I would like to thank Stewart Murray and his colleagues at the London Bullion Market Association for the opportunity to be a part of today’s program. It’s an honor to be in such distinguished company, and to address this prestigious forum.

Please allow me to give you a little background on my company. Dillon Gage is a diversified financial services company based in Dallas, Texas. We provide our customers with platforms to trade in the securities and futures markets, and we are one of the largest precious metals dealers in the United States. We also operate a refinery, and have a wholly-owned, independently-operated precious metals vaulting facility in Delaware, with a second facility scheduled to open this Fall in Toronto.

Dillon Gage has been in the trading business for over 35 years and is an international wholesaler of bullion coins and bars, with the bulk of our business being done in the United States. We are one of a select few authorized purchasers for gold, silver and platinum bullion products from the United States Mint, and we also maintain purchasing agreements with numerous other world mints.

This is an extraordinary time for the global precious metals market as demand for bullion remains robust, and prices are poised for further gains. We are all fortunate to be in this market at this time; it is unlike anything I have seen in my nearly 40 years as a dealer in this industry.

I will focus my talk today on demand for bullion in the U.S. market, which as we all know has been an important driver of the current bull market for gold and silver bullion for a variety reasons -- not the least of which has been the falling U.S. Dollar.

The influence of precious metals-backed exchange traded funds on today’s bullion markets is profound, and the prolonged uncertainty about the global economic outlook continues to push investors into metals as a hedge against uncertainty.

Perhaps the most important development in the precious metals investment market in the past 50 years was the introduction of commodity linked exchange traded funds (ETFs). The first of these ETFs was the World Gold Council’s sponsored product, SPDR Gold Shares, which was introduced in late 2004.

These investment products, which trade like stocks, have served to “democratize” global precious metals investing by making it convenient for retail investors who might otherwise have by-passed
precious metals investing because of the difficulties of storage, insurance and assaying. That convenience, coupled with a global financial crisis and greater investor shifts toward portfolio diversification, has pushed more investors into precious metals.

Evidence of the impact of ETFs on the market is the vast amounts of metal held by them. The SPDR Gold Shares is now approaching $60 billion in gold assets. Through the first quarter of 2011, total silver exchange traded fund holdings stood at 612 Moz, a 140 Moz gain year-on-year.

U.S. investors have long prized physical gold and silver investments as a hedge against uncertain times, but also for the sound management of investment portfolios that diversification offers. Until the introduction of metal-backed ETFs, it was a largely cash and carry market for the retail investor. These investors liked the portability and discretion that physical metals offer. And that remains true today.

While ETFs have certainly injected more cash into the precious metals markets – and this has largely been by institutions – they have not replaced nor diminished the physical retail trade. ETFs and other market factors well-known to this audience have stimulated the U.S. retail market for physical metals.

Looking at our trades with customers over the past 12 months, we have seen demand for:

- Gold - Increase 34%
- Silver - Increase 280%
- Platinum - Decline 70%
- Palladium – Decline 60%

As a side note, our refining business has seen volumes increase 47%, gold and silver combined, this year over last.

Any discussion of the retail bullion market in the U.S. must include the U.S. Mint’s American Eagle bullion coin program, which celebrates its 25th anniversary this year. Since the product launch in 1986, these bullion coins have become the dominant products in the global market for physical bullion coin investments. That said, I think more could be done to boost demand for the Mint’s offerings.

I recently testified before the U.S. Congress and recommended that it give a competitive edge to the American Eagle bullion products by adjusting the capital gains tax treatment of these investments. Current tax law imposes a maximum rate of 28% on the sale of bullion investments held one year or more rather than the 15% levied on securities and mutual funds. By lowering the rate, Congress could substantially boost the market potential for the American Eagles.

SILVER:

Since the current focus in today’s market is silver, I will start there.

The United States has a rich history of silver mining and silver investment. American investors have long favored physical silver investing, preferring coins and bars as easy forms to convert investment cash. On the retail side, investors like the portability of coins and smaller bars and the anonymity that comes with such investments.
In the United States physical investment in silver is dominated by the purchase of one-ounce bullion coins and 100-ounce bars. The bars are almost entirely produced domestically, largely by Comex and/or LBMA accredited refineries. However, with the surge in demand over the past three years, a number of other private mints and industrial manufacturers have produced bars to capture a share of the rising market.

In terms of the coin market, this is dominated by the production of the U.S. Mint’s one-ounce Silver Eagle bullion coin. A number of overseas one-ounce bullion coins have also proved popular in the U.S., particularly the Canadian Maple Leaf, although, for example, the Austrian Philharmonic and Australian Kookaburra have each achieved some success.

