

The MILES FRANKLIN Report

Spring 2011

Written by David Schectman

Number 1



“I don’t do specific forecasts in my work, but I think there’s a prospect of gold pushing into the \$2,000 to \$2,400 range this year or perhaps in 2012. This presumes an element of monetary panic relating to the US dollar or the euro during the year. A gold price of \$2,400 would equal the CPI-adjusted equivalent of 1980’s \$850 in current dollars, so this is not an unrealistic number.”

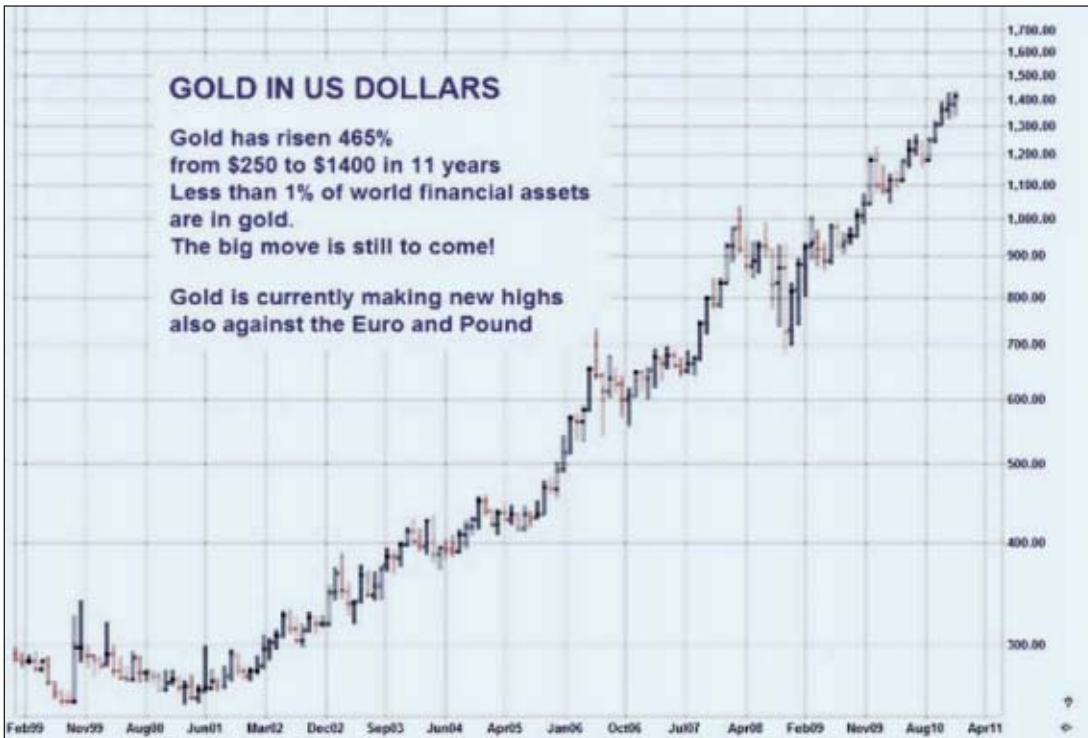
—Ian McAvity



David Schectman

The first quarter of 2011 is now history. So what are the major trends that you should follow in order to protect and grow your wealth? I would list them as (1) the dollar, (2) debt, (3) silver, and (4) gold.

In case you are not aware, gold and silver have been in a ten-year bull market. In spite of what some of the “so-called analysts” have to say, the bull market is not over — it is alive and well.



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Gold Nuggets

“What is so special about gold? Simply put, gold is money. Today, in 2011, gold has regained its role as the premiere form of money and gold has been rising for a decade against every major currency but the Japanese Yen.”

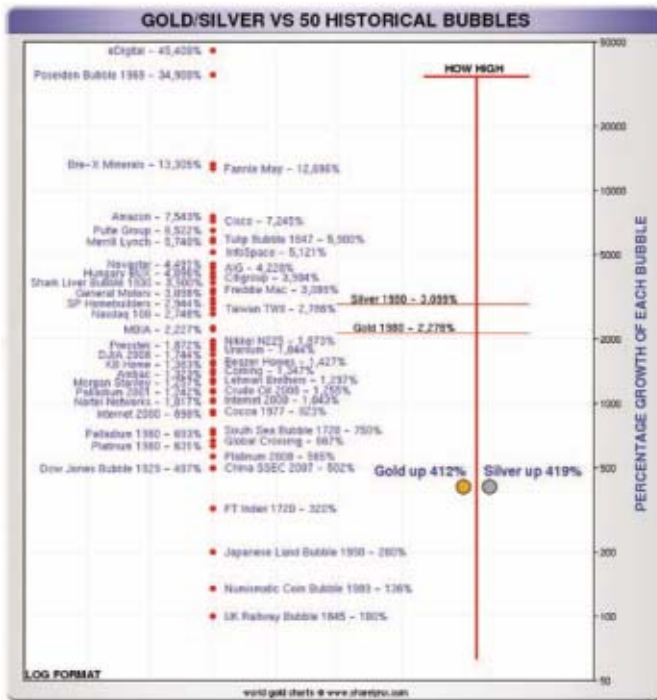
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Adjusted for inflation, gold will have to hit \$2,400 an ounce to equal its previous high of \$850 a little over 31 years ago. I expect to see \$2,400 in 2012.

