The MILES FRANKLIN Report

Summer 2011 Written by David Schectman Number 2

In This Issue

What have I learned about the gold industry and the economy in the last 30 years?

David Schectman

I have learned that there are three things you have to come to grips with. The first is to focus on the “Big Picture.” Forget about short-term, day-to-day moves in the markets. That is “noise,” and will confuse you. Second, things always take longer to develop and market moves are larger (both up and down) than you expect. But the most important thing you need to be aware of is summed up by a statement from my associate, Chris Powell (GATA): “There are no free markets anymore, just interventions.”

Many very smart people that I know disagree with Powell’s statement. I however, do not. After nearly three decades of closely following the precious metals markets, as an insider, I have absolutely no doubt that what Chris Powell says is the truth. Without knowledge that you are playing in a rigged game, you will find it difficult to understand that though the game may be rigged, its outcome is already guaranteed and YOU will be the winner. All you have to do is hang in there, buy the dips, do not leverage or margin, pay cash for your purchases and take delivery, buy physical metals not paper derivatives (like the ETFs — GLD and SLV) and do not let the “Cartel” scare you out before the fat lady sings. Honestly my friends, it is as simple as that.

Here is a speech that Chris made at the Hyatt Regency Crystal City Hotel in Arlington, Virginia on April 18, 2008.

Groucho Marx made a small fortune in vaudeville and then lost it all in the stock market crash of 1929. His sense of humor was no help to him then. One day in the early 1930s he was sitting in a bar with his friend Morrie, and Morrie was trying to console him.

“Yes,” Morrie told Groucho, “we’ve lost a lot of money and it hurts, but we’ve still got our health and our lives ahead of us, and some people don’t even have that. Take my cousin Fred. He’s much worse off than we are but he’s pressing on as best he can. Fred lost his leg in a carriage accident when he was 5. His parents were killed in a tenement fire when he was 12. His wife ran off with his best friend when he was 27. And then he had diabetes at 29.”

Groucho was not to be consoled; he had lost too much money in the crash. He snarled back at Morrie: “Diabetes at 29? That’s nothing. I had Radio at 104.”

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Gold Nuggets

“The truth as GATA sees it is this: First, gold is the secret knowledge of the financial universe, but it is becoming an open secret. That is GATA’s work — to bust the secret open. We will continue to use freedom-of-information law against the Fed and the Treasury Department about their policies toward gold and the disposition of the U.S. gold reserves.”

Cover Story *from page 1*

We investors in the precious metals have taken some hard blows lately, if not quite as hard as the blows taken by, say, investors in Bear Stearns. But we've taken such blows regularly over the last decade and still have come out ahead, so we should be able to put things in perspective.

It may be a little easier for those of us in the Gold Anti-Trust Action Committee. The committee was founded in 1999 to expose manipulation of the gold market and the rigging of related markets. From the start we were ridiculed as "conspiracy nuts." But hardly a day goes by now without evidence of official market rigging showing up in even the establishment news media.

We in GATA haven't minded the "nuts" part that much. But we're actually public record nuts.

For the scheme to suppress the price of gold is increasingly a matter of ordinary public record.

It was a matter of public record in January 1995, when the Federal Reserve's general counsel, J. Virgil Mattingly, told the Federal Open Market Committee, according to the committee's minutes, that the U.S. Treasury Department's Exchange Stabilization Fund had undertaken "gold swaps." Those minutes are still posted at the Fed's Internet site:

http://www.federalreserve.gov/monetarypolicy/files/FOMC19950201meeting.p...

It was a matter of public record in July 1998, six months before GATA was formed, when Federal Reserve Chairman Alan Greenspan told Congress: "Central banks stand ready to lease gold in increasing quantities should the price rise." That is, Greenspan himself contradicted the usual central bank explanation for leasing gold — supposedly to earn a little interest on a dead asset — and admitted that gold leasing was all about suppressing the price. Greenspan's admission is still posted at the Fed's Internet site:

http://www.federalreserve.gov/boarddocs/testimony/1998/19980724.htm

Incidentally, while we gold bugs love to cite Greenspan's testimony from July 1998 because of its reference to gold leasing, that testimony was mainly about something else, for which it is far more important today. During with that testimony Greenspan persuaded Congress not to regulate the sort of financial derivatives that lately have devastated the world financial system.

The Washington Agreement on Gold, made by the European central banks in 1999, was another admission — no, a proclamation that central banks were working together to control the gold price. The central banks in the Washington Agreement claimed that, by restricting their gold sales and leasing, they meant to prevent the gold price from falling too hard. But even if you believed that explanation, it was still collusive intervention in the gold market. You can find the Washington Agreement at the World Gold Council's Internet site:

http://www.reserveasset.gold.org/central_bank_agreements/cbga1/

Barrick Gold, then the largest gold mining company in the world, confessed to the gold price suppression scheme in U.S. District Court in New Orleans on February 28, 2003. On that date Barrick filed a motion to dismiss Blanchard & Co.'s anti-trust lawsuit against Barrick and its bullion banker, JPMorganChase, for rigging the gold market.

