Investing in Gold and Silver—A Contrarian Point of View

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I Introduction and History

- **Gold has had great influence on the history of man. It underlies the very principle of money, and formed the underpinnings of modern banking and trade. It has motivated major historical events: wars, epic explorations, and the colonization of the New World and Africa. Gold and silver mined by slaves and stolen from inhabitants of The Americas, and then transported to Spain changed the economic and political landscape of all Europe. Gold and silver lust also featured greatly in the near eradication of Native American populations and cultures.**
- **The California gold rush was instrumental in fueling the westward expansion of the USA. Gold rushes around the world, in Australia, Canada, South Africa, China, and many other countries, have had profound consequences.**
- **Silver formed the basic monetary unit for Europe (thalers) and later Spanish pieces of eight in the New World. Exploitation of silver mines in the Rockies fueled the American economy for many years.**
- **President Franklin Roosevelt, in response to an international economic crisis, issued an order in 1933 that individuals in the USA could not hold gold. Numismatic gold coins were exempted. In 1971 President Richard Nixon took the USA off the Gold Standard, and effectively the rest of the world as well. In 1973 the ban on individuals holding gold was rescinded.**
- **In 1979-1980 the wealthy Hunt brothers of Texas attempted to corner the silver market. They very nearly succeeded, causing widespread financial disruption, panic, and crime. The attempt was defeated. Few people profited and many were harmed.**
- **Gold continues to hold outsized influence on our behaviors, beliefs, and policies, despite being an inert, yellow-colored metal of no particular practical use (other than decorative).**
- **Silver is gold's little sibling and has generally shadowed gold in its popularity and importance in the economy. Silver has many industrial uses as well as monetary and decorative. As a precious metal, silver is much more common in the Earth's crust, and is therefore less valuable than gold.**
- **Investing in gold and silver is a popular option today. Arguments exist both for and against investing in gold and silver.**

- **Gold and silver mining today is a large, world-wide industry with major ramifications for the economies, the environment, and the populace of many countries.**
- **There is overlap between collecting rare coins of gold and silver and holding gold or silver bullion for investment purposes. Some individuals do one or the other; some do both. Modern coin collections often feature high grade slabbed coins that have numismatic value above their bullion value. Old coin collections tend to have bullion value even if the numismatic value is low.**

II Returns from Gold and Silver

- **Gold and silver have both had a mixed history on the market, with some big ups and downs, and long periods of price-inactivity, much like stocks and bonds, and other commodities.**
- **Gold, peaked in price at $2000 in 2011, Dropped to $1100 in 2015, then went back up to $2000 again briefly in 2020, and has receded since. It is now around $1783.**
- **Silver (except for its freakish run-up to $50 in 1980) had a high of $40 in 2010, then hung out around $11 or $12 for years, and then reached another high around $28 in the summer of 2021. The silver "spot" is currently vacillating in the mid to low twenties.**
- **The long-term performance of precious metals is roughly comparable to other investments such as stocks, bonds, and real estate.**
- **Neither gold nor silver has performed with the incredible run-up promised by the late-night TV hucksters.**
- **High grade numismatic material of silver and gold has done extremely well. People who accumulated excellent coin collections in the past have been financially rewarded. The financial future of coins is predicted to be rosy—but of course, being the future, no one knows for sure. The value of a gold or silver coin will never fall below the value of its content of precious metal. But for high value numismatic pieces the value is many-fold times higher than the spot price.**

III Fundamentals

- **Demand for gold and silver is high. Gold is used for jewelry and as an economic instrument; silver has use for jewelry and many industrial applications, as well as commemorative coinage and bullion purposes.**
- **India and China are major markets for gold. In India particularly, gold is heavily interwoven into patrimony and marriage customs. Both countries are experiencing rapid economic growth, and demand for gold and silver is great.**

