Editor: Penny Esplin, Secretary: Marlea Sheridan
Date: July 2, 2011

SHORT AND SWEET FROM THE PREZ: Another season of mining is here. The water is cold, fast and high. Be careful and play it safe. Good luck to all.

Meeting Minutes   Thursday June 23rd, 2011

Call to Order: Delmon called meeting to order. Past minutes were e-mailed to members with the newsletter.

In Attendance: About 22 members were present

Guests: None

Treasury Report: Looking good.

New Members: Two new members have signed up.

Claims Report: Briggs Creek Claim: Our small signs are still up and no other "illegitimate" signs posted. A couple of members said the Briggs Claim was fine, they didn't see anyone else around. The water was freezing, yet water level was down some. Ted will need to give us the G.P.S. coordinates for the claim sites. –Buzz said he saw people doing some panning on Cow Creek, he said the water level had dropped there as well.

Old Business: The Club wants to thank Fred Douthit for writing a letter to the Josephine County Commissioners on behalf of our club expressing our displeasure regarding permits and regulations. We all appreciate his dedication.

Joe will send out an "official" note to all our members about what to do if one is bothered by forest rangers or the cops while dredging (regarding the "illegal" NPDES permit).

New Business: **Howard Conner** (Willamette Valley Miners) will be giving a presentation on ***Safety and Survival*** in the fall. We hope to have as many members as possible show up for this! He is worthy of our time and attention; he will be giving us valuable information! Howard was scheduled for the June meeting. We discussed the fact that few members attend summer meetings because of mining and family events. We will ask Howard if he will postpone his presentations until September.

<u>Club Outing:</u> We met **<u>at 5:30 on Monday June 27th @ Riverfront Park</u> in Salem to do some METAL DETECTING** after this weekend's community event. Eleven member showed up. Afterwards we all went to Izzy's for dinner.

E-mails were sent notifying all members of this outing. A large number of e-mails were bounced back as undeliverable. Those that bounced were sent a second time. If you did not receive notification of this outing please pay attention to your mailbox and do not get it overloaded to the point it will reject new incoming e-mails.

<u>Rocks Shared Beginning With the Letter "P":</u> **Steve** brought **petrified wood** and **pyrite**. **Judy** brought **petrified wood** as well, nice pieces from Utah (?). **Claudia** shared her and **Joe's** recent finds from the Prineville area: **petrified wood with jasper and agates**. Also some **petrified redwood**, along with some she collected in Calif. She also brought **Sunstones** from recent camp trip. –**Penny and Walt** brought some beautiful specimens displaying various shades of green: **Prehnite** (light green bubbles) *a hydrous calcium aluminum silicate*, with **Epidote** (dark green crystals) *hydrous calcium aluminum iron silicate,* **Malachite** (bright green) *hydrous copper carbonate* (aka "copper blooms"), and **Native Copper** embedded in the **Epidote** crystals. All these were found in a quarry by Gates.- They also brought some of the **Sunstones** from recent camp trip, along with a live **"wind scorpion**" from same trip. Also, some **quartz crystals** found during an even more recent camp trip by Canal Creek/Quartzville area.

<u>In July, Bring Rocks (or Treasures) Beginning With the Letter "Q"..</u>

<u>And THIS Was A Surprise:</u> Larry brought his trailer with his 4 inch dredge and explained how to use it and the modifications he's had to make on it through trial and error, with resulting rewards! **Joe** brought his power sluice/dredge/high-banker combo. It was quite a complex looking thing, so many hoses! He told us how it works and the many things it can do in order to retrieve the GOLD! He is real pleased with its capabilities. **Buzz** brought his "Gold Screw", which is a blue pan with a raised spiral ridge that spins on a slant and concentrates the gold from the findings to the center, where it then drops into a little retrieval cup. **Delmon** brought his sluicebox and classification screens. Everyone enjoyed the sharing and there were many good comments about this meeting.

<u>Events/Activities in June:</u>

"<u>Memorial Weekend and Beyond" by Penny Esplin</u>-

Joe had mentioned that Lee King owns several sunstone claims and had given his permission for us (club members) to go ahead and camp and collect there. He emailed Joe a map and directions. Joe and Claudia left to go camping there on Friday, May 27th, and Walt and I were to join them there sometime late Saturday afternoon.

Well, when we arrived in the hills overlooking the sunstone desert, that "big sky country" had one heck of a huge dark, menacing cloud moving across the desert sky. It reminded me of that dreadful black cloud from "the dust bowl" during the depression. Well, it was a menace, because after we met them at their campsite, we saw their tent surrounded with built up snow from the previous night. And it was cold! The wind was close to howling and was blowing hard, BB sized snow pellets. They said they nearly froze the night before! Joe said he brought the wrong tent,

the "summer" tent, and it didn't keep out the snow or the wind worth a darn! Brrr! So, after we got there, Joe draped a tarp over and around the back of his truck's canopy. He had his Coleman cook stove set up on the tailgate and they were fixing dinner. We all huddled back there while capturing the heat from the stove and welcoming shelter from the wind. They fixed us all a dinner that was fitting to the weather. It was wonderful! It consisted of several cans of this and that, I can't really recall; rice, black beans, tomatoes, chicken, chili sauce(?), some kind of peppery spice, I don't remember it all. But it was heavenly! Along with toasted English muffins, it was the ***food of the gods***, and we sure enjoyed it!

It was still early evening (or late afternoon, it was hard to tell, with the clouds suffusing whatever extended daylight we should have had), and the wind stopped spitting snow at us long enough for me and Walt to have a look around and actually build a fire. Oh yes, a fire! That's what was needed! We were able to enjoy it for about an hour. Right at sunset, here comes the snow again.

At first it was just dry and hard like spittle. But no, it wouldn't stop at that. The spittle became snow, then it became a much wetter snow, and the wind sent it blowing horizontal. Yep, that did it. Time to hunker in, go to ground, get out of the tempest! Joe and Claudia said there was no way they were going into that evil tent again! They would fare much better in the front of Joe's truck! Our dog, "Lodi", Walt and I were quite cozy deep within the comfort and warmth of our bed and blankets in the back of our truck (we have a canopy on our truck, of course).

When we woke up the next morning, the weather hadn't abated, it was still blowing snow, nasty and cold. Come to find out, the battery in Joe's truck had died sometime early in the morning while they were sleeping with the heater fan on, but without the engine running. Claudia woke up to cold air blowing on them instead of heat. What a way to wake up!! By this time, they had made other travel plans; they wanted to leave this miserable place! But now they had a dead battery. Fortunately, we were there to provide a jump! And, after a while, his battery was recharged. Hooray!

During all this time, I stayed asleep, cocooned inside the back of the truck, pretty much oblivious to what was actually going on outside. Walt helped them get their tent taken down and put away. When they were all packed up and ready to leave, I had Walt open up the back of our truck so I could sit up and say goodbye. Joe threw us a box of snack bars, which we were quite grateful for. Then I asked if he happened to have a spare propane bottle we could use (we had inconveniently forgotten to bring ours), and he gave us two full bottles! Yay! We're saved!! So, we said our goodbyes, they said they were thinking of heading south, first to Lakeview, then maybe Nevada. Then they were gone.

The funny thing is, that about 2 hours after they left, the weather cleared and the sun came out! It barely spit snow off and on that day, but the clouds were finally breaking up. The wind moved them across the sky so fast, we were blessed with more sunshine by the hour! We even had a rainbow later the next day. We stayed 2 nights and 2 days there. We did a lot of wandering around and found a several nice sunstones. We thanked God for the sunshine and for the wild beauty of the high desert in full bloom! There were so many different kinds of flowers blooming, it was such a treat! I was so dazzled, so of course I took a lot of pictures.

Heading west and after crossing highway 395, we traveled cross country towards Paisley (25 miles/gravel road). There is this one spot we like to stop that overlooks Abert Lake to the south, flanked by Abert Rim to the east. Abert Rim is a fault scarp that rises and incredible 2,000 ft above the fault block basin below, which contains Abert Lake. It is such a magnificent view! We got there just a little before sunset, so there was plenty of time for taking pictures and checking out the ground beneath our feet. The rock outcrops there were composed of the same sunstone (feldspar) bearing basalt like where we had just been, so the ground was just twinkling with tiny sunstones. The ant mounds were especially neat because the ants had so perfectly cleaned out their tunnels and piled up the gravel composed of tiny sunstones and obsidian pieces. All this gravel was of perfectly uniformed pieces, I ***had*** to have some! I thought it would make wonderful gravel for an aquarium someday. After bagging up some of this gravel (it was dusk

now), I needed to use my flashlight (it was actually "killer's light"), and that's when I saw it: a quick movement just to my right. I focused my light on it and knew immediately what it was. A ***wind scorpion*** (*a solifugid*). Should I capture it and take it home? Yes! And so, I did. Eeek!!

We were gone on this camp trip for 9 days. It was so enjoyable and the scenery was so darn awe inspiring! But by the 9th day, the **"B.O."** between us had reached the point of becoming ***noxious***. But we had a good time and the memories will sustain us for a long while.

-The End!

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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 **4th Thursday** of each month, 7:00 p.m, at:
Clear Lake United Methodist Church
920 Marks Drive
Keizer, OR 97303

We meet in the Fellowship Hall in the church off of Wheatland Road. The church is located across the street from the Clear Lake Fire Station. There's plenty of parking in back in the church's parking lot.
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If you are interested in purchasing tickets for the ½ pound of gold raffle visit the following site. The site also contains information discussing the issues leading up to the need for the raffle and the funds collected.

http://easternoregonminingassocraffle.shutterfly.com/

ROCK HOUNDING, MINERALOGY

Bring rocks and minerals whose name starts with the letter "Q" for July.

Petrified Wood

What turned the wood to stone?
Petrified wood has been preserved for millions of years by the process of petrification. This process turns the wood into quartz crystal, which is very brittle and shatters. Even though petrified wood is fragile, it is also harder than steel.

Petrified wood is known for its exquisite color and detail. Some pieces of petrified wood have retained the original cellular structure of the wood; the grain can easily be seen. Petrified wood can be found throughout the desert regions. It is easy to find and identify. It is used often in jewelry making and for other types of decorative artwork.

What is petrification?
The process of petrification starts with three raw ingredients: wood, water and mud. Petrification of the wood found in the Petrified Forest began during the Triassic Period when the primitive conifers fell to the ground and into the waterways, entering into their journey through time. The logs were swept and tumbled downstream with sediment and other debris. The streams traveled through a plain of lakes and swamps where the wood, sediment and debris were deposited along the way.

Four hundred feet of sediment was deposited in the plain by the rivers that originated from the Mogollon Highland volcanic mountain range. That layer of sediment is known today as the Chinle Formation. As the logs were deposited in the plain they were buried with mud and debris, beginning the petrification process.

The mud that covered the logs contained volcanic ash, a key ingredient in the petrification process. When the volcanic ash began to decompose it released chemicals into the water and mud. As the water seeped into the wood the chemicals from the volcanic ash reacted to the wood and formed into quartz crystals. As the crystals grew over time, the wood became encased in the crystals which, over millions of years, turned the wood into stone.

Go here for an excellent website explaining the development of petrified wood.
http://www.yourgemologist.com/Kids/petrifiedwood/petrifiedwood.html

Polished Petrified Wood T. Scott Williams-PFMA
Petrified Forest National Park
Source:National Park Service http://www.nps.gov/pefo/pphtml/photogallery.html

Petrified tree in Petrified Forest National Park, USA.
From : http://en.wikipedia.org/wiki/Image:Petrified_wood_closeup_2.jpg

PYRITE, IRON PYRITE (Fool's Gold)

The mineral **pyrite**, or **iron pyrite**, is an iron sulfide with the formula FeS_2. This mineral's metallic luster and pale-to-normal, brass-yellow hue have earned it the nickname **fool's gold** because of its resemblance to gold. Pyrite is the most common of the sulfide minerals.

Pyrite is usually found associated with other sulfides or oxides in quartz veins, sedimentary rock, and metamorphic rock, as well as in coal beds, and as a replacement mineral in fossils. Despite being nicknamed fool's gold, pyrite is sometimes found in association with small quantities of gold. Gold and arsenic occur as a coupled substitution in the pyrite structure. In the Carlin, Nevada gold deposit, arsenian pyrite contains up to 0.37 wt% gold

Prehnite

A phyllosilicate of calcium and aluminium with the formula: $Ca_2Al(AlSi_3O_{10})(OH)_2$. Prehnite crystallizes in the orthorhombic crystal system, and most oftens forms as stalactitic or botryoidal aggregates, with only just the crests of small crystals showing any faces, which are almost always curved or composite. Its hardness is 6-6.5, its specific gravity is 2.80-2.90 and its color varies from light green to yellow, but also colorless, blue or white. Though not a zeolite, it is found associated with minerals such as datolite, calcite, apophyllite, stilbite, laumontite, heulandite etc. in veins and cavities of basaltic rocks, sometimes in granites, syenites, or gneisses.

GOLD MINING, PRECIOUS METALS

"Relying on only a limited number of sources (as too many do, especially when those sources skew toward a similar view) can warp one's perspective... even to the point that what one believes seems to be reality. But reality is actually completely different" – Doug Casey, June 24, 2011, Casey Daily Dispatch

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Government by Trickery Must End

Posted June 22nd, 2011 by Administration, El Dorado County, CA

MEDIA RELEASE
Contact: Ray Nutting
(530) 621-5651 or bostwo@edcgov.us
FOR IMMEDIATE RELEASE
Government by Trickery Must End

It was rugged men and women mining gold in these very streams and rivers that gave Placerville its name and built California into what it is today. There is still a lot of gold left from the early days of the gold rush; estimates are as high as eighty percent or more. We all know how much the fortunes of our citizens, and the economy of the whole county, could use a boost. With the price of gold rising and the value of the dollar sinking, we can use all the gold and the economic boost it brings. California should not just allow mining, it should promote it. For many years adventurous souls have dredged on private and public rivers to find gold for fun and pleasure. But recently some environmentalists have tried to stop dredging claiming it does damage to the environment.

A few years ago the State placed a temporary ban on dredging based on environmentalists' claims that dredging was harming the rivers. This was a temporary moratorium while science was preformed to prove, or disprove, the claims. In spite of environmentalists' best efforts, science was not supporting their claim of damage. Nor was the claim that dredging was spreading mercury substantiated.

Actually, mercury is naturally attracted to the same locations as the gold and as a result of gold mining; it is removed from the riverbeds during the dredging process. Gold mining is the only real way that mercury is effectively removed from the water. Although dredging operations do stir up river bottoms a bit, the runoff from each year's massive snowpack dislodges and moves around more sand, gravel, and silt than the few thousand miners will ever move.

A 1,500-page, $1.2 million dollar Environmental Impact Report (EIR) conducted on the practice of suction dredge mining, which the Department of Fish & Game has worked on for the last 2 years, conclude that suction dredge gold mining can be resumed in the State safely, and pose "less than significant" impacts. But in a recent budget

maneuver, language was inserted into a Trailer Budget Bill which would prohibit the EIR conclusion from ever being published!

Failing to stop dredging by substantiating their claims of damage with science, they have now enlisted legislative friends to stop dredging by trickery. The State government has resorted to dishonest shenanigans and budgetary trickery to take away private property rights and end gold dredging, even on private property!

Even though the claims of damage were wrong, the legislature pulled a fast two-step sideways to stop me, and many others, from insisting that the ban be lifted. According to an editorial in the Sacramento Bee, because of the economic crises that has affected the California budget, there is not enough money to issue the permits necessary for mining! Not only is this unbelievable on its face, but it is tremendous government overreach that ignores the reality of river use, private property rights, and the EIR itself. It is nothing less than a Takings of our rights without grounds. It is environmental extremism gone wild that is stopping good Americans who want to make their living from California's most recognized resource.

By the DFG's own calculations, the industry contributes $23 million annually, and those who benefit are in the lowest income counties in the State. In addition to the retailers of mining equipment throughout the State, at least 14 other sectors of small businesses including grocery, restaurants, lodging, fuel and hardware are awaiting the EIR publication because their businesses depend on the miners getting back to work." Approximately 4,000 miners create the $23 million annual industry in California, and they have been the center of controversy for a handful of environmental groups

This legislative fiat is an attack on the Gold County, rural America, and individual freedoms. It lacks any justification beyond some people's idea of political correctness. It is extremely important for everyone to understand the situation of the political process in Sacramento. The state legislature is not listening to the people, just to a hand full of special interest groups.

The question is not whether we can afford to publish the EIR and get to work, b
ut how on earth we can afford not to put 4,000 people back to work and restart a $23 million industry.

Ray Nutting, Supervisor
El Dorado County Board of Supervisors.

The Great Gold Nugget Scam

By Doug Hornig, Casey Research, Jun 20, 2011
http://us.mg4.mail.yahoo.com/neo/launch?.rand=6fjgnfn9jubjc

You know an asset class is hot when the scam artists start coming out of the woodwork. Such was the case during the real estate bubble of this century's first decade, as those

selling mortgages packaged them in ever more complex vehicles, many of which are now known to have been utterly fraudulent.

Is gold now where real estate was then?

No, not quite. But the notion that we are approaching the same ballpark seems borne out by one of the more creative scams we've seen recently. And we're not talking about all those hucksters now trying to separate you from your old jewelry for a fraction of its value.

We're talking about the great nugget scam.

Some readers who follow all things gold may remember the story. In February of 2010, a California landowner named James Grill was walking his property near Washington in Nevada County, California. Using a metal detector, he unearthed a 98-ounce gold nugget in an un-mined ancient streambed adjacent to the south fork of the Yuba River. It wasn't the biggest nugget ever discovered - the largest known from California weighed a whopping 54 pounds and was found in 1859 in Butte County - and good-sized ones have turned up in Australia in recent years. But nothing similar had been found in the Golden State in a very long time. And the older biggies have almost all been melted down and sold. The Smithsonian's top sample weighs 80 ounces.

This find caused quite a stir, leading to a frenzy of speculation as to what would happen to it, and what price it might fetch if sold. The nugget could be expected to command a premium from a collector who wanted to own the biggest pristine hunk of California gold still in existence.

All questions were answered on March 15 of this year, when the Washington nugget was auctioned in Sacramento. After a short but frantic bidding war among a half-dozen anonymous buyers, the piece went for $460,000, well over three times its melt value at the time.

Now we have to revise that last paragraph. All questions were answered but one: Where did the nugget come from?

The answer to that is now up for grabs. On June 4, a Melbourne prospector named Murray Cox came forward after seeing a photo of the Washington nugget in a mining magazine, and claimed that it is actually the Orange Roughie nugget (for its fish-like shape), which he discovered in Australia and sold in 1989. He provided a Stockton TV station with a 1987 newspaper article from the Melbourne Herald Sun detailing the find. In side-by-side photographs of the two nuggets, they appear to be identical; they also match in weight.

(Of some further suspicion is the fact that after the original "discovery," a website appeared seeking investors to help develop a commercial mining operation called the Lost Scotchman Mine on the 180-acre property. The nugget was prominently displayed, with the suggestion that it might be just the "tip of the iceberg." The property is

landlocked, and federal court documents show that Grill has been involved in a long-running legal battle with the United States Forest Service to gain road access.)

At first, Reno auctioneer Fred Holabird - who handled the sale of the Washington nugget - stood by its authenticity. Now he says, "I got taken as bad as anyone," although he expressed surprised that no one recognized it while it was on public display for three months prior to the auction. He's still willing to pay for scientific testing that'll definitively verify the nugget's origin but hopes to avoid the expense and effort by encouraging Grill to come clean.

How the buyer will take all this is unknown at the moment. Holabird said he has contacted the Irvine-based Spectrum Group International, a precious metals broker that represented the anonymous buyer, but he has not yet heard back from the company. Legal wrangles are almost certain to ensue.

As we said at the beginning, this apparent scam is indicative of the exploding interest in gold. It won't be the last, you can be sure. But we prefer the straight dope on the subject, which you can get monthly here.

