



Managing Ownership of Precious Metals Bullion Product

All of the information provided herein is intended to be an informational guide to assist managing the ownership of Precious Metals Bullion Products. It is not intended to be considered as solicitations or recommendations made by PMI. Please refer to the Risk Disclosure, Customer Account Terms & Conditions, and Customer Account Documentation, as they are the Controlling documents of your Account Relationship with PMI.

Why Precious Metals?

The Ownership of Precious Metals Bullion Products should be approached as Long Term. Unlike “Blue Chips” stocks which generally yield, quarterly, semi- annual and annual dividends (regardless of the price of the stocks), Precious Metals Bullion products cost money to own, such as storage, and lost opportunity costs, related to forfeiture of interest income on funds converted from savings towards the purchase cost.

Despite these cost factors, ownership of Precious Metals Bullion Products representing 5 to 10 percent of Net worth, has been considered as part of the wise investors portfolio for many years. Much of the thinking supporting this theory is the continued ownership of Precious Metals Bullion Products as a hedge against Inflation, Dollar Devaluation, Declining Stock Prices, Rising Interest rates, War, Bankruptcy of Blue Chips Stocks – (Such as Eastern Airlines, Pan Am, and most Recently Enron, etc.) and their Negative impact on “paper related” investments.

In Short-in times of uncertainty "He who has the Gold, makes the Rules"

1. Paid for Product

A Customer of a Retail Dealer has 2 (two) Choices of Delivery

A. Home Delivery

This involves additional costs such as, Fabrication, Shipping, Postage and insurance, or insured courier and applicable taxes, (if any).

*It is important to understand that product delivered home will involve costs related to the sale of said product, such as shipping, assay, and opportunity costs.

B. Delivery to an account with PMI

This involves costs such as the New Account Opening Fee (\$100.00) and the Prepaid Annual Administration fee (\$100.00). All Accounts are subject to a storage fee of ½ of 1% of the annual weighted average value of the product, and Credit fees of Chase Manhattan Prime, plus 5% (of which 1% is rebated to Guildhall Wealth Management), which are charged on all outstanding balances due to PMI. (Both of which are computed daily and added to the Account monthly). The rebate to Guildhall Wealth Management does not constitute any Agency Relationship between Guildhall Wealth Management and Precious Metals International, Ltd. All Accounts are subject to Collateral Call (Equity Call) in the event the Equity falls to “at” or “below” 15%. Should an Account wish to take home delivery from the Account with PMI, in addition to paying

PMI all balances due PMI, the Account will also have to pay Fabrication costs, Shipping and Applicable taxes, (if any).

Calculating Break Evens:

1. Each Purchase of Product stands Alone
2. B.E. = Total Cost divided by Number of Ounces
3. Total Cost = Total Purchase Plus Retail Commission Charged
4. PMI Account Opening Fees and Prepaid Annual Administration fees are not utilized to compute Break Even, as once established the Account may utilize the Account for as many purchase and sale transactions as desired.
5. Fabrication, Shipping, & Taxes (if any) would be considered as part of Total Cost and therefore would affect the Break Even.
6. Interest and Storage fees will act to increase the Initial Break Even of product purchased utilizing an Account with PMI.

Annual Storage Fee as it relates to increase of Break Even cannot, at the initiation of a Purchase, be 100% computed. The reason for this, is that the charge is based on the constantly changing value of the product.

<u>For Example</u>	<u>Value</u>	<u>Estimated Annual Storage Fee</u>
(Per Oz Value x .005)	\$ 5.00	2.5¢ per oz
	\$10.00	5¢ per oz

Interest Charges accumulate on all outstanding Credit Balances due, which, like storage fees, constantly change, due to Interest Rate Changes (up or down), Credit Balance reductions, etc.

However, in order to have a good understanding of how Interest Charges will affect Break Even one must examine a “typical credit purchase”.

