



Precious Metals in 2012

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The Cheviot Symposium

Why Invest In Precious Metals?

Some things never change....

Q George Bernard Shaw:

'You have a choice between the natural stability of Gold and the honesty and intelligence of the members of government. And with all due respect for those gentlemen, I advise you, as long as the capitalist system lasts, vote for Gold'

▪ HEDGING/DIVERSIFICATION

- Further to the above Quote, the issue is what Percentage should one hold as a Hedge against non-linear events and currency dilution, or what Ron Paul calls the 'Inflation Tax'.

▪ COMPARATIVE 10 YEAR RETURNS vs FTSE 100

- £100 invested on Jan 1st 2002 in FTSE 100 was worth **£107** on Jan 1st 2012
- Same £100 invested in Gold was worth **£530** thanks to continued Negative Real Interest Rates

Why Invest In Precious Metals?

▪ ASIAN CREDITORS ARE NATURAL GOLDBUGS

- Unlike in the West where we have been entranced by 'fiat' the Asian creditor nations understand Gold and Silver and their natural role as money.
- In China and Germany the buying of Gold and Silver is reaching epidemic proportions

▪ THE 1971 PROBLEM

- We are witnessing the endgame of a chain of events that started in 1971 with the closure of the Gold Window by Nixon.
- 1971 came about after the failure of the London Gold Pool of the 1960s

▪ THE LONDON GOLD POOL STILL EXISTS

- It is now covert and is in a 'managed retreat', diluting paper currencies while using paper instruments to hold back advance of Precious Metals



US Debt Ceiling vs Gold

- Gold price rallies whenever the US raises its Debt Ceiling



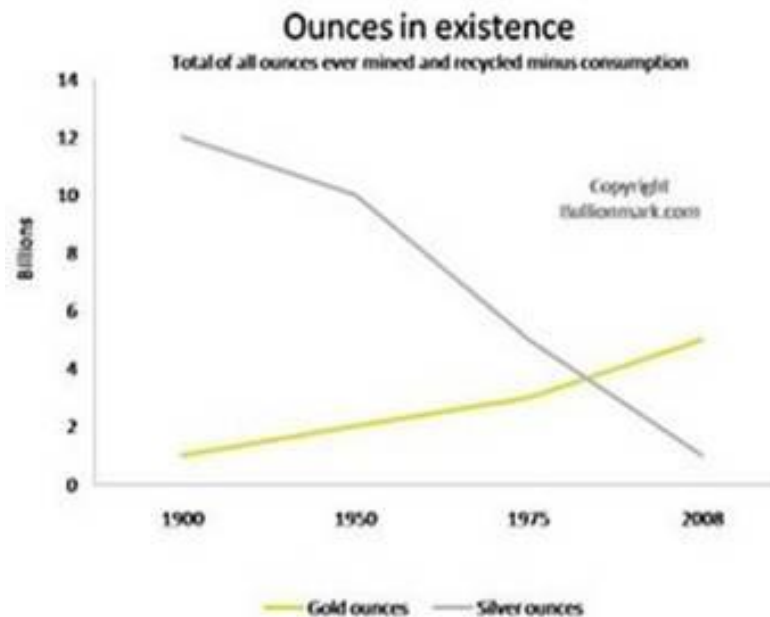
Source: Bloomberg

Why Silver?

