GOLD & ENERGY ADVISOR

Vol. III, No. 11 $19 November 2006

"The Election is Over. $1,000 Gold, Here We Come!"

James DiGeorgia, Editor

"The U.S. dollar had one last hope—that Republicans would somehow wake up, stop killing our currency, and start acting like conservatives again.

"Now that they've lost power, even that small hope has been extinguished. The dollar is a dead currency walking. Get ready for $1,000 gold!"

- **The election, the dollar, and gold**
- **Real estate prices fall, oil prices get more pressure upwards**
- **China attacks U.S. satellites!**

By now, you've probably heard endless commentary about the election results from the media. You're probably as sick as I am of the gloating from the Democrats, and the moaning of the Republicans.

But there's an important aspect to this that the media *won't* talk about—its effect on the U.S. dollar and the price of gold!

The talking heads are yakking endlessly about the Iraq war and its disastrous effect for the Republicans. Fair enough—that's a huge factor behind the election results.

But the Democrats don't view it that narrowly. They interpret their victory as a broad mandate to implement their entire agenda.

In fact, it goes beyond that. The next Speaker of the House, Nancy Pelosi, has eagerly announced her plans to "start governing."

This is an interesting choice of words, since she's a legislator and not an executive. It's not her job to govern us, but she apparently doesn't see it that way.

In some ways, this election was good.

First of all, some Republicans will wake up and realize they lost because they betrayed their principles. Regardless of their party affiliation, voters are disgusted by corrupt politicians gorging on pork.

So we can hope the Republicans will return to the principles their party stands for.

Second, the Democrats will reign in some of the government's excesses. For example, the IRS has begun using private collection agencies to hunt down people who owe taxes. Over 13,000 taxpayers are now being hounded by private agencies, raising serious concerns about taxpayer privacy and whether or not taxpayers are being treated fairly. The new Democratic leadership has pledged to stop this practice.

So that's the good news from the election. Now for the bad news.

I believe this election is the final nail in the coffin for the U.S. dollar.

THE GOLD AND ENERGY ADVISOR

EDITORIAL STAFF

James DiGeorgia	*Editor*
Spiros Psarris	*Associate Editor*

PUBLISHING STAFF

Chuck Aultman	*Subscriber Services*
Angela Leonard	*Marketing Manager*

The **GOLD & ENERGY ADVISOR** is published 12 times a year by The Silver & Gold Report, LLC, 925 South Federal Highway, Suite 500, Boca Raton, Florida 33432 (800-819-8693 or 561-750-2030). Subscription rates: Single issue, $19. One year (12 issues), $189. Two years (24 issues), $279.

Remember Last Time?

We've had a Republican Congress for 12 years now. As much as I disagree with much of what they've done, it's still a lot better than the alternative.

Many have forgotten just how nasty that alternative is. (Note that I'm not saying Democrats are nasty. I'm not against the Democratic Party; I'm just against policies that have been proven to damage our economy. Lately, both the Republicans and Democrats have been guilty of this.)

And now we're in for a big shift in our government. Do you remember what the economy was like in the 1970s, the last time committed liberals had full control of our government? I sure do.

I remember skyrocketing inflation, up to the double digits…fistfights between drivers who were waiting hours to get gasoline… soaring unemployment… interest rates more than *triple* today's levels, driving a huge wave of debtors into bankruptcy… businesses folding like a chain of dominos… a plunging dollar…

…And $850 Gold!

Unfortunately, the Democratic agenda hasn't changed since the 1970s. They still think that Big Government is the solution to every problem. Even though their policies put our economy into the toilet, they didn't recognize that their semi-socialist "solutions" were the cause of the woes we experienced back then. Nor will they recognize it today.

So the new Democratic leadership is promising to tax the rich, tax the corporations, increase government interference in various parts of the economy, etc. etc. We've been down this path before, and we know where it ultimately leads…to soaring gold!

However, there are a few unique wrinkles this time. As I mentioned in a recent Real Wealth update, I don't expect Democrats to cut military spending. They'll be too wary of being perceived as "soft on terrorism."

