The current gold and silver bull market and how to profit

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Introduction

There are many arguments for and against gold and silver for investment purposes and much fewer arguments against gold and silver as a store of wealth. Much of what we will be looking at in this write up is why fiat (paper) currencies are not a good store of wealth and how the current global financial situation is very unstable in terms of wealth preservation and therefore by default why at this point in time my argument is in favour of gold.

We will be covering a lot of ground with outlining what's going on in global finances and why the coming gold and silver bull markets are likely to be as big or possibly even bigger than what we've seen previously in the last 50 year or so.

I'll do my best to keep this write up to the point, please forgive any grammatical, vernacular and presentation errors, (the work herein is my own, and serves as a broad picture for our Decentralized portfolio, it is not brushed up through a publishing house or other such snazzy organization.
This write up is to outline to the reader enough information to grasp the severity of the current global money situation, and how it will likely damage your savings in the near future if you do nothing at all. Don't worry too much about trying to understand all the graphs and charts in detail, we are not looking at the small details here, just try to look at the big picture.

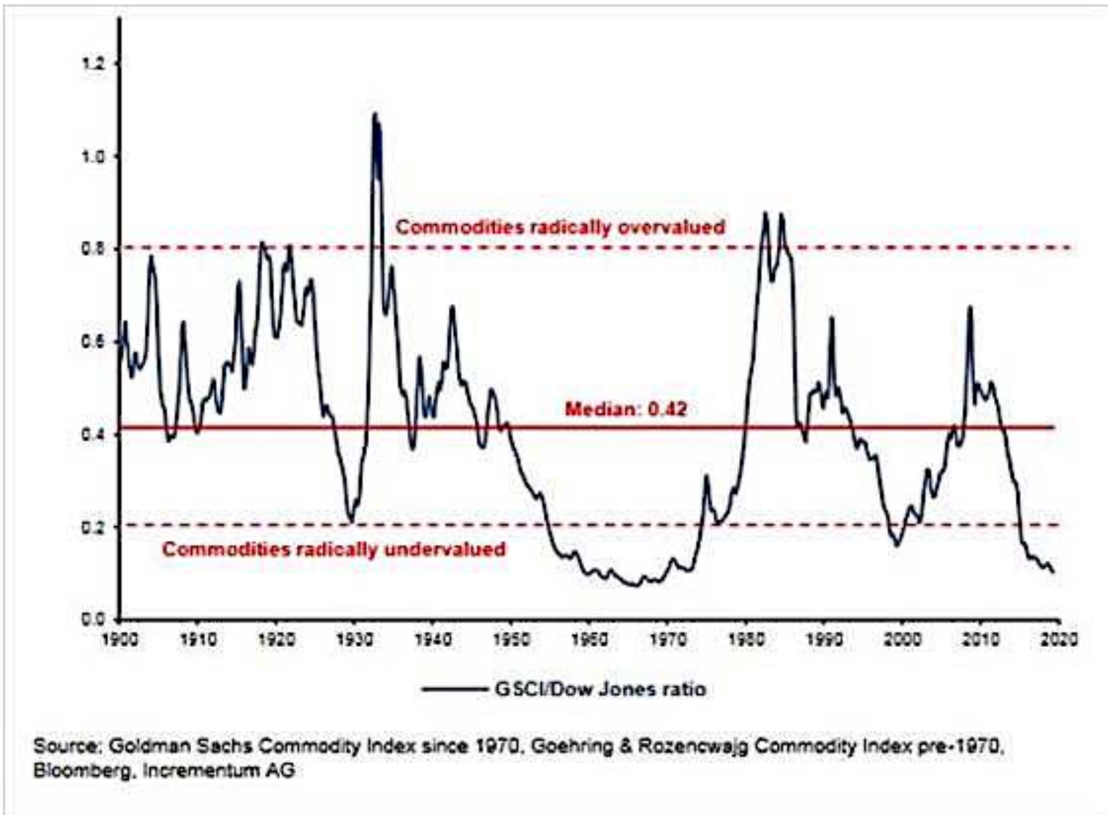
In a nutshell; The argument for Gold and Silver is essentially that it has many elements in its favour for the immediate and foreseeable future, whereas globally, the paper currency systems have very few elements in there favour, or probably none at all, this should make prices soar both in precious metals themselves and also in the stocks related to the metals.

The main reasons are as outlined below:

1-Gold and silver markets are highly cyclical. Both gold and silver are undervalued relative to stocks

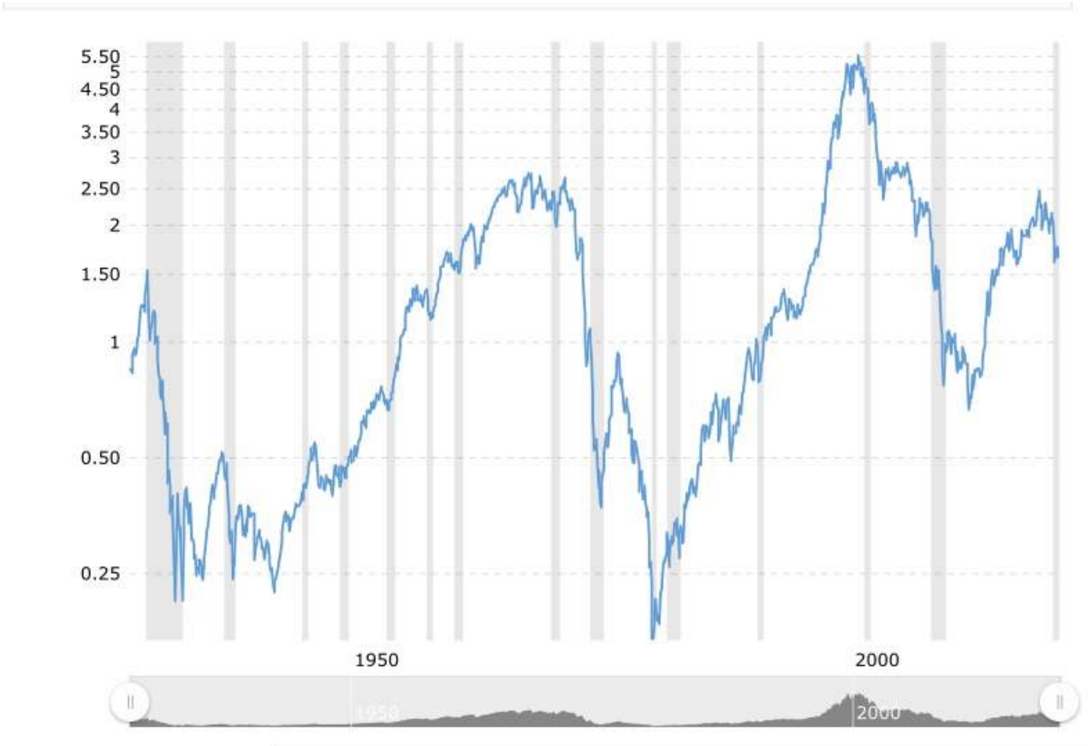
In the case for gold, using historical data going back 120 years, the yellow metal has long upswings and equally long downswings.
The good thing about this is,
Once gold starts trending upwards it typically continues to do so for several years. This makes gold and gold stocks a somewhat predictable investment if you get in at the right time in the cycle.

The chart below shows the slow upswings and downswings in gold (commodities) measured in decades as the relative value of commodities ranging from radically overvalued to radically undervalued from 1900-2020, in relation to the Dow Jones (which is to say, the value of the top 30 US traded companies) As you can see in the chart the entire commodity market is extremely undervalued at present when compared to the Dow Jones.



