YOSEMITE LAUGHS ALL

SAM THE WAY TO THE BANK

By Troy Anderson

As experts debate whether the 12-year bull run in gold and silver is over or about to take off again, Lance Roberts predicts that the recent "consolidation" in the precious-metals market will end this spring, making now a good time to buy gold and silver.

"I'm not an end-of-the-world doom and gloomer who believes zombies are going to come out and we're going to have to have guns and gold to survive," says the chief executive officer of Houston-based StreetTalk Advisors. "I'm not quite there yet, but I find value in owning gold as an investment opportunity."

In light of America's soaring national debt, the fact that the Federal Reserve and other central banks are continuing to print huge sums of money, a deepening Euro-area recession, and growing fears of a global currency war, Roberts says he expects the recent correction in gold and silver prices to end this spring and the prices of precious metals to resume their upward trajectories.

Gold and Silver Price Predictions

As *NBIZ Magazine* went to press, the price of gold was approaching $1,600 an ounce, down from a peak of $1,920 an ounce in September 2011. By the end of this year, Roberts and other precious-metal experts interviewed for this story expect the price of gold to increase to $1,750-$2,000 an ounce.

Late last year, Deutsche Bank forecasted that gold prices will exceed $2,000 in the first half of this year. In the long term, Bank of America Merrill Lynch analysts said recently, gold could soar to $3,000 or even $5,000 an ounce.

Meanwhile, the price of silver was approaching $29 an ounce as this magazine went to print, down from a peak of nearly $50 an ounce in April 2011. Roberts and other experts interviewed by *NBIZ Magazine* expect the price of silver to increase to about $35 an ounce by the end of the year. In the long term, some experts believe, the price of silver will return to $50 an ounce or higher.

Roberts says the correction in gold and silver prices began in 2011; based on historical corrections in precious-metal markets that have usually lasted 12 to 18 months, he expects the bull run to resume this spring.

"What should happen is that, at the end of this consolidation period, we should begin to see gold and silver start to move up and break out of the downtrend," Roberts says. "Right now, the Dow is at an all-time high, and the economy appears to be turning a corner. But there is no real evidence that the economy is strengthening at all. The actual economy is weakening according to a variety of measures. The only thing supporting the market rally is the continual inducements of quantitative easing."

How Long Will It Last?

But not everyone is convinced that the huge run-up in gold and silver prices in the last dozen years will continue much longer.

Jim Young, a senior vice president and senior portfolio manager at The Sanibel Captiva Trust Company in Sanibel, Florida, says he believes the gold and silver rush is in its latter stages.

"With a 650 percent rise in the price of gold over the last 12 years, I can see how gold over the long term would have to give up that gain," Young says.

The debate over the future of precious metals comes amid global gold and silver mania—a phenomenon driven in recent years by excessive money printing by central banks, the global race to devalue currencies, and increased inflation.

In one state, though, gold and silver coins can already be used like money. Legislators in Utah recently approved a law permitting the use of gold and silver coins as an alternate way to settle debts, Moy says. About a dozen states are now considering similar legislation.

The Popular Investment

Those prescient enough to have bought gold at its low of $265 an ounce in October 2000 would have experienced a seven-fold increase in their investment by the time gold peaked at $1,920 an ounce in September 2011.

The story is similar for silver, which rose from a low of $4.82 an ounce in 2001 to a high of $48.70 an ounce in 2011—a tenfold increase.

Once viewed as a fringe investment for conspiracy theorists and gold and silver bugs, investing in precious metals has become increasingly popular in recent years. For the second year in a row, Gallup found gold leading four other types of investments in Americans' perceptions of the best long-term investment—beating out real estate, stocks and mutual funds, savings accounts, and CDs and bonds.

Gold does particularly well among men, adults 35 years and older, middle-income Americans, and Republicans. Women, younger adults, lower-income Americans, and Democrats are more likely than others to name savings accounts and CDs as the best investment, according to Gallup.

After years of economic turbulence and uncertainty about the dollar, a growing number of Americans have purchased gold and silver coins, gold and silver IRAs, and exchange-traded funds (ETFs).

"The United States Mint sold out on silver bullion coins and came pretty close to selling out on gold bullion coins in January," says Edmund Moy, the former director of the U.S. Mint and the chief strategist for Morgan Gold in Irvine, California. "They were on the same pace for the month of February."

Today, an increasing number of people view precious metals not only as an investment but also as a hedge against economic and political turmoil. Conventional wisdom holds that if the central banks print too much money, unleashing high or rampant inflation, gold and silver will increase in value—possibly significantly.

“Traditionally, people have invested in gold and silver because they are tangible assets and have intrinsic value that is not related to the value of your currency,” Moy says. “That means when the value of the dollar goes down, the price of gold goes up. So when there is a financial crisis that is dollar-based, gold is going to go up.”

In a worst-case scenario, such as an economic collapse, Moy says people could use gold and silver coins to barter for goods and services.

