



Precious Metals Quarterly

An Insider Report for Clients of Independent Living Bullion

High Mining Costs Put Floor under Gold/Silver Prices

Our 2014 Market Outlook

BY SETH VAN BROCKLIN
Contributing Editor

There's no getting around the fact that 2013 was a lousy year for precious metals, performance wise. Gold fell 28%, while silver plunged 38%.

A superficial analysis would take the price moves as a starting point and look for news items that seem to explain them. But underneath the surface, the global market for physical gold and silver gained fundamental strength even as spot prices weakened.

The heavy liquidation seen in futures markets and exchange-traded vehicles in 2013 was a one-off event. The paper selling wasn't confirmed by physical selling, especially in the retail bullion market, where demand for Silver Eagle coins hit a record.

Most analyst forecasts for gold and silver call for prices in 2014 to be roughly flat. Prices may have some more basing out to do, but with virtually no mainstream analysts bullish, the potential for an upside surprise should be heavily considered. Markets have a way of moving in the opposite direction of prevailing sentiment.

A Rare Opportunity to Buy Gold at Its Mining Cost

Some conventional financial analysts have difficulty valuing unconventional assets such as gold and silver. These pundits complain that since precious metals have no earnings, pay no interest, and carry no credit risk, they must be driven purely by speculation.



Of course, as with any other asset class, metals prices can be pushed around by speculators. But there are ways of gauging whether prices at any given time are fundamentally well supported. One is by comparing current prices with the actual costs of production.

When gold prices are high relative to mining costs, that's one indicator that gold might be fundamentally overvalued – or at least that prices carry some significant downside risk. By contrast, when spot prices are close to the actual costs of production, investors can buy knowing that prices are near

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something of a fundamental floor. Gold won't get produced for very long if miners can't do so at a profit.

In 2003, gold production costs averaged less than \$200 per ounce. By 2013, it cost an average of close to \$1,200 to bring an ounce of gold to market! Many mines can't produce gold profitably at today's prices.

Scotiabank reports the all-in cash costs at some mines are as high as \$1,700 per ounce. Scotiabank projects that as miners ramp down or abandon high-cost projects, they will report lower gold production targets for 2014. That means in the months ahead, mining supply can be expected to suffer a drop-off.

In fact, there are signs this is happening now. Gold recycling – the category that includes scrap jewelry – is down 158 tons year over year.

And the environment for raising money to build the mines of tomorrow has been likened to nuclear winter.

Why \$2,500 Gold Would Be a Reasonable Price Today

The silver lining is that these brutal conditions for the mining sector present a great opportunity to buy physical precious metals near their actual costs of production. Historically, gold prices have traded at an average premium of 2.1 times gold's production costs. Thomson Reuters GFMS estimates the average cost to produce an ounce of gold to be \$1,200. Assuming average production costs of \$1,200 per ounce, a return to spot prices being 2.1 times production costs would imply a gold price of \$2,520.

This \$2,520 per-ounce price target assumes no further cost inflation spreading through the mining industry. And it assumes gold doesn't enter overvalued territory. We fully expect gold will become fundamentally overvalued by various measures by the time the next major cyclical peak arrives. Markets never stop and settle at fair value. They overshoot both on the downside and the upside as momentum feeds on itself.

While the timing and magnitude of a price rally from here can't be known, downside risk in gold appears limited at these levels. Upside potential is great – even using very conservative assumptions.

The same can be said for silver, which is produced largely as a byproduct of gold and base metals mining. Where gold goes, silver can be expected to follow, but in an amplified manner.



Silver has taken over a two-year breather but has built a solid base above \$18.50 for much higher prices.

Gold Moves from Weak Hands to Strong – And from West to East

On the demand side, paper traders who got shaken out of gold and silver positions in 2013 or pressed the market on the short side, were countered with physical buying from people who won't be trading out of their positions anytime soon. Even as Comex short positions on silver reached record levels in mid 2013, investment in silver coins increased by an estimated 19% for the year, according to Thomson Reuters GFMS.