How does silver stack up against gold? Since the precious metals bull market began, in 2001, silver has exploded from \$4.25 to nearly \$41 an ounce. Whereas gold has increased by 5.8 times, silver has increased by 9.65 times. The trend will continue!

In the past 12 months, gold is up 26.49% but **silver is up 122.12%**! It should be clear by now, you really need to buy PHYSICAL silver. There are real honest-to-God shortages of physical silver. Forget SLV, the silver ETF. Buy the real hold-it-in-your-hand coins or bars. It may well be the best investment you will ever make!

Take a look at how gold stacks up against other “bubbles.” We are far from bubble territory now.

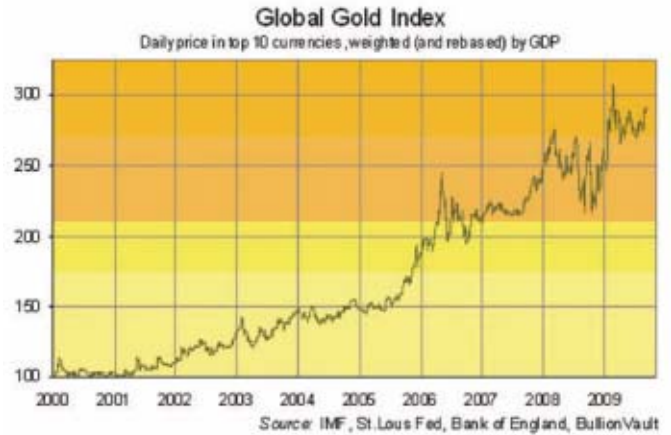


You should continue to focus on the “big picture.” For 2011 it is a falling dollar and rising gold, and a silver market on steroids. Martin Armstrong and Jim Sinclair both expect the dollar to fall in 2011 and gold to rise above \$1,650.

Last spring it took around 60 ounces of silver to buy one ounce of gold. As of today, it takes only 36 ounces of silver to buy an ounce of gold. Silver is THE place to be. If the ratio holds, and it should, then when gold hits \$2,000 silver will sell for \$55 an ounce. I am in that camp

of precious metals old-timers that expect to see silver sell for well over \$100 an ounce.

What is so special about gold? Simply put, gold is *money*. Today, in 2011, gold has regained its role as the premiere form of money and gold has been rising for a decade against every major currency but the Japanese Yen. Take a look at the following graph, which charts gold against the top 10 currencies in the world.



What caused the increased demand for gold? Well, you might say that “paper” assets have lost favor. Tangibles — things — have moved to the forefront. Gold has been the top-performing financial asset for the past ten years (well, actually silver has, but I’ll discuss that later).

At the start of the 21st century, the Dow stood at 11,497.12. Gold was so out of favor, few even bothered to laugh at it. You could buy an ounce of gold for \$280 in January 2000. Don’t you wish you had? It took 40.78 ounces of gold to “buy the Dow.” At the close of the markets on Monday, April 11, you could “buy the Dow” with 8.4 ounces of gold. Gold outperformed the Dow by 491% in the last decade. The Dow rose from 11,497.12 to 12,381. Gold rose from \$280 to \$1,460.

It is really not correct to say “gold ROSE” since what actually happened was the US dollar FELL. It takes MORE dollars to buy the same ounce of gold. Inflation, you see, is not rising prices; inflation is a loss of buying power of the currency.

What causes the dollar to lose value? You know the answer — the SUPPLY of dollars is increasing at an unsustainable level, so it takes more and more dollars to buy the same goods and services. The policy that is most destructive to the value of the dollar can be summed up in two words: Quantitative Easing. That’s a nice catchphrase, but the Fed could just as easily used the word INFLATING in place of QE, because that is what QE is all

about. The Fed really has no choice but to keep printing dollars to buy Treasury Bonds. It is a policy of “Inflate or die.” When QE2 ends, this summer, it will be followed by QE3 and QE-to-infinity. The Fed has a choice: (1) sacrifice the stock market, the real estate market and the economy (Great Depression); or (2) sacrifice the dollar. It is an easy choice for Ben Bernanke. Being a student of the Great Depression, he will do anything and everything in his power to avoid another Great Depression. Knowing that, you also know that the dollar is finished and will eventually lose its status as the world’s reserve currency. When that happens, welcome to the brave new world of hyperinflation (see NIA article on hyperinflation and comments by Egon von Greyerz later in the newsletter). But now I want to get back to the discussion of gold. The following presents several articles regarding the future.

Richard Russell

And who better to shed light on the subject than the Dean of Financial Newsletter Writers, Richard Russell:

“There is only one certainty regarding paper money — the longer you hold it, the less it will buy in terms of real goods or real money — gold.” —Richard Russell.

It is a bad idea to try and trade a bull market. You will eventually end up on the sidelines not knowing what to do, and just grumbling. Those fools who said that ‘gold is in a bubble’ are looking stupider by the day.”

