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Views and Analysis on the Economy and Precious Metals

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Hold Onto Your Gold!

By Bill Bonner

Over the last 10,000 years, humans have tried two different kinds of "money." They began with exchanges based on credit – "You give me a chicken… I'll pay you back later, maybe by helping you build a new wigwam."

Then, when society became too large and extensive, they switched to gold and silver. The advantage of this was obvious: You didn't have to remember who owed what to whom. You could settle up right away. "You give me a chicken. I give you a little piece of silver. Done deal."

Periodically, governments were tempted to go back to credit systems. Essentially, they issued pieces of paper – IOUs – and declared them "money."

Usually, these hybrid systems began with some collateral backing up the paper. Issuers typically had gold in their vaults and agreed to exchange the paper for metal at a fixed rate. Holders of the paper money were told that it was "good as gold."

In some cases, people believed the IOUs were better than gold. When John Law began modern central banking in France, he backed his paper money with shares in a profit-seeking business – the Mississippi Company. You could take his scrip and imagine that it would grow in value along with the profits of the company.

Trouble was, the Mississippi Company never made any profit. It was a failure… and a fraud. Great prospectus. Few real investments. When people realized, they wanted to get rid of their paper money as soon as possible. In 1720, the system collapsed, and John Law fled France.

Later in the 18th century, the French tried again. This time, the revolutionary government backed its new paper money with revenues from the church properties they had seized. This didn't last very long, either. The system blew up in 1796. Napoleon Bonaparte, on the scene at the time, declared, "While I live, I will never resort to irredeemable paper money."

Richard Milhous Nixon didn't seem to get the memo. In 1971, he changed the world monetary system. Thenceforth, it would be based on irredeemable paper money. We are now in year 42 of this new experiment with modern, credit-based money.

All right so far? Well, yes… as long as you don't look too carefully.

Nothing More Than Promises

When you have a system based on credit, rather than bullion, deals are never completely done. Instead, everything depends on the good faith and good judgment of counterparties – including everybody's No. 1 counterparty: the US government. Its bills, notes and bonds are the foundation of the money system. But they are nothing more than promises – debt instruments issued by the world's biggest debtor.
A credit system cannot last in the modern world. Because, as the volume of credit rises, the creditworthiness of

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Too Big To Pop

By Peter Schiff

Most economic observers are predicting that 2014 will be the year in which the United States finally shrugs off the persistent malaise of the Great Recession. As we embark on this sunny new chapter, we may ask what wisdom the five-year trauma has delivered. Some big thinkers have declared that the episode has forever tarnished freewheeling American capitalism and the myth of Wall Street invincibility. In contrast, I believe that the episode has, for the moment, established supreme confidence in the powers of monetary policy to keep the economy afloat and to keep a floor under asset prices, even in the worst of circumstances. This represents a dramatic change from where we were in the beginning of 2008, and unfortunately gives us the false confidence needed to sail blindly into the next crisis.

Although the media likes to forget, there was indeed a strong minority of bearish investors who did not drink the Goldilocks

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the issuers declines. The more they owe, the less able they are to pay.

As time goes by, the web of credit spins out in all directions, entangling not just the present, but the future too. It stretches out over the entire society… one person owes another… who owes a third… whose debt has been pledged to a fourth… who now depends on it to pay a fifth… and all calibrated in the IOUs of sketchy value from a sixth. Have you got that?

Total debt in the US now measures more than twice what it was – in proportion to GDP – in 1971. And GDP itself has been goosed up by credit. Every time someone borrows money to spend… the spending shows up in GDP.

It looks great… on paper. There's only so much gold. But there is no reasonable limit on how much of this new credit-based money you can create. As it increases, it gives people more spending power. GDP goes up. Employment goes up. Prices – especially asset prices – go up.

Naturally, everybody loves a credit system… until the credits go bad. Then they wish they had a little more of the other kind of money. Wise governments, if there are any, take no chances.

They may feed the paper money to the people. But they hold onto gold for themselves. Throughout history, the most powerful governments were those with the most gold.

"Remember the golden rule," they used to say. "He who has the gold makes the rules."

When push comes to shove, governments need gold, not more IOUs with their presidents' pictures on them.

Which brings us to the point of today's *Diary*.

