Certified Gold Exchange, Inc.

ORE-VISION

Views and Analysis on the Economy and Precious Metals

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REASONS WHY GOLD WILL RISE (revisited)

Jim Willie CB

As the slow "dog days" of summer are upon us, why not a reflection on why gold still makes sense? The first article under my pen name "25 Reasons Why Gold Will Rise" was published in November of 2002 (much gratitude to the Moriarities). The entire motivation for the compendium of justifications was disagreement and disrespect for the few shallow reasons offered by the press & media. The only reason they seemed to understand was MidEast violence. Not the Iraqi conflict, but the Israel-Palestine ongoing endless version. Do they even recall this overused reason now that the focus of MidEast violence has moved 1000 miles east and 1500 miles southeast? Probably not. They would have to be blind not to discern tremendous problems for the US Economy external finances. **They overlooked back then a cluster of monetary reasons and economic fundamentals behind an imminent gold rise and USDollar decline. They did not get it right then; they do not get it right now. Let's revisit the listed reasons why gold has risen, as forecasted 20 months ago. They are still relevant for further price appreciation.** Since the time of its writing, two additional reasons have been captured, worthy of addendum.

1. real rate of interest has been near zero since Oct 2001

For over a full year, a 1% Fed Funds target, and a 1.0% to 1.2% floating yield on the 3-month TBill has prevailed. Since spring 2003, when the Fed issued its last rate cut, negative real rates have been a driving force for gold. With a low-ball CPI in the 2% to 3% range short-term real rates have remained negative. Na□ve gold watchers, usually gold bashers, point to real rates normalizing toward zero or even turning positive. Perhaps they should check the CPI, up in the last year much more than the measly 25 basis points ordered by the Fed in late June. The Consumer Price Index is ridiculously low in the true measure of consumer price inflation. Real rates have actually turned deeper negative, and will likely continue in this pattern. Given the paltry yields offered by short-term

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Protecting Yourself Against the U.S. Dollar Collapse

Bill Ridley

Though I have been preaching for over three years that the U.S. dollar will slide due to excessive budget overruns and trade deficits, two mainstream banks are predicting very rapid declines for the dollar over the next 12-24 months.

In January of 2003, the U.S. dollar would have bought $1.57 Canadian. Today the greenback will buy you just over $1.27 CDN. However the TD Bank is projecting that the U.S. dollar will be worth just $1.20 CDN within 24 months and the National Bank of Canada is projecting the USD will buy just $1.18 in just 12 months time.

This means that readers of the Growth Stock Report will stand to get a double whammy benefit as our resource stock picks are all traded in Canadian dollars.

And though the banks didn't say it, this also implies that the price of gold should go up.

The ultimate battle here is the value the market place gives to our fiat money system versus the free market value given to gold. The evidence which suggests that the so-called free market in gold has been manipulated by outside forces aligned with the global bankers isn't surprising for

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I remember reading a quote from the founder of the Ford Motor Company, Henry Ford, who stated that the citizens of this country would start a revolution immediately if they really knew how the banking system works.

Over the years, other notable Americans have stated warnings about allowing private banking institutions to govern our money system under the guise of a government institution.

"Some people think the Federal Reserve Banks are US government institutions. They are not... they are private credit monopolies which prey upon the people of the U.S. for the benefit of themselves and their foreign and domestic swindlers, and rich and predatory money lenders. The sack of the United States by the Fed is the greatest crime in history. Every effort has been made by the Fed to conceal its powers, but the truth is the Fed has usurped the government. It controls everything here and it controls all our foreign relations. It makes and breaks governments at will."

