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Is It Rally Time for the Metals This Fall?

By Seth Van Brocklin
Contributing Editor

In the late summer, precious metals prices finally broke out to the upside, led by silver. Some metals investors may understandably be skeptical of this recent rally and whether it can be sustained. After all, the markets have produced a number of false starts over the past two years.

Here, I'll make the case that a sustainable, multi-month rally in precious metals is indeed in the cards. Nothing is ever certain when it comes to the future direction of asset markets – especially in an environment where all assets are tied to the "wild card" of large-scale interventionism from the Federal Reserve. But the odds are now in our favor for the intermediate-term and long-term.

In the near-term, markets can rise or fall on the news-driven ebb and flow of "dovish" and "hawkish" expectations for Fed policy. Gold and silver prices retreated in September ahead of the Fed's widely expected tapering of its bond-buying program. In a previous Federal Reserve policy meeting statement, Fed officials indicated their outlook for economic growth had changed from "moderate" to "modest." Markets

moved on the hypothesized meaning behind the subtle shift in terminology. And when the Fed backed off its "tapering" plans in September, gold and silver rallied.

These incessant word games and most of the other day-to-day "noise" you hear in the financial media will prove to be irrelevant in the big picture. What will matter to you years from now are things like how many ounces of gold and silver you hold. Will you be glad you had accumulated more ounces when opportunities presented, or will you curse yourself for having sat on the sidelines?

Now remains a favorable time for accumulation. The cyclical lows for the precious metals appear to be in. But even if some further downside remains, the upside potential from wherever the final lows are established is immensely greater.

Demand Surges as Inventories Plunge

We have signs of extreme stresses in the precious metals markets. Over the summer, the gold market slipped

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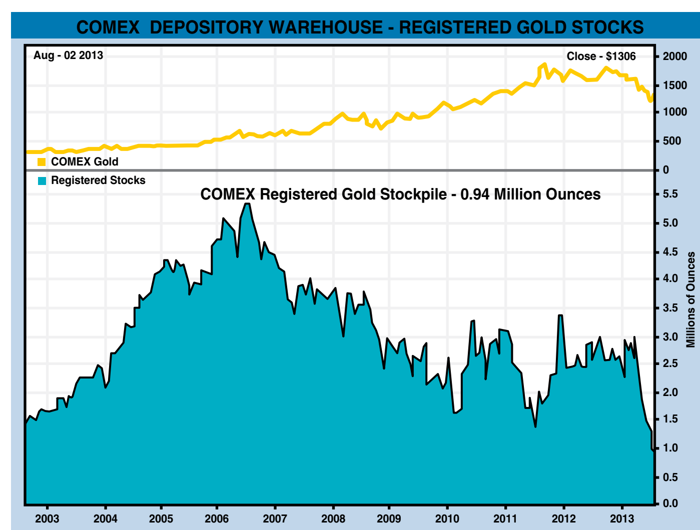
into a condition known as "backwardation." Prices enter backwardation when spot and near-dated futures prices are more expensive than longer-dated prices. This unusual condition for gold has presaged major rallies when it has occurred in the past (1999, 2001, and 2008).

Some analysts say gold's long period of backwardation in recent months also suggests rising fears of default on the futures exchange (since investors are willing to pay a slight "insurance" premium in order to obtain gold for immediate delivery).



Gold inventory in Comex warehouses has fallen dramatically, as physical metal has been shipped to Asia.

Physical inventories on the Comex have plummeted over the past several months. It's always been the case in the leveraged futures markets that claims on physical gold are multiples of available supply. But now supplies are getting so tight that a "run on the bank" is a real possibility, according to some insiders.

A recent research report by Monument Securities put it this way: "*The gold market is a gigantic fractional reserve system consisting of a vast quantity of paper claims to gold bullion and a much smaller inventory of actual bullion.*"

Fractional-reserve banking works as long as depositors don't withdraw their funds in large numbers.

Fractional-reserve gold functions on the same premise – that the vast majority of people with contractual claims on gold won't actually demand to be paid in gold.

Investors who own derivative products instead of the real thing are assuming greater risk. Moreover, the people who hold futures contracts, exchange-traded products, unallocated pooled accounts, and other indirect plays on precious metals are helping the paper pushers divert demand away from the actual, physical product.