At the same time, they want to increase various taxes, which ultimately will depress tax revenue, as we've seen over and over. It will also introduce distortions and inefficiencies into the economy, as people move to tax-avoidance strategies that would otherwise be uneconomical.

Then, of course, government social spending will increase. At the same time, Democrats will refuse to avert the coming $77 trillion train wreck of Social Security and Medicare.

Of course, decreased revenue plus soaring spending plus bankrupt government programs means there's only one way to pay for it all—massive inflation of the dollar.

Also, we'll see investigations into the uncounted billions of dollars that have vanished during the Iraq war. No-bid contracts and outright thievery have been overlooked by Republican leaders, but that's all going to change now.

Democratic Representative Henry Waxman is now poised to take over the Government Reform Committee, and he's known to be a bulldog about rooting out and exposing lies and corruption. We're going to see some current Administration officials scurrying like cockroaches for the exits, and I expect to see some prominent people taken away in handcuffs.

This all means we'll get a Congress that's bold, assertive, and ready to enact socialistic policies—policies that will torpedo the already-troubled U.S. Dollar. At the same time, we'll have a lame-duck President and an Administration that's too weak to stop Congress from killing our currency.

Realistically speaking, the dollar was dead anyway. It was only a matter of time. But at least under Republicans, there was hope—a *slight* hope—that they would come to their senses, act like conservatives again, and stop the disgusting pork-party they were throwing in Washington.

Now, under a Democratic Congress, even that hope is gone. We're going to see the 1970s all over again.

Too pessimistic? I sure hope so, but I can't see any way out of this.

We can't forget that this isn't happening in a vacuum. Even if you ignore the election results, there are other things to consider—other threats against the dollar.

Let's talk about these for a moment.

Our Bursting Real Estate Bubble

There's more bad news on U.S. real estate this month.

Online data service RealtyTrac monitors homes entering and proceeding through foreclosure. It recently reported that homes in the foreclosure process jumped up by almost 53 percent compared to the same time last year.

A week or so ago, the *Wall Street Journal* reported on an alarming trend in home sales.

Exposing Corruption in Washington

I expect that, as usual, the party in charge of Washington will enthusiastically hunt down corruption—but only in the other party.

We're seeing this already, even before the new Democrats are sworn in. Despite Nancy Pelosi's promises to end corruption in Congress, she (unsuccessfully) fought to make Rep. John Murtha the House majority leader.

Murtha, you might remember, was caught up in the Abscam bribery scandal, where FBI agents posed as Arab sheikhs and videotaped seven Congressmen agreeing to take bribes from them. Murtha didn't go to jail because he had told the agents he wasn't interested in the bribes "at this point." (Although he then said, "You know, we do business for a while, maybe I'll be interested…")

Since then, Murtha has shown himself to be for sale again and again. He's also done his best to stifle ethics investigations of himself and others. The public interest group called Citizens for Responsibility and Ethics in Washington has listed Murtha in its report, *Beyond DeLay: The 20 Most Corrupt Members of Congress (and five to watch).*

Several senior Democrats, including the new Senate Majority Leader Harry Reid, are also being investigated in the bribery scandal surrounding lobbyist Jack Abramoff.

So much for the new leaders and their commitment to ethics in Washington. I expect their pledges for fiscal responsibility to be just as solid.

Latest prices as GEA goes to press—November 20, 2006

Comex spot contract: silver $12.91, gold $624.70
Nymex spot platinum: $1064, palladium $320
Nymex Light Sweet Crude Oil $58.40

