GOLD & ENERGY ADVISOR

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"No matter who wins the US Presidency next month...gold is going to $1,000 an ounce!"

"The US dollar is about to plunge over a cliff, and the next President will be helpless to stop it. Here's what's coming..."

- **Stagflation is returning!**
- **Crisis looming for the US dollar**
- **Iran update: Nukes by January!**

Political commentators are all abuzz, trying to predict who'll win the election next month. Talking heads on TV are jabbering endlessly about what will happen if one candidate or the other is elected.

Have you noticed there's one topic they're all avoiding…?

The fate of the US dollar!

I believe the next President will preside over the last dying gasps of our once-great currency. In fact, I feel sorry for whoever gets elected, because he'll be blamed for the coming catastrophe. Just as Herbert Hoover was unfairly blamed for the Great Depression, the next US President will take the fall for an unprecedented financial implosion in the US.

For too many years now, the US has been on the biggest spending and credit binge the world has ever seen. But the party's over. Our debt is skyrocketing at the exact same time that others are beginning to refuse to lend to us. The price of oil is exploding upwards to record levels. Inflationary fires are burning throughout our economy—but the Fed can't stamp them out because our stalled economic "recovery" is far too fragile.

A year or so ago, the main question we were facing is whether we'd have inflation, or deflation. Instead, we've now arrived at a far grimmer situation, and it's all going to explode in the face of whoever gets elected in November. What are we facing now? It's...

Stagflation!

The *Wall Street Journal* recently called it "one of the dirtiest words in the economic lexicon." Stagflation is a combination of inflation and economic stagnation or recession. Normally, inflation is stoked by a booming economy—but stagflation is an economic nightmare, where prices soar while the rest of the economy is mired in the mud.

The only time we've really seen stagflation was the late 1970's and early 1980's. Inflation raged throughout the economy…millions of Americans were out of work…interest rates were sky-high. And the same things that brought it on then are happening again now.

In the early 1970's, the price of oil quintupled (going from $2.20 in 1972 to $11.50 in 1976). Today, oil prices have quintupled (oil was $10 in 1998, over $50 today).

In the 1970's, the US had an expansionary monetary policy—real interest rates were negative. Today, the US has maintained a wildly expansionary monetary policy, with historically low interest rates for the last few years.

In the 1970's, deficits exploded. The Vietnam War, expanded social spending, and other fiscal mismanagement led to skyrocketing federal debt. Today, the Afghanistan and Iraq wars, the war on terror, new social-spending packages, and bloated pork-barrel projects put us $1.6 billion dollars further into debt *every day*. Including weekends and holidays!

In the 1970's, the US faced new industrial competition in heavy industries (such as shipping and steel) from Korea and Japan. Today, manufacturing and service sectors are moving to China, India, and Eastern Europe.

In short, it's looking like the 1970's all over again. Along with the recent comeback of bell-bottom pants and platform shoes, even more unpleasant reminders of the era will soon be upon us.

We'll start with…

Inflation

Despite the government's soothing words about inflation, we're seeing it pick up steam all around us.

Medical care costs have gone through the roof—up 50% since 1994. American businesses are hurting as a result—for example, General Motors pays $1,400 in health costs for every car it makes (this is more than the cost of the steel in the car).

THE GOLD AND ENERGY ADVISOR

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Prices of raw materials like copper, aluminum, asphalt, and cement are all shooting up. "Input materials" like petroleum and steel have gone up by an average of 9.3% for the last 5 years. Usually, this cloud would have a silver lining; it would mean that US industry is doing well, and demanding more raw materials for manufacturing, thus pushing up the price. But not this time. US industries are in the dumps (more on this in a moment), and the demand is coming from overseas. For example, according to the International Energy Agency (IEA), China is expected to add 40 gigawatts of new electricity-plant capacity this year. That's equivalent to a large European country!

According to the government's CPI data, construction materials have skyrocketed. Low-grade plywood and construction lumber are up 24% from June of last year. A sheet of OSB (oriented strand board) went for $7.60 in January 2003—now it's $19.84.

