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MONEY METALS INSIDER

An Insider Report for Clients of Money Metals Exchange

The Fed's Quest for Higher Inflation: What Could Go Wrong?

By Stefan Gleason
President, Money Metals

The Federal Reserve is warning investors in no uncertain terms that higher rates of inflation are coming. Yet markets, for the most part, have disregarded that warning.

Bond yields, for example, remain well below 2% across the entire duration range. Stock market valuations continue to reflect a sanguine outlook for inflation. And crude oil futures suggest limited upside pressure on prices.

It seems the Fed has a credibility problem.

In August, Fed Chairman Jerome Powell announced that the central bank would begin targeting an inflation "average" of 2%.

By the Fed's measures, inflation has been running below 2% in recent years. So getting to a 2% average in the years ahead will require above 2% inflation for a significant period.

Inside This Issue:

In September, St. Louis Fed president James Bullard doubled down on higher inflation. He said the combination of loose credit, huge government deficits, and supply bottlenecks caused by coronavirus lockdowns could cause an unexpected surge in price levels.

Billionaire hedge fund manager Stanley Druckenmiller is worried that the U.S. dollar will lose purchasing power much more rapidly than the 2% "average" the Fed is currently telegraphing. Druckenmiller recently said he sees inflation rates likely rising to 5% or perhaps even 10%.

The Fed's credibility problem could quickly morph from one of not being taken seriously on the risks of higher inflation… to one of not being trusted to keep it contained.

Perhaps gold investors know something that bond holders and most Wall Street analysts don't.

The gold market surged to a new all-time high in August before selling off in September. The major bull market appears to be intact, however, which means the next rally could lead to higher highs still.

If gold is a leading indicator of rising inflation – i.e., falling confidence in the value and credibility of the U.S. dollar – then investors should expect other assets to follow gold's lead. Instead of enjoying endlessly rising equity values, they may suffer from relentlessly rising food, fuel, healthcare, and other costs of living.

The upshot is that investors can own hard assets that

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may be set to follow gold to new all-time highs of their own in the months and years ahead.

Silver and platinum, for example, remain relatively cheap. They could each double in value from their current levels in terms of dollars and still have room to run before making new nominal highs – let alone real (inflation adjusted) highs.

Gold and Silver's Response to Inflation Should Be Spectacular

If inflation expectations fundamentally shift from doubt that the Fed will ever achieve its 2% "average" to fear that it might overshoot, then precious metals could see a spectacular rise.

They won't merely go up a few percent to reflect a gradual rise in inflation. They will go up multiples to reflect surging investor demand for safe havens.

We saw a preview of that phenomenon in the first half of the year in the midst of coronavirus lockdowns. Demand for bullion went bonkers, sending spot prices and coin premiums sharply higher in a very short amount of time.

A new inflation upcycle can be expected to last much longer and produce much more dramatic results on the charts for metals.

The last true mania phase in gold and silver occurred during the inflationary late 1970s. History doesn't repeat exactly, of course, but it does give us a rough guide for what could unfold for investors facing a similar environment:

- Severe real losses on cash savings, bonds, and other fixed income instruments.
- A sluggish stock market that fails to keep up with inflation, except for a few select sectors.
- A spectacular rise in precious metals prices.

Yes, manias do ultimately end badly. But in the case of hard assets like silver, which have been depressed for years, they are far closer to a major bottom than to a mania peak.

As long as the Fed remains committed to depreciating the currency at a more rapid pace and punishing savers with negative real interest rates (it has vowed to keep its Funds rate near zero through 2023), the major trend for precious metals should remain HIGHER.

Coin Scammers Strike Again, Get Nailed with Unprecedented Government Lawsuit

Bad actors within certain segments of the retail precious metals industry continue to prey on people who are looking to acquire gold and silver bullion.

Regulators in 30 different states recently joined together with the Commodities Futures Trading Commission and filed an unprecedented federal lawsuit and enforcement action against a company accused of operating a large-scale precious metals fraud scheme.

The company, Barrick Capital (a.k.a. Chase Metals, Metals.com, etc.) is accused of targeting mainly elderly customers through traditional and social media.

Once they were identified as prospects for buying gold or silver, the victims were apparently subjected to aggressive sales tactics from boiler-room phone banks, pressured to liquidate stocks in their IRA accounts, and sold "Canadian Polar Bear" and other bullion coins priced 100% to 300% over the actual melt value.

