THE COMING SILVER ETF?
By Theodore Butler

There has been talk recently about a prospective silver Exchange Traded Fund (ETF), culminating with the announcement that Barclays had filed with the US Securities and Exchange Commission (SEC) for permission to offer such a fund. This is big news for silver, and I believe it will also be good news. Already a debate has started as to whether a silver ETF will get sufficient investment demand, and to how much impact a silver ETF will have on the silver price. Before we discuss what an ETF is all about, let me assure you that this will be another reason to secure real silver.

For those who may be unfamiliar with the workings of a commodity ETF, here is a very simple explanation using data from the preliminary prospectus that Barclays filed for its proposed silver ETF. A financial institution buys and stores a quantity of the commodity in question and then issues shares of common stock at a fixed unit of conversion to represent fractional ownership of that commodity. Barclays would buy the silver in industry standard 1000 oz. bars, have them stored in London and issue stock shares in a ratio of one share for every ten ounces of silver. The shares would then be traded on the American stock exchange, hence the name, exchange-traded fund. The stock symbol is SLV. The amount of silver bought and stored would increase and decrease depending upon the investment demand for the shares.

The advantages of a silver ETF are obvious. You get great physical bulk for the money when you buy real silver. For large amounts, professional storage arrangements must be made. At today's prices, $100,000 worth of silver weighs about 1000 lbs. Thought must be given as to where one actually puts a half ton of metal. A silver ETF would answer that question. The ETF's common stock format will open silver investing to certain types of retirement accounts and institutional investors. This could have profound effects on potential demand.

It's hard not to get excited about the impact ETF purchases of real silver would have on the price. The Barclays' prospectus lists a proposed total offering of 13 million shares of stock, which equates to 130 million ounces of silver, or $1 billion. I don't know what the Barclays people are smoking to suggest they could buy 130 million ounces of silver at anywhere near current prices. That amount equals the total known world silver bullion inventory. You don't have to be Albert Einstein to realize buying 100% of something will have a huge impact on price.

Recall the repeated delays that the Central Fund of Canada experienced in its purchases of silver (never for gold) over the past few years. Here, we are talking about several million ounces of silver not being delivered for months and months, not 130 million ounces. And there have been repeated delays in COMEX silver deliveries, although certainly not to the point of default. As far as my reading of the Barclays prospectus, I see no allowance for delivery delays.

130 million ounces is also interesting in that it is the same amount of silver bought by Warren Buffett's Berkshire Hathaway 8 years ago which caused silver prices to double in price. Statements at the time indicated that Berkshire never received delivery of the full amount purchased. You have to wonder, after 8 years of continuous deficits and the resultant depletion of silver inventories, just how the Barclays ETF could get actual delivery, and at what price? That tells me that Barclays will never get to launch this silver ETF. Not even for lesser amounts.

Aside from the absurdity of proposing to buy the entire known inventory of any world commodity, and what that would do to prices, it would be unlikely that government officials from the SEC and CFTC would allow such a scheme. As you know, I am not a big supporter of how the government has regulated the silver market, but not for a moment do I think they would let this scheme slip by.

I know there is a proposed ETF covering oil, but that has not, and may not, be approved. I am also aware of an actual uranium commodity security (effectively an ETF) in Canada, but that is out of the jurisdiction of U.S. regulators. I think it would be a mistake to assume U.S. regulators would give carte blanche to silver and other commodity ETFs. I know, when I put myself in their shoes, approving a security that would impact the price of a commodity would be the last thing I would do. Gold was a special circumstance, because they knew there was so much gold in the world.

Nevertheless, this silver ETF announcement is a true win-win for silver owners. In the event I am wrong, and the silver ETF becomes effective, the impact on the price of silver will be dramatic. But if I'm correct, and this ETF never sees the light of day, that will be a big win as well. Why? Because it will prove for all to see just how critical the supply/demand and inventory situation is in silver. If the government says no way to this ETF, it will be for one reason only – there is not enough real silver in the world to fund it.

In this case, Barclays has unwittingly done silver owners a great favor. The silver ETF is in "play" and out in the open. It will come to market or it won't. If it comes it's good and if it doesn't, it's good. For a real silver investor this announcement couldn't be better.