New home sales jumped an amazing 9.4% in August. Local real estate bubbles are everywhere. For example, in San Diego the median house price hit $527,320 in April. Qualifying for just an average mortgage requires an income of $119,222. According to the San Diego Association of Realtors, 75% of buyers are now taking out interest-only loans. This is a time bomb waiting to go off—these are all variable-rate loans, and the payments will shoot up as interest rates rise.

Even the government's manipulated numbers are looking bad. Although the real numbers were higher, inflation was supposedly 3.1% year-on-year back in March, increasing to 4.4% in July. That's a 42% increase in just a few months.

The scary thing about inflation is that it's like a forest fire. It's easy to put out at first, but the more it spreads, the larger it gets, until it's raging completely out of control. Once people start to notice inflation, their behavior changes. In anticipation of higher costs, they switch from saving to spending. This is an artificial boost to demand, which pushes prices up even higher—and the vicious cycle feeds on itself.

Alan Greenspan recently told the Senate Banking Committee he's worried about "significant inflationary pressures."

As I mentioned before, inflation is bad, but usually there's a bright side.

Usually, inflation occurs towards the end of a business cycle, when the economy is hot. Business is great, there's lots of demand for goods and services, so there's lots of competition for labor and materials. And prices go up.

But that's not what's happening this time. Price pressure is coming from expanding economies overseas, not from the US economy. What's worse is that…

Inflation is picking up just as the US economy is sagging!

There's been a continuous stream of grim economic news lately.

Merrill Lynch, the nation's biggest brokerage, just told clients to brace themselves for a "tsunami" of profit warnings from companies. And small wonder—companies are getting hammered in this environment. For example, the Morgan Stanley consumer index consists of 30 large consumer-product companies (beverages, food, personal products, pharmaceuticals, etc.) Of these 30 stocks, 22 have fallen in price in the last month.

Entire industries are struggling. Ford Motor Company's 3rd-quarter production will be the worst in its entire history as a company. GM's 3rd-quarter will be terrible too, down 4% from last year's. Together, both companies have a sky-high inventory glut: 2.2 *million* unsold cars and trucks. And their suffering extends to their suppliers: an estimated 25% of small-to-medium auto suppliers are bordering on bankruptcy.

The six big airlines lost a combined $2.4 billion in the 2nd quarter—which, with summer vacation travel, is supposed to be the strongest period of the year. With several airlines already in bankruptcy (and another teetering on the edge of it), this looks grim. As Larry Kellner, the President of Continental Airlines, told the *Wall Street Journal,* "The business doesn't work today."

Each month, the employment reports have stunned economists. In June, only 78,000 new non-farm jobs were created, down from 208,000 in May. For July, economists expected 247,000: the real

Latest prices as GEA goes to press—October 14, 2004

Comex spot contract: silver $6.88, gold $413.20
Nymex spot platinum: $834.00, palladium $217.00
Nymex Light Sweet Crude Oil $54.50

Silver coins		Dealer will buy at this price	Dealer will sell at this price
100 1 oz. silver American Eagles		$788	$838
100 1 oz. common rounds		$683	$738
$1,000 face value US pre-1965 coin bag (circulated)		$4,600	$4,925
$1,000 face value US circulated silver dollar bag (VG or better)		$6,830	$7,380
US Morgan silver dollars	PCGS MS64	$45	$55
	PCGS MS65	$120	$135
	PCGS MS66	$315	$340

Platinum coins			
U.S. Platinum Eagle:	1 oz.	$822	$852
	1/2 oz.	$411	$426
	1/4 oz.	$205	$213
	1/10 oz.	$102	$106

