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Is Global Finance a Ponzi Scheme? Ask a Russian Expert

Leonid Bershidsky

What's the difference between today's global finance system and a Ponzi scheme? This is the question that a 56-year-old veteran Russian financial scammer has been asking his victims.

Chillingly, he almost has a point.

Sergei Mavrodi is one of the most infamous names in Russia's recent history. Back in February 1994, amid the turmoil of the country's transition to a market economy, the mathematician organized a Ponzi scheme called MMM. He offered returns of 100 percent a month and advertised aggressively on national television. Before the pyramid crashed in July 1994, it attracted as many as 10 million depositors, making it more popular than the voucher privatization program that was supposed to give regular Russians a chance to take a stake in formerly state-owned enterprises.

Mavrodi managed to avoid prison for nearly a decade, in part by getting elected as a parliamentary deputy and using the status to obtain immunity from prosecution. He ultimately served out a four-and-a-half-year sentence for fraud. While in prison, Mavrodi wrote books and movie scripts, one of which -- PyraMMMid -- was later made into a successful film.

Now he's back with an even more audacious endeavor: the honest scam. Last year, he announced the new project, MMM-2011, by stating boldly that it would be another Ponzi scheme. "Even if you strictly follow all instructions, you can still lose," he wrote on a website describing the project. "Your 'winnings' may be withheld without any explanation or reason whatsoever." Depositors would be paid solely from funds invested by other depositors. There would be no attempt to generate income in any other way. This, he said, was perfectly all right, and no different than the way some of the largest institutions in global finance operated, from the Russian pension fund to the U.S. Federal Reserve.

"What is money?" he wrote. "Nothing! Nihil. A phantom. ... It is backed by nothing at all and printed by the masters in any quantity, at will."

Such a case might have been hard to make back in 1994, when Russians saw the U.S. dollar as an unassailable store of value. But in today's post-financial-crisis world, it's easy to see how Mavrodi's arguments could convince an uninitiated observer. The U.S. is paying back its bondholders with money freshly printed by the Fed. Greece is paying back investors with money the European Union has borrowed from other investors -- or maybe some of the same investors -- via its bailout funds. The developed world's central banks have printed the equivalent of trillions of dollars in new money to keep their financial systems and economies afloat.

Mavrodi's sales pitch worked. On May 31, MMM-2011 claimed 35 million participants throughout the world. The number may be wildly inflated, but there were certainly hundreds of thousands of people in Russia, Ukraine and other post-Soviet nations who invested with Mavrodi. Their money allowed him to buy outdoor advertisements (this time avoiding TV) and open up chains of "consulting offices."

Continued on page 4

Bernanke Secretly Gives away Sixteen Trillion Dollars

Stock-Markets / Credit Crisis Bailouts

Richard Mills

In July of 2011, I was one of the first to bring to your attention to the incredible fact that the US Federal Reserve had secretly given away $16 TRILLION dollars;

"The first ever GAO (Government Accountability Office) audit of the US Federal Reserve was recently carried out due to the Ron Paul/Alan Grayson Amendment to the Dodd-Frank bill passed in 2010. Jim DeMint, a Republican Senator, and Bernie Sanders, an independent Senator, while leading the charge for an audit in the Senate, watered down the original language of house bill (HR1207) so that a complete audit would not be carried out. Ben Bernanke, Alan

Continued on page 3

Also Inside This Issue:

Bundesbank's IMF rant exposes a divide at the heart of the eurozone

Thomas Pascoe

Germans have been saddened by the attitude of the IMF.

Germany's dissatisfaction with the governance of the IMF has been laid bare in the Bundesbank's latest monthly report (link in German here). The rift between the eurozone periphery's largest creditors comes only one week before talks between Angela Merkel and the IMF's head Christine Lagarde, which are aimed at finding a path forward through the euro crisis.

The report castigates the IMF for poor risk management and warns that so much money is being transferred from the IMF to countries which represent poor credit risks that contributors to the fund, such as Germany and Britain, may need to write off parts of their investment. The report says:

Since the beginning of the global financial crisis in 2008 and the European debt crisis in 2010, the IMF has been more active than ever before. Risks associated with financial aid by the IMF have substantially increased.