Q Milton Friedman

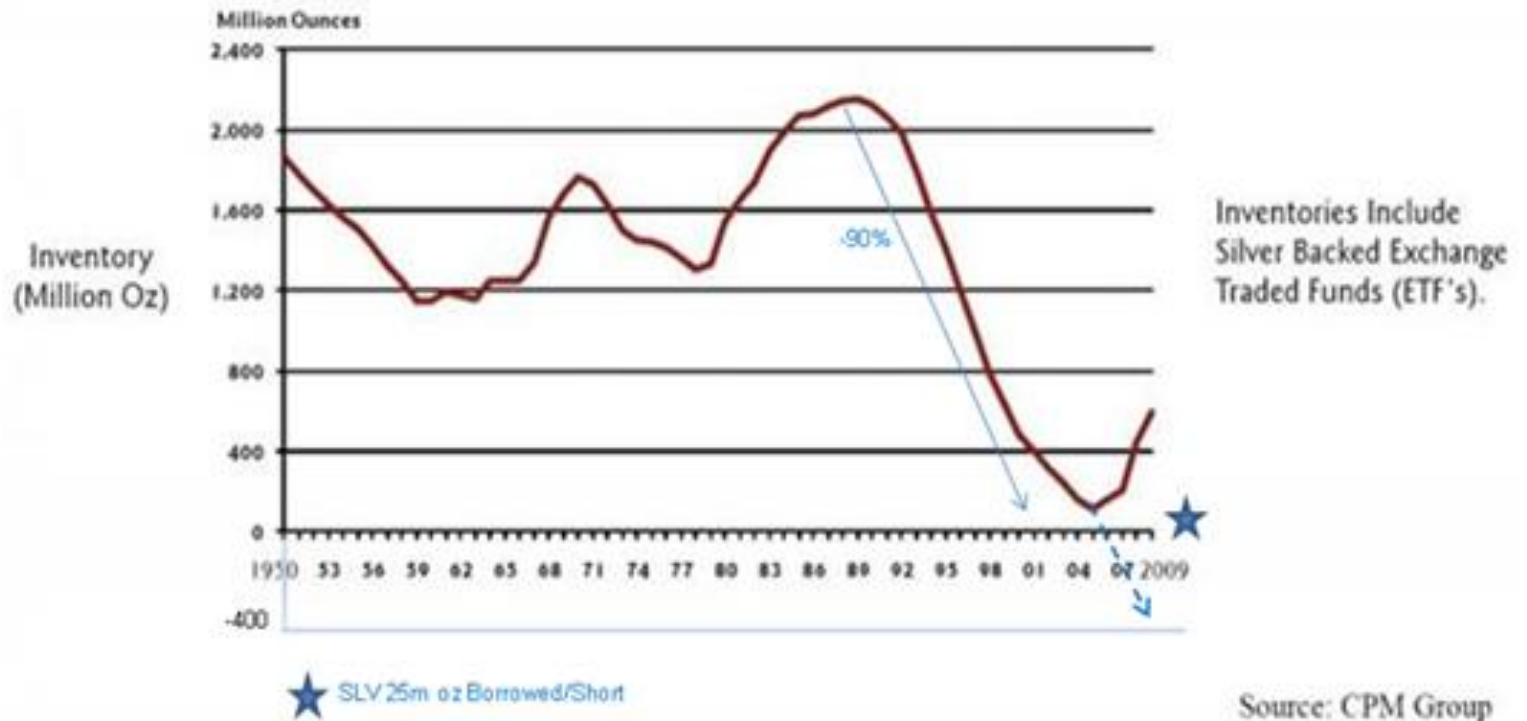
'The major monetary metal in history is Silver, not Gold'

SILVER IS CONSUMED IN INDUSTRY AND ELECTRONICS AND IS VERY PRICE INELASTIC



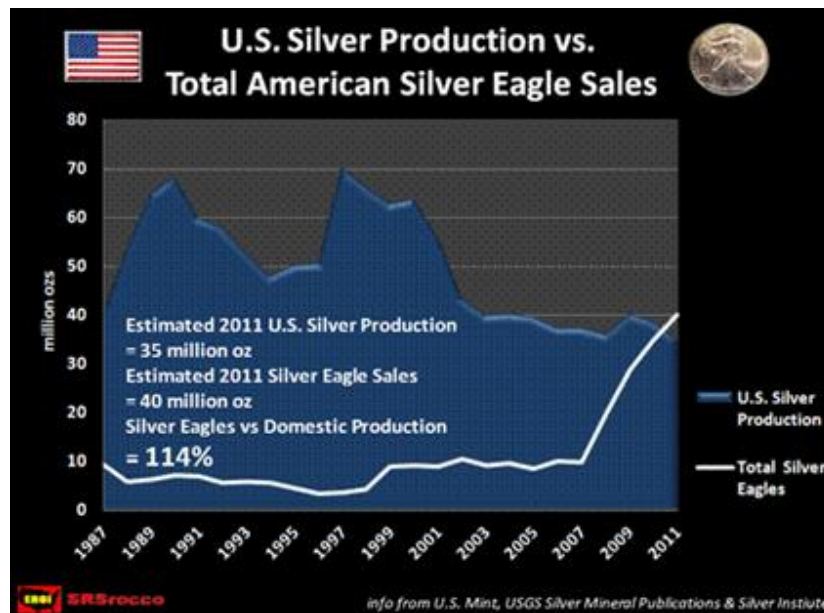
Why Silver?

And drilling into the detail a bit further:



Silver Ratios

- Gold/Silver Ratio is 50:1, Historic average is around 16:1, Mining ratio 7:1
- Physical Investors showed a 50:1 preference for Silver over Gold in 2011



- Meanwhile, in the futures market last year 165x daily Silver consumption was traded versus 2.5x in Oil

How should I invest in Precious Metals?

- A combination of Bullion and equities – do not ETFs as a proxy for Bullion
- Remember WHY you are investing in Precious Metals and then choose instrument accordingly – INSURANCE or SPECULATION?
- We know there is massive hypothecation and multiple claims against physical metal in LBMA system
- ETFs 'track' the price, have less safeguards and offer no additional reward for the extra risks
- Mining Shares are extremely cheap and are likely to be rerated in 2012



ETFs – Risk vs Reward

- ETF language leaves a lot to be desired:

Example from “GLD” Prospectus:

The Trust may not have adequate sources of recovery if its gold is lost, damaged, stolen or destroyed and recovery may be limited, even in the event of fraud, to the market value of the gold at the time the fraud is discovered. Shareholders’ recourse against the Trust, the Trustee and the Sponsor, under New York law, the Custodian, under English law, and any subcustodians under the law governing their custody operations is limited. The Trust does not insure its gold.”



