Winter 2013

Precious Metals Quarterly

An Insider Report for Clients of Independent Living Bullion

True Money Supply Points to Gold and Silver's True Value

By Seth Van Brocklin
Contributing Editor, Independent Living

The Federal Reserve announced QE4 last December. Precious metals didn't initially respond as positively as might have been expected – gold and silver sold off to finish out the year.

But the white metals (silver, platinum, palladium) put in strong January gains, with platinum reaching price parity with gold after trading at a discount throughout last year.

The early 2013 market action suggests some combination of improving global economic growth (automotive demand for platinum and palladium is bouncing back) and rising inflation lies ahead.

The Fed's policy of pumping $85 billion per month into Treasuries and mortgage-backed securities is only *beginning* to be implemented in full. Since monetary policy affects the economy on a lag of a few months, the real-world impact of QE3 and QE4 remains to be seen.

You can be sure the money supply will continue to expand – *and expand at a faster rate than seen in recent years*. There are a number of ways to measure the money supply, but one of the best is a gauge that isn't reported by the Fed: the True Money Supply (TMS).

Inside This Issue:

The TMS was originally formulated by economist Murray Rothbard to serve as an alternative to flawed conventional gauges and is calculated today by the Ludwig Von Mises Institute and others.

Currency Supply on Course to Expand by Nearly 20% per Annum

David Morgan, editor of **Independent Living**'s sister publication, **Money, Metals, and Mining**, notes that *"consumer prices increase roughly the same amount as this money supply measure, with a seven-month lag. Based on a statistically significant regression of the TMS against the monetary base, the R-square, or degree to which these two are perfectly correlated, is 92.77%. Additionally, based on the size and amount QE3 will increase the monetary base, the TMS will grow at a rate of nearly 19.5% per annum in 2013 and 2014."*

That's an even more rapid rate of currency expansion than the 13% we've seen on average since this great inflationary game began in earnest in 2008. A significant rise in the total quantity of currency readily available to be spent doesn't automatically translate into consumer price inflation. What economists call the

Silver guru David Morgan sees higher rates of inflation ahead and ultimately silver prices well above $100.

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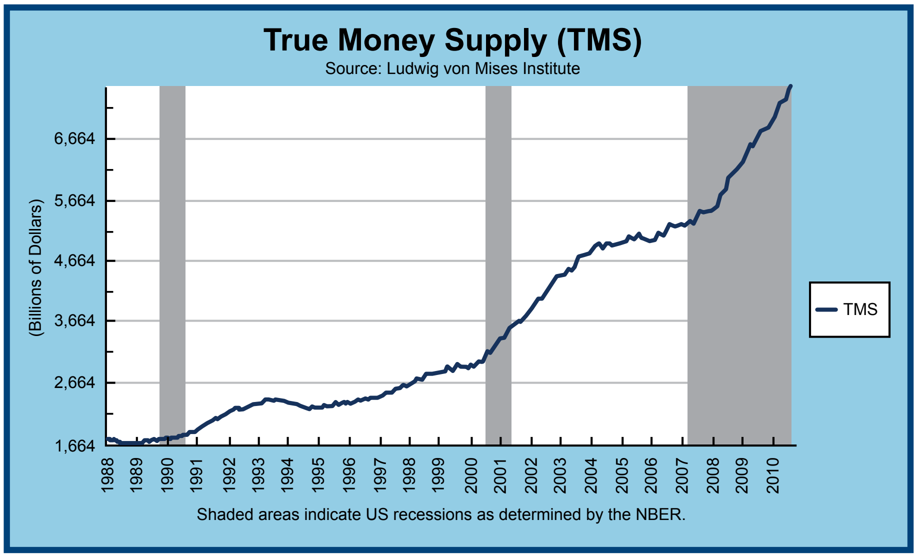
"velocity" of money – how quickly it changes hands – also plays a big part in the rate of price inflation. But a rise in the raw money stock is a precursor. And it is, as David Morgan notes, strongly correlated with rising consumer prices, seven months out.

Consequently, general consumer prices are likely to increase going forward to a degree that could take most consumers and establishment economists by surprise.

What about precious metals in particular? Asset manager Eric Sprott recently compared the $85 billion in new dollars the Fed is systematically creating every month through Quantitative Easing to available supplies of gold and silver:



Shaded areas indicate US recessions as determined by the NBER.

- There are about 130 million ounces of gold mined and recycled per year.
- After subtracting industrial consumption, about 350 million ounces of silver annually are made available through mining and recycling.

