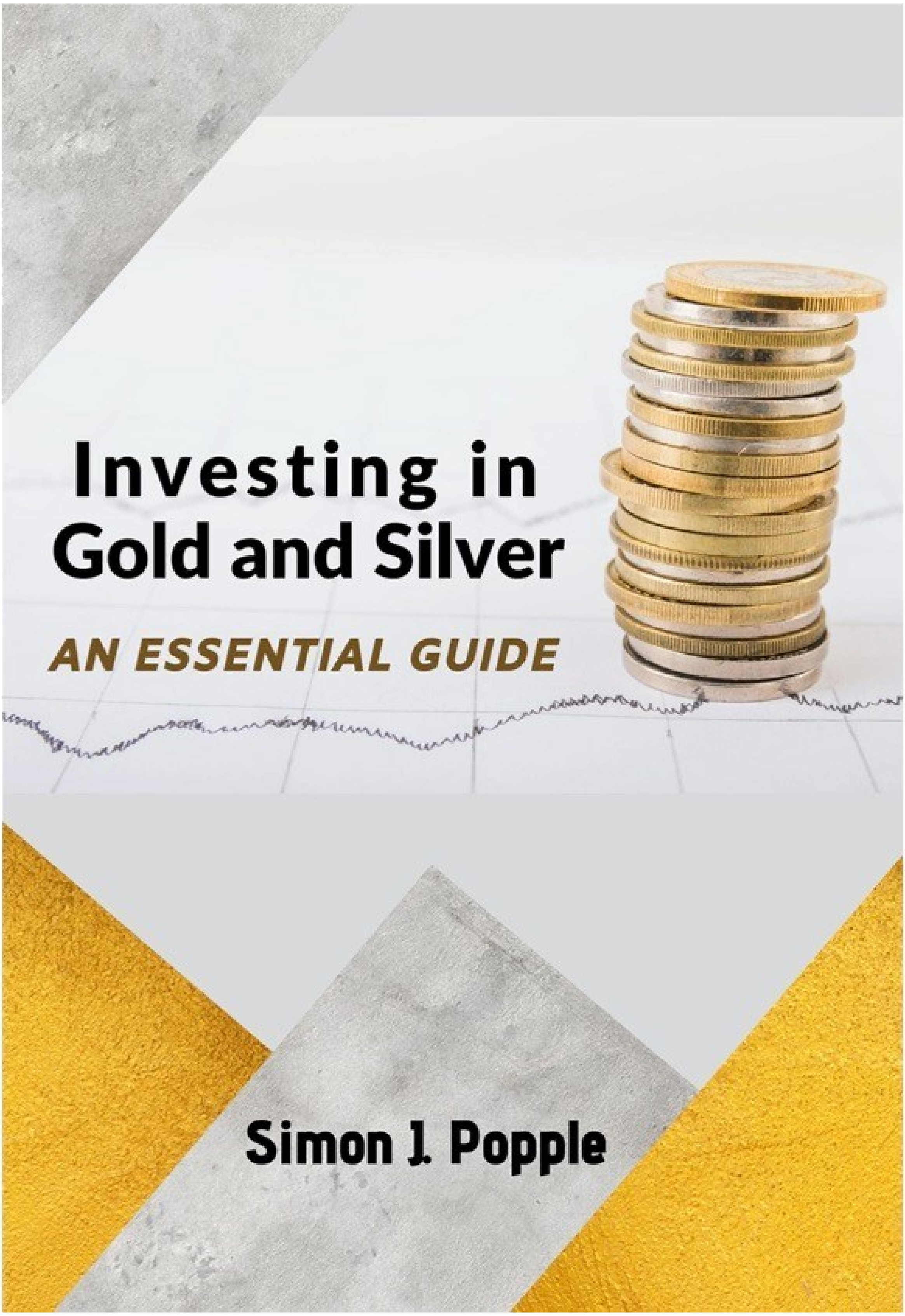
Investing in
Gold and Silver
AN ESSENTIAL GUIDE
Simon J. Popple

The information provided in this book is for educational purposes and general advice only and is not intended as investment advice. Consult with a financial advisor on a regular basis regarding any investments.

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Contents

Introduction

I've kept this book brief. Personally, I like to get to the crux of the matter, so I've given you everything you need to get started.

It's not exactly rocket science, but with bond prices so high and negative yields eating into investor returns, gold and silver's day has finally arrived.

They've been around for thousands of years and are one of the few "assets" recognised as being valuable anywhere in the world.

Can you think of anything else?

Gold and silver have many attributes which make them so valuable:

- Liquid – easily convertible to cash in any currency.
- Portable – you can carry coins in your pocket.
- Divisible – splitting up diamonds changes their value but the same cannot be said for gold or silver.
- Consistent – silver is silver and gold is gold, wherever you are. The same cannot be said for real estate or farmland.
- Convenient – other coins of sufficient value (such as copper or lead) would be too bulky and heavy.
- Value dense – high value held in a small quantity.
- Rare – they can't be printed!
- Private and confidential – you control who knows you own it.

Both gold and silver have been considered valuable for thousands of years and will *always* have value. No matter what the social, political or financial climate has been in the world, Gold has never gone to zero or defrauded an investor. It is the ultimate form of money.

To make things even more exciting, take a look at the future…

Silver has many potential industrial and medical uses. Industrial applications use silver's conductivity (the highest of any element for electricity and heat) which make it a very useful metal in solar power as well batteries. So there could potentially be huge demand from the electric car industry in years to come.

From a medical perspective, of all the chemical elements, silver has the most powerful antibacterial action with the least toxicity to animal cells. This is because it interrupts the ability of bacteria cells to form certain chemical bonds essential to their survival.

Even technology and medicine are on our side!