For Example:

1000 Silver at \$5.00 = \$5000.00
Credit Advance 80% = \$4000.00
Total Annual Interest 8.75% = \$ 350.00 divided by 1000 oz = 35¢ per oz/per year

Calculating Collateral (Equity) Calls

All Accounts utilizing Credit facilities provided by PMI 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. Should an Account fail to restore Equity back to 20%, the Account becomes subject to partial or total Liquidation at the sole discretion of PMI.

Upon the establishment of a new purchase of one product type, it is possible to calculate the collateral call level on that product.

(Credit Balance Due divided by .85) divided by # of ounces = Price Level of Call

Example: (\$4000 divided by .85) divided by 1000 oz Silver = \$4.70
= 4705.88

(\$4000 divided by .85) divided by 20 oz of Gold = \$235.29
= 4705.88

However, once an Account has more than one Product type, or Multiple additions of the same type, the Collateral Call Calculations must be based upon the current market value of all product, as they relate to the total Credit Balance due (with restoration back to 20% equity).

Step 1

To Compute the Market Value of an Account which would result in 15% Equity, take the Current Credit Balance Due (CB) and divide by .85.

$\frac{\$10,000 \text{ (CB)}}{.85} = 11764.71 = \text{Total market Value equal to 15\% Equity on a \$10,000 CB.}$

Step 2

To compute the minimum dollar value of the call – take the current Market value x .8 and subtract the Current Credit Balance Due.

Market Value = \$11,764.71	
	X .8
	\$ 9,411.77
Current Credit Bal	\$(10,000.00)
\$ Value of Call	\$ 588.23

Bear in mind that ongoing Credit Fees and Storage Costs are increasing the outstanding Credit Balance Due on all Accounts, and do effect Equity Call Levels.

Options Available when in Collateral (Equity) Call

- A. Purchase Like or Unlike product on a regular Down payment requirement at current price levels. (Total Down payment required is Regular on New product plus \$ value of Original Call).
- B. Purchases paid for product (equivalent in Value to 125% of the Call Amount) and add as additional Collateral. (Like or Unlike Product)

Calculations for Paid for Product with equity of 15% or less.

Beginning Equity	Amount of Additional Paid for Product	Remaining Equity
15%	6.25%	20%
14%	7.5%	20%
13%	8.75%	20%
12%	10 %	20%

11%	11.25%	20%
10%	12.5%	20%

Note: either of option A or B accomplish Cost Averaging and support the original approach of Long Term profitability.

C. Reduce Credit Balance due by the amount of the Call.

Taking the actions delineated in A, B, or C, should result in excess equity being created when prices recover – (See Equity Release)

D. Liquidate appropriate percentage of the product held (All proceeds to be applied towards Credit Balance Reduction).

Partial Sell Calculations for Accounts with equity of 15% or less.

<u>Beginning Equity</u>	% of Holdings to be sold (100% of proceeds to reduce CB Due)	<u>Remaining Equity</u>
15%	25%	20%
14%	30%	20%
13%	35%	20%
12%	40%	20%
11%	45%	20%
10%	50%	20%

E. Total Liquidation of product with Residual funds (if any) available to Customer.

Account Statements disclose Equity Percentage on all Accounts as well as “Excess Equity” which reflects the difference (plus or minus) relative to the required 20%. Accounts can access their Account Statements at PMI’s Website at www.pmilimited.com

Equity Releases

Account Equity in excess of 20% may be released to the Account holder, upon request. This amount is added to the then existing Credit Balance due and becomes subject to the Credit fee charge. Excess Equity can also be utilized to purchase product.

Note: Utilization of Excess Equity will affect “Collateral (Equity) Call Levels.