Barrick's motion said that in borrowing gold from central banks and selling it, the company had become the agent of the central banks in the gold market, and, as the agent of the central banks, Barrick should share their sovereign immunity and be exempt from suit. Barrick's confession to the gold price suppression scheme is posted here:

http://www.lemetropolecafe.com/img2003/memoformotiontodis.pdf

The Reserve Bank of Australia confessed to the gold price suppression scheme in its annual report for 2003. "Foreign currency reserve assets and gold," the RBA's report said, "are held primarily to support intervention in the foreign exchange market." The RBA's report is still posted on the Internet at the central bank's site:

http://www.rba.gov.au/PublicationsAndResearch/RBAAnnualReports/2003/Pdf/...

Maybe the most brazen admission of the Western central bank scheme to suppress the gold price was made by the head of the monetary and economic department of the Bank for International Settlements, William S. White, in a speech to a BIS conference in Basel, Switzerland, in June 2005.

There are five main purposes of central bank cooperation, White announced, and one of them is "the provision of international credits and joint efforts to influence asset prices (especially gold and foreign exchange) in circumstances where this might be thought useful." White's speech is posted at GATA's Internet site here:

http://www.gata.org/node/4279

Last October the editor of the Freemarket Gold & Money Report and the founder of GoldMoney, James Turk, a longtime consultant to GATA who will be speaking at this conference, revealed some U.S. Treasury Department reports showing that since May last year the U.S. gold reserve has been mobilized for leasing to suppress the gold price. Those records are available on GATA's Internet site:

http://www.gata.org/node/5637

In complaining about the manipulation of the gold market, GATA has not been called "conspiracy nuts" by everyone. We have gained a good deal of institutional support over the years.

First came Sprott Asset Management in Toronto, our main sponsor for this conference. In 2004 Sprott issued a comprehensive report supporting GATA. The report was written by this conference's keynote speaker, Sprott's chief investment strategist, John Embry, and his assistant, Andrew Hepburn, and was titled "Not Free, Not Fair — the Long-Term Manipulation of the Gold Price." It remains available at the Sprott Internet site here:

http://www.sprott.com/pdf/pressrelease/press_release_not_free_not_fair.p...

Then in 2006 the Cheuvreux brokerage house of Credit Agricole, the major French bank, issued its own report confirming GATA's findings of manipulation in the gold market. The Cheuvreux report was titled "Remonetization of Gold: Start Hoarding," and you can find it at GATA's Internet site:

http://www.gata.org/files/CheuvreuxGoldReport.pdf

And in September last year Citigroup — yes, Citigroup, a pillar of the American financial establishment — joined the conspiracy nuts. It published a report titled "Gold: Riding the Reflationary Rescue," written by its analysts John H. Hill and Graham Wark, declaring: "Gold undoubtedly faced headwinds this year from resurgent central bank selling, which was clearly timed to cap the gold price." You can find the Citigroup report at GATA's Internet site here:

http://www.gata.org/files/CitigroupGoldReport092107.pdf

Even those authorities who don't want to run afoul of government institutions that with a few computer keystrokes can create virtually infinite amounts of money may have to admit the opportunity for central banks to manipulate the gold market. For it is widely acknowledged that annual world gold production is about 2,400 tonnes, that annual net world gold demand is about 3,400 tonnes, that gold production is falling as demand is rising, and that the thousand-tonne gap between production and net demand is being filled mainly by central bank dishoarding and leasing. What do you suppose the gold price would be if central banks were not supplying more than a quarter of annual demand?

Just prior to the smashing down of the gold price in March, the gold lease rate turned negative. That is, the usual miniscule interest rate charged on borrowed gold was not enough incentive for bullion banks to keep borrowing gold from central banks and keep selling it into the market. No, central banks began to pay bullion banks to short gold. (Remember this the next time you hear assertions that central banks lease gold to make money from a "dead asset.")

So a bigger question today is not whether central banks and their agents manipulate the gold market — even Citigroup sees it now — but why this should ever have been a mystery or a controversy in the first place. The manipulation of the gold market by central banks is only the most basic economic history.

That's what the gold standard was about — governments fixing the price of gold to a precise value in their currencies, a price at which governments would exchange their currencies for gold, currencies that were backed by gold.

Though the gold standard was abandoned amid the Great Depression, that was not the end of government efforts to control the gold price. The United States and Great Britain attempted to hold the price at $35 per ounce throughout the 1960s in a public arrangement of dishoarding that came to be known as the London Gold Pool. The London Gold Pool was overwhelmed by demand and was shut down abruptly in April 1968.

Since then there has been sporadic selling of gold by central banks and, increasingly, leasing of gold by central banks, even as the gold price has continued to rise.