Gold coins				
Australian Kangaroo			$410	$429
British sovereign (Kings)			$93	$104
(Elizabeths)			$93	$104
Canadian Maple Leaf			$416	$429
Credit Suisse 1 oz. gold bar			$416	$429
Mexican 50 peso Centenario			$482	$502
South African Krugerrand			$406	$419
US Gold Eagle:		1 oz.	$416	$429
		1/2 oz.	$209	$219
		1/4 oz.	$103	$113
		1/10 oz.	$40	$45
US $20 double eagle:				
Liberty	Raw	MS60	$460	$485
	NGC	MS63	$600	$650
	NGC	MS64	$1,100	$1,200
	NGC	MS65	$3,900	$4,350
Saint Gaudens	Raw	MS60	$465	$490
	NGC	MS63	$480	$510
	NGC	MS64	$585	$650
	NGC	MS65	$1,050	$1,175

Prices courtesy of Finest Known, Boca Raton, FL. (800) 806-3468.

number was a mere 32,000. The August numbers were just revised down from 144,000 to 128,000. And September was expected to produce 148,000 jobs—but we only got 96,000.

The US economy is in no condition to face higher prices, but that's exactly what we're getting. Even worse, the Fed is (correctly) scared of inflation, and is fighting it by raising interest rates…which will hurt businesses even more by making borrowing more expensive.

But an even larger threat is looming…

The rebellion of the lenders

For years, the United States has been flooding the world with dollars.

We've been on the wildest spending orgy in history—the current government deficit is $600 billion per year, and the rate is increasing. We've racked up a staggering $7.4 trillion dollars in debt. (Your personal share is up to approximately $25,200…and everybody else you know owes this amount too.) And as I said, we're adding another $1.6 billion to our debt each day.

Where has all this money come from?

The US consumer is all tapped out. Our savings rate sank to nothing a long time ago, and as a nation we're all living on credit. So it hasn't come from us.

For years, our deficits have been financed mostly by foreigners—both private citizens and central banks. We sell them Treasury debt, and spend the money they give us (then later, we borrow more to pay off the loans as they come due).

According to the Federal Reserve, in early 2001 foreigners held $1.03 trillion in US Treasury debt. In early 2004, that number had grown to $1.708 trillion, for a gain of $678 billion. The total rise in privately-held Treasury debt over that time was $610 billion.

So for the last four years, foreigners have bought **all** the new Treasury debt issued by the government, along with another $68 billion of previous debt. We've been living off loans from foreigners for the entire Bush Presidency!

Foreigners now hold 40% of all US Treasury debt (up from 15% during the Reagan years).

But what will happen when they stop lending to us?

The same thing that happens to any bankrupt individual, way over his head in debt and still overspending, when his credit cards finally get cancelled. He crashes and burns—and so will we.

Why would they stop? Well, think of the US as a corporation, and the dollar as its stock. Would you buy stock in a company when the stock is always falling in value (40% in the last few years)…the company has printed up trillions of shares, and continues to print and distribute 600 billion more every year…and other investors have already accumulated hundreds of billions of shares, and can't buy any more?

Even more to the point—imagine you're one of the many investors who's already sitting on billions of shares. The company is printing 1.6 billion more of these things every day. Are you going to buy more…or will you start to think about exiting your position instead? The answer is clear.

There have been rumors that the Treasury auctions aren't going so well lately…

The latest one supposedly had no foreign takers at all!

This isn't surprising. I've been warning for a long time that this day was coming. It was obvious—just look at Japan, for example.

In 2001, Japan's foreign currency reserves were $330 billion. In December of 2003, they had ballooned to $650 billion. The first quarter of 2004, Japan bought $138 billion of foreign currency (mostly dollars), the largest-ever intervention by a central bank. Japan alone holds 16% of all US Treasury bonds. Japan *can't* buy any more of our debt—they've got it coming out of their nostrils already.

By the way, there's also an ugly aspect to this. Any nation that accumulates so many of our dollars holds tremendous power over us. If we do something they don't like, they can just dump the dollars on the market…which would crater the dollar, and force us to pay huge rates of interest on newly-issued bonds. This would instantly tank the US financial markets. For as long as we're addicted to borrowing, any nation with large amounts of dollars or other US debt has a firm grip around our throats.

Which is why it's scary that we've let Communist China accumulate hundreds of billions of dollars (now *there's* a good idea). In 2000, China had $165.6 billion of our currency—that number has skyrocketed to a staggering $470.6 billion.

