National Inflation Association
Preparing Americans for Hyperinflation

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The Truth About Silver and Inflation

Silver futures surged today to a new 31-year high of $42.80 per ounce. Silver is up 146% since NIA declared silver the best investment for the next decade on December 11th, 2009, at $17.40 per ounce. All we need is for silver to rise by another 15.5% and silver will reach its all time high set in 1980 of $49.45 per ounce.

Keep in mind, silver's high of $49.45 per ounce in 1980 would equal about $140 per ounce in today's dollars adjusted to the consumer price index and about $400 per ounce in today's dollars adjusted to the real rate of price inflation. Despite silver's huge gains in recent months, we have yet to see silver rise by $2 or more in a single day. When we start to see a true "silver mania" with investors around the world rushing out of their U.S. dollars and panic buying silver, we expect to see silver gain by $5 to $10 in a single day on more than one occasion.

Back in February of last year when silver dipped to below $15 per ounce, we sent out an alert saying, "NIA believes this is a once in a lifetime entry point for those wishing to go long silver at a bargain basement price". NIA suggested silver call options in February of last year that ended up gaining over 1,000%. NIA's latest silver stock suggestion is currently up 175% from our profile price.

In NIA's top 10 predictions for 2010, we predicted a major decline in the gold/silver ratio, which was 64 at the time. The gold/silver ratio declined in 2010 down to 46, and in our top 10 predictions for 2011, we predicted another major decline in the gold/silver ratio and projected for it to decline this year to 38. NIA has been the most bullish organization in the world on silver, yet recent gains in the price of silver have surpassed even our short-term expectations. The gold/silver ratio is now down to 35 and we believe it will decline to at least 16 this decade, and possibly as low as 10.

The artificially high gold/silver ratio of the past century will be looked back at as an anomaly caused by the silver price suppression scheme of the Federal Reserve, which was in cahoots with Bear Stearns and now JP Morgan. NIA's President Gerard Adams exposed this scheme in NIA's critically acclaimed documentary 'Meltup', which has now been viewed by over 1 million people with an overwhelming 96% of its viewers giving it a thumbs up, a world record for an economic documentary. According to Mr. Adams, the Federal Reserve chose to bail out Bear Stearns and not Lehman Brothers, because Bear Stearns was the holder of a massive naked short position in silver that they were on the verge of being forced to cover.

It is not a coincidence that Bear Stearns failed on the very day silver reached its then multi-decade high of $21 per ounce. Bear Stearns was on the verge of being forced to cover their naked short position, which could have sent silver from $21 per ounce to $50 per ounce overnight. By bailing out Bear Stearns and allowing JP Morgan to acquire Bear Stearns' assets with the promise to cover any losses derived from them, JP Morgan was able to continue managing the silver short position and orchestrate a manipulative take down in 2008 from $21 per ounce down to $8 per ounce.

Only ten times more silver has been produced in world history than gold and from the years 1000 to 1873, a period of 873 years, the gold/silver ratio remained between 10 and 16. In fact, the Coinage Act of 1834 defined a gold/silver ratio of 16. The gold/silver ratio started to rise after silver was demonetized in 1873. Despite silver being demonetized, we saw the gold/silver ratio return to 16 on three occasions during the past century: in 1919, 1968, and 1980.

It was only ten months ago in June of 2010 that the gold/silver ratio was 70. With the gold/silver ratio now at 35, it means that silver investors have seen their purchasing power double over the past ten months, while those with their savings in U.S. dollars have seen their purchasing power decline by 20%. That's right, forget about NIA's silver call option that gained over 1,000% and forget about NIA's most recent silver stock suggestion that is currently up 175%; the simple act of following NIA's most basic suggestion of getting rid of your U.S. dollars and buying physical silver means that over the past ten months, your purchasing power has doubled while non-NIA members with U.S. dollars lost 1/5 of their real wealth.

