GOLD & ENERGY ADVISOR

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James DiGeorgia, Editor

"Gold Gets Clobbered! Is the Bull Market Over?"

"All the talking heads in the media are breathlessly proclaiming that gold is dead!

"Are they right? Is it time to sell your metal? That's my topic this month!"

- **Gold falls over 20%**
- **Five reasons why the price will come back even higher**
- **U.S. Mint issues historic new gold coin!**

No doubt you've heard that gold took a real beating recently: falling from a high of $732 all the way down to $566 or so.

So is the gold bull over, as the media are proclaiming? Is the yellow metal dead for another 20 years?

Should we dump our gold and pile into whatever mutual fund *Money* magazine is recommending this month?

Nonsense!

First of all, *every* investment tumbles once in a while. Gold is no different. Indeed, as I've said in this newsletter, I knew it went up *too fast* this spring. It was bound to come back down for a breather, before its next leg up.

And why are the media always so sour on gold? Ask yourself this: the last time the Dow or NASDAQ took a hit, did you hear the talking heads on CNBC darkly recommending that you "sell all your stocks, the stock market will be dead for at least another generation"?

Of course not.

Then why do the financial media say these types of things every time gold takes a correction? For a couple of reasons.

First of all, gold languished in a bear market for 20 years—an entire generation, really. The bear market is over now, but many of today's commentators are too young to remember gold ever being a good investment. So they're blind to today's market realities. Gold is the complete opposite of the hyped-up stock fads that the bubblevision commentators like to salivate over.

Second, many commentators have an agenda.

They've been taught that big government is the solution to all our problems, but gold represents the antithesis of government control over the economy. The government can't print more of it at will, unlike paper currency. Plus, the yellow metal is repugnant to anybody who wants to know exactly what you own, and why you own it—those who would like to deny you your right to financial privacy.

THE GOLD AND ENERGY ADVISOR

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In addition, by rising when the dollar falls, gold is a barometer of our government's criminal mismanagement of our economy. As gold's price soars, it highlights the debt bubble our politicians have inflated for us. Gold illuminates the deep, black pit that Washington has dug for us, now yawning under our feet.

Gold is such a unique investment because its value is inherent. *It doesn't rely on the performance of somebody else*. Unlike real estate, gold's value doesn't depend on low interest rates. Unlike a stock, its value won't plummet when a company fails to make its numbers. Unlike a bond, it can't nosedive when Moody's downgrades a firm's credit rating. Unlike a currency, the government can't print more of it on a whim.

That's why gold is <u>the</u> asset to own when all other investments go south. And unfortunately, there are probably some rough times ahead. So don't let the talking heads on bubblevision talk you out of your gold.

Yes, gold took it on the chin this month. But so what? That's a short-term event. Longer-term, there are irresistible forces that will force it back up…*way* up, to prices that will probably shock even me.

That's why I'm devoting this issue to…

Five Reasons Why the Gold Bull Has a Long Way to Run

Long-time readers will recognize many of these reasons. Some of these are predictions I made years ago in my books, that are now coming true in spades.

Incidentally, I'm not saying "I told you so"—actually, I'd rather these trends *weren't* occurring. But I refuse to keep my head in the sand—I'd rather face reality, however ugly it might be, and prepare accordingly. I urge you to do the same.

Reason #1: Increasingly Unstable Oil Supplies

As I've discussed in the past, high energy prices eventually ripple throughout the economy. Oil's price affects almost everything else, causing high inflation. And high inflation pushes gold's price up too.

I devoted an entire section of my book *Global War for Oil* to various problems in oil-producing countries. Unfortunately, those problems aren't going away.

Instead, they're getting worse—there are even some new ones that have popped up since then. And all of them will pressure oil prices up.

Perhaps the most obvious one is Iran's race for nukes, and its threats to shut down its oil exports if we interfere—indeed, to shut down all traffic through the Strait of Hormuz in the Persian Gulf. Unless Iran decides to voluntarily give up its nuclear program—something I can't see happening—this will provide continual support for high oil prices.

A less visible, but no less dangerous, problem is Saudi Arabia. The Saudis continue to pretend friendship toward us, while quietly supporting radical Islamic terrorism against the West.