How to Profit from Ownership of Precious Metals Bullion Products

- A. Never overextend yourself. Use only funds that you will not need for day to day living expenses.
- B. Once you have determined the total funds you wish to utilize, decide if you wish to totally pay for your product, or utilize the theory of “Other Peoples Money”. (Whereby you would use only a portion of your determined funds as a down payment towards your purchase, and keep the balance in reserve for future use, but dedicated towards your Precious Metals Portfolio).
- C. As with anything you have purchased, in order to profit from the sale of that item, you must sell, at a value that exceeds the total costs related to the ownership of the item.
- D. If you utilize the theory of “Other Peoples Money”, you are increasing the costs, as you will be charged

interest on the amount you borrow. However, this cost is reduced by the interest you are earning on your reserve funds as discussed in paragraph B.

The following are theoretical examples of how to approach profitability while maintaining ownership at all times (using Silver with a Purchase Price of \$5.00, a determined amount of funds to be \$20,000, and a Sale Price of \$10.00).

- 1) Cash Paid for product
Purchase \$20,000 divided by \$5 = 4000 oz of Silver
Sale \$10 x 4000 oz = \$40,000
Return on Cost = 20,000 = 100% PROFIT

- 2) Financed Purchase
4000 oz of Silver @ \$5 = \$20,000
20% Required Down payment (\$ 4,000)
Amount Financed \$16,000
One year Interest @ 8.75% 1,400
Balance due after one year \$17,400

Sale @ \$10.00 x 4,000 = \$40,000
Deduct Balance Due (\$17,400)
Net Proceeds \$22,600 (To be returned)
Deduct 20% Down payment (4,000)
Net Profit \$18,600

Return on Down payment \$18,600 divided by \$4,000 = 465% PROFIT

Examining the above examples reveals an important point – once the Silver has been sold – it no longer exists in your portfolio!!

This violates the theory of 5 to 10% of net worth being held at all times. As a general rule of thumb the following sales could be used to accomplish constant Ownership, while yielding the equivalent profit.

- 1) Original Cash Paid for Product
4,000 oz at \$5 = \$20,000
Sale 2000 oz at \$10 = \$20,000 = Return of Original Cost
Balance of Ownership 2000 oz, totally paid for with a value of \$20,000

- 2) Original Financed Purchase
4000 oz Silver @ \$5.00 = \$20,000
Bal Due after 1 year = \$17,400
Add 20% Down payment = \$ 4,000 (To be Returned from Sale Proceeds)
\$21,400
Divide by Sale Price \$ 10
Total Product sold 2140 oz
Balance of Ownership 1860 oz totally paid for with a value of \$18,600
Funds utilized \$4,000

Approaches 1 & 2 have accomplished constant ownership, and returned the Original Funds utilized. In either case the Remaining Product has been paid for by the increase in value and the original funds utilized have been returned. Additionally the Remaining Product can be utilized as collateral to purchase up to 4 times the market value, in like or unlike product utilizing the credit facilities. (While adhering to the theory of paragraphs A & B

hereinabove).

Use of Equity Releases to Capture and Return Excess Equity.

Equity Releases may also be used to capture and return to the Account holder, portions of original funds invested, up to the total of an Account holders' original funds, plus funds which would normally be recognized as profits, which would be created by increased product values over and above, the costs of product held in the Account.

This can be accomplished without ever selling product at the time such equity releases are taken.

Utilization of Equity Releases for this purpose should be properly managed, in the event of a down turn in Market value after such equity releases have taken place. The easiest way to accomplish this is with the use of "GTC Stop Sell" orders on sufficient volume of product to re-align the account to 20% equity, should the Account equity drop to 15%.

The following is an example of the use of equity releases for the purposes described in this section. (For Illustration purposes these examples do not reflect interest and storage costs).

