



Hi Ho Silver

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By: Matthew Bradbard

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The lone ranger may have made this line famous, but it's our opinion that investors properly positioned in silver futures and options may be singing that same tune in 2009. While the price of silver may remain volatile and unpredictable in the short run, we expect to see a significant advance in prices over the next 12 months. Let me be clear that we are not exactly certain on when the US dollar will resume a move lower or when the hyperinflation will kick into play, however we do feel both are inevitable. What we have suggested to clientele is to buy \$5 bull call spreads out into December of 2009. We have been accumulating these positions for clients between \$1500/2000 per spread. At current pricing we are advising our clients to position themselves long silver by purchasing the \$15 calls and selling the \$20 calls. The suggestion is to buy multiple contracts looking to trade out of a portion of the position into the first of the year on a move back to \$12/12.50 an ounce looking to take most of your risk off the table. The thought would be to sit on the remainder for perhaps 6-9 months looking for Silver for December 09' to return to \$20/22 ounce. As seen below prices are currently trading at \$10 ounce, down over 50% in the last 4 months, largely in part to the lack of stability and liquidity in the global financial markets and the opposing forces of deleveraging, risk aversion and the general dysfunction of the credit markets.

Weighing the risk to reward dynamic this silver trade, I believe, is currently one of the best opportunities I have seen in my seven year career. Does that mean it will make substantial monies or that silver needs to cooperate? No, but to find a trade in this setting that has a defined risk and a potential sizeable return with 13 months time frame is refreshing. Depending on your personal risk tolerance, your belief on whether we will or will not have inflation and/or a weaker dollar in 2009 should dictate if or how much exposure you want in this trade. For the well capitalized investors that can afford to risk \$180,000 we believe that this is a potential \$1,000,000 trade.

Example:

Assuming the cost of the spread, including the premium plus commissions and fees, is \$1,800 per call spread \$180,000 could purchase 100 spreads. One would be leveraging 500,000 ounces of silver. Let's assume our assumptions are correct and we get a trade to \$12/12.50 ounce into next year and the spread is valued at \$4,000 per contract. We would suggest liquidating ½ your position 50 contracts at \$4,000 or \$200,000. This would take all your risk out of the trade and then you would sit on the remaining 50 contracts. At a later date, sometime in mid to late 09' if silver prices continued to cooperate one would look to liquidate the remaining positions at \$16,000 per spread. We do not claim to have a crystal ball, although if this scenario played out this trade could potentially be worth \$1,000,000.

Now, for some meat on why silver and why now. The CFTC has recently confirmed it is formally investigating accusations that in recent months the silver market has been manipulated. US banks raised their short positions in silver futures by 450%, controlling 25% of the open interest, according to the Wall Street Journal. Meanwhile prices have lost over 50% in value in just the last 4 months. It remains to be seen what, if anything will come from this investigation, but based on the tremendous move something smells fishy.

This excerpt which makes reference to the lack of appreciation of the scarcity in silver is from a recent interview with Izzy Friedman, a mentor to Theodore Butler, a long recognized silver authority. "The reason I believe the retail shortage is not truly

appreciated is because of the boiling frog syndrome. Put a frog into a pot of cold water and increase the heat gradually to a boil and he won't jump out. Because the silver retail shortage has been so persistent and gradual for the past year, we have grown accustomed to it." On paper prices are cheap relative to the real physical market, where silver is starting to get precious. Never has there been as wide a disconnect between the price of commodity traded on a licensed exchange and the products of that commodity in the real world.

