Why You Need To Invest In Silver

And How You Can Do It

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Introduction: Monetary Apocalypse Now!

People have been investing in gold and silver for *thousands* of years. For most of this time, gold and silver *were* money—to "invest" in gold or silver was simply to save it, or perhaps to loan it out with the *interest paid* back in additional gold and silver.

Starting in the twentieth century, though, governments began making moves to *separate* their national paper currencies from their gold and silver backing, and by 1971, these separations were universal and worldwide. Since then, the "traditional" approach to investing in gold and silver—once gold was legalized in 1974—has been to consider the precious metals a "hedge" against both inflation and economic downturns. "You don't get rich buying gold and silver," the old adage goes, "you buy them to *preserve* your wealth."

Well I'm here to tell you that this thinking is dead wrong. You *can* and *will* get rich buying gold—and you'll get *even richer* buying silver!

There's only one caveat: Liberal economist John Maynard Keynes wasn't right about a lot, but he did get one thing completely right: *in the long run, we're all dead*. The fiat moneys of the world, the U.S. dollar included, are *all* going to zero—and that means that the value of gold and silver, as expressed in fiat currencies, is going to *infinite*. This will happen, "in the long run," barring some kind of world-ending event. The only question is when.

That I can't answer with great certainty, but we're certainly closer to this day of reckoning than at any other point in human history. If there were a Doomsday Clock for the death of the dollar and other world fiat currencies, it would have been at least half-past eleven P.M. in the late 1970s and early 1980s. Perhaps the second hand turned back a bit throughout the Reagan, Bush I, and Clinton regimes, but not by much. And now, after eight years of George W. Bush and just over a year of the Obama administration, that Doomsday Clock is sitting at no better than 11:55.

How long will it take before the Clock strikes midnight? I can't say. *Could something happen to set the clock back?* Yes. *What?* I don't know—it could be something totally unforeseen. But if forced to play the odds, then I'd wager that Monetary Armageddon will come in the lifetimes of most people reading this who aren't yet collecting Social Security. I'd certainly take that bet before I'd wager anyone under forty is ever going to see a dime *of* Social Security!

And, of course, the end could come before you're finished reading this guide. The Soviet Union collapsed with little warning. People could not have conceived of its downfall even a week before it happened, and when the world financial system comes tumbling down, it will likely be just as sudden. So what do you do about it? You get prepared. Now.

Chapter 1: A History of Gold and Silver As Money

Now, if the value of the dollar and all other currencies goes to zero, then gold and silver will be priceless—*in terms of those currencies*. However, you need to consider what the value of gold and silver will be *in relation to other goods*. After all, it doesn't matter if an ounce of gold is worth infinite dollars when no number of dollars can buy you a single stick of gum. If the world financial system collapses, will the purchasing power of gold and silver go up in relation to other goods?

Why Does Money Have Value?

To answer that question, we need to look at why it is that gold and silver have value in the first place. This is a question people seldom ask themselves—heck, people seldom ask themselves why in the world they work forty hours a week to be paid in paper dollars, and this lack of curiosity shows. The answer to this second question is because *dollars* (in the United States, other currencies in other countries) are "generally accepted." But why?

Well, in the case of the U.S. dollar, one reason is because it's been officially (though unconstitutionally) declared "legal tender." This means that you have to accept dollars in payment for "all debts, public and private." But let's be honest: you don't have to put a politician's gun to the head of the Average Joe in order to get him to accept your money. He accepts it because he knows he can trade it to the next man, etc., *ad infinitum*. But we still haven't gotten to the real root of the matter: why does *anyone* accept paper money in exchange for real goods and services? Simply saying “because everyone does” doesn’t really answer the question.

Carl Menger’s Theory

In his groundbreaking work on the origin of money, Austrian economist Carl Menger made the essential observation that money *has* value *today* because it *had* value *yesterday*. I cannot print my own “funny money” with pictures of Mickey Mouse on the notes and convince someone to accept them in exchange for real goods and services because the person will have no confidence that he’ll in turn be able to exchange them. Why not? Because these notes had no exchange value in the past, so there’s no reason to think they’re going to start having exchange value in the present or future.

With this principle in mind, it becomes clear that in order for something to *become* money, it must have value *for its own sake*. Gold, for example, could *become* money because it had *intrinsic value*—people wanted it for its beauty (and other reasons). It always had value *yesterday*. My Mickey Mouse notes did not.

So how did U.S. paper dollars become *generally accepted* as money? Even forced legal-tender laws could not have done the trick by themselves. No, instead, the original U.S. bank notes *represented* things that people valued for their own sake—gold and silver. And when the dollar’s ties were severed, first from silver and later from gold, people continued accepting the intrinsically worthless scraps of paper since the paper *had value yesterday*.

This was an ingeniously devilish plot launched by the bankers and politicians over the course of several decades—it couldn’t have been pulled off overnight. But regardless, this is how it was done, and it is the *only way* it could ever be done.

What is Money?

So now that we've established that something can only be money if it *had* value yesterday, the question becomes: why gold and silver? After all, plenty of things have "intrinsic value." Why is it that gold and silver were chosen as money, and *how* were they chosen?

First we need to look a little deeper at just what money is. Is money simply something the government declares to be so? It may seem like that today, but this is a false assumption. Money is a *generally accepted medium of exchange*. In the U.S., it is U.S. dollars. In Japan, it's yen. But we've already established that fiat currencies became money only because they were initially proxies for gold and silver. Throughout most of history and all over the world, gold and silver have been the generally accepted media of exchange. Why?

The Qualities of Money

Money needs to have several characteristics beyond just intrinsic value. It needs to be *homogenous*, *value-dense, divisible*, and *non-perishable*. Gold and silver have these values more than any other items on Earth. Let's look at them one-by-one.

Homogenous means "same." Money needs *homogeneity*, or "sameness" to function. Think about it: You don't care if you get "your" $500 back from the bank—i.e., the bills that you deposited last week—you just want to get $500 back. Maybe you want five $100s or twenty-five $20s, but you don't care if they're the same bills you deposited. That's because dollars have the *sameness* and *interchangeability* that money needs. The same is true of gold and silver: one ounce of pure gold is the same as any other ounce of pure gold. One fish, by contrast, is not the same as any other. Fish, thus, would not be a good money.

