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MONEY METALS INSIDER

An Insider Report for Clients of Money Metals Exchange

Commodity Cycle Upturn to Lift Precious Metals Prices

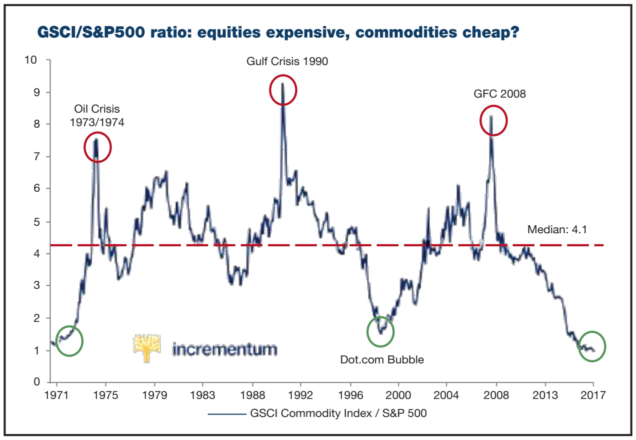
By Stefan Gleason

President, Money Metals

Safe-haven demand for physical precious metals came in soft through the first half of the year as a rising stock market reinforced investor optimism toward the economy.

U.S. stocks are expensive by just about every valuation measure you can think of – price/earnings, price/sales, dividend yield, total market capitalization as a percentage of GDP, etc. Even Fed chair Janet Yellen remarked recently that equity valuations appeared “rich.”

The inverse of the extreme overvaluation in equities is the extreme relative cheapness of hard assets. Commodity indexes entered the summer at generational lows in real terms.



Commodities are currently at a historical low versus the stock market.

The perception has been that the world is awash in plentiful, cheap oil. Just a few years ago, with oil over $100 per barrel, the headlines blared warnings about peak oil and supply shortages. At major cyclical turning points in commodity markets, the news tends to reinforce whatever trends brought about major highs or lows in prices.

What investors need to keep in mind is that commodity markets are always cyclical in nature. No matter how bullish or bearish the outlook happens to appear at any given time, prices will eventually turn and trend in the opposite direction.

Oil and agricultural commodities perked up as summer officially began. Whether it’s the start of a major cyclical bull market remains to be seen. But the supply and demand fundamentals are setting up bullishly for commodities markets.

Lower Prices Stunt Production & Shortages Push Up Prices

The cycle for any commodity follows the same basic pattern. When prices are low, production falls. As new supplies diminish, the market tightens and prices move higher. The higher prices incentivize producers

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to invest in production capacity and increase output.

Eventually, the market becomes oversupplied, prices fall, and the cycle starts all over again.

As a resource investor, it's important to have some idea of whether you're investing in a commodity at a time in the cycle when it's favorable to do so. Gold, for example, tends to be less correlated to swings in the economy than oil and industrial commodities. It responds more to investor fear and flight from paper asset markets.

Gold prices crashed from $850/oz in 1980 to $300/oz in 1982. It wasn't until 2002 that gold crossed above the $300 level for the final time. The new gold bull market rose out of a 20-year base and reached a cyclical high of $1,900 in 2011. A four-year downturn followed, and since 2016 a new cyclical upturn appears to be taking shape.

Chart reading is always a tenuous undertaking, but when combined with supply and demand fundamentals it can help investors identify favorable times to be a buyer or seller. Right now it appears that gold, silver, oil, and other commodities are transitioning one by one into a period in the commodity cycle of diminishing supply.

In the case of crude oil, the major storyline in recent months has been a supply glut. North American shale production has swelled inventories in the U.S.

The longer-term supply outlook actually augurs for shortfalls… and much higher prices. According to the International Energy Agency (IEA), new oil discoveries last year sunk to their lowest number in decades.

The IEA warns that in order to offset recent declines and meet rising global demand, the oil industry will need to develop 18 billion new barrels every year between 2017 and 2025. Oil's recent price range in the low $40s to $50s per barrel doesn't seem to be incentivizing the necessary new production capacity.

Higher energy costs would mean higher production costs for the gold and silver mining industry. Mines are already having to process more and more tons of earth to extract ounces of precious metals.