Now China is getting nervous. The dollar has fallen 40% since its peak against the euro, and of course that's a huge whack against China's "reserves." Nations maintain foreign currencies as a reserve asset—but anything that loses 40% in value in a couple of years isn't much of an asset at all. On September 28, *China Daily* ran an article by an economist warning about a "US dollar crisis...the authorities should consider taking prompt measures to ward off possible risks...As the dollar goes down, China will suffer great financial loss...It is becoming more and more evident that the possibility of a further slump of the US dollar is increasing." He said there's "great pressure on the stability of the US dollar."

What will happen when China begins to divest itself of its bad dollar "investments"? All those dollars will come flooding back home…and inflation in the US will explode.

Actually, this process has already started. On October 7, the Federal Reserve announced foreign central banks have become sellers of Treasuries. They sold off a net $3.878 billion in just one week. Currently, foreign central banks hold 29% of all US government debt held in public hands—looks like that number is about to become much smaller.

So if foreign lending to the US is drying up, how are we still ringing up $1.6 billion per day in more debt? Where is the money coming from? The answer is…

We're creating it out of thin air!

When Congress wants to spend money that the US doesn't have, it has several options. Of course, the first option is to be fiscally responsible and not spend it, but we know how likely that is.

The second option is to extract the money from the people via taxes—but any good parasite knows that you can't suck too much blood from your host, or you'll kill it. The private sector in the US is almost bled dry, so that option is out.

Third option is to borrow it by selling Treasury debt. But as we've seen, US citizens can't buy any, and foreigners no longer want it.

The fourth and final option is to sell the Treasuries to the Federal Reserve. The Fed writes a check for the Treasuries, and the government deposits the check into the banking system and spends the money. Of course, the question arises: Where does the Fed get the money from? The answer is: they create it from thin air by writing the check!

Most people don't know this is how the Fed works. Most people also don't know that the Fed is *not* a government agency, it's a private company that profits from the interest on this debt. (Wouldn't *you* like to buy investments with a magic checkbook that creates money every time you write a check?) But that's a story for another time.

The important part is this—the Fed creates dollars out of thin air to buy Treasuries. These new dollars inflate the money supply, and decrease the value of every dollar already in the world—from the ones in your pocket to the hundreds of billions in foreign central banks.

Before we look at the implications of this, let's first see how big the problem is. The Fed's website lists its holdings of Treasuries. You can see the drying-up of foreign Treasury purchases, by watching the Fed accumulate them instead. Lately, the Fed has been buying tremendous amounts of government debt.

From May 2003 to May 2004, the average Fed purchase was $575 million of new debt per week. This is bad enough.

But then this year, the debt orgy really took off. Look at how the Fed's purchases have accelerated:

May 19: $1,783,000,000

May 26: $1,015,000,000

June 2: $850,000,000

June 9: $2,449,000,000

June 16: $1,061,000,000

June 23: $184,000,000

June 30: $2,214,000,000

July 7: $502,000,000

July 14: $2,416,000,000

July 21: $1,990,000,000

July 28: $1,418,000,000

August 4: $17,000,000

August 11: $12,000,000

August 18: $1,014,000,000

August 25: $80,000,000

September 1: $18,000,000

September 8: $11,000,000

September 15: $834,000,000

September 22: $2,458,000,000

September 29: $456,000,000

October 6: $2,969,000,000

This averages out to a whopping $1,131,000,000 per week—almost twice as much as the average into May.

We've been begging for handouts from other countries, and they're finally starting to say no. Now we're just printing the money instead.

This is a recipe for disaster!

Why?

Think of all those foreign investors and banks, holding hundreds of billions of dollars. Think of them watching this blizzard of new currency blowing out the Fed's doors every week. Think of them knowing that each newly-printed dollar cheapens the ones they're holding.

