What the Smart Money Knows About Gold and Silver

By Chris Lowe on NOVEMBER 24, 2017

You've heard the stories…

During the 1930s and 1940s, families sewed gold and silver coins into the lining of their coats before escaping the Nazis.

Thanks to their stashes, they were able to avoid desolation… and sometimes even death.

They could have taken stocks, bonds… or even cash.

Instead, they took with them a store of wealth that's completely outside the financial system.

What was true back then is still true today.

With gold and silver bullion or coins, there is no issuer that can go bankrupt or default… no hacker that can steal your funds… and no financial meltdown that can wipe out your savings.

Outside the System

Our mission at *Inner Circle* is to plug you into the best strategic investment ideas from the network of handpicked analysts and investment experts *Inner Circle* founder Bill Bonner has put together over his more than 30 years in the investment publishing business.

We're not stock pickers or short-term traders. We're looking for market-shaping trends that you can profit from over years… even decades.

Over the past two weeks, we've been focused on how gold could once again be placed at the center of the world's monetary order. (Catch up here and here.)

This week, we're taking a deeper dive into how to own gold and silver in your portfolio… and why it's prudent, given the level of uncertainty out there, to personally hold at least a portion of your precious metals in physical form.

It's why, for this week's dispatch, I caught up with the cofounder and managing partner of Alps Precious Metals Group (APMG), James Hunter.

APMG provides private solutions for the storage and trade of physical gold and silver to institutions, individuals, and family offices that want to hold a portion of their wealth outside the status quo financial system.

And as you'll learn from this week's Q&A below, if your reason for owning precious metals is distrust of governments and Wall Street banks, physical precious metals ownership outside the financial system is the only route that makes sense.

Q&A With James Hunter

CL: How did you first get interested in precious metals?

JH: I earned my MBA at Auburn University in Alabama. Auburn is mainly famous for its football team and its astronauts. But if you're a free-market guy, Auburn is probably on your map. Because that's where the Mises Institute is.

Those were interesting times. When I was at Auburn, several of the faculty members were Austrian School economists. The remainder of the department had its share of run-of-the-mill East Coast Keynesians. That led to some pretty robust debates.

CL: Which side of the debate were you on?

JH: I just clicked with the Austrian School and sound-money guys. It made sense to me that for thousands of years, no matter what continent you were on, gold and silver served as money.

I probably don't need to remind your readers of this… but the way the Fed and other central banks have been using the credit money system to "stimulate" the economy is only going to make the final blow-up worse when it comes. Precious metals are an antidote to that.

CL: You're in the business of providing private gold and silver vaulting services to private investors and family offices. Why is physical ownership so important? Why not just go with a gold or silver ETF?

JH: Only a small percentage of a small percentage of investors owns gold and silver bullion and coins. Most people own what are often referred to as "paper gold" and "paper silver" through an exchange-traded fund (ETF) or futures contract.

[A precious metals futures contract is a legally binding agreement for the delivery of gold or silver in the future at an agreed-upon price.]

In other words, they own their gold and silver via a Wall Street fund in their brokerage account… just like the rest of the financial part of their portfolio.

For some folks, that doesn't sit right. The reason they're buying gold and silver in the first place is because they don't trust the global financial system. Holding gold and silver by way of Wall Street funds or government-owned vaults doesn't make sense.

Owning physical bullion or coins costs more than owning paper gold or silver. Whether you're willing to pay extra for outside-the-financial-system physical ownership depends on how concerned you are about a fiat money meltdown… and on how much you distrust the financial system.

There are plenty of folks out there who believe another meltdown is coming… who don't trust Wall Street banks… and who opt for physical ownership rather than the paper versions as a result. They see bullion or coins as much better "disaster hedges" than a Wall Street fund that trades on an exchange.

CL: Are they better hedges?

JH: If you look at what happened in 2008, the only assets that rallied in the immediate aftermath of the collapse of Lehman Brothers were U.S. Treasury bonds and gold and silver coins.

For instance, paper silver – traded-back-and-forth ETFs and futures contracts – fell to between $9 and $10 an ounce. But silver coins were still selling at $15 an ounce.

CL: Why were prices so out of sync?

JH: Supply and demand. People who owned coins weren't selling. Meanwhile, people who didn't own the physical metal suddenly wanted it – badly.

Europeans were especially concerned. Many of them were thinking, "This thing may melt down to a smoldering ash heap like it did with my grandparents and great-grandparents. I better be sure I've got precious metal coins that I can use."

Americans don't think that way so much. But Europeans absolutely do. They remember how gold and silver coins sewn into the lining of clothes in the 1930s and 1940s saved families from desolation… sometimes even from death.

And it's not just Europeans. Other people around the world have had similar experiences. If I'm Chinese, for instance, my parents or grandparents went through Mao's Cultural Revolution. So I don't mind having some gold and silver coins in my pocket or in an out-of-the-banking-system vault and trading company… not in a bank or on a stock exchange.

