# Silver: An Idea Whose Time Has Come?

Silver has not made a new high since 1980. Back in 2011, during an overnight session, the silver price came close to $50, but it never quite reached that level and from there, it began its bear market. I remember it well because I had also started buying silver and gold and their respective mining shares back in the early days of the bull market that started in 2001, when silver was sub $5 and gold was below $300. I would end up selling out of the position in late 2011 and wouldn't step back into precious metals again for almost another decade.

**Gold Pattern and Its Recent Strength:**

Fast forward to the past few months where gold has now broken out to a new all-time high, out of its long-term base that began when it peaked in 2011, through what ended up developing into a 13-year technical/chart pattern called a cup-and-handle pattern, which is one of the most bullish of all technical patterns. This chart setup, which I show below, ultimately resulted in a break higher in dramatic fashion over the past few months for gold, confirming the bullish pattern. A typical long- term cup-and-handle pattern is about 1 year, so it's rare to see one much longer than that duration. Many analysts agree that the longer the duration of a cup-and-handle pattern, the more reliable the breakout is to the upside. Therefore, with the 13-year pattern that developed in gold, which resulted in a confirmed powerful breakout in March, 2024, some analysts are now pointing toward price targets of $2,600 to $4,000 over the next few years.

There are many reasons why gold is rallying, including inflation and stagflation concerns, high global sovereign debt levels, de-globalization, geopolitical risks, waning confidence in the government, and fear of a US Dollar decline (please refer to my Inflation paper from March, 2023, the link is attached at the bottom of this writing) amongst many other reasons, however, these are not the focus of this paper. Despite the fact that many major commodities have been moving higher over the past few months, it was gold that actually broke out to new highs first! Copper, despite its anticipated upcoming shortages by many analysts, did not, nor did oil, despite the geopolitical crises taking place in the Middle East and in Ukraine. There is something very significant behind the rationale for gold breaking out first, in the midst of a, supposedly, goldilocks environment. My conclusion on gold's outperformance, which again, comes back to my Long-Term Inflation Pillars paper from last year, is that the economy and the markets will have to deal with a number of challenges over the coming years and gold has simply begun sniffing those out before most people have begun to recognize them.

**Let's look back a little more history on gold**:

Gold has enjoyed two long-term bull markets over the past 53 years. The 1970's bull market was marked by oil shortages, combined with geopolitical tensions, and a drowning public confidence after the Vietnam war and Watergate, which created severe inflation causing interest rates to rise and the US to lose ground on the world stage in terms of leadership and respect. The S&P 500 was essentially flat throughout this period as the economy struggled under these conditions.

The bull market from 2000 to 2011 was very different. It was marked by strong economic growth from the developing world (emerging markets), while the US experienced a boom and a bust in real estate, helping to create the global financial crises of 2008 and 2009. The strong growth throughout the emerging markets caused a rising demand in commodities, which simply created a bull market in them, with the more economically sensitive commodities leading the way. Throughout this bull market in gold, there was relatively strong economic global growth…, without inflation, but we did experience a major geopolitical event in 9/11 along with the wars that followed it. The S&P 500 was essentially flat throughout this period as the global financial crisis created severe downside in equities during this timeframe.

This new bull market in gold/commodities appears to be quite different from the other two, though having similarities to each of them as well. I will close this writing with thoughts on what scenarios might be most likely during this bull-market cycle for gold, silver, and all commodities.

Gold is in a highly bullish position right now, but this writing isn't about gold - it's primarily about silver and its current market positioning that is highly charged right now.

**Silver's Fundamentals:**

In 2022 and 2023, there was a supply/demand deficit in physical silver as a result of silver's industrial demand and most analysts are forecasting the same for 2024 as well, on the back of a 9% surge in industrial demand year over year. Up until recently, the price of silver hasn't moved higher based upon the shortage over the last few years because that deficit was met by reducing known aboveground stockpiles. The fact is that there has been a severe, documented shortage of physical silver over the past few years and it is anticipated to remain in deficit for the foreseeable future. This is important because it's quantifiable, helping to create the fundamental backdrop for what the charts now appear to be projecting in silver.

