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The Bankers' Endgame And The Rise Of Gold And Silver Prices

By Daryl Robert Schoon

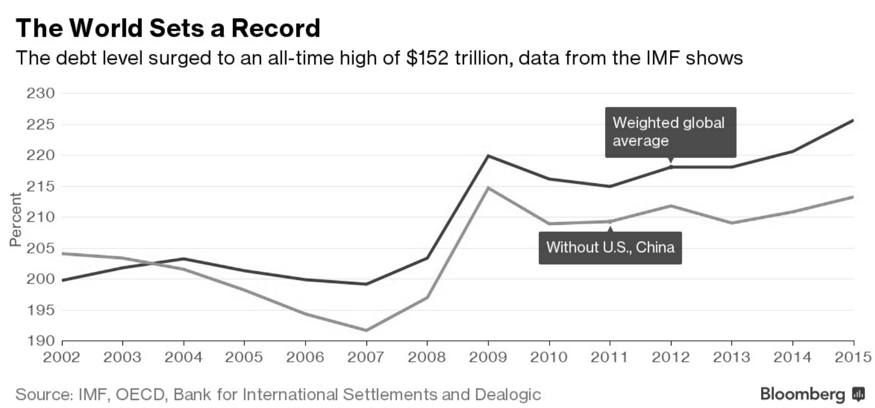
We're going to owe Chicken Little an apology

In May 2007, in Subprime America Infects Asia and Europe I predicted a severe financial crisis was imminent: the risks that have lain dormant beneath globalization's foundation are about to erupt and a reordering of the world's financial geography is about to ensue. It's spring 2007 and the sun is shining in the US, backyard BBQs are being cleaned in anticipation of summer's use. A severe financial crisis, however, is in the offing; a crisis as unexpected as the Golden State Warrior's last minute steak to the NBA playoffs.

An unexpected financial crisis, however, will be much more consequential than Don Nelson's magical resurrection of the Warrior's NBA hopes. There, at least, the Warriors will have a chance. But because most people don't know a financial crisis is coming, they will have little chance of survival. This summer, America's subprime CDOs are coming home to roost, and not just to the US.

In July 2007, two multi-billion dollar subprime hedge funds collapsed. One year later, the greatest financial crisis since the 1930s bankrupted Wall Street banks; real estate fell 40–70%; and central banks flooded markets with zero-cost credit and trillions of dollars in quantitative easing to keep stocks from crashing, setting in motion a still-inflating stock market bubble to replace the collapsed 2002-2007 real estate bubble that revived markets after the 2000 dot.com crash.

After the 2008 crisis, unprecedented central bank efforts to prevent the bankers' endgame temporarily delayed its inevitable resolution. Today, however, the banker's edifice of debt has reached such levels that systemic dangers, e.g. speculative bubbles, low inflation, low growth, etc. increasingly threaten global markets. The bankers' endgame is accelerating.



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What's Next For The Dollar, Stocks, Bonds And Gold?

By Axel Merk

The Fed's "balance sheet reduction" may have profound implications for the dollar, gold, stocks and bonds. We'll provide an outlook.

It is said forecasts are difficult, especially when they relate to the future. Investors might want to pay attention nonetheless, not so much because I believe I have a crystal ball, but because investing is about managing risk. And there's a risk that I'm right.

Quantitative Tightening
There's a lot to cover, so let's start with what is perceived to be the elephant in the room, the Fed. In suggesting that the Fed would soon initiate balance sheet reduction, Fed Chair Janet Yellen indicated

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Also Inside This Issue:

Triffin dilemma

From Wikipedia, the free encyclopedia

The Triffin dilemma or Triffin paradox is the conflict of economic interests that arises between short-term domestic and long-term international objectives for countries whose currencies serve as global reserve currencies. This dilemma was first identified in a 1929 book, Gold and Central Banks, by Polish economist Feliks Młynarski,[1] who identified a fundamental instability in a gold-based international monetary system, that the reserve currency countries would tend to accumulate foreign reserves, but as the volume of these grew relative to the country's gold reserves, international investors would begin to fear suspension of convertibility; later in the 1960s, it was rediscovered in the context of the Bretton Woods system by Belgian-American economist Robert Triffin, who pointed out that the country whose currency, being the global reserve currency, foreign nations wish to hold, must be willing to supply the world with an extra supply of its currency to fulfill world demand for these foreign exchange reserves, thus leading to a trade deficit. Due to Młynarski's precedence in articulating the problem, Barry Eichengreen has suggested renaming the problem to "the Młynarski dilemma".[1]

The use of a national currency, such as the U.S. dollar, as global reserve currency leads to tension between its national and global monetary policy. This is reflected in fundamental imbalances in the balance of payments, specifically the current account, as some goals require an outflow of dollars from the United States, while others require an overall inflow.