Silver coins			Dealer will buy at this price	Dealer will sell at this price
100 1 oz. silver American Eagles			$1,150	$1,380
100 1 oz. common rounds			$1,050	$1,350
$1,000 face value US pre-1965 coin bag (circulated)			$7,650	$8,400
$1,000 face value US circulated silver dollar bag (VG or better)			$10,900	$14,100
US Morgan silver dollars		PCGS MS64	$45	$65
		PCGS MS65	$110	$140
		PCGS MS66	$280	$375
Platinum coins				
U.S. Platinum Eagle:		1 oz.	$1,058	$1,158
		1/2 oz.	$460	$600
		1/4 oz.	$250	$325
		1/10 oz.	$99	$150
Gold coins				
Australian Kangaroo			$580	$657
British sovereign (Kings)			$120	$170
(Elizabeths)			$120	$170
Canadian Maple Leaf			$580	$640
Credit Suisse 1 oz. gold bar			$580	$640
Mexican 50 peso Centenario			$680	$780
South African Krugerrand			$575	$660
US Gold Eagle:		1 oz.	$589	$651
		1/2 oz.	$285	$340
		1/4 oz.	$140	$185
		1/10 oz.	$50	$72
US $20 double eagle:				
Liberty	Raw	MS60	$600	$795
	NGC	MS63	$800	$1,200
	NGC	MS64	$1,800	$1,950
	NGC	MS65	$4,150	$5,950
Saint Gaudens	Raw	MS60	$625	$775
	NGC	MS63	$800	$900
	NGC	MS64	$1,000	$1,100
	NGC	MS65	$1,100	$1,450

Prices provided by Finest Known
(866) 697-GOLD (4653)

Buyers are canceling their contracts, and walking away from homes they had agreed to buy.

The real estate market has turned around so fast that it's cheaper for buyers to lose their 1-5 percent deposits, than to buy the home that has already fallen by *more* than that in value just while it was under contract.

The nation's largest home builder, D.R. Horton, now has a huge contract-cancellation rate of 40 percent. Standard Pacific Corp. lost 50 percent of its contracts in the third quarter. Other builders are seeing similarly grim numbers. Existing home sales are bad too.

The Commerce Department has reported that median new-home prices are 9.7 percent below last year's. Moody's Economy.com says it's going to get a lot worse: the research firm recently predicted that prices will continue to fall until 2008 or even 2009 in some areas.

As I've mentioned before, consumer spending has been one of the few props holding up our economy—and it was largely fueled by home-equity loans. Falling real estate prices will bring all this to a screeching halt.

Meanwhile, the "Mafiocracy" in Russia Threatens World Energy Supplies

When Communism fell in the early 1990s, we all cheered and waited for freedom and democracy to assert themselves in Russia.

It never happened.

The immediate rise of the Russian "oligarchs" has been thoroughly documented. For years, shootouts and grenade battles tore up Russian neighborhoods and cities, as these organized-crime bosses battled for control over the state's newly-privatized assets.

This chaos reigned for years, and corrupt leaders like Boris Yeltsin did nothing to stop it. (Yeltsin actually participated in at least some of it.) It wasn't until strongman Vladimir Putin rose to power that peace was finally restored.

Again, Western observers expected a trend toward freedom. Again, it didn't happen.

The violence has been much reduced, true. But, as I've written before, Russia isn't moving toward a free society. Instead, Putin has asserted dictatorial control, which is scary for us since Russia is the world's second-largest oil exporter and owns the world's largest reserves of natural gas.

Two recent events reinforce Russia's threat to the world economy.

First of all, Andrei Kozlov, the deputy chairman of the Russian central bank, was assassinated outside a Moscow stadium. He was shot several times in an obvious hit by the Russian *Mafiya*.

Kozlov was spearheading a clean-up of the Russian banking system. Ever since Russia's economic collapse in the 1990s, and the takeover by organized crime, the banks have been little more than fronts for criminals to launder money and transfer cash offshore.

Kozlov recognized that the corrupt banking system was crippling the Russian economy. Without trustworthy banks to lend money, cheap credit is scarce in Russia, and it's almost impossible to start small businesses or for consumers to buy large-ticket items. As a result, the Russian economy has not been diversified, and it's still completely dependent on oil and gas exports.

Kozlov's assassination was an obvious message from the criminals to the (few) officials who were fighting them: back off or you'll be facedown in the street too. Unsurprisingly, the message worked. Kozlov's reforms have ground to a halt.

The Kozlov murder tells us several things. First, the gangsters still rule Russian society: not as openly as before Putin, but apparently just as effectively. (And with his apparent blessing, too.)

Second, the Russian economy will continue to rely mostly on oil and gas exports. So the Russian government will work heavily to keep oil and gas prices high.

