Fall 2011

Precious Metals Quarterly

An Insider Report for Clients of Independent Living Bullion

Lessons from the Recent Correction

By Clint Siegner
Co-Director, ILB

Investors trying to ride the bull market in metals got a powerful reminder when both gold and silver prices declined sharply at the end of September: Gold, and especially silver, can be VOLATILE!

Rapid price movements are par for the course in metals markets, and astute investors remain focused on the drivers behind the long-term trend, not the short-term price action. As a dealer in physical gold and silver bullion, we want to share some observations from the September price correction. Buyers of physical bullion should be comforted by what we have to report.

First, all the net selling appeared to take place in the futures markets where hedge funds and other "hot money" traders were dumping *paper* gold and silver – not in the physical markets. (Good riddance, I say, as ownership of contracts appears to have moved to stronger hands in the process.)

Investors Jump on the Opportunity to Add to Positions

In the market for physical bullion, people were buying… in massive quantities. **Independent Living Bullion** and other dealers across the country were literally overwhelmed with customers placing orders to buy when the opportunity to do so at discounted prices suddenly presented itself.

The heavy buying was reinforced by a lack of selling. Like many other dealers, we had very few customers calling us to sell. As our precious metals specialists answered client calls, the first words heard were more often "I'd like to place an order" than "What's happening?" or "I need to sell."

Our customers clearly feel this bull market has a long way to go, and they view these corrections as blessings in disguise. We certainly agree.

So… how does one explain the big-time selling in the futures markets, but not in the physical markets? The answer is leverage. It doesn't take a lot of movement in the relatively small gold and silver markets to build powerful momentum, either up or down. Each dollar used to make a bet in the futures market is leveraged roughly 10 to 1.

The price smash started when Federal Reserve Chairman Ben Bernanke, known for his devotion to money printing as the remedy for all economic ailments, disappointed investors. He didn't announce a major new initiative to flood asset markets with more cash. Disappointed "long" traders began selling their contracts. As prices fell, the margin calls began – forcing weak hands to sell. Then major U.S. and Asian exchanges increased margin requirements. The result of these rapid-fire events was a near-term rout in the paper prices for gold and silver.

Why didn't investors in physical bullion react by selling also? Our take is that an important catalyst was missing; namely a sense that the fundamental

Continued on next page

Inside This Issue:

reasons to own gold and silver had changed.

Bullish Fundamentals Remain Intact

If anything, our customers and investors across the country felt the case for owning gold and silver was stronger than ever – based on recent developments. In July, Ben Bernanke had re-affirmed the Fed's commitment to its inflationary Zero Interest Rate Policy for at least two years. Shortly after this pronouncement, Standard and Poor's downgraded the rating on U.S. government debt in reaction to Congress' gross mishandling of the debt-ceiling issue.

In August, the Swiss had thrown their franc under the bus. They promised to print it in "unlimited" quantities, if necessary, to maintain a peg between the franc and the euro. Thus, the Swiss franc, one of the best and most trusted currency safe havens, was demoted and sent to assume its place in the long line of crumbling fiat currencies.

And elsewhere in Europe, leaders remained committed to resolving their debt crisis with even more borrowing. In short, there were and are lots of compelling reasons to buy metals and precious few reasons to sell.

The kind of huge disconnect we witnessed between the paper futures markets in gold and silver (where there was massive selling) and the physical bullion market (where there was unprecedented buying) can only exist for a relatively short time. Investors can expect prices to rise sharply as the physical market asserts a more leading role in driving prices.

Recent events are somewhat reminiscent of the dramatic 2008 correction in gold and silver: Spot prices fell sharply, but big demand in the physical market drove premiums through the roof as available dealer stocks came under pressure. Lead times for delivery of almost all silver bullion forms extended by weeks if not months.

During the September correction, overwhelming demand led to available supplies tightening almost immediately – especially with regard to pre-1965 90% silver coins and 100-ounce bars. Premiums rose significantly within just a few days – nearly doubling from their pre-correction levels.

