

## The Party's Over: Peak Oil and Precious Metals (Part 1)

Written by Kevin D.

***This is part one of a two part series. Part two will run in the November newsletter.***

Although awareness of gold and silver as an investment has grown significantly since the 2008 Financial Crisis, I actually first learned about the importance of precious metals in 2005 after reading a book called **The Party's Over: Oil, War, and the Fate of Industrial Societies** (2003) by Richard Heinberg, an environmental journalist and educator in the area of oil depletion and economics. In this groundbreaking book, Heinberg describes the history of oil production globally and documents the explosive increase in global economic prosperity facilitated by over 150 years of constantly increasing oil production (and consumption).

Crude oil is by far the single the most important resource on Earth, and is absolutely essential in the operation of every industrialized society. Not only is oil the energy source used to transport virtually everything on the planet, oil is also a major source of energy for heating homes and generating electricity, and is the feedstock substance for over 30,000 industrial processes such as the production of plastics, chemicals, pharmaceuticals, and millions of types of consumer goods. Oil is an essential part of every aspect of our modern life - powering our cars, fertilizing, growing, and transporting our food, and keeping us warm.

Everybody knows oil is a finite resource; and once the existing bounty is used up, it's gone forever. In spite of this, the world has continued to consume more oil each year for over 100 years. Eventually, oil will run out, perhaps 50 or more years in the future. However, there is a more pressing issue than oil running out someday far in the future: **the peaking of global oil production** (aka 'peak oil').

Global production data from thousands of oil wells, oil fields, and countries around the world shows that every well, field, and country eventually experiences a peak or maximum rate of oil production, followed by a production plateau for a few years, and then a slow decline. Generally, this happens when about 50% of the oil has been extracted from the field, and the remaining oil becomes much more difficult and expensive to extract. Although it is estimated that there were some 2

### AND WE HAVE A WINNER! THREE ACTUALLY....

A big 'thank you' goes out to all those who participated in our 'GUESS THE PRICE OF SILVER CONTEST'. We captured a total of 55 guesses between the Riverview and Bedford locations. The USD spot price at the close of the contest was \$17.28. The three closest guesses and prizes winners were:

- 1<sup>st</sup> prize - Sean \$17.15**
- 2<sup>nd</sup> prize - Michael \$17.47**
- 3<sup>rd</sup> prize - Dan \$17.50**

The winners each took home an ounce of silver! Congrats guys.

**Mark Yaxley**  
Editor

trillion barrels of oil in the Earth's crust before the beginning of the Oil Age, **about 1 trillion barrels have already been extracted over the past 100 years.** Many peak oil experts had predicted that conventional oil production would peak at around 85 million barrels per day before 2010, and indeed the data shows that global oil production (which normally increases by about 2% annually) has plateaued at around 85 million barrels per day since 2005. In spite of high oil prices and a tremendous increase in energy consumption from China and India, there is no more oil being produced now than almost 10 years ago. **It would appear that peak oil is now in the rear view mirror.**

The US actually experienced peak oil in 1971, when it was producing over 10 million barrels of oil per day using only basic drilling technology. Today, even with advanced technologies such as deep-water oil rigs, horizontal drilling, 3D seismic mapping, and shale oil, US oil production is only about 7 million barrels per day, while consumption is nearly 25 million barrels per day! Such huge demand for oil requires the US to import oil from other countries such as Saudi Arabia and Iraq, which explains why the US Armed Forces has such a strong interest in controlling the Middle East – without that imported oil, the US economy would utterly collapse. It's also interesting that the US went off the gold standard in 1971...they could no longer produce the wealth required to pay their bills and experienced a run on their gold (losing almost 2/3rds of it during the 1960's), and were ultimately forced to permanently suspend the convertibility of US dollars into gold to staunch the bleeding of their national gold stockpile.

**The bottom line is that all economic activity is predicated on the availability of liquid fossil fuels,** and decreasing global oil production will most certainly cause oil price shocks, repeated recessions, and eventually an economic depression. Yet, most people assume that if there are any problems with the global supply of oil, there will be some alternative energy source to replace it, such as ethanol, hydrogen, biofuel, solar power, wind, tar sands, or perhaps some fantastic as-yet-unimagined energy source. The disturbing reality, as Heinberg demonstrates in his book, is that **there is no combination of current energy sources that can ever substitute for the vast amount of energy that the world consumes through fossil fuels (especially oil).** Even worse, there are no new energy sources on the drawing board with any realistic chance of replacing oil within the next 50 years!

