

Silver's Historical Correlation with Gold Suggests A Parabolic Top As High As \$714 per Ounce!

By: Lorimer Wilson

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Almost 70 respected economists, academics, gold analysts and market commentators (see list below) are of the firm opinion that gold is going to go to at least \$2,500 if not as high as \$10,000 per ounce (or more) before the parabolic top is reached. As such, just imagine what is in store for silver given its historical price relationship with gold. We're looking at an extreme case scenario of a future parabolic top of perhaps as much as \$714 per ounce for silver, the 'poor man's gold'. Let me explain.

The current price of gold and the price of silver – the silver:gold ratio - continues to hover around the 67:1 range which is way out of whack with the historical relationship between the two precious metals. It begs the question:

“Is now the perfect time to buy silver instead of the much more expensive gold metal?”

It is critical to step away from all the noise and clutter that passes for knowledge and take the time to gain perspective on where the price of gold and silver are in terms of the 'big picture', i.e., where they are in their individual performance channels and in respect to their historical relationship with each other over the long, medium and short term and, based on those relationships, how they might perform in the future.

Bull Market Stages

The key to a secular gold/silver bull is the collective gold/silver transactions of investors worldwide buying and selling gold/silver that ultimately sets the price and determines their fortunes. The collective demand trends of gold/silver investors effectively divide precious metals bulls into 3 distinct demand-driven stages, namely:

1. Stage One which occurs when a devaluation of the dominant currency in which gold is priced, i.e. the USD, leads to a moderate increase in the price of gold. Stage One for gold began on February 15th, 2001 when it reached a 22-year secular low of just \$255.10.

2. Stage Two which occurs when the decoupling of gold from local-currency devaluation begins to outpace the dollar's losses and gold starts rising significantly in virtually all currencies worldwide. Stage Two began on June 5th, 2005 when gold (at \$417.67US) first surpassed 350 Euros for the first time.

3. Stage Three which occurs when the general public around the world starts investing in gold and this deluge of capital into gold causes it to escalate dramatically (i.e. to go parabolic) in price. We are approaching Stage Three and it will become clearly evident when the price for gold begins its daily record ascents to dramatically higher prices.

Gold

We are now in the very early stages of Stage Three with gold having gone up 24% in 2009 and up 13.3% in the first 6 months of 2010. As such there are no shortage of prognosticators who see gold going parabolic reminiscent of 1979 when gold rose 289.3% in the course of just over a year (from a \$216.55

closing price on Jan. 1, 1979 to a closing price of \$843 per ounce barely a year later on Jan. 21, 1980) and 128% higher in a late-1979 parabolic blow-off of just under 11 weeks! A 289% increase in the price of gold from \$1250 would put gold at \$4,866. That being the case what appear on the surface to be rather outlandish projections of what the bull market in gold will top out at don't seem quite so far-fetched.

Below is a list of the parabolic tops for gold as discussed in articles and/or speeches by well known economists, academics, market analysts and financial commentators. Their prognoses are limited to those above the CPI adjusted 2010 price of \$2,300 and they are grouped according to the extent each individual sees gold appreciating over the next few years (and next few months in a few cases).

The list below is provided on my site - <http://www.munknee.com/2010/07/these-70-analysts-have-sound-reasons-to-believe-gold-will-reach-parabolic-top-as-high-as-10000/> - with a link to the actual article in which each estimate was put forth if you care to check out the rationale behind each individual's projections. (If, in checking out the list, you find a name missing please send me his/her name and the URL of the article in which the individual states his/her case. I am only interested in projections of gold achieving a parabolic top of at least \$2,500 per ounce. I will provide an updated list at a later date if warranted. Send the email to editor@munknee.com.)