If you’re not convinced, here are a few other reasons why you may want to invest in gold and silver:

1. They are pretty good at holding their value.
2. It looks like there could well be a race to the bottom with currencies. The US dollar could well weaken (which is normally good news for precious metals).
3. Inflation may be on the horizon – silver and particularly gold have a decent track record of maintaining purchasing power.
4. Geopolitical uncertainty – both gold and silver are “portable global assets”.
5. Portfolio diversification – silver and particularly gold have a relatively low correlation to other investments.

You may have other personal reasons, but the point is, it’s a good time to think about investing.

How Do I Know What I’m Talking About?

I’m regularly used as a gold expert by IG Index, Silver Doctors and Pro-active Investors. They like to use me because I talk to the gold and silver market on a daily basis. Not many people seem to do that.

This regular dialogue means I’m extremely close to what’s going on. I’m also no stranger to the conference circuit – I’ve spoken at not only Moneyweek conferences but also Mines & Money in London.

In this book, I want to share my thoughts and, more importantly, my experiences with you.

Gold and silver booms (like the recent one in 2011) can make and lose a lot of money for people. I want you to be on the right side if we get another boom.

When we get a boom, those on the winning side realise that nothing lasts forever; they make their money and get out.

But those on the losing side feel they can do no wrong. They become enticed to place bigger and bigger “bets” on the sector, ultimately committing far more capital than they initially intended. Until one day the market collapses and they lose – *big time*.

The bottom line is you only make money when you sell. And here’s some very good advice: Only love something that loves you back.

I can assure you that no matter how much you may love gold or silver, they won’t love you back. When markets turn, the downturn can be brutal.

Just look at the property market. Many people view property as a one-way bet. Over the past thirty years or so it’s made fortunes for many. In fact, many investors have never experienced a downturn. But if you discuss property with anyone who was affected by the crash in 1987, you’re likely to have a very different conversation.

Think about it, what investment lasts forever?

What You'll Learn from This Book

I've broken everything down into the essential building blocks for investing in the gold and silver market. By the end of the book, you'll know:

1. Where gold comes from and why it's so valuable.
2. What to ask your financial adviser.
3. Why you should be looking at the market now.
4. How to buy physical gold and silver.
5. What to look for when analysing gold and silver mining stocks.
6. What to look for when selecting a broker.

What you're about to read is a good starting point on your journey into the world of gold and silver, but please do your own due diligence on whatever action you choose to take.

For more help and guidance, please sign up to my course where I can answer your questions in more detail to help get you started.

In these challenging times, you've got to admit… things just don't feel right. Gold could be a critical store of value you need.

In a nutshell, it has been around for thousands of years. It's *trusted*. And right now, I think trust is in short supply.

Chapter 1

Where Does Gold Come From?

It's Not What You Think!

Gold is not formed on the Earth like diamonds or other gems and minerals. In fact, most scientists believe that gold came to Earth from outer space in large meteorites that struck the planet millions of years ago.

By studying ancient rock samples with high-precision instruments, scientists have found evidence that accessible gold (that being mined), arrived via asteroids when the Earth was still young.

Here's another interesting fact: During the initial formation of the planet, heavy iron sank into the Earth to form the planet's core, taking other heavy elements, like gold, with it. That's where most of the gold on the planet should be, rather than in the crust which is where we tend to find it.

Just think about that for a minute…

Gold arrived from outer space millions of years ago and right now you can buy it for around $1,500 per ounce. Not bad.

It's also becoming increasingly difficult to find. There are fewer and fewer major gold discoveries and exploration spending has been falling off a cliff. Which is probably one very good reason why the majors (large companies in the industry) are merging.

My point is simple – if gold production is peaking and the mining companies aren't exploring like they used to, then where is the new supply going to come from?

I'll let you in on a not so secret, secret…

The Juniors

The Juniors are smaller mining companies that are explorers rather than producers. These are typically the smallest companies in the sector with market values of less than $20m.

Many have already burnt through millions of dollars on exploration. Usually watching helplessly as their share prices tumble to rock bottom levels. Some even teetering on the brink of bankruptcy.

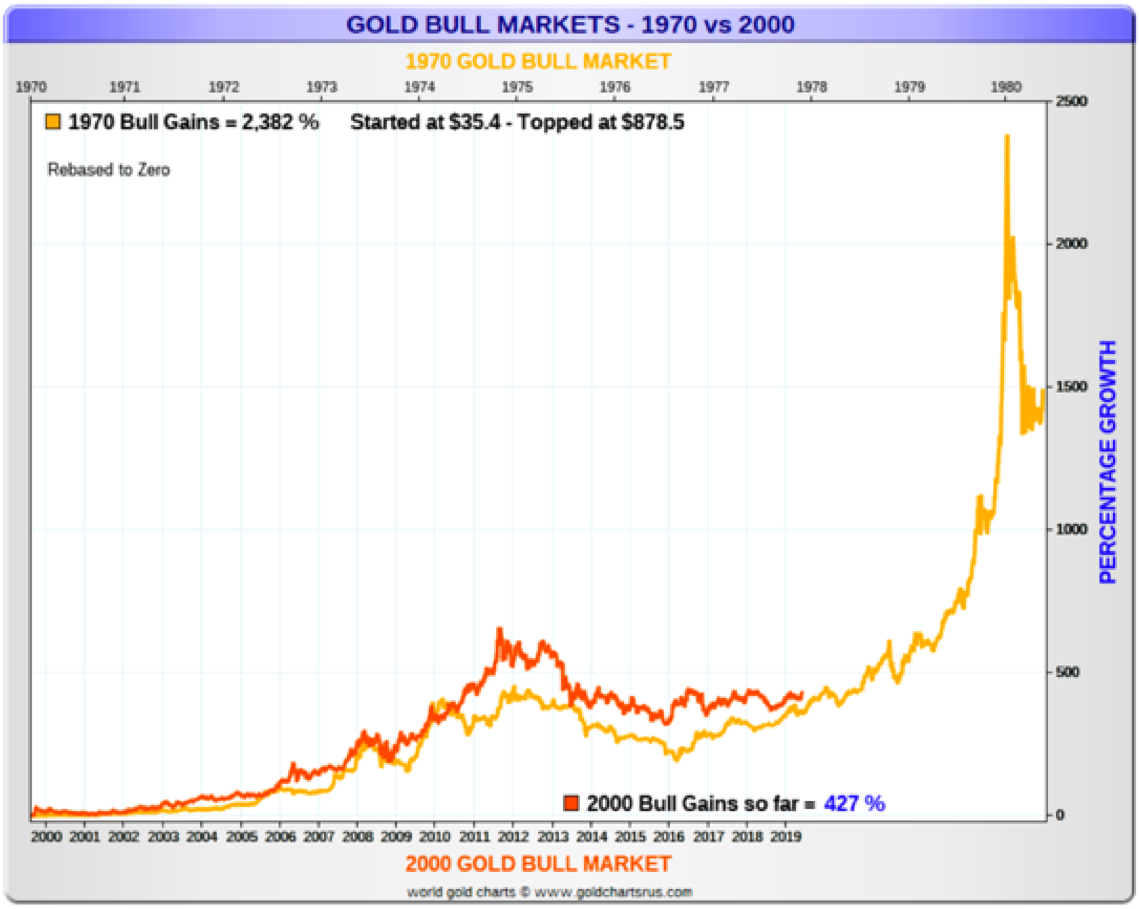
These smaller companies have perhaps already produced 1 or 2 million ounces of gold – but the majors often need more than that to get involved.