Money also needs to be *value-dense*. Compare gold with steel: It currently takes about thirty ounces of gold to buy a moderately expensive new car. Steel, which is priced by the ton rather than the ounce, is not nearly as *value-dense*. In fact, to get $33,000 worth of steel, you'd need over *fifty tons* of the stuff! Imagine trying to carry that with you to the car dealership.

Divisibility is also important. Cattle could never be money even if they were perfectly homogenous and adequately value-dense because they're not divisible—or at least, they can't be divided without destroying their value. Cut a cow in half and you might have an equal amount of beef, but you don't have a live cow at all anymore—so how would you make change? Gold and silver really stand out by this measure because there are virtually no limits to their divisibility.

And finally, *non-perishability* is a key ingredient. Critics of gold say "you can't eat it." But the problem with things that you can eat is that they go bad. Pork chops could never be money because you couldn't save them indefinitely like you can gold and silver. In order for something to function of money, it needs to be a *store of value*. Gold and silver certainly fit here, too.

The Pre-History of Money: Barter

Now we know why gold and silver make good forms of money, but *how* and *when* did they *become* money? We tend to think of currencies being associated with governments—the U.S. government (and its central bank) control the dollar; the Japanese government controls the yen, etc. This is true of ancient times, too, as emperors would often affix their visages to the faces of coins to (supposedly) grant them legitimacy. But if money has always been created by governments, then which king, sultan, or pharaoh was the first to come up with the idea? Who invented money? You'd think he'd be at least as famous as the man who invented the cotton gin, right?

The answer is that *no one individual* invented money. Instead, it emerged organically via the market process of free exchange. In fact, the origin of money predates the origin of government!

Here's how money came into being: Before there was money, there was barter. Barter itself was only possible once people emerged from the collectivism of tribal hunter-gatherer lifestyles into new cultures of individualism, private-property ownership, and family-centricity. This was possible thanks to the advent of agriculture, which allowed prehistoric humans to stop their nomadism, settle down, and specialize in different tasks. With each person spending all day doing what they did best, more was produced, and therefore there was greater overall wealth. However, if a man spent all day doing what he did best, he would certainly have a surplus of whatever it is that he produced and a shortage of all other things.

The solution to this problem was trade. If Jones were a fisherman and Smith were a farmer, Jones could trade some of his surplus fish to Smith for Smith's excess grain. This assumes that Jones *wanted* grain and Smith *wanted* fish—what is known in economics as a "double coincidence of wants." But what happens when Jones wants grain but Smith has enough fish—or maybe he doesn't even like fish? How can Jones get grain?

The answer is *indirect exchange*. Perhaps Smith really wants some new shoes, and he knows that the shoemaker Thomas is in need of fish. Therefore, Smith will accept the fish—even though he doesn't want fish—so that he can then trade his fish to Thomas.

The Origin of Money

Alternatively, perhaps Jones has built up reserves of other goods during the course of his bartering in preparation for situations like this. If he had surplus fish, he'd gladly trade them for things he didn't need if he thought he'd have an easier time trading *those* things for things he *did* need in the future. Fish, after all, are perishable. So at some point, trading them for just about anything would be preferable to letting them go to waste. But what kind of goods would Jones prefer most of all?

The answer: He'd prefer goods that are the most *liquid*; i.e., easily tradable. And those goods are going to be ones that have the qualities of money: homogeneity, value-density, divisibility, and non-perishability. If the reason why isn't obvious, let me elaborate: If Jones wants the goods not for his own use but to trade them in the future, then obviously he'll want goods that are the most easily tradable. Goods that have the qualities of money (homogeneity, value-density, divisibility, non-perishability) are more easily tradable for the reasons discussed in the Qualities of Money section.

So, as Jones and other traders began showing *preference* for goods that were more homogeneous, value-dense, divisible, and non-perishable, then the *demand* for goods that had those qualities would increase, thereby increasing their value. The goods would take on an added value as *exchange commodities,* in addition to their value for usage. Over time, one or two of these goods would win out and become "money"—the good or goods that are *generally accepted* as exchange media. This happened with all kinds of goods throughout the world, but in the absence of artificial barriers and given the proper amount of time, gold and silver have always emerged as money. Gold and silver were money from pre-Biblical times up through 1971, after all!

The Monetary Demands of Commerce

Today, we think of a "one-world currency" as being something imposed by the United Nations, undoubtedly as a new fiat money. Most of us are against this sort of one-world currency, but the truth is that the world *did have* a universal currency for millennia: it was gold. It is only natural that via market process, one good will be *the most* liquid, and thus be *the* preferred medium of exchange—but there must always be a second good to keep that one honest, and this is the role that silver has traditionally played.

In colonial America, lots of regional currencies emerged. In what was then the West, beaver pelts became money. In Virginia, receipts for bails of tobacco were the preferred media of exchange. In other parts of the young country, wampum was treated like cash. Why not gold or silver? Because Britain's *mercantilist* policies aimed at keeping gold and silver within the motherland's borders, and thus there was a shortage of coin in the New World. The colonists improvised and established their own moneys, but in time, the evolutionary process demanded first one money for all of the colonies, and then, ultimately, that America be integrated into the world economy.

Gold was the world's money, so where did that leave silver? Silver was still essential to "keeping gold honest." If gold became overvalued, either due to supply shortages or government manipulations, then silver could be used as a substitute. This is why there must always be at least two moneys on the free market: One the dominant partner, in which people make profit calculations, interest payments, etc.; but another to serve as a regulator. Only through the imposition of artificial controls is this result not achieved, as the entire history of world commerce shows.

Conclusion

Gold and silver have been used as money for more than 4,500 years, and were first minted into coins of equal size and weight no later than 680 B.C. They continued to be the senior (gold) and junior (silver) partners in world monetary affairs all the way up until 1971, when the U.S. dollar and every other currency in the world became fiat money. That's just thirty-nine years of fiat money, versus four-and-a-half millennia of gold and silver.

