REVIVING LOCAL ECONOMIES: SET UP YOUR OWN SILVER EXCHANGE

After I spoke in Columbia, South Carolina last month, one group working to revive their local economy asked me to put my explanation where my mouth was. They want to start using 90% silver coin as local money, *but how do they start?* I was forced to explain how we can reverse Gresham's law.

Reviving local economies need a money that won't be continually drained off, a money so superior to paper dollars that it will stay in local circulation. Because it is legal, convenient, divisible, and easily recognizable, US 90% silver coin is the perfect choice for local commerce. The benefits of using US 90% silver coin over the US dollar are many.

Because its value is rising, everything you buy costs less and less year after year.

Because silver's value doesn't depend on a central bank say-so, there can be no surprise devaluations.

Denominations are small enough (14 dimes make an ounce) and flexible enough for most transactions.

If you are in business, you can afford to offer a 10% discount to all who pay in silver because

It is easier and cheaper for you to acquire silver that way. You are reducing the cost of silver by the markup of whatever you sell, and you pay no commission.

Tomorrow silver will be more valuable than today, unlike the US dollar.

THE SPREAD

Everybody has a spread, they just call it something else, "profit margin" or "markup." It is the difference between what you *buy* your product for, and what you *sell* it for.

If a grocer buys tomato juice from his wholesaler for $1.25 a can and he sells it to his customers for $2.50, his "spread" is $1.25.

Likewise, your local silver exchange will operate on a very small "spread" between buy and sell.

SETTING UP YOUR LOCAL EXCHANGE

For people to use silver money in daily commerce, you must make it *convenient*. Your exchange must be open normal business hours. It must be easily accessible, perhaps where an exchange service already exists in a grocery store customer service booth or bank.

For current prices and exchange rates, use www.silverandgoldaremoney.com. Not only does that offer live, up-to-the-minute gold and silver prices, but it also quickly translates any US dollar amount into silver and gold terms, particularly into US 90% silver coin.

The exchange will operate on a low spread. The example I use is only a suggestion, larger than the wholesale spread in my industry, but smaller than the retail spread.

Spread US 90% silver at 70 cents per ounce. That means

You will buy US 90% silver coin at spot silver value less 70 cents

You will sell US 90% silver coin at spot value, flat.

FIGURE THE BUYING RATE

Example: Spot silver stands at $17.80. To calculate your buying rate

Subtract 70 cents from $17.80. That's $17.10.

Multiply $17.10 (silver price per ounce) times 90% silver coin silver content, 0.715 oz. That's $12.2265, your *buying* rate.

For every dollar face value of silver coin – every ten dimes, four quarters, or two halves – you will pay the public $12.2265 in paper.

FIGURE THE SELLING RATE

You are going to sell at the spot silver value. Stop silver stands at $17.80. To calculate your selling rate

Multiply $17.80 (spot silver price per ounce) times 90% silver coin silver content, 0.715 oz. That's $12.727, your *selling* rate.

For every dollar face value of silver coin – every ten dimes, four quarters, or two halves – you will charge $12.727 in paper .

BACK TO THE SPREAD

Your spread between buy and sell is about 50 cents in paper money on every dollar of silver money. Divide 50 cents paper by your $12.2265 paper buying rate, and you come to a 4.1% spread.

Your buy-sell spread *per dollar face value* (containing 0.715 troy ounce) is 50.05 cents paper, but your spread *per ounce* is 70 cents paper.

You could charge a higher or lower spread. We aim not so much to make a big profit as to offer a cheap, convenient way for the local economy to go from US paper dollars to silver coin and to encourage them to use silver coin in local daily commerce with one another.

Lacking a single person willing to finance the exchange, probably the best way to finance this exchange is for several people to kick in enough paper dollars to buy one or two bags of silver. By the way, you don't have to buy silver coin. If you already have silver coin, there's your stock in hand.

BUT AREN'T TWO CURRENCIES CONFUSING?

Only because most of you have never lived around two currencies. The US has a huge internal market, all transacted in US dollars. But what if you lived in Brownsville, Texas across the Rio Grande from Matamoros, Mexico? Crossing back and forth over the border every day, you soon get used to the value of dollars and pesos. If you know the exchange rate, it's just a quick mental calculation. In silver's case, if you can't do the mental arithmetic, just log on to www.silverandgoldaremoney.com.

One more thing. I said above that silver is a much superior money to paper, but most of you still think in dollars. You ask fearfully, "What will I do if silver drops against paper?"

Relax. Silver is rising in a primary uptrend that should last at least another six years, maybe eleven. However, just to make sure, I went back and averaged silver's yearly gains (Jan. 1 to Dec. 31) since 2001. Silver saw good years (up 36.2%, up 41.1%) and a couple of bad years (down 6.1%, down 25.7%), but it averaged gaining 11.8 percent a year, from 2001 through 2008. So even paying a 4% transaction cost to get into silver, on average you will still gain year by year.