One-ounce silver rounds such as our exclusive "Don't Tread on Me" and Walking Liberty rounds give you more silver for your money than government-minted coins. This is especially true when comparing our privately minted bullion products to U.S. Silver Eagles. Premiums on Silver Eagles are now well above 10%.

Futures Pricing and Delivery Mechanisms at Risk of Breaking Down

In March 2010, several experts confirmed in testimony at a Commodity Futures Trading Commission hearing that the pricing mechanism on the official exchanges was not really determined by the amount of physical metal available or that physically changed hands. In reality, 100 times as many ounces are traded back and forth than are actually delivered. An institutional bank can sell on the exchange and say effectively, "IOU 5,000 ounces of silver" or "IOU 100 ounces of gold." But if too many contract holders stand for physical delivery of metal that does not exist or has not yet been mined, a delivery default is possible.

One such exchange many experts believe has this potential is the Comex. In the event of a surge in physical demand and/or a monetary crisis, an investor wanting to take physical delivery of his metal could discover to his astonishment that he would be settled in dollars, according to the dollar price shown on the exchange. This unhappy investor may not want dollars – especially in the event of a hyper-inflation where those dollars may be significantly devalued before the investor can even receive them.

Independent Living Bullion
PO Box 2599
Eagle, ID 83616

Office: **1-800-800-1865**
Secure Fax: **1-866-861-5174**
7:00 a.m. - 5:30 p.m. Mountain Time
Monday through Friday

Stefan Gleason, *President*

Co-Directors:
Clint Siegner – clint.siegner@americanlanternpress.com
Mike Gleason – mike.gleason@americanlanternpress.com

Monthly Program Coordinator:
Dawnya Allen – dawnya.allen@americanlanternpress.com

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

Since we announced the new Referral Program earlier this year – where customers of **Independent Living Bullion** can earn FREE SILVER for telling their friends and family about our service – scores 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 additional coins, not four. An order must be at least $20,000 to qualify for four additional 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. To qualify as a referring customer, you must already be an **ILB** customer.
4) We reserve the right to modify or terminate the Referral Program at any time.

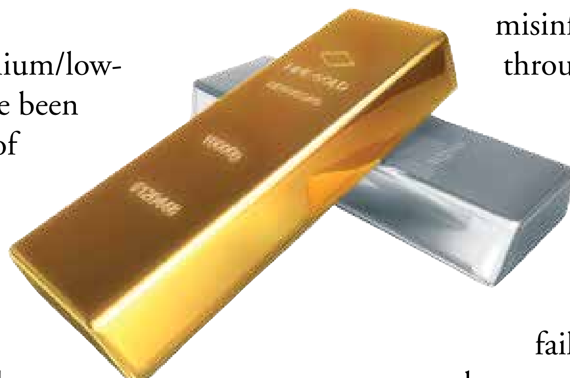
Call **Independent Living Bullion** at 1-800-800-1865 with any questions regarding the Referral Program, and we'll be happy to answer them. We hope to have you as an eager participant in this program… it's a unique benefit we are happy to provide to our customers! And rest assured, anyone you send our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

Owning the Real Thing

Serious Investors Choose Physical Bullion over Risky Proxies

By Seth Van Brocklin
Contributing Editor, Independent Living

The decision to invest in precious metals is a necessary step toward protecting your wealth in these volatile times. But the choice to own gold and silver still leaves a lot of investment options on the table. Some are better than others. And some of those "others" – though they may be heavily marketed, widely recommended, and/or highly popular – represent inefficient or even *dangerous* ways of owning precious metals.



The inefficiencies of high-premium/low-liquidity numismatic coins have been explained in previous editions of **Precious Metals Quarterly**, so I won't delve into details about this "scammers' paradise" market here. In this article, I'd like to focus on another large trap for would-be precious metals investors. I'm referring to the danger posed by the various derivative proxies for bullion, including exchange-traded funds (ETFs), whose notional values have swelled to hundreds of billions of dollars.

Longtime Gold Naysayers Now Proffering Advice on How to Own It

Precious metals are now entering the mainstream as an investable asset class. Gold and silver are commanding the attention of brokers, financial planners, and Wall Street commentators who heretofore spent their careers ignoring (or belittling) the metals.