According to metals analyst Steve St. Angelo, "The global silver mining industry will continue to process more ore to produce the same or less silver in the future. While the cost of energy has declined over the past few years, falling ore grades will continue to put pressure on the silver mining industry going forward."

The cycle appears to be in the early stages of turning bullish for commodity prices – making it a favorable time to be taking out long positions in hard assets. That doesn't necessarily mean metals markets will immediately begin moving up in a big way.

Gold and silver still face potential headwinds from two sources: first, another Fed rate hike or two before year end; and second, a vowed gradual reduction of the central bank's QE-bloated balance sheet, which could cause longer-term bond yields to go up.

Contrary to popular misconceptions, nominal increases in interest rates aren't inherently negative for metals prices. More important is whether inflation and expectations of future inflation rates are rising or falling relative to interest rates. If oil prices break out of their trading range to the upside, that could help ignite inflationary fires.

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Money Metals Depository to Open New Facility This Summer

Bullion investors know governments are fickle and sometimes change the rules to suit their whims. They know the U.S. government has piled up more debt and obligations than it can hope to meet, and they can see the ramifications. Fiat currencies die – often spectacularly.

That's why lots of proponents of holding physical bullion insist that you must take possession of the metal you buy. "If you can't hold it, you don't own it," they say.

That's good advice. The simple truth is that if your metal is not under your direct control and you rely upon a third party, you are assuming some risk (even as you may be minimizing other risks).

It is hard to beat the privacy and control that comes from taking personal possession of physical bullion. We recommend everyone do that with at least a portion of what they own. However, there are at least a couple of scenarios when outsourcing the storage of your metals makes perfect sense.

The first scenario involves physical security of the metal.

Theft is always a risk. And some investors live in places with a higher risk of burglary or home invasions. Perhaps they live in a tough neighborhood. Or maybe someone in the family is battling drug addiction and acting desperately.

Investors with large holdings may also decide that putting all their bullion in a single location represents too much concentration of risk. Storing at a depository might make better sense than stuffing the basement safe with a life savings' worth of metal.

Third-party storage also makes sense when it comes to precious metals IRAs.

IRS rules require the assets in retirement accounts be held by a third party, but that does not mean investors are stuck with paper. They can buy physical gold and silver inside their IRA and arrange for segregated storage.

When the need for third-party storage trumps other considerations, an investor can choose to hold some or all of his metals in an insured, audited non-bank depository that offers a UL-rated Class 3 vault and 24-hour monitoring. That's exactly what Money Metals Depository has built.

Money Metals Depository has stored customer metals for several years within several secure facilities across the U.S., and we are now opening a state-of-the-art facility in Idaho.

In addition to all the above features, the new Money Metals Depository facility in Idaho is purposely located next door to the county Sheriff's office (we share the building). We offer security for metals that simply cannot be matched at home or even many other depositories.

You receive still more benefits when storing with Money Metals Depository in Idaho, such as free shipping, fast delivery times, and super-quick settlement times when selling metal back to Money Metals Exchange.

We are about to launch new tools for customers to set up, view, and manage their holdings online. You will be able to buy metals and move them directly into your depository account with just a couple clicks of a mouse. And you will be able to sell the metals back to Money Metals Exchange just as easily.

If you need storage for any portion of your metals stockpile, we now have the most secure and convenient option available anywhere. Just call us at 1-800-800-1865 or visit MoneyMetals.com/Depository to get started.

Answering Your Questions on Bitcoin, Lower Silver Premiums, and Pre-1933 Gold Coins

At Money Metals Exchange, an important part of our mission is to educate you, our customers, and the public at large about the many aspects of the precious metals market.

One of the core tenets of our business is educating people who have never owned physical gold or silver. We introduce them to the metals markets and put the spotlight on dishonest money as the foundation for unrestrained government. We receive lots of great questions, and we like to publish our responses to the most common of them.

QUESTION: What is your take on Bitcoin?

ANSWER: We believe in honest money. Although flawed, bitcoin represents a remarkable innovation on that front. That is why Money Metals was among the first bullion dealers to accept Bitcoin payments for precious metals.