A leading Saudi cleric even got onto Al-Jazeera television recently and announced a "great phase of jihad" against the "enemies of Allah," which could be found in Afghanistan and Iraq (in other words, U.S. soldiers). To ensure there was no doubt about who he was talking about, he said, "Today, America is defeated. I have no doubt, not even for a minute, that America is on its way to destruction."

As Saudi society grows more stridently anti-American, the threat to our oil supply can only get worse.

Over in Nigeria, militants continue to kidnap foreign oil workers, crippling the oil output in that country. This sounds insignificant, but when oil markets are as tight as they are today, even the 3.2 percent or so of global oil produced by Nigeria is desperately needed.

Violence in Nigeria has had a substantial, if little-discussed, effect on oil prices today. And the situation there is getting worse instead of better.

Meanwhile, in Venezuela, the incompetent Communist dictator Hugo Chávez is continuing to preside over a crash in his country's oil production. Venezuela's oil production has tanked 14 percent since he seized power in 1998, taking 473,000 barrels off world markets every single day.

The world needs more oil, and Venezuela could produce and sell lots more of it—if Chávez was overthrown. But this doesn't look like it will happen anytime soon.

Then there's the country which deserves a section all to itself…

Reason #2: Russia, the Fascist Monopolist

Several years ago in *Global War for Oil*, I predicted the resurgence of Russian totalitarianism. Not Communism exactly—more like the old fascist model, where capitalism is allowed in a limited form, but the government controls all the key industries.

That trend has not only held up, it's accelerating. For example, Sergei Chemezov, one of Putin's old KGB buddies, just took over Russia's largest auto maker. (300 heavily-armed thugs attended the shareholder meeting, to "help" the shareholders elect their new management. The shareholders had never even seen the candidates before, but the election took less than 30 minutes. No other candidates were on the ballot anyway.)

This adds autos to Chemezov's state agency (Rosoboronexport), which already is in control of several key Russian industries (arms and weapons, rotary aircraft, oil-drilling equipment, and more).

So why should we care about Russian industry? Many of the world's vital resources come from Russia, and are produced by these companies the state is now taking over. For example, Boeing is heavily dependent on Russia's VSMPO for titanium to build aircraft (a single Boeing 777 requires 58 tons of the metal)—and VSMPO is the next takeover target for Rosoboronexport.

As the Russian state becomes a near-monopolist for various commodities and products, it will be able to dictate terms of its choosing to the West. Russia's stance has always been that natural resources are a vital tool for achieving geopolitical goals—in other words, if we don't do their bidding, they'll choke off our supplies.

We just saw this in January, when Ukraine's entire gas supply was turned off (in the middle of a bitter winter) over a pricing dispute. More recently, Putin threatened to do the same to all of Europe if his aggressive plans to take over certain European energy infrastructure were blocked.

Which brings up my main point. It's bad enough that Russia can throw its weight around in titanium, palladium, and other commodities. But Russia is also the world's largest producer of natural gas, and the second-largest producer of crude oil.

Latest prices as GEA goes to press—June 26, 2006

Comex spot contract: silver $10.27, gold $584.80
Nymex spot platinum: $1181.30, palladium $320.53
Nymex Light Sweet Crude Oil $71.80

Silver coins			**Dealer will buy at this price**	**Dealer will sell at this price**
100 1 oz. silver American Eagles			$1,100	$1,180
100 1 oz. common rounds			$1,000	$1,150
$1,000 face value US pre-1965 coin bag (circulated)			$7,000	$7,600
$1,000 face value US circulated silver dollar bag (VG or better)			$10,500	$13,500
US Morgan silver dollars		PCGS MS64	$45	$65
		PCGS MS65	$110	$140
		PCGS MS66	$280	$375
Platinum coins				
U.S. Platinum Eagle:		1 oz.	$1,160	$1,260
		1/2 oz.	$575	$650
		1/4 oz.	$290	$345
		1/10 oz.	$112	$150
Gold coins				
Australian Kangaroo			$580	$630
British sovereign (Kings)			$125	$158
(Elizabeths)			$125	$158
Canadian Maple Leaf			$585	$680
Credit Suisse 1 oz. gold bar			$585	$645
Mexican 50 peso Centenario			$725	$800
South African Krugerrand			$575	$615
US Gold Eagle:		1 oz.	$589	$620
		1/2 oz.	$295	$325
		1/4 oz.	$145	$168
		1/10 oz.	$58	$68
US $20 double eagle:				
Liberty	Raw	MS60	$600	$775
	NGC	MS63	$800	$1,200
	NGC	MS64	$1,800	$1,950
	NGC	MS65	$4,150	$5,950
Saint Gaudens	Raw	MS60	$625	$725
	NGC	MS63	$800	$900
	NGC	MS64	$1,000	$1,100
	NGC	MS65	$1,100	$1,450

