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Precious Metals Quarterly

An Insider Report for Clients of Independent Living Bullion

Explosive Demand in the Silver Market Leads to Delays, Hints of Shortages

By Mike Gleason

After an explosive year in the silver market in 2010, the white-hot metal appears poised for substantial gains yet again in 2011. Investment demand in particular surged to an all-time high in 2010 as "smart money" moved out of fiat currency and into silver, and then rode it to tremendous gains.

However, increasing interest in silver is giving rise to tightness in the physical market. During the past few years – and especially since the start of last fall's massive run-up – demand for physical silver has skyrocketed on the investment side. And mining supply is barely increasing – even at these much higher prices.

Stockpiles of above-ground silver have dwindled considerably over the past several decades, meaning there is little slack in the supply to keep up with growing industrial needs (coming from increases in solar power, water purification, Asian cell phone demand, etc.), let alone the huge influx of new investment money into the tiny silver market.

Several months ago, managers of a newly launched physical silver fund in Canada snatched up 20 million ounces *(about 625 metric tonnes)* of supply, and, as of January, they had *still* not received delivery of all their ounces despite having purchased and paid for the metal months earlier. Since this latest new fund went on the prowl for physical silver several months ago, the market for newly minted silver rounds, 100-ounce bars, and even thousand-ounce bars has been tight as a drum – leading to rising premiums and some delivery delays.

U.S. Mint Sells Unprecedented Volume of Silver Eagles

In November, the U.S. Mint reported new purchases of American Silver Eagles reached a record 4.26 million ounces, smashing the previous monthly high by 15%. Looking at sales for the entire year shows a 20% increase in Silver Eagle sales over 2009. Meanwhile, 2009 sales were up 47% from 2008. And 2008 sales eclipsed 2007's by more than 100%. Notice a trend? Today's market tightness is not evident in Silver Eagles *only* – ALL minted products are experiencing unprecedented demand, and so are physical bullion investment funds (which mostly stockpile 1000-ounce bars).

Annual silver mine production worldwide is roughly eight times that of gold. Overall worldwide *investment* demand for ounces of silver in 2010 was also eight times that of gold. But in 2010, the U.S. Mint sold nearly 30 times as many ounces of silver as it did ounces of gold.

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However these figures don't even factor in all the *industrial* demand – where a majority of the silver mine supply ends up. We must also keep in mind that silver – thanks to so many industrial applications – is a *consumed* resource, never to be seen again (silver recycling is still somewhat insignificant due to such small amounts being used in most applications).

Meanwhile, the situation in gold is completely different. Nearly every ounce of gold mined in the world's history is still above ground and available somewhere. Don't get me wrong, at **Independent Living Bullion** we are bullish on gold, but given the circumstances, we find it amazing that silver is still only about 1/50th the price of gold.

All Minted Silver Items May Soon Acquire Scarcity Premiums

We expect even more demand for physical silver in 2011 – and the situation could get quite interesting if the tightness leads to major delays and shortages across the entire global silver market. In just the first three weeks of January, sales of Silver Eagles hit a whopping 4.7 million ounces – already surpassing the best January in the Mint's history!

The physical silver market continues to tighten. Delays on newly minted product are cropping up and could easily continue. If the tightness of supply increasingly becomes evident in 1,000 ounce bars, industrial users of silver will likely begin hoarding the metal. Shortages will beget more shortages.

As suggested by silver expert David Morgan, editor of the acclaimed **Morgan Report on Money, Metals, and Mining,** which is published by our parent company (American Lantern Press), there may well come a time when the U.S. Mint stops trying to keep up with demand for Silver Eagles and ceases producing them altogether. At that point, existing Silver Eagles would command higher premiums, which could spread to all forms of investment silver where supplies aren't keeping up with demand.

Thanks to a tight alliance with a private mint and several wholesalers, **Independent Living Bullion** has taken steps to secure a stable supply for the foreseeable future. But despite our efforts, the time may come when we won't be fully insulated from delivery delays ourselves. We'll let you know if we expect any delay when you order.

Bottom line: establish your position in silver sooner rather than later. And sit back and watch the coming fireworks!

ILB's Program to Switch Dollars into Bullion Every Month Gains Popularity

By Stefan Gleason

Near-term market gyrations and counter-trends aside, precious metals and other hard assets continue to gain buying power against paper assets. More and more **ILB** customers are taking advantage of this long-term mega trend by trading in their greenbacks on a steady schedule – switching them every month into the safety and peace of mind offered by physical precious metals.