Congressman Charles McFadden, Chairman, House Banking and Currency Committee, June 10, 1932

"The few who can understand the system (Federal Reserve) will either be so interested in its profits, or so dependent on its favors, that there will be no opposition from that class, while on the other hand, the great body of the people, mentally incapable of comprehending the tremendous advantages that capital derives from the system, will bear its burdens without complaint and perhaps without even suspecting that the system is

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2. rise in foreign holdings of US assets increases our vulnerability to foreign abandonment
The accumulation recently by foreign entities, principally central banks, has gone parabolic in the last year. The percentage of new Treasury issuance gobbled up for foreigners has risen a few percentage points to 45%. The total foreign accumulation of US financial assets in 2002 was almost $400 billion. In 2003 they gathered another $600 billion. Better yet, in the first half of 2004 alone, they collected over $1600 billion in additional assets. In the last couple months, Asians have noticeably withdrawn their demand. This could portend trouble ahead, and a strong motivation to own gold. One should be careful to note that dishoarding of their positions would be inflationary to prices in Asia, while deflationary to prices in the USA. A liquidity flood would take place in Asia, but an economic drag of huge proportions would take place in the USA.

3. money supply increased over 40% since Jan 2001, close to 100% rise since 1991
The money supply continues to rise steadily but not yet parabolically. Since Dec 2002, the M3 has risen by 7.8%, which is above the GDP growth rate. However, in just the first seven months of 2004, the M3 has risen 3.9%, which marks an acceleration. Furthermore, an estimated 25% of that increase in the monetary base owes to Fanny Mae and the cast of uncontrollable mortgage funders. One must be especially careful to track the destination of new money created. Some goes to augment the demand for assets like housing, stocks, and bonds. The majority of new money seems to go toward consumer debt and insurance against higher rates, like more wasted capital in seawall sandbags to ward off assaults to the US credit market.

4. return to federal deficits from recession and wartime economy, security spending
An economic recovery usually brings about a gradual removal of red ink to the federal balance sheet. Not this time. Well, the claim of recovery has sounded less than honest, if not totally fallacious, even politically expedient. To me, it is ludicrous and fraudulent. Federal deficits have remained quite steady, in the $400 billion range for the last three years. The Iraqi War has resulted in $70 to $100 billion costs last year, and about the same this year, with no end in sight. Whenever the federal budget is cited, one should be certain to mention that the Social Security Trust Fund is routinely pilfered to pay for today's federal bills, even as future bills escalate. Coming years will see more dreadful deficits from additional commitments like the Medicare Prescription Drug bill, which will add roughly $550 billion over three years to the deficit. In the next few years, talk will emerge of eventual and inevitable US Treasury default.

5. rising world tension, desire for safer safe haven, the geopolitical threat to peace
In the last 20 months, Iraq became a new theatre for conflict. Open season was declared on oil pipelines. Saudi Arabia became a site for terrorist violence, a prediction of mine made in January 2003. Al Qaeda broadened its target zones to Bali and Spain, racking up several hundred more victims. Chechnya never went away. Israel erected a wall to quell easy access from neighboring zones. Geopolitical peace is nowhere to be seen, except in South America, Australia, and Asia.

6. Glass-Steagal Law repeal now heightens risk of financial cluster failure in progress
The law was instituted immediately after the Great Depression in order to protect from systemic ripple effect damage, extending from banks to brokerage houses to insurance companies. Now all three are vulnerably linked. The topic receives little if any attention. Giant financial conglomerates like Citigroup and JPMorgan possess dangerously large and unregulated derivative books. Each owns a major brokerage arm subsidiary. Citi owns a major insurance firm. Following the World Trade Center attack, insurance companies have been under enormous strain. As a group, they publicly state justification for rising insurance premiums to be increased risk of attack and disruption. If the truth be told, it is more due to severe drops in their income from fixed income investments, since Treasury yields are pathetically low. Brokerage houses are the tail on this dog. The two critical pieces are banking (loaded by derivative risk) and insurance (strained by low yield income and continued terrorist risk). If one arm falls, the others are

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7. world perception of American institutionalized dishonesty
A new wrinkle to US lack of pursuit for truth came in February 2003, as the US put forth questionable arguments and documents to justify Weapons of Mass Destruction existence in Iraq. The current administration alienated European leaders and NATO. We parted ways with a stodgy inactive United Nations, which had its own massive fraud controversy with Iraq's Food For Oil Program. In the last 20 months, US prestige has fallen more due to the ongoing war, its narrow coalition of support, and regular pipeline attacks. At the time of the last article, our prestige was under assault by a string of fraud cases, led by Enron and WorldCom and mutual fund controversies. The stock bust in 2000 had its aftermath.

