

Uncommon Wisdom

Bernanke's Secret Debt Solution To The Global Financial Crisis

By Larry Edelson

This exclusive report is designed to help you protect your money and profit in the months and years ahead as central bankers and governments “change the rules of the game” to stem the worst financial crisis since the Great Depression

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I. Introduction

My views about an upcoming new monetary system based on an upward revaluation of the price of gold have set off quite a buzz all over the world. I've written extensively on the subject and it's being talked about by CBS MarketWatch, the *Financial Times*, dozens of blogs, and more.

Some think I'm crazy and that I've lost my mind. No problem. I have thick skin.

Moreover, I have history on my side — Franklin Roosevelt's 1933 emergency executive order that raised the price of gold and devalued the U.S. dollar.

I also have company in my camp: Consider Fed Chairman Ben Bernanke's comments on the subject ...

"... it's worth noting that there have been times when exchange rate policy has been an effective weapon against deflation. A striking example from U.S. history is Franklin Roosevelt's 40 percent devaluation of the dollar against gold in 1933-34, enforced by a program of gold purchases and domestic money creation.

The devaluation and the rapid increase in money supply it permitted ended the U.S. deflation remarkably quickly ... the episode illustrates that monetary actions can have powerful

effects on the economy, even when the nominal interest rate is at or near zero, as was the case at the time of Roosevelt's devaluation."

Also consider George Soros' recent proposal for a new monetary system involving the Special Drawing Rights, or SDRs, at the International Monetary Fund (IMF): Currencies would be devalued ... then repegged to each other and to SDRs ... and then SDRs would be circulated as an international currency.

For George's proposal to work, though, it's my opinion that gold would have to play some sort of role.

Given the global financial crisis ... the authorities' efforts so far that have failed to stem the crisis ... and the fact that drastic times require drastic measures — I believe the world is now embarking upon a new monetary era that will be put into motion by Bernanke and central bankers from around the world.

Since a new monetary framework is already likely in the works, I'd like to elaborate a bit more ... then help you start protecting your wealth and getting set to profit from what's likely to soon happen to the value of paper money.

To understand better, first, ask yourself the question: What would be the motive for a new monetary system?

The answers are actually very simple ...

A. The current financial system is irretrievably broken.

Period. There is simply no way it can recover from the mountains of debt that originated largely in the U.S., with more than \$60 TRILLION of outstanding debts ... and totaling some \$350 TRILLION worldwide.

You know all the gory details: The failing banks ... the collapsing insurance companies ... airlines ... automakers ... plunging real estate values ... shrinking trade worldwide ... and more.

But it's not just mountains of debt going bad. It's also the fact that ...

B. Authorities have not been able to print money fast enough to ward off another Great Depression. Despite

massive amounts of liquidity injected into economies around the world — especially into the U.S. economy — and trillions of new paper dollars issued for bailouts, the economy continues to deteriorate.

Authorities will inevitably resort to an even more drastic measure, one they've used in the past, which is based upon this very simple proposition ...

"If we can't print money fast enough to fend off another deflationary Great Depression, then let's change the value of the money."

I call it ...

"Bernanke's Secret Debt Solution"

It's a strategy that can ease the burden of ALL debts — by simultaneously devaluing ALL currencies ... and re-inflating ALL asset prices.

Fed Chairman Ben Bernanke ... Treasury Secretary Geithner ... President Obama ... former Treasury Secretary Henry Paulson ... former Fed Chairman Paul Volcker ... Warren Buffett ... George Soros and central bankers and politicians all over the world are well aware of it, and in my opinion, are already working on it.

If you think I'm propagating some kind of conspiracy theory, then consider the historical precedent ...

To end the Great Depression in 1933 Franklin Roosevelt, devalued the dollar via Executive Order #6102, confiscating gold and raising its price 69.3%, effectively kick starting asset reflation.



Only this time, it won't be just the U.S. that devalues its currency. The world is too inter-related. Instead, central banks and governments around the world will participate in a simultaneous and universal currency devaluation.

This time, they will NOT confiscate gold. There would be riots all over the globe if they even mentioned the "C" word.

But they don't have to confiscate gold ...

All they have to do is cease all gold sales and instead, **raise the current official central bank price of gold from its booked value of \$42.22 an ounce – to a price that monetizes a large enough portion of the world's outstanding debts.**

That way, just like in 1933, the debts become a fraction of re-inflated asset prices (led higher by the gold price).

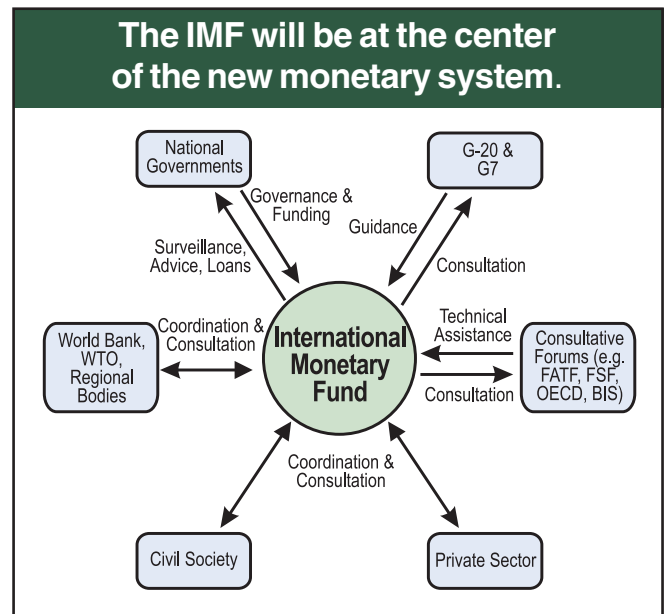
And this time, instead of staying with the dollar as a reserve currency, three new monetary units of exchange are likely to be issued, each with equal reserve status.

The three currencies will essentially be a new dollar, a new euro, and a new pan-Asian currency (The Chinese yuan may survive as a fourth currency. But it will be linked to a basket of the three new currencies).

The new fiat monetary units will be worth less than the old ones. For instance, it could take 10 new units of money to buy 1 old dollar or euro.

New names will be given to the new currencies to help rid the world of the ghost of a system that failed. Additional regulations and programs will be designed and implemented to ease the transition to a new monetary system.

The IMF will implement the new financial system in conjunction with the world's central banks and governments. The IMF is already set up to handle the transition, and has



had contingency plans allowing for it since the institution was formed in 1944.

