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The Mess Greenspan Leaves

Stefan M.I. Karlsson

With Federal Reserve Chairman Alan Greenspan set to retire next month after more than 18 years on the job, it seems appropriate to summarize his performance. Greenspan has been the single most powerful individual in the world in the economic sphere.

By merely changing his choice of words between different speeches he has been able to rattle the markets. When he merely removes or adds words like "measured" or "accommodative" somewhere in his speech, the markets either rally or panic. And through his words and his actions he has had a profound effect on the US Economy and the world economy as a whole.

Before he became Fed Chairman, some believers in sound money thought Greenspan might push for a less inflationary monetary policy. They pointed to his past as a close associate of Ayn Rand and author of the "Gold And Economic Freedom" chapter in Rand's *Capitalism: The Unknown Ideal*. In that chapter, Greenspan argued for a Misesian view of monetary matters, pointing to how monetary inflation lead to confiscation of wealth and destabilizing business cycles, arguing that only a gold standard could protect us from the predation of the state. This is why statists view gold as a "barbarous relic." He also described the events leading to the Great Depression in much the same way that Murray Rothbard did in *America's Great Depression*.

Murray Rothbard warned when Greenspan became Fed Chairman that we should not expect Greenspan to be any better than his predecessors, pointing to Greenspan's previous record, including his support for President Ford's imbecilic "Whip Inflation Now" buttons and his saving Social Security by raising payroll taxes. As it turned out, Rothbard was entirely right.

When Congressman Ron Paul reminded Greenspan of "Gold and Economic Freedom," Greenspan said he now realizes he had been wrong, and that as Fed Chairman he was able to pursue policies that mimic the gold standard.

That however is a preposterous claim. As Mark Skousen showed in his book *The Economics of a Pure Gold Standard*, the global supply of gold has historically tended to grow 1-2% per year. Since gold supply would be the basis of money supply under a pure gold standard (or at least the monetary base under the weaker version with fractional reserve banking), then it follows that under a "mimic gold standard" the money supply would grow at the same low rate. Yet between August 1987, when Greenspan became Fed Chairman, and November 2005, the monetary base rose from $233.5 billion to $782.5 billion, a 235% total increase or 6.8% at an annual rate. The M3 measure of money supply rose during the same period from $3.62 trillion to over $10 trillion, a 179% increase or 5.8% at an annual rate. Money supply growth has thus been far in excess of gold standard conditions.

In fact these numbers underestimate just how different things are from the conditions of a gold standard, because the Fed does not just manipulate the economy through increasing the money supply. It also manipulates the economy through the expectations of changes in the money supply.

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Why Hasn't "IT" Happened Yet?

Aubie Baltin CFP. CTA, CFA, Phd. (retired)

To listen to the Bears over the past few years, you would have thought we would all be in breadlines and soup kitchens by now. So far, all of the ranting about doom and gloom sounds more like the boy who cried wolf than accurate forecasting. But I do believe that when IT happens, things are going to get much worse than anyone can imagine. Even though the markets, at their lows in March of 2003 had lost over $6 trillion of value, IT still hasn't happened yet.

What is IT? Why hasn't IT happened and When will it happen?

IT is a major financial contraction. IT is an irreversible downward spiral that takes everything down with it. IT will be started by a catalyst, a spark that will

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The Mess Greenspan Leaves

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Alan Greenspan has a record of repeated rescue operations during times of financial distress. From the stock market crash of 1987 to the S&L crisis of the early 1990s to the Asian crisis and the collapse of LTCM to the feared Y2K crisis to the bursting of the tech stock bubble, Greenspan has proven himself more than willing to bail out failed investors with additional doses of "liquidity" (the popular inflationist euphemism for inflation).

The result of this has been to increase the willingness of investors to participate in speculative bubbles because they know that if things go wrong and they are unable to get out before the bubble burst, their good friend Alan Greenspan will bail them out and limit their losses. Greenspan has thus been responsible for bubbles like the tech stock bubble and the housing bubble both by suppressing interest rates and providing the "liquidity" needed to create the bubbles, and also by reducing investors fear of losses after the bubble bursts by creating the expectations that the Fed will bail them out.

