, it costs $330 to buy 1 oz of gold or 68 3/4 oz silver. Let's say you have a choice of buying 7 - 100 oz bars of silver for $3360 (7 x 100 x 4.80) or buying 10 oz of gold for $3300 (10 x 330). If spot gold prices rise to $400 and silver to $8 the ratio is 50... perhaps you believe it is a good time to switch to gold, so you sell 7 bars for $5600 (7 x 100 x 8, no premium) and buy 14 oz of gold for $5670 (14 x 405). For the extra $70 that transaction cost, you now have 4 more onces of gold than you would have had if you originally bought gold instead of silver. Going to the next step, if prices continue higher to $600 gold and $10 silver and you believe it is time to switch back to silver, then selling 14 oz of gold for $8400 (14 x 600, no premium) you could buy 8 - 100 oz bars for $8240 (8 x 100 x 10.30). You would gain an extra 100 oz bar plus pocket $160 in cash (with which to buy more silver, of course). As gold and silver prices rally and retrace, the gold/silver ratio also changes. When you get to a point where switching from one metal to the other gains additional ounces, then consider taking advantage of the opportunity. The most important thing to remember is to **always stay in one metal or the other**, don't try to time the whole market because you might miss out if/when prices surge again. In a strict buy-and-hold strategy, gold and silver do not return any dividends or interest, only the potential for price appreciation. Thus, gold and silver are simply a store of value. The strategy I have outlined keeps you in the market at all times (so you still get the benefit of "store of value"), yet you can compound your investment along the way as the market provides the opportunities.

The following chart posted in January, shows the historical ratio of gold to silver:



Click chart to enlarge.

While this chart clearly shows the major ratio waves from the teens to about 100 and back again, these are 22 to 25 year moves. These waves are not what my strategy above is talking about. You can see by the chart that my forecast is anticipating that silver will outperform gold over the next dozen years. But within each wave are smaller waves. These waves are the ones that my strategy is intended. For example, in 1990 the ratio was about 100, early 2000 it was about 55, now it is 72. Anyone who bought silver in 1990 and held it until 2000, switched to gold and then waited to switch back to silver gain right now would have increased their silver holdings by a factor of 1.33 times. (In january, 1990 silver was $5.25 and gold was $420, ratio 80, January, 2000 silver $5.35, gold $290, now silver 4.50, gold $325 -- assuming no premium to buy or sell, 80 oz silver in 1990 is now coumpounded into 106 oz, a 33% increase in physical quantity and about $57 gain in total value. In comparison, if you had bought 1 oz gold in 1990 and held it you would have lost $95 in market value with today's price ($420 - $325). If you had bought 80 oz of silver in 1990 and held it without compounding it you would have lost $60 in market value ($5.25 - 4.50). So you can see that even during times when the commodity prices are falling, a compounding strategy can not only help retain original value, but it can also help return more (or lose less). Since the examples above were during a bear market in precious metals, imagine how much better the returns could be during a bull market. So even if my CyclePro forecast is completely wrong and prices resume dropping again, this strategy could help hold current value.

Another twist to this strategy is to trade in and out of specific gold or silver investments as dealer premiums change. For example, right now U.S. Eagle gold coins have a premium much higher than Krugerands... so I am preferring Krugerands right now. If the premiums converge closer to parity, then I may switch my Krugerands for U.S. Eagles. Foreign gold bullion coins have selling reporting requirements that U.S. Eagles do not have... for example if you sell 25 oz or more of Krugerands at one time, the dealer is supposed to

notify the IRS of your sale, but selling only 24 oz does not require reporting. Another example is the Australian Lunar Series coins. If these end up being sought after by collectors, then their premiums may increase. Already some of the prior year coins have secondary market premiums of over $100/oz above spot gold. In this case, if/when premiums increase by these levels, then selling the high premium bullion coin for low-premium coins will help compound your bullion inventory.

By the way, if you are currently holding gold instead of silver, I am not necessarily advocating that you sell your gold and buy silver right now. Personally, I am accumulating both gold and silver. Actually I am buying almost equal dollar values of each at the moment, primarily because the ratio is more benefitial to buying silver right now. But I still want to hold gold too. When the ratio opportunity returns, I intend on swapping a portion of my silver for gold, and back again ... but throughout the next dozen years (perhaps) I will always hold some gold and I will always hold some silver.