“Last week, gold closed at an all-time high in terms of dollars. Silver moved into the \$37 zone for the first time since the precious metal bull market of the 1970s (today it’s above \$38 an ounce!).

But there’s a big difference between the current precious metals bull market and the bull market of the 1970s. The 1970 bull market drew tremendous interest (I was there). Everybody I knew (even the gold haters) were watching that bull market with keen interest, particularly during the wild “blow off” days of the late 1970s, when silver was rocketing higher — rising every day by “limit up.”

In comparison, today’s huge precious metal bull market is greeted with yawns — that is, if it is greeted at all. I’ve been calling the current gold/silver market the “great stealth bull market.” Ask the average man or woman on the street what’s happening to precious metals, and they’ll give you a blank stare and maybe a “Duh.” Ask them if

they own any gold or silver, and they’ll give you a sheepish “Nah.”

Gold (April) closed on March 2 at 1437.40, a record high. On March 9 silver closed at 36.04, highest since 1981. Yesterday both marks were bettered. Where’s the excitement, where’s the interest, where are the articles in the newspapers?

Time to study the chart below. As I’ve been saying, gold in its advance has periodically tested its **150-day moving average** over the past few years (150-day MA is shown as the blue line on the chart). Note that on the most recent “correction,” gold didn’t even test its 150-day MA. When I saw this, I realized how powerful the forces under gold were.



As for steady higher prices and excitement, I suspect that silver is about there. As for gold, maybe not yet. But somewhere ahead gold is going to catch fire. That will be the time when the great American public will decide that they have to have some gold....

Gold is now “out in the open” with no overhead resistance and no overhead supply. So far the bull market advance since 1999 has been steady, quiet, and orderly. Except for its spectacular slow and relentless climb, there’s been no excitement in the gold bull market.

I don’t think this is going to continue. Somewhere ahead the precious metals bull market is going to turn wild and speculative. Only one phenomenon will serve to create this excitement.

That phenomenon is HIGHER PRICES. The public can resist anything in markets except steadily rising prices.

As for steady higher prices and excitement, I suspect that silver is about there. As for gold, maybe not yet. But somewhere ahead gold is going to catch fire. That will be the time when the great American public will decide that they have to have some gold, maybe just a coin or two, or maybe just a few shares of GLD — but that time is coming.

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Q: What should we do?

A: Never mind timing this bull market. It can't be done, even by Goldman. You can add to your gold position. If possible, buy some one-ounce gold coins. One advantage of coins is that you're probably not going to trade them in and out. Sit tight with your coins, Put them in a place that's difficult to get at; in that way it will be a nuisance to sell them, even if you're tempted to.

Bernanke's objective with money printing was to lift housing prices, re-stimulate the entire real estate sector, and increase employment. It hasn't worked, so far. What has been stimulated is the stock market.

"But what if Bernanke's experiment doesn't work?" you ask. In Bernanke's mind it absolutely must work, and if his system isn't responding, then that means that he hasn't created enough liquidity. And so it will be on to QE3 and QE4.

One thing is certain — if you continue to create ever-more of a specific item, at some point the price or the desire for that item must decline. This is what has been happening to the US dollar. As the purchasing power of the dollar declines, inflation is created. It takes an increasing number of dollars to buy "things." So far, the items that are inflating in costs are food and energy. Ironically, these are the two items that have been removed from the government's "core inflation" index. So as far as the Fed is concerned, there is no inflation. And as far as the Fed is concerned, they can continue their "printing" operation with impunity.

From an investor's standpoint, the area that is inflating is the stock market. The whole situation has boiled down to utter **confusion**. Stocks are surging, food and energy prices are surging, bonds have been erratic but generally rising, commodities have been volatile, and the dollar has been sinking.

The Great Recession is not going to turn into the second Great Depression. Fed Chief Bernanke knows what went wrong in 1929 to 1932, and by God, he's not going to let it happen this time. So I guess our future is secure; thanks Bennie.

Jim Sinclair

What discussion of gold would be complete without a few words from "Mr. Gold," Jim Sinclair.

Dear Friends,

"One can clearly see the great effort being applied to thwart the metal from breaking higher. In a freely traded market, it would have already done so. The US monetary authorities are clearly terrified over the implications of a

new all-time high in gold as it would be the clearest signal yet that their QE policies are highly inflationary.

Goldman and Morgan are going all out to prevent the plethora of headlines that would accompany such a significant development.

Martin Armstrong just wrote a paper on gold titled, "How and When." My response to this article is: Why?

Why in the world, if you believe that the gold price can go to \$5000 and \$12,500, as the article says, do you give a damn about the next 90 days?

You must realize that the economic and political damage is already done.

You must realize that the mountain of OTC derivative paper is not going away.

You must realize that all the old legacy assets (broken OTC derivatives) demand to be adjusted at each market turn in order to maintain any semblance that they are serious contracts.

You must realize that this adjustment means adding on new OTC derivatives.

You must realize that this means the mountain of OTC derivative weapons of mass financial destruction can only grow.

