FALL 2023

MONEY METALS INSIDER

An Insider Report for Clients of Money Metals Exchange

Gold Miners' Pain May Be Bullion Investors' Gain

By Stefan Gleason
President, Money Metals

Despite the summer slump in precious metals markets, gold prices are still up close to 5% for the year. While not much to boast about in itself, a modest gain is infinitely better than a loss – which is what holders of gold mining stocks have been taking.

The flagship VanEck Gold Miners ETF (GDX), which holds a basket of majors including Newmont, Barrick, and Agnico Eagle, is down 4% year to date.

It's a continuation of a long-term trend of underperformance. Since its inception in 2006, GDX has delivered a dismal total return of -16%. Over that same period, spot gold prices have gained a stellar 200%!

It's not even close. The difference in performance reflects the fact that these are entirely different asset classes. Even though gold stocks and gold bullion both attract investors who are bullish on spot prices, only the metal itself is sure to gain in a bull market for gold.

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Mining stocks are capable of delivering outsized returns in the right conditions. But unfortunately for investors, the mining sector's woes seem to persist year after year.

At the core of the problem for gold majors is rising production costs and declining production volumes.

Mining equity analyst Adam Hamilton writes:

"Higher outputs boost operating cash flows which help fund mine expansions, builds, and purchases, fueling virtuous circles of growth. Mining more gold also boosts profitability, lowering unit costs by spreading big fixed operational expenses across more ounces. But most of GDX's biggest gold miners continued suffering from shrinking output.

"That includes mighty Newmont, Barrick Gold, Newcrest Mining, Gold Fields, Anglogold Ashanti, Kinross Gold, and Endeavour Mining. Together commanding almost 3/8ths of GDX's total weighting, these seven huge gold miners produced 4,866k ounces last quarter. Ominously that plunged 8.9% year-over-year, a serious drop for most of the world's biggest gold miners!"

Hamilton notes that all-in sustaining costs for the largest gold miners are soaring at an annual rate of 7.7%.

The mining industry is financially unsustainable at current spot prices for metals. The only thing that will turn its fortunes around – and incentivize exploration

See Gold Miners' Pain, next page

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Gold Miners' Pain

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and development of new mines – is higher market prices for what it produces.

It's true that some smaller operators are faring better in this environment than the majors.

And, as usual, royalty and streaming companies are outperforming – thanks to their superior business models, which avoid most cost inflation and operational risks because they take their revenue right off the top.

Money Metals' 10-oz poured silver bar is an attractive, low premium item.

It's also true that total global gold production from all sources has, so far, not shown an annual decline.

But amid growing demand for metals, supply deficits loom for gold, silver, platinum, and palladium. The more pain the mining industry suffers, the bigger those deficits are likely to be.

The same forces that threaten to bankrupt mining companies paint a hugely bullish long-term picture for physical precious metals markets. It's all about supply and demand.

When gold and silver bull markets do resume in earnest, shares of well-positioned miners will undoubtedly go up as well. Some may even deliver explosive gains. But history shows that run-ups in the mining sector tend to be fleeting.

At the end of the day, a mining stock is a financial asset. Its performance depends heavily on factors such as management acumen, the regulatory environment, sentiment on Wall Street, and costs for capital, labor, and energy.

The actual mined and refined product, physical bullion, carries none of these business risks. An ounce of gold is money itself. As such, it can be expected to retain its purchasing power over the longest of timeframes more reliably than any financial asset.

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Must-Know Facts about Insuring Your Precious Metals

By Clint Siegner
Director, Money Metals

Making an investment in physical gold and silver is easy. Insuring these new valuables stored at home is more difficult. It may be outright impossible in larger amounts.

The standard homeowner's insurance policy provides little, if any, coverage for precious metal coins, bars, and rounds. The limit for many policies is well below what would be needed to replace even a single ounce of gold.

More substantial coverage is available, but it requires additional specialty insurance known as a rider or floater.