It's also interesting to note that there are forecasted shortages in copper and other industrial metals as well over the coming months and years, so silver most likely won't be alone in its shortages, its just the first metal to experience them. It's also important to note that while copper may experience shortages in the coming years, it is already well above the high from 1980, which was .98/pound. Today, it sits at $4.57/pound, while silver is dramatically below its 1980 high (still down 45% from its 1980 high).

Here are a few interesting articles that talk about the deficits in physical silver:

https://www.reuters.com/markets/commodities/silver-heads-biggest-deficit-decades-silver-institute-says-2022-11-18/

https://www.kitco.com/news/article/2024-04-17/silver-see-second-highest-deficit-20-years-record-industrial-demand-rises-9

Here are also a few interesting articles that talk about the anticipated shortages upcoming in copper:

https://markets.businessinsider.com/news/stocks/trafigura-ai-boom-could-spark-a-copper-shortage-1033234229

https://fnarena.com/index.php/2024/03/26/preparing-for-copper-price-upside/

As I mentioned earlier, the deficits in silver are a result of industrial demand because silver is used in many industrial applications like electric vehicles, solar panels, and electronics of all kinds (computers, cell phones, etc…). What has been missing from the silver demand equation is strength from investors buying physical silver, purely for investment purposes. However, now that gold has broken out, higher demand for physical precious metals from investors will most likely increase, particularly if the prices continue to rise. This, in turn, would draw further investment demand into the bullion, which could help exacerbate the forecasted shortage. In other words, investment demand swings from weak to strong and vice-versa based upon silver's performance and the rationale for why it should be bought/sold. Therefore, investment dollars going into silver creates a swing factor of demand based upon market conditions and up until now, there has been little demand for silver bullion from investors…, but if that were to change, it would only magnify the current and forecasted shortages, thereby exacerbating the shortage and price action in the metal.

It's also important to note that while the recent shortages in silver have been met by reducing known aboveground stockpiles, if a deficit were to continue and those stockpiles became exhausted, many analysts believe that it would require much higher prices to bring a significant amount of physical silver back onto the market in order to sufficiently meet the forecasted supply-demand imbalance.

Lastly on the topic of supply, it takes approximately 7-10 years for a new metals discovery to go from finding it in the ground, to serious production for that metal by the mining company. So, even if there were very large deposits of silver, or copper, or any other metal found today, it would take many years for that metal to be extracted from the earth in order to help meet the supply shortage. This is not to say that some existing mines couldn't increase production or there couldn't be more recycling efforts made along with increasing production at new mines, which have already been planned over the last few years, but the bottom line is that future shortage estimates in the metals are not something that can easily, at the snap of finger, be rectified…, but could take many years in order for balance to return to some of these metals markets.

