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Views and Analysis on the Economy and Precious Metals

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The Wealth Effect – Cui Bono?

By Andy W. Sutton

With the world's eyes focused on Syria, which we deal with extensively in our most recent client brief (and yes it does affect us all personally), there has to be some happy news. What better a way to gin up the idea of the wealth effect than a big run up in the stock market and reports of a 'booming' housing market? They are two of the biggest contributors to the notion that people are getting rich, aren't they? After all, the wealth effect has drive consumption in America for the past decade. As usual, however, the now completely impotent and subjugated mainstream press only tells half the story. Or not even half really. So once again, Jim, Joe, Bob, Chris, Axel, Peter, John, and yours truly among many, many others will do their job for them. We don't have media badges. We don't wear three thousand dollar suits or have makeup done for us before we talk or write (at least most of us don't!) but you'd better start to listen and listen good.

When it comes to ANYTHING in today's world you'd better think first about *cui bono* – who benefits. If it isn't you, then it is time to turn it off and ignore it. If I've already offended you, then too bad. The gloves are off this week and, as those of you who have been reading 2cents since it was a three paragraph blog back in 2006 can already tell, I'm pretty fired up. Let's get into the meat of the issues of the day. There are two main areas of focus this week – those that compose the 'wealth effect' in America, the housing market and the stock market.

Concomitant to both of these issues is a discussion of what the not-so-US Fed may or may not do next week when it meets for what will likely be Bernanke's last go around at the FOMC table. He'll be an obscurity a month from now most likely, tucked back in his little hole somewhere brainwashing another generation of unthinking minds that borrowing *ad infinitum* is the answer to all that ails everything. The man was the perfect puppet though. A simpleton who really had no convictions of his own that he had to unload to take the job. At least his predecessor had convictions at point and some of them were very valid. So, very soon, we'll have a new puppet in the 'temple' but it will business as usual. While the precise details of that business are yet to be known, you can be certain it will not be in your best interests.

Central bank policy has a very direct influence on the wealth effect, especially in this country since it is virtually ALL based on debt, so interest rates matter a great deal. Bernanke's penultimate act next week is supposed to be the grand finale for the diet version of the maestro. It is supposed to be the beginning of the exit of the decade long monetization scam perpetrated on the world for the purposes of increasing the wealth 'effect' while actually devouring real wealth. The cruelest of paradoxes, monetization is the benevolent philanthropist and the heartless thief all in one ugly package.

The Housing Market – Recovery or Rentalmania?

The mainstream press has been tripping over themselves to pronounce the next great bull market in housing. 2006 is here again. I could put a hundred quotes inline here and make that point, but if you're reading this column, chances are you've already heard all the tripe because you pay attention to such things. So I'll spare you your appetite and just get into the serious business of throwing cold water all over this absurd and ridiculous notion. Yesterday, Bloomberg News reported that JP Morgan is relaxing its lending standards in what the severely compromised news outlet called a 'booming' US market. I'll give a very small amount of credit,

Continued on page 2

Poland Confiscates Private Pensions - Yours Are Next

By Jeff Berwick

We have been saying for the last four years that as Europe, the US and other Western and global nation-states continue their debt-fueled collapse the governments of these countries will continue to consider their citizens' wealth to be their own and seize more of their assets.

We have, unfortunately, been vindicated already numerous times.

- In March, 2009, Ireland seized €4bn from its Pension Reserve fund in order to rescue its banks. In November 2010, the remaining savings of €2.5bn was seized to support the bailout of the rest of the country.

In December, 2010, Hungary

Continued on page 3

Also Inside This Issue:

Bernanke: U.S. Economy Is A Ponzi-Scheme

By Jeff Nielson

Having allowed a couple of days for the tidal wave of mainstream, post-"tapering" nonsense to subside; it's now time to look at the facts, as once again *The Boy Who Cried Exit Strategy* got in front of microphones to say "just kidding."

At the time that B.S. Bernanke originally began his musings now known as "tapering"; it had already been observed that the U.S. pseudo-recovery was "longer than average duration" – i.e. it was *already past its expiry-date*. After stalling for 4 ½ years, and failing to deliver on all his previous promises of an "exit strategy" – while the U.S. economy was relatively "strong"(?) and supposedly *growing* – no rational government (or central bank) would ever time the withdrawal of stimulus to coincide with the end of a growth-cycle.

"Tapering" was always a hoax.

Simply *talking* about tapering caused interest rates (i.e. borrowing costs) on U.S. ten-year Treasuries to nearly double; and naturally/inevitably those higher borrowing costs filtered through the entire U.S. economy. Thus in simply *talking* about tapering for seven months; the Banksters created so much economic "drag" on the U.S. economy that if Bernanke had actually, finally delivered on (yet another) "exit strategy" promise, it could have only been interpreted as deliberate economic suicide.

"Tapering" was always a hoax.