The scheme went on for several years, with the owners of the company shifting operations from one company to another in their ham-handed attempts to side-step regulators and investor complaints.

All told, this company and its owners allegedly took vulnerable investors for about $180 million.

According to Washington State Department of Financial Institutions administrator Bill Beatty, "These defendants showed great disregard for the truth in failing to disclose that virtually every investor lost the majority of their funds in the investments the firm was hawking."

Mississippi Attorney General Lynn Fitch said they "were preying on seniors and other vulnerable persons, grossly misrepresenting the value and likelihood of financial profit of the investments they were selling and scamming consumers out of their retirement savings."

Even as gold spot prices surged to an all-time record high this year (and silver more than doubled off its low), buyers of these ridiculously overpriced coins still lost money on them.

The way to ensure that never happens to you or to someone you love who may be new to precious metals is to be informed!

Money Metals Educates Americans on How to Recognize a Bad Deal

Part of our mission at Money Metals Exchange – from the very founding of our company over a decade ago – has been to educate Americans to recognize and avoid the bad actors that still operate in our industry.

In fact, these slimy outfits may become even more prevalent as millions of new Americans wisely seek ownership of physical precious metals in the current environment of exploding debt, money printing, and economic devastation.

Some of the gold dealers you see advertising on TV – especially those with high-priced celebrity spokespeople – are running unethical schemes. They gather leads and then hammer the prospects with high-pressure phone calls in an attempt to peddle their super-marked up gold and silver products, usually in the form of proof, commemorative, or

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supposedly rare coins.

Fortunately, it's fairly easy to determine whether you're buying the right kind of precious metals product from the right kind of dealer.

The right kind of product is one that derives nearly all of its value from its actual metal content. Expect to pay only a modest premium over current spot prices to cover minting costs plus the dealer's costs of doing business.

Unless you are an experienced collector, avoid graded coins. They're frequently sold at ridiculously high premiums.

There can be periods of time – such as this year – where high demand and the resulting shortages cause premiums on coins, bars, and rounds to rise to some extent, but there are usually other items available where the higher premiums can be avoided.

Avoid "Rarities" and Always Know the Melt Value

Always know the melt value of what you are buying… and make sure any markup you pay over that melt value is reasonable.

As for much larger "collectible," "numismatic," or "rarity" premiums, these are entirely avoidable. Any coins marketed as such should be avoided entirely unless you have a keen interest in this highly specialized segment of the coin market and know in advance exactly how much premium you're willing to pay.

Otherwise, any dealer who tries to convince you that high-premium specialty products are a better buy than common low-premium alternatives is probably trying to rip you off.

You can also check out a dealer's reputation online and with the Better Business Bureau before becoming a client. And test a dealer's customer service by making a call and asking a few basic questions about the ordering process.

We are certainly proud of the reputation we have built over the years at Money Metals Exchange. We have been named "Best in the USA" by an independent global ratings group.

We will continue to work hard to keep our reputation as a highly trusted dealer – and to educate the public about avoiding the rip-offs and scams.

Not only are bad actors discrediting our critically important industry, but their abuses could lead to a regulatory crackdown that harms legitimate dealers and their customers through higher compliance costs, higher barriers to entry, clumsy restrictions, and undue invasions of privacy.

Frequently Asked Questions

About Gold and Silver Investing

We get lots of questions from the public about precious metals. Some people are curious about the basics. Others are skeptical about the case for owning gold and silver. Still others are longtime customers who have highly specialized inquiries.

Here we will answer a few of the most common, most broadly relevant questions we get…

Even if you're a seasoned metals investor, you can surely find value in this FAQ. Just about every gold and silver bug has been hit with questions from doubting friends and family members to the effect of, "What's the point in owning these shiny objects?"

QUESTION: Which bullion products offer the absolute lowest premiums?

ANSWER: Privately made bars and rounds, as opposed to government issue coins, are hard to beat when it comes to low premiums. That is why Money Metals recommends these lower premium items so often.

Investors will often find the combination of uncirculated beauty and low cost to be a "sweet spot." About the only way to lower costs even further is to make some compromises when it comes to condition.