Given the tendency toward ever larger engagements and a higher regional concentration as well as the more frequent use of long-term IMF programs, the concentration risks have risen noticeably in the recent past. Should the IMF's policy lead to higher risks, the financial contributions by its member countries would no longer be considered highly liquid and risk free. This would jeopardize their character as currency reserves.

The IMF is evolving from a liquidity mechanism into a bank. This is neither in keeping with the legal and institutional role of the IMF or with its ability to handle risks.

Continued on page 4

Operation Screw

Peter Schiff

With yesterday's Fed decision and press conference, Chairman Ben Bernanke finally and decisively laid his cards on the table. And confirming what I have been saying for many years, all he was holding was more of the same snake oil and bluster. Going further than he has ever gone before, he made it clear that he will be permanently binding the American economy to a losing strategy. As a result, September 13, 2012 may one day be regarded as the day America finally threw in the economic towel.

Here is the outline of the Fed's plan: buy hundreds of billions of home mortgages annually in order to push down mortgage rates and push up home prices, thereby encouraging people to build and buy homes and spend the extracted equity on consumer goods. Furthermore, the Fed hopes that ultra-cheap money will push up stock prices so that Wall Street and stock investors feel wealthier and begin to spend more freely. He won't admit this directly, but rather than building an economy on increased productivity, production, and wealth accumulation, he is trying to build one on confidence, increased leverage, and rising asset prices. In other words, the Fed prefers the illusion of growth to the restructuring needed to allow for real growth.

The problem that went unnoticed by the reporters at the Fed's press conference (and those who have written about it subsequently) is that we already tried this strategy and it ended in disaster. Loose monetary policy created the housing and stock bubbles of the last decade, the bursting of which almost blew up the economy. Apparently for Bernanke and his cohorts, almost isn't good enough. They are coming back to finish the job. But this time, they are packing weaponry of a much higher caliber. Not only are they pushing mortgage rates down to historical lows but now they are buying all the loans!

Last year, the Fed launched the so-called "Operation Twist," which was designed to lower long-term interest rates and flatten the yield curve. Without creating any real benefits for the economy, the move exposed US taxpayers and holders of dollar-based assets to the dangers of shortening the maturity on $16 trillion of outstanding government debt. Such a repositioning exposes the Treasury to much faster and more painful consequences if interest rates rise.

Still, the set of policies announced yesterday will do so much more damage than "Operation Twist," they should be dubbed "Operation Screw." Because make no mistake, anyone holding US dollars, Treasury bonds, or living on a fixed income will have their purchasing power stolen by these actions.

Prior injections of quantitative easing have done little to revive our economy or set us on a path for real recovery. We are now in more debt, have more people out of work, and have deeper fiscal problems than we had before the Fed began down this path. All the supporters can say is things would have been worse absent the stimulus. While counterfactual arguments are hard to prove, I do not doubt that things would have been worse in the short-term if we had simply allowed the imbalances of the old economy to work themselves out. But in exchange for that pain, I believe that we would be on the road to a real recovery. Instead, we have artificially sustained a borrow-and-spend model that puts us farther away from solid ground.

Because the initials of quantitative easing - QE - have brought to mind the famous Queen Elizabeth cruise ships, many have likened these Fed moves as giant vessels that are loaded up and sent out to sea. But based on their newly announced plans, the analogy no longer applies. As the new commitments are open-ended, quantitative easing will now be delivered via a non-stop conveyor belt that dumps cheap money on the economy. The only variable is how fast the belt moves.

Fortunately, the crude limitations of the Fed's only policy tool have become more apparent to the markets. If you must stick with the nautical metaphors, QE3 has sunk before it has even left port. The move was explicitly designed to push down long-term interest rates, but interest rates spiked significantly in the immediate aftermath of the announcement. Traders realize that an open-ended commitment to buying bonds means that inflation and dollar weakness will likely destroy any nominal gains in the bonds themselves. To underscore this point, the Fed announcement also caused a sharp selloff in Treasuries and the dollar and a strong rally in commodities, especially precious metals.

Given that 30-year fixed mortgages are already at historic lows, there can be little confidence that the new plan

Continued on page 6

Bernanke Secretly Gives away Sixteen Trillion Dollars

Continued from page 1

Greenspan, and others, opposed the audit.