Specifically, the Triffin dilemma is usually cited to articulate the problems with the role of the U.S. dollar as the reserve currency under the Bretton Woods system. John Maynard Keynes had anticipated this difficulty and had advocated the use of a global reserve currency called "Bancor". Currently the IMF's SDRs are the closest thing to the proposed Bancor but they have not been adopted widely enough to replace the dollar as the global reserve currency.

In the wake of the financial crisis of 2007–2008, the governor of the People's Bank of China explicitly named the reserve currency status of the US dollar as a contributing factor to global savings and investment imbalances that led to the crisis. As such the Triffin dilemma is related to the Global Savings Glut hypothesis because the dollar's reserve currency role exacerbates the U.S. current account deficit due to heightened demand for dollars.

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THE BANKERS' ENDGAME

The bankers' historic run at capitalism's casino of luck, i.e. 300-years of profiting from constantly compounding interest on debt-based paper money, is now ending; collapsing from the additional debt central bankers created in the aftermath of the 2008 financial crisis.

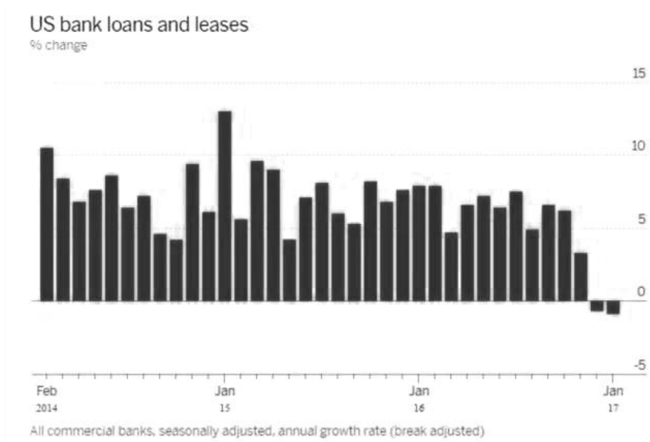
Capitalism's uneasy balance between credit and debt has been fatally destabilized. Debt levels are so high, credit can no longer create sufficient growth to pay down or service what is owed. The bankers' endgame has entered its final stage.

Rather than address the underlying over-indebtedness that detonated systemic risk and culminated in a full-blown catastrophe, [central bank] policy had simply catalyzed further indebtedness…From a starting point of the end of 2007 through mid-year 2014, global debt rose by $57 trillion to $199 trillion. As a percentage of global gross domestic product (GDP), global debt had risen to 286 percent from 269 percent.

Danielle DiMartino Booth, former advisor to Fed President Richard Fisher, July 5, 2017

Modern economics isn't rocket science. It's a debt-based ponzi-scheme dependent on constantly-expanding growth needed to pay down the constantly compounding interest accruing from the bankers' issuance of money as debt.

In the bankers' endgame, the demand for credit, i.e. loans, collapses. This is where we are today. Loan growth has now entered negative territory; and, as a consequence, the world is on the precipice of another financial crisis.



Financial Times

One key measure of US corporate borrowing [loan growth] is falling at the fastest rate since the onset of the Lehman Brothers [2008] crisis. Money supply growth in the US has also slowed markedly. These monetary and credit signals tend to be leading indicators for the real economy...Net corporate bond issuance has also stalled, indicating that borrowing by US firms as a whole is in decline.

Ambrose Evans-Pritchard, Fading Trump rally threatened by rare contraction of US credit, The Telegraph, March 26, 2017.. Commercial and industrial (C&I) loan growth...has flawlessly predicted the last eight US recessions since 1960… This indicator is always right…

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Not only does the low amount of commercial bank loan creation accurately signal that a recession is coming, it accurately signals the recession's severity. America's last three recessions (1990, 2000, 2008) are a testament to this, because they were largely fueled by debt. Each successive recession has been more severe and has required more government intervention to stave off collapse.

