



Top Countries To Store Gold, Silver & Platinum

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Executive Summary

Growing financial and political instability suggests that investors need to be more flexible and creative. An increasingly common diversification strategy consists of storing precious metals, such as physical gold, silver and platinum outside the banking system - outside the investor's home jurisdiction. This paper addresses the relative political, economic and logistical attractions of Switzerland, Canada, the United States, Singapore, the Cayman Islands and Germany.

Introduction

The greatest immediate threat to most investors' assets and personal freedom is their own governments. As we will discuss in this report, the case for international investment diversification, particularly as it relates to gold, silver and other precious metals holdings has thus rarely been better.



The greatest immediate threat to most investors' assets and personal freedom is their own governments.

The public sector in Organization for Economic Co-operation and Development [OECD] countries extracts roughly half¹ of annual GDP in the form of arbitrary seizures of property, taxes, fees and other measures. That total is higher when the effects of inflation and increases in unfunded liabilities are included.

Worse, the ineffectiveness of unprecedented fiscal and monetary policy experimentation in the wake of the 2007-2008 financial crisis, suggest that there are considerable systemic fragilities in the western financial system. Legislation to regulate the sector, such as Dodd-Frank, was so watered down by lobbyist pressure that the average size of "too big to fail," financial institutions has actually *increased*.

Global regulatory authorities, such as the Bank for International Settlements, are fully aware of the threat. Top officials have warned that the world faces a major financial crisis, worse than that of 2007-2008, which could lead to a wave of debt defaults².

In this scenario, the recent Cyprus "test case," in which depositors' assets were seized (often millions of dollars' worth) is a distinct likelihood, as would be the implementation of capital

¹ In Canada, according to the Fraser Institute, in 2015 "Tax Freedom Day," – the day on which Canadians had earned enough to pay for the taxes imposed on them was on June 19th. This amount does not include increases in obligations related to unfunded liabilities. <https://www.fraserinstitute.org/research/canadians-celebrate-tax-freedom-day-june-10-2015>

² See comments made by William White, chairman of the OECD's review committee, and former chief economist at the Bank for International Settlements, at the 2016 Davos World Economic Forum.

controls, facilitated by the current trend of gradual abolition of cash in many jurisdictions, in favor of digital currencies.

Political uncertainty is also on the rise, particularly in the United States. In recent years what former President Ronald Reagan called a “shining city on a hill,” has adopted characteristics of a surveillance state³, resorted to mass torture⁴, arrest and detention without trial⁵, and routine assassination⁶ of suspected terrorists, including Americans.

Further complicating the outlook, is the fact that America, whose troops are based in more than 100 countries⁷, continues to accumulate enemies at an unprecedented pace. These include publicly announced military strikes, occupations, no-fly zones, or other acts of war on about one country a year during the Obama Administration⁸, more if covert operations are included. Most Americans would be hard pressed to find many of these countries on a map. The upshot is that there is thus no telling when a “blowback”⁹ event, sparking the next suspension of civil liberties, could occur.

American and other gold investors face an additional threat: that home governments, citing “national emergencies,” will simply expropriate their holdings. The United States created an important precedent when it seized private gold during the depression of the 1930s. In short, seasoned investors are increasingly seeking ways to hedge against these risks. Precious metals have long been a tried and true option.



³ See mass surveillance disclosures by former National Security Administration official Edward Snowden.

⁴ See The Committee Study of the Central Intelligence Agency's Detention and Interrogation Program (2014).

⁵ See Mahar Arar, Guantanamo Bay detention camp,

⁶ See "The "Surgical" Legitimacy of Drone Strikes? Issues of Sovereignty and Human Rights in the Use of Unmanned Aerial Systems in Pakistan". *Journal of Strategic Strategy*.

⁷ See Chalmers Johnson, *The Sorrows of Empire* (2004), for a detailed discussion of US overseas bases.

⁸ These include but are not limited to: Iraq, Syria, Afghanistan, Pakistan, Somalia, Libya and Yemen. The kidnapping of Hassan Mustafa Osama Nasr in Milan, in 2003, for which 22 CIA operatives were convicted *in absentia*, is also of note as this took place in a NATO country.

⁹ See Chalmers Johnson, *Blowback* (2000).

Holding gold, silver and other precious metals outside one's home country

A common way to diversify and better protect precious metals assets has been to hold a portion outside the investor's home country. In this paper, which primarily targets Canadian and US investors, we examine several popular gold, silver and platinum storage destinations. We focus on several criteria when assessing their suitability. These include the country's:

- Track record in protecting investors' assets and privacy,
- Economic, military and political stability,
- Financial interest in protecting precious metals investors.



