Millennium Diggers Club

Having fun finding gold and treasure!

Editor: Penny Esplin, Secretary: Marlea Sheridan

Date: June 6, 2011

Meeting Minutes for Thursday May 26th, 2011

In Attendance: 15 members were present.

Old Business: No claims report this month. It is believed that snow still blocks the road to the Briggs Creek claims.

Buzz was unable to get any response to those in Tillamook about their claim jumping activity.

New Business: The club was pleased to welcome back Claudia Wise from her two month gold mining project in the Northeast Highlands of Cambodia.

Howard Conner will present information about survival and safety at our June meeting.

Joe proposed that our club join Northwest Mining Association (Spokane, WA.) to explain our club's position and need for help in our mining rights battle. It was voted and passed that the club would join. Claudia Wise will be the club representative to the NWMA. Joe is a member of the NWMA which keeps him updated on important information regarding mining in the United States.

Events Committee: Some members headed for Plush, OR. for the Memorial Day weekend to search for sunstones. Delmon shared a variety of his sunstones that he had collected from previous trips. He has an excellent formula for bringing sunstones to their maximum shine using a rock tumbler and an appropriate series of grits and polishes.

Next Club Outing: Oregon Prospecting/Rita's Relics is having their annual education outing at Quartzville Creek on Saturday June 11 at 10 am. The meeting will be at milepost 19. Please call the store in Sweethome to confirm this date and location. 541-367-2237, or Toll Free 1-866-367-4061

Rocks Shared Beginning With the Letter "O": Penny brought some opals for "O" sharing and Delmon brought an "Old" rock.

In June, Rocks Beginning With the Letter "P":

Events/Activities in June: Howard Conner will present information about survival and safety at our June meeting.

Visit our website at http://www.millenniumdiggers.com/

The Millennium Diggers Club is a group based in Keizer, Oregon, which is near Salem, Oregon. The club is for people that share an interest in searching for things of value. The club's charter is to provide members with a club that will help promote the hobbies of metal detecting, prospecting, rock hounding, and treasure hunting. Part of our yearly dues pay for mining claims that are available for all club members to use. We use club meetings to share information about locating gold, silver, coins, jewelry, gemstones, fossils and metal detecting. We plan club outings each month where we can help each other learn all aspects of our hobbies. This is a great family activity, bring the kids! Please feel free to drop in on one of the monthly meetings or outings.

We meet the **2nd Tuesday** of each month, 7:00 p.m, at:
Clear Lake United Methodist Church
920 Marks Drive
Keizer, OR 97303

We use a double-wide manufactured on their property for our meeting place. After you turn off Wheatland road onto Marks Drive, the double-wide is the fifth house on the right. The church is located across the street from the Clear Lake Fire Station. There's plenty of parking in the church's parking lot.

For those interested in the ½ pound of gold drawing please go to the last pages of this newsletter

ROCK HOUNDING, MINERALOGY

Delmon Ray brought in an **O**LD rock. What can I say??? Delmon did bring in an attractive flat geode filled with beautiful crystals which he pick up in a quarry in the Prineville, OR area.

Bring rocks and minerals whose name starts with the letter **"P"** for June (Note to Delmon, A wad of plastic is not a "P" rock).

Penny Esplin brought in a bottle of opals in water. They were very beautiful and showed the flashes of beautiful colors that one would expect.

Opal is an amorphous form of silica related to quartz, a mineraloid form, not a mineral. 3% to 21% of the total weight is water, but the content is usually between 6% to 10%. It is deposited at a relatively low temperature and may occur in the fissures of almost any kind of rock, being most commonly found with limonite, sandstone, rhyolite, marl and basalt. 97% of opal is produced in Australia and is its national gemstone.
Opal is a hydrous silicon dioxide ($SiO_2 \cdot nH_2O$) that is found throughout the world. Most of this opal is "common opal" or "potch" which has a milky or pearly luster known as "opalescence". However, rare specimens of opal produce brilliant color flashes when turned in the light. These color flashes are known as a "play of color". Opal specimens that exhibit a play of color are known as "precious opal." If the play of color is of high quality the material can be used to produce valuable gemstones.

A play of color in opal can be observed when the stone is moved, when the light source is moved or when the angle of observation is changed.

Areas within an opal that produce a play of color are made up of microscopic spheres of silica arranged in an orderly network. As the light passes through the array spheres it is diffracted into the colors of the spectrum. The size of the spheres and their geometric packing determine the color and quality of diffracted light.

White Opal or Light Opal

"Light opal" and "white opal" are terms used for opal material that has a white, yellow or cream body color. This is the most common body color for precious opal. These stones were cut from material mined at Coober Pedy, South Australia. They are calibrated 8 x 6 millimeter cabochons.

Black Opal or Dark Opal

"Black opal" is a term used for opal that has a dark body color, often black or dark gray. The term is also used for opal that has a dark blue or dark green body color. The dark body color often makes the fire of black opal more obvious. This contrast of fire color to body color makes black opals very desirable and sold for high prices. This specimen is a solid black opal with a strong blue face-up color play. It was mined at Lightning Ridge, Australia, the "Black Opal Capital of the World".

Harlequin Opal

"Harlequin opal" is a name given to an opal with patches of fire in the shape of rectangles or diamonds. The specimen at right is a harlequin opal from the Constellation Mine in Spencer, Idaho.

Cat's Eye Opal

Rarely, opal will have fire that yields an optical effect similar to a cat's eye. In these opals a thin line of fire will be visible from multiple directions and track back and forth across the stone similar to the cat's eye known in other stones. Shown here is a cat's eye opal from the Constellation Mine in Spencer, Idaho.

METAL DETECTING

Nothing offered for publication.

GOLD MINING, PRECIOUS METALS

What If You Choose Not To Get A 700 Permit?

Kerby Jackson

http://www.western-stories.com/

First I will say, since it is my legal obligation, I won't tell anyone NOT to get the permit from DEQ. But there are plenty of us that will not be purchasing the fraudulent 700 permit that tries to impose illegal restrictions and impose an illegal fee for something that is already written in stone-hard law. The law is heavily on the side of miners.

So what do you do if you are asked by an agent for a 700 permit and you don't have one?

Here is a great response from Kerby Jackson on the Oregon Gold Hunter Forums:

"Well, if you choose not to go the permit route (your choice), I would inform them of/or ask the following if ever confronted:

1. What permit? The Oregon Supreme Court deemed the 700 PM permit illegal back in December. Are you asking me for an illegal permit in defiance of a state Supreme court's decision? (Carry and present a copy of the court decision) I think you had better get an attorney to inform you about the legal penalties of ignoring a court decision.
2. Put your authority and jurisdiction pertaining to mining in writing and sign it, along with your employee ID # for my legal representation. (They have NO jurisdiction and authority over mining with the exception of the Dept. of Interior (ie. BLM) who have authority to insure that an orderly fashion of claim filing is maintained).
3. Are you SURE I am doing something wrong? Do you know that it's a crime in the State of Oregon to interfere with a legal mining operation? I would sure hate to be you if you're wrong. I think you had better get an attorney.
4. The 1866 and 1872 Mining Acts say that the "Public Domain is free and open to prospecting". Are you defying an Act of Congress? I think you had better get an attorney.

About threats to seize gear:

1. See #3 above. If you are not certain I am doing something wrong and you so much as tamper with my gear, you can be prosecuted for Mineral Trespass, which is a crime in the State of Oregon. I would sure hate to see you go to jail just because you aren't very sure of the law. I think you had better get an attorney.
2. Here in Josephine County, it's a crime for ANY government employee (regardless of their jurisdiction) to deny you your right to due process and it is the obligation of the County Commisioners to prosecute the employee. Question: Do you have a warrant? If you have no warrant and you seize my property, you are denying me my right to due process and that is a crime in this county. I think you had better get an attorney.

You could take this on and on and on if you know even very basic mining law – which they themselves do not know. Therefore, it is important that you understand all that you can.

Obviously, if you get a real asshole, he is just going to nail you (as happened to Cliff Tracy) simply because he is on a power trip, but 99% of agency people get very edgy when they begin to realize that you do not fit the stereotype of a "dumb miner" and that maybe, just maybe, there is a risk that they might be putting themselves on the line

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Editorial: To save money, state decides to kill industry

THE RECORD SEARCHLIGHT, REDDING.COM

http://www.redding.com/news/2011/may/23/editorial_gold_dredgint/?partner=yahoo_feeds

Most sensible Californians would agree the best way to fix the state's ailing finances is to get people back to work. We need fewer unemployment checks going out and more tax revenues coming in.

Yet the Legislature, in a handy case study of how expensive regulations literally kill jobs, has other priorities.

After a two-year moratorium and just as the state Department of Fish and Game is finishing court-ordered environmental studies and new, more restrictive rules on suction dredging for gold in Northern California's rivers, legislative budget committees earlier this month tentatively decided to scrap the permits — and thus end gold dredging — altogether.

The stated reason? Permit fees do not cover the full cost of administration and enforcement, leaving a roughly $1.5 million annual gap. After lobbying from opponents of suction dredging, the lawmakers decided it is a hobby the state cannot afford.

But it is also a hobby that, for rural mountain communities, is a substantial draw for visitors and a modest but real industry in and of itself. The state's own economic studies found that travel and equipment expenses generated nearly $25 million worth of business, supporting scarce jobs in isolated communities and generating tax revenue. And those who successfully pull gold out of the stream beds are pocketing $1,500 an ounce — which starts to add up to some real income for the lucky.

From Sacramento, it might not look like much. In Happy Camp and other out-of-the way corners of Northern California, it's a big deal.

Look, the north state's fisheries are in perilous condition. They need close watch and strict rules to protect them.

But if the state can't find a balance that allows productive use of our resources, it will never have enough money to protect our environment or do anything else.

That's a nugget of wisdom our lawmakers might take from the gold dredgers, but history makes it hard to believe they're listening.

Lost Inca Gold: Ransom, Riches and Riddles

Source: *National Geographic*, James Owen 04/25/2011

"I could not remove it alone, nor could thousands of men."

A gold cup like this may lie among thousands of priceless items thought to make up the mythical lost Inca gold. This fabled treasure, part of an exorbitant ransom for the imprisoned Inca leader Atahualpa, was supposedly hidden in the 16th century when the Inca learned Atahualpa had already been put to death by Spanish conquistador Francisco Pizarro.

The legend of the lost Inca gold is guarded by remote, mist-veiled mountains in central Ecuador. Somewhere deep inside the unforgiving Llanganates mountain range between the Andes and the Amazon is said to be a fabulous Inca hoard hidden from Spanish conquistadors.

Pizarro released Atahualpa in return for a roomful of gold, but the Spaniard later reneged and had the Inca king killed before the last and largest part of the ransom was delivered. Instead, the story goes, the gold was buried in a secret cave. And there the legend has remained, daring others to prove it.

The gold trail went cold until the 1850s, when English Botanist Richard Spruce traveled to Ecuador in search of the cinchona tree, the seeds of which were used to produce the antimalarial drug quinine. When he finally returned to Britain, Spruce reported that he'd uncovered Valverde's guide and a related map, made by a man named Atanasio Guzman.

Treasure seeker Barth Blake followed up Spruce's discovery in 1886. If his writings are to be believed, Blake was the last person to find the gold, writing: "There are thousands of gold and silver pieces of Inca and pre-Inca handicraft, the most beautiful goldsmith works. . ." He detailed life-size human figurines, birds and other animals, flowers, and cornstalks and "the most incredible jewelry" and "golden vases full of emeralds." But, Blake claimed, "I could not remove it alone, nor could thousands of men."

The Importance of Critical Minerals in Our Everyday Lives

Natural Resources Committee
Chairman, Doc Hastings

WASHINGTON, D.C., May 23, 2011 - The Subcommittee on Energy and Mineral Resources will hold a hearing tomorrow to examine our domestic supplies of strategic and critical minerals and the growing need to develop our own resources to improve national security and further our energy independence. Critical and strategic minerals are fundamental components of technologies and everyday items ranging from cell phones, building materials and motor vehicles to personal hygiene products.

"The United States is heavily reliant on foreign countries such as China for critical minerals that are the building blocks of our economy and imperative to renewable energy development, military technology and the manufacturing of nearly all of our electronic devices. This hearing is an important first step towards reinvigorating America's domestic mining industry in order to increase our

national, economic and energy security," said Natural Resources Committee Chairman Doc Hastings (WA-04).

Minerals in Our Everyday Lives

Over 66 individual minerals are used to make the typical **computer**, including silver, aluminum, copper and gold.

Four rare earth minerals are required to make a **hybrid vehicle:** dysprosium, lanthanum, neodymium and praseodymium.

Energy-efficient light bulbs use europium, terbium and yttrium.

iPods require five rare earth minerals: dysprosium, neodymium, praseodymium, samarium and terbium.

Deodorant contains aluminum and the container is made of petroleum products.

A **clock** includes iron, nickel, petroleum products and silica.

Lipstick and makeup include clay, mica, talc, limestone and petroleum products.

Mail boxes are made of copper and zinc, which make brass.

Pens are made out of limestone, mica, petroleum products, clays, silica and talc.

Toilets are made of clays, silica, copper, zinc, petroleum p

This Is Why There Are No Jobs in America

I'd like to make you a business offer.

Seriously. This is a real offer. In fact, you really can't turn me down, as you'll come to understand in a moment...

Here's the deal. You're going to start a business or expand the one you've got now. It doesn't really matter what you do or what you're going to do. I'll partner with you no matter what business you're in – as long as it's legal.

But I can't give you any capital – you have to come up with that on your own. I won't give you any labor – that's definitely up to you. What I will do, however, is demand you follow all sorts of rules about what products and services you can offer, how much (and how often) you pay your employees, and where and when you're allowed to operate your business. That's my role in the affair – to tell you what to do.

Now in return for my rules, I'm going to take roughly half of whatever you make in the business each year. Half seems fair, doesn't it? I think so. Of course, that's half of your profits.

You're also going to have to pay me about 12% of whatever you decide to pay your employees because you've got to cover my expenses for promulgating all the rules about who you can employ, when, where, and how. Come on, you're my partner. It's only "fair."

Now... after you've put your hard-earned savings at risk to start this business, and after you've worked hard at it for a few decades (paying me my 50% or a bit more along the way each year), you might decide you'd like to cash out – to finally live the good life.
Whether or not this is "fair" – some people never can afford to retire – is a different argument. As your partner, I'm happy for you to sell whenever you'd like... because our

agreement says if you sell, you have to pay me an additional 20% of whatever the capitalized value of the business is at that time.

I know... I know... you put up all the original capital. You took all the risks. You put in all the labor. That's all true. But I've done my part, too. I've collected 50% of the profits each year. And I've always come up with more rules for you to follow each year. Therefore, I deserve another, final 20% slice of the business.

Oh... and one more thing...

Even after you've sold the business and paid all my fees... I'd recommend buying lots of life insurance. You see, even after you've been retired for years, when you die, you'll have to pay me 50% of whatever your estate is worth.

After all, I've got lots of partners and not all of them are as successful as you and your family. We don't think it's "fair" for your kids to have such a big advantage. But if you buy enough life insurance, you can finance this expense for your children.

All in all, if you're a very successful entrepreneur... if you're one of the rare, lucky, and hard-working people who can create a new company, employ lots of people, and satisfy the public... you'll end up paying me more than 75% of your income over your life. Thanks so much.

I'm sure you'll think my offer is reasonable and happily partner with me... But it doesn't really matter how you feel about it because if you ever try to stiff me – or cheat me on any of my fees or rules – I'll break down your door in the middle of the night, threaten you and your family with heavy, automatic weapons, and throw you in jail.

That's how civil society is supposed to work, right? This is Amerika, isn't it?

That's the offer Amerika gives its entrepreneurs. And the idiots in Washington wonder why there are no new jobs...

Don't Fear a Pullback in Prices "Time to load up on gold and silver?

Source: Frank Holmes, U.S. Global Investors 04/26/2011
http://www.theaureport.com/pub/na/9394

The S&P credit agency sent shockwaves through the global financial system on Monday when it issued a warning on U.S. debt and changed its outlook on the U.S. sovereign credit rating from "stable" to

Time to load up on gold and silver?

"negative." This sent markets lower and the prices of commodities such as oil rocketing back above $110 per barrel and both gold and silver to new highs.

It should be clear the S&P announcement was just a warning, not a lowering of the U.S. debt rating, which was affirmed at AAA (the highest level possible). The fears quickly subsided and U.S. markets hit fresh three-year highs. Essentially there's only a one-third chance of a downgrade and anyone who's ever listened to the weather man knows that a 33% chance of rain means you probably don't need your umbrella.

However, the warning validates what we already know: The U.S. needs a plan to address its debt and budget issues…and fast. Due to the fact that future fiscal austerity measures will likely act as a drag on the economy, we also think this opens the door for a third round of quantitative easing (QE3) heading into next year so we'll have to keep an eye on Bernanke and the Federal Reserve's next move.

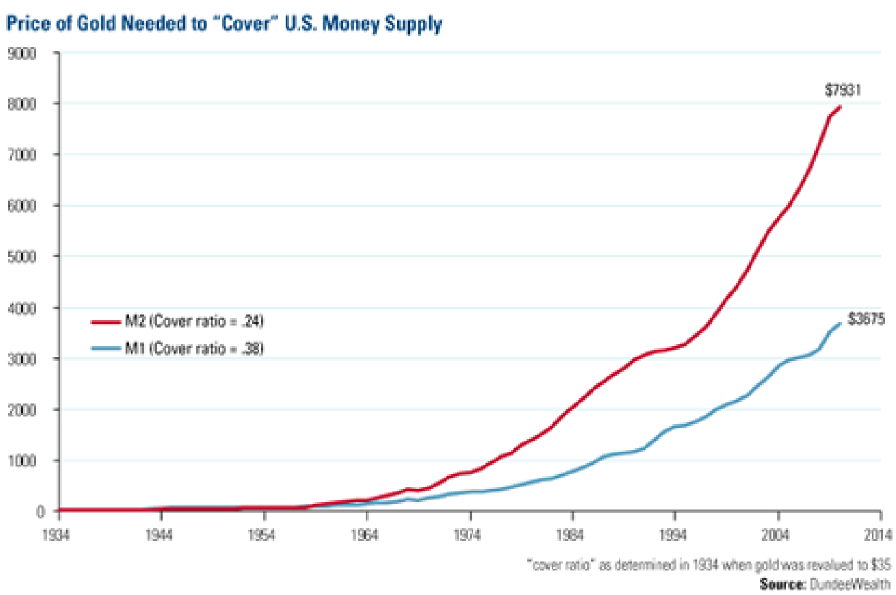
These factors will likely produce downward pressure on the U.S. dollar and upward pressure on commodity prices. This is why we emphatically believe the bull cycle for gold still has a long way to run.

Last week, one of my fellow presenters at the Denver Gold Group's European Gold Forum was Dr. Martin Murenbeeld from Dundee Wealth who put the notion of a "gold bubble" in context with the following chart.

If you compare the current bull cycle for gold against gold's run from the 1970s and 1980s, you can see that today's run has been slow and steady. It's also missing the sharp spikes typical of a bubble.

Also, a key difference in this gradual move higher is the growing affluence of the developing world. There people have traditionally turned to gold as a store of wealth and we are seeing that in unprecedented numbers in countries such as China and India.

One of the things we recently pointed out was the effect money supply growth can have on gold. Dr. Murenbeeld also presented this fascinating chart showing how much gold would need to increase in order to cover the amount of money that has been printed since gold was revalued at $35 in 1934.

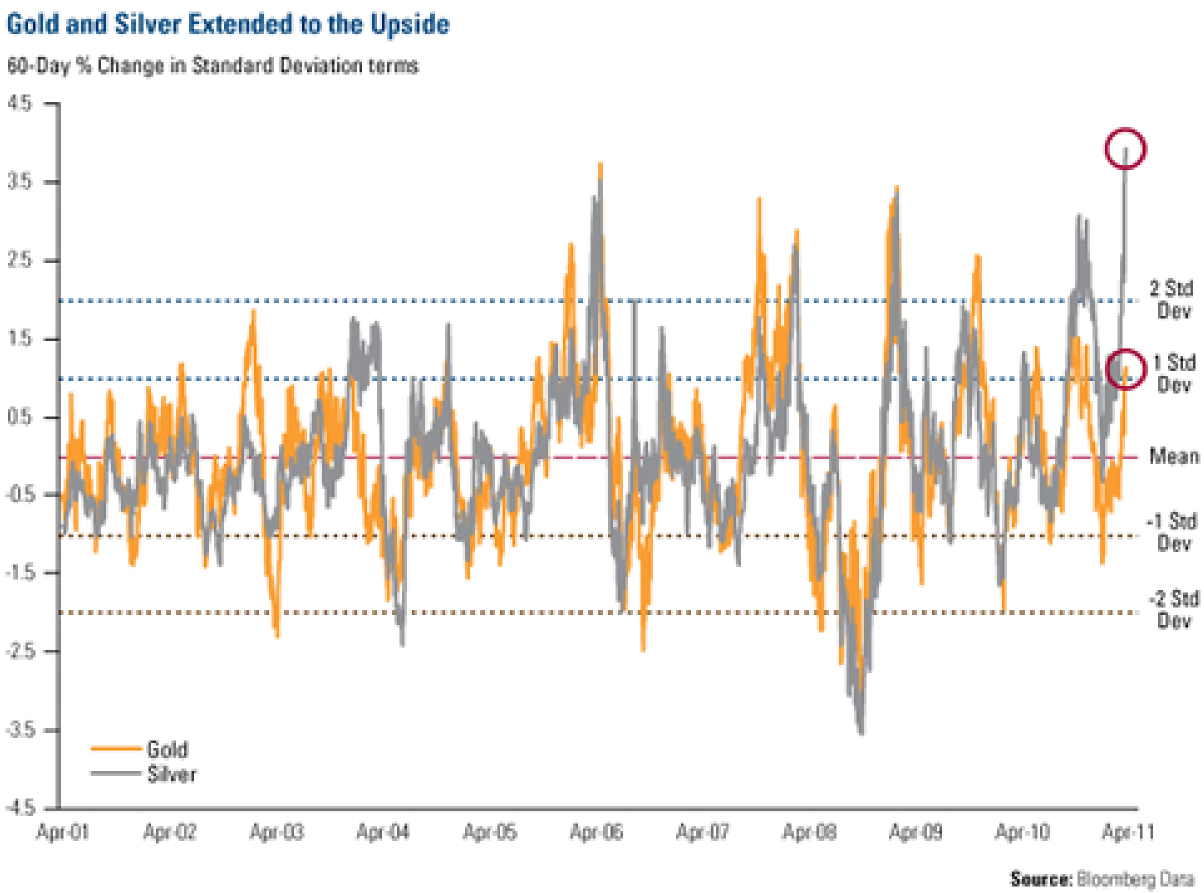


Using that as the cover ratio, gold would need to climb all the way to $3,675 an ounce to cover all paper currency and coins. If you use a broader—and more common—measure of money (M2), gold would need to rise all the way to $7,931 in order to cover the outstanding amount of U.S. money supply.

