JULY – AUGUST 2015

MONEY METALS INSIDER

An Insider Report for Clients of Money Metals Exchange

U.S. Economy Slouches toward Recession ...and How It Impacts Your Precious Metals

By Stefan Gleason
President, Money Metals

Federal Reserve chair Janet Yellen may have missed her window of opportunity to raise interest rates. The economic data no longer paint a picture of a tepid recovery. Since the start of the year, key indicators for the economy began pointing toward recession.

Consider these ominous signs of an economy headed for trouble:

- The revised GDP figure for the first quarter showed the economy *contracting* by nearly 1%. The International Monetary Fund revised its outlook for U.S. economic growth downward.
- The Bloomberg Consumer Comfort Index *fell* for 8 straight weeks through May 31 – the longest losing streak for this measure of consumer confidence since the survey's inception in 1985.
- For the first time since 2006, U.S. *productivity fell* for two consecutive quarters, as manufacturers struggle with rising labor costs and softening consumer demand.
- Factory orders year over year *declined* for the sixth consecutive month – something that has previously only occurred during or leading up to a recession.
- While the financial media report an official unemployment rate of 5.5%, the actual labor force participation rate comes in at only 62.9%. In other words, 37.1% of Americans are out of work – a true jobs recession.

The odds of the U.S. economy entering a recession are growing, to say the least. We may, in fact, already be in a recession. A recession will only be confirmed officially by retrospective data. And that comes out months later – when it may be too late for individuals, businesses, and investors to make financial preparations.

Is a Bad Economy a Threat or an Opportunity for Precious Metals Investors?

The asset class that is riskiest to hold during an economic downturn is stocks. The stock market is more economically sensitive than bonds or precious

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metals. Among precious metals, gold is the least economically sensitive.

Therefore, gold is normally the preferred metal to hold during a recession. Gold demand tends to be relatively durable and can even increase counter-cyclically to the economy, as investors seek safe havens.

Silver demand is more heavily weighted toward industry (silver is used in electronic devices, solar cells, and many other manufactured products). So silver prices are more vulnerable to cyclical downturns in manufacturing.

Yet silver prices have been in a downtrend since 2011. Silver has already suffered the sort of price drop (more than 65%) that a severe recession could be expected to bring.

Silver is way undervalued versus gold.

Silver has also already lost a lot of ground relative to gold. The silver:gold ratio has plunged from 1:33 to 1:73 over the past four years. Silver is now only 1/73rd the price of gold, whereas the classic price for silver as money on a bimetallic standard is 1/16th the price of gold.

On a historic basis, silver is an incredible bargain now. Both in terms of gold and in terms of dollars. Could silver be primed to rebound even as the economy appears to be teetering?

There is certainly precedent for silver performing well as an investment during recessions. In fact, the very best economic environment for silver (and other precious metals) is an inflationary recession. This is also known as stagflation – characterized by that misery-inducing combination of economic stagnation, high unemployment, and high inflation.

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

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The last great mania in precious metals occurred during the stagflation of the late 1970s – a period during which stocks traded sideways in nominal terms and experienced deep losses in real terms.

Will the Fed Raise Rates and Does It Even Matter?

The 1970s also saw sharply rising interest rates – something that appears unlikely to transpire in the current economic environment. If the economic numbers confirm a slowdown, the Fed will have difficulty justifying any rate hikes. An increase in the Federal Funds rate later this year is still widely anticipated by investors, so if the Fed backs off, the markets will move.

But, as financial intelligence advisor Jim Rickards noted about the Fed in his recent interview on the **Money Metals** podcast, "They don't know what they're doing… This is one big science experiment."

Lofty stock valuations have been supported by the Fed's easy money *and* the belief in underlying economic strength. The prospect of the Fed being afraid to follow through on its telegraphed rate hikes due to deteriorating economic fundamentals doesn't necessarily bode well for stocks. It could bode well for precious metals, though, at least on a relative basis.

Metals prices won't really take off until inflation fears rise. Inflation pressures can build even during a recession. Inflation, as Milton Friedman noted, is a monetary phenomenon.

The Federal Reserve ultimately needs to engineer a higher rate of inflation in order to reduce at the real value of the government's $210 trillion long-term fiscal gap. And when the Fed "succeeds" it will likely have trouble containing its "success," as money velocity picks up and inflationary psychology feeds on itself.

Last year, we saw inflation rates spike in the collapsed economies of Russia and Ukraine as the public lost confidence in their respective national currencies.

The much larger U.S. economy probably won't deteriorate as dramatically or see the dollar crash as suddenly. But investors shouldn't delude themselves into believing that America is immune from future turmoil that hits the economy and spreads to the currency.

Our Readers Want to Know

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.

