SILVERS MUSHROOM CLOUD: THE FIRST MONTH

Most of us know that a mushroom cloud is an effect seen after a nuclear blast. Silver having been subdued for virtually a generation, the time is fast approaching that low silver prices will end with an explosive termination upwards. There have been minor fireworks in silver occasionally, as the brief spike after the Buffett purchases in February 1998, and the blip up to $5.95 just after the Washington Agreement in September 1999. Due to the severe imbalance between production and consumption, which has been aggravated by powerful forces acting in concert to hold silver low in the face of the catastrophic decline in supplies, and other factors such as attempts to call in leased silver and naked short positions being impossible to cover, silver is now poised for a climb into the stratosphere---the most precipitous sustained rise in commodity history. Unlike the 1979-1980 episode, this time there will be no retreat to low prices after the big blast. Based on figures available from the Comex, Apex Silver and Personal Finance, the Comex warehouses contain only 3% of the silver necessary to rewire the U.S. power grid for superconducting power transmission, to say nothing of all the other unrelenting demands on silver consumption. Other advanced nations are also moving towards superconductivity. (The Apex 2000 annual report says one ton of silver per mile will be needed, whereas another authoritative source claims only 400 ounces. This is a case of mutual exclusion---let the reader decide who is in error. Even without superconductivity, we are still in a hole to the extent of at least 100 million ounces per annum, and when leasing stops, the unfulfilled demand is far more than sufficient to create a buying panic in silver!) What follows is a speculative account of events during the first month after the blast off in silver prices begins. It could commence in late October to December 2001 while NYSE stocks are probably in a free fall, succumbing to the same contagion factors, and a new assortment of economic negatives, which crushed the NASDAQ from over 5000 to a recent low of 1683. Against this background of economic disease and crushing public and private debt, the banking panics of the overleveraged financial system await the eruption in precious metals prices to act as the lit fuse, and, along with a dollar set to drop like a rock, will throw napalm onto the precious metals fire. No doubt the public will be called upon to bail out those involved in the gold carry trade, and as the Fed inflates the supply of dollars, inflation will reappear with unbelievable fury in gold and silver. A new confidence in precious metals as wealth and medium of exchange is soon to become prominent in the public mind, as they witnessed the severe depreciation of other assets.

Day one: silver opens on the Comex at $5.50, having drifted up from late summer lows. After the lunch hour a major leasing source announces its silver is exhausted. Prices jump to $6.75 by the sessions close. The next morning prices continue sharply up as a short covering nightmare unfolds. Unhedged silver equities surge 150 to 425% in 2 sessions. Silver passes $8.25 by days end. Gold is over $375 and climbing; platinum and palladium are north of $550. Daredevil stock traders who could not quit while they were ahead make another handsome haul by selling into the biggest rally yet, but as they watch for a price pullback, which never comes, they are shut out of additional gains and future dividends. There is no dip available to re-enter the market at lower levels with a larger position. Silver moves up strongly on a daily basis, and attempts are made to call in silver leases, which aggravates the crisis. All leasing stops abruptly, and all hell breaks loose in the silver market. One of the meanest hornets nests in financial history is unleashed!