With gold pushing through the $1,500 level and silver above $46, many investors are questioning whether we'll see a pullback. Going back over the past ten years of data, you can see that gold's current move over the past 60 trading days is within its normal band of volatility, up about 7% over that time period.

Silver, however, has traveled into extreme territory. Over the past 60 trading days, silver prices have jumped over 58% and now register nearly a 4 standard deviation move on our rolling oscillators (see chart). Based on mean reversion principles, odds favor a correction in silver prices over the next few months.

We should be clear: If a correction occurs, this would not mean the rally is over. It would just be a healthy bull market correction and reflect the normal volatility inherent with these types of investments. Investors must anticipate this volatility before participating in these markets.



This volatility also brings along opportunity. We believe we're only halfway through a 20-year bull cycle for commodities and investors can use these pullbacks as an opportunity to "back up the truck" and load up for the long-haul.

Three Reasons That Silver Prices Still Have Room to Run

***By Peter Krauth**, Contributing Editor, Money Morning,* April 29, 2011
http://moneymorning.com/2011/04/29/the-/

Silver is better than gold.

In fact, it's poised to be the "Greatest Trade Ever."

I know that's a big statement. I'm *certain* that it grabbed your attention. Perhaps you're even considering arguments that would shoot it down.

But I know what I'm saying. And here's the proof.

You can look at silver prices and see that as an investment, silver has been a better performer than gold over the past 10 years. What's more, silver is actually gaining momentum.

And here's the best part: I see *three* specific - and very powerful - catalysts that should propel silver prices higher and enable this "other" precious metal to further outdistance gold in the months and years to come.

Let me show you what I mean.

Silver: The Next "Greatest Trade Ever?"

In the final days of 2009, I told ***Money Morning*** readers that gold would become the "Greatest Trade Ever." I even laid out the case for John A. Paulson - of Paulson & Co. hedge fund fame - eventually topping the ***Forbes*** list of the world's richest billionaires ... thanks to his plans for massive gold investments.

It was a timely call. Gold was trading at about $1,090 an ounce at the time - meaning it has surged 40% since then.

I haven't changed my mind about gold - even though it has surged 40% since I made that call. And neither has Paulson. Gold will continue to be an outstanding trade for investors - it's highly prized, it commands a high value per ounce, and there's a lot of it around to invest in.

But I also think that silver will out-gain gold as the current secular bull market in precious metals and commodities continues to evolve. In fact, in February of last year I forecast that silver prices could eventually even reach $250 an ounce before this bull tops out.

If you compared the performances of gold and silver from the start of this secular bull about a decade ago - but ended that period of comparison on Aug. 31 of last year - then gold has been the clear winner. For the 10-year stretch that ended Aug. 31, the "yellow metal" rose from $255 an ounce to $1,250 per ounce, for a gain of 390%.

During that same period, silver moved from $4 an ounce to $18, for a return of 350%.

If we stopped right there, gold would appear to have been the better investment play.

But here's where the comparison gets interesting.

You see, when the summer doldrums ended, silver's bull-market surge shifted into overdrive. In just eight short months, silver zoomed from $18 to the current $48 and change. Gold moved from $1,250 to its current record level of about $1,525.

Now, if you recalculate gold and silver's bull-to-date gains - *including* the past eight months - a dramatically different picture emerges.

At its current price of $1,525, gold so far has gained an impressive 498% during this decade-long bull-market surge. But silver - having soared from a low of $4 all the way to $48 - has zoomed ***1,100%***, making it the clear winner, with more than ***double*** gold's returns.

And what's more, the three catalysts that I've identified will serve to propel silver much, much higher over the coming months and years, despite the stellar performance it's already delivered.
Those three factors consist of:

- A regulatory crackdown.
- Escalating demand.
- And a normalization of the "gold/silver ratio."

Let's look at each one in greater detail.

The Future of Silver *Futures*

The U.S. Commodity Futures Trading Commission (CFTC) is about to *help* spur the "Second-Greatest Trade Ever".

The implications of recent events in the silver-futures market are so explosive that we could see massive gains in silver in the next 12 months alone.

Back on Oct. 26, CFTC Commissioner Bart Chilton publicly stated that "there have been fraudulent efforts to persuade and deviously control that [silver] price." Chilton even said that that he believed there had been violations to the Commodity Exchange Act (CEA) in the silver market, and that these ought to be prosecuted.

The targeted perpetrators are no less than JPMorgan Chase & Co. (NYSE: JPM) and HSBC Securities Inc. (NYSE ADR: HBC), currently facing four lawsuits that are vying for class-action status. They're accused of collusion in order to manipulate silver-futures pricing going back to early 2008, and of building immense short positions with an ultimate goal of forcing prices down for their profit.

According to the lawsuits, there were two "collapses" orchestrated by these two banks - the first in early 2008, and another in early 2010 - from which they gained massive profits.

This has attracted lots of attention and contributed to a volume surge in the trading of silver contracts - with the COMEX market on Nov. 10 reporting a new all-time record that was a full 57% above the previous one set way back in 1976. This rise in silver trading volumes - as well as in actual silver prices - has prompted futures-market operator CME Group Inc. (Nasdaq: CME) to raise silver-futures margins twice in the same week to help preserve order.

Conspiracy theories notwithstanding, it's likely that these allegations fueled the thesis that the price of silver was being suppressed, and that such downward price pressure could well ease up going forward.

Since November, massive levels of money have flowed into silver-focused exchange-traded funds (ETFs). And meanwhile, new all-time-record coin sales are being reported by the U.S. Mint, with near-record sales being reported by the Austrian Mint, Royal Canadian Mint, and Perth Mint.

So as silver-coin and ETF purchases set new records, the next question may well be: "Will there be enough silver to meet ongoing demand?"

That question leads us directly to my second silver-price catalyst - silver demand.

Silver Demand: The "Missing" 225 Million Ounces

When analysts needed to assess the global demand for silver, they have traditionally turned to GFMS Ltd., and The Silver Institute, the two organizations that are generally regarded as the most-relied-upon sources for that type of information. Together, GFMS and

The Institute make use of a category they have labeled as "implied net investment" - a catch-all grouping that's supposed to indicate institutional and retail demand for physical silver.

But noted natural-resources investor Eric Sprott (of Sprott Asset Management LP, with $8.5 billion under management) made an interesting discovery: There's very likely more - actually, a lot more - to silver demand than market observers have been led to believe.

Yet by their own admission, GFMS and The Silver Institute acknowledge that their reported data for "implied net investment" is not an observed figure, and doesn't include some of the demand coming from hedge funds or "physically backed" exchange-traded funds - a portion of the fast-growing ETF sector that's enjoying even more explosive growth. As a result, Sprott found that more than 225 million ounces of silver demand was "missing" from figures for the decade-long stretch that ended in December 2009.

And that figure doesn't include the demand from 2010, an explosive year for silver (and a year in which silver - the "other precious metal" - rallied 138% during the last eight months).

The Quickly Closing Gold/Silver Ratio Gap

In the years leading up to the 2008 stock-market panic, the gold/silver ratio averaged about 55, meaning it took 55 ounces of silver to buy one ounce of gold. Keep in mind that, perhaps counter-intuitively, a declining ratio is bullish for silver, since it means fewer silver ounces are required to buy one of gold.

Actually, that's what was already happening since this precious-metals bull market was spawned a decade ago.

But then that late-2008 stock-market panic caused this ratio to shoot up until it actually exceeded 75. That was an extreme that couldn't be sustained over an extended period. And I said so in my September article "Silver is Emerging From Under Gold's Shadow."

At the time, silver was still trading at about $21 per ounce. I told readers that we'd likely see silver at prices of $25 an ounce to $27 an ounce before fall was over, writing that " ... silver could well be poised to explode to the $25 to $27 levels as we enter the strongest time of the year for precious metals."

As I write this, we're just north of $48. With gold at $1,525, we've already sailed past the pre-2008 gold/silver ratio of 55, and currently sit below 32.

That may signal silver as being somewhat overbought at this point, but as the ratio was stretched to such an extreme of 75, we could well see it continue to march lower, albeit after a well-deserved rest. I would not be surprised to watch the gold/silver ratio reach a level of 30 which, should gold regain and hold the $1,500 level, would imply a price near $50 for silver, above its all-time nominal high from 1980.

As we work our way through this bull, I expect the gold/silver ratio could even drop below 20. If gold eventually reaches the $5,000 level, as I expect, a ratio of 20 would imply a silver price of $250.

Silver Prices: Still Below All-Time Highs

Gold tends to grab most of the headlines, a status it's likely to uphold as its allure remains unparalleled. Seeing it trade at nearly 80% *above its previous all-time highs* sure has scores of observers excited.

On the other hand, it's contrarians who tend to earn the best returns over time. And with silver prices still 5% *below* the all-time high of $50.35 reached in 1980, the odds - over time - seem to favor silver over gold, as far as generating the biggest gains.

It's true that silver was the best-performing major commodity of last year, bettering all of the 18 other commodities comprising the CRB Commodity Price Index. It's also true that, on a technical basis, the silver price has gotten ahead of itself, having stretched way above its 200-day moving average.

But silver benefits from a more advantageous fundamental supply/demand profile than does gold.

The physical silver market is only a fraction of its yellow-metal counterpart.

Numbers Game

Of all the silver ever mined (about 46 billion ounces), experts estimate that about 1 billion ounces are left above ground in bullion form. That's because the rest has been consumed, and is also because silver isn't something that is typically economically feasible to "recover." By comparison, of the 5 billion ounces of gold ever mined, about 2 billion are available above ground in bullion form.

In 2009, worldwide silver production totaled some 700 million ounces. At the average 2009 price of $14.70, that represents a total value of about $10.3 billion. In that same year, however, about 75 million ounces of gold were produced. At the average 2009 price of $975 an ounce, that represents a value of about $73 billion, or about seven times the silver market on a market value basis.

A wave of demand will influence more heavily the much smaller silver market when compared to gold. Small investors clamoring for a piece of the precious-metals pie could well push silver much higher, as they buy the metal that's much more affordable on a per-ounce basis. That means the potential returns on silver could be astronomical for those willing to commit.

At this point, there's still time to make silver an important part of your portfolio - perhaps making it *your* "Greatest Trade Ever."

Actions to Take: Although silver prices are approaching record levels, don't be deterred from participating in the secular bull market for this key precious metal. Indeed, there's actually no need here to get overly fancy. If you want a solid primer on silver, read our special research report: "How to Buy Silver." For a non-levered approach, some of my favorite vehicles are physical silver in the form of 1 oz. silver coins, multi-ounce silver bars, and even junk-silver bags - or even a combination of these. There's also a more recent ETF option, the **Sprott Physical Silver Trust (NYSEArca: PSLV).**

Sprott has put his money where his mouth is, having recently established the **Sprott Physical Silver Trust (NYSEArca: PSLV)**. The silver is stored on a fully allocated basis at the Royal Canadian Mint, which is responsible for the silver in its custody (no financial institutions in the mix). There is even the potential for certain U.S. investors to benefit from a lower capital-gains-tax rate. Its management fee is a fair 0.45% annually, but it currently trades at a 13% premium to its net asset value (NAV). That's a bit rich for my taste, and it should be for yours. I recommend that you wait for a more reasonable valuation - don't go any higher than a 6% to 8% premium - at most. Always the innovator, Sprott offers an interesting feature: Unitholders have the option, under specific conditions, to redeem units on a monthly basis, in exchange for physical silver bullion.

Why Gold Is Going Higher

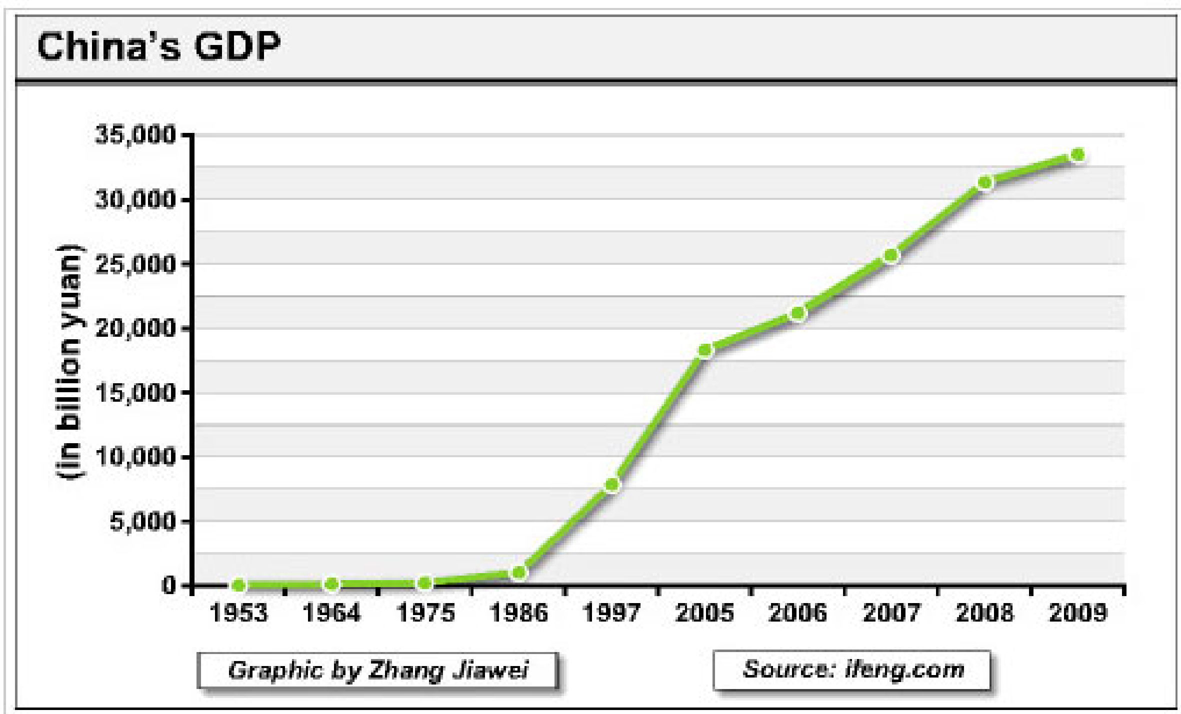
David Gallad, Managing Director, Casey Research, May 26, 2011
http://www.caseyresearch.com/editorial.php?page=articles/why-gold-going-higher&ppref=CRX207ED0511A

While there are many reasons that gold and silver are going to keep moving higher as the fiat currencies trend lower, at our recent Casey Research Summit in Boca Raton, faculty member Mike Maloney pointed out a fact that, while obvious in hindsight, I had never heard mentioned previously.

Namely that during the last major precious metals bull market in the 1970s, only about 10% of the world could own gold – either due to legal restrictions or a lack of liquid capital.

Today, few countries prohibit gold ownership, and a far higher percentage of the world's population has transitioned out of poverty.

China provides the most germane example, having legalized gold and silver ownership for private citizens in 2004, and through the explosive growth in national GDP that has caused Chinese gold purchases to skyrocket.



Confirming the point, the following is an excerpt from a recent Wall Street Journal article:

Chinese investors are snapping up gold bars and coins, buying more than ever before in the first quarter of 2011 and overtaking Indian buyers as the world's biggest purchasers of the metal.

A growing middle-class in China is raising the appetite for gold there.

China's investment demand for gold more than doubled to 90.9 metric tons in the first three months of the year, outpacing India's modest rise to 85.6 tons, the World Gold Council said in its quarterly report on Thursday. China now accounts for 25% of gold investment demand, compared with India's 23%.

The report underscores the rising appetite for gold among the growing middle-class in China. Fears of the country's soaring inflation, as well as a search for new investments, is luring investors to gold, and marketing of the precious metal has also increased in recent months.

"I think people will be surprised by the strength in the Chinese demand, but we think this is a trend that is set to continue," said Eily Ong, an investment research manager at the gold council.

Notoriously active savers, stashing away on the order of 50% of their income, the Chinese are increasingly opting for gold over the renminbi to stash their wealth.

For those wondering just how big a development this is, consider that in 2007, just before investing in gold became “the thing to do,” gold demand in India was 61% of the world’s total while China’s gold demand was only 9%.

In other words, India is no longer the only elephant in the gold vault. And they are not alone – investors around the world are now able, and willing, to buy gold as a way of protecting their wealth from the inevitable decline of the fading fiat currencies.

I still don’t think we are out of the woods on a commodities correction, but there are so many black swans floating overhead that literally anything can happen, at any time. Thus buying in tranches on pullbacks over the next four to six months still makes a lot of sense.

But in the longer term, gold has almost nowhere to go but up.

A editorial on the "Opinion" page of The Wall Street Journal on May 5th:

"This week's rout in the silver market has commodity bulls running for cover, and everyone else wondering if those old devil speculators are manipulating the market. We'd say this is the kind of volatility you get in a financial market defined by too easy money and dollar uncertainty."

"Silver's decline, and this week's overall commodity correction, may thus be a useful economic warning. While no doubt the abrupt fall has caught some traders with big losses, the bigger danger is a long-term mania that leads to a far bigger misallocation of capital. This is what happened in the housing bubble, and it is what we have begun to see with the boom in such weak-dollar alternative investments as land prices, foreign currencies, and commodities, especially silver and gold.

Betting on such investments is risky business and may end up unhappily. But such speculating, such boom and bust, is what happens when no one trusts the value of a fiat currency run by a wide-open Federal Reserve."

From independent precious metals analysts GFMS Ltd., in their May 2011 "Precious Metals Market Outlook" report, released on May 6th:

"April saw gold post an impressive rally, with the price breaching the $1,500 mark and hitting a fresh record of $1,546.50 on 3rd May (basis London a.m. fix). Despite a hefty decline of some $60 thereafter, the price remains relatively elevated at the moment. Central to this is growing inflationary fears, renewed concerns over European sovereign debt coupled with a weak dollar. With regards to the latter, the greenback touched a 16-month low against the euro in late April, as the Federal Reserve lagged behind the European Central Bank in tightening monetary policy. Moreover, the lack of action by US fiscal policy makers compared to austerity measures taken by its AAA-rated peers is certainly a concern to many, including us, who expect the focus of the sovereign debt crisis eventually to move across the Atlantic."

Here is a list of National Inflation Association's top 9 most important new NIAnswers

http://us.mg3.mail.yahoo.com/neo/launch?.rand=7bhtvja18c9hv

1) I am feeling a little worried about the huge drop in silver after it hit a new all time high of nearly $50 per ounce. What do you think is causing it?

We never expected silver to rise to almost $50 per ounce so quickly. Silver simply rose too far too fast and was due for a correction. The correction appears to be almost over with silver showing signs of forming a strong support level. After silver nearly hit $50 per ounce, the CME rose margin requirements substantially. This caused a forced liquidation of hedge funds that were buying silver using leverage. The CME's actions were pure manipulation and done to help their banker friends at JP Morgan who were short 122.5 million ounces of silver. This same thing happened in 1980 after silver first hit $49.45 per ounce and it was later proven that 9 of the 23 COMEX board members were short 38 million ounces of silver. JP Morgan is losing billions of dollars on their short position and without the CME's actions, JP Morgan would have been forced to cover its short position, which would have sent silver to $100 per ounce in just weeks. NIA is pleased that the new Hong Kong Mercantile Exchange will end the COMEX monopoly and make them a lot less likely to manipulate precious metals prices in the future.

NIA is 99.9% sure silver will rise well above $100 per ounce this decade. Based on the current price of gold, a return in the gold/silver ratio to 16 would mean a silver price of $94 per ounce, but we are sure gold will rise many times higher than its current level of $1,508.90 per ounce. In NIA's opinion, the currency crisis won't be over until the Dow Jones/gold ratio returns to 1. The Dow Jones is currently 12,512. Even if gold meets the Dow Jones mid-way at 7,010, it would mean $438 per ounce silver based on a gold/silver ratio of 16.

2) Do you feel now is a good time to trade a good portion of gold for silver?

Yes, with the gold/silver ratio back up to 43, those who exchange their gold for silver now will at a very minimum see their purchasing power increase by 2.6875 times during the next 2 to 3 years if NIA is right and the gold/silver ratio declines to 16 or lower. Silver has dipped enough where we now feel comfortable to start buying it once again using money that we currently have in gold. We are very happy that silver has dipped, because the more time NIA members have to accumulate cheap silver, the more wealth NIA members will gain when hyperinflation hits the U.S.

3) What if Bernanke decides to raise interest rates so high that hyperinflation can be avoided? What happens to silver then?

If Bernanke rose interest rates to let's say 20%, the interest payments on our national debt will soar to approximately $2 trillion per year. Instead of a $1.645 trillion budget deficit we will have a $3.44 trillion budget deficit. The U.S. government will only be able to fund the deficit by having the Fed print the money to buy U.S. treasuries, which would cause hyperinflation. Bernanke is in a very bad position. Even raising interest rates dramatically won't prevent hyperinflation at this point. In NIA's opinion, silver will rise over the long-term no matter what Bernanke does.

