Matthew Donelan October 19th, 2020

Understanding an Insane World

SCOPE

My intention with this paper is to out line my basic precious metals investment philosophy. I will endeavor to be as succinct as possible while not leaving out any key facts. To keep this short I will not go into detail about any other collapse preparations or any other investment strategies to cope with our rapidly shifting global economy. Furthermore, I am intentionally leaving out the intricacies of the banking, financial, and governmental systems that control modern society for the sake of brevity. The information enclosed in this paper is, to the best of my knowledge and ability, as factual as possible. The opinions are my own. Thank you.

PRECIOUS METALS INVESTMENT PHILOSOPHY

Being a Contrarian

Being a precious metals investor carries with it a stigma that many other types of investors do not have to contend with. Silver and Gold are seen primarily as safe haven assets by the investment community; and not just any safe haven assets, like US dollars or bonds, precious metals are the “break the glass” of safe haven assets. The investors in metals are called all kinds of names like “fringe”, “permabears”, or “kooks” by many in the media and investment communities. They are seen much the same way as short sellers are.

If you tell your friends, family, or financial advisor that you are thinking about buying some silver, they will likely have a negative reaction. Americans have been conditioned their entire lives into believing that the current system is real, permanent, and righteous. You are effectively betting against what they believe. We must think critically about the world around us no matter how scarry it may be. It is up to you to find within yourself the courage to read on and challenge your own views on economics and society. I never want to look into the eyes of someone that relies on me and have to admit to them I could have done more, but didn’t.

Wealth Preservation

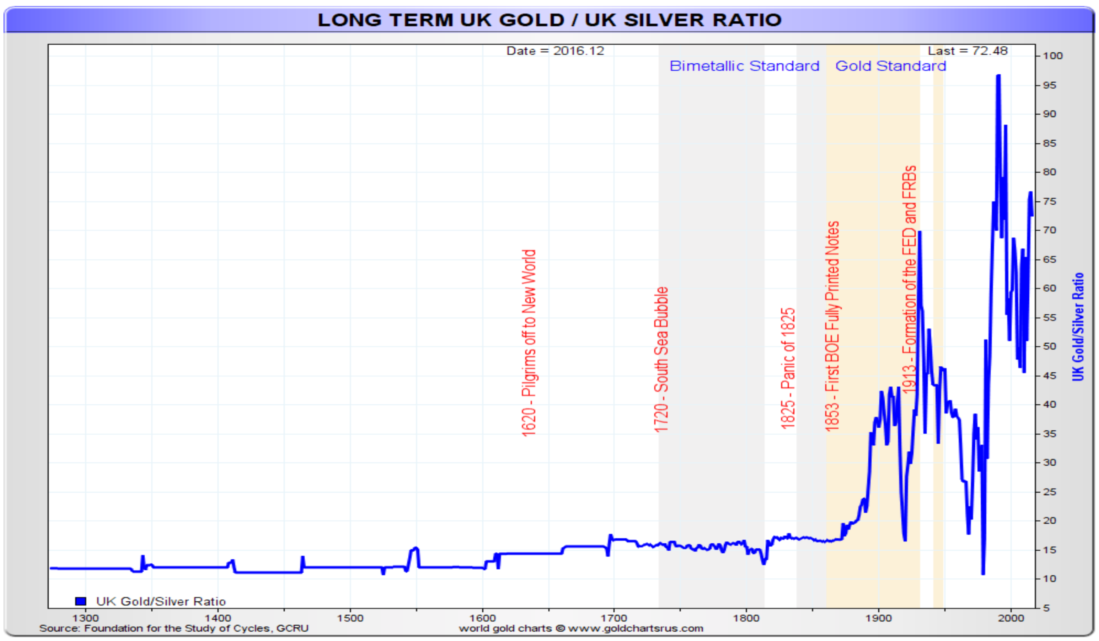
Many people have savings, pensions, and retirement accounts. These accounts are all denominated in US Dollars. Savings accounts hold dollars directly while IRA’s, pensions, social security, etc hold assets like bonds, stocks, or ETF’s. In order to pay out the holder of these accounts the assets must first be sold for an intermediary product, US Dollars. Then you take your USD and purchase whatever you want. The problem here is that as inflation becomes worse, these assets will appreciate giving many people a false belief that they are becoming more wealthy. The real situation is that they are becoming wealthy on paper but when it comes time to cash out and buy real goods in real life their overall purchasing power has gone down. Sure, their wealth *on paper* has doubled but now when they try to cash out they are in a higher tax bracket and the cost of goods and services have gone up.

The average person is becoming poorer decade over decade. This has become obvious and there are many examples that prove this fact. The most simple example is that middle class families required one breadwinner and now require two for the same lifestyle and even that is clearly not enough given the high debt level of the average American.

