

Porter Stansberry, Dr. Steve Sjuggerud, Matt Badiali, Dr. David Eifrig, Dan Ferris,  
Brian Hunt, Van Simmons, Tom Dyson, Michael Checkan, Jeff Clark (Casey Research)

The S&A  
GOLD  
INVESTOR'S  
MANUAL



STANSBERRY & ASSOCIATES  
INVESTMENT RESEARCH



By: Porter Stansberry, Dr. Steve Sjoggerud, Matt Badiali,  
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*by Porter Stansberry*

*founder, Stansberry & Associates Investment Research*

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Our politicians' propensity to spend money they don't have goes back a long, long time...

In 1690, the colonial government of Massachusetts faced a fiscal crisis. Its soldiers were returning, defeated, from a raiding expedition to Quebec. It had no funds to pay the soldiers, as the colony expected the campaign to be profitable: The soldiers were to loot the French. Angry and hungry soldiers are dangerous.

The Massachusetts politicians had promised to pay them, despite the fact that the Treasury had no money. (Similar to our federal government's current schemes, that all of the money had already been spent didn't worry them.) Unfortunately, the colony's credit was tapped out. No one would lend the government the funds it required – 7,000 British pounds.

So, pioneering a tradition in U.S. politics, the leaders of the colony simply printed up 7,000 paper notes. On behalf of these notes, the politicians made two solemn promises: The notes would be redeemed in gold or silver from tax revenue in a few years... and absolutely no more paper notes would be put into circulation. "Trust us," the politicians explained, "gold is only a 'barbaric relic.'"

You can guess what happened to these promises.

Less than six months later, the colony's leaders decided the first issue of paper money had gone so well and had such a positive impact on the local economy that they issued an additional 40,000 notes. Once again, they promised the notes would be redeemed in gold or silver and that no further notes would be put into circulation.

As this second, much larger wave of paper hit the market, merchants began to significantly devalue the paper versus genuine bullion, leaving the paper with only about 60% of its previous purchasing power. When the market began to reject the fiat paper as a fraud, the colony moved to buttress its value by force – a tactic copied later by such illustrious leaders as Zimbabwe’s president Robert Mugabe. The government decreed its paper was legal tender – at par – for all debts and granted a 5% premium on the notes for all tax payments.

Such tactics worked... for a time. But as always happens when one currency is artificially propped up over its intrinsic value, the bad money forced out the good. Spanish silver coins, which had circulated widely in the colonies, began to disappear. (The same thing would later occur in the 1960s, as the U.S. dollar declined to well below the value of a silver dollar.)

Meanwhile, the politicians treated each of the following crises with more of the same money medicine. In 1716, they issued another 100,000 notes – these backed by a “land bank.” Then in the 1740s, they more or less turned on the printing presses for good. Paper money in circulation soared from around 300,000 notes to more than 2.5 million.

All this money sloshing around the world helped power one of the greatest speculative manias in history – the South Sea Bubble. It also caused the price of precious metals to soar. The free market price of silver, which had once stood at par with the notes, ended up 10 times higher. In about 60 years, the Massachusetts colony had turned its promise to repay in specie (gold and silver coins) into a farce: Its notes were now worth 90% less than face value.

Fed up with the constant economic booms and busts of a paper standard (always followed by yet another, still-larger issue of paper money), the King of England in 1751 outlawed the issue of any currency not backed by gold or silver.

Given our exit from the gold standard roughly 40 years ago, the constantly increasing money supplies in the United States, and the relative financial standing of our government (about \$50 trillion in debts and obligations) – not to mention the private sector’s im-

mense piles of bad debts (perhaps \$1 trillion in subprime mortgages) – a decline in the purchasing power of the dollar is a sure thing. Higher precious-metals prices are a lock.

In the S&A Gold Investor's Manual, you'll find several unique strategies to profit off this trend... and protect your wealth and your family in the years ahead. You'll get tips on anything and everything you need to know to profitably buy, hold, and sell gold.

If you already own gold, congratulations. I encourage you to continue to put a portion of your savings into the only money that isn't someone else's liability.

If you haven't yet bought gold, I urge you to get started now.

Today. In the following pages, you'll find the simplest, safest ways to own and hold gold. There are no more excuses.

Good investing,

A handwritten signature in black ink, appearing to read "Porter Stansberry". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Porter Stansberry

## *Special Thanks*

Before we get started, we'd like to offer special thanks to the guys at Casey Research. They do some of the best natural resource research you can find anywhere... and they're always plugged into what's happening with gold.

In the following pages, you'll find commentary from their own Jeff Clark, senior editor of *Big Gold*. If you're interested in profiting off the move in gold with high-quality precious-metals stocks, we highly recommend you check out Jeff's work. To learn more, visit <http://www.caseyresearch.com/premium-publications/big-gold>.

We'd also like to thank our friend Van Simmons... If you're looking to preserve your wealth and even make a few hundred percent in gold coins, Van Simmons is someone you need to know. And he's always glad to talk with Stansberry & Associates readers to help them with the right collectible investments.

We've found that his coin advice is excellent... and his advice on most other things is just as good. You can reach Van directly at (800) 759-7575 or (949) 567-1325, or e-mail him at [info@davidhall.com](mailto:info@davidhall.com).

Finally, thanks to Michael Checkan, head of Asset Strategies International. ASI is one of the largest private gold bullion dealers in the world, and Michael has been helping investors use precious metals and foreign currencies for 30 years. He's extremely knowledgeable and has offered to answer any questions for Stansberry & Associates readers. Visit his website at [www.assetstrategies.com](http://www.assetstrategies.com) or call (800) 831-0007.

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PART I

*What Everyone Should  
Know About Gold*

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## THE ULTIMATE FORM OF REAL MONEY

By Brian Hunt, Editor in Chief,  
Stansberry & Associates Investment Research

For the past few thousand years, gold has seen a lot of competitors try to become the “ultimate form of real money.” Folks have used everything from cigarettes to butter, stones, livestock, salt, and seashells to store their wealth and trade for goods.

But when crisis hits... when wars break out... when bank runs grip a nation... when it’s really time to just “grab the money and run,” humans keep coming back to gold as the ultimate form of money.

Gold beats the competition so easily for six reasons...

- Gold is easily transported. Land is a good store of wealth, but you can’t take it with you if you have to get out of Dodge.
- Gold is divisible. If I owe both Peter and Paul and I have just one piece of gold, I can split it in half.
- Gold does not rust or crumble. Folks have used cattle as money, but cows don’t survive long in a locked vault.
- Gold is consistent all over the world. I’ll accept the pure gold you mined in China just as easily as I’ll accept the pure gold you mined in South Africa.
- Gold has intrinsic value. Gold has wonderful conductivity, it’s super malleable, and it doesn’t break down... so it has lots of industrial uses. Seashells lose big on this one.
- Gold cannot be created by the government. People who saw their wealth disappear in the great inflation of the 1970s know that holding lots of paper money can be disastrous.

Most of the “requirements of money” were laid down by Aristotle

over 2,000 years ago. The great investor Doug Casey is the world's best at reminding us why gold is still the ultimate form of real money.

And now that America is inflating its money supply in an attempt to pay for all kinds of wars, mortgage bailouts, social programs, infrastructure build-outs, and green-energy boondoggles, it's vital to own a chunk of real wealth.

## WHAT YOU DON'T KNOW ABOUT GOLD: THE BIGGEST MYTHS ON THE GOLD MARKET

An Interview with Brian Hunt, Editor in Chief,  
Stansberry & Associates Investment Research

**Stansberry & Associates:** Brian, as you know, we probably get more questions and reader feedback on gold than on any other subject here at S&A Research... And we've noticed there are quite a few myths and misconceptions about gold out there. Can you go over some of the big ones for us?

**Brian Hunt:** Sure. Probably the biggest misconception investors have toward gold is they see it as an investment.

They'll listen to the folks on CNBC pick apart and analyze every \$30 move in the metal, just as a move in crude oil or stocks or bonds would be analyzed. They'll check the price quote every day... to see how their "investment" in gold is performing.

This just isn't the way to view gold.

Gold isn't an investment. A thousand shares of health care company Johnson & Johnson is an investment. J&J pays a dividend. It's a business that's going to grow its cash flows and pay a portion of those cash flows out to its shareholders.

An income-producing rental property is an investment.

Bought at the right price, a rental property will return all of your original capital in the form of rent checks... and the rest is gravy.

Gold isn't like those two examples at all. Gold is money.

It's been used for money for thousands of years because it's easily divisible, it's easily transportable, it has intrinsic value, it's durable, and its form is consistent around the world. And as Doug Casey reminds us, it's a good form of money because governments

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can't print it up on a whim. You can't "Bernanke your way to wealth" with gold.

Gold doesn't pay interest or a dividend. It doesn't have profit margins. Your gold holdings amount to lumps of metal held in storage.

The sooner the investor realizes that gold is money... and not a conventional investment, the better off he'll be. It's just a timeless form of money. That's it.

**S&A:** People can also view it as insurance, right?

**Hunt:** Right. Since gold is real wealth that you can hold in your hand, it's also "crisis insurance"... or "wealth insurance." Like regular insurance, you buy gold and hope you don't have to use it.

Gold is insurance against governments doing foolish things with their finances. It's going to hold its value if governments do crazy things that lower the value of their paper money, like the United States is doing with the dollar.

A currency is sort of like the share price of a country. Over time, if a country manages its finances well... if it produces more than it consumes, saves plenty of money, and maintains a modest amount of debt, its currency will rise.

If a country consumes more than it produces... if it spends lots of money, and borrows a lot in order to do all of that spending, its currency will fall in value. While currencies fluctuate for all sorts of reasons in the short term, over the long term, countries that manage their checkbooks will enjoy strong currencies. Countries that mismanage their checkbooks see their currencies plummet.

The U.S. dollar lost around 33% of its value between 2000 and 2012. This decline is because the world is waking up to the awful situation America has borrowed and spent its way into.

During the same time, gold climbed from below \$300 per ounce to over \$1,790 an ounce.

It fell by that amount because our chief central banker basically told the world that he'd print lots of money in order to allow our current political regime to spend lots of money... and to bail out every American who can't balance a checkbook or show up for work.

My friend Porter Stansberry calls our current dollar situation a full-blown crisis. He's probably right. And gold is demonstrating its value as crisis insurance.

I wish I lived in a country that produces more than it consumes... that values personal responsibility and saving money. That has a government that believes in fiscal responsibility. But I don't.

About half this country is on the government dole in some form or another. Over 40 million people are on food stamps. People are being paid by the government not to work. The people employed by the government enjoy huge, outsized salaries for what they do.

This situation is a crisis. That's why I own gold... and recommend people keep at least 5% or 10% of their wealth in gold.

But here's where I differ from the average gold owner: I'd love to see gold fall down to \$300 or \$400 per ounce. I'd love it if the value of my crisis insurance would fall, rather than skyrocket... just like I don't want my family's house to burn down... or why I don't want someone to T-bone my car in an intersection.

But I look at the gang of clueless college professors, career politicians, and other types who have never held real world jobs occupying the White House and Congress... And when I consider that half of this country is on some form of government dole, I know there is no political will to rein in spending and borrowing.

**S&A:** Yes... we all need insurance from that. Do you think at least large institutional investors, like mutual fund companies, understand gold?

**Hunt:** Absolutely not. They are just as ignorant about gold as the

average Joe on the street. They might even be worse.

From the early 1980s to 2000, nobody worried about insurance. Stocks and the economy boomed for nearly 20 years. Gold languished for a long time.

Its importance as real money – as a crisis hedge – was forgotten by most people... even by the supposedly smart folks who run big investment funds.

They learned their trade during a period of rising stock prices and falling gold prices, so they think gold is something right-wing nuts stockpile alongside canned food in a bomb shelter. It's amazing how a few decades of smooth sailing will make folks forget gold's importance as insurance against disasters.

I've heard lots of supposedly smart institutional investors pooh-poo gold because it didn't perform well during the 1980s

and 1990s. They'll post charts showing how it lagged behind stocks and real estate.

It's a silly comparison, because gold isn't an investment like stocks and real estate can be. Gold is just gold. Like I said, you own it and hope to never have to use it. You don't get it confused with a stock like Johnson & Johnson.

**S&A:** We think you've made your point. Any parting shots?

**Hunt:** Just one more. It involves another myth about gold... The belief that anyone knows where the heck it's going over the coming years.

Every day, you hear some guru claiming gold is going to \$2,000 or \$4,000... or even \$10,000. Those kinds of price projections are just hot air. Nobody – not Warren Buffett or Ben Bernanke or George Soros – knows how high gold will go in the coming years.

It's tempting to make comparisons to other wild periods like the

1970s or the 1930s. But those historical comparisons aren't worth anything. And I'm going to catch hell for saying this, but they aren't worth anything because this time is different.

I know "this time is different" is a dirty phrase in the investment business – but given the U.S. debt situation, our runaway entitlement spending, Europe's massive debt problems, and the emergence of Asia as a wealthy gold accumulator – this is a different gold market than any market we've ever seen. I don't place any value on any past price action here... or any price projections... or any attempts to value it.

You can't value gold like a stock... where you'd say "I'll pay 10 times earnings for gold." You can't value it like a rental property and say "I'll pay eight times annual rent for gold."

The important thing for investors is to forget about the noise you hear on the Internet and television, and just steadily accumulate ounces of gold. Try to buy a little more each quarter or each year.

Don't see it as an investment. See it as money... as real wealth you can hold in your hand. That's how it's been seen for thousands of years. It will eventually be re-discovered by the general public in the coming years.

**S&A:** Thanks for your time.

**Hunt:** My pleasure.

## HERE'S WHAT POOR PEOPLE DON'T KNOW ABOUT GOLD

By Dr. David Eifrig, editor, *Retirement Millionaire*

When gold falls over \$100 in one month, do you react like a wealthy man or a poor man?

The difference between the two reactions is huge.

If you picked the right one, chances are good you'll make money as a long-term investor...

For many years, I've urged people to own gold and silver. I've helped thousands of *Retirement Millionaire* readers make the right precious-metal investments. But I'm an unusual owner of gold and silver.

You see, I think 99% of gold and silver owners are all wrong in the way they view their holdings...

Most folks buy gold and silver and hope they'll make a fortune on it. They listen to "doom and gloom" gurus who claim gold prices are about to explode. Or while watching right-wing television shows, they see commercials promise to make them rich in gold and silver.

So when gold and silver decrease in value – like they have recently – the average precious metals owner stresses out. His "big trade" isn't working.

Again, I own gold and silver... and I urge you to do the same. But I take an unusual approach to my holdings. I hope I lose money on them.

I look at gold and silver the way a homeowner looks at his insurance policy. A homeowner buys insurance against disaster and hopes disaster never comes. He hopes he never has to cash in his policy.

Similarly, I hope I never make money on my gold and silver.

If I don't make money on my gold and silver, that means economies and markets are behaving relatively normally. It means I'm making money on my regular investments, like stocks, bonds, and real estate.

If the world economy goes haywire and gold skyrockets to \$5,000 an ounce, sure, I'll make money on my gold... but I'm sure to have a lot of problems along with those profits. I'd rather make money in stocks, bonds, and real estate. I'd rather live in a world where the U.S. dollar isn't plunging in value every month.

For many years, my job at Wall Street bank Goldman Sachs was to develop and implement advanced hedging strategies for wealthy clients and corporations. The goal with these strategies was to protect jobs, wealth, and profits from unforeseen events.

During those years, I learned a big difference between wealthy people and poor people... Wealthy people almost always own plenty of hedges and insurance.

They consider what could happen in worst-case scenarios and take steps to protect themselves. Poor people tend to live with "blindness" on. They play the lottery with their paychecks every other Friday. They keep their retirement funds in just one or two stocks... or they put all their money in a neighbor's crazy business idea, which is incredibly risky.

And they tend to "load up" on things like gold and silver. They place way too much of their portfolio into precious-metal investments. And even worse, they base their decisions on their emotions (usually fear). Don't do that... Instead, think rationally. Think of gold and silver as insurance...

I like to keep 4%-8% of my investable assets in what I call "chaos hedges." Gold and silver are great for this purpose. I keep the rest in stocks, cash, bonds, and real estate. When gold and silver plunge in value, I don't worry. I don't lose sleep.

If you don't own these sorts of hedges yet, I encourage you to buy some... just like a homeowner buys insurance... or just like you'd buckle your seatbelt before driving your car.

Take the wealthy investor's approach, buy gold and silver... and hope the time never comes for you to have to "cash in" the gains.

## WHY YOU SHOULD HOLD GOLD

An Interview with Doug Casey, chairman, Casey Research

This interview is on one of the most popular topics in the newsletter world... gold.

But despite the attention, gold is still grossly misunderstood by most people.

To learn why gold is so valuable – and why it’s so important to own – we sat down with Doug Casey, chairman of Casey Research and one of the world’s best-known experts on gold and resource investing.

If you still don’t own any gold, this interview is required reading. And if you have family or friends who think gold is only for “fringe” types, be sure to pass this along...

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**Stansberry & Associates:** Doug, can you explain why the “idea” of gold is important? Why have we humans used gold as money for thousands of years?

**Doug Casey:** Well, the truth is, there’s nothing magical about gold. It’s just uniquely well-suited among the 92 naturally occurring elements for use as money... in the same way aluminum is good for airplanes or uranium is good for nuclear power.

But first we should ask: What is money? It’s simply a medium of exchange and a store of value. So lots of different things can and have been used as money for periods of time.

Cows have been used for money. That’s where we get the word “pecuniary,” from the Latin word for cow, pecu. Salt has been used for money, that’s where we get the word “salary,” from the Latin word for salt. Sea shells and cigarettes have been used for money. And of

course, paper has often been used for money because it's convenient for governments and political purposes.

But gold is ideally suited because it possesses all five characteristics of good money that Aristotle pointed out back in the fourth-century B.C.

First, it's durable. Money needs to be durable for obvious reasons. It needs to last and not disintegrate in your pocket or in a bank vault. This is why you can't use a commodity like wheat as money... It rots, it can be eaten by pests, and just won't last very long.

Second, gold is divisible. Good money must be divisible to pay for items of different value. It's why you can't use diamonds or famous artwork as money... You can't divide them up without destroying their value.

Third, it's convenient, which is why other elements like copper or lead aren't good money... it takes too much of them to be of value. Can you imagine carrying around hundreds of dollars' worth of copper or lead to make a purchase?

Fourth, gold is consistent. This is why you can't use real estate as money. Every piece of real estate is different from another, whereas one piece of gold is exactly like every other piece of gold.

Finally, and perhaps most importantly, gold has value in and of itself. Paper has next to no intrinsic value of its own, which is why paper is such terrible money.

For all these reasons, I suspect that within a generation – and probably much sooner at this point – gold will again be used as money in day-to-day transactions.

**S&A:** You mentioned paper money has little intrinsic value. Can you elaborate on why this is so important? Why is paper money in particular so terrible?

**Casey:** Well, there's actually a sixth reason that Aristotle didn't mention, because it wasn't relevant in his context, but it explains

why paper money is so dangerous: a government can't create gold out of nothing.

Not even the worst kings and emperors of Aristotle's time – who routinely clipped and diluted their coins – would have dreamed it possible to pass off worthless paper, which can be created without limit, as money. No one would have accepted paper money for trade.

Yet, that's precisely what the United States started doing when Richard Nixon removed what was left of the dollar gold standard in 1971. Up until then, the U.S. Treasury promised foreigners it would redeem \$35 with an ounce of gold, so the dollar was, theoretically, a warehouse receipt for gold. Since 1971, it's literally become an "IOU nothing." And we've been treated to a real time case study in the dangers of paper money ever since.

Having no real money – gold – in the system allows politicians to come up with all sorts of ridiculous spending programs. There are only three ways a government can get money: taxing – which no one likes; borrowing – which is just putting taxes off to the future, with interest; and inflating the money supply – which drives up prices, but can be blamed on oil companies, farmers, merchants, and anyone else who actually supplies goods and services.

Inflation causes the business cycle, which results in recessions, and eventually depression. It discourages saving, which is how wealth is accumulated. It encourages borrowing, which allows people to live above their means. Inflation makes it easy for governments to finance unpopular wars, like those in Vietnam or Iraq. And inflation will eventually destroy the dollar itself, which will be the ultimate economic catastrophe.

A strictly observed gold standard prevents all these things.

**S&A:** We've heard why gold is the ideal money. Should it also be viewed as an investment?

**Casey:** Well, an investment – if we want to define the word – is an

allocation of capital to produce more capital. For this reason, gold is not an investment, and has never been an investment.

Gold has been an excellent speculation – which is defined as an allocation of money to profit from politically-caused distortions in the economic system – from time to time over the past four decades. But it's never been an investment.

Gold shares can be an investment because you're allocating capital in a mine to produce more wealth in the form of gold. But gold itself is not.

I consider gold to be cash in its most basic form, much more so than the U.S. paper currency we currently call money.

So in the same way it's always good to keep some savings in U.S. dollars – or whichever paper currency you're currently obligated to use – it's always good to keep some savings in gold.