What the audit revealed was incredible: between December 2007 and June 2010, the Federal Reserve had secretly bailed out many of the world's banks, corporations, and governments by giving them US$16,000,000,000,000.00 - that's 16 TRILLION dollars." Richard Mills

It gets worse, much worse, in fact it's downright incestuous. Let's do a follow up and see who, besides *foreign banks and corporations from Scotland to South Korea, received a large chunk of that money.

* Banks like JP Morgan benefited from the foreign bailouts - they are some of the largest creditors of the bailed out countries. Instead of having to write off their foreign losses the US Federal Reserve bailouts enabled them to be paid in full.

The Government Accountability Office (GAO) investigates potential conflicts of interest. The GAO did investigate the $16 trillion giveaway and laid out the findings but did not name names. Those names have now been released - here's three of the more shocking cases...

"In Dimon's (JPMorgan Chase CEO Jamie Dimon) case, JPMorgan received some $391 billion of the $4 trillion in emergency Fed funds at the same time his bank was used by the Fed as a clearinghouse for emergency lending programs. In March of 2008, the Fed provided JPMorgan with $29 billion in financing to acquire Bear Stearns. Dimon also got the Fed to provide JPMorgan Chase with an 18-month exemption from risk-based leverage and capital requirements. And he convinced the Fed to take risky mortgage-related assets off of Bear Stearns balance sheet before JP Morgan Chase acquired the troubled investment bank.

Another high-profile conflict involved Stephen Friedman, the former chairman of the New York Fed's board of directors. Late in 2008, the New York Fed approved an application from Goldman Sachs to become a bank holding company giving it access to cheap loans from the Federal Reserve. During that period, Friedman sat on the Goldman Sachs board. He also owned Goldman stock, something that was prohibited by Federal Reserve conflict of interest regulations. Although it was not publicly disclosed at the time, Friedman received a waiver from the Fed's conflict of interest rules in late 2008. Unbeknownst to the Fed, Friedman continued to purchase shares in Goldman from November 2008 through January of 2009, according to the GAO.

In another case, General Electric CEO Jeffrey Immelt was a New York Fed board member at the same time GE helped create a Commercial Paper Funding Facility during the financial crisis. The Fed later provided $16 billion in financing to GE under this emergency lending program." Fed Board Member Conflicts Detailed by GAO, http://www.sanders.senate.gov/

Below is the full list of 18 Fed board members who gave their own banks four trillion dollars:

1 - Jamie Dimon, the Chairman and CEO of JP Morgan Chase, has served on the Board of Directors at the Federal Reserve Bank of New York since 2007. During the financial crisis, the Fed provided JP Morgan Chase with $391 billion in total financial assistance. JP Morgan Chase was also used by the Fed as a clearinghouse for the Fed's emergency lending programs.

In March of 2008, the Fed provided JP Morgan Chase with $29 billion in financing to acquire Bear Stearns. During the financial crisis, the Fed provided JP Morgan Chase with an 18-month exemption from risk-based leverage and capital requirements. The Fed also agreed to take risky mortgage-related assets off of Bear Stearns balance sheet before JP Morgan Chase acquired this troubled investment bank.

"I just think this constant refrain, 'bankers, bankers, bankers' -- it's just a really unproductive and unfair way of treating people. People should just stop doing that." Jamie Dimon

Continued on page 5

The Fed Is The Great Enabler

Steve Saville

We've speculated in TSI commentaries that unwavering devotion to bad economic theory (a type of stupidity) is the most likely reason for the Fed's introduction of a new inflation program at this time. There are other plausible explanations, but in general terms it boils down to this: the Fed is either stupid, or evil, or stupid and evil. There is no fourth possibility that makes any sense. It is either evil enough to inflate the currency in an effort to help banks (or the re-election chances of Obama*) even though it knows that doing so will harm the overall economy; or it is stupid enough to believe that the economy can be helped by creating money out of nothing and distorting the price signals upon which an efficient market relies; or it is evil enough and stupid enough to believe that it can transfer wealth to the banks and simultaneously create a net benefit for the overall economy. We'll go with evil and stupid. The timing of the new policy was probably determined by the deteriorating employment situation, but the Fed may well be trying to kill multiple birds with a single stone. In any case, regardless of the reasoning behind the Fed's latest policy move, the Fed exists primarily to enable growth in the government and secondarily to enable growth in the banking industry. Growth in government is enabled because a government with a captive central bank will never run short of money, irrespective of how big its deficits become and how far into debt it goes. Growth in the banking industry is enabled because the central bank's unlimited power to create new bank reserves means that banks need never run short of reserves, irrespective of how reckless they are in their lending and borrowing.

