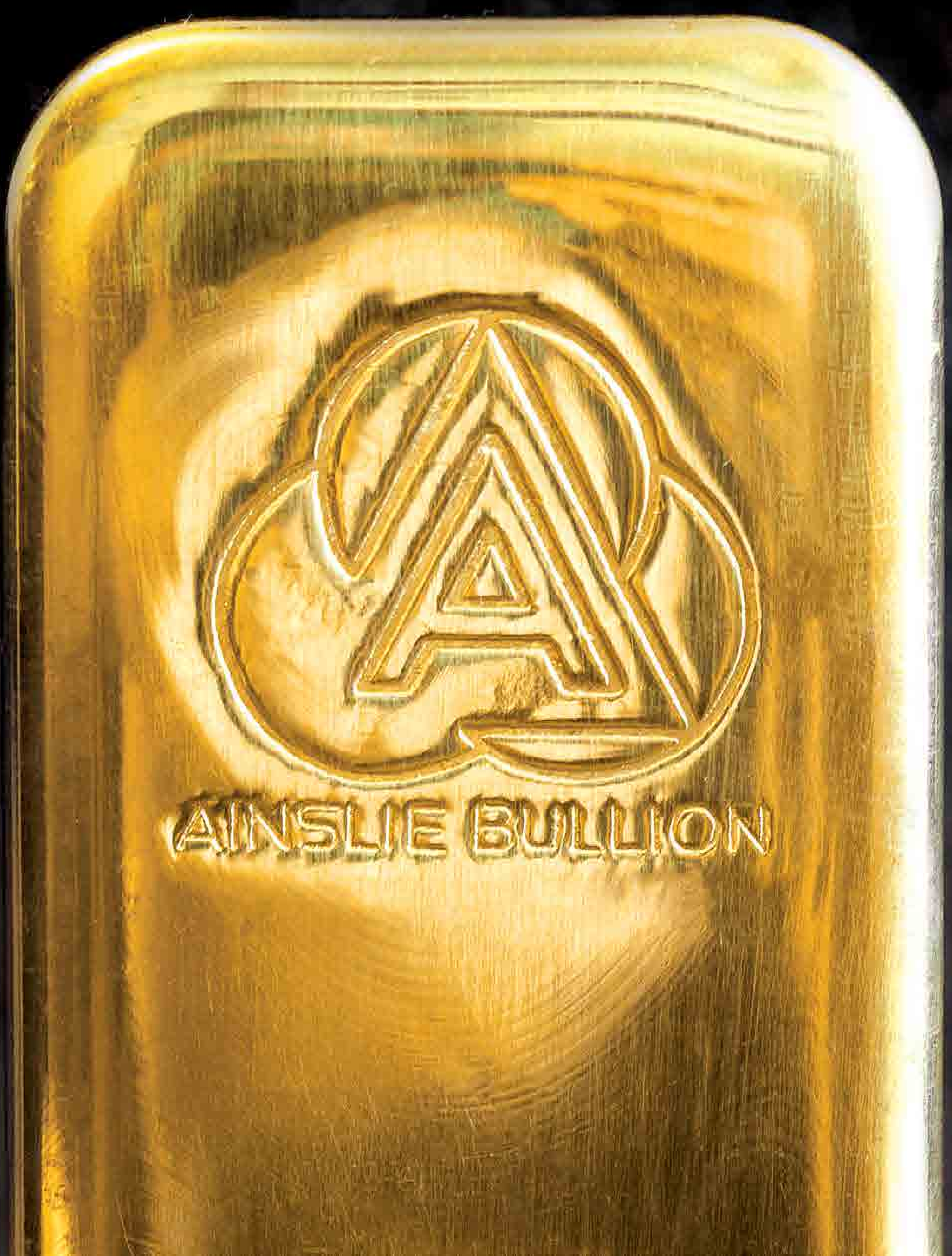
AINSLIE BULLION

WHY BUY BULLION

Discover why gold & silver play such an important part in our modern financial environment.