Included in the design and transition to a new monetary system ...

1. A new fixed-rate currency regime. Immediately upon upping the price of gold and introducing the new currencies, a new fixed exchange rate system will be re-introduced. The floating exchange rate system will be tossed into the dust bin along with the old currencies.

This will kill any speculation about further devaluations in the currency markets, and drastically reduce market volatility.

2. Compensatory measures to protect savers (who suffer most from a currency devaluation). For instance, a one-time windfall tax-free deposit will be issued by governments directly to citizens' accounts, or, to employer-sponsored pensions, to IRAs, or Social Security accounts.

Income taxes may subsequently be raised to pay for the give-away, or a nominal global type of sales tax will be enacted to help pay for the new system and the compensatory measures.

3. Additional programs will be designed to protect lenders and creditors. Lenders stand a much higher chance of getting paid off under the new monetary system — but with currency whose purchasing power is now a fraction of what it was when the loans were originated.

So programs will be designed to help lenders offset the inflationary costs of their devalued loans, probably via the tax code.

Will it work to help alleviate the deflationary pressures of mountains of debt going bad?

Yes. I believe it will.

But don't expect the new monetary system to put the U.S. or even the global economy back on track toward the high net real rates of growth that we've seen over the last several years. That's simply not going to happen. Not for a while.

Instead, we'll see massive asset price reflation, negative real economic growth in the U.S. and Europe — but continued real GDP gains in Asia.

The Big Question: What Gold Price Will Be Legislated To Reflate The U.S. And Global Economy?

I can't tell you what gold price the "powers-that-be" will ultimately agree to. But here's what they will be looking at ...

- **To monetize 100% of the outstanding public and private sector debt in the U.S.**, the official government price of gold would have to be raised to **more than \$53,000 per ounce**.
- **To monetize 50%**, the price of gold would have to be raised to **around \$26,500 an ounce**.
- **To monetize 20%** would require a gold price a hair **over \$10,600 an ounce**.
- **To monetize just 10%**, gold would have to be priced just **over \$5,300 an ounce**.

Those figures are just based on the U.S. debt structure and do not factor in global debts gone bad. But since the U.S. is the world's largest debtor and the epicenter of the crisis, the final decision will likely be based mostly on the U.S. debt structure.

So how much debt do I think will be monetized via an executive order that raises the official price of gold? What kind of currency devaluation would I expect as a result?

I would not be surprised to see the monetizing of at least 20% of the U.S. debt markets. THAT MEANS ...

Gold Would Be Priced At More Than \$10,000 An Ounce!

"But Larry," you ask, "how could this be accomplished when we no longer have a gold standard? Further, are you advocating a gold standard?"

My answers:

First, you don't need a gold standard to accomplish a devaluation of currencies and revaluation of the monetary system.

By offering to pay more than \$10,000 an ounce for gold, central banks can effectively accomplish the same end goal — monetizing and reducing the burden of debts, via inflating asset prices in fiat money terms.

Naturally, hoards of gold investors will cash in their gold. The central banks will pile it up. Hoards of investors will not sell their gold, even at \$10,000 an ounce. But the actual movement of the gold will not matter. It is the psychological impact and the devaluation of paper currencies that matters.

Second, I do NOT advocate a fully convertible gold standard. There isn't enough gold in the world to make currencies convertible into gold. It would end up backfiring, restricting the supply of money and credit.

So What Should You Do To Prepare For A Monetary Devaluation?

I think it's pretty obvious. And so do you. After all, you're a savvy enough investor to have requested this report!

My answer: If you don't already own some gold for the all the reasons that have made it a great investment for thousands of years, especially the past eight years, it is now essential that you buy gold to protect your money and profit in the months and years ahead.

But before I go any further, there are two steps I want to be sure you take ...

Step 1: Stay liquid. If you're caught in illiquid investments when the monetary system changes, investments like long-term government bonds, long-dated Certificates of Deposits or other illiquid investments, including side-businesses or other investments where your money is tied up and you have no control — you're going to see the value of your money get devalued. Period.

So by far, your best move right now is simply to keep the bulk of your money fully liquid. That means keeping your money in the safest of short-term investments, Treasury bill only money market funds.

The interest rate yield is terrible, but with Treasury bill only money market funds ...

- ▶ Your cash is liquid. You can move in and out anytime you wish without penalty and very little risk of loss of principal.
- ▶ Your cash is safe from failing banks or brokers, and 100% guaranteed by the U.S. government. Although the U.S. government is technically already broke and its financial condition is deteriorating and it's going to be forced to implement a new monetary system, there is almost zero chance of Washington defaulting on its short-term (less than one year) obligations, in the form of Treasury bills.

Meanwhile, in addition to the liquidity factor, since your funds are invested in a short-term money market, as interest rates begin to rise, your funds will automatically be positioned to take advantage of it.

Another important step you should take, if you haven't already, is ...

Step 2: Get out and stay out of the stock market.

With the exception of select gold mining shares and other natural resource plays, covered in my *Real Wealth Report*, now is not yet the time to be aggressive in the stock market.

The broad stock markets remain in a bear market, and they will likely react very negatively at first to a devaluation of the dollar. Consider the Crash of 1987, which was directly-related to a dollar devaluation. Even though the Dow Jones Industrials reached new record highs just three years after the crash, you would not have wanted to be invested during the crash.

So if you're invested heavily in the stock market, get out. Period. There will be plenty of time to scoop up huge bargains, but wait for my signals in *Real Wealth Report*.

And now ...

Step 3: Make sure you own what I call "core physical gold" — as much as 6.25% of your investable funds.

Gold mining shares, gold-based Exchange Traded Funds (ETFs) ... gold mutual funds ... and other gold investments are also

great. And I recommend investors have an additional allocation to these as well. However, they require fine-tuned timing, and are covered in my monthly *Real Wealth Report*.

Still, there is no substitute for physical gold. Gold that you can hold privately ... that can be used and exchanged for goods and services no matter how bad the economy gets ... no matter where in the world you are.

Gold is the ultimate currency. As governments and central banks around the world implement a new monetary regime, a new form of paper money that inflates away debt, gold — as I've already shown you — can soar to more than \$2,000 an ounce ... to \$5,000 ... and perhaps even higher.

Moreover, physical gold, despite some of the intricacies involved in buying and storing it, is the epitome of all investments. You can put it in your IRA ... you can store it in a foreign country in your name ... it's free from the vagaries of other gold-related investments, such as ETFs, where the issuers financial health can have a bearing on the investment ... and more.