On the other hand, you could remain in paper money. In the same period, the dollar index lost only 37%, while silver *gained* 148%.

You decide.

-- F. Sanders

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- US dollar collapses sooner, in which case it might be next week, next month, or Christmas.

WHAT SHOULD I BUY NOW?

Last fall a once-in-300-year financial storm hit. Although huge problems remain in the financial system and the banks, we aren't likely to see that same seizure again soon. When it first became obvious that the economy would unravel, back in 2001, I recommended selling stocks and dollars and buying silver and gold. *Ignoring the silver and gold gains from 2001 through 2008, and the losses dodged by having sold both stocks and dollars*, how did we fare in the panic? Looking back over the last eighteen months, how well has our strategy worked? When we know how it has worked, we can guess what to buy now.

LAST 18 MONTHS

Look at the table. It shows prices at mid-March 2008 (metals peaking, stocks beginning to fall, dollar bottoming, mid-July 2008 (dollar rally begins, panic follows), mid-November-2008 (roughly end of panic), mid-March 2009 (dollar peaks, stocks bottom), and the present.

How did all these perform across the panic?

Look at the chart. You'll see I have calculated the gain or loss from March 2008 to the bottom of the panic in November 2008.

- **US Dollar Index gained 22%**
- **Dow lost 29%**
- **Gold lost 26%**
- **Silver lost 54%**

It shouldn't surprise anyone that the US Dollar would gain value in a panic for liquidity. Nor should it shock anyone that always-more-volatile silver temporarily lost more than gold.

But how have these markets recovered since then? Have they made good their losses? Solidified gains?

Look at the column, "Gain/Loss 11/15/08 to 6 Oct 2009." That compares performance from the November 2008 lows to today. What do the numbers say?

- **US Dollar index has lost 13%**
- **Dow has gained 16%**
- **Gold has gained 43%**
- **Silver has gained a staggering 87%!**

That's very interesting, but it still doesn't answer the question about our strategy. Did it pay off to hold silver and gold and avoid dollars and stocks from the beginnings of the financial crisis in March 2008 until today? How did the fat lady sing?

- **US Dollar index has gained 6%**
- **Dow has lost 17%**
- **Gold has gained 7%**
- **Silver has lost 13%**

Ignoring our gains before 2008, the strategy has still worked. Gold slightly outperformed the dollar, up 7% versus the dollar's 6%. Over the past 18 months stocks have lost 17%, while silver lost 13% from its March 2008 high. So as a safe haven in panic, gold performed about as well as the dollar, even in a 300-year panic, and silver is recovering.

Consider, too, that we were beginning from vastly different platforms. Today the US dollar index stands at 75.768, down from 121 in 2001 (down 37%). Gold stands at $1,064.2, up 244% from roughly $300 in 2001. Silver costs 1782.5¢ today, versus 402¢ in 2001. For a 343% gain, I can stand a little volatility.

Ponder, also, the direction of trends. In 2008 silver and gold were making all-time peaks, while the dollar was bottoming. Today the dollar appears to have another leg down before it bottoms, and may keep right on falling through its 70.70 low. Gold has within the past three weeks successfully broken through $1,000 on its fourth attack. That breakout alone forecasts a long rally. Measuring the upside down head and shoulders on gold's chart gives us a target of $1,325.

So far, our strategy is working.

WHAT IF ANOTHER PANIC COMES?

Here is the point to take home: the fall 2008 world-wide financial panic failed to break the silver and gold primary uptrend. Recovering from that transitory damage, gold has already reached new all-time highs a year later.

Why would anyone seek safety in the US dollar *now*?

There's still more. What did the 2008 crash represent for silver and gold? Look at the long term silver chart. Stand across the room. You can trace out a long slow rise from 2001 to March 2008, then the sharp drop to November 2008. March 2008 marks the peak of the first long leg up in metals, November 2008 the bottom of the first big leg down.

Look at it more closely. Can you see that it rises into April 2005, then drops to May 2005, trades sideways thru October 2005, rises again to a peak in May 2006, falls and corrects sideways till August 2007, then rises to a final peak in March 2008. From there it drops steeply to an obvious bottom in November 2008.

That's the typical five-wave impulse patterns advancing markets trace out to complete one leg up in March 2008.

Does it remind you of anything?

In August 1982 the Dow began rising from 776.92.

On 25 August 1987 it reached 2,722.42, a rise of 250% (3.5 times)

Then the Dow fell to 1,738.74 on 19 October 1987, losing 50% of previous five years gain.

What happened next? The Dow climbed on to 11,722.98 on 21 January 2000, a gain of 575% (6.75 times).

What you have witnessed in silver and gold compares exactly to that 1987 crash in the Dow. It looked like the end of stocks at the time, but it was only the end of the first *of three* legs up.

For gold and silver, there is much more upside to come.

-F. Sanders