There is a delicious irony here. The "latest rounds of QE" – the current, $1 trillion per year of totally gratuitous U.S. money-printing – are not actually "new" money-printing at all. These infinite stacks of Bernanke-bills were being conjured into existence just as quickly *before* these "announcements", it simply wasn't being

Continued on page 4

The Wealth Effect – Cui Bono?

Continued from page 1

however, because they did mention one of the biggest reasons the market is moving. From the article:

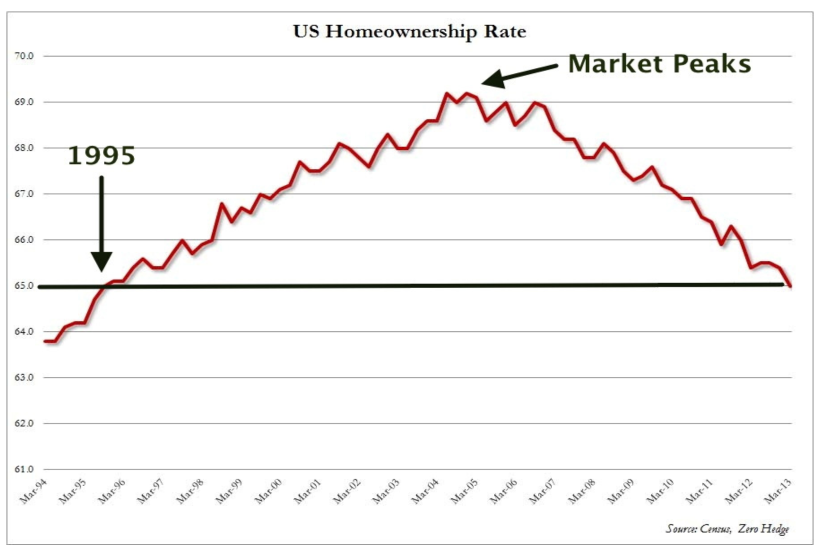
"Prices in some of the hardest-hit markets have rebounded faster. Las Vegas gained 24.9 percent, Phoenix showed a 19.8 percent increase, Detroit rose 16.4 percent Miami-area values were up 14.8 percent.

Private-equity firms such as Blackstone Group LP building rental businesses and other cash buyers have helped lift house prices in cities showing some of the biggest gains. Their mass purchases have made it more difficult for borrowers seeking mortgage financing, as they compete for a shrinking supply of properties.

In Florida, lenders including JPMorgan and mortgage insurers this year removed many of the additional requirements that had ***helped to push the share of cash buyers above 45 percent in the second quarter,*** *said Rob Nunziata, co-Chief Executive Officer of FBC Mortgage LLC."*

Nearly half of all transactions were because of cash buyers in the second quarter. And the actual admission that cash buyers are what have been pushing prices up. Now who are these people? Who are these cash buyers? Well, you've got the vulture Blackstone Group, a private equity firm (read white shoe boys) and we know there are a lot of foreigners in here too, buying up cheap property. Fundamentally I've got no problem with someone buying something because it is on sale. We all do it. The problem exists when your cronies in the banks create the fire sale and very small groups make money on both sides of the cycle. And there's an even bigger problem when the government not only rubber stamps this as acceptable behavior, but uses tax dollars to bail out the very people who made the mess, many of whom are now taking advantage of bargain basement prices and will rent these properties back to the same people who got thrown out of them in foreclosures (many of them illegal) over the past several years.

It is pretty obvious: the little guy was missing out on his second chance at the American nightmare of paying upwards of 2 and a half times what a house is really 'worth'. So we have to relax those standards don't we? Profits are being lost. Cash buyers, while great for those selling, are terrible for mortgage lenders. **And those pesky interest rates have been going up too, slamming the door on a ton of these folks. That is the REAL story here and the one that isn't being told.** So, since rates are going up, we have to ameliorate some of these impediments to home ownership. We'll go subprime again. Many places the banks are already going 0% down again. Back to the same old bag of tricks one more time. One more property grab. Detroit prices are up 16.4%? The city is bankrupt, the jobs are gone, and yet house prices are up 16.4%? We're becoming a nation of renters again.



Continued on page 5

Poland Confiscates Private Pensions - Yours Are Next

Continued from page 1

told its citizens that they could either remit their private pension money to the state or lose their state pension funds (but still have to pay for it nonetheless)

- In November, 2010, the French parliament decided to earmark €33bn from the national reserve pension fund FRR to reduce the short-term pension scheme deficit.
- In early January 2011, $60 million in private retirement funds were transferred to the state's pension scheme in Bulgaria. They wanted to transfer $300 million, but were denied on their first attempt

And, of course, this spring, Cyprus took it a step further and outright confiscated up to 50% of the funds from bank account holders in that country.