Worse, this gives Putin even more incentive to use energy as a tool of blackmail, as he's done before. As I've written before, his soothing assurances to the contrary are flat-out lies.

Just ask Russia's neighbor Georgia. This little country was just smacked by a threat to cut off its gas on January 1 unless it agreed to a massive price hike. Georgia is currently paying $110 per 1,000 cubic meters of gas: the new price will be $230.

(Of course, this has nothing to do with the political tensions between Russia and Georgia. The fact that other ex-Soviet nations are paying far less for Russian gas is mere coincidence, right?)

Putin has openly asserted his plan to use Russia's energy supplies for political objectives. In other words, he'll use it to blackmail other countries to get what he wants. This is bad news for those countries (including the U.S. and Europe) who don't want to dance to his tune.

And it's bad news for world energy prices too.

But What About the Big Oil Strike in the Gulf?

A few weeks ago I issued a special report on alternative energy. (If you didn't receive it, it's at http://www.goldandenergyadvisor.com/page/gez/specialreport/2006-11-02-030.pdf.)

In that report, I mentioned the "big" oil strike by Chevron and its partners in the Gulf of Mexico. Chevron claims to have found between three and 15 billion barrels of oil.

I said this discovery was probably greatly exaggerated, and even if it was real, it wouldn't help our energy problems by much. This raised a few eyebrows, so I'll explain further.

For one thing, as I mentioned in that report, recent "giant" discoveries have all turned out to be far smaller than announced. There are two reasons for this.

First of all, most of the recent announcements have had at least some political incentive to be exaggerated. (The Chevron announcement, for example, occurred right before the U.S. Senate was scheduled to consider allowing off-shore drilling around Florida and other areas.)

Second, there are few big fields left in the areas available to us. Western oil companies are locked out of most of the promising regions in the world. As a result, they're forced to prospect in geological regions that are less likely to have big fields. And after a century of exploring, there aren't many big ones left to find anyway, even in the most promising regions.

Actually, if you read between the lines, the Chevron discovery is *bad* news for our oil supply. This project was one of the deepest wells ever drilled: down through one mile of ocean water, and then down another *four miles* below the ocean floor. It's also unusual because it's such a remote location: the oil, once produced, can't be piped ashore. Instead, it has to be pumped directly onto tankers, which is a tricky and costly process.

This all makes the oil tremendously expensive; by some estimates, it might be unprofitable to extract even at today's record oil prices.

So why was Chevron even bothering to look for this oil in the first place? Easy—because oil industry executives know *they can't get oil anywhere else*.

Plus, this discovery tells us that oil executives expect oil prices to go up! Otherwise they wouldn't bother looking for such expensive oil.

But let's say my analysis is all wrong. Let's say Chevron did really find 10 billion barrels of oil or so, and that it's not mostly just natural gas, as some have predicted. Let's say that somehow, it's even profitable to extract this oil at today's prices.

This discovery *still* won't help our energy problems significantly. It will take a good 5-8 years to get full production online, and even then, the annual production will be modest.

For example, look at the Caspian Sea, with current reserves estimated at 17-44 billion barrels. (They were initially announced as 200 billion barrels, but never mind about that.) Work began on the Caspian deposits in the early 1990s, but full production won't be achieved until 2010.

Even then, the most optimistic projections are for only 2.4-5.9 million barrels per day, which isn't even enough to cover the projected increase in world demand by then.

Yes, the Caspian deposits have faced unique political challenges, with all the surrounding nations arguing over the oil. But the Gulf find faces a huge physical handicap: without pipelines to pump the oil out of the field, production is limited to the amount of oil you can pump (through much slower tubes) onto the tankers.

I predict that daily production from this new Gulf find will be much smaller than today's optimistic predictions. Even if I'm wrong, it will take at least 5 years to get any significant oil out at all. Meanwhile, our shortage continues.

Incidentally, an ongoing shortage is also predicted by a recent study of the world oil industry. The International Energy Agency analyzed spending by global oil nations and companies over the last five years. It found that total investments in oil and natural gas production since the year 2000 were an impressive-sounding $340 billion—but this capital was almost completely spent to offset rising costs.