Prices courtesy of Universal Coin & Bullion
(800) 459-COIN (2646)

And Putin is showing no hesitation in using this to his advantage…

Vice President Dick Cheney just criticized Moscow for its growing use of oil and gas as "tools of intimidation or blackmail."

More and more, the Russian bear is opposing America.

We're trying to shut down Iran's nuclear program—but the Russians are building nuclear reactors in Iran instead. We're trying to stop terrorism in the Middle East—but the Russians have embraced the Palestinian terrorist group Hamas, chortling that its recent victory in Palestinian elections was a "powerful blow" to Washington's peace efforts. We're trying to help rebuild shattered Eastern European economies, in shambles after decades of Communist lunacy—but Russia has consistently (and openly) interfered in the elections of Ukraine, Georgia, and other nearby countries.

Anybody who doubts Russia's growing hostility toward the U.S. should think about the current quagmire in Afghanistan. Five years after 9/11, our troops are *still* fighting in that desolate place. In fact, as I write this, our military has started a huge campaign (involving 11,000 of our soldiers) deep in the mountains, battling Taliban guerrillas. (We're stuck in a huge mess in Afghanistan—the only reason we don't hear more about it is because Iraq is even worse.)

But who's supplying the Taliban in its fight against us? It's Russia! According to Pakistani journalist Hamid Mir, the Russians have been supplying the Taliban with modern weaponry for quite some time now—helping the guerrillas kill more Americans.

So let me repeat: Russia is the world's largest producer of natural gas, and the second-largest producer of crude oil. This country is not only growing more hostile toward us, it is willing—even eager—to use its oil and gas as instruments of political and economic blackmail.

This does *not* look promising for lower energy prices. And as I said earlier, high energy means high inflation…and high inflation means high gold prices.

Reason #3: The Growing Risk of International Terrorism

Time is currently running a story about an al-Qaeda plan to attack the New York City subway system with poison gas in early 2003. Apparently, the attack was all set up and ready to go, but Osama bin Laden's deputy called it off 45 days before it was scheduled to occur. (Nobody knows why.)

The article said the terrorists were going to use a lethal gas similar to what the Nazis used in their death camps, and they had constructed some very effective devices to disperse it.

This attack was canceled, but others are likely. Michael Scheuer, the former head of the CIA's Osama bin Laden unit, spoke in May on al-Qaeda's plans to attack the U.S.'s oil infrastructure. Bin Laden's plan is to bankrupt the U.S. economy, and our dependence on oil is seen as an easily attacked weakness. Scheuer mentioned our Trans-Alaska pipeline as a target that al-Qaeda is thinking of attacking.

Broader attacks were predicted by a conference of terrorism experts at the University of California, funded by the Department of Homeland Security. One scenario involved multiple, perhaps simultaneous, attacks on the nations' largest ports: Los Angeles, New York City, New Jersey, and Houston. An attack on the ports of Los Angeles and Long Beach alone would cost $23 billion *per month* afterwards.

We're also learning that the terrorists are nothing if not creative. The U.K. *Times* recently reported on a new wave of cyber-terrorism, where al-Qaeda has hired computer hackers to probe Western computer systems. According to Scott Borg, the director of a Homeland Security advisory group, al-Qaeda has become very interested in "Scada" attacks (short for Supervisory Control and Data Acquisition)—subtle manipulation of computer systems that control power plants and factory machinery.

Most factory and plant equipment is computer-controlled, so a hacker skillful enough to penetrate our networks could shut down large parts of the U.S. electrical grid. Of course, such an attack would be very obvious, and would probably be fixed quickly.

Borg is more worried about a subtler attack—for example, computers are used at chemical manufacturing plants to open valves, adjust temperatures, throw switches, and so on.

