Certified Gold Exchange, Inc.

ORE-VISION

Views and Analysis on the Economy and Precious Metals

A QUARTERLY NEWSLETTER

2nd QTR 2016

VOLUME 32, NO.2

The Two Worlds Of Precious Metals: East And West

Jeff Nielson

For five thousand years, gold and silver have been humanity's premier form of money; real money, not the faux-money manufactured by our central banks. During that same period of time, these metals have been our premier instruments of wealth preservation and therefore our "safe havens."

There is nothing accidental about this phenomenon. Gold and silver have obvious aesthetic appeal. Indeed, silver is actually the more brilliant of the two metals. It is their aesthetic appeal that makes these metals "precious." But more than simply their aesthetic appeal, they are also (relatively) rare.

If diamonds were as common as pebbles, it would be impossible to impress one's potential bride-to-be with such stones, even in a setting of gold. Diamonds have their value, both real and sentimental, not only because of their aesthetic qualities but also because of their *perceived scarcity*.

The situation is the same for gold and silver. If gold and silver were as common as iron, zinc, or even copper, they would not be coveted as greatly, regardless of their aesthetic appeal, because of their abundance. It is the qualities of being "rare" and "precious" which are essential in order for any commodity to be considered a suitable currency. It is these properties that make a commodity a source of value. There will always be demand for these metals; therefore, they will always have value. For these reasons, gold and silver preserve and protect wealth.

Gold and silver are both precious and rare, but they are more than that. As metals, they also exhibit uniformity. Once refined, any gold or silver coin is indistinguishable from any other. Conversely, diamonds lack uniformity, therefore they are not a good candidate to be used as "money." Vendors would complain that a particular buyer was using "low-grade" diamonds for payment. On the opposite side of the ledger, purchasers with stones of superior size or quality would seek to negotiate premiums on their "money." It would wreak havoc for commerce.

Gold and silver are perfect money, but they are also more than that.

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The Fed's Nightmare Scenario

Peter Schiff

Operating under the mistaken belief that a modest dose of inflation is either a prerequisite for, or a by-product of, economic growth, the nation's top economists have been assuring us for quite some time that inflation will stay very low until the currently mediocre economy finally catches fire. As a result, they believe that the low inflation of the past few months has frustrated Federal Reserve policy makers, who have been

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supposedly chomping at the bit to keep hiking rates in order to restore confidence in the present and to build the ability to cut rates in the future if the nation were to ever, god forbid, enter another recession.

In the weeks leading up to the Fed's December 16 decision to raise rates by 25 basis points (their first increase in nearly a decade) the consensus expectations on Wall Street was that the Fed would deliver three or four additional interest rate hikes in 2016. But with the global markets now in turmoil, GDP slowing, and the stock market off to one of its worst starts in memory, a consensus began to emerge that the Fed is reluctantly out of the rate hiking business for the rest of the year.

With such thoughts firmly entrenched, many were largely caught off guard by the arrival last Friday (February 19th) of new inflation data from the Labor Department that showed that the core consumer price index (CPI) rose in January at a 2.2 % annualized rate, the highest in more than 4 years, well past the 2.0% benchmark that the Fed has supposedly been so desperately trying to reach. It was received as welcome news.

A Reuter's story that provided immediate reaction to the inflation data summed up the good feeling with a quote by Chris Rupkey, chief economist at MUFG Union Bank in New York, "It is a policymaker's dream come true. They wanted more inflation and they got it." The widely respected Jim Paulsen of Wells Capital Management said that the stronger inflation, combined with upticks in consumer spending and jobs data would force the Fed to get on with more rate hikes.

But higher inflation is not "a dream come true". In reality it is the Fed's worst possible nightmare.

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They are forms of money that are available at what must be termed near-optimal quantities and fulfill two separate but equally important functions. Silver is rare enough to be valued for its scarcity yet plentiful enough to be the ideal Peoples' Money. It can be the wages of the workers; the payment used in basic commerce.

Gold is more scarce than silver. Because of its greater degree of scarcity it derives greater value, yet it is still plentiful enough to be a tool of commerce. However, gold is not the Peoples' Money. Rather, it is the money of nations or, alternatively, the wealthy. It is the money of investment and industry. This additional level of prestige makes gold ideal as a "standard" for a national or global monetary system.