Silver may have dipped after reaching a new all time nominal high of near $50 per ounce a few weeks ago, but adjusted for real inflation, when silver hit $49.45 per ounce in 1980 that would equal about $400 per ounce in today's dollars. Silver has not seen its high, we can promise you that. This is a buying opportunity that won't last for long.

4) Would it be more profitable now to buy silver mining shares rather than silver metal?

When silver broke $40 per ounce and made a move to almost $50 per ounce, silver stocks did not make any gains during that $10 rise in silver. It is almost as if the stocks knew silver was running too far too fast and would need to correct. From their highs on April 28th to their closing prices last week, physical silver has declined 29% while silver stocks have only declined 18%. Silver stocks appear to be at a bottom and when the price of physical silver begins to rebound, we believe silver stocks will likely rise 2 to 3 times faster, with a select few small-cap silver stocks rising 4 to 5 times faster than the silver bullion itself.

It is always safer to buy physical silver because mining shares have many different factors affecting them, such as geopolitical risks and the experience of management. However, if you do your homework and spend a lot of time researching silver stocks, there is a lot more money to be made owning the right silver stocks than owning physical silver. Just keep in mind that not all silver stocks will be winners. Some silver mining companies will fail and eventually go out of business.

5) What do you think of the leveraged silver ETF, ProShares Ultra Silver?

ProShares Ultra Silver is designed to make double the daily gains or losses of silver. Silver prices are volatile enough as it is and this ETF isn't suitable for most investors. What especially makes it risky is that leveraged ETFs decay over time. At the end of 2010, ProShares Ultra Silver closed at $158.59 and the regular silver

ETF closed at $30.18. Today, the regular silver ETF is $34.18 up 13%, but ProShares Ultra Silver is only $171.94 up just 8%. Therefore, while this leveraged silver ETF may double the regular silver ETF's gains on a daily basis, over longer periods of time the leveraged ETF decays and may not perform as well. ProShares Ultra Silver is only good as a short-term trading vehicle for experienced risk tolerant investors.

6) Will I be able to use my gold and silver coins as money instead of it being taxed as a commodity?

NIA will be supporting Ron Paul for President in the 2012 election, because he will eliminate all taxes on gold and silver. When gold and silver prices go up, it isn't the value of gold and silver that is increasing, but it is the U.S. dollar that is losing its purchasing power. Almost nobody in Washington wants to end taxes on precious metals, because it forces people to continue using U.S. dollars as money.

When Americans eventually abandon the U.S. dollar, politicians won't be able to have the Fed print the money to fund their deficit spending, because the dollar won't have any purchasing power. The U.S. Constitution states that only gold and silver shall be used as legal tender. NIA believes that fiat U.S. dollars are unconstitutional and we must move back to sound money if our country is going to survive as an industrialized nation. However, don't let taxes persuade you not to purchase gold and silver. When hyperinflation arrives, taxes won't matter because you will be able to sell an old pair of tennis shoes to pay off your entire tax bill. During hyperinflation, the government will fund more than 99% of its spending by printing money and less than 1% through taxation.

7) So reading between the lines in the new Senate bill to adjust the 401K, is this the start of the government trying to control these funds like they stole gold from the population back in the 1930s?

The new Senate bill is the government's attempt to stop Americans from borrowing against their 401K so that less Americans are able to buy gold and silver. NIA has countless members who tell us they are borrowing against their 401K in order to buy gold and silver. This is allowing them to protect their 401K money from hyperinflation, because their 401K doesn't give them the option to invest into gold and silver. 401Ks usually only give Americans very limited investment options, which almost always include U.S. treasuries. This is something the government is OK with because it helps fund their deficit spending.

By Americans borrowing against their 401Ks and buying gold and silver, they are betting against the U.S. dollar and the government wants to prevent this. By forcing Americans to invest into U.S. government bonds and not giving them the opportunity to use their savings to buy gold and silver, they are able to steal the purchasing power of Americans through inflation. If everybody was able to buy gold and silver with their 401K money, the U.S. dollar would immediately collapse and the government would have no way of funding its budget deficits.

8) Since the U.S. has reached its debt ceiling, will hyperinflation occur soon after August if Congress does not raise the debt ceiling and the government is forced to default on its debts?

By the government claiming it will default on its debts to foreigners if they aren't able to borrow more and get more deeply into debt, it is admitting to running a ponzi scheme. The debt ceiling will be raised and even if it wasn't, it doesn't mean the U.S. will have to default on its debts. With our current record low interest rates, the U.S. certainly has enough tax revenues to continue making payments on its debts if it made major cuts in other areas of the budget. If the U.S. did default on its debts, that itself wouldn't cause hyperinflation. What will cause hyperinflation is if we continue printing the money to pay back our debts, which is what NIA is deeply concerned about.

9) I was a supporter of Ron Paul, but was horrified by his comments that he thinks it's a good idea for the U.S. to sell its gold. Some day the U.S. may need its gold to go back on a gold standard. What are your thoughts?

We believe Ron Paul is only saying this because he doesn't believe our gold reserves actually exist at Fort Knox. The last real audit of our gold reserves took place in 1954. In the audit that supposedly took place in 2005, KPMG LLP only audited the mint's fiscal year 2005 financial statements and never saw any physical gold or even went to Fort Knox.

By suggesting we sell our gold reserves to help pay off our national debt, we feel Ron Paul is only trying to get Congress talking about our gold reserves. He wants to make it a mainstream political issue so that the public demands an audit of Fort Knox and our nation's gold reserves. NIA agrees with Ron Paul that we need to audit our gold reserves and find out if the gold we are supposed to have really still exists.

If in 1971 the U.S. government was forced to admit that it couldn't pay the gold it owed to foreigners and defaulted on its gold obligations by ending the gold standard, NIA believes the odds are that our gold reserves either no longer exist or have been compromised in some way. NIA does not support selling our gold reserves and we don't think Ron Paul truly does either. Don't worry, if Ron Paul says that he supports selling our gold reserves, the rest of Congress will automatically want to do the opposite.

Gold Timers in Denial

Source: MarketWatch, Mark Hulbert (5/5/11)
"Contrarians have bad news for the gold bulls."
MarketWatch, Mark Hulbert

Despite bullion's plunge this week, the gold timers are for the most part stubbornly holding onto their bullishness. This suggests that more downside work is necessary before a sentiment foundation can be built that would support another significant upleg.

Consider the average recommended gold exposure among a subset of short-term gold market timers tracked by the Hulbert Financial Digest (as measured by the Hulbert Gold Newsletter Sentiment Index, or HGNSI). This average currently stands at 67%, down only slightly from the 73.7% level at which it stood on Monday of this week.

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That's significant, since the low price to which spot gold dropped this morning was close to $100 less than its intraday high on Monday. Usually, drops of that magnitude lead to a lot more of the bulls throwing in the towel, especially when it happens as quickly as it has this week.

Nowhere in sight is the veritable “wall of worry” that bull markets like to climb. On the contrary, the current mood in the gold market is more reminiscent of the “slope of hope” that bear markets like to descend.

According to contrarians, investor sentiment in the wake of a decline almost always evolves through the same set of stages. The only question is how long it takes.

The process begins with denial, evolves into anger and eventually ends with resignation. It would appear that we're still in that initial stage.

$5,000 Gold, $300 Silver Are Credible Numbers

Source: James West, *Midas Letter* 04/20/2011
http://www.theaureport.com/pub/na/9320

"What will support $5,000 gold? First and foremost, the USD."

Q: What do CNBC, George Soros, Warren Buffet and every other mainstream investment commentator on the price of gold have in common for the last 10 years?

A: They are all wrong.

All the time, every year—10 out of 10—years in a row. If you continue to pay attention to such disinformation, you will lose money. Definitely. No question. Guaranteed.

Each and every year, their vapid comments on the future gold price prove to be complete bollocks, yet year after year, and day after day, millions of readers, watchers and listeners tune in for another dose of horribly incorrect information.

These days, the number of perpetually inaccurate predictions forecasting an end to the gold boom are thoroughly drowned out by the now multitudinous voices screaming from the rooftops for gold to go much higher. About 90 percent of that is the herd mentality at work. Early predictions for $1,000 gold, which seemed extreme and outlandish just two years ago, turned out to be very conservative. So it's easy now to lay claim to being "the one who predicted the gold bull market".

Bandwagon riders aside, there are compelling reasons to support a much higher gold price, and more importantly, a narrowing of the ratio between the gold price and the silver price. One year ago, the silver to gold ratio was 63 ounces of silver for every ounce of gold. Today that ratio is 35:1. Its fallen by nearly half in one year.

In terms of pure performance, whereas gold has delivered a solid gain of 26.51% in the course of the last year, silver has outshone gold spectacularly, turning in a gain of 123.55%, making it the commodity trade of the year by far. The effect of that performance is to dramatically alter the perception of investors in terms of its desirability as a precious metal. It's long been a psychological barrier to silver's progress, in my opinion, that a precious metal could be had so cheap.

But as the prices of both monetary metals grows, and their price differentials narrow, investors want an idea of where the future is heading in terms of these prices. Can they continue to grow so dramatically in price, or is there a point at which their price appreciation curve will level out and become more incremental? Or, is there a point at this the upward price curves will plunge steeply downward? And at what point, if ever, will the price curves of silver and gold converge? What exactly is the appropriate ratio of gold versus silver? Do we buy bullion, coins, ETF's, Gold Funds, Senior Miners or Junior Explorers? Which is safest? Which is riskiest?

First let's consider the ratio question. If the ratio suggested in the title were to become reality, it would mean a ratio of only 10 ounces of silver to buy one ounce of gold. If the ratio curve were to continue climbing in favor silver at the present rate, it would approach 10:1 within another year.

But if the ratio were to reflect numbers pegged to certain fundamental realities, then perhaps we could deduce a more rational price differential with better certainty. According to John Stephenson's Little Book of Commodity Investing, there is 16 times more silver in the earth's crust than gold.

So on that basis alone, the correct price ratio is arguably 16:1. Silver bulls like to point out that silver is unique among monetary metals because of its wide-ranging industrial applications, as well as in photography and jewelry. As the silver price continues to consolidate its price differential with gold, it is likely that process modification and substitution will occur wherever possible in the manufacturing supply chain to replace silver, which will dampen industrial demand. Thanks to silver's unique chemical attributes, however, that effect will be muted.

2009 statistics from the Silver Institute show that global supply of silver was more or less equal to the global demand for silver from all classes including manufacturing and bullion minting. Government stocks of silver are estimated to have fallen by 13.7 million ounces over the course of 2009, to reach their lowest levels in more than a decade. Russia again accounted for the bulk of government sales, with China and India essentially absent from the market in 2009. Regarding China, Gold Fields Mineral Services states that after years of heavy sales, its silver stocks have been reduced significantly.

If the silver ratio is heading to 16:1, that implies a near-term price range of $90–$100/oz. If gold goes to $5,000/oz., and the silver:gold price ratio remains 16:1, there's silver at $312.50/oz. And what, pray tell, is coming down the pike to support a gold price of $5,000?

First and foremost, the United States dollar.

The whole global financial system is trapped in a situation whereby we have no choice but to permit the United States to continue counterfeiting money. There is no single political force or voice or even prospect with the knowledge and the power to put a stop to the insanity into which we continue to spiral on a daily basis. That means, despite the unanimous chorus from the financial media mainstream, which anesthetizes the human race in an effort to thwart violent protest by design, the fabrication of electronic dollars will continue apace. For years.

In terms of strict nominal value, that implies a proportional increase in the prices of, well, everything. Inflation is the direct outcome of monetary expansion in the absence of economic growth. Therefore, gold and silver will be direct beneficiaries of such policy.

At the same time, sovereign and large capital pool (LCP) investors in U.S. debt are seeking to exit their holdings of U.S. dollars, The world's largest bond fund, PIMCO, and its acerbic chief Bill Gross, are now shorting the U.S. dollar. China has stated repeatedly that it will reduce its holdings of U.S. debt. This is sending a signal to the rest of the sovereign wealth and LCPs that the U.S. dollar should be abandoned. That means, when the convulsions that seize the global financial system, such as that of 2008, manifest themselves, investors will flee less and less to the U.S. dollar, and more and more to other currencies—especially gold and silver.

So not only does the price of gold appreciate in strictly nominal terms, but demand for it is growing even as it grows exponentially in price. That's why, given this illogical yet nevertheless existing stupidity, the more expensive gold and silver get, the greater will be their demand as a replacement for U.S. dollar denominated safe haven asset classes.

The third major factor that is going to drive gold to $5,000 and silver through $300 is related to the first two. Governments, always reactive and never proactive, will eventually start to ratify gold and silver as official currency alternatives as a result of public pressure.

The decision by the people of Utah to do just that was big news recently, even though technically and legally, it always was legal tender in that state. It is this final legitimizing step by regional governments that will open the eyes of the otherwise hypnotized American public. For now, the move is painted as fringe by the idiotic mainstream, which is unwitting pawns for the financial services industry—U.S. Federal Reserve—U.S. Treasury trio of economic under-miners.

But contrary to global public perception, this has been a recurring theme in the United States economy, pretty much from day 1.

The Daily Astorian, a newspaper of the day in Astoria, Oregon, on May 9th, 1876 published a story the following of which is an excerpt:

The people of this country are tolerably familiar with depreciated money. The great mass of them have had nothing else for the last fourteen years. We are accustomed to depreciated Greenbacks, National Bank Notes, Nickels and Silver, and there are those living who can recall the time when Gold was worth less than Silver.

The biggest perpetrators of what we, the people, must soon designate as criminals, else suffer the continuing consequences of no jobs and no future, are the United States Federal Reserve, the United States Treasury, The Commodities and Futures Trading Commission, and the Securities Exchange Commission.

"Oh but wait," say some. "The United States Federal Reserve is not a government body. . .its private." And? The Federal Reserve is nothing more and nothing less than the off-balance sheet entity of the U.S. Treasury that permits the illegal fabrication of dollars out of thin air without prosecution. Of course this off-balance sheet entity is not an official government body. It was designed that way, exactly as Enron set up LJM L.P., to hide losses and perform sundry distasteful and illegal acts in an effort to support its parent entity.

When an entity is formed specifically to operate outside of the publicly elected offices of government, but is given dominion over the most important property of the voting public—its money—and when that entity acts in direct opposition to the interests of the public to whom it owes a fiduciary duty, then its status as government or private really becomes irrelevant. All that matters in terms of its identity is its treasonous and fraudulent activity.

The management of Enron went to jail for their larcenous culture of hiding from shareholders the true extent of their losses, and the illegal nature of their everyday operations. With a bit of luck and perseverance, the same fate will yet befall Bernanke, Paulson, Summers, Rubin, Geithner, Gensler, Shapiro and the rest of the Ivy league thieves. In the meantime, the best defense against their intentional destruction of the United States currency is selling dollars to buy gold for capital preservation and silver for low-risk capital appreciation.

The day will come when, instead of teaching that these leaders were nobly trying to ease the pain of financial forces beyond their control, today's politicians will instead be accurately portrayed as naïve, negligent, and just plain stupid populists whose ignorance of real economic matters was exactly the ingredient necessary to permit the psychopathic and misanthropic banking community to form the financial policies of their governments. Unfortunately, the only ones likely to be alive by the time that happens are now in diapers.

From Steve Forbes, in his "Fact & Comment" column in the May 9th edition of Forbes magazine:

"The way the Obama Treasury Department is financing our surging national debt is reckless and dangerous. It is manipulatively reducing outlays for current interest charges by sharply shortening the average maturity of that debt. The term of Uncle Sam's paper has dropped from an average of almost six years, when Ronald Reagan left office, to just a tad above three years today. To shorten maturities when borrowings are ballooning is long-term lunacy. Thanks to the Fed's price fixing, our interest rate payment is about $200 billion, or just above an average rate of 2%. Given current conditions, particularly the outlook for inflation, a more realistic rate would be at least 5% to 7%. Thus some $400 billion is being artificially shaved from the current budget.

Our central bank cannot keep up this distorting, interest-rate-suppression game forever. One way or another reality will set in, and the cost of money will shoot up. The impact on budget outlays will be immediate and ugly. With so little of the debt issued in longer maturities, we have no cushion from a spike in rates.

Moreover, within the next decade Uncle Sam will be in hock for some $30 trillion--almost triple the level of our marketable debt today--unless Paul Ryan-like spending reforms are enacted. The interest rate bill by then will be truly horrific--higher than the outlays for Medicare and Medicaid combined."

Understanding Where We Are in Silver's Bull Market

David Banister, Market Trend Forecast (05/02/11)
http://www.theaureport.com/pub/na/9441

"After consolidation, buy silver stocks on any pullback with haste."

Last August, I told my subscribers to prepare for a monster rally in silver, which at the time of my forecast was $18.73 per ounce. I drew up a chart and predicted a huge rally to $29 an ounce, and we ended up at $31 or so just a few months later. This was entirely a crowd behavioral move that I foresaw in advance, based on patterns that R.N. Elliott developed in the 1920's and 1930's. My theory was besides the crowd pattern (a 20-month odd Triangle consolidation), that investor's would begin to view silver as "Poor man's gold" and buy it. Literally, the idea is as simple as investors will simply think that "gold is too expensive, but silver is cheap". That is the explosion power that is behind this move from $19 to $50 an ounce since late August 2010.

Below is the original chart I sent to my subscribers outlining this triangle pattern and the likely move.

After silver ran hard and fast, it left a lot of talking heads on CNBC and everywhere else scratching their heads and wondering what just happened. If you learn and understand the basics of Elliott Wave Theory, you can begin to foresee what is about to happen and stop scratching your head all the time. Watching the analysts on CNBC is like watching the Monday morning quarterbacks following an NFL Sunday. After that massive silver run from $18 to $31, it was time for a correction and I called for $25 to $26.50 as likely in a normal pessimistic crowd wave 2 pattern down. Once that completed, I sent my subscribers the chart below outlining another Bull wave to $39–$45 per ounce.

Silver then eventually ran to $45 per ounce in April of 2011 and had a brief spike to near $50 to test the all time highs just in the past week or so. The action has been wild since then, because after a wave pattern from $18 to $31, then back to $26, then up to $47... the crowd will begin to turn mildly pessimistic in a current "wave 4 " correction pattern. This is when you will begin to hear excuses for silver dropping, including believe it or not blamed on the death of Osama Bin Laden. In truth, whatever happens near term to explain the current correction in silver is simply Monday morning quarterbacking. Using the current day's headlines to explain the action that I already know is coming. Other excuses are the change in margin requirements on silver contracts and the squaring of positions at end of month.

I expect silver to correct to the 40 to $42.75 areas based on my Fibonacci work and Elliott Wave views, and after this 4th wave consolidation we will see a surge to as high as $60/oz. Any pullbacks in silver should be bought here and same with the silver stocks post haste. Below is my latest chart forecast on silver.

Think Silver Has Gone Parabolic…
1980 was 5 times faster

Source: Sam Kirtley, SK Options Trading 04/26/2011
http://www.theaureport.com/pub/na/9388

This essay will attempt to address the question of whether or not silver prices are in a bubble, or possibly may be turning into a bubble; and if so, what trading strategies may be suited to the situation. This article will hopefully provide another string to the readers bow in attempting to identify bubbles and being able to protect one's portfolio and even potentially profit from them. For the record, we feel it is prudent to state our view upfront, we do not think silver is in a bubble at this point in time. However we think that it is likely that it will become a bubble in the future, but we cannot say when or at what price.

Asset price bubbles have occurred since the beginning of financial markets and will continue to do so as long as there remains a marketplace for assets to be traded. A key property of a bubble is that is it near impossible to identify with certainty before it pops, but once it does pop the bubble is apparently obvious to everyone. In our opinion, only those who risk capital and profit betting against a bubble can claim to have correctly identified one.

A casual glance at the chart could leave an impression that history is going to repeat itself and silver prices are about to crash. However in order to not only successfully identify bubbles but also profit from them, one will need to know the tipping point. This is the point at which the bubble is unsustainable and begins to breakdown.

There are many factors which contribute to the emergence of bubbles and one would need to look at a myriad of factors to determine when a bubble may pop. We will focus on just one in this article, momentum. In finance, momentum is the empirically observed tendency for rising asset prices to continue to rise. We are attempting to gauge when silver may run out of momentum and when this bull market will turn into a bubble and ultimately pop.

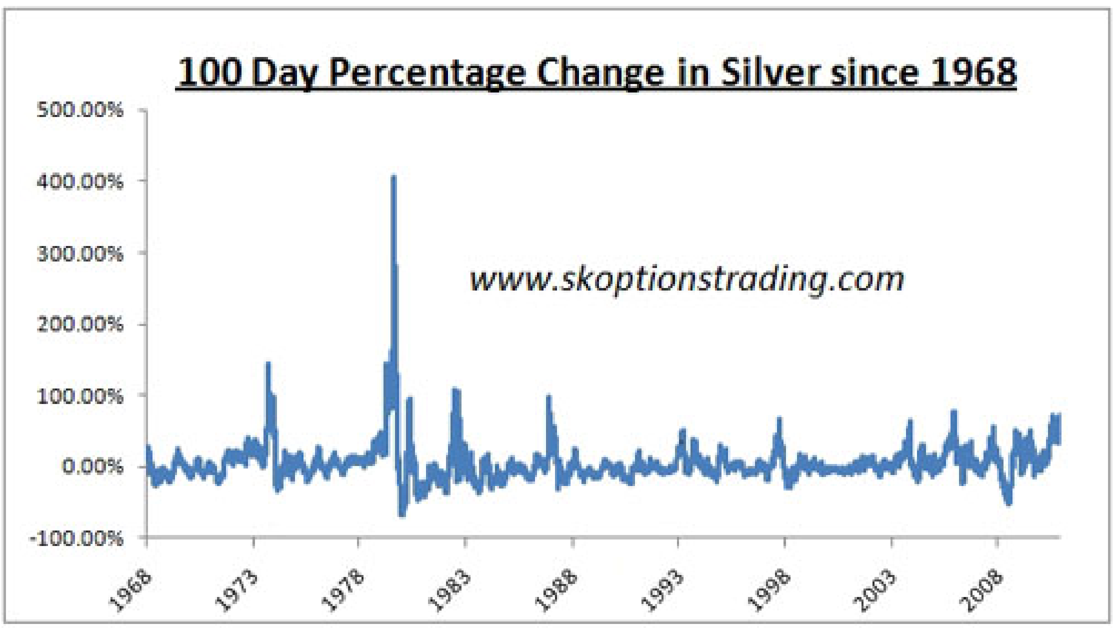
Whilst some may consider it crude to study momentum as opposed to fundamentals such as supply and demand, we feel that it is vitally important from both a psychological and technical standpoint. Psychologically if investors are used to silver prices increasing 30% per year and then silver prices only increase at a rate of say 15% for one year, psychologically this return looks poor on a relative basis, even though it is still positive and normally would leave many investors satisfied. Therefore there is a greater incentive to sell silver since it is not performing as well as it was in the past. Technically once a bubble is fully underway prices begin to rise in a parabolic or exponential fashion. If the price ceases to rise in an exponential fashion, selling will commence, even if the price is still rising, since investors will have extrapolated the exponential rise and so anything short of parabolic will not meet their expectations.

