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MONEY METALS INSIDER

An Insider Report for Clients of Money Metals Exchange

Dollar Debasement, Rising Demand to Drive Metals Markets in 2021

By Stefan Gleason
President, Money Metals

In a year that was marred by a global pandemic and a wave of economic restrictions that crippled many small businesses, financial markets proved to be resilient.

Of course, that resilience owes in no small part to the unprecedented outpouring of debt-financed stimulus from Congress and the Federal Reserve.

Will 2021 be the year the Fed's inflationary chickens come home to roost?

The setup for a major inflation outbreak in the real economy in the months ahead is clear and present. A precious metals price breakout could therefore be imminent.

It is difficult to imagine a more bullish political and monetary environment for the metals than the one we are in.

Inside This Issue:

The Fed has effectively taken a rate hike off the table for 2021. It has no plans to curtail its $120 billion in monthly asset purchases. The printing press will continue to go *brrr...*

And the federal budget deficit will continue to skyrocket – perhaps to $4 trillion annually.

Politicians Agree on Debt-Financed Spending

Fiscal conservatives can hold out some hope that a narrowly divided House and Senate will create gridlock – acting as a check on the spending ambitions of the incoming administration.

The reality is that only a small minority of politicians will actually vote to curtail Washington's overall spending trajectory.

There is overwhelming, bipartisan, supermajority support for continuing down the path of running up huge deficits and papering over them with new debt issuance backed by the central bank.

Borrow-and-spend federal financing is a precursor to print-on-demand Modern Monetary Theory (MMT). In 2021, MMT may become more formally adopted as part of a global post-COVID Great Reset.

The long-term outlook for the U.S. dollar looks bleak. Politicians have an insatiable appetite for more of them,

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and central bankers are bent on depreciating them.

In the name of its newfangled "symmetric" (above 2%) inflation objective, the Fed will no longer pursue price stability as it used to be understood. Instead, it will allow prices to run hot and hotter before it "even thinks about thinking about" tightening.

Although disinflationary pressures in certain parts of the economy could reassert themselves, the much larger, more powerful trend taking hold is that of steady, deliberate currency depreciation.

A secular bear market for the Federal Reserve Note translates into a secular bull market for hard assets.

Gold and Silver Closed 2020 Dramatically Higher

The supply and demand fundamentals for precious metals markets got thrown into disarray last year, leading to heightened volatility – first on the downside, then on the upside.

Although gold and silver finished 2020 below their highs for the year, gold still posted an annual return of close to 25%; silver over 45%.

Can hard-asset investors look forward to further price appreciation in 2021?

Yes, but… there are some near-term risks to the favorable long-term supply/demand outlook.

Assuming economic conditions begin normalizing this year, we would expect demand – especially from industrial users – to increase. Mine production would likely rebound as well.

The mining industry, like many others, faced unprecedented operational challenges in 2020 due to COVID disruptions. Many mines around the world were forced to scale back or suspend production in the first half of the year.

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2021 Outlook for Precious Metals

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By the third quarter, mining output among major producers began to ramp back up. Overall, though, the top 20 gold miners suffered an estimated 5% annual drop in output.

The mining industry is issuing optimistic guidance for 2021. Whether it fully recovers to pre-COVID numbers remains to be seen.

While mine supply is likely to increase versus 2020, so is consumer demand for refined precious metals products such as jewelry. Investment demand for bullion will, as usual, be a wild card that could move the market at the margins.

A massive surge of investment demand hit the bullion market last spring as panic gripped Wall Street and bargain hunters came out in droves.

What occurred was a once-in-a-generation event. Some markets reached unprecedented extremes that defied centuries of recorded history.

For example, crude oil futures traded deeply into negative territory for a day. And silver got historically oversold versus gold, while the gold-silver ratio spiked to as high as a never-before-seen 130:1.

A less dramatic 2021 may be in store. Even so, a global economic recovery and return to some semblance of normalcy would help stimulate demand for industrial metals as well as silver, platinum, and palladium.

A major trend set to accelerate in the months ahead is the move away from fossil fuels and toward electrification.

Solar power and battery technologies are experiencing explosive growth, and with that growth comes a need for lots more copper, nickel, silver, and strategic metals. In fact, solar panels are one of the fastest growing sources of silver demand.

Demand can grow much more rapidly than supply. Some analysts expect to see widening supply deficits for silver and platinum in 2021.

