“Precious Metals Go Berserk!”

“Gold targets $600...silver smashes through $12... and platinum hovers around its all-time high!”

“Is this what we’ve all been waiting for? My surprising answer is below!”

• Gold and silver: have the rocket rides begun?

• British government says: U.S. attack on Iran “all but inevitable”

• A new source of demand for platinum!

Precious-metal investors are making a killing lately. (I hope this includes you!)

• Gold is hitting prices not seen for a quarter-century, just shy of $600 as I write this.

• Silver has smashed through limits that have held for 23 years—up into the mid-$12s.

• And platinum has surged back up to $1,088, threatening to set another all-time record.

So is this finally the price explosion I’ve been predicting here in GEA...?

Nope! Not Quite Yet!

Yes, the metals are going crazy. But this is nothing compared to what’s coming when the dollar hits full “crisis mode.”

Plus, I’m expecting a brief pullback in the near future, especially in silver. More about that in a moment.

Nevertheless, there are excellent reasons why precious metals are soaring. Hard assets are safe havens in times of uncertainty, and investors flee to precious metals in dangerous times.

And our current situation certainly qualifies as “dangerous times”! I’ll start by discussing...

War in the Middle East

The Iranian situation continues to deteriorate. Despite their talks of “peaceful nuclear energy,” the mullahs are actually racing to develop nuclear
Western intelligence has discovered that Iran has “successfully scoured Europe for the sophisticated equipment needed to develop a nuclear bomb.” This was done through “an extensive web of front companies, official bodies, academic institutions and middlemen” that obtained not only nuclear equipment, but also equipment and training for missile development and biological warfare.

Perhaps that’s why Iranian President Ahmadinejad promised his people that Iran “will fully gain access to nuclear energy” this year.

As a result, the U.S. is apparently accelerating its plans to destroy the Iranian program. The U.K. *Telegraph* recently reported on high-level meetings of the British government. The article quoted a senior source in the British Foreign Office, and said:

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“It is believed that an American-led attack, designed to destroy Iran’s ability to develop a nuclear bomb, is inevitable.”

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The article went so far as to describe how the attack would unfold. “Tactical Tomahawk cruise missiles fired from U.S. navy ships and submarines in the Gulf would, it is believed, target Iran’s air defense systems at the nuclear installations... That would enable attacks by B2 stealth bombers equipped with eight 4,500lb enhanced BLU-28 satellite-guided bunker-busting bombs, flying from Diego Garcia, the isolated U.S. Navy base in the Indian Ocean, RAF Fairford in Gloucestershire and Whiteman USAF base in Missouri.”

Meanwhile, the military situation is worsening. According to recent reports, Iran just successfully tested “the world’s fastest torpedo.” It screams through the water at up to 100 meters per second, which is four times faster than current designs.

It sounds ridiculous for a torpedo to travel at this speed—over 220 miles per hour!—but the technology has actually been around for decades. Although the reports didn’t mention what kind of torpedo this was, at that speed it sounds to me like a cavitation device. This is basically an underwater rocket—except that it has a blunt nose, which causes a sort of shock wave as it travels through the sea. This forms a bubble of water vapor around the torpedo, which drastically reduces drag as the torpedo slashes through the water.

The Russians have had cavitation torpedoes for many years now. Looks like they’ve passed the technology on to their Iranian buddies.
Obviously, these torpedoes could outrun any warship on the seas. This is grim news for any ships (such as ours) that spend time in the Persian Gulf.

But that might not even be their purpose. According to the Telegraph, these torpedoes “would not be used to combat western warships involved in an attack on Iran, but to punish western military action by crippling the world’s oil supply.”

I’ve talked about this before. The biggest danger Iran poses to us isn’t as a military threat—we’d crush them in a direct military confrontation.

Instead, Iran can cripple us without firing a single shot at an American plane, ship, or soldier. All the mullahs have to do is close the Strait of Hormuz to oil traffic. Almost 40 percent of the world’s oil traffic passes through this narrow strait, and the northern edge of it is the Iranian coastline, bristling with Iranian missiles. These missiles—and apparently, some new high-speed torpedoes as well—mean that Iran can shut down all that oil traffic headed for America and other western nations. Our economy would collapse.