That the London Gold Pool was a scheme to manipulate the gold price is not denied even as the purposes of the more recent selling and leasing by central banks may be disputed.

***But it is all much bigger than that.
Gold is only part of it.***

Market intervention is exactly why central banking was invented. Intervening in markets is what central banks do. They have no other purpose.

Central banks admit intervening daily, even hourly, in the currency markets, buying and selling their own currencies and those of other governments to main-

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tain exchange rates at what they consider politically desirable levels. Central banks admit doing the same in the government bond markets. Now there is even evidence that the Federal Reserve and Treasury Department have been intervening frequently in the U.S. stock markets since the crash of 1987.

You don't have to settle for rumors about the "Plunge Protection Team," also known as the President's Working Group on Financial Markets. Again you can just look at the public record.

The Federal Reserve injects money into the stock and bond markets every day, on the public record, through what are called repurchase agreements the Fed makes with the major New York financial houses, its so-called primary dealers. The financial houses become the Fed's agents in directing that money into the markets.

As of this week the money that has been deployed into the stock, bond, and derivatives markets by the Fed through the repo pool stood at about $360 billion. Last October the repo pool was only $160 billion. In only six months the money in the repo pool has far more than doubled.

Three hundred sixty billion dollars are plenty for pushing all sorts of markets around or propping them up. Indeed, market manipulation is the only purpose of the repo pool.

Now central banks are trying to scare the gold market with the plan of the International Monetary Fund (IMF) to sell 400 tonnes of gold in the name of rotating into supposedly superior investments, like government bonds — as if anything else with so little risk could match gold's increase in value in dollar terms, 300 percent over the last 10 years, an average of 30 percent per year. But if you look closely, you will find that the IMF says its gold sales are only to substitute for any unfilled quotas in the Western central bank agreement on gold sales, the Washington Agreement, and so are not to add to the annual dishoarding of official-sector gold. And if you look even closer, you may begin to wonder whether the IMF even has any gold at all.

This month I wrote to the managing director of the IMF, Dominque Strauss-Kahn, with five questions about the IMF's gold. I copied the letter to the IMF's press office by e-mail, and quickly began to get some answers from one of its press officers, Conny Lotze.

My first question was: "Your Internet site says the IMF holds 3,217 metric tons of gold 'at designated depositories.' Which depositories are these?"

Conny Lotze of the IMF replied, but not specifically. She wrote: "The fund's gold is distributed across a number of official depositories," noting that the IMF's rules designate the United States, Britain, France, and India as IMF depositories.

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My second question was: "If you'd prefer not to identify the depositories for security reasons, could you at least identify the national and private custodians of the IMF's gold and the amounts of IMF gold held by each?"

Conny Lotze replied, again not very specifically: "All of the designated depositories are official."

My third question was: "Is the IMF's gold at these depositories allocated — that is, specifically identified as belonging to the IMF — or is it merged with other gold in storage at these depositories?"

Conny Lotze replied, still not very specifically: "The fund's gold is properly accounted for at all its depositories."

My fourth question was: "Do the IMF's member countries count the IMF's gold as part of their own national reserves, or do they count and identify the IMF's gold separately?"

Conny Lotze replied a bit ambiguously: "Members do not include IMF gold within their reserves because it is an asset of the IMF. Members include their reserve position in the fund in their international reserves."

This sounded to me as if the IMF members are still counting as their own the gold that supposedly belongs to the IMF — that the IMF members are just listing the gold assets in another column on their own books.

My fifth question to the IMF was: "Does the IMF have assurances from the depositories that its gold is not leased or swapped or otherwise encumbered? If so, what are these assurances?"

Conny Lotze replied: "Under the fund's Articles of Agreement it is not authorized to engage in these transactions in gold."

But I had not asked if the IMF itself was swapping or leasing gold. I had asked whether the custodians of the IMF's gold were swapping or leasing it.

This prompted me to raise one more question for Conny Lotze. I wrote her: "Is there any audit of the IMF's gold that is available to the public? I ask because, if the amount of IMF gold held by each depository nation is not public information, there doesn't seem to be much documentation for the IMF's gold, nor any documentation for the assurance that its *custody is just fine. Without any details or documentation, the IMF's answer seems to be simply that it should be trusted — that it has the gold it says it has, somewhere."*

And Conny Lotze ... well, that was 10 days ago, and she has not answered that question yet, and I don't think she is going to. I'm beginning to find that the only thing that offends a government officer more than a four-letter word is that five-letter word: A-U-D-I-T.

That the International Monetary Fund apparently refuses to account for the gold it claims to have should be potential news for the financial media. We hope they will pursue that issue before they next attempt to scare the gold market with stories about IMF gold sales.

But GATA may have somewhat bigger news than that today.