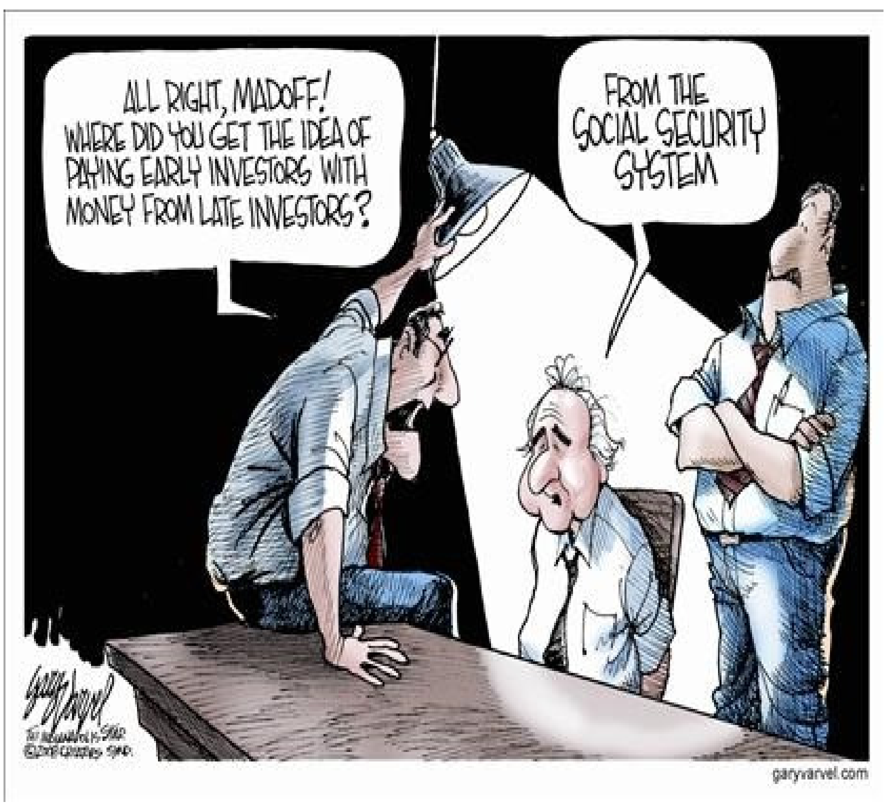
Last week the Polish government announced it would transfer to the state (aka. confiscate) the bulk of assets owned by the country's private pension funds (many of them owned by such foreign firms as PIMCO parent Allianz, AXA, Generali, ING and Aviva), without offering any compensation.

BUT IT CAN'T HAPPEN HERE
Think again if you don't think this will occur all across the Western world until The End Of The Monetary System As We Know It (TEOTMSAWKI).

To begin, the Social Security (or as I call it, the Socialist Insecurity) program in the US is, by dictionary definition, a Ponzi scheme.

According to Investopedia: "The Ponzi scheme generates returns for older investors by acquiring new investors. This scam actually yields the promised returns to earlier investors, as long as there are more new investors. These schemes usually collapse on themselves when the new investments stop."

In fact, Social Security is even worse than a Ponzi scheme. At least with a Ponzi scheme you have the choice whether or not to "invest" with someone like Robert Madoff. You aren't forced into it.



Continued on page 4

Why Fed Tapering Won't Begin Until It's Too Late

By Stewart Lawson

Last Wednesday the brilliant minds at the Federal Reserve announced that tapering would not take place just yet. Tapering, the word du jour for ending the madness that is quantitative easing, is not likely to occur anytime soon, and here's why: **When the Band-Aid of monetary expansion is used for open-heart surgery, the system is destined to fail, but the Fed's leaders will see no other tool at their disposal other than *more* monetary expansion.**

Before raising the argument that Paul Volcker was able to successfully raise interest rates in 1979, consider these two factors: inflation was already at 10% by 1979, and the debt-to-GDP ratio was at a far lower level than it is today. Even with those two things going for him Volcker had a hell of a time convincing the country to double interest rates. As long as the official rate of inflation (which doesn't take food and energy costs into consideration) remains low and debt levels remain high, attempting to slow or stop the flow of free money will be an exercise in futility.

The Fed has decided to ignore inflation until it bites us in the you-know-what, instead choosing to focus on unemployment rates in an attempt to appease the American people and keep questions about interest rates to a minimum. Make no mistake, however, that inflation is imminent as currency cannot be printed at will and retain the same value it had previously. Humans would be fools to give the same value to one dollar today as was given to one dollar in 1913, 1963 or 1993 for that matter. Conversations about tapering will keep gold moving up, down and sideways but by the time the Fed raises interest rates rest assured that gold will be ready to truly adjust for inflation.

By: Stewart Lawson
September 26, 2013

Bernanke: U.S. Economy Is A Ponzi-Scheme

Continued from page 2

reported/declared.

It was counterfeit money, in every sense of the word. This was explained in a previous commentary. The original problem? No buyers (anywhere) for U.S. Treasuries – *at* "all-time record prices". The solution? Counterfeit money.

Secretly print-up $trillions in counterfeit Bernanke-bills, and use that counterfeit money to "buy" U.S. Treasuries in auctions which (conveniently) had just been made totally opaque. Readers have seen or heard my description of the new-and-improved "Treasuries auction" previously.