You must realize that it is not whether or not QE will continue, it is what it already has done to the Western economies that much higher gold prices will reflect.

You must realize this is not a business problem, but rather a debt problem as it applies to the gold price.

You must realize the monumental change in the Middle East is NOT positive for the West in any manner, shape or form.

You must realize that the change in the Middle East is from some form of government to chaos.

You must realize that the beneficiaries of chaos in the Middle East are Iran and Russia.

You must realize that the main product of the establishment of a no-fly zone in Libya is to benefit the rebels.

You must realize that the rebels are an unknown factor in Libya.

You must realize that a second product of the no fly zone is greater hatred in the Middle East for all things West.

You must realize that the peak production of energy is behind us.

Why in the world, if you believe that the gold price can go to \$5000 and \$12,500, as the article says, do you give a damn about the next 90 days?

You must realize that the production of energy in chaos will be less than under some form of rule.

You must realize that this combination of monumental Middle East change and peak oil means peak oil is no longer a consideration 10 to 15 years from now, it is now.

You must realize that the Angels (gold prices) are not simple talk but rather a method used by the great market maven, Jesse Livermore.

You must realize that on the next trip to \$1,444, that price will fall to the long-term bull market on gold.

You must realize that \$1,650, a place where gold will trade, is so low it will be comical looking back from 2015.

You must realize that "QE to Infinity" is not a choice but all there is left in the tool box of the US Fed.

You must realize the truth of today's comment by Dallas Federal Reserve Bank President.

You must realize that what the President of the Federal Reserve Bank fears will occur.

You must realize no sovereign country needs to go broke.

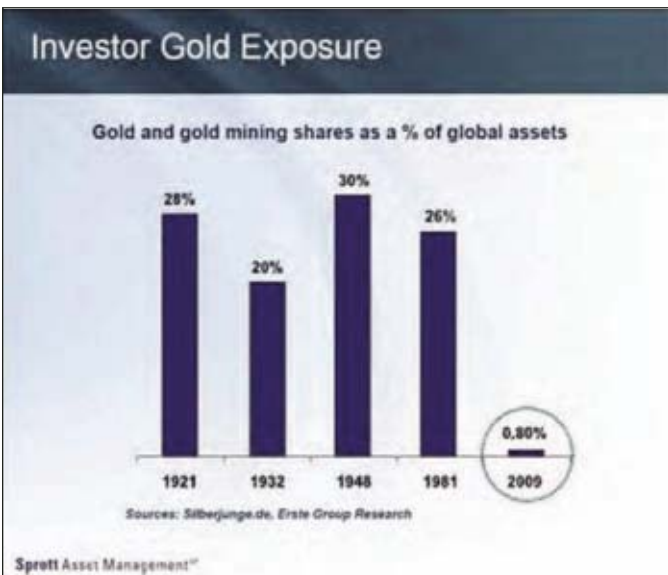
You must realize they simply refer to QE as policy.

You must realize that it is the currency that breaks, not the country.

You must realize that the point of correctness in the article "How and When" that is true is his \$5,000 to \$12,500 figure and not the prognostications of the next 90 days.

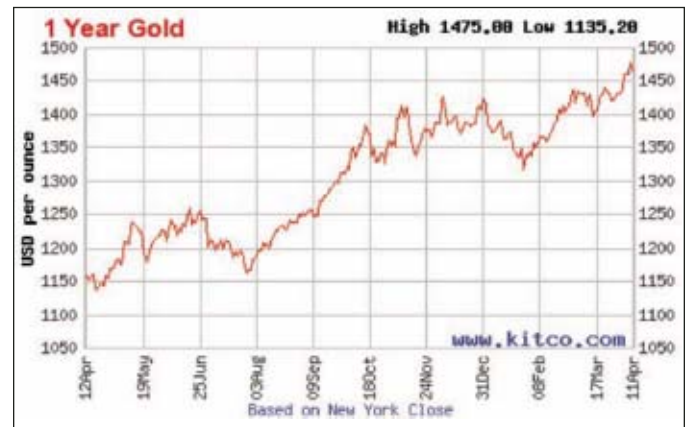
How High Will Gold Go in 2011?

Look at the following chart and ask yourself how high will gold go when 20% or 30% or more of global funds zero in on gold as a necessary investment class.



I keep telling my wife Susan that our net worth will double in the next 12 months. She has learned not to laugh when I make these kinds of pronouncements. Silver and mining shares will lead the way, but gold will not fair poorly either.

So far, the bear's camp, led by Ned Schmidt and Larry Edelson, have been wrong. I am not much impressed by Schmidt's work. It is academic but seems detached from these seriously manipulated markets. One of these days, the bears will be right and we will get a big correction, but not yet. Historically, the next couple of months are some of the strongest for gold and silver. Last year, for example, gold rose from \$1,100 to \$1,250 between mid-March and mid-June. If gold follows last year's pattern, we will see gold at Sinclair's \$1,650 by this summer. That will make him a real "Profit" since he will have hit his promised target (\$1,650) within four months of his original target, issued in 2006.