This last point is crucial. History shows that governments that can tax and confiscate wealth, with minimal consequences, are more likely to do so. Conversely, countries that have built up large international financial and investment industries, are far less likely to make arbitrary seizures of investor's assets, as this would jeopardize these industries.

Three factors merit mention. The first is that most gold, silver and platinum investors will want to keep part of their physical holdings nearby. This almost always implies keeping a portion in their home country.

The second point is that both Canada and the United States (as evidenced by the performance of the US dollar during times of tension) are widely regarded as "safe havens." This paper acknowledges that perception and identifies Canada as one of the best places for U.S. citizens to store their external precious metals holdings.

Yet many Americans remain unaware of the benefits of international diversification and of the threats related to keeping all their holdings at home. We thus will highlight the relative merits of both Canada and the United States as primary and secondary storage locales.

Precious metals stored outside the banking system

We will also address the concerns of investors who worry about growing tail risks that are increasingly apparent in the US and global financial system, which is showing increasing signs of systemic deterioration. During a time of unprecedented monetary policy experimentation,

reduced protection for bank deposits, diminished privacy rights stemming from adoption of FATCA¹⁰ and other legal compliance developments, this paper will thus focus on foreign precious metals holdings *held outside the banking system*.

In this scenario, the gold, silver and platinum holdings would ideally be insured by a reputable provider stored in secure storage facilities operated by trusted providers such as Brinks, IDS, SWP and Loomis. That means in the case of a takeover, bankruptcy or restructuring of the provider, creditors do not get access to the assets. Holdings should, of course, be held in a facility where they are regularly audited annually and in which users have direct access if desired.

Switzerland: a long history of protecting foreign investors

Switzerland, which ranked first on the Tax Justice Network's Financial Secrecy Index in 2015¹¹, has a history of offering investors a safe, discrete place to store assets. That applies doubly for gold, which has a better reputation in Switzerland, than in almost any other country. With gold holdings in excess of 1,000 tons, Switzerland has among the world's highest reserves both on a per-capita basis and as a percentage of GDP. Better still, Switzerland refines 70% of all the world's gold, which makes it an important industry there. The bottom line is that the Swiss government has a strong interest in protecting precious metals investors.

Switzerland also has strong respect for direct government, freedom, and property rights and has a strong financial system. Swiss banks have \$6.5 trillion in assets under management, of which 51 percent originated from abroad, according to the Swiss Bankers Association. Despite Switzerland's small size, the Swiss Franc remains one of the world's premier currencies. Switzerland also has a long-term track record of political and economic stability and of defending its neutrality¹² and has not been at war since the early 1800s. Switzerland even managed to protect investors, despite being entirely surrounded¹³ by the Nazis for several years during World War Two.

In recent years, Switzerland has curtailed its bank secrecy policies with respect to US investors in the wake of the FATCA legislation. However, these provisions do not apply to gold held in private storage outlets. Providers such as Sprott Money have thus developed an effective way of ensuring investor privacy: their clients' holdings in Switzerland are allocated in numbered accounts, but the lists and registers are kept in Canada. Any court order to identify the owner of gold reserves would thus have to be enforced in two jurisdictions: the first to obtain a record of the name of the rightful owner of the holdings and of his account number, the second to actually seize the gold.

¹⁰ US Internal Revenue Service - Foreign Account Tax Compliance Act. <https://www.irs.gov/businesses/corporations/foreign-account-tax-compliance-act-fatca>

¹¹ <http://www.financialsecrecyindex.com/introduction/fsi-2015-results>

¹² One often told anecdote is recounted by Stephen Halbrook in his 1998 book Target Switzerland: "Shortly before World War I, the German Kaiser was the guest of the Swiss government to observe military maneuvers. The Kaiser asked a Swiss militiaman: "You are 500,000 and you shoot well, but if we attack with 1,000,000 men what will you do?" The soldier replied: "We will shoot twice and go home."

¹³ Germany effectively controlled Austria, Italy and France during much of that time.

Canada: a premium gold, silver and platinum storage destination

Canada has several attributes as an excellent place to store precious metals. That is particularly true for U.S. investors who worry that during a time of financial crisis that their government may draw on the precedent set by the Roosevelt Administration. With Executive Order 6102, signed in April 1933, the U.S. government criminalized possession of monetary gold holdings, and effectively nationalized existing stocks.