8. likelihood of systemic banking shock waves from debt collapse and derivative chain reaction
Derivative books have continued to grow. Exact measurement is impossible. It would not be surprising to learn that in 20 months, the notional value of US-held derivative might have increased by 20% or more. During this time span, two bond revolts occurred, one in July 2003 (led by Fanny Mae convexity), another in March 2004 (led by a false start in jobs growth). Since bonds comprise at least 75% of derivative portfolios, they should be closely watched to signal trouble in the highly leverage arena of derivative trading. Low rates are kept low, in part by leveraged contracts to protect the entire financial system.

9. reduction of USDollar usage as both store of value, banking reserve asset
Several developments have undermined the USDollar as primary store of value in hard asset reserves. The euro has risen 40% in 20 months, as European and Middle East (OPEC and Arabs) have turned increasingly to diversification. Asians and Russians have also publicly announced a diversified intention, which includes gold. Islamic nations have begun to tinker with bilateral commerce settlement in Gold Dinars. China last autumn opened its first Gold Exchange. The winds are blowing away from the USDollar as the primary reserve currency.

10. sharp increase of savings across Asia in the form of gold
The Chinese move to open a Shanghai Gold Exchange marks a critical event. Rumors run rampant on a constant basis that China is accumulating gold for a future bank system foundation. Promoting gold for citizen savings only reinforces the direction seen as coming. Rumors even include China eventually backing their yuan currency with gold. Those who spread such stories should beware that a quantum jump in their currency exchange rate would cause two immediate effects. Their export business would be harmed badly. A rise versus the US$ but more stable exchange rate with the euro would preserve export potential to the European Union. Their import cost for raw materials and energy supplies would also drop in price. At some point, when their middle class grows even more, such a compromise might be welcomed.

11. Islamic world is planning gold-centric international commerce, distancing from US Dollar
The Gold Dinar is openly discussed in the Islamic world. It is unsure whether Iran and Indonesia have followed through with stated plans to settle on trade with gold. Other bilateral agreements are either hatched or in the works. Some Arab nations are deeply in debt, such as Saudi Arabia (the #1 nation in per capita debt). Other Islamic nations and Arab emirates continue to sock away large surpluses annually. The Middle East continues to see strong gold demand. Whether a more formal gold-backed system of commercial settlement occurs among Islamic nations, in defiance of western standards, we will see.

12. Bank for International Settlements has targeted the US dollar for a corrective decline
Leaked internal reports indicated a desire to weaken, if not bring down, the Soviet Union back in the 1980 decade. They were seen by the BIS as a threat to world security. In the 1990 decade, similar reports indicated a desire to remove the unstable dynamic to the world economy owing to the uncontrollable growth in US Dollar creation and its excessive appreciation. This is a shady organization, not corrupt, but rather secretive. The BIS serves as the central bank for all major central banks. They have tremendously powerful means to effect

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inimical to their interests."

John Sherman, protégé of the Rothschild banking family, in a letter sent in 1863 to New York Bankers, Morton, and Gould, in support of the then proposed National Banking Act.

"I see in the near future a crisis approaching. It unnerves me and causes me to tremble for the safety of my country... the Money Power of the country will endeavor to prolong its reign"' by working upon the prejudices of the people, until the wealth is aggregated in a few hands and the Republic is destroyed. I feel at this moment more anxiety for the safety of my country than ever before, even in the midst of war."

Abraham Lincoln, from a letter written to William Elkin just after the passage of the National Banking Act of 1863 and less than five months before he was assassinated.

The Central Banks and their fiat money system have a HUGE vested interest in keeping their control of the money system. Is it any wonder why the price of gold has been manipulated as many gold gurus have revealed?