**Silver's Technical Patterns:**

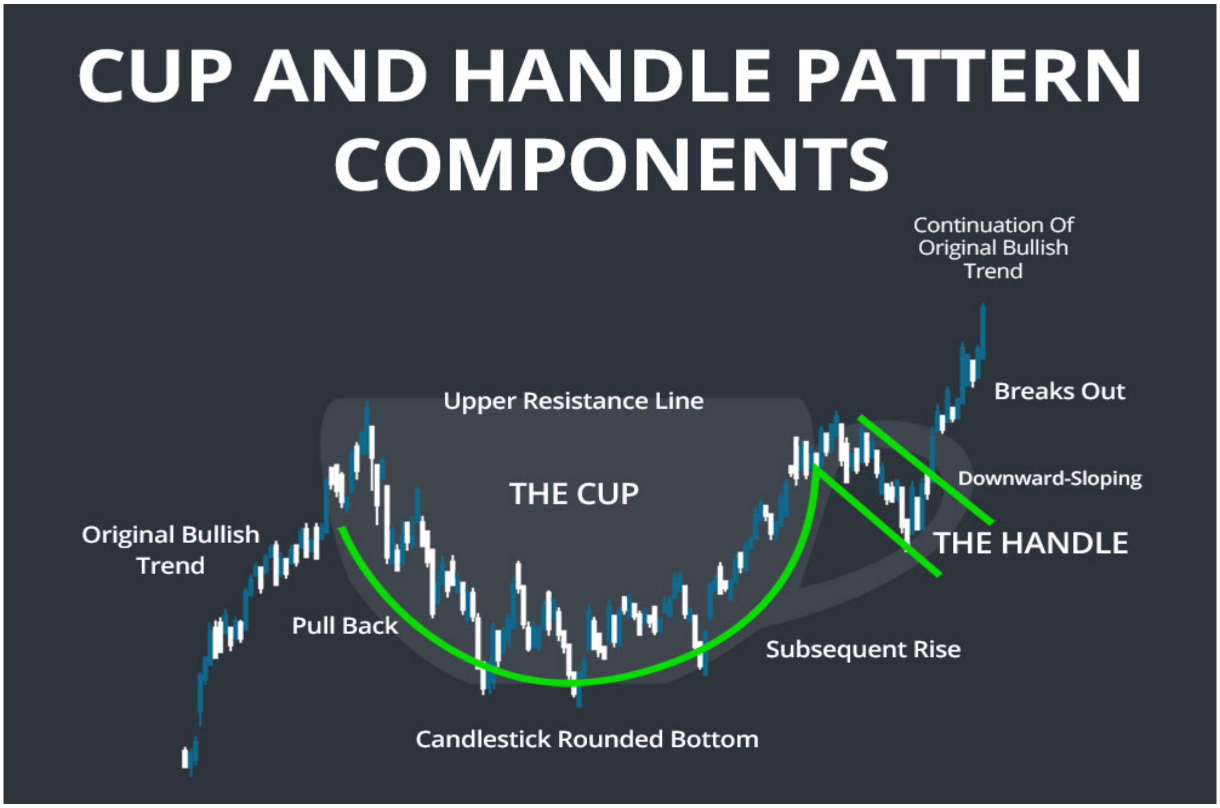
Now, let's dig into the heart of this writing. I mentioned the cup-and-handle chart in gold, which was extremely long at 13 years, having recently broken out to the upside. Remember when I shared earlier that many analysts believe that the longer the duration of a cup-and-handle pattern, the more reliable the pattern is, so…, let's…, imagine that, like gold, we also have a long-term cup-and-handle pattern in silver right now. Imagine that silver's pattern is not only longer than gold's but significantly longer. Imagine that silver has proven to be a good hedge against inflation along with other major geopolitical risks, just as gold has, in years past. Imagine that gold has historically lead silver, with silver then following gold's price action afterwards. Now imagine that during gold's past bull markets, silver has outperformed gold.

I believe that everything imagined above is actually true and that we're in store for a market event over the coming months and years that will be quite unusual and spectacular on many levels.

The charts below are important to understand because for the most part, they appear to be the very early stages of what seems to be a long-term bull market, though time will tell. What is also equally fascinating, is that for gold's mining shares, they are still mostly priced at significant discounts relative to where they were priced back in 2011, when gold was actually below current market prices.

First, however, let's take a look at this textbook chart pattern on what a cup-and-handle looks like:

Source: Scanz.com 2022




Now take a look at what the gold market's 13-year cup-and-handle chart looks like, resulting in the recent breakout of the metal.  This chart is of GLD, the exchange traded fund representing gold, with the date of April, 29, 2024.


Source:  StockCharts.com          As of date:  April 29, 2024

It's crazy, but silver, like gold, appears to have an almost perfect, long-term cup-and-handle pattern as well, which is highly unusual. What's even more strange is that silver's pattern is actually 44 years old instead of 13 years old! It's fascinating to see such massive, long-term trend changes occur while anticipating them and seeing them attempt to break out in real-time.

Because this is such a long-term chart, each of these candlesticks within it represents one month, so the closing price at month's end is what will help determine the strength and speed of the move going forward as well.