In a financial meltdown – the kind that Bill Bonner sees coming – paper gold and silver will be no use. The only insurance against a serious monetary catastrophe is owning physical gold and silver completely outside the financial system.

CL: We'll come back to the best ways to store your precious metals outside the financial system. First, I want to ask you about the long-term investing case for gold, outside of its role as "disaster insurance."

JH: I've been keeping a close eye on the demand coming out of Asia… and, in particular, out of China. In 2009, the Chinese government began to methodically increase its declared "official" gold holdings. The most recent update was in 2015, when Beijing declared it had 1,843 tons of gold – or about 40% of the tonnage held in Fort Knox.

Koos Jansen at Singapore-based gold dealer BullionStar has done some great work on this. He estimates that total Chinese gold reserves are 10 times the Chinese government's official number.

And there's anecdotal evidence to back him up. For instance, I was on a due diligence trip in 2015. My last stop was at Rhenus Logistics at Zürich Airport. Rhenus is one of Europe's biggest logistics outfits. The Rhenus operation at Zürich Airport covers about one-quarter of the entire airport campus.

I got talking to one of the managers there. He said, "I have been here for 40 years and seen many things. Used to be every time I loaded a plane with gold and silver going somewhere, we had one plane coming in carrying gold and silver. Now, for every plane I unload, I load four or five planes that go to Asia."

CL: What's driving that demand?

JH: When the Russian experiment with Communism came to an end in the 1990s, the Chinese Communist Party bosses said, "You know what? If we don't want to end up like our comrades in Moscow, we need to come up with a different game plan."

To keep the Chinese population fed, fat, and happy – and keep the Communist Party bosses in power – the government loosened its command-and-control economy. China became the "factory of the world"… grew at a clip of about 7-8% a year… and became the second-largest economy in U.S. dollar terms.

Now, President Xi Jinping and his gang appear to have a vision of becoming the world's No. 1 economic power. But that can't happen so easily within an almost fully dollarized economy. So they've decided to dethrone the petrodollar and replace it with a gold-backed "petroyuan." [Catch up in full here.] If that plan is a success, it means a big chunk of the $1.7 trillion-a-year revenue from the global oil business moving into the gold market.

When you combine no-end-in-sight Chinese demand… and a gold-backed petroyuan… with the natural restrictions in supply, the prospects for an explosive move to the upside for gold is just Economics 101.

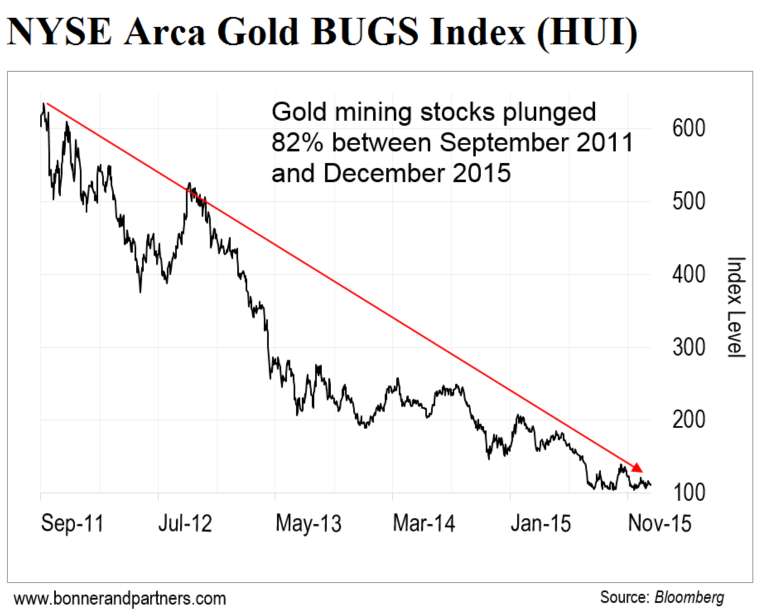
CL: That's the big picture. Now, let's get down to brass tacks. Let's say someone is convinced that owning gold and silver makes sense, what options do they have for adding them to their portfolio?

JH: There are five options. I classify the first four as "paper gold" and "paper silver" options: futures contracts… precious metals mining stocks… ETFs… and physical holdings in a bank as represented by a certificate of holdings. The fifth option is owning physical precious metals outside of the financial system – either at home or in a private vault.

Futures contracts are solely financial instruments, and are not something most of your readers are interested in. So let's start with the precious metals mining stocks. These give you leverage to the gold price. When the physical metal price goes up 1%, you can expect the miners to go up by more than that.

[Precious metals mining stocks are valued on their current production and future production in the ground. When the gold price goes up, those ounces become more valuable. Because costs stay put and revenues rise, mining profits rise. This gives investors in mining companies leverage to the gold price.]