It's really all about potential. Companies with potentially large deposits of gold could well get snapped up by the majors at very attractive prices.

The problem is many investors are fooled by large resources. Often a large resource can come from many different deposits, but the majors want large single deposits — ideally open in all directions, which means there could be a lot more gold there.

What Could Happen?

Just look what happened in the last bull market in the late 1970s and early 1980s.



Source: Chartsrus

Or go further back and take a look at the share prices of gold companies such as Homestake Mining in the Great Depression. If history were to repeat itself, several mining companies could see their share prices increase dramatically.

There are two drivers behind this. Firstly, the major mining producers could decide to acquire juniors with proven reserves because they view it as less risky than spending millions trying to make their own discoveries.

The juniors don't have a processing plant in place to crystallise value, which can take years to build. This allows a nearby producer to dangle a very tempting carrot in front of beaten up shareholders who’ve “been through the mill”, which could potentially make a lot of money for those who’ve stuck it out.

Think of it this way – by making these acquisitions, the majors are essentially admitting there’s a big shortage of the metal. And this trend is just getting started.

Secondly, an explorer could get lucky and find a great deposit. The risks of achieving this are high, so it makes sense to invest in several different companies to improve your chances of success. But I’d urge you to be very careful. Ideally, get some expert advice and have a well-defined strategy.

This is a specialist, high-risk market, so you really need to know what you’re doing if you’re thinking about investing. But if you get it right, the results can be spectacular.

Chapter 2

What Does Your Financial Adviser Know About Gold and Silver?

To many investors, gold is like eating the metaphorical elephant.

An Asian Elephant weighs 5000 pounds. Whereas the average American eats about 2000 pounds of food a year. Now, I'm not suggesting you go and eat an elephant – it's a metaphor, so bear with me.

If I pointed at an elephant and said you could eat it in two years, you'd probably think I was bonkers.

But if you broke that down into two years' worth of food (in weight!), it wouldn't be too far off.

My point is, we find some things in life rather daunting and our big problems are like elephants. Instead of eating the elephant, we're perfectly happy to sub-contract our "elephants" to someone else.

This makes perfect sense. It's on a need to know basis and we don't need to know. If you're sick you see a doctor and if your teeth hurt… you know what I mean.

We're happy to pass our elephant over to someone else to deal with because they're the experts.

However, investing is an elephant you should know something about.

If you've got the skills to make enough money to get someone to manage it, then you've got a brain big enough to understand what they're up to. I'm not talking about the boring stuff like tax planning, but most investing is really common sense.

Many people will give their blood, sweat and tears to make money, only to pass it over to someone else without paying a huge amount of attention to what they're doing with it.

They'll spend hours agonising over the purchase of a car, but minutes before deciding who's going to manage their investments.

"I don't know anything about finance" is viewed as a reasonable answer – but it isn't.

I'm not suggesting you don't use a financial adviser. But I am suggesting you think about what you want. Set some goals. And make sure your advisor sticks to them, especially in these challenging times.

The next problem is, a lot of financial advisers know nothing about gold. So now is a good time to find out what they do know about the yellow metal.

Here are a few questions you should be able to answer when investing:

1. What are my financial goals and is my financial advisor aware of these?
   - Are they long or short term?
   - Liquid or Illiquid assets
   - High or low risk
   - Income or capital gains focused

2. How is my financial adviser remunerated?
   - Is the remuneration in line with my goals?
   - Is there an incentive for them to suggest certain types of investments or take higher risks?

3. Why am I using them and are they delivering?

4. Are they protecting my portfolio if there's a market correction – and how are they doing this?

5. What does my financial advisor know about gold or silver?

6. If I were to add some gold or silver to my portfolio, would my financial adviser receive any compensation?

There's no right or wrong answer to any of these questions. But a good financial adviser (and there are plenty of these around), will want to know what you want to achieve and invest accordingly. And you should know enough to challenge them and keep them on their toes.

Personally, I like real assets. Tangible things such as gold and silver that you can touch. Real estate and agriculture are other areas that spring to mind. That's not to say bonds and equities are bad – far from it. But you should have at least a basic understanding of what's happening to YOUR money.

It's not an elephant, so don't treat it like one.

If you're just starting out, it's important to get some help from someone who knows what they're talking about. That may be your financial advisor, it may be someone else. Whoever it is, make sure you ask the right questions.

