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Dear Friends, January 2014

Hello & Happy New Year! 2013 was a year of multiple and rapid changes for all of us in this country. We are happy to greet 2014 with hope, gratitude and courage and intend to make it a good year! There is no better way to start the January letter than with an article contributed by our friend David Smith. He has provided us with such a wealth of information; we will not have room for our usual recommendations section. After reading Mr. Smith's article, we look forward to your calls regarding current prices and availabilities. Without further ado, Mr. Smith!

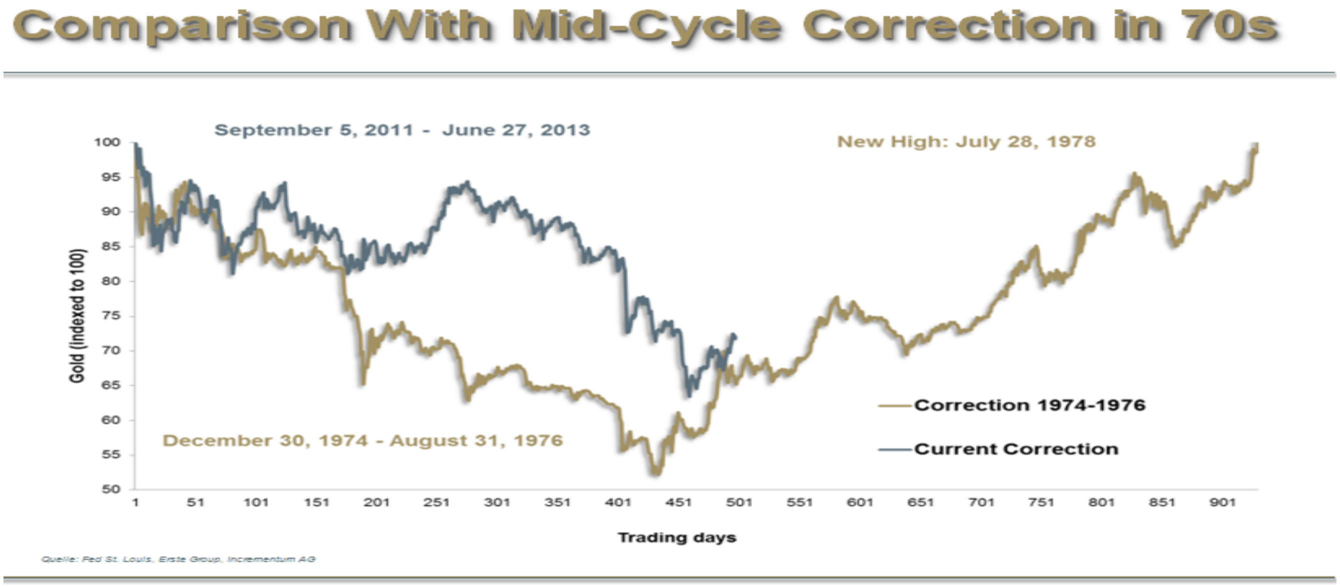
Get Physical Now with the Precious Metals Four

By: David H. Smith

It's fish or cut bait time, folks! If you think the precious metals bull market is almost dead and buried, then read no further. But if you see the current action as being the final death throes of a cyclical bear within the larger secular bull market – one destined over the next few years to reach all-time nominal highs…then keep on reading!

David Morgan at themorganreport.com has always said that a precious metals' bull market correction "will either scare you out or wear you out" and this one certainly qualifies on both counts! Before you finish reading I believe you will see compelling evidence that, far from being over, this gold, silver/PGM bull market is just in the middle innings.

Please consider as you look at the following chart, how in many respects, the current bull market bears a striking resemblance to the last great precious metals bull run of the 1970's. The participants at that time were comprised mostly of a small percentage of North Americans, some Europeans and a few Middle Easterners. There was no Internet. Asian participation was barely a ripple.