$460K Gold Nugget's Authenticity Questioned

Source: *Ballarat Courier,* Tom McIlroy (6/8/11)

"Auctioneer confirms he now believes the nugget was not found locally."

Ballarat Courier, Tom McIlroy

A gold nugget found near Ballarat in 1987 is at the center of controversy in the U.S., with an American man claiming he made the valuable find. Prospector Murray Cox says he is 100% sure the so-called "Washington Nugget," sold recently for $460K at a California auction, is in fact the one he and friend Reg Wilson found in Rokewood.

Known as the "Orange Roughie," theirs was a local sensation named for its fish-like shape.

The recent nugget dispute started when James Grill reported finding the 98 oz. nugget on his California property. Grill later used the find to create publicity for a proposed onsite commercial mine, and signed an affidavit stating its authenticity.

Media reports suggested Grill's been lobbying land authorities to have road access added to increase the site's value.

The March 16 sale of the nugget at a Sacramento auction

brought it to Cox's attention, and he contacted News10 Reporter George Warren.

"I called them up because I knew people were being defrauded in the sale. It's excellent that it's been exposed, and even the auctioneer believes us now after he tested the gold and examined the photos," Cox said.

Warren tracked down Grill, but the businessman remains silent on the nugget.

The Orange Roughie nugget was sold to a gold dealer for $50,000 over 10 years ago, but the soaring gold market has increased its worth.

With renewed media interest in the controversy, Cox said he was unsure what would happen.

"We didn't set out to make any money out of it, and now it is taking up so much of our time," he said, "I would like the thing resolved." Cox wouldn't comment on the outcome of the sale.

The auctioneer confirmed to media that he now believes the nugget was not found locally.

California Poised to Outlaw Prospecting

Source: *Dailyt Mail* (6/5/11)

"There's gold in them thar hills, but soon you won't be allowed to touch it."

http://www.theaureport.com/pub/na/9783

There's gold in them thar hills, but pretty soon you won't be allowed to touch it.

In California, the state built on gold, the time is up for prospectors who are about to see their way of life declared illegal.

Just 162 years after history's biggest gold rush, diggers—or dredgers as they now are—are losing a long-running battle with environmentalists.

Sucking it up: Suction dredging, the modern day way of prospecting, is accused of being a danger to the environment.

The reason for this mammoth fight is. . .salmon.

At the center of the battle is suction dredging, today's mechanized version of gold panning.

Up to 4,000 people in California use suction dredging to extract gold.

It involves motorized rigs which act like giant vacuum cleaners, sucking up mud and gravel from the bottom of a watercourse and then using gravity to sort tiny quantities of gold from the rocks and dirt.

Environmentalists say the technique disturbs riverbeds where fish such as pacific salmon lay their eggs.

The salmon population has fallen steeply in the Golden State.

The environmentalists also say the dredging releases poisonous mercury into the water.

They persuaded California Governor Arnold Schwarzenegger to agree to a two-year moratorium on suction dredging in 2009 while scientists compile an impact report.

The 800-page report has been finished at a cost of $1.5million.

It recommends that the dredging can carry on, but under a strict set of conditions dictating the size of the machines and when they can be used.

It says that dredging should be banned in some ecologically important rivers and streams.

The report's findings are due to come into effect in six months.

The New California Gold Rush

The Mad Hedge Fund Trader, Published 6/17/2011

http://resourceinvestor.com/News/2011/6/Pages/The-New-California-Gold-Rush-.aspx

The gold rush is back on in California. On my way back from Lake Tahoe recently, I saw that every bend of the American River was dotted with hopeful amateur miners, looking to make a windfall fortune.

Weekend hobbyists were there panning away from the banks, while the hardcore pros stood in hip waders balancing portable pumps on truck

inner tubes, pouring sand into sluice boxes. A sharp-eyed veteran can take in $2,000 worth of gold dust a day. The new 2011'ers were driven by a record price of gold at $1,550 and the attendant headlines, but also by unemployment, and recent heavy rains last winter that flushed of an 8.7 ounce nugget in May near Bakersfield, worth an impressive $10,000. Local folklore says that the Sierra's have given up only 20% of their gold, and the remaining 80% is still up there awaiting discovery. Out of work construction workers are taking their heavy equipment up to the mountains and using it to reopen mines that have been abandoned since the 19th century.

The US Bureau of Land Management says that mining permits in the Golden State this year have shot up from 15,606 to 23,974. Unfortunately, the big money here is being made by the sellers of supplies and services to the new miners, much as Levi Strauss and Wells Fargo did in the original 1849 gold rush. Of course, they could much more easily buy the Spider Gold Trust Shares ETF (GLD), but it wouldn't be as much fun.

"The streets of 47th Street are literally paved with gold," says New Yorker Raffi Stepanian, pioneer of a phenomenon we'll call urban gold panning.

Working with tweezers and a butter knife, Stepanian mines the sidewalk cracks of the city's Diamond District. He says he finds enough diamonds, rubies, platinum and gold to make a living.

"Material falls off clothes," he tells the New York Post, "on the bottom of shoes, it drops off jewelry, and it falls in the dirt and sticks to the gum on the street."

His mind's in the gutter: Raffi Stepanian with his trusty tweezers

Stepanian, a freelance diamond setter, got the idea when he noticed minute gold scraps on the floor of a diamond exchange. "If it's on the exchange floor, it's got to be outside as well."

But is it really good enough to make a living? Stepanian says his findings over recent a six-day period generated $819 in sales. Assuming he could keep up this pace indefinitely, six days on, one day off, that would work out to a pretax annual income of $42,588.

In New York.

Don't give up the day job, Raffi.

A lesson from the gold standard

Gold Money, 2011-JUN-19

http://www.goldmoney.com/gold-research/a-lesson-from-the-gold-standard.html?utm_source=english-subscribers&utm_medium=email&utm_campaign=w25-2011-newsletter

Sir Isaac Newton invented the gold standard circa 1700. The gold standard undoubtedly ranks as one of his greatest achievements given that it became the backbone of the British Empire.

The pound was "as good as gold", as the saying went, and the pound banknote was accepted around the globe as a substitute for gold itself – but not always. The paper-pound was willingly accepted until there was a banking or financial crisis, which meant the quality of the currency and the reliability of banks became questioned.

At those moments – which occurred with surprising frequency – there was a rush to gold because of its safe haven attributes. Gold is a tangible asset, and with tangible assets one does not have any risk of default. The value of a tangible asset is not dependent upon a bank or government promise.

Even though paper currency was more convenient to use in commerce than heavy gold coins, during a crisis convenience did not matter. But safety did.

As people frantically converted their paper pounds into tangible gold, a panic inevitably ensued because there never was enough gold to satisfy the redemption demands. Too much paper had been issued, causing losses by those who held this paper, which in many cases became worthless.

These panics served a useful purpose. They acted as a periodic throttle on bank credit expansion and the speculation that follows from easy money policies during the boom times when credit is cheap, plentiful, and available from the banks with few questions asked. Do you recognize a pattern here?

The present financial crisis is not unlike those previous panics recurring throughout monetary history. Even though the pound, euro, dollar and other national currencies are no longer redeemable into gold, these paper currencies can be exchanged for gold 24 hours a day.

People vote with their pocketbooks. In the months since the collapse of Lehman Brothers in September 2008, people everywhere have been exchanging their paper money for physical gold.

This trend that favors physical metal in preference to paper currency is well established. It is one that is likely to continue. The clamor for physical metal will continue until debt is brought under control, and it is here where the gold standard is sorely missed. It no longer imposes an essential discipline on bankers who don't know when to stop lending and politicians who don't know when to stop spending.

We can learn from the numerous episodes of monetary history in which banks and currencies fail. We can put into practice today the simple strategy that enabled people to successfully weather the financial storm. They did it by owning physical gold and silver. This same time-proven strategy is helping people today.

You're Not Imagining It
The Gold Miners Are Tanking

by John Rubino on June 17, 2011
http://dollarcollapse.com/gold/youre-not-imagining-it-the-gold-miners-are-tanking/

Conventional wisdom — backed up by years of observation — states that gold mining shares tend to outperform the underlying metal in good times because they're "leveraged to the price of gold." That is, their extraction costs are more-or-less fixed, so when gold rises, most of the increase flows directly a miner's bottom line, increasing its earnings at a rate that exceeds the metal's move.

With gold near a record, most miners should put up ridiculous earnings in the year ahead, which should make their shares act like tech circa 1998, right?

Nope. The biggest miners, whose shares populate the GDX gold miner ETF, did outperform gold (represented here by the GLD ETF) during most of its recent epic run, just as you'd expect. But in April the two trends diverged, and lately the divergence has become a chasm. Gold is up 22% in the past 12 months and the big miners are, as a group, virtually unchanged.

This is painful and humbling for investors who bet on gold by loading up on mining shares, only to discover that they were right on the macro but wrong on the implementation. But one person's pain is another's opportunity, and the market appears to be offering a whopper here.

Assuming that the long-term relationship between gold and the miners holds — and there's no reason to think it won't — then the trend lines will converge at some point in the coming year. This can happen in several ways: They can both fall, but gold more than mining shares. They can both rise, but mining shares can rise more. Or gold can tread water while the miners go up.

Which means there are two ways to play it: Buy the miners and ride them, which will work if gold goes up. Or short gold and buy the miners, in which case you don't care where gold goes as long as the miner/metal relationship reverts to normal. The first is simpler but only works in a rising gold price scenario. The second is an arbitrage that should work no matter what gold does in the year ahead, though it carries an emotional price, since shorting gold is disturbing on a lot of levels.

On the other hand the idea of making money while being short gold — in the middle of a global currency meltdown — has a certain contrarian appeal.

One final thought: If the big miners are underperforming because of fears that they can't replace the reserves they're consuming, then we're in for a buyout binge as they use their rising cash flow to gobble up the juniors with the most accessible reserves. So the small-cap miners will end up being the best part of this market.

Why There's No Bubble in Gold and Silver

Source: Jeb Handwerger, Gold Stock Trades (6/13/11)

"Miners are languishing, but this anomaly may not last much longer."

Any thoughts of a bubble in precious metals are not pertinent at this time. As long as mining stocks are not in favor then any thoughts of a bubble are not applicable in the current situation. Mining stocks should be soaring in tandem with their brothers in bullion. Such is not the case. Miners are trading far below general market valuation. In past history during a bubble, mining stocks soared to hundreds of dollars a share at the same time as bullion.

Wealth in the ground represents an open-ended warrant on mining potential. Mines can grow, new ore bodies can be found, while bullion has no such potential open-ended expansibility.

Gold mining stocks (GDX) are incredibly cheap at $1,500 gold (GLD). Before the credit crisis in March of 2008 as gold hit $1000 an ounce, miners (GDX) hit its all time high of $55. Now three years later gold is 50% higher, yet the miners have barely been able to break out of the $55 range. Yamana (AUY) and Kinross (KGC) Gold are two majors that have been significantly underperforming gold over the past three years and are not near their pre credit price levels in 2008. These stocks have not provided any leverage to the price of gold to their shareholders. Investors are sticking to the bullion ETFs and

are disinterested in the miners. This lack of interest in this sector signals we still have some way to go in this precious metals bull market.

The gold miners should be trading higher if they kept pace with the rise in the bullion. The standard deviation between miners and gold bullion has never been so great. It is at times such as these that investors can benefit from this apparent discrepancy.

Currently, mining stocks have corrected because of apprehension regarding the possible exit from QE2 and growing difficulties for miners worldwide. Investors who were burned during the 2008 credit crisis are concerned about a repetition of such an occurrence and its effect on a potential counter trend rally in the U.S. dollar (UUP) and long-term Treasuries (TLT). Small mining companies (GDXJ) depend on a readily available line of credit. Investors fear if the flow of capital were to be shut off as had been their experience in the past, their ability to operate might be impaired.

This may represent a buying opportunity for investors in small miners (GDXJ). Miners represent assets in the ground whereas ETFs such as GLD and SLV may have a built in weakness in the actual physical gold and silver they are holding. If called upon to produce the actual bullion, they might not be able to do so.

This would favor mining stocks that represent actual wealth in the ground.

There may be an implicit weakness in the very nature of a strictly bullion ETF. Simply put a large quantity of bullion may not be able to be produced on demand. Do not be surprised if the bullion ETFs find themselves unable to meet the demands of the marketplace.

In such cases, the miners would once again come into favor as the investment vehicle of choice. At present there is a deviation between bullion and assets in the ground. Investors may be reluctant to hold paper in such a climate of fear and uncertainty. There are presently astute wealthy investors who have sold some of their bullion to purchase mining stocks.

Again, note that many miners are presently languishing while bullion ETFs struts across the financial stage. This anomaly may not last much longer. Presently, mining stocks are going through a major fire sale, while bullion commands center stage.

In the markets, it's prudent to expect the unexpected. That's why we should seize the opportunity to buy straw hats in winter. Such an opportunity may be upon us now, as bullion ETFs may stumble in the future.

The gold mining ETF (GDX) may be making a critical turn in the low 50s as it has broken through trend support. The technical conditions are even more oversold than the reversal lows in January 2011, July 2010 and February of 2010. A move above the trendline and moving averages may turn out to be a very powerful buy signal and signal the current correction is over. Careful monitoring of the uptrend is required.

Is It Time to Dig for Gold with Miners?

Source: NASDAQ (6/15/11)

"The GDX will go higher, but don't expect a smooth ride."

http://www.theaureport.com/pub/na/9917

Gold miners are now very attractive from a long-term perspective. I am not sure of the timing down to the day or the week, but now could be a great time to position for the next few years.

The first reason is simple rotation: Miners have lagged the performance of the precious metal itself since the beginning of December, and they fell to multi-year support when gold and silver crashed earlier this month. Using the Market Vectors Gold Miners ETF (GDX) as a benchmark, we find that gold miners are at the same price where they peaked in March 2008, when bullion was worth about one-third less than it is today.

The next reason is that precious metals remain in a secular uptrend. The push we just saw to $1,500 per ounce was not the kind of "blow-off" top that often occurs in commodities, but a higher high in the context of an ongoing bull market.

All those skeptics who have scoffed at gold for the last decade are now quietly changing camps, which is why there are more buyers than sellers now. But given the cheapness of miners versus bullion and the fact that the GDX is at long-term support, I suspect that gold miners are now a better place to invest than the metal itself.

My one concern is that the GDX might see another drop, which makes it wise to build a position slowly. But realize that once we leave current levels, there will probably be no going back.

Finally, I want to add that all of this applies to silver, but with much, much more volatility because it is a high-octane, turbo-charged version of gold. Long term I believe it's also going much higher—but don't expect a smooth ride.

Thomas G. Donlan, in an editorial in the June 20th issue of Barron's magazine

"It's perfectly reasonable to think that the Federal Reserve has a deliberate, if stealthy, policy of debasing the currency. Maybe the only serious question is how long the policy has been in effect.

The latest version of this conspiracy theory, which has many adherents in odd corners of the worldwide club called Wall Street, originates with the observation that the Fed is printing more dollars than the economy seems to need.

The Fed's new money buys Treasuries and other questionable securities on the open market, raising prices and pushing down interest rates. Some of the new money also pays for imports by exporting inflation.

Theoreticians of inflation say the Fed is doing this to make the national debt affordable. Knowing that the government must borrow excessively, the Fed accommodates the Treasury, monetizing the debt as it did during World War II -- another moment in history when we could not afford high interest rates.

The theory of inflation-by-monetization is reasonable, but there are other possibilities. What passes for Occam's Razor in Washington contradicts it: **'Never assume that events are being driven by a conspiracy when stupidity would explain them just as well**.' "

Can Gold Prospectors Cushion Volatility

Source: Karen Roche of *The Gold Report* (6/22/11)
http://www.theaureport.com/pub/na/9997

Mercenary Geologist Mickey Fulp has adopted a new prospector-generator model portfolio with an emphasis on good people. In this exclusive interview with *The Gold Report,* he outlines the impact global volatility could have on junior mining companies.

Companies Mentioned: Almaden Minerals Ltd. Antofagasta PLC Avrupa Minerals Brazil Resources, Inc. Estrella Gold Corp. Eurasian Minerals Inc. Uranium Energy Corp

The Gold Report: Is there a danger of food shortages starving emerging economies and putting an end to the secular commodity bull market? In your March 21 *Musing* newsletter, you tracked the commodities market back to 1955, illustrating the worldwide food inflation problem crushing poor countries. You have also written about the important role of these same emerging economies in pushing the eighth year in a commodity bull market. So I have to ask, could food shortages choke growing commodity demand?

Mickey Fulp: I think yes. I am less concerned about food inflation now that oil is down to less than $95 a barrel than I was when it was $115. It eases the pain a bit. But, we saw in the early part of the year two Middle Eastern countries with oppressive regimes fall. In Tunisia, a government that reigned for 23 years was taken down because of food riots. In Egypt, the catalyst for the government's fall was food inflation. It is my opinion that if unrest were to spread to eastern Asia where a lot of the commodity demand growth is located, that could create another economic crisis and a collapse in the secular bull market for commodities—similar to what happened from mid-2007 to early-2009 when a U.S. banking crisis spread worldwide, bringing the global economic system to the verge of collapse.

TGR: Didn't all commodities drop during that collapse, even gold at least for a short time?

MF: Absolutely. It went down to $680/oz.

TGR: I don't even think the U.S. dollar did that well. Everyone just pulled in. So, if we see a shortage of food in eastern Asia, would that instill a growth slowdown and thus inhibit commodities? Or would precious metals begin to soar?

MF: I think precious metals would shine. Let's use an analogy. In November of 2008, the gold price collapsed. It went down to $680/oz. and it hit a double bottom before it started rising. An amazing thing is that in the early part of 2009 gold and the dollar index increased at the same time. That's quite unusual. The reason for that, in my opinion, was a run to what were perceived as safe havens. In the scenario we're talking about right now, I would be very bullish on gold. That won't preclude a selloff like we saw in the early fourth quarter of 2008, but to be safe, I will always want to have 10% of my net wealth in gold.

TGR: Wasn't some of that 2008 decrease in gold due to massive deleveraging as people were forced to cash out to pay their calls?

MF: Yes and the reverse of that is happening now. The hedge funds and speculators pouring cash into gold paired with quantitative easing is a big reason for the run-up in the price of gold in the last year. We're printing more and more fiat currency. So, if a crash were to happen again, the hedge funds will pile out of the commodities, take profits and sit on the sidelines for a while. If stocks start to collapse and margin calls come, people will liquidate whatever is . . .

TGR:. . .liquid.

MF: Yes, and that could be the precious metals again. But, the long-term purchasing power of gold is going to remain the same. So, overall we would expect gold to do quite well in an economic crisis.

Can You Pass the 2011 Silver Quiz?

Source: Jeff Clark, *BIG GOLD* (6/6/11)

"The forces underpinning the silver bull market aren't going away any time soon."

http://www.theaureport.com/pub/na/9779

CPM Group recently released its *2011 Silver Yearbook*, one of the industry's most comprehensive sources of information on the silver market. Though mostly a reference book, I uncovered some interesting facts that paint a decidedly bullish picture for the metal going forward.

If you're a silver investor or are concerned about the recent selloff, you may find the following data very compelling. It provides an inside track on the market and will make us all more knowledgeable investors.

For fun, I put what I read into the form of a quiz. See how many you can get correct:

1. The #1 driver for silver's price increase in 2010 was:

   A. Investment demand
   B. Fabrication demand
   C. Lower supply

While both fabrication demand and supply rose last year, investors bought 142 million ounces of silver—the third highest level on record and the highest since 1980. This pushed the price into record territory.

It's noteworthy that investment demand was higher last year than during the recession

year of 2009. This suggests that investors buy silver more out of dollar devaluation and inflation fears than simply due to an economic contraction.

2. Silver mine production:

A. Exceeds demand
B. Matches demand
C. Falls short of demand

Silver produced from worldwide mining totaled 667 million ounces last year—but total demand hit 986 million ounces. Despite the fact that mine production has increased 33% since 1999, it falls far short of supplying the market's needs.