Although the data and implications of peak oil are quite clear, governments and individuals have done little to begin the transition to a lower-energy consumption future. Therefore, we will almost certainly experience a period of decades or longer where each year, the amount of available energy decreases rather than increases, and we bounce from recession to recession, never quite getting out of the last one (sound familiar)? As oil becomes increasingly more difficult to find and expensive to produce, prices will continue to rise (this explains why oil prices have remained stubbornly over \$100 over the last 5 years, in spite of anemic demand and faltering economic growth). Every major oil price spike over the last 50 years has resulted in a mild to severe recession, and we can likely expect more oil shocks in the future. **To be continued... In part two, author Kevin D. demonstrates the effects that peak oil has on gold and silver.**

*Contributing author Kevin D. has been investing in gold and silver since 2005. He believes that every investor should hold at least 10% of their assets in physical precious metals stored securely outside of the banking system.*

# Where Should I Store My Precious Metals?

Written by David Ford

This is a question we get asked frequently. We've had some interesting suggestions from customers in the past and we felt it would be beneficial to share them with our readers.

<p><b>Option #1 - Safety Deposit Box at the Bank</b></p> <p>This is the first place that most people think of. Although practical, unfortunately it is also the worst place for several reasons:</p> <ul style="list-style-type: none"><li>• Contents of safety deposit boxes are NOT insured, despite what most people assume.</li><li>• If there are bank closures, or bank runs, do you think they will let you in through the crowd to get at your box? Probably not.</li><li>• Banks can mistakenly close &amp; re-allocate boxes - emptying them of their contents!</li><li>• Banks don't take the contents seriously – some banks do not use the same vault for their own cash, and leave the safety deposit vault door open &amp; unlocked at night.</li></ul>	
<p><b>Option #2 - Private Storage</b></p> <p>This is a good option if you own more than \$100,000 in metals. Whilst better than a bank, there is still some counterparty risk. I.e. you are relying on someone else to safeguard your investment. Costs to move metals in &amp; out can be expensive, and there will be monthly storage costs. If you have a large investment however, this is an excellent solution.</p>	
<p><b>Option #3 - Hidden Safe</b></p> <p>Books, tin cans, cookie jars, etc., can all be used to conceal items. Make sure it does not stand out from other items. Place it at the back of the shelf behind similar containers, i.e. don't put a 'tin of beans safe' on a bookshelf next to your Tom Clancy novels!</p>	

#### Option #4 - Home Safe

This is a good option for most people, as long as the vault is secured to a solid (concrete) floor or wall. Do not buy a cheap safe from office supply stores, or big box stores. The internal mechanism in cheap safes are plastic, and the metal shell can be very thin. Visit a specialized locksmith, and buy a solid steel safe. This will cost \$300-\$800, compared to \$100 for a cheap safe, but is worth the money. You can always use the safe for other valuables/documents too.

For precious metals, fire resistance is not necessary, as if stored in a corner of the basement, it is unlikely to reach temperatures necessary to melt gold. If they do melt, you would lose approximately 10% having the material refined again.

Also, a home alarm system with cellphone backup would be prudent if storing valuables in a safe - this means a thief would only have a few minutes to work - and if your safe takes 15 minutes to crack, he will leave empty handed. It is a very brave thief who stays in a house when the alarm is sounding!



#### Option #5 - Other Locations

- We have had customers bring in 100oz silver bars covered in dry soil (i.e. they had been buried for several years)
- One customer brought in some gritty tubes of Silver Maples (the coins inside were fine). He kept them in a bag of rock salt in his garage.
- Gold does not tarnish, and one person we know said no-one would ever bother to look under his compost pile in the back yard (think buried treasure - it will last hundreds of years)!
- If you're handy with the drywall compound, you can easily make a concealed space in a wall, and patch it up so no-one can find it.
- One customer deliberately kept a drawer full of old socks, so he could hide his metals underneath!

In short, the number of places available to stash your metals is only limited by your imagination – just don't forget to let your next of kin know where they are!!

*Author David Ford is the founder, owner and President of The Atlantic Gold & Silver Centre. He is experienced in commodities & future trading, banking and insurance. He has been actively investing in gold and silver bullion since 2000.*