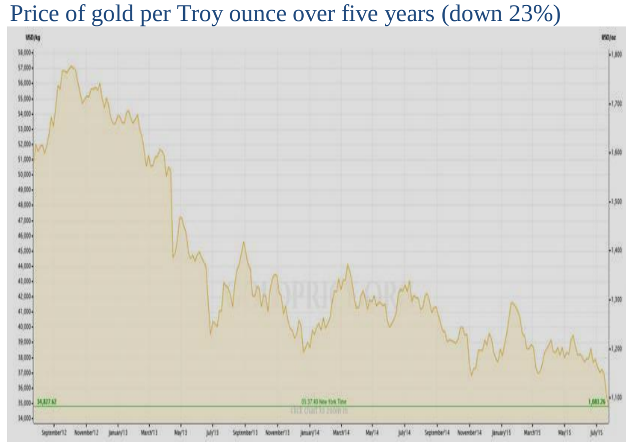
Mining equities or physical precious metals: which is the better precious metals' rout bet? (Gold: $1,099 per Troy ounce; silver $14.69 per Troy ounce) July 25th, 2015

Market Vectors Gold Miners ETF over 5 years (down 73%)

Price of gold per Troy ounce over five years (down 23%)



Sources: http://finance.yahoo.com and goldprice.org

Miners extracting precious metals are chewing through their best/lowest cost mining properties and are still either hemorrhaging cash, generating losses, or generating very poor returns on equity, as everyone is aware and as indicated by five years of industry wide stock price weakness (file:///C:/Users/User/Downloads/GDX-Factsheet-0615.pdf).

In other words, high fixed cost miners are extracting/monetizing their best precious metal assets at ridiculously low, totally manipulated -- via unprecedentedly large naked short positions -- gold and silver prices. Recent examples of a multi-year trend of precious metal price suppression can be found here: http://www.mining.com/how-a-china-us-one-two-punch-floored-gold-price/ and http://investmentresearchdynamics.com/comex-paper-silver-new-record-naked-short-interest/.

Mining upshot: future precious metals extraction will be even costlier/less profitable for those that can avoid bankruptcy. But I'm getting ahead of myself. Let's walk through the precious metals equity story. So you buy a clutch of mining stocks at "fire sale" prices. Or, you buy the industry via an ETF or some other basket structure. Question is: will you lose so much on the mines that go belly up or get purchased for a song by bigger, healthier miners that your aggregate precious metal mining investment bet will yield subpar returns or worse? Or, differently, will potentially widespread portfolio losses be constructively neutralized and "overwhelmed" by the mining entities that survive, and eventually thrive, despite rapidly rising mining costs, on the back of much higher future precious metals prices, i.e., when artificially supply rich (not asset backed) paper gold and paper silver markets get overwhelmed by physical precious metals delivery demand?

Against this backdrop, I personally think purchasing physical silver and, to a lesser degree, physical gold, which is currently trading at nearly 75 times the price of silver and remains markedly over-valued relative to silver historically speaking but is arguably still very attractively valued compared to fiat (debt-based!) money or bonds (http://dkanalytics.com/wp-content/uploads/2016/10/20-Returns-valuations-and-precious-metals-May-2015.pdf), is the better way to avail oneself of both very substantial capital gains potential and portfolio insurance (huge mining risks make even mining stocks with strong balance sheets ill-suited portfolio insurance assets). Reason: physical precious metals investments don't need to overcome return-dilutive operating results of failing precious metals mines.

Let's review our manipulated valuation world as well as the road ahead. When financial repression (ZIRP, QE, and unprecedentedly large interest rate derivatives, which create artificial demand for government bonds and thus artificially hold down interest rates) begins to lose its effectiveness and/or when the currently supreme confidence in central bank-based asset price determination is lost, *the massive yet thinly traded bond and stock markets* -- illiquid/thin because global central banks are hoovering up bonds (slide 3), and stocks (http://qz.com/445454/a-complete-list-of-the-chinese-governments-stock-market-stimulus, http://www.zerohedge.com/news/2014-06-15/cluster-central-banks-have-secretly-invested-29-trillion-market) and are thus determining prices -- *will come under enormous valuation pressure.* When enough private investors decide to sell and find only already stretched or incapacitated central bank buyers, bond and stock prices are likely to gap down to much lower valuations (we have already seen this movie multiple times in the PIIGS bond and stock markets during the past five years, specifically each time it appeared as if "central planning or central bank puts" would expire, at which point related asset prices crashed).

