GOLD & ENERGY ADVISOR

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"President Bush's re-election guarantees $100 oil and $1,000 gold!"

"The President's next 4 years will set in motion a collapse of the dollar and an economic crisis here in the United States. It's going to wipe out most peoples' savings, but it could make you rich. Here's how to prepare!"

- **Bull markets in oil and gold: both are just beginning!**
- **The coming devaluation of the dollar: as much as 72%!**
- **How to buy "leveraged gold"**

For the last 20 years or so, the US has been sowing the seeds of economic disaster. Under both Republican and Democratic Presidents, we've thrown a wild spending orgy unparalleled in history. We've been building up to a massive, spectacular meltdown, and I predict it will finally happen during Bush's second term.

Don't believe me? Just take a look at other countries around the world. They see the same oncoming train that I do—a collapse of the US dollar—and they're starting to jump out of the way. Governments and individual investors alike are starting to sell the dollar!

According to Andrey Illarionov, the economic advisor to Vladimir Putin, Russia is now selling its dollars and dollar-denominated assets (to "diversify"). *Pravda* recently confirmed that the Russian central bank has stopped supporting the dollar.

India recently announced it's going to use its foreign-exchange reserves (i.e., its dollar assets) to build roads. Apparently they think the greenback won't be worth much in the future, so they're getting rid of them now.

The *Australian Financial Review* recently said black-market currency traders in Shanghai have started to *refuse* dollars.

Plus, as I mentioned in last month's issue, foreign lending to the US is drying up. Foreigners no longer want our Treasury debt, because it means investing in the dollar. The *Washington Post* ran an article about a recent auction of 10-year treasuries, which said, "Foreign investors failed to show up." Paul Calvetti, the head of Treasury trading at Barclay Capital, lost $1.5 million in 5 minutes at the auction. He was quoted: "It's amazing. I don't think I've ever seen this before."

Governments, central banks, and investors alike are shunning the greenback. In August, foreign private investors sold a net $4.4 billion in Treasuries. Foreign central bank purchases fell 76%. Previous demand had been strong; foreign government lending was up last year by $102 billion. Now it's reversing fast, in the other direction.

Even *Columbia* is betting against the dollar. Columbia is selling $250 million global bonds: these will be issued in pesos, but repaid in dollars in six years. Think about this: they believe six years from now, dollars will be worth less than their *pesos*.

The *Financial Times* recently talked about China starting to sell dollars (and buying euros instead), and said…

"The greenback could be on the edge of a cliff"!

The *Times* discussed recent plunges in the dollar, despite October's bullish job numbers. One currency analyst said: "If this can't cause the dollar to strengthen you have to tell me what will. This is a big green light to sell the dollar."

Why are other countries starting to dump their dollars? For two reasons:

Reason #1: Federal spending is a runaway train. The national debt is now above $7.4 trillion. If you wanted to make a pile of currency worth $7.4 trillion… you'd need a stack of $1,000 bills over 502 miles high!

And we add another billion-plus to the debt every single day (including weekends and holidays)!

Is there any chance the new Congress will restore some sanity? Nope. Senator John McCain recently said the spending orgy in Washington is worse than he's ever seen in his 22 years there. "It is like any other evil," he said. "First you condemn it, then you condone it and finally you embrace it."

Republican Congressman Paul Ryan said, "Republicans and Democrats alike have become *intoxicated* with the idea of spending money."

Reason #2: The skyrocketing account deficit

I've talked about this before, but more and more analysts are (finally) starting to wake up.

THE GOLD AND ENERGY ADVISOR

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The current-account balance measures the trade between the US and other countries, along with the net income from foreign investments. We're deep into negative territory: the US current-account deficit is running at about $630 billion for the year, and still accelerating. The latest number was 22% wider than the year before. (The *Wall Street Journal* commented that economists were "blindsided" by recent jumps.) A deficit means capital is flowing out of our nation, and into others.

So a net $630 billion will bleed out of our country this year—that's $1.2 million *every minute*—and next year's number will be bigger still. This money has to come from somewhere—since we aren't spending our savings (we used those up long ago), this increases our debt.