What could a malicious hacker do if he made a successful Scada attack on a pharmaceutical company's manufacturing line? Borg says, "Many attacks of this kind would have two components. One would alter the process control system to produce a defective product. The other would alter the quality control system so that the defect wouldn't easily be detected. Imagine, say, a life-saving drug being produced and distributed with the wrong level of active ingredients. This could gradually result in large numbers of deaths or disabilities. Yet it might take months before someone figured out what was going on."

The *Times* article also said disruptive attacks could be made against other targets, including banks, financial networks, telecommunications, or other systems.

Some might think this idea is far-fetched. But we're dealing with a well-funded, patient enemy. Unfortunately for us, Osama is not only evil, he's clever—think of the planning that must have gone into the 9/11 attacks, and the fact that he orchestrated the whole plot from the other side of the world. We can't underestimate him.

Plus, there's the research done by Hamid Mir, a journalist who for whatever reason has unprecedented access to Osama. Based in Pakistan, he's the last person to have interviewed bin Laden, and the only one to do so after the 9/11 attacks. Mir has spent the last eight years traveling through the remote mountains of Afghanistan and Pakistan, as well as Iran, Iraq, Sudan, Syria, Uzbekistan, and Russia, investigating al-Qaeda's activities.

Mir has stated publicly that he believes al-Qaeda has smuggled nuclear material into America. He bases this not only on what al-Qaeda operatives have told him, but other sources as well (scientists and U.S. officials).

Mir says that back in 1999, al-Qaeda started planning an attack in America that needed at least six "dirty bombs" (bombs designed to spread poisonous radioactive material over a large area). Osama's terrorists have already tested such a bomb, in the Kunar province of Afghanistan back in 2000.

Mir has been told that the material for the dirty bombs has already been smuggled into America through the Mexican border.

In a recent interview, Mir said, "They have planned an attack bigger than 9/11, even before 9/11 happened. Osama bin Laden trained 42 fighters to destroy the American economy and military might. 19 were used on 9/11, 23 are still "sleeping" inside America waiting for a wake-up call from bin Laden."

So if these bombs have been here for a while, why haven't they been used yet?

Mir has been told Osama is waiting for a mass U.S. killing of Muslims—maybe in Iraq or Afghanistan—so he can justify the attack as a retaliation. Mir believes a U.S. attack against Iran might also be used as the excuse.

Additionally, Mir says he thinks that Iran might organize some terrorist attacks inside America. The Iranians figure that Bush will automatically blame al-Qaeda, so Iran could strike at the "Great Satan" and still get away with it.

Will Any of These Attacks Succeed?

Obviously, we all hope not. And don't misunderstand me—I'm not recommending you go stock up on beans and bullets, for the impending collapse of the American economy. (I think 9/11 proved that our economy is a lot more resilient than Osama thinks.)

But it would be irresponsible to deny the possibility that something will happen. If it does, many "conventional" investments will get really ugly, really fast.

Portfolio Updates

In Update #187, we recommended allowing our May options on Talisman Energy, Cimarex Energy, Encore Acquisition, Newfield Exploration, and EOG Resources to expire. These reduced our cost basis in these stocks.

In Update #189, we bought Ensco International (ESV) at the market—about $47.82. We also bought two contracts of calls on Global Santa Fe (GSF)—these were July $45 calls (GSFGI) at about $11.00.

In Update #190, we opened some option positions. We bought two contracts of Cabot Oil & Gas Oct $35 calls (COGJG) at $10.00. We also sold short a put (this will allow us to buy the stock at a lower cost basis). We sold the COG July $40 puts (COGSH) at $1.40.

Then we bought two contracts of Diamond Offshore Drilling Sept 65 calls (DOIM) for $18.50, and sold short a June $80 put (DORP) at $2.50.

Then we recommended re-entering Bill Barrett Corp. (BBG), after taking profits on it earlier in the year. The price was $30.75.

In Update #191, we closed out some option positions. We sold 2 contracts of Cabot Oil and Gas Oct. $35 calls (COGJG) for about $11.10.

We also sold 2 contracts of Diamond Offshore Sept. $65 calls (DOIM) at about $21.40. We also bought back one contract of the Suncor June 2006 $80 puts (SURP) at about $2.15 or so.

