Summer 2013

Precious Metals Quarterly

An Insider Report for Clients of Independent Living Bullion

Capitalize on Swings in the Gold:Silver Ratio

By Seth Van Brocklin
Contributing Editor, Independent Living

As precious metals prices look to recover this summer from the damage done in the spring, the groundwork may be laid for a new multi-year cyclical leg higher. Investors can use this period to position themselves to get the most bang for their depreciating buck without assuming undue risk.

In an up-move for the metals as a group, silver can be expected to outperform gold. Silver, owned in physical form, can deliver outsized returns with less risk than precious metals mining stocks or any of the various derivative and leveraged methods of ownership.

Why favor silver over gold? Let's look at the recent history of the gold:silver ratio. Gold traded as high as 85 times the prices of silver in late 2008. From there, silver staged a massive rally, outperforming gold, and narrowing the gold:silver ratio to 32:1 by late April 2011.

At that time, we advocated sheltering wealth in gold instead of silver on an intermediate-term basis. We

even suggested that for those inclined to trade, they had an opportunity to swap out of silver and into gold – with the aim of being able to switch the gold back into silver when silver got relatively cheaper versus gold.

Silver proceeded to do just that, causing the gold:silver ratio to rise. As it turned out, the ratio rose higher and for longer than we expected. As of June 2013, gold traded as high as 64 times the price of silver – a doubling from the 2011 lows.

Silver's Upside Potential Is Greater Than Gold's

In my judgment, silver now represents the better buy of the two metals – both on an intermediate-term and long-term basis. That's not to say that you shouldn't own any gold. The metal of kings has practical portability advantages as a more concentrated form of wealth than silver. And a freak event could potentially take gold back up to the 85:1 ratio reached during the financial panic of late 2008. But realistically, the freak event in the precious

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metals probably occurred this past spring.

The bottom line is this: <u>Now could be the last great opportunity you'll have to reallocate your precious metals holdings more heavily toward silver</u> before the white metal begins to gain ground on gold.

When it does, it could do so explosively. The mathematical reality is that based on historical precedent, there exists a lot more potential in percentage terms for silver to outperform gold than for gold to outperform silver.

"Silver offers the most upside potential of any of the precious metals."

We've made the case that silver will return to the classic ratio of $1/16^{th}$ the price of gold (perhaps even to $1/10^{th}$) before the major bull market is over. This is the ratio at which silver was priced to gold in various societies going back centuries. It's also the ratio that was hit at the last major bull market peak in January 1980. At $1/64^{th}$ the price of gold currently, silver would have to increase in value 4 times relative to gold in order to get there. While gold would almost certainly rise during the same period, silver could outperform gold by 300% or more.

Boost Your Returns by Buying the Metal(s) that Offer the Best Relative Value

Last year, when platinum was selling at a rare discount to gold, **Precious Metals Quarterly** alerted readers to the opportunity to buy platinum at compelling relative value. It now trades at just a small premium to gold. While we expect this premium to expand, the case for favoring platinum versus gold is somewhat less compelling than it was.

We also suggested its sister metal palladium. It has since outperformed all the other precious metals and shows a modest gain for 2013. As with platinum, the case for favoring palladium – at least versus gold – still exists, but it's somewhat less compelling than it was.

However, the case for silver, after having been beaten down *mercilessly* in the futures markets in the first half of 2013, is now *even more* compelling than the cases for platinum and palladium. Silver offers the most upside potential of any of the precious metals.

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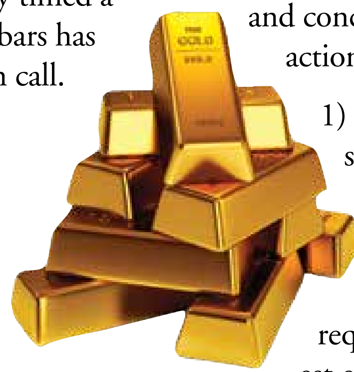
Holders of Physical Bullion Undeterred by Paper Takedowns

By Clint Siegner
Co-Director, ILB

April's carnage in the gold and silver futures markets capped almost 2 years of underperformance. Those caught placing leveraged bets on higher gold and silver prices in the futures market have recently been shrieking in agony – assuming margin calls didn't already put them out of their misery.

The retail market for physical gold and silver bullion is a vastly different situation – for a variety of reasons. For starters, virtually no one is selling. Bullion investors get to make their own choices about when to sell, without the added pressure of 10-to-1 leverage and brokers demanding they put up more money.