The most recent example of this was in the housing bubble. Prices didn't actually have to fall at all to trigger a crash, all they had to do was plateau or rise sluggishly and this would spark selling by people who had bet on prices continuing to rise. Without continually rising prices real estate investors could not refinance and borrow more against their properties to buy additional properties or other assets, so the buying stopped and the selling began. This was when the bubble popped; this was the tipping point before the actual crash that many investors strive to identify.

So how does this relate to silver? Although we believe that silver does indeed have strong fundamentals, we do think it is likely that the metal will become drastically overvalued in the future as a result of speculative buying by the masses. In an attempt to measure the momentum behind silver and when this momentum will run out, we have analyzed the rate of silver prices increases over the last 50 years or so, since 1968.

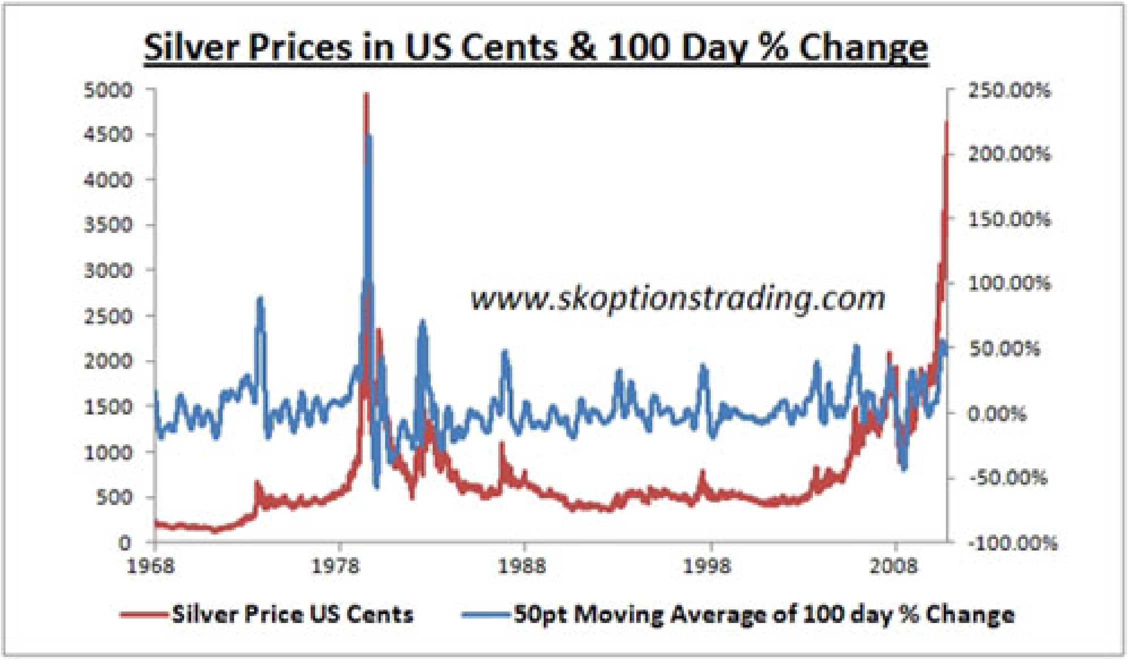
The chart below shows the rolling 100-day percentage change in the silver price. This is not a perfect measure of momentum, but it's a start.

As you can see, during the blowoff in 1980, silver prices were increasing at a rate of roughly 400% per 100 trading days. This compares with a current rate of increase of approximately 73% per 100 trading days. So if you think silver's current rally is going at a nose bleed pace, in the 1980 blowoff silver prices were increasing 5.47 times faster than they are at the moment.



So far it appears that the rate of increase in silver prices at present is still below the relative rate of increase in 1980, therefore implying there is further upside. However this analysis doesn't take into account that the Bunker-Hunt brothers were attempting to corner the market for physical silver in the late '70s, a buying force which is not present today. Therefore one should err on the side of caution when using this barometer for trading purposes as it may not reach 1980 levels. But at present the barometer isn't even close, so we do not think silver is in bubble at the moment.

The chart below best shows how silver is far from in a bubble yet. We have smoothed the 100 day percentage change and overlaid the nominal silver price.



As shown by the blue line still being relatively low in contrast with 1980, there is still a great deal of upside potential for not only the silver price itself, but the rate at which silver prices are increasing. When both the blue and red lines are parabolic, then a bubble argument can be made.

As always the most important part of any discussion of the financial markets is how one should deploy capital. Whilst a silver bubble is not yet upon us, we are going to suggest some trading strategies that could offer attractive risk-reward dynamics should a bubble scenario unfold.

Many people would be inclined to take a short position if they believed silver was drastically overvalued and in a bubble. However in our opinion this is not a particularly attractive trade. Whilst of course the investor will make money if silver prices fall, the investor is also open to unlimited liability on the upside and should silver prices continue to rise substantial losses could be incurred. Taking an outright short position via futures or short selling silver stocks implies that one believes that one's timing is spot on. In reality nobody can ever have perfect timing so it makes sense to allow for some error in your judgement when placing the trade.

This is important when placing any trade but particularly crucial where bubbles are concerned since the market is moving in extreme ways. In the 1980 blowoff, silver was increasing at a rate of over 100% per 30 days, anyone who was short would've got wiped out just for being 30 days too early.

However by utilizing options the trader can take a position that will benefit from an imploding silver bubble but offers much better risk-reward dynamics than being outright short. There are two basic trades that we think would be attractive under such a scenario.

The first is allocating small amounts of capital to near term 'out of the money' puts. By purchasing puts that are say three months or less from expiration and at least 25% out of the money the investor is effectively buying insurance against a crash in silver prices. If silver prices plummet then the value of the puts will explode, but if prices keep soaring the downside is strictly limited to the premium paid for the put. If this trade is placed prematurely, it can be placed again in another few months, and again and again so long as the trader holds the view that silver prices are going to crash. If the view is correct then the eventual payoff will more than cover the cost of being too early in buying the initial puts.

The second trade is a longer term trade that involves selling at the money call vertical spreads which are more than a year from expiration. This expresses the view that prices are not sustainable in the longer term and therefore by the time the call options expire they will likely be worthless due the fall in silver prices. Additionally, if prices were spiking higher it is likely that call options would be being bought heavily by speculators, thereby inflating their premiums. By selling these call spreads one would benefit from a fall in silver prices and a reduction in call buying/increase in call selling by speculators over a longer term time period, without taking on unlimited risk.

We do not think either of these trades are attractive at present, we are merely pointing out that they may be in the future if a bubble scenario does unfold. For now we think it is a case of not pulling on Superman's cape so to speak and letting silver run. If silver's rise is going to be even half as fast as that of 1980 then it could still rise twice as fast as it is at present before blowing off. Our premium options trading service, SK OptionTrader, just closed its 70th recommended trade, 68 of which have been profitable with an average return of 40.51% per trade. Our model portfolio is up 256.04% since inception– an annualized return of 115.61%, so if you would like to subscribe for just $199 for six months or $349 a year, please visit SK Options Trading. Subscribers get regular market updates as well as trading signals and access to our model portfolio.

Richard Russell, 'Great Gold Tsunami' Still Ahead

By Greg Brown, 03 May 2011 08:24 AM

http://www.moneynews.com/StreetTalk/Richard-Russell-Great-Gold/2011/05/03/id/394913?s=al&promo_code=C319-1

Richard Russell, the longtime newsletter writer and author since 1958 of The Dow Theory Letters, sees an inevitable "panic" into gold that will push the precious metal much, much higher.

"If the temperature of full gold fever is a hot 106, we're only at 99 now, but I can feel it, I can tell you that the temperature is rising, rising," he writes in a recent issue of his letter, cited by SeekingAlpha.com.

"The panic to buy gold will override everything else. It will be one of the greatest financial phenomena that most of today's investors will ever see. It will blot out everything else like a cloud blotting out the sun . . . After the calm, comes the storm. We've been watching 10 years of gold climbing amid an atmosphere of calm. The great gold tsunami lies ahead. It will be historic."

Gold price keeps rising.

Gold for May delivery hit $1,573.10 per ounce on the Comex exchange, reports Dow Jones Newswires. The climb has largely been built expectations of a much weaker dollar and the potential for a U.S debt default and potential hyperinflation.

The U.S. Dollar Index future is trading at 72.89, down sharply from its 52-week high of 88.71. The record low for the buck on the index was 71, back in June 2008, as commodities soared and U.S. stocks were just beginning their recent historic plunge in value.

"If the dollar continues to weaken, then it's only likely to boost gold as well as silver as the inverse relationship between the two assets persists," Ong Yi Ling, investment analyst at Phillip Futures in Singapore, told the BBC. "I would say that for gold I am still looking for it to hit $1,600 this year."

Gold May Drop as Investors Sell on Rise to Record

Source: Bloomberg, Nicholas Larkin (5/6/11)

"This market has risen too far, too fast."

Bloomberg

Gold may decline as some investors sell after the metal's rally to a record and as other commodities drop, a survey found.

Bloomberg surveyed 18 traders, investors and analysts and 8, or 44%, said bullion will fall next week. Seven predicted higher prices and three were neutral. Gold for June delivery was down 4.5% for this week at $1,485.70 an ounce by 11:30 a.m. yesterday on the Comex in New York. It reached a record $1,577.40 on May 2.

Bullion gained for six consecutive weeks as it advanced to a record on demand for a hedge against rising inflation and an alternative to a weakening dollar. Gold prices slipped this week as silver plunged after Comex owner CME Group Ltd. raised margin requirements and as industrial metals and crude oil declined.

"This market has risen too far, too fast," said Jim Pogoda, an investor in Summit, New Jersey, and a former precious-metals trader for Mitsubishi International Corp. "I think we'll get a more significant pullback over the next few weeks, as I expect many speculative longs that contributed to the frenzy to exit.

The Bloomberg survey by subtracting bearish forecasts from bullish estimates. Readings below zero signal that most respondents expect a decline as of April 29, 2011.

The weekly gold survey, which started almost seven years ago, has forecast prices accurately in 208 of 361 weeks, or 58% of the time.

This week's survey results: Bullish; 7 Bearish; 8 Neutral: 3."

How to buy gas for $0.25 per gallon

Tuesday, April 26, 2011

From Chip Wood of *Asset Strategies International*:

Some neighbors and I were reminiscing recently about "the good old days" when the talk turned to how cheap things were back then. I immediately concurred. I told them of the very first credit card I got for one of the gas-station chains. Back then gasoline cost less than 25 cents a gallon.

And then I said something that stopped them cold: "Do you know that you can still buy gasoline for 25 cents a gallon?" They were all certain that there was a trick to my question … and there is.

My claim is absolutely, totally, 100% true – if you pay with a quarter that was minted prior to 1965.

We've written many times before about how much we like "junk silver" coins – the dimes, quarters, and half-dollars the U.S. Mint produced prior to 1965. These coins are 90% pure silver. A $1000 face value bag of them contains 712 ounces of the metal.

With silver now at an eye-popping $48 an ounce, one of those bags will cost you around $35,000. (If you bought one … or maybe several … back when they were a fraction of that amount, congratulations. Feels pretty good to own an investment that's gone up 160% in the past year, doesn't it?)

But the point of today's column isn't to applaud you if you already own plenty of silver; or to encourage you to get some, if you don't own enough. It's to make you realize how little prices have changed in the past 50 years – or even in the past 2,000 years. It's the value of our money that has changed.

In those wonderful days of yesteryear that I was talking about, a gallon of gas cost less than 25 cents. In real money – that is, silver – that same quarter is worth around $8.70 today – or enough to get you two gallons of gas at my local station.

Remember when a loaf of bread was ten cents? Well, a "junk silver" dime is worth about $3.50 today. That will get you the fancy hand-made loaf in the deli section of our grocery store. One of the mass-produced marvels with more air than nutrients will cost half that amount.

I'm told that in Roman times, the very best toga in the market place, along with a pair of sandals and a wreath for your head, would set you back one gold Caesar, or whatever coinage you happened to have. Today, that same ounce of gold will buy the best suit of clothes you can find at your local department store – along with a shirt, tie, and other accoutrements.

Well, actually, not that same ounce of gold. If you happen to have a 2,000-year-old-gold coin in your possession, please don't sell it for its bullion value. Even if it would be graded "very circulated" by a professional numismatist, it is probably worth much more than its bullion content.

Okay, okay. Some of you are getting a bit impatient. I can hear you muttering, "These stories are all very interesting, Chip. But what's the point? Get to the bottom line, would you?"

My point is simply this: The value of the goods you buy every day hasn't changed. A loaf of bread is still a loaf of bread. Ditto a quart of milk, a gallon of gasoline, or a suit of clothes.

The reason they cost 10 or 20 or 50 times more than they did isn't that they are worth more. It is that our measuring stick, the U.S. dollar, is worth so much less. Back in our grandparents' day, the dollar was not only backed by gold, but for most of this country's existence the U.S. government promised that it could be exchanged for gold at any bank in the federal system.

The Treasury also produced something called "silver certificates" which operated the same way, except they could be exchanged for silver. And our government promised to keep enough gold and silver in its reserves to honor all of those commitments.

Today, the U.S. dollar is an "I.O.U. nothing," as a friend of mine likes to put it. Oh, it says it is backed by "the full faith and credit of the United States."

But let me ask you: When you look at the disaster that Washington has made of the budget process and our economy, how much full faith and credit do you have in the people running the show today?

And how much "full faith and credit" do you have in the pieces of fiat currency called the U.S. dollar that they are manufacturing by the trillions?

I hope the answer to both of my rhetorical questions is "very little" and "not much." Or maybe "none."

Here at ASI, we will continue to urge you to exchange depreciating dollars for things of real value, such as gold and silver. Our story doesn't change because real money doesn't change. It hasn't for 5,000 years.

So if you need more of the real stuff, you know whom to call.

"Expect The Gold To Silver Ratio To Hit Single Digits": Eric Sprott

Submitted by Tyler Durden on 04/20/2011 10:40 -0400

From Eric Sprott and Andrew Morris

Follow The Money

You know silver's doing well when the commentators start giving it the 'gold' treatment. Silver's recent rise has been so spectacular that it's caught many investors off guard. It's natural to be sceptical when you don't know the fundamentals driving strong performance, and many pundits and commentators have been quick to downplay it as a result - much like they do towards gold when it enjoys a run. Silver is also an awkward metal for them to categorize. Is it a commodity, a monetary metal, or both? And which side is driving demand? If it's industrial demand, that's ok, because that's bullish. But if it's investment demand for silver as 'money', well then that's sort of bearish, isn't it? **The fact remains that most commentators have failed to grasp the monetary shifts that silver is signaling today, and in doing so they've failed to appreciate just how high it could actually go.**

The financial media's failure to grasp the benefits of precious metals ownership continues to perplex us, and it's not just the commentators who are prone to perpetual disbelief. The sell side analysts are equally as irresolute. According to Bloomberg, the 'expert' consensus silver price forecast for 2011 is $29.50, representing a 31% discount from the current spot price. This same group of analysts also predicts prices will decline another 25% in 2012 and a further 9% in 2013 to $20 an ounce. When you consider that the silver price has appreciated by over 21% annually over the past 10 years, these forecasts suggest a very dramatic change in the long-term trend. Will this reversal come true? Probably not. These were the same analysts who predicted that spot silver prices would average $18.65 this year - so they've missed the mark by over 100% thus far.

We don't mean to bash the silver analyst community, and there are several whom we highly respect, but it is important for silver investors to appreciate that these price forecasts are being plugged into financial models that dictate equity valuations. These models are used by traders, bankers, analysts, and portfolio managers to derive valuations for silver stocks and create asset allocations for portfolios. To anyone questioning current silver equity valuations, we would ask: what price assumptions are you using? Of course we as allocators of capital are thankful for this phenomenon, as it allows us to buy our favourite silver stocks on the cheap, knowing full well that the herd will be following behind in due course as those backward-looking forecasts get ratcheted higher.

How can we be so confident that the price of silver will continue on its upward trajectory? Our thesis is premised on the most rudimentary of economic principles – supply and demand.

One of the key indicators that we've been monitoring is the gold/silver ratio. Much has been written about the ratio of late, and we won't go into great detail on the subject, other than to note that the last time money was synonymous with defined amounts of gold and silver, the ratio was set at 16-to-one. In fact, for most of the past millennium, one ounce of gold would have been convertible to somewhere between 10 and 16 ounces of silver - an amount roughly in line with the relative occurrence of each mineral within the earth's crust.[1] For the better part of the past century, due to the world's abandonment of bimetallism and then the gold standard, the gold/silver ratio has fluctuated widely, twice reaching lows near the 15-to-one mark and a high of 100-to-one back in the early 1990's. The most recent high reached in the latter part of 2009 was nearly 80-to-one. Since then the ratio has been tumbling to where it stands now at 35-to-one – which reflects the incredible outperformance of silver over that time period. In our opinion, this ratio will continue to move lower, driven by nothing more than basic supply/demand fundamentals.

The US Mint, which is the world's largest silver and gold coin manufacturer, recently reported that it had sold 13 million ounces of silver coins and 370 thousand ounces of gold coins on a year-to-date basis.[2] This means that the US

Mint is now selling roughly equal amounts of silver and gold in dollars so far this year. Furthermore, bullion dealers like Sprott Money and GoldMoney have confirmed with us that they are now selling more silver than gold in dollar terms. For additional confirmation of this investment trend, just look at the flows for the two largest gold and silver ETFs. Investors have withdrawn approximately $3 billion from the GLD so far this year while the SLV has seen net inflows of $370 million over the same period. Dollar for dollar, investors are allocating as much if not more money to silver than to gold. And why shouldn't they? Silver is much more of a "precious" metal than the current ratio of 35-to-one would suggest.

To explain, we must first address mine supply. In 2010, the world mined approximately 736 million ounces of silver and 85 million ounces of gold.[3] The world also produced an additional 215 million ounces of silver and 53 million ounces of gold from recycled scrap.[4] **Adding both together brings us 951 million ounces of silver and 139 million ounces of gold supply, for a ratio of nine ounces of silver to one ounce of gold.**

Interestingly, this 9-to-one ratio is very similar to the ratio of available in-situ silver and gold reserves. The U.S. Geological Survey estimates that there are current in-situ reserves of approximately 16.4 billion ounces of silver versus 1.6 billion ounces for gold, or about a 10-to-one ratio.[5]

The case for silver is even more compelling when one considers the ramifications of its dual role as both an investment and industrial metal. Last year, non-investment demand for silver (which includes industrial, photographic, and silverware demand) totaled approximately 610 million ounces.[6] This represents approximately 64% of primary supply, leaving approximately 341 million ounces to satisfy investment demand.[7] On the gold side, industrial usage totaled 13 million ounces, or about 10% of primary supply, leaving approximately 125 million ounces left over for investment demand.8 So, after netting out the industrial usage the primary supply left over for investment demand is about 2.7 times that for gold. However, if we convert those ounces to dollars at current prices, we're left with $15 billion worth of silver available for investment versus $186 billion worth of gold, or a one-to-13 ratio of silver to gold! This means that in terms of primary supply, silver only has 8% of the capacity for investment that gold does despite having equal if not more dollars flowing into it.

Now, it's true that another potential source of supply is the very silver that investors already own - and at the right silver price these inventories of silver and gold bullion may be sold into the market to supplement any supply shortfalls. As we've noted previously, however, due to decades of underinvestment, the amount of silver bullion inventories are actually extremely small, even compared to those of gold.9 Recent estimates suggest that reported silver bullion inventories stand at roughly 1.2 billion ounces versus 2.2 billion ounces of gold bullion, or roughly a 0.5-to-one ratio.[10] To put that amount in perspective, consider that at present there is only $52 billion worth of silver bullion/coins and over $3.3 trillion worth of gold in inventory which could potentially be recirculated into the market. Converting this to a ratio, you get a one-to-63 ratio of silver to gold inventories. So how is silver still priced at 35-to-one?!

All indications lead us to believe that there is now roughly an equal amount of investment flowing into silver and gold on a dollar-for-dollar basis. **And although the price ratio of silver to gold has fallen substantially since the highs of 2009, our analysis strongly suggests that this ratio must move lower to restore a fundamental balance between supply and demand. Only time will tell how much lower it will go, but <u>we would not be surprised to see it hit single digits before settling into a more sustainable equilibrium.</u>**

What the so-called silver 'experts' neglect to account for in their models and projections is that the fiat money experiment has failed. And in this context, we believe the Market has assigned world reserve currency status to gold - not USD, not EUR, and not JPY. In our opinion, gold's continued appreciation vis-à-vis every currency is assured because the great flight from fiat has only just begun. Like gold, silver also has a long monetary history, and as such, investors are now also buying silver as protection from the ravages of fiat currency debasement. Yet, when compared to gold, it is silver that offers the most attractive value proposition by virtue of the gross mispricing of its scarcity, which, we might add, has existed for many years. Thus, in our opinion, as this new bimetallic standard takes root, silver investors will continue to be justly rewarded with marked outperformance. We truly believe that this is the investment opportunity of a lifetime, and increasingly so, others are taking heed. What is clear to us is that with equal investment dollars now flowing into silver and gold, the current 35-to-one ratio is unsustainable and has only one direction to go: lower.