Our precious metals Specialists enjoy addressing your many excellent questions on an individual basis. But we know you also like to see what others are asking about. So we regularly share some of the most relevant questions and answers in a more public way:

I don't want to store my gold and silver at home. What is the best way to safeguard them?

We recommend investors keep at least a portion of their metals where it is accessible to them – day or night. But we understand many people prefer the physical security offered by a depository or bank. For smaller holdings (perhaps $10,000 or less) a safe deposit box will be the lowest cost option – assuming your bank still allows storage of bullion. Most do, but Chase bank recently implemented a ban on cash and metals in their deposit boxes – part of the escalating "war on cash."

Those with larger holdings, or anyone concerned about dealing with a bank (understandable), will want segregated storage in a Class 3 vault. Segregated storage means your metal is held in bailment – it remains your sole and exclusive property. It is not commingled with any other customer's metal and cannot be pledged as collateral or re-hypothecated to any third party.

"Allocated" is another common storage option. But this means your metals are not physically segregated from the metals of others. The *dangerous* method of storing your holding is in any kind of "pooled" or "unallocated"account, even if fees are lower. Joining a pool means potentially accepting counter-party risk and thereby sacrificing one of the key advantages offered by physical bullion.

Money Metals Depository offers state-of-the-art, secure, fully segregated storage. Call 1-800-800-1865 for more details.

I am just getting started in precious metals investing. What products would you recommend? And which metal should I buy?

Our Specialists get this question more often than any other. Of course, by the time someone calls (or visits MoneyMetals.com), they have already done a lot of the most critical thinking. They understand why it is important to own physical gold and silver. And they are planning an investment in low-premium bullion rather than over-priced, illiquid, and scam-prone collectible coins.

When it comes to choosing which bullion products to buy, the decisions get a whole lot easier and *big* mistakes are unlikely. We suggest just a few basic guidelines:

1) Stick to the most popular and widely traded bullion products (like the kind of products offered at **Money Metals Exchange**). You will be able to instantly sell and command the fairest price when you are ready.

2) Choose items with a low "bid/ask" spread. Keep an eye on the difference between the price you pay to buy and the price you receive to sell – i.e., transaction costs. The lower those are, the happier you will be. **Money Metals** makes it easy for you to calculate this spread by publishing all buy and sell prices live on our website.

3) Establish your priorities and choose products accordingly. Many investors seek forms of gold and silver that are most suitable for barter and trade in a crisis. They should consider buying some smaller "fractional" sized coins or rounds to have something on hand suitable for small purchases. Pre-1965 90% silver U.S. coins, 1/10th oz silver rounds, and 1/10th oz gold American Eagles are the most popular products for people concerned with preparedness.

When it comes to the choice of whether to buy gold or silver, investors should also be comforted that they can't really make a "wrong" choice if they avoid those "collectible" coins and buy common bullion coins, rounds, and bars. We

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expect both metals to perform their time-tested role, providing outsized returns in this era of uncertainty and inflation. That said, here are a few more factors to consider…

Silver Is More Volatile, but We Expect It to Outperform

Silver underperforms gold when metal prices are falling and outperforms gold when prices are on the rise.

For clues about where the two metals are in their respective cycles, take a look at the gold/silver ratio. The ratio, calculated by dividing the gold price by the silver price, reflects how many ounces of silver it takes to equal the value of one ounce of gold. In recent decades, the ratio has oscillated between about 35 and 75, with major bottoms in the metals markets nearer the high end of this range and major tops nearer the low end.

The gold/silver ratio sits at 73 as of this writing – an indication that the lows for metal prices may be near. And that silver may soon enter a period of outperformance.

There are other reasons to expect good news in gold markets and great news for silver.

Current prices rest near levels at or, for many producers, *below* the cost of production. The Fed spent most of the past decade printing trillions of dollars. Many of them sit idle in the form of excess reserves, representing pent up inflation just waiting to be released. And the federal government remains hopelessly insolvent, having resisted making any meaningful reforms to borrowing, spending, and entitlement promises.

The next leg higher in precious metals prices is, in our opinion, inevitable. So today looks like a great time to favor silver. But, if the white metal's typically larger price swings will keep you awake at night, gold may be the better choice.

Silver Is Extraordinarily Useful Stuff

Engineers are designing silver into more applications all the time. And the industries demanding silver are among some of the fastest growing. Silver is used in batteries, computers, automobiles, cell phones, hospitals, nanotechnology, and solar panels just to name a few. According to the Silver Institute, total industrial demand will grow 27% through 2018. Meaning an additional 142 million ounces of silver will need to be supplied. To say nothing of silver's reemerging role as a monetary and investment asset.