A stack of Treasuries is placed on a table. The lights go out. (Sounds of paper-shuffling are heard.) The lights come back on. The stack of Treasuries is gone. "Auction" complete.

This cheap 'magic trick' *was* the Perfect Crime, and then Reality ruined everything. With the U.S. pseudo-recovery already beginning to obviously sag (in its old age); the call went out to the Fed for "more stimulus" – given the fact that the U.S. Treasury is totally empty (save for the IOU's).

So B.S. Bernanke and Co. simply began *reporting* the "new money" they had already been counterfeiting previously, and presto! One $trillion per year in new, so-called "stimulus." Now (suddenly) there *was* an actual "reason" for U.S. Treasuries to be improbably perched at all-time record prices – despite the fact the U.S. economy is <u>obviously bankrupt</u>: the Federal Reserve was *openly monetizing all debt*.

"The Truth shall set you free"? Not if you're a central banker at the Federal Reserve. Then it's a nasty ball-and-chain which (you discover to your horror) you can never remove.

Continued on page 6

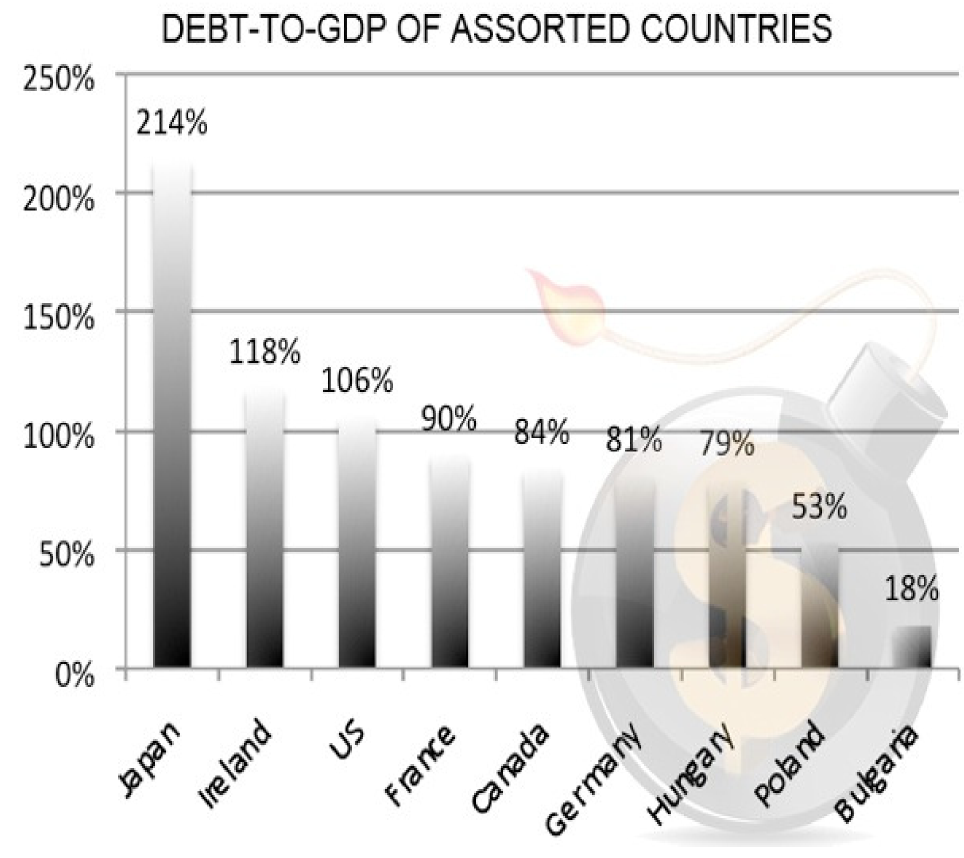
Poland Confiscates Private Pensions - Yours Are Next

Continued from page 3

Plus, completely fraudulently, the US government shows all Social Security (SS) incoming funds as actual revenue and then immediately spends the money and gives an IOU (unpayable, bankrupt US Treasuries) in return to the SS system. Let me repeat that: they immediately spend the money and deposit an IOU into what is already a Ponzi scheme. And in past years Congress has held committees to consider nationalizing private pension funds, just as Poland did last week (and held committees on doing it in 2010).

What was the main reason that all these governments such as Ireland, Hungary, France, Bulgaria and Poland began stealing with their citizen's private wealth? It was because their governments were too indebted vis-a-vis their economy and in order to continue operating (and borrowing) they reached out and just took their own citizens' retirement savings and, in almost every case, mandated that the only assets they can hold is government debt (which will collapse or pay 0-3% at a time when inflation often is running over 10%, meaning a net loss of 4-6%+ per year).

So, let's take a look at the debt-to-GDP of all these countries and a few other Western countries.



As you can see, with the exclusion of France, all the other countries who have outright stolen private pension funds are all in less debt than the Western countries (or those who have bought into Western-style Keynesian central banking democracies like Japan) who have yet to do so.