It is clear from the following chart that the Fed has succeeded in its primary objective. The chart shows spending by the US federal government as a percentage of GDP from 1880 through to 2012. In 1880 the federal government spent about 3% of GDP. In 1913, the year the Federal Reserve came into existence, the federal government also spent about 3% of GDP. In other words, as a

Continued on page 7

Bundesbank's IMF rant exposes a divide at the heart of the eurozone

Continued from page 2

Tensions between the IMF and Germany's central bank, which accuses the fund of throwing money around like confetti in the report, are not new. The Greek bailout saw innumerable delays thanks to wrangling between the pair.

This broadside, however, recalls a longer-standing tension. It was the Bundesbank that objected most stridently when the IMF first mooted a "global stabilisation mechanism" which involved unlimited credit extended in all directions. It is the Bundesbank which is seeking extra influence in exchange for its backing of OMT. It is the Bundesbank which earlier today was rumoured to be checking the legality of the ECB's latest bond buying wheeze.

There are two ways of looking at the deeper political implications of this. The first is that Germany is still attempting to have its cake and eat it. Agreements at a heads-of-state level to participate in rescue schemes ranging from ESM to OMT are always hard won from Chancellor Merkel, but they are forthcoming in the end.

What frequently happens afterwards is that the other arms of the state present reasons for objection, delay and obfuscation. In this respect they fulfil the wishes of a sceptical German public.

In the case of the constitutional court, these decisions are de jure limiting. The recent ruling on the ESM is a case in point – having delayed the treaty's passage, the court then affirmed limitations on its amount. In the case of the Bundesbank's report, the announcement is de facto limiting, a shot across the bows of the IMF and a reminder that Germany considers that expansions in IMF involvement must be cleared in Berlin first.

Continued on page 8

Is Global Finance a Ponzi Scheme? Ask a Russian Expert

Continued from page 1

The operation employed a structure borrowed from multi-level marketing. Early investors recruited new ones. A member who brought ten people into the fold could become a foreman and take a small cut from each investment by his “clients.” The first adopters could end up running an army of 100,000 or even a million. They offered returns from 20 percent for a one-month deposit up to 60 percent monthly for a 12-month deposit.

This time around, the mathematician was careful to mitigate the risk that he would be accused of fraud, or of operating a financial business without a license. MMM-2011 was not a legal entity. Money was moved strictly between people's private bank accounts or electronic wallets. The network made extensive use of communication technology: Potential foremen were interviewed via Skype, and each member was required to use a Gmail account.

Authorities were nonplussed. “The law enforcement agencies have a very high sensitivity threshold,” Russia's financial ombudsman Pavel Medvedev told TVRain. “They worry when someone gets killed, not when fraud is being perpetrated.” Criminal proceedings were started against Mavrodi in Novosibirsk, where he was accused of “aiding illegal enterprise,” but no move was made to arrest the MMM mastermind, who communicated with his followers only by posting videos on his website.

In Ukraine, Prime Minister Nikolai Azarov promised that the government would “check on what grounds this company started operating” and warned citizens that “there is no such thing as a free lunch.” No decisive action was taken. Alexei Plotnikov, a parliamentary deputy from the ruling Regions Party, argued that action wasn't necessary: “There is a general rule that you should not stick fingers in an electrical outlet, but there will always be people who do that," he said. "It's the same with Ponzi schemes and other questionable operations. All the government should do is issue a warning.”

MMM-2011 halted payments on May 31. “Unfortunately, I have to admit that a panic has started within the System,” Mavrodi wrote, blaming the media for spreading malicious rumors. “This is a pyramid! If everyone rushes to withdraw the money, there is no way there will be enough money for everybody. In fact, it would be the same with any bank.”