A White Paper previously released on this topic explained how and why "a gold standard" was the optimal basis for a monetary system in our modern economy. That same paper then provided extensive empirical evidence documenting the horrific economic carnage that resulted from the loss of our gold standard in the early 1970s.

When our nations had gold as the money of governments and silver as the money of the people, we enjoyed a level of prosperity and economic stability that we have not seen either before or since that era. In the four and a half decades since these metals have lost their official monetary status, our economies have been destroyed, our governments have been bankrupted, and the currency in our wallets is fundamentally worthless.

Decades of relentless brainwashing in the West have convinced the vast majority of our populations that there is no longer a place or role in our modern economy for Perfect Money. Consequently, the masses in the West generally shun gold and silver by storing and protecting only a tiny percentage of their wealth with these metals, in comparison with any other era in our society's history.

This is how gold and silver stand today from a Western perspective. What is continually forgotten beneath the veneer of our cultural arrogance is that the rest of the world, and the vast majority of humanity's population, have a fundamentally opposite perspective regarding the world's only Perfect Money.

Unexposed to the decades of monetary brainwashing directed at Western populations, Eastern populations have never forgotten the important role of precious metals in our societies and economies. Even the most humble peasant understands why we store our wealth in gold and silver **money** – not the diluted and debauched paper **currencies** of bankers.

Real money is a store of wealth. Mere paper currency is only a tool of commerce. As a store of value, these currencies are the equivalent of a "leaky bucket." Over a period of thousands of years, gold has perfectly preserved the wealth of its holders. In the mere century in which the Federal Reserve was entrusted with "protecting" the dollar, it has lost 99% of its value and the wealth contained.

Now *that* is a big leak. And it's getting worse. Thanks to the ever-increasing rate of Fed money printing, and thus U.S. dollar dilution, 75% of that loss in value has occurred over just the last quarter-century of Federal Reserve fraud and mismanagement.

We needed gold and silver for our financial protection a century ago. We really needed gold and silver 45 years ago when Paul Volcker assassinated the last vestige of our gold standard. And we *really really* need gold and silver to protect our wealth today – as the monetary crime of "quantitative easing" has rendered these faux currencies fundamentally worthless. In the East, China and Russia are relentlessly accumulating gold, observing a "rule" which is now forgotten by the arrogant oligarchs of the Corrupt West: the Golden Rule. *He who has the gold makes the rules*.

Conversely, the Corrupt West has squandered its own once-vast reserves, both officially and surreptitiously. For the better part of two decades, Western governments were dumping hundreds of tonnes of gold per year into the market to suppress the price. Meanwhile, the central banks of these regimes were

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The Markets Are Misreading The Data

Graham Summers

The US markets are in a quandary.

On the one hand, some of the data (GDP growth, unemployment, etc.) suggests the Fed should continue to hike rates. On the other hand, other data points (food stamp usage, labor participation rate) suggest the US never actually entered a real recovery.

More importantly, how can the jobs data suggest such a strong employment situation… when one in seven Americans are on food stamps?

Let us, consider how the Labor Department calculates the unemployment numbers… t**hose same numbers that the ENTIRE stock market reacts to every few weeks.**

Every month, the US Government conducts a "Current Population Survey" through which it calls or visits 60,000 US households and asks them questions about their current employment or lack thereof. This usually occurs on the week of the month containing the 12th.

Thus, in order for the survey to be accurate...

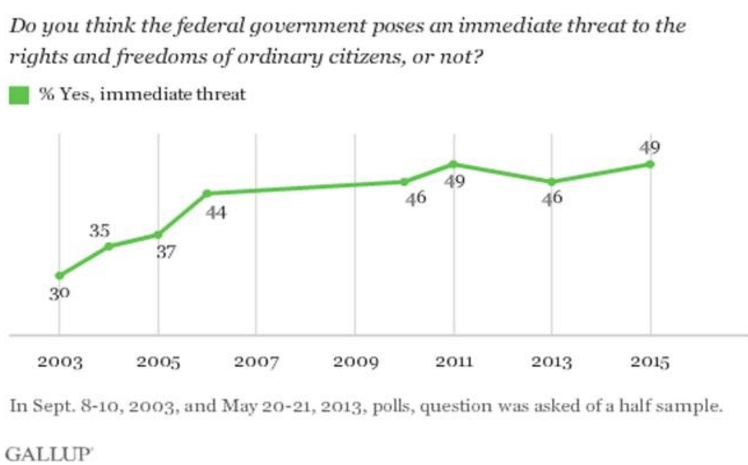
1) The US Government official has to make the phone call or go in person to the house (there have been some controversies regarding falsifying results).
2) Someone has to pick up the phone or answer the door when the Government employee calls or visits.
3) The person has to agree to an interview regarding the employment status of all members of his or her household with the US Government
4) The person has to answer the interview questions truthfully (more on this shortly).
5) The Labor Department's economic model has to take this information and accurately render it into a nationwide unemployment number.