The ensuing, likely very substantial "valuation reset" triggered by free market forces overwhelming financial repression -- the despotic, mal-investment policies of our crony banker power elites and their anti-liberty, anti-property rights statist collaborators (http://www.constitution.org/mon/greenspan_gold.htm) -- should not only pummel bond and stock prices, but the reset stands to "liberate" precious metals prices. That liberation, when it occurs, will be because colossal naked (uncovered) short positions (http://www.zerohedge.com/news/2015-07-23/hunt-mystery-gold-bear-raid-leader-begins) will be overwhelmed by physical precious metal demand that cannot be completely satisfied with "delivery" of yet more fiat money in place of what investors contractually purchased at exchanges such as the COMEX, namely the right to take delivery of physical precious metals!

And remember this: investors commonly cite "reversion to the mean" when referring to valuations. In reality, asset valuations spend precious little time at that "mean valuation" level. In fact, we wax and wane between boom and bust. Translation: asset valuation bubbles or overvaluations, such as today's utterly manipulated global bond and stock prices, will invariably pop, yielding valuations (bond yields and stock P/Es) that, if history is any guide, epitomize undervaluation. And recall that bond and stock overvaluations have been with us for a long time (bonds have been in a secular bull market for over three decades!). As such, and as witnessed in the past, we could well spend some time in the "bust" valuation camp. Negatively correlated (to bonds and stocks), manipulated-down gold and silver should both do relatively and absolutely well in such a "valuation reset," and may also linger at much higher valuations given the wretched health of today's ever growing, debt-based fiat currency systems (http://dkanalytics.com/wp-content/uploads/2016/10/14-Real-asset-diversification-July-2014.pdf).

Now let's go back full circle to our topic: should investors buy mining equities or physical precious metals on the heels of a five-year rout in precious metals prices? As stated, if you hold physical silver or physical gold, you won't risk losing a good part of your investment in mines that file for bankruptcy or are consolidated into other entities at "pennies on your investment dollar." It therefore stands to reason that you won't need the same spectacular gains in a few miners to make up for devastating or total losses in others in order to achieve constructive capital gains expressed in fiat dollars or other fiat currencies. Plus, in the interim, if you hold physical silver and/or physical gold, you will have the "real deal" safely tucked away, positioning you well not only portfolio insurance wise and as regards potentially very sizable nominal capital gains over time, but such holdings *outside of the banking system* (to minimize mushrooming bail-in risks; please see fourth link on prior page, report page seven) may provide you with a private stake in the new coming global monetary system, which will likely be a "blast from the hard money past."

Moreover, at current precious metals price levels, your "cost of admission" reflects the primacy of the very "fiat money ueber alles" system that has been such a money mismanagement travesty for over four decades rather than pricing in the inevitable and increasingly overdue return to the discipline and wealth of nations-enabling attributes of precious metals-backed money (http://georgewashington2.blogspot.ch/2011/08/average-life-expectancy-for-fiat.html). The re-emerging world appears to be taking the lead here (https://goldcopreciousmetals.com/goldco-precious-metals-blog/gold-silver-blog/china-jump-starts-its-own-gold-market-fix). And you, strategic investor, can get physical precious metals at artificially depressed prices courtesy of the very fiat money power brokers doubling down on monetary insanity (the global monetary base of central banks has risen from $6trn in 2006 to $22trn in 2014, a CAGR of roughly 10x the rate of global real GDP growth over the same time period -- Sources: https://research.stlouisfed.org/fred2, http://davidstockmanscontracorner.com, author's calculations) in order to sustain their fiat currency monopoly/power for as long as possible.

Stay tuned and remember: an airworthy bird in the hand -- silver or gold in your hand -- is worth two questionable birds in the bush, which in this case would be precious metals mining stocks in your portfolio that may not be able to take flight at all or in time, should financial repression continue its global malfeasance beyond any rational expectations, which wouldn't be the first time! In the interim, the spring of precious metals undervaluation is becoming increasingly compressed, pointing to commensurately large and growing nominal capital gains potential.

Finally, speaking of malfeasance, should you need another reason to consider physical metals' based portfolio insurance attractiveness, perhaps you'll find this link of interest: http://davidstockmanscontracorner.com/central-banks-have-shot-their-wad-why-the-casino-is-in-for-a-rude-awakening-part-i/.

Greetings,
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