Why? It's mostly because the larger Western countries have yet to lose the confidence of the market. While the smaller countries with tinier economies and less ability to float their currencies as reserve currencies get the attention of the market first.

But, this is very rapidly changing. Here is the interest rate change of US government debt in the last few months (yearly chart).

Continued on page 7

The Wealth Effect – Cui Bono?

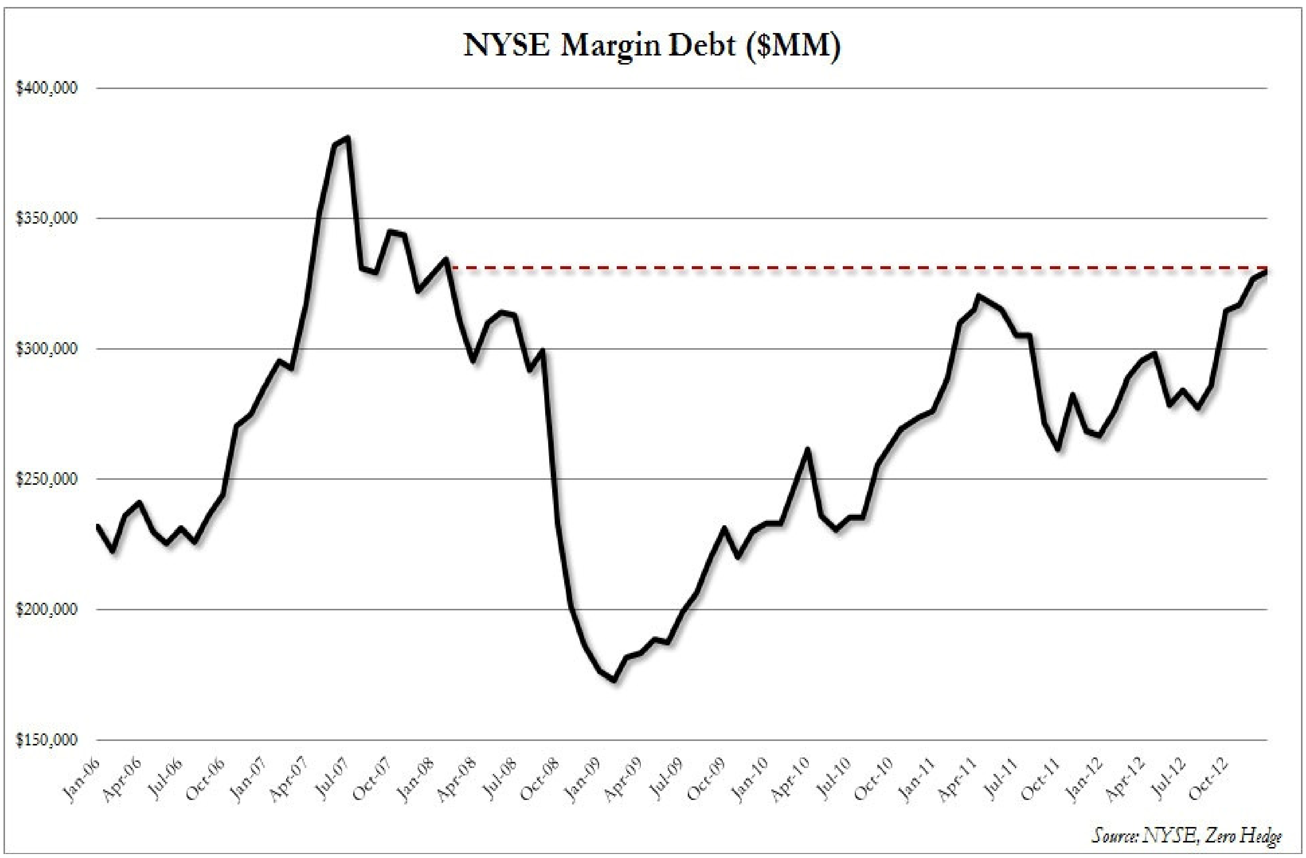
Continued from page 2

The American dream isn't working out so well, is it? Even with the big 'recovery' in the economy and the housing markets spoken so often of on smellevision, it doesn't bear out even when you look at government numbers on the subject. I am quite certain the housing numbers are just as biased as the best the government has to offer when it comes to jobs, inflation, and other important metrics.

The Stock Market – Funny Money Versus Fundamentals

I'll readily admit, the situation with the stock market could easily go a couple of ways, again, depending on Bernanke the puppet and his final act. If the tapering of monetization actually begins, one would expect the global equity markets to take quite a hit since most people have correctly surmised that it is funny money and not fundamentals that have pushed prices this far. However, I'm going to throw a counterpoint out there for consideration. What if they begin tapering (or at least profess that it is happening) then run the markets up so they can say 'See, you guys were all wrong. The markets weren't going up because of QE, they were going up because economies are getting stronger!" Can you see it? I certainly can. Let nothing surprise you over the next few months, but I suspect most of you already know the truth. It is monetization, aka quantitative easing, that has been propping up the markets.