This chapter began by acknowledging that just because the dollar and other world currencies will see their values fall to zero, it doesn't necessarily mean that the purchasing power of gold and silver will rise. But as you can see from looking at the history of money, items take on a greater value once they are prized specifically for their exchangeability: when the desirability of gold and silver as exchange media increases, so too will their value. If the world currencies collapse, then gold and silver will most certainly gain value for this reason, but even something short of total collapse—say, prolonged inflation—will increase not only the currency-denominated value of gold and silver, but also their purchasing power as the use of gold and silver in barter will increase.

But what if you're still not convinced that we're on the verge of monetary collapse, or at least massive inflation? Read on.

Chapter 2: Hyperinflation on the Horizon

At the very least, gold and silver are excellent *hedges* against inflation—almost nobody will deny this truth. To the mainstream thinker, an investment in gold will not bear interest or generate dividends, but it will likely protect purchasing power against the ravages of inflation.

With inflation, currency loses its value, which makes gold and silver (and all other things) more valuable *in terms of* the currency. But, as discussed in the previous chapter, the instability of high inflation leads to an increase in barter activity, and when this happens, gold and silver take on additional value as exchange commodities. Thus, not only will gold and silver protect your purchasing power, but they should also increase in *real*, inflation-adjusted value, if there is prolonged inflation. And why shouldn't we expect prolonged, perhaps even *hyper*inflation?

Two Definitions of Inflation

With the rise of *Keynesianism* in the interwar period, the definition of "inflation" changed. Previously, inflation had always referred to an *increase in the supply of money*. To the Austrian economists and their followers, this remains the definition of inflation. However, to students of all other economic schools, inflation has come to mean an "overall rise in the price level"—i.e., higher prices or, inversely, diminished purchasing power for the currency. In reality, higher prices are merely a *symptom* of the *real* inflation, which occurs when the government or its agencies create more money.

When the money supply increases by 10%, it only stands to reason that prices should go up by 10% (or more accurately, *10% more than they otherwise would have*). Just imagine you were playing a board game like Monopoly where all of the play money had to be used to bid on properties, and suddenly every player's money was doubled: the properties would instantly begin fetching double their previous prices.

However, the difference is that in the real world, inflation is not evenly distributed as in the game example above. When the Federal Reserve System creates new money, it doesn't mail out checks to every American citizen in proportion to the money they already held. Instead, the new money flows to the rich and politically connected first, who get to use that money *before* the effects of the inflation (higher prices) have kicked in; giving them an *unfair* and *unearned* advantage that contributes greatly to the inequality of wealth in the U.S.—and the rest of the world, too, as virtually all countries practice the same system of legalized counterfeiting.

The Mechanisms of Inflation

The Federal Reserve System creates money in two ways. The most obvious is when *the Federal Reserve Bank* "monetizes" government debt (or other debt or assets). What this means is that the Fed writes a check, backed by funds that *don't yet exist*, and uses it to purchase a government bond or some other asset. Once it writes the check, the money is *automatically created* and "backed" by the asset it was used to purchase! How's that for sleight of hand?

So, when the federal government runs a deficit and the Fed buys $300 billion in Treasury bills, this *creates* $300 billion in new money out of thin air. This new money goes into the hands of the federal government, which spends it to pay politically connected interests—politicians, government employees, military personnel, government contractors, and corporate welfare recipients. These interests get this new money *before* prices rise, which begins as the money starts circulating through the economy. By creating $300 million out of thin air, the Fed has *diluted* the value of all existing dollars, and transferred that stolen value to the holders of the new money. This is a plain and outright theft that hardly anyone can be bothered to care about—they're too busy watching *American Idol*.

The second and more contentious way that the Federal Reserve System inflates the money supply is through the practice of *fractional-reserve* lending. Virtually every bank operating in the United States, from the *Fortune-100* TARP recipient to the small and struggling local bank, is a member of the Federal Reserve System. Even banks and credit unions that aren't members of the Federal Reserve System issue their loans in Federal Reserve Notes (a.k.a. "U.S. dollars") and are given legal protection to practice the form of counterfeiting known as "fractional-reserve lending." What this means is that for every $100 on deposit, a bank or credit union can loan up to $90 of that money—while still being required to pay back $100 to the original depositor, on demand. Thus, for every $100 deposited in a bank, $90 additional can be created out of thin air.

But it gets much worse: When the bank loans out that $90 to another customer and he deposits it in that same (or some other) bank, the bank can then loan out 90% of *his* deposit. Now there have been $171 in *new money* created by the $100 on deposit—and it goes on and on, until ultimately, *as much as $900 in new money* can be created for every $100 deposited in a bank or credit union. This new money dilutes the purchasing power of existing dollars just as surely as the Federal Reserve Bank's monetization policies do, but even anti-Fed activists don't like to look as deeply at this issue *since many of them are participants in this system*.

I'm not here to make a moral case against taking out bank loans—that's not the purpose of this guide. The purpose is to get you to understand why silver is the best investment you can make, and in order to understand that, you need to understand the mechanisms of inflation and how they benefit the rich and politically connected at the expense of the middle class and poor. Who gets these bank loans? The middle class get some. The poor get none. But the bulk of bank funds go to the rich. Now, there's *certainly nothing wrong with being rich*—we all aspire to it. But this is an unfair advantage *legislated into existence* via the Federal Reserve Act, and *not* a creature of the free market. Understanding this is key to understanding why the entire system is set to collapse.

Free-Market Banking: Theory and Practice

It's important now to contrast how banking *could* and *did* work in a free-market setting, absent statist interventions like the Federal Reserve System. In the United States, banks printed their own paper notes—backed by gold or silver—all the way up until 1913. A bank note would bear the name of the bank that issued it, and the location where it could be redeemed for the gold or silver it represented. If someone in Michigan was trying to pay with the notes of a small bank in Wyoming, they'd be suspect. Reputable banks, however, made voluntary agreements with one another to redeem each other's notes, thereby streamlining commerce.

A bank under a system like this was unable to lend more money than it had without running the risk of default. *Demand deposits*—which basically constitute everything but CDs now—could *not* be lent out at all, since they couldn't be promised to both the depositor and the borrower at the same time. Instead, savers would make *time deposits*, for six months or a couple of years, for an agreed-upon rate of interest. The bank would then lend that money out a higher rate, making a *legitimate* profit.