The problem is that leverage works both ways. For instance, during the carnage in the precious metals mining sector between September 2011 and December 2015, the NYSE Arca Gold BUGS Index – an index of companies involved in gold mining – plunged 82%.



Next, you have gold and silver ETFs. The important thing to keep in mind here is that all gold ETFs are not created equal. You have the physical precious metals ETFs and you have what I call "paper gold" ETFs.

Two good examples of the physical kind are the Sprott Physical Gold Trust (PHYS) and the Sprott Physical Silver Trust (PSLV). They are backed by gold and silver kept in vaults at the Royal Canadian Mint. If you want to take delivery – assuming it's for a large enough amount – you can.

Or you could go with paper ETFs such as the SPDR Gold Trust (GLD) or the iShares Silver Trust (SLV). The major difference with these is that, if you look at their prospectuses, they clearly state that the objective is to provide the shareholder with the "performance" of gold and silver. With GLD or SLV, you own a financial instrument. You don't own gold or silver bullion.

CL: What about the options for people who want to hold the physical metals outside of their brokerage account?

JH: There are three options for personal physical ownership. First, you can hold your gold and silver at a bank. But you have to be careful. JPMorgan Chase, for example, will give you a piece of paper that says, “You’ve got “X” amount in the vault back here. And we swear it’s there.”

The next option is a safe at your home. There are all kinds of different dealers from whom you can buy and take delivery of gold and silver bullion and coins. This option requires you to collect your precious metal personally or have it delivered to your home via a Brinks or a Loomis. You also then have to invest in your home security setup.

Finally, you have the option of a private vault or bonded warehouse. With this option, your precious metal is held in your own segregated box in a secure vault. You can trade it without the cumbersome delivery issues you will have if you keep it in a home safe. And it’s fully insured.

CL: What are the advantages and disadvantages of these different ways of getting exposure to precious metals?

JH: With the first three – futures, precious metals mining stocks, and ETFs – you’re talking about financial products you buy on an exchange and hold in your brokerage account. In a major financial collapse, that could get sticky.

If you store your bullion or your coins with a Wall Street bank, you have to worry about what the bank is up to. With home storage, you have to worry about keeping your gold safe from bad guys. You also have to know your serial numbers and the chain-of-custody for each bar, which is crucial when you go to sell your bullion again.

Another problem with home storage is how fast you can sell if the need arises. You have to get your bullion boxed up… deal with Brinks or Loomis for transportation… and figure out where to sell it.

The private vault or bonded warehouse option sorts out your liquidity problem, because you have a trading desk at your disposal. If you want to sell your precious metals, you just call the trading desk and say, “I’ve got 100 ounces of gold. I want you to sell 50 ounces and wire the dollars to my bank.”

CL: What’s your advice to *Inner Circle* readers who want exposure to precious metals but aren’t sure how to get the exposure they’re looking for?

JH: The most important thing is to diversify, diversify, diversify. Own some precious metals mining stocks to get leverage to an upswing in the price of gold. Own some ETFs for the instant liquidity and low costs. And own some physical gold for “disaster insurance.”

The state of global uncertainty that Bill Bonner and others have highlighted is such that one's eggs should not all be in one basket. It's tempting to have all your gold in paper form for convenience and liquidity. But I'd recommend putting at least some of your physical gold and silver in out-of-the-banking-system private storage.

What to Do

Chris here – We've been pounding the table on the need to have 5% to 10% of your portfolio in gold and silver.

It's the best way to protect yourself from the financial meltdown *Inner Circle* founder Bill Bonner sees coming.

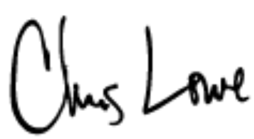
For more on this important topic, make sure to check out your special report, "The Three Best Ways to Buy Gold" in your *Inner Circle* special reports library.

It goes into more detail about the different ways to own gold… the "buy, hold, repeat" method of adding precious metals to your portfolio… as well as information on some recommended bullion and coin dealers.

And if you want to find out more about the vaulting services James' firm offers in Liechtenstein – the tiny principality between Switzerland and Austria – you can find out more at the APMG website here.

Until next week.

Regards,



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The Inner Circle Top 6

From petrodollar to "petrogold" – Gold prices will soar as global oil trade is settled in the yellow metal (11/10/17).

Ride the cannabis legalization wave – A wave of cannabis legalization is sweeping across the globe. Buy cannabis stocks (5/12/17).

Follow the golden ratio – Middle-aged big spenders are the biggest population group, and U.S. stocks will benefit. Dollar-cost average into U.S. stocks (4/21/17).

Cybersecurity splurge – Governments, banks, and companies around the world are spending big bucks on cybersecurity. Get ready for a rally (12/8/16).

Bullish on Bitcoin – Cryptocurrencies are the "new gold" (7/21/16). Use them to bet against the doomed fiat money system (9/15/16).

Defense stocks for a bellicose era – The world is experiencing a rise in militarism. Go long defense stocks (11/5/15).

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