

# *Gold and Silver Scams*

## *How to Avoid Them*

Before you buy - be prepared to avoid being ripped off! This special report is provided to educate you on the pitfalls of purchasing gold and silver metals.

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## *About this Report*

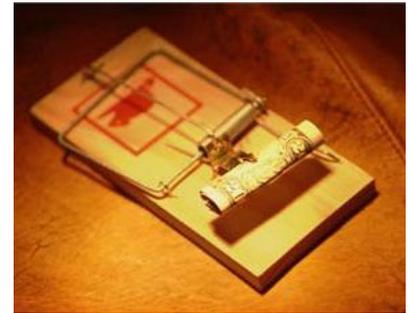
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Eagle European Capital, LLC was founded with a purpose of making gold and silver purchases as simple as possible, backed by relevant and accurate information. Allocating a portion of your wealth into precious metals is a wise decision. However, many choices exist for investing assets in physical precious metals, and not all firms are the same. Educating our clients is vital for sound, long term decisions regarding portfolio diversification using precious metals. At Eagle European Capital, LLC, we are dedicated to providing information such as this *Special Free Report*, uncovering typical scams and manipulations currently found in the marketplace, enabling clients to make wise, sound investments in gold and silver precious metals.

## *Bait and Switch*

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While many precious metals companies are reliable and fair in their business dealings, some companies advertise bullion coins, and then urge customers to switch to a rare coin otherwise known as numismatics. Responding to an advertisement regarding prices on bullion coins, buyers suddenly hear a more expensive, rare coin is the best route to go.



The company representative may claim rare coins are a better investment than bullion. This happens more frequently in the purchase of gold coins. However, rare coins are a speculative and risky investment. During depressions, many people will not be concerned about the rarity of a coin but in the metal content of the coin. Unless you are a knowledgeable collector with vast knowledge of numismatics, you should avoid this type of coin.

## *Numismatics*

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A numismatic coin is a collector coin that has value over its metal content because of its rare or historical value. Many numismatic coins sell at prices of 25% to 50% or more over the bullion value. Dealer profit on numismatic coins ranges from 15% and higher, while a dealer profit on bullion should be in the range of 1% to 6%. Three layers of costs in the price of numismatic coins exist, compared to only two for bullion coins. The numismatic coin layers consist of metal content, numismatic premium and dealer profit. Commissions on these coins are very high with the balance going into dealer profit.

For example, let's say you purchase a rare coin for twice the bullion price; your breakeven is very high compared to the price of a bullion coin. The regular bullion coin only needs to raise a few dollars over spot for a gain in profits. When selling a numismatic coin, the spread to sell will likely be much greater. For instance, if the difference in purchase price and selling price is 30%, you would need to gain over 42% to break even. Some say over time this premium will not matter. However, what may end up happening is that when the global economic situation erodes the collector may need to sell numismatic coins to pay basic costs of living. In a financial crisis, it is likely that the rare, numismatic coin may decrease in value as people want precious metals as close to spot as possible.

Investors cannot depend on a ready market when selling numismatic coins. Your dealer may offer a much lower price for your coins. You can forget eBay or the public in general because most buyers can't verify coin rarity. Trade shows are not a solution, either, since a coin dealer will quickly ascertain your knowledge level. Bullion and less rare coins have a large marketplace for selling all over the world. Less rare coins closer to spot price will always have value. In a more unstable environment, less rare coins may increase in value as an alternative for paper money.

When it comes to numismatic charts, be aware that these graphs often cherry pick the rare coins that outperform the norm. For every rare coin that outperforms, there are numerous rare coins that under performed during the same period. Be cautious and know that even the timeline shown can affect the return. A comparison of the Professional Coin Grading Service (PCGS) 3000 Rare Coin Index (a market basket representation of the overall rare coin market) against the spot price of gold bullion is eye opening. The rare coin index since 2001 to 2011 has returned only 36% while the gold bullion has appreciated 445%. So not only did the rare coin lose in growth but also in the rarity premium upfront cost that doesn't appear in the returns.



Almost 99 percent of all counterfeit coins come from imitation numismatics and not bullion coins. A bullion coin is nearly impossible to counterfeit by substituting less expensive metals rising from a need to duplicate color, density(weight per volume), and sound (ring). On the other hand, the numismatic coins derive value from qualities much easier to replicate such as the specific design, rarity, age, and condition. Since the profit markup is so much greater in numismatic coins, a counterfeiter can make the coin of the same material as the original, changing details. These methods make replicating the original look, sound and feel much easier.