Balance your wealth
in an unbalanced world™

WEALTH PROTECTION & GROWTH

Rarely does a 'defensive' (safe haven) asset not only act as a protector of wealth but outperform so called risk or growth assets such as equities. That, however, has been the case since the turn of the century for gold and silver. To be sure, there are short term periods of declining values, just as there are in all asset classes. However, any investment should be made with a longer term objective which is also why we don't suggest you go 'all in' on one asset class. Gold and silver are also 'hard assets' as opposed to the majority of the rest which are 'paper' or financial assets. Hard assets have no counterparty risk. The value is in and of itself, not a traded piece of paper. There's an old saying "if you don't hold it, you don't own it". It's all about balancing your wealth in an unbalanced world.

The table below shows how gold has performed against the 5 worst years of the Australian share market:

GOLD IN TIMES OF TROUBLE (SINCE 1970)

Year	ASX annual return %	Gold annual return	Difference %
2008	-40.4	28.0	68.4
1974	-26.9	87.0	113.9
1973	-23.3	49.0	72.3
1990	-17.5	-0.5	17.0
1982	-13.9	28.9	42.8
Average	**-24.4**	**38.5**	**62.9**

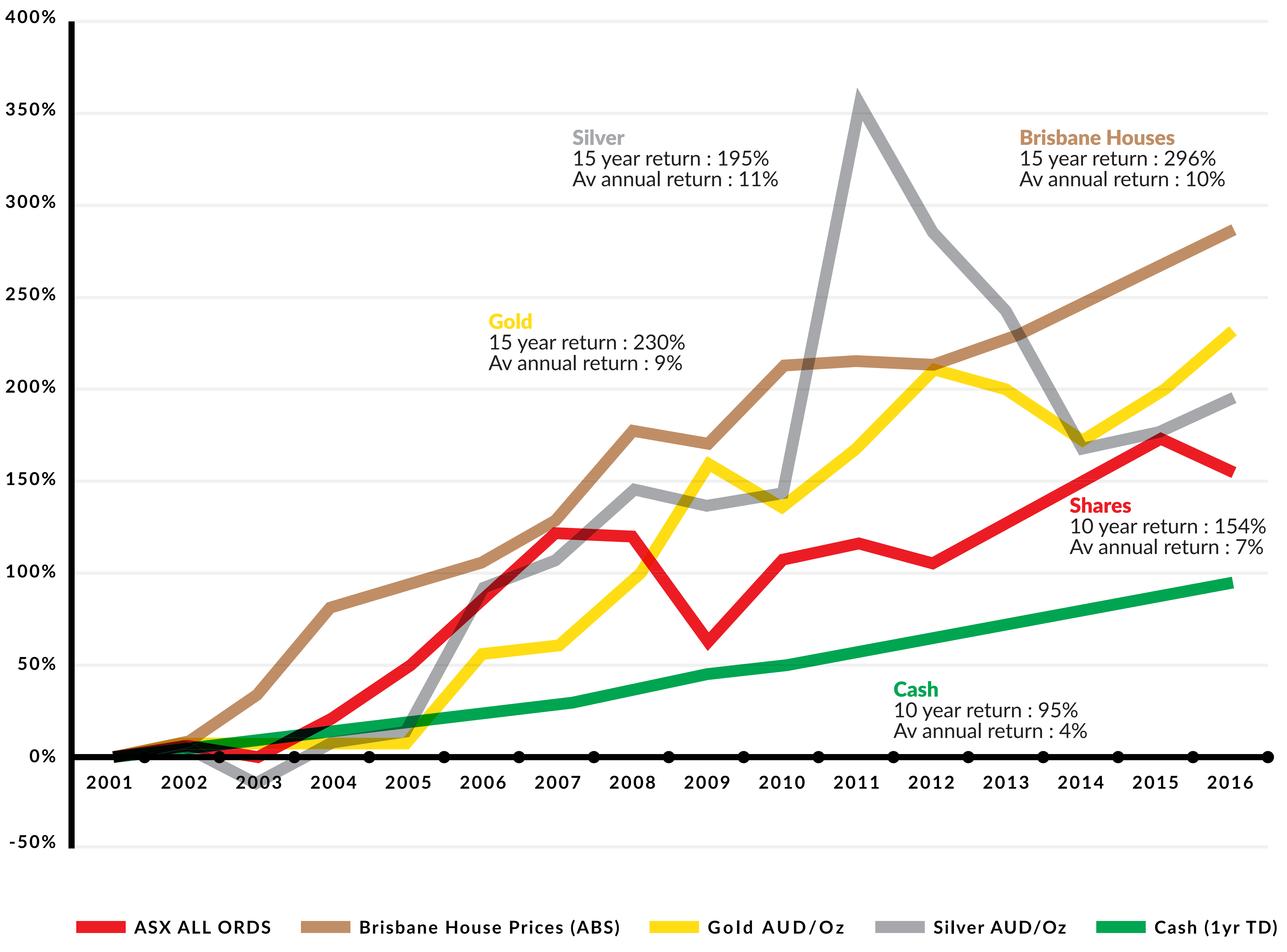
It is important to note this table doesn't capture that the 2008/09 Global Financial Crisis (GFC) spanned 2 years. Over the term of the GFC, gold doubled whilst shares halved in value. As per the table above, that is a 150% difference. However people often lose sight of what a 50% loss means. What this translates to is the requirement for your investment to achieve a 100% gain on the residual value in order to return to the break-even point. The ASX has still not recovered to its pre GFC high, nearly a decade on….