Undaunted, Mavrodi launched a new pyramid, MMM-2012, saying that it would be used to prop up MMM-2011. “Don't worry, don't be nervous, we will fix everything, and you'll get paid in full,” Mavrodi wrote, adding immediately: “This is not a promise, just a feeling I have.”

Experts pointed out the difference between those who lost their money to the first MMM in 1994 and the members of Mavrodi's modernized social network. “There is a different motivation now,” psychologist Akop Narvazyan told Russia's Channel One. “This is a gamble: People hope they will be smarter, more cunning than others. This is no longer mere inexperience, it's adventure-seeking.” Yet when the pyramid collapsed, Internet forums quickly filled with desperate pleas. “Please help me withdraw my deposit of 3.8 million rubles ($112,000). Am willing to pay 30 percent. Can anyone help or is it all over?” read one post. “Guys, save me, I borrowed serious money from serious people and now my foreman won't answer!” read another. Some MMM-2011 depositors, like their predecessors in 1994, have borrowed against their apartments to invest and are now facing homelessness.

It may all be their fault. They had been warned repeatedly by various officials and by Mavrodi himself. It is, however, an interesting moral issue, if not a legal one, whether governments have any obligation to protect financial innocents from themselves. One also wonders whether the policy makers managing the world's financial system might be able to extract some lessons for themselves.

(Leonid Bershidsky, an editor and novelist, is Moscow and Kiev correspondent for World View. Opinions expressed are his own.)

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Bernanke Secretly Gives away Sixteen Trillion Dollars

Continued from page 3

2 - Jeffrey Immelt, the CEO of General Electric, served on the New York Fed's Board of Directors from 2006-2011. General Electric received $16 billion in low-interest financing from the Federal Reserve's Commercial Paper Funding Facility during this time period.

3 - Stephen Friedman. In 2008, the New York Fed approved an application from Goldman Sachs to become a bank holding company giving it access to cheap Fed loans. During the same period, Friedman, who was chairman of the New York Fed at the time, sat on the Goldman Sachs board of directors and owned Goldman stock, something the Fed's rules prohibited. He received a waiver in late 2008 that was not made public (the Fed provided conflict of interest waivers to employees and private contractors so they could keep investments in the same financial institutions and corporations that were given emergency loans). After Friedman received the waiver, he continued to purchase stock in Goldman from November 2008 through January of 2009 unbeknownst to the Fed, according to the GAO.

During the financial crisis, Goldman Sachs received $814 billion in total financial assistance from the Fed.

4 - Sanford Weill, the former CEO of Citigroup, served on the Fed's Board of Directors in New York in 2006. During the financial crisis, Citigroup received over $2.5 trillion in total financial assistance from the Fed.

5 - Richard Fuld, Jr, the former CEO of Lehman Brothers, served on the Fed's Board of Directors in New York from 2006 to 2008. During the financial crisis, the Fed provided $183 billion in total financial assistance to Lehman before it collapsed.

6 - James M. Wells, the Chairman and CEO of SunTrust Banks, has served on the Board of Directors at the Federal Reserve Bank in Atlanta since 2008. During the financial crisis, SunTrust received $7.5 billion in total financial assistance from the Fed.

7 - Richard Carrion, the head of Popular Inc. in Puerto Rico, has served on the Board of Directors of the Federal Reserve Bank of New York since 2008. Popular received $1.2 billion in total financing from the Fed's Term Auction Facility during the financial crisis.

8 - James Smith, the Chairman and CEO of Webster Bank, served on the Federal Reserve's Board of Directors in Boston from 2008-2010. Webster Bank received $550 million in total financing from the Federal Reserve's Term Auction Facility during the financial crisis.

9 - Ted Cecala, the former Chairman and CEO of Wilmington Trust, served on the Fed's Board of Directors in Philadelphia from 2008-2010. Wilmington Trust received $3.2 billion in total financial assistance from the Federal Reserve during the financial crisis.

10 - Robert Jones, the President and CEO of Old National Bancorp, has served on the Fed's Board of Directors in St. Louis since 2008. Old National Bancorp received a total of $550 million in low-interest loans from the Federal Reserve's Term Auction Facility during the financial crisis.