If decentralized cryptocurrency proves to be beyond the ability of central bankers and bureaucrats to manipulate or control, it will be a meaningful step forward for personal liberty and a blow to corrupt governments, banks, and markets. It has that potential in common with gold, which imposed restraint on Wall Street and Washington DC right up until Richard Nixon slammed the gold window shut and removed the last bit of integrity from the fiat U.S. dollar.

While Bitcoin and bullion share the potential to work as alternative money, they are not substitutes for one another. The differences are quite important to consider.

The first distinction is that gold and silver rounds, coins, and bars are tangible assets that will never become worthless. Precious metals are beautiful and serve a useful purpose in goods ranging from jewelry to electronics. They have thousands of years of history serving as money and as a reliable store of value.

Bitcoin, on the other hand, is a very recent phenomenon and a purely digital asset. It may ultimately change the world, but it hasn't yet stood the test of time. Bitcoin itself must still clear some hurdles.

It needs to become far easier to acquire, safeguard, and use. There are many alternative cryptocurrencies and there is no guarantee Bitcoin will prove itself to be the best mousetrap and survive.

Some technological problems still need to be solved in order for Bitcoin to scale and serve as a replacement for existing monetary systems. It will need to weather regulatory attacks by bankers and bureaucrats seeking to protect their fiat monetary systems.

While Bitcoin itself has not yet been hacked, several exchanges holding bitcoin have been.

Lastly, it is important to note that physical gold and silver are truly "off the grid," while Bitcoin *depends* upon the network. Metals don't need electricity and an internet connection to work. The exact whereabouts of a gold coin cannot be tracked electronically, and it will leave no digital fingerprints when used in a discreet transaction. This cannot be said for Bitcoin.

QUESTION: Can I get paid in bitcoins instead of dollars when selling you my gold and silver?

ANSWER: Money Metals will be adding a great new option for clients interested in transacting in Bitcoin. Customers can already use their bitcoin to purchase our precious metals products. Soon they will be able to exchange bullion coins, rounds, and bars directly for bitcoin.

Exchanging metal for bitcoin or vice versa will be a quick and easy process. And it won't have the hassle or limits people often encounter when buying or selling bitcoin with dollars.

QUESTION: I notice the premiums have fallen significantly on silver coins. What is the explanation for that?

ANSWER: Bullion has transitioned from a seller's market

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Silver Coins, Rounds, or Bars: What's Better?

One of the frequent questions our Specialists hear from first time buyers of silver, and even experienced investors, is: *What form of the metal is best to buy?*

Before answering that question specifically, we first and foremost urge our customers to buy silver in bullion form only and avoid any "rare" or numismatic coins like the plague.

As long as an investor insists on bullion products with low premiums and low bid/ask spreads (meaning the difference between what one pays to buy versus what he or she would get to sell), the options are generally good.

Whether one buys from Money Metals Exchange or from another company, we simply cannot overstate the importance of avoiding products sold at premiums well above their melt value (i.e. coins that are graded, proof, or cost more because they are old or "rare").

Money Metals sells pre-1965 silver dimes/quarters for as low as $1/oz over spot at present.

With that said, not all coins are a bad bet. Some of the more popular and familiar bullion coins include 1-oz sovereigns (such as American Eagles, Canadian Maple Leafs, and a few others) and pre-1965 90% U.S. silver coinage (aka "junk silver").

Silver bars range in size from 1-oz all the way up to 1,000-oz. However, we generally don't recommend the latter and urge most investors to steer clear of ever taking delivery of these bars.

For one, 1,000-oz bars are incredibly cumbersome to handle. But more importantly, they are the only form of silver that requires dealers automatically to issue a

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Answering Your Questions *(continued)*

to a buyer's market in recent months. Mints, refiners, and wholesalers who had struggled to consistently keep up with demand for several years and responded by raising premiums are reversing course now that demand has fallen.

The election of Donald Trump and optimism over the President's plans for reforms have temporarily impacted retail U.S. demand for gold and silver. Precious metals have also been underperforming other markets, including stocks, which diminishes safe-haven interest. We suspect buyer fatigue is also playing a role.

In our view, the fundamental reasons to own physical metal are unchanged. The future of the U.S. dollar remains dark. For those who share our view, now looks like the best time to buy silver coins in years.