Bullion banking goes belly up, and several members of that occupation flee to nations without extradition treaties. Limit moves daily are not news as much as the word that silver is beginning to trade in a cash only market. By the end of the second week of the crisis, many industrial users cannot get delivery of metal, and the unbridled buying panic erupts---the sun catches on fire! Its deja-vu late 1979 again, except that many market participants realize this time, the crisis is exponentially worse: prices are soaring and supplies do not exist to bring the price down, so defaults are rampant. Lawsuits are filed, and silver users mess squealing worms while raving to the CFTC and Comex officials that they have to halt the alleged speculation in the silver market, still attempting to deny that a physical shortage has finally caused the price to move. Comex officials institute the rule change which wiped out the Hunts in January 1980—they place a freeze on buy orders for silver, but this does not stop the crisis, as the physical shortage is real, and the rule change is scrapped within 2 sessions; other meddling rule changes are contemplated, but no rule changes can cure the shortage! Shareholders of corporations dependent on silver are faced with sharply declining share prices, just like 22 years ago (New York Times, February 3, 1980, section III, page 2, column 3; and Forbes, December 10, 1979, page 124). And that, after the first shock wave of NYSE declines; rolling power blackouts, layoffs, severe winter weather in the Northeast and ominous news from overseas adds to the gloom. Employees of silver consuming manufacturers face layoffs due to the raw material shortage. Holders of short positions ride a razor blade into a pool of acid in the derivative meltdown, as they cannot conjure real silver out of thin air! Forward selling treachery on the part of management guts stockholders of heavily hedged companies; a class action lawsuit will eventually reach the Supreme Court. Australian lawmakers are besieged by devastated stockholders of short selling companies. A Senator asks the Federal Reserve and the Treasury to intervene, but they have no silver; Greenspans wrinkles look deep enough for planting watermelon seeds. Investors holding physical silver smell blood in the water and are gloating, refusing to sell as the price climbs higher. Silver is now an absolute powerhouse and dynamo of wealth! Many have the attitude of holding their metal until the Grand Canyon is gone! The skyrocketing price of silver bulldozes all opposition like General Sherman marching through Georgia! Just one small Mercury dime, 1916-D in MS-70 condition now buys a nice middle class home. As Arab oil money moves into silver (exactly as it did before, New York Times, April 19, 1980, page 29, column 6), smart money from all over the world from Asian exporters to European manufacturers scrambles in a mad frenzy to get into silver and gold, realizing the price can only move higher on a sustained basis. Platinum and palladium charge past $1,500 per ounce; rhodium surpasses $7,000. Angry protestors in a vile mood picket the Bank of England daily over the disposal of their national gold treasure at far lower prices. On the floor of the U.S. House of Representatives and in the Senate, legislation is introduced to either de-list silver from Comex trading, or to force the Comex to not interfere with a new, free market in silver prices. Officials of the CFTC, NY Mercantile Exchange, Silver Users Association, hedge funds and silver mining company executives are summoned to testify at Congressional hearings concerning the suddenly recognized silver shortages, and how years of naked short selling have deepened the crisis by choking off production. The Gold Anti-Trust Action Committee becomes widely known to Americans, and Theodore Butler is invited to testify before Congress concerning his warnings about the silver manipulation, which appear in the public record on the Internet. A panel of experts including David Morgan and Robert Chapman are invited to write a series of editorials to appear in the newsletter of a national businessmens association concerning events in silver, and their suggestions for monetary reform of America. Consumers deluge retail stores, emptying the shelves of silver based items like film and mirrors, whose prices have been hastily marked up. Jewelers are accused of price gouging as they are forced to add steep mark-ups to their gold and silver items, so as not to sell below replacement cost. Hotel and motel operators are on the alert against guests stealing mirrors. A medium scale silver user is arrested in a scandal of attempting to bribe a funeral home chain operator to steal silver amalgam fillings from the deceased. All electronic products containing silver have fat surcharges imposed by manufacturers, exactly as in the last crisis (New York Times, Sunday, February 7, 1980, section IV, page 8, column 6).

By the middle of the third week, silvers rapidly expanding mushroom cloud tops out in the stratosphere, and casts an immense shadow over world markets. Real estate prices have started a steep decline. Distinguished professors of economics at super rich sponsored universities begin writing scholarly articles for arcane journals with tiny readership as to why the cataclysm in silver and gold prices has happened. Financial commentators for CNBC tilt their heads like bewildered puppies as they make remarks concerning how they just don't understand why precious metal should have ever appreciated. A previously unknown, self constituted expert a la Martin Armstrong will charge that Comex silver was all moved to London, where it is so abundant as to be ***coming out of the cracks in the pavement***; yet United Kingdom manufacturers are on a rationing system. The voice warns that silver is ***in danger of