So to help you implement Step 3 of your financial survival plan — the remainder of this comprehensive guidebook gives you everything you need to know about buying physical gold, safely and securely.

II. How To Spot Good Bullion Deals And Avoid Rotten Ones On Your Own

Some of the bullion deals you'll find are excellent. But, alas, a great number of them seem truly rotten. The following is a simple formula that will help you objectively evaluate any bullion coin offer you receive.

How To Calculate The Premium Over Spot For Gold Coins

The key to intelligent price comparisons in bullion investments, of course, is to reduce all of the investments to a common denominator — the price per troy ounce. Calculating the premium over spot then helps put price differences into perspective.

The first step in calculating the premium of an investment is to divide the selling price by the number of ounces of pure gold. That gives you the cost per troy ounce.

Example: A Hungarian 100 Korona contains 0.9802 troy ounces of pure gold. The selling price divided by 0.9802 gives you the price per ounce of pure gold. For instance, a selling price of \$652.11 divided by 0.9802 = \$665, roughly the price of gold at the time of this example.

The next step in calculating the premium is to subtract the spot price of gold from the cost per ounce; divide the remainder by the spot price; and convert to a percentage. To express this mathematically, the formula reads ...

$$\text{Premium} = (\text{cost per ounce} - \text{spot price} \div \text{spot price}) \times 100$$

Once you have this nifty little formula, you can have all sorts of fun sniffing out rotten investment offers on your own.

Guidelines For Premiums On Common Gold Coins

There are two things to watch out for when it comes to premium. First, if a dealer tries to sell you coins at more than 2% over average premium levels, I'd go elsewhere. You'd be paying too much. Second, I'd avoid any dealer offering a premium significantly under those levels — because there's something fishy if a dealer is deliberately losing money.

However, premiums can change for other reasons. When the American Eagle first came on the market, it had a premium much lower than its current 8.7%. And there was a time when the Krugerrand was selling at 6% above spot, another time when it was selling at spot itself!

The reasons these relationships change are because benchmarks change over time. The obvious example is the fall in the popularity of the Krugerrand — and the subsequent fall in its premium as a result.

It's easy to check this. The daily price of gold is published in just about every newspaper in the world. Business papers, like the *Wall Street Journal* and London's *Financial Times*, carry the prices of major gold coins as well. You can get a quick

approximation of the premiums every day if you want, just by dividing the coin price by the spot bullion price.

Avoid Limited Mintage Proof Editions Of These Common Bullion Coins

Always question the investment value of limited mintage proof editions of common bullion coins. Proof coins are struck with multiple strikes from the mint die to give greater detail on specially polished and chemically cleaned planchets. This gives the surfaces of these coins a mirror-like appearance that is aesthetically appealing.

Proof coins are usually sold for a huge premium over their normally minted cousins. The premiums for these coins usually run between 100% and 200%. Up until 1986, most of the people buying these coins were collectors — more than enough reason to pan these coins as an investment.

But despite the terrible track record of modern proof coins like the Krugerrands, British Sovereigns, and assorted world gold issues, the Chinese government began an elaborate advertising program in the United States to sell limited mintage proof pandas.

Watching the proof panda market run up in price to premiums over their intrinsic melt value of 200%, 500% and even 1,000%, I observed that most of the people buying these coins were investors and speculators. There were virtually no collectors behind the demand. And the firms selling them were huge telemarketing giants that specialized in volume sales and sales hype. It just didn't make sense.

These coins were bullion coins, not rare coins. And I can tell you, any government that decides to mint a limited edition coin is not producing a rare coin. They're producing a modern piece of junk and are concerned only with the profits. The governments and marketing firms that sell them don't seem to care the least bit about the losses investors eventually incur.

If you want to buy a rare coin, buy a truly rare coin. If you want to buy bullion, stick with low premium bullion coins and stay away from the "limited edition" proof coins market. This

includes the following: Proof pandas, proof Krugerrands, proof U.S. eagles, proof sovereigns, and proof Australian Nuggets.

III. How To Save Money On Large Gold Bullion Purchases

If you're a "big hitter," here's how to buy gold bullion just like major industrial users:

Even at the best-priced dealers, you can expect to pay 30¢ to 70¢ an ounce over spot when you buy 1,000-ounce gold bars from a good delivery brand, like Engelhard or Johnson Matthey.

However, if you're prepared to invest substantial sums at one time, you can save almost that entire fee. You can buy gold at just pennies more than the actual spot price.

You can do this by buying a "spot month" gold futures contract from your regular commodities broker and taking delivery of it.

For example, with gold, the contract will be for 100 ounces of gold and the commissions run between \$40 and \$100 — which works out to less than \$1 an ounce.

The problem is that 100 ounces of gold can cost more than most investors want to lay out at one time. For instance, at \$1,000 gold, to take delivery of one futures contract would involve \$100,000 (100 ounces X \$1,000 an ounce). It also involves buying and taking delivery of a futures contract. Not something I recommend except for the largest of investors.

A Better Alternative: Buy Direct From A Wholesaler

If you want to buy gold bullion or coins in large quantities at wholesale prices, you can do it through a good wholesaler — such as National Gold Exchange (ngegold.com), or Kitco (kitco.com).

However, before you rush off and place your orders, there are a few restrictions you should be aware of.

First, most wholesalers require minimum purchases of the precious metals.

Second, most are not set up to service small retail accounts. They are not going to give you advice, nor will they try to help

you make a decision or give any other brokerage-type services. If you have a question about what to buy, how much, when and so forth, don't go to them.

Third, most require payment in advance, before they can even lock in a price. The advance can be sent in the form of a bank wire, cashier's check, or a certified check.

IV. Safeguards For Investors To Help Protect Against Dealer Fraud Or Bankruptcy

Once you've decided to go ahead and buy a gold investment — you've determined that the basic offer is fair — you're still not completely in the clear.

You've also got to protect yourself in case the dealer has financial problems, goes bankrupt, or turns out to be a fraud. The basic principle for protecting your assets is simple:

Separate your assets from the dealer's general operating funds as fast and as far as possible. Get your money or gold physically away. As you'll see, almost all the protections listed below are actually simple elaborations of this one basic principle.

1. Sight drafts. These are probably the best way to buy gold if you're taking delivery.

Essentially you make an arrangement with your bank to act as an intermediary between you and the gold dealer. When you order the coins from the dealer and lock in your price, you don't send the funds right away.