Last week GATA's Washington law firm, William J. Olson P.C. of McLean, Virginia, received a letter from the Federal Reserve in response to the freedom-of-information request we sent to the Fed and the Treasury back in December, seeking access to all documents in their possession that mention "gold swaps." The Fed's letter confirms that it has such documents and says that some of them will be made available to us but others will not be made available or will be redacted because they contain, among other things, "trade secrets" and "privileged or confidential" memorandums or letters. By telephone the Fed has told our law firm that about 400 pages are being reviewed for release to us.

Right now we can only speculate about these documents, but the Fed's letter does admit something important: that the U.S. government knows things about gold that it does not want the public to know, that the U.S. government has secrets about gold, and that these secrets involve the gold market, not the mere location of U.S. government gold reserves.

Maybe the financial media should pursue these issues too. For what is there to hide about the U.S. gold reserves unless it involves market manipulation?

But since even Citigroup acknowledges it now, it should be no secret that the price of gold has been manipulated through the strategic dishoarding of gold by central banks and their sale of gold futures and options at strategic moments. So the biggest question of all may be why central banks manipulate the gold price and what this means for investors.

Gold has been manipulated by central banks because it is a currency that competes with their own currencies, a currency whose price helps set the price of government currencies and helps determine interest rates. More than that, gold is the ticket out of the central bank system, the escape from coercive central bank and government power. As an independent currency, a currency to which investors can resort when they are dissatisfied with government currencies, gold carries the enormous power to discipline governments, to call them to account for their inflation of the money supply and to warn the world against it. Because gold is the vehicle of escape from the central bank system, the manipulation of the gold market is the manipulation that makes possible all other market manipulation by government.

In recent months central bankers often have complained about what they call "imbalances" in the international financial system. That is, certain countries, particularly in Asia, run big trade surpluses, while other countries, especially the United States, run big trade deficits and consume far more than they produce, living off the rest of the world. These complaints by the central bankers about "imbalances" are brazenly hypocritical, since these imbalances have been caused by the central banks themselves, their constant interventions in the currency, bond, commodity, and derivatives markets to prevent those markets from coming into balance through ordinary market action lest certain political interests be disturbed.

Yes, when markets balance themselves they often do it brutally, causing great damage to many of their participants. The United States enacted a central banking system in 1913 because for the almost 150 years before then the country went through a catastrophic deflation every decade or so. Central banking was created in the name of preventing those catastrophic deflations.

The problem with central banking has been mainly the old problem of power — it corrupts.

Central bankers are supposed to be more capable of restraint than ordinary politicians, and maybe some are, but they are not always or even often capable of the necessary restraint. One market intervention encourages another and another and increases the political pressure to keep intervening to benefit special interests rather than the general interest — to benefit especially the financial interests, the banking and investment banking industries. These interventions, subsidies to special interests, increasingly are needed to prevent the previous imbalances from imploding.

And so we have come to an era of daily market interventions by central banks — so much so that the main purpose of central banking now is to prevent ordinary markets from happening.

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intervention against gold is failing because of overuse, exposure, exhaustion of Western central bank gold reserves — we estimate that the Western central banks have in their vaults only about half the 32,000 tonnes they claim to have — and the resentment of the developing world, which is starting to figure out how it has been expropriated by the dollar system, a system in which people create real goods and send them to the United States in exchange for mere colored paper and electrons.

Central banking controls the value of all labor, services, and real goods, and yet it is conducted almost entirely in secret. Because, in choosing winners and losers in the economy, advancing infinite amounts of money to some participants in the markets but not to others, administering the ultimate patronage — central banking cannot survive scrutiny.

Yet the secrecy of central banking now is taken for granted even in nominally democratic countries.

Maybe the Federal Reserve's intervention to rescue Bear Stearns through the Fed's de-facto subsidiary, JPMorganChase, has been grotesque enough to prompt some devastating public inquiries by Congress and the news media. But what a hundred years ago in the United States was called the Money Power is so ascendant today that it sometimes even boasts of its privilege. What other agency of a democratic government could get away with the principle that was articulated on national television in 1994 by the vice chairman of the Federal Reserve, Alan Blinder. Blinder declared: "The last duty of a central banker is to tell the public the truth."

The truth as GATA sees it is this:

First, gold is the secret knowledge of the financial universe, but it is becoming an open secret. That is GATA's work — to bust the secret open. We will continue to use freedom-of-information law against the Fed and the Treasury Department about their policies toward gold and the disposition of the U.S. gold reserves. Of course central banks can no more afford to account fully for their gold reserves than the Fed and JPMorganChase can afford to disclose details of their negotiations for the rescue of Bear Stearns. Indeed, the disposition of Western central bank gold reserves is a secret more closely guarded than the blueprints for the manufacture of nuclear weapons.