The following chart shows the relative performance over the last 15 years (2001-2016) of Australian shares, Brisbane property, cash, gold and silver. Note too that we are comparing apples with apples. We understand that gold and silver don't yield, so we've included yield (dividends reinvested (4.3%), rent (3.4% net), and compounding interest) for shares, property and cash to create a level playing field.

You will note only property has outperformed gold and silver. Property, like gold and silver, is a hard asset. There are, however, a couple of things to consider with property. Firstly you would have needed a minimum of around $300,000 invested to achieve those returns. Depending on the size of your portfolio, that may not represent a good balance. Gold and silver are arguably at the bottom of their cycle and in 2016 most press is about property being toward the top. Real money is made buying low and selling high. Finally, liquidity is a big consideration. You can sell as little or as much of your gold and silver whenever you want and in a matter of minutes, not all at once and after weeks or months as is normally the case with property.

→RELATIVE PERFORMANCE OF INVESTMENTS - 15 YEARS

↑ CUMULATIVE ANNUAL RETURN



Notes: Years to end Mar. Sources: Shares - ASX, Houses - ABS, Metals - Kitco, Cash - RBA 1 yr term deposit min $10,000

So let's look at our top 3 reasons for owning gold and silver bullion...

1. SAFE HAVEN AGAINST ECONOMIC UNCERTAINTY

We are presently, on so many measures, in an unprecedented 'strung out' global economic situation. Our last major financial crash was the Global Financial Crisis (GFC) in 2008.

In essence this was a crash caused by the result of too much debt. As crashes go it was probably only second to that of the Great Depression. So what have Governments, Central Banks, and investors done since the GFC?

AS AT 2014 GLOBAL DEBT HAD RISEN $57 TRILLION (THAT'S 12 ZERO'S!) TO $199 TRILLION – UP 40%

➔ Such debt and its interest is like dragging an anchor to growth

TOTAL GLOBAL DEBT TO GROSS DOMESTIC PRODUCT (GDP – OR TOTAL 'EARNINGS') HAS RISEN TO 286%

- The US is 351%, China is 295%, and Japan 400%. The 3 largest economies.

