SPRING 2019

MONEY METALS INSIDER

An Insider Report for Clients of Money Metals Exchange

What Soaring Palladium Prices Mean for Silver

By Stefan Gleason

President, Money Metals

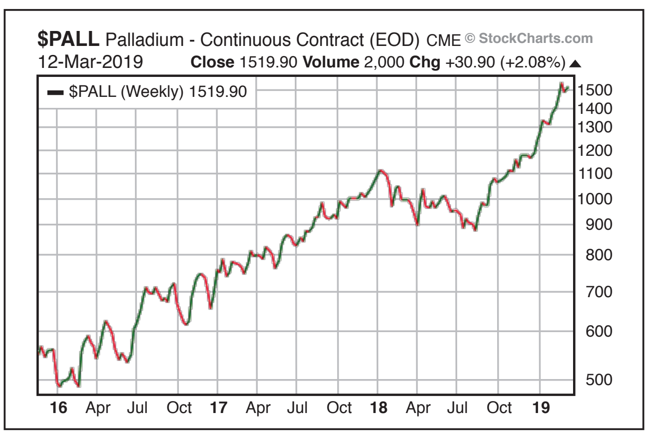
A once-rare property crime is now trending higher around the world. Thieves are stealing precious metals from automobiles.

These opportunistic criminals don't bother rummaging through glove compartments in the hope of finding stashed jewelry or gold coins. Instead, they go for the certain score of exposed catalytic converters.

A car's catalytic converter is attached to its exhaust system and converts toxic emissions into less harmful byproducts. It contains corrosion-resistant noble metals – typically platinum, palladium, and/or rhodium – in relatively small quantities.

Those relatively small quantities are valuable, especially in the case of palladium. "Soaring palladium prices are inspiring an unusual band of criminals: catalytic converter thieves," reported the *Wall Street Journal.*

In March, palladium prices spiked to a record $1,600/oz. They appear poised to set more records this spring.



Palladium prices have tripled since 2016, and palladium often leads the other precious metals.

Fears of a chronic supply deficit are prompting not only thefts, but also panic buying of palladium by industrial users and abnormalities in futures and leasing markets, including backwardation and double-digit lease rates.

Since early 2016, the palladium spot price has more than tripled – from just under $500/oz. to over $1,500/oz. Despite the huge move, demand for palladium continues to outstrip supply. The move may be far from finished.

However, long-term investors who are focused on finding value – who aim to buy low when markets are depressed and out of favor – likely won't find palladium attractive at these lofty levels.

But they may find palladium's recent tripling encouraging for the prospects of other metals that have been beaten down and overlooked by most investors.

Platinum, for example, now trades at a historically

Inside This Issue:

Q & A: Answering Your Questions 4

Own Genuine Gold Bars
On a Cookie-Jar Budget! 6

Warren Buffett's Confusion
& Disorientation about Gold 7

See Silver Mania Ahead?, next page

Silver Mania Ahead?
continued from previous page

large discount versus its sister metal, palladium. The discount (now over $700/oz) is all the more interesting given that platinum is a viable substitute for palladium in catalytic converters.

Of course, automakers can't switch to the cheaper precious metal on a dime.

In recent years, they have opted for palladium in most non-diesel gasoline vehicles. They'd have to retool their production process for platinum-based converters.

The longer platinum remains deeply discounted, the more switching can be expected.

New demand for platinum would help close the price gap with palladium. Since both metals' fortunes are heavily tied to automotive demand, they are also vulnerable to a potential downturn in auto sales due to recession – and, longer term, to growth in the market share of electric vehicles, which have no emissions systems.

Electric vehicle batteries do require other metals – including lithium, cobalt, and nickel. The computer-controlled electronic systems in today's cars also contain some silver.

Meanwhile, the solar panel systems that alternative-energy enthusiasts imagine will one day power every vehicle and home in the country are one of the fastest growing industrial sources of silver demand.

Unlike platinum and palladium, silver has a long history of use as money. Even though silver is no longer minted into coins meant for circulation, it is still sought after by investors in coins and other forms for wealth preservation, inflation protection, and possible future use in barter or trade.

Money Metals offers low premiums on undervalued platinum coins and bars.

Like platinum, silver looks extremely cheap when measured against palladium. Over the past three years, while palladium has tripled in price, platinum has actually lost a few dollars. Silver is essentially unchanged over that period.

Silver is so cheap at under $16.00/oz. that even if it follows in palladium's footsteps and triples in value, it will still sit *below* its former all-time high of $49.50/oz.!