**S&A:** That's great advice. Thanks for talking with us, Doug.

**Casey:** You're welcome. It was my pleasure.

**Summary:** Gold is money... because it is durable, divisible, convenient, consistent, valuable, and cannot be created out of thin air by the government. Just as it's always a good idea to keep some savings in your local currency, it's also a good idea to keep some savings in gold.

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PART II

*Where Gold Prices  
Are Headed*

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## A RATIONAL REASON TO OWN GOLD

By Dr. Steve Sjoggerud, editor, *True Wealth*

Gold rises in times of fear... the old saying goes. And it is true. But how exactly do you measure fear? It's tough, because fear is not rational.

However, right now there is an outstanding and very rational reason for the price of gold to continue rising for a long period of time. It has nothing to do with fear. It's simple. It could lead to extraordinary profits. And I'll share it with you today.

### **No Chicken Little Here**

Most gold writers push the fear buttons... "The world is going to hell in a hand-basket – you'd better own some gold," they say.

I try to stay out of the fear crowd. I'm agnostic when it comes to investments... I don't love gold or love stocks. I just want a good buy. And right now, there is an excellent, rational reason to buy gold. You can leave fear out of it.

Gold is attractive now because it's attractive... fear or no fear. Let me explain...

### **Money Flows Where It's Treated Best**

Gold pays no interest. It's just a lump of yellow metal. So if the bank is paying you 7% interest on your cash, chances are you'll prefer to have your money in the bank.

It makes sense... because due to compound interest, in 10 years you'd have doubled your money in the bank. But if you'd held gold instead, you'd still have the same lump of metal.

But consider this... Imagine if the bank was paying zero- percent interest... then which is more attractive, paper dollars or gold? In

this case, both pay no interest. And in this case, a rational investor would choose gold. The gold is still the same lump of metal, but a government could print money and make the paper money worthless. It can't print gold.

Money flows where it's treated best. If there are high interest rates, gold does poorly, as money flows where it's treated well. If interest rates are low or zero, money flows toward gold. Gold can't compete with high interest rates. But it is extremely competitive with zero-percent interest.

“But wait,” you say. “How did gold run from \$100 to \$800 in the late 1970s?”

### **The “Real” Deal... Considering Inflation**

If you're just looking at the current interest rate, you're not getting the whole picture. You have to consider inflation as well, to get to the “real” interest rate. For example, banks might pay you 1% interest. But inflation may be 2%. So the “real” interest rate – the interest rate AFTER inflation – would actually be -1%. And that explains it all...

Right now, investors lose money to inflation by putting it in the bank. When faced with -1% interest in cash, or 0% interest in gold, the smart money is choosing to get out of cash and into gold.

Back in 1979, short-term interest rates were 8%, but inflation was 13%. That means your “real” return was negative 5% a year on your cash. Gold went from \$100 to \$800 in no time.

Then, at the end of the decade, Fed Chairman Paul Volker drove short-term interest rates through the roof. By 1981, short-term interest rates were 15%, and inflation was back into the single digits. That means investors got an outstanding “real” return on their money... and gold tanked, back into the \$300-plus range by 1982.

**The present situation is like the 1970s...**

Back in the 1970s, the “real” return on cash (the return after inflation) was negative. So money flowed out of cash and into gold. Today, for the first time since the late 1970s, we’re seeing the same thing. The “real” return on cash is negative.

It’s gold time. No fear-mongering necessary.

EXACTLY WHERE WE ARE IN  
THIS GOLD BULL MARKET

By Dr. Steve Sjuggerud, editor, *True Wealth*

**Editor's Note:** This essay – originally published in the September 2, 2011 issue of our free e-letter *DailyWealth* – Steve describes how to know whether we're closer to a top or a bottom in gold... By the time you read this, some of the time-specific research will be out of date. That doesn't matter in the slightest. What matters is the outstanding thinking contained in this piece... and the timeless ideas you need to know about investing in gold...

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*“Son, I'm behind you in everything you do... But there's no way I'm buying any gold.”*

My dad told me that back in 2002 (and in 2003... and in 2004...)

*“Son, I bought gold Krugerrands in the late 1970s, and I'm still down on 'em 25 years later. Gold is never going up.”*

In the nearly two decades I've been analyzing investments, my dad bought just about everything I recommended. But he drew the line when I recommended gold in 2002.

I thought, “Wow. Now this is what a bottom looks like... when even my dad doesn't trust me on this one.”

Back then, the gold story was simple to me...

Gold is financial catastrophe insurance. When is catastrophe insurance the cheapest? When there hasn't been a financial catastrophe in decades. In the early 2000s, that's where we stood. So I recommended buying gold. It wasn't about being a gold bug. It was about buying something cheap.

Back then, my parents bought everything I recommended – except gold. And my in-laws were starting to do the same. But they drew the line at gold, too. They thought I was nuts.

What really did it was when I started recommending gold coins in 2003. Cancellations to my *True Wealth* newsletter started pouring in. The typical letter said, “Steve has always had outside-the-box ideas, but this gold coins garbage has gone too far.”

I’d never seen such a hated asset class. I personally believed gold could absolutely soar. And *True Wealth* readers who actually took my advice and bought my 2003-recommended MS-63 Saint Gaudens gold coins made hundreds of percent profits.

Now, more than a decade later, the situation is much different...

Gold has gone up 12 years in a row. My in-laws now have a big portion of their portfolio allocated to gold investments.

A decade ago, you could hardly get a quote for gold on CNBC or Yahoo Finance. Today, gold quotes are on the front page.

If you want to make hundreds of percent on an investment, you have to buy it for pennies on the dollar, when nobody wants it. When major financial news networks run week-long specials on gold (like CNBC’s “GOLD RUSH” in September 2011), it’s hard to say nobody wants it.

In short, it feels like we’re closer to a top than a bottom in gold... On the other hand, the numbers we track through my *True Wealth Systems* trading service tell us we might not be at the top yet, because most people are NOT overinvested in gold.

The details are complicated. But the basic thought is simple: People are watching gold go up, like spectators watching from the sidelines. They are not active participants... yet.

I can say without worry, there is more upside. It sure doesn’t feel

like the real estate boom, or the dot-com boom yet, when EVERYBODY is in. That's when we're at the top.

Gold will certainly have extreme corrections. On its march from \$35 to \$850 an ounce in the 1970s (peaking in January 1980), gold lost HALF its value multiple times. But I don't believe the top is in yet.

Fortunately, just about every way to buy gold is still cheap...

Gold stocks (through GDX), junior gold stocks (through GDXJ), and gold coins (like the U.S. Gold Eagle coin) are all at extremely cheap levels relative to the price of gold.

Yes, gold has soared. But no, you haven't missed it yet.

Fortunately, you can still buy in cheap through gold stock plays and gold coins.

Don't wait. Take advantage of it...

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PART III

*The Best Ways to Buy  
and Own Gold*

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## THE RIGHT AMOUNT OF GOLD INVESTORS SHOULD OWN

By Dr. Steve Sjiggerud, editor, *True Wealth*

You often hear, “You need to own gold!” But how much is the right amount?

You don’t want to own too little gold and have the purchasing power of all your savings shrink dramatically. You can’t afford that. But you don’t want to be an end-of-the-world nutcase, either.

Well, one of the world’s shrewdest investors – Jean-Marie Eveillard – has 8%-10% of his extremely successful investment fund allocated to gold and gold plays...

Jean-Marie Eveillard’s First Eagle Global Fund beat the stock market every year this decade. What’s more, he’s done it conservatively... He doesn’t take big risks. Over 30 years, he’s proven to be one of the most successful mutual fund managers ever.

When I got into investing nearly 20 years ago, Jean-Marie was already a legend. After doing my homework, his First Eagle Global Fund was one of the very first investments I ever bought. (Back then, it was called the SoGen fund... it still uses its old symbol, SGENX.)

Jean-Marie started managing the fund in 1979. If you had invested \$10,000 in the fund back then, it would be worth just over 1 million today. (Heck, I should have kept my money in there!)

His “big idea” now is very simple. Gold pays no interest. And money in the bank pays nearly no interest. You can print money. But you can’t print gold. If the Fed keeps interest rates low, the obvious outcome is that it will take more slips of paper (dollar bills) to buy an ounce of gold.

He believes his clients’ money should be about 10% or so allocat-

ed to gold and gold investments. What's right for your situation? That's up to you. But if you're substantially under or over the legendary investor's gold allocation, you ought to consider getting more in-line with him...

You can learn more about Jean-Marie Eveillard's First Eagle Global Fund here: <https://www.feim.com/article/global-fund>.

## THE GOLD INVESTOR'S BIGGEST RISK

By Jeff Clark, editor, Casey Research's *Big Gold*

What do you suppose is the biggest risk gold investors face? Another 2008-style selloff? Gold stocks never breaking out of their funk? Maybe a depression that slams our standard of living?

Though those things are possible, I don't see that as your greatest threat. Master speculator Doug Casey summed it up well:

Your biggest risk is not that gold or silver may fall in price. Nor is it that gold stocks could take longer to catch fire than we think. Not even the prospect of the Greater Depression. No, your biggest risk is political.

As bankrupt governments get increasingly desperate for revenue, any monetary asset held domestically could be a target. It is absolutely essential that every investor diversify themselves politically. In fact, at this point, it is the one action that should be taken before anything else. – Doug Casey, September 2011

I know many reading this are prudent investors. You own gold and silver as solid protection against currency debasement, inflation, and faltering economies. You set aside cash for emergencies. You have strong exposure to gold stocks, both producers and juniors, positioned ahead of what is likely the next-favored asset class. You feel protected and poised to profit.

Yet, despite all this preparation, you remain exposed to one of the biggest risks.

Similar to holding a diversified portfolio at a bank without checking the institution's solvency, many investors keep their entire stash of precious metals inside one political system without considering the potential trap they've set for themselves. While storing some of your gold outside your home country is not a panacea,

it does offer one important thing: another layer of protection.

Consider the exposure of the typical U.S. investor: 1) systemic risk, because both the bank and broker are U.S. domiciled, 2) currency risk, as virtually every transaction is made in U.S. dollars, 3) political risk, because he is left totally exposed to the whims of a single government, and 4) economic risk, by being vulnerable to the breakdown of a single economy.

Viewed in this context, the average U.S. investor has minimal diversification.

The remedy is to internationalize the storage of some of your precious metals. This act reduces four primary risks:

**Confiscation:** I don't know the likelihood of another gold confiscation. But I do know that things are working against us – particularly for U.S. citizens. With over \$100 trillion of unfunded liabilities, the U.S. government will likely pursue heavy-handed solutions. Under the 1933 FDR “gold confiscation” in the U.S. (the executive order was actually a forced delivery of citizens' gold in exchange for cash), foreign-held gold was exempted.

**Capital Controls:** Many prudent analysts, including my colleagues at Casey Research, believe some form of capital controls lie ahead, limiting or eliminating a citizen's ability to carry or send money abroad. If enacted, all your capital would be trapped inside the U.S. and at the mercy of whatever taxing and regulating schemes the government might concoct. Although you might be able to leave the country, your assets could not travel with you.

**Administrative Action:** There are plenty of horror stories of asset seizure by a government agency without any notice or due process, possibly leaving the victim without the means to mount a legal defense. Having some gold or silver stored elsewhere provides what could be your only available source of funds in such a scenario.

**Lack of Personal Control:** Having gold and silver stored elsewhere adds to your options. You will have a source of funds available for business, entrepreneurial pursuits, investment, or pleasure.

Notice above I said these risks can be reduced, not eliminated. There is no perfect solution. U.S. persons could, for example, be compelled to pay a “wealth tax” on assets held worldwide, or even repatriate them in a worst-case scenario. But absent a crystal ball, the political diversity of asset location is an essential strategy against an uncertain future.

Foreign-held assets also require greater awareness and planning:

Access to your metal or sale proceeds may not be quick. Therefore, this option is for those with some gold and silver stored at or near home. I do not recommend storing all your precious metals overseas. That defeats one of its purposes: to have it handy for an emergency.

While I think the U.S. poses the greatest threat, a foreign government could move to control certain assets as well. The risk varies by country and is generally greater within the banking system than with private vaulting facilities.

Understanding and complying with reporting requirements is essential.

The bottom line, though, is that foreign-held precious metals can mitigate risk and give you more options. And as your metal holdings grow, diversification becomes more crucial.

Given our current rapacious climate, it’s likely that simply buying gold won’t be enough. I strongly suggest every investor diversify one’s bullion storage outside their current political regime. The option may not be available someday, leaving you vulnerable without a secondary source of bullion.

I advise taking advantage of the opportunity before it is gone.

## THE BEST ONE-CLICK WAYS TO OWN GOLD

By Matt Badiali, editor, *S&A Resource Report*

The gold-fund universe has exploded with opportunities.

Today, we have more than a dozen different “one-click” ways to play gold. Take a look:

Investment	Fees*	Market Value (USD)	Type
SPDR Gold Shares (GLD)	0.40%	\$32.2 billion	Bullion
iShares COMEX Gold Trust (IAU)	0.25%	\$6.5 billion	Bullion
Central Fund of Canada (CEF)	0.00%	\$3.5 billion	Bullion
Sprott Physical Gold Trust ETV (PHYS)	0.35%	\$1.9 billion	Bullion
ETFs Physical Swiss Gold Shares (SGOL)	0.39%	\$1.1 billion	Bullion
Central GoldTrust (GTU)	0.00%	\$906.2 million	Bullion
ETFs Physical Prec Metals Basket Shares (GLTR)	0.60%	\$275.8 million	Bullion
ETFs Asian Gold Trust ETF (AGOL)	0.39%	\$56.2 million	Bullion
PowerShares DB Gold (DGL)	0.75%	\$161.2 million	Futures
PowerShares DB Gold Double-Long ETN (DGP)**	0.75%	\$147.1 million	Futures
ProShares Ultra Gold (UGL)**	0.95%	\$134.3 million	Futures
RBS Gold Trendpilot ETN (TBAR)	1.00%	\$62.5 million	Futures
iPath DJ-UBS Prec Metals TR Sub-Index ETN (JJP)	0.75%	\$11.2 million	Futures
UBS E-TRACS CMCI Gold TR ETN (UBG)	0.30%	\$12.9 million	Futures
iPath Pure Beta Precious Metals ETN (BLNG)	0.75%	\$1.8 million	Futures

*\*Does not include brokerage fees    \*\*Designed to return twice the annual return of gold*

All these funds match the short-term performance of gold well enough: From December 31, 2012 to December 31, 2013, the price of gold fell about 28%. The largest bullion fund, GLD, fell about 26%. The largest unleveraged futures fund, DGL, fell about 29%.

But the differences start to show in the long run. From December 31, 2008 through December 31, 2013, the price of gold rose about 36%. GLD rose about 38%, but DGL only rose about 26%.

In general, the bullion funds track the actual gold price much better than futures funds over the long term.

Futures contracts expire, so the funds that use gold futures are forced to sell their old ones and buy new ones... Each time they do it, it costs a little bit. That's why these funds consistently underperform the commodities they track.

And each futures fund tracks a different basket of futures, based on a unique index. The subtle differences in the indexes can mean a big difference in your account.

Over 2009, for example, there was a 23% spread between the best-(UGL) and worst-performing (UBG) gold futures funds. And that's just the unleveraged funds... DGP offers the ability to speculate on gold with leverage: It tries to return twice the rise in the spot price. But from its February 2008 launch through December 2013, it was down about 2%. Meanwhile, gold was up roughly 25% over that period.

What does this all add up to, besides a lot of confusing choices? Well, these funds are there to make the banks money... not you. So if I were adding a precious-metal fund to my own account, I would stick

### Store Your Gold with One of the Most Reputable Firms in Canada

One of the safest "paper gold" investments is the Central Fund of Canada (CEF). This company holds a mix of actual gold and silver bullion to back its shares.

But you have to be sure to buy CEF at the right time.

You see, it's a closed-end fund, meaning there are a finite amount of shares. Those shares can trade at a premium or a discount to the net asset value (NAV) of CEF's bullion.

Keep an eye on this number. Try to buy when the premium is at or below 5%, which is about what you'd pay to buy a real gold bullion coin. (As of January 2014, CEF shares traded around a 5.5% discount to NAV.)

You can find out how high the premium is here: [www.centralfund.com/Nav%20Form.htm](http://www.centralfund.com/Nav%20Form.htm). Or you can call the Central Fund of Canada at (403) 228-5861.

to the big bullion funds. They track the spot price well and are liquid enough to buy and sell easily.

There's no substitute for real gold. But if you can't or won't go out and buy bullion, the bullion funds are the next best thing.

#### **Store Your Gold in a Private Swiss Bank Vault**

In September 2009, ETF Securities launched Physical Swiss Gold Shares (SGOL). SGOL holds real gold stored in Swiss vaults, rather than futures or mining stocks.

SGOL is a \$1.1 billion fund with a modest 0.39% fee. Each share represents about 1/10 of an ounce of physical gold. So, if gold is \$1,250 per ounce, you shouldn't pay more than \$125 per share. Take care not to buy these shares at a premium.

## GET PAID TO PROTECT YOUR SAVINGS

By Dr. David Eifrig, editor, *Retirement Millionaire*

Investing in gold comes with two problems.

First is where to store it... Gold is heavy, and it needs to be put some place safe. Some “gold bugs” even bury it in their backyard.

The other problem is gold doesn’t generate any income. Unless you own a well-run mine that passes on cash flow to you, gold is just a boring hedge with no income.

I’ve found an investment that solves both of these problems. Here’s how it works...

Today, you can buy the New York-based SPDR Gold Shares (GLD). GLD is an exchange-traded fund that buys and owns gold bullion. By owning shares in this “trust fund,” you own actual gold... and the trust stores it for you. That solves the first problem: storage.

But simply investing in this fund doesn’t fix the income problem. The gold just sits in the trust’s vaults, gathering dust. The trust doesn’t pay a dividend.

So in order to get some income from your pile of gold, you can sell covered call options on the shares. If you’re not familiar with trading options and find the idea uncomfortable, rest assured: this call-option strategy is easy and safe. In fact, the upfront income this trade generates makes it safer than simply buying shares in GLD.

Selling a call option simply gives someone else the right to buy your GLD shares at a specific price (the “strike” price) before a specific date (the “expiration” date). In exchange for that right, the investor pays you money up front (called the “premium”).

Here’s one way to think about it...

Selling these covered calls is like owning a rental house... and giving your tenants the right to buy your house at a predetermined price, which is higher than the current value.

You collect “rent” no matter what. And if the price goes up, you get the gains up to a predetermined price. In other words, it’s a very, very safe investment. Here’s how it can work out:

If your GLD shares never trade for more than the strike price, you keep the premium and the shares. You can continue to sell call options against your shares.

If the share price exceeds the strike price on or before the expiration date, your shares are automatically sold for you, you book any profit up to the strike price, and you still keep the premium.

If gold is in an uptrend, I expect you can make a safe 10%-15% a year with this strategy.

The best calls to sell have a strike price 5%-10% above the current price and expire in six months or so. Those will give you plenty of cash up front and still leave you some upside on your gold.

You can also follow this strategy with other gold funds, like the iShares COMEX Gold Trust (IAU).

If you haven’t sold options before, you should talk to your broker about the best way to take advantage of this opportunity. Please don’t rush out and do anything you don’t understand.

But as I said, this trade is one of the safest, easiest ways to own gold. It’s a fantastic hedge against calamity and the collapse of the dollar. Plus, with 10%-15% annual gains, you can earn more income than the best dividend-paying stock in the marketplace today.

## YOU CAN HOLD GOLD IN YOUR BANK ACCOUNT

By Dr. Steve Sjiggerud, editor, *True Wealth*

Your cash in the bank earns you next to nothing...

Meanwhile, the government has the ability to print all the money it wants to. In short, your wealth in the bank is steadily eroding. Your dollar is losing purchasing power year after year.

What can you do to protect your savings? My friend Frank Trotter of EverBank has an innovative solution... **Hold some of your savings at the bank in gold.**

Frank and I go way back. I like him a lot, and I like his firm. His team has taken good care of my readers over the years. (And in case you're curious, I have no business relationship with EverBank, and neither does my publisher, Stansberry & Associates.)

Over dinner one night, he explained to me that, through EverBank's "Metals Select Gold" accounts, you can keep a portion of your savings at the bank in gold instead of in dollars.

"So, Frank... I could keep my everyday money in my regular checking account... and then I could keep my longer-term savings split between a regular savings account and gold?"

"Yes."

"But what if I need to convert my gold at the bank into cash to pay for a big expense?"

"No problem."

"How long will it take to get my cash? A day or two?"

"Yes."

“OK. How do you hold my gold?”

“However you want. You can have gold with your name on it, so to speak, which has a storage fee. Or we can hold it for you as unallocated gold, where there’s no storage fee.”

“Will you send me my gold if I want it?”

“Absolutely. It’s your gold.”

I hadn’t heard of U.S. banks offering gold as an account option. But EverBank does. And it’s a pretty convenient way to hold gold...

Imagine your house needs a new roof, and you need to get the money out of savings. If your savings are in gold coins in a safe deposit box, you have a serious hassle...