On the other hand, no one who incorrectly timed a cash purchase of bullion rounds, coins, or bars has ever been forced to sell because of a margin call.



Furthermore, the members of the general public who are buying physical gold and silver tend to have a long-term outlook based on fundamentals such as negative real interest rates and ongoing money creation. Since the fundamentals haven't changed a whit, these folks often view big price drops as an opportunity. They buy more while it is cheaper. In April and May, amidst the panic and pain in the paper markets, **Independent Living Bullion** had record numbers of customers calling and calmly placing orders to buy.

Bullion investors also understand that putting money in the futures markets is akin to gambling in a casino run by the Mob. These markets are neither fair nor free.

On one hand, large commercial banks throw their weight around – triggering short-term price moves and then trading them for profit.

And on the other, is the Federal Reserve trying to engineer a "Goldilocks" rate of inflation – one that is not too hot and not too cold. Gold and silver's sharp rise in both price and prominence over the past decade makes Fed officials uncomfortable. Sharply higher gold and silver prices do not reflect well on the dollar. While most Fed governors may privately prefer a weaker dollar, they certainly do not want precious metals prices to rise too far, too fast.

Former Treasury official Paul Craig Roberts argues the Fed engineered the recent gold/silver takedown.

Paul Craig Roberts, who served as an assistant Treasury Secretary under President Ronald Reagan, analyzed the takedown in gold and silver prices in April. He made the following observations and concludes the Fed was most likely behind the action:

1) The estimated number of futures contracts sold on Friday, April 12th, represented somewhere between 124 and 400 tons of gold – a mind-boggling quantity.

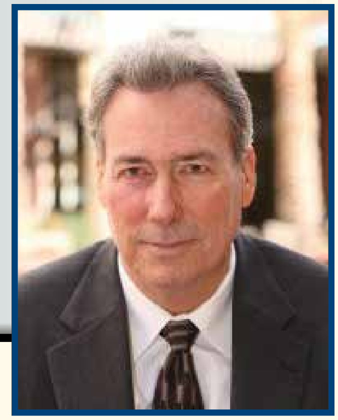
2) Based on position limits, this would require 14 traders with zero prior open interest each deciding to sell a staggering 40,000 contracts… all at the same time.

3) No traders with legitimate long positions to unload would dump such quantities all at once. The intent was clearly to knee-cap prices.

If traders had been buying – not selling – there would now be an investigation à la the Hunt Brothers back in 1980. But as far as we know, the Commodities Futures Trading Commission is not asking questions about these recent events. Instead, financial media pundits simply warn people off investments in gold and silver – crowing about volatility and the supposed end of the bull market.

As noted above, buyers of physical bullion aren't persuaded. From individuals right on up to foreign central banks, investors continue buying and voting "no-confidence" in the dollar. Kudos to them.

ILB's *Exclusive*
Interview
with David Morgan



Silver guru David Morgan sees a breakdown in the paper markets, leading to huge gains for holders of physical gold and silver..

***Independent Living Bullion** Co-Director Mike Gleason interviewed friend and colleague David Morgan, a widely known silver market expert, to get his thoughts on what has been a tumultuous year for precious metals investors. The following transcript is adapted from a recent Weekly Market Wrap podcast. You can listen to the latest podcast, as well as previous ones, via the link on our web site (www.IndependentLivingBullion.com).*

Mike Gleason: Well, here we are halfway through the year and many gold and silver bulls have been rather frustrated by the market action that we've been seeing so far, not just in 2013, but going back some 24 months now. So how does one make sense of all the negative price action in the metals markets? Because, we've seen nothing to indicate a change in bullish fundamentals or a slowing of currency devaluation by central banks.

David Morgan: I believe a wise investor has a long-term macro picture and has the power of his or her conviction. Metals have risen in price for a decade. The question comes, is it over? I say absolutely not. There have been no signs of a top, other than the chart – and even that didn't look like much of a top compared to how the metals actually can perform.

Sentiment is low and there has been such little participation, even when prices were at higher levels. So we are still in an attitude that maybe this is it. It's really not in my view. Basically you want to hold all the way up and not chicken out of the bull market.

Something similar took place in the last bull market. We had gold start near $35, go all the way up to almost $200, and then back down to $100. It took it almost three years to come back up to $200 again. That was a long, long time relative to the overall duration of the bull market to that point.