QUESTION: I know Money Metals recommends staying away from collectibles. Does that mean I should steer clear of ALL pre-1933 gold coins?

ANSWER: No. The main thing is to ignore the song and dance of some rare coin dealer who wants you to pay a lot more for coins that have been graded as numismatics and slabbed in a nifty plastic casing. Paying "collectible" premiums is a great way to immediately lose 30% or more on your investment.

Every year, we sell thousands of circulated U.S. gold coins minted before 1933, and we sell them at premiums which are competitive with modern bullion coins. There is absolutely nothing wrong with buying some of this historic gold, provided you don't pay any numismatic premium to do it.

Bottom line: Make sure you know the melt value of the precious metal any particular coin contains and don't pay much more than that.

Silver Coins, Rounds, or Bars?

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1099B on sellers (unless the seller exchanges it into another form of silver instead of taking cash).

Additionally, sellers of these 70+ pound bars often will find dealers significantly discounting the buy-back price. Many small dealers will not be able to readily re-sell bars that size. *(Note: Money Metals is not one of those outfits, and we will be happy to buy 1,000-oz bars from anyone who either wishes to sell or switch into a smaller and handier form of silver bullion.)* But 1,000-oz bars that are not held in a COMEX storage facility will also need to be melted and assayed – at the seller's expense.

Smaller silver bars, specifically the 1-oz, 5-oz, and 10-oz sizes, offer great flexibility without tying up too much value in a single item. Many mints produce these items and, in many cases, the bars will come nicely packaged in sealed plastic.

Similar to 1-oz rounds, there is not much advantage in paying a higher premium for a bar produced specifically by "XYZ Mint." Moreover, the additional premium one might pay to get serialized bars is not worth the extra money. As long as the bar is in good/re-sellable condition, is stamped with its weight and purity, and is clearly identifiable as a pure silver bar, little else matters.

Now when it comes to the larger 100-oz size, the "mint mark" carries a little more importance.

Many dealers, including Money Metals, will slightly discount bars that are not produced by IRA-approved manufacturers since many 100-oz bars are sold to self-directed IRA account holders. An IRA-approved bar is one that is either made by either an LBMA or COMEX approved producer or an ISO 9001 certified manufacturer.

Those purchasing 100-oz bars will likely save 30 cents per ounce (or more) versus 1-oz bars and rounds. Bars also shine when it comes to storage because they can easily be stacked on top of one another, meaning the space requirement is reduced, especially compared to the bags of 90% silver, for instance.

We always recommend accumulating a good amount of smaller-form silver bullion first before moving on to larger bars. But once you've done that and are ready to save a few cents an ounce, then bars are a great way to go.

Just be sure to buy a product stamped with its weight and purity. And insist on dealing with a reputable source that has tight quality control. A dealer should either have a direct mint source or have invested in the necessary testing and assay equipment to verify the purity of the bars (Money Metals qualifies on both counts).

Jim Rickards: War on Cash Is Here, War on Gold Is Next

*Each Friday, **Money Metals** Director Mike Gleason hosts a discussion with a leading expert of interest to our customers. Subscribe to these fascinating podcasts for free on iTunes or listen to the audio or read the transcripts at MoneyMetals.com/podcasts*

Mike Gleason: It is my great privilege to speak to James Rickards. Mr. Rickards is editor of *Strategic Intelligence*, a monthly newsletter, and Director of the James Rickards Project, an inquiry into the complex dynamics of geopolitics and global capital. He's also the author of several bestselling books including *The Death of Money*, *Currency Wars*, *The New Case for Gold*, and now his latest book *The Road to Ruin*.

Jim is also a portfolio manager, lawyer and renowned economic commentator having been interviewed by CNBC, the BBC, Bloomberg, Fox News, and CNN just to name a few.

I wanted to ask you about a tweet you sent out recently – and for people who want to follow you there, it's **@JamesGRickards**. In that tweet you wrote:

Just informed that a Scotiabank branch is now a gold buyer only. Will not sell to retail clients. Get it while you can. War on Gold is here.

Jim, what did you make of that move and why did you make those comments?

Jim Rickards: Sure. We have a War on Cash. I think that's pretty well known to the listeners, so we see it everywhere.