While scrap coming to market makes up the difference, this gap is one of the more critical issues going forward. The delicate balance between supply and demand will become increasingly precarious as overall demand continues to grow.

3. Household demand for silver (cutlery, flatware and candlesticks) hasn't risen in 10 years. Jewelry fabrication is up but a blip. Silver use in photography continues to fall. So, true or false?: Total demand is falling.

False. Industrial use has more than made up the difference from declines in other uses and is pushing demand to new levels. Since 1999, consumption in electronics has increased 120%. Silver usage in solar panels began in 2000 and is up 640% since then. Silver was first used in biocides (antibacterial agents) in 2002 and, while a small niche, it has already grown six-fold. In fact, new uses for silver are being found almost every day, particularly in the biocide arena, making it increasingly difficult to catalog all its growing applications.

The Silver Institute forecasts that total industrial use of the metal will rise 36% over the next five years, to 666 million troy ounces annually. That's a lot of silver, meaning this portion of demand—which is roughly 60% of all fabrication—isn't letting up any time soon.

4. Silver represented what percent of global financial assets at the end of 2010?

A. 1.7%
B. 0.7%
C. 0.07%
D. 0.007%

In spite of last year's record-high prices, silver is, by any account, a miniscule portion of the world's wealth.

The ratio's high occurred in 1980, reaching 0.34% of financial assets. Silver as a percentage of global assets would have to grow over 48 times to match the record. It is true that many more paper assets exist today than 30 years ago, but the renaissance in silver will continue to increase its portion of worldwide assets.

5. The largest manufacturer of silver coins is the U.S. Mint, which sold 34.7 million ounces last year, about 46% of the world total. What country is the second largest?

A. Austria
B. Canada
C. UK
D. South Africa

The Austrian Mint contributed 15% of total silver coin sales last year (11.4 million ounces), an increase of 26% over 2009.

Still, the American Silver Eagle rules the global roost. Given how recognizable it is around the world, it's what to buy if you don't own enough metal.

6. Of the following groups of countries, which is increasing silver production and which is in decline?

A. Mexico, Australia, China, Argentina
B. Peru, U.S., Canada

Countries in group A are increasing production, while to the surprise of many, all of group B is in decline.

This has direct ramifications for your silver stock investments. Total newly refined supply is expected to surpass one billion ounces for the first time in history this year, so make sure you have some exposure to countries where production is growing.

7. The average cash cost to produce an ounce of silver from primary silver mines is:

A. $7.16
B. $6.16
C. $5.16
D. $4.16

Of the 30 primary silver mines in the world, average cash cost rang in at $5.16 per ounce (net of byproduct credits). This is almost double 2002 levels. The silver price has risen 650% in the same time frame, however, so margins have risen in spite of higher costs.

8. The only governments that hold silver in inventory are the U.S., Mexico and India. How many combined ounces do they hold?

A. 55 million
B. 155 million
C. 255 million
D. 355 million

Only 55 million ounces are estimated to be stored in these three countries. This equals only 5.6% of annual global demand. Governments held approximately 355 million ounces in 1970, but this has diminished largely due to the U.S. decision to stop using silver in its currency in the 1960s and other governments following suit.

No other countries are believed to hold any silver in inventory. Mine production and scrap supply had better keep up, because there is no backup source.

9. China accounts for how much of worldwide mine production?

A. 9%
B. 11%
C. 14%
D. 16%

Chinese mine supply totaled 102.7 million ounces last year, 16% of global production. China is the third largest silver producer, behind Mexico and Peru.

Mine production in China has more than doubled just since 2000, largely due to Beijing's decision to deregulate the state-controlled market the year before. This trend is certain to continue, due to rising silver prices and the fact that many parts of the country are underexplored. If you don't own a Chinese silver producer, you're missing out on some of the most explosive growth around the globe.

10. What is the weakest month of the year for the silver price?

A. January
B. June
C. July
D. October

Summer is usually the most sluggish time of the year for silver and July is historically the weakest. Got your dealer's number handy?

It's clear that the forces underpinning the silver bull market aren't going away any time soon. Demand is high, but it's not an anomaly when viewed through an historical lens. Silver has been used as money for over 3,000 years and the word for "money" in many languages is "silver."

Meanwhile, our current monetary issues are far from over, won't be easily resolved and will take years to play out. Precious metals are proven forms of protection for this environment. Silver, along with gold, is your best defense against unsustainable fiscal imbalances and massive currency debasement and will be a profit center for years to come.

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from Marc Faber, in the "Midyear Roundtable" interview in the June 13th issue of Barron's:

"Not to own gold is to trust the value of paper money and the government's integrity. No one in his right mind could trust the U.S. government any more. The government's economic statistics are distorted and there is no consensus on how to solve the budget crisis. So, yes, people should own some gold. It can correct by $100 or $200 an ounce, but you own it as an insurance policy. The world is grossly underweight gold. It is flooded with U.S. dollars. Investors might be bearish about the U.S. dollar, but international dollar reserves exceed $9 trillion. Compared to that, there is very little gold."

Don't Get Suckered by Wall Street's Wimpy Gold Price Forecasts

***By William Patalon III**, Executive Editor, Money Morning*

http://moneymorning.com/2011/06/21/dont-get-suckered-wall-streets-wimpy-gold-price-forecasts/

I was scanning the news wires in search of a particular item late last week when a story caught my eye: It seems that **Newmont Mining Corp. (NYSE: NEM)**, the world's No.2 gold producer, believes that the burgeoning demand from Asia's newly minted middle class will send the yellow metal up to $1,600 this year and even higher in 2011.

The Newmont story reminded me of another news item that I'd read just days before - a news-service poll of analysts that said that the current Wall Street consensus was for gold prices to reach $1,700 an ounce in 2015.

What a joke.

You see, just a few months back, when gold and silver prices seemed like they were jumping every day, Wall Street and the other Big Boys were blitzing us with messages explaining why we "had to" buy gold.

You heard it on the radio. You read it online. You saw it on the nightly news. We were even inundated with those late-night infomercials or "junk-mail" packets that detailed the benefits of those funky "collector coins" (including some that were "individually hand painted," no less!).

Gold was going to $2,500, $5,000 or even $10,000. And only fools weren't in gold - or so they claimed.

But when gold prices stopped running, so did Wall Street's aggressive forecasts. In fact, we've basically seen an about-face - as if the Big Boys are now low-balling their gold price forecasts.

Don't get suckered.

If you buy what Wall Street is selling right now, you'll lose in a big way - twice. You'll miss out on the major profits that will come when gold prices run up to their inevitable new highs. And - perhaps even worse - you'll get left behind and find your buying power eroded in a big way when the inevitable harsh inflationary pressures ultimately take hold.

Six Myths of the "Gold Bubble"

Source: Adrian Ash, BullionVault (6/20/11)

"Those calling gold a 'bubble' are talking through their. . ."

http://www.theaureport.com/pub/na/9958

Anyone calling gold a bubble is talking through their hat or worse. . .

YES, GROWTH IN global gold demand is rapid. No, another decade of quintupling prices isn't nailed on. But neither of those facts makes gold a "bubble" today.

In fact, people calling gold a bubble right now are talking through their hats—at best. Take these jokers, for instance, all holding forth in the last month.

Myth #1: "Gold Is a Crowded Trade"

The finance pages are packed with gold headlines, but actual investment levels remain low. In the early 1980s, private-bank clients were expected to hold 3% of their wealth in gold, many times the 0.5% allocation seen across the finance industry today. Even in the bullion market itself, three-quarters of the 500-plus analysts and traders attending last autumn's LBMA conference in Berlin said they held as little as nothing ("Between 0% and 10%") of their savings in precious metals. Saturation is a long way off.

Myth #2: "Gold Has Madly Rushed to $1,500 Without a Correction"

Compared with undeniable bubbles, gold's recent climb just isn't steep enough. Gold prices rose 70% for dollar investors in the last 3 years, but U.S. stocks rose 160% in that length of time in the 1920s, and Germany's Neuer Markt rose over 1600% starting in 1997. London's South Sea Bubble of 1720 rose ninefold in five months! What makes gold remarkable today is the longevity—not speed—of its bull market, which has delivered positive, inflation-beating returns to U.S. and UK savers every year since 2001.

Myth #3" "Gold Will Fall Hard When Interest Rates Rise"

Only if interest rates outpace inflation, and what are the chances of that? People turn to gold when cash—its major (and otherwise better) competitor as a store of wealth—loses value. Sub-zero real U.S. rates have already cost cash savers over 3% of their spending power in the last 18 months. Rates currently lag inflation by the widest margin since the summer of 1980. Back then, however, the cost of living was rising at double-digits and could not be talked away.

Myth #4: "Inflation Is Set to Fall Back"
How, exactly? The cost living is hurting earners, savers and seniors alike, but mostly because their incomes aren't growing. On the official data, the Consumer Price Index has risen barely 11% from five years ago, its weakest long-term rise since 1967. Anything lower, and QE3 looks certain, thanks to the Fed's anti-deflation fixation. If U.S. inflation is headed anywhere from here, it's not down.

Myth #5: "Gold's Not an Investment, Because It Doesn't Pay Interest"
A desperate claim that was true, at least it was a decade ago at $260, and true evermore unless an investment bank sells you a structured derivative. Gold's lack of income means it has no promises to break, setting it apart from all other asset classes—most notably debt. It's hard to accuse gold buyers of "over-optimism" (Charles Kindleberger's definition of bubble), but this market would only move into "irrational exuberance" (Robert Shiller's phrase) if it kept rising *after* monetary policy switched from weak to strong.

Myth #6: "Gold Will Burst When the World Economy Settles Down"
You've got to love that "when." But beyond its impact on policy rates, economic growth has little to do with gold prices. Gold fell vs. the dollar during the U.S. recessions of 1980 and 1990, only to triple during the go-go years of 2003–2007. In fact, across the last four decades, gold shows a negative but statistically insignificant correlation with quarterly U.S. GDP of -0.11 year-over-year. Quarterly GDP in China (the world's second-biggest buyers) shows a negligible 0.08 correlation since 2005. Rupee gold prices since 1996 show only a 0.32 correlation with Indian GDP.

People started saying gold was a bubble at $1,000 in early 2008, at $1,200 and $1,300 in 2009 and 2010, and now at $1,500 and above in 2011. Yet still nothing has changed to the core case for gold. If anything, the fundamental reasons for private savings going to buy gold have grown stronger.

Ultra-loose money is locked in by record peacetime debts and deficits. Central bank and private Asian gold buying continue to grow as economic power moves east. Everything else is just noise—the one excess to which gold investing is prone right now.

The Bear Is Back

Source: Toby Connor, Gold Scents (6/17/11)

". . .and this time it'll be much worse; this is not a normal correction."

http://www.theaureport.com/pub/na/9947

Don't let the perma bulls fool you, this is not a normal correction—and it has nothing to do with Greece or Spain. This is the beginnings of the next leg down in the secular bear market and the start of the next economic recession/depression. And this time it's going to be much, *much* worse than it was in '08.

For months now, I've been warning investors to get out of the general stock market. I was confident that once the dollar put in its three-year cycle low the next deflationary period would begin and stocks would enter the third leg down in the secular bear market.

Well, the dollar did put in the major three-year cycle bottom in May and stocks almost immediately started to head down. This won't end until stocks drop down into the four-year cycle low due sometime in mid to late 2012.

Let me explain to you what is unfolding so you don't listen to Wall Street or CNBC and get sucked down into the next bear market.

In a healthy bull market, intermediate degree corrections hold well above the prior cycle troughs. Higher highs and higher lows. When that pattern of higher highs and higher lows on an intermediate timeframe gets violated, it's nearly always a sign the market is topping. We're at that stage now, as the market is moving down to test the March intermediate cycle low.

Oil already has violated its intermediate bottom. Energy stocks are a big part of the S&P and are going to be a big drag on the index going forward.

In a healthy bull market, we shouldn't even come close to testing the March low. Actually, this market hasn't been healthy since last summer, at which point I recognized the large-megaphone topping pattern that was being driven by a double dose of QE.

Last year, the market was able to push higher for almost a month on momentum after QE1 ended. This market has already rolled over even though QE2 isn't scheduled to stop until the end of June. The conclusion is that the market is much weaker now than it was

when QE1 ended. We all know what happened last year when the money pumps were shut off. It led to the flash crash and a severe stock market correction. It would have led to a new bear market except Bernanke quickly started QE2.

Actually, QE is the reason the market is in trouble. As I said over two years ago, all QE did was give us a brief reprieve and temporarily reflated asset markets. I knew all along it wouldn't create jobs and it didn't. (Well I guess a few bankers got to keep their jobs and pay themselves some big bonuses, but the general population was never going to prosper from QE).

As a matter of fact just as I said it would, QE ultimately spiked commodity inflation, and just like I knew it would, commodity inflation has now poisoned the global economy, crushed discretionary spending, squeezed profit margins, and is sending the world down into the next recession.

Unfortunately, we are entering this recession in a much weaker state than we went into the last one. Real unemployment is somewhere around 12%–15%. It is going to get much, much worse. I often wonder how in the world we could appoint such fools to run our monetary policy. I mean seriously, how many times must they make the same mistake before they figure out they are the cause of our problems?

Ok, enough of the Fed ranting, back to the market. . .not only do we have a market that is testing the prior intermediate cycle low when it shouldn't be, we also have a clear topping pattern in place. Just like in 2007, the market managed a marginal breakout to new highs in May that failed to follow through. You can see the same thing occurred in October of '07. This is quite often how markets top. . .or bottom for that matter. A technical level is breached; technicians either buy the breakout or sell the

breakdown. Smart money fades the move and the market reverses. This is exactly how the 2007 top was formed. It's also how the market bottomed in '02. And now the cyclical bull has topped with that exact same reversal pattern in 2011.

This isn't the only warning sign, unfortunately. The banks and housing have been diverging from the rest of the market for some time. They're still are and will remain impaired no matter how much money the Fed throws at them. They led the market down into the last bear and are leading it into the next bear.

Here's what I expect to happen over the next two months. We should soon test the 1249 intermediate cycle low. Actually, I think we may break below that level marginally. As most of you likely know by now, breakdowns and breakouts usually fail to follow

through. So, I expect we'll see a violent countertrend rally once the March low is penetrated. That should wipe out all the technicians who sell into the breakdown.

But the rally, though I'm sure it will be convincing, will almost certainly be a countertrend affair that will quickly fail. The problem is that the current daily cycle is only on day 12. That cycle on average runs 35–45 days trough to trough. Once the countertrend rally has run its course, we should have another leg down—and that will almost certainly cause tremendous damage to the global stock markets.

Once the market penetrates the coming low it shouldn't be long before traders recognize that something is terribly wrong. At that point, everyone is going to head for the exits at the same time, which should lead to some kind of waterfall decline bottoming around the middle of August. This is when I expect Bernanke to freak out and initiate QE3. I have no doubt the market will rally violently on the news as traders have become conditioned to expect QE to drive stocks higher. I expect we will see the market test and maybe even penetrate the 200-day moving average during the fall rally.

However, this too will only be a countertrend affair. QE is the cause of our problems and more of it isn't going to make things better, it will only make them worse as it will start to spike commodity prices again into a rapidly weakening economy. Remember spiking commodity inflation is what caused this in the first place. Doing it again as the economy rolls over into recession is only going to guarantee that this turns into a depression instead of just a severe recession.

Traders and investors need to start preparing for what's ahead. If you ignored me previously and are still invested in the general stock market, exit, either now, or into the rally that should come off the March lows in the next week or two. Don't get fooled by the analysts who will be telling you the correction is over, it won't be. This won't be over until late July or early August.

Get back into dollar denominated assets as the dollar will continue to rally and gain purchasing power in a deflationary environment.

Once it's appropriate we will transfer assets back into gold and precious metals, but it's still too early for that. Gold needs to move down into an intermediate cycle low before we want to buy. My best guess is gold will dip down to somewhere around $1400 over the next 4-5 weeks. I'm monitoring not only the stock market but also the gold cycle in the premium newsletter. I will let subscribers know when I think it's time to get back into precious for the next ride up.

Fiscal Manipulation

Source: Jeb Handwerger for *The Gold Report* (6/20/11)

To Gold Stock Trades Editor Jeb Handwerger, there is an intriguing purpose in the relationship between the national mindset and the intended purposes of economic establishment. "Are we being programmed for QE3?," he ponders in this *Gold Report* exclusive, ultimately proclaiming, "It's sowing time—not selling time."

http://www.theaureport.com/pub/na/9956

While the media is customarily thought to disseminate news, there is a far more intriguing purpose in the role of the relationship between the national mindset and the *intended purposes of economic establishment.*

It has ever been thus, going back to Shakespeare's Salanio character in "Merchant of Venice." Upon meeting colleagues, the characters would greet each other with the question: "Now, what news on the Rialto?"

The Rialto was a place where the powers that be would meet in the morning and exchange ways to use the day's news to establish desired policy. The Roman baths were also venues in which senators and policymakers would formulate strategies. Of course, Joseph Goebbels and the Stalinists also realized the pivotal role played in the intermarriage of news and economic policy.

Similarly, today we observe the fine "Roman hand" in planting stories to influence a kind of Orwellian mindset in the furtherance of establishing desired fiscal objectives—the doublethink, paranoia, deception and delusion.

It is more than coincidental that, when the elites wish to formulate their desired goals in such matters as quantitative easing (QE), bailouts and Keynesian pump priming, negative economic data will be released. It's the same old story.

The Obama team is dedicated to Federal Reserve Chairman Ben Bernanke's philosophy of avoiding depression through the printing press to proliferate cheap money. We are being set up for the acceptance of quantitative stimulus by whatever means and guises necessary.

Until now, everything was coming up roses. National recovery was in the air. Then, all of sudden this week, data turned on a dime. Economists were compelled to rethink hitherto positive figures. Are we being programmed for more QE?

It would not be surprising if we were finessed into acceptance of inflationary policies. Bills could be paid with cheap dollars. Moribund local and state governments could pay off their strangling debts. Think of our swollen budget being paid with cheap dollars. A seemingly simple solution to a complex problem. However, there may be another side to the seesaw.

Our erstwhile allies, such as China and Russia, have been making noise about setting up an alternative currency. Witness Greece and the PIIGS nations (Portugal, Italy, Ireland,

Greece and Spain). They are desperate for money to extricate themselves from their financial quicksands. More bailouts anyone?

Foreign governments are buying gold at levels not seen in 30 years due to risk of further declines in the U.S. dollar.

Goldman Sachs is under subpoena in Manhattan as possibly playing a major role in the housing market fiasco. The Manhattan District Attorney is investigating "activities in creating and selling mortgage-based securities designed to allow the bank to profit from the collapse of the housing market."

One cannot but hope to consider that many of these dramatis personae are some of the very same folks that are steering our national financial ship of state. Prayer anyone?

All these roads lead clearly to the validity of Gold Stock Trades' essential message. Precious metals, either mining stocks or physical bullion, may be the requisite ports in the upcoming storm.

One need not be a weather forecaster to see the gathering dark clouds and approaching black swans. Hard money is real money. Look only to the best-managed and -financed miners as safe harbors in the gathering tempest. The storm takes time to form. To paraphrase Louis XV, "Après moi, le deluge," (after me, the deluge).

Sophisticated readers don't have to be regaled by today's headlines. They are well aware of the economic syndrome that afflicts our economy by such current headlines as *Market Stumbles as Factories, Hiring Slows Down; Biggest Drop in Stocks in a Year; State and Local Governments Going Broke; Unemployment Rises,* etc.

The voice of Cassandra is heard across the land. Where does all of this negation leave the intelligent investor who is seeking a life preserver with which to ride out the storm?

The U.S. economic system, which had been the jewel of the world, is in crisis. How long can even the healthiest of systems continue being raped by CEOs that walk away with millions from institutions that are crowned "too big to fail?" They have been bailed out by monies contributed by the great American middle class, which is rapidly being disenfranchised by having to pay for a violated economy.