Since foreign lending has dried up, where are we borrowing the money from? I explained last month that when Treasury auctions find no buyers, the Fed steps in and buys the bonds instead. With the Fed's magic checkbook, money gets created out of thin air, and is lent to the government, which then spends it. So the government gets to avoid fiscal responsibility, by spending billions more than it takes in from taxes. Plus, when it comes time to pay back the money…just borrow some more!

Why can't this merry cycle of borrow-spend-borrow-spend go on forever? Because our trading partners are finally getting sick of the scam. They send us cars, televisions, computers, clothing, and other valuable items, and get back freshly printed pieces of green paper. Paper which is flooding the world…*trillions* of dollars worth…which nobody can spend in large amounts because this would crash its "value" and wipe out the reserve assets of central banks around the world.

Until recently, foreigners were going along with this scheme. But no more.

Federal Reserve governor Edward Gramlich recently admitted Asian countries, especially Japan and China, are supporting the dollar but crippling their own economies in doing so. "We have a pretty unstable world situation right now," he said.

The *Asia Times* recently complained: "World trade is now a game in which the US produces dollars and the rest of the world produces things that dollars can buy."

The UK newspaper *The Times*: "Imagine a place where you could spend far more than you earned for years without consequence. Imagine a place where you could pay your way by writing checks that nobody would bother to cash. Welcome to America, today."

The Times talked about the "unprecedented willingness of foreigners to accept vast piles of American IOUs in the form of dollar holdings and US Treasury bonds—effectively, checks that go uncashed…As Niall Ferguson, the economic historian, has remarked, this looks like 'the biggest free lunch in recorded history.'" But no more, the article warned.

Another Asian analyst bitterly noted: "While other economies must earn dollars to finance their dollar deficits, US trade and fiscal deficits need only be repaid with dollars that the US can print at will, not from dollars that the US must earn…Dollar hegemony kills all, pushing down wages everywhere with no exceptions made for nationality...Why should Asian economies send real wealth in the form of goods to the US for foreign paper instead of selling their goods in their own economy?"

Even Japan, our biggest foreign lender, has had enough. One analyst recently said Japan's "accumulated dollar holdings are too heavy for the country to bear…The current world-wide prosperity is dependent on twin US deficits funded mainly by Japan and Asian nations. This is not sustainable. Japan's capacity to fund US deficits may be exhausted." He noted Japan has "accumulated a mountain of dollar assets which might collapse inadvertently."

Why is he worried about Japan's "mountain" of dollars collapsing? Asian central banks have truly gathered mountains of dollars—adding $1.1 trillion in Treasuries just since 2002. But, as I've mentioned before, these banks are now vulnerable to a sell-off in dollars. It's like sinking your entire retirement fund into one stock—if that stock plummets, kiss your retirement goodbye.

But the vulnerability works both ways. Now that Asian governments have trillions of dollars worth of our debt, those governments basically have our debts as economic hostages. At any moment, they can "shoot the hostage" and dump our debt on the market. Our bond markets would collapse, the cost of further borrowing would skyrocket, and our economy would melt down.

Sound farfetched? Lawrence Summers, the Treasury secretary in the Clinton administration, doesn't think so. He gave a speech a few months ago, in which he warned of:

Latest prices as GEA goes to press—November 19, 2004

Comex spot contract: silver $7.56, gold $446.65
Nymex spot platinum: $856.00, palladium $216.00
Nymex Light Sweet Crude Oil $48.44

Silver coins		Dealer will buy at this price	Dealer will sell at this price
100 1 oz. silver American Eagles		$850	$940
100 1 oz. common rounds		$750	$875
$1,000 face value US pre-1965 coin bag (circulated)		$5,100	$5,750
$1,000 face value US circulated silver dollar bag (VG or better)		$7,500	$8,500
US Morgan silver dollars	PCGS MS64	$45	$55
	PCGS MS65	$125	$150
	PCGS MS66	$320	$395
Platinum coins			
U.S. Platinum Eagle:	1 oz.	$883	$920
	1/2 oz.	$450	$480
	1/4 oz.	$224	$265
	1/10 oz.	$90	$110
Gold coins			
Australian Kangaroo		$454	$475
British sovereign (Kings)		$100	$115
(Elizabeths)		$100	$115
Canadian Maple Leaf		$440	$450
Credit Suisse 1 oz. gold bar		$430	$460
Mexican 50 peso Centenario		$531	$550
South African Krugerrand		$440	$460
US Gold Eagle:	1 oz.	$445	$475
	1/2 oz.	$200	$250
	1/4 oz.	$110	$150
	1/10 oz.	$45	$55
US $20 double eagle:			
Liberty	Raw MS60	$500	$570
	NGC MS63	$750	$850
	NGC MS64	$1,450	$1,850
	NGC MS65	$4,150	$4,850
Saint Gaudens	Raw MS60	$525	$600
	NGC MS63	$640	$725
	NGC MS64	$750	$825
	NGC MS65	$1,250	$1,450