If you have a significant amount of savings in dollars it is prudent to move that savings into gold or silver as these two assets more or less move with inflation. You may also be able to move your retirement accounts into a precious metals IRA in which you receive real physical gold and silver.

Playing the Ratios

The *Gold to Silver Ratio (GSR)* is the most obvious and most quoted ratio when it comes to precious metal investing. Historically the ratio is somewhere around 1oz of gold to 15oz of silver. The ratio between *silver/gold consumption/loss and mining* is quite important as well.



Other ratios such as the cost of the *median family home priced in gold* or the *price of the Dow in gold* are useful metrics for an investor. The main ratio that most people think about is the *ratio of dollars to gold and silver*. This ratio is highly misleading and will become even more misleading as time goes on. It is unreasonable to compare the price of a real physical good that has a finite supply to an abstract central bank created unlimited product. Many people will say that the price of gold will be going to $50,000 or some other huge number and at that point they will cash out. This is a flawed way of looking at reality, the intelligent investor will look at how much their **precious metals are worth in terms of real purchasing power**.

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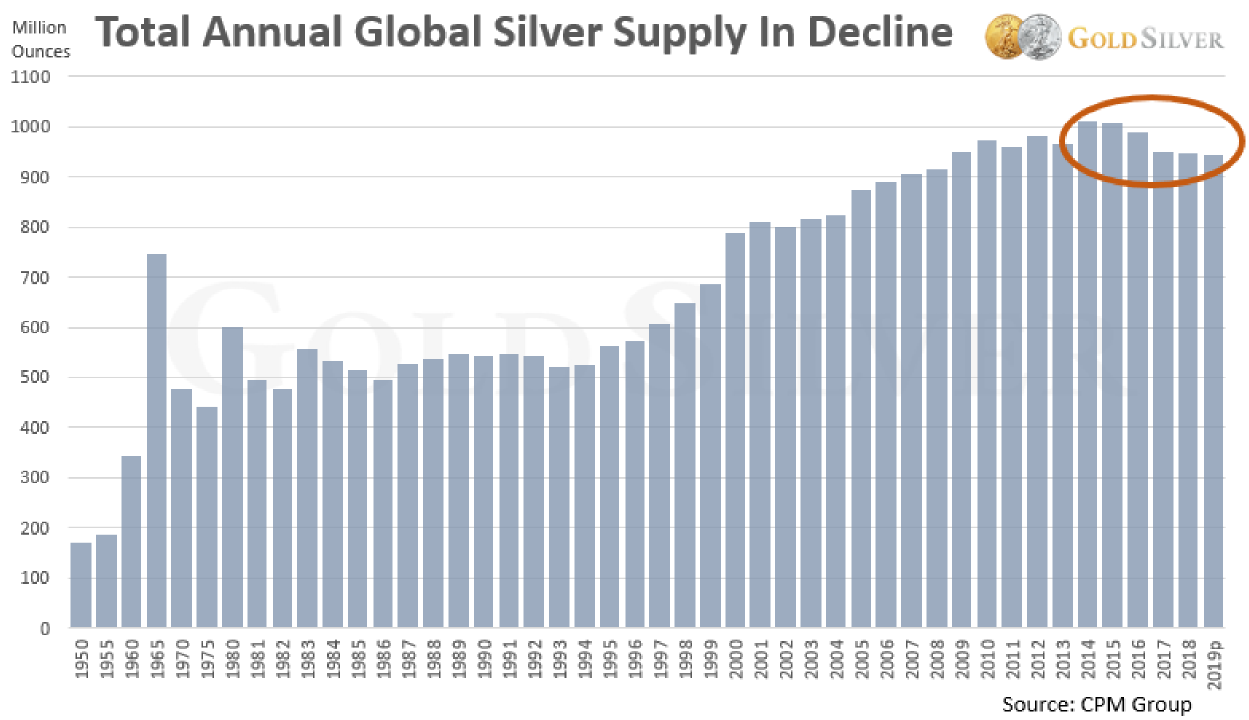
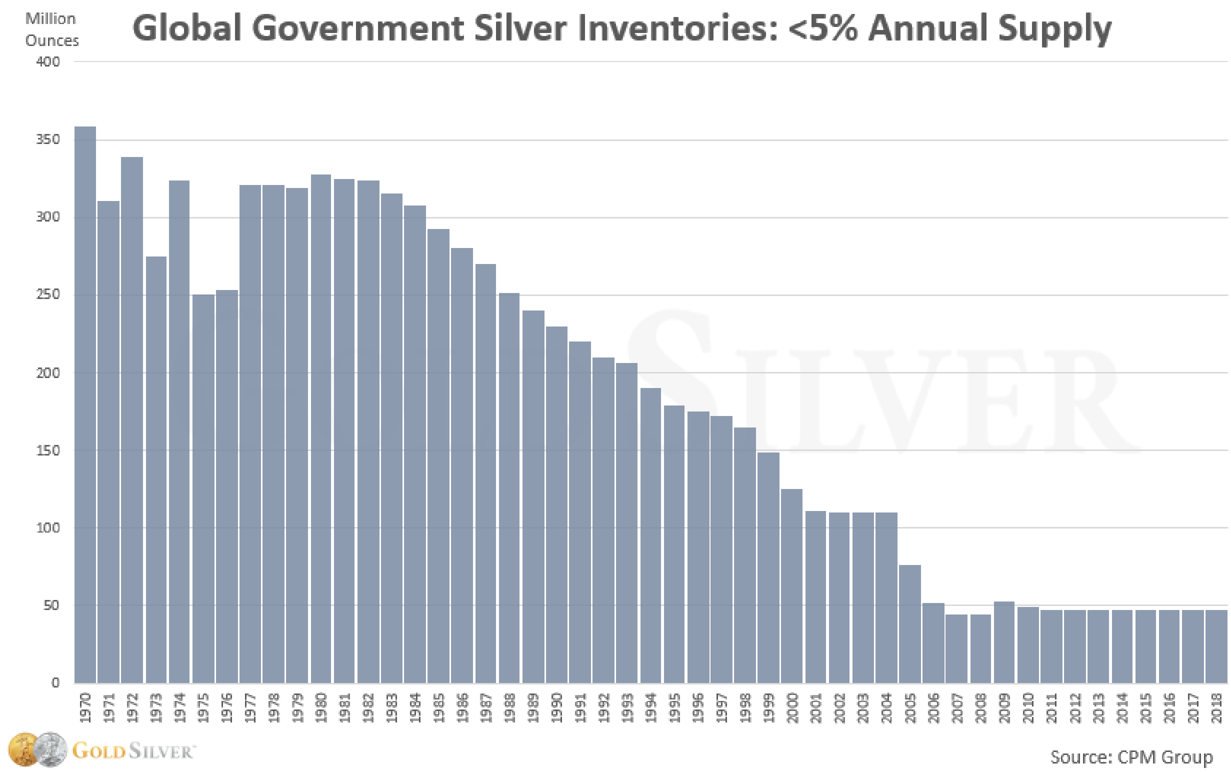