There is talk of QE3 coming to rescue this sick patient—this may be a placebo that does not cure the ailment. After all, Bernanke instituted QE2 only after deciding that the system was too weak to stand on its own. The treatment has always been in front of our very eyes—sound money in a healthy economy. Instead, we relied on the economists for fiat cures.

Indeed, among the few areas that have held up during this recent liquidity selloff have been gold and silver bullion. Both gold and silver bullion continue to move higher as equity markets decline, showing its relative strength. In fact, as of this writing, gold bullion is challenging record levels, while gold miners are hitting new 2011 lows.

The current market acts as if it was a skillful boxer—bobbing, weaving and full of head fakes designed to confuse us. We have entered into the summer doldrums (or should I say, "goldrums") in mining stocks.

Do not be fooled. Precisely at such time is a beehive of footwork occurring beneath the surface. The miners are planting the seeds in what has always been a seminal season before the harvest. They are entering into the drilling and exploring period, which will hopefully lead to pay dirt in the autumn.

What does this imply for astute investors who are aware of the territory? It's sowing time—not selling time. There is fear in the land that may be the antecedent to panic. Nightmarish scenarios of a repeat of the 2008 financial crisis lurks in our subconscious. Good paper may have to be sold to cover bad mistakes.

Gold is continuing toward our $1,600 June target, while the miners continue their nine-month consolidation. These extended formations potentially lead to explosive breakouts. Don't forget August 2010, when silver broke out from major resistance at $20 and we saw its historic move. Could August 2011 be similar for the undervalued miners?

Miners tend to lag the price of bullion, as many of the industry analysts use a trailing three-year bullion (average) price to value projects. The velocity of gold's price ascent this past year is not reflected in current valuations.

Once these higher metrics are updated in the fall, many of the miners may see gains to reflect the more-accurate values of their assets. I will publish new gold and silver mining stock recommendations when I see a clear recovery and reversal in the miners.

Patience and fortitude are our constant marching orders. We are in the midst of a correction in mining stocks that may be short-lived, albeit breathtaking. Heretofore, gold bullion has pretty much kept in lockstep with the miners. In this summer season, we have seen a divergence between the two. Such an anomaly is seasonal and transient.

I believe we may see miners catch up in the second half of the year, which, historically, has been an annual occurrence. We have entered the summer "goldrums," which has become an annual event. Many mining stocks are extremely undervalued and oversold.

Actually, we are at the most divergent level from the mean between miners and the metal in many years. There may be a reversion to the mean between miners and the gold price during the second half of 2011. This period could be setting up an updated base for miners.

The low-volume selloff in miners to long-term support levels indicates shrewd precious metal investors may not have sold their mining equities. Many have reported that they've reallocated their holdings in bullion and repositioned into out-of-favor mining stocks while they are on a "fire sale."

This year, I expect very exciting third and fourth quarters for mining equities as investors realize the potential of gold and silver discoveries during this secular dollar bear market and global currency crisis.

Remember that the arc of precious metals moves to confuse us, but it continues to ascend upward. Presently, our service is in a holding period, waiting for a potential signal for a reversal to add or initiate a position in the best-managed and well-financed mining stocks.

Only the most adroit of traders can manage to exit, and then enter again. The U.S. dollar, while seemingly a safe haven, is acting questionably at this time. Understandably, investors are nervous and deciding, to use the old boxing analogy, to 'throw in the towel' prematurely. Careful monitoring of the markets is required. Volatility has significantly increased as we come closer to the expiration of QE2 at the end of June.

Many imponderables await us that could constructively affect our precious metals portfolio, such as elections in North Africa, turbulence in Syria and Iran, instability in the PIIGS nations, U.S. credit downgrades, QE3 uncertainty, etc. The list is endless and abounds with reasons that validate adherence to our policy of precious metals, which includes well-managed and positively financed mining stocks in friendly jurisdictions.

Gold Stock Trades Editor Jeb Handwerger is a highly sought-after stock analyst who is syndicated internationally and known throughout the financial industry for his accurate and timely analysis of the equities markets—particularly the precious metals sector.

Here's How the U.S. Economy Pulled a Rip Van Winkle

The Second Half of Byron King's Tell-all Interview…

http://us.mg3.mail.yahoo.com/neo/launch?.rand=3f01g8onbcc1n

Behind the Scenes With Byron King Part II

Question: You said that about two generations ago, something happened to American mining. Would you elaborate on that?

For about a hundred years after the Civil War, there was a period of unprecedented innovation and economic growth in the United States. Admittedly it came at a price, and growing up in Pittsburgh, in the 1960s, I remember the smokestacks and pollution.

In 1962 Rachel Carson published *Silent Spring* and it brought about a sea change in the political culture in the US. People in a big way adopted the modern environmental culture. By the early 1970s we saw things like the establishment of the EPA, the Clean Water Act, things like that. We also saw things like the empowerment of individuals or groups to go into either state or federal courts and use environmental laws to essentially

shut down resource development in the United States. Were their goals worthy or unworthy? Well, who wants to argue against clean air or clean water? I like to breathe, I like to drink water. But as a result of this movement, across the US, the industrial side of the economy began to decline. We cleaned up the U.S. environment, after a fashion. We may or may not have cleaned up the earth. The jobs and the industries went someplace else.

It's not that the US stopped using steel or copper, it's that we exported much of the industry and got the steel and copper from other places. We exported the jobs, the technology, and to a large extent the pollution. You see that in China, where they have a much lower environmental standard than we do in the US. Then, like Rip Van Winkle, we woke up two generations later, and realized that our economy is hollowed out. We have this great service economy where we're all going to get rich giving each other haircuts, or doing each others dry cleaning or something.

All kidding aside, one of the largest industries in the United States is legal services. It's something like 6% of GDP. That means we have a big piece of the economy resting on the "industry" of people litigating with each other. Where's the new, primary wealth creation in all this?

Question: What do you mean when you're talking about primary wealth creation?

For as long as there has been human history, the fact is that an economy has to create wealth. If you don't grow it in a field, or pluck it off a tree, you dig it or pump it out of the ground.

When you don't create new wealth, you're living on past wealth. It gets into a lot of philosophical discussions about the merits and direction of the environmental movement. Of course it's worthy to do things right, and operate in a clean manner. But is it also worthy to make it impossible for other people to do things, period? That's a fair question.

Let me illustrate. I'm old enough to remember when the Atlantic Richfield Company (ARCO) discovered the Prudhoe Bay oil field up in the northern part of Alaska in late 1967. They found a massive oil deposit after drilling into an oil-bearing formation that was as big as a 50-story building. Nothing but oil-saturated rock, one of the largest oil fields in the history of the world, with tens of billions of barrels up there.

It was way above the Arctic Circle, in one of the most remote locales you can imagine. It's 10 months of winter, and two months of just really cold and windy. So the oil industry immediately said "we're going to drill it and we're going to build a pipeline to transport the oil." The environmental movement was just starting to flex its muscles. They went to court and asked for injunctions saying "you can't do it." The oil industry actually bought the pipe for the Alaska Pipeline from two mills in Japan, because no American mill could roll pipe as big as they needed. So early on, there was all this pipe literally sitting out in the snow near Anchorage, waiting for people to build this project. But it was frozen in Alaska — literally and figuratively — due to environmental lawsuits.

The environmental battle went back and forth for a couple of years, and in 1973, we had the Arab-Israeli War, the Yom Kippur War, and the US sided with Israel. The Arab world said "Oh yeah? You're supporting Israel so we're going to embargo our oil exports to you."

Basically at the end of 1973 the Arab world quit selling oil to the United States. That meant their oil tankers went to Europe and then other oil tankers went to the United States. It was really more of an oil routing issue than an oil scarcity issue. But due to the shock of the embargo, there were gasoline lines in the U.S. The political message to Congress was "we need oil. We need it now. We're building a pipeline."

So Congress passed a law and it said we're going to build a pipeline. Here's the route. Anybody who opposes this pipeline, you have 30 days to file your suit in one particular court. That court has 90 days to decide the case. If there's any appeal, the appeals court has another 90 days to decide the claims. Basically, within a period of months, all the legal claims went away, end of story. The pipeline was built.

They built the Alaskan pipeline, all 800-something miles of it, in about 3 years. If you've seen the Alaskan pipeline, it's an absolutely astonishing piece of engineering. It crosses three 10,000-foot mountain ranges, it goes under several hundred river and stream crossings. It crosses the Denali fault system, which is larger than the famous San Andreas system of California.

Over the last 35-40 years or so, the country has benefited greatly from the Alaska Pipeline. The worst incident that ever happened was when a drunk guy shot a couple holes in the line with a high powered rifle.

I mention the Alaska Pipeline because we can say, factually and categorically, that it was a critical energy development project for the country. It's been a net benefit to the country and to the world.

Yet in the beginning, the environmental movement almost killed the Alaska Pipeline. It almost never got built. It was only extreme events—an oil embargo in the country, people rioting in the streets over gasoline—that got the U.S. to pass a specific piece of purposeful legislation to build this important project.

Question: So have we seen anything else like the Alaska Pipeline in the past 35 years or so?

I would say no to that. And your question and the answer gets into the need and nature of large-scale resource development. The U.S. is a big place, filled with lots of people who enjoy their standard of living. It's "non-negotiable," according to some politicians. To which I say, "Oh really?" We spent the 1970s, 80s, 90s, and the 2000s in the US basically importing more and more oil from more and more foreign countries that don't like us. We buy our copper elsewhere, we buy our graphite elsewhere, we import all of our rare earths from China. We're at the mercy of a lot of other people for that "non-negotiable" standard of living.

Sure, there's a lot of industry, a lot of manufacturing still in the US, but not as much as there used to be and ought to be. There are vast tracts of the country closed to development. You can say "well, it's national park, it's an important national monument for us."

I'll say well, okay, that's fine, that's a social and political decision we made. But by making that decision not to develop something, you're also making the decision that we're going to buy a product or resource from somebody else, from someplace else.

Who are these sellers? Well, there's a world full of people who do business and send things to the U.S. They take our dollars—and they're done so, so far, but we don't know about the future. And they deliver the product to us. They're going to give us what we need, when we need it, in the volume and quality that we want. Until they don't. And then what?

Yes, it's been a good easy generations. We've been able to get away with feeling pretty good about ourselves. We bask in the aura of our own moral superiority over everybody—hey, we have bigger national parks than they do or something. All while saying to each other that we're not going to build that copper deposit, we're not going to drill those oil wells, build pipelines or slurry mines or roads in this or that area.

That's great. Congratulations to us, right? We can all feel good about that for a while, until we get to the point where the wheels start to fall off the economy. Then we get to the issue of peak everything. We get to where there's not enough of what the economy needs, so the price for necessities goes up while more and more people drop out of the middle class into the growing, long term economic underclass.

Looking from the present, into the future? When we import oil into the U.S., it's not our oil. We're buying it from somebody else, which means they can sell it to somebody besides us. If some Chinese guy comes along and says "I'll pay you more to load my tanker than those guys will pay you to load theirs," guess who will get the oil?

The resource situation hasn't quite gotten there yet, but we're right on the cusp.

The Truth About Wall Street's Gold Price Forecasts

***By William Patalon III**, Executive Editor, Money Morning*

http://moneymorning.com/2011/06/21/dont-get-suckered-wall-streets-wimpy-gold-price-forecasts/

If there's one thing that I've learned during my three decades in journalism, it's that Wall Street *loves* Main Street.

But not in the way that you think.

When I say that Wall Street loves us, it's because it *uses* us - and not that it's looking out for our best interests. Wall Street manipulates Main Street - and does so in a way that

makes money for its very best (read that to mean super-rich) clients and maximizes its own corporate profits.

It's known as the "Greater Fools" strategy, and here's how it works. Wall Street identifies a great potential investment, and then feeds it to its wealthiest clients. Then it whips up a bullish campaign that brings in the mainstream media and piques the interest of Main Street investors - the "marginal" investors who transform a regular bull market into a full-blown bubble.

Those investors, who aren't everyday players, are the difference-makers. They move in - slowly at first, and then in growing numbers - and ignite the market mania that drives prices skyward. This boosts the profits of Wall Street's wealthy clients and maximizes its own corporate profits.

The wealthy (first-in) clients cash out at maximum profit, and the Main Street investors get left holding the bag when there's no marginal (new) investors to bring in and prices collapse.

If you think about it, that's just what happened with the dotcom bubble - and with virtually every other market frenzy that you can identify.

So right now, there's no incentive for Wall Street to issue aggressive gold price forecasts that would let Main Street investors know that the so-called "yellow metal" is going to get hot. Gold isn't hot enough for the Wall Street marketing juggernaut to work its magic - which means it isn't worth messing with right now.

But when a clear trend emerges, mark my words - you'll once again be reading aggressive Wall Street predictions about how gold is going to soar. Investors will push and shove and elbow their way in, and gold prices will head for the moon.

Unfortunately, the investors who wait - and take their cue from Wall Street - are going to miss one heck of a profit opportunity.

Let me show you what I mean.

Where Gold Prices are Really Headed

Late last week, when I decided to write this note to you, I figured it would be a good time to schedule one of my periodic private briefings with Peter Krauth, our resident global-resources expert. I told him what I'd read, and then walked through my reasoning.

"It seems to me," I told him, "that these forecasts are all ridiculously low."

After he finished chuckling over Wall Street's latest demonstration of *chutzpah*, Peter said that my thinking was right on target - and warned that those crazy forecasts weren't to be trusted.

"In fact," Krauth said, "I'd say that we're actually looking at $1,900 for 2011, $2,500 for 2012, and $5,000 by 2015."

When Krauth talks, it pays to listen. Back in December 2009, for instance, in the *Money Morning* report "Why Gold Will be the 'Greatest Trade Ever'," Krauth told readers to ignore a month-long plunge that sent gold prices from $1,220 an ounce to about $1,080 an ounce - because the metal would rebound and zoom to new records.

He even got it right with silver. In September, when the "other" precious metal was trading at about $19 an ounce, it was Krauth who rated silver as a "Strong Buy" in his special report "How to Buy Silver" - and then watched as the metal soared nearly 170% in the eight months that followed (it peaked at roughly $50 an ounce).

So what's the catalyst behind his latest predictions?

Inflation's a given - and I think that our earlier discussion of that topic pretty much proves that. There are also the other obvious candidates - including the lousy economy and the milquetoast U.S. dollar.

Then there's China and India.

India continues to be the world's largest consumer of gold. And as *Money Morning* just reported in a report we published on gold coins, the demand for gold continues to escalate - in almost every income class.

Back in April, for instance, the State Bank of Travancore announced that a program to sell gold coins through five of its branches would be expanded to 60 branches in a single month's time. But an executive for a bullion dealer in India probably summed it up best when he said, referring to India's fifth-largest city, that "in Chennai, even the poor buy [some] gold."

When it comes to any discussion of investing, China has really fallen off most folks' radar screens. And not without reason, as the Asian giant's many problems continue to come to light.

But dismissing China as a catalyst - with regards to any investment - would be a grave mistake. And if you're talking about the future direction of gold prices, ignoring China would be especially egregious, Krauth explained.

China is not only the top producer of gold on the planet, but it's second only to India in terms of world gold consumption.

"According to the World Gold Council, Chinese investment demand was up a staggering 71% in 2010 over 2009, and that pace followed through into the first quarter of this year," Krauth told me. "The People's Bank of China - China's central bank - has only 1.6% of its assets in gold, and it's no secret it wants that percentage to reach much higher levels. It's no wonder all the gold produced in China stays in China."

Krauth also noted that the World Gold Council predicted Chinese gold demand was set to double within the next 10 years.

Said Krauth: "Higher gold prices - much higher prices - are all but guaranteed. Wall Street's gold price forecasts are way off the mark - and much, much too low."

So it should be no surprise when gold reaches $2,500 in a year - and as much as $5,000 just a few years after that.

Those are what I call *real* gold price forecasts.

A Lesson from the Gold Standard

James Turk, Published 6/21/2011

http://resourceinvestor.com/News/2011/6/Pages/A-Lesson-from-the-Gold-Standard.aspx

Sir Isaac Newton invented the Gold Standard circa 1700. The Gold Standard undoubtedly ranks as one of his greatest achievements given that it became the backbone of the British Empire.

The pound was "as good as gold", as the saying went, and the pound banknote was accepted around the globe as a substitute for gold itself – but not always. The paper-pound was willingly accepted until there was a banking or financial crisis, which meant the quality of the currency and the reliability of banks became questioned.
At those moments – which occurred with surprising frequency – there was a rush to gold because of its safe haven attributes. Gold is a tangible asset, and with tangible assets one does not have any risk of default. The value of a tangible asset is not dependent upon a bank or government promise.

Even though paper currency was more convenient to use in commerce than heavy gold coins, during a crisis convenience did not matter. But safety did.

As people frantically converted their paper pounds into tangible gold, a panic inevitably ensued because there never was enough gold to satisfy the redemption demands. Too much paper had been issued, causing losses by those who held this paper, which in many cases became worthless.

These panics served a useful purpose. They acted as a periodic throttle on bank credit expansion and the speculation that follows from easy money policies during the boom times when credit is cheap, plentiful, and available from the banks with few questions asked. Do you recognize a pattern here?

The present financial crisis is not unlike those previous panics recurring throughout monetary history. Even though the pound, euro, dollar and other national currencies

are no longer redeemable into gold, these paper currencies can be exchanged for gold 24 hours a day.

People vote with their pocketbooks. In the months since the collapse of Lehman Brothers in September 2008, people everywhere have been exchanging their paper money for physical gold.

This trend that favors physical metal in preference to paper currency is well established. It is one that is likely to continue. The clamor for physical metal will continue until debt is brought under control, and it is here where the Gold Standard is sorely missed. It no longer imposes an essential discipline on bankers who don't know when to stop lending and politicians who don't know when to stop spending.

We can learn from the numerous episodes of monetary history in which banks and currencies fail. We can put into practice today the simple strategy that enabled people to successfully weather the financial storm. They did it by owning physical gold and silver. This same time-proven strategy is helping people today.

Is Gold About to Have Its Status Upgraded?

Frank Talk, Insight for Investors, June 17, 2011
http://www.usfunds.com/investor-resources/frank-talk/?i=5935

Central banks have been on a gold buying spree. In "The Rising Financial Gold Market," I highlighted how countries, such as Mexico, Russia and Thailand, were adding to their gold reserves. And in 2010, central banks became a net buyer of gold for the first time in 21 years, according to the World Gold Council.

Central bank gold buying could soon be matched with other global banks if gold's quality as an asset gets upgraded to Tier 1 status by the Basel Committee on Banking Supervision (BCBS).

The BCBS is an international banking supervisory committee that provides a forum for determining global standards to ensure that banks all around the world have adequate capital. The group is comprised of members from all over the world, including Brazil, Canada, Germany, Hong Kong, Mexico, South Africa, Turkey, the U.K. and the U.S.

After the global economic crisis, its top priority was to increase banks' ability to absorb market shocks. One way to do this was to raise the percentage of common equity–considered the least risky of banks' assets–that banks were required to hold from 2 percent to 7 percent.

The BCBS has three tiers to grade the quality of capital held by financial institutions:

Tier 1 – A high quality, liquid asset that must have exchange-related characteristics. Criteria include low credit and market risk, certainty of value, low correlation with risky

assets, and listing on a developed and recognized exchange. There are also market-related criteria to determine whether an asset is a part of an active market, there are adequate market makers and what happens to the asset's value when there's a flight to quality.

Tier 2 – These assets are considered "secondary bank capital." These assets were never clearly defined and contain a range of assets with varying degrees of liquidity. Many of these assets could quickly lose value if liquidity dries up. Investopedia says this includes undisclosed reserves, general loss reserves and subordinated term debt—those that rate below other securities and are second in line when the debt gets paid out.