At current market prices, that's a little over $18 billion worth of available gold and $1 billion of available silver per month. Yet the Fed is creating $85 billion per month in new funny money backed by nothing. The longer the program continues, the more the market will tend to revalue precious metals prices higher based on their relative scarcity.

Looking Ahead by Looking Back at History

History shows us that when the public grows wary of holding dollars and seeks alternatives, gold and silver don't merely move in line with consumer-price inflation – *they move in multiples of it*. At the 1980 peak, the value of the total gold supply equaled about 26% of U.S. GDP; silver, about 14% of GDP. Today, they each account for less than 2% of GDP.

Yes, the metals got overvalued in 1980. And yes, we can expect that to happen again, at least to some degree. Markets don't go from being extremely undervalued (as precious metals were in the early 2000s), to hitting fair value, to permanently plateauing. They overshoot to the upside.

Gold and silver remain dramatically underpriced according to a number of metrics I track. More importantly, I'd point out that years of 20% growth in currency supply ahead are not reflected in current prices.

Precious metals don't appear to be anywhere near historic measures of overvaluation. The history of not only precious metals, but of stocks, tulip bulbs, and other asset markets suggests that the biggest gains occur in the phase from fair valuation to overvaluation. That phase still lies ahead.

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Inventory Tightness and Rising Premiums Emerge in Bellwether Bullion Products

Premiums for pre-1965 silver coins jumped significantly several months ago, as **Independent Living Bullion** noted for customers on a number of occasions. Despite elevated premiums, availability was never a serious issue and orders were delivered promptly.

Recently, however, inventories began showing considerable strain. Master wholesalers began quoting lead times for delivery. The largest of these firms temporarily stopped accepting new orders altogether. And, as of this writing, premiums continue to rise.

ILB is still accepting new orders on 90% silver coins from buyers who don't mind waiting for delivery. However, our Specialists do encourage customers to look at other popular bullion products where premiums remain relatively flat and inventory is readily available – at least for the moment.

Premiums have also risen dramatically on South African Gold Krugerrands over the past two months. Together with pre-1965 silver, these products often act as bellwethers. What happens to premiums and availability here can foretell similar action in other bullion products.

The reason is that gold Krugerrands and pre-1965 silver coins are available in the secondary market almost exclusively. The U.S. Mint stopped production of 90% silver in 1964, and only a tiny fraction of the 48 million ounces of Krugerrands produced since 1967 are newly minted each year. Virtually every ounce sold must come from the existing stock held by other investors.

This means availability and premiums for no-longer-minted coins reflect the attitudes of investors currently holding them. These folks are generally holding out for higher prices, so the supply coming to market isn't enough to meet demand.

As premiums on Krugerrands and pre-1965 silver coins rise, we can expect some demand to shift to other bullion forms. Given the enormous quantities traded in both products, the shift in demand can be significant. Premiums on most other products are holding relatively stable, but that can change in a hurry.

Krugerrand premiums are already within half a percent of the premium on American Gold Eagles. Normally this spread would be three times that amount. We expect something to give; either higher premiums for American Eagles (and other popular gold coins) or lower premiums on Krugerrands. A similar dynamic is in place for pre-1965 coins relative to the silver American Eagle.

The demand for physical metal is through the roof. Buying activity at **ILB** stands at the highest levels in 18 months. The U.S. Mint sold 3.937 million silver American Eagles on its 2013 opening day – an all-time record. Three weeks into January, the Mint ran out of silver and suspended sales for 10 days. When production came back online, Eagles were rationed out.

Demand at these levels will very likely drive premiums on other popular bullion products higher soon.

2013 American Silver Eagles in Stock!

ILB has the brand new 1 oz American Eagles in .999 fine silver available. The iconic silver Eagle is widely considered one of the most beautiful coins ever made. It is without question the most popular and widely traded bullion coin in the world.

The U.S. Mint is having trouble keeping up with demand. Get yours while you can!

Great Questions
from Our Customers

We Practice What We Preach

Monte S. writes: ***Your firm constantly talks about the depreciating dollar and the need for people to get out of cash and buy gold and silver to defend themselves. Why is it then, you do the opposite? If precious metals are such a wise choice, why are you selling bullion and taking dollars?***

It's a great question – we understand the apparent contradiction. Here is the reality of how our bullion business operates. When we take an order for bullion we do more than simply trade valuable metal for depreciating dollars. We immediately use those dollars to replenish our inventory. We must maintain an enormous pipeline of precious metals to support future orders.