Note that in this case we are looking at the relative value of gold compared to a basket of the 30 largest companies in the US stock market and not the value of gold relative to its price in dollars, this is an important distinction.
From this chart alone, we would all probably come to the conclusion that gold is a better value investment today than the Dow jones.

The next chart shows gold's average in comparison to the S&P 500 (a basket of the top 500 companies in the US, and the ounces of gold it takes to purchase the S&P)



This doesn't show the same extreme swings, but what it does show is that gold is still relatively undervalued when compared to the basket of 500 companies, and that the S&P is very over priced relative to gold, in other words gold has a lot higher to go in price for it to be expensive, or the S&P must fall a lot from where it is to be of relatively good value, where we might be able to buy the S&P for less than ½ an ounce of gold.

In summery, the point of the above, when looking at a broad range of stocks and stock markets historical data, gold is cheaper than it should be relative to the price of stocks.

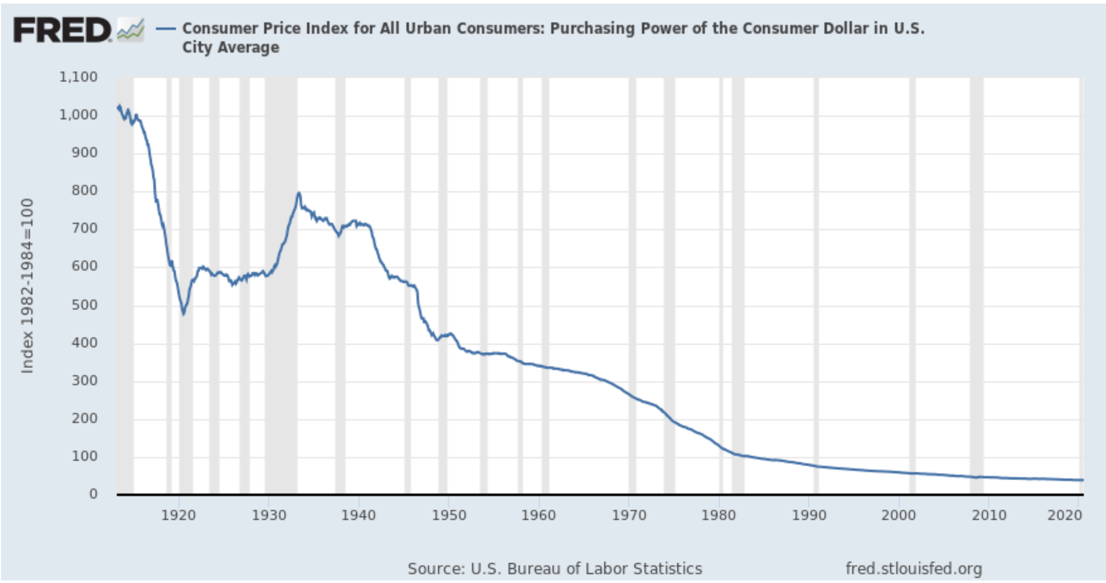
This helps us to know that a gold and silver bull market is in the making.

2-Global synchronized currency devaluation, the argument for holding gold and silver over fiat currencies

Before we get to what's going on around the world currently with paper currencies and the massive monetary mess that's being created let's look at historical data of paper currencies, to outline this we will start with a simple reflection we can all relate too.

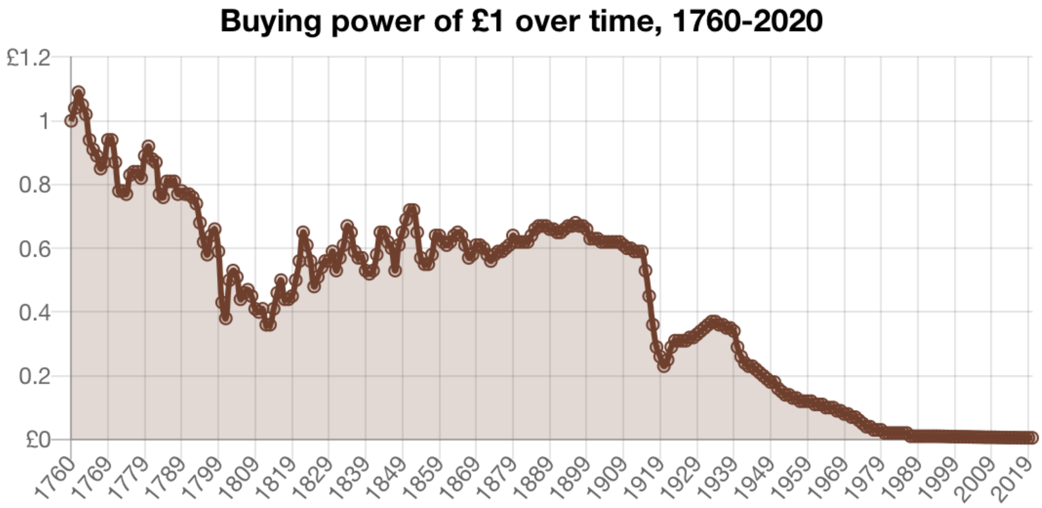
In terms of purchasing power, I think most of us will agree that over time the cash money that we use (dollars, pounds, euros, yen, whatever) tends to purchase less!
Prices of goods and services we use over time rise, food, houses, cars, etc. if you put some paper money aside under your mattress, or in your checking account, in ten years you will be able to buy less with it than you can today, why is that?
To me, while there's many technical pundits analysing complex reasons to justify this, including things like inflation, the simplest explanation is that it's actually because the money under your mattress is slowly losing its value, it's worth less 10 years from now.
Call it whatever you want but the bottom line is its currency devaluation over time!

We can see this in a chart tracking the purchasing power of the US dollar from 1913 (the creation of the federal reserve) to 2020, the USD currency has lost over 99% of its purchasing power (what you can buy with it) from 1913 to now. This chart is provided by the Federal Reserve.



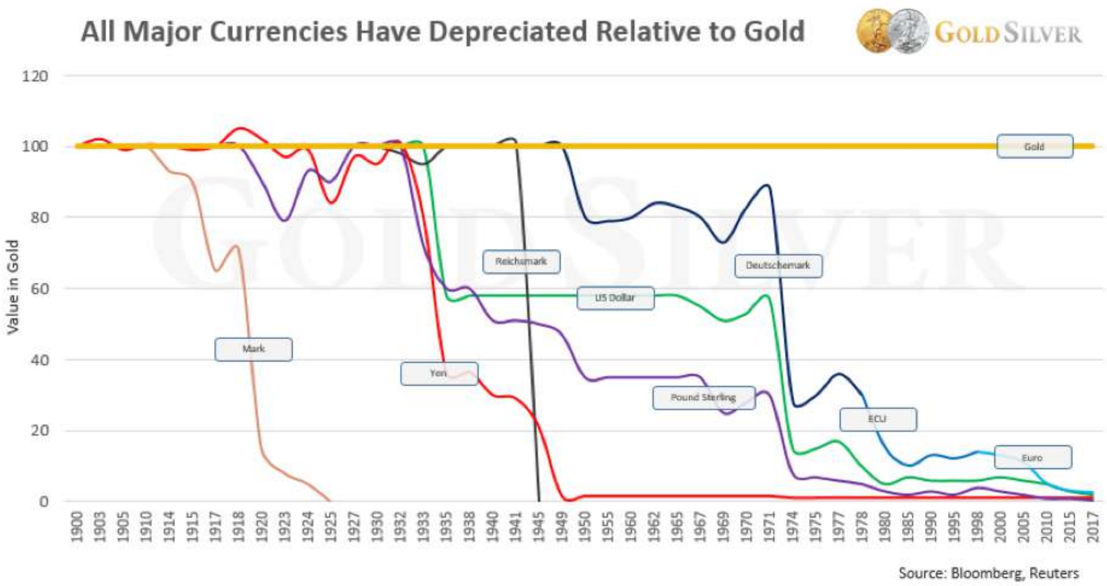
The US dollar isn't alone in this; more or less without exception every single paper currency has lost almost all its value.