By allowing the privately held Federal Reserve to control our monetary system, our purchasing power has been significantly eroded. Since the Fed took control in 1913, the purchasing power of the dollar in terms of buying goods and services has dropped by 94%. In other words, today's dollar could only buy 6 cents worth of goods in 1913.

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Is it any wonder that hard assets have sky rocketed in value?

My parent's home was built just before World War II for $14,000. Today it's valued at over $500,000. And you know the story with gold, copper, oil and other commodities. We are in the midst of a major long-term upswing in the price of hard assets and a continuing erosion of paper money.

However we are also saddled with the major problem of debt repayment. Even though future dollars will be worth less, the taxpayers are on the hook to pay back the multi-billion dollar debts which most economists say can never be paid off.

It's an interesting situation and one which history has showed, always ends in failure.

Former Clinton advisor, Robert Reich stated last week that he sees the U.S. dollar heading for a downfall but for reasons beyond just debt alone. Reich believes that U.S. foreign policy is alienating traditional allies and the already slumping dollar will head for a collapse.

Reich stated at a global business forum last week that the U.S. dollar is fast reaching a point at which foreign investors will abandon it and send it into a freefall.

The U.S. requires a daily infusion of $1.2 billion in foreign investment just to keep the greenback decline under control, he said.

Reich, who is also an informal advisor to John Kerry is also concerned that

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change, by restricting credit flow and managing large leveraged portfolios. It is reported that they would like to see a hard asset like gold more involved in the world monetary system. Little can be verified. So take this assessment as conjecture.

13. reversal of miner hedges, end of gold leasing, reducing supply
In the last 20 months, total gold miner hedge book forward contracts are reported to have declined by between 30% and 40%. Their contract buybacks continue, which might provide an ironic support to the gold price, offsetting the gold cartel assaults. As for gold leasing, it has not ended by all accounts; lease rates continue to be tiny. Skirmishes continue with members of the European Union. While small nations like Netherlands (I believe) expressed lost interest in gold sales, Germany and Switzerland continue the practice of gold dumping. It is unclear how much gold remains in Fort Knox. Actually, what remains of our national gold treasure is reportedly guarded at West Point.

14. dismantled mining supply apparatus, from systemic price below production
It still takes a long time to bring a revived mine into production. Fifteen years of neglect did not completely end in 2002, when gold reversed in price. In the last 20 months, numerous little gold companies, and many larger companies have opened shuttered mines. Many properties have made early steps toward returning to production, bringing permits up to date, hiring operators, obtaining funds, and completing environmental impact studies where required. A shortage of operators and equipment is reported in the field in Canada.

15. paradox: high gold price leads to higher demand, and high price leads to lower supply
This statement is hard to prove. Demand was nearly non-existent for gold at the autumn 2001 low. Demand is growing nowadays. Gold fever has come and gone, sure to return. In the last cycle, people were lined up around street corners in 1980 to purchase gold coins at the peak price. Expect the same this time, over several rounds of price jumps. Paradoxically, as the gold price rises, cash is taken out of gold miner operations to pay down forward contracts before they burn acidic holes in balance sheets. Gold reserves have not markedly increased in the last 20 months from new discovery. In fact, new deposits seem in most cases to be of low grade, with between 5 and 30 grams per ore ton. Despite a $140 rise off the gold low price, no acceleration in supply brought to market has occurred. My claim is that both demand and supply for gold are inelastic.

16. trade tariff resumption discourages global trading village concept
Trade friction has grown with numerous international court cases, and even more national court cases. The USA instituted a 2002 steel tariff on foreign imports, which was lifted last year. Europeans have cited several protected group items from the USA in violation, like jewelry. Recently, Asian shrimp and clothing were cited by our courts. Globalization brings with it severe price differences, job displacement, and undercurrent conflict. Given the shortages widely reported for steel and cement, and games played in Chinese ports over soybeans,

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expect protectionist winds to blow hard and regularly. My expectation is for much wider trade war between China and the USA.