- Australia was around 243% in 2016 but we have the highest personal debt to GDP in the world

➔ Governments are 'buying' growth (GDP) with debt. But the debt is climbing faster than growth. Finance 101 says that can't be maintained.

CENTRAL BANKS HAVE UNLEASHED UNPRECEDENTED MONETARY STIMULUS TO SEEK GROWTH

- The US Federal Reserve (The Fed) printed $3.7 trillion through 'Quantitative Easing' (their balance sheet went from $800billion in 2007 to $4.5trillion now. Accompanying this was near zero interest rates (ZIRP) for 7 years

- Japan has outdone the US by population – as at 2016 it was still printing $75billion/month and had introduced negative interest rates (NIRP) in a desperate attempt to reflate their economy

- The People's Bank of China has dwarfed all others however, injecting $5.5trillion.

➔ All that 'printed' money has accompanying debt that must be paid back.

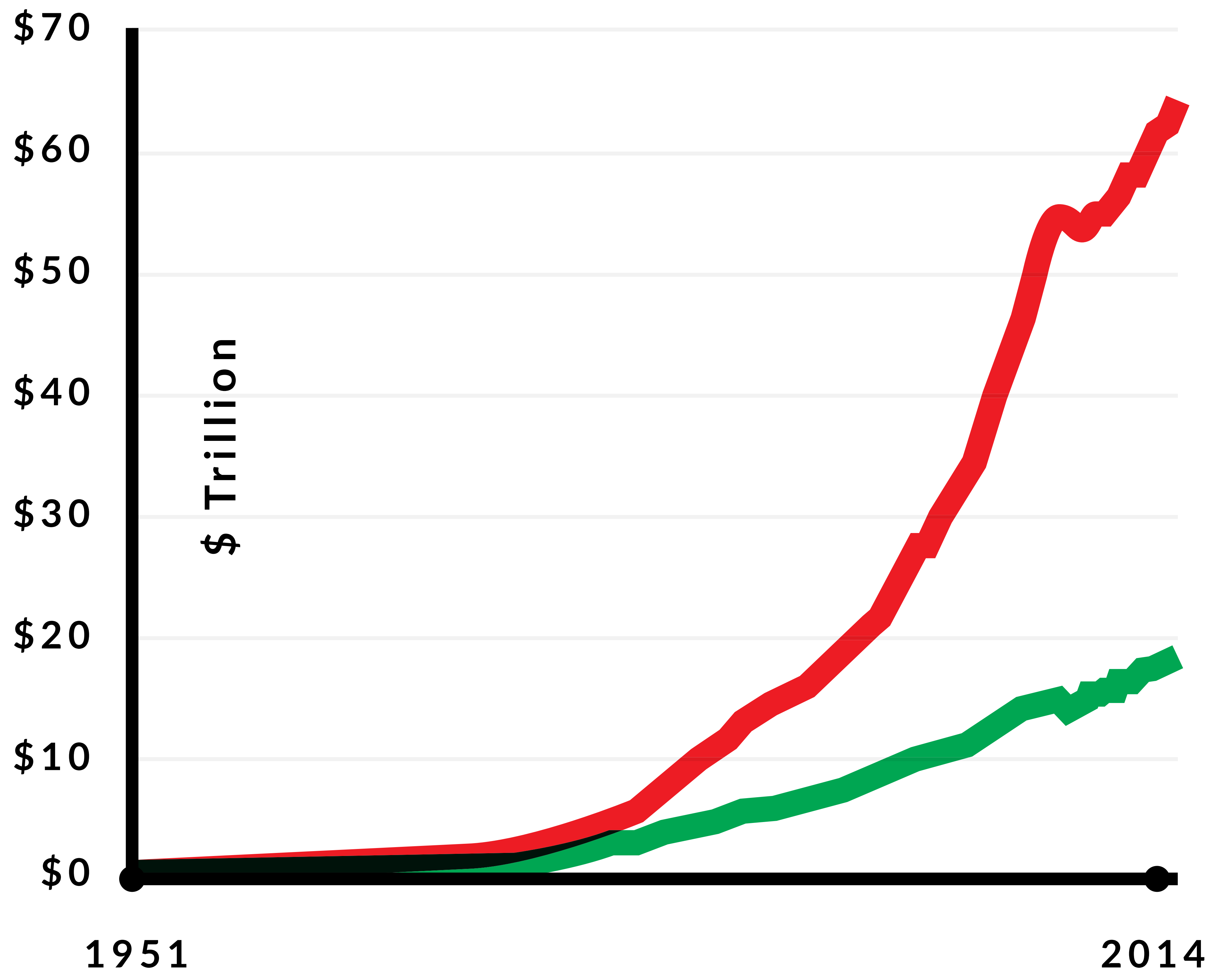
➔ All this new and cheap money has driven up asset prices as it forces investors out of savings and into risk.