Gold, on the other hand, is thought of by some as the ultimate monetary metal. Though silver has been used in coinage more often, gold is the metal central banks around the world hold in reserve. And the market for gold is larger than the market for silver. Some people argue these factors represent significant advantages for gold. We aren't so sure. History shows the fortunes of both markets inextricably tied, again with silver outperforming as prices rise.

Silver Is Heavier and Will Take More Room to Store

A $10,000 shipment of silver at today's prices weighs nearly 40 lbs. and comes in a package roughly the size of a shoe box. A gold shipment of $10,000 weighs just a few ounces and takes up almost no room at all.

Gold might be the best option if handling heavier boxes is *truly* problematic and/or available space for storage is limited. But the "problem" presented by silver's bulkiness is generally pretty minor – when it rises much more sharply than gold, we doubt you will be complaining!

To make the decision on what to purchase even easier for investors, **Money Metals Exchange** now offers Ready Made Portfolios. You can choose a pre-selected package, weighted approximately 70% in silver, 30% in gold. The bulk of the portfolio is in low-premium one ounce coins and rounds, with a portion dedicated to smaller fractional-sized products to prepare for the event metal is needed for barter and trade.

You can find more details by visiting MoneyMetals.com and looking under Ready Made Portfolios.

Our Silver Starter Kit contains 4 oz of silver in three popular sizes. Available at www.MoneyMetals.com.

New 1/4-oz Size "Rounds Out" Money Metals' Walking Liberty Silver Set

By Mike Gleason
Director, Money Metals

In keeping with our goal of giving silver stackers the most options possible in physical bullion, **Money Metals** is releasing the ¼-oz Walking Liberty silver round. This new product also completes the set, as we now offer Walking Liberty rounds in tenth-ounce, quarter-ounce, half-ounce, and one full ounce sizes.

Money Metals' Walking Liberty silver rounds are now available in one, 1/2, 1/4, and 1/10 oz sizes!

Our branded 1-oz Walking Liberty .999 pure silver round has been a core product since we opened our doors more than five years ago – with millions sold to date. On the heels of that success, early last year we struck the first **Money Metals** 1/10-oz Walking Liberty round. In December, we added the half-ounce size to our ever-growing product lineup.

Both of these newer items remain tremendously popular with customers seeking fractional or barter-sized silver. Fractional silver rounds are ideal for those seeking an alternative to pre-1965 silver coins, which – unlike rounds – are not stamped with their weight and purity.

It is now time to pull the trigger on the quarter-ounce version of our iconic Walking Liberty design and "rounds out" the offering. The ¼-oz size, which is slightly larger than a 25 cent piece (aka a quarter), comes packaged in tubes of 40, or 10 ounces.

The Walking Liberty design is loosely modeled after the old Walking Liberty half dollar, minted by the U.S. government between 1916 and 1947. It's widely regarded as one of the most beautiful coin designs ever.

Originally, the Walking Liberty half-dollar silver coin design was created by Adolf A. Weinman, who was also the designer of the popular Mercury Dime. The modern American Silver Eagles have a similar design on the obverse. The reverse contains a perched eagle, a popular image placed on numerous United States Mint coins, beginning in 1795 and becoming more prevalent in the mid-1800's.

Privately Minted Rounds Are a Low-Cost Alternative to Coins

These privately minted rounds differ in many ways from any government-minted coin. And they are clearly marked with the **Money Metals Exchange** brand to further ensure there is no confusion whatsoever with any numismatic item.

They are also marked with their metal content and purity. Unlike coins, rounds are not legal tender and do not carry a currency denomination (25 cents, one dollar, etc.). They typically do not have a date, and they may contain a private mint mark.

Rounds are a great alternative to coins, however, as they offer lower premiums than their government-issue counterparts of the same weight, size, and purity. And they are highly liquid on the dealer market and are easily bought and sold at fair prices.

The most popular government mints (U.S. Mint, Royal Canadian Mint, Perth Mint, and the Austrian Mint) do not produce any of their popular bullion coins in anything but a 1-oz size – making the fractional-size silver rounds *the* option when it comes to small form pure silver.

Do You Know Why Your Stockbroker Despises Gold and Silver?

By Guy Christopher
Columnist, Money Metals

Gold is a touchy subject on Wall Street. It has been ever since President Franklin Delano Roosevelt drove Americans and their gold apart 80 years ago. Although gold bullion ownership has been legal in the U.S. since 1974, a relentless government campaign to dampen the gold price has left gold trailing in public popularity and perception.

Gold is money. No one knows that better than Wall Street. But it prefers to keep matters of gold to itself.

Wall Street doesn't want you buying gold or even thinking about gold, and treats you shabbily if you do.

As an individual investor, you will probably never come face to face with the masterminds on Wall Street. But you might meet their representative on Main Street: your local stockbroker. He adopts Wall Street's disdain for gold, whether consciously or in response to institutional incentives for him to push financial products only.