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7 In our view jewellery demand is considered a component of investment demand
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9 See "The Double-Barreled Silver Issue" from November 2010
10 "Sprott Physical Silver Trust Prospectus" (October 28, 2010) Pg. 38

Russell Endorses Gold Manipulation Thesis

Source: MarketWatch, Peter Brimelow 04/25/2011

"The action is now so blatant it literally screams of manipulation."

Dow Theory Letters' Richard Russell has endorsed the radical gold-bug thesis: The gold market is manipulated. He says it won't work—but the ride will be rough.

Russell is a much-respected veteran, with a remarkable record of calling some (not all) major market junctures. He is a long-time gold bug, but for traditional inflationary reasons. He resisted the new argument, developed by writers associated with Bill Murphy's Le Metropole Cafe, that the gold price is manipulated by a Washington-Wall Street alliance. But in his post last Thursday, Russell wrote:

"The desperate battle to keep gold below $1,500 continues. . .I'm fascinated to see whether June gold can close above $1,500 or whether the anti-gold contingent can manage to knock gold down [again]. The action is now so blatant it literally screams of manipulation. At its high yesterday, June gold sold at $1,506.50. By the close, June gold was trading at $1,498.10. It's almost embarrassing to watch the action. What we're seeing is the anti-gold crowd and the manipulators vs. the great primary trend of gold."

"The battle about gold closing above $1,500 is that once above $1,500, technically, gold will be on its way to $2,000. And from there 5,000 will be the target. . .from the anti-gold crowd's standpoint, gold must be held [on a closing basis] below 1500."

Spot gold reached $1,515 early Monday.

"When you think about it, it's no wonder Wall Street and the Fed hate gold. Gold exists outside the system. The Fed can't manipulate or create gold the way they do Federal Reserve Notes. When gold rises, as it has been doing, it hoists a red flag over Wall Street, the Fed and the economy. . .all the lies, corruption and secrets of the Fed and the politicians can't erase the dire message of gold."

Asian Tiger Sinks Teeth Into Gold

By Frank Holmes,CEO and Chief Investment Office, U.S. Global Investors
http://www.kitco.com/ind/Holmes/holmes_may232011.html

The World Gold Council (WGC) released its quarterly “Gold Demand Trends” report last week and, as always, it was filled with fascinating data on the strength of the global gold market. Gold demand grew 11 percent to 981.3 tons during the first quarter of 2011, worth $43.7 billion at quarter-end’s price levels.

The increase was driven by a significant rise in demand for gold as an investment, up 26 percent from a year ago, as emerging markets look to protect their assets from rising inflation. Demand for gold bars and coins was up 62 percent and 42 percent, respectively.

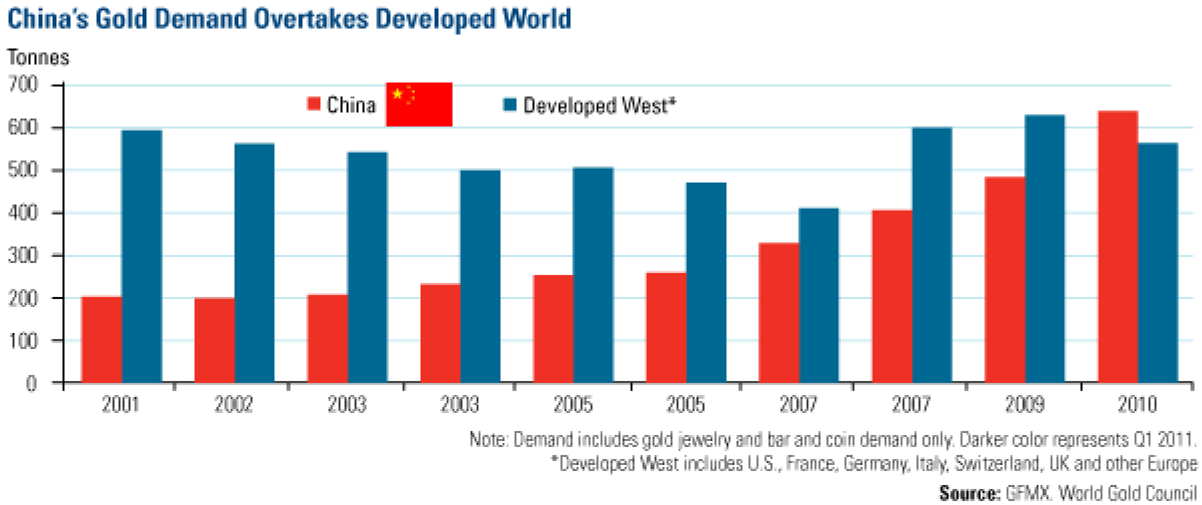
A slight pullback in prices during the middle of the quarter and “persistent high inflation levels” pushed China into the position as the world’s largest market for gold investment. Chinese citizens devoured nearly 91 tons of gold bars and coins, more than double the amount of a year ago.

This isn’t exactly a new phenomenon in China. From 2007 to 2010, investment demand grew at a compounded annual growth rate of 68 percent, according to the CPM Group. The firm forecasted Chinese investment demand to increase 34.7 percent during 2011 but based on this new data, it may need to adjust its forecast.

Song Qing, director of Shanghai-based Lion Fund Management, told Bloomberg news that, “Gold has taken on a new role in China amid concern about inflation…Just imagine the total wealth in China and even a small percentage of that choosing to buy gold. This demand is going to be enormous.”

The “Love Trade” was also in full swing during the first quarter. Led by India and China, jewelry demand rose 7 percent on a year-over-year basis. Combined, the countries accounted for roughly 67 percent of world total jewelry demand.

For the first time, the demand for gold in China was so strong it outpaced the combined total of the developed West during 2010. If you lump together the gold demand of the U.S., France, Germany, Italy, Switzerland, the U.K. and other European countries, the sum of these countries is still outpaced by China. That's despite triple-digit increases in demand from France, Germany and Switzerland.

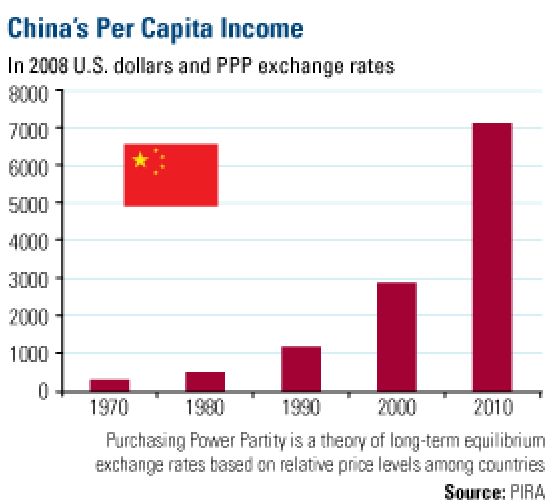


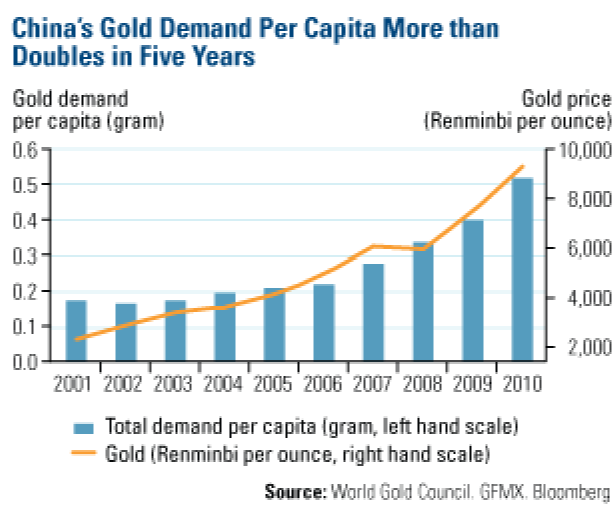
The CPM Group says the origins of this milestone in China's gold market can be traced back to the late 1980s when the government began lifting restrictions on gold ownership. This led to the establishment of the Shanghai Gold Exchange and other ways Chinese citizens could put a portion of their wealth in gold.

Then in 2001, the government lifted its final controls on the gold market, igniting one of the greatest booms in gold demand history. From 2001 to 2010, China's annual consumption of gold grew at a 7.5 percent compounded annual growth rate.

This chart shows how China's demand for gold jewelry has increased from just over 500,000 ounces in the late 1980s to over 12 million ounces at the end of 2010, in spite of gold going from $200 to $1,000 and now $1,500 an ounce.

The rise in gold prices and consumption has coincided with a dramatic rise in China's per capita incomes. The chart on the left shows that per capita incomes in China have risen from around the $3,000 level in 2000 to roughly $7,000 in 2010. This means that the average Chinese citizen has over twice the income he or she did in 2000. Today, China is second only to the U.S. with a middle class population of 157 million people, according to the Organization for Economic Co-operation and Development (OECD).





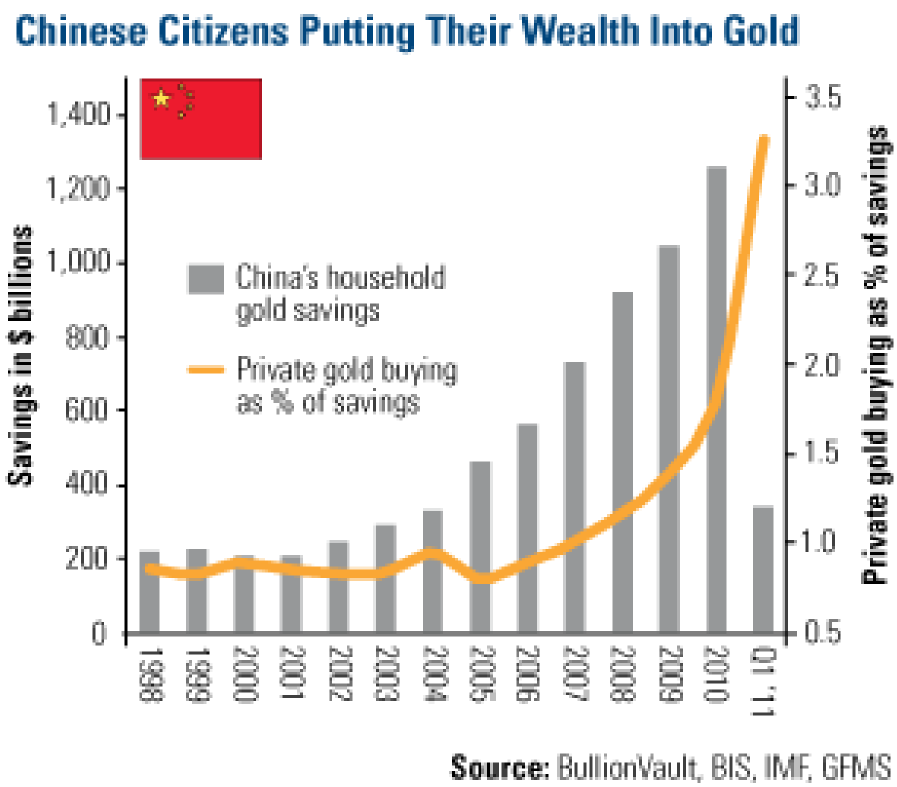
The chart on the right shows, at least in part, what many have chosen to do with that additional money—buy or invest in gold. On a per capita basis, per capita consumption of gold in China has more than doubled since 2005.

Despite this strong rise in per capita consumption, an analyst from Standard Chartered Bank said that there is still much room to grow, “In terms of gold consumption per capita, there is no doubt that [China and India] have a lot of catch-up potential and the impact on gold prices could be dramatic.”

One way China’s per capita consumption can catch up is if investors continue to seek safety from inflation in the yellow metal. Demand for gold as an investment has grown at a 14 percent annual clip since the Chinese government deregulated the local gold market in 2001.

This chart, courtesy of my friend Adrian Day, shows Chinese citizens’ gold investment as a savings. Similar to the other charts I presented, it shows how much China’s gold market has changed over the past 10 years.

The total amount of household savings invested in gold has grown from about $200 billion in the late 1990s to $1.2 trillion in 2010. In fact, the total savings



invested just during the first quarter of 2011 is equal to the total amount invested in 2004, and more than the previous six years.

Recently, the government and state banks have encouraged citizens to purchase gold and initiated gold purchasing programs. In February, the Industrial and Commercial Bank of China (ICBC) and the WGC launched the

“Only Gold Gift Bar” program which offers gold bars weighing 10, 20, 50, 100 and 1000 grams. In less than three months, this program has already generated orders totaling 1.8 tons, according to the WGC.

The first quarter of 2011’s demand trends leads me back to the two drivers I’ve highlighted before and are captured in the new report - Two Key Drivers of Gold Demand: Fear Trade and Love Trade. In the U.S., the Fear Trade, a factor of negative real interest rates and increased deficit spending, is driving demand for gold. In China, India and other emerging markets, the Love Trade, a combination of rising incomes and a cultural affinity for gold, is driving demand for gold.

Together the two are powering gold demand to new levels.

My Eye-opening Trip to the City of Gold...

A Primer to Gold Investing in South Africa

Chris Mayer, Daily resource Hunter

http://us.mg3.mail.yahoo.com/neo/launch?.rand=7bhtvja18c9hv

It is said that one half of the population of this country has cell phones and the other half has no running water. And both are afraid of getting mugged. Thus started my trip last week in Johannesburg, South Africa.

That's actually an old quip about South Africa (from Gavin Bell's *Somewhere Over the Rainbow*) and probably not true anymore. I knew that crime was a problem here, though it's gotten much better. Still, it's something to arrive in Johannesburg and see all the houses with 8-foot walls and 2 feet of electric wire across the top. I also saw lots of security system signs and warnings about "armed response." My room even has a "panic button."

I suppose you get used to these things if you live here. One night, I had dinner with a reader, Jacobus, and his family, who graciously hosted me with a home-cooked meal.

Jacobus fired up a braai (a traditional South African barbeque) with all sorts of goodies and a feast of side dishes. Jacobus' father brought a couple of bottles of excellent South African wine too. I stayed until almost midnight — how time flies when you are having fun! — and we had a fascinating discussion about all things South Africa.

Jacobus had an impressive setup of security cameras and he told me about the neighborhood watch system, in which the neighbors all look out for each other. They have hand-held CBs and check in with each other nightly. The idea is if something happens, you put out a call on the CB and your neighbors drop everything to go help, which is faster than waiting for security to arrive. Jacobus also has a handful of dogs.

Before I arrived, I read quite a bit about Jo'burg. In the aforementioned book by Bell, he made it sound like an urban hell of crime. "No dinner party is complete," Bell writes, "without anecdotes about people being shot/robbed/raped/blown to bits."

Jacobus too told me stories of the neighborhood watch nabbing burglars and making a bunch of arrests. But things have slowed down. Jacobus seemed to miss the excitement of it all. "Not much happens these days," Jacobus told me, half-joking. "It's getting rather dull."

In truth, Johannesburg was not what I expected. I expected a city more decidedly third-world, to use that not politically correct term. Yes, there is still a lot of crime and shantytowns and areas where you would never go without a security detail. But it is also a city with an airport that you could drop in any country in the world and it would be a top-notch airport. Jo'burg has a network of smooth running highways and areas that would not be out of place in the better sections of any American city.

Anyway, the security thing fascinated me, but I'm here for the same reason that drove many people here since 1886 — to find ways to make money. For Johannesburg, that's traditionally meant gold mining.

There was nothing here and no reason for anything to be here until 1886. In fact, Johannesburg is the largest city in the world not located by a river, lake or coastline. It sits on a featureless plateau, about 5,000 feet above sea level.

But in 1886, a farmer named George Harrison stumbled on some shiny stuff he correctly identified as gold. Harrison must not have been an entrepreneurial sort. He quickly sold his claim for 10 pounds — and so gave up the richest gold field on the planet. It was not long after that rich mining men paid out tens of thousands of pounds to farmers — and more. There is a story of Cecil Rhodes himself, the great mining magnate, counting out 20,000 sovereigns on the kitchen table of a farmhouse.

Wagons full of prospectors poured in. The tents went up, and in a few years, a city grew around this, the biggest in southern Africa. It was a rough frontier town, a boomtown. By 1900, it had 97 brothels and over 1,000 prostitutes — one for every 50 white inhabitants.

The City of Gold was built around a gold-bearing reef that extends for more than 150 miles. The Witwatersrand, or "ridge of white waters," is the source for about 40% of all the gold ever mined.

It was a kind of freak of nature. In an ancient age, a great river ran through Africa and flowed into a lake that is now the Rand. Gold particles settled on the bottom of the lake and eventually were covered with mud and sand. In time, these turned to shale and quartzite. The sea dried up and the bed bent and warped as geological shifts did their thing over millions of years. Finally, a piece of the rim of the seabed broke through the surface, tipping off a great gold sandwich that extended deep beneath the Transvaal.

Men and machines have eaten away at that great sandwich for more than a century and a half. In Johannesburg, you can see the effects of all the digging that ensued since Harrison's accidental find. If you think about it, you have to put the dirt you dig up somewhere. The mine dumps, as they are called, are huge piles of earth that look at first like small hills (see below). You find them all over. In fact, some enterprising miners are going back to process this ore, as it still holds some gold.

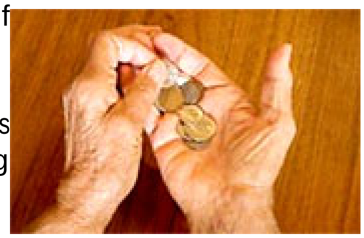
But even after all that, there is still new gold mining going on here. The big mining companies started with the richest deposits, huge stores of gold that went on for miles underground. While many of those are mined out, there are smaller deposits around the reef that gold companies are developing today.

It's a long story, and I'll defer the details of Johannesburg's development for another time. While I was in Jo'burg, I met with a few of these mining companies operating around this enormous city.

The old mines have shafts that extend miles underground. But some of the most compelling new mining going on is at relatively shallow depths. They are smaller deposits, but more easily accessible.

FTC Sues Precious Metal Scammers

Source: Wallet Pop, Jorgen Wouters (5/20/11)



"Con-artist couple swindled seniors out of tens of millions of dollars."

A con-artist couple that ran a bogus precious metals investment scheme is being sued by the FTC for swindling seniors out of tens of millions of dollars.

The FTC charged Harry and Andrea Tanner with running a telemarketing scheme that conned seniors into buying precious metals (PMs) on credit without disclosing the costs and risks involved.

The FTC said the Tanners and their company, American Precious Metals, of Deerfield Beach, Fla., fleeced elderly victims out of more than $37M. Pending trial, a federal judge shut down the Tanner's company, placed it in receivership and froze the defendant's assets.

According to the FTC's complaint, the Tanners targeted elderly consumers with a get-rich-quick scheme promising huge profits by investing in precious metals, such as silver, gold, platinum and palladium. APM's telemarketers used strong-arm sales tactics to convince consumers they were being offered low-risk investments that would quickly double or triple in value. Its sales pitches and marketing materials touted PMs as low-risk investments because bars, bullion and coins are tangible, physical assets that tend to rise in value during times of economic uncertainty.

The FTC also accused the defendants of regularly failing to inform customers that their investments were leveraged and, thus, they were agreeing to take out a loan and pay interest on up to 80% of the purchase prices, which were never made.

Consumers also weren't told their leveraged investments were subject to equity calls that could force them to pay even more to prevent their investments from being liquidated. Because these leveraged investments were opened with low equity levels and subject to hefty interest charges, the investments were exposed to equity calls even if prices remained stable.

The FTC complaint charged the Tanners and American Precious Metals with violating the FTC Act and the FTC's Telemarketing Sales Rule.

Rick Rule: Capitalize on Gold Stock Volatility

Source: Rick Rule (5/20/11)

Junior mining is a people game. In this *Gold Report* exclusive, an excerpt from his speech at the Casey Research Conference, Global Resource Investments Founder Rick Rule advises going for the big wins by betting on the best teams with the best chances of discovery using a global counterintuitive approach.

The developed societies of the West are descending and destabilizing. People have come to believe that they are entitled to live beyond their means. I'm not an economist or a political scientist, but that perception leads to some very hard math. How can you add a column of negative numbers and come up with a positive? It's not a uniquely American problem either. People in the old Western societies, Canada and Australia suffer from the same delusion. We are old; we are fat; we are white and we are rich. Our collective problem was described by my grandfather in the following diddy: "When your outgo exceeds your income, your upkeep becomes your downfall."

I'm not just talking about a problem of tax receipts or government spending or entitlements. It isn't that we're collectively stupid. It's that we're individually stupid. There seems to be a belief in the United States that a 55-year-old auto worker can make $55 an hour because he or she can employ technology better than a 22-year-old Indian auto worker. I don't think so.

Another problem is that the root causes of the liquidity crisis of 2008 have still not been addressed. If you have a big problem that manifested itself in a fairly dramatic fashion and you haven't addressed the causes, do you think it's reasonable to be afraid of the fact that that probability may reassert itself? I do.

So, what's the good news? The emerging and frontier markets—societies where people are un-free are becoming a bit more free. As they become a bit freer, they become richer. Remember Chinese Communist Party Leader Deng Xiaoping, who famously said, "To become rich is glorious." That phrase turned China loose. Make no mistake, we aren't talking about an unending upward linear spiral. There is plenty of room for negative surprises. We have seen in places like Libya, Yemen and California that the road to freedom is uneven. But it is an undeniable force.