The consequences of this have been great. Instead of falling as a result of increased production, the consumer price index rose nearly 74% between August 1987 and November 2005, an average annual increase of 3.1%. This, together with the even greater asset price increases means that the purchasing power of the dollar has been sharply reduced, something which in turn has constituted large scale "confiscations of wealth," as the 1966 Alan Greenspan described inflation.

Moreover, the illusionary paper wealth created by Greenspan's bubbles has in turn greatly encouraged people to reduce their savings and increase their debts. The gross national savings rate

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IT'S ALWAYS DARKEST BEFORE THE DAWN

Dr. Richard S. Appel

December 15, 2005 -I for one was taken by surprise with the ease that gold rose and roared unimpeded through the $500-$510 an ounce level. This range should have presented extremely strong resistance. Beyond the fact that an important round number such as $500 nearly always gives pause to any major price rise, $510 was an earlier formidable area that repelled the eternal metal's advances in January 1983, and again in December 1987. Yet, despite the enormous upward rush that unfolded when this major zone was left behind, gold quickly ran into a wall of selling and once again plunged in price.

From its Bull Market inception at $252.50 in August 1999, bullish investors have been forced to endure repeated brutal or extended, deteriorating price reversals. This has prevented all but its most ardent believers from continually riding the gold bull. As with most major, secular Bull Markets some of these price declines while relatively brief, were terrifyingly steep. This was due in part to the rapidity with which the earlier labored price rises often gave way to seemingly waterfall price collapses.

Gold's first major Bull Market price break occurred after its $252.50 nadir spawned a rapid rise to the mid-$320 range. The upward surge required barely a month to unfold but then, just as suddenly as it appeared, the wind was knocked from its sails. An eighteen-month grinding decline ensued before a double bottom was struck at $255, in early 2001.

During the great gold Bull Market of the1970's, a price downturn such as we are now enduring would have been quite nerve-wracking for me. However, today, in a way I am fortunate. This is due to my experience, which dates back to the mid-1960's, when I first recognized gold's eternal importance to civilized man.

Across the following forty-year period I was a staunch observer of gold's daily price action. I was there when the London Gold Pool lost control of the gold price in1968. This group consisted of the United States and seven other major central banks. Their mandate was to maintain gold near the $35 price on the world's then major gold market, the London Gold Exchange. During the time of the Gold Pool's existence, inflation crept higher in the economies of the various members, while the gold price was prevented from expressing itself.

The Pool was formed in1961. Then as now, they were successful in suppressing the upward movement in gold until that fortuitous day in March 1968. I watched when the market ultimately overwhelmed their efforts, and when investors fell over themselves and drove gold from $35 to $44.25 in the space of only two trading days. I was also there when gold collapsed from $200 at the end of December 1974, to its final $103 low eighteen months later. It took only three and a half years after that nadir, for gold to touch its $875 an ounce Bull Market peak.

I guess that over the years I've become somewhat emotionally immune to sharp gold price reversals. This is due to a few factors. First, I am convinced that gold is in a secular Bull Market that is destined to eventually leave its1980 peak of $875 far behind. This belief is reinforced by the fashion in which our government and Fed appear hell-bent upon preventing even a modest recession from developing. In fact, I believe that this desire is a major reason for Dr. Benjamin Bernanke's rapid ascent from virtual obscurity, to his likely seat as Federal Reserve Board Chairman. If he performs in the fashion that he has stated, he will be responsible for creating an even greater flood of inflationary purchasing media, than for which even Alan Greenspan can be credited.

Despite the fact that the general public and the majority of noted financial experts do not understand the relationship, gold's destiny is sealed. As an unprecedented number of dollar credits are created to fund our unsustainable Federal, and balance of payments and trade deficits, knowledgeable buyers will increasingly acquire the yellow metal, and move it higher in price. They will realize that the future loss of the dollar's purchasing power will affect gold as it has throughout history. It will drive people into the metal, as a drowning person lunges for a life raft. Those who purchase gold will do so in their desire to

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The Mess Greenspan Leaves

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has fallen since 1987 from 16.5% to 13%, and the net national savings rate from 4.5% to 1%. (During the third quarter this year it fell below zero due to Katrina-related damages). This decline in savings has come entirely in the household sector, as the household savings rate has fallen from 7% to -1%. Similarly, the private sector debt burden has increased from 120% of GDP to 153%. Again, this increase has been concentrated in the household sector where debt has increased from 77% of disposable income to 121%. Mortgage debt in particular has increased, from 51% to 91% of disposable income.