And with nearly 1,000 participants to date – and growing – we've identified several areas for improvement to the invoicing and shipping processes, meaning those currently enrolled in the monthly plan will experience an even more timely, streamlined, and smooth process moving forward. For example, we've invested in developing an automated invoicing program to expedite processing for the rapidly growing number of participants.

For those not yet enrolled, we've really made it easy to get started! Call us at **1-800-800-1865** today and sign up over the phone in just a couple of minutes, or ask us to mail you the application so you can fill it out at your leisure. The application can also be accessed online at **www.IndependentLivingBullion.com**. Accumulating low-cost silver and gold bullion via our simple and straightforward monthly purchase plan takes the worry and hassle out of the process, allowing you to automatically accumulate ounces over time through dollar-cost averaging. Getting started has never been easier!

Independent Living Bullion
PO Box 2599
Eagle, ID 83616

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

Co-Directors:

Clint Siegner – clint.siegner@americanlanternpress.com
Mike Gleason – mike.gleason@americanlanternpress.com

Customer Service Manager:
Dawnya Allen – dawnya.allen@americanlanternpress.com

The Precious Metals Bull Market:
Time to Check Our Premises

By Clint Siegner

Investors in gold and silver enjoyed substantial gains in 2010. Gold was up 30% and silver surged 83% for the year. Our customers, and bullion investors everywhere, are wondering if this sort of performance can be repeated in 2011. After all, we have recently seen a downward correction in precious metals.

There have been literally dozens of healthy market corrections in precious metals over the past decade, and each has proven to be a nice buying opportunity. Regardless, it is always a good idea for investors to check their premises. So let's review the premises, or fundamentals, that have been driving the precious metals bull market.

Premise #1

Uncle Sam's Debts and Unfunded Liabilities Are Too Massive to Be Paid; Inflation Is the Most Politically Viable Method of Default

It would be "game over" for the political class if they ever fess up and tell voters that they have squandered the nation's wealth – and cannot possibly meet all the promises they have made. Official government debt has now blown past $14 trillion. But that's only the tip of the iceberg. Underlying the federal government's debt pyramid: some $200 trillion in unfunded liabilities (factoring in all future Social Security and Medicare obligations, in addition to pension debts and other government guarantees).

Today, for every federal dollar spent, 43 cents in new debt is created. *And this is at current spending and revenue levels only, not taking into account the tens of millions of baby boomers who will soon swamp the Medicare and Social Security rolls.*

At existing levels of spending, federal debt is approximately 90% of GDP. Noted economists Carmen Reinhart and Kenneth Rogoff studied financial crises around the world over the past 750 years and found that 90% debt-to-GDP ratios represented a point of no return for governments and currencies.

As for the political system's ability to curb spending to avert a crisis, consider that the new Republican Congress has already backed away from a relatively small $100 billion in proposed budget cuts. House leaders now say that they may impose a 5% cut in Congressional spending operations, but virtually no one is talking about cutting spending for two U.S. wars along with major overseas deployments… much less tackling runaway entitlement spending.

Short of a currency crisis which pricks the government's spending bubble, at least 85% of the federal budget is politically off limits from cuts! Bureaucrats cannot tax their way out of this mess either, though they will almost certainly try. According to John Williams at Shadow Government Statistics, government confiscation of 100% of personal and corporate incomes would be still insufficient, even if taxpayers were willing to produce income under those conditions!

We are going to default – our obligations will not be met. It is theoretically possible that America will default outright. (This would be the more honest outcome.) But it would mean politicians must end the largess that they have promised their constituents. It would mean the Federal Reserve would have to stop creating currency out of thin air to buy U.S. government bonds (i.e., monetizing the debt) – an outcome just as unlikely as politicians telling senior citizens that they are going to have to forgo groceries because Social Security is bankrupt.

Consider the wailing and gnashing of teeth over the recent Deficit Reduction Commission's proposal that included raising the Social Security retirement age to 69 by 2075. Congressional leaders, shocked and dismayed by this modest call for austerity, announced the proposal was dead on arrival.

Politicians are turning once again to the time-honored

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techniques by which they can fake delivery on all current promises and even make some new ones. They are soon going to raise the debt ceiling so they can dig the nation's financial hole even deeper. When they can no longer borrow from China and other heretofore generous creditors, they will likely resort to printing currency to pay their bills. Everyone will get the dollars they were promised – they just won't be worth much, if anything, at all.

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Premise #1 remains firmly in place.