Then there's the China factor. According to *International Business Times* (December 11, 2013),

“Physical demand for gold in China has skyrocketed this year after prices plunged in April and June. Experts

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Silver Eagle Premiums Soar as Demand Sets Record

BY CLINT SIEGNER

Director, ILB

Silver American Eagle premiums surged when U.S. Mint officials shut down production in mid-December. Mint officials were switching to the 2014 dies and planned to resume delivery of their most popular coin in mid-January.

The U.S. Mint may be the only institution in the world that would completely stop producing a record-selling product for several weeks to make minor tooling changes. And, odds are, supply disruptions will linger for months, as the U.S. Mint struggles to meet what is traditionally very strong demand early in the year for coins with the new date – despite a month of supposed preparation.

The effect of this government mismanagement is that customers must pay higher prices if they want the popular coins. Premiums for the Eagles began rising in late November as markets anticipated the shortage in supply. Available stocks ran down, and dealers began bidding up the price for inventory.

In fact, the recent jump in premiums is just the latest up-cycle in a volatile period extending back several years. The market for physical investment silver continues to grow (despite the weakness in paper silver prices), with a huge surge in the years following the 2008 financial crisis. The U.S. Mint's American Eagle program has been a big beneficiary.

Last year's performance provided a glimpse of what investors can look forward to. Demand in the first two weeks of 2013 quickly overwhelmed the Mint. Officials responded by halting production for nearly two weeks to "catch up." Demand accelerated once again in April and May. Premiums reached nearly \$6.00/oz.

Many responsible metals dealers, including **Independent Living Bullion**, chose to stop taking orders for the overpriced product for a period of time, because firm commitments could not be made

regarding delivery time.

Most might expect the U.S. Mint to add shifts, line up additional suppliers for silver blanks, and find other ways to meet the demand. But Silver Eagles production is managed by bureaucrats largely unconcerned with the imperatives driving private sector businesses. Government managers are happy to find supply-demand equilibrium by reducing their market share.

Meanwhile, bullion dealers such as **ILB** are selling ever larger quantities of lower-premium, faster delivery items. These include privately minted rounds and bars along with coins from other national mints, such as the Royal Canadian Mint or Australia's Perth Mint.

But, for now, the American Eagles remain the most popular bullion coins in the world. Sales in 2013 totaled approximately 45 million ounces – an all-time record. All this is a potent combination for volatility in premiums; huge demand being met by bureaucrats who simply throw up their hands and stop taking orders.

Last year's sales were extraordinary, but the Mint has periodically struggled to meet growing demand for

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The low prices on privately minted silver rounds and bars have led to high popularity.



Reasons to Own the “Rich Man’s Gold”

BY MIKE GLEASON
Director, ILB

Most have heard silver referred to as the “poor man’s gold,” but few are familiar with the phrase describing one of the other precious metals, that being platinum: the “rich man’s gold.”

Platinum is significantly more rare than gold, so historically it has commanded higher prices than the yellow metal. Yet none of us read about the “Platinum Rush” in our history books, nor are we inundated with television shows chronicling a group of down-on-their-luck wannabe miners looking to strike it rich digging for platinum.

Granted, platinum is not a true “money metal” like its cousins gold and silver and therefore doesn’t have the same amount of investment demand, but that doesn’t keep platinum from being the most precious metal and perhaps the one with the most upside potential.

In 2013, less than six million ounces of platinum were extracted from the earth, the smallest amount in over a decade. Compare that to the average annual gold production of nearly 80 million ounces, making new gold supply approximately 13 times more plentiful than platinum on a yearly basis.



Platinum Maple Leaf

Additionally, while nearly every ounce of gold ever mined still exists above ground, platinum’s main demand comes from industry – primarily for its use in catalytic converters in automobiles – and only a portion of it is recycled each year. As a result, once platinum is put to use, it’s usually gone for good.

Sure, gold is the more liquid metal due to its substantial standing as an investment asset. It’s sought after by numerous cultures, governments, and individual investors because it’s the ultimate store of value.

But platinum can still be easily bought and sold, just like gold or silver, and there are a handful of bullion products from which to choose.

