PRECIOUS METALS INVESTING

Preserve Your Wealth with Precious Metals - Updated

September 2009 By Nick Barisheff

"I'm not so much interested in the return on my money as I am the return of my capital." --**Will Rogers**

In this extraordinary environment, preserving your personal wealth becomes priority one. Before you make another major financial decision, it is imperative to understand the big picture by recognizing and understanding three critical issues. First, we are in a secular bear market for financial assets (stocks and bonds). Second, the consequences of the global bailouts will likely be highly inflationary. Third, we are at a pivotal point in the long-term investment cycle. Let's examine each of these three keys in more detail.

KEY 1: WE HAVE ENTERED A SECULAR BEAR MARKET

In a secular (long-term) bear market, stocks plunge in value, single digit price/earnings ratios become the norm, and they can stay that way for decades. The secular bear we are experiencing now actually began when the stock markets crashed in 2000-2001, but few investors noticed because in 2003 the markets were artificially propped up by massive amounts of easy money from the US Federal Reserve under Chairman Alan Greenspan. This was not a new monetary policy. Greenspan's response to every financial "crisis" he faced – starting with the stock market crash of 1987 all the way through to and past 9/11 – was to pour money into the system. The system was never allowed to self-correct, allowing a variety of asset bubbles to form.

During a secular bear market such as this one, stocks habitually move down or sideways. But there are occasional and sometimes violent bear market rallies to the upside that suck in naïve investors hopeful of a quick market turnaround. The most recent example is the spring/ summer 2009 rally in which the S&P TSX, the Dow and the S&P 500 has risen between 48 and 56 percent from their March lows. Since we are just in the early to middle stages of this secular bear market for stocks, investors still have time to rebalance their portfolios into negatively correlated assets. That means selling stocks and bonds (which will decline when interest rates rise) and buying an asset class that will thrive in this uncertain market: precious metals

Cash may seem to be a safe haven but it won't protect against rising inflation. Bonds did well in 2008 because interest rates were slashed to zero. But rates have nowhere to go but up, which means adding or keeping bonds in your portfolio is likely to produce a negative return. It is important to note that bonds no longer provide true diversification protection because stocks and bonds have become positively correlated, meaning they generally move in the same direction.

Buy and Hold Doesn't Work In A Secular Bear Market

Following traditional bull market mantras such as 'Buy-and-Hold' and 'Stay the Course' is a recipe for disaster in a secular bear market. Because secular trends last for years, they also take years to break. The most recent examples are the1966-1982 bear market in equities which, on an inflation-adjusted basis, investors lost nearly two thirds of their value during this period. As Warren Buffett points out "During these 17 years, the stock market went exactly nowhere."