Tier 3 – Tier 3 assets are similar to Tier 2, except that securities such as subordinated debt are in greater number. Investopedia says assets must be unsecured, limited to 250 percent of a bank's Tier 1 capital, subordinated and have a minimum maturity of two years.

Historically, securities such as sovereign debt have been considered high quality, liquid assets. As a Tier 1 asset, sovereign debt has been allowed a 100 percent required stable funding factor (RSF) applied in the net stable funding ratio. This means that the bank can lend 10 times the current market value of their Basel Tier 1 asset.

Gold has historically been classified as a Tier 3 asset, with a net stable funding ratio of 50 percent. When determining how much money a bank can loan, the bank's gold holdings have traditionally been discounted 50 percent of the current market value. With value cut in half, banks have little incentive to hold gold as an asset.

After years of being undervalued, a sentiment is building to have gold upgraded to Tier 1 status. This would level the investment playing field for the yellow metal and encourage banks to increase gold's share of their reserves.

One of the best arguments for the upgrade has been put forth by the World Gold Council (WGC), which stated that an upgrade would be "further recognition of gold's growing relevance as a high quality liquid asset …[and] reinforces market demand for a greater choice of assets that can be used as collateral to meet margin liabilities."

J.P. Morgan was one of the first to upgrade gold's status when the bank announced in February 2011 that it would now be accepting gold as collateral to satisfy securities lending and repo obligations with counterparties.

On May 25, 2011, the European Parliament's Committee on Economic and Monetary Affairs (ECON) agreed to accept gold as collateral. The WGC's Natalie Dempster said the announcement was "very significant that the European Parliament is putting its weight behind the argument that the unique characteristics of gold make it an ideal form of high quality liquid collateral."

There's been no official word from the BCBS yet on an official upgrade of gold to Tier 1 status but some think it could come as soon as the third quarter of 2011. If an upgrade were to take place, it would likely have a profound impact on gold and gold equities.

We anticipate that central banks around the world would add (some of them significantly) to their gold positions, which would further tighten gold supply and increase gold consumption.

Gold & Silver: Waiting for August

Jason Hamlin, Gold Stock Bull (6/15/11)

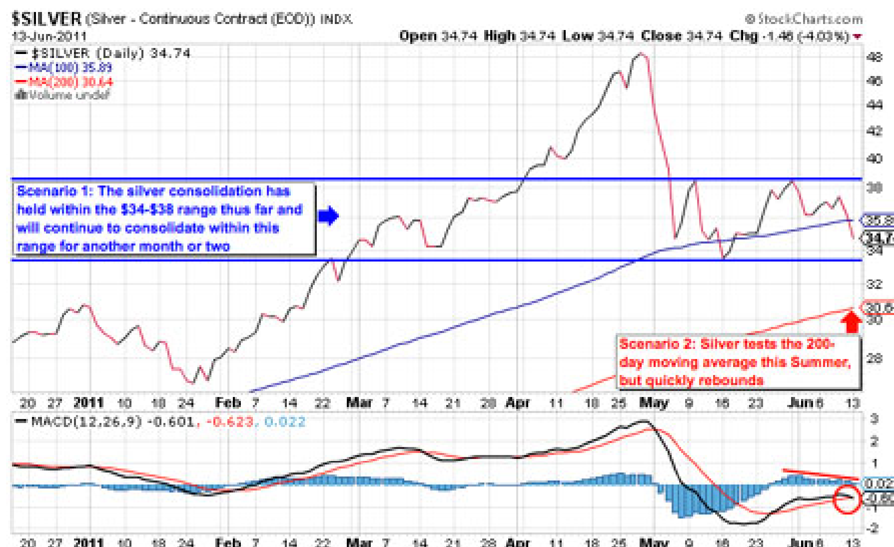
"Junior miners will play an explosive game of catch-up at year-end."

http://www.theaureport.com/pub/na/9911

Precious metals investors are getting a little antsy, as many newer investors and weak hands have been scared away after witnessing the first major correction since the financial crisis of 2008. While gold has corrected only 3% from its April high of $1,565, silver is down nearly 30% during the same time. This article will focus on how I think things will play out over the next few months and into the close of 2011, with a focus on the price action in silver.

While the long-term fundamentals remain robust and I continue to expect silver to push toward $100/oz. at some point in 2012; the short-term situation is not so clear. The dollar may be the last fiat currency standing, as the sovereign debt situation in Europe deteriorates. In turn, the euro's weakness will likely provide strength for the dollar in the short term, along with the end of QE2 and continued silence from "The Bernanke" regarding QE3. Throw in weak seasonality during the summer months, and we might have a recipe for lower silver and gold prices over the next month or two.

The technical chart for silver is not looking very bullish in my estimation and points to one of two scenarios. Either silver continues to be range bound and consolidates within the $34–$38 channel for another few months, or the fundamental conditions mentioned in the previous paragraph create downward pressure and silver tests support at its 200-day moving average around $30.



I am inclined to believe that silver will test the 200-day moving average, as has occurred during every correction over the past decade. Even silver's long consolidation of September 2009 to September 2010 eventually hit the 200-day moving average before blasting higher. I think there are plenty of buyers waiting for such an opportunity, so any dip to the $30 area is likely to be short-lived.

Getting a gauge on short-term price movements is useful, especially to traders, but it really has little impact on silver's long-term price. Whether silver stays within the consolidation range or dips to its 200-day moving average, I believe the outcome for later this year and into 2012 remains the same.

Silver is destined for much higher prices, and all of the jawboning about the last move toward $50 being the top is utter nonsense. The inflation-adjusted high for silver is somewhere between $150 and $300, using conservative estimates of inflation. Furthermore, the fundamental conditions that created the previous high in 1980 are significantly worse today. The percentage move, while impressive, is also significantly less than the gain achieved during the last bull market.

So, I remain confident the silver bears that have called a top will be proven wrong (again). They will likely make the same top call when silver hits $100, $150 and $200. Eventually, they will be right, just like a broken clock tells the correct time now and again, but we are a few years and a few hundred percentage points away from that moment. To those of you who have given credence to these "analysts" calling precious metals a bubble, why are you paying any attention to the people who've gotten it wrong so consistently? That is akin to trusting Jim Cramer or Ben Bernanke for advice on when the housing market has bottomed.

Waiting for August

I am currently in a holding pattern with a reasonable percentage of my portfolio in cash and short positions against overvalued stocks and ETFs. It can be boring at times, and overactive investors are often frustrated by the lack of action. But I firmly believe that it is sometimes best to exercise patience and watch from the sidelines. The next opportunity will emerge soon enough, while our short positions advance and our core precious metals holdings catch any unexpected upside move.

I still hold a few junior miners, which I am convinced are significantly undervalued and will play an explosive game of catch-up into the close of the year. I'm looking forward to utilizing the cash I've placed on the sidelines to pick up already-oversold key mining-stock bargains that will likely fall further, as investors throw out the proverbial baby with the bathwater. It always happens during liquidations and the slow summer months, but precious metals are always quick to bounce back.

Gold and silver are increasingly being viewed as money—not just an investment vehicle. This realization is huge, given the declining USD and growing concern about the government's ability to repay the mounting debt. The situation is reaching a boiling point, as it has already raided public pensions and many suspect IRAs and 401k funds could be next. This is all under the guise of protecting us, of course.

In the meantime, I am patiently waiting until August, when the pressure will build for the next round of quantitative easing and the government will have to choose to either default on their debt obligations or push the nation one step closer to hyperinflation. Either way, I expect gold and silver to make new highs by year-end and, absent an all-out stock market collapse; we should see some truly incredible gains in select mining stocks that are currently trading as if gold was at $1,000 and silver at $20. The situation is out of whack and when equilibrium is restored, I believe those holding shares of quality miners are going be rewarded handsomely.

Three reasons why gold is going to have a big summer - Embry

As concerns grow once more about the health of the global economy and the nature of gold demand shifts, so the yellow metal is likely to shrug off its traditional summer funk.

Author: Geoff Candy, Posted: Wednesday , 08 Jun 2011

http://www.mineweb.com/mineweb/view/mineweb/en/page33?oid=128826&sn=Detail&pid=102055

Traditionally, gold tends to take a bit of a breather during the Northern Hemisphere summer. But, there are some, like Sprott Asset Management chief investment strategist, John Embry, who believe this year might be a little different.

Speaking to *Mineweb.com's* Gold Weekly podcast, Embry said, because of what is going on at a big picture level geopolitically, gold is likely to have a big summer.

"I don't like putting numbers and dates in the same sentence because you always make yourself look bad - but I would be very surprised if it doesn't take out $1,650 this summer and maybe headed towards $1,800 over the next three months," he said.

To back up the statements, Embry points to a number of macroeconomic factors that are likely to have a bearing on gold prices over the next few months.

Firstly, much of the seasonality that is traditionally associated with the metal comes from Asia where gold purchasing is strongly related to the wedding season and, in India because much of the demand traditionally comes from rural areas, the sowing cycle.
"People forget," Embry said, "that the gold market is changing fairly significantly from traditional sources of demand into investment demand as an alternative to currencies... investment demand doesn't know seasons - it buys gold because it is fearful of other assets."

Fear is a dominant theme in another of this summer's big economic events - the end of quantitative easing in the U.S and worries about the country reaching its constitutionally mandated debt ceiling.

Embry says, these two events are likely to have a significant impact on the gold price, especially given the recent data that suggests, the U.S. economy could begin to recede once more.

"If you want to withdraw enormous amounts of stimulus by cutting the deficit dramatically at this point, or if QE2 actually marks the end of quantitative easing there's no question that the United States' interests rates are going to go up dramatically because from the numbers I look at, the Federal Reserve has been buying the vast majority of the all the treasuries that have been coming into the market."

"In my opinion we have reached the point of no return. We are either going to take a collapse in the dollar or a collapse in the economy depending on which direction they take. The idea that they can return to normalcy in my opinion is out of the question at this point. They are way too far off line."

The third reason for gold's likely strong performance comes from Europe. "There are an enormous number of problems in Europe, just as there are in United States and to me the conclusion one should arrive at is neither of these currencies are attractive and that to me is one of the underlying factors why I am so bullish on the gold price," he says.
" I look at the Greece situation and I see absolutely no way out that's palatable to the euro and the European banks or what have you that hold a lot of this paper. In some way the Greeks cannot afford to carry the debt load they've have got and somehow that's going to have to be addressed."

Beyond the summer, Embry continues to remain positive on the outlook for precious metals, but he does caution that it can never be only way traffic.

"You are always going to have corrections and there are people who are in this market who are using leverage that had better be careful because the corrections can be

quick and violent. But having said that, for you to say that the bull market in gold is over is essentially by saying that we are going to re-establish paper currency as viable and I don't think that's going to happen - I am of the mind that before this whole mess is ended we are going to have a new monetary system and as we make our way towards that, gold and silver will be refuges."

How I Know Another Correction Is Coming

Jeff Clark, Senior Precious Metals Analyst, *BIG GOLD,* June 9, 2011

http://www.caseyresearch.com/editorial.php?page=articles/how-i-know-another-correction-coming&ppref=CRX409ED0611B

By Jeff Clark, The gold price has been rising steadily for almost a year now, with nary a correction. It fell only 4% last month, and the biggest decline since last July was January's 6.2% drop. These barely register as "corrections" when one considers that we've had 18 of them greater than 5% since the bull market began in 2001.

We're getting used to a persistently rising gold price. Any decline is met with more buying, pushing the price to new highs. But how long can we realistically expect this pattern to continue?

The answer will ultimately be determined by the fundamental factors pushing on the price – more Greece, more money printing, and more economic bad news will all drive gold higher. But even then, have we really said goodbye to big corrections?

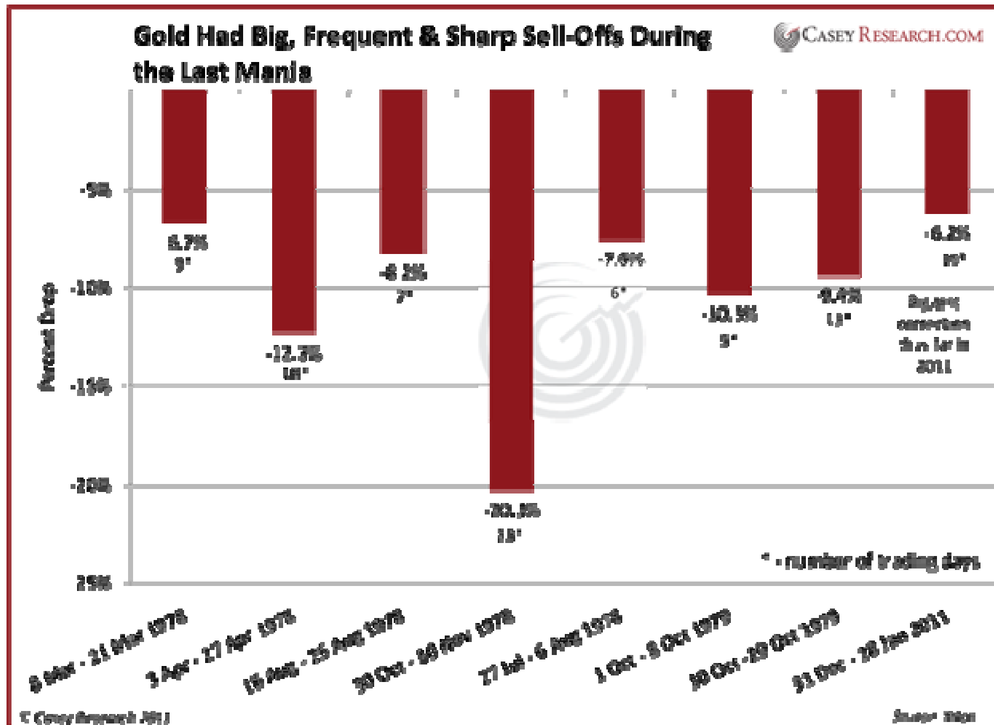
History can provide a clue. If we could find a time period within a gold bull market where the price sidestepped major falls, then it might be reasonable to think we've entered a period where it will continue steadily climbing. On the other hand, if gold saw big corrections even during, say, a mania, we might need to be on the lookout for them no matter how bullish the factors are today.

Here's a chart of the corrections that occurred during the final two years of the 1970s mania – one of gold's biggest parabolic runs in history.

During this historic run, there were seven significant corrections. On average, that's one every 3½ months and a 10.1% decline. You'll also see that they were very sharp; four lasted less than ten trading days and all were less than a month. This all occurred in the middle of the mania.

If history is any guide, our correction in January was small, and will be the first of many.

In fact, historical precedent shows that volatility is the norm, even during the Mania Phase of a gold bull market. Big moves, both up and down, are common. I can't point to a date on the calendar, but sooner or later we're going to have another downturn, and it won't be the only one.



This means that great buying opportunities will present themselves regularly. And not just for gold but also for silver.

Bottom in Gold and Silver Stocks

Source: Jordan Roy-Byrne, *The Daily Gold* (6/17/11)

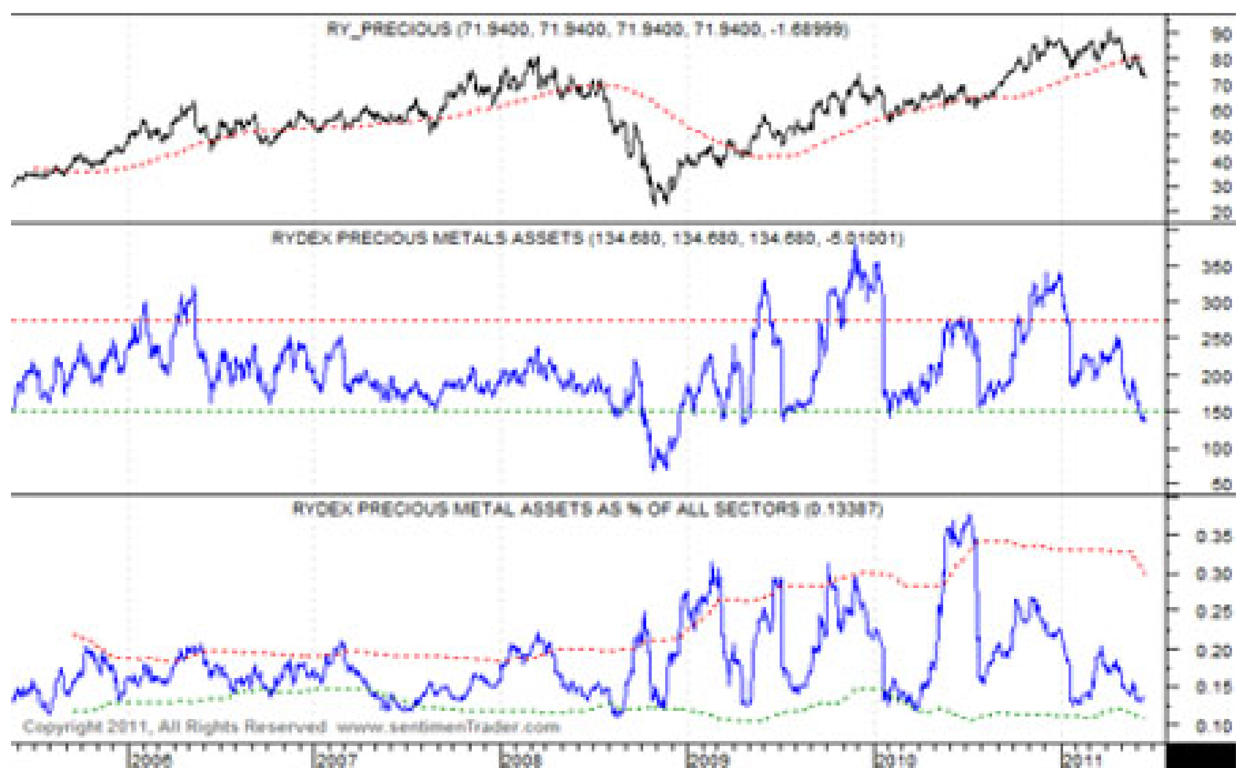
"The bottom in gold and silver stocks is likely only days away."

http://www.theaureport.com/pub/na/9960

Gold and silver equities have led the markets lower and have underperformed the metals significantly this year. For the past month or so, gold has firmed and bonds have moved higher as most asset classes have declined. Unfortunately, mining equities have been among the worst performers. However, our work leads us to believe that an important bottom should be in place very soon.

From top to bottom we plot GDXJ (junior golds), SIL (silver stocks), and GDX (large-cap golds). While each has broken down in recent days, each is only 5%–6% away from a confluence of very strong support. These ETFs gained significantly in 2010 and what we are seeing is a correction and deep retracement of substantial gains. Buying on weakness in a bull market is always a good plan but with the exceptionally volatile mining stocks, we want to see deep oversold conditions and the presence of strong support.

In addition to an oversold condition and technical support, we want to see evidence that the sector is unpopular and under-owned in a short-term sense. We don't want to get bullish when the crowd is chasing a particular market. Below is a chart from Sentimentrader that shows data from the Rydex Precious Metals Fund. In less than six months, assets in the fund have declined from $345M–$135M.



The broad weakness in risk assets and the decline in precious metals shares has some worried and concerned. However, this is not another 2008. Then there was credit stress in the private sector and not on the sovereign side. Oil and inflation cut into margins of the miners and there was forced selling as hedge funds blew up. We don't see any of these problems today.

The sector will bottom in the coming days and look for it to coincide with a worsening of problems in Europe. Bond yields in Greece, Portugal, Ireland and Spain are dangerously breaking out to the upside while credit default swaps are starting to move. As the euro weakens, gold may catch a nice bid in anticipation of more debt monetization.

Investing in Gold and Silver

Julian Phillips, Gold Forecaster (6/15/11)

". . .during inflation, stagflation and deflation?"

http://www.theaureport.com/pub/na/9913

In this piece, we are looking at some critical fundamental features of precious metals that are rarely considered or accepted in the developed world markets. Expert investors like Warren Buffet look at inactive, buried gold with amazement, because he is focused on companies that produce things and earn money. And most of us wish we had his skill and money behind us.