Original Purchase

1. 10,000 Silver @ \$5.00 = \$50,000 (Original Investment)
Downpayment to PMI (\$10,000)
Credit Balance Due PMI \$40,000

2. Price Moves to \$10.00

3. 10,000 Silver @ \$10.00 = \$100,000 (Mkt Value)
80% of \$100,000 \$80,000 (Amount PMI will Finance)
Existing CB due PMI (\$40,000)
Excess Equity \$40,000 (Available for Equity Release)

4. Account Holder takes Equity Release of \$40,000 this is added to Account Holders Credit Balance Due PMI.

Net Result

1. Account Holder captures original invested funds of \$10,000.
2. Account Holder captures an additional \$30,000 without selling product.
3. Account Holder still owns original 10,000 oz of Silver valued at \$100,000, has a Credit Balance due PMI of \$80,000 and Account equity of \$20,000.
4. At this point the use of a GTC Stop Sell Order could now be employed using one of two approaches.

Approach One

Use Trailing Stop Sell Orders, 25¢ under the market, to sell enough product to clear loan – leaving the Account Holder with totally paid for product in the Account, which can be utilized to acquire additional, like or unlike product, at any time and any price level, utilizing PMI's Credit Facilities, or as support collateral for the purpose of Equity Release.

Approach Two

Place GTC Stop Sell Order on 25% of the Product held (2500 oz at \$9.42) which represents the price point at which the Account would be at 15% Equity. Should this occur the sale proceeds of \$23,550 - would be applied to reduce the Credit Balance Due PMI, leaving the Account with 7500 oz of Silver valued @ \$70,650, a Credit balance due of \$56,450 and equity of 20% equaling \$14,200.

Using Equity Releases as described herein accomplish constant ownership and provides the ability to capture funds generated by increased Product values (without selling product).

Use of "Stop Sell" Orders

You may, through your Retail Dealer, employ the use of "Stop sell" orders in order to capitalize and protect increased equity caused by rising prices of your product. PMI does not recommend "Stop Loss" Orders as this violates the theory of paragraphs A, B and C as discussed hereinabove. When utilizing "Stop Sell" orders, you should instruct your Retail Dealer to "follow" the Market. (see "GTC Trailing Stop Sell Order")

For Example: Silver at \$10.25 – start with a Stop Sell at \$10.00 (at least 25¢ under the current market). Use only enough product to 1) Either repay your original cost (if totally paid for) or 2) Clear out your Balance Due on financed purchases, plus generate enough residual funds to return home your original down payment.

For products such as Gold, Platinum, or Palladium we feel a \$15.00 spread below Current Market should be utilized for "Stop Sell" Orders. One thing to remember is that the "Stop Sell" price level selected triggers the order to be executed at the next available price, and therefore there is no guarantee that the price of execution will be – "Above" – "At" – or "Below" – your "Stop Sell" Price.

The Following are types of orders, which can be used for Physical Precious Metals Bullion Products.

1. **"Market Order"** – This is an order to Buy or Sell regardless of the price.
2. **"Stop Buy Order"**– This is an order to Buy – once a specified price has been reached. This price, once reached, activates the order, and it now becomes a "Market Order" which would be executed on the next available price. (This price could be – "at", "above", or "below", the original price specified.)
3. **"Stop Sell Order"** – This is an order to sell, which functions under the same parameters as the "Stop Buy Order".
4. **"Limit Orders"** – These would be orders to Buy – called a "Stop Buy Limit" order or to Sell – called a "Stop Sell Limit" order. A "Stop Buy Limit" order would be triggered for execution at the specified price, but can only be executed – "at" or "below" the specified price. In other words the order can only be executed "at" or "below" the specified price once the specified price has taken place. A "Stop Sell Limit" order functions under the same parameters as the "Stop Buy Limit" order, where the specified Sell Price – triggers the order for execution. Execution will only take place if the order can be executed – "at" or "above" the original specified price. "Limit Orders" are used primarily by professionals "day trading" in the Futures Contract markets, and are not commonly used by holders of Physical bullion.
5. **"G.T.C – Good Till Canceled"** – This would be any order type which remains open until either executed or cancelled.
6. **"Cancel & Replace"** This is an order to cancel any previous order (of any type) and replace it with a new order (of any type).
7. **"Fill or Kill"** – This is an order to Buy or Sell "at" a predetermined specified price. Unless specified as a "GTC" order, it expires at the end of the day it is placed.
8. **"Day Orders"** – All orders (of any type) unless specified as "GTC", expire at the end of each business

day.