- GLD “owned” bar shown on CNBC (August 2011) was not listed on their website. Subsequently claimed to be owned by ETFS!

Gold vs Gold Miners Index

- Gold and Silver Equities have never been cheaper

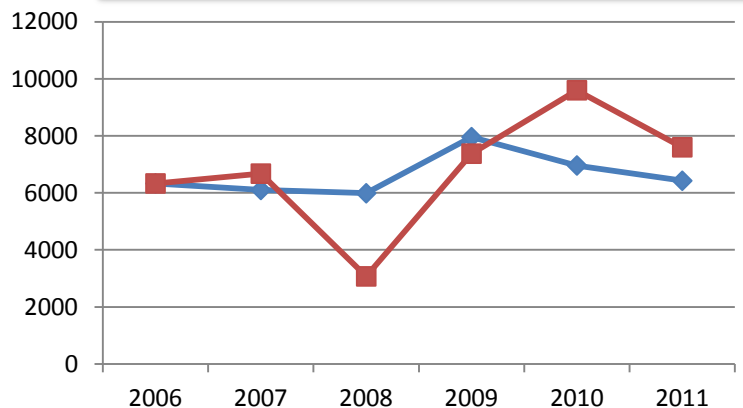


Source: Bloomberg

Commodities: Analyst Forecasts vs Reality

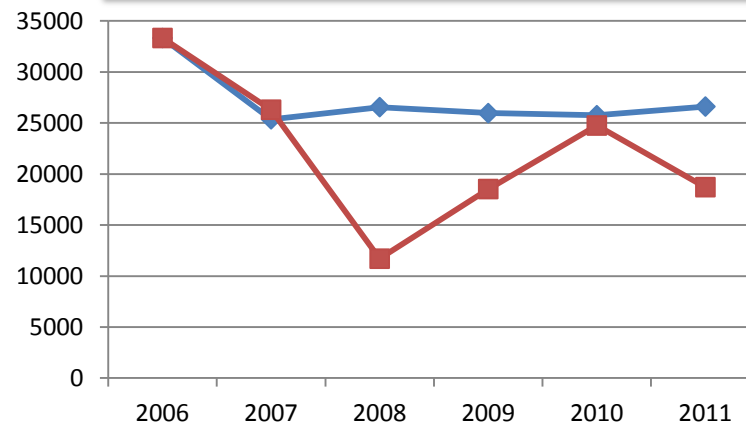


Copper



- Price in Red
- Forecast in Blue

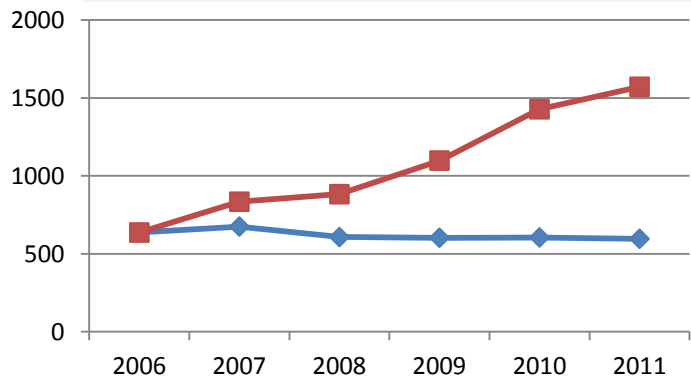
Nickel



Commodities: Analyst Forecasts vs Reality

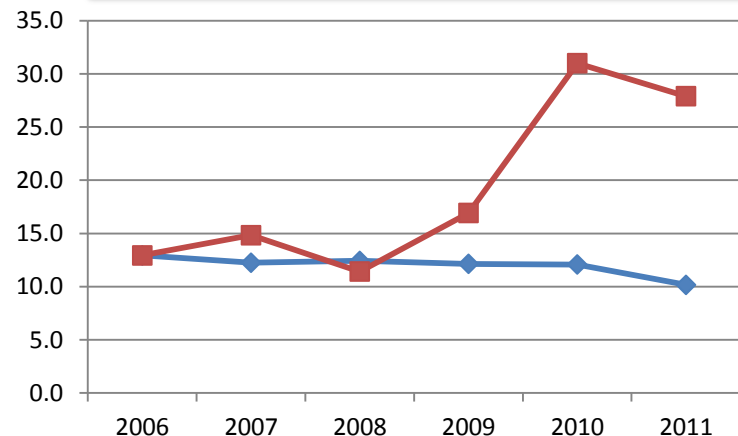


Gold



- Until this year Analysts have stubbornly predicted flat to lower Precious Metals prices

Silver



Inflation Adjusted Highs

- Analysis of Precious Metals over the last 50 years show that
- Adjusted for inflation, using SGS statistics:
- Gold's all-time High was **\$7400/oz** in today's money – versus current **\$1725/oz**

And..

- Silver was **\$511/oz** – versus **\$33.70/oz**

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