Instead, the dealer pre-ships the coins to a bank of your choice, usually to the attention of an assistant vice president or higher. Once the coins are received, you have the ability to inspect, to verify authenticity, and to accept or reject the shipment.

Once you're satisfied your banker has exactly what you ordered, you release the funds. The banker forwards the funds to the dealer and simultaneously releases the coins to you.

Sight drafts slow the dealer's cash flow and involve significant paperwork, so many dealers don't want to do it. But it's your money that's at risk.

Particularly with a sizable order, this is a significant protection against dealer default or fraud.

Dealer policies vary on sight drafts, and some don't offer them at all. Then, there are others that will do them, but discourage them. Other dealers charge a small fee for the extra paperwork involved.

2. Cash-and-carry. This is perhaps the next best way to buy gold for delivery. You go to the dealer, give them good funds, and pickup your gold on the spot. Sounds easy enough. But there can be problems.

First, not all dealers do cash-and-carry. For obvious reasons, they don't like to keep much gold on hand.

Second, when you pick up your gold, you have to walk out with it. Then you're at risk until you reach a secured storage spot.

Third, you have to travel — perhaps to another city or state. Travel takes time, and time is a cost.

And fourth, if you live in a sales tax state, it may cost you quite a bit extra.

For these reasons, we recommend sight drafts over cash-and-carry.

3. Segregation of funds, for protection of clients. This is a basic rule if you're not buying with a sight draft or cash-and-carry. When you send a firm funds to purchase gold, you don't want your money used to finance loans to corporate officers, posh offices, real estate ventures, corporate jets, etc.

But unless the dealer segregates investment funds in a trust agreement to protect clients, that's what may happen. Your funds are mingled with the operating capital of the company and may be used for the firm's own purposes — whatever they are.

If the firm goes belly-up before you get your gold, you'll probably become just another general creditor along with the local stationery firm or furniture shop — and with just as few rights. But if the firm segregates client assets in a trust agreement, those assets are much safer from general creditors. And you'll probably get your money back.

How do you find out if your gold dealer segregates? It's often hard to do. Dealer literature generally ignores this point. Account executives tend to gloss over it with a facile: "Wait a minute, while I run down to the vault and see if it's there," or a simpler, "Don't worry."

Don't take the account executive's word. Go right ahead and worry. It's your gold and your funds that are at risk — not theirs.

If he or she won't give you a flat-out unequivocal statement on segregation — and then have it backed up in writing on company stationery by a corporate officer — that dealer probably doesn't segregate. Move on to another firm. That leads us to our next protection ...

4. Take possession. If you have gold in non-segregated storage with any dealer or broker, get it out immediately. Your funds are being mingled with the operating capital of the company. And as I just mentioned, if the company's operations are suspended (for any reason), or if the company goes belly-up, it's tough luck for you.

That's what happened to tens of thousands of investors on April 27, 1983 when International Gold Bullion Exchange (IGBE) filed for bankruptcy.

IGBE did not segregate client assets. So those tens of thousands of investors who had not taken delivery of their metal before IGBE went bankrupt were all out in the cold. They were lumped together as general creditors along with commercial creditors such as the gas and electric company. They later received a fraction of their money back, because the firm did not segregate.

Although there are concerns even if your dealer segregates, you can afford to walk — not run — to the phone. There is less risk to your assets and therefore less urgency. Nonetheless, our recommendation is: Get it out. Segregation agreements are filled with legal complexities. Many have never been tested in the courts.

Whether the protection they offer you would hold up under legal assault by general commercial creditors of your dealer is not known. So, keeping this in mind, I always advise investors to take possession of their precious metals if at all possible.

5. Short delivery time. This is another good protection when buying gold. Shipping two days after receipt of good funds is quite good; a week after receipt of good funds is reasonable; two weeks is the most that's acceptable. After that, I'm nervous.

6. Ask friends and associates for a reference before buying from a dealer. If they had a bad experience with a dealer — an overly pushy account executive or excessive delivery time, for example — it may be a tip off that the dealer is in trouble.

7. Ask the dealer for a bank reference and follow it up. If the dealer won't give you one, go elsewhere. One dodge is: "We don't want to bother our banker with endless phone calls. After you make the purchase, we'll give you the reference."

A lot of good it does you after the dealer has your money! It's much harder to get your money back than simply not to send it to them in the first place.

Next, be sure to phone the bank reference. Ask how long the dealer has been a customer, what the banker knows about the dealer's management and — don't be shy — would he or she personally do business with the firm.

If you want to dig further, ask the banker whether customer funds are segregated from general operating funds. What is the usual range of the firm's balance? Has there been any recent significant drop in this average balance? What's the dealer's line of credit with the bank?

You might think the bank's answer will be automatic praise, but it won't necessarily be. Banks may have a legal liability if they give you puffed-up information. I've been amazed at how lukewarm or even downright hostile some responses have been.

8. Avoid "gold at spot" offers. These are typically extended delivery programs. You send the good funds now. They send you your gold anytime from 30 to 90 days — even to some unspecified time in the future. In the meantime, you've made what is essentially an unsecured, uncollateralized, non-interest bearing, non-callable loan.

If you get your gold, you're OK. But if the firm goes into liquidation, or tries to reorganize under the bankruptcy laws, who knows when — if ever — you'll get your money back.

9. Non-fungible storage of gold. If you choose to leave your gold with the dealer, "non-fungible" storage is the best form of dealer storage. When stored this way, your bullion or bag of coins is labeled with your name, as your specific property, and stored separately from dealer assets. It is yours.

You can go and inspect it or take delivery. At any time, you can pay off whatever storage fees you owe and take your gold home with you. This is probably the safest way to hold gold other than burying it under 10 feet of cement in your back yard.

Non-fungible storage is the only type of dealer storage you can be fully comfortable with. Otherwise, it's tempting for the dealer to use your assets as operating capital. Storing your gold this way may cost a bit more but it's worth every single penny.

"Fungible" storage is the opposite of non-fungible. There is no gold that's set aside specifically as yours. With fungible storage, you own a piece of the dealer's total hoard. You have a claim on an "unallocated mass" of gold.

A dealer may have a few hundred ounces of gold in inventory, of which you have a claim on 127 ounces. But there are no bars adding up to 127 ounces that are labeled with your name, as your property.

10. Doubly removed storage. After non-fungible storage, the next best choice is having your gold doubly removed from the dealer. Some will maintain client positions in a third-party warehouse (one removal). Then, they segregate or label the metal as client property (second removal).