This has also had the effect of raising the current account deficit from the then record level of 3.5% of GDP to what will probably be about 7% of GDP this quarter. Greenspan's policy of inflating bubbles to counter the negative effects of the bursting of previous ones is like someone who remains on a sinking ship because he doesn't like to swim. We can see here how the policy of inflating bubble after bubble to avoid the recessionary implications of previous bubbles has resulted in ever-greater imbalances, with the savings rate falling ever lower after each bubble and the debt burden growing ever greater.

Some may believe that Greenspan, who is not alone in deciding monetary policy, has been overruled by the other members of the Federal Reserve board - that perhaps he has been pushing for sounder policies, but to no avail. But Greenspan has in fact been highly active in pushing the rest of the board into the various bail-out operations, and it was reportedly Greenspan, together with a certain Ben Bernanke, who claimed that the old economic laws have been repealed and that the Fed can and should "accommodate" the tech stock bubble. Greenspan has thus been responsible for today's economic mess.

In this context, it seems appropriate to quote "Gold and Economic Freedom":

When business in the United States underwent a mild contraction in 1927, the Federal Reserve created more paper reserves in the hope of forestalling any possible bank reserve shortage. More disastrous, however, was the Federal Reserve's attempt to assist Great Britain who had been losing gold to us because the Bank of England refused to allow interest rates to rise when market forces dictated (it was politically unpalatable). The reasoning of the authorities involved was as follows: if the Federal Reserve pumped excessive paper reserves into American banks, interest rates in the United States would fall to a level comparable with those in Great Britain; this would act to stop Britain's gold loss and avoid the political embarrassment of having to raise interest rates. The "Fed" succeeded; it stopped the gold loss, but it nearly destroyed the economies of the world, in the process.

The excess credit which the Fed pumped into the economy, spilled over into the stock market - triggering a fantastic speculative boom. Belatedly, Federal Reserve officials attempted to sop up the excess reserves and finally succeeded in braking the boom. But it was too late: by 1929 the speculative imbalances had become so overwhelming that the attempt precipitated a sharp retrenching and a consequent demoralizing of business confidence.

If you update a few of the specifics, like adding 70 years to the dates mentioned, and replacing "Bank of England" and "gold loss" with "Long Term Capital Management" and "the Asian crisis," this is a perfect description of what happened in the United States in the late 1990s.

Not that he would admit it. Because apart from inflation and economic imbalances, the defining characteristic of the Greenspan Fed has been its dishonesty. We have already seen how Greenspan claimed to have mimicked gold standard conditions.

Moreover, instead of admitting how he was responsible for the tech stock bubble through the creation of moral hazard and suppression of interest rates, he blamed the bubble on "irrational exuberance." And instead of admitting his role in creating the housing bubble, he denied that there was such a bubble.

Later, when he admitted that the housing bubble was real, he spoke out against it as if he had nothing to do with having created it in the first place.

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What Do Rising Gold Prices Mean?

Dr. Ron Paul

The market price for an ounce of gold rose to over $500 last week, a significant milestone for economists watching precious metals and commodities markets. The last time gold topped $500 was December 1987, in the wake of the "Black Monday" stock market collapse earlier that fall.

Gold prices historically rise when faith in paper currencies erodes, as investors seek the intrinsic value of gold to protect themselves from inflation. It's interesting to note that while the U.S. dollar has regained some of its value relative to other paper currencies like the euro, it continues to lose value relative to gold and other hard assets. This shows the folly of using one fiat currency to value another.

Gold is history's oldest and most stable currency. Central bankers and politicians don't want a gold-backed currency system, because it denies them the power to create money out of thin air. Governments by their very nature want to expand, whether to finance military intervention abroad or a welfare state at home. Expansion costs money, and politicians don't want spending limited to the amounts they can tax or borrow. This is precisely why central banks now manage all of the world's major currencies.