You have to go to your bank and get your gold coins. Then you have to find somebody to buy them from you at close to full price... Either take them to a local dealer or mail them off to a reputable dealer. You’re taking a bit of a risk, having them on you or putting them in the mail. Then you have to wait on a check. Then you deposit that check in your bank. Then let it clear. Then you can write a check for a new roof. What a pain!

With your gold at EverBank, you tell them you need to convert your gold to cash and move that cash to your checking account. It’ll take a day or two from when you say “sell my gold.” Then you can write that check for the roof.

Now, if you hold your account in gold, its value is not guaranteed by the FDIC. Your checking and savings accounts are, of course. But if the price of gold goes down, the value of your gold account goes down – the FDIC isn’t going to help you out there.

But with the bank paying next-to-no interest – and a government with the ability to print money at will – it makes sense to hold a portion of your savings in gold. Holding gold in your bank account keeps your life simple. EverBank offers a hassle-free way to do it.

For more details, go to <https://www.everbank.com/investing/metals>.

## HOW TO KEEP THE GOVERNMENT'S HANDS OFF YOUR GOLD PROFITS

By Brian Hunt, Editor in Chief,  
Stansberry & Associates Investment Research

Before you sock your money into a gold exchange-traded fund (ETF), there's something important you should consider:

### **The IRS has a crazy view of gold ETFs... and it could cost you a lot of the gains you plan on making in gold and silver.**

You see, the IRS doesn't view gold as a normal financial asset like a stock or a bond. The IRS views gold as a collectible. And the IRS taxes the gains made in collectibles at a higher rate than conventional assets.

If you buy a stock and hold it for over one year, and make a profit on it, the tax rate on your gains is typically 15%. This greater-than-one-year rate is called the "long-term capital gains."

If you buy a stock, hold it for less than a year, and make a profit on it, the gains you make will be taxed at your ordinary federal income tax rate. This less-than-one-year rate is called "short-term capital gains." The higher your income, the higher your ordinary income tax rate. Most Americans with investible assets (and a job) are taxed in the 25%-35% range.

Collectibles – like art, stamps, and gold coins – are in a different boat. The IRS assesses a tax rate of 28% on collectibles like these. And despite a precious metal ETF's stock-like attributes, it is backed by gold bullion, so the IRS calls it a collectible. This means, even if you're a "buy and hold for the long term" investor in a gold ETF, you'll still get hit with a tax rate of 28% versus the lesser 15% tax rate for normal financial assets like stocks and bonds.

That's why an investor should consider a "gold and gold stock strategy" to minimize taxes. Here's what I mean:

Shares in large gold-producing companies fall under the long-term capital gains tax rate of 15%. An investor looking to keep his hard-earned gold returns away from the taxman should consider a gold stock for his taxable account... rather than buying a gold ETF. The savings can be significant...

Let's say you buy \$50,000 worth of a gold ETF. You hold it for three years. Gold goes on a bull run during your holding period, doubling in price. Your gold ETF stake is worth \$100,000, meaning you're sitting on \$50,000 in profits. If you decide to sell your gold ETF stake, you'll have to hand over \$14,000 (28% tax rate x \$50,000) to Uncle Sam.

Now let's say you put that same \$50,000 into the large gold stock fund (GDX). This is an investment fund that diversifies your dollars into a basket of the world's biggest and best gold mining companies.

Let's say you make the same profit of \$50,000 over a few years. You'll only have to hand over \$7,500 (15% tax rate x \$50,000) of profits to Uncle Sam.

I don't know about you, but the less I have to pass onto Uncle Sam to finance bank bailouts, welfare handouts, wars, and other ridiculous boondoggles, the better.

### Another Twist in the IRS Code

The IRS does not allow folks to hold collectibles in their IRA accounts. This rule is to keep folks from placing their life savings into a Picasso or something like that. But for whatever reason, the IRS does allow you to place gold ETFs into your IRA.

That's right. Repeat after us, "The IRS sees gold ETFs as collectibles. The IRS does not allow you to place collectibles into your IRA... But the IRS will allow you to place gold ETFs into your IRA."

So if you want a low-tax bet on straight gold bullion, put a conventional gold ETF into your IRA. Your tax-advantaged IRA will shield your gold profits from the government.

Now, before you get excited about “tax-advantaged gold,” be aware that gold stocks are more volatile than gold itself. These companies are sensitive to borrowing costs, fuel prices, and wild swings in profit margins caused by the ever-changing gold price.

As with all tax-related questions, it’s best to consult with your own advisor before taking any major action. But if you want a low-tax way to get into gold and you don’t mind a little volatility, consider the gold-stock fund, GDX.

## HOW TO BUY AND STORE PHYSICAL GOLD

An Interview with Jeff Clark, editor,  
Casey Research's *Big Gold*

Interest in buying and storing gold is on a lot of minds these days.

That's why we sat down with Casey Research's Jeff Clark to talk about the best places to buy and store physical gold. As the editor of *Big Gold*, Jeff is one of the most knowledgeable gold investors in the world.

We think you'll find his tips on buying and storing gold extremely valuable over the coming years...

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**Stansberry & Associates:** Let's get right to how to own gold... What forms of gold do you encourage people to buy?

**Jeff Clark:** The average Joe may not be aware of it, but gold is very mainstream these days... Meaning it's easy to invest in, and there are plenty of choices. You can buy GLD and the ETFs that have been in the news over the last several years, which are reasonable options. But physical gold should be where your first dollar goes.

What I recommend everyone buy is the one-ounce gold coins. Bars are fine, and people with significant wealth should use them. But I'd rather have 100 gold coins than a 100-ounce bar of gold. The one-ounce coin is easily recognizable and easy to sell if you need to. If you have it in smaller denominations, you can sell only what you need if it comes to that. And gold is easily transportable. You can literally hold \$50,000 worth in your hands. And no one has to know about it.

As far as the rare and numismatic coins, they'll certainly rise in an inflationary environment. But you have to be a little more careful here because values are based on their rarity and their condition,

and the average investor can't judge those things.

There are good rating services out there now, predominantly the Professional Coin Grading Service (PCGS). But it's a tricky area for the novice, and you can lose money if you don't know what you're doing. I only buy from Van Simmons of David Hall Rare Coins. I trust him, and he actually helped create the standards for PCGS.

**S&A:** Who else do you trust when it comes to buying gold, particularly the one-ounce coins you mentioned?

**Clark:** For online buying, I like Kitco [877-775-4826], which charges a set dollar amount over spot, versus a percentage as most dealers do. This can work in your favor as the gold price moves up, although Kitco does change its prices from time to time. You can also buy gold and silver in their pool account at just pennies over spot.

The Coin Agent [1-888-494-8889, thecoinagent@gmail.com] is a small shop and his prices can't be beat. I really like him, and I trust him, too.

Border Gold [888-312-2288] is in Canada and sells primarily the Maple Leaf. If I wanted Leaf, that's where I'd go.

Another one I like and trust is Asset Strategies International [1-800-831-0007]. I can personally vouch for each of them.

When you're shopping, keep in mind that you want a fairly common coin – such as an Eagle, Maple Leaf, Krugerrand, or Philharmonic. You don't want an obscure coin and have someone question if it's real if you sell it someday. Other than that, you're just looking for the best deal from a reputable dealer.

**S&A:** Do you have a rule of thumb where you never pay 5% or 10% over the spot price of gold?

**Clark:** Sure, but that rule of thumb is a floating number. In late 2008, that number was 9%, and if you could get that you had to

grab it. Now, you shouldn't have to pay more than 5% or 5.5%.

The way to avoid paying too much is to shop around, and that only takes a couple calls or clicks.

**S&A:** So we should go to the dealers you recommend and shop around for the best price?

**Clark:** That's what I do. If you want to buy online, I'd go to Kitco. If you want to talk to a dealer, I'd call one of the other places I mentioned.

What you want to avoid are the large houses you see advertised on TV or online. You'll occasionally see a low premium advertised – say 5%, or maybe even less. But quite frankly, that's usually an enticement to get you in the door.

They make a much higher commission on numismatic coins.

So if you buy from them, some day you're likely to hear, "You know, my friend, we have a great deal right now on this rare coin. Let me tell you about it..."

**S&A:** Something where the uniformed novice can get taken advantage of.

**Clark:** Yes, it happens regularly. Save yourself some hassle and avoid those guys.

Of course, you can go to your local shop, too. But right now, my local shops are more expensive than the other places we just talked about, even after shipping. One of my local guys is charging a 9% premium right now. I like him, but that's unacceptable in an environment where premiums have come way down.

**S&A:** How about paying for physical gold with cash? For the completely hypothetical person who doesn't want to leave a paper trail?

**Clark:** You can certainly pay with cash. In that scenario, you'll be going to your local coin shop.

**S&A:** Once you've bought it, where do you store it?

**Clark:** The easiest way to store gold is in a safe deposit box at the bank. But you can only get to the gold when the bank is open, and you're not insured if the bank gets robbed. If you do decide to use a safe deposit box, make sure you use a local bank. You want to be able to get it in an emergency.

Another option is to hide it in your house, which is good for small amounts of gold. Avoid jewelry boxes or cookie jars. The risk here is fire or flood. You could consider a safe, bolted to the floor. Talk to a bonded safe company. Or look for safes online with tags like "floor safe" or "personal safe" or "home safe." Sentry is probably the leading brand. And safes don't have to be expensive – they start around \$150.

If you get a safe, put it somewhere you can place something over it, like a refrigerator, because you don't want it visible to strangers or easy to find if you're robbed. And for obvious reasons, you should install it yourself. Some of the kits make it easier than you it might expect.

**S&A:** What about "midnight gardening"?

**Clark:** This got its name from people burying their gold at night so their neighbors wouldn't see them digging. If you bury your gold in the daylight, find another reason to dig – like fixing a pipe or removing a stump.

The advantage to burying your gold is that you don't have to worry about it getting stolen or losing it if your house burns down. But make sure you store it in something airtight and waterproof, like a hiker's water bottle or a bit of PVC pipe with capped ends.

Find somewhere on your property that you'll remember but that isn't easy to guess if someone learns you've buried something valuable.

**S&A:** Right. What if you can't remember where you hid it?

**Clark:** You should definitely let one person know the details – someone you trust. They need to be able to access the gold if you get hurt or die. If you use a safe deposit box, put that person's name on the registration. And make sure to tell him or her where you put the key.

But don't tell more than one person. And most of the time, your kids aren't going to be a good choice. Kids talk, and you definitely want to keep quiet about your gold...

**S&A:** Would you ever sell your gold holdings?

**Clark:** Well, since gold is insurance, you cash it in when calamity hits – either you personally or the economy. That said, I would only sell my gold if I absolutely had to – if I lost my income or if the world came to an end Mad Max style. I may cash some in if we get the parabolic move in gold that I expect, but I'll decide that then.

**S&A:** Thanks for your time and insight, Jeff.

**Clark:** My pleasure.

## WHAT MY MOST TRUSTED GOLD INSIDER IS BUYING

By Dr. Steve Sjiggerud, editor, *True Wealth*

**Editor’s Note:** In May 2010, Steve spoke to collectibles expert Van Simmons and put together a two-part series for *Daily Wealth* readers on buying gold. Van told him how and where to buy gold... and gave him three “must-own” gold investments.

By the time you read this research, a few time-specific numbers may be out of date. That doesn’t matter in the slightest. What matters is the outstanding thinking contained in this piece...

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### **How to Buy Gold, Part I: Famous Dealer Explains**

I spoke with Van Simmons recently...

Van is a legend when it comes to gold and gold coins – and he’s one of my good friends.

(A few things from his resume... In 1986, Van was a founder of PCGS – the Professional Coin Grading Service – which revolutionized the gold coin industry. As a dealer he’s possibly bought and sold more dollars’ worth of rare coins than anyone on the planet.)

Van is a mentor of mine. I give him a call and ask him his opinion when I’m considering buying an alternative investment (even beyond gold and coins). Having collected and bought and sold so many different things over decades, his experience is priceless.

This time, we kept it simple... I asked him:

*What’s the best way for the typical American to own gold?*

“Bullion is where you start – which usually means modern gold coins. The most widely traded gold coin is the U.S. Gold Eagle,”

Van said. “If you’re new to gold, and you want to physically own gold bullion, the U.S. Gold Eagles are the way to go.”

(It’s easy to buy Gold Eagles. I’ll show you where and how at the end of this essay.)

I asked Van why we should want these in particular... For example, my parents owned Krugerrands (which are gold coins from South Africa). I asked Van why we shouldn’t own Krugerrands or Canadian Maple Leafs.

“Well, you can own those you mentioned... But when a customer sells a Krugerrand or a Maple Leaf, a dealer has to fill out a 1099 Form about who bought and sold and mail it to the government. We don’t have to do that for Gold Eagles.”

*All things being equal... the less reporting requirements, the better. (You can also hold these coins in IRA accounts.)*

“Also, importantly, they’re the most liquid coins... so while you might not find a full-price buyer for a Mexican Peso gold coin, there’s always a buyer for an American Gold Eagle – you can always get a good price.”

*How much should people hold in gold bullion like Gold Eagles versus stocks or rare coins?*

“Right now, personally, I’m about equally split between those three... I might have a bit more in gold stocks. For customers, it’s their decision. If you want to have a speculative element to it, you should have gold stocks and rare coins. Some people don’t want rare coins. And some people just want bullion. It’s your call.”

*How should people store the stuff?*

“Once again, it’s your call... You can put it in a safety deposit box, in a home safe, or bury it in the backyard. One thing, I do not recommend having a dealer store or hold it for you.”

*What about shipping? Any concerns?*

“It’s no big deal. We typically send coins by registered mail, insured. We also use FedEx. The only complaint we hear is when registered mail takes more time to deliver than the customer expects, and they start to get antsy. But buying coins is as easy as when you order a book on Amazon.com and it shows up at your house.”

As for how much to pay, expect it to cost around 5% to 6% over the current gold price, plus shipping (which is typically around \$25).

For where to buy... In my nearly two decades writing investment letters, I’ve dealt with a handful of dealers that have handled thousands of our readers and have proven to treat them right. These dealers include:

- Camino Coins in the San Francisco area ([www.caminocompany.com](http://www.caminocompany.com))
- Asset Strategies in the D.C. area ([www.assetstrategies.com](http://www.assetstrategies.com))
- American Gold Exchange in Texas ([www.amergold.com](http://www.amergold.com))
- And of course, Van Simmons in Southern California ([www.davidhall.com](http://www.davidhall.com))

I don’t receive any compensation for mentioning these guys. And you’re welcome to call around or buy locally. I’m just letting you know these dealers have handled thousands of orders – each – from my readers over the years. And I’ve had few complaints about them (and never anything serious). They each have decades of experience.

In sum, if you want to get started owning gold bullion, the best starting point is U.S. Gold Eagles.

Don’t worry if you’ve never bought gold before. If you buy from one of the dealers above, it’s as easy as ordering a book on Amazon and having it show up on your doorstep!

My talk with Van didn’t end there...

Van doesn’t have all of his gold investment in bullion. He thinks of his gold holdings in “three buckets.” I like that approach. I asked Van to explain how it works...

## How to Buy Gold, Part II: Three “Must-Own” Gold Investments

The three buckets Van holds gold in are: **gold bullion**, **rare coins**, and **gold stocks**. You choose the mix that’s right for you, based on how much risk you want to take and how much you want to “juice” your portfolio to take advantage of a big move in gold.

For your bullion “bucket,” Van suggests U.S. Gold Eagles, as we just discussed.

For your rare coins “bucket,” you need expertise. In the last major bull market in gold, coin prices soared. The entire market (as measured by the PCGS 3000 Index) rose 1,195% from 1976 to 1980. We haven’t seen anything like that this time around. You can learn all you want from books and doing your own research (which you should do). But Van is my “go to” guy.

I always say, “You and I can’t call Warren Buffett about stocks, or Bill Gross about bonds... but we can call Van about gold and gold coins.” He’s accessible. You can reach him through [www.davidhall.com](http://www.davidhall.com), e-mail [info@davidhall.com](mailto:info@davidhall.com). Dana Samuelson and his team at American Gold Exchange ([www.amergold.com](http://www.amergold.com)) also do a nice job.

At the end of the day, I think you’ll do great relying on Van and Dana. They’ve proven to be trustworthy, they know their stuff, and their prices are reasonable.

For your gold stocks “bucket,” a great starting point is shares of the **Market Vectors Gold Miners Fund (GDX)**. GDX is an exchange-traded fund that holds the top 36 names in gold stocks. You make one investment, and you’ve got it all.

If you want to “juice” your returns in gold stocks, you might consider “junior” mining stocks. The simplest way to buy them is through the **Market Vectors Junior Gold Miners Fund (GDXJ)**. This one investment gets you exposure to 69 junior gold stocks.

If you're just starting out in gold, or if you'd like to add more money to your gold position, Van laid out your path...

- 1. Hold bullion first.** U.S. Gold Eagle gold coins are a great starting point. To juice your portfolio from there...
- 2. Hold rare coins.** They soared 1,195% in the last gold bull market. And also...
- 3. Hold gold stocks.** GDX (major gold miners) and GDXJ (junior gold miners) get you exposure to more than 100 gold companies.

Choose your mix of these three based on your risk tolerance.

## MY FAVORITE WAYS TO OWN GOLD BULLION TODAY

By Tom Dyson, publisher, *The Palm Beach Letter*

This is not an essay about gold.

It's about the best way to own gold bullion.

You have many choices when it comes to buying gold bullion. You can buy gold jewelry. You can buy gold bars. They sell them in one-ounce, 10-ounce, or even 400-ounce bars. Or you can buy gold coins. There are thousands to choose from – from ancient Roman coins to coins issued by the U.S. Mint this year.

When I buy gold bullion, I need to know I can trade my gold anywhere in the world, whenever I want. I need to know I'll get full value for my gold when I sell it. And I don't want the government knowing about my transactions.

The \$20 Saint gold coin meets these three requirements better than any other gold bullion investment I know.

America became the largest economy on earth in the early 20th century. America's \$20 gold piece became the world's most important coin. You might say it was the early 20th century equivalent of the \$100 bill today.

The U.S. Mint produced 70 million of these \$20 gold coins between 1907 and 1933. The proper name for this coin is a \$20 Double Eagle gold coin. But coin experts call them "\$20 Saints" because Augustus Saint Gaudens designed them.

For the last 100 years, collectors have spread the \$20 Saint all over the world. There are hundreds of thousands of these coins in North America, Asia, South America, and Europe. Everyone recognizes them. Everyone will trade them with you at a fair price.

I like the \$20 Saint in “brilliant uncirculated” condition.

To give you some history, in the late 19th century people used gold coins as currency. They bought steamboat tickets with them. They purchased houses with them. They even paid bills with them.

The vast majority of the gold coins from this era that exist today are in “junk” condition, like most of the coins in your pocket. Few “uncirculated” gold coins exist from this era.

By the early 20th century, people used paper money for day-to-day transactions. Gold coins became a savings instrument. Savers kept these coins in sock drawers, safety deposit boxes, and bank vaults.

There are hundreds of thousands of uncirculated gold coins still in existence from this era, especially the Saint Gaudens \$20 piece.

A few of these uncirculated \$20 Saints are so beautiful and rare, collectors pay tens of thousands of dollars for them. These are called “graded mint condition” coins. I am NOT talking about mint-condition collectible coins here.

Brilliant uncirculated (BU) coins are neither “mint condition” nor “junk” coins. They are simply coins that look shiny and new, but they’re still common enough that they don’t have any rarity or collectible value.

BU Saint Gaudens are free of any government reporting requirements... and the government is unlikely to confiscate them.

In 1933, the U.S. government outlawed gold ownership. It demanded Americans turn in their holdings of gold coins. But it made an exception of collectible coins.

If the government decided to confiscate gold again – something we consider unlikely – you would have to turn in your holdings of Krugerrands and American Eagles. But your pre-1933 Double Eagles in BU condition would likely receive an exemption as “collectibles.”

Finally, BU Double Eagles have more upside potential than any other gold bullion investment.

Over the last 40 years, these coins have commanded a significant premium over gold bullion coins.

For example, during the 1960s when gold was trading at \$32 per ounce, BU \$20 Saints sold for almost \$65 per coin... a 100% premium over gold.

In 2001, when gold was trading at \$300 an ounce, BU \$20 Saints traded for \$710-\$750 each... as much as a 150% premium.

With the run-up in gold prices in recent years, investors are buying up modern gold bullion coins like the American Buffalo and Eagle, and even one-ounce gold bars. And so inventories of these BU vintage gold bullion coins have built up. The premiums have fallen to all-time lows.

Today, you can buy a pre-1933 brilliant uncirculated Saint Gaudens for just a little more than a Krugerrand or an Eagle costs today. In sum, BU \$20 Saints offer three practical advantages over common gold bullion coins: better liquidity, insurance against confiscation, and more upside potential. But they only cost slightly more than a Krugerrand or Eagle.

This is the bargain of all bargains. Take advantage of it while gold investors concentrate on modern bullion products.

*The Palm Beach Letter is a corporate affiliate of Stansberry & Associates.*

## HOW TO BUY BULLION WITH NO MARKUP

By Stansberry & Associates Investment Research

The New York Mercantile Exchange (NYMEX) is the world's largest physical commodity futures exchange.