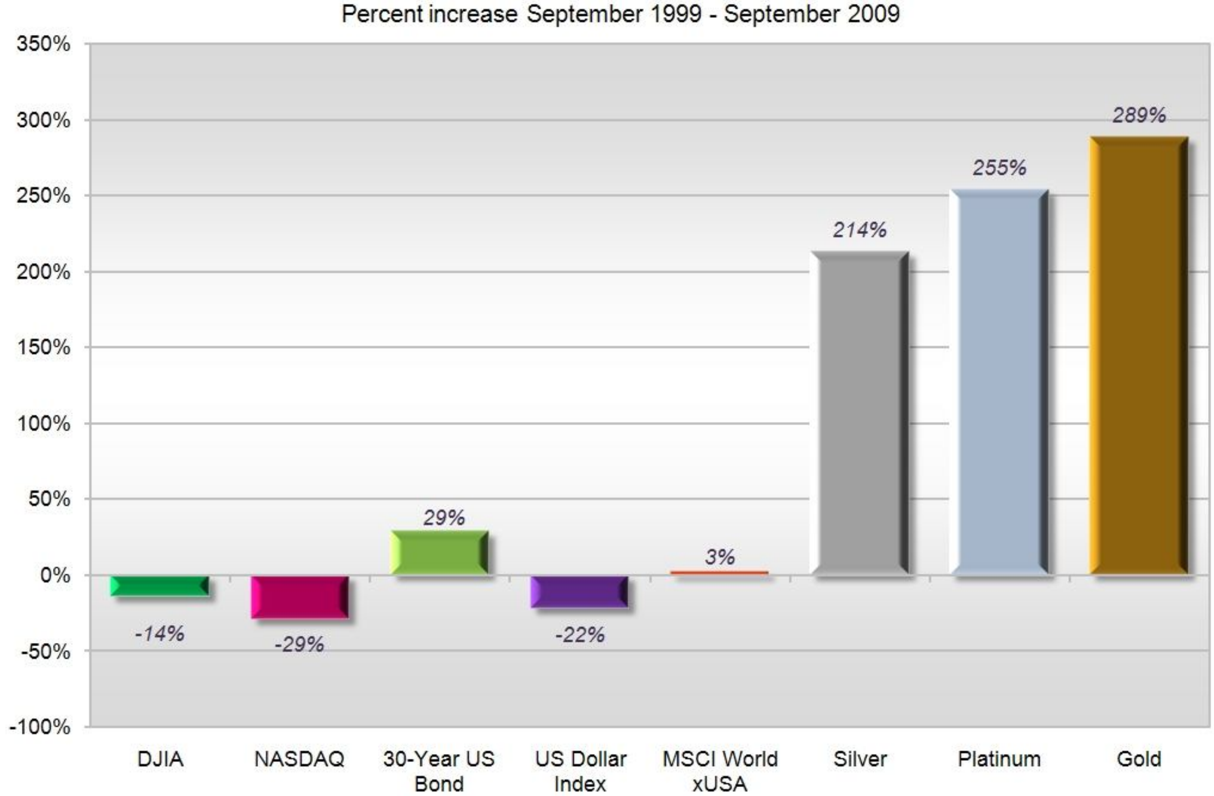
During this current bear market, the DOW has been negative over the past ten years, the MSCI World Index is only marginally positive, yet precious metals have soared over 200 percent (*Figure 1*). If inflation is taken into account the stock indices would be in significant negative territory, while volatility has been extreme: many of the stocks that formed the DOW in 1999 are no longer even in existence. One more fact: if you are counting on stock dividends to help you get through this downturn, consider this: at the time of writing, companies are cutting dividends at the fastest and deepest pace in at least 50 years.

KEY 2: MASSIVE BAILOUTS WILL TRIGGER MASSIVE INFLATION

As Merrill Lynch economist David Rosenberg wryly points out, "the new growth engine for the economy is government spending." We are in the early stages of a global government spending spree of unprecedented proportions which, coupled with zero percent interest and extraordinary money supply growth, will be