Or it comes in the form of a separate "personal articles" policy. The insured may also need to have the valuables professionally appraised.

Investors with significant precious metals stored at home will be well served to compare prices and options with different insurers. An independent insurance broker should be able to offer coverage from multiple firms.

Once you have the coverage you need, keep good records documenting your metal holding in a safe place.

It is also important to take photos and/or videos of your stash in case you ever need to make a claim. Be careful, though, to avoid making these records accessible to anyone who doesn't need to be privy to them!

Depository Storage Is Cheaper Than a Simple Insurance Policy

Policies that insure valuables such as bullion, watches, and jewelry will be expensive. Policyholders can expect to pay 1% or more of the insured value in annual premiums. That means coverage for $50,000 in gold and silver will cost roughly $500/year.

Coverage for even larger amounts will get harder to find and perhaps be even more expensive. Coverage in excess of $250,000 will be especially difficult for most people to obtain.

The best method of securing large quantities of metal at home may be to hide it away and avoid talking about it. This, of course, is a wise practice regardless of how much metal is involved – and whether or not it is insured.

Clients who want insurance coverage for larger holdings can get it via depository storage. The metal is in a secure third-party facility, such as Money Metals Depository.

The good news is the total cost of secure storage in a state-of-the-art, class 3 vault is usually no more than half the cost of a floater or personal articles policy – and this includes all-risks insurance coverage.

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Frequently Asked Questions
About Gold and Silver Investing

We get lots of questions from the public about precious metals. Here we will answer a few of the most common, most broadly relevant questions we receive. Even if you're a seasoned metals investor, you can surely find value in this regular FAQ feature.

QUESTION: What Are the Key Differences Between Coins and Rounds… Which is Better?

ANSWER: Coins are typically issued by government mints such as the United States Mint, the Royal Canadian Mint, and the Perth Mint (Australia). Coins typically carry an official face value and are considered legal tender in the countries that issue them.

In the first 80 years of our nation's history, private mints produced various dollar denominations of gold and silver coins – until the federal government seized a monopoly on minting of coinage.

Silver rounds are similar to silver coins, but without as much cost.

Rounds standardized bullion items that are minted (or "coined") by private mints and come in a variety of designs that may or may not emulate the appearance of traditional coins.

Unlike coins, rounds are not typically recognized as legal tender (though they can legally be used in barter transactions based on their metal content).

Most silver rounds are made of .999 pure silver – the exact same weight and purity as U.S. Silver Eagle coins. However, rounds sell at a large discount to Eagles and at a modest discount to most silver coins issued by foreign governments.

For investors looking to acquire the most metal for their dollar, rounds are the better buy.

QUESTION: What Is the Gold:Silver Ratio and Why Is It Important?

ANSWER: The gold:silver ratio measures how expensive the spot price of gold is versus the spot price of silver. Investors who are considering how to allocate their wealth between the two metals may want to favor gold when the ratio is low and favor silver when it is high.

The ratio ranged from 77:1 to 87:1 during this past summer's trading. It got as high as 130:1 during the height of the pandemic panic of 2020.

Although the gold:silver ratio is well below its all-time high, it remains elevated on a historical basis.

In 2011, gold sold for as low as 32 times the price of silver. Going back many decades, a ratio of 16:1 has often been observed.

If the gold:silver ratio narrows and moves toward historical benchmarks, the silver market would dramatically outperform gold.

Since silver tends to be the more volatile of the two metals, amplifying gold's gains on the upside as well as gold's declines on the downside, relative strength in silver tends to be a bullish indicator for the entire precious metals complex.

QUESTION: Which Metals Currently Face Supply Deficits?

ANSWER: Nearly all metals – from gold, to silver, to copper, to rare earths – face deficits as mining supply fails to keep pace with growing demand. Supply shortfalls are projected to hit the platinum and silver markets especially hard.

According to the Silver Institute, the silver market entered into a deficit of 237.7 million ounces in 2022.