The futures exchange is a market like any other, where sellers and buyers agree on a price. The only difference, really, is that they don't settle up right away. They "lock in" the price for a future date.

One of its two principal divisions of the NYMEX is the Commodity Exchange (COMEX), where you can buy gold.

When you buy a gold futures contract on the COMEX, you agree to buy gold at a particular price on a particular date.

Unfortunately, you can't buy just a few ounces of gold on the COMEX. Each gold contract covers 100 ounces of gold in a 100-ounce "good delivery" bar.

So if you don't have the capital to cover 100 ounces of gold, try a couple of the other sources of cheap gold listed in this book. If you do have the capital, here's how it works...

Very little gold actually changes hands on the COMEX. Most buyers and sellers of gold futures contracts are speculating on changes in the price of gold. But every participant who buys a gold futures contract can request actual delivery of the gold.

To buy physical gold on the COMEX, you need to open an account with a futures broker. You can do this through a U.S. Futures Commission Merchant like [www.rjofutures.com](http://www.rjofutures.com).

These brokers may ask you to prove a minimum net worth and a minimum income. If you can put down enough cash for 100 ounces of gold, you should clear these requirements no problem.

The most active months for trading gold futures contracts are the current month, the next month and the month after that... along with every February, April, June, August, October and December. In other words, you have lots of choices for when to get your gold.

But if you want to get your gold as soon as possible, buy a futures contract for the current month. That contract will close (“settle”) on the third-to-last business day of the month. Buy your contract and deposit the full amount into your account. In less than a month, you’ll be the proud owner of 100 ounces of gold.

Now, you don’t have to deposit the whole amount right away.

You’ll probably have to put down something like 10%. But if gold declines in price, you’ll be required to deposit more or risk getting kicked out of the contract at a loss.

On the settlement date, your account will be charged for an amount equal to the settlement price (whatever the contract price was when you bought it) multiplied by the exact weight of the particular bar that’s been assigned to you. (A standard COMEX bar weighs roughly 100 ounces.)

## Two Ways to Buy Cheap Gold Bullion in 10 Minutes or Less

### Option No. 1: Bullion Direct

Headquartered in Austin, Texas, Bullion Direct is an online service that offers trading, clearing, purchasing, and storage of precious metals.

As of January 2014, you could buy a 32-ounce “kilo” gold bullion bar or a 10-ounce bullion gold bar from the catalogue for about a 2% markup. (The more gold you buy at one time, the smaller the markup.)

To get started, go to [www.bulliondirect.com](http://www.bulliondirect.com) and click on the “New Account” tab located on the top right-hand corner.

You won't pay any markup on the gold, but you will pay a commission ranging between \$30 and \$80. (These rates are paid per contract, so that's not even one-tenth of one percent.)

When you buy gold off the COMEX, it is stored in one of the five designated COMEX depositories, all of which are in or near New York City. The average storage fee is \$15 a month per bar.

Ask your broker to mail you the warehouse receipt, which includes all the details on your specific bar. Don't lose this receipt.

You can get your bar delivered to your home, but you have to pay a \$25 to \$30 delivery fee to get the bar released. Then you'll have to add shipping charges on top of that.

If you leave your bar in the COMEX vaults, you know it's safe. And it's easier to sell this way. (A prospective buyer will not question the authenticity of your gold if it has been locked away in a monitored facility since you bought it.)

### **Option No. 2: Bullion Vault**

Another way to buy gold cheaply and quickly is to buy from BullionVault.

At BullionVault, you can buy gold and have it held in "good delivery" form. BullionVault charges a maximum commission rate of 0.5%, which falls progressively to 0.05% depending on how much you invest. The more you trade, the less you pay. And the system remembers how much you have traded in each year – starting from the day you first register.

To get started, go to [www.bullionvault.com](http://www.bullionvault.com) and click "Open Account" located on the top right-hand corner.

## HOW TO LEGALLY (AND EASILY) HOLD GOLD OFFSHORE

By Dr. Steve Sjiggerud, editor, *True Wealth*

Michael Checkan has been a reliable contact for me in the gold world since I started writing investment newsletters in the 1990s. He runs a firm called Asset Strategies International. Along with my late friend, Glen Kirsch, he helped pioneer a few interesting products, including one called the Perth Mint Certificate Program.

I've known about Perth Mint Certificates for many years... I know they're a simple, safe way to hold gold. But I never actually thought of these certificates as legally owning gold outside the U.S. However, that's exactly what they are... and that makes them extremely interesting now.

You see, the government really wants to know if you have money in a foreign bank account. When you mail in your taxes, you have to report if you have one. The fear is that by reporting those accounts, you've made it easy for the government to confiscate the money someday, even if it's held overseas.

But (and you might get a laugh out of this one) **the government doesn't count gold as money.**

It doesn't consider gold a financial asset, so holding gold in a foreign country doesn't count as owning a foreign bank account. There is no reporting requirement. This puts it out of the immediate grasp of the government. If it can't "see" what you have... it can't take it!

This "loophole" has been around for a long time. But to me, the idea of shipping a bunch of gold bullion overseas didn't seem practical. Where would you store it – in a garage or a bank somewhere?

So awhile back, I asked another friend of mine, Joel Nagel,

“What’s the most practical, easy way to hold gold overseas?”

Joel is an international lawyer and entrepreneur focusing his practice in the area of asset protection, cross-border transactions, and global investment.

Joel said, “Well, you could buy a Perth Mint Certificate.” I felt like a knucklehead... It was so obvious.

Buy a certificate, receive it in the mail, and boom! You now own gold offshore.

Specifically, with a Perth Mint Certificate, you own physical gold held at the Perth Mint in Australia. It’s guaranteed by the government there, it’s fully insured by Lloyd’s of London, and it has both internal audits and independent audits. I’ve personally been to the Perth Mint and have seen the gold.

I wanted to verify the specifics, so then I got in touch with Glen... “Glen, can a Perth Mint Certificate be redeemed through you [at Asset Strategies International] in the States? Can someone get their cash through you?”

Glen replied, “The answer to both questions is YES!”

Now that’s convenient: Your gold is in Australia, out of reach of the U.S. government. But you can easily cash it in right here in the States.

Many people prefer to hold physical gold themselves, believing that the safest place for it is in their possession... And that’s fine, too. To each his own. But Perth Mint Certificates are probably the easiest, safest way to buy gold and hold it overseas.

You are in full compliance with U.S. law. But at the same time, by holding gold offshore, you have made it more difficult for the government to reach into your account and take your wealth.

For more on Perth Mint Certificates, call Michael or Rich Checkan at Asset Strategies (800-831-0007) or e-mail [info@assetstrategies.com](mailto:info@assetstrategies.com).

## HOW TO LEGALLY SMUGGLE GOLD

By Dr. Steve Sjoggerud, editor, *True Wealth*

Did you know the president confiscated all the gold of American citizens in 1933?

It's true... all in one quick swoop of the pen:

### UNDER THE EXECUTIVE ORDER OF THE PRESIDENT

Issued April 5, 1933

All persons are required to deliver ON OR BEFORE MAY 1, 1933 ALL GOLD COIN, GOLD BULLION, AND GOLD CERTIFICATES now owned by them to a Federal Reserve Bank, branch, or agency, or to any member bank of the Federal Reserve System.

It was the height of the Great Depression. And the U.S. government desperately needed to shore up its financial position. So in a dramatic move, it took everyone's gold.

Could it happen again? Well, put it this way: Who could have imagined it would happen the first time around?

Every day on the radio, I hear ads about buying gold as a store of wealth. But folks who held gold as a store of wealth in the Great Depression had that "wealth" confiscated by the government.

I brought up the subject over lunch one day with my longtime friend Michael Checkan. Michael's business is called Asset Strategies International. He finds legal ways to protect and diversify your wealth. Michael told me about a neat little idea he came up with.

I thought the idea was worth sharing with you... "When the U.S. government confiscated gold back in 1933," Michael told me, "you were allowed to keep your gold jewelry. The president didn't ask for Grandma's wedding ring."

For example, if you wanted to, you could carry 100 24-karat gold necklaces – each piece weighing one to five ounces – out of the country, and you wouldn't run afoul of the currency laws. And then you could convert them to money at most gold dealers in the world. It's like legal gold smuggling.

Now, I don't recommend doing this on any scale. First off, you'd look like Mr. T. going through customs. And secondly, it's just not cost-effective... Most 24-karat jewelry is handmade and costs a premium over the price of gold. But a gold dealer will only pay you a discount to the gold price.

Finally, I'm not a lawyer, but I'm sure that if you tried to bring a load of high-end jewelry across the border, someone would decide you're somehow breaking a law.

However, for a small portion of your gold, jewelry is an interesting idea...

My friend – and publisher of *The Palm Beach Letter* – Tom Dyson, was also at the lunch, and he was considering buying jewelry for his wife for this same reason.

“My wife would like some jewelry... If I bought this, my wife would get something she wants to wear... and I'll be confident that it's not worthless. It has real gold value.”

With this idea, you can keep your significant other happy while you're confident you own something with real value. And in the extreme case, if we see another 1933 again, your gold should be safe.

It's an interesting idea. For a small portion of your gold holdings, jewelry is worth considering...

To learn more about jewelry and other asset diversification strategies, we recommend you talk to Michael. He is extremely knowledgeable and has offered to answer any questions for Stansberry & Associates readers. Visit his website at [www.assetstrategies.com](http://www.assetstrategies.com) or call (800) 831-0007.

## WHAT YOU NEED TO KNOW ABOUT COUNTERFEIT GOLD

An Interview with Van Simmons,  
president of David Hall Rare Coins

In late 2012, reports surfaced of counterfeit gold appearing in New York City. Chinese companies were also openly advertising fake gold coins. Many folks began to worry about the authenticity of the gold coins and bullion they were buying.

To get the facts on this story, we sat down with Van Simmons. Van is the president of David Hall Rare Coins and co-founder of the highly-respected Professional Coin Grading Service (PCGS), which revolutionized the rare-coin market.

Longtime readers know Van is one of the world's foremost experts on the gold-coin market, and he's our go-to source of information on the industry.

In this exclusive interview – originally published in November 2012 – Van explains why you should be concerned about the authenticity of your gold... the best way to avoid this problem... and how to tell if the gold you already own is legitimate.

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**Stansberry & Associates:** Van, there have been several recent reports of counterfeit gold popping up in the U.S. Is this something most readers need to be concerned about?

**Van Simmons:** Yes, it definitely is... but with a caveat.

Gold counterfeiting is nothing new, but reports of counterfeit bars turning up in New York have brought new attention to it. Of course, it's not just China... but much of the counterfeit gold these days does come from there.

These items typically contain tungsten, which has a similar mass

as gold but trades for only a few hundred dollars an ounce.

As for the counterfeit bars, it's usually a case of real gold bars being drilled out and refilled with tungsten. Coins and ingots – things like rounds, small bars, and non-denominated coins minted by private companies – are smaller, so they're typically tungsten with some type of gold plating.

The fact is, it's not even against the law in China to counterfeit American coins, so there are many companies over there in that business.

Fortunately, I've never seen or heard of any problems with counterfeit bullion coins like Gold Eagles, Krugerrands, or Maple Leafs. There probably are some out there, but they're extremely rare.

Dealers trade in these coins all day long and are very familiar with them... so any potential counterfeits wouldn't stay in circulation long. Like I said, I've been trading them for decades and haven't encountered them.

Where counterfeiting is a problem is in ingots and – more importantly – rare coins. Because these items are not widely traded and dealers are much less familiar with them, they're a much bigger and more profitable target for counterfeiters.

We see these coins at PCGS every so often. But it's usually a case where someone will call us and say they have some rare date coin that's worth a great deal of money... when the reality is they bought it off eBay or someplace similar, paid cash for it, and it's counterfeit.

I had a complete set of Barber half-dollars, trade dollars, and Morgan dollars that were all counterfeit. A customer came in with them and was surprised to discover they were fakes. Of course, it turned out he bought them off Craigslist.

If I showed you some of these Morgan dollars, you'd think they were some of the best-looking coins you've ever seen. But they

don't look quite right if you know what you're looking for... And it's pretty easy for a professional to spot them as counterfeit.

So there's definitely counterfeit stuff out there, and it can be a big problem if you don't know what you're doing.

**S&A:** What's your best advice for avoiding these problems?

**Simmons:** It's simple.

First, don't buy ingots. It just doesn't make much sense to buy them today.

They were popular in the past, but once coins like the Krugerrand, Maple Leaf, and the U.S. Eagle began trading in the U.S. in the late 1970s and 1980s, these coins have dominated the bullion market. These are what everyone trades... they're super-liquid... and the premiums are reasonable compared to most ingots. So it's simply not worth the risk to buy ingots to try to save a little money.

Second, I suggest buying your bullion through a reputable dealer. The risks with Eagles, Maple Leafs, or Krugerrands are quite low, as I mentioned. But why take on unnecessary risks?

Third, if you're going to purchase rare and relatively expensive coins, it's even more important to buy them from a reputable dealer, and only buy those graded by PCGS. I can't emphasize this enough.

If you're going to spend a lot of money on an item, you owe it to yourself to ensure you get what you're paying for. Naturally, as a founder of PCGS, I'm not unbiased here. But there's a reason we're the most trusted grading service in the world.

I talk to people all day long that have sought out "really good deals," and end up hurting themselves. It's a cliché, but it's particularly true in the rare-coin market: If a deal sounds too good to be true, it probably is.

Counterfeit gold is a serious problem, but it doesn't have to be a serious problem for you if you take a few common-sense precautions.

**S&A:** Great advice... Finally, if readers are concerned they may already own some counterfeit gold, what would you recommend?

**Simmons:** Well, as I mentioned, if they own ingots – especially ingots they purchased from a third party, or got a really special deal on – it's a valid concern.

If they're worried about coins, it's a different story. If they've owned the item for more than five years or so, chances are they have nothing to worry about. These realistic-looking counterfeits are relatively new. And of course, if you bought PCGS-graded items from a reputable dealer, your risk is quite low.

But in any case, they can call up a local coin dealer and most would be happy to take a look.

Of course, any readers with specific concerns about rare coins can also contact us at David Hall Rare Coins, and we'd be happy to help.

**S&A:** Thanks so much for talking with us, Van.

**Simmons:** My pleasure.

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**Editor's Note:** Van would be happy to speak with S&A readers about making coin and collectible investments. You can reach him at (800) 759-7575 or (949) 567-1325, or by e-mail at [info@davidhall.com](mailto:info@davidhall.com). (We receive no compensation for mentioning Van. We have been working with him for several years now. Van has always treated our readers well.)

## WHY VALUE INVESTORS SHOULD BUY GOLD

By Dan Ferris, editor, *Extreme Value*

For all the gold that's ever been mined, you could buy every acre of farmland in the U.S. and 10 companies the size of ExxonMobil... and still have \$1 trillion left over.

Would you rather have a shiny cube of metal, 67 feet on a side... or trillions of dollars of assets that actually produce wealth?

That's essentially what Warren Buffett, the world's most successful and famous investor, wondered in a 2010 interview with Fortune.

Buffett doesn't like gold because it's got no intrinsic value.

In a way, he's right. Most of the gold in the world just sits around collecting dust. Very little of it is used for industrial purposes. With the high price an ounce, industrial gold users will likely use as little of the stuff as possible.

But here's what he's not seeing...

In 2010, in my *Extreme Value* newsletter, I wrote:

Never forget what's at the bottom of the banking system: the Federal Reserve as lender of last resort, with its unique ability to print as much money as it wants in order to have enough to lend into the banking system.

The money-printing I worried about is well underway... and is unlikely to stop any time soon.

The Fed pretends it's a sophisticated operation with an array of complex, surgical-grade financial tools. But it's really an imbecile with a hammer. The hammer is money-printing, and every economic problem is a nail.

## **So you should always own gold.**

I'm not saying gold and silver are cheap, though relative to dollars, I believe they are cheap. I'm saying the world's most well-known, well-liked, and widely held standard of value (the U.S. dollar) is a poor standard of value. In fact, it's a phony standard of value.

It's easily created – at the touch of a button nowadays. Does that make sense to you? Have you ever in your life created anything of value without putting effort into it?

Value isn't created easily, on a whim. Value is created by employing capital productively... the way gold and silver are made. You should own gold and silver because they're the ultimate standard of value.

Gold is the asset that can't be inflated, yields nothing, and is no one's liability. It's real wealth... pure wealth... the most enduring form of wealth in history.

Let's be clear. I'm not talking about exchange-traded funds, precious-metals mutual funds, gold-mining stocks, silver mining stocks, gold- or silver-indexed preferred shares, or paper certificates of any kind. They have their place, but that's not what I want you to buy.

I'm talking about physical gold in the form of bullion coins. I'm not talking about speculating on the price of the commodity. I'm talking about exiting paper dollars and putting your savings in real money.

For gold-bullion coins, I buy and recommend Krugerrands. The premiums are usually low. There's plenty of supply. And it's the most widely circulated gold bullion coin in the world.

For silver bullion, I buy whatever one-ounce, 0.999 fine silver rounds my coin dealer suggests. I've been going to the same guy for years. He knows me when I come in, and he knows I like the

coins with low premiums.

I recommend putting 10% of your investable assets in both gold and silver bullion. Buy it. Hide it somewhere you'll always have access. Buy physical gold and silver to preserve the purchasing power of the wealth you've created. Do it to protect yourself from the Fed's war against the dollar. Do it because gold is the ultimate standard of value.

The only reason most value investors don't like gold is that Warren Buffett doesn't like gold.

Believe me, I'm only human. I've fallen under the spell of a big-name money manager a time or two.

But if Buffett and his followers want me to believe that paper makes better money than gold... that paper keeps mischievous men from degrading my wealth better than gold... that gold isn't a more enduring standard of value than anything else that's ever been tried... they're going to have to keep talking because I'm not anywhere near convinced.

## A COMMON-SENSE GUIDE TO BUYING AND SELLING GOLD

By Stansberry & Associates Investment Research

**Editor’s Note:** The content you’re about to read veers from our normal format. Many of the key, timeless ideas on gold that we’ve published over the years have been featured in the *S&A Digest*, our excellent e-letter for paid subscribers. We’ve compiled some of our favorite excerpts below...

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We believe physical gold is the best way to protect your money from the government’s treachery... Your gold is no one else’s liability. So we’ve been telling our readers to buy gold coins since at least 2003, and we get more questions on the topic than almost any other. Below are the whys, hows, and wheres of buying “gold that clanks.”

**On gold and financial turmoil:** Gold has a unique and timeless role in the world’s markets. It is the ultimate store of value. Thus, while it might not be an “investment,” it is the ultimate form of savings.

Additionally, in a world awash in paper money, where debt forms the basis of most commerce, an ounce of gold is no one else’s liability. This makes it uniquely attractive during periods of financial turmoil.

– Porter, March 14, 2008

**On bullion vs. rare coins:** Buying collectible coins or collectibles of any kind is a specialist’s game (Steve Sjuggerud is our specialist). If you’re not a specialist, or if you’re not working with a specialist you can trust, you’re very likely to get burned – meaning you’ll pay far too much for the coins you buy, and you’ll end up selling your coins at a dumb price.

I collect wine, not gold coins. And I can tell you the price of the wine I collect has absolutely nothing to do with the price of grape juice. Prices for fine, collectible wines have soared in the last eight years, simply because drinking wine has become very popular recently.

In the past, the same thing has happened in the rare coin market – most recently in the late 1980s. Coin manias can be extraordinary... The prices for certain coins can become completely unhinged.

If you want to invest in a very liquid, easy-to-buy, and easy-to-sell monetary commodity, you should buy bullion. When I buy gold, I buy bullion because I want to protect my savings against inflation and I have no interest in becoming a coin collector.

On the other hand, coin collectors can make money whether the price of gold goes up or down. Gold-coin collecting is a good hedge against inflation. It's a non-correlated asset (meaning it doesn't follow the value of the stock market). From time to time, rare gold coins will make you a tremendous amount of money – and they've done pretty well since 2003 when we began recommending them. But rare-coin investing is a completely different art than simply buying gold.

– Porter, March 12, 2008

**On coins vs. the gold ETF:** It's awfully difficult to make an ETF-security disappear. Gold coins, on the other hand, are very easy to buy with cash and to hide. – Porter, March 12, 2008

**On scarcity:** We received this note from our own Matt Badiali:

Just got off the phone with Van Simmons (an executive with David Hall Rare Coins). He said there is a shortage of both Silver Eagle coins and 100-ounce bars. He can't get them. He said that, for the first time in his career, a supplier that guaranteed delivery simply couldn't make good on the promise. He also told me that platinum eagles are in serious short supply. I guess that means someone out there is buying up the physical metal in a big way.

The U.S. Mint has run out of one-ounce American Eagle gold coins. And it's been rationing Silver Eagles because of the high demand.

The U.S. mint sold 60,000 one-ounce gold coins this month, up from 47,000 in July and 13,000 in June. When gold fell from the \$900s to the \$700s, small buyers didn't sell the way they usually do. They bought.

Abraham Lincoln may have been an even worse president than FDR, but he had one thing right: You can't fool all of the people all of the time. People know the government is destroying their currency, so they're turning it in for gold, which is exactly the right thing to do.