Canada, which did not echo these moves and shows little indication that it would need to do so in the future, thus ranks as a top locale for U.S. gold storage clients. Canada is widely regarded as one of the world's most financially stable and peaceful countries, and has not been invaded for more than 200 years¹⁴. While this paper rates the balance of probabilities favoring gold storage outside the banking system, it should be noted that the World Economic Forum consistently ranks Canadian banks as the world's safest.

It's true that the Canadian government did announce the sale of its gold foreign exchange reserves in 2016. However, the U.S. Geological Survey has estimated that Canada was the world's fifth largest gold producer in 2015, with output nearing 150 tons, and that it had 2,000 tons of reserves in the ground.

Canada's significant energy and other natural resources also suggest that it would be able to survive systemic disruptions better than many other countries. Canada also has many attractions as a business and tourism destination. This facilitates matters for Americans who want physical access to their gold, or who want to conduct personal audits of their holdings, as it enables them to combine these and other activities in a single visit.

United States: a great reputation, but...

The United States is almost universally regarded by international investors as a premier safe haven during times of political and financial turmoil. The country's military and economic strengths, strong record of rule of law, and its vast and liquid financial markets make it a prime destination. This is evidenced, as noted above, by the strength of the U.S. dollar during periods of uncertainty. Americans, who are among the world's largest gold investors, thus naturally pride themselves on these strengths - possibly too much.

In fact, if there was one category of investors for whom holding gold outside the United States would be an excellent option, it would be for Americans themselves. That's because while Americans – like most gold investors – have a strong incentive to keep a portion of their holdings where they can get quick access to them, many of the biggest risks they face are from their own government and financial system.

U.S. and international gold investment communities remain permanently scarred by Franklin Delano Roosevelt's order of the seizure of gold belonging to US citizens, associations, and

¹⁴ The United States twice attempted to invade and hold Canada (during the Revolutionary War and the War of 1812) but was defeated both times.

corporations¹⁵ during the Great Depression. Investors were compensated at the rate of USD \$20 per ounce. However, as gold was subsequently revalued at USD \$35 per ounce, capital gains that they would ordinarily have earned on those holdings were effectively expropriated.

An important precedent regarding gold expropriation has thus been set. Many argue that as gold is no longer regarded as money, that such a seizure is unlikely. However, these are generally the same sort of analysts who either don't read history or who ignore tail risks, which, as we discussed in the introduction, are increasing significantly¹⁶.

In short, for international investors, holding precious metals in the United States remains a popular option which this paper acknowledges, with the caveats noted above. However U.S. investors who want solid, diversified long-term portfolio protection, need to consider international diversification as much as anyone else, if not more.

Singapore: Chinese money and a U.S. naval base

The Republic of Singapore is increasingly emerging as one of the world's top financial centers. In 2015, Singapore held nearly an eighth of the world's total offshore wealth, including considerable Chinese holdings, according to the Boston Consulting Group. That's particularly true of precious metals, which have strong popular appeal among the local population, which are a mix of ethnic Chinese, Malays, and Indians.

Singapore, which hosts a domestic precious metal exchange, has a high per capita GDP, effective rule of law, and is one of the world's most important geopolitical trading hubs. The country is well protected by one of America's most powerful naval bases, which guards passage through the Straits of Malacca, one of the world's most important shipping lanes. Not surprisingly, storage facilities in Singapore have been growing in recent years and prices are competitive.

Gold and silver are viewed as commodities by the local government, which means there are no reporting requirements. The country ranked fourth on the Tax Justice Network's Financial Secrecy Index in 2015¹⁷. Recent legislation eliminated import duties and taxes on investment grade gold.

Cayman Islands: an excellent alternative

The Cayman Islands, which are a British overseas territory, are emerging as an excellent alternative locale to store offshore gold, particularly for U.S. investors, seeking alternatives to Canada, Switzerland and Singapore. They host several world-class precious metals storage facilities. There are no restrictions on gold shipments in and out of the country and no import tariffs or Value Added Taxes levied on them. While the Islands have significantly cleaned up

¹⁵ The fact that FDR's actions were undertaken by an Executive Order which did not require Congressional approval, was particularly jarring, as it suggests that if such a situation were to recur, it could be done "overnight." In that scenario investors thus would have little or no time to react.

¹⁶ In this regard, one of silver's attractions is that the United States did not expropriate silver during the Great Depression. Indeed silver appears far more difficult than gold for governments to expropriate.