The same financial industry professionals who never understood gold's fundamentals or believed in it philosophically are now the most prominent faces advising the public on how to own precious metals! They are feeding the public bad advice right and left. From glossy "money" magazines, to the biggest Internet financial sites, to celebrity gurus such as **CNBC**'s Suze Orman and Jim "I Love It When Gold Goes Down" Cramer, they are virtually unified in their efforts to steer people interested in precious metals to ETFs such as the $72 billion SPDR Gold (**GLD**).

Readers of a July 27 article posted on the web site of **The Atlantic** and on **Yahoo Finance** were deluged with strange assertions and outright misinformation on gold ownership through ETFs. **"***If there is a full breakdown in the economy, taking delivery of gold will be nearly impossible*," the article warns. It's a legitimate concern. However, the advice proffered to guard against the risk of a systemic failure-to-deliver in the gold market is a spectacular *non-sequitur*.

The author suggests owning the very financial derivative products that could blow up in the event of a total financial collapse – namely, ETFs. "*ETFs take away that problem*," the author preposterously claims.

The risks entailed in owning financial instruments derived from precious metals are much the same as those of other financial instruments – risks that precious metals investors presumably want protection

Continued on next page

Guru's Strange Advice to Buy Flawed Gold ETF

"[GLD] is the most convenient, least risky way to play the precious metal."

– Jim Cramer, 2011

"Man, I love it when gold goes down!"

– Jim Cramer, 2008

from. For one, ETFs involve counterparty risk. Owners of these instruments own shares of a trust that is supposed to be backed by the metal. They don't own title to the metal itself.

When you own **GLD**, you're effectively entrusting your wealth to HSBC, the mega-bank that serves as the primary custodian for the ETF's bullion. A recent **CNBC** report from inside the "secret" HSBC depository purported to show a gold bar that backs the ETF. But the serial number that was visible to TV viewers corresponds to a different owner! The ETF's gold doesn't even appear to be segregated inside the massive HSBC warehouse. Most of the "pure" gold bars the ETF claims to own are never assayed for purity, either.

An accounting or auditing scandal or a theft or fraud of multi-billion-dollar proportions involving one or more bullion ETFs seems quite possible at some point. Even if the ETFs flawlessly deliver on their promise to obtain and securely hold pure physical bullion in proportion to all shares outstanding and track the price movements of the metals (minus some fees), investors still would be stuck with nothing more than a stock symbol on their brokerage statement. It is nearly impossible for retail investors to take delivery of the ounces of gold or silver they think they own through ETFs. You can't practically barter with ETFs, and you certainly can't hold them privately.

Pre-1965 silver coins are one of the most cost-effective ways to buy silver.

Why Introduce Needless Risks when Buying Financial Insurance?

The bottom line is that serious precious metals investors tend to avoid holding ETFs as proxies, because these securitized vehicles lack some of the most important characteristics of precious metals. It's unwise to buy precious metals as financial insurance, but then assume so many risks in the process.

The same can be said of pooled accounts where your metal isn't specifically allocated to you and held in your name. Interestingly, a well-known gold analyst who works for a large dealer based in Canada that sells pooled precious metals has for the past few years been calling for gold to settle into a more "normal" price range of $500 - $700, based on jewelry demand. He, like most Wall Street analysts, thought rising investment/monetary demand was just a fluke. He was dead wrong.

Get Physical Metal First

The only people who have been right about the ascent of precious metals from the beginning are the people who understood that gold and silver would reassert themselves as money, as the nation plunged into an inevitable debt and monetary crisis. Theirs is the advice you should be heeding with regard to how to invest in the metals. I'm talking about people like leading silver expert David Morgan, editor of **Money, Metals, and Mining**. And, of course, Lee Bellinger, publisher of our flagship **Independent Living** newsletter.