Jeff Clark

Jeff Clark (BIG GOLD) has this to say about how gold and silver will perform in 2011

After stellar years for both gold and silver, what prices will precious metals hit in 2011? Here's an analysis based strictly on their price behavior in the current bull market.

First, take a look at the annual percentage gains that gold has registered since 2001 (based on London PM Fix closings):

Year	% Gain
2001	0.7
2002	25.6
2003	19.9
2004	4.6
2005	17.8
2006	23.2
2007	31.9
2008	4.3
2009	25.0
2010	30.7

Excluding 2001, the average gain is 20.4%. Tossing out the additional weak years of '04 and '08, the average advance is 24.8%.

So we can make some projections based on what it's done over the past 10 years. From the 12-31-10 closing price of \$1,421.60, if gold matched...

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- The average rise this decade, the price would hit \$1,711.60
- The average rise excluding the three weak years = \$1,774.15
- Last year's gain = \$1,858.03
- The largest advance to date (2007) = \$1,875.09

But what if global economic circumstances continue to deteriorate? What if worldwide price inflation kicks in? And what if government efforts at currency debasement get more abusive? If Doug Casey is right, a mania in all things gold lies ahead — what if that begins in 2011? Here's what price levels could be reached based on the following percentage gains.

- 35% = \$1,919.16
- 40% = \$1,990.24
- 45% = \$2,061.32
- 50% = \$2,132.40
- 1979's gain of 125.7% = \$3,208.55

It thus seems reasonable to expect gold to surpass \$1,800 this year, as well as reach a potentially higher level since the factors pushing on the price could become more pronounced.

Here's a look at silver.

As you can see, silver had its biggest advance in 2010. The average of the decade, again excluding 2001, was 27.5%. And also tossing out the '08 decline, the average gain is 34.3%. So, from the 12-31-10 closing price of \$30.91, if silver matched...

Year	% Gain
2001	-1.2
2002	3.2
2003	27.9
2004	14.2
2005	29.6
2006	46.1
2007	14.4
2008	-26.9
2009	57.5
2010	81.9

- The average rise this decade, the price would hit \$39.41
- The average gain excluding 2008 = \$41.51
- Last year's advance = \$56.22
- The 1979 gain of 267.5% = \$113.59

So, \$50 silver seems perfectly attainable this year. And that's without monetary conditions worsening.

It's titillating to ponder these advances for gold and silver, especially when you consider we might be getting close to the mania. And if we are, that should do wonderful things to our gold and silver stocks, too.

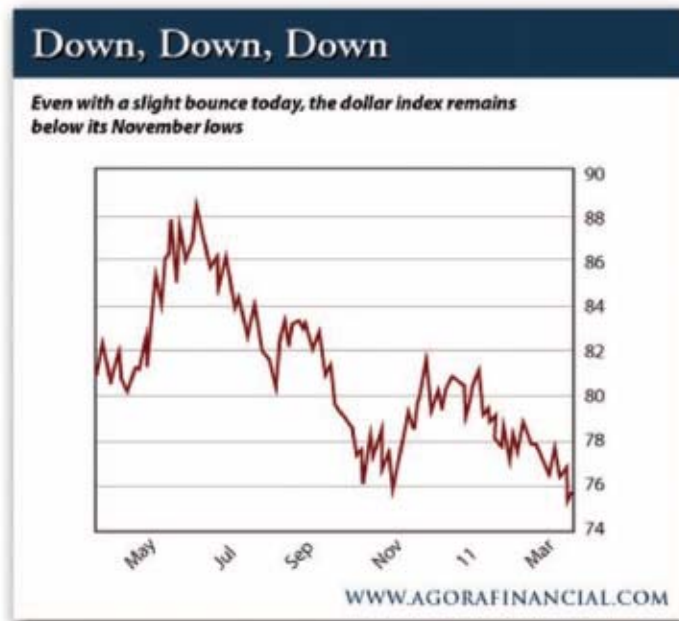
I would add one caution: the odds are high that there will be a significant correction before gold begins its march to these

price levels. In every year but two ('02 and '06), gold fell below its prior-year close before heading higher. And here's something to watch for: in every year but one ('08), those lows occurred by May.

In other words, a buying opportunity may be dead ahead. And if you buy on the next correction, your gains on the year could be higher than the annual advance.

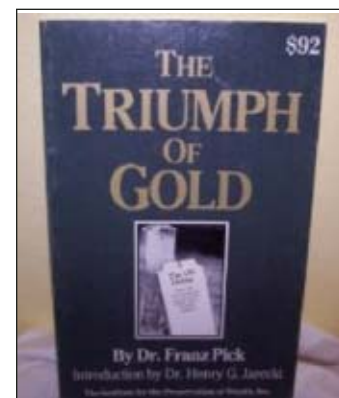
The Dollar

Following is a chart detailing the US dollar's performance...would you buy stock in this company?



In 1987 I gave away hundreds of copies of *The Triumph of Gold* by Dr. Franz Pick.

The cover was a picture of a tombstone with the US dollar engraved on it. In the book, Pick presented a similar graph as above, and asked the same question "would you buy stock in this company?" If your answer is NO, then why are you saving and investing in dollars?