Gold & Silver Outlook From the April, 2001 lows, I count 5 waves up to the February, 2003 peak. This top occured much later than I had originally expected... but then, I did not expect the 5th wave to extend in a mini-blowoff. In my January update, I mislabeled it and thought the rally was part of a wave 3 of some kind, but I did not consider an extended 5th wave. Now that the subsequent pullback has been as deep as it has, hindsight & 20/20 we know know the 5 waves up are complete. From that top I believe we are still in the progress of a large wave 2 (in 3 waves: a-b-c), of which we are still working on the completion of wave "a". I know that may be disappointing to some gold bugs, but I think the current rally will stall out within the next few trading sessions (with a potential of breaking above 330 but probably not high enough to fill the gap remaining from April 1-2 which needs 334.60 to fill the gap). Then perhaps before the end of the 1st week of May we should see gold below the April 7 low of 320.10. A rough guess of 308 is possible for that low. If/when that occurs, wave "a" should be complete and wave "b" should begin. Wave "b" should be a 3 wave structure that should go up to and slightly above the top of the chart gap (347) left over from March 12-13, 2003. Wave "b" may not complete until mid-June. Once "b" is complete then wave "c" should begin that should take prices below the low of wave "a". It is too early to project that low price, but roughly I'd guess slightly below 290 around the first week of September, 2003.

Since the rally from April, 2001 lows to February, 2003 top was 21 months, I doubt that a wave 2 will complete in only 2 months, which is only 10% of the time of wave 1. Normal wave 2's are generally more than 30% of wave 1's time.

If any of this scenario plays out, then all of that will complete the larger wave 2. Unfortunately this means that $400 by the end of the year may not happen. I know gold bugs will not want to read that scenario, but fear not, because once wave 2 completes, wave 3 begins and wave 3 will be the one that gold bugs will salivate over.

If this scenario is wrong and wave 2 is already completed (which is an

alternate count), then we should see prices ratchet higher and higher over the next few months... closing the gap from April 1-2 and then the gap from March 12-13. If that happens (and I would give it about a 1 in 4 chance) then we could reach $400 by year end. For now, we need to monitor the April 1-2 chart gap and the April 7 low of 320.10 because these will be the magnets that should draw prices one way or the other for the next few weeks.

Now, just to keep everything in perspective, that wave 3 will be impressive, but that is not the wave 3 that could take gold prices into the quad-digit area. I suspect that this wave 3 will be limited to perhaps $600/oz. The bigger, more spectacular event is most likely several years away. Keep in mind that for now, we are tracking a 5 wave structure from the low in April, 2001, of which, only wave 1 and a portion of wave 2 have completed so far. We still need to complete waves 2, 3, 4, and 5. Ok, once all of this is complete, then in a much larger picture, all of this is only wave I of an even larger structure. After wave II completes then wave III will be the big one... the one that should take gold prices above the previous all time highs. And if our economy really stinks as we move into the next decade, a possible wave V could blow-off where gold prices may approach our long term, super-bullish target of $3000/oz.

Did I really say "next decade"? When reading articles from websites devoted to gold/silver or fiat currencies, you need to remember that the authors have, and will continue to have, perpetual opinions about where gold prices are going, or where the Dollar is going. If you read them too frequently you may convince yourself that they might be right. Most of what they say is likely true. But almost all of them are *talking their book* -- meaning that many of them are bullish on gold simply because they are long gold... or they are bearish on the Dollar because they are short the Dollar. Without a time perspective you get the impression that $3000 gold or Dollar at 50 is imminent. The reality is that no one knows for sure if or when any of it will happen. But I believe that the best timeframe for these events to occur is still many years from now. I read a lot of the bullish gold websites and I really have to say that I agree with almost all of their main reasons, but it is the timing element that I have to keep one foot in reality. As long as George W. Bush continues to spend, spend, and spend some more, and the Federal Reserve continues to accomodate him, it is only a matter of time before the Dollar becomes trash to the global community -- and we'll be getting close to that point soon. This is just basic economics. Since gold is priced in Dollars (an inverse relationship), when the Dollar decreases relative to foreign currencies, the price of gold will rise... this is just basic mathematics.

Mining Stocks Over the past few years I have discussed several mining companies that I like. There are many good companies. But I need to keep a short list of my favories. Last year I reduced my exposure to DROOY. Although my timing could have been better, over all it was a good choice -- I replaced about 80% of my DROOY holdings with equal portions of NEM and GG. NEM is still in progress to eliminate their hedges, most of which were gotten through acquisition of other mining companies. GG is still doing well and I will be accumulating more over the next 6 months (assuming my forecase above holds out). I have also added 2 more stocks to my list: RGLD

and WHT. RGLD (Royal Gold) was caught up in a nasty Barron's article several months ago and the stock sold off substantially. But the management and company are sound, I consider the Barron's sell-off to be an opportunity so started buying in the low $13's. WHT (Wheaton River) is considered a junior mining company. I like the management and the projects they're involved in and started buying in the low 80 cent area. I am accumulating RGLD and WHT on pull-backs. In the 3-tier quality structure I have discussed in the past, NEM and HMY are in my top tier, RGLD and GG are in my middle tier, and GSS, DROOY, and WHT are in my lower tier. I remain a believer that a good diversified portfolio should contain a selection of stocks from each tier. You'll have to decide how mush diversification and/or risk works best for your portfolio. All I can tell you about my choices is that I have not lost any sleep over these companies.