– Dan Ferris, August 23, 2008

**On buying gold:** Pick up the yellow pages. Look up “Broker, Gold” or try looking under “Bullion” or “Gold Coins.” Call the numbers you find. Ask them what their price is on gold bullion. Buy from the guy with the best price, assuming he's been in business in the same location for a long time.

If you're nervous about whether or not it's real gold, ask a jeweler. If you don't have a local gold dealer, call the folks we know: David Hall ([www.davidhall.com](http://www.davidhall.com)), Camino Coin ([www.caminocompany.com](http://www.caminocompany.com)), or Asset Strategies International ([www.assetstrategies.com](http://www.assetstrategies.com)).

**On selling gold:** I'm no expert when it comes to coins. So far, I've only bought them. I haven't sold any yet... and I doubt I ever will. I buy bullion coins, and I keep them as my preferred form of savings (it seems a lot smarter to save gold instead of paper currency). But I've been told that selling on eBay is relatively easy. And my coin dealer regularly quotes buy prices, so I could sell back to him if I wanted.

– Porter, February 27, 2008

**On where to keep your gold:** The property inside a safety deposit box belongs only to you. And the bank can't go inside your box unless it's complying with a search warrant. (At least, that was

true before the Patriot Act... I'm not so sure now.)

But here's my question for you. Do you really think the government is going to let you access that box in the event of a real currency crisis? No way. No way in hell. They'll make owning gold illegal overnight. And they'll instruct the banks to open every box and seize all of the gold.

Think it'll never happen? It already did. The best way to own gold bullion is to keep it someplace safe, where no one will know anything about it.

– Porter, July 23, 2008

### **The one indicator to watch when buying gold...**

Everywhere you turn today, you see another talking head discussing “currency wars” – when countries around the world race to devalue their currency. And you see countless headlines asking if gold's run is over.

I (Porter) wouldn't pay any attention to what the politicians or the pundits say. I would watch what central banks are doing. And right now, central banks are buying gold – particularly Russia and China. To a lesser extent, almost every central bank in the world is buying gold.

When central banks are buying gold, the price of gold will rise. Only when central banks stop buying, for whatever reason, will the price of gold go back down.

Interestingly, the best time to buy gold is when central banks are selling. And I mean the ideal time to buy gold is when central banks are selling.

But today, central banks are buying... And they have been buying for the last five or six years. So gold is going up. If you have the luxury of owning plenty of real property and having plenty of gold, you just wait and enjoy the ride. Because you know that whatever

happens, central banks will do the wrong thing.

In the long run, all paper-currency regimes fail. And at some point in the future, gold will become the basis of international trade. We can't know when that will be. But when it happens, the price of gold will go much higher than it is today.

But you want to buy gold as cheaply as possible... And that's difficult to do when central banks, with their trillions of dollars in reserves, are buying gold.

My advice has been the same for many years... If you don't own any gold, please buy some. It's expensive, but it's necessary insurance against today's fiscal policies. If you're trying to speculate in gold, you want to do it in a contrarian way... And you want to be contrarian to central banks.

– Porter and Sean Goldsmith, *Digest Premium*, March 18, 2013

### **The best way to judge the value of gold...**

As I (Porter) have said in the past, asset valuation is a tricky thing. It's not always easy to know the real value of something...

That goes double when it comes to valuing gold. Its only true utility is as a universally recognized asset that isn't anyone else's liability. While gold is a value touchstone, its intrinsic value is very difficult to judge.

Then again, the price of anything is impossible to measure in the short term. That's because short-term markets act as voting mechanisms. As you've seen in American politics, people will vote for damn near anything. In the market, people cast their votes and act irrationally because of margin calls and fear and greed and so on.

In the long run, of course, markets are weighing mechanisms. And in the long run, the stability of gold... its universal acceptance... and its quality of being an asset that's nobody else's liability... will carry its value.

So if you buy gold, even at the wrong price, you will be rewarded eventually. That's because gold is ethically, morally, and traditionally – and for sound physical reasons – the best form of money ever created.

Of course, how much you will be rewarded depends upon the moral and economic failings of the paper money systems gold competes with. I would judge those failings to be approximately total.

By the time my children are having children, let's say 25 years from now, I would expect the paper dollar to be nearly worthless. Because you measure the price of gold in paper dollars, you would then expect the price of gold to be nearly infinite. That's only measuring these things in terms of nominal prices, which are meaningless in the real world.

So if you look at the value of gold and not the price, I think you'll have a much better sense of what's happening. The value of gold has remained almost completely unchanged over thousands and thousands of years. And this latest bull market in gold has not changed the metal's fundamental value.

An ounce of gold should be worth approximately the same amount of labor and materials as the finest men's suit. That has always been what gold has been worth. So what's the competitive price of the finest men's suit?

As a connoisseur of men's clothing, I can get a well-tailored suit for about \$1,500 at the low end. It could be as much as \$5,000 at the high end. So I think somewhere in that range is a fair price for an ounce of gold. Though the nominal price is bouncing all over the place, I truly believe the value of gold remains unchanged.

None of the latest market gyrations has changed my view of the intrinsic utility of gold. I don't expect the true value of gold to change much at all over time. I expect that its relationship with other paper currencies will change dramatically in gold's favor. And I expect that will happen soon.

– Porter and Sean Goldsmith, *Digest Premium*, April 18, 2013

## DON'T BELIEVE THE GOLD MYTHS

By Dr. David Eifrig, editor, *Retirement Millionaire*

**Editor's Note:** We've excerpted the following pages from "Doc" Eifrig's April 2012 issue of *Retirement Millionaire*. By the time you read this research, several time-specific numbers will be out of date. That doesn't matter in the slightest. What matters is the outstanding thinking contained in this piece... and the timeless ideas you'll learn about investing in gold.

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Last month, the greatest investor on Earth attacked one of the financial world's sacred cows... and an army of bloggers and self-appointed pundits flooded the Internet with condemnation.

Warren Buffett, as you probably know, is an investing legend. He's one of the few people to amass a billion-dollar fortune mostly on his ability to invest in the stock market.

Every year, he publishes an annual letter to shareholders of his holding company, Berkshire Hathaway. It's one of the most widely read commentaries in the financial world. (You can find them here: <http://www.berkshirehathaway.com/letters/letters.html>.)

In this year's letter (2011), he included a page-long takedown of one of the most emotionally charged investment choices people make – holding gold.

He ridiculed the idea of owning gold... comparing its buyers to the ignorant folks who were wiped out during the legendary 17th century tulip mania in the Netherlands...

What motivates most gold purchasers is their belief that the ranks of the fearful will grow. During the past decade, that belief has proved correct. Beyond that, the rising price has on its own generated additional buying enthusiasm, attracting

purchasers who see the rise as validating an investment thesis. As “bandwagon” investors join any party, they create their own truth – for a while.

Less than a day after Buffett’s critical comments, the Internet “lit up” with rebuttals. Gold lovers (sometimes labeled “gold bugs”) called Buffett a moron, a government shill, and a senile old man.

But in this month’s issue, I’m going to show you that Buffett has a good point. What I’m about to say might anger you... You may even consider canceling your subscription. But hear me out. Regular readers of *Retirement Millionaire* know I like to focus on the facts, not the hype.

Knowing the facts about gold will make a huge difference in your wealth over the coming decade... And if you own gold, it will help you understand when it’s time to hold and when you should diversify into other investments...

### **Why People Love Gold**

For thousands of years, mankind has used gold as a medium of exchange... as money. It was a good choice for a lot of reasons...

First is scarcity. The world has only a finite amount, and you can’t create any more. Further, all the gold ever mined – about 170,000 metric tons – would fit onto a football field piled to about 6.5 feet high. (At today’s prices, the pile of gold is worth roughly \$10 trillion or so.)

In addition, it doesn’t corrode or deteriorate, it’s easily divisible, and... relative to other valuable assets you find in the natural world... it’s portable.

Even after the advent of modern currency, the U.S. government initially “backed” its currency with gold (meaning the monetary unit represented a claim on some fraction of the government’s gold stash).

Today, that’s no longer the case... Our money is not backed by gold.

Regardless, our affinity for gold continues.

Since early 2001, gold has marched from \$260 to about \$1,700... an almost unheard of long-term bull market for any asset. But much of these investors' enthusiasm is built on...

### Two Gold Myths You Need to Reject Starting Now

The fundamental reason people will tell you to buy gold is that it is a great form of savings... that gold is the ultimate “store of value.” That belief flows from all the reasons gold was used as money. (There's a finite amount, it doesn't deteriorate, etc.)

But here's what's wrong with that thinking...

If you own one ounce of gold, **no one can tell you whether it will retain its value over time.** It depends on the price of gold relative to other things.

You see, gold's fundamental problem is it is an “unproductive asset.” It creates nothing, generates nothing, and does nothing that increases the value of your investment in it.

I don't deny that building up a large supply of gold over your lifetime will probably result in a valuable stockpile. But will it be worth more – or even as

### The ‘Rare Collectible Coin That Was Minted Last Year’ Myth

Another “gold myth” many folks fall for are “rare collectible coin” scams...

I keep seeing advertising for gold and silver coins in almost every magazine. So I can't help but think the top of the market in gold and silver is in. The colorful ads claim the next great “collector's items someday.”

Just this week, I've seen ads for “ancient” silver coins in scientific journals, newly minted Chinese coins in sports magazines, and alleged rare (but made last year) proof coins depicting a ship wreck of ancient times in a food and wine

much – as you sacrificed to accumulate it? No one can answer that question.

Gold's value depends on someone else paying more for your ounce than you did. As Buffett says, if you want to make money, you're depending on the "belief that others will desire it even more avidly in the future." That means someone else has to pay more for it. Some call it the "greater fool" theory of investing.

On the other hand, land can be farmed, and buildings can be rented. An equity stake in a company (stock) can grow more valuable as the company sells more goods. And it can generate cash in the form of a dividend. As a result, you can build financial models assessing things like its present value and future cash flow... giving you the tools to make reasonable estimates of that asset's future value.

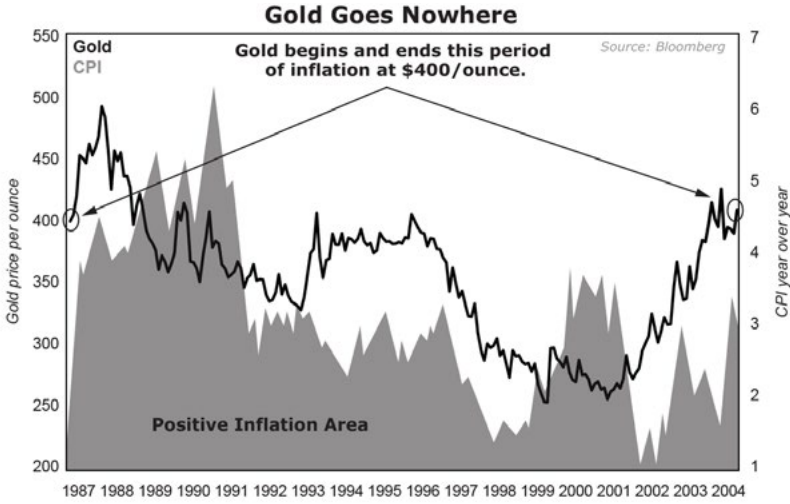
Gold does none of that. So you have no way to know its value other than the price today...

The other myth that leads people to gold is the belief that the precious metal can hedge you from inflation. (This is the idea that as the price of everyday goods we buy rises, the price of gold will increase in lockstep.) This makes some intuitive sense. But in reality, it doesn't work that way... The next chart shows that over 17 years (1987-2004) of rising inflation, gold prices went nowhere..

magazine. This amount of hype is often the sign of a top.

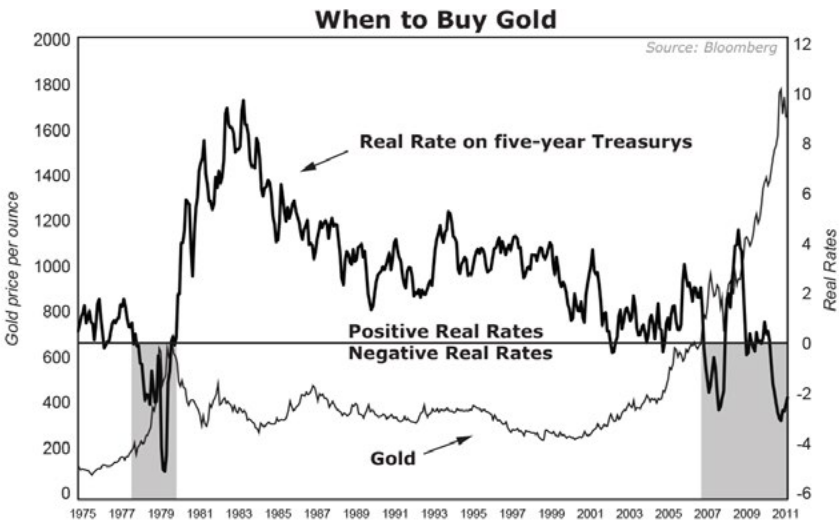
So please, please don't buy those coins... ever. They are mostly fabricated and a major ripoff. If you buy one and then try to resell it, you'll lose half your money overnight.

If you're interested in legitimate rare coins (which have an entirely different "value" proposition from bullion or traditional investments)... you should directly contact a reputable coin dealer. Stansberry & Associates subscribers have had consistent success working with Van Simmons at David Hall Rare Coins (800-759-7575) and the folks at Camino Coin (800-348-8001).



Over my investing lifetime, the only great time to own gold has been when real returns on fixed-income securities turned negative. So for example, imagine investing in a five-year U.S. Treasury note paying interest twice a year. When inflation has been more than interest rates on these U.S. Treasuries, gold has been a great asset to own.

Here's a chart showing that. When the real return on a five-year U.S. Treasury note (the interest rate minus the consumer price index) dips and stays in the negative return area, gold thrives.

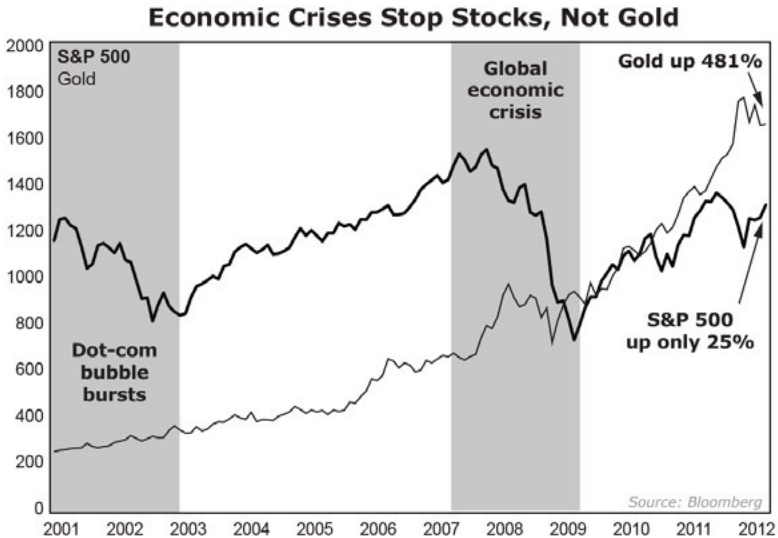


But that situation is uncommon. It's only happened 76 months out of the last 40 years (just 16% of the time). Most of the time, when the five-year Treasury note has paid more than inflation, gold has done nothing.

## Gold as a Chaos Hedge

At this point, I'm sure many of you are wondering, "So, Doc, if gold is an unproductive asset... a weak savings vehicle... and a poor inflation hedge... why is it in our *Retirement Millionaire* model portfolio?"

As I've mentioned in these pages before, gold outperforms many other asset classes during times of great economic and political stress. The following chart shows how gold outperformed stocks when the dot-com bubble burst and mortgage crisis sparked a global contraction...



As longtime *Retirement Millionaire* subscribers know, we keep an asset category in our portfolio called "Chaos Hedges." This is where we hold investments that will protect us during unusual times. Depending on an individual's circumstances... a person should limit this category to no more than 15% of his assets (and usually much less).

For example, if violence broke out in the streets and the paper currency of the U.S. government was worthless, you'd need to barter with gold or silver coins to get what you wanted. (I don't believe this is likely... but you should always have an emergency plan.)

In 2009, I recommended people keep about 10% in this category. But as gold has performed well, I slowly lowered our interest in gold. Last spring (2011), I recommended people keep no more than about 6% in this chaos category.

In *Retirement Millionaire*, we prefer silver coins because the everyday things you'd need to buy (food and gas) would be closer in price to an ounce of silver (\$33) than an ounce of gold (\$1,700).

But I also recommend a trade on the SPDR Gold Trust exchange-traded fund (GLD), which holds real gold bullion. We even negated my "gold produces nothing" criticism by selling call options against the fund to generate income. (Keep in mind... we pursued this trade as an income-producing strategy, not a way to own real, physical bullion.)

Finally, our third chaos hedge is a true hedge against inflation, as measured by the consumer price

### The 'Safe Deposit Box' Myth

One gold myth some folks fall for is the idea that you should store your gold in a safe deposit box with one of the big banks, like Wells Fargo or Bank of America.

This is a crazy idea.

The No. 1 reason to own gold is as a "chaos hedge"... to have your share of "real money," in case something horrible happens to the U.S. government and its paper currency, the dollar.

Remember... big banks are controlled by the government. If such a worst-case scenario were to occur, you're not going to want your gold inside a bank that the government could seal up with one

inflation (CPI). These securities are called Treasury Inflation-Protected Securities (TIPS) and are issued by the U.S. government.

### **The Better Inflation Defense**

The best way to secure your retirement is to regularly invest in what Warren Buffett prefers – “productive assets.” These include everything from farms to businesses.

If you’re looking for a good inflation hedge... these productive assets are an excellent choice. Their power to protect against inflation comes from their ability to grow your investment faster than inflation erodes it.

Look for businesses (stocks) that hold pricing power and have brand loyalty. If inflation kicks in, the ability to raise prices right along with input costs helps maintain our wealth. And businesses with loyal customers can usually pass along those price hikes without much loss in volume. That means steady profit margins and more wealth.

Take a company like McDonald’s (MCD). The demand for fast food will continue, and Mickey D’s will surely be slinging burgers in another five or 10 years. The company regularly responds to consumer

phone call.

If you do own physical gold, I recommend keeping it in a safe located on your own property, a private storage site, or literally buried in another secure location. Make this location known only to you and a few members of your family. Storing your gold this way is more work, but it keeps your gold in YOUR possession... not the government’s.

I know many folks like to own gold stocks... especially smaller “exploration” companies that hold lottery-ticket-like potential to produce big gains. Others like to own larger gold producers.

I know some guys who are excellent gold-stock traders. They do well in the market. But I don’t think gold

demand. For example, it placated health-conscious parents by offering apples and milk in its Happy Meals. And it sells lattes now that compete with local coffeehouses. Some retired friends of mine just confessed to a daily trip to “their coffee shop” – the one under the Golden Arches.

If prices go up along with inflation, you can be sure MCD will retain its loyal patrons and its profits like it has for the last 50 years. Companies like MCD are perfect inflation defenses...

Investing in blue chips is a winner’s game. Names like Johnson & Johnson, Chevron, Wal-Mart, and Walgreens will grow our wealth in almost any conditions... something that can’t be said for bonds or precious metals. These stocks have proven their ability to make money in some of the toughest times our economy has ever seen. Imagine what will happen when things pick up even faster.

So if you’re at all worried about inflation, you should own these sorts of blue chips for the long term. They are better than gold at fighting inflation... they are better than cash... and they are “all seasons” assets.

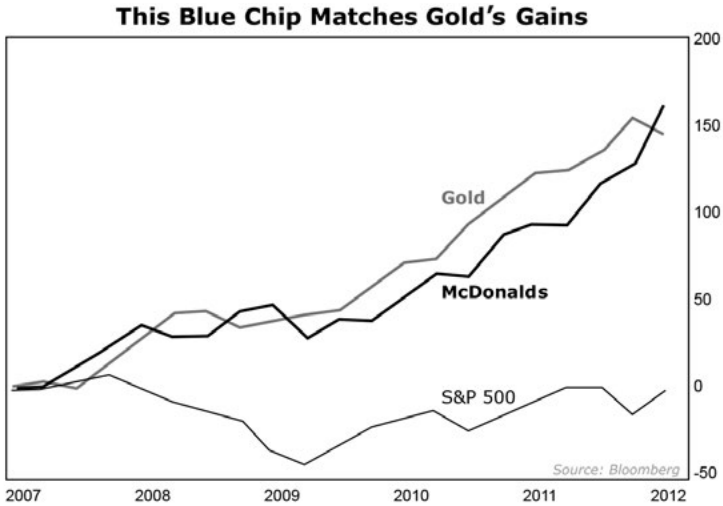
This chart of MCD, gold, and the

stocks are a good idea for the average retiree. Small exploration firms are notorious money-losers... and only appropriate for specialists. Also, mining in general is a terrible business with thin profit margins. The average retiree just doesn’t need the stress of owning these volatile businesses.

If you absolutely must own gold stocks, make them a tiny portion of your portfolio (like 1%-2%).