Thus, for the numbers to be accurate, the person being interviewed has to be willing to talk honestly to the US Government about personal details that could be quite embarrassing.

Why is this a problem?

Consider that as far back as 2003, 30% of Americans viewed the US Government as an "immediate threat" to their "rights and freedoms." **Post 2008, the number has jumped to just below 50%.**

Again, nearly half of Americans see the US Government as an "immediate threat."



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Whoever Does Not Respect The Penny Is Not Worthy Of The Dollar

Nick Giambruno

This definitive sign of a currency collapse is easy to see…

When paper money literally becomes trash.

Maybe you've seen images depicting hyperinflation in Germany after World War I. The German government had printed so much money that it became worthless. Technically, German merchants still accepted the currency, but it was impractical to use. It would have required wheelbarrows full of paper money just to buy a loaf of bread.

At the time, no one would bother to pick up money off the ground. It wasn't worth any more than the other crumpled pieces of paper on the street.

Today, there's a similar situation in the U.S. When was the last time you saw someone make the effort to pick up a penny off the street? A nickel? A dime?

Walking around New York City recently, I saw pennies, nickels, and dimes just sitting there on busy sidewalks. This happened at least five times in one day. Even homeless people wouldn't bother to bend over and pick up anything less than a quarter.

The U.S. dollar has become so debased that these coins are essentially pieces of rubbish. They have little to no practical value.

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secretly dumping at least that much gold onto the market.

This process was done via what these crooked bankers call "bullion leasing": (supposedly) 'lending' their gold. Regular readers are already somewhat familiar with such frauds. "Gold generates no income." The bankers tell us this all the time. Thus there can be no legitimate commercial purpose to so-called bullion-leasing.

Instead, this "borrowed" gold is also dumped onto the market (i.e. sold), with much or most of that gold gone forever. Yet our corrupt central banks continue to register every ounce of gold on their books – *pretending* to continue to have legal title and possession of this gold.

No one has seen any of this gold in decades. In the case of the United States' mythical "gold reserves," there has been no public accounting of this gold in over 50 years. The farce has grown to such an extreme that any time any significant quantities of this Western "gold" is transported, it is done secretly so that no one outside of these corrupt regimes ever gets even a glimpse of this myth-gold, let alone a touch or an official audit.

The West's gold is gone. Yet out of one side of their mouths, these rancid governments boast of supposedly gigantic reserves, while out of the other side of their mouths they continually denigrate its importance as a monetary asset. "Gold is a barbarous relic." One would never hear such ignorance and idiocy emanating out of the East – or anywhere outside of the Corrupt West.

Western governments and their deluded populations are about to get a history lesson and economics lesson all rolled into one. It could and should also be a lesson in humility, though that is likely too much for us to hope.

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The Fed's Nightmare Scenario

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It will expose the error of their eight-year stimulus experiment and the Fed's impotence in restoring health to an economy that it has turned into a walking zombie addicted to cheap money.

While most economists still want to believe that the recent slowdown in economic growth (.7% annualized in the 4th quarter of 2015, which could be revised lower on Friday) was either caused by the weather, confined to manufacturing, oil related, or just some kind of statistical fluke that will likely reverse in the current quarter, and that the stock market declines of 2016 have resulted from distress imported from abroad, a much more likely trigger for all these developments can be found in the Fed's own policy.

The Chinese economic deceleration and market turmoil made little impact on U.S markets prior to the Fed's rate hike. And although U.S. markets rallied slightly in the days around the historic December rate hike, they began falling hard just a few days later. Stocks remained on the downward path until a recent rally inspired by dovish comments from various Fed officials, which led many to conclude that future rate hikes may be fewer and farther between than was originally believed.

In truth, the markets and the economy have been walloped not just by December's quarter point increase, but from the hangover from the withdrawal of QE3, and the anticipation of higher rates in 2016, all of which contributed to a general tightening of monetary policy.