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

"a kind of global balance of financial terror...There is surely something off about the world's greatest power being the world's greatest debtor. In order to finance prevailing levels of consumption and investment, must the United States be as dependent as it is on the discretionary acts of what are inevitably political entities in other countries?"

Foreign governments probably wouldn't sell our debt openly—that would risk the wrath of the United States. (US Marines might show up on their doorstep in revenge for an "act of economic aggression" or something.) Instead, as Desmond Lachman (an economist at the American Enterprise Institute) pointed out, foreign central banks "now have considerable ability to disrupt US financial markets by simply *deciding to refrain from buying* further US government paper."

Or, another scary scenario will unfold if even a *tiny* country sells some of its American debt, causing the larger countries to follow. As the *Washington Post* recently noted, a smaller player like Brazil or Singapore "could try to unload its dollar reserves, triggering a global sell-off. Like a mouse in a circus, even a bit player could cause the elephants to stampede."

So the dollar is teetering on the edge of the cliff. Any slight gust will blow it over into the chasm below, whether it's a "bit player" starting a stampede or a large player simply refusing to buy any more of our Monopoly money. It's only a matter of time!

You might be wondering why, if it's really this bad, you didn't hear about these problems during the election. As the *L.A. Times* recently said, "Neither the dollar nor the deficits became a hot-button issue during the presidential campaign, for obvious reasons. No politician has ever won an election by telling people their standard of living is about to go down."

Remember, this problem gets worse by $630 billion every year—that's $1.73 billion per day. How will we solve this current-account problem? We either have to stop buying so much stuff from overseas—which won't happen—or the dollar itself has to go down. (When the value of the dollar declines, it doesn't buy as much as before, so imports go down.)

As the *Financial Times* said recently, "Let us be blunt about it. The US is now on the comfortable path to ruin. It is being driven along a road of ever rising deficits and debt, both external and fiscal, that risk destroying the country's credit and the global role of its currency…The essence of the needed changes is quite clear: a further *substantial devaluation of the dollar*."

Even the **Federal Reserve** admits the dollar is about to plunge…

On October 7, Robert McTeer (President of the Dallas Federal Reserve) said: "Over time, there is only one direction for the dollar to go...*lower*."

He also said our current account deficit "is going to cause problems, but we just don't know when…Flows will turn against us, and there will be a crisis that will result in rapidly rising interest rates and a rapidly depreciating dollar that will be very disruptive. *But I don't know what to do about it.*"

He doesn't know what to do about it…because there's only one thing we *can* do about it, and it's a horrifying thought. An immediate, steep devaluation of the dollar. We either do it now on purpose, or an even worse dollar crash happens on its own later.

But how much will we have to devalue the dollar?

In last month's issue, I mentioned a recent event that almost spiked the price of gold up to $509.50 overnight. Here's what I was talking about…

At a recent meeting of the G7 (the seven largest industrial nations), Bush administration officials pressured them to agree to a 20% devaluation of the dollar!

Had they been successful, a 20% devaluation would have caused gold to immediately leap up by 20-25%. At the time, that would have meant gold at $509.50. (It would be even more today.)

So our government is trying (so far unsuccessfully) to engineer a 20% devaluation. But even this might not be enough!

The *Economist* recently said that **20-30%** will be necessary. It said the current system stability is an "illusion" which will "crack" very soon.