The problem is that the banks got greedy. They would notice that they had a lot of gold and silver on hand, and only a tiny portion of it would ever get withdrawn in exchange for notes—people got used to using the paper notes instead of the coin. So enterprising bankers decided they could make *extra* money by making *extra* loans—for which there was no specific gold or silver backing. If they issued 10% more notes than they had gold or silver on hand, then what were the odds that they'd be found out? It would require quite a bank run to reveal their deception, and by issuing loans on money created out of thin air, these criminal bankers were able to charge lower interest rates than their competitors. This spurred their competitors to counterfeit at an even greater rate, say, 15%. Quickly, there was a race to oblivion, with banks soon printing twice as many notes as they had backing, and then five times, and then ten times, etc. Ultimately, there would be a bank run and it would be discovered that the banks didn't have gold and silver to cover all the notes they created.

Now, what *should have* happened is these bankers should have been charged with counterfeiting and fraud. But because bankers were almost as politically influential then as they are now, the government routinely gave them a pass! States would declare “banking holidays” to allow the banks to get their funds in order, and the monetary contraction that resulted would lead to panics or depressions. This is what the Federal Reserve was supposedly designed to prevent—though in reality, it was designed to *standardize the rate of counterfeiting* that was permitted so that it could never get too out of control. But once the dollar’s tie to gold was severed in 1971, there was no longer any threat of “bank runs,” as the Fed could always just print more money. Thus, we’ve arrived where we are today.

B.S. from the BLS

The most popular measure of “inflation” is the government’s Consumer Price Index (CPI). This is an imaginary gauge of “consumer prices” straight out of George Orwell’s *1984*. When inflation looked too high in the 1980s, Reagan had the Bureau of Labor Statistics (BLS) brazenly eliminated housing from CPI! Later, Clinton and Greenspan began the practice of “substitution”—if T-bone steak was “too expensive,” then chicken breast was substituted… What’s next? Alpo?

CPI grossly underestimates rises in the “overall price level”—whatever the heck that is anyway. And besides, in a free market, *prices would naturally fall* with increases in productivity and capital accumulation. We still see this in some fields, such as personal computing, despite the Fed’s runaway printing press. Thus, CPI is virtually a worthless indicator, except when it demonstrates that, even with its Soviet-style manipulation, the government cannot hide the fact that the dollar has lost over 95% of its purchasing power (according to CPI!) since the birth of the Federal Reserve!

The measures of real inflation are those statistics that track the money supply. But wouldn’t you know it, the Fed decided to stop tracking *M3*—the broadest and most accurate measure of the money supply—in 2006. It was “no longer necessary” they said. Yeah, right!

Conclusion

Regardless, with low-interest rate stimulus, financial bailouts, record federal deficits, and the declining demand for U.S. Treasury bonds, the Federal Reserve has been inflating like no other time in history. By one measure, the Fed increased the money supply by more in a period of one year through 2008 than in its entire history up to that point! Much of this money is sitting idle in banks, who are officially prodded to "lend more" but are—for the first time ever—being paid interest on their reserve holdings.

No surprise, the government is talking out of both sides of its mouth. What they want to have happen is for the tight economy to continue increasing the number of home foreclosures so that the inevitable hyperinflation doesn't make it so you can pay off your mortgage with a half-a-week's paycheck. Once a sufficient number of homes are in banker hands, then the hyperinflation tsunami will begin. Nothing can stop it at this point. It's only a matter of time.

Chapter 3: Why Gold is Great and Silver is Even Better!

Silver is the single best investment anyone on Planet Earth can make right now. But in order to understand *The Case for Silver*, we must first understand *The Case for Gold*.

Gold is a fabulous investment itself—but virtually everything that can be said for gold can also be said for silver, and then some. Once we've laid the foundation that gold is a no-brainer investment opportunity of a lifetime, we'll pull the rug out from under you and show you why silver is even better. For now, though, let's look at gold.

'We Buy Gold!'

Street corners all across the country feature formerly abandoned storefronts that now sport gaudy black and yellow signs that read, "We Buy Gold!" Isn't it strange that there aren't as many locations saying "We Sell Gold"? Why are these startup businesses trying so desperately to *buy* gold? What are they doing with it?

Obviously, the "smart money" knows that gold is set to skyrocket against the dollar. That's because so many dollars have been printed and keystroked into existence that their value is constantly diluted. Gold, however, has a comparatively fixed supply. Yes, more gold is mined every year, but not nearly as much as the central banks of the world create fiat money. And unlike fiat-money printing, gold-mining is very expensive.

Bretton Woods

As you know, gold was the basis for the international monetary system for thousands of years, all the way up until 1971. In the years after World War II, the Bretton Woods System pegged the value of gold at $35 USD per ounce, with all other world currencies backed not by gold, but by the U.S. dollar. This gave all currencies *indirect* gold backing, while only the dollar was *directly backed* by the precious metal.

But there was a problem: The U.S. government wanted to print more dollars than it had gold to back them, and under the Bretton Woods System, this was difficult. One way the government was able to keep the system afloat for as long as it did was *by outlawing the private ownership of gold* in the United States! From 1933 to 1974, U.S. citizens were prohibited from holding gold—only foreign governments and their central banks could exchange their U.S. dollars with the Federal Reserve for gold. Thus, the U.S.-led “gold pool” manipulated the international gold and foreign currency markets to keep gold at or around $35 for as long as possible, before finally giving in on August 15, 1971. That’s when the system broke and the U.S. effectively declared bankruptcy—and all of the world’s currencies simultaneously became fiat money.

Coming out of the Bretton Woods System, gold’s price obviously soared, but it would be another three years before U.S. citizens regained the legal right to own gold. In the time since the Federal Reserve Act’s passage, complacent Americans had become accustomed to using greenbacks instead of precious-metal coinage in their transactions, and thus, they continued to trust the dollar even after it became a worthless fiat note. But just because the dollar’s relationship to gold became informal did not mean that gold became worthless—instead, it continued to gain value in relation to the constantly diluted dollar, and by 2008, gold hit $1,000 an ounce. Many analysts think gold is still dramatically undervalued in relation to the dollar, *and* in terms of raw purchasing power, too.