11 - James Rohr, the Chairman and CEO of PNC Financial Services Group, served on the Fed's Board of Directors in Cleveland from 2008-2010. PNC received $6.5 billion in low-interest loans from the Federal Reserve during the financial crisis.

12 - George Fisk, the CEO of LegacyTexas Group, was a director at the Dallas Federal Reserve in 2009. During the financial crisis, his firm received a $5 million low-interest loan from the Federal Reserve's Term Auction Facility.

13 - Dennis Kuester, the former CEO of Marshall & Ilsley, served as a board director on the Chicago Federal Reserve from 2007-2008. During the financial crisis, his bank received over $21 billion in low-interest loans from the Fed.

14 - George Jones, Jr., the CEO of Texas Capital Bank, has served as a board director at the Dallas Federal Reserve since 2009. During the financial crisis, his bank received $2.3 billion in total financing from the Fed's Term Auction Facility.

15 - Douglas Morrison, was the Chief Financial Officer at CitiBank in Sioux Falls, South Dakota, while he served as a board director at the Minneapolis Federal Reserve Bank in 2006. During the financial crisis, CitiBank in Sioux Falls, South Dakota received over $21 billion in total financing from the Federal Reserve.

16 - L. Phillip Humann, the former CEO of SunTrust Banks, served on the Board of Directors at the Federal Reserve Bank in Atlanta from 2006-2008. During the financial crisis, SunTrust received $7.5 billion in total financial assistance from the Fed.

17 - Henry Meyer, III, the former CEO of KeyCorp, served on the Board of Directors at the Federal Reserve Bank in Cleveland from 2006-2007. During the financial crisis, KeyBank (owned by KeyCorp) received over $40 billion in total financing from the Federal Reserve.

Continued on page 8

Operation Screw

Continued from page 2

will succeed in pushing them much lower, especially given the upward spike that occurred in the immediate aftermath of the announcement. Instead, Bernanke is likely trying to provide the confidence home owners need to exchange fixed-rate mortgages for lower adjustable rate loans - which would free up more cash for current consumer spending. He is looking for homeowners to do their own twist. If he succeeds, more homeowners will be vulnerable to increasing rates, which will further limit the Fed's future ability to increase rates to fight rising prices.

The goal of the plan is to create consumer purchasing power by raising home and stock prices. No one seems to be considering the likelihood that unending QE will fail to lift bond, stock, or home prices, but will instead bleed straight through to higher prices for food, energy, and other consumer staples. If that occurs, consumers will have less purchasing power as a result of Bernanke's efforts, not more.

The Fed decision comes at the same time as the situation in Europe is finally moving out of urgent crisis mode. While I do not think the ECB's decision to underwrite more sovereign debt from troubled EU members will work out well in the long term, at least those moves have come with some German strings attached. As a result, I feel that the attention of currency traders may now shift to the poor fundamentals of the US dollar, rather than the potential for a breakup of the euro.

In the meantime, the implications for American investors should be clear. The Fed will try to conjure a recovery on the backs of currency debasement. It will not stop or alter from this course. If the economy fails to respond to the drugs, Bernanke will simply up the dosage. In fact, he is so convinced we will remain dependent on quantitative easing that he explicitly said he won't turn off the spigots even if things noticeably improve. In other words, the dollar is screwed.

Article by:
Peter Schiff
Euro Pacific Capital Research
September 15, 2012

Euro-Denominated Physical Gold Sets Record High

Tatyana Shumsky

--Spot gold hits record in euros

--Investors flock to gold amid easy-money worries

--Weaker euro lifts euro-denominated gold prices to record high

NEW YORK--Physical gold traded in euros hit an all-time high Friday, bolstered by a weaker euro and expectations that the European Central Bank will soon push the common currency lower.

Gold for immediate delivery traded in London was recently at EUR1,380 a troy ounce, having earlier touched a record high of EUR1,380.87.

The euro sank as low as $1.2847 against the dollar. Gold is primarily traded in dollars, and as any other currency advances or retreats versus the dollar, gold priced in that currency is adjusted to reflect those shifts.

The precious metal is setting records in euros and Swiss francs, but has yet to exceed its all time high in dollars and several other currencies.

To be in a "pure" bull market, a commodity's price must be climbing in all currencies, "then you can get rid of the currency effect," said BNP Paribas senior metals strategist Stephen Briggs.