The *Wall Street Journal* says up to a **40%** devaluation will be necessary. (This would instantly cause massive inflation, so the article also predicted the Fed will raise rates by *three full points* to hold it off. This would massacre the stock market, of course.)

Recent history tells us the dollar might crash even **further**. Our previous current-account deficit record was 3.5% of GDP back in 1987—that bought us the Black Monday stock market crash, and a 42% fall in the dollar over a few years. Since our deficit is now approaching 6% of GDP—1.7 times the deficit back then—will the dollar soon crash by 1.7 times the amount it did then? That would be an overall fall of **72%**—each dollar would only buy the same amount as 28 cents today!

What will happen when the dollar collapses?

As the dollar crashes, oil and gold will soar!

Oil and gold are both priced worldwide in dollars. A lower dollar means higher prices.

For example, when the dollar falls by 30%, each dollar will buy 30% less gold or oil than it did before. So prices will rise to compensate. (And the way the math works out, the rise is higher than the fall. In this example, a 30% fall in the dollar would mean a 43% rise in prices.)

The next year or so is looking grim for the dollar. Any devaluation—whether 20%, 40%, or even 72%—will mean instant, huge leaps in the prices of oil and gold. But that's not the only reason I'm looking for $100 oil and $1,000 gold during President Bush's second term…

The bull market in oil

In October, we saw a series of all-time record prices for crude. The market's subsided a bit since then, but we're still at historic levels.

Short term, oil might come under further pressure. First of all, there's a large number of analysts who've turned bullish, which is a bad sign from a contrarian perspective. Second, demand from China might be cooling a little, as the government there tries desperately to reign in their "overheated" economy. Third, and perhaps most important, one of the reasons oil has jumped since September was Hurricane Ivan. We've lost about 400,000 barrels per day of production from the Gulf of Mexico, thanks to the underwater mudslides Ivan generated on the continental shelf. There's a huge spaghetti-tangle of underwater pipelines coming from the offshore rigs onto the shoreline around Mississippi; these were buried, and in some cases broken, by the hurricane. In another couple of months, full production will be restored, and the oil supply crunch will have eased a little.

But not for long. Over the next few years, I see oil going far higher than today.

The IEA (International Energy Agency) continues to revise its anticipated-usage numbers upwards. Demand is turning into a runaway train.

The world's oil consumption for the 2nd qtr 2004 was 3.7 million barrels/day higher than the IEA projected a year earlier. In October's monthly oil-market report, the IEA said world demand in the 3rd quarter was 600,000 barrels/day higher than it had forecast *just one month earlier*.

(A couple of weeks ago, the IEA warned of a "looming crisis" in its data-gathering. Oil consumption is accelerating out of control, and even the IEA can't keep up with measuring it.)

Plus, I've mentioned before that oil companies are desperately searching for new oil, and aren't finding it. British Petroleum has calculated the world's top 30 oil firms have increased exploration/development spending from $70 billion in 2000 to $100 billion last year. Oil companies are being forced to spend huge amounts of money, because they're finding little oil. And tighter supply means higher prices.

Finally, some of the major oil fields are declining in their output. The IEA, in its *World Energy Outlook*, says between now and 2030, a *$3 trillion* investment will be needed just to offset the decline. The price of oil will have to skyrocket, just to finance this.

Some skeptics don't see how the price of crude could go up, since we're already at historic highs. Actually, adjusted for inflation, oil isn't much higher than it was in the early 1970's, when the last bull market launched. Plus, the 1970's oil crisis was event-driven; today's high market is structural. There's accelerating demand, and tight supply. So oil might sag a bit in the short term, but long-term, $100 is where we're headed.

The bull market in gold

I've already said a plunging dollar will light gold's fuse. But I'm wildly bullish on gold even without the dollar tanking.

Gold demand is surging. According to the World Gold Council, in both the 1st and 2nd quarters, consumer demand was up 11%. Net retail investment demand was up one-third during the 2nd quarter.

Around the world, people are buying gold. In Kuwait, gold demand is up 28%. Saudi Arabia, up 23%. United Arab Emirates, 21%. Bahrain, 20%. Qatar, 5%. China, up 15%. India, 16%.