Figure 1: Precious Metals vs. Major Investment Indices

Percent increase September 1999 - September 2009



Bullion Management Group Inc. © 2009

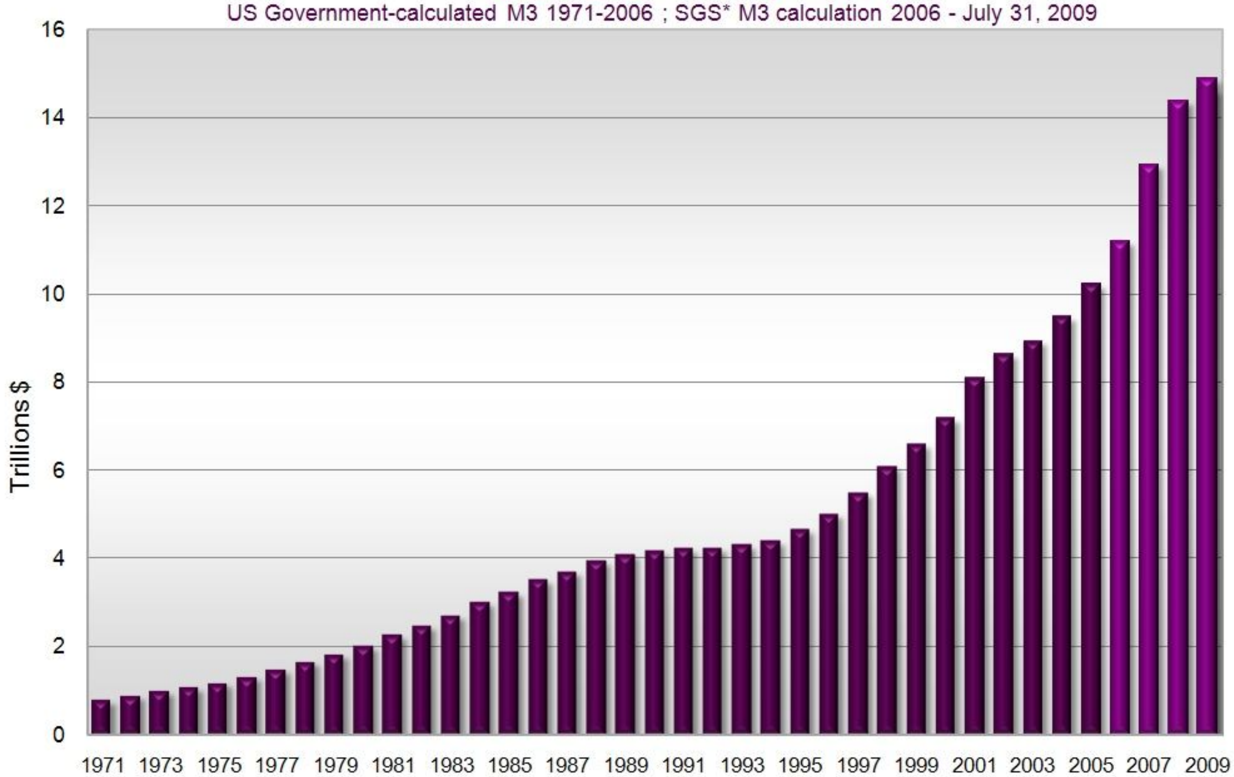
hugely inflationary. Financial assets will continue to lose purchasing power in this kind of environment, but gold and precious metals will hold theirs because they are a proven hedge against an investor's two worst enemies -- inflation and economic turmoil.

In recent years, the US money supply has been growing at an alarming rate. In 2008, despite a slowdown in lending and credit, money supply still grew dramatically with M3 (the broadest measure of money supply) increasing at about 11 percent, as *Figure 2* shows. In 2009 the money supply is still growing at approximately 9 percent on an annualized basis. Over the long term, M3 increases have been the best leading indicators of future increases in the price of goods and services.

Most people think of inflation as a rise in the price of goods and services but in actuality price rises are the effect, not the cause, of inflation. As famed economist Milton Friedman pointed out many years ago, "inflation is always and everywhere the result of an increase in the money supply".
Precious metals are the only currency to own when central bank printing presses are debasing global currencies at unprecedented rates. Because they are a proven store of value, precious metals are likely to be the only asset class that will preserve the purchasing power of your savings as we enter into a prolonged period of '–flation': deflation, stagflation or inflation (one of the latter two being much more likely).