Demand for silver is extremely strong among our customers. Investors are seeking everything from 1 ounce coins to 1000 ounce bars and everything in between. We have also observed strong demand in 90% silver coins and American silver dollars. A California retailer recently mentioned that there have been days in the past few months where it has had a line of 40-50 investors waiting outside its store just to come in and purchase silver. This is not an unusual experience for precious metals dealers in today’s market.

The U.S. Mint sales of silver are up over 13% for this year versus the same period in 2010. This increase in demand forces the Mint to continue to allocate its inventory of Silver Eagles to the authorized buyers because availability of blanks is not able to meet demand. We see no relief in sight in this area. Lack of availability of this key investor product puts a strain on other manufacturers of investor silver as they try to ramp up production to meet worldwide demand. For instance, the Canadian Silver Maple Leaf, Austrian Philharmonic and Australian Kookaburras are consistently delayed, along with some other specialty silver coins minted by these various mints.

With demand outpacing supply we have seen premiums increase both from the mints and in the secondary market. In October 2010, the U.S. Mint raised its Silver Eagle premium to first-line buyers from $1.50 to $2.00 per ounce over spot. This was only the second increase in premiums since the inception of the program in 1986.

As for private minting companies within the United States, they are running three shifts in an effort to meet demand yet, even with these efforts, delivery of product is still several weeks out. I recently had a need to convert one million ounces of 1000 ounce bars into investor bars ranging in sizes from 1 ounce, 10 ounces and 100 ounces. I was quoted anywhere from 8 weeks to 16 weeks out for delivery. This is at least twice the turnaround time quoted in quieter markets.

We expect demand to remain high for silver especially if prices escalate.

**GOLD:**

Demand for gold remains strong even in the face of a dramatic price increase from the previous year. Investors with significant capital to invest still seek gold as a primary investment vehicle to protect themselves against the weakening U.S. Dollar and the global financial uncertainties posed by continued sovereign nation debt crises, such as that in Greece, Spain, and the U.S.
Investors are seeking the yellow metal at near record levels as indicated by the U.S. Mint’s mintage data. Already, the Mint has sold 765,000 ounces thus far in 2011, and should this pace continue, it will likely surpass last year’s total sales of 1.64 million ounces.

High demand has forced world mints to be selective about those products they produce, favoring the one ounce coin to fractional sized coins because of limited minting capacity. The U.S. Mint has sporadically produced its fractional Gold Eagles during the course of 2011, maintaining its primary focus on the one ounce Eagle. These fractional coins and the one ounce American Buffalo gold coin remain in allocation due largely to an insufficient supply of available coin blanks.

As with silver, the insufficient supply of all gold products leads to increases in premiums. This increase indicates that demand is still strong.

One other world mint is creatively using silver as leverage to increase gold sales. For instance, it is requiring that authorized purchasers buy gold coins in order for them to be allowed to purchase silver products.

Because the U.S. Mint was unable to meet demand for particular products, other mints capitalized on the situation thereby affecting an increase in their mintage figures.

**PLATINUM & PALLADIUM:**

Major mints are seeing very little platinum and palladium demand on the investor coin and bar side. And, because gold and silver are more mainstream investments, this is where the dollars have been going.

We believe that price is not really a factor contributing to the lack of demand for physical platinum and palladium. We believe that it has more to do with the inability of world mint’s to produce investor product. It has been our experience that when customers call our trading room to purchase platinum, upon learning that it is not available, they elect to purchase additional gold and/or silver items. Again, the overall extreme demand for gold and silver has stressed the mints’ manufacturing capabilities and, consequently, they are not able to focus on platinum production.

I think investors would welcome the Mint’s resumption of the production of the Platinum Eagles this year which it halted at the end of 2008. This past December, the American Congress authorized the U.S. Mint to add a palladium bullion coin to its American Eagle product line. Production has yet to begin, as the Mint awaits the conclusion of a marketing study. The roll-out of this new product could give a needed boost to retail palladium demand in the U.S., because it will offer investors an attractive price point in relation to gold and platinum, and with different supply/demand factors for the metal.

**COUNTERFEITING:**

Lastly, I would like to address one final topic -- the growing problem of counterfeiting of rare and collectible U.S. legal tender coinage spawned by today’s booming gold market. These counterfeit coins, the majority of which are believed to originate in the People’s Republic of China, are often of a quality
that can fool experts. Just last month, U.S. Customs officials seized a shipment of such counterfeit coins arriving from China.

This is a matter of increasing concern for retail dealers. To put this in perspective, industry experts have estimated the legitimate rare coin market had sales in 2008 of $5 billion. Unchecked, these counterfeits could cause significant financial harm to investors.

Given today’s high gold prices it is not surprising that criminals are trying to cash in. Our industry needs to be vigilant in its efforts to safeguard the bullion market from such sophisticated counterfeits.

In conclusion, this is an outstanding time to be in our business. The opportunities are tremendous, the physical trade brisk, and the upside outweighs the alternative. I wish you all the best of fortune.