Here’s how the British pound has preformed in terms of purchasing power from 1760-2020, the British pound is the oldest paper currency in existence.



According to the Office for National Statistics,

The next graph shows how a few major currencies have faired in keeping their purchasing power in comparison to gold



Keep in mind, the paper currencies were talking about here are supposed to be the good ones, the USD for one, is the worlds reserve currency, we’re not even looking at paper currencies issued by countries that have histories of defaulting. Like Argentina, Zimbabwe and the so forth.

The very basic argument I'm trying to outline here by the above charts is simply that all paper currency loses its value over time, meaning that historically it's not a good store of wealth and savings. Paper currency has no actual value, its just paper, it can be manipulated and printed on a mass scale by its creators whenever they want.

3- Gold is a better store of wealth:

By comparison Gold has a very long history as a store of wealth going back about 5,000 years or so, and is historically much safer. There are many reasons for this, to name a few, gold is a real physically tangible asset, it can't just be printed or created out of thin air, it's has to be mined which takes time and effort, the supply in the ground is finite, gold doesn't deteriorate over time, it can't be artificially created or counterfeited, it's purity is easily testable, and so forth. While I'm not a great gold enthusiast and share no love for the yellow metal itself, in terms of a stable store of wealth and savings gold meets all the requirements hands down.

Buy some physical gold and silver

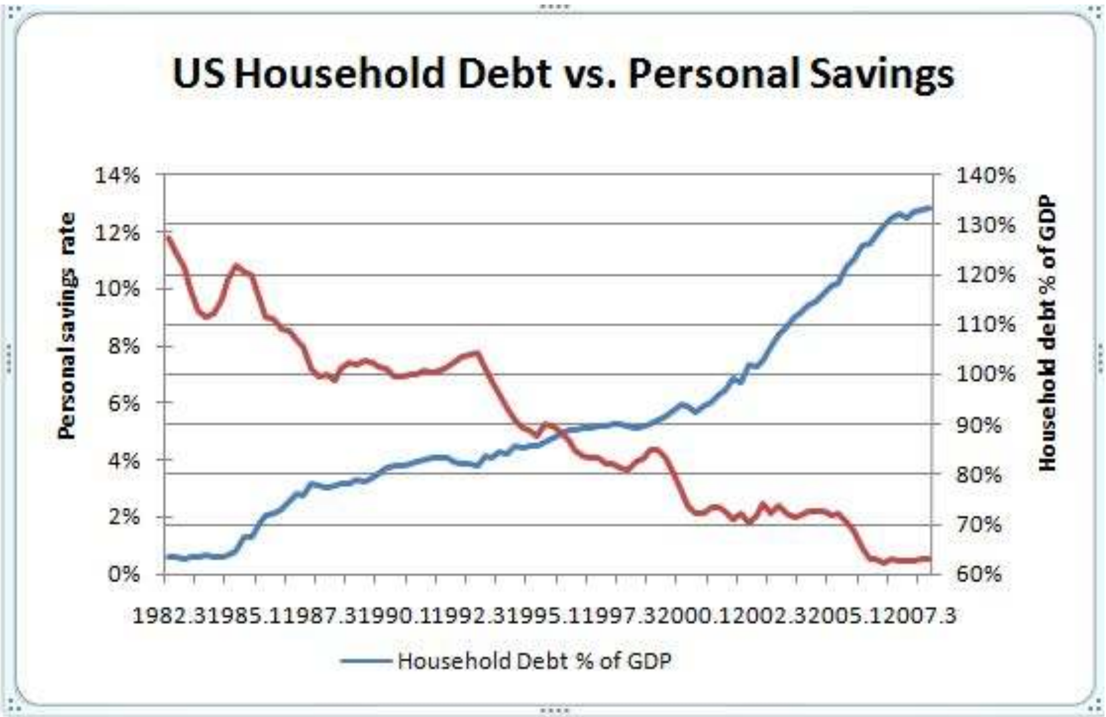
So first off, before we get to how we can all profit from the current gold bull market, our advise here at decentralized life is that if you don't already keep some of your savings in gold, you should give it some serious thought. While we haven't outlined silver in the above, the same is true and it should also be a part of everyone's savings.

We recommend all our subscribers buy and hold at least some physical gold and silver. This can be in the form of small gold and silver coins, jewellery and pure gold and silver bullion. It's relatively easy to purchase from dealers online, or at a physical gold and silver trader, just look for one near you.

4- Gold is a hedge against the instability of fiat currencies.

(in my humble opinion) The current global financial state of the world is a complete shambles, contrary to the media it's not because of covid19, most major currencies started on this path some decades before now, with the establishment of, and the encouragement of, debt and credit as apposed to saving and spending within you means, "produce more than you consume"

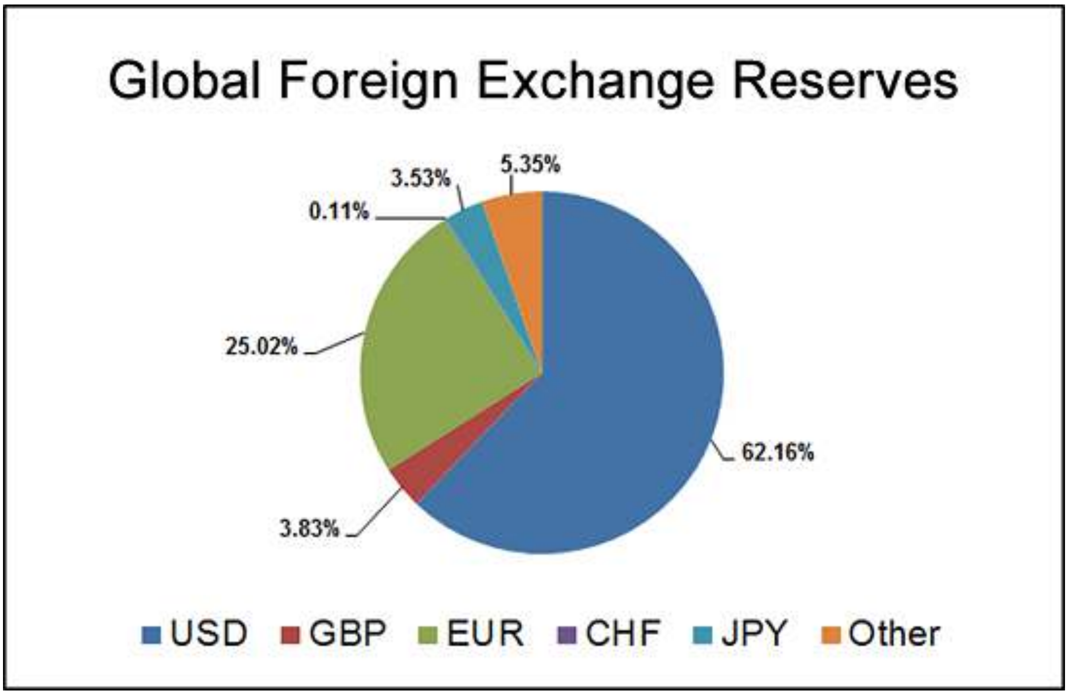
As seen here, savings have gone down from around 12% of earnings, to practically zero for the average family due to the encouragement of debt and credit, meanwhile debt has gone from very low single digits to more than the total income of the average family, how does this make sense?
(This chart is a few years old but still accurate today.)