Benjamin A Smith, Commercial Loan Growth Signals a US Economic Recession Ahead,

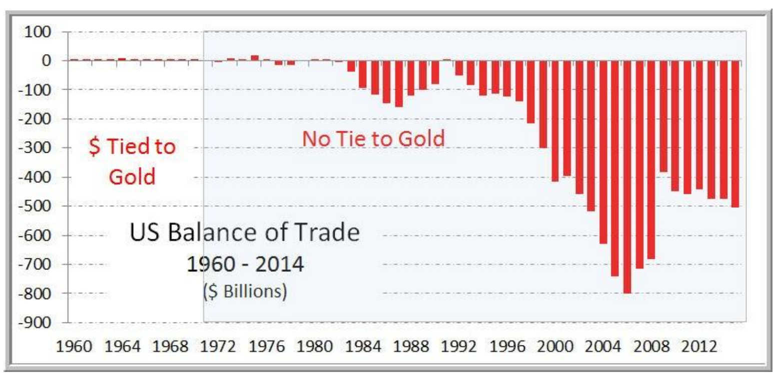
June 21, 2017

TRADE DEFICITS, TRIFFIN'S PARADOX AND DONALD TRUMP

I wish to talk of global trade
Said the banker to the king
Of money, goods and commerce
The wealth that it does bring
And to discuss Triffin's paradox
That's killing this wondrous thing

America's trade deficits are explained by Triffin's paradox, i.e. US deficits are related to the US dollar as the global reserve currency. After 1971, with the US dollar no longer tied to gold, US trade deficits increased exponentially.

US TRADE DEFICITS



It was the closing of the 'gold window' in 1971 that triggered the bankers' endgame. Thereafter, governments could print money ad infinitum without regard to sovereign gold reserves; resulting in an historic explosion of debt that will end in the collapse of today's overly-indebted, and overleveraged capital markets.

This destabilization of capital markets after the removal of gold in 1971 is the reason for today's ever-increasing trade imbalances, financial bubbles, their serial collapse and the crises that follow, i.e. the failure of Wall Street banks and the global economic meltdown in 2008.

In the wake of the financial crisis of 2007–2008, the governor of the People's Bank of China explicitly named the Triffin Dilemma as the root cause of the economic disorder.

Triffin Dilemma, Wikipedia

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The "Debt Jubilee" Nonsense

Steve Saville

This post is a rehash of something I wrote at TSI last September in response to the article titled "**The Gold Standard and Debt Jubilee**". The article is a confused jumble of Marxist, biblical and capitalist ideas/assertions, but its gist is that we need both a debt jubilee and a gold standard.

My views are that a gold standard is not a worthwhile objective and that a debt jubilee would be both an economic and an ethical disaster.

If the market for money were free then gold would probably be money. However, there would NOT be a gold standard.

A gold standard is, by definition, a monetary system imposed by government, whereas in a truly free market the government would have no role in determining what is/isn't money.

Under a gold standard the government sets the rate at which money-substitutes such as dollar notes are convertible into gold. A gold standard is therefore a type of government price-fixing scheme.

It can certainly be argued that a gold standard would be a better monetary system than the one we have today, but there's no reason to expect that it wouldn't eventually transmogrify into what we have today.

After all, the current system evolved from a gold standard.

That's why I say that a gold standard is not a worthwhile objective. A worthwhile objective is to get the government out of the money business and allow people to use whatever money they want.

I'll now turn to the "debt jubilee", which entails wiping the slate clean of ALL existing debts.

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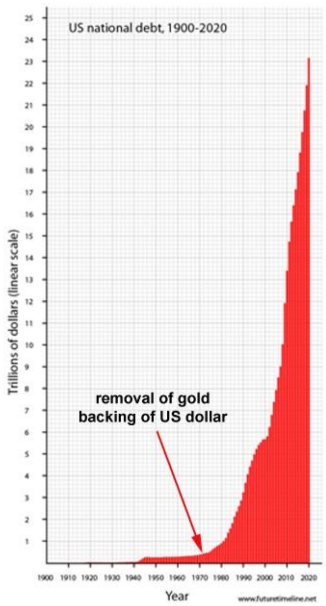
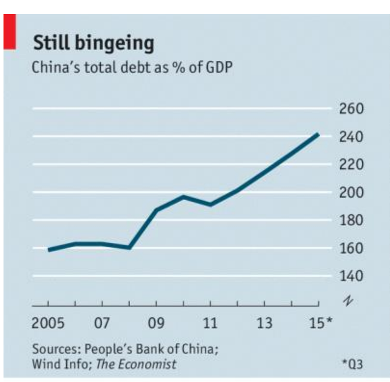