Ten years ago, David Morgan was a lone voice touting silver as an investment opportunity of a lifetime. He has stressed again and again to anyone entering the precious metals sector – young or old, rich or poor – to "*buy the physical first.*" By that he means having an ample stash of bullion coins, rounds, and bars in varying sizes (partly for bartering convenience) – but aiming mainly to get the most ounces for your money – before even considering venturing into mining stocks, futures, ETFs, "rare coins," or other speculative plays on precious metals.

If you're like me, you've tried to convince friends and family members of the wisdom of owning precious metals. Often what happens is that people will be partially convinced, then tell their broker or financial advisor that they want to invest in precious metals, then get put into an ETF. When talking with loved ones about precious metals, I hope you will also warn them of the risks inherent in any form of indirect ownership.

Regardless of whether they obtain their bullion from **Independent Living Bullion** (1-800-800-1865; www.IndependentLivingBullion.com) or from some other source, "physical first" is their only way to serious wealth protection.

Time to Play the Unusually Low Platinum:Gold Ratio?

By Mike Gleason,
Co-Director, ILB

While gold – and to lesser extent silver – continue to be the headline grabbers in the precious metals markets, platinum tends to be a forgotten metal. Nearly 30 times rarer than gold, platinum has recently been trading at prices below gold, an anomaly seldom seen in the past several decades.

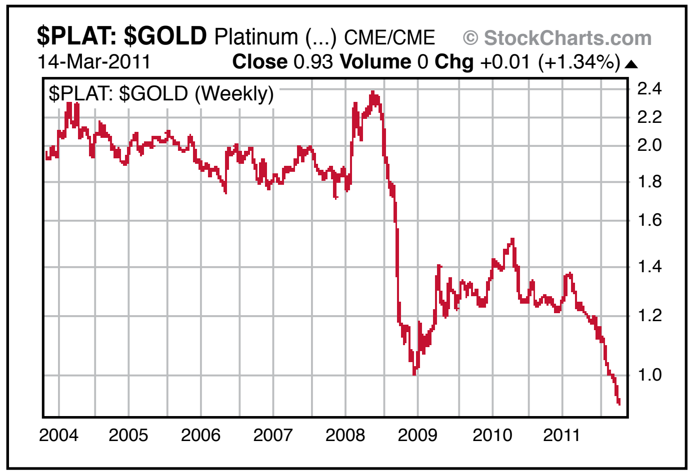
Granted, gold has risen primarily due to its rediscovered use as a monetary and safe-haven asset during these times of substantial global fiat currency turmoil, but, like gold, platinum is a tangible asset that can be owned in the form of bullion coins and bars. It also has huge upside potential.

Historically speaking, platinum has generally sold for around twice the price of gold. Platinum was two times the price of the yellow metal as recently as July 2008, before the financial collapse took both metals down. Since then, platinum has lagged the prime monetary metals; i.e., gold and silver. And over the past two months, platinum has traded below gold, marking the longest period in over 20 years that an ounce of platinum could be bought for less than an ounce of gold. Don't expect platinum's relative cheapness to last forever.

To be sure, with an overwhelming percentage of demand coming from the industrial sector (especially from its use in catalytic converters in automobiles), platinum is a more speculative investment than either gold or silver. And thus it can often be more volatile, both to the upside and the downside.

A primary driver suggesting that platinum will be an excellent play going forward is that nearly three quarters of the world's supply for the metal comes from a single country – South Africa. Given the ongoing destruction of the post-apartheid South African economy, it's not difficult to imagine disruptions in the supply of platinum, causing an immediate shortage and price spike.

In fact, the events of early 2008 were likely a prelude. Massive electrical blackouts shut down production at many of the country's mines. Furthermore, rumors about a potential move by the South African government to nationalize all mines has dissuaded many mining companies from either opening or expanding production in the country.



Platinum has fallen to a historical low versus the gold price.

Even with the economic slowdown in many parts of the Western world, the outlook for auto demand (and thus the demand for platinum) remains very strong – thanks to a rising middle class in both China and India – where an amazing *40%* of the world's population resides.

Overall, the downside risk to owning platinum at current price levels is minimal given its unusual discount to the gold price. Those looking for good relative value might consider diversifying their precious metals portfolio by adding some platinum bullion or even trading in some gold for platinum.