In Update #193, we made a recommendation for subscribers who own Anadarko Petroleum (APC) options. The stock recently split, giving us a bit too much exposure to the stock. We sold two of our four contracts of Anadarko August $42.5 calls (APCHV), at about $8.80. We also bought back two contracts of the Anadarko June $50 puts (APCRJ) at $1.15.

In Update #199, we made recommendations for subscribers who were short the puts on APC, NE, ATW and DO (the puts are APCRJ, NERO, ATWRW, and DORP). We allowed most of them to get exercised, but bought back the Anadarko June $50 put (APCRJ) at $1.80.

In Update #200, we made recommendations for subscribers who had sold short the Cabot Oil and Gas July $40 put (COGSH), or who would like to write options against NFX, XEC, and EOG. We bought back COGSH at $.65. We also sold the NFX July $45 calls (NFXGI) at $1.75. Then we sold the XEC July $40 calls (XECGH) at $1.20. Finally, we sold EOG July $65 calls (EOGGM) at $3.20.

In Update #201, we made recommendations for subscribers who owned APC or the APCHV options. We sold one contract of the Anadarko $45 July calls (APCGI) at $1.95. To reduce our costs in Anadarko, we also opened a spread by selling two contracts of $47.50 July calls (APCGW) at about $.90.

On the other hand, gold will skyrocket. The yellow metal is the best way to protect yourself. We don't want these events to happen—but it would be irresponsible to see them coming, and not do everything you can to protect yourself.

Reason #4: Nervous Foreign Investors

Our government borrows over $1 billion per day just to stay afloat. That's about $700,000 *per minute*—day in and day out, even while you're asleep, weekends and holidays included.

So what do you call someone who has to borrow money every day just to pay his bills? *Bankrupt*. More to the point, what relationship does he have to his lender? He's an economic hostage—his solvency depends utterly on the willingness of his lender to cut him another check each day. As soon as the lender stops writing checks, the borrower goes under.

Obviously, this game can continue only until the lender gets spooked out of the relationship. Eventually, the lender will wake up one day and realize he's lending to a bankrupt—a stupid thing to do. Then the lending dries up, and the borrower is sunk. The repo man shows up and takes his car, the sheriff shows up and forecloses on his house, and he's left out in the street holding a cardboard sign, begging for food as people drive by.

Now imagine this situation on a national scale. That's what the U.S. has done. We've built the biggest financial house of cards in history: a monstrous $8 trillion debt, to which we're adding another billion each day. As soon as the lending dries up, even partially, the cards collapse and the repo man arrives.

But there's an interesting twist when this game happens on the national scale. We're not only dependent on each day's lending, we're also dependent on previous lenders to not sell off their loan packages to others.

For example, foreigners have accumulated an enormous amount of dollar-denominated debt—over $2 trillion in Treasuries alone. If any large foreign debt-holder decides to sell off his "portfolio," that will obviously drive down the price of not only U.S. bonds in general, but also the dollar. This would immediately devalue everybody else's portfolio too.

In past issues of *GEA*, I've extensively documented the nervousness that various foreigners (especially governments) are experiencing about their U.S. debt and dollar holdings. They realize that they've been lending to a bankrupt—but they can't stop, because that would torpedo our economy, crash the dollar, and kill their portfolios. Nor can they sell their portfolios, because that would have the same effect.

Imagine being stuck like this. You've invested in something that you now realize will crash eventually, probably even soon—but not only is there no exit from the investment, you're forced to buy *more* every single day, to prop up what you already own.

So nobody wants to burst the bubble. Everybody hopes it can stay inflated until the American politicians regain their senses, stop overspending by $1 billion per day, and start paying down our massive debt. But the chances of that happening are about as good as me flying to the Moon tomorrow.

In the meanwhile, everybody is watching the exits nervously. If the bubble does burst, only the first couple of sellers will get any value from their portfolios. After the price craters, subsequent sellers will take huge losses.

So once the selling starts, it will probably turn into a stampede. And the dollar goes *poof*.

We know it. The lenders know it. The only question is…when will it start? And what will trigger it?

Personally, I've been expecting the sell-off to be sparked by a single event—a big terrorist attack, a war in the Middle East, or some other such nastiness. Now I'm not so sure—it might happen this way, but the dollar might just tumble enough on its own to spark a sell-off all by itself.

