

Silver Stocks 3

When the words “precious metals” are spoken, gold is usually what comes to mind first. And in the universe of PM stocks it is indeed gold that most miners are after. The vast majority of PM mining companies explore for and ultimately seek to find the Ancient Metal of Kings. But gold is not the only precious metal.

Silver is next most popular in the PM realm. And the stocks that focus on this important metal have been great performers over the course of its secular bull. But the silver stock sector is far smaller than the gold stock sector, thus offering much less variety to investors and speculators.

Measured by both population and market capitalization, silver stocks are but a small minority of the greater PM stock sector. And as a PM stock analyst I'm able to experience this lopsidedness firsthand in my ongoing research. At Zeal we periodically publish [research reports](#) that profile our favorite stocks within a given sector. And in the process of uncovering what we consider to be the best-of-the-best, we survey the sector's entire universe of stocks.

The research that went into our previous 2 reports, [gold-producing stocks](#) and [junior gold stocks](#), and our brand new silver stocks report really allowed me to quantify this gold/silver stock disparity. And the first thing that was apparent amidst this research was population concentration. Not surprisingly there are only about one-fifth as many silver stocks as there are gold stocks.

In scouring the markets for those companies that consider this shiny white metal to be their primary focus of exploration and/or source of revenue, I found close to 100 that had listings on the US and Canadian stock exchanges (where most of the world's mining stocks list). This is in contrast to *well over 400* gold stocks. From early-stage explorers to the world's largest producers, silver stocks number many fewer than gold stocks.

This disparity is even more apparent when you consider market capitalization. In my initial screen of these nearly 100 stocks back in March their combined market cap was *less than \$7b*. To put this number in context, at the time I performed this screen the 15 stocks that comprise the HUI gold-stock index had a combined market cap of *\$144b!* To take it even farther, the S&P 500 index housed 220 *individual companies* that had market caps in excess of the entire contingent of silver stocks.

The silver stock sector is tiny, and to gain a better understanding of its diminutive nature the first place we can look to explain this is revenues. According to the US Geological Survey about 672m ounces of silver was mined in 2008. And with an average silver price of \$14.94 per ounce, if all mined silver was sold at spot the entire supply chain would generate revenues of only about \$10b.

And it must be noted that these revenues are based on the second highest annual average silver price in history. Only in 1980, when the Hunt brothers and their Arab counterparts succeeded in temporarily cornering the silver market, was the average price higher at nearly \$21. This was an anomalous year that captured the famous spike to \$50.

Interestingly the stocks that comprise the formal silver stock sector can only take claim to a small portion of this \$10b in revenues. This sector is inclusive only of those mining companies that consider silver their *primary* metal and have mines/deposits that are silver-centric. As you will discover it is silver's subservient mineralized nature that limits the pool of silver stocks.

According to renowned PM-mining consultancy GFMS, about 73% of all silver mined is a byproduct of other metals mining. Silver is usually present in polymetallic deposits that are host to higher concentrations of base metals and gold. In fact, what may be considered high-volume silver production at a given mine may only represent a small chunk of revenues compared to the other metals within the same ore. Many of the world's largest silver mines aren't actually silver mines.

This reality is apparent when you look at GFMS's list of the world's top-20 largest silver producing companies. Provocatively only 5 of these companies consider themselves to be primary silver producers. Most in fact operate massive gold, zinc/lead, or copper mines that happen to have silver byproducts. And though measured by volume this silver byproduct is substantial, with millions of ounces of annual production, the revenue from the sale of this silver is only a fraction of total mine revenues.

And more often than not these silver revenues are accounted for simply as byproduct credits to mine operating expenses. You may not even be able to find them in the books of the larger mining companies. And if you do find anything on silver revenues they will likely be in the hedge-accounting section of the financials, as forward sales contracts. Many of these companies perform such deeds in order to better forecast revenues, which is vital in putting together mine operating plans and budgets.

So even though many mining companies actually produce silver and include this metal as part of exploration and development plans, not many rely on it to drive their businesses. Therefore when compiling the pool of *primary* silver stocks we have to discard those companies responsible for the great majority of the world's mined silver supply. After all, the purpose of investing and speculating in silver stocks is to gain exposure to this metal and leverage its gains.

Not included in the silver stock sector are those miners that only produce byproduct silver. Also excluded are those companies that may own a primary silver mine or project, but it is only a part of a more diversified non-silver-centric

portfolio. When we remove these non-primary silver stocks there is indeed a much smaller pool than one would think. And after all this pruning the primary silver stocks number less than 100 and are only responsible for about 14% of the global mined supply.

But even at 14%, this sector seems abnormally small. And we've only touched on the producers. In actuality only 15% of the primary silver stocks are producers. And with these 15% accounting for over 75% of this sector's market cap, it is obvious the markets are wildly undervaluing the billions of ounces of resources that the rest of these companies hold.

There are a number of factors that have gone into this silver stock malaise. But the primary culprit is the recent global stock panic. The across-the-board selling of all assets hit commodities stocks particularly hard. And the silver stocks were not immune. Many silver stocks saw 70%+ declines in very short order, with the juniors suffering the worst of the damage by far.

While most of these stocks have seen some recovery since their bottoms, the lingering effects of the stock panic and ongoing global economic worries are readily apparent. Still today we see a silver stock sector that is a mere pittance of its former self. Amazingly, 93% of silver stocks today fall below the threshold of what the markets consider small cap. In fact the majority are considered nano-caps, with 75% sporting market caps well under \$50m.