5- A look back at history to try and understand why it's all such a mess.

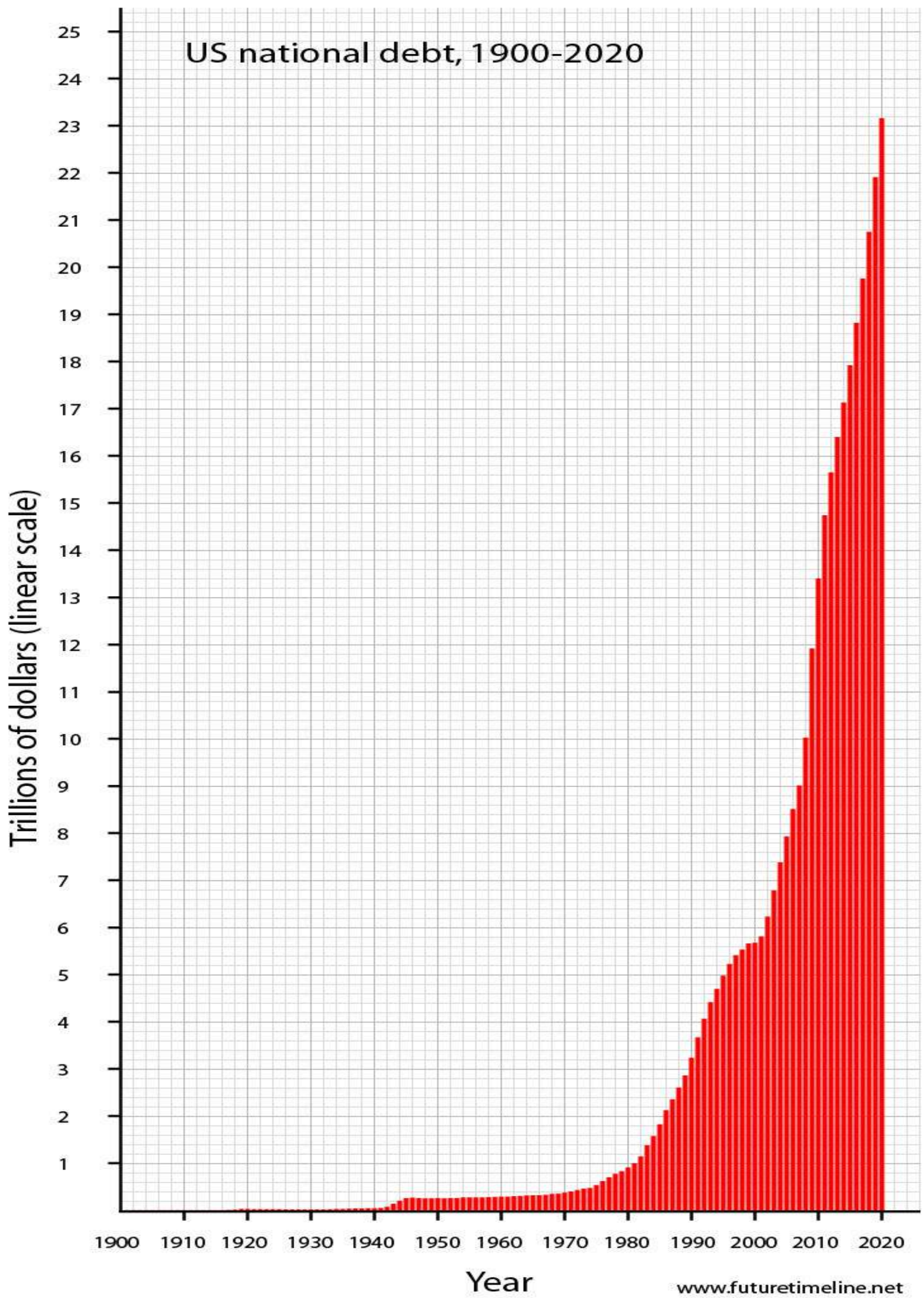
A good place to start is with the world's reserve currency the USD. Currently most countries in the world hold a big part of their central bank reserves in USD.

As can be seen in this chart



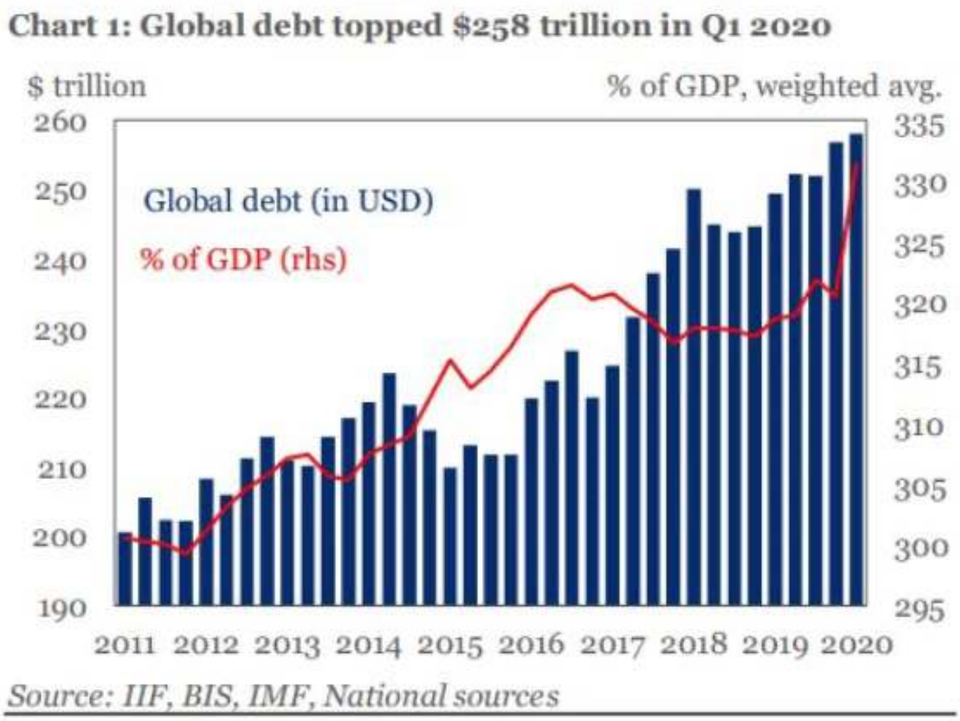
Please note that his is why for the most part by default we're referencing the USD as it's the world's reserve currency, not because we have any special affinity for American affairs. It's just relevant wherever you're based in the world. If you don't live in the US you might think our research is geared to Americans, it's not at all the case, although we do have American clients, the information provided is equally as important regardless of where we all find ourselves on the planet. It's just that up until now the US has been somewhat of a benchmark in terms of how things are measured in currency and stock markets.
Back to the USD as the worlds reserve currency.......