Yet while politicians favor central bank control of money, history and the laws of economics are on the side of gold. Even though central banks try to mask their inflationary policies and suppress the price of gold by surreptitiously selling it, the gold markets always cut through the smokescreen eventually. Rising gold prices like we see today historically signify trouble for paper currencies, and the dollar is no exception.

President Nixon finally severed the last tenuous links between the dollar and gold in 1971. Since 1971, the Federal Reserve and U.S. Treasury have

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Gold Arriving At A New Level Of Its Bull Market

Dirk Masuch Oesterreich

Only a few short days ago the prevailing consensus among gold investors was that gold is in a correction that had some way to go to work off the seemingly overblown $ 540 level it reached in December. Gold could have retreated all the way down to its lower trend channel line to around $ 450 - $ 460 followed by a considerable consolidation without violating the bullish case. While this is what would have to be expected if gold were still to trade within its stage one dynamics, the recent fireworks in the precious metals sector, however, suggest otherwise.

It appears to make sense to assume that gold broke out of an already ascending trend channel and may now be looking to establish new support at or above the old resistance line. In the 1-year chart gold broke out of its consolidation pattern in the early days of September. Since then it has been forming a new up trend channel that itself was broken to the upside rather quickly.

Although at this point it may be too soon to know it seems that gold is making an attempt at a parabolic rise. This may imply that a pullback could

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maintain the purchasing power of their wealth. The swimmer, to save his life.

Another primary reason why the current gold price reversal has not affected me as it would have in the past, is that it seems "like deja vu all over again". I've lived through all of the similar declines during the gold bull of the 1970's, as well as those that occurred during its 1985-1987, and 1993-1996 Bear Market rallies.

It may be difficult to accept but corrections are important for the gold Bull Market! It is normal for downdrafts during Bull Markets to be quite severe. In fact, they often appear to be more intense than most Bear Market down-legs. These secondary corrections act to frighten the weak holders out of the market. In this fashion they cleanse the market. After the tentative investors have jettisoned their positions, the market is then prepared to resume its skyward price assault.

I began anticipating this correction when gold ignored the resistance that should have appeared between $500 and $510 an ounce, and rocketed higher in price. Yet, I wondered from what price level it would occur. When gold did not hesitate, and immediately broke through the $500-$510 area, I sensed that the buyers and trapped short-sellers had panicked. With some trepidation, I was uncertain if this zone would be left untested, by a downward leg, as gold extended its upward climb. I was concerned because I felt that the upswing was too sharp to be sustainable, and feared that the higher the yellow metal went without a correction, the more severe would be its decline when it arrived.

In the December issue of Financial Insights with gold at $495.90, I wrote regarding the $500-$510 range, "Importantly, to my mind, any show of substantial near-term strength from this level should be viewed as a change in the tone of the market. It will indicate that far greater demand, if not panic, abounds for the eternal metal". I went on and said, "The road ahead will similarly be fraught with periodic, sharp price declines as gold works its way higher in price. If you anticipate their appearance as I do, your life will be far less stressful". It is amazing how quickly the lust for the precious metal was replaced by outright fear!

It is crucial for all Bull Markets to periodically decline in price! These retracements allow the temporary excesses that have built up to work themselves off. It can be likened to pressure building up in a sealed pressure cooker. If the increasing energy is not allowed to escape, the pot will ultimately explode. Similarly, if a market moves in a parabolic fashion, traveling unchallenged higher in price, when investors finally cease buying, a price collapse will ensue. To my mind while it is terrifying, and fraught with temporary paper losses, the current sharp decline will be remembered as nothing more than a normal correction within gold's multi-year Bull Market. **Further, as hard as it may be to believe while we are in the midst of this reversal, it is truly healthy for the market.**

I believe that gold's present plunging price is setting the stage for a major extension of it's Bull Market! When it ends, and gold resumes its northward advance, it will be reviewed as having firmly established $500 as a major support area. This will be critical to the market because it will change the perceptions of it's players. For stock investors it will make them consider revaluing the worth of the ore reserves, and profit potential, of their companies to that price. I am confident that it will spark a major broad-based advance when this realization begins to permeate the market. For gold investors it will foster greater confidence. They will view their downside risk in a less frightening light. As with the stocks, it will become the impetus for a major gold advance.