What would *you* do in this situation? Remember the corporate analogy. You've got hundreds of billions of "shares" in the United States of America, but so do many others. Nobody wants this stock anymore, because it's falling in value every day. But if you all try to sell your shares at once, the price will collapse and you'll all get nothing.

But the first one to sell…*he'll* get something. Maybe not as much as he paid, but at least he won't be trying to dump his shares onto a market that's already crashed.

So why haven't they sold yet? Because nobody wants to be the first. The largest dollar-holders are the foreign central banks, and whoever sells first will crash the dollar and incur the wrath of the United States. But you can bet they're all watching each other, in a hundred-billion-dollar game of blind man's bluff, waiting to see who goes first. Once somebody is finally spooked, the entire herd will panic, and stampede all over each other in a rush to sell.

The $3 trillion or so floating around the world will all come flooding home. That will be the end of the dollar's position as king of the currencies. It will become just another piece of paper, worth far less than today's "world reserve currency."

What event will trigger all this? I have no idea—there are lots of possibilities. Nor am I saying it will happen this year, or next—it might happen sooner, it might happen later. But long-term, the dollar is a "dead currency walking"—it's only a matter of time.

Oil sets yet another record high

I've been pounding the pulpit lately in this newsletter about oil. Back in March, when the rest of Wall Street said oil was going down in price (from the mid-$30s), I stood firm and predicted oil was going higher.

Since then it's set a series of new highs, breaching $54 recently. And it's not done yet!

Oil-producing countries are now pumping flat-out, with basically no reserve capacity left. Production capability is increasing, but only by a little—nowhere near the amount necessary. (Analysts calculate that the world needs to add 6 million barrels per day to production: 4 million to replace depleting oil fields, and another 2 for new demand.)

Meanwhile, demand is continuing to explode. For example, car sales in China are expected to increase 10-20% this year. Indian passenger vehicle sales are up 18% year-on-year to July. The IEA expects Chinese and Indian demand will grow by a whopping 970,000 barrels/day this year.

Amazingly, even though crude is at an all-time record price, this isn't hurting demand at all. Fatih Birol, the chief economist of the IEA, recently said, "We would need to have prices at today's levels for at least one more year before prices start to have any impact."

High oil is going to kill the US economy, especially if this lasts another year (which I think it will). Analysts have calculated that a $10/barrel increase in the price of oil sucks $35-$40 billion out of our economy. (And oil is up $30 since 2002! That's over a *trillion* dollars lost.)

High oil prices are starting to ripple through our economy. For example, energy costs are 24-40% of the costs of making aluminum. Alcoa of Pittsburgh recently announced it's now moving smelters to Iceland and Trinidad, where energy costs less.

Sherwin Williams is raising prices again. For every 10% increase in energy, raw-material costs for a gallon of paint increase 1%. Oil has *quintupled* in the last few years, so paint has gone up significantly.

Del Monte will experience a rise of $12-15 million rise in its energy costs in fiscal 2005. So it's raised the price of pet foods by 6-7%, and canned vegetables and tuna by similar amounts.

There are many other examples. My point: high oil means higher prices for almost *everything* else.

Some industries are really getting clobbered by high oil. I've already mentioned our bankrupt airlines—airlines need $31-33 oil just to break even. With oil above $53, airlines are bleeding badly. The *Wall Street Journal* recently warned airlines are facing "collapse." "It's going to be a disaster for the industry," said Anthony Concil of the International Air Transport Association.

When will oil prices subside? Well, it's not looking good. Long-term, the trend is up—way up (more on this in future issues). But even short-term, there are no big fields coming on-line.

An oil field takes a lot of exploration, preliminary work, and construction of infrastructure before it starts producing significant amounts of oil. For example, the Kashagan oil field in Khazakstan was discovered in 2000, but won't come on-line until 2008. A field in Azerbaijan will finally start exporting oil next year, 15 years after the project was started. Nobody's found a big "elephant" strike in years (despite frantic exploration all over the world)—but even if we did find another one or two, it wouldn't do us any good for at least a half-decade, probably more.

