

## WHY PRECIOUS METALS?

Because of the 2008 crisis and resultant response by Central Bankers worldwide, I have been leading as many people into the precious metals market (specifically gold and silver) that are willing to follow. Most begin severely gun shy at first but then begin to realize that they aren't some bizarre investment that most mainstream advisors proclaim or the speculative tool for late night TV snake oil salesmen. Gold has always acted as the true storage of wealth throughout man's history so why shouldn't we think that will continue? We are currently witnessing the potential unfolding of a fiscal and monetary crisis that has no other parallel since the 1930s. I have found no one who clearly knows where the present crisis leads (including me) but, there is the possibility the world's monetary system is forced to complete a major overhaul or worse yet, a fiat currencies failure. The reasons are twofold 1) the outstanding financial derivatives are many times larger than the world's GDP (and all money in existence) so if payment was ever demanded, virtually every bank worldwide would be instantaneously bankrupt and more importantly 2) existing US Government debt and unfunded future entitlements have become so massive they will be impossible to service. Either of these could easily cause a currency crisis and a run to "safety." The safety net in the past century has always been the US Dollar. But, while the dollar may currently be the prettiest pig in the poke, if we continue down the current path, the US Dollar may be viewed no different than any other paper currency...worthless. If that happens what might be the best safe haven? One should look no further than precious metals.

The reason I own and recommend precious metals is because I'm worried about the long-term solvency of developed market governments. I know that Milton Friedman popularized the idea that inflation is always and everywhere a monetary phenomenon but if you look back through time at inflationary crises from ancient Rome, to Ming China, to revolutionary France and America or to Weimar Germany, Zimbabwe or very recently Argentina and Russia, you'll find that uncontrolled inflations are caused by overleveraged governments which resorted to printing as the easiest way to avoid *explicit* default (whereas inflation is merely an *implicit* default). It's all very well for economists to point out that the cure for runaway inflation is simply a contraction of the money supply. It's just that when you look at inflationary episodes you find that such monetary contractions haven't been politically viable courses of action.

Eventually, there will be a crisis of such magnitude that the political winds change direction, and become blustering gales forcing us onto the course of fiscal sustainability. Until it does the temptation to inflate will remain, as will economists with spurious mathematical rationalizations as to why such inflation will make everything OK. Until it does, the outlook will remain favorable for precious metals.

If precious metals are viewed as an insurance policy against a currency or monetary crisis how should those that are interested buy that insurance? There are many ways to own exposure to the precious metals. The most popular is to buy stocks or to buy shares in exchange traded funds (ETFs) that invest in precious metals. If a financial meltdown were to occur, neither stocks nor an ETF may offer much protection. The reason is both investment vehicles are held by third parties and as such carry counter-party risk. Owning physical metal offers the best form of financial protection as it removes all counter-party risk and allows control to be with the holder of the metals. The first objection you always hear about with owning physical metals is about storage. I will tell you storage is no problem. One million dollars worth of gold, platinum or palladium can fit in a standard \$30/year safety deposit box at your bank. Pretty cheap considering the value of wealth you are storing. Silver, on the other hand, is a completely different story.

All precious metals can be purchased via bullion bars or coins. The advantage of buying bullion bars is the amount of premium over the spot price is lower than with coins. One issue with bullion bars is there has to be some proof that they are genuine containing the actual metals they say they do. Many bars come with some form of official certification. I would recommend buying only those bars that are certified if bars are your preference, coins are mine.

Gold coins traditionally are anywhere \$20 - \$50 higher than its spot price (silver much less but both are proportionate on a percentage basis, typically 3-5%). Most coins are 1 Troy ounce (31.1 grams) with some coin series in half, quarter and one tenth sizes. The smaller the size the higher the premium associated with the price. There is one 1 ounce gold coin that has very little premium over spot: the South African Kruggerand. Kruggerands are usually about the cheapest way to own gold. They are fairly ugly coins but beauty isn't much of a concern in times of crisis. Coins do enjoy a slight edge over bullion in that there is less question they are genuine gold containing instruments. While Kruggerands offer the cheapest way to own gold, I would recommend buying gold and silver coins denominated in your own currency such as Maple Leafs for Canadians and Eagle for Americans, though having any precious metals in a time of crisis will give you protection.


In a crisis owning gold coins act as a great store of wealth but if they are to be used as a vehicle of exchange or as replacement of a failed paper currency, its value makes smaller denominated transactions prohibitive. This is where owning silver comes in. Let's say you wanted to buy a loaf of bread from a baker for \$5. If all you had were one ounce gold coins worth \$1000 or more it would be difficult to make the purchase unless the baker had change. Owning junk silver would be the solution in this case. Junk silver is a term given to circulated, US minted coins (pre-1965) that are composed of 90% silver (\$1000 of face value has 715 oz of pure silver) and have no collector's value. So at today's \$18/oz price, a pre 1965 quarter is worth about \$3.25 (this goes to show you the real impact of inflation over time). The loaf of bread could comfortably be purchased with a "junk" quarter, dime and nickel with no need to break out the gold coins.

For those who have not yet bought fiscal irresponsibility insurance but are worried about preserving their wealth, I would like to leave you with the 10 commandments for buying Gold and Silver from one of the most knowledgeable and experienced guys in the business, Franklin Sanders:

1. Always take delivery
2. Never buy premium if you can avoid it. If not, buy the lowest premium
3. Buy bullion for business, numismatics for fun.
4. Buy silver first, then gold.
5. Buy small gold first, then large.
6. Never buy exotic coins or modern rarities or anything you don't understand.
7. Know your dealer.
8. What governments can't find, they can't steal.
9. Never swap bullion coins for U.S. \$20 gold pieces.
10. Never break the law.

**Financial Perspectives** was founded in 2000 by Charles "Chuck" Gibson—a CERTIFIED FINANCIAL PLANNER™ certificant, Accredited Asset Management Specialist, and Chartered Retirement Plans Specialist—who has worked in the financial advisory industry since 1994. With more than \$54 million in assets currently under management\*, Chuck and his staff have advised hundreds of individuals, businesses, and other organizations, helping them establish sound investment strategies by providing informed, objective financial planning and asset management advice.

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