Many were convinced that the bull market was over. Once it got back to the high, many were convinced it was a double top, and yet that's not what happened. What happened was the market took off from that roughly $200 and ran all the way to $850. Gold quadrupled from that point. I think we're going to see something similar here.

Gleason: Right now, the paper market, such as the COMEX, sets the price for metals in the physical market. Do you think this will break down, and what should investors be looking for as signals of a trend change in that dynamic of the paper market setting the price for the physical?

Morgan: First of all, we're seeing several facts around the gold market that the physical markets are breaking down – Germany being a primary example. Germany is not able to receive all its gold held in New York for seven years. This is ridiculous! But that's what the Federal Reserve told them.

Then we have this Dutch bank that had physical gold for their clients and they came out recently and said, "*No, you have to settle in cash, not physical.*" Additionally, there's tons of anecdotal evidence all over the internet where people have reported not being able to get gold that they've already bought, paid for, stored, etc.

They're getting non-deliveries and their getting cash settlements. But if you discount these anecdotes, you still have the Germany situation. That is an irrefutable fact. There's something going on in the physical gold market. If there weren't any problems in physical delivery, then Germany would obviously be getting its gold very quickly. I expect the paper markets to continue their domination as the price-setting mechanism through 2014, but not much longer.

We continue to see big differentials between the retail price and the commercial bar price. As long as the commercial bars can be delivered in a somewhat timely manner, the paper markets will maintain basic credibility. Once that breaks down – then we know. And in the meantime, lots of gold is coming off the COMEX and out of the gold ETFs.

I could be wrong on my prediction of another couple years. Perhaps we're going to see this gold delivery problem sooner than later. That's when we'll know.

It will not be called a default; there will be some lame excuse coming out of the mainstream press. Basically, what it will amount to is another Germany-type of situation. It might be a big hedge fund. It might be John Paulson buying more gold, one of these huge fund managers, David Einhorn, Carl Bass, or one of these types. It could be Eric Sprott in Canada that says *"here, give me this much gold"* and tries to take it off of a major bullion bank – but the bank can't access it in time, and they have to delay delivery. I think that's going to be the tipping point.

Gleason: Let me back up again, and talk about the fundamental drivers for precious metals and why they're likely going to be good assets to own throughout this decade. Now we've got the Federal Reserve hinting at the end of QE, if you believe them. It looks like the U.S. is currently falling behind here in the race to devalue its currency. What do you expect the Fed to be doing as a reaction to that, and when will they take more steps that are highly inflationary?

Morgan: Another great question. I think the central banks are viewing Japan as a test case. There are strong indications that the Japanese government bond market is in trouble. You've already seen volatility in interest rates in Japanese government bonds that are unprecedented. They've just started with this "222 policy," which is complete insanity. The goal of the 222 policy is to double the monetary base, generate 2% inflation, and do it within two years.

The U.S. debt market is the biggest, but Japan is not that far behind. The Fed is looking to see what happens in the Japanese debt markets and the broad market reaction as an indicator of how much the Federal Reserve itself can get away with.

Gleason: What's your current thinking on prices in the medium to longer term – is your outlook still bullish?

Morgan: I've been both bullish and somewhat bearish. I'm not a perma bull – I am looking at the long term. I'll call the top when I see it, and I trust I will get close. I do allow myself the option to adjust my thinking if the market reveals more.

I have said for the last few months that it takes about two years for the silver market to work off that parabolic high that we saw May 1st, 2011. It has obviously been two years and a few weeks now. I think we're probably going to see a relief rally here as I just mentioned. It's probably going to come back down in maybe the August timeframe, which is historically true for gold and silver, and then we're going to start up in September.

I think by the end of the year, we'll see prices rise above the recent breakdown area which for gold was roughly $1,550 and for silver $26. Then I think 2014 is going to be a rebuilding year where interest comes back into the precious metals market.

After that, we will see an acceleration… just like we saw in the last market. It will probably not be as dramatic as we saw in the 70's and 1980 market where we saw these huge moves in a very, very short amount of time. Last time around, about 87-1/2% of the overall bull market move in silver came in the last 7% of the time!

When we see these drastic moves up, people will be coming on board late. Now is the time they should be accumulating.

Gleason: Yes, that's great advice and good insight. Well, David thanks for your time as always, and we look forward to speaking with you again down the road.