A few months ago, leverage ratios on the NYSE went above the levels at the market peak in 2007. The banksters are at it again, setting up for another big blowout. When? Who knows? Where do you think margin comes from? It is debt. Pure and simple. It is one bank, institutional investor, or hedge fund borrowing money from another to make bets. If they win, the effect is magnified. If they lose, however, they can be wiped out in a single day. The higher the margin, the less of a move it takes to wipe them out. Keep this in mind as you take a look at the chart below:



As was mentioned earlier, we're right back at 2007 again. We all know what happened after that. But we're so much smarter now, right? We've learned from those 'mistakes' of the past, right? I'd assert they weren't mistakes, just like the decision by the courts in this country regarding Sentinel Group wasn't a mistake. Just like the FDIC-BOE resolution on the failure of G-SIFIs wasn't a mistake. Just like Paulson playing Chicken Little after Lehman, then changing his mind after he got $750 billion of your kids' future wasn't a mistake. They didn't make many (if any) mistakes, but we've certainly learned almost nothing, of that I am quite certain. We're right back to business as usual, happily consuming while our country's endowments and our very freedoms are swiped right out from under us by a beast system that is too sinister for many people to even comprehend.

Continued on page 6

Bernanke: U.S. Economy Is A Ponzi-Scheme

Continued from page 4

Why has it been absolutely necessary to (fraudulently) prop-up U.S. Treasuries prices to (by far) their highest price-levels in history? Because the U.S. government (and the debt-saturated U.S. economy as a whole) cannot pay *legitimate rates of interest* on all its debts without immediately imploding into bankruptcy.

The last six months of talking-about-tapering is absolute, empirical proof of this fact. What ultimately forced the Boy Who Cried Exit Strategy to back-off on yet another exit-strategy promise – even if he had *wanted* to proceed -- was (as previously noted) the pain of higher interest rates. Bernanke himself explicitly acknowledged this:

> *…Bernanke said he was concerned that **market interest rates, driven higher by his own suggestion** he would scale back so-called quantitative easing, would curb growth.* [emphasis mine]

There you have it, direct from the Horse's Mouth. There is no "tapering" today, and there has been no "tapering" throughout the last 4 ½ years of pseudo-growth (and empty promises) because the (bankrupt) U.S. economy cannot afford to pay "market interest rates" (i.e.*legitimate* interest rates).

Federal Reserve Chairman B.S. Bernanke has openly, implicitly declared that the U.S. economy is a Ponzi-scheme. It is so absurdly over-leveraged with debts that it can no longer afford to pay "market rates" of interest on its debts; but instead must artificially (i.e. fraudulently) manipulate U.S. interest rates lower *and* monetize its debts – or risk immediately imploding this Ponzi-scheme economy.

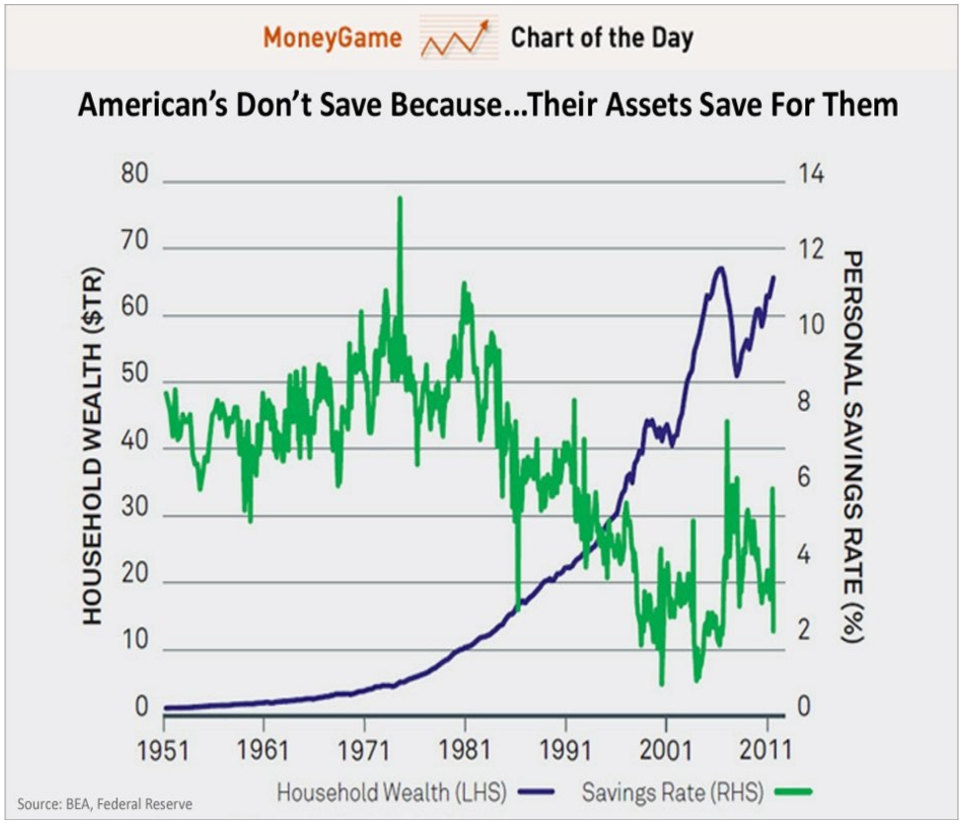
There was no "tapering" announced

Continued on page 7

The Wealth Effect – Cui Bono?