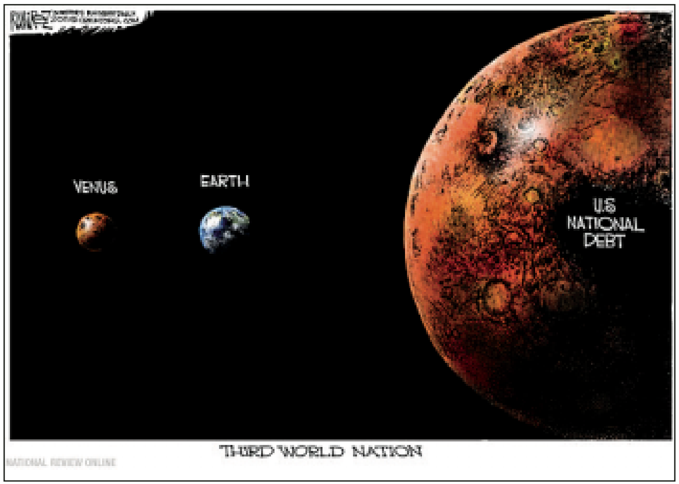
Second, all technical analysis of markets now is faulty if it fails to account for government intervention.

And third, that intervention against gold is failing because of overuse, exposure, exhaustion of Western central bank gold reserves — we estimate that the Western central banks have in their vaults only about half the 32,000 tonnes they claim to have — and the resentment of the developing world, which is starting to figure out how it has been expropriated by the dollar system, a system in which people create real goods and send them to the United States in exchange for mere colored paper and electrons.

The Western central banks are attempting a controlled retreat with gold, bleeding out their reserves so that gold's ascent and the dollar's decline may be less shocking. But GATA believes that the central banks may have to retreat farther than anyone dreams: that when the central banks are overrun in the gold market, as they were overrun in 1968, and the market begins to reflect the ratio between gold supply and the explosion of the world money supply of the last few decades — as the market begins to perceive the difference between the real and the unreal — there may not be enough zeroes to put behind the gold price.

Our success will be determined by the quality of the people whose advice we follow.

I have spent many hours every working day, since 1983, searching for the best, most accurate information I could source that would help me to better understand my industry, the gold and silver business. I can list a dozen or so of "the best of the best," but at the very top of my list sits Richard Russell ("The Dean of the Financial Newsletter Industry"), Jim Sinclair ("Mr. Gold") and John Williams (Shadowstats). I have been a fan of both Russell and Sinclair since the mid-1980s. They earned my respect by being right in their market analysis, year after year. It was Richard Russell who taught me to focus on "The Big Picture." It was Jim Sinclair, who more than anyone, not only called the



onset of the current gold bull market in 2001, he assured us that gold would hit $1,650 in 2011. At the time, gold was languishing near $275 an ounce, so the $1,650 number (nearly twice the previous high of $850, reached in January 1980) was laughed at by most analysts.

A part of the "Big Picture" that Russell wrote about, was the current bull market in gold. Russell maintained that the Federal Reserve's policy would be guided by the principle of "inflate or die." Russell has a deep-seated hatred of the Fed and takes every opportunity he can to point out that it is the Fed that causes inflation (by debasing the currency) and will continue to inflate to keep the economy afloat. If you look at the facts, that is as true a statement as you can find, relative to the value of the US dollar and the economy. Since the Fed's inception in 1913, the dollar has lost nearly 98% of its purchasing power!

Whereas Sinclair gave us a "hard target" of $1,650 for gold, since revised upward to at least $3,000 and $10,000 is not out of the question, Russell uses a ratio of gold to the Dow for his projections of the gold price. Gold and the Dow both sold at the same "number" in 1980. The Dow was 850 and gold was $850. The ratio, therefore, was one-to-one. In the early 1930s, the Dow to gold ratio was two-to-one. Russell believes that the Dow to gold ratio will once again hit one-to-one or two-to-one. In 2001, the Dow was over 12,000 and gold was under $300, so the ratio was over 40-to-one. The ratio currently stands at 8.3-to-1. The Dow is still in the 12,000 range and has, for all intent and purposes gone nowhere in a decade while gold has increased 549%. Russell was correct when he called the onset of the new bull market in gold in 2001 and his prediction that the Dow to gold ratio will eventually reach one-to-one or two-to-one is right on track, having tumbled from 40-to-1 to a bit over 8-to-one in the last decade.

Sources: Erste Group Research, Bloomberg

I have a surprise for you — **gold isn't an investment, gold is money**. Gold doesn't magically go up or go down in price; it simply takes more or less dollars to buy an ounce of gold. What is happening, and it should be a concern to all of us, is that the dollar is rapidly losing value, right before our eyes and gold is the "canary in the mine shaft," the barometer of value of our currency. It is crystal clear to ME that it is impossible under the current political climate and Federal Reserve stance that the dollar will survive as the world's reserve currency. We are facing a very dangerous situation where prices will continue to rise unabated, and we face the real possibility of hyperinflation. What that means to all of us is that it is IMPOSSIBLE to save, or retain our wealth in dollars. How sad is that!