Higher than \$10,000

1. **Mike Maloney:** \$15,000;
2. **Howard Katz:** \$14,000;
3. **Silver-Coin-Investor.com:** \$7,000-\$14,000;
4. **Jim Rickards:** \$4,000 - \$11,000
5. **Roland Watson:** \$10,800 (in our lifetime);

\$5,001 - \$10,000

1. **Arnold Bock:** \$10,000 (by 2012);
2. **Porter Stansberry:** \$10,000 (by 2012);
3. **Tom Fischer:** \$10,000;
4. **Shayne McGuire:** \$10,000;
5. **Eric Hommelberg:** \$10,000;
6. **Gerald Celente:** \$6,000 - \$10,000;
7. **Peter Schiff:** \$5,000 - \$10,000 (in 5 to 10 years);
8. **Egon von Greyerz:** \$5,000 - \$10,000;
9. **Patrick Kerr:** \$5,000 - \$10,000 (by 2011);
10. **Peter Millar:** \$5,000 - \$10,000;
11. **Alf Field:** \$4,250 - \$10,000;
12. **Jeff Nielson:** \$3,000 - \$10,000;
13. **Dennis van Ek:** \$9,000 (by 2015);
14. **James Turk:** \$8,000 (by 2015);
15. **Joseph Russo:** \$7,000 - \$8,000;
16. **David Petch:** \$6,000 - \$8,000;
17. **Michael Rozeff:** \$2,865 - \$7,151;
18. **Martin Murenbeeld:** \$3,100 - \$7,000;
19. **Dylan Grice:** \$6,300;
20. **Murray Sabrin:** \$6,153;
21. **Harry Schultz:** \$6,000;
22. **Paul van Edeen:** \$6,000;
23. **Paul Brodsky/Lee Quaintance:** \$3,000 - \$6,000;

\$5,000

1. **David Rosenberg:** \$5,000;
2. **Martin Hutchinson:** \$5,000 (by end of 2010);

3. **Doug Casey:** \$5,000;
4. **Peter Cooper:** \$5,000;
5. **Robert McEwen:** \$5,000;
6. **Martin Armstrong:** \$5,000 (by 2016);
7. **Peter Krauth:** \$5,000;
8. **Tim Iacono:** \$5,000 (by 2017);
9. **Christopher Wyke:** \$5,000;
10. **Frank Barbera:** \$5,000;
11. **John Lee:** \$5,000;
12. **Peter Dawes:** \$5,000;

\$2,500 – \$5,000

1. **Pierre Lassonde:** \$4,000 - \$5,000;
2. **Mary Anne and Pamela Aden:** \$3,000 - \$5,000 (by February 2012);
3. **Larry Edelson:** \$2300 - \$5,000 (by 2012);
4. **Luke Burgess:** \$2,000- - \$5,000;
5. **Ian Gordon/Christopher Funston:** \$4,000;
6. **D.P. Baker:** \$3,000 - \$3750;
7. **Christopher Wood:** \$3,500 (in 2010);
8. **Adam Hamilton:** \$3,500 (by 2010/11);
9. **Eric Roseman:** \$2,500 - \$3,500 (by 2015);
10. **John Henderson:** \$3,000+ (by 2015-17);
11. **Hans Goetti:** \$3,000;
12. **Michael Yorba:** \$3,000;
13. **David Tice:** \$3,000 (by 2012);
14. **David Urban:** \$3,000;
15. **Michael Lambert:** \$3,000;
16. **Brett Arends:** \$3,000;
17. **Ambrose Evans-Pritchard:** \$3,000;
18. **Trader Mark:** \$3,000 (by mid-2011);
19. **Ian Williams:** \$3,000;
20. **Byron King:** \$3,000;
21. **ThumbCharts.com:** \$3,000;
22. **John McAvity:** \$2,500 - \$3,000 (by 2012);
23. **Jeff Nichols:** \$2,000 - \$3,000;
24. **Graham French:** \$2,000 - \$3,000;
25. **Sascha Opel:** \$2,500+;
26. **Rick Rule:** \$2,500 (by 2013);
27. **Daniel Brebner:** \$2,500;

Silver

Silver has proven itself, time and again, to be a safe haven for investors during times of economic uncertainty and, as such, with the current economy in difficulty the silver market has become a flight to quality investment vehicle. The 49% increase in silver in 2009 attests to that in spades (albeit up only 10% in the first 6 months of 2010). During the last parabolic phase for silver in 1979/80 silver went from a low of \$5.94 on January 2nd, 1979 to a close of \$49.45 in early January, 1980 which represented an increase of 732.5% in just over one year. Such a percentage increase from the current price for silver would represent a future parabolic top price of \$155. Frankly, such prices seem impossible in practical terms but that is what the numbers tell us.