Ultimately silver stocks have had to climb a wall of worries in their quest to regain prestige. While there is little arguing the fact that silver is still in the midst of a secular bull market, there is a crisis of confidence on the stock front. And considering the state of these stocks today, the markets believe silver's bull to be over.

But it is not. Not only is silver's vitality apparent on the industrial side of things, it can't be forgotten as a precious metal. Like gold, silver's allure as an investment is evermore appealing as a hedge against fading fiat currencies that are getting [inflated into oblivion](#). This is seen via skyrocketing investment demand for physical bullion and [ETFs](#).

Many silver stocks are also climbing an operational wall of worries. Not only are these companies suffering from cratering stock prices, but many have had to deal with major cost challenges. As mentioned silver is typically a byproduct to other primary metals. But on the other side of the coin, in those rare deposits where silver is the primary metal, overall mine economics typically depend on non-silver byproduct revenue credits.

While the primary silver producers that have gold as a byproduct have fared much better, those that rely on base metals revenues have seen their margins come way down of recent. In the last 12 to 18 months base metals prices have

taken a nosedive. Therefore falling revenues from byproducts such as zinc and lead (the most common mineral occurrences with silver) have lowered credits to mine expenses. Less byproduct revenues mean higher overall operating costs.

The resulting reduced cash flows have pinched the abilities of many silver miners to pay down debt and forge ahead with exploration and expansion projects. Not to mention the economics of many of the advanced projects that the juniors hold are a lot less attractive than they were a couple years ago. As a result of this we've seen many silver companies fall on hard financial times that have forced them to enter into capital-conservation mode.

Ultimately I view this recent trend as bullish for silver's longevity. Less development today means tighter supplies in the future when the older mines need to be replaced and demand continues to increase. And exploration today is much more capital-intensive than it was in the past. The low hanging fruit has been picked and large silver deposits are becoming harder and harder to find. If this industry gets behind on exploration and the pipeline of future silver deposits thins, the price of silver will need to remain higher for longer in order to provide incentive for future discovery.

While today's global silver trade may need to rebalance amidst these ongoing economic woes, silver's bull will prevail and investors looking to leverage this metal will come back to stocks. And I believe this stock panic has given investors the opportunity to take advantage of still-depressed and highly-oversold silver stocks.

Now as a result of the damage the stock panic has laid upon this sector, investors must be more discerning than ever when making buying decisions. Especially when considering the large constituency of junior silver stocks, the non-producers. The stock panic has really shaken up their livelihoods.

With no sources of revenue the juniors rely heavily on selling their shares to the public in order to attain the hefty capital they need to explore for and develop the next generation of silver deposits. But with such precipitous declines seen in the junior markets, many of these companies stocks have sunken so low that their ability to raise sufficient-enough capital to perform such deeds has been compromised. And with the deadly combination of waning investor interest and low stock prices, paring capex is not the only issue now. For many juniors *survival* is now in question.

But while many juniors will fail, some will come back with a vengeance. Since silver stocks have bottomed some investors have taken advantage of their bargain-basement prices. And the early birds have seen spectacular gains. But even though this sector has gained ground since March, with a combined market cap that now exceeds \$10b, it is still way undervalued. And there are fantastic deals to be had across the entire spectrum of silver stocks.

In our latest round of silver stock research it was quite shocking, and disappointing, to see the carnage in this sector. Many of these nearly 100 primary silver stocks are in shambles. But there is also an elite group that is well-positioned to capitalize on silver's revival. And after a painstaking scrub to whittle down the universe, the Zeal all-stars have emerged.

We've narrowed this sector down to our favorite dozen stocks and have performed comprehensive fundamental profiles on each. Our latest 33-page research report profiles this diverse group of primary silver stocks. They range from junior explorers that are advancing some of the planet's best undeveloped silver deposits to some of the world's elite senior producers that are already well-leveraged to their underlying metal.

At Zeal we were among the early contrarians that recognized how undervalued silver stocks had become as a result of the stock panic. In our [newsletters](#) since we have made several silver stock recommendations that have excellent unrealized gains. And we have recently initiated brand-new positions based on our favorites. When we make silver stock trade recommendations going forward we will of course pull from the report, but if you would like to have all 12 profiles at your fingertips you can [purchase this report today](#).

The bottom line is silver stocks and the small sector in which they reside have seemingly been forgotten about. The stock panic drove many of these stocks to totally unreasonable levels considering silver's still-high price and its potential going forward. But even though it is in a beaten-down state, this sector will eventually stand again on its own two feet when investors return to buying stocks.

Though the geology of this metal is a limiting factor in regards to the number of deposits in which silver reigns as the primary revenue generator, there are still plenty of quality companies that have championed its merits and made this metal their primary play. And it is the stocks of these companies that will allow investors to leverage silver's bull and reap legendary gains as it charges forward.

Scott Wright

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So how can you profit from this information? We publish an acclaimed monthly newsletter, [Zeal Intelligence](#), that details exactly what we are doing in terms of actual stock and options trading based on all the lessons we have learned in our market research as well as provides in-depth market analysis and commentary. Please consider joining us each month at ... www.zeallc.com/subscribe.htm

Thoughts, comments, or flames? Fire away at scottq@zeallc.com . Depending on the volume of feedback I may not have time to respond personally, but I will read all messages. Thanks!

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