It is sometimes possible to buy scratched, dented, and/or tarnished items at a discount. Investors who don't care much about aesthetics may be able to get slightly more precious metal for their dollars.

We classify scratched or dented gold and silver items as "Bargain Bin," and they are discounted at MoneyMetals.com.

QUESTION: Why are gold and silver prices quoted in troy ounces?

ANSWER: Precious metals have their own unique unit of measure known as the troy ounce. It's been around since the Middle Ages and is believed to have originated from traders in Troyes, France.

When you see gold or silver prices quoted "per ounce," it really means "per troy ounce." In effect, a troy ounce is more than 10% heavier than a common Avoirdupois ounce. A troy ounce is equivalent to 31.1 grams or 480 grains, whereas a common ounce translates into 28.3 grams or 437.5 grains.

QUESTION: Will I have to pay taxes when purchasing or selling precious metals?

ANSWER: With respect to the federal income tax, shady IRS bureaucrats have miscategorized gold, silver, platinum, and palladium bullion coins, bars, and rounds in the "collectibles" category, despite the fact that most such items carry no collectible premiums.

As a result, if you sell your metals with long-term capital gains, your tax rate is 28% rather than the 15% (or 20%) rate on other types of capital gains. Bullion held less than one year is taxed at ordinary rates, just like short-term capital gains on stocks or bonds.

It's confusing (and unfair), but that is the way it is until the U.S. Treasury changes its regulations or Rep. Alex Mooney (R-WV) passes his Monetary Metals Tax Neutrality Act (H.R. 1089) which would end ALL income taxation on precious metals.

Meanwhile, as a result of a 2018 U.S. Supreme Court ruling in *Wayfair v. South Dakota*, tax hungry state bureaucrats have the power to reach outside their states and force remote sellers like Money Metals to assess sales taxes on behalf of those states, where applicable.

Fortunately, 39 states exempt some or all precious metals from sales tax, thanks, in part, to the work of the Sound Money Defense League (www.SoundMoneyDefense.org).

The Silver Price Is Headed Towards All-Time Highs

*David H. Smith, a popular contributor to **MoneyMetals.com** and senior analyst at **The Morgan Report**, shared some thoughts recently on the precious metals market and the global economy as a whole...*

"For 5,000 years, gold and silver have been real money; honest money that people have flocked to in times of need," Smith said. "This is now a global phenomenon."

"In 1980, the U.S. bull run saw gold prices reach $850/oz and silver prices leap to $50/oz. But that was a relatively limited affair when you compare it to the global phenomenon that we bear witness to today," he said.

Today, in all parts of the world, people are trading their local currencies for precious metals to hedge against growing market uncertainty.

Indeed, the rush to gold has spilled over from the U.S. market and can now be seen in parts of Asia and Europe. Turkey, for example, purchased several billion dollars' worth of gold as their currency began to collapse against other global currencies. There were even reports of the Turkish population having to trade in their prized possessions for gold.

Pre-1965 dimes and quarters continue to be a low-premium way to acquire silver ounces.

"This shows that the public is just starting to get involved," he said. "The bull trend is very much intact."

It doesn't much matter even if gold and silver first decline below $1,800 and $22 respectively. Sure it might be "painful" but what's been happening so far is that when prices drop, physical (and miners') buying volume increases. Yet when prices rise, buying still goes up!

Silver Won't Take Any Prisoners Once It's Running

"When people refer to technical analyses of silver, they are sometimes surprised to see the metal's price drop to unprecedented levels," he said. "But silver just has the habit of doing that."

The problem, he said, was that investors are typically quick to sell their stocks and metals based on these technical analyses. "Before they know it, [the price] will turn around and head up again."

Elaborating further, Smith referred to silver's move earlier this year.

"Silver had a terrible time trying to get past $20/oz for years, so everyone thought it would punch through $20 and then work for months to get past $22.5," he said. "But that didn't happen. Instead, it cut through $20 like butter, and it didn't stop at $22.5; it landed just below the $30 mark."

"Based on the supply-demand fundamentals, and silver's history of being undervalued, we see the metal's price reaching the three-digit level in the next few years," he said. "The public recognition factor, with both gold and silver, will kick in."

Gold and silver prices have historically traveled in similar directions, he continued, with an 85% correlation in terms of directional movement. But silver is the real winner for Smith.