In 1971 the USD is de-pegged from gold, at this point it had already lost about half its value due mostly to inflation and government borrowing, which actually led to its debasement from gold in the first place.
Debasement of the dollar from gold in real terms means much more freedom for the American government to design fiscal policy in ways which suite the government's appetite for power and spending beyond its means.
Here's a quick glimpse of US. National debt from 1900 to 2020,



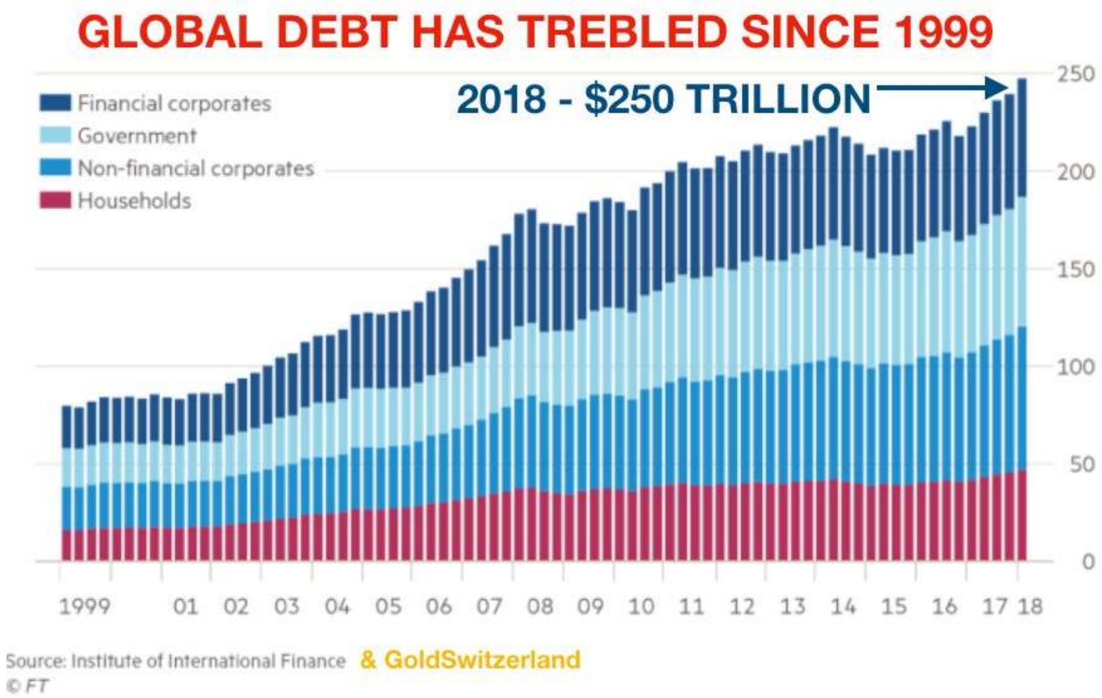
Notice the problem had started around 1940 which led to the dollar debasement from gold in 1971 and from there we can see due to changes in fiscal policy (with the encouragement of debt and credit) the ability to borrow unlimited cash has caused a complete loss of control, the United States is drowning under this gigantic pile of debt.

The US is not alone in this, without exception every single government liked the idea and followed suit to a greater or lesser extent, today there's not a single currency issued by a central bank that's backed by gold.
This has essentially been accomplished by the creation and encouragement of giant piles of debt and credit by means of issuing government bonds, printing press money (which I call counterfeiting) easing policy on big banks, artificially low interest rates etc.
Today's global debt in a chart denominated in dollars can be seen
Here



It shows only the last 10 years, as of July 2020 it officially stands at around 258trillion dollars or 331% of gross domestic product, what could go wrong?

Or the last 20 years showing the global debt amount has tripled



How does the world borrow this much money so quickly? And from where? Is it even real?

The bottom line,
As with the US the entire world is groaning under mountains of debt, which in my opinion will never be paid back ever!

Here's why;
It's taken about 50 years or so to amass a global insolvency level which is so huge and inconceivable it would take generations to pay it back, think about that for a minute, the global debt is so huge that your kids and grandkids will likely be trying to pay off your debts all there lives! (I don't think they will be willing to commit to this!)
Bottom line it's not happening!

6- The solutions; A soft default, A hard default, or re-pegging central bank currencies to gold.

There are several ways a country can default on its debts, we see smaller economies put up their hands and just admit they can't pay it back, essentially they go bankrupt and start over (that's a hard default). I don't see the US and major economies being able to do this. So the larger economies must have a different plan.

A soft default.

Inflate the debts away by printing enough money to pay off the debts as they become due and cause lots and lots of inflation, that's cause and effect, (possibly hyperinflation) so that the old debts are easily paid off with watered down printing press money, this printed money will have less purchasing power than the money that was worked for by you and lent out to them in the form of government bond. (we've seen this is the case in the currency devaluation charts) Essentially making the money you get back completely worthless in terms of purchasing power. But on technical bases your paid back in full and the debts go away.

Why? Let's look at the bond market, but before we do that, the third option is to re-peg paper money to gold but with gold at a much higher evaluation, this is to say the gold held by central banks, if it were re-valued at astronomically higher prices would justify all the extra printed paper money floating around, but I don't see any government being able to accomplish this successfully. Whichever option it is, it doesn't matter for the purposes of this paper, it shows good news for the price of gold and silver.

Now lets turn our attention to the Bond Market!

(Take a deep breath for the rest of this page)

7- The Bond market.

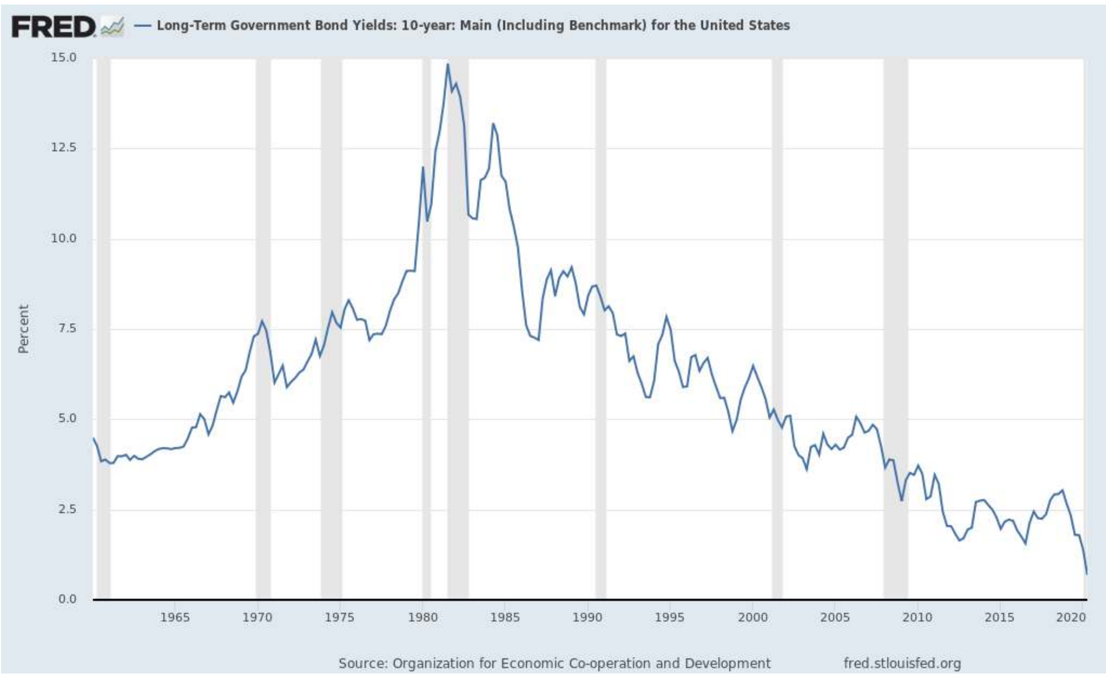
A common investment allocation among folks with savings for retirement is government bonds, US government bonds in particular, a typical retirement portfolio allocation consists of a large part government bonds, (anywhere from 20%-50% allocation) the reason for this was mainly because lending money to the US government was considered one of the safest, lowest risk ways in which to grow your money slowly over time, historically US government bonds paid anything from 4% to 16% interest, so it was a safe and reasonable return on your allocation for some generations now and therefore has been considered a staple part of savings and retirement accounts.