In order for depleting above-ground silver inventories to be replenished, the market would need to enter a period of production that outpaces demand. Instead,

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Frequently Asked Questions *(continued)*

the deficit is forecast to be 142.1 million ounces in 2023. And no surplus expected for 2024.

The mining industry is unable to get ahead of chronic supply deficits due to soaring all-in sustaining costs of production and metals spot prices too low to incentivize investment in new mines.

Putting aside the increased investment demand for gold and silver in recent years, industrial demand for silver and other strategic metals is poised to continue growing amid the push for electric vehicles, solar energy, and other technology applications.

Something will eventually have to give way – and that "something" is likely the current ceiling above spot prices.

QUESTION: What Is a Troy Ounce and How Does It Differ from a Regular Ounce?

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, silver, platinum, or palladium prices quoted "per ounce," it really means "per troy ounce."

In effect, a troy ounce is about 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.

There are 14 and 7/12 troy ounces per standard Avoirdupois pound.

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Is the New FedNow System Paving the Way for a Central Bank Digital Currency?

By Stefan Gleason
President, Money Metals

This past summer, the Federal Reserve launched a new payment processing system dubbed "FedNow."

Officials say FedNow will allow individuals and businesses to initiate instant funds transfers between banks. Critics warn that FedNow could be a prelude to central bank digital currency (CBDC) that threatens financial privacy and freedom.

Fund transfers between banks made through FedNow will settle directly in accounts at the central bank.

Once Fed accounts become widely adopted and used for payments, critics fear it's only one additional step to convert the "dollars" used in transactions into a trackable "FedCoin" – a proposed digital token to be issued directly by the central bank.

To be sure, similar arguments could be used to justify a CBDC as have been made with FedNow, e.g. it will improve the speed, efficiency, and reliability of payments.

However, the FedNow system is just an upgrade to the highly deficient inter-bank ACH payment system that has limped along for decades, with its very slow clearing time, lack of fraud prevention, and other problems.

Concerns about FedNow itself appear to be overblown, and FedNow should not be conflated with totalitarian CBDC schemes.

Here is what Emile Phaneuf of the American Institute for Economic Research writes on the risks of CBDCs:

"Risks CBDCs present include the loss of settlement finality that comes with physical cash (as abandoning cash accompanies the push for CBDCs), loss of financial privacy, easy seizure of assets, loss of the ability to resolve problems at a local level with a commercial bank (as it would be doubtful that a central bank would come to be known for its customer service)…

"…outright prohibition on spending or purchase limits with certain merchants or certain products, and (perhaps most importantly) the paradigm shift from money as an exercise of economic freedom to one of social engineering by central banks and their respective governments.

"The latter could manifest itself in various ways, including (to name just a few) negative interest rates (essentially a confiscation of one's savings), the expiry of one's money (with a date determined by the issuing central bank or its government) — or even discouraging the consumption of products like gasoline, plane tickets, or red meat in order to enforce a climate agenda."

The weaponization of the monetary system for social engineering purposes has been in the works for decades. The abandonment of hard currency backed by physical gold and silver gave politicians and central bankers the power to manipulate the supply and value of the currency for their ends.

Under a fiat currency regime, central planners arbitrarily try to determine how much inflation (i.e., currency depreciation) to inflict on the economy.

Under the Federal Reserve's dual mandate, central bankers are supposed to ensure "price stability." Instead, they openly flout that mandate, redefining "stable prices" as annual price inflation of 2%. Of course, the Fed is failing even to deliver on that objective by allowing inflation to run much hotter than 2%!

Those who wish to preserve their purchasing power over time while protecting their financial privacy should beware of central bankers' new campaign to promote digital Fed accounts.

Hard money (gold and silver) held outside the banking system remains the soundest alternative to fiat currency in all its manifestations.

Specie Money: The Forgotten Currency

By Christopher Larson

With inflation still at high levels, it is becoming overwhelmingly evident to Americans that Federal Reserve notes steadily depreciate in value as a form of currency.