17. USDollar correction to relieve the trade imbalance could result in a currency crisis
The USDollar has declined about 40% versus the euro and almost 10% versus the yen in the last 20 months. The US trade gap has risen from the mid to upper $30 billion range. The new range is the mid to upper $40 billion level. In spring 2002, my prediction was made that the US$ would correct sharply, but the US trade gap would not improve, and might even widen. Doug Noland of Prudent Bear, in a recent credit report, claims monetary trouble not on the periphery, but in the core. Poorly qualified borrowers can easily find credit. Large retail purchases are easily financed with zero deals. International credit subsidies have created a systemic risk of currency crisis not evident in previous years. Massive federal deficits, massive current account deficits, unprecedented central bank intervention, these have rendered the world monetary system unstable and imbalanced. Forget the crappola from the Fed about flexibility advantages, which is denial at the extreme in rationalization of their incredible failure. A currency crisis is in the cards in the not too distant future.

18. accelerating worldwide currency turbulence
The number of days with over 100 basis point currency moves in the euro and yen are a commonly used measure of instability. Exact data is not at my disposal. To the currency observer in FOREX activity, it seems clear that the number of days with big moves described has steadily risen. Last week after a putrid July jobs report, all three (euro, yen, sterling) registered volatile uplift days, just like when the lousy June jobs report was released. Hardly a month passes without several days with 100-bpt movements. Last autumn, following the Qatar G-8 Meeting, currencies started flying, as ministers gave vague signals of consensus desire to see the US$ much lower. This past spring, big movements went counter-trend, as the US$ appreciated with strength at the time of the false favorable jobs growth reports. Currency volatility is much worse than in the recent past. They signal greater monetary earthquakes dead ahead, in much the same manner as smaller and more frequent tremors among the earth's tectonic plates.

19. European currencies offer more attractive alternatives to USDollar, with Swiss Franc leading
This claim is debatable really. The European Union has small federal deficits among its member nations, although we arrogant Americans like to insult and denigrate the old continent. They are stodgy and crusty, while we are insane and steroid-driven. The EU possesses a reported 15 times greater amount of gold to back their currency. The EuroBond offers typically a hefty premium over US Treasurys, of approximately 1%. Until the Spain terror incident at the Madrid train station, the EU was regarded as free from terrorist threat. The Swiss Franc, aka swissy, for a century was the primary reserve currency. It has risen with the euro, or perhaps the perspective should be that the new euro has risen with the more mature swissy. The gains in the euro and swissy have been around 22% and 18% respectively over the past 20 months. Look for the swissy to regain its premier status.

20. the calendar date Sept 11th marked the turning point for USDollar in two critical years
The World Trade Center attack was a critical event. The shock & awe attack of Baghdad was another critical event. The resignation of Treasury Secy O'Neil was a milestone event, after controversy over budgets, debt obligations, and deception of Congress on estimated Medicare Drug costs. Enormous surprises on trade gaps, budget deficits, and lackluster job growth continue to dot the calendars as the US$ weakens. The US balance of trade seems unfixable. After the glow of patriotism faded in the following months after the WTC attack, fundamentals behind the US Economic weakness came under the spotlight.

21. rising costs from entire energy complex (crude oil, natural gas, heating oil, gasoline)
Crude oil has risen 70% in the last 20 months. Attacks on pipelines, an unstable Saudi Arabia, labor disputes in other producing nations, legal warfare in Russia, all these stress the energy complex on the delivery side of the equation. Reports from energy experts concerning Arab lack of excess capacity contribute to the speculative interest. Simmons goes so far as to say that Saudi's largest oil fields are near exhaustion. Natural

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Asian banks may soon consider the U.S. dollar a bad investment and pointed out that many global investors are already doing business in Euros, not U.S. dollars.

"If you embark on a unilateral foreign policy and the rest of the world is upset with you that has a boomerang effect on your global businesses. So not only does fiscal policy matter, but your foreign policy cannot be completely divorced from your national economic policy."

