



# MONETARY & ECONOMIC REVIEW

Volume XXV, No. 1

Spring/Summer 2010

## Recommended Strategies at a Glance

By MER Staff Economists

### 1. Cash, Foreign and Domestic Currency

As we have seen over the past several weeks, a crisis in a major currency anywhere will run up the price of gold. There is a great deal of speculation that the European Union, along with its currency, the Euro, will break up. Gold has established itself as the leading currency in the world. We may see a contagion of currency crises develop over the next several months. Watch for central banks around the world to strategize and manipulate news stories to keep currency and equity markets up. These actions by the bankers and government officials are to prevent a contagion of currency collapses. One must have a minimum of 35 percent of total assets in gold and silver to minimize the risk of currency devaluation.

### 2. Commodity, Futures Options:

For those not out of the stock market, get out now (as pointed below in section 5, Stocks and Mutual Funds). If by chance we are wrong and the market goes much higher, you can use a hedging vehicle of stock index futures to take advantage of selling the index at the higher stock prices. Call ITS (Investment Trading Services at 1-800-757-0443 for expert guidance in this area.

### 3. CD's and Money Market Accounts

The recent rash of bank failures (4-7 per week) indicates the banking crisis is far from over. Limit your exposure to no more than \$250,000 per bank. Hedge your CDs and money markets dollar for dollar. This means for every one dollar in a CD or Money Market account, one should have at least one dollar's worth of gold and silver. The low interest rates being paid on money funds and CDs do not cover the credit and inflation risk: therefore, gold and silver holdings are needed to mitigate much of your currency depreciation risk. *MER* readers may call an FAMC staff economist or consultant for a free bank or insurance company analysis (1-800-325-0919, ext 7470).

### 4. Bonds:

At the risk of sounding like a broken record, let me reiterate: *Bonds are guaranteed certificates of confiscation.* You have a double risk: 1) *Credit Risk* of potential default and 2) *Inflation Risk*, when the massive printing of new currency to prevent default makes the currency worthless. Even if you are paid back by the company or government, you will more than likely be paid back with depreciated dollars. Even sovereign debt is at great risk, due to potential of default brought about by fiscal insanity that was brought about by politicians promising largess from the public treasury without a clue of how they were going to pay for it. Any rescue package like those put together for Greece and others in the Euro zone just buys time until the next crisis unfolds.

### 5. Stocks and Stock Mutual Funds:

The only "glue" holding the stock and mutual fund ("stock soup") markets together is reassuring "babble" and a collection of rescue packages put together by the IMF (International Monetary Fund) and a collection of central banks.

There are no fundamental market factors present to sustain current stock market levels. Every market sector will be hit hard if the reassuring "babble" is not believed or some official makes a misstatement. The previously forecast contagion will move from Greece to Spain and Portugal. There is not enough (currency reserve) money in the EU to handle such a crisis. Get ready for a sever stock market plunge. During a sever plunge, expect many stock trades to be cancelled, such as that seen on May 6.

### 6. Precious Metals:

After five years of soaring prices, the metals took a little breather in the first quarter of this year, but they maintain over 80 percent of their gains. This was due in large part to the temporary dollar recovery against the Euro, which came under great pressure due to the global financial crisis and the closer-to-home economic failure of Greece. This was a temporary reprieve for the dollar; keep in mind that it has lost over 60 percent of its value against the Euro over the last several years.

Since the end of March, gold and silver prices have begun to reclaim previous levels with many indicators pointing to gold surpassing previous highs, possibly by the end of the summer. Silver prices have remained strong despite a slow-down in the industrial sector. This points to the likelihood that the white metal has largely plumbed the lows, and the driving force now behind the current prices is primarily investors rather than manufacturers.

Platinum and palladium continue to make headlines and are a constant point of discussion in marketing pieces put out by coin jockeys looking to make a buck. We are still recommending that clients maintain primarily gold and silver in their metals portfolios. Platinum and palladium are quite a bit more speculative than gold and silver. With so much of the world's supply of platinum and palladium under the control of either Russia or South Africa, political instability and government actions resulting in near-government control can strongly affect the prices. This leaves the investor with little real assurance as to future prices.

There is also a push on the part of some to introduce investors to the commodities market in rarer metals such as rhodium and even uranium. These are highly speculative and we would advise extreme caution if not complete aversion to this type of investments.

One final note: It is imperative to maintain at least 35-55 percent of your portfolio in physical precious metals. Many have inquired into ETFs (exchange traded funds) that give the holder a piece of paper indicating they control so many ounces or shares in the ETF Metals holdings. While we are not completely opposed to the notion of an ETF, it is indeed paper; and as is the case with any paper instrument, there is reasonable potential for default. It would be our advice to maintain at least 35 percent of assets in the physical precious metals so that you know at least a third of what you have worked so hard for is not at the mercy of political whims or dependent upon the actions of another.

#### **7. Rare Coins:**

I never cease to be amazed at new gimmicks the coin jockey companies come up with to hook "rare" coins. Over the last year we have all been treated to some "B" rate actor or actress appearing in a coin company commercial to sell us on the "investment" potential of rare coins. Let us be clear: Metals are not big "money makers"; they *are* money. Rare coins tend to be high-premium, meaning you are paying much more for the collectability than you are paying for the precious metals content of the coin.

Additionally, most of the companies pushing these types of coins are doing so with very large commissions ranging from 25-75 percent and higher – literally burying their customers in the coins. Recently we have seen a number of clients who purchased such coins through coin jockeys; and despite the huge run-up in the price of gold and silver they are just now breaking even on their rare coin "investment." It's because of the high fees associated with rare coins.

On a lighter note, do keep your eye out for old silver coins that you may encounter in your change. I recently received three quarters in change at a restaurant and they were all pre-1965 coins making each quarter worth nearly \$3 in silver value. For those unfamiliar with the older silver coins just keep in mind a couple of simple facts: dimes, quarters, half-dollars, and dollar coins minted prior to 1965 are made of 90 percent silver! Half-dollar and dollar coins only, minted from 1965-1969, are 40 percent silver.

After 1969 the U.S. Government no longer minted silver coins for circulation; and as a matter of fact, in the early 1980s even pennies lost most of their copper! When looking for old silver coins the easiest way to discern whether the coin is indeed silver is to look at the edge of the coin. If it looks like a copper/silver sandwich, it is NOT silver. However, if the coin appears to be only silver on the edge, take a look at the date to confirm your silver find. It is fun to do and every once in a while you will be pleasantly surprised to find some REAL money in your change!