Had not China artificially resuscitated global markets with historic levels of borrowing and spending in 2008, had not the US bailed out insolvent banks and had not central bankers cut interest rates to zero and spent trillions in quantitative easing, the global economy would have collapsed in 2009 as it did in the 1930s.



The post-2009 artificial resuscitation of markets today, however, has run its course leaving nations with unprecedented

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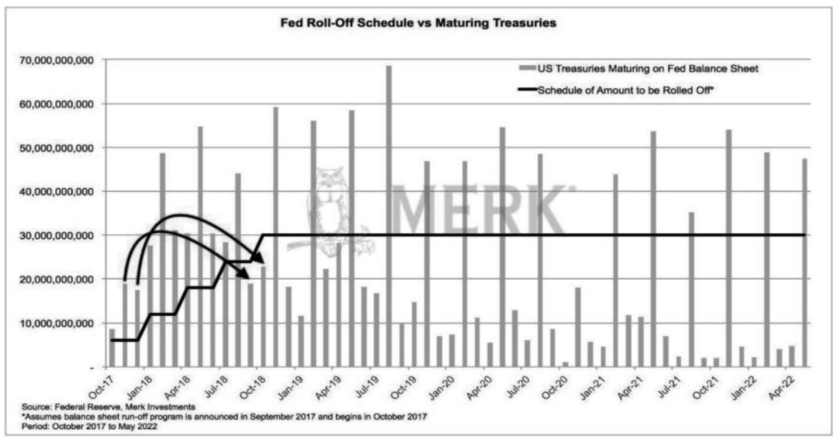
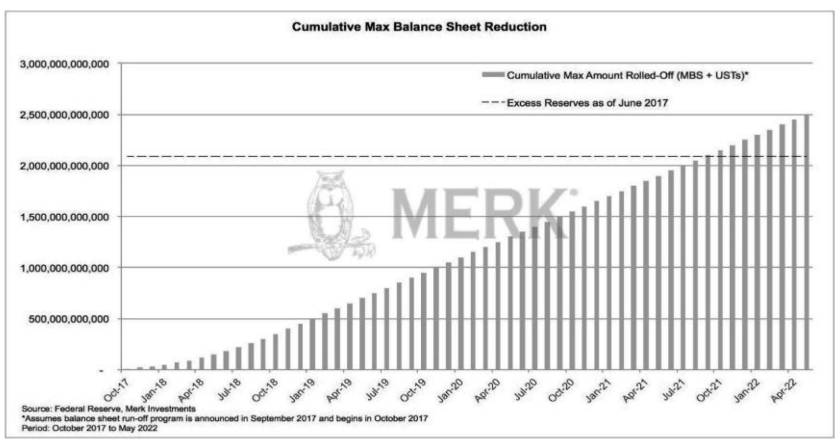
it would be like watching paint dry on a wall. Duly observant, numerous pundits agreed. With due respect, that's a bunch of baloney, but judge for yourself. Unless markets fall apart in the coming weeks, we expect that the formal announcement for the Fed's balance sheet reduction will be made this September, with a gradual stepping up in the amount the Fed will allow to "run off", i.e. the amount of maturing bonds it won't re-invest. The Fed has left many details open to interpretation, but looking at Treasuries alone, at first, $6 billion may be allowed to run off; this is gradually stepped up until $30 billion a month may be allowed to run off. It's not clear at what duration maturing bonds will be reinvested that are above the threshold, but it is plausible to roll those excesses to "fill the gaps" in subsequent months. Differently said, it's perfectly possible that the Fed will indeed allow $30 billion in Treasuries to run off once the program is fully deployed:



In addition, the Fed will allow mortgage-backed securities to run off (MBS). There's really no good reason to look at Treasuries and MBS in isolation; as such, the balance sheet reduction would be $50 billion a month if the program were to be fully deployed:



The Fed hasn't announced how small a balance sheet they want to have; based on our interpretation of discussions of current and former policy makers, this is because the Fed neither knows, nor agrees of where they want to take the balance sheet. It apparently doesn't stop the Fed from preparing the markets that they embarking on this journey because they believe they have years to make up their mind. Notably, as can be seen from the chart above, they might have until 2021. Basically, the Fed can reduce its balance sheet until excess reserves have been eliminated (this level varies on economic activity; the dashed line represents the current level of excess reserves and the potential maximum reduction holding all else equal). Whether the Fed will try to get excess reserves to zero or some other amount is an open question that not even the Fed appears to be able to answer internally.

