

A short course in silver investing

Louis E. Carabini, President of the Pacific Coast Coin Exchange, answers 29 questions about investing in silver



Today, interest in silver is more active than perhaps ever before in history—and prices for the metal are rising sharply. Since 1971, the price of silver has risen with little interruption; it has more than doubled and has reached historic highs.

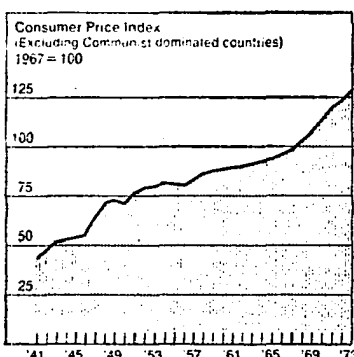
Since silver has been with us for thousands of years, it's natural to ask: Why this sudden spurt of interest? And why is the price rising so dramatically?

This "Short Course in Silver Investing" aims to answer these, and many other questions often asked by investors. I hope it will be helpful to you.

Louis E. Carabini
Louis E. Carabini, President

crease of only 10.8%, making up less than one quarter the increase in the cost of living.

Bonds, savings accounts, and Certificates of Deposit yield interest. However, the rate of interest, after taxes, often does not keep pace with the rate of inflation, resulting in a net loss. And generally speaking, the worse the inflation, the greater your loss.



Real estate can be an attractive inflation hedge. However, it requires maintenance and is subject to taxes. Furthermore, each parcel of real estate is unique unto-itself, so there's no way of knowing how much it's worth.

But worst of all, real estate is one of the most illiquid of investments. It can take months, a year, or more to find a buyer for your particular piece of property. Thus, if you need money fast, you may have to sell at a steep discount.

Silver. For nearly 2,600 years, since the first silver coinage, people have turned to silver for financial protection because silver generally performs well in bad times. Why is silver such an effective hedge? Here are 2 reasons:

First, silver is desired around the world because it is beautiful, useful, durable, portable and divisible. For these reasons, silver serves as a store of value.

Second, silver is scarce. The supply of silver cannot be inflated by bureaucratic edict; it must be laboriously mined and refined.

That silver is a reliable hedge against inflation is an historical fact proven time and again in both mild and runaway inflations. For example, during Chile's decade of inflation, the price of silver increased more than 1,500 times. During Germany's nightmarish runaway inflation following World War I, the price of silver increased more than 91 billion times. And during the 33 years of our current inflation, the price of silver has increased more than six-fold; showing that the tendency of silver to maintain and even increase its value during inflation is as true today as ever in history.

3. How would a recession or depression affect silver?

A recession or depression would, almost certainly, cut silver consumption. However, it would also cut silver production because the base metal mining industry, from which the major share of silver is derived, is quite re-

sponsive to the economy. The combined effect would probably be a narrowing of the deficit between new production and consumption for a short period. Nevertheless, during both recession years of 1966 and '70, the deficit remained over 100 million ounces.

4. If the government's proposed sale of 117 million ounces of silver took place, what would the effect be?

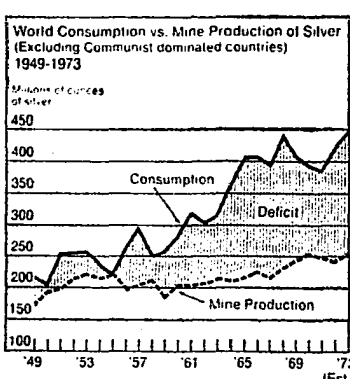
It's our belief that the Congressional delegation of the silver mining states will continue their successful resistance against this bill. But if it were passed, we wouldn't expect it to have a significant effect on long-term silver prices, since 117 million ounces is enough to satisfy the world demand for silver for only about 3 months.

5. How well have silver investors done?

The great majority of people who invested in silver bullion or silver coins during the past two years—and maintained their position—are enjoying excellent profits.

During the past two years, between December 31, 1971 and December 31, 1973, the prices of silver bullion and silver coins increased better than 80%.