- **Silver mining historically is subject to "boom and bust" cycles. Silver production was cut by 2/3 by Covid because it is mined underground. Covid shut down only 9% of gold mining because most of it is open pit- mining, which is less affected by restrictions due to Covid.**
- **Primary silver mines account for only 30% of silver production. Most silver Is mined as a by-product from multi-metal mines. Therefore the price of silver is not the driving factor in production, since it is being extracted from the ground mixed with other metals.**
- **Silver production peaked in 2015; production has trended down since. Known world reserves in primary silver mines will be depleted within an estimated 20 years. This will eliminate one third of the silver supply.**
- **Although gold is rare in the Earth's crust, it is found in many countries. Presented are the 15 biggest gold- producing countries in The World.**
- **Gold is mainly mined today from low grade ore derived from large open-pit mines. The yield of gold per ton of ore—and the price of gold--have to be high enough for mining to be economically viable for mining to go on. Thus, unlike silver, gold-mining activity is determined by the price of gold.**
- **Gold and silver "reserves" are a critical factor in determining mining locations, practices, and financing. "Reserves" means the estimated amount of accessible metal in the ground, and the yield from the mined ore. Reserves of both metals are declining.**
- **The gold-mining you see on <u>Gold Rush</u> on TV is a pleasant semi-fiction. Most gold mining in the USA (and around the world) is carried out by large international mining companies, working huge open pit mines. The <u>Gold Rush</u> mining is more akin to small artisanal mining operations than to the big open-pit mining. Note that the <u>Gold Rush</u> miners do not use cyanide or mercury leaching processes to remove gold from rock, which is universally done at the big mines.**
- **Gold also may have peaked. All the easy gold has been found, and exploration has moved into increasingly inhospitable and economically demanding areas of the world. Gold production has gone down in the last two years.**
- **South Africa may be a model for peaking gold production. Until 1970 South Africa led the World in gold production, but then production declined greatly despite a relatively stable economy and mining sophistication. What happened? They simply started to run out of gold.**
- **Likewise, all the old goldrush sites in the USA are now non-productive despite high-tech extraction techniques. Gold mining now in the USA is primarily the open-pit mining of low-grade ore for microscopic bits of gold. The USA has the second-largest**

mine in the world, The Carlin Mine, in Nevada. The largest goldmine in the world is in Uzbekistan.

- **Overall, most impartial experts feel that the fundamentals are good for the long-term silver and gold prices to rise, and other precious metals as well.**
- **The key index price for both gold and silver is the "Spot Price" which is a standard price generated by the big metals exchanges, expressed in dollars per troy ounce. The "Spot Price" changes from day to day, and even from minute to minute. Buying and selling are both related to "Spot." The important measure for a gold or silver coin or bar is its Actual Gold (or Silver) Weight, or AGW (ASW). The weight in troy ounces multiplied by the "Spot Price" gives the monetary bullion value of any particular coin or bar. Depending on the market, individual transactions may be made at Spot, above Spot, or below Spot.**
- **The gold market is dominated by a few big international gold exchanges (New York London, Zurich, etc.), huge international mining companies, and large investors (including sovereign countries) who buy and sell gigantic amounts of gold. Small investors have little influence on the gold market.**
- **Most countries around the world have issued gold and silver coinage. The older coins are strongly linked to the numismatic market; the newer coinage is mainly for bullion purposes, and also for commemorative coinage. Several countries realize a handsome profit from their gold and silver mintage. Many countries maintain gold reserves.**
- **The most famous gold depository in the world is at Fort Knox, Kentucky. There in a high-tech under-ground facility guarded by the 101st Airborne Division, lies 147 million troy ounces of gold (and ten 1933 St. Gaudens double eagles among other treasures). Nobody has seen the gold since 1974, when 120 dignitaries and members of the press were allowed in for a tour, to dispel rumors that there was no gold at Fort Knox. The gold was still there. High Government officials also visited in 2017.**

  The largest gold depository in the world is the Federal Reserve Bank of New York City, famously breached by terrorists in a Bruce Willis Die Hard movie. Fort Knox was attacked (unsuccessfully) by female aviators in the James Bond movie "Goldfinger."
- **An estimated two percent of Americans hold precious metals for investment purposes.**
- **Most of the gold ever mined (estimated to be 88 percent) is still in existence.**

IV Politics, Religion, Environmentalism, and Ethics

- **A strong belief is held by many that gold has intrinsic value, and almost mystical powers. Sentiment exists among mainly right-wing adherents to return to the Gold**

Standard. Certain gold and silver advocates also want to resume the Biblical ratio of silver to gold of 5 to 1. The current ratio of silver to gold is about 74 to 1.