But that's gradually changed, the rate of return has slowly diminished from its peak around 1980 at about 16% and has over the last 4 decades diminished and finally for the first time in history entered negative yields when taking into account the feds benchmark inflation rate of about 2%...in other words,

The US government now formally promises to pay you back less than what you leant it!

US government Bonds used to be considered "**risk free gains**", but now the phrase has been turned on its head as "**gain free risk**"

Here's the Feds own chart on this



The fed sets key interest rates (government bond rates) periodically as part of their monetary policy, at this year's annual meeting. The fed announced that key interest rates would stay at essentially zero for a long time. In other words, "**don't expect to make any money at all from buying US government bonds any time soon** "

Why?
It’s quite simple; if fed interest rates were to rise, the US government would simply not be able to service its debts and would have no choice but to default. The official reasoning given is that the fed wants to stimulate and grow the economy by allowing borrowing at or near zero rates, making it easy business to expand (and especially easy for the government to borrow more money).

If folks with retirement savings and retirement investment accounts are loosing money instead of making money buying government bonds then sooner or later they will stop allocating to bonds and look to find something that’s historically safe....Gold and Silver

The bond market matters because, the size of global bond markets especially the US bond market is huge, essentially a key way that governments borrow (raise) money is through offering various types of securities in the form of bonds which are sold to the public and international buyers, so more or less the entire US national debt, just take a look back at the graph with the huge red mountain of debt on it, that represents mostly US government bonds.

(That graph is actually called; “On balance sheet liabilities” if we were to look at what’s called “off balance sheet liabilities” which includes things like future social security commitments, then were looking at 80-100 trillion dollars or more of US debt, I might go into that in more detail at another time in another paper)

The system has started to brake down....

8- A look at the repo markets;

A repurchase agreement (repo) is a form of short-term borrowing for dealers in government securities (government bonds) in the case of a repo, a dealer sells government securities to investors, usually on an overnight basis, and buys them back the following day at a slightly higher price. That small difference in price is the implicit overnight interest rate. Repos are typically used to raise short-term capital. They are also a common tool of central bank open market operations. Basically this is where the US government would sell its bonds to borrow money.

The problem

In mid September of 2019 one night at the repo markets, no one in the markets was willing to agree to repurchase US government bonds, why? Essentially investors including banks, international central banks and governments felt insecure in the US governments ability to repay the bonds and the basically zero interest rate was not worth the risk.
Long story short....this caused the federal reserve to step into the repo market and begin purchasing US government bonds, this is an important mile stone as it shows that unless something changes in the worlds sentiment toward US issued bonds, the money for the bonds is now being printed by the central bank, the Federal Reserve, and not earned or worked for.

What does this really mean and why does this matter?

Up until September last year the majority of US Gov. Borrowing was from investors of one type or another who had earned the money and choose to invest it in US government bonds, but that has changed, now the main purchaser of US government debt is the federal reserve who finances it by printing the money. (Money not earned, just created out of thin air)
No one else wants to touch that toxic mess with a stick, by default it means the federal reserve is officially creating money out of thin air to fund the US governments spending habits which historically anywhere else in the world has always led to inflation and then hyperinflation.

The US is not alone in all this.....

Let's take a quick look at bond yields in other places....

Government Bond Yields in 2019		
Country	10-year Government Bond Yield as on 31/12/2019	Change in 2019
Major Economies		
US	1.88%	-0.68%
UK	0.81%	-0.39%
Japan	-0.02%	0.02%
Germany	-0.22%	-0.37%
France	0.08%	-0.56%
Canada	1.63%	-0.19%
Europe		
Switzerland	-0.51%	-0.31%
Italy	1.43%	-1.46%
Netherlands	-0.10%	-0.41%
Spain	0.47%	-0.96%
Portugal	0.42%	-1.34%
Greece	1.44%	-2.97%
Australia & NZ		
Australia	1.32%	-0.87%
New Zealand	1.65%	-0.68%
Emerging Economies		
India	6.50%	-0.93%
Brazil	6.79%	-2.39%
Mexico	6.80%	-1.82%

Here we can see there's only 3 major economies in the green so to speak, however ......in 2020 India's benchmark inflation rate is between 6%-7%. Brazil's is 3%-4% and Mexico's is 3%-4%, so according to the above guideline chart, out of all the 17 major economies listed there's only two which have a positive bond yield of about 2% or so above inflation....**everywhere else on the chart the governments promise to pay you back less than you leant them.**

I should mention that their are countries in which government bonds do currently pay hansom rates, however they represent only a fraction of the global economy and as such have a much higher risk rating, (meaning these countries have a past history of defaulting on their bonds)

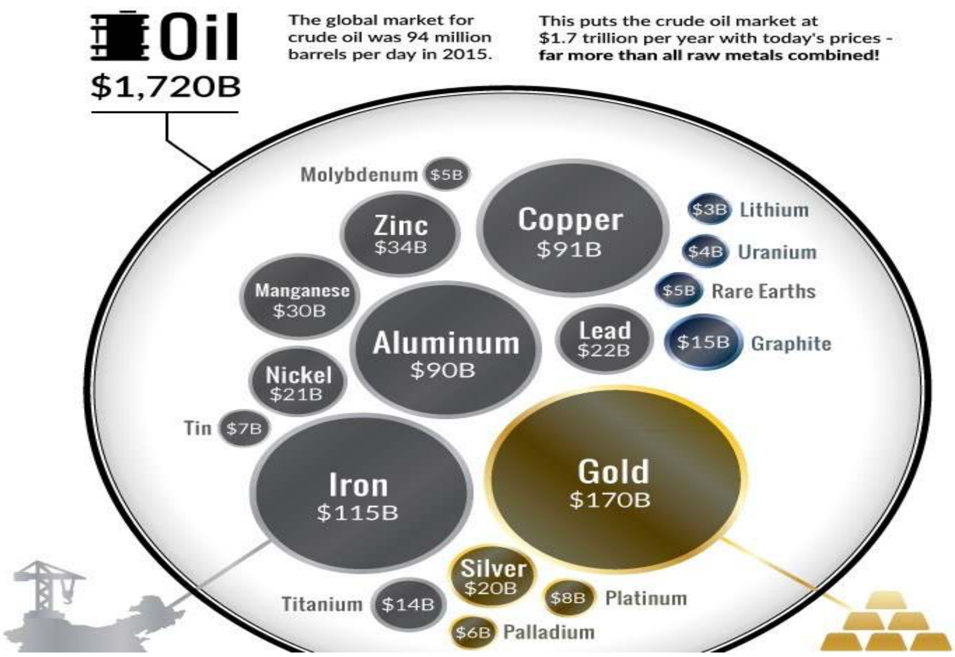
In summery

If any of my readers have read everything in this paper up this point and haven't died of boredom, congratulations! You've survived and so can your finances. I know some of this stuff is daunting but, All of the above information is being provided only to outline the precariousness of the current global central banking systems and how paper money everywhere on the planet is really not performing well at all, it never has, and therefore is not a good store of wealth.