Continued from page 5

But at the same time, as markets go up, people feel wealthier. The below chart shows a nice bit of this propaganda:



Americans don't save because their assets save for them. Note that neither of these series is discounted for inflation. Go back a few issues of 2cents and look at the absolute explosion of consumer debt that started in the early 1990s. A more appropriate title for the insanely misleading graphic above would be 'Americans don't save, they go into debt instead.' This type of rationale is almost as idiotic as they guy who wrote that book 'Retire on the House' back in the heyday of the real estate market.

Back in 1951 when the above chart begins, people owed next to nothing and didn't have much either. Now we have more stuff, but we are borrowed up to our earlobes to get it. Which situation is better? Well it's a wash, right? Obviously most Americans don't have a problem with getting up in the morning, commuting ever-increasing distances, working more hours, and taking second and even third part time jobs just to make payments on their debts that will likely still be there when they write their final check.

They don't have a problem with having credit cards that reverse amortize because they don't know better than to make the minimum payments. They don't have a problem sending their kids to get a four year degree in which they'll rack up an average of $45,000 in student loans, then be confronted with a job market that consists of retail, fast food, and other service sector type low paying jobs. There are exceptions for sure, but this is the reality for the majority of our kids.

Now personally, I've got a huge problem with all of this, but this is the world of Keynesian 'economics' at the micro level. The government does it and gets away with it, why can't we? The final graphic explains why. Think about how much higher these numbers would be if we didn't have the government breadline program called food stamps?

Continued on page 8

Poland Confiscates Private Pensions - Yours Are Next

Continued from page 4

The interest rate has nearly doubled in the last four months. This will have massive repercussions in all markets… and it will also mean that as interest rates rise the US government will look more and more insolvent by the day. With $17 trillion in current debt (not GAAP adjusted - GAAP adjusted is over $85 trillion) an interest rate of 10% will mean $1.7 trillion in interest payments alone. The total tax (theft) revenue base of the US was only $2.4 trillion in 2012. If interest rates were to rise to 10%, that would mean over 70% of the taxation revenue of the US government would go to paying interest alone.

But, remember, $841 billion of that "revenue" was payments into the Social Security scheme. No company on Earth would include payments into an employee pension plan as income. So, the more realistic revenue of the US government was $2.4 trillion minus $841 billion in 2012… or approximately $1.55 billion.

In other words, an interest rate nearing 10% would mean that every semi-legitimate cent of tax revenue for the US government, and more, would go to interest payments on the debt alone.

And so expect the US government and most if not all Western governments to do what has happened in places like Hungary, France, Cyprus, Poland and more… attempt to stay alive a little while longer by taking the assets of their citizens. And tax-sheltered retirements will be the easiest pickings.

HOW TO PROTECT YOURSELF

Since retirement/pension savings will be the easiest target, immediately divest yourself of as much of those assets as possible -- while they are still assets -- and internationalize them. Get as much outside of the country with the government that purports to own you and your assets as possible. I did that in 2008 in Canada and have never regretted it.

If you are not willing or able to cash in retirement/pension savings, look to alternative options. In the US, for example, you can easily convert your IRA into a self-directed IRA for a few thousand dollars and then you are able to invest in almost any asset worldwide. You can buy racehorses in Dubai, gold in Switzerland or real estate.

Because this collapse is going to be messy.

By: Jeff Berwick
September 11, 2013
http://dollarvigilante.com

Bernanke: U.S. Economy Is A Ponzi-Scheme

Continued from page 6

yesterday because (as with any Ponzi-scheme) there can *never* be any easing-up of the ever-escalating capital necessary to sustain the Ponzi-scheme…unless/until the Banksters choose to deliberately detonate these debt-bubbles.

This has been made unequivocally clear by the recent reactions of markets (higher interest rates), the reaction of the U.S. economy to *talk* of tapering (collapse), and Bernanke's latest capitulation.

Clearly (in a perfect world) the Wall Street Vampires would have preferred that Bernanke follow-through on his "tapering", and then ride (i.e. profit from) the "crash" to follow.

There is very little "money to be made" with the Wall Street fraud-markets already propped-up at record highs, via the $1 trillion/year in gratuitous money-printing, all stuffed into the pockets of the Vampires *for free*.

But as the One Bank and its Minions comprehend; this would be no ordinary crash. There would have been no "profit" riding markets lower if it vaporized its entire Empire of Fraud in the process.

Still, the Banksters won't view the last six months of Bernanke *pretending* he was going to reduce his money-printing as a total loss, even if it has exposed a lot of (very) ugly Truths about the U.S. economy in general, and the Federal Reserve's money-printing Ponzi-scheme in particular. They need only point to their 'handiwork' in precious metals markets.