It will be informative to observe the action of the major gold stocks as viewed through the HUI or XAU during this gold setback. It is likely that they will bottom before the gold price! In fact, they may actually begin an uptrend while gold still languishes or even continues to fall. This scenario has often transpired at major turning points in the gold universe. If it again occurs it will confirm that a gold bottom is in place.

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Why Hasn't "IT" Happened Yet?

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get everybody's attention. But IT is already built into the system, like a bunch of oily rags, all in a pile waiting for internal combustion or a match or a spark to ignite. Some of the candidates for the catalyst include the following:

1) Crash of the Dollar 2) Stock Market Crash 3) Derivative meltdown at a major bank 4) Nuclear War 5) Major terrorist attack on the US (Nuke, Bio or Chemical) 6) Major Corporate Debt Default 7) Major Municipal or State Default 8) Foreign Dumping or perhaps simply a refusal to continue buying US Treasuries

These are the matches. By themselves, most can be weathered. But when combined with the poor fundamentals of the economy and stock market, and $800Billion Trade and $500 Billion budget deficits, they can turn into an inferno.

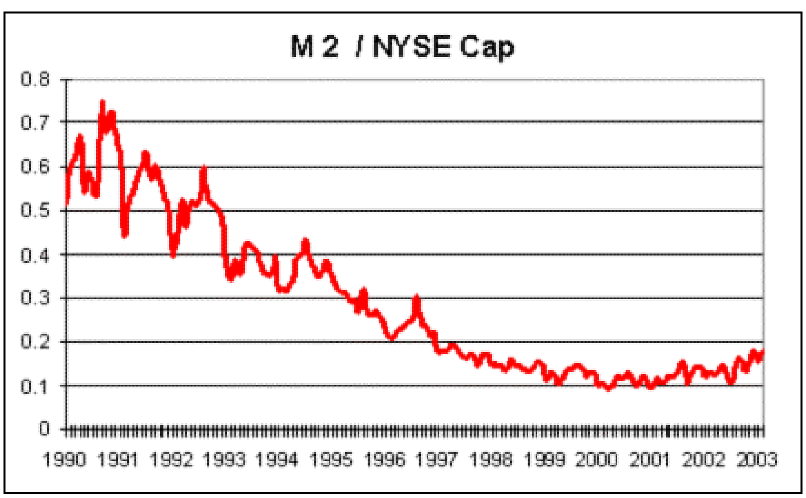
Below are some of the oily rags, waiting to ignite.

- Massive amounts of derivatives ($85 + Trillion)
- Over valuation of the Dollar
- Overvalued stock market (30+ times last 12 months earnings)
- Massive build up of corporate debt
- Record Low cash levels in mutual funds
- Massive build up of personal debt
- Under-funded pensions (Gov. & Private)
- Housing bubble ? I) Deflation **or Inflation** II) Municipal and State deficits

But one thing for sure, IT will not happen as every body expects. Some are waiting to see the writing on the wall, Most want to see the fire before they will believe there is danger. Things haven't really changed that much over the past 3 years. Investor attitudes are much too complacent. They see nothing to worry about. Yet *Liabilities have been outpacing income for several years. Since Year 2000, income growth has slowed while expenses have continued to accelerate.*

So why hasn't IT happened yet? Because the Fed has played Fire Chief and kept liquidity flowing. But the Fed can NOT keep the spigots wide open indefinitely. All they are doing is delaying the inevitable, not curing it. Adding liquidity is only making our future economic problems worse. It's the same as adding tons of kindling. Excessive liquidity was the main cause of the 90's Bubble in the first place and for that matter, every other bubble throughout history. The Crash in 1987 came as a shocker: But Fire Chief Greenspan and his liquidity hose was on the phone to the banks and brokers offering liquidity to anyone that needed it. He saved a melt down with five minutes to spare. The downturn in 1997 was again saved by Allan and his liquidity hose. In 1998, the Long Term Capital Management debacle caught almost everyone flat-footed. And once again along came the Fed to the rescue and voila, problem solved. Then came Y2K and the Fed just automatically turned on the printing presses to prevent any problems. All of these problems had similar characteristics - they were sudden and solved by the Fed with increased liquidity.