Plus, an American attack on Iran would further destabilize Iraq—where we’re barely holding on by our fingernails now. As the Wall Street Journal recently pointed out, “The Mahdi Army, which is closely tied to Iran, has loyalists salted throughout the Iraqi police and army.” An attack on Iran would ignite unrest and possible revolt throughout the ranks of the Iraqi police and army—the exact people we’re relying on to control the current insurgency. The whole country could erupt.

An American attack might even trigger a broad Middle Eastern war—the exact thing it’s meant to prevent.

The Telegraph just reported on a study by the Oxford Research Group, examining the results of a major U.S. attack on the Iranian nuclear program. It concluded that this would set Iran’s program back by 5 to 10 years. That’s the good news.

But here’s the bad news…

**The attack would kill up to 10,000 people and then, within a month, would lead to an “extremely dangerous” war in the Middle East.**

The war would be a “protracted military confrontation” involving Israel, Lebanon, and some Gulf nations. The attack would also unify the Iranian people behind their nutjob President, Mahmoud Ahmadinejad.

Also, the attack would probably include a strike on the small Iranian navy, to prevent Iranian retaliation against oil shipping in the Persian Gulf. But the report noted that the Iranians didn’t even need their navy to shut down oil traffic, just a few suicide speedboats. So we’d have little chance of preventing a crippling rise in the price of oil—the scenario I described a few moments ago.

(By the way, before the U.S. invaded Iraq, this same Oxford Research Group predicted that Saddam would fall quickly, but the U.S. would be sucked into a chaotic insurgency. We might not like the Group’s conclusions, but its track record is impressive.)

So why are we still planning to attack?

A few people think we shouldn’t worry about the Iranians having nukes. But these people need to wake up.

Iran has been very open about its desire to “wipe Israel off the map,” and Iranian leaders have drooled about the prospect of mushroom clouds over Tel Aviv. Of course, Israel itself has nukes, and would retaliate. A nuclear war in the Middle East is becoming a scary possibility.

Frankly, I wonder about the sanity of the Iranian leadership. They seem to be looking forward to a war with Israel. Not only that, their public statements are just…crazy.

For example…

**According to Iran, the famous **Tom and Jerry cartoons** are a Jewish conspiracy!**

This amazing fact was recently revealed on Iranian television by Professor Hasan Bolkhari of the Iranian Education Ministry.

He started out by saying, “The Jewish Walt Disney Company gained international fame with this cartoon.”

(Which is already wrong, because Walt Disney wasn’t Jewish, and Tom and Jerry was made by MGM, not Disney. But let’s set that aside for the moment…)

He continued, “It is still shown throughout the world. This cartoon maintains its status because of the cute antics
of the cat and mouse—especially the mouse. Some say the main reason for making this very appealing cartoon was to erase a certain derogatory term that was prevalent in Europe.”

Bolkhari then claimed that in Hitler’s Germany, Jewish people were referred to as mice. He said, “Watch ‘Schindler’s List’. Every Jew was forced to wear a yellow star on his clothing. The Jews were degraded and termed ‘dirty mice’. Tom and Jerry was made in order to change the Europeans’ perception of mice. One of the terms used was ‘dirty mice’.”

“It should be noted that mice are very cunning... and dirty...Tom and Jerry was made in order to display the exact opposite image. If you happen to watch this cartoon tomorrow, bear in mind the points I have just raised, and watch it from this perspective. The mouse is very clever and smart. Everything he does is so cute...He looks so nice, and he is so clever... This is exactly why some say it was meant to erase this image of mice from the minds of European children, and to show that the mouse is not dirty and has these traits...”

“No ethnic group or people operates in such a clandestine manner as the Jews...”

I wish I was making this stuff up, but I’m not. Let’s face it: these people belong in a mental ward somewhere. We can’t let them have nukes. Plus, in addition to all this, there’s also …

The Increasing Risk of Terrorism

Iran is the premier state sponsor of terrorism. Until 9/11, Iran was responsible for more terrorist murders of U.S. citizens than any other nation. The thought of the Iranians having access to nuclear weapons is horrifying.

Even without nukes, the Iranians are already threatening us. Mohammad Ali Samadi, the spokesman for Esteshadion (“Martyrdom Seekers”), spoke at a Tehran university in February. He said, “With more than 1,000 trained martyrdom seekers, we are ready to attack the American and British sensitive points if they attack Iran’s nuclear facilities...If they strike, we have a lot of volunteers.”

Of course, Iran isn’t the only source of terrorism. Nor are the Iranians the only ones interested in nukes.