Owning elite blue-chip dividend-payers – like Coca-Cola and McDonald’s – is a far better and safer idea for long-term wealth compounding. This is an area of the market you can place serious money into... and let it safely compound for many years.

S&P 500 shows how a great blue-chip company protects you as well as gold can during tough times.



And remember... good stocks can protect you in both short-term and long-term wealth generation. Data from a recent Fortune magazine article says it all. Three \$100 investments in 1965 placed in six-month U.S. Treasury bills (short-term interest-bearing securities), gold, and the S&P 500 would be worth \$1,336, \$4,455, and \$6,072, respectively. Stocks beat gold by 36%. This shows the power of long-term investing in good stocks.

Of course, it makes sense to always hold a balanced portfolio of stocks, bonds, cash, and chaos hedges. We currently recommend an allocation of around 45% stocks, 35% fixed-income, 15% cash, 5% chaos hedge... and never more than 4%-5% of your assets in any one investment.

In sum... Don't fall for the gold hype. Gold is a good "chaos hedge," but it's not an asset you want to place a large chunk of your wealth in. Go ahead and own gold for some "disaster insurance." But avoid fanciful marketing claims of "rare collectible" coins that were struck last year. Store your physical gold on your own property, not with a government-controlled institution.

If you're truly interested in an "all-weather" asset to place a large chunk of your portfolio into, go with the world's best dividend-paying companies... like Coca-Cola, McDonald's, and Johnson & Johnson.

If inflation ever gets to be a problem, you can depend on these companies to grow your nest egg, while paying cash dividends along the way. If inflation isn't a problem (like right now), these companies still grow your wealth and pay ever-rising cash dividends. No one can make those claims for gold.

## WORRIED ABOUT A FINANCIAL CRISIS? BUY THIS VERY RISKY INVESTMENT

By Dan Ferris, editor, *Extreme Value*

These days, everybody loves to read and talk about the next financial crisis.

But what should you actually do to prepare for a financial crisis?

I'll tell you what in a moment. But first, let's talk about Howard Marks...

Marks, the founder of Oaktree Capital Management, is the latest voice to join the "next financial crisis" discussion.

Marks is one of the greatest investors of our time. His book, *The Most Important Thing*, is one of the best investment books ever written. His shareholder letters are must-reads.

Marks' latest investor letter, published in November 2013, is about the excesses in credit markets he saw building up in 2007... and sees building up again today. He says the current market "has gathered steam" since the 2008-2009 crisis, but admits it's not "anywhere near the same degree" of craziness as it was in 2006-2007.

I agree. There are similarities between today's financial environment and the pre-crisis environment. In his letter, Marks noted that low interest rates are making it unattractive to invest in bonds, which is driving people to invest in risky assets with little regard to the value they're getting. This is what caused the 2008-2009 credit crisis.

Another well-known and highly credible voice is warning us about the next crisis: legendary value investor Seth Klarman. Most people have never heard of Klarman, but he's one of the greatest investors in the world.

At the *Grant's Interest Rate Observer* conference last October

in New York, James Grant interviewed Klarman. Klarman was wringing his hands, as he has done every time I've seen him speak in public.

Klarman believes low interest rates and easy credit have distorted market prices. If the Federal Reserve wasn't printing money and buying bonds with it every month, Klarman says, "None of us know what the level of stock prices would be, what the level of corporate earnings would be, or, of course, where interest rates would be."

This clearly implies that interest rates should rise much higher in the near future.

Klarman went on to explain why he has 1.5% of his fund exposed to a rise in gold prices. He said he buys call options, which he admitted were expensive and routinely expire worthless. (Call options are leveraged bets that profit from rising prices.)

He said "the cool thing about gold" is that it's a good hedge to own should "the solvency of the United States" be called into question. If gold goes to \$3,000, \$5,000, or \$10,000 an ounce, he called buying call options on gold "the most interesting hedge."

**This is remarkable. One of the most conservative value investors of the last 30 years is buying call options on gold.**

This is one of the riskiest trades in the world.

It's pure speculation. It's virtually guaranteed to lose money the overwhelming majority of the time... and make you a bloody fortune the one time it works.

Klarman sees it more as an insurance policy. **It's a hedge against an enormous financial catastrophe, like a mass global exodus out of the U.S. dollar.**

You don't buy insurance to make money. You buy it to keep from losing money.

That is classic behavior of a value investor. A true value investor's main objective is to not lose money. Other value-oriented hedge-fund managers – like David Einhorn and John Paulson – are also long gold, but through less speculative vehicles (like gold bullion).

If you're concerned about “the next financial crisis” like Klarman is, consider taking some kind of position in gold. For most folks, simply buying gold bullion is the best move. Buying gold stocks is also a good idea. If you consider yourself an advanced, experienced investor, you might want to look into the gold call options Klarman is talking about.

However you choose to do it, make sure you understand gold as Klarman understands it: As an “insurance vehicle.”

When you buy insurance, you hope you never have to use it. That's how many professional investors see gold today.

## HOW TO MAKE THE BIGGEST, SAFEST RETURNS POSSIBLE IN ROYALTY COMPANIES

An Interview with John Doody, editor, *Gold Stock Analyst*

The interview below features one of the best precious-metals investments in the world: royalty companies.

To explain the incredible benefits of these stocks, we sat down with John Doody, one of the world's top experts on gold and silver stocks.

John is the editor of *Gold Stock Analyst*, an advisory with a track record that's unrivaled in the newsletter industry. John has been studying and analyzing these stocks for over 40 years. And his recommended portfolio averaged returns of 35.5% per year from 2000 through 2012.

His opinion on gold stocks is so respected, he's been profiled by Barron's seven times, quoted in *The Financial Times*, and is frequently interviewed on CNBC. He counts several of the world's best-known gold funds and investment managers among his subscribers.

As S&A founder Porter Stansberry says, "No one in the world knows more about gold and silver producing companies than John Doody. No one else even comes close."

Whether you're just getting started in resource stock investing or you already own some of these companies, John's advice could be critical to making the biggest, safest returns possible in this volatile sector.

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**Stansberry & Associates:** John, you're one of the world's top experts on gold and silver stocks. And follow several "royalty companies." Before we get into the value of owning these stocks,

can you define what a royalty company is?

**John Doody:** A royalty company is basically a mine-financing entity that has sold shares to the public. These companies provide money to miners for either exploration or actual capital costs such as mine and processing plant construction. So in a sense, they compete with bank lenders and equity offerings that brokers want to do for mining companies.

Royalty companies provide this financing to mining companies in exchange for one of two types of future payments.

In the first type, the royalty company will finance an exploration program to receive a royalty on any future sales that are produced from any discovery – which is kind of like a sales tax – that typically ranges from 1%-5% of sales. While the upfront money can be small – often just a few million dollars – the royalties can be quite big. One royalty company we like steadily receives about \$50 million per year from a site it helped fund exploration for in the mid-1980s.

In the second type, the royalty company will help finance mine construction – which is much more expensive than funding an exploration program – and receive a royalty payment called a “stream.” A stream is a commitment for either a certain number of ounces of metals per year or a certain percentage of ounces produced on an annual basis from the mine.

In this second type, a royalty company might be able to buy streams of gold at a 75% discount to the current spot price. But in order to buy gold at that kind of discount, it has to put up a significant amount of capital upfront.

Streams are often the preferred financing methods for the mining companies. If they borrow the money from a bank, they might have to hedge the production... or the bank might want more security of other mining assets, and so forth. If they sell more shares to finance the mine, it dilutes – and irritates – existing stockholders. So it's generally an easier financing mechanism for the miners, and it's a nice stream of income that the royalty

company earns over the life of the mine.

**S&A:** What makes royalty companies such great investments?

**Doody:** First, it's a great way to get diversification.

From an investor's standpoint, the typical mature royalty company has a portfolio of anywhere from 10 or 15 up to 50 different mines that are paying them royalties and streams.

So it's a broad, diversified portfolio compared to a typical mining company that might own one or two mines. And as you know, there's a lot of risk associated with a one- or two-mine company. It's common to see mines encounter difficulties for various reasons, and the related mining stocks might lose 25%, 50%, or more of their value in one day.

On the other hand, if a big royalty company had a royalty on that mine, it wouldn't be a big deal because there would be royalties from other mines that could take up the slack.

You also have a degree of transparency and clarity you don't get with mining stocks. Royalty pipelines are typically pretty visible, particularly over a three- or four-year time frame. And once a royalty company has put the money in, it doesn't have any further risk.

If there are capital cost overruns – and that can be a big problem for mines because they often cost more to build than what was planned for – they're not the royalty company's problem. It's already struck its deal. It might take another bite of it, but that would be a new deal. It's not something that it would have to pay any portion of. The miner is responsible for all overruns in the construction budget.

There's also no exposure to the rising costs of production that miners have. The production cost of an ounce of gold or silver has gone up dramatically over time. For example, the average cost of production for an ounce of gold in the early 2000s was

around \$200 an ounce. By 2012, the average cost to produce an ounce of gold was close to \$650... and it's only likely to go higher.

A third benefit of royalty companies is they typically pay higher dividends than even some of the biggest mining companies. They have very low overhead. I don't think any of the big ones have more than 20 employees because you don't need a lot of people in the business. And that means that a very high percentage of royalty income – typically over 90% – goes to gross profits, and from this they pay dividends and taxes, and finance future royalties and streams.

Usually, they pay out about 20% of their royalty income as a dividend, which gives you great current income and visible growth from the royalty pipeline.

**S&A:** Based on those traits – diversification, relative safety, and high dividends – some folks might assume these stocks don't experience big growth. Is that true?

**Doody:** No, not really. Royalty companies typically provide strong, steady growth... and much less risky growth, in my opinion.

One of the disadvantages of these companies is there's a lot of unfamiliarity about them among investors. They don't really understand the unique features that make them much more predictable in terms of their growth and their dividends. I think as their pluses get more widely known, their stock prices will react higher.

**S&A:** Can you provide a couple of examples of how royalty companies can grow to the sky?

**Doody:** One of the best-known royalty companies is Royal Gold. It's a great example of a royalty company that started small and steadily grew to a multibillion-dollar business.

Royal Gold had the original idea of exploring to grow its own properties, and then finding majors to develop them, while re-

taining a royalty interest in them.

The company had explored and found gold on a property in Nevada called Cortez. It got a miner called Placer Dome to develop it, and Royal Gold kept a royalty on it. It was a much smaller property when Placer first got involved, and it turned into a million-ounce-a-year mine. That huge royalty basically funded Royal Gold's growth in the acquisition of more properties, and it snowballed from there.

**S&A:** Do you have any rough guidelines for buying these royalty companies?

**Doody:** The most important thing to know is that the big ones trade in the market at different multiples than the smaller ones. The big companies tend to trade around 20 times royalties per share.

So if a company has \$2 in royalty income per share, the price would tend to average around 20 times that, or \$40. Of course, that doesn't mean it can't trade between 15 to 30 times royalty income. Stocks go up and down over the course of the year. But the multiples center around 20.

The smaller companies trade at about half that. In a sense, the public market won't pay the same premium for the small royalty producers that it does for the big ones. And that's probably because there's more risk associated with the smaller ones. They have fewer royalties, so they're more exposed to mine risks. And they don't get to see a lot of big deals, so they tend to get the scraps that the big guys aren't interested in.

Ideally, you want to buy the big ones when they're trading around 15 times royalty income, and sell them when they're trading over 25 times income. And you want to buy the small ones when they're trading around five times royalty income, and sell them when they're trading over 10 times income. But, rather than trading in and out based on the multiple, it can be better to just buy and hold based on their pipeline of growth.

**S&A:** Any parting thoughts on royalty companies?

**Doody:** I'll just add that it's common for several of the 10 recommendations in our current "Top 10" portfolio to be royalty companies. That should tell you something about how much we like these stocks.

**S&A:** Thanks for talking with us, John.

**Doody:** You're welcome. Thanks for inviting me.

**Summary:** There are several benefits to owning royalty companies... diversification, relative safety, and high dividends. Those traits allow royalty companies to provide strong, steady growth for investors, with much less risk than the typical mining stock.

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PART IV

*How to Know When to  
Sell Your Gold*

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## THE ULTIMATE GOLD BUBBLE TEST

By Brian Hunt, Editor in Chief,  
Stansberry & Associates Investment Research

**Editor’s Note:** In this essay – originally published in the November 12, 2009 edition of S&A’s free e-letter *DailyWealth* – Brian explains how to perform the ultimate test of whether an asset is “too popular” or “in a bubble.” A few time-specific numbers may be out of date by the time you read this piece. But it contains an important lesson... one that will help to guide your decision on when to sell your gold...

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Recently, there’s been a very popular – and very wrong – thing to say about owning gold.

I hear it a lot from inexperienced Wall Street analysts, bloggers, and money managers who spend little time living in the “real world.”

Here’s what they’re saying: “Gold is way too popular now... It’s near the end of its bull market.” The recommended “action to take” is to cash in your gold profits and move on to something different.

I can tell you that taking this advice is a big mistake. Anyone who believes gold is too popular with the mainstream public simply doesn’t know who the mainstream public is... and they don’t understand how bull markets end.

Sure... gold is up big in the last decade. Gold is also enjoying a lot of mainstream press these days. In 2003, when I would tell someone I was placing a significant portion of my net worth in gold, they’d look at me like I was crazy. Now, they nod and say, “I heard something about gold the other day on TV.”

**That's as far as the average Joe goes with his interest in gold.** This is why gold is nowhere near a “blow off” top. Here's how to perform the ultimate test of whether an asset is “too popular” or “in a bubble”...

Ask 100 people on the street if they own gold. See what they say.

Don't ask folks who read newsletter writers like Doug Casey or Porter Stansberry. Don't ask folks who you regularly talk investments with. Ask a group of randomly chosen members of the public if they know why gold is “real money.” Ask them why gold climbed from \$650 to over \$1,700 in five years.

I guarantee you the average person on the street is going to look at you like you asked him which airline offers nonstop flights to Venus.

He's going to have no idea what you are talking about. He's heard about gold on the news a few times, but he can't tell you why gold is rising, who is buying it, or why it is the best form of money mankind has ever found.

Gold is divisible, portable, lasting, consistent the world 'round, useful in industry... and as master speculator Doug Casey reminds us, gold cannot be created out of thin air by a government. In other words, you actually have to work and save in order to build a gold hoard. You can't “Bernanke” your way to real gold wealth.

The people who realize this – like billionaire hedge-fund manager John Paulson – are getting more publicity now than they were six years ago. But it's nowhere near enough publicity for a seasoned investor to say, “Gold is too popular.”

When a bull market gets too popular, it looks like tech stocks did back in 1999. This was when everybody and his brother bragged at the office Christmas party about making a fortune in Cisco or Microsoft. It was when schoolteachers, personal trainers, and cab drivers suddenly became tech stock experts.

Folks knew what “bandwidth,” “routers,” and “e-commerce” meant. Only when an asset enjoys that sort of widespread attention can you say it’s too popular.

I can’t say that about gold right now... not after talking with friends who do not invest... not after talking with the people sitting next to me on the plane. The public still has no idea what “bullion” really is... or how the government’s reckless “tax and spend” behavior is clobbering our currency.

Don’t believe me? Just ask ‘em.

## WATCH FOR THIS SIGNAL TO SELL YOUR GOLD

By Stansberry & Associates Investment Research

Business was so good, Empire Diamond and Gold Buying Service had to hire a security guard to handle the crowd in their office.

“We’ve been serving about 100 cups of coffee a day, going through three or four pounds daily,” said an assistant, hurrying away to fill the empty pot.

We found Empire Diamond and Gold Buying Service’s story in the New York Times archives from January 1980. When the gold price soared, Empire Diamond and Gold Buying Service were suddenly inundated with people looking to sell gold trinkets.

“We are handling a couple of hundred customers a day off the street and the average wait is three hours,” said the owner, Mr. I. Jack Brod.

“Nobody has ever seen anything like this. I’m looking for a beautiful year in 1980,” said Bob Deitel, owner of the Madison Coin Shop in Connecticut.

If you’re trying to spot the peak of a gold bull market, “disharding” is one clue to look for. Disharding is what happens when people decide the gold price is so high, they’d like to swap their old gold

### Warning on Mail-In Gold Offers

By Dr. David Eifrig,  
editor, *Retirement Mil-  
lionaire*

Right now, late night commercials are begging you to sell your unwanted jewelry.

Unless you’re in dire circumstances, hold on to your gold. If you absolutely need to sell your gold, do some research first.

The most advertised company seems to be Cash 4 Gold. It claims you can get cash fast when you mail in your gold, silver, platinum, or diamonds to them.

We called Cash 4 Gold,

heirlooms for cash. They pile down to the local gold and coin stores with their lockets, scarf pins, and old gold dental fillings.

The massive new supply floods the market and causes the gold price to collapse. The intense dishoarding in January 1980, for example, was one reason gold's bubble popped. Gold fell \$250 in the final days of January and then kept falling for the next two decades.

Here's the thing: Gold fever has returned to America. A few commercials on TV are offering cash for gold...

Pawnshops are doing well right now, too. But so far, it seems people are still more interested in accumulating gold.

Until you see lines around the block at coin shops and New York Times articles about dentists earning thousands of dollars from used gold fillings, you should assume we're still in the bull market.

and the people there refused to give us price quotes. ABC's Good Morning America sent in gold jewelry valued at \$350 and only received \$66.07 from Cash 4 Gold.

Instead of mailing your jewelry off, your best bet is to shop your gold around to a few local jewelry stores and compare their offers. You probably won't get face value... but you'll do much better than you will with Cash 4 Gold.



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PART V

*China's Influence in the  
Gold Market*

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**Editor's Note:** In February 2012, Porter introduced readers to China's ongoing and enormous accumulation of gold... a plan that could allow it to replace the U.S. as the owner of the world's reserve currency...

"I know this will all sound crazy to most folks," he wrote. "But most folks don't understand gold... or why it represents real, time-less wealth. The Chinese do."

Porter's four-part series is a "must read" for anyone who wants to understand what the Chinese are doing, why they are doing it, and the near-certain outcome.

Some time-sensitive material in these essays may be out of date. But the critical – and controversial – ideas he exposes are still relevant, even today.

Whether you agree with Porter's research or not, you owe it to yourself to consider what will happen if he is right...

## HOW THE CHINESE WILL ESTABLISH A NEW FINANCIAL ORDER

By Porter Stansberry, founder,  
Stansberry & Associates Investment Research

For many years now, it's been clear that China would soon be pulling the strings in the U.S. financial system.

After all, the American people now owe the Chinese government nearly \$1.5 trillion.

I know big numbers don't mean much to most people, but keep in mind... this tab is now hundreds of billions of dollars more than what the U.S. government collects in ALL income taxes (both corporate and individual) each year. It's basically a sum we can never, ever hope to repay – at least, not by normal means.

Of course, the Chinese aren't stupid. They realize we are both trapped.

We are stuck with an enormous debt we can never realistically repay... And the Chinese are trapped with an outstanding loan they can neither get rid of, nor hope to collect. So the Chinese government is now taking a secret and somewhat radical approach.

China has recently put into place a covert plan to get back as much of its money as possible – **by extracting colossal sums from both the United States government and ordinary citizens, like you and me.**

The Chinese “State Administration of Foreign Exchange” (SAFE) is now engaged in a full-fledged currency war with the United States. The ultimate goal – as the Chinese have publicly stated – is to create a new dominant world currency, dislodge the U.S. dollar from its current reserve role, and recover as much of the \$1.5 trillion the U.S. government has borrowed as possible.

Lucky for us, we know what's going to happen. And we even have a pretty good idea of how it will all unfold. How do we know so much? Well, this isn't the first time the U.S. has tried to stiff its foreign creditors.

Most Americans probably don't remember this, but our last big currency war took place in the 1960s. Back then, French President Charles de Gaulle denounced the U.S. government policy of printing overvalued U.S. dollars to pay for its trade deficits... which allowed U.S. companies to buy European assets with dollars that were artificially held up in value by a gold peg that was nothing more than an accounting fiction. So de Gaulle took action...

In 1965, he took \$150 million of his country's dollar reserves and redeemed the paper currency for U.S. gold from Ft. Knox. De Gaulle even offered to send the French Navy to escort the gold back to France. Today, this gold is worth about \$12 billion. Keep in mind... this occurred during a time when foreign governments could legally redeem their paper dollars for gold, but U.S. citizens could not. And France was not the only nation to do this... Spain soon redeemed \$60 million of U.S. dollar reserves for gold, and many other nations followed suit. By March 1968, gold was flowing out of the United States at an alarming rate.

By 1950, U.S. depositories held more gold than had ever been assembled in one place in world history (roughly 702 million ounces). But to manipulate our currency, the U.S. government was willing to give away more than half of the country's gold.

It's estimated that during the 1950s and early 1970s, we essentially gave away about two-thirds of our nation's gold reserves... around 400 million ounces... all because the U.S. government was trying to defend the U.S. dollar at a fixed rate of \$35 per ounce of gold.

In short, we gave away 400 million ounces of gold and got \$14 billion in exchange. Today, that same gold would be worth \$620 billion... a 4,330% difference.