The Industrial Case for Silver

The above three charts draw a picture that is fairly simple to understand knowing some background information. Due to price suppression of silver through paper short contract market manipulation the spot price of silver has been suppressed, arguably for the last 100 years or so. This has caused a disincentive for investors to start new mines and find new deposits of silver. Many silver mines have either slowed or stopped production all together because their cost of production is above spot price. This situation will be further exacerbated as the global economy slows, industrial metal demand will be reduced, meaning industrial metals mining will be reduced. This is a big deal because roughly 61% of global silver production is produced as a byproduct of zinc, copper, and lead mining. Opening new mines and reopening old ones takes around 5 years so this situation will take much time to correct after price starts to reflect reality.

Many governments will likely initiate new green energy initiatives as a way out of the current global recession. These initiatives will require an absolutely massive amount of silver and copper. As the second chart shows silver demand is already at all time highs. Global silver reserves are virtually non existent, as we can see in the third chart.

In summation, we have a supply crunch at the same time demand will be higher than ever. Moreover, there is no horde of physical silver that can be dumped into the open markets to satiate demand. Only considering the above facts, I believe the industrial case for silver price increase is very strong. If the industrial case was the only factor worth considering, I believe that silver would still far outperform all other assets over the coming decades.

Understanding the Macro Economic Situation

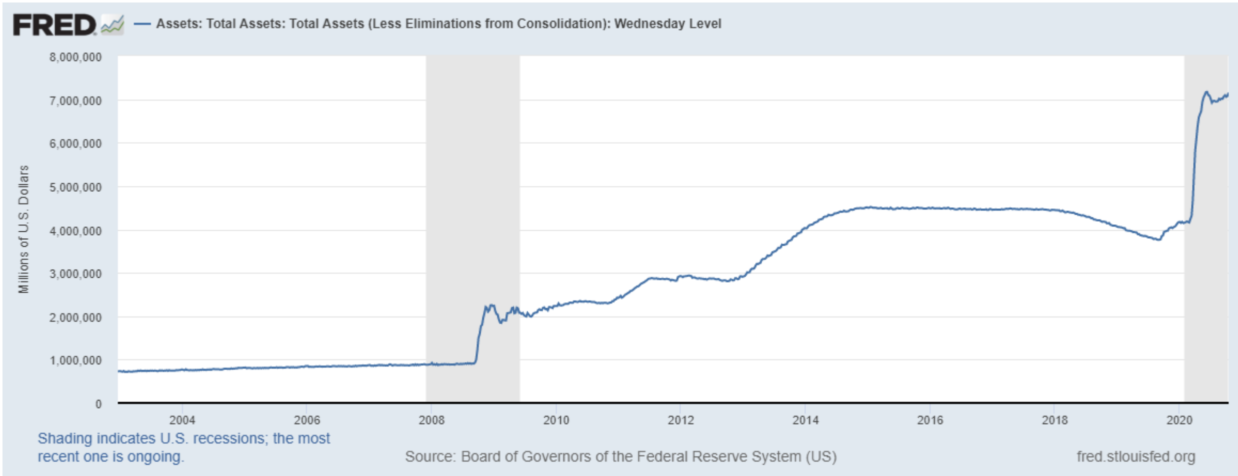
We as a nation are in the final phases of our experiment that started in 1789. No longer a constitutional republic, we fully embraced democracy, from there the constitution was shredded and in its place rose our oligarchical empire. We produce nothing and import what we need to maintain our standard of living. To do this, we use the good name and power that the dollar had, and our strong military forces to bully every other county on earth. All good things must come to an end, just as Rome did 1800 years ago, we are destroying the value of our money and living off of our past military glories. We are selling our children's souls for a few scraps of what once was and can never return.

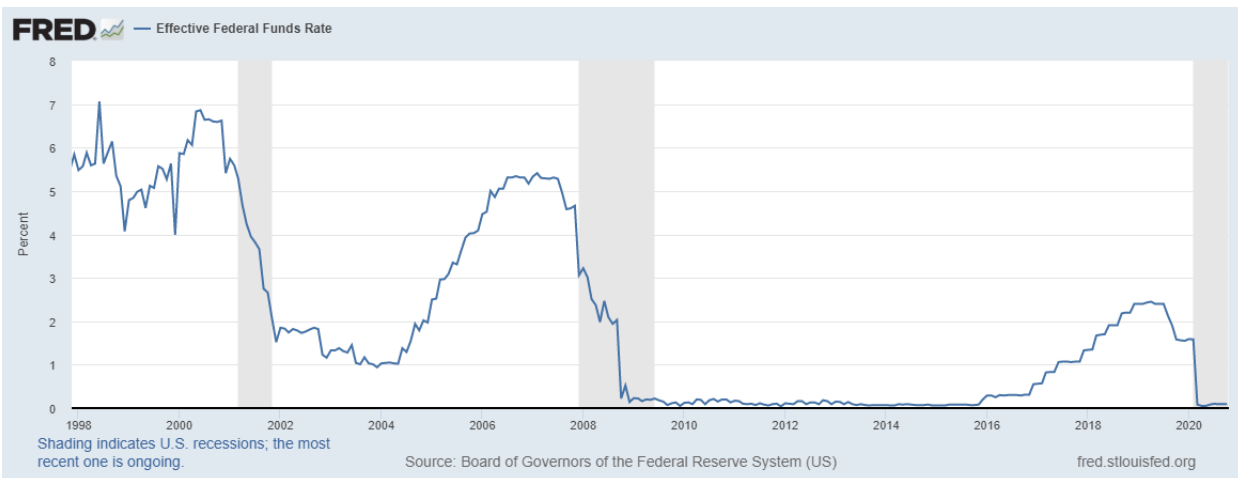
Leaving out the extreme risks associated with a government rapidly losing credibility and society losing any sense of moral fiber, other considerations must be made when it comes to wealth growth and preservation. Our unfunded liabilities are absolutely massive. So much has been promised to so many people in the future. Looking at the unfunded liabilities strictly in their dollar values is not representative of reality. You have to imagine that those pensions and social security and retirement accounts represent real products in the future. The deficit represents the gap between what we produce and what we must borrow to provide. There aren't enough real things in the world to satisfy all the future demand that these retirements represent, therefore there will be an absolutely massive amount of USD chasing after a limited supply of real goods. As the goods increase in value, dollars will have to lose value.

Alan Greenspan, FED Chairman, said the following in 2005:

"I believe that we should maintain the principles of Social Security, but I think the existing structure is not working. Until we construct a system that creates the savings that are required to build the REAL assets, so that the retirees have REAL goods and services. We don't have a system that is working. We have one that basically moves cash around and we can guarantee cash benefits as far out and whatever size you like, but we cannot guarantee their purchasing power."

The Following graphs illustrate the Federal Reserve's reaction to the issues facing our economy.





The first graph represents the Federal Reserve's balance sheet. There are many takeaways from this but for our purposes we will only consider a couple.