What other asset class offers the opportunity to triple your money as a warm-up before prices break to new highs? Not stocks. Not bonds. Not real estate.

The value opportunity that now exists in silver is unique, but not unprecedented. Silver has been extremely depressed before… and gone on to post spectacular bull market gains.

If silver enters a mania phase like it did in the late 1970s, you can expect to see all sorts of headlines about supply deficits, panic buying among industrial users, rampant speculation in futures markets, a possible default on futures contracts for physical metal, thieves and scam artists coming out of the woodwork, and so on.

Right now the mainstream financial media isn't finding much to write about in the silver market. Big banks and other institutional traders take out enormous short positions in the COMEX, confident

See Silver Mania Ahead?, next page

Money Metals Insider
published by **Money Metals Exchange**

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*
Directors:
Clint Siegner – clint.siegner@MoneyMetals.com
Mike Gleason – mike.gleason@MoneyMetals.com
Monthly Program – monthly@MoneyMetals.com
www.MoneyMetals.com

Silver Mania Ahead

continued from previous page

that speculative "buyers" on the other side won't demand to take delivery of physical metal.

The shenanigans that take place in rigged paper markets are just business as usual…for now.

But when real physical shortages emerge, the price-suppression efforts on the futures markets may finally fail spectacularly. The most vulnerable market right now is palladium.

Craig Hemke of the **TF Metals Report** warns the COMEX could declare a force majeure because only 42,000 ounces of palladium exist in their vaults – only enough for 420 contracts.

Losses on palladium contracts gone bad could dwarf losses caused by catalytic converter thieves!

A similar leverage factor exists in gold and silver markets, where only a tiny fraction of futures contracts is covered by physical inventories. A futures contract on a precious metal does not amount to actual physical ownership.

The only way to make sure you participate fully in a bull market for a scarce metal is to own it in physical form... and secure it from thieves.

Answering Your Questions

Client communications are a priority for us. When you call, we have live precious-metals specialists in the United States answering the phone and ready to provide service. If you need support by email or by live chat, we respond promptly. This is, of course, good business as it makes for happy customers!

However, it is great for another reason. A big part of what we do is provide timely and useful articles and podcasts you can use to stay current on developments that impact the metals markets and your investments. It helps us immensely to know what our clients are thinking about and what questions they have…

Question: I've noticed premiums are rising on silver rounds and bars. What's going on?

Answer: Two of the largest private producers of bullion bars and rounds in the U.S. have gone defunct over the past two years. Premiums for silver bars and rounds are already on the rise as markets adjust to the lack of supply.

Two major mints have blown up in the past two years.

At present, demand for these products is manageable. A surge in buying activity, however, could lead to serious difficulty finding low-premium products.

Elemetal shut down most of its operation in early 2017. The firm was implicated in a scheme to launder money for South American drug cartels and lost its designation as an LBMA- and COMEX-approved refiner. That loss was the kiss of death for the firm, which soon shuttered most of its production.

Florida-based Republic Metals had a blow-up of its own late last year.

The firm's problems kicked off when an internal audit revealed nearly $100 million in physical metals at its Miami facility could not be accounted for. Banks withdrew lines of credit on the news, and a deal to sell the company's assets was not completed in time to avoid a bankruptcy filing last November.

Republic Metals' considerable production capacity has been offline for five months now. A Japanese refinery called Asahi bought the plant and equipment out of bankruptcy, but when it will be put back into production remains uncertain.

These developments leave the bullion markets in a vulnerable condition. Demand for fabricated silver rounds and bars ticked higher this winter. The effect on premiums was immediate, and some dealers are now quoting lead times for certain products.

Buying appetite from investors remains well below what it was a few years ago. During the peak demand period, both Elemetal and Republic ran multiple shifts in an effort to keep up.

Should even a portion of that demand return to markets, the current production capacity will be swamped quickly.

We would expect buyers to respond to higher premiums and delivery delays by opting for sovereign coins, such as American Eagles or Canadian Maple Leafs, instead. Prices would likely rise across the board for all bullion products, and some products may not be available in quantity at any price.

Bullion investors should be aware of the lowered production capacity and plan accordingly. Any supply crunch and corresponding spike in premiums could even present an arbitrage opportunity for those wanting to swap

See Answering Your Questions, next page

high-premium items into large bars.

Capacity will eventually catch up. However, that process can take many months, perhaps even longer. People with plans to buy physical metal in the near future may want to move sooner rather than later.