The London Times recently wrote about an Al-Qaeda manual, now available on the Internet, which contained detailed instructions for making nuclear bombs, “dirty” (radioactive) bombs, and
bombs to spread biological agents. The manual, appearing on a forum called Al-Firdaws (“Paradise”), attracted almost 60,000 hits just in the first few months after being posted.

According to the Times, the manual contains “instructions and pictures of kitchen bomb-making techniques. It is divided into nine lessons under the overall heading The Nuclear Bomb of Jihad and the Way to Enrich Uranium, and is dedicated as a ‘gift to the commander of the jihad fighters, Sheikh Osama Bin Laden, for the purpose of jihad for the sake of Allah’.”

Concern is now also spreading that Al-Qaeda is beginning to focus on oil-related targets. Last month I told you about the Al-Qaeda attack on the massive Saudi oil plant at Abqaiq: according to G2 Bulletin, after that attack Al-Qaeda issued a fatwa that declared, “Targeting of oil interests is legitimate economic jihad…Oil is the basis of modern industry and the backbone of industries in infidel countries.”

If Al-Qaeda decides to go after oil, and can buy or build a nuclear device, there’s a good possibility they’ll load a bomb onto an oil supertanker headed for an American port. Last year, Congress received a report entitled “Nuclear Terrorism: A Brief Review of Threats and Responses.” The report noted, “The Middle East is the dominant source of anti-American terrorism, the United States imports an average of more than 2 million barrels of crude oil each day from Persian Gulf nations, this crude oil is transported by ship, and it would be very difficult to detect a bomb inside a supertanker.”

Supertankers are enormous—some are a quarter of a mile long—and nuclear bombs can be as small as a steamer trunk. The usual ways of detecting such a bomb wouldn’t work: X-ray detection couldn’t reliably penetrate a tanker’s thick double hulls, and “neutron activation” detectors wouldn’t be able to penetrate the oil.

As the report noted, “A bomb in a tanker could devastate an oil port by the blast and by secondary fires in nearby refineries and oil storage tanks. A tanker bomb might be used against other maritime targets, such as the Panama Canal. And if a bomb in a shipping container could lead to the shutdown of container traffic, seriously damaging the world economy, a tanker bomb might by the same token lead to the suspension of crude oil shipments, with similar results.”

U.S. government officials are increasingly convinced that a large-scale attack of some kind is coming. Henry Crumpton, the head of counter-terrorism at the U.S. State Department, was interviewed in January by the Telegraph. He said:

“I rate the probability of terror groups using WMD as very high. It’s simply a question of time…”

He continued, “And it is not just the nuclear threat that bothers me. I think, if anything, the biological threat is going to grow.”

While still a senior officer in the CIA, Crumpton was involved in the Afghanistan war, when our troops were destroying Osama Bin Laden’s operational infrastructure there. Crumpton says we found Bin Laden’s terrorists had been working on anthrax, which they had intended to use on western targets. “They had a very experienced biologist to work on this. They were very serious about it and there is no reason to believe they have given up on their interest.”

Crumpton isn’t the only high government official who thinks there’s a big attack coming. The Department of Homeland Security recently issued
guidelines describing how to clean up after terrorists attack us with “improvised nuclear devices.”

So yes, these are “dangerous times” indeed.

But that’s not the only reason gold has shot up by 40% in the last year. There’s also …

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### The Spending Orgy in Washington

Five years ago, our Federal government was spending a staggering 18.5 percent of the gross national product. But apparently even this outrageous amount wasn’t enough for the politicians in Washington.

Today, government spending has soared to over 20% of the GNP. This is the most rapid growth in spending since President Roosevelt’s bloated New Deal in the 1930s.

A few years ago, when the Republicans took control of the White House and both branches of Congress, some pundits were hopeful that the government spending orgy would finally be brought under control. I predicted otherwise—and sadly, I was right.

The supposedly “conservative” Republicans have completely sold out their constituency. Last month, they passed a bill raising the government’s debt limit by $781 billion. The new authorized limit is now $8.965 trillion. (And we’ll reach this astronomical level in just 8 months or so, at our current rate of spending.)

This amount of debt is incomprehensible. It’s $117,600 for every single American family, including yours and mine.

At $1 per second, it would take 284,000 years to pay this off. Another way to look at it: if you laid dollar bills end-to-end, you’d need to circle the Earth 34,129 times!