The correlation between monetary tightening and economic deceleration is not accidental. As it had been in Japan before us, the unprecedented stimulus that has been delivered by central banks, in the form of zero percent interest and trillions of dollars in quantitative easing bond purchases, failed to create a robust and healthy economy that could survive in its absence. Our stimulus, which was launched in the wake of the 2008 crash, may have prevented a deeper contraction in the short term, but it also prevented the economy from purging the excesses of artificial boom that preceded the crash. As a result, we are now carrying far more debt, and the nation is far more levered than it was prior to the Crisis of 2008. We have been able to muddle through with all this extra debt only because interest rates remained at zero and the Fed purchased so much of the longer-term debt.

In the past I argued that even a tiny, symbolic, quarter point increase would be sufficient to prick the enormous bubble that eight years of stimulus had inflated. Early results show that I was likely right on that point. The truth is that the economy may be entering a period of "stagflation" in which very low (or even negative) growth is accompanied by rising prices. This creates terrible conditions for consumers whereby prices rise but incomes don't. This leads to diminished living standards.

The recent uptick in inflation does not somehow invalidate all the other signs that have pointed to a rapidly decelerating economy. Just because inflation picks up does not mean that things are getting better. It actually means they are about to get a whole lot worse. Stagflation is in fact THE nightmare scenario for the Fed. If inflation catches fire now, the Fed will be completely incapable of controlling it. If a measly 25 basis point increase could inflict the kind of damage already experienced, imagine what would happen if the Fed made a real attempt to raise rates to get out in front of rising inflation? With growth already close to zero, a monetary shock of 1% or 2% rates could send us into a recession that could end up putting Donald Trump into the White House. The Fed would prefer that fantasy never become reality.

But the real nightmare for the Fed is not the extra body blow higher prices will deliver to already bruised consumers, but the knockout punch that will be delivered to its own credibility. The markets believe the Fed has a duel mandate, to promote employment and to maintain price stability. But it is currently operating like it has just a single unspoken mandate: to continue to shower markets with easy money until asset prices and incomes rise high enough to reduce the real value of our debts to the point where they can actually be serviced with higher rates, regardless of what happens to employment or consumer prices along the way.

If you recall back in 2009 and 2010, when unemployment was in the 8% to 10% range, former Fed Chair Ben Bernanke initially indicated that the fed would raise rates from zero once unemployment fell to 6.5%. At the time I wrote that it was a bluff, and that if those goalposts were ever reached, they would be moved. That is exactly what happened. But when 5% unemployment finally backed the Fed into a credibility corner it had to do

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Whoever Does Not Respect The Penny Is Not Worthy Of The Dollar

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Refusing to Acknowledge the Truth

It costs 1.7 cents to make a penny and 8 cents to make a nickel, according to the U.S. Government Accountability Office. The U.S. government loses tens of millions of dollars every year putting these coins into circulation.

Why is it wasting money and time making coins almost no one uses? Because phasing out the penny and nickel would mean acknowledging currency debasement. And governments never like to do that. It would reveal their incompetence and theft from savers.

This isn't new or unique to the U.S. For decades, governments around the world have refused to phase out worthless currency denominations. This helps them deny the problem even exists. They refuse to issue currency in higher denominations for the same reason.

Take Argentina, for example. The country has some of the highest inflation in the world. In the last 12 months, the peso has lost over half of its value.

I was just in Argentina, and the largest bill there is the 100-peso note, which is worth around $7. It's not uncommon for Argentinians to pay with large wads of cash at restaurants and stores. The sight would unnerve many Americans, who've been trained by the government through the War on Cash to view it as suspicious and dangerous.

For many years, the Argentine government refused to issue larger notes. Fortunately, that's changing under the recently elected pro-market president Mauricio Macri. His government has promised to introduce 200-, 500-, and 1,000-peso notes in the near future.

This is the opposite of what's happening in the U.S., where the $100 bill is the largest bill in circulation. That wasn't always the case. At one point, the U.S. had $500, $1,000, $5,000, and even $10,000 bills. The government eliminated these large bills in 1969 under the pretext of fighting the War on Some Drugs.

The $100 bill has been the largest ever since. But it has far less purchasing power than it did in 1969. Decades of rampant money printing have debased the dollar. Today, a $100 note buys less than a $20 note did in 1969.