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Kool-Aid of the pre-crisis era. As the Dow moved up in 2006 and 2007 so did gold, even though a rising gold price was supposed to be a sign of economic uncertainty. The counter intuitive gold surge in those years resulted from growing concern among a committed minority that an economic crisis was looming. In the immediate aftermath of the crisis in 2009 and 2010, gold shifted into an even higher gear when those investors became doubly convinced that the extraordinary monetary measures devised by the Fed to combat the recession would fail to stop the economic free fall and would instead kick off a new era of inflation and dollar weakness. This caused many who had been gold naysayers and economic cheerleaders to reluctantly jump on the gold band wagon as well.

But three years later, after a period of monetary activism that went far beyond what most bears had predicted, the economy has apparently turned the corner. The Dow has surged to record levels, inflation (at least the way it is currently being measured) and interest rates have stayed relatively low, and the dollar has largely maintained its value. Ironically, many of those former Nervous Nellies, who correctly identified the problems in advance, have thrown in the towel and concluded that their fears of out of control monetary policy were misplaced. While many of those who had always placed their faith in the Fed (but who had failed - as did Fed leadership - from seeing the crisis in advance) are more confident than ever that the Central Bank can save us from the worst.

A primary element of this new faith is that the Fed can sustain any number of asset bubbles if it simply supplies enough air in the form of freshly minted QE cash and zero percent interest. It's as if the concept of "too big to fail" has evolved into the belief that some bubbles are too big to pop. The warnings delivered by those of us who still understand the negative consequences of such policy have been silenced by the triumphant Dow.

The proof of this shift in sentiment can be seen in the current gold market. If the conditions of 2013 (in which the Federal Government serially failed to control a runaway debt problem, while the Federal Reserve persisted with an $85 billion per month bond buying program and signaled zero interest rates for the foreseeable future) could have been described to a 2007 investor, their conclusions would have most likely been obvious: back up the truck and buy gold. Instead, gold tumbled more than 27% over the course of the year. And despite the fact that 2013 was the first down year for gold in 13 years, one would be hard pressed now to find any mainstream analyst who describes the current three year lows as a buying opportunity. Instead, gold is the redheaded stepchild of the investment world.

This change can only be explained by the growing acceptance of monetary policy as the magic elixir that Keynesians have always claimed it to be. This blind faith has prevented investors from seeing the obvious economic crises that may lay ahead. Over the past five years the economy has become increasingly addicted to low interest rates, which underlies the recent surge in stock prices. Low borrowing costs have inflated corporate profits and have made possible the wave of record stock buybacks. The same is true of the real estate market, which has been buoyed by record low interest rates and a wave of institutional investors using historically easy financing to buy single-family houses in order to rent to average Americans who can no longer afford to buy.

But somehow investors have failed to grasp that the low interest rates are the direct result of the Fed's Quantitative Easing program, which most assume will be wound down in this year. In order to maintain the current optimism, one must assume that the Fed can exit the bond buying business (where it is currently the largest player) without pushing up rates to the point that these markets are severely impacted. This ascribes almost superhuman powers to the Fed. But that type of faith is now the norm.

Market observers have taken the December Fed statement, in which it announced its long-awaited intention to begin tapering (by $10 billion per month), as proof that the dangers are behind us, rather than ahead. They argue that the QE has now gone away without causing turmoil in the markets or a spike in rates. But this ignores the fact that the taper itself has not even begun, and that the Fed has only committed to a $10 billion reduction later this month. In fact, it is arguable that monetary policy is looser now than it was before the announcement.

Based on nothing but pure optimism, the market believes that the Fed can somehow contract its $4 trillion balance sheet without pushing up rates to the point where asset prices are threatened, or where debt service costs become too big a burden for debtors to bear. Such faith would have been impossible to achieve in the time

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The Malachi Crunch Continues

By Andy Sutton

Those of you who have known me any length of time know that I love to say 'they always tell you what they're going to do'. I had a really scintillating discussion yesterday with two fellow economists as to why that might be and we'll shelve that for now, but let's just say this: 'they' are at it again. Last week I referenced an IMF working paper penned by Harvard dynamic duo Ken Rogoff and Carmen Reinhart regarding asset confiscation and other ways to wiggle our way our the current economic morass that we find ourselves in. This week I'm going to perform a full dissection because there is material in there that you simply cannot go on without knowing if you expect to salvage even a shred of your financial state as it exists today.