Fast-forward to 2014. Last year, China alone may have purchased close to a year's global production of gold. India is estimated to have imported as much as 25% of global silver production. The systemic financial mismanagement and debt problems around the world are greater than in the '70's by an order of magnitude. If the big "center of the game" decline is ending as we speak, might it be a compelling opportunity to either stake or add to your claim?

Jim Sinclair, one of the giants in our business – the largest gold futures trader during the precious metals bull market in the 1970's, who was on record for calling the gold top in 1980, and who is known today as "Mr. Gold" – had this to say recently on King World News:

"Asian demand for physical gold is now in excess of supply and the declining Comex warehouse supply qualified for delivery. This is the mechanism for the emancipation of Physical Gold from the 41 years of price slavery to paper gold due to the cheap paper mechanism to manipulate the world gold price.

"With the present time and predictable need to change the delivery mechanism on the COMEX to cash in order to avoid default on delivery, the reign of paper gold is ending. With this end we have the arrival of physical gold as the new discovery mechanism for the price of gold."

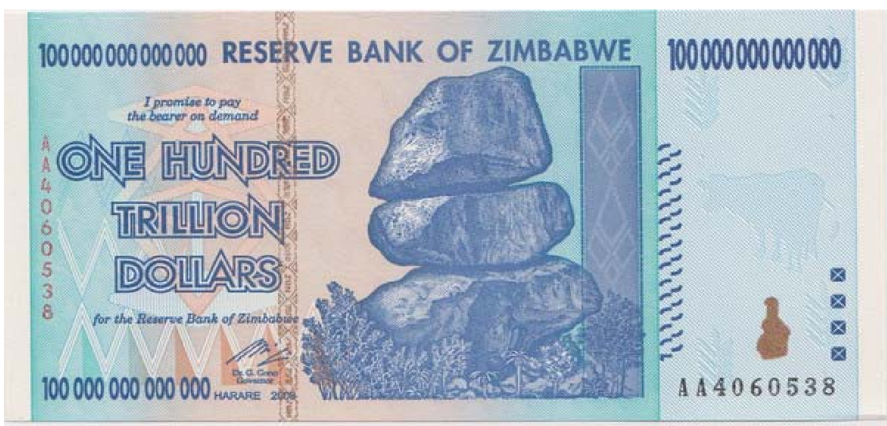
You can spend hours going over reams of statistics, position papers, academic studies and conference presenters. But it really gets down to what a person feels in his/her heart, what they understand about 5,000 years of recorded history, demonstrating time after time that gold and silver have been the most dependable of constants from that day until this.

Polymath Jacob Bronowski, writing in *The Ascent of Man*, has concluded that "Gold is the universal prize in all countries, all cultures and in all ages."

Hold a Canadian gold Maple Leaf in your hand. Touch the face of an American Silver Eagle. Rub a pre- 1965 “junk silver” coin between your thumb and fingers. Are you old enough to remember how a handful of silver coins felt in your pocket? Cast your gaze onto the brilliance of a Palladium Panda.

Now pick up a Canadian Loonie, a Toonie, or what passes nowadays for an American dime or quarter. Or perhaps a “Sacajawea” or a Susan B. Anthony “dollar” - that is if you can find one – with tens of millions, a bit larger than a quarter, sitting in U.S. Mint vaults because no one will use them. (Just for fun, buy a thousand dollars worth of rolled dimes or quarters at your local bank, and see how many silver coins you find.)

And then of course there’s “paper”.



Tell me honestly that you don’t see, feel and sense a profound difference.

An old saying encapsulates the message – “Silver will feed you; Gold will save your life.” In times of uncertainty, storm and stress, these metals have always been – and will remain - “last men standing”. In times of certainty, they will be like an insurance policy which silently guards you from an unexpected occurrence. And if you must raise some money at a moment’s notice, which do you think is more liquid – able to be turned into cold, hard cash more quickly – a piece of land, an antique, a collector car…or gold and silver?