Even though the Federal Reserve has devalued the dollar over 80% since 1969, it still refuses to issue notes larger than $100.

Pennies and Nickels Under Sound Money

For perspective, consider what a penny and a nickel would be worth under a sound money system backed by gold. From 1792 to 1934, the price of gold was around $20 per ounce. Under this system, it took around 2,000 pennies to make an ounce of gold. At today's gold price, a "sound money penny" would be worth about 55 modern pennies. A "sound money nickel" would be worth about $3.

I don't pick up pennies off the sidewalk. But I would if pennies were backed by gold. If that were to happen, I doubt there would be many pennies sitting on busy New York sidewalks.

Ron Paul said it best when he discussed this issue…

- "There is an old German saying that goes, 'Whoever does not respect the penny is not worthy of the dollar.' It expresses the sense that those who neglect or ignore the small things cannot be trusted with larger things, and fittingly describes the problems facing both the dollar and our nation today.
- Unless Congress puts an end to the Fed's loose monetary policy and returns to a sound and stable dollar, the issue of U.S. coin composition will be revisited every few years until inflation finally forces coins out of circulation altogether and we are left with only worthless paper."

There's an important lesson here. Politicians and bureaucrats are the biggest threats to your financial security. For years, they've been quietly debasing the country's currency… and inviting a currency catastrophe.

Most people have no idea how bad things can get when a currency collapses… let alone how to prepare.

Article by:
Nick Giambruno
February 23, 2016
http://www.internationalman.com/

Peddling Fiction, Ignoring Fact

Peter Schiff

In his seventh and final State of the Union address this January, President Obama, clearly looking to bolster his legacy as the President who vanquished the Great Recession, boldly asserted that "Anyone claiming that America's economy is in decline is peddling fiction." Unfortunately for the President, more and more Americans seem to believe (with an adequate basis in proof) that the fiction is emanating from the White House.

It's hard to imagine how anyone can really assert with a straight face that the economy is currently "strong." The most recent Gross Domestic Product (GDP), from 4th Quarter 2015, shows us barely inching along at a 1% annualized growth rate (Bureau of Economic Analysis, 2/26/16). Given that moderate growth used to be measured in the 3%-4% range, and that recent declines in the trade balance could further subtract from both 4th (2015) and 1st quarter GDP, we could be forgiven for raising an eyebrow or two in reaction to Obama's boast.

For the President and his boosters, last week's February non-farm payroll report, which showed 242,000 new jobs created and an unemployment rate below the crucial 5% level (Bureau of Labor Statistics, 3/4/16), provided proof that the Administration's economic policies, whatever they may actually be, are working. By beating the 190,000 consensus forecast for February of economists surveyed by Reuters, and revising upward the low 151,000 jobs previously reported in January to 172,000 (BLS, 3/4/16), the government was able to point to two months that averaged north of 200,000 new jobs.

The good news prompted Obama to invite reporters into a Cabinet meeting to crow about the results and to shame those who somehow remain skeptical, saying (to paraphrase) "America's businesses are creating jobs at the fastest pace since the 1990s...and I don't expect...this evidence to convince some...to change their doomsday rhetoric.

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The Markets Are Misreading The Data

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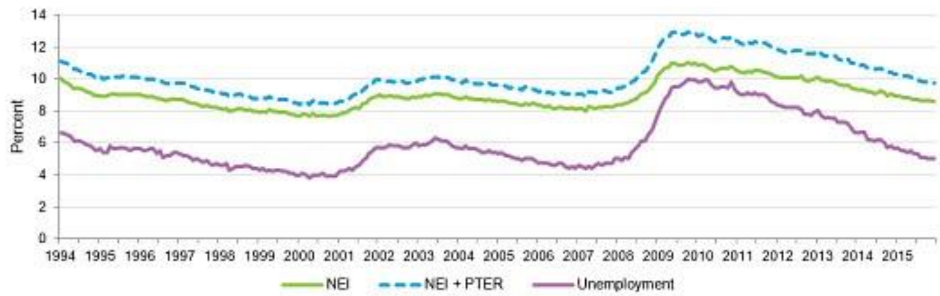
Thus, by proxy, roughly half of the people answering the phone or door for the Labor Department's Current Population Survey have this view. What are the odds these individuals will be forthright and comfortable discussing the details of their family's employment situation with a US Government official?