As Daniel Mitchell, senior fellow at the Heritage Foundation has commented, before Republicans were in power they “thought that Washington was a cesspool. Now they think it’s a hot tub, and they’re the ones bringing the keg to the party.”

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### It’s No Wonder that Gold is Going Berserk!

Grim news for our economy is bullish news for gold. As the dollar plummets, gold skyrockets.

Neither of those things is fully underway…yet. But the dollar is slowly being strangled by numerous forces:

- Personal bankruptcies have soared in the last year. In 2004, there were 1.56 million bankruptcy petitions filed in federal court. In 2005, there were a whopping 2.04 million. That’s an increase of 30 percent!
- Our massive current-account deficit is absorbing a full two-thirds of global savings, just to finance our consumption. We’re in the red by $3 billion each day.
- Foreign lenders are getting jittery about lending any more money to an obviously bankrupt nation. Cheng Siwei, a vice chief of China’s national parliament, recently said, “China can stop buying dollar-denominated bonds…and gradually reduce its holdings of U.S. bonds.”
- Government “entitlement” spending is skyrocketing. In 1975, Social Security and Medicare/Medicaid soaked up 25% of all federal spending. Today, it’s 43%, and of a much bigger budget at that.
- Our long-term prospects are even grimmer than today’s. As our population ages, there will be fewer workers supporting each retiree. Today, there are 3.3 workers for each retiree: by 2030, it will be down to just 2.
- Meanwhile, Congress and the President continue to spend like drunken sailors. The price

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### Portfolio Updates

In Update #168, I made these recommendations:

- **Noble Corp.** (symbol NE). We bought at $74.50. We also sold April $75 puts (NEPO) for $3.30, lowering our cost in the stock to $71.20.
- **Diamond Offshore Drilling** (symbol DO). We bought 2 contracts of DO June 65 calls (DOFM) at $15.80.

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A tag for just one new program (President Bush’s Medicare drug benefit) has reached a staggering $1.2 trillion over the next decade. That’s over $15,500 you and mine will each have to pay, just for this one government giveaway.

- Sadly, the American people are completely oblivious to their plight. We all need to spend less and save more—but that’s foreign thinking to most Americans. The Consumer Federation of America just did a survey asking Americans about the best way to get several hundred thousand dollars. You’d hope everybody would think of working hard, saving their money, maybe even increasing their educations to get better jobs. Nope! Instead, more than one in five people think that the best way to get rich is to win the lottery. Another 11 percent figured they could just inherit it. Three percent even thought the best way was to get a big insurance settlement!

The dollar is a dead currency walking. And, as I said earlier...

Doom for the dollar means gold and other precious metals will go gangbusters!

Having said that, I think the current action in precious metals is just the beginning.

The Wall Street Journal recently wrote, “It would be easy to conclude that a serious fear of inflation had taken hold...Gold—the classic hedge against inflation—hit a 25-year high, while silver surged to a 22-year [now a 23-year] peak. Then there was the sell-off in Treasurys...Copper and zinc hit all-time highs, crude oil futures topped $67 a barrel, up over 10% year to date, and the dollar fell against many key counterparts.”

I agree, but I’m looking for much higher prices than these before it’s all over! $1,000 gold, $100 oil, and $50 silver.

And not just because of bad news for the dollar. There’s also specific good news for each metal. I’ll start with...

The Bull Market in Gold

Five years ago, nobody wanted to hear about gold. Now it’s all over the news.

Gold production continues to fall in South Africa, the world’s biggest gold-producing country. I’ve described the reasons why in past issues, so I won’t repeat them here. But the official numbers were just released for 2005, and gold production fell by 12.8% from 2004.

All over the world, gold mines are struggling. Bobby Godsell, the CEO of AngloGold Ashanti (the world’s third-largest producer), recently said that “All of the gold majors are finding it difficult to replace their reserves. New mine production will be flat-to-declining.”

He noted that mining costs are shooting up. Junior companies are exploring for new deposits, but often can’t afford to develop them once they find some. It now takes $500 million to start an open-pit mine, and $1 billion for an underground mine.

Godsell also said something that’s really interesting. I’ve mentioned before in GEA that long-term prospects for crude oil are very bullish, partly because most of the world’s remaining oil is in politically unstable places. Well, according to Godsell, the same thing is true for gold!