So we have descending destabilization of Western societies, which is not good for commodities. It's not good for anything. But we also have ascending emerging markets. That is good for resources. When people get more money at the bottom of the economic pyramid, they buy things made of stuff. A poor person might trade a thatch roof for a metal roof. He might trade walking for a bicycle and eventually for a motor scooter. Old, fat, rich people buy a nice dinner. Maybe we buy an iPod for a grandchild and load it with virtual songs. All good things, but they are not made of stuff. Selling stuff is what makes investors rich.

Think about it as two great weather systems coming together. Old, spoiled, rich and stupid meets this amazing demand for resources. What happens when two big weather systems collide? Stormy weather, turbulence, volatility. I think we're going to see volatility on steroids. Volatility can cause strange things. There's a big up-move on silver right now. We believe in it. Silver pops up 30%. Then there's that other kind of volatility like in 2008 when things fell off a cliff. They got really cheap. So, you have to manage your expectations going forward. There will be more upward spikes and more down-spikes.

Now, volatility doesn't need to be a risk. It's up to you. Remember this. Perceptions of the future are set by immediate past experiences. That means in the near term, as the financial author Jim Dines famously says, a trend in motion stays in motion until it stops. Today, people buy gold and silver stocks. They make money and then they buy more gold and silver stocks. We often confuse a bull market with brains. Markets gain momentum and gain momentum and gain momentum and gain momentum. We buy a stock for $1.00. The stock goes to $2.00. What do we do? We double up. Think about this. Is this rational behavior? No, but it feels good. We're smart. The stock went up. The sector's good because the stock went up. The higher the prices go, the better we like it despite the fact that the value is eroding right in front of us. The contrarian thesis, of course, is to be brave when others are afraid and afraid when others are brave. It's a wonderful slogan, but it's damn hard. When a company is selling for half its worth, people complain that it never goes up. In other words, the fact that it's cheap becomes a curse; a wonderful curse, from my point of view. Unless, as occasionally happens, I'm wrong. What's the biggest investment risk out there? Obama? Debt?

Nuclear arms? No. The biggest investment risk you have is to the left of your right ear and to the right of your left ear. All of my worst financial experiences were self-inflicted.

The reality is that volatility is good because it represents a series of 40% off sales. It's up to you whether you take advantage of volatility or whether volatility takes advantage of you. Common sense is the real determinant, over time, of whether you will do well. If something doesn't make sense, very often it's because it doesn't make sense. Financier George Soros made almost all of his money finding widely-held premises that were wrong and betting against them. He famously decided in the year 2000 that the United States society was hubris infected. You remember the spectacular bull market of 2000. We had vanquished the Soviet Union, and everyone thought nothing could go wrong with America. Soros bet against it. That's the kind of common sense that will allow you to deal with volatility.

My approach is very simple. It comes down to this: "Hit them where they ain't." Know this: A trade that's popular, a perception that's popular, an idea that's popular is very likely overpriced. I've come to prefer underpriced. That's why I concentrate on stuff that's unpopular. Fortunately for me, unpopular stocks are in fairly good supply. It's an orientation that has served me well over the long term. Over the short term, however, this approach can be inconvenient from time to time. One thing that happens with lonely trades is that when you make a mistake, you usually make a fairly serious mistake. Your speculative portfolio isn't trying hard enough if you don't have a couple of positions lose 30% or 40%. I know this is hard to stomach, but it is true.

So, how do you create a portfolio that flourishes in the face of volatility when the resource market is no longer cheap? First, create liquidity; have some cash. It's OK if your cash is bullion, but have some cash. You have to have cash. When volatility occurs, cash will do two wonderful things for you. It will give you the courage to act in down markets. It doesn't matter if stocks are cheap if you can't do anything about it. So, have some liquidity.

Second, remember that in small companies, people make the difference. Speculate based on ability. Don't be a gold investor or a silver investor. If you are speculating on exploration, buy Andy Wallace, Lukas Lundin or Ross Beaty. Find people who have proven track records. When it comes to the junior mining sector, 90% of these companies are worth nothing. All of the wealth creation occurs in a very small subset. And, the best determinant of success is the ability of the people running the company. Doug Casey famously said, "A lot of the guys in this market, if it weren't for the junior stock business, would wear a mask and a gun when they went into a 7-Eleven." I can't stress this enough; this is a people game.

Third, consider the true value of a company. I've heard people say that XYZ company is cheap because it has a $20M market cap. But the company might only have $1.98 in the treasury and it is spending $200,000 a month. It may have a piece of orangutan pasture in Indonesia and a piece of jackrabbit pasture in Nevada. It is considered cheap because similar scams are priced at $40M. It's truly insane.

The fourth thing that needs to be in a volatility-optimized portfolio is discovery. A lot of people right now are trying to bring back tired old properties. Occasionally they work. But, discovery is where the money is made. If you're going to speculate, swing for the fence. Betting only on small operations does nothing to limit risk. I've learned in 30 years that anything that can go wrong with a big mine can go wrong with a small mine. Only big mines can make you big money, however. If you're taking a chance where the most likely expectation is failure, your successes have to amortize your failures. So look for big successes because you're going to have lots of failures. That's the way it works.

Commodities Risk Trade

Source: Adam Hamilton, Zeal Research (5/23/11)

"Risk on, or risk off?"

Commodities prices have been exceptionally volatile in recent weeks, with big daily rallies and plunges intermingled. Seemingly, without rhyme or reason, commodities surge one day as traders crave riskier bets, but then fall the next as they flee risk. While this commodities risk trade often looks capricious and schizophrenic, it actually has a logical and consistent driver—the state of the stock markets.

This perpetually frustrates countless commodities-centric investors and speculators. They want to believe that their favorite commodities' fundamentals are what move their prices. While certainly true over the long term, many years, on a day-to-day basis sentiment usually trumps fundamentals. How traders *feel about* commodities leads them to buy and sell. Thus pure emotion drives most short-term price action.

And nothing is more important for global financial-market psychology than how the stock markets happen to be doing. When the stock markets are rallying, traders all over the world involved in every possible market feel optimistic. They interpret the stock market strength as a sign the global economy is improving, hence demand for commodities will continue growing. So they eagerly deploy capital into commodities, engaging in what Wall Street now calls the "risk-on trade."

Conversely, when the stock markets are selling off, universally, traders feel pessimistic. They read this as an omen of slowing economic growth, and hence weakening global commodities demand. So, they exit commodities-related positions, now popularly known as the "risk-off trade." Thanks to this strong psychological link, stock market sentiment spilling into every other market including commodities, these prices are highly correlated to the US stock markets.

Almost without exception, the big risk-on up days in commodities coincide with sizable stock market rallies while the big risk-off down days mirror significant stock market selloffs. So though it may seem counter-intuitive, *the stock markets* often dominate commodities sentiment! Commodities-centric traders cannot afford to ignore the stock markets if they hope to thrive by buying low and selling high.

This critical causal relationship of stock market sentiment bleeding into commodities is easy to empirically verify. All we have to do is compare the post-panic performances in commodities and the stock markets and this psychological link becomes blindingly obvious. The best measure of the US stock markets' performance is the mighty S&P 500 stock index (SPX). This broad market-cap-weighted index tracks 500 of the biggest and best companies in America.

The flagship commodities index is no longer the CRB as many believe, but the old-school Continuous Commodity Index (CCI). After being around for nearly a half-century, the CRB was butchered in its tenth revision in July 2005. Its traditional calculation methodologies including equal weighting of all component commodities were trashed in favor of a new crude-oil-dominated index. Today's CRB is no longer the classic CRB, which was renamed the CCI. Confused? Read one of my essays on it.

For today's purposes, the incredible causal link between stock markets and commodities is readily apparent in an SPX and CCI chart. This one covers most of the post-panic era, the ongoing SPX cyclical bull. As you can see visually, the price action between these two wildly different indexes is uncannily similar. Other than one major yet short-lived divergence, you could pass the CCI line off as the SPX and vice versa!

And the hard math underneath this relationship shows it is far beyond superficial. Over this 2009-to-2011 span, the CCI and SPX had such a stellar positive correlation that their r-square ran 86.6%! This is *stunning* in case you've forgotten your college statistics classes. It means *nearly 87%* of the CCI's day-to-day price action since early 2009 is mathematically explainable by the daily moves in the SPX!

Almost 7/8ths of the behavior of commodities as a group in this post-panic era mirrors what has been happening in the stock markets. So investors and speculators who fail to consider what the stock markets are doing before buying or selling commodities, commodities ETFs, or commodities stocks place themselves at an insurmountable disadvantage. Everything outside of the stock markets combined, including individual-commodity fundamentals, only account for about 1/8th of the price action!

The best times for investors and speculators to buy positions in any ongoing bull market is immediately after a correction, right? That's when prices are the lowest within their uptrends. When do commodities as a group experience these selloffs? Exactly when the stock markets do! In this chart, I highlighted every major SPX pullback (less than 10%) and correction (greater than 10%) of this entire cyclical bull in red. Check out how the blue CCI line performed during these material episodes of stock market weakness.Without exception in the last couple years, every time the stock markets sold off significantly the commodities followed them lower. As the percentages above reveal, sometimes the CCI matched the SPX's decline, sometimes it was milder and, occasionally, it even amplified a stock market selloff. Not only did the CCI always follow the SPX lower, but all of commodities' material selloffs of this entire cyclical bull only happened during SPX selloffs.

If you carefully examine the blue CCI line above, you'll note that the CCI never sold off meaningfully except in those red-highlighted spans where the SPX was experiencing a major selloff. And most of the time when the SPX was rallying between its own pullbacks and corrections, the commodities happily followed it higher. The one major exception happened in early 2010, when the SPX surged but the CCI ignored it.

This was a peculiar divergence that hadn't happened before and hasn't since. In January 2010 the SPX entered into what would become the biggest selloff in this cyclical bull at that point (and the biggest *pullback* to this day). The selling was fast and furious as this flagship stock index fell 8.1% in less than 3 weeks. Commodities were naturally crushed in this abrupt selloff. The falling stock markets spawned much pessimism among futures traders who worried the global economy was weakening, so they sold.

When considered as collective groups, futures traders are much more sophisticated than stock traders. Though the SPX soon bounced into a secondary melt-up rally that persisted into April, the futures traders were very skeptical of this move for all kinds of technical and sentimental reasons. So commodities weren't bid up with the SPX in that particular episode. And since they ignored the last surge of that SPX upleg, they weren't overbought and didn't have to correct hard with the SPX in the summer of 2010.

But since then, the CCI's relationship with the SPX has grown even tighter. This current SPX upleg was born in deep despair in late August, as I predicted at the time despite the silly Hindenburg Omen crash scare. Over the 9 months or so since, the correlation r-square between the CCI and SPX has surged to 93.4%! For all intents and purposes, the commodities have become a leveraged extension of stock market action in this upleg. Almost 19/20ths of their daily price action is directly attributable to the SPX!

From writing about this in our popular newsletters, I am well aware this irritates commodities-centric traders. Over and over again, I hear how people don't want to hear about the stock markets, but instead solely about fundamental developments in their favorite commodities. But as a lifelong speculator, my primary mission is to multiply capital through profitable real-world trading. So if the SPX happens to be driving commodities' prices these days, then the SPX is what we are going to watch to trade commodities.

All that matters in the markets is what moves prices—not what we want to move prices. Countless silver traders were just slaughtered in its brutal post-parabola near crash, foolishly ignoring dangerously overbought technicals and sentiment to myopically focus on to-the-moon fundamental arguments. Fundamentals are indeed super-important for long-term secular trends, great for *investors* to consider. But for short-term speculators, sentiment is the entire game. And the fortunes of the SPX dominate it universally.

This is so readily apparent if you take the time to look. Next time the SPX has a big up day, carefully observe how the financial media reports on it, what commodities prices do, and how *you* feel about things. The news coverage is going to be bullish and optimistic, commodities are going to catch a big bid on an improving economic outlook and your own heart is going to be happy and glad. And of course, the exact opposite is true on a big SPX down day, pessimism abounds and you are going to feel worried.

The *state of the stock markets* drives the commodities risk trade, beyond any doubt. When the stock markets are rallying traders everywhere feel great and thus plow capital into commodities, risk-on. When the stock markets are falling traders all over the world get nervous and therefore pull capital out of commodities, risk-off. If you take the time to understand this dynamic, and carefully apply it by studying the state of the stock markets *before* you make commodities-related trades, your realized profits will soar dramatically.

One more observation on this relationship—over the past six months or so as commodities grew more overbought, they *plunged* whenever the SPX suffered any down days big enough to spark meaningful fear. This trend will likely persist whenever the SPX's next big down days arrive. And realize that the CCI's 17 component commodities are equally weighted and geometrically averaged. This has a huge smoothing effect, so any given percentage move in the CCI is a far-bigger deal than that same percentage in the SPX.

Provocatively commodities and the stock markets have been so joined at the hip in recent years that their technical indicators even look like Siamese twins. This next chart shows the Relative CCI, or the CCI divided by its own 200-day moving average. Charted over time, this indicator creates a horizontal trading range. If the black 200dma line was flattened to horizontal, and the blue CCI line rendered as a perfectly comparable-percentage multiple relative to it, the light-red rCCI line would be the result. If you aren't familiar with my Relativity trading system, it can *greatly* improve your understanding of market timing.

Considered as a broad sector, the best time to buy commodities is when they are down near their 200dmas. The last time the rCCI was low, below its relative support line of 1.00x (meaning the CCI was at its 200dma), was during the summer of 2010. And look at the *massive* rally in commodities since! But when the CCI was overbought, near 1.20x its 200dma, it was the time to sell in anticipation of a correction. And indeed we saw such selling events in early 2010 and probably now again in mid-2011.

While individual commodities often diverge from their equally weighted geometrically averaged index, in general it is prudent to heed the state of CCI technicals. When this index is oversold, which only occurs after serious stock market selloffs, buy commodities (and commodities stocks) aggressively while they are cheap and out of favor. And when this index is overbought, which only happens after major stock market uplegs, realize your profits in commodities and hold cash for the inevitable correction. Buy low, sell high, and grow rich!

While commodities prices have plunged rather sharply in recent weeks, they still aren't oversold as measured by the Relative CCI. So we're not down to a high-probability-for-success buying zone yet, but it is likely coming. Its catalyst? An overdue stock market selloff, of course! For a variety of technical and sentimental reasons I've detailed in recent essays, the SPX is overdue to correct. This selling will drag down commodities as usual, as it leads to general pessimism and the desire to flee risky trades.

Once you know how overpowering and dominant the stock markets are in driving sentiment over in commodities-land, you can adjust and harness this for your own benefit. While it is still very important to look at technicals and sentiment in the specific commodities critical to your trades, also look at the broader stock market picture. Are the stock markets overbought, highly complacent, and likely to correct? Then your individual commodities and their related stocks will almost certainly be dragged down with them.

And if you are looking to buy and deploy capital, after considering your specific commodities' technicals and sentiment take a look at the broader stock markets. Is the SPX oversold and out of favor enough that it is unlikely to fall farther and drag down commodities with it? Is a stock market rally probable? Then your individual commodities and their related stocks are likely to rally and thrive with the SPX.

With the SPX action directly explaining 87% to 93% of commodities performance since the panic, you just can't afford to ignore the general stock markets. And I really suspect this powerful sentimental relationship is likely to persist and even strengthen throughout the remaining years of these secular commodities bulls. Why? More mainstream capital is chasing commodities, engaging in this so-called risk trade.

Every secular bull market starts out small, emerging out of horribly oversold conditions where no one will touch it with a ten-foot pole except a handful of hardcore contrarians focused on fundamentals. These true believers aren't the least-bit concerned about the stock markets. In a secular bull's earlier years as contrarians continue to dominate, the stock markets are irrelevant. More and more capital gradually flows into the still-undervalued market regardless of what the stock markets are doing.

But eventually the young bull's performance becomes so impressive that mainstreamers can no longer ignore it. So they start gradually deploying capital. And along with their capital comes their worldviews and biases. With most investors stock-centric, it is only natural that rising stock markets will make them feel good while falling ones frighten them. The more mainstream capital that flows into commodities, the greater the effective influence of the stock markets on commodities—rader sentiment will grow.

At Zeal, our mission is profitable real-world trading. All of our hard work and research supports this singular goal. So we will heed whatever happens to be actually driving the markets we are trading. Figuring out *when* markets move, and *what* drives them, is critically important. The net results of this highly focused approach have been spectacular. Over the past decade or so, all 583 of our newsletter stock trades have averaged annualized realized gains of +52%! Growing your capital at 50%-a-year rates is hard to beat.

The subscribers to our acclaimed weekly and monthly subscription newsletters are so loyal because we tell it like it is and achieve awesome real-world results through hard work and discipline. Studying the markets full-time for decades leads to deep knowledge and wisdom, which yields fruits of great success. If you want to really grow your understanding of what is going on in the markets, and how to capitalize with specific trades when high-probability-for-success opportunities arise, subscribe today!

We also do endless deep fundamental research to figure out the highest-potential stocks to trade in particular sectors. We just finished our latest 2-month project, exploring the entire universe of *rare-earth* stocks trading in the US and Canada. Starting out with over 100 companies, we gradually whittled this list down to our favorite half-dozen fundamentally. They are each profiled in depth in a fascinating new 16-page report just published last week. Now available for just $55 ($45 for subscribers), this is a steal for hundreds of hours of expert world-class research. Buy your rare-earth stocks report now!

The bottom line is the stock markets dominate sentiment in commodities. The entire risk-on, risk-off dynamic that defines commodities price action these days is the direct result of stock market action. Rallying stock markets create optimism that drives capital into commodities and buoys their prices. Falling stock markets do the opposite. For better or worse, commodities are psychologically joined at the hip with the stock markets.

The hard correlations in this relationship are stunningly high, with almost all of commodities price action directly explainable by parallel stock market action. Thus, commodities and commodities-stock traders who refuse to heed stock market sentiment and technicals before making individual trades are doomed to frustration and failure. The commodities risk trade has become a leveraged extension of the stock markets.

Swings and Roundabouts

Source: Neil Charnock, GoldOz (5/23/11)

"This *is* a black swan event."

It has not been a comfortable May for a gold bull, however, we have stood our ground in a most constructive manner here at GoldOz. It is all about how much you understand and how you handle the swings and roundabouts. Your actions alone can either lower your wealth or increase it by providing added leverage when the market turns back in your favor. What I am saying is that these pull backs can be used to increase your grip on this market sector or you can squander the opportunity by doing nothing, or even worse you can sell on the dip and exit at the wrong time.

The first thing to understand is gold itself as an asset class and why everybody needs at minimum some of it at this point in history. You need to own gold is not the subject of this article however. I am not a perma-bull; however, I will not let go of a trend until it is over. Even a brief study of the last 100 years of monetary history reveals that the underlying root cause that caused the GFC event has not been solved and that pouring gasoline on a fire will not put it out either.

The developed nations have found themselves in a hole and they are still digging. Some are digging at the sides trying to create a ramp out and others are still going deeper. A lot of good work is being done yet the imbalance is still there. The developing world is facing challenges associated with rapid growth, structural reform and the effects caused by hot money seeking yield, seeking investment return and safety. Investors face renewed educational challenges so that they can understand the risks, structure their portfolios for change and spot valuation misalignments.

This article offers some notes on constructive steps we have taken in recent months and which we have been teaching our subscribers behind the scenes. We run a newsletter service and an educational portfolio in our Gold Membership area of the site to teach investors how to select, balance and evaluate their own investment decisions as markets evolve in real time. The situation is fluid meaning that topical news flows push waves of capital in and out of various markets based on risk off or risk on.

The influential factors (e.g., European debt, inflation, economic disequilibrium, commodity shortages or US deficits) lie there smoldering until fresh events ignite renewed interest in the media and in turn influence the importance weightings put on these same factors in the multitude of computer programs that control vast sums of money around the world. Plug the new event or numbers into the algorithm and push the button. Some of the factors that dictate future financial events are set in stone yet they are ignored when the numbers or spin dictate alternate sentiment on the day. This creates opportunity but only if you understand the big picture. How you structure and maneuver your investments will dictate how well you exploit these swings and roundabouts, which are the greatest show on earth.

We study the simmering disequilibrium in the global financial system and distill the news events as they unfold in relation to the Australian gold stocks specifically. However, there is certainly relevance to gold investment on a global scale and different asset classes as we dissect the big picture. Gold and mining stock investing is difficult; however, it is our belief that education is the key to success. With all due respect investment in this sector without it is just gambling and a recipe for disaster.

A deep conceptual understanding of money, gold, mining and macroeconomics cannot be learned overnight yet it is essential for success. We try to keep adding layers of data and the important aspects to build this education over time for clients at all levels of experience. The flow of ideas and sharing can mean that clients teach me at times and this is exciting. There are many good-hearted people in this world despite what the media projects. There are those of us trying to pull as many people into the life boat of financial safety as we can at this extremely difficult and dangerous period in history.

That is enough philosophy; it is shared by many of my colleagues in the precious metals business. The key is to move with the markets and there are certainly ways to do this once you understand these markets, including fundamental and technical analysis to a high degree. Back in March, there were emerging concerns again about Europe, major upheaval in the Middle East and then the Japanese were hit with a tragic disaster, which caused a market panic at the time.

Here was my commentary at the time (March 16th issue GoldOz newsletter GM27; next four paragraphs):

"I mention this as 'best information' availability to me at this time because the world seems to think things are worse than they are with contagion of panic throughout finance markets today 15th March 2011. This is not an event like Lehman Brothers either, which was the 4th largest bank in the USA before it imploded. This is not a 2008 GFC at this stage as the global credit market has not frozen—the trouble is less general. This is a Black Swan or Fat Tail event or whatever you want to call it however we have to wonder at the true magnitude and duration. A level head and cool analytical viewpoint are needed here to avoid potentially expensive and unnecessary decisions.

Japan is the 3rd largest economy and is partially compromised at present. The whole economy has not shut down. These people are incredibly resilient do not underestimate them. The short to medium term damage to the Japanese economy is immense and they cannot really afford it. There are global supply chain issues as well, as many parts destined for manufacture come from Japan.