Before I begin, let me make the following preface: what I am dissecting is an IMF working paper. These are basically pre-legislation, pre-policy position papers that are written by various parties associated with the bank. A term that might be familiar with some is 'trial balloon'. Sometimes these papers disappear into the ether, only to resurface decades later, and sometimes they are implemented in the shorter term. The IMF claims that its working papers *'don't necessarily represent the opinions and views of the IMF'*. Take that for what it is worth. After all, they printed it on their letterhead. I'll let you decide the veracity of that claim.

I will also preface this article with the comment that every one of the 5 major suggestions and/or solutions made by Reinhart/Rogoff have ***already been done*** in the modern monetary era. By that I mean since the creation of the not-so-USFed and the age of the push away from specie-backed currencies. Given the unsustainability of America's current economic trajectory and its continued loss of wiggle room in terms of buying time, it would appear that we are closer as opposed to farther from seeing more of the measures detailed in this paper come to pass.

With all that said, let's get started. I'm going to take many quotes directly from the paper; be not afraid, it is written in fairly plain English. There are no fancy formulas, calculus, or anything to fear. Just words. They're not trying to hide anything, which is one of the reasons the red flags went up over this particular paper.

From the Abstract:

"Even after one of the most severe crises on record (in its fifth year as of 2012) in the advanced world, the received wisdom in policy circles clings to the notion that advanced, wealthy economies are completely different animals from their emerging market counterparts. Until 2007–08, the presumption was that they were not nearly as vulnerable to financial crises. When events disabused the world of that notion, the idea still persisted that if a financial crisis does occur, advanced countries are much better at managing the aftermath, thanks to their ability to vigorously apply countercyclical policy. Even as the recovery consistently proved to be far weaker than most forecasters were expecting, policymakers continued to underestimate the depth and duration of the downturn."

You can see right from the word go that they're admitting what we've already known for years, but what the media and government lie like filthy rugs about. There's no recovery. Certainly not a secular one, based on fundamentals, production, savings, genuine capital creation and allocation, and increased standard of living. But did we really need Messrs. Rogoff and Reinhart to tell us this in a working paper with a bunch of fancy graphs to back it up? Not a chance. All we had to do was a little basic observation. Buckle up my friends; it gets a lot better.

The paper goes on to claim that Europe's sovereign debt crisis, which is ongoing, was an offshoot of the 2008 blowout. I would take exception to that only because the circumstances that led to the Eurozone crisis were already in place long before Bear Stearns, AIG, and Lehman. Certainly the events of 2008 forward did not help Europe and likely did help the EU along its crash course path. But that path was long cast in stone, going back to when the Union was initially created. If anyone needs a refresher, just go and see how the rules were bent to allow Greece to join. I'll rest my case there. Let's move along.

"The claim is that advanced countries do not need to apply the standard toolkit used by emerging markets, including debt restructurings, higher inflation, capital controls, and significant financial repression. Advanced countries do not resort to such gimmicks, policymakers say. To do so would be to give up hard-earned credibility, thereby destabilizing expectations and throwing the economy into a vicious circle. Although the view that advanced country financial crises are completely different, and therefore should be handled completely differently, has been

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Signs Of Weimar Appearing In The US?

By Graham Summers

History is often written to benefit certain groups over others.

Indeed, you will often find the blame for some of the worst events in history placed on the wrong individuals or factors.

Most Americans today continue to argue over liberal vs. conservative beliefs, unaware that the vast majority of economy ills plaguing the country originate in neither party but in the Federal Reserve, which has debased the US Dollar by over 95% in the 20th century alone.

With that in mind, I want to consider what actually caused the hyperinflationary period in Weimar Germany. Please consider the quote from Niall Ferguson's book, "The Ascent of Money" regarding what really happened there:

> Yet it would be wrong to see the hyperinflation of 1923 as a simple consequence of the Versailles Treaty.
>
> That was how the Germans liked to see it, of course…All of this was to overlook the domestic political roots of the monetary crisis. The Weimar tax system was feeble, not least because the new regime lacked legitimacy among higher income groups who declined to pay the taxes imposed on them.
>
> At the same time, public money was spent recklessly, particularly on generous wage settlements for public sector unions.