Incredibly stupid, wouldn't you agree? This blunder cost the U.S.

much of its gold hoard.

When the history books are finally written, this chapter will go down as one of our nation's most incompetent political blunders. Of course, as is typical with politicians, they managed to make a bad situation even worse...

The root cause of the weakness in the U.S. dollar was easy to understand. Americans were consuming far more than they were producing. You could see this by looking at our government's annual deficits, which were larger than ever and growing... thanks to the gigantic new welfare programs and the Vietnam "police action." You could also see this by looking at our trade deficit, which continued to get bigger and bigger, forecasting a dramatic drop (eventually) in the value of the U.S. dollar.

Of course, economic realities are never foremost on the minds of politicians – especially not Richard Nixon's. On August 15, 1971, he went on live television before the most popular show in America (Bonanza) and announced a new plan...

The U.S. gold window would close effective immediately – and no nation or individual anywhere in the world would be allowed to exchange U.S. dollars for gold. The president announced a 10% surtax on ALL imports! Such tariffs never accomplish much in terms of actually altering the balance of trade, as our trading partners simply put matching charges on our exports. So what actually happens is just less trade overall, which slows the whole global economy, making the impact of inflation worse.

Of course, Nixon pitched these moves as patriotic, saying: "I am determined that the American dollar must never again be a hostage in the hands of international speculators."

The "sheeple" cheered, as they always do whenever something is done to "stop the speculators." But the joke was on them. Within two years, America was in its worst recession since WWII... with an oil crisis, skyrocketing unemployment, a 30% drop in the stock market, and soaring inflation. Instead of becoming richer, millions

of Americans got a lot poorer, practically overnight.

And that brings us to today...

Roughly 40 years later, the United States is in the middle of another currency war. But this time, our main adversary is not Europe. It's China. And this time, the situation is far more serious. Our nation and our economy are already in an extremely fragile state. In the 1960s, the American economy was growing rapidly, with decades of expansion still to come. That's not the case today.

This new currency war with China will wreak absolute havoc on the lives of millions of ordinary Americans, much sooner than most people think. It's critical over the next few years for you to understand exactly what the Chinese are doing, why they are doing it, and the near-certain outcome.

In my next installment, I'll explain the rest of the story... and what it means for you as an investor.

## THE LARGEST GOLD-ACCUMULATION PLAN OF ALL TIME

By Porter Stansberry, founder,  
Stansberry & Associates Investment Research

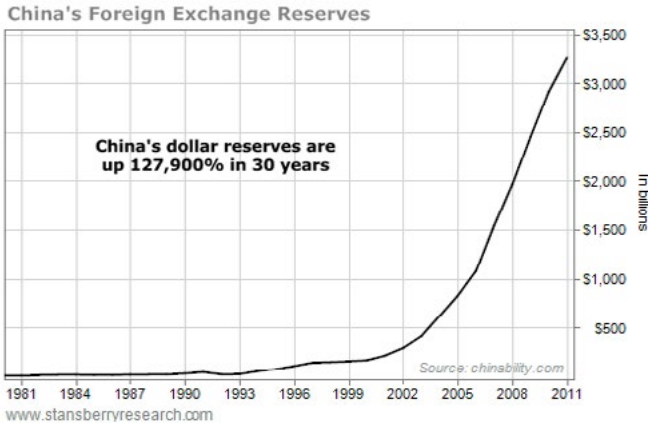
For more than 30 years, since the start of the country's "Reform Era" in 1978, China has been selling (exporting) more goods than it has imported.

That's allowed the nation to stockpile trillions of dollars – more money than our entire monetary base totaled before the recent financial crisis.

The way it works is simple to understand. When a Chinese business earns dollars by selling overseas, the law requires the company to hand those dollars over to the country's central bank, the People's Bank of China (PBOC). In return, the business gets Chinese currency (called either the "yuan" or the "renminbi") at a fixed rate.

There's nothing fair about this. The Chinese people do all the work, and the Chinese government keeps all of the money. But that's the way it goes.

At first, the dollar inflow was small because trade between the two countries was tiny. In 1980, for example, China's foreign currency reserves stood at approximately \$2.5 billion. But since then, the amount of foreign currency reserves held by the Chinese government has gone up nearly every year... and now stands at \$3.2 TRILLION. That's a 127,900% increase. It's simply astonishing to look at the chart of the increase in currency reserves...



As I mentioned in the first installment of this series, the group in China that manages these foreign reserves is called the State Administration of Foreign Exchange (SAFE). This group is engaged in a full-fledged currency war with the United States. The ultimate goal – as the Chinese have publicly stated – is to create a new dominant world currency and dislodge the U.S. dollar from its current reserve role.

And for the past few years, SAFE has had one big problem: What to do with so much money?

SAFE decided to use most of these reserves to buy U.S. government securities. As a result, the Chinese have now accumulated a massive pile of U.S. government debt. In fact, about two-thirds of China's reserves remain invested in U.S. Treasury bills, notes, and bonds. The next biggest chunk is in euro. Of course, all this money is basically earning nothing to speak of in terms of interest... because interest rates around the world are close to zero.

And while the Chinese would love to diversify and ditch a significant portion of their U.S. dollar holdings, they are essentially stuck.

You see, if the Chinese start selling large amounts of their U.S. government bonds, it would push the value of those bonds (and their remaining holdings) way down. It would be like owning 10

houses on the same block in your neighborhood... and deciding to put five of them up for sale at the same time. Imagine how much that would depress the value of all the properties with so much for sale at one time.

One thing China tried to do in recent years was speculate in the U.S. stock market. But that did not go well... The Chinese government bought large amounts of U.S. equities just before the market began to crash in late 2007. It purchased a nearly 10% stake in the Blackstone Group (an investment firm)... and a similar stake in Morgan Stanley. Blackstone's shares are down about 46% since the middle of 2007, and Morgan Stanley is down about 70% since the Chinese purchase.

The Chinese got burned big time by the U.S. equities markets and received a lot of heat back home. They are not eager to return to the U.S. stock market in a meaningful way. So China's U.S. dollar reserves just keep piling up in various forms of fixed income – U.S. Treasury bonds, Fannie and Freddie mortgage bonds, and other forms of debt backed by the U.S. government. These investments are considered totally safe – except that they're subject to the risk of inflation.

According to a statement by the government: “SAFE will never be a speculator. It mainly seeks to protect the safety of China's foreign exchange reserves and ensure a stable investment return.”

If the Chinese won't buy stocks and the only real risk to their existing portfolio is inflation, what do you think they will do to hedge that risk?

They will buy gold... lots and lots of gold.

It was no surprise to us when, in 2011, China became the No. 1 importer of gold. For many people in the gold market, this was a big shock – India has always been the world's leading gold buyer. In India, people traditionally save and display their wealth in gold. Their entire financial culture is based on gold. Historically, silver has played the same role in China... but not anymore.

In fact, not only has China become the world's leading importer of gold, it was already the world's leading producer... by far. According to the most recent figures from the World Gold Council, China produces nearly 50% more gold (about 300 tons per year) than the second-place country... Australia. And guess what? Every single ounce produced in China – whether it's dug out of the ground by the government or a foreign company – must, by law, be sold directly back to the government.

The Chinese are now clearly on a path to accumulate so much gold that one day soon, they will be able to restore the convertibility of their currency into a precious metal... just as they were able to do a century ago when the country was on the silver standard.

The West wasn't kind to China back then. The country was repeatedly looted and humiliated by Russia, Japan, Britain, and the United States. But today, it is a different story...

Now, China is the fastest-growing country on Earth, with the largest cash reserves on the planet. And as befits a first-rate power, China's currency is on the path to being backed by gold.

China desperately wants to return to its status as one of the world's great powers... with one of the world's great currencies. And China knows that in this day and age – when nearly all governments around the globe are printing massive amounts of currency backed by nothing but an empty promise – it can gain a huge advantage by backing its currency with a precious metal.

As the great financial historian Richard Russell wrote recently: “China wants the renminbi to be backed with a huge percentage of gold, thereby making the renminbi the world's best and most trusted currency.”

I know this will all sound crazy to most folks. But most folks don't understand gold, or why it represents real, timeless wealth. The Chinese do. And in my next essay, I'll provide more evidence of how they are carrying out the largest gold accumulation plan of all time.

## HOW AND WHY CHINA CAME TO DOMINATE THE MARKET FOR GOLD

By Porter Stansberry, founder,  
Stansberry & Associates Investment Research

In my last two essays, I've introduced an idea that I'm sure will earn me jeers and derision from the mainstream press... And probably even worse from the U.S. government.

But my job isn't to fit in with the mindless journalism that passes for the "mainstream press" these days. And it isn't to impress the U.S. government. My job is to study the numbers and report on the most important financial developments that will affect my readers.

One of those ideas is the ongoing and enormous accumulation of gold by China... which will allow it to supplant the United States as the owner of the world's reserve currency.

If you doubt this is what the Chinese are doing, I suggest you take a look at a cable that was leaked on the nonprofit website Wikileaks last year.

This cable was prepared by the U.S. Embassy in Beijing and was sent back to officials in Washington, D.C. The embassy was commenting on a recent report by China's National Foreign Exchanges Administration. The cable quoted the Chinese administration as follows...

China's gold reserves have recently increased. Currently, the majority of its gold reserves have been located in the U.S. and European countries. The U.S. and Europe have always suppressed the rising price of gold. [The U.S. and Europe] intend to weaken gold's function as an international reserve currency. They don't want to see other countries turning to gold reserves instead of the U.S. dollar or euro.

Therefore, suppressing the price of gold is very beneficial for the U.S. in maintaining the U.S. dollar's role as the international reserve currency. China's increased gold reserves will thus act as a model and lead other countries towards reserving more gold. Large gold reserves are also beneficial in promoting the internationalization of the RMB [China's currency].

Do you see where this is all heading?

A century ago, China used silver to back its currency. Today, it has chosen gold... And it is basically buying up the world's gold supply. China is essentially attempting to "corner" the gold market.

Just remember... no gold mined in China... not a single ounce... is allowed to leave the country. It all goes to the government's reserves. Yes, the Chinese government allows foreign companies to enter China and form joint ventures with local Chinese firms. And foreign companies are free to mine as much gold as they want in China... But every single ounce must be sold to the Chinese government at current market prices. So the government is piling up every ounce that's mined in China... at least 9.6 million ounces a year (the equivalent of 300 tons).

And that's just the beginning...

I can also say with near-100% certainty that China is secretly buying massive amounts of gold from the International Monetary Fund and other sources. I feel confident about saying this because it's exactly what the Chinese did from 2003 to 2009. If you remember... in 2009, China suddenly announced that its gold holdings had risen by 75% because of secret purchases that took place over six years.

These purchases moved China into sixth position on the list of countries with the most foreign gold reserves. But keep in mind, even with these giant purchases, China's gold holdings still account for less than 2% of its foreign reserves. That's a pittance when you compare it to places like the U.S. and Germany, which

hold more than 70% of their reserves in gold.

There's no doubt in my mind that China will continue to buy huge amounts of gold.

Just over a month ago, news outlet Bloomberg reported mainland China bought 3.6 million ounces of gold from Hong Kong over the past few months... That's 483% more than during the same time the year before. The data come from the Census and Statistics Department of the Hong Kong government. The Chinese government does not make such information public.

In fact, the Chinese have not announced a single gold purchase since 2009. But when you look at the massive amounts of gold "disappearing" from the world markets, it's obvious the Chinese must still be buying. As the newswire Reuters recently suggested in an article that detailed the sale of 150 tons of gold to "unnamed" buyers, "among the most likely candidates is China, which has the largest currency reserves... at \$3.2 trillion."

When you are buying this much gold, it's almost impossible to keep the entire thing a secret. That's why many stories of China's secret purchases have been mentioned in the mainstream press. For example, CNN Money interviewed Boris Schlossberg, director of currency research at Global Forex Trading, reported...

China is considered a stealth buyer of gold... As the world's largest producer of the metal, China often buys gold from its own mines and doesn't report those sales publicly. Analysts suspect the country is continuing to buy gold and could in fact, be the world's largest buyer consistently. It simply doesn't reveal its pro-gold stance...

Announcing an aggressive gold buying spree is not in China's best interest because, for one, it might push gold prices higher. Secondly, it could devalue the U.S. dollar, which would subsequently lessen the worth of the country's portfolio of U.S. government bonds.

This is why the *Mining Journal* said last November that it expects China to amass some 5,000 tons of gold over the next five years. I would not be surprised if it amasses twice that amount. As CNN explained, “The thing to remember here is that if China is going to continue to purchase massive amounts of gold, the last thing they want to do is make this information public, until they really have to. The less they say, the cheaper the price they’ll have to pay.”

I recently interviewed the most successful gold and silver investor in the world, Eric Sprott, on this subject. Eric is a billionaire, who made much of his fortune in silver. He runs Sprott Resource Management, one of the world’s largest resource investment firms. Here’s what he told me...

I’m sure China’s buying gold. I just have no doubt that it’s the most logical thing in the world that they would be buying gold. They’re seeing their value of their Treasuries declining almost every day now with the weakness of the U.S. dollar. They are losing a lot of money, and they see the gold price essentially go up every day. Well, it’s not a difficult decision to say, “Well, we should be buying gold and getting rid of dollars.” That’s got to be the easiest call in the world.

Now... while I might not be able to technically prove that the Chinese are buying millions of ounces of gold bars, I can prove they’re buying plenty of gold out of the ground. The Chinese government is now in the process of secretly buying up part or all of dozens of the best gold-mining companies around the globe.

One of the biggest recent purchases was by the government-owned Shandong Gold Group (the second-biggest producer in China), which made an offer to purchase Jaguar Mining for \$785 million in cash – that’s 77% more than what Jaguar is now worth in the markets.

Keep in mind... This is the biggest premium EVER paid for a large gold-mining firm. Before that, state-owned Zijin Mining Group (China’s biggest gold producer by market value) said it would spend as much as \$1.6 billion a year on acquisitions. Last

year, the company bought 17% of Australian gold miner Norton Gold Fields and a 60% stake in gold company Alтынкен.

And these are only the deals the government WANTS to make public.

The government also has kept a slew of investments in the gold markets private and secret. You see, few investors realize the government's China National Gold Group (CNGGC) makes little information public on its most sensitive purchases.

For example, CNGGC has many aliases, including its 40% stake in China Gold Intl. Resources and may have more than 300 secretive investment stakes in various gold mining companies around the globe. With a tremendous amount of digging in recent months, we've been able to locate the Chinese government's significant equity stakes in dozens of junior gold mining stocks.

The point is, when you look at the gold China already has in reserve... and look at what it controls that's still in the ground... **the Chinese might already have more gold than any other nation on Earth.**

But even these resources don't guarantee China control of the market. To really control the market for gold, the Chinese must establish the world's leading exchange – and regulate it honestly. As I'll show you in my next essay, they are doing just that.

It's the next step in China's hidden currency war against the United States.

## HOW CHINA PLANS TO CHANGE THE WAY GOLD IS TRADED

By Porter Stansberry, founder,  
Stansberry & Associates Investment Research

Today, the global price of gold is largely controlled by just five “bullion banks” in London. These banks establish the price twice a day by offering to buy or sell gold at a fixed price. The world’s other markets operate largely off these prices.

Manipulating the price of gold (and thus the value of other major currencies, like the U.S. dollar) is possible by influencing those five bullion banks: Bank of Nova Scotia, Barclays Capital, Deutsche Bank, HSBC, and Societe Generale.

Whether that’s happening right now or not, I can’t say. But it is a matter of public record that the world’s eight leading governments conspired from November 1961 until March 1968 to suppress the price of gold by using their central banks to manipulate the London bullion market. So it has happened before.

**Meanwhile, the trading range of the gold price suggests that the market continues to be heavily manipulated.**

Why do I believe that?

Because as a precious metal with no yield, gold should be a fairly volatile asset – like silver and platinum are. But when you look at how many times the price of gold moves by more than 5% in a day, you find that it almost never happens.

Over the last 10 years, the price of gold has moved up or down by more than 5% on only 10 occasions. The same volatility has occurred in silver 80 times. It has happened in oil 137 times.

No explanation other than manipulation can account for gold’s exceptionally low volatility. It simply doesn’t trade like a

free-market commodity.

As I explained yesterday, to control the market for gold, the Chinese must not only accumulate massive gold reserves (which it's doing), it must establish the world's leading exchange – and regulate it honestly.

And that's exactly what's happening...

For decades, Chinese citizens were barred from owning physical gold under penalty of imprisonment. Then in September 2009, China became the only country in the world to promote gold ownership to its citizens. The government started a major campaign to encourage all citizens to buy gold. Locals can now buy gold bars, which come in four sizes, at ANY Chinese bank in the country. If you don't think that's unusual, try buying gold at ANY bank in the United States and watch the funny look you get from the teller.

The Chinese government has also set up thousands of gold “stores” around the country... which look like jewelry stores, but instead sell bars of gold.

As *Forbes* recently reported at the scene of one such gold store...

The crowds surge shoulder to shoulder inside Beijing's Cai Bai store to buy five to 10 gram slivers of gold and jewelry of every size and shape. It's one dramatic example of the gold craze in China, which is officially and unofficially promoted by the Communist government... And it is an integral part of the pro-gold preference by the Chinese public and its government.

My friend Simon Black – who writes about geopolitical, expatriation, and wealth issues on his Sovereign Man website – also visited one of these Chinese gold stores on a recent trip, and said...

On the inside, these gold stores look like jewelry shops – armed guards, glass viewing cases, etc. But instead of diamond crusted earrings and white star sapphires, you see

bars. Lots of bars. The government mints bars in sizes ranging from 5 grams (which are so tiny they're actually cute) to 1 kilogram. The prices are updated instantly – they have a Bloomberg screen that tracks the spot price... and the bars are all serialized and [offer] 0.9999 purity, the same as you would get from Switzerland. They are also certified by the gold exchange, which validates the quality.

We went into several stores and saw Chinese people buying like crazy... all with cash. The most popular denominations were 10 grams and 50 grams, as well as every piece of jewelry in sight. I'm surprised the mint shops didn't sell out [as] the inventory was flying off the shelf.

Why would the Chinese government set off a frenzy for gold?

Well, here's one thing to remember... the Chinese government doesn't pay much attention to human rights or property rights. It could demand all of its citizens' gold at any time – just like FDR did in the U.S. back in 1933.

But all of these facts are just hints about what's to come. The real story won't be unveiled until June. That's when China will open something called the Pan Asia Gold Exchange (PAGE). This is a direct competitor to the London Metals Exchange and the COMEX in New York.

The way things work right now, the futures market in London "fixes" the spot price of gold each morning and afternoon, based on trading in London and on America's COMEX market.

But both of these markets back gold contracts with only 10% of the actual metal. The new China PAGE market is expected to have a much larger gold backing and could change the way gold is traded.

As James Turk's GoldMoney site recently reported:

The potential effects cannot be underscored enough – PAGE is clearly preparing the world for a Chinese world reserve

currency, and is doing this by bringing gold, and by extension silver, back into the Chinese economy.

*Forbes* wrote about the development...

It means the spot market in gold could be headed for China – and away from London's Metals Exchange or the Comex in New York. It also means that the Chinese currency – not dollars – will for the first time become the ruling currency used in one of the major speculative commodities of our age. All eyes will be on the influence of the gold trade in China rather than New York, London, Switzerland, or South Africa.

For several years, we've been warning about the loss of world reserve currency status for the U.S. dollar. We have worried about our currency because we understood the propensity of governments to steal from their citizens through inflation.

With roughly half of our national debt held by foreigners, we have long believed efforts to print away our obligations will prove catastrophic for America's leading international position – and most especially for the role of our dollar as the world's leading reserve currency.

But until recently, we were unsure of the exact mechanism by which the dollar would be replaced. **Now, we see how it will unfold...**

The Chinese will slowly hedge their exposure to the dollar by becoming the world's leading gold investors. By taking over the world's gold markets and building a huge stockpile of gold, they will be able to back their currency with the world's traditional form of money.

Once they are ready to make the yuan freely convertible, they will have created tremendous demand for their bonds and bills by making their currency the world's most reliable... and the only one backed with gold.

The impact on the dollar could be catastrophic... And every day the dollar falls, China's gold stockpile will grow more valuable (and more powerful). You can protect you and your family from this potential collapse with a handful of very simple steps... the first one being to own plenty of gold.

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PART VI

*Our Favorite Precious-  
Metals Trade in 2014*

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## WHY YOU SHOULD BUY THIS OVERLOOKED PRECIOUS METAL IN 2014

By Brian Hunt, Editor in Chief,  
Stansberry & Associates Investment Research

Among the most important financial decisions you'll ever make is the decision to buy precious metals like gold and silver.

At Stansberry & Associates, we have been urging investors to buy precious metals for more than 10 years. We own precious metals ourselves. We've even published books on the right ways to invest in them.

But we see precious metals like gold and silver differently than most financial professionals...

We don't see them as conventional investments. We see them as money. We see them as real, intrinsic wealth. We don't buy precious metals to grow our wealth. We buy them to have wealth.

We also see precious metals as good "oh crap" insurance to hedge ourselves against a big crisis in the world's monetary system.