First, the balance sheet is simply a reflection of assets that the Federal Reserve has accumulated into its investment portfolio. In a normal investment portfolio, the assets are there to generate a profit, but not for the FED. The assets on its balance sheet primarily consist of junk corporate bonds, ETF's that hold junk bonds, and low return government debt. As you can see plainly the FED accumulated much during and just after the 2008 financial crisis through its QE 1, 2, and 3 programs. During QE the FED injected currency into the system through monthly purchases of various assets. After this period of quantitative easing(QE) and during the later parts of Obama's presidency, the FED held rates at 0% as is shown in the second chart. Ben Bernanke, FED Chairman during the crisis, promised that this was only a temporary emergency measure. He told congress that the FED would stabilize the system and when the system was stable it would unwind its balance sheet. Through 2016 to 2018 the FED did just that, they "normalized" their balance sheet by selling some of the junk they had purchased during QE into the markets. *Note* *how they were only able to unload a very small amount of their balance sheet before having to reverse course.*

This drove interest rates up because the FED doesn't just declare interest rates, they must go into the markets and move the rate by force, either up or down. Interest rates on the 10 year US government bond reached over 3.25% in October 2018. I remember vividly watching the markets every single day and seeing that moment when the trading seemed to shift ever so slightly. Over the following days and weeks unfolded the most massive series of crashes and recoveries day in and day out that one could imagine. Only through massive daily cash injections, the fed was able to stabilize the markets and bring us back from the cliff. We were really on the knife edge of Hyper Deflation for some time. This would have frozen the financial system instantly; modern society globally would have come down in just a couple of days. We were only two hours away from this happening in 2008 and it nearly happened in 2018.

The graph below shows the Dow Jones reaching a peak in early 2018 trading in a rather tumultuous, but narrow, 2000 point spread until the beginning of October when it began a series of incredibly violent ups and downs, often hitting safety breakers that halted trading during the days.

Following the crashes in October, November, and December the Fed injected hundreds of billions of dollars a day and on one day a trillion dollars to stabilize the system. They did this through a series of incredibly complex daily asset repurchases with the biggest banks. These repurchases are not reflected on the balance sheet due to some very sneaky accounting practices and possibly(probably) very illegal dark pool buying. There is evidence of this activity but that is far out of the scope of this paper to discuss. These repurchases gave American banks short and medium term liquidity.

Throughout 2019 and into early 2020 a massive global liquidity scramble began. All of the dollars that the FED drew out of the global dollar pool raising rates from 2016 to 2018 caught up with them culminating in the crisis of 2018-2020. During the entirety of 2019, the FED lowered interest rates by injecting cash into the system. In March 2020, after being stopped at the 0% bound and running out of discreet options the system began crashing again just as it did in October 2018, only this time the same problems were magnified. The crash was far worse, again we were on the brink of everything locking up.

Exhausting all other options, the FED began overt support of the markets, full on QE4, only this time to the tune of $1 trillion a month in direct asset purchases. *QE 3 was only $40 billion a month.* At the same time the US government began direct stimulus of the economy claiming the coronavirus had caused these problems. The FED traded freshly printed dollars for US government bonds to facilitate this stimulus.

As I have attempted to lay out for you, the FED actions in response to the 2008 crisis has directly caused the current crisis we face. Corona virus was simply a VERY conveniently timed scapegoat for what is really going on. The main point here is that there will be no true V shaped recovery or return to the economy we had a year ago. That was Federal Reserve smoke and mirrors and no matter how high the stock market goes or how good things look on paper, our economy will not recover without serious(read *impossible*) reforms to our entire system of finance and government. Moreover, many of the problems present in the system stem back over 100 years, thinking that any one in charge is capable of fixing things without real pain for millions of people is naive. There is a butcher's bill owed for the mistakes we have made.

The Future

There are only two foreseeable paths out of this crisis:

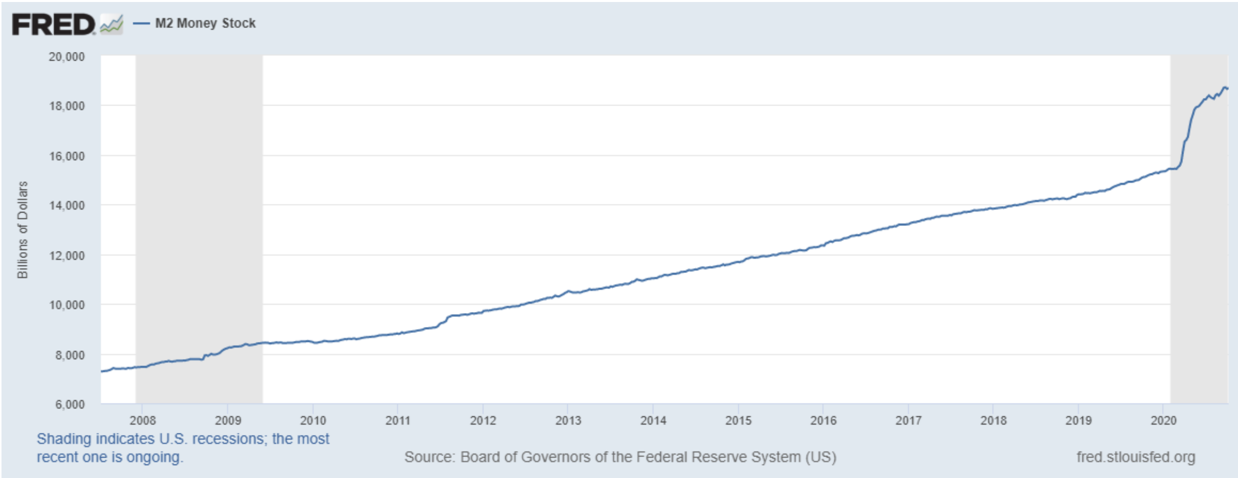
Hyper Deflation, the credit markets freeze, bank runs, food runs out, two days later electricity quits and doesn't come back on, MAD MAX. Basically what happened to the Western Roman Empire at the very end.

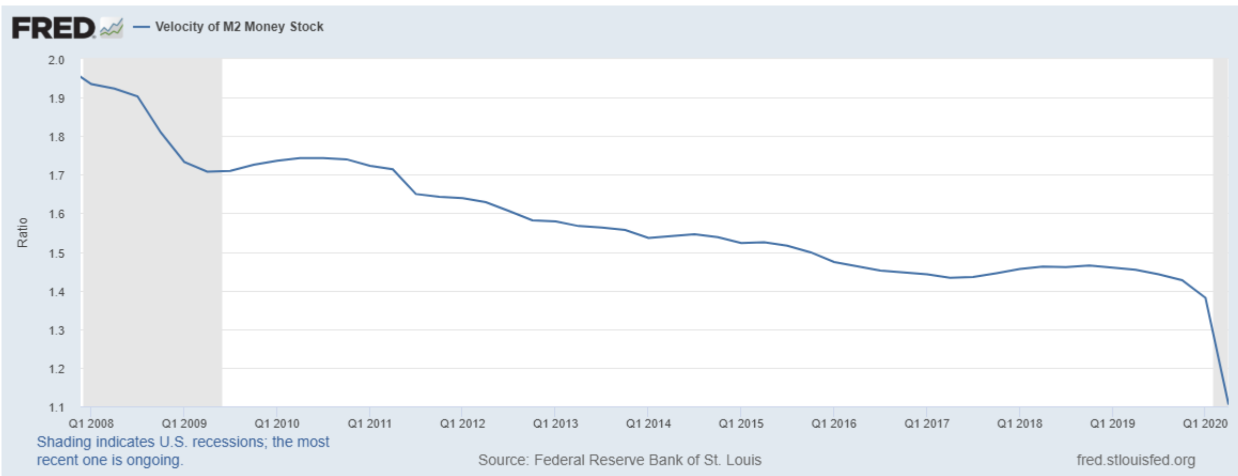
Hyper Inflation, on a global scale. This has never happened before and so no one really knows how things will play out. Currencies all over the world lose pretty much all value, trade all but halts, rolling blackouts, food riots, massive social unrest, military crackdowns, political and racial balkanization as central powers lose control. We would look something like Venezuela, Weimar, or Zimbabwe except in our case no one will be coming with container ships and jets full of food and medicine.

Either example sounds quite bleak, however rough we will have it, we knew it would happen before it did. Most people out there will wake up one morning and be blindsided, they will rush to the bank demanding whatever they can get in cash, and then head to the supermarket where they will be lucky to get a bag of dog food. It is easy to say this could never happen but it has happened a thousand times before to people in a much less risky position than us.

Making Decisions Knowing All This

The worst nightmare for the FED is deflation, knowing this we can take educated guesses as to their next moves. Below is the money velocity chart, as you can see, cash in the system is not moving. Basically, the heart is not beating, and we will enter hyper deflation. The system is currently, today, right now, locking up. We could wake up tomorrow to a different world. All that money they injected isn't doing a damn thing except covering up the symptoms temporarily.





As you can see above, the currency the FED injected did not result in an increase in velocity. The system that has worked for a century has broken.

The FED has to jump start the heart. The following are some things they are going to try.

First, The Banking for All Act, is in the initial phases of becoming a law. The main idea of this act is that "*Member banks shall open and maintain pass-through digital dollar wallets for all persons*". This lays the ground work for the FED to directly inject digital dollars into each American's account.