According to Bloomberg Intelligence commodity strategist Mike McGlone, silver will head toward a new record high on improving fundamentals and gathering technical strength.

A new nominal high in silver above $50 will just be the first major milestone in a bull market that could go up many multiples from here before being expensive or overvalued in real terms.

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: What determines the premium on gold and silver products?

ANSWER: Premiums – the price you pay over the spot market price – vary according to market conditions impacting the product in question. When demand is soft, premiums may fall, especially on secondary market products such as pre-1965 U.S. silver coins.

Secondary market products – items that are resold rather than sold for the first time as brand new – can often be purchased at a discount to newly minted products and especially close to actual spot prices.

During much of 2020, premiums were elevated across the board. This was a function of high retail demand for gold and silver coins, bars, and rounds combined with production backlogs at mints and limited availability of secondary market inventory.

Privately minted buffalo silver rounds are one of the lower premium forms of physical silver.

QUESTION: What are the reasons to own physical gold and silver versus owning mining stocks?

ANSWER: Gold/silver bullion and mining stocks are *two entirely separate asset classes.*

Bullion is money itself, a tangible asset with eternal value. You own it for insurance against a collapsing financial and monetary system. The profit – and there certainly can be great gains when measured in both nominal and real terms – is gravy.

You own gold and silver mining companies not for their eternal value (they could go bankrupt), not for insulation from the financial system (they are financial assets which are affected by credit conditions and general market volatility), but for their profit potential and operating businesses.

There can be more upside on your holdings of mining shares during a bull market (and more downside in a bear market), but you also take on more risks, such as:

- rising energy and labor costs
- political risk (including threat of nationalization)
- wider economic/financial turmoil
- credit market tightness
- peculiarities affecting profitability in the industry
- investor sentiment/risk aversion

When times get tough, the action in the gold and silver mining stocks can get quite ugly. These stocks are typically the most volatile area of the entire stock market. They are not for the short-term risk averse. They are for those who believe the potential long-term rewards are worth the risk.

Bullion functions better than the mining sector as a portfolio diversifier (physical gold is less correlated with the stock and credit markets). Over the long-term, gold bullion also performs better on a risk-adjusted basis (similar expected returns with a fraction of the volatility).

Start by owning physical bullion**.** Build a solid foundation in the metals themselves before even considering the purchase of mining shares, which aren't suitable for all investors.

QUESTION: What are the main differences between coins and rounds?

ANSWER: Coins are usually minted by a government. They generally have a face value denominated in the currency unit of the country and also display a year.

Rounds are privately minted. They do not have a face value imprinted on them and are not considered "legal tender" by governments. Rounds of identical weight and purity to a government-minted coin will usually carry much less premium over the spot price.

Alarming Developments in GLD ETF Reaffirm Need to Own PHYSICAL Gold

By Clint Siegner
Director, Money Metals

The world's largest gold exchange-traded fund (ETF) seems to be having some trouble when it comes to accounting.

The SPDR Gold Trust (GLD) recently appointed its 6th chief financial officer since 2014. And the problem of finding and keeping executives who are willing to certify the Fund's accounting does not appear to be the only reason for concern at GLD.

The timing of the most recent CFO departure is particularly troubling. Laura Melman left one day prior to the Fund's financial year end.

The World Gold Council, which is behind the SPDR Gold Trust, says her "departure did not arise from any disagreement on any matter relating to the operations, policies, or practices of the SPDR® Gold Trust."

However, Melman didn't sign off on GLD's annual 10-K filing before departing, even though, presumably, she had the filing all but completed.

That signature had to be made by Brandon Woods, who was in his first day on the job.

The World Gold Council has not commented as to why there is so much trouble retaining CFOs. This much turnover is often a sign of serious problems.

Holding bullion bars in your own account at Money Metals Depository is both safe and cost effective.

The long-time auditor of the fund, KPMG, didn't inspire confidence in the 10-K filing. The accounting firm flagged the filing with a "Critical Audit Matter."

The auditor included the following explanation:

We identified the evaluation of the evidence pertaining to the existence of the gold holdings as a critical audit matter. Given the nature and volume of the gold holdings, subjective auditor judgment was required to evaluate the extent and nature of evidence obtained to assess the quantity of gold held by the custodian as of September 30, 2020.