The Edge of Monetary Ruin

The Federal Reserve is on the brink of destruction, with the U.S. government and the entire international monetary system likely to go down with it. The last time we faced this scenario was in the late 1970s and early 1980s, when inflation was skyrocketing out of control and unemployment was even worse—the situation (said to be impossible by Keynesian economists) known as "stagflation."

Three great books were written in this time predicting the imminent collapse of the dollar: *Gold, Peace, and Prosperity* by Ron Paul; *How You Can Profit From the Coming Price Controls* by Gary North; and best of all, *The Alpha Strategy* by John Pugsley. By the mid-eighties, these books and their authors were laughingstocks, as "good times were here again" and the U.S. government and the dollar were back on top—for the time being. But *now* it's clear that Paul, North, and Pugsley weren't wrong—they were just early. And they had good reason to be premature in their predictions, for there is *no way* anyone could have ever thought the Fed would do what it did in 1980.

What did the Fed do in 1980? The unthinkable. Chairman Paul Volcker drastically raised interest rates, pulling the federal funds rate to as high as 21%, and purposely creating a recession he thought—correctly—was needed to purge the system of its excesses. Nothing, of course, could *ever* redeem the Federal Reserve System and fiat-money fractional-reserve banking, but Volcker's policies did effectively hit the reset button, and give the Americans another thirty-plus years to live beyond their means. In the long run, though, all this did was ensure that the next boom and bust would be even larger, and with Greenspan and Bernanke, this has been the case.

So, facing a situation even direr than we did in 1980, will Ben Bernanke and Barrack Obama raise interest rates to 20% and higher and *purposely* give us the mega-recession—the financial enema—that the system needs? Although conservatives like to make comparisons between Jimmy Carter and President Obama, the truth is that the two figures could not be any less alike. Carter stood before the American people and admitted the sorry state of the nation and, with all his foibles, *tried* to right the course. Obama is all platitudes—"hope," "change", etc.—a supposed “messianic” figure. He’s a product of the “we can have it all” age, not someone who’s going to give Americans the hard medicine they need.

And besides, even if Obama and Bernanke did try to repeat the course plotted by Carter and Volcker in the late 70s and early 80s, I don’t think it would work this time. A lot has changed: In 1980, there was no euro competing with the dollar to be the dominant currency of the world. There was no China as a serious economic and (potential) military competitor. America was not nearly as deep in debt as it is now, nor was it bogged down in two (or more) counterproductive and costly wars. America was much greater than Carter gave it credit for being in 1979, but it is much, much weaker than any politician is willing to admit now. The point of no return has already been breached: Monetary ruin is at our doorsteps.

The Case for Gold

Now that we’ve looked at what happened in the late 70s and early 80s, let’s review how gold and silver performed during this age of great monetary uncertainty. Gold hit a high of $887.50 in 1981, which when “adjusted for inflation,” comes in at $2,115.62 per ounce. Of course, I say “adjusted for inflation” in quotes since this figure is based on the government’s fabricated CPI (Consumer Price Index) numbers.

As stated earlier, CPI has been manipulated over the years via processes of deletion (e.g., real estate) and substitution (e.g., chicken breast for T-bone steak), but a Web site called ShadowStats.com continues to track CPI using the *original* formula—before Reagan and Clinton eviscerated it. Using that original CPI formula, to equal the purchasing power of $887.50 in 1981 dollars, you’d need a whopping $6,124.87 today. Gold’s 2009 high of $1,212.50 is only equal to $513.74 in 1981 money—according to CPI—or $177.64 according to the original formula.

Clearly, gold is nowhere near its inflation-adjusted high by any measure, and why shouldn’t it go there? Things are just as bad as they were in 1981, to be sure, and they’re going to get a whole lot worse. Even if Bernanke and Obama surprise us all and save the dollar one last time—*fat chance*—then gold should still hit $6,000 or more, which is nearly six times its current price. The only reason the smart investor doesn't put every investment dollar he has into gold is because silver is so much more promising!

Silver's Monetary History in the U.S.

As previously discussed, the most popular coin circulating in colonial America was the silver dollar; a Spanish coin containing approximately 0.82 ounces of fine silver. In 1792, the new American Congress passed the country's first Coinage Act, establishing the new U.S. dollar as containing 0.77 troy ounces of silver—the government's devaluation of the dollar started early! The seeds of monetary ruin were also planted within this first Coinage Act, as the economically ignorant Congress experimented with *bimetallism*—arbitrarily fixing the exchange rate between gold and silver—by declaring the dollar equal to 0.0514 troy ounces of gold, in addition to its 0.77 troy-ounce silver value.

Thus, an exchange rate of one ounce of gold to fifteen ounces of silver was established, and *Gresham's Law*—"bad money drives out good"—almost immediately went into effect. This is because market forces, not governments, determine the *real* value of gold and silver, and thus when gold was *really* worth more than fifteen times silver, people used their silver coins and horded their gold; and when the reverse was true, people used their gold and horded their silver. This caused many monetary dislocations throughout America's young history and helped lead to some of the "crises"—real and imagined—for which the Federal Reserve was supposedly created to remedy.

But, as bad as bimetallism is, America's experiment with it demonstrated the value of having two monetary bases. It is good to have a second medium of exchange to keep the primary medium "honest" and free from manipulation—it's just that they should not have their exchange ratio arbitrarily fixed. Even if gold is chosen as the preferred medium of exchange following the collapse of the dollar, silver will serve an important role, nonetheless. And there are many reasons to think silver, and not gold, will be the preferred choice, at least in the early stages of black-market bartering.

The Preferred Means of Barter

Even if you're not willing to jump on the monetary apocalypse bandwagon, only a fool would doubt that the U.S. is in store for some serious price inflation over the next several decades. As that inflation gets worse and worse, eventually escalating into *hyperinflation*—where it will be difficult to keep track of prices on an *intraday* basis!—then people will look to barter to facilitate transactions, instead of using currency.

This has already started happening on a small scale, and it was more prevalent during the 1970s. But if inflation reaches the levels we all expect it to, then the barter economy of the near future will be unlike anything the United States has ever seen since the first Coinage Act. Indeed, black-market bartering will replace "white market" currency usage as the dominant means of commerce, and when this happens, what will be the preferred medium of exchange: A gold coin, which is already worth a good week's pay; or the silver ounce, which is much more affordable?

