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Not So 'Free Markets'

Written by Robert Craig

There seems to be more and more chatter regarding the possibility that 'free markets' may not be all that free. So much so, that even the main stream media is picking up the theme. Let's take a look under the hood; a good starting point might be LIBOR (London Inter-Bank Offered Rate), which is the average interest rate lending banks charge to borrow money from each other. It's the primary benchmark used around the world to determine short term interest rates. Many financial institutions, mortgage lenders and credit card companies use LIBOR to set the rates they charge. Wikipedia estimates there could be up to $350 trillion in derivatives tied to LIBOR. Bottom line, it's a very big deal, and effects day to day credit transactions worldwide. In June 2012, the LIBOR scandal broke when it was discovered that member banks colluded to manipulate these rates. Barclays Bank settled with a fine of approximately 200 million pounds. To date, there are several hundred law suits pending against member banks.

Sticking with the credit markets, let's take a look at the US Federal Reserve ZIRP (Zero Interest Rate Policy) which has been ongoing since the Lehman Brothers bank declared bankruptcy in 2008. Basically, what this means is that member banks can borrow money from the Fed for next to nothing and turn around and use it to buy US Treasuries at the going rate. For example, say they buy the 10 year treasury at 2.27%. Now that doesn't sound like much, but do the math on $50 - $60 million worth and see how sweet a deal it is, and without any risk. To put it in perspective, say a homeowner could get a secured line of credit at zero percent, and buy a GIC yielding 2.5%. Using 400K that would give them 10K a year, without any risk. Sweet deal, but unfortunately, this sweet deal is only available to the banks.

ZIRP policy has many ramifications that are not well understood. Keeping rates this low hurts savers. It tends to drive money into riskier assets searching for higher yields; junk bonds and the stock market for example. The fact that ZIRP drives investors into the stock market simply because of a low yield environment

A WORD FROM THE EDITOR

As we edge towards fall, traders and investors will return their focus to the markets. September is historically a busy trading month. Volumes and volatility will increase, and all being well, the metals may even get some long-overdue positive price support! Closer to home, we've added several exciting new products, including platinum coins & bars, the latest RCM Birds of Prey coin, and we're working on getting in some 2015 Perth Mint products shorty. More to come!

Mark Yaxley
Editor

rather than solid fundamentals is not investing, it's speculating, and that usually doesn't end well.

These are but two examples of how the financial markets are manipulated. We haven't touched on things like HFT (high frequency trading), front running, phantom trades, stock stuffing, dark pools, etc. We'll leave these gems for a later date.

Robert Craig has an extensive background in the field of financial services including the sale of private life insurance, Registered Educational Savings Plans and 15 years of personal banking spent at CIBC. He is a firm believer in the long term benefits of owning precious metals and is a self-proclaimed 'goldbug'.

Six Things You Didn't Know About Platinum, Until Now

Written by Kevin D.

Many investors interested in owning physical gold and silver bars or coins are purchasing them primarily as an alternative store of wealth, as gold and silver have a long history as safe and effective monetary metals throughout turbulent financial times. Both metals are globally recognized commodities that store a lot of value in a relatively small amount of space. They are also portable, easily stored, do not degrade over time, and most importantly do not depend on a counterparty to impart value which is the case with most other asset classes like stocks, bonds and real estate.

Given the unprecedented actions by central banks and governments around the world to debase major currencies over the past five years, gold and silver should certainly be an important part of your portfolio. However, many well-known precious metals advocates including Eric Sprott, Rick Rule, and Chris Martensen also recommend diversifying your assets into the other precious metals known as the Platinum Group Metals (PGM's), of which platinum and palladium are the most well-known. Platinum, in particular, is an interesting choice due to a number of factors such as:

- **Rarity -** It is one of the rarest elements on Earth, with annual global production of only about 200 metric tons compared to over 2,500 metric tons of gold and over 31,000 metric tons of silver mined annually. Fact: All of the platinum ever mined throughout history would fit into a typical 2000 square foot house!
- **Constrained Supply -** The vast majority of global platinum production is concentrated in just two nations, South Africa and Russia, and no major production increases in other countries are expected. South Africa, in particular, also has a history of mine strikes and a somewhat unstable political situation that could dramatically reduce platinum supply at some point in the future, resulting in sharply increased platinum prices.
- **Growing Industrial Demand** – Platinum is the least reactive metal, and is used in catalytic converters to convert harmful gases from diesel engine exhaust fumes into carbon dioxide, nitrogen, oxygen, and water vapor. Rapidly increasing vehicle sales in China and India and the commensurate increase in air pollution, combined with more stringent emissions standards will continue to drive increased demand for platinum for a long time to come.
- **Growing Investment Demand** – The creation of platinum ETF's (Exchange Traded Funds) and increasing sales of platinum bullion coins from major mints around the world resulted in physical platinum

investment demand reaching an all-time high of about 24 metric tons in 2013. This trend is expected to continue as more investors become wary of inflation and wildly-overvalued stocks and bonds, and look to diversify their holdings into tangible assets of real value.

- **Less Manipulated –** No large aboveground stockpiles of platinum exist (unlike gold and silver) that can be used to flood to market and lower the price. Platinum also has no history of confiscation by any government, and because it is not generally viewed as a monetary metal by investors, the price is manipulated to the downside less frequently and less severely than either gold or silver.

- **Non-Taxable –** As per the CRA, pure platinum bullion coins and bars, such as the Royal Canadian Mint's Platinum Maple Leafs, are not subject to sales tax in Canada.

Purchasing platinum is an excellent way to increase your financial insurance by diversifying your precious metals portfolio, while also gaining indirect exposure to the growing economies of the developing world!

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.