Translation: KPMG had to use subjective judgement rather than objective evidence and records when attempting to confirm exactly how much physical gold is actually held by the fund.

The fund's auditors aren't the only ones who appear uncertain about the inventory held by GLD. Gold bugs have long questioned whether it can account for all of the physical metal represented as owned by the trust in its filings.

The fund reports adding 348 tons of physical gold between January and July of this year. It appears as if a lot of the gold – 70 tons or more – was sourced from the Bank of England.

Here is one concern…

Skeptics believe the gold sourced from the BoE is not owned by GLD. Rather it is leased and will ultimately need to be returned to the central bank.

In addition to accounting red flags at GLD, investors should also consider the risk associated with who provides depository services. HSBC Bank is the custodian of the gold. The bank stores GLD's bars in its London vaults.

That means owning shares of GLD also requires placing your trust in HSBC, with its history of financial malfeasance accusations.

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"Is Your State Destroying Your Money?"

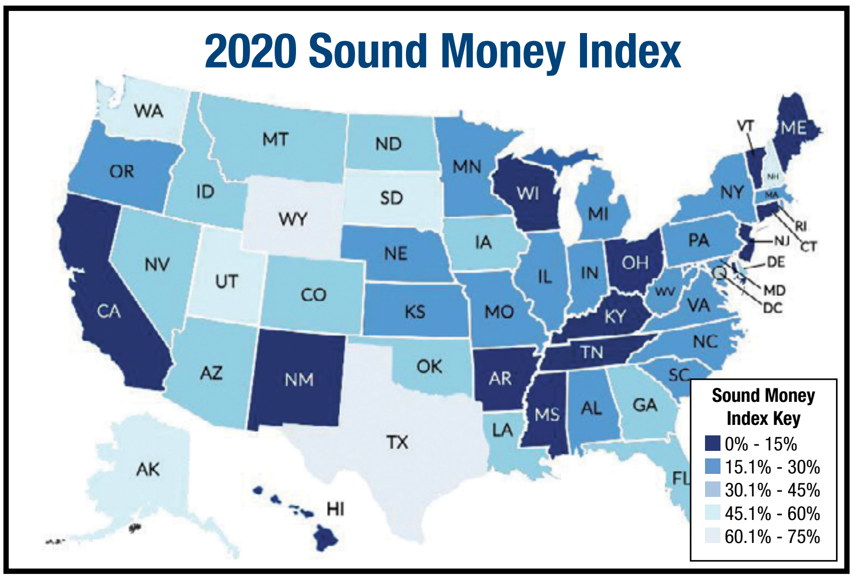
Money Metals Ranks All 50 States' Gold and Silver Policies

Wyoming, Texas, and Utah are the three most pro-sound-money states in the United States, according to the 2020 Sound Money Index.

The Sound Money Index is the first index of its kind and uses 12 different criteria to determine which states maintain the most pro- and anti-sound money policies in the nation.

The Sound Money Index evaluates each state's sales and income tax policies involving precious metals, whether a state recognizes the monetary role of gold and silver under the U.S. Constitution, whether a state holds pension, reserves, or bonds in gold or silver, whether a state has imposed precious metal dealer/investor harassment laws, and other criteria.

Money Metals Exchange and the Sound Money Defense League – a national, non-partisan sound money advocacy group – joined together to produce the authoritative ranking.



Because a handful of Washington State politicians failed again in 2020 in their attempts to impose sales taxes on purchase of the monetary metals, the Evergreen State joins South Dakota, Alaska, and New Hampshire in the fourth to seventh place range on the Sound Money Index.

Ohio fell to the bottom of the rankings in 2019 after slapping sales taxes on gold and silver, but the Buckeye State made a minor comeback in 2020 when its government pension trustees decided to allocate 5% of retirement funds to physical gold.

Ohio joins Texas as the only two states in the U.S. known to allocate a percentage of state-held pension funds to physical gold, while other pension trustees' failure to own any gold as financial insurance arguably violates their fiduciary duties as well as the "prudent man rule."

According to the 2020 Sound Money Index, the very worst environments for sound money can be found in Vermont, Arkansas, New Jersey, Maine, and Tennessee. However, Arkansas, Maine, and Tennessee are expected to consider bills that would improve their rankings in their upcoming 2021 legislative sessions.