Imagine trying to pay with something at a convenience store with a $1,000 bill—it would be difficult, right? Now imagine trying to barter with someone at a *garage sale* with that $1,000 bill—it would be virtually impossible! This is why silver is likely to be the choice of underground barterers. And although there is actually more gold than silver in the world today, the working and middle classes of America hold much more silver, and their holdings are likely to continue increasing as the economic situation worsens.

The Gold-to-Silver Ratio

A little earlier, we looked at out the first Coinage Act of the United States established the exchange rate between gold and silver at 1-to-15. Although this was arbitrary and unsustainable, the Congress did not just pull this ratio out of thin air. Throughout history, this had been the *average* exchange rate of the two metals for hundreds of years, and even after the Coinage Act, although the real exchange rate would fluctuate, 1-to-15 remained a decent *approximation* of the real ratio.

Now look at today's ratio: Gold is at $1,125 and silver is at $17.55—that's a ratio of 64-to-1! So, in order to return to their traditional ratio, gold would have to either come down considerably, or silver would have to soar. If we agree that there's no reason for gold to fall—by contrast, there's every reason in the world that it should rise—then even if gold stands still (as opposed to appreciating), silver would have to rise to $75 an ounce to restore the traditional 15-to-1 exchange rate. And, if we use the $6,125 price target for gold established earlier, this means a $408.33 per-ounce price for silver!

But it gets even better: When the gold-to-silver ratio gets so far out of whack, it normally overcorrects before swinging back to 15-to-1. There's no reason to think that's silver's rise shouldn't make that ratio 10-to-1 or even 5-to-1. Thus, a price target for silver of $612.50 or even $1,225 is not unreasonable—and all of these prices need to be adjusted for future inflation; I've been talking in 2010 dollars whenever I've quoted a price target.

An Inverted Ratio

Is this all too good to be true? Well, before your eyes start rolling, let me share the notion that some precious metals experts actually think that silver should be trading at a *premium* to gold! They cite the unbelievable-but-true facts that there is actually more gold in the world today than silver, that silver is the more *indispensable* industrial metal, and that there will soon be worldwide shortages of silver to say that, if anything, silver should be trading at fifteen times gold, not the other way around!

Are these silver bugs overly optimistic? Perhaps. But even if they are wildly overestimating silver's bullish potential, the fact remains that silver is horribly undervalued. If gold reaches only $2,000 and not $6,125; and if silver only makes it to 1/30 of gold's price, instead of 1/15, then that still means a per-ounce silver price of $66.66. And this would mean that gold would be trading at less than its CPI-adjusted 1981 high (to say nothing of its Shadow Stats-adjusted high), and silver would still be trading at just half of the traditional ratio between the two metals. This seems like a very conservative estimate, but it would still mean a 280% gain for silver.

Heck, if silver even returned to its *nominal* high of $52.50—which it hit in January of 1980—that would mean a 200% gain. Adjusted for CPI—we'll even leave the Shadow Stats out of it for now—silver's real high was $138.06. Surely it can go at least this high, right? It did before. Why shouldn't it again?

Manipulation of the Silver Market

One of the things that pushed silver to that 1980 high of $52.50 ($138.06 when adjusted for inflation) was the *manipulation* of the silver market by the infamous Hunt Brothers. Silver Monthly published an article detailing the exploits of this pair, who served as the inspiration for the antagonists in the classic Eddie Murphy comedy, *Trading Places*. Some would say that this sort of manipulation couldn't happen again, and thus, that's the reason silver is unlikely to hit $52.50—or especially $138.06—again. However, the silver market *is being manipulated right now,* to an even greater extent that the Hunt Brothers ever dreamed.

Just four or fewer traders have held *huge* short positions in silver for a number of years. These concentrated short positions in silver dwarf the size of the concentrated short positions in other commodities, and they're being continually "rolled over." This means that as silver has generally risen in price over the past several years, the shorts haven't been covering their positions and taking their losses, but instead, they keep on selling new short contracts—losing more and more money in the process. The sums lost by these short sellers would be unsustainable by most private organizations, which leads analysts to believe that it must be governments, central banks, or affiliated agencies who are racking up these losses and passing them on to taxpayers.

To what end are these entities, whoever they may be, shorting silver? The purpose is to keep the price of silver down, for when precious metals rise in price, it reveals the weakness of fiat money. If silver were to reach $1,000 an ounce, it could signal the death of the international monetary system, as widespread panic and loss of faith in national currencies could render them worthless. The money masters have been manipulating gold for years, mostly by leasing it to gold miners while keeping it on their books, thereby overstating the world supply. They've been even more successful with silver, as evidenced by the 1-to-64 gold-to-silver ratio. But they can't keep this up forever, and at some point, the levee will break. This is when silver will absolutely skyrocket.

The Coming Silver Shortage

Although gold has some fine industrial properties, it is primarily prized for its use in jewelry and as a store of wealth. Silver, on the other hand, is *the world's most indispensable metal*. If all of the world's gold disappeared overnight, there would be some pretty unhappy gold bugs, but life would go on. If the world's silver supply vanished in an instant, life as we know it would come to a screeching halt.

Silver is the most electrically conductive, thermally conductive, and reflective metal known to man. Photography, batteries, computers and many electronics would all be virtually impossible—and significantly more expensive—if not for silver. While only 10% of the world's gold is used in industrial applications, most silver is. In fact, since both gold and silver are essentially indestructible, more than 90% of all the gold ever mined is still available today, but much of history's silver sits in landfills, built into industrial items from which it would be more expensive to extract the silver contents than to mine new silver. In other words, silver is getting used up; gold is not.

When gold reaches new highs, it becomes practical to mine more gold. Some gold is profitable to mine when it's fetching $1,125 an ounce, but not when it's fetching $800 an ounce. Most silver, however, is mined as a *byproduct* of copper or other industrial metals. So if the price of silver quintuples, but silver makes up just 5% of the revenue stream of a copper miner, it will not make sense for the copper miner to dramatically increase his production unless copper rises in proportion to silver.