Gold just hit a 16-year high, but there are solid reasons to think the rocket ride's just beginning. Historically, gold and oil have had a 1:15 ratio. For decades, gold was at $35, and oil about $2-$2.50. But lately, even with its price rises, gold hasn't been keeping up with oil. Today, gold only buys 7.6 barrels of oil. $50 oil, which we have today, should mean $750 gold. And since oil is headed yet higher, gold should eventually hit values far beyond that.

Plus, there will soon be even more ways to invest in gold, which will only expand interest. By the time you read this, a new ETF (exchange traded fund) should be trading on the New York Stock Exchange. I wrote about this in my upcoming book (*The Rise of Gold in the 21st Century*), and now it's here! The streetTRACKS gold trust (ticker symbol GLD) will directly track the price of gold. (A similar gold ETF is in the works for the AMEX.) As the *Financial Times* commented, "Traditional gold traders expect pent-up, fresh buying interest in these instruments from US mutual funds who have previously been excluded by their charters from buying physical gold."

Similar new investments are popping up around the world. For example, soon there'll be a security traded on the South African exchange ("NewGold Gold Bullion Debentures"), which will buy 400-ounce gold London Good Delivery bullion bars.

Meanwhile, despite high prices, the supply of new gold might soon be *declining*. The *Russia Journal Daily* recently reported that Yuri Trutnev, Russia's Minister of Natural Resources, said Russia's precious metals resources are "exhausted" and will be gone by 2011! Russia is one of the world's major producers, responsible for 7% of all production last year—so this will cause gold to explode. (Even in the shorter term, Trutnev predicted a 25% decline in Russia's gold production by 2007.)

Other gold producers are in trouble too. South Africa's Harmony Gold (the world's sixth-largest gold producer) recently made a takeover bid for another company—in the process, it came out that (according to Citigroup) Harmony has **overstated its in-ground reserves** by 23 percent. Apparently, Harmony has **14.4 million ounces less** gold in the ground than it claims.

Meanwhile, Barrick (the world's third largest gold company) is trying to sell $1 billion in bonds. Why would a gold miner need to raise a billion dollars, when the product it sells (gold) is at 16-year highs? And why would they need to *borrow* the money (via bonds)—why not just mine more gold? Why are they so desperate for cash?

Rumors are swirling that Barrick's "hedge book" is deep underwater. Some gold mines—especially Barrick—have become known for "hedging" their production. They've agreed to sell their gold at a certain price in the future. This was profitable back when gold was unpopular, and they sold it forward for a higher price. But gold is up some 74% in the last few years, and the hedgers are now locked into some very ***un***profitable contracts.

How unprofitable? Barrick's financial statements show their average hedge price is $294, and their overall position is underwater by **$1.711 billion**. Ouch! They'll lose almost $150 on every ounce they sell!

This reinforces a point I've made over and over. If you want to invest in gold, buy ***gold*** and not gold mining companies. Some miners are good investments, but you have to be very careful. Any company that hedges (and Barrick is far from being the only hedger) is in deep trouble when gold takes off. As gold does better, the hedger does worse—which is the complete opposite of what you want your gold investments to do!

I expect to see other hedging problems coming to light soon—I think there are at least a few more Barrick-like time bombs out there waiting to go off, even causing bankruptcies among some miners. As Newmont Mining president Pierre Lassonde recently said, "Gold hedge books are liabilities that will continue to grow and probably sink more gold companies."

Even setting hedge books aside, some mining companies are hurting because of rises in energy and inflation. For example, Barrick is building a new mine at Veladero in Argentina. Construction costs are up to $70 million higher than forecasted, thanks to inflation in materials, fuel, labor, and exchange rates. Steel prices are up 30-35%, energy is rising sharply, ammonium nitrate (used as an explosive) is up 30%. Plus, the fall in the dollar vs. other currencies means everything is more expensive in other countries, where many companies operate mines.

Even small miners are getting headaches. Canyon Resources saw its stock slashed *in half* literally overnight, when Montana voters defeated a ballot measure to allow cyanide use in gold and silver recovery.