We have covered their debt and other issues before so I will not go over it again. They are stimulating; nevertheless, it comes with the trouble in the Middle East. This is not going away any time soon and it is likely to escalate pushing up gold even more.

Even Europe is now being noticed among the mix. Blood in the streets—thank you Mr. Market I have been waiting for the perfect time to move more heavily into these gold stocks. The Educational Portfolios start to grow more now with different stocks that are reaching attractive levels."

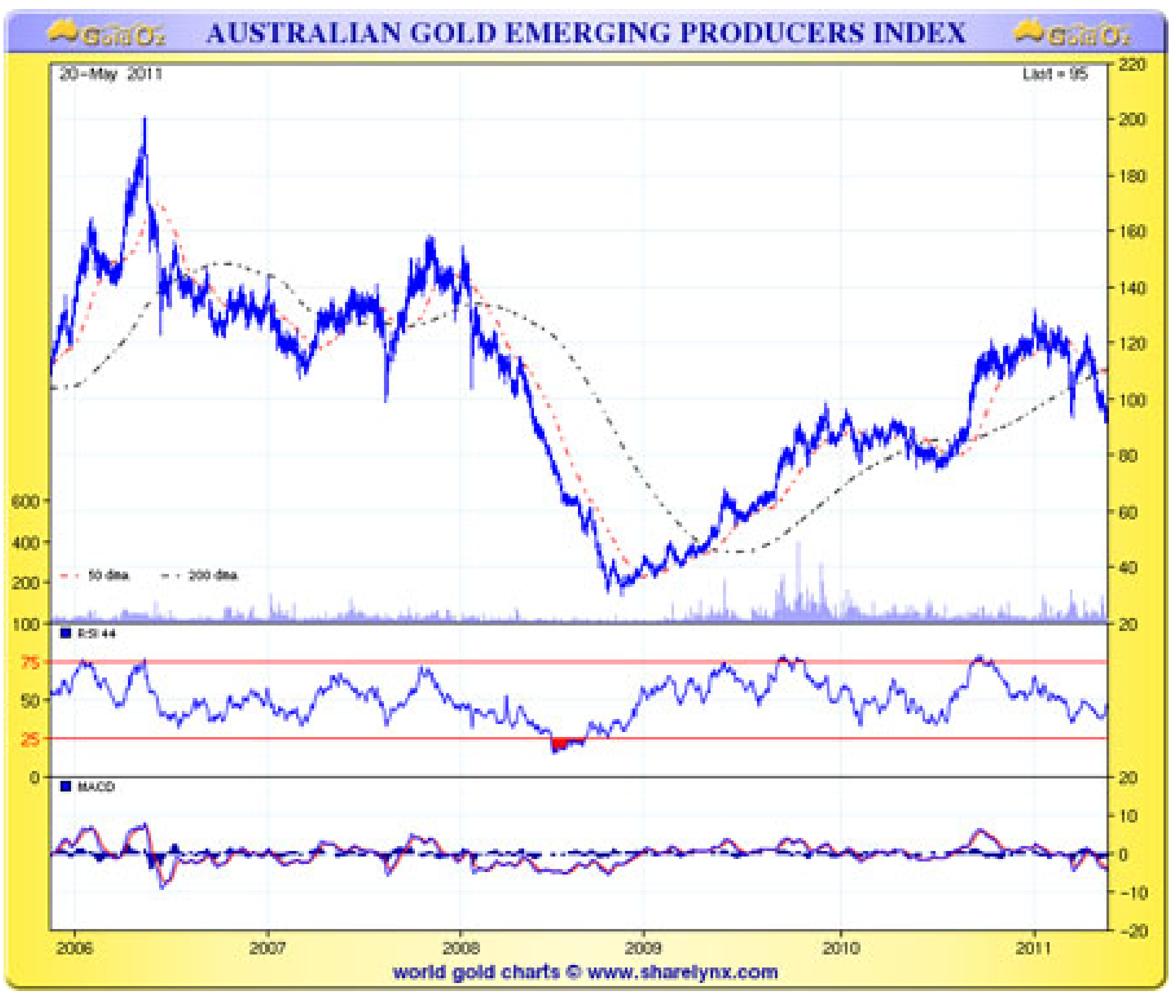
Gold went up from just under US$1400 to $1560 in the following 7 weeks and the Australian gold sector went up 20% in the same period. Now two months later the news is that the Japanese economy shrank at an annual rate of 3.7% in this first quarter and, remember, their disaster occurred on the March 11–10 weeks into that quarter. I did not get every point exactly correct in a complex situation however the sentiment effect, the overall assessment and conclusion was correct and that is what counts.

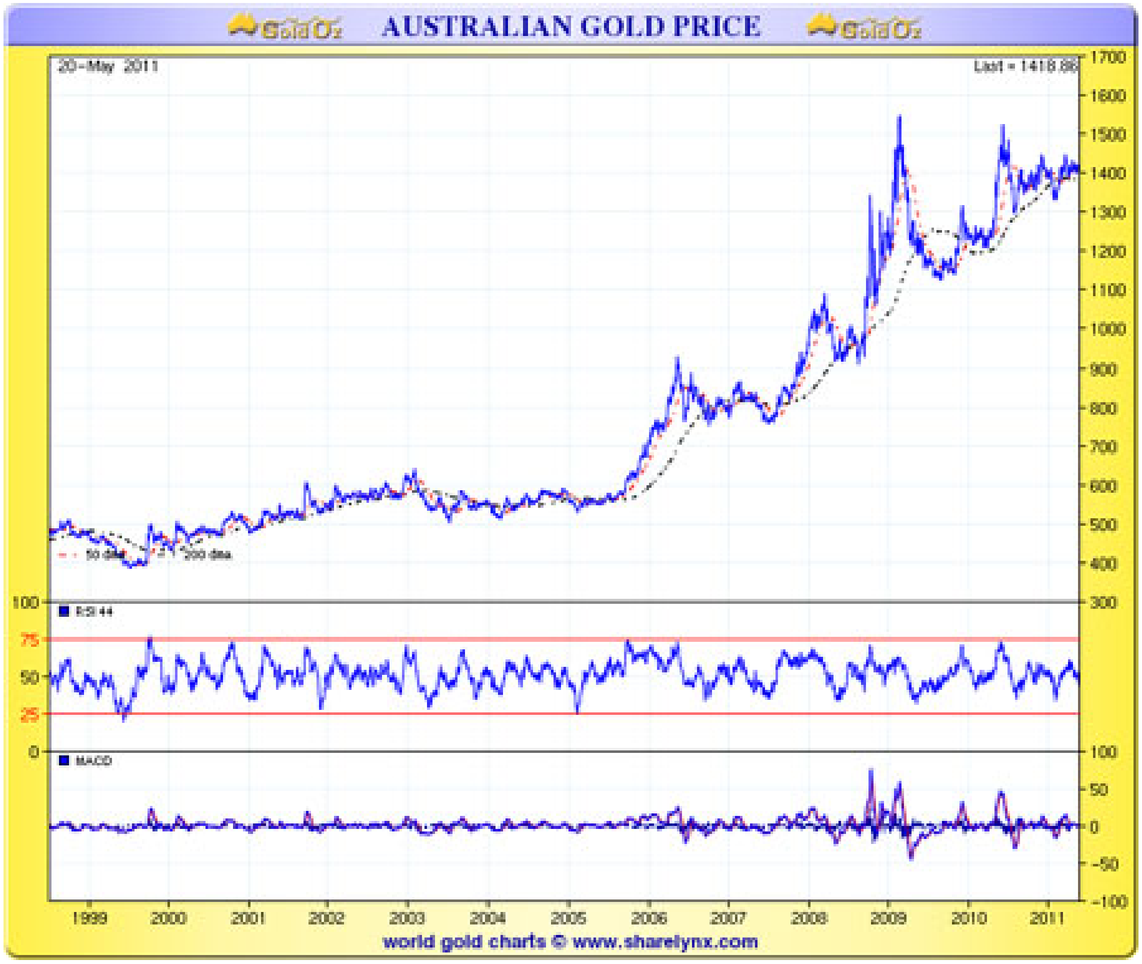
So here is the point—understand the significances of events and how it all fits together and you can then apply this to micro aspects on the markets you are invested in. We bought aggressively but within sensible money management techniques on March 15. Here are the last three major buy, lighten up and buy back points on the 12-month daily chart of the XGD (Australian gold sector) in the past two months as covered by our service.

The green ellipses show the start point of this education (within our service) on the left and the two recent buy points. The red ellipse shows the "lighten up" point on April 28 and there was ample technical coverage of important influences at the time. Those charts are not within the scope of this article but I can say we use different time frames and market indicators showing how they interact.

As sentiment falls, you get a drop in traffic to the large gold focused web sites and I even notice a drop in subscription activity. Investors are either waiting for some positive action before they come back or they have lost some measure of interest in the sector. I tend to do the opposite unless I believe the trend is either mature or finished. I get more intensely interested on dips and corrections because this is where you initiate investments and trades that set up your next opportunity. This is how I have increased the value of the GoldOz Educational Portfolio in a flat market over the last few months. The leverage will also be improved when the market does launch into the next upleg, which is approaching.

This is the time to be doing fresh due diligence on the sector to assess which stocks might move the fastest during the next upleg. It may be time to trim the underperformers and companies that have made decisions you are not so happy with. It is time to rebalance and adjust, to tighten your grip on some stocks or adjust your risk weightings on the sector by moving towards the higher or lower risk stocks. Your behavior on the way up and ability to recognize and lighten up or sell at the tops will determine how profitable you are. Here is the reason I believe the Australian gold sector will rally in the near future, a picture is worth a thousand words.





As you can see above the Emerging Producers index was flat coming into the start of 2008, partly as a result of rising costs; wages and drilling to name two pressures. The sell off into and through the GFC was extreme even though AUD gold soared higher, boosting profit margins for producers. We approached pre-2008 levels on this index into the end of 2010 before correcting even as gold holds high levels. Cost pressures have eased and margins remain very high. The trend is up for AUD gold and this sector and the best news is that the gold stocks need to play catch up. This is a blatant valuation misalignment and that spells e-n-t-r-y p-o-i-n-t.

Right now, we face one of the most heavily flagged economic events in recent years, the end of QE2. We face another round of debt ceiling issues in the US and this is not good short term. The US has to raise the ceiling and they have to reduce the deficit so urgent work and big decisions are necessary. Italy, European banks and bond hold holders have just been put on renewed alert with Standard and Poor's posting a debt downgrade warning. No wonder gold is holding up the challenges out there and chances of a mistake are significant. For now the XGD and bellwether stock NCM have rising 200 dma's. NCM shows a strong money flow indicator and major supports have not been broken. So we have stayed the course. We have strict discipline and levels for support on this Australian gold index, if this goes we lighten back up and look to the next level down.

We have been warning about one problematic, dangerous bubble in Australia since our newsletter began and it now turns out that this sector of the economy has now contracted for the last 10 months. We have explained the dangers of exposure and how the banks work in this market sector and its interaction with the general economy. However, gold, silver and selected miners have a great future as appreciating asset classes. One problem is that many investors want it now and get disappointed if it doesn't happen right away. They turn away and look elsewhere before later finding out that if they had just stayed the course they could have been right all along.

I am still just as excited about the prospects for the metals and the companies that mine them as I have been all year. Our methods have been successful this year so far in an oscillating, difficult, challenging market. Our methods are now being described and conveyed in the newsletter and portfolio like never before. The incredible oversold levels seen in late 2008 are not coming back until a few years after the gold bull finally fizzles out. That is many years away.

Our research is telling us that there is a lot of money to be made in the next few years and a nice run later this year for those who stick with the program. We can already see the entry point timetable and also the dangers for many investors in this difficult period of history. Wealth is set to transfer, change hands, is it leaving you or coming your way? I hope it is the latter. If you want to buy gold with minimal cost we have a buy gold link now at GoldOz.

Residents Oppose Mining Project in Historic Comstock Lode

Source: Mineweb, Dorothy Kosich (5/23/11)

"A landmark of gold profits becomes the source of debate."

Residents of old mining communities of Virginia City, Silver City, Gold Hill and Dayton—located within the confines of the historical, world-renowned massive bonanza of the Comstock Lode—say they are opposed to an open pit mine in their district.

In its glory days, the Comstock yielded 9 Moz. of gold and 220 Moz. of silver that helped finance the Union cause during the Civil War and to build San Francisco.

However, opponents say they are opposed to an open pit mine in a historic district with a national historic landmark, Virginia City, that they feel belongs to everybody.

Members of the Comstock Residents Association say they have canvassed Virginia City and Gold Hills residents who are 20 to 1 "overwhelmingly opposed to open pit mining in the National Landmark."

That landmark just happens to be located over a vast network of historic underground mines.

"This would never be tolerated in Williamsburg or any other National Landmark, and we don't tolerate it here," the association proclaims on its website.

David Toll, a respected Nevada author whose books have highlighted Nevada mining ghost towns, is the organizer of the Comstock Residents Association. He recently told the *Reno-Gazette Journal,* "We're not opposed to mining. We're opposed to pit mining in the historic district."

Is Gold a Bad Investment?

Source: Nick Barisheff (5/24/11)

"We need to adopt a new mindset, a gold mindset."

Numerous commentaries in the media, both on television and in print, would have us believe that gold is a bad investment. Headlines warning investors to avoid the yellow metal are commonplace. Examples such as Five reasons not to own gold", "Gold is in a bubble", "Gold as an investment—think again," "Gold is a bad hedge," "Gold is a pointless rock," and "Why gold is a bad investment" can be found with a simple Google search on gold and investment.

Each of the above points are addressed and debunked in the BMG Special Report, 'Six Biggest Myths About Gold' which readers of this article are strongly encouraged to read and which can be downloaded for free at www.goldmyths.com.

These articles miss the point, because they treat gold as an investment. To fully understand gold's role in an investment portfolio, we need to adopt a new mindset, a gold mindset.

Simply put, gold is not a bad investment, and gold is not a good investment. **Gold is not an investment at all—gold is money.**

While many people believe gold is an archaic relic that has no role in today's sophisticated, computerized, paper-based monetary system, three facts contradict this popular misconception:

1. Gold, silver and platinum are traded on the currency desks of the major banks and brokerage houses, not the commodity desks. Traders understand gold is money to be traded against paper currencies.
2. The world's central banks hold about 30,000 tons of gold in reserves. While there has been a lot of media attention given to central bank sales in the past, gold holdings have only declined by about 2,000 tons since 1980. Central banks have become net buyers since 2009 and have been adding gold to their currency reserves. Central bankers understand gold is money.
3. The turnover rate between members of the London Bullion Market Association is over US$20 billion per day, with volume estimated at five to seven times that amount. Clearly, this has nothing to do with jewelry sales and everything to do with the exchange of money.

The definition of "investment" is the commitment of money or capital to purchase financial instruments or other assets in order to gain profitable returns in the form of interest, income or appreciation of the value of the investment. Through this transfer of capital, in the expectation of a profit, an investor gives up their capital and puts it at risk. The investor receives a return in dividends or interest as compensation because their capital is at risk; they may get back less than they invested, or they may get back nothing at all.

However, physical gold bullion or physical paper currencies locked in a vault are not invested; they are simply being stored. Since neither is invested, they don't earn interest or dividends, but they don't have any counterparty risk. The major difference between gold and currencies kept in a vault, however, is that gold's purchasing power increases while paper currencies lose purchasing power year after year.

Both gold and currencies can be taken out of the vault with ease, and the proceeds invested by giving them to someone else in return for dividends or interest. An interesting perspective can be gained by calculating whether the proposed investment is likely to return more gold ounces than were originally invested. For example, the 44 ounces of gold required to purchase the Dow in 2000 has now dwindled to fewer than nine ounces. Might as well have left the gold in the vault. Since gold maintains and even increases in purchasing power, there is no need to put it at risk in order to earn a minimal amount of interest or dividends.

It is crucial to recognize that physical gold bullion, held directly or on an allocated and insured basis in a vault, is not an investment because it is not someone else's promise of performance or someone else's liability, and as a result has no counterparty risk. All other forms of gold ownership are, in fact, investments. Paper gold certificates, unallocated bullion accounts, ETFs, shares in gold mining companies and futures contracts all have counterparty risk, and are either someone else's promise of performance or liability. They may have their place in a portfolio, but they are all investments. We **hold** physical gold in a vault, we hold physical currencies in a bank, but we **invest** in financial assets.

Figure 1 illustrates how gold has not only preserved but also increased its purchasing power from 1971, when the gold standard was abandoned, to 2011.

Figure 1: Gold Purchasing Power Then and Now

Ounces of Gold needed to make purchases in 1971 and 2011[1]

Price in Gold Ounces	1971	2011
Compact Car	66 oz.	10 oz.
Average Canadian House	703 oz.	254 oz.[2]
Dow Jones	25 oz.	8.5 oz.

Sources: CREA, YahooFinance, Pacific Exchange © 2010 Bullion Management Group Inc.

[1] as of March 31, 2011 [2] CREA National House Average February 2011

Figure 2 illustrates how all of the major currencies have declined over the last decade when measured by gold ounces.

Figure 2: Currency Decline

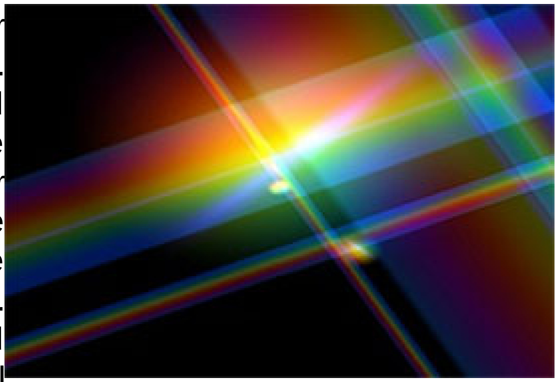
Major Currencies as Valued by Gold Price, March 31, 2001 - March 31, 2011

Source: fx.sauder.ubc.ca © 2010 Bullion Management Group Inc.

A Tool to Find Gold, Oil and Terrorists

Source: Gold Investing News, Leia Toovey (5/26/11)

"Hyperspectral imaging is well developed for mineral exploration."



The use of remote sensing techniques for mineral exploration began decades ago. Mineral explorers would point handheld cameras out of aircraft windows and take pictures of the surface below to gather information on topography that could give clues on the location of minerals. The technology has since advanced rapidly. Now, aircrafts and satellites are equipped with sophisticated hyperspectral digital imaging systems that can provide information the human eye is unable to perceive; and when hyperspectral imaging is combined with geographic information systems (GIS), directional and size estimations of deposits can be obtained without having to spend months in the field mapping.

Hyperspectral means "beyond the spectrum" and refers to the visible spectrum of light that the human eye perceives. In reality, the human eye can perceive only a sliver of the available spectral information, and with the use of sophisticated sensors, more information can be detected and recorded. This information is used to detect many things, from gold and other metals, oil—and yes—it played a pivotal role in the location of the world's most wanted man, Osama Bin Laden.

Like most remote sensing techniques, hyperspectral imaging exploits the fact that all objects possess a unique spectral fingerprint based on the wavelengths of visible and invisible light that they absorb and reflect. By measuring the relative variations of absorption and reflectance across more than 600 channels (bandwidths) from ultraviolet to thermal infrared, scientists can characterize and identify previously unknown substances. As applied to natural resource exploration, hyperspectral imaging can be used to identify substances on the earth's surface. Every substance, from minerals to hydrocarbons has a unique hyperspectral signature. Hyperspectral data can be acquired with airborne platforms; large tracks of land can be analyzed quickly and efficiently, making the technology well suited to natural resource exploration.

Richard Russell: Get Back into the Silver Pool

Source: Beacon Equity, Dominique de Kevelioc de Bailleul (6/1/11)

"Everyone back in the silver pool for more profit fun in the sun."

Hi-ho silver! The coast is clear; it's everyone back into the silver pool for more profit fun in the sun, *Dow Theory Letters* Publisher Richard Russell recently stated.

Last week, Richard wrote in his newsletter that the silver market will benefit from the currency crisis playing out in Europe. Investors are now looking past the hopeless situation in the smaller European nations to some much-bigger EU member states, which will overwhelm the ECB's and IMF's efforts.

". . .first it was Portugal, Ireland, Greece that were in trouble, and now you can add Italy, Belgium and Spain," Russell wrote. "Wait Spain? Spain is the fourth biggest economy in Europe. Thus, the USD and euro are perched on a seesaw. . .first one is up and the other is down. . ."

When the crisis in the three weakest, or PIIGS (Portugal, Italy, Ireland, Greece and Spain) nations, surfaced in March 2010, PMs, instead of softening on a strong dollar began [their] remarkable rise of a near triple in one year—from $17–$50 (late April 2011).

Some silver investors wonder if a 2008 replay is imminent, given threats of another GDP collapse around the globe, sending all assets into freefall—especially silver.

Russell expects the euro crisis will favor gold, taking silver up with it. As the euro weakens, the USD's prospects now look bleaker than ever because of the globally interconnectedness between European and American banks.

"Remember," says Russell, "I said that during recessions, silver is treated as an industrial metal but during. . .inflation, silver is treated as a monetary metal," explains Russell. "With inflation built into America's future, I see silver following gold to higher levels. And I see the public once more rushing in to buy silver as a safe-haven currency against a shaky dollar."

The Economist's Perfectly Useless Gold

Source: Paul Tustain, BullionVault (6/1/11)

"Will savers who own money-dated debt instruments in bonds panic at continued money-printing policies?"

Would you—or China—rather own gold eight years from now, or U.S. Treasury bonds. . .?

ON THE LETTERS' page of *The Economist* last week, Nils Sandberg from Cambridge University's Judge Business School presented a common argument against gold's current value.

According to him, gold is in bubble territory because it has few industrial uses. Disproving Mr. Sandberg's thesis is childishly simple:

- Take one $20 bill out of your wallet;
- Consider the industrial applications of the paper it is printed on;
- Now burn it.