Chapter 3

Buying Gold and Silver

Buying gold and silver is a lot like buying fine wine. It's important to not only know where it comes from but also how and where it's being stored. It's all very well getting a great deal on a case of wine, but when you come to sell it, people want to know about its history. And unless they're happy, you'll end up selling it at a steep discount.

It's the same with gold and silver.

It's important to not only acquire it from a reputable dealer but also store it correctly. Preferably with the people you bought it from. If it hasn't left their premises, they've got no reason to question its integrity. And there's a lot of fake gold around.

You also need to think about *why* you're buying it.

I recently did an interview with IG Index and Ross Norman, the former CEO of Sharps Pixley. During the chat, Ross picked up a Kilo bar of gold and waved it in the air, telling us it was worth more than $30,000. Whilst this was great evidence of both the high value and portability of gold, it was not the best way to hold gold if you want it for insurance.

That's why it's important to remember why you're buying it in the first place.

If, for example, it is for insurance, then having all your gold in once chunky bar worth $30,000 may not make a whole load of sense. It may be ok if you want to buy a car, but not if you just need some petrol!

In this case, you may want to think about buying some gold and silver coins.

Buying Gold and Silver Coins

Before I kick off, let me be crystal clear about something – I'm not a doomsayer.

But right now – and remember, investing is all about timing – I think there is less risk of holding gold than not. Think of it as a store of value rather than an investment.

You can't print gold, it's expensive to find and genuinely rare, so I'd encourage you to think about how you want to access the market.

Personally, I like the miners, because of the leverage they offer (more on that later). But having some coins may also be sensible.

Here are a few other things to think about if you decide to go down to coin route:

1. **What to buy?**

I'd recommend having at least some gold or silver in lower denomination coins such as Gold or Silver Britannia's, Gold Sovereigns or Half Sovereigns. Read on for some ideas as to where to buy some.

2. **VAT**

In the UK, silver attracts Value Added Tax (VAT), which is currently 20%. So any silver you buy costs at least 20% more than the spot price (the price you will be quoted by a dealer). At the time of going to press, gold coins do not attract VAT.

3. **Premiums**

As well as the VAT, the premium is relevant when buying gold and silver.

In the case of silver, you generally pay a much higher premium over the spot price of silver (usually over 30%). If you then add VAT, it's not uncommon to be paying over 50% above the spot price for silver coins.

Gold is more straightforward. At the moment (December 2019), you can not only buy gold coins without paying VAT, but the premium over the spot rate should be a lot lower (around 10%).

Why Buy Silver Coins?

Having read the above, you could be forgiven for wondering why people buy silver coins. But there are a couple of reasons you should think about it:

1. **Good in a Crisis**

Firstly, if there was ever a real crisis such as a market crash that meant either your current money was worthless or you couldn't access it, then having some silver could be very useful.

Silver coins are worth a lot less than gold. Many silver coins are worth roughly £20 in today's money, whereas gold coins are generally £80 or more. In your wallet, it's good to have a broad denomination of notes. It makes sense to have £5, £10, £20 and £50 notes. So, if you want to buy something you've got more chance of having the right money.

It would be the same in a crisis. Imagine you want to buy some food. Paying with a silver coin may make sense, a gold one may not. Either way, it makes sense to have both.

2. **No Capital Gains Tax (CGT)**

Secondly, in the UK, silver coins should be CGT free (please check your own tax rules though!) and if you buy them from a reputable dealer, you should be able to sell them back if the wall of worry we're now facing disappears. You must get advice from your tax advisor on this.

Storing Gold and Silver

What you decide to do when it comes to storage is very much down to you. If you choose to take delivery, you need to think about both where you want to store as well as insure it. I would not recommend holding gold or silver in your house unless it's a very small amount. Not only would this raise insurance issues but also potentially make you a target of burglary.

Many choose to keep their gold and silver with the people they bought it through. Not only do they have the right storage facilities, but they can also insure it at a far lower cost than you.

Even though silver is far bulkier (in value terms), the storage costs are surprisingly competitive. This is because many operators base their cost on the insurable value rather than the amount of space the metal takes up.

So although the acquisition cost of silver can be prohibitive from a premium and VAT perspective, once you own it, you should find the storage costs to be quite reasonable. For example, Bullion by Post charges £10 per month for a holding with an insurable value up to £15,385. Clearly, it depends on how much you have, but at the top end of this range your storage costs work out at less than 1% a year.

Whatever you do, make sure you know how you're going to store your silver and gold and what the costs will be BEFORE you buy anything. Normally, the broker you're going to buy it from will be able to store it for you, but check first.

Where Can You Buy Gold and Silver?

This is very much down to your personal choice and you must do your own due diligence. But I thought you may appreciate a few ideas. So here goes.

Like most things in life, different dealers cater to different clients. So I've split the types of clients into three. This is relatively arbitrary, but it should at least point you in the right direction.

Which leads me to my lower-tier: Bullion By Post

I use Bullion by Post for buying, storing and selling coins. But be aware that you may buy the coins at a small premium to the spot price as well as sell them for a modest discount (which is how they make their money).

I've used them before and find them to be very helpful and efficient. Although they don't have a maximum order, if you're thinking of deploying more than £50,000 into the sector, you'd certainly want to shop around. Having said that, I would urge you to be careful about going with the cheapest. Do some decent research on anyone before you invest.

As you'll see from the Bullion by Post website, the smallest denomination for a UK gold coin is over £100. This is fine if you're buying an airline ticket, but you could be into a spot of bother if you're just looking to get some groceries, so think about *why* you're investing.

Moving on to what I would view as the mid-tier: Sharps Pixley

If you're looking to deploy more than £50,000 into gold (this is a somewhat arbitrary number so please discuss it with your advisor), then you may also want to consider Sharps Pixley.