There is less silver in the earth's crust than any other mineable metal. Geologists estimate that the world's underground gold supplies will be exhausted within thirty years, but silver will last only twenty-five years. As stated above, though, 90% of the world's gold ever mined remains available to use, whereas the bulk of silver is *consumed*. As silver gets rarer and rarer, both underground and on the surface of the planet, its price cannot possibly do anything other than rise.

Conclusion

Let's stop thinking of things in terms of dollars for a moment, and consider silver in relation to another item—say the average home. In 1971, when the U.S. went off the gold standard and Standard & Poor's began compiling residential real-estate data, the median-priced home in the United States cost 14,823 ounces of silver. By January 1980, with silver at its all-time high, the median-priced home cost just 814 ounces of silver! The pendulum swung again, and by 2002—at the peak of the bull market in housing (at least in relation to silver)—the median-priced home cost 38,123 ounces of silver. And now, with silver at $17.55 and the average home priced at $177,900, this means that the median-priced home costs 10,136 ounces of silver.

From 38,123 ounces to 10,136 represents a 73% drop in home prices, a 276% rise in silver prices, or a combination of the two. Regardless, there's no reason to think that silver won't reach its old high, at which point it cost just 814 ounces to buy a median-priced home—and in fact, there's no reason to think that silver won't do even better than that. But even sticking with the 814 number, this means that for an investment of about $14,285, you could have a home that's currently selling for $177,900—you just have to wait it out. Now that's a "buy and hold" investment strategy I can get behind!

Chapter 4: How to Invest in Silver

Now that the case for silver has been made, the question becomes, “How do I get in on this once-in-a-lifetime investment opportunity?” In this chapter, we will examine the pros and cons of buying silver coins and bullion, exchange traded funds (ETFs), and silver stocks, as well as trading silver contracts in the futures market.

Let’s Get Physical

Without a doubt, *physical silver*—in coin, round, bar, or pellet (“shot”) form—is the best investment option for would-be silver investors. For one thing, the startup cost is incredibly low—just go down to your local coin shop and you can buy a one-ounce round for a little over $20 (typically $2-3 above the spot price of silver). Comparatively, you’d have to set up a trading account and pay commissions to buy ETFs, stocks, or contracts on the futures market.

Silver Coins

Technically, to qualify as a *coin*, a piece of silver must be issued by a sovereign government and have legal-tender status. For example, the U.S. government issues silver Eagles that have a legal-tender face value of $1. You could, by law, spend silver Eagles at Walmart, using their $1 face value—but you’d be a fool to do so, of course! Similarly, Canada produces Maple Leafs, China produces silver panda coins, and several other governments issue official coins, too.

Silver Rounds

By contrast, silver *rounds* are non-government issues that look like "coins" but have no legal-tender status. Private mints produce these items, which typically sell at less of a markup—more like $1 over spot as opposed to $2-3 or more.

Why do private-mint rounds sell for less than official government-issued coins? It's not because the silver inside them is any less valuable: ".999 fine silver" in a round is just as pure in a coin. The reason for the higher markup on government coins is that they are more easily recognizable as authentic in barter situations, and their supply is under greater control and scrutiny than the issues of private mints. It really is interesting that buyers are already pricing in future barter values today!

What Kind of Coins/Rounds Should You Buy?

So which are better, coins or rounds? I'd say they both have their pros and cons. While it's true that coins, especially American Eagles (if you live in the U.S.) are more instantly recognizable and would serve as better barter material in the near future, if silver truly skyrockets like we expect it to, then you're probably better off having *more rounds* instead of *fewer coins*. There's no reason to assume that the added premium value of silver coins will keep place with inflation or silver's soon-to-be meteoric rise.

This is also why I'm against heavily investing in collectible silver coins. A collectible silver coin's value can be broken down into two parts: its silver-content value and its *numismatic* (collector) value. Let's say there's a collectible one-ounce silver coin that's worth $100. This means it has $17.55 in silver-content value (at today's prices) and $82.45 in numismatic value. Now, if silver goes to $52.65 an ounce, then the silver-content value of that coin will triple to $52.65—but will the numismatic value also triple? There's no reason to think it will. Instead of spending $100 on a collectible coin containing one ounce of silver, you could have purchased five $20 silver rounds or coins, which would have reached at least $54 or $55 in value apiece. In order to equal that return, then the numismatic value of your collectable coin would have had to have gone up by 263%, and there's just no reason to think that it would.

Another question is, what size coins/rounds should you buy? I recommend that the majority of your coins and rounds should be in one ounce denominations, and be certified .999 fine silver. Coins that are only *partially* silver—such as many old government coins—will be harder to trade in the future and can rarely be bought at much of a discount anyway. But there is something to be said for buying some half-, quarter-, and even tenth-ounce silver coins and rounds to supplement your one-ounce hoard.

The reason? Because the smaller the coin, the more liquid it will be. Think about it: a 100-ounce bar of silver would be harder to trade than 100 one-ounce coins; and by the same principle, a one-ounce coin would be harder to trade than ten tenth-ounce coins. The only pitfall of buying smaller denomination silver coins and rounds is that they have a higher coinage markup, and therefore you get less silver for your money. Still, it's probably wise to diversify your holdings and to have at least 10-20% of your silver in half-, quarter-, and tenth-ounce increments.

Bars and Pellets

Silver bars are typically in denominations of greater than one ounce, but there are one-ounce and even fractional-ounce bars. Bars are less desirable than coins and rounds, because they are not as convenient for trading—there's a reason people have been trading coins for millennia! Still, bars are cheaper to produce and thus sell at a discount compared to coins and rounds, and this is especially true of the ten- and even 100-ounce bars you can buy. Although I think it's wise to have substantial holdings in coins and rounds before branching out into bars, if you're looking to buy 100 ounces at a time, you can save quite a bit of money—and thus get more silver for your buck—by buying bars.

Pellets are the least expensive way of all to buy silver. This is the raw, industrial material used to make coins, rounds, and bars. But because it is in such an indistinct form, silver "shot" (another name for pellets) is incredibly hard to trade, and it's even hard to verify its authenticity. Unless you are planning on producing your own silver rounds, silver pellets are probably best avoided.