11. Reverse sight drafts. These are useful innovations when selling your gold. You sell the gold to the dealer and lock in your price. But you send the gold to the dealer's bank, not to the dealer. The dealer inspects the gold at the bank.

Once they are satisfied you've sent them what you said you would, they release the funds. The banker then simultaneously releases the funds to you and the gold to the dealer.

When selling your gold, the only alternatives are: A. to carry the gold physically to the dealer's premises and pick up good funds on the spot, or B. simply to ship your gold to a dealer you feel very good about.

Option A is inconvenient, but you don't have to worry about shipping your gold off to some dealer a thousand miles away for promised payment you may or may not receive. Option B is convenient, but not as safe. That's why we recommend reverse sight drafts or shipping to a firm that will segregate your gold until sending you good funds.

12. Margin. Margin complicates matters in cases of dealer insolvency, so it adds risk beyond the obvious one of high leverage.

If you can honestly say to yourself that you're a sophisticated investor, you know the gold market well, and you have speculative funds you're willing to put at risk, then there's nothing wrong with trading gold on margin at a reputable firm.

If you hit it right, your profits will be multiplied by the power of leverage. If you hit it wrong, say bye-bye to your funds. You should not buy on margin with "nest egg" funds.

13. Warehouse Receipts. These very useful instruments go by a variety of names including "delivery orders" and "gold certificates." They come in every size and shape available. We discuss them at length on page 33.

However, two basic varieties are worth briefly discussing here: Non-fungible versus fungible. With non-fungible warehouse receipts, a specific unit of gold is set aside in an independent warehouse, marked with your name as your property and, typically, insured to your benefit against almost anything except fraud.

With fungible warehouse receipts, your gold is (at best) stored in an omnibus account along with the gold of all other customers. You have what is called an "undivided interest in the whole."

Little Differences Can Mean A Lot

Few people realize how serious the differences are among gold dealers, until they get stung.

That's because the differences can be subtle. To most people, they seem insignificant. But when the crunch comes and your

dealer gets into trouble, all of a sudden these seemingly insignificant differences assume major importance.

Time after time, they can spell the difference between actually getting your gold and getting the IOU of a defunct or bankrupt dealer.

North American Coin & Currency, for example, ran into trouble and was forced to file for reorganization under the Bankruptcy Act in 1982.

The program with the protections I recommended cost a few pennies more per ounce of gold. When North American Coin & Currency went into reorganization, investors who chose the better program were inconvenienced for several months and lost liquidity for that period — but they got their gold, ounce for ounce.

However, the other investors, the ones who chose the less expensive program, had to wait through years of legal paperwork before their accounts were paid off.

My belief is that your best interests are NOT always served by wheeling and dealing to squeeze the last possible dollar or two out of every purchase and sale. Your peace of mind and time have considerable value.

I think your goal should be to establish a long-term relationship with one or two “good” dealers who not only give you good prices, but are also reliable and give consistently good service.

Continue your search for a dealer by checking out their services. Make sure they offer what you want. Ask them about their selection of coins and bullions, terms (leverage, as well as cash purchase, if that’s what you want), bulk discounts, storage facilities, and repurchase terms.

Here are the addresses and phone numbers of my favorite dealers ...

American Century

4500 Main Street, 4th Floor
Kansas City, MO 64111
1-888-345-2071
www.americancentury.com

Dillon Gage, Inc.

15301 Dallas Parkway, Suite 200
Addison, TX 75001
1-800-375-4653
www.dillongage.com

Rare Coins Of New Hampshire

28 Jones Road, Suite #1
P.O. Box 720
Milford, NH, 03055
1-800-225-7264
www.rare-coins.com

FideliTrade

3601 N. Market Street
Wilmington, DE 19802
1-800-223-1080
www.fidelitrade.com

What Discounts Are Available?

All dealers typically offer significant discounts for large purchases. Most dealers offer discounts according to fixed schedules that, if you call, they will be willing to disclose to you.

So be sure to ask your regular dealer if they will match or beat another dealer's price.

Let's face it: If you have an established relationship with a financially stable and ethical dealer, they won't want to lose your business. Give them a chance to match another dealer's price and you may get a genuine bargain out of it — especially on a larger order.

Sales Tax Trap — And How To Avoid It

If a state has a sales tax, gold purchased and delivered within that state is almost always subject to the tax.

Almost all dealers allow you to buy by phone and have your purchase shipped out of state. In these cases, the dealer will generally not impose a local sales tax. An exception is where the dealer may have offices in, say, New York and New Jersey.

If a New Jersey resident places an order through the New York office, the dealer is generally still supposed to charge the New Jersey sales tax. If the only office was in New York, the dealer probably wouldn't impose the tax.

V. The Best And Worst Bullion Coins To Buy

When investing in gold, not only must you watch where you buy, but what you buy as well as. You can get dramatically more for your money every time you buy, simply by buying the right investment and avoiding the wrong ones.

With gold at \$850, for example, 100 ounces of gold bullion in the form of the 1990 panda, the bullion coin issued by the Chinese, would cost you \$111,100.

But that same \$111,100 would buy 122 Austrian Philharmonics.

So you would get an extra 22 ounces of pure gold.

Alternatively, you could simply buy 100 ounces of gold in the form of Krugerrands for \$88,683 and pocket the difference — a healthy \$22,417.

The extra gold you get is a dramatic addition to your portfolio — it's like a free bonus you get for investing intelligently.

The philosophy of buying gold bullion is simple: If you are interested in getting the most gold for your money, the object is to buy as close as you possibly can to the spot price. That means buying gold investments with as low a markup as possible over bullion content.

Below are some examples — but wait for my signals in [Real Wealth Report](#) to buy.

The Two Cheapest Ways To Buy Gold Bullion Coins

The Austrian 100 Corona and Hungarian 100 Korona are typically among the least expensive bullion coins (over spot) to buy.

These coins are a beautiful reminder of the Austro-Hungarian empire. They're both the exact same size, weight, and alloy, but they have different designs.

Because of their rock-bottom premiums over spot, these coins are an absolutely super way to invest in gold bullion.

The only problem is that they aren't as well known in North America as the American Eagle or Canadian Maple Leaf. The Austrian 100 Corona is better known than its Hungarian counterpart and more liquid.

Still, in North America, neither is known outside hard-money circles. So they are unsuitable for core holdings. (Core holdings are bullion coins and bars that you put away in a safe place and hope you never need to touch. Essentially, it's your hedge against the unexpected: An economic collapse, runaway inflation or whatever. It gives you something to turn to when everything else fails.)