Although it's sensible to have some gold at each of these establishments, I'd say that Sharps Pixley (which is owned by Degussa – Europe's largest precious metals dealer) are more suited to "High Net Worth" individuals. When I last spoke to them, they told me that some of their clients have bought several million dollars of gold from them.

I would classify them in the mid-tier. That's not to say you can't buy coins from them, you can. But I think they're more geared towards wealthier customers.

Finally, the high-tier: [Gold Switzerland]

If you're looking to deploy what I would consider a large amount of capital into buying physical gold, then you may also want to take a look at Gold Switzerland. These guys don't really get out of bed for orders less than £500,000, but if that's what you're looking to do then it makes sense to get in touch with them.

There are obviously others you may want to consider, but please be careful. There's a lot of fake gold around (just like wine), so you need to make sure you're being well taken care of.

Allocated Versus Unallocated Gold

The next point to note when buying physical gold is the difference between allocated and unallocated gold.

When you buy physical gold, you need to know whether it's allocated or unallocated. Here are some of the key differences between the two:

Allocated Gold

- An investor in allocated gold is the outright owner of a certain amount of physical bullion.
- As it is the physical property of the investor and not part of a bank or other organisation's gold reserves, allocated gold should not be seized in the event of a liquidity crisis (but you could still be taking a risk if you hold it in the banking system).
- Allocated gold may incur slightly higher costs than unallocated gold such as premiums and storage costs.
  Many people view allocated gold as the ultimate safe-haven asset as their investment is independent of the performance of the bank. However, you may want to consider holding your gold outside of the banking system as any gold is likely to be viewed as an asset by the creditors if we were to have another financial crisis.

Unallocated Gold

- Unallocated gold remains the property of the bank – the investor is essentially a creditor of the bank. It's unclear what would happen in a crisis, but that's probably worth checking before you buy it!
- Unallocated gold remains the property of the bank.
- The fact that no physical gold may be held makes this a much cheaper and more convenient method than allocated gold. It is the most common form of gold investment worldwide.

- The bank may not actually own sufficient gold to back the total value of all unallocated gold investments.

Again, which you decide to invest in really boils down to why you want to hold the gold.

Chapter 4

Gold:Silver Ratio

The gold:silver ratio is the proportional relationship between gold and silver prices. Put simply, it describes how many ounces of silver can be bought with one ounce of gold.

Gold has always been more expensive than silver. Historically, the gold:silver ratio has only really moved around a lot since just before the beginning of the 20th century. For hundreds of years prior to that, the ratio, set by governments for purposes of monetary stability, was fairly steady, ranging between 12:1 and 15:1.

The Roman Empire officially set the ratio at 12:1, and the U.S. government fixed the ratio at 15:1 with the Mint Act of 1792.

The discovery of massive amounts of silver in the Americas, combined with a number of successive government attempts to manipulate gold or silver prices, led to substantially greater volatility in the ratio throughout the 20th century.

When President Roosevelt set the price of gold at $35 an ounce in 1934, the ratio began to climb, peaking at 98:1 in 1939. Following the end of World War II, and the Breton Woods Agreement of 1944 which pegged foreign exchange rates to the price of gold, the ratio steadily declined, nearing the historical 15:1 level in the 1960s and again in the late 1970s after the abandonment of the gold standard. From there, the ratio rose rapidly through the 1980s, peaking at 100:1 in 1991 when silver prices declined to a low of less than $4 an ounce.

In the 20th century, the average gold:silver ratio was 47:1. In the 21st century, the ratio has ranged mainly between 50:1 and 70:1.

It’s not a fixed ratio but a useful guide for comparing the relative values of gold and silver.

Take a look at the graph below which is relevant for where we are today. It sets out the ratio going back to the 1970s.

Source: Chartsrus

There are two key takeaways from this. Firstly, gold and silver prices seemed to correlate quite closely up until the last 10-15 years, when this correlation became less pronounced. Secondly, the ratio is currently around 85:1, which as you can see from the chart is very high on a historical basis.

On the one hand, you could argue that the gold price is very high and would need to fall to bring the average more in line with historical averages. On the other, there is a view that the price of silver could rise. I will let you form your own view!

Chapter 5

Buying Mining Stocks

What is a Mining Stock?
It's important to realise that all mining stocks are different. There are literally hundreds of permutations but broadly speaking, you need to think about three things:

1. Is the mining company already producing or is it an explorer? By definition, explorers are riskier because they are spending rather than generating cash.
2. What are they producing or exploring for? Obviously, in this case, you only want to buy into a company that's involved in gold or silver.
3. Where are they operating? Because of political risk, you need to have a long hard think about where you want to invest. For example, although the company may be listed in Canada or Australia, their assets could well be somewhere else. You need to know where before making an investment.

Selecting the Right Broker for You
This is where a lot of people get caught out. They sign up with a broker, pay any fees that are due, and *then* select their mining stocks. This is one of the few markets where this can cause you problems.

Some brokers don't trade all the mining stocks, so if you end up selecting stocks which you can't buy through your broker, you're stuck.

I appreciate you won't know about all the stocks you plan to buy from the outset, but I suggest you run four or five companies that you're interested in past your broker. If you can trade them all, you're probably speaking to the right person. However, if there are some you can't trade in, you may want to look elsewhere.

I use Interactive Investor but this is very much a personal decision and you should carry out your own due diligence before deciding which broker to use.

Why Do I Like the Miners?
The gold and silver mining industries are on their knees. Whilst the bonds, equities and real estate have all been going through the roof, the share price of mining stocks have largely been heading south.

Of course, there are a few exceptions, but if you pick out several mining companies, you'll see that many have had a torrid time. Take a look at the Australian and Canadian Stock Exchanges where most of them are listed.

Anyway, my point is, at the moment, many miners have all-in sustainable costs of around $1,100 per ounce. The gold price is currently $1,500 per ounce, so that's a profit of $400 per ounce.

Appreciate that by the time you read this, the gold price might have changed – but the concept remains the same.