The precious metals are giving a clear message, namely, that the dollar is in trouble. Gold and silver are near their recent highs, and this shows both markets — the dollar and the metals — confirming the trend.

John Williams

My favorite real “Economist,” John Williams, has this to say about the future of the dollar.

“The problems of the money creation will become increasingly obvious in the exchange-rate weakness of the U.S. dollar. Related upside pricing pressure already is being seen on dollar-denominated commodities such as oil. There is a high risk of consumer prices rising rapidly before year-end 2011, setting the stage for a hyperinflation. The outside date for the onset of a U.S. hyperinflation is 2014.

“As an economist, I look for the U.S. dollar ultimately to lose virtually all of its current purchasing power. Accordingly, for those living in a U.S. dollar-denominated world, it would make sense to move to preserve wealth and assets over the long term. Physical gold is a primary hedge (as is silver).”

—John Williams

There remains high risk of a dollar-selling panic unfolding in the year ahead, as the U.S. economy tanks anew, as the Fed continuously expands its easing, and as dollar holders dump the U.S. currency and dollar-denominated paper assets. Such would be a precursor to the inflation problem.”

John Williams comments on the dollar and gold:

As the U.S. dollar increasingly is debased, and where gold tends to preserve the purchasing power of the dollars invested in it, the upside to gold in the year ahead is open-ended, restricted only by any limits to the massive downside potential for the U.S. dollar. Any intermittent gold price volatility, extreme or otherwise, will be short-lived. There is no bubble — only increasing weakness in the U.S. dollar — with the gold price fundamentally headed much higher in the years ahead.

As an economist, I look for the U.S. dollar ultimately to lose virtually all of its current purchasing power. Accordingly, for those living in a U.S. dollar-denominated world, it would make sense to move to preserve wealth and assets over the long term. Physical gold is a primary hedge (as is silver). Holding some stronger currencies outside the U.S. dollar, as well as having some assets outside the United States, also may make sense.

Hyperinflation Will Drive Gold to Unthinkable Heights

By Egon von Greyerz

We now live in a world where governments print worthless pieces of paper to buy other worthless pieces of paper that combined with worthless derivatives, finance assets whose values are totally dependent on all these worthless debt instruments. Thus most of these assets are also worth less.

So the world financial system is a house of cards where each instrument's false value is artificially supported by another instrument's false value. The fuse of the world financial market time bomb has been lit. There is no longer a question of IF it will happen but only WHEN and HOW. The world lives in blissful ignorance of this. Stock markets remain strong and investors worldwide have piled into government bonds in a perceived flight to safety. Due to a century of money creation (and in particular since the 1970s) by governments and by the fractal banking system, investors believe that stocks, bonds and property can only go up. Understanding risk and sound investment principles has not been necessary in these casino markets with guaranteed payouts for anyone who plays the game. Maximum leverage and derivatives have in the last 10-15 years driven markets to unfathomable risk levels, with massive rewards for the participants.

In the meantime central banks are cranking up the printing presses, but as Bernanke recently said, quantitative easing is an “inappropriate” description of what should be called “securities purchases”! Who is he kidding? What the Fed is buying has nothing to do with “securities.” There is no security whatsoever in the rubbish the Fed is purchasing. They are buying worthless pieces of paper with worthless pieces of paper. This is the Ponzi scheme of all Ponzi schemes.

Let us be very clear: this financial Shangri-La is now coming to an end. The financial system is broke, many western sovereign states are bankrupt and governments will continue to apply the only remedy they know, which is issuing debt that will never ever be repaid with normal money.

12 Warning Signs of U.S. Hyperinflation

One of the most frequently asked questions we receive at the National Inflation Association (NIA) is what warning signs will there be when hyperinflation is imminent. In our opinion, the majority of the warning signs that hyperinflation is imminent are already here today, but most

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Americans are failing to properly recognize them. NIA believes that there is a serious risk of hyperinflation breaking out as soon as the second half of this calendar year and that hyperinflation is almost guaranteed to occur by the end of this decade.

In our estimation, the most likely time frame for a full-fledged outbreak of hyperinflation is between the years 2013 and 2015. Americans who wait until 2013 to prepare will most likely see the majority of their purchasing power wiped out. It is essential that all Americans begin preparing for hyperinflation immediately.

Here are NIA's top 12 warning signs that hyperinflation is about to occur:

1. The Federal Reserve is Buying 70% of U.S. Treasuries. The Federal Reserve has been buying 70% of all new U.S. Treasury debt. Up until this year, the U.S. has been successful at exporting most of its inflation to the rest of the world, which is hoarding huge amounts of U.S. dollar reserves due to the U.S. dollar's status as the world's reserve currency. In recent months, foreign central bank purchases of U.S. treasuries have declined from 50% down to 30%, and Federal Reserve purchases have increased from 10% up to 70%. This means U.S. government deficit spending is now directly leading to U.S. inflation that will destroy the standard of living for all Americans.