The principals of our company are as bullish on precious metals as any of our customers. We are leery of holding a nickel more in cash than absolutely required to grow and run the business. Any extra funds get plowed back into the company's most valuable asset – its stock of bullion rounds, coins, and bars.

If ever there a time comes where we cannot buy new inventory to replace what we sell, you can bet we will stop selling until the supply situation stabilizes.

Don't Fall for "Rare" Coin Dealer's Confiscation Scare Tactics

Bill H. writes: ***Shouldn't I buy pre-1933 gold coins? Another dealer tells me those cannot be confiscated by our government.***

We get several calls a week from customers asking about the threat of government confiscation. Although we never underestimate the measures desperate government bureaucrats may take, we find the threat of confiscation is most often a scare tactic used by unscrupulous "rare" coin dealers to promote their overpriced coins. Most of these pre-1933 coins are not true collectibles despite their large markup over the melt value of the metal, and the government claims it has the power to confiscate of any asset whatsoever in a "crisis."

We cover this and other common myths extensively in the "Hot Topics" section of our website at www.IndependentLivingBullion.com.

From the **ILB** website:

Confiscation fears hinge on President Franklin D. Roosevelt's Executive Order 6102 which ordered citizens owning more than 5 ounces in gold coins to turn in the "excess" coins for dollars and made "hoarding" gold a crime. There was an exception made for truly rare and collectible gold coins (much of what numismatic salesmen sell today would not fall under this definition, by the way). Only months later, FDR devalued the dollar by almost 50% and reset the official price of gold to $35 per ounce.

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Each numismatic coin type, each year, and each condition level has its own sub-market, making it especially difficult for anyone but extremely serious collectors to make knowledgeable decisions.

At that time, the dollar was formally backed by gold. Forcing the public to turn in its gold made it possible to expand the money supply in an effort to counteract deflationary pressures and fund massive new federal government spending programs. But President Richard M. Nixon slammed shut the gold window in 1971, so money can now be printed without this important restraint. In other words, central planners no longer "need" your gold to pursue their inflationary policies.


POSTMASTER: PLEASE POST IN A CONSPICUOUS PLACE.—JAMES A. FARLEY, Postmaster General

UNDER EXECUTIVE ORDER OF THE PRESIDENT

Issued April 5, 1933

all persons are required to deliver

ON OR BEFORE MAY 1, 1933

all GOLD COIN, GOLD BULLION, AND GOLD CERTIFICATES now owned by them to a Federal Reserve Bank, branch or agency, or to any member bank of the Federal Reserve System.

Executive Order

For Further Information Consult Your Local Bank

GOLD CERTIFICATES may be identified by the words "GOLD CERTIFICATE" appearing thereon. The serial number and the Treasury seal on the face of a GOLD CERTIFICATE are printed in YELLOW. Be careful not to confuse GOLD CERTIFICATES with other issues which are redeemable in gold but which are not GOLD CERTIFICATES. Federal Reserve Notes and United States Notes are "redeemable in gold" but are not "GOLD CERTIFICATES" and are not required to be surrendered

Special attention is directed to the exceptions allowed under Section 2 of the Executive Order

CRIMINAL PENALTIES FOR VIOLATION OF EXECUTIVE ORDER
$10,000 fine or 10 years imprisonment, or both, as provided in Section 9 of the order

Secretary of the Treasury.

Buyers of rare coins hoping to avoid another government confiscation suffer guaranteed <u>immediate</u> confiscation of some of their wealth by the rare coin dealers themselves.

The "confiscation proof" argument spun by rare coin salesmen falls apart in two ways:

- First, under two federal laws – one passed in the early 20th century and another from the 1970s – the U.S. government claims the power to seize <u>any</u> private asset whatsoever in times of national emergency or war. Nothing is automatically exempt.
- Second, there is no requirement that gold be held by the Treasury to back the money supply, so the "need" to seize gold in order to inflate the currency no longer exists.

If today the government wanted to confiscate our wealth (because simply stealing it via inflation wasn't doing the job quickly enough), it would take whatever was the easiest to get its hands on. All assets, from real estate to 401(k)s, would be threatened. (Financial assets are not only easily located, but also easily confiscated by a mere shuffling of papers or clicks of a computer mouse, unlike physical gold and silver securely stashed away.)

<u>To supposedly protect against the remote chance of a future confiscation, rare coin buyers suffer immediate confiscation of some of their wealth by failing to buy "mere" bullion coins, bars, and rounds in the first place</u>. Caveat emptor – let the buyer beware.

Do Morgan/Peace Silver Dollar Culls Sell at "Junk" Prices?