Your local bank branch almost certainly has in place severe restrictions on how much cash you can withdraw during the midst of a financial crisis. The limits might be so small that you would have to sell some of your metal – regardless of the current price – in order to raise “paper” so that you could put food on the table or gas in your car.

The Great (Eastern) Migration

Massive amounts physical gold and silver are moving from West to East. Annual sales records were set in 2013 for sales of American Silver Eagles and Canadian Gold Maple Leafs (with Canadian Silver Maple Leafs close behind). The PGMs - Platinum and Palladium supplies are disappearing into ETFs, some of which are actually destined to become country-specific strategic reserves.

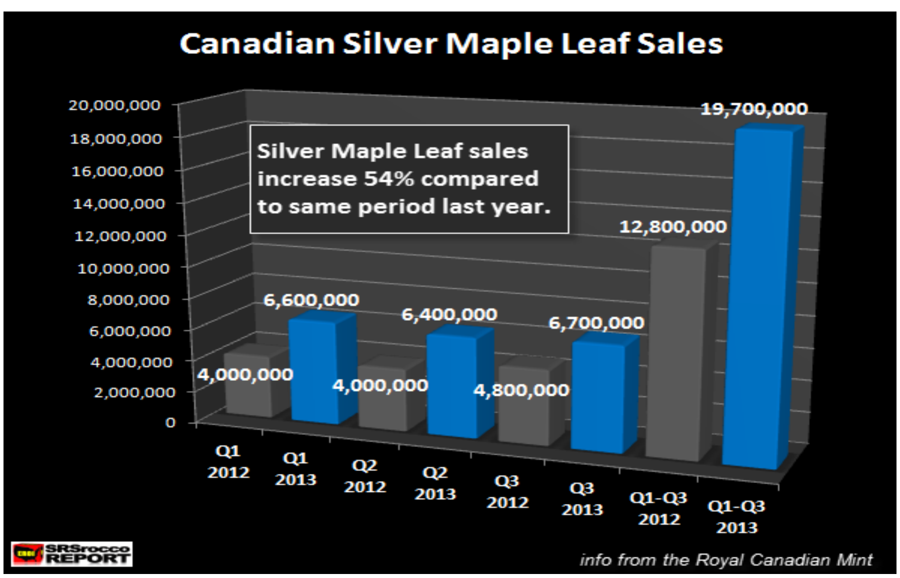
Much of the gold destined for Asia is processed through refineries in Switzerland. In an interview with Alex Stanczyk, Chief Strategist for the Anglo Far-East group of companies, conducted by Koos Jansen and published here he recounts his experience on a recent visit to Switzerland. In part he said,

"*We met with the managing director of the largest refinery in Switzerland and spent about two hours talking to him. We learned some very interesting things. What's going on in the gold market as far as the price is I think very counter intuitive. Everybody understands, knows and believes the price should be higher than it is, but it isn't. There's confusion in the marketplace, and there are two reactions; the reaction in the west is fear, confusion and uncertainty; the reaction in the east is buying.* (This writer's emphasis.*)*

"…He indicated the price didn't make sense because he has got so much fabrication demand. They put on three shifts, they're working 24 hours a day, and originally he thought that would wind down at some point. Well, they've been doing it all year. Every time he thinks it's going to slow down, he gets more orders, more orders. They have expanded the plant to where it almost doubles their capacity. 70% of their kilobar fabrication is going to China, at a pace of 10 tons a week. That's from one refinery, now remember there are 4 of these big ones [refineries] in Switzerland."

The Director also stated, that having been in business for 37 years, this the first time they have ever been unable to source (locate for refining) gold. Asked when he thinks the price of gold is going to rise, he declined to predict a specific time, but said this:

"What I do know is that we are on the threshold of a situation that has never occurred before. A squeeze is imminent, it could take 3 months or 6 months - I know that it's coming, and I know that with 100 % certainty."