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levels of debt and burdened with moribund economies functioning only because of continuing central bank life-support.

Although US trade imbalances are explained by Triffin's paradox, Many Americans, i.e. Trump et. al., believe that exporting nations, i.e. China, Japan, Germany, Mexico, etc. are responsible for America's negative trade balance. Such neo-nationalist attitudes are not only naïve, but pose a systemic threat to today's increasingly fragile global economies, including the US.

Mish Shedlock wrote on February 21, 2017: Global Trade Disaster Nearly Certain…For only the third time since 2000 has global trade growth dipped below 2%. On both prior occasions, the US economy was in recession…It is "certain" we are on a horrific global trade path…the forces in play over Brexit and Trump-inspired trade policies suggest a global trade disaster is "nearly certain" to happen.

https://mishtalk.com/2017/02/21/global-trade-disaster-nearly-certain/

In 1930, President Hoover signed the Smoot-Hawley Tariff Act that imposed tariffs on imported foreign goods. Subsequently, US imports decreased 66% from $4.4 billion (1929) to $1.5 billion (1933), and exports decreased 61% from $5.4 billion to $2.1 billion. GNP fell from $103.1 billion in 1929 to $75.8 billion in 1931 and bottomed out at $55.6 billion in 1933. Imports from Europe decreased from a 1929 high of $1.3 billion to just $390 million during 1932, while US exports to Europe decreased from $2.3 billion in 1929 to $784 million in 1932. Overall, world trade decreased by some 66% between 1929 and 1934.

Smoot-Hawley Tariff Act,Wikipedia,

DONALD TRUMP IS NOW CONTEMPLATING TRADE TARIFFS WHICH COULD HAVE THE SAME DISASTROUS EFFECTS.

…With more than 20 top officials present, including Trump and Vice President Pence, the president and a small band of America First advisers made it clear they're hell-bent on imposing tariffs…more than 75% of those present, were adamantly opposed arguing it was bad economics and bad global politics. At one point, Trump was told his almost entire cabinet thought this was a bad idea. But everyone left the room believing the country is headed toward a major trade confrontation. **The reason we're told: Trump's base—which drives more and more decisions, as his popularity sinks—likes the idea, and will love the fight.**

Axios, Trump overrules cabinet, plots global trade war, June 30, 2017

WE ARE IN THE BANKERS' ENDGAME WHERE ANY MISSTEP COULD BRING DOWN THE BANKERS' HOUSE OF CARDS AND PLUNGE THE WORLD INTO ANOTHER GREAT DEPRESSION.

THE BANKERS' ENDGAME AND GOLD AND SILVER

In 1971, when gold was removed from the international monetary system, the bankers' endgame was triggered. Then, the price of gold, fixed by the US government, was $35 per ounce. Today, gold is $1,213 per ounce, an exponential increase resulting from the banker's continuing debasement of fiat paper money. When the bankers' endgame reaches its inevitable and cataclysmic resolution, the price of gold—and silver—will be far, far higher.

From capitalism's inception in 1694 to 1971, precious metals gave the bankers' banknotes real value. In 1971, all paper money became fiat, possessing no intrinsic value except for governments' fiat declaration that paper banknotes be accepted as real money in exchange for real goods and services.

Ralph Terry Foster, author of Fiat Paper Money: The History and Evolution of Our Currencyrecently wrote about his book: Why should anyone care about money? Our culture has taught us to perceive it as a means to an end. We earn it, spend it, use it in various ways, and trust the government to print it and call it valuable. How did this come about?

In 301 pages, Fiat Paper Money—The History and Evolution of our currency© clears away the assumptions, illusions, and distractions that cloud our understanding of money. It tells the true stories of how people and governments lived with and used various forms of paper currency—and traces the evolution of the form we use today. It provides a frame of reference to understand the questions about which our ancestors cared so deeply. Changing cultures and attitudes tend to lead us astray from absolute truths. Yet the importance of negotiable exchange cannot be overstated, as we bear witness to historic events poised to have a lasting impact on our money.