What have we seen over the past seven months? Seven months of lying about "tapering" resulted in precious metals prices sinking (i.e. being manipulated) lower and lower – 20% for gold; 30% for silver – through doing nothing more than *repeating that Lie*, day after day after day.

What have we seen over the past couple of days, after "tapering" was revealed to be yet

Continued on page 8

Bernanke: U.S. Economy Is A Ponzi-Scheme

Continued from page 7

another hoax from the Boy Who Cried Exit Strategy? We saw the price of gold rise for four hours (and roughly 5%) – *and then stop*. We saw the price of silver rise for four hours (and roughly 8%) *and then stop*.

The moral of the story? In our Crime Syndicate markets (with their Pied Piper trading algorithms); lies can be used to move markets as much as desired – even through doing nothing more than repeating the *same lie* over and over. The Truth, on the other hand, gets no "traction" at all.

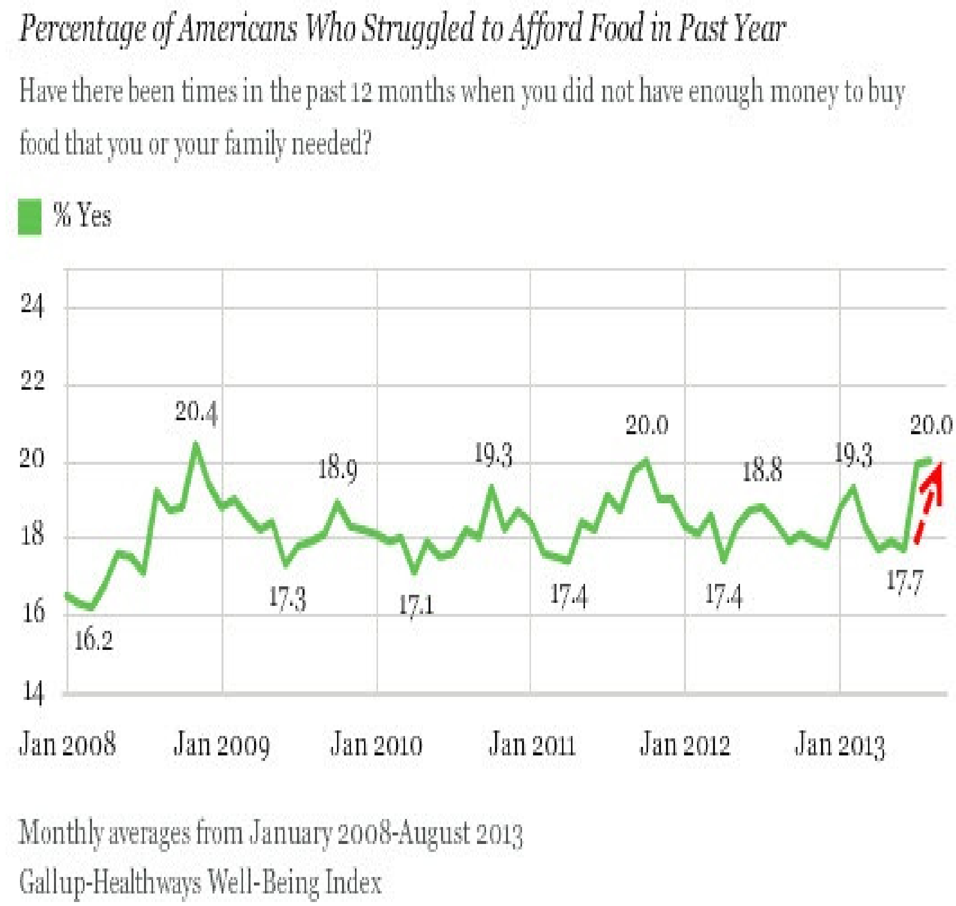
But it's no more possible for the Banksters to manufacture gold or silver bars out of their lies than it is for the U.S.'s bankrupt economy to pay interest on its debts.

The former is now just a shell-game; with the Con-men rapidly running out of shells. The latter is a teetering Ponzi-scheme, now so close to collapse that merely *talking about* the U.S. paying (real) interest on its debts threatens to implode it.

By: Jeff Nielson
September 19, 2013
www.bullionbullscanada.com

The Wealth Effect – Cui Bono?

Continued from page 6



Now, all the talk of the new housing boom and surging equity markets aside, how wealthy are we really? Remember, at the end of the day, the wealth effect is nothing more than what it says. It is a perception, not reality.

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By: Andrew W. Sutton,
September 13, 2013
www.sutton-associates.net

The Outstanding Public Debt
National Debt:
16,741,762,049,073.64
The estimated population of the United States is **316,727,158**
US citizen's share of this debt is
$52,858.62
The National Debt has continued to increase an average of
$1.87 billion per day
Business, Government, Financial and Unfunded Liabilities Debt exceeds
$100 Trillion