The 1-ounce Canadian Maple Leaf and Australian Platypus are the main platinum items available for retail investment, and there is rumor that the U.S. Mint will resume production of the Platinum Eagle at some point in the not-too-distant future. Additionally, 1-ounce (and 10-ounce) platinum bars offer a slightly lower premium than coins – a good

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Silver Eagle Premiums Soar

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Silver Eagles for years. There is no indication these government employees will ever be able to rise to the occasion during big surges in investor appetite for silver.

If there is any good news, it is that silver Eagles prices have a record of outperforming when demand rises – and the pattern is likely to continue. This presents an interesting opportunity for investors to speculate on premiums. Investors with good timing and a keen eye on demand should be able to buy Eagles when premiums are low and sell when premiums spike.

Then they can convert the cash into a low premium bullion product and wind up with more ounces.

Holders of Silver Eagles that command relatively high premiums may be able to trade them in for our lower-premium, privately minted rounds and bars – and walk away with more ounces of silver. **ILB** is always in the market for buying Silver Eagles and other common forms of silver. Just call one of our specialists (800-800-1865) or visit www.IndependentLivingBullion.com for our current buy prices. 📞

Platinum: The “Rich Man’s Gold”

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choice for investors looking to get the most physical platinum for their money.

Platinum Is Usually 1.5 Times the Gold Price

Platinum ended 2013 near \$1,400 an ounce, and maintained close to a 10% premium to the price of gold throughout the year. Over the last 40 years, the average platinum:gold ratio is closer to 1.5 to 1 – and we’ve seen it as wide as 2.3 to 1 on three separate occasions since the early 1970s. (The most recent example is 2008, when platinum reached its all-time high of \$2,300.)

We’re in the midst of a global monetary crisis where every nation’s central bank is trying to outdo its neighbors by devaluing its currency. Gold and silver – which have served as money almost since the beginning of human history – are likely to be more sought-after assets to own during a currency crisis than platinum and the other industrial metals.

But given the fact that platinum’s supply can so easily be disrupted (and routinely is) by geopolitical events

such as threats of mining nationalization, labor strikes, energy blackouts, and mine closures in South Africa and Russia (where 90% of the world’s platinum is mined), it’s safe to say the recent trend of dwindling annual platinum supply will continue.

Not only is supply falling, but demand is rising. Notably, Asian demand for automobiles has gone through the roof, and this creates a huge need for platinum.

2013 demand exceeded supply by the widest margin since 1999 – about a 605,000 ounce deficit – according to London-based Johnson Matthey. The deficit could rise even higher in 2014. All the data points to a widening supply-demand imbalance which is expected to fuel a rally in platinum prices over the next 3-5 years.

As evidenced by the last major spike in platinum (in 2008), platinum prices have the potential to move violently to the upside once the rally gets going. For instance, platinum advanced a whopping 50% in just three months prior to reaching its apex of \$2,300 an ounce six years ago.

Yes, it’s more speculative than gold as an investment. But platinum carries just a small premium to gold currently and offers a significant opportunity for those looking to diversify beyond gold and silver. ⓘ

Stock Up on Silver and Gold Automatically!

Independent Living Bullion’s monthly gold and silver savings program is extremely popular with customers. The minimum purchase is only \$150! A program description and enrollment form is posted at www.IndependentLivingBullion.com. Monthly accumulation is a savvy, no-hassle way to protect and save your money. We can even set up bank debiting, so you never need to write a check! Whether or not you sign up for the monthly plan, you may make individual silver and gold purchases whenever you wish. Our premiums above the spot market price are minimal!

Call 1-800-800-1865 or visit www.IndependentLivingBullion.com today.



American Eagles and Low-Premium Rounds Offered!

New Fed Chair Vows More Inflation

Gold and Silver Investors to Benefit in Yellen Era

BY CLINT SIEGNER & STEFAN GLEASON

After months of talking about reducing stimulus, the Federal Reserve is finally taking a tiny first step toward tapering. The Fed announced it will soon step back monthly purchases of mortgage securities and long-term U.S. Treasuries by \$5 billion each.