Let's say the gold price increases 20%, taking it to $1,800 per ounce, some way south of the all-time high of $1,895 per ounce in September 2011. Although costs may creep up a bit, at least over the short term, they're unlikely to move anything like the pace of the gold price.

In this example let's assume they increase 10%, so we're talking about a gold price of $1800 and costs of $1,210 per ounce. That's a profit of $590 per ounce.

As you can see, in this example, the gold price has gone up by 20% but the profit per ounce has increased from $400 to $590 – that's a 48% uplift.

In a nutshell – the miner is giving you leverage.

This is great when the gold price is going up, but very bad if it goes down. And more importantly, stays down.

Clearly, you need to be bullish about gold prices, which I am.

How I Look at The Miners

There's no right or wrong way to evaluate any company, but if you're dipping your toe into a market you're unfamiliar with, it's useful to have a checklist.

With that in mind, here is an acronym to use when buying mining shares: **B.R.I.D.G.E.**

It stands for:

Balance sheet
Resources
Infrastructure
Diversity
Grade
Exploration potential

As you become more familiar with the sector, there will more factors you add to your analysis, but this is a useful starting point.

Let's get cracking…

Balance Sheet

This is quite simple. If you're investing in an explorer, be vigilant of any debt on the balance sheet because they're not generating the cash to repay it!

Similarly, take a look at how much cash they are spending and what it's being spent on. If it's going on solid exploration efforts that could yield exciting results, then it may make sense to invest before those results come out.

However, if it's going on other aspects of the business, you may need to think about where it's going. Some mining companies seem to be run as lifestyle businesses, keeping the management happy but nothing really happens. I repeat, make sure the management has a good reputation.

Debt is less of an issue for producers because they're generating cash to service it. In this instance, it makes sense to have a good look at their costs to ensure they can still generate cash should costs go up or the gold price move down. Take a look at their 'All-in Sustaining Costs' and compare these to the gold price. You should have a decent margin to feel comfortable.

A good starting point for finding this information is their most recent report and accounts. You should also discuss it with your financial advisor before making any investment.

Resources

Where is the deposit located? As I eluded to earlier, the assets may be in a different jurisdiction to where the company is listed. This should be no surprise to you, but some areas are safer than others. So you must find out where the main deposits are.

Take a look at the work produced by the Fraser Institute. They produce an annual mining survey which ranks regions by "attractiveness".

It's really common sense. If you wouldn't go there, why should anyone else? If you're one of life's adventure junkie's, then I'd be very careful about investing in any region in the bottom half of the report. That's not to say you shouldn't, but there should be compelling reasons why you're prepared to take on the extra risk.

What is the size of the largest deposit? This is an area that confuses many investors. They hear that a miner has a decent resource of 1 million ounces and jump in. Only later to discover that this resource is over ten different deposits which are not close to one another – none being economic to mine.

It's very difficult to determine what is a large or small deposit because so many other factors need to be accounted for. But as a rule of thumb, if the miner has proven that the deposit is "open in all directions" – which means that drilling has indicated there could be more gold both laterally and at depth – then you may be prepared to run with a smaller deposit.

As a very rough guide, if a miner can prove there are at least 1 million ounces of economic gold in a deposit, there is a reasonable chance they'll get financing for a project (especially if the deposit is open in at least one direction).

Grade and other factors come into play, but I personally like the largest deposit to be over 500,000 ounces with potential for a lot more. I should add that I have quite a high appetite for risk. Those with a lower appetite may want to consider a higher threshold.

You also need to be aware of the different types of reserves and resources. This requires some detailed analysis but if you're new to the sector, I'd suggest you look for at least 500,000 ounces in the Measured and Indicated category from a single deposit.

Here is a useful article for more information on this: Classification of Mineral Resources and Reserves

Infrastructure

Roads, rail, power, and water should all be taken into consideration. Mines need to be accessible and they consume a lot of power and water. If a company finds a great deposit, they still have to find the money to construct the mine, transport the ore, and utilise a skilled workforce.

Sometimes there is a mill in the vicinity, but you need to be very careful about making any assumptions that they'll have access to it.

This is one reason that exploration near existing mines is more attractive. Not only is the infrastructure already there but there's also a greater chance of a well-trained local workforce who are ready to work on your project.

Diversity

This is really more to do with having a diversified portfolio, but it's also relevant for individual companies. Some companies are very much about one project which can be risky.

Grade

Grade refers to how much metal is in the ore. This is incredibly difficult to generalise because there are so many factors at play, such as the depth and type of ore. But as a very general rule, you should be careful about investing in an open pit project where the grade is less than 1g/t or an underground project where the grade is less than 3 g/t.

Needless to say, rules are there to be broken and some of the world's largest mines have a proven reserve of less than 1 g/t (Canadian Malartic have a proven reserve of 0.89 g/t). But if it's less than 1 g/t you need to give it a little more consideration.

In the case of Canadian Malartic, it's a huge mine and their proven & probable reserves are 1.1g/t.

Exploration Potential

There are many aspects you need to look at here, so let me keep it simple and focus on three.

First of all, you need to know how advanced the exploration is. Do they already have a proven resource they're exploring nearby or is it a highly speculative exploration?

Secondly, if they do have a resource, how many directions is it open in? For example, sometimes a resource is said to be open in all directions – which is north, south, east and west and at depth – so there could be more gold in any direction. In other situations, they have determined that there is no more gold in one or more directions, so there is clearly less potential.

Thirdly, exploration costs money. Although in theory there could be a lot of potential to explore for more gold, do they have the money to do it? If they're a pure explorer (with no production) they will probably have to raise capital through the issuance of more shares. On the other hand, if they're already producing, they may have the cashflow to fund the exploration themselves.

This brings me on to another point that I'd like to quickly cover. If they're a producer and are exploring close to their existing processing facility, they may be able to process any potential gold without the large capital expenditure requirement of building a new plant. So it's also important to look at where they're exploring relative to their existing assets.