The Federal Reserve can claim all they want that there is no inflation, but as we write this article we are eating Ben & Jerry's ice cream that we just bought at Quick Chek for $5 a pint. Three years ago, the same pint of Ben & Jerry's ice cream at Quick Chek cost us $3. Three years ago, one ounce of gold would have bought 295 pints of Ben & Jerry's ice cream and it still buys 295 pints of Ben & Jerry's ice cream today. Three years ago, one ounce of silver would have bought 5.7 pints of Ben & Jerry's ice cream and today it buys 8.5 pints of Ben & Jerry's ice cream.

Americans with their savings in U.S. dollars can today only afford 3/5ths of the ice cream that they could have bought three years ago, but those with their savings in gold have maintained their purchasing power, and those with their savings in silver have greatly increased their purchasing power. NIA is 100% sure that the gold/silver ratio will decline to at least 16 within the next few years, and that will mean those with silver will once again more than double their purchasing power. Considering that the gold/silver ratio overshot to the upside and was as high as 100 in 1991, we fully expect it to overcorrect to the downside and possibly reach a low of 10 this decade. That would mean a more than tripling of ones purchasing power from the current ratio of 35.

When silver rose to $49.45 per ounce in 1980, the government said that the rise was due to the Hunt brothers "cornering" the silver market. The truth is, silver reached $49.45 in 1980 due to the massive inflation that was created by the U.S. government during the 1970s, and the Hunt brothers were used as a scapegoat. The Hunt brothers were accumulating silver in order to protect themselves from a collapsing U.S. dollar, just like NIA has been encouraging its members to do in a countless number of articles and videos over the past two years.

When the Hunt brothers were accused by the U.S. government of "cornering" the silver market and trying to manipulate silver prices higher, they only owned a concentrated long position of approximately 100 million ounces of silver. JP Morgan today has a concentrated naked short position in silver of approximately 122.5 million ounces, but the U.S. government doesn't seem to have any problem with it.

The problem with the Hunt brothers' strategy of accumulating such a large concentrated long position in silver is that after silver prices rose, their position was simply too large for them to ever sell without causing silver prices to crash. With silver reaching $49.45 per ounce in early 1980, the world was about to lose confidence in the U.S. dollar, which would have caused an outbreak of hyperinflation. In a desperate attempt to save the U.S. dollar and prevent hyperinflation, the CBOT raised margin requirements and limited traders' positions to only 3 million ounces of silver futures. The COMEX also limited traders' positions to 10 million ounces of silver futures. Not only that, but the COMEX and CBOT only had a total of 120 million ounces of silver in inventory, and the COMEX was likely going to default from futures contract holders requesting physical delivery. The COMEX was forced to go into "liquidation only" mode, ending al l silver futures contract buying.

Combined with the Federal Reserve rapidly rising interest rates, silver prices began to plunge and the Hunt brothers were hit with massive margin calls. On one single day in March of 1980 when the Hunt brothers were forced to liquidate a large part of their position, silver lost 1/3 of its value, declining by over $5 to $10.80 per ounce. That represented a total decline of 78% from its high two months earlier.

NIA has been receiving a countless number of emails asking if now is the time to sell silver, and if silver could crash by 78% once again like it did in 1980. The fact is, while the Hunt brothers' 100 million ounce concentrated silver position was on the long side, JP Morgan's 122.5 million ounce concentrated silver position is on the short side.

While the Hunt brothers' long position was impossible to sell without causing silver prices to crash, JP Morgan's naked short position is impossible to cover without causing silver prices to explode to the upside. Being that the CFTC was so quick in 1980 to support the position limits that were then imposed by the CBOT and COMEX, NIA believes it would only be fair for the CFTC to mandate similar position limits today. This is unlikely to occur because the U.S. government believes JP Morgan's silver manipulation to be a good thing, since it is giving the phony appearance that the U.S. dollar still has purchasing power. The free market will ultimately win in the end and silver prices will soar through the roof to where they belong based on supply and demand fundamentals.