Gold is widely considered a currency alternative, and some investors buy the precious metal as a safer way to store their wealth.

"It's telling you that people are wanting to buy gold instead of currencies," said Mr. Briggs.

However, a lower euro-dollar exchange rate is not the only factor driving gold prices higher in euro terms, said Tim Harvey, senior vice president at ETF Securities, a provider of exchange traded funds including several funds that purchase and store gold bullion on behalf of their clients.

The euro hit a two-year low of $1.2061 on July 24, but euro-denominated gold traded well off the year's high that day, at EUR1311 a troy once, Mr. Harvey said.

Instead, a large part of gold's recent success has come from investor concerns about additional easing measures from the world's central banks, he said.

The ECB is expected to institute new easing measures in response to Spain's anticipated request for a financial rescue.

"We've seen more quantitative easing come through in the last six weeks ... and we've seen steady inflows into gold, where investors have been steadily increasing their exposure in gold over that time," Mr. Harvey said.

Quantitative easing will largely flood the economy with more money. Some investors fear it will spark inflation, leading them to see gold as a safe haven.

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September 28, 2012

The Fed Is The Great Enabler

Continued from page 3

percentage of GDP there was no growth in the US federal government during the 33 years prior to the inauguration of the Federal Reserve. An ultra-long-term upward trend then began. Ignoring the war-related spikes during the late-1910s and the first half of the 1940s, there has been steady growth in the US federal government from 1913 through to the present. Currently, US federal government spending equates to about 24% of GDP. This means that since the birth of the Federal Reserve the cumulative increase in the size of the US federal government is about 700% greater than the cumulative increase in US GDP.

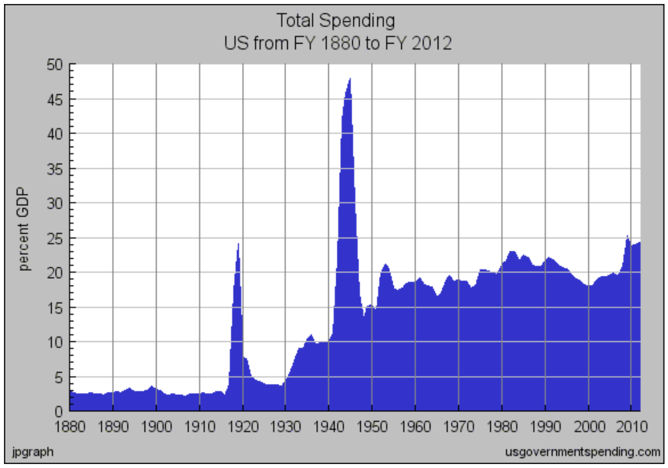

Chart Source: www.usgovernmentspending.com

Would a Republican victory in this year's US Presidential election reverse the upward trend in the size of the federal government? If history is a guide, the answer is no. In fact, over the past thirty years the size of the US federal government, as indicated by federal government spending as a percentage of GDP, increased by more during Republican administrations than during Democratic administrations. The Republicans often talk a good game (they pay lip service to smaller government), but in practice they are usually just as bad as or worse than their Democratic counterparts. One of the main reasons is that the Republicans are generally in favour of boosting the amount of money spent on the military. An increase in military spending is always politically easy to accomplish because most Americans are proud of their armed forces, but of the main areas of US government spending the most unproductive is the military. We are certainly not in favour of government spending on public works programs in an effort to create jobs, but it would be much better for the government to spend money building a bridge in the US than blowing up a bridge in the Middle East.

So, a Romney-Ryan victory in November would probably change the composition of the federal budget, but believing that it would result in a smaller government is an example of the triumph of hope over experience. Regardless of who wins in November, it's a good bet that the US federal government will be a bigger part of the economy four years from now than it is today. And as always, the government growth will be enabled by the Federal Reserve.

The extent of the Fed's success in achieving its secondary objective (enabling growth in the banking industry) is less easy to establish. This is because the big banks periodically go way too far and blow themselves up. The Fed then bails them out, either immediately and directly via the injection of new money or gradually and indirectly by manipulating the yield curve and altering regulations, but the periodic blow-ups mean that there hasn't been a consistent ultra-long-term upward trend in the banking industry relative to the overall economy. The US financial sector's performance has been lumpy, although it has still managed to grow from about 3.5% of GDP at the introduction of the Fed to about 8% of GDP today.