India just abolished its two most popular forms of cash. They literally woke up one day and they said, I think it was the 2,000 rupee note and the 1,000 rupee note, if I'm not mistaken. Not worth a whole lot by our standards, worth like $15. But they were by far the most popular and widely used bank notes in India. And the government just woke up and said they're all illegal. They're worthless. Just like that. Now what they said is, "Now you can take them down to the bank and you can hand them in, and we'll give you digital credit in your account – oh, by the way, the tax inspector's going to be there asking you where you got the money." So obviously it was designed to flush out people suspected of tax evasion.

Although, in fact it turned out that there weren't that many tax cheaters. They were just people who actually preferred money. They preferred cash and they were forced out of the system, forced into this digital system. And there were all kinds of negative repercussions of that…

But we're very far down the road of a cashless society. It wasn't that long ago, certainly when I was a kid, we had $500 bills. And they were in circulation. You'd see one every now and then. Those were abolished in 1968. That left us with the $100 bill as our largest denomination. But the $100 bill of 1968 is only worth about $20 today in terms of relative purchasing power. So, they don't even have to get rid of the $100, they just have to keep waiting, and it'll be worth about 10 cents in time.

So, the War on Cash is underway. That's partly to set up for negative interest rates. I have said the Fed has not used negative interest rates and has no

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immediate plans to. That's true, but they can. There's nothing stopping them.

And of course, other countries have. We've seen this in Europe, Switzerland, Japan, and elsewhere. So how does the negative interest rate work?

So, you have $100,000 in the bank and the negative interest rate of one percent. You go away for a year, come back, you only have $99,000 left. The bank took $1,000 out of your account instead of paying you interest, they take your money as negative interest rate.

Well you say, "Okay, well one of the ways to beat negative interest rate is to take all my cash out… stick it under my mattress or whatever, right?"

So, you go to the banks, they give you $100,000. They give you ten straps or $10,000, a hundred $100s with a band around it. That's one strap. So, they give you 10 of those and there's your $100,000. And you put it away safely, and a year later, you still have $100,000. But your neighbor with the money in the bank, he only has $99,000, because they took 1% interest. So, the way to beat negative interest rates is to go to cash.

So therefore, the leaders say, "Well, we might want to use negative interest rates, so we have to get rid of cash before we can go to negative interest rates." So that's the War on Cash.

Governments May Make Obtaining Gold More Difficult

Now, one of the ways to fight back in the War on Cash is to buy gold. Right, so take your cash, buy gold, put that in a safe place. Now even if they eliminate cash, you still have the gold. In theory, even in the world of digital currency you could always sell the gold for a certain amount of digital currency. And you also preserve your value.

And for the people they really don't like, terrorists and tax evaders and others, they're already making the migration. Like, "Okay, you want to make it impossible to be a money launderer or impossible to move money around by cash. Let's just use gold. Good luck tracing that. It's non-digital."

So, if you have a War on Cash people very quickly migrate to gold, which means you have to have a War on Gold also.

So, one of the reasons I've been predicting a War on Gold is because I see the War on Cash is already here. And if the answer to the War on Cash is to go to gold, then if you're the global power elite, you have to have a War on Gold also.

So, a lot of these things don't exist today, but it's very easy to see limitations on sales, certainly from 1933 to 1975, gold was contraband in the United States. It was illegal for a U.S. citizen to possess gold, with very few exemptions. You could have gold denture fillings, I guess or some gold jewelry, but not coins or bullion. So, you could limit sales, you could put all kinds of reporting requirements on dealers, which don't exist today. You could put surtaxes on dealer transactions, which don't exist today, etc. or require licensing, which does not exist today.

There's a lot of things you could do to make it very, very difficult to buy or sell gold if not impossible.

So, my advice to investors is pretty simple, which is the War on Cash is here. The War on Gold is coming. Why not go get your gold today, put it in a safe place, and then when they shut the door on gold, you'll be okay, because you'll have yours.

People who are waiting, like, "Oh, I'm just going to wait. I'm going to wait until things get worse. I'm going to wait till the price goes up a lot. What's the hurry?" My answer is, "By the time you're ready to move, it may be too late."