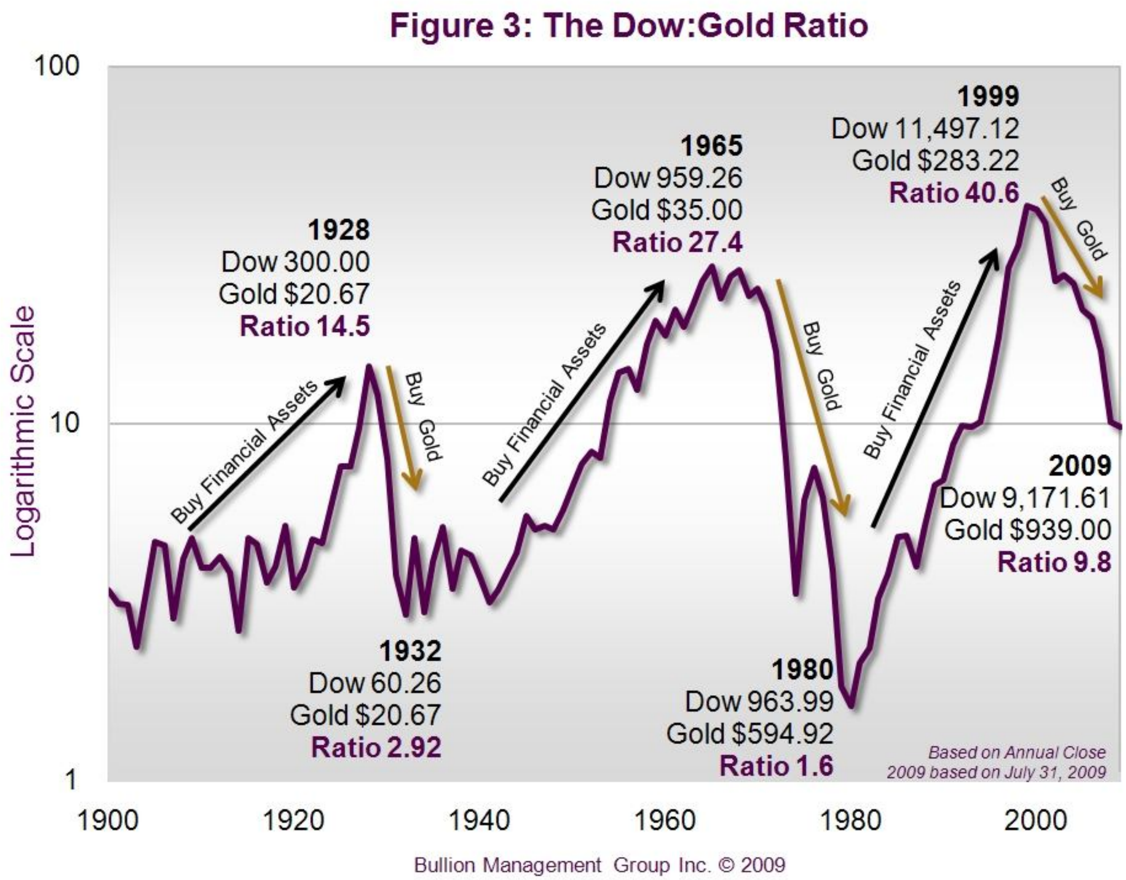
Figure 2: US Money Supply

US Government-calculated M3 1971-2006 ; SGS* M3 calculation 2006 - July 31, 2009



*SGS is Shadow Government Statistics, a private economics firm specializing in calculating US money supply and consumer price inflation figures, using government-supplied data. SGS has calculated the M3 Money Supply figures since the Federal Reserve stopped publishing this figure n 2006.

Bullion Management Group Inc. © Copyright 2009



KEY 3: RIDE THE INVESTMENT CYCLE

A buy and hold strategy might work if it weren't for the existence of cycles that drive bull and bear markets. A good way to understand the investment cycle is to look at what is called the Dow:Gold ratio. The Dow:Gold ratio (*Figure 3)* calculates the number of ounces of physical gold bullion it would take to 'purchase' one share of the Dow Jones during any given time period. When the ratio rises, as it did in the 1920s, 1960s and 1990s, it tells us that portfolios should be overweight stocks. When the ratio slumps, as it did in the 1970s and today, it tells us that portfolios should be overweight precious metals bullion.

The last three major stock market bubbles ended with the Dow:Gold ratio above 18:1, while the last two major bear markets (1932 and 1980) ended with the ratio near 1:1 At the height of the equities bull market in 1999, the Dow:Gold ratio peaked at over 40:1. But now the current ratio is below 10:1 and falling. It is certainly not too late to increase your allocation to gold and precious metals.