➔ What happens when all that new currency gets to Main St not Wall St? Inflation?

➔ What happens when it stops? Financial Crash?

Do the following graphs look sustainable?:

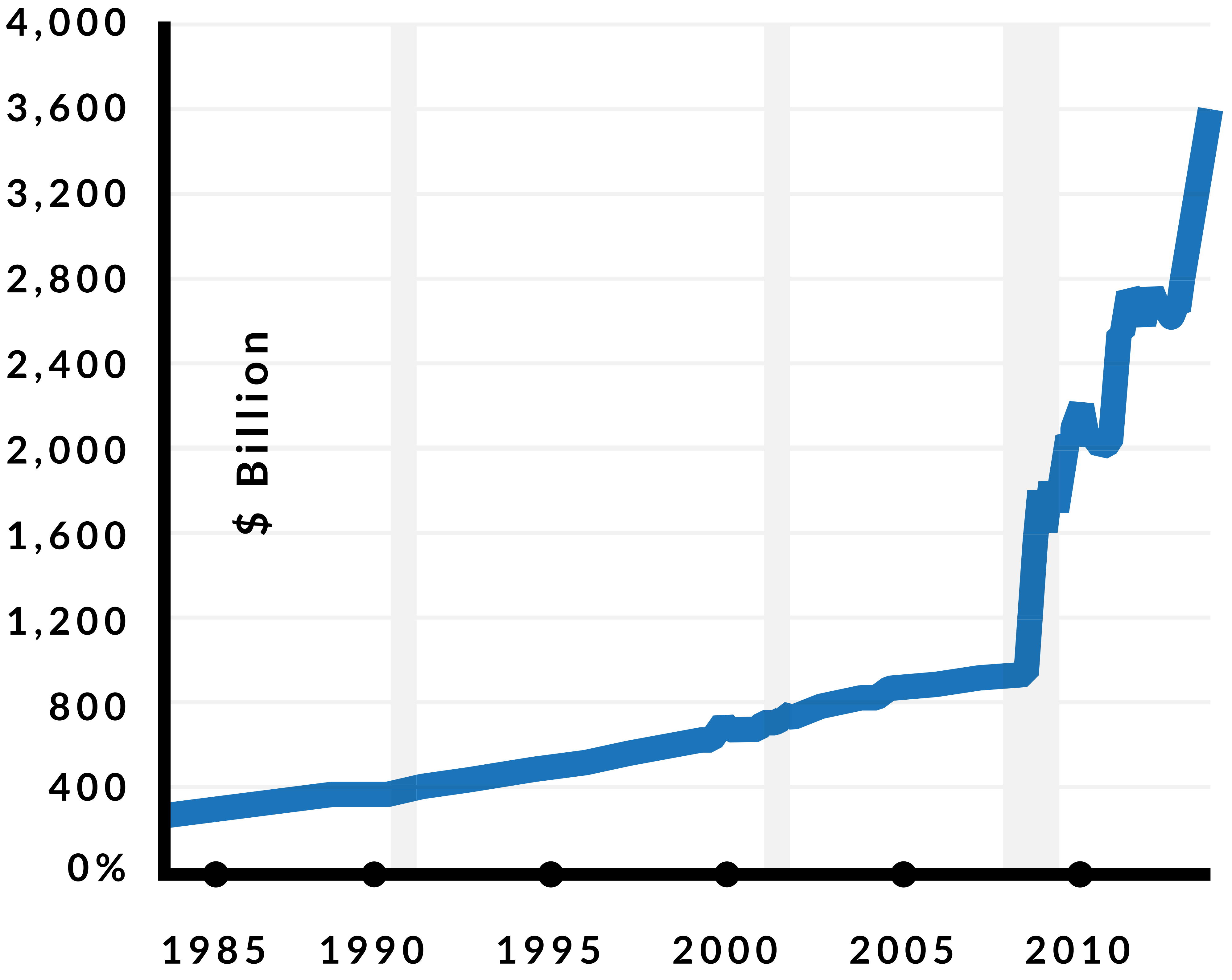
TOTAL US DEBT V GDP



Sources: Z.1 Flow of Funds Report, Zero Hedge

TOTAL DEBT SECURITIES & LOANS GDP

US MONETARY BASE



Sources: Federal Reserve Bank of St. Louis.
Shaded areas indicate US recession

ST. LOUIS ADJUSTED MONETARY BASE

SHAREMARKETS AROUND THE WORLD, PARTICULARLY IN THE US, RALLIED, HOWEVER:

- It had little to do with earnings growth and fundamentals
- Record high corporate debt saw unprecedented share buy backs and dividend funding

➔ Such growth can't continue. The '7 year itch' is upon us... is a crash imminent?

THE TAKEAWAY

Despite all this stimulus, and ironically in part because of the accompanying debt it produces, global growth is poor, financial markets fragile, and inflation still very low globally. The stimulus has not worked for the real economy. The forced hunt for yield has simply artificially inflated financial assets and property values.

The amassed debt can only either be inflated away or defaulted on. Both options are historically positive for gold and silver. It also means there is little 'ammunition' now available to central banks when, not if, the next big crash happens. There may be nowhere to run, no post GFC type saviour.

2. SUPPLY & DEMAND

Gold and silver present a special twist to the traditional dynamic of supply and demand, and each in its own way. Let us start with gold.

GOLD SUPPLY