Gold and silver spot prices, which were punished severely during the months of rumors about tapering, suffered again immediately following the actual announcement in December. Now the question for metals investors is just how much of the Fed tightening has been priced in.

And there is another question regarding whether the Fed will be able to stay the course. Congressional Republicans, criticized by conservatives for feeble (and failed) attempts to hold the line on spending and lambasted by liberals for trying, are simply throwing in the towel.

Massive federal deficits and the accompanying flood of new government borrowing appear set to continue indefinitely.

And somebody has to buy all that debt. Enter the Federal Reserve – currently buying 80-90% of newly issued U.S. Treasury bonds. No matter if it must accept yields at historic lows and backing from a government which is completely unable to control spending. We have yet to hear anyone who is expecting the Fed to end (or dramatically reduce) QE explain which buyers will be eager and ready to step into the Fed's place.

The precious metals markets have responded to tapering as if Fed officials had dismantled their printing press and sold it for scrap! It has never been more important to maintain perspective. We are still in an era of extraordinarily loose monetary policy.

For starters, the Fed will continue to buy \$75 billion in new debt per month (although the actual number will be closer to \$83 billion due to reinvestments). They could reduce stimulus by \$10 billion three more times, and they would STILL be injecting markets with more cash than the prior iteration of Quantitative Easing (QE2). And,

don't forget, QE2 was considered breathtaking in size and scope when it was announced in 2010. Additionally, Fed officials re-committed to maintaining the Fed funds rate at near zero for as far as the eye can see.

Bernanke's Record Money Printing to be Surpassed

Then there is "super dove" Janet Yellen, Fed Chairman Ben Bernanke's successor. "Helicopter Ben" will exit into history as the most fanatical money printer ever to man the helm at the Fed. Nevertheless, his record of debasement will likely be short-lived.



Fed Chair Janet Yellen believes the wealthy have a duty to subsidize the working class and uses central banking to impose her vision.

President Obama hand-picked Berkeley leftist Janet Yellen to head the Fed because she is in sync with his "redistribution of wealth" philosophy. There can be no question the Fed shall continue to be the Great Enabler of uncontrolled growth in federal deficits and spending.

By all accounts, Yellen views monetary policy as a central planning tool to impose a social order, and she is no friend of a strong dollar or a disciplined monetary policy.

As a Vice-Chair, Yellen often criticized the Fed's unprecedented amounts of stimulus as *inadequate*. In 2010, she floated the idea of taking the Fed funds rate, currently just above zero, into *negative* territory. Not only could banks be paid to borrow money, but such a policy could also force savers to pay a bank for simply holding their money!

Taken in context, the move to withdraw \$10 billion per month in stimulus looks a lot more like a token effort than a serious first step toward monetary discipline. The smart money is betting on more money creation over the medium and long term – not less.

In 2013, the stock market was the main beneficiary of Fed stimulus – to the point of reaching valuation extremes not seen since 2007 and 2000. Going forward, undervalued hard assets appear well-positioned to reassert their safe-haven status. 📍

ILB Aims to Popularize Precious Metals Ownership in America

Split Off from Publishing Company Enables Greater Focus on Mission



Stefan Gleason, President
Independent Living Bullion

A few years back, the market was crying out for a low-cost and honest precious metals dealer – and I launched Independent Living Bullion (**ILB**) with the goal of transforming the way Americans think about saving and investing. Our rapid progress in helping Americans switch a portion of their paper dollars into the safety and security of precious metals demonstrates the incredible potential **ILB** has to be an agent of change in the marketplace.

Many of **ILB**'s original customers learned about us because they were subscribers to Independent Living, a self-reliance advisory published by American Lantern Press (ALP). In fact, I co-founded the Independent Living newsletter in 2006 and had the honor of guiding its enormous growth while serving as president of ALP.