Just about everyone knows that American Silver Eagle sales from the U.S. Mint hit a record this year – their highest total since their introduction in 1986. Less well known, is that *Canadian* silver Maple Leaf sales are in the process of doing the same thing!

Mega mining projects are becoming an endangered species

A number of “elephant” gold and silver projects are either being stopped in their tracks, delayed for years due to “country-risk” social and regulatory issues, or left for dead because the profit/loss math does not pencil out.

Don’t take my word for it. Do the research yourself. For starters, Google “Pascua Lama”, “Navidad”, or “Fruita del Norte”.

This means that future production estimates are just that…estimates. A lot of this metal is either never going to come on stream, or will be delayed for many years – and arrive to the market at much higher production cost. What do you think is going to happen when this questionable supply steam collides with the kind of demand taking place right now - demand which shows little sign of abating?

Welcome to the Bail-in

Coming one of these days to a location near you is a new attraction, the “Bail-in” – where the depositor (you) gets to share in the losses your bank suffers, by having funds involuntarily withdrawn (stolen) from your account. The Cyprus “account heist”, which appears to have been a proof-of-concept test run, went down quite smoothly for the bankers – as well as the employees, friends and confidants who withdrew their own funds before the weekend announcement. Since then, many other nations including Canada, the U.S. New Zealand, and much of the Eurozone, have inserted wording to this effect into their own banking protocols, which will them to do the same thing in the event they deem it to be necessary.

Whether it’s “written in the rocks” (Canadian), or “cast in stone” (American), the message remains the same. For now at least you can still choose. Will you hold gold, silver…or lead?

Dollar cost averaging works in both directions

Whether buying physical metal to hold in your own hands (the best way!) or acquiring carefully selected mining stocks, an oft-discussed, but still underappreciated way to invest is to "dollar cost average".

You can "leg into" a position, buying in regular amounts – committing either to a set dollar value per month, or in the case of bullion, perhaps a specific number of ounces each time. The benefits to this approach are of course financial – in that over time you will be "averaging" out the cost of your acquisitions – buying more into declining prices, thus lowering your breakeven point. A person purchasing say American Silver Eagles each month over the last two years would have been able to acquire more silver most months, since the cyclical bear trend (within the larger secular/global bull market trend) has been down. The net result is that you would have a pretty good average price for your entire purchase. Yes, your average cost might still be above today's spot price, but almost certainly it is much less than if you had gone "all in" at, say $35, when you "knew that the bottom was in".

Another factor about buying in tranches (French for a "division" or portion), is that in a declining price environment, you will be scaling into weakness – purchasing more each time. This way, psychologically, rather than going into a panic you may almost start rooting for lower prices!

Still a third, almost never discussed advantage to dollar/share cost averaging, is that it will keep you from buying too much at "the top". When prices are going vertical, it is easy to throw caution to the winds, because, as the saying goes, "When the price is going against you, your position is never small enough; when it's moving in your favor, your position is never big enough!" Dollar cost averaging during this time helps keeps your "Tulip Mania brain" under control.

This writer knows of an individual, who, a few years ago watched silver run up from the low $20 area to over $48/ounce, peaking in late April, 2011. Instead of buying some silver along the way on a regular basis, he decided to go "all in" – and did so between $44 and $48! And as you may remember, the price dropped sharply, literally within a few days, and never looked back. So, one of two things is likely for him. He may be still sitting on his one-time purchase which has lost over one-half of its value. Perhaps he has actually gone ahead and sold for a loss or – and this is most likely – is in such fear over the possibility (in his mind) of silver going to zero, that he is in a rush to sell now after 2.5 years of relentlessly falling prices, at what most likely is the bottom.

Not to mention this example – in early 2011 on the Internet a (briefly) famous writer advised people to sell their houses "immediately" taking all the proceeds and purchasing silver bullion with it. Anyone acting on that advice would now be sitting on a good-sized pile of metal costing well over $40/ounce. (On second thought, think how much more silver you could buy now if you sold your house…just kidding!)