The combination of insufficient taxation and excessive spending created enormous deficits in 1919 and 1920 (in excess of 10 per cent of net national product), before the victors had even presented their reparations bill… Moreover, those in charge of Weimar

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Hold Onto Your Gold!

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Unraveling an Unruly Skein

Britain famously and foolishly sold much of its gold at the very worst time, at the end of the 1990s, when gold was trading at a 20-year low.

But how about the US? Does it have any gold left? That is the question recently posed by Eric Sprott:

Central banks from the rest of the world (i.e., non-Western central banks) have been increasing their holdings of gold at a very rapid pace, going from 6,300 tonnes in Q1 2009 to more than 8,200 tonnes at the end of Q1 2013. At the same time, physical inventories have declined rapidly since the beginning of 2013 (or have been raided, as we argued in the May 2013 Markets at a Glance), and physical demand from large- and small-scale buyers remains solid.

As we have shown in previous articles, the past decade has seen a large discrepancy between the available gold supply and sales.

The conclusion we have reached is that this gold has been supplied by central banks, which have replaced their holdings of physical gold with claims on gold (paper gold). Analyzing the gold sales figures over the last 12 years, Sprott noticed that there was far more gold sold than mined.

Where did it come from?
Some of it is easily accounted for in jewelry and private holdings. But, generally, the private sector is a buyer and an accumulator of gold, not a seller. And the quantities released to the market have been so great, Sprott believes they could have come only from central banks.

But if they have sold such massive quantities over the last 10 years, how much do they have left? Maybe not much.

Which wouldn't be surprising. Western central banks are committed to their credit-money system. They intend to stick with it. And they know that unraveling this unruly skein of credit would be extremely painful.

Selling gold into the bull market of the last 12 years probably seemed like a very smart move. We'll see how smart it was later, when the credit-based money system blows up.

Dear readers are advised to hold onto their gold. It's the kind of money that works.

Article by:
Bill Bonner
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http://www.bonnerandpartners.com/

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before the crash, when most assumed that the laws of supply and demand functioned in the market for mortgage and government debt. Now we "know" that the demand is endless. This mistakes temporary geo-political paralysis and financial sleepwalking for a fundamental suspension of reality.

The more likely truth is that this widespread mistake will allow us to drift into the next crisis. Now that the European Union has survived its monetary challenge, (the surging euro was one of the surprise stories of 2013), and the developing Asian economies have no immediate plans to stop their currencies from rising against the dollar, there is little reason to expect that the dollar will rally in the coming years. In fact, there has been little notice taken of the 5% decline in the dollar index since a high in July. Similarly, few have sounded alarm bells about the surge in yields of Treasury debt, with 10-year rates flirting with 3% for the first time in two years.

If interest rates rise much further, to perhaps 4% or 5%, the stock and real estate markets will be placed under pressure, and the Fed and the other "Too Big to Fail" banks will see considerablelosses on their portfolios of Treasury and mortgage-backed bonds. Such developments could trigger widespread economic turmoil, forcing the Fed to expand its QE purchases. Such an embarrassing reversal would add to selling pressure on the dollar, and might potentially trigger an exodus of foreign investment and an increase in import prices. I believe that nothing can prevent these trends from continuing to the point where a crisis will be reached. It's extremely difficult to construct a logical argument that avoids this outcome, but that hasn't stopped our best and brightest forecasters from doing just that.

So while the hallelujah chorus is ringing in the New Year with a full-throated crescendo, don't be surprised by sour notes that will bubble to the top with increasing frequency. Ultimately the power of monetary policy to engineer a real economy will be proven to be just as ridiculous as the claims that housing prices must always go up.

Article by:
Peter Schiff
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http://www.europac.net/

The Malachi Crunch Continues

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a recurrent refrain, notably in both the European sovereign debt crises and the U.S. subprime mortgage crisis, this view is at odds with the historical track record. In most advanced economies, debt restructuring or conversions, financial repression, and higher inflation have been integral parts of the resolution of significant debt overhangs."

So what exactly is this 'toolkit' they mention? It is made up of 5 distinct parts according to the working paper:

- *Economic Growth*
- *Fiscal Adjustment/Austerity (Think entitlement programs)*
- *Explicit (de jure) default and/or restructuring (Think bail-ins)*
- *Inflation surprise*
- *A steady dose of financial repression followed by a steady dose of inflation.*

Of all of these, economic growth is the ONLY one that won't either immediately or eventually adversely affect the welfare of the economic agents invested in that particular system – namely you and I. We've certainly heard plenty about austerity in the EU, and that isn't working out so well. I'm not going to give a sitrep of the Eurozone crisis spots in this essay, but let's just ask why the Greek stock market has surged at the beginning of 2014 even as the unemployment rate surges upward along with it? Someone's expecting another bailout or other sort of financial mischief to keep things from seizing up totally.