Fiat now absolutely commands culture worldwide—yet culture is relative—truth is not

Ralph Terry Foster

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The “Debt Jubilee” Nonsense

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Here’s how it is described in the article linked above:

*“A “jubilee” is the complete renunciation of all debts. Any/all debt instruments become null-and-void. Debt Slavery is abolished. The Workers are allowed to retain the fruits of their labours, and use their productive efforts to build and improve their societies — rather than simply fattening financial Criminals.“**

And who would provide “the Workers” with all the capital equipment and education they need to be productive? And who would lend the money needed to fund new businesses, invent new products and conduct life-improving medical research? The financial criminals, perhaps?

Details, details.

There are all sorts of economic and ethical problems with the “debt jubilee” concept, but the biggest problem is that it amounts to the government stealing wealth from all lenders and giving it to all borrowers.

The more profligate you were prior to the “jubilee” the more that you would ‘make out like a bandit’ as a result of the “jubilee”.

It would result in economic devastation, because many of the most productive members of society would be financially crushed and the ones who weren’t financially crushed would never lend their money again.

The dire economic consequences of a “debt jubilee” and the terrible injustice of it is why it has probably never happened in world history and probably never will happen.

As an aside, if a “jubilee” event ever occurred in the past it was during “biblical times”, but that’s hardly a selling point.

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A more convincing argument I hear as to why low volatility is structural may be that information nowadays gets absorbed more quickly. On the one hand, we have computers scan the news in milliseconds, often trading without human intervention. And we have more computing power, allowing for a more efficient implementation of any investment process. Market makers in exchange traded funds also help in the execution efficiency of markets, possibly exerting downward pressure on volatility. However, let's not forget that volatility lowered in this fashion may have the same implication as low volatility in the building up of any bubble: it is the perceived risk that is lower, not actual risk. Machines are fantastic at certain aspects, be that keeping spreads tight in an exchange traded fund, or scanning Twitter for keywords. Trades initiated in this fashion provide liquidity to the markets, but that liquidity can evaporate rather quickly when the machines go off-line. Let there be a glitch in the markets for whatever reason (say, someone dumps a large number of derivatives in off hours), and today's incarnation of automated traders tend to wait it out. In the meantime, stop loss orders of other market participants may be triggered, possibly causing flash crashes.

If reducing the Fed’s balance sheet at a rate of $50 billion a month is akin to watching paint dry, what then is the ECB’s activity of purchasing €60 billion a month (its current rate)? Either the Fed or the ECB is pulling our leg here. If printing money is quantitative easing (QE), then balance sheet reduction is quantitative tightening (QT). There has been a lot of debate of what sort of impact QE actually has. Skeptics of QE have pointed out that all bonds trade relative to one another, i.e. an MBS might be a substitute to a Treasury bond which in turn might be a substitute to a German bund; applying a given spread, one can take that exercise further to any number of seemingly “safe” bonds, recognizing that safety is not an absolute concept (and from a US regulatory point of view, only US Treasuries are considered “safe” as the US government can always print money to pay it back). It’s in this context that the buying of MBS has been criticized as a useless digression from monetary into fiscal policy. Useless because spreads between MBS and Treasuries haven’t been meaningfully impacted; and a digression into fiscal policy because buying MBS rather than Treasuries is fiscal policy given that credit is allocated to a specific sector (housing) of the economy, something in the domain of Congress, not the Fed.

So has Yellen suddenly become a critic of QE by suggesting QT is akin to watching paint dry? I doubt it; much rather, the Fed does what it continuously has been doing since the financial crisis: try to convince the markets with words. If the Fed tells you, rates rather than QT is the primary tool to set rates, it must be true, right? Please just look at the rates, ignore everything else. In the meantime, across the pond at the ECB, Draghi will tell you with a stern look that QE is responsible for everything good that has happened in the Eurozone (and that he isn’t responsible for any bad side effects). You shall be excused if you are scratching your head.