Earlier the use of “Stop Sell” orders was discussed (See page 6), wherein it was suggested that the market should be “followed”. The simplest way to accomplish this would be as follows (using the previous “silver” example).

Step One: Closing Price from previous day \$10.25

Place Order – “GTC Stop Sell @ \$10.00 for 2140 oz Silver”.

Step Two: The Silver price continues to move up and closes at \$10.50.

Place the following order

“Cancel original order and replace with “GTC stop Sell @ \$10.25 – 2140 oz of Silver”

Step Three: The Silver Price continues to move upwards and closes at \$10.75

Place the following order

“Cancel original order and Replace with” “GTC Stop Sell @ \$10.50 – 2140 oz of Silver”.

Notice that as the price continues its upward move, for every 25¢ in price increase the use of “Cancel Replace” and “GTC” orders, increasing the “Stop Sell” level by the same 25¢.

9. **“GTC Trailing Stop Sell Order”** – These type of orders are typically used by your Retail Dealer to capture increased equity or profits in the event of a market correction wherein the amount of product to be sold IS NOT adjusted as prices continue to move to the upside. The “Stop Sell Price Level” is adjusted upwards by your Retail Dealer, basis the increase in price over the previous day's closing prices (NY Close 1:30 p.m. NYT). Typically your Retail Dealer will combine your order with those of other customers to create what is known as a Bulk Stop Sell Order. As the market price moves higher, the Retail Dealer adjusts the Stop Sell price up on the same volume of product. When the market price does make a correction and the final Stop Sell Order is executed, the result for the individual customer is paid for product in the Account and (if the Stop Sell Price had been increased from its original level) residual cash.

This is one of the most powerful tools you can authorize your Retail Dealer to use for your Account when seeking to capture increased equity (profits) while constantly maintaining Ownership. Once placed by your Retail Dealer with PMI's Trading Desk, the order remains open in All Markets, until executed or cancelled.

10. **“GTC Stop Buy Orders”** - These orders are based upon “Ask Price Levels” of the product you wish to purchase. **Note:** These type of “GTC Stop Buy Orders” do not automatically cancel out and remain open until either executed or cancelled. As with the "GTC Trailing Stop Sell Orders" these type of orders are generally combined with other customers of your Retail Dealer as Bulk "Stop Buy Orders". The Ask Price target could be the then existing target level for an anticipated short term price correction to the Downside, or for a price target that would be above a major resistance price level.
11. **“At The Market Equity Purchases”** - Earlier we discussed the uses of "Excess Equity" (purchases of like or unlike product, Equity Releases). Excess Equity in your Account is the Equity Value in your Account on a "Mark to Market" valuation above and beyond PMI's required minimum equity of 20% and includes 100% of any cash balance in your Account.

You may always utilize "Excess Equity" as purchasing power to acquire like or unlike Product for your Account. Such purchases (unless 100% covered by the cash in your Account) will result in increases to your Credit Balance Due PMI, which would be 100% of the cost of your purchases (Including any

Commission charges by your Retail Dealer) less any cash you have on deposit.

These type of Orders, unlike the GTC STOP SELL, and GTC STOP BUY are for "immediate execution" based on the current prices when placed and filled. Like the GTC BULK STOP SELL and BUY Orders, you may have your Retail Dealer combine your order with those of the Customers conducting like purchases.

To learn more about the effective use of the order types described in 9, 10 & 11, contact your Retail Dealer.

We hope the information herein is helpful to you. Should you have other questions, please E-mail us at pmi@pmilimited.com and we will be pleased to assist you.

(Prepared by PMI February, 2002)