The good news for precious metals bugs (which is, in turn, alarming for "paper bugs") is that even as futures markets sold off heavily earlier this year, demand for bullion products – especially silver coins – soared. For example, sales of 2013 Silver Eagles by the U.S. Mint surpassed 2012's numbers before the end of August. And China accumulated more than 706 tonnes of gold in the first half of 2013, up 54% from the same period last year.

As the public wakes up to precious metals ownership, sales of Silver Eagles have reached all-time record highs.

As the London **Telegraph** reported in August, "*Ownership of the world's gold shifted further East during the first half of 2013, as Westerners dumped their exchange-traded holdings and, on the other side of the globe, Asian consumers responded to lower prices by adding to their hoards of jewelry and bullion.*"

Another way of looking at it is that precious metals ownership has shifted from weak hands (speculators, hedge funds, etc.), who only care about chasing price trends, to strong hands, who will not be trading out of their holdings. People generally buy gold coins and jewelry in order to hold them as core family assets,

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Warning Signs in Publicly Traded Markets

Don't Assume Your Bank and Brokerage Assets Are Safe

By Clint Siegner
Co-Director, ILB

The NASDAQ recently made headlines after going dark for 3 hours. The electronic stock exchange – where the shares of 3,000 companies trade – shut down due to a technical "glitch."

Only days later, another "technical issue" closed the German based Eurex exchange for more than an hour. Fortunately, in both cases, trading resumed in an orderly manner and investors didn't panic.

But these incidents serve as a warning. The risks associated with holding bank or brokerage accounts are growing fast. Investors should pause and re-evaluate their asset allocation based on developments in recent years:

- Advancements in technology are adding vulnerabilities. In high-frequency trading, computer algorithms make tens of thousands of trades per second and can precipitate spectacular moves faster than humans can react. The 2010 "Flash Crash" is perhaps the most notable example, but there have been many other examples since. And, as the reliance on technology increases, the exchanges become bigger targets for electronic attacks from hackers and enemies of the U.S. Despite official denials, many speculate that the NASDAQ shutdown was related to such an attack.
- Frauds and mismanagement are increasing – even at large and established firms. The 2008 Financial Crisis highlighted that banks and brokerages are hardly the stable and secure institutions they portray themselves to be. They are, in fact, highly leveraged and prone to gambling with complex securities in opaque markets. And the collapses of MF Global and PFG Best provide a reminder that blatant frauds are possible at any firm – regardless of size and reputation.
- Average investors aren't playing on a level field. In August, programmers at Goldman Sachs mistakenly generated thousands of options trades that resulted in hundreds of millions in losses for the firm. Goldman used its clout to have the trades unwound – good news for them, but bad news for the guys on the other end of those trades. Average investors don't receive this preferential treatment. If you trade in today's markets, you pit yourself against massive firms with high-frequency trading machines, better access to market data, and connections with politicians and regulators who can bend rules in their favor.
- Over-indebted governments worldwide – including the U.S. – are growing increasingly desperate. Bank and brokerage accounts are among the easiest pickings for bureaucrats grasping for funds. Without warning, regulators can close the banks and electronically seize the balances of millions of account holders – just ask bank depositors in Cyprus!

Financial assets that are not confiscated outright can still be taxed, monitored, and controlled with relative ease.

Lawmakers in Washington, DC are eyeing the trillions of dollars in assets held in retirement accounts. They may one day force investors to purchase U.S. government debt with part of their retirement.

As glitches, frauds, taxes, and financial controls accelerate, you must take action and move a portion of your assets "off the grid." Physical bullion, with zero counter-party risk and enormous privacy advantages, represents THE best way to secure yourself from these risks.

ILB's *Exclusive* Interview with David Morgan

David Morgan sees $26 silver by year end and big gains in 2014.

Mike Gleason: We welcome back our friend and colleague, David Morgan of the Morgan Report and Silver-Investor.com to get his take on some interesting market action. First off David, what sort of things do you look for when evaluating whether or not a precious metals rally has legs?

David Morgan: With over four decades in this market and studying technical work and fundamentals and all that goes with it, I've tried to simplify things a great deal. Specifically, I like to see the mining shares out-perform gains in the bullion at about a 3 to 1 ratio.

Another thing is I like to see silver leading. In other words silver is making new highs before gold makes new highs. If gold is up on a nice rally, let's say, it's up 2% for the day, I like to see silver up double that. It'd be up 4% for the day. I also like to see follow up. One day doesn't make a market. So I like to see high volume, positive price movement, and consistency when you look at three-days… I have a three-day rule.