Source: Datastream, Erste Group Research

Gold's performance is not limited to just the US dollar. Check out the following graph, which shows gold's performance, since 1999, in six major currencies.

Sources: Datastream, Erste Group Research

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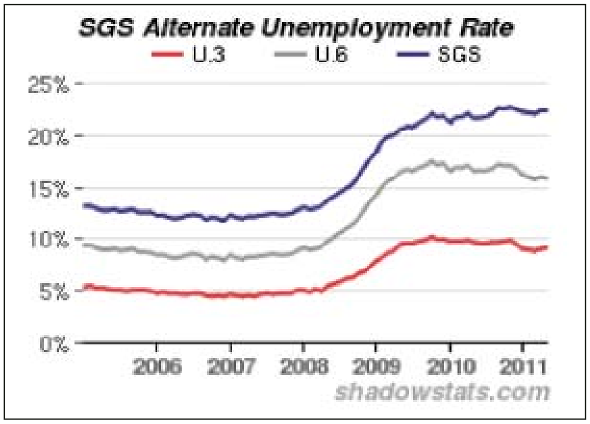
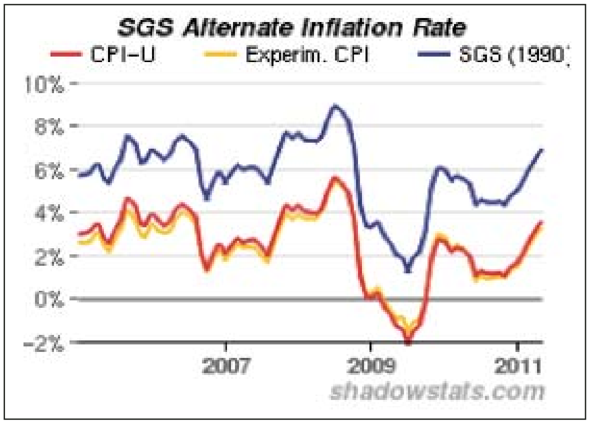
The trend is clear — you would have done better in gold than in any currency for the past decade. That trend is still in force. Gold is THE PRE-EMINENT CURRENCY!

Garbage in, garbage out

Most investor's use the BLS (Government) data to form the basis of their investment decisions. Unfortunately, that data is flawed — plain out wrong! If you follow the government data, as espoused by the major media, you will conclude that the unemployment rate is around 9% and inflation is under 4%. Williams says, "not so!" Here are two charts that he offers up that state the real unemployment rate (which includes those who have given up looking for work) is actually 22% and inflation (as calculated in 1990) is over 7% and rising.

Since the beginning of the 1980s the Bureau of Labor Statistics has "adjusted" the methodology of its inflation model 24 times. Along with the hedonic approach, the geometric weighting, and the adjustment for intervention, the surrogate approach is dubious as well. For example, if steak becomes more expensive, statisticians assume that instead people will eat hamburgers. The following chart shows the divergence of the new, official rate of inflation and the former method that was still in use in the 1980s. This also explains why the real income of the households has been stagnating for years.





Williams is certain that we will experience hyperinflation as early as 2012. He, along with Russell and Sinclair believe that gold is your best protection and implore you to own PHYSICAL gold.

Every year, the Erste Bank presents the most thorough and comprehensive analysis of gold. It is a 90-page report, and here are its conclusions.

Erste Group
Special Report on Gold (July 2011)
IN GOLD WE TRUST

Both fear trade and love trade are the driving factors of this bull market. *The fear component is driven by the negative real interest rates, the excessive government debt, and the rising fear of a collapse of the system. This component is currently regarded as the only reason for the gold bull market. However, this perspective disregards China and India, which are the driving forces on the demand side. The high traditional gold affinity and the rising wealth will support demand in the long run. By 2020 emerging markets will generate 50% of global GDP, up from 19% in 2000. The majority of the emerging countries are significantly keener on gold than the industrial nations are.*

> *"Most great primary bull markets last longer and carry farther than the majority of investors (even the bulls) expect" —Richard Russell*

Gold has been ridding itself of its reputation as a "barbarous relic," emphasized in the 1980s and 1990s, and will ultimately turn into its own investment class again. *The paradigm shift definitely has psychological reasons. The unshakeable myths and misunderstandings (gold does not pay interest, the purchase of physical gold is expensive, gold is speculative and volatile...) are currently subject to demystification and reassessment. Given that after the bear market that lasted 20 years many such arguments, defamations, and convictions ended up sticking in people's minds, achieving a change of mind is tedious and time-consuming. But the same (alleged) killer arguments are still being brought forward, and even Ben Bernanke is "confused" about the rising gold price and does not understand it*

The fact that not many market participants actively participated in the last high of the gold price in the 1970s is a positive aspect. This is probably also why the majority of investors still doubt the sustainability and justification of the bull markets although we are in its tenth year. ***In the 1970s it was an unwritten law to invest at least a fifth of one's portfolio in gold***.