Dick H. writes: ***Thanks as always for your valuable information and insights. I know you don't recommend Morgan/Peace silver dollars because of their possible numismatic value. However wouldn't junk, Morgan/Peace silver dollar culls be a great way to hold more silver (each being 77% silver) if purchased at junk silver prices without any premium? Regardless of the current spot price, currently around $34, Morgan/Peace silver dollars are very recognizable and silver is going to go to triple digits.***

We have no objections to the Morgan/Peace silver dollar coins themselves, only to the higher premiums attached to them as compared to pre-1965 half dollars, quarters, and dimes. Even low-grade silver dollar culls typically sell at something of a premium to junk silver. So you need to make sure you're comparing apples to apples in terms of premiums on ounces of silver desired. Also, the market for typical pre-1965 coins tends to be more liquid than the market for Morgan/Peace dollar culls, and you will likely lose a few extra percent upon sale of the culls.

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Are Silver Bars the Right Investment for You?

By Mike Gleason
Co-Director, ILB

One of the frequent questions our Specialists hear from first time buyers of silver, and even experienced investors, is: *What form of the metal is best to buy?*

Before answering that question specifically, we first and foremost urge our customers to buy silver in bullion form only and avoid any "rare" or numismatic coins like the plague. As long as an investor insists on bullion products with low bid/ask spreads – meaning the difference in price between what one pays to buy versus what he or she would get to sell, assuming no change in the spot price of the underlying metal – the options are all good.

Whether someone buys from **Independent Living Bullion** or from another company, we simply cannot overstate the importance of avoiding products sold at premiums well above their melt value (i.e. coins that are graded, proof, or cost more because they are old or "rare").

With that said, not all coins have higher premiums. Some of the more popular and familiar bullion products include 1-oz sovereign coins (such as American Eagles, Canadian Maple Leafs, and a few others), privately minted 1-oz rounds, and pre-1965 90% U.S. silver coinage (aka "junk silver") are other good options.

Silver bars range in size from 1-oz all the way up to 1,000-oz. However, we generally don't recommend either the former or the later. One-ounce silver bars simply aren't traded as widely as the more popular 1 oz silver rounds, and they typically don't offer savings. All other considerations being equal, investors should choose the more popular round.

When it comes to 1,000-oz bars, we urge most investors to steer clear. For one, these bars are incredibly cumbersome to handle. But more importantly, 1,000-oz bars are the only form of silver that requires dealers automatically to issue a 1099B on sellers (unless the seller exchanges it into another form of silver instead of taking cash).

Additionally, sellers of these 70+ pound bars often will find dealers significantly discounting the buy-back price. Many small dealers will not be able to readily re-sell bars that size. *(Note: **ILB** is not one of those outfits, and we will be happy to buy 1,000-oz bars from anyone who either wishes to sell or switch into a smaller and handier form of silver bullion.)* But 1,000-oz bars that are not held in a COMEX storage facility will also need to be melted and assayed – at the seller's expense.

The 10-oz and 100-oz bars – are much better options for investors looking for .999 pure silver. While we do believe it's important to start off by owning a stash of smaller-form silver (i.e. 1-oz coins or rounds and/or 90% junk silver) before opting for an alternative like bars, the 10-ounce size is a good next step and usually will come with a modest premium savings compared even to the affordable 1-oz rounds.

Many different mints produce the 10-oz size and in many cases the bars will come nicely packaged in sealed plastic, generally in sheets of five or ten which can be separated as needed. Similar to 1-oz rounds, there is not much advantage in paying a higher premium for a bar produced specifically by "XYZ Mint." Also, the additional premium one might pay to get a serialized 10-oz bar is not worth the extra money. As long as the bar is in good/re-sellable condition, is stamped with its weight and purity, and is clearly identifiable as a pure silver bar, little else matters.

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Are Silver Bars the Right Investment for You?

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When it comes to the 100-oz size, the "mint mark" carries a little more importance. Many dealers, including **ILB**, will slightly discount bars that are not produced by IRA-approved manufacturers since many 100-oz bars are sold to self-directed IRA account holders. An IRA-approved bar is one that is either made by one of the "big three" – Johnson-Matthey, Engelhard, or Royal Canadian Mint (RCM) – or an ISO 9001 certified manufacturer such as Academy or Ohio Precious Metals (OPM, formerly NTR).

Those purchasing 100-oz bars will likely save 10 to 20 cents per ounce (or more) versus 1-oz bars and rounds.

Bars also shine when it comes to storage. Because they can easily be stacked on top of one another, the space requirement is reduced, especially compared to the bags of 90% silver, for instance.