A variation of this concept applied to taking a position in mining stocks can be very powerful – in fact I have done it a number of times for my own account this year. First, carefully research a number of mining companies, whittling them down to just a few. Next decide how much money you will commit to each one. If the price is right on that day, start your line by purchasing (at a "limit" price) say, one-quarter or one-fifth of the total amount of shares you hope to hold with a specific company. Then place several orders below the current market price on a good-'til-cancelled (GTC) basis. You are seeking to buy <u>only</u> into price weakness.
And finally, in case there is a chance for what Louis James calls "stupid cheap" prices, hold back some mad money so you can oblige the market, and finish your line.

The core philosophy to dollar cost averaging and its cousin, buying in tranches, is the idea of "responding" to market changes, rather than trying to "predict" them.

Newsletter writer Stewart Thomson advises buying at major lines of horizontal support/resistance (HSR) zones, rather than the angled trend lines favored by most chartists. He also believes that you should decide beforehand how much you will commit, and always seek to buy "less than is rational".

The wisdom of buying in tranches, especially into weakness, and responding to price changes rather than trying to predict them (trying to buy ahead of where you think prices will go), can significantly lower the fear-greed quotient of the typical investor. Using a passenger train analogy, Stu sums it up nicely when he remarks,

"Don't try to drive the gold train. You're not that good, nor am I. Just act professionally at each station. Train goes backwards, you pick up some passengers. Train goes forward, offload a few."

A Miner is a "metal" with leverage

Even before the mid-2011 metals intermediate top, mining stocks were selling at lower valuations than was normally the case, relative to the price of the underlying metals they dug out of the ground. Since then, the mining stocks, almost without exception, have been slaughtered. Excellent junior producers who are making money even at today's prices have lost 60-70% of their 2011 price values. Explorers have fared even worse. Many are down 90%+. Some of these companies will not come back, and are now moribund – unable to fund operations and almost certainly destined to blow away unless a larger mining entity comes along and scoops them up – for a song at today's prices. But quite a few will not only survive, but thrive when (not if) this bull market gets back into the swing of things.

Billionaire Eric Sprott, who- by investing in these cyclic swings a number of times – rose from mere millionaire status, has the majority of his liquid net worth invested in the "4 Precious Metals" we're discussing, in addition to large holdings of mining stocks. He had this to say about how bear market declines turn into bull market upswings, and what having the courage to buy into declines like we are now seeing can mean for an investor who is willing to take calculated risks and place a pre-determined amount of money on the line. Says Eric:

"One of the beauties of the natural resource area is the gains that can be made are so outsized versus the norm of normal investing, and that's why I'm kind of attracted to it. I am in it for the reward and I will take that risk to get that reward."

"If you believe you're right and the data says hold your ground—<u>you hold your ground</u>. Normally there's a pretty big payday at the end."

Illustrated [to the right] are two mining stock charts – please note that these were selected ONLY because they demonstrate how the process can (and has worked) during a period of protracted price declines. Indeed you or I could easily have found DOZENS more that fit these criteria. (Disclaimer: I do not hold shares in these stock chart examples.) This has been a market with such negative sentiment that ALL stocks, including most of the very best in this sector have declined sharply. At this writing, some of the strongest junior producers are trading between 50% and 80% below their 2011 price - in spite of increased production and cost cutting to lower their operating costs. During such times, sentiment is not just the bit, but rather the *only* driver.