By the way, I think high oil is going to massacre the stock market—not necessarily in a crash, but probably in a slow painful strangle. There's a strong historical correlation between high oil and plunging stocks. More on this in later issues.

Iran update: Nuclear weapons by January!

Last month, I told you about the rise of an aggressive, soon-to-be-nuclear Iran. This country is the "original" source of our problems with radical Islam, and the Iranian government is a known supporter of international terrorists. I told you how Russia is building a nuclear plant in Iran, and how that plant can be used to make fuel for nuclear weapons.

Western analysts have said it would be a year or so before Iran could be fully nuclear. But according to the intelligence service Geostrategy-Direct, Iranian President Ayatollah Ali Khamenei recently gave a speech to some of his officials in which he said, "We must have two bombs ready to go in January or you are not Muslims."

Are they really that close? It's very possible. A week or so ago Iran announced it has produced a "few tons" of uranium hexafluoride gas—necessary to make enriched uranium for nukes. These were the first of 40 tons of raw uranium that Iran plans to process.

Iran is also making rapid progress in other areas of nuclear technology. In September, they successfully tested an upgraded version of the Shihab-3 missile, which can now reach Paris, Berlin, southern Russia, even London. And according to *Der Spiegel*, a German businessman was just arrested for illegally trying to sell nuclear weapons technology (long-range detonators) to Iran.

The *London Telegraph* recently ran a story about 12 Iraqi nuclear scientists that are hidden in Syria. Saddam Hussein sent them there right before the US invaded Iraq, as part of the cover-up of his nuke program. Now Syrian President Bashar al-Assad is apparently getting nervous; the US knows he's hiding these scientists, and he doesn't want to be the next target of the US's anti-terrorist program. So Assad is negotiating to send them to Iran, where they would of course be a great help in completing Iran's nuclear capability.

US Undersecretary of State John Bolton recently said: "If we permit Iran's deception to go on much longer, it will be too late. Iran will have nuclear weapons."

Of course, all of this hasn't gone unnoticed. As one of the primary targets for the nukes, Israel continues to plan openly for a pre-emptive attack on Iran—to take out all its nuclear facilities. Israel just bought 5,000 smart bombs from the US, including 500 of our 2,000-lb bunker busters. These can destroy 6-feet-thick concrete walls.

And as I told you last month, Iran is also planning to attack Israel, to pre-empt the pre-emption. The Iranian Foreign Minister recently spoke about Israel: "When there is a threat, you have to take it into consideration and be prepared to react. We are prepared…There are capabilities that we will use. Shihab missiles are well developed and made in Iran, and we are proud of having them."

So if Israel attacks first, there will be a massive war in the Middle East, probably with chemical weapons being used. If Israel doesn't attack first, Iran will, and there will still be war—probably including a nuclear exchange (remember, Israel already has nukes).

How will the next US President deal with this? In their recent debate, both candidates agreed that nuclear proliferation is the "single most serious threat" to America. But each man would handle things differently.

President Bush, if re-elected, will probably go after Iran immediately once the mess in Iraq settles down. Iran is a far more certain threat to us than Saddam was, and Bush knows it. It seems probable we'd invade Iran the same way we did Iraq.

As bad as that seems, it'll be worse if John Kerry is elected. In the debate, Kerry said this about Iran: "I think the United States should have offered the opportunity to provide the nuclear fuel, test them, see whether or not they were actually looking for it for peaceful purposes." So rather than waiting for Iran to make nukes, Kerry wants to *give* them the nuclear fuel, to see what they'll do with it. This is utter lunacy.

(Political commentators were mystified by Kerry's comments—where did this bizarre idea come from?—until it came to light that three of Kerry's top fund-raisers are Iranians connected to the American-Iranian Council, a lobbyist group connected to the Iranian government. Hassan Nemazee has raised more than $100,000 for Kerry, and Faraj Aalaei and Susan Akbarpour have each raised more than $50,000. Kerry has endorsed their agenda: ending fingerprinting of Iranian visitors to the US, expanding visas to Iranians, and starting a "dialogue" with the terrorist regime.)