Defaults and debt restructuring is an interesting issue for America and this connection goes back to last week's piece regarding the stance of the China-Russia alliance in Syria. They took us out behind the woodshed and beat us like a rented mule. There's no other way around it. I cannot stress enough the importance of that event in the grand scheme of things because it tells us that the balance of power has shifted. So, with that said, how likely are we to get cooperation from the China/Russia alliance with regard to debt restructuring? They might be very cooperative, however, if that is the case, it is very likely that terms will be very undesirable for the average American.

America has been implicitly defaulting on its debt for a long time now. How long is up for debate. I'd draw the line at 8/15/1971 when we stopped settling external trade imbalances in gold. Some would say it was when the Petrodollar was created by agreement with the oil-producing nations to buy our debt in exchange for oligopoly pricing power in the US energy markets. In either case, it doesn't matter all that much. Both of those events occurred coming up on a half century ago. The debt agreements (bonds) were sold under the premise that they would be paid back in dollars. However, nobody bothered to mention that perhaps the dollars that are paid back should have the same purchasing power as the dollars that were borrowed to begin with.

But what Rogoff/Reinhart are talking about is an actual default – you don't get your money back, China, Russia, pension plan A,B,C, or this or that mutual fund, etc. This has happened before, but NOT in the financial free-for-all era we live in now. America forgave huge debts after the first two World Wars. We'll get into that in a bit, likely at another time. Those other countries defaulted. The authors are suggesting that this tool, which used to be reserved only for 'emerging market' type countries, should now be used by what they term 'advanced countries'. We'd call them first world countries. Others might say G-20 or G-8 countries. So let's say Uncle Sam defaults on a portion of its debt. Who will be left holding the bag? Maybe your pension fund has 20% of its assets invested in USGovt bonds. Sorry, folks. Maybe you work for the federal government and are invested in the Thrift Savings Plan or the Civil Service Retirement System and own the 'guaranteed' bond fund. How is that going to play out?

The very next sentence after the last direct quote is the one that will blow most folks away:

"It is certainly true that policymakers need to manage public expectations. However, by consistently choosing instruments and calibrating responses based on overly optimistic medium-term scenarios, they risk ultimately losing credibility and destabilizing expectations rather than the reverse. Nowhere is the denial problem more acute than in the collective amnesia about advanced country deleveraging experiences (especially, but not exclusively, before World War II) that involved a variety of sovereign and private restructurings, defaults, debt conversions, and financial repression. This denial has led to policies that in some cases risk exacerbating the final costs of deleveraging."

Managing expectations, eh? How long have virtually everyone on the Austrian side of the fence been talking about that? No quibbling with what they're saying here either. By lying and obfuscating policymakers only make it worse in the long run. What is left unsaid, however, is that they don't care. That is my biggest gripe with this paper; it doesn't address the real reasons why these events took place and will do so again – evil. True evil at its most visceral level. What we've got is a bunch of megalomaniacs behind the scenes who want it all. They're not happy with what they have. No, they want that, plus what everyone else has too and frankly, they don't care what they have to do to get it. I don't expect Messrs. Rogoff and Reinhart to understand this and their analysis proves it. It is a dry, academic analysis, but the motive is unmitigated greed. And there is little to no benevolence in the hearts and minds of those the power is shifting to, either.

Exit Strategies – Past and Future

Rogoff and Reinhart list four lessons of the past regarding debt, financial crises, and the escape methods used to ameliorate the problems and /or reset the systems.

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The Long And The Short Of Gold Investing

by Peter Schiff

There are two types of gold investors: those trying to make money on short-term market timing and those looking for long-term asset preservation. It was the fear-driven trading of the former that helped gold break $1900 in 2011, and for good reason - stormy markets steer investors to safe havens.