It’s All About Risk Premia -I am in the camp that believes QE has been all about compressing risk premia, i.e. the spreads between risky and so-called safe assets. With QE, junk bonds trade at less of a premium over bonds; with a #WhateverItTakes attitude, peripheral Eurozone bonds trade at less of a premium over German bunds. And equities trade at higher valuations and lower volatility? Sound familiar? Not too surprisingly then, the market has had some tantrums when the Fed first started talking about tapering; or when the Fed indicated it might start raising rates.

I’m not alone with this theory; the Fed and other central banks appear to have been petrified that stepping back from ultra-accommodative policies would cause a major revolt in the market. But then magic happened: the market presented the Fed rate hikes on a silver platter. And with two rate hikes out of the way this year, the markets are still holding up. As the markets are holding up, central bankers feel like day traders on a winning streak: they must be geniuses!

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Borrowing from the picture depicting Yellen on the pressure cooker above, though, I would caution central bankers not to do a victory lap quite yet. In my mind, to stay with the analogy, some steam has been let out of the pressure cooker; and with the Fed ever more falling behind the curve, the illusion may have been created that real interest rates are moving higher, when indeed only nominal interest rates are moving higher. With QT, think about the pressure cooker shrinking while the contents remain the same; if the content of the pressure cooker is a bunch of hot air, it is well possible to further compress it.

What I'm arguing here is that QT will increase risk premia. Before we discuss implications of rising risk premia, let's consider what's happening at other central banks.

The Real Elephants - Above, I write about the Fed being "perceived" elephant. Only the perceived elephant, as the Fed may well have freed the shackles from other elephants, meaning the Fed may have enabled other central banks to step away from their ultra-low monetary policy. Some of those pressure cookers have cracked open now, notably the ECB's.

The ECB's program to purchase €60 billion in securities each month is running through the end of this year. As such, the market is expecting that in September, possibly a bit later, the ECB is going to announce what will happen thereafter. It appears Mr. Draghi, possibly emboldened by what's happening at the Fed (although central bankers would never express it this way; it's of course domestic considerations they are evaluating), he recently said:
*"As the economy continues to recover, a constant policy stance will become more accommodative, and the central bank can accompany the recovery by adjusting the parameters of its policy instruments – not in order to tighten the policy stance, but to keep it broadly unchanged." ECB **speech** by ECB President Mario Draghi, June 27, 2017*

You read this correctly: the ECB will remove accommodation, but it won't really and it won't call it tightening. Think: watch paint dry on the wall. He tried to pull a Yellen! You can't make this stuff up. In some ways, it reminds me of the dot-com bubble, where companies told analysts what to write into their reports, so as to avoid the necessity for analysts to actually do any thinking of their own.

Except the market didn't take Draghi's bluff and German Bunds sold off. Less than a year ago, Bunds traded at negative yields; in the aftermath of Draghi's comments, they surged from roughly 0.25% to over 0.50%. A big jump for those that watch those markets. In contrast, U.S. Treasuries are yielding 2.37% as of this writing.

Historically, the spread between U.S. Treasuries and German Bunds are highly correlated to the exchange rate between the Euro and the U.S. dollar. As German Bunds are falling (yields rise), the euro has had a tendency to rise when U.S. long-term rates don't move much. Not surprisingly, the euro has rallied quite a bit as part of this ECB induced mini taper tantrum.

To assess where we go from here, consider the following:

- What happens to Treasuries? Some argue QT will cause Treasuries to fall. My take: no, risk premia will rise. More on assets below, but w.r.t. to Treasuries rising risk premia imply deteriorating financial conditions, a headwind to economic growth. That is, Treasuries may end up not changing all that much, possibly even rise.
- What happens to Bunds? According to a standard deviation band we monitor, Draghi's comments caused Bunds to fall by 2 standard deviations versus their historic trend. That's significant and suggests real news (his speech!) caused the change. But what about going forward? Is all unwinding already priced in? This possibility cannot be ruled out, as Treasuries had their highest yields after the taper tantrum in 2013. My take is that Bernanke announced tapering not because the U.S. economy was in great shape, but because Bernanke's term was coming to an end, and he wanted to tie up loose ends. In the U.S., we've had several faulty starts to reform, most notably expectations priced in upon President Trump's election which have since fizzled out. In contrast, reform in the Eurozone is real and ongoing, most recently with French President Macron being elected not only on a strong reform platform, but also with the accompanying majority to be able to implement it.