As mentioned above, we recommend accumulating a good amount of smaller-form silver bullion first before moving on to bars. Once you've done that and are ready for bars, just be sure to buy a product stamped with its weight and purity. And insist on dealing with a reputable source that has tight controls over their supply, meaning those that either have a direct mint source or have invested in the necessary testing and assay equipment to verify the purity of the bars (**ILB** satisfies both).

Great Questions from Our Customers

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Some shady coin dealers we've come across offer silver dollars for the same price as an ounce of silver and imply in their marketing materials that the coins are being sold "at spot" with no premium attached to them. But, of course, silver dollars don't contain a full ounce of silver. If you buy one for the spot price of an ounce of silver, you'll effectively pay about a 30% premium.

Should I Dump My Silver?

Larry G. writes: ***At 69 and 71, we cannot afford to make mistakes. We have paid as high as the low fifties for silver which is now in the low thirties. My wife is usually right about 98% of the time. Why should we buy/keep silver?***

You should keep accumulating and holding physical silver as part of a diversified portfolio if you want protection from a currency crisis and some measure of independence from the government-overseen banking system. Gold serves that function as well. It's less price-volatile than silver, so if you value stability more than upside potential at this point in your lives, then you may wish to favor gold over silver. Again, as part of a diversified portfolio.

If you shun precious metals entirely, then your asset mix will lack sufficient diversification and expose you to greater overall risk. This isn't just our belief. Ibbotson Associates has demonstrated through a rigorous study that investors who allocate 7.1% to 15.7% of their portfolios to precious metals enjoy better risk-adjusted returns.

The more protection you want from a currency collapse and the more you want to capitalize on potential price appreciation during a major bull market for precious metals, the more you might want to increase your allocation. We regard a 20% - 25% allocation to gold and silver bullion as prudent given the times. Some of our customers prefer a smaller allocation, while others maintain a much larger allocation.

Secure Your Retirement with a Precious Metals IRA

There is no substitute for holding physical precious metals in your IRA. It's a safer approach than owning paper alternatives such as precious metals ETFs or even mining stocks.

Not only can you purchase, hold, and sell physical precious metals using a tax-advantaged Self-Directed Precious Metals IRA, but also you can withdraw your bullion and take direct physical possession of it under normal IRA distribution rules. Few Americans have any idea about these fantastic options, because their brokers have never told them!

Here's how easy it is to get started:

Step 1: Establish and Fund a Self-Directed IRA.

Choose one of the following trustee companies that have been fully vetted and approved by **ILB**.

New Direction IRA (NDIRA) is a Self-Directed IRA provider specializing in holding physical precious metals as well as other assets like real estate and private loans. NDIRA is unique in that it allows clients to use the depository of their choosing and still has highly competitive fees (starting at only $75/year). Diligent customer service and quick processing speeds are among NDIRA's core strengths. To obtain a NDIRA application, call and ask that it be mailed to you, or simply download a copy from www.IndependentLivingBullion.com.

GoldStar Trust Company is an independent trustee that charges very low fees and provides flexible IRAs to hold physical precious metals. Your metals are stored in a maximum-security depository in Delaware in either an allocated or unallocated account (your choice). You can call **Independent Living Bullion** and ask us to send you either a traditional IRA or Roth IRA application, or simply download it from our website at www.IndependentLivingBullion.com and begin the process of establishing and funding your precious metals IRA.

Step 2: Designate Independent Living Bullion as Your IRA Precious Metals Dealer.

Independent Living Bullion is an approved dealer at New Direction IRA, GoldStar Trust, and other trustee companies as well. Under your direction, we can facilitate your IRA's purchases (or sales) of gold, silver, platinum, or palladium.

Step 3: Purchase the Precious Metals Bullion Products That Fit Your Needs.

Your IRA may hold a wide array of bullion coins, rounds, and bars offered by **Independent Living Bullion.**

Step 4: Receive Payment Confirmation.

You'll receive payment confirmation from **Independent Living Bullion** and be able to track your shipment all the way to the depository.

***Please Note: We can partner with ANY self-directed IRA custodian. Here are examples of other firms with which we have worked:*

- ***Sterling Trust***
- ***Entrust***
- ***Millennium Trust***
- ***IRA Services***
- ***Ramsey National Bank***
- ***Mountain West IRA***

*Regardless of which firm you choose as custodian for your IRA account, **Independent Living Bullion** can deliver the physical gold, silver, platinum, and palladium bullion you want – and at great prices!*

To Get Started, Call ILB at 1-800-800-1865!