But gold's fortune has shifted in the past two years, and finishing 2013 down 28% seems to have sealed its fate - at least in the eyes of the short-term speculators. In reality, the same forces that are stabilizing stocks and suppressing gold are also the fundamental reasons long-term investors have been buying gold since the turn of the new millennium. The so-called recovery we're now experiencing is just a lull in a storm that hasn't yet abated.

Losing Touch With Reality

From the fiscal cliff at the beginning of the year to the budget stalemate and government shutdown in the fall, the US was not exactly a model of financial stability in 2013. Yet with each of these stories, the markets shrugged off any large dips and went on to reach record high after record high. The stock market exceeded most expectations - the S&P and Dow rallied 29.6% and 26.5% respectively, with the volatility index staying remarkably low.

The official explanation for this market behavior is that the economy really is improving. A growing GDP and improving jobless rate are the leading economic indicators that support this conclusion.

However, the real reason behind 2013's stability in spite of mixed economic news was the extremely accommodating Federal Reserve policy. Markets have become hyper-aware of this Bernanke Put over the course of the year.

Compare the markets' taper tantrums earlier in the year to their reaction to the Fed's December announcement of "taper-lite."

In both June and August, with the mere talk of tapering,

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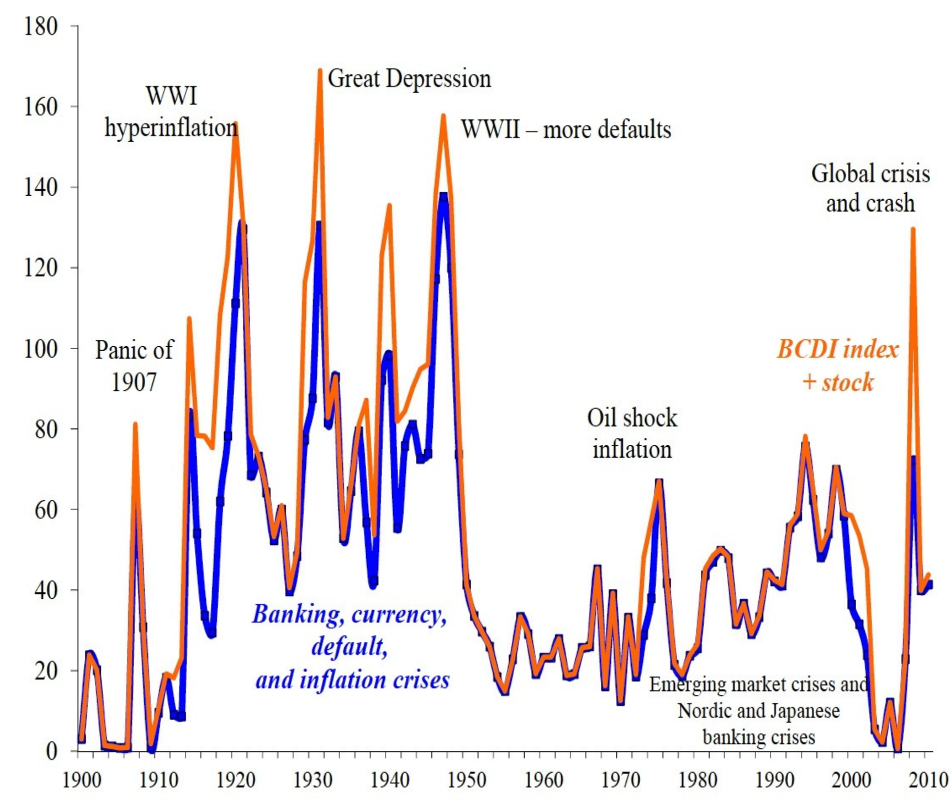
"Lesson 1: On prevention versus crisis management. We have done better at the latter than the former. It is doubtful that this will change as memories of the crisis fade and financial market participants and their regulators become complacent."

