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Summer 2007

# The Refined Investor

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## Silver Review

### Emerging Allure in the New Millennium

By Tony J. Anzalone, CFA



Allure? The word synonymous to glamour, charm or attraction used in the same sentence with silver is a concept that is rarely found. Those of us in the business of administering the purchase and safekeeping of precious metals would not describe silver as attractive. Relative to its not-so-distant cousin gold, silver takes on a much different appearance once it has left the refinery. Gold is refined to such purity it seems to continue to illuminate long after the vault lights are turned off. Silver, on the other hand, quickly oxidizes the hydrogen sulfide in the surrounding air to develop a grayish black film otherwise known as tarnish. However, appearances are not all what they appear to be.

What makes a precious metal attractive is not what happens behind the vault door, but what happens in your investment portfolio. After all, performance is everything. Silver has been a performance driver over the last 4 years, often beating its shinier cousin. As of March 30th, the four year average annualized return for silver was 52.9%, outperforming gold by 5% over the same period. The story behind the story regarding this performance has been the changes in the fundamentals governing silver supply and demand. Some of the most notable changes are highlighted below.

Weekly Comex Silver Prices (Jan 2001-March 2007)



(cont'd on next page)

FideliTrade Incorporated® is a full-service precious metals company specializing in the sales, trading, custody, and delivery of precious metals bullion products for individual, commercial, and institutional clients worldwide.

## Dramatic Shift in Investor Behavior

One fundamental change occurred in 2006. Marking a dramatic change in investor behavior was a reversal of a 15 year trend of net selling. Since 1989, investors have been selling more silver than they were buying. The resulting surplus silver helped keep prices lower for industrial consumption and jewelry manufacturers. Ultimately, consumers began to exhaust above ground stocks as global economies began to accelerate through the 1990's. In 2000, the trend took a new turn. Fresh investment interest entered the market in competition for available silver. But it wasn't until 2006, when a surplus of silver totaling 60.5 million ounces appeared\*. At first glance, a surplus of above-ground stocks would put downward pressure on the price of silver. But looking more deeply at the cause of this surplus, you will find investors own a significant percentage of this stock. Given the longer term static nature of a surplus resulting from investment, this silver is viewed as unavailable for near term fabrication needs.

## Emerging Technology

Much has been said and written about the many uses of silver. From jewelry to photography to antibiotics, silver can be found across a wide spectrum of things used today. One of the most significant, is its use in electronics. Silver is still the best electrical and thermal conductor of all the metals. As such, silver use in conductors, switches and fuses will continue to be widespread.

One emerging area of electronics where silver has had minimal impact thus far is its use in batteries. The technology supporting the use of silver is quite promising as batteries made with a silver-zinc alloy can produce twice the amount of energy relative to a comparable sized battery using current metal alloys. Similar to the traditional nickel or lithium based batteries currently found in high-end consumer products such as laptop computers and cell phones, Silver-Zinc technology has been used exclusively by the military and NASA. However, it has some significant drawbacks. The most important drawback is silver's cost. This alone was significant enough to dampen any commercial interest. That is until...

\*Source – CPM Group Silver Yearbook 2007, p.4

## The year of the exploding battery!

Over the last 5 years, the vast array of consumer electronics requiring batteries with more power increased dramatically. Bluetooth, PDA's, iPod's, not to mention laptops, are feeding an insatiable consumer appetite for all that is portable. Phones with cameras and cameras with phones; the demand for more power over longer periods of time are ever more present. As such, batteries using the current technology have been pushed to hold greater amounts of energy. Then, last year a "wake-up call" emerged in the rechargeable battery world. Dell Computer recalled 4.1 million notebooks due to a defect in the lithium-ion batteries manufactured by Sony Corp. Determined to find a safer, environmentally clean alternative to power our gadgets, silver-zinc technology is making a comeback.

## The New Face of Silver

Silver is enjoying a renaissance these days. Historically high prices, increasing investor interest, ETF's, and emerging technologies just around the corner bodes well for the metal. Combine this with enormous demand from China and India and the prospects for silver look promising. Whether it will be enough to compensate over the long term for lost consumption from the photography and the jewelry sectors is yet to be seen. But a thriving investor interest combined with robust worldwide industrial demand and an emerging technology with widespread applications has put the glamour back into an investment in silver.



## Precious Metals Factoid

In the first six months of 2007, the U.S. Mint produced only 3,402,000 American Eagles silver bullion coins for worldwide distribution; this is the lowest mintage since 1998.

FidelityTrade Incorporated  
3601 N. Market Street  
Wilmington, DE 19802

Toll Free: 800-223-1080  
Tel: 302-762-6200  
Fax: 302-762-7570  
www.fidelitytrade.com

GOLD 642.70 ▲ .40 SIL 12.27 ▲ .07 PLAT 1270.00 ▲ 5.70 PALLADIUM 363.75 ▲ 3.75

**Notes from the Trade Desk...** GOLD 514.40 ▲ 6.70 PLAT 967.00

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- FidelityTrade has acquired, directly from the U.S. Mint, a quantity of 2007 American Eagle silver bullion coins. Each box, sealed by Mint officials and never opened, contains 500, pristine coins.