Due to skyrocketing demand, energy expenses have shot through the roof—everything from cement to drilling platforms has become very expensive. For example, Shell's massive Sakhalin project has soared in cost from an already staggering $50,000 per barrel of capacity, up to $85,000 per barrel.

Portfolio Updates

In Update #264, we issued instructions for subscribers that own ConocoPhillips (COP), Ensco Inter. (ESV), and Atwood Oceanics (ATW).

- On COP, we sold the November $65 calls (symbol COPKM) for $.55.
- On ESV, we wrote the Nov. $50 calls (ESVKJ) for $1.25.
- On ATW, we wrote the Nov. $45 calls (ATWKI) for $3.40. This lowered our cost basis in these stocks.

In Update #267, we took profits on our Diamond Offshore short put position (DOXN). We originally sold the option at $5.40 and bought it back for $2.85, giving us a profit of around $255 for one contract.

In Update #269, we recommended Provident Energy Trust (PVX) and Pengrowth Energy Trust (PGH). We bought both at the market.

In Update #270, we issued instructions for subscribers who had sold options on Talisman Energy (TLM), Anadarko Petroleum (APC), and Cimarex Energy (XEC).

- For TLM, we bought back the January $16.625 call options (TLMAQ). We originally sold them for $1.45, and bought them back for $.85, making $60 per contract and lowering our cost basis in the stock.
- For APC, we rolled up the November $45 calls (APCKI), to the December $45 calls (APCLI). We made a net credit of $100 per contract and lowered our cost basis in the stock.
- For XEC, we bought back the December $35 call (XECLG) for $1.70, which we had sold before for $2.10. We netted $40 per contract and lowered our cost basis in the stock.

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So that $340 billion of industry spending has produced little additional capacity. After accounting for inflation, the global oil industry has only increased its infrastructure investment by five percent—in the words of the IEA's chief economist, by "almost nothing."

The bad news for us is that this underinvestment isn't yet represented in today's oil prices. It takes years for new production to come online, or for the lack of it to be felt. Over the next few years, we'll see the oil markets get tighter and tighter, as demand increases but production does not.

By the way, you shouldn't be surprised by the oil industry's decision to invest so little in developing more production. The companies aren't stupid: they learned years ago that prospecting and exploration were good ways to throw money down a rat hole, so they aren't excited about doing it anymore.

When you burn through billions of dollars looking for oil, and don't find anywhere near the amount to pay back your investment, you eventually stop looking.

Again, the cheap oil is gone. That's the new reality of today—one that the markets are just finally waking up to.

China Attacks U.S. Satellites, Tells U.S. to "Shut Up and Keep Quiet"

Defense News recently reported that China has fired powerful ground-based lasers at orbiting U.S. satellites.

Apparently, these aren't meant to burn or disable the satellites physically, since this would require an enormous amount of energy. Instead, the Chinese are using a different, but equally effective, tactic: firing high-powered lasers to blind the electro-optical systems on spacecraft like our Keyhole satellites, or disrupt radar satellites like our Lacrosse system.

The article said there have been several such attacks over the last several years.

However, the White House has directed the Pentagon to cover up these incidents, to avoid public outrage and not disrupt U.S.-China talks over Iran, North Korea, and trade issues.

China is growing more and more belligerent towards the U.S. For example, Sha Zukang, the Chinese ambassador to the United Nations, was recently interviewed by the BBC. He discussed China's spiraling military spending, agreed that Washington was unhappy about it, and said the U.S. should "shut up and keep quiet" about it.

He also said that if Taiwan declared independence (which the U.S. would support), China would sacrifice its own people's lives to conquer Taiwan. He said, "China will have no choice. We will do the business through whatever means are

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In Update #273, we issued instructions for those who had sold calls on Anadarko Petroleum (APC), and Atwood Oceanics (ATW).

- For APC, we bought back the November $47.50 call options (APCKW). We had sold them for $1.35, and bought them back for $.25. This gave us a net credit of $110 per contract and lowered our cost basis in the stock.
- For ATW. we rolled up the November $45 calls (ATWKI) to the December $45 calls (ATWLI). We made a net credit of $135 per contract, and lowered our cost in the stock.