Here’s what he said: “Gold is precious because it is scarce. Twenty years ago, the majority of gold was produced by four old-world countries: South Africa, Australia, Canada, and the U.S. In the future it will be anything but. Tomorrow’s ounces of gold are going to be in interesting countries.”

That’s why his mining company is now being forced to explore in places like the Congo, Mongolia, and Colombia—places you wouldn’t even want to visit, never mind set up an expensive mining operation!

Even while gold supply is falling, demand remains strong. China’s Shanghai Daily ran an article entitled “Gold Rush to Continue.” It started out with this:

“Sold out. Sold out. Sold out once more. Whenever gold bullions hit the counter, they are sold out very quickly after being put on sale.”

The article explained how buyers are mobbing Chinese banks and stores whenever a new shipment of gold comes in.

The Bull Market in Silver

Silver has also gone ballistic, smashing up through $12—a level not seen for 23 years.

In the January GEA, I wrote why I’m so bullish
on silver. On the day that issue was published, silver was $9.10. Since then, silver has leaped up to $12.53: a gain of 38% in just three months!

Am I glad to be proven right? Actually, no—for two reasons.

First, silver has climbed too far, and too fast. A pullback is inevitable, and might even have started by the time this issue gets published.

Second, silver’s price rise isn’t being driven by the factors I described in that issue. Right now, investors are pouring into silver in anticipation of iShares Silver Trust: the new silver exchange traded fund (ETF) from Barclays.

I mentioned this ETF back in January, but now it’s almost a reality. The SEC has approved the ETF’s listing on AmEx, so now they just have to give it formal approval. This could happen any day.

**What About Platinum?**

Platinum is near its all-time high. I just wrote about this metal last month, explaining all the bullish factors, so I won’t repeat them now. But there is a new source of demand for platinum since last month: the Environmental Protection Agency!

The EPA has announced that it’s planning new emission standards for lawn equipment. Not very exciting, right? Maybe not on the surface, but underneath this announcement there’s something very interesting.

It turns out that lawnmowers are terrible polluters. The average riding lawnmower spits out as much hourly pollution as 34 cars—and the EPA has decided to clean them up, with strict new emission standards expected by this fall.

To meet the new standards, manufacturers will be forced to add catalytic converters to lawn equipment. And as I discussed last month, catalytic converters (for automobiles) are a huge source of demand for platinum. Now lawnmowers will need converters too—and there are currently about 52 million lawnmowers in this country!

Now I assume older equipment will be grandfathered in, and won’t be required to meet the new standards immediately. But over the next couple of years, a huge number of mowers will need to be repaired or replaced—and those, along with sales of new equipment, promise to be a healthy source of new demand for platinum!

Once the ETF is launched, it will issue 13 million shares. Each share represents 10 ounces of silver, so the ETF is expected to buy 130 million ounces of metal. That’s 16% of annual global demand—which should, in theory, cause a huge spike in silver’s price. That’s why the investors are piling in.

If all this actually happens, then there should indeed be a silver spike. But there’s just one little problem with this scenario.

Rumors are swirling that the ETF might not actually buy 130 million ounces of physical silver. Instead, it might buy some “substitutes” for silver, such as shares in a silver mine.

Obviously this wouldn’t be a proper substitute at all. You either own the physical silver, or you don’t. Personally, I think the ETF’s managers would be guilty of fraud if they did this. But that doesn’t mean they won’t do it anyway.

My point is this: the ETF might create much less demand for physical silver than expected. If so, silver’s price is going to fall again after the ETF is launched.

For that matter, the price will probably sag after the launch anyway. An ETF launch creates a classic “buy the rumor, sell the news” situation: we saw this happen in gold just a year ago. When the major gold ETFs launched, gold ran up 12% in the 3 months before, then slid by 7-10% after the launch.

So yes, I’m still bullish on silver. But for the moment, I’m concerned that it’s gone up too fast, especially because it’s going up for the wrong reasons. I wouldn’t be surprised to see it sag a bit in the near future. However, it should recover afterwards.

**Summary:**

You Ain’t Seen Nothin’ Yet!

Almost everybody’s impressed with the recent action in precious metals, but I’m not. This is nothing compared to what’s coming!

I think gold and silver are going to explode to breathtaking highs before it’s all over. I think we’ll see mouths hanging open on the CNBC broadcasters before we come anywhere close to the top. And not until that point will I consider selling—and maybe not even then!

It promises to be an amazing ride. Stay tuned!