If you want to dig a little deeper, here are two other aspects worth considering:

Management

Like all companies, good management is important. Not just to ensure the operation runs smoothly but also to make sure the company operates in the best interest of shareholders. Again, it's very difficult to generalise, but here are a few red flags:

- They have not got a good track record of running a mining company (where were they before?).
- They have never raised significant amounts of capital.
- They have not personally invested much capital in the business.

Please don't overlook the importance of having a good management team.

Nearology

I've made this term up but it's still important! If there are other mines in the area, there's clearly gold around. It may be that nobody has found it on your company's patch – they could have an underexplored tenement, or it may be something that has been comprehensively explored by others who have walked away.

There are several points to note here.

Firstly, why did they walk away? Was there no gold? If there was, how much was found? It might not have been enough for a major to get involved but very attractive for others. Majors are generally looking for deposits of over 2 million ounces, quite often more than 3 million, so they may have decided the potential was too small.

Secondly, when did they walk away? Technology has obviously improved, so if it was in the past few years that may not be good but if it was decades ago there may be compelling reasons for having another look. You should also look into how much exploration was actually done the first time around.

Thirdly, who are the nearby operators? If you can prove there's gold on your land, they may want to buy it. Are they capable of buying it? They may be too small. Similarly, if they are very large, they may only be interested in a huge deposit.

Although I don't like to generalise, if you put all these factors together you'd be looking for a deposit that's over 500,000 ounces of gold which has a grade of 1 g/t or more if it's an open pit and 3g/t+ if underground. You'd want the deposit to be open in at least one direction (so there could be more gold). You want power, water and road nearby along with another mine in the vicinity to improve your access to a skilled workforce. On top of all this, you want management that knows what they're doing!

Getting all this at an attractive share price is not easy but it at least gives you a guide as to what you should be looking for.

Chapter 6

Gold ETFs

What is a Gold ETF?

A gold exchange traded fund (ETF) is an investment fund that holds physical gold to back its shares. The share price tracks the price of gold and it trades like a stock. However, most investors don't have a claim on the underlying gold.

ETFs are a hybrid between mutual funds and individual stocks. On the one hand, they are like gold mutual funds in that they are funds that hold an entire portfolio of assets (in some cases physical gold, whilst in others it may be a mixture of gold and derivatives). On the other hand, they are like individual stocks in that they trade on stock exchanges, unlike mutual funds, so they are easy to buy and sell.

The concept is simple – Gold ETFs are intended to mirror the per-ounce price of gold. So when investors buy shares of the ETF, the ETF adds gold; when investors sell shares of the ETF, the ETF sells gold. In theory, the shares of the ETF should move in tandem with the price of gold.

Unfortunately, that's not always the case. Sometimes the movement in the ETF price does not directly mirror that gold price. They are a decent approximation of gold, but they are not as perfect as you would want them to be.

For example, they may not hold all the gold they say they do and as an investor, you may not be aware of this.

Similarly, there could be a discrepancy because of the supply and demand of ETF shares versus the price movement of physical gold. If the shares are in high demand then investors may be willing to pay a premium. Similarly, if there's particularly low demand, there could be a discount.

Gold ETFs are very popular. On the plus side, they're convenient, easy to trade, there's no need to store anything, and no one is going to break into your house to steal your ETF shares. But there are also some pitfalls that few investors are aware of. I think it makes sense to be aware of these before, rather after another financial crisis. I'll touch on these later.

What's the Difference Between an ETF and Holding Physical Gold?

Form

Gold ETFs are held in electronic form (in a similar manner to holding shares). You can think of it as a bank account where you have a balance in your account but do not hold the money physically. In the case of physical gold, you hold the gold physically, so there are storage and insurance costs to consider. These costs are normally embedded in the price of your ETF share. Typically, gold ETFs are a low-cost way of getting exposure to the gold price which is one reason why they're so popular.

Tax

You need to speak to a tax adviser about this but there are likely to be differences between holding physical gold and ETFs.

Delivery

Even though ETFs may be backed by gold, in the event of a financial crisis, you may not be able to take delivery of physical gold. For example, in the case of the SPDR Gold Trust (GLD), the largest and most popular gold ETF, you can only request physical delivery of metal if you own a minimum of 100,000 GLD shares (most investors will own far fewer). At $1,500 gold, 100,000 shares would be $1.5 million dollars. And even if you do own enough shares, the GLD ETF reserves the right to settle your delivery request in cash.

Why Are ETFs Appealing to Investors if You Don't Actually Own Any Gold?

I don't want you to completely ignore ETFs. I have issues with them, but in many cases, they could work for you. You just need to be aware of the issues.

Like any investment vehicle, they have their advantages:

1. Convenient
2. Low cost
3. You can employ leverage using options (which can be risky), which you can't do with gold bullion (at least directly).

Also, if you want to trade gold rather than invest in it, then ETFs are great. Buying and selling physical gold can be cumbersome and not an ideal strategy if you're a regular trader. Similarly, if you want to use a product to hedge positions, then an ETF could work really well for you.

If you're based in the US, ETFs can also be used is in your IRA or 401(k). Self-directed IRAs can hold gold bullion, but it may not always be worth the hassle of setting things up, particularly if you don't want to do a lot of gold buying for the account, so ETFs can be a good alternative.

The vast majority of 401(k) accounts do not currently allow you directly invest in gold, such as purchasing gold bullion or gold coins, so ETFs really are the next best thing, especially if your employer matches all or a portion of your contributions. Please speak to your financial adviser if you are looking to invest in gold through your 401(k)account.

The Pitfalls

In a well-functioning economy, an ETF has many attractions. But should we have another financial crisis, there are several aspects of an ETF you need to be aware of. Here are a few potential pitfalls:

1. **Counterparty Risk**

ETFs come with a lot of counterparty risk inherent in their chain of custody. Should we have another financial crisis, this risk is likely to grow dramatically.