You can give whatever grade you like to the policymakers, etc. for managing the crisis as it relates to American debt and financial crisis, but I'll rely on an old adage that an ounce of prevention is worth a pound of cure. These clowns knew exactly what was going to happen when they pulled down Glass-Steagall. They knew exactly what was going to happen when they ran interest rates to nothing and fired up the inflation machine. They knew exactly what was going to happen when the decision was made that the Anglo-American syndicate would deal in paper and bombs while the rest of the world prepared to deal in tangible goods, production, and a lack of national excess and ignorance. There is no pass given here for 'we didn't know'. They knew. And they know what is going to happen moving forward as they prepare to gut our retirement system to square away the mess they made in the first place. Here's where the not-so-subtle advocacy of a return to 'financial repression' begins:

'Although economists' understanding of financial crises has deepened in recent years, periods of huge financial sector growth and development (often accompanied by steeply rising private indebtedness) will probably always generate waves of financial crises. As the late Diaz-Alejandro famously titled his 1985 paper "Good-bye Financial Repression, Hello Financial Crash," many crises are the result of financial liberalization gone amok. Diaz-Alejandro was writing about an emerging market (Chile in the early 1980s), but he could have said very much the same thing for advanced countries today.

Figure 1 presents a composite index of banking, currency, sovereign default, and

inflation crises (BCDI Index), and stock market crashes. Countries are weighted by their share of world income, so advanced countries carry proportionately higher weights. The figure, and the longer analysis of crises in Reinhart and Rogoff (2009), show that the "financial repression" period, 1945–1979 in particular, has markedly fewer crises than earlier or subsequently.'



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the S&P and Dow tumbled. The assumption was that when the Fed started tapering their Quantitative Easing (QE) program, interest rates would also start to rise. Overvalued stocks plunged in preparation for a higher interest rate environment.

However, this December, when the Fed set an official January date for tapering, these indices did not drop as they had before, but immediately jumped to new highs. Why the different reaction to essentially the same news? Because the Fed's December announcement was not the same.

Normal No Longer Means Healthy
The key element of Bernanke's "taper-lite" was not the $10 billion-per-month cut to QE, but the explicit commitment to maintain low interest rates for the foreseeable future. Bernanke basically guaranteed the fed funds rate would remain near 0% for at least a couple more years. This commitment to artificially suppressed interest rates ruins the charade that the economy is getting healthier. Why on earth does a healthy economy need the support of free money?

The short-term data may appear good on its face, but people are waking up to the bigger picture of this so-called recovery - namely that it isn't a recovery at all.

It's well-recognized now that most new jobs are low-wage, low-skilled placements. Often these are part-time or temporary retail or restaurant positions. This may be why both median income and the percentage of the population employed remain well below pre-crisis levels. The jobless rate has only improved because people have simply given up trying to find employment.

Meanwhile, the latest data from the Bureau of Economic Analysis shows that in the last months of 2013, personal spending rose more than personal income, while the savings rate dropped. In other words, we're back to digging the hole that caused the Panic of '08. This is one of the longest and slowest recoveries the US has ever experienced, but the mantra of Wall Street maintains that all is well because the stock market is up. We're supposedly returning to normal.

The truth is that "normal" no longer means "healthy" when it comes to the economic stability of the United States. It really means that we are back to where we were prior to the Panic of '08.

Selective Memory
Only a short-term mindset could ignore the parallels between our economy today and ten years ago. Heading into 2004, the headlines sounded almost identical to today's, with talk of an improving economy that still suffered from less-than-optimal employment numbers.

More importantly, it was in 2003 that Alan Greenspan cut the fed funds rate to 1% - the lowest it had been for more than 40 years. We all know how that story ended. Most economists agree that the interest rate policy of Greenspan's Fed spurred the irresponsible lending practices and speculation that drove the US into a housing crash and then a financial meltdown. Yet here we are again, with the fed funds rate at record low levels. Nothing has changed in ten years - the supposed recovery we're experiencing now is simply a product of this endless cheap money.

A Sober Analysis
In times like these, long-term gold investors feel like the designated drivers in the corner of a frat party. It might seem like we're missing the fun, but we must remember that we're playing a different game than the short-term speculators.

Our drunken friends have had some cheap thrills in 2013, but this stock market growth rests on an unstable foundation of artificial stimulus and cheap money. We are more interested in waking up without a hangover, a wrecked car, or worse. The longer interest rates remain suppressed, the crazier markets will behave when rates rise. And if Greenspan's one year at 1% rates helped trigger the crash we saw in '08, imagine what three years and counting of Bernanke's/Yellen's 0% rates portends for the next crash.

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Peter Schiff
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http://www.europac.net/

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> economic policy in the early 1920s felt they had little incentive to stabilize German fiscal and monetary policy, even when an opportunity presented itself in the middle of 1920.
>
> A common calculation among Germany's financial elites was that runaway currency depreciation would force the Allied powers into revision the reparations settlement, since the effect would be to cheapen German exports.