- **Gold is often considered to be "real" or "hard" money, as opposed to "fiat" money (i.e., paper currency), which has arbitrary value assigned by government, not backed by hard money. The truth is that gold is valuable as a medium of exchange by mutual agreement and faith, just like dollar bills. Gold has no greater intrinsic value than wampum or huge South Sea island stones, or blockchain algorithms. You can't eat it, or power your car with it, or build a house out of it. It just sits there—looking pretty.**
- **Most reputable economists view the Gold Standard as obsolete and dangerous. Resuming the Gold Standard would upend our economy and benefit our adversaries in the world (China and Russia are the two largest gold-producing countries in the world). Returning to the Biblical gold/silver ratio would be highly disruptive and impossible without huge governmental subsidy. The Bible does not take modern market forces into account.**
- **From a rational point of view, going to great expense, energy consumption, danger, and environmental destruction—to dig a gold-colored metal out of the ground, then to form it into bars, and then store it away in an underground vault, is crazy.**
- **Passin predicts $7-9 K gold. Travers predicts $3 K by 2025 and $9 K by 2030. Hucksters on TV shout out $10,000 gold. Gold prices go up and down, but so far have not met the extravagant predictions. These gold-bug prophets all have self-interest in that they are selling gold.**
- **Bitcoin is gold's inverted image: gold is physical; Bitcoin is ethereal. Gold is indestructible; Bitcoin exists only in the cloud. Gold is ancient, Bitcoin is modern. On the other hand there are similarities: gold is volatile in price and mysterious; Bitcoin the same. Gold is private and untraceable, Bitcoin the same. Gold is the currency of criminals and fraudsters; Bitcoin the same. The value of both gold and bitcoin is based on faith and convention; Both are "mined" with great energy costs. Gold and Bitcoin are two sides of the same coin, linked together by their similarities and differences. Passin recommends gifts to children of gold coins and Bitcoins.**
- **Cyanide is commonly used in outdoor tailing ponds to separate gold from other chemicals. Cyanide is highly toxic to the environment. In 2000 the rupture of a cyanide tailings pond in Romania contaminated the Danube River. Mercury is also used and equally toxic to man and the environment. In a Chilean gold-mining town high in the Andes, every person there has mercury poisoning due mercury fumes from the cottage industry smelters used to separate gold from mercury.**
- **Environmental destruction from gold mining is inevitable mainly because most large-scale gold mining is open pit. Disposal of the over-burden (rock and soil above the gold ore deposits) is a huge issue. Environmental regulations for gold mining practices**

vary from rigorous to lax depending mainly on the level of economic development of the country, and the degree of political corruption. Third world countries are generally the most lax in their regulatory practices, and large gold-mining companies take advantage of that fact. In Papua New Guinea a giant gold mine destroys virgin forest and dumps its over-burden in the sea with unmeasured but huge environmental consequences. Also deficient in environmental protection are the Communist states and former Soviet countries. In Uzbekistan (a former Soviet State) the biggest health problem is birth defects. The gold mined there is found mixed with low grade uranium ore, which is abandoned in huge slag piles near the gold mines. When it rains radioactive particles leach out of the slag into the water supply, and when the wind blows radioactive dust covers everything. Everyone there is exposed to radiation, and consequently, lots of little babies are born with birth defects.