Question: **I know that privately minted bars and rounds are less expensive than sovereign coins. Is there any product with even lower premiums?**

Answer: Privately made bars and rounds, as opposed to government-issued coins, are hard to beat when it comes to low premiums. That is why we recommend them 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 compromise when it comes to condition. It is possible to buy scratched, dented, and/or tarnished items at a discount. Investors who don't care much about aesthetics, or don't mind cleaning tarnished items, can get more precious metal for their dollars.

Tarnished and scratched bullion products are a reality of the market, and they are therefore easy to trade.

Money Metals constantly buys metal from our clients throughout the country. A few of these items arrive with condition issues. When that happens, the purchase price is discounted slightly, but the transaction is completed without hassle or delay.

When it comes to silver, tarnish is the most common issue. Gold does not tarnish, but can be more prone to scratching and denting because of its softness or even copper spots.

We classify all scratched or dented gold and silver items as "Bargain Bin." Privately minted silver bars and rounds with tarnish are also given this designation. Silver American Eagles and silver Maple Leafs with spotting or tarnish, but in otherwise good condition, have their own categories.

As we receive items with condition problems, we categorize them properly and then offer them at a discount to clients who aren't worried about beauty. There are plenty of investors of this description, and we usually have some stock available for them.

The math behind buying "bargain bin" bullion can be compelling. Maximizing the number of ounces of metal investors get for their money is going to be a winning strategy in most bullish scenarios. If metals prices rise substantially, more ounces will mean more profits.

That said, while you can save some money buying these items, you should also expect to get a bit less than you would for items in good condition when it is time to sell.

We typically only recommend "bargain bin" metal to investors who know what to expect. Gold and silver bullion products are manufactured to be beautiful, and we know from experience that most people will be happier with some serious gleam in their safe.

Question: **Can tarnished coins be cleaned?**

Answer: Cleaning non-collectible bullion coins, rounds, or bars can be done to improve the appearance of the items, but must be done with care.

Cleaning numismatic (collectible) or semi-numismatic coins is not recommended. Tarnish and "toning" may actually improve the value of those coins in some cases. Even if the tarnish does not add to the value, cleaning is almost always a bad idea. Cleaned numismatic coins generally lose most, if not all, of their value as collectibles.

Own Genuine Gold Bars
On a Cookie-Jar Budget!

Money Metals' HUGE Savings Offer on Solid Gold Bars

LIMITED-TIME SAVINGS – Do you have a Mason jar or perhaps an old coffee can full of loose change? What are your plans for all that devaluing "loot" that's currently collecting dust on your dresser?

Sure, you could use those nickels and dimes to feed the meter, or maybe pay the pizza delivery guy. OR you can turn that "chicken feed" into Pure Gold Bars that add to your lasting asset value – with tiny retail prices starting at just above $50 per bar from Money Metals today –

*especially since we just scored a **HUGE DEAL** on newly minted solid gold bars, and we've decided to pass our windfall savings on to you.*

True, the gold bar you buy with your spare change is NOT going to be the size and weight of a brick. And you won't need two hands to lift it.

But it will be made of .9999 pure precious metal – unlike the "mystery metal" (some combination of zinc, nickel, and copper) the U.S. Mint dumps into today's cheap, devaluing coinage.

Or maybe you have a "spare" checking or money-market account with a few hundred bucks in it that's really not doing much for your long-term financial security.

Converting that parked, devaluing cash to real gold could help preserve your asset value.

And with bar sizes ranging from one gram to ten grams and even up to full ounces, Money Metals can literally match our gold bar offerings to your exact personal budget.

No matter what steps you take to get the funds, you'll take advantage of our recent "sweet buy," bringing you pure gold bars at some of the smallest premiums we've been able to present in years...

1 gram gold bar – The gram is the world's standard unit of mass, equal to the mass of one milliliter of water. All scientific measurements of mass are built upon this unitary measure. And no commodity on earth is more widely recognized than gold.

We are currently offering gram bars for about $52, any quantity. Raid your cookie jar, your sofa, your glove box, and your spouse's laundry, and you'll easily afford at least 1-2 bars.

2.5 gram gold bar – Step up to the next largest size for an ultra-affordable entry price, currently around $115 per bar, any quantity. A far better store of value than a jar-full of pocket change.

