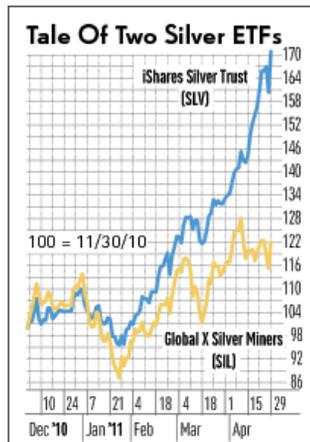


Why Global X Silver Miners Lags iShares Silver Trust

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Silver miners fortunes depend on the price of the precious metal, which has been white hot the past two years thanks to a weak dollar and record demand. But the trajectory of silver miners' shares hasn't been as steep.

iShares Silver Trust (SLV) — the largest physically backed silver ETF — is up 54% year to date and 161% the past 12 months. Global X Silver Miners (SIL) — tracking a basket of 25 companies — has risen 7% this year and 94% in the past year.

Gold bullion and producers moved closer together. Market Vectors Gold Miners (GDX) is flat this year and up 24% in the 12 months. SPDR Gold Trust (GLD) is up 7% and 30% in the same periods.

"The reason you don't see miners going up as fast or equal is due to their rising input costs, issues with geopolitical unrest globally and the talk of many nations looking to tax the mining operations in their countries as well as management and environmental setbacks," says Terry Sacka, chief strategist at Cornerstone Asset Metals.

Input costs include fuel for diesel-guzzling hauling trucks, electricity, ammonium nitrate used in explosives, machinery and workers.

Pan American Silver Corp (PAAS) and Coeur D'Alene Mines (CDE) — the fourth- and sixth-largest holdings in SIL — sold off this month on fears that the Bolivian government might take control of mines the companies operate.

Silver trades as a bullion, a currency, a safe-haven, as well as an industrial commodity. Unlike gold, which has little industrial demand, silver is widely used, including in electronics, musical instruments, and even clothes.

The ability to leverage, or borrow money, at pennies on the dollar in the futures market and momentum trading have sent silver prices sky high as buyers pile on for the ride.

"The derivative market on individual stocks is not as liquid, so it's less subject to momentum/speculative strategies," said Tom Winmill, manager of Midas Fund, which specializes in precious metals and natural resources.

"Investors see the fact that silver is bound to experience a correction at some point, and this puts a huge risk premium on the miners," said Mike Turner, founder of TurnerTrends. "Should silver experience a 20% correction, the miners would, in all likelihood, be crushed."

Analysts see no fundamental justification for silver to trade near \$50 an ounce — which it nearly reached this week before pulling back. The move has been driven purely by speculative panic buying, they say. "The silver stocks understand this and see the current rally as being temporary and not a permanent legitimate move," said Shawn Hackett, president of Hackett Financial Advisors.

First-Quarter Results Coming

Silver companies will be reporting first-quarter results over the next few weeks. SIL's largest holding Silver Wheaton (SLW) hails as the world's largest silver-streaming company. It's the only large-cap silver company without operating or capital cost risk, which all silver producers are subject to, says Scotia Capital analyst David Christie, who rated the stock sector outperform.

It reports Q1 results May 9. Analysts estimate earnings to more than triple to 41 cents a share while sales more than double to \$193.4 million. They expect triple-digit growth for both sales and profits in Q2 and Q3.