- **12 percent or more (estimated) of the World's gold production is artisanal, which is practiced in Africa, South America, Southeast Asia, and other locales. Although these mining activities provide income for the local populace, they entail major environmental destruction, invite exploitation of the miners, encourage crime and support terrorism, and destroy indigenous cultures.**
- **Some gold, like diamonds, is blood gold and comes from mines operated by terrorists. Unlike diamonds, blood gold cannot be identified, and finds its way into general gold markets.**
- **Investing in precious metals does not stimulate the economy like buying stocks or bonds. Only landowners, mining companies, and gold brokers profit directly from mining. Gold is a passive investment, in that it earns no interest or dividends, nor generates rent like real estate. It just sits there.**

V Strategies and Methods

- **There are several ways to own and store gold and silver, and several strategies for buying and selling.**
- **Where to buy gold and silver? Coin dealers, local coin club auctions and estate sales, web vendors as on E-bay, mail-order gold companies with splashy websites. Gold funds and ETF's. ETFs are Exchange Traded Funds, which buy and sell gold shares on the financial market. Most of these charge retail prices, and some take unconscionable profits from unsophisticated buyers.**
- **Where to sell gold and silver? All of the same as above. In most cases you will sell physical assets at wholesale prices.**
- **The SPDR (Standard & Poor's Depository Receipts) ETF was founded in 2004, allowing anyone to invest in gold. SPDR holds the gold, and the gold is "allocated" meaning that you, and you only, can have use of the gold that you have purchased. It cannot be**

used for any purpose, loaned, or allocated to any other owner. A similar ETF exists for silver. The ETF's do not "manage" the gold and silver holdings—that is, buy and sell for economic advantage like stock funds.

- **The big advantages of the ETF's are: the price of gold may go up. Also the ease of the transactions, and no concerns about physical storage, which is very secure. The disadvantages of the ETF's are: no professional "management" of the investment (one is totally dependent on the rise and fall of the price of the gold or silver), and potential lack of access in an emergency. The price of gold may go down. There is also slight theoretical risk that the ETF will fail or will lose its precious metal in a theft or disaster. There is also cost associated with the administration of the fund.**
- **Travers recommends rare numismatic gold coins (over MS63) for investment as the differential to spot is great. His main recommendation is American Eagles; also Canadian Maple Leafs, Krugerrands, Mexican 50 Pesos, and Austrian 100 Coronas. Certified coins carry an element of safety. Uncertified coins have just as much gold in them, and are much cheaper. Some uncertified coins have good performance on the secondary market, whereas some certified coins are over-priced and do not do well on the secondary market.**
- **Most small investors use a "buy and hold" strategy, viewing gold and silver as stores of wealth and a "safe-haven" investment, like insurance. Gold coins are often bequeathed in inheritances.**
- **Other investors try to "time" the market and buy low to sell high. This is difficult with gold and silver, as it is with stocks.**
- **One form of investing in gold and silver is to buy numismatic material—that is, rare and valuable coins. Numismatic holdings have done very well in the market over time. This strategy requires considerable knowledge, patience, and discipline. Transactional costs are high.**
- **Some investors buy gold and silver mining stocks, which generally reflect the gold and silver markets.**
- **Precious metals may be held in IRA's but there are restrictions. You cannot hold the gold or silver yourself, and the holding agent has to be approved.**
- **Storage of physical gold and silver is an issue.**
- **Safety Deposit Boxes do not usually include insurance and are sometimes inaccessible in a disaster. They are also costly, inconvenient for ready access, and too small for substantial silver hoards.**
- **Home safes are rated for intrusion time, and fire resistance by time and temperature. Insurance policies for coins often require certain ratings levels for home safes. Safes are expensive and carry risks: one can forget the combination; the lock mechanism can break; criminals can force them or hold the owner hostage to open the safe. On**

the other hand, safes give the owner unlimited access to his/her gold and silver, and provide protection against common thieves, and also protection against the statistically more likely event of fire. Storage volume of a big safe can be considerably more than a safety deposit box, but of course a big safe is more expensive than a small safe, takes up a lot of room in your house, and is hard to move.