To understand, we looked at how stockbrokers are trained and managed by their Wall Street employers. We spoke to several brokers and regular clients about what they thought the best ways to invest money were. The brokers insisted on anonymity, as you'll see.

Stockbrokers Are Steeped in Establishment Thinking

Our hat is off to stockbrokers for the hard work it takes to earn that license. Their basic education revolves around a tough exam called the Series 7, considered by some as difficult as the bar exam.

It's a computer-generated, timed test of 250 questions lasting 7 hours, taken under government supervision. One study guide shows 8,000 possible test questions. No two exams are identical, which eliminates cheating.

The material covers regulations, laws, and taxation involved in trading common securities like stocks, bonds, and mutual funds.

It also covers government-mandated "ethics" training, supposedly meant to protect clients and their money from unfair practices. That includes understanding diversification, which requires evaluating a client's total assets, tolerance for risk, and ways of spreading risk around among many types of investments. One test for risk tolerance is whether the client can sleep at night with his broker's recommendations.

The ethics rules also mean brokers are heavily regulated in what they can say or put in advertising to influence clients. One told us even the "Christmas cards to clients have to carry a disclaimer."

Brokerage firms designate "compliance officers" to make sure the rules are followed. Brokers get surprise visits in person, and must open all records to inspection, including personal checkbooks. Them commenting for this article would have required a compliance officer's approval, had we bothered to ask.

Brokers attend annual, mandatory continuing-education classes. But despite covering almost every aspect of investing and wealth known to mankind, nowhere in your stockbroker's training, testing or continuing ed is there discussion of investing your money in physical gold or any precious metals!

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Stockbroker Despises Gold and Silver

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Mainstream Brokers Want to Steer You Away from Gold

Brokers must follow Wall Street's lead. One told us, "I don't like gold, but if I did, I couldn't talk to you about it. I'd lose my license." He added, "You're not using names for this article, right?"

While they can recommend and sell plenty of paper gold (gold mining shares, mutual funds, etc.), brokers can't sell physical gold.

Also, they don't actually know any more about gold than most Americans, which is very little. So, they rely on Wall Street's mantra dismissing gold as a murky investment and will do their level best to talk you out of buying even a single ounce.

Wall Street's vast public relations and advertising empire, known previously as America's free press, gladly backs them up, spreading lies about gold and scorning gold owners.

The exceptions on Wall Street are the mega-players quoted as owning gold and believing in gold. We firmly believe some local stockbrokers are secretly gold and silver stackers, but could never say so.

> ***Stockbrokers don't get paid if you buy physical gold and silver...***

We uncovered one brokerage's secret to dealing with physical gold. When a valued client insisted on buying gold and silver bullion, the brokerage quietly introduced the client to – a bullion dealer! Doing so satisfied the client (who would otherwise have lost confidence in the firm), and it kept the brokerage a long arm's length from any heavily regulated discussions of gold.

Individual investors we spoke to revealed a lot about investing confidence among the public.

Most investors in securities are honest in admitting they don't know exactly what their stock market dollars bought. "My investments are in an IRA" is too often the reply.

Stock investors rely heavily on their advisers, telling us they *need to believe* their advisers have extensive knowledge of securities, which clients admit they themselves don't have. They also express a need to believe their brokers have their best interests at heart, and many are satisfied.

Gold and silver investors see confidence differently. They trust self-confidence. Precious metals buyers have no massive financial machinery paired with a complicit media to champion gold and silver, except for free-market forces. Self-reliance emerges as a character trait for metals owners, who just don't get a lot of hand holding.

The Biggest Reason Wall Street Hates Gold...

Precious metals in your possession have no counterparties. And no continuing fees and commissions, unlike the thousands of investments brokers sell. *Once you own physical gold or silver, that part of your wealth and your future is out of Wall Street's hands.*

Decades ago, Wall Street routinely recommended a gold allocation of 5% for any portfolio – a standard footnote to every financial analysis. Can you imagine the shock waves in markets today if a mere 5% of trillions of investment dollars suddenly went from stocks and bonds into physical gold and silver?

By pretending precious metals are not legitimate stores of wealth, and by belittling those who buy gold and silver as assets, Wall Street does a two-faced kabuki dance around its own ethics code of clear communication and client diversification. Wall Street and its complicit business media go against their own advice to diversify, revealing a fraudulent – dare we say inconvenient – tale of true wealth.

MoneyMetals.com columnist Guy Christopher is a seasoned writer living on the Gulf Coast. A retired investigative journalist, published author, and former stockbroker, Christopher has taught college as an adjunct professor and is a veteran of the 101st Airborne in Vietnam.