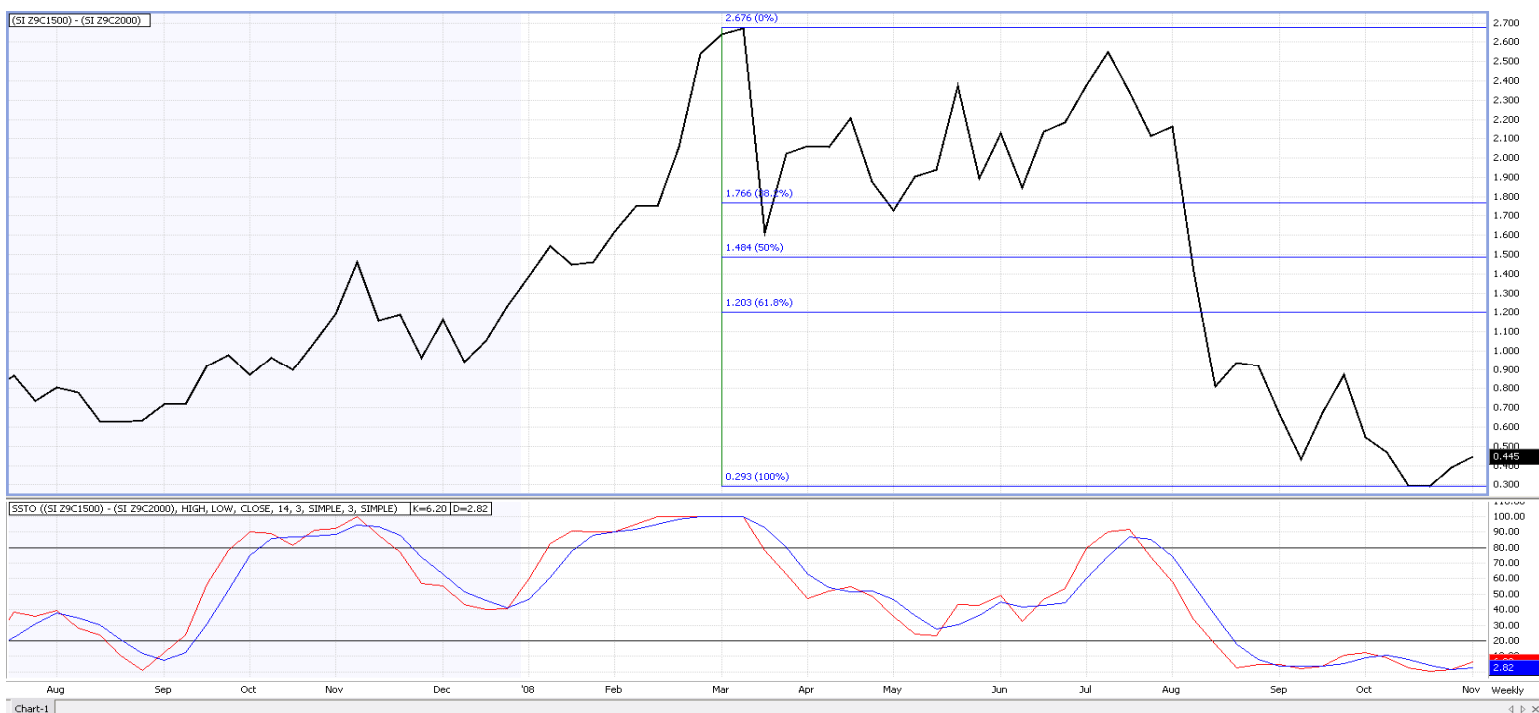
The tug of war between bullish and bearish factors is the reason why silver has been range bound for the last 3 weeks. **BEARISH:** The world is facing the likelihood of a global slow down, mine production has started to fall off, massive liquidation by funds and potential price manipulation. **BULLISH:** A potential supply/demand squeeze, investor demand has been accelerating, silver is cheap relative to gold. To expand upon that, the price of gold recently traded at 82 times the price of silver. This is approximately 36% higher than the ratio over the past 8 years, and looking back in history, the ratio has generally been closer 20 to 1. If we return closer to the historical norm, the price of gold would need to go way down or the price of silver would need to go way up. This ratio is seriously out of whack primarily because silver is viewed as not only a precious metal, but also an industrial metal. Investors are alarmed of a global economic slowdown and that it will dampen demand for silver's industrials uses. The other side is not so forgiving with the economic crises causing more and more investors to flock to silver as a refuge to safety. That makes sense to me, being that Central banks around the world are flooding the financial system with trillions of dollars. This, we view as a temporary fix and as more and more people recognize that we have a serious problem we expect more money to flow into silver and other safe havens.

We are not doom and gloom, however because of the current situation and tough choices that have been made, we expect to see a sinking economy, a falling dollar and severe inflation. We would suggest investors with the intestinal fortitude, whether it be via this strategy or another, to gain exposure to silver and make it 5-15% of their overall portfolios. Jim Rodgers, famed commodity bull, in a CNBC interview in mid October said that the policy decisions being made around the globe are setting up an "inflationary holocaust."

See below a chart of the December 09' silver futures as well as the December 09' \$15/20 call spread



December 09' Silver futures



December 09' \$15/\$20 call spread

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