As this is being written, even with the metals themselves still under pressure, many of the better mining stocks are holding up well, staying above their June, 2013 lows. There could be another thrust down in price, but then again, maybe not. Rather than focus on what for many miners is likely to be limited

Yamana Gold (AUY) Daily

Barrick Gold (ABX) Weekly

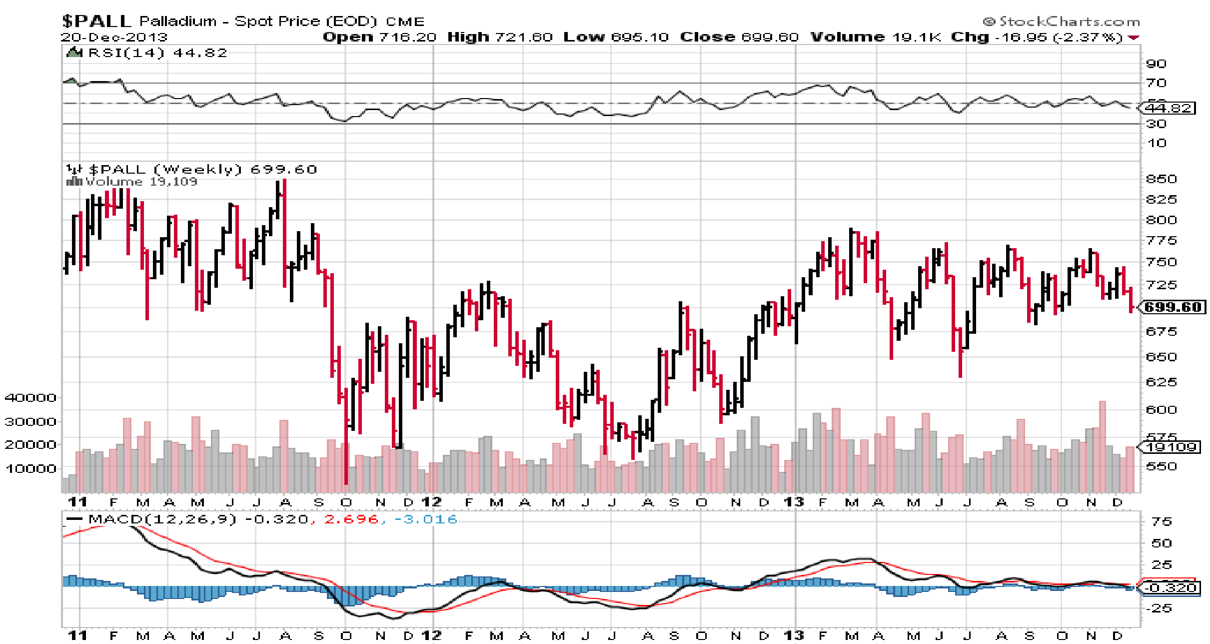
downside risk, consider the “upside case” when things turn around. Odds are you will look back in a year or two and be quite surprised at the difference. To give you an idea of what is quite entirely possible, consider the list of companies that follow.

These companies (Disclaimer, I own some of them) are meant to be examples, not recommendations, of stocks printing lows in 2008, then running to their respective 2011 tops less than 3 years later: Alexco Resources (0.43 – $10.25); Endeavour Silver (0.71 – $13.00); First Majestic Silver (0.67 – $20.80); Avino Silver (0.20 to $3.60); Silver Wheaton ($2.55 – $47.50); Goldcorp ($13.80 – $56.20); Yamana Gold ($3.31 – $20.50). And there were DOZENS more which did the same thing!

What’s interesting on these plays is that it generally doesn’t take a life-time, in order to realize outsized gains. Sprott Asset Management’s Rick Rule has been through this cycle several times – during each cycle increasing his capital returns by 5 – 10 times his initial entry. With that kind of track record, it might be worth your time to pay attention. Rick says, “I would suggest to you that the gold mining industry today is reasonably priced. And the last time that was the case was in 1992. *“In 1996 I paid more in capital gains tax than my net worth was in 1992.”*

Don’t overlook the PGMs – Platinum…and especially Palladium

In two previous Resource Consultants newsletter articles published in October, 2012 and in April, 2013 you can read the full story about the platinum/palladium picture. It serves to demonstrate why you should – in addition to gold and silver – pay serious attention to what is likely to become a very powerful and enduring Platinum Group Metals (PGM) bull market. The supply-demand fundamentals have become even more pronounced moving into early 2014. The fact that demand from both industrial users and investors is rapidly increasing, even as the supply – concentrated mostly in a few politically unstable areas of the world becomes problematic, increases the likelihood that substantially higher prices are in the cards.