"As politicians and central bankers continue to print trillions of unbacked pieces of paper in response to COVID, sound money has never been more important. Citizens in states that foster pro-sound money environments enjoy the benefit of being able to protect their wealth without onerous taxes and regulation," said Jp Cortez, policy director of the Sound Money Defense League.

"Federal policy and the Federal Reserve System are the root causes of inflation, instability, and currency devaluation," said Stefan Gleason, president of Money Metals Exchange.

"However, many states are taking steps to protect their citizens from the damaging effects of America's fiat paper money system," Gleason noted.

The complete 2020 Sound Money Index is available at MoneyMetals.com

A Crooked TV-Based "Rare Coin" Dealer Strikes Again

By Clint Siegner
Director, Money Metals

The biggest factor in whether your metals investment will make money will often be whether or not you purchase your metal at a fair price.

It is easy to compare prices and avoid getting ripped off, but investors must take the time to do it. If a would-be investor's first and only call is to (or from) a shady rare coin dealer advertising on television or radio, they are all but certain to get screwed.

We'll share a recent real-life example as an object lesson – it's involving what we'll refer to as a "television dealer."

Money Metals heard from a woman who had just purchased 631 silver Wildlife series coins from a television dealer for her precious metals IRA. These particular coins were represented as a "limited issue" with an oddball weight of 1 ¼ oz each.

She paid $59,000 for the 788.75 troy ounces contained in those coins. That's $74.80/oz when the spot silver price was just $24.50/oz. Yikes!

She should have called Money Metals – or read one of dozens of our articles on the subject over the years – *before* making her decision, not after.

When she did call Money Metals, we offered 10-ounce silver bars for just over $26 oz. She was shocked to find she could purchase *nearly 3 times the ounces of silver* for the same dollar investment.

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A Crooked Dealer Strikes Again

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Unfortunately, she got stuck in a trade with the television dealer. If she remains stuck with her bad purchase, she will need silver prices to *triple* simply break even.

The television dealer's crooked salesperson misrepresented at least two things about the coins he sold her...

First, the odd size is likely to make those silver coins less desirable, not more. Money Metals and other bullion dealers will buy them at a discount to 1 oz coins, which are way more popular and easy to resell.

Second, while those coins may be minted in smaller lots, they are certainly not rare. We have purchased those coins by the thousands over the years. None of the series has ever commanded a significant premium to the metal price.

Clients who paid 3-times melt value for these bullion silver coins all lost their shirts.

The above is just one example of how "rare" coin dealers – frequently seen advertising on TV with celebrity spokesmen – routinely take advantage of Americans.

Even though they are constantly getting slapped with lawsuits and regulatory actions, these shady operators are still out there pressuring and exploiting victims in the precious metals space on a large scale, so investors must be on their guard.

Here are some red flags to watch out for:

- The salesperson claims that numismatic coins are exempt from tax, that numismatics will outperform bullion, or that bullion (but not collectibles) can be confiscated by the government.
- The salesperson calls you repetitively claiming to have a "super hot buy" and that if you don't grab it immediately, someone else will, or uses some other pressure technique.
- You are told the resale value is higher than the current purchase price, as if the salesperson is going to sell coins to you for less than they could elsewhere.
- The dealer doesn't publish prices at which they buy and sell.

The truth is that you are guaranteed immediate confiscation through the high premiums on "rare" coins. Bullion and collectible coins have identical tax treatment. And rare coins can hardly be expected to outperform when investors are so deeply underwater right out of the gate based on massive buy/sell spreads.

Virtually any story you hear about why you should avoid bullion and buy collectible coins instead is going to be complete BS.

One of the best ways to make sure you don't get ripped off is to find out what the item you are thinking of buying can be sold back to the dealer for.

You must know the melt value of the actual gold or silver the items contain.

Money Metals Exchange is one of the only major dealers to publish both prices live on each of our product pages. Clients can see at a glance both what they pay to buy and what they receive to sell. They can be certain they will not be taken for a ride.

Alarming Developments in the GLD Exchange Traded Fund

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Financial advisors and stockbrokers around the world often recommend buying shares of GLD to clients who are interested in gold. They view the shares as a perfectly good proxy for owning physical bullion.

However, most will not even be aware of, or consider, the counterparty risks outlined above.

Investors are better off buying actual bullion and storing it themselves. They can also hold precious metals through a reputable depository like Money Metals Depository that isn't connected to the banking system and offers segregated storage.