A breakout occurs when the price of silver rises substantially above the down-trending line in the handle formation, thus confirming the breaking of the existing pattern. When this occurs, it theoretically means that we have begun the upside, bullish outcome typical for cup-and-handle formations, if this pattern behaves according to textbook analysis. Of course, we know that real-life doesn't always follow our textbooks, but it is important to understand what the technical pattern suggests right now, particularly when considering silver's fundamentals and gold's definitive breakout.

Now take a look at this 44-year pattern in silver! Compare it to the textbook cup-and-handle pattern above as well and see that it more closely resembles the textbook pattern at this point, than gold's pattern did before it broke higher. This Chart below is dated as of April 5, 2024.

Chart source: StockCharts.com As of date: April 5, 2024


This next silver chart is ONLY 😊 a 15-year chart pattern and is more current, dated as of May 3, 2024. This chart represents the entire handle portion of the cup-and-handle pattern seen in the

prior 44-year chart above. In the previous chart, you saw the beginning attempt of the breakout above the down-trending line in the handle, but over the past few months and in the chart below, you'll now see that silver did, in fact, break out above the long-term downtrend and is now sitting on the support of that downtrend at current time, after it hit levels more than 10% above current prices. Resistance in the chart has now become support, but now comes the big test of whether it can hold above the down-trending breakout line over the coming weeks and months to confirm the move?
I do also want to note that the chart below contains the exchange traded fund for silver, SLV and not the silver price itself, so that explains the small price differential, but the breakout in silver is the same as the SLV pattern. What's also interesting about this pattern is that there is an inverse head-and-shoulders textbook formation, which is also a very bullish technical pattern over the past 4 years as well.

The bottom line with silver, is that it appears as though it could be an opportunity, whose time has come after 44 years of general malaise.

Chart Source: StockCharts.com As of date: May 3, 2024

In closing, the 1970s and the early 2000s saw a bull market in gold and silver along with other commodities, but for very different reasons. What will this cycle bring? Will gold and, and if confirmed, silver's bull-market last as long as their previous bulls, which is about 10 years or will it be shorter? Do we have a similarly bullish setup for growth in the emerging markets now as we had in the early 2000s? What if, instead of energy shortages, like we had in the 1970s, we have metals shortages instead? Which cycle will the geopolitical landscape resemble more this time, the 1970s or the early 2000s? Right now, it's somewhat of a combination between the two, but what about the potential waning confidence in government? Of course, nobody knows for certain, but there is an elephant in the room that could magnify this cycle much more than cycles past, for many reasons: What if, instead of companies being on the verge of insolvency, like we had in 2008, we have *countries* on the verge of insolvency because of their high debt/GDP ratios over the following 8-10 years? Japan and the PIIGS (Portugal, Italy, Ireland, Greece, and Spain) are the first countries that come to mind in such a scenario (again, please reference my Inflation paper from March, 2024).

Despite having a lot of uncertainty in regard to what this cycle might look like going forward, it is evident that precious metals and other commodities have begun to either break out of their long-term slumbers or at least attempt to be doing so and with some, including silver, having fundamentals of shortages in the metal itself, it certainly lends to the credibility of the recent breakouts and their ability to hold support levels.

During the 1970s, with the shortages that were experienced in energy back then, the top performing companies of the decade were littered with oil and gas companies. Could the upcoming shortages in physical metals because of the clean energy revolution along with the potential swing in investment demand create a similar opportunity for metals producers in the coming decade (there could also be a swing in investment demand in copper & other industrial metals via the futures market as well)? Only time will tell, but as each day passes, the market action within the precious metals and commodities space continues to reveal technical/chart strength, so until this is negated, investors should pay close attention to how things unfold in the coming days, weeks, months, and years in silver, gold, copper, and the other metals across the board.

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The Long -Term Pillars of Inflation, March, 2023:
https://strata.hightoweradvisors.com/blogs/insights/the-long-term-pillars-of-inflation, pillar #5).

DISCLOSURE: