



# Precious Metals Quarterly

An Insider Report for Clients of Independent Living Bullion

## Taking Advantage of Silver's Seasonal Tendencies

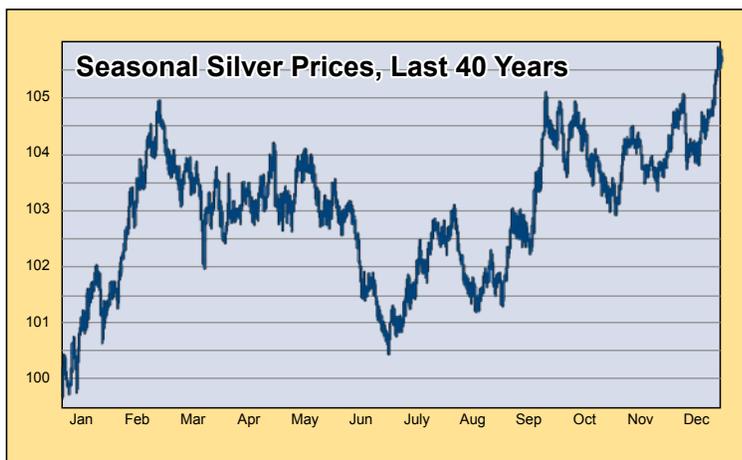
BY SETH VAN BROCKLIN

The summer months typically give silver investors great opportunities to buy. Invest a few minutes with me right now and I'll explain this phenomenon, *and* show you why this summer may be your very best time to fortify your silver holdings.

Although some years are atypical, silver has a seasonal tendency to put in an intermediate-term top early in the year, then bottom sometime in the summer.

Silver prices put in a seasonal high right at the old 1980 high of \$49 per ounce on this past April 28 – a seasonal high that appeared later in the calendar than normal. Silver then proceeded to plummet to under \$35 before shuffling sideways into what may have been a seasonal low in the early part of July. But I am hesitant to call the low in just yet. Since the seasonal high occurred relatively late in the year, seasonal weakness may persist longer, perhaps into late August or early September. A few more weeks of choppy seasonal weakness would also give silver an opportunity to find support at or near (or it could move slightly below) its 50-week moving average.

The seasonals for gold are similar to those for sil-



Source: Endlessmountain

ver. Focusing just on the current bull market (dating back to 2001), the two strongest months of the year for gold prices have been September and November. That means that, as with silver, gold is likely to give us an opportune entry point this summer. We can't pinpoint the exact date of the seasonal bottom in advance, so if you want to be sure you are positioned ahead of an anticipated fall run-up, the time to start getting positioned is now at hand.

If you just want to bet on a high-probability trade historically, mark August 15<sup>th</sup> on your calendar. As David Morgan reported in the July issue of **Money, Metals, and Mining**, buying silver on August 15 and holding until February 15 of the following year has an 85% chance of being profitable.

### Fed Mulls Next Move as Economic Outlook Worsens

The seasonals seem to be lining up well with the fundamentals. These days a fundamental analysis of any market has to give heavy consideration (or even primary

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consideration) to political and monetary factors. The authorities recently sought to drive down precious metals and oil prices through margin hikes in the futures market and by tapping the strategic petroleum reserve, despite there being no immediate supply problem.

It's all about managing market psychology. Federal Reserve head Ben Bernanke would far prefer to operate in an environment where the public is unconcerned about inflation. It gives central bankers more leeway to stimulate the economy artificially.

Bernanke recently stated that the economy faces growing "headwinds." The deteriorating housing market is at risk of taking another big leg down amidst employment numbers that have remained weak throughout the Fed's Quantitative Easing campaigns – and could soon get even worse. The Fed likely will come out with some new stimulus scheme later this year, and it is now laying the groundwork for it by knocking down inflation-sensitive markets.

## Silver Inventories Critically Low

My view is that there is little downside potential left in silver at these levels. The reason? Silver continues to get more scarce!

*"I think there is an absolute shortage in the physical market,"* remarked Rick Rule of Sprott Asset Management. Above-ground silver supplies have been shrinking for years (decades, if you include government dishoarding since the 1960s) and are now reaching critically low levels (most silver is consumed and unrecoverable after its use). There is currently a "cushion" of perhaps one billion ounces in above-ground silver stockpiles – total, anywhere – most of which won't come to market at anywhere near current prices and some of which never will. Available supplies are getting tighter and tighter.

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## Dodd-Frank Bill Has NO Impact on Our Customers

We have received a few calls from customers inquiring if the recently enacted Dodd-Frank bill might affect purchases made through **Independent Living Bullion**. Please note that the Dodd-Frank bill deals with a certain type of over-the-counter (OTC) trading engaged in by leveraged futures traders **ONLY**. The bill will only affect a small segment of the futures market involving certain unregulated traders. The law has **NO** effect whatsoever on transactions of physical metal in the spot market. We deal in actual physical metal (not paper) – and orders placed are for prompt delivery – so **ILB** customers need not be concerned about triggering this law.

Even though mine production has increased somewhat over the past few years with the incentive of higher silver and base metals prices, the salient fact is that mine production (less than 800 million ounces per year) is still failing to keep up with demand (about 900 million ounces estimated for 2011). To cover this deficit, scrap silver must be recycled and silver stockpiles must be drawn down.

Registered silver bullion at the COMEX fell to record lows in June. (True, the silver held in the various Exchange Traded Funds (ETFs) has been increasing to record levels, but that supply appears to be in strong hands.) The COMEX warehouses will need to be replenished soon – and that usually means higher prices.

Inventory levels are not a market-timing tool *per se*. Silver prices can go up, down, or sideways over any given month regardless of changes in inventory levels. But when readily available supplies get *extremely* tight, as they are now, there is a strong likelihood of higher prices down the road to ultimately resolve the tightness. A "short squeeze" or even a COMEX default (the latter of which is unlikely but not out of the question) could send silver prices spiking at any time.

This summer may be the calm before the storm. *Now* is the time to accumulate silver in physical form. Buy at today's price and you'll be up 40% simply by holding until silver returns to its year-to-date high! 🕒

# Have You Taken Advantage of ILB's Generous Referral Program?

Since we announced the new Referral Program this spring – where customers of **Independent Living Bullion** can earn FREE SILVER for telling their friends and family about our service – many have already reaped the rewards. In doing so, they've also helped others protect themselves from a potential inflationary spiral.

Sadly, an extremely small percentage of Americans own even a single ounce of gold or silver bullion. That's why many of our customers have gently encouraged loved ones, work colleagues, and even casual acquaintances to get busy and begin switching some of their paper dollars into real and tangible money before it's too late.

And we'll express our appreciation in the best way we know how: by rewarding you – and any new customers you send our way – with FREE SILVER!



## Here's How You Can Cash In (in Silver!) on Our Referral Program:

- 1) The *referring* customer (you) receives one free one-ounce Silver American Eagle coin for every new customer who places an order and mentions your name.
- 2) You receive one *additional* Silver Eagle for every \$5,000 in total order value on the referred (new) customer's first order – no limit!
- 3) *Referred* customers simply must mention the name of the **ILB** customer who referred them and will themselves receive one free half-ounce Don't Tread on Me / Boston Tea Party silver round with their first order.

*Example: Your friend places his first order in the amount of \$15,000 and mentions your name as the referring customer. You receive four Silver Eagles with our thanks – one for sending **ILB** a new customer and three more based on the size of the order (one for each \$5,000 in order value). And your friend receives one free half-ounce silver round with his first order.*

## Referral Program Payout Rules:

- 1) Order values for the purposes of calculating the bonus will be *rounded down* to the nearest \$5,000. For example, an order of \$19,700 is eligible for three bonus coins, not four. An order must be at least \$20,000 to qualify for four bonus coins.
- 2) The referral must be with someone outside of your own household, and only one referral will be paid per unique referred household. Referred customers must place the order and make full payment themselves.
- 3) Referrals will be paid out at the beginning of the month for all paid and cleared orders from the prior month. Referrals are paid on the new customer's first order only and cannot be awarded retroactively – new orders only.
- 4) We reserve the right to modify or terminate the Referral Program at any time.

Call **Independent Living Bullion** at 1-800-800-1865 with any questions regarding the Referral Program, and we'll be happy to answer any questions. We hope to have you as an eager participant in this program... it's a unique benefit we are happy to provide to our customers! And rest assured, anyone you send our way will encounter the same level of professionalism and no-pressure environment that you have already experienced. 🕒

# Precious Metals Buying Guide



Precious metals investors who make the decision to protect their hard-earned savings are quickly confronted with the next choice – whether to buy coins, rounds, or bars. **Independent Living Bullion** representatives get lots of questions from customers wondering exactly what they should buy. Here is some guidance on how to make that decision.

Right up front, we want to remind customers that the most crucial decision is whether to buy bullion or collectible (numismatic) products. If you are an investor, rather than a collector, the answer is bullion; numismatics are for speculators and collectors, not investors. The Spring 2011 issue of **Precious Metals Quarterly** explained the many pitfalls of rare coins. If you missed this feature article, call **ILB** at 1-800-800-1865 or visit [www.IndependentLivingBullion.com](http://www.IndependentLivingBullion.com).

Here are four reasons we recommend you steer clear of numismatics:

- 1) The transaction costs and premiums for buying rare coins are dramatically higher than for bullion coins, bars, and rounds. Huge margins can be made in selling rare coins; but **ILB** has chosen to leave this field of play to others.
- 2) Numismatics are no safer from government confiscation than low-premium bullion alternatives.
- 3) There are NO tax advantages to buying collectible coins. The IRS views all precious metals, including bullion, as “collectibles” for the purposes of calculating capital gains. Purchases and sales of bullion coins, bars, and rounds are not reported to the IRS except in the rarest of circumstances (**ILB** has NEVER had to file any reports).
- 4) Trying to get the best price when it is time to unload your collectible coins may entail a lengthy search for the buyer who is looking for just what you happen to have. If economic conditions get tougher, this buyer may be very difficult to find at all. Even as more and more people search for a reliable store of value in the form of gold and silver bullion, fewer may be in the market for items like rare coins that are priced higher than their intrinsic metal value.

premium per coin or per ounce that a customer pays to buy and the premium (or discount) that customer receives to sell. As with any investment, the lower this spread, the better.

This is where bullion really shines vs. collectible coins. Reputable dealers offer spreads on bullion coins, bars, and rounds in the range of 4% - 7%, depending on the particular product and the quantity desired. Numismatic coins generally have spreads of 30% - 40%, and often higher! That means as soon as you buy a collectible coin you might expect it to be worth 30% - 40% less than you paid for it. No savvy investor wants to be that far upside down on day one! **ILB** representatives have taken many phone calls from customers suffering severe cases of “buyer’s remorse” after sinking their savings into rare coin “investments.”

Now that we have established why it is so important to buy bullion rather than numismatic coins for investment, the next most important consideration is to stick with the most popular bullion forms. That is why **Independent**

**Living Bullion** offers the most widely traded and familiar bullion products. Our coins, rounds, and bars are stamped with their weight and purity. They are produced by government mints or reputable manufacturers. This could be important when it is time to sell your metal back. Here is why:

- 1) There is always a large and active market for these popular bullion forms. Any dealer in the country (especially **ILB**!) will be happy to buy an American Gold Eagle from you and pay a fair price – on the spot and without question. Alternatively, if you have an off-weight and unmarked bar, or something outsized such as a 1000-ounce silver bar, you may have more trouble selling it quickly and getting a fair price. Most dealers cannot easily re-sell that sort of item.
- 2) It is easy to establish fair value. The most popular products trade near their “melt value” – the value of their metal content based on the current spot market price. There is no uncertainty. When it is time to sell your metal, you can quickly and easily determine whether or not a buyer’s offer is fair.

The final consideration is how to choose exactly which round, bar, or bullion coin to buy. Please note that this consideration is far less crucial than those outlined above. If you avoid paying way too much for dubious collectible coins, and stick with the most popular bullion forms, your investment will allow you to capture essentially all the gains that can be had in the gold and silver markets. That said, we think you can best secure those gains by buying whatever option offers the lowest premium.

We expect the metal itself to produce outsized returns. So the name of the game is to acquire as many ounces as possible today and let those ounces go to work for you.

## Initial Investment of \$100,000, Spot Price = \$36.00/oz

	Pre-1965 Dimes/Quarters Total Buy Price = \$36.45/oz	1 Oz Rounds Total Buy Price = \$37.45/oz	American Eagles Total Buy Price = \$39.70/oz
Ounces Purchased	2766	2670	2518

## Investment Liquidated, Spot Price = \$50.00/oz

	Pre-1965 Dimes/Quarters Total Sell Price = \$36.45/oz	1 Oz Rounds Total Sell Price = \$37.45/oz	American Eagles Total Sell Price = \$39.70/oz
Value	\$135,534	\$133,500	\$130,936
\$ Gain	\$35,534	\$33,500	\$30,936
% Gain	35.53%	33.50%	30.94%

To illustrate, take a look above at this hypothetical scenario, based on **ILB’s** current sell pricing and buy-back pricing.

As this example demonstrates, even though an investor can expect Silver American Eagles to be worth \$3.00 per ounce more than the Pre-1965 silver coins when it is time to sell, they enjoy higher gains if they buy the Pre-1965 coins because they acquire more silver ounces for their money. In an alternative scenario wherein the premiums on American Eagles rose by \$2.00, enabling you to pocket \$54 per ounce (instead of \$52/oz.), you’d end up with \$135,972 – barely surpassing the total return on junk silver. But buy premiums on junk silver could rise, too – markedly so if there is a run on the physical market.

To summarize, we think precious metals investors will do best by following these guidelines:

- 1) Stick with bullion coins, bars, and rounds.
- 2) Buy the popular bullion forms. Avoid un-marked, off weight, or oversized bars and rounds.
- 3) Buy whatever offers the lowest premium in order to accumulate as many ounces as possible. 🎯

## Bid / Ask Spreads – Most Popular Bullion Forms

Silver - Based on a Spot Price of \$36.00/oz												
Quantity	Pre-1965 Dimes/Quarters				1 Oz Rounds				American Eagles			
	Buy Premium	Sell Discount	Spread	%	Buy Premium	Sell Premium	Spread	%	Buy Premium	Sell Premium	Spread	%
500 Ozs	\$0.75	-\$1.00	\$1.75	4.86%	\$1.70	\$0.00	\$1.70	4.72%	\$3.79	\$2.00	\$1.79	4.97%

Gold - Based on a Spot Price of \$1,550.00/oz												
Quantity	1 Oz Bars				Kangaroo				American Eagles			
	Buy Premium	Sell Discount	Spread	%	Buy Premium	Sell Premium	Spread	%	Buy Premium	Sell Premium	Spread	%
10 Ozs	\$58.00	-\$10.00	\$68.00	4.39%	\$72.00	\$0.00	\$72.00	4.65%	\$87.00	\$20.00	\$67.00	4.32%

### Compare With a Typical Numismatic Coin

American Silver Eagle - MS69			
Buy Premium	Sell Premium	Spread	%
\$26.50	\$10.00	\$16.50	45.83%

The transaction costs for physical precious metals are revealed by the “bid/ask spread.” This spread is the difference between the

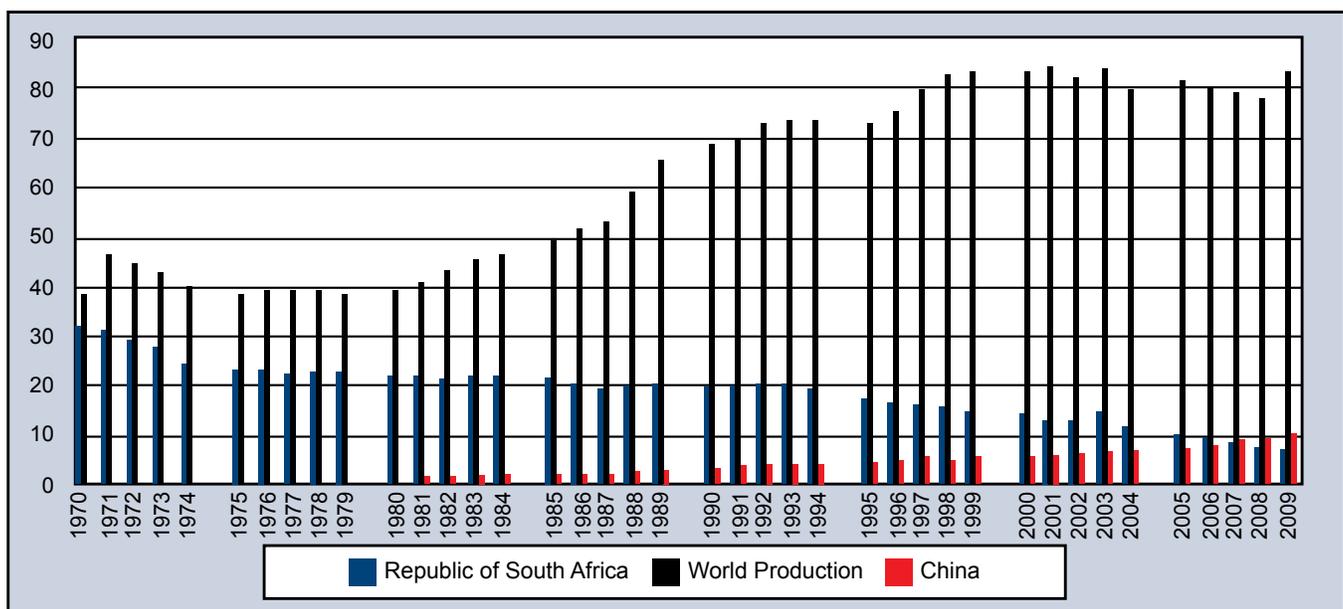
# Gold Supply Tightens Despite Higher Prices

BY JIM MCLEOD

There are approximately 165,000 metric tonnes of gold reserves in existence above ground, which amounts to less than a single ounce per person worldwide. If every single ounce of this gold were melted into a cube, it would only measure 60 feet in any direction! That isn't much gold to go around, particularly with today's surging global investment demand coupled with supply constraints.

Despite higher gold prices in the past decade, mine production has been flat for the past dozen years. Intuitively, one would expect that mine supply would increase in response to today's much higher gold prices. However, miners have already harvested much of the higher grade ore which costs less to mine, and large new deposits have proven exceedingly difficult to find. Former global production leader South Africa is virtually tapped out. New mines tend to be deeper and/or the ore bodies tend to be lower grade, among many reasons mining costs have risen substantially. Dramatically higher gold prices will be needed for annual production to increase from current levels.

## Gold Production (Millions of Ounces)



Source: *GOLDSHEET Mining Directory*

Gold demand in 2010 reached record highs, up approximately 10% from the prior year. Industrial demand for gold is rising. Investment demand is rising ever faster. According to the World Gold Council, demand for physical bars and coins more than doubled in the first quarter of 2011 versus the same period in 2010.

Much of the increase in world demand stems from China and India, where huge populations are getting wealthier. These peoples have memories of out-of-control inflation and government confiscation of wealth and retain a powerful cultural affinity for precious metals. This combination supports enormous and growing markets for both jewelry and bullion

– demand from the East is expected to double in the next 10 years.

In Western economies, investors are just now waking up to the fact that gold is in a ferocious bull market. Long out of favor (even despised) by large institutional investors, gold and silver are still just beginning to gain acceptance as bedrock portfolio assets.

Recently, the University of Texas (UT) doubled its position in gold by taking physical possession of over \$1 billion of the yellow metal. The endowment manager cited turmoil in international financial markets and the possibility of higher inflation. This purchase is

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noteworthy not just because of the size, over 5% of the fund, but also for being the first-known U.S. college or university endowment to take physical possession.

## World Central Banks Become Net Buyers of Gold

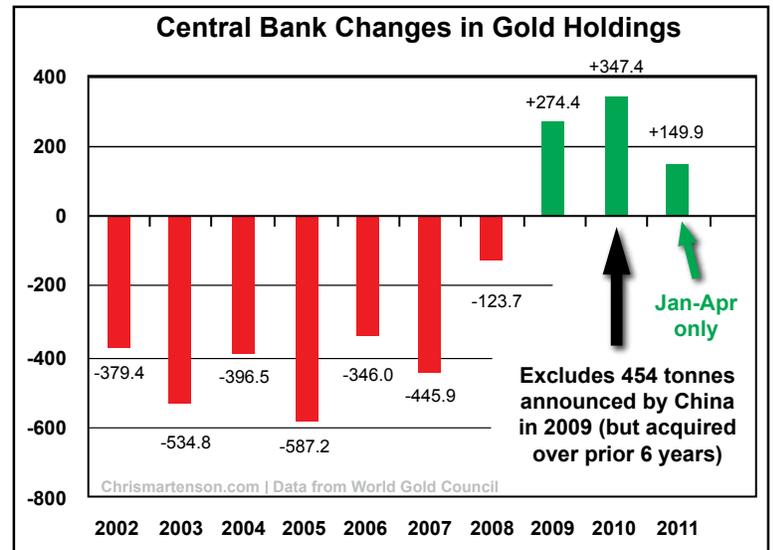
Perhaps the most telling demand signal of all is coming from the world's central banks. Central bankers, whose paper currencies must compete with gold, have long downplayed gold's significance as the alternative to their fiat money. For decades, these national banks were net sellers of gold. However, that dynamic has quietly reversed. Nowadays world central banks are busily acquiring gold.

According to the World Gold Council, the major emerging market countries barely hold 4% of their foreign reserves in gold. Russia, Mexico, India, and China have been aggressively buying gold. Despite its gold buying spree over the past few years, in China, estimated gold reserves are *still* less than 2%. China has 2.2 trillion U.S. dollars it could use to buy massive quantities of gold and other real assets.

According to a recent poll of central bankers, the U.S. dollar is expected to lose its 'reserve currency' status

before 2035. While we view this timeframe for the continued reign of "king dollar" as optimistic, it's revealing that even the central-banking establishment is becoming long-term leery of the greenback.

Demand for gold (and silver) is ballooning worldwide. In the U.S., it is easy to focus exclusively on domestic debt and deficit issues as we approach the terminal stages of our own fiat dollar experiment. But we are not alone. Many other countries are wrestling with debts, deficits, and inflation. And they are turning to gold. 📈



## Precious Metals Storage: Private, Safe, and Secure

BY MIKE GLEASON

In most cases, we recommend customers take personal possession of at least some of their precious metals. However, using a third-party storage company may make sense for investors who already have a sizeable stash of precious metals in their immediate possession. Precious metals vaulting companies offer a private, safe, and secure option for those worried about keeping too many valuables in their home.

When considering if third-party storage is right for you, first consider the alternatives. Do you have a good hiding place in your home, or better yet, a sturdy home safe? Is burying your metal in the backyard a viable option? And for those who either have bought – or are looking to buy – large quantities of silver, will the weight and mass of the metal be an issue based on either the physical limitations of an aging body

or space constraints in your home? If these are your concerns, would gold be your better choice? Based on how you answer these questions, a storage agreement with a private vault might be an appropriate solution.

When selecting a secure storage facility, there are several considerations.

First, does the company offer a fully segregated storage type of account... meaning will your metal be completely separate from the vault's other clients? Will your metal be protected from an insurance coverage standpoint in the event of a large-scale heist or some sort of natural disaster? Competitive pricing is a factor when choosing a vaulting company, as is geography. And storing your metal outside the United States may

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also be a possibility through certain companies who offer global vaulting options.

Minimums usually apply and storage rates will vary, but generally speaking vaulting companies will charge anywhere from 50 to 80 basis points to store your physical precious metals on an annual basis in a fully segregated account (although IRA storage programs can be less). For instance, a typical yearly vaulting fee on \$100,000

worth of precious metals would be somewhere between \$500 ( $\$100,000 \times 0.005$ ) to \$800 ( $\$100,000 \times 0.008$ ).

**Independent Living Bullion** is not itself a provider of vaulting services at this time, but we work closely with companies who are. Please contact us at 1-800-800-1865, and we'll be happy to provide you with some information on these companies so you can explore the options. 📞

## Yes, ILB Will Buy Your Gold and Silver Too!

BY STEFAN GLEASON

As a precious metals dealer, **Independent Living Bullion** is equally as interested in buying precious metals as in selling them. Quite simply, we need to get our inventory from somewhere, and we're just as happy to buy it from our customers as from mints or wholesale sources. And we will happily buy any of the products that we offer for sale, regardless of whether you purchased from us. We send payment quickly and our buy-back prices are hard to beat! For many items, we currently pay the spot market price or above.

Please review the following guidelines to determine whether your bullion meets our criteria for purchasing:

- All rounds and bars must be clearly marked with weight and purity.
- Bars must carry a manufacturer's name and/or insignia.
- Unless otherwise agreed, metals should be of uniform variety, in good, clean condition, and have a familiar, marketable design.
- Pre-1965 dimes, quarters, and half dollars (aka junk silver) should be identifiable as having been minted prior to 1965 (U.S. coinage only).

Here are the simple steps to sell your qualifying bullion to **Independent Living Bullion**:

1. Call us at 1-800-800-1865 between 7:00 a.m. and 5:30 p.m. (mountain time), and one of our representatives will quote you the current buy-back price. We will lock in your sell price over the phone and send you a Purchase Order.

(Note: for buybacks greater than \$50,000, we will lock the spot market bid price when the metal

has been shipped and you call us to provide the shipment tracking number. But, in this event, we will still confirm over the phone the premium or discount to the spot market price that we will pay before you ship your metal to us.)

2. Ship the metal to us via U.S. mail, insured for the full value. We will provide shipping instructions when you call.
3. We receive and inspect your shipment and send your payment immediately.

To be clear, we believe that people ought to be accumulating precious metals with both hands right now! But in certain circumstances, it makes sense to sell. Some need funds for another purpose; some want to take a little money off the table after capturing some nice returns; and others may wish to play the gold-silver ratio by selling gold to buy silver (or vice versa).

No matter your personal reasons, **ILB** stands ready to facilitate your precious metals sale quickly, reliably, and transparently – at a fair market price. Just give us a call at 1-800-800-1865. 📞