Great Questions
from Our Customers

About Vault Metal Storage

Jaye F. writes: ***Would an IRA (U.S. sponsor) with overseas vault metal storage be susceptible to manipulation or confiscation? To be safe, should I transfer the IRA to an overseas sponsor?***

Holding metals outside of the country and outside of the IRA structure would put them furthest from the reach of the U.S. government. But then you'd have to consider counterparty and country risk, along with the potential for confiscation of profits through taxation and the inconvenience of not having your metals readily accessible.

As we've said before, there's no one, single best, safest way to hold precious metals. Every option out there carries advantages and disadvantages. Just as it's prudent to diversify your investments, it's also prudent to diversify your methods of precious metals ownership. Have some in a home safe, some in a secure storage facility, some in an overseas vault if you are so inclined, and some in an IRA.

Independent Living Bullion offers several options for secure, segregated storage in the U.S. Firms we have carefully vetted such as CNT Depository, Idaho Armored Vaults, and Brinks are all good options. Just call us at 1-800-800-1865 for more information.

A Customer Receives Dishonest Information about Proof Coins

Robert F. W. writes: ***I would love to hear your response to this email from a [major numismatic coin dealer] rep who is saying I would be better served by transferring my regular silver Eagle IRA to a proof silver Eagle IRA. His primary pitch was that I would save up to 2/3 of the tax bite when I liquidate. The upfront cost of the transfer would be approx. 2% of assets. What say you?***

You're being pitched a load of crap. First of all, there is no difference in tax treatment between bullion coins and proof coins. Moreover, traditional IRA distributions after age 59 ½ are taxed as ordinary income, regardless of the assets held in them. There is no legal way to reduce any tax liabilities you'd ultimately owe on your silver Eagles by doing a "switcheroo" to other coins or other assets inside your IRA.

The transaction costs associated with selling conventional silver Eagles and buying so-called "proofs" would be far in excess of 2%. You have to pay a bid/ask spread twice, and it can be quite sizeable on less-liquid, higher-premium proof coins.

At the end of the day, you'd end up with a lot fewer silver ounces than you started with and gain nothing except the faint hope of potentially being able to recover your transaction costs years down the road, if and only if proof buyback premiums rise at a significantly higher rate than silver spot prices. They could, but there's no good reason to think they will.

<u>It so happens that proof Eagles are the *only* "collectible" coins that these numismatic coin dealers sell which actually qualify to be held in IRAs – so that's the *real* reason these coins are being recommended to you by this salesman</u>.

The problem with these coins is the same as with the "rare" coins you see us exposing from time to time. Their premiums are extraordinarily high,

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Spotlight on Platinum Group Metals

By Mike Gleason
Co-Director, ILB

Those who read **Precious Metals Quarterly** or listen to our weekly online Market Wrap podcasts recognize that we routinely make the case for owning the lesser-known precious metals – platinum and palladium.

These metals tend to take a backseat to gold and silver, and understandably so considering that those seeking protection from a worldwide paper currency crisis will first turn to the precious metals most commonly used as money. Nevertheless, the return-on-investment potential for the Platinum Group Metals (PGMs) is quite compelling.

Demand for the PGMs comes less from the investment sector and more from industrial applications – mainly the automotive industry where the metals are used in catalytic converters. While automotive demand is up slightly in recent years thanks to emerging markets and a rising middle class in India and China (where nearly half of the globe's population exists), it is the supply-side dynamic that is likely to fuel price rises in platinum and palladium.

South Africa, which produces a majority of the world's PGM supply, struggles with ongoing labor strife at nearly every mine in the country. Add continual power outages (thanks to the breakdown of the country's failing power grid), and a decline in supply is all but assured. More and more mining companies have been pulling out due to a continued rise in the cost of doing business in this geopolitical basket case. Meanwhile, the world's second largest supplier of palladium, Russia, has seen its stockpiles drained over the last few years.

All the while, the decline in mine supply is not getting any help from recycling. Last year, recycling was down over 10% for both platinum and palladium. Add it all up and deficits appear to be a new way of life when it comes to these metals.

According to a leading refiner, Johnson Matthey, the supply of platinum has gone from a surplus in 2011 to a 400,000 ounce deficit in 2012, the most in nearly 10 years. Meanwhile, the palladium deficit reached 915,000 ounces in 2012, the largest in more than a decade.