- **Burying gold and silver in the back yard or hiding it in the walls of your house is not recommended. One can forget where it is or die without telling anyone. Your house could burn down. Silver corrodes. Burying your coins is cheaper than a safe however, and special leak-proof burial containers can be obtained. The internet carries wacky ideas for storing and hiding gold and silver, such as placing in frozen vegetable bags in the freezer, or in an old paint can on the garage floor. If you bury your silver and gold, dig down at least four feet or scatter some junk iron around to fool metal detectors. Good luck.**

VI Risks and Disadvantages

- **The price of gold and silver could go down after you acquire them.**
- **Counterfeit gold can inadvertently be purchased in coin or ingot form on the web or from dealers; some of the counterfeit coins are slabbed in counterfeit holders.**
- **During the unstable financial times of 2011 gold hit its all-time high ($2,000) but then fell—it did not function as a safe-haven in that financially difficult time.**
- **Whereas gold has a favorable volume and weight relationship to value, silver has an unfavorable volume and weight relationship to value. Silver takes up a lot of room for its value and it is very heavy in quantity. A strong person could not carry $50,000 of silver, which is a modest sum for a retirement holding.**
- **For many individuals who buy physical gold or silver retail and sell wholesale after a short time frame, selling carries a high transactional price which eats up a large percentage of any gain in value. Buying at retail and selling at wholesale usually imposes a 20% cost off the top.**
- **You may have the knowledge, patience, and discipline to sell your hoard for a good price at the right time, but you also may die or become incapacitated before you are able to realize your profit. Your heirs or guardians will not necessarily have the skills or the desire to liquidate your hoard effectively, and full value will not be realized.**
- **You could lose your precious metals in a natural or man-made disaster, or by theft. Most silver and gold is anonymous, and can be sold by thieves without difficulty. Some precious metal thieves operate smelters.**
- **Under conditions of economic chaos and collapse, holding precious metal could be dangerous—thieves, robbers, and con artists will be active.**

- **Gold or silver in ETF's or safety deposit boxes could be difficult to access under emergency conditions. Banks and ETF's could fail.**
- **Platinum and other rare metals may appreciate in value but would be difficult to sell under emergency conditions.**
- **Other investments may out-perform precious metals. Many of these investments have few of the disadvantages of gold and silver listed above.**

VII Rewards and Advantages

- **The "black Swan" event could occur: natural disasters like fire, earthquakes, flood, volcanic eruption, or world-wide pandemic, etc. are increasingly probable with climate change and over-population. Man-made disasters such as nuclear war or insurrection are possible. The economy could collapse with run-away inflation. Hard money (gold and silver) could become the currency of choice for life necessities such as food and gasoline. You would then survive in comfort with your gold and silver until it ran out. So far, such an event has not occurred in the USA but has occurred in other countries.**
- **Long-term fundamentals favor a rise in price for both gold and silver (and other rare metals as well). Holding gold and silver for the long term could be rewarding.**
- **The common prediction that gold and silver will have a dramatic increase in price could come true someday. Then you would be rich. This has not yet happened.**
- **Precious metals are beautiful to see and hold in the hand; they give people satisfaction and peace of mind. ETF's do not provide this spiritual and tactile experience.**

VIII Conclusions and Recommendations (not to be construed as financial advice for any particular individual)

- **Investing in gold and silver has high potential risks and benefits. It is not for everyone.**
- **As a pure investment (attempt to increase wealth through appreciation of value), gold and silver have been somewhat equivalent over time compared with conventional investments such as stocks, bonds, and real estate. Over the long term it can fulfil a role in your investment portfolio, especially if you are diversified with your other investments.**
- **In the short-term, holding precious metals for value accrual is chancy.**
- **Gold and silver are commodities; the price goes up and down subject to multiple and complicated factors. Predicting price changes and timing the market are hard.**
- **Gaudy predictions of rising prices are ubiquitous, but suspect due to self-interest of those making the predictions.**

- **The greatest short-term financial disadvantage of buying gold and silver is being a retail investor.**
- **As insurance against financial or societal disaster (the "black swan" event), gold and silver present a logical case.**
- **If you should invest in physical gold or silver, I recommend holding a variety of metals and denominations for the "hard currency" scenario. Under conditions of economic collapse, the best make-up of your gold and silver hoard would be small silver for the daily purchases and large gold pieces for the big expenses. .**
- **My favored strategy is to buy and hold—this gives you the insurance benefit, the inheritance option, and an emergency store of hard money.**
- **Numismatic holdings have done well and continue to be rewarding in today's environment. Collecting rare and valuable coins has benefits and pleasures other than financial.**