- Gold these days has negligible industrial use. Essentially all the gold that has ever been mined is sitting in vaults or as jewellery. Some estimate that to be about 180,000 tonne, about 2 olympic swimming pools in size. At USD1300/oz that is about $7.5 trillion.

- However, much of that is in the vaults of central banks and the like who don't generally trade that gold. It is estimated that the available tradeable gold market is only around $1.5 trillion.

- Mine supply adds in the order of 3,000 tonne per year and recycling around 1,000 tonne.

- Industry analysts have called 2015 as the year of 'peak gold' and figures since reinforce that.

- There are fewer new discoveries, longer lead times to production, declining yields, and closures after years of sub cost prices.

➔ Supply is constrained by both limited and declining production and market availability excluding strategic indefinite holdings.

GOLD DEMAND

- Total demand in 2015 was around 4,000 tonne.

- Since the GFC central banks around the world have been net buyers of gold for their reserves purchasing 3,035 tonne. It's like the 'penny dropped' on gold's value.

- In the years from and including 2013, China has overtaken India as the world's biggest consumer, peaking in 2015 with an incredible 2597 tonne of gold consumed. This happened in parallel to the west divesting of gold from Exchange Traded Funds (ETF's).

- That all changed in 2016 when western demand returned with vengeance, ETF's buying 364 tonne in just the first quarter and gold demand in total rising to the 2nd highest on record for that quarter. Much of the commentary for the reasoning was around a market losing faith in the central banks' ability to prevent an overdue crash.