"I prophesy that in 1950 every Treasury in the world will be talking about my ideas, and by that time, of course, the problems will be quite different, and my ideas will be not only obsolete but dangerous."
—John Maynard Keynes

Gold, as antagonist of uncovered paper currencies, remains an excellent hedge against worst-case scenarios. *Low real interest rates and high counterparty risk provide the perfect environment for gold. Both are clearly the case at the moment, and we expect this scenario to last. At the current real interest rates, gold is an obvious alternative to short-term government bonds, current accounts, or time deposits. After many years of a chronic low-interest-rate policy, we do not believe that interest rates, along the lines of Paul Volcker's, would be possible without the system collapsing.* ***Therefore this time the gold bull market should end for different reasons than at the beginning of the 1980s.***

We believe that the saving efforts of the US government constitute lip service of the purest water, given the imminent presidential elections in 2012. *Due to the elections and the tepid economic growth a new edition of the Quantitative Easing scheme should not be ruled out (after an "observation period"). In order to deal with the current difficulties in the financial sector but also in the real economy the Fed and the ECB will be forced to keep the interest rates at (historically) extremely low levels. Negative real interest rates and the gold price have traditionally had a very strong correlation. Therefore we believe that gold represents the essential basis of a portfolio, especially in the current fragile environment.*

"If you don't trust gold, do you trust the logic of taking a pine tree, worth $4,000-$5,000, cutting it up, turning it into pulp, putting some ink on it and then calling it one billion dollars?" —Kenneth J. Gerbino

Further pros:

- The global reflating policy will continue
- Global USD reserves amount to about USD 5 trillion; the need for diversification is enormous
- De facto zero-interest rate policy in USA, Japan, and Europe
- The central banks have changed their attitude toward gold
- Investment demand will remain high; Wall Street has discovered gold
- Commodity cycle has a long way ahead
- Geopolitical environment still fragile
- Chinese central bank wants to increase its gold reserves

Cons:

- Gold is often held as ultimate reserve and money of last resort and is thus liquidated in extreme financial situations
- De-hedging has practically come to an end
- Futures positioning (CoT) relatively neutral; open interest indicates negative divergence
- Greece, Portugal, and Italy hold relatively sizeable reserves and may (have to) sell them
- A slump in economic growth would definitely have a negative impact on the gold price
- Double dipping: recessions are generally not a good environment for the gold price (N.B. it is the measures that are taken during the recession that stimulate the gold price later on)

According to Carl Menger's theory of subjective value, the value of a good is derived from the marginal utility with regard to the set goal. *This means that the value of a good or a service is therefore of no objective value, but the result of a subjective process of valuation ("Value does not exist outside the consciousness of men"). Therefore the question of price targets is difficult to answer. But given the fact that the majority of debt has neither been written off nor paid off but simply transferred, the problem of excessive debt is still waiting to be resolved. As far as the sentiment is concerned, we definitely do not see any signs of euphoria. Skepticism, fear, and panic never line the final stretch of a bull market. Therefore we believe that our long-term price target of USD 2,300/ounce, as formulated a few years ago, could therefore come out on the conservative side.*

In the short term, the seasonality of the gold price seems to suggest the continuation of the sideways movement, followed by the strongest seasonal period in September. ***In the long run we could see a future where rather than asking for the price of gold, people will much more often ask for the price in gold. Our next 12 month target is USD 2,000. We believe that the parabolic trend phase is still ahead of us. This phase should take the gold price to our long-term target of at least USD 2,300 at the end of the cycle.***

The Wisdom of Thomas Jefferson

John F. Kennedy held a dinner in the white House for a group of the brightest minds in the nation at that time. He made this statement: "This is perhaps the assembly of the most intelligence ever to gather at one time in the White House with the exception of when Thomas Jefferson dined alone."

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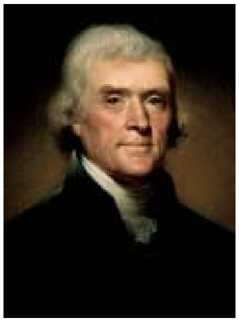
Wisdom of Thomas Jefferson *from page 9*



> "When we get piled upon one another in large cities, as in Europe, we shall become as corrupt as Europe."

> "The democracy will cease to exist when you take away from those who are willing to work and give to those who would not."

> "It is incumbent on every generation to pay its own debts as it goes. A principle which if acted on would save one-half the wars of the world."

> "I predict future happiness for Americans if they can prevent the government from wasting the labors of the people under the pretense of taking care of them."

> "My reading of history convinces me that most bad government results from too much government."

> "No free man shall ever be debarred the use of arms."