The Kilo Bar — 32.15 Ounces Of Gold: The Biggest Is Not Always The Best

In general, when buying almost anything, the assumption is that the more of it you buy, the less expensive it is. But that's not always the case in the gold market.

Indeed, I have found that sometimes you can pay less per ounce to buy several of the most common bullion coins than it would cost to buy a 32.15 ounce kilo of gold!

And even when bars are cheaper than coins, there are pros and cons to investing in kilo bars. First, the positive side. Each of the bars carries a serial number.

Have your dealer record the serial number and hallmark on your confirmation slip. File it somewhere away from where you store the bar. If the bar is stolen, you are in a much better position to deal with the insurance company by having a readily

identifiable number to cite, as opposed to reporting that "X" number of unidentifiable coins were stolen.

Also, you're in a much better position to claim your property should the police ever recover it. So the serial number is a desirable feature of buying kilo bars.

On the negative side, they're a relatively unattractive way to hold gold. There's nothing beautiful about a kilo bar, compared with the artistic engravings available by buying coins. In addition, bars aren't divisible. You're stuck with 32.15 ounces in one unit. If you ever need to sell some gold, the advantages of the coins are obvious.

But the far more important problem with the kilo bar is liquidity. Dealers don't like them because they are prime candidates for counterfeiting. Coins are struck; bars are molded. It's a lot more difficult to counterfeit coins because of the engraving dies, machinery, etc., than it is to make bogus bars that only have to be poured into molds and stamped with the refiner's hallmark, serial number, fineness, and other easily reproduced data.

Another Excellent Buy In Gold Bullion Coins

I have found that the South African Krugerrands can give a decent amount of gold for your dollar. Currently, you can buy this gold coin for a mere 4.3% over spot.

Once a dominant bullion coin of the world, the Krugerrand has fallen from a premium of 5.2% over spot in 1983, when it was near its peak. The reason for this low premium is because President Ronald Reagan banned their import to the U.S. in 1985.

This import ban was lifted by President George H.W. Bush in 1991. But the six-year ban and the political storm surrounding South African products reduced their desirability. Still, everyone knows the Krugerrand today. It is synonymous in the public eye with one ounce of gold and, therefore, it's extremely liquid.

At this low a premium to the spot price, there is little downside premium risk, despite what a few dealers would like you to believe.

When the importation of Krugerrands was banned in 1985, investors were bombarded with advertisements from dealers warning that severe losses were likely to befall Krugerrand owners. Some were warning that it would fall in price to 10% below spot.

These ads then preyed on investors' fears to try to get them to "swap" Krugerrands for Maple Leafs, Double Eagles, or whatever the dealer happened to be pushing. We warned investors that this was pure poppycock ... and we were right on target.

In 1985, we said: "We know of no example in modern times of any gold coin of Krugerrand purity — no matter how unpopular — that has fallen nearly as much. As soon as a coin begins to trade at a discount to spot, it gets snatched up by refiners — pushing the price back up."

Despite the fact the ban is over, we still hear of brokers who tell their clients that Krugerrands are dangerous. It's complete nonsense. The only reason a dealer would suggest switching your Krugerrands or recommending another product is pure profit. Krugerrand swaps can generate as much as an 8% net return for a dealer — between his buy and sell spread. And those who push other products are often receiving a higher net commission for those recommended products.

So, if you own Krugerrands, sit on them. They still have international liquidity. They'll always be worth the price of the gold that's in them. And for new gold holdings, the Krugerrands represent a cheap way to buy a single ounce of gold. But wait for my buy signal.

Two More Bargains In Gold Coins

Here are two more gold coins that have come way down in premium over the past few years: The Mexican 50 Peso and the U.S. Gold Medallion. For beauty, I find the Mexican 50 Peso to be one of the most attractive bullion coins ever minted. That's why they make wonderful gifts.

The U.S. Gold Medallions are interesting for another reason. As official issues of the U.S. government, they qualify as collectibles in the broad world of numismatics. The mintages,

however, particularly of the one-ounce size, are quite small in comparison to mintages of like-sized coins. Indeed, the last coins of the series — the one-ounce gold Helen Hayes and the half-ounce John Steinbeck — had mintages of only 35,000.

The earlier coins in the series had higher mintages — averaging around 500,000 per year — but that's still small compared with the issues of most bullion coins. South Africa, for example, minted Krugerrands in the millions per year. It looks like the U.S. and Canada are doing the same thing with their newer one-ounce gold coins.

We can't guarantee it, but we think it's quite likely that someday — maybe 10 or 20 years from now — these U.S. Gold Medallions may develop numismatic premium themselves. Either way, what do you have to lose? If they don't develop a numismatic premium, you've simply purchased an ounce of gold at a bargain price. If they do develop a numismatic premium, you'll get numismatic value for bullion prices.

VI. Gold Investments That Fall Into The Medium-Price Range

I am also keeping my eye on these investments that fall into the medium-price range — the Credit Suisse one-ounce gold bar, the Isle of Man Angel, the American Eagle, the Canadian Maple Leaf, the Australian Nugget, and the Britannia. But again, wait for my specific instructions in [Real Wealth Report](#) to buy.

The Canadian Maple Leaf and the American Eagle have taken over the Krugerrand's former position as the most popular gold bullion coin. Both have excellent liquidity, and their premiums over spot are moderate.

The Canadian Maple Leaf, the Australian Nugget, and Credit Suisse one-ounce bar are .999 pure gold, while the American Eagle, the Britannia, and the Isle of Man Angels are made from coin alloy. The .999 pure coins are slightly more lustrous and beautiful, but they're also easier to scratch.

Pandas: Beautiful, But If You're Not Careful, You Get Significantly Less Gold For Your Money

Pandas are Chinese-minted, one-ounce gold coins. Their design and mintage figures vary from year to year.

And the premiums for each year's issues can vary, too. And you generally get significantly less gold for your money when you buy Pandas. Also, many dealers of Panda coins are taking advantage of the current euphoria over anything having to do with China. As a result, they're charging outrageous premiums. I love these coins. But wait for my specific recommendations in [Real Wealth Report](#) before you buy.

Fractional Gold Coins

In addition to the coins listed above, there is also a variety of gold coins available in much smaller sizes, enabling you to buy gold in relatively small increments of less than one ounce. The drawback has always been price: The smaller the coin, the greater the premium. Thus, as you buy smaller and smaller denominations, you get progressively less and less gold for your money, because the premium is higher. However, friends in the industry who favor these smaller denomination coins set forth two counter arguments:

1. "Much of the premium is recovered upon resale."