While a collector may be willing to pay such numismatic premiums over the metal content, most investors fare better by purchasing less rare coins or bullion over the high-priced coins. In the midst of an economic crisis, the numismatic premium on coins of questionable rarity could disappear as millions of collectors sell to provide liquidity. Surviving and providing for one's family will become a priority over owning rare coins when keeping your house or car is at stake.

Smart money has been preparing for a global economic crisis and meltdown through buying gold and silver. People like Jim Rogers, John Paulson and countries like China and India are not

buying numismatics. In a depression, numismatics may lose their value while bullion prices rise since the collector demand diminishes. The collector, like many people, may sell their numismatic collection to pay their bills as well, further contributing to a greater supply than demand, thus dropping the numismatic price more.

Knowledgeable collectors who appreciate rare coins are the ones who should purchase numismatics but not the typical investor looking for wealth preservation and protection.

## Confiscation

Some coin dealers use another technique to sell high-priced numismatic coins. They advise that only rare gold coins will be exempt from “gold confiscation.” So here is a little history about this matter. President Roosevelt issued an Executive Order 6102 in 1933 prohibiting the private holding of gold. Also, American citizens were required to turn over their gold bullion or face 10 years imprisonment or a fine of \$10,000. Language in the order that numismatic dealers use for an exemption follows:



*(b) Gold coin and gold certificates in an amount not exceeding in the aggregate \$100 belonging to any one person; and gold coins having a recognized special value to collectors of rare and unusual coins.*

<http://www.presidency.ucsb.edu/ws/?pid=14611#ixzz1hOUdbhSt>

This “rare and unusual coin” verbiage is typically what the coin dealer uses to make a case for exemption from nationalization or confiscation. However, most numismatic coins are not rare and unusual but ordinary coins with high markups for higher profits. Much of the numismatic coins sold are not truly numismatic, but merely bullion coins with high rare coin markups. Therefore, most numismatic coins would not be covered under the definition to exempt them.

More importantly the law no longer exists, so the government can nationalize anything including all gold coins and bullion. However, only 23% of American citizens turned in their gold under the 1933 Executive Order. We believe it would be far easier to crash the price of gold, thus motivating people to sell. This will likely occur before returning to the gold standard in America. To clarify, a return to the gold standard means USA currency would once again become backed by and limited to the amount of gold held by the U.S. government. In other words, the Federal Reserve would not be able to simply print more money based on nothing.

In summary, some coin dealers will use confiscation as a means to motive people to purchase gold numismatic coins with high markups. Don’t fall for this tactic.

## Price Protection

If you have seen a guarantee to protect the purchase price should gold or silver drop in price right after your purchase, it is no free lunch. Companies offer rebates and price guarantees because they charge a higher commission up front to cover the risk. Typically, this offer doesn't appear on low-priced bullion coins but on the high-priced numismatics. Instead, focus on the precious metals and not additional guarantees and perks.

## Collectible Coins

Collectible by definition means things considered to be worth collecting (not necessarily valuable or antique). Collectible coins means simply collecting coins. For example, a proof set which may contain legal tender may not have any precious metal content. While representatives use the sales pitch of these coins having collectible value, they in fact have little value. If the proof set contains bullion coins then the markup is typically large for the packaging. Some proof sets contain metal other than gold or silver, such as a base metal like zinc or aluminum. Again, buying bullion closer to spot price over paying the collectible premiums proves a better investment. The weight of the gold or silver matters most.



Commemorative coins are a type of collectible coin seen on TV or in magazine ads. Most of the time, the coin is clad in gold or silver over a base metal. Legally sellers must disclose this information. Do not be distracted by sentimental value frequently attached to the coin such as the Olympics or U.S. Presidents. The value does not stem from the hyped up fraction of a bullion coin, but in actuality is only a pretty trinket valuable only if someone else wants it.

In 2004, the National Collector's Mint, Inc. sold the 2004 Freedom Tower Silver Dollar by advertising through TV and magazines. The ads stated these coins were legally authorized Government Issue silver dollars from the Commonwealth of the Northern Mariana Islands. They implied the coins were made of pure silver from bars recovered at Ground Zero. The U.S. Mint responded against this scam while the New York attorney general obtained a court order halting sales of these rounds. The coins were not made of pure solid silver but rather a cheap metal alloy plated with about 1.4 cents of silver. The coins were not legal tender, minted in Wyoming. So let the buyer beware of fraudulent claims playing on emotion.