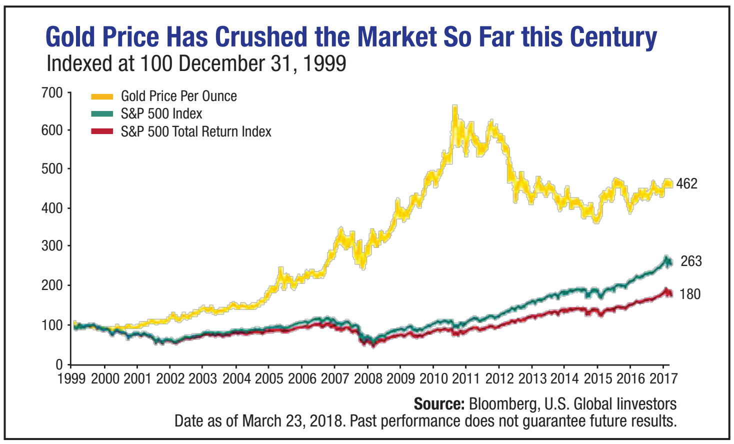
See Own Genuine Gold Bars, page 8

Warren Buffett's Confusion & Disorientation about Gold

By Clint Siegner
Director, Money Metals

Warren Buffett built a vast fortune investing in the shares of publicly traded companies. He has long been critical of gold. His most recent annual letter to Berkshire Hathaway shareholders takes another swipe at the precious metal and implores readers to buy stocks instead.

Before his fans start dumping gold and calling their stock brokers, we thought it would be worth examining Buffett's argument.



Contrary to Buffett's diatribe, gold has vastly out performed stocks so far this century.

Buffett started investing in 1942. He bought $114.75 worth of shares and says had that amount been invested in a no-fee S&P 500 Index Fund, the current value would be $606,811.

He compares that to making a different choice and buying gold:

To "protect" yourself, you might have eschewed stocks and opted instead to buy 3 1⁄4 ounces of gold with your $114.75.

And what would that supposed protection have delivered? You would now have an asset worth about $4,200, less than 1% of what would have been realized from a simple unmanaged investment in American business.

It sure looks like a no-brainer. Only suckers would buy gold when they can buy stocks instead, right?

But hold on a second...

The comparison leaves out some critical facts. For starters, there was no such thing as an S&P 500 index fund in 1942. The notion of investors buying a "no-fee" variety of an asset type that didn't exist is even more unfair.

The S&P 500 Index as we know it began in 1957, and the first index fund representing a basket of those shares launched in 1976. Prior to that, investors would have been forced to pick stocks and take even more risk.

Most would not have had the fortitude and discipline to manage a portfolio of stocks and get the sort of returns Buffett is implying. Of the 500 companies initially included in the 1957 index, only 60 remain. Plenty of those firms failed, and their share prices went to $0.

Shares of any stock can become worthless while physical gold cannot. Buffett neatly sidesteps the concept of risk with his comparison.

Buffett also fails to mention the gold price was tightly controlled for the first 30 years of his comparison period. While shares of public companies were free to appreciate as America clawed its way out of Depression and war in what was perhaps the greatest economic boom of all time, gold was officially suppressed. The U.S. government fixed the price at $35/oz and then $42/oz from 1934 to 1971.

In truth, Buffet could not have bought gold in 1942 had he wanted to do so. Franklin Roosevelt had long since outlawed private ownership of gold via Executive Order 6102.

Most importantly, Buffett may think of gold purely as an investment asset, but he is sadly mistaken.

Gold is money, and it continues to be treated that way by governments and central banks around the world.

See Warren Buffett's Confusion about Gold, next page

Warren Buffett's Confusion about Gold

continued from previous page

It has very different properties than shares in a company, and the reasons to own it are different.

It would be fairer for Buffett to compare putting $114.75 into a bank savings account versus buying gold in 1942. That would make gold look very compelling indeed as a sounder form of money.

Gold has also proven to be a more profitable investment than stocks throughout some entire decades. Gold outperformed the S&P 500 by multiples during the 1970s and did so again from 2000 (as the previous chart reveals).

Perhaps the biggest blind-spot in Buffett's analysis is the same one that plagues mainstream investors everywhere. Buffett is a victim of normalcy bias. He expects the next 77-year period will be similar to the last. But it almost certainly won't be.

Gold is a far more reliable form of money.

Buffett should broaden his view to include events that are far more likely than another eight decades of nearly uninterrupted prosperity and growth. One of these is hyperinflation as the U.S. dollar follows the well-trodden route of other fiat currencies into destruction.

The last eight decades were built upon an Everest-size mountain of borrowed money, much of which has propelled Wall Street and the equity markets to heights they could not have reached otherwise. Buffett should not expect that to repeat. Swapping some of his Berkshire Hathaway shares for physical metal might well prove to be a prudent move.