Looking at this chart of weekly spot palladium shows that it formed a double-bottom last fall and has been establishing higher highs since then. Indeed, a comparison chart of "the precious metals four" shows palladium to be the strongest of the group.

Johnson Matthey, the most authoritative source on PGM statistics told Bloomberg News recently that in 2012, supply from stockpiles in Russia came in at 250,000 ounces. During the previous year, supply had clocked in at 775,000 ounces – over three times higher. And they projected that 2013 would show a further major decline, to an estimated 95,000 ounces.

Norilsk (which accounts for most of Russia's palladium production) market strategist Anton Berlin concluded that "we don't expect that the Russian government sales will have any influence on the market this year or in any following year." He believes that their stockpile is effectively exhausted.

Canadian Palladium Maple Leaf

Conclusion:

Last month on a conference call to clients of Sprott Global Resource Investments,
Rick Rule, one of the most serially-successful investors in the resource sector, had this to say:

"I have not seen capital markets in the junior industry this gloomy for a decade.
"Twice before, I have been in a market this gloomy. In 1991 and 2000. Within a year and a half of both periods, the market went much higher. In 1991, the benefits to me were spectacular. And the recovery off the 2000 low was even better by a large margin.
"Now, after three years of pain, I suggest it is in your interest to hang around for the gain."

If you purchased Gold, Silver, Platinum or Palladium from Resource Consultants or from another reliable precious metals' entity during the early years of the secular bull run from around 2000 – 2009, you are still – even at today's prices – holding a profitable position. If you began your line during the last two years or so, you may not currently be "ahead of the game". But if you have been buying in by way of dollar cost averaging as discussed in this article, you average cost is probably still respectable.

Richard Russell, now in his eighties, is the doyen of newsletter writers – having written continuously since the 1950's. Not long ago, he made the following comment:

"I had a strange dream last night -- a dream that the (Dow) Averages had collapsed in a vicious bear market and that I was warning people about the depressed economy that lies ahead. I've been wondering today about whether the dream was a prediction or merely a warning to be careful.

"In the meantime, I believe there's an unspoken undercurrent on the part of seasoned investors to exit this market before any major trouble hits. And, believe me, there will be major trouble, and it will hit. For ultimate safety in coming years, it will not be stocks or bonds or Picasso's or Bitcoin, but gold. Gold will be the ultimate safe store of value. Gold has two great qualities. It has a long, pristine history, and it is outside the current system."

If you've been convinced enough to start "stacking" silver, gold or the PGMs – well then step right up! You have only missed the first boat. There's still time to catch the next and most likely biggest steamer of all. A simple saying – attributed variously as an African or a Chinese proverb - which I quoted when speaking at the 2013 Wealth Protection conference in Tempe applies right now. It goes, "**The best time to plant a tree was 20 years ago. The second best time is now!**" *Thank you David!*

David H. Smith is Senior Analyst for David Morgan's *The Morgan Report, at themorganreport.com* and a professional writer and communications-consultant through his business *The Write Doctor, Inc.* He is a Presenter at investment conferences in the U.S. and Canada. David visits (and writes about) properties in Argentina, Chile, Mexico, China, Canada and the U.S.

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Our non-commissioned staff is here to listen to you, answer your questions and help you achieve your goals for your financial future.

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P.S. We are in the process of putting together this spring's "Wealth Protection 2014" Please let us know if there is a topic/speaker you would like to hear, or suggestion you might have, we value your input. Stay in touch we will let you know the date and location very soon. We look forward to making this the best yet!

Thank you for your business, your referrals, and your friendship.
God Bless You in This New Year

Linda C Gorman

Linda & Pat Gorman