



Precious Metal Bullion and the Use of Collateralized Financing

Precious Metals have historically been utilized by the Wise Investor as a Hedge against inflation, and deterioration of Paper Assets. They have been and continue to be the only Hard Asset one can own that have the ability to be instantly converted to cash, or used as collateral to secure cash advances without the need to liquidate.

As with any type of investment, the investor must always take into consideration several factors.

1. % of Net worth Exposure to the Investment?
2. Length of time investment product to be held? (Short Term or Long Term).
3. Is the Investment Product "On Sale?" (Is it in the Lower end of its historical price trading range.)
4. Does the Investor wish to use Collateralized Financing to assist with the purchase?

Once the investor has determined his/her net worth, question one must now be determined. Relative to Precious Metals Bullion, which should be approached as Long Term, a conservative percentage of Net Worth would be considered as 10%. Therefore if the Investors Net Worth is \$1,000,000.00, then \$100,000.00 in Precious Metals would be considered a conservative value of product to be owned.

This amount can now be dedicated towards the acquisition at a time when the Price is in the Lower End of its Trading Range.

If the investor chooses, he/she can utilize Collateralized Financing whereby the financing company will provide up to 75% of the Product Value at the time of the acquisitions. For example the investor could make the \$100,000.00 Acquisition with as little as a \$25,000.00 investment, and the financing company would provide the investor with \$75,000.00 to pay for the balance of the acquisition.

This allows the Investor to retain for future use towards his/her Precious metals Portfolio \$75,000.00 of his dedicated \$100,000.00.

This type of financing is subject to carrying costs (interest) which should be evaluated relative to how this expense adds to the cost of the product overtime.

An Example would be as follows:

Silver @ \$12.00

$\$100,000.00 \div \$12.00 = 8333 \text{ oz}$

- If your initial outlay was 25% (\$25,000) leaving \$75,000.00 financed at 7.25% (US Prime plus 4%) the approximate annual interest would be \$5,600.00 per year.
- Divided by 8333 oz of Product = \$0.67 per ounce
- This means that the market price of Silver would have to appreciate approximately \$0.67 per ounce over the upcoming year (After the purchase has been made) to cover the interest cost.

Therefore if the probability of at least a \$0.67 increase over the 12 month period is not being forecasted the investor could choose to either:

- 1) Not use Collateralized Financing and pay for the acquisition 100%; or
- 2) Finance a lesser amount which reduces the interest cost per ounce over the same time period.

Collateralized Financing is subject to Collateral (Equity) Call by the financing Company, which is why you must have sufficient reserves on hand to reduce your indebtedness in the event of shorter term price declines.

Use of Collateralized Financing becomes very attractive in a Long Term Bull Market, as it increases the ROI (Return of Investment) as much as 3 to 1 and if successfully utilized can be used as a vehicle for continued accumulation of product while returning the initial invested Capital.

The following is an example of how this can be accomplished and is based on Actual Market Pricing of Silver, January 2002 through December 2004.

		<i>Price</i>
January	2002	\$4.30
April	2004	\$8.50
May	2004	\$5.40
December	2004	\$8.23

(It is impossible to price the Lows and Highs of any Market, but with the use of “Stop Buy Orders” and “Stop Sell Orders” one can capture a large percentage of a Market Move).

April 2002:	Original purchase 20,000 oz Silver at \$5.00 =	\$100,000.00
	Invested Capital (25%)	(\$ 25,000.00)
	Amounted Financed	* \$ 75,000.00
	Approx Financed Cost (3 years at 7.25% Avg.)	* \$ 18,220.00
April 2004*	Total Indebtedness	\$ 93,220.00
	Market Value	
	(20,000 oz at \$8.50)	\$170,000.00
	Mark to Market Equity	\$ 76,780.00 (45.2%)

Here are the steps to take when this type of appreciation has taken place

1. Increase indebtedness by \$25,000.00 and take home your Original Invested Capital.
2. Place a Stop Sell at \$8.25 on enough product to pay off your indebtedness. (Total Amount Financed is now \$118,220.00 ÷ \$8.25 = 14,400 (Rounded up to nearest 100 oz).

April 2004: Stop Sell is executed, your financing Amount is paid off, you now have 5600 oz of Silver totally paid for with 0 invested capital.

This Product can now be used to accomplish the following:

1. Utilize Collateral Financing and withdraw up to \$34,650 to take home; or
2. Wait for a forecasted retracement by placing a Stop Buy Order using the product as Collateral to purchase up to 3 times the amount of product 16,800 oz; or
3. A combination of portions A & B

May 2004: You Purchase 16,800 oz @ \$6.00 = \$100,800. This Amount is financed and you now own 22,400 oz of Silver with current Mark to Market equity of \$33,600 and no invested Capital.

December 2004: Silver Price Peaks at \$8.23. Your Mark to Market Equity is as follows

22,400 x \$8.23	\$184,352.00
Finance Balance Including	
Interest to date	(\$105,220.00)
Mark to Market Equity	\$ 79,132.00 (43%)

1. You increase your Finance Amount by \$40,000.00 and take these funds home.
2. You place an \$8.00 Stop Sell on 18,200 oz.
3. Stop Sell Executed at \$8.00, you now have 0 financing, 4,200 oz Silver totally paid for with a Current Market Value of \$33,600.00, and \$40,000.00 in Captured profits above your Original \$25,000.00 investment.

This process can be repeated as many times as the investor wishes as long as he/she follows the basic guidelines.

- Don't get greedy. In other words stay within your predetermined % of Net worth.
- Keep Cash reserves to reduce indebtedness during adverse Market conditions.
- Keep in touch with your investment and monitor what is taking place with the price of your product.
- Familiarize yourself with all of the flexibility provided by the use of Collateralized Financing.
- Never panic if prices go down, remember Physical Precious Metals Bullions Products are for Long Term Appreciation Not Short Term Speculation. Therefore the only time the investor could suffer a loss is if he/she sells at a price below the Break Even Cost of the Product Owned.

This approach can also be used for Platinum, Palladium, and Gold. Remember *"He who has the Gold, makes the Rules"*.

Risk Statement

*This is an approximate example, using gross figures, which does not take into consideration account fees, commissions, or any subsequent buying and selling which may or may not increase your overall profit/loss. Please speak with an account representative to get a full understanding of how these fees may impact your overall return. All accounts utilizing Credit facilities provided by Precious Metals International are subject to Collateral (Equity) Calls, as disclosed in the Customer Account Agreement with PMI. Collateral (Equity) Calls are triggered when account equity reaches 15% or less, and it is the responsibility of the account holder to monitor their own account. Once 15% or Less Equity is reached the account must be restored back to 20% equity minimum. Should an account fail to restore equity back to 20%, or more, the account becomes subject to partial or total liquidation at the sole discretion of PMI. Buyer acknowledges that each transaction is a spot metals transaction and not a futures contract. Buyer has the intent, but not the obligation to take delivery of the metals. The customer chooses whether to pay in full or to finance the purchase, but must pay in full if he/she wishes to take delivery of the metals. Please be advised that as with all speculative investments, purchasing precious metals involves a risk of loss that should be carefully evaluated prior to investing any funds. All documents and risk disclosures should be carefully reviewed prior to opening an account with Guild Hall Wealth Management Inc.