George Soros and the like invested in gold as an anti-deflationary measure. Most

analysts appreciate the anti-inflationary value of gold and silver. The protection of gold and silver in stagflationary environments are a combination of both abilities.

But why are gold and silver capable of giving such protection in bad times as well as good times?

They have certain qualities that shine forward at times when other investments fail.

The Limitations of Cash

In times of monetary stability and soundness, safely-stored cash never fails. Most consider cash in the bank to be the safest conservative investment, and in the distant past, the days of our grandfathers, this was largely true.

But that horrible word, inflation, came into being where prices kept on rising and cash saved would buy less-and-less. Interest rates compensated for this inflation, but then interest rates stopped rising. When interest rates did rise, it was at a slower pace than inflation. Cash lost its buying power as time went by. Bank charges would eat away any gains that might be made. At first inflation would occur one country at a time, and the exchange rate on those currencies fell, hurting international buying power even more. Today inflation is a global phenomenon.

Investors would have to move out of cash and into businesses or other investments that offset the cost of inflation. This was not easy unless inflation happened while growth was vibrant. And this benefitted those middle classes that enjoyed such growth. The poor, whose income rises slower than inflation, feel the pinch.

Suddenly, booms turn into busts and businesses don't do well. The value of businesses and its shares fall, losing investors money. Even self-managed businesses fall in value, putting rich people into bankruptcy. This is deflation, a monetary mood that causes values to shrink. In deflation, the value of cash grows as prices fall.

Those who believe they are skilled investors answer, sell, and then cheaply buy back. We look at that timeless story of an investor who did that just before the Wall Street Crash. His friend did not do so well selling only when the fall was half way down. But our hero who sold at the top, overwhelmed by his own skill bought back in, when the fall was half way down. His friend did not buy back in, but stayed in cash. It's not so easy!

Then you get a situation when the bust happened and all of the markets plummet because forced selling drives investors out. Interest rates fall to negative levels. If cycles are consistent, there should have followed a boom period. But growth was so anemic that stagnation set in. Businesses and the economy struggle to find small amounts of growth and some cut back, turning over at survival level.

Suddenly, something that shouldn't happen in a downturn happened. It was inflation, driven by factors no government can control. It came from energy and food and became uncontrollable. This type of inflation is deflationary. Businesses covering expenses suddenly found their costs ate away at profits much the same as deflation

and inflation would have done. This is 'stagflation', a climate where stress levels steadily eat away at sanity.

Surely, bills and bonds are a way out of the hole, as they pay an interest rate, while being almost like cash?

The trouble with this thinking is that interest rates have fallen so low that the bill and bond markets are so high as to be heading for a fall, far worse than any Wall Street Crash.

Next interest rates rise to stop negative interest rates from rising higher. Then the prices of fixed interest securities have to fall, while their yield rises. Investors rush to exit those markets the moment that happens.

Surely, there is no escape from these three economic ailments? Well, there is. . .

For a long time, our Asian friends have suffered through poverty, hard times, government corruption and mismanagement. They have found refuge in good times and bad times. They want financial security and their investments to last for more than one generation. Correctly invested, their savings provide financial security for many generations.

You would have thought that Europe in particular would have learned the same lessons with their history of currency collapses and wars.

Why Precious Metals?

Gold (and to a lesser extent, silver) is more than a barbarous relic from yesteryear. Its rising price is telling us that it is a very modern investment preference because It is both cash and an asset.

In the long term, it outperforms cash due to the following qualities:

- It has all the features that makes cash valuable, even capable of earning an income (when lent out).
- It is an enhanced version of cash, in that it is not subject to the vagaries of interest rates solely dictated by central banks and banks.
- It carries no national obligations. It does not rely on nations to supply collateral to honor payment. If you ask the Fed to honor the value of your dollar, they will simply exchange it for another.
- It is not dependant on the creditworthiness of the nation issuing money.
- It has the same value in Mongolia as it has in the U.S. or Europe.
- It is collateral in any transaction and of greater value than the price it can be exchanged at.
- It cannot be issued at will, with the intention of being withdrawn from the system later.
- It does not decline when an individual currency declines (and does not rise when that currency rises in value). It is a counter to currencies.

- This century it has moved away from the control of the U.S. and Europe to global control. In the years to come, rising Asian demand will dwarf demand from the developed world, making it a fully internationally-valued asset again.
- In a deflating global economy (just as cash is a national protection) gold is better than cash even when local currencies are not deflating.
- In an inflating global economy, gold acts as an asset, when currencies are cheapening. There are no other currencies that are deemed as assets, like gold.
- In a stagflationary economic environment, gold acts both as cash and an asset.

Are We Running Out of Silver?

Source: Jeff Clark, Casey Research (6/17/11)

"Do I buy now or wait for a pullback and perhaps miss out on big gains?"

http://www.theaureport.com/pub/na/9939

(Excerpt from the *Casey Research 2011 Silver Investing Guide*)

Silver has been on fire over the last three years, substantially outperforming its spotlight-grabbing cousin, gold. Because we believe this bull run is far from over, we advise investors to always maintain exposure to precious metals markets. Even if you haven't yet participated in the run-up of both gold and silver, I'm glad you're ready to look at the investment potential of silver.

The question every investor faces in a bull market is: Do I buy now, anticipating prices will continue higher, and chance getting clobbered if a correction arrives? Or do I wait for a pullback and possibly miss out on big gains? There's risk either way.

Our goal in this report is to suggest various ways you can invest in silver, while underscoring the importance of patience and discipline. Investors must remain patient to avoid chasing silver, overpaying, and draining their cash. Instead, we recommend that you use temporary price declines to steadily accumulate the best silver stocks and your preferred form of bullion. Looking back after this bull market has finally run its course, we think gold and silver will have amply rewarded those who bought smart, had meaningful exposure and stayed the course.

Silver: The Lay of the Land

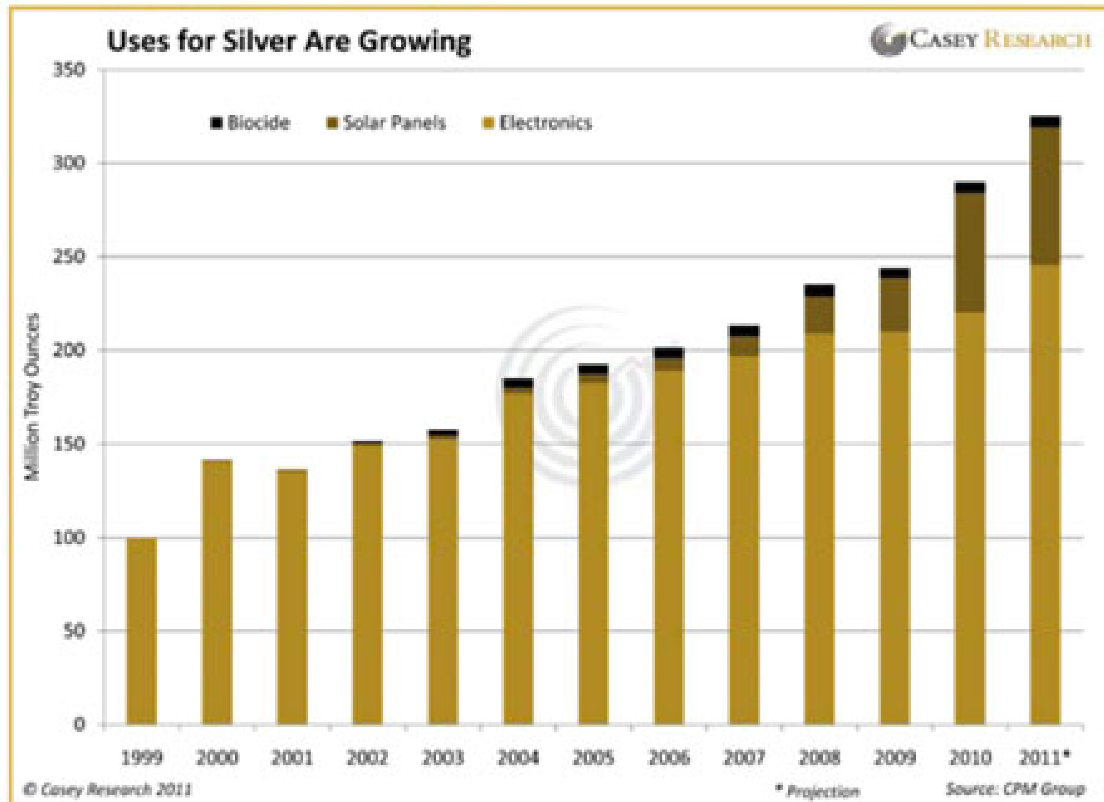
There is ample data on the silver market to consider, but there are two specific issues regarding supply and demand that are critical to understand.

The first is industrial use. Demand from a number of industries that use silver has been flat or falling. Household demand for silver like cutlery, flatware and candlesticks hasn't risen in 10 years. Jewelry fabrication is up but a blip. With the shift to digital photography and image storing, use in photographic film processing continues to fall. And yet, total demand from industrial users keeps climbing.

So what's driving industrial demand?

Since 1999, consumption in electronics has increased 120%. Silver use in solar panels began in 2000, and usage is up 640% since. Silver was first used in biocides (antibacterial agents) in 2002 and, while a small percentage of total silver use, it has grown six fold.

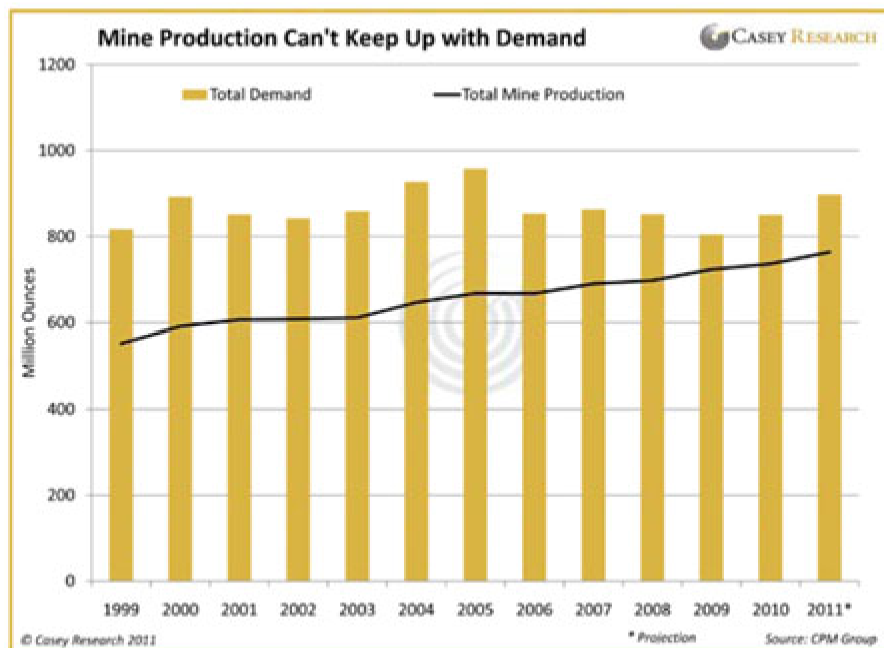
The point is that not only are the number of uses for silver growing, the demand within each of those applications is rising as well. This is important to keep in mind because, traditionally, the industrial component of silver tends to keep the price soft in a poor economy—and Doug Casey is convinced we're on the cusp of the Greater Depression.



However, these increasing sources of demand are now more likely to keep a floor under the price in the future. In fact, the Silver Institute forecasts that total industrial use of silver will rise by 36% over the next five years, to 666 million troy ounces/year. That's a lot of silver, meaning this portion of demand, which is roughly 60% of all fabrication, isn't letting up anytime soon.

The second issue is mine supply. Silver mine production has been increasing over the past decade, largely due to rising prices, allowing companies to ramp up production and bring more metal to the market. In fact, global mine production is up 33% since 1999. Meanwhile, total demand, as you'll see in the chart below, is also rising.

Mine Production Can't Keep Up with Demand
So what's the concern? In spite of miners digging up more and more silver, production alone can't meet global demand—and the gap has to be filled by scrap silver coming to market.



And there's a catch with scrap. While scrap metal comprises about 20% of silver's total supply, many of these new applications are difficult to reclaim. Some applications contain such small amounts that they're uneconomic to recapture, such as many biocidal and nanotechnology applications. With others, it'll be a long wait. Solar panels, for example, have a 20- to 30-year life. Still others are waiting on more-effective recovery programs; more than one-half of all silver in cell phones, TVs, computers and other electronics, for instance, still ends up in landfills. In other words, a growing portion of the silver that's consumed won't be returning to the market anytime soon.

Gold as Collateral Major Step for Gold Market

Source: Julian Phillips, Gold Forecaster (6/6/11)

"This may well prove to be a battle of 'bankers' against democracy!"

http://www.theaureport.com/pub/na/9777

If gold was generally accepted as collateral in global monetary dealings, would we see it used as such? Strangely enough—no! In certain transactions, however, where no other collateral—whether currencies, government bonds and the like—is used, gold may be used as a last resort. There has been a very long history of gold being sought as collateral, but only the most desperate of debtors have allowed their gold to be used as such. Government bonds are easier to produce and are limited only by market confidence. Moreover, they remain in the jurisdiction of the issuer—leaving the issuer in

control of them. Gold is different and can be used only once, held outside of the owner's jurisdiction. Control, therefore, is lost—it cannot be printed and becomes a complete commitment by the owner to honor his obligations.

So, why is gold as collateral such an important step for gold in the global monetary system?

The Latest Moves

Last week, the European Parliament's Committee on Economic and Monetary Affairs agreed to allow central counterparties to accept gold as collateral. Once ratified, we would see gold redefined as a highly liquid asset under the Capital Requirements IV Directive, due in June from the European Commission. This is not the first time gold has been accepted as collateral. Late in 2010 ICE Clear Europe, a leading European derivatives clearinghouse became the first clearinghouse in Europe to accept gold as collateral. In February of this year, JP Morgan became the first bank to accept gold bullion as collateral. The Chicago Mercantile Exchange is now accepting gold as collateral for certain trades and the London-based clearinghouse LCH Clearnet has said it also plans to start accepting gold as collateral later this year subject to regulatory approval.

Why Now?

Despite comforting words from the U.S. the Eurozone, government debt is being regarded with somewhat less enthusiasm than in the past. Both monetary zones are experiencing awful problems regarding their debt, particularly on the international front. A look at the Mediterranean members of the EU shows nations either unable to repay their debts or on the brink. This makes their debt dubious collateral. The sight of the EU wanting to control taxation—sell state-owned assets on condition that more funds are poured into the country—really is what happens when an individual is liquidated (sequestrated)—nothing short of that. Will Greece accept this without some dramatic moves? If Greece had lost a war, this would be the spoils. That is certainly how the Greek people will see it.

Are debtor obligations more important than national sovereignty? The answer is not as apparent as it seems. If they are, at the very least, social unrest is likely, which, in turn, will further damage one of its main sources of revenues—tourism. But Greek voters are aware (as is much of their government) that Greece retains jurisdiction over Greek assets in the country. It is Greece's decision, not the EU's.

Other potential reactions may include:

- Refusal to accept anything but a 50% debt write-off and leave the banks to sort themselves out.
- Leaving the EU with the obligations unmet or a massive extension to the maturity dates made by the Greek government.
- Reinstating the drachma and making holidays in Greece very cheap, as inflation takes off, euro prices drop and Greece experiences a boom in tourism.

No doubt, the Greeks are weighing all these options and will do what best serves Greek interests in the end. Let's glance at the dominant principles that will guide the process in the days and weeks ahead.

On the banking side, the concept of debt re-scheduling is unacceptable because it would reduce the asset base of the banks and undermine their solvency. The extension of debt and lowering of interest rates would overcome that problem, but it is paramount that the debt be repaid eventually, in a manner that an impoverished Greece can bear. The sell-off of state-owned assets will reduce state revenues and likely cause a tremendous amount of employment cutting (as the operations are made profitable) which will exacerbate the situation. The severity of a new debt package will hurt Greece and ensure that its economic woes last for up to a generation.

On the Greek side, the principles of democracy demand that Greek populations act in the interest of the voting public, which means the government must assess whether the solutions are acceptable to the public. If they lead to the nation's impoverishment for a generation, the Greek public won't accept them. A pragmatic assessment of the worst of the two situations must be made, an onerous set of repayments, or the loss of financial credibility in the EU and the ejection of Greece from the EU (may be the lesser evil).

Such an isolation of the country may raise employment and improve tourism just as sanctions in relatively developed nations often produce a boom. Whatever the outcome, you can be sure that politicians will follow voter's first, ahead of banking requirements.

Whatever happens, it will prove very bad for the EU and the euro. Would you accept its debt as collateral? Unlikely! What's worse is that any attempt to seize Greek assets without its approval may see the country take itself out of the Eurozone. Would the EU actually invade to take Greek assets in payment of unpaid debts? A significant write-off of what's owed may be a disaster, but it may well be the only option left.

This may well prove to be a battle of 'bankers' against democracy!

Greek Gold

Of critical interest to the gold markets is the sight of Greek gold. Greece currently owns 111.5 tons of gold in its reserves桂.3% of its reserves—which can be taken out of its reach and into the hands of creditors. The sale of its government-owned assets to private hands under the pressure of distressed finances may well not achieve anywhere near their value. Would the Greek government pay the proceeds across to creditors immediately? Their gold has far more value than its current market price.

Already Gone?

But has it already been used as collateral in a Bank of International Settlement deal where it was swapped for foreign currencies? Last year the BIS undertook many gold/currency swaps in mysterious, undisclosed situations. Were they tied to the bailouts? There will be no more devastating a blow to Greece's financial credibility than

a disclosure that the gold has already gone. It's equivalent to the family jewels being sold off. And that is gold's value, not its market price!

The current gold price is irrelevant to the repayment of debt. 111.5 tons is worth only $5.5 billion, which barely scratches the surface of Greece's $350 billion debt. In a situation where monetary values are collapsing (the UN has just issued a report in which they state their fears of a U.S. dollar collapse) the gold price will leap to levels where national debt becomes relatively easy to repay and certainly worth all the promises a government can make at that time. Gold in extreme situations adds considerable credibility and value to any debt situations, way beyond its market price.

If the gold is there, then Greece would feel that it is the one asset that it can use when all credibility is lost. That's why central banks hold so much gold in the first place! If Greece was to leave the Eurozone, Greece might have a chance, with its gold, to transition into a more prosperous country.

Other Countries in Distress

A look at the other debt-distressed nations that have received a bailout or may want a bailout:

- Ireland has only 6 tons of gold in its reserves, which (in current prices) is worth only $296M. Ireland needs far more to solve its debt problems. The gold would be symbolic of the nation's family jewels. The cleverest move Ireland has made was to insist on its low Corporation Taxes being maintained because this will allow much higher revenues to be achieved.
- Portugal is in a different category; it has 382.5 tons of gold in its reserves, which has a current market value of $18.9 billion—that would make a significant contribution to its debt situation.
- Spain has 281.6 tons, the value of which at current prices is worth $13.9 billion. Again, this would make a significant contribution to its debt repayment.
- Belgium has 227.5 tons with a current market value of $11.2 billion.
- The UK has 310.3 tons of gold remaining in its vaults, which is worth $15.3 billion.
- Italy, which has just come under the ratings agency's spotlight, holds 2,541.8 tons of gold in its reserves, worth $121 billion at current values.
- With the UN placing the U.S. dollar in the potential collapse category—a glance at the published level of gold reserves shows it holds 8,133.5 tons of gold, worth $4.01 trillion at current prices.
- What if the crisis spread and the EU gold reserves at the ECB came under threat? Its 502.1 tons of gold, valued at today's prices, is $24.78 billion.