Even if the official is doing their absolute best to get correct information, the survey respondent might not be totally honest!

To top it off, there is debate as to what is the best means of interpreting the raw data. For instance, the Richmond Fed's NEI measure (which measures those out of the labor force as well as those who are unemployed) puts current unemployment above 8% WAY above the "official" reading of 5.0%!!!



Even after all of this, there are the revisions to consider… Heck, the Bureau of Economic Analysis revised <u>three years</u> worth of GDP growth data DOWN from 2.3% to 2.0% in July of last year.

For this reason and others, we believe that the recovery has been greatly overstated in the media and that the markets are primed for a collapse. Indeed, we've already taken out the bull market trendline dating back to the 2009 bottom.

Another crisis is coming.

Article by:
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March 3, 2016
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Peddling Fiction, Ignoring Fact

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"(The White House, Office of the Press Secretary, 3/4/16) He's right on that point, the gloom should remain. Yes, the economy is creating jobs, but they are not the kind that can bring us back to the days of solid growth. The more important fact, which Obama did not mention, was that the report showed one of the largest drops in weekly earnings ever reported. It's too bad that our media seems to be incapable of noticing such a tremendous problem right below the surface.

One month ago, the January jobs report was enlivened by a healthy .5% jump in average hourly earnings. At the time, I argued that such good news would be a one-time event as it resulted from the increases in minimum wages that kicked in at the start of the year in many states across the country. As predicted, the momentum was fleeting. In February, average hourly earnings did not increase the .2% that was expected, but fell .1%.

The drop may not seem like much, but it is the first decline since December 2014, and one of only six declines in the past ten years, according to BLS data. Making matters worse, average hours worked declined from 34.6 hours to 34.4. Combining falling wages and falling hours translated into a .7% decline in weekly earnings, the biggest drop ever measured in that statistic. (BLS, 3/4/16) For some reason Obama let that one slide.

The truth is that the big numbers in job creation do not reflect healthy economic growth but a fundamental shift in the labor force away from high-paying, full-time jobs to low-paying, part-time jobs. The February "household" survey of job creation shows that 78% of the jobs created were part-time, and 82% of those were in the low-paying service industries such as food service and retail.

This partially explains February's data that shows exports at the lowest level in almost five years. It's hard to export the things created by bartenders and waiters. Meanwhile, we lost much higher-paying full time jobs in manufacturing, mining, and logging that would have produced things capable of being exported. Yes jobs are being created, but only at the expense of higher-paying jobs that are being destroyed. (BLS, 3/4/16)

Most observers assumed that the February Challenger Job Cut Report (released the day before non-farm payrolls) would be a big improvement over the very large 75,000 layoff figure posted in January. And while the 61,000 layoffs announced in February was an improvement, it was not nearly as much as observers had hoped. Averaging the two months puts the current pace for announced layoffs at 32% higher than the same period last year. Also, last week, the PMI Service Index, which came in at 53.2 in January, came in at 49.7 in February, showing actual contraction (below 50), (joining the smaller manufacturing sector, which has been contracting for months).

Companies have been incentivized to cut their full-time work force by a variety of costly and burdensome regulations that are largely the result of the Obama Administration. If a company replaces a full-time worker with two part-time workers, the statistics count that as a job gain. But this only holds up if you count quantity while ignoring quality.

The view from the street looks quite different, as workers prefer one good job to several bad ones. This is why rallies for Donald Trump and Bernie Sanders are so well-attended. The underemployed are fed up with platitudes from the elites and they flock to these outsider candidates, who seem to understand their pain.

It appears that investors are no longer signing up for the optimism either. Normally, a much stronger than expected non-farm payroll report would have ignited a market rally, but this one ignited a rally in gold, which at one point neared a high of $1,280 per ounce (gold was up 3% for the week). The strong jobs report should have convinced investors that the Fed would raise rates, which would hurt gold. But that didn't happen. The markets have started to figure out that the jobs numbers are meaningless and that soon they will roll over to mirror all the bad data emanating from other sources.

I don't expect that the President will ever officially acknowledge that the economy has weakened, let alone relapsed into recession. He has walked out too far on his rhetorical branch to walk it back. As a lame duck, he really has no incentive to do so. Such admissions would also undercut the campaign of Hillary Clinton,who is running as the logical successor to carry his torch.