Precious metals preserve wealth

Precious metals have successfully preserved wealth for thousands of years because, unlike stocks and bonds and paper currencies, they are not someone else's promise of performance and they are not someone else's liability. Massive credit expansion has put US debt at over $11 trillion, but if the $60 trillion in unfunded pension liabilities and Medicare obligations that the US owes its citizens, actual debt is approaching a staggering 500 percent of GDP.

America's spiralling debt crisis is leading many experts to consider the previously unthinkable: that the US might become the next Argentina, which famously defaulted on its debt ten years ago. To learn more about the debt crisis, visit www.ChrisMartenson.com. Dr. Martenson has created a superbly researched video called the "Crash Course" which explains in layman's terms how massive debt is destroying investors' wealth.

Precious metals are a safe haven

In 2008, stocks lost 30-70 percent of their value, while gold increased about 5 percent in US dollars. But equally significant, in a year of record-setting volatility, gold's volatility was reassuringly low. At its lowest point, gold was only down 14 percent and at its highest it was up 21 percent. Both Goldman Sachs and UBS see the price of gold rising, and UBS expects investment demand for gold to pull the price of silver and platinum up along with it. Citigroup is calling for gold to rise above $2,000.

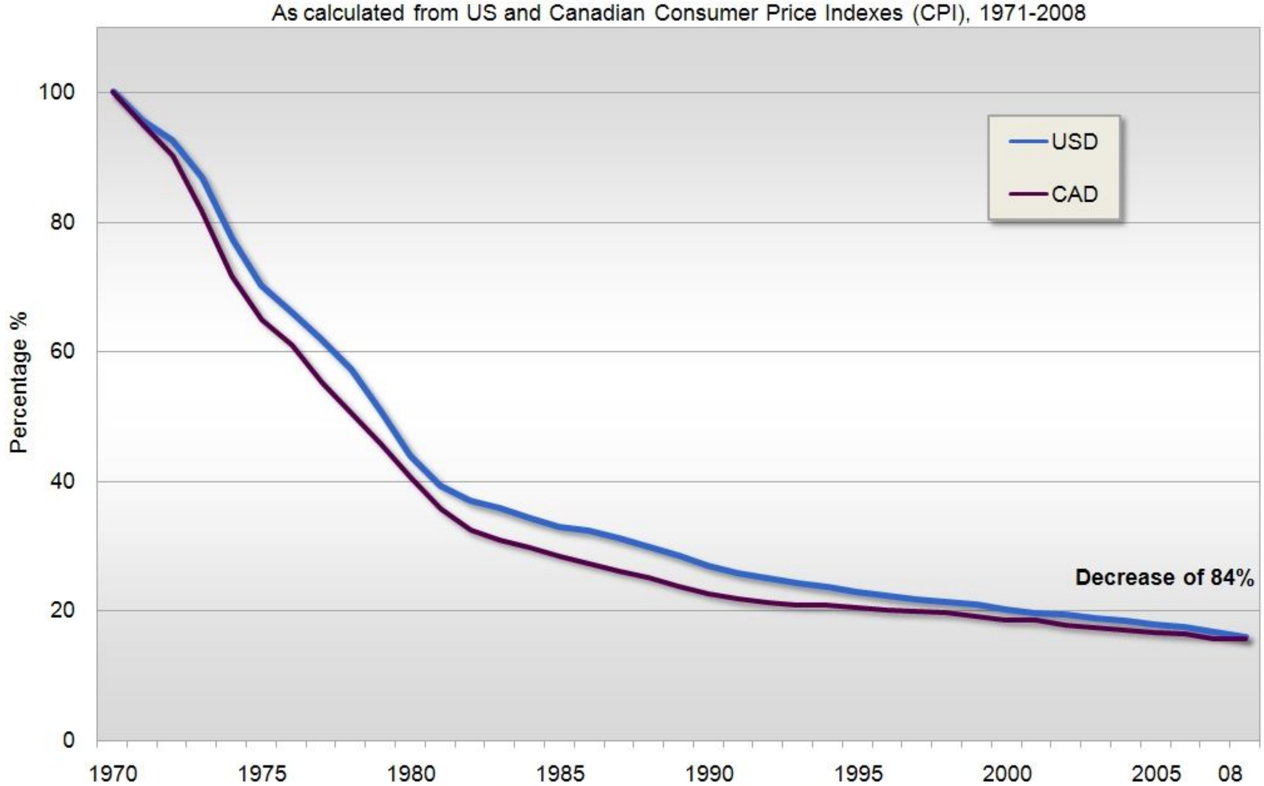
Precious metals protect against depreciating dollars