You Have Great Options for Owning Platinum

When it comes to the physical platinum bullion products available for investment, you have several options.

In the platinum coin market, supply is rather tight given that the U.S. Mint discontinued platinum

Continued on next page

American Eagle coins at the end of 2008, meaning all U.S. minted platinum is available only on the secondary market *(while the recent price correction and subsequent massive buying has constricted the supply substantially, leading to higher premiums)*. One-ounce platinum Eagles are generally the most scarce, but fractional size Eagles (half, quarter, and tenth) tend to be more available.

Other platinum coins include the Maple Leaf from Canada (itself no longer minted), the Koala and Platypus (both from Australia's Perth Mint), and the Noble (from the Isle of Man). In bar form, the one-ounce PAMP/Credit Suisse products offer lower premiums than coins, and each bar is individually assayed, certified, and sealed in protective packaging.

Given the limited number of mints currently minting platinum bullion, inventory is often scarce in some products, and premiums fluctuate regularly as a result. At present, the one-ounce Australian Platypus (pictured left), as well as one-ounce bars, are readily available through **Independent Living Bullion**. The best bargain in platinum bullion products we are pleased to offer (in terms of being priced closest to melt value) is, as of this writing, the Platypus coin.

Owning Precious Metals in a Self-Directed IRA Is Easy

By Jason Holt
ILB Precious Metals Specialist

Very few U.S. investors own even an ounce of gold or silver bullion, so it should come as no surprise that almost none of them know of the various options to hold bullion in an Individual Retirement Account (IRA). The lack of awareness is generally compounded by financial professionals – the very people whose job it is to educate investors. Most investment advisors tout "diversification" as the ultimate investment strategy, then turn around and limit their clients to IRAs with the traditional menu of nothing but paper investment options – stocks, bonds, and mutual funds. Brokers are not anxious to promote true diversification away from these paper assets, as they would lose out on management and/or transaction fees.

Alert investors, who are concerned about a portfolio limited to paper assets, know about a much better option. This option is known as the self-directed IRA. By giving yourself full authority over your portfolio, you can then invest directly in other things besides registered securities – real estate, privately held companies, and precious metals, for example.

You can take matters into your own hands by opening a self-directed account. In it, you can purchase qualifying gold or silver bullion coins or bars and get immediate protection from the devaluing dollar in real, tangible metal. And, when you are ready, you can actually take physical possession of that metal through distributions from the IRA. You completely avoid exposure to the dollar or paper assets denominated in dollars.

Many investors in precious-metals-backed ETFs have been moving out of such proxies and into self-directed IRAs holding physical bullion, stored at facilities of the investors' choosing. While ETFs offer some

Continued on next page

advantages for short-term or high-frequency traders, the risks of holding precious metals ETF shares are increasingly coming to light (see "Owning the Real Thing," page 4).

Shares in a precious metals ETF are not a substitute for physical ownership of the actual metal. ETFs carry counter-party risk. You will be relying on the solvency and honesty of the custodian. And, with few exceptions, you will not have a claim on physical metal backing the ETF shares. When it is time to exit the ETF, you will receive settlement in dollars whether you like it or not.

Owning and storing actual precious metals in a self-directed IRA is an important and straightforward step toward true diversification of your investments.

Here's How a Precious Metals IRA Works

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**.

GoldStar Trust Company is an independent trustee that 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. If you would like assistance in completing your application, call GoldStar Trust at 1-800-486-6888 or email info@goldstartrust.com.

Mountain West IRA provides even greater flexibility when it comes to IRA storage options, allowing customers to store precious metals holdings at either a local or regional vault facility. You can source a vault facility on your own or ask Mountain West and they will be happy to provide several very reputable storage facilities – including companies in the western and mid-western United States. To obtain a Mountain West application, call and ask that it be mailed to you, or simply download a copy from www.IndependentLivingBullion.com. If you need assistance in completing your application, call Mountain West at 1-208-377-3311 or email jhuwer@mwira.com.

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

Independent Living Bullion is an approved dealer at GoldStar Trust, Mountain West IRA, 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.

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