The bottom line is that the U.S. dollar is going down. It will either go down in an orderly fashion as it has been or it could collapse as Reich has pointed out.

As I pointed out two weeks ago, the best thing that could happen is that the status quo is maintained with foreign purchases of U.S. debt. Without that, the fall of the U.S. dollar will be very swift indeed.

It's hard to say exactly how this faith based, fabricated money system will eventually change the state of the nation over the long term. I'm not optimistic, but I can tell you one thing for sure. The U.S. dollar will be going down over the short term and gold will move up.

Be prepared.

Owning some positions in gold assets is mandatory in this perilous environment.

Bill Ridley
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The US Economy Is The Next 9/11

Marc Faber

There are several reasons why it is likely that the US economy will weaken far more than is expected by the bullish Wall Street crowd, whose only interest is to get as many investors to invest in the stock market and then to churn the accounts in order to earn high commissions.

So how weak will the US economy become? First of all one has to be concerned about the recent sharp money supply growth deceleration. The 12-months rate of growth in M2, at 3,6%, year-over-year, is at the lowest level since 1995 and the 13 week percentage change of MZM has now just turned negative.

As a result of the decline in the rate of growth of money supply, 'excess money', as defined by the growth in money supply in excess of nominal GDP, has over the last 18 months also plunged. Usually, when money supply growth slows down so rapidly and when 'excess money' plunges, the economy follows with a brief time lag.

The second reason, I have strong reservations about a sustainable recovery is that employment gains are still dismal and most unlikely to improve much. The problem, now, compared to previous recoveries in the US is that China in the manufacturing sector and that India for tradable services will continue to gain employment market share at the cost of US employment and also lead to a worsening of America's trade and current account deficit.
The more China gains of the US import market, the more jobs the US is losing. This trend has become particularly worrisome since year 2000. Moreover, what weak employment gains mean is that the US labor force has no bargaining power and, therefore, has declining real (inflation adjusted) incomes.

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gas usually sees a price reduction in summertime, but not this year, even with the benefit of mild weather which has lessened air conditioning demand. Gasoline has ripped through the $2 barrier per gallon in many states. Attention has been drawn to energy systemically. Debate rages on impact to the economy and households.

22. commodity trend reversal has begun, the beginning of a new long-term trend
Since November 2002, copper has exploded in price (+70%), steel prices have tripled in certain products, lumber has doubled, and cement has risen 20%. More importantly, cement has gone critical with outright shortages, only to stall some large construction projects. Grains and soybeans are up more in the past year than in decades. Yes, a commodity trend reversal has not only begun, marking a new age of shortage. The long-term trend has become firmly established. Shortages are so acute, owing to China's development and Greece's Olympic venue construction, that trade war seems a greater likelihood with each passing month. The focus is likely to be on construction materials and food supplies. The gold versus USTNote has begun to signal a trend reversal as well, away from paper-based securities and toward hard asset investments.

23. Kondratieff Winter is gathering speed and force
Chairman Greenspan relished the opportunity to defend the world against a K-Wave winter. His wish is being granted. The Great Fed Reflation Initiative is a dismal failure, although such a view is hardly the consensus. Many destinations of expanded money supply are unproductive. New money has gone to greater debt and questionable housing speculation. The real economy inside the USA has taken on serious damage. Rising costs have encouraged increased job outsourcing to lower cost locations like Asia. The US Economy appears to be growing. However, the more accurate picture can be seen with the real economy, where manufacturing jobs were shed on a massive basis over 20 months, and only recently have shown any substantive gains, even if paltry. In 18 months ending in December 2003, western Pennsylvania lost a whopping 140 thousand jobs in the mfg sector. Mfg alone accounts for 19% of the US GDP. If one removes electrical power generation, the mfg sector accounts for roughly 10%. Debt levels have grown in magnificent fashion, setting the stage for debt stress failure to come. Consumer debt has grown almost 7% since late 2002. The Chinese trade surplus with the USA has grown over the same time span by an even greater amount. New money either is devoted to debt burdens or shipped to Asia. Does anyone notice such a disastrous report card for the Fed Reflation project?