So no matter which candidate is elected, we'll be neck-deep in an Iranian mess of one kind or another.

All in all, I think we should…

Pity the next US President!

Everything I've described is going to blow up in the face of the next President. Stagflation is about to hit our economy, foreigners aren't bankrolling our spending orgy anymore, foreign bankers will start playing hot-potato with the dollar, and war is coming in the Middle East—maybe even including nukes.

All of this seems overwhelming—too much for one person to contemplate. But there *is* something you can do about it.

I make no secret about being wildly bullish on gold. Everything I've said in this issue (and lots more that there isn't room for) makes me believe gold is going to hit $1,000 in the near future. And that's a *conservative* prediction.

There's even been some "mainstream" financial commentators making favorable noises about gold lately. But as usual, their recommendations are wrong. The ones I've seen always end up recommending gold stocks.

Now, gold stocks have their place in your portfolio. But it's not the most *important* place, and it's not the proper foundation for investing in gold. Stocks can easily go *down* while gold goes up, and obviously that's counterproductive when you're looking to be long the metal. So I urge you to…

Buy the Physical!

The foundation of your gold investments should be physical gold. It's the safest way to invest in gold, and you're guaranteed to profit when gold goes up.

In previous issues, I've discussed rare gold coins. Numismatics is still an ignored market, and there are lots of great gold coins that are ridiculously cheap right now. (How much longer this will last, I don't know.)

So I'll have more rare-coin recommendations in later issues. But there are other types of physical gold that I also recommend—such as gold bullion coins. Bullion coins are a direct play on the price of gold, are not influenced by trends in the rare-coin market, and require no numismatic expertise to do well.

The US Mint's American Gold Eagle bullion coin.

But notice I said bullion *coins*, not just bullion. You can buy bullion in bars (large or small), or private-mint "rounds" (similar to coins, but issued by a private company instead of a government). But I don't recommend any of these.

Bullion bars aren't traded regularly anywhere except on exchanges. Unless you're going to trade on an exchange (which I don't recommend), you'll get hit with a substantial discount when you try to sell, and transaction costs are higher overall. Private-mint bars and rounds suffer a similar problem; since they're not as widely recognized as coins, dealers are hesitant to accept them, and won't pay full price for them when you sell.

Stick to the popular government-issued bullion coins. You'll pay the smallest markup, and get the highest price back when you sell. Of these, the most popular are the…

American Gold Eagles

In 1985, Congress authorized the US Mint to begin minting bullion coins. The American Gold Eagle coins are now the most popular gold coins in the world. Their weight, content, and purity are guaranteed by the US government, and they're only made from gold mined in the US.

American Eagles are available in 1, ½, ¼, and 1/10 ounce sizes. The spread varies slightly for each size—some investors like one size exclusively, others like a variety of sizes. It's a matter of personal opinion which one is best.

Eagles are made from 22 karat gold, so they contain a small amount of alloy to harden the coin. This makes them more durable and less vulnerable to scratches than pure gold, but nevertheless you should carefully examine every coin you buy. NEVER buy a coin with scratches, nicks, rub marks, dents, discoloring, or other disfigurement. These will reduce (possibly substantially) the value of the coins when you decide to sell. Perfect coins are easy to find, and there's no reason for you to accept any less. For the same reason, you should carefully protect your coins after you buy them. Don't use the plastic coin tubes where they are stacked on one another—use plastic coin sleeves or other methods to protect the coins and stop them from rubbing together.

I'm confident that American Eagles will be a great investment over the next few years. They're portable, convenient, and private ways to invest directly in gold, and ride the rocket as it blasts off. As I write this, gold is again near a multi-year high, but I believe it's got a long way to go. I recommend you get on board now. (If you don't already have a dealer you trust, I recommend Finest Known: toll-free 1-866-697-4653.)

If you're still not sure about gold, I'll leave you with this. This month, senior Bush administration officials tried to do something that, had they succeeded, would have shot gold up to $509.50 overnight—as just the *first* stage. What was it?

I'll tell you more about it in the next issue!