Mike: Do you expect a rally through the fall?

David: Yeah, I do…I'm going to stick to my $26 before the end of the year, which doesn't mean the last trading day which often sees a selloff. We could hit $26, let's say, in November – only to watch it fall off to $24 by the last trading day of the year. A lot still depends on the physical market. A great deal depends on the paper markets. These paper markets are being less and less trusted all the time.

And gold's really the driver there. Gold is being drained from the COMEX rather significantly. And the amount of gold in the COMEX is absolutely pathetically small. It wouldn't take much to continue to put pressure on the COMEX gold supplies to at least wake up some people to the fact that this area of paper derivatives trading is just that. It's paper, it's a derivative, and it's not real gold.

As far as this two-year correction we've seen in gold and silver, I think the bottom is in. I think you could still dollar-cost average from here on out. We are going to have to work through the overhead resistance levels. Just realize that we held above the $26 level for a very long time in silver, and we held above the $1,550 level in gold for a very long time.

Once the metals break through, those levels will become support again that we'll have to work our way higher. And there's a lot of, what's called "stale bulls." A stale bull is somebody that bought two years ago and bought silver, as an example, at $40 on the way to $48 in 2011, and it's just been very painful. When it gets to that level or near it, they might sell out. They get to break even and say *"I got my currency back. I didn't lose. I bought it at $40. I sold it at $40. I'm happy to be out."* So that kind of mentality goes on in all markets.

I think there will be more people coming into the precious metals market in 2014 than this year, which is a transition year.

Mike: Tell us more about the last bull market in the precious metals which occurred in the 1970s as it relates to this current bull market.

David: There were so few gold bugs back in the early 70's, but once gold was set free for American citizens to own, you could buy it at the set price, around a $35 level. There was a fair amount of buying. It took the price all the way up to around the $200 level, or just under. It was pretty much a steady rise. All the gold bugs and those following gold would say, *"Look*

at that. $35 to almost $200, you've got about a sixfold increase. Gold is a great thing." Of course, people were buying near an intermediate top, which happens in all of these markets.

Then it had this massive correction. It went from roughly the $200 level down to around the $100 level. It was about that much. It was a 50% correction or so. This was just devastating. At the bottom, we were hearing things almost identical to what we're hearing now. *"It's a bear market. It's not a bull market. It's over. I wish I had never bought gold. I don't like listening to the gold commentators."*

Of course, when the last sale was made at the bottom, we saw about an eight-fold increase. It went from roughly the $100 level up to $850 in gold. It had to work through that overhead resistance of the $100 to $200 mark. When it got back to $200 along the way up, there were people that said, *"Double top, I'm out. I bought at the top. It's years later, years later, and I'm out. I'm so glad I'm out. Now my wife isn't going to harp on me because I didn't lose any money. I bought at $200, I am out at $200."* Think of what she said to him after it went from $200 to $800 – it was a 300% increase!

This is the way markets move. Again, manipulated or not, that is how markets move. I just did a consultation yesterday with a gentleman from Germany, very bright, he was working on his PhD. We were talking about this very topic. He suggested that if this happened again, that would suggest $1,000 gold, and then we got an eight-fold increase, that suggests $8,000 gold.

I didn't disagree with him. I said, *"Look. I do not like going on the Internet and forecasting these numbers, because before you get to $2,000, $3,000, or $5,000 gold, pick your favorite number, it doesn't really matter, it's the idea to me that's more important. You've got to get back to the $1,900 level. You've got to get back to the high that we have already seen in 2011. Then we have to move up from there."*

I don't like forecasting a given paper price, although I have done it. I said silver would make it to $100, and obviously, we would have to go about fivefold from where we are right now to get to that level. I still believe strongly that we will. The only reason to sell anytime soon, in my view, is when you had to for some unknown circumstance that hits your personal life. Obviously, that is an individual decision.

But if your conviction is waning, you're getting upset, you're thinking, *"Maybe it is a bear market,"* or these other thoughts are coming to you. Just stop, take a deep breath, and re-evaluate. Ask yourself these simple questions: Have the fundamentals changed? Is the world getting truly economically better? Are the problems going away? Are our politicians serving us, or doing something different? Those questions are ones you have to ask. If you come up with the answers that I have come up with or something close, you're going to conclude, *"No, no. Metals fundamentally are as strong a buy as they have ever been."*

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Does Purity Matter?

What You Need to Know When Investing in Different Types of Coins

By Mike Gleason
Co-Director, ILB

Bullion investors often ask the question: *Does purity matter?* Well, sometimes yes, and sometimes no. Let me explain.

First off, and generally speaking of course, the only real factor that matters is the melt value of the gold or silver product in question. For instance, while not all of the popular one-ounce gold bullion coins are created equal, they do all contain one full troy ounce of gold.

Both the U.S. Gold Eagle and South African Krugerrand are only 22 karat gold, and thus only contain 91.67% gold. But each coin still contains one full troy ounce of gold. In addition to the one troy ounce of gold, there is other metal alloyed (copper, and, in the case of the Eagle, some silver as well), which makes the overall weight of the Eagle and Krugerrand coins 1.091 troy ounces.

The Eagle and the Krugerrand, widely considered the two most popular one-ounce gold coins in the world, are alloyed with copper to provide additional strength and durability.

Gold Eagles and South African Krugerrands are alloyed with other metals, but they still contain a full ounce of gold.

In the case of the other popular one-ounce gold bullion coins – the Canadian Maple Leaf, Australian Kangaroo, American Buffalo, and Austrian Philharmonic – there is no metal other than gold, meaning each are 24 karat (or .9999 pure) and each weighs exactly one troy ounce.

Bottom line, all of the above coins are of nearly identical value because the "melt value" of gold is the same – whether the purity is 22k or 24k.

Some of the older and historic coins – such as the pre-1933 U.S. Libertys and Indians and the popular coins from Europe like the British Sovereigns, Swiss and French 20 Francs, and others – contain 90% gold. These coins were circulating currency and therefore needed the extra durability and strength provided by a 10% copper alloy. But once again, the gold melt value is all that really matters.

In silver, the dynamic is similar. For instance, the most popular retail silver bullion product where this purity question comes into play is with junk silver – aka 90% or 40% U.S. silver coins.

Pre-1965 dimes, quarters, and half dollars are 90% silver by weight and prices are based on their silver content.

When buying junk silver, an investor simply gets the copper "for free" and thus pays only for the silver content. When it comes to Pre-1965 90% silver dimes, quarters, and half dollars, there are 0.715 ounces of silver for every $1 of face value (i.e. 10 dimes, 4 quarters or 2 half dollars or any other combination that adds up to exactly $1). The 40% silver halves, minted from 1965 through 1970, contain just 0.295 ounces of silver for every $1 face value. *(Note: each of these silver melt values are industry standard figures for each dollar of coinage. They factor out the copper and factor in the metal loss from normal wear.)*

Here's Where Purity DOES Matter

There are few situations where purity *does* matter and must be considered.

When purchasing bullion specifically for a precious metals IRA, the IRS requires that the products meet a certain purity standard. As a general rule, non-pure gold, silver, platinum, and palladium bullion items will be prohibited for ownership inside a precious metals IRA.

However, there is one notable exception to this IRA purity

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Gold Confiscation Fears Cause Some Investors to Make Poor Decisions

By Stefan Gleason
President, ILB

Questions surrounding the possibility of another gold confiscation *a la* Franklin Roosevelt's 1933 Executive Order 6102 often pop up during the conversations that **ILB**'s Specialists have with customers. Unfortunately, the specter of this 80-year-old attack on wealthy "gold hoarders" is still haunting investors today.

As the Federal Government grows more authoritarian and more insolvent, investors should indeed worry about what kind of desperate measures may be coming. Of course, one of the easiest ways for the feds to confiscate private wealth in today's world would be through limitations on tax benefits tied to IRAs and 401(k)s – and potentially even requirements that U.S. debt be purchased within those accounts.

The U.S. Treasury under Jack Lew has considered restrictions on retirement accounts to alleviate government borrowing.

We strongly believe that forgoing or limiting your bullion purchases based on fears of government confiscation is counterproductive. Military critics often use the expression "*preparing to fight the last war*" when discussing the tendency for strategists to focus on the enemy's prior tactics at the expense of preparing for new ones. Letting the threat of confiscation deter you from building a position in physical gold and silver is preparing to fight the last war.