From 2002 to 2011, gold climbed from \$300 per ounce to \$1,900 per ounce. Since then, gold has experienced a natural correction down to \$1,250 an ounce.

If you've never bought precious metals before, we see the recent correction as a good place to buy a few ounces. We also see a big opportunity to buy a certain precious metal that you've likely never considered before...

The precious metal we're talking about is platinum.

Part of the case for owning platinum is the familiar case for owning gold: World governments aren't solvent, and they're

competing with each other to devalue their currencies. That's good for precious-metal prices in the long term.

But we like platinum in particular because of the supply-demand setup.

Platinum production is falling in the world's biggest producer – South Africa. Producers in the country aren't earning enough money to cover basic expenses. This situation curtails production... which will push up prices.

Unlike gold, there isn't a large above-ground supply of platinum. Most platinum production is consumed by industry (much of it in smog-reducing catalytic converters). Meanwhile, both developed and developing countries are putting stricter emissions standards in place... And that's increasing demand.

It's not too late to make this trade, though. Like most commodities, platinum has suffered a big fall from its 2011 highs. As of January 2014, it trades near four-year lows.



Some folks might want to trade this idea with a purchase of platinum mining stocks... But the world of pure platinum miners is small... and full of “less than exceptional” businesses. You face the risks of worker strikes, mine accidents, political lunacy,

and rising input costs.

So we're more comfortable with physical platinum – or a fund that moves with the price of physical platinum.

In sum, a position in physical platinum works as a hedge against a drop in the value of “paper money.” Plus, the platinum market is vulnerable to a major supply shock. That could send prices higher, even if a monetary crisis never arrives.

That's why we believe it makes sense to take a position in platinum right now.

## ONE OF THE BEST VALUES IN THE PRECIOUS-METALS MARKET TODAY

By Van Simmons, president, David Hall Rare Coins

**Editor's Note:** Despite the Fed printing as much as \$85 billion per month over the past year, inflation hasn't been an issue... yet. That's because most of this money has found its way into the stock market...

It's inevitable that all this new money (\$3.5 trillion and counting) will eventually find its way into circulation. And it very well could start to happen in 2014 – leading to the high rates of inflation many analysts have been predicting.

So last December, we reached out to our go-to expert on “real stuff,” Van Simmons, to talk about one of his favorite inflation hedges in the coming year – platinum. Van is the president of David Hall Rare Coins and is one of the most knowledgeable minds in the world on precious metals, coins, stamps, and just about any other collectible you can think of. When Van speaks, millionaires and billionaires listen.

If you're looking for the best way to protect your portfolio from runaway inflation in 2014, read on...

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Right now platinum is one of the best values in the precious metals market...

Platinum isn't nearly as popular as silver or gold. But I think it presents a good value. Platinum is heavier than gold. It's about 11 or 12 percent more dense than gold. And around 80% of the total production is used in automobiles (namely catalytic converters). The annual production is only about 150 tons annually.

Platinum usually trades at a substantial premium to gold...

It's between 16 and 20 times rarer than gold... And, unlike gold, the majority of the production is consumed for industrial purposes. Also, almost all platinum is mined in South Africa and Russia. Russia isn't selling it. And South Africa and Zimbabwe, as you likely know, are always having problems with wars, strikes, infrastructure, etc.

Anyhow, the all-time high for the platinum was in March 2008 at \$2273 an ounce. Back around 1985, platinum – which normally trades at a premium to gold – was about \$20 cheaper per ounce than gold. Then it soared back to a premium over gold in the late 1980's and into the 2000's. Then in 2011, in the fallout of the subprime crisis and onset of the Eurozone crisis, platinum was once again cheaper than gold.

In late 2011, a lot of my clients traded their gold for platinum, which looking back now was a good trade, even though they've both moved down. At the time, platinum was \$200 less than gold per ounce (gold at the time was about \$1,700 an ounce).

Platinum's decline since then has been about half of the decline in gold (platinum is down about 17%, while gold has fallen by about 30%). But it's down over 40% from its highs to \$1,335 an ounce today...

### **What Could Send Platinum Prices “to the Moon”**

For one, it's very difficult to mine platinum... Most of the production is used in the auto sector... And the “above ground” supply is scarce. These reasons, paired with one key factor I'm about to discuss, could send platinum prices soaring.

One of my friends is the CEO of one of the largest platinum mining companies... It's in Zimbabwe. I asked him once when they were going to solve the electricity problems in South Africa so they could ramp up production. He looked at me and laughed... He said “Man, this is South Africa. They're Africans here... Those problems are never going to be solved. I have about one stabbing a week in the mines.”

Some of the platinum mines in South Africa are a mile long. And the temperatures down there are over 100 degrees. The conditions make it difficult to get big yields.

Not to mention, you have to mine about 10 tons of regular ore to get one ounce of platinum.

In other words, it doesn't look like there's going to be a mass production of platinum, so you have a supply issue.

Right now, platinum is not much more expensive than gold... It costs about \$100 per ounce more – an 8% premium.

As I said before, platinum is about 16 times rarer than gold. And it's only mined in a couple different countries (which have severe economic, political, and infrastructure problems). I've never heard of any large platinum inventories above ground.

**I believe if there are ANY breakdowns in supply, like a strike, the price of platinum will catapult to the moon.**

Although platinum doesn't have the long history of being a monetary asset like gold and silver, it's still viewed around the world as a store of value.

Over the last 10-15 years, platinum has been viewed as the “rich man's gold” in China and throughout Asia.

I remember a Chinese guy came to my office and saw I was wearing a yellow gold Rolex Daytona watch. He told me to get rid of it.

He then showed me his watch... I asked if it was white gold. He said it was platinum. The Chinese all wear platinum now. It's the rich man's gold.

I think the reason the Asians like platinum is because it's a lot scarcer and it's rarer. I think long-term it has probably as many monetary uses as gold. And today, it certainly has more indus-

trial uses.

If you go back a couple years ago, when platinum was \$200 less per ounce than gold, the economy was a wreck... And nobody thought we'd be buying cars over the next five years. But they forgot about all the Indians and Chinese who were making a ton of money.

Auto sales in China hit a record high in November 2013 – up 14.1% year-on-year. The China Association of Automobile Manufacturers said 2.04 million cars were sold in China that month. And the U.S. economy surprised everyone as well... We're on pace to sell about 15.5 million cars in the U.S. in 2013, just short of the record 16 million in 2006.

So, since 2011, platinum has gone from a \$200 an ounce discount to gold to a \$127 premium... That's a pretty big swing. But I think we'll see platinum go much higher... It's simply selling off right now with the rest of the metals.

And here's one more thing platinum has going for it...

One of my clients is a very wealthy commodity trader. He used to be the financial advisor to the Shah of Iran, Kissinger, Nixon, and people like that. A couple years ago, he traded several million dollars' worth of gold for platinum through my office.

I asked him why he liked platinum so much... He told me he believed they would outlaw gold in the United States one day, or put a large, windfall profit tax on it. But platinum wouldn't face the same scrutiny because it's an industrial metal... Nobody would give it a second thought.

It would be like the government outlawing diamonds. Nobody really pays attention to diamonds, sapphires, and other precious stones... But they're just as valuable as precious metals... And just as desirable.

**So you can think of platinum as a backdoor way to get out of the dollar... But because of its industrial purposes, it's a little bit safer.**

One of my favorite ways to play platinum today is a company called Platinum Group Metals (PLG). It's a way to go long platinum with leverage.

Sprott also has a physical platinum exchange-traded fund (ETF) called the Sprott Physical Platinum and Palladium Trust (SPPP). Yes, it also has some palladium, another attractive metal (for entirely different reasons we won't discuss here). But I think it's a better way to go... It's set up as a limited partnership, so you get long-term capital gains from it.

And if you buy physical platinum today, you're going to pay somewhere between \$30 and \$50 over the spot price per ounce. Keep in mind, when platinum was \$200 less than gold, it cost me \$200 over spot to buy it.

At the time, nobody was discounting it. I was buying it personally, and I had to pay up for it. I remember at one point platinum was \$800 an ounce and I paid something like \$980 an ounce. Nobody wanted to sell at those prices.

But it's different today... The demand is very low. A few smart people will call me and ask to trade gold for platinum – which I think is a good trade today.

I don't know how well it's going to work out in the short-term, but I think long-term there'll be big swings where platinum will jump back. Remember, at some point it was DOUBLE the price of gold. So in my mind you've got very limited downside right now and you have the potential to make substantially more upside.

One thing people don't realize is it's easy to do trades like this. All you really do is call and say, "Okay, I want to trade the gold for the silver," or "the silver for the platinum," or "the platinum for the gold." It's just getting the stuff in the mail and shipping it back to somebody else.

## THIS RARE INDUSTRIAL METAL IS ABOUT TO EXPLODE HIGHER

By Matt Badiali, editor, *S&A Resource Report*

**Editor’s Note:** In this report – originally published in December 2013 for *Stansberry Strategy Group* subscribers – *S&A Resource Report* analyst Matt Badiali provides a full rundown of the platinum market in 2014. He also reveals his favorite way to buy it. Following this advice could be one of the smartest financial moves you make all year...

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On January 16, 1942, shortly after the attack on Pearl Harbor, President Franklin Delano Roosevelt signed Executive Order 9024.

The order created an agency with such enormous and far-reaching power, that it reshaped the U.S. economy in a few short years. The name of the agency was the “War Production Board.”

The Board’s job was to “retool” the U.S. economy into a war machine. Automobile factories were converted to tank factories. Commercial aircraft manufacturers were ordered to produce tens of thousands of bombers and fighters. Clothing-makers were ordered to churn out military uniforms instead of dresses. Paired with the awesome capability of America’s existing capitalist system, the War Production Board created the most powerful war-making economy the world had ever seen.

In addition to “retooling” factories, the War Production Board banned the use of certain “strategic” materials. For example, domestic use of nylon was banned... It was needed to produce parachutes.

Jewelers were also faced with severe restrictions on a material much, much more important than nylon. Without this material,

World War II would have been conducted in a much different fashion.

The War Production Board also banned the use of platinum for non-military uses.

In the late 1930s, engineers faced a big problem. They had developed powerful new motors to drive aircraft. But these new motors could only be fueled on high-octane gasoline. This was a problem for oil refiners...

At that time, they primarily produced low-octane gasoline for automobiles. They couldn't generate enough high-octane gasoline from crude oil to supply the aviators.

This is where one of the most important men you've never heard of stepped in... Eugene Houdry was a French-born engineer who perfected a new kind of oil refining, called "catalytic cracking." By using platinum and its extraordinary reactive qualities, he created the high-quality fuel that high-powered aircraft needed. His process doubled the amount of high-quality fuel produced per barrel of oil. It was revolutionary.

By 1942, 90% of the aviation fuel produced in France, Great Britain, and the U.S. employed Houdry's process.

World War II was fought with hydrocarbons. And platinum – the strategic material – helped make it happen.

Houdry's work with platinum didn't stop with refining. He also found that if vehicle exhaust passed through a platinum mesh, it greatly reduced the vehicle's pollutants. He called the device a "catalytic converter." Today, the catalytic converter is a standard part of modern automobiles.

We're allowed to make platinum jewelry again now. And with more than 50 million cars being produced in the world annually, there's a huge market for platinum in catalytic converters. Today, we use more than 1 million ounces of platinum in cata-

lytic converters per year in the U.S. alone.

All this comes together to make platinum one of the best assets you can buy in 2014.

There's a very easy way to buy platinum and have others cheaply handle storage for you. But before we get into the specifics of this vehicle, let's take a deeper look at what makes this invaluable metal so cheap right now... and why it won't stay that way for long...

### **Houdry's Valuable Catalyst Is Incredibly Rare**

Platinum has a relatively short history in the modern world...

It was first discovered in Central America by conquering Spaniards in the 1500s... but they did not recognize its value. They discarded it as an unwanted byproduct of their silver mines.

It wasn't until 1751 that scientists were able to melt the metal down. And in 1802, a man named William Hyde Wollaston discovered a technique for refining the metal... His methods led to the discovery of the platinum-group metals ("PGMs").

Platinum is the most important member of the PGMs – a group that also includes palladium, iridium, osmium, rhodium, and ruthenium.

PGMs are commonly referred to as "green metals," due to their role in catalyzing reactions in petroleum combustion. In fact, nearly half of all platinum and palladium produced (and nearly three-fourths of all rhodium) goes to manufacturing Houdry's catalytic converters.

And as the development of car-fueling systems progresses, so does the use of platinum. Many modern cars are powered by hydrogen-fuel cells rather than combustion engines. But they still use PGMs to increase the efficiency of the reaction from hydrogen to water. PGMs are essential catalysts in oil refining and many chemical-manufacturing processes. They are also finding new uses in computer screens, cell phones, cancer drugs, surgical implants,

and prosthetics.

As you can see, platinum is in high demand today. But despite all its uses, the metal is exceedingly rare...

Unlike gold – which is mined on nearly every continent – 90% of platinum deposits are found in just two countries: South Africa and Russia. And for every ounce of platinum, we produce 14 ounces of gold.

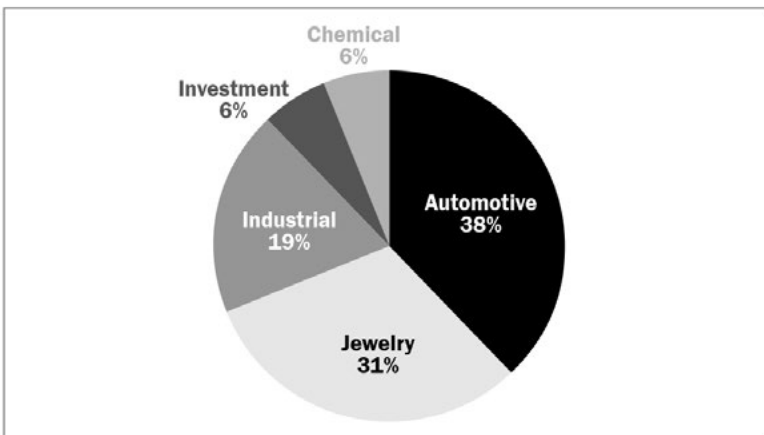
### **Platinum Demand Is On the Rise**

Demand for platinum is far outstripping supply... And as I'll show you, a surge in manufacturing in China and the U.S. will drive demand for the metal even higher.

Platinum demand exceeded supply by about 400,000 ounces in 2012... and is forecast to remain the same in 2013. Such a huge imbalance should push prices much higher. But so far, they're still languishing... which presents us with a great opportunity to take advantage as the price rises with continued demand.

The chart below shows the main sources of platinum demand. As you can see, cars, chemical manufacturers, and industrial applications consume 63% of the platinum we produce...

**Platinum Demand**

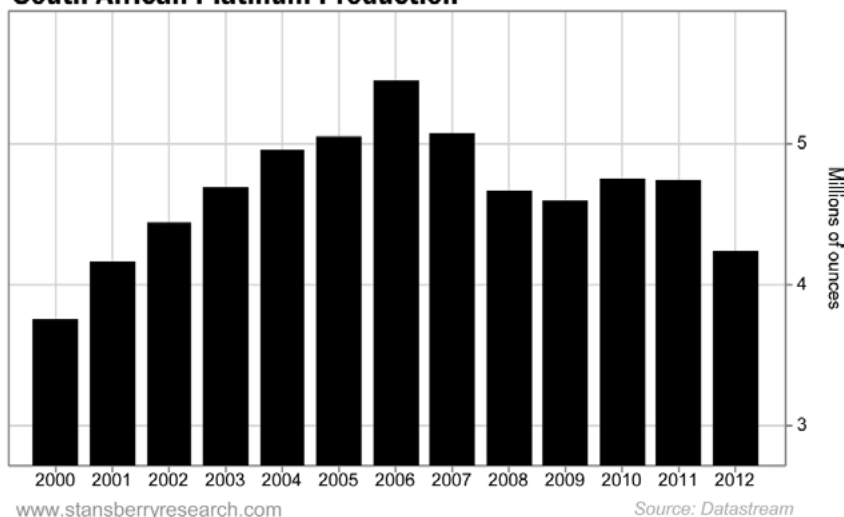


## Platinum Supply Is in Decline

South Africa is the biggest producer of platinum. Last year, it produced about 4.1 million ounces... 72% of the world's supply. (That may sound like a lot... But in reality, it's only enough to fill an average-sized living room, floor to ceiling.) But the country's production is in decline...

As you can see in the chart below, South African platinum production hit an 11-year low last year, down nearly 20% from its peak in 2006...

**South African Platinum Production**



Platinum production in South Africa fell by 500,000 ounces from 2011 to 2012. That's a 12% decline in production... and it's poised to get worse...

The old platinum mines – run by the traditional platinum miners like Anglo American Platinum (or “Amplats” for short), Impala Platinum (or “Implats”), Lonmin, and Aquarius Platinum – are getting too deep and too expensive to maintain.

Some are almost 2.2 miles underground at this point. At that depth, the seams of platinum ore are very narrow (just three to five feet thick) and hard to mine... resulting in lower grades. Where it took less than eight tons of rock to produce an ounce of platinum in 2000, it takes an extra three tons of rock today. So production is shrinking, and mining costs are rising.

Complicating matters, working conditions at the mines are terrible. In 2008, electrical blackouts shut down almost all the mines for five days. Even today, power supply to these deep mines remains inconsistent. And being over two miles down, in the dark, isn't a great work environment.

So, many of the miners are on strike at any given time. Back in August, police shot at 112 striking miners from one of mining giant Lonmin's platinum mines, killing 34. As recently as November, nearly 30,000 miners walked off the job at Amplats' mines. That hurts productivity... and consequently, platinum supplies fell. And right now, the situation for the existing mines doesn't look like it will change soon.

Poor working conditions, drying-up mines, and rising mining costs are causing a big imbalance in platinum supply and demand. Demand is far outstripping supply. That should result in rising prices... Instead, the price of platinum has been sinking.

That is a big opportunity for us. And as I'll show, the company we're buying today is protected from many of these risks – it's brand-new, it has fresh mines, and it's landing experienced partners...

### **The Right Way to Price Platinum**

Like most assets, platinum was crushed in the 2008/2009 credit-crisis selloff.

Prices struck a low around \$800 per ounce. Platinum then enjoyed a big "reflation" rally that took it to \$1,800 per ounce in

2011. But because of the shaky economy and the big worries over it getting worse, investors dumped it in 2011 and 2012. Prices declined to \$1,400 per ounce. This recent decline has made platinum very cheap... but only to those who are viewing it through the proper “lens.”

Most folks price platinum in basic dollar terms. But remember: Platinum is not only a valuable industrial metal... It's also a precious metal, which means many people see it as jewelry and a “store of wealth,” like gold. That's why it's important to consider platinum's price relative to gold. By using this “lens” to view platinum, we see that it is very cheap...

For most of the past 37 years, the average platinum-to-gold ratio was 1.3 to 1. That means an ounce of platinum was 30% more valuable than an ounce of gold. So if gold is valued at \$1,200 per ounce, the average value of platinum should be around \$1,560.

But notice... the ratio soared over the past decade. From 2000 to today, the average ratio was 1.7 to 1. At that ratio, when gold is \$1,200 per ounce, platinum should trade for around \$2,040 per ounce.

The current ratio is below both averages. Today, platinum trades slightly more than 1 to 1 with the price of gold. As the global economy recovers, automobile consumption will increase, and with it, so will platinum consumption... which will drive cheap platinum prices higher.

The fundamental supply and demand situation should push platinum prices much higher as well. Here's what I mean...

China is the world's largest car market... and its sales are surging – up 31% from July 2012 to December 2012, according to data service Datastream.

The second-largest car market in the world is the U.S. And sales

are rising here, as well. Monthly sales fell to just 233,000 cars in February 2009. We hit 471,000 sold in December. That's the highest volume since January 2006. According to Bloomberg News, U.S. auto sales in 2012 were the highest they've been in five years. And sales in 2013 should top that, as 500,000 vehicle leases expire, adding an enormous pool of new buyers.

As we discussed earlier, cars make up 38% of the demand for platinum. And I believe the increase in car sales in the U.S. and China is indicative of an improving global economy. People buy cars when they feel secure financially... otherwise, they'd just fix their old one.

That tells me as the global economy continues to improve, demand for platinum could explode higher. That would strengthen the metal's uptrend... and push the price up, as well. History tells us the price of platinum should rise 30%-70% to shoot back up in line with the gold price as economic conditions improve.

That leads us to our recommended way to invest...

Most of the companies in the space aren't worth investing in today. They own old, deep, played-out mines, with bad working conditions and miner strikes.

So we're going to buy some of the metal itself.

And a simple way to take a position that moves with physical platinum is through the **Sprott Physical Platinum & Palladium Trust (SPPP)**. This \$250 million fund tracks the price of platinum and its sister metal palladium. (The two are so close that nearly everything said about platinum can be said about palladium.)

SPPP is a "one click" way to get exposure to physical platinum... And it's trading at a 1.6% discount to the value of its metals assets.

In sum, owning precious metals like platinum isn't just an opportunity to make a large gain in a relatively short time. It's a diversifying move into an asset that is not tightly correlated with stocks and bonds. That's why owning SPPP makes sense from several different viewpoints.