Right now, that is true. About half the extra premium is recoverable, on average.

But that's due in large part to subsidies from the issuing government that may or may not be in effect when you go to sell. Plus, this premium can vanish if the plastic is damaged.

The market for the full ounce gold coins is far broader, deeper and more liquid than for the fractional gold coins. When you go to sell three years from now, you may even have to accept an additional discount with the smaller coins rather than recover part of the premium lost on purchase.

No matter what, you're clearly a lot better off with 100 ounces of gold in Krugerrands or Coronas than with only 68 ounces of gold in the 1/20 ounce pandas.

2. "In an economic catastrophe the smaller gold coins would be easier to spend or swap for groceries, gas, etc."

Here our friends may be right. But they may also be wrong. It's not inconceivable that in an economic catastrophe, the full ounce coins — because of their wider distribution — would be equally easy (or easier) to spend. But there's no way to know for sure. So we can see some wisdom in holding a smattering of the smaller gold coins in your core holdings, along with your full ounce coins.

VII. How To Detect And Avoid Counterfeit Gold Bullion

Few people seriously consider the problem of counterfeits. Yet literally millions of counterfeit gold coins were made during the 1950s, 1960s and 1970s. Anyone who ignores this problem is very foolish. Think about it: When you buy an Australian Nugget or a British Sovereign or a Canadian Maple Leaf, or even an American Eagle, how do you know whether it's real or counterfeit?

A Smart Counterfeiter Could Beat Most Of The Dealers Out There

The fact is, most people can't tell. Most don't even check. And most dealers can't help, either. A smart counterfeiter could beat more than 90% of the dealers out there.

Here's a possible scenario for a counterfeiter who wanted to unload bogus gold on dealers. He calls up posing as an individual investor and buys five kilo bars — a large but not uncommon purchase — and takes delivery. Next, the counterfeiter takes an impression of all the markings on the genuine bar — the hallmarks, numbers, and so forth. He then makes fakes with a tungsten core and a .999 gold exterior. Since tungsten has the same density as gold down to three decimal places, the bogus bar weighs the same, looks the same and has the same markings as the pure gold bar.

The counterfeiter now waits a respectable period of time, say six months, and then resells the bars to the same dealer he bought from. He ships back the bogus bars that look, weigh, and are hallmarked perfectly. He includes a copy of the original purchase slips showing the weight, hallmark, etc.

Now the counterfeiter has his five kilo bars, and the dealer has five bogus kilo bars. So, you might ask, "What difference does it make to anyone other than the dealer?" Plenty. Because that dealer thinks he has genuine gold bars, and he's going to sell them to you in perfectly good faith. But the fact that he's acting in good faith isn't going to do you any good if you go to some other dealer who checks out the gold bars — which is exactly what you should expect when there's a crisis and standards are tightened.

The problem is, too many dealers fail to take adequate precautions against counterfeits when they buy back from clients. If the bars look right and feel right, all the dealer will do is put them on a scale. But unlike fakes made with base metals, the tungsten fakes will weigh out perfectly and be the right size.

So the counterfeiter has a perfect setup.

There's a one in a thousand chance that the dealer might check the bar — have it assayed — and find out it's counterfeit. Then what's he going to do? If the dealer calls the counterfeiter, he's just going to say, "Hey, that's not my responsibility. You sold this stuff to me. Look, here's the code. Here's your original invoice. You sold me dud bars in the first place — that's your own fault." The dealer will have to pay up and take the loss.

But nine times out of 10 the dealer won't spot the problem and will, in good faith, turn around and sell those same bars, which are now bogus, back to the public.

A major wholesaler was stuck with \$3.5 million worth of counterfeit gold

A counterfeiter can do the same thing with gold coins. Years ago, one of the oldest, largest and most experienced wholesalers in the world got stuck with \$3.5 million of counterfeit gold. They were stung. Sure, they were covered by insurance. But if one of the world's oldest, largest and most experienced wholesalers gets stuck with bogus gold, what chance does the average investor have?

Think of it another way: If you were a counterfeiter of gold, what retail business would you want to be in most of all? Selling gold coins and bars.

Remember: A retailer works on a 2% margin.

If you take one out of 10 bars, melt that one down, and replace it with an "identical" bar made of bogus metal, your gross margin will go from 2% to 12%. You just increased your margin 600%! Just think of the temptation some dealers face. Do you think that all the gold dealers out there are so saintly they all could resist a temptation like this?

A dealer bought 50 Double Eagles for \$50,000 and later found they might be counterfeit — so he sold them to the public

Here's another true story. A dealer bought 50 St. Gaudens Double Eagles at \$1,000 apiece. He then took them over to another dealer. The second dealer looked at them and, trying to be as polite as he could, said something like, "Well, I'm not really sure about these coins. I'm not sure that they're really what you think they are ..." which was a very nice way of saying that he thought these coins were counterfeit. In fact, he thought all 50 of them were bogus.

Now, the dealer has 50 of these coins. He has \$50,000 invested in them. If he turns them in as bogus coins, he'll get melt value out of them — if they were real gold counterfeits. So he'd have gotten maybe \$400 each. He'd lose \$30,000 on that transaction.

Now, it wasn't 100% certain these were counterfeit coins. So, what do you think this dealer did? He sold them to the public.

How To Buy Gold Bars Safe From Counterfeits

All this doesn't mean you can't buy gold safely. You can. Take gold bars, for example. These are the easiest gold investments to counterfeit. But the best way to protect yourself is to buy bars from the refiner. If I bought a Johnson Matthey bar and Johnson Matthey told me it was the original bar, straight from their refinery, how could I not trust that? If I were dealing with Englehard, I'd be happy to accept their bars. But I wouldn't buy

a second-hand bar. You never know where it's been. The closer you buy to the source, the safer you are. If possible, always buy direct from the source.

Tips On Detecting Counterfeit Gold Bullion Coins

Bullion coins are much harder to counterfeit than bars, because the designs are more intricate. And the smaller size means counterfeiters have to make more of them, in order to make as much money as they would counterfeiting a bar.

There's more labor cost involved. Still, even with gold bullion coins, counterfeits can be a problem.

Now, gold is much heavier than any of the base metals. Any counterfeits made with base metals will show up right away.

If the fake is the same dimension as the regular gold coin — say gold on the outside and lead on the inside — it will be significantly lighter. Just touch it, pick it up. Even if you're not very used to dealing with gold coins, you can tell how light it is.