Naturally, we can't guarantee profits, but had you purchased silver coins on margin from the Pacific Coast Coin Exchange on December 31, 1971, and maintained your position through December 31, 1973, you would have earned over 260% profit, after deducting all charges.



6. What are the main avenues for investing in silver, and what are the advantages and disadvantages of each?

There are four main ways to invest in silver: shares in silver mining companies; silver futures contracts; silver bullion; and silver coins. Shares in a silver mining company do not represent ownership of silver. They are securities representing ownership of part of a company. When you buy stock, you buy the company's management, its distribution, marketing, machinery, production costs, labor-union relations, and so forth. Most silver shares have performed well, but a wide variety of factors will affect your investment, not just the price of silver.

Silver futures contracts are primarily for people who welcome extremely high-leveraged,

short-term situations. They are for people who are willing to spend a great deal of time studying the silver situation; staying on top of it every day.

Bars of silver bullion are generally the most economical way to invest in pure silver. As such, they are a fine hedge against inflation and offer a good opportunity for capital gains. However, they lack some of the advantages of silver coins.

Bars are not as convenient to handle or carry as are coins. All silver bars sold by the Pacific Coast Coin Exchange are guaranteed to assay at least .999 pure, but unlike coins, there are different refiners who manufacture bars of different purity. An assay is often necessary to determine actual purity.

Silver coins lack many of the disadvantages of the other silver investments, and offer many benefits no other form of silver can offer. U.S. silver coins have a legally fixed minimum value—the face value—beneath which they cannot fall. In a monetary crisis, silver coins can be spent. They are convenient to store and can be lawfully melted for their bullion value.

Unlike silver bars, all U.S. silver coins are of a known fineness and weight. It is as if each coin were a tiny ingot of silver, hallmarked by the U.S. government. For example: dimes, quarters, and half-dollars contain .72 ounces of silver per \$1 face value.

For all these reasons, silver coins are easier to resell and finance than bullion. Carrying charges on silver coins are generally lower than the charges on bullion.

7. How do I invest in silver coins?

You can buy United States silver coins in commodity units called "bags." Each bag contains 720 ounces of silver and has a face value of \$1,000.

The current market price of a bag is about \$2,500, but you need invest only about \$600 per bag. The current maintenance rate on the unpaid balance is 9½% per year simple. Storage charges are \$10 per year per bag; and there is a 2% brokerage fee to buy and 2% to sell.

You can buy thousand ounce bars of .999 fine silver on similar terms.

8. Must I have funds in my account before investing?

No. To order, simply telephone a broker at the Pacific Coast Coin Exchange office nearest you. The broker will explain the terms for purchase; open an account for you; and confirm your order at our current price.

Your payment must be in the mail within 24 hours.

9. Is a margin call possible?

If the equity in your position fell below the minimum listed in our informational booklets, we would make a margin call. So far we have never made one in silver coins.

10. When I want to take possession of my coins, what do I do, and how long does it take?

To take physical possession of the coins, notify your broker who will tell you the balance due, including accrued maintenance (if any) and

1. Why are so many investors now turning to silver?

There are two main reasons. The first is that we're living in an era of worldwide inflation. People throughout the world are losing confidence in the ability of governments to check inflation. And when that happens, they seek the security of precious metals such as silver, rather than paper money.

The second reason is that silver—like many other natural resources—is in short supply. Indeed, for the past 23 years, silver consumption has exceeded new production. Since 1960, the gap has exceeded 100 million ounces annually. And the gap has been growing despite increasing prices. So in 1971, it was 138.4 million ounces. In 1972, the gap widened to 179.5 million. Indications are that in 1973 the gap may have reached 200 million ounces.

One doesn't need a crystal ball to see that above-ground supplies of silver are beginning to run out and that a world-wide shortage is developing. With common stocks doing so poorly, many investors are leaving the stock market and turning to silver for capital gains.

2. How does silver compare with stocks, bonds, and real estate during inflationary periods?

Common stocks and mutual funds are affected unevenly by inflation—inflation helps some companies to prosper; others to fail. As a consequence, you must exercise considerable selectivity when investing—and even then you may not keep up with inflation. For instance, over the past 10 years, the "blue-chip" Dow Jones Industrial Average has had a net in-

storage fee. Your coins will be ready for pick-up or shipping within 5 banking days after your check clears.