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“Assuming there was some kind of *Mad Max* scenario, that’s one case where it would make sense to have guns, ammo, food, gold, and silver,” says Anthem Blanchard, the chief executive officer of Anthem Vault, a Las Vegas, Nevada–based precious-metal retailer and non-bank custodian of physical gold and silver bullion.

“I think that’s a very remote situation. But it’s behooven upon everyone to understand the severity of the credit risk that is inherent in the system. We might not see any type of hyperinflation in the U.S. for decades, but the unfunded liabilities are not sustainable. It’s very simple math. The promises made to entitlement programs are just not realistic. Intelligent and well-respected experts in finance say the unfunded liabilities exceed $210 trillion.”

Gold Coin History

Gold coins, according to Morgan Gold, have been a recognized store of value since the Greeks struck the first gold coins about 2,600 years ago. The U.S. Mint began producing gold coins in 1795 and continued doing so through 1933, when President Franklin D. Roosevelt took the U.S. off the gold standard. The value of the dollar has dropped 85 percent since President Richard Nixon broke the dollar’s last link to gold in 1971.

From the 1930s to the 1970s, collectors continued to own U.S. gold coins but were forbidden to import any, until a new law went into effect in 1974, according to Morgan Gold. Collectors and investors made do with gold coins from around the world until 1986, when they were able to buy U.S. gold coins again. In 1997, Congress allowed certain precious-metal coins to be included in IRA/401k retirement accounts.

Today, the coins are easy to buy at small premiums over their melt value, easy to store, and easy to sell. In addition, gold and silver coin transactions are totally private, requiring no U.S. government reporting.

While investors holding cash-related assets such as money markets and mutual funds have seen their purchasing power decrease by about 40 percent since the September 11, 2001 terrorist attacks, investors holding physical gold coins or gold in their IRA/401k retirement accounts have seen their assets increase by more than 400 percent, according to Morgan Gold.

“I think the short story is that the bull run has taken a pause, but I believe it will continue,” Moy says.

Moy says there is a “100 percent correlation between the federal debt” and the price of precious metals. Every time the debt ceiling is raised, the price of gold goes up correspondingly, Moy says.

“Right now, the federal debt is $16.4 trillion,” Moy says. “If you move the decimal 10 points to the left, you get $1,640. Gold is $1,593 an ounce now. If you look at every time the debt ceiling is raised, toward the end of that time, gold ends up matching that rise perfectly.”

Experts say other factors are likely to drive up the price of gold and silver in the months and years ahead too.

Pressure is building throughout the world for solutions to the debt crisis that many nations face. The classic way for governments to deal with excessive debt is by debasing the currency through inflation. This trend has already started: the Federal Reserve and other central banks around the world have printed trillions of new dollars since the economic crisis in 2008.

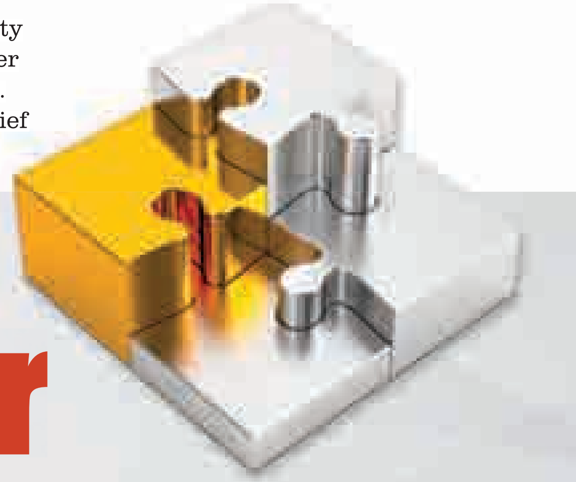
In an effort to prevent a global financial collapse, the world's central banks have pushed short-term interest rates to historic lows and injected massive amounts of liquidity into global markets, raising fears of high inflation.

In recent months, concerns have increased about the possibility of "currency wars," a term that refers to competitive currency devaluations. In early March, a People's Bank of China official said the central bank is "fully prepared" for a currency war. In recent months, Japan has sought to boost growth with massive stimulus programs —devaluing their currency. In the event of a currency war, analysts say, people would flock back into gold and silver, driving the prices up even further.

Two Drivers in Gold

"There is a 90 percent probability for gold to rise 15 to 25 percent over the next 12 months," says Frank E. Holmes, the chief executive and chief investment officer at U.S. Global Investors, a San Antonio–based investment management firm specializing in gold, natural resources, emerging markets, and global infrastructure opportunities around the world. "There are two drivers to gold.

"One is the fear trade. The other is the love trade. And the love trade has to do with the core relation of gold prices to rising gross domestic



Investing in Gold and Silver

When it comes to investing in precious metals, former U.S. Mint Director Edmund Moy offers a personal example: he has increased his private holdings of gold and silver in the last several years to between 5 and 10 percent of his net worth.