24. divergence toward deflationary credit-based economy, inflationary cash-based economy
Retail sales have begun to falter. Evidence lies with department stores, clothing outfits, restaurants, and automobiles. Credit offerings have remained attractive with eye-catching zero deals. Demand has faltered anyway. Pent-up demand is absent for cars and housing, and probably exhausted. Car sales have lagged badly, only to present Detroit with historically high inventories. In mid-July a reported 3.5 million unsold vehicles lined assembly plants, dealer lots, and rented mall parking lots. As the car sector goes, so goes the economy. Carmakers face production cuts or profit-eating incentives. The housing market continues strong in certain regions (e.g. California), while stalling in others, and retreating in many areas (e.g. Denver). The cash-based economy refers to markets for gasoline, crude oil, food products, construction materials, industrial metals, which are showing robust price appreciation. The trend for rising commodity prices is clear.

25. the parallel between gold's rise in the 1970's and 2000's has many components
The parallels are more clear now after 20 months. The last convincing piece was rising energy prices for comparison with the economy three decades ago. Rising production costs are obvious, in common with the 1970 decade. Talk of the possibility of stagflation has begun to hit the media publications and airwaves. Similarities are noticeable between gold's early stages of appreciation in the mid 1970's and in the last two years. The parallel is not perfect though, since China was not a principal trade component for either supply purchases nor export sales

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Under these conditions one has to wonder why US consumption expanded after 2001 rather rapidly. The reason for this anomaly were the tax cuts, which increased after tax personal incomes and the favorable conditions in the housing market, where negative real interest rates led to strong price gains and the refinancing boom.

Mortgages boost US consumer

Since 2001, homeowners have taken out much higher mortgage loans on their homes than the volume of mortgages required to finance new construction activity.

So whereas recently mortgage borrowings were running at an annual rate of almost $800 billion, the financing of new home construction only required mortgages of around $450 billion. In other words, homeowners extracted almost $300 billion a year from their homes, which they could then spend on consumer goods such as cars, appliances and other discretionary items.

However, it should be clear that consumption driven solely by asset inflation in residential real estate is not sustainable in the long run. One day, home prices will fail to rise, either because interest rates won't decline any more or because affordability for the new buyers who have declining real incomes will become an issue.

Possibly supplies will also exceed demand as home builders all want to take advantage of the appreciating housing markets across the country by building a large number of units in the hope to sell them later at inflated prices.

What we, therefore, find at the present time is that US inventories of new homes for sale are at a record because, in recent months, housing starts have been rising at a far higher rate than new home sales.

I concede that the recent renewed decline in interest rates could keep the housing market buoyant for some more time, but since housing prices have increased at a far higher rate than consumer prices in recent years, some kind of housing bubble is in the making and, by now, we should all know what eventually happens to bubbles!

I would also add that once home price appreciation slows down or interest rates rise - or a combination of both - refinancing activity will come to a halt. Since there has been a close correlation between the refinancing index and retail sales a significant slowdown or even decline in consumption is only a matter of time.

Aside from poor employment gains, negative real income increases, mortgage credit which is driving home prices higher and hence consumption, but which will inevitably slow down in future, there are some more reasons to be cautious about the American economic outlook.

Tax cut impact over

The impact of the tax cuts has ended, consumer debts are in the stratosphere and will become burdensome the day interest rates will rise and the stock and bond market are not suggesting anything else than economic weakness. Bonds have, as we expected, rallied from their June lows by about 10% while stocks of economic sensitive companies have performed poorly.