But Janet Yellen is in a very difficult spot. If she continues to ignore the growing signs of recession, she runs the risk of letting one develop prior to the election. This would favor the Republican challenger, whether that is Donald Trump or Ted Cruz, neither of whom would be inclined to reappoint her as Fed Chairwoman, if elected. Allowing the Greenspan bubble to bust on Bush's watch sealed John McCain's fate, allowing Obama to ride a wave of voter outrage into the White House in 2008. Yellen does not want Trump to catch a similar wave in 2016.

As a result, I expect the Fed to soften its rhetoric in the very near future. They will promise that the punch bowl is going to remain on the table for the foreseeable future. This means that market movements that have defined 2016 thus far may accelerate in the months ahead, and may provide relief for investors in commodities and foreign currencies who have had the patience to wait out the nonsense.

Article by:
Peter Schiff
March 8, 2016
http://www.europac.com/

The Two Worlds Of Precious Metals: East And West

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Clearly China and Russia are not accumulating vast reserves simply to engage in idle boasting, as does the West. Both of these nations are deliberately *understating* their total reserves – significantly – though not declaring the gold they acquire domestically. With any gold acquired from domestic sources (i.e. gold mining) such declarations are entirely voluntary.

The purpose of such massive stockpiling can only be with the intent of resurrecting "the gold standard." The difference would be that these Eastern nations could and will occupy the drivers' seat of the new system, which will replace the fraudulent Western system of un-backed and totally debauched paper currencies.

He who has the gold makes the rules. The "world" in the East has never ceased to recognize the Golden Rule. The "world" in the West now contemptuously scorns this eternal wisdom. Another expression long forgotten in the arrogant West: *pride cometh before a fall*.

Article by:
Jeff Neilson
March 17, 2016
http://www.bullionbullscanada.com/

The Outstanding Public Debt

National Debt:
19,213,732,556,778.72
The estimated population of the United States is **322,617,917**
US citizen's share of this debt is
$59,555.69
The National Debt has continued to increase an average of
$2.48 billion per day
Business, Government, Financial and Unfunded Liabilities Debt exceeds
$100 Trillion

The Fed's Nightmare Scenario

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something symbolic. This resulted in the 25 basis points we got in December. Yet even as official unemployment is now 4.9%, the Fed can postpone future, more damaging rate hikes, so long as low-inflation provides the cover.

But can the Fed get away with moving its inflation goal post as easily as it had for unemployment? In fact, the Fed has already done so, with little backlash at all. When created by Congress the Federal Reserve was tasked with maintaining "price stability". The meaning of "stability" should be clear to anyone with a rudimentary grasp of the English language: it means not moving. In economic terms, this should mean a state where prices neither rise nor fall.

Yet the Fed has been able to redefine price stability to mean prices that rise at a minimum of 2% per year. Nowhere does such a target appear in the founding documents of the Federal Reserve. But it seems as if Janet Yellen has borrowed a page from activist Supreme Court justices (unlike the late Antonin Scalia) who do not look to the original intent of the framers of the Constitution, but their own "interpretation" based on the changing political zeitgeist.

The Fed's new Orwellian mandate is to prevent price stability by forcing prices to rise 2% per year. What has historically been seen as a ceiling on price stability, that would have forced tighter policy, is now generally accepted as being a floor to perpetuate ultra-loose monetary policy. The Fed has accomplished this self-serving goal with the help of naïve economists who have convinced most that 2% inflation is a necessary component of economic growth.

But as officially measured consumer prices surpass the 2% threshold by an ever-wider margin, (which could occur in earnest once oil prices find a bottom) how far up will the Fed be able to move that goal post before the markets question their resolve?

Will the Fed allow 3% or 4% inflation to go unchallenged? President Nixon imposed wage and price controls when inflation reached 4%. It's amazing that 2% inflation is now considered perfection, yet 4% was so horrific that such a draconian approach was politically acceptable to rein it in.

Once markets figure out that the Fed is all hat and no cattle when it comes to fighting inflation, the bottom should drop out of the dollar, consumer price increases could accelerate even faster, and the biggest bubble of them all, the one in U.S. Treasuries, may finally be pricked. That is when the Fed's nightmare scenario finally becomes everyone's reality.

Article by:
Peter Schiff
February 22, 2016
http://www.europac.com/

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Views and Analysis on the economy and Precious Metals

Published by Certified Gold Exchange, Inc.

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