- Demand is increasing and already exceeds total mine supply by 33%. There are very big, strategic consumers emerging.

THE TAKEAWAY

“Cyclone in a shoe box”
There is around a $1.5 trillion ‘market supply’ of gold and approximately $295 trillion in financial assets (shares, bonds, etc) in the world. Ask yourself what happens when there is a flight to safety from that $295 trillion into that $1.5 trillion space. Finance 101 says the ‘space’ must expand. There is no more gold so that leaves price as the only variable.

SILVER SUPPLY

- Annual silver supply is approximately 27,000 tonne. About 9 times that of gold.

- A large portion of silver supply comes as a bi-product of base metals such as copper and zinc. With the global downturn and years of below cost pricing for primary silver, like gold, silver supply started declining from 2015. Yields on that mined have also seen a multi-year and sharp decline (41% in since 2005).

- As opposed to gold, about half of silver is used in industry, and much of that discarded and not recovered after use.

➔ Declining production and half that unavailable for investment.

SILVER DEMAND

- Industrial uses are in growing industries such as solar panels, electronics, medical and EO (ethylene oxide).

- The Silver Institute estimate a 27% jump in silver use to 680m oz annually by 2018. HSBC estimated the demand and supply balance to dramatically shift from a 3m oz surplus in 2014 to an 11m oz deficit in 2015. The Silver Institute predict the deficit to widen in 2016.

- Silver has seen the same surge in investment demand as gold over recent years. 2015 saw the world's 2 biggest selling silver coins, the US Silver Eagle and Canadian Maple leaf break all-time records and sell over 80m oz. Industrial demand also saw growth across most sectors.

- Silver 'wears 2 hats' – industrial commodity in growing sectors a nd investment precious metal. Demand is outstripping supply from 2015 and widening.

THE GOLD : SILVER RATIO (GSR)

- This is a ratio watched avidly by many. Over the last 100 years or so it has averaged around 45:1 (gold price to silver price). In early 2016 it made a long term peak of 84.

- Over time all cyclical metrics revert to the mean (average). They of course go past that mean to the bottom or top of that cycle, and so on, to establish that mean. The GSR last bottomed in 1980 at 18:1. Without a single cent change in the gold price, for the GSR to go to 18:1 again would see a 372% increase in the silver price.

THE TAKEAWAY

Consider this.... If there is only around 4.5x silver to gold available above the ground; if it is only extracted at 9x faster than gold, and if around half of that is used and discarded when nearly all gold is kept... how sustainable does that current high GSR seem to you?

3. CURRENCY HEDGE

In the very purest form of the definition, gold and silver are money. Since we left the gold standard in the early 70's the 'money' in your wallet is just Fiat currency (money backed by nothing more than the promise of the Government). In early 2016 billionaire hedge fund legend Stanley Druckenmiller said this:

"Some regard it [gold] as a metal, we regard it as a currency and it remains our largest currency allocation"

J P Morgan once famously said:

"GOLD IS MONEY. EVERYTHING ELSE IS CREDIT."

A common oversight by potential investors is that the gold and silver 'spot price' is US dollar denominated. That means that buying gold and silver in your local currency can protect you from the global currency war playing out right now. Central banks around the world are lowering interest rates (some into negative territory) in order to devalue their currency and make them more competitive in the global market. The problem is they are ALL doing it. It's a spiral to the bottom.

Australia is no different. In May 2016 our cash rate stood at an all time low of 1.75%, with many analysts predicting that continue lower. Combined with an economy dealing with the post commodity boom, many economists are predicting an Aussie dollar in the 60's and even 50's before long.

A falling AUD means an increasing local spot price.

THE TAKEAWAY

There are a multitude of downward pressures on the Australian dollar. Consider that a fall from 75c to 60c realises a 25% increase in the value of AUD gold or silver. A fall to 50c would see a 50% increase. That is without the USD spot price moving 1 cent...

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