2. The Private Sector Has Stopped Purchasing U.S. Treasuries. The U.S. private sector was previously a buyer of 30% of U.S. government bonds sold. Today, the U.S. private sector has stopped buying U.S. treasuries and is dumping government debt. The Pimco Total Return Fund was recently the single largest private sector owner of U.S. government bonds, but has just reduced its U.S. treasury holdings down to zero. Although during the financial panic of 2008, investors purchased government bonds as a safe haven, during all future panics we believe precious metals will be the new safe haven.

3. China Moving Away from U.S. Dollar as Reserve Currency. The U.S. dollar became the world's reserve currency because it was backed by gold and the U.S. had the world's largest manufacturing base. Today, the U.S. dollar

is no longer backed by gold and China has the world's largest manufacturing base. There is no reason for the world to continue to transact products and commodities in U.S. dollars, when most of everything the world consumes is now produced in China. China has been taking steps to position the Yuan to be the world's new reserve currency.

The People's Bank of China stated earlier this month, in a story that went largely unreported by the mainstream media, that it would respond to overseas demand for the Yuan to be used as a reserve currency and allow the Yuan to flow back into China more easily. China hopes to allow all exporters and importers to settle their cross border transactions in Yuan by the end of 2011, as part of their plan to increase the Yuan's international role. NIA believes if China really wants to become the world's next superpower and see to it that the U.S. simultaneously becomes the world's next Zimbabwe, all China needs to do is use their \$1.15 trillion in U.S. dollar reserves to accumulate gold and use that gold to back the Yuan.

4. Japan to Begin Dumping U.S. Treasuries. Japan is the second largest holder of U.S. treasury securities with \$885.9 billion in U.S. dollar reserves. Although China has reduced their U.S. treasury holdings for three straight months, Japan has increased their U.S. treasury holdings seven months in a row. Japan is the country that has been the most consistent at buying our debt for the past year, but that is about to change. Japan is likely going to have to spend \$300 billion over the next year to rebuild parts of their country that were destroyed by the recent earthquake, tsunami, and nuclear disaster, and NIA believes their U.S. dollar reserves will be the most likely source of this funding. This will come at the worst possible time for the U.S., which needs Japan to increase their purchases of U.S. treasuries in order to fund our record budget deficits.

5. The Fed Funds Rate Remains Near Zero. The Federal Reserve has held the Fed Funds Rate at 0.00%-0.25% since December 16th, 2008, a period of over 27 months. This is unprecedented and NIA believes the world is now flooded with excess liquidity of U.S. dollars.

When the nuclear reactors in Japan began overheating two weeks ago after their cooling systems failed due to a lack of electricity, TEPCO was forced to open relief valves to release radioactive steam into the air in order to avoid an explosion. The U.S. stock market is currently acting as a relief valve for all of the excess liquidity of U.S. dollars. The U.S. economy for all intents and purposes should currently be in a massive and extremely steep recession, but because of the Fed's money printing, stock prices are rising because people don't know what else to do with their dollars.

NIA believes gold, and especially silver, are much better hedges against inflation than U.S. equities, which is why for

the past couple of years we have been predicting large declines in both the Dow/Gold and Gold/Silver ratios. These two ratios have been in free fall exactly as NIA projected.

The Dow/Gold ratio is the single most important chart all investors need to closely follow, but way too few actually do. The Dow Jones Industrial Average (DJIA) itself is meaningless because it averages together the dollar based movements of 30 U.S. stocks.

With just the DJIA, it is impossible to determine whether stocks are rising due to improving fundamentals and real growing investor demand, or if prices are rising simply because the money supply is expanding.

The Dow/Gold ratio illustrates the cyclical nature of the battle between paper assets like stocks and real hard assets like gold. The Dow/Gold ratio trends upward when an economy sees real economic growth and begins to trend downward when the growth phase ends and everybody becomes concerned about preserving wealth. With interest rates at 0%, the U.S. economy is on life support and wealth preservation is the focus of most investors. NIA believes the Dow/Gold ratio will decline to 1 before the hyperinflationary crisis is over and until the Dow/Gold ratio does decline to 1, investors should keep buying precious metals.

6. Year-Over-Year CPI Growth Has Increased 92% in Three Months. In November of 2010, the Bureau of Labor and Statistics (BLS)'s consumer price index (CPI) grew by 1.1% over November of 2009. In February of 2011, the BLS's CPI grew by 2.11% over February of 2010, above the Fed's informal inflation target of 1.5% to 2%. An increase in year-over-year CPI growth from 1.1% in November of last year to 2.11% in February of this year means that the CPI's growth rate increased by approximately 92% over a period of just three months. Imagine if the year-over-year CPI growth rate continues to increase by 92% every three months. In 9 to 12 months from now we could be looking at a price inflation rate of over 15%. Even if the BLS manages to artificially hold the CPI down around 5% or 6%, NIA believes the real rate of price inflation will still rise into the double-digits within the next year.

7. Mainstream Media Denying Fed's Target Passed. You would think that year-over-year CPI growth rising from 1.1% to 2.11% over a period of three months for an

increase of 92% would generate a lot of media attention, especially considering that it has now surpassed the Fed's informal inflation target of 1.5% to 2%. Instead of acknowledging that inflation is beginning to spiral out of control and encouraging Americans to prepare for hyperinflation like NIA has been doing for years, the media decided to conveniently change the way it defines the Fed's informal target.