"In an uncertain economy—and we're certainly there, with extreme highs and lows in our stock market and all these mini train wrecks in our fiscal policies, ranging from not being able to get a budget done to sequestration to raising taxes and the fight over the debt limit—investors should diversify their investments to spread the risk," says Moy, the chief strategist for Morgan Gold in Irvine, California.

As the man in charge of Fort Knox and the largest gold company on earth (the U.S. Mint) from 2006 to 2011, Moy began his diversification by opening a precious-metals IRA and buying American gold bullion coins to add to his non-retirement account.

Moy says the possession of physical gold and silver has the additional benefit of being a storehouse of wealth that is immediately tradable and portable.

And with growing concerns about potential cyber-attacks on the nation's banking system, Moy says, possessing gold and silver coins means people could still make purchases or barter for goods and services in the event that they couldn't access their bank funds.

"With so much of our economy dependent on electronic currency, the ability to bring down the banking system and make it difficult for you to access your electronic funds is becoming a greater concern. Gold is a plan B in that type of scenario," Moy says.

Moy recommends that people buy gold and silver coins from a reputable dealer, preferably one that has been in business for a long time and has a good record with the Better Business Bureau.

"When people want to buy gold and silver, there are a lot of companies that will sell it to them," Moy says. "Here are the things to look out for. You want to buy gold and silver bullion coins made by a government, and the world leader is the U.S. government. When a government makes a coin, the quality is guaranteed."

The disadvantage of buying gold and silver bricks from private companies, Moy says, is that there is no way to be 100 percent certain that the brick is pure gold or silver.

"There are some integrity questions out there, and there have been instances of fraud that made investors leery when it comes to buying bars that could have a core of lead," Moy says. "Also, someone can shave gold off a bar and make it lighter, and you'll never notice."

As far as the price of the gold and silver coins, Moy says, it's wise to compare prices.

"Some companies charge more for the coins than others," Moy says. "There are some companies that will charge a lot less. You may just pay cost for the first ten, but what they don't say is that for the next ten you will pay a dramatically higher cost. You have to look at the price point through the whole purchase and see what you are getting for it."

Economist Chris Martenson, cofounder of PeakProsperity.com, recommends that individuals and business owners hold 10 to 20 percent of their net worth in gold and silver.

"Business owners need to understand that the Federal Reserve is running the largest monetary experiment in history, and that this could turn out well or badly," Martenson says. "If it turns out badly, I'd like to see people create a buffer for themselves. I think people need to hold a larger portion of their working capital in their businesses and in terms of their personal wealth in precious metals."

product in Asia and the Middle East. And so this run-up in gold is not just from governments debasing their currencies; it's also the rise of emerging markets. You can see that the emerging markets started to take off in 2002, and that's when you saw the price of gold take off too."

Increasing Gold Reserves

Meanwhile, central banks throughout the world—especially Russia, China, and India—have been increasing their gold reserves. A recent World Gold Council report found that global central bank demand for gold in 2012 was at its highest level since 1964. Central bank net purchases of gold rose to 535 tons in 2012, exceeding the 457 tons purchased in 2011. Currently, the U.S. has about 8,000 tons of gold compared to China's 1,000 to 3,000 tons.

"Russia, China, India, and other countries are accumulating gold at a pretty serious clip and have been doing so for a while," says author and economist Chris Martenson, co-founder of PeakProsperity.com. "In this race, gold is moving rapidly from west to east.

"China understands inflation, and they understand that the future is going to be defined by some new currency regime. China has been very open about the idea that they want to be a reserve currency. To be a solid reserve currency, you always need gold backing."

Higher Inflation

As the central banks around the world attempt to re-inflate their economies and combat inflation by printing trillions of dollars, Martenson says history strongly suggests that the "chance of 'success' is almost zero, while the probability of a major currency crisis or accident is extremely high."

"With many foreign banks already fearing the onset of inflation, including Russia, whose gold store has amassed well over $500 billion to date, gold is becoming an increasingly stellar inflationary hedge," says Martenson, author of *The Crash Course: The Unsustainable Future of Our Economy, Energy, And Environment.*

Greg Werlinich, the president of Werlinich Asset Management, LLC in Rye Brook, New York, says he believes there is a good chance the nation will experience higher inflation in the years ahead—along with a corresponding increase in the price of gold and silver.

"I don't want to sound apocalyptic and say we are headed toward massive hyperinflation and the destruction of our currency, although there are those who will make that argument," says Werlinich, coauthor of *The Black Book on Personal Finance.* "I don't want to be quite so apocalyptic, but I think it's inevitable that we will have higher inflation, and that will benefit the prices of gold and silver." **N**

An award-winning journalist at the Los Angeles Daily News, *the* Press-Enterprise *and other newspapers for 20 years, Troy Anderson writes for Reuters, Newsmax,* Christianity Today, Bankrate Insurance *and many other magazines and online publications. He lives in southern California. For more information, visit www.troyandersonwriter.com.*