In Update #275, we took action on our hedges/covered calls on ConocoPhillips (COP), Ensco Intl. (ESV), Bill Barrett Corp. (BBG), and Noble Corp (NE).

- For COP, we allowed our November $65 calls (COPKM) to expire, and kept the premium.
- For ESV, we allowed our November $50 calls (ESVKJ) to expire, and kept the premium.
- For BBG, we rolled up the November $30 calls (BBGKF) to the December $30 calls (BBGLF). We made a net credit of about $115 per contract, and lowered our cost in the stock.
- For NE, we rolled up the November $70 calls (NEKN) to the December $70 calls (NELN) We made a net credit of about $220 per contract and lowered our cost in the stock.

available to my government. Nobody should have any illusions about that. We will do the business at any cost…For China, one inch of the territory is more valuable than the life of our people. We will never concede on that."

Most Americans are complacent about China, but we shouldn't be. The Chinese military is undergoing the biggest expansion the world has seen since the Cold War ended, and a lot of it is based on stolen American technology (!) Some experts predict that in as little as one year, China could have the capability to hit any American city with a nuclear missile.

For example, a recent article by technology researcher Simon Cooper discussed the massive, organized spy efforts that China has orchestrated over the last 15 years. The FBI has tracked down a "sprawling, decentralized network" of spies within the United States—not Chinese agents, but mostly "freelancers" who have access to military equipment as part of their jobs, and are offered millions of dollars to steal it and sell it to a Chinese contact.

A long list of restricted American military technology has been stolen by the Chinese, from small computer chips to complete missiles. The article gave many examples of stolen capabilities, including last year's test of the Luyang II, the new Chinese guided-missile destroyers:

> "When the armaments were unveiled, jaws clenched in the Pentagon. The ships were equipped with a knockoff of the latest version of the U.S. Navy's Aegis battle management system, a critical command-and-control technology. The technology enables U.S.—and now Chinese—forces to simultaneously attack land targets, submarines, and surface ships. It also runs fleet defense tactics to protect against hostile planes and missiles. Federal sources insist that the only way the relatively backward Chinese military could have developed such a system was by copying it."

We saw another example of this just last month. A senior Navy spokesman has confirmed reports that in October, a Chinese attack submarine successfully stalked a U.S. aircraft carrier battle group. The sub approached the U.S.S. Kitty Hawk and surfaced within firing range of its torpedoes and missiles before being spotted.

Note that the battle group has lots of aircraft and at least one attack submarine of its own, all of which are supposed to protect the carrier and its surrounding warships from attacks by subs. Yet nobody in the group had any idea the Chinese sub was there, until it was too late to do anything about it. Fortunately, it wasn't a real attack.

Obviously, the Chinese military's capabilities are expanding rapidly. Soon we'll see the Chinese leadership beating their chests over Taiwan, or some other issue, and daring the U.S. to try and stop them.

That day will be a major turning point for American influence in the world, and a major blow to the U.S. dollar. It's only a question of when.

Summary

Our *GEA* approach has put us ahead of all these trends that are now developing.

Oil prices will continue to go up—$100 per barrel seems like a modest prediction now, with everything we're facing.

As for gold, I expect to see it shatter its old highs in the $800s—up to $1,000 and beyond.

That won't happen this year, of course. But beyond that, once the long-term trends assert themselves…I'm wildly bullish on gold.

By the way, don't misunderstand my predictions here in *GEA*. When I talk about gold and oil, I'm not making short-term price predictions. I give you the short-term analysis in my email Updates, not in this monthly letter.

Investments can be in neutral or even bearish patterns over the short term, while being in a long-term bullish mode at the same time. The shorter-term action doesn't necessarily invalidate the larger trend.

So don't interpret my monthly *GEA* issues as short term projections, because that's not what they're for. For market analysis over the next few months, read my Updates (and act on them). For broader trends that will last for years—the big market-shifting moves where huge profits can be made—read these monthly issues.

And right now, I see one of those moves coming in gold. Short-term, there will be ups and downs, but the overall trend is *up*. If you haven't positioned yourself in gold yet, do it now.