## *Certified Coins*

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Another scam includes counterfeit certified coins. A scammer can have real, high quality, numismatic coins graded by a grading service. After the coins are graded, then the scammer removes them from the tamper proof slab and replaces the coins with either real coins of a lower grade or counterfeits. A slab is technically the plastic case holding a coin. Sometimes the encapsulated coins are referred to as slabs. A scammer buys slabs from the manufacturer, often online at an extremely low cost, and can insert anything they want.

Another problem with a slab counterfeit is that you cannot hold the coin in your hand to feel the weight, density or hear the ring of the metal coin. This is a huge advantage to a scammer.

Another scam is to sell brand new current year bullion coins with an MS-70 “mint state” grade rating (see Glossary under Resources on website) at a large price markup over an ungraded coin. By definition, a new coin is almost always uncirculated and brilliant. If a coin comes straight from the mint, how can anyone charge extra for certification! They cannot make a claim for investment grade. Just like a new car, all new coins are clean and shiny. Furthermore, most bullion coins never have a rarity value since they are common. The grading of new bullion coins is a waste of money and serves no purpose for the investor.

## *Leveraged Return*

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A leveraged account is where the dealer lends funds to purchase gold or silver. The assumption of the precious metal value rising faster than the interest rate on the loan enables the buyer to multiply returns though leveraging. It works much like the purchasing of a home. You put a little down, say 20% and a broker loans you the rest of the money. Your 20% is collateral and you are leveraged at 5 to 1. As long as the investment rises you are fine. However, the minute the investment falls in price below a certain level, problems occur.



Be aware that this technique comes with a lot more risk. While leveraging can dramatically increase your investment return, it can also magnify your losses to 100% and more. With the volatility and continuous manipulation of the price of gold and silver, this is certainly not a sure bet. While gold and silver have increased in value for over a decade, the upward price movement is not without fluctuation. By leveraging, one has opened oneself up to a margin call in the event the precious metal drops in price. Unless one remits the necessary monies, the dealer can sell the gold or silver at wholesale prices to cover the loan. We recommend owning your physical precious metals outright, even though the quantity may be less, rather than borrowing to buy more and paying interest and being at risk of a margin call and losing your investment. Leveraging is not for the faint of heart.

The leveraged account also has commissions on the entire value of the purchase. For example, you put in \$5,000 cash against a loan for \$15,000. Your total purchase of \$20,000 now has a commission of say 3% for a total commission of \$600. Then you add the cost of the interest at for example 8%, and then incur another \$1,600 in expenses for just one year. Additional costs come from leasing fees, administration fees, and storage fees. So you get the idea. There is also the disadvantage of not holding your own precious metals. Let buyers beware.

## *Pools and Certificates*

Pool accounts and certificate programs are really IOU gold and silver accounts. Theodore Butler of Butler Research states, “These are purely paper promises or bookkeeping entries.” Some of the reasons people choose this method of precious metals ownership is cheap costs and ease of establishing an account. While it seems the investor is buying gold or silver, in actuality they simply purchase a promise to deliver gold or silver someday. A rule of thumb – if no storage fees exist, it is probably because nothing is being stored. Legally, when you buy a pool or certificate program, the bank is the owner of your precious metals. You are a creditor of the bank storing the bullion. Most pool or certificate accounts hold the metals in unallocated storage. This means your metals are comingled with everyone’s metals. In the event the bank fails, it’s their metals



Should you choose to take delivery of your metals, there may be a fabrication charge. This may be simply a charge to bring the price up to what you would have paid if you purchased the gold or silver in the first place. In addition, research the bid/ask spread. The bid/ask is the difference between the price a dealer charges you to buy and what he will pay when you sell. In the case of one bullion dealer, the spread was 4 to 10 times higher on physical products than the spread on the pool account. According to Ted Butler, these dealers make money by using the buyer’s money to fund investment activities. The company you are doing business with essentially shorts the metals. While they take your currency, they don’t go out, buy metals, and store them for you. When you want to cash out, they have to go out into the market and buy metals at current prices. How do they cover any price increases? According to Butler, they use new investor cash to cover the spreads when someone wants out. This may work for a while. However, once the price of gold or silver reaches a tipping point, more people will desire to cash out than the dealer can cover. Then we may have an implosion. Once again, maintain physical possession of your precious metals.

***Purchasing gold and silver is really very simple. After making your first purchase, additional buys become second nature. It is not too late to trade fiat dollars for a real store of value in precious metals. We at Eagle European Capital, LLC hope you choose us for all your metals purchases. Please call us today.***