Well, why didn't you? After all, its value—according to Mr. Sandberg's thesis—rests on the paper's usefulness in industrial processes.

Nevertheless, it's still interesting to understand why gold (like $20 bills) is valued above its manufacturing relevance. Unsurprisingly, the answer lies in marginal utility.

Gold offers humanity one exceptionally useful property; it has an extraordinarily stable stock. There are 166,000 tons of the stuff above ground (worth about $8 trillion) of which about 88% is held as a value store of sorts, in jewelry (52%) and bullion (36%). The stock is growing by about 1.5% a year, from the combined efforts of all the world's miners.

It is because gold is (i) geologically rare, (ii) elemental (i.e., incapable of being manufactured) and (iii) industrially useless, that it has this reliable stock quantity. Nothing else can do it; not silver, which is 80 times more common in the ground, nor platinum, which is far too useful as a catalyst to offer stock stability.

Reliable scarcity is the key property savers require of money, which otherwise fails to store value. But, of course, we don't need gold to deliver reliable scarcity, we can usually create that reliable scarcity artificially, as we do with our modern currencies.

Now the marginal utility explanation: When new currency is issued too freely, reliable scarcity becomes undersupplied, and savers go in search of it. Having seen artificial reliable scarcity fail in one currency, the promise of it in another is unconvincing, so they turn to natural reliable scarcity, and demand for it increases dramatically as governments print money. This is what drives gold up.

Mr. Sandberg is right though, that gold will eventually go down again, when currencies' artificial scarcity once more becomes reliable—and when those currencies start to generate a yield. But in the meantime, it looks irrationally optimistic to hope that the U.S. government—faced with a $21 trillion debt—will not print more and more money.

The question, therefore, is whether the savers who own $100 trillion of dated debt instruments in the bond markets will take fright at continuing money-printing policies of the U.S. and other governments. That $100 trillion of dated debt has already started running down the clock. It is shifting to the short end, where it behaves more and more like cash. Maybe its holders will demand cash (as is their right) at its redemption. The sums involved would swamp the $15 trillion of cash and near-term deposit instruments currently in issue.

People who choose to buy gold are increasingly aware of this possibility. We don't know whether the dollar, euro, yen and pound (all of which have started a debt market drift to the short end) will ultimately go into the currency death spiral. We are just mindful that it is the usual destiny of currencies driven by political expedience toward the printing press. It looks like a possibility at least.

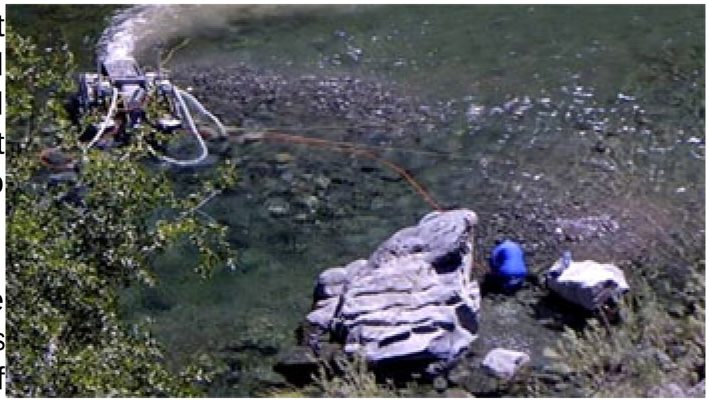
To finish, here's the brainteaser that the Chinese are currently wrestling with. Now that you know the U.S. debt profile is slowly shifting to the short end and represents about six times the currency in issue, you are required to choose today something to own in 2020. What would you (or China) rather have—one-tenth of the U.S. Treasury's paper bond debts or five times its very large gold reserve?

At current market prices, these two are worth about the same. But in the intervening eight years, the U.S. government has budgeted to issue $8 trillion net of its own bonds, representing an increase in the stock of 57%. A further $1 trillion of gold will be mined worldwide, an increase in the global stock of 12%.

Legislative Push to End California Gold Rush

Source: Fox, Stephen Clark (6/2/11)
http://www.theaureport.com/pub/na/9762

". . .has miners panning environmental rules."



Fortune seekers hoping to strike it rich in California's ongoing gold rush may find their dreams dashed by new environmental rules that lawmakers say are too costly to enforce.

Mining groups that outfit treasure hunters say an economic analysis by the California Department of Fish and Game (CDFG) shows at least $23M/year is generated from small-scale miners locating gold in riverbeds.

But California's Legislature wants to slash funding after learning that regulators' new fish-protection rules would cost taxpayers $1.8M each year for permitting, administration, inspection and enforcement. The state collects only $373,000 in permit fees, creating a deficit that lawmakers say is too costly to overcome.

A draft outline to slash the mining program passed budget subcommittees in both chambers. The full Legislature must approve it before cuts are finalized and independent fortune hunters are denied permitting.

"This is extraordinarily reckless legislation," Mike Dunn, owner of Gold Pan California, a gold mining supply shop, said.

Dunn says that the end of the small-scale gold mining industry would affect small businesses in at least 14 sectors. Most of the $23M or more generated from these economic activities stay in low-income, rural areas where the booty is hiding.

Already, mining companies were suffering under two moratoria—one legislative and one court-ordered—against suction dredge mining enacted in 2009, which were to be lifted in November after new regulations devised by the CFGD went into effect. The budget cuts, essentially, would keep the moratorium in place permanently.

The Karuk Tribe, whose members were trampled by the original 1850s Gold Rush, has led the campaign against the practice, including filing the lawsuit that led to the court-ordered moratorium in 2009.

"California. . .taxpayers can no longer afford to subsidize this environmentally destructive hobby," said Karuk Tribe Department of Natural Resources Director Leaf Hillman."

Downturn in China Would Slam Commodity Prices

Source: Reuters (6/2/11)

**"While a severe downturn is unlikely,
China's growth could slow more markedly at some point."**

A sharp economic downturn in China is unlikely, but a downside scenario would lead to commodity prices sliding by about 40%-60%, ratings agency Standard & Poor's said on Thursday.

Copper HGc1 would be at risk of falling to $1.50-$1.75 per lb from $4.10 and iron ore could descend to $85-$95 a ton from $170-$175 if the world's biggest consumer of commodites was hit by a severe slowdown, a report said.

"Standard & Poor's expects that China will sustain high growth rates over the next few years... however, we also recognize that China's growth could slow more markedly at some point," it said.

The agency has some concerns that the strong rise in commodity prices may represent an "unsustainable bubble", S&P said.

Before a commodities sell-off in early May, the Reuters-Jefferies CRB index .CRB of 19 commodities had gained about 50% in the previous 11 months.

"If current market conditions in commodities do represent a bubble, a significant deceleration or downturn in China and other emerging economies could ultimately cause the rupture."

If the Chinese government tightened monetary policy too much, it could trigger a slowdown, leading to a sharp fall in the demand for commodities, hammering prices.

Prices would find a floor around the level at which 10%–20% of world capacity would fail to generate positive operating cash flow before investment, it said.

Aluminium CMAL3 would likely slide to around %0.65–$0.70 per lb from $1.20 a lb currently and hot rolled coil steel would fall to $475-$525 a ton from $750-$760.

S&P's base case is that China's strong economic growth rates in recent years will moderate, but private consumption is likely to remain strong.

"China is among the least likely of the major economies to experience a major downturn over the next few years," S&P said.

Durable Gold's Hold for Long-Term Investors

Source: Reuters, Nick Olivari (6/2/11)

"And investors haven't missed the boat. . ."

Gold has hit record highs this year even as a double-dip recession threatens the global economy and governments everywhere are taking action to rein in spending after binges following the 2008 financial crisis.

Austerity and economic slowdown hardly seem like strong arguments for buying an inflation-sensitive precious metal.

Still, gold bugs are bullish as ever. And some are predicting the metal will rise to $2,000 an ounce over the next year, nearly a third above the present level.

"The reasons for buying gold haven't diminished," said Jeff Clark, the Sacramento, California-based senior precious metals analyst for Casey Research. "Unless we change course of how we handle the debt and deficits, there is a good reason to buy gold."

The pervasive bullishness stems from lessons learned in the financial crises of the past decade.

Gold does have staying power during big fiscal dramas and financial meltdowns. Discredited as a serious investment during the stock market boom years, it's regained its shine at the worst of times over the past decade. It's especially attractive when the dollar declines, as it has been wont to do in the current era of fiscal imbalances.

Skeptics have called for a pullback at regular intervals—and still it stands tall: Gold has appreciated 500% since mid-2001, a 17.5% annualized return. The top-performing U.S. mutual funds of the past decade had invested directly or indirectly in the metal which Cortes carried back from the New World by the boatload.

A deepening budget crisis in Washington has gold sailing high again in some buyers' dreams. The reason? A budget crisis could trim the currency further. Gold's strength comes largely from the erosion of the dollar, which has lost 37% of its value since its last peak in mid-2001.

And investors haven't missed the boat.

Market Sentiment and Volume Reach Extreme Panic Levels

Source: Chris Vermeulen, TheGoldAndOilGuy (6/3/11)

"Buying into fear and selling into greed is my focus."

It was a crazy session as the stock market slid over 2% on heavy volume. This type of price action means fear has taken control of masses and they are unloading (selling their stocks) in anticipation of much lower prices.

Trading off extreme levels of fear can be very rewarding if done right. That's because fear is the most powerful reaction we as humans have and it's somewhat predictable. Fear can make people do crazy and or stupid things and it's these extreme reaction that investors have in the market that lead to great trading opportunities. Buying into fear and selling into greed is what I focus on.

Gold and Silver Showing Greed and Fear

For example, if we take a look at the 4 hour chart of gold and silver you will see how investments which have a large amount of speculation like Silver move the opposite to what other related investments like gold are doing.

The first chart, which is gold, shows how today's fear had investors moving into this shiny safe haven. Silver on the other hand has been the investment of choice for every Tom, Dick and Harry trying to play the popular headline investment. So on a day like today when prices start to slide in the stock market these speculative holders of silver get scared and dump (sell) their position in stocks and silver. The problem with silver is that the market is still small and its does not take many people hitting the sell button to send it 5% lower which is what took place today. This is one sign that is telling me traders are getting scared of a market selloff.

Evidence #2 Showing Signs Of Fear

These data points below clearly show sellers were in control today. I like to look at the NYSE because it holds all the big brand name stocks which the masses like to buy when they feel lucky. So when I see this many traders selling and so few buying I know the masses are dumping shares and going to a cash.

The NASDAQ had 10 shares being sold to every one share being bought which is half the fear level of what the NYSE and that makes good sense. The NASDAQ has many smaller companies that the masses just don't know about or own so there was not as much selling taking place on that exchange. So brand name stocks getting dumped all at once is another sign of extreme fear hitting the market.

	NYSE	NASDAQ
Advancing Issues	117 (6%)	392 (15%)
Declining Issues	1,837 (94%)	2,122 (82%)
Unchanged Issues	8 (0%)	75 (3%)
Advancing Shares	206,638,200	184,616,500
Declining Shares	4,143,683,100	2,009,633,900
Unchanged Shares	2,351,200	35,834,100
New Highs	72	82
New Lows	25	54

Evidence #3 Showing Signs of Fear
This chart below provides the momentum of the market. I think of it as the rubber band effect. If the market selling momentum is strong enough then it pulls this indicator down to a level which it cannot go much further before it gives way and moves back a neutral or positive extreme level. This little hidden gem of an indicator can help time entry and exit points with ease once you understand it. Currently its telling us that a pause or bounce is likely to happen tomorrow.

Evidence #4 Showing Signs of Fear and an Oversold Market Condition
Take a look at the 10 minute SPY (SP500) chart below. Simple visual analysis shows that today's strong selling which has brought the market down into a support zone should provide a pause or a bounce very soon. The question is how big will the bounce or rally be?

Given all the confirming is looking ready for a bounce and I feel we could be nearing not a bounce but an intermediate bottom and higher prices going forward. But if we break strongly below this support level then all bets are off and much lower prices should occur.

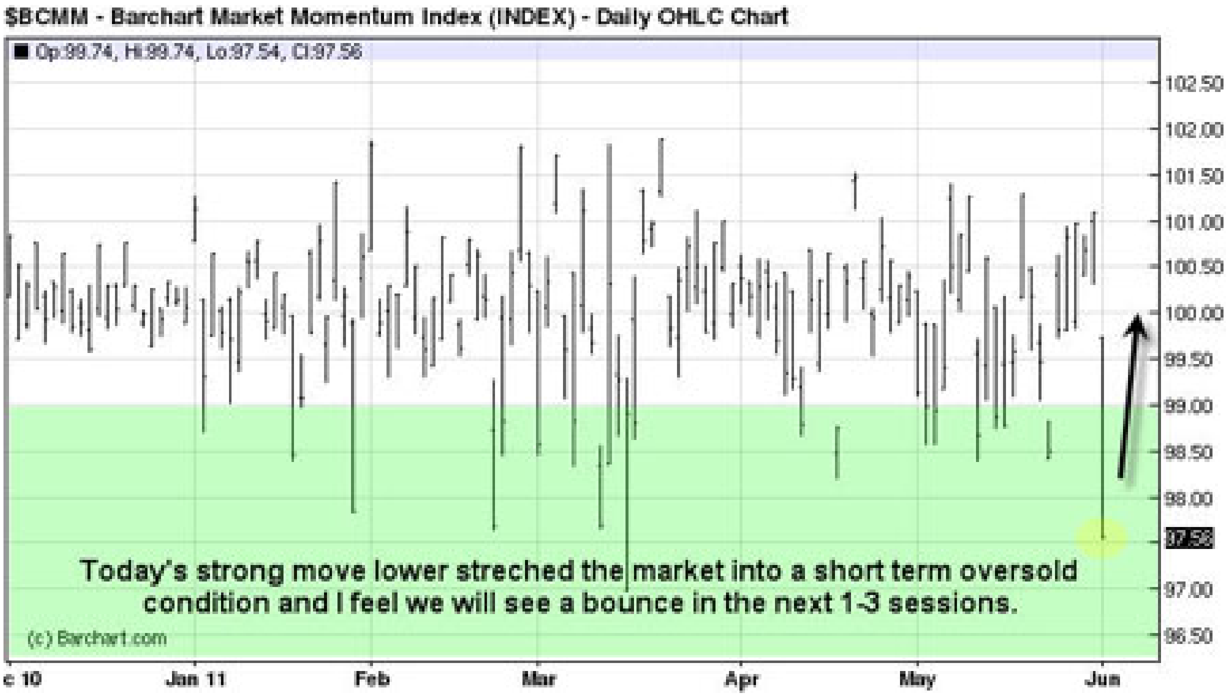

$BCMM - Barchart Market Momentum Index (INDEX) - Daily OHLC Chart
Op:99.74, Hi:99.74, Lo:97.54, Cl:97.56
Today's strong move lower streched the market into a short term oversold condition and I feel we will see a bounce in the next 1-3 sessions.
(c) Barchart.com


Chart
SPY
10
SPY, 10, 09:30-16:00 (Dynamic)
Blow Off Top
Six days of gains whiped out in hours with nothing but non stop selling today.
First Key Support Zone
© Interactive Data, 2011
Strong Selling

Conclusion

In short, today's sharp move lower has put the market in a short term oversold condition. Meaning, a bounce is very likely to take place within the next 1-3 sessions. With the masses selling all their positions in stocks and commodities it generally takes 1-3 days after a day like this for the selling pressure to dissipate and for value buyers to step back into the market providing support.

I think both stocks and commodities will strengthen in the next few days and we will see if the market can get some traction and start a new rally. But until everyone has sold out of the market giving their shares to the big money (smart money) at a sharp discount I feel we have a rough road ahead.

ENTER

TO

1/2 POUND

(6 ozs, Troy)

OF GOLD

$5.00 PER ENTRY

SIX ENTRIES FOR $25.00

. . . plus many other great prizes !

2ND PRELIMINARY DRAWING WILL BE HELD JULY 17, 2011, AT THE *"MINER'S JUBILEE"*, BAKER CITY, OREGON. FINAL DRAWING FOR THE 1/2 LB. OF GOLD TO BE HELD AT THE SPRING 2012 GPAA GOLD SHOW IN SALEM, OREGON.

ALL ENTRIES ARE ELIGIBLE TO WIN IN ALL LATER DRAWINGS!

2ND DRAWING PRIZE LIST

GRAND PRIZE: PRO-LINE 3" DREDGE-HIBANKER COMBO

1ST PLACE: KEENE SUPER CONCENTRATOR

2ND PLACE: 10 oz. .999 FINE SILVER BAR

3RD PLACE: WHITE'S ELECTRONICS GOLD PANNING KIT

MORE PRIZES TO BE ANNOUNCED !

FINAL DRAWING PRIZE LIST

GRAND PRIZE: 1/2 POUND OF PLACER GOLD

1ST PLACE: NEW 2009 LAMBRETTA 150cc (or 50cc) MOTORSCOOTER (Winner's choice)

2ND PLACE: 3-DAY GOLD MINING ADVENTURE TRIP FOR TWO TO OREGON GOLD TRIP'S *"WINE'S CAMP"*

3RD PLACE+: TO BE ANNOUNCED

FOR MORE INFORMATION INCLUDING OFFICIAL RULES, UP-DATED PRIZE LISTS, AND PRINTABLE ENTRY COUPONS PLEASE GO TO: WWW.EOMA.ORG, OR WWW.WALDOMININGDISTRICT.ORG .

ALL PROCEEDS WILL BE USED FOR LEGAL EXPENSES INCURRED BY EOMA/WMD WHILE CHALLENGING THE 700-PM IN-STREAM MINING PERMIT ISSUED BY DEQ IN 2010; AND TO INTERVENE IN THE ENVIRO'S CHALLENGE TO THE SAME PERMT.

HOW TO ENTER

PLEASE SEND A CHECK OR M.O. (PAYABLE TO "EOMA") FOR YOUR NUMBER OF ENTRIES, ALONG WITH NAME, ADDRESS, & CONTACT / PHONE INFO TO:

EOMA/WMD DRAWING
P.O.B. 932, BAKER CITY, OR.
97814

(ENTRIES MUST BE RECEIVED BY 7/14/11 FOR 2ND DRAWING)
(EOMA is a 501c6 Nonproffit Org.)

EOMA & WMD'S
"WIN 1/2 POUND OF GOLD"
DRAWINGS

OFFICIAL PRIZE LIST

2ND PRELIMINARY DRAWING

(JULY 17, 2011, "MINER'S JUBILEE", BAKER CITY, OREGON)

GRAND PRIZE: ***PRO-LINE "3IN. DREDGE/HIGHBANKER COMBO"***

INCLUDES 5.5 HP. HONDA ENG., 15 FT. SUCTION HOSE, & POWER-JET.

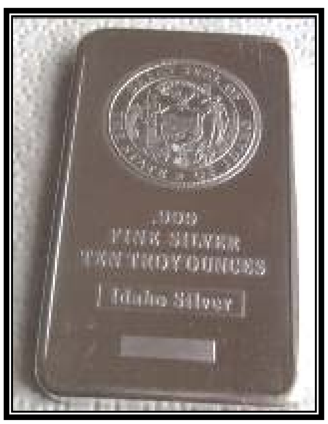
(DONATED BY PRO-LINE)

VALUED: $ 2,500.00+

1ST PLACE: KEENE ***"SUPER CONCENTRATOR"***

(DONATED BY KEENE ENGINEERING)

VALUED: $ 395.00



2ND PLACE: ***"TEN OUNCE SILVER BAR"***

TEN (10) TROY OUNCES OF 0.999 FINE IDAHO SILVER.

DONATED BY BOB BALDWIN & THEO STANLEY

(based on $37.00/oz. spot 3/29/11) VALUED: $ 370.00

3RD PLACE: ***"GOLD PANNING KIT"***

INCLUDES PAN; "PAN FOR GOLD" BOOK; ACCESSORY KIT (includes Bag, Snuffers, tweezers, magnifying glass, and gold vials); APRON; PEN, WATER BOTTLE; and HAT.

DONATED BY WHITE'S ELECTRONIC'S, (SWEET HOME, OR).

VALUED: $50.00

MORE PRIZES MAY BE ADDED

CHECK OUR WEBSITES FOR PRIZE LIST UPDATES AT: WWW.EOMA.ORG OR WWW.WALDOMININGDISTRICT.ORG

NEED NOT BE PRESENT TO WIN!

ALL ENTRIES IN 2ND PRELIMINARY DRAWING ARE ELIGIBLE TO WIN IN ALL SUBSEQUENT DRAWINGS IN-CLUDING THE FINAL DRAWING FOR THE 1/2 LB. OF GOLD AT THE 2012 GPAA SALEM (OR) GOLD SHOW !

EASTERN OREGON MINING ASSOCIATION & WALDO MINING DISTRICT'S

JULY 17. 2011 PRELIMINARY DRAWING IN THE:

"WIN ONE 1/2 LB. (Troy) OF GOLD DRAWING"

$ 5.00 EACH — **ONE ENTRY** — **6 FOR $ 25.00**

Preliminary Drawing to be held July 17 at the Miner's Jubilee, Baker City, OR. **Final Drawing** for the "1/2 LB. OF GOLD" to be held at the close of the 2012 GPAA Gold Show in Salem, OR.

NEED NOT BE PRESENT TO WIN – MUST BE AT LEAST 18 YRS OF AGE

INSTRUCTIONS: ON THE BACK OF THIS COUPON, CLEARLY PRINT: YOUR NAME & CONTACT INFORMATION AND SEND, ALONG WITH $5.00 TO:

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OFFER EXPIRES 05/31/12

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EOMA & WMD'S

"2012 WIN ½ LB. OF GOLD DRAWING"

PRE. DRAWING: 07/17/11 at the Miner's Jubilee, Baker City, OR. **Final Drawing** at the **2012** GPAA Gold Show, Salem, OR.

NEED NOT BE PRESENT TO WIN

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