Having shown you these figures, we must stress that such gold reserves will be used only if there are no alternatives. It is a last resort asset that, when gone, leaves the nation (almost) out of the international arena and in an (almost) isolated position. In some cases, this may prove a good thing. An extreme example of this was seen when Rhodesia had international sanctions placed against it. It thrived, as all the imports had to be substituted for the local equivalents. South Africa, in the face of sanctions, also thrived. So, you can be sure that some nations will be tempted to default rather than sacrifice their gold reserves.

As we noted, they may well have been pledged already via the gold/currency swaps last year. And current acceptance of gold as collateral is preparing the way for the publication of deals after the event.

Pricing Gold in Deflation

Source: Adrian Ash, BullionVault (6/6/11)

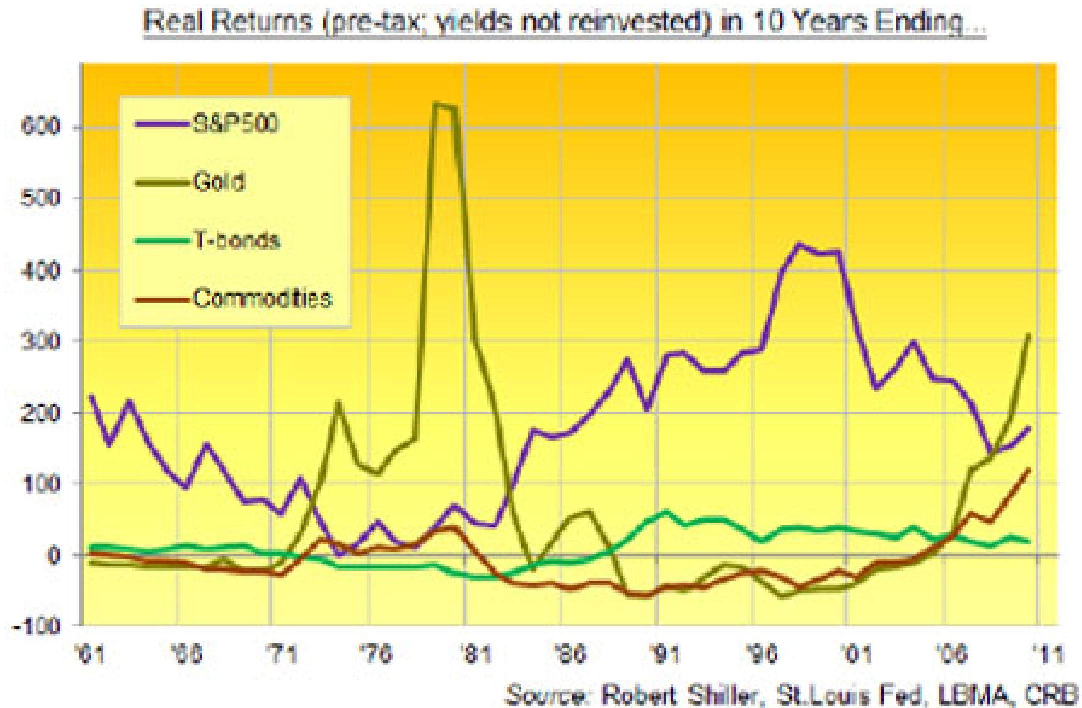
"Store, don't try to grow, value when your capital's at risk."

http://www.theaureport.com/pub/na/9776

Storing value, rather than trying to grow it, is taking the lead once again. . .

GOLD GOES UP when cash and bonds fail to beat inflation. True in the '70s, and true again in the last decade.

Both times, gold also beat both stocks and industrial commodities as well. Perhaps because storing value, rather than trying to grow it, takes precedence when the cost of living eats into your capital.



But now, from here?

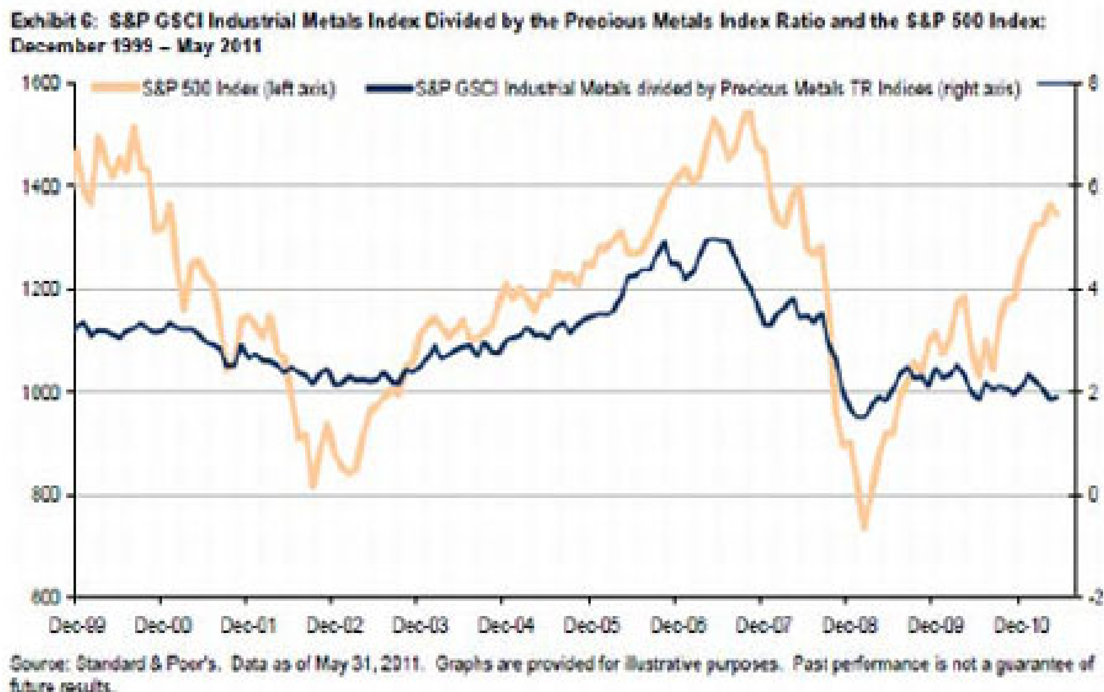
"Markets don't expect inflation; professional forecasters don't expect inflation, and economists who know how to do their job don't expect inflation," claims academic economist Brad DeLong on his blog.

Never mind that inflation-linked 5-year Treasury bonds do see inflation ahead, or that the global gold market clearly fears it. Never mind that conventional Treasury bonds didn't wake up to the 1970s' inflation until 1980, and never mind today's "fail" for professional forecasters on May's US jobs data. (But hey, they were sold a pup by March and April's false readings). And never mind that economists-who-know-how-to-do-their-job are all too often now in a different job, trying to run the economy rather than observe it, and opting everywhere to devalue money at the fastest pace—accounting for post-inflation interest rates—in well over three decades.

No, "Whichever inflation measure you prefer, there's no reason to tighten," as DeLong's fellow economist Paul Krugman puts it, blogging at the *New York Times*.

So, what if inflation goes negative, making real interest rates positive—even if the official rate is slashed even to zero? Outside early-2000s Japan and the global wipeout of spring 2009, modern history offers no examples. Both times, expert economists urged policymakers to cut nominal interest rates below zero—somehow, either by printing money to excess or taxing bank deposits or generally destroying cash, so that real rates could also stay negative.

Both times, gold rose in nominal and real terms, as well. What gives?



Here in May 2011, there's a "disparity developing" between industrial and precious metals, notes the latest *Commodities Market Attributes* report from Standard & Poor's.

Dividing its own S&P GSCI Industrial Metals Index by the Precious Metals Index, the agency tracks the relative strength of useful metals against the less industrially useful (but more socially valuable) metals gold and silver.

"This ratio generally has been positively correlated with the S&P 500 [US equity index]," says the report, which makes sense, because industrial demand and risk capital will tend to move in the same direction. But "the ratio declined again in May," says S&P, down "to essentially the same level it hit at the end of May 2009.

"What is disconcerting for many analysts is the fact that the S&P500 has increased 54.23% over the same two-year period. The implication is that extremely low interest rates and quantitative easing are likely influencing the level of real assets. At the same time, the ratio of demand for direct economically-related industrial assets. . .is not keeping up with the demand for store of value assets."

More telling still, S&P's *Market Attributes* also prints a chart of the S&P equity index against the ratio of gold-to-silver prices. It shows (see page 5) how a falling ratio—with gold becoming less valuable in terms of its industrially useful cousin—usually coincides with rising stock markets. But the gold-silver ratio has just jumped, up from a three-decade low near 31 ounces of silver for 1 ounce of gold to 40 and above.

"Risk Off and Demand Destruction," is how S&P's report sums up May 2011. Pointing to the rising value of gold—against silver, the other industrial commodities, and common stocks—is simple shorthand, too. Because storing value, rather than trying to grow it, also takes precedence when the risk to your capital is that it might vanish altogether as debtors and businesses go bust amid a true deflation in prices.

That's if deflation gets chance, of course, before economists and central bankers get to work destroying your savings first.

Gold and the Collapsing Dollar

Source: Julian Phillips, Gold Forecaster (6/8/11)

"Is the UN Economic Division incompetent?"

http://www.theaureport.com/pub/na/9821

Last week the UN warned of a possible collapse of the U.S. dollar, if its value against other currencies continues to decline. The UN midyear review of the world economy did not get extensive coverage. Its economic division said that a crisis of confidence in the dollar, stemming from the falling value of foreign-dollar holdings, would imperil the global financial system. This trend had recently been driven by interest rate differentials between the U.S. and other major economies and growing concern about the sustainability of U.S. public debt, half of which is held by foreigners, including the Chinese government.

There is a real sense of both desperation and denial about the debt crisis and the global nature of the debt crisis. On Friday, Moody's threatened the U.S. with a downgrade if the 'ceiling' is not raised by mid-July. Bad labor figures made QE3 more of a possibility and we see a continued slowdown in the developed world economies.

The solution of creating more public debt to cure a private debt crisis will be seen as a blunder and will likely lead to greater financial and economic woes. Part of the solution will be to utilize gold in the monetary system in hopes that it will support and shore up the monetary system. What else is there that is trusted globally?

Is the UN Economic Division incompetent? Are its opinions of little consequence?

The statement it made is huge. A collapse of the U.S. dollar! Maybe the news is too much for the media and the world to cope? Maybe we're in denial. "So far, so good!," said the man who fell off the 50-storey building, as he passed the 12th floor. . .

Importance of the U.S. Dollar

The U.S. dollar replaced gold as the fulcrum of the global money systems of the world in 1971 at a time when its value was falling alongside the British pound. It was accepted back then because it was tied to the oil price. This made the U.S. dollar indispensable. If you used oil, you needed the dollar to pay for it. You had to convert every other currency to get oil. Everyone sold it in the U.S. dollar.

Moreover, the U.S. persuaded Europe (at the time led by President Charles de Gaulle) to stop converting their dollars into gold and accept them as vital currency. The link to oil forced their hand. The dollar had no other virtues at the time, and so that ingredient changed their thinking.

We had thought many times that the oil producers themselves would have broken the link as the dollar's reputation floundered. But they all realized that their country's power was, in a way, permitted by the kind permission of the U.S.—as we saw in Kuwait, then in Iraq and, no doubt by extension, in Libya. The U.S. guarantee of security has made them putty in U.S. hands.

Even OPEC realizes that things are changing and its oil is all it has. Middle Eastern oil producers discussed setting up a Persian Gulf currency the year before last, but nothing has come of it. There will most likely be no Gulf currency unless monetary chaos ensues. If the dollar collapses, their incomes will collapse with it and, in turn, their power base. They most likely have a plan B. Until then, they will keep oil prices in the U.S. dollar and raise them as the dollar falls.

Russia is another kettle of fish. Not part of OPEC, it will accept the yuan, as well as the dollar, as payment for its oil. Iran is fearful, but independent of the U.S. and has discarded all their dollar reserves as well as priced their oil in euros. But the rest of OPEC will keep their oil priced in the dollar.

Since the oil price fell back to $35 in the credit crunch, they have demonstrated that

they can manage the oil price. For the last year, we've seen the price of oil more than compensate for the fall in the U.S. dollar. Right now, it is holding the $100 level up from $80 last year, countering the fall in the dollar against hard currencies. As a result, the oil price has been steady in the euro.

Now that the U.S. consumer (and U.S. recovery) is faltering, we hear loud calls for increased oil supplies. This would drop the oil price but be unacceptable to OPEC. The U.S. government will accept higher oil prices due to the importance of the USD-oil link.

It looked as though the world was stuck with the USD. Until two new elements emerged to change the picture. . .

Mismanagement of the U.S. Dollar

Apart from U.S. gold reserves, there are only a small amount of currencies to protect the U.S. if the USD was to become unacceptable for international payment. U.S. foreign exchange reserves are structured so that the dollar is the only global reserve currency. It's rather like the use of English in the world. Why learn another language when English is the globally accepted language? To date foreigners have had to accept the dollars because there is no viable alternative. If the States needs more, it will print more.

Because of its connection with oil, the dollar will be used until other nations can pay oil producers in other currencies, and if that occurs then usage of the dollar will shrink considerably. Furthermore, The U.S. balance of payments developed this perpetual trade deficit, a form of tribute exacted from the rest of the world. Over the last forty to fifty years, this has worked well as developing countries use the dollar to promote growth. It would work even better if the management of the dollar were handled with its global reserve status in mind and not the U.S. economic situation as the priority. Who cares the world boomed over the last half century?

Once dollar issuance increased to fund imports—as well as to counter the credit crunch—global economic interests were subject to the health and integrity of the U.S. economy. From the day the euro was first issued in 1999 until now we have seen a 46% decline in the value of the dollar against the euro alone. The rest of the world cannot afford to allow the U.S. to continue to take advantage of the world. Still worse, the government deficit in the U.S. has ensured that they are getting increasingly reliant on the reinvestment of foreign (mainly Asian and oil-producing nations) surpluses into the U.S. for its solvency.

Now the U.S. is facing a downturn and is heavily extended on the credit front. Nations are closer to making changes to the currency hierarchy in hopes they can overcome a potential dollar collapse. There is a point when actions against the dollar will be precipitous. The poor, Friday labor report has us watching the dollar fall and points to levels beyond €1:$1.50.

Holders of dollars have to act in the interests of retaining the value of their reserves. This can mean supporting the dollar on foreign exchanges or it can mean selling the dollars for assets, resources and other foreign currencies. At some point, it will mean not accepting the dollar in payment of foreign goods. It is only a matter of time for the

dollar to be removed from its pole position, where it is already causing so much volatility and damage to profits.

The biggest potential damage that could blindside the dollar is a switch by Asian nations from pricing their products in the U.S. dollar to the yuan or other currencies. This is so they stop accumulating dollars; however, they still need it for as long as oil is being sold in the dollar.

This position can only be changed if oil producers (other than OPEC) accepting currencies other than the dollar. These changes are needed now, but they will not come until the damage to the dollar's value can be 'contained' by the surplus holders. China is already using rubles and the yuan to pay Russia for oil and the day may not be far off when Europe does the same. If OPEC felt the pain of a dollar collapse (or even excessive inflation inside the U.S.) it might accept other currencies from buyers (U.S. excluded). OPEC cannot continue raising the dollar oil price because of the outcry it would cause in the U.S.

The Emergence of Asia
U.S. global wealth and power is on the decline. China is the world's second-largest global economy. If the current rate of development is sustained it is only a matter of time before China becomes the world's largest—before the yuan becomes the world's reserve currency. It is only a matter of time before nations will need yuan in their reserves to pay for Chinese imports.

Part of the emergence of Asia is the replacement of the dollar in global trade. The only dollars reserved are to pay for U.S. goods and oil. When other currencies are used in place of the dollar, the purchasing power of the U.S. dollar will decline. This is happening fast!

There is nothing to convince us that the will stop declining. From now until then, the gold price will move in the opposite direction.

Our Economic Future: From Best to Worst Case

Source: Doug Casey, Casey Research (6/8/11)

"The essential advice remains the same: Own gold and silver."

http://www.theaureport.com/pub/na/9822

There is a great deal of uncertainty among investors about what the future of the U.S. economy may look like—so I decided to take a stab at what's likely to happen over the next 20 years. That's enough time for a child to grow up and mature and it's long enough for major trends to develop and make themselves felt.

I'll confine myself to areas that are, as the benighted Rumsfeld might have observed, "known unknowns." I don't want to deal with possibilities of the *deus ex machine* sort. So, we'll rule out natural events like a super-volcano eruption, asteroid strike, new ice age,

global warming and the like. Although all these things absolutely will occur sometime in the future, the timing is very uncertain—at least from the perspective of one human lifespan. It's pointless dealing with geological time and astronomical probability here. And, more important—there's absolutely nothing we can do about such things.

So let's limit ourselves to the possibilities presented by human action. They're plenty weird and scary and unpredictable enough.

The Market for Prognostication

People are all ears for predictions, whether from psychics or from "experts," despite the repeated experience that they're almost always worthless, often misleading and more than rarely the exact opposite of what happens.

Most often, the predictors go afoul by underrating human ingenuity or extrapolating current trends too far. Let me give you a rundown of the state of things during the last century, at 20-year intervals. If you didn't know it's what actually happened, you'd find it hard to believe.

1911—The entire world is at peace. Stability, freedom and prosperity prevail almost everywhere. Almost every country in Europe is ruled by a king or queen. Western civilization has spread to nearly every corner of the world and is received with appreciation. Stunning breakthroughs are being made in science and technology. There's no sign of a gigantic world war about to come out of nowhere to rip apart the political and cultural map of Europe and bankrupt everybody. Who imagined that a dictatorial communist regime would arise in Russia?

1931—It's early in a disastrous worldwide depression. Attention is on economic troubles, not on the virtually unthought-of possibility that in less than 10 years a new world war would be under way against Nazism and a resurgent Germany.

1951—Except for Vietnam, all that remains of the colonies the West had established in the 19th century are quiescent. Nobody guessed almost all would either be independent, or on their way, in 10 years. China has joined Russia—and many other countries—as totally collectivist. Who imagined that Germany and Japan, although literally leveled, would be perhaps the best investments of the century? Who guessed that the U.S. was already at its peak relative to the rest of the world?

1971—Communist and overtly socialist countries all over the world seem to be in ascendance, soon to be buoyed further by a decade of rising commodity prices. The U.S. and the West are entering a deep malaise. Little significance is attached to rumblings from the Islamic world.

1991—Communism has collapsed as an ideology, the USSR has disappeared and China has radically reformed. Islam is increasingly in the news.

2011—The world financial/economic crisis is four years old, but things are still holding together. Islamic terrorism and collapse of old regimes in the Arab world dominate the news. China is viewed as the world's new powerhouse.

Bad and Worse

Regrettably, I'm not much of a linguist. But I do pick up interesting semantic trivia. In Spanish, they don't say "in the future," as we do in English, which implies a definite outcome. Instead, they say "en un futuro"—in a future—which implies many possible outcomes. It's a better way of assessing reality, I think.

Here are three 20-year futures to consider. There are, obviously, many, many more—but I think these encompass the three most realistic broad possibilities.

Best Case—Facts Get Faced

Realizing what a disaster the complete destruction of their currencies would be, most governments decide to endure the pain of allowing interest rates to rise and limiting increases in the money supply. Poorly run corporations and banks are left to fail. Talk of abolishing the Federal Reserve and using a commodity for money, becomes serious and widespread.

Shaken, the U.S. ends its profligate ways, in part because it lacks the means to continue and in part because everyone but collectivist ideologues has actually learned something from the brutal '10s and '20s.

Amidst massive protests, the government closes much of its counterproductive apparatus, eliminates many taxes and lets 30% of its employees go. It also, albeit reluctantly, liberalizes its regulation of the economy because it has become impossible to deny that the U.S. has been falling behind in all areas.