Premise #2

Governments Cannot Defy the Physics of a Falling Dollar

The good news for precious metals investors and Americans outraged by the relentless expansion of government is that our government is not exempt from the laws of physics.

The political establishment has spent several decades manipulating the statistics to convince us that debt, deficits, and printing fiat money make Americans more prosperous. Government planners cook the books, perennially under-reporting true inflation.

With the recent surge in commodity prices, including food, grocery bills are visibly higher (and almost entirely unaccounted for in "official" inflation data). Most of the public is getting squeezed.

The debt/inflation fueled mirage of prosperity is evaporating. Confidence in the currency – the fragile and subtle magic by which governments instill value in plain, ordinary paper – is waning. When a currency falls, prices of tangibles rise – and no amount of manipulation can alter this fundamental relationship.

The Premises Stand–

Now Choose Your Investments

With the premises which lead to dollar destruction confirmed, investors must choose from a specialized menu of assets that can help protect and grow their wealth. These include tangible assets and investments in developing countries with better growth profiles and more fiscal restraint than can be found at home.

Remember, however, that every currency in the world is fiat and therefore driven by political pressures. All currencies stand to lose value over time. Some currencies may be devalued before our own, and some won't be far behind. World economies are deeply intertwined, so even stronger-appearing nations may be swept into the coming inflationary maelstrom.

Investments in tangible assets – such as real estate and commodities – can also be prudent. Timing is everything though, and the massive overhang of distressed and foreclosed properties will be weighing on residential real estate prices for some time yet. Not to mention that real estate assets are irresistible to desperate, tax-hungry bureaucrats (and likely to become more so). As for physical commodities, the vehicles available for investing in such things as crude oil and corn are linked to the paper futures market, which is fraught with multiple layers of risk.

Nothing beats the security, privacy, and portability of physical precious metals. Unlike all other commodities, precious metals function efficiently as money. In a currency crisis, gold and silver offer the most reliable means of wealth protection available, as they have for thousands of years.

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Periodically throughout history, peoples have awoken to the reality that their governments have grown hopelessly overextended. They find themselves holding fistfuls of paper currency issued by said governments. Eventually they recognize they've been duped and move quickly to exchange it for something tangible, something with actual value and no counterparty risk. They demand gold and silver.

Physical precious metals were a good buy 10 years ago, and they were a good buy one year ago. They will remain a good buy, regardless of their fiat dollar price, until fundamental changes in the political and monetary order justify a change in our premises.

Do You Have Friends and Family Who

Just Don't Get It?

By Lee Bellinger

Let me tell you the true story of two friends. Both are bright. Both are disciplined and experienced investors. And both enjoyed an impressive winning streak in the past by mostly following conventional wisdom.

Yet as the financial world we have all known has changed under our feet, my two friends have reacted in completely different ways. One of these friends has listened to his inner voice that all is not well, rechecked his premises, and applied life-long common-sense lessons to changing circumstances. He is a bold, informed, outside-the-box thinker. My other friend simply dug himself in – even mocking the idea conventional thinking is wrong.

Thinking Outside the Box Is Necessary for Out-Pacing the Herd

I just enjoyed a holiday chat with my personal friend "Chuck" who followed my suggestion to convert some of his dollars over to silver when it was still $16 per ounce early last year. So when the subject came up, I congratulated Chuck for looking past the facade of King Dollar. That is no small task given politically manipulated, unreliable government statistics and their influence on billions of investment decisions – as well as the wearying chant from paper-pushing commission collectors in the investment establishment.

Chuck and a handful of his friends got tired of this Wall Street carnival barking, pooled their resources, and organized themselves to acquire quite a bit of physical silver. It was decisive and nicely executed – and they are up over 70% since.

To say the least, Chuck & Co. are enjoying the rewards and satisfaction of being brave enough to ignore the dogma when it counted.

Human psychology is a constant. Remember why so many people died in the Titanic disaster. When the great ship stopped and appeared to be stable in the water, few had the foresight to leave the warm interior of the Titanic for an uncomfortable rowboat in the desolate, freezing ocean. Which is why so many boats initially pulled away half to two-thirds empty. It wasn't until the great liner started listing and sending off flares that the masses caught on and swamped the remaining escape boats.

Similarly, the world's disembarking from a sinking dollar could eventually lead to a panic.