Think about it, if you own an ETF, you must rely on a counterparty to make good on your investment. If any link in the fund's management chain breaks down – for example, the chain of custody, operational integrity, regulatory oversight, or delivery protocols – you're in trouble.

If you own physical gold, you know it's insured, where it's stored, and how much you have. But how safe are your holdings in an ETF?

Is the fund protected by adequate insurance? Is the custodian bank trustworthy enough to safeguard the gold? You'd hope the answer is yes, but you probably don't know.

A lot of people own gold as their safe-haven asset. Their hedge against risk. Sometimes it's literally their last line of defence in an economic crisis. If that's you, this section could be particularly relevant.

If you are using gold as some form of wealth insurance, you may want to think twice about ETFs. They are part of the very banking system you may be trying to protect yourself from!

2. **The Custodian**

When you invest in an ETF, you will buy shares through what is known as an Authorised Participant. This is usually a large financial institution responsible for obtaining the gold which is necessary to create ETF shares.

You must trust the Custodian, especially if you're buying gold to protect yourself if there's a financial meltdown. In particular, you must be confident that the custodian would not be impaired if a crisis were to happen.

3. **The Sub-Custodian**

Custodians sometimes use sub-custodians such as another bank to source and store the gold. So you not only need to look into the custodian but also any sub-custodians because you may also be exposed to them.

I have not finished…

4. **The Trustee**

There may be no written contractual agreements between sub-custodians and the trustees or the custodians, which means if a sub-custodian fails to deliver the gold or carry out any other tasks they are meant to undertake, the ability of the trustee or the custodian to take legal action may be limited.

If anything happens to any of the counterparties that I've just mentioned, you're likely to be the one who loses.

This is why I don’t like to use ETFs as the home of my safe-haven asset. I’m sure they are just fine in the ordinary course of business, but I want my safe-haven assets to be my port in a storm. My *safe* port. And I’d personally be a little concerned if there were several links in the chain that I knew little about.

As a general rule of thumb, it’s important to think about why you want to have gold in the first place. If you’re investing because you’re looking for a safe-haven asset, then after reading this section you may want to reconsider. However, if you want to access the market for other reasons, an ETF could well fit the bill.

Personally – and it’s very much a personal choice – I prefer to buy mining stocks because I like the leverage they offer. You also don’t have the same counterparty risk you would with an ETF.

Chapter 7

The Biggest Mistakes I Made in The Last Bull Run and How to Avoid Them

The Biggest Mistake!

Buying mining stocks can be a bit like buying real estate in the boom years. Many people bought property somewhere, did it up and sold at a handsome profit. They convinced themselves they were property developers, riding the bull market for what has been a long time and making a lot of money in the process.

Sometimes they did add genuine value, but more often than not they didn't. They were operating in a market which was literally on fire. Selling a few months after they bought, they were highly likely to make a profit because the market was so hot.

Investing in gold and silver mining stocks can be very similar. In a bull market, you could literally throw a dart at a list of gold and silver mining stocks and you'd be unlucky not to make money.

But the secret to long-term success is to have a strategy.

In fact, it's essential.

How to Avoid This Costly Mistake

The right strategy is critical for your success. Everyone has a different appetite for risk and reward, but you need to make sure that your strategy is consistent with your intended outcome.

All mining stocks are different and you need to understand that. Some companies are very large producers with many mines across numerous different countries, whilst others may not be producing at all.

They are also producing and mining different commodities, so you must make sure they're focusing on commodities you like.

Here's one way to look at it – think of the mining universe as a fantasy football team. The largest companies with many mines being your goalkeepers, smaller companies with higher risk - your defenders, those who are perhaps new to production – your midfielders and the explorers (so no production) – your forwards.

If you want a good team it makes sense to have players in all positions, so I would look to have a broad portfolio. If you want to take less risk, put together a more defensive team. Alternatively, if you want more risk you may want a more attacking formation.

The important message is that if we get another bull market, you don't need to just invest in the riskiest stocks to do well.

The second point is really about your strategy. Having identified what you want in your portfolio, I would then urge you to write down what you want to make. When you're happy with your return you can then sell. Perhaps sell your stocks over a period of time, but sell.

You only make money when you sell.

Another big mistake people often make is they sell a good gold mining stock and go and buy a bad one because it's cheap. If it's cheap, there's normally a good reason why. Although you may be able to get away with this for a while when the market turns and stock prices crash, you can be left holding shares in particularly bad companies.

It's so important to stick to your strategy. You are highly unlikely to either buy at the bottom or sell at the top. The most important thing is to get what you want out of your investment.

What's Next For You?

After reading this book you need to start planning your investment strategy. I offer a course that will help you take the next steps towards investing in gold and silver successfully and if you're interested in joining, you can find more information on my website: www.mygoldsilver.net

About the Author

After completing his MBA at Birmingham University, Simon worked in the Corporate Finance team at Singer & Friedlander. He was then headhunted to join the Senior Banker group at ABN Amro and after several years he was one of the founding members of their Financial Sponsors team within the Corporate Finance Franchise. From there he went on to become Head of Investment Management at Strutt & Parker Real Estate Financial Services and then he joined Topland (one of the World's largest private property companies) as a Director.

He set up Brookville Capital in 2008. Initially, this was focused on raising capital for alternative assets, but after some very successful investments in the gold and silver mining sector, he was asked to write a Newsletter for Moneyweek called Metals & Miners. Following this, he was asked to work with Jim Rickards on Gold Speculator, a Newsletter run by Agora Financial.

He now writes his own Newsletter, the Brookville Capital Newsletter. He has also given talks at Moneyweek and Mines and Money conferences to thousands of investors.

Join Simon on his webinar where he breaks down the content in this book in more detail and can answer any questions you still have about investing in gold and silver.