The dollar is weakening in ways that surprise even me. It's no secret that the dollar is so weak against gold (that's why gold prices are so high), or against oil (ditto for oil prices), or against foreign currencies (like the 28-year high of the Canadian loonie vs. the dollar). But other, more subtle, weaknesses are forming too.

For example, let's say you wanted to invest in Mexico. You thought that, for some reason, Mexican bonds looked promising. Well, Mexico offers bonds in two forms: one that pays interest in dollars, and the other that pays interest in pesos. Keeping in mind the history of the peso—plunging almost 50 percent against the euro in the last 5 years, for example—which bond would you buy? Which currency would you want to receive?

I expect you'd want to be paid in dollars. But as the *Wall Street Journal* recently reported, more and more investors are making the opposite choice. International pessimism about the dollar is growing so strong that local-currency bond sales are skyrocketing. International money managers are starting to prefer payments in Brazilian reals, Mexican pesos, or Turkish lira instead of dollars.

Now, most of these local-currency bonds do have slightly higher yields than their dollar-denominated equivalents. Nevertheless, these are bets against the dollar.

As more and more investors move away from the dollar, the demand for greenbacks weakens further, and the dollar sags a bit more. Eventually, somebody will get fed up with this continual depreciation, and decide to dump his dollars before they fall even further. This might be the trigger for the sell-off I've been describing.

Either way, whether the sell-off is tripped by a sudden event, or occurs after a long slide, the effect will be the same. Gold's price will go to the moon!

Unfortunately, there's also an ugly aspect to all of this.

As I've explained, our economic health is dependent on the forbearance of others—the willingness of foreign dollar-owners to hold onto their greenbacks. That wouldn't be so bad if the top dollar-owners were friendly countries like England or Germany. But that's not the case.

The *Wall Street Journal* just ran an interesting article entitled "Holdings of U.S. Debt Become Potential Weapon." The article pointed out how some 70 percent of global currency reserves are in the hands of developing countries—plus, "The three countries in the world adding to reserves the fastest, and thus buying the most U.S. debt now, are China, Saudi Arabia, and Russia…Not far behind are Venezuela and Iran."

The article described how U.S. rivals, who are already "resentful" of America, could easily use their U.S. debt holdings as a "geopolitical weapon" against us.

Isn't this comforting? More and more, the power to crash our economy is accumulating in such friendly and stable nations as Saudi Arabia (the sponsor of radical Wahhabi Islam and its global jihad against the West)…China (run by the butchers of Tianamen Square)…Russia (now turning to fascism)…Iran (run by whackos and nutjobs)…and Venezuela (where Chávez has said Bush is trying to kill him, and Condoleeza Rice wants to marry him).

Makes you feel secure, doesn't it?

Reason #5: Six Thousand Years of Value

All of the problems described so far are bullish for gold. That's no surprise: gold's history as real value, as a refuge during a financial storm, goes back for thousands of years.

What *is* surprising is that the media is now, occasionally, willing to admit this.

Last month, the *Wall Street Journal* ran an article entitled "In Gold We Trust." It correctly pointed out that the recent highs in gold, oil, and other commodities aren't really a bull market in commodities—they're a bear market for the dollar. As the dollar falls, the prices of "real" things go up. And the dollar has fallen some 60% against gold in the last four years.

It concluded with praise for gold: "Gold is the barometer of public confidence in fiat money, and it is difficult to rebuild confidence in a currency once it has been allowed to slide. Gold has been a reliable harbinger of many economic troubles—not just of escalating prices at the gas pumps, but of inflation, rising interest rates, stagnation and poor investment performance on the part of bonds and equities alike."

Increasingly, investors are turning to gold today. So much so that this month, for the first time ever in the history of the United States, the U.S. Mint is issuing a pure gold coin!

Until now, the U.S. has only ever issued 22 karat coins (91.67 percent gold, with the rest mostly copper). But pure 24 karat coins from other governments have proven to be very popular, now making up 60 percent of the gold market. (It's easy to see why—a pure gold coin is stunningly beautiful.)

So the Mint is meeting demand with its new "American Buffalo" gold coin, named after the design on the reverse (copied from the old Buffalo nickel). It will have a face value of $50, but since it will contain a full ounce of gold, its actual price will be far higher than that.

I plan on buying some of these historic coins for myself. I'd recommend them to you as well!