falling below the price of manure***; but the marketplace screams otherwise. (Melanie Johnson, Member of Parliament, admitted in a letter dated 11 December 1999 that the British government has no silver reserves, see www.gata.org). Representatives of developing nations without silver resources of their own protest to the United Nations that the developed countries are soaking up all silver production. The abrupt transition to sharply increased prices fails to unleash nearly as much scrap silver going to refiners from the public as would have been thought by some, as most of that overhang was eliminated 22 years ago. Silver disposals are tiny in contrast to the fantastic demand. Investors too numerous to count already disinvested themselves of their silver before the aggressive up-tick, having thrown in the towel in the long wait for escalating prices. Mexico and Peru both announce a total embargo on export of their silver, exactly as they did in 1979, additionally becoming buyers for their central bank reserves (New York Times, October 19, 1979, page 8, column 3 and Fortune magazine, ***High Stakes in the Silver Game***, December 17, 1979, page 57). Consensus in the Mexican senate is reached that the nation needs to begin circulating silver coins again, and going to a Silver Standard is urged throughout Latin America. With Cuba the only Marxist regime in this hemisphere and not being a silver producer, caution is urged that miners receive market prices for their metal. India, never forgetting the negligence of Union Carbide in the Bhopal poison gas disaster on December 2 and 3, 1984, which caused 16,000 deaths, thumbs its nose at the Silver Users Association, of which Union Carbide is a member. India announces it will not export silver at any price, since they need it for their own infrastructure, repeating their actions in the crisis a generation ago (Fortune, December 17, 1979, page 57). This also presents India a chance to smirk at the United States in retaliation for the sanctions imposed by the Clinton administration over Indian tests of 5 nuclear devices in May 1998. Pleas from the Bush administration for India to release quantities of its silver are rebuffed, with the Indian ambassador repeating statements made in the wake of the crisis a generation ago that it has taken India ***centuries*** to accumulate its silver, and that they will not ***squander*** it (National Geographic, September 1981, page 307). Treasury Secretary Paul O Neill, formerly a director of Eastman Kodak, finds himself powerless to influence India, Mexico and Peru to release silver. By this point silver has already exceeded $50 per ounce, and moves beyond $75 at these announcements. All this having happened within a matter of a few weeks, the investing public, which was burned badly by Nasdaq and Dow Jones price declines, begins a pay any price stampede into physical silver and silver equities, like trying to get all the water in Lake Superior through the nozzle of a squirt gun. Gold is north of $700 per ounce while silver narrows the value ratio, but average investors, millions of them, find that the selection of quality silver mining corporations is alarmingly small, and their shares are climbing like rockets in proportion to the sudden, fantastic increase in their asset base. Investors who bought while artificial low prices were still in effect are suddenly, but solidly, rich. The same analysts who hyped bloated, near worthless securities of dot-coms with no income and tiny assets and steered tens of millions of people into ruin, are now doubly recognized for the travesty of their alleged expert status, as they failed to alert the investing public to the inevitability of silver/gold wealth impending. Back in 2000 when the market cap of Cisco was $555.4 billion for a day, some of those simple minds perhaps thought that each share was going to be worth $555.4 billion in a few more trading sessions. They believed all they had to do was invest in tech and software stocks and their investment would be raised almost literally to the power of infinity! Instead they got a lot of margin calls, some even borrowing on home equity to buy shares at the zenith of the bubble now residing in apartments. Investors who bought such stocks near the top, then rode them all the way to the bottom, feel desperately sick to see the so-called barbarous relics, silver and gold, climb to such commanding heights, and wonder why they could not see it coming, in spite of the publicized actions of various billionaires moving into silver many months earlier (Forbes, August 7, 2000, page 64 and other sources). With the facts of long-term short corner manipulation becoming more widely known, consumers organizations demand to know why market participants held the price low for years, making a gradual transition to higher prices impossible, and creating end-user product shortages. With the heat on, some regulatory agency officials think how more comfortable life would be in Algeria. The Dow has wilted below 7,000; the Nasdaq has shriveled to 950. With silver prices escalating daily, holders of physical withhold their metal from sale, taking a wait and see approach to see how high the chart will go. A deliriously happy silver investor sees a billboard while driving down the highway, and thinks, ***thats the size chart will be needed to plot silvers rise!*** By holding their silver back, victorious silver investors add more pressure to the silver environment. USA Today reports the sale of a $175,000 sports car for a pile of average circulated Franklin half-dollars. National news reports a woman who sells a few thousand silver mining shares, and buys enough fine diamonds to fill Hoss Cartwrights ten-gallon hat. An investigating Senator remembers all the silver dimes, quarters and half dollars he saw as a young man, and is haunted by the memory.