Silver:Gold Ratio

How both gold and silver perform, in and of themselves, does not tell the complete picture by a long shot, however. More important is the price relationship – the correlation – of one to the other over time which is called the silver:gold ratio.

Based on silver's historical correlation r-square with gold of approximately 90 - 95% silver's daily trading action almost always mirrors, and usually amplifies, underlying moves in gold. With significant increases in the price of gold expected over the next few years even greater increases are anticipated in silver's price movement in the months and years to come because silver is currently seriously undervalued relative to gold as the following historical relationships attests.

Let's look at the silver:gold ratio from several different perspectives:

- Over the past 125 years the mean silver:gold ratio (i.e. 50% above and 50% below) has been 45.69 ounces of silver to 1 ounce of gold.
- In the last 25 years (since 1985) the mean silver:gold ratio has increased to 66.9:1
- The present silver:gold ratio is range-bound between 63:1 and 70:1 (66.77:1 at the end of June 2010).
- Interestingly, during the build-up to the parabolic blow-off in 1979/80 silver outpaced gold going up 732.5% vs. gold's 289.3% causing the ratio to drop from 38:1 in January 1979 to 13.99:1 at the parabolic peak for both metals in January, 1980.

Conclusions:

There are many! Let's look at the various price levels for gold and the various silver:gold ratios mentioned above one by one and see what conclusions we can draw.

First let's use the mid-year (June 30th, 2010) price of \$1243 for gold and apply the various silver:gold ratios mentioned above and see what they do for the potential % increase in, and price of, silver.

Gold @ \$1243 using the current 66.77:1 silver:gold ratio puts silver at \$18.61 (June 30/10)

Gold @ \$1243 using the above 45.69:1 silver:gold ratio puts silver at \$27.20 (i.e. +46.2%)

Gold @ \$1243 using the above 13.99:1 silver:gold: ratio puts silver at \$88.85 (i.e. +377.4%)

Now let's apply the projections made above by the various economists, academics, gold analysts and market commentators listed above to the silver:gold ratio and see what that suggests is the parabolic top for silver.

@ \$10,000 Gold

Gold @ \$10,000 using the silver:gold ratio of 66:1 puts silver at \$150

Gold @ \$10,000 using the silver:gold ratio of 45:1 puts silver at \$222

Gold @ \$10,000 using the silver:gold ratio of 14:1 puts silver at \$714!!

@ \$5,000 Gold

Gold @ \$5,000 using the silver:gold ratio of 66.1 puts silver at \$75

Gold @ \$5,000 using the silver:gold ratio of 45:1 puts silver at \$111

Gold @ \$5,000 using the silver:gold ratio of 14:1 puts silver at \$357

@ \$2,500 Gold

Gold @ \$2,500 using the silver:gold ratio of 66:1 puts silver at \$38

Gold @ \$2,500 using the silver:gold ratio of 45:1 puts silver at \$55.50

Gold @ \$2,500 using the silver:gold ratio of 14:1 puts silver at \$178.50

From the above it seems that, any way we look at it, physical silver is currently undervalued compared to gold bullion and is in position to generate substantially greater returns than investing in gold bullion.

Summary

History will look back at the artificially high silver to gold ratio of the past century as an anomaly, caused by the dollar bubble and the world being deceived into believing that fiat currencies are real money, when in fact they're all an illusion. This fiat currency experiment will end badly in a currency crisis. The wealthiest people will be those who bought silver today and were smart enough to research and pick the best silver mining stocks and warrants.

Indeed, while gold's meteoric rise still has room to run, silver's run is yet to get started. As such, it certainly appears evident that now is the time to buy all things silver.

Lorimer Wilson is the Editor of both www.FinancialArticleSummariesToday.com (a sight/site for sore eyes and inquisitive minds) and www.munKNEE.com (a site consisting of edited excerpts of the internet's most informative articles on money matters). He can be reached at editor@munknee.com