Second, the International Monetary Fund (IMF), lays out in its papers the idea of "cash in the wild", this refers to dollars out there that are not trackable. These dollars will be able to compete with digital currencies for the following reason: As the FED injects digital dollars, more digital dollars will be chasing fewer real goods causing price inflation and an increase in money velocity. Many of these digital dollars may be used to simply pay off debts or save for uncertain times. Built into this new digital wallet system is a timer, that if necessary, the FED can use to control money velocity and other statistics at will. This will work in the following way: You get $1000 each Friday and must spend it or lose it within 4 weeks, if money velocity is too low the FED can shorten this time to 3 weeks and so on. Your digital money will literally expire. They will also be able to use this system to control what you spend your digital money on. Just imagine what they will do with these new powers.

Back to cash in the wild. The digital money is constantly losing value but real cash dollars you can hold in your hand won't because now they are becoming scarce and are still seen as real money by most people. At least this is according to the IMF. They cannot just confiscate all physical dollars because the shock to the system is unquantifiable. To combat this separate market and compete with cash they are considering physical USD cash with a chip imbedded in each one that you will scan to use. Much like how they slowly phased out silver coinage after 1964, they will phase out unchipped dollars rather than overtly confiscating each one. Maybe they will claim it is to track the spread of covid, who knows… These chipped dollars will work the same way as the digital money, they will be worth $1 on Friday and 95 cents on Saturday for example.

Third, negative interest rates. Some central bank systems are already doing this, and it is not too dissimilar to the two ways I have already listed above. Basically, you, the consumer gets paid to borrow money, but you must also pay to save money. The FED is locked at 0% interest, every time there is a crisis, they lower interest rates. We are now at the lowest interest rates in all of human history, 0%. They have never been lower than this, ever. As you can see this is not low enough to fix the economy and so negative is the only option they have left.

These solutions they will put forward will fail. Sure they may be able to kick the can down the road for another 5-10 years or longer but eventually reality will catch up with our broken global economic system. Our best, and as I see it only option, is to position ourselves for this eventuality. People who try to time this collapse will be like the people trying to time getting to the last lifeboat on the Titanic. There are not enough lifeboats to go around. We saw how quick the toilet paper ran out and that was only half the population panicking about one single item. Imagine if everyone panicked at the same time about a real crisis.

Getting into specific preparations for what is about to happen is out of the scope of this short paper. Above all else, pray every day, embrace Jesus and take care of your soul first. Second, attempt to develop a close community with people like you that you can truly love and who can truly love you. Third consists of physical preparedness consisting of food, water, means of self defense, land far from town, etc. Fourth and final is financial protection, society will return, having silver and gold will ensure, at the very least, an easier go for you than people with only a digital illusion of wealth. Maslow's Hierarchy of needs is useful for organizing your preparedness priorities.

In closing, stripping away all physical things, you are your best asset. Get close to God. Learn critical thinking and practice it as much as possible. Learn to question what you see on the news, question the government, question what your friends tell you. As you walk down the aisle at the store or drive around town, think about how those people get money to survive. Do they produce any of the products people really need, do they provide a real necessary service if the government didn't require their existence? If the government money quit flowing or became virtually worthless what would happen? Now imagine that this is happening in every country all over the world at the same time.

People are fallible, what is happening now is an experiment on a global scale and no one knows what will happen. **All we do know is that this won't last forever.**

Definitions

Physical-Real silver or gold you hold in your hand. If you don't hold it you don't own it.

Paper-Silver or gold in a vault somewhere, silver held by ETF's, or paper contracts on silver. Avoid like the plague.

Spot Price-This refers to the paper contract price on silver and gold in the futures markets.

Premium-This is the price added onto spot price. Typically 2-5$/Troy ounce.

Troy Ounce vs Ounce-Troy ounce=31.104grams, Regular ounce=28grams

Poured Silver-Most Precious metal products are stamped but some are poured into a mold and polished. These usually carry a higher premium but can be quite cool.

Inflation-An increase in the money supply.

Deflation-A decrease in the money supply.

Price Inflation and Price Deflation-99% of the time when people say inflation or deflation, they are referring to prices, not the supply of currency. The true meaning of the words has been twisted over time.

Money-money is, in reality, a real commodity that is used as a medium of exchange. It must satisfy basic requirements to be considered money. Currency can be backed by money, such as gold backing dollars. Money can not be backed by currency, since currency is just a piece of paper.

Currency-Currency can be digital or physical but is simply a representation of real goods or services, however it is infinite and therefore is almost always losing value.

INVESTMENT PRODUCTS-SILVER

Less than One Troy Ounce Denominations

Junk Silver

Junk Silver is a broad term describing silver coinage that contains anywhere between 35-95% silver. Some of these coins are 1964 and before US Dimes, Quarters, Half Dollars, and Dollars. These contain 90% silver. 1$ face value of dimes, quarters, and half dollars =.715 troy ounces of silver. 1$ coins contain .7736 troy ounces of silver. Some nickels during WW2 contain 40% silver. You should research exactly what you are buying before you purchase any of these items just to make sure. Junk silver is absolutely fantastic, it carries low premiums, is widely recognized, is durable, and is highly sought after. It provides a cheap way to purchase small denominations of silver.