So important is our cause of helping Americans protect themselves (through the ownership of precious metals) from the unstable dollar, massive federal debt, and irresponsibility of the politicians, I wanted to focus ALL of my professional energies on the mission. The time had come to move beyond my role as president and co-owner of American Lantern Press. In fact, **ILB** has been an entirely separate company since early

last year, and it no longer has any overlapping ownership or operations with the subscription newsletter publisher. (You may have even noticed **ILB**'s snazzy new logo!)

From new website features to more offerings and high-quality content, this exciting development allows **ILB**'s full leadership team to focus like a laser beam on meeting the specific needs of our existing precious metals customers while stepping up efforts to popularize precious metals ownership in America.

Leading **Independent Living Bullion** to new heights is fulfilling work, particularly after my long career in Washington, DC. As a leader in a national grassroots organization for 15 years, I have first-hand experience with how difficult it can be to change the direction of suicidal federal fiscal and monetary policies.

It frankly matters little who controls Congress and the White House. The bureaucracies (including the Federal Reserve) are marching undeterred in the same direction.

Fortunately, a great number of Americans are waking up to the fact that the solutions do not lie in Washington, DC. The solutions are within the people themselves. A growing number of folks are imposing a measure of accountability upon our bankrupt financial system by dumping their dollars and buying gold and silver instead.

There are now more than 26,000 Americans who purchase their precious metals from **Independent Living Bullion!** Of those, almost 3,000 individuals are saving in real assets – month in and month out – through our monthly gold and silver savings plan. Our customers are taking decisive action, and we are honored to help them. And more customers than ever jumped on the opportunity presented in 2013 to add to their positions (or make their first purchases) before gold and silver resume their long march higher.

Thank you for allowing us to play an ongoing role in your financial life. We take the responsibility very seriously. Wishing you great happiness, health, and prosperity,

Stefan Gleason, President
Independent Living Bullion



Our Exclusive New Copper Rounds

Responding to demand from customers, **Independent Living Bullion** has launched its first offering of copper – a one-ounce round with our popular “*Don’t Tread on Me*” design.

Independent Living Bullion commissioned a special release of copper rounds because copper is not only a tangible store of value that protects against dollar weakness, but also copper could play a role as “small change” when gold and silver someday become too valuable to use in everyday transactions.

The metal is already indispensable to industry – with applications in

a dizzying range of manufactured goods. And copper has often been used in coinage throughout history.

At \$1.25 per ounce (on an order of 100 ounces or more), our copper rounds are a great way to buy copper in small denomination. They’re:

- ✓ useful for barter and trade;
- ✓ a great way to start a conversation about the ideals of sound money, limited government, and liberty;
- ✓ easy to sell back to us.

Take a moment today to snatch up some of our copper rounds by calling 1-800-800-1865 or by visiting www.IndependentLivingBullion.com. 



Our 2014 Market Outlook

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expect upwards of 1,000 metric tons to be bought by ordinary consumers in 2013, an all-time high.”

China in 2013 essentially announced to the world that it would be slowly abandoning the dollar and refortifying itself with gold bullion. China’s central bank holds \$1.2 trillion worth of U.S. Treasury debt. But its reported gold holdings are only around 1% of total reserves, indicating that it has a lot more gold buying to do.

China is reportedly mining gold in some areas at all-in cash costs of more than \$2,000 per ounce. It doesn’t seem to make economic sense. But the Chinese are developing mines with an eye toward their investments paying off in the long term as gold prices move higher.

The Chinese had to have been happy to see gold holdings in U.S. exchange-traded products decline to 3-year lows, freeing up more supplies. Total published gold holdings in mutual funds and exchange-traded products declined from over 100 million ounces in late 2012 to 71.8 million by December 2013. This was a one-off event, not likely to be repeated in 2014.

When the speculators start coming back into the derivative gold market on the long side, prices will be pressured to the upside. Meanwhile, those hardy “strong hand” investors who continue to hold onto their physical bullion will be richly rewarded when rising demand intersects with diminishing supply. 

Each Friday morning, we release a new podcast featuring important market developments and interviews with precious metals experts.



Subscribe to **ILB’s Weekly Market Wrap** in iTunes or visit www.IndependentLivingBullion.com to play the podcast.