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26. major gold producing nations are seeing production costs rise in dollar terms from domestic rising currency, which has resulted in sharply declining profit margins, and may force shutdowns in mine operations

The key case in point has been South Africa, the home of the worst performing gold miner companies. Take a look at AngloGold, Harmony, Gold Fields, and Durban Deep. Their charts are flat to down, except for a strong AngloGold (AU). As a group, they have not kept pace with the HUI index rise. The South African Rand currency delivered a shock to SA producers, as it bounced back strongly after clear manipulation from major banks in previous years. The ZARand has regained its footing in the past year. The fallout has been higher production costs, a fly in the ointment to investors. Over a year ago, my analysis called for looking elsewhere from South Africa. Labor concerns and duplicity from marxist demands signaled trouble. My concerns were well placed on national purchase values on nationalization buyout, and community mandates levied against producers. As foreign gold producers attempt to ramp up gold mining operations, they must deal with a currency appreciation versus the USDollar. Australia and Canada have had to deal with the effect as well. Another ZARand runup could actually threaten gold production in the world's largest yellow metal mother lode region, South Africa. The irony is astounding. Imagine the world's grandest gold mining nation unable to turn a profit, due to currency translation, only made worse by political interference!!! VonMises should shake his head, and point to the vagaries of currency competition in a fiat world!!!

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Recently specialty retailing stocks have been acting poorly while high tech stocks have tumbled. General Motors, about which one used to say that it closely reflects the health of the US economy is hovering just above its 52 weeks low and it looks as if its price will shortly break down. Certainly not a very encouraging sign for the economy and the stock market!

In sum, I still regard the upside potential for the US stock market to be limited and would sell strength rather than buy weakness. Still with a Bush victory now likely, the strength in the bond market, and the oversold position of high tech stocks, some additional gains are a possibility.

However, bonds are now no longer oversold and their upside potential appears to be limited too. We still like selected commodities such as Corn and Coffee, and especially Sugar and Orange Juice. Gold should be accumulated continuously, as it is the only sound money.

Marc Faber
Author of the best selling "Tomorrow's

The Outstanding Public Debt

National Debt:
$7,385,957,968,301.74
The estimated population of the United States is **294,444,906**
so each citizen's share of this debt is
$25,084.34
The National Debt has continued to increase an average of
$1.63 billion per day
Business, Government and Financial Debt exceeds
$37 Trillion

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7010 Phoenix N.E., Suite 409
Albuquerque, NM 87110

REASONS WHY GOLD WILL RISE (revisited)

Jim Willie CB

Continued from page 7

(added)
27. major smelters are seeing energy costs rise in dollar terms, as the cost of natural gas has increased, which has resulted in the shutdown of many large facilities

Over a year ago, a large aluminum smelter shut down in Washington state, and moved operations abroad. They cited higher natural gas prices and costs generally. It takes a tremendous amount of energy to separate target metals like gold, copper, silver, from mineralized ore. Profit margins for miners suffer more cost damage than clean corporations which only require space heating and electricity. They use more energy than the majority of industrial plants beyond the steel niche. Smelting is very energy intensive. Refinery processes are also energy intensive, as coke cracking is far more complicated than the public realizes for the production of gasoline. Actual field drill operations for oil & gas require diesel power generators, whose costs have risen also.

By Jim Willie CB
www.goldenjackass.com

Doctor Dinero's Discussions

Help Wanted

Senior Statistician

Bureau of Labor and Statistics is looking for a degreed statistician who can use their creativity to manipulate inputs so the desired results are obtained. Anticipate long hours in the next few months to hide the hyperinflationary effects of the Federal Reserve and the US Government. The current inflation indexes have been geared to hide inflation via the Asian Labor arbitrage. With the imminent dollar devaluation, we expect a complete overhaul of the indexes will be necessary. Applicant must be willing to not use common sense, ignore historical trends, and have questionable morals.

Experience with manipulating derivative valuations a plus.
Work experience with ERON, Arthur Andersen, Fannie Mae, or Freddie Mac highly desirable.

For the right candidate, the pay will be lots of newly created Federal Reserve Notes, with substantial bonus potential based on ability to manipulate the CPI. Position available immediately.

Disclaimer: Please do not take the above help wanted add seriously, it is intended for entertainment only.

Doctor Dinero
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1 October 2004