

THE SEVENTH ANNUAL SILVER SUMMER SERIES, August 21, 2008 “THE CORRECTION CONNECTION”

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Abstract

Douglas Silver's annual talk conveyed several important concepts. He believes that the stock markets are currently in a correction and that the Super Cycle is a far from being over. The combination of investors taking summer vacation, businesses closing for the Beijing Olympics and the residual effects of the credit crunch have cooled commodity demand. But China and India continue to enjoy high GDP growth rates and large capital lenders like GE Capital are projecting solid, long-term growth profiles based on their investment opportunities in these regions.

The rapid decline in share and commodity prices over the past two to three months are probably driven by the hedge / private equity funds. These investing velocaraptors move with a herd mentality as they viciously buy and sell investments in their unconquerable efforts to realize returns in excess of 30% per year. Someone needs to put a leash on them.

Different commodities are responding in different ways. Iron is the Master of the Universe as its price step-climbs continue. The decline in nickel and zinc prices has seen an ever growing list of mines being closed and development plans halted which could be signaling a bottom. Lead follows zinc while copper has done an admirable job in holding its own and appears to be in a healthy +\$3.00/lb range. Molybdenum prices have come off their historical highs but are securely in a range where many Moly miners will make strong profits. The uranium bubble has popped despite the strong outlook for the yellow metals. Maybe it is a false bubble?

Two schools of thought are emerging about the future. Some, like Deutsche Bank, are taking the dark view that the Super Cycle is over due to declining oil prices, hurting G7 economies and softening Chinese manufacturing. These actions are driving up the U.S. dollar. In U.S. dollar terms, they see commodity prices dropping to 50% of their current levels.

The guys in the white hats point to the cost of the Iraq War, the global credit crunch, U.S. recession (depression?) as primary drivers for keeping the U.S. dollar low. Simultaneously, China and India are leading the expanding and emerging global middle class who want their stainless steel refrigerators, cell phones and cars. One group believes China will surpass the United States as the world's leading manufacturer next year.

The new U.S. president will have a lot on his (her?) hands. Inflation is knocking hard on the door of economic success. The Federal government must live within its means and quit trying to provide the world with a free police force. It should also stop borrowing money from foreign countries, often for the purpose of protecting their shores. The Federal Reserve Bank must raise interest rates to prevent easy money (and its kissing cousin Irresponsible Lending) from taxing the average citizen. Mr. Silver sees higher taxes coming, regardless of who wins the election. He would also like to see hedge / private equity funds regulated to prevent further manipulation of the U.S. economy for personal profit. All of these actions would benefit gold prices and its little sister, silver.

The fourth quarter will provide important insights as to whether the Correction is over and the Super Cycle begins its next run. Meanwhile, companies should hoard their cash, especially if the Correction is deeper than anticipated, prognosticated, prophesized or WAGged.