This chart shows that the fabled liquidity that Wall Street crows about doesn't exist. This chart is a comparison of M2 (liquid money) to the NYSE capitalization. (If the Nasdaq's capitalization were included the chart would look even worse.) Liquidity bottomed out in the 1st quarter of Year 2000. It is only slightly higher today, but not enough to make a case for a long lasting bull run based on liquidity.



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employed a pure fiat money system, meaning government can create money whenever it decrees simply by printing more dollars. The "value" of each newly minted dollar is determined by the faith of the public, the money supply, and the financial markets. In other words, fiat dollars have no intrinsic value.

What does this mean for you and your family? Since your dollars have no intrinsic value, they are subject to currency market fluctuations and ruinous government policies, especially Fed inflationary policies. Every time new dollars are printed and the money supply increases, your income and savings are worth less. Even as you save for retirement, the Fed is working against you. Inflation is nothing more than government counterfeiting by the Fed printing presses.

Article by:
Dr. Ron Paul, a member of Congress from Texas.
December 6, 2005

The Mess Greenspan Leaves

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Given Greenspan's obvious familiarity with Austrian economics, we can only conclude that he is consciously dishonest.

In his tenure as Fed Chairman, Greenspan has acted precisely like the central bankers he attacked in 1966. The enduring legacy of the Greenspan era will be the large-scale confiscations of wealth and economic imbalances - all of it blamed on others.

Article by:
Stefan M.I. Karlsson

Why Hasn't "IT" Happened Yet?

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In fact, the Fed's solutions have once again driven stock prices to levels of irrational exeuberance, exceeding even that of 2000.. Too much liquidity has made interest rates so low, corporations and individuals have taken on unmanageable debt loads. Too much liquidity is driving the housing bubble.

Too much liquidity must eventually devalue the Dollar. Adding more liquidity doesn't solve any of these problems, it just exacerbates them and delays the inevitable, and quite possibly will make matters worse, and when IT does happens.

When will IT happen? It already is. IT is happening all around us. The "oily rags" are there for everybody to see. Debt continues to pile up. The market is still over valued. The Dollar is sagging. No, these aren't things that have "always been going on" as some pyromaniacs on Wall Street would have you believe. No, they haven't happened yet, but we are getting close. The potential for a stock market crash is always there with a market so overextended. Derivatives are only getting worse, now totaling more than $85 trillion, according to the Comptroller of Currency. The total of derivatives is 7 times bigger than the entire US GDP. How risky is that?

What are the odds of any one of the catalysts happening? I don't know It varies. I put the odds of a nuclear war very, very low. I hope (I imagine the North Koreans or Iran, might think differently). The odds of a derivative meltdown taking down a major bank are much higher. Barings Bank's failure and Long Term Capital's failure have shown us that derivatives can cause a financial disaster over night. The top banks are playing with matches, big matches, and there is almost no Federal regulation on derivatives. Warren Buffett referred to derivatives as financial time bombs. The odds are that the catalyst will come from the credit markets. Maybe one foreign bank will start to dump US bonds. Which would cause US long term interest rates to spike up and the Dollar to crash Could this happen? Could this have a domino effect? Japan with its 40% savings rate, has been the biggest buyer of our bonds both public and private, now looks like its finally starting to come out of its 14 year recession: If it hasn't, it will, sooner rather than later, and then they will need most or all of their savings to invest in their own country. Will they also start selling its massive holdings of Treasuries?
Anyone of which in turn could lead to a market decline/crash. long term rates look like they may have begun climbing ever since Greemspan's last 1/4 pt. cut. And the stock market has been in a parabolic mode for almost two months now.. The big question is how high and how far can the market to continue to climb?