Unlearning Old Realities Can Be Extremely Difficult

My other friend "Peter" is also quite well educated. But he is deeply ensconced in what I see as a corrupt Keynesian mindset. Talk economics with him, and you get a macho attitude about dollar supremacy (derived from more than half a century of the dollar being the center of the global currency system).

Although he is politically conservative and claims to believe in free markets, he is, for whatever reason, unwilling to carefully question his premises. Even with gentle prodding as one does between friends, Peter is just not willing to consider the notion that the debt-consumption party can end, and that his investment strategies – even if long held – may have to be fundamentally reconsidered.

When I first urged friend Peter to diversify out of the greenback, he lectured me about gold being in a bubble (gold was under $800 an ounce at the time). The idea that America could march toward banana republic status... particularly under a Republican Party president? Patently absurd!

At the time, I teasingly threatened Peter that I would eventually reference these types of conversations as a learning tool for others. The cost and extreme hazard of being a dollar jingoist still afflicts so many of our fellow citizens, friends, and family members – *many of whom should know better*.

Just because you love America does not justify refusing to acknowledge the horrific economic fundamentals staring this country in the face. To the contrary, love of country is exactly what should drive us to sound the alarm and take appropriate action – before it's too late.

Store Physical Precious Metals

Inside Your IRA!

Did you know that your Individual Retirement Account (IRA) can actually take *direct ownership* of bullion coins, rounds, and bars?

Not only can you purchase, hold, and sell real precious metals with a tax-advantaged Self-Directed IRA account, but you can also withdraw your bullion and take direct physical possession of it under normal IRA distribution rules. Few Americans have any idea about these fantastic options!

To establish an account with an IRA trustee service like GoldStar Trust or Entrust, simply obtain an account application from **Independent Living Bullion**. Call **1-800-800-1865** or download the application from **www.IndependentLivingBullion.com** to get started.

Here's How a Precious Metals IRA Works

Step 1: Establish and Fund a Self-Directed IRA. Setting up such an account is little different than any other IRA account. File an application and then transfer or rollover the funds.

Step 2: Designate a Trusted Service Such as **Independent Living Bullion** as Your IRA Precious Metals Broker. **ILB** is an approved dealer at independent trustees like GoldStar Trust (1-800-486-6888) and Entrust (1-877-742-1270), and under your direction, can facilitate your IRA's purchases and sales of gold, silver, platinum, or palladium.

Step 3: Choose the Precious Metals Transaction That Fits Your Needs and Execute a Trade. Your IRA may hold a wide array of bullion coins, rounds, and bars – so long as they meet certain purity standards.

Step 4: Receive Payment Confirmation. Receive payment confirmation and track your shipment to or from a trusted, insured, secure vaulting service.

Platinum Bullion Offers Good Relative Value

At $1,800 per ounce, platinum may not be cheap in absolute terms. But on a relative basis, it is.

Historically, platinum sells for around twice the price of gold, reflecting the fact that it is much scarcer. In late 2008, the deleveraging panic drove the platinum:gold ratio to as low as 1:1, as the two metals briefly sold for the same price. The ratio recovered somewhat by early 2010 but has slipped since, dipping to 1.3:1 in January.

Platinum fell to a fresh 11-year low against soaring silver in 2010. And as measured against its sister metal palladium, platinum recorded an 8-year low. Platinum arguably has further to fall against both silver, which is more practical for most investors to hold, and palladium, which the automotive industry still finds to be more economic for use in catalytic converters than platinum at current prices.

Platinum hasn't gotten cheap enough versus palladium or silver to warrant trading out of either. And even though platinum is priced attractively right now in relation to gold, precious metals investors should continue holding onto their gold for its unique monetary characteristics. Nevertheless, if you are planning on adding to your existing precious metals holdings, now is an opportune time to favor platinum – especially if you don't already own any.

U.S. Mint Fails to Produce Enough Platinum Eagles to Meet Demand

Platinum bullion bars and coins are available, and platinum American Eagles are minted in limited varieties and quantities. The United States Mint mysteriously ceased producing standard Platinum Eagles in 2009, though it did release a proof version. In 2010, the Mint produced 10,000 Proof Platinum Eagles (we do not recommend paying the high premiums that come with all proof coins), which completely sold out in August. You can obtain regular Platinum Eagles, especially from years when mintage was high (such as 1998, when a record 138,500 coins hit the market), at lower premiums than those associated with the overly marked-up proof versions.

Meanwhile, Canadian Platinum Maple Leafs, Australian Platinum Koalas, Platinum Nobles, and PAMP Platinum Bars tend to be more readily available and priced lower.