The bottom line is that we can speculate about why the Fed introduced a new inflation program at this particular time, but in the grand scheme of things it doesn't matter. A specific policy move by the Fed will generally be a reaction to recent economic data and short-term considerations, but the Fed doesn't exist for the purpose of fine-tuning the economy (although the current Fed chairman and governors may well be politically naive enough and economically illiterate enough to believe that it does). It is a tool that facilitates the growth of the government and the banking industry.

**In last week's Interim Update we outlined our reasons for thinking that the Fed did not act with the aim of boosting Obama's re-election chances. We also said that in the unlikely event that it did act for this reason, the move could backfire. An informal Facebook survey conducted by the Federal Reserve Bank of San Francisco underlines the possibility that the Fed's move could hinder rather than help the Obama campaign. As noted in a WSJ blog entry on 17th September, the Facebook survey indicated an overwhelmingly negative public response to QE3.*

Article by:
Steve Saville
www.speculative-investor.com
September 23, 2012

Bundesbank's IMF rant exposes a divide at the heart of the eurozone

Continued from page 4

The point is that while Germany is a willing participant in the bailouts, the need for control is also very apparent. To the German mind, indemnifying southern Europe without imposing strict conditionality is abhorrent.

The domestic perception of Germany being pegged back by the euro crisis requires that imprudent states conform to a German vision of the right economic path.

Greater IMF involvement in the eurozone dilutes German influence and possibly undermines German-style austerity (even thought the fund is being strict on Greece at the moment).

In other words, German support comes pegged to German control. Even given disappointing domestic economic data, Germany remains Europe's economic and political centre. It plans to keep it that way.

Article by:
Ambrose Evans-Pritchard
The Telegraph UK
September 24, 2012

Bernanke Secretly Gives away Sixteen Trillion Dollars

Continued from page 5

18 - Ronald Logue, the former CEO of State Street Corporation, served as a board member of the Boston Federal Reserve Bank from 2006-2007. During the financial crisis, State Street Corporation received a total of $42 billion in financing from the Federal Reserve.

"The Fed outsourced virtually all of the operations of their emergency lending programs to private contractors like JP Morgan Chase, Morgan Stanley, and Wells Fargo. The same firms also received trillions of dollars in Fed loans at near-zero interest rates. Altogether some two-thirds of the contracts that the Fed awarded to manage its emergency lending programs were no-bid contracts. Morgan Stanley was given the largest no-bid contract worth $108.4 million to help manage the Fed bailout of AIG." ~ Mises.ca

Conclusion

The financial sector parasites, the banksters and their political puppets that have historically fed on our society have never been so brazen. The looting of the public treasury is very much in the open - if anyone cares to look - and done with impunity.

This is all happening because our elected politicians do not work for the people, our elected leaders have stuck their snouts deep in the trough of power and self indulgence, representative democracy has been co-opted by big-moneyed interests and political parties represent their establishment not the people's interests.

"The lending suites that were set up for months and years, beyond the initial crisis point, were focused on how to keep banks profitable, not just how to keep them alive. The banks were able to access emergency lending facilities, or change themselves into bank holding companies overnight, to borrow at next to nothing, and if they chose, lend back to the government at a tidy profit. You didn't have to think at all to make money. And you didn't have to worry about that toxic balance sheet, because the government was going to help you grow your way out of it. They will also facilitate mergers to help decimate your competition. The money that the banks borrowed for nothing could have just as easily gone to underwater homeowners. There's nothing special about the banks except that they know the Fed policymakers personally." ~ David Dayen, firedoglake.com

Fed loans at near-zero interest rates, incestuous bailouts, secret waivers, no-bid contracts, and a failed Republic should be on all our radar screens. Are they on yours? If not, maybe they should be.

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The Outstanding Public Debt
National Debt:
16,077,503,422,944.60
The estimated population of the United States is **313,606,639**
US citizen's share of this debt is
$51,266.46
The National Debt has continued to increase an average of
$3.86 billion per day
Business, Government, Financial and Unfunded Liabilities Debt exceeds
$100 Trillion