IRRATIONAL EXUBERANCE
If there is any doubt that the world's investment community is suffering from irrational exuberance, just look at the German and French Stock Markets; in the face of 12% unemployment rates and less than 1% growth rates to look forward to unemployment rates can only get worse and yet their Markets are making new five year highs just as Paris is burning after two solid week of Muslim rioting.
There is certainly enough smoke to know there are still problems with stock and bond markets all over the world. Anyone who is tired of hearing about all of the dire predictions from the bears should be doubly careful since some of the most die hard Bears have finally tossed in the towel and turned bullish: When the last Bear turns bullish or neutral, watch out below. Anyone that is waiting for IT to arrive before they act is playing a dangerous game. Now is the time to act to protect your assets. If you wait for IT to be obvious, it will be too late as you get trampled in the mad rush for the exits.

THE LAST REMAINING BULL MARKET
For those of you who do not know how to handle the coming bear markets and insist on always being fully invested rest easy. There is still one ongoing bull market that is still in its infancy. GOLD.

GOOD LUCK and GOD BLESS

Article by:
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27 December 2005

Gold Arriving At A New Level Of Its Bull Market

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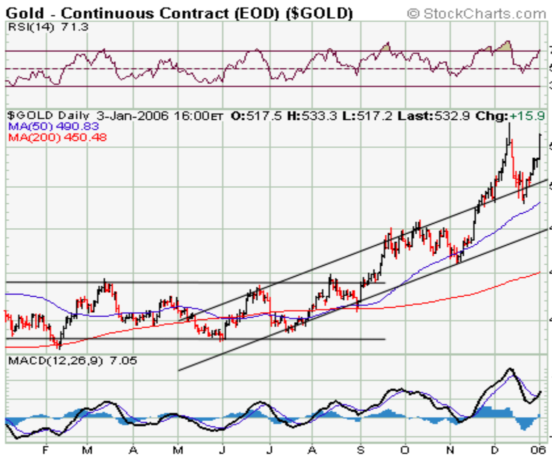
come to a halt just above the $ 500 level, turning a former resistance line into new support. The astonishing thing is the short time frame in which all this is happening. All the recent action in the precious metals sector indicates a change in trading dynamics. This is no longer gold's stage one trading pattern. An acceleration of the uptrend is a technical factor to be expected at the beginning of stage two.



For gold to enter stage two of its bull market a few fundamental factors have to fall in line. So far the gold bull was often referred to as a phenomenon of the dollar bear. This is no longer the case. In the last months gold broke out worldwide to the upside in every major currency. The level most closely watched by global investors probably was the 350 Euro level which posed a strong resistance for years. The break of € 350 may very well have been the event that spawned international investment demand for gold. Consequently, gold broke free from its inverse relation to the US dollar.

There are other important factors that distinguish gold's recent price action from its former trading dynamics. In the last years there was always a certain level of price support by physical demand from Asia that sort of put a floor under the more speculative trading in New York's market. However, this new gold behavior is now being driven predominantly by the Eastern markets which means that the demand for physical gold became much stronger. This physical demand has even spilled over to the COMEX where an increasing number of gold investors now demand delivery.

These are certainly events that we have not seen during the first stage of gold's bull market. It seems like investors are quickly recognizing the importance of a safe haven investment like gold. A similar case, of course, could be made for silver. After a long consolidation silver's technicals also seem to catch up with its bullish fundamentals at last.

After Tuesday's trading gold seems to be approaching overbought levels short term. Similarly, some of the important HUI components like Newmont Mining, Agnico Eagles Mines, or Glamis Gold, to name a few, also seem to be at or in overbought territory so that a healthy pullback is to be expected. On the other hand, what does "overbought" mean these days?

For the time being I guess it is safe to say that gold is now trading within the next stage of its bull market. However, it should not be forgotten that $ 500 gold marks a resistance level that goes back to 1988 and 1983. So far it was taken out easily. Should the expected pullback indeed be stopped at the new support line of around $500 - $505, I, for one, would take this as a technical confirmation that gold has firmly arrived in the investment driven stage two of its bull market.

Article by:
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January 5, 2006

RED ALERT - MONETARY FLOOD!