"Historically, silver has increased in value faster than gold," he said. "Over time, silver will increase up to several times more than gold on a percentage basis." The reason for this, Smith continued, is that silver is both an industrial metal and a money metal.

"For the past twenty years, silver has been held down for several reasons," he said. "Now, it's starting to break free, and though it will likely be an irregular move accompanied by some momentary weakness, it will find its way up."

"It's known as the restless metal for a good reason," he said.

The Case for a Platinum-Plated Metals Portfolio

By Stefan Gleason
President, Money Metals

Do precious metals still represent good value?

With gold just coming off a new all-time high above $2,000/oz and silver having more than doubled off its March bottom, some investors may be wary of entering these markets right now.

However, when adjusted for inflation, when measured against the stock market, or when compared to total money supply, a strong case can be made that gold is not yet overvalued – and that silver remains undervalued.

Investors who are seeking an even more deeply undervalued opportunity within the metals space should take a look at platinum.

Historically speaking, platinum is greatly undervalued as compared to gold.

What makes the case for platinum in particular compelling compared to other metals? In a word, scarcity.

Platinum is more than twenty times rarer than gold. It is so rare that all of the platinum ever mined could fit into a room measuring 25 feet by 25 feet.

Of course, being scarcer than gold doesn't necessarily make it more valuable. In recent years, Mr. Market has decided that gold is more valuable than platinum, with the latter facing some negative fundamentals.

An ounce of gold currently commands about double the price of an ounce of platinum. But historically, platinum has more often sold at a premium to gold.

The opportunity for investors is that mean reversion could take platinum back up to a 1:1 ratio with gold and then perhaps a healthy premium over the yellow metal. That would deliver buyers of platinum at current prices returns measured in multiples even assuming gold prices go nowhere.

What about the risk that platinum goes nowhere? The case against platinum is that its demand profile is very narrow, dominated by the automotive industry, and is generally not held in monetary reserves like gold.

In large part due to a big diesel-emissions scandal a few years ago, platinum has been out of favor for use in auto catalysts as manufacturers have turned more to its sister metal palladium. But with palladium now costing more than double what platinum does, incentives for substitution are strong.

There are also incentives for investors to substitute or supplement with platinum as part of their hard asset mix. Inflows into the top platinum exchange-traded fund have surged this year along with the broader wave of gold and silver buying.

It won't take much of an increase in demand for platinum to overwhelm mining supply. The platinum producing industry, such as it is, will struggle to arrest declining output levels.

"Beset by power and water shortages, alongside whipsawing government policies, South African producers have cut spending over the past decade on mines responsible for 75% of global platinum supply," reports Bloomberg.

The article continues, "Platinum output peaked in 2006, and the lack of investment in deep-level Western Limb shafts will result in a further sharp contraction in production over the next 10 years."

Platinum Is Set to Become Scarcer and Scarcer

The bleak supply picture is, for now, clearer than the demand outlook. Industrial demand could continue to slump if automakers shun platinum for palladium and focus increasingly on electric vehicles that require no catalytic converters.

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At the same time, however, platinum is a key component in certain fuel cell technologies. The white metal is used in cancer-treatment drugs, and platinum-cured silicone mixtures are used in a range of personal care products from lipsticks and shampoos to contact lenses.

More than likely, the ultra-dense metal will find additional practical applications and will likely see growth in both jewelry and bullion demand.

As a hard asset, platinum should benefit from the inflationary environment the world now faces. Meanwhile, if there's an economic recovery, platinum prices would receive a new tailwind from rising industrial activity.

You can buy platinum American Eagle coins as well as individually sealed/assayed pure platinum bars produced by reputable private mints.

As platinum sales tend to be a small fraction of gold and silver sales for most dealers, inventories of platinum products may be sparse, and premiums and bid/ask spreads can widen when market conditions are tight.

Some dealers will try to make the most out of the occasional platinum transaction by pushing heavily marked up "proof" coins. An investor who is simply looking for an efficient way to accumulate platinum should avoid these types of products – and these types of dealers.

Money Metals Exchange is proud to offer the most efficient way for individual investors to accumulate physical platinum bars – Vault Platinum. Through this program, you can buy physical platinum securely stored with Money Metals Depository without the markup of minted bullion products. And you get the ultimate in security for your platinum by storing in our Class 3 state-of-the-art vaults.