Sterling Silver

Sterling Silver is also commonly called .925 silver as it typically contains 92.5% silver and 7.5% copper calculated by weight. Sometimes zink or nickel is used in addition or substitution of copper. Sterling silverware is the only kind of sterling I would look at investing in. The premiums are usually reasonable and sterling is relatively available for investment. It is, however, not incredibly well recognized so resale may be difficult.

Fractional Silver Coins and Bars

1/10, 1/5, ½ troy ounce silver coins and bars of high purity(.999 or finer) are also sold but premiums are typically incredibly high. These are in no way worth it for investment purposes.

One Troy Ounce

Bars and Rounds

This refers to generic fine silver products. These carry a low premium and are good cheap investments.

Coins

These are official rounds put out by government mints, they include US Silver Eagles and Canadian Maple Leaves. These generally make up the majority of a well ran silver portfolio as they are widely recognized, trusted, and sought after. Premiums can be high on these products but are generally worth it.

Graded, Special, and Proof Silver

Collectors items. Some deals out there but in general they are just a good way to burn money. Some special silver products such as limited production mint items are cool to have and can be worth the premium.

2 Ounce and Larger

2 Ounce

Usually carries a high premium but sometimes deals can be found.

5 Ounce

Rounds in this size usually carry a high premium but not always. Bars are generally inexpensive and worth accumulating at this level.

10 Ounce, 20 Ounce

Good investment silver with low premium.

Kilo Bars

The largest size silver bar I would buy. Cheap premiums. Not very tradeable. 32.15 troy ounces.

50 Ounce, 100 Ounce

I cannot recommend buying in this size. 100-ounce bars might be sound cool to have but once you get it you realize how impractical resale will be if you needed to sell it. Most people can't afford to buy something like this in a crisis. Premiums are incredibly low.

INVESTMENT PRODUCTS-GOLD

In general, the rules that applied to Silver apply to Gold.

Light Weight Gold Products

Gold items less than 1 Ounce sometimes carry a steep premium but are usually reasonable investments on the whole. It is good to be careful when purchasing gold in general.

Gold Coins

Most gold coin and some round products are of lower purity than .9999 fine grade. These are fantastic investment products but you must consider that when it comes time to sell gold many people will not be able to afford to buy it from you. Premiums are typically low.

Gold Bars

They are cool. Gold is cool stuff.

Gold Jewelry

Gold and silver jewelry is not worth investing in purely for that purpose. They do, however, provide a limited amount of plausible deniability to any authorities demanding you hand over your “grandma’s ear rings”. It is also easier to cross borders with jewelry rather than with bars of metal if you are planning on doing something like that for whatever reason.

INVESTMENT PRODUCTS-PLATINUM, PALADIUM, RHODIUM, TITANIUM, COPPER

As a general rule, these items are mainly influenced by industrial demand and not monetary and safe haven demand. Caution and a knowledge of the economy, markets, regulations, etc. are recommended to be successful with these items. Furthermore, these markets have generally been trending in an upward direction for the last decade and are likely topping out at this point. Nominal increases are likely as they will rise with inflation, but real value will likely decrease as industrial demand collapses.

WHERE TO BUY

Local coin shops are good places to start, you can look at the metal in person and pick what you like. Buy in cash so the government won't know.

Provident Metals and JM Bullion are both places I have ordered from on the internet. Quick turn around and good customer service. Prices are fine and selection is wide. However, these online stores are the first places to run out in a rush.

First Majestic Silver and Scottsdale Mint are also good places to buy from. Selection is very limited but prices are superb.

Mene is a good place to buy jewelry from, high purity and reasonable premium over spot for jewelry. Buying jewelry is *wife approved*.

EBAY, wide selection and prices are decent. Most people are afraid to shop here and that is a good thing for someone intelligent. When everyone else is out of stock, EBAY will still have some silver and gold for longer. Prices will be higher but if you can't get it anywhere else you pay the price. You must be very careful as there are a lot of flim flammers. I have never had an issue getting real silver but your milage may vary. Test whatever you receive if you are not sure.

I purchase from "scottsdalesilver" and "mbarrcoins" on Ebay. Both are fantastic, mbarrcoins auctions are great! I mainly buy silver and gold now on Ebay mbarrcoins auctions.

Craigslist, DO NOT BUY FROM HERE. I can think of no good reason to buy from Craigslist, or Facebook market, or anything like these. If the big stores are out and EBAY is out then there are bigger problems than adding to your stockpile of precious metals.