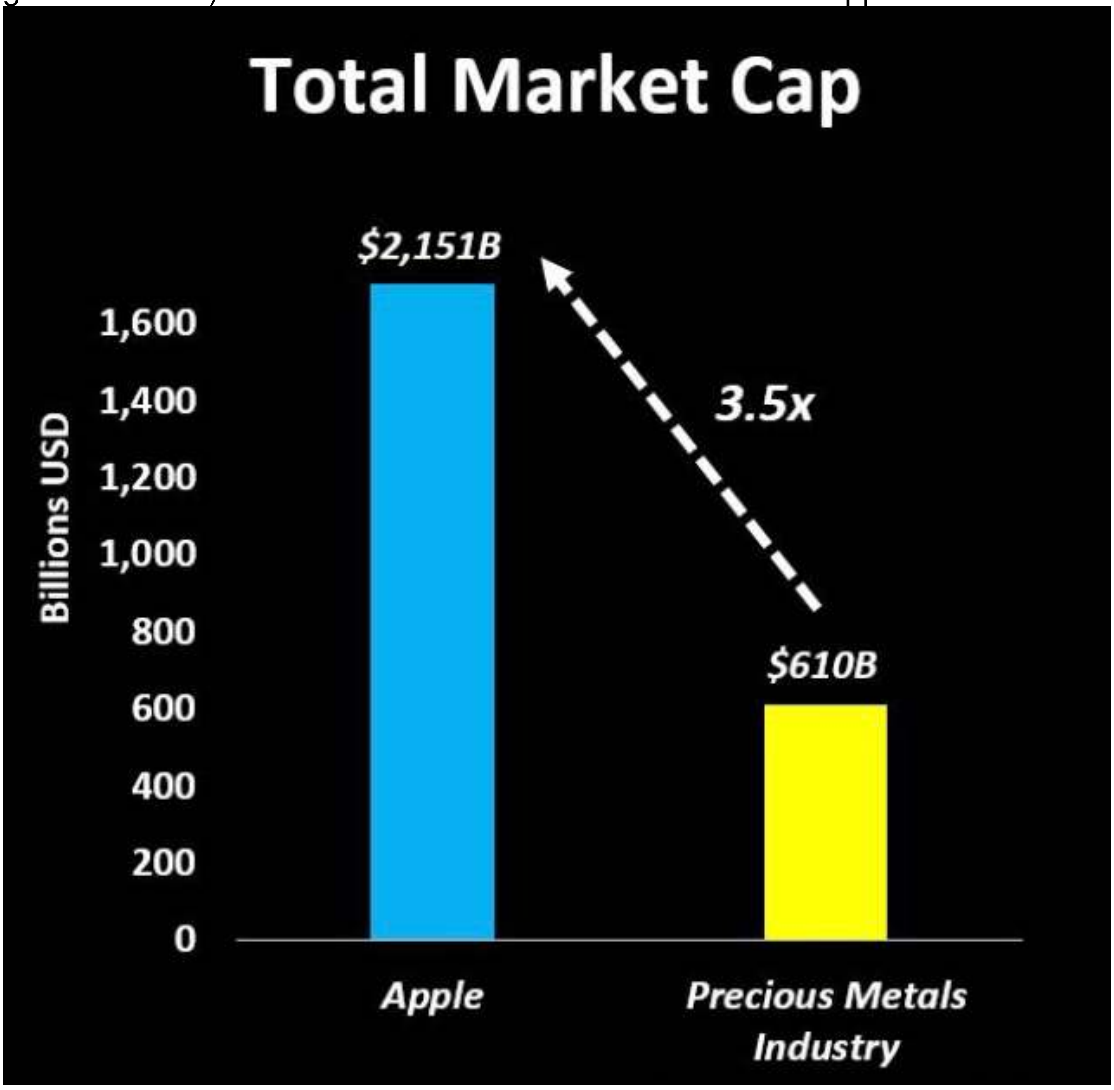
9- And now let's turn to gold and silver

Gold and silver currently represent about 0.03% of the average investors allocation, the historical mean average is more like 1.5%-2.5%, we are currently well below the mean. Gold and silver market allocations would have to go up some 300%-400% from here to reach the historical average.
In general, the gold and silver markets are very, very, small in comparison to the size markets we've seen in bonds and other stocks.

The size of the gold and silver markets annualised in comparison to oil.

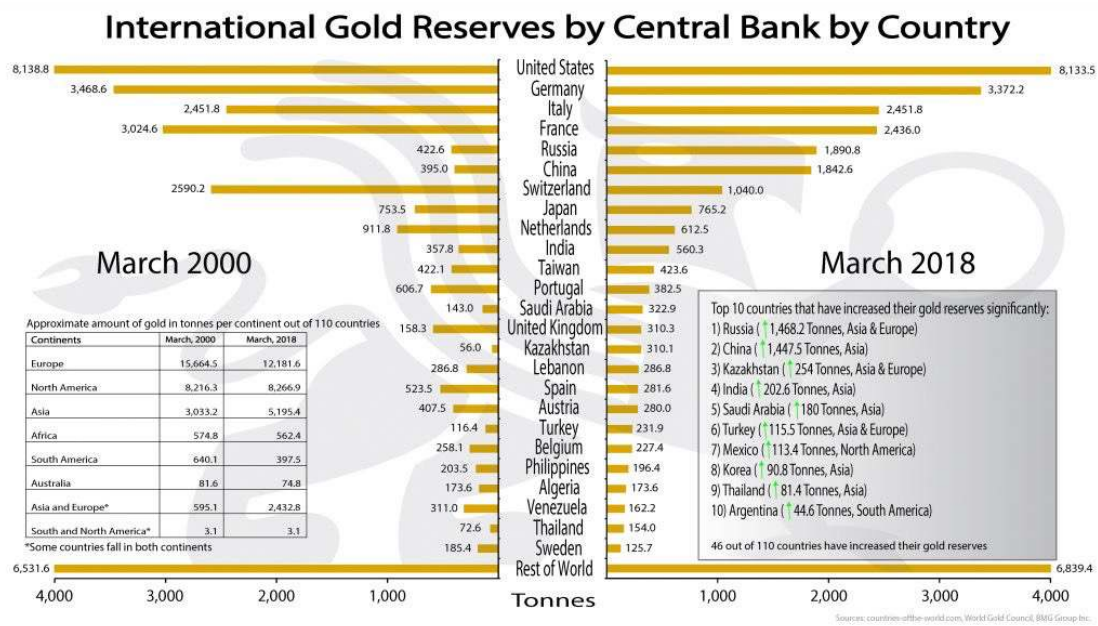


Or as an example, seen here; the total of all precious metals markets (not just gold and silver) are 3.5X smaller than the current value of Apple.



Why is this important?
In an industry with a very small market cap, what happens if hundreds of billions or even trillions of dollars try to enter the market? The industry will skyrocket in price, no?
Sooner or later at least some of the folks holding bonds will be wondering where else they might safely store some of their retirement savings, while some will look at things like real estate, and other physical things of real tangible value, the problem being, most other options of real tangible value are relatively illiquid (not easy to sell quickly to raise capital) and therefore at least a reasonable percentage of bond holders will gravitate toward commodities, especially gold and silver as a better alternative and will divest from bonds and re-invest that capital in physical gold and silver but also into gold and silver stocks. (This has started to happen but only in a small way, with the likes of Warren Buffet investing some half billion dollars in a major gold company, and at least one hedge fund deciding to allocate a small portion of funds under management to Gold.).

This is the beginning of a trend that is likely to continue and will include some foreign governments divesting their central banking reserves from the US dollar and stockpiling gold instead, the signs are there as some central banks have in the last few years began to shrink their dollar reserves and grow their gold reserves.
As seen here, specifically Russian and Chinese central banks have bought unusually large quantities of gold recently (maybe, just maybe they don't like the USD anymore), whereas Switzerland seems to have sold most of its gold. In general terms though, central banks have begun beefing up gold reserves.