Puru Saxena

INFLATION - Previously, I talked at length about the definitions of inflation and deflation so I won't go into this subject in great detail. All you need to remember is that inflation is an increase in the quantity of money whereas deflation is a decrease in the quantity of money. And, despite what you hear on your local T.V. or radio show, we are living in highly inflationary times. How do I know? Easy - simply take a look at the rates of money supply growth over the past year –

Australia	+ 9.8%
Britain	+ 11.2%
Canada	+ 9.8%
Denmark	+ 16.3%
US	+ 7.3%
Euro zone	+ 8.5%

Central banks around the world continue to print money like there is no tomorrow. And what option do they have? The "developed" world is now plagued with a ridiculous amount of debt. For example, the total American debt is roughly US$40 trillion whereas the size of its economy is around US$11 trillion. So, the debt to GDP ratio is over 350%! Similar imbalances can be seen in most advanced countries where

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In sum, I view the present gold decline as simply a frightening episode in gold's secular Bull Market. I believe that the odds greatly favor gold exhausting its decline at or near the $500 level. While it may temporarily break below that point, it will likely be for only a brief period.

As an aside, when I was placing the finishing touches on this piece I remembered that I had earlier used a similar title. I published an essay on June 17, 2005, describing my belief that the anguish that gold stock investors had endured was about to end. The HUI was trading at about 200 at the time. It essentially traded sideways for the next two months before heading skyward. I could just as well have been describing the gold market in that missive. Gold was near the end of a decline that took it from $456 to a low of about $413. The yellow metal moved slightly higher. It then briefly declined to retest the $413 level but failed to penetrate it, and the rest is history.
Deja vu again!

Article by:
Dr. Richard S. Appel
www.financialinsights.org
December 15, 2005

The Outstanding Public Debt
National Debt:
8,207,656,901,563.98
The estimated population of the United States is **298,169,804**
US citizen's share of this debt is
$27,526.79
The National Debt has continued to increase an average of
$2.83 billion per day
Business, Government and Financial Debt exceeds
$40 Trillion

RED ALERT - MONETARY FLOOD!

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households and governments are choking on debt. In the current scenario, the easiest way for nations to make this debt easier to handle is through inflation. You see, inflation makes debt less formidable as the money you owe today loses its value (purchasing power) over time. So, the hundred dollars you owe today don't "feel" like a hundred dollars when you repay your debt five or ten years later.

We can be rest assured that the central banks of this world will continue to inflate. After all, the same method has been tried (without success) several times before in history.

So, if the modern-day central bankers continue with their inflationary efforts, it may well be that (despite record-high American deficits and debt) stocks continue to rise as long as the public remains confident about the paper money system. During inflationary times when money is abundant, valuations can be thrown out of the window (current situation). During such times, stocks don't necessarily rise due to any fundamental reason; the rising tidal wave of money lifts everything in its path! Looking around today - stocks are rising, bonds are soaring, oil is high, gold is shining and even real-estate remains suspended in the stratosphere! Obviously, the money printing efforts are paying off as all asset-classes continue to rise.

It is interesting to note, that whilst the central banks continue to inflate, they are doing whatever they can to hide the evidence. "How can that be?" you may ask. Well, for a start, the consumer price index (CPI) released by most nations is an absolute joke. In the majority of cases, the CPI does not include housing or energy costs and everything else, which is included, is seasonally adjusted to prevent the CPI from rising too quickly! Also, it is interesting to note that recently the Federal Reserve announced that starting March, M3 (the broad based money supply figure) will no longer be announced. And I ask myself, "Why has the Fed decided to stop releasing the money supply figure?" The answer is obvious - for people to accept inflation, it must remain concealed. Otherwise, the public might wake up and reject the confiscation of savings through inflation.

GOLD - For sure, you can hide inflation from the public by manipulating the official statistics but you can't fool the precious metals markets and you certainly can't fool gold. Sophisticated investors know that the yellow metal is real money with intrinsic value. It has been around longer than all the paper currencies put together! Gold is a store of value, which is free from debt. Physical gold in your own possession cannot go bankrupt even though your cash deposits can vanish if your bank goes up in smoke.

As some of you know, I have been recommending gold as a long-term investment since 2001. Back then, most people thought I was crazy. Today, there are a lot more believers but they still jump in and out trying to trade the market. My advice - forget about the short-term movements, simply buy gold on the dips for the long haul.

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