Meanwhile in South Africa, gold mines aren't doing as well as expected thanks to the strong rand vs. the dollar. Gold is priced in dollars, and the dollar has fallen sharply against the rand in the last three years—so the rand price of gold has hit a three-year low. Meanwhile, wages and other expenses have to be paid in rand—so the mines are hurting. Right now, the mines are *losing* about $50 for every ounce they sell!

And as all this is happening, interest in gold demand is accelerating—even from unexpected places!

Oleg Mozhaiskov, the deputy chairman of the Bank of Russia, recently gave a speech to the London Bullion Market Association. (The LBMA has refused to release it, but copies have come out anyway.) Mozhaiskov blasted "the blatant lack of discipline of United States fiscal policy" and "the irresponsibility of the US government." He pointed out that the net debt of the US to foreigners is over $3 trillion, which is greater than the official currency reserves of *all the countries in the world*—even including the US!

He also said, "The world has come to a paradoxical situation in which the creditor countries are more concerned with the fate of the dollar than the US authorities themselves are...**The number of people who have held assets in dollars and now wish to diversify them partly into gold—the traditional shelter from inflation and political adversity—is steadily growing.**"

So even some of the world's central bankers are saying we should buy gold!

But how should you buy it?

In past issues, I've mostly recommended specific gold coins. But I know some of you don't feel knowledgeable enough to choose good coins. Also, I know some of you want investments with more leverage.

So this month, I'll discuss some alternatives.

First, as I've already said, be careful with gold mining companies. Some are in serious trouble right now, even with gold at high prices. Mining stocks can tumble while gold soars—a truly depressing experience to have as a gold investor.

As I've said in past issues, it's **imperative** that you start with physical gold. If there's a serious financial crisis in this country—which looks more and more likely—having a stash of gold could be the difference between poverty and a comfortable lifestyle for you and your family.

If you don't feel qualified to select good quality coins—or don't have the time to do so—I recommend a new program from *Finest Known, Inc...*

Start with a *Monthly Gold Investment Program.* $500, $1,000 or even $2,500 could save your financial skin in the event of a crisis!

Through *Finest Known, Inc*. you can automatically receive a shipment of high quality, high profit-potential gold numismatic coins. All the work is done for you.

Each month you'll receive gold coins independently graded and certified by one of the three top independent grading services. Each coin will be priced at the most competitive price possible, insuring that you're building your gold portfolio at the lowest cost possible.

You can start this program with a Visa or MasterCard, at whatever amount you're comfortable with. You can invest as little as $500, $1,000 or even up to $10,000 a month. All coins are shipped by registered insured mail. *Finest Known Inc.* will send you an e-mail notifying you of the shipment, so you'll know when to look for it.

In many ways we're right back where we were in 1973 but the danger is many times greater. Instead of $1,000 an ounce, gold could even jump (as some suggest) to $5,000. Having a nice little hoard of gold put away would go a long way to make sure you don't lose your home and economic security.

To set up your *Finest Known Gold/Collection Investment Program,* please call **Chuck Aultman** at **1-866-697-GOLD (4653).**

Next, once you have a solid program in place to acquire physical: how can you invest in leveraged gold?

One of the most leveraged gold investments is gold futures. Futures are among the highest-leveraged investments available, so you can make a killing on a tiny investment. But, futures are rightfully known as being one of the riskiest investments available for the average person. That's why I recommend you…

Have a professional trade for you!

Last month I told you about a new managed-futures program opening up to new clients. Over a year ago, my long-time partner David Nichols and I debated starting a traditional futures service where we provide specific buy and sell recommendations on futures contracts—but we decided against it. The markets can reverse too fast, and the leverage is too powerful—so non-professional traders can get in trouble even with specific recommendations.

Instead, David made the decision to start a Managed Futures Program, where we actually place the trades on behalf of clients.

Since July 27th, 2003, David has been trading a $25,000 account using the methods developed for this Program. As of July 31st 2004 — the date of our audit for the Disclosure Document (approved by the NFA) — the account stood at $84,079, for a return since inception of 255%. (Important disclaimer: Past results are not necessarily indicative of future results. There is risk of loss trading futures.)

David is now opening up this Program for enrollment. Remember, this is futures trading, and it's highly leveraged and highly speculative—but if you're interested, you can find more details on the track record and the other programs we have by going to www.precisionfutures.com!