Almost as bad as not buying precious metals at all is sinking your money into "rare" coins based on the fiction that they would be immune from government confiscation. Such unwise purchases *guarantee* confiscation of your wealth through the rare coin dealers' extortionately high premiums.

Vigilant investors can get a sense of the draconian tactics impoverished governments prefer to use in today's world

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Does Purity Matter?

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rule, the American Gold Eagle. Even though the Eagle is only 22k (and therefore isn't .9999 pure), Congress granted it a special exemption since it is the flagship gold bullion product minted by the U.S. government.

Another situation where purity is *likely* to be a factor is with 40% junk silver half dollars. This is a product you seldom see **Independent Living Bullion** promoting as an investment because the sheer bulk of the 40% silver half dollars makes them less desirable for storage, as compared to other silver options. And they're generally less popular in the marketplace, which tends to increase the bid-ask spread on these coins.

For instance, a full bag of $1,000 face worth of 40% half dollars contains only 295 ounces of silver but weighs approximately 50 pounds. Compare this to three 100-oz .999 pure silver bars where the weight is only slightly more than 20 pounds. So unless the 40% silver can be bought at a *significant* discount, we generally recommend investors look to other silver options.

Bottom line: know what you're getting, be aware of the melt value of gold or silver in the product you are considering, and try to keep your premiums above that melt value low. In most cases, however, the purity of any mainstream retail bullion item doesn't make a whole lot of difference at the end of the day. In short, it's all about the ounces you own.

Note: certain products are less marketable and harder to resell; therefore, we also recommend investors stay away from purchasing gold bars (of any size) with a purity of less than .9999 (that's four 9's) and silver bars or rounds that are less than .999 pure. ***ILB*** *does not advertise such items as a result.*

Bullion Confiscation Fears

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by looking to recent events around the world.

During the banking crisis in Cyprus, officials took advantage of technology to launch a surprise attack on their citizens. Cypriots woke up one morning to find they no longer controlled the "cash" held in their banks. Confiscation took the form of electronically seizing bank accounts and limiting ATM withdrawals to €100 per day.

India's Attack on Gold Has Only Stimulated Demand and Profits

Bureaucrats in India are attempting to both profit from the demand their inflationary policies have created for gold and, at the same time, discourage investors from taking steps to protect themselves from ongoing devaluation of the Rupee.

India doubled the duties imposed on imported physical gold, and the nation is pressuring the trade group representing jewelers to stop members from selling bars and coins. So far, the policy appears only to have stimulated public demand for the yellow metal and moved some of the buying to the black (that is, free) market.

The government of Pakistan recently took steps to increase border security – responding to a dramatic spike in gold smuggling into India. Indian government officials are undoubtedly outraged at the reluctance of their people to line up and get shorn by inflation.

So, given these measures, would Indians have been better served to forgo any investment in physical gold?

Absolutely not. Premiums for gold doubled as the higher duties and other restrictions impacted supply.

And if the Indian government moves to completely destroy the legal market for gold, it will only serve to drive prices in the "black" market higher and at the same time stimulate demand for silver as an alternative.

Indians will not acquiesce to a ban on the buying and selling of gold – something they have been doing for centuries – regardless of how the politicians in New Delhi attempt to enforce it. Physical gold (and silver) has always been a nightmare for governments to tax and regulate and, as it turns out, that remains among the metal's most attractive features.

The easiest moves for governments to take are related to paper investments stored digitally. As demonstrated in Cyprus, bureaucrats can confiscate, tax, or regulate bank and brokerage accounts from the safety and comfort of their offices.

Today's investors worried about defending against government action would do better by holding tangible assets outside the banking systems, where they cannot be controlled digitally. And nothing is more "off the grid" than physical bullion.

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Rally Time for the Metals?

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not to speculate on price movements. This gold isn't going to come back into the market unless much higher prices incentivize some people to sell, though a great many never will sell regardless of price.

We are now in the favorable period seasonally for precious metals. Demand from Asia as well as jewelry demand in the West usually picks up in the fall heading into the holiday season.

Favorable seasonality didn't stop prices from falling last year, to be sure. Seasonality can't be counted on every year. But with gold and silver prices having bounced off their most deeply oversold levels in years, the technical setup for a seasonal rally into early 2014 looks promising.

And if a "black swan" event were to roil the over-leveraged futures markets (something that is impossible to predict, but that should be considered as a possibility), the coming rally could be explosive.