For example, an item that cost a silver dollar in 1913 – the year the Federal Reserve and federal income tax (16th Amendment) began – would cost close to $31 today, as pointed out recently by Dr. Thomas L. Hogan.

In contrast to today's ubiquitous fiat currency, specie money was available to our recent ancestors and consisted of coins made of gold, silver, and copper that were stamped with a monetary value and deliverable to holders of paper bank notes when taken to a bank for redemption.

This historic form of money (i.e. commodity money or specie) dominated the world as the primary means of exchange while holding its value and helping provide economic stability.

$10 Gold Liberty coins are a popular way to own a piece of history at bullion prices.

The Market Created Money, Not Governments

As renowned Austrian economist Carl Menger explained, specie money emerged spontaneously through the actions of individuals. It was not conceived by a single person or government, and no government compulsion was necessary to transition from a barter system to a sound money economy.

Coins minted in the United States, as well as those from countries like Spain, Mexico, Great Britain, France, and Portugal, contributed to the realm of specie money and were commonly used in global and domestic trade.

The Coin of the Realm in the United States

Article 1, Section 8 of the U.S. Constitution grants Congress the power to coin money and fix the standard of weights and measures.

Through *The Coinage Act of 1792*, Congress ordered the construction of the United States Mint and made it responsible for minting the coins of the United States.

Nine months later, Congress passed *The Act of February 9, 1793*, declaring that foreign coins would be legal tender within the United States of America for three years while its national mint produced sufficient coins for domestic circulation.

The foreign coins mentioned in this act remained in use for much longer than three years, and privately minted coins, especially those minted of gold, also circulated in the United States until the latter half of the 19th century. (Ultimately, Congress banned the private coining of money in 1864.)

Other than a short period around the Civil War, American bank notes also remained formally tied to precious metals throughout the 1800s, exchangeable in specie coins minted of gold or silver bullion.

This financial system backed by both gold and silver was known as bimetallism and was widely adopted across the globe.

Lasting remnants of readily available U.S. specie money include pre-1933 gold $20 Double Eagles, $10 Eagles, $5 Half Eagles, and $2.50 Quarter Eagles.

Most of these items are sold today near their gold melt value – but some may command a higher

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collectible value if they are in excellent condition or minted in particular years.

Other Constitutional silver coins, commonly known as "junk silver," were minted before 1965 and are a great low-cost option for investing in silver specie coinage today.

These coins were minted of 90% silver and 10% copper in 1964 and prior (pre-1965), and include half dollars, quarter dollars, and dimes. Peace Dollars and Morgan Dollars are commonly found, as well.

Circulated pre-1965 silver coins have always been a "go-to" item for precious metals investors.

Even copper pennies minted before 1982 (when virtually all of the copper was swapped out for cheaper zinc) are stockpiled by some value-minded savers.

Those looking to invest in specie can also look abroad, to French 20-Franc gold coins, British gold Sovereigns, Mexican 20-Peso gold coins, and more.

Fiat Money Drove Specie Money Out of Circulation

Gresham's Law predicts that "good money" will be driven out of circulation by "bad money."

Through government actions, specie money was systematically replaced by Federal Reserve notes and clad coinage throughout the 20th century.

The last link to gold was severed by President Richard Nixon in 1971, whereupon the United States "temporarily suspended" (i.e. "permanently defaulted on") the convertibility of the dollar as prescribed by the Bretton Woods Agreement between the world's major central banks.

Today's unbacked Federal Reserve note – still referred to as a "dollar" even though it does not meet the historical definition (372.5 grains of silver or about 0.775 troy ounces) – has now lost a staggering 98% of its purchasing power since the establishment of the Federal Reserve in 1913.

Modern-day paper currency (and its electronic equivalents) have long since been irredeemable in specie, making it a cinch for the government to issue this fiat currency as legal tender with reckless abandon.

As we live in an Age of Inflation, specie money reminds us that a more stable and sound monetary system once existed – and is possible for us to return to once more.

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