As supply continues to fall, demand remains steady and appears likely to rise going forward. Two of the world's largest auto markets, China and the U.S., both reported significant year-over-year increases in automobile production during the first quarter of 2013 – up 19.5% and 6.5% respectively versus 2012.

Now, in terms of which metal might be the better investment, consider that palladium is the PGM of choice for Chinese auto manufacturers. Gasoline-powered cars dominate the market in China, meaning palladium can be substituted for platinum in the catalytic converters (not the case for diesel-powered vehicles).

Throughout the first half of 2013, palladium has outperformed all other precious metals, actually posting a gain of better than 10%, compared to big declines in gold and silver and a small loss in the spot price of platinum.

Both platinum and palladium are still well off their all-time highs, however. Palladium, which now trades at around $750 an ounce, peaked at nearly $1,100 in early 2001 when supply shortages resulted in hoarding by major auto manufacturers spooked by the idea of

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the bid/ask spreads and liquidity of these coins are low, and they are generally promoted by high-pressure salesmen making huge commissions. Put your serious money into bullion coins, bars, and rounds that can be bought and sold at prices very close to global spot prices.

The sleazy tactics and arguments used by these numismatic coin dealers are wide ranging. Please visit the **Independent Living Bullion** website to learn about all their various myths and deceptions. Go to www.IndependentLivingBullion.com and look for our Precious Metals Buying Guide available under the "Hot Topics" tab.

Spotlight on Platinum Group Metals

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not being able to get their hands on supply. Such a dynamic could conceivably play out again as the supply-demand gap continues to widen and the global deficit situation worsens.

Likewise, platinum, at about $1,500 an ounce, is well below its all-time high. In 2008, due in large part to rolling blackouts in South Africa which drastically reduced mine production, platinum reached nearly $2,300.

For investors looking to diversify into the PGMs *(and we should note that we continue to believe that the bulk of one's precious metals holdings should be in the "money metals" – meaning gold and silver)*, **ILB** offers several products to choose from:

- The popular Canadian Maple Leaf is available in both a 1 oz platinum and palladium coin.
- The Platinum Platypus from Australia's Perth Mint (see below for info on our July product special) can save investors a few dollars compared to the Platinum Maple Leaf.

- For those looking for the most metal for their money, 1 oz and 10 oz bullion bars stamped with their weight and purity are available in both metals and offer a 2-3% savings versus the more popular coin form. However, supply is often less consistent for these bars, and order size minimums may apply.

ALERT: JULY SPECIAL OFFER

Perth Mint's Gold, Silver, and Platinum Coins at Bargain Prices

We want **Independent Living Bullion** customers to take FULL advantage of the dramatically lower gold and silver spot prices – while they last. That is why we lined up a special offer on beautiful Perth Mint bullion coins in gold, silver, and platinum. These are the LOWEST-COST newly minted government-issue coins in the world. And, for a very limited time, we're slashing prices even more!

Place a new order during the month of July for ANY QUANTITY of these lovely coins, and you'll get the lowest premiums we've EVER offered:

$1.79/oz – silver kilo coin (32.151 ozs each) – *any qty!*
$49/oz – 1 oz gold Kangaroo – *any qty!*
$64/oz – 1 oz platinum Platypus – *any qty!*

And, to sweeten the deal, if you order at least $10,000 of these Perth coins (in any combination), we will ship and insure you order absolutely FREE!

But you really need to move quickly, while gold and silver spot prices are still near 3-year lows! This exceptional offer expires July 31st.

Australia's Perth Mint, has been producing remarkable coins since before the fall of the British Empire. Their worldwide reputation is unmatched for beautiful, quality-made coins.

The one-ounce gold Kangaroos come individually packaged in air-tight capsules to protect fine detailing of each .9999 pure gold coin. Legal-tender for $100 AUS, each contains a full troy ounce of gold, but you can save up to $43/oz versus the 1 oz gold American Eagle.

The Perth Mint one-kilo (32.151-ounce) silver coins are nearly four inches in diameter and over 5/8 of an inch in thickness – like nothing you currently own!

Compare the incredibly low $1.79 premium on the silver Kilos with other popular government-issue coins… the one-ounce silver Canadian Maple Leaf carries a premium of at least $2.95, and one-ounce silver American Eagles are at least $4.00 over spot.

Grab Your Perth Mint Gold, Silver, and Platinum Coins now!

Just Call 1-800-800-1865
or Order Online at
www.IndependentLivingBullion.com