NIA believes gold, and especially silver, are much better hedges against inflation than U.S. equities, which is why for the past couple of years we have been predicting large declines in both the Dow/Gold and Gold/Silver ratios. These two ratios have been in free fall exactly as NIA projected.

The media is now claiming that the Fed's informal inflation target of 1.5% to 2% is based off of year-over-year changes in the BLS's core-CPI figures. Core-CPI, as most of you already know, is a meaningless number that excludes food and energy prices. Its sole purpose is to be used to mislead the public in situations like this. We guarantee that if core-CPI had just surpassed 2% and the normal CPI was still

below 2%, the media would be focusing on the normal CPI number, claiming that it remains below the Fed's target and therefore inflation is low and not a problem.

The fact of the matter is, food and energy are the two most important things Americans need to live and survive. If the BLS was going to exclude something from the CPI, you would think they would exclude goods that Americans don't consume on a daily basis. The BLS claims food and energy prices are excluded because they are most volatile. However, by excluding food and energy, core-CPI numbers are primarily driven by rents. Considering that we just came out of the largest Real Estate bubble in world history, there is a glut of homes available to rent on the market. NIA has been saying for years that being a landlord will be the worst business to be in during hyperinflation, because it will be impossible for landlords to increase rents at the same rate as overall price inflation. Food and energy prices will always increase at a much faster rate than rents.

8. Record U.S. Budget Deficit in February of \$222.5 Billion. The U.S. government just reported a record budget deficit for the month of February of \$222.5 billion. February's budget deficit was more than the entire fiscal year of 2007. In fact, February's deficit on an annualized basis was \$2.67 trillion. NIA believes this is just a preview of future annual budget deficits, and we will see annual budget deficits surpass \$2.67 trillion within the next several years.

Continued on page 10

9. High Budget Deficit as Percentage of Expenditures.

The projected U.S. budget deficit for fiscal year 2011 of \$1.645 trillion is 43% of total projected government expenditures in 2011 of \$3.819 trillion. That is almost exactly the same level of Brazil's budget deficit as a percentage of expenditures right before they experienced hyperinflation in 1993 and it is higher than Bolivia's budget deficit as a percentage of expenditures right before they experienced hyperinflation in 1985. The only way a country can survive with such a large deficit as a percentage of expenditures and not have hyperinflation, is if foreigners are lending enough money to pay for the bulk of their deficit spending. Hyperinflation broke out in Brazil and Bolivia when foreigners stopped lending and central banks began monetizing the bulk of their deficit spending, and that is exactly what is taking place today in the U.S.

10. Obama Lies About Foreign Policy. President Obama campaigned as an anti-war president who would get our troops out of Iraq. NIA believes that many Libertarian voters actually voted for Obama in 2008 over John McCain because they felt Obama was more likely to end our wars that are adding greatly to our budget deficits and making the U.S. a lot less safe as a result. Obama may have reduced troop levels in Iraq, but he increased troops levels in Afghanistan, and is now sending troops into Libya for no reason.

The U.S. is now beginning to occupy Libya, when Libya didn't do anything to the U.S. and they are no threat to the U.S. Obama has increased our overall overseas troop levels since becoming President and the U.S. is now spending \$1 trillion annually on military expenses, which includes the costs to maintain over 700 military bases in 135 countries around the world. There is no way that we can continue on with our overseas military presence without seeing hyperinflation.

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11. Obama Changes Definition of Balanced Budget.

In the White House's budget projections for the next 10 years, they don't project that the U.S. will ever come close to achieving a real balanced budget. In fact, after projecting declining budget deficits up until the year 2015 (NIA believes we are unlikely to see any major dip in our budget deficits due to rising interest payments on our national debt), the White House projects our budget deficits to begin increasing again up until the year 2021. Obama recently signed an executive order to create the "National Commission on Fiscal Responsibility and Reform," with a mission to "propose recommendations designed to balance the budget, excluding interest payments on the debt, by 2015." Obama is redefining a balanced budget to exclude interest payments on our national debt, because he knows interest payments are about to explode and it will be impossible to truly balance the budget.

12. U.S. Faces Largest Ever Interest Payment Increases.

With U.S. inflation beginning to spiral out of control, NIA believes it is 100% guaranteed that we will soon see a large spike in long-term bond yields. Not only that, but within the next couple of years, NIA believes the Federal Reserve will be forced to raise the Fed Funds Rate in a last-ditch effort to prevent hyperinflation. When both short and long-term interest rates start to rise, so will the interest payments on our national debt. With the public portion of our national debt now exceeding \$10 trillion, we could see interest payments on our debt reach \$500 billion within the next year or two, and over \$1 trillion somewhere around mid-decade. When interest payments reach \$1 trillion, they will likely be around 30% to 40% of government tax receipts, up from interest payments being only 9% of tax receipts today. No country has ever seen interest payments on their debt reach 40% of tax receipts without hyperinflation occurring in the years to come.

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