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These were times when there was no economic progress (there was no general improvement in living standards from one generation to the next), most people died before the age of one, the best the average person could reasonably hope for was basic subsistence, and slavery was both widespread and generally accepted.

The only type of debt for which a good-faith repayment effort is not justified is government debt.

This is because government debt is repaid via theft. As the great Murray Rothbard eloquently put it: "*The purchase of a government bond is simply making an investment in the future loot from the robbery of taxation.*"

The appropriate punishment for lending money to the government is a 100% loss on investment, so wiping the government's debt-slate clean would be a good thing.

Fortunately, discussions about a "debt jubilee" are purely academic as it is not something that has a chance of happening.

Moreover, nobody with respect for property rights and a reasonable understanding of economics would advocate it.

Note that the "jubilee" definition used by the author of "The Gold Standard and Debt Jubilee**" and that has become popular is not consistent with the way "jubilee" is described in the Old Testament. In particular, the original biblical description does NOT imply that debts are forgiven. Refer to "**Five Myths about Jubilee**" for more information.*

Article by:
Steve Saville
June 6, 2017
http://www.speculative-investor.com

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Ralph Terry Foster in my YouTube video, Counterfeit Coins: Don't Be A Victim,
see https://goo.gl/ET6dFL , discusses counterfeit coins and how to tell the difference between the counterfeit and the real. With paper money it's easy. After 1971, all paper money became completely fiat, i.e. without value except as government trading coupons with expiration dates written in invisible ink, printed and passed off by governments as the real thing.

Often, only in retrospect, does humanity see the error of its ways. Sometimes, however, humanity will choose not to see.

Buy gold, buy silver, have faith.

Article by:
Darryl Robert Schoon
July 10, 2017
www.drschoon.com

The Outstanding Public Debt
National Debt:
20,428,286,218,305
The estimated population of the United States is **326,067,550**
US citizen's share of this debt is
$62,657.00
The National Debt has continued to increase an average of
$2.39 billion per day
Business, Government, Financial and Unfunded Liabilities Debt exceeds
$100 Trillion

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I'm not suggesting reform in the Eurozone will be perfect – it never is; but I am suggesting that real rates have room to move higher, especially relative to U.S. rates, as progress is being made. Other central banks around the world may also be emboldened to take the foot off the accelerator. The biggest potential to catch up may well be in Sweden, where we have said for years that policy is too accommodative.

You can call the weak dollar a deflating Trump trade, but the Fed may well have initiated a far greater force by enabling other central banks to tighten. Well, don't' count on Japan to follow suit just yet.

Implications For Stocks - Stocks are historically correlated to junk bonds, not because they are junk, but because they are both so-called risk assets. Just as their volatility has been compressed with QE, we believe their volatility should rise with QT. **We have recently opined** as to whether this time is different and volatility will remain low, but the short of it is: don't count on it.

Outbursts in the tech sector are, in the opinion of yours truly, the canary in the coal mine. The buy-the-dip mentality is wearing thin. Similarly, the end of day buying that had become routine may have turned into end-of day selling on several occasions of late. Does that mean that there isn't value out there somewhere? Possibly, but don't come crying to me if you lose money holding stocks in this environment.

Implications For Gold - With rates rising, should the price of gold decline? I can see Eurozone based investors getting less enthusiastic about gold as the euro has been rising. That said, rising risk premia may be a positive for the price of gold. Because gold does not have cash flow, there's also no greater discounting of future cash flows as risk premia rise. In contrast, stocks may well be under pressure as risk premia rise. This is an academic way of saying that gold may be a valuable diversifier should stocks suffer.

Closing Thoughts On Fed Balance Sheet - Advocates of a smaller Fed balance sheet have praised the Fed's moves to commit themselves to a reduction, making it more difficult to reverse course, especially since they have stated that interest rate policy will be separate from deciding on the size of the balance sheet. With due respect, I can't get myself to believing in the tooth-fairy anymore. First, let's keep in mind that we are likely to get a new Fed Chair early next year, meaning lots of options are on the table as to what direction a new Chair would take. More importantly, by not providing more specific parameters as to where the Fed wants to take the balance sheet, I would not be surprised if the Fed were to reverse course sooner rather than later. They won't blame it on falling stocks, but on deteriorating financial conditions (the latter may well be Fed talk for the former).

Article by:
Axel Merk
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President & CIO, Merk Investments