Since gold and precious metals are priced and traded in US dollars, they surge in value when the US dollar declines. As trillions in new money is printed, the dollar and other currencies will fall precipitously relative to gold. In an environment where the dollar is already weak and other currencies are weaker, investors seeking to preserve and grow their wealth must understand the impact of declining currencies on their portfolios.

Figure 4 shows the Canadian and US dollars have lost approximately 84 percent of their purchasing power since 1970. The world's other

Figure 4: Loss of Purchasing Power

As calculated from US and Canadian Consumer Price Indexes (CPI), 1971-2008



Sources: US Department of Labor, Statistics Canada currencies have fared no better. Not coincidentally, 1971 was the year the link to the gold standard was cut. Only gold, along with its two precious metals brethren – silver and platinum – will hold their value in periods of severe deflation and inflation.

Physical bullion versus proxies

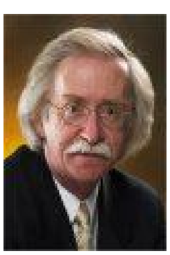
Few investors are aware of all the precious metals investment options available to them. Some precious metals investments such as futures contracts and options are better suited for speculation and a higher tolerance for risk. But certificates, pooled accounts, ETFs and mining stocks also have higher risk. Only physical, bullion stored on a fully allocated, insured basis can guarantee peace of mind because it gives the investor exclusive title to the safest and lowest risk precious metals investment of all.

For absolute security, physical bullion should always be stored in allocated and insured form. If not, investors take the risk that their bullion may be lent out without their knowledge or consent or may not be there at all. Today, buying and storing physical, allocated bullion has never been simpler. You can privately and securely purchase bars of gold, silver and platinum in large bar sizes and have them insured and stored for you at a registered LBMA vault without ever breaking the Chain of Integrity. Visit www.bmgbullionbars.com to learn more or read our BMG Special Reports on how to invest in precious metals at: www.investinpreciousmetals.ca and www.goldmyths.com

It's time to preserve your portfolio's purchasing power

A minimum 10 percent allocation in precious metals is considered adequate in a bull market, but a much larger allocation of 20 percent or more is suggested for protection in a secular bear market. If you have not already done so, now is the time to rethink your investment strategy and preserve your hard-earned wealth. Physical bullion will keep its value regardless of whether the economy is headed for inflation, deflation or hyperinflation.

For the first time in history, the central banks have an unlimited ability to print as much money as they need. Precious metals are the only currency that will survive intact in this environment, because while governments can print infinite amounts of money, they cannot "print" more precious metals. More and more investors and institutions are turning to precious metals, because this secular bear market is expected to last for many years, eating away at investors' hopes and dreams and portfolios along the way. Don't let your portfolio be one of them. Now is the time to make an investment in your future, because the future is precious metals bullion.



__Nick Barisheff__ is President and CEO of Bullion Management Group Inc., a bullion investment company that provides investors with a cost-effective, convenient way to purchase and store physical bullion. Widely recognized in North America as a bullion expert, Barisheff is an author, speaker and financial commentator on bullion and current market trends. For more information on Bullion Management Group Inc., BMG BullionFund and BMG BullionBars visit: www.bmginc.ca.