What the Germans overlooked was that the inflation induced boom of 1920-22, at a time when the US and UK economies were in the depths of a post-war recession, caused an even bigger surge in imports, thus negating the economic pressure they had hoped to exert.

At the heart of the German hyperinflation was a miscalculation.

You'll note the frightening similarities to the US's monetary policy today. We see:

- Reckless spending of public money, particularly in the form of entitlement spending
- Excessive spending resulting in massive deficits.
- Little incentive for political leaders to rein in said spending.
- Intentional currency depreciation in order to make debt payments more feasible.

This sounds like a blueprint for was US leaders (indeed most Western leaders) have engaged in post-2007.

The multi-trillion Dollar question is if we've already crossed the line in terms of setting the stage for massive inflation down the road.

We believe that it is quite possible… for the following reasons.

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Signs Of Weimar Appearing In The US?

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- The US now sports a Debt to GDP ratio of over 100%.
- Every 1% rise in interest rates will result in over $100 billion more in interest payments on US debt.
- Indications of inflation (stealth price hikes, wage protests, etc.) are showing up throughout the economy.
- Indications that other countries are moving to abandon the US Dollar are present.

In a nutshell we are in a very dangerous position. This doesn't mean hyperinflation HAS to occur. Indeed, history often times rhymes rather than repeats.

However, the fact of the matter is that the same policies which create Weimar Germany are occurring in the US today.

How they play out remains to be seen, but it is unlikely it will end well.

Article by:
Graham Summers
January 21, 2014
http://gainspainscapital.com/

The Malachi Crunch Continues

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So what exactly is this 'financial repression'? It certainly doesn't sound good, does it? This ties in with lesson 4, and since this is the crux of the matter, we'll get straight to it. There is much, much more here and I'll probably use the next episode of 'Beat the Street' to hash it out in further detail, but let's get to brass tacks.

"Financial repression" includes directed lending to government by captive domestic audiences (such as pension funds), explicit or implicit caps on interest rates, regulation of cross-border capital movements, and generally a tighter connection between government and banks."

Did you catch that? 'Directed lending to government by captive domestic audiences'. What exactly is a captive domestic audience? The $18+ trillion in retirement savings in America is exactly what they're referring to here. It is captive in that it cannot easily be extracted from the system, especially pension and 401k type arrangements where one would have to quit their job to even have any chance of getting access to their savings. Next on the list are IRAs of various flavors because unless you meet the age requirements, you're going to take a huge hit. And the authors are saying that during the periods when these sorts of draconian economic measures are taken is when crises tend to be less likely, at least according to their own model, however, the methodologies behind that model remain undisclosed.

In Summary

To sum all this up, what we have is two Harvard heavy-hitters for the IMF writing a working paper that suggests that your currency should be further devalued, you should be bailed-in to save your government or some bank, that your pension should be swiped, your capital controlled, and that you should have a GoverBank – a term coined by yours truly in January of 2009 – an incestuous relationship between big money and government. And what has happened so far? We've certainly seen the inflation via QE. We've seen the emergence of the bail-in first in Cyprus, and now developing in Detroit. If you've tried to move some money offshore you already know all about the subtle capital controls that continue to keep popping up.

Like I said, there is quite a bit more in this paper, but I think we've made the point – at least for now. And for the record, this is nowhere near the first working paper released on these topics, however, it is one that advocates not only a continuation of the current path (not a surprise considering Rogoff and Reinhart are dyed in the wool Keynesians), but an extension of what they've overtly labeled 'financial repression'. I'll close merely by saying I would be seriously shocked if we didn't see ***at least several events*** following the course prescribed in Rogoff and Reinhart's paper in 2014. They may not receive coverage from the lapdog media, but just because no one is in the forest to hear a tree fall doesn't mean it falls quietly; or that it doesn't land on someone.

Article by:
Andy Sutton
January 11, 2014
http://www.sutton-associates.net/

The Outstanding Public Debt

National Debt:
17,278,128,217,815.34
The estimated population of the United States is **317,505,130**
US citizen's share of this debt is
$54,418.42
The National Debt has continued to increase an average of
$2.52 billion per day
Business, Government, Financial and Unfunded Liabilities Debt exceeds
$100 Trillion