Safe Storage for Precious Metals
From an Expert's point of view

I have heard many shows recently discuss the potential liability issues of various vaults, such as, whether or not there is actually the correct amount of precious metals in those vaults.

There have been precious metal storage facilities, precious metal dealers, or fund management companies on many internet shows discussing the concepts surrounding the recent worries of vault facilities not having the items or the precious metal program not securing the assets they are representing to their clients.

A few shows discuss what unallocated and allocated storage represent. Being an expert in the vaulting business and running a successful gold and silver storage program and physical bullion fund, I wanted to clarify some of the misinformation that is going around the internet. Many financial advisors and dealers may also not be aware of the actual differences between the various forms of storage. This is evident when many internet programs assume allocated storage is the most secure form of storage. This is not the case.

Over the last five years, I have studied nearly every precious metal program in the world. I looked at every program from an investor point of view. This is crucial since many programs are designed for the firms benefit. Cost saving functions, commingling of assets, and large bar purchases are a few items that directly effect the flexibility for the client.

One of the most critical reasons, I created my own programs is the fact that I did not find one program that had a fiduciary duty and obligation to provide delivery in small deliverable form at any time without certain limiting conditions upon the client's request. I have been in the investment business for almost 20 years and have seen many different investment programs come and go. Without true accountability to the client, risk needs to be identified and the program needs to be fully understood.

There are some big misconceptions with allocated storage programs and the companies that offer or sell them.

For private storage accounts, the most secure way for clients to have items stored is by fully segregated storage. Again, fully segregated storage not allocated storage. There is a huge difference and individuals or institutions need to understand this. If a client wants an actual investment in precious metals that can be viewed anytime, delivered at any moment, and is the exact same bar/coin delivered out as initially bought or brought into the facility, then fully segregated storage is the only option.

Allocated Storage is a much different concept. To easily explain this, let me provide the definition between segregate and allocate.

> allocate - 1. To set apart for a special purpose; designate: allocate a room to be used for storage.

segregate - To separate or isolate from others or from a main body or group.

By researching and understanding this concept, I have taken great care to look out for the client's best interest. Individuals must identify whether they want to invest in gold and silver or simply be represented in gold and silver. Let me provide some examples that differentiate between the two types of storage.

Under an unsegregated or unallocated account, it is very common that an investment in precious metals may be pooled, commingled, or combined with every clients' positions. However, the similar events may happen with an allocated program. For example, lets say a precious metal dealer or a structured precious metal program are selling 10 clients each, 100 ounces of silver and these clients wish to have the dealer arrange storage for the client's account. From a cost saving standpoint, the dealer could provide storage in two ways and still provide allocated storage to the client. The first is to have a secure space at a vault facility that would store only metal for a specific dealer or program. The dealer would be responsible for accounting the ounces of metal owned by the client. For simplicity, if a client wanted delivery, the bar of metal bought by the client may not be the same bar delivered to the client. The client may receive 100 ounces of silver but it may be in a different bar or made by a different refiner than originally purchased.

Using the same example as above (10 clients buy 100 ounces of silver each), under another form of allocated storage, the dealer or management company may simply buy a 1000 ounce bar to represent and allocate the ten client's holdings in silver. This is a form of allocated storage. The metal can be accounted for and represent the client's purchase. Under both conditions there is risk that upon demand for delivery the client may not get the same bar he initially thought he bought (may have been sold a brand name refiner bar and only received a generic refiner bar worth less premium) or delivery may be delayed or unavailable (example force majeure) if the bar could not be refined or broken down into smaller units.

The examples above is one of the most common methods that most gold and silver programs use throughout the world.

In a fully segregated account, the structure is much simpler. The metal you buy or have delivered in is separated from all other client's and dealers' positions. Legal title is not transferred and the vault or precious metals program has no ability to change or use the items being stored unless stated in the storage agreement. The metal you receive or sell is the same exact metal initially delivered in. The client is assured that he can take delivery or audit their metal at any time without any risk of encountering a foreign bar or coin.

For investors that are simply looking for representation of metal and never expect to take delivery, allocated storage may work well. However, if you are buying physical metal and want the ability to take delivery at a future date due to systemic risk, devaluation of currencies, political uncertainties or other circumstances, then one should store metal only in a fully segregated environment.

Another big myth that is routinely talked about and completely misrepresented is the idea that one must keep his metals in a LBMA or Comex approved vault. The main reasons given is that the charges for assay or transportation are so expensive it will eat into the principal of the coins or bars. In reality, the cost of an assay is only about $150 per lot of metal. Another excuse used by these organizations is that once the gold or silver leaves the LBMA or Comex vaults the metal is outside the "chain of integrity" and hurts the metal's value. There is no question if bars or coins are .9999 fine gold or .999 fine silver and held in a private facility, they are identical in value to metal stored at a LBMA or Comex vault. The real question an investor should ask is, "Do I trust the facility holding my metal?"

If the storage account is not labeled "fully segregated", the client looking for potential delivery should have great concern.

I have dedicated and designed my programs around the client's best interest. I have viewed gold and silver as a protective asset against the potential risks facing investors. Accordingly, I have structured my program to give clients the ultimate flexibility to make choices that are right for themselves and not for the institution holding their metal.

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