U.S. silver coins may be picked up from any of our 10 depositories in the United States, Canada and Switzerland. U.S. silver coins are delivered from our California and New York depositories. Deliveries are usually made by air to the airport of your choice.

11. How do you determine the price?

Four factors affect our base price for silver coins: (a) the supply and demand for coins at PCCE; (b) the price of silver coins on the New York Mercantile Exchange (NYME); (c) the New York Comex price for silver bullion; (d) the difference in the price of futures contracts between distant and close delivery months. The base price is quoted to our clients for both their purchases and sales.

Generally, there is not a one-to-one relationship between the prices of different dealers and exchanges. In broad terms, the prices tend to—but do not always—move in concert with one another.

12. What's the "premium" on a bag of silver coins, and how is it calculated?

The "premium" is an indicator showing the relationship between the current market price of a bag and its bullion value. It's calculated as the difference between the market value of a bag and its bullion value, computed as a percentage. To wit:

A bag contains 720 ounces of silver, so its bullion value is 720 times the spot price (usually N.Y. but sometimes London or Chicago) of silver. Then to get the premium, subtract the bullion value from the market value; multiply that by 100 and divide the result by the bullion value.

The premium may be positive or negative, and varies from day to day. For example, in 1973 it centered at about +3% and moved about 7% from there.

13. How does your market differ from the futures market?

Our market is generally more flexible than the futures market. Our minimum purchase is less. We have no minimum number of bags for reorders and sales. You can take delivery from us, at any time, of all or any portion of your holdings. We'll arrange delivery to you anywhere in the world.

14. Why do different brokers have different prices?

Prices may vary from source to source because each may experience and evaluate different supply-demand forces; operate during different hours; and analyze market conditions differently.

This is analogous to the situation in silver bullion, where the commodity market prices in London, New York, and Chicago normally vary from one another, too. Indeed, in most any market lacking price-fixing agreements, you'll find a similar diversity of prices.

15. Where can I find the daily prices of silver and silver coins?

You may call any of our offices during normal working hours. A 24-hour toll-free number is also available to our clients. You can follow market trends by watching commodity market prices which are published in the *Wall Street Journal*, the *Journal of Commerce*, and many major metropolitan newspapers.

16. Do you handle Limit Buy and Limit Sell orders?

We handle both at no charge to our clients. On Limit Buy orders, people without active accounts must deposit 5% of the desired base price per unit. This deposit is refunded upon

expiration of unexecuted orders or credited to the account on executed orders.

17. Can silver be used in a profit-sharing, pension or trust plan?

Often the answer is yes. However, profit-sharing, pension and trust plans differ in structure and scope, so we can't answer this question about a specific plan without further information. We will be happy to consult with your accountant, lawyer or trust officers to see if we may help your program.

18. How will you cover my purchase?

Your silver purchases are covered by purchases of bags and bars for immediate delivery; and/or for future and forward delivery. As a licensed commodity exchange in the State of California, we report our full position and obligations weekly to a governmental agency, where they are incorporated into the permanent record.

19. Why do you charge maintenance and storage fees and how do you determine them?

To offset our expenses and allow us an excess for profit in margin purchases which include carry-forward values on commodities purchased for future and forward delivery.

On U.S. silver coins the maintenance rate is normally within 1% of the prime rate. While there is not a one-to-one relationship between the maintenance rate and the prime rate, you can expect, in broad terms, the maintenance rate to rise and fall with the prime rate.

The maintenance rate on silver bullion is normally ½% to 1% higher than the rate on silver coins.

20. Where do you store your coins and bullion?

At leading bonded and insured warehouses and depositories throughout America, Canada and Switzerland.

21. Do you tag my bags with my name, and can I get a warehouse receipt?

The bags are not tagged; rather, we cover the purchase without allocating specific bags. Consequently, we do not offer warehouse receipts.