> "The strongest reason for the people to retain the right to keep and bear arms is, as a last resort, to protect themselves against tyranny in government."

> "The tree of liberty must be refreshed from time to time with the blood of patriots and tyrants."

> "To compel a man to subsidize with his taxes the propagation of ideas which he disbelieves and abhors is sinful and tyrannical."

Thomas Jefferson said in 1802:

> "I believe that banking institutions are more dangerous to our liberties than standing armies.

> "If the American people ever allow private banks to control the issue of their currency, first by inflation, then by deflation, the banks and corporations that will grow up around the banks will deprive the people of all property — until their children wake up homeless on the continent their fathers conquered."

Closing comments

I ask myself the question, "Why do I, who am as bullish as anyone on gold, constantly pick such low targets for the price of gold?" Lately, I have tried to plan for the future by picking a minimum number for how high gold can go. I usually settle on the low $2,000s as a target for 2012. I use the $3,000 range going out a bit further in time. Am I being realistic or am I being way too cautious?

Then I fall back on my security blanket and ask myself, "What do Jim Sinclair and Richard Russell think about gold?" Combined, they have over 80 years of experience in this market and their track records are to be admired. Lately, Sinclair has been throwing around numbers that range from $5,000 to over $12,000 an ounce. Russell, to the best of my knowledge, has never given a 'hard number," but he does say he expects gold and the Dow to trade one-to-one or two-to-one. Even if the Dow crashed, down to the 6000 range, that would predict a gold price of anywhere from $3,000 to $6,000 an ounce, and if the Dow continues to hold its ground, or move higher, his number would be $6,000 or much higher.

So why do I come up with these low expectations? Well, that's because if I error, I would rather it be on the low end, and not disappoint myself by counting on a higher number, one that never materializes.

My experience in the precious metals industry, since 2001, has been a pleasant one indeed. I have seen major gains in most of the mining stocks I own. I have been accumulating physical gold from $275 up and silver from $3.50 up. I have watched my portfolio grow by hundreds of percent, so why am I so cautious in my views now?

It's because the "CARTEL" has done such a good job in dulling our expectations and yes, it even affects ME. I know better, intellectually, but emotionally it is hard to ignore the constant hammering down of the price of gold and silver. Every time they get some traction they are pulled down, hard. Gains that take weeks or months vanish in a matter of days. Worse yet, there are always "respected analysts" that are eager to tell us that gold and silver will continue to fall. Ned Schmidt and even Larry Edelson, whom I admire, are quick to point out that, in the short-term, the metals could take a big hit.

How can gold and silver fall so hard when the issues that favor a bull market, like uncertainty, negative real interest rates and massive currency debasement still abound? My answer is "Get used to it!" As long as the bullion banks and a few reckless hedge funds are left free to run amok on the Comex, shorting our physical metals (and our mining shares) it will continue. Oversight? Regulation? They are nowhere to be found. One could get very discouraged over this kind of blatant manipulation except for the fact that IN SPITE of this manipulation, the TREND keeps RISING.

It is imperative that you understand that the Comex is NOT the real market; it is the physical market that counts, in the long run. Savvy investors, central banks and industrial users all want real metal, not paper profits. As long as the demand for physical gold and silver is greater than the availability of the metals, the bull market will thrive — yes thrive, in spite of all of the manipulations. And so it has, for over a decade now.

The only way to sleep peacefully at night, with a large portfolio of gold and silver, is to ignore the noise; the short-term movements caused by reckless hedge funds and greedy bullion banks like JPMorgan. Let them pick each others pockets but have the insight and courage to trade in your fiat dollars for real wealth, gold and silver. Each takedown is another opportunity for you to buy gold and silver at an artificially low, subsidized price. Are you prepared to take advantage of another opportunity to protect your wealth at a discount? You have one here, now.

I honestly believe gold and silver have at least one more double in the bag, and more likely, two or even three more doubles. Do not be discouraged, do not let the bullion banks scare you into selling. Do not sit on the sidelines when prices fall. That is your signal to buy. That is what puts them out of business – increased physical demand. Join the smart money from India, China, Russia and the Middle East and purchases every time the price falls. Now, is such a time. It won't be long before the only question an investor in real gold and silver will have to deal with is NOT how much does it cost, but CAN I GET ANY AT ANY PRICE? Price will not be an issue, delivery will be the issue. In this game of musical chairs (of your wealth), the music stops when the mints can no longer meet demand. That day is coming and is not as far off as you might think.

I have not addressed silver in this report. That does not mean I favor gold over silver. Quite to the contrary, I personally own more silver (dollar value) than gold. I believe that as the bull market goes parabolic, silver will outperform gold. But space limitations dictated that I concentrate on gold in this report. The gold/silver ratio in 1980, at the peak of the last bull market was 8 to 1. Historically, over centuries, the ratio stood at around 16 to 1. I still like silver at the current ratio of 43 to 1.

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