Exchange Traded Funds

There are several ETFs (exchange traded funds) that attempt to track the price of silver. Since ETFs can be bought and sold just like shares of stock, many people who already have stock-trading accounts find this to be an easy way to invest in silver.

However, there are a number of pitfalls when it comes to ETF investing: For one, you have to pay commissions on your trades, whereas you can buy silver from a coin shop or online with no transaction fees. Secondly, these ETFs do not always accurately track the price of silver, and at times, they've strayed quite far from the price of the precious metal. And last, and most importantly, there has been ample speculation by silver insiders that the ETFs don't necessarily hold all of the silver they're supposed to—and thus, are fraudulent. If you are left "holding the bag" when their alleged insolvency is discovered, you could lose the bulk of your investment.

In spite of these problems, some people may still choose to buy ETFs. One good reason would be to put them in your 401(k) or IRA, as although it may be possible to put physical silver under these umbrella retirement accounts, it is notoriously difficult and sometimes impossible. If you want to invest in silver and your employer matches your 401(k) contributions, then silver ETFs could be your best option. With that in mind, here is a list of the silver ETFs trading on U.S. stock exchanges:

- iShares Silver Trust Fund (Ticker: SLV)
- E-TRACS CMCI Silver ETN (Ticker: USV)
- ETFS Physical Silver Shares ETF (Ticker: SIVR)
- PowerShares DB Silver Fund (Ticker: DBS)
- ProShares Ultra Silver ETF (Ticker: AGQ)

Additionally, the ProShares UltraShort Silver ETF (Ticker: ZSL) bets against silver, so you could buy shares of this ETF if you thought the price of silver was going down.

Silver Stocks

Another option for investing in your 401(k) or IRA is to buy silver-company stocks. For the most part, these are silver miners, and although the price of their shares is not intended to move in perfect concert with the price of silver, they generally do well when silver rises and fare poorly when silver suffers. In 2009, every U.S. major exchange-traded silver stock outperformed silver itself, with the best (SLW) producing an annual rate of return of 476%.

Earlier this year, Silver Monthly produced a list of the best-managed gold and silver companies. Listed below are all U.S. major exchange-traded silver stocks, ranked in order of their Silver Monthly management grades. This does not necessarily make them the best investments moving forward, though.

- Mines Management Inc. (Ticker: MGN)
- Silver Wheaton Corp. (Ticker: SLW)
- Compania de Minas Buenaventura (Ticker: BVN)
- Endeavour Silver Corp. (Ticker: EXK)
- Pan American Silver Corp. (Ticker: PAAS)
- Coeur d`Alene Mines Corporation (Ticker: CDE)
- Mag Silver Corp. (Ticker: MVG)
- Hecla Mining Co. (Ticker: HL)
- Silver Standard Resources Inc. (Ticker: SSRI)

Note: There are dozens of silver companies trading on the OTC-BB and Pink Sheets, but such stocks are purely speculative plays. If you want to be a stock speculator, that is fine. If you want to be a silver investor and do a little speculation on the side, that’s fine, too. The focus of this guide, however, is *investing in silver*—it offers all of the upside potential of a “Pink Sheet” stock with just a fraction of the risk.

Futures Contracts

Speaking of risk-reward ratio, the one entire class of silver "investments" I'd caution against is futures contracts. That's because futures trading is *not investing* at all—it's trading. You're hoping to buy silver low and sell it high, or the reverse. Instead, you should be looking to buy silver at whatever price you can get it, and hold it until we have hyperinflation or monetary collapse! Buying and selling all the time, though potentially profitable, is just too risky.

It's especially risky when you consider the extent to which the futures market is being manipulated. As discussed earlier, four or fewer traders have an absolutely huge short position in silver, and the futures market trades more silver than is known to exist on Earth! When that bubble finally breaks, you might think your long contracts will soar in value, but the truth is that there likely won't be any silver to deliver, and thus your paper contracts will expire worthless. A futures contract is little better than fiat money—it's just a piece of paper. Stick with the real thing.

Where to Store Your Silver?

But where do you store the real thing? Although you can buy silver and have it stored offsite by firms specializing in this service, I don't think that's very advisable. If there is hyperinflation or monetary collapse, you're going to want immediate access to your silver, and you won't be able to wait to have it shipped from Austria or Latin America. Storing it in a safe-deposit box is also a bad idea, since it is not unreasonable to fear government confiscation if we hit hard-enough times. No, the best place to store silver is in your own home.

Obviously, the number-one risk of doing so is theft. To combat this, do not brag about your growing silver holdings. Don't talk to anyone but your most trusted confidants about what you're doing—and make sure they know not to spread the word. Your brother-in-law getting loose-lipped at a cocktail party and bragging about how smart you are could result in the guy serving hors d'oeuvres breaking into your house that weekend to clean you out.

I’d also recommend against using a traditional safe until your holdings become truly substantial. If burglars see a safe, after all, they know its contents are valuable! Don’t make their job easy: Instead, find places to hide your coins and rounds around the house.

Individual coins can go in DVD cases and twenty-coin tubes can be put behind books on your bookshelf. The possibilities are endless; really—just use your imagination. And consider investing in some home defense, too, especially as your silver begins to accumulate. An alarm system is great, but a guard dog can be even better. And when the stuff really hits the fan, you’ll be thankful if you’ve invested in lead (bullets) along with silver.

Conclusion

The picture of the future painted by this guide is marked by contrast: On the one hand, we have the almost-unimaginable turmoil of hyperinflation, monetary collapse, and perhaps even the fall of the U.S. government. On the other hand, the incredible once-in-a-lifetime opportunity to seize control of your destiny, buy silver, and have confidence that you’ll be able to survive, and even thrive, amid what’s ahead.

Historical cataclysms seem to happen with little warning, but the reality is that most people just weren’t paying attention. The collapse of the Soviet Union was sudden, for example, but the Austrian economists had been predicting it for decades. They did not know exactly when it would take place, but they knew it was only a matter of time. Today, the Austrians are warning of hyperinflation and eventual monetary collapse. None claim to be supernatural in their prognostication abilities, and thus none can say exactly *when* it will happen—only that it will.

The real question is: Will you be prepared? After reading this guide, you have all of the knowledge to ensure that you are on the winning side of this great historical divide. Good luck!