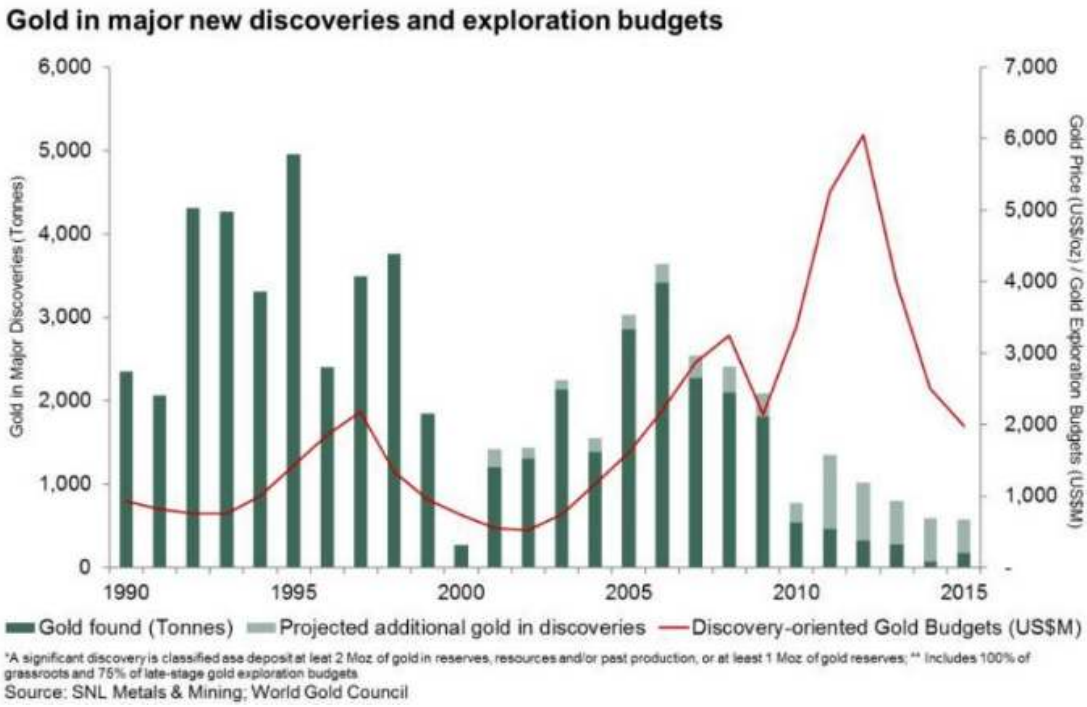


This is a process already underway and has started to push up the price of gold and silver so that it's now in the early innings of a bull market, which in tern means more investors will start to take notice.

10- Supply and demand.

When supply is limited as it is with gold and silver, (as it can't be created out of thin air), and demand is high, prices rise, and continue to rise until supply outstrips demand, it is unlikely that supply will outstrip demand any time soon with gold and silver, for the reasons outlined both above and below.

Here we see there's been a big decline in new gold discoveries despite more and more capital being allocated to gold exploration companies.



Some gold enthusiasts think we may have already reached peak gold, which is to say, all the major discoveries of gold in the ground have already occurred, and most of the gold available has been mined, while there's no way to know if that's true, the above graph certainly shows gold is becoming harder to find, and that finding even smaller amounts requires more capital expenditure than it used to.

11- **Silver.**

One big differences between gold and silver is that silver is primarily used as an industrial metal, whereas gold's primary use is as a store of wealth, which is to say most of the silver in existence is not in the form of bullion, coins or jewellery but rather inside computers, solar panels and other products from which it cant be easily extracted, therefore the available supply of bullion grade silver for investors and those who want it for wealth storage is much more limited than gold, this is also true for stocks in silver mining companies of which there are only a small number in existence.

Historically silver usually moves after gold, and when it moves, it outpaces gold for the simple reasons of the very limited supply of the metal and also very limited silver stocks for which to invest in.

As seen here, Silver outpaces gold in terms of percentage gains in a bull market.

Note/ we are looking at the peak in the last bull market in terms of percentage gains where we can clearly see silver outpaced gold, and not at where the graph stops with silver lower than gold in 2014.

12- Gold and silver stocks go higher than the physical metals themselves.

While holding the physical metals themselves is a good idea as a store of wealth and will increase significantly in value in the coming years,
Gold and silver mining stocks can move higher than the price of the metals and can return phenomenal gains for two main reasons:

1- In a bull market the costs of mining and production remain the same yet the value of the product soars, meaning a drastically increased profit margin, which in tern brings about a much higher stock price as investors pile into gold and silver stocks.

2- the value of the un-mined gold in the ground goes up, therefore the value of the company that owns the rights to the gold in the ground goes up too.

13-The different categories of gold and silver mining stocks (majors, mid tier, juniors, (exploration companies mainly) and ETF's and what we look at for investment purposes

Major minors are the biggest of the bunch in terms of market cap, assets and operations, and typically have stock evaluations of hundreds of millions or even billions of dollars.
Majors are considered to be lower risk than the minors that are smaller in market cap as generally they have good assets in one form or another.

Juniors are predominantly gold exploration companies in the process of finding gold and have the lowest market caps often just a few million dollars or so.
Juniors are considered the highest risk as often they don't have much in the way of assets of any type, they are also the most volatile and sometimes have the potential for outstanding gains if you know where to look and a major gold discovery is made.

Mid-tier minors are more or less the companies in a size between juniors and majors, and therefore have mid level market caps and some sort of assets, The risk factor is also considered to be mid level as it were.

ETF's are a basket of gold investments that either represent ownership of shares in gold minors, or track the price of gold itself, a word of caution though, an ETF is only as good as the company who issues it!

14-What makes a gold or silver minor a worthy investment?

As with any industry in any market the work is in finding which gold and silver minors are worthy of investment, sadly not all are created equal as it were! Just because a gold minor has a large market cap doesn't make it a good investment and likewise a small market cap doesn't necessarily make it a bad investment.

Each investment analyst on the planet will have their own criteria for how to figure out companies with the best potential.

A quick look at the a few important aspects of the way I analyse a potential investment in the gold and silver sector is as follows; (not necessarily in order of importance)

1-Management
One of the most important aspects for investment is to look at management! Who's leading the company forward, do they know what their doing? Do they have a track record of past successes in the sector?

2- Enterprise value (EV) to sales ratio.
Or EV to EBITDA (earnings before interest, taxes, depreciation, and amortization) basically a way of finding out if the share price is of good value or not.

3- Net Asset Value (NAV) another way to find out if the share price is of good value or not.

4- **Other factors** including, years left of production at existing mines? Cost of production of the mine to market price of gold (or silver), jurisdiction risks etc. (while some analysts in this sector rule out "developing world countries" and those without "dollar swap lines" I don't necessarily follow that logic as I fail to see the difference between the difficulties of creating a mining operation in say, California where regulations approval and campaign bribes take years and sometimes cost tens of millions and on the other side a "third world" country with a lot less regulations, and an eager government where things are often cheaper and quicker to get into production.
I guess some folks feel white people's extortion is better than none white people's extortion, how? I haven't a clue, that being said I do my best to look for ethical companies, regardless of jurisdiction.

15- Summary;

In terms of the common question I'm often asked with this type of paper "so how high do you think Gold and silver will go"?

I have no idea at all, and I don't want to offer a guess, all I can say is that due to the many aspects in gold and silvers favor, the writing is on the wall and we will all have to wait and see. No one has a crystal ball so to speak, but I hope at a minimum I've been able to outline to the reader a reasonable argument for gold and silver.

It is up to the reader to decide if the information provided is enough to suggest beyond a reasonable doubt that the gold and silver markets are in the early innings of a major bull market, and if your not convinced, by all means go out and do some more research.

Going forward from here.

One of the advantages for me in taking the time to write this paper is that in my individual gold and silver stock recommendations, some of which accompany this write up.
I no longer need to take the time to write extensively but can focus clearly on the details of the specific recommended stocks as to why I think they are sound investments without having to give a lot of back data for the industry in general.

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