By the end of the fourth week after the silver blast-off, the Middle East blows up again, worse than before, with Israel a nonstop maelstrom of turbulence. An Islamic military alliance led by Iran invades the Saudi oilfields, having overrun Kuwait first. Petroleum stages a monumental upward spike, driving airline stocks to the ground (is this why investor David Bonderman announced his sale of 1.1 million airline shares in late August?) As happened almost 22 years ago, sharply rising precious metals prices are partly attributed to Middle East tensions and references are made to World War III (Time, January 14, 1980, page 57). We are now witnessing the most awesome price surge in commodity history! While world attention is focused on the new Middle East crisis, China bombards Taiwan with missiles for 5 hours then follows up with a massive invasion. The Reds secure control of the one time Portuguese colony just as Americans are waking up. With military tensions concerning China adding fuel to the Middle East firestorm, silver surges past

$275 an ounce on the open market, and gold moves beyond $1700. Heavily hedged Australian miners are as dead as Julius Caesar! There is no more foolish talk from the Gnomes of Zurich concerning China dumping tons of silver on the world market. The Dow has plunged below 6,000 and the Nasdaq skids to 775. In contrast, certain Canadian Venture Exchange stocks, and the XAU Index, stand out like the Colossus of Rhodes! A war erupts between industrial silver users and nations withholding their silver from export. A consortium of international financing institutions offers to trade Latin American debt for silver, gold and platinum exploration rights. Shareholders of the best-positioned mining companies see their shares up a mind-blowing 60,000% due to horizontal leverage (number of ounces per share) and 25,000 buyers to every 1 seller in a global bidding war for more silver than is possibly available! Men like Gates, Soros, Kaplan, Buffett, Bacon, Fleckenstein and Tisch are vilified as vultures in some sections of the press by those who secretly envy them, and those who held silver prices below cost of production for so many years accuse the longs of engineering the crisis. Subscribers of a well-known publication want to know why it featured the viewpoint in its November 2000 issue that silver was ***dying*** as a precious metal because of alleged oversupply in the face of a well-publicized 11 years of huge deficits. Congressional hearings attended by generals, admirals and defense contractors begin concerning the depletion of silver in the U.S. Strategic Stockpile (Reuters, November 27, 2000) and why silver prices were held so low for a generation while supplies dried up, causing the crisis by making production unprofitable. Douglas Dillon, the Treasury Secretary who took the U.S. off circulating silver in 1964 after the Johnson administration denied it was going to do so, turns over in his grave. The late Treasury Secretary William Simon, of 1979-1980 Comex management, is not nominated as someone whose image should appear on silver commemorative coins. Silver rationing has been in effect for 2 weeks, with only industries vital to national defense getting it on a steady basis, plus users of medical x-ray film. A medical research team reports that silver destroys a deadly virus after antibiotics fail. In newspaper classified ads, silver based film is offered by many persons for huge premiums over what it cost a month earlier. Shareholders of highly leveraged, unhedged silver producers are gloating like a gladiator over a disemboweled opponent, as they realize that they hold title to what little silver is left in the crust of the earth, over 80% of it having been mined and consumed already (National Geographic, September 1981, page 313 and ***The New Boom in Silver*** by Jerome Smith, 1983, pages 32-34; one of the well known companies has a mine discovered in 1864 and another discovered in 1880). Management of these silver companies who avoided the mistake of being in production at or below break-even prices, suddenly has stock options collectively worth over $75 billion and surging upwards, as they are sitting on assets worth over 3,500 times the market capitalization of their companies only a few months earlier. In Vancouver and the Cayman Islands, toasts are made to the new patron saint of the silver boom, Sir Francis Drake (1540-1596), the Englishman who raided Spanish treasure galleons and plundered precious metal taken from Rio de la Plata (Silver River) on the coast of Peru. After 5 more months the gold/silver ratio has suddenly narrowed to 6 to 1 with silver leaping above $500 per ounce. The prospect is now on the horizon of silver passing gold in price! The crisis culmination of some 5,000 years of silver mining and consumption is a stunning bonanza for those who saw it coming and took positions before silver went into orbit, as the exploding world population combined with shrinking silver resources has created an opportunity for wealth unprecedented in history! Governments and individuals are forced to acknowledge that silver is not only an absolutely vital commodity in a desperate supply squeeze, but that it is indeed, along with gold, in and of itself, money, medium of exchange and currency in the truest sense of the word.