22. Well, I'm interested now, but before I go any further, would you please tell me about your company?

The Pacific Coast Coin Exchange is the world's oldest and largest broker of silver coins to investors. We serve clients primarily as a broker, though we can and do serve as a principal as well.

We are a division of Monex International, Ltd. There are now Monex International and Pacific Coast Coin Exchange offices and depositories throughout North America and Europe. Far-Eastern Headquarters are scheduled to open early in 1974.

In the seven years since our formation, we've grown in annual sales from \$250,000 to \$250 million. Our gross assets are now over \$200 million. We believe that the tremendous growth in our volume indicates that we've performed to the satisfaction of our clients.

High-speed communication equipment and international news wires, combined with our thorough research department, transmit the latest information to our brokers. Multiple toll-free telephone lines service our clients with daily price quotations.

The Pacific Coast Coin Exchange is regulated by the California Corporations Commission. It is a licensed commodity advisor, a commodity brokerage house and a clearing member of the New York Mercantile Exchange.

We invite you to contact our bank references (listed below), the National Better Business Bureau, and Dun & Bradstreet about us.

23. What are your bank references?

Our bank references are the Farmers and Merchants Bank, with assets over \$200 million; Wells Fargo & Company, with assets over \$10 billion; and Barclays Bank, with assets of \$25 billion. Our literature contains the names, addresses and phone numbers of the vice-presidents to whom you may address your inquires.

24. Are you audited by an independent accounting firm?

Yes, the Pacific Coast Coin Exchange is independently audited by one of the major certified public accounting firms.

26. Do you have any related programs?

Yes, we offer platinum, Swiss francs, Deutsche marks, U.S. Gold Double Eagles, British Gold Sovereigns and Mexican 50 Pesos. We can also facilitate the opening of a Swiss bank account for you.

27. Do you recommend silver for short-term investing?

No, over brief periods of time, movements of the silver market can be volatile. Short-term emotional factors may briefly override the long-term uptrend based on fundamentals such



25. How can I keep up with the gold & silver markets?

The Pacific Coast Coin Exchange publishes the *Gold & Silver Newsletter* which is mailed free to its clients.

We believe the *Newsletter* is the most comprehensive survey of silver and gold published anywhere in the world today. It covers late-breaking news, supply and demand, prices, market trends, government proposals, and important developments in the stock market and economy which may affect the price of silver or gold.

Each issue provides 6-month and 2-year price charts for silver bullion, silver coins, gold bullion, British Gold Sovereigns, and U.S. Gold Double Eagles.

Furthermore, the *Newsletter* experts candid, exclusive interviews with leading experts such as: investment analysts Harry Browne and Thomas Holt; economist Murray Rothbard; precious metals analyst Charles Stahl and Dr. Franz Pick; and mining executives Paul Henshaw and Philip Lindstrom.

as the shortfall in silver mine production and inflation.

28. How much should I invest, in what, and for how long should I hold my investment?

The answer to these questions depends upon your own personal circumstances, including your net assets, current income, age and financial responsibilities. A few broad guidelines might be: only invest what you're comfortable with; diversify; if you're on a fixed income, use margin particularly cautiously; and hold (or as long as the fundamentals remain sound.

The Pacific Coast Coin Exchange, because of its wide experience, is in a position to help you work out an appropriate, individualized program.

29. Do you have further information about your company and silver?

Yes, we invite you to send the coupon below for any informational booklets which interest you. We will mail them to you at no charge.

Pacific Coast Coin Exchange A Division of Monex International Ltd.

3711 Long Beach Blvd., Long Beach, Calif. 90807 (213) 595-6311

Gentlemen: Please mail me a FREE copy of the booklet(s) I've checked below. I understand there is no cost or obligation.

The Case for Silver

How to Purchase Gold Coins

How to Invest in Silver Coins and Silver Bullion

How to Invest in Swiss Francs and Deutsche Marks

Name _____

Address _____

City _____

State _____

Zip _____

Home Phone _____

Business Phone _____

Occupation _____

Best Time to Call _____

I would like a broker to phone me at my convenience and your expense.

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