Although there is a resurgence of libertarian thought—reminiscent of the Reagan-Thatcher era—simple practicality is mainly responsible for forcing the government's hand. For one thing, it can't afford the bureaucracy needed to enforce detailed interference. For another, entrepreneurs are increasingly just doing what they please, partly from necessity and partly from a growing sense of righteousness. Interest rates go to 25%, to compensate for high levels of inflation. That's high enough to make it worthwhile for people to save and the capital base starts growing. The stock market has collapsed to its lowest level in living experience (in real terms), but the values available encourage people to become investors. Business is restructured on a sound, debt-free basis, with little speculation.

The U.S. radically cuts its military spending and pulls almost all troops out of their foreign bases and wars. The War on Drugs comes to an end and the crime rate in both the U.S. and Mexico plummets.

The government solves most of its overhanging financial problems with a seriously devalued—but not hyperinflated—dollar. The Social Security deficit is eliminated by abstaining from benefit increases and by inflating away much of what had been promised before. Most Americans suffer a severe drop in their standard of living, as they're forced into new patterns of production and consumption. A generation of college students find that their degrees in sociology, political science, economics,

English lit, Black studies, gender studies and underwater basket weaving are of no real value.

When it's all over, the tough times that started in '07 prove to have been no more than a cyclical bump in the road, like all the other recessions since WW2, just much bigger.

A rough and memorable ride, but it ends with a return to prosperity.

Middle Case—Facts Are Ignored

The world's governments continue under the delusion that printing massive quantities of paper money will solve problems when, in fact, printing lies at the base of the problems. Most currencies lose most of their value. Some lose it all. This destroys the most productive people in society, the middle class, who produce more than they consume and save the difference... in currency.

And it injures successful corporations that have billions, or even tens of billions, in cash. Few of their managers know what to do with such sums other than to hold currency; at best they'll buy their own and other companies' stock. The result is a stock market boom in the midst of a grim depression. But only one person in a hundred will be in a position to benefit from it, because most will be living too close to the edge and the stock market will be the last thing on their minds. The destruction of capital sets technology back quite a bit in the U.S., Japan and Europe. Chindia increases its relative strength.

The U.S. government, believing it has both the obligation and the ability to "do something," redoubles its control of the economy. Price controls and capital controls are the order of the day. Petroleum products are rationed. Enforcement of new regulations is assigned to a new agency, the "Economic Recovery Administration," which resembles the TSA in most regards—except it has many plain-clothes employees, to better ferret out violators.

People think increasingly of politics as the way to get what they want. More and more Americans move abroad—although things are deteriorating in most places in the world. Poor, backwater countries offer the best opportunities because their governments are either weak, or corrupt, enough to allow new economic activity.

Worst Case—War

War is the worst thing that can happen to an economy, but it's also the most likely thing at this point. When the going gets tough, the people in charge like to blame somebody else for the problem. That's compounded by the foolish—but widely accepted—notion that war is good for the economy and that, for instance, it pulled the U.S. out of the last depression.

Like all wars, this one results in a complete stifling of civil and economic freedoms. If my second scenario is unpleasant, this alternative is grim.

The big conflict has already been teed up—the continuation of the Forever War between Islam and the West. I'll hazard the major *situs* will be Europe—which has pretty much always been the case for wars in general for the last 2,000 years. Europe will be

the worst place to be over the next two decades. And North America will be locked down like a police compound.

China will have serious social turmoil as it is forced to reorient an export-driven economy catering to Europe and the U.S. As in the past, South America will be out of the conflict and in a position to benefit from it. India will also be a net beneficiary, largely uninvolved and happy to watch their ex-colonial masters rope-a-dope themselves into poverty.

People will always argue who really started it. Was it the Muslims when they poured out of Arabia in the 630s? Or was it the West when it invaded the Near East with the Crusades starting in 1099? Or was it the Muslims when the Turks took Constantinople in 1453 (though only 40 years later the Muslims would lose Grenada, in Spain, as the reconquista was completed), and then moved on to almost conquer Europe before being turned back at Vienna in 1683? Or is it more relevant just to look at recent history, starting at the beginning of the 19th century, when the West conquered and colonized every single Muslim country? Or the very recent past, when Muslims were counterattacking, using a new military approach popularly called "terrorism?"

My bottom line is that the next 20 years may be dominated by the Forever War that started in the 600s, being resumed in earnest. At least in Europe, it has the prospect of becoming a war of survival, much nastier than either WWI or WWII.

That resumption is being accelerated by what is going on in the Middle East now. The chances that the upheaval in the Arab world will just peter out and everyone will return to the *status quo ante* are about zero. It's a culture-wide affair, much as the revolutions in Eastern Europe were. Or, for that matter, the revolutions against Spain in South America at the beginning of the 19th century.

The Arab revolutions are a good thing in that they're getting rid of criminal regimes. Some will be replaced with equally repressive cliques, although manned with different criminals. I suspect a few might be more like the French Revolution of 1789; good riddance to the old regime, but then came Robespierre. And after him Napoleon.

Regardless of how the tumult plays out in any particular country, the erstwhile docile collaborators with Europe and the U.S. are being elbowed aside and the regimes that replace them are going to accommodate the vast public constituency for hostility toward the West, if only for the sake of internal political advantage.

The war is not going to be fought with conventional armies. The Islamic world doesn't have any that would last more than a day or two against a Western army, and a Western army is useless against an amorphous mass of millions of people.

So, what will the conflict be like? Amorphous and disjointed, chaotic and without fixed fronts. Millions of Muslims are in Europe—Pakistanis in the UK, Turks in Germany, North Africans in France, Indonesians in Holland. Europe's destructive conquest of the world has come back to bite. These people will approach majority status over the next 20 years, both because they reproduce at several times the rate of the Europeans and

because they're not being absorbed. And because, now, millions and millions more are going to arrive as boat people.

The natives aren't going to like it, for lots of reasons. And the outcome will likely resemble what always happens when large numbers of unwelcome foreigners invade a territory: violence.

One consequence of the war and especially of the collapse of the regime in Arabia (in 2031 it's no longer called Saudi Arabia, because the ruling Saud family—at least the ones who couldn't get to their jets in time—has been massacred) is a cut-off of oil until the U.S. invades.

I hate to overemphasize oil, but the world still runs on it. When something does happen in Arabia, you can count on a disruption in the shipment of oil. And absolutely count on active U.S. intervention.

A prolonged guerrilla war, similar to those in Iraq, Afghanistan, Libya and other Arab countries will follow. But there won't be any cover story about ousting a bad guy or bringing democracy to the oppressed. It will be pretty obvious to everybody that, from the West's point of view, it will start out simply to answer the question: What's our oil doing under its sand? But from the Muslim's point of view, it will be a different question: How can we rid ourselves of these aggressive infidels once and for all? Then the West will rephrase its question to: These people want to kill us! How can we stop them once and for all?

You may be thinking that the U.S. can't lose a war because it has a large and extremely high-tech military. All those expensive toys can be useful from time to time; they can win lots of small battles. But they're basically useless for winning the next generation of warfare, as useless as cavalry in WW1, battleships in WW2, tanks in Vietnam or nuclear missiles today.

What? Nuclear missiles obsolete? Of course. They're expensive, clunky and the enemy can tell exactly where they came from. A plane, or a boat, or a truck$#151or a FedEx package—is a much neater delivery system. And there will be plenty of nuclear devices to deliver. If they're within the grasp of tiny countries like Israel and North Korea, they're within the grasp of anyone.

In fact, the centerpieces of today's military are well on their way to the scrapheap or to museum displays. There may well be a few aircraft carriers, nuclear missiles, B-2 bombers, F-22 fighters and the like around in 20 years. But they'll be oddities reserved for special purposes, like typewriters. Laser, electronic and robotic weapons will have replaced those using gunpowder and they'll be readily available to anyone (an accelerant in the collapse of the nation-state). The military's reliance on centralization and on computer power will prove an Achilles heel; a gang of teenage hackers (not only the best kind, but the most common kind) can devastate a military for pure sport.

Conquest of wealth or territory will be pointless; that's one thing even the Soviets suspected in the '80s, when they still had the power to invade Western Europe. It's now

nothing like in the old days, when a successful war yielded lots of gold, cattle and slaves. This lack of an economic return will obviate one reason for a military. The hollowing-out of nation-states will obviate another; governments will find they just don't have either the financial means or the popular support for serious military establishments.

The military, as the cutting edge of the nation-state, is in serious decline. Conflict between groups will still exist, of course, but it will be more informal, more the kind of thing that a Mafia or an Al-Qaeda might conduct. The growth of private military contractors, like Blackwater (now Xe), which only need be paid when in use, is indicative.

A Basic Plan

Sorry I can't do any better than a best-case scenario that just isn't very rosy—at least over the near term. And there's a high likelihood of the worst-case scenario. There will probably be some overlapping elements from all three, if I'm on the right track.

From an economic point of view, I see only two things as being predictable: One, that many people will always produce more than they consume and save the difference; this will create capital, which is critical for not only a higher standard of living, but for the advancement of technology.

Two, that because there are currently more scientists and engineers alive than have lived in all previous history combined, technology will keep advancing; technology is the major force to advance the general standard of living. So, essentially, that's why I'm an optimist. Let's just hope the savers aren't wiped out and the scientists don't do too much government work.

The most sensible plan for the next 20 years is to plan to survive. The days of "He who dies with the most toys wins," and of two whole generations living way above their means, are over years isn't forever. Think of it like a bear market, when the best thing to do is take your chips off the table, grab some books and retire to the beach for a year—except that this is going to be a lot longer and more serious. Nonetheless, I expect my fundamental optimism to get through it undamaged, as should yours.

For one thing, the long-term trend is favorable. Mankind has risen from subsistence and living in caves as little as 12,000 years ago, to reaching for the stars today—and the rate of progress has been accelerating. Why should that stop now?

But, as I mentioned earlier, thinking too far in the future is perhaps pointless. So, what should you do now? The essential advice remains the same:

- Own gold and silver. At Casey Research, we've made a lot of money on them—and they're no longer cheap—but they're going higher, simply for lack of alternatives. Look at them as you would cash.

- Produce more than you consume and save the difference. This is no longer the time for promiscuous, conspicuous consumption.

- Be alert for speculations. Some markets will collapse (for instance, I wouldn't want to own a McMansion in the suburbs or a "collectible" car). Other markets will likely turn into manias, benefiting from trillions of new currency units (I suspect mining stocks will be one of them).
- Diversify your assets (and yourself) politically and geographically. As big a risk as the markets will be, your government is an even bigger one.

SILVER IS TRACING OUT 1980 POST-BUBBLE PATTERN

4 June 2011 by McClellan Financial 38 Comments

Tom McClellan – McClellan Market Report

http://pragcap.com/silver-is-tracing-out-1980-post-bubble-pattern

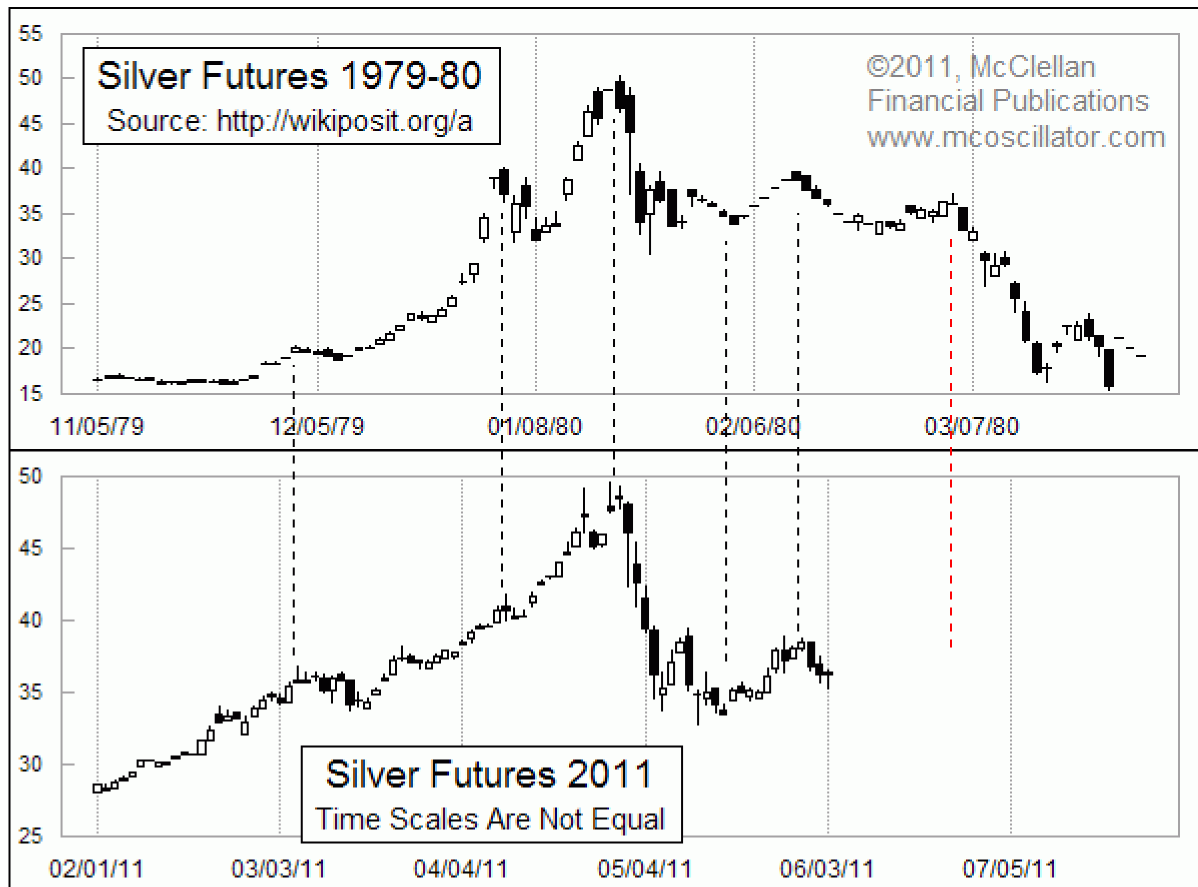


Chart pattern analogs have long been a popular way to get an insight into future price structures. When you see a structure in the current market that looks a lot like a structure in a previous period, then you can use the data from that previous period to look ahead to what current prices might do, assuming that the pattern resemblance continues.

It is a standard principle of science that experiments should be repeatable. The rules of physics should operate the same way everywhere. So if you drop a brand new tennis ball in New York, it should bounce the same way that a brand new tennis ball bounces in Melbourne. The rules of market physics are a lot different and often more variable than the rules for the physical world, but the presumption behind chart pattern analogs is that if you are seeing the same behavior, then the same sorts of inputs and rules of motion are at work.

This week's chart takes a look back at the silver bubble of 1980. That famous episode resulted from an attempt by brothers William Herbert Hunt and Nelson Bunker Hunt to corner the silver market. Prior to the run up, silver prices had been trading in the high single digits, then jumped up to between $15 and $20 before starting a parabolic move to $50. At the point when silver hit $50/oz, the CFTC and the Chicago Mercantile Exchange intervened with restrictions on position sizes and higher margin requirements. That effort broke the Hunt's corner play, forcing traders to sell to meet margin calls. The initial decline took silver futures down from an intraday high of $50.36 to a low $30.25 in just 3 days, and to a more solid intraday low of $33.10 6 trading days after the top. Just 2 months later, silver was back down below $20.

I have not read it yet, but my friend Ian McAvity recommends the book Beyond Greed by Stephen Fay for insights on that whole 1980 silver bubble episode. Ian has been writing the newsletter Deliberations since shortly after the earth's crust cooled, and he is a well known expert on the precious metals markets.

I thought it would be interesting to see how the silver top of 2011 might compare to that 1980 episode. One big point of similarity between the two events has been the efforts of the CME Group (successor to the Chicago Mercantile Exchange) to raise margin requirements for futures traders in order to curtail excessive speculation. And the $50/oz level appears to have been the price that the CME group wanted to defend, just as in the 1980 episode. Like the 1980 example, silver's first stop on the way down from $50 was an intraday low at $33.54 just 6 trading days after the top.

The key point of difference between the two periods in this comparison is that I had to bend time a little bit in order to align the other chart structures. The patterns look the same, but the current silver market is taking about 20% longer to trace out the same dance steps. The vertical grid lines in each chart are spaced 21 trading days apart (1 month), but the horizontal spacing of those lines is different in the two charts.

Why the current structure is taking 20% longer to make the same moves is an interesting question, but for as long as the price patterns continue to correlate we don't really need to find a precise answer. It may be that changes since 1980 in what I like to call the "viscosity of money" are responsible for this change in the rate of price pattern progression, just as the action of a water filled wave pool would be different from one filled with some other fluid.

Looking ahead, if the current silver market keeps following the pattern made by silver prices in 1980, then we should look for a resumption of the decline starting in late June.

from an editorial on the "Issues & Insights" page of Investor's Business Daily on June 17th:

"Greece owes close to $240 billion to European Union governments and banks that it can't pay. Roughly half of that is owed to France and Germany, and right behind Greece are some much bigger debtors that really scare the Eurocrats. They include Ireland ($870 billion in debts), Italy ($1.4 trillion), Spain ($1.2 trillion) and Portugal ($290 billion).

This is why the EU has decided to throw good money after bad, doubling the size of its bailout fund from $1 trillion to more than $2 trillion. It fears political chaos, widespread bank failures and a collapse of the euro.

The bailout must be big enough, notes European Central Bank governor Nout Wellink, 'to frighten the market and to convince the markets that governments are prepared to really defend, to the end of their days, Europe as it is and the monetary union.' That's panic.

But what, really, are they defending? The Greek government's right to spend far more than it takes in? Or the Greeks' pathetic refusal to understand that other Europeans won't pay for their welfare state?

As the Financial Times noted, 'Even if Greece successfully raised ($45 billion) from privatizations, met all its tight budgetary goals and grew in line with the optimistic official forecasts, its government debt would still equal about 150% of gross domestic product in 2014.'

Seen in that light, the bailout really isn't about Greece's economy at all. It's about saving the EU from financial contagion and political chaos. Unfortunately, bailouts merely replace old debt with new. **Studies show that cutting spending, not raising taxes, is the way to fix a nation's finances and get its economy growing.**

Time's running out. At a minimum, the recent crisis means the EU's cradle-to-grave welfare state is dead.

In its place, Europeans need to restore a sense of self-responsibility, hard work and market discipline, and pare back their demands from government.

As for the U.S., we can neither ignore this crisis nor gloat about it. If we don't do the same, we'll be next."

The Greater Depression Is Now

Casey Daily Dispatch, June 24, 2011

http://my.mg.mail.yahoo.com/neo/launch

I'd now like to turn my attention to the unfolding Greater Depression. That phrase was coined by my dear partner Mr. Casey a decade or so back as a way of describing the economic crisis he foresaw as inevitable, and which is now materializing.

Because I think it is important for every organization to constantly challenge its own assumptions, I've long acted as something of a devil's advocate here at Casey Research. By constantly pushing our analysts to revisit their assumptions and calculations, it is my firm intention for us to spot the fork in the road that indicates it is time to shift strategies away from investments designed to do well in the face of a currency debasement and to something else.

Being attentive to that fork in the road is hugely important, because even though we urge our subscribers not to overdo their exposure to inflation hedges, we recognize that many do. Many a good person had their clocks cleaned in the early 1980s solely because they had become overly enamored of their precious metals - so much so that they stopped thinking of them as an asset class and began thinking of them more in the terms one might associate with an amorous dinner date. Thus these investors were utterly unprepared when said date stood up and broke a dinner plate over their heads.

With that brief setup, I want to make our views clear: **While we correctly anticipated the current correction in precious metals, this correction is but a blip in a secular bull market that is very much intact.**

Doug Casey has often said that the unfolding crisis is going to be even worse than he expects (which is saying something), and the longer the rest of us at Casey Research study the tea leaves, it is hard to disagree that the Greater Depression is still ahead.

Consider:

- **The eurozone is growing increasingly desperate**.
- **The U.S. debt situation is far worse than anyone in Washington is willing to admit.**
- **China's miracle mirage.**
- **Japan is essentially offline.**
- **The Middle East is in flames.**