If it's the right weight, a base metal counterfeit will either be wider or thicker and you'll be able to see the difference. So you can't make a gold plated base metal counterfeit of a gold bullion coin that will not be obviously wrong in weight, diameter or width.

There are two ways a counterfeiter can get around those problems. One is in gold coin jewelry, where the coins are already made up in a chain. A great number of counterfeit gold coins were minted in Beirut before the civil war there. These coins were minted to rip people off with gold coin jewelry — and they were very successful. If you want gold coin jewelry, it's better to buy your own coins and give them to a jeweler you can trust to make the jewelry up for you.

The second way a counterfeiter can pass the coins off is by using tungsten. As I mentioned earlier, this metal has the same density as gold, but it's very hard to work with.

Until recently, a tungsten counterfeit would show up obviously as a counterfeit because the strikes were so poor. Now, with better technology, tungsten counterfeits are almost impossible to detect visually.

But because the condition of a bullion coin doesn't matter, you can use the "ringing test" to see if it's real or not. If you have a good, solid hardwood desk — and you don't mind seeing nicks in it — you'll find that each type of gold coin has its own distinctive ring. Just drop it casually onto the desk and it's very easy to hear whether it's gold. The ear can be trained very easily. If you drop a tungsten coin, you'll hear a very different ringing sound than if you drop a gold coin.

VIII. Gold Warehouse Receipts

This little known — but very useful gold investment — goes by a variety of names, including "delivery order" and "gold certificate." Warehouse receipt was the original name.

Somewhere along the line, people seemed to decide that "gold certificate" had more pizzazz than "warehouse receipt," and the new name stuck.

But whatever the name, this investment is quickly gaining popularity among investors. The reason is simple: They offer you a fast, safe and anonymous means of internationalizing your assets.

How Gold Warehouse Receipts Work

When you buy gold certificates, or warehouse receipts, you buy gold stored in depositories — generally located in Switzerland, Canada or the U.S. The depositories are often non-bank, and are usually located in portions of the country that do not levy sales or use taxes on the forms of gold stored there. The gold stays in the depository until you want to remove it. You are issued a receipt/certificate attesting to your ownership of the gold.

The gold is almost always insured against loss, theft, fraud and most other risks. The only risks generally excluded are war and government confiscation. The insurance is underwritten, in many cases, by Lloyd's of London.

When you want to remove your gold, you just present the certificate — either by mail or in person — to the depository. You pay the related charges and, generally speaking, the depository will arrange for shipping to the desired location.

Gold certificates come in almost every size and shape imaginable. However, two basic varieties are worth distinguishing ...

Non-fungible vs. fungible: With non-fungible warehouse receipts, a specific unit of gold is set aside in an independent warehouse and marked with your name as your property.

With fungible warehouse receipts, "your" gold is (at best) stored in an omnibus account, along with the gold of all other customers. You have what is called an "undivided interest in the whole."

**Non-fungible is preferred.
An Enormous Package Of Benefits**

These certificates offer an enormous package of benefits for gold investors — at what I consider to be a very modest cost.

- You can use them to internationalize your gold holdings, virtually overnight. Many Americans hold back on moving some part of their assets to Canada or Switzerland. They either don't know how to do it, or they think it's too complex. But as soon as you buy a certificate for gold in a Canadian or Swiss depository, that's it. You now own gold in that country.
- They're exceedingly convenient. You simply send your check to a firm here in the U.S., but you get the gold stored at that firm's vault.
- They're quite safe. Your gold is stored by major depositories here and abroad. In Switzerland, for instance, the warehousing firm is MAT Securitas Express, Ltd., a major European warehouse, roughly equivalent to Brink's here. The insurance policy adds another major measure of safety.
- Since they're non-negotiable, they lend great portability to your holdings and almost never have to be declared at customs, including U.S. customs. So they offer you a major benefit when you travel.

One fellow, when re-entering the U.S. through New York, had his attaché case opened by the customs agent. It was filled with silver and gold certificates representing upwards of \$12

million of gold. The agent looked at one certificate, saw "non-negotiable" stamped prominently across it; thumbed through 3 or 4 inches of them; saw they all looked essentially the same; closed the attaché case; and waved the person through.

This is not true for "negotiable instruments." Many countries, including the U.S., try to restrict the international flow of funds by mandating that negotiable instruments must be declared when entering or leaving a country.

Negotiable instruments are essentially "bearer" instruments, such as "bearer bonds," "bearer stock certificates," "bearer warehouse receipts," etc. They are very easy to transfer (hence "negotiable") and, essentially, whoever has possession of it is deemed to be the owner.

But except for the various commodity exchanges' warehouse receipts, *almost all receipts/certificates sold to the public today are non-negotiable*. Your name is on it. To transfer it, you have to return it to the issuer with a guaranteed signature.

- No sales or use tax. When you buy gold in any of the depositories we're aware of, no sales or use taxes are required. A warning though: Depository locations are very carefully chosen specifically to avoid these taxes. If you remove your gold from these depositories and take five steps north, south, east, or west, you may well be liable. Before you do something like that, consult your tax advisor.
- Security. If you lose a non-negotiable certificate — or if one is stolen — it can be replaced. This will be an inconvenience and will cost some money, but your essential investment is protected.
- Privacy. If you are an American and you open a Swiss bank account, you're required by law to report it on your U.S. income tax return. Not so with certificates for gold stored in Switzerland (or any other foreign country).

The Disadvantages Of Gold Certificates

While the advantages seem enormous to us, the disadvantages seem relatively minor.

- The certificates are not negotiable. If you have Krugerrands, you can give them to a friend or merchant in settlement of a debt, and that's it. You can't with these certificates. While they are transferable, as we said, to do so is a nuisance.
- They cost more. With a certificate, you have to pay for the gold plus anywhere up to 3% on top of that. In addition, the storage and insurance can run up to another 0.5% per year. These extra charges aren't insignificant. And you have to decide whether the advantages are worth the cost.

Dozens Of Companies Issue Gold Certificates — What Are The Differences Between Them?

There are literally dozens of companies that issue gold certificates today. It seems that every main dealer, and several minor ones, issues its own gold certificates.

Each program varies slightly in minimum purchases, fees and available investments. But we think the most significant difference is a subtle point we touched on earlier — "fungibility" versus "non-fungibility."

Only a few companies offer the preferred non-fungible storage. So, you have to be sure to specify non-fungible.