¹⁷ <http://www.financialsecrecyindex.com/introduction/fsi-2015-results>

their reputation as an overseas haven, they remain a discrete locale, ranking fifth in the Tax Justice Network's 2015 Financial Secrecy Index.

The Cayman Islands have a strong average per capita income, favorable tax regime and remain an excellent overseas financial center, particularly as a base for off-balance sheet financial transactions and hedge fund management¹⁸. English is the first language and businesses welcome payment in U.S. dollars. Rule of law is strong in the Islands, as are democratic institutions, with government¹⁹ relatively close to the people. Another major advantage for U.S. gold investors lies in the Cayman Islands' attractiveness as a tourist destination. This enables investors to, for example, visit on business, conduct a quick audit of their holdings, and to take a day off afterwards.

Germany: one of the world's largest holders of gold

For investors seeking a storage locale inside the European Union, Germany, the seat of the European Central Bank and holder of the world's second highest gold reserves at 3,381 tons²⁰, is increasingly emerging as an attractive option. That's particularly true for investors who ship their gold to German commercial facilities and are thus exempt from the value added tax.

Germany ranked second among all European countries on the Tax Justice Network's Financial Secrecy Index in 2015²¹ and eighth overall. Gold is not just a theoretical asset to Germans. Germans remain scarred by the hyper-inflation of the 1920s which emerged as they struggled to pay the exacting tribute levied on them by the victorious allies after World War I, which amounted to 260% of 1913 GDP²². That said, as of this writing Germany has a strong economy, open, pacifist outlook and maintains sound fiscal management.

Takeaway: diversify precious metals holdings internationally, outside the financial system

The foreign gold, silver and platinum storage locales that we have addressed in this paper by no means form a closed list. We focused on Switzerland, Canada, the United States, Singapore, the Cayman Islands, and Germany, because these countries best meet the needs and interests of this paper's target readers: American and Canadian investors.

Readers should, however, be aware of what we might call a "second tier" of foreign storage locales, which have many of the attributes of the six we discussed, but which we do not address for reasons of brevity and because in most cases, there was already a better alternative choice available on our list. For example, Hong Kong, an excellent, friendly place to do business, has a long tradition as a place to hold foreign assets. However, many investors regard Hong Kong as less attractive than nearby Singapore, due to the threat that an increasingly encroaching Chinese Government could seize direct control of the territory during a crisis.

¹⁸ <http://www.alfi.lu/sites/alfi.lu/files/Domicile-of-Alternative-Investment-Funds.pdf>

¹⁹ A popular anecdote is the government is so small that anyone wanting to talk to the Island's current Premier Alden McLaughlin (2016) had only to walk down to the local Karaoke Bar, where he was often accessible.

²⁰ World Gold Council, May 2016

²¹ <http://www.financialsecrecyindex.com/introduction/fsi-2015-results>

²² Albrecht Ritschel, London School of Economics, <http://www.lse.ac.uk/economicHistory/workingPapers/2012/WP163.pdf>

Austria, too, has a wonderful reputation as a precious metals storage locale. However, nearby Switzerland appears superior in a number of respects. These include its longer and more stable history and the fact that it is outside the Euro zone regulatory framework. Australia, a strong natural-resources based economy, has many advantages similar to Canada's, but nevertheless comes in a close second when their attributes are compared²³. We ranked Dubai – an excellent and increasingly important financial center – in this second tier due to geopolitical instability in the Persian Gulf. These choices are by no means hard and fast. In fact, many precious metals investors may well be better served by placing their holdings in these “second tier” locales. For example, investors who regularly travel to Hong Kong or Dubai and feel comfortable there may well prioritize these options.

The key takeaway is that in the current uncertain political, economic and financial environment, the balance of risks suggests prioritizing return of one's investment, rather than return on one's investments. In that scenario, holding a portion of one's precious metals investments outside one's country of residence, outside the financial system, provides an excellent diversification option.



Editor's Note: Sprott Money offers private, non-bank storage in these locations: Canada, United States, Cayman Islands, Switzerland and Singapore. Please call us toll free at **1.888.861.0775** to learn more.

²³ The paper's authors, who are Canadian, must concede bias, with regards to Canada-Australia comparisons. Australia is ranked slightly behind Canada, because Canada is the world's fifth largest gold producer (Australia is not in the top ten, and Australia, is in a geographically slightly less secure area than Canada). Canada also has a larger and more diversified economy, and yes, for North Americans, Canada would be a far more comfortable place to hold their precious metals because of proximity.